

CHAPTER I

INTRODUCTION

1.1 Background of Study

Indonesia as the fourth largest nation in the world which has been dominating the market, especially in ASEAN (Association of South East Asian Nations). The biggest archipelago in the world is poised on the fourth place by population size with 266,794,980 human beings are living in the country. With the population it holds and the population growth percentage (24.6%), researchers expected the population of Indonesia will rise to 300,183,166 beings to be live, work and stay in Indonesia by 2050.

(Retrieved from <http://www.internetworldstats.com/stats8.htm>).

By merely having these two facts, Indonesia can be said to have an opportunity in the future, however, will make new problems as the population grows in an exponential rate like a double-edged sword. By its number, Indonesia is called to be the regional powerhouse in ASEAN as near half of the financial and economic status of ASEAN rely on this country. According to the Minister of Finance Sri Mulyani Indrawati, Indonesia has the real middle-class economy whereas the population is “made up of 45 million in 2010 and this year (2019) may have risen to nearly 60 (million). And later in 2020 it is estimated to reach 85 million. Indonesia is the biggest engine of growth because of its middle class (compared to ASEAN countries for example).

(Retrieved from <https://www.kemenkeu.go.id/en/publications/news/these-are-the-impacts-and-opportunities-of-indonesia-as-a-middle-income-country/>).

In addition, these middle class population does have fairly large millennial generation where consumptive behavior and hedonic lifestyle and focuses more on quality is a juicy medium for investors who tries to sell retail products, and that is why we see a lot of startup companies in Indonesia that tap the marketplace sector, namely, Tokopedia, Shopee, Blibli, Bukalapak and many more. These startups are trying to win the preference of Indonesia’s consumers so that in the future the more people are familiar with the product/ marketplace they offer, the more they ‘win’ in the competition. In comparison to China, Indonesia is like the South East Asia’s China due to its size and its purchasing power that it continues to establish over the

years. According to Gregg, Indonesia has doubled its purchasing power thanks to the availability of telecommunication infrastructure that the government gradually implement around rural areas. This means that the country is now more connected, without the presence of roads and links to those areas, even though the government is also focusing on developing those two in the past two years. According to Grigg, 2019, Indonesia has been increasing in terms of purchasing power for 73% which means that there are more opportunities not only for tech giants to prosper in the country, but also the locals who tries to sell their goods to the local and even international markets that can be unlocked through the ease of technology that the internet could offer.

(Retrieved from <https://www.afr.com/news/world/asia/consumption-king-for-indonesia-s-new-middle-class-20190411-p51d3b>).

This paper will be conducted based on the toy industry in which there are a lot of people sees that the industry is being taken over by gadgets such as iPads and other tablets as shown by the bankruptcy of Toy R Us in the United States which shows that traditional game makers must admit their defeat. However, the assumption stated above is not completely reflects the reality that we face today. NDP group found out that by 2018, the toy industry globally still holds \$18.4 billion for the first half of the year, which shows that the industry is growing by 4 percent from the previous year. According to the article, Mexico, Brazil and even United States enjoys greater growth in comparison to the global rate in which they were growing at 15%, 11% and 7% respectively. Thus, this means that Toys R Us' bankruptcy is not dependent to the assumption of the people, rather bad marketing strategy and business plan they had in hand.

(Retrieved from https://www.truedigitalpark.com/article_details/3_3-reasons-why-Toys-R-Us-went-bankrupt).

According to Juli Lennett (2019), the liquidation of Toy R Us may bring some fresh air for some other toy retailers in which they are able to grab on their niche toy markets which has been held by Toy R Us for the past 2 decades. For example, the electronic games, such as PlayStation 4 and Xbox one flourishes by 43%, dolls such as Barbies and Ponytails creates a surprising 17% growth. The new, upcoming market targets action toy figures enthusiast in which noted by 2019, the market rose by 16% as there were a lot of upcoming movies in 2019, such as

Avengers: Infinity Wars and Jurassic World: Fallen Kingdom. Thus, Lennet believes that the toy market has been bustling with activity and growth will still continue to rise until the end of 2019 regardless of the advancement of technology that happens in the past five to ten years.

