



Strategies to Increase Customer Retention by Improving Product and Service Quality in Food Franchises

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ABSTRACT

The present study is focused on exploring strategies to improve product and service quality in the context of food franchises alongside the impact on customer retention. In this competitive industry, customer retention is a major challenge, hence, this study adopted a quantitative method combining SEM-PLS with SmartPLS 4. The results showed both product and service quality have a positive and significant effect on customer satisfaction, which also impacted customer retention. In this context, customer satisfaction has been proven to mediate the effect of product and service quality on customer retention. The results showed that customer satisfaction played a significant role in increasing customer retention in food franchise businesses.

INTRODUCTION

The development of the franchise industry in Indonesia is reported to show rapid growth and increasingly fierce competition over the past decade. In addition, data from the Ministry of Trade (Kemendag) shows that the national franchise business experienced growth of roughly 5% in 2023 compared to the previous year. The distribution of related businesses was dominated by the island of Java, with DKI Jakarta Province regarded as the main centre, followed by Central and East Java, including Banten and West Java. In terms of business types, the food and beverage (F&B) sector dominates with a proportion of 47.92%, followed by retail, non-formal education, beauty and health, laundry, and other service sectors such as travel agencies, property, hotels, and automotive (Indonesia.go.id). This condition showed that the franchise industry, particularly the food sector, offered significant opportunities leading to increasingly fierce competition.

In the food and beverage sector, fried chicken is a favourite, with a significant number of outlets. For example, local brands such as Sabana Fried Chicken and Rocket Chicken have over 3,000 outlets, and 1,000 outlets, respectively, nationwide (Franchise, 2024). This phenomenon has led to the creation of market saturation in certain regions.

Based on the above description, Bekasi is a crucial region in this competitive landscape. Statistics Indonesia (BPS) data showed that Bekasi was among the most densely populated areas in West Java. The area was dominated by the working class and young families, considered as the

main target market for fried chicken. Furthermore, the massive growth of housing in Bekasi (such as Tambun or Babelan) has driven an explosion in the number of fried chicken outlets on every street corner. The study by Djayapranata (2020) showed that the abundance of fried chicken outlets could weaken customer loyalty, supposing alternative options were available.

The sustainability of the fried chicken franchise business is among the sectors impacted by the intense level of competition in the food industry. Fried chicken franchises have relatively homogeneous product characteristics, both in terms of taste, price, and service concept. In addition, customers are easily exposed to many brand alternatives. The decision to purchase a product is affected by product quality, consistency of taste, timely service, store cleanliness, and overall experience. Customer retention plays a crucial role in fried chicken franchises. It refers to the ability of a business to ensure customers return, leading to repeated purchases, stable revenue, and higher brand loyalty among increasingly fierce competition (Aditya Wardhana, 2024). Loyal customers also help reduce marketing costs and increase promotions through word-of-mouth recommendations.

Customer satisfaction is among the main factors responsible for influencing customer retention. This evaluative reaction occurs when customers compare personal expectations with the actual experience gained from a product or service. In the context of a fried chicken franchise, customer satisfaction is strongly affected by the quality of the product and service provided. According to Kotler & Keller (2021), product quality refers to all its features and characteristics that meet customer needs and expectations, both explicitly and implicitly. Service quality is a crucial component of related management, showing how well a business tends to provide reliable, timely, and appropriate services to customers. Previous studies reported that this factor increased customer satisfaction and loyalty (Sukoco & Djatmiko, 2021).

Several studies have been conducted on the relationship between product and service quality, alongside customer satisfaction and loyalty in the restaurant business (which is an independent business). However, some gaps need to be addressed in the literature to understand the concept of franchise business thoroughly, and these include

1. **Specific Franchise Context:** Many previous studies have been conducted in the context of individual companies without addressing the unique dynamics of the franchise business model. This led to the need for further analyses to understand the different strategies adopted by food franchises, particularly fried chicken, compared to independent restaurants.
2. **Relationship between Product and Service Quality:** Considering that prior studies have explored each factor individually, understanding the simultaneous and interactive impact of these two qualities on customer retention in the context of food franchises has not been comprehensively addressed.
3. **Strategies Implemented in Practice:** There is a lack of empirical studies exploring the specific strategies adopted by fried chicken franchises to improve product and service quality, including the impact on customer retention.
4. **Moderating and Mediating Variables:** Product and service quality can be affected by other factors, namely customer experience, identity, and brand popularity. Future studies need to explore the role of the diverse factors as mediators or moderators in this relationship.

Based on this perspective, the present study aimed to explore strategies that fried chicken franchises could implement to improve individual product and service quality, as well as the impact on customer retention. The study is expected to provide useful information for franchise managers in formulating better rules and procedures to retain customers. A previous study found a positive correlation among customer retention, service, and product quality. In addition, it was further reported that

1. **The Relationship between Quality and Satisfaction:** Ali and Amin (2020) reported a significant correlation existed between customer satisfaction and service quality in the food industry, particularly fast-food restaurants, which contributed to customer retention. As a result, the study outlined the importance of service experience in building customer loyalty.

2. Product Quality in Influencing Retention: Aghdaie and Fadaei (2022) found that high-quality products have a direct impact on customer satisfaction, as well as increasing retention rates. It was further reported that customers who were satisfied with a product were likely to repurchase the item.
3. The effect of Service Quality on Loyalty: Hsu (2021) explored how service quality enabled the development of customer loyalty in restaurants. The results showed that aspects such as timeliness, responsiveness, and empathy in service significantly affected customers' decisions to remain loyal to a particular brand.

