

INTRODUCTION

1.1 Background

The growth of the retail sector has progressed quite rapidly in globalization era which has easy access to information. A retail business is part of a distribution channel that has a significant function in a series of marketing activities and is an intermediary and a link between the interests of producers and consumers. The development of the retail industry has led to growth in employment for the community. This is in line with the development of distribution businesses, services and open market opportunities, as well as the government's efforts to encourage retail business development through laws and regulations.

The retail business is a business sector that is growing rapidly at this time since of the increasing potential needs in a particular area which will open up job opportunities and increase the income of the local community. Information from the Indonesian Retail Entrepreneurs Association (APRINDO) show the retail growth in Indonesia in 2020 will only reach approximately 8% less than the previous year (due to pandemic), which is approximately 9%. This has an impact on industrial retailers to maintain their organization by keeping customers on repurchase intention.

Real Sales Index (IPR) as of July 2020 is estimated to be 194 or grow -12.3 percent compared to the previous year in the same month. However, based on data from Bank Indonesia in 2020 sales growth retail decreased from 2019 to 2020 as in Figure 1.1. The decline in sales at retail stores can be caused in part by floods and

pandemics that cause internal shifts trade to the negative point. People feel comfortable getting goods that are online without having to go to a retail store.

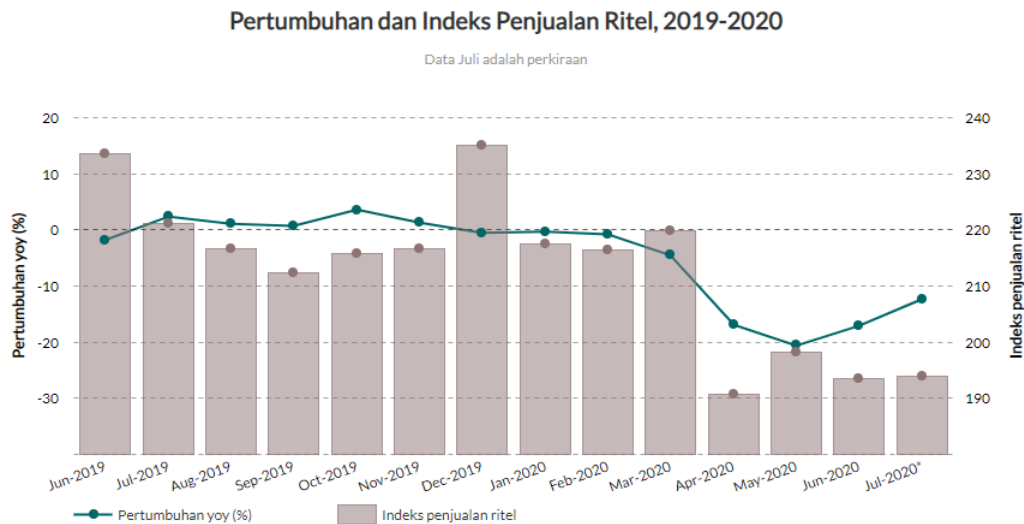


Figure 1.1 Growth and Retail Sales Index 2019-2020

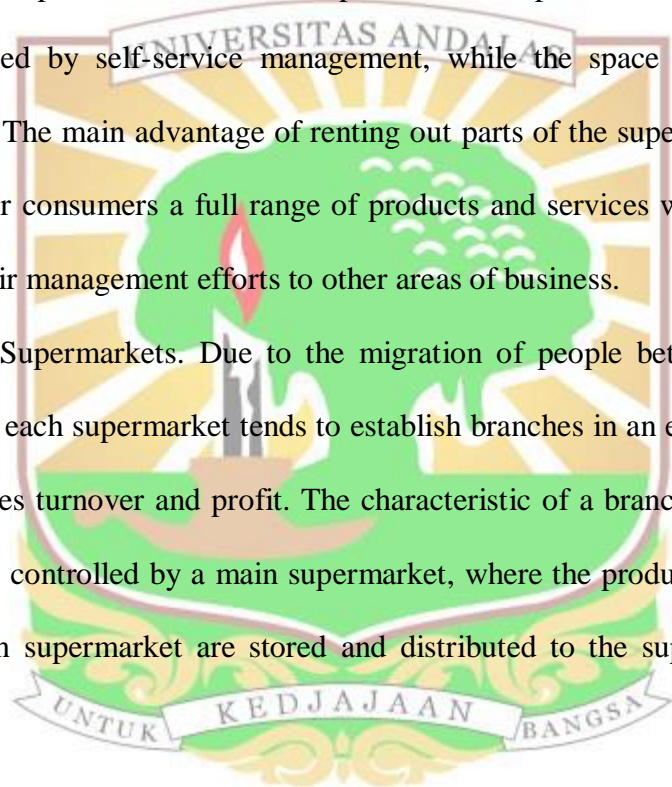
Source: Bank Indonesia, 2020

The retail sector is not only a place that provides products but also for selling goods in units and according to customer desires. One way to support the increase in the retail sector is the development of retail businesses such as supermarkets. Supermarkets according to Asri (1991) are a form of retail business that provides various kinds of consumer needs. Supermarkets are included in modern shops, modern shops themselves are defined as self-managed shops to carry out trading activities in goods, in the form of shops, malls, plazas and trading centers. In addition, according to Winardi (1993) supermarkets are retail commercial institutions, which sell various kinds of goods which are grouped into carefully arranged sections to achieve the goal. Furthermore, Winardi (1993) states that there are things that distinguish supermarkets from other retail trading companies, which is that Supermarkets focus on selling

shopping goods and certain kinds of specialty goods and Supermarkets are large and require a lot of manpower.

There are three important aspects in the area of supermarket operation:

- 1) Basement Store. Usually the bottom self-service sells general types of products such as convenience goods
