

## Customer Service Management on Enhancing Customer Loyalty in Food and Beverage Industry: Case Study of Starbucks Malaysia

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### Abstract

In the highly competitive coffee industry, the operation of a successful coffee shop involves more than just providing a simple cup of coffee. Organizations are now recognizing the need to focus on delivering high-quality service to gain a competitive advantage. Emphasizing service quality is crucial for building customer loyalty. This paper aims to demonstrate and investigate the service quality using the SERVQUAL model, specifically in the context of Malaysia's Starbucks outlets. To gather real-time data, this paper employs a questionnaire-based survey. A total of 221 questionnaires were distributed to the public. Following data collection, the obtained data is analyzed using SPSS software. Additionally, this paper offers insights into the current state of Starbucks in Malaysia and proposes practical actions to enhance service quality. The objective is to not only attract and retain customers but also cultivating customer loyalty within the competitive coffee chain industry. By focusing on the SERVQUAL model, this research seeks to identify the key dimensions of service quality that significantly impact customer loyalty. These insights are essential for Starbucks to make informed decisions and implement effective strategies to elevate its service quality.

### Keywords

Service Quality, SERVQUAL Model, Starbucks, Customer Loyalty

## 1. Introduction

In the 21st century, coffee consumption has witnessed a remarkable surge in popularity, and it has become a global favorite. From 2015 to 2016, 151 million kilograms of coffee beans were consumed, and this trend is expected to persist for a longer period (Noor and Fan, 2023). Malaysia, initially a nation of tea drinking, has gradually embraced coffee culture from the Western, this has made coffee a beloved choice for people of all generations. With a higher standard of living, it has increasing competition in the service industry (Yildirim and Berkay Karaca, 2022). In other words, the quality of customer service has emerged as a pivotal aspect of every business's operations.

In today's business world, customer loyalty is a highly important aspect. It is not only more cost-

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effective to retain existing customers than to acquire new ones, but it also can significantly boost a company's revenue. Loyal customers play a vital role in helping companies maximize their profits because they tend to make repeat purchases, explore new products, and provide valuable feedback (Nitin Liladhar, *et al.*, 2023). Previous research employed logistic regression to predict the percentage of loyal customers willing to endorse a retailer's products to others (Fook and Dastane, 2021). The factors that influence customer loyalty can vary, ranging from just a few to as many as thirty. Among the common factors studied and found to impact customer loyalty are customer satisfaction, trust, service quality, price fairness, and the overall corporate image, among others.

The significance of this study, which examines service quality, lies in its potential to have a significant impact on customer loyalty in Starbucks. In a coffee industry marked by rapid growth, understanding these factors is crucial and will assist Starbucks in implementing better strategies to sustain customer loyalty. This research contributes to the organization by providing a better understanding of the influence of five main elements: assurance, empathy, responsiveness, reliability, and tangibles on customer loyalty, supported by concrete past research. Given the limited research available on the purchasing behavior of coffee shop customers, this study holds another potential value in enhancing customer loyalty.

## **Problem Statement**

Our research study is based on Starbucks, a renowned coffee brand globally. In over its 20 years of operation in Malaysia, Starbucks has evolved into more than just a traditional coffee shop, it has also made a positive impact on communities throughout the country. Starbucks not only effectively straddles the line between coffee shop and fast-food restaurant that offers freshly brewed coffee but also roasting whole bean coffees but also serving a range of premium teas and exquisite pastries (Starbucks, 2020).

However, Starbucks faces a challenge in attracting new customers in Malaysia (Hanani Azman, 2021). Many customers are sticking to the affordability of traditional coffee, with some of the customers arguing that Starbucks coffee is no different from traditional brew once condensed milk and sugar are added (Czarniecka-Skubina, *et al.*, 2021). Furthermore, as the number of coffee cafes and brands are increasing in Malaysia has intensified the competitive landscape that Starbucks operates within (Greenspan, 2023).

This has spurred Starbucks to focus on enhancing its customer service quality, recognizing that this is crucial for meeting customer needs and increasing customer loyalty. Starbucks places a strong emphasis on a customer-centric approach, this has implications for the vital connection between its staff and customers. Research reveals that customer satisfaction extends to factors other than food and beverage quality but also the attitudes of service management and employee behavior (Fatin Nabila, *et al.*, 2021).

According to data, by 2026 the number of coffee shops in Malaysia is expected to continue growing around 5.54 thousand (Statista Research Department, 2023). The coffee industry in Malaysia is currently occupied by numerous famous coffee brands, including Zus Coffee, Coffee Bean and Tea Leaf, and Ang Ang's Roaster Coffee, all vying for dominance in

the coffee market. It has been observed that new coffee outlets have been increasing. Therefore, in order to stand out in the coffee market, Starbucks must come up with alternatives to sustain their advantages.

### **Research objectives**

**RO 1:** To examine how the tangible aspects of the service environment in Starbucks outlets in Malaysia influence customer loyalty.

**RO 2:** To examine how the role of reliability in service delivery at Starbucks in Malaysia influences customer loyalty.

