Exploring the Effects of Omnichannel Service Quality on Customer Retention: Evidence from Local Coffee Shop Consumers

Lisnawati Lisnawati, Bambang Widjajanta, and Amelia Naria Simbolon

Universitas Pendidikan Indonesia, Bandung, Indonesia
lisnawati@upi.edu

Abstract. This study aims to examine the effect of omnichannel service quality on customer retention through omnichannel customer experience, using a survey of local coffee shop customers in Indonesia. A descriptive and verifiable research design was employed with a quantitative approach. The sample consisted of 349 respondents, selected through purposive sampling, who were customers of local coffee shop brands such as Kopi Kenangan, Janji Jiwa, and Fore Coffee. Data were analyzed statistically using the Structural Equation Modeling (SEM) method. The findings reveal that omnichannel service quality and omnichannel customer experience were rated in the "good" category, while customer retention was rated "high." The results indicate a significant direct effect of omnichannel service quality on omnichannel customer experience, and a significant direct effect of omnichannel customer experience on customer retention. However, omnichannel service quality does not have a significant direct effect on customer retention; instead, its influence is transmitted indirectly and significantly through omnichannel customer experience, confirming a full mediation effect. The implications of this study suggest that improving omnichannel service quality enhances customer experience, which in turn positively influences customer retention. Local coffee shop brands that deliver a seamless and satisfying omnichannel customer experience are more likely to retain their customers in a competitive retail environment.

Keywords: Omnichannel Service Quality, Omnichannel Customer Experience, Customer Retention, Coffee Shops, Structural Equation Modeling.

1 Introduction

Retaining existing customers has become a strategic priority for companies, as acquiring a new customer is estimated to cost five times more than retaining an existing one [1]. Customer retention reflects a company's ability to maintain repeat purchasing behavior and brand loyalty, and is closely linked to long-term profitability and firm value [2-4].

One sector where customer retention has become particularly critical is the food and beverage industry, especially the local coffee shop segment. Indonesia's coffee industry

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has grown by approximately 5% annually over the past decade, supported by coffee bean production reaching 794.8 thousand tons in 2022. This growth has encouraged the rapid expansion of local coffee shop brands such as Kopi Kenangan, Janji Jiwa, and Fore Coffee, each operating hundreds of outlet nationwide. However, Top Brand Index data for 2020-2023 indicate fluctuating and, for some brands, declining customer loyalty scores, signaling potential weaknesses in customer retention strategies within this competitive market.

To retain customers, coffee shop brands increasingly integrate digital touchpoints with their physical stores, a business strategy known as omnichannel. Omnichannel service quality refers to a company's ability to reach and interact with customers seamlessly across both digital and physical channels [5]. This integration is expected to enhance the overall customer experience across all available channels, referred to as omnichannel customer experience [6]. Prior research has shown mixed findings: some studies report that consistent omnichannel experiences positively affect customer retention [7,8], while others find that service quality alone does not guarantee positive retention outcomes when channel experiences are inconsistent [9,10].

Given this gap, the present study aims to: (1) describe omnichannel service quality, omnichannel customer experience, and customer retention among local coffee shop customers in Indonesia; (2) examine the effect of omnichannel service quality on omnichannel customer experience; (3) examine the effect of omnichannel service quality and omnichannel customer experience on customer retention; and (4) examine the indirect effect of omnichannel service quality on customer retention through omnichannel customer experience.

Omnichannel service quality refers to a service system that integrates online and offline retail channels into a unified customer journey, encompassing mobile devices, applications, social media, websites, and physical stores [11]. It is measured through six dimensions: personal interaction, efficiency, privacy, aesthetic design, store appearance, and fulfillment [5].

Omnichannel customer experience represents a customer's cumulative evaluation of their experience across all available channels, whether physical or digital [6]. It is commonly measured through six dimensions: connectivity, integration, flexibility, consistency, value, and delivery [12].

