

## Optimizing Customer Loyalty Strategy Through Service Quality and Word of Mouth Promotion (Case Study on Sri Dewi Kencana Garment in Tangerang Regency)

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### Abstract

In the highly competitive SME landscape, maintaining customer loyalty is crucial for sustaining business growth and financial stability. This study investigates the influence of service quality and word-of-mouth (WOM) marketing on customer loyalty at Sri Dewi Kencana Garment in Tangerang Regency, Indonesia. The company experienced a 38.8% decline in repeat orders from 2023 to 2024, highlighting critical issues in service delivery and marketing strategies. The research aims to analyse the direct effect of service quality on customer loyalty, examine the impact of service quality on WOM marketing, evaluate the influence of WOM on loyalty, and explore the indirect effect of service quality on loyalty mediated by WOM. A sequential explanatory mixed-methods design was employed. Quantitative data were collected via structured questionnaires from 30 repeat customers and analysed using path analysis, whilst qualitative data from open-ended questionnaires and in-depth interviews provided contextual insights. Results show that service quality significantly affects customer loyalty both directly ( $\beta = 0.529$ ;  $p = 0.002$ ) and indirectly through WOM marketing (indirect effect = 0.404). Service quality also strongly influences WOM ( $\beta = 0.917$ ;  $p = 0.000$ ), and WOM positively impacts loyalty ( $\beta = 0.441$ ;  $p = 0.007$ ). Strategic analysis using SWOT and QSPM identified key priorities: professional image enhancement, standardised service SOPs, and structured WOM deployment. The study concludes that improving service quality and effectively leveraging WOM are critical for sustaining customer loyalty, offering actionable guidance for SMEs in similar contexts.

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## INTRODUCTION

In an era of increasingly fierce business competition, building and maintaining customer loyalty is a real challenge for small and medium enterprises (SMEs) in Indonesia, especially in the local garment sector. Customer loyalty is not only about sales numbers, but also an important basis for running a business efficiently, keeping finances stable, and developing the business in the future (Pardede & Tampubolon, 2023). Loyal customers allow businesses to forecast demand more accurately, save on promotional costs, and obtain valuable feedback for service improvement (Amir & Taufan, 2021; Budiarto, 2019; Suryantini & Sujana, 2023).

Sri Dewi Kencana Garment, located on Jl. Kedaung Barat No. 107, East Sepatan, Tangerang Regency, is one of the local garment business actors who face serious challenges in maintaining customer loyalty. Based on the company's internal data, the number of repeat

orders has decreased significantly by 38.8% from a total of 178 orders in 2023 to 109 orders in 2024. This condition shows that there are fundamental problems in the quality of service and word-of-mouth marketing management that need to be addressed immediately (Keller, 2020; Liu & Kim, 2021; Runturambi & Farid, 2023).

The two main strategies that can increase customer loyalty are service quality and word-of-mouth (WOM) marketing (Runturambi & Farid, 2023; Zuhdi et al., 2024). Fast, friendly, and courteous customer service creates a pleasant experience so that customers are more satisfied and willing to purchase again (Putri & Yulianthini, 2023). Whilst WOM is more suitable for small business actors because it does not require large costs; satisfied customers voluntarily recommend products to others, and this is more trustworthy than regular advertising (Astianita et al., 2022).

Previous research has shown a significant influence of these two variables on customer loyalty. Mirandasari and Firmansyah (2024) concluded that service quality and word-of-mouth directly and significantly affect customer loyalty. Nabila and Budiarti (2024) also show that WOM is the most dominant factor in influencing loyalty. Wismayo and Sukaatmadja (2024) found that word-of-mouth is able to mediate the relationship between service quality and repurchase intention significantly.

Based on these conditions, this study aims to: (1) analyse the direct influence of service quality on customer loyalty; (2) analyse the influence of service quality on word-of-mouth marketing; (3) analyse the influence of word-of-mouth marketing on customer loyalty; (4) analyse the indirect influence of service quality on customer loyalty through word-of-mouth marketing; and (5) formulate a strategy to optimise customer loyalty at Sri Dewi Kencana Garments.

