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# **The Influence of Facility, Discounts, and Word of Mouth to Purchasing Decision and Customer Loyalty (Study on Customer of NAV Family Karaoke Dr. Soetomo Surabaya, Branch)**

Etika Murti Purbasari<sup>1</sup>  
Narotama University, Surabaya, Indonesia  
[purbasaritika@gmail.com](mailto:purbasaritika@gmail.com)

**Abstract.** This study aims to analyze the influence of marketing including facility, discount, and word of mouth to customer purchasing decision at NAV Family Karaoke Dr. Soetomo Surabaya. The type of research is quantitative. The research data is primary data obtained from the sample with the number of 140 respondents who member in NAV Family Karaoke Dr. Soetomo Surabaya. Sampling technique was done by using questionnaires. The data analysis used is Partial Least Square (PLS). Data processed using SmartPLS 3. The results showed that facility, discount, and word of mouth were affected significant simultaneously and partially to purchasing decision and customer loyalty. Limitation in the exploration of independent variables which affect the level of consumer purchasing decisions for karaoke. In addition, the use of questionnaires as the technique of data collection occasionally provides inaccurate data to researchers.

**Keywords :** Facility, Discount, Word of Mouth, Purchase Decision, Customer Loyalty.

## **1 INTRODUCTION**

Karaoke, as one kind of public entertainment facilities in Indonesia, has massively developed in recent years. Performing karaoke itself, which involves practice of singing using mini sound system in a booth for certain number of people, is evidently able to be a stress reliever or leisure time activity for the customers. One notable vendor which survived in the rapid competition of karaoke business is NAV Family Karaoke Dr. Soetomo Surabaya. Since its establishment in 2000, PT NAV Jaya Mandiri has more than 100 branch outlets throughout Indonesia. However, it is the branch of NAV Karaoke Family Dr. Soetomo Surabaya which experiences frequent fluctuations in the number of customer visits. According to the data gained, there was a significant decline in the number of customer visits in 2016 as much as 2.026 customers. The decline was necessarily due to the rapid competition of karaoke vendors in Surabaya.

In order to maintain customer loyalty, the staffs of NAV Family Karaoke Dr. Soetomo Surabaya have to improve the quality of their branch including updating facilities as well as providing various discount programs for customers. The bigger competition in karaoke business, the more effort should be taken by vendors to maintain the business and their customer loyalty. Therefore, there should always be a strategy to improve product and service quality. However, such improvement of quality as updating facilities and providing various discount programs for customers is apparently not enough to increasing customer visits, since purchasing decision of karaoke services is also influenced by friend/family recommendation or word of mouth. The word of mouth is proved to be highly effective to attract new customers to come since recommendation from trustworthy person is considered more reliable than the commercial advertising distributed. It is expected that the improvement in supporting facilities, attractive discount program offered, and strong word of mouth circulating in the community can increase customers' purchasing decisions in NAV Karaoke Family Dr. Soetomo Surabaya.

## 2 LITERATURE REVIEW

### 2.1 Facilities (X1)

According to Sulastiyono (2011: 98), facilities are the provision of physical equipment in order to provide convenience for guests in carrying out actions or activities so that their needs can be fulfilled. Facilities are pre-existed physical resources which support the existence of either commodity or service business, therefore many facilities aspects must be considered by owners in running their business starting from facilities' completeness, attractiveness of interior and exterior design, to facilities' hygiene (Tjiptono, 1997). Empirical studies show that consumers consider the availability of facilities in making purchasing decisions (Lemploy, et al, 2015). Moreover, availability of facilities has impact on customer satisfaction and customer loyalty (Nurcahyo, 2007).

Karaoke is one of public entertainment which has significantly developed in recent years. There is a tight business competition in this field, characterized by the emergence of many karaoke vendors. Thus, the karaoke business owners are required to be more creative in providing best entertainment service including providing adequate facilities and infrastructures, as well as a great strategy in improving service quality to maintain customer loyalty. This study explores the effect of facilities variables on purchasing decision and customer loyalty, using facilities indicators as follow: the completeness, the neatness and hygiene, the pertinence and display, and the convenience (ease of use) of the facilities provided. (Lalu, 2003)

**Hypothesis 1:** Facilities have a significant effect on purchasing decisions.

The better the facilities available, the better the purchasing decision made by customers, which means that if there are better facilities provided by the vendor, there will be higher interest of customers in making purchases. This is harmonious with the opinion of (Kurniawan, 2003) which state that facility have significant effect to decision using a product or service.

