

## The Effect of Price and Service Quality on Customer Loyalty: The Mediating Role of Traveloka Customer Satisfaction

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### ABSTRACT

This conceptual paper explores the relationship between price, service quality, customer satisfaction, and customer loyalty in the context of Traveloka, a leading online travel agency. Using existing literature, this study proposes a theoretical framework that positions customer satisfaction as a mediator between price and service quality on customer loyalty. Employing a quantitative approach, this research focuses on Traveloka's customer base to analyze how pricing strategies and service quality impact customer retention. The findings indicate that both price and service quality have a positive effect on customer loyalty. Furthermore, customer satisfaction plays a crucial mediating role in strengthening this relationship. The study suggests that improving service quality and offering competitive pricing are essential strategies for increasing customer loyalty in online travel services. These insights contribute to the understanding of customer retention strategies in the highly competitive online travel industry.

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## INTRODUCTION

The global travel industry has undergone significant transformations over the past decade, driven by technological advancements and increasing consumer reliance on digital platforms. According to the World Travel & Tourism Council (2022), the travel and tourism sector contributed approximately 10% to the global GDP, highlighting its importance in the world economy. With the rise of digitalization, the online travel market has expanded rapidly, with consumers shifting from traditional travel agencies to online booking platforms. This shift is primarily fueled by convenience, accessibility, and the ability to compare multiple options in real-time. In Southeast Asia, the online travel industry has shown rapid growth, with platforms like Agoda, Booking.com, and Traveloka dominating the market. Statista (2023) reported that the online travel market in Indonesia alone was valued at approximately USD 8 billion, with an expected annual growth rate of 11.5%. This indicates a strong demand for digital travel services, emphasizing the need for companies to enhance customer satisfaction and loyalty to maintain their competitive edge.

Indonesia, as one of the largest digital economies in Southeast Asia, has witnessed a significant shift in consumer behavior toward online travel services. Traveloka, established in 2012, has grown to become a leading online travel agency (OTA) in Indonesia, offering a wide range of services, including flight and hotel bookings, car rentals, and attraction tickets. The platform differentiates itself through localized services, diverse payment options, and an integrated mobile experience.

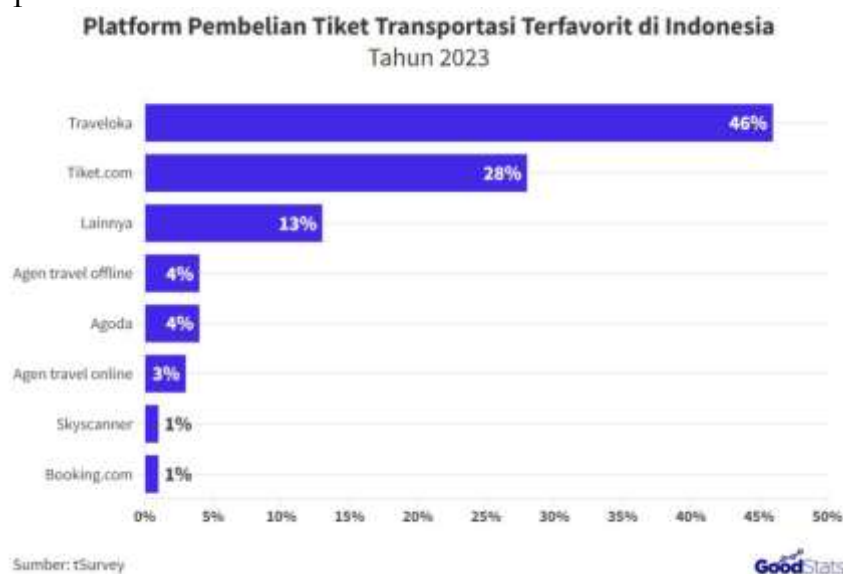


Figure 1. 1 Respondent's Most Preferred Apps for Booking Holiday Accommodation (2022)

Despite Traveloka's dominant position in the market, the increasing number of competitors, such as Tiket.com and international platforms like Expedia, presents challenges in retaining customers. Customer loyalty is a crucial factor in ensuring long-term business sustainability. Studies have shown that loyal customers contribute to higher profitability as they are more likely to engage in repeat transactions and recommend the service to others (Kumar &

Reinartz, 2016). Customer loyalty in the online travel industry is influenced by various factors, with price and service quality being two of the most critical determinants. Price plays a crucial role in consumer decision-making, as customers often compare different platforms before making a purchase (Mithas, Krishnan, & Fornell, 2010).

