The Effect Of Online Customer Experience, Product Quality, and Service Quality On SMEs Customer Loyalty

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ABSTRACT

This study aimed to ascertain the impact of online customer experience, product quality, and service quality on customer loyalty in SMEs. This study was conducted in Tangerang Selatan, Indonesia. Data collection used a purposive sample technique. There were 150 responders in this survey. The data analysis method used partial least squares (PLS)-based structural equation modeling (SEM). The research findings show online customer experience and product quality substantially impact consumer loyalty. In contrast, service quality has no impact on consumer loyalty. The most important factor affecting customer loyalty is product quality which needs attention. If the product is of high quality, customers will be satisfied and will tend to buy again and recommend the business to others who can help increase the number of customers. SMEs must continue to innovate in creating customer experiences by involving them and improving product quality to compete, especially in the competitive online market.

Introduction

The development of Small and Medium Enterprises (SMEs) in Indonesia has a fast transaction cycle, and their products tend to be directly related to the primary needs of the community (Jasin & Firmansyah, 2023). SMEs are employee absorbers and the backbone of growing-country economies (Maksum et al., 2020). Ninety-nine percent of all businesses in Indonesia are small and medium-sized enterprises, which contribute significantly to the country's revenue. It comprises over fifty percent of Indonesia's GDP and employs up to ninety-seven percent of the labor force. 99% of all firms in Indonesia are SMEs, which contribute significantly to revenue. It accounts for over half of Indonesia's GDP and employs up to 97% of the workforce (Irjayanti & Azis, 2012). Many MSME players use digitization as a medium for product and service promotion so that...
consumers can experience online shopping and provide convenience to them in the hope of creating loyal consumers. The Ministry of Cooperatives and SMEs (Kemenkop UKM) noted that until February 2022, there were as many as 17.25 million MSME players connected to the digital ecosystem (Visiglobal, 2022). Firms' efforts to enhance positive consumer experience directly and indirectly affect customer loyalty (Şahin et al., 2011).

Small and medium-sized businesses (SMEs) use customer loyalty as a crucial marketing tool to influence customers and to preserve market share and, in some cases, their long-term viability (Kyurova & Koyundzhiyska-Davidkova, 2021). Customer loyalty is the propensity of a customer to use and purchase products or services from a single company despite being influenced by other companies, as well as to recommend these products or services voluntarily to others. Loyalty is the consistent acquisition and consumption of the same goods or services. Customers return to a location to purchase a product or service to satisfy a need (Suharto et al., 2022).

If customers are not dissatisfied with the company's services, customer loyalty will suffer, and customers will not make a second purchase. Consequently, the company must focus on service and product quality (Hasibuan et al., 2022). Speed is the key to winning the competition, where the needs and desires of consumers have become the priority of every SME business actor in running their business. The quality of products and services has become a mandatory requirement in meeting the standards consumers demand. Services and products are felt to be a trigger for consumers to respond and assess whether it has met their expectations or not. Frequency determines how often consumers use products and services and the extent of their experience. In general, the more often it will show loyalty.

Based on previous studies, the results of several variables tested in the relationship model could be more consistent. Several studies suggest that online customer experience, product, and service quality all substantially impact consumer loyalty. Customer experience is essential and positively enhances customer loyalty (Kamath et al., 2020). Product quality aspects (Physical Aspects, Reliability, and Problem-Solving) are associated with customer loyalty to the store. Retail service excellence's size (Personal Interaction) is related to consumer loyalty to personnel. (Yuen & Chan, 2010), service quality variables significantly influence consumer loyalty (Raharjo & Amboningtyas, 2017). Product quality significantly affects customer loyalty (Naini et al., 2022). Other researchers conclude that online customer experience, product, and service quality do not considerably affect customer loyalty. Like, e-service quality was not influential to customer loyalty (Et.al, 2021), product and service quality has a significant negative influence on customer loyalty (Hidayat et al., 2009), Shopee users' e-loyalty has no positive and negligible effect on e-service quality (Melani & Rahmiati, 2021). Service quality does not significantly influence customer loyalty (Naini et al., 2022).
There are limitations to several previous studies that have yet to explain the influence of online consumer experience, product, and service quality on customer loyalty in SMEs. This study focuses on the most influential factors of the variables proposed in research subjects at SMEs so that it can be a concern for SMEs to utilize digitalization to compete amid their limited resources.

