

# The Influence of Customer Service and Product Diversification on Customer Loyalty

Customer Service and  
Product Diversification  
on Customer Loyalty

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## ABSTRACT

*This study investigates the influence of customer service and product diversification on customer loyalty. The research addresses the question of how service quality and diversification strategies jointly shape loyalty in the Indonesian business context, where competition and evolving customer expectations demand both operational excellence and product innovation. Using a quantitative explanatory approach, data were collected from 377 customers through a structured online survey. The measurement model demonstrated strong reliability and validity, with all constructs meeting psychometric standards. Structural equation modeling with partial least squares revealed that customer service ( $\beta = 0.390$ ,  $p < 0.001$ ) and product diversification ( $\beta = 0.354$ ,  $p < 0.001$ ) both exert positive and significant effects on customer loyalty. The  $R^2$  value of 0.467 indicates that these two variables explain nearly half of the variance in loyalty. The study discusses these findings by linking them to established theories, including SERVQUAL, the Ansoff matrix, and the commitment-trust theory. Results highlight that while customer service has a slightly stronger influence, the synergy of service and product strategies is crucial for sustaining loyalty. These findings provide theoretical contributions to loyalty research and practical insights for firms operating in emerging markets.*

**Keywords:** Customer Loyalty, Customer Service, Product Diversification, Strategies Diversification.

## ABSTRAK

*Penelitian ini mengkaji pengaruh layanan pelanggan dan diversifikasi produk terhadap loyalitas pelanggan. Pertanyaan utama yang dijawab adalah bagaimana kualitas layanan dan strategi diversifikasi secara bersama-sama membentuk loyalitas dalam konteks bisnis Indonesia, di mana persaingan dan ekspektasi pelanggan yang terus berkembang menuntut keunggulan operasional dan inovasi produk. Penelitian menggunakan pendekatan kuantitatif eksplanatori dengan pengumpulan data dari 377 pelanggan melalui kuesioner daring terstruktur. Model pengukuran menunjukkan reliabilitas dan validitas yang kuat, dengan seluruh konstruk memenuhi standar psikometrik. Analisis structural equation modeling dengan partial least squares menemukan bahwa layanan pelanggan ( $\beta = 0.390$ ;  $p < 0.001$ ) dan diversifikasi produk ( $\beta = 0.354$ ;  $p < 0.001$ ) sama-sama berpengaruh positif dan signifikan terhadap loyalitas pelanggan. Nilai  $R^2$  sebesar 0.467 menunjukkan bahwa kedua variabel tersebut menjelaskan hampir setengah varians loyalitas. Hasil penelitian didiskusikan dengan mengaitkan pada teori SERVQUAL, matriks Ansoff, dan commitment-trust theory. Temuan menegaskan bahwa meskipun layanan pelanggan memiliki pengaruh sedikit lebih kuat, sinergi antara strategi layanan dan produk sangat penting untuk mempertahankan loyalitas. Penelitian ini memberikan kontribusi teoretis terhadap kajian loyalitas serta wawasan praktis bagi perusahaan di pasar negara berkembang.*

**Kata kunci:** Loyalitas Pelanggan, Layanan Pelanggan, Diversifikasi Produk, Strategi Diversifikasi.

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## **INTRODUCTION**

In today's dynamic business environment, companies face intense competition that requires not only product quality but also excellent customer service and continuous product diversification to maintain customer loyalty. Customer loyalty has been widely recognized as a critical determinant of sustainable business growth, as loyal customers contribute to long-term profitability and positive word of mouth (Takhim et al., 2023; Juharsah, 2024; Ge & Shin, 2025). Customer service plays a pivotal role in shaping customer experiences and satisfaction, which in turn fosters loyalty. Previous studies highlight that responsive, reliable, and empathetic service delivery enhances customer trust and repeat purchase intentions (Gupta et al., 2019; Wulandari, 2022; Fitri et al., 2023; Novrianda & Shar, 2023). On the other hand, product diversification is equally essential, as it provides customers with more choices and adapts to their evolving needs, strengthening their attachment to the company (Pranata, 2024; Pranata, 2025).

