

# The Influence of Perceived Price Fairness, Product Quality and Service Quality on Customer Loyalty mediated by Customer Satisfaction at XYZ Furniture Manufacturer in Surabaya

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## Abstract

The war between Ukraine and Russia caused disruption in the furniture export process. To overcome this problem, PT. BMN as a company operating in the furniture industry carries out a strategy to maintain the company's business processes by increasing customer loyalty. The goal is to analyze the impact of Perceived Price Fairness, Product Quality and Service Quality on Customer Satisfaction and Customer Loyalty. Quantitative causal type research by collecting data through questionnaires which was analyzed by SEM PLS. Population study is the key person in purchasing furniture. The sample was determined using purposive sampling so that the total sample was 41 respondents. The study prove that Perceived Price Fairness and Product Quality do not have a significant impact on Customer Satisfaction, while Service Quality has a significant impact. Perceived Price Fairness, Product Quality, Service Quality and Customer Satisfaction have a significant impact on Customer Loyalty.

**Keywords:** *Perceived Price Fairness, Product Quality, Service Quality, Customer Satisfaction, Customer Loyalty*



## A. INTRODUCTION

Furniture distributors in Indonesia are required to produce creative and innovative products with a touch of unique design style in furniture products. This furniture company generally produces indoor and outdoor furniture from Indonesian hardwood and aluminum. Quality and customer satisfaction are our main points to keep our business running well. The world of property continues to develop so that the company also serves the construction of interior projects from commercial buildings to offices with priorities of good quality, on time and customer satisfaction.

The Ukraine and Russia war has an impact on global trade because the two countries have a strategic role as the largest exporters of several commodities. Almost 80% of the current PT market. XYZ is an export market in European countries. For this reason, PT. XYZ continues to improve innovation and marketing strategies both digitally and offline by expanding distribution and marketing channels and networks to explore markets outside the European market. Another step that is no less important is PT. XYZ also does not ignore the potential of the local market with a market segmentation strategy so that it can compete competitively with many local companies in the furniture sector. PT. XYZ, with support from the creative internal

product design team and partners, must be astute in observing furniture products that are currently needed by customers and become trendsetters in the market. Because the challenge in furniture product innovation is that furniture products are easy to imitate and require product development costs, so product innovation carried out by PT BMN also prioritizes product differentiation with prime quality standards.

Exports of furniture and crafts in 2023 are expected to continue to grow even though the global market outlook is still unstable. The domestic furniture and crafts market will also be worked on more intensively amidst sluggish global demand. Chairman of the HIMKI Presidium, Abdul Sobur, said that in 2022, HIMKI's export target for furniture and crafts would not be achieved. Realized exports of the two commodities are estimated at 3.46 billion United States (US) dollars or 0.1 percent lower than the target. This target was not achieved due to a decrease in European Union (EU) market demand of 0.2 percent and a slowdown in growth in US market demand from 43 percent in 2021 to 16.7 percent in 2022. This economic instability is hitting several export destination countries for the furniture and crafts industry. such as the United States (US) and Europe with soaring inflation due to the Russian-Ukrainian war.

The important thing for companies is to maintain business through loyalty which is influenced by customer satisfaction. Satisfied customers will be loyal long term. To maintain customer loyalty to the company, there are several factors that need to be considered. Then Perceived price fairness is a vital factor in consumer reactions to prices. Research by Asadi et al., (2014) states that in managing effective pricing decisions, marketers must understand the response to price transformations.

Product quality is a service feature related to satisfy needs (Kotler & Keller 2009 143). Quality is achieved if the company provides products according to expectations. Čater & Čater (2009) research found that satisfaction influenced positive on performance. Meanwhile, Hoe & Mansori (2018) shows that product quality have an insignificant influence on satisfaction. Then Service quality is an attractive competitive concept (Kumar, 2017). Research by Tanisah & Maftuhah (2015) state there is an impact of service quality on customer loyalty. Apart from that, Tjiptono (2019) states that service quality is the service traits in terms to meet needs. Chiguvi & Guruwo (2015), customer satisfaction have a significant impact on customer loyalty.

