

# CHAPTER I

## INTRODUCTION

### 1.1 Background

The subject of this research is *Margo Murah Baru* furniture store. The shop has been opened for several years located in Kartasura, Central Java, but at the mid-year of 1998, when chaos happened, *Margo Murah Baru* was robbed and need to be closed. The shop has restart from the beginning and successfully re-opens the business in 2000. The founder and also the owner of *Margo Murah Baru* is Luther Teguh Krishna Saputra.

This shop has 8 branch stores in Solo and Yogyakarta. They are located in: A.Yani Street in Kartasura, Lobby floor of Assalaam Hypermarket Kartasura, Solo Square, Ruko Pondok Indah Colomadu, Pusat Grosir Solo, Solo Baru Main Street, Magelang Street in Yogyakarta, and Lobby floor of Giant Supermarket in Godean Street Yogyakarta. The central of *Margo Murah Baru* shop is in A. Yani Street in Kartasura. *Margo Murah Baru* sell various and qualified furniture with reasonable price and suited with its name. *Margo Murah Baru* provides furniture for office purposes and also for household. There is lots of brand available in shop, and each of them is sold with wholesale prices, therefore the customer in *Margo Murah Baru* is not only individual, but also organizations.

The customer in *Margo Murah Baru* usually comes to the shop to browse the furniture. The furniture in the shop is properly organized then the customer is easily browsing the product shown. The shop provides free furniture delivery service (no surcharge). The furniture shop usually gets high-season-sale in mid-year holiday, and also had high sales transactions in other months.

The owner of *Margo Murah Baru* furniture shop wants to expand his business by opening new branch in Parangtritis street, Yogyakarta and also in Solo Grand Mall. Therefore, he needs research and evaluation for its customers, especially in service quality, the level of customer satisfaction and customer's willingness to do word of mouth, in the relationship of purchasing value.

In the marketing theory, there is much cheaper to retain old customers than having new customers. Some indicators that show customers' loyalty to a product is re-purchasing and positive word about customers' experience.

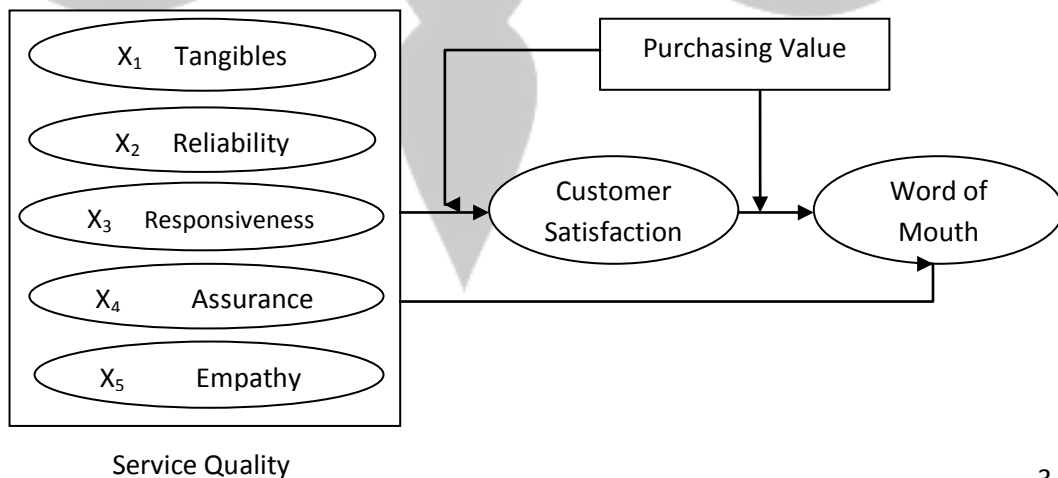
Recently, there is no marketer who only sold products. Products marketing are mostly followed by service. Therefore, service quality and willingness to do word of mouth communication is an important element that needs an attention to increase buying retention. Customers' willingness to do word of mouth is important since the word of mouth is effective and proven as promotion media compared to advertisement (Bloom, 2006).

A good way to reach the customers satisfaction is by increasing the satisfaction by improving store teamwork, including service quality. In *Margo*

*Murah Baru* there are few aspects need to be improved to fulfill the customers' satisfaction which influence purchase decision directly.