The present study aimed to examine the effect of product and service quality on customer retention, using customer satisfaction as a mediating factor. The result is expected to enrich the theoretical understanding of service marketing in franchise business models. Additionally, it is also expected to practically assist franchise managers in developing successful plans to increase customer retention and satisfaction

LITERATURE REVIEW

The Stimulus-Organism-Response (SOR) theory was used to analyse how interactions between external stimuli and internal factors shaped human behaviour. The theory enabled marketers to effectively understand that the creation of effectual stimuli can affect customer decisions and purchasing behaviour. Moreover, SOR theory provided a systematic understanding of the relationship between customer retention, service, and product quality. Customer satisfaction, loyalty, and repurchase intention (customer retention) are the result of how individual experiences (organisms) are processed, and these are affected by product and service quality. As a component of this response, customer satisfaction serves as a bridge that creates a positive relationship between exceptional experiences and products and services. Customers recommend products and services to others as well as make repeated purchases once satisfied. This tends to increase customer numbers and provide opportunities for sustainable company growth. Franchisors should focus on improving the quality of products and services, understanding customer expectations, as well as create more satisfying experiences to improve customer retention.

A product refers to any item or commodity that can be offered to a market for evaluation, acquisition, use, or consumption and is capable of satisfying a need or want. A typical factor that should be considered in this context is product quality (Kotler and Armstrong, 2020). Beyond the dynamic conditions associated with the product itself, quality also comprised goods, services, personnel, procedures, and environments that met or exceeded expectations.

The extent to which a product meets customer expectations is reflected in its quality (Kotler and Keller, 2021). Previous studies showed a positive and significant correlation existed between customer satisfaction and high-quality products, which increased customer retention (Hsu and Chou, 2020). In addition, customer perception also affects both loyalty and perception.

The ability of a business to ensure the continuous use or repurchase of its products and services over a time is known as customer retention. According to Nufaisa & Aty (2024), customer retention also determines the sustainability of the business relationship between customers and the company.

Hasan Samsurijal (2020) and David A. Garvin (2020) reported that there are eight dimensions of quality. In addition, the following dimensions can be used to determine the quality of a product

1. Performance
Performance is a quality criterion directly related to the main characteristics of a product.
2. Features
Additional features on a product tend to affect customer decisions effectively.
3. Reliability

The ability of a product to function properly under certain conditions determines its reliability. Moreover, this characteristic can enhance the credibility of the product from the perspective of customers.

4. Conformance

This is the degree to which a product meets performance and quality requirements.

5. Durability

The durability of a product determines how long it can be used continuously before needing replacement. Furthermore, the useful life is also used to ascertain its durability.

6. Serviceability

The ability to perform maintenance and repairs quickly, competently, and practically is referred to as serviceability. In addition, this dimension directly impacts after-sales support from the manufacturer.

7. Aesthetics

Aesthetics relates to the external appearance of an item, including texture and other attractive aspects.

8. Perceived Quality

The perceived quality relates to how customers perceive an item. This dimension drives customer appreciation for a particular brand due to the product's reputation.

A deep understanding of product quality, including the application of the diverse dimensions, enabled companies to increase customer satisfaction and loyalty. This is because both product quality and the numerous dimensions serve as important guidelines for ensuring that product development meets overall customer needs.

Payne described service as an activity that includes interactions with multiple clients and a number of intangible components but does not result in the transfer of ownership of a tangible product (Halim et al., 2021). Service quality refers to efforts to meet customer requests and desires. In addition, it includes the accuracy of delivery that meets customer expectations. Tjiptono (2019) reported that customer satisfaction and retention are significantly affected by service quality. Previous studies found that service quality also played a critical role in determining customer satisfaction and retention. According to Tjiptono (2019), there are five main indicators of service quality, namely tangibles, assurance, responsiveness, empathy, and reliability.

The following aspects of service quality, punctuality, and reliability have a significant impact on customer satisfaction (Ali and Amin, 2020). Furthermore, Gummerus and Hsiao (2020) found that superior customer service increased customer loyalty, proven to be responsible for driving customer retention. This is consistent with the study by Orellana and Arbizu (2021), which showed a high Net Promoter Score (NPS) in restaurants responsible for providing superior service implied good service quality has a substantial impact on customer loyalty.

Several studies showed that overall customer experience is affected by the interaction between product and service quality, alongside the individual effects of each component. Simultaneous improvements in product and service quality have a greater impact on customer satisfaction (Chen and Tsou, 2022). This factor can be positive or negative, particularly when expectations are compared with reality. Satisfied customers prioritize a business, become loyal to its products, and make recommendations. However, customer loyalty and retention increase significantly alongside high-quality products and services (Hsieh and Chen, 2021).

Conceptual Framework

Based on the formulated hypotheses, the following is a representation of the relationship model between the factors tested in this study

- H1: Product quality (X1) has a positive effect on customer satisfaction (Z) in fried chicken franchises.

- H2: Service quality (X2) has a positive effect on customer satisfaction (Z) in fried chicken franchises.
- H3: Customer satisfaction (Z) has a positive effect on customer retention (Y) in fried chicken franchises.
- H4: Product quality (X1) has a positive effect on customer retention (Y) through customer satisfaction (Z) in fried chicken franchises.
- H5: Service quality (X2) has a positive effect on customer retention (Y) through customer satisfaction (Z) in fried Chicken franchises. In addition, the proposed conceptual framework is shown in Figure 1.

