

# **CHAPTER I**

## **INTRODUCTION**

### **1.1 Background of The Study**

The rapid advancement of technology has intensified business competition, particularly in the retail sector, as increasing and diverse consumer demands drive its rapid growth. The presence of numerous retail companies has made consumers more selective in choosing where to fulfill their daily needs. One prominent type of retail business is supermarkets, which attract customers by offering competitive pricing, a comprehensive shopping experience, and a comfortable atmosphere.

The growing public interest in shopping and recreation within shopping centers has created lucrative opportunities for retail businesses. This trend is not only leveraged by local retailers but also by international retail chains that view Indonesia as a promising market. The entry of foreign retailers poses a competitive challenge to local retailers that have long dominated the industry.

For Indonesian consumers, shopping is an essential activity, especially for fulfilling daily necessities. Consequently, retailers strive to develop shopping centers that are both comfortable and appealing to attract customers. In response to competition, each retailer differentiates itself through unique offerings and strategies to gain a competitive edge. Manufacturers also engage in intense competition by producing similar products but employing distinct strategies to shape consumer perceptions and attract buyers.

As a result, managing a retail business today extends beyond simply establishing a store and providing a complete range of products. Retailers must also enhance their services to ensure higher consumer satisfaction. Moreover, competition is no longer limited to merely supplying daily necessities but also includes creating entertainment spaces for families. Consequently, the role of supermarkets has evolved from being solely a provider of essential goods to serving as recreational destinations where consumers seek entertainment and relaxation from work-related stress and daily routines.

Brastagi Supermarket Gatot Subroto Medan was established on June 6, 2006, beginning its operations in the former Clubstore building. This supermarket is the first branch of the Brastagi Supermarket network in Medan. From the beginning, Brastagi Supermarket has been committed to providing high-quality products, especially imported goods, with the motto "BRASTAGI BICARA QUALITY" (Brastagi Speaks Quality). Additionally, the supermarket offers a variety of fresh products, including imported and local fruits, vegetables, meat, and fish, all maintained at high hygienic standards and competitively priced compared to traditional markets. To enhance the shopping experience, Brastagi Supermarket Gatot Subroto also provides facilities such as a children's play area (Funland), a food court (Kedai Pojok - Nusantara Culinary), and an Italian restaurant (Grand Pizza), in line with their slogan, "BELANJA DI BRASTAGI KELUARGA HAPPY" (Shopping at Brastagi, Happy Family).

Over time, Brastagi Supermarket has expanded by opening other branches, including in Cambridge City Square and Rantau Prapat, making it one of the

leading supermarket chains in North Sumatra. However, despite attracting a substantial number of visitors, this does not necessarily translate into increased sales. Observations indicate that Brastagi Supermarket has experienced a gradual decline in sales over the years. Although the decrease is not drastic and has not yet caused significant disruptions, a continued downward trend may eventually hinder the supermarket's long-term growth and sustainability. The following is the sales figures of Brastagi Supermarket Gatot Subroto during the period 2022 to 2024 which are currently experiencing a decline:

**Table 1.1. Brastagi Supermarket Gatot Subroto Sales Data**

Year	Total Sales
2022	Rp. 437.024.334.567
2023	Rp. 393.520.643.754
2024	Rp. 370.432.347.645

Sources: Brastagi Supermarket Gatot Subroto, 2025

Based on the table above, it can be seen that the annual sales of Brastagi Supermarket Gatot Subroto have been declining year by year. In 2022, total sales reached Rp. 437,024,334,567, while in 2023, total sales decreased to Rp. 393,520,643,754, and in 2024, total sales further declined to Rp. 370,432,347,645. This decline may be linked to the decreasing customer loyalty in visiting and making purchases.



