

CHAPTER II

THEORITICAL FRAMEWORK

A. Prior Research

1. Jahanshahi (2011)

The title of the research is Study The Effects of Customer Service and Product Quality on Customer Satisfaction and Loyalty. The researcher addresses the following questions that are becoming increasingly important for managers, the question is there a relationship between service and product quality with customer satisfaction and loyalty in the context of the Indian automotive industry?. Customer service can be considered as an innate element of industrial products. Product quality, customer satisfaction and loyalty can be measured at different stages, for example, at the beginning of the purchase, and one or two years after purchase. Results of the study show that there are high positive correlation between the constructs of product quality with customer satisfaction and loyalty. Based on the result that all hypothesis are accepted, it can be concluded that the constructed model is acceptable.

2. Kandampully (2000)

The research entitled Customer Loyalty : The Role of Customer Satisfaction and Image (In The Hotel Industry). The objective of this research is to identify the factors of image and customer satisfaction that are positively related to customer loyalty in the hotel industry. Using data collected the findings of this research indicate that image and customer satisfaction measured by the performance of housekeeping, reception, food and beverage are positively correlated to customer loyalty.

Loyalty of the firm's customer has been recognised as the dominant factor for the organization's success. This study helps to extend the understanding of the relationship between customer loyalty, customer satisfaction, and image. This is of considerable interest to both practitioners and academics in the field of hospitality management.

3. Grace (2011)

The research title is The Effect of Product Quality on Brand Loyalty : A Study of MTN. The purpose of this research was to investigate the degree of effect product quality has on brand loyalty and to determine other factors that responsible for brand loyalty especially in the Nigerian telecommunications industry. The research results showed that product quality was not the strongest factor that led to brand loyalty, but market inertia and that product quality was more likely to lead to brand loyalty when customers judged the product as having very high or high quality in the Nigerian telecommunications environment. A critical study of market inertia as a factor that leads to brand loyalty is recommended.

4. Yuen (2010)

Fast fashion business emerged rapidly in recent years. It was dramatically changed the conventional fashion business model. Customers pay a tribute to the fast fashion retailers which provide up-to-date fashion products in relative low prices. In order to examine the relationships between perceived product quality, perceived service quality, satisfaction and loyalty, a quality model for fast fashion retailers was developed based on the literature review in this study. This research was conducted by quantitative method. As Generation Y was the target group in this study, 200 questionnaires were distributed to people aged 15-29 years old. Data were analyzed by descriptive analysis, reliability test, factor analysis, correlation and t-test. Findings indicated that product quality was more important than service quality in affecting customers' purchase behavior. The results fully supported most of the hypotheses. Complaints were also recognized as consequence of customer dissatisfaction.

In the previous research mentioned above, there are some similarities and differences. The similarities among those research are :

- All researchs using Product Quality, Customer Satisfaction, and Customer Loyalty as its variables.
- Questionnaires were addressed to the customer.
- Quantitative method is used for all the researchs which mentioned above.

There are also some differences among those researchs, the differences are:

- The case study are differents. The first research was in automotive industry, second research was in hotel industry, third research was in telecommunication industry and the last research was in fashion retail industries.
- There are also some different variables within those research, those variables are image, customer service, and perceived service quality which is used in the first, second and fourth research.

Table 2.1 Research Comparison

No.	Title	Reserach Purpose	Variables	Resear ch Metho d	Result
1.	Study The Effects of Customer Service and Product Quality on Customer	The research purpose was to analyze the relationship between customer service and product	Dependent:Customer Satisfaction and Customer Loyalty Independent: Service and product quality.	Regresi on, Anova	Results of the study show that there are high positive correlation between the constructs of

	Satisfaction and Loyalty	quality with customer satisfaction and loyalty in the context of Indian Automotive industry			customer service and product quality with customer satisfaction and loyalty.
2.	Customer Loyalty: The Role of Customer Satisfaction and Image (In The Hotel Industry)	The objective of this research is to identify the factors of image and customer satisfaction that are positively related to customer loyalty in the hotel industry	Dependent: Customer Satisfaction, Image Independent: Customer Loyalty	Regression Analysis is	The image of the hotel and the customer satisfaction are positively related to customer loyalty.
3.	The Effect of Product Quality on Brand Loyalty: A Study of MTN	Research purpose was to investigate the degree of effect product quality has on brand loyalty and to determine other factors that are responsible for brand loyalty. Case study on Nigerian telecommunication industry	Dependent: Brand Loyalty Independent: Product Quality	Regression analysis	Product quality plays a significant role in brand loyalty in the Nigerian telecommunications sector. Therefore, it is important to note that product quality is most likely to influence brand loyalty when it is classified as being of high and very high quality
4.	The Effects of Perceived Product Quality and Perceived Service	Examine the relationships between perceived product quality, perceived service quality,	Independent: Perceived product quality, perceived service quality Dependent:	Correlation analysis and t-test	Product quality has a correlation with the customer satisfaction, and customer satisfaction also has correlation with the customer loyalty. Also customer satisfaction

Quality on Customer Satisfaction and Loyalty in Fast Fashion Retailers	satisfaction and loyalty	Customer Satisfaction, Customer loyalty, Customer Complaints		has a negative effect on customer complaints. Perceived quality has a correlation with the customer satisfaction except tangible item.
--	--------------------------	--	--	--

B. Theoretical Review

1. Indonesian SMEs Definition

According to Hubeis (2009), SME's are defined by a variety of different ways depending on the state and other aspects. Therefore, it is necessary to review specific to these definitions in order to obtain an appropriate understanding of the SME, which is adopted in accordance with the quantitative measure of economic progress.

