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**ADDIS ABABA UNIVERSITY COLLEGE OF BUSINESS  
AND ECONOMICS DEPARTMENT OF BUSINESS  
ADMINISTRATION**

**THE EFFECT OF SERVICE QUALITY AND ATMOSPHERE  
QUALITY ON CUSTOMER LOYALTY ON DOMESTIC CAFES  
IN ADDIS ABABA**

**BY: ABEL DESBELE**

**A THESIS SUBMITTED TO ADDIS ABABA UNIVERSITY  
COLLEGE OF BUSINESS AND ECONOMICS IN PARTIAL FULFILLMENT OF  
THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS  
ADMINISTRATION**

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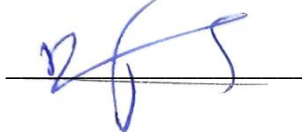
## DECLARATION

I hereby declare that this thesis work entitled the effect of service quality and atmosphere quality on customer loyalty on domestic cafes in Addis Ababa submitted to College of Business and Economics, Business administration department, is my personal work conducted with guidance of my advisor. This work has not been previously submitted or presented to this or any other University or Institution.

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# CERTIFICATION

This is to certify that this thesis entitled the effect of service quality and atmosphere quality on customer loyalty on domestic cafes in Addis Ababa submitted in partial fulfillment of the requirements to award masters of business administration to the College of Business and Economics, Addis Ababa University undertaken by Abel Desbele is an authentic work and appropriate for submission.

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## Table of Contents

DECLARATION .....	i
CERTIFICATION .....	ii
ACKNOWLEDGMENT .....	iii
LIST OF TABLES .....	vi
LIST OF FIGURES .....	vi
Abstract .....	1
CHAPTER 1: OVERVIEW OF RESEARCH .....	2
1. Introduction.....	2
1.1 Research background.....	2
1.2 Problem Statement.....	3
1.3 Research objectives .....	4
1.4 Significance of the study .....	4
1.8 Organization of the study.....	6
CHAPTER 2: LITERATURE REVIEW .....	7
2.1 Review of Literature.....	7
2.1.1 Customer loyalty.....	7
2.1.2 Service quality.....	8
2.1.3 Atmosphere quality.....	9
2.2 Review of relevant theoretical models .....	12
2.2.1 SERVQUAL Theory .....	12
2.3 hypothesis development.....	13
2.3.1 Service quality and customer satisfaction.....	13
2.3.2 Service quality and customer loyalty .....	14
2.3.3 Atmosphere quality and customer satisfaction.....	15
2.3.4 Atmosphere quality and customer loyalty .....	15
2.3.5 Customer satisfaction and customer loyalty .....	16
2.4 Hypothesis of the study.....	17
2.5 Conceptual Framework .....	17
CHAPTER 3 RESEARCH METHODOLOGY .....	18
3.1 Introduction.....	18
3.2 Research Design.....	18
3.3 Data Collection Methods.....	18
3.3.1 Primary Data.....	18

3.3.2 Secondary data .....	<b>Error! Bookmark not defined.</b>
3.4 Sampling Design.....	19
3.4.1 Target Population.....	19
3.4.2 Sampling Frame and Sampling Location .....	19
3.4.3 Sampling Elements.....	20
3.4.4 Sampling Technique .....	20
3.4.5 Sampling Size .....	20
3.5 Research Instrument.....	21
3.5.1 Questionnaires.....	21
3.6 Reliability of the Data.....	21
3.7 Validity of the Data .....	22
CHAPTER 4: DATA ANALYSIS .....	23
4. Introduction.....	23
4.1 Descriptive Analysis .....	23
4.1.1 Demographic profile of respondents .....	23
4.1.2 Central Tendencies Measurement of constructs.....	25
4.2 Scale Measurement .....	27
4.2.1 Normality & Reliability Test.....	27
4.3 Inferential Analysis .....	29
4.3.1 Pearson’s Correlation Coefficient Analysis.....	29
4.3.2 Diagnostic Tests of Regression Model.....	32
4.3.3 Multiple Regression Analysis .....	36
4.4 Discussions of results .....	38
CHAPTER 5: SUMMARY, CONCLUSION AND RECOMMENDATION .....	40
5.1 Introduction.....	40
5.2 Summary .....	40
5.2 Conclusion .....	42
5.3 Limitations.....	43
5.4 Recommendations.....	43
Reference.....	45
Appendix-A Research survey questionnaires.....	49

## LIST OF TABLES

Table 4.1 gender of respondent .....	23
Table 4.2 age range of respondents .....	23
Table 4.3 occupation of respondents .....	24
Table 4.4 visit frequency of respondents .....	25
Table 4.5 Central Tendencies Measurement of constructs .....	25
Table 4.6 Normality & Reliability Test .....	27
Table 4.7 Pearson's Correlation Coefficient Analysis.....	29
Table 4.8 Pearson's Correlation Coefficient .....	30
Table4. 9 Multi-collinearity test.....	35
Table4. 10 Test for autocorrelation .....	35
Table 4.11Regression results for service quality and customer satisfaction.....	36
Table 4.12 Regression results for service quality and customer loyalty.....	36
Table 4.13 Regression results for atmosphere quality and customer satisfaction .....	37
Table 4.14 Regression results for atmosphere quality and customer loyalty .....	37
Table 4.15 Regression results for customer satisfaction and customer loyalty.....	38

## LIST OF FIGURES

Figure 1 conceptual framework.....	17
Figure 2 Normal P-P plot of regression of standardized residuals .....	33
Figure 3 Histogram of regression of standardized residuals.....	34
Figure 4 Scatter plot of regression for standardized predicted value against the residual .....	34

## **Abstract**

This study sought to investigate the effect of service quality and atmosphere quality on customer loyalty in case of domestic cafes located in Addis Ababa, Ethiopia. 200 café customers were selected through a convenience sampling technique and data collected were examined using statistical software (spss version 20). Both primary and secondary data sources were used in the study to obtain pertinent information. The service quality dimensions responsiveness, reliability, empathy, and assurance were used to analyze the relationship between service quality & customer satisfaction and loyalty where the study found that service quality dimensions of responsiveness, reliability, empathy, and assurance all had significant positive relationships with customer satisfaction, but only responsiveness, reliability, and empathy also had positive relationships with customer loyalty, while assurance did not directly impact loyalty despite its link to satisfaction. The atmosphere quality dimensions lighting, music & sound, cleanliness, and layout & design were similarly used to analyze the relationship between service quality & customer satisfaction and loyalty where the study found that lighting and music had significant positive relationships with customer loyalty, but layout/design and cleanliness did not. Further, lighting, sound, and cleanliness all had significant positive relationships with customer satisfaction, though layout and design did not. According to the report by prioritizing improvements in these areas and catering to the preferences and needs of customers, café establishments can enhance customer satisfaction, foster long-term loyalty, and ultimately achieve success in a competitive market.

Keyword: service quality, atmosphere quality, customer satisfaction, customer loyalty, domestic cafe, cafe industry, Addis Ababa.

# CHAPTER 1: Overview of Research

## 1. Introduction

In chapter 1, the researcher intends to present the outline of this research. This chapter will consist of research background, problem statement, and significance of the study, hypothesis of the study, research objectives, research questions and chapter layout.

### 1.1 Background of the study

Concept of loyalty is the predisposition to repurchase a product or service or customer expectation (Auh & Johnson, 2005). While Abdullah (2012) believes that customer who showed positive behavior to service holders are customers who are loyal. It refers to the strong commitment and attachment that customers have towards a particular café brand or service provider. Loyal café customers are more likely to engage in repeat purchases, resist switching to competitors, promote the brand through positive word-of-mouth, and even pay premium prices for the café's offerings.

The café sector has become an important part of the social fabric in many nations, providing not only coffee and snacks but also social centers for meetings, relaxation, and leisure (Wong, 2014). Ethiopia's café sector has expanded dramatically as a result of rising demand for coffee shops and a coffee culture that is deeply ingrained in the country's history and heritage. The café industry has grown to be a substantial contributor to the Ethiopian economy, creating jobs and fostering a vibrant and dynamic business environment that attracts clients from all walks of life.

The role of service and atmosphere quality in shaping customer loyalty has been extensively studied in various service industries. Service quality, defined as "the customer's overall impression of the relative inferiority/superiority of the organization and its services" (Parasuraman, Zeithaml, & Berry, 1985), has been identified as a critical determinant of customer loyalty across different contexts (Kim, & Jang, 2019). Additionally, the concept of atmosphere, encompassing the physical environment and emotional experience of customers, has gained attention as an influential factor in customer loyalty in the retail and hospitality industries (Huang & Tsai, 2015; Van Rompay, Hekkert, & Mueller, 2012).

Studies have consistently found a positive relationship between service quality and customer loyalty. In the context of cafes, Anselmsson, Johansson, and Persson (2014) found that

perceived service quality significantly influenced customer satisfaction and subsequent loyalty intentions. They emphasized the importance of service reliability, responsiveness, assurance, empathy, and tangibles in achieving high service quality levels. Similarly, Kim, Kim, and Jang (2019) discovered that customers' evaluation of service quality dimensions, such as employee behavior, product availability, and service responsiveness, significantly influenced their loyalty towards coffee shops.

Regarding the influence of café atmosphere on customer loyalty, research has highlighted the significance of ambiance, sensory experiences, and aesthetic elements. Huang and Tsai (2015) conducted a study examining the effects of café atmospheric cues, including music, lighting, and interior design, on customer emotions and intentions. They found that a positive atmosphere enhanced customers' emotional responses and increased their intention to revisit the café, thus fostering loyalty. Van Rompay, Hekkert, and Mueller (2012) emphasized the role of sensory cues, such as scent, in creating a desirable environment that positively impacted customer loyalty in a café setting.

## **1.2 Problem Statement**

The café industry has witnessed significant growth and development in recent years, driven by the increasing popularity of café culture and the abundance of specialty coffee shops. However, with intensified competition and changing consumer preferences, café operators face the challenge of establishing and maintaining customer loyalty in order to sustain their business success (Anselmsson, Johansson, & Persson, 2014). To address this challenge, it is crucial to understand the key factors that influence customer loyalty in the café industry.

While previous studies have explored the impact of service and atmosphere quality on customer loyalty through customer satisfaction there is limited research within the Ethiopian café industries context that study the combined impact of service quality and atmosphere on customer satisfaction. This research gap limits the understanding of how service quality and café atmosphere can contribute to customer loyalty in the Ethiopian café industry context. Therefore, a thorough investigation is necessary.

The atmosphere quality of a café can enhance the emotions and feelings of customers, creating a memorable and enjoyable experience (Van Rompay, Hekkert, & Mueller, 2012). However, there is limited research that explores the specific dimensions and components of café atmosphere that contribute to customer loyalty. Understanding how aspects such as

interior design, music, lighting, and overall mood influence customer loyalty can provide valuable insights for café owners and operators.

In conclusion, addressing the research on the effect of service quality and atmosphere quality on customer loyalty in the café industry is essential for both academic and practical reasons. By comprehensively studying the role of service quality dimensions, café atmosphere components, and their influence, this research will provide insights that can guide café owners and managers in fostering customer loyalty. Furthermore, this study will contribute to the existing literature on customer loyalty in the service industry, expanding our understanding of the factors that drive customer loyalty in a café setting.

### **1.3 Research objectives**

#### **1.3.1 General objectives**

The main objective of the research is to analyze the effect of service quality and atmosphere quality on customer loyalty on domestic cafes in Addis Ababa.

