Service Quality and Customer Loyalty in the Online Food Delivery Service Industry

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Abstract

Abstract – There has been a significant increase in revenue in the online food delivery sector, reaching 43.2%, as a result of the COVID-19 pandemic in Indonesia. Prior to the pandemic, consumers would occasionally order food for delivery, but now it has become a regular practice. Currently, GoFood, GrabFood, and ShopeeFood dominate the food delivery market in Indonesia. This trend presents both opportunities and challenges for businesses, as it creates a more competitive ecosystem. Therefore, it is crucial for online businesses to cultivate loyal customers in this environment. This study aims to investigate the extent of customer loyalty to online food delivery services and explore the possible mediating effects of customer satisfaction and corporate image. The research population is an unknown number of consumers of GoFood, GrabFood and ShopeeFood in Denpasar - Bali. The technique of determining the sample using purposive sampling, the number of respondents as many as 122 people. The research instrument used a questionnaire, which was analyzed by SmartPLS. This study found that service quality does affect customer loyalty, but the effect is not statistically significant. In contrast, research shows that customer satisfaction and corporate image are significant mediators in the relationship between service quality and customer loyalty. The implication for service providers is to focus on increasing customer satisfaction and maintaining a positive corporate image to increase customer loyalty. This can be achieved through regular evaluation and service innovation, which can lead to a successful business.

Keywords: customer loyalty, service quality, customer satisfaction and corporate image.

1. Introduction

As of January 2022, Indonesia ranked fourth in the world for having the largest digital population, following China, India, and the United States, as reported by Statista (https://www.statista.com). One sector that continues to experience improvement is e-commerce. The phenomenon of e-commerce development has also started to lead intensely to the food industry. To stay competitive and avoid losing out to rivals, digital industry players are beginning to offer online food delivery services (Yeo et al., 2017). According to Statista (https://www.statista.com) in September 2020, the usage of Online Food Delivery Services (OFDS) has experienced significant growth worldwide, with a 25.0% increase in users compared to 2019. It is projected that OFDS will reach 965.8 billion users in 2024. The COVID-19 pandemic has led to a significant increase in the usage of online food delivery services, resulting in notable revenue growth of 43.2 percent in the online food delivery sector(Putri et al., 2021). These statistics indicate that the utilization of online food delivery services in Indonesia is prevalent, and its usage has been growing alongside the pandemic. In 2020, Indonesia had the highest percentage of internet users utilizing food delivery applications, according to Kata Data (https://katadata.co.id/).

The usage of online food delivery services is undergoing a transformation from a mere "want" to a "need" in practice.(Kristin, 2021). While numerous studies on online food delivery have been conducted globally, research specifically examining this topic in Indonesia remains limited to a few categories, such as those solely focused on customer satisfaction (Sjahroeddin, 2018), millennial experience (Suhartanto et al., 2019) Research on online food delivery in Indonesia has been primarily focused on app-based delivery services (Ray et al., 2019).
Prior to the pandemic, consumers used to order food for delivery occasionally, but now it has become more frequent and routine. Currently, GoFood and GrabFood remain the dominant players in the food delivery services market in Indonesia, but a new competitor, ShopeeFood, has entered the scene. (https://yoursay.voice.com/July 2021)

Observations have indicated that in Denpasar, Bali, the popular online food delivery services are GoFood, GrabFood, and ShopeeFood. These services have partnered with various businesses, including micro, small, and medium-sized enterprises (MSMEs) in Bali. Data from 2020 has shown that one of these services has seen an increase in the number of partners, reaching 750,000 (Rahmayanti & Ekawati, 2021). The current situation can be seen as both an opportunity and a challenge for businesses, as it creates a highly competitive ecosystem. Therefore, having a strong base of loyal customers is crucial for online companies to succeed in this environment (Pee et al., 2019).

A previous study has indicated the significance of understanding customers’ needs and building strong relationships based on those needs to achieve long-term profitability and customer loyalty (Omorogie et al., 2019). Retaining loyal customers is seen as valuable for companies or businesses as it is more cost-effective to keep existing customers rather than acquiring new ones (Makanyeza & Chikazhe, 2017).

2. Literature Review

Several studies, such as those conducted by (Omorogie et al., 2019); (Hadiwijaya et al., 2021), have suggested that service quality has a notable impact on customer loyalty. However, contradictory findings were found in other studies conducted by (Abror et al., 2020); (Solimun & Fernandes, 2018), where the impact of service quality on customer loyalty was not statistically significant. Another study by (Sari & Siregar, 2019), titled “The Influence of Quality, Price, Service Quality, and Perceived Value on Customer Loyalty with Customer Satisfaction as an Intervening Variable,” revealed a positive and significant relationship between service quality and customer loyalty. Therefore, based on these findings, the hypothesis can be formulated as follows.

