CHAPTER II

LITERATURE REVIEW, RESEARCH FRAMEWORK, AND HYPOTHESES DEVELOPMENT

In this chapter will consists of detail explanation of service quality, atmosphere, and the relation with customer satisfaction and loyalty based on the previous study. The research framework and hypothesis development show at the end of this chapter.

2.1. Service Quality

User-oriented definition and due to its inherent characteristics, service quality is defined as the difference between service recognized by customers (outcome) and their expected service. However, even though many researchers treat service quality as an attitude or measurement of satisfaction, this results in a problem where service quality is only partly defined according to PZB's definition. Therefore, it is necessary to look at service quality in "individual's subjective judgment" (Cho *et al.*, 2015). In real life, service quality cannot be defined precisely due to various aspects caused by characteristics of service, customers' various expectations toward service, difficulty in setting up valuation basis, and variability of provided benefits and satisfaction. According to Parasuraman, Zeithaml, Berry

research team (PZB, 1985) cited in Cho *et al*. (2015), "service quality is discordance and direction between consumers' expectations and their recognition". This statement implies that if a consumer's recognition after receiving service is higher than their expectation that consumer has prior to service, then service quality is highly evaluated. However, it is hard to evaluate service quality objectively. This is because of the service's intangible characteristic and the fact that consumer's recognized perception fraction has to be evaluated based on consumer's subjective judgment.

This research used the previous study of service quality by Cho et al. (2015). To recognized service quality of coffee shop can be viewed as a composition factor of customer satisfaction. This is because if service quality of coffee shop reflects customer recognition towards five service elements, then customer satisfaction is influenced by quality of service, quality of products, and customer recognition towards cost in addition to situational factor and individual factor. For example, a coffee shop's service quality in coffee industry is determined by whether tables are set up properly and are ready to be used when needed (reliability), how well workers are responding to customer's demand (reactivity and sympathy), how worker's skills are refined (assurance), and how well equipment is managed (materiality). However, customer satisfaction is determined in a broader sense which includes not only recognition of quality of restaurant service quality but also situational factors such as recognition of quality (quality of products), cost, and emotional status of customer. There are other standards which differentiates quality from satisfaction.

2.2. Atmosphere in Store

Atmospherics is defined as the emotionally oriented design of space, which can affect the customers as well as the employees (Skandrani et al., 2011, p. 53) as cited in Fuxiang et al., (2015). According to Ghoch (1990), an atmosphere in shops creates a psychological use which affects the value which a retailer provides. Moreover, he defined that a retailer's atmosphere is created through a psychological effect or feeling which is designed by physical environments as cited in *Cho et al.*, (2015).

According to recent studies about a store's facility-based effect, a store's atmospheres, environmental cues, environments, physical surroundings and service scopes are used together (Turley & Milliman, 2000) as cited in Cho e*t al.,* (2015). The common characteristic from the recent studies is that an atmosphere in a store is not just a physical surrounding, but also for inducing customers to purchase because of purposely created physical and cognitive factors (Cho et al., 2015).

2.3. Customer Satisfaction

The most comprehensive definition of satisfaction has been offered by Kotler and Keller (2006) who define satisfaction as "person's feeling of pleasure or disappointment which resulted from comparing a product's

perceived performance or outcome against his/ her expectations as cited in Cho et al., (2015). Customer satisfaction is customer's achievement response, it means fulfilling customer's expectation above certain standards. Unlike quality that is being recognized, satisfaction is usually from experience, and therefore, it is strongly influenced by customer's emotional progress. Since satisfaction is under control of subjective expectation, there are some instances where it is unable to obtain customer's satisfaction depending on their expectations. In short, satisfaction means a condition in which the customer's trust towards service is continuous as a result of fulfilling customer's demands and expectations (Byun, 2006).

There are two points of view in regard to the coffee shop's relationship between service quality and customer satisfaction. One states that customer satisfaction is an evaluation from specific transaction and service quality is an overall evaluation. It states that customer satisfaction is derived from the cumulated specific transaction and it ultimately leads to overall service quality of coffee shops. The other point of view claims that the service quality of a coffee shop does not directly lead to service purchase and service quality is viewed as precedence element of customer satisfaction. Among them, there have been efforts to discover the causal relationship between service quality and customer satisfaction; however, there is no definite conclusion in regard to directionality between two concepts. Therefore, in reality, customer satisfaction is used in a mingled manner with service reality in spite of many researcher's attempts to

measure both concepts more precisely in theoretical wise and methodological wise. (Cho et al., 2015).