**Figure 1.1. Customer Loyalty Review**  
Sources: Google Review, 2025

Although Brastagi Supermarket has an average rating of 4.6, the presence of reviews with 3, 2, and 1-star ratings indicates a potential decline in customer loyalty. A 3-star rating reflects mild dissatisfaction or hesitation, which may cause customers to reconsider returning for future purchases, while 2 and 1-star ratings signify more serious dissatisfaction, increasing the likelihood of customers switching to competitors. If the number of low-rated reviews continues to rise, it could serve as a warning sign of weakening customer loyalty, which, in the long run, may impact the sustainability of Brastagi Supermarket's business. Based on the observation, there are some factors that affecting the customer loyalty in Brastagi Supermarket such as brand image and customer satisfaction.

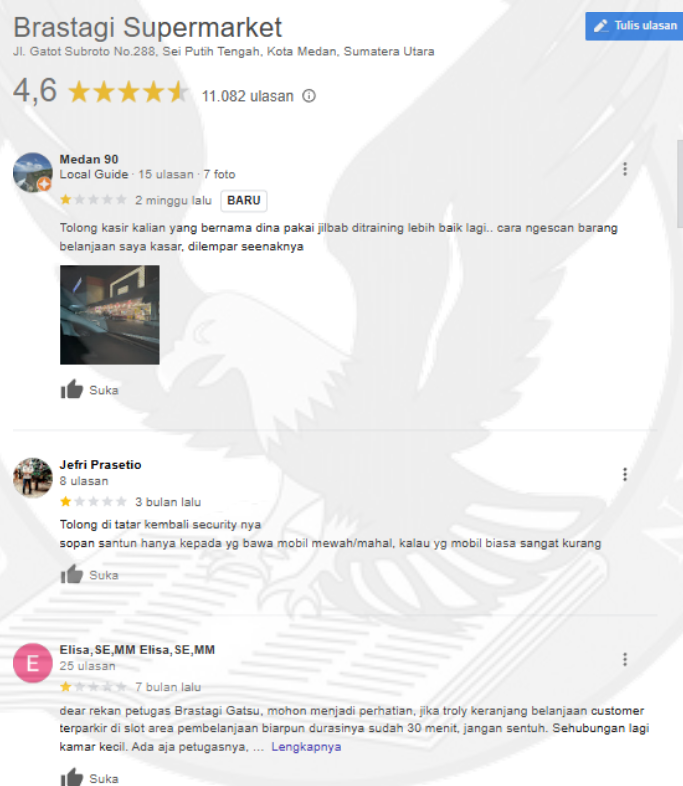
A weak or inconsistent brand image can significantly harm customer loyalty at Brastagi Supermarket. If the supermarket fails to establish a strong and positive perception in the minds of consumers, it may struggle to retain customers in the long run. The following are the results of a pre-survey of research with consumers of Brastagi Supermarket Gatot Subroto Medan related to brand image, which can be seen in the table below:

**Table 1.2. Pre-Survey of Brand Image Phenomenon**

No.	Statement	Information			
		Agree	%	Disagree	%
1	Brastagi Supermarket Gatot Subroto has a good image as a shopping place that provides quality products.	11	37%	19	63%
2	Brastagi Supermarket Gatot Subroto has a good image as a shopping place that offers the best service.	13	43%	17	57%
3	Brastagi Supermarket Gatot Subroto has a good image regarding its employees.	11	37%	19	63%
<b>Rata-rata</b>		<b>38.89%</b>		<b>61.11%</b>	

Sources: Pra Survey, 2025

Based on the table above, it can be seen that the majority of respondents as consumers of Brastagi Supermarket feel that Brastagi Supermarket Gatot Subroto Medan does not have a good image in terms of the quality of the products it offers. The same is true regarding the image of service and trained employees where respondents feel less agree that Brastagi Supermarket Gatot Subroto Medan has given the best. The following is also attached a description of direct reviews from consumers that form a bad image in their minds.



