

# CHAPTER 1

## INTRODUCTION

### 1.1 Background

The trend of the coffee shop business in Indonesia has been growing quite rapidly in recent times. Nowadays, it is very easy to find coffee shops in various cities in Indonesia. No wonder the coffee business trend continues to increase and grow everywhere. In this day and age, coffee shops are an interesting place to visit. Millennials have recently become the most consumers who come to coffee shops. Drinking coffee has become part of community activities, especially among millennials. Coffee is no longer a drink to relieve sleepiness but also becomes a friend when hanging out with friends or friends while working. This increase in coffee consumption was followed by the habit of hanging out in coffee shops. Although there is now much instant ground coffee circulating, not a few consumers choose to enjoy coffee at the coffee shop directly. Coffee shop brands that we know, such as Starbucks, Kopi Kenangan, Janji Jiwa, Kopi Lain Hati, and other coffee shops, have become a target place for young people to spend their leisure time.

A coffee shop is a place that serves a menu made from coffee but also serves drinks and other foods as supporting materials. The coffee shop in Indonesia has been around since 1878 during the Dutch colonial period. The coffee shop was founded by Liauw Tek Soen, an ethnic Chinese, and is located at Molenvliet Oost Batavia or Jl. Hayam Wuruk, Jakarta.

Drinking coffee has become the culture of Indonesian society. Indonesia is known as one of the best coffee-producing countries in the world. Some of the well-known types of Indonesian coffee include Aceh Gayo Coffee, Lampung Coffee, Kalosi Toraja Coffee, Mandheling Sumatran Coffee, Lintong Coffee, Javanese Coffee, Bali Kintamani Coffee, and Papua Coffee. Indonesia also has Luwak Coffee, known as the most expensive coffee in the world. Almost all coffee in Indonesia is grown in highland areas with good soil fertility and weather. Coffee is a superior commodity with economic value long been cultivated by Central Java farmers in the highlands and lowlands.

The following is a list of areas in Central Java Province that produce coffee plantations:

Table 1.1  
*Coffee Plant Cultivation Distribution Data*

No	Area	No	Area
1	Banjarnegara	11	Magelang
2	Banyumas	12	Pekalongan
3	Batang	13	Pemalang
4	Boyolali	14	Purbalingga
5	Cilacap	15	Purworejo
6	Jepara	16	Semarang
7	Karanganyar	17	Sukoharjo
8	Kebumen	18	Tegal
9	Kendal	19	Temanggung
10	Kudus	20	Wonosobo

(Source: Distanbun Provinsi Jawa Tengah, accessed 26 March 2021)

Surakarta (Solo) is one of the cities that has experienced an increase in the establishment of coffee shops. One of the most popular coffee shops in town is Cold N Brew coffee shop. Cold 'N Brew is a coffee shop specializing in coffee and other items such as tea, milk-based drinks, and sodas. They provide a luxurious yet affordable brewing experience and focus on the needs of the customer network. Cold N Brew was founded in 2016 and has now spread to various cities in Central Java, such as Yogyakarta, Klaten, and Surakarta (Solo). This coffee shop has four branches in Solo, including Veteran Street, Wahidin Street, Fajar Indah, and UNS. Cold N Brew received a rating of 4.6 out of 1,835 consumer reviews. They judge from consumer testimonials such as atmosphere, service, and products.

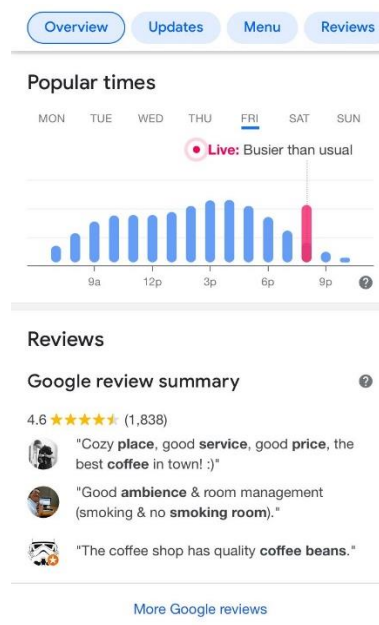


Figure 1.1 Google reviews of Cold 'N Brew

(Source: Google, accessed 25 August at 2021)

The rise of coffee shop business trends has resulted in the emergence of new competitors. The company must retain its customers with a strategy that can be done. This increase certainly creates increasingly fierce competition, so entrepreneurs are increasingly competing to develop innovations to attract customers so that the company can survive and grow. Customer loyalty has become an interesting topic for the company. Not a few companies retain customers for the running of their company. Many factors influence consumers to buy coffee at a coffee shop, including the store atmosphere factor, product quality, and service quality offered.

