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From Experience to Loyalty: Investigating Customer Retention Drivers in Coffee Shops

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ABSTRACT
The rapid expansion of the coffee shop industry in Indonesia reflects a significant transformation in consumer preferences, particularly among urban populations seeking high-quality products and engaging social experiences. While previous studies have examined the impact of product and service quality on customer loyalty, empirical research in the context of local independent coffee brands remains limited. This study aims to investigate the influence of product quality and service quality on customer loyalty in the context of TKT in Tangerang, a rapidly urbanizing region in Indonesia. Using quantitative research design, data was collected through structured questionnaires distributed to 227 respondents who are regular customers of TKT outlets in Tangerang. The data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) to assess the relationships among variables. The findings indicate that both product quality and service quality have a significant and positive effect on customer loyalty, with product quality emerging as the more dominant factor. These results align with the theoretical framework proposed by Zeithaml and provide further empirical validation within a local Indonesian context. The study contributes to the existing literature by contextualizing loyalty behavior in an emerging coffee market and offers practical insights for local F&B brands aiming to sustain customer retention through quality-driven strategies. Future research is recommended to incorporate mediating variables such as customer satisfaction or emotional engagement to enrich the loyalty framework in similar service settings

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INTRODUCTION

Over the past decade, Indonesia's coffee shop industry has experienced remarkable growth, positioning itself as one of the most dynamic segments in the national food and beverage (F&B) sector. This expansion is closely linked to changing consumer behavior, particularly among urban populations who view coffee shops not only as places to consume beverages but also as multifunctional social spaces (Wilson et al., 2020). These venues increasingly function as hubs for interaction, informal working environments, and lifestyle expression. Coffee consumption has thus evolved into a socio-cultural phenomenon embedded in the routines of modern urban society. According to Toffin Indonesia, the number of coffee shops in the country increased from approximately 1,000 in 2019 to more than 3,000 in 2022,

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reflecting an average annual growth rate of 25% (Camilleri et al., 2023). This trend highlights the rising demand for high-quality coffee as well as the importance of customer experience in fostering loyalty and emotional attachment (Parasuraman et al., 2020).

Among the notable domestic brands riding this momentum is TKT, established in 2015 in South Jakarta. Guided by the philosophy of "coffee for everyone," TKT combines affordability with premium quality, ensuring accessibility without compromising excellence. By January 2025, TKT had expanded to around 60 outlets in major urban areas such as Jakarta, Tangerang, and Yogyakarta. The brand differentiates itself through a holistic service model that integrates high-quality products, personalized customer service, and a community-oriented brand identity. For example, TKT refers to its customers as "neighbors," a unique approach that fosters inclusion and emotional intimacy factors that are critical drivers of customer loyalty in the service industry (Soetiyono & Alexander, 2025).

TKT's success is also supported by its emphasis on locally sourced coffee beans and human-centered service delivery. Baristas are trained not only in technical aspects of beverage preparation but also in interpersonal engagement to ensure memorable customer experiences. These practices generate relational value that goes beyond the functional role of the product, playing a central role in shaping long-term loyalty (Kandampully et al., 2021). Tangerang provides a relevant context for examining these dynamics. As a rapidly urbanizing city adjacent to Jakarta, Tangerang is home to a growing population of middle-income professionals who frequently visit coffee shops for both leisure and work. In this environment, TKT has become a preferred brand, particularly for consumers who value product quality, efficient service, and a welcoming atmosphere. These characteristics reflect broader preferences among today's urban coffee consumers (Ting & Thurasamy, 2016).

Service Quality as a Key Driver of Customer Satisfaction and Loyalty. Service quality is widely regarded as a critical determinant of customer satisfaction and loyalty. Mouzaek (2021) defines service quality as the gap between customer expectations prior to receiving a service and their perceptions of the actual service delivered. This conceptualization aligns with the SERVQUAL model, which posits that service quality is multidimensional and includes tangibles, reliability, responsiveness, assurance, and empathy (Parasuraman et al., 2020). Kotler and Keller (2016) further argue that service quality encompasses the completeness of features provided by a service or product that collectively influence customer satisfaction. In the context of coffee shops, Ting and Thurasamy (2016) highlight the pivotal role of baristas in shaping customers' perceptions of service quality. Their research demonstrates that both the technical competence of baristas in preparing coffee and their interpersonal skills such as the ability to communicate effectively and respond to customer inquiries significantly contribute to perceived service quality and satisfaction. High-quality service is strongly associated with enhanced customer experience and behavioral outcomes. Soetiyono and Alexander (2025) found that excellent service delivery characterized by promptness, friendliness, and responsiveness not only improves satisfaction but also fosters emotional attachment and trust toward the brand. These emotional bonds encourage repeat purchases and stimulate positive word-of-mouth, reinforcing customer loyalty (Jung et al., 2011).

