

## Conference Paper

# The Effect of Product Quality, Service Quality and Price on Customer Satisfaction at Loki Store

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**Abstract**

The retail industry is still popular in Indonesia. Overall, retail sales growth has decreased. However, the clothing industry has increased. The growth in the clothing sub-group retail industry provides opportunities for companies. One of them is the Loki store. The purpose of this study was to analyze the effect of product quality, service quality and price on customer satisfaction at the Loki store. This research used a quantitative approach consisting of primary data and secondary data. Purposive sampling was used. The sample was 150 respondents. Multiple linear regression analysis was used. The results showed that product quality, service quality, and price had a significant positive effect on customer satisfaction at the Loki store.

**Keywords:** Product Quality, Service Quality, Price, Satisfaction, Loki Store

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## 1. Introduction

The dynamics of the development of the retail industry continues very rapidly today. The retail industry is an industry that is still popular in Indonesia. Indonesia Bank (2020) released the sales growth of the national retail industry, data was obtained based on a survey that aimed to determine the direction of movement of gross domestic product (GDP) from the consumption side. Overall retail sales growth has decreased. The highest growth in 2015 was 27.25% (yoy), in 2014 it was 11% (yoy). 2017 was the lowest growth with a growth of 2.9% (yoy), in 2018 it grew to 3.7% (yoy) and in 2019 it grew by 3.9% (yoy).

According to Indonesia Bank (2020), the clothing sub-group is a part of the retail or retail industry. In contrast to the growth of the retail industry in general, which has experienced a decline, the clothing sub-group has actually experienced an increase in growth, especially in 2017, 2018 and 2019. Seeing the growth movement in the retail industry, the clothing sub-group provides opportunities for companies engaged in that

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sector, including new companies resembling the Loki Store. Loki Store is a company engaged in the clothing sub-group retail industry which has been established since 2018 in Lombok West Nusa Tenggara, the products provided include clothing and accessories.

Based on Loki Store sales data, the highest was obtained in the second quarter of 2018 amounting to IDR 260,000,000, while the lowest sales was obtained in the fourth quarter of 2019 amounting to IDR 151,000,000. In 2019, Loki Store sales tended to decrease, in 2019 sales of Rp. 170,000,000 decreased compared to curve II of 2019 amounting to Rp. 215,000,000 then in the fourth quarter of 2019 sales of 151,000,000 also decreased compared to curve III in 2019.

The comparison of the sales growth of Loki Store with the growth of retail sales in the clothing sub group nationally is in Figure 1 below.

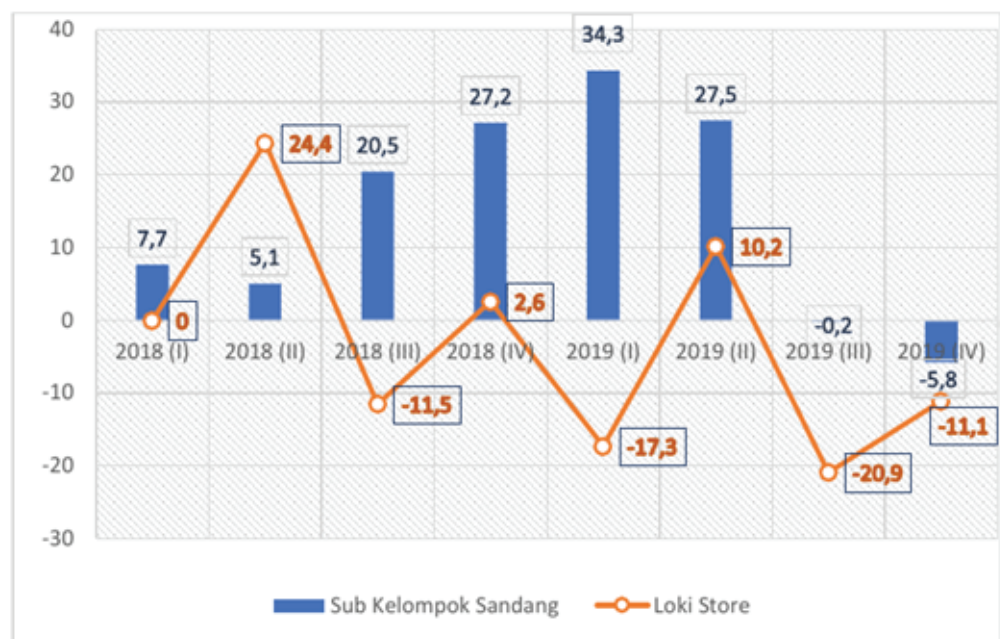


Figure 1: Source: Bank Indonesia (2020); Loki Store Internal Data (2020), data processed

The sales growth of Loki Store as a whole has decreased. When compared with the growth percentage of the clothing sub-group, the growth percentage of the Loki Store is also below that of the clothing sub-group. This condition is inseparable from the increasing competition in the fashion retail sector, especially in East Lombok, with the increasing number of competitors making consumer choices more diverse and a challenge for Loki Store to win the competition.