- 2) Leased Department. A leased department is a part that is controlled and supervised by self-service management, while the space is rented out to tenants. The main advantage of renting out parts of the supermarket is that it can offer consumers a full range of products and services without having to shift their management efforts to other areas of business.
- 3) Branch Supermarkets. Due to the migration of people between out of the regions, each supermarket tends to establish branches in an effort to maintain their sales turnover and profit. The characteristic of a branch supermarket is that it is controlled by a main supermarket, where the products purchased by the main supermarket are stored and distributed to the supermarket of the branch.



Padang City is the capital of the province of West Sumatra, where economic activity is centered and has a growing retail industry. Based on data from BPS Padang city. The highest economic growth in West Sumatra is located in the city of Padang at 6.21 percent in 2016. Economic growth in retail is needed continuously to increase income and social welfare through increase in per capita income. Furthermore, the Gross Regional Domestic Product (GRDP) is data and basic information about the

economic activities of an area, the total services produced and value of goods in an area in a specific period. Based on data from BPS Padang City, 2017. The largest contributor to the Gross Regional Domestic Product (GRDP) in Padang City is the trade and retail sector.

Table 1.1
Total Population and Population Growth Rate
by District in Padang City, 2016, 2017, and 2018

Sub-district	2016	2017	2018
Lubuk Kilangan	54.529	55.381	56.214
Bungus Teluk Kabung	24.672	24.926	25.174
Lubuk Begalung	119.322	121.265	123.167
South Padang	59.523	59.748	59.962
East Padang	79.315	79.469	79.610
West Padang	45.961	46.010	46.055
North Padang	70.624	70.794	70.951
Nanggalo	60.643	61.110	61.559
Kuranji	144.063	146.709	149.307
Pauh	70.225	71.965	73.686
Koto Tengah	186.091	189.791	193.427
Total	914.968	927.168	939.112

Source: BPS Kota Padang, 2018

The total population of Padang City in 2018 amounted to 939,112 people, which in 2017 and 2016 totaled 927,168 people and 914,968 inhabitants. The largest population is in Koto Tengah Sub district, followed by Kuranji District and Lubuk Begalung District from 2016 to 2018. The high population density in an area will benefit retailers. Retail companies located in densely populated areas will attract more customers since customers tend to choose a shop based on its proximity and other factors as well

The increase in population in the city of Padang will certainly result in an increased demand for fulfillment of necessities of life which also triggers an increase in entrepreneurs' modern shops, such as: minimarkets, supermarkets and other retail stores. Of course with the competition getting tighter, each retail store will try to win over customers. The growth of the retail industry has tightened business competition and requires business people to improve quality service, create a good pricing strategy, implement good store atmosphere, and implement membership program so that it can compete with competitors to keep customers.