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Product Quality as a Determinant of Customer Satisfaction and Loyalty. Product quality is recognized as one of the critical determinants of customer satisfaction. According to Kotler and Armstrong (2018), product quality refers to the set of characteristics and attributes that determine a product's ability to meet customer needs and expectations. This encompasses not only the physical dimensions of the product but also its functional and aesthetic attributes, which collectively shape consumer perceptions (Camilleri et al., 2023) High-quality products are essential for delivering superior value to customers and play a pivotal role in fostering satisfaction. Kandampully (2021) assert that products that meet or exceed consumer expectations are more likely to engender both customer satisfaction and long-term loyalty. These findings align with the seminal work of Oliver (1977) which emphasizes that high product quality contributes directly to consumer satisfaction and, subsequently, to customer loyalty. Thus, offering consistently high product quality remains a strategic imperative for businesses aiming to retain customers and build enduring brand relationships.

Previous studies on customer loyalty have largely concentrated on global service contexts, such as international hotel chains and large restaurant franchises (Mouzaek et al., 2021; Ali et al., 2021). These studies consistently confirm that product quality and service quality are critical determinants of satisfaction and loyalty. However, relatively few empirical investigations have been conducted in the context of local, independent coffee shops in emerging markets like Indonesia, where consumer behavior is shaped by distinct socio-cultural dynamics and rapid urbanization (Ting & Thurasamy, 2016; Soetiyono & Alexander, 2025). In addition, prior research often examines customer satisfaction as a mediating construct but overlooks the direct influence of product and service quality on loyalty within smaller, community-oriented brands. This creates a gap in understanding how loyalty is built in local coffee enterprises that rely heavily on relational value and community identity.

To address this gap, the present study focuses on TKT, a fast-growing local coffee brand in Tangerang. By examining the direct effects of product quality and service quality on customer loyalty, this study extends the existing literature into the underexplored domain of independent coffee shops in Indonesia. The findings are expected to enrich the theoretical discourse on service marketing by situating loyalty within a socio-cultural context and to provide practical recommendations for local F&B enterprises seeking to sustain competitive advantage in a rapidly expanding industry.

Based on research objectives, and theoretical foundations described earlier, the following hypotheses are proposed for this study: H1: Product quality has a positive and significant effect on customer loyalty. H2: Service quality has a positive and significant effect on customer loyalty.

These hypotheses are formulated to empirically test the direct influence of both product quality and service quality on customer loyalty, as supported by the theoretical frameworks of perceived value and customer satisfaction in the context of consumer behavior and service marketing.

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METHODS

This study employed a quantitative survey research design to empirically examine the relationships between the proposed variables within the context of kedai kopi visitation behavior. The use of quantitative methods allowed for statistical testing of the hypothesized model, facilitating the identification of significant patterns and associations between constructs. The population targeted in this study comprised individuals aged 17 to 55 years residing around Tangerang. The inclusion criteria required that respondents had visited at least one of the selected KPK outlet within the six-month period from September to Nopember 2024. These establishments were chosen due to their popularity and strong local coffee shop branding, which aligns with the objectives of the study. A non-probability sampling technique was employed, specifically purposive sampling, wherein participants were selected based on predefined eligibility criteria relevant to the research objectives. This method was deemed appropriate given the need to access a specific sub-group of consumers with relevant experience in theme dining. While non-probability sampling limits generalizability, it provides rich insights for exploratory or context-specific research (Cash et al., 2022)

Data was collected through a structured online questionnaire distributed via Google Forms. The questionnaire was designed to measure key constructs using closed-ended and multiple-choice items to ensure consistency in responses. The items were adapted from previously validated instruments and adjusted to fit the coffee shop context. Prior to full deployment, the instrument was pre-tested with a small sample to ensure clarity and reliability. A total of 227 responses were collected during the data collection period. After data cleaning and screening for eligibility, 218 valid responses were retained for analysis. Respondents who did not meet the inclusion criteria (e.g., never visited a coffee outlet in the specified time frame) or who submitted incomplete data were excluded. The research model comprised both independent and dependent variables measured using multiple-choice formats and Likert-scale items. The constructions were operationalized based on established theoretical frameworks in consumer behavior and service marketing. Each construct was measured using several reflective indicators to enhance construct validity and reliability.