#### **1.3.2 Specific objectives**

The specific objectives for the study on the effect of service quality and atmosphere quality on customer loyalty on domestic cafes in Addis Ababa are listed below.

1. Investigate the impact of service quality variables assurance, empathy, responsiveness, and reliability on customer loyalty.
2. Investigate the impact of service quality variables assurance, empathy, responsiveness, and reliability on customer satisfaction.
3. Explore the influence of atmosphere quality variables music and sound, lighting, cleanliness, and layout & design on customer loyalty.
4. Explore the influence of atmosphere quality variables music and sound, lighting, cleanliness, and layout & design on customer satisfaction.
5. Examine the impact of customer satisfaction on customer loyalty.

#### **1.3.2 Research questions**

1. What is the impact of the service quality variables of assurance, empathy, responsiveness, and reliability on customer loyalty in the café industry?

2. What is the impact of the service quality variables of assurance, empathy, responsiveness, and reliability on customer satisfaction in the café industry?
3. How do the atmosphere quality variables of music and sound, lighting, cleanliness, and layout & design influence customer loyalty in the café industry?
4. How do the atmosphere quality variables of music and sound, lighting, cleanliness, and layout & design influence customer satisfaction in the café industry?
5. What is the impact of customer satisfaction on customer loyalty in the café industry?

#### **1.4 Significance of the study**

The significance of this study on the effect of Service and atmosphere quality on customer loyalty is crucial for the café industry. The study fills the research gap in the current literature on the unique contribution of service quality and café atmosphere within the café industry in Ethiopia, Addis Ababa.

The findings of this study can be of great importance for café owners and managers since customer loyalty is a potentially value-generating outcome. Understanding the impact of service quality and café atmosphere on customer loyalty can help café owners and managers make informed decisions regarding how to manage their business operations and tailor their marketing efforts to target those service elements that drive customer loyalty the most.

Furthermore, by investigating the effect of individual and situational factors on customer loyalty, the research findings of this study can help café operators design strategies that cater to different customer groups, depending on their demographic or psychographic characteristics. For instance, these strategies could be used to target and incentivize customers susceptible to social influence or frequent travelers, creating tailored promotional offers.

The study also provides a basis for further research into the café industry, where the focus could be on exploring other factors affecting customer loyalty. Additionally, this study has standardized the metrics used to measure service quality and café atmosphere, and this helps us compare and aggregate findings across different studies, creating a consensus within academic and industrial fields of the café industry.

Lastly, the findings of this study can benefit society as a whole. Encouraging customer loyalty in the café industry could contribute to the growth, prosperity, and sustainability of

small and medium-sized businesses. It could also benefit local communities by promoting social exchange and fostering a sense of belonging and community within the neighborhood.

## **1.8 Organization of the study**

### **Chapter One: introductory outline of the research study overview.**

The general context of the study is covered in the first chapter. It explains the goals of the study and the benefits of conducting it. The topic introduction, problem description, study objectives, research hypotheses, and study format are all included

### **Chapter Two: literature review**

The second chapter examines past research that is pertinent to the issue under discussion in this study. The primary conclusions of earlier investigations are summarized, and they are each presented under a separate category. The conceptual foundation for the study is built on the basis of these literature reviews

### **Chapter Three: Research Methodology**

The methodological elements used in this study are discussed in the third chapter. The population and sample size, sampling strategy, data type and sources, instruments, data collection techniques, and data analysis are all covered in this.

### **Chapter four: presentation of the generated results based on the collected data**

Data are presented and analyzed systematically in the fourth chapter. Using various statistical tools and procedures as discussed in chapter three, this chapter evaluates the data that has been gathered. The result is presented as tables and attempts to explain the relationship between the various components. This chapter's final section offers the key conclusions drawn from the data analysis and conversations

### **Chapter five: Summary and Conclusion**

The study's analysis, conclusion, and consequences are covered in the fifth chapter. It provides a summary of the study's research findings and presents relevant conclusions in accordance with those findings. This chapter's final section concludes with a suggestion for additional study. Bibliography and an appendix with a questionnaire make up the report's concluding portion.

# CHAPTER 2: Literature Review

## 2.1 Review of Literature

### 2.1.1 Customer loyalty

Customer loyalty can be defined as the degree to which customers exhibit repeat purchase behavior, positive word-of-mouth, and emotional attachment towards a specific brand, product, or service provider (Oliver, 1999). In the context of the café industry, customer loyalty plays a vital role in sustaining business success and profitability.

Previous researches have explored customer loyalty within the café industry and highlighted its significance. Anselmsson, Johansson, and Persson (2014) investigated the factors influencing customer loyalty towards coffee shops and found that loyal customers tend to have a strong emotional connection and identification with a particular café. These loyal customers are more likely to visit the café repeatedly, positively recommend it to others, and even defend it against negative opinions.

Moreover, customer loyalty in the café industry is often closely tied to customer satisfaction. Huang and Tsai (2015) conducted a study on café atmosphere and found that a positive atmosphere significantly contributed to customers' emotional responses, leading to higher customer satisfaction. Satisfied customers are more likely to develop a sense of loyalty towards a café and become regular patrons.

In addition to emotional connection and satisfaction, service quality also plays a crucial role in fostering customer loyalty in cafés. Services provided by café staff, such as attentive and friendly behavior, efficient service, and personalized interactions, greatly influence customer perceptions of service quality (Kim, Kim, & Jang, 2019). Positive evaluations of service quality dimensions, such as reliability, responsiveness, assurance, empathy, and tangibility, are likely to lead to higher levels of customer loyalty.

In summary, customer loyalty in the café industry is characterized by repeat purchase behavior, positive word-of-mouth, and emotional attachment towards a specific café. It is influenced by factors such as emotional connection, customer satisfaction, service quality, and loyalty programs. Understanding and fostering customer loyalty is essential for café owners and managers to maintain a loyal customer base, increase customer retention, and drive sustained business growth.

## 2.1.2 Service quality

Service quality refers to the overall assessment of the performance and delivery of a service by customers. It is a measure of how well a service meets or exceeds customer expectations and requirements. Service quality encompasses various dimensions that contribute to the overall customer experience and satisfaction.

Service quality within the café industry refers to the extent to which a café meets or exceeds customer expectations and provides an enjoyable and satisfying experience (Parasuraman, Zeithaml, & Berry, 1988). In the highly competitive café industry, service quality plays a crucial role in attracting and retaining customers.

Numerous studies have explored service quality in the context of cafés and have identified various dimensions that contribute to customer perceptions of quality. For instance, Kim, Kim, and Jang (2019) conducted research on café service quality and found that reliability is a key dimension. This refers to the café's ability to consistently deliver its promised services, such as serving food and beverages promptly and accurately. Reliability instills trust and confidence in customers, enhancing their overall perception of service quality.

Service quality in the café industry is influenced by dimensions such as reliability, responsiveness, assurance, empathy, and tangibility. Providing consistent, prompt, and efficient service, along with knowledgeable and courteous staff, is essential for meeting customer expectations and ensuring a positive café experience. By focusing on these dimensions, café owners and managers can enhance service quality and ultimately attract and retain satisfied customers.

- i. **Reliability:** This dimension refers to the ability of a service provider to deliver services consistently and accurately. It involves factors such as performing the promised service dependably, delivering services on time, and maintaining error-free records.
- ii. **Responsiveness:** Responsiveness is an important dimension of service quality in cafés. It refers to the café's willingness to promptly and effectively address customer needs, requests, and complaints. Huang and Tsai (2015) emphasized the significance of responsiveness in their study on café atmosphere. Customers value being heard and attended to in a timely manner, as it creates a positive impression and contributes to their satisfaction.

- iii. **Assurance:** Assurance is a dimension of service quality that revolves around the café staff's competence, knowledge, and courtesy. Customers appreciate interacting with well-trained and friendly employees who can provide accurate information about the café's offerings. Parasuraman et al. (1988) emphasized the importance of assurance, as it influences customers' confidence in the café's ability to deliver a satisfying experience.
- iv. **Empathy:** Empathy is a dimension that affects service quality in cafés. It refers to the café staff's ability to understand and address the individual needs and preferences of customers. Showing empathy and personalized attention can make customers feel valued, thus enhancing their perception of service quality (Anselmsson et al., 2014).
- v. **Tangibles:** Tangibility, the physical aspects of the café environment and its facilities, is also considered a dimension of service quality. Cleanliness, comfort, and aesthetics contribute to customers' overall perception of quality. A visually appealing café with comfortable seating arrangements and appealing ambience can positively influence customers' evaluation of service quality (Kim et al., 2019).

### 2.1.3 Atmosphere quality

Atmosphere quality in the café industry refers to the overall ambiance, decor, music, lighting, and other factors that contribute to the atmosphere and atmosphere quality of a café. It plays a significant role in attracting customers, creating a unique experience, and influencing their enjoyment and satisfaction (Babin, Darden, & Griffin, 1994).

Research has shed light on the importance of atmosphere quality in cafés and its impact on customer perceptions. For instance, Yen, Tang, and Cheng (2020) conducted a study on the influence of café atmosphere on customer satisfaction and loyalty. They found that the physical environment, including elements like lighting, music, and seating arrangements, significantly affects the atmosphere quality and ultimately influences customer satisfaction and loyalty.

#### 2.1.3.1 Music [sound]

Music and sound play a crucial role in creating the desired atmosphere and ambience in the café industry. According to a study by North, Hargreaves, and McKendrick (1999), music has the power to influence customers' perceptions, emotions, and behaviors in a café setting.

The choice of music in a café can significantly impact the overall atmosphere and customer experience. Upbeat and lively music can create a vibrant and energetic ambiance, encouraging social interactions and a sense of liveliness among customers. On the other hand, soft and soothing music can create a relaxed and calming atmosphere, promoting a peaceful and tranquil environment for customers to enjoy their coffee and conversations.

In addition to the genre and tempo of music, the volume and sound level also play a crucial role in shaping the café atmosphere. A study by Milliman (1986) found that moderate sound levels in a café environment were associated with increased customer satisfaction and longer customer stays. Excessively loud or disruptive sounds, on the other hand, can negatively impact the café experience and drive customers away.

Furthermore, sound elements beyond music, such as the sound of coffee machines, conversations, and background noise, contribute to the overall soundscape of a café. These ambient sounds can add to the authenticity and charm of the café environment, creating a sense of familiarity and comfort for customers.

### **2.1.3.2 Lighting**

Lighting plays a crucial role in creating the desired atmosphere and ambiance in the café industry. According to a study by Bellizzi, Crowley, and Hasty (1983), lighting has a significant impact on customers' perceptions, emotions, and behaviors in a café setting.

The type and intensity of lighting in a café can greatly influence the overall atmosphere and customer experience. Soft and warm lighting can create a cozy and intimate ambiance, promoting relaxation and comfort among customers. On the other hand, bright and vibrant lighting can create a lively and energetic atmosphere, encouraging social interactions and a sense of vibrancy in the café environment.

In addition to the overall lighting scheme, the strategic use of accent lighting can also enhance specific areas or features within the café. For example, highlighting artwork, displays, or the coffee bar with focused lighting can draw attention and create focal points, adding visual interest and enhancing the overall aesthetic appeal of the café.

### **2.1.3.3 Cleanliness**

Cleanliness is a fundamental atmospheric quality that greatly influences the overall customer experience in the café industry. According to a study by Spangenberg, Grohmann, and Sprott

(2003), cleanliness has a significant impact on customers' perceptions, satisfaction, and behavioral intentions in a retail environment.

