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The Effect of Retail Service Quality, Loyalty Program and Customer Satisfaction on Customer Loyalty at Houseware

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Abstract

Objective- This study aims to examine the influence of retail service quality, loyalty programs, and customer satisfaction on customer loyalty at Houseware . Houseware offers a variety of household goods and strives to provide a satisfying shopping experience for its customers. Methodology Used- This research uses a quantitative approach, utilizing surveys to collect data from Houseware customers through online and offline questionnaires distributed to respondents meeting specific criteria: those who have shopped at Houseware and those who are members of the Houseware loyalty program. The questionnaires were distributed via Google Forms and in-store, with a data collection period of less than one week. A total of 165 completed questionnaires were analyzed, identifying respondent characteristics based on their shopping experiences and membership in the Houseware loyalty program. Respondents who did not meet the criteria were excluded from this study. The data were analyzed using statistical methods to determine the relationships between retail service quality, loyalty programs, customer satisfaction, and customer loyalty. Findings- The results show that retail service quality, loyalty programs, and customer satisfaction significantly and positively influence customer loyalty. Retail service quality is an important factor, as customers who experience high-quality service are more likely to remain loyal. Customer satisfaction is also significantly affected by retail service quality, with factors such as modern equipment, a clean and attractive store, and knowledgeable staff contributing to higher satisfaction levels. Additionally, loyalty programs significantly impact customer satisfaction and customer loyalty by offering incentives that increase perceived value and encourage repeat purchases. The study also found that higher customer satisfaction leads to stronger customer loyalty, as satisfied customers are more likely to return and recommend Houseware to others. Further Research-Based on the study results, future research should aim to expand the sample to include different types of retail stores, competitors, and customer demographics to test the findings in various contexts. It is also recommended to use qualitative methods like interviews to better understand customer experiences and what they value in loyalty programs and service quality. Future studies could explore other factors like price, location, and promotions that might affect customer loyalty. Additionally, new

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variables and different types of businesses could be studied. Comparing different loyalty programs and service quality in Indonesia and increasing the sample size would also improve the accuracy and representativeness of future findings

Keywords: Retail Service Quality, Loyalty Program, Customer Satisfaction, Customer Loyalty

Introduction

Indonesia's population growth and economic progress have experienced significant advancements compared to previous years, particularly in Pekanbaru City. Based on data from the Central Bureau of Statistics (BPS), the population in Pekanbaru has been increasing steadily from 2018 to 2023:

Table 1.1

Population in Pekanbaru City

- 12 - 13 - 13 - 13 - 13 - 13 - 13 - 13	
Year	Population
2018	1,117,359
2019	1,143,359
2020	983,356
2021	994,585
2022	1,007,540
2023	1,020,308

Source: Central Bureau of Statistics Pekanbaru City (2024)

Table 1.1 indicates the population growth in Pekanbaru, with an increase from 1,117,359 in 2018 to 1,143,359 in 2019. Although there was a dip in 2020, the population continued to grow, reaching 1,020,308 in 2023. This growth has led to an increase in the city's economic activity, as reflected in household consumption expenditure:

Table 1.2 Household Consumption Expenditure

Year	Household Consumption Expenditure
2018	57.737.076,22
2019	60.793.826,50
2020	60.753.450.52
2021	63.807.263,20
2022	71.615.481,00
2023	77.846.671,30

Source: Central Bureau of Statistics Pekanbaru City (2024)

Table 1.2 demonstrates the rise in household consumption expenditure in Pekanbaru from IDR 57,737,076.22 in 2018 to IDR 77,846,671.30 in 2023. This economic growth aligns with increased income levels, potentially leading to more consumer spending.

Houseware is a private retail company operating in Pekanbaru City, specializing in selling various household items such as plates, irons, buckets, rice cookers, and other domestic equipment. Despite the economic growth and increased purchasing power, Houseware has faced a decline in sales over the past five years:

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Table 1.3
Sales of Houseware

Year	Sales
2019	Rp. 3.058.688.920
2020	Rp. 6.782.267.047
2021	Rp. 6.503.412.811
2022	Rp. 6.157.816.200
2023	Rp. 4.439.036.241

Source: Houseware (2023)

Table 1.3 highlights the fluctuations in sales at Houseware , showing a peak in 2020 followed by a continuous decline until 2023. This trend prompted an investigation into the underlying issues affecting the company's performance. A preliminary study, conducted via a short survey using Google Forms, was distributed to customers who have shopped at Houseware to identify the causes of the sales decline.