Increased customer satisfaction can provide company benefits like customer loyalty, extending the life cycle of a customer expanding the life of merchandise the customer purchase and increases customers positive word of mouth communication. When the customer is satisfied with the product or service of the company, it can make the customer to purchase frequently and to recommend products or services to potential customers. It is impossible for a business organization to grow up in case the company ignores or disregards the needs of customers (Tao, 2014) as cited in Khadka and Maharjan (2017).
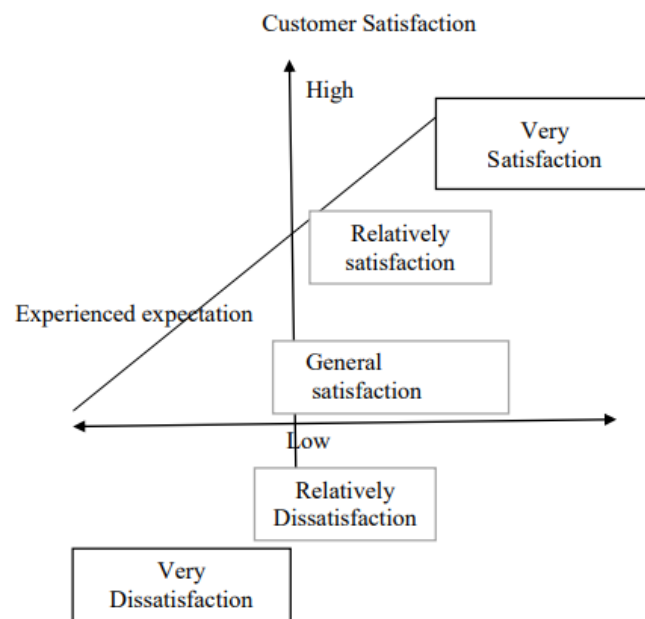

Figure 2.1. Customer Satisfaction Analysis Model

Source: Tao, 2014 (cited in Khadka and Maharjan, 2017)

Customer relationship management triangle law describes: Customer satisfaction = customer expectations. In the given figure customer satisfaction can be seen negatively correlated with customer expectations. The figure clear difference between the customer experience and customer expectation. Therefore, it is divided into five intervals (very dissatisfied, relatively dissatisfied, general satisfaction, relatively satisfied and very satisfied). When the customer experience essential flats with customer expectation, the customer satisfaction become higher. On the contrary, compared with the expectations, the worse customer experience brings lower customer satisfaction. There are two ways to improve customer satisfaction for companies. First service improvement, to enhance the customer experience and second try to effectively manage customer expectations by reducing the desired level. However, the first approach is widely used in the organization and achieved great success. In the future, companies will need to still make some adjustment for continuous improvement (Tao, 2014) as cited in Khadka and Maharjan (2017).

2.4. Customer Loyalty

Czepiel and Gilmore (1987) as cited in Cho *et al*. (2015) viewed loyalty as a result of dynamic emotional process and stated that loyalty is a tendency supported by commitment, positive attitude, previous knowledge, consentience, and trust. Also stated with services, there are other aspects of the "product" offering consumers might consider in their evaluation and decision to become a loyal customer, service loyalty is influenced by satisfaction and interpersonal bonds (customers "want to" be loyal) and

switching costs (customers "have to" be loyal). Customer satisfaction has an important role to gain customer loyalty. As cited in Song *et al*. (2018), several prior studies have demonstrated that customer satisfaction positively affects loyalty behaviour in the case of a fast-casual restaurant (Ryu *et al*., 2008), a Chinese restaurant (Ryu et al., 2012), a family restaurant (Jung & Yoon, 2013) and a hotel restaurant (Han & Hyun, 2017).

Every marketer who sell the product wants to achieve the goals in the company. One of the goals is making high profit to enable company the grow and succeed. According to Reichheld and Sasser (1990) cited in Hartanti (2017), stated that small reduction in consumer defections can produce significant increase in profit because:

1. Loyal consumers buy more products
2. Loyal consumers are less-price sensitive and pay less attention to competitors' advertising
3. Servicing existing customers is cheaper
4. Loyal consumers spread positive word of mouth and refer other customers.

2.5. Previous Research

Table 2.1

Previous Research

No.	Title of Journal	Purpose	Variables	Hypothesis	Methodology of Research	Result
1	The Impact of Korean Franchise Coffee Shop Service Quality and Atmosphere on Customer Satisfaction and Loyalty. Cho et al. (2015). *East Asian Journal of Business Management*, Vol. 5 No. 4, pp. 47-57	To examine how franchise coffee shop service quality and store atmosphere influence customer satisfaction and loyalty.	The independent variable is service quality (trust and reactivity, assurance and sympathy, taste, materiality, and store atmosphere). The dependent variable are customer satisfaction and customer loyalty	H1. Franchise coffee shop's service quality factors and atmospheres in a store have positive influences on customer satisfaction. H1-1. Trust and Reactivity H1-2. Assurance and Sympathy H1-3.Taste H1-4. Materiality H1-5. Store Atmosphere. H2. Franchise coffee shop's service quality factors and atmospheres in a store have positive influences on customer loyalty. H2-1. Trust and Reactivity H2-2. Assurance and Sympathy H2-3.Taste H2-4. Materiality H2-5. Store Atmosphere. H3. Franchise coffee shop's customer satisfaction has positive influences on customer loyalty.	Used survey questionnaire to the main customers of franchise coffee shops in Seoul with total distributed are 500 questionnaire and only 482 data used. Data was analyzed by using SPSSWIN 19.0, major statistical methods used are analysis of frequency, analysis of assurance and validity, correlation analysis, and multiple regression analysis.	The result shown that taste is revealed to be the most influental factor on customer satisfaction and loyalty. Customer satisfaction turned out to affect customer loyalty. As a result, franchise coffee shops should adopt globalization by developing intangible services and taste which offer convenience to customers