The store atmosphere is the most crucial part of a business. Currently, Store Atmosphere is considered to be one of the factors that influence attracting millennial consumers. The store atmosphere is also an important factor in the marketing strategy. An attractive and comfortable shop atmosphere is important for customers to make purchasing decisions. A store atmosphere designed in such a way can determine the success or failure of a company to attract consumers. Cold N Brew has an industrialist concept with a design dominated by monochrome colors with warm interior accents. Cold N Brew can accommodate up to 180 customers. Cold N Brew provides several facilities such as a meeting room, live music, quiet room, WIFI, and a smoking room. The parking area is made wide to support more vehicle loads. The store

atmosphere is defined as the overall impression conveyed by the store's physical layout, decoration, and surroundings (Lamb et al., 2011).



Figure 1.2 Cold 'N Brew shop atmosphere

(Source: @coldnbrew, accessed 1 May 2021)

The store atmosphere is a physical characteristic that is very important in creating a comfortable atmosphere for consumers in the store and can indirectly influence consumer images and purchasing behavior. Providing a comfortable place can provide the best experience for visitors. The store atmosphere can generate an emotional response to consumers. The store atmosphere can also be used as part of a store promotion. The shop atmosphere can determine whether it affects consumers' perceptions about their impression of their visiting experience (Turley & Milliman, 2000). A good store atmosphere must also be balanced with the quality of service. The pleasant atmosphere also will affect the level of customer satisfaction. To attract customers, companies need to provide quality service and provide satisfaction to consumers, and in the end, consumers will come back to make repeat purchases. Customer satisfaction is the general goal of providing quality services, and this will have a positive impact on the company and create customer loyalty. According to (Tjiptono, 2011), service quality is defined as meeting the needs and desires of customers and the accuracy of their delivery to balance customer expectations.

The culture of drinking coffee has existed since ancient times. Various coffee shops have appeared everywhere, requiring companies to create types of processed coffee to accommodate the various tastes that arise in this era. In the modern era, coffee companies have made many ideas and innovations. Active marketing that is more customer-oriented is used more by companies,

although this requires defining “Want and Need” from a consumer’s point of view. Currently, many companies combine coffee with a mixture of other ingredients, such as milk, caramel, vanilla, roasted almonds, pandanus, and other ingredients to meet consumer tastes. This unique taste attracts people to drink coffee and come to coffee shops. The taste of a product is inseparable from the quality of the product. Likewise, food quality is closely related to product quality. Product quality is defined as the level of good or bad, which consists of all factors inherent in goods or services (Minar & Safitri, 2017). According to Gaman and Sherrington and Jones (in Sugiarto & Subagio, 2014), in general, the factors that influence food quality include color, appearance, portion, shape, temperature, texture, aroma, level of maturity, and taste. Products can be a factor in satisfying customers and creating customer loyalty.

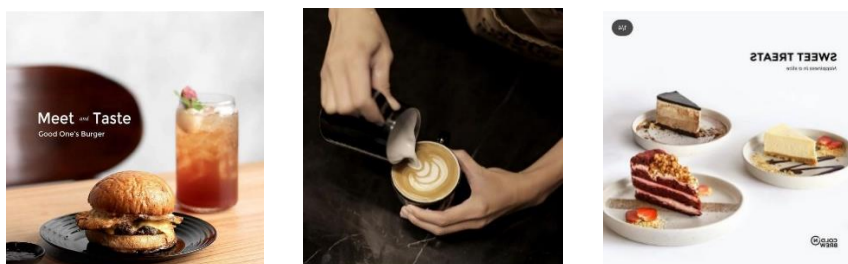


Figure 1.3 Cold ‘N Brew menu

(Source: @coldnbrew, accessed 1 May 2021)

Many companies find that retaining customers is more profitable than if the company had to attract more new customers. Therefore, companies need to know how to keep their customers. Long-term orientation that emphasizes customer loyalty is very important and must be considered by the company. Loyalty is a behavioral response expressed over time and generates commitment. Loyalty is defined as a strong customer commitment to repurchasing a preferred product or service in the future repeatedly in the long run, and it is not easy to switch to other product and service providers (Samani et al., 2011). This is also in line with the opinion of Al-Rousan & Mohammad (in Albari, 2019), which states that customer loyalty occurs when customers make repurchases and are willing to recommend products to other consumers without directly receiving benefits any form. Marketing carried out by word of mouth among customers can lead to the cost-efficiency of a company’s

promotional or marketing communications and further optimize the allocation of resources for other marketing efforts.