**RO 3:** To examine how the responsiveness of Starbucks staff in Malaysia influences customer loyalty.

**RO 4:** To examine how the impact of assurance elements conveyed by Starbucks employees in Malaysia influence customer loyalty.

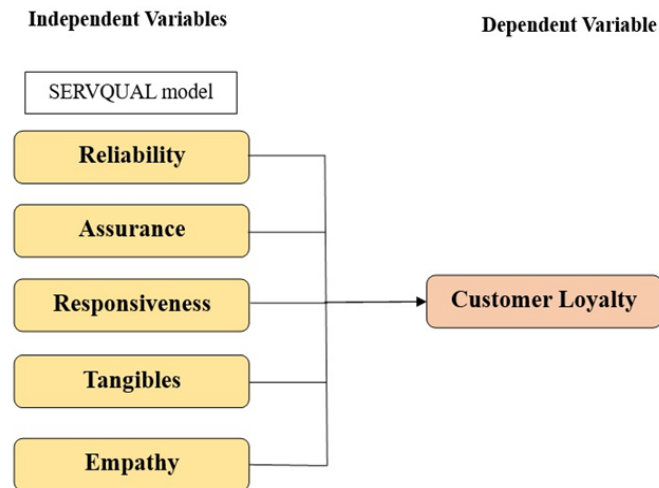
**RO 5:** To examine how the empathy demonstrated by Starbucks staff in Malaysia influences customer loyalty.

## **2.0 Methodology**

### **Research Design**

Customer loyalty is defined as the psychological inclination of customers to trust a company's product, service, and brand, coupled with their willingness to make repeat purchases after experiencing satisfaction (Charles & Kumar, 2014). It manifests as consumers consistently choosing a particular product or service, indicating repeated purchases of the brand. The depth and duration of such consumption constitute customer loyalty (Ge *et al.*, 2021). Additionally, customer loyalty encompasses strategies that create mutual or specific rewards, benefiting both companies and customers across various dimensions (Pandey *et al.*, 2021). One of the advantages is the potential increase in product revenue and sales.

The purpose of this study was to maintain customer loyalty by examining Starbucks' approach to customer service management. The purpose of the research framework was to establish a relationship between the variables that could have an impact on the phenomenon. After a thorough review of several earlier research works, the conceptual framework for competency that follows was created:



**Figure 1:** Research Framework

The first proposed analysis is descriptive analysis, which will be used to summarize and describe the data in terms of statistical measures including mean, mode, median, range, variance, and standard deviation. It is also for identifying patterns in responses and are usually described through visualization in order for a better understanding and interpretation.

The next proposed analysis will be inferential analysis which will be used to determine whether the probability of the observed findings in the sample are representative of the general population. This analysis includes hypothesis testing, range of population parameters through confidence intervals, and also differences between the means of all the groups through analysis of variance (ANOVA). Additionally, correlation analysis will also be used to explore the relationship between the variables that were being tested. It will statistically measure the degree of relationship between variables along with the direction of the relationship between variables.

Finally, multiple regression analysis will also be used due to the fact that this study consists of 1 dependent variable and 5 independent variables. This analysis helps to understand how the dependent variable changes when any one of the independent variables varies, while keeping the other independent variables constant. This analysis will also be able to predict the value of the dependent variable given specific values of independent variables, which is a valuable function since this study falls under the scope of marketing. Besides that, this analysis also identifies which independent variables have significant impact on the dependent variable, which is crucial in terms of understanding the factors that influence the outcomes in a particular context.

### 3.0 Results and Discussion

From the table 3.1, the constants show the value 0.951 which represents when all independent variables are zero, the estimated value of TCL is 0.951.

*H1: There is a significant relationship between reliability and customer loyalty.*

Hypothesis H1 predicted that there is a significant relationship between Reliability and Customer Loyalty. From Table 4.5, this prediction is not supported by the data Reliability contributes to Customer Loyalty by negative 1.743 and the p-value 0.083. The hypothesis shows **no significant** relationship; the significant value is greater than the typical significance level of 0.05.

*H2: There is a significant relationship between assurance and customer loyalty.*

Hypothesis H2 states that there is a significant relationship between Assurance and Customer Loyalty. The hypothesis is not supported by the data because the contribution to customer loyalty has taken a negative value of 1.341 at the same time the significant value is 0.181. Finally, concludes that there is **no significant** relationship between Assurance and Customer Loyalty.

*H3: There is a significant relationship between responsiveness and customer loyalty.*

Hypothesis H3 postulates that Responsiveness has a significant relationship with Customer Loyalty. The hypothesis is also not supported by the data. The value of Responsiveness contribution to Customer Loyalty is positive 1.600 and the significant value is 0.111 which is greater than 0.05. So the responsiveness could not be considered. It can be concluded that there is a **positive relationship but no significant relationship** between Responsiveness and Customer Loyalty.

*H4: There is a significant relationship between tangibles and customer loyalty.*

H4 predicted that there is a significant relationship between tangibility and customer loyalty. The hypothesis is supported by the data because the contribution to customer loyalty has taken a positive t-value of 2.745 and significant level is 0.007 and it is below 0.05. Therefore, the developed hypothesis can be accepted. It means that there is **a significant** relationship between Tangibility and Customer Loyalty.

