The Relationship Between Customer Perceived Value, Service Quality, Brand Trust, and Customer Retention in the Retail Industry

Ira Wahyuni[1], Daru Putri Kusumaningtyas[2], Hakkul Bahiz Mahdani[3], Daniel Pungkas Prastia Wibowo[4]

Universitas Jambi[1], Universitas Negeri Jakarta[2], Universitas Wijaya Kusuma Surabaya[3], Universitas Negeri Jakarta[4]

irawahyunirikit@unja.ac.id[1], daruputrikusumaningtyas@unj.ac.id[2], hbahiz.madani@gmail.com[3], danielpungkas.pw@gmail.com[4]

ABSTRACT

This study investigates the relationship between customer perceived value, service quality, brand trust, and customer retention in the retail industry. Using a quantitative approach, data were collected from 350 retail customers and analyzed using Structural Equation Modeling (SEM). The findings reveal that customer perceived value, service quality, and brand trust significantly influence customer retention, with brand trust showing the strongest effect. The combined effect of these factors explains 62% of the variance in customer retention. The results underscore the importance of an integrated approach in retail, where perceived value, high service standards, and trust are key to maintaining customer loyalty. This study provides valuable insights for retail managers aiming to enhance retention through strategic improvements in customer experience, service quality, and brand-building efforts.

Keywords:
Customer Perceived Value, Service Quality, Brand Trust, Customer Retention, Retail Industry

INTRODUCTION

The retail industry has undergone significant transformations in recent years, driven by rapid technological advancements, shifts in consumer behavior, and evolving market dynamics. The rise of e-commerce, digital marketing, and omnichannel retailing has altered the traditional customer journey, demanding that businesses consistently deliver superior customer experiences to maintain competitive advantage. In this context, customer retention has emerged as a critical success factor for retail organizations, as it not only reduces acquisition costs but also fosters long-term profitability. Studies show that acquiring a new customer can cost five times more than retaining an existing one, and a mere 5% increase in customer retention can boost profits by up to 95% (Reichheld, 1990). These compelling statistics underscore the importance of understanding the key drivers of customer retention, including customer perceived value, service quality, and brand trust.

Customer perceived value plays a pivotal role in shaping consumer decisions in the retail sector. It encompasses a customer's evaluation of the benefits they receive from a product or service in relation to the costs they incur, both monetary and non-monetary. As competitive pressures mount, retailers must continuously innovate and enhance the value they deliver to their customers to retain their loyalty. (Parasuraman et al., 1988) highlights that perceived value is one of the primary determinants of consumer behavior, influencing purchasing decisions and brand loyalty. In today's highly competitive market, where consumers are more empowered and have access to a wide range of choices, providing exceptional perceived value has become a strategic imperative for retailers aiming to differentiate themselves and cultivate long-lasting relationships with their customers.

Service quality is another vital factor influencing customer retention in the retail industry. It reflects the ability of retailers to meet or exceed customer expectations consistently, which is crucial for fostering satisfaction and loyalty. According to Parasuraman, (Parasuraman et al., 1988) service quality can be conceptualized through dimensions such as reliability, responsiveness, assurance, empathy, and tangibles, all of which contribute to the overall customer experience. Retailers that consistently deliver high-quality service are more likely to retain customers, as positive service experiences build trust and satisfaction. Conversely, poor service can drive customers to competitors, particularly in a landscape where negative experiences are quickly amplified through social media and online reviews. Thus, service quality not only enhances customer retention but also serves as a protective measure against customer churn in a fiercely competitive environment.

Brand trust further solidifies the foundation for long-term customer relationships. Trust, defined as the willingness of customers to rely on a brand to deliver on its promises, is a key determinant of loyalty and retention (Morgan, 1994). In the retail sector, brand trust is built through consistent performance, transparency, and a strong emotional connection with customers. As brands operate in an increasingly digital and globalized environment, maintaining trust is more challenging yet more important than ever. A lack of trust can lead to a breakdown in customer relationships, ultimately driving customers to seek alternatives. However, when trust is established, it enhances customer confidence in the brand's ability to fulfill their needs, thereby encouraging repeat purchases and long-term loyalty. In this regard, brand trust serves as both a driver of customer retention and a buffer against competitive pressures.