Various definitions of SMEs in Hubeis (2009) :

- Central Statistics Agency (BPS): SMEs are companies or industries with workers about 5-19 people.
- Bank Indonesia (BI): SMEs are companies or industries with characteristics such as: (a) capital is less than IDR 20 million; (b) for a new round of its only cost IDR. 5 million; (c) has a maximum of IDR 600 million of assets, excluding land and building, and (d) an annual turnover \leq IDR 1 billion.
- Ministry of Cooperatives and Small and Medium Enterprises (Law no. 9 of 1995): SMEs are the economic activities of the people and has a traditional character, with a net worth IDR 50 million – IDR 200 million (excluding land and buildings) and annual turnover \leq Rp 1 billion, with a net worth of USD 50 million - USD 500 million and annual net sales of USD 300 million - USD 2.5 billion.

- d. Presidential Decree. 16/1994: SME is a company that has a net worth of at least IDR 400 million.
- e. Ministry of Industries and Trades
 - 1) The Company has assets up to IDR 600 million, excluding land and buildings
 - 2) Company which has working capital below IDR 25 million
- f. Ministry of Finance: SME is a company that has a turnover of up to IDR 600 million per year and a maximum or assets of USD 600 million, excluding land and buildings.

2. Micro Enterprises

According to the Minister of Finance Decree 40 / KMK.06 / 2003, micro enterprises is non-agricultural (including livestock and fisheries) that employ up to 10 workers, including business owners and family members, have the sale of a maximum of Rp100 million per years, and have assets, excluding land and building most of Rp25 million. The characteristics of the micro enterprises are:

- a. Type of goods / commodities business is not always permanent, subject to change at any time.
- b. Place of business is not always permanent, at any time can move.
- c. Not do not separate the financial administration and family finances with business finances.
- d. Not having adequate human resources.
- e. Relatively low level of education.
- f. Not have access to banks, but most already have access to non-bank financial institutions.

- g. Most businesses do not have a business license or other legal requirements including TIN

3. Small Enterprises

According to the Presidential Decree no. 99 In 1998, the definition of small business is the economic activity of the people are small-scale business sectors which are the majority of the business activities of small and need to be protected to prevent unhealthy competition.

While According to the Central Statistics Agency (BPS), a small business is a business entity that has a number of workers 5 to 19 people, while medium-sized businesses is the business entities which has a workforce of 20 to 99 people.

Characteristics of small enterprises according to law no. 20 of 2008 are:

- a. Net worth of more than USD 50,000,000.00 (fifty million dollars) up to a maximum of Rp 500,000,000.00 (five hundred million dollars), excluding land and buildings
- b. Have annual sales of more than Rp 300,000,000.00 (three hundred million rupiahs) up to a maximum of Rp 2,500,000,000.00 (two billion five hundred million rupiah)

4. Medium Enterprises

According to the Indonesia law Number 20 of 2000, medium enterprises is a productive economic activities that stand alone, which is done by the individual or business entity that is not a subsidiary or branch company owned, controlled, or be part either directly or indirectly with a small business or a large business.

Characteristics of medium enterprises according to law no. 20 of 2008 are:

- a. Net worth more than Rp 500,000,000.00 (five hundred million rupiah) up to a maximum of Rp 10,000,000,000.00 (ten billion dollars), excluding land and buildings.
- b. It has annual sales of more than Rp2.500.000.000,00 (two billion five hundred million dollars) up to a maximum of Rp 50,000,000,000.00 (fifty billion dollars).

C. Product Quality

1. Product Quality Definition

Product is all that can be offered in the market to get attention, demand, usage or consumption that can satisfy the needs of consumers. According to, Kotler (1999:11) people satisfy their needs and wants with products. A product is anything that can be offered to a market to satisfy a need or want. Usually, the word *product* suggests a physical object, such as a car, a television set or a bar of soap. However, the concept of product is not limited to physical objects - anything capable of satisfying a need can be called a product.

Products consist of quality, features, options or choices, style, brand names, packaging, size, product line, product items, guarantee, service. According to Kotler (2003:408) there are five levels of product , namely, core benefit , basic product , expected product , augmented product and potential product . An explanation of the five levels of the product are :

- a. Core benefits (namely the fundamental service of the benefits that the customer really buying) is the basic benefits of a product offered to consumers.

- b. Basic product (namely a basic version of the product) which form the basis of a product that can be perceived by the senses .
- c. Expected product (namely a set of attributes and conditions buyers normally expect that the and agree to when they purchase this product) is a set of product attributes and the conditions expected by the buyer at the time of purchasing a product .
- d. Augmented product (namely one that includes additional service and benefits that distinguish the company 's offer from a competitor 's offer) is something that distinguishes between the products offered by the business entity with products offered by competitors .
- e. Potential product (namely all of the argumentations and transformations that this product that ultimately undergo in the future) are all arguments and shape changes experienced by a product in the future .

Product has an important role in business. Product quality will determine whether the customer feels satisfied or not. Product is a goods which the customer buy from a company, that's why, pay attention to the quality of product is essential.

Before quality can be measured, the meaning of quality itself should be understandable. Quality could be defined as a value or conformance to the specifications which can lead the organization to focus on efficiency. Also quality is the expectations of consumers towards a goods wihch rapidly changing by time and force the management to keep fulfill what the customer wants (Reeves and Bednar, 1994:435). According to Garvin (1984:26) there are five definitions of quality:

- a) Transcendent Definition

Transcendent definition means that quality is the customer's expectation towards certain goods which could become beyond or above their expectation.

b) Product Based Definition

Product based definition means that quality is viewed as quantifiable and measurable characteristics or attributes.

c) User-Based Definition

User based definitions are based on the idea that quality is an individual matter, and products that best satisfy their preferences.

d) Manufacturing-Based Definition

Manufacturing-based definitions are concerned primarily with engineering and manufacturing practices.

e) Value-Based Definition

Value-based quality is defined in terms of costs and prices as well as a number of other attributes.

Goetsch and David (1994) theorized that quality is a dynamic state associated with products, services, people, processes and environments that meet / exceed expectations. the concept itself is often regarded as a measure of the relative goodness of a product or service which consists of the quality of design and quality of conformance. Quality design is a function of product specifications, whereas quality of conformance is a measure of how much the product is able to provide the requirements / specifications of quality which have been defined.