Data Analysis Technique

The data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with the assistance of SmartPLS software. PLS-SEM was selected due to its suitability for predictive modeling, complex model structures, and its ability to handle small to medium sample sizes (Hair Jr et al., 2017). This technique enables simultaneous evaluation of both the measurement model (outer model) and the structural model (inner model).

The outer model was assessed through tests of convergent validity, discriminant validity, indicator reliability, and composite reliability. The inner model was evaluated using coefficient of determination (R^2), predictive relevance (Q^2), and path coefficient significance, with bootstrapping procedures applied to assess the significance of the hypothesized relationships.

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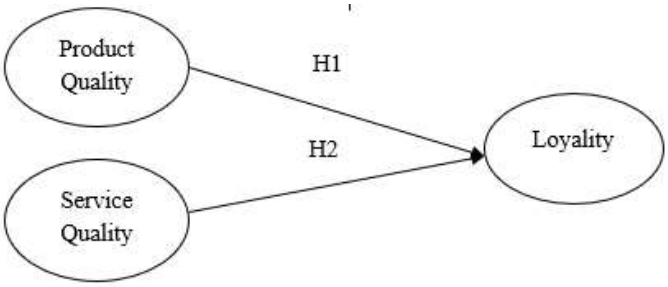

Figure 1. Conceptual Framework

RESULTS AND DISCUSSION

Result

This study aims to evaluate customer experiences in ethnic archipelago restaurants located in Jakarta, Indonesia. Data collection was conducted in the third week of December 2024 using a structured online questionnaire administered via Google Forms. The survey targeted individuals who had visited coffee shops in the company of others, had either paid for the meal themselves or had it paid for by a close acquaintance, and were active users of social media platforms criteria deemed relevant for assessing post-dining behavioral intentions such as electronic word-of-mouth (eWOM) and revisit intentions.

A total of 214 respondents met the predefined inclusion criteria and were included in the final dataset for analysis. These respondents provided complete and valid responses aligned with the research objectives. Table 1 presents the demographic profiles of the participants, including variables such as age, gender, occupation, education level, and monthly income, which serve to contextualize the findings within the broader consumer landscape.

Table 1, Profile the responden

Aspect		Frequency	Pecentage
Gender	Female	107	50%
Age	Male	107	50%
	17 – 24 year	32	15%
	25 – 39 year	156	73%
	40 – 55 year	22	10%
	>55 year	4	3%
Occupation	Student	21	10%
	Entrepreneur	40	19%
	Privat sector employee	134	63%
	Official government	3	1%
	Other	16	7%
Educational Background	Highschool	20	9%
	Bachelor	182	85%
	Master	10	5%
	Other	2	1%
Domicile	Jakarta	33	15%
	Bogor	6	3%

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Aspect		Frequency	Pecentage
	Depok	165	77%
	Tangerang	5	2%
	Bekasi	2	1%
	Other	3	2%

*) data source: data processing result 2025

Table 1 presents the demographic profile of respondents who had previously visited TKT outlets. In terms of gender distribution, the sample was balanced, with both female and male respondents comprising 107 individuals each (50%). Most respondents were aged 25–39 years, accounting for 156 individuals (73%), and were predominantly employed in the private sector, with 134 respondents (63%). In terms of educational background, most participants held a bachelor's degree, totaling 182 individuals (85%). Regarding place of residence, most respondents were in Tangerang, representing 165 individuals (77%) of the total sample.

Measurement Model

Outer Loading

Based on the results of the PLS-SEM analysis, only two indicators for the Service Quality (SQ) and Loyalty (L) constructs met the minimum threshold for outer loading. The remaining indicators demonstrated outer loading values below 0.50 and were therefore excluded from the model. According to Hair et al. (2017), an outer loading value below 0.50 indicates that an indicator does not adequately reflect its corresponding latent construct. This inadequacy may result from inconsistent responses or low variability among respondents' answers for certain indicators. To ensure the validity and reliability of the measurement model, such indicators are recommended for removal. Nevertheless, Hair et al. (2021) further emphasize that a latent construct may still be reliably represented by two indicators, provided that both indicators exhibit high loading values and fulfill the requirements of convergent validity, as indicated by an Average Variance Extracted (AVE) greater than 0.50. In this study, the retained indicators for the SQ and L constructs met these conditions and were therefore considered sufficient to represent their respective constructs.

