

**WHAT IS THE IMPACT OF LOYALTY PROGRAMMES ON  
CONSUMER BUYING BEHAVIOUR IN THE UK COFFE  
RETAIL SECTOR?**

**A Comparative Study of Starbucks, Costa Coffee and Caffè Nero**

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*"You don't earn loyalty in one day. You earn loyalty day by day.*

*(Jeffrey Gitomer)*

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## **Abstract**

*Consumer behaviour and loyalty are central topics in Customer Relationship Marketing. Yet, the variables that motivate consumer buying behaviour examine only brand loyalty perspective, whereby is impossible to see the impact of loyalty programmes individually. In this study, we extend the loyalty programmes with a prediction of their effectiveness on customer's buying behaviour such that loyalty programmes can be deployed for targeted motivating consumer buying behaviour and furthermore creating single brand loyalty.*

*To this end, we investigated the nature of consumer buying decision process to see which elements could be involved to it. Soon after, existing loyalty programmes have been examined to understand if they cover or able to cover these elements. Also consumers' thoughts have been listened and their behaviour has been observed. And we distinguish that (i) consumers consider loyalty during their purchasing decision, (ii) given that loyalty programmes are key factor for developing loyal customers, (iii) however, not every programmes have same power for transforming consumers to loyal customers.(iv) Therefore, before launching any loyalty programmes, namely investing big capital, their impact on consumer buying behaviour needs to be checked.*

*Hence, this study concentrates on the impact of loyalty programmes on consumer buying behaviour. For rationality and validity of the study, considering rapid growth rate and the researcher special interest, coffee retail sector with in the UK, has been used for examination. Leading high-street coffee brands, Starbucks, Costa Coffee and Caffé Nero have been applied to this comparative study considering their variety of loyalty programmes.*

**Keywords:** *consumer purchasing decision, loyalty programmes, loyalty conceptualisation modes, different forms customer loyalty, components of loyalty programmes.*

# Chapter 1

## Introduction

Customer buying behaviour has been a topic of high attention in the academic and business world (Howard&Sheth-1969, Winer-1986, Mountinho-1993, Solomon et al. 2006), and understanding it well is highly valuable for firms ( Lake,2009). During the last decade, loyalty programmes and their effectiveness have also been studied with much interest (Keiningham,2005). On the other hand, the two phenomenons have been surprisingly rarely examined together.

Studies of customer buying behaviour have largely ignored to study the reasons for customers' loyalty, and studies of customer loyalty programmes essentially look into rewards and loyalty card give away by firms. Regardless of this division in research, customer buying behaviour and loyalty programmes are directly linked: in other words they can be thought of as parallel pillars. For that reason, this thesis will concentrate on both phenomenon and the researcher claims that through this approach, a fair awareness of the reasons that affect customer buying behaviour and loyalty can be established.

This chapter starts with a dialogue of the background of the present research. After that, the purpose of the present research is put forward (section 1.2). Section 1.3 presents the statement of the problem, and section 1.4 brings in the experimental context of research, the retail coffee sector in the UK. Finally, the chapter ends by a presentation of the structure of other chapters (Section 1.5).

## **1.1 Background of the Research**

Marketers needed to work harder than normal during the time of massive hesitation and transformation. For the time being, the consumer, the retailer and the media have changed. Therefore the marketers have also changed. On the subject of one thing that has stayed is demand for performing well. The necessity of bringing profit and growth every quarter has pushed them to make a number of modifications in order to gain higher shares in the market. Therefore it is important for marketers to open their eyes to new marketing concepts that could well work out for achieving their biggest target. These are collectively called loyalty programmes. Essentially the marketing programmes will help build the loyalty and more profit from business perspective.

Marketers, policy makers and academics came up with many outstanding ideas over the years. Some of them have described the importance of loyalty. Such as:

- The consumers who have the biggest value for companies not often have a dominant brand as little as 20% of them purchase the same brand more than half the time (Hill, 1993).
- The consumers, who do not count or do not care by companies, purchase as much as much as 80% of brand volume (Hallberg, 1995).
- The direct communication with the customers can raise their purchase as much as 40 percent (Schultz, et al 2009).
- The Consumers who are on the company's database do not resent the mailings they receive. In contrast, they like them (McConnell, et al 2003).

The importance of knowing customers examined well in many previous studies and researchers came up with relevant information as can be seen above. This research aims to find further answers how to get familiar with customers and build special relationship between brand and customers. Therefore the research looked into the literature largely on consumer buying behaviour and loyalty. It helped to build a bridge between both issues:

by absorbing customer loyalty better, furthermore which factors have an effect on consumer buying behaviour, and vice versa. However, loyalty does not have a single meaning. Therefore the research illustrated the literature that lead to its different meanings. As a result of the context of the research, components of loyalty programmes are pointed out. The literature issues of the research are examined thoroughly in Chapter 2.

## ***1.2 Purpose of the Study***

The general purpose of this study is to identify, describe and analyse the loyalty programmes that have an impact on customer buying behaviour. The context of the study is coffee retail sector in the UK.

The research questions can be summarised in the form of the following six questions:

- What is the process that we can identify as consumer buying decision?
- What are loyalty programmes?
- What is the impact of loyalty campaigns on consumer buying behaviour?
- What do coffee shop brands provide for customer within loyalty programmes?
- Which components can coffee shop brands add more to their loyalty programmes?
- What can coffee shop brands do better for making their customers loyal and furthermore for positively affecting their purchasing decisions with loyalty?

Answers to these questions will be presented in different chapters of this research. Table 1 review the stages of the study and outlines the questions that will come up in each stage, beginning with the research questions that guided the literature review.

**Table 1: Research Questions for the different stages of the study**

<b>Chapters/Stages</b>	<b>Research Questions</b>
<ul style="list-style-type: none"><li>• Literature Review ( Chapter 2)</li></ul>	<ul style="list-style-type: none"><li>• What is the process that we can identify as consumer buying decision?</li><li>• What are loyalty programmes?</li><li>• What do coffee shop brands provide for customers within loyalty programmes?</li></ul>
<ul style="list-style-type: none"><li>• Findings and discussions (Chapter 4)</li></ul>	<ul style="list-style-type: none"><li>• What is the impact of loyalty campaigns on consumer buying behaviour?</li><li>• Which components can coffee shop brands add more to their loyalty programmes more?</li></ul>
<ul style="list-style-type: none"><li>• Conclusion and Recommendations (Chapter 5)</li></ul>	<ul style="list-style-type: none"><li>• What can coffee shop brands do better for making their customers loyal and furthermore for positively affecting their purchasing decisions with loyalty?</li></ul>

### **1.3 Statement of the Problem**

As our main research question is “What is the impact of loyalty programmes on consumer buying behaviour?” the present study firstly deals with examining consumer buying behaviour. Solomon (2006) explained consumer buying behaviour as a process, however, he did not mention where the concept of loyalty appears. Initially, the present study aims to point the step where the concept of loyalty becomes essential for companies to have a role in their customer’s buying decision process. Again, Uncles et al (2003) examined how different types of loyalty can shape consumer buying behaviour, thus, it is still not enough to know about loyalty programmes’ impact on consumer buying behaviour in general, within coffee retail sector.

## **1. 4 Overview of Coffee Retail Sector in the UK**

According to Davis (2011), there were many disbelievers for success of the rapidly enlarging coffee shop market a few years ago, who were supporting their idea with the continuous forecasts. However, these forecasts never became real. Furthermore, the big chains such as Costa Coffee, Caffé Nero and Starbucks carried on expanding at a hysterical speed and have progressively bonded with high-margin part of the coffee retail and hospitality market (Hassanien, et al 2010). In order to see the uncompleted increase in the coffee market, it is enough to look at the history of the Whitbread that owns Costa Chain. They are the biggest coffee shop retailer in the UK with more than 1000 branches (<http://www.costa.co.uk/>). They also seem to enjoy an amazing 35 consecutive quarters of like-for-like growth in 2010 ('Project Café 10' Report, 2010). As far as the research concern, there are not many retail sectors that could maintain such a big increase for one of their major actors like Costa Coffee.

According to 'Project Café 10' report (2010) which has been prepared by Allegra Strategies, one of the important research companies in this field, we will be facing with 16,700 outlets in coffee retail sector by 2013, it is currently 14,000. Also 800 outlet units were added to the sector only in 2010. While UK retail market growth is 2.5% in 2010 according to the same report, the coffee retail sector had a 12% increase. As the facts outlined above show, coffee shops are one of the most important and profitable feature for the British high streets.

Considering the importance of the sector, the present research aims to have a comparative study in this field with its bigger players. Therefore, this section will be followed by information given about these major companies.

### **Costa Coffee**

Costa Coffee is one of the oldest coffee chains in London. It was established in 1971 by Sergio and Bruno Costa for producing unique Mocha Italian blend taste. Costa Coffee is

the one of the biggest player in the field with the maximum number of branches in the UK. Surely, it justifies the strategy of Costa Coffee Management that mainly expands its name and coffee to pubs and other brewing businesses some years back. The continual drink quality helped the company for this significant expansion.

Costa brothers aimed to make everyone who walks into a Costa store feel different. The difference, what they were planning was to give customers the warm and welcoming atmosphere (Burgers, 2008). Furthermore, they tried to keep their range of drinks wild and reliable. Also they still give extra importance to their front line employees' trainings and passion as a company policy. The company believes that the combination of well trained front line and the store atmosphere will make the Costa Coffee different than its rivals (<http://www.costa.co.uk/>).

## **Caffé Nero**

Another famous coffee shop brand is Café Nero which has been established in 1997. The idea belongs to Gerry Ford. He wanted to create and introduce a high quality and cosmopolitan stylish Café for Great Britain. He designed the Café to be realistically Italian, provide very high quality Italian coffee and fresh food in a local friendly place, set up with a welcoming, chilling out atmosphere. He bought places in London to plant his ideas in to the coffee houses. In 1999, which is known as a best year for Caffé Nero, the group went outside London and opened new coffee house in Manchester. Lately, this coffee shop ranked as 'the best coffee house' by UK coffee lovers (UK Coffee Report, 2000). By the end of 2000, the Company won The British Design Council Award for the best company identity, indicating the best brand in the UK (<http://www.caffenero.com/>).

In March 2001, Caffè Nero became a member of the London Stock Exchange and then turned into the largest publicly listed coffee house company in the UK (Bloomberg Business week, 2004). The Company had a place as a 20th rapidly expanding company of Europe in Business Week Magazine in 2005. Again during the same year, customers

ranked Caffé Nero as the number one coffee house brand, it was its 5th repeated win (The Guardian, Friday 4 February, 2005). In early 2007, Ford took over the company by himself and Caffé Nero turned into the largest privately owned independent coffee house brand in the UK (<http://www.caffenero.com/>). Today, Caffè Nero has over 400 stores, nearly 3,000 employees, and has become one of the best recognised and most admired food and beverage brands in all of Britain (<http://www.caffeenero.com/>).

## **Starbucks**

Three partners had decided to open first Starbucks coffee house in Seattle in Washington in 1971. However only in May 1998, they effectively came into the European market through its acquisition of 65 Seattle Coffee Company stores in the UK. These two companies shared a familiar culture concentrating on a promise to make the coffee special, parallel organisation's consequences and common respect for neighbourhood and customers. Also the company gives extra importance to purchase and roast high-quality whole bean coffees. They see it as a core, however, it is not the only thing they do (<http://www.starbucks.co.uk/>).

Starbucks Coffee houses generally become an inspiration for coffee lovers. Mainly because customers know that they can be sure of authentic service, a fascinating atmosphere and excellent cup of knowledgeably roasted and deeply brewed coffee whenever they desire (Raynolds, 2002). The coffee houses are not only passionate about coffee selling, also most of the things come with a complete and rewarding practices, such as a choice of quality teas, sweets and sandwiches. Furthermore, the store atmosphere and the music help inspiring the visitors. Therefore it is not uncommon to see people being in Starbucks coffee houses to get together and even study or work. The idea helps them to announce their coffee houses as a neighbourhood gathering place. (Thompson & Arsel, 2004)

## ***1.5 Structure of the Study***

Introduction for the research and also the purpose and context of the study have been covered in chapter 1 as well as the information about the coffee retail sector in the UK and its key players that have been a subject for the present research.

Subsequently, in order to find a way to answer the research question, relevant literature have been examined (that is Chapter 2). According to the literature, essential elements have been pointed, before starting to target these points using relevant methodology is discussed in Chapter 3. The necessary data has been collected according to the methodology and presented, moreover discussed in Chapter 4.

Over all study has been concluded and the researcher gave the recommendation for the companies who named for the present study and the other players in the coffee retail sector. Lastly, limitations and further directions have been discussed (that is Chapter 5).

## **Chapter 2**

### **Introduction to Literature Review**

This part of the research paper begins by examining the literature to explain consumer purchasing decision, to provide a definition of consumer buying behaviour, and to determine the influences of loyalty programmes on consumer buying behaviour in Coffee Retail Sector. In this chapter, the researcher aims to give clear understanding of the relationship between consumer purchasing decision and loyalty programs. During the review of relevant literature, previous research papers, books, annual reports and journals have been considered.

#### ***2.1 Consumer Purchasing Decision***

In order to understand influences of loyalty programmes over consumer buying behaviour we have to take a closer look at consumer purchasing process steps given below. Examination of this process may show us how consumers decide to purchase any service or goods. Then as identified in our research objectives we will consider where the step of loyalty appears as a powerful concept.

Consumption is daily and simple process for everyone. However consumptions of any item is a decision making process that is becoming more complicated in today's environment where we have so many options to choose from. According to Solomon (2006) this process consists of four steps; (a) problem recognition, (b) information search, (c) evaluation of alternatives and (d) product choice. Once the process is completed, consumers also tend to use its outcome when it is time to make the similar choice.

The need of studying those steps will help us understand the logic behind the process of purchase decision. From a business perspective, companies need to be aware of reasons

for purchase decisions so they can use the awareness to gain competitive advantages over their rivals. Aforementioned steps will be evaluated below individually.

According to Solomon (2006), problem recognition takes place whenever we realise important difference between our existing conditions and needs. We simply can adapt this situation to our case with the example of early or late afternoon behaviour. People will want to have a cup of tea or coffee in order to wake up or just keep themselves awake. This could be recognition. Once a consumer recognises a problem, he/she needs sufficient information to exceed it, such as which type of coffee to choose and how to personalise it.

Even the simple process involves many factors. While some of us search the market before the purchase decision, others enjoy browsing just for the fun of it (i.e. pre-purchase research/ongoing research) (Bloch, et al. 1986). With the help of the research, consumers are likely to have more internal memory. However they may need to supplement this knowledge with outdoor research which may be obtained from campaigns and advertisements. Therefore, coffee companies display their adverts in social and electronic media to influence consumers' mind.

Furthermore, people tend to care their peers' opinion during their search process (word of mouth) (Midglet, 1983). For that reason, the idea of providing identical experiences for consumers will be seen as the cheapest way of the advertisement according to word of mouth theory (Solvang, 2008). When consumers have enough knowledge about the item, they can see and compare the alternatives more precisely. While there are many beverages provided by many coffee companies, consumers' job is becoming complicated. However companies, to make complicated process easier for consumers, have already implemented differentiation policies in many aspects. While people are buying their cup of coffee with the habitual decision, now they are considering several brands and their programs that provide loyalty and differentiation without expecting from customers to pay any extra. On the other hand, consumers still categorise the coffee companies; considering store atmosphere, customer services and social responsible behaviour and so

forth. All aspects have input for product choosing level and while considering a few criteria consumers narrow down brands before making final decisions. Studying consumer decision process and understanding these criteria is the way to success for any company. Before launching any programmes or campaigns, marketing departments' aim must be to find the way to associate consumers with the brand.

