The Strategy Analysis in Retaining Its Customers: A Case Study of the Coffee Shop Industry in Malaysia

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ABSTRACT

This study aims to analyze the strategy that Starbucks in Malaysia uses to retain its customers. The research methodology that was used in this research is empirical as it was conducted through primary data sources such as online survey techniques. The study used questionnaires to gather information from Malaysian Starbucks customers. While coffee quality ($\beta = 0.290$) and convenient locations ($\beta = 0.367$) were confirmed as significant drivers of customer retention, perceived value exhibited a surprising negative correlation ($\beta = -0.453$). This suggests that while customers appreciate value-added programs, they might not consider them a core factor in their decision to return. Service quality and menu innovation also did not significantly influence retention. Interestingly, location preference emerged as the strongest factor impacting customer loyalty, followed by coffee quality. These findings suggest that Starbucks in Malaysia should prioritize convenient locations and maintain high-quality coffee to maximize customer retention. Further research could delve deeper into the reasons behind the unexpected relationship between perceived value and retention.

Keywords: Coffee Quality; Coffee Shop Industry; Customer Loyalty; Food and Beverages; Location Preference

INTRODUCTION

Starbucks is one of the well-established companies operating in the food and beverage industry worldwide. Historically, Starbucks was founded by three academics who love drinking coffee and tea named Jerry Baldwin, Zev Siegel, and Bowker. They collaborated and opened their first coffee shop in Seattle, Washington, in 1971. Back then, Starbucks offered consumers the chance to purchase freshly roasted coffee beans, tea, and spices from across the world to take home. Howard Schultz is someone who played an important role in the development of Starbucks. Initially, it went very well until its revenue decreased significantly in April-June 2008 (Starbucks Investor Relations, n.d.). The largest coffee chain in the world, Starbucks Coffee Company, has its headquarters in Seattle, Washington, USA. Operating the coffee chain in Malaysia is Berjaya Starbucks Coffee Company Sdn Bhd, a subsidiary of publicly traded Berjaya Food Berhad. The first Starbucks retail store in Malaysia opened on December 17, 1998, in the Fahrenheit 88 mall (formerly known as KL Plaza), where it has been in business since 1971. In May 2022, Starbucks had 34,000+ stores in 84 markets worldwide (Starbucks in Etumnu & Volpe, 2024).

Starbucks continues to innovate in products and services to expand its market in the food and beverage industry. Starbucks' mission is to inspire and nurture the human spirit – one person, one cup, and one neighborhood at a time. Starbucks has six ways to

deliver its stated mission which includes coffee, partners, customers, stores, environment, and shareholders. In terms of coffee, Starbucks tries to maintain the best quality. For employees, support diversity, and support them to be themselves which upholds dignity as human beings. In addition, Starbucks sells coffee in their retail stores that are spread all over the world as well as several stores that have a license to sell their coffee. According to Fortune Magazine, Starbucks is now the most admired food and beverage industry worldwide and the fifth most admired company overall.

Customer retention is a measurement of customer loyalty or how an organization can retain its customers over time. Aspinall et al. (2001) investigated the definition issue; 23% of respondents define customer retention as keeping customers, while 17% define it as satisfaction. However, according to Alkibti et al. (2020), customer retention, a sort of loyalty connected to consumer purchasing behavior as evidenced by the high frequency at which customers purchase a product, is a relationship between customer loyalty and profitability. Customer retention is always the biggest challenge for an organization in determining its business lifespan; the more customers a business can retain, the more advantages it gains against its competitors. Customers are acquired, retained, and can grow in value over time (Ang & Buttle, 2006). Each industry has different strategies for customer retention. Still, the similarity is they offer something that meets most customers' expectations and ensures they are willing to repeat purchases. Hence, there is a correlation between customer satisfaction and customer retention.