The first Budiman Swalayan that was established in Padang City was the Pondok Swalayan Budiman in 2013 located in South Padang, but now it has developed to 7 branches in Padang City. Budiman is a fairly large retail business player in the city of Padang. Budiman Swalayan provides household necessities, stationery and other daily necessities. Customer's retention is the main goal, therefore providing the best service to customers is the main thing. However, many retail businesses have sprung up in Padang City, both on a large and small scale, thus making the level of competition for the retail industry in the City of Padang even higher. However,

Budiman has the potential to compete with other retail businesses, one of which is the size of the supermarket itself which is large enough and the location is very strategic and well known by many people. However, this does not guarantee the success of a business. Under these conditions, Budiman is required to have the right strategy in sequence to survive in the retail competition in Padang City, with the right strategy it is also expected that Budiman can excel in the retail business competition.

Budiman Swalayan's way of maintaining customer comfort is by providing the best products at fairness of price, convenient service for customers, implement a comfortable store atmosphere, and providing quality membership program. Increasingly tighter competition encourages Budiman Swalayan to focus more on efforts to maintain customer satisfaction and retention. In order to survive in its business environment, by improving service quality, price fairness, store atmosphere, and membership program, to maintaining customer retention of Budiman Swalayan.

Budiman Swalayan was chosen as the study's focus since it is one of Padang's largest and most well-known supermarkets, with numerous branches throughout the city. This is known to be able to represent customers from Padang's retail businesses. In the other hand, due to increased competition, Budiman Swalayan must improve overall service quality. Customers are also motivated to use a company that treats them with respect and provides a high quality product and services at a fair price. This effort is done to maintain customer satisfaction in order to continue customer retention. Increasing competition encourages retail entrepreneurs to focus more efforts to maintain customer retention.

Cahyati & Seminari (2020) stated that service quality is the difference in the middle of the realities of the services that customers receive and customer's expectation. By comparing the service that customer expect with customer perceptions of the service that they receive, service quality can be identified. Hence, considering service quality as the main thing by companies is important and is a key factor for retaining and satisfying customers in the retail industry.

Service quality is the main task that need to be considered by retailers and is a key factor for attracting and satisfying customers in the industry of retail. Customer service evaluation is strongly influenced by the psychological interaction between employees and customers as well as the service delivery process technical characteristics (Nicolini & Salini 2006). The focus is on enhancing the positive customer experience through improving the quality of service delivered through the interaction process. Service quality does influence how they handle consumers, and a positive attitude would assure a pleased and loyal client base, leading in greater revenue and increased expenditure.

Based on increasing retail competition, Budiman Swalayan is required to be responsive and proactive in acquiring and retaining customers through satisfactory service quality. Based on data from Hidayat (2016), from the results of interviews with employees regarding Budiman's SOP, it was found that employees already understood the SOPs they had to do in serving customers. It is hope to be able to create customer satisfaction that leads to customer retention. Also the decline in customers has been very pronounced at the beginning of 2020, this is due to the impact of Covid-19 which

has made all retail industries slumped and even forced to close their activities and lay off a number of employees.

Price could be define as the amount of value that customers are willing to give up in exchange for the benefit of owning or using the products or the number of money invoiced for a service or product (Kotler & Armstrong 2012). In addition they also stated four indicators which characterized the price namely; (1) affordability, (2) price alignment with product quality, and (3) pricing competitiveness, and (4) benefit price suitability. Price in purchasing decisions can be a factor that influences the purchase decision to influence the decision consumers in purchasing a product. Seiders & Costley (1994) claimed that a customer's primary consideration in selecting a store to conduct their shopping is the pricing. Lupiyoadi (2013) stated that the pricing strategy is very strong and significant in providing value to consumers and influencing image products, as well as consumer decisions to buy. Swastha & Irawan (2003) uncovered evidence that lowering the price increases the threat when the price is raised.

According to Matzler (2007) Price Fairness is a consumer's perception where the difference between the price received is reasonable compared to others, can be considered or an acceptable price. The perception of price fairness can be influenced by a number of factors, including the real price fairness, price information, previous experiences, and general knowledge about the service or product supplier. It is logical to assume that a positivity toward price fairness promotes satisfaction. Given that price fairness is becoming a more significant differentiator among organizations, it is a vital element to consider. (Nguyen & Klaus, 2013).

