TENDING RELATIONSHIP QUALITY OF YOUNG MIDDLE CLASS

An Empirical Study on My Starbucks Reward Members In Semarang

BACHELOR THESIS

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Written by:

RIZKY AKITA
NIM. C2A008134

FACULTY OF ECONOMIC AND BUSSINESS
DIPONEGORO UNIVERSITY
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APPROVAL

Author : Rizky Akita

Student ID Number : C2A008134

Faculty/Major : Economics and Business/Management

Title: : **TENDING RELATIONSHIP QUALITY OF YOUNG MIDDLE CLASS: An empirical study on My Starbucks Reward Members In Semarang**

Supervisor : Rizal Hari Magnadi, SE., MM

Semarang, August 21st 2015

Bachelor Thesis Supervisor,

(Rizal Hari Magnadi, SE., MM)

NIP. 19840430 200912 1 006

APPROVAL

Author   : Rizky Akita

Student ID Number   : C2A008134

Faculty/Major   : Economics and Business/Management

Title: : **TENDING RELATIONSHIP QUALITY OF YOUNG MIDDLE CLASS: An empirical study on My Starbucks Reward**

Has passed the bachelor thesis defense on 2015

Board of Examiners

1.   Rizal Hari Magnadi, SE., MM   (...)

2.   Erman Denny Arfianto, S.E, M.M   (...)

3.   Mirwan Surya Perdhana, S.E., M.M, Ph.D   (...)

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I hereby declare that this submission is my own work and tot he best of my knowledge it contains no materials previously published or written by another person, or substantial proportions of material which have been accepted for the award of any other degree or diploma at Diponegoro University or any other educational institution, except where due acknowledgement is made in the thesis. Any contributions made to the research by others, with whom I have worked at Diponegoro University or elsewhere, is explicitly acknowledged in the thesis.

I also declare that the intellectual content of this thesis is the product of my own work, except to the extent that assistance from others in the project's design and conceptions or in style, presentation and linguistic expression is acknowledged.

Semarang, August 21st 2015

Sincerely,

(Rizky Akita)

NIM. C2A008134

Remember Me and I will remember you – Qur'an 2:152

Unjust law is no law at all. – St. Augustine

Suffering is gift. In it is hidden mercy. – Rumi

Permanence, perseverance and persistence in spite of all obstacles, discouragements, and impossibilities: It is this, that in all things distinguishes the strong sould from the weak. – Thomas Carlyle

Don't depend too much on anyone in this world because even your own shadow leaves you when you are in darkness. – Ibn Taymiyyah

That's the thing about books. They let you travel without moving your feet – Jhumpa Lahiri, The Namesake

Pet names are a persistent remnant of childhood, a reminder that life is not always so serious, so formal, so complicated. They are a reminder, too, that one is not all things to all people. – Jhumpa Lahiri, The Namesake

We do what we have to do in order to do what we want to do. – James Farmer Jr, The Great Debaters

PREFACE

Praise be Allah SWT, my only and true savior and strength that always graces me with too many blessings to count, walk with me every single day, giving me the lights at the end of tunnel in the darkest time. It's only to His grace that this bachelor thesis titled "**Tending the Relationship Quality of Young Middle Class: An Empirical Study on My Starbucks Reward Members in Semarang**" can be completed.

Writing and finishing this final paper has taught ne a lot of things. Although it was a really challenging and stressful experience, this process helps me to find the real meaning behind the words of perseverance, humility, hard work, and dedication. It also helps me broaden my horizon and improves my perspective of marketing and consumer behavior, fields I am very interested about.

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Despite of my best effort and hard work, I am very aware that this thesis is still far from perfection. Hopefully, there will be some critics and suggestions to make this thesis better. Finally, I sincerely hope this thesis will bring benefit for the society.