The initial survey results revealed several issues at Houseware:

Table 1.4

Preliminary Study Findings

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Statement	Yes	No (%)
	(%)	
Have you ever shopped at our store?	93	7
Is our store quick to respond to your complaints?	75	25
Does our store meet all your needs and desires satisfactorily?	70	30
Do our employees serve you well?	77	23
Are our employees able to provide complete product information?	75	25
Are you satisfied with the quality of our products?	71	29
Have you ever received damaged goods after purchase?	76	24
Do you feel comfortable shopping at our store?	83	17
Is it easy to find the products you need in our store?	80.8	19.2
Do you think our store is clean and tidy?	71	29
Are you aware of our member program?	85	15
Does our member program offer attractive incentives for repeat	80	20
shopping?	80	20
Do you recommend our member program to friends or acquaintances?	85.9	14.1

Source: Respondent Data (2023)

The survey indicates several critical issues:

- a. Response to Complaints: 75% of customers feel that Houseware is slow to respond to complaints. Quick and efficient response to complaints is crucial in maintaining customer satisfaction and loyalty (Lavanya et al., 2018).
- b. Employee Service and Product Information: 77% of customers are dissatisfied with the service provided by employees, and 75% feel that employees do not provide complete product information. Positive personal interaction and informed assistance are vital in shaping a positive shopping experience (Lavanya et al., 2018).
- c. Product Quality: 71% of customers are dissatisfied with product quality, and 76% have

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received damaged goods. Ensuring high product quality is essential for customer satisfaction and retention (Khairawati, 2020; Diamond, 2023).

- d. Store Environment: 83% of customers do not feel comfortable shopping, 80.8% have difficulty finding products, and 71% find the store unclean and untidy. A clean, organized, and welcoming store environment is important for attracting and retaining customers (Francioni et al., 2018).
- e. Member Program: Although 85% of customers are aware of the member program, 80% do not find it attractive, and 85.9% do not recommend it to others. A successful loyalty program should offer significant benefits to encourage repeat purchases and word-of-mouth recommendations (Muhammad, 2022; Nesset et al., 2021).

The identified issues highlight the need for Houseware to improve its customer service, product quality, store environment, and member program to increase customer satisfaction and loyalty, ultimately boosting sales. This study aims to investigate these factors in-depth and provide actionable recommendations for Houseware to enhance its performance and customer relations.

Literature Review

Customer loyalty is a critical aspect of business success. Sivapalan et al (2021), define customer loyalty as a customer's decision to repeatedly purchase products or services from a chosen company. Muhammad (2022), describes customer loyalty as a customer's commitment to a brand, store, or supplier based on a highly positive attitude in long-term purchasing. Khairawati (2020), emphasizes that loyal customers are valuable assets for a company, characterized by regular purchases, product and service referrals, and resistance to competitor temptations. This concept is more associated with behavior rather than attitude. El-adly (2018), further explains that loyalty reflects a consumer's positive attitude and strong desire to repurchase the same brand, which is crucial for marketers. Customer loyalty involves the likelihood of repeat purchases and the willingness to partner with the company by making larger purchases and providing positive recommendations.

Liao et al (2023), identify three dimensions for measuring purchase intention: intention, willingness, and recommendation. Han & Guo (2018), add dimensions such as willingness to buy, to own a brand, interest, and recommendation. Chen et al (2022), mention dimensions like consideration, intent to purchase, and expectation. Kusumawati & Rahayu (2019), highlight customer loyalty as a critical asset, focusing on the dimension of engagement, which is a strong relationship between the store and customers. Indicators used to measure engagement include, Revisit Intention is customers will make regular purchases if they are satisfied with their transactions. Positive word of mouth is satisfied and loyal customers tend to give positive recommendations to friends and family. Recommendation is customers promote and recommend products or services they have consumed to others.

