

## **Factors Influencing Customer Loyalty of Coffee Shops in Phnom Penh City**

**Sinit To, Phirum Norng, Raingsey Keo, Vanda Vong, and Soren Chea**

Corresponding Author. Email: [sinithbu@gmail.com](mailto:sinithbu@gmail.com)  
ACLEDA INSTITUTE OF BUSINESS, Phnom Penh, Cambodia

### **ABSTRACT**

*The study aims to identify the impact of product quality, service quality, brand innovation, and physical environment on customer loyalty in coffee shops in Phnom Penh City. The study adopted a correlational study of a quantitative method by collecting data from 370 coffee drinkers through a survey questionnaire. The study found that product quality, brand innovation, and physical environment positively affected customer loyalty to the coffee shops, while service quality was not statistically significant.*

**Keywords:** Product quality, Service quality, Brand innovation, Physical environment

## 1. Introduction

### *Background of the study*

Over the last decade, drinking coffee has become popular among Cambodian people in their daily lifestyles. Thus, the number of coffee shops has mushroomed in recent years. This has resulted in the demand for product and service quality from the customers to the business owners. The trend also provides benefits for the coffee shops in Phnom Penh, which must be addressed to equate the appropriate strategies and business growth for the present and the future. The market is expanding every year, showing the increase of trendy consumers bolstered by breakfast, lunch, and dinner times, following the Western lifestyle. Notably, there has been a high demand among young people, including students, workers and tourists in the city. Over the recent decades, coffee shops have become great places where friends, families, and business partners gather for social talks, work discussions, and business deals. Coffee consumption has been surging in urban areas even along the urban streets in Cambodia, especially in Phnom Penh city.

### *Problem statement*

Amron (2018) explained the characterization of product quality and its effect on customer loyalty. To (2018) and Mony and Be (n.d.) discussed service quality and its effect on customers' impact of using the service. Thapa (2010) explained that product innovation is one of the marketing incentives that can encourage people to use the service again. Soonthorn-Opas (n.d.) and To (2018) discussed how the physical environment influences customers' decision to buy a specific product now and in the future. However, the current research on business in Cambodia is relatively scant, and there is currently a knowledge gap concerned with consumer behaviors. This has necessitated a research study to shed light on how product quality, service quality, brand innovation, and customer loyalty affect customer loyalty.

### *Research objective*

The objective of this study is to find out the factors influencing customer loyalty, using coffee shop service by adopting the SERVQUAL Model such as the product quality, service quality, brand innovation, and physical environment.

### *Research question*

The study raises a research question as follows:

What factors influence customer loyalty to the coffee shops in Phnom Penh city?

### *Significance of the study*

The study would contribute to the current or new business owners and supervisors who are willing to run and manage the coffee shop in Phnom Penh city, Cambodia. Moreover, it would enable the new researchers to find out the applicability of the model in the research study in the Cambodian business context. Last but not least, the findings would contribute to the advancement of knowledge in the field based on SERVQUAL Model employed in the Cambodian context.

## **2. Literature Review**

### *Product quality*

Dalólio, et al. (2017) defined product quality as the ability of a product to perform its function. It can be resilience, reliability, precision, simple operation, improvement, and other valuable attributes. From the marketing perspective, product quality denotes the ability of a product to satisfy the requirements of the consumers and can be measured by the buyers' understanding (Seth et al., 2005) and a personal feeling on product quality. Perceived quality is extremely significant in maintaining existing customers and is a comparative concept of situational, comparative, and individual attributes (Keller, 1993). Many studies are investigating the relationship between product quality and purchase decisions. Baruk and Iwanicka (2015) examined the effect of product quality on purchase decisions in Poland. The results have indicated a strong correlation between product quality and buying decisions. This result of the study is the same as that of the study conducted by (MONY & BE, n.d.) and (Díez et al., 2014) in Spain. Amron (2018) stated that business owners can transform product quality into a possible strategy weapon to increase quality better than competitors by consistently providing better products and services to satisfy consumers' needs and preferences for product quality.

