Customer equity of Pakistani fast food restaurant: A study of attitudinal customer equity

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ABSTRACT

Customer Equity is true representative of relationship marketing. There are two major approaches to measure Customer Equity: Transaction/sales based approach and Attitudinal Approach. This research is an effort to check customer equity of fast food restaurants of Pakistan by using attitudinal approach. Transactional customer equity is treated as criterion for attitudinal customer equity. Three drivers of Customer Equity are Value Equity, Brand equity and Relationship equity are taken as independent variables in this research. Convenient sampling technique was used and sample size was 393 respondents. The results show that attitudinal customer equity had strong association with transactional equity. Brand equity, value equity and relationship equity show positive associations with attitudinal customer equity.

1. Introduction

Since the commencement of manufacturing revolution, there has been marvelous growth in service sector. Traditional transaction oriented marketing has been replaced by relationship marketing. During the past decades, relationship marketing becomes prime focus of marketers. Relationship marketing focuses on overall customer value rather than current profitability of customers. Customer equity is true measure of relationship marketing and main element of long term achievement (Blattberg & Deighton, 1996; Gupta et al., 2006). Customer equity is defined as, “Sum of all discounted life time spending’s that customer made in a company or brand” (Blattberg & Deighton, 1996).

There are two basic approaches for measuring customer equity. Transactional or sales formula approach (Berger & Nasr, 1998; Rust et al., 2004; Rust et al., 2001) and attitudinal customer equity approach (Anderson & Simester, 2004; Evans et al., 2000).

Traditional marketing or transactional marketing has been largely replaced by relationship marketing after the industrial revolution (Aijo, 1996; Anderson & Simester, 2004). There were three main reasons of this evolution. First, there was exceptional growth in the service sector after the industrial revolution. In 1999, service sector contributed 78% of GDP in United States (Zeithaml et al., 2006). With this...
growth, the concept of supply chain management has gained significant attention. There was a need to have effective communication with production, logistics, consumption and sales. Buyer-seller interaction was omitted by transactional approach and relationship marketing start evolving (Grönroos, 1994). Second, traditional marketing have prime focus on marketing mix (4P’s) and theoretically marketing mix merely focus on consumers. Third, transactional marketing deals with standardized production and service strategies. There was no customized solution for the customers. Transactional approach have been suffering from some inherited disadvantages, which is based on history of sales. Customer may not be satisfied with the product but keep on purchasing due to market conditions. This approach could not tell about intentions and attitudes of the customers. This is not a proactive approach. Transactional approach could not work for the small SBUs. Long term relationship at every level of supply chain needs the current marketing situation and it is key factor for success in business (Clark et al., 1995).

The main impression of relationship marketing is that customer is an identity that offers a continuous flow of sales and earnings such that long span relationship with the customers leads toward profitability of company ( Berger & Nasr, 1998). The main focus of relationship marketing is to deal with the individual profitability and net worth of the customer. Traditional marketing is one-way communication and relationship marketing is two-way communications. Relationship marketing treats customers as a partner and involves them in marketing tactics (Shani & Chalasani, 1992).

1.2 Fast food industry in Pakistan

There has been a significant change in the structure of economy of Pakistan during the past few decades. According to economic survey of Pakistan 2015 , service sector contributes 58.8 percent in GDP (finance, 2015). The growth over the last year is 4.95 percent, which shows significant growth of service sector. Retail trade, wholesale trade, research and educational consultancy, restaurant and hotels, financial consultancy and construction industry contribute significantly in service sector. Fast food can be defined as food and drinks that can be consumed immediately (Ehsan, 2012). Fast food sector has been key receiver of foreign investment during the recent years (Pre-feasibility study: potato chips manufacturing unit, 2006).

According to Economist Intelligence Unit (2004), Plea is progressively shifting from unprocessed food to the processed food in Pakistan. Growth of multinational brands in Pakistan is clear evidence of trend changing (Austrade, 2009). Increasing middle-class represent one fourth of entire population and target marketplace for fast food sector (Ehsan, 2012).

Pakistan is very diverse country not only geographically but also in behavioral and linguistic prospects; a lot of studies are required to access the information regarding local prospects and needs (Parekh, 2010).

