

Impact of Satisfaction and Customer Engagement as Intervening Variable on customer loyalty: Study at XL Resto & Cafe Surabaya Indonesia

Hotman Panjaitan

(Faculty of Economics Universitas 17 Agustus 1945 Surabaya, Indonesia)

ABSTRACT: *This study discusses the impact of satisfaction and customer engagement as Intervening variable to customer loyalty: Study at XL Resto & Cafe Surabaya. The study population is all residents in Surabaya who have ever enjoyed the dish, XL Resto & Cafe. By using SEM rules the sample size is 100 respondents. Test model with Maximum Likelihood Estimation (MLE), structural equation model analysis (SEM), sampling method with non-probability in judgment sampling and software assistance Amos 22. Test results show the model (fit) seen from GFI, AGFI, TLI, CFI, RMSEA and CMIN / DF, respectively 0.947, 0.923, 0.976, 0.964, 0.083 and 1.209 are all within the expected value range. the model is acceptable. The research findings show that customer satisfaction variable, and customer engagement variable are positive intervening variable. Other research findings are: The results of the study are: 1). Improved quality of service can improve customer satisfaction. 2). Improved quality of service will increase customer engagement. 3). Increased product quality will increase customer satisfaction. 4). Increased product quality will increase customer engagement. 5). Increased customer satisfaction will increase customer loyalty. 6). Increased customer engagement will increase customer loyalty.*

Keywords: *Service quality, Product Quality, Customer Satisfaction, Customer Engagement, Customer Loyalty.*

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I. INTRODUCTION

In general the company's goal is to achieve and increase profits through profitable sales volumes, this can only be precipitated if the company can satisfy the customer, so the company's performance will increase, the company's profit will increase. With huge profits, the company's capital will increase and the company will be able to grow and expand using greater capabilities. Thus the company will be able to provide a greater level of satisfaction to consumers and can strengthen the overall economic condition. It can also be said that the level of profit obtained by the company is an indicator of the success of the company's business that managed to give satisfaction to consumers. To give satisfaction the company can prepare goods and services, customer needs with superior quality and at a reasonable price. To achieve the target and high business performance, the company needs the concept and marketing strategy so that customer satisfaction can be created which ultimately customer loyalty will also be obtained. Customer satisfaction will be formed if marketers can provide quality services, where the quality of service has a close relationship with customer satisfaction. Quality provides an impetus to consumers to forge strong bonds with the company. Thus the company can increase consumer satisfaction by minimizing unpleasant experience. Consumer satisfaction can create customer loyalty and loyalty to companies that provide satisfactory quality (Tjiptono, 2015). In addition to the quality of service the company should also pay attention to the quality of products offered. The ability of the product to provide the best service to the wearer will strengthen the position of the product in the minds of consumers, thus enabling the product to be the first choice of the consumer on the purchase in the future. Good product and service quality enables consumer satisfaction, which will attract new customers, so it is expected to eventually create customer loyalty (Situmorang, 2017, So et al., 2014).

Good quality image is not seen from the perception of the service providers, but based on customer perceptions. Relationship quality of service to customer satisfaction can be known from the company's efforts in improving and maintaining the quality of service company. If the quality of service received by consumers is better or the same as what he imagines, then consumers will tend to try it again (Alma, 2015, Andreassen, and Lindestad, 1997). The level of customer satisfaction of a good will give a reflection on the success of the producer in producing an item, because a product will fail if the product does not give satisfaction for its users. So the company is always trying to create good products and services in accordance with the needs of consumers thus consumers will feel satisfied with the goods in the consumption.

To determine the survival of the company in the long run is strongly influenced by the level of customer satisfaction. Because with high consumer satisfaction will create an emotional attachment to a particular brand, not just rational preferences. And will result in high customer loyalty (Kotler, 2009). For that the company must compete with similar companies by displaying different products or more specific. Even must have its own characteristics that can satisfy the target consumers. Many companies win the competition by taking advantage of existing business opportunities and striving to implement the right marketing strategy to create and keep customers loyal to the company's products. This is done by creating a good quality product. Consumer attitude resistance is shown by consumer loyalty to a product they consume. The key to consumer resistance is consumer satisfaction. If performance (outcome) exceeds expectations then the customer is very satisfied.