### *Service quality*

Service quality includes Reliability, Assurance, Tangibles, Empathy, and Responsiveness (RATER) (Abeyvance, 2013). The RATER framework evolved from the SERVQUAL study psychologists. Finn et al. (1991) refers reliability to as an ability to deliver the service a customer expects when the customer expects. Reliable service is regular, accurate, timely, and consistent. Unsurprisingly, it is the most important of all the service dimensions. It determines consumers' satisfaction and also affects business success, especially in the food and beverage industry (Shekarchizadeh et al., 2011). Wong (2004) found that service quality might positively affect satisfaction, which affects consumers' loyalty and relationship. The service environment refers to the judgment about the general environment of the store by consumers (Lehtinen & Lehtinen, 1991) and it can be measured by surrounding conditions, design, and community factors.

### *Brand innovation*

Brand Innovation is the setting of design innovation for product performance innovation. According to Nguyen et al. (2015) and Berry et al. (1994), brand innovation presents a given level of product and service quality when consumer innovation is used, meaning that brand innovation represents the creation of something new by an organization that satisfies its customers and increases its market share. Because the purpose of innovation is to bring something unique, competitors do not have and caused a positive and good customer experience toward the provider (Naveed et al., 2012; Berry et al., 1994). The innovation used for strategies oriented toward customer loyalty can gain market potential that increases the market share of the coffee shop.

### *Physical environment*

According to Chang (2000), in the physical environment, the term “services” refers to all of the objective physical factors that can be controlled by the firm to enhance (or constrain) employee and customer action". The effects of physical surroundings on service quality have also been studied by Wall and Berry (2007) who stated that the physical environment could influence customer expectations of service quality and service (loyalty) because clients need tangible clues to create a picture to estimate the quality. The physical surrounding is one of the most critical marketing tools for business owners.

### *Customer loyalty*

Customer loyalty is a state of mind in which the customer's needs, wants, and expectations throughout the product, service, innovation, or environment life (Wall & Berry, 2007), resulting in future repurchase loyalty. (To, 2018) has shown that customers are also more inclined to recommend it to their friends and family. According to Habte et al. (2016), many researchers define customer loyalty as the impression of reward received by the customer after making the sacrifice of purchasing a product (Minarti & Segoro, 2014; Amron, 2018). The findings are corroborated by a few studies, the results of which indicated that decoration, color, background music, and cleaning and grooming of service providers (Ryu & Han, 2010). Wall and Berry (2007) have found that physical environment affects customers' expectations of service quality and loyalty, which is similar to Ryu and Han (2010) who have found that a good physical environment can generate consumers' positive emotions, intention, satisfaction, and loyalty to a restaurant.

*Research model*

This study examines the impact of product quality, service quality, brand innovation, and physical environment on the customer loyalty of the coffee shops in Phnom Penh. Thus, the four components are conceptualized as a model in the study to find out their impact on customer loyalty as shown in figure 1.