Although numerous studies have explored the antecedents of customer loyalty across various sectors such as hospitality, retail, and digital services (Bujisic et al., 2025; Fiorentino, 2025), there is still limited empirical evidence focusing on the combined effect of customer service and product diversification in the Indonesian corporate context. Specifically, little is known about how these two factors simultaneously contribute to customer loyalty within local enterprises like PT Yuksri Prima Indonesia. The Indonesian business environment presents unique challenges and opportunities in understanding customer behavior. Cultural factors, purchasing power, and market dynamics may affect how customers perceive service quality and product diversification. However, most existing studies have been conducted in developed markets or global contexts, thereby leaving a research gap in emerging economies such as Indonesia (Thorpe & Prakash, 2003; Park & Wallace, 2022; Gül & Altuntaş, 2024). This justifies the importance of examining these relationships in a local corporate setting.

Furthermore, while digital transformation has changed customer expectations in terms of speed, personalization, and accessibility (Streimikiene & Siksnyte, 2016; Martínez et al., 2022). Traditional businesses in Indonesia may not have fully integrated such strategies. PT Yuksri Prima Indonesia, which operates in a competitive market, faces the dual challenge of enhancing service excellence and expanding product lines to meet consumer demands. A comprehensive investigation is thus required to determine whether the simultaneous application of customer service quality and product diversification can significantly enhance customer loyalty. This study is expected to contribute both theoretically and practically. It enriches the discussion on the determinants of customer loyalty by combining two critical factors: service quality and product diversification. The study provides actionable insights for PT Yuksri Prima Indonesia in designing service strategies and diversification policies that are aligned with consumer expectations. By bridging the gap between theory and practice, this research aims to strengthen the understanding of loyalty formation in the Indonesian context.

The main objective of this study is to analyze the effect of customer service and product diversification strategies on customer loyalty at PT Yuksri Prima Indonesia. The findings are expected to provide evidence of how these two variables jointly shape loyalty behavior in a local market setting, while also offering recommendations for managers to sustain competitive advantage in a rapidly evolving business landscape.

## **LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT**

### **The Effect of Customer Service and Product Diversification on Customer Loyalty**

The SERVQUAL model by Parasuraman et al. (1988) identifies five dimensions: tangibles, reliability, responsiveness, assurance, and empathy that shape customer perceptions of service quality. Studies show high service quality boosts satisfaction and loyalty (Rusavska et al., 2024). In Indonesia, rising digital-era expectations make personalized and culturally sensitive service a key differentiator for firms like PT Yuksri Prima Indonesia (Zaki, 2019).

Customer service refers to a company's efforts to provide assistance, guidance, and solutions to customers before, during, and after a purchase. High-quality service encompasses responsiveness, empathy, reliability, and assurance, all of which significantly influence customer satisfaction and loyalty (Yang & Yang, 2019; Metz et al., 2020; Wulandari, 2022; Ardhana et al., 2024). Previous studies indicate that service excellence creates positive experiences that enhance trust and encourage repeat patronage. In emerging markets, customer service plays a more central role because customers often equate service responsiveness with the credibility and professionalism of the company (Sathapanickaboot & Ueasangkomsate, 2023).

Product diversification is a strategic approach where companies expand the variety of products offered to meet diverse customer needs and preferences. This strategy allows firms to reduce market risks, attract new customer segments, and increase customer retention. Research shows that retailers who employ product diversification strategies are better positioned to maintain competitive advantage and customer loyalty (Pranata, 2022; Edo et al., 2024; Yamaji et al., 2024). Moreover, diversification in both product lines and innovations enhances customers' perception of value and provides them with more reasons to remain loyal to the company. Customer loyalty reflects commitment to repurchase despite competitors, encompassing repeated purchases, resistance to switching, and positive word of mouth. It is shaped by satisfaction, emotional bonds, trust, and perceived value (Ahmed et al., 2020; Aga & Singh, 2022; Aini et al., 2022; Pranata, 2024). In Indonesia, loyalty is crucial as customers face growing choices from globalization and digital platforms.

H1: Customer service has a significant effect on customer loyalty.

H2: Product diversification has a significant effect on customer loyalty.