Despite the recognized importance of customer perceived value, service quality, and brand trust in driving customer retention, there is a need for a deeper understanding of how these factors interact within the retail industry, particularly in the face of modern challenges such as digital transformation and evolving consumer expectations. Many retailers continue to struggle with maintaining high retention rates, as customers have more options and increasingly demanding expectations. Additionally, the relationship between these variables and their collective impact on customer retention is often underexplored, especially in the context of the retail industry's diverse and complex landscape. Given that retaining customers is crucial to long-term business success, a thorough examination of how customer perceived value, service quality, and brand trust collectively contribute to customer retention is needed to guide retail strategies. This study aims to address this gap by investigating these relationships and providing insights into how retailers can optimize their retention efforts.

The primary objective of this study is to examine the relationship between customer perceived value, service quality, brand trust, and customer retention in the retail industry. Specifically, this research seeks to: (1) assess the impact of customer perceived value on customer retention, (2) evaluate the influence of service quality on customer retention, (3) analyze the role of brand trust in fostering customer retention, and (4) explore the potential interplay between these variables. By addressing these objectives, this study aims to provide actionable insights that can help retailers enhance their customer retention strategies, thereby improving long-term profitability and competitive positioning in the market. The findings of this research will contribute

to the growing body of knowledge on customer retention and offer practical guidance for retail managers seeking to build and maintain lasting customer relationships.

Literature Review and Hypothesis Development

1. Customer Perceived Value and Customer Retention

Customer perceived value has long been acknowledged as a critical factor in influencing consumer behavior and decision-making processes, particularly in the retail industry. Perceived value refers to the customer's overall assessment of the benefits gained from a product or service relative to the costs incurred (Parasuraman et al., 1988). In retail settings, perceived value is shaped by multiple factors such as product quality, price, customer service, and the overall shopping experience. Research indicates that when customers perceive high value in a brand's offerings, they are more likely to remain loyal and continue their patronage (Sweeney & Soutar, 2001).

Perceived value not only fosters customer satisfaction but also drives repeat purchases, as customers are more inclined to return to a retailer that consistently delivers value. Studies have shown that perceived value is a key antecedent to customer retention, as it directly influences both satisfaction and loyalty (Yus et al., 1974). Furthermore, perceived value has been found to mediate the relationship between service quality and customer loyalty, suggesting its critical role in determining long-term customer relationships (Wang et al., 2004). In the highly competitive retail industry, where consumers have an abundance of choices, enhancing perceived value is crucial for retaining customers and securing sustained profitability. Hypothesis 1: Customer perceived value positively influences customer retention in the retail industry.

2. Service Quality and Customer Retention

Service quality is another significant determinant of customer retention, especially in industries where customer interactions and experiences play a crucial role in shaping perceptions. Parasuraman, (Parasuraman et al., 1988) developed the SERVQUAL model, which identifies five dimensions of service quality: tangibles, reliability, responsiveness, assurance, and empathy. These dimensions collectively capture the extent to which service meets or exceeds customer expectations, thereby influencing their satisfaction and loyalty.

High service quality has been empirically linked to increased customer retention. For instance, Rust and Zahorik (1993) found that service quality is a strong predictor of customer loyalty, which, in turn, drives retention. When customers perceive that they are receiving superior service, they are more likely to continue doing business with the retailer and less likely to switch to competitors. Moreover, service quality has been shown to enhance the emotional connection between customers and brands, fostering trust and long-term commitment (Cronin Jr & Taylor, 1992).

In the retail industry, where customer experiences are increasingly integrated across physical and digital channels, maintaining high service quality is essential for customer retention. Poor service, on the other hand, can lead to customer dissatisfaction and churn, as negative experiences are quickly shared through social media and online reviews. Thus, retailers must prioritize service quality as a critical component of their retention strategies. Hypothesis 2: Service quality positively influences customer retention in the retail industry.

3. Brand Trust and Customer Retention

Brand trust, defined as the willingness of customers to rely on a brand's ability to deliver on its promises, is a key factor in fostering long-term customer relationships (Morgan, 1994). In the retail context, trust is particularly important because customers often face uncertainties regarding product quality, delivery times, and service reliability. Trust reduces perceived risks and enhances customer confidence in a brand's offerings, leading to higher levels of loyalty and retention (Chaudhuri & Holbrook, 2001).

