



Diagnosing Service Quality Gaps to Improve Client Retention in a Marketing Agency using Integrated Decision Analysis

Yatsabita Nabila Andriyana^{1*}, Pri Hermawan²

¹⁻² Program Master of Business Administration, Institut Teknologi Bandung, Indonesia

*Corresponding Author: yatsabitanabila@gmail.com

Abstract. *This study investigates how service quality gaps accumulate across the client relationship journey in a small digital marketing agency and identifies prioritized interventions to improve client retention. The agency under study experienced a sharp retention decline in late 2025, losing fourteen clients in two months. Using a qualitative-dominant design, nine semi-structured interviews were conducted with six internal stakeholders: the CEO, former General Manager, Head of Project Manager, Project Manager, Marketing team, and HR Consultant, and three client informants representing different stages of the agency-client relationship. Interview data were analyzed through a hybrid thematic analysis process (Naeem et al., 2023; Braun and Clarke, 2006), producing five themes and twenty-four codes. Themes were mapped onto the Gaps Model of Service Quality (Parasuraman, Zeithaml and Berry, 1985; Wirtz and Lovelock, 2022) to identify structurally linked service quality gaps. Value-Focused Thinking (Keeney, 1992) translated gap findings into five fundamental objectives and nine solution alternatives, which were then prioritized using Analytical Hierarchy Process (Saaty, 1980). Criteria weights were derived through the Rank Reciprocal Method (Stillwell et al., 1981) and scores aggregated using the geometric mean (Aczel and Saaty, 1983). Results were cross-validated using SuperDecisions. The PM Performance Evaluation System emerged as the top priority (Normals = 0.122), followed by PM Capability Development Program (0.120) and Value Communication Framework (0.118). The study also identifies four distinct client churn typologies, including an informed voluntary pause pattern where a client exits despite positive performance metrics because one specific strategic goal remained unmet, which is not explicitly documented in prior agency-client relationship literature.*

Keywords: AHP; Client Retention; Digital Marketing Agency; Service Quality Gaps; Thematic Analysis.

1. INTRODUCTION

The relationship between service quality and client retention has long been established in service marketing literature. In professional service settings, retention is not simply determined by the quality of technical outputs produced by the service provider, but also by the client's overall perception of value throughout the entire service journey (Zeithaml, 1988; Wirtz & Lovelock, 2022). Clients evaluate service experiences through multiple dimensions, including responsiveness, communication effectiveness, consistency of delivery, and the extent to which the service provided contributes to achieving their strategic objectives. Therefore, a service provider may deliver satisfactory outputs from an operational perspective, yet still face retention challenges when clients perceive that the delivered value does not fully align with their expectations or intended outcomes.

This challenge is particularly significant in the digital marketing agency sector, where service outcomes are often influenced by intangible factors such as interpersonal capability, relationship management, communication quality, and the ability to translate business strategies into measurable digital results. Unlike standardized services, digital marketing services require continuous collaboration between agencies and clients, where mutual understanding of goals, expectations, and value creation becomes essential. As a result, gaps in

communication, strategic alignment, or service execution may accumulate over time and influence client decisions regarding relationship continuity. In this context, maintaining client retention requires not only consistent service performance but also the ability to continuously demonstrate value throughout the client-agency relationship.

Small and medium-sized digital marketing agencies face distinctive challenges in maintaining client retention due to their organizational characteristics and operational limitations. Unlike larger agencies that generally possess more formalized structures, standardized procedures, and dedicated resources, client experiences within smaller agencies are often strongly influenced by the capabilities and involvement of individual team members, particularly key personnel involved in daily service delivery. Founder involvement, informal communication patterns, and flexible coordination mechanisms may provide advantages in responsiveness and relationship closeness, but they can also create dependency risks when operational knowledge and decision-making remain concentrated in specific individuals.