**Hypothesis 2:** Facilities have a significant effect on customer loyalty.

Provision of facilities which suit customer expectations will escalate the level of customer loyalty, means that the better the facilities provided, the higher the customer loyalty to the vendor. This is harmonious with the opinion of Raharjani (2005) which states that if a service company has adequate facilities which can facilitate customers and make them comfortable and satisfied, it surely can make loyal customers coming with repeated purchases.

### 2.2 Discounts (X2)

Discounts are attractive price cut so the new price given is lower than the general price (Machfoedz, 2005), given by sellers to buyers in recognition of certain activities (Malau, 2017). The purpose of sellers in giving discounts for buyers, among others are encouraging buyers to buy more and more so that the company's sales could be increased, and also attracting new potential buyers and maintaining customer loyalty so that they would be survived in the tight business competition. The discounted price given to customers is a program with the expectation of greater purchases and timely payments (Alma, 2000). There are several reasons for a company in making discounts, such as: excess of production capacity, declining sales due to increasingly intense competition, and market demand of lower prices (Saladin, 2003). Discounts indeed play a role in customer consideration in making purchasing decisions (Indri, 2018).

This study examines the role of discounts on purchasing decisions through indicators as follow: attractiveness of discount programs, accuracy of discount programs in influencing customers, and frequency of discount programs (Astuti, 2011).

**Hypothesis 3:** Discounts have a significant effect on purchasing decisions.

The more attractive the discount programs given, the more impactful it will be to the purchasing decisions, means that the more appealing the discounts offered by the vendor, the higher the customers' interest in making purchasing decisions.

**Hypothesis 4:** Discounts have a significant effect on customer loyalty

Attractive discount programs given to customers will surely impact the level of customer loyalty, means that the more attractive the discount programs offered by the vendor, the higher the loyalty level given by customers to the vendor.

### **2.3 Word of Mouth (X3)**

Definition of word of mouth (according to Kotler and Keller, 2009) is a communication process in the form of giving recommendations of a product or service both individually and in groups which aims to provide information personally. Word of mouth communication is a special characteristic of service providing business such as karaoke. Customers often pay attention to the delivery of services and then share their experiences with other potential customers (Hurayati, 2005). Word of mouth is very beneficial for business since it can save marketing costs. This way of how people talk is proved to be highly effective to attract new customers to come since recommendation from trustworthy person is considered more reliable than the commercial advertising distributed. Word of mouth is a conversation phenomenon from one individual to another or a chain communication that quickly spreads by mouth in the context of marketing (Tjiptono, 2006). Some researchers found that word of mouth had a significant effect on the making of purchasing decisions (Gandha.et.al. 2017; Catur.et.al, 2014; and Zamil, 2011), and also had an impact on customer satisfaction (Gandha.et.al. 2017). This study uses word of mouth indicators revealed by Mitch (2005), such as: discussing, recommending, and encouraging.

**Hypothesis 5:** Word of mouth has a significant effect on purchasing decisions.

The more often word of mouth (WOM) is used in daily life, the higher the opportunity for customers to make purchasing decisions, means that the more often word of mouth (WOM) circulates within the customers and their relatives, the more it leads to customers decisions to purchase. This statement is supported by the opinion of Shimp (2003: 374) which states that as long as the belief in a product strengthens (in positive way), it will lead to a decision to purchase the product.

**Hypothesis 6:** Word of mouth has a significant effect on customer loyalty.

The higher the word of mouth spreaded in community, the higher the level of trust or loyalty built within the customers, means that the more frequent positive recommendations by word of mouth circulated within the customers and their relatives (family, friends, coworkers), the higher the loyalty built by the customers.

### **2.4 Purchasing Decisions**

Purchasing decisions are a process of consumer behavior, which occurs when consumers want to meet their needs or desires. According to Kotler and Armstrong (in Shandy, 2015), purchasing decisions are a stage of decision process made by consumers in buying a product/service. The purchasing process itself is a way for consumers to fulfill their needs and desires. There are two stimulations that affect consumer purchasing decisions, namely marketing stimulation such as: product, price, distribution and promotion; and other stimulations such as economical, technological, and cultural influences (Kotler, 2000). The stages that consumer goes through before making a choice of certain product/service include some process such as: problem recognition (knowing what to buy/what is needed), information seeking, evaluating alternatives, and making purchasing decisions. On the first stages of problem recognition, consumers realized that they need to buy a specific thing they needed whether it is a product or service. These needs later can arised due to some internal and external stimulations and may lead to second stage of information seeking. There are several process of seeking information about what to buy done by consumers, including: remembering products that they ever heard or known; actively asking for products information to family/friends or looking up in mass media such as radio, newspapers, magazines, tv; and visiting the nearby stores to look around products. Further, in the third stage, consumers may evaluate alternatives: they compare two or more products with some considerations and preferences of the prices, brands, or other comparative aspects. After all, in the final stage of purchasing decision, consumers came into conclusion of what to buy: they made choice over a certain product. Indicators of purchasing decisions are as follow: consistency in choosing product/sevice, certainty in using product/service, and recommending product/service to others (Kotler, 2009).