Price Fairness that Budiman Swalayan implement is one of the main factors in consumers take into account the buying decision if it is compared with other competitors. In a competitive market, customers have many options to buy. Customers will pay attention and compare prices. Justification must be provided for the buying choice. Customers have many choices when purchasing goods and services in the retail market. Ting (2013) stated that consumers identify price unfairness whenever consumers pay higher prices than competitors. Their purchasing power creates competition between Budiman Swalayan with the similar retail market industry. Hidayat (2016) found in interviews with customers that the price of Budiman's products is relatively the same as other supermarkets, although there are some products that are cheaper at Budiman, but there are also some products that are expensive at Budiman. In addition, Ghuci (2021) conducted a survey and the results show that price is one of the dominating reasons why customers choose to shop at Budiman. This phenomenon can be taken in the consideration to achieve customer retention in Budiman Swalayan.

According to Berman & Evans (2018), the physical characteristics of a store that portray an image and attract customers are referred to as atmosphere. The atmosphere of a company's store can be determined by a variety of factors, including location, hospitality, interior designs, temperatures, decorations, and color use. The attractiveness of a location can be influenced by the lighting system. The temperature of the space is crucial to consider since it affects the level of comfort that consumers experience while on site. Customers will feel safer and more confident in the goods presented if the environment is kept clean. The store atmosphere refers to the

environment in which customers obtain goods or services from a particular firm, and it includes both tangible and intangible features that allow interactions with the service provider (Zeithaml et al., 2009).

Customers consider the atmosphere of a store to be the most essential consideration when deciding where to purchase. According to Samli, Kelly, & Hunt (1998), one of the aspects that shoppers consider while choosing a purchasing site is the store's atmospheric comfort level. When it comes to a business, the atmosphere plays a crucial role in its sustainability since it might attract people to come in. The physical atmosphere had a significant impact on buying decisions and brand loyalty (Amofah et al., 2016). Customers will be more attracted in visiting if the generated atmosphere has distinct and unique characteristics, since each consumer has varied motivations for meeting their requirements and desires.

Therefore, Budiman Swalayan must focus not only on the products and services, but also on the atmosphere created, which must entice customers to visit and make them feel at ease while doing so. Hidayat (2016) conducted an interview and it found that with a small parking area, many customers complain because it is difficult to park their vehicles. This can affect the customer's perception of the convenience of the store atmosphere. In the other hand, Ghuci (2021) also conducted a survey and the results show that store atmosphere is one of the dominating reasons why customers choose to shop at Budiman. Based on this situation, it is believe that a good store atmosphere are capable to build customer retention.

Membership programs are established marketing activities that reward and hence stimulate loyal purchasing behavior, which can be profitable to the company

(Sharp, B. & Sharp, A. 1997). In the retail world, the membership program is known by many different names, program bonuses, customer cards, customer clubs, and membership cards, as well as flight purchases, are just a few examples. The use of membership programs able to provide benefits businesses and customers since it maintains customer retention, which is critical to the success of any retail organization. A company provides rewards programs to customers who make frequent purchases. A membership program may provide a customer with priority access to free merchandise, special sales coupons, or new products. Customers are willing to make dynamic or multiple-period judgments rather than myopic or single-period decisions as a result of membership programs. These programs encourage repeat purchases and improve retention rates by incentivizing customers to buy more frequently and in larger quantities. According to Khairawati (2020), a customer membership program is a program given to consumers to help them form an emotional bond with the firm or the company's brand with a strategy for maintaining and retaining current customers and encouraging repurchasing through an incentive structure that can encourage customers to go back to stores and make purchases.

The membership program implemented by Budiman Swalayan is a membership card program to attract customers to continue shopping at Budiman Swalayan. Mulyani (2021) discovered that before and after the member card implementation, the number of transactions at the Budiman supermarket increased. This can be related to the connection between membership programs with customer retention. Implementation of the membership card strategy implemented by Budiman Swalayan in an effort to increase sales by using a point system. Membership card is used as a marker and given by a company, institution, or organization to its clients or

consumers. Points can be obtained with a minimum spending of IDR 10.000.00 then exchanged for the prizes that have been provided. Points can be exchanged for a minimum of 75 points with a total spending of IDR 750.000.00. Points can be exchanged for a maximum of 2,550 points with a total purchase of IDR 25.500.000. Points that have been collected can be exchanged for various merchandise.