Brand equity, value equity and relationship equity are three drivers of customer equity ( Lemon et al., 2001). The study is an effort to check the relationship between transactional customer equity and attitudinal customer equity in fast food industry of Pakistan. This research also explores the relationship of three drivers (Brand Equity, Customer Equity and Relationship Equity) with attitudinal customer equity. This study will help managers to gain an insight about customer equity which ultimately will help to increase the profitability of SBU's. There are studies regarding attitudinal customer equity in Pakistani context. This study also provides empirical evidences to validate attitudinal customer equity with the criterion of transactional equity in Pakistani context.

2. Literature Review

2.1 Transactional Customer Equity

Customer equity concept is derived from economics. In economics customer equity is defined as, “the sum of the value of all of a firm’s warrants and the value of all its common stock” (Black & Scholes,
Customer equity can be defined as, “Sum of all discounted life time spending’s that customer made in a company or brand” (Blattberg et al., 2001). Customer equity not only deals with short term profitability but also considers long term benefits. Customer equity provides overall view of effectiveness of marketing strategies. It is the output of all the marketing actions especially promotion (Lewis, 2006), direct mailing marketing (Reinartz & Kumar, 2000) and loyalty programs (Bolton & Lemon, 1999).

There are two existing models for calculating brand equity. Migration model and retention model (Berger & Nasr, 1998; Dwyer, 1997). Retention model is based on estimations of spending provided by historical data. On the other hand, migration model is based on recency effect. According to recency effect, the last purchase is the good measure of reflection of revisit behavior (Berger & Nasr, 1998). Both models having their own merits and demerits in long term purchases retentions model is more appropriated. In discontinued purchases migration model is true for future behavior.

Sargeant (2000) suggests two dimensions of customer equity: time prospective and unit of analysis. Time prospective is further divided into two historic and future values. Historic value is past purchase data analysis and future value is projected future purchase value. Unit of analysis is based on the classification of the customer. A customer can be an individual, group or organization. These models provide strong basis for formula measure of customer equity (Rust et al., 2000). Rust et al. (2000) anticipated the following formula for the calculation of customer equity.

\[
\text{Customer Equity} = \sum [(1+d)^{-t} F_{it} S_{it} \pi_{it}]
\]

where T: the length of the planning horizon, t: time period, Fit: expected frequency of the customer’s purchases/visit per time period, \(\pi_{it}\): the customer’s average spending/contribution per visit, \(S_{it}\): the probability of return, d: the company’s discount rate.

### 2.2 Attitudinal Customer Equity

Attitudinal customer equity is a combination of attitudes that a customer exhibit throughout the life time. There are four phases of customer life time value: (1) customer acquisition, (2) customer retention, (3) customer development, (4) customer defection (Gupta et al., 2006; Kumar & Petersen, 2005).

Customer acquisition is defined as, “Relationship which starts from first interaction and first purchase of the company and likely to repeat through first purchase” (Thomas, 2001). Customer acquisition is focused on the impact of 4Ps, (product, price, place, promotion) on customers. These marketing strategies highly influence customer acquisition. Accordingly, Thomas et al. (2004) found pricing strategies impact on the life time value. Anderson and Simester (2004) examined the discounting factor and indicated that customer had positive impact of discounting but these customers having low life time value. So, on the bases of above arguments we can conclude that customer acquisition maintain great impact on customer retention and overall life time value.

Customer retention is defined as, “A customer relationship, where customer repeat the purchase from specific brand or company” (Blattberg et al., 2001). Customer value creation depends on how long a customer stay in a company (Grant & Schlesinger, 1995). Customer retention is the biggest challenge for the companies. Many studies were conducted in order to prolong customer retention. For example, direct mailing and loyalty programs can increase customer life time value (Reinartz & Kumar, 2000). However, longer customer retention is not necessarily contributed towards firm’s profitability and may have very low value (Reinartz & Kumar, 2000).
Customer development refers to “Customer increase purchasing from specific brand either adopting new products of brand or the existing products” (Berger et al., 2006). Studies show two types of relationships of breadth and depth (Van Doorn et al., 2010). Relationship depth indicates the frequency of purchase over time and breadth reflects cross buying. Cross buying is that customer starts purchasing different products from the same company. Bolton and Lemon (1999) indicated satisfaction and price perceptions influencing customer development. Berger (2006) specified that a loyalty program certainly influences on relationship development.