Service quality is widely recognised as a core determinant of customer retention. Parasuraman, Zeithaml, and Berry (1988) conceptualise service quality as the extent to which delivered services meet or exceed customer expectations. In the context of SMEs, high-quality service encompasses responsiveness, reliability, assurance, empathy, and tangible attributes, all of which collectively influence customers' willingness to repurchase and recommend a brand. Previous studies, such as Putri and Yulianthini (2023), demonstrate that inadequate responsiveness and inconsistent service directly hinder loyalty, creating measurable impacts on repeat purchases.

Complementing service quality, word-of-mouth (WOM) marketing serves as a powerful mechanism for customer retention, especially for resource-constrained SMEs. WOM involves informal communication between consumers, with recommendations from trusted peers carrying more influence than traditional advertising channels. Silverman (2001, 2018) and Astianita et al. (2022) emphasise that SMEs can leverage satisfied customers to disseminate positive experiences, effectively creating a low-cost, high-trust promotional ecosystem. Empirical research confirms that WOM mediates the relationship between service quality and repurchase intention, enhancing loyalty outcomes (Wismayo & Sukaatmadja, 2024).

Despite existing literature, a notable research gap exists regarding the integrated effect of service quality and WOM on customer loyalty within the Indonesian garment sector. Whilst prior studies have examined each variable independently or in limited mediation models, few have employed comprehensive path analysis to assess both direct and indirect influences in a

real SME setting. This gap highlights the need for context-specific empirical investigations that account for localised business challenges and customer behaviour patterns.

Addressing this gap, the current study focuses on Sri Dewi Kencana Garment in Tangerang Regency, Indonesia. The company has experienced a 38.8% decline in repeat orders from 2023 to 2024, illustrating the real-world consequences of service quality deficiencies and underutilised WOM strategies. By combining quantitative surveys with qualitative interviews, the study captures a holistic view of customer perceptions, behavioural intentions, and strategic recommendations, allowing for practical insights tailored to SMEs in similar contexts.

Methodologically, this research adopts a sequential explanatory mixed-methods design (Creswell & Plano Clark, 2018), integrating path analysis to test the direct and mediated effects of service quality on customer loyalty through WOM marketing. Quantitative data provide statistical validation of relationships, whilst qualitative data illuminate underlying mechanisms and customer expectations. This approach ensures both rigour and depth, addressing calls in the literature for multi-method studies in service marketing and SME research.

The study also introduces strategic analysis through IFAS, EFAS, SWOT, and QSPM matrices, facilitating actionable recommendations to optimise loyalty (Hasni & Fahira, 2021; Qanita, 2020; Wheelen & Hunger, 2018). By evaluating internal strengths and weaknesses alongside external opportunities and threats, the research produces priority strategies such as professional image enhancement, standardised SOPs, and structured WOM deployment. These strategies are designed to generate sustainable customer engagement and long-term competitive advantage for SMEs.

Research novelty lies in combining established theoretical frameworks—SERVQUAL for service quality and the 5T model for WOM—with empirical analysis specific to the Indonesian garment sector. Unlike prior studies that focus on either large firms or isolated variables, this study bridges theory and practice for SMEs, offering contextually grounded insights on how integrated service quality improvements and structured WOM marketing drive measurable loyalty outcomes.

Ultimately, the purpose of this research is to provide SMEs with evidence-based strategies to enhance customer loyalty, contributing to both academic knowledge and practical business solutions. The research objectives include analysing direct and indirect effects of service quality on loyalty, identifying mediation through WOM marketing, and formulating implementable strategies. The expected benefit is dual: to enrich scholarly understanding of loyalty mechanisms in SMEs and to equip business practitioners with actionable tools to sustain competitive advantage and customer satisfaction.

## **METHOD**

This study uses a mixed methods approach with a sequential explanatory design (Creswell & Plano Clark, 2018), where quantitative data is collected and analyzed first, then followed by the collection and analysis of qualitative data for more in-depth explanation. The object of the study was Sri Dewi Kencana Garment in Tangerang Regency with a focus on three main variables: service quality (X), word of mouth marketing (Z) as a mediation variable, and customer loyalty (Y) as a dependent variable.