2	Impacts of the Attributes of Service Quality on Customer Satisfaction and Interrelationship among Service Quality, Customer Satisfaction and Loyalty: A Study of Casual Dining Restaurant of Ranchi. Jana, Abhisek. (2014). *Journal of Hospitality Application & Research*, Vol. 9, pp. 46-61.	To identify the impact of the attributes service quality on customer satisfaction and to find out the relationship between service quality, customer satisfaction and customer loyalty in the casual dining restaurant of Ranchi, Jharkhand.	The independent variable service quality (Tangibles, reliability, responsiveness, assurance, empathy). The dependent variable is customer loyalty. Customer satisfaction is used as intervening variable.	H1a: There is relation between tangibles and customer satisfaction. H1b: There is relation between reliability and customer satisfaction. H1c: There is relation between responsiveness and customer satisfaction. H1d: There is relationship between assurance and customer satisfaction. H1e: There is relationship between empathy and customer satisfaction. H2: There is relation between customer satisfaction and customer loyalty.	Used questionnaire with total 220 questionnaire distributed and 148 usable questionnaires were returned. Questionnaire was conducted among students in the Departement of Hotel Management at Barla Institute of Technology. The data was analysed SPSS software version 20.	The result shown that H1a, H1b, H1d, and H1e in service quality has a strong positive relationship with customer satisfaction but H1c has a weak relationship between service quality and customer satisfaction. Hypothesis 2 demonstrate there is strong positive correlations between customer satisfaction and customer loyalty.
3	The Coffee Shop Dining Experience and Customer Loyalty intentions: Brewing the Perfect Blend. Kuhn and Bothma. (2018). *Management Dynamics*, Vol. 27, No.4, pp 12-28.	The purpose of this study is to know the relationship between coffee shop dining experience and customer loyalty intentions based on stimulus-organism-response (S-O-R) framework.	The independent variable is loyalty intentions, the dependent variable is customer dining experience (atmosphere, food quality, service quality, social connectedness), the mediating variable are customer satisfaction and positive consumption emotions.	H1: Atmosphere directly and positively affects customers' coffee shop dining experience. H2: Food quality directly and positively affects customers' coffee shop dining experience. H3: Service quality directly and positively affects customers' coffee shop dining experience. H4: Social connectedness directly and positively affects customers' coffee shop dining experience. H5: Customers' coffee shop dining experience directly and positively influences their satisfaction with a coffee shop H6: Customers' coffee shop dining experience directly and positively influences their loyalty intentions towards a coffee shop H7: Customers' coffee shop dining experience directly and positively influences the positive consumption emotions they feel in a coffee shop. H8: Customers' satisfaction with a coffee shop directly and positively influences their loyalty intentions towards the coffee shop. H9: The positive consumption emotions that customers feel in a coffee shop directly and positively influence their loyalty intentions towards the coffee shop. H10a: Customers' satisfaction with a coffee shop mediates the relationship between their coffee shop dining experience and loyalty intentions towards the coffee shop H10b: Positive consumption emotions that customers feel in a coffee shop mediate the relationship between their coffee shop dining experience and loyalty intentions towards the coffee shop	Used self-administrated, structured questionnaire. Respondents were from public areas in and around coffee shops. The structured questionnaire consisted of preamble, screening questions, and six sections. The likert used in this research were 5 likert point which 1 is strongly disagree and 5 is strongly agree. The data were processed using IBM SPSS Statistic version 25.	The result shown that from dining experience in coffee shop environment, service quality is the strongest indicator, followed by food quality, atmosphere and social connectedness. The result also shown that with the exception of hypotheses H6 and H9, all the other hypotheses are supported. To the test for the hypothesised mediation effects (H10a and H10b), although customer satisfaction mediated the relationship between coffee consumers' dining experience and loyalty intentions, positive consumption emotions did not,