Customer defection can be defined as “customer neglect the current service provider or brand and stop purchasing that specific brand due to any reason” (Zeithaml et al., 2006). Dropping customer defection by 5 percent can increase profit from 25 to 85 percent (Reichheld & Teal, 2001). Studies have recommended that customer satisfaction was a key antecedent of customer defection (Rust & Zahorik, 1993; Fornell, 1992).

These four behaviors are affected by customer mindset. Customer mindset is intellectualized as psychological feelings, beliefs, or opinions that exist in a customer’s mind towards a company. Hyun (2009) developed a new scale of attitudinal customer equity based on the above four phases of customer life time value. He proposed that customer acquisition is not one-dimensional construct and can be replaced by “first interaction” and “motivation”. Customer Relationship development is also not one dimensional and can be replaced by “word of mouth (WOM)” and “Cross Buying”. He proposed the following six dimensions of attitudinal customer equity.

1) First Interaction
2) Motivation
3) Commitment
4) Word of Mouth (WOM)
5) Cross Buying
6) Customer Defection

Customer life time value starts with first interaction with goods and services. This first interaction affects the mindset of the customer and further motivate towards purchases. Commitment represent retention phase of the customer and it is firm association of customer with specific brand. Word of Mouth is positive views of customer about a brand. Loyal customers often advocate the brand in their social circle. Good and long relationship with a brand motivates the customers towards new offerings. Customer tries other products and services provided by the same brand called Cross Buying. Finally, Customer stops purchasing from the company due to any reason e.g. technology changes, dissatisfaction, competitor attraction.

2.3 Value equity

Value equity is defined as, “The critical judgment of the customer about the brand based on perceptions of what he received and what he sacrifice to obtain the benefit achieved” (Rust et al., 2004). Product evaluation and company evaluation highly depends on value perceptions. Value equity is the most important and critical driver of customer equity. Value equity is extremely strong when there is less difference among the features, complex decisions and when revitalization of mature products are made (Lemon et al., 2001). Price, convenience and quality are the determinants of value equity (Kim, Han, & Lee, 2001; Oliver, 1999; Srivastava et al., 1998; Winston & Crane, 2013). Zeithaml (2006) suggested that four components of value perception exist: low pricing, (2) what I get for what I give up, including time and effort, (3) whatever I want in a product and (4) whatever I want in a product. In fast food chains, quality and price are prime attributes that leads towards the success of business (Leone et al., 2006). Marketers always try to provide premium quality and lower prices (Sheth & Parvatiyar, 1995). Many researchers proved that food quality is the most important factor in restaurant selection (Auty, 1992; Mittal & Lassar, 1998; Sigala, 2005; Turner & Collison, 1988).
2.4 Brand Equity

Brand equity is defined as, “the customer’s subjective and intangible assessment of the brand above and beyond its objectively perceived value” (Rust et al., 2001). Branding is prerequisite of relationship and strong branding helps a customer differentiate a brand from the other products. Brand equity tells us how a person thinks about the quality of the product (Aaker, 1996; Dwyer, 1997; Evans et al., 2000; Kim et al., 2001; Kumar & Petersen, 2005).

2.5 Relationship Equity

Relationship equity can be defined as, “the inclination of customer to endure purchasing a specific brand above and beyond the subjective and objective valuation of the brand” (Lemon et al., 2001). Relationship equity is added to the value equity and brand equity and without relationship equity customer long-term relationship is not possible (Hyun, 2009). This is a bond that makes customer loyal for long-term. Hyun (2009) suggested that relationship equity influence the customers in three ways: maximum probability of customer repeated visitation, increase future spending’s and decrease chance of purchasing competitors.

In summary, there are three drivers of customer equity that can function jointly as well as independently. If organization enhances these three drivers, it will be able to enhance overall customer equity and profitability.

![Fig. 1. The structure of the proposed study](image)

2.6 Hypothesis

H1: Value equity is positively related to attitudinal customer equity.

H2: Brand equity is positively related to attitudinal customer equity.

H3: Relationship equity is positively related to attitudinal customer equity.

H4: There is a significant correlation between attitudinal customer equity and transactional customer equity.