(Retrieved from <https://www.pymnts.com/news/retail/2018/toy-industry-party-city-toysrus-collectibles/>).

Going back to the ancient times where the Egyptians and even during the Stone Age, there are some sort of evidences whereas humans has developed some sort of toys or a platform where they can entertain themselves with ‘things’ which we know today as toys (Jan Horeik & Michal Ribka. H: 28, 2004). Toys continues to develop throughout the years up to the industrial ages where toys also happen to be industrialized in huge mass quantity as the population of human being also demanded more and more toys if you track down the line.



Figure 1.1 Toys during Stone Age

Source: <https://www.pinterest.com/pin/189995678002457978/?lp=true>

Every different environment forces the human being to survive with the condition that happens to be around the human, for instance: the foods, how they should live and how should they dress. This does not limit on how they become creative with the materials available to them. During the Stone Age, humans are only available with huge bunch of stones to spare in which humans during the time are able to create toys from stones as you can see in Picture 1.1. On the other scenario, humans who spend their time living near the beach will try to make toys from seashells in which are able to generate weird yet satisfying sounds in which Homo Sapiens during the time find it entertaining. This also applies to Homo Sapiens that happen to be living around Indonesia, where the environment replenish

itself with seashells and seeds. Therefore, Indonesians has a legendary traditional toy which we know as *congklak* which we can see up to today. Thus, this shows if there are things available to the children of humans, usually parents will try to entertain their children with the resources available around them.

During this 20th century era, parents are exposed to more resources, which includes toys as the retail market starts to grow where sell-buy transaction is easier due to the ease of technology and the pace that transportation service provider offers fast and safe shipment. From the suppliers and manufacturer's perspective, it was easier to set up and develop products to be offered to customers, starting from the Steam era up to the machine Era where production explodes in quantity and quality. In addition, governments around the globe also supports business doers to manufacture and distribute their products globally as it is in order to create the country's Gross Domestic Product (GDP) will continue to increase and brings positive impact to the nation's growth. These are the reasons why retail market starts to grow globally, including Indonesia. Each retailer is trying to provide the best for its customers as a key into a successful retailer may be delivered through personalized service and selection of goods based on a market segment that has been targeted by a retail company (Gagliano and Hathcote, 1994).

Thus, during the time, the founder of CV. Victory Toys, Mr. Gunardi, saw great opportunity in the toy industry in Indonesia as there are very few players in the competition. Since 1987, CV. Victory Toys offers the market, which it focuses on the retailers and resellers, toys which is targeted for children which can be categorized into three groups; they are *Batita* (under the age of three years old), *Balita* (under the age of five years old) and pre-teen (ranging from five years old to nine years old). Mr. Gunardi taps into this primary segment and making the other toys, such as toys for teenagers, for instance, because he saw a better opportunity. According to Kemdikbud which has conducted a survey, there were 4,605,809 pupils that sits in kindergarten and students from elementary school is holding 25,618,078 pupils which adds up to 30,223,881 potential consumers that CV. Victory Toys could get from selling to K12 pupils.

(Retrieved from http://publikasi.data.kemdikbud.go.id/uploadDir/isi_FC1DCA36-A9D8-4688-8E5F-0FB5ED1DE869_.pdf).

As a proof on how massive toy industry is in Indonesia, we can see from Victory Toys' perspective in which the company now employs more than 300 employees. It now has five retail stores located around Surabaya in Pertokoan Dupak, Dupak Grosir, Pusat Grosir Surabaya, Pertokoan Galaxy, and Pasar Turi and two depo houses where it serves wholesale store in Kenjeran and Nambangan. The product of Victory Toys can engage from babies to elderlies. Toys are categorized in 2 categories, such as Battery operated, and Non-Battery operated. Toys with batteries operated are like Remoted Car (Vehicles). Educational toys (musical and Learning tools) and many more. Toys with non-Battery operated are similar with the Batteries operated such as HotWheels, Rubic Cubes, chess, stuffed animals, dolls and many more. Toys for babies such as Play Gyms and many more and toys for elderlies such as Board and fun games like Pie Face, Pirate Barrel, Uno's and many more.

