

BUILDING CUSTOMER LOYALTY IN CREATIVE SERVICE FIRMS: THE STRATEGIC ROLE OF SERVICE QUALITY AND CUSTOMER EXPERIENCE

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Abstract

This study examines the strategic role of service quality and customer experience in building customer loyalty within creative service firms. Grounded in service marketing and experience economy perspectives, the research investigates both the direct and indirect effects of service quality on customer loyalty, with customer experience as a mediating variable. A quantitative approach was employed using a survey of 30 customers from a photography service provider (Popular Studio). Data were collected through structured questionnaires and analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The results reveal that service quality has a positive and significant effect on customer loyalty and customer experience. In turn, customer experience significantly influences customer loyalty and partially mediates the relationship between service quality and customer loyalty. These findings indicate that service quality alone is insufficient to sustain customer loyalty unless it is translated into meaningful and engaging customer experiences. From a managerial perspective, the study highlights the importance of integrating functional service excellence with experiential value creation. Creative service firms should strategically manage customer touchpoints, enhance interpersonal interactions, and design service environments that foster emotional engagement to strengthen customer retention. This study contributes to the literature by providing empirical evidence on the mediating role of customer experience in linking service quality to customer loyalty within the context of small-scale creative service businesses.

Keywords: customer loyalty, service quality, customer experience, creative industry, strategic role

INTRODUCTION

The creative industry has emerged as a key driver of economic growth, particularly in developing countries where small-scale service firms contribute significantly to employment and value creation. Within this sector, creative service businesses, such as photography studios, operate in highly competitive environments where differentiation is not solely based on technical output, but also on the ability to deliver meaningful and memorable customer experiences (Pine & Gilmore, 1999; Bernd Schmitt, 1999). As competition intensifies, customers are increasingly empowered with multiple alternatives, making customer loyalty a critical yet challenging objective for service providers (Philip Kotler & Keller, 2016).

In the context of creative services, customer loyalty is inherently fragile due to low switching barriers and the abundance of alternative providers offering similar core services. Customers can easily move from one service provider to another when their expectations are not fully met, particularly in industries where experiential and emotional value play a central role (Lemon & Verhoef, 2016). This condition is evident in local creative markets, where numerous photography studios compete to attract and retain customers, forcing firms to move beyond functional value toward experiential differentiation.

Popular Studio, as a photography service provider operating in a competitive local market,

reflects this challenge. Despite offering professional photography services, the studio faces increasing pressure to maintain customer loyalty as customers become more experience-oriented. Customers evaluate not only the final output (i.e., photo quality), but also the overall service journey, including interpersonal interactions, responsiveness, and the service environment. This aligns with the notion that customer evaluations are shaped by cumulative experiences across multiple touchpoints rather than isolated service encounters (Lemon & Verhoef, 2016).

Service quality has long been recognized as a fundamental determinant of customer satisfaction and loyalty. The SERVQUAL model highlights dimensions such as reliability, responsiveness, assurance, empathy, and tangibles as critical factors influencing customer perceptions (Parasuraman et al., 1988). Empirical studies have consistently demonstrated that high service quality enhances customer satisfaction and contributes to long-term loyalty (Slack et al., 2020). However, in creative service contexts, service quality alone may not be sufficient to sustain customer loyalty, as customers increasingly seek emotional engagement and personalized experiences.

This shift reflects the growing relevance of the experience economy, where value is co-created through customer interactions and experiential engagement (Pine & Gilmore, 1999). Customer experience encompasses customers' cognitive, emotional, and behavioral responses throughout the entire service journey (Klaus & Maklan, 2013). Previous studies indicate that positive customer experiences can significantly influence customer satisfaction and loyalty (Rather, 2019). Nevertheless, the role of customer experience as a strategic mechanism that links service quality to customer loyalty remains underexplored, particularly within small-scale creative service firms.

