Chapter 1

1. INTRODUCTION

Every five years the American Marketing Association revisits the definition of Marketing in a sincere and disciplined effort to capture its progress and conceptual foundations. This in turn highlights the importance of understanding and re-understanding the discipline all the time from both an academic and practitioners’ perspective together with the ongoing research in the field. With a closer look at the last couple of definitions by AMA one can clearly identify the phrase “value for customers”. The question lies, what is so important about ‘value’? The Marketing Science Institute publishes a biennial periodical that lists down the most important research priorities for the proceeding two years. The very definition of perceived value was the top most research priority for the period 2006 to 2008. For the period 2010 to 2012 delivering value through enhanced media and channels continued to be on top of the list. Even in 2012 to 2014 list of research priorities, designing experiences that are remembered, interesting, repeated, and valued forms a crucial research theme.

WoodRuff (1997) highlights that often customer satisfaction data does not correlate with organizational performance as indicated by customers who say that they are satisfied with the product quality but buy elsewhere. On similar lines, Al Ries and Jack Trout (1986) mentions that when a customer is approached by an organization which promotes its products to be of the best quality, the customer inevitably asks one very simple question, “are you the market leader?” As a matter of fact, there is something beyond quality that makes the difference. Zeithaml (1988) opines customer perceived value to be a higher order abstraction to quality that guides consumer decision making process.
In a presentation to the ARF (The Advertising Research Foundation) of workshops (1998) William D. Neal referred to the articles, published in the Harvard Business Review, of Jones and Sasser (1995), “Why Satisfied Customers Defect” and Richheld (1996) “The Loyalty Effect” as he put forward the view that customer satisfaction was not nearly enough to insure customer loyalty. Maintaining a minimum acceptable degree of satisfaction only keeps the product or service in the consumers’ consideration set. The degree of satisfaction, once it has passed an acceptance threshold, does not predict which of a set of competing items will be chosen at the next purchase opportunity. Simply put, increasing levels of satisfaction beyond a certain acceptance level does not result in a proportionate increase in share of choice. Neal (1998) thus opined that what drives choice behavior of a customer is the perception of value derived from the product or service being offered. Therefore understanding a customer’s value equation is more likely to be accurate in predicting their behavior in choice situations as well as in determining the cues to keep them loyal to a particular brand.

1.1. SIGNIFICANCE OF THE ISSUE

It is a well accepted fact among both marketing practitioners and academicians that maintaining a portfolio of satisfied and faithful customers provides a company with economic and competitive advantage as well as an increased effectiveness of the strategic operations developed (Ravald and Grönroos, 1996; Yang and Peterson, 2004). Conventional managerial wisdom holds that a satisfied customer is supposed not to defect but to stay loyal to the company for a long period of time and to buy more often than others and subsequently advocate for the company. In this sense, loyal customers increase the volume of sales of the company (Gwinner et al., 1998),
reduce the communication costs of attracting new customers (Payne and Frow, 2005), create
brand equity (Bhattacharya and Sen, 2003) and are more resistant to the competitors’ products
and services (Barnes and Howlett, 1998). However, researchers indicate that behavioral
outcomes need not necessarily reflect true loyalty. In order to understand the loyal behavior of a
customer, evaluating the attitudinal aspects that precede behavior is necessary (Dick and Basu,
1994; Oliver, 1999). Companies thus need to consider the determinants of customer behavioral
and attitudinal loyalty and their relative importance in order to affect service delivery (Lewis and
Soureli, 2006).

On the factors that exert a fundamental influence on loyalty formation in a customer, the role of
perceived value (Nguyen and LeBlanc, 1998; Lewis and Soureli, 2006) and customer satisfaction
has been emphasized to a great deal in marketing literature. Customer perceived value is
considered as a strategic weapon in attracting and retaining customers (WoodRuff, 1997).
Delivering superior customer value has also become a matter of ongoing concern in building and
sustaining competitive advantage by driving customer satisfaction and customer loyalty
(Gallarza and Saura, 2006; Molina and Saura, 2008; Wang et al., 2004). However, in most of the
cases customer perceived value has been considered as an unidimensional construct (Fernandez
and Bonillo, 2007), which on the contrary is multidimensional in nature as suggested in
extensive reviews of the value literature (Sweeney and Soutar, 2001). Findings from related
studies are rather divergent, the key dimensions of customer value remain unclear, and there is
no agreement on the impact of the value dimensions on customer satisfaction, attitudinal and
behavioral aspects of loyalty.
Indeed there has been scale development attempts to capture the essence of multidimensional perceived value in case of products (Seth et al., 1991, Sweeney and Soutar, 2001), however the scales that were developed differed in their fundamental assumptions. The complexity of multidimensional value research increased as researchers tried to capture customer perceived value in services parlance (service value). This complexity is attributed to the inherent nature of services being intangible, inseparable, heterogeneous and perishable (Lovelock, 1983) resulting in lack of generalization of the scales across industries. Despite theoretical and empirical arguments and counter arguments the recent service value scales broadened the scope for further research.

