

# The Impact of Product Quality, Service Quality, and Price on Customer Satisfaction and Loyalty: Evidence from Rumah Loer Merdeka Palembang

Sarah Soraya<sup>1\*</sup>, Fauziah Eddyono<sup>2</sup>

<sup>1,2</sup> Universitas Sahid Jakarta, Indonesia

Email : [sarahsoraya13@gmail.com](mailto:sarahsoraya13@gmail.com) <sup>1\*</sup>, [fauziaheddyono@usabid.ac.id](mailto:fauziaheddyono@usabid.ac.id) <sup>2</sup>

**Abstract.** Indonesia's rapidly expanding coffee shop industry has intensified market competition, prompting businesses to better understand the factors that shape satisfaction and loyalty. This study examines how product quality, service quality, and price perception influence satisfaction and, ultimately, loyalty within a specialty coffee shop in Palembang, Indonesia. It also evaluates the mediating role of satisfaction in transmitting the effects of these antecedents to loyalty outcomes. Using a quantitative explanatory design, data were collected from 100 customers through purposive sampling and analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS 4. The findings indicate that product quality and perceived price fairness significantly enhance satisfaction, whereas service quality does not demonstrate a statistically significant effect in this context. Satisfaction strongly predicts loyalty and mediates the relationships between product quality and loyalty as well as between price and loyalty. However, it does not mediate the link between service quality and loyalty. These results suggest that loyalty formation in this coffee shop setting is primarily driven by consistent product performance and price-value alignment rather than interpersonal service interaction. By providing empirical evidence from a secondary Indonesian city, this study clarifies the relative dominance of satisfaction drivers in a specialty coffee shop context. Practically, the findings emphasize the importance of maintaining product consistency and aligning pricing strategies with customer value expectations to strengthen long-term loyalty.

**Keywords:** Expectation Disconfirmation Theory; Perceived value; Service marketing; Customer loyalty formation; Structural equation modeling; Hospitality management

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## 1. INTRODUCTION

Over the past decade, the coffee shop industry in Indonesia has undergone a substantial transformation, evolving from traditional beverage outlets into experiential and lifestyle oriented spaces. Coffee shops are no longer perceived merely as consumption venues but have become social hubs, informal workspaces, and environments where customers construct identity and community belonging. This transformation has intensified competition, particularly in urban and emerging secondary city markets, where consumers exhibit increasingly sophisticated, experience driven preferences. In such a dynamic environment, understanding the determinants of customer satisfaction and loyalty becomes critical for sustaining competitive advantage and long term business performance (Kotler & Keller, 2016; Lemon & Verhoef, 2016).

Extant marketing theory consistently identifies product quality, service quality, and price perception as primary antecedents of customer satisfaction (Hasan et al., 2025; Zeithaml et al., 2018). Customer satisfaction, in turn, is widely recognized as a key predictor of customer loyalty, influencing repeat purchase behavior, positive word of mouth, and long term profitability (Hollebeek et al., 2023; Oliver, 2010). However, despite this theoretical consensus, empirical findings remain inconclusive across different service contexts. While some studies emphasize the dominant role of service quality in shaping satisfaction and loyalty (Dhisasmitho & Kumar, 2020; Parasuraman et al., 1988), others suggest that core product attributes and perceived value exert a stronger influence,

particularly in standardized or semi self service environments (Hasan et al., 2025; Konuk, 2019).

This inconsistency reveals a critical gap in the literature concerning the relative dominance of satisfaction drivers in contemporary service settings. In particular, limited attention has been given to semi experiential consumption contexts such as specialty coffee shops, where customers simultaneously evaluate tangible product attributes, perceived value, and service interaction. Moreover, many prior studies implicitly assume that service quality remains the primary determinant of satisfaction, without adequately accounting for contextual variations in consumption patterns, service formats, and customer expectations. As a result, the applicability of traditional service centric models in emerging coffee shop markets remains insufficiently understood.

From a theoretical perspective, Expectation Disconfirmation Theory (EDT) posits that customer satisfaction arises from the comparison between prior expectations and perceived performance (Oliver, 2010). Complementarily, perceived value theory suggests that customers evaluate offerings based on a trade off between perceived benefits and perceived sacrifices, particularly monetary costs (Parasuraman et al., 1988; Zeithaml et al., 2018). In the context of coffee shop consumption, such evaluations extend beyond interpersonal service interaction to include core product performance such as taste consistency and presentation as well as price value congruence. Nevertheless, it remains unclear which of these dimensions exerts the most dominant influence on satisfaction, particularly in small scale specialty coffee shops located in underexplored secondary urban markets.

Empirically, Rumah Loer Merdeka Palembang represents a relevant case that illustrates these challenges. As a specialty coffee shop operating in an increasingly competitive local market, the business faces rising customer expectations shaped by digital platforms and online reviews. Customer feedback during the 2024 - 2025 period indicates recurring complaints related to service delays, inconsistent product presentation, and discrepancies between menu descriptions and delivered products. Furthermore, there are indications that customers increasingly question the alignment between price and perceived value. These issues reflect a potential expectation performance gap, which may undermine customer satisfaction and weaken loyalty formation (Konuk, 2019; Oliver, 2010).

If left unaddressed, such operational inconsistencies may lead to declining customer satisfaction and increased switching behavior, particularly in highly competitive hospitality markets characterized by low switching costs (Lemon & Verhoef, 2016). Moreover, in digitally mediated environments, negative customer experiences can be rapidly amplified through online reviews, thereby exacerbating reputational risks and adversely affecting business sustainability. Therefore, a systematic analytical approach is required to identify which factors most critically influence customer satisfaction, enabling management to prioritize strategic interventions effectively.

