

CHAPTER I

INTRODUCTION

1.1. Research Background

The proliferation of cafes selling coffee drinks can increase the consumption of coffee beans processed nationally. In addition to increasing the selling value, the emergence of these shops will also encourage the growth of the creative economy of coffee commodities, both for the domestic and export markets.

For information, Indonesia is one of the countries with the largest coffee consumption in the world. According to katadata.co.id (accessed from www.databoks.katadata.co.id, on 16 March 2019), data from the International Coffee Organization (ICO) recorded Indonesian coffee consumption in the 2016/2017 period reaching 4.6 million packs of 60 kg/lb (60 kg) in the 6th place with the largest coffee consumption in the world under Russia. While the largest coffee consumption in the world is the country that European Union member with consumption of more than 42.6 million lb (60 kg). The coffee production in Indonesia in 2017 reached 10.92 million lb (60 kg), down from the previous year reaching 11.49 lb (60 kg). While the largest coffee producer in the world is Brazil with a production of 52.73 lb (60 kg).

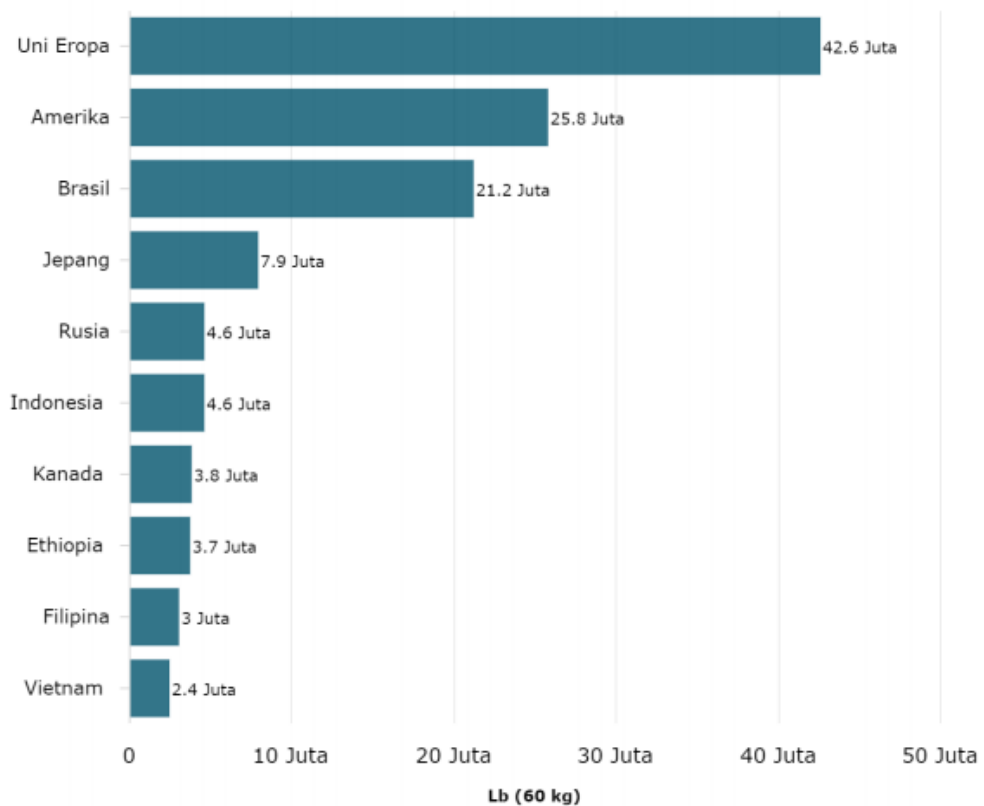


Figure 1.1 The Figure of 10 countries with highest Coffee Consumption (year 2016/2017)

Source: www.databoks.katadata.co.id, on 16 March 2019

Coffee proves to be an ideal beverage within society. The proliferation of coffee shop in Yogyakarta makes this business area competitive enough. With inefficient profit structure or without unique business strategies have exited the industry due to its saturation. Therefore, many coffee shops invest largely in order to strengthen competitiveness and enhance brand or company image in order to augment their market shares. It is also important for coffee shops to comprehend customers various needs to grasp competitive superiority through customer satisfaction. Moreover,

operators would need marketing strategies for fulfilling customers wants. It is crucial to apprehending service quality and satisfaction towards coffee shops along with customers wants.

