

ANALYSIS OF SERVICESCAPE AND PRICE COMPETITION ON CUSTOMER LOYALTY THROUGH CUSTOMER ENGAGEMENT AT TRADITIONAL COFFEE SHOPS IN MEDAN CITY

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Abstract

The purpose of this study is to determine directly and indirectly the relationship between servicescape and price competition on customer loyalty through customer experience at traditional coffee shops in Medan City. The population in this study is all consumers of traditional coffee shops in Medan City, with a number that cannot be known with certainty. The research sample was taken using the Zikmund formula so that a sample size of 100 respondents was obtained. Data analysis was carried out using structural equation modeling (SEM) techniques with Smart-PLS analysis tools to test the direct and indirect relationships between these variables. The results explain that servicescape directly has a significant effect on customer engagement, price competition directly has a significant effect on customer engagement, servicescape directly has a significant effect on customer loyalty, price competition directly has a significant effect on customer loyalty, customer engagement directly has a significant effect on customer loyalty, servicescape indirectly has a significant effect on customer loyalty through customer engagement and then price competition indirectly has a significant effect on customer loyalty through customer engagement.

Keywords: *Servicescape, Price Competition, Customer Engagement, Customer Loyalty*

1. Introduction

Indonesia is one of the largest coffee producers in the world with various types of high-quality coffee such as Arabica, Robusta, and regional specialty coffee such as Gayo, Toraja, and Luwak. Coffee has become part of the culture of society, both as an export commodity and for local consumption. With the increasing trend of coffee consumption, the coffee industry in Indonesia continues to grow, both in the form of coffee bean production and the increasingly mushrooming coffee shop business in various regions. The development of coffee shops in Indonesia is very rapid along with the increasing public interest in coffee. Not only in big cities, coffee shops are also growing in small areas. Modern coffee shops offer various interesting concepts, from comfortable places to work to places to relax with contemporary concepts. However, amid the rise of modern coffee shops, traditional coffee shops still survive with loyal customers who are looking for a distinctive taste and a more intimate atmosphere.

North Sumatra is known as one of the best coffee producing regions in Indonesia, especially coffee from the Mandailing and Lintong regions. North Sumatra coffee has a strong taste characteristic, with a balanced acidity level and a distinctive aroma. The potential for coffee in this area is very large, both for the local and export markets. This has encouraged the development of various coffee shops that serve authentic

North Sumatra coffee as the main attraction for customers. The city of Medan has many traditional coffee shops that have long been established and are part of the social life of the community. These coffee shops usually serve coffee with traditional brewing methods and provide various typical Medan snacks. Although competition with modern coffee shops is getting tighter, traditional coffee shops still have loyal customers, especially from people who prioritize authentic taste and more affordable prices.

In the coffee shop business competition in Medan City, aspects such as servicescape and price competition are factors that influence customer loyalty. Traditional coffee shops must be able to compete with modern coffee shops that offer more attractive concepts and varied prices. Therefore, customer engagement is the key to maintaining customer loyalty by creating a memorable experience for them. Customer loyalty is customer loyalty to a product or service that makes them continue to make repeat purchases. In the context of traditional coffee shops, customer loyalty can be formed from satisfaction with the quality of coffee, competitive prices, and a pleasant experience at the shop. The higher the level of customer loyalty, the greater the likelihood of a business surviving in competition. Many traditional coffee shops in Medan City face challenges in maintaining customer loyalty. Factors such as the emergence of modern coffee shops with better facilities and more aggressive promotions make customers tend to move. Therefore, a strategy is needed to maintain customer loyalty by improving the quality of service and providing a better experience for them.

Customer engagement refers to the involvement of customers in interactions with a brand or business. In the context of a coffee shop, engagement can be in the form of direct interaction at the shop, participation in events held, to engagement through social media. Good engagement can strengthen the emotional connection between customers and the coffee shop, which ultimately increases their loyalty. Several traditional coffee shops in Medan City are still lacking in terms of building engagement with customers. The lack of innovation in interaction and the minimal use of social media as a communication tool causes customers to feel less connected to the shop's brand. Therefore, a better engagement strategy is needed to increase customer loyalty.

