



**FACTORS INFLUENCING CUSTOMER LOYALTY  
TOWARDS FAST FOOD RESTAURANTS IN  
MALAYSIA: AN EMPIRICAL STUDY**

**BY**

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degree of Master of Science in Marketing**

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## **ABSTRACT**

Customer loyalty has become a critical and key focal point for any business organization as the competition level is highly fierce. Therefore, every organization should concentrate on gaining customer loyalty in order to increase profits and maintain sustainability in the business market. Any successful organization should satisfy their customers in order to achieve their trust and maintain good relationships with them. This could change regular customers into loyal ones which ensure the continuing progress of the business. The main objective of this study is to increase the understanding in the relationships between customer loyalty and some of the factors of loyalty that could directly contribute to loyalty towards fast food restaurants in Malaysia. Convenience sampling method was used to collect quantitative data from 250 customers of fast food restaurants in Kuala Lumpur, Malaysia and was later analyzed using the correlation and regression technique of SPSS. The study reveals that customer loyalty is associated with the quality of product, restaurants environment, convenience and price and value towards fast food businesses in Malaysia. Among all the factors convenience and quality of food have significant and positive influence on customer loyalty. Future study on this topic needs to be conducted by using a bigger combination of independent variables with a more comprehensive model and the analysis need to further be expended and carried out using factor analysis. This would contribute additional findings that would produce enhanced understanding on the issues and benefit the business in formulating future marketing and customer relationship strategies.

## ملخص البحث

بسبب شدة المنافسة أصبح ولاء العملاء من العوامل الرئيسية والضرورية لأي منظمة من منظمات الأعمال. لذلك، يجب على كل منظمة أن تركز على كسب ولاء العملاء من أجل زيادة المنافع ومواكبة الاستدامة في سوق العمل. وأن نجاح المنظمات يتطلب الوفاء برغبات عملائها باستمرار من أجل كسب ثقتهم والحفاظ على علاقات جيدة معهم. هذا يمكن أن يغير العملاء العاديين إلى عملاء أوفياء وبالتالي تضمن التقدم المستمر للشركة. والهدف الرئيس من هذه الدراسة هو زيادة الفهم في العلاقات بين ولاء العملاء وبعض عوامل الولاء التي يمكن أن تؤثر بشكل مباشر في الولاء نحو مطاعم الوجبات السريعة في ماليزيا. وتم استخدام العينة المريحة لجمع البيانات من 250 عميلا من عملاء مطاعم الوجبات السريعة في كوالا لامبور، ماليزيا وتحليلها باستخدام تقنية الارتباط والانحدار من SPSS. وأظهرت نتائج الدراسة أن ولاء العملاء مرتبط بجودة المنتج، وبيئة المطاعم، والسهولة، والسعر، والقيمة تجاه شركات الوجبات السريعة في ماليزيا، وأنه من بين هذه العوامل يوجد تأثير إيجابي لعامل جودة الطعام والسهولة. وتوصي الدراسة بإجراء دراسات مستقبلية حول هذا الموضوع عن طريق استخدام عدد أكبر من المتغيرات المستقلة مع نموذج أكثر شمولاً بالإضافة إلى استخدام التحليل العاملي. وهذا من شأنه المساهمة في إظهار نتائج إضافية تؤدي إلى زيادة الفهم حول هذه القضايا مما يعود بالنفع على الشركات من خلال إعادة صياغة مستقبل التسويق واستراتيجيات العلاقة بالعملاء.

## APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion, it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Master of Science in Marketing.

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## DECLARATION

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*This dissertation is dedicated to my beloved parents*

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# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 INTRODUCTION**

This study is on the “Customer Loyalty towards fast food restaurants in Malaysia”. Consumer loyalty behaviour towards the fast food industry discussed in this chapter followed by the overview of the current situation of the Fast food companies in Malaysia. As many other different business markets, the fast food market everywhere throughout the world including Malaysia has been developing rapidly and turning out to be much popular (Tabassum & Rahman, 2012). Along with this positive advancement in the fast food market, the food habit and general consumption pattern of the people of each nation of the world has additionally been changing with comparative pace (De Rezende & de Avelar, 2012). Any successful organizations should continually fulfill and encourage their customers in order to achieve their trust and maintain good relationships with them. This will change the regular customers into loyal ones which will ensure the continuing progress of the business. Gee, Coates, and Nicholson (2008), determined that customer loyalty is rapidly turning into market currency of the twenty-first century. They also indicated that the worldwide competition in the commercial center has increased. Therefore every organization should concentrate on gaining customer loyalty in order to increase benefits and keep up sustainability in the business market.

