

The Role of Experiential Value in Mediating the Effect of Product Quality and Service Encounter on Customer Loyalty at Tomoro Coffee Balikpapan

Muhammad Firlianzo¹, Yohanes Kuleh², Doddy Adhimursandi³

Mulawarman University, Samarinda, Indonesia.

Corresponding author: doddy.adhimursandi@feb.unmul.ac.id

Abstract

This study investigates the mediating role of experiential value in the relationship between product quality, service encounter, and customer loyalty at Tomoro Coffee Balikpapan. The research aims to understand how customers' perceived experiences influence their loyalty in the modern coffee shop industry. Using a quantitative approach which is data were collected through questionnaires distributed to 162 respondents who are regular customers of Tomoro Coffee. The data were analyzed using PLS-SEM with SmartPLS 4.0 software. The results show that product quality and service encounter have a positive and significant effect on experiential value and customer loyalty. Furthermore, experiential value has a positive and significant impact on customer loyalty and acts as a partial mediator in the relationship between product quality, service encounter, and customer loyalty. These findings confirm that customer experiences play a crucial role in transforming perceptions of quality and service into long-term loyalty. The study contributes theoretically by reinforcing the importance of experiential marketing and value creation in the coffee shop industry, while practically guiding managers to enhance both tangible and intangible service aspects to strengthen customer loyalty.

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1. Introduction

The global coffee industry has experienced significant growth and is projected to reach a market value of US\$473.10 billion in 2025, with an annual growth rate of 2.96% during 2025–2029 (Statista, 2024). Changes in lifestyle, increasing consumption among younger generations, and the expansion of coffee culture across various regions including Asia as a potential market (ICO, 2023) have made this industry increasingly competitive. In Indonesia, the development of modern coffee shops reached more than 8,000 outlets in 2023 (Toffin, 2023), emphasizing the shift in coffee consumption into a form of social identity and urban activity (Euromonitor, 2023; World Coffee Portal, 2023). Within this competitive context, product quality and service encounter become the primary determinants in shaping customer loyalty. Product quality, which includes taste, aroma, presentation, and consistency, is a fundamental aspect that influences customer satisfaction and brand choice (Kotler & Keller, 2016; Hanaysha, 2016). Meanwhile, service interaction or service encounter, comprising employee interaction and the physical environment, has been shown to affect customer evaluations of overall service quality (Bitner et al., 1990; Wakefield & Baker, 1998). However, several studies indicate that the influence of product quality and service encounter on loyalty isn't always direct. Experiential value frequently becomes a mediating mechanism that explains how functional quality is translated into emotional attachment and loyal behavior (Mathwick et al., 2001; Pine & Gilmore, 1999; Wu & Liang, 2009). Experiential value, which includes dimensions of aesthetics, enjoyment, efficiency, and service excellence, represents customers' subjective perceptions during the consumption process and has the potential to strengthen the relationship between quality and loyalty. Tomoro Coffee Balikpapan serves as a strategic context to test this model because it is a rapidly growing brand that primarily targets younger customer segments. Intense competition with brands such as Kopi Kenangan and Janji Jiwa requires Tomoro Coffee not only to maintain product quality but also to deliver consistent and emotionally meaningful consumption experiences. Therefore, this study aims to analyzing role of experiential value in mediating the effect of product quality and service encounter on customer loyalty at Tomoro Coffee Balikpapan.

Literature Review

1) Customer Loyalty

Customer loyalty is defined as consumers' commitment to continuously choose a brand repeatedly despite the presence of attractive alternatives (Oliver, 1999). Loyalty includes behavioral aspects (repeat purchase) and attitudinal aspects (psychological commitment) that influence customers' tendency to remain with a brand (Kotler & Keller, 2016). In the modern coffee shop industry, loyalty is formed through consistent experiences, taste conformity, and emotional connection with the brand. The indicators of loyalty in this study include repurchase intention, visit frequency, willingness to recommend, resistance to competitors, and long-term commitment (Tong & Hawley, 2009).

2) Experiential Value

Experiential value refers to customers' perceptions of emotional, aesthetic, and utilitarian benefits generated during the consumption process (Mathwick et al., 2001). In the context of coffee shops, experiential value emerges through café ambiance, interior aesthetics, coffee aroma, customer interactions, and service quality. Pine and Gilmore (1999) emphasize that modern consumers seek meaningful experiences rather than merely products. Indicators of experiential value include efficiency, economic value, visual appeal, entertainment, escapism, playfulness, and service excellence.