Servicescape plays a significant role in shaping customer experience and satisfaction. A comfortable, clean, and aesthetic physical environment can create a positive impression and increase customer comfort. Proper lighting, soothing background music, and a friendly layout will make customers feel at home for a long time. In addition, elements such as distinctive aromas, cleanliness of facilities, and friendliness of staff also contribute to customer perceptions of service quality. When the atmosphere is supportive, customers are more likely to return and even recommend the place to others. Therefore, businesses need to pay attention to small details in creating a pleasant atmosphere for their consumers.

Servicescape is the physical environment where services are provided and can affect customer perceptions and experiences. In traditional coffee shops, aspects such as room layout, seating comfort, lighting, and cleanliness play an important role in creating a comfortable atmosphere for customers. Many traditional coffee shops in Medan City still maintain classic designs that are less attractive to the younger generation. In addition, some shops face problems with cleanliness and comfort, which can affect customers' decisions to return. Therefore, improvements in the servicescape aspect are needed to better meet customer expectations.

Price competition is important to consumers because it provides more choices at more affordable prices. When businesses compete on price, consumers can get the best product or service for their budget. In addition, price competition encourages companies to continuously improve quality without excessively increasing costs. Consumers also find it easier to compare the value offered by different brands, allowing them to make more informed decisions. For many people, especially those with limited financial means, price competition allows them to access goods and services that might otherwise be out of reach, increasing the well-being and purchasing power of society as a whole.

Price competition is a strategy in setting more competitive prices to attract customers. In the coffee shop industry, price is one of the main factors considered by customers in choosing a place to enjoy coffee. Traditional coffee shops in Medan City face tight competition with modern coffee shops that offer varying prices. Although traditional coffee shops generally offer more affordable prices, with more attractive services and experiences in modern coffee shops, customers tend to consider other aspects besides price in choosing a place to drink coffee. Therefore, a more flexible pricing strategy and increasing the added value of services

are important.

Based on the background above, it can be concluded that customer loyalty in traditional coffee shops in Medan City is influenced by various factors such as servicescape, price competition, and customer engagement. Although traditional coffee shops have advantages in authentic taste and cheaper prices, they still face challenges in retaining customers due to competition with modern coffee shops. Therefore, this study is important to analyze how servicescape and price competition can increase customer loyalty through customer engagement, so that traditional coffee shops can continue to compete and develop amidst changes in coffee consumption trends in Medan City.

2. Literature Review

Customer Loyalty

Customer loyalty is a form of customer loyalty to a brand, product, or service. This loyalty is demonstrated through repeat purchases, preference for a particular brand, and a tendency to recommend it to others (Singh et al., 2023; Khan et al., 2022). Customer loyalty is not just about transactions, but also the emotional connection formed between customers and businesses, which keeps them loyal despite many other options in the market (Naini et al., 2022; Cui et al., 2023). Customer loyalty is a valuable asset that helps companies survive and thrive. Loyal customers tend to have a higher lifetime value because they continue to shop and are even willing to pay more for their favorite products or services (Mohammad, 2022; Albarq, 2023; Kimura, 2022). Businesses that are successful in building customer loyalty usually focus on the satisfaction, experience, and added value they provide to their consumers. When customers feel satisfied, appreciated, and have a consistent positive experience, they develop an emotional attachment to the brand. Factors such as trust, habits, and values that align with customers also play a significant role in creating long-term loyalty (Venkatakrishnan et al., 2023; Tannady & Purnamaningsih, 2023).

Customer Engagement

Customer Engagement is the level of customer engagement and interaction with a brand, either directly or through various digital platforms. It reflects how much customers feel connected to the product or service offered, not only in terms of transactions, but also experiences and emotions (Hollebeek et al., 2022; Han & Anderson, 2022). Customer Engagement is an important strategy for building long-term relationships with customers. By creating meaningful experiences, businesses can increase customer loyalty and strengthen their brands (Rather et al., 2022; Steinhoff et al., 2023). This engagement can be realized through consistent interactions, quality services, and personal and relevant communications (Wang & Hall, 203; Fan et al., 2022). Customer Engagement is often measured by customer interactions on online platforms, such as social media, email, and websites. When customers frequently like, comment on, or share brand content, it indicates a high level of engagement. Strategies such as content-based marketing and personalization of communications can significantly increase engagement (de Azambuja et al., 2023; Chen et al., 2022; Qin et al., 2023).