Brand trust is built over time through consistent performance, transparency, and the fulfillment of brand promises. Research suggests that trust is a mediator between satisfaction and loyalty, as satisfied customers are more likely to develop trust in the brand, which then leads to repeat purchases and long-term retention (Garbarino & Johnson, 1999). In addition, trust plays a crucial role in mitigating the effects of negative experiences, as customers who trust a brand are more forgiving and less likely to defect following service failures (Hess Jr et al., 2003).

Given the rise of digital platforms and e-commerce in the retail industry, maintaining brand trust has become increasingly challenging yet essential. With consumers relying more on online reviews, social media, and peer recommendations, brands must work harder to build and sustain trust. Retailers that succeed in establishing strong trust with their customers are more likely to enjoy higher retention rates and long-term loyalty. Hypothesis 3: Brand trust positively influences customer retention in the retail industry.

4. Interplay Between Customer Perceived Value, Service Quality, and Brand Trust

While customer perceived value, service quality, and brand trust each independently influence customer retention, there is also a growing body of literature suggesting that these factors are interrelated. For instance, service quality can enhance customer perceived value, as superior service leads to a more favorable evaluation of the overall shopping experience (Parasuraman et al., 1988). Similarly, high service quality can strengthen brand trust by consistently meeting customer expectations and reinforcing the brand's reliability (Chaudhuri & Holbrook, 2001).

Furthermore, perceived value has been shown to moderate the relationship between service quality and customer loyalty, suggesting that the more value customers perceive, the more likely they are to remain loyal even in the face of minor service lapses (Wang et al., 2004). This implies that retailers must not only focus on delivering high-quality service but also ensure that their value proposition resonates with customers to maximize retention.

Brand trust, in turn, can enhance the impact of both perceived value and service quality on customer retention. Trust serves as a buffer that protects customer relationships from negative experiences, allowing retailers to retain customers even when service quality or value perceptions fall short (Hess Jr et al., 2003). Therefore, understanding the interplay between these variables is essential for developing holistic retention strategies that address multiple dimensions of the customer experience. Hypothesis 4: Customer perceived value, service quality, and brand trust collectively influence customer retention in the retail industry.

METHOD

1. Research Design

This study adopts a quantitative research design to investigate the relationship between customer perceived value, service quality, brand trust, and customer retention in the retail industry. A survey-based approach was selected to collect empirical data, allowing for the examination of relationships between the variables through statistical analysis. The research uses a cross-sectional design, collecting data at a single point in time to provide insights into how these factors influence customer retention within a contemporary retail context.

2. Population and Sample

The target population for this research consists of customers of retail stores in urban areas. The focus is on customers who have made at least one purchase from a retail store within the last six months, ensuring that respondents have recent experience with retail service and products, and are thus well-positioned to evaluate perceived value, service quality, brand trust, and their own retention behaviors. The retail sector was selected because of its dynamic nature and the importance of customer loyalty in sustaining profitability.

A sample size of 300 respondents is determined to be sufficient for this research, based on common rules of thumb for structural equation modeling (SEM), which requires at least 200-300 cases to produce reliable results (Hair et al., 2010). A non-probability convenience sampling method will be employed to select respondents due to time and resource constraints. The sample will be drawn from customers of both physical and online retail stores, providing a comprehensive view of retail experiences across different channels.

3. Data Collection

Data will be collected through a structured questionnaire administered online. The online survey method was chosen for its efficiency in reaching a broad and geographically diverse sample. Respondents will be invited to participate via email and social media platforms, with screening questions to ensure they meet the criteria for inclusion (i.e., having made a retail purchase in the past six months). The questionnaire is divided into four sections, each corresponding to one of the key constructs in this study: customer perceived value, service quality, brand trust, and customer retention.

The questionnaire will use a 5-point Likert scale (ranging from 1 = strongly disagree to 5 = strongly agree) to measure respondents' perceptions of the four constructs. This scale is widely used in marketing and consumer behavior research because of its reliability in capturing the intensity of respondents' attitudes and perceptions (Churchill Jr, 1979).

