

BUILDING CUSTOMER LOYALTY IN DENPASAR CITY COFFEE SHOPS: SELECTED ELEMENTS OF THE MARKETING MIX

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Article Info:

Article History:

Received: 2025-09-17

Revised: 2025-12-19

Accepted: 2026-01-15

Abstract:

Purpose:

This study analyzes the effects of product quality and price on customer loyalty through customer satisfaction at coffee shops in Denpasar City, Bali.

Keywords:

Product Quality, Price,
Customer Satisfaction,
Customer Loyalty

Methodology:

The study used 99 respondents selected from five coffee shops in Denpasar City. Data were analyzed using inferential analysis and Structural Equation Modeling-Partial Least Squares (SEM-PLS) with SmartPLS, including measurement-model assessment, structural-model assessment, and bootstrapping.

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Findings:

Product quality and price each have positive and significant effects on customer satisfaction and customer loyalty. Customer satisfaction also has a positive and significant effect on customer loyalty and partially mediates the effects of both product quality and price on customer loyalty.

Paper Type:

Research Paper



Implication:

Coffee-shop managers in Denpasar should strengthen customer loyalty by consistently maintaining product quality, setting prices that are perceived as fair and competitive, and creating satisfying customer experiences. Coffee beans should be used within their optimal performance period, approximately one week to one month after roasting, while menu, packaging, and service quality should be managed consistently.

INTRODUCTION

The food and beverage industry has developed rapidly in recent years, particularly the coffee-shop business. Rising coffee consumption is driven not only by changes in consumption patterns but also by an urban lifestyle that positions coffee shops as social spaces, workplaces, and recreational venues. These conditions have stimulated substantial growth in coffee-shop businesses while simultaneously intensifying competition among operators. Increasingly competitive market conditions require businesses to create competitive advantages to maintain business continuity. One important strategy for achieving such an advantage is building customer loyalty (Kusuma et al., 2025).

Customer loyalty is an important indicator of a company's success in retaining consumers amid increasingly intense market competition (Rahma et al., 2025). Loyalty reflects a customer's commitment to consistently repurchase a particular product or service in the future despite the availability of alternatives offered by competitors (Johnny & Putra, 2025). Customer loyalty represents a strong commitment to repurchase or continue subscribing to preferred products or services, thereby generating repeated purchasing behavior toward the same brand (Kusuma et al., 2026). Accordingly, customer loyalty is a strategic asset because it supports sustainable long-term relationships between companies and their customers (Munawaroh & Alvionita, 2025).

In the coffee-shop industry, customer loyalty does not develop instantly; rather, it is influenced by factors related to customers' perceptions and experiences of the products and services they receive (Kusuma et al., 2025). Product quality is considered an important factor in shaping loyalty (Vildayanti & Saputra, 2025). Product quality reflects a product's ability to meet consumer needs and expectations through attributes such as taste, consistency, appearance, and uniqueness (Sanusi & Wafi, 2025). High-quality products tend to create satisfying consumption experiences that encourage repeat purchases (Soetiyono & Alexander, 2025).

In addition to product quality, price is an important consideration in consumers' purchasing loyalty (Vildayanti & Saputra, 2025). Price is viewed not only as the economic value paid by consumers but also as an

indicator of the value received from a product (Ibrahim et al., 2025). In the coffee-shop industry, consumers often evaluate whether the price paid is commensurate with the quality obtained. When the offered price is perceived as appropriate for the quality received, positive value perceptions emerge and may increase customer satisfaction and loyalty.

Customer satisfaction is also a key factor that bridges the relationship between product quality and price, on the one hand, and customer loyalty on the other. Customer satisfaction represents the degree of pleasure or disappointment arising after comparing perceived product performance with prior expectations. Satisfied customers are more likely to repurchase, recommend products to others, and establish long-term relationships with the company.

Previous studies have shown that product quality and price affect customer satisfaction and customer loyalty (Ibrahim et al., 2025; Munawaroh & Alvionita, 2025; Pakarti et al., 2025; Rahma et al., 2025; Sanusi & Wafi, 2025; Soetiyono & Alexander, 2025; Vildayanti & Saputra, 2025; Wijaya & Artina, 2025).

Initial observations and interviews with several coffee-shop customers in Denpasar City revealed differences in the factors influencing their decision to return. Some customers considered coffee taste quality the main determinant of repeat purchases, whereas others regarded price as more dominant. These conditions indicate that perceptions of product quality and price may influence customer satisfaction and ultimately loyalty. The same phenomenon is reflected in the growth of coffee-shop businesses in Denpasar City, where the number of establishments has increased from year to year. Data from Statistics Indonesia (BPS) of Bali Province indicate that the number of cafés in Denpasar has increased considerably in recent years. This increase signals more intense competition and requires coffee-shop managers to retain customers through appropriate strategies.