Although prior research has extensively examined the relationship between service quality and customer loyalty, most studies have focused on large-scale industries such as hospitality, banking, and retail (Slack et al., 2020; Lemon & Verhoef, 2016). Limited attention has been given to micro and small enterprises in the creative sector, where personalized interactions and experiential value play a more dominant role. Furthermore, empirical evidence examining the mediating role of customer experience in connecting service quality and customer loyalty in creative service settings remains scarce, especially in emerging market contexts.

Addressing this gap, the present study aims to examine the strategic role of service quality and customer experience in building customer loyalty within a creative service firm. Specifically, this study investigates how service quality influences customer loyalty both directly and indirectly through customer experience in the context of Popular Studio. By doing so, this research provides insights into how creative service businesses can design effective strategies to enhance customer retention through experience-driven value creation.

The findings of this study are expected to contribute to both theory and practice. Theoretically, this research extends the service marketing literature by emphasizing the integrative role of customer experience in shaping customer loyalty within the creative industry. Practically, the study offers strategic implications for creative service firms, particularly small-scale businesses, in designing service delivery systems that prioritize both quality and experiential value.

LITERATURE REVIEW AND HYPOTHESIS FORMULATION

Customer Loyalty in Creative Service Context

Customer loyalty refers to a deeply held commitment to repurchase or reuse a preferred product or service consistently in the future, despite situational influences and marketing efforts from competitors (Griffin, 2002; Frederick F. Reichheld, 1996). In service industries, loyalty is reflected through repeat purchase intentions, positive word-of-mouth, and resistance to switching

behavior.

In the context of creative service firms, such as photography studios, customer loyalty becomes more complex due to the experiential and intangible nature of the service. Customers evaluate not only the final outcome but also the overall service process and emotional engagement (Rather, 2019). Therefore, understanding the drivers of customer loyalty requires integrating both functional and experiential perspectives.

Service Quality as a Strategic Driver

Service quality is defined as the gap between customer expectations and perceived service performance (Parasuraman et al., 1988). The SERVQUAL framework identifies five key dimensions: tangibles, reliability, responsiveness, assurance, and empathy, which collectively shape customer perceptions of service quality. Prior studies consistently demonstrate that service quality significantly influences customer satisfaction and loyalty (Slack et al., 2020). High-quality service enhances trust and reduces perceived risk, which encourages customers to maintain long-term relationships with service providers. In creative service settings, service quality serves as a foundational element that shapes customers' initial evaluations and expectations. However, recent literature suggests that service quality alone may not fully explain customer loyalty, particularly in industries where emotional and experiential value play a dominant role (Klaus & Maklan, 2013). This indicates the need to consider additional mechanisms that translate service performance into long-term behavioral outcomes.

Customer Experience as a Mediating Mechanism

Customer experience is defined as customers' cognitive, emotional, and behavioral responses arising from interactions with a service provider across the entire customer journey (Lemon & Verhoef, 2016). It reflects how customers perceive and internalize their interactions with a company, going beyond functional service delivery. Klaus and Maklan (2013) emphasize that customer experience differs from traditional service quality by incorporating emotional and relational aspects of consumption. Positive experiences create stronger emotional bonds, which are critical for fostering customer loyalty in service industries. Empirical studies confirm that customer experience plays a significant role in influencing customer loyalty (Rather, 2019). More importantly, customer experience has been identified as a mediating variable that connects service quality with behavioral outcomes, such as loyalty and retention (Pranata & Sukaatmadja, 2019; Wiranata & Nurcaya, 2020). This suggests that service quality influences loyalty not only directly but also indirectly through the creation of positive customer experiences.

Hypothesis Development

Service Quality and Customer Loyalty

Service quality is a key determinant of customer loyalty, as it directly influences customers' perceptions of value and trust. When customers perceive that a service provider consistently delivers reliable, responsive, and empathetic services, they are more likely to develop a commitment to the provider. Previous studies have demonstrated a significant positive relationship between service quality and customer loyalty (Slack et al., 2020). Therefore, the following hypothesis is proposed:

H1: Service quality has a positive and significant effect on customer loyalty.

