

PUBLICATION

THE IMPACT OF SERVICE QUALITY, PRODUCT QUALITY AND STORE ATMOSPHERE ON CUSTOMER LOYALTY

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ABSTRACT

The purpose of this study is to determine the impact of service quality, product quality, and store atmosphere on customer loyalty of Vosco Coffee. This research is a field research, where quantitative primary data through questionnaires instrument is taken directly from the customer of Vosco Coffee. Sampling technique used is purposive sampling, part of the non-probability sampling, where samples are selected based on the consideration that the sample may release information in accordance with the needs of the research. Based on Slovin formula, the number of the samples taken in this research is 80 customers. Data processing and analysing is done by using SPSS software 23 version.

SPSS output shows that the value of R-Square is 0,816, that is, 81.6% of customer loyalty is explained by service quality, product quality and store atmosphere. The remaining, 18.4% of customer loyalty is explained by other independent variables that were not considered in this study. The regression model formed is $Y = -29,504 + 0,195X_1 + 0,258X_2 + 0,267X_3 + \varepsilon$, where Y is customer loyalty, X_1 is service quality, X_2 is product quality and X_3 is store atmosphere. The results of the data analysis and discussion shows that service quality, product quality and store atmosphere have positive and significant impact on customer loyalty. If the customers are loyal, Vosco Caffee will have double benefits, that are: the Cafe not only get regular customers, but also, will gain new customers as the result of loyal customer's recommendation. Thus, to make Vosco Coffee able to withstand the competition that increasingly stringent in Malang town and could grow continuously and develop rapidly, management should improve the service quality, product quality and store atmosphere. It is expected that further research can show any items from each independent variables that should be priority repaired in order to achieve the customer loyalty.

INTRODUCTION

Nowadays, Indonesia have entered the era of Sustainable Development Goals (SDGs), which the government had to prepare the various things in order to ensure the implementation of SDGs until 2030. Indonesia SDGs agenda priority is the achievement of sustainable economic development, both at national and district levels. One of beautiful district that is undergoing economic improvements effort since the decline of economic growth in 2013 is Malang. This is shown by the economic growth in 2015 which reached 5.61% higher than East Java province which reached 5.56% and national which reached 5.18% (Poerwanto, 2016). This growth will be able to continuously increase along with the development of various sectors that influence, such as industry, trade and culinary.

Since 2015, culinary business in Malang has been rapidly growing. This phenomenon is indicated by the proliferation of cafe and restaurant business which grew reach 100% in 2016 (Miko, 2016). Likewise, according to the Indra Setiyadi records, the Chairman of Apkrindo (Asosiasi Pengusaha Kafe dan Restoran Indonesia) Malang, show that in mid-2016, there are 800 cafes standing in Malang, whereas at the end of 2016 the number has penetrated 1000 (Radar Malang, 2017).

This positive potential can be developed more rapidly again with the development of infrastructure and tourism. However, continuously uncontrol growth in one sector will also pose a threat to the business itself. The threat is the competition among similar business that increasingly tight. So that, every business should have strategies to be survive.

One effort that need to do to be survive in a tightly competition is creating an oriented customer marketing strategy. Customer oriented marketing is a kind of marketing that emphasizes the satisfaction of consumer needs and desires (McDonald and Keegan, 1999). A satisfied customer will have an emotional bond and tend to have high loyalty to the product (Kotler, et al., 2001).

Customer loyalty can be reflected from the habits of consumers in purchasing products without thinking about substitute products offered by competitor companies, also recommending the product to their friends and group (McIlroy & Barnett, 2000). Thus, it can be generalized that loyal customers will automatically provide opportunities for companies to get new customers. In addition, according to Kotler et al. (2006), retaining all existing customers will be more profitable than replacing them, because the cost of attracting new customers can be five times the cost of retaining existing customers. Thus, customer loyalty is very important for the development of a business in the future.

To achieve high customer loyalty, the company must consider several key factors that influence it. Some of these factors include: service quality (Harianto & Hartono, 2013; Budiman, et al., 2013; and Martha, 2015), product quality (Nurhayati, 2011; Budiman, et al., 2013; and Andini, 2013) and store atmosphere (Harianto & Hartono, 2013; Andini, 2013; and Martha, 2015). Therefore, in this thesis studied about the influence of service quality, product quality and store atmosphere to customer loyalty. The cafe that became the object of the research is "Vosco Coffee".

