CHAPTER I

INTRODUCTION

A. Research Background

Current economic developments have influenced the social and cultural changes that developed in society, thus shifting culture (Bailey & Richardson, 2010). The presence of business behavior in the food sector today certainly provides different things for growing the food business in Indonesia. Businessmen are always competing to provide the best for their customers, such as the quality of products and services that are certainly given to customers (Rozario, F., 2009). Product quality is the ability of a product to perform its function. This includes overall durability, reliability, accuracy, ease of operation, product repair, and other product attributes (Kotler, 2015).

The growth of the business world has resulted in the development of increasingly fierce competition. As people's welfare increases, the need to consume service products increases. The logical consequence is competition between producers to meet consumer needs, even though they compete to provide maximum satisfaction to consumers (Karuna, 2007). Customer satisfaction is a customer's fulfilment response to a product or service that has met customer needs and expectations (Wirtz & Zeithaml, 2018).

Improving customer satisfaction is one of the goals of every company. Efforts to create and retain customers are a priority for the company. Understanding consumers' needs will provide critical input for companies to design marketing strategies to develop satisfaction (Kotler, 2015). Efforts to maintain customer loyalty are a strategic effort that is more effective than efforts to attract new customers (Pitta, 2006). The customer's

decision to be loyal or not to be dedicated is an accumulation and many minor problems (Qiing et al., 2011). Evanschitzky (2012) defines loyalty as a condition in which customers have a positive attitude towards a brand, are committed to the brand, and intend to continue their purchase in the future. This means loyalty is always related to customer preferences and actual purchases.

Service quality has a close relationship with customer satisfaction in determining consumer loyalty. Service quality provides an impetus to customers to establish a strong relationship with the company (Mehta, 2020). This kind of bond allows the company to carefully understand the customer's expectations and needs in the long term. Thus, companies can increase customer satisfaction by providing pleasant services, undoubtedly creating high consumer loyalty to the company (Ajao Ganiyu & Olusola Elizabeth, 2012). Good service quality can increase customer satisfaction and encourage customers to be loyal to the product or service used (Taolin & Pangestuti, 2019).

Companies can achieve many ways to increase customer satisfaction. Companies must also maintain product quality and continue to improve product quality to compete amid increasingly fierce competition as it is known that the quality of the products offered has a strong link with customer satisfaction. Product quality provides an impetus to customers to remain loyal to using the products offered (Khan et al., 2014). In the long term, it allows the company to understand carefully the needs and desires of customers, where the company tries to maximize a pleasant customer experience and minimize a less enjoyable customer experience (Goodman, 2019).

According to Mosadeghrad (2014), service quality is influenced by the quality of the physical environment. Therefore, servicescape can influence the response and behavior

of visitors. Good servicescape handling will result in customer satisfaction and affect customer loyalty. Loyalty to customers can be measured by customer satisfaction (Hughes & Fill, 2007). Kotler (2015) defines consumer satisfaction as a feeling of being satisfied or otherwise after comparing the reality and expectations received from a product or service.

Servicescape is the service delivery experienced by customers in shaping the service experience and strengthening or reducing customer satisfaction (Lovelock et al., 2011). Servicescape is a concept developed by Bitner (1992) to emphasize the impact of the physical environment in which a service process occurs. There are three dimensions in servicescape: ambient conditions, spatial layout and functionality, and signs, symbols, and artifacts. According to McDonnell & Hall (2008), the servicescape is a physical environment in which service encounters occur and affect customer perceptions of the servicescape (perception of quality) and subsequently on internal responses (customer satisfaction levels) and external responses (behavior to subscribe and repurchase).

Service quality is a customer's long-term cognitive evaluation of a company's service delivery (Lovelock, 2007). Lovelock suggests five service quality dimensions: reliability, tangibles, responsiveness, assurance, and empathy. According to Munusamy & Mun (2010), service quality measures how well the level of service provided can meet customer expectations. Thus, service quality is the efforts made by the company in terms of reliability, tangibles, responsiveness, assurance, and empathy to meet customer expectations. Service is any action or activity that one party can offer to another, essentially intangible and does not result in any ownership (Kotler, 2015).