Competitive pricing can enhance perceived value and encourage repeat usage of a service. However, while price is important, it is not the sole factor determining loyalty. Service quality significantly impacts customer satisfaction, which in turn affects loyalty. In online travel services, key service quality dimensions include ease of use, reliability, security, customer support, and personalization (Hapsari, Clemes, & Dean, 2017). Customers expect seamless booking processes, accurate information, and efficient customer support. A study by Ali, Kim, and Ryu (2016) found that high service quality leads to greater customer satisfaction and long-term loyalty in the hospitality and travel industry.

Customer satisfaction serves as a bridge between price, service quality, and customer loyalty. A positive customer experience strengthens trust and emotional connection with a brand, leading to increased retention rates (Ryu, Lee, & Kim, 2012). Dissatisfied customers, on the other hand, are more likely to switch to competitors, emphasizing the importance of maintaining high satisfaction levels. Past research has demonstrated the mediating role of customer satisfaction in the relationship between price, service quality, and loyalty (Auka, Bosire, & Matern, 2013). However, limited studies have examined these relationships specifically within the context of online travel agencies in Indonesia. Given Traveloka's large customer base and the increasing competition in the industry, understanding these dynamics is crucial for developing strategies to improve customer retention. However, while many studies have addressed these variables, most have focused on general service industries or markets outside Indonesia. There is a lack of in-depth empirical research examining how price and service quality affect loyalty through customer satisfaction, specifically within the Indonesian OTA market context like Traveloka.

## **LITERATURE REVIEW**

### ***Consumer Behavior Theory***

Consumer behavior theory explains how individuals choose and evaluate products and services based on their needs and preferences (Solomon, 2018). In the travel industry, customers assess price and service quality before making decisions, and their satisfaction significantly affects loyalty (Auka, Bosire, & Matern, 2013).

### ***Perceived Value Theory***

Perceived value refers to the trade-off between perceived benefits and costs (Zeithaml et al., 2010). In online travel services, customers consider both price and service quality to determine whether they receive good value for money (Ryu et al., 2012).

### ***The Relationship Between Price and Customer Satisfaction***

Price perception significantly influences customer satisfaction (Jiang & Rosenbloom, 2019). Competitive pricing strategies can attract and retain customers, especially in price-sensitive markets. Customers often compare prices across different platforms before making a purchase decision, making price transparency a crucial factor in influencing satisfaction (Ladhari, 2020). Additionally, perceived price fairness plays a significant role in shaping customer satisfaction and trust towards online travel agencies.

### ***The Relationship Between Service Quality and Customer Satisfaction***

Service quality dimensions, such as reliability, responsiveness, assurance, empathy, and tangibility, directly affect customer satisfaction (Ali et al., 2021). Online travel agencies must ensure that their platform is user friendly, provides accurate information, and offers efficient customer support. High service quality increases customer trust and reduces uncertainty, leading to higher satisfaction levels.

### ***The Mediating Role of Customer Satisfaction***

Customer satisfaction serves as an intermediary variable that connects price and service quality to customer loyalty. Satisfied customers are more likely to return to the same platform and recommend it to others (Rather & Hollebeek, 2021). Satisfaction also mitigates the impact of minor service failures, as loyal customers tend to be more forgiving if their previous experiences have been positive.

### ***The Relationship Between Customer Satisfaction and Customer Loyalty***

Customer satisfaction is a fundamental determinant of customer loyalty. Studies have shown that satisfied customers exhibit higher repurchase intentions and a greater likelihood of recommending the brand to others (Hussain et al., 2020). According to Kim and Kim (2021), a strong positive relationship exists between satisfaction and loyalty in online services, particularly in industries where customer trust and experience play a vital role. Furthermore, customer satisfaction helps mitigate the impact of price sensitivity, as customers who have had positive past experiences are less likely to switch to competitors solely based on price (Rahi et al., 2022).