4	Mediating Effect of Customer Satisfaction on Service Quality and Customer Loyalty Relationship in Malaysia Rural Tourism. Sentosa and Osman. (2013). International *Journal of Economics Business and Management Studies*, Vol. 2, No. 1, pp. 25-37.	The purpose of this study is to develop an indirect effect of understanding service quality, customer satisfaction and customer loyalty in Malaysia rural tourism.	The independent variable is loyalty. The dependent variable is service quality with customer satisfaction as mediating variable.	H1: There is a positive relationship between service quality and customer loyalty. H2: There is a positive relationship between service quality and customer satisfaction. H3: There is a positive relationship between customer satisfaction and customer loyalty. H4: There is a positive mediating affect of customer satisfaction on service quality and customer loyalty relationship.	Used questionnaire with total 410 rural tourism spots tourist were requested, 329 were returned. The model was designed and later examined by utilizing the Partial Least Square (PLS) procedure on data collected from a survey that yielded 295 usable questionnaires.	The result shown that first there is a significant relationship between service quality and customer satisfaction (0.787). Secondly there is a significant relationship between service quality and customer loyalty (0.719). Third, customer satisfaction is partially mediates the relationship between service quality and customer loyalty, which means customer satisfaction plays a role as mediator.
5	The Influence of Service Quality Dimensions on Customer Satisfaction and Customer Loyalty in PT. JNE North Area Bandung. Quddus and Hudrasyah. (2014). *Journal of Business and Management*, Vol. 3, No. 5, pp. 546-556.	The purpose of this study is to examine s how each dimension of service quality may exhibit different impacts on customer satisfaction and customer loyalty in the service delivery context which is PT. JNE in North Bandung Area.	The independent variable customer service. The dependent variable is customer loyalty. The intervening variable is customer satisfaction.	H1-1: Assurance significantly influence towards customer satisfaction. H1-2: Responsiveness significantly influence towards Customer satisfaction. H1-3 Reliable significantly influence Customer satisfaction. H1-4: Empathy significantly influence towards customer satisfaction. H1-5: Tangible significantly influence towards Customer satisfaction. H2: Customer satisfaction significantly influence customer loyalty. H3: Customer satisfaction mediating customer loyalty.	Used quantitative data. Questionnaires were randomly distributed to customers of PT. JNE in North Bandung area. The judgement sampling is used in this research. the sample size pf this research is 178 peoples. The data then processed using SPSS 13.0.	The result is all dimensions of service quality significantly influence customer satisfaction. The customer satisfaction significantly influence customer loyalty. Customer satisfaction mediates the significant influence of service quality dimensions on customer loyalty.
6	An analysis of library customer loyalty. The role of service quality and customer satisfaction, a case study in Indonesia. Bakti and Sumaedi. (2012). *Library Management*, Vol. 34, No 6/7, pp 397-414.	The purpose of this research is to investigate the relationship between library customer loyalty and other latent constructs, namely service quality and customer satisfaction in a university library service in Indonesia.	The independent variable is service quality. The dependent variable is customer loyalty. The mediating variable is customer satisfaction.	H1. Service quality affects customer satisfaction positively and significantly. H2. Service quality affects customer loyalty positively and significantly. H3. Customer satisfaction affects customer loyalty positively and significantly.	Used questionnaire with convenience sampling technique to collect the research. In total, 100 of the library users participated on the survey. Structural equation modelling technique was performed to analyze the empirical data.	The result shown that service quality does not influence customer loyalty in library service directly. However, it is found that service quality influences customer loyalty in library service indirectly via customer satisfaction. The authors proposed that library should adopt ISO 9001 as their management system framework.

