The Relationship of Customer Satisfaction, Perceived Service Quality, Perceived Value, and Brand Image on SMEs Customer Loyalty

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Abstract. The goal of this study is to examine the connections between customer satisfaction, service quality, perceived value, and brand image and customer loyalty.This approach to research is quantitative. This study was carried out in Indonesian SMEs. As many as 308 owners of SMEs made up the sample of respondents in this survey. Simple random sampling is the sampling technique employed. Techniques for gathering data that involve online surveys and social media. A Likert scale with a 1–7 range is used as the measurement scale in this investigation. Data analysis utilizing the data processing program SmartPLS software and structural equation modeling (SEM). Customer loyalty is the dependent variable in this study, whereas the independent variables are customer satisfaction, perceived service quality, perceived value, and brand image. According to the study's findings, satisfaction has a favorable and considerable impact on customer loyalty, but perceived service quality, perceived value, and brand image have no such impact.

Keywords: Perceived service quality, perceived value, satisfaction, brand image, customer loyalty, SMEs

1. Introduction

Small and medium-sized businesses (SMEs) are among those who suffer the most from the pandemic's presence in Indonesia. According to data from Bisnis.com, SMEs are predicted to be able to contribute 65 percent of the country's GDP, or roughly IDR 2,394.5 trillion, in 2019. Small and medium enterprises from a variety of industries are affected by the pandemic in that their operations are not ideal and their sustainability is at risk. Only 5.9% of small and medium-sized firms can survive in the midst of a pandemic, according to [1], [2]. On the other hand, the pandemic has had a negative impact on 82.9 percent of business actors. Even 63.9 percent saw a more than 30 percent decline in turnover. The longer the pandemic lasts, the less money is earned, which naturally makes Indonesian small and medium-sized enterprises anxious. The rapid technological advancement of the digital era has led to the emergence of new habits, such as the shifting of all kinds of activities online. This may encourage SMEs to engage in competition to draw in customers. People are urged to adopt quick, simple, and effective solutions in the current digital world. In order to balance the times and trends occurring in society, SME business operators must therefore also respond more swiftly and effectively. SME business actors must be adaptable in light of this.

[3], [4] claim that SMEs experience a significant impact from the drop in their income. SMEs typically implement a variety of marketing tactics, including social media promotions, price

reductions, layoffs of staff, closing of many locations, and pick-up and delivery services. Business actors, according to [5], also employ particular strategies in accordance with their distinct business domains. [6] assert that we are all now affected by the problems of the fourth industrial revolution, which motivates everyone to work together through changing behavior and working practices. [7] asserts that the industrial revolution 4.0 has altered not only industries but also jobs, communication styles, purchasing and business practices, and lifestyles. In order to ensure that the nation's young population continues to keep up with technological changes, businesspeople are urged to provide support and training in addition to maintaining their enterprises.

According to [1], one of the factors that influences client loyalty is customer satisfaction. A person will either feel content or disappointed when they evaluate how well a product performed or produced results in comparison to their expectations. Expectations and performance, according to [8]–[10], are the two factors that have the biggest impact on the idea of customer satisfaction. Performance refers to how the customer perceived their performance to be after utilizing the product. The discrepancy between what customers expect and the circumstances that the company gives in an effort to meet customers' expectations is known as customer satisfaction. A consumer's expectation is his or her projection of what he or she will get from using the product. [8], [9] assert that having loyal and content customers makes it feasible to attract new clients. On the other hand, happy clients offer the business a number of benefits, such as regular opportunities for repurchasing, the extension of the consumed product line, word-of-mouth marketing, a reduction in price elasticity, and a reduction in the expense of advertising to draw in new clients. According to [8]–[10], customer loyalty is essential to a business. Maintaining viability and improving financial performance are necessary for their preservation. This is the major factor that helps businesses draw in and keep clients. The focus of loyalty is primarily on actions than on attitudes. Loyal clients will create a purchase pattern that the decision-making unit will follow that can be viewed as being regular and organized. [9] claim that the ability to retain customers is a key factor in increasing sales. Another way to define loyalty is a strong desire to make future repeat purchases or a preferred product or service model that motivates customers to continually purchase the same brand or group of brands, despite other pressures and influences. marketing campaigns that could lead to a rebrand.