3) Product Quality

Product quality refers to a product's ability to meet customer expectations, determined by taste, aroma, consistency, cleanliness, visual presentation, and freshness of ingredients (Kotler & Keller, 2016). In the beverage industry, product quality is a major factor influencing repurchase decisions and customer loyalty (Hanaysha, 2016). The indicators used are based on Hanaysha (2016), including taste, cleanliness/safety, menu variety, presentation, temperature, and freshness.

4) Service Encounter

Service encounter is the "moment of truth" when customers engage with service providers, either directly or through the physical environment (Shostack, 1985). Bitner (1992) explains that the servicescape—such as interior design, layout, lighting, and atmosphere—affects customer perceptions of service quality. Wakefield and Baker (1998) add that ambient factors, design, layout, variety, involvement, and excitement influence customer experience and revisit intentions.

2. Method

2.1. Operational Definition of Variables

The following table describes the operational definitions of each variable along with the indicators used:

Table 1. Describes the Operational Definitions

Variable	Definition	Indicators (Source)
Product Quality (X1)	Customers' perception of the product's ability to meet consumption and expectations preferences.	Taste, cleanliness/safety, variety, visual presentation, temperature, freshness (Hanaysha, 2016).
Service Encounter (X2)	Customers' experience in interacting with employees, the physical environment, and service atmosphere.	Ambient, design, layout, variety, involvement, excitement, desire to stay, repatronage (Wakefield & Baker, 1998).
Experiential Value (M)	Perceived emotional, aesthetic, and utilitarian value experienced by customers during consumption.	Efficiency, economic value, visual aesthetics, entertainment, escapism, playfulness, service excellence (Mathwick et al., 2001).
Customer Loyalty (Y)	Customers' commitment to continue purchasing, recommending, and choosing the brand.	Repurchase intention, recommendation, resistance to competitors, long-term commitment (Tong & Hawley, 2009).

2.2. Data Analysis Techniques

Data analysis was conducted in two stages:

Measurement Model Analysis (Outer Model)

The assessment includes:

Convergent Validity (outer loading ≥ 0.70)

Discriminant Validity (AVE dan cross-loading)

Reliability Test (Composite Reliability dan Cronbach's Alpha > 0.70)

2.3. Structural Model Analysis (Inner Model)

The strength of relationships among variables is tested using:

R-Square (R^2):

Experiential Value = 0.619

Customer Loyalty = 0.671

Q-Square Predictive Relevance: values > 0 indicate strong predictive capability.

Path Coefficient and Bootstrapping to test hypotheses based on t-statistics and p-values.

3. Result and discussion

3.1. Result

3.1.1. General Description of the Study

This study involved 162 customers of Tomoro Coffee Balikpapan. Data were collected using a Likert scale questionnaire (1-5) and processed using PLS-SEM with SmartPLS 4.0.9.9. Overall, all variables obtained mean scores above 4.40, indicating that respondents had positive perceptions of product quality, service encounter, experiential value, and customer loyalty.

Table 1. Likert scale questionnaire

Variable	Mean
Product Quality	4.44
Service Encounter	4.52
Experiential Value	4.48
Customer Loyalty	4.48

3.1.2. Convergent Validity

Based on the outer loading results, all indicators scored above 0.70, meeting the convergent validity criteria.