In addition, prior studies tend to treat customer satisfaction primarily as a direct antecedent of loyalty, without sufficiently examining its mediating role in translating perceived quality and price into loyalty outcomes. While theoretical frameworks imply such mediation mechanisms, empirical validation remains limited, particularly in the context of small scale specialty coffee shops. Understanding whether satisfaction functions as a key mechanism linking product quality, service quality, and price to loyalty is essential not only for theoretical refinement but also for evidence based managerial decision making (Hair et al., 2019; Hollebeek et al., 2023).

Accordingly, this study aims to: (1) examine the effects of product quality, service quality, and price on customer satisfaction (2) analyze the effect of customer satisfaction on customer loyalty and (3) investigate the mediating role of customer satisfaction in linking perceived quality and price to customer loyalty. By integrating these relationships into a single structural model, this study enables a direct comparison of the relative influence of each antecedent.

This study contributes to the literature in two primary ways. Theoretically, it advances service marketing research by demonstrating a contextual shift in satisfaction drivers, where product quality and perceived value may outweigh service quality in semi experiential coffee shop settings, thereby identifying boundary conditions of Expectation Disconfirmation Theory. Practically, it provides empirical insights for the management of Rumah Loer Merdeka Palembang in prioritizing strategic interventions whether in improving product consistency, enhancing service performance, or aligning pricing

strategies with customer value expectations to strengthen customer satisfaction and long term loyalty.

## 2. LITERATURE REVIEW

### **Expectation Disconfirmation Theory (EDT).**

Expectation Disconfirmation Theory (EDT) explains that customer satisfaction results from the comparison between prior expectations and perceived performance (Oliver, 2010). Positive disconfirmation occurs when perceived performance exceeds expectations, whereas negative disconfirmation leads to dissatisfaction.

Recent studies extend EDT by incorporating digital and experiential dimensions, emphasizing that expectations are increasingly shaped by online reviews, social media exposure, and prior digital interactions (Hollebeek et al., 2023). In digitally mediated environments, customers often form more precise and elevated expectations before consumption, thereby increasing the likelihood of expectation performance gaps.

Furthermore, contemporary research highlights that disconfirmation is not solely cognitive but also experiential, involving emotional and sensory evaluations throughout the consumption process (Becker & Jaakkola, 2020). This perspective suggests that satisfaction is shaped not only by functional performance but also by the holistic customer experience.

In addition, recent studies indicate that expectation formation is dynamic and context dependent, influenced by situational factors, prior experiences, and comparative evaluations across competing alternatives (Kumar et al., 2021). In highly competitive and transparent markets, such as the coffee shop industry, customers continuously recalibrate their expectations based on accumulated experiences and available information.

Accordingly, EDT provides a robust theoretical foundation for understanding how discrepancies between expected and perceived performance across product quality, service delivery, and perceived value shape customer satisfaction and subsequent loyalty behavior. However, the relative contribution of each dimension may vary depending on contextual factors, highlighting the importance of empirical validation.

### **Perceived value.**

Perceived value has evolved into a multidimensional construct encompassing functional, emotional, social, and epistemic value (Lazarus, 1991). Rather than being a static evaluation, recent research conceptualizes perceived value as dynamic and context dependent, particularly in experiential consumption settings where customer judgments are shaped by both utilitarian and hedonic considerations (Hollebeek et al., 2023; Kumar et al., 2021).

Contemporary studies further emphasize that perceived value is co created through customer interactions with multiple touchpoints across the consumption journey, including product performance, service processes, and environmental cues (Becker & Jaakkola, 2020). This aligns with the notion that value is not solely embedded in the product but emerges from the overall consumption experience.

In coffee shop environments, perceived value is influenced not only by core product attributes and price fairness but also by experiential elements such as ambiance, brand image, and emotional engagement. These factors collectively shape customers holistic evaluation of whether the experience justifies the monetary and non monetary sacrifices incurred (Dewi, 2020)

Moreover, recent evidence suggests that price perception plays a critical role within the perceived value framework, particularly in competitive and price transparent markets where customers actively compare alternatives (Dhisasmito & Kumar, 2020). In such contexts, satisfaction is strongly influenced by the congruence between perceived benefits and price, reinforcing the importance of price value alignment.

Accordingly, perceived value theory provides a robust lens for understanding how customers integrate product quality, service performance, and price perception into a unified evaluative judgment. However, the relative weight of each component may vary depending on context, indicating that price and product related evaluations may outweigh service interaction in certain experiential settings.

### **Service Dominant Logic (SDL).**

Service Dominant Logic (SDL) conceptualizes service as the fundamental basis of exchange and emphasizes value co creation through customer engagement, resource integration, and service ecosystems (Mustak et al., 2013; Vargo & Lusch, 2016). Recent

developments in SDL highlight that value is co created through dynamic interactions involving customers active participation and contextual resource integration across multiple touchpoints (Hollebeek et al., 2023; Mustak et al., 2013).

These perspectives suggest that value creation is not static but evolves through ongoing interactions shaped by both firm driven and customer driven processes (Hollebeek et al., 2023). However, emerging empirical evidence indicates that the effectiveness of value co creation is contingent upon the service context and level of interaction intensity (Mustak et al., 2013).

In standardized or efficiency driven environments, such as contemporary coffee shop formats characterized by fast service and routine processes, customers tend to prioritize outcome based value rather than interaction based value (Dhisasmito & Kumar, 2020; Konuk, 2019). In such contexts, customers are more likely to adopt a utilitarian evaluation logic that emphasizes product performance, consistency, and price value congruence over interpersonal interaction (Dhisasmito & Kumar, 2020).

This indicates the presence of contextual boundary conditions within SDL, where the role of co creation through service interaction becomes less dominant in shaping customer satisfaction (Hollebeek et al., 2023; Mustak et al., 2013). Accordingly, while SDL provides a comprehensive framework for understanding value creation, its applicability may vary depending on the characteristics of the service setting, thereby necessitating empirical validation in specific contexts such as specialty coffee shops (Mustak et al., 2013).