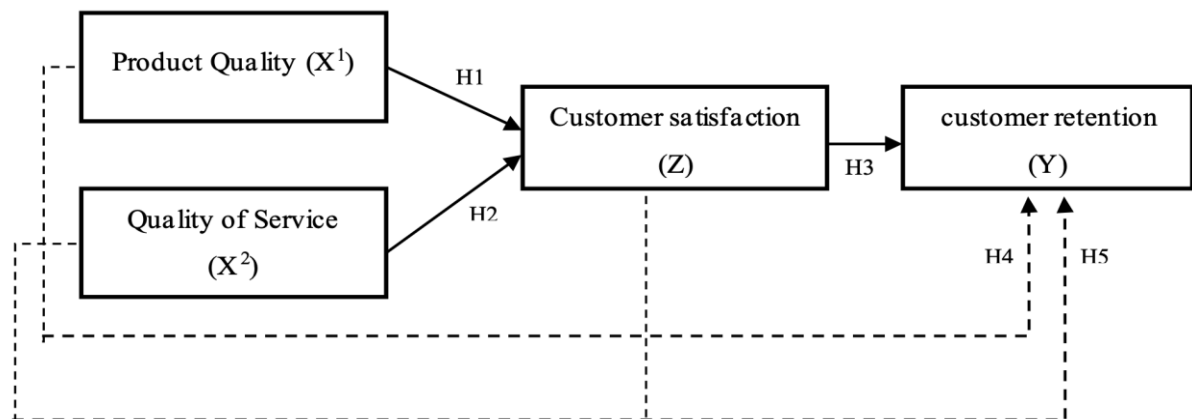


Figure 1. Conceptual Framework

METHODS

A quantitative method was adopted because the philosophical perspective of positivism viewed reality as an objectively measurable item. The study instruments were used as data collection tools to investigate a specific population or sample. Data analysis was also performed numerically or statistically to evaluate the proposed hypotheses (Sugiyono, 2017). A quantitative method was selected considering that it allowed the assessment of the impact of a factor on another including statistically testing the existing relationship. In the context of the fried chicken franchise, the present study showed the relationship between customer satisfaction and retention, as well as product, and service quality.

Augustianti et al. (2022) reported that a population consisted of subjects with certain characteristics perceived as the object of generalization in an analysis. All customers who have made purchases from the fried chicken franchise in Bekasi Regency constituted the population in this study. Furthermore, a sample refers to a portion of the population selected through a specific process to reflect the characteristics and conditions of the population as a whole (Agustianti et al., 2022). The purpose of using a sample is to obtain reliable and relevant data without including every member of the population.

Besides determining the study area, the selection of food franchise outlets as sampling locations was carried out purposively, considering several criteria. The sample size was determined using the Quota Sampling method, where the study was conducted at five franchise outlets. These were selected according to the highest number of visits, active and stable operations, including strategic locations, namely commercial areas, shopping centres, and areas with high public mobility. From each outlet, 20 respondents were selected, bringing the total sample to 100.

A filtering procedure was implemented at the beginning to ensure that the respondents completing the questionnaire were legitimate customers (transaction participants). Moreover, potential respondents were required to meet the following criteria

1. Have direct experience consuming the product at the study location.

2. Answer verification questions regarding menu items ordered or recent service experiences.

Data obtained is expected to reflect actual and relevant customer perceptions regarding product and service quality, including customer satisfaction and retention.

The population size was uncertain due to fluctuating client characteristics and a lack of statistical data regarding the total number of customers. Therefore, the Cochran formula was used to calculate the sample size. Anam et al. (2021) reported that the Cochran formula is a method for determining sample size, particularly when the population is unknown or extremely large. The method entailed considering the confidence level and margin of error. Its application enabled the sample obtained to be proportionally representative of the population as well as produce valid and generalizable results regarding strategies for increasing customer retention through product and service quality in food franchises in Bekasi Regency.

Based on this perspective, Cochran's formula was used to determine the sample size

$$n = \frac{Z^2 p(1-p)}{e^2}$$

Description:

n = Total sample

Z = z value at a certain confidence level (95% = 1.96)

p = the proportion of the population estimated to have a particular characteristic (if unknown, use 0.5)

q = 1 – p

e = margin of error 10%

In this study the

Level of confidence 95% → Z = 1,96

Population proportion p = 0.5 (population unknown)

q = 1 – 0,5 = 0,5

Margin of error 10% → e = 0,10

The sample calculation is reported as follows

$$\begin{aligned} n &= \frac{(1,96)^2 \cdot 0,5 \cdot 0,5}{(0,10)^2} \\ n &= \frac{3,8416 \cdot 0,25}{0,01} \\ n &= \frac{0,9604}{0,01} \\ n &= 96,04 \end{aligned}$$

Based on this calculation, the minimum sample size used in this study was 96 respondents. The sample size was rounded up to 100 respondents to improve data accuracy.

A 5-point Likert scale (1 = strongly disagree; 5 = strongly agree) in line with the questionnaire was used to measure the factors. The questions asked were tested for validity and accuracy, which showed customers who have made purchases at the food franchise locations constituted the greatest population. A purposive sampling method was used in the sampling process. Sugiyono (2019), described purposive sampling as a sample selection method based on certain criteria. This implied that predetermined criteria or certain factors were adopted to select the sample. Customers who have made repeated purchases at the franchise outlets in the past

six months were selected by using a purposive sampling method. The aim was to ensure that the respondents were familiar with the goods and services offered by the fried chicken franchise.

Data were collected using a survey method, alongside questionnaires distributed in person at selected food franchise outlets and online through survey platforms such as Google Forms. The questionnaire included several sections which focusing on:

- Product quality
- Service quality
- Customer satisfaction
- Customer retention (e.g., frequency of return visits)

A specific method adopted for measuring individual or group attitudes, beliefs, and perceptions of social phenomena is the Likert scale. This method was used to divide the factors to be evaluated into indicators. Additionally, the diverse indicators served as the basis for developing survey items, which could be statements or questions. The five-point Likert scale is explained as follows (Sugiyono, 2018).