REVIEW OF RELATED LITERATURE

Service Quality

Beverly et al. (2002) has defined quality as fitness for use, or the extent to which a product successfully serves the purposes of consumers. While, Calif (1987) said that customer service is one of the organizational processes which companies perform considering the growing competition and for attracting entrepreneurial opportunities for increasing profitability and better access to the market and increasing the customer satisfaction and loyalty level. Caruana (2002) said that the definitions of service quality is the result of the comparison that customers make between their expectations about a service and their perception of the way the service has been performed. Service quality, from their path breaking exploratory research by Parasuraman et al. (1985) can be measured using five dimensions called SERVQUAL, there are: Physical evidence, Reliability, Responsiveness, Assurance and Empathy.

Product Quality

Kotler and Keller (2008) explains if product quality reflect the satisfaction of one's judgment about the performance of the product (result) in relation to expectations. If the performance of the product does not meet expectations, the customer is not satisfied and disappointed. While, Aaker (1991) defined product quality as the consumer's perception of the overall quality or superiority of a product or service with respect to its intended purpose over other alternatives. Then, Insch and McBride (1998) classified this product quality to design quality, manufacturing quality and overall quality.

According to Kotler and Armstrong (2008), product quality is the ability of a product to demonstrate a variety of functions including durability, reliability, accuracy and ease of use. Quality of products illustrates the extent to which the product's ability to meet the needs of consumers. Meanwhile, Tjiptono (2007), determined the product quality through eight dimensions as follows: performance, features, reliability, conformance, durability, serviceability, aesthetics, and perceived quality.

Store Atmosphere

Schmitt (1999) said that according to Mehrabian-Russell model, consumers emotion will drive different consumers decisions. While, the concept of store atmosphere as introduced by Kotler (1973), defines that it is an effort to design store environment to create the specific emotional effects in the buyer that enhances the purchase opportunity. Another definition says that the store atmosphere according to Levy and Weitz (2001) stated that the store atmosphere is through visual design environment, lighting, colors, music and fragrances to stimulate the perception and emotional response of customers and influence customer behavior in buying goods. While, Gilbert (2003) explains that the store atmosphere is a combination of physical messages that have been planned. Store atmosphere can be described as a change to the purchase of environmental planning that produces a special emotional effects that can cause consumers to purchase action. Store Atmosphere according to Berman and Evans (1995), can be divided into key elements: exterior, interior general, store layout, and displays. Store Atmosphere elements include: the exterior of the store (exterior), the inside of the store (interior), the room layout (store layout) and Interior Point of Purchase.

Customer Loyalty

Customer loyalty, as suggested by Bell et al. (2005) and Dean (2007) can be defined in two distinct ways. First, loyalty is an attitude. Different feelings create an individual's overall attachment to a product, service or organization. These feelings define the individual's (pure cognitive) degree of loyalty. While, Liu-Thompkins, et al. (2010) defined attitudinal loyalty as a favorable evaluation that is held with sufficient strength and stability to promote a repeatedly favorable response towards a product/brand or a store. The second definition of loyalty is behavioral. Kotler et al. (1999) asserted that the cost of attracting a new customer may be five times the cost of keeping a current customer happy. Kotler and Keller (2005) also said that the top 20% of the customers may create 80% of profit for a company. While, Griffin (2005) said that customer loyalty is a commitment to defend in depth to re-purchase or resubscribe the selected product or service consistently in the future, although the influence of the situation and marketing efforts have the potential to cause a change in behavior. This customer loyalty can be described as a customer: re-purchase, buying between product lines and services, refer to others, and immunity against competitors.

Previous Research

Dubey and Srivastava (2016) found that the service quality has significant and positive impact on customer relationship management and customer loyalty. While, Saravanakumar and Jothi (2014) found that service quality has the impact on customer loyalty, however, empathy and reliability is the dimension significantly influenced on customer loyalty. The research result of Iddrisu et al. (2015) showed that service quality variables such as Tangibles, Responsiveness, Reliability, Assurance and Empathy have a positive influence on customer loyalty through customer satisfaction. About store atmosphere, Hussain and Mazhar (2015) told that atmosphere variables such as cleanliness, scent, lighting, and display/layout have a positive influence on consumers' purchase intention; whereas music and color have insignificant impact on consumers' purchase

intention. The temperature has almost no impact on the purchase intention of the consumers. While, Andini (2013) studied that three independent variables (store atmosphere, product quality, and customer satisfaction) have positive and significant impact for dependent variable customer loyalty.