7	Attributes of the coffee shop business related to customer satisfaction. Song et al., (2018). *Journal of Foodservice Business Research*. ISSN: 1537-8020.	To investigate the antecedent attributes of customer satisfaction in the coffee shop business domain. Based on the literature, this research examines "atmosphere," "employee attitudes," "information technology service (IT service)," and "coffee quality" in relation to "satisfaction" and "loyalty.	The independent Service Quality (Coffee Quality, IT Service, Employee Attitude, Atmosphere), and Customer Satisfaction. The dependent variable is Customer loyalty.	H1: Atmosphere positively affects customer satisfaction with coffee H2: Employee attitude positively affects customer satisfaction with coffee shops. H3: IT service positively affects customer satisfaction with coffee shops. H4: Coffee quality positively affects customer satisfaction with coffee shops. H5: Satisfaction positively affects customer loyalty to coffee shops.	A total of 277 observations were obtained from data collected using Amazon Mechanical Turk. For the data analysis, confirmatory factor analysis and structural equation modelling were conducted to examine the validity of the measurements and to understand the structural relationship.	The results showed that the hypothesized antecedent variables were statistically significant to account for satisfaction. In particular, taste was identified as the most influential attribute accounting for satisfaction. Moreover, a significant relationship between "satisfaction" and "loyalty" was identified.
8	The Influence of Service Quality Dimensions on Customer Satisfaction and Customer Loyalty in The Chain Restaurant Context: A Thai Case. Sophonsiri and Polyorat (2010). *Journal of Global Business and Technology*, Vol. 6, No. 2, pp 64-76.	The purpose of this study is to examine how each dimension of service quality may exhibit different impacts on customer satisfaction and customer loyalty in the chain restaurant context in Thai case.	The independent variable is service Quality (Reliability, Tangibles, Responsiveness, Assurance, and Empathy). The dependent variable is Customer loyalty. The mediating variable is Customer satisfaction	H1: The service quality dimensions of tangibles, reliabilities, responsiveness, assurance and empathy influence customer satisfaction. H2: The service quality dimensions of tangibles, reliabilities, responsiveness, assurance and empathy influence customer loyalty. H3: Customer satisfaction mediates the influence of the service quality dimensions (tangibles, reliabilities, responsiveness, assurance and empathy) on customer loyalty.	Used a survey research with judgemental sampling with 395 Thai undergraduate students. The questionnaire using 7 level of likert (1=strongly disagree, 7=strongly agree).	The result shown that, for the chain restaurant in Thailand, the service quality dimensions of tangibles and empathy have significant influences on customer satisfaction and customer loyalty while the other three dimensions (reliabilities, responsiveness and assurance) do not. Customer satisfaction mediating the influence of service quality on customer loyalty.
9	Service Quality, customer satisfaction and loyalty in automobile repair service sector. Izogo and Ogba (2014). *International Journal of Quality and Reliability Management*, Vol. 32, No. 3, pp. 250-269.	The purpose of this study is to explore the dimensional structure of the SERVQUAL scale within non-western service setting as well as the impact of service quality dimensions on customer satisfaction and loyalty.	The independent variable is service quality (reliability, responsiveness, assurance, empathy, tangibles) and customer satisfaction. The dependent variable is customer loyalty.	H1. There is strong positive relationship between service quality dimensions and customer satisfaction. H2. There is strong positive relationship service quality dimensions and customer loyalty. H3. There is strong positive relationship between customer satisfaction and customer loyalty.	Used questionnaire respondents were drawn from the general area of Abakaliki urban, a south-eastern Nigerian city, with specific focus on the mechanic village. Out of the 384 questionnaires distributed, a total of 256 were returned.	The result shown that the SERVQUAL scale is a valid and reliable scale for measuring automobile service quality and can serve as a good starting point for scale construction. However, the dimensions of service quality are context specific and less generic as contended by the originators of the SERVQUAL dimensions.

| 10. | The Effect of Service Quality, Brand Image and Customer Satisfaction on Customer Loyalty: Evidence from Hotel Industry. Sangwan and Bhakar (2018). *Prestige International Journal of Management & IT-Sanchayan*, Vol. 7, No. 1, pp. 1-15. | The purpose of this research is to evaluates the impact of service quality on brand image, customer satisfaction and customer loyalty; the impact of brand image on customer satisfaction and customer loyalty, and lastly impact of customer satisfaction on customer loyalty. | The independent variable is service quality, the dependent variables are brand image, customer satisfaction, and customer loyalty. | H1. Service quality significantly affects brand image H2. Service quality significantly affects customer satisfaction. H3. Brand image significantly affects customer satisfaction. H4. Service quality significantly affects customer loyalty. H5. Customer satisfaction significantly affects customer loyalty. H6. Brand image significantly affects customer loyalty. | Used questionnaire using non probability purposive sampling with total distributed 220 hotel's customers/guests, and total 197 responses were returned, and only 173 usable responses were used. The data was carried out using SPSS software. Structural Equation Model was applied between service quality, brand image, and customer satisfaction as independent variable and customer loyalty as dependent variable. | The result shown that the data was found reliable with strong internal consistency. The result of SEM was shown that if the hotel industry want to differentiate them in the competitive environment and create loyalty among customers the hotel must offer the good quality of service, try to establish a strong and effective brand image and always keep customer satisfied and happy. |

Source: International Journals.

2.6. Hypotheses Development

2.6.1. The Impact of Service Quality on Customer Satisfaction

It is hard to measure service quality through objective criteria such as fraction defective or durability since service quality is a progress. In customer-oriented service industry, actualizing good service quality means the success of the company. In competitive environment, if service quality decreases, a company loses its customer when it gains its customer means good quality. As a result, in a society where the customers' demand for service is becoming delicate, it is crucial in-service organization to strengthen its service quality for effective and efficient to gain trust and secure customer (Cho et al., 2015).

As cited in Cho et al., (2015), Parasuraman, Zeithaml, and Berry (1985) research team discovered that there are general standards by which customers recognize service quality by studying customers receiving four different forms of services (bank, credit card company, detective agency, and repair service) with detailed service composition factors derived from Grōnroos's (1984) study. They called these general standards as "composition factors of service quality" and presented ten factors. After that, they reduced these factors into five composition factors through developing criterion and validity. Here are five composition factors: First of all, corporeality refers to all physical elements including tools which used to provide service. It also includes other customer's reaction when service is provided. In other words, in case of airplane passengers, noisiness of neighbouring passenger is included. Second, reliability refers to ability to be punctual, try their best to resolve customer's problem, and provide service without any mistakes. Third, reactivity is promising precise offer rime of service and responding customer's request no matter how busy they are. Forth, assurance is being friendly to customer all the time and providing stability to transactions. Fifth, sympathy is providing convenient time for customers and attempting to give maximum benefit to customer cited in Cho et al (2015).

