

CUSTOMER RETENTION THROUGH BRANDING AND SERVICE EXCELLENCE IN LOCAL COFFEE SHOPS IN YOGYAKARTA

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ABSTRACT

The relationship between customers and local coffee shops in Yogyakarta is a critical determinant of business sustainability in an increasingly competitive market. This study examines how customer retention is shaped by two primary factors: branding efforts and the provision of service excellence. Effective branding enables coffee shops to establish a distinctive and memorable image in the minds of customers, thereby fostering emotional connections and brand loyalty. Simultaneously, delivering high-quality service ensures customer satisfaction and positive experiences, which are essential for encouraging repeat visits. Importantly, this research identifies customer satisfaction as a moderating variable that can either strengthen or weaken the impact of branding and service excellence on customer retention. When satisfaction is high, the positive effects of branding and service excellence on retention are amplified; conversely, low satisfaction can diminish these effects. The proposed conceptual model thus positions branding and service excellence as direct antecedents of customer retention, with customer satisfaction moderating these relationships. The findings of this study are intended to provide practical insights for local coffee shop managers in Yogyakarta, enabling them to design more effective strategies to enhance customer loyalty and ensure the long-term sustainability of their businesses. By understanding these dynamics, coffee shop owners can better meet customer expectations and maintain a loyal customer base in a dynamic marketplace.

Keywords: Customer retention, Branding, Service excellence, Customer satisfaction, Local coffee shops

DOI: <https://doi.org/10.64458/asbnc.v2.82>

INTRODUCTION

The coffee industry in Yogyakarta has experienced remarkable growth in recent years. The culture of spending time in cafes has become an integral part of the urban lifestyle, especially among younger generations. This trend has driven a significant increase in the number of local coffee shops competing to capture customers' attention. Competition arises not only from other local operators but also from national and international franchise chains aggressively expanding into major cities (Kotler & Keller, 2016).

However, behind this rapid development lies intense competition that also drives a high failure rate among new entrants. Many newly established coffee shops fail to sustain their business beyond just a few months to a year of operation. This often results from owners focusing solely on product variety

or initial design without developing a long-term strategy for consistent branding or high-quality service. As a result, these coffee shops struggle to be memorable, lack clear differentiation, and fail to build a loyal customer base.

Conversely, only a few coffee shops have managed to survive and establish strong reputations in Yogyakarta. These successful businesses typically implement strong and consistent branding strategies, maintaining a clear brand image, compelling storytelling, and memorable brand experiences. Additionally, they are recognized for superior hospitality practices, including friendly baristas, comfortable atmospheres, prompt service, and the ability to customize service to meet customer needs. Such strategies of service excellence are essential in fostering customer satisfaction and trust, ultimately increasing customer retention and loyalty.

Within this highly competitive context, customer retention emerges as a strategic issue for the sustainability of local coffee shop businesses. Customer retention refers to a business's ability to maintain its customers over time, encouraging repeat visits and long-term purchasing behavior (Reinartz & Kumar, 2003). Prior research suggests that retaining existing customers is considerably more cost-effective than acquiring new ones—potentially up to five times cheaper (Kotler & Keller, 2016; Reichheld & Sasser, 1990). Moreover, loyal customers tend to have higher customer lifetime value and often act as brand advocates through positive word-of-mouth recommendations (Oliver, 1997; Rust, Zeithaml, & Lemon, 2000).

To strengthen customer retention, two critical aspects must be considered: branding and service excellence. Branding extends beyond mere logos or names; it involves building a distinctive identity that differentiates a coffee shop from its competitors and creates a strong, memorable image in the minds of customers. Effective branding shapes perceived value, enhances trust, and fosters positive associations that drive customer loyalty (Aaker, 1996; Keller, 2013). In the context of local coffee shops, branding can involve storytelling, local themes, and authenticity, all of which increase customer engagement and loyalty (Harrigan et al., 2020).

In addition to branding, service excellence represents another crucial element supporting customer retention. Service excellence refers to systematic efforts to consistently deliver service that meets or exceeds customer expectations (Lovelock & Wirtz, 2016). The SERVQUAL model developed by Parasuraman et al. (1988) identifies five key service dimensions—reliability, responsiveness, assurance, empathy, and tangibles—all of which shape customers' perceptions of service quality. In the coffee shop context, service excellence encompasses personalized interactions with baristas, speed of service, consistency of taste, cleanliness, and a comfortable ambiance. Empirical evidence from Kim and Lee (2020) demonstrates that superior service quality in coffee shops significantly impacts both customer satisfaction and retention.

However, the influence of branding and service excellence on customer retention is not always direct or linear. Customer satisfaction serves as a moderating factor that can strengthen or weaken these relationships. Satisfied customers are more responsive to branding efforts and high-quality service, making them more loyal and less likely to switch to competitors. Conversely, dissatisfied customers may fail to respond even to improved branding or service initiatives (Zeithaml et al., 1996; Homburg et al., 2006).