The research population is all customers who have made repeat orders on Sri Dewi Kencana Garments, totaling 30 clients based on the company's internal data (Ghozali, 2018).

The sampling technique used was saturated sampling, so all 30 clients were made respondents. Quantitative data collection was carried out through a closed questionnaire using a Likert scale of 1-5, while qualitative data was collected through an open-ended questionnaire and in-depth interviews with company owners.

Quantitative data analysis was carried out through validity tests (Pearson Product Moment Correlation,  $p$ -value  $<0.05$ ), reliability tests (Cronbach's Alpha  $>0.60$ ), classical assumption tests (normality, multicollinearity, heteroscedasticity), and path analysis to test the direct and indirect influences between variables. Qualitative data analysis is carried out through three stages of strategy formulation: input level (IFAS and EFAS), matching level (IE Matrix and SWOT), and decision making level (QSPM).

## RESULTS AND DISCUSSION

### Descriptive Analysis

Descriptive analysis was used to describe the perception of 30 respondents towards the three research variables. The rating categories used a scale range ( $RS = 0.8$ ): 1.00—1.80 (very poor), 1.81—2.60 (not good), 2.61—3.40 (adequate), 3.41—4.20 (good), and 4.21—5.00 (very good). The following is a recapitulation of the results of the descriptive analysis per variable and dimension.

**Table 1. Recapitulation of Descriptive Analysis Results of Service Quality Variables**

Dimensions	Average	Categories
Tangibles (Physical Conditions of Service)	3,66	Good
Reliability (Keandalan Pelayanan)	3,26	Enough
Responsiveness (Daya Tanggap)	2,51	Not Good
Assurance (Jaminan Pelayanan)	3,30	Enough
Empathy (Empathy of Service)	3,79	Good
Average Service Quality Variables	3,30	Enough

Source: Data processed by Researcher, 2026

Dimensi Tangibles scored an average of 3.66 (good), indicating a well-organized work area and a professional employee appearance that was able to give a convincing impression. The Reliability dimension obtained an average of 3.26 (adequate), where the timeliness and consistency of product results are sufficient but still need to be improved. The Responsiveness dimension obtained the lowest average of 2.51 (not good), indicating that employees are not agile and responsive enough to customer needs — this finding is reinforced by interviews that show employees are considered less responsive, tend to be rigid, and do not show enough empathy. The Assurance dimension averaged 3.30 (adequate) and Empathy 3.79 (good).

**Table 2. Recapitulation of Descriptive Analysis Results of Word of Mouth Marketing Variables**

Dimensions	Average	Categories
Talkers (Consumer Roles)	3,68	Good
Topics (Topik Pembicaraan)	3,31	Enough
Tools (Dissemination Media)	2,55	Not Good
Talking Part (Garment Engagement)	3,44	Good
Tracking (Feedback)	3,64	Good
Average Marketing WOM Variables	3,32	Enough

Source: Data processed by Researcher, 2026

Dimensi Tools obtained a low average of 2.55 (not good), indicating that the dissemination of WOM information is still very limited and has not made optimal use of various communication media. The Talkers (3.68), Talking Part (3.44), and Tracking (3.64) dimensions are in the good category. This condition illustrates that customers are actually willing to recommend but the company has not provided the means and systems that support the deployment of WOM in a structured manner.

**Table 3. Recapitulation of Descriptive Analysis Results of Customer Loyalty Variables**

Dimensions	Average	Categories
Repeat Purchase (Pembelian Ulang)	3,41	Good
Customer Retention	3,58	Good
Related Sales (Penjualan Terkait)	3,26	Enough
Referrals	3,44	Good
Average Customer Loyalty Variable	3,42	Good

Source: Data processed by Researcher, 2026

### Validity and Reliability Tests

The results of the validity test showed that all statement items in the three variables were declared valid ( $p$ -value  $< 0.05$ ). The Service Quality (X) variable has a Pearson correlation coefficient ranging from 0.400-0.840, the Word of Mouth Marketing (Z) variable is around 0.449-0.878, and the Customer Loyalty (Y) variable is around 0.805-0.936.