Customer satisfaction is the basis success of a business, with a satisfied customer-base playing an important role in achieving company competitiveness [1]. [2], states that the elements that affect customer satisfaction include service quality, product quality,

price and environment. Thus, this study entitled “The Effect of Product Quality, Service Quality and Price on Customer Satisfaction at the Loki Store”. The objectives of this study are as follows: 1) Knowing and analyzing the effect of product quality on customer satisfaction at the Loki Store. 2) Knowing and analyzing the effect of service quality on customer satisfaction at the Loki Store. 3) Knowing and analyzing the effect of price on customer satisfaction at the Loki Store.

## 2. Literature Review

### 2.1. Product Quality

Products are all things that can be offered that meet needs [3]. Products are producers' knowledge of something that can be marketed with the aim of meeting needs [9]. Products are everything that can be observed, liked, and purchased to meet needs [16]. Product quality is a set of product characteristics that contribute to meeting predetermined demand [17]. Product quality is an assessment made by consumers of product performance [18]. Product quality is a collection of available product characteristics and features that are made based on their ability to meet and demand [2]. The product quality indicators used as indicators of clothing products in this study are a combination of indicators by [2, 19], including: 1) Performance, 2) Reliability, 3) Durability, 4) Attractiveness

### 2.2. Service Quality

Service quality is a measure of the level of service offered to consumer with the expectations placed by consumers [20]. According to [1] service quality is based on customers' perceptions of how well the service is in accordance with their needs and expectations. Quality service is the result of a comparison made by customers between the expectations of a product or service and the perception of service performance received [19]. Service quality is expressed as a category depending on two variables including consumer expectations of actual results and consumer perceptions of the final result [2]. [14] service quality is an evaluation made by the services received compared to the services they need or expect.

Service quality indicators according to [14] include: 1) Tangibility, which is related to physical facilities. 2) Responsiveness, which is to provide fast service. 3) Emphaty, namely the attention the company gives to customers. 4) Assurance, namely the ability

of employees to instill customer trust. 5) Reliability, which is how much the company is able to provide services in accordance with customer expectations. In this study, the service quality indicator used is the SERVQUAL model as used by [14] which consists of tangibility, Responsiveness, Emphaty, Assurance, and Reliability.

### 2.3. Price

Price is the value of money spent to obtain benefits from a product or service [3]. Price is the value of the item inform of money [4]. Price is defined as the value issued by consumers to get benefits for a product whose value is determined by bargaining [5]. [6] prices as a sacrifice in the form of money and other forms in the form of monetary (tax costs, delivery) and in non-monetary form. Price is a very important element for customer satisfaction because consumers will estimate the value of a product or service and make purchasing decisions through price [7]. [8] Price indicators consist of: 1) Affordable price. 2) Price competitiveness. 3) Match price with product quality. 4) Price compatibility with product benefits.

### 2.4. Customer Satisfaction

Customer satisfaction is what consumers feel after comparing the performance of products and services with their expectations [3]. Customer satisfaction is the most important part in marketing. To win the competition, a company must be able to maintain its customers [9]. Customer satisfaction is a person's subjective evaluation of the perceived situation on the performance of a product or service [10]. The indicators in this study were indicators of customer satisfaction according to [10], among others: 1) Fulfillment of expectations, namely a fulfillment of customer expectations for a product or service. 2) Customer trust, namely customer trust after using a product or service. 3) Feelings based on experience, namely feelings of pleasure based on the experience of using a product or service.

### 2.5. The Relationship between Product Quality and Customer Satisfaction

Research by [2] which aimed to assess and evaluate the influence of foreign factors of product quality, service quality, price and environment on customer satisfaction of Vietnamese fast food restaurants. This study used a mixed method, namely quantitative

and qualitative research. The results of this study indicated that the effect of product quality on customer satisfaction. Research by [11] which aimed to determine the effect of product quality, price perception, and brand image on customer satisfaction. Causal descriptive method with a sample size of 100 respondents. This study showed that there was no effect of product quality on customer satisfaction.

