

Brewing Loyalty: The Mediating Role of Customer Retention between Experience, Product Quality, and Sustainable Patronage in Premium Coffee Shops

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Abstract

This study investigates how customer experience and product quality shape sustainable patronage in the premium coffee shop industry, with a specific focus on the mediating effect of customer retention. Drawing on Relationship Marketing and Service-Dominant Logic, the research uses a quantitative approach and surveys 173 repeat customers from premium coffee shops in Makassar, Indonesia. Data analysis employing SEM-PLS demonstrates that both customer experience and product quality significantly influence customer retention, which in turn has a strong and significant impact on customer loyalty. Importantly, customer retention fully mediates the relationship between experience, product quality, and loyalty, revealing a unique pathway for sustainable competitive advantage. These findings offer actionable guidance for managers and contribute new theoretical insights for understanding loyalty formation in emerging market contexts.

Keywords: Customer Experience, Product quality, Customer retention, Customer loyalty, Premium coffee shop.

1. Introduction

The premium coffee shop industry in Indonesia, particularly in Makassar, has witnessed a remarkable transformation over the past decade. Coffee shops have evolved beyond their traditional role as venues for caffeine consumption, becoming social spaces and lifestyle destinations, especially for millennials and Generation Z (Rahman et al., 2025). This evolution reflects a shift in consumer expectations, moving from product-centric consumption toward experience-driven patronage. In this context, customers increasingly demand not only high-quality products but also memorable, consistent, and engaging experiences (Vienna et al., 2025). The intensification of competition within the premium coffee shop sector compels operators to deliver a cohesive, high-value customer journey to foster loyalty and improve retention rates.

Although the importance of product quality for customer loyalty is well established, the interplay between customer experience and product quality, particularly through the mediating mechanism of customer retention, remains underexplored in emerging markets like Makassar (Ismail, 2025).

Understanding customer retention is vital for long-term sustainability and profitability, given the dynamic and competitive landscape of the premium coffee segment. By examining how customer experience and product quality interact, with a specific focus on the mediating role of customer retention, this study aims to address a significant gap in the literature.

Previous research has explored customer feedback metrics and their relationship with firm performance, emphasising the need to understand how customer interactions influence loyalty (Agag et al., 2023). Targeted communication strategies that enhance customer experiences may also offer practical approaches for operators seeking to improve loyalty and retention (Caferra et al., 2025). The rapid urbanisation and evolving consumer trends in Makassar provide a robust foundation for investigating these relationships. Emerging data on customer preferences indicate that premium coffee shops must adapt to the expectations of an experience-driven consumer base. This research contributes both theoretical insights and practical strategies for sustainable customer relationship management, tailored to Indonesia's premium coffee market (Mustak et al., 2024).

Despite extensive research on customer loyalty in established markets, there is a critical gap in understanding the integrated influence of customer experience and product quality through the mediating mechanism of customer retention in Indonesia's rapidly evolving coffee shop sector. Most prior studies have focused on developed economies or general retail sectors, which may not capture the unique behaviours, competitive pressures, and experiential demands present in Makassar's premium coffee industry. Addressing this gap is urgent not only to advance theoretical frameworks but also to equip practitioners with actionable strategies for sustaining competitive advantage in an increasingly experience-driven market.

Accordingly, this study examines the influence of customer experience and product quality on customer loyalty, with customer retention as a mediating variable, among consumers of premium coffee shops in Makassar. The findings are expected to enrich theoretical perspectives and provide actionable recommendations for business practitioners and scholars focused on customer relationship strategies in Indonesia's premium coffee industry.

2. Literature Review

Customer loyalty in service industries is shaped by a complex interplay of factors, prominently discussed within the frameworks of Relationship Marketing (RM) and Service-Dominant Logic (S-D Logic). RM posits that long-term customer relationships, built on trust, satisfaction, and commitment, are crucial for sustainable competitive advantage (Morgan & Hunt, 1994). S-D Logic further emphasises the co-creation of value through interactive experiences between providers and customers, highlighting the importance of service, relationships, and context (Vargo & Lusch, 2004). Product quality has long been identified as a primary driver of loyalty in both goods and

service contexts. However, recent research has underscored the increasing importance of customer experience, which encompasses service quality, atmosphere, and process convenience, as a critical determinant of customer loyalty (Vienna et al., 2025; Agag et al., 2023). The customer experience is shaped by multiple touchpoints and interactions, and its influence extends beyond immediate satisfaction to longer-term relational outcomes.