### **The Simultaneously Effect on Customer Loyalty**

The Ansoff Product-Market Growth Matrix provides the theoretical foundation for diversification strategies, viewing diversification as the riskiest yet potentially most rewarding growth path (Erni, 2015). The interaction between customer service, product diversification, and customer loyalty has been widely discussed in marketing literature but remains underexplored in local business contexts (Aboelmaged, 2021; Vijayan et al., 2023; Puzzo & Prati, 2024). Customer service provides immediate satisfaction and trust, while product diversification ensures sustained relevance by offering variety and innovation (Mikkilä & Toppinen, 2008; Geissdoerfer et al., 2018; Sacchi et al., 2019; Amerta & Madhavi, 2023; Yum & Kim, 2024). Together, these factors create a comprehensive value proposition that fosters strong loyalty. However, the simultaneous influence of these variables has not been extensively studied in Indonesian enterprises, which creates a gap for this research. Specifically, examining PT Yuksri Prima Indonesia provides an opportunity to evaluate how service quality and diversification strategies jointly shape customer loyalty in a competitive and culturally unique market.

The Commitment-Trust Theory, Morgan and Hunt (1994) explain customer loyalty through two key mediators: trust and commitment. When customers perceive service quality and product value as reliable, they demonstrate loyalty behaviors such as repurchase and advocacy. Recent meta-analyses emphasize loyalty's multidimensional nature, cognitive, affective, and conative (Pranata, 2021; Pranata & Sinaga, 2023). The grand theoretical link among these variables can be understood through the customer loyalty model, which integrates service quality, customer satisfaction, and perceived value as antecedents of loyalty. In this framework, customer service and product diversification function as critical inputs that drive satisfaction and trust, which then translate into loyalty outcomes. Several empirical studies have confirmed that when companies combine service excellence with innovative product strategies, the effect on loyalty is stronger than when these factors operate in isolation (Erni, 2015; Caldarola et al., 2024; Rahayu, 2024; Anismar et al., 2025). In practice, PT Yuksri Prima Indonesia needs to balance investments in service improvements and product innovations to maximize customer

loyalty. This relationship underscores the importance of examining the two factors simultaneously, as they may have synergistic effects in sustaining competitiveness and ensuring long-term customer engagement.

H3: Customer service and product diversification simultaneously have a significant effect on customer loyalty.

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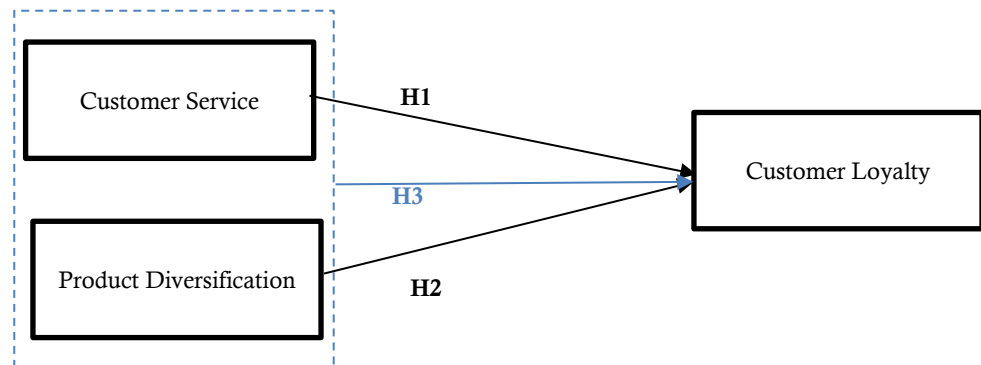


Figure 1. Conceptual Framework

The research framework for this study is shown in Figure 1. It demonstrates that it is expected that both product diversification (X<sub>2</sub>) and customer service (X<sub>1</sub>) will affect customer loyalty (Y), both separately (H1 and H2) and jointly (H3).

## RESEARCH METHODS

This research employed a quantitative explanatory design to analyze the impact of customer service and product diversification on customer loyalty at PT Yuksri Prima Indonesia. The methodological approach was structured to guarantee the reliability, validity, and replicability of the results, making it possible for future studies to adopt the same procedure in comparable settings. The study population comprised approximately 6,500 registered customers of PT Yuksri Prima Indonesia. Using Slovin's formula with a 5% margin of error, the minimum sample size required was calculated to be 377 respondents. A simple random sampling technique was applied, giving each customer an equal opportunity to be selected as part of the sample.