Maintaining a clean and hygienic café environment is essential for creating a positive atmosphere. Clean tables, floors, and countertops contribute to a sense of orderliness and professionalism, making customers feel comfortable and confident in the café's cleanliness standards. Additionally, clean and well-maintained restrooms are crucial as they reflect the overall cleanliness of the establishment and can significantly impact customers' overall impression.

#### **2.1.3.4 Layout and design**

Layout and design are crucial atmospheric qualities that significantly impact the overall customer experience in the café industry. According to a study by Turley and Milliman (2000), the physical layout and design of a retail environment, including cafés, can influence customers' perceptions, emotions, and behaviors.

The layout of a café refers to the arrangement and organization of various elements within the space. An effective layout ensures smooth traffic flow, allowing customers to move comfortably and easily navigate through the café. A well-designed layout also considers the placement of seating areas, counters, and service stations to optimize space utilization and create a welcoming and functional environment.

Design elements, such as color schemes, furniture, and décor, contribute to the overall atmosphere and aesthetic appeal of the café. The choice of colors can evoke specific emotions and set the desired mood. For example, warm and earthy tones can create a cozy and inviting atmosphere, while bright and vibrant colors can create a lively and energetic ambiance.

In summary, atmosphere quality in the café industry is influenced by various factors, including lighting, music, decor, and seating arrangements. These elements come together to create a unique ambiance and contribute to customers' enjoyment and satisfaction. By carefully designing and managing the atmosphere, café owners can create a distinct identity and attract customers who seek a particular experience. Ultimately, a well-crafted atmosphere enhances the overall café experience and contributes to customer loyalty and satisfaction.

## 2.2 Review of relevant theoretical models

### 2.2.1 SERVQUAL Model

First developed by Parasuraman et al. (1985, 1988), the SERVQUAL model was believed to add value to the retail and service industry by evaluating perceptions of customer on service quality. It is being defined as the service quality formed by the gap between perception of customers and the expected service performance of a company (Parasuraman et al.,1985, 1988). Zeithaml (1988) believes it was the overall excellency and superiority of a product that forms consumer judgment on service quality. In short, Baki et al. (2009) explained that it was the existing expectation and quality desires that built service quality.

The SERVQUAL model consists of five dimensions that are used to evaluate service quality: reliability, responsiveness, assurance, empathy, and tangibles.

**1. Reliability:** This dimension refers to the ability of a service provider to deliver services consistently and accurately. It involves factors such as performing the promised service dependably, delivering services on time, and maintaining error-free records.

**2. Responsiveness:** Responsiveness measures the willingness of the service provider to help customers promptly. It includes factors such as the willingness to provide prompt service, the readiness to respond to customer inquiries or complaints, and the ability to keep customers informed about service delivery.

**3. Assurance:** Assurance relates to the knowledge, competence, and courtesy of the service staff. It involves factors such as the ability of employees to instill trust and confidence in customers, their ability to convey a sense of security and competence, and their ability to handle customer issues or complaints effectively.

**4. Empathy:** Empathy refers to the provider's ability to understand and address the individual needs of customers. It involves factors such as the degree of personalized attention given to customers, the ability to understand customer preferences and expectations, and the willingness to provide caring and individualized service.

**5. Tangibles:** Tangibles encompass the physical aspects of the service environment, such as facilities, equipment, and appearance. It includes factors such as the appearance of physical facilities, the availability and condition of equipment, and the visual representation of the service.

The SERVQUAL model suggests that customers evaluate service quality by comparing their perceptions of service performance with their expectations. If the perceived service falls short of expectations, a gap in service quality is identified, the larger the gap, the lower the perceived service quality. By identifying and closing these gaps, service providers can improve customer satisfaction and loyalty.

In conclusion, the SERVQUAL theory provides a comprehensive framework for assessing and improving service quality. It helps organizations understand customer expectations and identify areas for improvement in order to deliver exceptional service experiences (Parasuraman, Zeithaml, & Berry, 1988).

## **2.3 hypothesis development**

### **2.3.1 Service quality and customer satisfaction**

Several studies have examined the relationship between service quality and customer satisfaction in the café industry, recognizing the importance of providing excellent service to enhance customer experiences.

Study conducted by Cronin and Taylor (1992) investigated the impact of service quality on customer satisfaction in the restaurant industry. The findings revealed that dimensions of service quality, such as reliability, responsiveness, assurance, empathy, and tangibles, significantly influenced customer satisfaction. Higher levels of service quality were found to lead to increased customer satisfaction.

Similarly, another study by Yavas, Bilgin, and Shemwell (1997) explored the effects of service quality on customer satisfaction in the foodservice industry. The results indicated that dimensions of service quality significantly influenced customer satisfaction. Positive perceptions of service quality were found to contribute to higher levels of customer satisfaction.

Furthermore, a study by Ryu and Jang (2008) examined the impact of service quality on customer satisfaction in Korean coffee shops. The findings revealed that dimensions of service quality, such as reliability, responsiveness, assurance, empathy, and tangibles, significantly influenced customer satisfaction. Higher levels of service quality were found to enhance customer satisfaction in café settings.

In summary, the literature suggests that service quality plays a significant role in shaping customer satisfaction in the café industry. Dimensions of service quality, including reliability, responsiveness, assurance, empathy, and tangibles, have been found to influence customers' perceptions of the service experience, which in turn impact their satisfaction levels. Providing excellent service that meets or exceeds customer expectations is crucial for enhancing customer satisfaction in cafés.

### **2.3.2 Service quality and customer loyalty**

Several studies have been conducted to investigate the relationship between service quality and customer loyalty in the café business, emphasizing the importance of offering great service to build client loyalty.

A study conducted by Hennig-Thurau, Langer, and Hansen (2001) examined the impact of service quality on customer loyalty in the hospitality industry. The findings revealed that service quality dimensions, including reliability, responsiveness, assurance, empathy, and tangibles, significantly influenced customer loyalty. Higher levels of service quality were found to lead to increased customer loyalty in the café context. Similarly, another study by Kim, Kim, and An (2009) investigated the effects of service quality on customer loyalty in coffee shops. The results indicated that dimensions of service quality significantly influenced customer loyalty.

Furthermore, a study by Nguyen and Leblanc (2001) examined the impact of service quality on customer loyalty in the restaurant industry. The findings revealed that dimensions of service quality, including reliability, responsiveness, assurance, empathy, and tangibles, significantly influenced customer loyalty. Higher levels of service quality were found to enhance customer loyalty in café environments.

In summary, the literature suggests that service quality plays a crucial role in shaping customer loyalty in the café industry. Dimensions of service quality, such as reliability, responsiveness, assurance, empathy, and tangibles, have been found to impact customers' perceptions of the service experience, which in turn influence their loyalty levels. Providing exceptional service that meets or exceeds customer expectations is essential for fostering customer loyalty in cafés.

### **2.3.3 Atmosphere quality and customer satisfaction**

A study conducted by Baker, Parasuraman, Grewal, and Voss (2002) investigated the impact of atmospheric cues on customer satisfaction in coffee shops. The findings revealed that factors such as music, lighting, cleanliness, and comfort significantly influenced customers' perceptions of the café's atmosphere. Positive perceptions of the atmosphere were found to enhance customer satisfaction.

Similarly, another study by Hui, Wan, and Ho (2007) explored the effects of café atmosphere on customer satisfaction in Hong Kong. The results indicated that factors such as store layout, décor, music, and scent significantly influenced customers' perceptions of the café's atmosphere. Positive perceptions of the atmosphere were found to contribute to higher levels of customer satisfaction.

In summary, the literature suggests that atmosphere quality plays a significant role in shaping customer satisfaction in the café industry. Factors such as music, lighting, cleanliness, comfort, store layout, and interior design have been found to influence customers' perceptions of the atmosphere, which in turn impact their satisfaction levels. Creating a pleasant and inviting atmosphere can contribute to enhancing customer satisfaction in cafés.

### **2.3.4 Atmosphere quality and customer loyalty**

The atmosphere of a café plays a crucial role in shaping customers' experiences and influencing their loyalty towards the establishment. Several studies have examined the relationship between atmosphere quality and customer loyalty in the café industry.

One study conducted by Yeh and Li (2009) investigated the impact of atmospheric cues on customer loyalty in Taiwanese cafés. The findings revealed that factors such as music, lighting, cleanliness, and comfort significantly influenced customers' emotional responses and overall satisfaction. Positive emotional responses, in turn, were found to have a direct impact on customer loyalty.

Similarly, another study by Ryu and Jang (2008) explored the effects of atmospheric elements on customer loyalty in Korean coffee shops. The results indicated that factors such as store layout, music, and scent significantly influenced customers' perceptions of the café's atmosphere. Positive perceptions of the atmosphere were found to enhance customer satisfaction and loyalty.

Furthermore, a study by Hwang and Lee (2019) examined the impact of café atmosphere on customer loyalty in the context of South Korea. The findings revealed that factors such as interior design, music, and cleanliness significantly influenced customers' emotional responses and overall satisfaction. Positive emotional responses were found to foster customer loyalty and repeat patronage.

In summary, the literature suggests that atmosphere quality plays a significant role in shaping customer loyalty in the café industry. Factors such as music, lighting, cleanliness, comfort, store layout, and interior design have been found to influence customers' emotional responses, satisfaction, and loyalty. Creating a pleasant and inviting atmosphere can contribute to enhancing customer loyalty and fostering repeat patronage in cafés.

### **2.3.5 Customer satisfaction and customer loyalty**

Numerous studies have examined the relationship between customer satisfaction and customer loyalty in the café industry, recognizing the importance of satisfied customers in fostering loyalty and repeat patronage.

A study conducted by Oliver (1999) investigated the relationship between customer satisfaction and customer loyalty in the service sector. The findings revealed a positive and significant relationship between customer satisfaction and customer loyalty. Satisfied customers were found to be more likely to exhibit loyalty behaviors, such as repeat patronage and positive word-of-mouth recommendations.

Similarly, another study by Sivadas and Baker-Prewitt (2000) explored the relationship between customer satisfaction and customer loyalty in the restaurant industry. The results indicated a positive and significant relationship between customer satisfaction and customer loyalty. Satisfied customers were found to be more likely to exhibit loyalty behaviors, such as frequent visits and willingness to pay premium prices.

In summary, the literature suggests a strong and positive relationship between customer satisfaction and customer loyalty in the café industry. Satisfied customers are more likely to exhibit loyalty behaviors, such as repeat patronage and positive word-of-mouth recommendations. Therefore, it is crucial for café businesses to prioritize customer satisfaction in order to foster customer loyalty and long-term success.

## 2.4 Hypothesis of the study

**H1:** There is a significant positive relationship between service quality and customer satisfaction.

**H2:** There is a significant positive relationship between service quality and customer loyalty.

**H3:** There is a significant positive relationship between atmosphere quality and customer satisfaction.

**H4:** There is a significant positive relationship between atmosphere quality and customer loyalty.

**H5:** There is a significant positive relationship between customer satisfaction and customer loyalty.

## 2.5 Conceptual Framework

A conceptual framework is a set of concepts used to organize the study and is a tool researchers use to direct their investigation (Abdullah, 2014). The conceptual framework for this study demonstrates the relationship between the study's variables. The researcher will create the following conceptual framework of the research model in accordance with the aforementioned literature review and to accomplish the research goals.