But the effort to satisfy the consumer is not easy. Marketing activities operate in an increasingly competitive business environment and in a constantly evolving environment that directly or indirectly affects their life and economic order, the ways of marketing and consumer behavior. One of Kotler and Keller's marketing concepts (2009) is to do a marketing mix that includes product, price, service and promotion. But it can not be denied that the benchmarks of customer satisfaction more on the quality of products and services. Satisfaction is something that must be considered by the company, because basically the purpose of business is to create satisfied consumers (Steven, 2009). The creation of consumer satisfaction can provide several benefits one of which the relationship between the company and its consumers become closely. The development of a product (service) involves determining the benefits to be provided, capable of achieving customer satisfaction. These benefits are communicated and delivered with product attributes such as quality, features and design. The higher the level of customer satisfaction on a product the higher the performance of the product.

Customer satisfaction will impact customer loyalty, where satisfaction will encourage consumers to buy and re-consume the product (Sangadji and Sopiah, 2013). Maintaining customer loyalty becomes an obligation that should take precedence over getting new customers. Customer loyalty is created through customer satisfaction over products consumed, where customers feel fulfilled hope that leads to loyalty. On the other hand, loyal customers provide many benefits for the company, including: providing consistent buyback opportunities, expanding product lines consumed, positive word of mouth, decreasing price elasticity and decreasing promotional costs in order to attract new customers (Athanasopoulos et al., 2001). It is important in a business to be able to build, maintain to increase customer loyalty. High customer loyalty can also be influenced by customer engagement factor. Where customer engagement is a very important strategy in generating higher corporate performance, including sales growth (Neff, 2007), better competitive advantage (Sedley, 2008) and profits (Voyles, 2007). According to Vivek and Morgan (2012) customer engagement as an ongoing interaction between the company and the customer, where the company offers goods and services, and selected by the customer. Customer engagement talks about how to build the interaction and intimacy between a company and its customers. In addition to customer engagement, customer loyalty can also be influenced by product quality, service quality, and customer satisfaction of a company.

The development of restaurants in Surabaya is very rapid, which one of them is XL Resto & Cafe located in East Surabaya. This restaurant emerges with the intent of fulfilling the wants and needs of its consumers with the concept of an affordable price, quality products, and excellent service quality. Good and satisfying service is the main mission of XL Resto & Cafe. Quality of service and products offered at affordable prices supported by a unique facility is also a major capital to attract consumers. Suarhana (2006) mentions that the restaurant is: a commercial venue where the scope of its activities provides food and beverage services to the public in its place of business. Meanwhile, according to Sihite (2000) the restaurant is: a place where someone who comes to be a guest who will get service to enjoy the food, and by guests who enjoy the meal must pay according to the price list provided by the restaurant. From the above understanding can be concluded that the restaurant is a place of business that serves guests who come with the scope of its activities provide food and beverages that are commercial. The rise of restaurant business in Surabaya over the last 5 years is shown in Table 1.

Table 1: Number of Restaurants in Surabaya City 2012-2016

Number	Year	Amount
1.	2012	25.423
2.	2013	25.554
3.	2014	26.422
4.	2015	28.756
5.	2016	32.455

Source: Surabaya City Tourism Office (2017)

XL Resto & Cafe is one of the restaurants that face the tightness of restaurant business competition at this time. In many places in Surabaya, small-scale restaurants are more closely oriented to customers and offer cheaper prices. This concept makes consumers feel reluctant to travel far to meet the needs of everyday, with the same taste and a relatively cheaper price relatif. This is a competition in the business world of restaurants, which can be overcome by offering the price advantages and facilities of each restaurant. From the above explanation, the author wants to know more about the impact of customer satisfaction and customer engagement as an intervening variable to customer loyalty especially in XL Resto & Cafe Surabaya..