Consumer loyalty has a major impact on the profitability of a business, since it provides exceptional return. As a result, to sustain in the business center, organizations must introduce a customer driven vision that places as the most

prioritized factor on customer maintenance. According to Gee, Coates, and Nicholson (2008), customer maintenance is a more fruitful strategy than getting new customers to substitute deserting customers, as "it costs five times more to get another customer than to hold a current one". So customer loyalty can be stated as important, as "if customer loyalty is gained, profit will follow" (Gee, Coates, & Nicholson, 2008). There are numerous studies have been conducted in the ground of customer loyalty. However, very few loyalty studies have been conducted particularly towards fast-food restaurants in Malaysia. Based on the current situation of global market, the fast food industry is chosen as the central emphasis of this research in order to find out the customer loyalty which can help marketers in developing proper marketing strategies for the fast food industry in Malaysia. This study attempted to analyze and understand how their customers behave, particularly in relation to their loyalty, so that the company would be able to gain greater success in making more sales, profits and maintain sustainability.

## **1.2 BACKGROUND OF STUDY**

One of the most important attractions of Malaysia is the diversity of food. In fact, Malaysia plays the role of being the hub for South East Asian countries and because of diversity of cultures and races; there is a various range of food in Malaysia. In recent years, Malaysia has joined the global markets and the effect of globalization has changed some characters of culture and economy in Malaysia. Moreover, international relationship and trade has had an impact on culture and taste and preferences of Malaysian people. Therefore, along with the increasing power of purchase and changing of taste preferences of Malaysian, the fast food industry in Malaysia should be responsible against these changes and cover the social needs.

Nowadays, fast food operators are in severe competition in the market. Numerous fast restaurants are currently operating their business in Malaysia such as McDonalds, KFC, Burger King, Pizzeria Hut, Dominos, Subway, A & W, Nando's and so on. In addition, the fast food business is highly competitive especially in Kuala Lumpur. The market share for those fast food operators in Kuala Lumpur is already saturated, competition is expected and continued to be more intense. Therefore, customer loyalty is crucial for long-term survival. Furthermore, they have to compete with some other traditional restaurants in Malaysia such as Indian restaurants, Thai restaurants, Chinese restaurants etc. In order to increase the market share, fast food restaurants have to face difficult changes because traditional restaurants are more familiar with both the local and international people in Malaysia. Therefore, fast food restaurants should know how to satisfy their customers and how to compete with the local markets. If the fast food restaurants want to sustain in the competitive market, they should have loyal customers. To achieve this goal, fast food restaurants should satisfy their customer in order to make them loyal. However, for satisfying customers, fast food restaurants should identify the main factors that influence customer satisfaction and lead to customer loyalty.

Moreover, customer loyalty is very important because it is all about retaining the true customer and getting those customers to purchase frequently in higher quantities. Customer loyalty can be built by keeping in touch with customers, using email marketing, thank you cards and more. Handling the customers well and showing that they were cared and remembered will reward the company by them choosing the company over the competitors. In brief, customer loyalty can be built by treating people how they want to be treated. So, the fast food restaurants should develop some policies and strategies in order to build customer loyalty.



Nowadays, businesses are scrambling to boost customer satisfaction and keep their present customers rather than offering additional resources to pursuit potential new customers. Measuring customer satisfaction is the key to retain the customers they have and understand how to better attract new customers. In general, satisfying customers with better service or product has the most influence on customer loyalty in the long-term competitiveness (Gilbert, Veloutsou, Goode, & Mountinho, 2004). In fact, fast food restaurants with large groups of loyal customer can capture the main parts of the market and dominate other competitors. So this would be used as a critical strategic weapon that can bring increased market share and greater profits. Larger market share has high correlation with higher level of return investment (Reichheld & Sasser, 1990). Moreover, there are some empirical researches revealed a positive relationship between market share and customer satisfaction (Gruca & Rego, 2005; Morgan, Anderson & Mittal, 2005). Customers who are satisfied and have an excellent experience with the particular firms' product or service then they will share that experience with their relatives or friends. Thus, strong relationship will be built with customers who will turn to loyal customers. Building strong and loyal relationships with customers, effectively handling these relationships, and applying the latest findings in order to measure and also manage customer awareness, is the main keys to make customers satisfied and turn them to loyal.

This research aims to examine the factors such as quality of product, restaurants environment, convenience and price to evaluate their impact on customer loyalty.