With regard to fast food services, value and loyalty research is scarce. However some related studies do exist. Ali Kara, Erdener Kaynak and Orsay Kucukemiroglu (1997) identified the major food consumption trends in the USA and Canada and revealed that more people are eating meals outside their homes. Adams’ (2005) opined that fast food industry was responsible for obesity as articulated in litigation against fast food chains in US. Brown et al. (2000) emphasized the need for nutritional awareness and fast food preferences of young consumers during adolescent years. Davies and Smith (2004) analyzed the importance of nutritional values of fast food and the information printed/disclosed by the fast food providers in London. Kara et al. (1995) presented the consumers’ perceptions of and preferences for fast food restaurants in the US and Canada. Saavedra (1983) cited various menus being offered by fast food restaurants as the main reason, aside from excellent service and ambience that make one’s meal truly worthwhile. In context of emerging economies, Liu and Chen (2000) in their study tried to develop a product market structure of the fast food restaurants in the Philippines. In Indian
context, Goyal and Singh (2007) addressed the importance of various factors affecting the choice of fast food outlets by Indian young consumers. However, neither these studies objectively analysed multidimensional service value nor did they identify the impact of value on customer satisfaction and loyalty. The present study is an attempt to plug in this gap in providing some insights to fast food retail managers on customer choice behaviour depending on value perception.

1.2. OBJECTIVES OF THE THESIS

The purpose of the thesis is thus to develop an integrative framework for service value, customer satisfaction and customer loyalty by validating the multidimensional service value scale as proposed by Sánchez-Fernández et al., (2009) in an extension of Holbrook’s value paradigm and by examining the impact of the individual dimensions of service value on customer satisfaction, the attitudinal components of loyalty, behavioral loyalty and word of mouth communication. The proposed model is tested empirically in the fast food retail services context in India not only because the Indian fast food industry is expected to grow eight-fold to $5.6 billion by the year 2020 from $720 million in 2011, at a CAGR\(^1\) of 27 per cent, driven by the growing number of working professionals and increasing westernization but also due to the competitive nature of the industry dominated by global players, especially in the organized fast food segment. Additionally, the latent variables (service value dimensions, customer satisfaction, cognitive loyalty, affective loyalty, conative loyalty, behavioral loyalty and word-of-mouth) included in

\[^1\] Compounded Annual Growth Rate (CAGR) is a business and investing specific term for the geometric mean that provides a constant rate of return over the time period. It is calculated as:

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CAGR (t_0, t_n) = \left( \frac{V(t_n)}{V(t_0)} \right)^{\frac{1}{n-0}} - 1 ,
\]

where \(V(t_0)\) is the start value, \(V(t_n)\) is the finish value and \(t_n - t_0\) represents the number of years. Actual or normalized values may be used for calculation as long as they retain the same mathematical proportion.

\[^2\] “India becomes the new fast food destination”, The Economic Times Bureau, Feb 15, 2013
the proposed model are of vital importance to managers in this sector in designing competitive strategies to retain customers and increase profits.

1.3. STRUCTURE OF THE THESIS

To accomplish the objectives of the thesis, it is broken down into 12 chapters so that each chapter adds sequentially and incrementally to the readers’ understanding of the theoretical underpinnings of the study and the empirical investigation that follows in the context of the study. Chapter 2 presents the context of study in details. The key highlights from the fast food industry in India are outlined along with India's position vis-à-vis the world and Asia pacific region in terms of the industry growth estimates. The chapter also illustrates the competitive scenario of the industry and the consumer characteristics. Finally the latent variables considered in the developing the integrated model in the thesis are examined for their importance in managerial decision making for a fast food retail player in an emerging market like India.

Chapter 3 is meant to establish the theoretical and empirical background from a review of the existing marketing literature. Initially the chapter elaborates the evolution of the perceived value construct from its unidimensional inception in products to its multidimensional conceptualization in services. Next the other relevant constructs to the model like customer satisfaction and customer loyalty are defined and explained in details. Following identification of the latent variables for the model the literature is reviewed for the conceptual and empirical relationships put forward between these constructs. The focus in this part of the chapter remained on the model developed attempts so far for measuring service value and its linkages with the other relevant constructs as well as the results of empirical tests conducted in the field. Subsequent to establishing the theoretical background, in Chapter 4, the findings from the literary research are
identified as research gaps and the objectives of the present study are precisely outlined. In **Chapter 5** the proposed conceptual model together with the hypotheses of the research, as identified in the literature search, are introduced. **Chapter 6** outlines the various methodological issues like survey research, designing the survey instrument and the statistical techniques that are pertinent to this study. In **Chapter 7** the data analysis following the survey conducted is described and the results obtained are reported. **Chapter 8** interprets the empirical findings and elaborates them on academic and logical grounds. **Chapter 9** outlines the theoretical and managerial implications of the study, and **Chapter 10** provides an overview of the limitations of the study, future research directions and the concluding thoughts to this thesis to the readers.