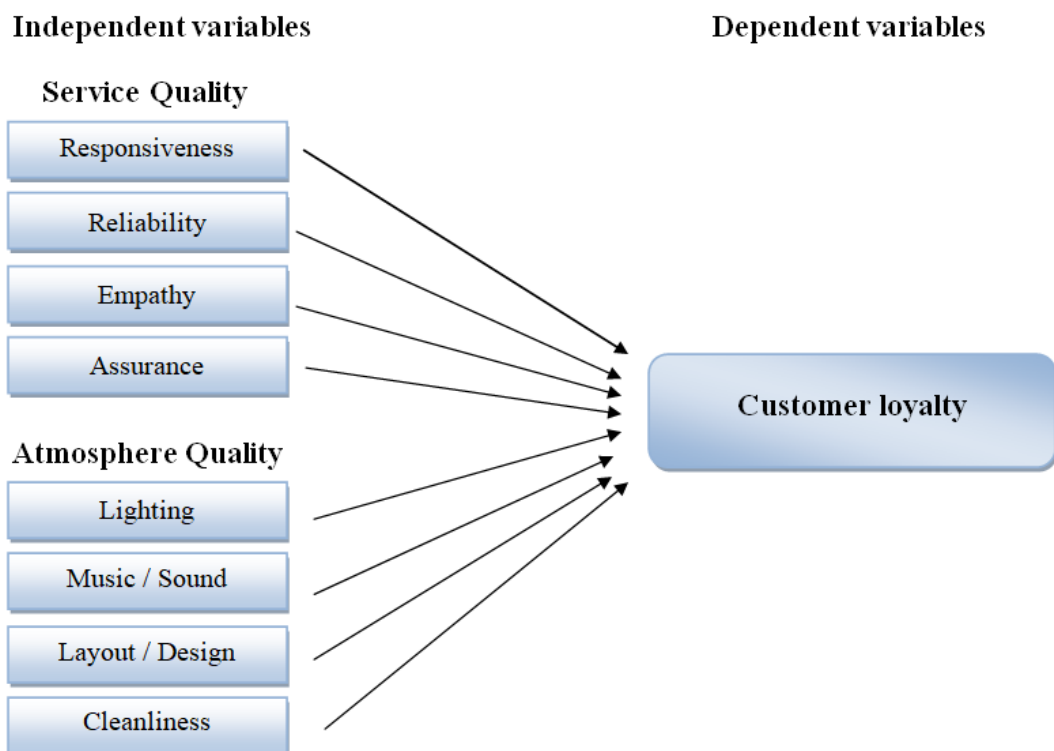


Figure 1 conceptual framework

source; developed by researcher

# CHAPTER 3 Research Methodology

## 3.1 Introduction

In Chapter 3, the researcher provides an overview of a strategy for systematic analysis that includes techniques for both data collection and processing. The research design, data collection method, sampling design, sample size, target population, validity and reliability of the equipment, and data analysis methods will all be fully and thoroughly described in this chapter.

## 3.2 Research Approach

In order to handle the research problem in a cogent and logical manner, a plan and structure for the research are needed (De Vaus, 2001). This study has used quantitative methods that emphasize cause and effect through the collecting of questionnaires (respondents' opinions and reasons) from a broader sample of respondents and analysis based on empirical evaluation (Creswell, 2014). In order to foresee the relationship between the dependent variable (customer loyalty) and the independent variable (service quality & the atmosphere quality) through hypothesis testing, quantitative research will be a helpful method for the researchers of this study (Hair Jr, & Lukas, 2014).

## 3.3 Data Collection Methods

Data collection is the process of gathering data. Normally, data collection method is divided into two types which are primary data and secondary data (Hox & Boeije, 2005). Primary data means original data that has been collected for special purpose in the first time; secondary data mean the result is made by other researcher and made available for reuse by public. Due to limitation of financial and time constraint, researches use primary data as the source of survey questionnaire, while secondary data was collected from textbook, journal, articles, online book shop & library, internet and newspaper.

### 3.3.1 Primary Data

Primary data is first-hand knowledge that is used to respond to and address particular research issues. One technique is the use of a specially designed questionnaire, which

contributes to a more objective, valid, accurate, and credible investigation. The questionnaires in this study were amended and referred to once the researcher had all the pertinent data they needed. This process ensured that the questions were formulated precisely, which helped to provide more accurate results. Because it is practical, inexpensive, and time-saving, a survey questionnaire is an efficient way to gather primary data (Kaiser, 2011).

## **3.4 Sampling Design**

### **3.4.1 Target Population**

According to a report by the Ethiopian Central Statistical Agency, the population of Addis Ababa, the capital and largest city of Ethiopia, was over 5 million as of the latest census in 2022 (CSA, 2022). As the political, economic, and transportation hub of the country, Addis Ababa is home to a diverse population that includes government workers, business professionals, students, tourists, and residents from a wide range of cultural and socioeconomic backgrounds.

This large and diverse urban population represents a significant potential customer base for the growing domestic café industry in Addis Ababa. A study by the Ethiopian Ministry of Trade and Industry found that café culture has become deeply embedded in the social fabric of the city, with cafés serving not just as places to purchase coffee and snacks, but also as social centers for meetings, relaxation, and leisure (MoTI, 2021). The report also noted the dramatic expansion of the café sector in recent years, driven by rising demand from this population of Addis Ababa residents and visitors who frequent these establishments.

The target population for the current study consists of customers of five domestic cafés in Addis Ababa namely TOMOCA, KALDIS COFFEE, ALEM BUNNA, YESHI BUNNA and GALANI COFFEE.

### **3.4.2 Sampling Frame**

As domestic cafés in Addis Ababa often do not retain customer information on file, there is no sample frame that can be used in this study to compile a list of the consumers that frequent those establishments. Additionally, most people do not use membership cards to collect demographic data about their customers as part of a customer engagement program. Additionally, it would be challenging for the researchers to gather a sampling frame in the

little time period allotted for this research considering the enormous number of domestic cafés that already exist in Addis Abeba, Ethiopia.

Due to demand of good quality coffee, cafe business in Addis Ababa is rising gradually, thus domestic café in Addis Ababa have been chosen as the sampling location of this study. Trip advisor (2023) which is a customer feedback based website has suggested the top five best cafes in Addis Ababa which including TOMOCA, KALDIS COFFEE, ALEM BUNNA, YESHI BUNNA and GALANI COFFEE. Researchers believe that these high ranked cafes generally will possess more loyal customers compared to the other competing cafes. Hence, these domestic cafes have been chosen as the sampling locations in this paper.

### **3.4.3 Sampling Elements**

The respondents in this research were the customers of domestic cafe in Addis Ababa. The customers may consist of students, self-employed, working adults, professionals and retirees.

### **3.4.4 Sampling Technique**

For this study on the impact of service quality and atmosphere quality on customer loyalty in Addis Ababa's domestic cafes, a convenience sampling technique was selected. This non-probability sampling approach was chosen due to the lack of a comprehensive customer list or sampling frame for the target population. With a relatively large and dispersed customer base across multiple cafes, it was not feasible to employ probability-based random sampling methods. The convenience sampling technique allowed the researcher to select respondents who were readily available and willing to participate in the survey.

### **3.4.5 Sampling Size**

Since there is no minimum reply rate (Fowler, 2002), the conclusion will be more significant the more replies are collected (Thayer-Hart, Dykema, Elver, Schaeffer & Stevenson, 2010). Hill and Alexander (2000) stated that a sample size of 200 to 500 responders is sufficient for reliable assessment under a few conditions like when the sample size range is relatively large, when there is a more diverse population. According to GreatBook (n.d.), 200 replies can be regarded as having a decent amount of survey accuracy. Given the time constraints associated with conducting this study and the relatively large sample size, the researcher provided survey participant customers of the selected cafe with a total of 200 questioners.

## **3.5 Research Instrument**

### **3.5.1 Questionnaires**

Questionnaire is a tool for recording and collecting information that was implemented in this research. The questionnaire for this study on the impact of service quality and atmosphere quality on customer loyalty in Addis Ababa's domestic cafes was developed through a comprehensive review of relevant prior research. The service quality construct was constructed using the SERVQUAL framework first developed by A. Parasuraman, Valarie Zeithaml and Leonard L. Berry to measure quality in the service sector which was then modified by the researcher, incorporating items related to reliability, assurance, empathy, and responsiveness. Atmosphere quality was assessed using the Perceived Servicescape Instrument which was developed by Booms and Bitner in 1990 to emphasize the impact of the physical environment in which a service process takes place and similarly was modified by the researcher, covering dimensions such as cleanliness, layout and design, music and sound, and lighting. Finally, customer loyalty was measured using a combination of attitudinal and behavioral indicators adapted from previous hospitality and retail studies.

## **3.6 Reliability of the Data**

The reliability of the data collected for this study was assessed. The internal consistency of the measurement scales was evaluated using Cronbach's alpha coefficients. As shown in the table provided, all of the Cronbach's alpha values exceeded the recommended threshold of 0.7, indicating good internal consistency for the constructs.

Specifically:

- The service quality dimensions of responsiveness, reliability, empathy, and assurance had alpha values ranging from 0.815 to 0.841, suggesting the SERVQUAL items reliably captured these aspects of service quality.
- The factors atmosphere quality of lighting, music, layout/design, and cleanliness also demonstrated strong internal consistency, with alpha values between 0.766 and 0.940.
- The overall customer satisfaction and customer loyalty constructs had alpha coefficients of 0.875 and 0.884 respectively, further confirming the reliability of the scales used to measure these key outcome variables.

The high Cronbach's alpha values across all the variables provide confidence that the items within each scale are closely related and consistently measure the intended underlying concepts

*Table 3.1 reliability test*

<b>Variables</b>	<b>No of Items</b>	<b>Cronbach's Alpha</b>
<b>Responsiveness</b>	4	0.815
<b>Reliability</b>	5	0.830
<b>Empathy</b>	4	0.841
<b>Assurance</b>	5	0.832
<b>Lighting</b>	4	0.797
<b>Music</b>	4	0.940
<b>Layout &amp; design</b>	3	0.766
<b>Cleanliness</b>	4	0.892

### **3.7 Validity of the Data**

The service quality dimensions (reliability, empathy, assurance, and responsiveness) are all positively and significantly correlated with each other ( $p < 0.001$ ), as well as being positively and significantly correlated with customer satisfaction ( $p < 0.001$ ) and customer loyalty ( $p < 0.001$ ). This indicates these measures are effectively capturing the underlying service quality construct and are closely related to the intended customer-focused outcomes. Similarly, the atmosphere quality dimensions (lighting, music, layout, and cleanliness) are positively and significantly correlated with each other ( $p < 0.001$ ), and are also positively and significantly correlated with customer satisfaction ( $p < 0.001$ ) and customer loyalty ( $p < 0.001$ ), demonstrating these measures consistently reflect the overall physical environment quality and its importance for influencing customer perceptions and behaviors.

# CHAPTER 4: Data Analysis

## 4. Introduction

Chapter 4 discusses about the findings of the data's collected. A total of 200 valid questionnaires were collected and analyzed using IBM SPSS statistics. Additionally this chapter shows the relationship outcome between service quality and atmosphere quality towards customer loyalty by using customer satisfaction as a mediator. Tables are used to present all of the data analysis results. To make things easier for readers to grasp, the results are interpreted after the data has been analyzed and given in table form.