Based on these considerations, further examination of the factors affecting customer loyalty in the coffee-shop industry is necessary, particularly product quality, price, and customer satisfaction. This study therefore analyzes the mediating role of customer satisfaction in the effects of product quality and price on customer loyalty at coffee shops in Denpasar City. The study is expected to contribute theoretically and practically to the development of marketing strategies oriented toward stronger customer loyalty.

METHODS

This study uses an associative research design to examine the effects of product quality and price on customer loyalty and to test customer satisfaction as a mediating variable in the relationships between product quality, price, and loyalty. The study was conducted in the coffee-shop industry in Denpasar City, Bali, and focused on product quality, price, customer satisfaction, and customer loyalty. The population comprised 7,689 coffee-shop customers in Denpasar. Samples were selected through non-probability accidental sampling. Using the Slovin formula with a 10% margin of error, 99 respondents were obtained and distributed across five coffee shops: Saga Bali (20 respondents), Umlok Coffee (20), Berbagi Kopi Hub (20), Langkah Coffee (20), and Imadji Coffee (19). Data were analyzed using Structural Equation Modeling-Partial Least Squares (SEM-PLS). The analysis consisted of two major stages: measurement-model (outer-model) evaluation and structural-model (inner-model) evaluation. The outer model assessed construct validity and reliability using convergent validity, discriminant validity, composite reliability, and Cronbach's alpha. All constructs were reflective. The inner model assessed the strength of relationships among latent variables using R-square (R^2) and Q-square (Q^2) predictive relevance. Hypotheses were tested through bootstrapping to obtain path coefficients and the significance of relationships among the research variables.

RESULTS AND DISCUSSION

Outer Model

Based on the Partial Least Squares Structural Equation Modeling (PLS-SEM) results, all constructs met the criteria for convergent validity and construct reliability. Indicator loading factors ranged from 0.698 to 0.883 and generally exceeded the minimum threshold of 0.70. Although one indicator was slightly below 0.70 (0.698), it remained acceptable because the construct as a whole satisfied the reliability and validity criteria.

Table 1. Measurement Model Evaluation Results

Indicator	Loading Factor	Composite Reliability	Cronbach's Alpha	AVE	R ²
X1.1 <- The coffee shop I currently visit offers coffee with a pleasant taste.	0,786	0,876	0,811	0,641	-
X1.2 <- The product packaging at the coffee shop I currently visit is attractive.	0,834	0,876	0,811	0,641	-
X1.3 <- The coffee shop I currently visit offers a varied menu.	0,810	0,876	0,811	0,641	-
X1.4 <- The product quality at the coffee shop I currently visit is good.	0,848	0,876	0,811	0,641	-
X1.5 <- The coffee shop I currently visit has a well-known brand.	0,751	0,876	0,811	0,641	-
X2.1 <- The prices of products offered by the coffee shop I currently visit are affordable	0,698	0,845	0,749	0,587	-
X2.2 <- The prices offered by the coffee shop I currently visit are appropriate for the product quality.	0,832	0,845	0,749	0,587	-
X2.3 <- The prices offered by the coffee shop I currently visit are competitive with other coffee shops.	0,809	0,845	0,749	0,587	-
X2.4 <- The prices offered by the coffee shop I currently visit are commensurate with the benefits received by customers.	0,855	0,845	0,749	0,587	-
Y1.1 <- I have purchased coffee from the coffee shop I currently visit more than once.	0,862	0,903	0,865	0,650	0,669
Y1.2 <- I purchase more than one variety of coffee product at the coffee shop I visit.	0,850	0,903	0,865	0,650	0,669
Y1.3 <- I am loyal to a coffee product at the coffee shop I visit.	0,803	0,903	0,865	0,650	0,669
Y1.4 <- I am loyal to a coffee product at the coffee shop I visit	0,786	0,903	0,865	0,650	0,669
Y2.1 <- I appreciate the quality of service provided at the coffee shop I visit.	0,863	0,899	0,831	0,747	0,788
Y2.2 <- I am satisfied with the quality of the coffee products at the coffee shop I visit.	0,883	0,899	0,831	0,747	0,788
Y2.3 <- I am satisfied with the quality of the coffee products at the coffee shop I visit.	0,847	0,899	0,831	0,747	0,788

Composite reliability values ranged from 0.845 to 0.903 (>0.70), indicating very good internal consistency. This result was reinforced by Cronbach's alpha values of 0.749-0.865, indicating strong construct reliability. Average Variance Extracted (AVE) values ranged from 0.587 to 0.747 (>0.50), indicating that each construct explained more than 50% of the variance in its indicators. Thus, the measurement model was valid and reliable.