**Table 4. Reliability Test Results**

Variable	Cronbach's Alpha	Verdict
Service Quality (X)	0,880	Reliable
Word of Mouth Marketing (W)	0,926	Reliable
Customer Loyalty (Y)	0,953	Reliable

Source: Data processed by Researcher, 2026

All variables have a Cronbach's Alpha value above 0.60, so the research instrument is declared reliable and can be used for further analysis.

### Classical Assumption Test

The normality test using the Kolmogorov-Smirnov method showed normal distributed data (p-value >0.05). The multicollinearity test showed a value of Tolerance >0.10 and VIF <10, so that there was no multicollinearity between independent variables. The heteroscedasticity test using the Glejser method showed a significance value of >0.05 for all variables, which means that there were no symptoms of heteroscedasticity. Thus, all classical assumptions are fulfilled and the regression model is feasible to use for path analysis.

### Path Analysis

Path analysis is used to test the direct and indirect influences between variables. The path model consists of two equations:  $Z = p_1 \cdot X + e_1$  (the effect of X on Z) and  $Y = p_2 \cdot X + p_3 \cdot Z + e_2$  (the influence of X and Z on Y).

**Table 5. Path Analysis Results**

Pathway	Coefficient ( $\beta$ )	Sig.	Remarks
Service Quality (X) → WOM Marketing (Z)	0,917	0,000	Significant
Service Quality (X) → Customer Loyalty (Y)	0,529	0,002	Significant
WOM Marketing (W) → Customer Loyalty (Y)	0,441	0,007	Significant
Indirect Influence of X → Z → Y	0,404	-	-
Total Impact X → Y	0,933	-	Very Powerful

Source: Data processed by Researcher, 2026

The results of the path analysis showed that all hypotheses were accepted. H1 was accepted: service quality had a positive and significant effect on customer loyalty with a coefficient of 0.529 (p=0.002), classified as a moderate influence. H2 was accepted: service quality had a positive and significant effect on WOM marketing with a coefficient of 0.917 (p=0.000), classified as a very strong influence. H3 accepted: WOM marketing had a positive and significant effect on customer loyalty with a coefficient of 0.441 (p=0.007), classified as a moderate influence. H4 accepted: service quality has an indirect effect on customer loyalty through WOM marketing by 0.404, so that WOM plays a role as a partial intervening variable (partial mediation) because the direct influence remains significant.

The effect of total service quality on customer loyalty of 0.933 shows a very strong contribution. These results confirm the findings of Astianita et al. (2022), Monika & Telagawathi (2024), and Nabila and Budiarti (2024) who stated that service quality and word of mouth marketing have a positive and significant effect on customer loyalty.

### Strategy Analysis

Strategy analysis is carried out through three stages. The first stage is the input stage using IFAS and EFAS matrices. The second stage is the matching stage using IE and SWOT matrices. The third stage is the decision stage using the QSPM matrix.

**Table 6. IFAS (Internal Factor Analysis Summary) Matrix**

Yes	Internal Factors	Weight	Rating	Score
<b>POWER</b>				
1	The physical appearance and professionalism of the garment are already good	0,11	4	0,44
2	Active customers recommend based on positive experiences	0,11	4	0,44
Total Strength		0,22		0,89
<b>DISADVANTAGES</b>				
1	Production delays and product yield inconsistencies	0,10	2	0,20
2	There is no standardized service SOP (Responsiveness)	0,08	1	0,08
3	Information is not detailed, there is often miscommunication (Assurance)	0,10	2	0,20
4	Employees' understanding of needs is not consistent (Empathy)	0,11	2	0,22
5	The product does not have a strong uniqueness (Topics)	0,10	1	0,10
6	Don't have a referral program or WOM (Tools) strategy yet	0,08	1	0,08
7	Have not done active post-transaction follow-up (Talking Part)	0,10	2	0,20
8	Customer feedback has not been systematically managed (Tracking)	0,11	1	0,11
Total Weaknesses		0,78		1,19
<b>OVERALL TOTALS</b>		<b>1,00</b>		<b>2,08</b>

