EFFECT OF PRODUCT QUALITY, PERCEPTION OF PRICE AND SATISFACTION TO CUSTOMER LOYALTY (STUDY ON AGROINDUSTRIAL COMPANY IN INDONESIA)

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Abstract

Customer loyalty becomes an important asset for every industry. Therefore, to get a high loyalty from consumers then a product should be able to produce a high level of satisfaction also to its users. Consumer satisfaction is influenced by various factors that exist in the product. Product quality and price perception are the two factors that influence the level of satisfaction because consumers perceive a product of quality and price then compare the two factors. This research will examine consumer loyalty to hand tractor product. In this research, the researcher focuses on the sale value of agriculture tools of hand tractor, hand tractor farming tool has not showed significant sales value in every period. The purpose of this study is to determine the effect of product quality and price perceptions on customer loyalty with customer satisfaction mediation. Respondents involved in this study were 165 farmers. Data analysis was through Structural Equation Model (SEM) testing. The results showed that product quality has an influence on customer satisfaction, price perceptions affect customer satisfaction and satisfaction affect customer loyalty.

Keywords: Product quality, price perception, satisfaction, loyalty, agroindustry

INTRODUCTION

In the era of increasingly advanced globalization, demanding agro-industry business competitors to create new innovations to meet market needs. The main thing of concern is to continue to make improvements on the quality of its products. The importance of getting a good judgment of a product from a customer demonstrates the creation of customer satisfaction. Customer satisfaction plays an important role to foster attitudes of customer loyalty that will impact on the welfare of the company. In addition to product quality, customer satisfaction and loyalty can be formed in accordance with the perception of prices created in the consumer mind. Price is often a comparison product with brands that have good quality and bad.

Jahanshahi, Gashti, Mirdamadi, Nawaser and Khaksar (2011) aimed to find out whether there is a relationship between customer service and product quality with customer satisfaction and loyalty in the automotive industry context of Pune, India. The results showed that there was an influence between customer service construction and product quality with customer satisfaction and loyalty. Mohsan, Nawas, Khan, Shaukat and Aslam (2011) research aimed to find the impact of customer satisfaction on customer loyalty and intent to switch. His research shows, satisfaction affects loyalty and intention to switch. Senthilkumar (2012) research to know the influence between customer service and product quality with customer satisfaction and loyalty in car industry of Salem, India and result show service quality influence to customer satisfaction, product quality influence to customer satisfaction and customer satisfaction influence to loyalty. Saidani and Arifin (2012), his research aims to determine the effect of product quality and service quality on customer satisfaction and buying interest in Ranch Market. The result of the research shows that product quality and service quality have an effect on consumer satisfaction and re-buying interest, product quality and service quality influence to consumer satisfaction, product quality and service quality influence to buy and repeat consumer's satisfaction influence to buy interest.

Jaya and Saepudin (2014) analyzed the effect of product quality on the consumer satisfaction and the results showed the quality of the product influence on customer satisfaction at PT. Tang Mas. Kusuma, Suyadi and Abdillah (2014), his research aims to determine the effect of product quality on customer satisfaction and customer loyalty. The results showed that product quality influenced customer satisfaction, customer loyalty behavior, and also showed that customer satisfaction influenced customer loyalty behavior in Indonesian SMEs. Harjati and Venetia (2015) research to analyze the effect of service quality and price perception on customer satisfaction at Tiger Air Mandala airline and the result of the study concluded that service quality and price perception have an effect on customer satisfaction at Tiger Air Mandala. Prayitno (2016) research to prove the perception of price, ease of information search,

and convenience of transaction process to customer satisfaction to batik product online. The results of this study conclude: (1) price perceptions affect customer satisfaction; (2) the convenience of information search affects customer satisfaction; (3) the convenience of the transaction process affect the customer satisfaction. Ganiyu (2017) research aims to see the impact of satisfaction on customer loyalty in the domestic aviation industry of Nigeria with the results of research there is influence between satisfaction with customer loyalty in the domestic aviation industry of Nigeria.

As one of the companies engaged in the agroindustry, namely PT. Rutan located in Jakarta, Indonesia. PT. Rutan always held an evaluation, providing improvements to the tools and machines that do need development in its function. This is to meet consumer expectations to provide convenience, comfort, safety by obtaining effective and efficient results. Then the price is transparent and has been adjusted to the quality of the tool and machine. Consumer perceptions vary by price. PT Rutan always try to set a price that is proportional to the contribution for consumers and customers.

