# CHAPTER II

# LITERATURE REVIEW

## 2.1. Literature Review

### 2.1.1 Service Quality

Service quality can be defined as the distinction between what a consumer expects and what they receive from a business. It is also regarded as a customer's feelings while reviewing their encounters with a business. Measuring service quality can be challenging since it involves both the service outcome and the service delivery strategy (Nguyen et al., 2018). Organizations must be conscious that high-quality service may be a crucial factor that impacts a business's growth and simultaneously giving it a long-term competitive advantage (Pakurar et al., 2019). According to Jain and Aggarwal (2018) based on the perspectives of several researchers, there are two theories when evaluating service quality: the first is Nordic by Grönroos, and the second is American by Parasuraman. Grönroos argued that service quality is separated into both technical and functional aspects. Technical aspects influence the output, but functional aspects influence the connection between the business and its customers (Jain and Aggarwal, 2018). In 1985, Parasuraman established the gap model, a conceptual framework that identifies the reason for service quality gaps from service performance outcomes compared to customer expectations (Nguyen et al., 2018). Previously, service quality was measured in ten dimensions: courtesy, tangibility, communication, access, security, credibility, reliability, competence, understanding, and responsiveness. However, the author decreased the ten dimensions into five, called SERVQUAL. Cronin and Taylor established the alternate technique to assess service quality called SERVPERF in 1992, because SERVQUAL can not adequately quantify customer satisfaction. Despite critiques on SERVQUAL created by Parasuraman, some researchers still continue to use the framework in various business sectors, the examples are Nguyen et al. (2018) and Keshavarz et al. (2016) in the restaurant business. As a result, this research uses SERVQUAL created by Parasuraman.

The dimensions used are as follows:

(a) Tangible

Because the customer will evaluate the business services quality, the customer will physically assess the tangible dimension (Pakurar et al., 2019). Tangible can be defined as the satisfied feeling generated by physical equipment and facilities provided by the seller, as well as the employee's looks (Nguyen et al., 2018).

(b) Reliability

Nguyen et al. (2018) define reliability as the capacity to execute the service accurately. A business must be ready to deliver their product or service effectively from early on (Pakurar et al., 2019). Al-Ababneh et al. (2018) defines reliability as the ability to carry out what was promised previously through the seller's product or service.

(c) Responsiveness

Responsive can be defined as eager to support its customers appropriately and provide them with quick services (Nguyen et al., 2018). letting customers know when services would be ready, providing attention to detail, and properly handling requests from customers (Pakurar et al., 2019).

(d) Assurance

Nguyen et al., (2018) defines assurance as the capacity of employees to build the customer's trust through kindness, abilities, and professionalism. Assurance is also known as employees' abilities to acquire trust from customers by fostering a sense of security in them when they conduct business or inquire about anything. In addition, every employee must be friendly to customers (Al-Ababneh et al., 2018).

(e) Empathy

Empathy entails tailoring the support that a business provides toward the customers (Nguyen et al., 2018). The store employees can give customers the sensation of being special and distinctive with their empathy (Pakurar et al., 2019). It is critical for employees to comprehend customer problems and take care of them (Al-Ababneh et al., 2018).

### 2.1.2 Store Atmosphere

The atmosphere is defined as a setting established by the business with the intention of boosting or motivating customers to purchase their products. Miswanto and Angelia (2017) believed that the atmosphere of the store improves the value of the business by establishing a good customer impression because it can influence customers' decisions. The good store atmosphere can influence customer satisfaction. Lee et al. (2018) believed that the influence of store atmosphere in tourist services can promote relaxation and comfort.

Berman and Evans (2007) classify store atmosphere into four categories: store layout, general exterior, interior display, and general interior. Hussain and Ali (2015) develop seven dimensions in order to measure the store atmosphere: scent, lighting, music, cleanliness, color, display, and temperature. Elmashhara and Soares (2020) established a second-order method for measuring Hussain and Ali's store atmosphere, namely: customer emotions, general interior, and atmospheric. In the atmospheric general interior variable, there are sub-dimensions consisting of carpeting, flooring, music, cleanliness, lighting, temperature, color schemes, scent, and physical characteristics. As a result, the store atmosphere aims to make customers feel comfortable, encourage customers to spend a longer duration in the store, and relax them. These are the indicators that are used to assess the store atmosphere.