Source: Data processed by Researcher, 2026

**Table 7. EFAS Matrix (External Factor Analysis Summary)**

Yes	External Factors	Weight	Rating	Score
<b>OPPORTUNITIES</b>				
1	WOM through the business community (WhatsApp group) is very effective	0,16	4	0,65
2	Development around the site has the potential to increase market access	0,12	3	0,37
3	Market demand from existing customers with potential repeat orders	0,15	3	0,44
Total Odds		0,43		1,46
<b>THREATS</b>				
1	Competition in the garment industry is very high	0,14	3	0,42
2	Competitors use technology (auto-response)	0,15	2	0,30
3	Customers are increasingly selective about quality and service	0,15	3	0,46
4	Customers easily move to competitors	0,12	2	0,24
Total Threat		0,57		1,43
<b>OVERALL TOTALS</b>		<b>1,00</b>		<b>2,89</b>

Source: Data processed by Researcher, 2026

An IFAS score of 2.08 indicates an average internal condition with weaknesses more dominant than strengths. An EFAS score of 2.89 indicates average external conditions. The mapping on the IE matrix places Garmen Sri Dewi Kencana in Cell V (hold and maintain), so the appropriate strategy is market penetration and product development.

Based on the SWOT matrix, six alternative strategies were formulated: (SO-1) strengthening the professional image to encourage WOM through the business community; (WO-1) improving the quality of customer comfort-oriented services; (WO-2) optimization of digital media to strengthen trust; (WO-3) customer relationship development through personal communication; (ST-1) development of service evaluation based on customer input; and (WT-1) improved product quality consistency.

**Table 8. Strategy Priority Order Based on QSPM Matrix**

Ratings	TAS Value	Strategy
1	5,81	A — Strengthening a professional image based on customer experience to encourage word of mouth through the business community
2	5,46	B — Improvement of service quality oriented towards customer convenience and needs
3	4,98	D — Developing customer relationships through more personalized and interactive communication
4	4,95	C — Digital media optimization to strengthen customer experience and trust
5	4,92	F — Improved consistency of product quality according to customer expectations
6	4,75	E — Development of service evaluations based on customer feedback and experience

Source: Data processed by Researcher, 2026

Strategy A earned the highest TAS (5.81) because it directly optimizes the power of professional physical displays and customer trust while leveraging the opportunities of the business community's WOM ecosystem that has proven to be effective. Strategy B with TAS 5.46 answers the most basic weaknesses, namely the inconsistency of the response and the absence of standardized service SOPs. Strategy D with TAS 4.98 acts as the foundation of continuous learning and improvement through systematic customer feedback management.

## CONCLUSIONS

This study proves that service quality has a positive and significant effect on customer loyalty of Sri Dewi Kencana Garments both directly ( $\beta=0.529$ ;  $p=0.002$ ) and indirectly through word of mouth marketing as a partial intervening variable (indirect effect 0.404; total 0.933). Service quality also had a positive effect on word of mouth marketing ( $\beta=0.917$ ;  $p=0.000$ ), and word of mouth marketing had a positive effect on customer loyalty ( $\beta=0.441$ ;  $p=0.007$ ). The descriptive analysis identified the dimensions of responsiveness (average 2.51) and WOM/tools deployment media (average 2.55) as the most improved. Based on the QSPM analysis, the three recommended priority strategies are: (1) strengthening a professional image based on customer experience to encourage word of mouth through the business community (TAS=5.81); (2) development of standardized service SOPs (TAS=5.46); and (3) management of customer feedback through personal communication and structured evaluation (TAS=4.98). These three strategies complement each other in building sustainable customer loyalty: improving service quality will result in positive experiences that encourage the formation of organic WOMs, while well-managed WOMs will strengthen long-term customer trust and loyalty. For further research, it is recommended to add the variables of customer satisfaction, trust, or use the Structural Equation Modeling (SEM) method for a more comprehensive analysis.

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