Table 1. Respondent Answer Weighting Criteria

Alternative Answers	Score
Strongly Agreee	5
Agree	4
Somewhat Agree	3
Disgaree	2
Strongly Disagree	1

Data evaluation was carried out using factor and regression (correlation) analyses combined with a multivariate statistical method known as Structural Equation Modelling (SEM). In this context, SEM aimed to evaluate how the diverse factors in a model related to each other (Santoso, 2012). SmartPLS 4 statistical software was adopted to review the collected data, with the following analytical methods applied

- Measurement Model Analysis (Measurement/Outer Model) was adopted to evaluate how well the indicators represented the latent factors used in the study. This assessment was conducted using validity and reliability tests, including reflective indicators. Convergent validity was determined by factor loadings (≥ 0.70) and Average Variance Extracted ($AVE \geq 0.50$). Discriminant validity was further evaluated based on cross-loadings. Cronbach's Alpha and Composite Reliability were used in the reliability test, with a criterion value of ≥ 0.70 to ensure the internal consistency of the constructs.
- Structural Model Analysis (Inner /Structural Model) was adopted to assess the causal relationships between the latent factors created. Path coefficients were also used to determine the direction and intensity of interactions between constructs. Meanwhile, the coefficient of determination (R-squared) enabled the measurement of how well the independent factors explained the dependent factors. The R-squared score showed how effective the structural model explained variation in the endogenous factors.
- Hypothesis testing (bootstrapping) method with respect to the SmartPLS application was used to validate the proposed hypotheses. The method does not require an estimated normal distribution to determine the relevance of the effect between latent factors. Moreover, the hypothesis acceptance criteria were based on a t-statistic and p-value of ≥ 1.96 and ≤ 0.05 , respectively, at the 5% significance level. The essence was to assess whether the relationship between factors was significant.

Mediation Effect Analysis was carried out to determine the function of customer satisfaction as an intermediary in the relationship between the independent and dependent factors. The bootstrapping process was also used to analyse specific indirect effects to test

mediation. Meanwhile, mediation is considered significant if the t-statistic and p-value were obtained as ≥ 1.96 and ≤ 0.05 , respectively. This showed that the mediating factor tended to bridge the effect between variables in the formulated mode

RESULTS

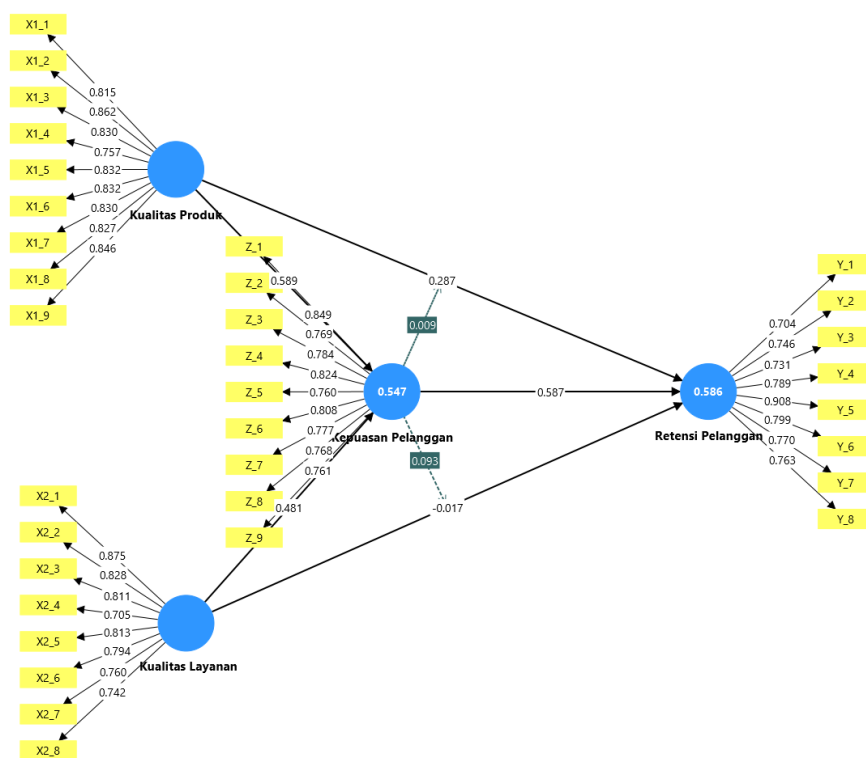
Testing with Measurement Model (outer model)

The measurement or external model is used to assess validity and reliability. It is also used to define each indicator associated with a specific factor. In addition, the following measurement methods were adopted.

Validity Test

The validity of this study was measured by using two methods, namely convergent and discriminant.

Figure 2 Outer Model Source: processed by SMART SMARTPLS 4 (2025)



Convergent Validity

Convergent validity is among the most important requirements in analytical testing using SmartPLS. Factor loadings carried out using reflective indicators, served as the basis for evaluating convergent validity in SmartPLS. The numerous factors reflect the relationship between specific item or component scores and the overall construct score. This was achieved using indicators that accurately assessed the construct. For a confirmatory study, factor loadings should be greater than 0.70, but values exceeding 0.60 are acceptable for exploratory analyses. The result is in line with the criteria used for initial factor matrix analysis. In this study, factor loadings greater than 0.7 were applied.