The coefficient of determination (R^2) for customer satisfaction was 0.669. Referring to Chin's structural-model evaluation criteria (in Latan & Ghozali, 2012), this value falls within the strong category. Product quality and price therefore jointly explained 66.9% of the variance in customer satisfaction, while the remaining 33.1% was explained by variables outside the model.

Customer loyalty had an R^2 value of 0.788, which is also categorized as strong. Product quality, price, and customer satisfaction jointly explained 78.8% of the variance in customer loyalty, whereas 21.2% was influenced

by factors outside the model. Overall, these coefficients demonstrate that the structural model has substantial explanatory power and is appropriate for explaining relationships among variables in the context of consumer behavior in the coffee-shop industry.

The outer-model results indicate that the exogenous variables in the model have substantial explanatory power for customer satisfaction and loyalty at the coffee shops studied. Accordingly, the structural model demonstrates good predictive capability and is suitable for further interpretation in the hypothesis-testing stage.

Inner Model

The PLS-SEM bootstrapping results show that all relationships among variables in the research model were statistically significant at the 5% significance level ($p < 0.05$).

Table 2. Structural Model Evaluation Results

Variable	Original sample	T statistics	P Values	Description
Price -> Customer Satisfaction	0,368	3.467	0,001	Significant
Price -> Customer Loyalty	0,287	2.754	0,006	Significant
Customer Satisfaction -> Customer Loyalty	0,271	2.813	0,005	Significant
Product Quality -> Customer Satisfaction	0,489	4.010	0,000	Significant
Product Quality -> Customer Loyalty	0,397	3.375	0,001	Significant
Price -> Customer Satisfaction	0,368	3.467	0,001	Significant
Price -> Customer Loyalty	0,287	2.754	0,006	Significant
Customer Satisfaction -> Customer Loyalty	0,271	2.813	0,005	Significant
Product Quality -> Customer Satisfaction	0,489	4.010	0,000	Significant

The effect of product quality on customer satisfaction produced a path coefficient of 0.489 ($t = 4.010$; $p = 0.000$), indicating a positive and significant effect. Price also had a positive and significant effect on customer satisfaction, with a coefficient of 0.368 ($t = 3.467$; $p = 0.001$).

Product quality also had a direct positive effect on customer loyalty ($\beta = 0.397$; $t = 3.375$; $p = 0.001$), while price positively affected customer loyalty ($\beta = 0.287$; $t = 2.754$; $p = 0.006$). In addition, customer satisfaction significantly affected customer loyalty ($\beta = 0.271$; $t = 2.813$; $p = 0.005$). These findings indicate that product quality and price play strategic roles in shaping both customer satisfaction and loyalty at the coffee shops studied.

The direct effect of product quality on customer loyalty was significant ($\beta = 0.397$; $p < 0.05$). Product quality also significantly affected customer satisfaction, which in turn significantly affected customer loyalty, indicating a significant indirect effect. Because the direct effect remained significant after the mediator was included, customer satisfaction partially mediates the relationship between product quality and customer loyalty.

Price had a significant direct effect on customer loyalty ($\beta = 0.287$; $p < 0.05$) and significantly affected customer satisfaction, which subsequently significantly affected customer loyalty. Customer satisfaction therefore also mediates the relationship between price and customer loyalty. Because the direct path remained significant, the mediation is partial.