Quality is an overall traits and characteristics of a product / service in terms of its ability to meet the needs that have been determined. Basically there are 3 orientation of quality which should be influential between each other: (1) the perception of consumers, (2) products and (3) process (Lupiyoadi, 2001:144).

Quality also plays a critical role towards improving satisfaction which increasing consumer memory, lowering the marketing costs, and increasing revenue. With the increasing

of customer satisfaction, those customer will remember about the product performances which the felt, and those customer will tend to give a reference to other people about the product that they bought.

2. Product Quality Dimension

According to Guiltinan et al (1997:7) as cited by Tjiptono (1999: 23-26) there are 8 (eight) dimensions within the product quality :

a) Performance

Performance is the basic characteristic of the product. performance is the degree to which product is able to perform its functions. Performance is basic operating characteristics of the core product purchased.

b) Feature

A characteristic that adds a special looks to the user. Features or additional privileges is characteristic of secondary or complementary.

c) Reliability

Is the possibility of product failure within a period of time. Reliability is less likely to be damaged or fail when it's use by customer/user.

d) Conformance

Degree or level to which a determination of goods or services meet the standards. Suitability with specifications (conformance to specification) is the extent to which design and operating characteristics of products meet the standards that have been previous set.

e) Durability

The number of product used before the product is replaced. Durability related to how long the product can continue to be used. This includes technical and economic life of the product usage.

f) Service Ability

Which is the speed and ease of rectification, honor and ability of the individual services.

g) Aesthetics

What is the product's appearance, taste, voice, and smells. Aesthetics can also be interpreted with product appeal against five senses.

h) Perceived Quality

Perceived quality is a quality which taken from a reputable seller. According to Armstrong and Kotler (1996: 283)'s trademarks can be identified as a maker or seller of the product. Brand or trademark is a name, term, sign, symbol, or design or combination of those things that identify goods or services of one seller or group of sellers and to differentiate them from competitors. Perceived quality (perceived quality) is the image and reputation product and corporate responsibility to it. Usually because lack of knowledge or information to attributes or characteristics of the product which will be purchased, the buyer is often see a perceived quality of products through several aspects, such as: price, brand name, advertising, corporate reputation, as well as the author states.

Customer satisfaction could be achieved as long as the producers concern with the product dimensions. All aspects of the product dimension as much as possible should be included in the product. Dimensions of the product is a product differentiator between one to another. Aspects within product dimensions are interrelated to achieve the desired level of customer satisfaction. The dimensions of the product which implanted by the manufacturer in the product is also a competitive advantage that differentiates the product from other competitors. It is important for companies to maximize product dimensions in their products. Quality of products is affecting by some factors. According to Assauri (1993:28), there are several factors of product quality :

a) Product Function

Function of a produced item should meet it function, why the products are intended to be made, so that the goods can fulfill these functions.

b) Outer Form

One important factor that is often used by consumers in determining the quality of product is the outer manifestation of the goods. Such as its shape, color, packaging and so forth.

c) Price

In general, through the cost or price of a product the customer will be able to determine the quality of the goods. It is seen that the expensive shows better quality.

Product function, outer form of the product, and price are the deciding factors of product quality. The fulfillment of the functions of a product indicates the product quality. If the product can fulfill its function then the product can be categorized as a good quality product. Outer form of products is used as a determinant element of the product quality by the consumer. With convincing outer form, the consumer will trust and buy the product.

3. Product Classification

Ferrel and Hartline (2010:12) classified the product into ten classification :

- a) **Goods** : Goods are tangible items ranging from canned food to fighter jets, from sports memorabilia to used clothing. The marketing of tangible goods is arguably one of the most widely recognizable business activities in the world.
- b) **Services** Services are intangible products consisting of acts or deeds directed toward people or their possessions. Banks, hospitals, lawyers, package delivery companies, airlines, hotels, repair technicians, nannies, housekeepers, consultants, and taxi drivers all offer services. Services, rather than tangible goods, dominate modern economies like the U.S. economy.
- c) **Ideas** Ideas include platforms or issues aimed at promoting a benefit for the customer. Examples include cause-related or charitable organizations such as the Red Cross, the American Cancer Society, Mothers Against Drunk Drivers, or the American Legacy Foundation's campaign against smoking.
- d) **Information** Marketers of information include websites, magazine and book publishers, schools and universities, research firms, churches, and charitable organizations. In the digital age, the production and distribution of information has become a vital part of our economy.
- e) **Digital Products** Digital products, such as software, music, and movies are among the most profitable in our economy. Advancements in technology have also wreaked havoc in these industries because pirates can easily copy and redistribute digital products in violation of copyright law. Digital products are interesting because content producers grant customers a license to use them, rather than outright ownership.
- f) **People** The individual promotion of people, such as athletes or celebrities, is a huge business around the world. The exchange and trading of professional

athletes takes place in a complex system of drafts, contracts, and free agency. Other professions, such as politicians, actors, professional speakers, and news reporters, also engage in people marketing.

- g) **Places** When we think of the marketing of a place, we usually think of vacation destinations like Rome or Orlando. However, the marketing of places is quite diverse. Cities, states, and nations all market themselves to tourists, businesses, and potential residents. The state of Alabama, for example, has done quite well in attracting direct investment by foreign firms. Over the last twenty years, Alabama has landed assembly plants from Mercedes, Honda, and Hyundai, as well as many different parts plants and related firms. It's no wonder that some people think of Alabama as the new Detroit
- h) **Experiences and Events** Marketers can bring together a combination of goods, services, ideas, information, or people to create one-of-a-kind experiences or single events. Good examples include theme parks such as Disney World and Universal Studios, athletic events like the Olympics or the Super Bowl, or stage and musical performances like *The Phantom of the Opera* or a concert by Madonna.
- i) **Real or Financial Property** The exchange of stocks, bonds, and real estate, once marketed completely offline via real estate agents and investment companies, now occurs increasingly online. For example, Realtor.com is the nation's largest real estate listing service, with over 2.5 million searchable listings. Likewise, Schwab.com is the world's largest and top-rated online brokerage.
- j) **Organizations** Virtually all organizations strive to create favorable images with the public—not only to increase sales or inquiries, but also to generate customer goodwill. In this sense, General Electric is no different than the United Way: Both seek to enhance their images in order to attract more people (customers, volunteers, and clients) and money (sales, profit, and donations).