This study therefore proposes a conceptual framework in which branding and service excellence act as independent variables influencing customer retention, with customer satisfaction as a moderating variable. This model is intended to serve as a guide for local coffee shop managers in Yogyakarta to develop more effective and sustainable customer retention strategies.

LITERATURE REVIEW

Branding and Customer Retention

Branding is the process of creating a unique and consistent identity to differentiate a business from its competitors. Strong branding builds memory, positive associations, and emotional bonds that encourage customers to continue choosing the same products or services (Aaker, 1996). According to Keller (2008), high brand equity enhances customer loyalty because customers perceive greater value and trust in the brand.

In the context of local coffee shops, strong branding—such as distinctive interior design, storytelling about coffee origins, and a local image—can improve customer retention. Branding has a positive correlation with customer retention because it helps customers recognize and remember the brand while fostering emotional attachment that makes them more likely to return. Zeithaml et al. (1996) show that perceived value through branding increases repurchase intentions. Reinartz and Kumar (2003) also state that brand attachment extends the duration of customer relationships.

P1. Branding has a positive effect on customer retention.

Service Excellence and Customer Retention

Service excellence refers to consistently delivering high-quality service that meets or exceeds customer expectations (Lovelock & Wirtz, 2011). Customers feel valued, comfortable, and satisfied when service is delivered in a friendly, prompt, and professional manner. According to Parasuraman et al. (1988), service quality is a key determinant of customer satisfaction and loyalty.

In the local coffee shop business, friendly service, consistent taste, cleanliness, and speed of service are critical factors. Service excellence is positively related to customer retention because it creates satisfying experiences, builds trust, and reduces the likelihood of customers switching to competitors. Oliver (1997) explains that satisfaction derived from high-quality service drives repeat purchases. Kim and Lee (2020) also found that good service quality enhances loyalty through trust and satisfaction.

P2. Service excellence has a positive effect on customer retention.

Moderating Role of Customer Satisfaction

Customer satisfaction is a psychological state in which customer expectations are met or exceeded by the performance of a service or product (Oliver, 1997). Satisfaction acts as a moderating factor that can strengthen or weaken the relationship between branding, service excellence, and retention.

According to Zeithaml et al. (1996), highly satisfied customers tend to be more loyal and responsive to brand differentiation and superior service. In contrast, less satisfied customers may be indifferent to branding or service efforts.

P3. Customer satisfaction moderates the influence of branding and service excellence on customer retention.

RESEARCH METHOD

This study is designed using a quantitative approach to systematically investigate the relationships among branding, service excellence, customer satisfaction, and customer retention in the context of local coffee shops in Yogyakarta. A quantitative design is chosen to enable statistical testing of the proposed conceptual model and to provide empirical evidence supporting the hypothesized relationships.

The research subjects are customers who have experience visiting local coffee shops in Yogyakarta. This ensures that participants have sufficient familiarity with the services, branding strategies, and overall customer experience offered by these businesses. Data will be collected through a

structured questionnaire survey that includes items measured on a 7-point Likert scale, ranging from strongly disagree (1) to strongly agree (7), to capture nuanced responses and perceptions about the variables of interest.

The sampling technique will employ purposive sampling, with a specific inclusion criterion requiring respondents to have visited local coffee shops at least twice in the past three months. This criterion is intended to select respondents who have a meaningful level of engagement and relevant experience with local coffee shops, making them appropriate evaluators of branding and service quality dimensions. The minimum targeted sample size is 150 respondents, which is considered adequate for conducting multiple regression analyses and testing moderation effects, ensuring statistical power and generalizability within the study context.

Data analysis will be performed using multiple regression analysis with moderation testing (interaction term) employing SPSS software. This analytical approach will enable the assessment of direct effects of branding and service excellence on customer retention, as well as the moderating role of customer satisfaction. The moderation analysis will specifically examine whether customer satisfaction strengthens or weakens the relationships between the independent variables (branding and service excellence) and the dependent variable (customer retention).

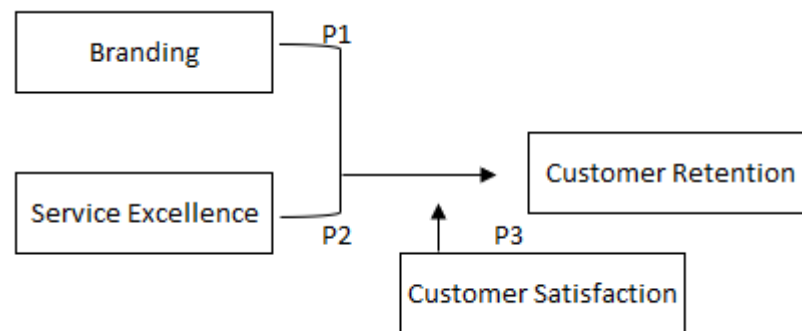


Figure 1 Proposed Research Model

DISCUSSION

The conceptual findings of this study emphasize that in the highly competitive context of local coffee shops in Yogyakarta, branding and service excellence are two essential pillars that cannot be overlooked in achieving customer retention.