### 2.1.3 Price Fairness

Price fairness is a customer assessment about the prices charged for a service or product (Jin et al., 2016). Price becomes the factor that might impact customer behavior. Price fairness is also defined as the customer's judgment of whether the product pricing is reasonable and acceptable (Hanaysha, 2016). According to Abdullah et al. (2018) a fair price is when the price of the product or service was appropriate and reasonable from the customer point of view. However, unfair prices might cause unpleasant feelings such as frustration. Furthermore, the customer may depend on the price fairness to compare the price difference on the market. Hanaysha (2016) believed that price fairness has a considerable impact toward consumer reactions to price-related decisions. Furthermore, Githiri (2018) claims that as customers are more inclined to buy items that can provide them with the most value for the least amount of money, businesses tend to strive in order to maximize their profits depending on the price of the services or products. She also

contends that valuing portion sizes of beverages or food, and offering a better price than competitors are the best ways to apply price fairness.

Changes in a product's price will have an impact on the quantity demanded each period, and price also plays a significant part in communicating the quality of the service. The factors that can be used to measure prices are: (1) price affordability, (2) price compatibility with product quality, (3) price competitiveness, and (4) price compliance with benefits (Mega and Harsono, 2012).

### 2.1.4 Customer Satisfaction

Customer satisfaction can be described as a positive evaluation of the product and service expressed by the customer (Carranza et al., 2018). Satisfaction can be defined as a customer expectation that has already been fulfilled (Keshavarz et al., 2016). Customer satisfaction can also be defined as a customer perception of a service or product that gives pleasure at the level of consumption (Mensah and Mensah, 2018). Customer satisfaction may be assessed by measuring the disparity between customer expectations and the performance obtained, it can also be measured by services and products that effectively improve happiness while avoiding displeasure of the customer (Hanaysha, 2016).
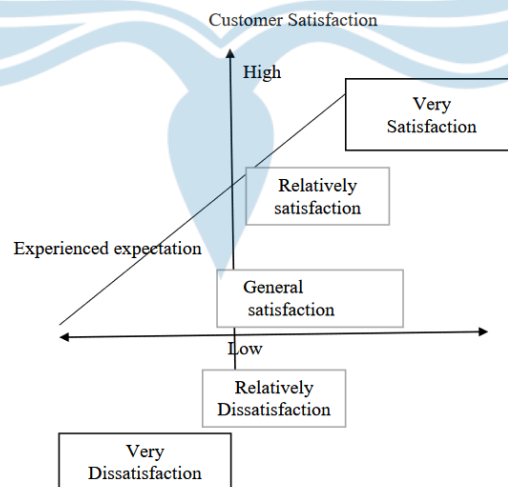


**Figure 2.1 Customer Satisfaction Analysis Model**

Source: Tao, 2014

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Figure 2.1 shows that customer satisfaction is negatively associated with customer expectations. The figure demonstrates the disparity between the customer expectation and customer experience. Furthermore, the figure was classified to five levels: very dissatisfaction, relatively dissatisfaction, general satisfaction, relatively satisfaction, and very satisfaction. When customers have experiences that surpass their expectations, their level of satisfaction increases. In contrast, when compared to expectations, a poor customer experience leads to lower customer satisfaction. Businesses may boost customer satisfaction with increasing their service to improve the customer experience followed by attempting to manage customer expectations by decreasing the ideal amount. Businesses still need to create certain modifications for further progress (Tao, 2014). Increased customer satisfaction may bring business advantages such as customer loyalty, prolonging a customer's life cycle, extending the life of goods purchased by the customer, and encouraging favorable word-of-mouth. Once a customer feels pleased with the business service or product, this could motivate them to make more purchases toward the business's goods or services and suggest the business to other potential customers.

### 2.1.5 Customer Loyalty

Jin et al. (2016) defines loyalty as a customer's emotional attachment toward the business, demonstrated with continuous purchases. Saulina and Syah (2018) defines customer loyalty as a customer's willingness to re-visit the shop and repeat purchase under any circumstance. Githiri (2018) states that customer loyalty can be defined as an act of making repeated purchases and promoting the service or product to other people. She adds that when a customer comes to the seller to buy a service or product, suggest it to another customer and avoid the services of another rival. Thomas and Tobe (2013) emphasize that loyalty is more profitable. The expenses to gain a new customer are much higher than those to retain an existing one. Customers who are loyal will convince people to purchase from the business and may consider carefully before moving to rival competitors. Loyalty is earned through efficient procurement and reliable choices. When fostering customer loyalty, strategies that are focused on the requirements and interests of the consumer are necessary. Loyalty grows over long period and through frequent purchases. According to Khadka and Maharjan (2017) Gremler and Brown classified customer loyalty into three types: intentional, behavior, and emotional. Intentional loyalty is known as a probable intention to buy, whereas