[5], [7] claim that key elements of the marketing notion as a means of achieving business objectives include identifying the needs and wants of the target market and providing the expected fulfillment more effectively and efficiently than competitors. The marketing concept is therefore supported by four pillars: (a) market emphasis, (b) client orientation, (c) coordinated marketing, and (d) profitability. The objective is to please the client by maintaining the customer orientation. Clients are divided into two groups, the new buyer group and the recurring buyer group, based on the dimensions of origin of the targeted customers. When comparing expenses, it has been shown by [5], [11] that acquiring new customers will be more expensive than retaining current ones or promoting repeat business. Therefore, keeping consumers is more crucial than bringing in new ones. The key to keeping consumers is ensuring their contentment. The quality of communication between customers and service providers is always a deciding factor in customer satisfaction in the service sector.

[5] assert that faultless performance is a sign of high-quality service, a notion akin to the notion of zero defects in manufacturing. A customer's interaction with a business to obtain the services he has ordered is referred to as a service contact (also known as a service encounter or the "moment of truth"). Customers' expectations for the quality of subscriptions and their opinions of the quality of

the service they received are basically the two most important factors related to service (experienced or perceived quality). According to [2], [5], [11], [12], customers constantly evaluate a service by comparing it to what is expected or desired. The key to a performance indicator that is said to be flawless is consumer satisfaction, which in this case does not mean meeting precise standards but rather performance that can offer satisfaction near to 100% from the consumer's point of view. According to [13]–[16], customers always evaluate a service by comparing it to what is anticipated or desired. Customers purchase goods from businesses they perceive to give the best value, and they weigh the advantages of a product against the costs they incur to obtain it. Loyal customers are those who demonstrate behaviors like making repeated purchases from the same business, boasting about the brand's customer care to others, and refusing offers from competitors. Analysis of the relationships between satisfaction and consumer loyalty, service quality and loyalty, perceived value and loyalty, and brand image and loyalty are the goal of this study.

2. Research Method

This approach to research is quantitative. This study was carried out among SMEs in Indonesia. 308 owners of SMEs made up the sample of respondents in this survey. Simple random sampling is the sampling technique employed. Techniques for gathering data that involve online surveys and social media. A Likert scale with a 1–7 range is used as the measurement scale in this investigation. Data analysis utilizing the data processing program SmartPLS software and structural equation modeling (SEM). Customer loyalty is the dependent variable in this study, whereas the independent variables are customer satisfaction, perceived service quality, perceived value, and brand image.

The hypothesis of this research is;

H1: Customer satisfaction significantly and favorably influences loyalty.

H2: Customer Loyalty is positively and significantly impacted by perceived service quality.

H3: Customer Loyalty is positively and significantly impacted by perceived value.

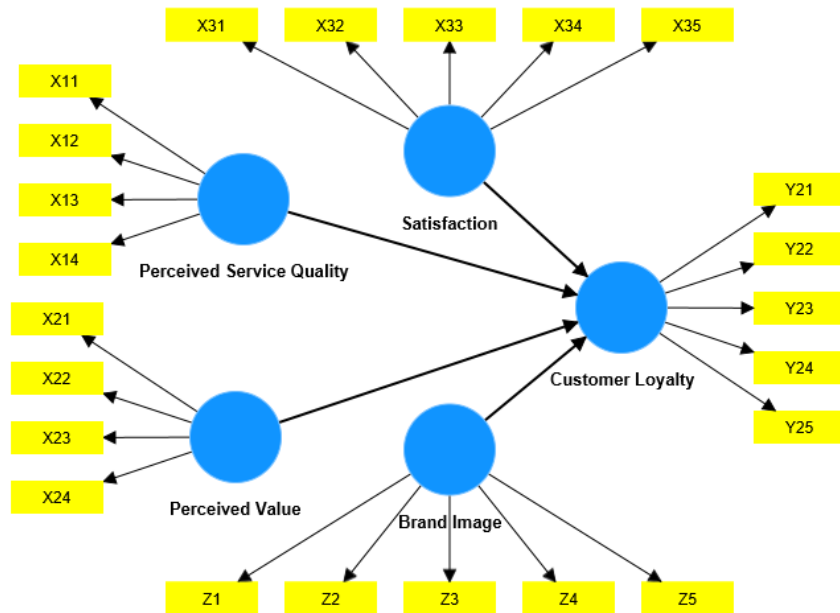H4: Customer Loyalty is positively and significantly impacted by brand image.