Batik as the object of study is a tangible product or goods. Tangible product is a physical item that can be perceived by the sense of touch. As a goods and could be touch, Batik Jonegoroan has a nine original design, there are Sekar Jati, Jagung Miji Emas, Parang Dahana Munggal, Mliwis Mukti, Gastra Rinonce, Pari Sumilak, Sata Ganda Wangi, Parang Lembu Sekar Rinambat, and Rancak Thengul. The Ninth Batik design mentioned is a potential visuality of Bojonegoro.

4. Characteristics of Good Product

repository.ub.ac.id

The totality of features and characteristics of a product or service become the product ability to satisfy given needs (Winder, 1996). There are some characteristics which make a product categorized as a good quality product:

a) Unique and Superior

A good product should have a unique shape for consumers, satisfy customer needs better than competitors, solving problems experienced by consumers when using competitors' products, reducing costs for consumers, and innovative.

b) Consumer Insight

Recognizing the needs of the consumer, understand what the user needs, meet market requirements, constantly in touch with consumers, strong market knowledge and market research, implementation and marketing of quality.

c) Have an Incisive Concept and Definition

Have targeted a specific market, it is clear who will use the product, has the depiction or description of a product that is clear, the benefits can be felt by consumers, have a clear positioning strategy.

d) Have a Good Structure, Organization Environment, and Design

New product development is not an activity in one section of department, but is a multi-disciplinary activity and multi-functionality. The role of the leadership group and the working group is crucial.

D. Customer Satisfaction

1. Customer Satisfaction Definition

Fully satisfied customers are more likely to become loyal customers, or even advocates for the firm and its products. Satisfied customers are less likely to explore

alternative suppliers and they are less price sensitive. Therefore, satisfied customers are less likely to switch to competitors. Satisfied customers are also more likely to spread positive word of mouth about the firm and its products. However, the way that customers think about satisfaction creates some interesting challenges for marketers. It is one thing to strive for the best in terms of quality and value (Ferrel and Hartline , 2010:377)

View of the customer satisfaction is very varied, as quoted by Hasan (2009:56-57) as follows:

- a. According to Engel (1990) customer satisfaction is an evaluation of after-purchase where the chosen alternative at least equal or exceed customer expectations, while dissatisfaction arises when the results are not satisfactory.
- b. Walker (1995) stated that customer satisfaction is a comparison between the prediction of perceived product before purchased or consumed. If that is felt more than expected, consumers will be satisfied, otherwise if the perceived lower than expectations, consumers will be dissatisfied.
- c. Satisfaction is a customer feeling as a response towards product or services which they have bought (Park 1997).

From different concept above, satisfaction could be understood as an emotional response towards the products, especially when customers make a comparison between their expectations with the performances of the products. Customer satisfaction could be visualize through underneath diagram

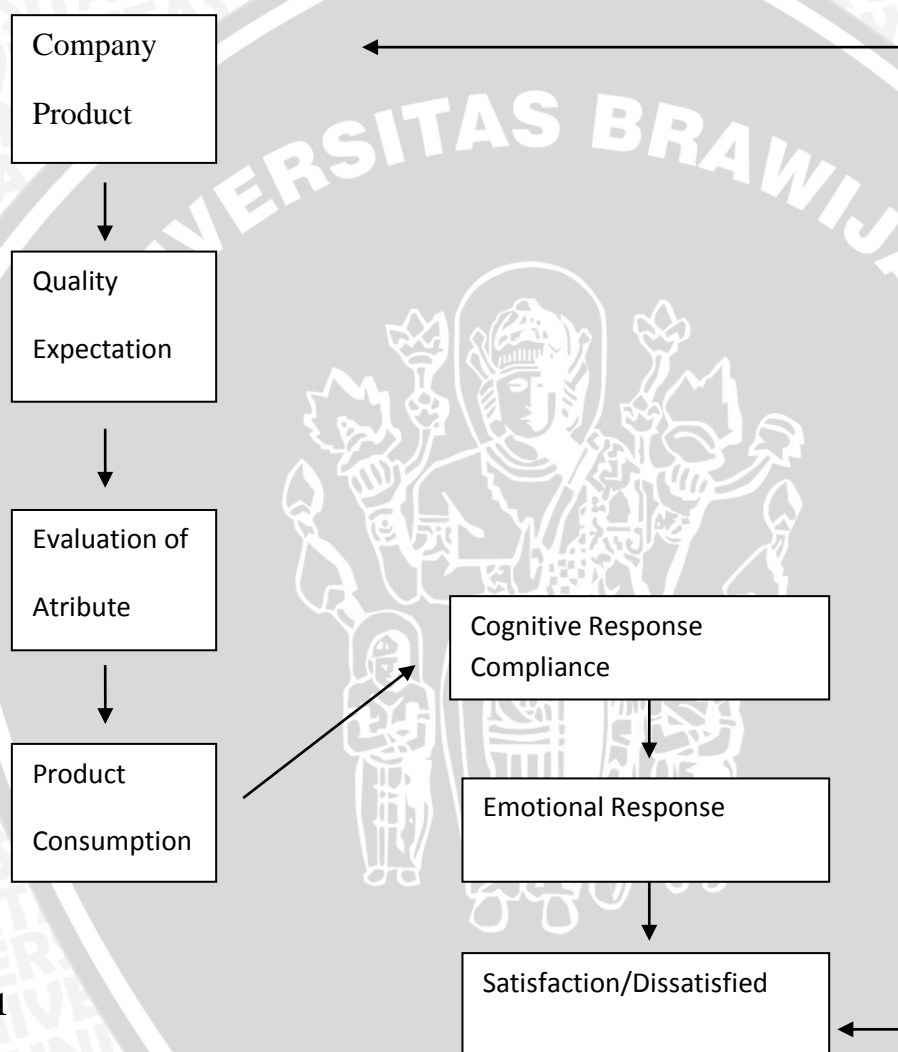


Figure 2.1

Satisfaction-Dissatisfaction Model

Source : Hasan (2009:58)