But almost all sales of PT. Rutan in various regions from 2014-2015 has decreased, except for sales in the Southern and Northern parts of West Java. If PT. Rutan did not follow up seriously the problem of sales decline that occurred, this can affect the success of PT. Rutan in the future.

This research is very important related to product quality of PT. Rutan always try to design and develop the product in accordance with the needs of the market today, but the quality of its products is still far behind with the competitors. This allows the decline in sales of products owned by PT. Rutan and related to the perception of the price for the consumer to the quality of the product belongs to PT. Rutan less appropriate with the expectations of consumers. This is because consumers tend to see the price of product quality of competitors who have the physical appearance of products and functions are superior to the products owned by PT. Rutan. This condition causes consumers not satisfied with the quality of products and prices owned by PT. Rutan.

If the quality of the product and the price does not match the benefits of the product to the consumer, it can have an impact on consumer loss and dissatisfaction. In addition, the company also suffered losses that resulted in stockpiling. Given the tight competition if not immediately make improvements and renewal of products with the right management, this will decrease revenue PT. Rutan itself. Consumers will not be interested to buy products at PT. Rutan and customers will not be loyal to switch to other competitors. From the description of the above background, the purpose of this study is to determine: (1) whether product quality affects customer satisfaction PT. Rutan; (2) whether the perception of price influence on customer

satisfaction of PT. Rutan; (3) whether customer satisfaction has an effect on customer loyalty of PT. Rutan.

LITERATURE AND HYPOTHESES DEVELOPMENT

Garvin and Davis (2005) quality is a dynamic condition that deals with products, people or labor, processes and tasks, and environments that meet or exceed the expectations of customers or consumers. Kotler and Keller (2013) products are anything that can be offered to the market to satisfy a desire or need including physical goods, services, experiences, events, people, places, properties, organizations, information and ideas. So the quality of the product is the product in accordance with the hinted or standardized. A product has a quality when it complies with predetermined quality standards.

The quality of the products must be able to meet the good quality standards, especially in the field of agroindustry that leads to create a machine and equipment that professional who has been tested and certified. Consumers will feel interested and satisfied when they want to buy it, comparing with other brands. Customers also feel safe to use it. Consumer needs and expectations is one aspect that is very important in realizing the quality of products that satisfy consumers. Therefore, the importance of managing a strategy that is oriented to the interests of customers by taking into account the components of product quality. This will create a sense of fun that impact on customer satisfaction.

As previous research Jahansahi, *et al.* (2011) the results of his research concluded there is influence between product quality to customer satisfaction, customer satisfaction and loyalty is the most important factor affecting the automotive industry. Likewise research results Shentilkhumar (2012); Saidani and Arifin (2012); Jaya and Saepudin (2014); Kusuma, *et al.* (2014) concluded there is influence of product quality to customer satisfaction. Based on the above literature, the researcher proposed a hypothesis:

H$_1$: Good product quality will increase customer satisfaction.

Perception by Kotler and Keller (2013) is the process by which we choose, organize and translate information inputs to create meaningful world images. Engel, Miniard, and Blackwell (2006) defines pricing as the sum of money (plus some products) required to obtain some combination of products and services. So the price perception is related to how a price information affects the consumer and gives a deep meaning to them. When consumers evaluate and research on the price of a product greatly affects the behavior of consumers themselves (Peter and Olson, 2013). Speaking of the relationship of price perception to customer satisfaction has been very clear relation. Satisfaction will arise if a product has a price that can

provide more benefits than the product usage. If the quality of the product does not meet the needs and wants of consumers resulting in consumers not feel the benefits or even disappointed after the use of these products. The price of a product can be inconsistent with the cost. Customers will feel the loss of a visit to ketidapuasan. On the contrary, if the quality of products that can meet what the needs and desires of consumers. This indicates that a product can work in accordance with its function so that it can be useful in meeting customer needs. Customers will certainly feel happy and satisfied using the product. Furthermore, in previous studies Harjati and Venice (2015); Prayitno (2016) research result proves, there is influence between perception of price to customer satisfaction. Based on the above literature, the researcher proposed a hypothesis:

H_2: The corresponding price perception will increase customer satisfaction.