### ***The Relationship Between Price and Customer Loyalty***

Price plays a significant role in determining customer loyalty, particularly in competitive industries such as online travel agencies. A study by Foroudi et al. (2020) found that price perception influences not only initial customer acquisition but also long-term customer retention. Customers who perceive that they receive fair pricing and good value for money are more likely to exhibit loyalty behaviors, such as repeat purchases and positive word-of-mouth recommendations (Ryu & Lee, 2021). Additionally, price promotions, discounts, and loyalty programs can enhance customer retention, making pricing strategies an essential factor for sustaining competitive advantage in the online travel sector (Dwivedi et al., 2021).

### ***The Relationship Between Service Quality and Customer Loyalty***

Service quality plays a crucial role in fostering customer loyalty, particularly in service-based industries such as online travel agencies. High service quality leads to increased trust, satisfaction, and ultimately, long-term customer retention (Hapsari et al., 2017). According to Ladhari (2020), customers who perceive high service quality are more likely to develop a sense of commitment to a brand, making them less likely to switch to competitors. Moreover, service quality directly influences emotional attachment, reinforcing customers' willingness to engage in repeat transactions and recommend the service to others (Rather & Hollebeek, 2021). Therefore, online travel agencies should continuously enhance service quality to maintain customer loyalty and remain competitive in the industry.

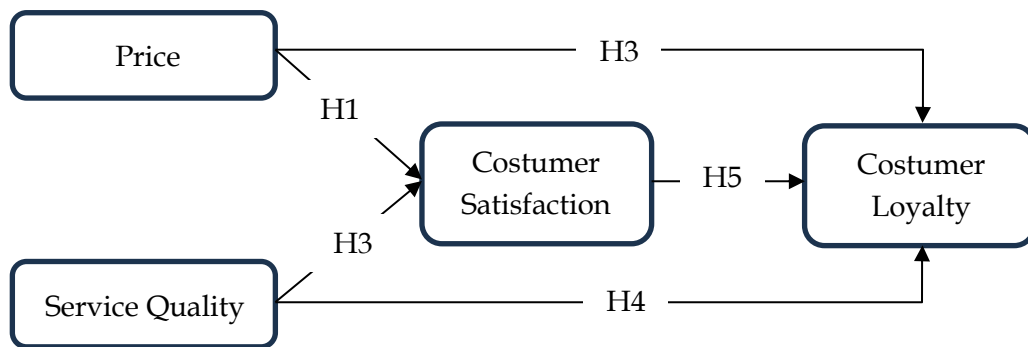


Figure 1. Conceptual Framework  
Source: Author Processed Data (2025)

### **METHODOLOGY**

This study employed a quantitative approach through an online survey distributed to Traveloka users. A Likert-scale questionnaire (1 = strongly disagree to 5 = strongly agree) was used to measure perceptions of price, service quality, customer satisfaction, and loyalty. The sampling method applied was purposive sampling, targeting respondents who had used Traveloka at least twice in the past six months. This technique was chosen to ensure that the data collected came from users with sufficient experience to provide relevant and accurate insights. By focusing on experienced users, the study aimed to enhance the validity of findings related to customer behavior. The collected data were then analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) to examine the proposed relationships among variables.

### **RESEARCH RESULT**

The findings of this study demonstrate that both price and service quality exert a significant and positive influence on customer loyalty in the context of Traveloka. However, service quality emerged as the more dominant factor influencing loyalty when compared to price. This suggests that while customers do consider pricing when making purchasing decisions, the quality of service they receive plays a more critical role in determining whether they will remain loyal to the platform.

Moreover, the analysis confirmed that customer satisfaction acts as a mediating variable in the relationship between service quality and customer loyalty. In other words, high-quality service enhances customer satisfaction, which in turn strengthens customer loyalty. This result aligns with prior literature that emphasizes the importance of customer satisfaction in fostering long-term relationships with customers. Customers who are satisfied with the service experience are more inclined to return and continue using the service, ultimately becoming loyal patrons.

