

CHAPTER I

INTRODUCTION

1.1 Research Background

Consumers are constantly increasing their demand on a wider variety of higher quality products, suppliers, manufactures and retailers adjust to meet the needs of consumers and this is the main reason on why the structure of the global food industry is continually changing and evolving. Food retailers are positioned to transmit the information on knowledge of consumers preferences and purchase habits to the other segments of the supply chain. In order to meet the consumer demands for variety, affordability, safety, and quality, the food retail sector are constantly innovating sale formats. And all the more, supermarket, hypermarkets, convenience stores have emerged in many countries in recent years (<https://www.ers.usda.gov>, retrieved on 23 July 2017).

While in Indonesia the food and beverage industry are producing a great profit for the Foreign Direct Investment (FDI) in Indonesia. Indonesia's food and beverage industry has been totaled to USD \$1.5 billion in 2015 as in FDI coming in third amongst the other manufactures. Gapmmi, General Chairman of the Indonesian Food and Beverage Association expects Indonesia's food and beverage industry rate to increase as this year the industry is at 8.5% which is the same as last year. There are several reasons on why Gapmmi expects Indonesia's food and beverage industry to grow. The population of Indonesia continues to expand rapidly, while per capita GDP is estimated to rise. In 2015 the Indonesian population is estimated to number 255 million people. This figure is expected to rise to 260 million in 2018 (<https://www.indonesia-investments.com>, retrieved on 23 July 2017).

Eating habits are now less structured meal occasions, because of people busy lifestyles due to their irregular working hours and also an increase in the number of women working. People eating are now dedicated by work or leisure activities rather than eating at fixed hours. People are consuming more snacks or

light meals. Globally, most people have lunch at about 12 to 1pm, almost 75% of the respondents eat lunch at that time. Breakfast are mostly at 6-9am depending on people work timings or the distance to their workplace. Evening meals are eaten at 6-7pm by 55% of the respondents while at 8-9pm are eaten by 31% of the respondents. Different country tend to have different eating patterns. Research has shown that snacking has become so much more common across the world in these recent years. Different countries has set different snacking times and also has different terms for it. For instance in the UK they call it “elevenses” as they have their snack times at 10-11am and in French, it is called *goûter* which is taken at 4-5pm. Research has shown that breakfast are now eaten quickly or taken away or eaten on the way in the form of pastries or snack bars, when once upon a time it was a sit down meal in most countries. Even the tradition of having long lunch breaks or having meal while is hot at home or canteen are deteriorating, more flexible working hours leads to more work pressure on employees and this means lunch breaks are reduced or taken at their own desk. This trend of informal eating and flexible eating where it is also available from kiosks and fast food outlets are mostly evident amongst the younger, urban consumer groups and survey showed that the youngster are the youngest age group that are most likely to snack more and to eat at unconventional times.

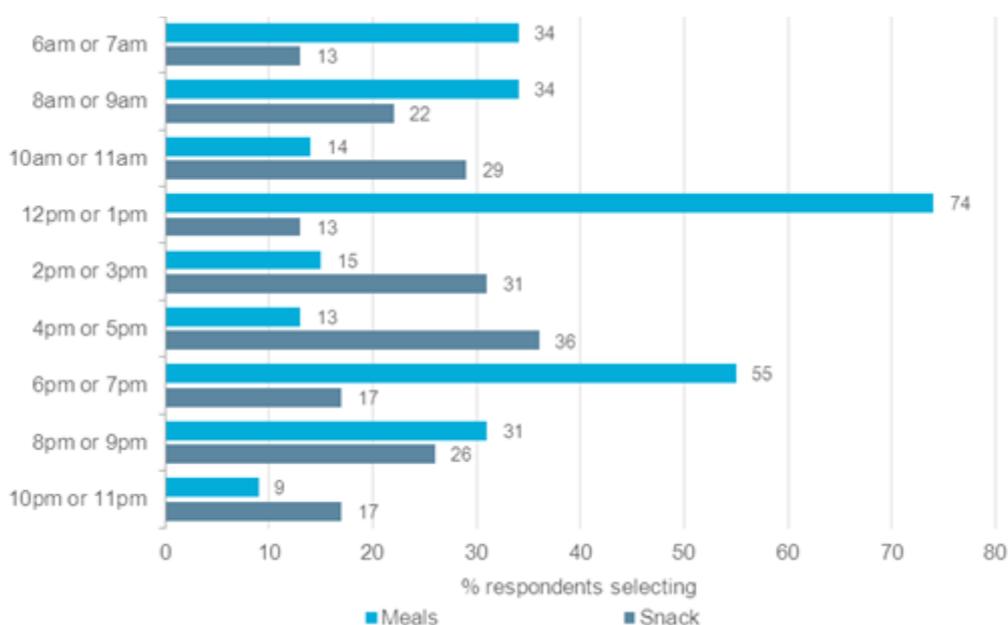


Figure 1. Eating hours

Note. <http://blog.euromonitor.com>, retrieved on 24 July 2017

Eating habits have had a significant impact on the market for sweet and savory snacks and snack bars. Global sales on these foods grew from 37% to 43% over 2006 to 2011 review period. Growth was fuelled by demand for premium brands with a healthy positioning, and innovation is now focusing on the creation of nutritionally balanced indulgent snacks, such as wholegrain and fruit snacks. Also several major snacks manufacturers have already reduced the sodium and fat content in their products and more changes will be made in the next few years to come.