### 4.1 Descriptive Analysis

#### 4.1.1 Demographic profile of respondents

##### 4.1.1.1 Gender of respondents

*Table 4.2 gender of respondent*

	Frequency	Percent	Cumulative Percent
<b>Male</b>	101	50.5	50.5
<b>Female</b>	99	49.5	100.0
<b>Total</b>	200	100.0	

Source; developed by researcher

Table 4.1 provides the distribution of survey participants based on their gender. The table presents both the frequency and percentage of individuals in each gender category, offering insights into the gender composition of the sample. The sample size for the study comprised 200 respondents, with 101 individuals identifying as male. This accounts for 50.5% of the total participants, indicating that male respondents constitute slightly more than half of the sample population. Conversely, the remaining 99 respondents identified as female, representing 49.5% of the sample population. The relatively balanced representation of both genders within the sample is important for ensuring a comprehensive and diverse perspective in the study.

##### 4.1.1.2 Age of respondents

*Table 4.3 age range of respondents*

	Frequency	Percent	Cumulative
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			<b>Percent</b>
<b>18-29</b>	140	70.0	70.0
<b>30-39</b>	47	23.5	93.5
<b>40-49</b>	13	6.5	100.0
<b>Total</b>	200	100.0	

Source; developed by researcher

Table 4.2 illustrates the distribution of survey participants concerning age, presenting both the frequency and percentage for each age category. The sample size consisted of 200 respondents, and the analysis reveals the composition of respondents across different age ranges. The majority of the respondents, comprising 140 individuals (70.0%), fell within the 18–29 age range, indicating a significant proportion of young participants in the study. The second highest age group among the respondents was the 30-39 age range, accounting for 47 participants (23.5%). This indicates a substantial representation of individuals in their thirties within the survey population. Following closely, the 40-49 age group consisted of 13 respondents (6.5%). Although relatively smaller in number, this age group still provides valuable insights from a diverse range of participants.

#### 4.1.1.3 Occupation of respondents

*Table 4.4 occupation of respondents*

	<b>Frequency</b>	<b>Percent</b>	<b>Cumulative Percent</b>
<b>Student</b>	56	28.0	28.0
<b>Government employee</b>	56	28.0	56.0
<b>Private employee</b>	55	27.5	83.5
<b>Self employed</b>	33	16.5	100.0
<b>Total</b>	200	100.0	

Source; developed by researcher

Table 4.3 provides an overview of the distribution of occupations within the sample group, comprising 200 respondents. The table presents the frequency and percentage of respondents in each occupation category. The largest group of respondents consists of students and government employees, with each category accounting for 56 individuals, representing 28% of the total sample. This indicates a significant presence of students and individuals employed in government organizations within the surveyed population. Private employees constitute the second largest occupational group, comprising 55 respondents, which correspond to 27.5% of the total sample. This highlights the substantial representation of individuals working in

private sector organizations among the survey participants. The remaining respondents, totaling 33 individuals, identify as self-employed workers, making up 16.5% of the sample. This group encompasses individuals who work for themselves or run their own businesses, reflecting a smaller but still noteworthy segment of the surveyed population.

#### 4.1.1.4 Visit frequency of respondents

Table 4.5 visit frequency of respondents

	Frequency	Percent	Cumulative Percent
<b>Daily</b>	15	7.5	7.5
<b>Several times a week</b>	67	33.5	41.0
<b>Several times a month</b>	53	26.5	67.5
<b>Rarely</b>	47	23.5	91.0
<b>First time visit</b>	18	9.0	100.0
<b>Total</b>	200	100.0	

Source; developed by researcher

Table 4.4 provides insights into the distribution of visit frequency among the respondents. The table presents the frequency and percentage for each visit category, offering an overview of how frequently the participants visit the cafes chosen for the research. The largest group of respondents, comprising 67 individuals, represents those who visit several times a week, accounting for 33.5% of the total sample. This suggests a significant portion of the surveyed population engages in the activity multiple times within a week, indicating a high level of regularity and frequency. Following closely, individuals who visit several times a month make up the second largest group, with 53 votes and representing 26.5% of the sample. Respondents who visit on a daily basis are represented by 15 votes, making up 7.5% of the total sample. This group consists of individuals who engage in the activity every day, showcasing a consistent and frequent pattern of visitation, the category of respondents who rarely visit accounts for 47 votes, representing 23.5% of the sample. This group consists of individuals who engage infrequently, indicating a lower level of regularity and frequency compared to the previous groups. Lastly, individuals who are visiting for the first time are represented by 18 votes, accounting for 9.0% of the total sample. This group comprises respondents who are new and are experiencing it for the first time.

#### 4.1.2 Central Tendencies Measurement of constructs

Table 4.6 Central Tendencies Measurement of constructs

<b>Variables</b>	<b>Items</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
<b>Responsiveness (RES)</b>	RES1	200	2.06	.791
	RES2		2.28	.868
	RES3		2.39	1.046
	RES4		2.20	.884
<b>Reliability (REL)</b>	REL1	200	2.17	.908
	REL2		1.90	.746
	REL3		2.40	.879
	REL4		1.92	.847
	REL5		1.75	.693
<b>Empathy (EMP)</b>	EMP1	200	2.09	.840
	EMP2		2.55	.934
	EMP3		2.25	.757
	EMP4		1.99	.821
<b>Assurance (ASU)</b>	ASU1	200	1.69	.645
	ASU2		1.79	.718
	ASU3		2.03	.814
	ASU4		1.94	.837
	ASU5		1.75	.721
<b>Lighting (LIG)</b>	LIG1	200	1.93	.848
	LIG2		1.67	.758
	LIG3		1.90	.716
	LIG4		1.96	.742
<b>Music (MU)</b>	MU1	200	2.21	.980
	MU2		2.47	1.065
	MU3		2.21	1.000
	MU4		2.26	.940
<b>Layout &amp; design (LAY)</b>	LAY1	200	1.78	.701
	LAY2		1.94	.796
	LAY3		2.01	.946
<b>Cleanliness (CLE)</b>	CLE1	200	1.67	.660
	CLE2		1.69	.662
	CLE3		1.72	.710
	CLE4		1.70	.673
<b>Customer Satisfaction (CS)</b>	CS1	200	1.92	.686
	CS2		2.08	.736
	CS3		2.20	.855
	CS4		1.97	.743
	CS5		1.95	.819
	CS6		1.98	.726
	CS7		1.94	.662

<b>Customer Loyalty (CL)</b>	CL1	200	1.75	.685
	CL2		2.27	.768
	CL3		2.01	.753
	CL4		2.32	.849

Source; developed by researcher

Table 4.5 presents the central tendencies of the constructs, showcasing the means and standard deviations of the variables under examination. These measurements provide valuable insights into the average values and variability of the variables, offering a deeper understanding of the data. The means of the variables range from 1.78 to 2.55. The variable with the highest mean is observed under Empathy, with a mean value of 2.55. On the other hand, the variable with the lowest mean is found under lighting and cleanliness, with a mean value of 1.67.

Turning to the standard deviations, they range from 0.660 to 1.065. The variable with the maximum standard deviation of 1.065 is observed under music and sound. This indicates a higher level of variability in respondents' perceptions or experiences related to music and sound. On the other hand, the variable with the minimum standard deviation of 0.660 is found under cleanliness.

## 4.2 Scale Measurement

### 4.2.1 Normality & Reliability Test

Table 4.7 Normality & Reliability Test

Variables	Items	Skewness	Kurtosis	Cronbach's Alpha
<b>Responsiveness (RES)</b>	RES1	0.456	-0.117	0.815
	RES2	0.180	-0.651	
	RES3	0.309	-0.567	
	RES4	0.225	-0.741	
<b>Reliability (REL)</b>	REL1	0.550	-0.383	0.830
	REL2	0.686	0.517	
	REL3	0.526	0.153	
	REL4	0.555	-0.471	
	REL5	0.378	-0.883	
<b>Empathy (EMP)</b>	EMP1	0.599	0.472	0.841
	EMP2	-0.109	-0.025	
	EMP3	-0.182	-0.749	
	EMP4	0.129	-1.235	

<b>Assurance (ASU)</b>	ASU1	0.396	-0.700	0.832
	ASU2	0.327	-1.013	
	ASU3	0.736	0.376	
	ASU4	0.322	-0.996	
	ASU5	0.416	-0.994	
<b>Lighting (LIG)</b>	LIG1	0.284	-1.187	0.797
	LIG2	1.544	4.211	
	LIG3	0.232	0.748	
	LIG4	0.139	-0.953	
<b>Music (MU)</b>	MU1	0.634	0.131	0.940
	MU2	0.356	-0.321	
	MU3	0.571	-0.067	
	MU4	0.678	0.412	
<b>Layout &amp; design (LAY)</b>	LAY1	0.413	-0.565	0.766
	LAY2	0.419	-0.538	
	LAY3	0.952	0.940	
<b>Cleanliness (CLE)</b>	CLE1	0.699	0.380	0.892
	CLE2	0.449	-0.740	
	CLE3	0.718	0.221	
	CLE4	0.641	0.192	
<b>Customer Satisfaction (CS)</b>	CS1	0.229	-0.201	0.875
	CS2	0.186	-0.420	
	CS3	0.345	0.005	
	CS4	0.568	0.337	
	CS5	0.758	0.319	
	CS6	0.023	-1.092	
	CS7	0.066	-0.703	
<b>Customer Loyalty (CL)</b>	CL1	0.745	0.835	0.884
	CL2	0.235	-0.235	
	CL3	0.403	-0.107	
	CL4	-0.169	-0.858	

Source; developed by researcher

Table 4.6 presents the results of the normality and reliability tests conducted on the total dataset. Normality was assessed based on skewness values, with a general criterion suggesting values between -1.0 and +1.0 as indicative of sufficient regularity (Liu, Fadilah, Mohd Ridzuan, & Muhammad Firdaus, 2014). Additionally, a skewness of less than or equal to three is commonly considered as indicative of normal distribution (Kline, 2005).

The normality test revealed that the dataset exhibited skewness values ranging from -0.182 to 1.544. The mean skewness value of approximately 0.398 suggests a normally distributed

distribution. Moreover, the majority of skewness values were positive, ranging from 0.023 to 1.544, indicating a positive skewness trend. Only three variables demonstrated negative skewness values, ranging from -0.182 to -0.169.

Regarding the reliability of the measurement scales, Cronbach's Alpha values were calculated for each variable. The obtained values ranged from 0.766 to 0.940, indicating satisfactory internal consistency and reliability among the items assessing each construct. These results suggest that the items within each variable consistently measure the same underlying construct.

According to Sekaran and Bougie (2016), reliability coefficients below 0.60 are considered poor, those in the 0.70 range are deemed acceptable, and values above 0.80 are regarded as good. In light of this, the variables Music (MU) displayed the highest Cronbach's Alpha value of 0.940, followed by Cleanliness (CLE) with 0.892, Customer Loyalty (CL) with 0.884, and Customer Satisfaction (CS) with 0.875. These variables exhibited strong internal consistency among their respective items. The variables Layout & design (LAY) and Lighting (LIG) exhibited relatively lower Cronbach's Alpha values of 0.766 and 0.797, respectively. Although these values indicate slightly lower internal consistency, they still demonstrate satisfactory reliability.