Table 2. Outer Loading Results

Variable	Indicator Code	Outer Loading Value	Variable	Condition	Explanation
X1 Product Quality	X1.1	0.776		> 0,7	Valid
	X1.2	0.768		> 0,7	Valid
	X1.3	0.835		> 0,7	Valid
	X1.4	0.847		> 0,7	Valid
	X1.5	0.790		> 0,7	Valid
	X1.6	0.790		> 0,7	Valid
X2 Service Encounter	X2.1.1	0.814		> 0,7	Valid
	X2.1.2	0.762		> 0,7	Valid
	X2.2.1	0.749		> 0,7	Valid
	X2.2.2	0.839		> 0,7	Valid
	X2.3.1	0.765		> 0,7	Valid
	X2.3.2	0.840		> 0,7	Valid
	X2.4.1	0.761		> 0,7	Valid
	X2.4.2	0.819		> 0,7	Valid
	X2.5.1	0.826		> 0,7	Valid
	X2.5.2	0.802		> 0,7	Valid
	X2.6.1	0.796		> 0,7	Valid
	X2.6.2	0.782		> 0,7	Valid
	X2.7.1	0.817		> 0,7	Valid
	X2.7.2	0.813		> 0,7	Valid
X2.8.1	0.741		> 0,7	Valid	
X2.8.2	0.819		> 0,7	Valid	
X2.9.1	0.772		> 0,7	Valid	
X2.9.2	0.833		> 0,7	Valid	
M Experiential Value	M1.1	0.852		> 0,7	Valid
	M1.2	0.838		> 0,7	Valid
	M1.3	0.835		> 0,7	Valid
	M1.4	0.887		> 0,7	Valid
	M1.5	0.894		> 0,7	Valid
	M1.6	0.863		> 0,7	Valid
	M1.7	0.886		> 0,7	Valid
Y Customer Loyalty	Y1.1	0.822		> 0,7	Valid
	Y1.2	0.891		> 0,7	Valid
	Y1.3	0.849		> 0,7	Valid
	Y1.4	0.891		> 0,7	Valid
	Y1.5	0.908		> 0,7	Valid

3.1.3. Average Variance Extracted (AVE)

Table 3. Average Variance Extracted

Variable	AVE Value	Standar AVE
M Experiential Value	0.748	0.5
X1 Product Quality	0.642	0.5
X2 Service Encounter	0.637	0.5
Y Customer Loyalty	0.762	0.5

These results indicate that the AVE values for all variables exceed 0.5, demonstrating adequate discriminant validity. Thus, both convergent and discriminant validity criteria have been fulfilled, confirming that the measurement model is valid.

3.1.4. Reliability Test

Table 4. Reliability Test

Variable	Cronbach's Alpha	Composite Reliability
M Experiential Value	0.944	0.954
X1 Product Quality	0.889	0.915
X2 Service Encounter	0.966	0.969
Y Customer Loyalty	0.921	0.941

The table shows that all variables have composite reliability values above 0.70. Therefore, the model satisfies Cronbach's Alpha and Composite Reliability criteria, confirming that the instrument used is reliable and trustworthy.

3.1.5. Coefficient of Determination (R-Square)

Table 5. R-Square

Variable	R Square	R Square Adjusted
Experiential Value	0.625	0.620
Customer Loyalty	0.676	0.670

The adjusted R-square for Customer Loyalty (Y) is 0.670, meaning that 67.0% of the variance in Customer Loyalty is explained by Product Quality, Service Encounter, and Experiential Value, while the remaining 33.0% is influenced by other variables not included in this study. The adjusted R-square for Experiential Value is 0.620, indicating that 62.0% of its variance is explained by Product Quality and Service Encounter, while the remaining 38.0% is influenced by other variables.

3.1.6. Predictive Relevance (Q-Square)

Table 6. Q-Square

Variable	SSO	SSE	Q ² (=1-SSE/SSO)
M Experiential Value	1134.0	610.0	0.462
X1 Product Quality	972.0	972.0	0.000
X2 Service Encounter	2916.0	2916.0	0.000
Y Customer Loyalty	810.0	403.0	0.502

The results indicate that the Q² values for the endogenous variables are above 0, demonstrating predictive relevance according to SmartPLS 4.0.9.9.

3.1.7. Hypothesis Testing

Hypothesis testing was conducted using the bootstrapping resampling method. Hypotheses were evaluated using path coefficients and t-statistics. The criteria used are:

- 1) If p-value > 0.05 or t-statistic < 1.96, **H0 is accepted and Ha is rejected.**
- 2) If p-value < 0.05 or t-statistic > 1.96, **H0 is rejected and Ha is accepted.**

Table 7. Value of Path Coefficient, t-Statistics, and P-Values

Hypothesis	Relationship between Constructs	Original Sample (O)	Sample mean (M)	Standard deviation (STDEV)	T Statistics (O/STDEV)	P Values	Explanation
Direct Effect							
H1	X1 Product Quality -> Y Loyalitas Pelanggan	0.217	0.206	0.090	2.418	0.016	Positive and Significant Effect
H2	X2 Service Encounter -> Y Customer Loyalty	0.305	0.325	0.130	2.344	0.019	Positive and Significant Effect
H3	X1 Product Quality -> M Experiential Value	0.363	0.349	0.084	4.326	0.000	Positive and Significant Effect
H4	X2 Service Encounter -> M Experiential Value	0.496	0.508	0.082	6.048	0.000	Positive and Significant Effect
H5	M Experiential Value -> Y Customer Loyalty	0.388	0.376	0.142	2.733	0.006	Positive and Significant Effect

