

The Effect of Service Quality on Customer Retention and Customer Experience as Mediating Variable

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Article Info

Article history:

Received May, 2024

Revised June, 2024

Accepted June, 2024

Keywords:

Customer Experience

Customer Retention

Service Quality

ABSTRACT

The customer's role is crucial in business, including modern retail. Therefore, this research aims to discover ways to enhance customer retention in modern retail by exploring the impact of relationship quality and customer experience at Ramayana department stores. The study focuses on customers from Ramayana department stores in the DKI Jakarta region. Using proportional random sampling, a sample of 400 customers was selected. Path analysis with JASP software was used for data analysis. The research findings are: 1) Service quality has a significant and positive impact on Customer Experience at Ramayana Department Store. 2) Customer Experience significantly and positively influences Customer Retention at Ramayana Department Store. 3). Service quality positively impacts Customer Retention through Customer Experience as a full mediator at Ramayana Department Store.

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1. INTRODUCTION

With the rapid expansion of modern retail and intense competition, it has become increasingly challenging for modern retailers to maintain their competitive edge. This difficulty arises from rapid product imitation, short product life cycles, and the vast amount of information available to consumers, making it easy for them to switch from one store to another due to minimal barriers.

As a result, retailers need to be more strategic and intelligent in organizing and managing their marketing strategies. Due to the similarity of products and higher service levels, combined with easier access to information, marketing strategies must be crafted to be as effective and efficient as

possible. This can be achieved by building stronger brands, developing skills in fostering customer loyalty, maintaining long-term relationships with consumers, and offering superior products and services [1].

The growth of the department store sector has not kept pace with other retail businesses such as hypermarkets and minimarkets that sell food, beverages, and other household necessities. Department stores, which sell fashion-related products including clothing, bags, shoes, accessories, and household furniture, are organized into sections (departments) with a self-service purchasing system. This industry first emerged in Jakarta in 1962 with the establishment of Sarinah. The advent of Sarinah inspired the development of several major local players such as

Matahari and Ramayana. Subsequently, various foreign department stores like Sogo, Metro, and Seibu entered Indonesia. Despite the country's economic growth, the number of department stores has not increased as significantly as hypermarkets, supermarkets, and minimarkets.

The digital technology revolution has transformed consumer behavior towards marketing [12], [4]. These changes are evident in how consumers search for, purchase, use, and dispose of products after consumption. Media consumption habits have also shifted significantly, prompting marketers to adapt their strategies and innovate to find more effective channels for attracting consumers. Consequently, marketing strategies and activities have evolved to become more modern [5].

Good service quality is very important to influence customer retention. By providing friendly, fast and efficient service, Ramayana Department. The store is expected to increase customer satisfaction and build consumer loyalty. Customers who are satisfied with the quality of service provided tend to return to shopping at Ramayana Department Store and remain loyal customers.

In addition, excellent customer experience during transactions and after purchase greatly influences loyalty and retention levels. If customers feel satisfied with being well served, and get added value in their shopping experience at Ramayana Department Store, they will tend to shop again and become loyal customers. Therefore, Ramayana Department Store must focus on a pleasant customer experience, from the pre-purchase stage to the post-purchase stage.

To better understand Ramayana customers' perceptions of factors influencing consumer retention, the author conducted a pre-survey with 30 Ramayana customers. The results showed that 70% of the respondents choose to visit and shop at Ramayana due to good customer relations, and 80% cited the ease of transactions as their reason for visiting and shopping there.

2. LITERATURE REVIEW

2.1 Service Quality (10pt)

Service quality as a measure of the extent to which the services provided meet customer expectations [9]. Service Quality as a comparison between two main factors, namely customer perceptions of the actual service received/felt and the service that is actually expected/desired [6].

Service quality occurs when customers are satisfied with the results of their purchase, achieve their goals, there are no problems, and their experience exceeds customer expectations [6]. Quality as paving the way for determining customer perceptions of the services provided by the store [7]. Service quality in retail as a factor that increases sustainable competitive advantage [7].