**H1 : Service quality has a positive and significant effect on customer loyalty**

Apart from service quality, various studies conducted by (Fusva et al., 2020); (Rahman & Alfirianti, 2022); (Wardhana et al., 2018) have indicated that customer satisfaction also plays a significant role in influencing customer loyalty. Their research found a strong and positive relationship between overall customer satisfaction and customer loyalty. However, (Hoang, 2019) discovered different results, suggesting that while customer satisfaction does impact customer loyalty, the effect is not statistically significant. Another study conducted by (Özkant et al., 2020), titled “The Influence of Service Quality and Customer Satisfaction on Customer Loyalty: Mediation of Perceived Service Value, Corporate Image, and Corporate Reputation,” identified a positive and significant effect of customer satisfaction on customer loyalty. Therefore, based on these findings, the following hypothesis can be formulated.

**H2 : Customer satisfaction has a positive and significant effect on customer loyalty**

According to research conducted (Abd Aziz, 2018); (Lusiani & Nusannas, 2019) customer loyalty is influenced by corporate image. Their findings suggest that corporate image has a positive and significant impact on customer loyalty. However, contrasting results were obtained in a study by (Ofori et al., 2018) titled "Factors influencing consumer loyalty towards 3G mobile data service providers: evidence from Ghana," where it was found that corporate image affects customer loyalty but not significantly. Further research conducted by (Solekah, 2019); (Makanyeza & Chikazhe, 2017) found a positive and significant relationship between corporate image and customer loyalty. Based on these findings, the following hypothesis is formulated.

**H3 : Corporate image has a positive and significant effect on customer loyalty**

Additional studies conducted by (Parawansa, 2018); (Dileep Kumar et al., 2020) (Ali et al., 2021); (Fusva et al., 2020) have further confirmed the positive and significant impact of service quality on customer satisfaction. These findings are consistent with the results of research conducted by (Azis & Haryadi, 2022) in their study titled "The Influence of Service Quality and Price on Customer Satisfaction," where it was found that service quality positively and significantly influences customer satisfaction. Based on these findings, the following hypothesis can be formulated.

**H4 : Service quality has a positive and significant effect on customer satisfaction**

In the study conducted by (Mainardes et al., 2021) titled 'The Influence of Airport Service Quality on Airport Corporate Image,' it was found that service quality has a positive and significant impact on corporate image. These findings are consistent with the results of research conducted by (Omorogie et al., 2019); (Hassan et al., 2020);
(Kholick & Kaihatu, 2021); (Yingfei et al., 2022); which also concluded that service quality positively and significantly affects corporate image. Based on these findings, the following hypothesis can be formulated.

H5 : Service quality has a positive and significant effect on corporate image

There is a disparity in the findings of different studies regarding the impact of service quality on customer loyalty. (Fusva et al., 2020); (Omoregie et al., 2019) discovered a positive and significant effect of service quality on customer loyalty. However, (Abror et al., 2020) found that service quality does not significantly influence customer loyalty. Therefore, further investigation is needed to examine the role of customer satisfaction as a mediating variable, as suggested by (Dileep Kumar et al., 2020), who found that customer satisfaction positively and significantly mediates the relationship between service quality and customer loyalty. Based on these observations, the following hypothesis is formulated.

H6 : Customer satisfaction mediates the effect of service quality on corporate image

Discrepancies were identified in the outcomes of various studies regarding the impact of service quality on customer loyalty. (Hadiwijaya et al., 2021); (Abd Aziz, 2018) discovered a positive and significant relationship between service quality and customer loyalty. However, (Solimun & Fernandes, 2018) found that while service quality does affect customer loyalty, the effect is not statistically significant. Therefore, further examination is necessary to investigate the role of corporate image as a mediating variable, as suggested by (Makanyeza & Chikazhe, 2017); who found that corporate image positively and significantly mediates the relationship between service quality and customer loyalty. Based on these insights, the following hypothesis is formulated.