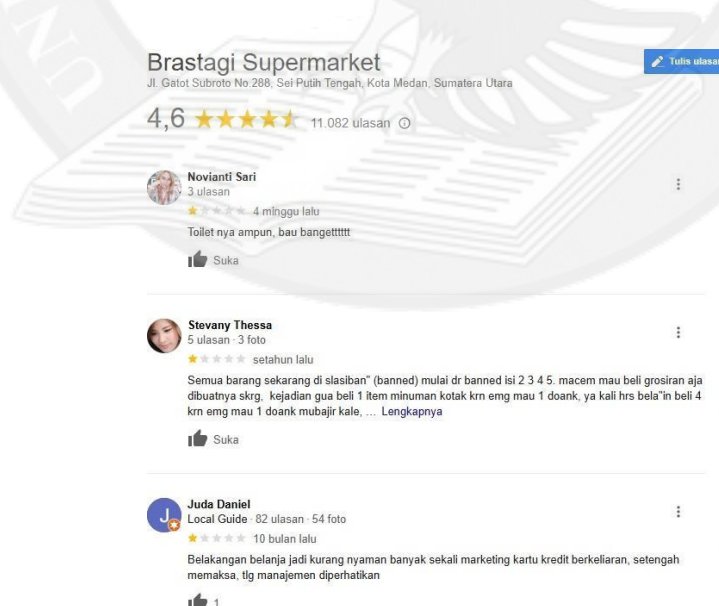
**Figure 1.2. Brastagi Supermarket Gatot Subroto Brand Image**

Source: Google Review, 2025

Customers are less likely to remain loyal if they perceive the brand as outdated, unreliable, or inferior compared to its competitors. A lack of differentiation from other supermarkets, failure to adapt to market trends, and ineffective promotional strategies can all contribute to a declining brand image. If

customers do not associate Brastagi Supermarket with quality, affordability, or convenience, they may gradually shift their preferences to competitors that offer a more appealing shopping experience. Consequently, a negative or weak brand image can lead to reduced customer engagement, lower foot traffic, and ultimately, declining sales.

Customer satisfaction plays a crucial role in determining loyalty, and if Brastagi Supermarket fails to meet customer expectations, it is likely to experience a decline in repeat business. Poor customer service, uncompetitive pricing, inconsistent product availability, and an unpleasant shopping environment can all lead to dissatisfaction. If customers frequently encounter issues such as long checkout lines, unhelpful staff, or expired products, they may form negative perceptions of the supermarket. The following are the results of a pre-survey of research with consumers of Brastagi Supermarket Gatot Subroto Medan related to consumer satisfaction, which can be seen in the table below:



**Figure 1.3. Brastagi Supermarket Gatot Subroto Consumer Satisfaction**  
Source: Google Review, 2025



If Brastagi Supermarket does not actively respond to customer complaints or feedback, it may further damage its reputation and discourage customers from returning. Dissatisfied customers are more likely to share their negative experiences with others, either through word-of-mouth or online reviews, which can further erode the supermarket's credibility. Over time, if customer satisfaction continues to decline, Brastagi Supermarket risks losing a significant portion of its customer base to competitors that offer better service and shopping experiences.

Corporate Social Responsibility (CSR) initiatives can serve as a bridge that strengthens the relationship between a company's brand image, customer satisfaction, and customer loyalty. In case on Brastagi Supermarket in Gatot Subroto, Without visible and meaningful CSR efforts, customers may perceive the supermarket as solely profit-driven, lacking a commitment to social or environmental responsibility. The following are the results of a pre-survey of research with consumers of Brastagi Supermarket Gatot Subroto Medan related to corporate social responsibility.

This perception can erode trust and reduce the emotional connection that often fosters long-term customer loyalty. Moreover, ineffective or poorly communicated CSR initiatives may fail to improve the supermarket's brand image. If customers do not see clear social contributions or ethical business practices, they may view the brand as indifferent to community well-being, making it harder for Brastagi Supermarket to differentiate itself from competitors. In turn, this could diminish customer satisfaction, as modern consumers increasingly expect businesses to be socially responsible.