**Literature Review**

**Relationship between Online Customer Experience and Customer Loyalty**

Empirical research on the online customer experience remains somewhat limited (McLean, 2017). Online customer experience is a relatively new concept that recently garnered attention (Urdea & Constantin, 2021). This Online Customer Experience is a broad and subjective experience resulting from interacting with the purchasing environment, consumers, and shopping activities (Trevinal & Stenger, 2014). Customer loyalty is significantly influenced by online customer experience. Customers who receive the required services will have a great shopping experience and demonstrate their loyalty (Zare & Mahmoudi, 2020). Customer experience has a favorable impact on loyalty (Tyrväinen et al., 2020). Based on the initial empirical investigations and ideas, this study suggests the following hypothesis:

H1: Online Customer Experience has a significant effect on Customer Loyalty

**Relationship between Product Quality and Customer Loyalty**

Product quality is critical for e-commerce to maintain consumer happiness while reducing the risk and expenses associated with substituted harmful goods. (Lee Sze et al., 2020). Product quality is a company hallmark, and customers will be loyal to purchase again (Jasfar, 2022). Customer loyalty can be affected by three elements of product quality (technical, functional, and relational) (Odekerken-Schröder et al., 2001). Product quality has a positive and significant effect on customer loyalty, and lifestyle positively and significantly impacts customer loyalty (Cahyamulia, 2022). Some of this research suggests that product quality influences customer loyalty.

H2: Product Quality has a significant effect on Customer Loyalty

**Relationship between Service Quality and Customer Loyalty**

Service quality has attracted academic and practitioner attention in recent decades due to its significant impact on company performance outcomes such as loyalty (Gontur et al., 2022). Service quality is the degree to which a website enables the safe and productive purchase, production, and transmission of products and services (Kortunay, 2016). Service quality enhances customer loyalty (Gong & Yi, 2018). Positive perception
of service quality influences the customer to remain loyal (Quach and Jebarajakirthy, 2016). From several empirical studies above, it can be concluded that

H3: Service Quality has a significant effect on Customer Loyalty

Method

This type of research is quantitative research. The population is the respondents who buy Smes online products in South Tangerang with a purposive sampling technique of 150 customers. Methods of data collection using a questionnaire with a Likert scale. The analysis technique used is an inferential statistical approach SEM (Structural Equation Modeling) with the Smart PLS 3.2.1. program (Partial Least Square). The PLS technique is carried out through a measurement model test, namely testing each indicator's construct validity and reliability. The concurrent validity test of the loading factor must be greater than 0.7. A composite reliability test is a value to determine or assess reliability with a value greater than 0.70.

![Figure 1. Research Model](image)

PLS Using the structural model test, the PLS t-test is used to examine whether there is an influence between variables/correlation between constructs. The inner model is calculated by looking at the R-Square value and by testing the hypothesis through a bootstrapping procedure with a value that is considered significant if the t statistical is greater than 1.97 or greater than 1.65

Result and Discussion
Table 1. Construct Reliability and Validity

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Alfa Cronbach</th>
<th>Rho_A</th>
<th>Composite Reliability</th>
<th>Average Variance Extracted (AVE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Loyalty</td>
<td>0.896</td>
<td>0.898</td>
<td>0.923</td>
<td>0.705</td>
</tr>
<tr>
<td>Online Customer Experience</td>
<td>0.871</td>
<td>0.972</td>
<td>0.889</td>
<td>0.505</td>
</tr>
<tr>
<td>Produk Quality</td>
<td>0.931</td>
<td>0.939</td>
<td>0.942</td>
<td>0.623</td>
</tr>
<tr>
<td>Service Quality</td>
<td>0.935</td>
<td>0.997</td>
<td>0.947</td>
<td>0.720</td>
</tr>
</tbody>
</table>

Table 1 above shows that all variables have an AVE value > 0.50, meaning all variables are declared valid. The AVE root value of each variable has a constructed value more significant than that variable. It shows that all the estimated model variables meet the discriminant validity criteria.

The Composite Reliability test is a value to determine or assess reliability with a value greater than 0.70. In addition, to construct reliability, it can also be seen from the results of the Cronbach Alpha test. The following is the result of the value of composite reliability:

Table 2 R Square

<table>
<thead>
<tr>
<th>Indicator</th>
<th>R Square</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Loyalty</td>
<td>0.825</td>
</tr>
</tbody>
</table>

Based on Table 2 above, an R Square of 0.825 or 82.5% is obtained. It indicates that 82.5 percent of consumer loyalty is influenced by online customer experience, product, and service quality.

Table 3 Path Coefficient

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Relationship Between Variable</th>
<th>Path Coefficient</th>
<th>T Statistics</th>
<th>P Values</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>Online Customer Experience =</td>
<td>-0.087</td>
<td>2.372</td>
<td>0.018</td>
<td>Accepted</td>
</tr>
</tbody>
</table>
The Influence of Online Customer Experience on Customer Loyalty