These results have important implications for Traveloka's strategy. To cultivate customer loyalty, the company must prioritize continuous improvement in service quality—such as responsiveness, reliability, and personalized customer support—while also ensuring that its pricing remains competitive. By doing so, Traveloka can increase customer satisfaction levels, thereby indirectly boosting customer loyalty.

## **DISCUSSION**

The findings of this research provide significant insights into the determinants of customer loyalty, particularly within the digital travel service industry. The strong positive influence of service quality on customer loyalty confirms the conclusions of previous studies (e.g., Parasuraman et al., 1988; Zeithaml et al., 1996), which assert that the overall perception of service quality contributes substantially to the formation of a loyal customer base. This supports the idea that in service-based platforms like Traveloka, the quality of customer interactions, such as responsiveness, reliability, assurance, and empathy, plays a vital role in shaping customer behavior.

Although price also significantly influences loyalty, its impact is relatively weaker when compared to service quality. This result corroborates earlier research suggesting that while competitive pricing can attract customers initially, it is not sufficient to retain them in the long run (Kotler & Keller, 2016). In the context of online travel agencies, where pricing can often be matched across competitors, service differentiation becomes crucial. Customers are more likely to develop an emotional attachment to a brand when their experiences are positive, seamless, and trustworthy.

Furthermore, the mediating role of customer satisfaction aligns with the expectation-confirmation theory (Oliver, 1980), which posits that satisfaction arises when customer expectations are met or exceeded. This satisfaction then leads to repeated usage and loyalty. Our findings strengthen this theoretical framework by empirically demonstrating that service quality increases satisfaction, which in turn fosters loyalty. In line with the studies by Cronin & Taylor (1992) and Caruana (2002), this research underscores that improving satisfaction through enhanced service experiences is an effective pathway to secure long-term loyalty.

For Traveloka, these findings imply that efforts should not solely focus on pricing strategies but also on designing and maintaining service experiences that meet or exceed customer expectations. For example, simplifying the booking process, offering fast and effective customer service, and providing reliable

information can increase satisfaction levels. By leveraging these service aspects, Traveloka can position itself not just as a price-competitive platform, but also as a customer-centric travel solution provider.

In conclusion, the study contributes to a deeper understanding of customer behavior in the digital travel marketplace by confirming the direct and indirect effects of price and service quality on loyalty. The strategic implication for companies like Traveloka is clear: invest in service quality improvements while maintaining attractive pricing to build strong customer relationships and encourage long-term loyalty.

## **CONCLUSIONS AND RECOMMENDATIONS**

This study concludes that both price and service quality significantly influence customer loyalty, with service quality demonstrating a more substantial effect. Furthermore, customer satisfaction was found to mediate the relationship between service quality and customer loyalty. These findings reinforce the importance of service excellence in fostering loyalty among Traveloka users.

From a managerial perspective, Traveloka is advised to allocate more resources toward enhancing service quality—particularly in aspects such as responsiveness, assurance, and reliability—as these elements have a direct impact on customer satisfaction and, ultimately, loyalty. Moreover, maintaining competitive pricing is still essential, but should not be the sole focus. A combined strategy of service enhancement and competitive pricing is likely to yield better customer retention outcomes.

## **ADVANCED RESEARCH**

This study has several limitations that should be addressed in future research. First, the research focused solely on Traveloka, which may limit the generalizability of the findings to other online travel platforms or digital service industries. Second, the study employed a cross-sectional design, capturing data at only one point in time, which restricts the ability to observe changes in customer behavior over time. Third, the use of self-reported data through questionnaires may introduce response bias.

Future studies are encouraged to expand the scope by including multiple online travel agencies or conducting comparative studies between local and international platforms. Employing a longitudinal design would also be beneficial in examining how customer satisfaction and loyalty evolve over time. Additionally, incorporating other variables such as brand trust, perceived value, or digital customer experience could provide a more comprehensive understanding of the factors influencing customer loyalty in digital service environments.

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