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SERVICE QUALITY AND STORE DESIGN IN RETAIL COMPETITIVENESS

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Abstract

The development of the coffee shop industry in Indonesia is experiencing very rapid growth, so that competition between brands is increasingly fierce and requires companies to have a competitive advantage. In the context of modern retail, customers not only consider product quality, but also service experience and convenience of store design. This study aims to analyze the effect of service quality and store design on retail competitiveness at Kopi Kenangan outlets in Cirebon City. This study uses an associative quantitative approach with a data collection method through a questionnaire to 100 respondents selected using purposive sampling, namely customers who make direct transactions at the outlet. Data analysis was carried out using covariance-based Structural Equation Modeling (SEM) with the help of AMOS software. The results show that service quality has a positive and significant effect on retail competitiveness with a p-value of 0.020. In addition, store design is also proven to have a positive and significant effect on retail competitiveness with a very high level of significance ($p < 0.001$) and is the most dominant variable. Simultaneously, service quality and store design are able to explain retail competitiveness by 55.3% ($R^2 = 0.553$). These findings prove that improving service quality and standardizing shop design are important strategies to strengthen Kopi Kenangan's position in facing competition in the coffee shop industry in Cirebon City.

Keywords: Service Quality, Store Design, Retail Competitiveness, Coffee Shop, Kopi Kenangan, SEM AMOS

INTRODUCTION

The fast-service retail industry has seen rapid growth in recent years, particularly in the coffee shop sector. Coffee shops are no longer simply viewed as places to buy drinks; they have transformed into social spaces, work spaces, and even locations for community interaction. This transformation reflects shifts in consumer behavior, which increasingly emphasize the holistic experience during a visit, not just the quality of the product consumed.

In line with these changing dynamics, companies can no longer focus solely on product characteristics but are also required to manage the customer experience, which is shaped by service quality and store conditions and atmosphere. Grewal and Roggeveen (2020) state that today's consumers evaluate brands based on how service is delivered and the extent to which the store atmosphere creates a sense of emotional comfort during the visit. Therefore, service quality and store design are no longer merely complementary elements but have become strategic components that play a crucial role in determining customer satisfaction and the sustainability of their brand relationships.

In Indonesia, the coffee shop industry is developing in a climate of increasingly intense competition with the emergence of various brands, including Kopi Kenangan, Janji Jiwa, Fore Coffee, Kenangan Heritage, and Starbucks. The increasing number of business players in this sector expands the alternative choices for consumers, which in turn increases customer bargaining power and the tendency to switch brands. A report by the Katadata Insight Center (2023) shows that the customer retention rate in the ready-to-drink beverage industry in Indonesia has decreased by 12.4% over the past two years. This decline is primarily due to the uneven service experience between outlets, indicating that consistency in the customer experience is crucial for a brand's sustainability.

Inconsistencies in the customer experience were also identified at Kopi Kenangan in Cirebon City. Despite the brand's strong equity and extensive market reach, the customer experience across all outlets was not entirely consistent. Some outlets provided a comfortable environment through adequate lighting, well-organized seating, and prompt and friendly service. However, at other outlets, customers complained about limited seating, relatively long queue times, a lack of electrical outlets, and suboptimal barista service. These conditions created uncertainty regarding comfort and potentially reduced customer satisfaction and repeat visits.

Customer satisfaction can be understood as a form of affective evaluation that arises after customers compare pre-visit expectations with the actual experience obtained. Customers who feel satisfied generally show a tendency towards a positive attitude towards the brand, which is reflected in the intention to make a repurchase and a willingness to recommend the brand to others. However, the relationship between satisfaction and customer commitment is not always direct, because it can be influenced by various situational factors, one of which is the level of physical comfort of the store environment. In certain situations, even though customers are satisfied with the product and service, the conditions of the store environment that are less supportive can reduce the desire to return and hinder the formation of a long-term commitment.