Satisfaction is customers' feeling levels which is gained whenever they have done something or enjoyed something and then evaluate it (Giese and Cote, 2002). Satisfied customers are customer who gets the certain value. This value could be products, services, stores' attributes, price, system, or emotional feelings. When the customer said that value is a qualified product, then satisfaction appears when he gets the qualified product. When the customer said that value is comfort, then satisfaction appears when store facilities or store services makes him comfort. If the customers' value is cheap price then customers will satisfied to the shop who gives competitive prices. The value for customers created through the marketing's component to influence the customers in the decision making process. When the customer satisfaction reached they will be able to share the shopping experience to their friends and relatives (word of mouth communication).

## 1.2 Conceptual Framework



1. Customer Satisfaction happens when qualified services performed. Word of Mouth happens when the customers are satisfied. And customers tend to shop again whenever they feel satisfied with the services.
2. Purchasing Value has moderating the relationship between Service Quality and Word of Mouth, Service Quality and Customer Satisfaction, also Customer Satisfaction and Word of Mouth.
3. The customers in Margo Murah Baru are different from demographic view, purchasing purposes, and purchasing value. From the difference, the customers' perception about Service Quality, Customer Satisfaction, and Word Of Mouth variable is possibly different. For example: based on sex and Word of Mouth willingness, if group of man gathered, the result will be different if group of woman gather round.

### **1.3 Problem Definition**

Based on the background, there are problem which can be defined as follows:

1. Does the Customer Satisfaction mediate the relationship between Service Quality with word-of-mouth communication?
2. Does the purchasing value moderate the relationship between Service Quality, Customer Satisfaction and word-of-mouth communication?

#### **1.4 Objectives of the Research**

The objective of this study was to:

1. Examine the mediation role of Customer Satisfaction in the relationship between Service Quality (SERVQUAL) with word of mouth communication.
2. Examine the moderation role of purchasing value in the relationship between Service Quality, Customer Satisfaction and word-of-mouth communication.

#### **1.5 Benefits of the Research**

The result of this study can be used for some parties such as for the University, for the author, for the company (*Margo Murah Baru*), and the other parties.

##### **1. For the Academic**

The result of this study is expected to give contribution to the previous study, and gives reference for advance study and developing theory about Service Quality, Customers Satisfaction, word-of-mouth communication, and purchasing value.

##### **2. For Managerial**

The result of the study can be used as reference to customers' treatment and applied company's marketing policies. Beside, the result of the study can be used to discover customers' willingness to recommend the shop to their friends and relatives, and also factors that affects the buying decisions, e.g. satisfaction of the customers.

## **1.6 Population and Sampling Method**

1. This study focused on customers of *Margo Murah Baru* in Yogyakarta and Solo, because the *Margo Murah Baru*'s customers had various characteristics which can influence the customers buying decision, such as customer satisfaction and enthusiasm to recommend the shop to others.
2. Observed population is *Margo Murah Baru*'s customers of Margo Murah Baru furniture shop from eight branches which bought item in the store at least once a year.
3. Sampling in the research is customer who had bought furniture in *Margo Murah Baru* or the branch stores at least once in a year.

## **1.7 Analysis Tool of Instruments**

### **1.7.1 Validity**

Validity shows accuracy and accurately of an instrument in executes measurement (Sekaran, 2003). Validity of a scale may be defined as the extent differences in observed scales scores reflect true differences in what is being measured, rather than systematic or random error. A scale with perfect validity would contain no measurement error, that is, no systematic error and random error (Malhotra and Peterson, 2006)

### **1.7.2 Reliability**

Reliability is defined by repeatedly measuring the construct of variable of interest. The higher the degree of association between the scored derived through this repeated measurement, the more reliable the scale (Malhotra and Peterson, 2006)

### **1.7.3 Mediated Regression Analysis**

Mediator variable effect is divided into 3: fully influence, partially, and no influence. If direct effect of independent and dependent variable is 0 when controlled by mediated variable, then the relationship is full mediation by mediated variable. If direct effect of independent and dependent variable is not equal to 0 when controlled by mediated variable, then the relationship is partially mediated by mediated variable. (MacKinnon, 1994)

### **1.7.4 Moderated Regression Analysis**

Moderation regression analysis model in this research is using hierarchical regression analysis (Hartono, 2004). Hierarchical regression analysis need two regression equation, first equation contains major effect (independent variable and moderator variable) and the second equation contains major effect and moderation effect (interaction between independent variable and moderator variable).