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behavior loyalty is frequent purchasing behavior, and emotional loyalty is formed once the customer thinks that a business shares their principles, beliefs, and passion.
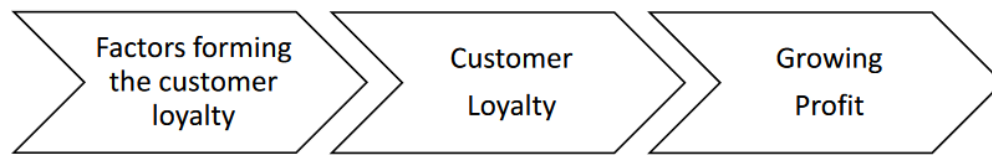


**Figure 2.2 Model of customer loyalty**

Source: Khadka and Maharjan, 2017

Figure 2.2 shows customer loyalty is a process. Recognizing the customer's needs and desires is one of the variables that contribute to loyalty. When the business wants to develop loyalty, the business must focus on pricing, marketing, service, and products. Nevertheless, it is essential to create a friendly environment between the customer and the business. Focusing on loyal customers provides benefits to the business.

**2.2. Previous Studies**

**Table 2.1**

**Previous Research**

| Title, Author, Year | Variables | Research Method | Results |
|---|---|---|---|
| The effect of Service Quality, Store Atmosphere, Price Fairness on Customer Satisfaction and their impact on Customer Loyalty On Kopi Kenangan In Jakarta.<br><br>(Triandewo and Indiarto, 2021) | 1. Store atmosphere<br>2. Customer loyalty<br>3. Service Quality<br>4. Customer satisfaction<br>5. Price Fairness | This study uses a purposive sampling method. The respondents who participated in this research were residents in DKI Jakarta and kopi kenangan customers. There are 151 respondents in this research. This study uses the WarpPLS 7.0 for data analysis and statistical methods. | The results indicated that the four hypotheses were valid. This study discovered a positive relationship between service quality and customer satisfaction, a positive relationship between store atmosphere and customer satisfaction, a positive relationship between price fairness and customer satisfaction, and a positive relationship between customer satisfaction and customer loyalty. |

| Title, Author, Year | Variables | Research Method | Results |
|---|---|---|---|
| Understanding Customer Loyalty in the coffee shop industry: survey in Jakarta, Indonesia.<br><br>(Dhisasmito and Kumar. 2020) | 1. Price Fairness<br>2. Customer satisfaction<br>3. Service quality<br>4. Customer loyalty<br>5. Store atmosphere | This research uses a random sampling method. The respondents are coffee shop customers in DKI Jakarta. There are 600 respondents in this research. This study uses structural equation modeling with AMOS 23. | The findings reveal that service quality, which consists of five dimensions: tangible, responsiveness, assurance, empathy, tangible, and reliability, along with customer satisfaction mediated by price fairness, has an impact on customer loyalty. The results conclude that the quality of service is important in the Indonesian cafe industry, and the store atmosphere does not have an important role in this research. |
| Service Quality, Food Quality, Price Fairness and restaurant re patronage intention: The Mediating Role of Customer Satisfaction.<br><br>(Abdullah et al.,2018) | 1. Re-Patronage Intention<br>2. Price Fairness<br>3. Food Quality<br>4. Service Quality<br>5. Customer Satisfaction | Purposive sampling method was used in this research. An online survey was used to collect the data. Respondents in this survey are those who have visited any sort of halal-certified restaurant in the last twelve months.<br>A total of 110 acceptable responses were analyzed with SmartPLS software, version 3.2.6, utilizing the Partial Least Squares Structural Equation Modeling (PLS-SEM) technique. | The findings revealed that service quality, food quality, and price fairness have significant influence toward customer satisfaction. Furthermore, customer satisfaction leads to a desire to make a second visit. It was also shown that customer satisfaction acts as a mediator between the exogenous and endogenous factors. |