II. LITERATURE REVIEW

2.1 Service quality

Quality is a dynamic condition that affects products, services, people, processes and environments that meet or exceed expectations (Tjiptono, 2015, Chao Wu Chan, 2011). So the definition of service quality can be interpreted as an effort to meet the needs and desires of consumers and the accuracy of delivery in the balance of consumer expectations. According to Kotler (2009), Noel et al. (2001) the definition of a service is any action or activity which may be offered by a party to another party, which is substantially intangible and does not result in any ownership. Production may be attributed or not linked to a single physical product. Service is the behavior of producers in order to meet the needs and desires of consumers for the achievement of satisfaction on the consumer itself. In this paper the quality of service is a dynamic condition that relates to the totality of product or service characteristics, human resources, service process and environment in XL Resto & Cafe to meet the specific needs and expectations of customers.

2.2 Product Quality

Product quality is the overall trait and nature of a product or service that has an effect on its ability to satisfy the stated or implied needs. According to Goetsch and Davis (2004) product quality is a dynamic condition associated with goods, services, people, products, and environments that meet or exceed expectations. Product quality is the ability of a product to demonstrate its function, it includes overall durability, reliability, accuracy, ease of operation and product repair as well as other product attributes. Product quality is the product's ability to display its function, it includes the usability time of the product, reliability, ease, use and improvement, and other values. The quality of the product can be viewed from two perspectives namely internal point of view and external point of view. From a marketing point of view, quality is measured by buyers' perceptions. One of the objectives of the implementation of product quality is to influence consumers in determining the choice to use the homemade products so as to facilitate consumers in making purchasing decisions. Understanding consumer behavior about the quality of the product can be used as the basis of the consumer purchase decision process (Sutisna, 2008).

2.3 Customer Engagement

Customer engagement is the intensity of participation and individual relationships with organizational offerings or activities initiated by customers or organizations (Vivek and Morgan, 2012), Evans et al. (2010), Verhoef et al. (2010). There are 4 hierarchies underlying customer engagement with the organization, the bottom hierarchy is confidence. It relates to whether the company is trustworthy or not. Such trust will be the basis of whether a customer will progress to a higher hierarchy. This confidence covers the company's ability to deliver the message reliably and able to keep its promise. Above the hierarchy of confidence, there is a hierarchy of integrity. This hierarchy is an important hierarchy because it relates to what kind of justice is given by the company to the customer by treating the customer as it should. Then the hierarchy over integrity is pride. Pride is a positive feeling of association and company identification. This pride illustrates the respectful treatment of the customer, the pride of being a customer of a product. The highest hierarchy of the customer engagement pyramid is the passion. A customer who has a passion for a company will describe their relationship as irreplaceable and even considered a suitable partner.

2.4 Customer Satisfaction

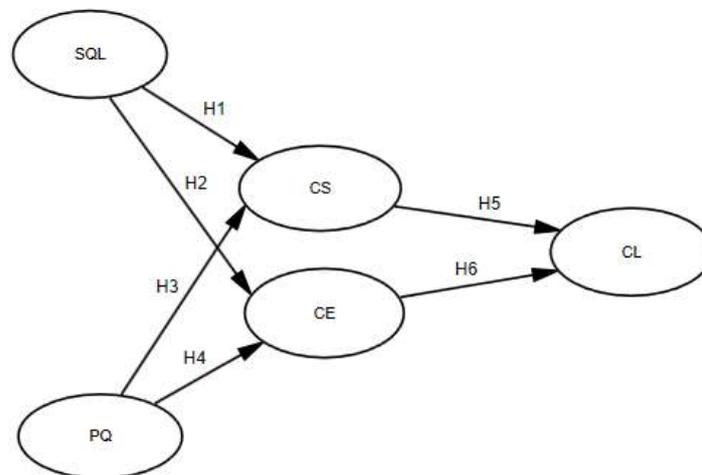
Customer satisfaction is a person's feelings of pleasure or disappointment after comparing perceived performance or outcomes compared to expectations (Babin et al., 2005). Satisfaction is a kind of comparative step between experience and evaluation results, can produce something that is spiritually comfortable, not just comfortable as imagined or expected. Satisfied or dissatisfied is not an emotion but an evaluation of emotions (Kotler, 2009), Oliver and John (1989). Meanwhile, according to Engel (2003), Tjiptono (2015) consumer satisfaction is an evaluation after purchase where the selected alternatives at least give outcomes the same or exceed consumer expectations, while dissatisfaction arises if the results obtained do not meet customer expectations. From these two concepts can be drawn conclusions regarding the components of customer satisfaction (expectations and perceived results). Generally a customer's expectation is an estimate or a

customer's belief about what he or she will receive when he buys or consumes a product (goods or service). While perceived performance is the customer's perception of what he receives after consuming the purchased product (Zeithaml et al., 2000).