Kotler (2013) customer satisfaction is the feeling of a person that is the result of a comparison between product performance and consumer expectations. Lovelock (2012) explains satisfaction is an emotional state, their post-purchase reaction can be anger, dissatisfaction, aggravation, neutrality, joy or pleasure. Two companies will probably have the same level of satisfaction, but the relationship with customer survival will be different. To better understand the influence of this satisfaction on the survival of customers, companies must provide innovation that has its own uniqueness from other competitors. The company also needs to evaluate its products that are necessary to improve its quality by prioritizing customer value as its main target. High satisfaction indicates that the customer gets a product out of a product greater than his expectation. The results of the use of products that are able to exceed expectations, raises consumer confidence in the product. This can lead to consumer attitudes in the form of sustainable product purchase, to make it as a customer. This condition makes the customer is not easy to switch to other competitors products because of the feeling of pleasure, satisfaction and the bond of dependence on the product. As previous research Jahansahi, *et al*. (2011); Mohsan, *et al*. (2011); Shentilkhumar (2012); Kusuma, *et al*. (2014) and Ganiyu (2017) the results of his research concluded that, there is influence between satisfaction with customer loyalty. Based on the above literature, the researcher proposed a hypothesis:

H_3: High customer satisfaction will increase customer loyalty.
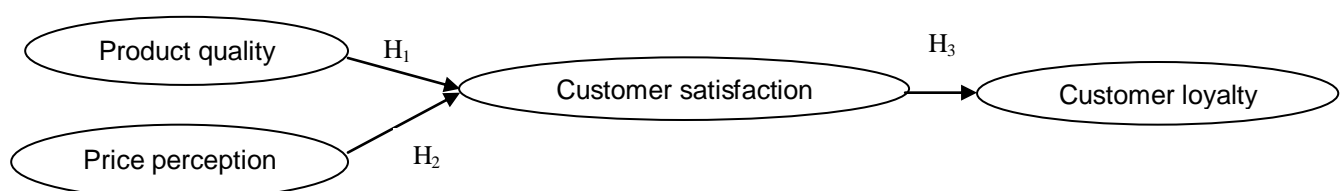

Figure 1 Proposed Research Model

RESEARCH METHOD

This research involves farmers residing in Banten Province, Indonesia. Aspects of this study include: product quality, price perception, customer satisfaction and customer loyalty. Study time in October 2017 by survey method. This research is descriptive. Data collection using questionnaires on farmers located in Banten Province, Indonesia. Methods of data analysis in this study using Structural Equation Modeling (SEM). Hair, Anderson, Tatham and Black (2010) should be at least 5 times the number of questionnaires so that in this study the number of operational questionnaires using as many as thirty three, so the sample in this study a total of 165 (33x5) respondents. The sampling method uses random samples involving 165 respondents from Banten farmers from various groups including: age, monthly income, final education, employment, many agricultural tools/machines used, from which to know the tools/machines of Agrindo and how many times to replace agricultural tools/machines, with four variables of product quality, price, customer satisfaction and customer loyalty. The scale of Likert measurement with a scale of one to five (Sugiyono, 2012) to the scale of the questionnaire in this study. The results of the analysis then giving interpretation and the last step to determine the conclusions and suggestions.

In this study there are three independent variables are product quality, price perception and customer satisfaction and one dependent variable is customer loyalty. Measurement of product quality variables using the theory of Stevenson (2005), measurement of price perception variable using the theory of Cretue and Brodie (2005) in Handini (2016), measurement of customer satisfaction variables using theory from Crosby, *et al.* (1990) and Kim and Cha (2002) in the shah (2014) and on the measurement of customer loyalty variables by using the theories of Lin and Ding (2006) in the Syah (2014). This research uses confirmatory factor analysis, by doing validity test by looking at Kaiser-Msyer-Olkin measure of sampling (KMO) and measure of sampling adequacy (MSA).

In this test the value of data processing must be greater than 0,500, which means that factor analysis is appropriate or appropriate to be used, and can be processed further (Doll, Xia and Torkzadeh, 1994). The product quality scale consists of 15 questions and is not all valid because the matrix component is more than 1 ie at KP8 (0.824), KP10 (0.776) and KP11 (0.813), the price perception scale consists of 6 questions and they are all valid because the value (MSA> 0.500), the customer satisfaction scale consists of 3 questions and all are valid due to the value (MSA> 0.500), while the customer loyalty scale consists of 9 questions and all are valid because of the value (MSA> 0.500). Reliability test with the value of alpha cronbach> 0.5 which means reliable (Sugiyono, 2012), so it can be said that all indicators of the variables can be said to be trusted as a means of data collection in research.

