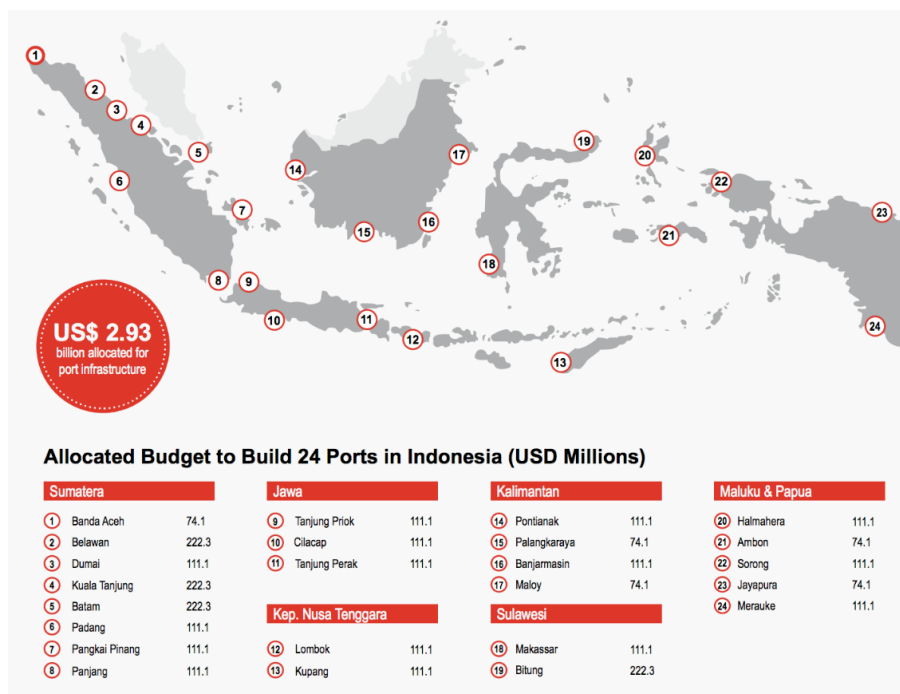


## Chapter 1

### Introduction

#### 1.1 Background

Container ships are cargo ship that carry all of their load of container that use technique called containerization. Most of the container ships capacity is measured in Twenty foot equivalent units (TEU). Typical loads that mix of 20-foot and 40-foot (2-TEU) with standard containers. About 90% of non-bulk cargo worldwide is transported by container ships. Using container in logistic especially in ship have various advantage such as low risk of loss and harm in container, unloading that became very fast, cheaper price especially for labor cost, the owner of container can easily track the delivery of the container by looking the container numbers, and can be do door to door system. The only problem when using container is high cost of investment.



**Figure 1.1 Allocated budget to build 24 ports in Indonesia**

Source: Kargo (2017)

Choosing Indonesia as part of container service especially in sea is good reason. Indonesia have 17.500 island, 5 million square kilometer of sea and a total land area of 1.919.317 square kilometer that make Indonesia is potential. Especially current president of Indonesia, Joko Widodo is focused on invest on nation's roads, ports, railways, and airport. There are many reasons why Indonesia government are focus on logistic service. It predicts that the Indonesia logistic sector will grow 14,4% by 2020 (Frost & Sullivan, 2017). Back to 2015, Joko Widodo said that he want to make Indonesia became maritime country like the past. Sea freight is big business in Indonesia and it planned construction of 24 sea ports around all island in Indonesia that cost around \$2.93 bilion (Figure 1.1).

