Customer Loyalty in the Fast Food Industry in the Philippines

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Abstract: The emergence of new players in the fast food industry makes competition fiercer than before, i.e., the entry and subsequent expansion of branches of both local and foreign fast food companies. As such, it is important to assess customer loyalty because without loyal customers, business survival and profitability will not be guaranteed. The primary objective of this study is to explore the factors that affect customer loyalty in the leading fast food chain in the Philippines. Specifically, it aims to (1) determine the level of customer loyalty in terms of repurchase intention, word-of-mouth and first-in-mind; (2) explore the relationships of these dimensions to customer loyalty; and (3) examine the combined effects of these variables to customer loyalty. Questionnaires were distributed to 250 respondents who patronized the fast food store. Convenience sampling was employed. Means, standard deviations and rankings were determined to measure the level of customer loyalty. Pearson correlation coefficients were identified to test the relationships among variables. Logistic regression analysis using SPSS software was used to explore the influence of the three dimensions on customer loyalty. Results showed that customers were loyal in terms of repurchase intentions, word-of-mouth and first-in-mind. This study also found that these three dimensions are highly correlated to customer loyalty. All predictors are significant at p-value .01. Based on these findings, fast food restaurants should increase return patronage by meeting their customers' needs and expectations. Understanding these factors is essential in developing sound marketing strategies. Recommendations and suggestions for future research are provided.

Key words: Component · Formatting · Style · Styling · Insert (key words)

INTRODUCTION

Business organizations have given much attention to the concept of customer loyalty because of its relationship to business profitability. With the entry of new players in the fast food market, both local and foreign, home-grown fast food restaurants need to compete for business sustainability. The creation of ASEAN Community in 2015, which was signed in Malaysia by heads of states and governments of the ten (10) members of the Association of Southeast Asian Nations, offers more business opportunities for all member-countries which are characterized by free flow of goods, services and human resources.

One major challenge fast food industry is facing is that customers do not stick to just one store when dining although they keep on coming on the same store. For instance, only 30%-40% of the 85% to 95% of satisfied customers in the automotive industry actually buy again the same brand of car [1].

The fast food business is a lucrative market in the Philippines. The personal consumption expenditure gross domestic product (GDP) share of food industry in 2015 is equivalent to 41.90% [2]. In a country report published by Euromonitor International [3], fast food market is the largest and fastest-growing category in the foodservice industry. In fact, the total revenue in 2012 amounted to Php 12.9 billion which is equivalent to 30% of the total sales revenue in consumer food service. Of the 13, 119 business establishments engaged in food and beverage services, fast food chains ranked second with 2, 535 establishments. Based on the same report, the fast food market is expected to be the biggest category in the foodservice industry in the Philippines by the end of 2017.

Despite this relative importance of fast foods in the foodservice industry, it has not gained much attention in research in the Philippines. In addition, there is no research that examines the combined effects of repurchase intention, word-of-mouth, first-in-mind on customer loyalty. Because of intense rivalry in the fast food

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industry, fast food restaurants should increase return patronage by meeting their customers' needs and expectations. It is imperative that understanding the factors that influence customer loyalty is essential in developing sound business strategies. Consequently, this research work aimed to bridge these gaps.

The primary purpose of this study is to explore the factors that affect customer loyalty in the leading fast food restaurant in Taguig City. Specifically, the study aims to (1) determine the level of customer loyalty in terms of repurchase intention, word-of-mouth, first-in-mind; (2) explore the relationships of these dimensions to customer loyalty; and (3) examine the combined effects of repurchase intention, word-of-mouth, first-in-mind to customer loyalty.

Figure 1 shows the conceptual framework used in this study. It shows the relationships between the three independent variables, namely, repurchase intention, word-of-mouth, first-in-mind and the dependent variable – customer loyalty.
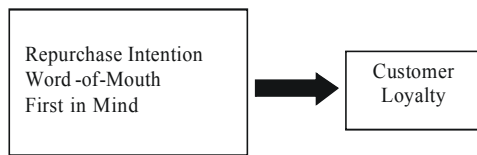

Fig. 1: Framework of analysis

Measurement indicators of customer loyalty were used based on the previous studies [4] [5]. These are repurchase intention, word-of-mouth and first-in-mind. Each indicator has five items.