Coceptual Framework

Based on the review of the literature and previous research, it can be arranged framework research as can be seen in the following figure 1. Research Model, which service quality, product quality and store atmosphere as the independent variables, while loyalty customer as dependent variable.

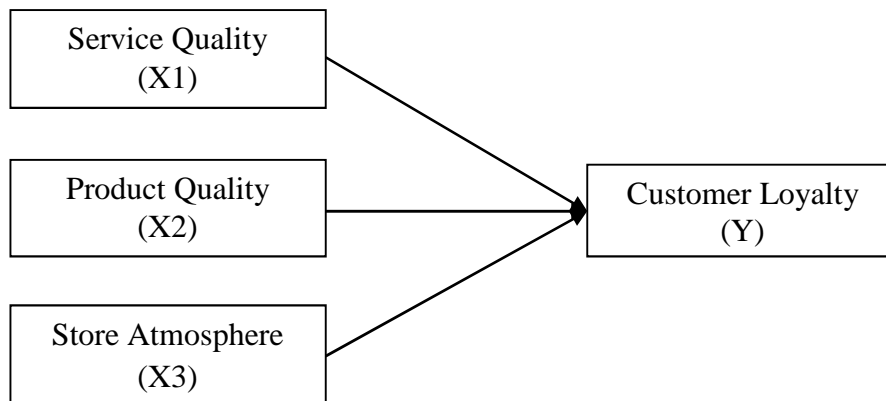


Figure 1. Research Model

Hypothesis

- H1: Service quality has positive significant impact on customer loyalty.
- H2: Product quality has positive significant impact on customer loyalty.
- H3: Store atmosphere has positive significant impact on customer loyalty.

RESEARCH METHOD

The type of this research is a field research, where data is taken directly from the field (customers of Vosco Coffee) through the questionnaires instrument. Thus, the method used in this study is a quantitative cross-sectional survey methods which the data is measured by likert scale 1-5 (1=strongly disagree, 2=disagree, 3=quite agree, 4=agree, 5=strongly agree). The sampling technique used in this research is purposive sampling with the minimum required number of samples calculated with Slovin formula on a significance level ($\alpha = 5\%$) are 80 people. Service quality is measured by 18 items, product quality is measured by 8 items and store atmosphere is measures by 29 items, while customer loyalty is measured by 5 items.

The data obtained from the survey processed using software SPSS version 23. Because the processed data is data quantitative cross-section, then some experiments that will be performed include: validity test, reliability test, classical assumption test (normality, multicollinearity, and heteroscedasticity) and multiple linear regression (R-Square or determination test, F-test, regression model and t-test).

FINDING AND DISCUSSION

That are 80 customers made the object of this study. Before doing regression analysis, the data need to meet some assumptions, there are: data must be valid and reliable, in normal distribution category, but, between independent variables doesn't happen multicollinearity and residual of the data doesn't happen heteroscedasticity. Based on Correlations table of SPSS output, it is shown that the Sig. (2-tailed) all variables to Total-variable are $0.000 < 0.05$, which means that the research instruments (questionnaires), which measured that four variables are valid. While, based on Reliability Statistics table of SPSS output, it is known that the value of Cronbach's Alpha of fourth items (all variables) is $0.935 > 0.6$, which means the answers of respondents are reliable or consistent.

Based on Normality Test table of SPSS output, it is known that the Sig. Kolmogorov-Smirnov of Service Quality variable is $0.200 > 0.05$, product quality is $0.077 > 0.05$, store atmosphere is $0.200 > 0.05$ and customer loyalty amounted to $0.170 > 0.05$. It shows that all variables are normally distributed. While, Based on Table 3 Coefficient, note that the variables of service quality has a value of VIF $3.621 < 10$ and tolerance $0.276 > 0.01$, product quality also has VIF value $3,121 < 10$ and tolerance $0.320 > 0.1$, as well as variable store atmosphere has VIF $3.38 > 10$ and tolerance 0.296 . it means, between independent variables doesn't occur multicollinearity. In addition, Based on the scatterplot figure, it is known that the dots do not make certain pattern, which means that does not happen heteroskedasticity. Because classical assumptions are met, in which the data are normally distributed, does not happen multicollinearity and heteroskedastisity, so, the data in this study meet the BLUE (Best Linear Unbiased Estimator) rules of OLS (Ordinary Least Square).