Without a strong CSR presence, Brastagi Supermarket risks losing customer loyalty, especially when faced with competitors that actively engage in sustainability, community support, or ethical sourcing. If the supermarket does not address this gap, it may struggle to maintain a positive reputation, leading to declining repeat visits and weaker customer retention over time. Therefore, the research title will be: **“The Effect of Brand Image and Customer Satisfaction on Customer Loyalty at Brastagi Supermarket Gatot Subroto, Medan: The Mediating Role of CSR Initiatives.”**

## **1.2 Problem Limitation**

The aim of problem-solving is to establish boundaries to concentrate on the primary issue at hand. Consequently, the discussion remained concise and efficient. To narrow down the problem, the author will focus on four key variables: brand image and customer satisfaction as independent variable while customer loyalty as dependent variable and CSR Initiatives as mediating role to limit the problem. This thesis aims to study the extent to which brand image and customer satisfaction on customer loyalty with the mediating role of CSR initiatives. This study will focus on Brastagi Supermarket Gatot Subroto.

## **1.3 Problem Formulation**

The problem formulation are:

1. Does brand image have a partial effect toward customer loyalty at Brastagi Supermarket Gatot Subroto?



2. Does customer satisfaction have a partial effect toward customer loyalty at Brastagi Supermarket Gatot Subroto?
3. Does brand image have a partial effect toward CSR initiatives at Brastagi Supermarket Gatot Subroto?
4. Does customer satisfaction have a partial effect toward CSR initiatives at Brastagi Supermarket Gatot Subroto?
5. Does CSR initiatives have a partial effect toward customer loyalty at Brastagi Supermarket Gatot Subroto?
6. Does brand image have a partial effect toward customer loyalty at Brastagi Supermarket Gatot Subroto with CSR initiatives as the mediating role?
7. Does customer satisfaction have a partial effect toward customer loyalty at Brastagi Supermarket Gatot Subroto with CSR initiatives as the mediating role?

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

The objective of the research as follow:

1. To analyze whether the brand image have a partial effect toward customer loyalty at Brastagi Supermarket Gatot Subroto.
2. To analyze whether the customer satisfaction have a partial effect toward customer loyalty at Brastagi Supermarket Gatot Subroto.
3. To analyze whether the brand image have a partial effect toward CSR initiatives at Brastagi Supermarket Gatot Subroto.
4. To analyze whether the customer satisfaction have a partial effect toward CSR initiatives at Brastagi Supermarket Gatot Subroto.

5. To analyze whether the CSR initiatives have a partial effect toward customer loyalty at Brastagi Supermarket Gatot Subroto.
6. To analyze whether the brand image have a partial effect toward customer loyalty at Brastagi Supermarket Gatot Subroto with CSR initiatives as the mediating role.
7. To analyze whether the customer satisfaction have a partial effect toward customer loyalty at Brastagi Supermarket Gatot Subroto with CSR initiatives as the mediating role.

### **1.5 Benefit of the Research**

The benefit of the researches as follow:

#### **1. Theoretical Benefit**

The findings from this study demonstrate that brand image and customer satisfaction impact customer loyalty at Brastagi Supermarket with CSR initiatives as mediating role. These results offer valuable insights and practical experience, which will be beneficial for the writer in the future. Additionally, this study can serve as a reference for those interested in exploring the same issue in the future.

#### **2. Practical Benefit**

##### **a. For Brastagi Supermarket**

The researcher anticipates that the results of this study will help the business evaluate and understand the impact of customer loyalty at Brastagi Supermarket with CSR initiatives as mediating role, and use the findings as suggestions for improvement.

b. For the Writer

This study provides the writer with new experiences and deeper knowledge about the significance of customer loyalty at Brastagi Supermarket with CSR initiatives as mediating role.

c. For Future Research

The researcher hopes that the findings of this study will serve as a useful comparison for future researchers interested in exploring the effect of customer loyalty at Brastagi Supermarket with CSR initiatives as mediating role.