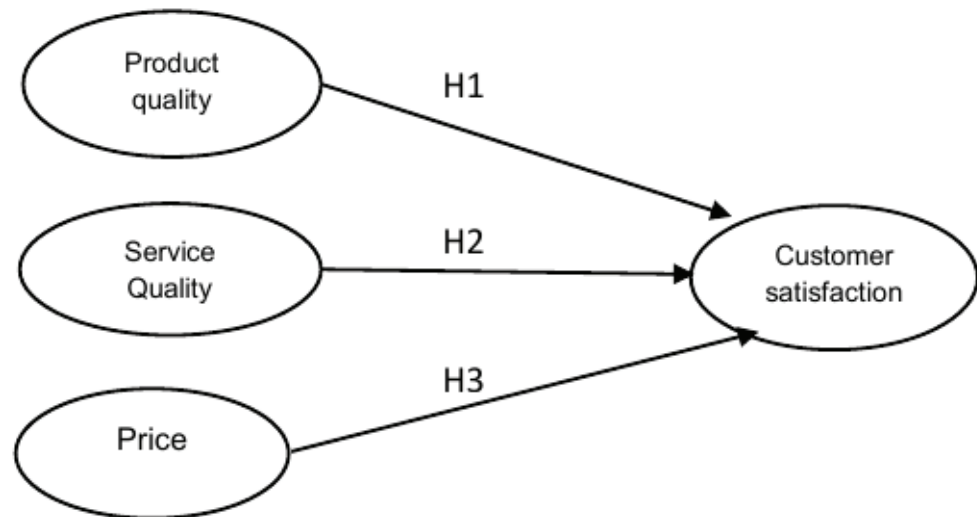
## **2.6. The Relationship Between Service Quality and Customer Satisfaction**

Research by [12] which aimed to examine the relationship of service quality to customer satisfaction. The sample of this study used 392 respondents who were customers of Islamic Bank in Surabaya. This study showed the effect of service quality on customer satisfaction. Research by Kristanto (2016) aimed to see the effect of service quality, product quality, price on customer satisfaction. The research sample used 100 respondents. Research showed that there was no effect of service quality on customer satisfaction.

## **2.7. The Price Relationship and Customer Satisfaction**

Research by [7] aimed to determine the extent to which price affects customer satisfaction in the retail banking sector in India. The results of this study found that price has a positive impact on customer satisfaction. Research conducted by [2] which aimed to assess and evaluate the effect of each factor of product quality, service quality, price and environment on customer satisfaction of Vietnamese fast food restaurants. The results of this study found that price has no effect on customer satisfaction.

## 2.8. Data Analysis Model



The hypotheses in this study are: H1: Product quality has a positive effect on customer satisfaction at the Loki Store, H2: Service quality has a positive effect on customer satisfaction at the Loki Store, H3: Price has a positive effect on customer satisfaction at the Loki Store.

## 3. Research Methods

This study used a quantitative approach. Located at the Loki Store, Lombok West Nusa Tenggara in May 2020. All respondents in this study are domiciled in Lombok. The population used was all Loki Store consumers who have shopped at least twice on the January-May 2020 period. This study used a non-probability sample using purposive sampling so that the sample of this study was 150. This study consisted of primary data and secondary data. Primary data was obtained from distributing questionnaires, while secondary data was obtained from journals, scientific writings, and publications from the internet that provide supporting information. This study used multiple linear regression analysis. Regression analysis functions to get the effect of the independent variable on the dependent variable, could seen on equation below this:

$Y = B_0 + B_1X_1 + B_2X_2 + B_3X_3 + E$ , Y = Customer satisfaction,  $B_0, B_1, B_2, B_3$  = variable regression coefficient  $X_1, X_2, X_3$ ,  $X_1$  = product quality,  $X_2$  = quality service,  $X_3$  = Price

## 4. Results and Discussion

Respondents included gender, age, occupation and shopping frequency at the Loki Store products. 98% of respondents are female and 2% are male. 21% of respondents are under 20 years old, 58% are between 21 and 30 years old, 19% are between 31 to 40 years old, and 2% are over 40 years old. 42% of the respondents are students, 34% are employees, 20% are self-employed and 4% are housewives. 77% of respondents have made purchases at the Loki Store more than three times, 17% have made purchases at the Loki Store three times, and 6% have made purchases at the Loki Store twice.