Customer retention is the outcome of a favorable post-purchase evaluation, reflecting a customer's tendency to continue purchasing from the same brand rather than switching to a competitor [13]. In this study, customer retention is measured through four dimensions: brand preference, brand trust, commitment to brand, and word of mouth.

Based on the theoretical framework above, this study proposes the following hypotheses:

- H1: Omnichannel service quality has a positive and significant effect on customer retention.
- H2: Omnichannel customer experience has a positive and significant effect on customer retention.

- H3: Omnichannel service quality has a positive and significant effect on omnichannel customer experience.
- H4: Omnichannel service quality has a positive and significant indirect effect on customer retention through omnichannel customer experience.

2 Methods

This study used a descriptive and verificative research design with a quantitative approach and an explanatory survey method. The population consisted of 1,358,880 Instagram followers of three local coffee shop brands: Kopi Kenangan (558,881 followers), Janji Jiwa (578,135 followers), and Fore Coffee (221,864 followers), recorded as of 23 November 2023.

The sample size was determined using the Isaac and Michael table with a 5% margin of error, resulting in 349 respondents. A non-probability purposive sampling technique was applied, with the following criteria: (1) the respondent is a customer of a local coffee shop and has made a purchase through the brand's mobile application; (2) the respondent has purchased coffee more than twice, either online or offline, within the last three years; and (3) the respondent follows the brand's Instagram account.

Data were collected through a structured questionnaire using a 7-point rating scale, distributed to respondents who met the sampling criteria. Verificative data analysis was conducted using Structural Equation Modeling (SEM) with IBM SPSS AMOS software, encompassing measurement model testing (validity and reliability) and structural model testing (hypothesis testing). Hypotheses were tested using the Critical Ratio (C.R.) value at a 5% significance level; a hypothesis is accepted if C.R. ≥ 1.96 or the p-value ≤ 0.05.

3 Result and Discussion

3.1 Respondent Profile

Out of the 349 respondents, the majority were male (198 respondents, 56.7%), predominantly aged 21-25 years (251 respondents, 71.9%). Most respondents resided in the Jabodetabek area (226 respondents, 64.75%), while the remainder came from other cities such as Bandung, Yogyakarta, and Malang. In terms of occupation, students/college students dominated the sample (255 respondents, 73%), followed by private employees (67 respondents, 19.2%). Half of the respondents (177 respondents, 50.7%) reported a monthly income or allowance between IDR 2,000,001 and IDR 5,000,000, consistent with the profile of coffee shops as venues frequently used for study and work activities in addition to consumption.

3.2 Descriptive Result

Based on the continuum line analysis, omnichannel service quality obtained an overall score of 83%, categorized as good, with personal interaction as the highest-contributing

dimension and aesthetic design as the lowest. Omnichannel customer experience obtained a score of 85.6%, also categorized as good, with flexibility as the strongest dimension and consistency as the weakest. Customer retention obtained a score of 79.8%, categorized as high, with word of mouth as the strongest dimension and commitment to brand as the weakest.

3.3 Structural Model and Hypothesis Testing

The structural model results, presented in Table 1, show the path coefficients (standardized regression weights), Critical Ratio (C.R.), and significance (p) values for each hypothesized relationship.

Table 1. Structural Model and Hypothesis Testing Results (Source: Processed Research Data, 2024)

Hypothesized Path	Std. Estimate	C.R.	p	Result
H1: Omnichannel Service Quality → Customer Retention	0.283	1.519	0.129	Not Supported
H2: Omnichannel Customer Experience → Customer Retention	0.467	2.491	0.013	Supported*
H3: Omnichannel Service Quality → Omnichannel Customer Experience	0.920	10.931	< 0.001	Supported
H4: Omnichannel Service Quality → Customer Retention (via Omnichannel Customer Experience)	0.430	-	0.036	Supported

*Note: The original thesis draft on which this article is based contained an internal inconsistency for H2 — the narrative conclusion in some sections stated "not supported," while the reported statistics (C.R. = 2.491 ≥ 1.96; p = 0.013 ≤ 0.05) and the discussion in other sections stated "supported." This article follows the statistical decision rule consistently; the authors are advised to re-verify this path against the original AMOS output before final submission.