There are several studies that measure customer loyalty in terms of repurchase intention[6] [7] [8]. According to Fornell [9], repurchase intentions simply refer to the likelihood of using a brand again in the future.

Zeithaml *et al*. [10] enumerated five behavioral intentions of customer loyalty: repurchase intentions, willingness to pay a price premium, word-of-mouth and complaining. Yi and Suna [11] measured repurchase intention with two indicators: repeat purchase intention and repurchase probability.

Hayes [12] concluded that customer loyalty is directly related to financial growth of the company. The researcher used number of referrals (word of mouth), purchase again, purchase different products, increase purchase size and customer retention or defection size as measures of customer loyalty.

Boonlertvanich [13] used variables repurchase intention, word-of-mouth and first-in-mind to measure

customer loyalty in Thailand's banking sector. As a result, customer perceived value has a great impact on customer loyalty.

Based on these literature and studies on customer loyalty, the following constructs were constructed. For repurchase intention, the following statements were rated: (1) I would visit this store again; (2) I can recall this fast food in the future; (3) I would eat in this store the next time; (4) I am willing to continue to patronize the products and services of this store in the future; and (5) I will buy other products and services being offered in this store. For word-of-mouth, the following measurement items were utilized: (1) I would say positive things about this store to other people; (2) I would encourage my friends, relatives and colleagues to eat in this fast food; (3) I would recommend this store as the best fast food store; (4) I can say that this store makes me satisfied; and (5) I will not say any bad reviews to people about this store. Indicators for first-in-mind variable are the following: (1) If I would eat in a fast food restaurant again tomorrow, this store would be my first choice; (2) When talking about fast food, I think of this store first; (3) Even with the presence of new competitors, I will dine in this fast food store first; (4) The offering of discounts from other fast food stores will not change my mind to prioritize first this store.; and (5) I think of this store first when talking about burgers and spaghetti.

MATERIALS AND METHODS

Research Design: The research design used in the study is quantitative method. Information was gathered from survey questionnaires. Questions are structured, close-ended and self-administered. This research is a descriptive study because it describes the characteristics of the respondents, namely, age, sex, education and income.

The correlation design was used to test the relationships of the independent variables to customer loyalty which is the dependent variable.

Sampling Procedure and Instrumentation: Convenience sampling was used to attain the number of respondents on the selected fast food chain. An adequate sample size is necessary to determine statistical power of the findings. The proponent distributed 260 questionnaires. Of this number, 250 were completed questionnaires. The 16 questionnaires were considered spoiled due to too many items that were left unanswered. Therefore, the response rate is 96.15%.

Table 1: Cronbach's Alpha Reliability Statistics

Dimensions of Customer Loyalty	Cronbach's Alpha	Number of Items
Repurchase Intention	.87	5
Word-of-Mouth	.89	5
First-in-Mind	.90	5

The source of data was dine-in customers who were inside the fast food store at the time of distribution of questionnaires and have finished eating their meals. Questions are designed on a 4-point Likert scale rating anchored on '1' with range of means 1.00-1.74 for strongly disagree, '2' with range of means 1.75-2.49 for disagree, '3' with range of means 2.50-3.24 for agree and '4' with means 3.25-4.00 for strongly agree. Each of the four dimensions has five items.

Analytical Procedures: Two kinds of analyses were employed: univariate and multivariate analyses. Frequency and percentage distributions were employed. This is the simplest form of univariate analysis. It describes the socio-demographic characteristics of respondents.

The second analysis involves measuring the associations between the independent and dependent variables. Pearson correlation coefficients were determined. For the multivariate analysis, logistic regression is used to determine the factors associated with customer loyalty.

To measure the internal consistency of constructs used in the study, Cronbach's alpha was used as shown in Table 1. The minimum level generally accepted is 0.70 and all measures exceeded the cut-off coefficient (Repurchase Intention =0.87, Word-of-Mouth =.89 and First-in-Mind =.90). This indicates internal homogeneity among the items scales used in the study, thus, constructs used in the survey questionnaire were reliable.