Successful relationships between customers and brands lead to repeat purchase and, ideally, loyalty towards a brand. Therefore, loyalty occurs in the second step and keeps its importance until the end of the process. Our role in this study is to find out the loyalty programmes' effect on this decision process, and then loyalty can simply be narrowed down to evaluate its implementation styles and their effect.

## ***2.2 Loyalty Programmes***

Although loyalty occurs during the process of buyer decision, it does not lose its importance until the end of the process. Simply the purchasing decision process does not end with “to buy or not to buy” decision (Martin & Selart, 2001). Once potential consumer becomes the customer, firms need to find the way to keep them loyal just like customer loyalty programs aim for. Also firms can try to change their decision with the help of attractiveness of loyalty programs.

Basically, two significant aims are noticeable for those programs. The first one is raising sales revenue by increasing buying/custom level and the variety of goods/services purchased from firm and the second aim is protective. Once a closer connection between the brand and current customers is built, the customer base will be maintained (Uncles et al 2003) that provides customer retention.

The value of customer retention has been compared to a “leaky bucket,” the logic of which is nicely captured in the following quote:

*“As a company loses customers out of the leak in the bottom of the bucket, they have to continue to add new customers to the top of the bucket. If the company can even partially plug the leak, the bucket stays fuller. It then takes fewer new customers added to the top of the bucket to achieve the same level of profitability. It is less expensive and more profitable to keep those customers already in bucket. Smart business people realize that it costs five to ten times more to land a new customer than to keep a customer they already have. They also recognise that increasing the number of customers they keep by a small percentage can double profits.”(Lenz, 1999)*

With customers’ retention and profitability compared above we can understand how to save cost focusing on the real meaning of loyalty. From a business perspective, understanding the meaning of loyalty is straightforward with the help of above quote. However in this research our focus will be the meaning of loyalty from the consumer’s perspective.

Where the spotlight is on individual customers, loyalty programs can be distinguished as tools to enhance single-brand loyalty, reduce price sensitivity, providing consumer retention with the help of advertising or sales people, diminishing the want to the substitute brands, increase reinforcement from word of mouth, charm a big number of customers, and/or raise the quantity of product purchased (Bolton, et al 2000). Hence, in this research, a “loyalty programme” is defined as a program that allows consumers to feel special with the type of service and store atmosphere, customise their purchase with no extra charge and collect free goods depending on their frequency level and etc.

Naturally these programmes propose connection and economical rewards to consumers, and in some cases advantages also go to third-actors such as charities (Uncles et al, 2003). As mentioned in many studies such as Liu, Y. (2007) and Yi and Jeon (2003) we can consider loyalty programs as value sharing vehicles that can improve consumers’ awareness about firms’ offer and policies. However, in the literature there is not generally approved definition for loyalty. Related to our objectives we will attempt three popular conceptualisations to find out consumer’s behavioural change based on loyalty (Chestnut, 1978; Dick and Basu, 1994; Oliver, 1999). Those three models may bring their specific behavioural type of customers. Those models illustrated in figure 2.1 below and followed by figure 2.2, which can help reader to see specific behavioural type of customers.

## 2.2.1 Loyalty Conceptualisation Models

The models, which are illustrated below, clearly explain the loyalty towards consumer behaviour. In addition studying those models formulates comprehensible understanding to consider diversifications of consumers towards loyalty programs. According to the conceptualisation models, loyalty is explained as follow;

- loyalty is mainly an attitude that sometimes causes a relationship with the brand (model 1)
- loyalty is mostly articulated in terms of exposed behaviour (i.e. the sample of past purchase) (model 2); and
- loyalty is buying diminished by the individual's features, circumstances, and/or the purchase situation (model 3) (see figure 2.1), (Uncles, et al 2003)

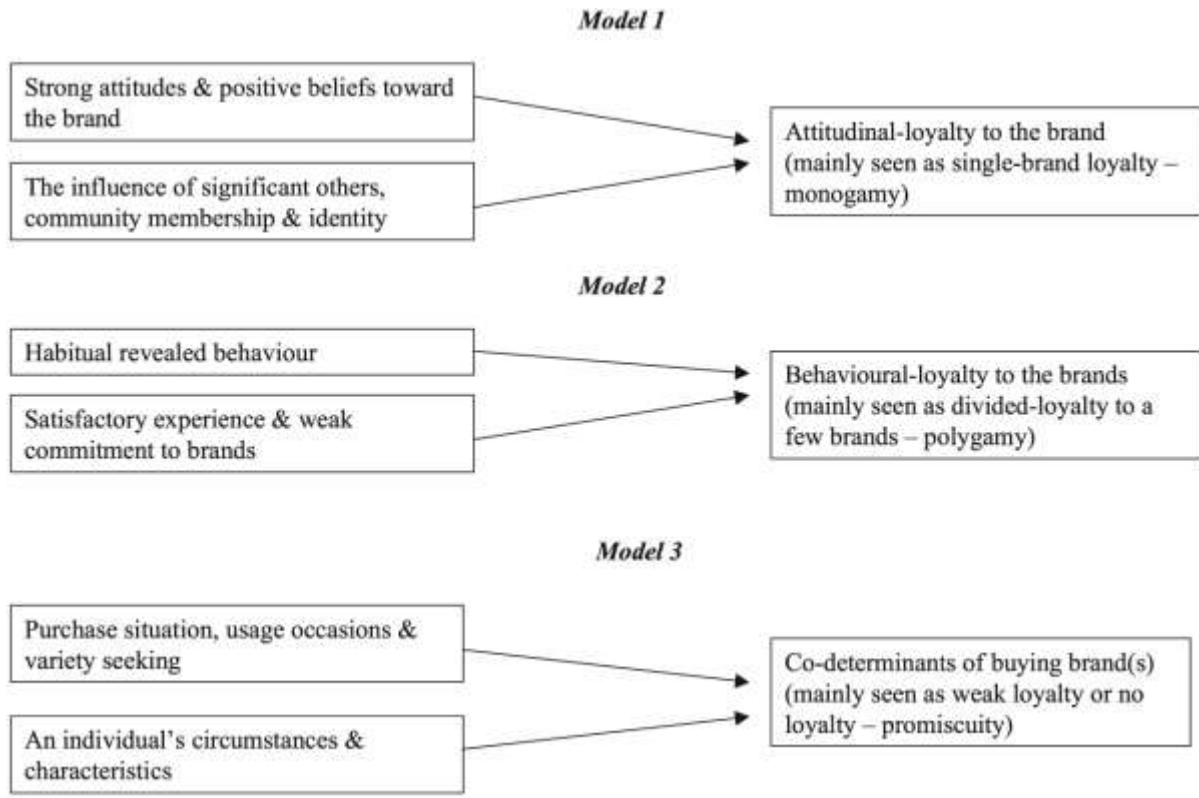
### Model 1

Many researchers have argued before (Mellens, et. al., 1996; Reichheld, 1996) that true loyalty can only exist with "attitudinal commitment". This can be described as a constant positive set of fixed ideas about the brand. Measurement could be done by asking direct questions to customers such as how they feel about the brand, whether they are keen on or not, how committed they feel to the brand, will advise it to others and so on (Dick and Basu, 1994).

As Oliver explained (1997) the power of these attitudes is the secret forecaster of brands' consumption and repeat support. Brand fairness and advertising research may support this model mainly as they aim to enhance the power of consumers' attitudes about a brand (Keller, 1998). Moreover, some research proved that programmes, which aim to enhance attitudinal commitment, are a profitable strategy to implement. As Ahluwalia et al (1999) argued, behaviourally-loyal customers are less likely to sensitive to any damaging information than non-loyal customers. Also with the help of increased loyalty, it is easy

to predict revenue flow from loyal customers and keep stocks ready (Dowling and Uncles, 1997).

The model of ‘attitudes drive behaviour’ and its understanding of consumer loyalty have successfully implemented. On the other hand it also has its criticism. Dabholkar (1999) have shown that this approach could be less appropriate for accepting the buying of low risk, frequently-purchased brands, or when consumer’s demand of diversity appealed. In addition, Oliver (1999) had agreed with Dabholkar (1999) by pointing the size of experimental research for examining the side of customer loyalty. Oliver said that the size of research could not be reliable.



**Figure 2.1 Conceptualisation of Loyalty**

Source: Uncles M.D., Dowling G.R. and Hammond K. (2003) “Customer Loyalty and Customers Loyalty Programs”, Journal of Consumer Marketing, Vol.20 No:4 Pg:296

Basically, model one suggests to build and empower emotional commitment of consumers to the brand and with the help of this commitment aiming to increase sales.

Image-based or convincing advertising and service improvement are most likely strategies for obtaining the sales increase in model 1 (Uncles, et al, 2003).

## **Model 2**

Model two considers the pattern of past purchases with only secondary data for supporting its definition. This secondary data is useful to find consumer original motivations or commitment to the brand. Finally this data still helps researchers to gather impressive amount of information. One of the impressive jobs have been done with the help of this information was categorising customers related to their loyalty level (Ehrenberg & Scriven, 1999). According to structure of model 2 Uncles et. al. (1999) said that “few customers are “monogamous” (100 percent loyal) or “promiscuous” (no loyal to any brand). Rather most people are “polygamous” (i.e. loyal to a portfolio of brands in a product category”.

Because the data which depended on the pattern of part purchase, individual focus did not attempt to do the research. Market focus approach is only the basic for this model. According to this approach, only performance measurement can be considered such as brand shares diffusion level and replication of buying.

According to model 2, the brand will be chosen as long as it satisfies the consumer. Loyalty to the brand is the outcome of frequent satisfaction which can lead to weak commitment (Ehrenberg et al., 2003). Therefore, the consumer desires the same brand another time, not because of any previous behaviour or promise; perhaps the time that will be spending during the search of alternative brand is not worth, opposite of model 1. However, if the desired product or good is out of stock, then alternative brands will be bought (Ehrenberg et al., 2003). Therefore as model two supposes to see exposed behaviour as a main measure of loyalty, may not be sometimes relevant enough to see the real meaning of loyalty.

The behavioural focus recommends that most customers have a few favourite brands to choose from. Model two assumes that consumers lean to check adverts and follow the reflection of brand on social media. This type of behaviour will maintain recognition and provide empowerment instead of extremely important information that could essentially transform their attitudes and commitment level. Meanwhile, if these consumers come into loyalty programmes, they could be less affected than assumed in model one.

Mainly firms, who implement model two approach, considers their rivals movement, such as following rivals approaches and keeping stocks full, and aiming to expand via emerging markets and customer segments. Therefore loyalty programmes mainly might be implemented to the market with protective objectives which aim to catch rivals or advertising. However, there might be no true prediction to see how they affect consumer attitudes and behaviour.

### **Model 3**

Model three reflects contingency approach of loyalty by considering changeable factors such as the individual's existing situations, characteristics and buyer appearances (Uncles, 2003). Assuming the variables would change depending on any condition, it could be tough to have prediction about time and amount of next purchase for firms (Fazio and Zanna, 1981). The individual's existing situations could comprise budget (e.g. costly and/or luxurious) and time (e.g. sale seasons).

Consumer characteristic might depend on his/her personality (e.g. variety seeking, relax or tolerant to any mistakes). Buying situation is meant to be special occasions, promotions and stock position (e.g. Christmas, anniversaries). The three factors that appear in this model are considering previous behaviour, contingency factors and outcomes (Uncles, 2003).

The approach of model three is alternative to first two approaches with its relevant points. They underline that the factors seem reasonably normal, such as keeping stocks full,

being open for long hours compared to rivals, implementing differentiation strategy at a very high level and considering costumers special needs, providing access through social media and call centres to reach the firm any time. In order to catch customer's attraction, firms, who implement model three in their organisation, often offer deals and use promotions.

However, in this model, it is hard and there is limited scope influence customer's demand. In fact, firms are likely to obtain huge loyalty by answering immediately to the contingent factors, and loyalty programs might give response to such a goal.

Loyalty programs, created in the form of all three models, have their own strengths and weakness to affect consumer buying process and ultimately their final decision. However, from a business point of view, the model selection is significant when firms do not have enough funds to implement all three models to its marketing strategy. Even when financial allowances are large enough for all three models, the firm may need to dismiss one or more of these options considering its strategic focus. Related to difficulties for choosing the right model, in the next part some suggestions from literature will be discussed.

### **2.2.2 .Different Forms of Customer Loyalty**

All these loyalty models, mentioned above, summarise customers, not the brand itself. Consumers, as one of the most important element for running the business, need to keep in the safe place for saving their loyalty to the brand. For instance, most customers may accept a number of coffee brands, while a few may be committed to one or two coffee shops, and some others may buy merely on the price/beverage mixture<sup>1</sup>. These people's preferences and conditions might force them to have quite a few brands in their selection. Considering this example, three different types of consumer behaviour will appear and shape related to loyalty. The movements will be illustrated in figure 2.2 below.

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<sup>1</sup> Price/beverage mixture generally means, from consumer point of view, considering the amount to spend for drink and evaluating its satisfaction they get with purchasing this drink.

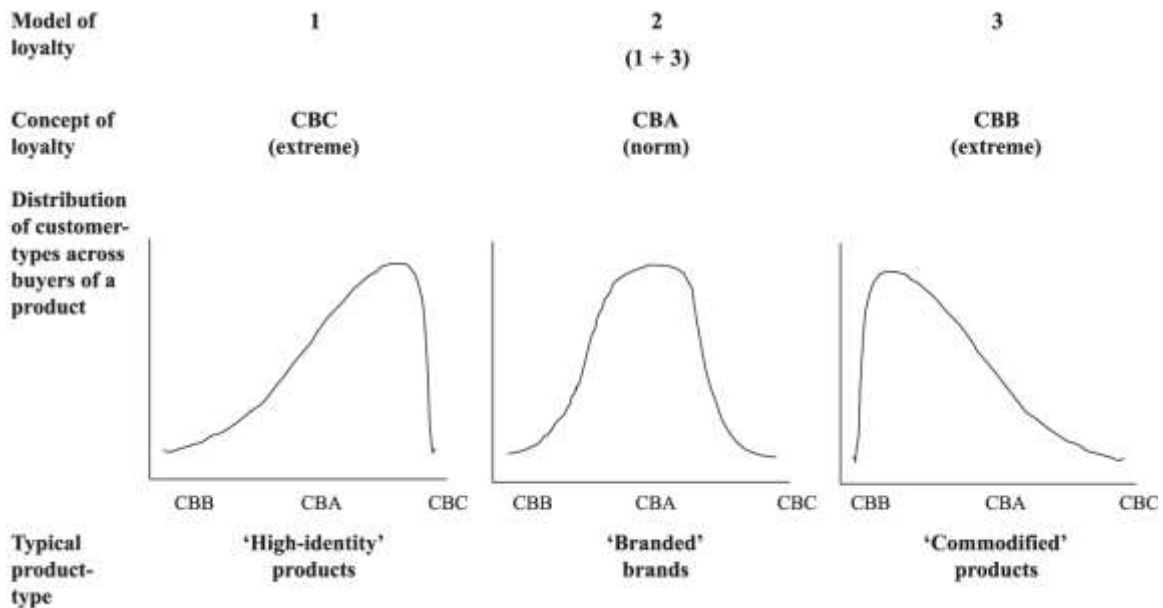


Figure 2.2 Summaries of the Different Approaches to Customer Loyalty

Source: Uncles M.D., Dowling G.R. and Hammond K. (2003) "Customer Loyalty and Customers Loyalty Programs", Journal of Consumer Marketing, Vol.20 No:4 Pg:300

As summarised in figure 2.2, the main points are **customer brand commitment** (CBC) and **customer brand buying** (CBB), with **customer brand acceptance** (CBA). More details discussed below.