Table 1.1
Number of K-12 Students

Tabel : 1
Data Pokok Pendidikan Menurut Jenjang Pendidikan
Tahun 2016/2017

No.	Jenjang Pendidikan	Sekolah	Siswa Baru	Siswa	KS + Guru	Rombongan Belajar	Ruang Kelas	Lulusan	Mengulang	Putus Sekolah
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1.	TK	88.381	---	4.605.809	329.102	---	---	---		
	a. Negeri	3.207	---	316.848	18.596	---	---	---		
	b. Swasta	85.174	---	4.288.961	310.506	---	---	---		
2	SLB	2.070	27.991	121.244	24.657	29.928	19.727	3.956	4.178	133
	a. Negeri	545	10.774	47.399	9.403	10.750	7.343	1.592	1.899	38
	b. Swasta	1.525	17.217	73.845	15.254	19.178	12.384	2.364	2.279	95
3.	SD	147.503	4.172.791	25.618.078	1.586.127	1.103.232	1.049.116	4.400.553	361.215	39.213
	a. Negeri	132.022	3.616.345	22.428.159	1.407.691	968.018	918.033	3.941.344	331.476	33.177
	b. Swasta	15.481	556.446	3.189.919	178.436	135.214	131.083	459.209	29.739	6.036

Source: Kementerian Perindustrian Republik Indonesia (2018).

Thus, this shows that the toy industry is an industry full of opportunities due to the increasing number of children in Indonesia. From the report published by Ministry of Commerce and Industry of Indonesia shows that the growing trend from year to year, since 2007 is 10,84%. According to Indonesian statistics that the birth rate of children is 4.5 million per year which is certainly correlated with the potential of toy business in Indonesia because every child is certain to require toys in the process of growing up. This is the background of the establishment of a container that became the meeting point of various Indonesian producers,

importers, and toy traders named Indonesian Toy Association (AMI) which was officially confirmed by the Provincial Government of DKI Jakarta.

Tangibility is known as the physical appearance of a company in which the customers or clients can see with their bare eyes. According to Alaan (2016), physical facilities, equipment, decoration, aesthetic of the store in general and also the presence of employees and material used for the product are the ones that can be taken into consideration in order to create a satisfaction to the customer through tangibility.

The second factor from service quality is Responsiveness. Responsiveness is measured by the experience the customers get that has something to do with timeliness of service in which on the sensitivity to help the customer and provide prompt service (Wijaya, 2015). Cited from the same source, according to Parasuraman et al. (1985) the organization that serves the consumers must understand that responsiveness is that the customers must be able to feel that they are important in the service provider's eyes.

The performance of service or product delivered to the customers in term of the level of dependence and accuracy are the two main factors that make up the reliability score of the product (Zeithaml et al., 1990). Thus, time-related issues such as, delivery-time, preparation, product delivered as demanded, are the things that can create a customer satisfaction through service quality.

This theory is verified by Parasuraman (1985), he adds that good communication, caring persona and ease of access is key access in order to win customers through empathy. Kotler (2005) came up with a theory which states that customer satisfaction is a state of emotion that is generated from the customer after purchase a product or service from the provider. Happy creates positive score to customer satisfaction score and disappointment creates negative subtraction to the formula of customer satisfaction

Donio et al (2016) believes Customer Loyalty have significant effect and positive correlation with the customer satisfaction generated from the experience they get while purchasing or making deal with the brand. Other researchers do agree with the previous statement, namely, Faullant et al., 2008, states that customer

satisfaction is the predicator and the determinant variable in order to deter whether a customer is loyal enough with the brand.