An AVE value of > 0.5 shows Convergent Validity. The following graph shows the factor loading values for each indicator, including the relationship between causality and constructs.

The convergent validity generated using SmartPLS 4 software was determined by the factor loading value for each construct indicator. The factor loading and AVE values should be greater than 0.70 and 0.5, respectively, with the results stated as follows

Table 2 Loading Factor

Variables	Indicator	Loading Factor	Description
Product Quality (X1)	X1_1	0.815	VALID
	X1_2	0.862	
	X1_3	0.830	
	X1_4	0.757	
	X1_5	0.832	
	X1_6	0.832	
	X1_7	0.830	
	X1_8	0.827	
	X1_9	0.846	
Service Quality(X2)	X2_1	0.875	VALID
	X2_2	0.828	
	X2_3	0.811	
	X2_4	0.705	
	X2_5	0.813	
	X2_6	0.794	
	X2_7	0.760	
	X2_8	0.742	
Customer Retention (Y)	Y_1	0.704	VALID
	Y_2	0.746	
	Y_3	0.731	
	Y_4	0.789	
	Y_5	0.908	
	Y_6	0.799	
	Y_7	0.770	
	Y_8	0.763	
Customer Satisfaction (Z)	Z_1	0.849	VALID
	Z_2	0.769	
	Z_3	0.784	
	Z_4	0.824	
	Z_5	0.760	
	Z_6	0.808	
	Z_7	0.777	
	Z_8	0.768	
	Z_9	0.761	

Source: SMARTPLS data processing (2026)

Based on Table 2, the results of the validity test for all indicators of latent factors have a value greater than 0.70. This was achieved using the Loading Factor on each manifest factor, resulting in the validity of the indicators.

Table 3 AVE Values

Variables	AVE
Product Quality	0.682
Service Quality	0.628
Customer Satisfaction	0.623
Customer Retention	0.606

Source: SMARTPLS data processing (2026)

Table 3 shows that each factor has an AVE value of more than 0.50, ranging from 0.606 to 0.682. This result shows that the data met the criteria for good convergent validity, where each latent construct explained over 50% of the indicator's variation.

Discriminant Validity

Discriminant validity was evaluated by using the cross-loading values on these constructs and comparing the results of the AVE with the correlations between latent factors. If the correlation between a concept and its main indicator is higher than the correlation between the same construct and the others, then the variable is assumed to have strong discriminant validity. In addition, the obtained cross-loading values are shown in Table 4.

Table 4 Cross Loading Factor

Variable	Indicator	X1	X2	Z	Y
Product Quality (X1)	X1_1	0.815	-0.104	0.421	0.516
	X1_2	0.862	-0.044	0.486	0.478
	X1_3	0.830	-0.094	0.464	0.537
	X1_4	0.757	-0.091	0.380	0.411
	X1_5	0.832	-0.048	0.488	0.545
	X1_6	0.832	-0.016	0.433	0.454
	X1_7	0.830	-0.107	0.433	0.550
	X1_8	0.827	-0.058	0.479	0.443
	X1_9	0.846	0.124	0.569	0.535
Service Quality(X2)	X2_1	-0.055	0.875	0.437	0.204
	X2_2	-0.061	0.828	0.358	0.147
	X2_3	-0.054	0.811	0.328	0.121
	X2_4	-0.021	0.705	0.376	0.229
	X2_5	0.082	0.813	0.438	0.209
	X2_6	-0.121	0.794	0.291	0.122
	X2_7	-0.095	0.760	0.240	0.139
	X2_8	-0.104	0.742	0.271	0.083
Customer Retention (Y)	Y_1	0.337	0.204	0.464	0.704
	Y_2	0.502	0.215	0.622	0.746
	Y_3	0.418	0.171	0.574	0.731
	Y_4	0.536	0.051	0.537	0.789
	Y_5	0.500	0.135	0.568	0.908
	Y_6	0.464	0.228	0.611	0.799
	Y_7	0.492	0.148	0.552	0.770
	Y_8	0.484	0.149	0.511	0.763
Customer Satisfaction (Z)	Z_1	0.440	0.370	0.849	0.592
	Z_2	0.442	0.382	0.769	0.540
	Z_3	0.440	0.341	0.784	0.570

	Z_4	0.511	0.392	0.824	0.554
	Z_5	0.308	0.317	0.760	0.518
	Z_6	0.516	0.376	0.808	0.561
	Z_7	0.491	0.402	0.777	0.603
	Z_8	0.440	0.244	0.768	0.631
	Z_9	0.370	0.350	0.761	0.520

Source: SMARTPLS data processing (2026)

In line with Table 4, all indicators have higher correlation coefficients with respective latent factors compared to the others. This was dependent on the cross-loading factor values. The results proved the indicators were used to measure latent factors that met the requirements, as the loading value for each item is greater than 0.70.

Table 5 Fornell-Larcker

	Customer Satisfaction	Service Quality	Product Quality	Customer Retention
Customer Satisfaction	0.789			
Service Quality	0.449	0.792		
Product Quality	0.562	-0.055	0.826	
Customer Retention	0.718	0.208	0.605	0.778

Source: SMARTPLS data processing (2026)

The results of the test showed that the proposed model met the requirements for ideal discriminatory validity based on the information in Fornell-Larcker Table 5. This was proven by the square root of the AVE at the diagonal location, which was consistently higher than the correlation value between the construct and the others in the same model. The Product Quality has an AVE root of 0.826, compared to its correlation with Customer Satisfaction (0.562), Service Quality (-0.055), and Customer Retention (0.605). Therefore, each factor is unique, because it does not overlap empirically, and measures different processes.