Youngsters tends to spend more on food than they did on clothing, teens visit to the mall has declined from 38 visits in 2007 to 29 visits in 2014. “Restaurants have become a gathering place and youngsters are increasingly suggesting they prefer dining out to other forms of status brand spending,” the report says. “We see restaurants as the next generation hang out for teens.” Studies has shown that teens or youngsters are more interested in “experiences” than branded clothes (<https://qz.com>, retrieved on 24 July 2017).

Coffee shops are growing in terms of coffee, lattes and cappuccinos. The reason is growing is because of people’s taste and also the income level, the environment of the coffee shop and lastly the location. Coffee shop that are still new or small offering high- quality product and a first- class service can be effective as a competitor in a market that is constantly growing. According to a report that’s conducted by the U.S. Small Business Administration said that 70% of coffee sales in the USA are actually from 50 providers. Selling coffee can be very much profitable, with the operating income at 2.5% of the net sales and a gross margin at about 85%. All these sales are only achievable from the efforts of employees who have good work ethics, such workers each can earn \$50,000 for the company in annual sales. About 75% of caffeine absorbed are coffee consumption in the US, and from this we can say that annually, 7% growth rate of coffee shops and coffee shops represent as the fastest growing segment in the food industry (<http://smallbusiness.chron.com>, retrieved on 26 July 2017). This makes

the competition stronger in coffee shops industry and force the company to keep brand loyalty.

Brand Loyalty is the response of a consumer that is willing to pay a high price for a particular brand within the same product group and also give recommendation regarding that very brand to other people around them. Brand loyalty can also be said to be the commitment to buy again the product or service from the same brand again in the future (Gidden, 2002; Oliver 1999; Knox and Walker, 2001) By satisfying the customer, brand loyalty can be increased, which will affect to the repeat purchase of the same product or service. (LaBarbera and Mazursky, 1983). The key to winning a customer loyalty to a very brand in terms of long run is satisfaction (Mittal and Kamakura,2001). Satisfaction and loyalty are the two stages in the customers reply to the company's offering. Satisfaction of a customer is the beginning response of the company's offering and loyalty comes in second as once they are satisfied then they will remain loyal. (Torres-Moraga, Vasquez-Parraga, and Zamora-Gonza'lez, 2008).

For many years, Starbuck is well known for their customer's loyalty. Starbucks has been the kind of company that has been dedicated to inspire and nurture the human spirit, serving the finest coffee is their commitment, creating an exceptional customer experience and a great place to work at. All these quality they have lead them to get some awards and recognition. Some of it:

1. One of the "Most Admired Companies in America"- *Fortune* – 2003–2015
2. One of the "World's Most Ethical Companies" - *Ethisphere* – 2007-2015
3. "Retailer of the Year" - *Visual Merchandising and Store Design* – 2013
4. One of the "World's 50 Most Innovative Companies" - *Fast Company* – 2012

Research by Susanty and Kenny (2015) show that there are several factors that affect customer satisfaction and loyalty, those are: Physical Quality, Staff Behavior, Brand Identification and Lifestyle Congruence.

Physical Quality is where the physical surrounding is able to influence the behavior and to create a surrounding that is appropriate for service businesses (Susanty and Kenny, 2015). Since service are mainly intangible and most of the time need the customer to be there during the process , the physical environment of a location can give a significant impact on perceptions of the overall quality of the service encounter. Starbucks uses pleasing equipments so that the baristas are able to give the perfect cup to the customers. Starbucks has customized their own espresso machines that are able to pour shots of coffee to the accurate timing required. They have also innovated milk pitchers designed by Starbucks themselves to help the baristas make cold milk into sweet, creamy steamed milk with the thick smooth foam that just taste amazing.



Figure 2. Starbuck's Physical Quality

Note. www.starbucks.com, retrieved on 29 July 2017

Staff behavior is an important factor in shaping the customer's impression and satisfaction as they are the people who in the end are responsible for giving a qualified service that will meet the customer expectation (Susanty and Kenny, 2015). The baristas in Starbucks responsibilities are to prepare the beverages according to specified quality standards and also they should interact and provide the best Starbucks Experience for customers, most of the time they will help

consumers in choosing the best menu, and offer if they want more or less coffee shots and regarding the sweetness level or milk options. They are very much friendly.