ABSTRACT

This study aims to examine the effect of perceived benefit in My Starbucks Reward loyalty program in Semarang. Research design used for this study is a modification of previous research about effect of loyalty program in France which was conducted by Mimouni-Chaabane and Volle (2010). The model consists of four independent variables which are monetary benefit, exploratory benefit, social benefit, and ego pleasure. This research also used perceived relationship investment as intervening variable, whereas relationship quality is used as dependent variable.

Primary data were collected by using online questionnaire from 60 respondents whom were members of My Starbucks Card and had used the card as payment method in their patron to Starbucks Semarang store. Path analysis method to aalyze the model. The result shows that all independent variables, except Monetary Benefit, have influence upon Perceived Investment Variable. Perceived. Variable Perceived Relationship Investment is found to have positive influence upon relationship quality and to have role as intervening variable.

Keywords: *Loyalty Program, My Starbucks Reward, Starbucks, Monetary Benefit, Exploratory Benefit, Social Benefit, Ego Pleasure, Perceived Relationship Investment, Relationship Quality.*

ABSTRAK

Penelitian ini bertujuan untuk mengetahui pengaruh manfaat yang dirasakan from program loyalitas My Starbucks Rewards di Semarang. Rancangan penelitian di penelitian ini adalah modifikasi from penelitian terdahulu mengenai pengaruh program loyalitas di Perancis oleh Mimouni-Chaabane dan Volle (2010). Model ini terdiri from empat variabel independen, yaitu keuntungan moneter, keuntungan eksplorasi, keuntungan sosial, dan kesenangan pribadi. Penelitian ini juga menggunakan *perceived relationship investment* sebagai variable intervening dan kualitas hubungan sebagai variabel dependen.

Data primer dikumpulkan melalui kuesioner online from 60 responden yang merupakan anggota from My Starbucks Reward dan yang telah menggunakan kartu tersebut sebagai alat pembayaran dalam kunjungan mereka ke *outlet* Starbucks di Semarang. Penelitian ini menggunakan analisis jalur untuk menganalisis model yang diajukan. Hasil analisis menunjukkan bahwa semua variable independen, terkecuali variable Monetary Benefit, berpengaruh positif terhadap Perceived Relationship Investment. Sementara itu, Perceived Relationship Investment memiliki pengaruh positif terhadap relationship quality serta berperan sebagai variable intervening.

Kata kunci: Program Loyalitas, *My Starbucks Reward*, Starbucks, Keuntungan Moneter, Keuntungan Eksplorasi, Keuntungan Sosial, Kesenangan Pribadi, *Perceived Relatiopnship Investment,* Kualitas Hubungan

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INTRODUCTION

1.1   Research Background

This study is a replication of prior study conducted by Mimouni-Chaabane and Volle (2010) on the impact of perceived benefits of loyalty program towards relationship quality with Perceived Relationship Investment as intervening variable. Mimouni-Chaabane and Volle (2010) conducted their study on 367 French members of various loyalty programs, ranging from food, beauty, clothing, cultural goods, and other industries. This study aims to capture how Indonesian members of loyalty programs perceive benefits offered by such programs.

In an article published in December 2010, Mark Goodin, President of Aaron-Abrams Field Support Services, writes that "*Simply providing a cost that is similar to that of your competition does not set you apart as an authority*". Most organizations today can mass customize products and services and make it very difficult for customers to distinguish between their product and/or service and that of a competitor (Bose & Rao, 2011). Consequently, it is of essential importance and necessity for companies to formulate marketing strategies and tactics to prevent them from switching over to competing goods and services.

To answer those challenges, we see companies shifting its focus from simply making good products to making products and services that connect to the customers. Customer Relationship Management (CRM) first emerged in 1990s as

a business strategy and then was developed to screen and maintain the most valuable customer relationships (Tavana, Fili, Tohidy, Vaghari & Kakouie, 2013). Recent developments in information technology, such as the availability of tool to track and record various customers' purchasing behaviors, have laid foundation for marketing managers to construct a new generation of CRM tactics, one of it being the loyalty program (Uncles, Dowling & Hammond, 2002).