Based on Table 3, the Online variable Customer Experience has a positive effect on Customer Loyalty with a path coefficient of negative -0.087, which means when the consumer's online experience increases, the level of consumer loyalty will decrease and vice versa. The hypothesis test results using the bootstrapping method show that the T statistic 2.372 > 1.97 and p-value 0.018 (<0.05), so H1 is Accepted. The study's results align with the research (Rose et al., 2012). Online customer experience, in terms of managerial implications, can increase loyalty through online channels. Zare & Mahmoudi, (2020); Urdea & Constantin, (2021), there is a significant effect of customer experience on loyalty. This study confirms that the role of Online Customer Experience (OCE) is significant in shaping customer loyalty which can come from several factors, such as Customer Satisfaction, a Positive Online Customer Experience can increase customer satisfaction. If customers are satisfied with their experience when interacting with an online platform, they are more likely to feel satisfied with the product or service they are getting. The perception of high quality can strengthen customer loyalty because they believe the company provides excellent and reliable value. Trust and Security, Online Customer Experience that prioritizes customer security and privacy can build customer trust because customers feel safe in transactions. Ease of Use, Online Customer Experience that is easy to use will increase the convenience of their customers more likely to remain loyal.

Effect of Product Quality on Customer Loyalty

The results of bootstrapping hypothesis testing show that the t-statistics value of the Product Quality variable is 33.217 while the t-table is 1.97. Furthermore, the path coefficient value shows a positive value of 0.961. Hypothesis accepted If the T statistic is more significant than 1.97, it can be stated that the Product Quality variable has a positive effect on Customer Loyalty, and if the p-value is 0.000 with a significance value of 0.05, it can be stated that the Product Quality variable has a significant influence on Customer Loyalty. This finding supports earlier findings that Product quality has a significant and positive impact on customer loyalty (Agus Khoironi et al., 2018; Dhasan & Aryupong, 2019; Cahyamulia, 2022). This study can be known from several things, such as the perception of product or service quality, consumer expectations of the products used, product quality differentiation, and positive customer experiences in the
emotional bond between customers and products. Strengthen product loyalty in the minds of consumers. SMEs that provide high-quality products have a better chance of building and maintaining long-term customer loyalty relationships.

Effect of Service Quality on Customer Loyalty

Based on the table above, the results show a path coefficient of negative -0.042. It means that whether Service Quality increases, consumer loyalty will decrease. The results of the hypothesis indicate that the T statistic is 1.665 < 1.97 and the p-value 0.097 (> 0.05). The study results reveal that service quality does not affect consumer loyalty, so the third hypothesis is rejected. Based on this study, it is known that it is not in line with previous research, which stated that service quality has a significant influence on consumer loyalty which was said by Kanyama et al. (2022); Ricardianto et al., (2023); Sewaka et al., (2021). In this study Service Quality does not affect Customer Loyalty which is not in line with the current research results. Some factors that cause it include the Brand Awareness factor that has contributed to sufficient knowledge or understanding so that services are limited and loyalty is low. Fierce competition can make customers more vulnerable to offers or promotions from competitors. Because of Differentiation, SMEs cannot distinguish themselves from competitors regarding services offered. Due to customer engagement, SMEs sometimes have difficulty building close relationships with customers due to limited resources and more minor operational scales. The uncertainty of availability and service inconsistencies tend to make customers turn to competitors.

Conclusion

Based on this study’s discussion and data analysis, it can be concluded that Online Customer Experience substantially impacts Customer Loyalty. It shows the importance of SMEs paying serious attention to every consumer need, primarily online, to create a good experience that consumers can feel. Product Quality has a tremendous impact on customer loyalty, indicating that all types of physical and service products must be a severe concern for SMEs in South Tangerang. So far, many SMEs have not provided balanced quality between physical products and services, as shown online. Good, but in real terms not, this certainly affects consumer loyalty in the future. The absence of a service quality influence on consumer loyalty in SMEs means that SMEs are more focused on product sales and are not responsive to consumer complaints, so customers tend to be disloyal. SMEs in South Tangerang need to focus on the experience, especially online customers by paying enough attention, such as website design or e-commerce platforms that are responsive and easy to use. It is through providing products with quality raw materials, meticulous production processes, and strict control. Measuring the level of customer satisfaction and monitoring feedback from customers can be done through customer satisfaction surveys. SMEs must continue to innovate in creating customer
experiences by involving them and improving product quality to compete, especially in the competitive online market.

The most significant factor affecting customer loyalty is product quality which needs attention. If the product is of high quality, customers will be satisfied and will tend to buy again and recommend the business to others who can help increase the number of customers. SMEs must pay attention to the entire production process, from selecting materials to processing and marketing. SMEs To improve product quality, the following suggestions can be given; Conducting Market Research, Improving Production Processes, Using Quality Materials, Innovating, Conducting Product Testing, and Obtaining Customer Feedback. Suggestions for the next researcher can deepen the study by including the dimensions of services in MSMEs to know in detail what types of services are suitable in MSMEs because, in this study, the findings show services have no influence on consumer loyalty. In contrast, empirically, services have a contribution to every business. While the limitations of this study are that the population needs to be added because this research is only in South Tangerang, it is suggested that future researchers cover a broader population area.

References


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