H7 : Corporate image mediates the effect of service quality on corporate image

3. Research Method and Materials

The target population for this research comprises consumers of GoFood, GrabFood, and ShopeeFood in Denpasar, Bali. The researchers employed purposive sampling as the sampling technique, resulting in a sample size of 120 respondents, calculated based on the number of indicators multiplied by six (24 × 5 = 120). To ensure reliable responses, a semantic differential scale ranging from 1 (strongly disagree) to 10 (strongly agree) was used. The scale was designed as an even scale (1-10) to prevent respondents from selecting the middle option as a default.

Data collection involved online surveys conducted through the Google Forms platform, which were distributed via social media platforms such as WhatsApp (personal and group contacts) and Instagram. The questionnaire was administered to the entire target population.

The variables in this study were measured using indicators derived from previous research. The indicators for service quality were adapted from (Fusva et al., 2020) while indicators for customer satisfaction were based on the work of (Ozkan et al., 2020). The indicators for corporate image were drawn from the study conducted by (Ofori et al., 2018). Finally, indicators for customer loyalty were adopted from the research conducted by (Abror et al., 2020) to capture a comprehensive understanding of the variables. Descriptive analysis and inferential analysis were employed as analytical methods, and the collected data were analyzed using the SmartPLS 3.0 software.

4. Results and Discussion

The researchers collected responses from 120 participants who completed a questionnaire that included additional background questions, such as gender, marital status, age, education level, and usage frequency of the applications. The characteristics of the respondents are presented in Table 1 (refer to the Appendix).

Regarding convergent validity, all indicators were found to have loading factors greater than 0.70, indicating satisfactory convergence validity. The validity of the indices was further supported by their loading factors exceeding the 0.70 threshold, indicating their reliability. Discriminant validation was also met, allowing for further analysis.

Composite reliability (CR) analysis was conducted on all indicators, yielding composite reliability values exceeding 0.70, indicating good reliability. Average Variance Extracted (AVE) analysis was performed on all indices, and the results showed AVE values above 0.50, meeting the requirement for indicator usage explanation.

Subsequently, the influence between variables was tested, and the results yielded various outcomes for each hypothesis examined. The results of the influence test between variables are presented in Table 3 (refer to the Appendix). H2, H3, H4, H5, H6, and H7 indicate statistically significant effects, while H1 does not exhibit a
significant effect. The researcher will provide further explanations for each hypothesis result, supported by relevant findings from previous studies.

Figure 1. Result of Analysis with SmartPLS 3.0 (in Indonesia)

Hypothesis 1 aimed to examine the impact of service quality on customer loyalty. However, based on the path structural model presented in Table 3 (refer to the Appendix), the results indicated an insignificant effect, with a correlation coefficient of 0.032, a t-statistics value of 0.343, and a p-value of 0.732 (> 0.05). Consequently, Hypothesis 1 (H1) was rejected. These findings diverged from previous research conducted by (Omoregie et al., 2019); (Hadiwijaya et al., 2021); however, they aligned with the results reported by (Solimun & Fernandes, 2018); (Abror et al., 2020). Thus, it can be inferred that customers who receive good service quality do not necessarily exhibit higher levels of loyalty.

Hypothesis 2 focused on investigating the influence of customer satisfaction on customer loyalty. According to the structural model path presented in Table 3, the results revealed a positive and significant effect, with a correlation coefficient of 0.435 and a t-statistics value of 3.402, yielding a p-value of 0.001 (<0.05). Consequently, Hypothesis 2 (H2) was accepted. These findings were consistent with the outcomes of research conducted by (Fusva et al., 2020); (Özkan et al., 2020), suggesting that customers tend to demonstrate higher levels of loyalty when they are more satisfied with the services they receive.

Hypothesis 3 examined the impact of corporate image on customer loyalty. The structural model path depicted in Table 3 displayed a positive and significant effect, with a correlation coefficient of 0.361, a t-statistics value of 3.048, and a p-value of 0.002 (<0.05). Therefore, Hypothesis 3 (H3) was accepted. The results were in line with the findings of research conducted by (Makanyeza & Chikazhe, 2017) (Lusiani & Nusannas, 2019), suggesting that customers tend to exhibit higher levels of loyalty when the company's image improves.

Hypothesis 4 investigated the relationship between service quality and customer satisfaction. The structural model path in Table 3 indicated a positive and significant effect, with a correlation coefficient of 0.805, a t-statistics value of 20.358, and a p-value of 0.000 (<0.05). Hence, Hypothesis 4 (H4) was accepted. These findings were consistent with the outcomes of research conducted by (Ali et al., 2021); (Abd Aziz, 2018), implying that customers tend to be more satisfied when they experience better service quality.