Despite these advances, the mediating role of customer retention, particularly in emerging markets and within the premium coffee shop sector, remains underexplored (Ismail, 2025). Retention, defined as the customer's intention and behaviour to continue patronising a business, is a pivotal construct that links antecedents such as experience and product quality to outcomes like loyalty (Kim et al., 2024). In emerging markets, where competitive dynamics and consumer expectations may differ from those in developed economies, the mechanisms underlying retention and loyalty formation warrant further empirical investigation (Hardcastle et al., 2025).

This study builds on the following hypotheses, grounded in RM and S-D Logic:

H1: Customer experience positively influences customer retention.

H2: Product quality positively influences customer retention.

H3: Customer retention positively influences customer loyalty.

H4: Customer retention memediasi pengaruh customer experience

H5: Customer retention memediasi pengaruh product quality terhadap customer loyalty.

By integrating these theoretical perspectives, the research addresses the state of the art and fills a crucial gap by empirically examining how experiential and quality factors interact to foster sustainable patronage in Indonesia's premium coffee sector. Previous studies have mostly focused on developed economies, leaving a gap in the literature regarding the unique characteristics and behaviours of consumers in rapidly developing urban centres like Makassar (Florea & Nieto-Saucedo, 2025; Roy et al., 2025).

3. Research Method

This research employed a quantitative, cross-sectional design, utilising an online survey to collect data from 173 repeat customers of premium coffee shops in Makassar. Purposive sampling ensured that respondents had purchased from a premium coffee shop at least twice in the past six months, thereby targeting individuals with relevant and recent experience. A structured questionnaire was developed to measure four key constructs: customer experience, product quality, customer retention, and customer loyalty. Each construct was assessed using a five-point Likert scale, ranging from strongly disagree to strongly agree. The questionnaire underwent pilot testing to

confirm validity and reliability, with Cronbach's Alpha and Composite Reliability values exceeding the threshold of 0.7 for all constructs. Data analysis was conducted using Structural Equation Modelling with Partial Least Squares (SEM-PLS) via SmartPLS software. The analytical process involved two primary steps: (1) Measurement Model Assessment: This step evaluated convergent and discriminant validity, as well as reliability, to ensure that the constructs were measured accurately and consistently (2) Structural Model Assessment: Hypothesis testing was conducted to examine the relationships among the constructs, and mediation analysis was performed using bootstrapping techniques to assess the mediating role of customer retention. Ethical clearance was obtained prior to data collection, and all participants provided informed consent. Confidentiality and anonymity were strictly maintained throughout the research process.

4. Finding and Discussion

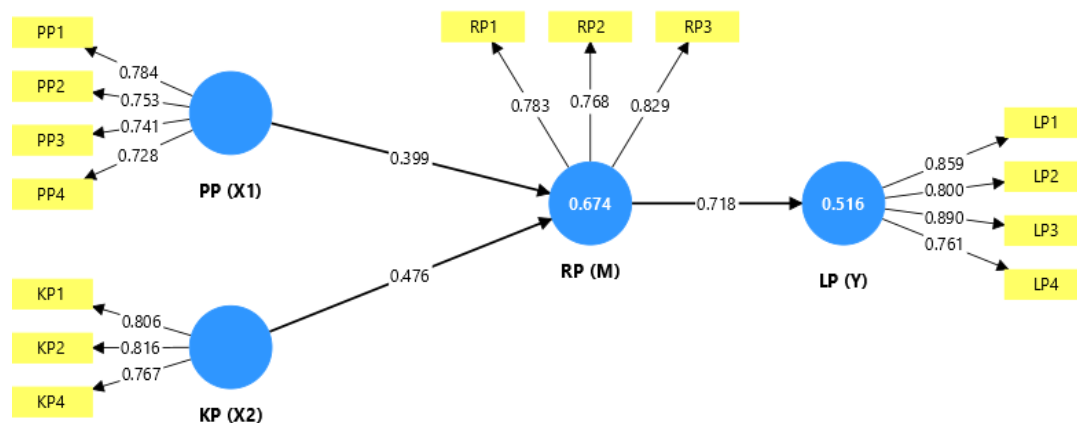
The demographic profile of respondents revealed that the majority were female (75.14%), aged 17–22 (65.32%), and students (67.63%), with most visiting coffee shops one to two times per month. This aligns with previous findings regarding the prominence of coffee shops in youth culture and social dynamics in urban Indonesia (Rahman et al., 2025; Roy et al., 2025). Descriptive analysis indicated high mean scores for customer experience (4.26), product quality (4.21), and retention (4.14), with loyalty at 3.79. All constructs met the criteria for validity and reliability, as confirmed by measurement model assessment.