### **Customer Experience Theory (CX Theory).**

Customer experience theory has become a central paradigm in contemporary marketing, emphasizing that value is derived from holistic, multi touchpoint evaluations throughout the customer journey (Becker & Jaakkola, 2020; Lemon & Verhoef, 2016). Recent research conceptualizes customer experience as a multidimensional construct encompassing cognitive, emotional, behavioral, and social responses that emerge during customer firm interactions (Becker & Jaakkola, 2020; Hollebeek et al., 2023). These responses are shaped by the integration of various touchpoints, including product performance, service interaction, physical environment, and price perception, which collectively influence overall customer evaluation (Kumar et al., 2021).

In coffee shop contexts, customer experience is particularly influenced by sensory product attributes, service efficiency, store atmosphere, and perceived value, reflecting both utilitarian and hedonic dimensions of consumption (Dhisasmito & Kumar, 2020; Konuk, 2019). However, recent findings suggest that not all experience dimensions contribute equally to customer satisfaction, as their relative importance is contingent upon contextual factors such as service format, customer expectations, and consumption motives (Hollebeek et al., 2023).

In standardized or semi self service environments, customers may prioritize efficiency, product consistency, and outcome based value over interpersonal interaction and relational experience (Dhisasmito & Kumar, 2020; Hollebeek et al., 2023). This indicates that customer experience is inherently context dependent, where functional and value based dimensions may outweigh experiential interaction in shaping satisfaction and subsequent loyalty (Becker & Jaakkola, 2020).

### **Customer engagement.**

Customer engagement has emerged as a key construct in contemporary marketing, extending traditional relationship marketing frameworks by emphasizing customers active participation and psychological connection with brands (Hollebeek et al., 2023). Engagement is conceptualized as a multidimensional construct encompassing cognitive, emotional, and behavioral dimensions that reflect customers level of involvement and investment in brand related interactions (Hollebeek et al., 2023; Kumar et al., 2021).

Unlike satisfaction, which represents an evaluative outcome, customer engagement captures a deeper and more enduring relational state that influences long term behavioral intentions, including loyalty and advocacy (Becker & Jaakkola, 2020; Hollebeek et al., 2023). Recent studies highlight that customer engagement plays a critical role in strengthening customer loyalty by fostering emotional attachment, trust, and commitment toward the brand (Hollebeek et al., 2023).

However, engagement is often contingent upon prior satisfaction, as positive consumption experiences provide the necessary foundation for customers to develop deeper relational bonds (Hollebeek et al., 2023). This indicates that satisfaction functions as a prerequisite for engagement, reinforcing its central role in the customer loyalty

formation process (Becker & Jaakkola, 2020). In experiential service contexts such as coffee shops, engagement may be influenced not only by relational interaction but also by consistent product performance and perceived value, which shape customers overall evaluation and willingness to maintain long term relationships (Dhisasmito & Kumar, 2020; Hollebeek et al., 2023).

#### **Product quality and customer satisfaction.**

Product quality remains a fundamental determinant of customer satisfaction, particularly in experiential consumption contexts where customers directly evaluate core product performance (Konuk, 2019; Kumar et al., 2021). In food and beverage settings, product quality is primarily assessed through sensory attributes such as taste, freshness, consistency, and presentation, which significantly influence customers immediate evaluative responses (Kumar et al., 2021; Mulyani, 2025).

Recent studies further highlight that consistent product performance reduces perceived risk and enhances reliability, thereby strengthening customer satisfaction and trust (Hollebeek et al., 2023). In experiential consumption environments such as coffee shops, sensory and functional product attributes often become the central basis of evaluation, as customers place high importance on product outcomes relative to expectations (Konuk, 2019; Kumar et al., 2021).

Moreover, empirical evidence suggests that in product centric contexts, product quality may exert a stronger influence on satisfaction than service interaction, particularly when consumption is driven by functional and sensory motivations (Hollebeek et al., 2023; Mustak et al., 2013). This indicates that product quality can function as the dominant driver of satisfaction in certain service settings, reinforcing the importance of maintaining consistency and reliability in product delivery (Hollebeek et al., 2023).

#### **Service quality and customer satisfaction.**

Service quality has traditionally been conceptualized as a primary determinant of customer satisfaction, particularly within the SERVQUAL framework, which defines service quality as the gap between customer expectations and perceived service performance across dimensions such as reliability, responsiveness, assurance, empathy, and tangibles (Parasuraman et al., 1988; Zeithaml et al., 2018).

From this perspective, high service quality enhances customer satisfaction by reducing uncertainty, increasing perceived reliability, and fostering positive emotional responses during service encounters (Dhisasmito & Kumar, 2020; Zeithaml et al., 2018). However, recent studies highlight that the influence of service quality is increasingly context dependent, particularly in contemporary service environments characterized by digitalization and standardized processes (Hollebeek et al., 2023; Mustak et al., 2013).

In such contexts, the traditional emphasis on interpersonal interaction may diminish, as customers shift toward efficiency oriented evaluations that prioritize speed, convenience, and outcome based performance (Konuk, 2019; Kumar et al., 2021). In semi self service or standardized service formats, such as modern coffee shops, customers may place greater importance on product quality and price value congruence rather than service interaction, reflecting a more utilitarian consumption logic (Kumar et al., 2021; Mustak et al., 2013).

This suggests that the role of service quality as a determinant of satisfaction is not universal but contingent upon the service context and customer expectations, indicating the presence of boundary conditions within traditional service quality models (Hollebeek et al., 2023; Mustak et al., 2013). Accordingly, while service quality remains an important construct in marketing theory, its relative influence on customer satisfaction may be less pronounced in settings where customers prioritize functional outcomes over relational interaction (Konuk, 2019; Kumar et al., 2021).