### 4.1. Value Mean and Standard Deviation of Product Quality, Service, Price and Customer Satisfaction.

TABLE 1: Mean Value and Standard Deviation of Product Quality

	N	Mean	Standard Deviation
X11	150	4,1600	0.65620
X12	150	4,0267	0.68490
X13	150	4,000	0.64506
X14	150	4.0933	0.52260
X1	150	4.07	0.48

Source: Data processed (2020)

The product quality variable has a mean of 4.07, a standard deviation of 0.48, thus it can be said that most respondents agree on this variable. The X14 indicator has the smallest standard deviation value, which indicates that the response to indicator X14 is the most homogeneous compared to other indicators.

The service quality variable has a mean of 4.04 with a standard deviation of 0.36, so it can be said that most respondents agree on this variable. The X22 indicator has the smallest standard deviation value which indicates that the response to the X22 indicator is the most homogeneous compared to other indicators.

The price variable has a mean of 4.16 with a standard deviation of 0.43, so it can be said that most respondents agree on this variable. The X31 indicator has the smallest standard deviation value which shows that the response for the X31 indicator is the most homogeneous compared to other indicators.

TABLE 2: Mean Value and Standard Deviation of Servic

	N	Mean	Standard Deviation
X21	150	4,1733	0.62118
X22	150	4,1867	0.57213
X23	150	3,9200	0.66069
X24	150	4,1800	0.67625
X25	150	3,8400	0.64590
X26	150	3,8533	0.61728
X27	150	4,1933	0.57576
X28	150	4,1933	0.58730
X29	150	4.0933	0.59468
X210	150	4,0867	0.67493
X211	150	4,0267	0.65484
X212	150	3,9267	0.70565
X213	150	4,0267	0.57867
X214	150	3,9067	0.61684
X2	150	4.04	0.36

Source: Processed data, (2020).

TABLE 3: Mean Value and Standard Deviation of Prices

	N	Mean	Standard Deviation
X31	150	4,2400	0.59843
X32	150	4,2600	0.60678
X33	150	4,1733	0.65279
X34	150	4,0467	0.60575
X35	150	4,0800	0.62948
X3	150	4.16	0.43

Source: Data processed (2020)

Table 4 shows that the customer satisfaction variable has a mean of 4.23 with a standard deviation of 0.49, so it can be said that most respondents agree on this



variable. The Y2 indicator has the smallest standard deviation value which indicates that the response for the Y2 indicator is the most homogeneous compared to other indicators.

TABLE 4: Mean Value and Standard Deviation of Customer Satisfaction

	N	Mean	Standard Deviation
Y1	150	4,2467	0.68480
Y2	150	4,2133	0.56267
Y3	150	4,2400	0.57557
Y	150	4.23	0.49

Source: Data processed (2020)

## 4.2. Classic Assumption Test

### 4.2.1. Multicollinearity

In this study, it shows a tolerance value of  $X1 \square Y1$  of 0.481,  $X2 \square Y1$  of 0.199,  $X3 \square Y$  equal to 0.198. Meanwhile the VIF value is  $X1 \square Y1$  shows the value 2.078,  $X2 \square Y1$  shows the value of 5.018 and  $X3 \square Y1$  indicates a value of 5.059. Thus, the tolerance value parameter cannot be less than 0.1 and a Variance inflation factor (VIF) value of less than 10 has been fulfilled. These results indicate the absence of multicollinearity.

### 4.2.2. Heteroscedasticity

Heteroscedasticity test with the Glesjer test showed a significance value of  $X1 \square Res$  0.892,  $X2 \square Res$ .395 and  $X3 \square Res$  0.896. So that the parameter of the significance of the relationship between the independent variable and absolute residual  $> 0.05$  has been fulfilled. It can be concluded that there is an inequality of variance from the residuals for all observations in the regression model.

### 4.2.3. Multiple Regression Analysis, R2 and F

The test results with the analytical tool showed that the regression coefficient of product quality on customer satisfaction was 0.277  $p < 0.05$ . It can be concluded that product quality partially has a significant effect on customer satisfaction. Thus, Hypothesis 1

is accepted. The results of the service quality test on customer satisfaction showed a regression coefficient of 0.379,  $p < 0.05$ . It can be concluded that service quality has a significant effect on customer satisfaction partially. Thus Hypothesis 2 is accepted. Furthermore, the price test results on customer satisfaction show a regression coefficient of 0.350,  $p < 0.05$ . It can be concluded that the price has a significant effect on customer satisfaction partially. Thus Hypothesis 3 is accepted. In the form of a statistical equation, multiple linear regression is as follows:  $Y = 0.117 + 0.277X_1 + 0.379X_2 + 0.350X_3$ .

