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THE EFFECTS OF COUPON PROMOTION ON CUSTOMER RETENTION IN
INDEPENDENT ETHNIC RESTAURANTS

A Research Proposal

Presented To
Dr. Martin W. Sivula, PhD

In Partial Fulfillment of
The Requirements of
Business Information & Decision-Making MGMT 5500
Johnson & Wales University

By
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Abstract

Ethnic restaurants are recently booming in the United States. They highlight promotional strategies to adapt effectively in the competitive market. Will coupon promotions help independent ethnic restaurants attract new and old customers? To answer this question, this study will determine the effects of using coupons on customer retention in independent ethnic restaurants. Based on the literature review, coupon promotion has no effect with return intention to a particular restaurant. A sample of $N=400$ will be collected from convenience sampling of twenty independent ethnic restaurants in Rhode Island which will be obtained through *Yelp.com*. Pearson's r will be used with a standard alpha level ($\alpha=0.05$) to assess whether or not to reject the null hypothesis. The results of this study will aid restaurateurs in their marketing strategy and to improve the overall quality of the business.

Keywords: coupon promotion, customer retention, restaurant marketing, ethnic restaurant

Statement of the Problem

With the growing number of immigrants that come to the United States, it is of no doubt that ethnic cuisine will continue to dominate the restaurant industry in the next 20 years. The National Restaurant Association [NRA] (2000) stated that American food dollar is spent on food prepared away from home and by 2010 more than half of the American food dollar is expected to be spent on food prepared away from home (as cited in Jackson, Titz, & DeFranco, 2004). In addition, there is an increasing demand for ethnic food and restaurateurs strive to meet the standards to compete with the existing market (Khan & Oyewole, 2014; Agarwal & Dahm, 2015). Like American restaurants, ethnic restaurants use promotional tools to assist and strengthen their marketing strategies; one of them is the use of coupons. Myung, Barrash, and Feinstein (2006) state that “Marketers believe that a coupon is an effective promotional tool in generating a short-term sales increase and attracting new customers”. Although there are studies conducted regarding the use of coupons as a promotional tool in restaurant industry, only a few studies focus on the effect of using coupons in independent ethnic restaurants.

Evidently, there is a significance in conducting a study to determine the effects of coupon promotion on repeat purchases in restaurant industry. A study conducted by Myung, et al. (2006) determined the effects of coupon promotion on repeat visits in restaurants. Likewise, a study by Lin, Yang, and Wan (2015) in Taiwan investigated whether discount depth affects consumers’ re-consumption willingness and if brand image moderates this effect. The purpose of this study, therefore is to determine the effects of using coupons on customer retention in independent ethnic restaurants. Existing studies are only limited to coupon promotions used in restaurants. There was no specific study made to determine the effect of coupon promotion on customer retention to not just restaurants, but independent ethnic restaurants.

Research Questions and Hypotheses

For the purposes of this study, the following questions will be addressed:

1. Is there a relationship between coupon promotion and customer retention in independent ethnic restaurants?
2. What effects do coupon promotion have on customer retention in independent ethnic restaurants?
3. What is the likelihood of repeat visits to an independent ethnic restaurant of a first time diner if a coupon is redeemed?
4. What are the factors that influence customers to return to an ethnic restaurant?

As part of this study, the following hypotheses are formulated:

H₀: There is no significant relationship between coupon promotion and customer retention in independent ethnic restaurants.

H₁: There is a significant relationship between coupon promotion and customer retention in independent ethnic restaurants.