When these informal systems are disrupted by factors such as employee turnover, organizational transitions, increasing workload pressure, or changes in client demands, service consistency can decline more rapidly compared to larger and more systematized organizations. The absence of structured evaluation mechanisms, clear delegation processes, and standardized service management practices may make it difficult for smaller agencies to detect early signs of client dissatisfaction and address emerging service gaps. Consequently, the ability of small and medium-sized digital marketing agencies to retain clients depends not only on their creative and technical capabilities but also on their capacity to develop sustainable internal systems that maintain service quality as the organization grows.

The agency examined in this study, referred to as Sukses Maju Marketing Partner (SMMP) to preserve anonymity, experienced a significant decline in client retention between the third quarter (Q3) and fourth quarter (Q4) of 2025. Internal records indicate that client departures averaged 3.7 times higher than the management's stated acceptable threshold of one termination per month throughout 2025. This situation reached a critical point in December 2025 and January 2026, when fourteen clients ended their partnerships within a two-month period, becoming the primary trigger for this research. Based on this phenomenon, the study is directed toward answering several key research questions, including what factors influence client retention decisions across different stages of the agency-client relationship, how service quality gaps accumulate throughout the agency-client service journey, and which strategic interventions should be prioritized through integrated decision analysis to strengthen value delivery and support long-term client retention.

To answer these questions, this study integrates four analytical frameworks sequentially: Perceived Value (Zeithaml, 1988) to understand the client value formation process; the Gaps Model of Service Quality (Parasuraman, Zeithaml and Berry, 1985; Wirtz and Lovelock, 2022) to identify structural service failure points; Value-Focused Thinking or VFT (Keeney, 1992) to translate gap findings into actionable objectives; and Analytical Hierarchy Process or AHP (Saaty, 1980) to prioritize solution alternatives through multi-criteria decision analysis.

This study makes two contributions to the existing literature. First, it identifies four empirically grounded client churn typologies in the digital marketing agency context, including one, the informed voluntary pause, not previously documented. Second, it demonstrates the applicability of integrating four service quality and decision frameworks into a single analytical chain for diagnosing and prioritizing service improvements in an SME-focused digital marketing context.

2. LITERATURE REVIEW

Perceived Value and Client Retention

Zeithaml (1988) defines perceived value as the consumer's overall evaluation of the benefits received from a product or service compared with the costs or sacrifices involved. However, within professional service contexts, perceived value is not limited to a simple comparison between price and service quality, but also includes relational dimensions such as trust, communication effectiveness, responsiveness, and the extent to which the service provider understands and supports the client's strategic objectives. In agency-client relationships, value is continuously shaped through interactions and experiences throughout the service journey, making both the delivery process and the quality of collaboration important factors in determining client satisfaction and retention. Supporting this perspective, Levin, Thaichon, and Quach (2016) found that creative competence and project management quality are among the most influential factors affecting agency-client relationship longevity, with perceived value acting as a mediating factor that strengthens the connection between service performance and relationship continuity. This indicates that agencies must not only deliver technically strong outputs but also ensure that clients can clearly recognize the strategic value generated from the collaboration.

A critical insight from Zeithaml's (1988) framework is that perceived value can be insufficient even when technical performance metrics are strong. Clients may assess adequate or high KPI delivery as insufficient if their underlying strategic objective, the reason they

engaged the service in the first place, remains unmet. This distinction between functional value (what is delivered) and strategic value (what is ultimately achieved) is central to understanding the churn patterns observed in this study.

The Gaps Model of Service Quality

The Gaps Model of Service Quality was originally developed by Parasuraman, Zeithaml, and Berry (1985) and later adapted into a six-gap framework by Wirtz and Lovelock (2022). The model identifies multiple structural gaps between what managers intend, what is specified, what is delivered, and what clients ultimately perceive. Gap 1 (Knowledge Gap) arises when management misunderstands client expectations. Gap 2 (Policy Gap) reflects failures to translate understanding into standards. Gap 3 (Delivery Gap) occurs when execution falls short of specifications. Gap 4 (Communication Gap) describes misalignment between what is promised and what is delivered. Gap 5 (Perception Gap) reflects the difference between delivered service and client perception. Gap 6 (Service Quality Gap) represents the cumulative client experience.