| Title, Author, Year | Variables | Research Method | Results |
|---|---|---|---|
| The Influence of Product Quality, Service Quality and Price on Customer Satisfaction and Loyalty.<br><br>(Albari and Kartikasari, 2019) | 1. Price<br>2. Customer satisfaction<br>3. Customer loyalty<br>4. Product quality<br>5. Service quality | The convenience sampling approach was used in this research. The respondents in this research were mam zuni fried chicken customers. This study has 96 participants. The SPSS application has been utilized for all computations and testing. | The findings reveal every single antecedent variable can have an effect on loyalty, in both indirect and direct ways through satisfaction variables. Customer satisfaction is significantly affected by service quality, and product quality is significantly affected by loyalty. |
| Effects of Service Quality, Price Fairness and Product Quality on Customer Loyalty and Customer Engagement.<br><br>(Dhasan and Aryupong, 2019) | 1. Customer Engagement<br>2. Customer loyalty<br>3. Service quality<br>4. Product quality<br>5. Price fairness | This study uses a Survey sampling method. The respondents are car owners in the Bangkok, Thailand area.<br>There are 224 respondents in this research. This study uses exploratory factor analysis (EFA) with SPSS program. | The study's findings show that customer engagement, product quality, price fairness, and service quality have significant effects on customer loyalty. However, price fairness and product quality does not have significant effects toward customer engagement. |
| The impact of store atmosphere on customer loyalty through satisfaction and perceived quality: an evidence from boutique industry in tarakan.<br><br>(Marso and Idris, 2022) | 1. Customer loyalty<br>2. Perceived quality<br>3. Store atmosphere<br>4. Customer satisfaction | This study uses an accidental sampling method. The respondents are boutique customers in Tarakan, Indonesia. There are 176 respondents in this research. This study uses SmartPLS. | The process of analysis results showed that the data supported the nine hypotheses investigated. The outcomes of this research also reveal that the effect of store atmosphere on loyalty is not mediated by service quality. |

| Title, Author, Year | Variables | Research Method | Results |
|---|---|---|---|
| An Examination of Relationship between Perceived Price Fairness on Customer Satisfaction and Loyalty in Kenyan Star-Rated Restaurants.<br><br>(Githiri, 2018) | 1. Perceived price fairness<br>2. Customer satisfaction<br>3. Customer loyalty | This study uses a Simple random sampling method. The respondents are all customers that visited the rated restaurants in Nairobi and Coastal region, Kenya. There are 345 respondents in this research. This study uses SPSS version 18. | The findings revealed a strong link between satisfaction, perceived price and return intention ($p< 0.05$), which resulted in rejected hypotheses. The results also demonstrate that most customers felt pleased about every aspect of perceived price. This result indicates that perceived price fairness is related to customer return intention in the reviewed restaurants. |
| Food Quality, Image, Service Quality, and Customer loyalty: an Empirical Study at a Hotel Restaurant.<br><br>(Majid et al., 2018) | 1. Service quality<br>2. Food quality<br>3. Image<br>4. Customer loyalty | This study employs a convenient sampling method. The respondents in this research were people who visit a 2 star hotel restaurant in Trengganu, Malaysia.<br>This study has 231 respondents. SPSS 23 is utilized in this research. | The findings revealed that each of the three independent factors had a substantial link with consumer loyalty. As a consequence, all of the study's hypotheses were accepted. This study provides compelling evidence that service quality, food quality, and image influence customer loyalty. |

Source: Primary Data (2023)

## 2.3. Hypotheses Development

### 2.3.1 The influence of service quality toward customer satisfaction.

Service quality can be defined as customer perceptions, perspectives, and attitudes about the business performance (Dhisasmito and Kumar, 2020). Zeithaml et al. (2017) defines service quality as an indicator of customer perceptions toward dimensions of service quality, which include some of the following characteristics: empathy, the care and concern offered to customers, for example like easy access, effective communication, and comprehension of customers; assurance, a business that possess abilities intended to earn trust and feelings of safety from customers, including the service provider's credibility and honesty; reliability, the capability of the seller to deliver the promised service; responsiveness, the eagerness of seller to assist and respond

to customers as soon as possible, correctly, and accurate; tangibles, a real physic actual evidence , including the appearance of real assets (buildings, waiting spaces, etc.), equipment used, and staff appearance (Zeithaml et al. 2017). As a result, these five criteria are used to assess service quality dimensions mentioned before. The ability of services and products to meet the perceptions and expectations of customers is another way to describe service quality (Adelia and Prasatyo, 2019). To guarantee that consumers' views and expectations are satisfied with any product or service, service quality must be continuously improved. As a consequence, it is possible to define service quality as the total perception and perspective of consumers regarding how closely service performance adheres to their needs or expectations. Businesses must improve their customer experience and premium services to win the competition by gaining loyal customers (Dhisasmito and Kumar, 2020). Customers will be highly satisfied when their evaluation of the quality of the business's service is within the tolerance range or is higher than what they had anticipated. According to the research conducted by Dhisasmito and Kumar (2020) and Effendy et al. (2019) customer satisfaction is positively and significantly affected by service quality. Excellent service quality will increase the satisfaction of customers. Therefore, the hypothesis is as follows:

H1: Service Quality has a positive influence on Customer Satisfaction.