3. Methodology

The target population of this study was regular customers of fast food restaurants. This was a general study, not particularly related to any geographical area. Data are collected from those individuals who are familiar with fast food brands. Fri Chicks, Fork & Knife, PIZZA Club and KFC are the target brands of this study. These brands are selected because of high popularity in Sargodha district. Convenience sampling technique was used to collect the data. Convenience sampling was used because of lack of resources. A questionnaire was used for the purpose of data collection. A survey was conducted from university of Sargodha and fast food chains in order to collect the data. 430 questionnaires were distributed among the customers. 12 questionnaires were not correctly filled and 25 were not returned. The sample size for analysis was 393 respondents and response rate 91%.

Questionnaire was adapted from following studies.
4. Data analysis

4.1 Validity Analysis

Validity measures truthfulness of the scale. Validity of scale is an extent to which a measurement is corresponded accurately or well founded. There are many types of validity i.e. Internal Validity, External validity, Face validity, Test validity. Attitudinal customer equity is a newly developed scale and required test validity for generalization of the results in different geographic regions. Concurrent validity and predictive validity are the most important types of test validity and jointly called criterion validity.

Table 1
Criterion Validity

<table>
<thead>
<tr>
<th>Variables</th>
<th>Attitudinal Customer Equity</th>
<th>Transactional Customer Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attitudinal Customer Equity</td>
<td>1</td>
<td>.915**</td>
</tr>
<tr>
<td>Transactional Customer Equity</td>
<td>.915**</td>
<td>.000</td>
</tr>
</tbody>
</table>

Table 1 shows that there is a very high correlation (.915) between transection customer equity and attitudinal customer equity which is significant at 0.01 levels. The table shows that attitudinal customer equity represents concurrent validity and predictive validity with the criterion. It can be concluded that transactional scale and attitudinal scale measures the customer equity and can be replaced with each other.

4.2 Reliability Analysis

Reliability is an extent which measures produce similar findings. Reliability is very important in behavioral sciences. It is the overall consistency of a measure. Cronbach’s Alpha values measure the inter-rater reliability. Interval and ratio scales should have inter-rater reliability. Table 2 shows attitudinal customer equity (0.903) is highly reliable. Brand equity (0.728) and Value equity (0.719) show good reliability and relationship equity (0.697) has satisfactory reliability.

Table 2
Reliability Analysis

<table>
<thead>
<tr>
<th>Variables</th>
<th>Cronbach’s Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attitudinal Customer Equity</td>
<td>0.903</td>
</tr>
<tr>
<td>Brand Equity</td>
<td>0.728</td>
</tr>
<tr>
<td>Value Equity</td>
<td>0.719</td>
</tr>
<tr>
<td>Relationship Equity</td>
<td>0.697</td>
</tr>
</tbody>
</table>
4.3 Descriptive Analysis

Table 3

Descriptive Analysis

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>42.5</td>
</tr>
<tr>
<td>Female</td>
<td>57.5</td>
</tr>
<tr>
<td>Age group</td>
<td></td>
</tr>
<tr>
<td>17-19 years</td>
<td>32.8</td>
</tr>
<tr>
<td>20-22 years</td>
<td>57.3</td>
</tr>
<tr>
<td>23 years and above</td>
<td>9.9</td>
</tr>
<tr>
<td>Brand Name</td>
<td></td>
</tr>
<tr>
<td>KFC</td>
<td>6.1</td>
</tr>
<tr>
<td>Fri-Chicks</td>
<td>36.1</td>
</tr>
<tr>
<td>PIZZA CLUB</td>
<td>43.8</td>
</tr>
<tr>
<td>Fork &amp; Knife</td>
<td>14.0</td>
</tr>
</tbody>
</table>

Table 3 shows that female are 57.5% and male are 42.5%. Total sample size contains 393 respondents. Females’ respondents are slightly higher in sample. There are 57% people aged 20-22 years. There are 32.8% people who are between the ages of 17 to 19%. Only 9.9% participants are above 23 years old. It can be concluded that sample size includes higher portion of young adults. In sample size of 393; there are 172 respondents from PIZZA CLUB, 142 respondents from FRICHICKS, 55 from FORK&KNIFE and 24 from KFC. Table 3 also shows that 43.8% respondents are from PIZZA CLUB and 36.1% of the respondents are from FRICHICKS.

4.4 Factor Analysis

Table 4 shows that all the dimensions exhibit satisfactory loadings on customer equity and explain 57.217% of variance. This also shows that attitudinal customer equity is a uni-dimensional construct and have resemblance with previous studies (Hyun, 2009).

