CHAPTER 1

INTRODUCTION

1.0 Retail Industry in Indonesia

This thesis is adaptation from the journal "Managing customer loyalty through the mediating role of satisfaction in the DIY loyalty program" by Patrick Vesel and Vesna Zabkar (2009).

Indonesian retail industry still growing, although the market more competitive, it still attracts foreign investor and players to come into Indonesia retail industry. Apprindo was predicted that retail industry in Indonesia could growth by 15-20% in 2010 to around IDR 88.5 Trillion. The growth of retail industry because people change their lifestyle and shopping habits, for example, people do shopping not only because of they want to buy something or they need something, but also to fulfill their leisure time. According to Ac Nielsen (2009), Market share of department store increase from 2007 to 2009, with the percentage 37%, however it still low compared to Singapore, Malaysia, Thailand, and Philippines.

The retail format also transforms into modern retail format, such as Minimarket, Supermarket, Hypermart, and Department Store. The main different between traditional and modern retail format is non-negotiable and negotiable price, in modern retail format the price is fix, and customers could not negotiate the price. During 2003-2008, the growth of modern retail industry is 162% with minimarket as the highest growth. Table 1.0 shown the list of retail stores in Indonesia,

Type of Stores	2008	2007	2006	2005
Hypermarket	127	121	105	83
Minimarket	10,607	8,889	7,356	6,465
Supermarket	1,571	1,379	1,311	1,141
Traditional Market	1,907,062	1,903,332	1,846,752	1,787,897
Convinience Store	267	169	120	115
Wholesale Club	26	26	n.a	n.a

Table 1.0 Retail Stores in Indonesia

Source: AC Nielsen

1.1 Department Store in Indonesia

In 1962, The concept of Department store introduced in Indonesia with Sarinah as the first Department Store in Indonesia; the operational of Sarinah provide inspiration for other company, such as Matahari department store (1972) and Ramayana department store (1978), Early 1990, foreign department stores introduced in Indonesia marked by the operation of Japanese department store "SOGO". In 1991, Metro Department store opened Indonesia with the first store at Pondok Indah Mall.

Indonesia, particularly in Jakarta, has many department stores with the various qualities and different target markets. Many of these are foreign department store, such as Metro Department Store (Singapore), Sogo Department Store (Japan), Debenhams (England), and Marks and Spencer (England). Metro department store and Sogo department store have upper-middle class target market. Some of big department stores have broader varieties of products, for example Sogo Department store in Plaza Senayan has a bookstore, and Metro department store in Pondok Indah Mall has home appliances.

Datacon web stated that Department store business industry is grown but not as far as other retail business industry, this business still dominated by old players, such as Ramayana, Matahari, Metro Department Store, and Sogo Department Store (Datacon.co.id). Apprindo (2011) stated that growing department stores in Indonesia is small, its only 10% compared to supermarket, and hypermarts. Jakarta has the most outlets of department store in Indonesia, followed by West Java, Central Java, and Eat Java, 50% of number outlets of Department Store located in Java (datacon, 2011).

Because of the competition of department stores in Jakarta are high enough; they are competing with offers different varieties of apparels made from different designers. In an article in okezone stated that Metro department stores collaborated with 10 young Indonesian designers with purpose to increase Indonesian brand and offered different design of appearance, moreover Debenhams department store has different strategy within product assortments, they have private label under name designers at Debenhams and collaborated with some top designers, such as John Rocha, Jasper Conran, and Ben de Lisi. Keris department store also has unique of product assortment, they focus on the traditional Indonesian handicraft that can be their competitive advantage in terms product differentiation (okezone, 2010).