### 2.3.2 The influence of store atmosphere toward customer satisfaction.

A store atmosphere defined as a setting established by the business with the intention of boosting or motivating customers to purchase their products. Tunjungsari et al. (2016) define store atmosphere as a combination of multiple elements, namely: aroma, color, music, visual communication, and lighting. All these components seek to stimulate customers' emotions to encourage the customer to spend more time in the store. As a result, store atmosphere refers to the physical aspects and a variety of variables of the store that might influence customer impressions and perceptions of the business. The store atmosphere might be one component that draws customers in and helps them feel at ease while shopping. Convenience is critical to ensure customers don't get bored while shopping. Furthermore, convenience contributes to a pleasant shopping experience for the customer. Customers who get upset by unpleasant events at a store will develop a negative impression. Therefore, establishing a good store atmosphere has become an important part that businesses need to consider. The Store atmosphere may be utilized to

enhance the store value, improve the way customers perceive the store, and affect customers choices. Customers are happier when a store has an appealing atmosphere (Miswanto and Angelia, 2017). According to the research conducted by Triandewo and Indiarto (2021) and Effendy et al. (2019) store atmosphere positively and significantly affects customer satisfaction. Therefore, hypothesized as follow:

H2: Store Atmosphere has a positive influence on Customer Satisfaction.

### 2.3.3 The influence of price fairness toward customer satisfaction.

Price fairness refers to the price of the product's that customers think is acceptable and appropriate (Abdullah et al. 2018). Dhisasmito and Kumar (2020) defines price fairness as a customer's perception whether the seller's price for a service or product is acceptable or not. In addition, price fairness refers to the customer's view of the goods or service acquired and adequate for the price. One of the key elements that determines customer satisfaction is price fairness. Customer satisfaction may be improved through superior price strategies and effective pricing systems (Hanaysha, 2016). Customers typically look at the prices other customers have paid and may consider pricing differences to be unequal. As a result, price fairness will be one of the main factors influencing a customer's visit, both in comparison to other customers and to the benefits they receive in return. According to the research conducted by Dhisasmito and Kumar (2020) and Effendy et al. (2019) price fairness positively and significantly impacts on customer satisfaction. It is concluded that a good price fairness can make the customer satisfied because superb pricing methods and successful pricing systems can boost customer satisfaction. Therefore, hypothesized as follows:

H3: Price Fairness has a positive influence on Customer Satisfaction.

### 2.3.4 The influence of customer satisfaction toward customer loyalty.

Dhisasmito and Kumar (2020) states customer satisfaction as a favorable evaluation toward the services or products offered to customers. Triandewo and Indiarto (2020) strengthen this viewpoint by adding that loyalty is a continuing dedication demonstrated by repeat purchases and promoting items from that business to colleagues and family members. If a product or service performs as promised or even better than expected, customers will be happy. However, they will be disappointed and can behave badly if the perceived performance fails to match up or even breaks their expectations, such as by influencing other consumers not to purchase the goods or services. Given the importance of customer satisfaction in every business, business players should give consideration to it as well as prioritize it while developing business strategies. Customers that are very satisfied are those who are willing to remain loyal toward the business, buy a new or updated product from the business, praise the company and its goods to other people, pay less attention to rival businesses, become less price-sensitive, and provide a suggestion about a product or service to a business (Kotler and Keller, 2016). Customer satisfaction and customer loyalty are bound to each other. When customers are completely satisfied, they are more likely to be loyal. A strong desire to continue using a preferred product or service in the future, despite promotional pressures and aims to change customer behavior, is referred to as loyalty (Kotler and Keller, 2016). Zeithaml et al. (2017) also describe customer loyalty as the manner in which a consumer acts or feels about a product in terms of possession or attachment. When a business has loyal customers, its advantages grow over time as word of the product's advantages spreads to current clients and new potential customers. Customers who are loyal provide various benefits and advantages to businesses. Specifically, more purchases, decreased operating expenses, client referrals, and higher pricing. According to Kotler and Keller (2016) the following methods may be used to promote loyalty: direct customer interaction, the creation of reward schemes like club membership schemes, and institutional partnerships. According to the research conducted by Dhisasmito and Kumar (2020) and Triandewo and Indiarto (2021) customer satisfaction positively and significantly impacts on customer loyalty. Thus, formulated as follows:

H4: Customer Satisfaction has a positive influence on Customer Loyalty.