### 4.3 Inferential Analysis

#### 4.3.1 Pearson's Correlation Coefficient Analysis

Table 4.8 Pearson's Correlation Coefficient Analysis

Variables	RES	REL	EMP	ASU	LIG	MU	LAY	CLE	CS	CL
<b>RES</b>	1									
<b>REL</b>	0.698	1								
	.000									
<b>EMP</b>	0.652	0.510	1							
	.000	.000								
<b>ASU</b>	0.662	0.635	0.578	1						
	.000	.000	.000							
<b>LIG</b>	0.497	0.356	0.497	0.511	1					
	.000	.000	.000	.000						
<b>MU</b>	0.554	0.482	0.533	0.596	0.530	1				
	.000	.000	.000	.000	.000					
<b>LAY</b>	0.381	0.419	0.523	0.437	0.611	0.492	1			

	.000	.000	.000	.000	.000	.000			
<b>CLE</b>	0.438	0.476	0.392	0.435	0.380	0.296	0.668	1	
	.000	.000	.000	.000	.000	.000	.000		
<b>CS</b>	0.737	0.607	0.581	0.614	0.486	0.589	0.483	0.459	1
	.000	.000	.000	.000	.000	.000	.000	.000	
<b>CL</b>	0.633	0.566	0.561	0.542	0.567	0.454	0.495	0.333	0.716
	.000	.000	.000	.000	.000	.000	.000	.000	.000

Source; developed by researcher

Using Pearson's correlation coefficient, Table 4.7 shows the results of the correlation coefficient between the independent, mediator, and dependent variables. The correlation coefficient measures the strength and direction of the linear relationship between two variables.

According to Table 4.8, it is observed that most of the variables have a "Moderate" association. This means that there is a moderate degree of linear relationship between these variables. The correlation coefficients between these variables are fall within the range of 0.41 to 0.7, additionally a minor number of variables have "Small but definite relationship" strength. This suggests that the correlation coefficients for these variables are relatively lower, falling between 0.21 from 0.40. Although the correlation is smaller in magnitude, it is still considered definite or evident.

The correlation coefficient also provides insights into the direction of the relationship as well, in which all the coefficients have a positive correlation coefficient indicating that the variables tend to move in the same direction, meaning that an increase in one variable is associated with an increase in the other, and vice versa.

Table 4.9 Pearson's Correlation Coefficient

<b>Coefficient Range</b>	<b>Strength</b>
Slight, almost negligible	±0.00 - ±0.20
Small but definite relationship	±0.21 - ±0.40
Moderate	±0.41 - ±0.70
High	±0.71 - ±0.90
Very strong	±0.91 - ±1.00

Source: Zikmund, W.G., Babin, B.J., & Griffin, M. (2010). *Business Research Methods*, Retrieved 10 March, 2015

#### 4.3.1.1 Test of Significant

##### 4.3.1.1.1 Service Quality and Customer Satisfaction

The result shows that service quality (responsiveness, reliability, empathy and assurance) are positively correlated with the customer satisfaction. The values of all variables are from 0.581 to 0.737, the correlation coefficient value of responsiveness is 0.737 ( $p < 0.0001$ ); reliability is 0.607 ( $p < 0.0001$ ); empathy is 0.581 ( $p < 0.0001$ ); assurance is 0.614 ( $p < 0.0001$ ). This indicates that all dimensions of service quality have a positive and moderate correlation with only responsiveness having high correlation with customer satisfaction.

#### **4.3.1.1.2 Service Quality and Customer Loyalty**

The result shows that service quality (responsiveness, reliability, empathy and assurance) are positively correlated with the customer loyalty. The values of all variables range from 0.542 to 0.633, the correlation coefficient value of responsiveness is 0.633 ( $p < 0.0001$ ); reliability is 0.566 ( $p < 0.0001$ ); empathy is 0.561 ( $p < 0.0001$ ); assurance is 0.542 ( $p < 0.0001$ ). This indicates that all dimensions of service quality have a positive and moderate correlation with customer loyalty.

#### **4.3.1.1.3 Atmosphere Quality and Customer Satisfaction**

The result indicated that atmosphere quality (lighting, music, layout, cleanliness) has a positive correlation with customer satisfaction. The correlation coefficient value for lighting is 0.486 ( $p < 0.0001$ ); music is 0.589 ( $p < 0.0001$ ); layout is 0.483 ( $p < 0.0001$ ) and cleanliness is 0.459 ( $p < 0.0001$ ). This indicates that based on table 4.8 that all variables of atmosphere quality have a positive and moderate correlation with customer satisfaction.

#### **4.3.1.1.4 Atmosphere Quality and Customer loyalty**

The result indicated that atmosphere quality (lighting, music, layout, cleanliness) has a positive correlation with customer loyalty. The correlation coefficient value for lighting is 0.567 ( $p < 0.0001$ ); music is 0.454 ( $p < 0.0001$ ); layout is 0.495 ( $p < 0.0001$ ) and cleanliness is 0.333 ( $p < 0.0001$ ). This indicates that based on table 4.8 that all variables of atmosphere quality except cleanliness have a positive and moderate correlation while cleanliness has a positive small but definite relationship with customer satisfaction.

#### **4.3.1.1.5 Customer Satisfaction and Customer Loyalty**

The result indicated that customer satisfaction have a positive correlation with customer loyalty with a correlation coefficient of 0.716 ( $p < 0.0001$ ), which according to table 4.8 that customer satisfaction has a high correlation with customer loyalty.

### **4.3.2 Diagnostic Tests of Regression Model**

To understand the causal relationship between the dependent and independent variables and assess the strength and weakness of their association, it is crucial to conduct tests to verify the underlying assumptions. In this study, several fundamental assumption tests were performed, including evaluating the linearity of the relationships, the normality of the data distribution, the presence of multicollinearity among the independent variables, the homoscedasticity of the residuals, and the potential for autocorrelation. The purpose of these tests was to examine whether the necessary assumptions were met and if the results could be considered reliable and acceptable.

#### **4.3.2.1 Linearity test**

Linearity pertains to the extent to which changes in the dependent variable are associated with changes in the independent variables. To assess the linearity of the relationship between the dependent variable, customer loyalty and the independent variables, the dimensions of service quality and atmosphere quality namely responsiveness, reliability, empathy, assurance, lighting, music, layout, and cleanliness. Plots of the regression residuals were generated using SPSS software.

The normal P-P Plot was employed to determine whether the data followed a normal distribution by examining the alignment of the data points against a reference line. Upon observation, it is evident that the data points closely align with the reference line, exhibiting minimal deviation. Based on this, we can conclude that the data is normally distributed.

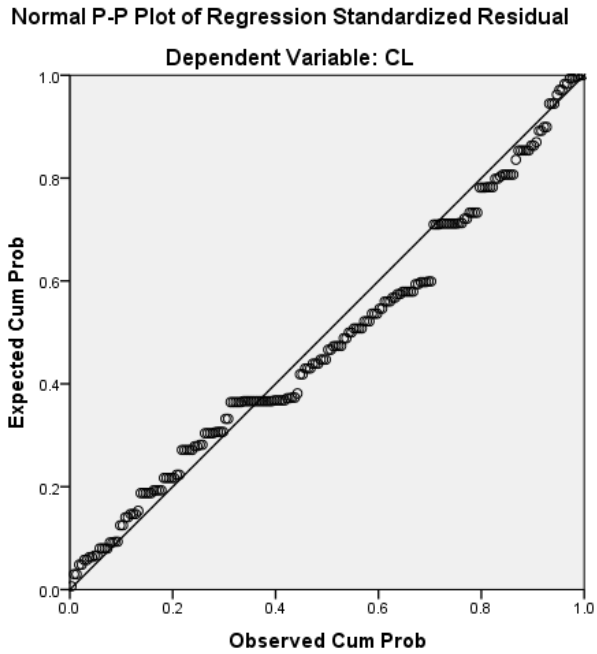


Figure 2 Normal P-P plot of regression of standardized residuals

Source; developed by researcher

#### 4.3.2.2 Normality Test

Normality testing is conducted to assess whether the residuals or error terms conform to a normal distribution. It is important for researchers to examine normality before conducting hypothesis testing. By examining the histogram below, we can observe that the standardized residuals exhibit symmetry around the center value of 0. The histogram displays a characteristic bell-shaped curve, and a majority of the bars are concentrated around the center.

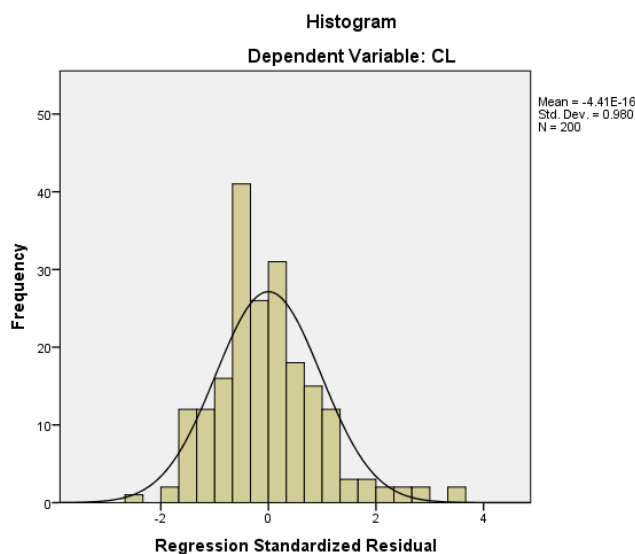


Figure 3 Histogram of regression of standardized residuals.

Source; developed by researcher

#### 4.3.2.3 Test of Homoscedasticity

The assumption of Homoscedasticity refers to the equal variance of errors or residuals across all levels of the independent variables. It pertains to the distribution of residual terms or the consistency of error terms throughout the expected data. Homoscedasticity can be evaluated by visually examining a scatter plot of the standardized residuals plotted against the standardized predicted values obtained from the regression analysis. Violation of homoscedasticity can adversely affect the analysis (Osborne, 2003). In the case of this study, the scatter plot presented below indicated a relatively uniform distribution of the residuals across the predicted values, suggesting no substantial violation of the homoscedasticity assumption.

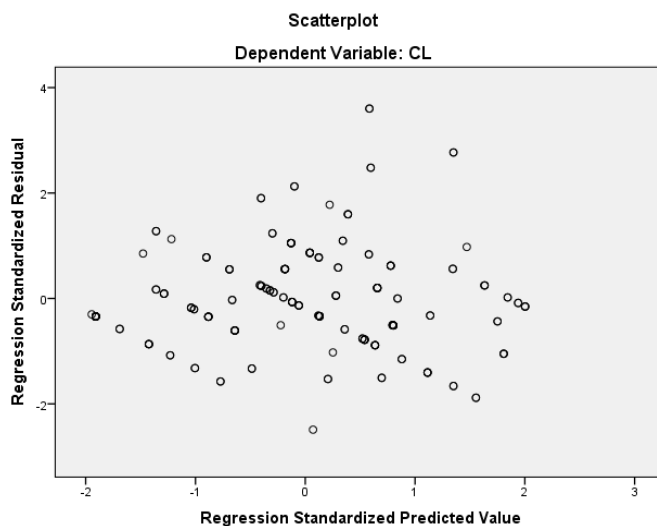


Figure 4 Scatter plot of regression for standardized predicted value against the residual

Source; developed by researcher

#### 4.3.2.4 Multi-collinearity Test

In multiple regression analysis, it is important to consider the presence of a strong correlation between the independent variables, which is referred to as multicollinearity (Burns, 2008). To evaluate multicollinearity in this study, tolerance and VIF (Variance Inflation Factor) statistics were employed. According to Andy (2006), a tolerance value below 0.1 typically indicates a significant collinearity issue. Similarly, a VIF value exceeding 10 is considered problematic. However, in this investigation, all the independent variables exhibited a

tolerance greater than 0.1 and a VIF value less than 10. This indicates that the assumption of multicollinearity was not violated.