According to Herlyana (2013) a coffee shop is a place that provides various types of coffee and other non-alcoholic drinks in a relaxed atmosphere, a comfortable place, and equipped with music, both through the player or live music, providing television and reading, distinctive interior design, friendly service, and some of which provide wireless internet connection.

Coffee shops are continuously growing. The potential of the coffee shop business in Jogja is very high. According to jogja.co, 2017 (accessed from www.jogja.co, on 16 March 2019) there is approximately 1.200 coffee shop in Yogyakarta. This figure is much higher than the nearest big cities like Semarang which is approximately around 700 coffee shops and Solo which only approximately 400 coffee shops. With this amount, the company should really compete to provide the best quality of their service.

According to Jin & Ryu (2015), as cited in Cho et al (2015), good-quality service and product provided by coffee shops are reflected by customer satisfaction; maintaining customers provided those satisfactory products and high-quality service become the foundation for customers re-visitation and successful companies. An increase of customers with the intention of revisit leads to maintenance and development of stable company profit. On today's competitive coffee industry, efforts to

investigate and reduce the difference between coffee shops and customers various and fussy wants are urgent.

A coffee shop is considered as food and beverage industry. Service quality in the food and beverage industry becomes one of the most important factors for gaining a sustainable competitive and customers confidence in the highly competitive marketplace.

One of the most significant features of the total product is the place, more specifically the atmosphere of the place is more influential than the product itself. The atmosphere is always present as a quality of the surrounding space. The atmosphere is colloquially described as the quality of the surroundings. (Kotler, 1974). The previous study done by Cho et al (2015) stated that an atmosphere in a store is not just a physical surrounding, but also for inducing customers to purchase because of purposely created physical and cognitive factors.

Merit et al., (1996), cited from Chao et al., (2015) stated that customer satisfaction creates repeated purchase and positive word of mouth effects. Customer satisfaction is crucial to the management of the company and for this reason, a customer with high loyalty enhance company's profit and over 60% of turnover from a new customer is influenced by word of mouth effects. As a result, the recognized service quality of a coffee shop can be viewed as a composition factor of customer satisfaction (Cho et al., 2015).

Sinergi.co coffee shop is used as the object of this research. Sinergi.co is a coffee shop that serves many menus from snacks and western food. The atmosphere of Sinergi.co itself seems unique in because it applies a space for working like a meeting room, a place that facilitated with a comfortable place for working and doing assignments. It designs with a very modern industrial interior and very wide. Sinergi.co is basically and focus on serving coffee to customers and it is using a self-service system to serve the customers.

Sinergi.co started to operate at the beginning of 2018. Sinergi.co provides an indoor and outdoor space with the maximum capacity of the store is 200 people. This place can be used for doing assignments and even only hang out with friends because of the capability to accommodate a lot of people in it. Availability of electrical plugs in every corner of the store makes customer feels comfortable to linger there.



Figure 1.2 The Picture of ground floor of Sinergi.co

Source: intanaerum.com, on 16 March 2019



Figure 1.3 The Picture of the second floor in Sinergi.co

Source: m.brilio.net, on 16 March 2019



Figure 1.4 The Picture of Sinergi.co beverage

Source: accessed from www.instagram.com/sinergi.co, on 16 March 2019



Figure 1.5 The picture of Sinergi.co snack

Source: accessed from www.instagram.com/sinergi.co on 16 March 2019



Figure 1.6 The picture of Sinergi.co food and beverage

Source: accessed from www.instagram.com/sinergi.co on 16 March 2019.

The main purpose of this study is to analyze service quality factors and atmosphere of Sinergi.co coffee shop. This report will discover how

service quality of Sinergi.co coffee shop influence customer satisfaction and loyalty. Also, it will investigate ways in which customer satisfaction affected by coffee shops service quality factors influence customer loyalty. Based on the results above, it would be able to deduce the implication of coffee shop customer-oriented service quality strategies.

1.2. Problem Statement

Through the background of this research above, the writer is interested in writing research about the influence of service quality on customer satisfaction and customer loyalty. The research questions of this thesis topic are:

1. Does service quality (trust and reactivity, assurance and sympathy, taste, materiality) influence customer satisfaction of Sinergi.co coffee shop?
2. Does the store atmosphere influence customer satisfaction of Sinergi.co coffee shop?
3. Does service quality (trust and reactivity, assurance and sympathy, taste, materiality) influence customer loyalty of Sinergi.co coffee shop?
4. Does store the atmosphere influence customer loyalty of Sinergi.co coffee shop?
5. Do customer satisfaction influence customer loyalty Sinergi.co coffee shop.