Table 1 Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,904 ^a	,816	,809	1,172	2,102

a. Predictors: (Constant), Store Atmosphere, Product Quality, Service Quality

b. Dependent Variable: Customer Loyalty

Based on Table 1 Model Summary above, it is known that the value of R-Square is 0.816. That means, 81.6% of customer loyalty is explained by service quality, product quality and store atmosphere. The remaining $100\% - 81.6\% = 18.4\%$ of customer loyalty is explained by other independent variables that were not considered in this study.

Table 2 ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	464,751	3	154,917	112,721	,000 ^b
Residual	104,449	76	1,374		
Total	569,200	79			

a. Dependent Variable: Customer Loyalty

b. Predictors: (Constant), Store Atmosphere, Product Quality, Service Quality

Based on Table 2 ANOVA above, note that the F-count equal to 112.721. While the F-table for $\alpha = 0.05$ $df_1 = 3$ and $df_2 = 76$ amounted to 2.724944. Because the SPSS output shows that the F-count $>$ F-table and Sig. $0.000 < 0.05$, it means that simultaneously, service quality, product quality and store atmosphere impact on customer loyalty, or a regression model that formed meet the goodness of fit models or regression model that is created can be used to predict the level of customer loyalty.

Based on the value of B in Table 3 Coefficient above can be constructed regression model as follows: $Y = -29,504 + 0,195X_1 + 0,258X_2 + 0,267X_3 + \varepsilon$, where Y is customer

loyalty, X_1 is service quality, X_2 is product quality and X_3 is store atmosphere, while ϵ is the error (correction factor or margin of error) which the amount can not be ascertained.

Table 3 Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	-29,504	4,021		-7,337	,000		
Service Quality	,195	,069	,266	2,843	,006	,276	3,621
Product Quality	,258	,077	,291	3,352	,001	,320	3,121
Store Atmosphere	,267	,058	,415	4,596	,000	,296	3,380

a. Dependent Variable: Customer Loyalty

The regression model showed that the X_1 , X_2 and X_3 has a positive coefficient, that means, service quality, product quality and store atmosphere have positive impact on customer loyalty. As such, the higher of service quality, the higher the customer loyalty. Likewise, other variables, the higher of product quality, the higher of customer loyalty, and the higher of store atmosphere, the higher of customer loyalty. Constant value is negative, it means that without these three factors (service quality, product quality and store atmosphere), customer loyalty is negative or there are none customers who will be loyal to Vosco Caffee.

Next, review the value of the coefficient of each variable. It show that the increasing of one unit of service quality will increase customer loyalty by 0.195 unit, the increasing of one unit of product quality will increase customer loyalty by 0.258 units, and in every increasing of one unit store atmosphere will increase customer loyalty by 0.267 unit. To determine whether the coefficient of each independent variable that has a significant impact on customer loyalty can be seen through the t-test.

Then, to do t-test, sought a t-table value for $\alpha = 0.05$ and $df_2 = 76$ that amounted to 1.991673. Furthermore, note back Table 3 Coefficient earlier. Based on the table, it is known that the value t-count service quality variable is 2.843, this value is not within the range between -1.991673 until +1.991673 and the Sig. $0.006 < 0.05$, which means that the impact of service quality on customer loyalty is significant. Similarly, the t-test value of product quality is 3.352, this value is not within the range between -1.991673 until +1.991673 and the Sig. $0.001 < 0.05$, which means that the effect of product quality to customer loyalty is significant. Finally, the value of t-test of store atmosphere variable is 4.596, this value is not within the range between -1.991673 until +1.991673 and the Sig. $0.000 < 0.05$, which means that the impact store atmosphere on customer loyalty is significant.

Back in regression models preconceived, $Y = -29,504 + 0,195X_1 + 0,258X_2 + 0,267X_3 + \epsilon$ and t-test results above, the obtained results of the study is that service quality, product quality and store atmosphere, partially, has positive and significant impact on customer loyalty. Thus, the research hypothesis is accepted and proven to be true. The overview of hypothesis acceptance is shown in Table 4 below.