RESULTS

The results of the analysis, in conclusion of suitability of all models meet the goodness of fit Chi Square, RMSEA, ECVI, AIC and CAIC, Fit Index and Goodness of Fit. There is a marginal fit result in Critical N. Furthermore, this research produce path diagram as follows:
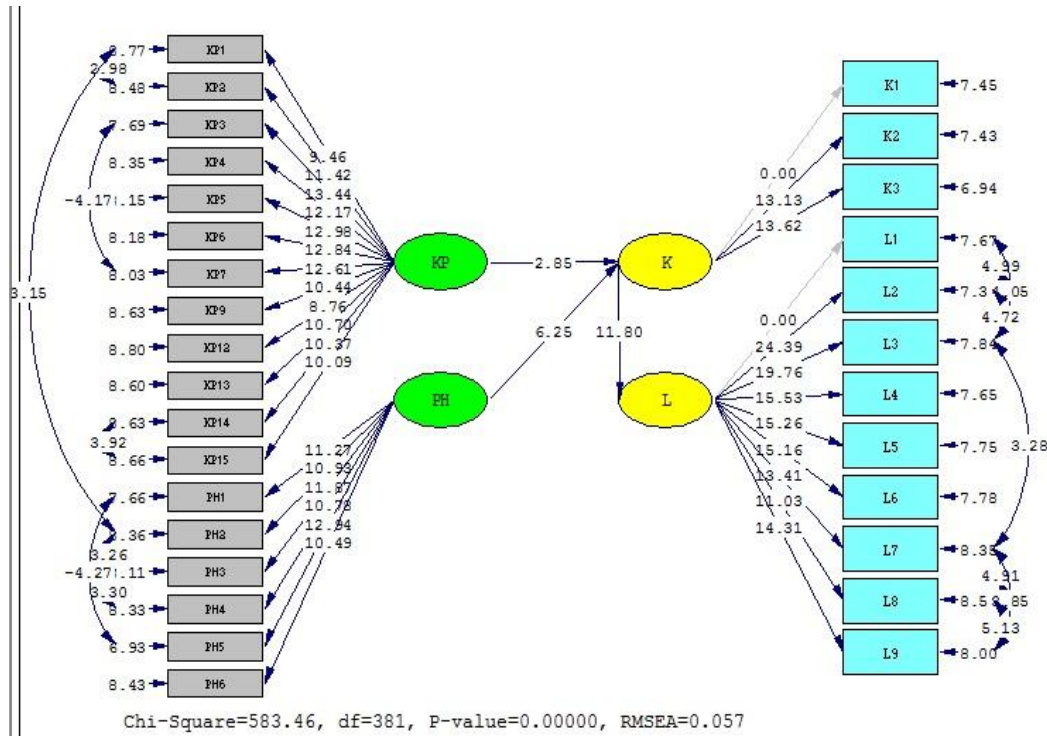

Figure 2 Path Diagram T-Value

Based on above Figure 2 Path Diagram T-Value which are the hypothesis on this research, presented in a structural equation as follows:

Table 1 Hypothesis Testing of Research Model

Hypothesis	Hypothesis statement	*T-Value*	Explanation
H_1	Good product quality will increase customer satisfaction.	2.85	Data support Hypothesis
H_2	The corresponding price perception will increase customer satisfaction.	6.25	Data support Hypothesis
H_3	High customer satisfaction will increase customer loyalty.	11.80	Data support Hypothesis

DISCUSSION

The results of the first hypothesis testing (H$_1$), that the analysis results support H$_1$ hypothesis that good product quality will increase customer satisfaction (Table 1). From the results of this test shows that product quality affects the satisfaction. Can be seen that the quality of hand tractor products PT. Rutan able to meet market demand or expectations from consumers so that it can lead to satisfaction. Hand tractor should have an attractive design in terms of color, shape and tidiness. This is to create an interesting first impression and cause a sense of satisfaction even if only in terms of physical products. A producer has to think in detail about his physical goods to the basic functions of his product, to think about the value and customer satisfaction. The advantages of the design is not the most important part, but the main function of the product must be able to work in accordance with its function. Consumers will feel happy and satisfied when using it because it can save time wasted and get maximum results. Not only that, a product that has additional functions other than the main function of a product will get additional value to its customers. Lewis and Booms (2007) suggested product quality as a measure of how well the product quality matches customer expectations, the quality of the product can be realized through the fulfillment and desire of the customer and the accuracy of delivery to compensate for customer expectations. Furthermore, the results of this study are in line with the results of researchers Jahansahi, *et al*. (2011); Shentilkhumar (2012); Saidani and Arifin (2012); Jaya and Saepudin (2014); Kusuma, et al. (2014) concluded that there is an effect of product quality on customer satisfaction.