2.6.1.1. The Impact of Trust & Reactivity on Customer Satisfaction

The previous study has done by Cho et al. (2015) show that trust and reactivity in service quality dimension has positively influence customer satisfaction on franchise coffee shop industry. Research that done by Kuhn

and Bothma (2018), shows the result of social and service quality have a positive influence in dining experience towards customer satisfaction. Kuhn and Bothma (2018) mention the variables as social and service quality that basically the same as reliabilities and responsiveness. In Thai Restaurant research done by Polyorat and Sophonsiri (2010) found that reliabilities and responsiveness do not significantly influence customer satisfaction. The other research on Ranchi restaurant done by Abhisek (2014) found that reliabilities have a strong positive relationship but responsiveness has a weak relationship towards customer satisfaction. Reliability and responsiveness in service quality dimension do not always have the same positive result. From previous researches mentioned about reliabilities and responsiveness, the basic theory about reliabilities for this research is the same as trust and responsiveness is same as reactivity. In this research, the dimensions of reliabilities and responsiveness become one dimension (trust and reactivity), therefore, the hypothesis is:

Hypothesis 1-1: Service quality (Trust and Reactivity) significantly influence customer satisfaction.

2.6.1.2. The Impact of Assurance and Sympathy on Customer Satisfaction

Cho *et al*. (2015) found that assurance and sympathy in service quality have significantly influence towards customer satisfaction. Assurance in service quality dimension has a strong positive relationship towards customer satisfaction on coffee shop dining experience stated by

Kuhn and Bothma (2018). Abhisek (2014) found that assurance has a strong positive relationship towards customer satisfaction in casual dining restaurant. It means that as assurance from restaurant employees increases, customer satisfaction also increases. Quddus and Hudrasyah (2014) found assurance in service quality dimension has the most significant influence towards customer satisfaction on service delivery industry. Most of the results above show there is a positive relationship between assurance and customer satisfaction. The dimension of assurance will be added with sympathy. Assurance and sympathy are measured by investigating worker's deep interest towards individual customers, faithful accomplishment to customer's demand, ability to carry out service with sympathy, friendliness and consideration, skill to understand customer's needs and emotion, assurance of customer safety from all situations such as fire, trust towards hygiene and safety, and skill to make tasty coffee and beverage, therefore the hypothesis is:

Hypothesis 1-2: Service quality (Assurance and Sympathy) significantly influence customer satisfaction.

2.6.1.3. The Impact of Taste on Customer Satisfaction

"Coffee quality" is the final variable that can influence customer satisfaction. Prior research has shown that food quality is the most significant element in the food service business (Chen & Hu, 2010; Dorn, Messner, & Wänke, 2016; Ha & Jang, 2010; Han & Hyun, 2017; Namkung & Jang, 2007) as cited in Song *et al.* (2018). customers' assessment of food

has been shown to influence their dining experience and return patronage, many studies have focused on identifying the aspects of food quality, which include tastiness, freshness, presentation, and portion size (Ha and Jang, 2010: 521; Namkung and Jang, 2007: 387) cited in Kuhn & Bothma, (2018). The previous research done by Cho *et al.* (2015) found that taste is the most influential factor in service quality towards customer satisfaction on franchise coffee shop industry. Food quality in coffee shop dining experience has a positive influence on customer satisfaction in research done by Kuhn and Bothma, (2018). Lee *et al.,* (2018) stated that coffee quality is one of the attributes to get customer satisfaction, hence the

hypothesis is:

Hypothesis 1-3: Service quality (Taste) significantly influence customer satisfaction.

2.6.1.4. The Impact of Materiality on Customer Satisfaction

When talk about materiality in a store it means that it talks about how the store manage the equipment. A good arrangement of equipment in a store shows the image of the store.   Customer's positive perception creates a positive influence on satisfaction and is indirectly effective on re-purchase intention (Meng, Liang et al., 2010:19) cited in Demirgunes, (2014). Iyer *et al*., (2008) indicate that customer satisfaction is recognized as the cornerstone upon which long term relationships are built and maintained. İt is an important predictor not only of customer loyalty, but also of the profitability of a company's marketing activities cited in Demirgunes

(2014). Previous study done by Cho *et al.,* found that materiality significantly influences customer satisfaction in South Korea franchise coffee shop. Shin *et al*., (2014) also found that store image positively influences customer satisfaction in Tokyo on Beautiful Store. An empirical study done by Demirigunes, (2014) conclude that sore image directly influential store satisfaction. How the store manages their equipment is consider as an important factor in service quality of coffee shop industry. When considered in terms of store image, it can be said that the attributes which form the image create a perceived value of the store, and a positive perception is more likely to be effective on the intention, hence the hypothesis made is:

Hypothesis 1-4: Service Quality (materiality) significantly influence customer satisfaction.