Based on this study, the writer is keen to study more on CV. Victory Toys as the subject of this study since it is interesting enough to see an industry that we assume that is going to be losing their game with the digital era that would replace 'traditional' toys in which Victory Toys is one of companies that still survive and continue to excel in the industry. Thus, the writer is interested on studying CV. Victory Toys because of these values that CV. Victory Toys which brings the company to where it is today. This study will examine the examine the factors of Tangibility, Responsiveness, Reliability, Assurance and Empathy through Customer Satisfaction on CV. Victory Toys that has been selected as research objects based on the reason above.

1.2 Research Problems

1. Does Tangibility have a significant effect on Customer Satisfaction on Victory Toys customers?
2. Does Responsiveness have a significant effect on Customer Satisfaction on Victory Toys customers?
3. Does Reliability have a significant effect on Customer Satisfaction on Victory Toys customers?
4. Does Assurance have a significant effect on Customer Satisfaction on Victory Toys customers?
5. Does Empathy have a significant effect on Customer Satisfaction on Victory Toys customers ?
6. Does Customer Satisfaction have a significant effect on Customer Loyalty on Victory Toys customers?

1.3 Research Objectives

1. To examine the significant effect of Tangibility on Customer Satisfaction.
2. To examine the significant effect of Responsiveness on Customer Satisfaction.
3. To examine the significant effect of Reliability on Customer Satisfaction.

4. To examine the significant effect of Assurance on Customer Satisfaction.
5. To examine the significant effect of Empathy on Customer Satisfaction.
6. To examine the significant effect of Customer Satisfaction on Customer Loyalty.

1.4 Research Contribution

1. For academic institution, especially higher education institutions, to broaden their knowledge in the retail industries, especially in the toys industry's management regarding Service Quality which consists of Tangibility, Responsiveness, Reliability, Assurance and Empathy, Customer Satisfaction and Customer Loyalty.
2. Can be the guidelines and the cornerstone for Victory Toys in facing the competition with the fellow competitors and even the new wave which are the software game developers; able to provide short-term strategies in order to counter the competition.
3. The result of this study will be the reference for the other fellow researchers and can be beneficial for the similar research with similar variables and indicators.
4. This study can be the academic source for other companies in other fields to be able to take considerations of Service Quality which consists of Tangibility, Responsiveness, Reliability, Assurance and Empathy, Customer Satisfaction and Customer Loyalty.

1.5 Research Limitations

This research was conducted in order to provide information and knowledge and to expand the horizons of the society, especially in the management field such as Tangibility, Responsiveness, Reliability, Assurance, Empathy, Customer Satisfaction and Customer Loyalty. In addition, the results of this research will be useful in the future instances as the comparative study by other researchers who are doing similar research with similar problem and able to discover new developments and new depths in the study.

1.6 Research Outline

Research outline is written to explain the systematic writing of this study. The study will compose of five (5) chapters as follows:

CHAPTER I – INTRODUCTION

This chapter will give the background information about the problem that this study covers. This will include previous studies and defining important terms that will be used throughout the study. It will also specify the research objectives discussed in greater detail to be able to contribute for future research.

CHAPTER II – LITERATURE REVIEW

This chapter will describe the methods being used while performing the experiment. It will summarize all major findings that has been published to public and then will show on how this study can contribute for the future. Description of theories will be described on why it is applicable for the current research, an explanation why it is relevant, and how the modelling effort address the hypothesis to be tested.

CHAPTER III – RESEARCH METHODS

This chapter will showcase and discuss the detailed scientific and technical activities done to accomplish the current study. This will include the research design, sampling plan, instruments being used, statistical tools and treatment of the data collected.

CHAPTER IV – DATA ANALYSIS AND DISCUSSION

This chapter provide organized logical presentation of all the findings that have been collected in the research questions and scrutinize more on how these key findings can be related back to the theory and prior researches that is presented in the beginning of the study.

CHAPTER V – CONCLUSION

This chapter provides the summary of the whole study, implications on how the study can be related back in real life, conclusion and recommendations that is created to advance the study of the research topics theoretically, methodologically and substantive contributions that may be necessary to overcome the limitations of existing empirical facts.