### Customer Brand Acceptance

With the help of customer loyalty in competitive repeat-purchase markets, we can understand how CBA occurs. The behaviour of CBA indicates in Model 2, but also has some parts from model 1 and 3. Model 2' input is that people reveal loyalty to any brands which they buy. A major reason for this is that in most markets so many brands take

place and break one of the most important rule for being loyal, which is brand uniqueness (Uncles et al.2003).

Furthermore, the discussion of CBA suggests that having a favourable set of beliefs about one brand does not stop consumers having an equally favourable set of beliefs about other functionally similar brands in the category and their almost identical loyalty programs. However, many retail firms have similar programs and campaigns. Also Uncles et al. (2003) argued that regular and ordinary buyers do not fundamentally think to have a solid faith towards the brands which they purchased, only if the brands make costumers believe they deliver right products and services. Moreover, Dall’Olmo Riley et al. (1997) advocated that if customers articulate constant buying behaviour, it might depend on repeated satisfaction rather than solid faith towards the brands.

### **Customer Brand Commitment**

According to CBC, customers, who have this type of attitude, might value emotional and communal importance more than real purpose of the need. In real life, we can see this type of customers while they are purchasing expensive and luxury goods and services. Perhaps the brand may have the special element to force consumer’s choice and commitment for a certain number of customers. However, it will appeal in different concepts, for instance, some customers will feel committed to Starbucks just because of its social responsible campaigns or to Caffè Nero considering its Italian background.

We identify this as CBC. In this, manners and social adoption seem vitally important and generally customers accept to have a connection with the brand according to model 1. When customers already had an idea in their head about these connections and then they might not be in doubt about paying high price for their favourite brand. Therefore it is assumed that consumers have a constantly positive number of fixed ideas towards the brand desired (Kapferer, 1999).

Nevertheless, none of this is ensured when the main point is often-purchased brands. First of all, when the level of consumer connection is relatively high, differentiation along with the brand might be little (OAG-1998, Uncles et al.2003). For instance, regular coffee drinkers tend to go a number of different coffee shops. Research has been done in many industry pointed that these people are generally member of multiple frequent-purchased programmes and consequently demonstrate multi-brand loyalty to both coffee brand and their programs (Uncles et al. 2003). However, relatively infrequent buyers tend to be more faithful to the single brand and its loyalty programs.

Secondly, even if the brand is planned to reflect customer's unique side of understanding, it does not necessarily mean consumers will catch it. For instance, according to Tim Pfeiffer, senior vice president of global design and development for Starbucks, while coffee chain aim to provide different atmosphere for each store in order to capture people's attention, customers do not necessarily realise the unique purpose (Starbucs Promotion Guide 2011). Similarly, manager team will work for a creation of special connection with customers, but they might not be fancy it (Fournire, et al 1998). Thirdly, in specific product category, there could be the same type of loyalty practise. For instance, Fournier and Yao (1997) mentioned instances of customers having "compartmentalised friendships" with different brand of coffee- maybe Costa in the lunch time and Starbucks for mornings.

Furthermore, with CBC, we need to consider different kind of variables, apart from functional basis, because consumers could not tend to give importance for basic functions, such as drink quality and customer service. Like happened in Harley Davidson case, consumer could see reflection of their personality on the brand. It would depend on commitment level. The connection might provide high competitive advantage to the brand.

## Customer Brand Buying

These customers show really minimal level of loyalty. Some variables become vital for their decision process, such as cost, advertising campaigns, urgent accessibility etc. CBB type of consumer behaviour might be directly related to Model 3, where emergency variables are causal factors of decision process.

In conclusion for our first part of literature review, the findings are that CBC and CBB are the rare forms to come across in the frequent-purchased market, because companies may face with difficulties to get in touch with all consumers. Thinking the example of coffee shop brands: if we were to draw from a large sample of the population, most consumers of Costa or Caffè Nero would be characterised by CBA, and only a few by CBC (committed to third place of Starbucks) or CBB (buying literally from any coffee shops that happened to be discounted at the time of purchase).

Nevertheless, some studies showed us the result of using very selective example to emphasise the exceptions and as a result express a very unlike thought of the comparative importance of CBA, CBC and CBB in frequent-purchase markets (Uncles & Lurent 1997). Therefore the difference between numbers of brand loyalty and consumer has to be illustrated. Furthermore, the models of customer loyalty present the essential base for implementation of profitable and effective loyalty programs. As far as this research concern, matters mainly linked to consumer should be on agenda.

However, as argued in some studies attitudinal and behavioural loyalty could reasonably be inactive and look like custom more willingly than serious commitment. In addition, they suggested that these programs are costly to locate and sustain. Moreover there is small or no proof that any transformations on consumer behaviour validate the implementation cost (Dowling and Uncles, 1997).

While the aim for loyalty programs is to build a large number of single-brand loyal customers (reliable with model 1), as mentioned in some studies this is unattractive for

many consumers and unattainable for many firms (the consequences of model 2) ( Uncles et al. 2003). As Ehrenberg et al. (2003) argued in his research so many single-brand loyal buyers are light user, therefore if consumers are already single-brand loyal; loyalty programs might have no influences for them.

However, they could be offered to buy other categories that are provided by the same firm, but this is something exceptionally difficult, if consumers are not predominantly inspired by the brand category or the type of the program. On the other hand, possibly loyalty program could be recommended to people who do not generally buy the brand. The program success would be measured by chasing those people, and if they tend to switch brands or putting the brand name with their other acceptable brands in their mind, the program could be adequately attractive. Then, a problem will arise; if the program is appealing, consumer might develop a connection with that program more willingly than the brand.

On the other hand, consumers might have their own basis to be multi-brand loyal, then it is impractical for firms to wait for them unexpectedly to turning into single-brand loyal. Experimentally, we as customers do not demand to wear only one brand of jean, drink the same type of milk, and so on. Therefore, as Uncles et al (2003) said “it is a major challenge for brand managers to convince enough people to reduce their repertoire of brands such that the propensity to buy their particular brand increases enough to cover the full costs of the program”.

Consequently, the literature that we looked at previously, suggested that an accurately outstanding program will simply influence the purchasing behaviour of customers in a positive way from business perspective. Now in second the part of our review, we will look at the component of successful loyalty programs to evaluate their strength and weaknesses. During the process, these components will change according to implementation method in order to affect buyer’s behaviour in an individual way. These components are discussed below.

## **2.3 Component of Loyalty Programs**

Given the current gaps in our understanding, the present study pursues the relationship between components of loyalty and purchasing process. Even though studies mentioned before such as Uncles (2003) referred the relationship between loyalty and purchase decision, looking at how components of loyalty is able to affect this decision process individually seem to be vital from marketers and policy maker's perspective.

Under this heading we are aiming to help readers to see and understand components of loyalty and to investigate the ideas from past research about how they might be able to take a place in the process.

### **2.3.1 Loyalty Cards**

From individual perspective, loyalty cards could be seen as loyalty itself. However, marketers need to aware of its purpose. Loyalty card could be useful for many aspects of company's marketing. For instance these could be pricing policy, customise consumer's needs, service quality etc (Wilmhurt & Macay, 2002). Therefore loyalty cards should be considered as part of the offer, not just alone. As Wilmhurt and Macay (2002) remarked that "possibly, companies sometimes expect too much from loyalty cards, viewing them as essential to their business rather than one element of it". As a result of this, companies could not get much benefit out of the cards, apart from offering vouchers, discounts or money-off coupons through their loyalty cards for customers.

Nowadays many businesses produce their own loyalty cards, and it is easy to access them as a customer. Individual discounts or vouchers positively help customers wait and grab the rewards, even though being loyal to the brand is not necessary. The aim of these costumers will only consist of taking advantage of tangible offers. Giving specific discount or vouchers seem to be a short term strategy. The company's aim with loyalty cards should be to create data base with the help of the loyalty cards and the company

needs the customer's willingness for it. The loyalty card scheme should be powerful enough to provide this willingness.

Furthermore, loyalty cards are a distinguished tool of marketers that should help them to find out more regarding and offer an improved service for their customers and their needs. These findings will provide an opportunity to give necessary answers in the relationship from firms to customers. If the firm plans to provide tangible benefits for customers, first of all it needs to understand the custom of purchase. And then the firm will avoid giving away costly benefits to customers that do not bring the customers to firm again. This understanding shows that consumers should be rewarded according to their custom level of brand. For instance Caffè Nero is giving away 10<sup>th</sup> coffee free for its regular customers and follows regularity of customers with the help of stamps in its loyalty card (Hattenstone, 2009). The implication seems offering only free goods, no more than that.

However, a different way is implemented by Starbucks. Starbucks loyalty cards can be used as a payment card. The card will allow customers to customise their drink with no charge as long as with payment facility that can supply quick finish for rush hours than credit cards (<http://starbucks.co.uk/card>). As a last component of our comparative study, Costa Coffee only provides its loyalty card with function of collecting points for free purchases. The facility of Costa Club Card guarantees that loyalty points are received whenever the card is used (<http://costa.co.uk/club>). How people feel about carrying an extra card will be the matter of investigation in our next chapter.

Nevertheless, firms could convert their loyalty cards to payment cards in order to make their loyal customers more comfortable. Interestingly, card operators, for a few retailer industries, informed large number of unexpended points (Wilmhurt & Macay, 2002). It means that customers may be collecting the points but they are not using them. It could imply that the level required for a reward is too high or a lack of interest. These statements will be examined in the findings chapter of this research. Moreover, as many experts concluded that major responsibility of loyalty cards is to be active to create basis

for building relationship with individual customers (O'Brien & Charles, 2005) and this will provide competitive advantages to retailers. These competitive advantages will be connected to research objectives, namely affecting consumer's purchasing decision.

### **2.3.2 Store Atmosphere**

As Omar (1999) confirmed that for successful retail management making consumers loyal to the store is one of the most important cornerstones. Past studies used consumer loyalty for measuring store affects (Reichheld, 1996; Sawmong & Omar 2004). Initially, many companies only looked whether customers seemed happy and satisfied for the service and product or not. They thought that providing service and products were enough for repeating patronage. On the other hand, Buttle (1999) established that higher numbers of customer satisfaction did not necessarily mean high financial performance. Therefore, with the unambiguous understanding of relationship satisfaction and loyalty, it is necessary to have a closer look at store atmosphere as an important component of loyalty.

As Schwarz (1990) argued in his framework people are likely to listen their feeling before making any decision and furthermore consider valuable information. Finally, they trust in this emotional information for any decision. With the help of this framework, as Dick and Basu (1994) mentioned positive outlook toward retail store refers to loyalty. Consumer may like one of the brand's retail stores compared to another and the favourable attitude will make the consumer go there.

According to Pine and Gilmore (1999), retailers have spent considerable sources into designing fascinating and outstanding vicinity, anticipating delivering a great familiarity. It is possible to see the reflection of the idea in the real world as related as to our research. Recently (2011), Starbucks Coffee Company tapped into its origins as a local coffee house. It launched its first heritage store on Conduit Street in London. The concept store featured unique furniture pieces from antique markets around Europe, including a

Turkish coffee table and metal tables made from a disused tank. Afterwards (2011), Costa coffee opened the first of its planned Metropolitan stores in London, as it looks to lure city workers with its latest design of outlets. The new design, which includes exposed brick and express till areas, marks a departure for the company, which is looking to replicate the success it has achieved outside metropolitan areas. Metropolitan stores have been created to focus on speed of service for customers in a hurry. According to Costa, the design changes will include simplistic use of materials such as exposed brickwork, glass, stone and timber, quirky lighting and bold artwork. (<http://costa.co.uk>)

Frequently a consumer's initial idea of a store is establish what can be felt with the help of senses from outside the store (e.g. hearing and seeing) (Kotler, 1973; Saffer, 1996; Schlosser, 1998). The lighting, display, music, colour scheme of the store could affect the consumer in both ways. With this understanding, customers may make a number of assumptions that can change their store custom behaviour. For this reason, committing effort to getting store atmosphere better and adding to store image has turned into basic rather than a choice for retail industry (Schlosser, 1998).

Functional Attitudes Theory<sup>2</sup> suggests that consumers' demand is influential when they address the reasons of attitudinal change. For instance, if the store atmosphere is active as community identification, then a pleasant atmosphere must affect consumers' behaviour. Although consumers purchase similar products from different coffee shops, which ever shop gives them social identity to people, they will find themselves purchasing from same store again. Past research, that found a result that the atmosphere of store put out the social identity (Schlosser, 1998), supports functional attitudes theory as well.

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<sup>2</sup> Functional Attitudes Theory; according to Katz (1960), it is a pragmatic approach that focuses on how attitudes facilitate social behaviour. An attitude exists because they serve some functions. Marketers emphasize the function a product serves for customers.

### **2.3.3 Customer Loyalty and Frontline Employees**

Customers do not buy products or services. They buy results. The quality of the process for delivering these results also includes the attitude of front line employees, who is in direct contact with customers. Companies, who wants to stand out in the crowd, needs to be aware of this important point which they do not create products or services, they deliver results. Their managers need to define their business and missions in terms of results, not product or services. Valuable customer service will be defined as a good result that leads to customer satisfaction and loyalty. This can only be achieved through frontline employees, who are already satisfied, feel loyal to company. They also need to be productive in terms of their capability to deliver quality results to customers.

Outstanding managements have data base systems which are unavailable to any other businesses. They use these systems to see customers' buying habits and patterns and create their loyal customers scale. These systems also help to understand and categorise how frontline employees do. For instance, while all variables are same during the different periods, however customer purchase level is low, frontline service will be thought as an issue. Therefore, while businesses try to maintain a "feel" for its customers' through loyalty programmes, should not forget to encourage their frontline employees to keep in touch with customers' buying needs (Heskett, et al, 1998).

Fundamentally, serving experiences is always what customers remember about the brand (Beaujean et al. 2006). Moreover, if the customer's expectations could not exceed once, they are most likely to believe that the same disappointment might happen again (Byrnes, 2005). With this understanding, it will be helpful for businesses to think of front line employees as the first and last step for any successful loyalty programs. However, businesses invest record amount of money for loyalty programs without thinking supply side, who will present these programs and whether these people are aware of the logic behind the programs or not.

Consequently, as mentioned in McKinsey report (Beaujean et al. 2006), the reason of failure is a lack of concentrate on front line employees' behaviours. However, according to Beaujean et al. (2006), once consumers receive extraordinary service, they possible start to have emotional connection to the brand, which can put them into powerful commitment. These customers easily name loyal and furthermore they can suggest the brand others. Therefore, it is essential for companies to find the way to train their front line employees for providing outstanding customer service.

In conclusion, some companies have begun to be aware of the important role of the front line employees and treat them with respect. For instance, related our comparison study Costa Coffee characterized its each baristas a unique with what they do. Also, Costa encourages them to learn more about coffee, according to their experiences gives them specific titles. The training does not only aim to teach how to make the perfect coffee with speed and precision. It also aims to encourage each baristas to bring their own style and originality to every coffee they prepare. Costa Coffee concludes that "the very best coffee is made from the heart" ([http://costa.co.uk/baristas/our\\_baristas.aspx](http://costa.co.uk/baristas/our_baristas.aspx)).