This study adopts the Stimulus–Organism–Response (S–O–R) approach to explain the process of customer commitment formation. Within this framework, service quality and store design are positioned as stimuli (S) received by customers through direct experience.

These stimuli are then processed cognitively and emotionally as organisms (O), which are reflected in the level of customer satisfaction. In the next stage, this satisfaction produces a response (R) in the form of customer commitment to the brand. This approach is considered relevant to explain how the interaction between service experience and the physical environment can strengthen or weaken the relationship between customer satisfaction and commitment.

However, a review of previous studies indicates a research gap. Some studies focus more on the influence of service quality on customer satisfaction (Cronin & Taylor, 1989; Parasuraman, Zeithaml, & Berry, 1998), while others focus on the contribution of store design in shaping consumer comfort perceptions and emotional responses (Donovan & Rossiter; Turley & Chebat, 2010). However, studies that combine service quality and store design together to explain retail competitiveness are still relatively limited, especially in the context of the quick-service coffee shop industry in mid-sized cities like Cirebon. Yet, in an increasingly competitive environment, retail competitiveness is a key indicator of long-term brand success.

Based on this gap, this study aims to examine the influence of service quality and store design on retail competitiveness at Kopi Kenangan in Cirebon City. This research aims to gain an empirical understanding of the role of these two variables in strengthening the competitive position of coffee shops amidst the ever-evolving dynamics of retail competition.

Theoretically, this study contributes to expanding the application of the S–O–R model in the context of the food and beverage retail industry by emphasizing the importance of the physical space experience. Practically, the research results are expected to serve as a foundation for Kopi Kenangan management in Cirebon City in formulating more consistent service quality standards and store design, in order to increase customer satisfaction and maintain long-term loyalty.

REVIEW OF LITERATURE

The Stimulus-Organism-Response (SOR) model explains that environmental stimuli influence the internal state of an individual (organism), which then results in a behavioral response (Mehrabian & Russell, 1974). In the context of modern retail, service quality and store design act as stimuli that are processed through customer perception and evaluation before producing a response in the form of commitment and assessment of retail competitiveness. This psychological process emphasizes the importance of emotional and cognitive experiences in shaping customer attitudes toward a brand (Grewal & Roggeveen, 2020), so the SOR model is relevant to explain the mechanisms of competitiveness formation in modern coffee retail in Indonesia.

Service quality in this study refers to the SERVPERF theory, which assesses actual service performance based on customer perceptions (Cronin & Taylor, 1989), while store design is understood as physical and atmospheric elements such as layout, lighting, and comfort that influence customer emotions and behavior (Turley & Milliman, 2000). Several empirical studies have shown that service quality and the physical store environment contribute to shaping customer experience, satisfaction, and perceived value, which in turn strengthens retailer competitiveness (Zhang et al., 2023). The integration of these two stimuli

provides a conceptual basis for explaining the formation of retail competitiveness more comprehensively.

Based on the theoretical and empirical studies, this study formulates the following hypotheses: H1: service quality has a positive and significant effect on retail competitiveness; H2: store design has a positive and significant effect on retail competitiveness; and H3: service quality and store design have a positive and significant effect simultaneously on retail competitiveness.

RESEARCH METHOD

This study uses an associative quantitative approach to analyze the relationship and influence of service quality and store design on retail competitiveness among Kopi Kenangan customers in Cirebon City, as explained by (Sugiyono, 2019) in the concept of cause-and-effect research. The analysis method used is covariance-based Structural Equation Modeling (SEM) with AMOS because it is able to test measurement and structural models simultaneously. The study population is all customers who make direct purchases at Kopi Kenangan outlets in Cirebon City, with a purposive sampling technique based on certain criteria such as at least two purchases in the last three months, aged ≥17 years, direct transactions at the outlet, and willingness to fill out a questionnaire. The determination of the number of samples refers to the provision of a minimum of 5 respondents per indicator (Hair et al., 2014), so that from 18 indicators a minimum of 90 respondents were obtained and this study used 100 respondents.