Service Quality and Customer Experience

Service quality also plays a crucial role in shaping customer experience. High-quality service interactions, including professional behavior, responsiveness, and personalized attention, contribute to positive emotional and cognitive responses from customers. Research by Klaus and Maklan (2013) and Lemon and Verhoef (2016) highlights that service quality is a key antecedent of customer experience. In creative service settings, the quality of interactions significantly influences how customers perceive their overall experience. Thus, the following hypothesis is proposed:

H2: Service quality has a positive and significant effect on customer experience.

Customer Experience and Customer Loyalty

Customer experience is a strong predictor of customer loyalty, particularly in industries where emotional engagement plays a central role. Positive experiences create lasting impressions that encourage customers to return and recommend the service to others. Rather (2019) found that customer experience significantly influences customer loyalty through increased emotional attachment and engagement. Therefore, the following hypothesis is proposed:

H3: Customer experience has a positive and significant effect on customer loyalty.

The Mediating Role of Customer Experience

Customer experience is expected to mediate the relationship between service quality and customer loyalty. While service quality provides the foundation for customer evaluation, it is the resulting experience that transforms these evaluations into long-term behavioral intentions.

Previous studies (Pranata & Sukaatmadja, 2019; Wiranata & Nurcaya, 2020) confirm that customer experience acts as a mediator that strengthens the impact of service quality on customer loyalty. This mediation mechanism is particularly relevant in creative service industries, where experiential value plays a dominant role. Thus, the following hypothesis is proposed:

H4: Customer experience mediates the relationship between service quality and customer loyalty.

RESEARCH METHODS

This study adopts a quantitative explanatory approach using a survey method to examine the relationships between service quality, customer experience, and customer loyalty in a creative service context. The research was conducted at Popular Studio, a photography service provider operating in a competitive local creative industry, with individual customers as the unit of analysis. The population consists of all customers who have used the studio's services, while the sample was determined using a non-probability accidental sampling technique, resulting in 30 valid respondents. Data were collected through a structured questionnaire measured on a four-point Likert scale (1 = strongly disagree to 4 = strongly agree). Service quality was measured using the SERVQUAL dimensions, including tangibles, reliability, responsiveness, assurance, and empathy (Parasuraman et al., 1988), while customer experience was assessed based on customers' cognitive and emotional responses throughout the service journey (Klaus & Maklan, 2013; Lemon & Verhoef, 2016), and customer loyalty was measured through indicators such as repurchase intention, willingness to recommend, and resistance to switching (Griffin, 2002). Data analysis was performed using Partial Least Squares Structural Equation Modeling (PLS-SEM), which is suitable for small sample sizes and complex models involving mediation (Hair et al., 2019). The analysis included evaluation of the measurement model (convergent validity, composite reliability, average variance extracted, and discriminant validity) and the structural model (path coefficients, t-statistics, p-values, and coefficient of determination). The mediating effect of customer experience was tested using a bootstrapping procedure to assess the significance of indirect effects.

RESULTS AND DISCUSSION

Results

Data analysis was conducted using Partial Least Squares Structural Equation Modeling (PLS-SEM) to evaluate both the measurement model and the structural relationships among variables.

Measurement Model Evaluation

The measurement model was assessed to ensure the reliability and validity of the constructs. The

results indicate that all indicator loadings exceeded the recommended threshold of 0.70, confirming convergent validity. Composite reliability (CR) values for all constructs were above 0.70, indicating satisfactory internal consistency. Additionally, the Average Variance Extracted (AVE) values exceeded 0.50, demonstrating adequate convergent validity. Discriminant validity was also established based on the Fornell-Larcker criterion, where the square root of AVE for each construct was greater than its correlations with other constructs.

These results confirm that the measurement model is both reliable and valid, allowing for further analysis of the structural model.

Structural Model Evaluation

The structural model was evaluated using path coefficients, t-statistics, and p-values obtained through bootstrapping procedures.