One of the most interesting loyalty program case to study on, especially in retail industry, is that of coffee shops. As consumers' lifestyle changes, the way they consume coffee changes as well. A cup of coffee is no longer a mere beverage, but also an embodiment of a certain value or lifestyle they subscribe to. Responding to this shift, coffee retailers started to set themselves apart from competitors by offering more value for every cup of coffee the consumers purchase with the help of loyalty program. Starbucks and Dunkin Donuts, two leading global coffee retailers, which hold over half the coffee market in US, are currently in a battle to win the heart of coffee drinkers through not only their own unique taste but also from loyalty program.

Historically, competition between Starbucks and Dunkin Donuts are not always so intense. Starbucks is orginally a coffee retailer whereas Dunkin Donuts has only started putting more emphasis on its coffee products in 1990s' and it keeps on creeping onto the same ground with Starbucks in coffee industry ever since. Although originally Starbucks and Dunkin Donuts have different socioeconomics customers basis, but lately each of them are trying to penetrate others' market basis. The competition between these two companies is even more apparent as Dunkin

Donuts launched its loyalty program, DD Perks, that is strikingly similar to that of

Starbucks. The result of this competition is yet to be seen, but at least as of today it

can be concluded that Starbucks takes the lead with 4 billions cup sold annualy, as

opposed to Dunkin Donuts' 1.8 billions sold cup per year.

Figure 1.1
Starbucks Logo From Time to Time

1971 – 1987	1987 - 1992
1992 – 2011	2011 - beyond

Source: http://www.brandautopsy.com

Established in 1971 with a single store in Seatlle's Pike Place Market,

Starbucks dominates global coffee market with its mission to inspire and nurture

the human spirit – one person, one cup and one neighborhood at a time. As of

December 28, 2014, Starbucks owns and operates 21,878 retail stores in 66

countries, from Argentina, Colombia, and Puerto Rico in Latin American region to Philliphines, Thailand, and Indonesia in Asian region. Started humbly with one store, Starbucks is now a global brand that is widely known as a coffee shop that change the way people enjoy a cup of coffee.

Starbucks first launched its My Starbucks Rewards program in April of 2008, and its number of participants quickly grew to over 16 million members. The My Starbucks Reward is designed to be integrated with Starbucks Card, first launched in 2001, allowing the registered card holder to enjoy rewards and perks offered by Starbucks. To further enhance its loyalty program, Starbucks launched its mobile card application in 2011, allowing customers to pay, check their balance and add funds, browse popular menu items, send gift cards, and get free songs without having to physically carry their Starbucks card. Though the perks and rewards offered are varied between countries, in general a registered customer can enjoy the following benefits:

Table 1.1

Benefit for My Starbucks Reward Members

Requirement	Reward
Purchasing 8 packs of VIA (any size)	One free pack of VIA
Purchasing 8 pack of wholebean @250gr	One free pack of wholebean (250gr)
Purchasing 10 handmade beverages of any size	One free grande sized beverage
Purchasing any cake/food on birthday	One free grande sized beverage

Source: www.starbucks.co.id

Through its relationship with PT Mitra Adi Perkasa, one of the most renowned department store and branded goods companies in Indonesia, Starbucks

penetrated Indonesian market in 2002. The end of 2014 is a historical day for Starbucks Indonesia as it opened its 200th store in Indonesia, just 12 years since it first entered the market. With the market growth consistent at two digits level for three consecutive years, while still relatively small in terms of Starbucks' global presence, Indonesia continues to be an increasingly important market for the company. The rapid growth of Starbucks Indonesia did not go without attention from business and marketing analysts. In the Nielsen Company and Campaign Asia's Top 1000 Brands report 2013, Starbucks Indonesia had been ranked the no. 10 brand in Indonesia. Being the only food and beverage brand to make it into the list, Starbucks Indonesia was practically the most recognized F&B brand in Indonesia.