Figure above explains that the process of determining the attitude of a satisfied or dissatisfied customer starting from the formation of expectations on the customer to a particular product attribute and evaluation of such items. Next is the consumption of products made by these customers. After that, the process of cognitive response of customers begin to

form. The formation of this response based upon the customer experience when consuming the product. Then customers begin to form an emotional response in the next phase, and determine whether the customer is satisfied or not satisfied with an item

Customer satisfaction has been defined in various ways, but the conceptualization, which appears to have achieved the widest acceptance, is that satisfaction is a post-choice evaluative judgment of a specific transaction (Bastos and Gallego, 2008:05).

While the literature contains significant differences in the definition of satisfaction, all the definitions share some common elements. When examined as a whole, three general components can be identified as following (Giese and Cote, 2002:01):

- a. Consumer satisfaction is a response (emotional or cognitive);
- b. The response pertains to a particular focus (expectations, product, consumption experience, etc.);
- c. The response occurs at a particular time (after consumption, after choice, based on accumulated experience, etc).

2. Customer Satisfaction Benefits

Planning, implementation, and customer satisfaction controlling program gives some benefits. According to Hasan (2009:67) :

- a. Reaction towards low-cost producer

Discount as many company thoughts, become a good strategy to gain market. In fact, there are many customer who willing to pay more expensive to get better quality and services. Focus strategy towards customer become the alternative for the company to maintain their customer and to compete with the low-cost producer.

- b. Economic Benefit

Many studies showed that maintaining and satisfying the customers nowadays become currently more effective than trying to attract new customers. A cost

which expense by the company to maintain their customers is four times cheaper than looking for new customers.

c. Sensitivity Reduction of Price

Customer who satisfied with the certain company's product tend to pay the price without any bargaining. In many cases, customer satisfaction is distracting the focus on services and quality.

d. Key Success of Future Business

- 1) Customer satisfaction is a long term business strategy, building and gaining reputation of company product need a long period of time, it also need a big business investment to satisfied the customers.
- 2) Customer satisfaction is a successful business indicator in the future which measures the customer reaction towards company's performances in the future.
- 3) Customer satisfaction program is relatively expensive and can wreck the long term profit.
- 4) Customer satisfaction measurement is more predictive for future company's performance with obey the accountancy data in the present.

e. Word of Mouth Relationship, according to Schnaars (1991) as cited by Hasan (2009:67):

- 1) Harmonic relationship between company and customer.
- 2) Gives a better foundation in re-purchase behaviour and the creation of customer loyalty.
- 3) Gives word of mouth recommendation among the customers which result in benefit to the company.

Ensure customer satisfaction gives benefits for the company. Feeling of satisfaction experienced by customer will make them buy back the same item. The customer satisfaction is an indicator for the company towards customer's feeling and what they will purchase in the future. Maintaining a good customer satisfaction will give company better customer relationship. Maintaining customer satisfaction will lead the consumer to loyalty. Loyal customer of a company will reduce the company expense in promotion and advertisement in the future.

3. Customer Satisfaction Measurement

There are at least three important aspects which relevant to customer satisfaction, Hasan (2009:68), The factors are a. What will be measure, b. Method, and c. Measurement scale. Because the customer satisfaction measurement is relative, then the measurement could not have “one time, single shot” characteristic. Otherwise, the customer satisfaction measurement have to be done regularly so the company could grading every customers. Beside, the company could do an evaluation according to the past performance and past competitor performance Keith (1997) and Ralph (1994) in Hasan (2009:68).

In measuring the customer satisfaction, there are some variables. According to Hasan (2009:68) ;

a. Customer Satisfaction Totallity

A simple way to measure the customer satisfaction by doing direct question to the customers whether they satisfied or not. there are two parts of measurement. First, measuring the level of customer satisfaction towards a product or services. Second, grading and comparing the level of totally customer satisfaction towards competitor's product or services.

b. Customer Satisfaction Dimension

Many research classified customer satisfaction into components. Generally, there are four steps within the process. First, identify the main customer satisfaction dimension. Second, ask the customer to evaluate the product or service according to some spessific items, such as, the speed of services or friendliness of employees. Third, ask the customer to evaluate the competitor's product with the same spessific items. Fourth, ask the customer to determine the important dimensions in measuring customer satisfaction.

c. Expectation Meet

In this concept, satisfaction is not measure directly, but conclude according to suitability between the expectation and actual product performance.

d. Re-Purchase Interest

Customer satisfaction is measure through behavioural dimension by asking them will they use/buy the product or service in the future.

e. Recommendation Willingness

Product which has long period re-purchase such as computer or car, the willingness to recommend the others by customer become important thing to analyze by company.

Customer satisfaction measurement become an important thing which must be done by the company, it is regarding with the quality of service or product improvements in the future. Measuring the customer satisfaction in total, will help the company in making a decision in what should be improves, and how to compete with other competitor's product. Some of methods in measuring customer satisfaction which mentioned above could help the company maintaining their customer and even gain the new one.

Behaviors, habits, and feelings of consumers after using a product can be used by companies to measure how satisfied the consumers are. Conducting interviews with consumers about the competitor's product is also one of the effective methods in the measurement and also determine the future strategy of the company.

4. Maintaining Customers

Kotler et al as quoted by Alma (2004:275) mention that there are six reasons why the company have to maintain their cutomers :

- a. Existing customer tend to give bigger profit to the company
- b. Cost in maintaining the existing customers are cheaper than looking for the new one.
- c. Customer who trust a company in certain single business tend to trust the same company event in the different business.
- d. Through the existing customers, the company will gain an increasing efficiency. It happens because the old customers has not much claim.
- e. Old customers has much positive experience with the company, it will reduce the psychology and socialization cost.
- f. Old customers will defend the company and gives the other people recommendation.