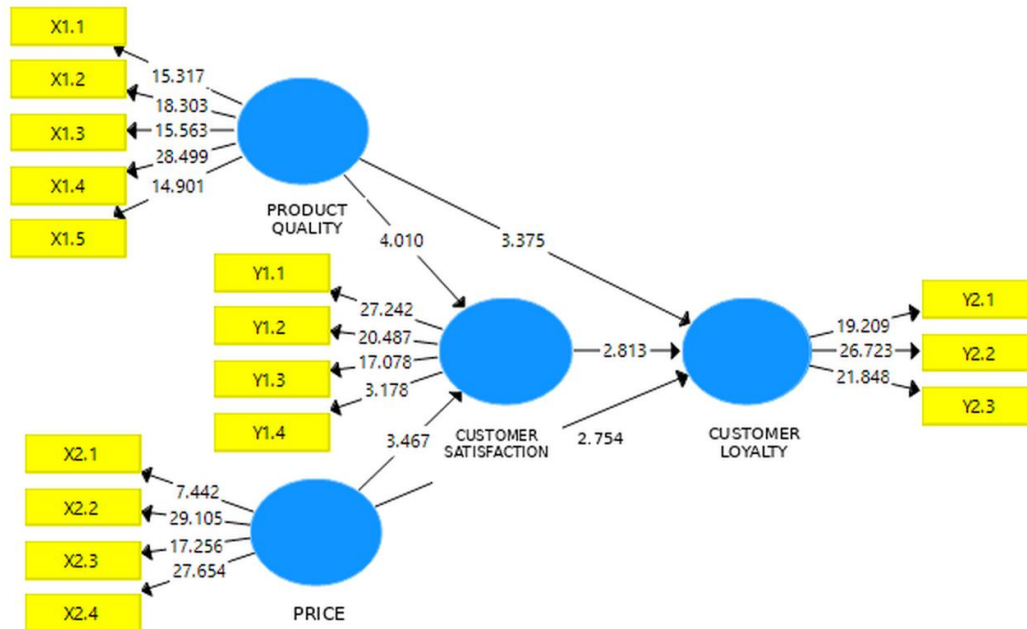


Figure 1. Bootstrapping (Statistical Test)

The findings confirm that customer loyalty is shaped not only directly by perceptions of product quality and price but also through the evaluative mechanism of customer satisfaction. Customer satisfaction therefore functions as an intervening variable that strengthens the relationship between value attributes (quality and price) and loyal behavior.

Table 3. Goodness of Fit

Construct	R Square	AVE
Product Quality	-	0,641
Price	-	0,587
Customer Satisfaction	0,669	0,650
Customer Loyalty	0,788	0,747
Average	0,729	0,656

The Goodness of Fit (GoF) value was 0.692, calculated as $\sqrt{(AVE \times R^2)}$, namely $\sqrt{(0.729 \times 0.656)} = \sqrt{0.478} = 0.692$. According to the GoF criteria proposed by Tenenhaus et al., values of 0.10, 0.25, and 0.36 represent small, medium, and large fit, respectively. The GoF value of 0.692 is therefore far above the threshold for the large category (0.36), indicating that the research model has very good overall fit. This finding suggests that the model has high predictive capability in explaining the relationships among the variables studied and that the combination of constructs comprehensively represents the phenomenon of customer loyalty in the coffee-shop industry.

Discussion

Effect of Product Quality on Customer Satisfaction at Coffee Shops in Denpasar

The results show that product quality affects customer satisfaction at coffee shops in Denpasar. Theoretically, product quality is a key determinant of satisfaction because consumers evaluate the congruence between expectations and actual product performance. In the coffee-shop context, quality is reflected in taste, consistency of preparation, menu variety, and presentation standards. When the quality received meets or exceeds expectations, a positive evaluation emerges and produces satisfaction. This finding reinforces the view that product quality is a fundamental basis for creating a satisfying consumption experience.

Effect of Product Quality on Customer Loyalty at Coffee Shops in Denpasar

Product quality was also shown to affect customer loyalty. Loyalty is formed not only by momentary satisfaction but by the consistency of positive experiences perceived by customers. Stable and superior product

quality builds trust and reduces perceived risk in repeat purchases. In Denpasar's competitive coffee-shop industry, product quality becomes a major point of differentiation among businesses. Consumers tend to remain with coffee shops that consistently maintain their quality standards, thereby fostering long-term commitment.

Effect of Price on Customer Satisfaction at Coffee Shops in Denpasar

Price affects customer satisfaction because consumers evaluate price fairness based on the benefits received. The concept of perceived value explains that satisfaction emerges when customers judge the price paid to be commensurate with product quality and the experience received. In Denpasar, which has diverse market segments, price sensitivity is an important factor in shaping satisfaction evaluations. Prices perceived as fair and rational strengthen customers' positive perceptions of the coffee shop they visit.

Effect of Price on Customer Loyalty at Coffee Shops in Denpasar

Price also directly affects customer loyalty. In addition to functioning as an indicator of value, price serves as a positioning tool in market competition. When customers perceive prices as competitive and appropriate for the quality received, the likelihood of repeat purchase increases. In the coffee-shop context, an appropriate pricing strategy can strengthen customer preference and reduce switching to competitors. Thus, price affects not only short-term evaluations but also customers' long-term commitment.