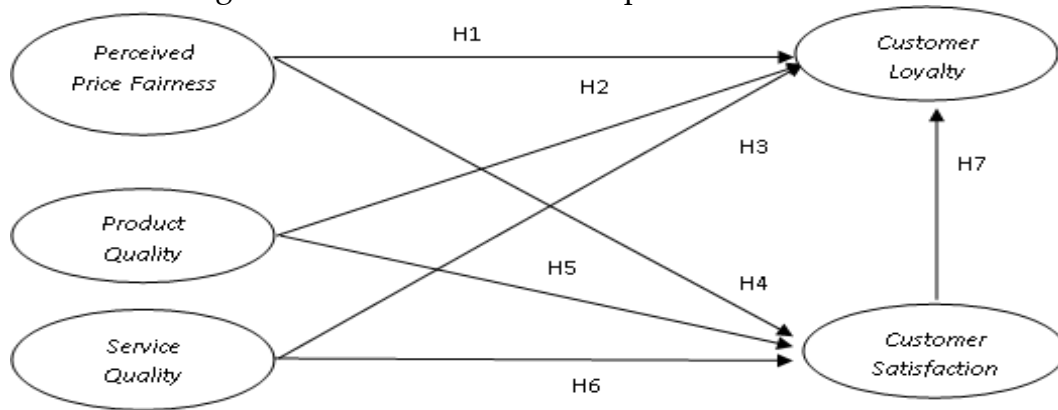
PT. BMN experienced a decline in the value of exports of goods due to the Russian and Ukrainian Wars. To increase export value, companies must pay attention to customer loyalty. The goal is to analyze the impact of Perceived price fairness, Product Quality and Service Quality on Customer Satisfaction through Customer Satisfaction on Loyalty.

## **B. METHODS**

This study is quantitative with a causality approach to find relationships between variables. The target population in this research is purchasing managers or company owners who buy furniture commodities at PT. XYZ, where the respondent

is the key person in purchasing furniture. The sampling technique is purposive sampling, by determining samples based on certain assessments (Zikmund et al., 2013; 393). The sample characteristics are active companies that buy furniture at PT. XYZ in the last 2 years, namely 41 respondents. Data collection uses a questionnaire with SEM PLS data analysis techniques.

The following is an overview of the conceptual framework:



**Figure 1. Conceptual Framework**

**C. RESULTS AND DISCUSSIONS**

In PLS analysis, there are two tests carried out, namely the Outer Model to analyse the specifications of the relationship the latent construct and its indicators and the Inner Model to analyse direction and magnitude of the influence variables.

**1. Outer Model**

**a. Convergent Validity**

Every model indicator needs to satisfy convergent validity, have a value > 0.5.

**Table 1. Convergent Validity**

Variable	Item	Original Sample	P-Value
X1	X1.1	0.957	0,000
	X1.2	0.957	
	X1.3	0.950	
	X1.4	0.945	
X2	X2.1	0.931	
	X2.2	0.936	
	X2.3	0.863	
	X2.4	0.874	
	X2.5	0.953	
	X2.6	0.911	
	X2.7	0.909	
	X2.8	0.880	
X3	X3.1	0.834	
	X3.2	0.841	

Variable	Item	Original Sample	P-Value
	X3.3	0.903	
	X3.4	0.822	
	X3.5	0.914	
Z	Z.1	0.952	
	Z.2	0.960	
Y	Y.1	0.932	
	Y.2	0.935	

All indicator declared valid

**b. Discriminant Validity**

**Table 2. Discriminant Validity**

	X1	X2	X3	Z	Y
X1.1	0.957	0.443	0.699	0.537	0.727
X1.2	0.957	0.493	0.732	0.627	0.774
X1.3	0.950	0.585	0.702	0.612	0.774
X1.4	0.945	0.591	0.678	0.580	0.755
X2.1	0.560	0.931	0.555	0.512	0.667
X2.2	0.539	0.936	0.507	0.410	0.620
X2.3	0.475	0.863	0.386	0.419	0.517
X2.4	0.442	0.874	0.385	0.329	0.494
X2.5	0.526	0.953	0.553	0.554	0.643
X2.6	0.515	0.911	0.598	0.472	0.597
X2.7	0.445	0.909	0.526	0.405	0.552
X2.8	0.515	0.880	0.511	0.346	0.544
X3.1	0.574	0.604	0.834	0.628	0.783
X3.2	0.665	0.390	0.841	0.611	0.645
X3.3	0.634	0.510	0.903	0.719	0.763
X3.4	0.628	0.388	0.822	0.723	0.800
X3.5	0.689	0.515	0.914	0.743	0.863
Z.1	0.547	0.391	0.738	0.952	0.785
Z.2	0.636	0.526	0.785	0.960	0.864
Y.1	0.702	0.643	0.777	0.853	0.932
Y.2	0.784	0.559	0.899	0.761	0.935

All forming constructs have good discriminant because the outer loading of the construct indicators is greater than other constructs

In analyzing Discriminant Validity, you can use AVE with a value > 0.50.