Fig 1. Research Model

3. Result and Discussion

3.1 Convergent Validity

It is known that each of the study variable indicators has a value of outer loading > 0.7 based on the information shown in Fig. 1. According to the data in Fig. 1, all indicators have been deemed practicable or valid for use in research and can be employed in future study. There are no indicator variables with outer loading values lower than 0.7.
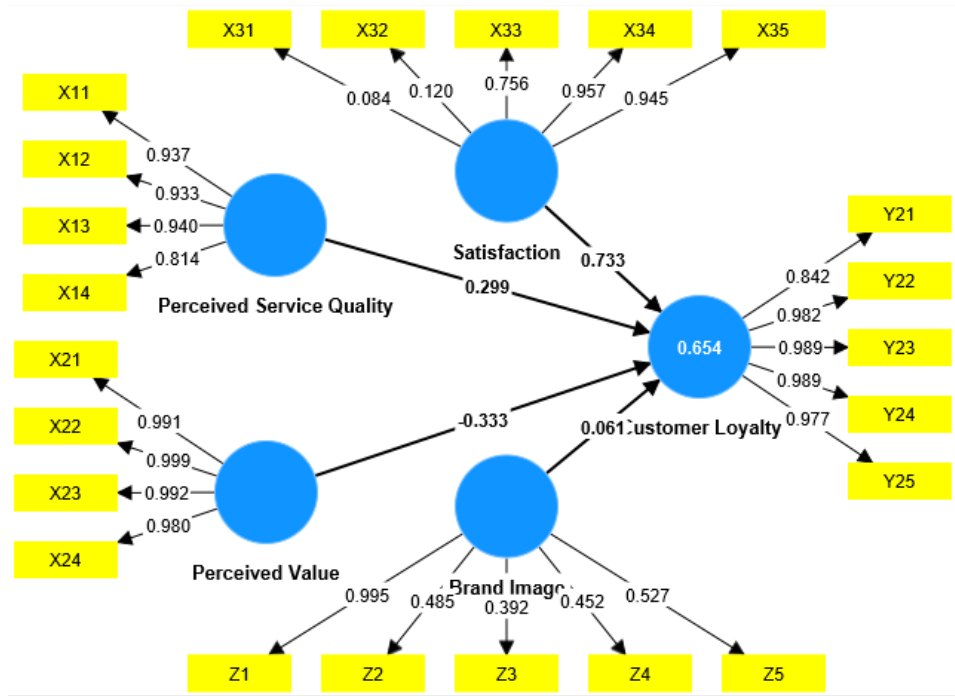
Fig 2. Loading Factors

3.2 Discriminant Validity

Table 1's statistics indicate that all of the variables' AVE values are more than 0.5. With the composite reliability value of all research variables being > 0.7, it can therefore be said that each variable has excellent discriminant validity. With the Cronbach's alpha value of each study variable being greater than 0.7, these results show that each variable has achieved composite reliability, allowing it to be said that all variables have a high level of reliability. Thus, based on these findings, it can be said that all research variables have a high degree of reliability since they all matched the criteria for Cronbach's alpha values.