The model's central premise, which suggests that service quality failures are not merely isolated incidents but rather the result of structural gaps that accumulate throughout the service system, makes it highly relevant for analyzing complex and multi-stakeholder service environments such as digital marketing agencies. In this context, service quality issues often emerge from interconnected factors, including differences in expectations, communication breakdowns, inconsistent service delivery, and limitations in internal processes. These gaps may develop gradually across different stages of the client relationship, making them difficult to identify when viewed only from individual service failures. Therefore, applying the model allows organizations to examine the underlying causes of service problems by understanding how internal processes, employee capabilities, and client interactions collectively influence the overall service experience. This perspective is particularly valuable for digital marketing agencies, where service outcomes are shaped not only by technical performance but also by continuous collaboration and alignment between multiple stakeholders.

Value-Focused Thinking

Keeney (1992) introduces Value-Focused Thinking (VFT) as an alternative approach to the conventional alternative-focused decision-making process, which typically begins by identifying available alternatives and then assessing them based on predefined criteria. In contrast, VFT emphasizes that effective decision-making should begin with a clear understanding of the decision maker's values and priorities, which are translated into fundamental objectives. From these objectives, potential alternatives are then developed to

determine which actions can best address the underlying goals. This approach generates a structured means–ends objective network that links specific actions or solution alternatives (means objectives) with the broader values and desired outcomes (fundamental objectives). Within the context of service quality improvement, VFT provides a systematic approach for translating identified service gaps into meaningful decision criteria, ensuring that proposed interventions remain connected to the actual organizational challenges and strategic objectives rather than focusing only on immediate solutions.

Analytical Hierarchy Process

The Analytical Hierarchy Process (AHP) developed by Saaty (1980) is a multi-criteria decision-making method designed to simplify complex decision problems by organizing them into a hierarchical structure consisting of goals, evaluation criteria, and alternative choices. The method determines the relative importance of each criterion through pairwise comparisons, which are then processed using eigenvector normalization to generate priority weights. However, when the level of respondent inconsistency exceeds the acceptable threshold (Consistency Ratio > 0.10), the Rank Reciprocal Method proposed by Stillwell, Seaver, and Edwards (1981) can be applied as an alternative approach to derive comparable priority weights while maintaining a consistent ranking structure (Barron & Barrett, 1996). In group decision-making settings, where multiple judgments need to be combined, Aczel and Saaty (1983) demonstrate that the geometric mean is the appropriate aggregation method because it preserves the ratio-scale characteristics that form the foundation of AHP. Thus, the integration of AHP with appropriate weighting and aggregation techniques provides a systematic framework for prioritizing strategic alternatives based on multiple perspectives.

Agency-Client Relationship Literature

Research on agency-client relationship longevity has identified creative competence, project management quality, and communication consistency as the primary drivers of relationship stability (Levin et al., 2016; Fuentes et al., 2019). Schmitt, Gouthier, and Nass (2025) demonstrate that key account manager behavior, specifically the degree to which managers serve as proactive service integrators rather than reactive coordinators, significantly affects client retention outcomes. Barbosa and Carvalho (2025) identify knowledge transfer quality during project onboarding as a critical early predictor of service delivery consistency. Sutherland, Campbell, and Sheridan (2025) extend this to client training, showing that proactive capability-building with SME clients improves relationship satisfaction and reduces expectation gaps over time.

A gap in this literature is the absence of a diagnostic framework that connects the root causes of service quality failure at the agency level, organizational structure, PM capability, communication patterns, to client-side retention decisions through a structured causal chain. This study addresses that gap.

