

# **CHAPTER I**

## **INTRODUCTION**

### **1.1 Background of the Study**

Coffee has always been a staple drink for most people's lives, whether it's for energy boost, the taste and the richness of the beans. In the old times it may have been only for adults to enjoy this drink but nowadays, there's so many variations of coffee that are suitable for all ages ranging from elder to youths. Even though it has been many years since the coffee shop trend started, there doesn't seem to be much decline on interest in opening a new coffee shop.

With more and more new coffee shops opening, competitions are bound to be tighter than before. This will cause business actors to re-evaluate their strategies, on determining the right price, improving product quality and service quality of their place whilst facing the current competition to compete in the market. To alleviate this issue, business actors need to be able to strategize better on their goods and service to stand a chance of surviving the business competition.

The existence of competitors is inevitable, this is why business actors must act accordingly to the already available policy. One of the ways to combat competitors is by coming up with a unique strategy so they can retain customers whilst attracting new ones. Over the years, more research relating to price, product and service quality, customer loyalty and satisfaction has been written. It stands to say that most businesses have learned more effective strategy to battle competitors, ensuring their survival.

Business needs to have various ways to ensure customer loyalty and satisfaction. Various factors can influence customer loyalty and satisfaction, business needs to be able to satisfy customers to reach their main goal, that is making profits.

In the end, there are more variables that influence customer loyalty and satisfaction. The company must be able to strike a balance between all these to ensure their survival while not compromising customer satisfaction to generate loyal customers and profits to provide benefits for the company.

Customer loyalty is impacted by numerous factors, each contributing to the depth and consistency of the commitment of customers towards a product or service. Service Quality is a critical factor, as it directly influences customer satisfaction and retention. Studies have concisely shown that superior service quality leads to favorable consumer behavior, including increased loyalty. High-quality service not only meets but often exceeds customer expectations, fostering trust and reliability that is essential for long-term loyalty.

Perceived Value also plays a significant role in customer loyalty. When customers perceive value in a product or service, they are more likely to remain loyal. This perception encompasses not only the price but also the overall value proposition offered by the service. Additionally, offering exclusive benefits or rewards can further enhance perceived value and encourage customers to stay loyal.

In a coffee shop setting, customer habits and brand image are significant determinants of loyalty. Frequent visits to the same coffee shop, for example, can strengthen a customer's loyalty. Customers who frequently visit a specific coffee

shop, for instance, might do so out of convenience and familiarity, taking pleasure in the ambience and the reliability of their favorite drinks. Furthermore, cultivating loyalty can be greatly aided by a strong brand image that complement consumer preferences, such as premium coffee, sustainability, or a homey atmosphere. The relationship between consumer behavior and a coffee shop's brand identity is further supported by studies that demonstrate how these elements influence customer loyalty, repeat business, and positive word-of-mouth.

Another important factor that can greatly increase customer loyalty is personalization. Customers can feel appreciated and like they belong when services are customized to meet their unique needs and preferences. Personalized communication, tailored offers, and customized services all contribute to a more engaging experience, which in turn fosters deeper loyalty. Businesses can develop tailored experiences that connect with their clients more deeply by utilizing data analytics and AI-driven insights, thereby strengthening their bond with the brand. This personalized approach not only meets but often exceeds customer expectations, leading to increased loyalty and retention.

Starbucks Sun Plaza Medan is one of the global chains from the recognized coffeehouse chain that is Starbucks, known for its premium coffee, comfortable atmosphere, and customer focused services. Starbucks Sun Plaza Medan also contributed to the brand's expansion and popularity in the region.

Starbucks Sun Plaza Medan was one of Starbuck's strategic expansions into Indonesia, which began in 2002. The outlet, however, opened in 2004 making it the

brand's first chain to open in Sumatra, a region known for its abundance of coffee culture and agricultural production.

Starbucks has emerged as a groundbreaker in advancing Indonesian coffee culture. Another viewpoint, moreover, contends that modernization—rather than just Starbucks' arrival—has influenced Indonesian coffee culture. However, the opening of Starbucks can give local employees new skills, training, employment opportunities, and technology and knowledge transfer (Nurhasanah & Dewi, 2020).

As Starbucks expanded throughout Indonesia, their aim was towards the growing demand for high-quality coffee and café atmosphere. Sun Plaza Medan proved to be a strategic location, which is inside a popular shopping center, making it very accessible for both locals and tourists.

Starbucks Sun Plaza Medan has a vital role in the brand's presence in Indonesia. Not only does it mark an important milestone in Starbucks' expansion strategy, but it also shows the company's efforts to integrate into local culture while still supplying customers with high-quality products and amazing services.

The purpose of the study is to look into how customer satisfaction and loyalty at Starbucks Sun Plaza Medan are affected by price, product quality, and service quality. Businesses must comprehend the elements that influence customer loyalty in order to maintain their market position in the super competitive industry of today. Customer satisfaction and loyalty are key indicators of a company's success, as they directly impact on business revenue, reputation and positive word-of-mouth.

Previous study showed that customer loyalty is directly impacted by both product and service quality. The mediating role test results demonstrate that the relationship between service and product quality and customer loyalty is partially mediated by customer satisfaction (Kuniasih & Setyaningrum, 2023).