2.6.1.5. The Impact of Atmosphere on Customer Satisfaction

According to Ghoch (1990), an atmosphere in shops creates psychological use which affects the value which a retailer provides. Moreover, he defined that a retailer's atmosphere is created through a psychological effect or feeling which is designed by physical environments as cited in *Cho et al.*, (2015). Hence, consumers normally describe atmosphere in sensory terms because it is discerned through their sense of sight, smell, hearing, and touch (Helmefalk and Hultén, 2017: 1) cited in Bothma and Kuhn, (2018). Previous research has defined comfort as a state

of physical ease in the atmosphere and noted that it provides customers with familiarity and comfort to produce satisfaction in the hospitality context (Han et al., 2009; Han & Ryu, 2009; Kang, Tang, Lee, & Bosselman, 2012; Ryu et al., 2012; Tsaur *et al*., 2015) cited in Song *et al.,* (2018). Previous research done by Cho *et al.,* (2015) found that atmosphere has a positive influence towards customer satisfaction on franchise coffee shop industry. A significant and positive influence also found between atmosphere and customer satisfaction in a research done by Kuhn and Bothma (2018). A research done by Song *et al*. (2018) in Starbucks found that atmosphere is the most influential factor compared to employee attitude, IT service, and coffee quality towards customer satisfactions. From all results above of previous studies make atmosphere is consider as one important aspect in service quality, the hypothesis made is:

Hypothesis 1-5: Service quality (store atmosphere) significantly influence customer satisfaction.

2.6.2. The Impact of Service Quality on Customer Loyalty

2.6.2.1. The Impact of Trust and Reactivity on Customer Loyalty

The previous study has done by Cho et al. (2015) show that trust and reactivity in service quality dimension has positive influence towards customer loyalty on South Korea franchise coffee shop industry. Research that done by Kuhn and Bothma (2018), shows the result of social and service quality have significantly influencing in dining experience towards customer loyalty intentions. In Thai Restaurant research done by Polyorat

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and Sophonsiri (2010) found that reliabilities and responsiveness do not significantly influence customer loyalty. In this research, the dimensions of reliabilities and responsiveness become one dimension (trust and reactivity), therefore, the hypothesis is:

Hypothesis 2-1: Service quality (Trust and Reactivity) significantly influence customer loyalty.

2.6.2.2. The Impact of Assurance and Sympathy on Customer Loyalty

Cho *et al*. (2015) found that assurance and sympathy in service quality have significantly influence towards customer loyalty. Assurance in service quality dimension has a strong positive relationship towards customer satisfaction on coffee shop dining experience stated by Kuhn and Bothma (2018). Osman & Sentosa (2013) found that assurance has significantly influence customer loyalty with customer satisfaction used as mediating variable towards customer satisfaction in casual dining restaurant. It means that as assurance from restaurant employees increases, customer satisfaction also increases. Same result found by Quddus and Hudrasyah (2014) stated that customer satisfaction is significantly mediating service quality dimensions include assurance. Most of the results above show there is a positive relationship between assurance and customer satisfaction. The dimension of assurance will be added with sympathy. Assurance and sympathy are measured by investigating worker's deep interest towards individual customers, faithful accomplishment to customer's demand,

ability to carry out service with sympathy, friendliness and consideration, skill to understand customer's needs and emotion, assurance of customer safety from all situations such as fire, trust towards hygiene and safety, and skill to make tasty coffee and beverage, therefore the hypothesis is:

Hypothesis 2-2: Service Quality (Assurance and Sympathy) significantly influence customer loyalty.

2.6.2.3. The Impact of Taste on Customer Loyalty

"Coffee quality" is the final variable that can influence customer satisfaction. Prior research has shown that food quality is the most significant element in the food service business (Chen & Hu, 2010; Dorn, Messner, & Wänke, 2016; Ha & Jang, 2010; Han & Hyun, 2017; Namkung & Jang, 2007) as cited in Song *et al.* (2018). customers' assessment of food has been shown to influence their dining experience and return patronage, many studies have focused on identifying the aspects of food quality, which include tastiness, freshness, presentation, and portion size (Ha and Jang, 2010: 521; Namkung and Jang, 2007: 387) cited in Kuhn & Bothma, (2018). The previous research done by Cho *et al.* (2015) found that taste is the most influential factor in service quality towards customer loyalty on franchise coffee shop industry. Food quality in coffee shop dining experience has a weak and negative indirect influence on customer loyalty in research done by Kuhn and Bothma (2018). Song *et al.*, (2018) customer satisfaction is significantly mediating all components of service quality including coffee

quality towards customer loyalty. Lee *et al.,* (2018) stated that coffee quality is one of the attributes to gain customer loyalty, hence the hypothesis is:

Hypothesis 2-3: Service quality (Taste) significantly influence customer loyalty.