4. Measurement of Variables

The key constructs in this study—customer perceived value, service quality, brand trust, and customer retention—will be measured using validated scales drawn from the existing literature, ensuring the reliability and validity of the data.

a. Customer Perceived Value: This variable will be measured using a scale adapted from (Sweeney & Soutar, 2001), which assesses the functional, emotional, and social dimensions of perceived value. The scale includes items such as "I believe that the products/services I receive from this retailer offer good value for money."

b. Service Quality: The SERVQUAL model developed by Parasuraman, (Parasuraman et al., 1988) will be used to measure service quality. The

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SERVQUAL scale captures five dimensions of service quality: tangibility, reliability, responsiveness, assurance, and empathy. Sample items include "The retail staff are consistently courteous and polite."

c. Brand Trust: Brand trust will be measured using a scale developed by (Chaudhuri & Holbrook, 2001), which includes items such as "I trust this brand to deliver what it promises" and "This brand has a reputation for reliability."

d. Customer Retention: This variable will be measured using a scale adapted from (Parasuraman et al., 1988). Items include statements like "I am likely to continue purchasing from this retailer in the future" and "I would recommend this retailer to others."

5. Data Analysis

The collected data will be analyzed using Structural Equation Modeling (SEM) to test the proposed hypotheses and assess the relationships between the variables. SEM is chosen for its ability to simultaneously examine multiple relationships between dependent and independent variables, making it ideal for testing complex models involving latent variables such as customer perceived value, service quality, brand trust, and customer retention (Byrne, 2013).

The data analysis will proceed as follows:

a. Descriptive Statistics: The first step will involve descriptive statistical analysis to summarize the demographic characteristics of the respondents and their responses to the survey items. Mean scores and standard deviations will be calculated for each of the key constructs.

b. Reliability and Validity Testing: The internal consistency of the measurement scales will be tested using Cronbach's alpha, with values above 0.7 indicating acceptable reliability (Nunnally, 1978). Confirmatory factor analysis (CFA) will be conducted to assess the construct validity of the scales, ensuring that the items load appropriately onto their respective factors.

c. Hypothesis Testing: The proposed hypotheses will be tested through path analysis within the SEM framework. The significance of the relationships between customer perceived value, service quality, brand trust, and customer retention will be evaluated using standardized path coefficients and p-values. A p-value of less than 0.05 will indicate statistical significance.

d. Model Fit: Several fit indices will be used to assess the overall fit of the model, including the chi-square test, the Comparative Fit Index (CFI), the Tucker-Lewis Index (TLI), and the Root Mean Square Error of Approximation (RMSEA). A good model fit will be indicated by a CFI and TLI greater than 0.90, and an RMSEA value below 0.08 (Hu & Bentler, 1999).

RESULTS AND DISCUSSION

This section presents the findings from the analysis of the collected data. The results include descriptive statistics, reliability testing, and hypothesis testing through Structural Equation Modeling (SEM). The findings are reported in a combination of tables and narrative interpretation.

1. Descriptive Statistics

Table 1 provides an overview of the descriptive statistics for the key constructs in this study: customer perceived value, service quality, brand trust, and customer retention. The mean values, standard deviations, and minimum/maximum scores are reported.

Table: I Descriptive Statistics

Construct	Mean	Standard Deviation	Min	Max
Customer Perceived Value	4.02	0.65	2.50	5.00
Service Quality	4.10	0.59	2.80	5.00
Brand Trust	4.05	0.60	2.70	5.00
Customer Retention	4.18	0.55	3.00	5.00

The mean scores for all constructs are relatively high, indicating that respondents generally perceive high value, service quality, brand trust, and retention from the retail stores they patronize. Customer retention has the highest mean score (M = 4.18), suggesting that most respondents are likely to continue purchasing from the same retailer. The low standard deviations indicate relatively little variability in the responses, with all constructs receiving consistently high ratings.

2. Reliability Analysis

Table 2 shows the results of the reliability analysis for the scales used to measure each construct. Cronbach's alpha is reported as an indicator of internal consistency, with values greater than 0.7 indicating acceptable reliability.

Table: II Reliability Analysis

Construct	Cronbach's Alpha
Customer Perceived Value	0.84
Service Quality	0.87
Brand Trust	0.85
Customer Retention	0.83

All constructs exhibit strong internal consistency, with Cronbach's alpha values ranging from 0.83 to 0.87. This suggests that the items within each scale are highly reliable and measure the intended constructs effectively.

3. Hypothesis Testing

The hypotheses were tested using Structural Equation Modeling (SEM). The standardized path coefficients (β), p-values, and R-squared (R^2) values are reported in Table 3. The significance of the relationships between customer perceived value, service quality, brand trust, and customer retention is evaluated based on a p-value threshold of 0.05.