The final sample consisted of 377 usable responses, reflecting a variety of customer characteristics such as age, gender, and purchasing frequency. This sampling method was considered appropriate as it minimized selection bias and improved the generalizability of the results to the wider customer population. Data collection was carried out through a structured questionnaire administered via Google Forms. The online distribution was selected to enhance accessibility, lower administrative expenses, and ensure more efficient reach to participants. Prior to filling out the survey, respondents received information about the research objectives and were assured of confidentiality through an informed consent statement. On average, completing the questionnaire took approximately 6–8 minutes.

A data screening process was performed to remove incomplete or inconsistent responses. Following this procedure, a total of 377 valid questionnaires were retained for analysis, thereby ensuring the reliability and integrity of the dataset. The survey instrument encompassed three primary constructs: Customer Service (X<sub>1</sub>), Product Diversification (X<sub>2</sub>), and Customer Loyalty (Y). Each construct was assessed through multiple measurement items on a five-point Likert scale (1 = Strongly Disagree to 5 = Strongly Agree).

For Customer Service (X<sub>1</sub>), five indicators were adapted from the SERVQUAL model, covering aspects such as reliability, responsiveness, empathy, and assurance. Product diversification (X<sub>2</sub>) this construct was measured using five indicators grounded in the

Ansoff Matrix framework, reflecting aspects of product variety, innovation, and market relevance (Wu, 2023). Customer loyalty (Y), six indicators were adopted from existing loyalty literature, encompassing both behavioral intentions and attitudinal commitment.

The validity and reliability of the instrument were verified through statistical analysis. Data analysis employed Structural Equation Modeling (SEM) using Partial Least Squares (PLS) to test the measurement and structural models. The analysis followed three main stages: (1) assessing the measurement model for reliability and validity through factor loadings (>0.70), AVE (>0.50), and Composite Reliability (>0.70); (2) evaluating the structural model using  $R^2$  values and model fit indices such as SRMR (<0.08) and NFI (>0.90); and (3) conducting hypothesis testing through bootstrapping with 5,000 resamples. Relationships were considered significant when  $t$ -values exceeded 1.96 and  $p$ -values were below 0.05, confirming the effects of customer service and product diversification on customer loyalty.

**RESULTS**

Figure 2 presents the results of the Partial Least Squares (PLS) analysis, which illustrates the structural relationships among customer service (X1), product diversification (X2), and customer loyalty (Y). The diagram includes standardized path coefficients, factor loadings of each indicator, and the  $R^2$  value for customer loyalty. In the case of PT Yuksri Prima Indonesia, these results demonstrate the extent to which the independent factors explain the variation in customer loyalty.

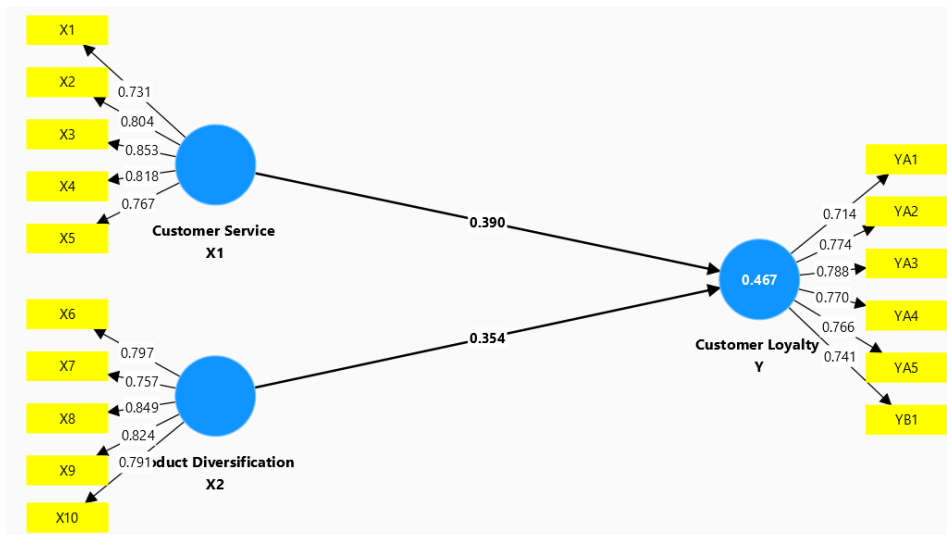


Figure 2. PLS Results

The PLS results indicate that both customer service and product diversification exert positive and significant effects on customer loyalty. Customer service (X1) shows a path coefficient of 0.390, while product diversification (X2) records a coefficient of 0.354. This suggests that service quality has a slightly stronger influence compared to product diversification, although both play substantial roles in shaping customer loyalty. Additionally, the  $R^2$  value for customer loyalty is 0.467, which indicates that these two factors account for roughly 46.7% of the variance in loyalty. All of the measuring items' factor loadings are higher than the 0.70 cut-off, indicating robust construct validity and indicator reliability. These findings highlight that enhancing customer service and expanding product diversification strategies are both critical for sustaining and strengthening loyalty among customers of PT Yuksri Prima Indonesia.

