

CHAPTER I

INTRODUCTION

1.1 Background of The Study

The retail industry in Indonesia is the second largest sector that contributes to country's Gross Domestic Product (GDP) and employment (Bank Indonesia, 2007)

Retail industry consist of several types such as traditional stores, convenience stores, supermarkets, and hypermarkets. "Hypermarket is a hybrid retailing format combining the discounter, supermarket, and warehouse club approaches under a single roof." (Keegan & Green, 2007) Some chains of hypermarket that operate in Indonesia are Carrefour, Hypermart, Giant, Hero, Lotte Mart, Hero, Food Mart, Super Indo, and Ranch Market.

East Java is one of the province in Indonesia that has grown rapidly. The economic growth of Surabaya as the capital city of East Java Province is always above the East Java Province and even National economic growth. According to Indonesia Regional Executive Council of Retail Association, in 2009 there are 475 new minimarkets open in Surabaya. The growth of minimarket is very fast in East Java. Until 2009, there are 4,250 minimarkets in East Java, increase from 3,633 minimarkets in 2008. In 2008, the sales of modern retail stores reach Rp 9.41 trillions. In 2009, the sales increase about 20% into Rp 11.49 trillion. In 2010, it is predicted that the sales will reach Rp 13.97 trillion or increase about 21% compare to 2010. (Amarullah, 2010)

From the Table 1, it can be seen that number of modern retail stores is increasing from 2006 until 2010. Minimarket modern retail experiences the highest growth which is 39.59% each year. While supermarket experience the lowest growth which is 12.17% each year. Hypermarket experience the growth of 25% each year. Minimarket experiences the highest growth because the customer demand is likely to prefer the purchase of fast moving consumer goods.

Table 1
Number of Modern Retail Store

Modern Retail	2006	2007	2008	2009	2010
Minimarket					
Indomaret	1,401	1,857	2,425	3,093	3,405
Alfamart	1,263	1,753	2,266	2,750	3,000
Total of Minimarket	2,664	3,610	4,691	5,843	6,405
Supermarket					
Super Indo	46	50	56	63	68
Foodmart	-	32	29	27	25
Carrefour Express	-	-	-	30	30
Total of Supermarket	46	82	85	140	123
Hypermarket					
Carrefour	19	29	37	58	61
Hypermart	16	26	26	43	44
Giant	12	17	17	26	38
Makro	17	19	19	19	19
Total of Hypermarket	64	91	99	146	162

Note. From Nielsen Media Research, Retail Asia Magazine, and other sources

Table 2
Growth in Market Share in Indonesia (%)

Retail	2008	2009	2010
Hypermarket	42.4%	43.0%	41.7%
Supermarket	32.6%	30.9%	26.2%
Minimarket	25.0%	26.1%	32.1%

Note. From Nielsen Media Research, Retail Asia Magazine, and other sources

The data in the Table 2 shows each year hypermarket is the modern retail store that have the highest market share in Indonesia. In 2010, hypermarket gain market share about 41.7% compare to supermarket that only gain 26.2% and minimarket which only gain 32.1%. However, minimarket has great potential to expand its business and will be able to obtain greater profits and increasing sales.

Hypermart is one of the companies under the auspices of PT. Matahari Putra Prima Tbk. Hypermart began operations in 2004. Now, at the age of 7, Hypermart want to show that their dream to be No. 1 Multi Food Retail Formats is not a mere dream. At a young age, Hypermart became the first successful hypermarket that open 50 outlets in Indonesia (Hypermart).

Table 3

Modern Retail Stores Sales in Indonesia in Rp (millions)

Retail Store	Retail Type of Stores	Year		
		2008	2009	2010
Carrefour	Hypermarket	11,460,000	11,370,000	n.a.
Ramayana	Department Store	5,530,000	5,460,000	n.a.
Matahari	Department Store	5,873,245	6,919,509	n.a.
Hypermart	Hypermarket	4,945,230	5,773,757	n.a.
Giant	Hypermarket	n.a	n.a	n.a

Note: From www.kompas.com; www.matahari.co.id

Table 4

Hypermarket Retail Stores Sales in Indonesia in Rp (millions)

Retail Store	Year		
	2008	2009	2010
Carrefour	11,460,0000	11,370,000	n.a
Hypermart	4,945,230	5,773,757	n.a
Giant	n.a	n.a	n.a

Note: From www.kompas.com; www.matahari.co.id

Table 3 and 4 shows that Hypermart is the second largest for sales in hypermarket retail stores. As in 2007, Hypermart sales reach Rp 4,455 billions; in 2008, it reaches Rp 4,945 billions; in 2009, it reaches Rp 5,773 billions (PT. Matahari Putra Prima). From the above, Hypermart sales increase each year that shows Hypermart can compete with other hypermarkets and Hypermart remains the top choice of consumer in shopping and make repeat purchases either because prices are cheap, goods offered or the store environment.