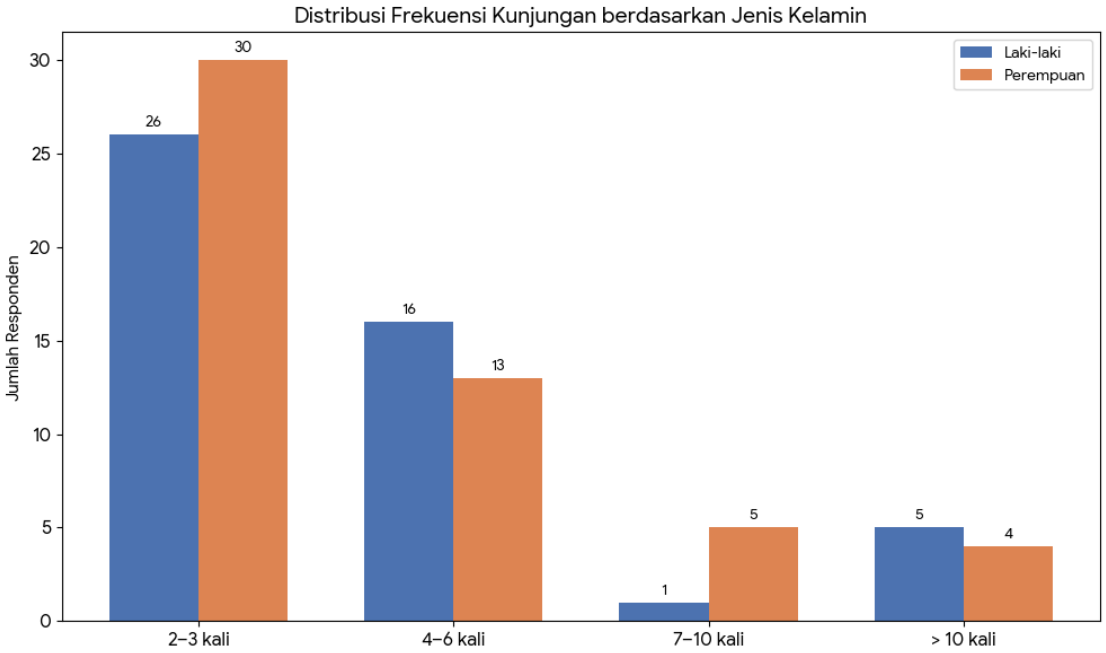
The data used consisted of primary data through the distribution of a 1–5 Likert scale questionnaire and secondary data from company publications, economic media, and scientific journals (Sugiyono, 2019). The service quality variable (X1) was measured based on the SERVPERF concept which emphasizes the perception of actual service performance (Cronin & Taylor, 1989) with seven indicators, while store design (X2) refers to environmental psychology theory related to spatial layout, interior, lighting, and atmosphere (Mehrabian & Russell, 1974) with six indicators. The retail competitiveness variable (Y) reflects the perception of competitive advantage over competitors (Porter, 1985) with five indicators. The instrument was tested for validity using Pearson Product Moment correlation and reliability using Cronbach's Alpha and Composite Reliability ≥ 0.70 as recommended (Hair et al., 2021).

Data analysis techniques included descriptive analysis to describe the characteristics of respondents, as well as path analysis within the SEM framework to test the direct influence of service quality and store design on retail competitiveness. Hypothesis testing was conducted based on a Critical Ratio value ≥ 1.96 and a P-value ≤ 0.05 at a significance level of 5%. The study was conducted at three Kopi Kenangan outlets in Cirebon City from November 2025 to March 2026 by upholding the principles of research ethics, including data confidentiality, voluntary participation through informed consent, and compliance with the academic guidelines of Swadaya Gunung Jati University.