The quarantine that followed the COVID-19 outbreak had a negative impact on Starbucks. This crisis affected several industries of the food and beverage business, including Starbucks, a well-known retailer of coffee shops (Ali et al., 2020). Starbucks has suffered a significant negative impact on the business, supply chain, and consumer behavior as a result of the Covid-19 pandemic outbreak (Sinha et al., 2021). Due to the growing competition in the retail coffee market since the start of the pandemic, Starbucks must retain its customers to be competitive in the market.

This research paper aims to identify strategies for retaining customers of Starbucks in Malaysia. To achieve this, it investigates five key areas that might influence customer loyalty. The first area focuses on perceived value, exploring the connection between how customers perceive the value they receive from Starbucks (considering price, quality, and overall experience) and their likelihood to return. Next, the research examines the relationship between the quality of service experienced by customers (friendliness, efficiency, attentiveness) and their decision to remain loyal to the brand. Coffee quality is also a focus, with the research exploring the link between how customers perceive the quality of Starbucks' coffee and their tendency to keep coming back. Additionally, the research will investigate how menu innovations, such as the introduction of new and exciting items, influence customer retention. Finally, location preferences influencing customer loyalty at Starbucks in Malaysia will also be explored.

For Starbucks to retain its customers, this research helps to analyze the strategies that influence customer retention at Starbucks in Malaysia. This research identified five independent variables including perceived value, service quality, coffee quality, menu innovations, and location preferences in retaining Starbucks' customers. Starbucks could pay close attention to strategies that influence the dependent variable which is customer retention. This research can serve as a purpose to help Starbucks to better understand the strategies that influence customer retention and by examining these significant strategies based on the respondents' feedback, Starbucks would be able to make improvements in their current products and services.

LITERATURE REVIEW

The literature review examines the strategies of Starbucks' to retain their customers. The main reason Starbucks is successful is because it is a well-known, sizable business with a massive customer base. In this study, the researchers will look at the several strategies Starbucks Malaysia uses to keep its customers. This research will use it as its foundation and focus on how Starbucks' most valuable resource—in this scenario, its customers experience the improvements created by the brand and are satisfied with its varied strategies.

An Overview of Coffee Consumption in Malaysia
The rapid growth of global economics over the century has improved the living status of the majority. People no longer live in a world that only focuses on needs, the increase in purchasing power has a simultaneous effect on desire, also known as wants. Now, coffee is not just to fulfill the needs of caffeine but also satisfy the wants of the people. A coffee house is an establishment that serves various types of coffee. These coffee houses operate with numerous branches across the border nations. In Malaysia, specialty coffee shops are everywhere despite the historical popularity of traditional coffee (Ignatius, 2022). In 2021 and 2022, Malaysians consumed a combined 800,000 60-kilogram bags of coffee, according to the data published by the Department of Statistics Malaysia. Malaysia produced 2.1 million bags of coffee, weighing 60 kilograms, in 2018. Not only that, but Malaysia also purchases coffee from neighboring Indonesia to satisfy domestic demands.

Customer Preferences Towards Coffee
In marketing, customers' preferences are the choices consumers make to maximize their satisfaction; each has different personal preferences. The customers' preferences change in due course, so they may not always be fixed (Ramachandran & Basariya, 2020). Customers' preferences are essential for a business to improve its performance and gain advantages against competitors (Pagliuca & Scarpato, 2011). Numerous coffeehouse brands sell various types of coffee in the market, such as espresso, latte, cappuccino, mocha et cetera. Diversifying makes the consumers' preferences more complex and difficult to predict.

Factors Influencing the Customers' Retention
The researchers had five hypotheses in this research: H1, H2, H3, H4, and H5. Each hypothesis explained how the dependent and independent variables related to one another.

Perceived Value
Perceived value can be defined by the relation of exchanges between two or more parties in which a party gives up something valued in return for something with greater value (Holbrook, 1999). Coffeehouses provide both goods and services to satisfy their customers. Hence, customer satisfaction is essential to decide whether the customers are willing to stay loyal to a particular brand. Perceived value is an expectation of a customer towards a company (Boksberger & Melsen, 2011). Making every cup of coffee sold special to all customers, creating a sense of belonging among the customers, and performing an accurate service. Generally, in this research, perceived value is about how Starbucks maximizes customer satisfaction by increasing the value of every cup of coffee to retain its major customers. The following is that hypothesis:

H1: Perceived value is positively related to customer retention.