As loyalty programs have emerged as a separate retail strategy and often managed externally from the retailer or by a separate functional area internal to the retailer. Practitioners distinguish between the types of reward offered by loyalty programs according to 'hard' or 'soft' benefit. Hard rewards are generally tangible elements. While soft benefits are more emotionally oriented and try to give consumers a sense of recognition or make them feel special in comparison to other shoppers. (Bridson, et al., 2008)

In order to compete with other hypermarket, Hypermart make some loyalty program for customers. Hypermart loyalty program member is Hypermart loyal customers who follow the loyalty program. Hypermart loyalty program

divided into hard attributes and soft attributes. Some of hard attributes are stamp collections, double discount (giving significant discount for the purchase of the second product), discount on special products that are advertised in newspaper, discount voucher. Some of soft attributes are Hypermart are trying to recognize customers by issuing Hi-Card. Hi-Card is Hypermart membership card. With using Hi-Card every transaction, customer can enjoy special discount rather than other non-member Hi-Card and also have a chance to follow a variety of products lottery cash or shopping vouchers; Hypermart also give special service like delivery service to Hypermart customers home who buy electronic, Hypermart also make the transaction easier for the customers by using Hypermart Credit Card.

According to Bridson, et al.'s research (2008) in Australia concluded that loyalty program as a summary construct, explains a significant proportion of the variance in store satisfaction and store loyalty. Furthermore, disaggregating the loyalty program construct into hard and soft loyalty program attributes play different roles in relation to store satisfaction and loyalty.

As Hypermart implement the loyalty program, this study wants to know whether the loyalty program Hypermart implemented influence the customer satisfaction (store satisfaction) on Hypermart and customer loyalty (store loyalty) on Hypermart, so the title of this study is AN ANALYSIS ON THE EFFECTS OF HYPERMART'S LOYALTY PROGRAM ATTRIBUTES ON STORE SATISFACTION AND LOYALTY.

1.2 Research Problems

From the background and limitation of the research, the general research problem is: Do the loyalty program attributes of Hypermart affect the customers' satisfaction and loyalty to its store in Surabaya? The specific problem areas to be investigated are:

1. What is the profile of customers who have availed of the loyalty program of Hypermart?

2. Do Hypermart's hard and soft loyalty program attributes positively affect the customers' satisfaction to its store in Surabaya?
3. Do Hypermart's hard and soft loyalty program attributes positively affect the customers' loyalty to its store in Surabaya?
4. Do dimensions of customer satisfaction such as merchandise, trading format, customer service, and communication positively affect the customers' loyalty to Hypermart?
5. Does customers' satisfaction to Hypermart positively mediate the relationship between its loyalty program attributes and store loyalty?

1.3 Research Objectives

The objectives of the study are:

1. To describe the characteristic of customers who have availed of the loyalty program of Hypermart;
2. To determine the effects between:
 - a. Hypermart's hard and soft loyalty program attributes and customers satisfaction to its store;
 - b. Hypermart's hard and soft loyalty program attributes and customers loyalty to its store;
 - c. Dimensions of customer satisfaction such as merchandise, trading format, customer service, and communication and customers' loyalty to Hypermart;
 - d. Customer satisfaction and the relationship between loyalty program attributes and store loyalty.

1.4 Research Contributions

This research about expects to provide benefits for:

1. Hypermart
The research findings give input to Hypermart in Surabaya about the dominant factors that affect store loyalty.

2. Professionals

The research findings give information and benefit to the professionals especially to companies and others that involve in retail industry especially in Surabaya about the dominant factors that affect store loyalty.

3. Other researchers

The research findings provide input that may add further insight for researchers who want and will conduct similar research with the aim to expand or continue and develop the existing research.

4. Author

The research findings help the author to meet the requirements of the University for achieving the bachelor degree.

1.5 Research Limitations

This study examines the factors the relationship of loyalty program attributes which consist of hard attributes and soft attributes to store loyalty and also examines store satisfaction as the intervening variable. Object of this research is Hypermart. This study is done in 2012 in Surabaya.

In this study, the internal factor of respondents such as age, occupation, and economic conditions set forth in the characteristics of the population aged 17-60 years which is called an adult in which at that time can be assumed the respondents have income and able to shop at Hypermart without other people's opinions so that it can be assumed homogeneous.

Another limitation comes from the number and type of retail stores used. This study is only focus to one retail store which is Hypermart. This limitation cannot allow the researcher to make any comparison with other retailer. Moreover, there are many type of retailer from small scale until big scale. There are also many brands that competing with Hypermart in the same market that come from outside of Indonesia such as Giant, Carrefour, etc.

The coverage are of this research also represents another limitation. This study was limited to Hypermart consumer in Surabaya while Hypermart are actually operating in many cities in Indonesia. A bigger coverage are of the study,

such as including big cities in Indonesia, such as Jakarta, Medan, Bandung, Makassar, etc, or even all of Indonesia should be considered for future research.

Another limitation is that this study is a replication from the model in the previous study. This study consists of three variables that all of it was used in this study.

1.6 Research Outline

CHAPTER I: INTRODUCTION

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: REVIEW OF RELATED LITERATURE

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 the theory that applied to the research problem, an explanation of why it is relevant, and how the modeling efforts address the hypothesis to be tested.

CHAPTER III: RESEARCH METHODOLOGY

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

CHAPTER IV: RESULTS AND DISCUSSION

This chapter organizes a logical presentation of the findings that address the research questions, and focus on how these key findings relate back to the theory and prior researches presented at the beginning of the study

CHAPTER V: SUMMARY, RECOMMENDATION, AND
CONCLUSION.

This chapter outlines the implications, conclusions, and recommendation supposed to advance the study of the research topic by its theoretical, methodological, or substantive contributions.