Review of Related Literature

The Rise of Ethnic Restaurants in United States

Eighty percent of diners visit at least one ethnic restaurant per month, not including the majority who consider themselves frequent diners (National Restaurant Association [NRA], 2015). The demand increase for ethnic restaurants are shown to be directly related to the increase in the number of immigrants in the United States. The population of immigrants in the country are expected to grow more due to the rising population of international students in addition to families of immigrants brought in the country through petitions. Roseman (2006) stated and found the following:

Immigrants are increasing in America, especially from Latin America and Asian countries. In the last two decades, most of the ethnic growth has come from two major groups; the Asian and Pacific Islander population has tripled, and the Hispanic population has more than doubled (U.S. Census, 2002). It is forecasted that the Hispanic and Asian populations will triple over the next half century (U.S. Census, 2004). Growth patterns in ethnic subcultures have had a significant impact on the eating behaviors of Americans. (Wallendorf & Reilly, 1983)

As the number of the immigrant increases, the number of restaurants offering a wide variety of ethnic cuisine increases at the same time (Khan & Oyewole, 2014). Ethnic restaurants are considered “foreign” to the American population since they offer unfamiliar dishes in a certain area such as cities and even in suburbs. These restaurants continuously emerge and are generally owned by individuals who belong in that specific homeland then decided to introduce their cuisine in the area (Su, 2011).

The increasing popularity of ethnic restaurants contribute to the addition of ethnic food and ingredients like sushi, olives, naan, pita, and marinated vegetables in grocery stores (Roseman, 2006). Most ethnic themed restaurants are a success, thus perpetuate in the United States. In large cities such as New York, Atlanta, Washington D.C., and Los Angeles, Indian and Indian-fusion restaurants together with Spanish, Brazilian, Chinese, Thai, Mediterranean, Vietnamese appeal to a more diverse consumer and are therefore expanding in the urban market (Roseman, 2006). Ethnic restaurants serve as a fulfillment in the gap between cultures. Who is the typical ethnic restaurant customer? A study conducted by Khan and Oyewole (2014) shows that Generation X and Y are the most frequent diners and patrons of these types of restaurants. They are young, educated, working professional who are usually well-traveled and occupy the metropolitan areas, cities, and suburbs. There is an association of this study with Roseman (2013) which proved that individuals who are more educated and earn higher income choose ethnic foods more often than their counterpart. “Impulsive” customer as identified by Menu (1999) is another type of ethnic restaurant customer according to Khan and Oyewole (2014). The “impulsive” is a young male who has some college education. Roseman (2013) also found that:

One study found that the reasons for selecting ethnic restaurants could be divided into three distinct categories (New Survey, 1995). The first category (30% of diners), called culture-oriented, described those who were actively looking for exotic dining experiences. Equally divided between men and women, the culture-oriented diner tended to be well educated, employed in a managerial/professional occupation, and had a higher than average income.

International cuisines are considered to be not only packed with nutrients but also flavorful. Some ethnic cuisines that belong to these descriptions are: Indian, Italian, Chinese, Japanese, Mexican, Middle Eastern, and Thai. A wider range of age groups including children are slowly accepting the above mentioned cuisines in their palette. Seniors, however, are generally more spice-sensitive. They will most likely pick the most popular, Italian, Mexican, and Cantonese-Chinese (Su, 2011; Roseman, et al., 2013). In today's generation, some consider them "mainstream" rather than ethnic (Roseman, et al., 2013). Moreover, the wide range acceptance of these group to ethnic restaurants proves to show that they find value for their money during restaurant visits. In addition, they are more adventurous in trying something different other than their own cuisine. Furthermore, Roseman, et al. (2013) found the following results in her study:

Significant associations were found between respondents choosing ethnic food because they like to "eat foods that are of a different ethnicity or culture than their own" and gender, age, race, education, and household income when they ordered Chinese, Indian, American, Caribbean, and French food. Females were more likely to prefer Chinese and Indian food because of "eating foods that are of a different ethnicity or culture."