Table 2, Outermodel evaluation

Indicator or Variable		Outer Loading
Product Quality (AVE = 0.842 , CR = 0.914 , Cronbach's Alpha = 0.812		
PQ1	TKT Coffee always serves fresh and good quality products.	0.918
PQ2	TKT coffee has a delicious taste and suits my taste.	0.917
Service Quality (AVE = 0.622, CR = 0.868, Cronbach's Alpha = 0.797		

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Indicator or Variable	Outer Loading
SQ1 TKT has a clean and comfortable seating area.	0.784
SQ2 The design of TKT coffee shop is interesting for me	0.790
SQ3 TKT Coffee Shop employees always appear neat and clean.	0.798
SQ4 TKT employees always provide products according to my order.	0.782
Loyality (AVE = 0.802, CR = 0.89, Cronbach's Alpha = 0.754	
L1 I often buy TKT	0.890
L2, I love product innovation from a coffee brand	0.901

*)data source: data processing result 2025

The outer model assessment results indicate that all indicators for Product Quality (PQ), Service Quality (SQ), and Loyalty (L) demonstrate outer loading values exceeding 0.70, suggesting that each indicator is a valid and reliable measure of its corresponding latent construct. Furthermore, the Average Variance Extracted (AVE) values for all constructs were found to be above the recommended threshold of 0.50, confirming that the constructs exhibit adequate convergent validity (Hair et al., 2019). Among the constructs, Product Quality (PQ) recorded the highest AVE, indicating that its indicators explain a greater proportion of the variance in the latent variable. The Service Quality (SQ) construct demonstrated an AVE value of 0.622, with outer loadings ranging between 0.782 and 0.798, reflecting a strong and consistent contribution of its indicators to the construct. The Loyalty (L) construct also exhibited excellent measurement properties, with an AVE value of 0.802 and high outer loading values (L1 = 0.890 and L2 = 0.901). These results indicate that the retained indicators effectively capture key behavioral dimensions such as repeat purchase behavior and interest in product innovations offered by TKT. In summary, the measurement model meets the requirements for construct reliability and convergent validity and is therefore considered appropriate for subsequent structural model analysis.

Discriminant Validity Assessment

Discriminant validity was evaluated using the Heterotrait-Monotrait Ratio (HTMT), a method that provides a more reliable assessment of discriminant validity compared to traditional techniques such as the Fornell-Larcker criterion or cross-loadings. According to Hair et al. (2021), discriminant validity between two constructs is considered acceptable when the HTMT value is below 0.90.

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Table 3, Discriminat validity

	Service Quality	Product Quality	Loyalty
Service Quality			
Product Quality	0,774		
Loyalty	0,859	0,665	

*) data source: data processing result 2025

As presented in Table 3, all HTMT values in this study fall below the 0.90 threshold, thereby satisfying the recommended criterion. These findings confirm that each construct in the research model is empirically distinct, and that the indicators used effectively differentiate between the latent variables being measured. Hence, the model demonstrates adequate discriminant validity, allowing for robust interpretation of the relationships in the structural model.

Structural Model Testing (Inner Model)

Multicollinearity Assessment Using Variance Inflation Factor (VIF)

The Variance Inflation Factor (VIF) is a statistical measure used in regression analysis to assess the degree of multicollinearity among independent variables. Multicollinearity arises when two or more predictors in the model are highly correlated, potentially leading to inflated standard errors, unstable coefficient estimates, and difficulty in interpreting the influence of each independent variable (Sarstedt et al., 2022). A VIF value above 5 is generally considered to indicate significant multicollinearity, warranting further examination or the potential removal of variables to improve model stability. Conversely, VIF values below 3 suggest that multicollinearity is not a concern, and the predictors are relatively independent from one another. In this study, all VIF values were within the acceptable range, indicating that the constructs included in the model did not exhibit problematic multicollinearity.

