Drivers of brand loyalty in the chain coffee shop industry

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ABSTRACT

The present study aimed to examine patrons' loyalty generation process for a chain coffee shop brand by considering the role of cognitive drivers, affective drivers, brand satisfaction, and relationship commitment. A field survey was conducted in chain coffee shops located in the popular shopping districts of a metropolitan city in South Korea. The proposed model was evaluated by using a structural equation analysis. The results revealed that cognitive and affective factors were in general significantly interrelated; such associations along with brand satisfaction and relationship commitment significantly influenced brand loyalty; and, the brand satisfaction was the most important contributor to building brand loyalty. In addition, the mediating role of study variables was identified. Overall, the proposed theoretical framework contained a sufficient level of explanatory power for brand loyalty. With a lack of research about coffee shop customers' purchasing behavior, the findings can be meaningfully used for the enhancement of customer loyalty.

1. Introduction

Coffee shops have definitely never been out-of-style. In fact, the business is increasingly gaining favor from geographically diverse groups of consumers. The 9.1% global sales growth between 2014 and 2015 has evidently proven the rapid expansion of this sector in the international market (Rompaey, 2016). In the U.S., there are a total of 131,000 coffee outlets currently in operation aiming to reach a receipt of $85 billion by the year 2025 (Coffee Talk, 2016). Likewise, coffee shop sales in the U.K. have made an impressive hike of 28% from 2010 to 2015 and are expected to achieve another 26% growth in the next five years (Mintel, 2016). Not only does the industry immensely flourish in Western countries, the cradle of coffee-drinking lifestyles, but also actively reaches out to different unexploited, yet highly lucrative nations within the Asia-Pacific area, such as Korea and Japan (Friend, 2016). The diversity of players in the coffee chain sector has thus become accumulatively deepened. Starbucks and McCafe are globally operating 22,557 outlets and 5044 outlets, respectively, and thus are the biggest and most intimidating brands. Nevertheless, a huge number of other chains such as Costa Coffee (3036 outlets), Doutor Coffee (1108 outlets), Coffee Bean and Tea Leaf (925 outlets) and Caffe

Nero (683 outlets) are putting their best effort to gain international recognition over these giant corporations (Rompaey, 2016).

Due to the intense competition among international coffee players, brand loyalty has become a strategically critical factor in order for each and every coffee organization to sustainably thrive in today's marketplace. This is because loyal customers are willing to purchase frequently, try other products and services (facilitate cross-buying intentions), bring in new customers as well as create a positive public image for the firm (Tu et al., 2012). It is discovered that a 5% increase of customer retention subsequently results in an astounding 25–75% profit enhancement (Reichheld and Sasser, 1990) and keeping a customer loyal surprisingly costs a company five times lesser than attracting new potential ones (Wills, 2009). According to Kotler and Keller (2009), customer loyalty is the fundamental key ingredient in the recipe of making a truly strong brand. Therefore, many organizations are enormously yearning for a "systematic and well-assisted development of loyalty behaviors among their customers" (Alok and Srivastava, 2013, p.140).

However, coffee shops are currently facing the issue of gaining loyal customers. In a national study, it is found that more than 50% of Starbucks' customers often purchase at its competitors including

Dunkin Donuts and McDonald's, who are also known as 'roamers'. Dunkin Donuts and McDonald's were also found to maintain a relatively high percentage of roamers of 53% and 38% respectively (Business Wire, 2011). The high proportion of roamers has apparently illustrated the lack of loyal customers within the coffee chain sector. Evidently, the fragmentation within the retail space offering consumers with too many choices has made consumers become less loyal to brands than ever before (Russo, 2014). Consequently, there is a pressing need for a more comprehensive investigation into brand loyalty's precursors in the context of coffee shop chain industry.

Given the crucial role of customer loyalty, it is not surprising that a substantial amount of research has been devoted to investigating the antecedents of customer loyalty (Han et al., 2008; Pan et al., 2012). Research on brand loyalty in the coffee shop chain industry, however, is scant. While ample hospitality literature has examined the causal relationships between cognitive responses, affective responses, and customer loyalty (Chua et al., 2015; Gracia et al., 2011; Han et al., 2011; Li and Petrick, 2010; Nam et al., 2011), little empirical evidence has been presented on how chain coffee shop operators can promote their offerings, and consequently, affect customer loyalty. Customer loyalty is a complex and multifaceted concept involving dynamic interactions and exchanges (Dick and Basu, 1994). The degree of customer loyalty to a brand is reflected in customers' intentions to repurchase and in their willingness to recommend the brand to others (Guadagni and Little, 1983). However, behavioral measures (i.e., repurchase intentions, word-of-mouth recommendations) are insufficient to explain the reason behind customer loyalty (Pritchard et al., 1992). Customers who are spuriously loyal to a brand purchase the product/service of the brand for a variety of reasons, such as affordable price, easily accessible, and convenient location. On the other hands, customers who are truly loyal to a brand show affection toward the brand in addition to consistently purchasing the product/service of the brand over time (Dick and Basu, 1994). In an increasingly saturated coffee shops marketplace, the success of marketing coffee shops should be guided by a comprehensive analysis of customer loyalty and its interaction with customers' cognitive and affective responses. An understanding the antecedents of customer loyalty would allow chain coffee shop operators to concentrate on the key factors that lead to customer retention.