Americans are also considered to be more adventurous and well-traveled. International travel leads to cultural diversification, hence resulting to more knowledge in ethnic cuisines (Khan & Oyewole, 2014). A study was conducted about African Americans' image attributes and preferences for ethnic or international restaurants (Khan & Oyewole, 2014). Participants were African American college students from a predominant institution. Quality and service had the highest impact on their ethnic restaurant choices, followed by food and atmospherics, location and value, and lastly, culture and experience. However, there was a contrasting result with

regards to Roseman, et al., (2013). Khan and Oyewole (2014) proved that African American students did not rank “healthy nutritious food” as a high priority in choosing ethnic restaurants.

Every restaurant offers its own special atmosphere. Different atmosphere will fit into types such as formal, casual, quick-service, and others. The restaurant atmosphere serves as its identity which is established by the owner and executed by the whole staff. Consumers anticipate to experience a unique dining atmosphere when they visit ethnic restaurants. It is a psychological idea of being in an unfamiliar place which will bring an exotic space. The rapid growth of ethnic restaurants can perhaps be explained by this (Su, 2011).

Coupon Promotions and Customer Retention in Restaurants

Advertising and marketing strategies urge consumers to purchase. The main purpose why advertisers and marketers promote is to provide information about a certain product or service to increase sales or revenues (Jackson, et al., 2004). Some examples of promotional tools used by retailers are samples, coupons, rebates, price packs, premiums, and prizes-- proven to attract short-term customers. Short-term customers only lead to low profitability hence techniques on how to retain these customers for future purchases are necessary. Coupon is one of the promotional tools (Lin, et al., 2015). Historically, companies also introduced the use of coupons as a promotional strategy. Buckinx, Moons, Van den Poel, and Wets (2004) stated the following:

Since the late 19th century companies bring into play coupons in their marketing strategy.

Today, this type of promotion still is the most important promotion medium. (Bawa, Srinivasan, & Srivastava ,1997)

Coupons also play a considerable role in purchase decisions in that they motivate consumers to obtain more products in bulk or to purchase them ahead of time (Taylor & Long-Tolbert, 2002).

Restaurants have been known to practice the use of coupons to attract customers and as a part of their on-going marketing techniques and strategies (NRA, 2012). Lin, et al. (2015) stated that:

Promotional coupons are already commonly utilized in the restaurant industry (Taylor, 2001). Statistics indicate that in the United States, approximately 10–15% of restaurants spend roughly 60 billion dollars each year on promotional coupons (Perlik, 2002). These types of promotions can not only attract new customers (Taylor and LongTolbert, 2002; Varadarajan, 1984) but also encourage repeat business from existing customers (Kirishna and Shoemaker,1992). All of these effects are beneficial to a food service business' long-term profitability.

Using coupons as a promotion in restaurants enhance the willingness to re-consume, ability to increase sales, attract new customers, aids in intense market competition, and drive new customers to switch brands (Lin, et al., 2015; Buckinx, et al., 2004; Myung, et al., 2006; Taylor & Long-Tolbert, 2002). The question of whether customers who redeem coupons will potentially return even without the presence of coupons on their hands so they will purchase food for the original price sojourns in the minds of restaurateurs, marketers, and business owners.

Coupon promotion is dominantly used in the restaurant industry. However, only a handful of studies were conducted in relation to the use of coupons in restaurant promotions. Myung et al. (2006) examined the effects of coupon promotion on return intention to restaurants. Two main contrasting literature were considered in their study. The first study showed the positive perspective that consumers will continue to buy the product despite the absence of coupons while the second study showed that consumer visit declines without the coupon. The limited number of research on this area validated the purpose of their study. Findings of their

study showed that: 1) redemption of a coupon did not affect return intention to a restaurant; 2) face value of the coupon did not affect return intention to a particular restaurant; 3) quality of food and service are better indicators of return intention than coupon use or face value. According to the authors a coupon strategy may fail if the restaurant does not focus on customers' expectation first (food and service quality). Regular patrons are also more likely to return than new customers.