Service Quality
The development of the services sector forced the improvement of service quality. However, service quality characteristics remain under debate (Schneider & White, 2004). Therefore, an instrument named SERVQUAL has been established to measure the gap between the customers' expectations for the services and what services they received (Liestyanti & Prawiraatmadja, 2021). The SERVQUAL has been divided into five dimensions, they are reliability, responsiveness, tangible, assurance, and empathy (Singh et al., 2021). Research by Doukoure (2016) found that customers have the highest expectations of reliability and responsiveness among the five dimensions. Service quality also reflects a consumer's feelings, attitude, or eagerness toward a service/product after it has been used (Yi et al., 2021). Starbucks employees serve customers politely and smile while taking orders. Customers tend to stay loyal to the same services they purchase when these expectations are achieved. Therefore, a hypothesis can be made:

H2: Service Quality is positively related to customer retention.

Coffee Quality
Food quality is essential for a business to retain its customers, especially in the food and beverages industry. Good food quality and taste will positively impact consumers. According to the statement by Ryu and Han (2010), food quality is the primary attribute of all coffeehouses and is expected to have a positive relationship with customer satisfaction and loyalty. When customers feel unsatisfied with the food quality, they will not repeat purchases and will look for an alternative. It is important for Starbucks coffeehouses to ensure the quality of the coffee brewed and that the food and beverages are safe to be consumed by the customers. Quality control of the coffee, juices, cakes, and pastries must become a priority to create loyal customer groups. Therefore, the researchers propose the following hypothesis:

H3: Coffee quality positively affects customer retention.

Location Preferences
In order to open new stores, you must have a location strategy. A good location strategy considers various factors, such as analyzing store data and understanding demographics. Starbucks has always been very deliberate about where new stores are located. Starbucks has over 30,000 locations, so they have a lot of data to work with. Starbucks stores are typically located in high-traffic areas with a high volume of foot traffic. This might be at a popular metro stop or right in the middle of a busy commercial area. Being in these places improves their prospects of drawing customers. Customers would be more likely to visit a nearby cafe than one that is further away. Starbucks is aware of how crucial convenience is when choosing a coffee shop. As a result of being in high-traffic areas, Starbucks can attract customers who are already looking for a place to buy coffee. Starbucks also prioritizes store openings in emerging markets. This could be a city experiencing population growth or a revitalized neighborhood. Starbucks can attract new customers and tap into untapped markets by being one of the first coffee shops in these areas (Demetriou, 2022).

H4: Location Preferences are positively related to customer retention.

Menu Innovation
Menu innovation entails developing new products and presenting them in novel ways that appeal to current and prospective customers (Mifli et al., 2017). New products draw in new customers. As a sort of marketing unto itself, Starbucks's product range is continually evolving. A unique new syrup or flavor will catch people's attention instead of

the traditional espresso or flat white, which will always be popular. Before spreading out the greatest alternatives across the nation, the company first introduces a new product in a limited test market. For its menu to stay current, Starbucks often provides seasonal specials like the pumpkin spice latte. Starbucks maintains a creative and novel atmosphere by constantly introducing new products. When compared to other coffee shops, this makes the Starbucks customer experience more enjoyable and exciting (Gallant, 2021).

H5: Menu innovation is positively related to customer retention.

Based on the theoretical review as explained above, this study's research framework can be seen in Figure 1.