Servicescape

Servicescape is a concept in service marketing and management that refers to the physical environment in which a service is delivered (Johnstone, 2012; Figueiredo et al., 2021). It includes elements such as interior design, lighting, music, room layout, and even scents that affect the customer experience. This environment can enhance comfort, create positive impressions, and influence customers' decisions to return or recommend the service to others (Lockwood & Pyun, 2019; Kandampully et al., 2023). Servicescape is an important aspect in building brand image. For example, a cozy coffee shop with warm lighting and relaxing music will make customers feel more at home (Yin et al., 2023; Liang et al., 2024). Conversely, a messy and untidy environment can reduce customer satisfaction. Therefore, many businesses invest in creating an environment that matches their values and identity. Servicescape also plays a role in shaping customer perception psychologically (Chao et al., 2021; Furrer et al., 2023). Certain colors can have an emotional effect, such as calming blue or increasing red energy. The music played can also affect the length of a customer's visit. This factor is very important for industries such as restaurants, hotels, and shopping

centers that want to create a memorable experience (Pareigis et al., 2012; NasarAmini Jeloudarlou et al., 2022; Ali et al., 2024).

Price Competition

Price competition is a marketing strategy in which businesses compete by lowering the price of a product or service to attract customers. In this competition, price is the main factor influencing consumer purchasing decisions (Zhang et al., 2022; Brown & MacKay, 2023). Usually, companies that implement price competition will try to provide lower prices than their competitors to make them more attractive to customers. This strategy is often used in industries with many competitors and similar products, such as retail, food, and electronics. Price competition is often used to increase sales volume and attract new customers (Gillbert, 2022; Kohler & Stockhammer, 2022). When prices are lower, consumers tend to switch to cheaper products, especially if the quality is not much different. However, this strategy also has risks, such as decreasing profit margins and the potential for price wars that are detrimental to all parties (Choi et al., 2018; Kramer et al., 2016). Therefore, businesses must be careful in setting prices to stay competitive without sacrificing profits. One of the main benefits of price competition is that it increases the appeal of a product to price-sensitive customers. In addition, this strategy can help businesses increase sales volume in the short term. Large companies with efficient production scales can gain greater profits than smaller competitors who may have difficulty lowering prices without losing money (Park et al., 2020; Lu et al., 2011; Parvasi et al., 2024).

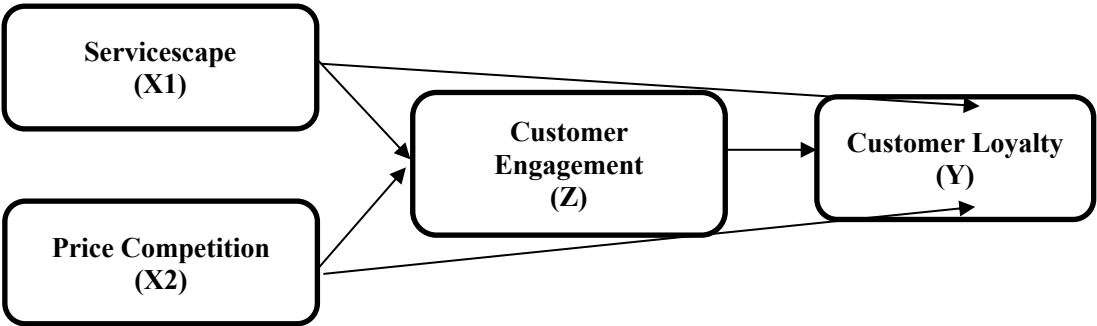


Figure 1. Conceptual Framework

Source: By Researcher (2025)

3. MATERIALS AND METHODS

This type of research is causal associative research. Causal associative research aims to determine the relationship or association between two or more variables. This type of research is usually used to see if there is a relationship, correlation, or influence between the variables studied, and how strong the relationship is (Sugiyono, 2021). The types of data used are primary data and secondary data obtained from questionnaires. The population in this study is all consumers of traditional coffee shops in Medan City, with a number that cannot be known with certainty. The research sample was taken using the Zikmund formula so that a sample size of 100 respondents was obtained. Data analysis was carried out using structural equation modeling (SEM) techniques with Smart-PLS analysis tools to test the direct and indirect relationships between these variables.