RESULTS

Profile of the Respondents: Table 2 presents the frequency and percentage distributions of respondents by socio-demographic variables. There are more females than males (60.8% vs. 39.2%). About 32.4% of the respondents belong to ages 10-19 while 48.4 percent belong to age group 20-29. About 12.8% was 30-39 years old and the remaining 6.4% was 40-69 years old.

Majority of the respondents have college degrees with 74.4%. A significant proportion of them (21.6%) reached high school level of education. About 2.8% has master's degrees while 0.4 % of the respondents have doctorate degrees. Respondents who reached elementary level only correspond to two.

There are 104 or 41.6% respondents who have a monthly income of P10, 001-P20, 000 while 36.0% of the respondents have P10, 000 or below monthly income. About 14.4% of the respondents have monthly income of P20, 001-P30, 000 while the remaining 8.0% earns more than P30, 000 per month.

Three of four (4) respondents are loyal to the fast food store under study or around 79.6% of the total number of respondents. Only 51 diners reported that they were not loyal to the said fast food store.

Table 3 indicates that respondents' level of loyalty is very high as shown in the degree by which they agree on the repurchase intention indicators with composite mean of 3.28 and its verbal interpretation of 'strongly agree'. In fact, even if they are offered with a free product, they would still buy products of the fast food store (WM=3.33) which ranks first. Respondents are also likely to visit the store again (WM=3.32) and eat the next time around (WM=3.32) which ranks second. Not only products of the fast food store will be patronized by the respondents but services as well (WM=3.23). Likewise, customers are willing to buy other products and services offered by the store (WM=3.18). The first three indicators have verbal interpretations of 'strongly agree' while the last two indicators have descriptive interpretations of 'agree' which are indicative that customers would still come back to the store and make purchases of store's products and services in the future.

As can be seen in Table 4, the overall rating of the level of customer loyalty in terms of word-of-mouth indicators is 3.11 and interpreted as 'agree'. Among the indicators mentioned, customers agreed that they would say positive things about the store to other people with a weighted mean of 3.20, the highest among the five. Customers would also encourage their friends, relatives and colleagues to eat in the same fast food having a weighted mean of 3.17. They also agreed that the store made them satisfied (WM=3.08), they will say positive reviews to people about the store (WM=3.06) and they would recommend the store as the best fast food store (WM=3.05).

Table 5 shows customers' level of loyalty in the leading fast food store in terms of first-in-mind indicators. When asked about their degree of agreement or disagreement on the statement 'I think of this store first when talking about burgers and spaghetti', respondents said that they are agree as manifested by mean score of 3.15 which ranks first. This is followed by the statement 'If I would eat in a fast food restaurant again tomorrow, this store would be my first choice' with a weighted mean of 3.06. The third rank has a mean of 3.04 which refers to the

Table 2: Profile of Respondents (n=250)

Variables	n	%	Variables	n	%
Sex			Education		
Male	98	39.2	Elementary	2	0.8
Female	152	60.8	High school	54	21.6
			College	186	74.4
			Master's	7	2.8
			Doctorate	1	0.4
Age			Monthly Income		
10-19	81	32.4	P10, 000 and below	90	36.0
20-29	121	48.4	P10, 001-P20, 000	104	41.6
30-39	32	12.8	P20, 001-P30, 000	36	14.4
40-69	16	6.4	P30, 001 and above	20	8.0
Customer Loyalty					
Yes	199	79.6			
No	51	20.4			

Table 3: Customer Loyalty in terms of Repurchase Intention

Repurchase Intention	WM	SD	VI	Rank
1. I would visit this store again.	3.32	.684	Strongly Agree	2.5
2. If I got any product for free, I would still buy product from this store.	3.33	.686	Strongly Agree	1
3. I would eat in this store the next time.	3.32	.689	Strongly Agree	2.5
4. I will continue to patronize the products and services of this store in the future.	3.23	.621	Agree	3
5. I will buy other products and services being offered in this store.	3.18	.667	Agree	4
Composite Mean	3.28		Strongly Agree	