Customer satisfaction is feelings of pleasure or disappointment arising from comparing a product's perceived performance or result against their expectations (Kotler,

2015). Meanwhile, according to Lovelock (2011), customer satisfaction is an attitude that is decided based on the experience gained. Satisfaction is an assessment of the characteristics or features of a product or service that provides a level of consumer pleasure related to the fulfillment of consumer consumption. Caruana (2002) defines customer satisfaction as the customer's response to the perceived discrepancy between previous expectations and the product's actual performance after use. Basically, the goal of a business is to create satisfied customers. The creation of customer satisfaction can provide several benefits, including a harmonious relationship between the company and its customers, providing a good basis for repeat purchases and creating customer loyalty, and forming a word of mouth recommendation that benefits the company (Arokiasamy & Abdullah, 2013).

Customer loyalty is a deeply held commitment to buy or re-support a preferred product or service in the future despite situational influences and marketing efforts having the potential to cause customers to switch (Kotler, 2015). Customer loyalty has become a fundamental issue. Many companies invest their resources to maintain customer loyalty and continue to seek information on how to increase customer loyalty (Kumar & Shah, 2004). (Hogan, 2004) suggest that customer loyalty can increase profits reduce marketing costs, premium prices, and word-of-mouth advertising. According to Khan (2013), customer loyalty is an intense commitment to repurchase or subscribe to preferred products and services consistently in the future.

Based on the description above, the researcher wants to study Tempo Del Gelato. The researcher also conducted a preliminary study to ascertain field phenomena. The researcher's preliminary study shows that this research is feasible. Tempo Gelato Jogja was

founded with European and Javanese elements to attract buyers. Besides visiting residents, Tempo Del Gelato is also visited by many foreign tourists in Yogyakarta.

This research replicates and modification from Hussainy & Khan (2017). This study examines the influence of servicescape on customer satisfaction and customer loyalty. The researcher set Tempo Del Gelato as the setting for this research. The researcher chose Tempo Del Gelato as the research topic because it is one of the most popular ice cream shops in Yogyakarta. Besides being popular, Tempo Del Gelato's design is a blend of ancient European and Javanese styles; this makes them unique and different from other ice cream shops.

B. Research Question

Based on the research background above, the research question can be described as follows:

1. Does servicescape affect service quality in Tempo Del Gelato?

2. Does servicescape affect customer satisfaction in Tempo Del Gelato?

3. Does service quality affect customer satisfaction in Tempo Del Gelato?

4. Does servicescape affect customer loyalty in Tempo Del Gelato?

5. Does service quality affect customer loyalty in Tempo Del Gelato?

6. Does customer satisfaction affect customer loyalty in Tempo Del Gelato?

7. Does customer satisfaction mediate the effect of servicescape on customer loyalty in Tempo Del Gelato?

8. Does service quality mediate the impact of servicescape on customer satisfaction in Tempo Del Gelato?

9. Does customer loyalty mediate the impact of service quality on customer satisfaction in Tempo Del Gelato?

C. **Research Objective**

The main objective of this research is expected to be able to answer the questions above:

1. Analyzing the effect of servicescape on service quality in Tempo Del Gelato.

2. Analyzing the effect of servicescape on customer satisfaction in Tempo Del Gelato.

3. Analyzing the effect of service quality on customer satisfaction in Tempo Del Gelato.

4. Analyzing the effect of servicescape on customer loyalty in Tempo Del Gelato.

5. Analyzing the effect of service quality on customer loyalty in Tempo Del Gelato.

6. Analyzing the effects of customer satisfaction on customer loyalty in Tempo Del Gelato.

7. Analyzing the effect of servicescape on customer loyalty in Tempo Del Gelato with customer satisfaction as an intervening variable.

8. Analyzing the effect of servicescape on customer satisfaction in Tempo Del Gelato with service quality as an intervening variable

9. Analyzing the effect of service quality on customer loyalty in Tempo Del Gelato with customer satisfaction as an intervening variable.

D. **Research Benefit**

1) For Researchers

To hone the ability of researchers to answer fundamental problems in everyday life, especially those related to the role of perceived usefulness, perceived ease of use, security, and customer attitude, to engender customer adaptation in the context of

mobile banking. In addition, to enhance, expand, and develop researchers' scientific understanding.

2) For Academics

It is hoped that the research results can help increase knowledge about servicescape, service quality, customer satisfaction, and customer loyalty and apply the knowledge gained during lectures. Gain insight into the problems that occur in the environment.