Table 8. Value of Indirect Effect

Hypothesis	Relationship between Constructs	Original Sample (O)	Sample mean (M)	Standard deviation (STDEV)	T Statistics (O/STDEV)	P Values	Explanation
Indirect Effect							
H6	X1 Product Quality -> M Experiential Value -> Y Customer Loyalty	0.141	0.132	0.063	2.249	0.025	Positive and Significant Effect
H7	X2 Service Encounter -> M Experiential Value -> Y Customer Loyalty	0.192	0.191	0.079	2.428	0.015	Positive and Significant Effect

3.2. Discussion

3.2.1. The Effect of Product Quality on Customer Loyalty

The results show that product quality has a positive and significant effect on customer loyalty. This finding is consistent with Hanaysha (2016) and Taufik et al. (2022), who emphasize that taste, freshness, and product consistency enhance repurchase intentions. At Tomoro Coffee, taste quality, visual presentation, and product freshness are proven to be factors that encourage customers to continue choosing this brand.

3.2.2. The Effect of Service Encounter on Customer Loyalty

Service encounter is also found to have a positive and significant effect on loyalty. Elements such as fast service, staff friendliness, a comfortable atmosphere, and effective spatial layout create emotional satisfaction that strengthens loyalty. This finding supports the service encounter theory (Bitner, 1992) and the study by Rashid et al. (2021).

3.2.3. The Effect of Product Quality on Experiential Value

Product quality is shown to have a positive and significant effect on experiential value. Consistent taste, aesthetic presentation, and ingredient freshness create a positive sensory experience. This reinforces the theory of Mathwick et al. (2001), which positions sensory elements as the foundation of experiential value.

3.2.4. The Effect of Service Encounter on Experiential Value

Service encounter has a positive and significant effect on experiential value. Café ambiance, music, lighting, staff friendliness, and seating comfort create emotional and hedonic experiences. This finding aligns with the concept of the experience economy proposed by Pine and Gilmore (1999).

3.2.5. The Effect of Experiential Value on Customer Loyalty

Experiential value serves as a strong predictor of customer loyalty. Customers who perceive that the café provides enjoyable experiences tend to be more loyal, regardless of alternative options in the market. This result is consistent with the findings of Wu & Liang (2009).

3.2.6. The Mediating Role of Experiential Value

Experiential value is proven to partially mediate the relationship between product quality and service encounter with customer loyalty. This means that:

- 1) Product quality continues to influence loyalty directly, but the effect is strengthened through pleasant experiences.
- 2) Service encounter has the greatest impact because café experiences create emotional attachment.
- 3) This partial mediation indicates that Tomoro Coffee must not only maintain product quality but also manage customer experience holistically.

3.2.7. Research Limitations

Several limitations should be noted:

- 1) The research location is limited to Tomoro Coffee Balikpapan, making the findings not yet generalizable to all Tomoro Coffee outlets nationally.
- 2) Data were collected using self-report questionnaires, which may be subject to perception bias (self-report bias).
- 3) The research design is cross-sectional, preventing the capture of behavioral changes over time.
- 4) The study is limited to four main variables and does not include other factors such as customer satisfaction, brand trust, or customer engagement.

4. Conclusion

Based on the PLS-SEM analysis of 162 Tomoro Coffee Balikpapan customers, this study concludes that:

- 1) Product Quality shown positive and significant effect on Customer Loyalty, indicating that taste consistency, freshness, and presentation quality are strong determinants of loyalty.
- 2) Service Encounter shown positive and significant effect on Customer Loyalty, confirming that friendly service, a comfortable atmosphere, and appealing spatial layout play an important role in retaining customers.
- 3) Product Quality & Service Encounter are proven to have a positive effect on Experiential Value, suggesting that consumption experiences (sensory, emotional, and aesthetic) are formed through the quality of products and services provided.

- 4) Experiential Value has a positive and significant effect on Customer Loyalty, asserting that loyalty in the modern coffee industry is not only functional but also emotional and symbolic.
- 5) Experiential Value partially mediates the effect of product quality and service encounter on customer loyalty. This indicates that enjoyable, aesthetic, comfortable, and economically valuable experiences strengthen the relationship between core quality (products and services) and loyal customer behavior.

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