Furthermore, an examination of hospitality literature reveals limited research has simultaneously tested the relative influence of cognitive factors on customers' affective responses. Examining customers' evaluations simultaneously in one study allows scholars to assess the relative importance of the predictors on subsequent outcome variables (Ostrom and Iacobucci, 1995), thus increasing understanding of customer decision-making process. Thus, it would be meaningful to examine ways to enhance customer loyalty based on an understanding of how customers' cognitive responses are translated into affective responses. In hospitality services, where both evaluative and affective factors can influence customer loyalty (Henning-Thurau et al., 2002), integrative models that represent the interrelationships among constructs are needed.

In the services marketing literature, a number of empirical studies have suggested perceived quality and perceived value as determinants of customers' affective responses (Cronin et al., 2000; Jang and Namkung, 2009; Kim and Moon, 2009; Ladhari et al., 2008; Ryu and Jang, 2007). The theoretical explanations for the relationship between brand awareness, brand image, and customer emotions are reflected in the role of advertising, in which advertising serves as a multi-function tool (e.g., brand reinforcement, stimulation, and familiarity) which, in turn, induces emotions (Hyun et al., 2011; Stout and Rust, 1993; Strasheim et al., 2007). Studies examining the relationship between cognitive and affective constructs tend to use subsets of constructs (e.g., brand awareness and brand image or perceived quality and perceived value) that are theoretically associated but seldom examined together (Han et al., 2008). Consensus has not been achieved on which cognitive factors are critical drivers of customers' affective responses.

Consequently, this present study attempted to develop an integrative brand loyalty model in the chain coffee shop context addressing current research gaps. The detailed objectives of this research include 1) investigating the relationships among cognitive drivers (brand awareness, perceived quality, brand image, and perceived value), affective drivers (pleasure and arousal), brand satisfaction and relationship commitment in the formation of brand loyalty, 2) examining the relative importance among study variables in determining patrons' loyalty for a chain coffee shop brand, and 3) testing the mediating role of research constructs within the proposed theoretical framework.

2. Review of the literature

2.1. The chain coffee shop industry

The coffee sector has recently become one of the most globally lucrative industries in the food and beverage (F&B) realm. Markedly, a total receipt of $18 billion was earned in 2014 in which sales generated from specialty coffee, generally known as coffee with a distinctive character and no primary defects such as iced coffee, frozen coffee beverages, cappuccino, cafe mocha, latte mocha and espresso (Brown, 2015), contributed 8% of that total and are growing at an astounding rate of 20% in sales yearly (Freidlin, 2014).

Therefore, coffee shops, which are those companies typically selling specialty coffee drink along with various F&B products for consumption either on premises or takeaway, have witnessed a tremendous growth both in their volumes and revenues. With an impressive turnover rate of 9.1% between 2014 and 2015 according to the Euromonitor International data, the industry has significantly outrun leading industries' global sales including the hospitality sector's and fast food branch's by 5.7% and 5.8% respectively (Rompaey, 2016).

Astoundingly, the chain coffee shop industry's rocketing growth has been relatively consistent in all walks of the world, encountering both highly mature and emerging market regions. While North America and Western Europe, normally known for their long successful history of coffee shop businesses, are forecasted to achieve a total of $3.3 billion dollars and $1.7 billion, respectively in new value growth between 2016 and 2020, the Asia Pacific region, a highly potential new marketplace, has projected to be the home of the largest sales increase in chain coffee shop industry, expecting to gain more than $3.7 billion over the same period (Friend, 2016).

The diversity of international coffee chain's players is also comparatively noteworthy. It is undeniable that Starbucks and McCafé are the only two long-standing giant brands, which have truly made their presence at the global scale in terms of the geographic coverage. Nevertheless, a massive number of international brands, especially those emerging from the Asia-Pacific regions, are making great attempts to gain a good share of the global coffee shop sector (Rompaey, 2016). Exceedingly, Doutor Coffee, a Japanese chain, has predominantly covered other attractive Asian markets like South Korea and Taiwan. More impressively, Café Bene chain from South Korea has cast its net even broader into not only their neighboring country (China), but also those located on the other side of the world such as the US, and has cleverly made full use of Korean pop-culture entertainment's high influence in these areas to promote its products (Friend, 2016).

Subsequently, the competition among various players in the chain coffee sector has turned into an intense battlefield in which every firm irrespective of size are embracing different loyalty strategies to build long-term relationships with their customers. Starbucks is noble for being one of the leading chains having a large database of loyal customers. It was ranked 23rd out of 293 companies in the 2015 'Temkin Loyalty Index' and 5th out of 22 fast food chains, only behind Chick-fil-A, Popeye's Louisiana Kitchen, Panera Bread, and Papa John's (Temkin, 2015). Some of its loyalty initiatives include its loyalty rewards system,