Structural model analysis yielded the following results: The path coefficient from customer experience to retention was 0.399 (T-Statistic = 5.284, P-Value = 0.000), indicating a significant positive influence. The path coefficient from product quality to retention was 0.476 (T-Statistic = 6.850, P-Value = 0.000), also indicating a significant positive influence. The path coefficient from retention to loyalty was 0.718 (T-Statistic = 14.340, P-Value = 0.000), demonstrating a strong and significant impact. Mediation analysis confirmed that customer retention fully mediates the relationship between customer experience, product quality, and loyalty.

Table 1. Structural Model and Hypothesis Testing

<i>Relationship</i>	<i>Path Coefficient</i>	<i>T-Statistic</i>	<i>P-Value</i>
Customer Experience → Retention	0.399	5.284	0.000
Product Quality → Retention	0.476	6.850	0.000
Retention → Loyalty	0.718	14.340	0.000

Figures 1. Structural Model SEM-PLS of Customer Experience, Product Quality, Customer Retention, and Customer Loyalty



This figure illustrates the structural relationships between customer experience (PP/X1), product quality (KP/X2), customer retention (RP/M), and customer loyalty (LP/Y) among premium coffee shop customers in Makassar. The arrows indicate the direction and strength of influence between constructs, with path coefficients and factor loadings displayed alongside each connection. The results show that customer experience and product quality both have significant positive effects on customer retention (path coefficients: 0.399 and 0.476, respectively), and customer retention has a strong positive effect on customer loyalty (path coefficient: 0.718). All path coefficients are statistically significant ($p < 0.05$), confirming that customer retention fully mediates the relationship between customer experience, product quality, and loyalty.

These findings provide robust empirical support for the hypothesised relationships. Customer experience and product quality both significantly enhance customer retention, which in turn is a pivotal determinant of customer loyalty. The full mediation effect of customer retention reveals a unique pathway in the formation of sustainable patronage within the Indonesian premium coffee sector. Theoretical frameworks of RM and S-D Logic are substantiated by these findings. RM emphasises the importance of trust, satisfaction, and commitment as foundations for enduring customer relationships (Morgan & Hunt, 1994; Vienna et al., 2025). S-D Logic, as articulated by Vargo and Lusch (2004), posits that value is co-created through interactive processes between providers and customers. In the context of premium coffee shops, delivering exceptional experiences and high-quality products fosters relational bonds that enhance retention and, ultimately, loyalty (Agag et al., 2023; Caferri et al., 2025). The results also highlight the active

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role of customers in co-creating value through their interactions with service providers. Customer experience is not passively received but is actively negotiated and constructed across multiple touchpoints. Product quality serves as an essential foundation for enriching these experiences and strengthening the mediation effect of retention. The full mediating role of customer retention signifies that loyalty is not an instantaneous outcome but a process shaped over time through recurrent positive interactions that build trust and emotional attachment (Ahmed et al., 2025; Kim et al., 2024). This longitudinal perspective aligns closely with both RM and S-D Logic, suggesting that retention acts as a conduit through which experiential and quality-based values evolve into repeat patronage and advocacy.

When compared to existing literature, it is notable that while the roles of product quality and customer experience have been affirmed in developed markets, there is a relative scarcity of research examining these constructs through the lens of customer retention in developing markets (Hardcastle et al., 2025). The unique social dynamics of Makassar, marked by rapid urbanisation and the centrality of coffee shops in youth culture, accentuate the relevance of RM and S-D Logic as frameworks for understanding customer behaviour in this context (Florea & Nieto-Saucedo, 2025). From a managerial perspective, the findings advocate for an integrative approach to relationship management. Managers of premium coffee shops should prioritise the cultivation of memorable customer experiences and maintain high product standards. Investments in retention strategies such as feedback mechanisms, loyalty programs, and personalised communications can facilitate enduring customer connections and operationalise the theoretical underpinnings of RM and S-D Logic (Su et al., 2025). In summary, this study provides valuable insights into the formation of customer loyalty by empirically substantiating grand theories within the Indonesian premium coffee shop context. It underscores the importance of co-creating value with customers and highlights retention as a crucial mediating process that requires businesses to adopt relationship-focused strategies to secure a sustainable competitive edge.