Figure 3. Starbucks's Staff Behavior

Note. www.google.com, retrieved on 29 July 2017

How a person relates themselves to the social entity can be defined as brand identification. Lichtenstein, Drumwright and Braig (2004) stated that strong identification may increase customer spending and customer patronization. A customer with a high level of brand identification will feel proud to be the owner of the brand or satisfied when consuming the particular brand's products, according to Kuenzel and Halliday (2008). People around the world are becoming attached to the brands more than towards each other. And this creates an identity like a "Coke person" or "Starbucks person". With Starbucks creating a relationship with their customer that is personable and unique, customers that come frequently will feel like they are a part of the Starbucks crowd, like they are part of the Starbucks family. When is already like a family, people usually will feel insulted or embarrassed when there is someone that criticize the brand.



Figure 4. Starbucks Brand Identity

Note. www.google.com retrieved on 30 July 2017

The expression of lifestyle are brand and brand settings. Specific manner on how consumers handle their lives are lifestyle. Lifestyle is a statement about who one is in society and who one is not (Solomon, Bamossy, Askegaard, Hogg, and Longman, 2006). While using the product, the brand is built and reinforced by displaying desired experiences and lifestyles (Casswell and Maxwell 2005). Now a days, people go to coffee has become like part of the daily routine, it has become more desirable to hang out in Starbucks, to meet friends or to have meetings or to spend some self quality time. From different culture point of view, social interaction are mostly held in Starbucks for people to talk, write, do their homework, read, entertain one another or pass the time either individually or as a small group.



Figure 5. Starbucks Lifestyle Congruence

Note. www.google.com, retrieved on 30 July 2017

1. 2 Research Limitations

This study was conducted in order to find out the reason behind customer loyalty in coffee shop. This research used physical quality, staff behavior, brand identification, lifestyle congruence as the dependent variable. The research used customer satisfaction as the intervening variable. The researcher is limited in terms of location because the research will be done in Surabaya, Indonesia. The respondents will be limited to those who have had experience drinking coffee in Starbucks. The research data gathering are conducted on September- December 2017.

1. 3 Research Problems

1. Is there a significant effect of Physical Quality on Customer Satisfaction of Starbucks Surabaya?
2. Is there a significant effect of Staff Behavior on Customer Satisfaction of Starbucks Surabaya?
3. Is there a significant effect of Brand Identification on Customer Satisfaction of Starbucks Surabaya?
4. Is there a significant effect of Lifestyle Congruence on Customer Satisfaction of Starbucks Surabaya?
5. Is there a significant effect of Customer Satisfaction on Brand Loyalty of Starbucks Surabaya?

1. 4 Research Objectives

1. To determine whether there is a significant effect of Physical Quality on Customer Satisfaction of Starbucks Surabaya.
2. To determine whether there is a significant effect of Staff Behavior on Customer Satisfaction of Starbucks Surabaya.
3. To determine whether there is a significant effect of Brand Identification on Customer Satisfaction of Starbucks Surabaya.
4. To determine whether there is a significant effect of Lifestyle Congruence on Customer Satisfaction of Starbucks Surabaya.

5. To determine whether there is a significant effect of Customer Satisfaction on Brand Loyalty of Starbucks Surabaya.

1.5 Research contributions

1.5.1 Theoretical Advantage

This study made its contribution as a reference in Consumer Behavior, by identifying the significance of factors that affect customer's satisfaction and loyalty, from the point of view physical quality, staff behavior, brand identification and lifestyle congruence. This study is also a reference for further studies related or similar to the field of study.

1.5.2 Empirical Advantages

1. For Starbucks Surabaya

The result of this study can be used for Starbucks Surabaya regarding their consumer behavior and how they can improve their strategies in marketing by learning about their consumers and how to create customer satisfaction and through physical quality, staff behavior, brand identification and lifestyle congruence.

2. For the researcher

This study deepens the researcher's knowledge about consumer behavior particularly in the sub- field of customer satisfaction and loyalty and its elements which are physical quality, staff behavior, brand identification and lifestyle congruence to its branding strategy.

1.6 Research Outlines

Research outline explains the systematic writing of this study. The outline is divided into five chapters as follows:

Chapter I

This chapter sets up the research problem for the reader. It also provides the background information defining the issue and important terms. It specifies the research objectives explored in greater detail to contribute to understanding the research problem.

Chapter II

This chapter summarizes the major studies and findings that have been published on the research topic and how this study contributes or adds to what has already been studied. This chapter also states a clear description of theories that apply to the research problem, an explanation of why it is relevant, and how the modeling efforts address the hypothesis to be tested.

Chapter III

This chapter explains the detailed technical and scientific activities which include the research design, sampling plan, instrumentation, statistical tools, and treatment of data.