### **1.3 PROBLEM STATEMENT**

Creating loyalty about any business and to conserve the customers is an important and crucial element factor that influences overall performance of a company. Customer loyalty is amongst the key factors critical for managers so that they can improve their customers' perception that in turn puts its satisfactory impact on the overall profits. Customer loyalty is considered as one of the most important elements for the success of restaurant business. Many studies have shown that when a person is satisfied with a company or services, mostly of them are likely to share their experience with other people and remain loyal. Kandampully and Suhartanto, (2000) revealed that customer satisfaction and customer loyalty have a positive relationship. In fact, a satisfied customer is a guarantee for customer loyalty. Moreover, customer satisfaction and customer loyalty play a very vital role in business sustainability in the market. Therefore, it was very important to identify what is the factors influence customer loyalty. However, very few studies were found that investigate customer loyalty in the fast food restaurant industry in Malaysia. It is very important to study and know the level of loyalty of the customers towards services that are available. The result from the study can be used as a tool for improvement or maintaining the current service. Hence, knowing what customers expect from the quality of products or services, price etc. As a result, a study had to be carried out in order to examine some factors that influence on customer loyalty.

However, dissatisfied customers are likely to tell another people of their unfortunate experience. Additionally, companies are running their business in this particular industry in Malaysia have limited learning with respect to their customers loyalty behavior. Consequently, fast-food restaurants may serve their customers despicably because of lacking knowledge about the customers. This study will

concentrate on the impact of restaurant traits on customer loyalty in the fast-food restaurants in Malaysia. Since few studies have been conducted in this field in Malaysia specifically, this research would provide essential and useful information for the Malaysia in general, and the fast-food restaurant industry in particular.

According to Johnston, (1997) there is a positive relationship exist between the service quality and customer satisfaction and also customer satisfaction is positively related to customer loyalty. However Phuc, (2011) Identify that reliability, courtesy of the staff and the location is an important aspect to the current satisfaction while additional services were lowest ranked. Lien, (2000) determined that the consumer's perceptions about service quality, product quality and price fairness are almost similarly significant to expectation of their satisfaction. Martin et al. (2009) found that consumer satisfaction is the distinction between pre-purchase desires and post-purchase assessments, prompting a positive or negative impact felt by the customer toward the item, store or brand at the post-purchase phase of the purchasing cycle. If performance is not same as the expectations; the customer is dissatisfied and disappointed. If the performance is similar as the expectations, the customer is satisfied. If the performance is more than the expectations, the customer is highly satisfied and pleased (Fournier & David, 1999). Businesses need to preserve existing customers while targeting non-customers. Measuring customer satisfaction provides an indication of how successful the organization is at providing products and/or services to the marketplace (Kotler et al., 1997). Additionally, Fournier and David, (1999) conducted a study of about 200 senior officers, 71 percent reacted that they found a consumer loyalty very useful in overseeing and checking their businesses (Fournier & David, 1999).

Based on the above findings, this study is necessary for fast food business sectors in Malaysia because it describes how a quality improvement strategy of a brand is put in place on the basis of a model which relates customer perception to its various attributes. Moreover, this study is needed to be carried out in the fast food business sector to examine to what extent the customer satisfaction creates customer loyalty and what is the impact of food quality, convenience; price and value and restaurant environment has on customer loyalty. This will enable this business organizations to gain valuable information that are significant in making decision in order to gain and maintain a competitive advantage and sustainability in the business.

#### **1.4 RESEARCH QUESTION**

1. What is the influence of food quality on customer loyalty?
2. What is the influence of Restaurant environment on customer loyalty?
3. What is the influence of convenience on customer loyalty?
4. What is the influence of price and value on customer loyalty?

#### **1.5 OBJECTIVE OF THE STUDY**

The objective of this study is to enlarge the present understanding of the variables that impact the customer loyalty towards the fast food industry. The principle objective of this study is to examine the effect of some factors on customer loyalty. In doing as such, every variable in the component of the consumer loyalty were tested to check the influence of every variable on the consumer loyalty. For the intention of this study, two types of variables were considered and those were independent variables and dependent variable. The dependent variables were the variables of primary interest for this research. In this study the model was constructed using customer loyalty as the

dependable variable. On the other side there were the independent variables, which significantly influenced the dependent variable in either positive or negative ways. This also means that the variances in the dependent variables are accounted for by the independent variables. For the purpose of this study, four independent variables were tested; they are food quality, convenience, environment and price and value. These four independent variables were tested to find out whether they have significant influence on the dependent variable.