In facing the high enough competition, each of department stores has different strategies, however most of department stores have the loyalty program, it has purpose to maintaining the loyal customers and increase the sales volume, according to Hu, Huang, and Chen (2010) Customer loyalty programs are activities that focus on enhancing customer loyalty with the most valuable customers and it has a strong correlation with customer relationship management (Hu, Huang, & Chen, 2010). And also it could build

long-term relationship and provide mutual benefits (Pan et al, 2011). People would patronize in one store, if they receive more benefits than the other stores, therefore, building strong customer loyalty is an important thing, and however the effectiveness of customer loyalty programs still becomes a controversy because people have differentway of responding to these programs. Based on perception from some of the Metro Yours Card (MYC) cardholder is the fact that in department store environment, there are three different types of consumers, the first type is consumers provide positive responses to these programs because they received what they need, or they received more features of these programs, for instance, point rewards, discount, and supplemental service. The second type is there are members of loyalty programs; however, they do not used the features that offered by these programs therefore, these are inefficient, Reward redemption and reward understanding often to become fundamental problems in loyalty programs system because customers sense that the requirement and the process are complicated, such as long time needed to receive the rewards, and place barriers to get the products (Steynet et al., 2010). And the third type is consumers provide negative responses to these programs because they believe that those programs are inefficient.

Using the appropriate loyalty programs could provide the positive effects to the stores, for instance, enhancing the loyalty level and having better understanding to the customers. Steynet et al. (2010) observe that the effective loyalty programs are needed within competitive industry and competitive market, and it could be a new development of the stores. Technology plays an important role in the loyalty programs because it brought many innovative and creative into these programs (Vesel and Zabkar, 2010). The examples of loyalty programs in department stores are Metro Department store has

a metro yours card (MYC) program that can provide customers with point reward and additional discounts (metroindonesia, 2012), figure 1.0 shown the picture of Metro Yours Card (MYC) and Debenhams has a beauty program that can provide cosmetic customers with additional discounts and free makeover (Debenhams, 2012).

The comprehensible indication regarding customer loyalty program could be used as a benchmark by the retail stores in developing their programs. The benefits that provided by loyalty programs can enhance the value of the programs itself (Pitt and Leylon, 2010), The common programs is membership card, customers will obtain different incentives depends on the amount of purchasing. There is the possibility loyalty program that is efficient in one store is not efficient in other stores, it depends on the quality of service and the retails' industry and certainly there are variations and differentiations regarding the loyalty programs in each store. In the department stores industry, there are point reward and additional discount programs that could be used in other industries, however with the different approach so that consumers would have clear knowledge and understanding regarding those programs. Marketers play as a key role within creating, distributing, and teaching consumers regarding the customer loyalty programs in their stores.

In 2011, Frontier Consulting Group was conducted a research regarding the top brand index of department store in Indonesia, measured using three factors, top of mind, last usage, and future invention, this research conducted in 6 cities; Bandung, Jakarta, Makassar, Medan, Semarang and Surabaya. Matahari and Ramayana achieved top brand index in 2011, table 1.0 below shown the list of top department store in Indonesia and table 1.1 shown the number of stores, top department store in Indonesia.

Department Store 2011		
Brand	TBI	
Matahari	43.80%	TOP
Ramayana	21.10%	TOP
Yogya Dept. Store	7.60%	
SOGO	3.70%	
ADA Swalayan	3.20%	
Metro	2.40%	

Table 1.0 the list of top department store in Indonesia

Source: www.topbrand-award.com

Brand	Number of Stores	Type of Stores
Matahari	104 stores	Local
Ramayana	19 stores	Local
Yogya Dept. Store	52	Local
SOGO	11	Foreign
ADA Swalayan		Local
Metro	11 Stores	Foreign

Table 1.1 the number of stores, top department store in Indonesia

Personal interactions between employees and customers could influence the customer loyalty. Stores have a procedure to the threat their customers, for example; The Metro department store provides delivery service for every certain amount of transaction (metroindonesia, 2012), and Debenhams provide buying guides service on their website (Debenhams, 2012). Customers would be loyal in one store, if that store has pleasant environment.

Figures 1.0 Metro Yours Card (MYC)

Source (http/www.behance.net)

1.2 Metro Department Store in Indonesia

Metro Department store came to Indonesia since 1991, under PT Metropolitan Retailmart and they are one of the leading retailers in Indonesia operating eight stores in Indonesia, one store in Bandung, one store in Surabaya, and one store in Palembang.