Table 4 The Overview of Hypothesis Acceptance

Hypothesis		Accepted/Rejected
H1	Service quality has positive significant impact on customer loyalty.	Accepted
H2	Product quality has positive significant impact on customer loyalty.	Accepted
H3	Store atmosphere has positive significant impact on customer loyalty.	Accepted

Based on the analysis above, it is known that the three independent variables (service quality, product quality and store atmosphere) have positive and significant impact on

customer loyalty. Such that, if the management of Vosco Coffee wants to bind the customer or customer loyalty made up significantly, then it should be done by the management or the CEO Vosco Coffee is increasing these three factors. Moreover, based on the value of R-Square, which reached 81.6%, these three factors, namely: service quality, product quality and store atmosphere are the main priority that should be improved in order to achieve customer loyalty than any other factor. Customer loyalty is important for the existence of Vosco Coffee in the increasingly fierce competition in Malang town, as has been noted in the background of this study.

Kotler's theory (2006) also mentions that the retaining all existing customers will be more profitable than replacing them, because the cost of attracting new customers can be five times the cost of retaining existing customers. Thus, instead of trying to find new customers, it is better to focus on improving service quality, product quality and store atmosphere to bind existing customers and make them loyal. More and more customers are loyal, this will also contribute positively to the development of the Cafe. Their loyalty will make them definitely have plans to come back to the Cafe, they have willing to provide payment for outstanding service, will support others who want to come to Vosco Cofee, will telling others about the positive image of Vosco Coffee through word of mouth strong and would definitely recommend others to visit or meet-ups in this Cafe. So, loyal customers, automatically become free marketing for Cafe, because they will bring new customers as a result of the their satisfaction stories in becoming a customer of Vosco Cofee.

To increase service quality, management should review and improve five dimentions called SERVQUAL (Parasuraman, et al., 1985), namely: tangibility, reability, responsiveness, assurance and empathy. While, to increase product quality management should improve 8 dimentions that determining the product quality according to Tjiptono (2007), among other things: performance, features, reliability of the product (it's different with the reliability of service), conformance, durability and serviceability. Furthermore, to increase store atmosphere, management mut meet seven dimensions, namely: cleanliness, music, scent, temperature, lighting, color, display/layout.

However, if the management is not able to make improvements or increases in service quality, product quality and store atmosphere simultaneously, then there are two alternatives to choose from. The first alternative is where the independent variables that most influence on customer loyalty. It can be seen from the highest coefficient of multiple linear regression equation which has been formed in the analysis, that is: $Y = -29,504 + 0,195X_1 + 0,258X_2 + 0,267X_3 + \varepsilon$. Based on this regression is known that the highest coefficient is owned by X_3 (store atmosphere) of 0.267, which means that, compared to service quality and product quality, store atmosphere provides the highest contribution in increasing customer loyalty. Such that, to increase customer loyalty, then the major improvements that should be made by the management of Vosco Coffee is improve store atmosphere.

The second alternative is to increase or improve some items or indicators of service quality, product quality and store atmosphere. For example, for a service quality variable, management repaired or improved quality of the physical facility, appearance of personnel, accuracy in billing, calling the customer quick and comfortable service. As for the product quality variable, what could be improved are the performance of the product and perceived quality of the product. While store atmosphere variable, what could be repaired or improved quality are the cleanliness of floors, tables and chairs, the selection of appropriate music, aroma therapy administration rooms, cold AC setting appropriate levels, structuring lights (lighting) and the arrangement of the display.

CONCLUSION AND RECOMMENDATION

Based on the analysis and discussion obtained some conclusions as follows:

1. There is a positive and significant impact of service quality on customer loyalty.
2. There is a positive and significant impact of product quality on customer loyalty.
3. There is a positive and significant impact of store atmosphere on customer loyalty.

While, recommendation are given are:

1. To make Vosco Coffee can survive in the fierce competition among Cafe in Malang and can develop quickly and rapidly, the management of Vosco Coffee should increase customer loyalty rather than finding new customers. As for ways to improve the customer loyalty is improving service quality, product quality and store atmosphere.
2. In order to facilitate the management to increase customer loyalty, any items that should be prioritized for repair first, further research should examine the fine details, which research the impact of any items of each variable (service quality, product quality and store atmosphere) on customer loyalty.

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