Table 4: Customer Loyalty in terms of Word-of-Mouth

Word-of-Mouth	WM	SD	VI	Rank
1. I would say positive things about this store to other people.	3.20	.692	Agree	1
2. I would encourage my friends, relatives and colleagues to eat in this fast food.	3.17	.720	Agree	2
3. I would recommend this store as the best fast food store.	3.05	.745	Agree	5
4. I can say that this store makes me satisfied.	3.08	.678	Agree	3
5. I will say positive reviews to people about this store.	3.06	.734	Agree	4
Composite Mean	3.11		Agree	

Table 5: Customer Loyalty in terms of First-in-Mind

First-in-Mind	WM	SD	VI	Rank
1. If I would eat in a fast food restaurant again tomorrow, this store would be my first choice.	3.06	.734	Agree	2
2. When talking about fast food, I think of this store first.	2.99	.794	Agree	4
3. Even with the presence of new competitors, I will dine in this fast food store first.	2.98	.733	Agree	5
4. The offering of discounts from other fast food stores will not change my mind to prioritize first this store.	3.04	.690	Agree	3
5. I think of this store first when talking about burgers and spaghetti.	3.15	.750	Agree	1
Composite Mean	3.04		Agree	

statement 'The offering of discounts from other fast food stores will not change my mind to prioritize first this store.' When customers talk about fast food stores, they think this leading store first with a weighted mean of 2.99. Even with the presence of new competitors, customers said they will dine in fast food store first as shown in the weighted mean of their responses which is 2.98 which ranks last.

Mean scores of customer loyalty indicators are shown in Table 6. As seen in the table, two of the three indicators has a weighted mean that falls under the descriptive interpretation of 'agree' while repurchase intention is under 'strongly agree.' Customers strongly agree that they have the intention to repurchase products from the store with a weighted mean of 3.28, followed by word-of-mouth with a weighted mean of 3.11 and lastly the first-in-mind indicator with a weighted mean of 3.04. With a composite mean of 3.14 and a verbal interpretation as 'agree', this means customers exhibited loyalty to the fast food store under study.

Table 6: Composite Mean Scores of Customer Loyalty Indicators

Customer Loyalty Indicators	WM	VI	Rank
Repurchase Intention	3.28	Strongly Agree	1
Word-of-Mouth	3.11	Agree	2
First-in-Mind	3.04	Agree	3
Composite Mean	3.14	Agree	

Table 7: Correlations between Customer Loyalty and Independent Variables

Variables	Pearson R	Significance
Repurchase Intention	-.18**	.004
Word-of-Mouth	-.59**	.000
First-in-Mind	-.54**	.000

**. Correlation is significant at the 0.01 level (2-tailed).

Table 8: Summary of Logistic Regression Analyses for Variables Predicting Customer Loyalty

Variable	Variables in the Equation		
	B	SE.	β
Constant	6.08	1.31	437.58
Repurchase Intention	0.31	0.11	1.36*
Word-of-Mouth	-0.42	0.14	0.66*
First-in-Mind	-0.44	0.11	0.64*
R^2			0.30**

*$p< .01$ ** $p< .05$

Correlations Between Customer Loyalty and its Indicators: These three variables were further examined using correlations matrix to measure the strength of association between customer loyalty and the independent variables as presented in Table 7. It shows that repurchase intention, word-of-mouth and first-in-mind have are highly associated with customer loyalty. The level of significance at each relationship is .01.

Correlates of Customer Loyalty: Variables were tested in the regression model. All three variables emerged as significant which are the bases of interpreting the net effects of the correlates customer loyalty as shown in Table 8. The ANOVA table significant value is less than 0.01. This means that all three variables analyzed in this study are highly significant and could be considered as correlates of customer loyalty.