Table 6 HTML

	Customer Satisfaction	Service Quality	Product Quality	Customer Retention	Customer Satisfaction x Product Quality	Customer Satisfaction x Service Quality
Customer Satisfaction						
Service Quality	0.468					
Product Quality	0.594	0.133				
Customer Retention	0.780	0.220	0.647			
Customer Satisfaction x Product Quality	0.097	0.186	0.096	0.059		
Customer Satisfaction x Service Quality	0.218	0.208	0.130	0.082	0.153	

Source: SMARTPLS data processing (2026)

All correlation values between factors were less than the conservative threshold of 0.85 or 0.90, based on the results of data testing shown in Table 6 HTMT (Heterotrait-Monotrait Ratio). Furthermore, no collinearity issues between constructs were observed, as proven by the highest value of 0.780 between customer satisfaction and retention. The model has strong discriminatory validity because each latent factor is experimentally unique.

Reliability Test

The reliability of Partial Least Square (SMARTPLS) was assessed by using two criteria. As a result, the two criteria included Composite Reliability (CR) and Cronbach's Alpha (CA).

Table 7 Reliability

Variables	Cronbach's alpha	Composite reliability (rho_c)	Description
Product Quality	0.942	0.951	Reliable
Service Quality	0.915	0.931	
Customer Satisfaction	0.924	0.937	
Customer Retention	0.906	0.924	

Source: SMARTPLS data processing (2026)

All constructs have CA and CR values greater than 0.70, according to the results of the reliability test shown in Table 7. This proved that each factor in the model has an extremely high level of internal consistency and is reliable.

Structural model test (Inner Model)

The purpose of the measurements performed in this structural model was to evaluate how the latent factors interacted with each other. This test was conducted using a bootstrapping method, which assessed the significance of effects by examining path values. The following figure shows the results of the bootstrapping method.

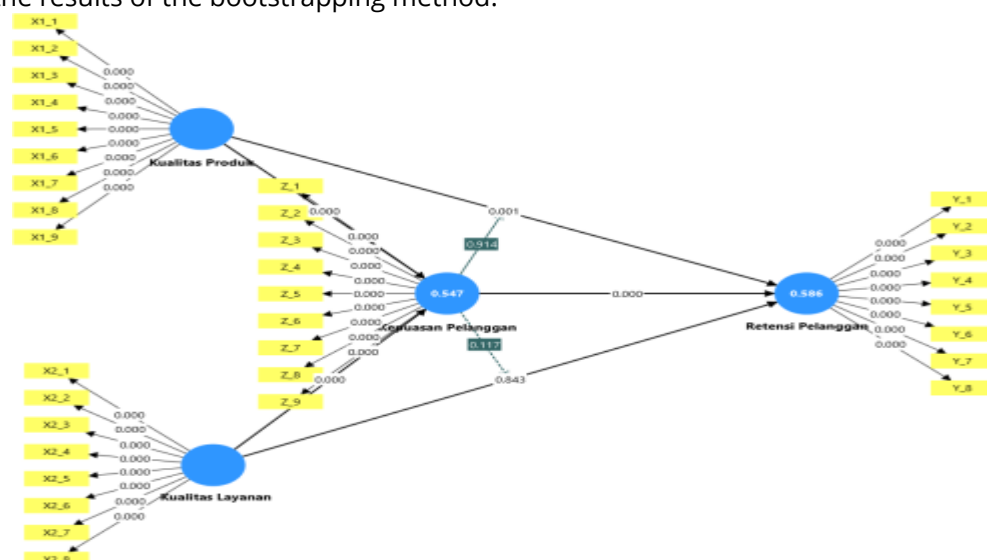


Figure 3 Bootstrapping

The bootstrapping hypothesis test showed that product and service quality have a significant impact on customer satisfaction. Based on this perspective, customer satisfaction has a substantial impact on customer retention. An insignificant and direct relationship existed between service quality and customer retention ($p = 0.843$).

Table 8 R Square Results

Variable	R-square	R-square adjusted
Customer Satisfaction	0.547	0.538
Customer Retention	0.586	0.564

Source: SMARTPLS data processing (2026)

Product and service quality are important determinants of customer satisfaction, considering the significant impact on customer retention, proven by the results of the analysis in Table 8. No direct correlation existed between Service Quality and Customer Retention, which implied the Customer Satisfaction variable fully mediated this relationship.

Hypothesis Testing

Hypothesis testing was performed using the bootstrapping method or methodology in SmartPLS 4, once the data met the measurement criteria. Bootstrapping, a resampling method that allowed data to be freely distributed, was used to eliminate large sample sizes or an estimated normal distribution. The formulated hypotheses were tested by analysing the path coefficients and t- or p-values to measure the effect between factors. The path significance test results also included the parameter coefficient values (original sample), which reflected the significance of each factor in the study.