4. RESULTS AND DISCUSSION

a. Outer Model

Convergent Validity

Convergent Validity is an indicator that is assessed based on the correlation between the item score / component score and the construct score, which can be seen from the standardized loading factor which describes the magnitude of the correlation between each measurement item (indicator) and its construct. Individual reflexive measures are said to be high if they correlate > 0.7 with the construct to be measured but the outer loading value between 0.5 - 0.6 is considered sufficient (Hair et al., 2017).

Table 1. Test Results Loading Factor

Variable	Statement Item	Outer Loading	Description
Customer Loyalty (Y)	CL1	0.872	Valid
	CL2	0.874	Valid
	CL3	0.853	Valid
	CL4	0.817	Valid
	CL5	0.873	Valid
	CL6	0.823	Valid
	CL7	0.867	Valid
Customer Engagement (Z)	CE1	0.827	Valid
	CE2	0.879	Valid
	CE3	0.801	Valid
	CE4	0.887	Valid
	CE5	0.821	Valid
	CE6	0.888	Valid
	CE7	0.811	Valid
Servicescape (X1)	S1	0.866	Valid
	S2	0.862	Valid
	S3	0.812	Valid
	S4	0.841	Valid
	S5	0.863	Valid
	S6	0.859	Valid
	S7	0.891	Valid
Price Competition (X2)	PC1	0.837	Valid
	PC2	0.865	Valid
	PC3	0.853	Valid
	PC4	0.844	Valid
	PC5	0.820	Valid
	PC6	0.873	Valid
	PC7	0.881	Valid

Sources: Smart-PLS (2025)

Based on Table 1. above, it is known that there are several statement items that are eliminated because they do not meet the requirements, so that after re-processing the data, all of the statement items above have an outer loading value > 0.7 .

Discriminant Validity

Discriminant Validity is a measurement model with reflexive indicators assessed based on crossloading measurements with constructs. If the correlation between the construct and the measurement item is greater than the size of the other constructs, it shows that their block size is better than the other blocks. Meanwhile, according to another method for assessing discriminant validity, namely by comparing the squareroot value of average variance extracted (AVE) (Hair et al., 2017).

Table 2. Test Results Average Variance Extracted (AVE)

Variable	Average Variance Extracted (AVE)
Customer Loyalty	0.753
Customer Engagement	0.791
Servicescape	0.738
Price Competition	0.723

Sources: Smart-PLS (2025)

Based on Table 2. above, it is known that the AVE (Average Variant Extracted) value of each variable is greater than 0.7. So it can be concluded that the variables or constructs used are valid.

Composite Reliability and Cronbach's Alpha

Composite reliability is an indicator for measuring a construct which can be seen in the latent variable coefficients view. To evaluate composite reliability, there are two measuring tools, namely internal consistency and Cronbach's alpha. In this measurement, if the value achieved is > 0.70 , it can be said that the construct has high reliability. Cronbach's Alpha is a reliability test that is carried out to strengthen the results of composite reliability. A variable can be declared reliable if it has a Cronbach's alpha value > 0.70 (Hair et al., 2017).

Table 3. Test Results Cronbach's Alpha & Composite Reliability

Variable	Cronbach's Alpha	Composite Reliability
Customer Loyalty	0.833	0.937
Customer Engagement	0.821	0.977
Servicescape	0.857	0.923
Price Competition	0.844	0.981

Sources: Smart-PLS (2025)

Based on Table 3. above, it is known that each research variable has a Cronbach's alpha and composite reliability value > 0.70 . Based on the results obtained, it can be stated that the variables used in the study are declared reliable.