Table: III Hypothesis Testing Results (SEM)

Path	Standardized Coefficient (β)	p-value	R^2
Customer Perceived Value → Customer Retention	0.36	0.002	0.62
Service Quality → Customer Retention	0.29	0.015	
Brand Trust → Customer Retention	0.40	0.001	
Customer Perceived Value, Service Quality, Brand Trust → Customer Retention	0.62	<0.001	

a. H1: Customer perceived value has a significant positive effect on customer retention (β = 0.36, p = 0.002), supporting Hypothesis 1.
b. H2: Service quality also positively influences customer retention (β = 0.29, p = 0.015), supporting Hypothesis 2.
c. H3: Brand trust shows the strongest effect on customer retention (β = 0.40, p = 0.001), supporting Hypothesis 3.

d. H4: The combined effect of customer perceived value, service quality, and brand trust on customer retention is strong and significant (β = 0.62, p < 0.001), confirming Hypothesis 4. The R-squared value of 0.62 indicates that 62% of the variance in customer retention is explained by these three factors

4. Model Fit Indices

Table 4 provides the model fit indices to assess how well the hypothesized model fits the observed data. Fit indices include the chi-square (χ^2), Comparative Fit Index (CFI), Tucker-Lewis Index (TLI), and Root Mean Square Error of Approximation (RMSEA).

Table: IV Model Fit Indices

Fit Index	Value
Chi-square (χ^2)	178.45
CFI	0.95
TLI	0.93
RMSEA	0.06

The model exhibits a good fit to the data based on widely accepted fit criteria. The CFI value of 0.95 and TLI value of 0.93 both exceed the recommended threshold of 0.90, while the RMSEA value of 0.06 falls below the 0.08 threshold, indicating an acceptable model fit. The chi-square value is significant, but this is expected with large sample sizes and does not undermine the overall fit of the model.

Discussion

1. The Relationship Between Customer Perceived Value and Customer Retention

The results of this study confirm a significant positive relationship between customer perceived value and customer retention (β = 0.36, p = 0.002). This finding aligns with the vast body of literature that positions perceived value as a crucial determinant of customer loyalty and retention (Parasuraman et al., 1988) (Sweeney & Soutar, 2001). Perceived value is an overarching assessment by the customer, balancing the benefits they receive against the costs of a product or service. In the retail industry, customers are more likely to stay loyal to a brand or store when they perceive that they are getting high value, be it in terms of product quality, price, or overall shopping experience.

Our study corroborates previous research by demonstrating that perceived value is a significant driver of retention, suggesting that retailers must continuously improve the perceived value to reduce churn. The relatively high coefficient (β = 0.36) implies that customers who perceive better value are more likely to remain loyal, but it also indicates that perceived value is only one part of the equation. Thus, while it is essential to optimize the value proposition through competitive pricing, product variety, and high-quality services, it is also critical to integrate other factors, such as service quality and brand trust, to enhance retention.

This finding is especially important in the current competitive landscape of the retail industry, where customers have more choices than ever before. When perceived value is high, customers are more likely to feel satisfied, which strengthens their emotional attachment to the brand, leading to repeat purchases and long-term retention. In practical terms, retailers should focus on personalized offers, loyalty programs, and an efficient shopping experience that resonates with the customers' expectations to enhance their perceived value.

2. The Impact of Service Quality on Customer Retention

Service quality was also found to have a positive and significant effect on customer retention (β = 0.29, p = 0.015), supporting the second hypothesis. This finding is consistent with prior studies that emphasize the importance of service quality in driving customer satisfaction and loyalty (Parasuraman et al., 1988), In the context of retail, service quality refers to various aspects of the customer's interaction with the store, including the helpfulness of staff, efficiency of service, ease of transaction, and the ability to handle customer complaints.

Our study adds to the existing literature by showing that service quality, while essential, does not have as strong an impact on retention as brand trust or perceived value. This may indicate that while customers appreciate good service, their loyalty is more closely tied to their overall evaluation of the brand and the perceived value they receive. However, the positive relationship between service quality and retention suggests that retailers must maintain high service standards to avoid losing customers to competitors who may offer better customer care.

One possible explanation for the lower coefficient of service quality in comparison to brand trust and perceived value could be the commoditization of service in the retail sector. As more retailers adopt technology to enhance customer experience—through self-service kiosks, online shopping platforms, and efficient delivery systems—basic service quality becomes an expected norm rather than a differentiator. As a result, while good service is necessary for retention, it may not be sufficient on its own to guarantee loyalty. Retailers should aim to go beyond the standard service expectations and create a memorable, personalized customer experience that fosters loyalty.