#### **Price and customer satisfaction.**

Price perception is closely linked to perceived value rather than absolute price levels, as customers evaluate price within a broader cognitive framework that integrates quality, benefits, and sacrifices (Kumar et al., 2021; Zeithaml et al., 2018). According to Zeithaml's conceptualization, perceived value is formed through the trade off between what customers receive and what they give, positioning price as a key component of perceived sacrifice that directly influences satisfaction (Zeithaml, 1988; Zeithaml et al., 2018)

Recent research further emphasizes that price fairness and price value congruence are critical determinants of customer satisfaction, particularly in competitive and price transparent markets where customers actively compare alternatives (Hollebeek

et al., 2023; Kumar et al., 2021). When customers perceive a strong alignment between price and product quality, satisfaction increases significantly, as the perceived benefits justify the monetary sacrifice incurred (Hollebeek et al., 2023; Konuk, 2019).

Conversely, perceived price unfairness can lead to dissatisfaction even when product quality is acceptable, as misalignment between price and perceived value disrupts the evaluative balance (Kumar et al., 2021; Zeithaml, 1988). In experiential consumption contexts such as coffee shops, price perception is further influenced by experiential elements, including ambiance, brand image, and emotional engagement, which collectively shape overall value evaluation (Hollebeek et al., 2023; Kumar et al., 2021). This suggests that price does not operate independently but interacts with product quality and experiential factors in shaping satisfaction, reinforcing its central role within the perceived value framework (Hollebeek et al., 2023; Zeithaml et al., 2018).

### **Customer satisfaction and customer loyalty.**

Customer satisfaction remains a central construct in marketing theory and is widely recognized as a primary predictor of customer loyalty, influencing behavioral intentions such as repurchase and recommendation (Hollebeek et al., 2023; Kotler & Keller, 2016; Oliver, 2010). From a classical perspective, satisfaction is defined as a customer's evaluative judgment arising from the comparison between expectations and perceived performance, which subsequently shapes future behavioral intentions (Kotler & Keller, 2016; Oliver, 2010). Loyalty, in turn, reflects a deeply held commitment to repurchase or recommend a product or service consistently over time, despite situational influences and competitive alternatives (Griffin, 2009; Oliver, 2010).

Extensive empirical evidence confirms that satisfied customers are more likely to engage in repeat purchasing, exhibit resistance to competitors, and generate positive word of mouth, thereby enhancing long term business performance (Hollebeek et al., 2023; Kotler & Keller, 2016). Recent studies extend this relationship by integrating customer engagement and emotional attachment, suggesting that satisfaction serves as a foundational mechanism in building long term customer relationships (Hollebeek et al., 2023). These findings indicate that satisfaction not only drives immediate behavioral responses but also contributes to deeper relational outcomes, including trust, commitment, and emotional bonding (Hollebeek et al., 2023; morgan & Hunt, 1994).

In experiential service contexts such as coffee shops, satisfaction plays a critical role in shaping loyalty, as customers rely on prior experiences to guide future consumption decisions and brand preferences (Hollebeek et al., 2023; Kumar et al., 2021).

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These findings indicate that satisfaction not only drives immediate behavioral responses but also contributes to deeper relational outcomes, including trust, commitment, and emotional bonding (Hollebeek et al., 2023; morgan & Hunt, 1994). In experiential service contexts such as coffee shops, satisfaction plays a critical role in shaping loyalty, as customers rely on prior experiences to guide future consumption decisions and brand preferences (Kumar et al., 2021).

### **The mediating role of customer satisfaction.**

Customer satisfaction has been widely conceptualized as a mediating mechanism that links antecedent variables, such as product quality, service quality, and perceived value, to behavioral outcomes including customer loyalty (Oliver, 2010). From the perspective of Expectation Disconfirmation Theory, satisfaction functions as an evaluative response that translates perceived performance into future behavioral intentions, thereby mediating the relationship between perceived quality and loyalty (Becker & Jaakkola, 2020; Oliver, 2010).

In addition, the Stimulus Organism Response (S O R) framework provides a complementary explanation, suggesting that external stimuli (e.g., product quality, service quality, and price) influence internal evaluations (satisfaction), which subsequently shape behavioral responses such as loyalty (Kumar et al., 2021). Similarly, Cognitive Appraisal Theory posits that individuals evaluate consumption experiences through cognitive assessments, which generate affective responses such as satisfaction that influence subsequent behavioral intentions (Lazarus, 1991).

Empirical studies confirm that customer satisfaction mediates the relationship between perceived value, product quality, and customer loyalty, particularly in experiential consumption contexts (Hollebeek et al., 2023). However, recent research highlights that the strength of this mediating role is contingent upon contextual factors, including service format, customer expectations, and the relative importance of antecedent variables (Kumar et al., 2021; Mustak et al., 2013).

In situations where certain antecedents do not significantly influence satisfaction, the mediating effect may not occur, indicating that not all relationships are necessarily transmitted through satisfaction (Hollebeek et al., 2023). This suggests that customer satisfaction functions as a conditional mediator, whose role depends on the strength and relevance of its antecedents within specific service contexts (Becker & Jaakkola, 2020; Mustak et al., 2013).

### Conceptual Framework.

Based on the theoretical foundations and the proposed hypotheses, this study develops a conceptual framework that illustrates the relationships among product quality, service quality, price, customer satisfaction, and customer loyalty. Product quality, service quality, and price are positioned as antecedent variables that influence customer satisfaction, which in turn affects customer loyalty. Customer satisfaction is further conceptualized as a mediating variable that transmits the effects of these antecedents on customer loyalty, enabling a more comprehensive understanding of the mechanism through which perceived performance and value shape behavioral outcomes (Becker & Jaakkola, 2020; Oliver, 2010). This framework allows for the simultaneous examination of direct and indirect relationships, thereby facilitating the identification of dominant factors influencing satisfaction and loyalty in the context of specialty coffee shops (Figure 1).