Fornell-Larcker Criterion

Table 4. Test Results Fornell-Larcker Criterion

	Customer Loyalty	Customer Engagement	Servicescape	Price Competition
Customer Loyalty	0.834			
Customer Engagement	0.792	0.834		
Servicescape	0.778	0.762	0.834	
Price Competition	0.848	0.740	0.787	0.827

Sources: Smart-PLS (2025)

Table 4. above shows that the correlation value of the association construct is higher than the other constructs so that it can be said that the model has good discriminant validity. In this case, the FL Criterion value which has the lowest value is price competition 0.827 which is greater than other correlations.

b. Inner Model

Inner model analysis is usually also called inner relation or structural model and substantive theory which describes the relationship between latent variables based on substantive theory. Changes in the value of R-square can be used to assess the effect of certain independent latent variables on the dependent latent variable whether it has a substantive effect (Hair et al., 2017).

Table 5. Test Results R-Square (R^2)

Variabel	R Square (R^2)
Customer Engagement	0.734
Customer Loyalty	0.619

Sources: Smart-PLS (2025)

Based on Table 5. above, the R Square value for the customer engagement variable is 0.734, this means that the percentage of the influence of servicescape and price competition on customer engagement is 73.4%, while the remaining 26.6% is explained by other variables not examined in this study. Furthermore, the R Square value for the customer loyalty variable is 0.619, this means that the percentage of the influence of servicescape, price competition and customer engagement on customer loyalty is 61.9%, while the remaining 38.1% can be explained by other variables not examined in this study.

c. Hypotesis Test
Direct Effect

Table 6. Test Results Direct Effect

	<i>Original Sample (O)</i>	<i>Sample Mean (M)</i>	<i>Deviation Standard (STDEV)</i>	<i>T Statistic (O/STDEV)</i>	<i>P Values</i>
Servicescape -> Customer Engagement	0.237	0.260	0.227	1.789	0.008
Price Competition -> Customer Engagement	0.352	0.373	0.314	2.885	0.000
Servicescape -> Customer Loyalty	0.333	0.356	0.335	2.773	0.000
Price Competition -> Customer Loyalty	0.426	0.422	0.377	3.328	0.000
Customer Engagement -> Customer Loyalty	0.463	0.488	0.421	3.212	0.000

Sources: Smart-PLS (2025)

Based on Table 6. above, the test results can be used to answer the hypothesis in this study. Hypothesis testing in this study by looking at the coefficient path (original sample), t-statistic value or p-value. With a significance of 5%, the hypothesis can be accepted if the t-statistic > t-table 1.66 (n-k = 100-4 = 96 at 0.5 / 5%) or the p-value < 0.05. Direct effect can be explained as follows:

- X1 to Z: T-Statistic value ($|O/STDEV|$) = 1.789 and P-Values = 0.008 < 0.05, meaning that servicescape directly has a significant effect on customer engagement.
- X2 to Z: T-Statistic value ($|O/STDEV|$) = 2.885 and P-Values = 0.000 < 0.05, meaning that price competition directly does not have a significant effect on customer engagement.
- X1 to Y: T-Statistic value ($|O/STDEV|$) = 2.773 and P-Values = 0.000 < 0.05, meaning that servicescape directly has a significant effect on customer loyalty.
- X2 to Y: T-Statistic value ($|O/STDEV|$) = 3.328 and P-Values = 0.040 < 0.05, meaning that price competition directly has a significant effect on customer loyalty.
- Z to Y: T-Statistic value ($|O/STDEV|$) = 3.212 and P-Values = 0.000 < 0.05, meaning that customer engagement directly has a significant effect on customer loyalty.

Indirect Effect

Table 7. Test Results Indirect Effect

	<i>Original Sample (O)</i>	<i>Sample Mean (M)</i>	<i>Standard Deviation (STDEV)</i>	<i>T Statistics (O/STDEV)</i>	<i>P Values</i>
Servicescape-> customer engagement -> customer loyalty	0.277	0.283	0.253	2.325	0.000
Price competition -> customer engagement -> customer loyalty	0.383	0.318	0.298	3.625	0.000

Sources: Smart-PLS (2024)

Based on Table 7. above, it is known that servicescape indirectly has a significant effect on customer loyalty through customer engagement with a p-value of 0.000 < 0.05. Furthermore, it is known that price competition indirectly has a significant effect on customer loyalty through customer engagement with a p-value of 0.000 < 0.05.