Research by Brady, Cronin, and Brand [8] entitled Performance-only measurement of Service Quality: a replication and extension, shows that reliability and empathy are the most important dimensions of service quality in influencing customer satisfaction. They also found that higher service quality can create a more positive customer experience.

Research by Homburg and Giering [2] entitled Personal characteristics as moderators of the relationship between customer satisfaction and loyalty—an empirical analysis, found that service quality contributes significantly to customer retention. They found that customers who felt that service quality had met or exceeded their expectations were more likely to return to use the product or service offered and recommend it to others.

Thus, this shows that the Service Quality variable is predicted to improve Customer Experience and Customer Retention.

2.2 Customer Experience

Customer experience is an internal and subjective response from customers resulting from their direct or indirect interactions with a company [16].

According to Pecorari and Lima [17], the dimensions of customer experience include:

1. Product experience - highlights the importance of customer perception in having choices and the ability to compare offers, which significantly influences consumer behavior and loyalty.
2. Focus on outcomes - relates to reducing customer transaction costs, such as searching for and evaluating new suppliers, emphasizing goal-directed experiences in consumer behavior.
3. Moments of truth - stresses the importance of service recovery and flexibility in addressing customer issues after complications arise.
4. Peace of mind - reflects a customer's evaluation of all interactions with a service provider before, during, and after purchasing a service, closely tied to the emotional aspects of service.

Customer experience as interactions at all touchpoints involving cognitive, affective, emotional, social, and sensory factors, intersecting the digital, physical, and social Customer experience as the impression formed when individuals interact with products, services, and companies [18].

Research by Verhoef et al. [10] found that customers who had positive experiences were more likely to continue using the product or service and purchase additional products. This indicates that a positive customer experience is likely to enhance customer retention.

2.3 Customer Retention

Srivastava et al. [11] define customer loyalty as a combination of customer preference, awareness, commitment, trust, willingness to recommend, and intention to repurchase. Similarly, Shukla and Shah (2018) describe customer loyalty as encompassing customer preference, commitment, trust, and willingness to recommend. According to Lakshman and Faiz [13], customer retention is the ability of a company to keep existing customers, reflected through customer loyalty and satisfaction. The dimensions include:

- a) customer loyalty (purchase frequency, intensity of product use, and product recommendations),
- b) customer satisfaction (product quality, customer service, and price).

Mishachandar and Kumar [14] explain that customer retention is a company's ability to retain high-value customers and reduce customer churn. The dimensions are:

- a) customer value (purchase frequency, number of products used, and total customer spending value),
- b) customer churn rate (customer bounce rate and product/service churn time).

Hanaysha [15] defines customer loyalty as a company's capability to maintain loyal customers and create long-term value for both the company and its customers. The dimensions include:

- a) customer loyalty (purchase frequency, intensity of product use, and product recommendations),
- b) long-term value (customer contribution to company revenue and profits, as well as product development potential).

3. METHODS

This research employed a quantitative approach, focusing on customers of Ramayana department stores as the subjects and modern retail as the object. The study was conducted from December 2023 to April 2024 in the DKI Jakarta area. A 1-5 Likert scale was used as the research instrument. The sampling method was proportional random sampling. Data collection was carried out using a questionnaire, and data analysis was performed using mediation analysis with JASP software. Mediation analysis examines whether and to what extent the effect of variable X on variable Y is explained by variable M [19].

4. RESULTS AND DISCUSSION

The resulting coefficient values and their confidence intervals are presented in Table 1 below.

From Table 1 and the figure, using bootstrap confidence intervals, we can conclude that mediation exists in this model: the 95% CI of the indirect effect is [0.087, 0.170], which does not include 0. Additionally, the direct effect of the Service quality (SQ) variable on Customer Retention (CR) is positive, as is the total effect. This provides an interesting insight into how Service Quality (SQ) promotes optimal Customer Retention (CR) through Customer Experience (CE).

From the perspective of path diagram analysis figure 1, it can be seen that the highest path coefficient is in the influence of the variable SC on the variable CE and the medium coefficient value is in the influence of the variable CE on the variable CR.