The results reveal that:

- Service quality has a positive and significant effect on customer loyalty ($\beta = 0.41$, $p < 0.05$), supporting H1.
- Service quality has a positive and significant effect on customer experience ($\beta = 0.67$, $p < 0.01$), supporting H2.
- Customer experience has a positive and significant effect on customer loyalty ($\beta = 0.45$, $p < 0.05$), supporting H3.

The coefficient of determination (R^2) indicates that service quality and customer experience jointly explain a substantial proportion of variance in customer loyalty ($R^2 = 0.58$), suggesting moderate explanatory power.

Mediation Analysis

The mediating role of customer experience was examined using bootstrapping. The indirect effect of service quality on customer loyalty through customer experience was found to be significant ($\beta = 0.30$, $p < 0.05$).

Since both the direct and indirect effects are significant, this indicates partial mediation, supporting H4. This finding suggests that service quality influences customer loyalty both directly and indirectly through customer experience.

Discussion

The findings of this study highlight that service quality plays a strategic role in shaping customer loyalty within creative service firms. The significant relationship between service quality and customer loyalty supports prior studies (Slack et al., 2020), confirming that reliable and responsive service delivery enhances customer trust and commitment.

However, the results also demonstrate that customer experience serves as a critical mechanism that strengthens this relationship. The strong effect of service quality on customer experience indicates that customers do not evaluate service quality in isolation, but rather through the experiences they derive from service interactions. This finding aligns with the perspective of Klaus and Maklan (2013), who argue that customer experience extends beyond functional service quality by incorporating emotional and relational dimensions.

Furthermore, the significant impact of customer experience on customer loyalty reinforces the importance of experiential value in the creative industry. In line with Lemon and Verhoef (2016), customer experience represents the cumulative evaluation of all touchpoints, which ultimately shapes customer behavior. In creative service settings such as photography studios, emotional engagement, personalized interactions, and service atmosphere become key determinants of loyalty. The mediation result provides important insight into the mechanism through which service quality translates into customer loyalty. The presence of partial mediation suggests that while service quality

directly influences loyalty, its impact is significantly enhanced when it creates positive customer experiences. This finding is consistent with previous research (Rather, 2019; Pranata & Sukaatmadja, 2019), which highlights the mediating role of customer experience in service contexts.

From a managerial perspective, these findings imply that creative service firms should not rely solely on improving technical service quality. Instead, firms must strategically design holistic customer experiences that integrate functional excellence with emotional engagement. For Popular Studio, this means enhancing not only service reliability and responsiveness but also creating a more immersive and personalized service environment to strengthen customer relationships and retention.

CONCLUSION

This study demonstrates that service quality and customer experience play a strategic role in building customer loyalty within creative service firms. The findings confirm that service quality not only directly influences customer loyalty but also indirectly affects it through customer experience as a mediating mechanism. This indicates that customer loyalty is not solely driven by functional service performance, but also by the ability of firms to create meaningful and engaging customer experiences throughout the service journey.

The results highlight that customer experience acts as a critical bridge linking service quality to long-term customer relationships. In the context of creative services, where emotional and experiential value are central, customers are more likely to remain loyal when they perceive not only reliable and professional service, but also enjoyable and memorable interactions.

From a managerial perspective, this study offers important strategic insights for creative service firms, particularly small-scale businesses such as Popular Studio. First, firms should consistently maintain high standards of service quality across all dimensions, including reliability, responsiveness, and empathy, as these form the foundation of customer trust. Second, firms need to go beyond technical service delivery by designing holistic customer experiences that emphasize personalization, emotional engagement, and a comfortable service environment. Third, managing customer touchpoints strategically before, during, and after service delivery can significantly enhance customer satisfaction and loyalty outcomes.

Despite its contributions, this study has several limitations. The relatively small sample size and the focus on a single case limit the generalizability of the findings. Future research is encouraged to involve larger samples, multiple creative service sectors, and additional variables such as customer satisfaction, brand image, or perceived value to provide a more comprehensive understanding of customer loyalty in the creative industry.

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