The empirical evidence presented in this study highlights the significance of customer experience and product quality as antecedents of customer retention, which, in turn, is the central pathway to customer loyalty. The mediating role of customer retention is particularly noteworthy, as it offers a nuanced understanding of how loyalty is cultivated in the premium coffee shop sector. The results align with the commitment-trust theory of RM, which posits that trust and commitment are essential for building long-term relationships (Morgan & Hunt, 1994). In premium coffee shops, delivering high-quality products and exceptional experiences fosters trust and satisfaction, which are prerequisites for retention. The findings also support S-D Logic, which emphasises the co-creation of value through interactive processes (Vargo & Lusch, 2004). Customers actively engage

with service providers, and their experiences are shaped by the quality of interactions and the products offered.

The full mediation effect of customer retention suggests that loyalty is not a direct consequence of experience or product quality alone. Instead, it is the result of sustained positive interactions that reinforce the customer's intention to continue patronising the business. This process-oriented view of loyalty formation is consistent with recent research emphasising the importance of relational dynamics and value co-creation (Ahmed et al., 2025; Kim et al., 2024). The study's findings contribute to the literature by demonstrating the integrated influence of customer experience and product quality on loyalty through the mediating mechanism of retention. This is particularly relevant in emerging markets, where consumer behaviours and competitive dynamics may differ from those in developed economies (Hardcastle et al., 2025). The research also addresses a gap in the literature by focusing on the premium coffee shop sector in Makassar, providing context-specific insights that can inform both theory and practice. Managerially, the results underscore the importance of adopting a holistic approach to relationship management. Coffee shop operators should not only focus on product excellence but also invest in enhancing the customer experience and implementing retention strategies. Personalised engagement, loyalty programs, and continuous feedback systems are practical tools for nurturing long-term relationships and achieving competitive advantage (Su et al., 2025).

5. Conclusion

This study provides robust empirical evidence that customer experience and product quality significantly influence customer retention, which in turn serves as the central pathway to fostering customer loyalty among premium coffee shop consumers in Makassar. The research confirms that customer retention fully mediates the relationship between experience, product quality, and loyalty, offering a unique theoretical contribution to the understanding of sustainable patronage in emerging markets. By interpreting the findings through the lenses of Relationship Marketing and Service-Dominant Logic, this study reveals that loyalty is not merely an outcome of transactional satisfaction or isolated encounters. Instead, loyalty emerges from an ongoing process of value co-creation, relational trust, and emotional attachment, nurtured through repeated positive experiences and consistent product excellence. These insights highlight the strategic importance of integrating experiential management and retention programs to build enduring customer relationships in a highly competitive market. For practitioners, the results advocate for a holistic relationship management approach, emphasising not only the delivery of high-quality products but also the continuous enhancement of the customer experience and the implementation of targeted retention strategies. For scholars, this research fills a critical gap in the literature by demonstrating the mediating mechanism of customer retention in the loyalty formation process within Indonesia's

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premium coffee shop sector. In summary, the study advances theoretical discourse and managerial practice by positioning customer retention as a pivotal mediator in achieving sustainable customer loyalty. These findings offer actionable guidance for industry players seeking to secure a competitive advantage in an increasingly experience-driven and dynamic market environment.

This study extends the application of Relationship Marketing and Service-Dominant Logic theories in emerging market contexts, specifically within Indonesia's premium coffee shop sector. By empirically confirming the mediating role of customer retention, it fills a notable gap in loyalty research, offering a refined understanding of how experiential and quality factors combine to build sustainable patronage. For practitioners, the findings underscore the critical need to integrate customer experience management with rigorous product quality control and targeted retention strategies. Coffee shop managers should invest in personalised customer engagement, loyalty programs, and continuous feedback systems to nurture long-term relationships and gain a competitive advantage in a saturated and rapidly evolving market. This study is not without limitations. First, the data were collected from a purposive sample of premium coffee shop customers in Makassar, which may limit the generalizability of findings to other regions or markets. Second, the cross-sectional design captures relationships at a single point in time, restricting insights into causal dynamics over time. Future research could expand by employing longitudinal designs and exploring additional mediators or moderators such as customer emotions, brand equity, or digital engagement. Comparative studies across different Indonesian cities or Southeast Asian markets would also enrich understanding of cultural and regional influences on loyalty formation.

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