1.3. Purpose of the Research

Every research has the purpose to ensure the purpose of research in line with the research held. The purposes of this research are:

1. To examine the influence of service quality (trust and reactivity, assurance and sympathy, taste, materiality) on customer satisfaction of Sinergi.co coffee shop.
2. To examine the influence of store atmosphere on customer satisfaction of Sinergi.co coffee shop.
3. To examine the influence of service quality (trust and reactivity, assurance and sympathy, taste, materiality) on customer loyalty of Sinergi.co coffee shop.
4. To examine the influence of store atmosphere on customer loyalty of Sinergi.co coffee shop.
5. To examine the influence of customer satisfaction on customer loyalty Sinergi.co coffee shop.

1.4. Scope of Research

The scopes of research are:

1. This research was adapted article of Cho et al., (2015). The Impact of Korean Franchise Coffee Shop Service Quality and Atmosphere on Customer Satisfaction and Loyalty. *East Asian Journal of Business Management*, Vol. 5, No. 4, pp. 47-57. In previous research, the researcher did the research with Franchise Coffee Shop and takes many franchise coffee shops in South Korea for the research object. Meanwhile, in this

research examine local coffee shop and one coffee shop which is Sinergi.co coffee shop.

2. The research used the customer of Sinergi.co coffee shop itself that comes to Sinergi.co at least 2 times on the last 6 months using offline questionnaires. The data that will use in this research is quantitative data.

3. To become the object of this research, the researcher determines one criterion of each dimension of service quality to get the best result. For trust and reactivity, the object must provide a good service and willingness to immediately respond to customer's demands. For assurance and sympathy, the object must have the friendliness and consideration. For the taste, the object must serve coffee based or other beverages and some foods or snacks. For the materiality, the object must provide good facilities and equipment at least wi-fi and electrical plugs. For the store atmosphere, the object must provide good illumination of the store. The object of this research is Sinergi.co coffee shop located at Cendrawasih Street No. 32B Demangan, Yogyakarta. This coffee shop is chosen because Sinergi.co meets the criteria above to be the object research.

1.5. Benefits of the Research

1. Academic Contribution

This research will give a better understanding of the influence of service quality dimension and atmosphere on customer satisfaction and customer loyalty of coffee shop in Yogyakarta in the case of Sinergi.co coffee shop.

2. Managerial Contribution

In the managerial perspective, it is important to maintain service quality to keep its best. Because the growth of the coffee shop in Yogyakarta is very rapid, managers should know to always be good on the service quality to get customer satisfaction and loyalty from the customer. Not only from what they sell but also from their hospitality. So many coffee shops have come with many and unique concepts. Managers also must understand how to overcome this. The result of this paper is expected to give the company which is Sinergi.co how their service quality and make it as an evaluation.

1.6. Research Structure

This research follows the systematic writing structure which consists of five chapters. There are:

Chapter I: Introduction

In the first chapter stated about the background of the research, along with the problem statement, purpose of the research, scope of the research, benefit of the research and research structure. This chapter explain the reason of the research held and the importance of the research to be discussed which in line with the research purpose titled the influence of service quality on customer loyalty of coffee shop in Yogyakarta with customer satisfaction as mediating variable.

Chapter II: Literature Review, Research Framework and Hypothesis Development

This chapter describes about the previous research held based on theories, journals and trustworthy source that related with the research about the influence of service quality on customer loyalty of coffee shop in Yogyakarta with customer satisfaction as mediating variable. It is strengthening with the framework and the hypothesis to be proved in this research.

Chapter III: Research Methodology

In this chapter explains about the population and sample in this research, operational definition, data collection methods and data analysis techniques. This chapter will explain in detail procedures and exact techniques for analyse the data and hypothesis to achieve appropriate result based on the purpose of the research.

Chapter IV: Data Analysis and Discussion

In this chapter tells about the result of the analysis collected in the form of questionnaires that had been develop and based on respondents' answers. This chapter will answer the research questions about the influence of service quality on customer loyalty of coffee shop in Yogyakarta with

customer satisfaction as mediating variable. The findings will be discussed in detail based on the data in this chapter.

Chapter V: Conclusion

The fifth chapter is the last chapter of the research. It consists of the sum of the previous chapter which is in the first chapter until the fourth chapter. In this chapter conclude from the analysis of this research connected with the purpose of the research. This chapter consists of conclusion, managerial implication, limitation and suggestion of future research. It will tell about how the marketers can apply in real life according to the findings and improvement for next research.