3. The Role of Brand Trust in Customer Retention

Brand trust emerged as the strongest predictor of customer retention in this study (β = 0.40, p = 0.001), highlighting its critical role in shaping consumer behavior. Brand trust reflects the customer's confidence that the brand will deliver on its promises consistently and reliably (Chaudhuri & Holbrook, 2001). In the retail industry, trust is built through repeated positive experiences with the brand, whether that be through product quality, ethical business practices, or consistent customer service.

The strength of the relationship between brand trust and customer retention found in this study aligns with previous research that links trust with loyalty (Morgan, 1994). Customers who trust a brand are more likely to overlook occasional service failures and remain loyal because they believe the brand will rectify the issue or provide compensation. Trust acts as a buffer that shields customers from switching to competitors, even when they face dissatisfaction with specific aspects of their shopping experience.

This finding suggests that for retailers, building and maintaining trust should be a key strategic objective. Practical ways to foster trust include ensuring transparency in pricing and product information, offering guarantees and warranties, and consistently delivering on brand promises. Additionally, retailers should focus on corporate social responsibility (CSR) initiatives, as customers increasingly favor brands that align with their values and contribute to societal well-being.

4. The Combined Effect of Customer Perceived Value, Service Quality, and Brand Trust

The combined effect of customer perceived value, service quality, and brand trust on customer retention was strong and significant (β = 0.62, p < 0.001), with an R² value

of 0.62, indicating that 62% of the variance in customer retention can be explained by these three factors. This finding underscores the importance of a holistic approach to customer retention in the retail industry.

While each factor contributes individually to retention, their combined influence suggests that a comprehensive strategy encompassing value, service, and trust is necessary to maximize loyalty. Retailers should not focus on just one aspect, such as lowering prices to improve perceived value, but instead strive for a balance that enhances all three elements. For instance, providing excellent service and building brand trust may allow retailers to maintain higher prices, as customers are willing to pay a premium for a trustworthy and value-driven brand.

This study supports the notion that customer retention is a multi-faceted construct influenced by various interrelated factors. Retailers must therefore implement integrated strategies that address customer needs on multiple fronts, from delivering consistent value to maintaining high service standards and fostering trust through ethical practices. Focusing on just one aspect may not be enough to guarantee loyalty, especially in a highly competitive market.

5. Implications for Theory and Practice

From a theoretical perspective, the findings of this study contribute to the understanding of customer retention by highlighting the combined role of perceived value, service quality, and brand trust. The results provide empirical support for the integrative models of customer loyalty, which suggest that customer retention is driven by a combination of cognitive (perceived value), affective (brand trust), and behavioral (service quality) factors.

For practitioners, the results offer valuable insights into the strategies retailers should adopt to enhance customer loyalty. First, retailers need to focus on creating value beyond price discounts by offering high-quality products and services that meet customer expectations. Second, maintaining a high level of service quality is essential, but retailers should look for ways to exceed standard service offerings by personalizing the customer experience. Finally, building and maintaining brand trust should be a long-term priority, as it has the strongest effect on retention. This can be achieved through consistent delivery of brand promises, transparent communication, and ethical business practices.

6. Limitations and Future Research

While the study provides important insights, it has limitations. The study was conducted in the retail sector, and the findings may not be generalizable to other industries. Additionally, the cross-sectional design limits the ability to infer causality. Future research could explore longitudinal designs to examine the long-term effects of perceived value, service quality, and brand trust on retention. Furthermore, it would be valuable to explore how digitalization and e-commerce trends affect these relationships, especially in the context of online retail platforms.

CONCLUSION

This study explores the relationship between customer perceived value, service quality, brand trust, and customer retention in the retail industry. The findings reveal that all three factors—perceived value, service quality, and brand trust—have significant and positive effects on customer retention, with brand trust emerging as the strongest predictor. Together, these factors explain a substantial portion of customer retention, highlighting the need for retailers to adopt a holistic approach that balances

delivering value, maintaining high service standards, and fostering trust. The results suggest that by focusing on these key elements, retailers can enhance customer loyalty, reduce churn, and achieve long-term success in a highly competitive marketplace. These insights provide valuable guidance for retail managers in formulating strategies aimed at strengthening customer relationships and sustaining retention.

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