Table 1. Reliability Testing

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Customer satisfaction	0.887	0.812	0.743	0.623
Perceived service quality	0.887	0.816	0.832	0.612
Perceived value	0.845	0.865	0.734	0.634
Brand image	0.832	0.854	0.821	0.623
Customer loyalty	0.809	0.846	0.876	0.612

3.3 Coefficient of Determination

Table 2. R Square

	R Square	R Square Adjusted
Customer loyalty	0.654	0.632

It is clear from the information in table 2 that the performance variable's R Square value is 0.654. According to the calculated value, 65.4 percent of performance may be attributed to transformational leadership, job satisfaction, the workplace environment, and motivation, while the remaining 34.6 percent can be attributed to other elements not covered in this study.

3.3 Hypothesis Testing

The T-Statistics value and the P-Values value were used to test the hypotheses in this study. If the P-Values are 0.05, the study hypothesis is considered to be accepted.
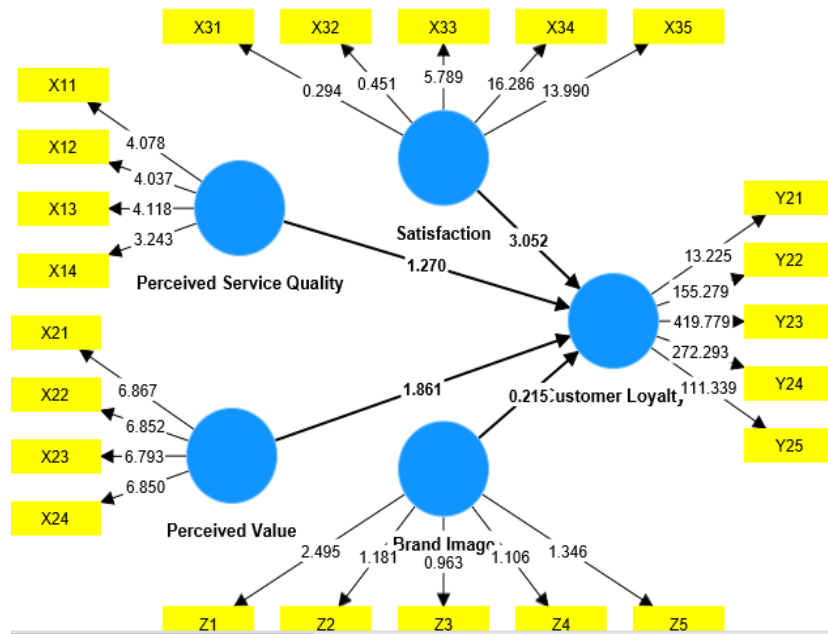

Fig 3. Hypothesis testing

Table 4. Hypothesis testing

Hypothesis	T Statistics	P Values	Result
Customer Satisfaction and Loyalty	3.052	0.000	Supported
Perceived Service Quality and Customer Loyalty	1.270	0.069	Not Supported
Perceived Value and Customer Loyalty	1.851	0.061	Not Supported
Brand Image and Customer Loyalty	0.215	0.209	Not Supported

3.5 Customer Satisfaction and Loyalty

According to the findings of the hypothesis testing, customer loyalty is positively and significantly influenced by satisfaction (T value: $3.052 > 1.96$). According to these results, SMEs' capacity to compete in a market with a wide selection of service providers that is becoming more competitive and where customers place a higher priority on customer satisfaction is what drives customer loyalty. The post-purchase reaction of a customer to a good or service that they believe is acceptable or that performs as promised is known as satisfaction, according to [17]–[19]. Customer satisfaction with a product or service is also influenced by the service quality of the provider, claim [1], [2], [10]. In addition, consider how effectively the good or service lived up to your expectations. According to [3], [4], a service plan linked to company policies produces good service quality. The service strategy must be continuously improved and maintained, especially to encourage client loyalty. The service strategy must be able to give the perceived value that customers believe they receive from the organization, such as services that must meet consumer expectations, in order to keep customers from migrating to other businesses.