2.5 Customer loyalty

Customer loyalty is a customer commitment to a brand, store or supplier based on a strong positive attitude and manifested in consistent repatronage (Sheth and Mittal, 2004). Customer loyalty is absolutely required by a company to survive and compete with other companies. To build customer loyalty required the efforts of the company to continue to provide the best quality in every product or service that belongs to it, so as to form a strong perception of quality in the minds of customers. The ultimate goal of a company's successful relationship with its customers is to establish strong loyalty (Zeithaml et al., 1996). Satisfied and loyal customers are an opportunity to get new customers.

2.6 Conceptual Framework



Figur 1:Conceptual Framework

SQL: Service quality, PQ: Product Quality, CS: Customer Satisfaction, CE: Customer Engagement, CL: Customer Loyalty

The variables used were explained as Figur 1 and each relationship of an independent variable with dependent variable represent hypothesis.

2.7 Research Hypotheses

Based on the background of the problem, problem formulation, literature review, and conceptual framework then the hypothesis proposed in this research are:

1. Improved service quality will increase customer satisfaction.
2. Improved service quality will increase customer engagement.
3. Increased product quality will increase customer satisfaction.
4. Increased product quality will increase customer engagement.
5. Increased customer satisfaction will increase customer loyalty.
6. Increased customer involvement will increase customer loyalty.

III. RESEARCH METHODE

3.1 Research Subjects

The study population is all residents in Surabaya who have ever enjoyed the dish, XL Resto & Cafe. The sample in this research is XL Resto & Cafe consumer with minimum number of visits once in the last three months and minimum 17 years old. The sampling technique used in this research is nonprobability sampling. The non-probability technique chosen is judgment sampling. Judgment sampling is a technique of determining samples with certain considerations. The minimum sample size required in this study is calculated based on SEM, which is 5 to 10 times the total indicator parameter $(5 \times 19) = 95$. The total of respondents is 95 respondents who will be rounded to 100 respondents who are the customer of XL Resto & Cafe.

Model testing was performed using Maximum Likelihood Estimation (MLE), structural equation model analysis (SEM), with the help of Amos 22 software (Hair, 2005).

3.2 Research Measurement

This study used questionnaire instrument where the variable of service quality was operationally measured using 5 (five) indicators developed by Zeithaml et al. (1996), Karundeng (2013), Parasuraman et al. (1988) and Caruana et al. (2000), namely: tangibles, reliability, responsiveness, assurance and empathy. Variables Product quality was measured using 4 (four) indicators developed by Kotler (2009), Garvin (2014), Lovelock and Wright (2005), namely: product performance, product pitur, product reliability and suitability. Variables Customer engagement is operationally measured using 4 (four) indicators developed by Vivek and Morga (2012), namely: confidence, integrity, pride and passion. Variable Customer satisfaction is operationally measured using 3 (three) indicators developed by Kotler (2009), and Engel (2003), namely: overall satisfaction, expectation satisfaction, and experience satisfaction. Variable Customer loyalty is operationally measured using 3 (three) indicators developed by Zeithaml et. al. (1996) are: say positive things, recommend friend, and continue purchasing.

IV. RESULT AND DISCUSSIONS

4.1 Results Testing Instrument

The results of testing the validity showed significant for all indicators or the item in question, which means that the indicators or items of questions for each of the variables included in the questionnaire have been eligible validity. From the results of Pearson product moment correlation, it is known that all of the question items on the questionnaire correlated significantly to the error rate of 5% (** <0.05), so we can say all of the item in question is valid and can be processed further.

Reliability test results with test Cronbach alpha (α) in this study indicate that all variables of the study are reliable, since the entire value of the alpha coefficient of each variable larger study of standardized (0.6), so that each item question on measurement instruments can be used. The value of the corrected item total correlation of the entire item in question is greater than 0.3.