Caffè Nero also has its own way to encourage and treat their baristas with respect. According to Caffè Nero's aim the barista is the coffee aficionado who combines his/her skill, knowledge, and artistry to prepare the perfect shot of espresso. They also describe their baristas as the most important person in entire company. The reason is they represent them as the company's virtual face that is welcoming their customers every day and produce perfect espresso every time and make all our customers feel at home ([www.caffenero.com](http://www.caffenero.com)). While Costa Coffee and Caffè Nero mention how important their front line employees, Starbucks refers its member of staffs as partners and cites them in its mission statement. Starbucks believes that it is not a simple job; it is all about being passionate.

As this chapter helps us to understand relevant literature and which gaps needs to fill in the present study, following chapter will explain which guideline will help as a research methodology in order to fill those gaps.

## **Chapter Three**

### **Research Methodology**

#### ***3.1 Introduction***

This chapter explains the methodology deployed in the paper to find answers to the questions posed above. The chapter principally covers the research methodology and its justification for general research as well as for the present study itself.

Firstly, the research aims and objectives have been provided in order to support justification of chosen research method and to show how this method will cover all areas. Secondly, main research philosophies have been given and explained why mix method is chosen for the present research, furthermore how it will help the research for rationality of research. With the help of chosen research philosophy, an appropriate strategy and design have been provided by the researcher for the research paper and also other methods have also been explained in general.

Given general explanation of research strategy and design will help readers to see area under investigation more clearly. Furthermore, this chapter also covered that which specific research instruments are used in this paper, and what their strengths and limitations are. Moreover the limitations of overall research and ethical issues have been discussed that might be raised during the research.

### **3.2 Research aims and Objectives**

Every business has its own objectives and set of goals. In order to reach those goals, they need to consider and involve every variable into their process. Marketing campaigns seem to be useful tools for achieving certain business goals, such as profitability. However, launching a new campaign without carrying out proper research could end up with a loss of capital and time. Loyalty programs are one of the marketing campaigns that could have not understood in the sense of costs/benefits calculations, and influences over consumer buying decisions seen as a gap in literature. Therefore the researcher believes the importance of evaluating this issue empirically.

Primarily the purpose of this research is to fill the gaps in literature addressing the relationship between loyalty programs and consumer buying decisions in the coffee retail industry. In particular, this study aims to analyse the impact of loyalty programs on consumer buying decisions across international coffee brands. It is expected that even though they might have similar campaigns they could end up with different outcomes and this study aims to understand the underlying reasons ( for example brand awareness, customer services, drink quality, etc.) for the differences in the outcome. Secondly, the researcher aims to explain the meaning of loyalty programs from consumer perspective. Once companies understand that how consumer see the, it will help them to be successful during the implementation process.

Specifically, the research objectives include the following:

- Identify the common factors that affect consumer buying behaviour
- Demonstrate relevant and irrelevant factors that affect consumer buying behaviour from a business perspective
- Evaluate the role of loyalty programmes for marketer
- Examine the impact of loyalty campaigns on consumer buying behaviour
- Compare and contrast the operation of the international coffee brands and their loyalty campaigns and lastly

- Examine the overall inputs of loyalty campaigns provided by specific coffee retailer companies to Londoners

### **3.3 Research Philosophy**

Considering the present research aims and objectives, the researcher needs to concentrate on detail which can add significance to general business and management knowledge. This indicates that research questions will be acknowledged and studied. Furthermore, the research challenges to give an appropriate answer to these questions. In order to find appropriate answers, every research needs have their philosophies. With this understanding Nicol and Pexman's (2005) work have been examined and according to them there are three major theories Positivism, Phenomenology and Realism. This section has been followed with explanation of major theories and justification of the present research philosophy.

The researcher who follows positivism has an epistemological site that supports to use natural science's methods to the social truth. Positivism believes that knowledge confirmed by the senses can actually be defensible as knowledge. The purpose of positivism is to create hypotheses that gathering can be tested and that will allow justifications of laws to be measured. According to positivism, science must be accomplished in a way that is value free (i.e. objective) (Bryman, 2008). Furthermore, there should be a difference between scientific and normative statements and a belief that the former are the true domain of the scientist (Remeyni, 2005).

Realism shares two aspects with positivism: a principle that the natural and the social sciences can and should apply the same kind of approach to the collection of data and to explanation, and a commitment to the view that there is an external reality to which scientists direct their attention (Bryman, 2008). Therefore there could be a reality that is separate from our descriptions of it. However, critical realism is a detailed form of

realism whose proposal is to identify the reality of the natural order and the events and discussion of the social world.

One of the main rational traditions that have been sensible for the anti-positivist position has been phenomenology, a philosophy that is involved with the question of how individuals make sense of the world around them and how in particular the philosopher should get away from fixed ideas in his or her scope of that world. The fundamental difference exists in the fact that social reality has an importance for human beings and therefore human action is meaningful. If it has a meaning for them and they act on the basis of the meanings that they attribute to their acts and to acts of others (Bryman, 2008).

After examining main theories, choosing a mix approach which included positivism and phenomenology seems to be most appropriate for this research. While positivist approach allows to get a scientific strictness (McNeill, 1985), a phenomenological approach will offer a view to see the matter from candidates point of view (Nicol et al. 2005). Also gathering opinions from number of candidates makes the research more reliable because of number people's different characteristics (Brewer, 2007)

### ***3.4 Research Strategy***

As can be seen above, a mix approach of philosophy has been chosen for the present study. Considering the research philosophy, furthermore aims and objectives make the researcher determine about using quantitative and qualitative strategy together according to relevant reasons. These reasons have been discussed below with their connection to the research aims.

Quantitative research strategy generally uses for highlighting quantification in the set and analysis of data. It also involves a deductive approach for explaining the relationship between theory and research. Furthermore, it has integrated the practices and norm of the

natural scientific model, especially in positivism. However, the strategy represents a view of social reality as an external, objective reality (Bryman, 2008). Positivist approach indicates that quantitative research needs to be used in order to explain the relationship between theory and research which actually needed for the present study.

By compare, qualitative research can be seen a kind of research strategy that typically point out words rather than quantification in the set and analysis of data. The strategy mainly highlights an inductive approach to the relationship between theory and research, in which the emphasis is attributed to the generation of theories. It has also refused the practices and norms of the natural scientific model and of positivism in individual. Moreover, it represents a social reality which continuously changing developed goods of individual's conception ( Easterby-Smith,2004). Qualitative research refers that refusing the practices and norms of the natural scientific model. As the researcher aims to find out how consumer buying behaviour will be affected by loyalty programmes individually, qualitative research strategy will help to future of this study.

In addition, both strategies will consider by researcher during process. While qualitative strategy help the researcher to examine the literature and past hypothesis, qualitative strategy will be helpful in order to create new hypothesis and discussions (Easterby-Smith, 2004, Walliman, 2005). Therefore the strategy of present research is a mix method, namely quantitative and qualitative strategies.

### ***3.5 Research Design***

A framework will be formed for the data collection and analysis with the help of relevant research design. Also during the research, it is vital to determine the main concern that created with the help of design. Design is capable to articulate informal connections between variables, generalize to larger groups of individuals those actually forming part of the investigation. Furthermore, with the help of design the researcher will understand behaviour and the meaning of that behaviour in its specific social context. It will also

provide a temporal understanding of social phenomena and their interconnection (Easterby-Smith,2004).

As research design importance explained above, the researcher needs to consider different types of research designs before determining the final one. There are three main research designs, descriptive, explanatory and exploratory research. The aim of this section is to explain research designs and the reasons that concerned during the present research.

Social researchers start their research with asking questions. In **descriptive research** first question is 'What is happening?' Even though people reject, good description is essential to the research project and it adds massively to knowledge of the shape. Descriptive research includes much government sponsored research such as the population census and household expenditure patterns. Descriptions can be real or theoretical. Reasonably real description might describe the ethnic mix of a community, the changing age (Bryman, 2008). On the other hand, the description might ask more abstract questions such as 'How secular is society?' (Marsh, 1982). Good description will bring about the 'why' questions of explanatory research. Certainly, description can collapse to senseless information or what C.W. Mills (1959) called 'abstracted empiricism'.

According to Mills (1959), there are loads of examples of unclear surveys and case studies that report unimportant information and are unsuccessful to answer any 'why' questions or provide any foundation for simplification. On the other hand, this is a role of irrelevant descriptions rather than an outcome of descriptive research itself.

**Explanatory research** concentrate on why questions. Answering these questions engages expanding fundamental descriptions. Fundamental descriptions maintain that phenomenon Y (e.g. purchase level) is influenced by X (e.g. loyalty programs). Some fundamental descriptions will be simple while others are more complex. For instance, we might say that there is a straight outcome of occupation on loyalty (Bennett & Strydom 2001)

**Exploratory research** is a type of research carried out for a problem that has not been obviously described. Exploratory research assists in deciding the best research design, data collection method and selection of subjects. It should illustrate ultimate conclusions only with intense care. Specified its essential character, exploratory research frequently concludes that a distinguished problem does not really exist. Exploratory research frequently depends on secondary research such as reviewing available literature and/or data, or qualitative approaches such as informal discussions with consumers (Brewer, 2007).

The way in which researchers develop research designs is basically influenced by whether the research question is descriptive, explanatory or exploratory (Jankowicz, 2005). According to the present research question, purpose and the chosen route to explore and obtain the results and conclusions of project, the exploratory design has been chosen.

### ***3.6 Research Instruments***

With the purpose of finding relevant answer for research question, it is important to bring all the necessary information together. Therefore choosing the right data collection methods is vital. According to Maylor and Blackmon (2005), the data can be collected through indirect contact and previous researches which have been done on the subject before. The researcher also can decide to collect the data making a direct contact with a certain number of people and build own conclusion the base on data which collected from individuals (Maylor & Blackmon, 2005).

This present research is mainly based on primary data. However, the data already exist and were collected for some other purpose, such as text books, journal articles, annual reports and newspapers, also are used for the present study.

As primary data, questionnaire, semi-structured interviews and observation are used for the present study in order to reach relevant answers for the research question. The methods justification and limitation mention below.

### 3.6.1 Questionnaire

The researchers always need to start with the aim and objectives of their study in their mind (Altinay, et al.2008). According to the present study's aims and objectives, understanding consumer buying behaviour is important. By asking people about how variables affect their purchasing decision, the researcher will find the answer for the research question. Therefore using questionnaire for the present study as a data collection method seems to most appropriate.

According to Bryman's (2008) explanation of questionnaire<sup>3</sup>, the researcher prepared pre-determined, structured set of questions considering the literature review to obtain information from respondents and record it. It has been done in self-completion methods in order to avoid influencing people's opinions. The method also gives the researcher flexibility for location, time and money issues.

In contrast this method has its own **limitations** which could affect the present study's result (Bryman, 2008). Such as;

- Questionnaires are uniformed so it is not possible to explain any points in the questions that respondents might misunderstand
- Respondents may answer apparently because of the time issue
- Respondents may not be willing to answer the questions. They might not wish to reveal the information or they might think that they will not benefit from responding

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<sup>3</sup> 'Questionnaire is a collection of questions administered to respondents. When used on its own, the term usually denotes a self-completion questionnaire' Bryman (2008).

### 3.6.2 Face-to-Face Interviews

In order to avoid limitation of questionnaires, the present study also used face-to-face interviews. Furthermore, interview is suitable method for quantitative data collection and it also can be useful when qualitative data are required (Walliman, 2005).

With using this method, the interviewer will be in a good position to be able to estimate the merit of responses of the subjects, to see whether the question understood or not, and to comfort and encourage the respondent to be full in his/her answers. Also visual signs, such as nods, smiles etc., are helpful instruments in supporting accomplish answer (Bryman, 2008).

In contrast this method has its own **limitations** which could affect the present study's result. Such as;

- it may extra cost for interviewers for travel, also interviewing in shopping malls incurs charges from the mall management, which can make this an expensive option
- It may not provide a good random sample. This is due to the high costs incurred, and the compromise of using clustered sampling (where up to 5 interviews can be conducted in a particular street) to keep interviewing costs within the Client's reach

### 3.6.3 Observation

According to research aims and objectives, to observe consumer's behaviour will clear understanding to work out variables. Therefore the searcher finds to useful to use observation as a data collection method. Also the participant observer is seen as involved in the process or activity (Walliman, 2005).

As a movement, observation is needed in many research situations, for example, observing the results of experiments, the behaviour of models and even the responses of people to questions in an interview. Observation also can be used to record both quantitative and qualitative data related to the present research strategy (Bryman, 2008).

Observation can record whether people act in a different way than actually what they meant or not. According to Walliman (2005), people can sometimes show their understanding of a practice better by their actions than by explaining their knowledge verbally. Observation is also not limited to the visual sense. Any sense, e.g. smell, touch, hearing, can be involved, and these need not be restricted to the range perceptible by the human senses (Veal, 2006).

On the other hand, observation can be very time-consuming and difficult when the activity observed is not stable (i.e. time can be wasted waiting things to happen, or so many things happen at the same time that is impossible to observe and record all) (Bryman, 2008)

### ***3.7 Ethical Consideration***

In social research, ethical principles have been narrowed down to four main areas by Diener and Crandall (1978). Those main areas are;

- whether there is harm to participants;
- whether there is lack of informed consent;
- whether there is an invasion of privacy;
- whether deception is involved.

The researcher followed those steps as a guideline during data collection process for the present study. In order to avoid giving any harm to any participants, first of all, they have been asked for permission. Afterwards, they were explained about the present study's

aims and how their privacy be protected. The researcher provided her email addresses for further information.

### ***3.8 Limitations of the Research***

Research instruments have their own limitations and they mentioned during the related section. Therefore, the limitations of over all study will only be explained in this section. Firstly, the present research only holds in Central London considering time and money issues. Also the researcher could not access all the information about companies which subjected to this research. All relevant sources could not be read, because of time constructive study. Considering the researcher mother tongue, the present study is needed to edit, proofreading and guidance.

### ***3.9 Summary***

This chapter presents the research methodology, through which the present research was formed. Also the following table will guide to readers about the present study's methodology.

**Table 2: Summary of the Research Methodology Chapter**

<p><b>RESEARCH AIMS AND OBJECTIVES</b></p>	<ul style="list-style-type: none"> <li>● Identify the common factors that affect consumer buying behaviour</li> <li>● Demonstrate relevant and irrelevant factors that affect consumer buying behaviour from a business perspective</li> <li>● Evaluate the role of loyalty campaigns for marketer</li> <li>● Examine the impact of loyalty campaigns over consumer buying behaviour</li> <li>● Compare and contrast the operation of the international coffee brands and their loyalty campaigns and lastly,</li> <li>● Examine the overall imputes of loyalty campaigns provided by specific coffee retailer companies to Londoners</li> </ul>
<p><b>RESEARCH PHILOSOPHY</b></p>	<ul style="list-style-type: none"> <li>● Positivism</li> <li>● Phenomenology</li> </ul>
<p><b>RESEARCH STRATEGY</b></p>	<ul style="list-style-type: none"> <li>● Quantitative Strategy</li> <li>● Qualitative Strategy</li> </ul>
<p><b>RESEARCH DESIGN</b></p>	<ul style="list-style-type: none"> <li>● Exploratory Research Design</li> </ul>
<p><b>RESEARCH INSTRUMENTS</b></p>	<ul style="list-style-type: none"> <li>● Questionnaires</li> <li>● Face-to-Face Interviews</li> <li>● Observation</li> </ul>
<p><b>ETHICAL CONSIDERATION</b></p>	<ul style="list-style-type: none"> <li>● whether there is harm to participants;</li> <li>● whether there is lack of informed consent</li> <li>● whether there is an invasion of privacy;</li> <li>● whether deception is involved</li> </ul>

## **CHAPTER 4**

### **Findings and Discussion**

#### ***4.1 Introduction***

As the previous chapter mentioned which methods are useful for the present study, this chapter will explain, what the findings are through these methods and under which condition these methods have been implemented.