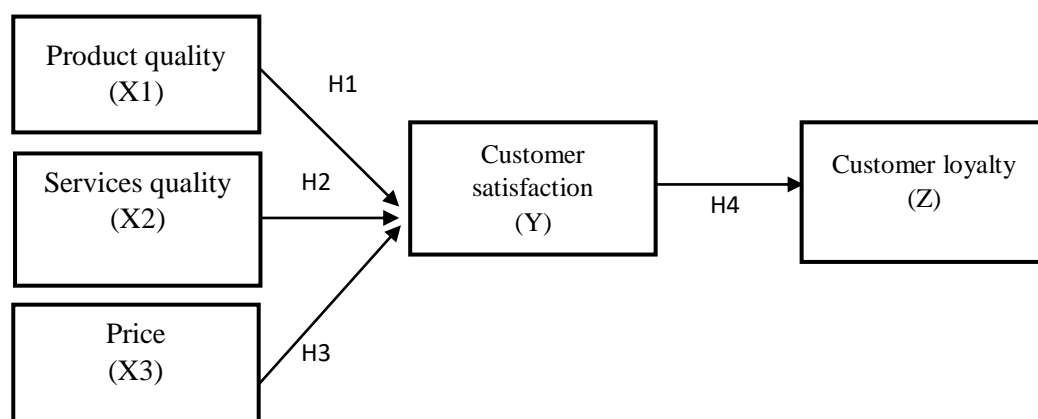


Figure 1. Conceptual Framework

**Research hypothesis.** With reference to the theoretical framework and the preceding discussion, the hypotheses formulated in this study are as follows:

H1: Product quality has a positive and significant effect on customer satisfaction.

H2: Service quality has a positive and significant effect on customer satisfaction.

H3: Price has a positive and significant effect on customer satisfaction.

H4: Customer satisfaction has a positive and significant effect on customer loyalty.

H5: Customer satisfaction mediates the relationship between product quality and customer loyalty.

H6: Customer satisfaction mediates the relationship between service quality and customer loyalty.

H7: Customer satisfaction mediates the relationship between price and customer loyalty.

### 3. RESEARCH DESIGN

#### 3.1 Research Design

This study adopts a quantitative explanatory research design aimed at examining the causal relationships between product quality, service quality, price, customer satisfaction, and customer loyalty (Hair et al., 2019; Sekaran & Bougien, 2016). A cross sectional approach was employed, where data were collected at a single point in time to capture customer perceptions and behavioral intentions (Malhotra et al., 2017). The study applies Partial Least Squares Structural Equation Modeling (PLS SEM), which is suitable for predictive analysis and complex models involving multiple constructs and mediating relationships (Hair et al., 2019).

#### 3.2 Research Object and Subject

The object of this study is Rumah Loer Merdeka Palembang, a specialty coffee shop operating in a competitive local market characterized by experiential consumption patterns. The subjects of this study are customers who have purchased and consumed products at Rumah Loer Merdeka, either through dine in, takeaway, or online delivery services. These respondents are considered appropriate as they possess direct experience with the service and are capable of evaluating product quality, service quality, and perceived value (Sekaran & Bougien, 2016).

#### 3.3. Operational Definition of Variables

In line with best practices in quantitative research and structural equation modeling, all variables in this study were operationalized using multi item measurement scales derived from established theoretical frameworks and prior empirical studies (Table 1). This approach ensures content validity, construct reliability, and measurement consistency across all constructs (Hair et al., 2019; Malhotra et al., 2017).

Table 1. Operational Definition of Variables

Variable	Definition	Indicators	Measurement Scale	Sources
<b>Product Quality (X1)</b>	Product quality refers to the ability of a product to meet customer expectations in terms of performance, consistency, and sensory attributes (Kotler & Keller, 2016).	<ol style="list-style-type: none"> <li>1. Taste quality</li> <li>2. Product consistency</li> <li>3. Presentation/appearance</li> <li>4. Freshness</li> </ol>	Likert Scale (1–5)	(Konuk, 2019; Kotler & Keller, 2016)
<b>Service Quality (X2)</b>	Service quality is defined as the customer's evaluation of service performance relative to expectations based on SERVQUAL dimensions (Parasuraman et al., 1988; Zeithaml et al., 2018).	<ol style="list-style-type: none"> <li>1. Reliability</li> <li>2. Responsiveness</li> <li>3. Assurance</li> <li>4. Empathy</li> <li>5. Tangibles</li> </ol>	Likert Scale (1–5)	(Parasuraman et al., 1988; Zeithaml et al., 2018)
<b>Price (X3)</b>	Price refers to customers perception of monetary sacrifice and its fairness relative to the value received (Zeithaml, 1988).	<ol style="list-style-type: none"> <li>1. Price fairness</li> <li>2. Price affordability</li> <li>3. Price quality congruence</li> <li>4. Price competitiveness</li> </ol>	Likert Scale (1–5)	(Konuk, 2019; Zeithaml, 1988)
<b>Customer Satisfaction (Y)</b>	Customer satisfaction is defined as the evaluative judgment resulting from the comparison between expectations and	<ol style="list-style-type: none"> <li>1. Overall satisfaction</li> <li>2. Expectation fulfilment</li> <li>3. Satisfaction with experience</li> </ol>	Likert Scale (1–5)	(Oliver, 2010)

Variable	Definition	Indicators	Measurement Scale	Sources
	perceived performance (Oliver, 2010).	4. Decision correctness		
<b>Customer Loyalty (Z)</b>	Customer loyalty refers to a commitment to repurchase and recommend a product or service consistently over time (Griffin, 2009; Oliver, 2010).	1. Repurchase intention 2. Recommendation (WOM) 3. Resistance to switching 4. Preference consistency	Likert Scale (1–5)	(Griffin, 2009; Oliver, 2010)

### 3.4 Data Analysis Technique

Data in this study were analyzed using Partial Least Squares Structural Equation Modeling (PLS SEM) with SmartPLS 4 software, which is widely recognized as a robust method for analyzing complex models involving multiple constructs and mediating relationships (Hair et al., 2019). PLS SEM is particularly suitable for this study due to its predictive orientation, its ability to handle relatively small sample sizes, and its flexibility in analyzing models with both reflective constructs and multiple paths (Hair et al., 2019).