The following is the logistic regression form of the regression model:

Logit = 6.08 + 0.31Repurchase Intention – 0.42Word-of-Mouth – 0.44First-in-Mind

When the logistic regression coefficients are exponentiated, odds ratios will be derived which measure the net effect of each explanatory variable on the odds of customer loyalty. The odds ratio represents the multiplicative effect of a one-unit change in the independent variable, that is, on the odds of customer loyalty.

Among the independent variables, repurchase intention is the strongest predictor of customer loyalty. This was followed by word-of-mouth and first-in-mind.

The coefficient for repurchase intention is 1.36 which means for every unit increase in repurchase intention, 136% increase in the loyalty level of customers is expected, holding all other variables constant at .01 p-value level of significance. Thus, repurchase intention has a significant impact to customer loyalty.

The second most important factor that affects customer loyalty is word-of-mouth. Its coefficient is 0.66 which means 66% increase in the loyalty level of customers is expected for every unit increase in the word-of-mouth, holding all other variables constant. Its p-value is less than .01 which means a very high level of significance (p-value of .01). First-in-mind indicator has a coefficient of 0.64 which means for every unit increase in first-in-mind indicator, there is a 64% increase in the customers' level of loyalty holding all other variables constant at p-value of .002 which is less than p-value of .01.

The R square value of .30 which means that 30% variation in customer loyalty can be explained by the model at 0.05 level of significance.

DISCUSSION AND CONCLUSION

Majority of the respondents are young (10 to 29 years old) with a combined sample of 80.8%. There were more females than male respondents (60.8% vs. 39.2%). Most respondents have bachelor's degrees that comprise 74.4% of the total sample size. About 41.6% of the respondents have incomes between P10, 000 and P20, 000 per month.

Among the three indicators of customer loyalty, repurchase intention ranks first which means customers will be returning to dine in the fast food restaurant. Fast food managers are thus ensured that diners who have had positive experience with the store will be visiting the store again even if competitors would offer freebies. Customers who intend to purchase again in the future can be considered loyal customers. They will continue to patronize the products and services of the store and try other products and services which will be offered.

This is followed by word-of-mouth marketing where customers would say good things about the store to other people. Word-of-mouth as a form of advertising

strategy-becomes powerful when satisfied customers start to tell and invite their friends and relatives to dine in at the same store. Customers trust companies which are being trusted by their friends. Recommendation is thus very important. When buying certain products especially online, customers tend to know or read reviews first before purchasing. Managers, therefore, have to make sure that when customers leave their stores, they would have positive experiences to tell to other customers.

Lastly, first-in-mind ranks third. Customers were generally loyal to the fast food store as shown by the composite mean of 3.04 with the verbal interpretation of 'agree'. Being part of the psyche of customers is very important to fast food managers. Stores which leave positive experience would leave a long lasting impression to the customers' minds. Even in the presence of new competitors, they would still dine in on that particular fast food store. The company becomes the priority. Because of so many fast food stores and other small businesses, competition is so fierce that one needs to formulate marketing strategies that would be beneficial to everyone.

To know the needs of customers and to satisfy them, managers and restaurant administration should study customer's values and must understand how consumers perceive their restaurant's products and services, so a study that divulges consumer perception of all brands is necessary. A study of this type should explain how customers appraise main brands that help in the managerial and the academic understanding of customers' assessment process.

Restaurants should invest in the training and development of their employees as they are the ones who are directly dealing with the customers. Their presence and approach creates an image in the customers mind. Customer retention is important in the current competitive environment; restaurant manager should need to take care of the factors that directly impact the customer retention rate.

The value of adjusted R square indicates that there is a limitation of this current study. First, there are some other factors, e.g., brand image, that may affect customer loyalty in the fast food store, thus, a more in depth study using other variables is encouraged. Second, the study covers one fast food store only. Future research may include several other fast food stores (competitor companies) located in same geographical area and/or same company brand but located in different places. Thus, comparative studies may be undertaken. Third, the regression model does not include socio-demographic variables. It would be interesting to develop a more comprehensive model that includes socio-demographic variables since these variables may also influence customer loyalty. Lastly, future research that explores the relationship between customer satisfaction and customer loyalty is worth taking since satisfied customers tend to become loyal customers as well.

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