Total Effect

Table 8. Test Results Total Effect

	<i>Original Sample (O)</i>	<i>Sample Mean (M)</i>	<i>Deviation Standard (STDEV)</i>	<i>T Statistic (O/STDEV)</i>	<i>P Values</i>
Servicescape -> customer engagement -> customer loyalty	0.433	0.266	0.184	2.313	0.000
Price competition -> customer engagement -> customer loyalty	0.516	0.356	0.215	3.428	0.000

Sources: Smart-PLS (2025)

Based on Table 8. above, it can be synthesized that the total effect value is as follows:

- The total effect of servicescape relationships directly and indirectly has a significant effect on customer loyalty through customer engagement with a T-statistics value (O/STDEV) of 2.313 with p-values of $0.000 < 0.05$.
- The total effect of price competition relationships directly and indirectly has a significant effect on customer loyalty through customer engagement with a T-statistics value (O/STDEV) of 3.428 with p-values of $0.000 < 0.05$.

5. CONCLUSION AND SUGGESTION

Based on the results of the research discussion above, it can be concluded that:

- Servicescape directly has a significant effect on customer engagement.
- Price competition directly has a significant effect on customer engagement.
- Servicescape directly has a significant effect on customer loyalty.
- Price competition directly has a significant effect on customer loyalty.
- Customer engagement directly has a significant effect on customer loyalty.
- Servicescape indirectly has a significant effect on customer loyalty through customer engagement.
- Price competition indirectly has a significant effect on customer loyalty through customer engagement.

Based on the above conclusions, the following suggestions can be made:

- To increase customer appeal and comfort, traditional coffee shops in Medan City need to pay attention to servicescape aspects that include interior design, lighting, aroma, and cleanliness. A classic feel with touches of wood, rattan weaving, and murals with local cultural themes can strengthen Medan's distinctive identity. Warm lighting and the aroma of fresh coffee will create a more-homey atmosphere. The cleanliness of the tables and seating areas must always be maintained so that customers feel comfortable. Acoustic or keroncong background music can add to the nostalgic atmosphere. A touch of green from plants can also improve the aesthetics and coolness of the room, creating a more memorable coffee experience.
- To compete in the price competition in traditional coffee shops in Medan City, business owners need to prioritize a balance between affordable prices and maintained quality. Offering economical packages, such as bundling coffee promos with Medan snacks, can attract more customers. In addition, creating a comfortable atmosphere and friendly service can be an added value that differentiates from competitors. Utilizing social media for promotions and providing special discounts for loyal customers can also increase competitiveness. Finally, maintaining good relationships with suppliers to get quality raw materials at the best prices is very important.
- To increase customer engagement in traditional coffee shops in Medan City, it is important to create a warm and authentic experience. First, build a community by holding events such as coffee talks, live acoustic music, or traditional coffee-making workshops. Second, utilize social media to share

unique shop stories and interactions with customers, such as photo challenges or giveaways. Third, improve service by recognizing loyal customers and providing small appreciation such as discounts or free coffee. Finally, provide a comfortable area to hang out with a typical Medan atmosphere so that customers feel at home and come back again. The uniqueness and warmth of interactions will strengthen relationships with customers.

- d. To increase customer loyalty in traditional coffee shops in Medan City, it is important to build an emotional connection with customers. Shops can create a warm and friendly atmosphere, where customers feel appreciated, such as by remembering their names and favorite orders. Simple loyalty programs, such as discounts after certain purchases or stamp cards, can increase repeat visits. Prioritizing the quality of Medan's signature coffee and maintaining its authentic taste are also key factors. In addition, involving customers in small events, such as casual chat sessions or coffee culture discussions, can create a sense of togetherness and make them want to come back.

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