**Ranking of ASEAN Countries in the Logistics Performance Index:**

Country	2014	2016	2018
Singapore	5	5	7
Malaysia	25	32	41
Thailand	35	45	32
Indonesia	57	63	46
Vietnam	48	64	39
Philippines	53	71	60
Cambodia	83	73	98

**Figure 1.2 Ranking of ASEAN countries by Logistic Performance Index**

Source: Indonesia Investments

Logistic sector in Indonesia currently growth due to continuous development of the Indonesian economy by resilient domestic demand. Another factor like strong private consumption growth, higher trade growth make Indonesia have high potential growth in logistic. According to data from World Bank, Indonesia logistic sector is increasing and now in 46<sup>th</sup> rank in Logistic Performance Index. Comparing to the 2016, Indonesia LPI in 63 rank. But, compare to another South East Asia country, Indonesia position is still weak. In 2018, Singapore LPI are in 7<sup>th</sup>, Thailand in 32<sup>th</sup>, Vietnam in 39<sup>th</sup> rank, and Malaysia, one of the Indonesia neighbor are in 41<sup>th</sup> rank.

Market in container shipping business is very sensitive, as carriers need cargo to fill their increasing vessels. In this case, even minor problem can make customers shift their shipments to the carriers. Therefore, maintaining customer loyalty is an important issue. Liner shipping lines must deploy large number of vessels to make the delivery is on schedule. But what is the factor that make customer loyal?

First of all is the convenience, when buying products or services, many loyal customers simply stray because they regularly buy your product or service run out. Maybe they still prefer yours but if there are other brands in stock and they don't have time to chase your product down. Expectation also became important because it need to continue to live up to their expectation in every way. Not only has to continue to deliver on its brand promise and remain relevant but the price, value, and availability must continue to be dependable.

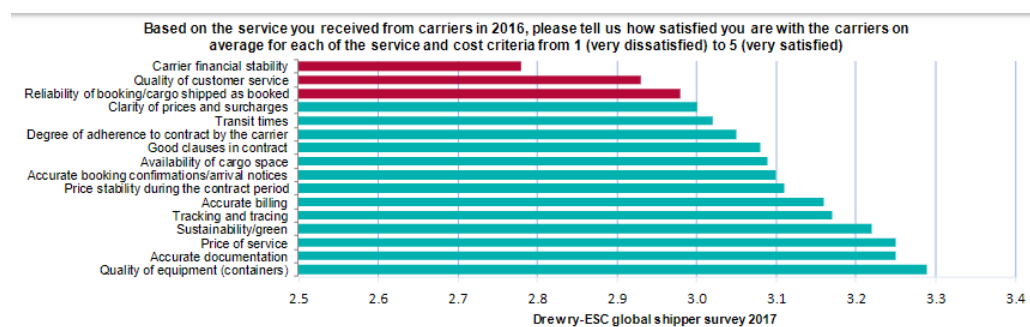
Customer service is provision of service to customers before, during and after a purchase. Good warranty and swift resolution of issues keeps customers who may have had a disappointing experience while use your service can continue use yours if the business can deliver service well to your customers. Personal relationships is another important thing to make customer loyal. If the owner can have good relationship with customers it could help to survive the business. How to do good relationship? By deliver as promised can be one example that can do good relationship.

The last thing is social impact that can make customer loyal. It can influence other people whether they should use the service or not. Social impact also caused by one people who recommend it to other people because their service quality is well known. Customer Satisfaction is one of the importance things in the success of the business. It is important to track this factor and work in order to make customer more loyal. If you don't care about customer satisfaction don't expect them to care about the product. High standard customer can make your product became more recognizable to the target group.

According to the White House Office of Consumer Affairs, loyal customers are worth up to 10 times as much as their first purchase. Even some research says

that it is 6-7 times more expensive than acquiring new customers. It is more difficult to keep existing and loyal clients than to gain some new ones. To make sure clients keep loyal, the business need to maintain the service process.

Customer satisfaction also one of the factor that helps business can stand out of the competition. Customers don't love you if you give bad service, your competitor will (Zabriskie,2009). It means that customer play role of an instigator but if provide your customers with amazing customer service, you will gain argument to convince those uncertain of your service. Customer satisfaction also become the core of marketing. More the customers are satisfied about the product or service more they probably stay loyal (Willys, 2018). Satisfied customer are more likely share their experience to their friends and relations that can make others want to try the services. Every container services should make it happen to make customer want more to use your services.



