

## CHAPTER I

### INTRODUCTION

#### 1.1. Background

The restaurant industry in the USA is large and ubiquitous. Providing a range of products and services, it touches nearly every household in one way or another. Reflecting on the size of the industry, The National Restaurant Association (NRA) predicted in 2003 that Americans would spend \$426.1 billion on food consumed outside the home (National Restaurant Association, 2003). Of this amount, it was predicted that full service restaurants could secure about \$153.2 billion or, roughly, 36 % of the share.

The restaurant industry has grown over the years, largely because the American way of life has changed. Since 1950, the proportion of married women in the work force has nearly tripled (Goch, 1999:40), resulting in women having less time to plan and prepare meals at home. Today, meals are more of an afterthought rather than a planned occasion (Mogelonsky, 1998:57). People find themselves hungry with no time to cook; so they eat out. The result is the booming restaurant industry.

As well as in the USA, in Surabaya city, Indonesia, the restaurant industry is growing very rapidly in line with the growth in the property sector, we can find some street of food center in large housing complexes, such as: G-Walk in Citraland, Loops in Graha Family, Foodcity in Pakuwon Indah, etc. The rapidly development of malls in Surabaya also loaded with

the growth of restaurant industry, whether it's comes from abroad (Mc. Donald, Pizza Hut, Angus House, etc) or from domestic (Bon Café, XO, Papa Ron's Pizza, etc).

According to the previous study, there are some different variables and/or indicators used between researchers when conducting their research. Dayang and Franchine (2009:186) and Andaleeb and Conway (2006:4-5), both of them used Service Quality, Product Quality as their independent variables derived from SERVQUAL conceptualized by Parasuraman, Zeithaml and Berry (1988). Service Quality mean Responsiveness dimension of SERVQUAL while Product Quality mean Tangible and Reliability dimensions of SERVQUAL. The other two dimensions of SERVQUAL, Empathy and Assurance were not used because it's conceptual based on the pure type of service industry whilst this research based on restaurant industry, which is a mixed product-service industry.

Other researcher, Yen Nee Ng (2001:22), used DINESERV on her thesis framework applied to the restaurant industry. The full dimensions of the DINESERV used by Yen Nee Ng were: Food Quality, Atmosphere, Service Quality, Convenience, and Price and Value.

Note that, even though Dayang and Franchine (2009:186) and Andaleeb and Conway (2006:4), both of them used the same framework, that is Transaction-Specific model, the factor name differed. Dayang and Franchine (2009:188) named Place & Ambience whilst Andaleeb and Conway (2006:8) named Physical Design as their Product Quality factors. This may

be so because the perception of the respondents towards the questionnaire determined it.

Although these researchers used different conceptual frameworks and/or factors name in their research, the factors analyzed are the same, for example, all research done in Spain, China, Hong Kong and USA used the basic factors to determine customer satisfaction, that are: Service Quality and Product Quality, they are still aligned with Dayang & Francine (2009:186).

The results, off course, differed between each researcher:

- 1) Dayang and Francine (2009:185) result said that there was positive significant relationship between place/ambience ( $r=0.563^{**}$ ,  $p=0.000$ ) and service quality ( $r=0.544^{**}$ ,  $p=0.000$ ) with customer satisfaction; and Dayang and Francine (2009:190): food quality revealed an unsuspected result of a negative relationship. This result showed that although perception of customers towards food quality was low, their satisfaction was still high. However, not all past research agree with this finding.
- 2) The research conducted by Andaleeb and Conway (2006:7) resulted in physical design not having a significant relationship with customer satisfaction. The “physical design and appearance” dimension ( $b = 0.006$ ,  $p < 0.94$ ) was not significant. The standardized beta values suggest that responsiveness ( $b = 0.566$ ;  $p < 0.000$ ) has the greatest impact on customer satisfaction.

This may be so because the different expectation and/or local culture of people (restaurant's customers) in each different region they conducted the research.

This restaurant object is chosen to prove is all the variable mentioned in the research above that is Transaction-Specific model framework are all having significant relationship with customer satisfaction in one of the restaurant in Surabaya, Indonesia.

## 1.2. Significance of the Study and Research Purpose

Restaurant is one of the most fiercely-competitive industries where the customer has enormous choice and where, to survive, management has to understand the dynamics of how those customers decide how much to spend, where and what to eat. The food, of course, has to be enjoyable, well-presented and value-for-money; yet, important and essential as it is, the meal is no longer considered the primary reason why people visit a restaurant.

Many food service providers have a perception that people only go to eating outlets for the food. There is an assumption that the primary reason people go to restaurants is for the meal (Andaleeb, S.S., and Conway, C. 2006). Therefore, as long as customers get the food they want, they are satisfied. However, this view may not hold true for those full service restaurant visitors whose main purpose is to transact business or to enjoy the company of cherished others (friends, family, spouse, etc.)

The purposes of this study are:

- 1) To explore those attributes that customers perceive as “meet their expectation level” in their selection of a restaurants
- 2) To determine the influence of those attributes (service quality, product quality-food quality & restaurant ambience, and price) on customer satisfaction and customer loyalty (return intention and word-of-mouth endorsement).