Figure 1. Research Framework
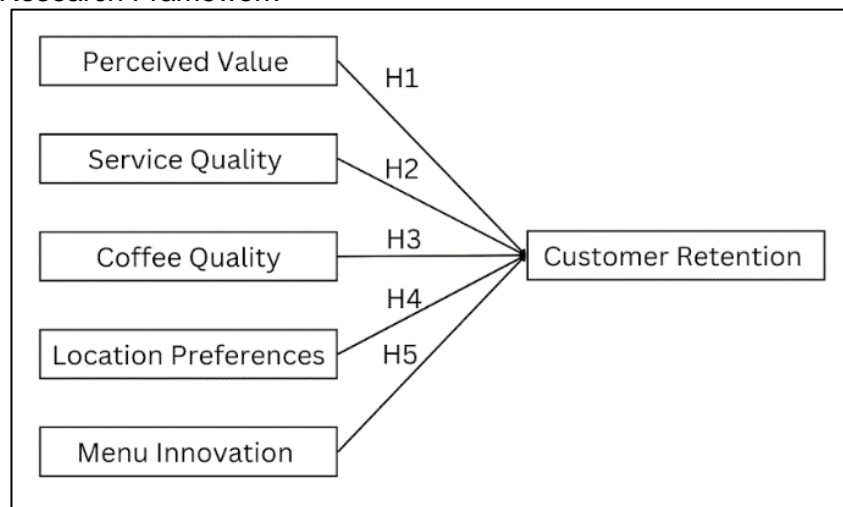
RESEARCH METHOD

Research methods are strategies or approaches used to carry out research. There are three categories of research methods which are quantitative, qualitative, and mixed methods (Strijker et al., 2021). Most of this research's technique was quantitative. It is concerned with gathering and analyzing numerical data that can be structured and presented quantitatively to explain a particular circumstance (Goertzen, 2017).

In conducting this research, the researchers utilized both primary data and secondary data. First, for primary data, the researchers collected the data through a questionnaire with an online survey of Google Forms. The researchers used social media platforms to reach out to Starbucks' customers in Malaysia and distribute this questionnaire to them. The researchers designed the questionnaire to have two main sections; Section A: Respondents' Demographics and Section B: Customer's Retention Strategies at Starbucks in Malaysia and Section C: Customer Retention at Starbucks in Malaysia. A Likert scale is used to present Section B and Section C, with the scales ranging from 1 to 5, which signify very dissatisfied, dissatisfied, neutral, satisfied, and very satisfied. These Likert scales measure the five dependent variables of perceived value, service quality, coffee quality, location preferences, and menu innovation. There are four questions for each of the five variables.

Additionally, an adapted approach was used to construct the research variables and questions by Oh et al. (2021). Additionally, the secondary data were obtained from internet sources such as Starbucks' official website, journals, articles and other relevant

websites. Obtaining information from previous research papers and reliable sources will add extra insight to our research.

In this part, the researchers will see how the dependent variable reacts with the independent variable. The researchers will indicate the relationship between customer retention with the other five variables. All the variables formed one hypothesis. Therefore, the researchers had five hypotheses in our research: H1, H2, H3, H4, and H5. Each hypothesis explained how the dependent and independent variables related to one another. Finally, using the SPSS software, the researchers decided whether each hypothesis was accepted or rejected.

The data collection process was only set for a period of two weeks, and only Malaysian respondents were allowed to participate in the questionnaire that was distributed at random on social media sites including Instagram, WhatsApp, and Telegram. The online survey used a simple random sampling method, with a targeted sample size of 150 respondents and with requirements that only respondents from Malaysia and Starbucks customers complete it. The data gathered would accurately reflect the opinions and views of the whole Malaysians because the questionnaire was distributed at random, making it accessible to all users of social media sites (Dessel, 2019).

Following the completion of the data collection process, the researchers conducted an in-depth analysis and interpretation of the respondents' responses. The researchers tabulated the information gathered, conducted analysis by counting frequency and expressed the results in percentages. Then, the researchers analyzed the strategies of Starbucks to retain its customers in Malaysia by using both descriptive and inferential analysis. For descriptive analysis of the respondents' demographics, the researchers used measures of frequency, central tendency, and dispersion whereas for inferential analysis, the researchers used regression analysis, hypothesis test, and confidence interval to analyze the customer retention variables. A conclusion was also provided at the end of the research.