Hypothesis 5 explored the impact of service quality on corporate image. The results from the structural model path in Table 3 demonstrated a positive and significant effect, with a correlation coefficient of 0.710, a t-statistics value of 12.800, and a p-value of 0.000 (<0.05). Therefore, Hypothesis 5 (H5) was accepted. The findings aligned with the results of research conducted by (Mainardes et al., 2021); (Yingfei et al., 2022), suggesting that customers tend to form a more favorable perception of a company's image when they receive better service quality.
Hypothesis 6 aimed to investigate the mediating role of customer satisfaction in the relationship between service quality and customer loyalty. The structural model path presented in Table 3 (refer to the Appendix) demonstrated a positive and significant mediating effect, with a correlation coefficient of 0.257, a t-statistics coefficient of 3.083 (> t-table 1.96), and a significance value of 0.002 (<0.05). Consequently, Hypothesis 6 (H6) was accepted. These results indicated that customer satisfaction plays a mediating role in enhancing the impact of service quality on customer loyalty. In other words, the mediation of customer satisfaction immediately amplifies the effect of service quality on customer loyalty, leading to a high level of customer loyalty. These findings were in line with the outcomes of research conducted by (Dileep Kumar et al., 2020), which suggested that customer satisfaction acts as a mediator between service quality and customer loyalty.

Hypothesis 7 investigated the mediating role of corporate image in the relationship between service quality and customer loyalty. The structural model path depicted in Table 3 revealed a positive and significant mediating effect, with a correlation coefficient of 0.350, a t-statistics coefficient of 3.232 (> t-table 1.96), and a significance value of 0.001 (<0.05). Therefore, Hypothesis 7 (H7) was accepted. These results indicated that the mediation of corporate image significantly enhances the impact of service quality on customer loyalty. The mediating effect of corporate image immediately increases the influence of service quality on customer loyalty, resulting in a high level of customer loyalty. These findings were consistent with the results of research conducted by (Makanyeza & Chikazhe, 2017) which stated that corporate image positively and significantly mediates the relationship between service quality and customer loyalty.

5. Conclusion

The research successfully examined the effects of service quality, customer satisfaction, and corporate image on customer loyalty using SEM-PLS. The data obtained from this study demonstrated the significant and positive influence of service quality, customer satisfaction, corporate image, and customer loyalty, with customer satisfaction and corporate image mediating the effect of service quality on customer loyalty. A significant finding was that the direct effect of service quality on customer loyalty was not significant, suggesting that service quality alone does not necessarily increase customer loyalty, although it still has a positive impact. Interestingly, using SEM-PLS, the effect of service quality on customer satisfaction yielded the highest score. These research findings provide unpredicted results, as previous studies have generally shown significant and positive influences for all variables, but some hypotheses were rejected in this study. As a result, the research findings can enrich information and serve as a reference for topics related to service quality, customer satisfaction, corporate image, and particularly the non-significant effect of service quality on customer loyalty.

The research offers several implications that can be applied to businesses. Based on the findings, the study contributes valuable insights to companies and stakeholders involved in online food delivery services, particularly regarding service quality, customer satisfaction, corporate image, and customer loyalty. For service providers like Grab, Gojek, and Shopee, this research can serve as a reference, highlighting the importance of maintaining good service quality to sustain customer loyalty. The study's results indicate that customer satisfaction and corporate image play vital roles as mediators between service quality and customer loyalty. Thus, service providers can focus on enhancing customer satisfaction and corporate image to foster increased customer loyalty. Moreover, the research findings can guide relevant parties in the online food delivery industry to formulate policies aligned with technological advancements and consumer needs in the present era. For service users, the findings can be used as a reference when selecting online food delivery service providers.

Based on the research results, there are still disparities with previous studies, which opens up opportunities for future research to explore the relationships between variables in greater depth. Furthermore, the responses provided by the respondents indicate the presence of elements that might require further investigation, as they relate to the indicators used for the variables. This underscores the need for more extensive research on the examined variables.

It's worth noting that this research was conducted within a specific time period or cross-sectional, while the demand for online food delivery services is rapidly evolving. Therefore, it is recommended that this research be conducted again in the future to capture the dynamic nature of the community's needs. Additionally, while this study focused on integrating service quality, customer satisfaction, and corporate image to examine their mediation on customer loyalty, future research should consider integrating other variables to delve deeper into the factors influencing customer loyalty. Moreover, exploring the potential mediating role of other variables or testing variables as moderators can be investigated in future studies.
References