Table 4. 10 Multi-collinearity test

model	Collinearity Statistics	
	Tolerance	VIF
<b>(Constant)</b>		
<b>Responsiveness</b>	.334	2.998
<b>Reliability</b>	.433	2.310
<b>Empathy</b>	.462	2.165
<b>Assurance</b>	.413	2.419
<b>Lighting</b>	.491	2.037
<b>Music</b>	.503	1.987
<b>Layout</b>	.338	2.961
<b>Cleanliness</b>	.461	2.170

Source; developed by researcher

#### 4.3.2.5 Test for autocorrelation

Linear regression analysis requires minimal or no autocorrelation in the data, which means that the residuals should be independent of each other. Autocorrelation can be accessed through a scatter plot, but the Durbin-Watson test is commonly used to specifically test for autocorrelation in a linear regression model. The Durbin-Watson test produces a value between 0 and 4, where a value around 2 indicates no autocorrelation. In this case, the Durbin-Watson value is approximately 2.004 as shown in the table below. Since the Durbin-Watson value is close to 2, it suggests that there is no violation of autocorrelation. Thus, based on the results obtained from all five tests, it can be concluded that there are no significant data issues that indicate a substantial violation of the assumptions of multiple regressions.

Table 4. 11 Test for autocorrelation

Mode	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.742a	.551	.532	.45129	2.004

a. Predictors: (constant), CLE, LIG, MU, REL, EMP, ASU, LAY, RES

b. Dependent variable: CL

### 4.3.3 Multiple Regression Analysis

Table 4.12 Regression results for service quality and customer satisfaction

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.433	.104		4.145	.000
Responsiveness	.378	.060	.472	6.276	.000
Reliability	.112	.062	.122	1.815	.017
Empathy	.104	.053	.124	1.970	.048
Assurance	.152	.067	.152	2.272	.024

Note. \*\*significant at  $P < 0.05$ ,  $R^2 = 0.578$ , Adj  $R^2 = 0.579$  and Dependent Variable: CS

Table 4.13 Regression results for service quality and customer loyalty

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.439	.134		3.287	.001
Responsiveness	.270	.077	.298	3.502	.001
Reliability	.193	.079	.187	2.451	.015
Empathy	.201	.068	.212	2.973	.003
Assurance	.117	.086	.103	1.360	.175

Note. \*\*significant at  $P < 0.05$ ,  $R^2 = 0.407$ , Adj  $R^2 = 0.459$  and Dependent Variable: CL

#### 4.3.3.1 Service quality and Customer satisfaction

**H1:** There is a significant positive relationship between service quality and customer satisfaction.

Hypothesis 1 is fully supported as all variables representing service quality namely Responsiveness, Reliability, Empathy and Assurance all have a positive influence on customer satisfaction as they all had a p-value  $> 0.05$  significance level. Responsiveness (0.000), reliability (0.017), empathy (0.048), and assurance (0.024) were the specific p values. Additionally according to these findings with  $R^2 = 0.578$  these implies that 57.8% of customer satisfaction can be justified by service quality variables.

#### 4.3.3.2 Service quality and Customer loyalty

**H2:** There is a significant positive relationship between service quality and customer loyalty.

Hypothesis 2 is majorly supported as the service quality variables responsiveness (0.001), reliability (0.015), and empathy (0.003) all had a p-value  $> 0.05$  hence meaning that they had

a significant positive influence on customer loyalty whereas Assurance (0.175) had a p-value <0.05 implying that assurance didn't have a significant impact on customer loyalty. Additionally according to these findings with  $R^2 = 0.407$  these implies that 40.7% of customer loyalty can be justified by service quality variables.

Table 4.14 Regression results for atmosphere quality and customer satisfaction

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.652	.118		5.542	.000
Lighting	.156	.068	.162	2.274	.024
Music	.271	.041	.427	6.602	.000
Layout	-.011	.073	-.012	-.144	.885
Cleanliness	.277	.071	.279	3.912	.000

Note. \*\*significant at  $P < 0.05$ ,  $R^2 = 0.452$ , Adj  $R^2 = 0.441$  and Dependent Variable: Cs

Table 4.15 Regression results for atmosphere quality and customer loyalty

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.707	.142		4.987	.000
Lighting	.393	.082	.361	4.764	.000
Music	.122	.049	.170	2.468	.014
Layout	.164	.088	.170	1.860	.064
Cleanliness	.036	.085	.032	.419	.675

Note. \*\*significant at  $P < 0.05$ ,  $R^2 = 0.377$ , Adj  $R^2 = 0.364$  and Dependent Variable: CL

#### 4.3.3.3 Atmosphere quality and Customer satisfaction

**H3:** There is a significant positive relationship between atmosphere quality and customer satisfaction.

Hypothesis 3 is majorly supported as the atmosphere quality variables lighting (0.024), music (0.000), and cleanliness (0.000) all had a p-value >0.05 hence meaning that they had a significant positive influence on customer satisfaction whereas, layout (0.885) had a p-value <0.05 implying that layout didn't have a significant impact on customer satisfaction. Additionally according to these findings with  $R^2 = 0.452$  these implies that 45.2% of customer satisfaction can be justified by atmosphere quality variables.

#### 4.3.3.4 Atmosphere quality and Customer loyalty

**H4:** There is a significant positive relationship between atmosphere quality and customer loyalty.

Hypothesis 4 is partially supported as the atmosphere quality variables lighting (0.000) and music (0.014), had a p-value >0.05 hence meaning that they had a significant positive influence on customer loyalty whereas, layout (0.065) and cleanliness (0.675) all had a p-value <0.05 implying that layout and cleanliness didn't have a significant impact on customer satisfaction. Additionally according to these findings with  $R^2 = 0.377$  these implies that 37.7% of customer loyalty can be justified by atmosphere quality variables.

#### 4.3.3.5 Customer satisfaction and customer loyalty

Table 4.16 Regression results for customer satisfaction and customer loyalty

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.466	.117		3.978	.000
Customer satisfaction	.808	.056	.716	14.428	.000

Note. \*\*significant at  $P < 0.05$ ,  $R^2 = 0.513$ , Adj  $R^2 = 0.510$  and Dependent Variable: CL

**H5:** There is a significant positive relationship between customer satisfaction and customer loyalty.

Hypothesis 5 is fully supported with customer satisfaction (0.000) having a p-value >0.05 therefore indicating a positive impact on customer loyalty, and with  $R^2 = 0.513$ ; 51.3% of customer loyalty can be justified by customer satisfaction.

## 4.4 Discussions of results

The findings of this study provide valuable insights into the relationships between service quality, atmosphere quality, customer satisfaction, and customer loyalty in the cafe industry context. Overall, the results highlight the complex nature of the customer experience and the need for cafes to in general manage both the functional and experiential aspects of their service offerings.

The results strongly support the notion that service quality is a key driver of customer satisfaction. Responsiveness emerged as the most influential service quality dimension, highlighting the critical importance of timely, attentive, and empathetic service delivery.

Cafes should prioritize enhancing service quality across the key dimensions of responsiveness, assurance, empathy, and reliability in order to promote positive customer experiences and greater satisfaction.

The relationships between service quality and customer loyalty were more subtle. While responsiveness, reliability, and empathy demonstrated direct positive impacts on customer loyalty, the assurance dimension did not show a significant effect. This suggests that certain service quality factors may have a more indirect influence on loyalty, potentially mediated by their effects on customer satisfaction. There for cafes should carefully consider how to optimize their service offerings to simultaneously enhance both satisfaction and loyalty.

The findings also underscore the importance of atmosphere quality in shaping customer experiences and perceptions. Specific atmospheric dimensions such as lighting, music, and cleanliness were found to positively influence customer satisfaction. However, layout did not demonstrate a significant relationship. Similarly, lighting and music were linked to greater customer loyalty, while layout and cleanliness were not. These results suggest that firms should strategically invest in enhancing the most impactful atmosphere quality dimensions to drive positive customer responses.

From a theoretical perspective, this study contributes to the service quality, atmosphere quality, and customer behavior literature by empirically validating the complex interplay between these key constructs. The findings underscore the multidimensional nature of the customer experience and the need for a holistic, integrative approach to understanding and managing customer perceptions and behaviors.

For service providers within the cafe industry, the results provide valuable guidance on strategies for enhancing customer satisfaction and loyalty. Specific recommendations include employee training and process improvements to elevate service quality, thoughtful atmosphere design and maintenance, and ongoing collection and analysis of customer feedback. By adopting a comprehensive approach to managing both the functional and empirical aspects of the customer journey, firms can cultivate lasting competitive advantage and business success.

# **CHAPTER 5: Summary, Conclusion and Recommendation**

## **5.1 Introduction**

This chapter focuses on summarizing the research findings, drawing conclusive insights, and providing practical recommendations regarding the impact of service quality and atmosphere quality on customer loyalty in the café industry. Throughout this study, we have explored the relationships between specific variables representing service quality (Responsiveness, Reliability, Empathy, and Assurance) and atmosphere quality (Lighting, Music, Layout & Design, and Cleanliness) in café settings, and their influence on customer loyalty.

## **5.2 Summary**

In this research the study was done on the impact of service quality and atmosphere quality on customer loyalty in the café industry, several key findings emerged from the analysis of various factors and their impact on customer loyalty. The sample of 200 respondents had a balanced gender composition, with 50.5% male and 49.5% female. The majority (70%) were in the 18-29 age range, reflecting younger café-goers. The largest occupational groups were students and government employees (28% each), followed by private employees (27.5%) and self-employed (16.5%).

Visit frequency was high, with 33.5% visiting several times a week and 26.5% several times a month. Daily visits were reported by 7.5%, while 23.5% were rare visitors and 9% were first-time customers.

The analysis done on the central tendencies of the constructs, as indicated by the means and standard deviations, provide valuable insights into the average values and variability of the variables. These findings help in understanding the overall levels and dispersion of respondents' perceptions. The implications include identifying areas of strength and areas that may require improvement within the constructs being examined.

The results of the normality and reliability tests in the study indicated that the variables exhibit normal distribution and satisfactory internal consistency. This implies that the researcher can confidently use the measurement scales to assess constructs such as music, cleanliness, customer loyalty, customer satisfaction, layout & design, and lighting. The

findings provide a reliable basis for drawing conclusions and making informed decisions based on the data collected in the study.

The results of the correlation coefficient analysis indicate moderate and definite relationships between the variables. The positive correlations suggest that as one variable increases, the other variable tends to increase as well. These findings provide insights into the interdependencies among the variables and can inform decision-making and intervention strategies in order to leverage or address these relationships effectively.

The findings reveal that service quality dimensions, such as responsiveness, reliability, empathy, and assurance, have positive and moderate correlations with both customer satisfaction and loyalty. This underscores the importance of prioritizing and improving service quality to enhance customer experiences and foster long-term loyalty. By focusing on delivering prompt and reliable service, showing empathy towards customer needs, and instilling a sense of trust and confidence, organizations can positively influence customer satisfaction and cultivate a loyal customer base.

Hypothesis 1 states that there is a positive relationship between service quality and customer satisfaction, and this hypothesis is fully supported. All variables representing service quality, including Responsiveness, Reliability, Empathy, and Assurance, demonstrated a positive influence on customer satisfaction. Improving these service quality dimensions can enhance customer satisfaction levels, leading to stronger customer relationships and potentially increasing loyalty.