4.2 Respondent Characteristics

Analysis of descriptive data to 100 respondents showed: Characteristics of respondents by sex is predominantly male is 67.0% compared to women 34.0%. Characteristics of respondents by age at age 31-40 years = 32.0% of respondents, and dominant in the age range 17-30 years = 42.0%. The education level of the majority of respondents is High school which reached 64.0%, while the rest are diploma 23.0% and 13.0% respectively. Table 1 shows the characteristics of the study respondents.

Table 2: Characteristics of respondents (N = 100)

Characteristics	Frequency	Percent
Gender	Men	67
	Women	34
Age (years)	17-30	42
	31-40	32
	41-60	26
Education	High school	64
	Diploma	23
	Bachelor	13

4.3 Confirmatory Factor Analysis

Table 3. shows the overall results of confirmatory factor analysis / construct validity on the measurement model of research. The validity and reliability of the constructs are two tests to evaluate the ability of the measured variables (manifest) in forming latent variables, in the table below all manifests have a loading factor with probabilities of less than 0.05, meaning significant in forming latent variables. Also, each latent variable has a construct critical ratio of more than 0.2, which means it comes from one dimension (unidimensional).

Table 3: Confirmatory Factor Analysis

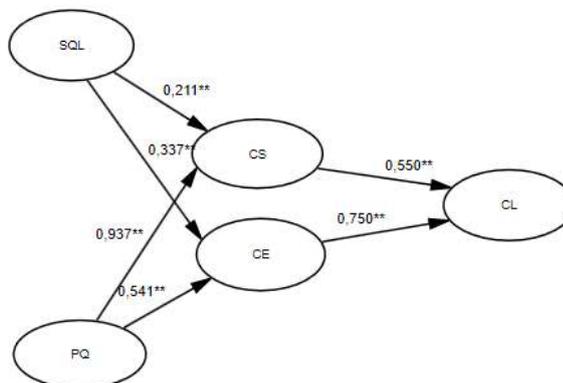
Research variables	Relationship	C. R.	Loading Factor (λ)	Probability
SQL	SQL → SQL1	-	0.619	0,000
	SQL → SQL2	9.225	0.914	0,000
	SQL → SQL3	7.128	0.736	0,000
	SQL → SQL4	6.106	0.635	0,000
	SQL → SQL5	7.243	0.758	0,000
PQ	PQ → PQ1	-	0.699	0,000
	PQ → PQ2	6.854	0.746	0,000
	PQ → PQ3	5.715	0.602	0,000
	PQ → PQ4	6.739	0.699	0,000
CS	CS → CS1	-	0.726	0,000
	CS → CS2	6.714	0.618	0,000
	CS → CS3	7.911	0.874	0,000
	CS → CS4	6.911	0.832	0,000
CE	CE → CE1	-	0.763	0,000
	CE → CE2	7.892	0.699	0,000
	CE → CE3	6.012	0.592	0,000
CL	CL → CL1	9.769	0.863	0,000
	CL → CL2	7.872	0.699	0,000
	CL → CL3	8.018	0.732	0,000

SQL: Service quality, PQ: Product Quality, CS: Customer Satisfaction, CE: Customer Engagement, CL: Customer Loyalty

4.4 Model Test Results

The structure of the model used to describe models of causality research with tiered relationship. Model baseline (Proposed Model) has been created, analyzed by structural equation modeling with the help of software AMOS 22. Goodness of fit of the votes, the probability is equal to zero (chi-square value is large) so that the null hypothesis can not be rejected, or accept the null hypothesis that states the sample covariance and covariance population is not the same. But on the evaluation of regression weight, all variables have a causal relationship and have a critical ratio value is not equal to zero. This indicates that the accepted research model just has not entered criteria (standard) were determined. Therefore, in this study do not modify the model, but it does is modify the index.

After modification of the index, then the data processing with a sample size of 100 indicates a level of significance to test the hypothesis above difference is 67,262 with a probability of 0.074. This shows that there is no difference between the sample covariance matrix and covariance matrix of the population, so that the null hypothesis is accepted (accepted if the probability ≥ 0.05). Meanwhile the value of GFI, AGFI, TLI, CFI, RMSEA and CMIN / DF respectively by 0.947, 0.923, 0.976, 0.964, 0.083 and 1.209 all of them are in the range expected value so that the model can be accepted.