Questionnaires have been used as a main research method. They have been done with 96 respondents in Central London during March 2011. Central London has been chosen. The reason for this choice, Central London, with its cosmopolitan structure, is the one of the best places to compare consumer buying behaviour with considering their background. As far as the research concern, the choice of place, gave opportunities to compare more cultural factors at the same time.

In order to avoid limitations of questionnaire, face to face interviews have been held with 20 of questionnaire's respondents. These interviews have taken place in coffee shops, equally Starbucks, Costa Coffee and Caffè Nero for supporting comparative study. Furthermore, again equally in same coffee shops, observation has been done by researcher to see how consumers act against variables during their purchase decision.

#### ***4.2. Findings from Questionnaire***

Following is a section by section summary of findings from analysis of Consumer Buying Behaviour and Loyalty Questionnaire, Case of Starbucks, Costa Coffee and Caffè Nero. The questionnaire is designed by considering the relevant literature review and the researcher observation during the research period. Findings are bulleted for quick

reference and discussed according to literature review and the researcher's observation findings, finally followed by a summary of information.

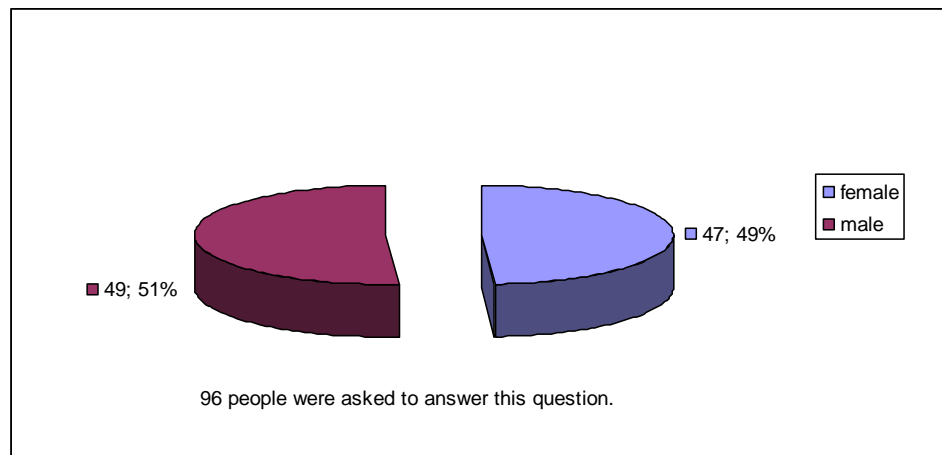
Fundamentally, the respondents are asked about their gender, age and occupation in order to have demographic information. According to Streich (2006), every business needs to be aware of importance of targeting right demographic group before preparing the marketing plan. Therefore, representing the respondent's demographical characteristic, before pointing their opinion, seems to be useful for the present research reliability.

Following pie charts and graphs will illustrate the findings of questionnaire.

### **-Gender of respondents**

In order to have figures about respondent's gender, the first question was asked. According to answers, from 96 respondents, 47 of them represent themselves as female and as seen following pie chart it corresponds to 49% of over all respondents. 49 of them represent themselves as male and again as seen following pie chart it corresponds to 51% of entire.

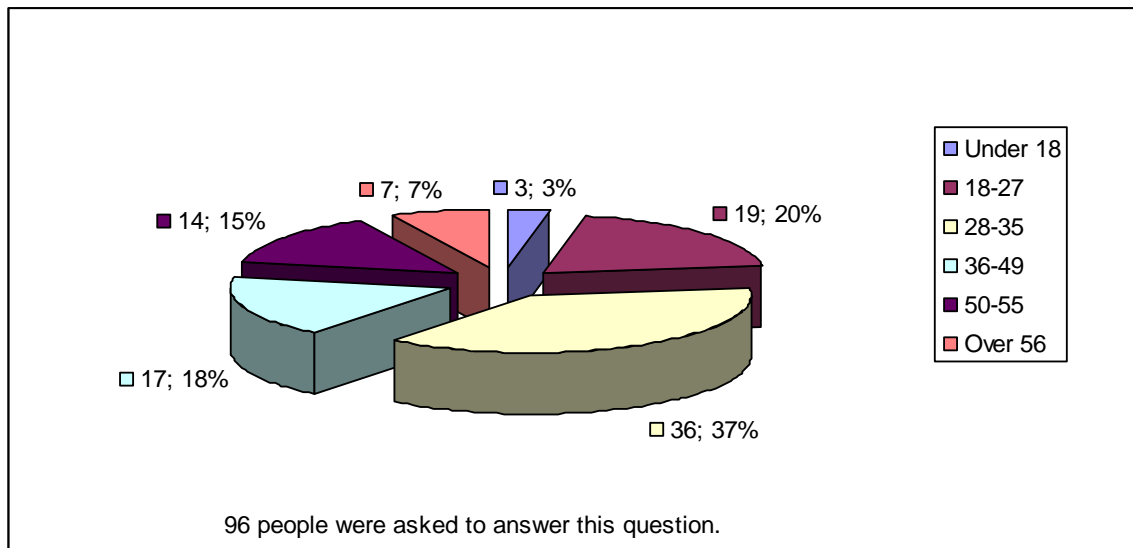
Most the coffee shops target both gender equally to affect their purchasing decisions with loyalty programs. Therefore, the researcher believes that having a relatively close numbers in the sense of gender of respondents will make the present research more reliable.



**Figure 4.1**The Gender of Respondents (The first digits represent the number people who choose that option)

## - Age Range of Respondents

The age is one of the most important variable to shape demographical analyse process. Therefore the second question has been asked to find out the respondents age range. According to answer, from 96 respondents, 36 of them, which represent 37% of all, are the range of 28-35. As seen from the following pie chart, this age group represents the biggest part and the range of 18-27 follows it with 19 respondents which is 20 % of all. Furthermore, the range of 36-49 represents with 17 of respondents which is 18 % of all.



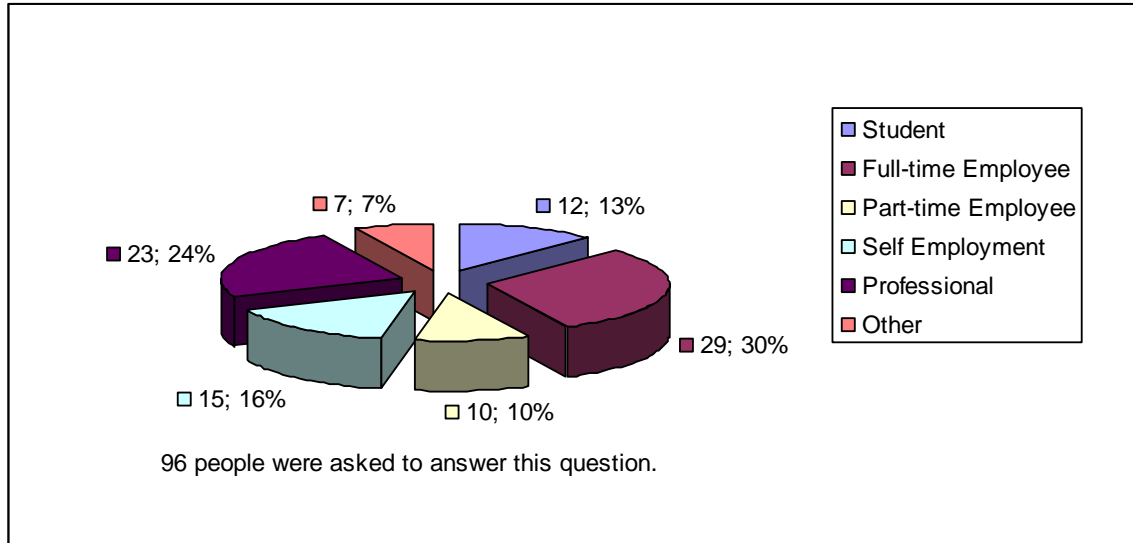
**Figure 4.2**The Age Range of Respondents (The first digits represent the number people who choose that option)

As can be seen from figures, customers, who are visiting coffee shops, are mainly between the ages of 18 to 49. The coffee companies need to consider this finding during their implementation process of loyalty programmes.

## - Occupation of Respondents

In order to make a further demographical analyse and connect variables, such as age, gender, the respondents occupations have been asked in question 3. According to responses, 29 of respondent, which is 30% of all, is full-time employee. Secondly, 23 of respondents, 24 % of all, is professional, thirdly 15 of respondents, which is 16% of all, is self employment.

Given variety of occupation will help for further discussion to see what people think about inputs of loyalty programs during their purchasing decision and the reasons will develop for their opinion.

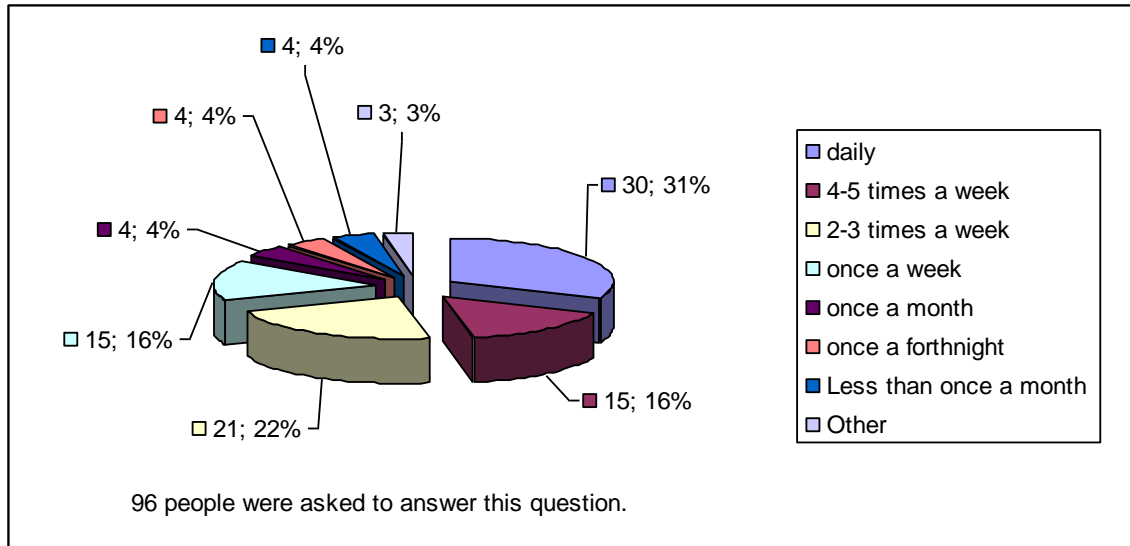


**Figure 4.3**The Occupation of Respondents (The first digits represent the number people who choose that option)

### - Frequency of Visiting Coffee Shops

Once, the demographical analyse is done with first three question, with the help of question four, the researcher aims to find out respondent's frequency of visiting coffee shops. The reason why this question is asked is to find out if there is any connection between frequency, loyalty programs and purchase decision.

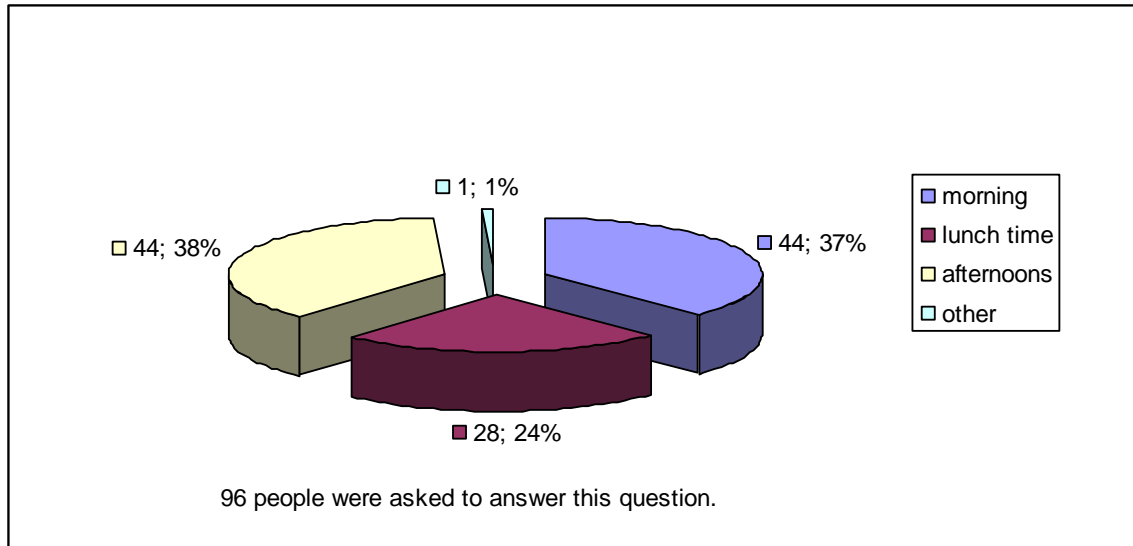
From 96 respondents, 30 of them as 31 % of all admitted their frequency as daily. 2-3 times a week followed daily with 21 respondents as 22% of all. The option of 4-5 times a week and once a week hit the same number. As can be seen from the pie chart below, the rest of options, are chosen with small number of people. People tend to visit coffee shops in a regular order. This regularity will provide advantages to companies during the loyalty campaigns.



**Figure 4.4**The Frequency of Visiting Coffee Shops (The first digits represent the number people who choose that option)

### - Time of the day for visiting Coffee Shops

In question 5, respondents are asked to choose their time of the day for visiting coffee shop. The information will help to the present research to evaluate if consumer who visit coffee shop different time of the day have different view about loyalty programs or not. The question also provides a chance for respondents to choose more than one option if there are applicable. Therefore we have 117 responses. From 117 responses we have same numbers for morning and afternoons. 88 responses have been received which is more than two-thirds of the people prefer to visit coffee shops either in the morning or afternoon. The respondents choose afternoons only 28 times, which is 24% of all. Furthermore, there is only one response, which can describe under category of other. According to this unique answer, the respondent generally visits coffee shops, whenever the coffee desire appeals

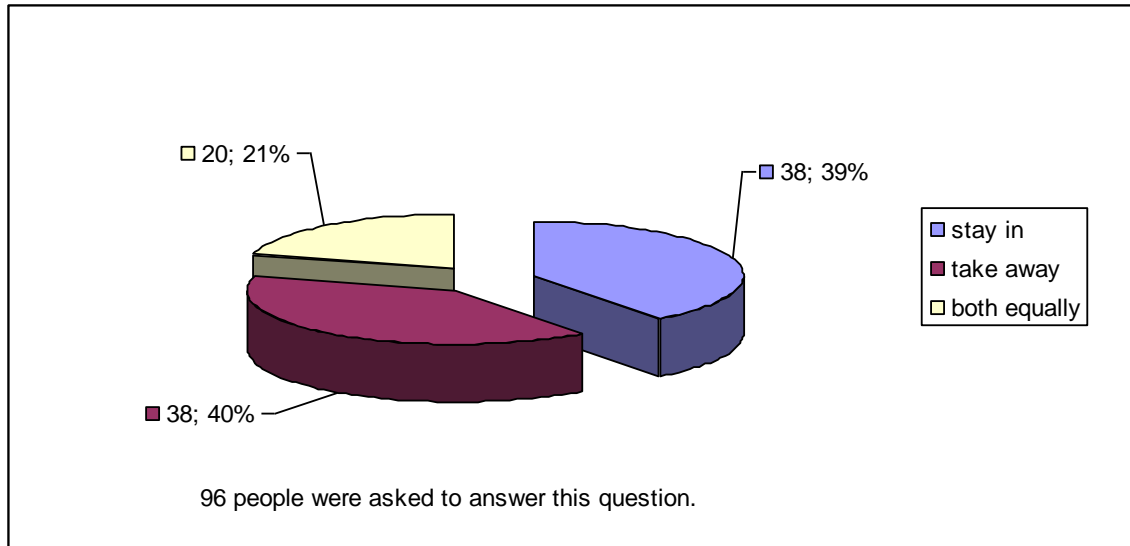


**Figure 4.5 Time of the day of visiting Coffee Shops (The first digits represent the number people who choose that option)**

### **-The Type of Purchase**

Consumers have to options to choose during their purchase from coffee shops. They can have their drinks or foods in the coffee shops or take them away with themselves. As the researcher believes and also supported with relevant literature (Ray& Chiagouris, 2009) it can be a powerful variable in the sense of loyalty programs and purchasing decision.