**Figure 1.3: Satisfaction Survey in Container Support: Customers Rate Service of Quality of Ocean Carriers “Poor to Average”**

Source: Drewry (2017)

According to the Drewry Shipping Consultant and the European Shipper's Council (ESC) that survey of exporters, importers, and freight forwarders, customer rate service quality of sea carriers are poor to average. This research take several hundreds shippers and forwarders from all over the world in March 2017 and asked how satisfied they were with 16 price and non price related attributes of the services by ocean carriers. This survey also looked into area that need improvement. The three areas of service price in which shippers and forwarders were the most dissatisfied with were carrier financial stability, quality of customer service, and reliability of booking as booked. On the other hand the three areas that most

satisfied are price of service, accurate documentation, and quality of equipment like containers for example.

From there we can see that financial stability is lowest of the all attributes in the survey. Different with price of service which became one of three highest attributes from the survey. Mostly financial stability happen because cost of revenue is lower than operation which have various reason like there aren't many people who use the service and the cost of services is too cheap which have impact of operation cost. From there to make it stable, the container shipping business need to increase the quality of service like on time delivery as one of the example.

Switching costs is customer's perception of magnitude of additional costs required to conclude the current relationship, and secure an alternative supplier (Blut et al, 2015). Switching costs also can be occur as one of the factor loyalty of customer. Companies can make customer think twice before they change to another company because customer is the key to companies can run well. Sometimes the customer change it to get experience from other company and can calculate which company is better. Not only they decreasing price but also company can make competitive advantage if they create based on switching costs.

There are various reasons why customer can switch so easily for example price wars. Every customer want to spend little to get things that they want. For company the reason want to lower the price is to get the new customer and can run the operation. But if they keep the low price it can be bad for the long term. Lowering price also can make the service also became lower for example not included the insurance to make sure if anything bad happen. So, to keep it they need to make service well so customer still want to pay more as long as they get more benefit.

Switching costs also can be occur because of services isn't available like in container shipping is the container is already full booked so they need to change it to another who is available to can get their time as quick as possible. But the risk is if they don't achieved it, the cost will be more and can have loss because the time. Perceived Service Quality is refers to customer judgement about which services is better than the others. Every customer can get different quality based on their

impression about the services. For example, one customer feels no problem if the price is expensive as long as the quality of the service still well but different from others that care about low price that don't care about the quality as long as the price is cheap.

But even every customer is different, the business need to offer the same services no matter the price is. For example the delivery need to be on time and have reasonable price. For some case like the customer want to get delivery fast because they need as fast as possible, it need to prioritized with higher price. Another example like if container shipping deliver electronic or vehicle, it need careful ways to make sure that they deliver safe to the customer.

PT Lintas Indonesia Timur Lines is liner shipping company. It was founded in 2009 in office based company that focus on Surabaya to Atambua, a town that near East Timor. In 2013, they expand to Kalabahi, a town near Mutiara Bay. They deliver their services that focus for people that want to send their product to Atambua and Kalabahi. Their main focus is business to business that can deliver product mostly food and drinks. They can also deliver from business to customer and can deliver as customer want such as vehicle and electronic product. People in Atambua and Kalabahi can also deliver their product to Surabaya, mostly is natural resource like coffee as example. PT Lintas Indonesia Timur Lines have 4 container ships that range from 150-250 TEUS.