**Table 3. AVE**

X1	0,906
X2	0,824

X3	0,746
Z	0,914
Y	0,872

The AVE value of the indicator converges.

**c. Composite Reliability**

If the composite reliability is > 0.60 it is declared reliable (Ghozali, 2018).

**Table 4. Composite Reliability**

X1	0,975
X2	0,974
X3	0,936
Z	0,955
Y	0,931

The composite reliability criteria are met by the entire concept under study

**d. Cronbach Alpha**

Cronbach alpha value > 0.6 is declared reliable (Sugiyono, 2016).

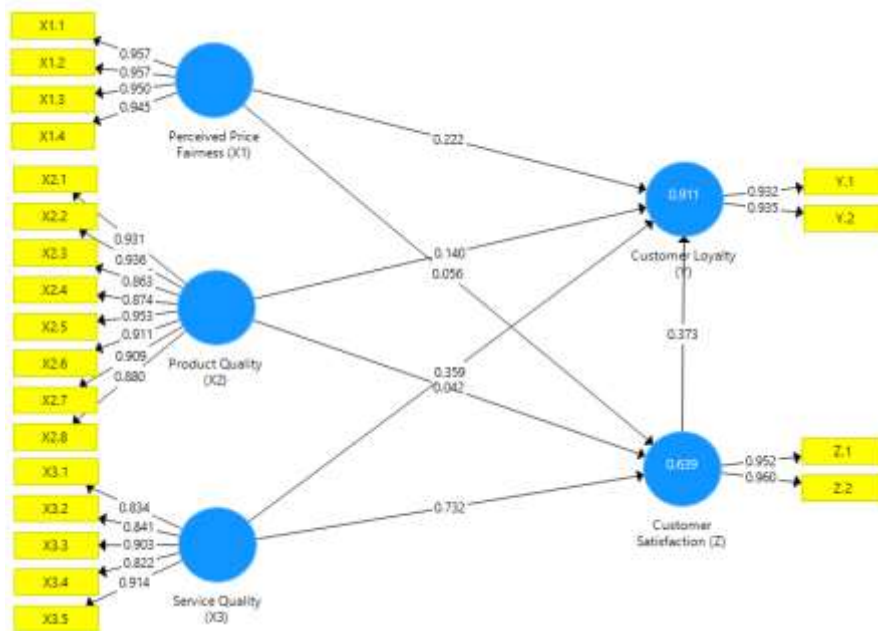
**Table 5. Cronbach Alpha**

X1	0,966
X2	0,969
X3	0,914
Z	0,907
Y	0,853

All reliability variables are good.

**2. Inner Model**

Model that connects latent variables with observed variables.



**Figure 2. Measurement Model**

Customer Satisfaction (Z) is affected by Perceived Price Fairness (X1), Product Quality (X2) & Service Quality (X3). Whereas Customer Loyalty (Y) affected by Price Fairness (X1), Product Quality (X2), Service Quality (X3) and Customer Satisfaction (Z) shown in the equation below:

$$Z = 0,056 X1 + 0,042 X2 + 0,732 X3$$

$$Y = 0,222 X1 + 0,140 X2 + 0,359 X3 + 0,373 Z$$

When evaluating the model using PLS, begin by examining the R2 for every latent dependent. R2 0.75 means "good", R2 0.50 means "moderate" & R2 0.25 means "weak" (Ghozali, 2018).

**Table 6. R<sup>2</sup>**

Variable	R <sup>2</sup>
Z	0,639
Y	0,911

Customer Satisfaction (Z) has a 0,639 R2 score, indicating that impact variable on Customer Satisfaction (Z) in Moderate category. Then Customer Loyalty (Y) variable has a 0.911 R2 score, indicates that impact variable in Good category. Here are the Q2 measurements

$$Q^2 = 1 - [(1 - R1) * (1 - R2)]$$

$$= 1 - [(1 - 0,639) * (1 - 0,911)]$$

$$= 0.968$$

The calculation result is 0.968, including the "strong" category.