Kotler & Armstrong (2012) stated that customer satisfaction could be interpreted as a people's feelings of displeasure or pleasure as an outcome of comparing the published product performance related to his/her expectation. In addition, customer satisfaction is interpret as an individual's experience of contentment or dissatisfaction as a result of a comparison between his or her expectations and a product's performance (Kotler & Keller, 2016). Satisfaction is determined by the gap between perceived performance and expectations. Customers will be dissatisfied if the service does not meet their expectations. Customers will be delighted if the service meets or surpasses their expectations. Additionally, customer satisfaction is a guideline for directing all existing resources in the company towards meeting customer needs so that it becomes a source of sustainable competitive advantage. Moreover, Paul (2011) reported that when customers are dissatisfied with the service or product offered by the firm, they will not recommend it to other customers, and it could lead to financial problems and will directly decline sales of the company.

The competition between Budiman Swalayan and other retail organizations is fairly tight to compete with one another for customers. Customers are not always satisfied with the services given by retailer since they are not in line with their

expectations and wants. Wahyuni et al. (2015) stated that in the city of Padang, there are many retail markets competing fiercely to attract consumers. To be able to compete with other competitors, Budiman supermarkets must have a strategy that can satisfy their customers to build customer retention.

Customer retention can be intended as a percentage rate at the beginning of the time frame and consumers who have remained as clients at the end of the period (Payne 2000). On the other hand, consumer retention according to Blattberg (2001) occurs when a customer buys the same market offering from the same vendor over a long period of time. Customer retention is a method of retaining customers. Customer retention will cause customers to always use a company's products on a regular basis and they tend to spend more money. Without customers, an organization would be meaningless since the welfare of the organization depends on how the customer influences the organization.

Customer retention can be analyzed from the repeat purchasing behavior of customers. The use of this benchmark is one of the guidelines for managers in improving the standard of services to be offered, implementing the price fairness strategy, implementing comfortable store atmosphere, and an effective membership program in managing Budiman Swalayan.

Based on the phenomenon above, retailers must be aware of the fact that service quality, fairness of prices, store atmosphere, and membership program could affect the retention of customers. Customers only expect what they need must be fulfilled, namely satisfaction. Retail companies such as Budiman Swalayan must work hard to meet customer needs, expectations, and satisfaction. Given the circumstances,

stated, the author would like to conduct research on **“Analysis of Influence of Service Quality, Price Fairness, Store Atmosphere, Membership Card Towards Customer Retention With Customer Satisfaction As a Mediation Variables Of Budiman Swalayan Customers In Padang City”**.

1.2 Problem Formulation

Based on the background, the problem formulation are as follows:

- 1) How is the influence of retail service quality on customer retention on customers in Budiman Swalayan in Padang City?
- 2) How is the influence of price fairness on customer retention of customers in Budiman Swalayan in Padang City?
- 3) How is the influence of store atmosphere on customer retention on customers in Budiman Swalayan in Padang City?
- 4) How is the influence of membership card on customer retention on customers in Budiman Swalayan in Padang City?
- 5) How is the influence of customer satisfaction on customer retention on customers in Budiman Swalayan in Padang City?
- 6) How is the influence of retail service quality on customer satisfaction on customers in Budiman Swalayan in Padang City?
- 7) How is the influence of price fairness on customer satisfaction on customers in Budiman Swalayan in Padang City?
- 8) How is the influence of store atmosphere on customer satisfaction on customers in Budiman Swalayan in Padang City?

- 9) How is the influence of membership card on customer satisfaction on customers in Budiman Swalayan in Padang City?
- 10) How is the influence of retail service quality on customer retention mediated by customer satisfaction on customers in Budiman Swalayan in Padang City?
- 11) How is the influence of price fairness on customer retention mediated by customer satisfaction on customers in Budiman Swalayan in Padang City?
- 12) How is the influence of store atmosphere on customer retention mediated by customer satisfaction on customers in Budiman Swalayan in Padang City?
- 13) How is the influence of membership card on customer retention mediated by customer satisfaction on customers in Budiman Swalayan in Padang City?

1.3 Research Objective

Based on the problem formulation above, the objectives of this research are as follows:

- 1) To examine the influence of retail service quality on customer retention on customers in Budiman Swalayan in Padang City.
- 2) To examine the influence of price fairness on customer retention on customers in Budiman Swalayan in Padang City.
- 3) To examine the influence of store atmosphere on customer retention on customers in Budiman Swalayan in Padang City.
- 4) To examine the influence of membership card on customer retention on customers in Budiman Swalayan in Padang City.