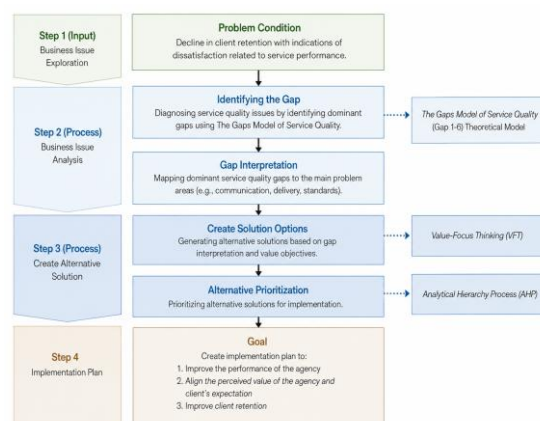


Figure 1. Framework for Service Quality Gap Analysis and Solution Development

3. METHOD

This study employed a qualitative-dominant mixed-method design to explore the factors influencing client retention and service quality gaps within the agency-client relationship. Primary data were collected through nine semi-structured interviews using purposive sampling, involving internal stakeholders and clients representing different stages of the relationship journey, from strategic management perspectives to operational execution and client experiences. Secondary data, including client satisfaction surveys and operational exit records, were incorporated to provide additional context and support the interpretation of qualitative findings. The quantitative component was introduced through the Analytical Hierarchy Process (AHP) to prioritize strategic interventions based on the identified service challenges (Creswell & Plano Clark, 2018).

The interview data were analyzed using thematic analysis based on the six-step approach proposed by Naeem et al. (2023), involving familiarization, generating initial codes, theme development, review, defining and naming themes, and theoretical integration. A hybrid inductive-deductive approach was applied, where themes were initially developed from the interview data and subsequently examined through the Gaps Model of Service Quality framework to identify structural service quality issues (Wirtz & Lovelock, 2022). To ensure research credibility, the study applied stakeholder triangulation, systematic documentation of

the analysis process, and transparent interpretation of differing perspectives among participants (Lincoln & Guba, 1985).

The resulting themes were further processed using Value-Focused Thinking (VFT) to translate identified problems into fundamental objectives and potential solution alternatives. Nine alternatives were developed and evaluated using AHP, with criteria weights determined through the Rank Reciprocal Method and aggregated using the geometric mean approach (Stillwell et al., 1981; Aczel & Saaty, 1983). The final prioritization process was conducted using SuperDecisions v2.10 to determine the most relevant strategic interventions for improving service delivery and strengthening long-term client retention.

4. RESULT AND DISCUSSION

This study extends the service quality literature in several important directions. First, by applying the Gaps Model of Service Quality within the context of a small digital marketing agency, where service quality research remains relatively limited compared to consumer-oriented service industries, this study demonstrates that the model maintains its diagnostic relevance even in organizations with less formalized structures. In such environments, where service standards, evaluation mechanisms, and operational processes are still developing, service quality gaps may emerge not only from failures in service delivery but also from organizational limitations, communication patterns, and unclear expectations between service providers and clients. Therefore, the findings highlight that the Gaps Model can be used as a practical framework for identifying structural service issues beyond traditional service settings, particularly in dynamic professional service organizations.

Second, the four churn typologies proposed in this study provide a more detailed understanding of client departure patterns, which are often simplified in existing literature as a binary outcome between retention and churn. The distinction between Type 3 (Hidden-Tension Retention) and Type 4 (Informed Voluntary Pause) offers particular practical significance because both involve clients who do not necessarily express direct complaints, yet require different retention strategies. Type 3 reflects a situation where clients remain in the relationship while gradually reducing engagement or bypassing existing service channels due to unresolved dissatisfaction. Therefore, this condition requires proactive relationship management mechanisms to identify hidden concerns before they develop into an actual exit decision. Meanwhile, Type 4 highlights the importance of strategic alignment, where clients may leave despite satisfactory operational performance because their broader strategic objectives have not been fully achieved. Addressing this type of churn requires stronger goal-setting processes

during onboarding, ensuring that client objectives are clearly defined, continuously monitored, and translated into measurable outcomes throughout the service relationship.