Figur 2: Coefficient of path between research variables

SQL: Service quality, PQ: Product Quality, CS: Customer Satisfaction, CE: Customer Engagement, CL: Customer Loyalty

** Significant at level 1%

4.5 Hypothesis Testing And Analysis

Regarding the regression results in Table 4, it is known that the critical ratio (CR) value that is identical with the t test in the regression analysis shows that all regression coefficients differ significantly from zero. Thus the null hypothesis that the regression coefficient is equal to zero can be rejected or an acceptable alternative hypothesis. The causality in the model is acceptable. Of the 6 hypotheses submitted are all accepted.

Table 4: Path coefficient

H	Relationship	Path Coefficient	SE	CR	p	Decision
H1	SQL → CS	0,211	0,053	3,522	0,000	accepted
H2	SQL → CE	0,337	0,031	4,758	0,000	accepted
H3	PQ → CE	0,937	0,024	9,853	0,000	accepted
H4	PQ → CS	0,541	0,091	5,937	0,000	accepted
H5	CS → CL	0,550	0,021	6,401	0,000	accepted
H6	CE → CL	0,750	0,013	7,502	0,000	accepted

SQL: Service quality, PQ: Product Quality, CS: Customer Satisfaction, CE: Customer Engagement, CL: Customer Loyalty

The important thing of this research is that customer satisfaction variable and customer engagement variable are positive and significant intervening variable in this research model, because indirect influence of service quality to customer loyalty, through customer satisfaction is positive. Likewise, the indirect effect of service quality on customer loyalty, through customer engagement is positive. The indirect effect of product quality on customer loyalty, through customer satisfaction is positive. Similarly, the indirect effect of product quality on customer loyalty, through customer engagement is positive (Table 5).

Table 5: Path coefficients CS and CE as Intervening

Relationship	Path Coefficient	Information
SQL → CS → CL	$(0,211) \times (0,550) = 0,122$	good intervening
SQL → CE → CL	$(0,337) \times (0,750) = 0,253$	good intervening
PQ → CE → CL	$(0,937) \times (0,550) = 0,516$	good intervening
PQ → CS → CL	$(0,541) \times (0,750) = 0,406$	good intervening

SQL: Service quality, PQ: Product Quality, CS: Customer Satisfaction, CE: Customer Engagement, CL: Customer Loyalty

V. CONCLUSION AND RECOMMENDATIONS

From the results of testing on the model in this study, able to explain the relationship between service quality, product quality, customer satisfaction, customer engagement, and customer loyalty at XL Resto & Cafe in Surabaya. The results of this study is very important because there are stages of the influence of each variable that runs in a tiered way, namely service quality and product quality variables positively influence customer satisfaction and customer engagement variables. Furthermore, customer satisfaction and customer engagement variables affect positively variable customer loyalty.

Based on the results of analysis and test of research hypotheses that have been done before then from this study can be drawn conclusion as follows: 1). Improved quality of service can improve customer satisfaction. This shows that with good service quality from XL Resto & Cafe, can increase customer satisfaction. 2). Improved quality of service can increase customer engagement. This shows that with good service quality, can increase customer involvement. 3). Increased product quality can improve customer satisfaction This shows that with the improvement of product quality, can increase customer satisfaction. 4). Increased product quality can increase customer engagement, indicating that improving product quality can increase customer engagement. 5). Increased customer satisfaction can increase customer loyalty, indicating that with increased customer satisfaction, can increase customer loyalty. 6). Increased customer engagement can increase customer loyalty, demonstrating that with increased customer engagement, it can increase customer loyalty XL Resto & Cafe.

Researchers submit some suggestions as follows:

XL Resto & Cafe Manager in Surabaya should pay more attention to service quality that has been done nowadays, considering the small role of service quality to customer satisfaction which will ultimately impact on customer loyalty. This can be done by always innovating service quality, and also serving individual customers. To other researchers it is advisable to examine further the role of customer satisfaction variable, and customer engagement as intervening variable, not only for loyalty variable, but also can be tested on marketing performance variable.

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