3.6 Perceived Service Quality and Customer Loyalty

According to the results of the hypothesis test, the T value was 1.270, indicating that there is no statistically significant link between perceived service quality and customer loyalty. According to the analysis's findings, providing consumers with high-quality service will boost their perception of the business and their level of satisfaction. Small businesses build their reputation through the work of all of their employees so that clients may assess them based on the caliber of their services. The likelihood that a customer will be satisfied and that the company will have a positive reputation among customers both increase with the quality of the service. The company's dedication to providing excellent customer service is the foundation of both customer satisfaction and brand image [17], [20]. Additionally, remember that consumers (consumers) create the image in their thoughts by combining their own experiences with consumers' (commercial, public relations, physical images, word of mouth communication). Naturally, if this keeps happening, it will affect customer loyalty. According to [1], [9], [10], service quality and corporate image are important satisfaction-forming criteria for SMEs.

3.7 Perceived Value and Customer Loyalty

According to the results of the hypothesis test, the relationship between perceived values and customer loyalty is not statistically significant (T value: 1.851). These results demonstrate that

respondents make judgments about how much perceived value influences consumer happiness. The better the perceived value, the more likely the customer is to be satisfied. According to [21], customer happiness is the real indicator of how well a brand is fitting with customers and how well service firms are performing. The company's dedication to treating its clients well is the first step in ensuring customer satisfaction. This demonstrates how essential perceived value is in the development of contentment, particularly in service industries. A higher perceived value will result in contented customers. The relationship between customers and businesses is strengthened when customers receive adequate information about the company's perceived value and weakens when customers receive inaccurate information about the company's perceived value, claim [3], [4], [8].

3.8 Brand Image and Customer Loyalty

The results of the hypothesis test showed that brand image has a small effect on customer loyalty; the T value was 0.215 and 1.96. These results imply that consumer perceptions of the company have an impact on how satisfied and loyal customers are. [18], [22] claim that the perception of SMEs enhances both their own and consumers' expectations of them. Businesses that supply services to customers make it a priority to correctly meet their expectations since doing so promotes a favorable image of the company and increases consumer satisfaction and loyalty. According to [1]–[4], customers are more likely to use a company's services and promote them to others when they have a positive opinion of it. Customers' positive experience considerations, which are produced through direct or indirect communication procedures, are another source of positive business image building. It should be mentioned that a company's reputation will influence customer loyalty and happiness with the services they receive.

Perceived value is a factor that influences how people view the quality of a service, according to [15], [16]. Perceived service quality can be thought of as a value ingredient that results from an exchange or sale of consumers between perceived quality and non-financial and financial customer sacrifices. Non-financial sacrifices including time, effort on the part of the body or mind, according to [5], [7]. The evaluation of customer happiness will be impacted by the outcomes, variations in service quality, and consumer sacrifices. A person's level of satisfaction is determined by how he or she feels after comparing the performance or results to his or her expectations. The discrepancy between actual performance and expectations determines the degree of satisfaction. The outcome of contentment with high-quality products is loyalty. According to [6], [13], using e-commerce as a marketing strategy is the next step for SMEs. Currently, e-commerce uses this application to market its items. E-commerce product marketing offers advantages to businesses. In other words, it can reduce the distances required for product delivery while being affordable and effective. Additionally, many people select e-commerce platforms to purchase daily essentials as a result of the COVID-19 pandemic.

4. Conclusion

According to the study's findings, contentment has a positive and significant impact on customer loyalty but not perceived service quality, perceived value, or perceived brand image. SMEs should consider customer dissatisfaction with price. Some SMEs are lowering their costs while

maintaining the quality of their services. Specifically, by making SMEs appear to customers as companies that provide comprehensive, high-quality services without sacrificing operational costs. To raise the standard of services to build customer loyalty, SMEs should be on time, provide better customer service, be more direct, and always be courteous and polite. Of course, they should also be able to manage the facilities that are already in place. SMEs can continue to develop in their offerings and offer even better corporate services to boost client satisfaction. In order to sustain client loyalty, businesses need pay attention to it as well. Businesses can improve their CRM (Client Relationship Management) strategy and offer additional amenities to promote customer loyalty.

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