However, there are challenges that need to be solved for Starbucks Indonesia to continue growing. Despite the consistently high growth rate, Starbucks Indonesia transaction volume is around 30% lower than that of Starbucks Singapore. Starbucks Indonesia also faces challenge from the flourishing local coffee shop in the country. Although in the last 4 years Indonesian coffee consumption per capita rises from 600 grams to 1,3 kg per year, the rise is also followed by the number of coffee shop in the country. Irvan Helmi, Chief of Indonesia Speciality Coffee Committee, reveals that there are 200 registered coffee entrepreneurs as of 2014, a 100% increase from last year number. Hence, Starbucks Indonesia competitors do not only come in the form of competing global coffee shop chain but also from independet coffee shops selling specialized coffee. These competitors pose a serious threat to Starbucks Indonesia image as it is prone to be

seen as a generic coffee shop, as opposed to the unique, more personalized independent local coffee shops.

To deal with fiercer competition, Starbucks Indonesia has two main strategies to attract new customers and retain the old ones. According to Anthony Cottan, the COO of Starbucks Indonesia, the strategies are: (1) finding strategic location for the new stores; and (2) establishing Starbucks Card. The former strategy is applied by establishing new stores in a location that seemingly not lucrative but is an activity center such as hospital and university. Anthony Cottan also has vision to open a community store where Starbucks Indonesia will give a portion of its profit to the community.

Figure 1.2

Physical form of My Starbucks Reward Card

Source: http://www.sbuxcard.com

The latter strategy of establishing Starbucks card is meant to attract new

customers and to increase the relationship quality with the old ones by giving reward as added value for the customers. Since its first Indonesian launching in 2011, My Starbucks Reward has been being successful in attracting customers to join into the program. As of June, 2015, Starbucks Indonesia has acquired 500,000

card holders and is planning to double the number up to 1 million users. Despite the seemingly smooth sail, Starbucks Indonesia nevertheless should not let is guard down as its loyalty program is not immune to the risk that threatens the efficacy of the loyalty program.

Colloquy Loyalty Census 2013 reveals that, while the number of loyalty program grew by more than 25% in the past two years, but the member active participation level have dropped by 4.3%. Thus, it could be inferred that the swift growth of Starbucks Indonesia loyalty program does not necessarily mean the member is actively participate in the scheme. On the importance of member's participation level, Yi and Jeon (2003) found that "... processes underlying the effects of the loyalty program on customer loyalty are different depending on involvement." Furthermore, although Bolton *et.al* (2000) found that loyalty program member of a particular company showed a more favorable attitude toward the company over its competitor, the exact direction of causality remains unclear.

Members' participation can not be always translated into members' engagement in loyalty program, hence companies need to assess if benefits entailed with program are perceived to be important by the customers. This is important because customers will more likely willing to engage when they find the benefits to be beneficial for them. The question of how effective a loyalty program in attracting new customers and maintaining existing customers, companies need to refer to marketing strategic theories, namely market segmentation and product positioning. Market segmentation is a widely used strategy to subdivide a market into distinct categories of customers based on their unique needs and buying habits

whereas product positioning is used to identify target customers that become the focus in deciding how to meet the needs and wants of that particular group of customers (David, 2011).

However, the fact that Starbucks loyalty program is a relatively new program for Indonesian customers complicates the effort to find out if it, indeed, motivates customer to be loyal or to stay loyal with the brand. Bose and Rao (2011) found that the effect of loyalty program is different in each country, presumably due to difference in economic, social, and knowledge level. Hence, there is a need to assess how Starbucks Indonesia customers perceive Starbucks Indonesia loyalty program. Upon those reasons, this research tries to analyze the customers perceived benefits on Starbucks Indonesia loyalty program and how it affects their decision to stay loyal as well as to determine which feature of Starbucks Indonesia loyalty program that has the most significant value to customers.