2.6.2.4. The Impact of Materiality on Customer Loyalty

According to Abratt *et* al. (2011), customer satisfaction influences loyalty, and loyalty influences purchase behaviour in behavioural terms. Bloemer & Rutyer (1998) explained what kind of a relationship existed among the three concepts, they suggested a model which defines the relationship between "store satisfaction" and "store loyalty" by considering store image cited in Demirgunes (2014). Relationship between store image and store loyalty are expressed by Bloemer and Ruyter (1998) that store image significantly affect store loyalty of major department stores in Swiss city, cited in Rahayu *et al.,* (2014). When talk about materiality in a store it means that it talks about how the store manage the equipment. A good arrangement of equipment in a store shows the image of the store. Customer's positive perception creates a positive influence on satisfaction and is indirectly effective on re-purchase intention (Meng, Liang et al., 2010:19) cited in Demirgunes, (2014). Iyer *et al.,* (2008) indicate that customer satisfaction is recognized as the cornerstone upon which long term relationships are built and maintained. İt is an important predictor not only of customer loyalty, but also of the profitability of a company's marketing activities cited in Demirgunes (2014). Previous study done by Cho *et al.,*

found that materiality significantly influences customer loyalty in South Korea franchise coffee shop. A significant influence of store image towards customer loyalty also found by Rahayu *et al*. (2014) in Batik Tulis Village Store at Yogyakarta Special Region. Shin *et al*. (2014) found a positive effect of store image towards customer satisfaction in Tokyo Beautiful Store. How the store manages their equipment is consider as an important factor in service quality of coffee shop industry. When considered in terms of store image, it can be said that the attributes which form the image create a perceived value of the store, and a positive perception is more likely to be effective on the intention, hence the hypothesis made is:

Hypothesis 2-4: Service Quality (materiality) significantly influence customer loyalty

2.6.2.5. The Impact of Store Atmosphere on Customer Loyalty

According to Ghoch (1990), an atmosphere in shops creates psychological use which affects the value which a retailer provides. Moreover, he defined that a retailer's atmosphere is created through a psychological effect or feeling which is designed by physical environments as cited in *Cho et al.*, (2015). Hence, consumers normally describe atmosphere in sensory terms because it is discerned through their sense of sight, smell, hearing, and touch (Helmefalk and Hultén, 2017: 1) cited in Bothma and Kuhn, (2018). Previous research done by Bothman &Kuhn, (2018) found that atmosphere has a positive indirect effect on customer satisfaction towards customer loyalty intentions on coffee shop dining

experience. A significant impact also found between store atmosphere and customer loyalty in a research done by Cho *et al.*, (2015) in South Korea franchise coffee shop industry. A research done by Song *et al.* (2018) in Starbucks found that atmosphere is the most influential factor compared to employee attitude, IT service, and coffee quality towards customer satisfactions and customer satisfaction is significantly mediating all dimensions of service quality towards customer loyalty. From all results above of previous studies make atmosphere is consider as one important

aspect in service quality, the hypothesis made is:

Hypothesis 2-5: Service quality (store atmosphere) significantly influence customer loyalty.

2.6.3. The Impact of Customer Satisfaction towards Customer Loyalty

Scholars have argued that customer satisfaction plays an important role in increasing "customer loyalty" because a positive psychological state is more likely to bring about a positive reaction (e.g., word of mouth, repurchase intention, and willingness to pay), cited in Song et al. (2018). Customer loyalty is researched by many researchers as it is an important strategic goal of a company. Especially, as service industry developed, brand loyalty in the past is view as the main element of customer loyalty, which in turn, it is an important factor of customer satisfaction in service industry. As the importance of service industry is being enlarged, there has been a lot of research conducted about customer loyalty related to service. According to Park & Kang (2015) customer satisfaction was stated as a

formation of re-purchase and loyalty when customer's needs, wants, and expectations are fulfilled or exceeded through products or service activity, cited in Cho et al. (2015). Reicheld (2003) suggested that the most superior evidence of the customer loyalty is the proportion amount in percentage of current customers who are having lots of enthusiasm to recommend a specific good or service to their friends, cited in Osman & Sentosa (2013).

The result of research done by Cho et al. (2015) shows that customer satisfaction affecting customer loyalty in South Korean franchise coffee shop industry. Sumaedi & Bakti (2012) found that customer satisfaction positively and significantly influences customer loyalty with library customers in Indonesia. Previous research done by Quddus & Hudrasyah (2014) also found that customer satisfaction significantly influence customer loyalty. From the results of previous studies above, the hypothesis is:

Hypothesis 3: Customer satisfaction has significantly influence customer loyalty

2.7. Theoretical Framework

The independent variable is Service Quality with five elements from previous study by Cho et al. (2015) which are trust and reactivity, assurance and sympathy, taste, materiality, atmosphere and the dependent variables is customer loyalty. Research model shows in figure 2.2.