### 3. Hypothesis Test

The following table displays the t-stat in response to the research hypothesis

**Table 7. Hypothesis**

Variable Relationships	Original Sample	T Stat	P Values	Results
X1 -> Z	0,056	0,423	0,673	Not Significant
X2 -> Z	0,042	0,366	0,714	
X3 -> Z	0,732	5,028	0,000	Significant
X1 -> Y	0,222	2,278	0,023	
X2 -> Y	0,140	2,115	0,035	
X3 -> Y	0,359	2,997	0,003	
Z -> Y	0,373	3,075	0,002	

## D. RESULTS AND DISCUSSION

### 1. Impact Perceived Price Fairness on Customer Loyalty

Perceived price fairness does not have a significant impact on customer loyalty, T Stat 0.432 < 1.96. This is not supported by Asadi et al., (2014) where in this research it is said that perceived price fairness influences customer loyalty. Consuegra et al., (2007) found that a reasonable price for a product will encourage consumers to make repeat purchases.

### 2. Impact Product Quality on Customer Loyalty

Product quality has no impact on customer loyalty, T Stat 0.366 < 1.96. This can happen because products with certain brands are not only sold by one supplier, but can be sold by several other suppliers. Because several suppliers can sell the same brand with the same product quality, this can cause disloyal customers. This research could provide Different results in other industries with large product differentiation. This does not support research by Čater & Čater (2009) where in this research state product quality impact customer loyalty. However, it supports research by Hoe & Mansori (2018) which examines the impact of product quality on customer loyalty.

### 3. Impact Service Quality on Customer Loyalty

Service quality has an impact on customer loyalty, T Stat 5.028 > 1.96. This supports research by Hashem & Ali (2019) that service quality has significant impact on customer loyalty. However, supported by Lee & Kao (2015) that even the best service quality cannot influence customer loyalty.

### 4. Impact Perceived Price Fairness on Customer Satisfaction

Perceived price fairness impact customer satisfaction, T Stat 2,278 > 1.96. This is because prices that are reasonable and can compete with competitors can provide benefits for customers. These benefits can be in the form of winning a project because the price offered by the contractor is more competitive, or greater income because of buying furniture at a cheaper price. The benefits felt by customers can create satisfaction. Powered by Consuegra et al., (2007) and Asadi et al., (2014) was found that perceived price fairness influences customer satisfaction.

### **5. Impact Product Quality on Customer Satisfaction**

Product quality affect customer satisfaction, T Stat  $2.115 > 1.96$ . This can happen because of the high standards of buyers where good quality furniture is something that is mandatory for customers. If the quality of the furniture sent does not match the order, the furniture will be rejected. However, if the quality of the furniture delivered matches the order, then this is something that should happen. The results supported by Olise & Ojiaku (2018) found that product quality influences customer satisfaction. Then Hoe & Mansori (2018) which examines the dimensions of product quality towards customer satisfaction.

### **6. Impact Service Quality on Customer Satisfaction**

Customer satisfaction has an impact on customer loyalty, T Stat  $3.075 > 1.96$ . This supports research by Chiguvi & Guruwo (2015) which found Customer satisfaction affect impact on customer loyalty. This research proves that satisfied customers tend to become loyal customers. Through this research, we can see that an average of 41 customers are satisfied with PT's performance. XYZ in serving customers has decided to build a cooperative relationship for an average of more than 1 year. Apart from that, another form of customer loyalty is that customers tend to recommend the supplier to their work partners.

### **7. Impact Customer Satisfaction on Customer Loyalty**

Customer satisfaction affect customer loyalty, T Stat  $3,075 > 1.96$ . This supports research by Chiguvi & Guruwo (2015) which found that there is an influence of satisfaction on customer loyalty. Through this research, we can see that an average of 41 customers are satisfied with PT's performance. XYZ in serving customers has decided to build a cooperative relationship for an average of more than 1 (one) year. Apart from that, another form of customer loyalty is that customers tend to recommend the supplier to their work partners.

## **E. CONCLUSIONS**

The following is the conclusion of the study: 1) Perceived Price Fairness and Product Quality has no significant impact on Customer Satisfaction, then Service Quality has a significant impact on Customer Satisfaction, 2) Perceived Price Fairness, Product Quality, Service Quality and Customer Satisfaction has a significant impact on Customer Loyalty

Through the research results that have been obtained, researchers provide recommendations to PT. XYZ as follows: 1) T. XYZ can focus on selling the best seller, namely concrete furniture. By focusing on 1 type of product with 2-3 specific brands, PT. XYZ can increase its competitiveness. 2) Employees of PT. XYZ can build strong relationships with customers who have the authority to determine purchasing decisions.

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