Table 9 Hypothesis Testing

Variable	Original sample (O)	T statistics	P values
Product Quality -> Customer Satisfaction	0.589	10.986	0.000
Service Quality -> Customer Satisfaction	0.481	7.284	0.000
Customer Satisfaction -> Customer Retention	0.587	6.711	0.000
Product Quality -> Customer Retention	0.287	3.384	0.000
Service Quality -> Customer Retention	-0.017	0.198	0.843
Product Quality -> Customer Satisfaction -> Customer Retention	0.346	5.968	0.000
Service Quality -> Customer Satisfaction -> Customer Retention	0.282	4.598	0.000

Source: SMARTPLS data processing (2026)

The results of hypothesis testing showed that the relationships between factors have a positive and significant effect. This was based on the results of the path significance test shown in Table 9. Both the t-statistic value and path coefficient must be greater than 1.96. The Customer Satisfaction variable (Z) is proven to act as a significant mediator of the independent factors. An insignificant direct effect was found ($P=0.843 > 0.05$) on the relationship between Service Quality (X) and Customer Retention (Y). However, the indirect effect through Customer Satisfaction was extremely significant ($P=0.000 < 0.05$), showing the occurrence of Full Mediation (Perfect Mediation). On the Product Quality variable (X1), both the direct and indirect effects were significant, resulting in the categorization as Partial Mediation (Partial Mediation). Based on the path coefficient and t-statistic, the direct effect was reported as follows:

1. The Effect of Product Quality on Customer Satisfaction. Customer satisfaction was positively and significantly affected by product quality. Therefore, the higher the level of customer satisfaction, the better the product quality of the company.
2. The Effect of Service Quality on Customer Satisfaction. Customer satisfaction was positively and significantly affected by service quality. This showed that improved services tended to increase customer satisfaction.

3. The Effect of Customer Satisfaction on Customer Retention. Customer retention was positively and significantly affected by customer satisfaction. Additionally, satisfied customers remained loyal to a business and made extra purchases.
4. The Effect of Product Quality on Customer Retention. Customer retention was positively and significantly affected by product quality. The result implied that it was the best investment for naturally retaining customers.
5. The Effect of Service Quality on Customer Retention. Customer retention was not significantly affected by service quality. This showed that without intermediary factors such as customer satisfaction, providing excellent service alone did not guarantee loyalty.
6. The Effect of Product Quality on Customer Retention through Customer Satisfaction. Product quality has a positive and significant impact on customer retention ($T = 5.968$; $p < 0.05$). The result proved that improving product quality increased customer satisfaction, which also affected retention.

The Effect of Service Quality on Customer Retention through Customer Satisfaction: Service quality positively and significantly affected customer retention ($T = 4.598$; $p < 0.05$). This showed that improving customer service increased satisfaction and finally motivated customer loyalty

DISCUSSION

The Effect of Product Quality on Customer Satisfaction

The results of the H1 test were accepted because customer satisfaction (Z) in fried chicken franchises was positively and significantly affected by product quality (X1). Moreover, these results showed that customer satisfaction perceptions were significantly affected by product quality features, including taste, freshness, portion size, and consistency. Product quality is the main foundation for creating a positive consumption experience in the fast-food franchise business, as customers are generally satisfied when the product received meets or exceeds individual expectations.

The effect of product quality on customer satisfaction occurred because the fried chicken franchise business strategy generally outlined product standardization and taste consistency across each outlet. The company was able to maintain product consistency despite operating in multiple locations through the implementation of strict standard operating procedures (SOPs), the use of standardized recipes, and quality control of raw materials. This strategy played a crucial role in building customer trust in the brand, as customers have the same expectations when purchases are made. Consistent product quality was essential for creating sustainable customer satisfaction, particularly in the fast-food industry, which depended heavily on reliable taste and product quality.

The Effect of Service Quality on Customer Satisfaction

H2, which stated customer satisfaction (Z) was positively affected by service quality (X2), was accepted. The results of the significance test showed that customer satisfaction is positively and significantly affected by service quality. This implied that customer satisfaction at the Ayam Goreng franchise could be improved by providing fast, friendly, professional, and polite service. The results supported the idea that direct interaction between staff and customers has a significant impact on customer satisfaction alongside product quality. The customers assessed the goods used, including the service received when making purchases.

The effect of service quality on customer satisfaction is inseparable from the fried chicken franchise business strategy, which focuses on service standardization and human resource training. Furthermore, companies often adopted consistent service standards from customer greetings and service speed to complaint resolution. The aim was to ensure that every customer received a consistent level of service at every location. As part of the competitive advantage,

fried chicken franchises tended to increase perceived service value, strengthen customer relationships, and create long-term satisfaction by focusing on effective and customer-oriented service.

The Effect of Customer Satisfaction on Customer Retention

The results of this study showed that customer satisfaction (Z) has a positive and significant effect on customer retention (Y), thereby supporting H3. Customer satisfaction acts as a psychological factor that drives loyalty, alongside positive experiences, shaping attitudes and behaviours leading to continued preference for the same brand over competitors. Therefore, customer satisfaction is perceived as a significant strategy for increasing customer retention.

The fried chicken franchise business model, which described customer satisfaction as the basis for developing long-term relationships with customers, was closely connected to the impact of customer satisfaction on retention. Businesses can also build emotional connections with customers by consistently maintaining the quality of respective products and services as well as providing a satisfying experience at every visit. This strategy is supported by loyalty programs, recurring special offers, and customer-focused marketing, resulting in the provision of a strong sense of value and incentives to continue making purchases. Customer satisfaction refers to a strategic tool for continuously improving customer retention, as well as an outcome of the business process.

The Effect of Product Quality on Customer Retention

The results of the analysis showed that product quality (X1) has a positive and significant direct effect on customer retention (Y), thereby supporting H4. This showed that the physical characteristics of the product, such as delicious taste and clean presentation, possessed independent power to motivate customers to return without having to always depend on other external factors. In the food franchise business, the product is the main commodity desired by customers. When the quality is maintained and suits the customer's taste, it creates a strong reason for the product to be the main preference in the future.

The effect of product quality on customer retention proved that it has an extremely strong independent appeal. Customers do not need other considerations if the fried chicken product meets individual tastes and standards. This implied that the strategy of recipe standardization and strict quality control of raw materials at each outlet in Bekasi Regency has succeeded in creating a lasting positive impression. Therefore, customer retention is interpreted as the result of consistent sensory satisfaction, where product quality acts as a bond of loyalty without having to depend on aspects of staff service.