3.4 Discussion

Omnichannel Service Quality

Omnichannel service quality, measured through six dimensions (personal interaction, efficiency, privacy, aesthetic design, store appearance, and fulfillment), obtained an overall score of 84% of the ideal score, placing it in the good category. This

indicates that local coffee shop customers generally perceive the integration between digital and physical service channels as satisfactory, consistent with the view that omnichannel systems are designed to allow customers to move seamlessly between online and offline touchpoints while receiving consistent service quality [14, 15].

Personal interaction emerged as the highest-contributing dimension, indicating that the direct and indirect communication established by coffee shop staff, both in-store and through digital channels, was well received by customers. This finding aligns with prior research showing that personal interaction is a key driver of customer satisfaction with service quality [16]. In contrast, aesthetic design recorded the lowest score among the six dimensions, suggesting that the visual and content design of the mobile applications and physical outlets was perceived as the weakest aspect of service delivery. This is consistent with findings that aesthetic design does not directly strengthen perceived service quality, but instead exerts its influence more strongly on purchase interest by shaping customers' initial perceptions of a brand [17].

Omnichannel Customer Experience

Omnichannel customer experience, assessed through six dimensions (connectivity, integration, flexibility, consistency, value, and delivery), obtained an overall score of 86%, also categorized as good. This suggests that customers generally perceive their cumulative experience across the brand's online and offline touchpoints favorably, in line with the notion that omnichannel customer experience results from the combination of connected online and traditional shopping activities [18].

Flexibility was the highest-scoring dimension, reflecting customers' appreciation for having multiple payment and purchase method options across channels, consistent with earlier findings that flexibility in online and offline transactions contributes to convenience and purchasing comfort [18]. Connectivity, by contrast, was the lowest-scoring dimension, indicating that the perceived link between online and offline touchpoints still requires strengthening. This finding underscores that in the digital era, connectivity functions as a communication strategy that must foster mutual understanding between customers and brands, and that gaps in this dimension may limit brands' adaptability to changing customer expectations [19].

Customer Retention

Customer retention, measured through four dimensions (brand preference, brand trust, commitment to brand, and word of mouth), obtained an overall score of 80%, categorized as high. This indicates that local coffee shop customers generally exhibit favorable retention tendencies toward the brands studied. Word of mouth recorded the highest score, suggesting that satisfied customers are willing to recommend the brand to others, consistent with the view that word of mouth functions as a non-commercial communication channel between existing customers as communicators and prospective customers as recipients, occurring both offline and through online media [2]. Commitment to brand, however, recorded the lowest score, indicating that while customers may currently prefer and trust these brands, their long-term pledge to

maintain the relationship is comparatively weaker, an important consideration given that commitment reflects a deliberate promise to sustain a good relationship over time.

Effect of Omnichannel Service Quality on Omnichannel Customer Experience (H3)

Omnichannel service quality was found to have a strong and highly significant effect on omnichannel customer experience (C.R. = 10.931, $p < 0.001$; standardized estimate = 0.920), supporting H3. This result confirms that the quality of integrated service across online and offline channels, particularly the personal interaction and fulfillment dimensions, is a key driver of how customers perceive their overall brand experience. This finding is consistent with prior studies showing that better-implemented service quality within an omnichannel system produces a substantially better customer experience [11,6,20]. Practically, this suggests that omnichannel service quality functions as a foundational input: brands cannot expect a positive omnichannel experience without first ensuring that their cross-channel service delivery, spanning interaction, efficiency, privacy, design, store appearance, and fulfillment, is executed consistently.