According to 96 responses, stay in and take away types of purchases are equal. While 38 people prefer to take away, the other half chooses to stay in. Furthermore, 20 responses choose two types equally depending on their time construction, which represents 21 % of responses. According to figures, while companies concentrate on the store atmosphere for loyalty programmes, the other half, who purchase take away, will be dismissed. Therefore, they need to develop programmes especially for take away customers.



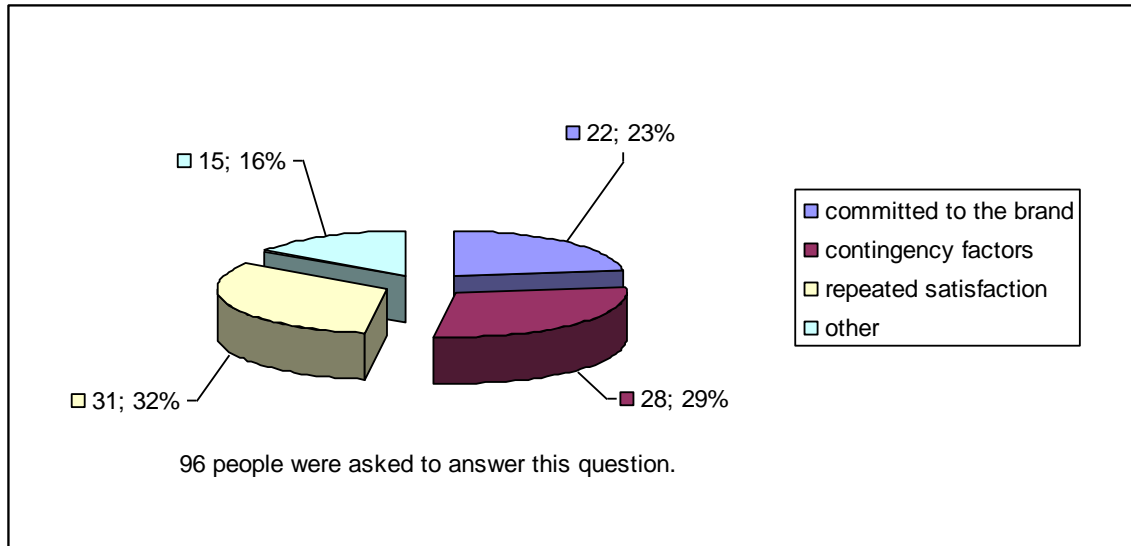
**Figure 4.6**The Type of Purchase (The first digits represent the number people who choose that option)

### **-How to Choose the Coffee Shop**

As mentioned in literature review (Uncles, 2005), consumers tend to choose the brand while reflecting if they are feeling committed to the brand or not, considering contingency factors or repeated satisfaction which they got from their purchase.

As illustrated in the following pie chart, from 96 responses one of third pointed that they have considered their repeated satisfaction before choosing the coffee shop. The option of contingency factors, such as price and promotions, has been chosen by 28 respondents which express 29 % of all respondents. 22 respondents mainly consider how committed they feel about the brand before making a decision about their purchase, which can be seen as 23 % of all responses. There are also 15 responses which can categorise under 'other' option. These answers will be mentioned under discussion section.

According to figures, there is not a major factor, which respondents mainly have chosen. All options have been chosen almost in a same volume. It is also important factor to consider for companies.

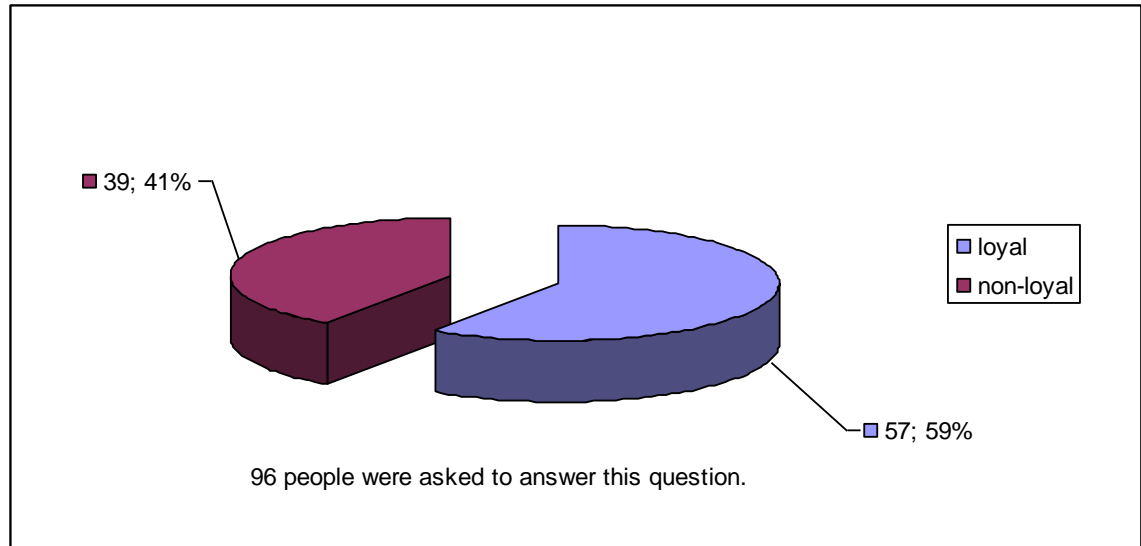


**Figure 4.7 How to Choose the Coffee Shop**  
 (The first digits represent the number people who choose that option)

### **-Being Loyal to Any Coffee Shops**

The previous questions helped to describe respondents demographically and then find out their habits during their purchase from coffee shops. In question 8, respondents have been asked to answer if they feel loyal to any coffee shops or not. It is also vital to understand what meaning of loyal is for consumers. The answers illustrated by following pie chart.

As seen below, 57 respondents describe themselves as loyal, which is 59 % of all. Oppositely, 39 responses come up with non-loyal, which is 41 % of all. As the numbers showed that the loyalty does not mean same thing for everyone. Therefore while more than two third of respondents were regular to any coffee shops, only half of them felt loyal.



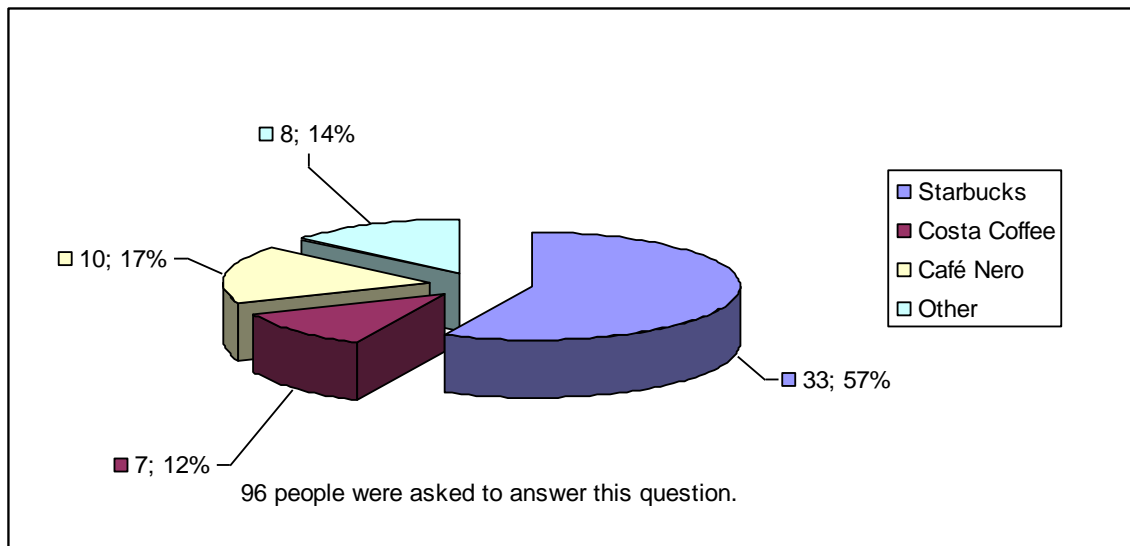
**Figure 4.8 Being Loyal to Any Coffee Shops**  
 (The first digits represent the number people who choose that option)

### **-Comparison between Starbucks, Costa Coffee and Caffè Nero**

As the present research aimed at comparing relatively well-known coffee shop brands (Starbucks, Costa Coffee and Caffè Nero in terms of their loyalty programs, the respondents were asked to choose which of them they feel most loyal and the answers were illustrated with following figure.

According to responses, Starbucks has been chosen by 33 respondents, which is 57 % of all. Caffè Nero followed it with 10 responses and 17% of over all responses. Considering the idea of people might have different choice apart from the given name of the coffee shops, the option of ‘other’ is taken place. The option has been chosen by 8 respondents which is even bigger number of Costa Coffee loyalist.

As seen in the pie chart, there are big differences between the numbers of brand choosers. The probable reasons could depend on company policies and how they see loyalty programmes. The differences between Starbuck and Caffé Nero/Costa Coffee company policies about loyalty programmes will be discussed in conclusion chapter.



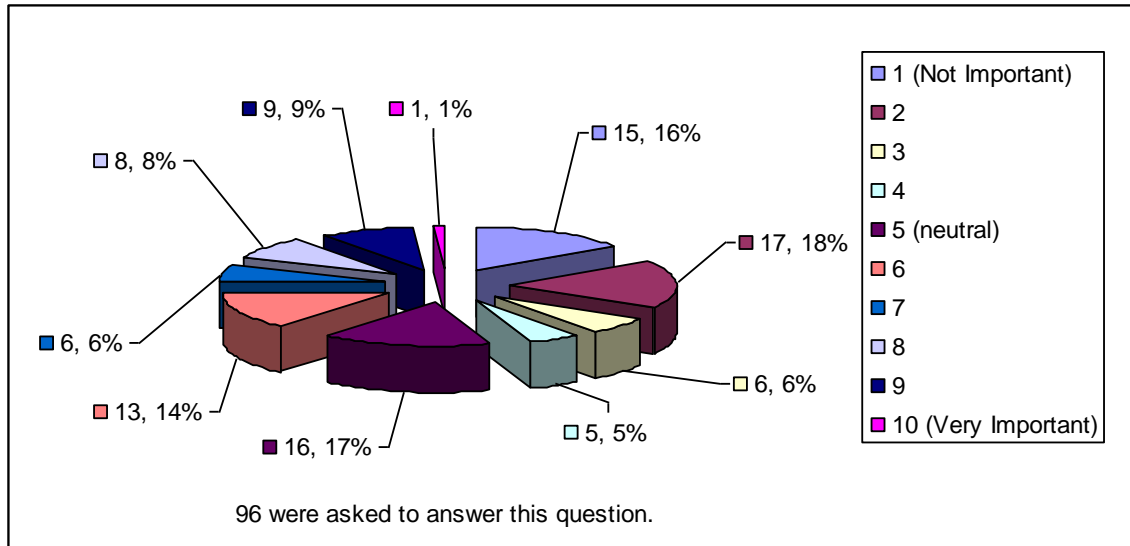
**Figure 4.9 Coffee Shops and Being Loyal**

(The first digits represent the number people who choose that option)

### **-How Loyalty Programmes Motivate Purchasing Decision**

In question 10, respondents have been asked to rank how loyalty programs motivate their purchasing decision to see the relationship between loyalty and purchase decision as aimed to find in research question. On a scale 1-10 ( where 1 is not very important and 10 is very important), 17 respondents have been ranked on 2 which is meant not important, 18% of all following 16 responses stick with number 5 which is meant neutral, 17% of all. Only 9 respondents thought loyalty programmes motivate their purchasing decision and ranked on 9, which is 9% of all. The specific ranking will be seen in the following pay chart with percentages.

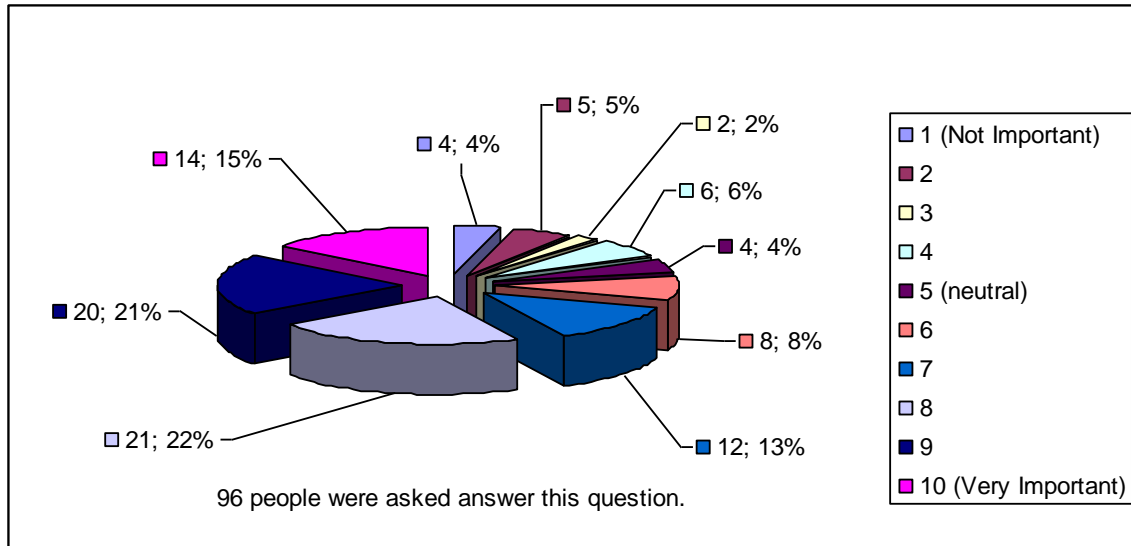
Mainly, consumers do not see loyalty programmes as an important figure for their purchase decision. However, improving the meaning of loyalty and adding the component in them, which are important or customers, will be able to change these figure totally.