In Metro Department store website stated that, they have philosophy to "provide our customers with convenient and friendly shopping environments and comfortable in shopping is their priority" (metroindonesia, 2012). Metro Department store always maintain their service quality, this can be proof by in 2007, they achieved "serviced quality gold award" from Carre – Center for customer satisfaction and loyalty (CSSL) and marketing magazine because of their quality of service, this thing can be an example for other retail stores because in order to survive in one industry, they have to provide

good quality of service for their customers so that their customers would be satisfied with their store. METRO's nearly one million square feet of retail space offers a wide variety of merchandise from well-known international labels to famous local brands. METRO, a familiar household name, will continue to showcase retail merchandising at its best for Indonesians.

1.3 Scope

This research use medium scope in data gathering. The experience correspondents will needed and the researcher only chooses the correspondents who become members of Metro Yours Card (MYC) programs, with the objective to receive more specific data. 150 questionnaires would distribute to those members and bias in the questionnaire could be avoided by providing the filter questions regarding the loyalty programs; therefore, the researcher would know whether they are members one of those programs or not.

1.4 Aim and benefit

The aims of this research are:

- o The author creating and testing a model of the factors that influencing customer loyalty in the context of Metro department store.

- o To explore the relationship effect between those factors in order to influence the customer loyalty, whether these factors have positive or negative effects.

o Testing the customer satisfaction and loyalty program quality as a variable that influence customer loyalty in Metro Department Store.

The benefits of this research are:

o Marketers from various department stores attempt to create unique, different, and attractive programs. If people are interested in joining these programs, the stores would be easier to retain their customers, and those stores will have better understanding regarding what consumers' want.

o Within the competitive industry, building strong relationship with the consumers is an important aspect, in addition to offer attractive variation of products. With doing the research regarding the effectiveness of consumer loyalty programs, marketers would know what points that they have to perform to win this competitive market and be assigned as a market leader.

o By conducting this research, the companies could prepare the strategies to face the competitive market, the marketers could know the specific programs to provide to the market, and the customers would have better satisfaction on the department stores' market.

o An additional benefit of this research is providing further insight regarding which the effective approach to build strong customer loyalty, whether personal interactions or loyalty programs.

1.5 **Problem Statement**

Customer Loyalty has been a common issue in the business competition in the competitive industry; many department stores offer various loyalty programs to the customers. However, the impacts of loyalty programs to increase customer loyalty have been a controversy. Many authors have conducted researches regarding the effectiveness of loyalty programs, and however the results have been mixed (Vesel and Zabkar, 2009). Moreover, stores have different strategy to serve their customers. Good quality of personal interactions and attractive loyalty programs are the main factors that influence customer loyalty. The authors need to understand the loyalty programs' process, include the incentive that provided by the stores and the personal interaction techniques that offered by the stores, with that understanding, the stores can create good loyalty programs and easier to retain.

1.6 Research Questions

This research tries to answer the following research question in a similar way as the first author of the previous primary research.

- o RQ1: Does the degree of loyalty program quality positively influence the degree of customer satisfaction?

- o RQ2: Does the degree of personal interaction quality positively influence the degree of customer satisfaction?

- o RQ3: Does the degree of loyalty program quality positively influence the degree of customer loyalty?

      o   RQ4: Does the degree of customer satisfaction positively influence the degree of customer loyalty?

1.7 Structures

Chapter 1 Introduction

This chapter identifies the problem that related with the subject in department stores in Jakarta; provide information regarding the department stores in Jakarta, scope of this research, and aim and benefit of this research.

Chapter 2 Theoretical Foundation

This chapter will discuss about the theories that related with the subject; those theories can be used to support the other materials in this paper. Furthermore, this chapter also will provide the model that related with the subject.

Chapter 3 Research methodologies

This chapter discuss regarding the research methodologies that will be used in this research, provide relevant hypotheses, research question, data collection, and data analysis methods.

Chapter 4 Result Finding

This chapter discuss regarding the research data, analysis that acquired on the research methodologies' section, and discussion about the data result.

Chapter 5 conclusion and recommendation

This chapter will discuss regarding the conclusion from previous chapters and provide the recommendation that related with the subject of the research.