Hypothesis 2 suggests a positive relationship between service quality and customer loyalty, and this hypothesis is largely supported. Variables such as Responsiveness, Reliability, and Empathy showed a significant positive impact on customer loyalty. However, the variable of Assurance did not demonstrate a significant influence. Businesses should focus on enhancing these specific dimensions of service quality to strengthen customer loyalty and improve overall business performance.

Hypothesis 3 proposes a positive relationship between atmosphere quality and customer satisfaction, and this hypothesis is mostly supported. Lighting, music, and cleanliness were found to have a significant positive influence on customer satisfaction. However, the variable of layout did not demonstrate a significant impact. By improving atmosphere quality factors

that positively affect customer satisfaction, businesses can create a more satisfactory environment for customers and potentially increase loyalty and positive word-of-mouth.

Hypothesis 4 suggests a positive relationship between atmosphere quality and customer loyalty, and this hypothesis is partially supported. Lighting and music were found to have a significant positive influence on customer loyalty, while layout and cleanliness did not demonstrate a significant impact. Businesses should prioritize enhancing the atmosphere quality dimensions that have the most significant influence on customer loyalty. By doing so, they can enhance the overall customer experience and potentially drive customer retention and advocacy.

Hypothesis 5 states a positive relationship between customer satisfaction and customer loyalty, and this hypothesis is fully supported. Customer satisfaction was found to have a significant positive impact on customer loyalty. Improving customer satisfaction levels directly contributes to fostering long-term customer relationships, positive word-of-mouth, and overall business success.

## **5.2 Conclusion**

In conclusion, this research focused on examining the impact of service quality and atmosphere quality on customer loyalty within the café industry. Through the analysis of various factors and their influence on customer loyalty, several key findings emerged.

The study's sample population consisted of 200 respondents, with a balanced distribution of gender, ensuring a comprehensive perspective from both male and female café-goers. The majority of participants fell within the 18–29 age range, indicating a strong presence of young individuals in the study. Additionally, the occupational distribution highlighted the significant representation of students, government employees, and private sector workers among the respondents..

The results of the normality and reliability tests confirmed the normal distribution and satisfactory internal consistency of the variables, enabling the researcher to confidently utilize the measurement scales for assessing the constructs. These findings provided a reliable basis for drawing conclusions and making informed decisions based on the collected data.

The supported hypotheses revealed that service quality dimensions significantly influenced customer satisfaction and loyalty, with responsiveness, reliability, and empathy playing

crucial roles. Similarly, atmosphere quality factors, such as lighting and music, had a positive impact on customer satisfaction and loyalty. The relationship between cleanliness and layout with customer satisfaction and loyalty was less conclusive.

In summary, this study provides valuable insights for café businesses in understanding the importance of service quality and atmosphere quality in influencing customer loyalty. By prioritizing improvements in these areas and catering to the preferences and needs of customers, café establishments can enhance customer satisfaction, foster long-term loyalty, and ultimately achieve success in a competitive market.

### **5.3 Limitations**

While this study provides valuable insights into the relationships between service quality, atmosphere quality, customer satisfaction, and customer loyalty in the context of domestic cafes in Addis Ababa, Ethiopia, it is important to acknowledge several limitations.

- ✚ One potential limitation of this study is the possibility of a small sample size relative to the population of domestic cafe customers in Addis Ababa. A larger sample could have provided more robust and generalizable findings.
- ✚ Additionally, the study's focus on domestic cafes in Addis Ababa may limit the applicability of the findings to other regions or types of food and beverage establishments.
- ✚ Finally, it is possible that not all relevant factors or variables that can influence service quality, atmosphere quality, customer satisfaction, and customer loyalty in the domestic cafe industry were examined in this study. Other elements, such as pricing, service innovation, or technological advancements, may have also played a role in shaping customer loyalty that was not captured by the current research framework.

### **5.4 Recommendations**

Acknowledge that generalizing the findings of the current study to the broader Ethiopian café culture may not be entirely accurate, as the research is based on a selected sample of domestic cafes within Addis Ababa. To address this limitation, the researchers suggest including respondents from a wider range of cafes across different regions of Ethiopia. This would help reduce potential biases and imprecision's that may arise from focusing solely on the Addis Ababa market.

Additionally, to address the limitation of this paper in terms of the insignificance of the relationship between assurance, layout & cleanliness and Customer Loyalty, it is recommended that future researchers consider conducting quantitative research using in-depth interviews and conduct longitudinal studies in order to understand the long term impacts of this dimensions of service and atmosphere quality.

### **Recommendations for business owners and managers include;**

- **Prioritize Service Quality Enhancement:**
  - Focus on improving the responsiveness, reliability, and empathy dimensions of service quality.
  - Invest in employee training programs to enhance service skills, customer-centricity, and problem-solving abilities.
  - Implement service quality monitoring systems to gather ongoing customer feedback and address pain points.
- **Strategically Manage Atmosphere Quality:**
  - Carefully design and maintain the cafe environment, with a focus on impactful dimensions such as lighting and music.
  - Ensure consistent cleanliness and attention to detail in the physical space.
  - Regularly evaluate the cafe's layout and make adjustments to optimize customer flow and comfort.

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## **Appendix-A Research survey questionnaires**

### **ADDIS ABABA COLLEGE OF BUSINESS AND ECONOMICS DEPARTMENT OF BUSINESS POST GRADUATE PROGRAM**

#### **THE EFFECT OF SERVICE QUALITY AND ATMOSPHERE QUALITY ON CUSTOMER LOYALTY ON DOMESTIC CAFES IN ADDIS ABABA**

#### **Dear Respondents**

I am Abel Desbele; this questionnaire is designed to gather information for a research required for the fulfillment of Master of Business Administration (MBA) in the department of Masters of Business Administration at Addis Ababa University, College of business and economics. I am seeking your kind assistance in giving your best answer on our research survey paper concerning the effect of service quality and atmosphere quality on customer loyalty on domestic cafes in Addis Ababa. Please provide your answer on all the questions based on your best knowledge. Kindly be informed that there are no wrong responses to any of the statements in this survey paper. Thank you for your participation

#### **SECTION A: DEMOGRAPHIC PROFILE**

In this section, we are interested in your demographic background. Please tick your answer if the statement provided shows relevancy to you.

1) Gender:

- Male
- Female

2) 2) Age:

- 18 – 29
- 30 – 29
- 40 – 49
- 50 and above

3) Occupation:

- Student
- Self – employed
- Working adult
- Professional
- Retiree

4) How frequently do you visit this cafe?

- Daily
- Several times a week

- Several times a month
- Rarely
- First-time visitor

## SECTION B: SERVICE QUALITY

This section is seeking your opinions on the importance of each of the dimensions in service quality. Respondents are asked to indicate the extent to which they agreed or disagreed with each statement using 5 Likert scale [(1) = strongly disagree; (2) = disagree; (3) = neutral; (4) = agree and (5) = strongly agree] response framework.

### TANGIBLES

No	Questions	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
i.	The café has an attractive design layout	1	2	3	4	5
ii.	The café has a clean environment	1	2	3	4	5
iii.	The café has a nice background music	1	2	3	4	5
iv.	The café provides comfortable seating	1	2	3	4	5
v.	The café's employees are neat and well-groomed	1	2	3	4	5

### RESPONSIVENESS

No	Questions	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
i.	My food order was being taken as soon as I am ready	1	2	3	4	5
ii.	My food was being served on time	1	2	3	4	5
iii.	My complaints were being given prompt attention	1	2	3	4	5
iv.	The employees are capable of handling any of my special requests	1	2	3	4	5

### RELIABILITY

No	Questions	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
i.	The café's food quality is stable	1	2	3	4	5

ii.	The employee who served me is able to perform the service right at the first time	1	2	3	4	5
iii.	I was being served in the time as promised	1	2	3	4	5
iv.	I was being served with the exact food as I ordered	1	2	3	4	5
v.	I was being provided with accurate bills	1	2	3	4	5

## EMPATHY

No	Questions	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
i.	The employees are caring towards me	1	2	3	4	5
ii.	I was being given personal attention by the employees	1	2	3	4	5
iii.	The employees understand my needs and wants well	1	2	3	4	5
iv.	The employee quickly apologizes to me when they made service mistakes	1	2	3	4	5

## ASSURANCE

No	Questions	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
i.	The employees are polite towards me	1	2	3	4	5
ii.	The employees are friendly towards me	1	2	3	4	5
iii.	The employees have good product knowledge	1	2	3	4	5
iv.	I feel confident with the service through the behavior of the employees	1	2	3	4	5
v.	I feel safe with the service and food provided by the cafe	1	2	3	4	5

## SECTION C: ATMOSPHERE QUALITY

This section is seeking your opinions on the importance of each of the dimensions in atmosphere quality . Respondents are asked to indicate the extent to which they agreed or disagreed with each statement using 5 Likert scale [(1) = strongly disagree; (2) = disagree; (3) = neutral; (4) = agree and (5) = strongly agree] response framework.

## LIGHTING

No	Questions	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
i.	The dimness of the lighting gave me an intimate/relaxed feeling	1	2	3	4	5
ii.	The brightness of the lighting allows me to browse through the menu easily	1	2	3	4	5
iii.	The clarity of the lighting allows me to evaluate the overall ambience of the café	1	2	3	4	5
iv.	The attractiveness of the lighting (e.g. shape and color of bulb) enhances my perception of the cafes image	1	2	3	4	5

#### MUSIC (SOUND)

No	Questions	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
i.	The right genre of music influences my mood in a positive manner	1	2	3	4	5
ii.	The tempo of the music increases my willingness to wait for my food	1	2	3	4	5
iii.	The rhythm of the music enhances my enjoyment	1	2	3	4	5
iv.	The appropriate volume of the music helps reduce my stress level	1	2	3	4	5

#### LAYOUT AND DESIGN

No	Questions	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
i.	The accessibility of the layout enhances my positive evaluation	1	2	3	4	5
ii.	The efficiency of the layout eases my entry and exit	1	2	3	4	5
iii.	The creativeness of the layout (e.g. seating arrangements) encourages me to stay longer	1	2	3	4	5

#### CLEANLINESS

No	Questions	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
i.	The cleanliness of the café encourages me to have a positive impression towards the café	1	2	3	4	5
ii.	The cleanliness of the café improves my evaluation of the food quality	1	2	3	4	5
iii.	The cleanliness of the café increases my desire to stay longer	1	2	3	4	5
iv.	The cleanliness of the café enhances my overall satisfaction level	1	2	3	4	5

#### SECTION D: CUSTOMER SATISFACTION

No	Questions	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
i.	I am satisfied with the overall layout of this café	1	2	3	4	5
ii.	I am satisfied with the overall service of this café	1	2	3	4	5
iii.	I am satisfied with the overall price of this café	1	2	3	4	5
iv.	I am satisfied with the overall experience with this café	1	2	3	4	5
v.	I am satisfied with the overall products of this cafe	1	2	3	4	5
vi.	I am satisfied with the overall attitude of the staff of this café	1	2	3	4	5
vii.	Overall I am satisfied with the cafe	1	2	3	5	5

#### SECTION E: CUSTOMER LOYALTY

No	Questions	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
i.	I am more likely to visit this café next time	1	2	3	4	5
ii.	I am more likely to spend more in this café compared to others	1	2	3	4	5
iii.	I am more likely to recommend this café to my friends	1	2	3	4	5
iv.	I am more likely to consider this café as my first choice	1	2	3	4	5