**Figure 4.10 Loyalty Programs and Purchase Decision**  
 (The first digits represent the number people who choose that option)

### - How Consistent Product Quality Motivate Purchase Decision

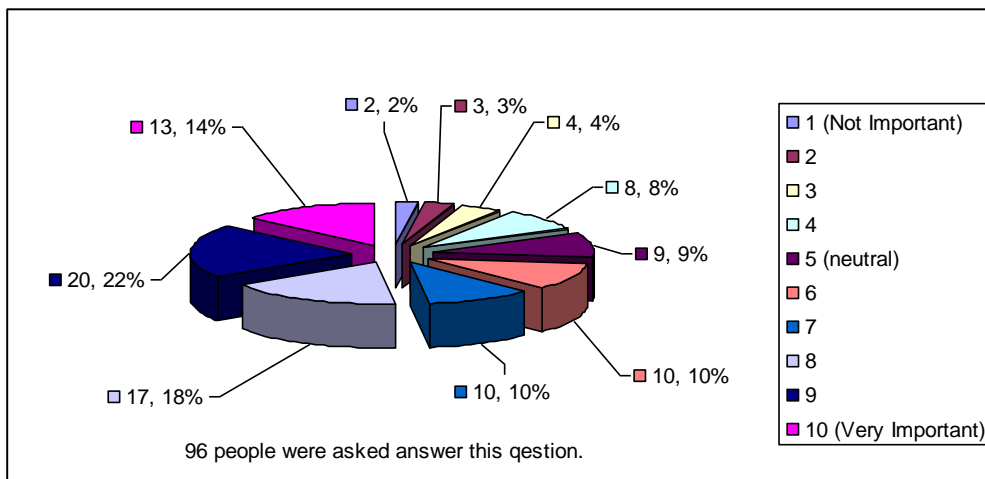
As can be seen in the literature review chapter, consumers tend to give importance to consistent product quality. In order to justify the idea the respondents of this questionnaire were asked to rank how consistent product qualities motivate their purchase decision. According to responses, 67 respondents out of 96 ranked on 7 and over, which is 71% of all. 11 respondents thought that product quality does not motivate their purchasing decision. The finding from this question seems to support the literature review and also further review will be given in the discussion section.



**Figure 4.11 Product Qualities and Purchase Decision**  
 (The first digits represent the number people who choose that option)

### - How Timely Delivery Motivates Purchase Decision

Consumer’s priorities are different referring their habits and responsibilities. Capturing consumer’s needs and developing answers can be seen under loyalty programs and will be enough for making consumers loyal to the organisation. Coffee shops need to consider this idea and timely delivery will be important for consumers who are in rush. In order to find an answer about how consumers give importance to timely delivery, question 12 was asked to respondents.



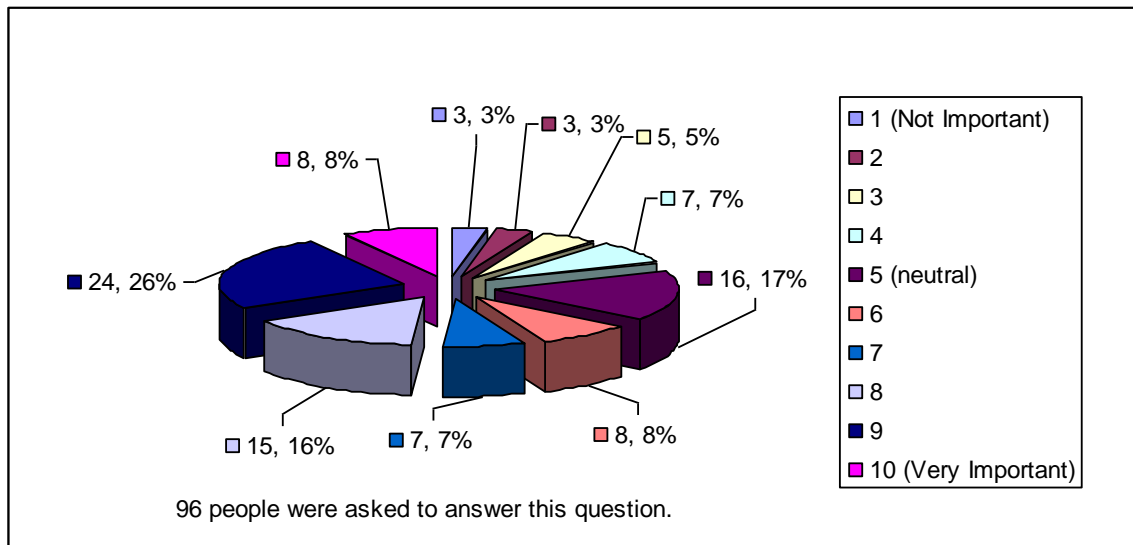
**Figure 4.12 Timely Deliveries and Purchase Decision**  
 (The first digits represent the number people who choose that option)

As can be seen in pie chart above, 60 respondents out of 96 ranked this question on 7 and above, which is 64% of all. 27 respondents found timely delivery neutral for motivating their purchasing decision, which is 27% of all. Furthermore only 9 respondents thought that timely delivery is not important for them at all.

### -How the Customer Service Motivate Purchase Decision

Referring to literature review consumers tend to care about how they were welcoming to store by front line employees. Especially within coffee sector, when there are so many choices, it is vital to differentiate from others with warm welcoming, eye contact, recognition of name or drink. In order to find out how this idea finds a place in consumer's mind, question 13 was asked to the respondents.

As can be seen in the following pie chart, more than half respondents, 54 of them, thought the customer service is important and motivates their purchasing decision. Closely, 31 respondents thought that it has neutral effect for their level of purchase, which is 32 % of all. Only 11 responses pointed that customer service not important.

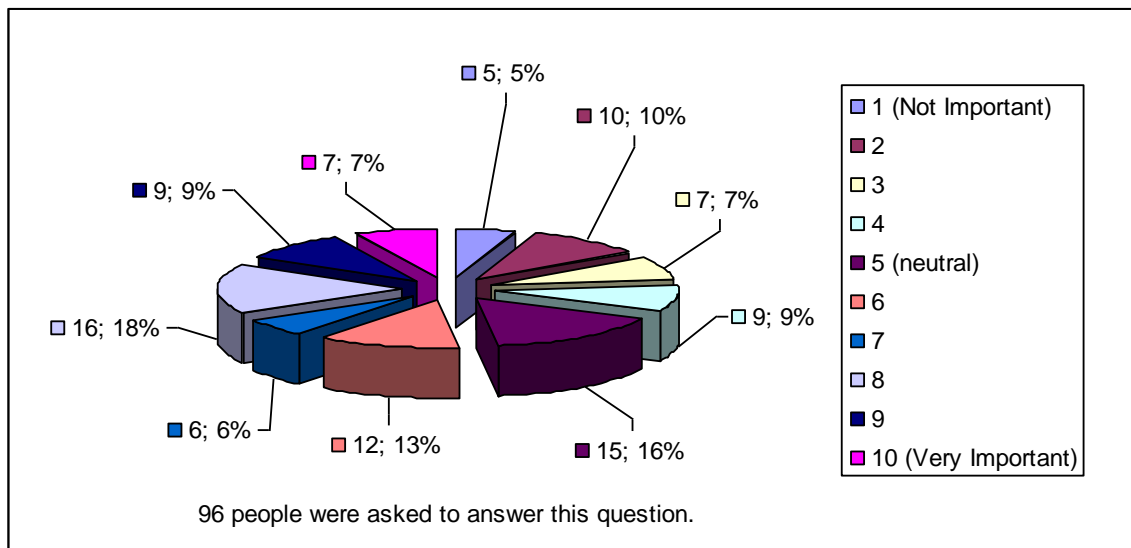


**Figure 4.13 the Customer Service and Purchase Decision**  
 (The first digits represent the number people who choose that option)

## - How Environmentally Responsible Activities Motivate Purchase Decision

Since people become aware of how the world is destroyed with the help of many organisations' production methods, companies, who want to capture eco-friendly customers, start to announce themselves environmentally responsible. Especially, within coffee retail sector, most companies start to support organic production methods and provide the systems which can clean the water after production.

While environmentally responsible activities are in coffee companies' agenda, the real question is how consumers feel about it. Therefore the respondents have been asked to rank how these activities motivate their purchasing decision. As can be seen in following pie chart, 36 respondents ranked on 7, and said it is very important, which is 40% of all. Furthermore who thought that these activities have neutral effect on their purchase decision is equal to who thought that there are very important. Lastly, only 22 respondents ranked 3 and under which is 20% of all.

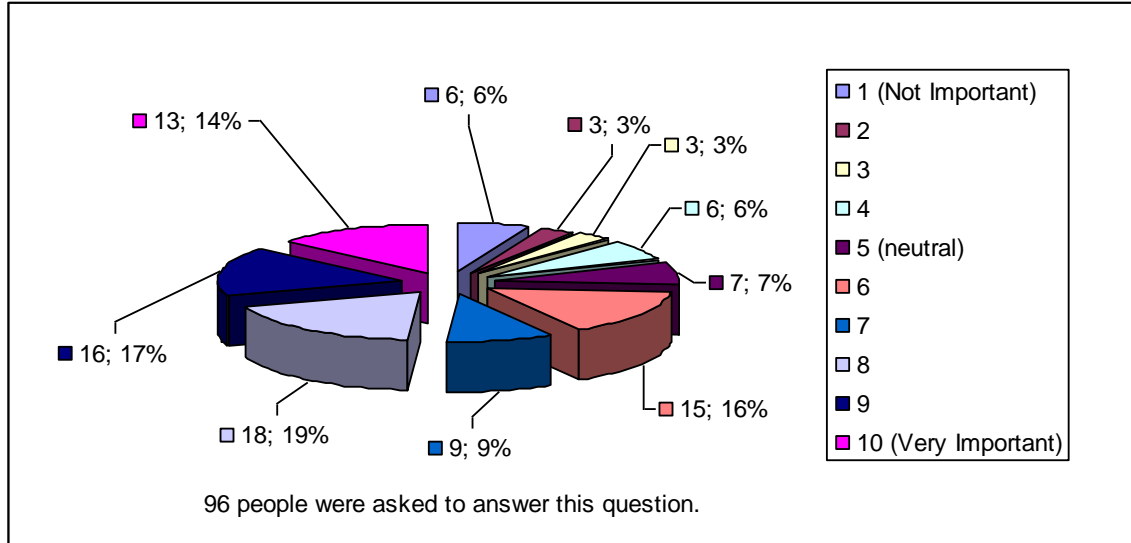


**Figure 4.14 Environmentally Responsible Activities and Purchase Decision**  
 (The first digits represent the number people who choose that option)

## -How Store Atmosphere Motivates Purchase Decision

The relationship between store atmosphere and purchasing decision mentioned in the literature review chapter. In line with this idea, consumers tend to give importance to the store lighting, colours, music, and furniture and over all concepts.

Our questionnaire findings also supported the literature, as can be seen in the pie chart below, 56 respondents ranked on 7 or over for the question of how store atmosphere motivates the purchasing decision on a scale of 1-10 (where 10 is very important). The number presents 59% of all. Also there are 28 responses who say that store atmosphere has neutral affect for purchasing decision, which represents 29 % of all. Lastly, there are only 12 respondents who do not give any importance to store atmosphere during their purchasing decision. They are the same respondents, who choose take away purchase style.



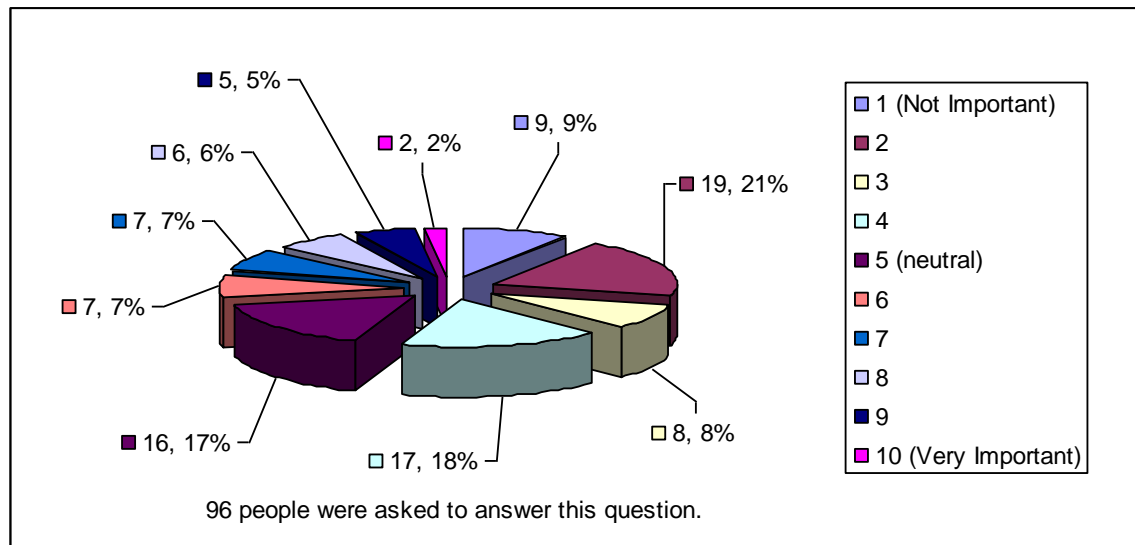
**Figure 4.15 Store Atmospheres and Purchase Decision**  
 (The first digits represent the number people who choose that option)

## - How Charity Events Motivate Purchase Decision

Organisations are typically member of some groups which require helping others who have disadvantages; it could be illnesses or effect of natural disaster. Especially, coffee retailers start to give extra importance to support their coffee provider countries within specific health and social issues as examples were given in the literature chapter.

While companies were taking part in charity events, it could make consumers to purchase more from those companies or otherwise. Maybe companies are weak to find correct charity events, which can capture big number of population In order to see this statement trueness, question 16 were asked to respondents.

According to results, consumers do not give extra importance to charity events which the companies are in. Only 20 respondents said that if the company s active with charity events, it makes them purchase more from this company, which is 20% of all responses. Furthermore, 40 respondents thought that charity events have neutral effect for their purchase decision. Closely, 36 respondents did not think that charity events are important at all.



**Figure 4.16 Charity Events and Purchase Decision**  
(The first digits represent the number people who choose that option)

### **4.3 Findings of Face-to-Face Interviews and Observation**

#### **-Face-to-face Interviews**

In order to avoid limitations of questionnaire, face to face interviews have been held with 20 respondents of the questionnaire during 21-23 March 2011, afternoons, in Central London by researcher. These interviewees have been chosen considering the questionnaire's results. According to the researcher's view, during the questionnaire, who seem more interested with the topic; have been invited for face-to-face interviews. The results of face-to-face interviews will be mentioned with their possible reasons.

From 20 interviewees, 15 of them thought, loyalty programmes, in a general meaning of it, do not have positive influence for their purchasing decisions from coffee shops. However, interviewees, who are either professional or full-time employee, visit coffee shops for their morning coffee/tea or lunch breaks, they give importance to timely delivery, because of their limited time during their break. Also recognition of name or drink, warm welcoming is important for them. Those activities make them go there again and furthermore make them loyal to specific coffee shops. Secondly, interviewees, who are either students or self employed, generally use coffee shops as study/work place. For them store atmosphere, comfortable furniture, lighting and Wi-Fi are the important elements for their coffee shop choices. In addition they do not give much importance to timely delivery, as they have time to work there.

According to interviewees, the choice of coffee shop mostly shapes considering location. If the coffee shop is in good location, such as central London, close to transport linkage and furthermore easy to explain its direction to others, will be chosen by them.

Interviewees pointed that having loyalty cards and receiving discounts or free drinks is decent. However, all pioneers of coffee shops have same sort of facilities (i.e. Starbucks Card, Cafè Nero stamped card, Costa Coffee Club). They seem to have one of each and

use them in different occasions. Therefore, loyalty cards do not make interviewees more loyal; only make them happy about discounts.