RESULTS

Table 1. Summary of Respondents' Demographics (N=150)

Respondents' Demographics	Frequency	Percentage (%)
Gender		
Male	64	42.7
Female	86	57.3
Age		
15 years old and below	24	16
16 – 24 years old	71	47.3
25 – 34 years old	28	18.7
35 – 44 years old	21	14
45 years old and above	6	4
Employment Status		
Student	77	51.3
Private Sector	46	30.7
Public Sector	12	8
Self Employed	15	10
Retired/Unemployment	0	0
Monthly Income (RM)		
No Income	66	44
RM1,000 and below	10	6.7
RM1,001 – RM3,000	35	23.3

RM3,001 – RM5,000	26	17.3
RM5,000 and above	13	8.7

This section analyses data and results based on the data responses from Google Forms, which have been distributed through social media to the 150 respondents. The survey focuses on the citizens in Malaysia and has three sections: the respondents' demographic information, customers' retention strategies at Starbucks and customer retention at Starbucks in Malaysia.

Table 1 shows the demographics of 150 respondents, which includes their gender, age, employment status, and monthly income. The respondents consisted of 64 male respondents and 86 female respondents. There are 24 respondents (16%) aged 15 years old and below; 71 respondents (47.3%) are aged between 16 to 24 years old; 28 respondents (18.7%) are between 25 to 34 years old; 21 respondents (14%) are between 35 to 44 years old, and 6 respondents (4%) are aged 45 years old and above. This indicates that Starbucks' customers are mostly young people. By occupation, 77 respondents (51.3%) are students; 46 respondents (30.7%) are working in the private sector; 12 respondents (8%) are working in the public sector; 15 respondents (10%) are self-employed, and 0 respondents (0%) are retired or/and unemployed. This proves that most of Starbucks's consumers are students. On a monthly basis, there are 66% of respondents (44%) with no income, 10 respondents (6.7%) earn less than RM1,000; 35 respondents (23.3%) earn between RM1,001 to RM3,000; 26 respondents (17.3%) earn between RM3,001 to RM5,000, and the remaining 13 respondents (8.7%) earn monthly income RM5,001 and above. Since most of the respondents are students, the researchers expect that they will have no income and live off on an allowance provided by their parents, government, or through a scholarship.

Table 2. Descriptive Statistics, Cronbach's Coefficients Alpha, and Zero-order Correlations of All Study Variables (N=150)

	Variables	1	2	3	4	5	6
1.	Perceived Value	0.690					
2.	Service Quality	0.480**	0.869				
3.	Coffee Quality	0.292**	0.140	0.681			
4.	Menu Innovation	0.543**	0.244**	0.512**	0.743		
5.	Location Preferences	0.448**	0.571**	-0.124	0.246**	0.708	
6.	Customer Retention	-0.163*	0.187*	0.097	-0.42	0.208*	0.388
Number of Items		3	4	4	4	3	3
Mean		3.55	3.78	4.12	3.70	2.88	3.56
Standard Deviation		0.897	0.810	0.591	0.757	0.955	0.699

Note: N = 150; *p < 0.05, **p < 0.001. The diagonal entries represent Cronbach's Coefficients Alpha

The table above shows the table of Descriptive Statistics, Cronbach's Coefficients Alpha, and Zero-order Correlations of all study variables. The diagonal bolded value shows the Cronbach's Coefficients Alpha that reflects the reliability of each variable. The value with the highest reliability among all variables is the Service Quality with 0.869, continue with Menu Innovation (0.743), Location Preferences (0.708), Perceived Value (0.690), Coffee Quality (0.681), and Customer Retention (0.388). All the values lied under the Cronbach's Coefficients Alpha are the correlations between each of the study variables.