The analysis was conducted in two main stages, namely the evaluation of the measurement model (outer model) and the structural model (inner model), following established guidelines in PLS SEM analysis (Hair et al., 2019). In the first stage, the measurement model was assessed to ensure the validity and reliability of the constructs. Convergent validity was evaluated using outer loadings ( $> 0.70$ ) and Average Variance Extracted (AVE  $> 0.50$ ), while internal consistency reliability was assessed using Composite Reliability ( $> 0.70$ ) and Cronbach's Alpha ( $> 0.60$ ) (Hair et al., 2019). Discriminant validity was examined using the Fornell Larcker criterion and cross loading analysis to ensure that each construct is distinct from others. In the second stage, the structural model was evaluated to examine the relationships among constructs. This included assessing the coefficient of determination ( $R^2$ ) to measure the explanatory power of the model, as well as path coefficients ( $\beta$ ), t values, and p values to test the significance of hypothesized relationships (Hair et al., 2019).

Hypothesis testing was conducted using a bootstrapping procedure with 5,000 resamples, which enables robust estimation of standard errors and significance levels (Hair et al., 2019). A hypothesis is considered statistically significant if the t value exceeds 1.96 and the p value is less than 0.05.

Furthermore, mediation analysis was performed by examining indirect effects within the PLS SEM framework. A mediating effect is considered significant if the indirect path coefficient is statistically significant, indicating that the mediating variable transmits the effect of independent variables on the dependent variable (Hair et al., 2019)

## 4. RESULT

### 4.1 Respondent Profile

A total of 100 valid responses were collected and analyzed in this study. The respondents consisted of customers who had experience consuming products at Rumah Loer Merdeka Palembang. The demographic profile of respondents includes gender, age, occupation, and frequency of visits, which provides contextual insight into customer characteristics and consumption behaviour (Table 2).

Table 2. Respondent Profile

Characteristic	Category	Frequency (n)	Percentage (%)
Gender	Male	48	48.0

	Female	52	52.0
Age	< 20 years	12	12.0
	21–30 years	56	56.0
	31–40 years	22	22.0
	> 40 years	10	10.0
Occupation	Student	38	38.0
	Private employee	34	34.0
	Entrepreneur	18	18.0
	Others	10	10.0
Visit Frequency	First visit	15	15.0
	2–3 times	40	40.0
	> 3 times	45	45.0

#### 4.2 Measurement Model Evaluation (Outer Model)

The measurement model was evaluated to assess the validity and reliability of the constructs, following the recommended criteria in PLS SEM analysis (Hair et al., 2019). The evaluation includes convergent validity, internal consistency reliability, and discriminant validity.

Table 3. Measurement Model Assessment

Construct	Outer Loading	AVE	Cronbach's Alpha	Composite Reliability	Conclusion
Product Quality (X1)	> 0.70	> 0.50	> 0.60	> 0.70	Valid & Reliable
Service Quality (X2)	> 0.70	> 0.50	> 0.60	> 0.70	Valid & Reliable
Price (X3)	> 0.70	> 0.50	> 0.60	> 0.70	Valid & Reliable
Customer Satisfaction (Y)	> 0.70	> 0.50	> 0.60	> 0.70	Valid & Reliable
Customer Loyalty (Z)	> 0.70	> 0.50	> 0.60	> 0.70	Valid & Reliable

All constructs meet the recommended thresholds for convergent validity and internal consistency reliability. Outer loadings exceed 0.70, indicating indicator reliability, while AVE values are above 0.50, confirming adequate convergent validity. Furthermore, Cronbach's Alpha and Composite Reliability values exceed the acceptable thresholds, indicating strong internal consistency (Hair et al., 2019). Discriminant validity was also established, as each construct demonstrated higher loadings on its respective indicators compared to other constructs, confirming that the constructs are empirically distinct.

#### 4.3 Structural Model Evaluation (Inner Model)

The structural model (Table 3) demonstrates substantial explanatory power, with product quality, service quality, and price explaining 84.6% of the variance in customer satisfaction. Additionally, customer satisfaction explains 58.0% of the variance in customer loyalty, indicating moderate to strong predictive capability (Hair et al., 2019).

Table 3. Coefficient of Determination ( $R^2$ )

Endogenous Variable	$R^2$	Interpretation
Customer Satisfaction (Y)	0.846	Strong
Customer Loyalty (Z)	0.580	Moderate–Strong

#### 4.4 Hypothesis Testing (Direct Effects)

The results indicate (Table 4 & Figure2) that product quality has a positive and significant effect on customer satisfaction ( $\beta = 0.466$ ,  $p < 0.001$ ), suggesting that improvements in product performance significantly enhance customer satisfaction. Price also demonstrates a significant positive effect on satisfaction ( $\beta = 0.351$ ,  $p < 0.001$ ), indicating that perceived price fairness and value alignment are critical determinants of

satisfaction. In contrast, service quality does not have a statistically significant effect on satisfaction ( $\beta = 0.156, p > 0.05$ ), suggesting that service interaction is not the primary driver of satisfaction in this context. Furthermore, customer satisfaction has a strong positive effect on customer loyalty ( $\beta = 0.761, p < 0.001$ ), confirming its central role in influencing repeat purchase behavior and recommendation.