Table 4

Component extracted

<table>
<thead>
<tr>
<th>No</th>
<th>FACTOR EXTRACTED</th>
<th>FACTOR LOADINGS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>INTERACTION</td>
<td>.819</td>
</tr>
<tr>
<td>2</td>
<td>MOTIVATION</td>
<td>.761</td>
</tr>
<tr>
<td>3</td>
<td>COMMITMENT</td>
<td>.641</td>
</tr>
<tr>
<td>4</td>
<td>WOM</td>
<td>.565</td>
</tr>
<tr>
<td>5</td>
<td>CROSS</td>
<td>.852</td>
</tr>
<tr>
<td>6</td>
<td>DEFECATION</td>
<td>.853</td>
</tr>
</tbody>
</table>

Extraction Method: Principal Component Analysis.
Component extracted.

Among the six dimensions, Interaction and deflections are the most important factors which can enhance the customer equity and profitability. Customer first interaction should be pleasant to get benefit from customer life time. Customer defection is also important factor; company should evaluate reason for leaving the company to prolong the customer lifetime value.

4.5 Regression Matrix

Table 5

The results of regression analysis (Dependent variable: Attitudinal Customer Equity)

<table>
<thead>
<tr>
<th>Variable</th>
<th>B</th>
<th>SE</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brand Equity</td>
<td>.411</td>
<td>.040</td>
<td>10.076</td>
<td>.000</td>
</tr>
<tr>
<td>Value Equity</td>
<td>.418</td>
<td>.041</td>
<td>10.202</td>
<td>.000</td>
</tr>
<tr>
<td>Relationship Equity</td>
<td>.119</td>
<td>.035</td>
<td>3.303</td>
<td>.001</td>
</tr>
</tbody>
</table>

N: 393, R² = 0.506, Adjusted R² = 0.503, F-value = 131.661, SE: 0.6961
The results in Table 5 show that the Independent Variables (value equity, brand equity and relationship equity) significantly explain the variance (R: 0.503) in Dependent Variable i.e. Customer equity. The F-statistic value of 131.661 is also significant at 0.000 levels.

Brand equity has the highest impact on customer equity and beta value (.418) is also significant at 0.01 levels. Value equity also has great impact on customer equity but slightly less then brand equity. Value equity beta value (.411) is also significant (0.01). Relationship equity has very low beta value (.119) as compared with other drivers which indicates relationship equity had less impact on customer equity.

5. Conclusion and recommendations

Attitudinal customer equity scale demonstrations good resemblance with previous studies (Hyun, 2009). Attitudinal customer equity scale shows high reliability and validity. Attitudinal scale fulfills the criterion related validity and there is a high correlation between attitudinal customer equity and transactional customer equity. Attitude based scale contains different attitudes that explain customer equity. Importance of transactional customer equity cannot be denied but attitudinal measure could attribute to sales based customer equity. Managers could determine which dimension is increasing or decreasing the customer equity. Attitudinal customer equity also shows good correlation with brand equity, value equity and relationship equity like criterion.

In Pakistan, managers and business highly focus on the value equity and brand equity. Relationship equity is low in case of fast food restaurant as compared to hotel sector. In hotels, customers have very high interactions with hotel employees (Room service, Reception interaction, laundry service etc.). If customer repeatedly visits the same hotel then recognition and sense of community are expected to be high. In fast foods there is less employee-customer interaction therefore relationship equity is low.

5.1 Limitations and future directions

Despite its theoretical inferences, this study suffers from following limitations that must be addressed. First of all sample selection should be random but due to lack of resources and time convenient the existing sampling technique was used. The sample includes young and educated individuals but there are many customers who are old and less educated people. Panel data can be used for building validity of the scale. It will be interesting to assess whether attitudinal and transactional scale show strong correlation at different time periods. This study includes four fast food brands; the generalization of findings to entire restaurant industry is somewhat limited. Findings may differ for other brands and geographic regions.

A firm financial growth is the result of marketing actions (Berger et al., 2006). It is recommended to investigate which marketing action and strategies could increase the customer equity. It is recommended to check marketing mix strategies influence on customer equity and on the dimensions of attitudinal customer equity.

It will be interesting to find out how customer equity increase or decrease firm financial growth and stock price. There should be pivotal relationship between customer equity and business performance. A comparison can be conducted between national and multinational brands. As Asian culture is nearer to collectivism, so Asian people should support their national brands and have high customer equity.

References


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