1.2   Problem Statement and Research Questions

The My Starbucks Reward has been hailed by many as one of the most successful loyalty program in the world. Since its first inception, My Starbucks Reward has been evolving by adding several features and changing its terms and condition. Although Starbucks receives generally favorable reception for its loyalty program, however a number of supposedly loyal customers have decided to discard Starbucks card due to allegedly unpleasant changes of program's term and condition.

Additionally, although extensive body of research on loyalty programs have been widely known and established, but specific research in the context of

Indonesian market is still scarce. Due to differences in cultural, characteristic, socio-economic, and market condition, a study, it is natural that the needs to study the effect of loyalty program in lifestyle company and in the context of Indonesian market is arised.

The following are research questions which will be studied in this research:

1. How does Monetary Benefit of My Starbucks Reward influence customer's level of Perceived Relationship Investment?

2. How does Monetary Benefit of My Starbucks Reward influence customer's relationship quality with Starbucks Indonesia?

3. How does Exploratory Benefit of My Starbucks Reward influence customer's level of Perceived Relationship Investment?

4. How does Exploratory Benefit of My Starbucks Reward influence influence customer's relationship quality with Starbucks Indonesia?

5. How does Social Benefit of My Starbucks Reward influence customer's level of Perceived Relationship Investment?

6. How does Social Benefit of My Starbucks Reward influence customer's relationship quality with Starbucks Indonesia?

7. How does Ego Pleasure derived from My Starbucks Reward membership influence customer's level of Perceived Relationship Investment?

8. How does Ego Pleasure derived from My Starbucks Reward membership influence customer's relationship quality with Starbucks Indonesia?

9. Does Perceived Relationship Investment act as mediator in the relationship between perceived benefits of My Starbucks Reward with customer's relationship quality?

10. How does customer's level of Perceived Relationship Quality influence customer's relationship quality with Starbucks Indonesia?

1.3. Objective and Research Benefit

1.3.1. Research Objectives

The objectives of this study are:

1. To analyze customers' perceived benefit of My Starbucks Reward and how it influences their perceptions of relationship investment.

2. To analyze if Perceived Relationship Investment is the intervening variable between perceived benefit of My Starbucks Reward and relationship quality.

3. To analyze how My Starbucks Reward members' perception of relationship investment affect relationship quality between customers and company.

1.3.2. Research Benefits

1. Benefit for the writer

The writer would be able to find out how customer perceive a loyalty program and what unique experience they go through as a member of loyalty program. Furthermore, writer would also able to find out how customers that participate in a particular brand's loyalty program make their decision to stay loyal or cancel. In general, this research helps the writer to expand and apply writer's knowledge on marketing, specifically ones that are related the influence of

loyalty program membership toward customers attitude on loyalty program and the brand.

2. Benefit for Marketer and Company

    This study provides an insight and in-depth information about the efficacy of loyalty program in forming customers perceived benefit and attracting as well as maintaining new and more mature customers. Those informations supposedly would be able to help marketers and company to design a more customer-oriented loyalty program, one that would fit more to customers needs and desires.

1.4.   Thesis Outline

Outline of this bachelor thesis can be described as follows:

* Chapter I Introduction

Chapter I provides the research's background, problem discussion, research questions, research purposes, and benefits.

* Chapter II Literature Review

Chapter II consists of underlying theories and reviews of the previous studies and researches that closely relates to the subject of this study. Additionally, it also contains theoritical framework of the study as well as the hypotheses.

* Chapter III Research Methodology

Chapter III describes the research methods that is employed in this study. This chapter also includes variables' definition and operatinal measurement of the

variables, population and sampling frame, data type and data score along with description about analysis method used in this research.

- Chapter IV Result and Data Analysis

  Chapter IV presents sample overviews, data analysis, and discussion of the research's hypotheses.

- Chapter V Conclusion

  Chapter V provides the conclusion and implication drawn from the research. It also includes the research limitation and suggestions for future research.