The equation that is positive shows the higher the product quality, the higher the customer satisfaction, and the higher it is quality service, the more customer satisfaction increases. Likewise, the more competitive the price, the more customer satisfaction increases. The coefficient of determination R Square showed a value of 0.616 or 61.6%, meaning that the variables of product quality, service quality and price contribute to customer satisfaction by 61.6%, while the rest was influenced by other variables. The F test showed the value of  $F = 78.069$ ,  $p < 0.05$ . This showed that product quality, service quality and price together have a significant effect on customer satisfaction.

#### **4.2.4. Effect of Product Quality on Customer Satisfaction**

The results of this study proved that Hypothesis 1 is accepted. Thus, product quality has a significant positive effect on customer satisfaction. Thus the results of this study confirm the theory put forward by [13] which stated that the services offered by staff and product quality play an important role in influencing customer satisfaction. [2] also stated that product quality is the most important component of customer satisfaction. The results of this study also confirm previous research by [2] which stated that product quality affects customer satisfaction.

#### **4.3. The Effect of Service Quality on Customer Satisfaction**

The results of this study proved that Hypothesis 2 is accepted. Thus service quality has a significant positive effect on customer satisfaction. The results of this study confirm the theory put forward by [14] service quality is an evaluation made of the services received compared to the services they need or expect. When customers evaluate retail services, they compare their perceptions of the services they receive, customers are satisfied when the perceived service meets or exceeds their expectations and vice versa [14].

The results of this study also confirm previous research conducted [12] which stated that service has an effect on customer satisfaction. Another study also conducted by [7] said that service quality has a positive impact on customer satisfaction and customer loyalty. Another study was conducted by [15] which stated that customer service was found to have a significant positive effect on customer satisfaction.

### 4.3.1. The Effect of Price on Customer Satisfaction

The results of this study proved that Hypothesis 3 is accepted. This shows that the price has a significant positive effect on customer satisfaction. The results of this study confirm the theory put forward by [7] price is a very important element for customer satisfaction because consumers will estimate the value of a product or service and make purchasing decisions through price.

### 4.3.2. Managerial Implications

TABLE 5: Managerial Implications

Variable	Before Research	Managerial Implications
Product quality	<ul style="list-style-type: none"> <li>- Limited product variety .</li> <li>- Product quality for medium down.</li> </ul>	<ul style="list-style-type: none"> <li>- Adding product variations, especially products needed by students.</li> <li>- Trying to provide higher quality products to reach the middle and upper class.</li> </ul>
Service Quality	<ul style="list-style-type: none"> <li>- There has never been any training to improve employee abilities.</li> <li>- Social media admin and receipt of orders and complaints are combined.</li> <li>- Online marketing is still limited to social media.</li> <li>- Only cash transactions available.</li> </ul>	<ul style="list-style-type: none"> <li>- Doing training to improve the ability of employee services.</li> <li>- Preparing a special order admin to improve services and prepare admins for social_media and specific complaints.</li> <li>- Register an online store on the marketplace to make it easier for customers who transact online.</li> <li>- Provide non-cash transactions.</li> </ul>
Price	<ul style="list-style-type: none"> <li>- Offer cheap prices.</li> <li>- Offer a discount.</li> </ul>	<ul style="list-style-type: none"> <li>- Still offering low prices.</li> <li>- Giving various price offers other than discounts such as package prices, flash sales, buy 2 get 1 free.</li> </ul>

Source: Data processed (2020)

## 5. Conclusion

Based on the results of the data analysis, it can be concluded that: 1) Product quality has a significant positive effect on customer satisfaction at the Loki Store. 2) Service quality has a significant positive effect on customer satisfaction at the Loki Store. 3) Price has a significant positive effect on customer satisfaction at the Loki Store.

## 6. Suggestion

Loki Store management is advised to add higher quality products than before. Loki Store is also advised to further improve quality control of a product to minimize defective products. Loki Store management is also advised to improve the quality of service that is already good. In addition, Loki Store management is also advised to maintain competitive prices that can compete with competitors. This is a response to the research results which show that price has a significant effect on customer satisfaction, so that the more competitive the price offered will increase customer satisfaction.

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