Table 4. Path Coefficients

Hypothesis	Relationship	$\beta$	t value	p value	Decision
H1	Product Quality $\rightarrow$ Satisfaction	0.466	3.801	0.000	Supported
H2	Service Quality $\rightarrow$ Satisfaction	0.156	1.354	0.176	Not Supported
H3	Price $\rightarrow$ Satisfaction	0.351	3.645	0.000	Supported
H4	Satisfaction $\rightarrow$ Loyalty	0.761	17.259	0.000	Supported

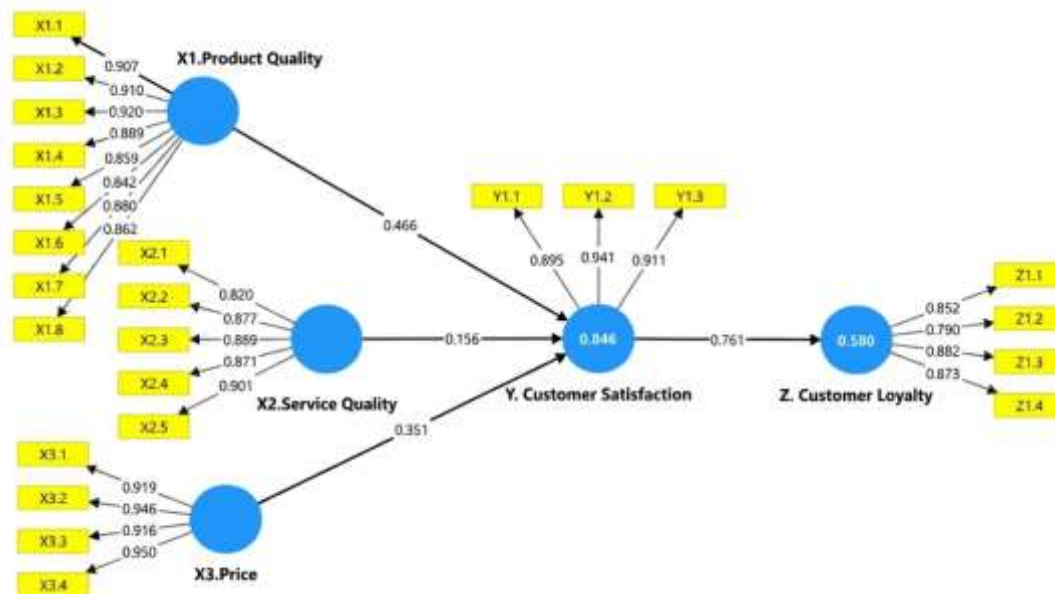


Figure 2. The result study

#### 4.5 Mediation Analysis (Indirect Effects)

The mediation analysis reveals that customer satisfaction significantly mediates the relationship between product quality and customer loyalty, as well as between price and customer loyalty. However, customer satisfaction does not mediate the relationship between service quality and customer loyalty, indicating that service quality does not significantly contribute to loyalty formation through satisfaction in this context. These findings suggest that loyalty is primarily driven by satisfaction derived from product performance and perceived value rather than service interaction.

Table 5 Indirect Effects

Hypothesis	Indirect Relationship	Result	p value	Decision
H5	Product Quality $\rightarrow$ Satisfaction $\rightarrow$ Loyalty	Significant	0.000	Supported
H6	Service Quality $\rightarrow$ Satisfaction $\rightarrow$ Loyalty	Not Significant	> 0.05	Not Supported
H7	Price $\rightarrow$ Satisfaction $\rightarrow$ Loyalty	Significant	0.001	Supported

### DISCUSSION

#### The Effect of Product Quality on Customer Satisfaction

The results of this study indicate that product quality has a positive and significant effect on customer satisfaction. This finding suggests that product attributes such as taste, consistency, and presentation serve as primary determinants in shaping customers evaluations of their consumption experience. This result is consistent with Expectation Disconfirmation Theory (EDT), which posits that satisfaction is formed through the comparison between expectations and perceived performance (Oliver, 2010). In this context, product quality represents the core dimension of *perceived performance*, thereby playing a central role in satisfaction formation (Dhisasmito & Kumar, 2020).

Furthermore, this finding is supported by prior research demonstrating that product attributes significantly influence consumer preferences and purchasing decisions, particularly in consumption based products (Eddyono & Subroto, 2014; Putra & Eddyono, 2024). In addition, recent studies highlight that in experiential consumption settings, customers tend to rely more on outcome based evaluations rather than service interactions, reinforcing the dominance of product related factors (Kumar et al., 2021).

#### **The Effect of Service Quality on Customer Satisfaction**

The findings reveal that service quality does not have a significant effect on customer satisfaction. This result indicates that service interaction is not a primary determinant of satisfaction in the context of this study. From a theoretical perspective, this finding suggests the presence of a boundary condition within the SERVQUAL framework (Parasuraman et al., 1988; Zeithaml et al., 2018), where service quality does not universally act as a dominant predictor of satisfaction across all service contexts.

Recent studies indicate that in standardized or efficiency driven service environments, customers tend to prioritize product outcomes, speed, and convenience over interpersonal service interactions (Kumar et al., 2021; Mustak et al., 2013)). This finding is further supported by prior research indicating that consumer behavior may shift under certain conditions, such as post pandemic consumption patterns, where functional and efficiency related factors become more dominant (Afifatus Solehah & Eddyono, 2025)

#### **The Effect of Price on Customer Satisfaction**

The results show that price has a positive and significant effect on customer satisfaction. This finding indicates that customers perceptions of price fairness and value congruence play a critical role in shaping satisfaction. This result aligns with Perceived Value Theory, which suggests that customers evaluate products based on a trade off between perceived benefits and sacrifices (Zeithaml, 1988).