Another research conducted by Sutriani et al. (2024) proved that customer satisfaction is influenced by a company's service quality. Customer satisfaction is positively impacted by service quality. Relationship It has been acknowledged that customer loyalty and satisfaction are crucial for businesses. Customer loyalty is positively impacted when customers are satisfied.

However, Starbucks Indonesia's sales has taken a hit, it has slowed down by 30%. This revenue loss was caused by Starbucks' mistreatment against the Starbucks Worker United. In 2023, Starbucks denounced and then filed a lawsuit against Starbucks Worker United for a tweet that was posted on October 7th that included the words "A picture of a bulldozer breaking through the Gaza fence with the words "Solidarity with Palestine" are displayed. However, the tweet was not approved by the union leaders and was only written by one person. A thorough statement outlining Starbucks' support for Palestine quickly took its place. Starbucks then criticized the union for supporting Hamas violence and stated that the lawsuit was necessary to safeguard itself against unauthorized use of its name and logo. However, the union retaliated, alleging that Starbucks has been taking advantage of the ongoing tragedies in Israel and Gaza to further an anti-union campaign by defaming the union's standing among employees and the public. Undoubtedly by doing so, the public began viewing Starbucks mistreatment

towards the union as a way of not supporting Palestine, hence the boycott happened. But this begs the question, Did Starbucks funded Israel financially? From my observation, not quite. Starbucks has not funded Israel, nor has any store located in Israel since 2003. In late 2023, Starbucks issued a statement that they never funded any government or military operations at all.

However, there are a few ways that spending at Starbucks can cause you to indirectly contribute to financially funding Israel. First of all, former CEO of Starbucks, Howard Schultz who is also a current major shareholder. Although he left the company in 2023, he still has major influence inside Starbucks given how long he was in the CEO position. Recently in 2021, Schultz showed support for Israel by funding Israeli start up in cyber-security Wiz. The Vanguard Group, which owns 7.7% of Starbucks' stock, and Elbit Systems, Israel's largest weapons manufacturer, are two other well-known businesses that can be used as examples of indirect financial support for Israel. The other is BlackRock, which owns 7.2% of Starbucks' stock and is a major shareholder in Lockheed Martin, which manufactures fighter jets for the Israeli military that are proud to have contributed significantly towards the security of the State of Israel.

With all the major shareholders, in theory, Starbucks's profit could indirectly be used to support Israel by investing it onto said companies. However, it is worth noting that these do not reflect Starbucks actions but more so the major shareholders' action.



Inspired by the background data, the researcher is influenced to undergo a study titled "The Influence of Price, Product Quality, and Service Quality towards Customer Satisfaction and Customer Loyalty at Starbucks Sun Plaza Medan."

### **1.2 Problem Limitation**

This study will focus on Starbucks Sun Plaza Medan and will collect data from customers who have visited the location at least once. The scope is restricted to the particular factors of cost, product and service quality, and how they affect client loyalty and satisfaction. Time is another constraint; the author has a month to disseminate and examine the survey data. Future studies can expand on these findings by incorporating additional variables or broader geographic locations.

### **1.3 Problem Formulation**

Based on the background of study above, this research aim to answer following questions as follows:

1. Does price give impact to customer loyalty?
2. Does price give impact to customer satisfaction?
3. Does product quality give impact on customer loyalty?
4. Does product quality give impact on customer satisfaction?
5. Does service quality give impact on customer loyalty?
6. Does service quality give impact on customer satisfaction?
7. Does customer satisfaction give impact to customer loyalty?

8. Do price, product quality, and service quality give impact to customer loyalty?
9. Does customer satisfaction act as mediating variable between price, product quality, and service quality to customer loyalty?

#### **1.4 Objective of the Research**

Given the above study background and problem formulations, the following are the objectives of the research:

1. To investigate the influence of price towards customer satisfaction.
2. To investigate the influence of price towards customer loyalty.
3. To investigate the influence of product quality towards customer satisfaction.
4. To investigate the influence of product quality towards customer loyalty.
5. To investigate the influence of service quality towards customer loyalty.
6. To investigate the influence of service quality towards customer satisfaction.
7. To investigate the influence of service quality towards customer loyalty.
8. To investigate the influence of price, product quality, and service quality towards customer loyalty.
9. To investigate the mediating role of customer satisfaction in the relationship between price, product quality, and service quality towards customer loyalty.



## **1.5 Benefit of the Research**

The benefits of the research are divided into two, which are:

### **1.5.1 Theoretical Benefit**

Given the above study background and problem formulations, the following is the objective research. This study advances the theoretical knowledge of how customer satisfaction and loyalty are influenced by price, product quality, and service quality. By examining the mediating role of customer satisfaction in these relationships, it adds to the body of literature already in existence and provides insights into the dynamics between these variables and how they affect customer retention as a whole. This will assist in improving current consumer behavior and marketing models.

### **1.5.2 Practical Benefit**

#### **1.5.2.1 For the writer**

The author's knowledge of consumer behavior deepens, improving their proficiency in consumer research and marketing. It increases credibility in the field by providing chances for findings to be presented at conferences and published in scholarly journals.

#### **1.5.2.2 For the company**

The author's knowledge of consumer behavior deepens, improving their proficiency in consumer research and marketing. It increases credibility in the

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