**Table 1.1 Comparison of Shipping Line based on TEUS in Indonesia**

No	Company	Total Vessel	Total TEUS
1	PT Meratus Lines	56	42.774
2	PT Tanto Intim Lines	35	23.094
3	PT Salam Pacific Indonesia Lines	31	29.576
4	PT Pelayaran Tempuran Emas Lines	31	25.785
5	PT Lintas Indonesia Timur Lines	3	600

Source: Meratus Lines, Tanto Intim Lines, SPIL, Temas Website

As the competitor, there is one company that compete with PT Lintas Indonesia Timur Lines that also have similar lines. The company is PT Meratus Lines that known as one of the big liner shipping company in Indonesia. Their main

operation centralize in Surabaya and Jakarta. Not only in East Nusa Tenggara, PT Meratus Lines have 27 ship vessels that also capable to deliver services in many places in Indonesia and country across South East Asia with total 23.975 TEUS (Table 1.1).

In East Nusa Tenggara, they mainly focus in Atambua and also in Dili that also known as a capital city of East Timor. Atambua and Dili also near and only within around 130km. Their container shipment that deliver in East Nusa Tenggara area is around 300 TEUS and bigger than PT Lintas Indonesia Timur Lines container ship. Also, they mostly focus on business to business and their ship can deliver from various industry such as mining, manufactured, chemical, project construction, oil, and gas.

The purpose of the research is to investigate the effect of customer satisfaction, switching cost, and perceived service quality on customer loyalty in PT Lintas Indonesia Timur Lines.

## **1.2 Research Question**

Based on the background of the research problem can be form related as follows:

1. Does perceived service attribute affect customer loyalty in PT Lintas Indonesia Timur Lines?
2. Does switching cost affect customer loyalty at PT Lintas Indonesia Timur Lines?
3. Does customer satisfaction affect customer loyalty at PT Lintas Indonesia Timur Lines?
4. Does customer satisfaction affect switching cost at PT Lintas Indonesia Timur Lines?
5. Does perceived service quality affect switching cost at PT Lintas Indonesia Timur Lines

### **1.3 Objective of the Study**

Based on the background of the research problem can be form related as follows:

1. To anaylze the effect of perceived service attribute to customer loyalty in PT Lintas Indonesia Timur Lines
2. To analyze the effect of switching cost affect customer loyalty at PT Lintas Indonesia Timur Lines
3. To analyze the effect of customer satisfaction affect customer loyalty at PT Lintas Indonesia Timur Lines
4. To analyze the effect of customer satisfaction affect switching cost at PT Lintas Indonesia Timur Lines
5. To analyze the effect of perceived service quality affect switching cost at PT Lintas Indonesia Timur Lines

### **1.4 Significance of the research**

Based on the background above, the significance of study is as follows:

1. Academic significance

The result of this study as reference to other people that want to know more about effect of customer satisfaction, perceived service quality, and switching cost to customer loyalty in container shipping business in Surabaya.

2. Practical significance

The result of this study as reference for business person who work at container shipping business in Surabaya from director, manager, also employee who work at container shipping business. It can know that customer satisfaction, switching cost, and perceived service quality is important factor to make sure loyalty of customer that can make sure the business work.



## **1.5 Writing Systematic**

The systematic of writing this study is divided into five chapters and arranged as follows:

### **CHAPTER 1: INTRODUCTION**

This chapter consist of background of the study, research questions, research objectives, significance of the study, writing systematic of this study

### **CHAPTER 2: LITERATURE REVIEW**

This chapter presents the previous study, relevant journal, theoretical background, and hypothesis. The theoretical background explains about customer loyalty, switching cost, perceived service quality, and customer satisfaction and relation among them.

### **CHAPTER 3: RESEARCH METHOD**

This chapter describes the process of analysing data including research design, identification of variable, operational definition, type of source data, variable measurement, data collection method, population sample and sampling technique

### **CHAPTER 4: ANALYSIS AND DISCUSSION**

This chapter consists of research data description data analysis and discussion. It is also discussing about respondent description, research variable statistic description, and hypothesis testing.

### **CHAPTER 5: CONCLUSION AND SUGGESTION**

This chapter is the closing of this study that consists of conclusion and suggestion for the research object and for the consumer or researcher to do further research.