## 2.4. Research Model
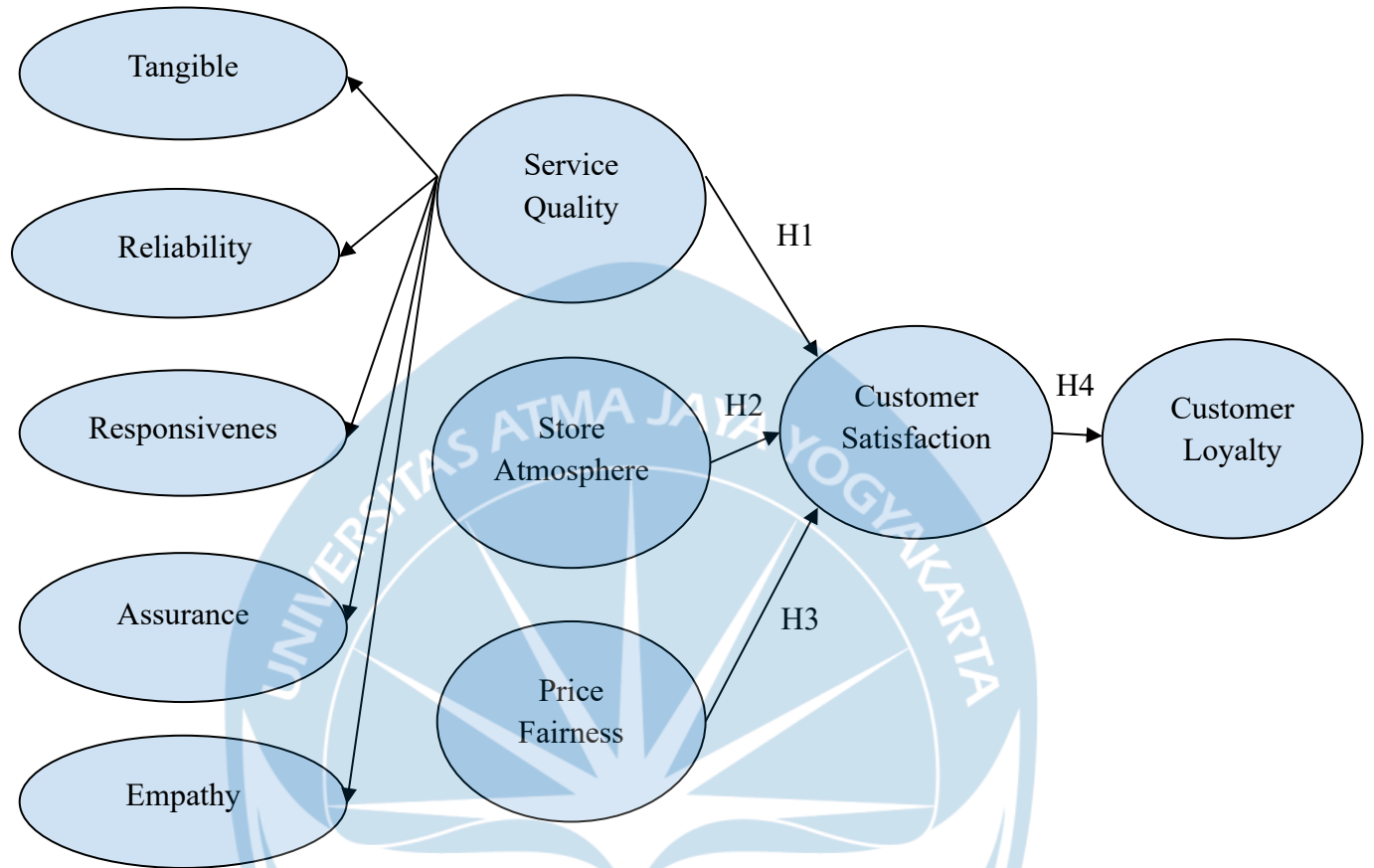


Source: Triandewo and Indiarto (2021)

**Figure 2.3 Conceptual Framework**