A new advertising to attract new customer will make the company pay an extra cost, it would be better for the company to concern in maintaining existed customer to

minimize the advertising cost. Company which maintain their customer satisfaction through their product will gain a loyal customer even there are a lot of same type of product from a different company in the market. Consumers who have been loyal to certain products will give a positive response to the product to others. Loyalty gained from maintaining customer satisfaction will also make a positive minded consumer to the product and this gives a distinct advantage to the company and its relationship with acquiring new customers.

E. Customer Loyalty

1. Customer Loyalty Definition

One of the purpose of marketing strategy implementation is to achieve customer loyalty. Musanto (2004:108) stated that loyalty is a behaviour of customer who buy a product continuously and to establish a customer loyalty to a certain company. According to Sheth and Mittal (2004:115) loyalty is a customer commitment in a certain brand, store, or supplier based on their positive behaviour and reflects through out their repeat purchase.

According to Zeithaml and Bitner (2000:201) the final successful purpose of the company in creating a relationship with their customers is to build or create a strong loyalty behaviour. A strong loyalty indicators are :

- a. Customers will say a positive things about the product they used.
- b. Customer will recommend the others
- c. Customer will continuously purchasing the products.
- d. Customer will remember the brand in the future.

2. Loyalty Development Factors

According to Griffin (2005:20), there are two important factors to developing on the customer loyalty :

a. Attachment, a high attachment towards certain product or services than competitor's product or services. Connection which feels by customers towards products or services are creates by two dimensions :

- 1) Preference Level, how big the customer's convinience to the certain products or services.
- 2) Level of product differentiation, how significant the customers distinguish certain product towards any other alternatives.

b. Re-purchase

High level of re-purchase behaviour towards certain products than the other alternatives products.

Developing customer loyalty is an important factor for the company. Feeling satisfied for a product is the basis for the formation of customer loyalty. excellence and quality of a product will lead consumers to their belief in a product. The advantages and functions of a product that meets consumer expectations also will facilitate the customer in distinguish between one product and another. Excellence is key for consumers to feel confident about a product. That belief will form the repeat purchase behavior of consumers

3. Loyalty Measurement Level

Consumer loyalty is a trait of consumers towards a particular product. There are several levels of consumer loyalty, which are

a. Client Basis

Entire number of customer and active client. This number could be count by adding the first customers, continuously customers and client.

b. New Customer Retention Level

Showing the percentage of first customer which return to do the second purchase in certain period of time. Time period is arranges by re-purchasing cycle.

c. Client Retention Level

Percentage the amount of customer purchasing according to the certain products category which bought by company.

d. Customer Segment

Percentage the amount of customer purchasing according to the certain products category which bought by company.

e. Average Number of Customer Within a Month

Number of the new customer which purchase for the first time.

f. Purchasing Frequency

Customer Purchasing frequency within a year.

g. Shifting Level

Average of Percentage customer which no longer purchase the products within a year .

Measurement of consumer loyalty is very important for the company. There are several factors that need to be considered by the company to measure the loyalty of their customers. Client base, new customer retention levels, client retention levels, average number of customers within a month, purchasing frequency, level shifting, and customer segments is a factor in the measurement of customer loyalty. Special attention to these factors greatly affect the company in providing the service or product which offers to consumers. By considering these factors, companies can analyze what should and should not be done by the company in order to gain the loyalty of their customers. Levels within a month of purchase, repeat purchase behavior, and the number of active consumers are elements that should be considered related to the achievement of customer satisfaction

4. Customer Loyalty Creation Stage

Kotler (2006:148) stated that there are nine stages in creating a loyal customers:

a. Suspect

Every people has possibility to buy our products. Called as *suspect* because there is possibility but not yet know for sure.

b. Prospect

Somebody who already need the product but they are not yet buy it, they knew about the product because of somebody recommendation.

c. Disqualified Product

Prospect which we only need to learn and they do not need or do not have an effort to buy the product.

d. First Time Customer

People who purchase our product for the first time.

e. Repeat Customer

For them who already purchase the product twice or more.

f. Client

Client bought all the products we offered. They purchase it regularly so we need to make a better relationship so the customer wont shift to the competitor's product.

g. Members

Sometimes the company give an offer to the customer to become a member in order to make the customer ease to get all the benefits compared with the non-member.

h. Advocate

An advocate is a person who purchase our product regularly and recommend our product to the others and always bring a new customer for the company.

i. Partners

Last stage where the company along with the customers actively doing a profitable cooperation.

Several stages mentioned above is the stage of consumer loyalty. These stages must be passed by the company in order to gain loyal customers. Each stage in the process of

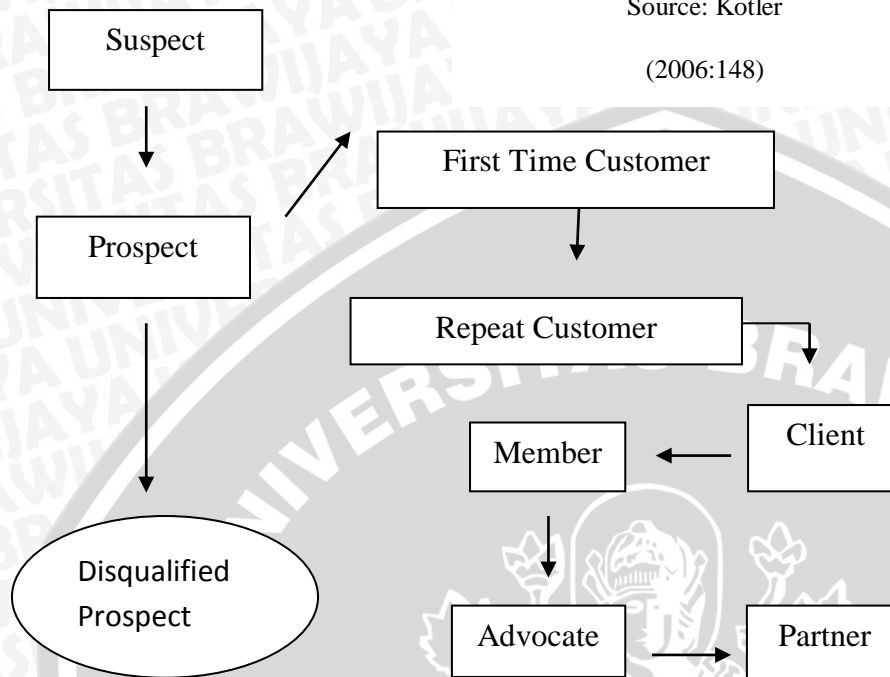
formation of customer loyalty are related to each other. These stages provide guidance for companies in shaping their customer