The descriptive statistic section consisted of a number of items in the variables, mean, and standard deviation. The average mean for this study is 3.60, and based on the table, half of the variables achieved the mean value above average. The highest mean value is 4.12 for the variable - coffee quality; Meanwhile, the smallest mean is 2.88 for Location Preferences variable. This indicates that the 150 respondents tend to agree more about

the statements in the questionnaire for Coffee Quality variable but disagree with the statements for Location Preferences. Based on the mean value, it can be said that the customers are more likely to stay loyal to Starbucks coffee due to the coffee quality of Starbucks and not because of the Starbucks branches' location. The standard deviation of all the variables achieved a value below one (< 1), so the researchers can conclude there is a low variability in the dataset and each value clustered close to the mean value.

The significance, commonly known as the p-value, was used to determine the correlation. The value with two asterisks (**) has the p-value less than 0.001 while the value with one asterisk (*) has the p-value less than 0.05. Those values with no asterisk can be considered as not significant at all. The lower the p-value, the higher the significance of the correlation is. There are some values that need to be highlighted. The value between location preferences and service quality with the value of 0.571 with two asterisks (**), these two variables have the highest positive value and the strongest relationship as the value is closer to 1. Following by 0.543** (correlations between Menu Innovation and Perceived Value). With positive value, it indicates that when the independent variable (IDV) increases, the dependent variable (DV) also increases. On the other hand, some variables show a negative relationship between one and other, where the negative values are shown. In this case, the increase of the independent variable (IDV) will result in a decrease on the dependent variable (DV). There are three combinations of variables that have negative correlation: Perceived value and Customer Retention; Location Preferences and Coffee Quality, Customer Retention and Menu Innovation.

Based on Table 2, it can be concluded that the Starbucks company retains their customers by setting up branches at the location that meets the preferences of the customers. It is demonstrated by the location preferences variable's significant correlation with the customer retention variable, which has a value of 0.208* when compared to other variables. Another reason why the customers choose to stay loyal to Starbucks is because of the service quality. It has the second strongest relationship with customer retention with the value of 0.187*. The variable that is not significant is the relationship between coffee quality and customer retention, it can be concluded that customers choose to stay loyal is not because of Starbucks' coffee quality.

Table 3. Summary of Regression Analysis

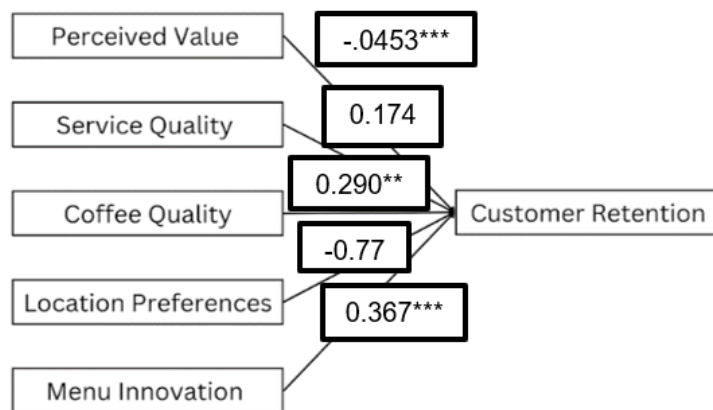| Variables		Customer Retention
1.	Perceived Value	-0.453***
2.	Service Quality	0.174
3.	Coffee Quality	0.290**
4.	Menu Innovation	-0.77
5.	Location Preferences	0.367***
R^2		0.214
F Value		7.834
Durbin Watson Statistic		0.962

As presented in Table 3, the model consists of perceived value, service quality, coffee quality, menu innovation, and location preference influencing the consumers' retention to choose Starbucks. Customer retention is the dependent variable, while perceived value, service quality, coffee quality, menu innovation, and location preferences are independent variables. The hypotheses developed were assessed using regression analysis. The output indicated that coffee quality and location preferences are significantly and positively related to customer retention with beta value of 0.290 and 0.367 respectively. Hence, H3 and H4 are proven. The perceived value, with a β value of -0.453, has a negative, significant relationship with customer retention. The value of R^2 is equal to 0.214, which indicates that perceived value, coffee quality, and location

preferences account for 21.4% of the variation in customer retention. With a β value of 0.367, the researchers discovered that location preference is the most important element impacting customer retention among the residents in Malaysia, followed by coffee quality with β value of 0.290. Furthermore, the researchers found that perceived value is strongly negatively correlated with customer retention, meaning that while customers acquire greater and better values and perks, their retention declines since they do not view that value to be a crucial element. On the other hand, service quality and menu innovation did not significantly influence customer retention. As a result, this result implies that H2 and H5 are not supported.