Customer satisfaction measures whether a company's products and services meet or exceed customer expectations (Muhammad, 2022). Iqbal et al (2018), state that satisfaction is the extent to which a consumer expresses positive sentiment towards a seller. Jabeen (2019) describes customer satisfaction as the key factor that drives loyalty when product or service performance exceeds expectations. Customer satisfaction can guide current and potential business performance, impacting short-term and long-term sales and repeat

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purchases. It reflects subjective customer evaluations of the company's performance or product based on their consumption experience.

Wang et al (2022), measure live streaming satisfaction through dimensions like credibility, professionalism, interactivity, and attractiveness. Ma et al (2022), add dimensions such as interactivity, visualization, entertainment, and professionalism. Islam et al (2020), describe customer satisfaction in terms of contentment, which includes, Satisfied is indicates customer satisfaction after shopping. Comparison is customers feel more satisfied shopping at a particular store compared to others. Expectation is satisfaction occurs when shopping experiences meet or exceed prior expectations. General is overall impressions and interactions during store visits, including service quality, product availability, pricing, and store atmosphere.

Retail service quality is a measurement of service quality relevant to retail stores, aiding in positioning services in customers' minds. Lavanya et al (2018), define it as a global evaluation or attitude related to overall service excellence. It helps create value for consumers, compete effectively, and ensure customer satisfaction. The SERVQUAL theory by Parasuraman & Zeithaml (1985), initially measured service quality by comparing perceived performance with consumer expectations. However, retail service quality (RSQ), developed by Thorpe & Rentz (1996), is more specific to retail environments and measures quality using dimensions tailored to retail settings.

Lavanya et al (2018), identify dimensions such as physical aspect, reliability, personal interaction, problem solving, and policy. Iqbal et al (2018), add dimensions like functionality, enjoyment, privacy, assurance, design, convenience, and customization. Meesala & Paul (2018), measure RSQ through tangibility, reliability, responsiveness, assurance, and empathy. Lavanya et al (2018), elaborate on the dimensions as follows, Physical aspect is includes the store's physical condition, layout, lighting, cleanliness, and design. Reliability is the store's ability to consistently provide dependable services or products. Personal interaction is interactions between store employees and customers, emphasizing friendliness and helpfulness. Problem solving is the store's capability to resolve customer complaints quickly and effectively. Policy is store policies like return policies, product warranties, and other regulations affecting customer experience.

Zakaria et al (2020), highlight that loyalty programs benefit both companies and customers, leading to customer happiness and stronger relationships with family and friends. Loyalty programs fulfill the intrinsic desire for possession and interdependence, enhancing customer happiness. They also foster interactions between customers and employees, promoting loyalty and positive customer sentiments. Lin & Bowman (2022), identify several benefits of loyalty programs, including Positive recommendations is loyal customers recommend the company to potential customers, allowing flexible capacity management. Valuable data is loyalty programs provide data to identify valuable customers, track purchasing patterns, and understand individual consumer behavior. Reduced price sensitivity is loyalty program members have lower price sensitivity and weigh negative experiences less heavily compared to non-members.

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Customer attitude towards loyalty programs can be evaluated using dimensions such as gratefulness, attractiveness, desirability, and value (Aziz et al., 2019; Kim & Kim, 2022; Roh et al., 2022). Nesset et al (2021), identify membership as a dimension of loyalty programs, with indicators including Relevance is how relevant the membership program is to customers' shopping experiences. Offers is the suitability of store offers to customer needs, providing value and meeting expectations. Ease of Use is the convenience of using the loyalty program, such as simple identification methods. Referral is the process of recommending products or services based on positive experiences. These dimensions and indicators provide a comprehensive understanding of the factors influencing customer loyalty, satisfaction, and the effectiveness of loyalty programs in retail environments.

Research Methodology

This study employs a quantitative research design using an explanatory research approach to test and explain the relationships between two or more variables. Data collection is conducted through surveys targeting individuals or consumers who have shopped and are members of Houseware . Data and information are gathered from respondents using both online questionnaires via Google Forms and offline printed questionnaires. The online questionnaire will be accessible through a QR code link, allowing respondents to access it via smartphones, while the offline questionnaire will be distributed to customers visiting Houseware .