- 5) To examine the influence of consumer satisfaction on customer retention on customers in Budiman Swalayan in Padang City.
- 6) To examine the influence of retail service quality on consumer satisfaction on customers in Budiman Swalayan in Padang City.
- 7) To examine the influence of price fairness on consumer satisfaction on customers in Budiman Swalayan in Padang City.
- 8) To examine the influence of store atmosphere on consumer satisfaction on customers in Budiman Swalayan in Padang City.
- 9) To examine the influence of membership card on consumer satisfaction on customers in Budiman Swalayan in Padang City.
- 10) To examine the influence of retail service quality on customer retention mediated by customer satisfaction on customers in Budiman Swalayan in Padang City.
- 11) To examine the influence of price fairness on customer retention which is mediated by customer satisfaction on customers in Budiman Swalayan in Padang City.
- 12) To examine the influence of store atmosphere on customer retention mediated by customer satisfaction on customers in Budiman Swalayan in Padang City.
- 13) To examine the influence of membership card on customer retention mediated by customer satisfaction on customers in Budiman Swalayan in Padang City.

1.4 Research Benefits

The benefits that are expected to be obtained from this research are as follows:

1. Theoretical Benefits

For the author, the benefits of this research are expected to increase the author's knowledge of research studies regarding the effect of service quality, price fairness, store atmosphere, and membership card on customer satisfaction and customer retention at Budiman Swalayan and is also expected to be input for further research.

2. Practical Benefits

It is hoped that the results of this research can be useful for retail businesses like supermarkets in formulating strategies for attracting customer retention.

1.5 Writing Systematics

This discussion will be divided into five chapters, with the following systematic:

Chapter I: Introduction

This chapter contains background problems, problem formulations, research objectives, research benefits, research scope and writing systematics.

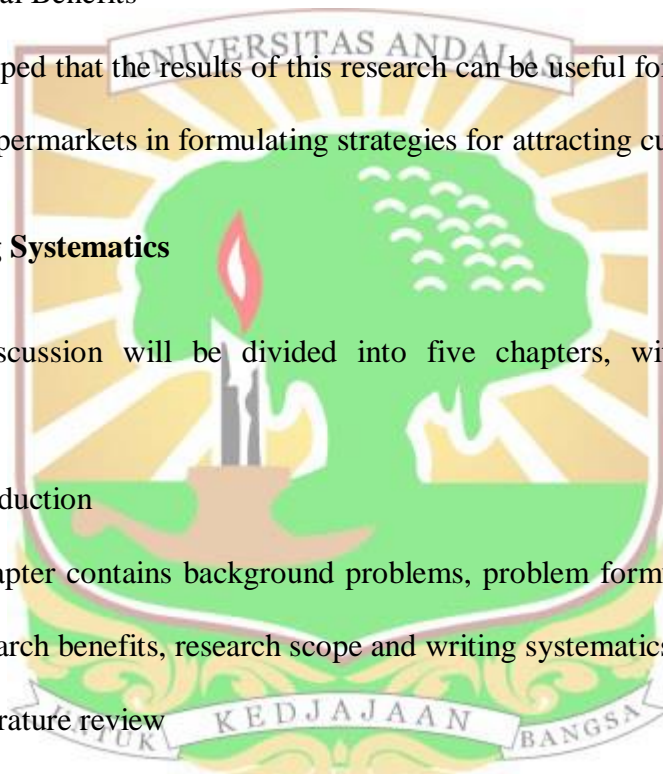
Chapter II: Literature review

This chapter contains the theoretical basis of variables and things that exist in research, previous research, research framework and hypotheses.

Chapter III: Research methods

This chapter contains the methods used, the operationalization of variables, data collection techniques, sampling techniques and data analysis and Hypothesis testing.

Chapter IV: Results and Discussion



This chapter is the subject of research which contains descriptions and objects of research, data analysis, and analysis of the implementation of research results so that they can know the results of the analysis under study regarding the results of hypothesis testing.

Chapter V: Closing

This chapter contains conclusions regarding the results of the study, the limitations of the study and suggestions for future researchers