RESULTS AND DISCUSSION

Research Result

Figure 1.
Cross Tabulation Between Visit Frequency and Gender



The bar chart above visualizes the cross-distribution of respondents' demographic profiles by gender and their visit frequency. This visualization clarifies consumer behavior patterns and highlights the disparity in preferences between men and women at different levels of visit loyalty. The graph shows a striking peak in the 2-3 visit frequency category. The bar in this category is significantly higher than the other categories, for both men and women. This indicates that the majority of the current customer base is casual visitors, or visitors who have not yet formed strong loyalties. Twenty-six men and 30 women are in this phase. The high bar for both genders indicates that the initial appeal of the venue is universal (gender-neutral), but the main challenge is customer retention, which requires increasing their visit frequency to the next level.

When moving to the 4–6 frequency category, there is a significant decrease in the number of respondents, but there is a difference in proportion between genders. The graph shows that the blue bar (male) is taller than the orange bar (female), with a ratio of 16 males to 13 females. This visual phenomenon suggests that male respondents have a slightly better short-term retention tendency than female respondents. Men are more likely to make moderate repeat visits after their initial visit.

An interesting pattern emerges in the 7–10 frequency category. This is where a stark anomaly or gap emerges. The graph shows the blue bar (male) nearly disappearing (only 1 person), while the orange bar (female) remains significant (5 people). This indicates a "hole" in the loyalty cycle for male customers. Men tend to stall at a moderate frequency (4–6 times) or jump straight to highly loyal (>10 times), while women have a more gradual distribution in this pre-loyalty phase.

At the far right of the graph, in the >10 visits category, both bars reappear at nearly equal heights. Five men and four women fall into this category. While this is a minority (only 9% of the total population), their presence suggests the venue has the potential to foster long-term loyalty among a specific market segment without significant gender bias. Overall, the graph shows a skewed distribution pattern. The higher the visit frequency, the lower the number of respondents. This visual pattern confirms that the current marketing strategy is quite effective in attracting new visitors (as evidenced by the 2-3 visits high), but still faces challenges in converting these visitors into loyal customers (as evidenced by the >10 visits low), particularly in maintaining consistent male customer visits during the transition phase (7-10 visits).

Table 1.
Validity Test

Variables	Indicator	r count	r table (Df=100-2=98)	Information
Service Quality (X1)	X1.1	0.757	0.196	VALID
	X1.2	0.830	0.196	VALID
	X1.3	0.843	0.196	VALID
	X1.4	0.831	0.196	VALID
	X1.5	0.813	0.196	VALID
	X1.6	0.815	0.196	VALID
	X1.7	0.843	0.196	VALID
Store Design (X2)	X2.1	0.679	0.196	VALID
	X2.2	0.787	0.196	VALID
	X2.3	0.790	0.196	VALID
	X2.4	0.814	0.196	VALID
	X2.5	0.842	0.196	VALID
	X2.6	0.877	0.196	VALID
Retail Competitiveness (Y)	Y.1	0.676	0.196	VALID
	Y.2	0.730	0.196	VALID
	Y.3	0.721	0.196	VALID
	Y.4	0.783	0.196	VALID
	Y.5	0.682	0.196	VALID

Based on the validity test results, all statement items in the research variables showed a calculated r value > r table, thus it can be concluded that all indicators used in this research instrument are valid. Thus, all questionnaire items are suitable for use as a measuring tool in research data collection and can be continued to the next stage of reliability testing and data analysis.