The population comprises the totality of subjects or objects within a particular area that possess specific characteristics or categories selected by the researcher to study and draw conclusions from (Los, 2018). Therefore, the population in this study consists of consumers who have shopped and are members of Houseware. The number of respondents is based on a minimum sample size of five times the number of indicators. According to Hair et al. (2010), an appropriate sample size for research ranges from 100-200 respondents. Consequently, with 33 indicators, the required sample size for this study is 165 respondents (33 indicators x 5).

The sampling method used in this study is non-probability sampling with a purposive sampling technique. This technique involves selecting subjects subjectively based on specific criteria and patterns in mind (Uma, 2006). The purposive sampling technique is intentionally used to ensure all necessary sample criteria are met. The criteria for respondents in this study are consumers who have shopped at Houseware in the last six months and are members of Houseware . Therefore, the questionnaire includes a screening question to identify eligible respondents.

Results

The outer model analysis aims to ensure that the indicators used in the study are valid and reliable measurement tools. The analysis includes tests for convergent validity, discriminant validity, and average variance extracted (AVE). Reliability tests include composite reliability and Cronbach's alpha. Convergent validity assesses the extent to which a measure correlates positively with alternative measures of the same construct. An indicator is considered valid if the outer loading is greater than 0.70 and the AVE is greater than 0.50.

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Table 4.1

Outer Loading Results 1

Indicator	Customer	Customer	Loyalty	Retail	Service
	Loyalty	Satisfaction	Program	Quality	
CL1	0.917				
CL2	0.955				
CL3	0.938				
CS1		0.940			
CS2		0.930			
CS3		0.947			
CS4		0.907			
LP1			0.880		
LP2			0.838		
LP3			0.903		
LP4			0.865		
RSQ1				0.790	
RSQ10				0.775	
RSQ11				0.744	
RSQ12				0.840	
RSQ13				0.794	
RSQ14				0.815	
RSQ15				0.829	
RSQ16				0.860	
RSQ17				0.790	
RSQ18				0.860	
RSQ19				0.811	
RSQ2				0.764	
RSQ20				0.466	
RSQ21				0.735	
RSQ22				0.727	
RSQ3				0.316	
RSQ4				0.747	
RSQ5				0.734	
RSQ6				0.802	
RSQ7				0.687	
RSQ8				0.834	
RSQ9				0.905	

Source: SmartPLS 3.2.9 Output, 2024

Based on Table 4.1, the results indicate that most indicators met the criteria for convergent validity with outer loadings > 0.70, except for RSQ20, RSQ3, and RSQ7. These

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indicators were eliminated for further analysis, resulting in the following updated outer loading results.

Table 4.2

Outer Loading Results 2

	Customer Loyalty	Customer Satisfaction	Loyalty Program	Retail Quality	Service
CL1	0.917	- Canonaculon	1108.4	Quanty	
CL2	0.955				
CL3	0.938				
CS1		0.940			
CS2		0.930			
CS3		0.947			
CS4		0.907			
LP1			0.880		
LP2			0.838		
LP3			0.903		
LP4			0.865		
RSQ1				0.795	
RSQ10				0.777	
RSQ11				0.739	
RSQ12				0.840	
RSQ13				0.798	
RSQ14				0.820	
RSQ15				0.831	
RSQ16				0.859	
RSQ17				0.785	
RSQ18				0.863	
RSQ19				0.814	
RSQ2				0.766	
RSQ21				0.740	
RSQ22				0.733	
RSQ4				0.747	
RSQ5				0.734	
RSQ6				0.800	
RSQ8				0.834	
RSQ9				0.905	

Source: SmartPLS 3.2.9 Output, 2024

From Table 4.2, all indicators now meet the criteria for convergent validity. The AVE values for each construct are as follows:

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Table 4.3

Average Variance Extracted (AVE)

Construct	Average Varian Extracted (AVE)
Customer Loyalty	0.877
Customer Satisfaction	0.867
Loyalty Program	0.760
Retail Service Quality	0.641

Source: SmartPLS 3.2.9 Output, 2024

All constructs have AVE values greater than 0.50, indicating good convergent validity. Discriminant validity is assessed using cross loadings and the Fornell-Larcker criterion. An indicator should correlate more strongly with its own construct than with other constructs.