Effective branding is not merely a communication tool but also serves to build a distinctive image and identity that differentiates local coffee shops from competitors. Branding strategies such as incorporating local themes, storytelling about coffee origins, unique interior design, and promoting sustainability values help create emotional bonds with customers. Research indicates that customers with strong emotional attachment to a brand are more likely to make repeat purchases and even act as advocates who promote the brand through word-of-mouth recommendations (Aaker, 1996; Keller, 2013; Lou & Xie, 2021). Amid the proliferation of new coffee shops, strong branding becomes a key differentiator for retaining customers.

Service excellence is another critical factor that directly influences customers' decisions to return. Service dimensions such as reliability of preparation, speed of service, friendliness and empathy of baristas, cleanliness of the space, and an ambiance that supports customer comfort are key indicators of service quality (Parasuraman et al., 1988; Lovelock & Wirtz, 2016). A satisfying service experience not only fosters loyalty but also enhances the perceived value of the brand. Kim and Lee (2020), in their study

of coffee shops, found that high-quality service significantly increases customer trust and influences repurchase intentions.

However, these two factors do not operate in isolation. Customer satisfaction serves as a crucial moderating variable that shapes the impact of branding and service excellence on customer retention. Satisfied customers are more likely to appreciate differentiation efforts through branding and be more responsive to superior service. Zeithaml et al. (1996) and Iglesias et al. (2011) emphasize that customer satisfaction strengthens the effects of branding and service quality on repurchase intentions and loyalty. In other words, even if a coffee shop has strong branding and good service, without ensuring customer satisfaction, these efforts will not optimally drive retention.

The practical implication of these conceptual findings is that local coffee shop managers need to design an integrated strategy. Such a strategy should not only focus on developing authentic and differentiated branding but also on ensuring consistently high-quality service. More importantly, coffee shops need to systematically measure and manage customer satisfaction through regular surveys, customer feedback, and service evaluations. In this way, customer retention efforts can be comprehensive—not only attracting first-time visitors but also converting them into loyal repeat customers.

CONCLUSION

Strong branding plays a critical role in establishing a unique and memorable image that differentiates a coffee shop from its competitors while fostering an emotional connection that encourages customers to remain loyal over time. By developing consistent brand narratives, storytelling about coffee origins, and distinctive local themes, coffee shops can create a sense of identity and authenticity that resonates with customers and enhances their commitment to the brand.

Meanwhile, service excellence is equally vital in building lasting customer relationships. Delivering consistently high-quality, friendly, and professional service creates positive and satisfying service experiences that increase customers repurchase intentions. Customers are more likely to return when they feel valued, understood, and assured that their expectations will be met or exceeded with every visit. Elements such as reliable service delivery, personalized interactions with baristas, and a comfortable, inviting environment all contribute to building trust and loyalty.

Importantly, customer satisfaction serves as a key moderating factor that amplifies the influence of both branding and service excellence on customer retention. Satisfied customers are more responsive to brand differentiation and superior service quality, making them more inclined to stay loyal even when faced with competing alternatives. Satisfaction strengthens the emotional bond with the brand and reinforces the perceived value of the service experience, acting as a safeguard against customer churn.

Therefore, local coffee shop managers should adopt a holistic and integrated strategy that prioritizes strengthening branding efforts, maintaining consistently high service quality, and actively managing customer satisfaction to achieve sustainable improvements in customer retention. Such a strategy requires regular evaluation of customer feedback, staff training, and continuous innovation in both service delivery and brand positioning to remain competitive in an increasingly crowded market.

RECOMMENDATIONS

Future research is recommended to empirically test this conceptual model using real-world data from local coffee shop customers. It would also be valuable to consider additional variables such as pricing strategies, physical location, or digital marketing efforts that may further influence customer retention, thereby offering a more comprehensive understanding of the drivers of long-term customer loyalty in

the coffee shop industry. This approach will provide a more comprehensive understanding of the factors driving long-term customer loyalty in the coffee shop industry.

ACKNOWLEDGEMENTS OR NOTES

I would like to express my sincere gratitude to the Master of Management Program at Universitas Islam Indonesia for the generous financial support provided, which made it possible for me to participate in this conference and present my research. This opportunity has been invaluable for my academic and professional development. I am also deeply appreciative of the encouragement and guidance offered by the faculty members of the program, whose expertise and insightful feedback on the early drafts of this paper have greatly contributed to improving its quality and clarity.

Furthermore, I wish to thank my fellow students for their constructive suggestions, stimulating discussions, and continuous encouragement throughout the research process. Their willingness to share ideas and provide thoughtful critiques has been instrumental in refining the arguments and methodology of this study. I am truly grateful for the collaborative and supportive academic environment fostered by the Master of Management Program, which has enabled me to grow as a researcher.

Lastly, I extend my appreciation to all individuals and organizations who have supported me, directly or indirectly, in the completion of this work. Without their assistance and motivation, this achievement would not have been possible.

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