*H5: There is a significant relationship between empathy and customer loyalty.*

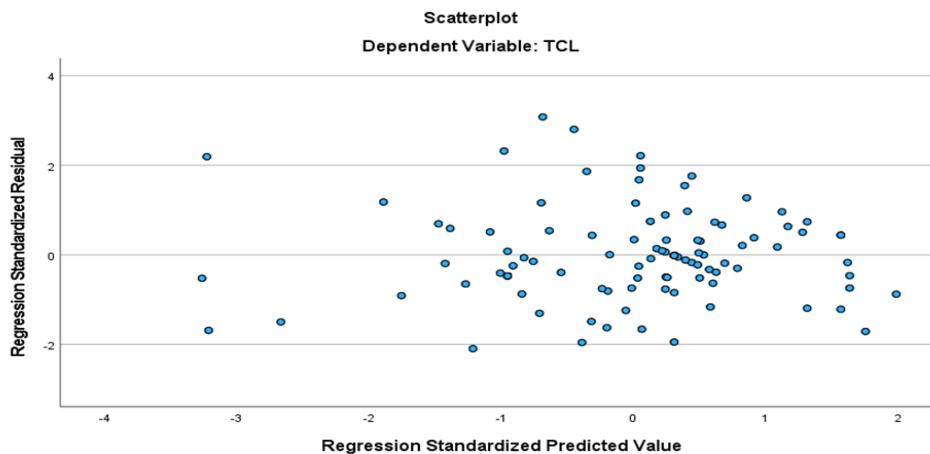
Hypothesis H5 states that there is a significant relationship between Empathy and customer loyalty. Among the independent variables, TEM (Empathy) has a higher standardized coefficient, and the relationship is **highly statistically significant**. The hypothesis is supported by the data because the value of Empathy contributes a higher value and significant level to customer loyalty in 9.597 and p-value <0.001 indicating a relatively stronger impact on TCL.

**Table 1: Regression result**

Coefficients <sup>a</sup>											
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Correlations		
		B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part
1	(Constant)	.951	.272		3.491	<.001	.414	1.488			
	TRR	-.161	.093	-.114	-1.743	.083	-.344	.021	.328	-.118	-.077
	TAS	-.124	.092	-.104	-1.341	.181	-.306	.058	.426	-.091	-.059
	TRP	.161	.101	.122	1.600	.111	-.037	.359	.568	.108	.070
	TTG	.271	.099	.212	2.745	.007	.076	.465	.595	.184	.121
	TEM	.618	.064	.630	9.597	<.001	.491	.745	.745	.548	.422

a. Dependent Variable: TCL

The normal probability plot, first described by Chambers et al. (1983), is a graphical method used to evaluate the degree to which a dataset conforms to a normal distribution. Based on Figure 4.1, the points are relatively close to a straight diagonal line from bottom left to top right, which indicates no major deviations from normality. Figure 4.2 indicated that most of the scores are concentrated in the center of the plot around the 0 point with minimal presence of outliers detected.



**Figure 2: Regression Standardized Predicted Value**

#### 4.0 Conclusion

The study underscores the critical impact of tangibles and empathy on customer loyalty at Starbucks Malaysia. Companies should invest in modern facilities and employee training in empathy where the study shows that it statistically significantly influences customer loyalty. However, non-significant relationships were observed for reliability, assurance, and responsiveness to carry out further exploration. The findings offer practical implications for urging businesses to prioritize tangibles and empathy in customer service. This study also recognizes its limitations in sample size and potential biases. At last, this study also proposed some recommendations on adopting Sustainable Development Goals (SDGs) and implementing an exclusive tiered loyalty program for enhanced customer loyalty tailored to individual preferences.

The research implications of these findings suggest several avenues for further investigation and practical applications in the realm of customer loyalty. In previous studies, Pérez-Morón et al. (2022) argued that there is a positive significant relationship between service quality and customer loyalty. The elements of reliability, assurance, responsiveness, tangibles, and empathy (SERVQUAL) always play a crucial role in influencing customer loyalty. According to Nadeem et al. (2020), loyalty is demonstrated by a customer's intention to keep using and buying a good or service from it in the future. In this study, the significance of tangibles and empathy implies that businesses should prioritize and focus on improving these aspects to enhance customer loyalty. It also provides valuable insights for businesses aiming to optimize their customer relations strategies. Companies can invest in modern and well-maintained facilities, aesthetically pleasing packaging, and user-friendly interfaces that contribute to the overall customer experience. The self-service ordering kiosk is a technologically advanced service with a touch screen gadget that allows customers to place orders, see menus, and pay at the kiosk (Pérez-Morón et al., 2022).

This practice will also reduce labour and operating costs of business leading to better profit. Next, companies can train their employees in customer service skills, empathy-building, and emotional intelligence in order to create a customer-centric culture and implement feedback mechanisms. Pérez-Morón et al. (2022) emphasized that to build a business culture that upholds ethics and offers exceptional customer service, all employees must participate in a training program. Upon the understanding of customer needs, it will build stronger emotional connections and lead to increased customer loyalty as well as the purchase behavior.

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