Table 4, Evaluation of collinearity values

	VIF
SQ1	1,657
SQ2	1,627
SQ3	1,859
SQ4	1,810
PQ1	1,875
PQ2	1,875
L1	1,578
L2	1,578

*) data source: data processing result 2025

As shown in the table above, the Variance Inflation Factor (VIF) values for all constructs were below the threshold of 3, indicating the absence of significant multicollinearity among the predictor variables. This suggests that the independent variables in the model are not highly correlated with each other and therefore do not pose a threat to the stability or interpretability of the regression coefficients. The VIF test serves as an essential diagnostic tool to assess the reliability of a regression model, particularly in identifying potential collinearity issues that could compromise the accuracy of parameter estimates. The results of

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this analysis confirm that the model is free from multicollinearity, thereby supporting the robustness of subsequent structural model interpretations.

Coefficient of Determination (R^2) and Effect Size (f^2) Analysis

The coefficient of determination (R^2) is a key metric in evaluating the explanatory power of a structural model within the PLS-SEM framework. It represents the proportion of variance in an endogenous (dependent) construct that is explained by its corresponding exogenous (independent) variables. According to Zhou *et al.*, (2023), R^2 values are interpreted using three general thresholds: a value above 0.75 indicates substantial explanatory power, a value above 0.50 suggests a moderate level, and a value above 0.25 reflects a weak but acceptable level of predictive capability. In the context of this study, the R^2 value provides insight into how effectively product quality and service quality predict customer loyalty toward Kopi TUKU. A higher R^2 value reflects a better-fitting model that explains a larger portion of the variance in customer loyalty. To complement the R^2 analysis, the effect size (f^2) is also evaluated. While R^2 assesses the model as a whole, f^2 quantifies the individual contribution of each exogenous construct to the endogenous variable by estimating how the R^2 value changes when a specific predictor is included or excluded from the model. Following the guidelines proposed by Hair Jr et *al* (2017)(Hair Jr et al., 2017), f^2 values are categorized as follows: 0.02 (small effect), 0.15 (medium effect), and 0.35 (large effect). This additional analysis helps determine the relative strength and importance of each independent variable in influencing customer loyalty. Constructs with a higher f^2 value exert a more substantial impact and should be given greater consideration in managerial and theoretical implications.

Together, the R^2 and f^2 statistics provide a comprehensive understanding of both the overall model's explanatory power and the specific influence of each predictor, offering valuable insights into consumer loyalty behavior within the context of ethnic-themed coffee shops.

Table 5. R- square value

	R-square	R-square adjusted
Loyality	0,465	0,460

*) data source: data processing result 2025

The R-square (R^2) value for the customer loyalty construct was found to be 0.460, indicating that 46% of the variance in customer loyalty can be explained by the exogenous variables included in the model namely service quality and product quality. The remaining 54% of the variance is attributable to other factors not captured within the scope of this research model. According to the interpretive guidelines proposed by Shmueli (2019) , this R^2 value falls within the low explanatory power category ($R^2 < 0.50$), suggesting that the model demonstrates a reasonable ability to predict customer loyalty based on the constructs examined. This level of predictive relevance supports the adequacy of the proposed model for further structural analysis and highlights the meaningful contribution of the identified variables to the development of customer loyalty within the context of ethnic coffee shop experiences. Following the R^2 analysis, the effect size (f^2) was assessed using Partial Least Squares Structural Equation Modeling (PLS-SEM) to evaluate the contribution of each independent variable to the dependent construct. The f^2 value indicates how much the R^2 of

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the dependent variable changes when a specific predictor is removed, highlighting the relative importance of each construct. Interpretation follows kelley and Preacher (2012) guidelines: $f^2 \geq 0.02$ indicates a small effect, ≥ 0.15 a medium effect, and ≥ 0.35 a large effect. This analysis helps identify which variables such as service quality, brand image, and emotional experience have the most significant impact on customer loyalty and supports the robustness of the structural model.

Tabel 6. F-square value

Path	Loyality	Remark
Product Quality	0,034	Small effect size
Service Quality	0,365	Large effect size

*) data source: data processing result 2025

As shown in the table above, service quality exerts a stronger influence on customer loyalty, with an f^2 value of 0.365, which exceeds the threshold of 0.35 and thus indicates a large effect. In contrast, product quality demonstrates a relatively smaller contribution, with an f^2 value of 0.034, falling within the range of a small effect. These findings highlight the more substantial role of service quality in shaping customer loyalty in this study context.