The robustness and dependability of the measurement model were assessed using confirmatory tests for convergent validity, discriminant validity, and internal consistency reliability. As seen in Table 1, the findings demonstrate that each construct satisfies the necessary psychometric standards. The Cronbach's Alpha and Composite Reliability

(rho\_a and rho\_c) values of the structures both above the recommended benchmark of 0.70, indicating a high degree of internal consistency. Additionally, the Average Variance Extracted values for each construct are greater than 0.50, indicating strong convergent validity and showing that the indicators account for more than half of the variance in each construct.

Table 1. Construct Reliability and Validity

Variable	Cronbach's Alpha	Composite Reliability (Rho_A)	Composite Reliability (Rho_C)	Average Variance Extracted (AVE)
Customer Loyalty (Y)	0.853	0.854	0.891	0.576
Customer Service (X1)	0.854	0.858	0.896	0.633
Product Diversification (X2)	0.863	0.867	0.901	0.647

The next stage was to assess discriminant validity to make sure that each construct in the model is conceptually unique and does not overlap with other constructs, after the confirmation of strong reliability and convergent validity. According to Table 2, the Fornell-Larcker criterion was used in this evaluation. The square roots of each construct's AVE values are represented by the diagonal elements, which are always higher than the matching correlations with other constructs. For instance, the square root of the AVE for customer service (0.796) is higher than the correlations with product diversification (0.797) and customer loyalty (0.736). Since each construct has a stronger link with its own indicators than with those of other constructs, these findings provide compelling evidence of discriminant validity.

Table 2. Discriminant Validity

Variable	Customer Loyalty (Y)	Customer Service (X1)	Product Diversification (X2)
Customer Loyalty (Y)			
Customer Service (X1)	0.736		
Product Diversification (X2)	0.720	0.797	

The subsequent step involved evaluating discriminant validity to ensure that each construct within the model is conceptually distinct and does not overlap with other constructs, following the confirmation of strong reliability and convergent validity. As presented in Table 2, the Fornell-Larcker criterion was employed for this assessment. The diagonal elements, representing the square roots of each construct's AVE, consistently exceeded the corresponding correlations with other constructs. For instance, customer service's square root of the AVE (0.796) was higher than its relationships with customer loyalty (0.736) and product diversification (0.797). Given that each concept continues to have a larger correlation with its own indicators than with those of other constructs, these findings offer convincing proof of discriminant validity.

Table 3 shows that customer service (X1) and product diversification (X2) both have a significant positive effect on customer loyalty (Y) at the 0.000 level. With an R<sup>2</sup> of 0.467, the model demonstrates moderate explanatory power, confirming that improvements in service quality and product diversification are key strategies for enhancing customer loyalty at PT Yuksri Prima Indonesia.