Table 2.
Reliability Test

Reliability Statistics	
Cronbach's Alpha	N of Items
0.963	18

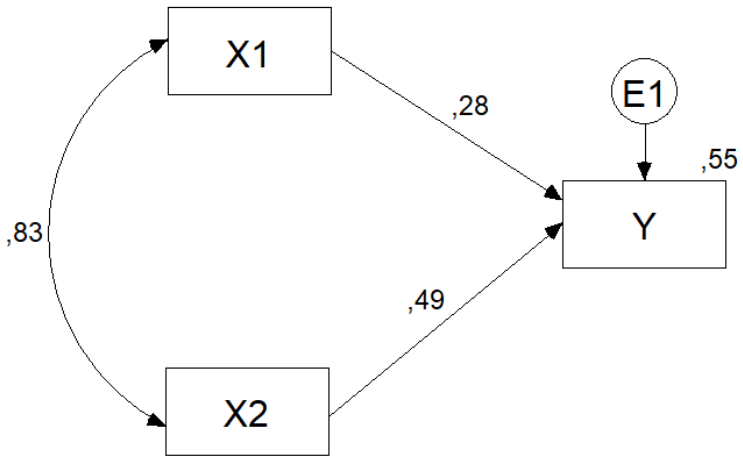
In this study, reliability testing was conducted using the Cronbach's Alpha method with the help of the SPSS application. A variable is declared reliable if the Cronbach's Alpha value is ≥ 0.70, in accordance with standards commonly used in quantitative research.

Based on the results of the reliability test, all variables in this study had Cronbach's Alpha values above 0.70. This indicates that all indicators for each variable have a good level of internal consistency, thus the research instrument is considered reliable and suitable for further analysis at the hypothesis testing and discussion stages.

The standardized path coefficient is used to determine the strength of each independent variable's influence on the dependent variable in standard deviation units. Data is taken from the Standardized Regression Weights table.

- **Path X1 to variable Y:**0.284
- **Path X2 to variable Y:**0.490
- Variable X2 has a more dominant (strong) influence on Retail Competitiveness (Y) compared to X1 (0.490 > 0.284).
- The structural equation formed is:
  Y = 0.284 X1 + 0.490 X2 + 0.669 e
  (Note: Error e1 is calculated from$\sqrt{1-R^2} = \sqrt{1-0{,}553} = 0{,}6685$

Figure 2.
Path Analysis



The results of the analysis show that Service Quality (X1) has a positive and significant effect on Retail Competitiveness (Y) with an unstandardized coefficient of 0.169, a CR value of 2.330, and P 0.020 (<0.05), and a standardized coefficient of 0.284 indicating a moderate effect. Meanwhile, Store Design (X2) has a stronger and highly significant effect on Y with a CR value of 4.020, P <0.001, and a standardized coefficient of 0.490, thus becoming the dominant predictor variable in the model. Although there is a very strong correlation between X1 and X2 of 0.834 indicating that both move in the same direction,

Store Design (X2) is proven to have a greater explanatory power towards variations in Retail Competitiveness (Y) compared to Service Quality (X1).

Table 3.
Coefficient of Determination

Variables	Coefficient of Determination Against Variable Y		
X1	0.283954	0.6927	0.196695
X2	0.48998	0.726858	0.356146
Total			0.552841

The results of the path decomposition analysis indicate that all influences in the model are direct without indirect effects because there are no mediating variables. Service Quality (X1) has a direct and total influence of 0.284 on Retail Competitiveness (Y), while Store Design (X2) has a more dominant direct and total influence of 0.490. The coefficient of determination (R^2) value of 0.553 indicates that X1 and X2 simultaneously are able to explain 55.3% of the variation in Y, while 44.7% is influenced by other factors outside the model. There is a very strong correlation between X1 and X2 of 0.834 which indicates a unidirectional relationship, although it has the potential to cause indications of multicollinearity. The structural equation formed is Y = 0.284X1 + 0.490X2 + 0.669e, so strategically increasing retail competitiveness is more effectively focused on improving store design without ignoring synergy with service quality.

Hypothesis testing is conducted by looking at the CR (Critical Ratio) and P (Probability) values in the Regression Weights table. Significance requirements: CR value ≥ 1.96 (for a 5% significance level) and P value ≤ 0.05.

Table 4.
Hypothesis Test Results

Hypothesis	Relationship	Path Estimate	CR	P-Value	Information	Decision
H1	X1toY	0.169	2,330	0.020	Significant	**Accepted**
H2	X2 toY	0.372	4,020	***	Significant	**Accepted**

Overall, this structural model successfully demonstrates that the two exogenous variables proposed in the conceptual framework do indeed have a significant influence on the endogenous variables. No hypotheses were rejected, indicating that the theoretical construct developed in this study aligns with empirical data in the field.