A similar study conducted by Taylor and Long-Tolbert (2002) which was focused on examining the influence of coupon on consumers' quick-service restaurant (QSR) purchases and was performed in a sandwich shop (test establishment) near the campus. The target population of the study was college students since they are known to be one of the most price-sensitive consumers. Taylor and Long-Tolbert (2002) stated and found the following theories:

- 1) Theories on consumer learning argue for a positive association between promotion use and repeat purchases. The thinking there is that promotions may be perceived by consumers as rewards for their previous purchases. 2) On the other hand, consumer-behavior theorists who suggest that promotions have a negative effect on repeat purchases favor an attribution and self-perception. Any attributions consumers make about their purchases during the promotion period will subsequently determine their purchase probability in the post-promotion period.

A random sample of 984 full-time college students participated in the study and revealed that coupon redemption did not negatively affect repeat-purchase behavior, despite the difference in participants' prior purchases at the test establishment. Furthermore, the study revealed that participants who redeemed the coupon were 7.5 times more likely to return to the QSR than non-redeemers. The results and evidences of the study support the marketing theory which states that

“promotions function as rewards that allow consumers to “learn” to continue their purchase behavior. It was therefore concluded that “price alone-even among price-sensitive consumers- does not drive consumer responses to QSRs”.

Although there is a rapid increase in the number of ethnic restaurants in the country, few literature is available to reveal the success or failure of independent ethnic restaurants. Several ethnic restaurants are not franchised which means that most of them are independently owned, thus harboring limited resources to thrive in the competitive restaurant industry. Larger cities such as New York, Atlanta, Miami, Boston, Los Angeles, San Francisco, and Las Vegas house several independent restaurants not to mention the smaller cities like Providence. Agarwal and Dahm (2015) performed a resembling study focused on the factors that contribute to the success of independent ethnic restaurant. Based on their research, customers evaluate franchised and independent restaurants differently. They identified difficulties that independent ethnic restaurants encounter in their business venture. The authors also found and stated the following:

Ethnic food restaurateurs face unique marketing hurdles with respect to customers (Jang & Ha, 2009; Lee et al., 2012; Roseman, 2006). For example, advertising in native language media such as radio stations and newspapers may not reach the upper-income professional. For customers familiar with particular ethnic cuisines, authentic cultural foods and dining experiences are critical and a loss of authenticity may be a strong contributor to the failure of ethnic restaurants (Parsa et al., 2005). In addition, ethnic restaurant customers of restaurants often rely upon friends of the same ethnicity to recommend particular restaurants. (Roseman, 2006)

The study used a convenience sample of 20 restaurants from two counties (Jefferson and Harris) in southeast Texas. The study used survey combined with personal interview to the restaurant

owner to enhance consistency and thoroughness of responses. Results of the study revealed that either a college education or prior business ownership contribute to a successful business. “Competent management” as identified from the results of their study showed to be the most important success factor. Some other contributing factors to success identified were strong cost control, service quality, and staff supervision. Strong kitchen management also play a significant role in an independent restaurant’s success.

Restaurant industry is considered to be one of the highly competitive markets. They compete with respect to service, food quality, price, and location. The research studies examined not only revealed that patrons are not only concerned with value but with the quality of food and service. Independent ethnic restaurants compete with customer traffic and invent ways on how to improve menu offerings. An environment as competitive as the restaurant industry, options of guests rely on excellent and unique strategies. Although price sensitivity as a segmentation variable is proven to be a contributing factor in any marketing strategies performed, customers today are not only driven by this variable but with quality and brand image as well (McCall & Bruneau, 2010; Lin, et al., 2015; Myung, et al., 2006; Taylor & Long-Tolbert, 2002).

Methodology

Research Design

The purpose of this study is to determine the effects of using coupons on customer retention in independent ethnic restaurants. To obtain the primary data, self-administered questionnaires will be distributed to customers in selected independent ethnic restaurants. Questionnaires will be given after ordering either their appetizer or entrée. These will measure as to how customers’ will perceive coupons as an influence to whether or not they will return to the restaurant.