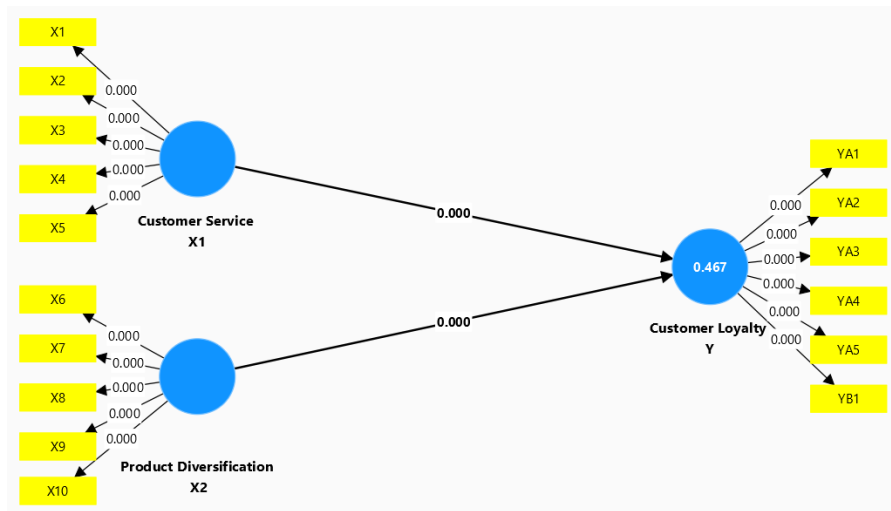


Figure 3. Bootstrapping Result

Table 3. R-square Adjusted

Test	Value
R Square	0.467
Adjusted R Square	0.465

Both the product diversification (X2) and customer loyalty (Y) and customer service (X1) correlations are statistically significant at the 0.000 level, according to the bootstrapping results. This suggests that the research hypotheses have substantial empirical support. To put it another way, PT Yuksri Prima Indonesia's increased customer loyalty is mostly due to both product variety and increases in service quality. Based on Table 3, together with the moderate explanatory power indicated by the R2 value of 0.467, these results validate the robustness of the hypothesized effects and the dependability of the suggested model. As a result, the study comes to the conclusion that, in a competitive market, maintaining client loyalty requires strategic levers like product variety and customer service.

Evaluating the proposed causal linkages between the constructs was a crucial next step after determining the model validity and goodness-of-fit. This was accomplished by using a bootstrapping approach to analyze the route coefficients which show the direction and intensity of the relationships and their statistical significance. Table 4 displays the findings of this investigation.

Table 4. Path Coefficient

Relationship	Original sample	Sample mean	Standard deviation	T-statistics	P-values
Customer Service (X1) → Customer Loyalty (Y)	0.390	0.390	0.063	6.156	0.000
Product Diversification (X2) → Customer Loyalty (Y)	0.354	0.356	0.062	5.687	0.000

Based on Table 4 the study hypotheses are strongly supported empirically by the path coefficient analysis. Customer service ( $\beta = 0.390$ ,  $p < 0.001$ ) and product diversification ( $\beta = 0.354$ ,  $p < 0.001$ ) both have a positive and statistically significant impact on customer loyalty, as indicated in Table 4. The high T-statistic values (6.156 and 5.687, respectively), which are well above the critical value of 1.96, further confirm the significance of these paths. This finding solidifies the conclusions drawn from the initial PLS results, demonstrating that improvements in service quality and product variety are not merely correlated with loyalty but are, in fact, significant direct drivers of it. Furthermore, these results logically extend from the previously confirmed validity and reliability of the measurement model (Table 1 and Table 2), as a flawed measurement would have

compromised the integrity of these structural path findings. The magnitude of the path coefficients suggests that while both factors are crucial, customer service has a marginally stronger direct impact on fostering customer loyalty compared to product diversification within the context of PT Yuksri Prima Indonesia. These significant paths directly answer the research questions posed and confirm hypotheses H1 and H2, demonstrating how the independent variables directly contribute to the variance in the dependent variable previously explained by the  $R^2$  value (0.467) in Table 3.

The path coefficient from customer service to customer loyalty is significant at  $p = 0.000 (< 0.05)$ , according to bootstrapping data. This confirms that high-quality customer service significantly increases loyalty among customers of PT Yuksri Prima Indonesia. The path coefficient from product diversification to customer loyalty is also significant at  $p = 0.000 (< 0.05)$ . This means that product diversification strategies such as launching new products and offering variety contribute meaningfully to strengthening customer loyalty. With an  $R^2$  value of 0.467 for customer loyalty, the combined contribution of customer service and product diversification explains 46.7% of the variance in loyalty. This supports H3, demonstrating that these two factors together play a crucial role in fostering customer loyalty.

## **DISCUSSION**

The results of this study offer convincing empirical proof that, at PT Yuksri Prima Indonesia, consumer loyalty is significantly influenced by both product diversification and customer service. The path coefficients obtained from the PLS analysis demonstrate that customer service ( $\beta = 0.390$ ) has a slightly stronger effect on loyalty than product diversification ( $\beta = 0.354$ ). These results are consistent with the theoretical foundations laid out earlier, particularly the SERVQUAL model, which highlights reliability, responsiveness, and empathy as critical drivers of customer satisfaction and loyalty (Parasuraman et al., 1988). The significant impact of product diversification also aligns with the Ansoff Matrix, which positions diversification as a strategy to mitigate market risks and maintain competitiveness (Ansoff, 1981; Wu et al., 2023).