In this study, the authors add customer satisfaction as a mediating variable. In today's era of intense competition, customer satisfaction is considered a major strategic issue for the company. After consumers buy a product or service, consumers will assess whether the product or service is by what consumers expect or not as expected by consumers. When products and services meet expectations, consumers will feel satisfied. Sabir et al., (2014) suggest that customer satisfaction is the most significant business aspect because customer satisfaction significantly affects business profits. According to Hansemark and Albinsson (in Sugianto & Wahyuni, 2021) also suggest that customer satisfaction arises from the overall assessment of the product or service of a brand and their emotional reaction to the brand in fulfilling most of their needs and desires. In this study, the authors add customer satisfaction as a mediating variable.

## **1.2 Research Problem**

Based on the background of the problems that have been described, the problem to be solved is the level of customer loyalty, by identifying the store atmosphere, service quality, and product quality variables with satisfaction as variable mediated. The formulation of the problem identified by the researcher is as follows:

1. Does the store atmosphere have an influence on satisfaction?
2. Does the service quality have an influence on satisfaction?
3. Does the product quality have an influence on satisfaction?
4. Does the store atmosphere have an influence on customer loyalty?
5. Does the service quality have an influence on customer loyalty?
6. Does the product quality have an influence on customer loyalty?
7. Does satisfaction have an influence on customer loyalty?
8. Does the store atmosphere have an influence on customer loyalty mediated by satisfaction?

9. Does the service quality have an influence on customer loyalty mediated by satisfaction?
10. Does the product quality have an influence on customer loyalty mediated by satisfaction?

### **1.3 Research Purposes**

Based on several problem formulations that have been described, it can be seen the objectives of the research, namely:

1. To analyze the influence of store atmosphere on satisfaction.
2. To analyze the influence of service quality on satisfaction.
3. To analyze the influence of product quality on satisfaction.
4. To analyze the influence of store atmosphere on customer loyalty.
5. To analyze the influence of service quality on customer loyalty.
6. To analyze the influence of product quality on customer loyalty.
7. To analyze the influence of satisfaction on customer loyalty.
8. To analyze the influence of store atmosphere on customer loyalty mediated by satisfaction.
9. To analyze the influence of service quality on customer loyalty mediated by satisfaction.
10. To analyze the influence of product quality on customer loyalty mediated by satisfaction.

### **1.4 Benefit of Research**

This research is expected to provide the following benefits:

1. Benefits for researchers

The benefit for researchers is that they are expected to develop an understanding of the effect of store atmosphere, service quality, and product quality on customer loyalty by analyzing and finding solutions to conditions in the field.

## 2. Benefits for students

The benefit for students is that they can become a reference and reference for research next.

## 3. Benefits for the company

The benefit for the company is that it is hoped that it can become a reference for business development and can provide input to coffee shop businesses throughout Indonesia, especially in Cold 'N Brew companies.

### **1.5 Problem Limitation**

For this research to be more focused and not broad from the intended discussion, this research will be limited in scope as follows: there are four measurable variables of store atmosphere, namely exterior, general interior, store layout, and interior displays. There are five measurable service quality variables: reliability, assurance, tangibles, courtesy, empathy, and responsiveness. There are eight measurable variables of product quality: performance, reliability, features, conformance, durability, serviceability, aesthetics, There are three measurable variables of interval variable, namely satisfaction; general or overall satisfaction, confirmation of experience, comparison with the deal situation, and dependent variable, namely customer loyalty, which will be measured to find the causes of customer loyalty.

### **1.6 Systematic Research**

#### **Chapter I: Introduction**

The introduction contains an outline of the problem to be studied, such as background, problem formulation, research objectives, research benefits, problem limitations, and systematic research.

#### **Chapter II: Literature Review**

The literature review contains the theories in question which are the independent and dependent variables, research frameworks, previous research, and hypotheses.

#### **Chapter III: Research Methods**

The research method contains the methods used in this research which consists of the population, the form and time of the study, the method of



collection or sampling, data collection methods, measurement data, data testing methods, and data analysis methods.

#### **Chapter IV: Research Result and Discussion**

This chapter describes an overview of research results, testing the quality of data collection, and data analysis and discussion.

#### **Chapter V: Conclusion**

Conclusions contain the conclusions of the research, suggestions from the author, and research implications that can be used as material for other interested parties.