Effect of Customer Satisfaction on Customer Loyalty at Coffee Shops in Denpasar

Customer satisfaction was shown to affect customer loyalty. Theoretically, satisfaction is a major prerequisite for loyalty because satisfied customers tend to repurchase, provide positive recommendations, and resist competitors' offers. In Denpasar's coffee-shop industry, a pleasant consumption experience that meets expectations creates emotional attachment and strengthens the relationship between customers and service providers. Satisfaction therefore acts as a psychological mechanism connecting consumption experience with loyal behavior.

Mediating Role of Customer Satisfaction in the Effect of Product Quality on Customer Loyalty

Customer satisfaction mediates the relationship between product quality and customer loyalty. This means that product quality affects loyalty not only directly but also through the evaluative process of satisfaction. Good product quality first creates customer satisfaction, which subsequently strengthens the commitment to continue choosing and recommending the same coffee shop. Satisfaction therefore serves as an internal mechanism that reinforces the effect of quality on loyalty. Because the direct relationship between product quality and customer loyalty remained significant after customer satisfaction was included in the model, customer satisfaction functions as a partial mediator. Product quality can thus increase customer loyalty both directly and indirectly through enhanced customer satisfaction. Theoretically, consistent and superior product quality not only builds commitment directly but also creates satisfying experiences that further strengthen loyalty.

Mediating Role of Customer Satisfaction in the Effect of Price on Customer Loyalty

Customer satisfaction also mediates the relationship between price and customer loyalty. A price perceived as fair increases satisfaction, which subsequently encourages loyalty. Loyalty is therefore not generated solely by competitive prices but by the positive and satisfying evaluation created by those prices. In Denpasar's coffee-shop context, appropriate pricing strategies should be accompanied by satisfying customer experiences to create sustainable loyalty. Because the direct effect of price on customer loyalty remained significant after customer satisfaction was considered, the mediation is partial. This indicates that a price perceived as fair and commensurate with value directly encourages loyalty and also indirectly promotes loyalty through satisfaction as an evaluative response to the balance between costs and benefits received.

CONCLUSION AND RECOMMENDATIONS

Conclusion

Product quality has a positive and significant effect on customer satisfaction at coffee shops in Denpasar City.

Product quality has a positive and significant effect on customer loyalty at coffee shops in Denpasar City.

Price has a positive and significant effect on customer satisfaction at coffee shops in Denpasar City.

Price has a positive and significant effect on customer loyalty at coffee shops in Denpasar City.

Customer satisfaction has a positive and significant effect on customer loyalty at coffee shops in Denpasar City.

Customer satisfaction partially mediates the effect of product quality on customer loyalty at coffee shops in Denpasar City.

Customer satisfaction partially mediates the effect of price on customer loyalty at coffee shops in Denpasar City.

Recommendations

Based on the research findings, discussion, and conclusions, the following recommendations are proposed.

For Coffee Shop Management

Based on the findings, coffee-shop management in Denpasar is advised to strengthen customer loyalty by improving product quality, implementing competitive pricing strategies, and optimizing customer satisfaction comprehensively. Regarding product quality, businesses should use attractive and environmentally friendly packaging, maintain consistent quality by selecting high-quality coffee beans such as Kintamani Arabica and Aceh Gayo, develop distinctive blends, ensure that coffee beans are used during their optimal performance period, and use high-quality complementary ingredients such as fresh milk and real fruit juice. Brand image should also be strengthened through active promotion on social media and digital platforms. In terms of price, businesses should set affordable and competitive prices that are commensurate with the benefits received by customers, including through differentiated menu categories such as regular and signature menus to provide pricing flexibility. Customer satisfaction may also be enhanced through interior and exterior arrangements that create a comfortable and memorable atmosphere and through attention to presentation aesthetics and attractive takeaway packaging that encourages voluntary promotion on social media. Finally, management should broaden menu variety, including non-coffee products, to accommodate more diverse consumer preferences and encourage sustainable repeat purchases.

For Future Researchers

Future studies are encouraged to develop more comprehensive models by integrating other variables that may affect customer loyalty through customer satisfaction. An integrative framework incorporating constructs such as store atmosphere, trust, customer experience, electronic word of mouth (e-WOM), brand image, and price gap may provide deeper insight into the determinants of customer loyalty. Variables that remain relatively underexplored may enrich theoretical perspectives and extend the empirical contribution of consumer-behavior research. Future studies should also broaden the geographic scope and respondent characteristics to improve generalizability. Expanding the research scope across locations and market segments would provide a more representative picture of customer behavior and strengthen the external validity of the findings.

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