Figure 2.2

Stages of Loyalty

Source: Kotler

(2006:148)



5. Characteristics of Loyalty

According to Griffin (2005: 31), the customer loyalty characteristics are :

a. Repeat Buyer

Customer re-purchase the same product which is offered by the company

b. Purchase Accross Products and Service Lines

Customer purchase accross product or service lines which offered by the company

c. Reference

Customer conduct a word of mouth information about the products

d. Demonstrates Immunity Towards Competitor's Product

Customer will not interest with the other product from competitor.

Characteristics in customer loyalty can be divided into four sections. Each section gives different characteristics. Each section presents the extent to which of customer loyalty.

Understand the customer loyalty behaviour will help the company to distinguish between their loyal customer and their ordinary customer, and also helps the company to determine what steps need to be decided to retain those customers.

6. Types of Loyalty

According to Griffin (2005:22), there are four types of loyalty :

a. No Loyalty

For many reasons, some customers do not develop a loyalty towards product. Company should avoid targeting this kind of customer.

b. Weak Loyalty

Low level of connection combined with the high re-purchase behaviour will end up in weak loyalty (*inertia loyalty*)

c. Latent Loyalty

Latent loyalty is a loyal customer who purchases the product based on their situational condition.

d. Premium Loyalty

A kind of loyalty which could be improved if there is a high connectivity and high re-purchase behaviour.

7. Strategic Value of Customer Loyalty

According to Aaker (1991:46) a customer loyalty has a strategic value to the company:

a. Reducing Marketing Cost

With the large amount number of loyal customer, the company could reducing their marketing cost. Some research show that cost for gaining new customer is six times more expensive than maintaining old customers.

b. Trade leverage

Loyalty to a brand provide trade leverage for company. A product with many loyal customer will attract distributor to provide more space for the products then the competitor.

c. Attract New Customer

Customer who satisfied with a products will affect the other customer. Unsatisfied customer will tell about 8-10 other customer about the unsatisfied experience. Otherwise, they will recommend to the others if the feel satisfy.

d. Time to Response a Threads from Competitors

Brand loyalty will gives a company a certain time to make a response about competitors actions. In case the competitors make a new product, the company could bought some time to make another new product of their own, because it's hard for the competitors to affecting the loyal customers.

Customer loyalty views as a valuable strategic asset. In the first development, customer loyalty more connected to the behaviour. It can be seen thorough traditional theory (Classical and Instrumental Conditioning which tend to see the loyalty through behaviour aspect. Customer is beliefs that they will have a loyaltiness towards certain products if they have been purchased the same brand for three times.

F. Relationship Between Product Quality Which Affects Customer Satisfaction and Customer Loyalty

To indicate whether a product has a good quality or not, can be seen from a product's ability to meet its eight characteristics that exist, namely performance, features, reliability, conformance, durability, service ability, aesthetics, and perceived quality. According to Kotler (1999:475) customer satisfaction depends upon the product's performance . A customer might experience various degrees of satisfaction. If the product's performance falls short of expectations, the customer is dissatisfied. If performance matches expectations, the customer is satisfied. Fulfillment of a product to meet those characteristics will give effect to the expectations, experiences, and the value perceived by the consumer, and will give satisfaction to the consumer.

In order to be able to feel satisfaction, a product used by consumers must meet the expectations which expected by consumers, as well as providing a satisfying experiences to consumers when using certain products, and also provide a good value to the consumer. Fulfillment of these factors will encourage consumers to be loyal to a particular brand products. Formed loyal attitude will encourage consumers to provide references and a positive opinion of the product to others. And will form a repurchase behaviour in the future and will always remember the brand name of the product. Kotler (1999:478) proposed that some of today's most successful companies are raising expectations and delivering performance to match customers who are *highly satisfied* are much less ready to switch. Thus customer *delight* creates an emotional affinity for a product or service, not just a rational preference, and this creates high customer loyalty. Fulfillment of the eight product characteristics will influence the consumer loyalty in the certain products. Good quality of the product will be a little more influencing on consumer decision whether they would still choose the product in the future or not.

G. Hypothesis Framework and Hypothesis

1. Hypothesis Framework

To address the objectives and the research issues identified in the preceding chapter, it is necessary to developed a hypothesis framework, that served as a guide for developing hypotheses tested in this research.. The hypothesis framework of this research can be drawn as follows