**Hypothesis 7:** Purchasing decisions have a significant effect on customer loyalty

### **2.5 Customer Loyalty**

Customer loyalty is an action in which a customer keep buying certain product/service regularly and repeatedly [8]. The customer itself is someone who continually comes to the same place to satisfy their needs and desires by having a product or service and paying for both. The loyalty of karaoke customer must be maintained by updating karaoke facilities, providing discount programs every season, and also keeping the customers satisfied with the service so the word of mouth could be well circulated in the community.

A loyal customer has specific prejudices about what to buy and from whom. The buyer is not a random event. In addition, loyalty shows the condition of the duration of time and requires that the action is less than twice. Indicators that affect customer loyalty are as follows: making a repeatedly purchase, buying other product or service, being able to influence other people and show the resistance to the product/service competitors [9]

### 3 METHODOLOGY

The methodology used in this quantitative study is explanatory research. The study conducted at the NAV Family Karaoke Dr. Soetomo Surabaya. The variables studied were Facilities, Discounts, Word of Mouth, Purchasing Decisions, and Customer Loyalty. There were 140 members of NAV Family Karaoke Dr. Soetomo Surabaya who became respondents in this study. The data collection technique applied was questionnaires involving 16 questions and the data analysis method employed was Partial Least Square (PLS) using SmartPLS 3 data processing software.

#### Research Framework

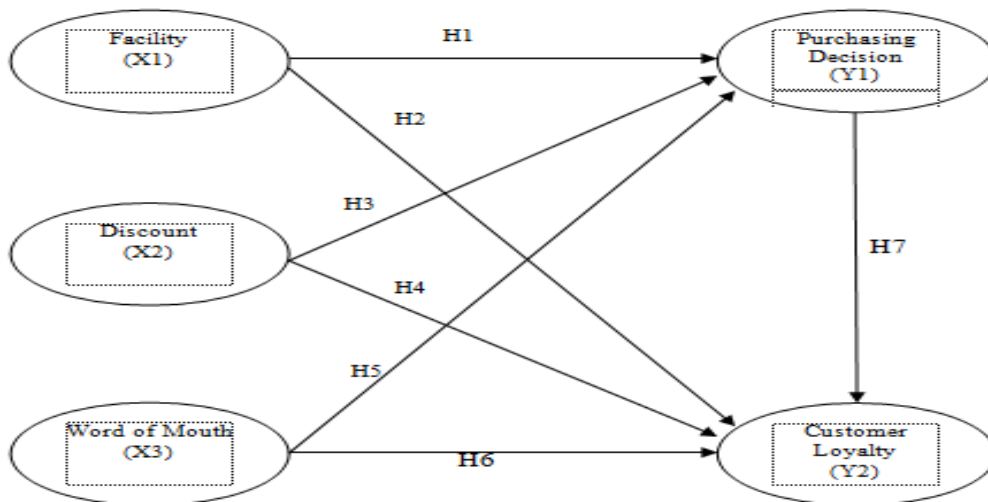


Figure 1: Research Framework

### 4 RESULTS AND DISCUSSIONS

The R-Adjusted Purchase Decision variable is 0.711 or 71.1%. This result states that the variables of facilities, discounts and word of mouth contribute 71.1% to the purchasing decision and the remaining 28.9% is caused by other factors, while for the variable R-Adjusted customer loyalty is 0.905 or equal to 90.5%, this result shows that the contribution of large variables of facilities, discounts and word of mouth plays a role in influencing customer loyalty by 90.5%, the remaining 9.5% is influenced by other factors. In testing the hypothesis, a data must meet a criterion, and the hypothesis is said to be accepted if the statistical value is greater than t-table and if the p-value is less than 0.05 and vice versa. The output of the SmartPLS is as follows:

Table 1 : Path Coefficient

| <i>Path Coefficient</i>             | <i>t-statistic</i> | <i>p-value</i> |
|-------------------------------------|--------------------|----------------|
| Facility → Purchasing Decision      | 3,455              | 0,000          |
| Facility → Customer Loyalty         | 2,068              | 0,020          |
| Discount → Purchasing Decision      | 2,133              | 0,017          |
| Discount → Customer Loyalty         | 2,262              | 0,012          |
| Word of Mouth → Purchasing Decision | 3,860              | 0,000          |

|  |       |       |
|--|-------|-------|
| Word of Mouth → Customer Loyalty                       | 5,627 | 0,000 |
| Purchasing Decision → Customer Loyalty                 | 6,730 | 0,000 |
| Facility → Purchasing Decision → Customer Loyalty      | 3,001 | 0,001 |
| Discount → Purchasing Decision → Customer Loyalty      | 2,102 | 0,018 |
| Word of Mouth → Purchasing Decision → Customer Loyalty | 3,695 | 0,000 |

Source, output SmartPLS 3.0, 2019

#### 4.1 Direct Effects:

##### H1 : Effect of Facilities (X1) on Purchasing Decisions (Y1)

The results of data processing using smartPLS, the facilities variable on purchasing decisions are indicated by *p-value*  $0.00 < 0,05$  and *t-statistic* value of 3.455 which is greater than 1.656. Based on these data, it could be stated that the first hypothesis of the facilities variable has significant effect on purchasing decisions is valid. The results of this study are in accordance with the theory of [10] which states that good facilities can form good perceptions in the customers' view. This study is also in line with previous research conducted by (Harga et al, 2015) which claims that the facilities provided can improve the decision to use. This is compatible with in-field reality which shows that a person's decision to use is influenced by the facilities provided. In accordance with the reality in the field, the average customer states that he is quite amenable to the facilities offered by the NAV karaoke manager Dr. Soetomo Surabaya, Branch. In general, customers stated that they were quite amenable to facilities that were neat and clean, well functioning, and easy to use.

##### H2 : Effect of Facility (X2) on Customer Loyalty (Y2)

The results of data processing using smartPLS, facilities variable on customer loyalty are indicated by *p-value* of  $0.00 < 0.020$  and *t-statistic* value of 2.068 which is greater than 1.656. Based on these data, it could be stated that the fourth hypothesis of the facilities variable has significant effect on customer loyalty is valid.

The results of this study are supported by the opinion of (Raharjani, 2005) which states that if a service company has adequate facilities that can facilitate customers and make them comfortable, it certainly will lead to repeated purchases of the service. This is also in accordance with the research of (Rianto, 2017) which claims that facilities have a direct effect on customer loyalty. If the facilities provided for customers always improved, the customers will be satisfied and become more loyal. Based on the results of the study, it can be concluded that the better facilities provided by NAV Family Karaoke Dr. Soetomo Surabaya, the higher the loyalty that will be given by the customers.

##### H3 : Effect Discount (X2) On Purchasing Decision (Y1)

The results of data processing using smartPLS, discounts variable on purchasing decisions are indicated by *p-value*  $0.017 < 0,05$  and *t-statistic* value of 2.133 which is greater than 1.656. Based on these data, it could be stated that the second hypothesis of the discounts variable has significant effect on purchasing decisions is valid.

This study is in line with previous research conducted by Indri Kartika (2018) which states that discount programs can highly contribute in attracting consumers to buy airplane tickets at discounted prices. The results of this study also support the research of Satyo and Suprihadi (2013) which claims that a purchasing decision occurs due to simultaneous influence from a product's discount programs, the greater the price cut the greater the tease for consumers.

##### H4 : Effect of Discounts (X2) on Customer Loyalty (Y2)

The results of data processing using smartPLS, discounts variable on customer loyalty are indicated by *p-value*  $0.012 < 0,05$  and *t-statistic* value of 2.262 which is greater than 1.656. Based on these data, it could be stated that the third hypothesis of the discounts variable has significant effect on customer loyalty is valid. Based on the results of the study, it can be concluded that the greater the discount programs (the greater the price reduction) offered by the karaoke vendor, the greater the loyalty that will be given by the customers.

##### H5 : Effect of Word of Mouth (X3) on Purchasing Decisions (Y1)

The results of data processing using smartPLS, word of mouth variable on purchasing decisions are indicated by *p-value* of 0.000 which is less than 0.000 and *t-statistic* value of 3.860 which is greater than

1.656. Based on these data, it could be stated that the third hypothesis of the word of mouth variable has significant effect on purchasing decisions is valid.