In this context, price represents the *perceived sacrifice*, and satisfaction is achieved when customers perceive that the benefits outweigh the costs (Kumar et al., 2021). Previous studies also confirm that price and perceived value significantly influence consumer decision making processes, particularly in leisure and tourism contexts (Favorita & Eddyono, 2025). Additionally, other research highlights that consumer preferences are strongly influenced by price perceptions and value evaluation, which ultimately affect purchasing decisions and satisfaction levels (Christanti & Eddyono, 2025).

#### **The Effect of Customer Satisfaction on Customer Loyalty**

The findings demonstrate that customer satisfaction has a positive and significant effect on customer loyalty, with a strong magnitude of influence. This result reinforces classical marketing theory, which posits that satisfaction is a key determinant of customer loyalty (Kotler & Keller, 2016; Oliver, 2010). Satisfied customers are more likely to engage in repeat purchases, provide positive word of mouth, and develop long term commitment toward a brand (Griffin, 2009; Oliver, 2010).

Furthermore, contemporary research suggests that satisfaction serves as a foundation for building long term customer relationships, including emotional attachment and customer engagement (Hollebeek et al., 2023). This finding is also supported by previous studies indicating that customer loyalty plays a critical role in generating competitive advantage, particularly in service based industries (Mulyani & Eddyono, 2025).

#### **The Mediating Role of Customer Satisfaction**

The results indicate that customer satisfaction mediates the relationship between product quality and price on customer loyalty, but does not mediate the relationship between service quality and loyalty. This finding is consistent with the Stimulus Organism Response (S O R) framework, which suggests that external stimuli influence behavioral responses through internal evaluative processes (Dhisasmitho & Kumar, 2020).

In this study, product quality and price act as significant stimuli that influence satisfaction (organism), which in turn affects loyalty (response). In contrast, since service quality does not significantly influence satisfaction, the mediation effect does not occur. This finding is further supported by prior research indicating that consumer decisions and loyalty behavior are primarily driven by factors that directly influence consumer preferences and evaluative judgments (Selamat & Eddyono, 2025).

#### **Theoretical Implications**

This study provides several important theoretical contributions. It demonstrates a shift in the dominant drivers of customer satisfaction, where product quality and price play a more significant role than service quality in the context of coffee shop consumption, thereby enriching the service marketing literature (Dhisasmitho & Kumar, 2020). In

addition, the findings reveal the presence of boundary conditions within the SERVQUAL and Service Dominant Logic frameworks, suggesting that service interaction is not always the primary determinant of satisfaction (Mustak et al., 2013; Parasuraman et al., 1988). Moreover, this study reinforces the perceived value framework by providing empirical evidence that price value congruence is a critical determinant of both satisfaction and loyalty (Kumar et al., 2021; Zeithaml, 1988). Furthermore, it extends prior research on consumer preferences and purchasing behavior by demonstrating that value based evaluation and product attributes serve as dominant factors across different industry contexts (Eddyono & Subroto, 2014; Putra & Eddyono, 2024).

#### **Practical Implications**

From a managerial perspective, the findings provide strategic insights for Rumah Loer Merdeka Palembang. Management should prioritize maintaining consistent product quality, as it represents the primary driver of customer satisfaction (Dhisasmitho & Kumar, 2020). In addition, pricing strategies need to ensure alignment between price and perceived value in order to enhance both customer satisfaction and loyalty (Zeithaml, 1988). Furthermore, although service quality does not significantly influence satisfaction, maintaining operational efficiency such as service speed and order accuracy remains essential to ensure a seamless customer experience (Mustak et al., 2013).

## **5. CONCLUSION AND RECOMMENDATIONS**

### **Conclusion**

This study examined the effects of product quality, service quality, and price on customer satisfaction and customer loyalty in the context of a specialty coffee shop in Palembang. The findings demonstrate that product quality and price significantly enhance customer satisfaction, whereas service quality does not show a statistically significant effect. Among the antecedents, product quality emerges as the strongest determinant of satisfaction. Furthermore, customer satisfaction exerts a substantial positive influence on loyalty, confirming its central role in encouraging repeat purchase intentions and positive word-of-mouth behavior. The mediation analysis further reveals that customer satisfaction significantly transmits the effects of product quality and price to loyalty. In contrast, satisfaction does not mediate the relationship between service quality and loyalty. These results indicate that loyalty formation in this setting is primarily driven by perceived product excellence and value congruence rather than by interpersonal service interaction. The findings support Expectation Disconfirmation Theory and reinforce the importance of value-based satisfaction mechanisms in experiential F&B businesses.

### **Recommendations**

From a managerial perspective, priority should be given to maintaining consistent product quality, particularly in taste, presentation, and reliability of menu delivery. Continuous quality control procedures and standardized operating systems are recommended to minimize performance inconsistencies. In addition, pricing strategies should emphasize perceived fairness and alignment between price and customer value expectations to sustain satisfaction levels.

Although service quality did not significantly influence satisfaction in this study, operational efficiency—such as reducing waiting time and ensuring order accuracy—should still be monitored to prevent potential dissatisfaction. Management may also implement structured feedback mechanisms to continuously evaluate customer perceptions and respond proactively to complaints.

For future research, it is recommended to incorporate additional constructs such as brand image, store atmosphere, emotional attachment, or switching barriers to expand the explanatory power of the model. Comparative studies across different coffee shop formats or cities may also provide broader generalizability and deeper insight into contextual variations in satisfaction–loyalty dynamics.

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