Third, the integration of Value-Focused Thinking (VFT) and Analytical Hierarchy Process (AHP) within a service quality context contributes to addressing limitations in previous AHP-based studies, where evaluation criteria are often predetermined or adopted from existing frameworks without a systematic process of identifying organizational priorities. This study demonstrates that criteria development can be strengthened by first understanding the fundamental values and objectives underlying the service improvement problem. The VFT-to-AHP approach applied in this research ensures that the selected evaluation criteria are directly connected to the organization's strategic needs and service delivery challenges, rather than relying on generic dimensions that may not fully represent the specific context being analyzed. As a result, the decision-making process becomes more context-sensitive and provides a stronger basis for prioritizing interventions that are aligned with organizational goals and long-term client retention objectives.

The finding that internal accountability through M8 (PM Performance Evaluation System) should be established before implementing client-facing interventions such as M5 (Value Communication Framework) aligns with Gronroos (2015), who emphasizes that service encounters involving intensive communication, coordination, and interaction can significantly shape customer perceptions beyond the technical quality of the service output itself. In the context of digital marketing agencies, improving external communication practices alone may not be sufficient if internal service delivery processes remain inconsistent. Without a formal accountability mechanism for Project Managers, the implementation of improved client reporting systems may depend heavily on individual commitment and working styles, creating variations in service experience. Therefore, strengthening internal performance standards becomes a fundamental step to ensure that client-facing improvements are implemented consistently and are able to deliver the intended increase in perceived value.

The study's findings also contribute to the understanding of agency-client relationship management by highlighting how perceived value can become attached to individuals rather than to the organization as a whole. The observation from EC-1 (Type 3) that relationship value was primarily associated with the HPM as an individual, expressed through the statement “dari [HPM name], itu luar biasa”, indicates that client trust and satisfaction were formed through personal interactions rather than through a structured service system. This suggests that key-person dependency is not only an internal organizational risk but also represents a perceived value construct within the client relationship. When clients perceive value based mainly on a

specific individual's capability, responsiveness, or communication style, the relationship becomes more vulnerable to disruption when that person's role, availability, or involvement changes. As noted by Schmitt et al. (2025), relationships that rely heavily on individual contributors rather than institutionalized service processes have a higher structural risk of churn. Therefore, agencies need to transform individual-based value creation into system-based value delivery to ensure relationship continuity and reduce dependency on specific personnel.

5. CONCLUSION

This study examined how service quality gaps accumulate in a small digital marketing agency and identified prioritized strategic interventions to improve client retention. Through nine semi-structured interviews analyzed via hybrid thematic analysis, the research identified five themes mapped to five structurally linked service quality gaps. Value-Focused Thinking translated these gaps into five fundamental objectives and nine solution alternatives, which were prioritized using AHP with Rank Reciprocal criteria weighting and geometric mean aggregation.

The PM Performance Evaluation System (M8) emerged as the highest priority intervention, followed by PM Capability Development Program (M2) and Value Communication Framework (M5). These three Phase 1 solutions address Gaps 2, 3, and 5 respectively, forming a coherent cluster that targets accountability, capability, and client-visible output simultaneously.

The study contributes two novel elements to the agency-client relationship literature. First, it proposes four empirically grounded client churn typologies, with particular attention to the 'informed voluntary pause' pattern where clients exit despite satisfactory functional performance because their strategic goal remained unaddressed. Second, it demonstrates the integration of four analytical frameworks, Perceived Value, Gaps Model, VFT, and AHP, as a single diagnostic and prioritization chain applicable to SME service contexts.

Limitations of this study include its single-organization scope and qualitative-dominant design, which limits generalizability. All three AHP respondents exhibited Consistency Ratios above the 0.10 threshold, necessitating use of the Rank Reciprocal Method rather than standard eigenvector computation. Future research should validate the four churn typologies across larger samples of digital marketing agencies, examine whether the Phase 1 solutions (M8, M2, M5) produce measurable retention improvements as the model predicts, and extend the VFT-AHP integrated approach to other professional service SME contexts.

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