Table 4.4

Cross Loading

Indicator	Customer	Customer	Loyalty	Retail Service
muicatul	Loyalty	Satisfaction	Program	Quality
CL1	0.917	0.825	0.688	0.674
CL2	0.955	0.893	0.663	0.783
CL3	0.938	0.853	0.667	0.780
CS1	0.882	0.940	0.669	0.763
CS2	0.821	0.930	0.660	0.730
CS3	0.840	0.947	0.634	0.697
CS4	0.866	0.907	0.549	0.681
LP1	0.693	0.666	0.880	0.711
LP2	0.547	0.509	0.838	0.614
LP3	0.676	0.602	0.903	0.737
LP4	0.563	0.559	0.865	0.559
RSQ1	0.753	0.741	0.496	0.795
RSQ10	0.631	0.624	0.470	0.777
RSQ11	0.499	0.515	0.596	0.739
RSQ12	0.609	0.620	0.423	0.840
RSQ13	0.680	0.684	0.573	0.798
RSQ14	0.611	0.593	0.611	0.820
RSQ15	0.626	0.578	0.485	0.831
RSQ16	0.698	0.670	0.666	0.859
RSQ17	0.581	0.619	0.672	0.785
RSQ18	0.628	0.602	0.520	0.863
RSQ19	0.695	0.669	0.614	0.814
RSQ2	0.628	0.645	0.498	0.766
RSQ21	0.578	0.559	0.383	0.740
RSQ22	0.517	0.482	0.433	0.733

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Indicator	Customer	Customer	Loyalty	Retail Service
	Loyalty	Satisfaction	Program	Quality
RSQ4	0.604	0.523	0.436	0.747
RSQ5	0.567	0.545	0.306	0.734
RSQ6	0.665	0.655	0.422	0.800
RSQ8	0.721	0.706	0.595	0.834
RSQ9	0.688	0.698	0.572	0.905

Source: SmartPLS 3.2.9 Output, 2024

The cross loadings show that indicators correlate more strongly with their own constructs. The Fornell-Larcker criterion further supports discriminant validity.

Table 4.5

Fornell- Larcker Criterion

Construct	Customer Loyalty	Customer Satisfaction	Loyalty Program	Retail Service Quality
Customer Loyalty	0.937			
Customer Satisfaction	0.916	0.931		
Loyalty Program	0.717	0.675	0.872	
Retail Service Quality	0.797	0.772	0.757	0.800

Source: SmartPLS 3.2.9 Output, 2024

Each construct's AVE square root is greater than its correlations with other constructs, indicating good discriminant validity.

Reliability is assessed using composite reliability and Cronbach's alpha. Values greater than 0.70 indicate acceptable reliability.

Table 4.6
Composite Reliability and Cronbach's Alpha

Construct	Composite Reliability	Cronbach's
		Alpha
Customer Loyalty	0.956	0.930
Customer Satisfaction	0.963	0.949
Loyalty Program	0.927	0.895
Retail Service Quality	0.971	0.969

Source: SmartPLS 3.2.9 Output, 2024

Both composite reliability and Cronbach's alpha values exceed 0.70, confirming the reliability of the constructs.

The structural model is assessed by examining the R-square values, which indicate the variance explained by the independent variables.

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Table 4.7 *R-square Results*

	R-Square	R-square Adjusted
Customer Loyalty	0.864	0.861
Customer Satisfaction	0.615	0.610

Source: SmartPLS 3.2.9 Output, 2024

Customer Loyalty has an R-square of 0.639, indicating that 63.9% of its variance is explained by the independent variables. Customer Satisfaction has an R-square of 0.620, indicating that 62% of its variance is explained by the independent variables.

Hypotheses are tested using the t-statistic and p-values from the bootstrapping method. A hypothesis is supported if the t-statistic is greater than 1.96 (at a 95% confidence level) and the p-value is less than 0.05.

Table 4.8

Path Coefficients

		Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
H1	Customer Satisfaction -> Customer Loyalty	0.717	0.714	0.047	15.323	0.000
H2	Loyalty Program -> Customer Loyalty	0.114	0.117	0.050	2.273	0.023
Н3	Loyalty Program -> Customer Satisfaction	0.213	0.212	0.078	2.732	0.007
Н4	Retail Service Quality -> Customer Loyalty	0.158	0.157	0.048	3.306	0.001
Н5	Retail Service Quality -> Customer Satisfaction	0.611	0.611	0.065	9.428	0.000

Source: SmartPLS 3.2.9 Output, 2024

Based on Table 4.18, all hypotheses are supported with t-statistics greater than 1.96 and p-values less than 0.05.