Result of testing of second hypothesis (H$_2$), findings that result of analysis support H$_2$ hypothesis that perception of appropriate price will increase customer satisfaction (Table 1). This shows the consumer price perception of hand tractor PT. Rutan is proportional to product quality. PT. Rutan as a producer is good enough in determining a price that can provide benefits for the producers themselves. Then the pricing does not give a loss to the customer or the customer. Pricing on the hand tractor provides consumer satisfaction and can lead to psychological and functional benefits so that consumers assume that the cost is proportional to product quality. The results of this study are in line with previous research, Prayitno (2016); Harjati and Venice (2015) which states that price perceptions affect satisfaction. Based on the above analysis there is a conclusion that the better the perception of the price created to the benefits that will be received by consumers and customers will increase satisfaction.

In the result of the third hypothesis testing (H$_3$), there is a finding that the result of analysis support H$_3$ hypothesis that high customer satisfaction will increase customer loyalty (Table 1). This indicates satisfied consumer means feel happy, comfortable to the product of PT. Rutan who finally consumers do not hesitate to prioritize PT products. Rutan as the main

choice. This can be the conclusion of consumer loyalty attitude. The form of loyalty from consumers can be a purchase of PT products. Rutan on an ongoing basis. This condition makes the consumer is not easy to switch to other competitors because of the sense of satisfaction and the bond of dependence on product quality PT. Rutan. The existence of bonds of dependence and satisfaction on the quality of products of PT. Rutan allows customers to tell their good experiences after using PT products. Rutan to the people closest to him. This can indirectly attract other new customers. Conversely, if consumers are not satisfied with the quality of the product, resulting in consumers turned to other agro-industry companies that lead to disloyalty. The results of this study are in line with previous research, Mohsan, *et al.* (2011); Jahansahi*, et al.* (2011); Shentilkhumar (2012); Kusuma, *et al.* (2014); Ganiyu (2017) which states, satisfaction affect loyalty. Based on the results of the analysis, there is a conclusion that the higher the satisfaction will increase customer loyalty.

MANAGERIAL IMPLICATIONS

Managerial implication in this research that leadership need to support, and occasionally monitor directly the process of production to avoid error. In addition to monitoring, evaluation of the product becomes a requirement prior to distribution. Production results should be standard and do not experience physical disability or basic function of the product. In this case physical quality plays an important role to be a concern in order to attract the attention of new consumers and companies need to make new innovations to the hand tractor by adding other features to help the basic function of the product. The existence of new features that can support the main function of the product work to facilitate consumers in doing the job. Its pricey pricing implications to attract consumers and customers, companies can use pricing strategies. The pricing strategy will be effective if the application is correct and in accordance with product characteristics, product type and marketing environment, such as competitive situation. How to determine the right price for the product, of course the price in accordance with the quality of a product, and the price can give satisfaction to the consumer.

CONCLUSION

The conclusion of this research are: (1) there is influence of product quality to customer satisfaction at PT. Rutan, so good product quality will increase customer satisfaction; (2) there is influence perception of customer satisfaction price at PT. Rutan, so that the corresponding price perception will increase customer satisfaction; (3) there is influence of customer satisfaction to customer loyalty at PT. Rutan, so high customer satisfaction will increase customer loyalty.

LIMITATIONS OF RESEARCH

Research refers to some weaknesses in this study. Some limitations that exist in this research that this research only research at one agroindustry company that is PT. Rutan with research subjects of farmers residing in Banten Province, Indonesia. In addition, the limitations of variables in this study only discuss product quality, price perceptions, customer satisfaction and loyalty. Furthermore, the possibility of the respondents did not fill the actual or just fill based on ideal conditions and not the actual conditions that are happening.

SUGGESTIONS FOR FURTHER RESEARCH

Suggestions that can be given to maintain and even increase customer loyalty of PT. Rutan namely PT. Rutan can improve the overall product quality, among others by improving the performance of human resources, service, resilience, reliability, product characteristics, and compliance with specifications. PT. Rutan advised to be more active in promoting the product, so as to increase purchases for consumers, and of course adjust the price of products in accordance with the benefits obtained by consumers. This will make the relationship of PT. Rutan with consumers will be stronger. Future research development can add other variables that affect customer satisfaction and loyalty. Subsequent research may also examine on other objects or products.

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