Hypothesis Testing

To evaluate the structural relationships among the variables in the proposed model, hypothesis testing was conducted using Partial Least Squares Structural Equation Modeling (PLS-SEM). The statistical significance of each hypothesized path was assessed based on two criteria: (1) the T-statistic must exceed the critical value of 1.65251, and (2) the P-value must be less than 0.05, corresponding to a 95% confidence level Hair, Risher, et al (2019). The results of the hypothesis testing presented in terms of T-statistic values, P-values, and original sample estimates are summarized in the table below. These values indicate the strength and significance of the relationships between the constructs in the structural model.

Table 7. Hipotesis test result

Hipotesis	T-Statistik	P-Value	Decison
H1 Product quality has a positive and significant effect on customer loyalty	1.885	0.030	Suported
H2 Service quality has a positive and significant effect on customer loyalty	8.150	0.000	Suported

*) data source: data processing result 2025

The hypothesis testing results reveal that both product quality and service quality exert a positive and statistically significant influence on customer loyalty. Specifically, product quality shows a significant effect with a t-statistic of 1.885 and a p-value of 0.030 ($p < 0.05$), indicating that improved product attributes such as taste, freshness, and presentation contribute meaningfully to customer loyalty. This finding is consistent with previous studies, such as Hidayat et al (2019), who demonstrated that food quality significantly affects loyalty among restaurant customers in Jakarta. Similarly, (Cuong, 2021)Cuong (2021) found that high product quality positively influences repeat purchase intentions in the hospitality industry. Furthermore, Ali et al (2021) argue that superior product quality enhances customer satisfaction, which subsequently fosters long-term loyalty. More notably, service quality

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exhibits a stronger impact on loyalty, with a t-statistic of 8.150 and a p-value of 0.000 ($p < 0.001$), suggesting that customer perceptions of promptness, friendliness, and responsiveness in service delivery play a dominant role in building emotional connection and brand trust. This aligns with the findings of Al-Gasawneh and Dalain (2023), who emphasized that service quality is a key determinant of customer retention and trust in the quick-service restaurant sector. Supporting this, Kim and Jang (2023) identified that tangible aspects and employee empathy significantly enhance customer loyalty in café settings. Moreover, Rajput and Gahfoor (2020) highlighted the critical role of baristas' interpersonal and technical competencies in shaping service perceptions and customer satisfaction. Collectively, these findings underscore that while both product and service quality are important, service quality demonstrates a more substantial influence on loyalty in the context of modern coffee retail experiences.

CONCLUSION

Theoretically, this study reinforces the conceptual framework that positions product quality and service quality as key antecedents of customer loyalty, consistent with the expectations-confirmation theory (Oliver, 1977) and SERVQUAL dimensions (Parasuraman et al., 1988). The findings demonstrate that while both variables significantly influence loyalty, service quality exerts a more dominant effect, thereby emphasizing the growing importance of experiential and relational dimensions of service in contemporary consumer behavior. This contributes to the literature by validating that intangible service attributes—such as employee responsiveness, store atmosphere, and emotional connection—play a critical role in shaping repeat purchase intentions and brand commitment, particularly in lifestyle-driven consumption settings such as specialty coffee shops. Moreover, the study extends prior work by highlighting that even when product quality is perceived as high, service interactions act as a differentiator in saturated markets. This insight aligns with the findings of Ting and Thurasamy (2016) and Bauman (2017), confirming that service performance can mediate or even outweigh product performance in the formation of customer loyalty. As such, the study contributes to theoretical discourse by suggesting that loyalty is no longer solely transactional but increasingly relational, anchored in emotional satisfaction and perceived service excellence. Future research should explore the mediating role of customer delight or trust to deepen the theoretical understanding of loyalty formation in service-dominant contexts**.** From a practical standpoint, the findings of this study suggest that the management of Toko Kopi Tuku should prioritize the continuous improvement of service quality elements particularly in terms of store cleanliness, interior design, and employee behavior and performance as these factors have the most substantial impact on customer loyalty. In the context of the increasingly competitive coffee shop industry, strategies aimed at fostering customer retention should not rely solely on maintaining high product quality. Instead, they must be complemented by delivering excellent service and creating a positive and memorable customer experience. Enhancing the physical environment and ensuring consistent, friendly, and responsive service are crucial components in strengthening emotional connections and sustaining long-term customer relationships.

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