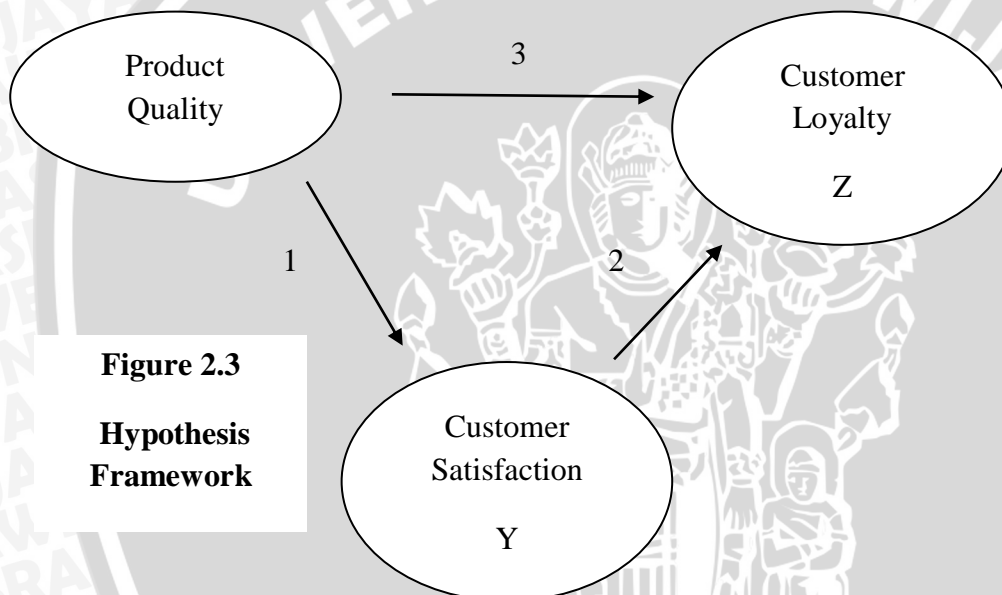
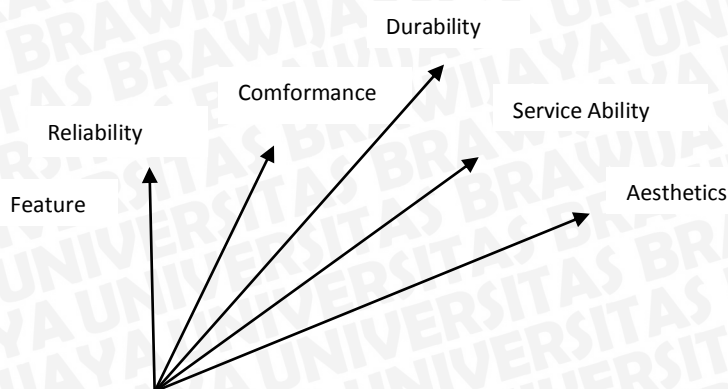


Figure 2.3
Hypothesis Framework

2. Hypothesis

After a brief summary of the theoretical literature above, then hypothesis for this research can be formulated as follows:



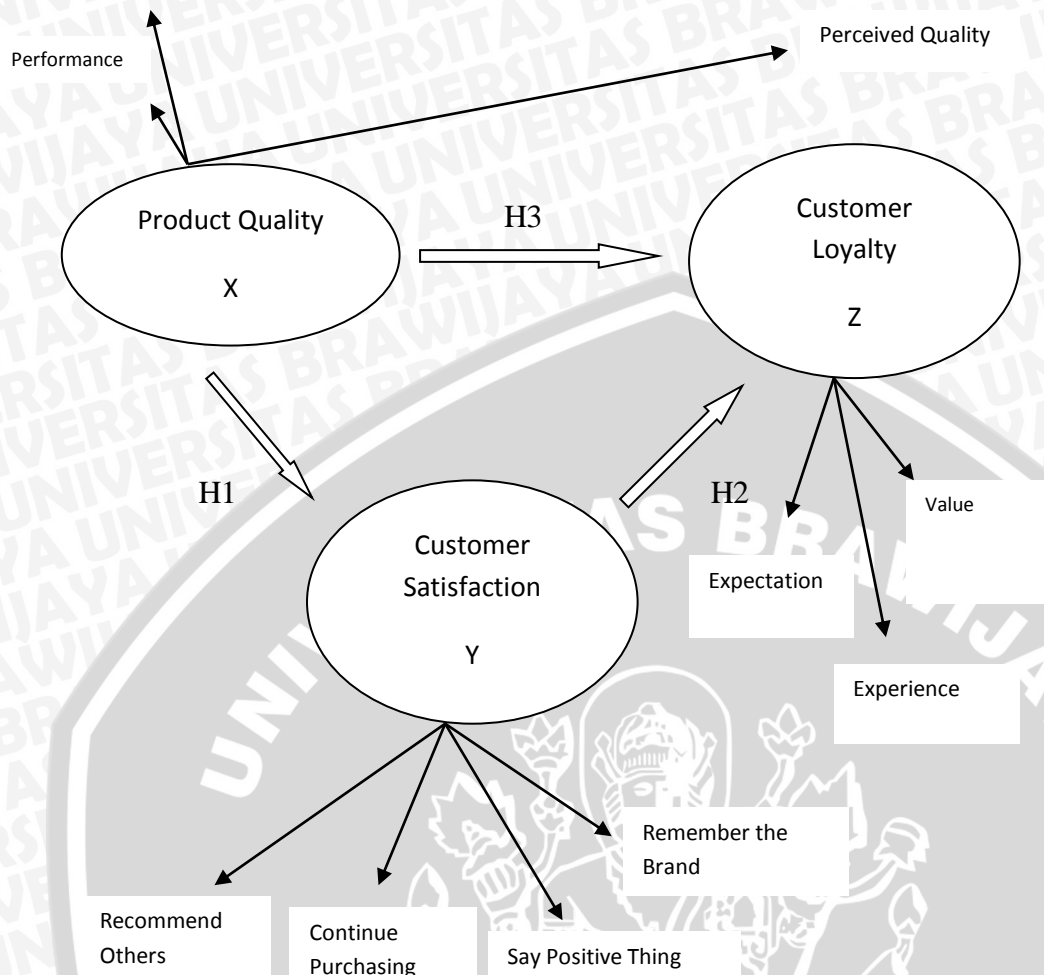


Figure 2.4
Hypothesis Model

H1 : Quality of product are affecting customer satisfaction in Indonesian SMEs

H2 : Customer satisfaction affect the customer loyalty in Indonesian SMEs.

H3: Quality of product are affecting customer loyalty in Indonesian SMEs