From a managerial perspective, the intense competition among global and local brands, showed consistent product quality was a significant defence mechanism. As a result, the outlet managers in Bekasi Regency must ensure consistent taste and hygiene standards. This is because Indonesian customers are highly sensitive to changes in the taste of food products, making strict quality control crucial to retain customers and prevent switching to competitors.

The Effect of Service Quality on Customer Retention

The results of the test showed that service quality (X2) did not have a significant direct effect on customer retention (Y), hence H5 was rejected. This showed that in the context of the fried chicken franchise at the study location, friendly or fast service are not strong enough to guarantee customer return if the attributes are not accompanied by a deep sense of satisfaction.

The effect of service quality on customer retention showed a negative but insignificant direction. The result implied that improving service quality in isolation would not be effective in maintaining a sustainable customer base if other aspects were ignored. This further suggested that service quality was losing the direct driving force because customers in the industry placed a

main focus on the end result of a transaction (output-oriented) than the service process itself (process-oriented).

The implication of the result for management is the need to reorient service strategy. Considering the current competitive landscape of franchises that place a strong focus on efficiency, the management should invest in conventional staff hospitality training, including speed and accuracy of services (digitalization). In the highly mobile Indonesian market, quality service was presumed to minimize waiting time, and the transition into satisfaction, finally leading to retention.

The Role of Customer Satisfaction in Mediating the Effect of Product Quality on Customer Retention

Product quality (X1) has a positive and significant effect on customer retention (Y) mediated through customer satisfaction (Z). This was based on the results of the indirect effect test, hence, H4 was accepted. The results showed that the relationship between product quality and customer retention was strengthened by the mediating role of customer satisfaction. It further suggested that increasing customer satisfaction affected retention rather than directly motivating customers to remain loyal. A product would be more successful in increasing customer retention if it is able to satisfy customers.

The mediating role of customer satisfaction is in line with the fried chicken franchise business strategy, which placed product quality as the main foundation for building long-term relationships with customers. The highly competitive landscape of fried chicken franchises in Indonesia should enable the management to recognize that customer loyalty can no longer be built solely through price promotions or friendly service. The main implication is that managers should synergize product taste consistency with technology-based service speed to create a superior customer experience, given the dominant role of satisfaction as a mediator. This strategy, which focused on the final results of transactions (output-oriented), played a critical role in maintaining market share particularly in areas with high mobility, such as Bekasi Regency. Additionally, customers have a strong reason to remain loyal among the many alternative competing brands.

The Role of Customer Satisfaction in Mediating the Effect of Service Quality on Customer Retention

The results of the test confirmed that H5 was accepted. This showed that service quality (X2) positively and significantly affected customer retention (Y) through customer satisfaction (Z). The results showed that the relationship between service quality and customer retention was mediated by customer satisfaction. In this context, customer satisfaction increases with quality service, which motivates loyalty and the intention to make more purchases. Service quality further contributed to both short and long-term customer retention through higher levels of satisfaction.

The mediating role of customer satisfaction in this relationship was consistent with the fried chicken franchise business strategy, which prioritized service as the main avenue of building emotional connection with customers. In view of the analysis, the company also focused on speed and efficiency of service. The highly competitive landscape of fried chicken franchises in Indonesia, enabled the management to understand that customer retention can no longer be achieved solely through formal service aspects. The dominant role of customer satisfaction as the sole mediator of service quality in achieving retention, resulted in a significant strategic implication where managers are expected to synergize product taste consistency with output-oriented service efficiency to create a superior experience. Moreover, a strategy that focused on strict SOP standardization and responsiveness to customer needs is crucial for maintaining market share in high-mobility areas such as Bekasi Regency. The customers also have strong reasons to remain loyal among the many alternative competing brands

CONCLUSION

1. At the fried chicken franchise in Bekasi Regency, product quality had a positive and significant effect on customer satisfaction. This implied that the higher the level of customer satisfaction, the more favourably customers evaluate product quality.
2. Customer satisfaction was positively and significantly affected by service quality. The result showed that fast, friendly, and responsive service increased customer satisfaction as well as created a positive experience.
3. Customer satisfaction also had a positive and significant effect on customer retention. Satisfied customers made repeated purchases and remained loyal to the fried chicken business.
4. Customer retention was positively and significantly affected by product quality. This showed that delicious taste and superior product quality had the ability to attract customers to return voluntarily, regardless of other external effect.
5. Customer retention was not significantly affected by service quality. The study suggested that if a customer was not truly satisfied, friendly or fast service were not enough to ensure return.
6. Product quality had a positive and significant effect on customer retention through customer satisfaction. The result showed that customer satisfaction acted as an intermediary factor in strengthening the relationship between product quality and customer retention.
7. Service quality had a positive and significant effect on customer retention through customer satisfaction. This suggested that improving service quality played an effective role in increasing customer retention if the outcome would lead to customer satisfaction

SUGGESTION

1. Practical Advice
The management of fried chicken franchise were advised to maintain and improve product quality, particularly in terms of taste, cleanliness, and consistency, in order to meet customer expectations. Furthermore, improving service quality should be the focus, with employee training centred on friendliness, speed of service, and the ability to handle customer complaints. These efforts are expected to improve customer satisfaction, finally leading to increased customer retention.
2. Theoretical Suggestions
Future analyses were recommended to expand the present study by including additional factors such as price, brand image, customer trust, or marketing that affected customer retention. Furthermore, future analyses could examine different types of food franchises or use a larger sample, to make the results of this study more generalizable

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