According to this research findings, the hypothesized framework can be formulated as follows in Figure 2.

Figure 2. Hypothesized Framework

DISCUSSION

This study intended to know what factors influence the number of loyal customers to Starbucks in Malaysia. Based on the study, it is proved that the most influencing factors on customer retention in Starbucks are location preferences and coffee quality. These two factors got the highest value that affected customer retention. Other than that, service quality also has a positive impact on the loyalty of the customers. Unfortunately, menu innovation and perceived value appear in the bottom position on the influence of customer retention. Therefore, this study found out three out of five suggestion factors were recognized as significant in making the customers back order the product.

After calculating the variable, location preferences were the most influential variable that affected customer retention to continue purchasing the product on Starbucks in Malaysia. Different from previous research that resulted in coffee quality as the most influential factor in gaining customer retention, in this research location preferences become the most influential factor for customer retention. Therefore, the significant influence of location preferences on customers' retention at Starbucks indicates that a strategic location of Starbucks coffee house will affect whether customers will reorder the product or not. Due to strategic site placement, which includes factors like market analysis, demographic analysis, and the distance between branches, sales might increase significantly. If the company can do a good analysis of these factors, then it will expand the customer base, which will also increase customer retention.

CONCLUSION

Taking into account the analysis and discussion that have been done in this research paper, a better understanding of the elements that determine consumers' retention of Starbucks in Malaysia is achieved. This research gives Starbucks important information on how to improve their business so that they may put more Starbucks branches in residential areas. There are five points that can be concluded. First, perceived value has significant and negative influence on customer retention which means when the values and benefits received by consumers are higher and better customer retention will decrease with the reason that the customer did not take it as an important factor that affects their retention. Second, service quality has an insignificant and negative impact on customer retention, but the customers are happy with the effective and first-rate services provided by the Starbucks employees which can meet their specific demands and requests. Third, coffee quality has a significant and positive influence on customer retention. The customers are more likely to stay loyal to Starbucks coffee due to the coffee quality of Starbuck and not because of the Starbucks branches' location. Fourth, location preference has significant and positive influence on customer retention. Starbucks customers are satisfied with the accessible Starbucks branches. Fifth, menu innovation has insignificant and negative influence on customer retention but still the majority of Starbucks customers are satisfied with their diversity of menu, also the seasonal and secret menu.

Understanding why customers do not view value programs as a core retention factor could lead to more effective strategies. For instance, Starbucks might personalize value offerings to better align with customer preferences, or explore alternative loyalty programs that resonate more strongly. Regardless, the importance of convenient locations is undeniable. Starbucks should prioritize opening branches in residential areas with easy access via public transportation. Additionally, maintaining consistently high-quality coffee remains paramount. By focusing on these core strengths and delving deeper into the customer perception of value, Starbucks Malaysia can implement targeted strategies to solidify customer loyalty and ensure long-term success.

LIMITATION
There are a few limitations to this study. Firstly, a limited number of respondents, which are 150 respondents only. Besides, this study is conducted online via a Google Form. As a result, the generalizability of the study was limited because most respondents were university students between the ages of 16 and 24. The length of the questionnaire is also a limiting factor that affects respondents' willingness to participate. The questionnaire consists of twenty-nine questions, which may have deterred some from taking part in or completing it. Future study on customer retention at Starbucks should take into account the limitations by increasing the number of respondents and decreasing the length of the questionnaire in order to improve the reliability and accuracy of the data.

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The researchers declare no potential conflicts of interest concerning the study, authorship, and/or publication of this article.

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