These findings also corroborate prior empirical studies. Supriyanto et al. (2025) emphasized that excellent customer service fosters trust and strengthens long-term relationships, while Franjkovic et al. (2025) showed that diversification enhances perceived value and customer retention. The present study extends this literature by testing both variables simultaneously in an Indonesian corporate context, unlike much of the existing research, which has been concentrated in developed markets by Matosas-López (2024). The current results provide localized insights into emerging economies where cultural factors and market dynamics may shape customer perceptions differently (Edo et al., 2024; Rahayu, 2024).

From a theoretical perspective, the findings also support the Commitment-Trust Theory, which posits that trust and commitment are essential for building sustainable customer relationships (Morgan & Hunt, 1994; Juharsah, 2024). Research by Fitri et al. (2023) suggests that high-quality service strengthens trust through consistent delivery and responsiveness, while Geissdoerfer et al. (2018) product diversification demonstrates the firm's commitment to meeting evolving customer needs. Together, these factors create a more compelling value proposition that fosters loyalty. Despite being classified as moderate, the  $R^2$  value of 0.467 is significant enough to verify that these two strategic determinants account for almost half of the variance in customer loyalty, indicating that service and product strategy are, in fact, key levers of loyalty creation.

This study reinforces the integration of SERVQUAL, Ansoff's diversification strategy, and the commitment-trust framework as complementary perspectives in explaining loyalty formation. It highlights that customer loyalty strategies must be dual-focused, balancing relational quality through service excellence with strategic innovation through product diversification. For practitioners, this means loyalty cannot be achieved through transactional satisfaction alone but through consistent service performance, adaptive

product evolution, and trust-based relationship management that respond dynamically to customers' changing expectations.

The implications for managerial practice are notable. For PT Yuksri Prima Indonesia, investing in staff training, service responsiveness, and customer engagement mechanisms is not optional but essential to sustaining loyalty in a competitive market. At the same time, product diversification through innovation, adaptation to market trends, and catering to diverse customer segments ensures that the company remains relevant and competitive. Managers must recognize that these two strategies work best in tandem: service excellence builds trust and emotional attachment, while product diversification provides customers with tangible reasons to remain loyal. Nevertheless, the moderate explanatory power of the model also signals that other factor outside of service and product strategies, such as pricing, brand image, digital experience, or emotional branding, may also play critical roles in determining loyalty. Such variables could be added to this model in future studies to provide a more thorough understanding of the factors that influence loyalty in the Indonesian market.

## **CONCLUSION**

Customer service and product diversification have a major impact on customer loyalty at PT Yuksri Prima Indonesia, according to empirical findings from this study. According to the results, customer service has a marginally greater influence than product diversification, but both are crucial for building enduring loyalty. Their strategic significance in the Indonesian market is demonstrated by the fact that, taken together, they account for 46.7% of the variation in customer loyalty. The findings strengthen the integration of the SERVQUAL, Ansoff, and Commitment-Trust frameworks as complementary perspectives in explaining loyalty formation. They suggest that loyalty strategies should combine service excellence driven by responsiveness, reliability, and empathy with continuous innovation in product offerings to maintain customer engagement and trust.

The study has limitations in spite of these contributions. Since the model only accounts for two predictors, almost half of the variance cannot be explained. Although they weren't looked at in this study, other elements, including pricing tactics, digital interaction, company image, and emotional attachment, might potentially be very important in determining loyalty. Because cross-sectional survey responses only record perceptions at one particular moment in time, they also limit the capacity to definitively demonstrate causal linkages. Furthermore, the focus on one company limits the generalizability of the results to other industries or regions. As a result, future studies should broaden the model by including more variables as mediating factors, such as customer pleasure, trust, or the quality of digital services. Deeper understanding of how loyalty changes over time may also be possible with longitudinal research. The theoretical and practical implications would be enhanced by comparative studies between emerging and developed markets or between industries. Future research can offer a more comprehensive knowledge of loyalty motivations in dynamic and competitive situations by overcoming these constraints.

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