This shows that variables SC can be used to increase variables CE while variables CR must be strengthened in order to increase variables CS and CE.

Table 1. Result of Mediating Analysis

| Parameter estimates | | | | | | |
|--|----------|------------|---------|--------|-------------------------|-------|
| Direct effects | | | | | | |
| | Estimate | Std. Error | z-value | p | 95% Confidence Interval | |
| | | | | | Lower | Upper |
| SC → CR | 0.235 | 0.034 | 6.865 | < .001 | 0.168 | 0.302 |
| <i>Note.</i> Delta method standard errors, normal theory confidence intervals, ML estimator. | | | | | | |
| Indirect effects | | | | | | |
| | Estimate | Std. Error | z-value | p | 95% Confidence Interval | |
| | | | | | Lower | Upper |
| SC → CE → CR | 0.128 | 0.021 | 6.101 | < .001 | 0.087 | 0.170 |
| <i>Note.</i> Delta method standard errors, normal theory confidence intervals, ML estimator. | | | | | | |
| Total effects | | | | | | |
| | Estimate | Std. Error | z-value | p | 95% Confidence Interval | |
| | | | | | Lower | Upper |
| SC → CR | 0.364 | 0.031 | 11.917 | < .001 | 0.304 | 0.423 |
| <i>Note.</i> Delta method standard errors, normal theory confidence intervals, ML estimator. | | | | | | |
| Path coefficients | | | | | | |
| | Estimate | Std. Error | z-value | p | 95% Confidence Interval | |
| | | | | | Lower | Upper |
| CE → CR | 0.341 | 0.049 | 6.933 | < .001 | 0.245 | 0.438 |
| SC → CR | 0.235 | 0.034 | 6.865 | < .001 | 0.168 | 0.302 |
| SC → CE | 0.376 | 0.029 | 12.847 | < .001 | 0.319 | 0.434 |
| <i>Note.</i> Delta method standard errors, normal theory confidence intervals, ML estimator. | | | | | | |

Source: Processed primary data using JASP Software (2024) (9pt)

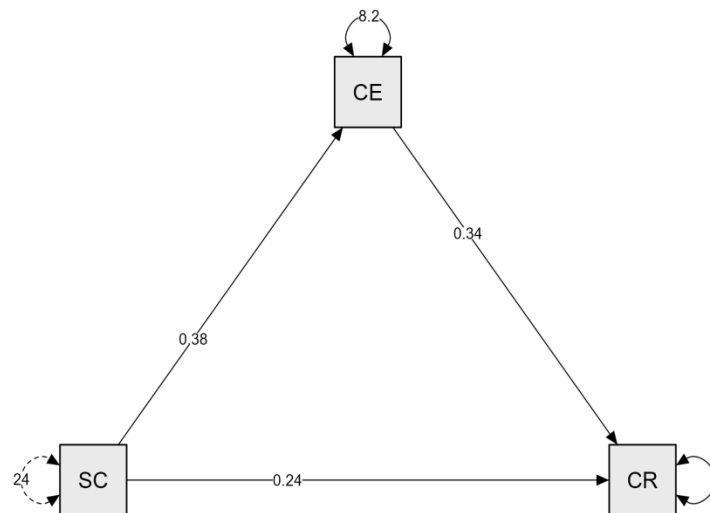


Figure 1. path plot model from JASP Software (10pt)

5. CONCLUSION

The research conclusion are: Service quality has a significant and positive impact on Customer Experience at Ramayana Department Store. Customer Experience significantly and positively influences Customer Retention at Ramayana Department Store. Service quality positively impacts Customer Retention through Customer Experience as a full mediator at Ramayana Department Store.

ACKNOWLEDGEMENTS

We extend our heartfelt appreciation to all who helped make this research possible. We are especially thankful to our colleagues and mentors for their invaluable guidance and support. We are deeply grateful to Prof. Ngadino Surip D. and Dr. Hari Muharam for their insightful feedback and suggestions throughout the study.

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