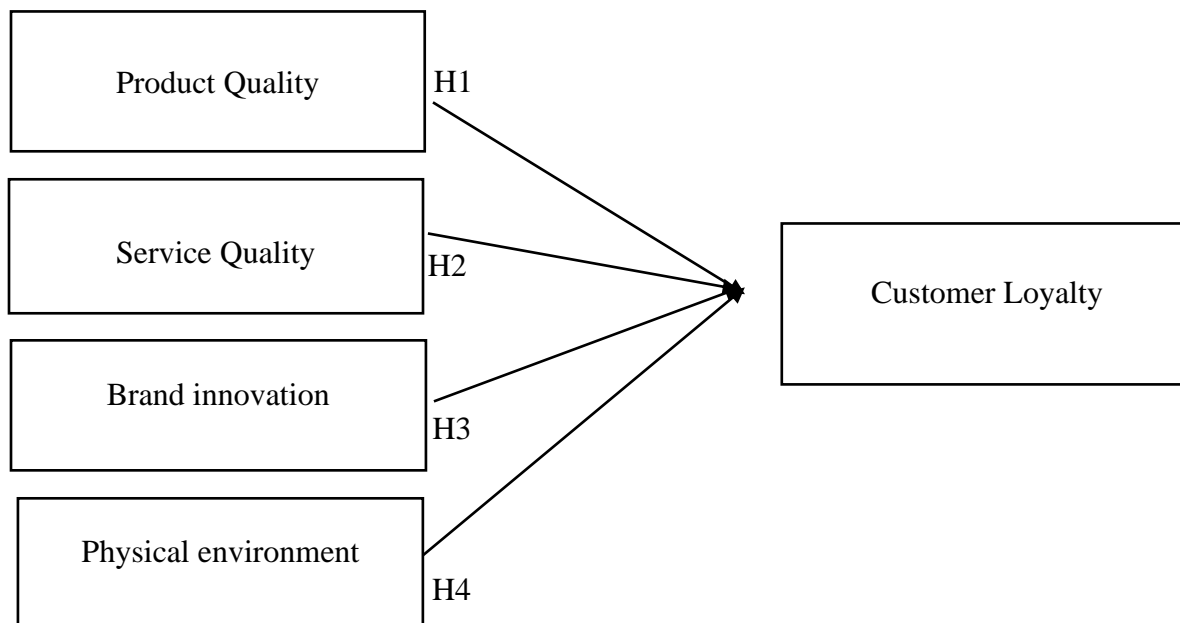


Figure 1: The current study’s Conceptual framework

*Research hypotheses*

Based on the conceptual model, the following hypotheses have been proposed.

- H1: Product quality positively affects customer loyalty.
- H2: Service quality positively affects customer loyalty.
- H3: Brand innovation positively affects customer loyalty.
- H4: Physical environment positively affects customer loyalty.

**3. Research Methodology**

*Research design*

The study employed a quantitative design, using questionnaires as a tool for the data collection. The tool was constructed based on the related theories and was approved by the experts.

### *Sampling*

The research samples were selected from the people who had direct experiences of consuming coffee at the different coffee shops in Phnom Penh, the capital city of Cambodia.

The samples were selected by means of a probability sampling method, specifically the cluster sampling method. With the sample size of 370, the respondents were selected to answer questionnaires based on the of product quality, service quality, brand innovation, and physical environment on the customer loyalty. According to Green (1991),  $N > 50 + 8m$  (where  $m$  is the number of IVs) for testing the multiple correlation and  $N > 104 + m$  for testing individual predictors (Tabanick & Fidell, 2013). The questionnaires were distributed to the respondents, and the completed questionnaires were collected on the sites immediately after the respondents' completion.

### *Research tool*

The research tool was developed with the focus on product quality, service quality, brand innovation, and physical environment, and the relationship between influence and customer loyalty concerning using services at coffee shops in Phnom Penh. The respondents were asked to follow the given instructions and answer the questions without bias. Notably, all the items were measured using a five-point Likert scale, 5= Strongly agree, 4= Agree, 3= Natural 2= Disagree, 1= Strongly Disagree.

### *The level of agreement analysis*

The pilot test for reliability was used to test the measured items, according to Armstrong (1987). The five Likert- scale point applied to measure the factors, which has a significant positive effect on customer loyalty in the capital city.

Table 1: The Level of Agreement Analysis

No	Likert Scale	Acceptable scored rank	Source
1	Strongly Disagree	1.00 -1.85	
2	Disagree	1.86- 2.71	
3	Neutral	2.71- 3.56	(Armstrong, 1987)
4	Agree	3.57- 4.42	
5	Strongly Agree	4.43- 5.00	

Table 2: Reliability Statistics

Variables	Items	Pilot Cronbach's Alpha (n=50)
Product quality	4	.784
Service quality	5	.868
Brand innovation	5	.840
Physical environment	5	.723
Customer loyalty	5	.682

The result of the internal consistency test for reliability called Cronbach's alpha, the estimator of test reliability suitable for use in single applications of a test, typically in cross-sectional designs (Forero, 2014) ranged from the lowest .682 to the highest .868. According to Nunnally (1994), the value (.682) is acceptable.