Specific objective of this study is:

1. To examine that food quality have positive influence on customer loyalty
2. To examine whether environment has positive influence on customer loyalty
3. To investigate that convenience has any influence on customer loyalty
4. To analyze the effect of price and value that influence on customer loyalty

## **1.6 SIGNIFICANCE OF STUDY**

This study is conducted to focus on the key factors that have the most effect on customer satisfaction that leads to customer loyalty towards fast food restaurants in Malaysia. Nowadays, businesses are facing some challenges with the speedy growth of fast food industry that might be hampering purchaser to revisit their restaurants. By achieving several goals like better understanding of consumer needs and demands, overall service improvement and changing atmosphere of any fast food outlet; customer satisfaction data has the greatest value. Thus industrial success, effectiveness and vitality depend on customer satisfaction. Therefore, learning the major contributing factors of customer satisfaction and loyalty behaviour is a significant issue for any country where there are huge customers.

In this context, this research also tried to emphasize almost every possible dynamic of loyalty. This research basically focuses on key factors that have the most effect on customer loyalty. Investigate these key factors has many benefits for fast food restaurants franchises. Moreover this study will be very helpful for surviving in the existing markets even developing any new market in Malaysia. By distinguish the principle factors that have the most impact on customer loyalty, fast food restaurants can retain their customers and protect their market shares against other competitors in the market and earn enough profit in the market.

Furthermore, they can expand their markets and enter into new markets with more profits from the existing markets and benefit from the experiences that gained from this study for satisfying customers and making them loyal. Moreover, fast food restaurants can determine the areas that have the most efficiency on customers to earn more profit and decrease the cost. Additionally, they can set the appropriate program for future investments and allocate budgets.

Therefore, it is essential for fast food businesses to encourage better understanding and information on components that really attract the customers. By understanding the components that are influencing customer loyalty, marketers can arrange and develop some strategies to meet and fulfill the customers' desire. Additionally, after obtain the useful information in understanding their target customers, companies can get some competitive advantages to compete with their rivals in the same business. With the use of this research paper it is possible to enhance the quality of the fast food restaurants as a whole and attract more customers within the country.

## **1.7 OUTLINE OF THE STUDY**

This research includes five chapters. Chapter one provided the overview of fast food restaurants industry in Malaysia and considered fast food restaurants different opportunities and threats in the world market. Besides, the chapter also contains research problem, research objective and significance of this study. The second chapter is literature review which reviewed about customer satisfaction and customer loyalty and some of the main factors that has influence on customer loyalty such as quality of food, environment, convenience and price and value.

The third chapter focused on the research methodology, research framework and hypothesis, sampling plan, questionnaire development and data analysis. Chapter four reports the results of study. There are the presentation on the results and findings obtained from the preliminary data analysis, the models estimation and data analysis followed by the interpretation of the results. Finally, the chapter five is devoted to a summary of findings, contribution of this thesis which would likely to be benefited for research and a discussion of possible recommendation for future directions of further study.

## **1.8 CONCLUSION**

This chapter outlines the brief summary of the research project. It acts as basic foundation and introduction of the research study. It clearly defined the problem statement, research background, research objectives, and questions of the research, hypotheses of the study, significance of the study and outline of the study. The following chapter will review the literatures that related to this study.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 INTRODUCTION**

Among significant vital keys to accomplishment for a restaurant is acquiring customer loyalty. According to National Restaurant Association (NRA) in the year of 2003, it has been found that numerous restaurants get an immense measure of benefits from customer loyalty, as general supporters can contribute up to 60 percent of income to the normal check size of \$25 sorts of restaurants.

Customer loyalty can hold customers and empower consistent business achievement including the times where inability to meet consumer loyalty could ordinarily bring about business conclusion. Therefore, operation of restaurant must center both on pulling in fresh out of the plastic new clients and the advancement of long haul association with its customers. As talked about by Reichheld (1999), the advantages of customer loyalty incorporate constant benefit, lower expense of advertising, improving income development per customer, and also expanding the quantity of referrals. Tapeçib (1990) specified that customers who are loyal are unrealistic to be tricked away by a rebate offered by competitors. Competitive advantage can also be created as a perception can be created in loyal customers that there is special value in a brand which makes it distinguishing from its rivals. Heskett et. al. (1994) said that dedicated customers likewise can cover misfortunes brought about when managing customers that are less loyal.

There is a relationship between consumer loyalty, steadfastness, and maintenance of clients (Adams, 2001). In a fine eating diner, abnormal state of