Direct Effects on Customer Retention (H1 and H2)

Omnichannel service quality was not found to have a statistically significant direct effect on customer retention (C.R. = 1.519, $p = 0.129$), leading H1 to be rejected. This suggests that superior integrated service delivery alone is insufficient to retain customers unless it translates into a favorable overall experience. This finding is consistent with prior research indicating that perceived service quality alone does not guarantee customer retention, and that other factors, such as service features, product uniqueness, price, and convenience, jointly shape how customers evaluate the service they receive [21].

Omnichannel customer experience, on the other hand, was found to have a statistically significant direct effect on customer retention (C.R. = 2.491, $p = 0.013$; standardized estimate = 0.467), supporting H2. This indicates that the cumulative experience customers have across a brand's online and offline touchpoints is a meaningful driver of their intention to remain loyal to that brand. This is consistent with the broader premise of omnichannel customer experience research, which holds that a well-designed and evaluated omnichannel journey has the potential to strengthen customer retention by fostering a customer-centric relationship built on flexible, always-accessible communication [22,23].

Mediating Role of Omnichannel Customer Experience (H4)

Most notably, omnichannel service quality was found to have a positive and significant indirect effect on customer retention through omnichannel customer experience (standardized indirect effect = 0.430, $p = 0.036$), supporting H4. Taken together with the results for H1 and H3, this pattern indicates that omnichannel customer experience functions as a full mediating variable in this model: omnichannel service quality does not retain customers directly, but does so indirectly by first shaping

a favorable cross-channel experience, which in turn strengthens customer retention. This is consistent with prior findings that customer experience mediates the relationship between omnichannel service quality and customer retention [20], and reinforces the view that consumers' willingness to remain loyal to a brand stem primarily from the quality of experience accumulated throughout their purchase journey, rather than from service quality in isolation [7,24].

Theoretical and Managerial Implication

Theoretically, this study extends the omnichannel retailing literature by empirically confirming that omnichannel customer experience operates as a mediating mechanism, rather than a mere parallel outcome, between omnichannel service quality and customer retention. This refines prior conceptual models that treat service quality as a direct antecedent of retention, and instead positions customer experience as the more proximal determinant of retention outcomes within omnichannel systems [6].

Managerially, the findings imply that local coffee shop brands should not treat improvements to omnichannel service quality as an end in itself. Instead, investments in personal interaction, efficiency, privacy, aesthetic design, store appearance, and fulfillment should be explicitly evaluated by their downstream effect on the customer experience, particularly the weaker dimensions identified in this study: aesthetic design within service quality, and connectivity and consistency within customer experience. Strengthening the visual identity of applications and outlets, improving real-time connectivity between online and offline touchpoints (for example, through synchronized loyalty points and automated relationship-building messages), and standardizing service and product delivery across channels are likely to yield the greatest marginal improvement in customer retention, since these are precisely the weakest links in the pathway through which service quality translates into retention.

4 Conclusion

This study concludes that omnichannel service quality, omnichannel customer experience, and customer retention among local coffee shop customers in Indonesia are perceived at a good to high level. Omnichannel service quality has a strong direct effect on omnichannel customer experience, and omnichannel customer experience in turn has a significant direct effect on customer retention. However, omnichannel service quality does not have a significant direct effect on customer retention; its influence on retention is transmitted indirectly and significantly through omnichannel customer experience, confirming a full mediation pattern. These findings highlight the central, mediating role of customer experience: local coffee shop brands seeking to strengthen customer retention should prioritize consistency, connectivity, and seamless integration between their online and offline channels, rather than focusing on service quality improvements in isolation. This study is limited by its cross-sectional design, conducted at a single point in time, and by its focus on three brands within the local coffee shop sector. Future research is recommended to incorporate additional variables such as

switching cost, to apply longitudinal designs, and to extend the scope to other food and beverage sub-sectors to strengthen the generalizability of these findings.

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