#### *Data analysis*

The data were analyzed by demographic analysis, using descriptive statistics: mean, standard deviation, frequency, and percentage. Multiple Regression techniques were used to examine the relationship between independent variables and dependent Variables, using Statistical Package for the Social Science (SPSS) software. The purpose of conducting this relationship analysis was to find out the degree of influence of the four independent variables on the dependent Variable.

### **4. Research Results**

#### *Demographic information*

Demographic data, including gender, age, income, educational background, and occupation, time for the opening, frequency of visiting, amount of coffee drinking a day, attraction of using coffee shop service, time spent using service, were measured, using percentage ratio and frequency counting.

As shown in table 3, the most respondents were female, accounting for 56.20%. The respondents' ages were between 17 to 25 years, accounting for 58.40%, most of whom were company employees (31.40%). For educational background, the result has shown that approximately 63% were bachelor's degree holders. The respondents who had income between 180\$-250\$ accounted for 30.30% while 30.30 % also earned more than 500\$. Last but not least, almost 24.9 % visit coffee shops every day.

Table 3: Demographic information of Respondents

Items	Category	Frequency	Percentage
Gender	Female	208	56.20%
	Male	162	43.80%
Age	17- 25 years old	216	58.40%
	Between 25 to 30	26	7.00%
	Between 30 to 35	20	5.40%
	More than 30 years old	108	29.20%
Occupation	Banking/Financial	88	23.80%
	Company Employee	116	31.40%
	Students	90	24.30%
	Business Owner	14	3.80%
Education	Other	62	16.80%
	Below bachelor's degree	8	2.20%
	Bachelor's Degree	234	63.20%
	Master's Degree	94	25.40%
Income: (USD)	Doctoral Degree	34	9.20%
	Less than \$180-\$250	112	30.30%
	\$250-\$300	42	11.40%
	\$300-\$350	64	17.30%
	\$400-\$450	40	10.80%
Which is the most appropriate time for the coffee shop to open?	More than \$500	112	30.30%
	0:500am	32	8.60%
	0:600am	154	41.60%
	0:700am	110	29.70%
	0:800am	44	11.90%
	0:900am	4	1.10%
What frequency do you visit coffee shops?	Other____	26	7.00%
	Daily or almost	92	24.90%
	Time a week	36	9.70%
	2-3 times a week	88	12.40%
	3-4 times a week	46	10.30%



### Correlation analysis

The correlation level and validity between all the constructs in this research were tested. The researchers brought 5 constructs into testing. According to Pearson (1926), the correlation values range from -1 to +1 and were calculated to explore the association between variables. This means the closer the number in each variable reaches nearly +1, the stronger correlations are, which means the more positive relationship between two variables is (Pearson, 1926).

Table 4 shows that all variables are significantly correlated at 0.01 (2-tailed). The results also showed the favorable and positive correlations between variables with the lowest 0.427 of PE toward BI and highest 0.589 of SQ toward PE

Table 4: Correlation of construct

	1-PQ	2-SQ	3-BI	4-PE	5-CL
1-Product Quality (PQ)	1				
2-Serviced Quality (SQ)	0.562	1			
3-Brand Innovation (BI)	0.512**	0.563**	1		
4-Physical environment (PE)	0.552**	0.589**	0.427**	1	
5-Customer loyalty (CL)	0.521**	0.445**	0.496**	0.499**	1

\*\*\* correlation is significant at the 0.01 level (2-tailed).

### Regression analysis

The regression analysis result in SPSS is as follows:

The ANOVA output was examined to check whether the proposed Model was feasible. Therefore, the analysis of variance in table 5 indicated that product quality, service quality, brand innovation, and physical environment has positive influenced on customer loyalty. The result showed that the overall Model was significant (F = 56.924, P value = 0.000).