Sample/Sampling and Data Collection

A convenience sampling of independent ethnic restaurants in Rhode Island will be chosen through *Yelp.com*. Casual independent ethnic restaurants will be given high priority during sampling. Twenty independent ethnic restaurants will be called and then visited to ask for permission from the owners and managers to conduct the study. A formal visit will be conducted prior to data gathering to ensure that any information that will be obtained from the customers will be kept confidential. Furthermore, plans and strategy on which day of the week and time of the day to conduct the survey will be discussed with the owners and managers. This will establish an organized data collection. After planning and determining when the survey will be conducted, researcher will visit each independent ethnic restaurant based on the specified time and day agreed with the owners and managers.

Data collection will be performed during the time and day that owners or managers will be present in case any problem arises. The researcher needs to be present during data gathering. Participants will be informed prior to questionnaire distribution about informed consent and confidentiality. Once the participants agree, they will be given the questionnaires. The goal of the study is to reach at least $N=400$.

Instrumentation

The questionnaire which will be designed will use English as a medium of instruction. The survey questions will be based on the questionnaire used in the study by Myung, et al., (2006) although the use of restaurant scenarios to measure responses of participants will not be performed since the study is designed to be conducted in a real restaurant setting. An email and personal mail will be sent to the authors to grant access for the questionnaire used in their study to be used a guide in preparing for the questions to be asked for participants. The email will

contain information about this study which will be signed by the researcher and co-signed by the professor-in-charge for increased validity. Questions will be modified and additional questions pertinent to the current study will be collaborated. In the event that permission to use the survey question will not be granted, researcher will create his/her own set of questions.

The first part will gather demographic information about the participant such as age, gender, frequency of dining out, educational level and ethnicity. The second part will contain sample questions such as:

1. Is this your first time in an ethnic restaurant?
2. Have you ever redeemed a coupon from an ethnic restaurant?
3. Does coupon promotion influence you in revisiting an ethnic restaurant?
4. What would make you revisit an ethnic restaurant?
 - a. Food quality
 - b. Ambiance
 - c. Service quality
 - d. Price
 - e. Others

The likelihood of a repeat visit in an ethnic restaurant will be measured using a seven-point Likert-type scale with anchors ranging from “Not at all likely” (1) to “Very likely” (7). Sample questions will be:

- If you are to redeem a coupon from an ethnic restaurant, how likely are you to return next time?
- Would you be more willing to return in an ethnic restaurant if they offer coupons?

Seven-point Likert-type scale ranging from “Not at all important” (1) to “Very important” (7)

will also be used in assessing the importance of restaurant quality. Each restaurant quality will be measured item by item. Sample questions will be:

- How important is food quality in your ethnic restaurant dining experience?
- How important is service quality in your ethnic restaurant dining experience?

Data Analysis and Procedure

After all the responses are collected, statistical tests will be performed and will use the standard alpha level ($\alpha=0.05$). Mean age of the respondents will be computed. This procedure is important in comparison with the study conducted by Myung, et al., (2006) which mostly focused on undergraduate students. Since this study will be based on their findings, it will be necessary for the age group to be more evenly distributed to eliminate errors. Percentage of each groups such as male and female, education level, and ethnicity will also be computed as part of description of participants.

The independent variable in the study is coupon promotion and the dependent variable is customer retention. Researcher will use Pearson product-moment correlation coefficient (Pearson's r) as statistical test. Since the two hypotheses of this study focus on whether the two variables are significantly related, this test will determine if there is a relationship between the two variables. The rest of the research questions will be answered using different statistical tests.

Conclusion

In creating a successful restaurant, several factors should be considered and one of them is to get the customers to come in, try the food and make them return. Promotional strategies are implemented by restaurateurs and marketers which focus mostly on creativity to stimulate the interest of patrons. New or old, once they come in at the door, the goal is to have them come back with other groups to try your product.

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