The results of this study are supported by the theory of (Shimp, 2003) which states that as long as the belief in a product strengthens (in positive way), it will lead to a decision to purchase the product. This is also in line with the research conducted by [11] which declares that if there is positive information obtained by consumers, it will bring consumers to recommend the products to others, so that it becomes the reason for them to make a purchasing decision.

Based on the results of descriptive analysis, it is known that the indicator with the largest average score of 3.4 comes from other people's positive stories. So, it can be concluded that the greater the positive stories circulating in the community the greater the influence to purchase karaoke service at NAV Family Karaoke Dr. Soetomo Surabaya.

#### **H6 : Effect of Word of Mouth (X3) on Customer Loyalty (Y2)**

The results of data processing using smartPLS, word of mouth variable on customer loyalty are indicated by *p-value* of 0.000 which is less than 0.017 and *t-statistic* value of 2.133 which is greater than 1.656. Based on these data, it could be stated that the sixth hypothesis of the word of mouth variable has significant effect on customer loyalty is valid.

The results of this study are in coherence with the theory of [4] which declares that introducing products and improving new products, and also saying good things about companies, products, and services will increase consumer loyalty. The more often word of mouth is done by family, friends, coworkers will further increase customer confidence in NAV karaoke entertainment services and will ultimately have an impact on customer loyalty. Reference groups, families, friends have a direct or indirect influence on a person's behavior.

#### **H7 : Effect of Purchasing Decision (Y1) on Customer Loyalty (Y2)**

The results of data processing using smartPLS, purchasing decision variable on customer loyalty are indicated by *p-value* 0.000 <sig 0,05 and *t-statistic* value of 6.730 which is greater than 1.656. Based on these data, it could be stated that the seventh hypothesis of the purchasing decision variable has significant effect on customer loyalty is valid.

The results of this study are in line with the findings of the field that has customer get customer programs and companies are able to create or empower customers who have observed the services provided by the company by telling about the strengths or excellence of the company and they voluntarily promote the company positively.

#### **4.2 Indirect Effects:**

Overall the results of the study indicate that the variables of facilities, discounts, and word of mouth indirectly influence customer loyalty through purchasing decisions. The results of data processing show the influence of facilities on customer loyalty through purchasing decisions with a value of 3.001 *t-statistic* > 1,656 with a significant level of *p-value* 0.001 <sig. 0.05, the effect of discounts on customer loyalty through purchasing decisions with *t-statistic* value 2.102 and *p-value* 0.018 <sig. 0.05, and the effect of word of mouth on customer loyalty through purchasing decisions with a *t-statistic* value of 3.695, with a significance level of *p-value* 0.000 <sig. 0.05.

The results of this study confirm that purchasing decisions can be motivated by the attitude of others, where the attitude of others can influence the alternatives that have been made so that customers think again to make a purchase. They actively seek information about company profiles such as facilities, discounts and by asking family, friends, looking in the mass media such as radio, newspapers, magazines, tv until the visit. A customer will have valuable experience after purchase, which in this case is after experiencing the use of entertainment services at the NAV Karaoke Family Dr. Soetomo Surabaya, Branch. Customers have specific prejudices about what they have enjoyed. customer who returns to purchase, especially those who buy regularly and repeatedly are considered consumers who have loyalty. Not all customers form loyalty to certain products or services for various reasons, therefore companies can increase the frequency of approaches to consumers accompanied by product or service differentiation that is positive. Companies can design strategies to make them loyal consumers.

## 5 CONCLUSION

### 5.1 Conclusion

From the results of data processing above, it is found that word of mouth has more significant effect than facilities and discounts variable on purchasing decisions and loyalty levels for the customers of NAV Family Karaoke Dr. Soetomo Surabaya, Branch. Respondents stated that they were quite amenable to facilities, and discounts offered by companies and word of mouth had the most dominant influence in shaping customer loyalty.

The practical implications of the results of this study suggest to companies to improve the role of facilities and service quality in building customer loyalty, and not solely based on word of mouth information.

### 5.2 Limitation

The findings of this study still have limitations, which also provide direction for future research. First, this research data only comes from one industry, so the results cannot be generalized, for further research can be obtained and samples through similar industry research, so that it can add empirical validity. Second; future studios may be able to further discuss the roles of other independent variables on purchasing decisions and customer loyalty in the family karaoke entertainment service industry.

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