### 1.3. Problem Formulation

The study investigated five problems, which were stated below:

- 1) Influence of Service Quality on Customer Satisfaction at the Fu Yuan Palace restaurant in MEX building, Surabaya.
- 2) Influence of Food Quality on Customer Satisfaction at the Fu Yuan Palace restaurant in MEX building, Surabaya.
- 3) Influence of Restaurant Ambience on Customer Satisfaction at the Fu Yuan Palace restaurant in MEX building, Surabaya.
- 4) Influence of Price on Customer Satisfaction at the Fu Yuan Palace restaurant in MEX building, Surabaya.
- 5) Influence of Customer Satisfaction on Customer Loyalty at the Fu Yuan Palace restaurant in MEX building, Surabaya.

#### 1.4. Research Objective

- 1) To know the influence of Service Quality on Customer Satisfaction at the Fu Yuan Palace restaurant in MEX building, Surabaya.
- 2) To know the influence of Food Quality on Customer Satisfaction at the Fu Yuan Palace restaurant in MEX building, Surabaya.
- 3) To know the influence of Restaurant Ambience on Customer Satisfaction at the Fu Yuan Palace restaurant in MEX building, Surabaya.
- 4) To know the influence of Price on Customer Satisfaction at the Fu Yuan Palace restaurant in MEX building, Surabaya.
- 5) To know the influence of Customer Satisfaction on Customer Loyalty at the Fu Yuan Palace restaurant in MEX building, Surabaya.

#### 1.5. Research Benefits

##### 1) Theoretical Benefits:

The study tests the transaction-specific model and enhances the literature on restaurant service management.

##### 2) Practical Benefits:

Gathering of this data will lead to a better understanding of the influencing level of the attributes on customer satisfaction/loyalty. The results of this study will not only contribute to the awareness of the relationship between the variables but it will also direct managers in areas for quality improvement to increase customer satisfaction/loyalty.

The model explains customer satisfaction and that full service restaurant owners and managers should focus on four major elements – service quality (responsiveness), food quality (or reliability), restaurant ambience, and price – if customer loyalty / satisfaction is to be treated as a strategic variable and enhanced.

Higher customer satisfaction should lead to increased probability of customer repeat visit or purchase and/or positively referral, which in turned should result in greater restaurant sales, referred to the service profit chain as shown in figure 1.1. below:

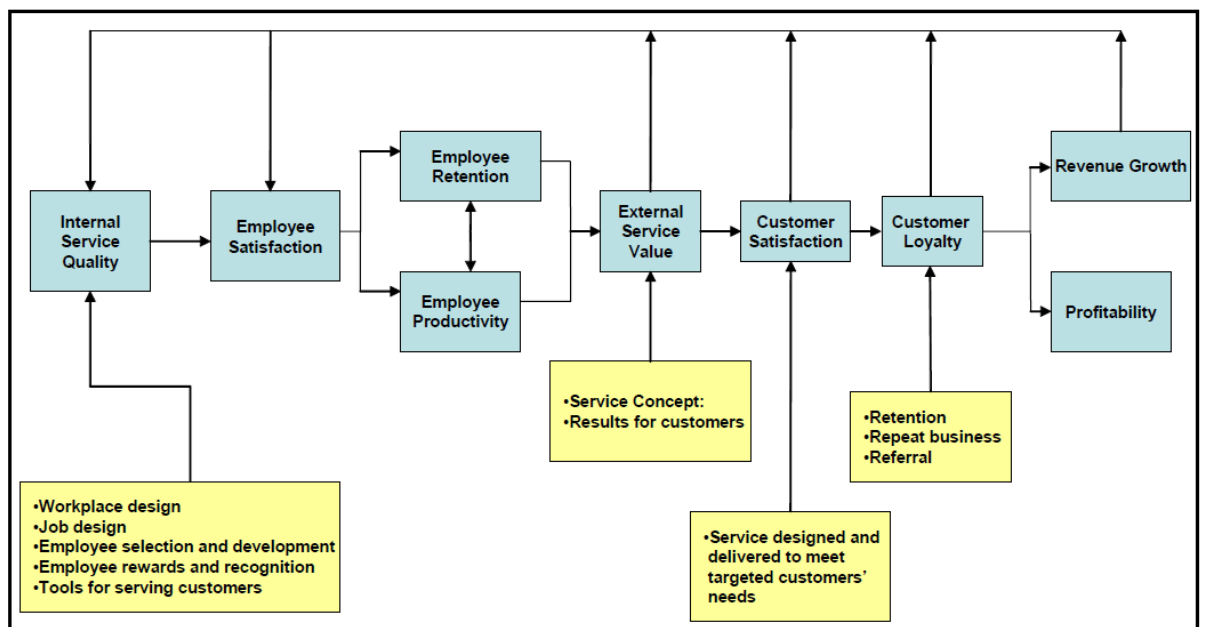


Figure 1.1. Service Profit Chain  
Source: Heskett *et al.*, (1994:166).

## 1.6. Systematics

Finding journals and articles to the topic that author have chose, and then combine the conceptual model needed, as it sufficiency's of Magister Management (S2) thesis complexity conceptual acceptable standard.