The Influence of Service Quality on Retail Competitiveness

The results of the first hypothesis test (H1) indicate that service quality has a positive and significant effect on retail competitiveness. This is evidenced by the Critical Ratio (CR) value of 2.330 (> 1.96) and a significance value of 0.020 (< 0.05). This finding indicates that the better the customer's perception of the speed, accuracy, and friendliness of the service provided by the barista, the higher the customer's assessment of Kopi Kenangan's competitive advantage compared to its competitors. This finding is in line with the SERVPERF Theory from Cronin & Taylor (1989) which forms the theoretical basis of this variable. The theory states that the actual service performance directly experienced by customers is the main determinant of their assessment. In the context of Kopi Kenangan in Cirebon, which carries the concept of fast-service retail, the aspects of service speed and order accuracy are crucial

elements. When employees are able to provide fast and friendly service, this forms a perception of efficiency which becomes a competitive added value. The results of this study also support previous research by Wajid (2025), which found that the quality of service interactions can reduce customer regret and encourage positive behavior. Although the influence of service quality (0.284) is lower than that of store design, this variable still contributes significantly. This suggests that while customers may come because of the atmosphere, poor service can still damage the retailer's competitiveness.

The Influence of Store Design on Retail Competitiveness

The results of the second hypothesis test (H2) indicate that store design has a positive and significant effect on retail competitiveness, with a very strong significance level ($P < 0.001$) and a CR value of 4.020. An interesting finding in this study is that store design is proven to be a dominant factor with an influence coefficient of 0.490, much higher than service quality. Theoretically, this result strengthens the validity of the SOR (Stimulus-Organism-Response) model proposed by Mehrabian & Russell (1974) and adapted to the retail context. In this study, the physical elements of the store (lighting, layout, seating comfort) function as a very strong environmental stimulus in influencing the organism's evaluation (customer perception), which ultimately results in a response in the form of recognition of the retailer's excellence. The dominance of this store design variable is also relevant to the phenomenon raised in the background, where there is an inconsistency in the spatial experience between Kopi Kenangan outlets in Cirebon. The statistical results confirm that customers in Cirebon are very sensitive to physical aspects. Customers view coffee shops not just a place to buy drinks, but as a social space and a place to work (third place). Therefore, outlets with modern interior designs, cool air conditioning, and adequate power outlets are considered to have significantly higher competitiveness. This supports research by Chen (2024) and Rosadi et al. (2023), which states that store atmosphere is a strategic element in creating differentiation and perceived value.

The Simultaneous Effect of Service Quality and Store Design on Retail Competitiveness

Simultaneously, service quality and store design were able to explain 55.3% of the variation in retail competitiveness (R-Square = 0.553). This figure is included in the moderate to strong category, indicating that these two variables are the main pillars in building Kopi Kenangan's competitive advantage in Cirebon City. Furthermore, a very strong correlation (0.834) was found between service quality and store design. This close relationship indicates a synergy of perception; customers tend to associate well-designed stores with professional service. This has managerial implications that management cannot focus solely on one aspect. Improving store design without increasing service speed, or vice versa, will not produce optimal competitiveness.

CONCLUSION

The study concluded that service quality has a positive and significant effect on retail competitiveness with a moderate effect (0.284), while store design is the dominant factor with a larger coefficient (0.490), and both simultaneously are able to explain 55.3% of the variation in Kopi Kenangan's competitiveness in Cirebon City ($R^2 = 0.553$). The findings also show that the majority of customers are still casual and there are indications of differences in retention patterns based on gender, so that design and service play an important

role in driving loyalty. Therefore, managerially it is recommended that companies prioritize revitalization and standardization of store design, increase responsiveness and quality of service interactions especially during peak hours, and implement segment-based retention strategies; while academically it is recommended that further research add other variables such as price perception, location, brand image, or digital experience, develop models with mediating or moderating variables, and expand the research object to different regions or retail concepts.

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