Table 5: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	120.912	4	30.228	56.924	.000 <sup>b</sup>
	Residual	193.824	365	.531		
	Total	314.736	369			

Table 6 shows that three hypotheses: product quality affected by customer loyalty (Beta= .245) at .000; brand Innovation affected by customer loyalty (Beta= .245) at .000; physical Environment (Beta= .256) at .000 and Beta= .243 at .000 on customer loyalty. The study has found that one hypothesis about service quality was not supported on customer loyalty.

Table 6: Regression Analysis

IV	DV	B	Std. Error	Beta	T	Sig.
Product Quality	Customer loyalty	0.221	0.049	0.245	4.495	0.000
Service Quality	Customer loyalty	0.02	0.058	0.02	0.349	0.728
Brand Innovation	Customer loyalty	0.287	0.058	0.256	4.923	0.000
Physical Environment	Customer loyalty	0.216	0.048	0.243	4.503	0.000

### *Hypotheses testing*

Table 7 indicate that three hypotheses were supported as below:

Table 7: Hypotheses result

Hypothesis	P-value	Significant
H1. Product quality positively affects customer loyalty	0.000	Supported
H2. Service quality positively affects customer loyalty	0.728	Not Supported
H3. Brand innovation positively affects customer loyalty	0.000	Supported
H4. Physical Environment positively affects customer loyalty	0.000	Supported

## **5. Conclusion and recommendations**

### *Conclusion*

This paper examined the factors considered influential on customer loyalty in business area, Phnom Penh, the capital city of Cambodia. The factors include product quality, service quality, brand innovation, and physical environment, which are perceived to be influential on the customers' purchase decision. The study has shown that coffee is viewed as the daily need of residents, especially young people and teenagers who are employees in both the public and private sectors and entrepreneurs. Overall, this paper found that service quality, hypothesis 2, has no relationship with customer loyalty to coffee shops. Despite this, the study has shown that product quality, hypothesis 1, has a positive relationship with customer loyalty to coffee shops. This finding was related to the explanation of Parasurman, Valarie Zeeithaml, and Leonard (1988). As in hypothesis 4, physical environment is shown to have a significant positive

relationship with customer loyalty to the coffee shops. The finding was consistent with the study of Loloyd, (2002) and Auld Siegrist (2002). Lastly, in hypothesis 3, brand innovation is found to have a positive relationship with customer loyalty supported by a Nemati, Khan and Iftekhar (2010) and Hausam (1995).

#### *Recommendations for business*

The study found that customer loyalty at the coffee shop has been positively influenced by product quality, brand innovation and physical environment. The customer loyalty has been determined since customers drink the coffee daily, from cup to cup, from time to time, and from day-to-day. Therefore, the study provides the following recommendations.

For the physical environment, business owners shall locate the coffee shop along highway, inbound and outbound. They shall focus on a cleanlier and tidier of the shop, an environmentally friendly atmosphere, an open space of the shop, enough seats inside and outside the shop, and a good decoration inside the shop.

Secondly, researchers found that product quality is importance on customer's loyalty. It is significant in allocating the business operating budget appropriately. Therefore, there is some consideration about product quality in terms of the strong delicious, the varieties of coffee taste, and the appropriate packages design. It is plausible to explain.

Thirdly, researchers found that brand innovation business influence customer loyalty. Coffee owners shall build the brand of the coffee shop by increasing ambient condition, music, furniture, ambient, equipment, décor, lighting, spatial layout, and coffee maker.

Finally, even though the service quality does not influence customer loyalty, the coffee shop owners shall focus on the speed of service, the appropriate time of closing and operating the shop, and staff's polite manner.

#### *Recommendation for future research*

The sample size of the research study is small and focuses on Phnom Penh city only. Thus, the study recommends further research to enlarge the sample size, especially the respondents who live at the provinces to make the results more generalizable in Cambodia. Furthermore, future research should further examine why service quality does not influence customer loyalty.

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