Discussion

The findings of this study provide significant insights into the dynamics of customer loyalty at Houseware, emphasizing the substantial impact of retail service quality, loyalty programs, and customer satisfaction. The research confirms that retail service quality is a critical determinant of customer loyalty. High-quality service, characterized by factors such as the availability of needed items, attentive customer care, and effective problem resolution, significantly influences customer loyalty. When customers feel well-served and valued, they are more likely to return and remain loyal to the retailer. Specific elements such as modern equipment, clean and attractive store environments, well-organized layouts, timely service, knowledgeable staff, comfortable parking facilities, and convenient operating hours collectively contribute to enhancing customer satisfaction. This reinforces the importance for Houseware to consistently maintain and improve these aspects to achieve higher customer satisfaction and loyalty.

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The study highlights the pivotal role of loyalty programs in promoting customer loyalty. Customers who participate in Houseware 's membership programs show higher loyalty levels compared to non-members. These programs offer additional incentives, such as discounts and wholesale prices, which increase the perceived value of shopping at Houseware . This enhanced value proposition encourages customers to continue shopping at Houseware , thereby strengthening their loyalty. Furthermore, the loyalty programs positively impact customer satisfaction by offering a better and more convenient shopping experience, such as easy payment processes and exclusive discounts. Satisfied customers are likely to recommend the loyalty programs to their friends and family, further expanding the loyal customer base.

Customer satisfaction emerges as a crucial factor linking retail service quality and loyalty programs to customer loyalty. High customer satisfaction, driven by positive experiences with products and services, leads to stronger customer loyalty. Satisfied customers are not only more likely to return for future purchases but also to recommend Houseware to others, creating a positive feedback loop that enhances customer retention and acquisition. The study underscores the importance of delivering high-quality products and services consistently to maintain and elevate customer satisfaction, which is essential for sustaining customer loyalty.

Conclusion

There Based on the research conducted, it can be concluded that retail service quality, loyalty programs, and customer satisfaction have a positive and significant impact on customer loyalty. Retail service quality significantly influences customer loyalty. This indicates that providing high-quality service is crucial for fostering customer loyalty. Customers who feel well-served and valued are more likely to remain loyal. Aspects such as Houseware providing necessary items, giving extra attention, and offering solutions to customers significantly impact customer loyalty. When customers feel well-treated and adequately served, they are more likely to return and become loyal customers. Retail service quality also significantly impacts customer satisfaction. Good service makes Houseware customers feel appreciated and cared for, thereby increasing their satisfaction. Elements such as modern equipment, cleanliness, an attractive and comfortable environment, a well-organized store layout, timely service, knowledgeable staff, ample parking, and convenient operating hours contribute to customer satisfaction. Ensuring that these elements are well-maintained is key to achieving high customer satisfaction.

Loyalty programs have a significant impact on customer loyalty. Customers who are members of Houseware 's loyalty program are more loyal compared to non-members. The loyalty program provides additional incentives, such as discounts or wholesale prices, which increase the perceived value of shopping at Houseware . This encourages members to continue shopping at Houseware , thus enhancing their loyalty. Loyalty programs also significantly impact customer satisfaction. Enhanced loyalty programs positively affect customer satisfaction by providing a better and easier shopping experience. For example, mentioning a name and phone number at the cashier for discounts or wholesale prices can increase customer satisfaction. Satisfied members of the loyalty program are likely to recommend it to their friends and family.

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Customer satisfaction significantly influences customer loyalty. Higher customer satisfaction strongly impacts customer loyalty. When Houseware customers are satisfied with the products and services provided, they are more likely to return for future purchases. Customer satisfaction creates positive experiences that encourage customers to remain loyal and even recommend Houseware to others, including friends and family. In summary, enhancing retail service quality, loyalty programs, and customer satisfaction is essential for increasing customer loyalty at Houseware .

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