Environmentally responsible activities and charity event, which are followed by the coffee companies, are considered by interviewees and they respect that the companies need to leave budget for those activities. However, same as loyalty card scheme, those activities do not make them choose the specific the coffee shops, only making them appreciate.

As opposite to questionnaire' results, consistent product quality does not have place during the choice of coffee shop. Interviewees tend to give more importance to different variables, instead of product quality. They thought that coffees, teas or food mostly have affordable taste to choose. However, coffee shops have different characteristic, which can make customers loyal to them. Therefore they suggested that coffee shops need to find out the certain variables which consumers tend to give importance, develop and launch them with in the loyalty programmes. The further suggestions will be given in the conclusion chapter.

## **-Observation**

The researcher had a chance to hold observation in order to evaluate the impact of loyalty programmes on consumer buying behaviour within coffee retail sector. Observation gave a chance researcher to compare results of the questionnaire and face-to-face interviews and relevant literature. Observation has been done 23 to 25 March 2011 in Starbucks, Cafè Nero and Costa Coffee for the reliability of comparison study. The location has been chosen as Central London in order to compare all brands in the area.

All coffee brands have their own regular and random customers. Regular customers tend visit the shops on a regular basis. Therefore front line employees seem to have different contact with them compared to other customers, such as remembering their daily basis,

visiting time, drinks, food and special need, if they have. According to observation, this makes them happy and feel connected with the store and furthermore with the brand.

Consumers are also happy with the discount and free customising of their purchase with the help of loyalty cards. However, as seen during the observation some customers seem to think that loyalty cards are complicated to use and require extra care. They complained about not having enough information about it through the front line employees. As can be seen coffee shops are congested and the employees do not have time to explain. Customers thought that they needed to go online and search for more information which needed to allocate time.

Product quality issues observed many time during the observation by researcher. As understood, consumers do not give extra importance on it. If their expectations do not exceed, they only tend to go and tell the member of staff and requiring the better quality product. Furthermore, these issues do not affect their visit of frequency. They still seem to go to the shop and purchase again.

The atmosphere of the stores also affects consumer's thoughts. Consumers seem to not only purchase from coffee shops, they require clean, tidy and warm atmosphere to spend their limited break time and set down work on their businesses or spend quality time with their families or friends. Once these requires seem to place in any of the coffee shop, they tent to be loyal there.

Even though coffee shops regularly announce their environmentally responsible activities and which charity events they support, consumers seem to be not aware of them. The researcher had a chance to observe how consumers acted towards coffee shops charity campaigns for victims of natural disaster which happened in Japan. Mainly consumers seem to appreciate with what the coffee shops have done. However, these types of activities do not seem make consumers more loyal.

In the following section, the questionnaire, face to face interviews and observations findings will be discussed and the probable reasons for findings will be given.

#### ***4.4 Discussions***

In this section, the findings which found during the present research and the findings which mentioned in the literature review will be compared.

According to literature review, people could purchase product or goods when they recognise the difference between their existing conditions and needs. Simply the purpose could be to exceed needs. When too many brands are out there to choose, people start to consider different factors during their purchase decisions. The present study wanted to find out how loyalty programmes take a place inside these different factors and which variables companies can and need to add into concept of loyalty programmes within coffee retail sector.

As mentioned in literature review there is no single definition of loyalty. There are three of them which the present study considered. These definitions allowed us to organise model and these models showed how consumer behaviour will defer according to meaning of loyalty which the consumers accept.

According to first meaning of loyalty, consumers give emotional and communal importance to the brand. These consumers already feel committed to the brand, their purchase level will not affect with any rumours. As can be seen during observation, consumers, who even though have a low quality of drink, tend to come back the same coffee shop. Therefore, the literature and observation findings seem to support each other.

Uncles, et al.(2003) advocated that those types of customers generally have minimum level of purchase frequency. In order to justify these ideas, the respondents of questionnaire were asked to answer about how they choose their coffee shops and what

their frequency level is. According to results, 25% of over all respondents feel committed to one of the coffee shop and their frequency level is higher than others, such as 4-5 or 2-3 times a week.

Furthermore, considering the present research has been done within coffee retail sector, which is one of frequent purchase market, it should be hard to find consumers who see the loyalty as committed to the brand. However, the questionnaire results showed that 22 respondents, out of 96, feel committed to one of the coffee shop brands.

These customers are ready to pay premium price for their drinks because of their commitment level to brand. Instead of discounts or free drinks, only customer service, environmentally responsible activities and charity events affect their commitment level, therefore purchase decision.

The second meaning of loyalty requires that consumers have habitual revealed behaviour which leads to satisfactory experience and weak commitment to the brand. This meaning evaluated in literature review chapter under model 2 and this model supports brand awareness type of behaviour. According to literature, this type of customers seems to have more one favourite brand for any type of product category. However, the findings of questionnaire show that consumers who have considered repeated satisfaction for their purchase decision have only one favourite within coffee retail sector.

According to third meaning of loyalty, circumstances can make consumers loyal to any brand and shape their purchase decisions and level of frequency, such as contingency factors, discounts, promotions, daily mood and location. We examined them under model 3 and their behaviour could be described as customer brand buying.

Even though literature supports these customers show minimal level of loyalty, the present research results shows that contingency factors could be enough to make consumers loyal and keep their purchase frequency constant.

Apart from literature modelling judgement, the present research findings show that occupation of consumers needed to consider the formalisation of loyalty programs. For instance students, who has limited money to spend for their daily expenses, seems to give importance discounts, stamped cards and free drinks. According to questionnaire results, students consider these variables before deciding their loyal brand and frequency level. As observation showed to researcher when consumer started to be frequent somehow to any coffee shops, they start to find something enough to make them connected to the brand.

#### ***4.5 Summary***

In methodology chapter, research instruments were evaluated to find out which of them were relevant for the present research and in findings and discussions chapter, how these research instruments were implemented in the study was discussed.

First of all, the information about relevance of the questionnaire, as a main research instrument, has been given. Afterwards, the questionnaire findings have been explained and illustrated with the help pie charts. Secondly, how volunteers were chosen for the face-to-face interviews was explained and mentioned what the researcher found out during the interviews. Thirdly, the observation findings were examined for helping further discussion. Considering the findings from each methods and literature, discussions were hold. This chapter will constitute a reference for the conclusion and recommendation chapter.

## Chapter 5

### Conclusion and Recommendations

#### *5.1 Summary of key Findings*

Consumers could be motivated with many different ways for their purchasing decisions. First of all, companies need to start this journey with knowing their customers well for future success, but nowadays companies' marketing departments and policy makers are really fortunate. They have powerful tools for identifying, following and rewarding their customers. These tools are namely loyalty programmes. On the other hand, there is not a certain image to see their impact on consumer buying behaviour. Therefore the present study has been done to draw the missing image in the literature. In order to test rationality of the research, according to the special interest of researcher and considering its growth speed the coffee retail sector in the UK has been chosen.

For the data collection, variety methods have been used which have been helpful to reach and analyse the objectives. Furthermore this data has been examined to draw a conclusion. First of all, the relevant literature has been reviewed. According to the literature, structures of questionnaire and face-to-face interviews have been formed. Finally, the observation has been done.

To carry on this dissertation the important names of the UK coffee retail sector, Costa Coffee, Starbucks and Caffé Nero have been chosen by the researcher. These companies follow various methods of loyalty programmes for their customers to make them loyal and motivate their purchase decision. These programmes' effectiveness examined with different methods and utilised to reach objectives of the study by researcher.

First objective is about how the concept of loyalty appealed and took a place in consumer purchasing process. According to Solomon (2006), consumers tend to follow some

certain steps before purchasing any goods or services. Considering the importance of purchased items, these steps will take longer time or shorter. Problem recognition named as a first step, information search, evaluation of alternatives and product choice come along with it. However, feeling loyal to any brand will show us different experiences for each step.

For instance when we would love to have a cup of tea or coffee, spend time in a comfortable and safety place, the first thing remembered could be coffee shops. When there are many to choose, during the information search and evaluation of alternatives, people tend to look at many variables. While some customers look at prices, the others will consider how the coffee produced or furthermore the coffee shop brand take anyplace for charity events. These variables help customers to find the way for making them connected with the brand. It is hard for companies to examine each variable and put their agenda. However, it is only way to be successful today's competitive environment.

Furthermore our second objective is about how over all loyalty programmes motivate customer buying decision. The results of data showed that coffee shop customers mainly thought loyalty programmes have neutral effect on their buying behaviour. On the other hand, when loyalty programmes have been analysed component by component, the results seem to tell us different stories.

When the coffee shop brands loyalty programmes observed, we mainly come a cross with similar elements and similar mistakes, which have been followed by companies. Companies thought that if they pay extra attention to certain facilities, they will be able to motivate consumer buying decision while there is no proof for their effectiveness. With same logic, powerful elements have been dismissed. Perhaps, the companies had failures during the launching process or consumers did not want pay attention on these.

While loyalty programmes have neutral effect on consumer buying decision from over all perspective, demographical analyse shows different results as a third objective. When we looked at from customer's occupations and age range view, the found result is changed.

For instance, young students and part-time employees happily follow the coffee shop's loyalty programmes which provide discounts and free drinks, namely Caffé Nero's stamp card, Costa Coffee's point collect card and Starbucks discount card. Therefore loyalty programmes could be more motivated for consumers who have little money to spend for their daily expenses than others.

Probably, when the topic is loyalty programmes, the first thing comes to our memories is loyalty cards. However, components of loyalty programmes are quite wild and some of them really powerful in order to make customers regular, furthermore loyal, such as consistent product quality, store atmosphere, timely delivery and customer service. These finding named as our fourth objective.

All around London, branch of Costa, Nero and Starbucks easily can be seen. If we need to be in different places, we cannot go back to our favourite coffee shop for the perfect cappuccino every time or even in the same shop we cannot expect to be served by the same person as well. Therefore, the consistent product quality is important issue for companies to consider under loyalty programmes. As a customer, if we are sure in any location just under same signboard the consistent product is waiting for us, could be good motivation for our further purchase decision. Just the famous actors of sector are doing. Starbucks, Costa Coffee and Caffé Nero are in a competition war to convince customers about their product quality. Even Costa Coffee launched TV ad campaign in order to be more heard about its quality of service in 2010.

However, only then high quality product may not be enough by itself for future purchase. Regardless of take away customers, store atmosphere is also an important component for motivating customers, especially who stays in the coffee shops long hours for studying, working or different occasions. In this topic, Starbucks has its own idea for creating third place for each customer which can be seen as a helpful tool. The idea aims to provide a safety, comfortable and bright stores for becoming loyal.

While as a name, the idea of third place belongs to Starbucks Costa Coffee and Caffé Nero define their atmosphere as friendly and stylish. Furthermore, Costa Coffee launched its metropolitan stores in order to capture busy and stylish city workers. The logic behind the idea was to attract city workers with the latest design. While new design provide stylish vision who wants to spend time in there, express till areas concentrate on speed of the service for consumers in a hurry. And then rival Starbucks compressed retro branding across its UK stores, drawing on its origins as a local coffee house. It opened its first heritage store on Conduit Street in London.

As can be seen from our questionnaire findings (see in appendix b), results also support companies effort about the store atmosphere. More than of the questionnaire's respondents thought that store atmosphere really high power to affect their buying decision. Even though consumers did not be asked to rank how cleanness of the store motivates their purchasing decision, it had been observed that consumers expect to find clean sitting areas and toilets.

Fifth objective is that the real commitment from customers to brands is relatively less in coffee retail sector than other sectors. It generally depends on nature of the sector. As can be thought if consumers tend purchase the same item every day, they could consider contingency factors, such as discounts, campaigns and locations, and repeated satisfaction. Therefore, having a favourable set of beliefs about one brand does not stop consumers having an equally favourable set of beliefs about other functionally similar brands in the category and almost their identical loyalty programmes.

It is understandable that coffee shops have similar; therefore it is possible to have limited ideas in terms of loyalty programmes. However, their implementation style and behaviour of front line employees will make differentiation. Consequently, it is not impossible to transform these consumers to real committed customers. As can be seen from regular customers' point of view, they generally think about the locations for their decisions about coffee shops. If the coffee shop is just on their way to work or school, it is best choose for them. However, it is possible to see more than one shop at the same

place, especially in Central London. Therefore, how front line employees act and welcome consumer are able to make big differences.

As our last objective, consumer might value emotional and communal importance further than real purpose of the need. Perhaps the brand may have the special element to force the choice and for making committed a certain number of people. Therefore, as many companies are doing, coffee shop brands take a place in charity events. As a latest example, Starbucks, Costa Coffee and Caffé Nero put their differences aside for charity week and contribute a charitable initiative to help deliver a clean water projects in Africa. Leading high-street coffee brands get together to donate money to projects in coffee producing African countries. However, as our questionnaire (see in appendix) and observation findings show that consumers do not see charity event as an important element for their purchasing decision, especially frequent buyers. Furthermore, relatively infrequent buyers tend to be more faithful to the single brand and its loyalty programmes

Even though, there is only small number of people, who consider company's charitable behaviour for their purchasing decision, these kind of event help companies to establish public image. As leading high-street coffee brands did with supporting clean water in coffee producing African countries, while they protect their supplier, can also gain competitive advantages. Companies need to launch their project successfully, and than consumer will catch its unique side of understanding. When consumers have an idea in their mind about this connection, they may not hesitate to pay high prices for their favourite brand.

## ***5.2 Recommendations***

The results of this study have useful implications for managers for business practice in the coffee retail industry. First, a loyalty programme is not able to moderate the buying behaviour of consumer regarding retailers controlling them. Their most important role is saving customers who previously revealed loyalty to the brand. With this realisation, companies' customer relationship departments should organise effective and continuous

programs to keep in touch with their regular customers, regardless to their frequency, for coping with customers' sensitively challenging interactions.

Specifically, with the help of information, comes from their data base, companies can maintain emotional relationship between customers and the brand, such as birthday cards, reminding special days and promotions. Also as Caffé Nero is doing, the other brands could send to their customers some sort of surveys and ask them to fill it up. The data comes from these surveys, help managers to understand customers' priorities. This understanding help companies for launching more effective loyalty programmes.

Secondly, companies need to consider the importance of the front line employees' training. Loyalty programmes' meaning, the logic behind them and what their role and companies' expectations from these programmes must to explain to front line employees during the special training, as the front line employees are the face of companies. As observed during this study effective and ongoing training programmes about the concept of loyalty are not well-known between in the UK coffee retail companies. For that reason, such implications would be efficient and help companies to gain competitive advantages over their rivals.

Thirdly, when we looked at our questionnaire findings (see in appendix), it is surprising to see huge gap between numbers, which represents loyal customers for Starbucks, Caffé Nero and Costa. The reason for that seems to be straightforwardness, because Starbucks treats its loyal customers, who carry their loyalty card, with simple discounts. However, these discounts can be applied effectively during the purchase time. Oppositely, in order to get free drinks from Costa or Caffé Nero, you as a customer need show your loyalty to brand with your frequency. While you can collect point from your purchase for getting free drinks with Costa Club card, Caffé Nero provides a stamp card that u can get free drink during your 10<sup>th</sup> visit of the store.

Hence, the simplicity is important for customers, especially for things that they purchase almost every day. Our suggestion to coffee retail companies is to keep their programmes as simple as they can for capturing more customers.

Fourthly and finally, on the contrary of last decade, companies can add more services to their loyalty programmes, not just only loyalty cards. Even though loyalty cards help companies to reach information about customers, this information will be helpful to achieve more, such as developing services under loyalty programmes that can attract consumers and provide their needs. The customer, who is happy with receiving rewards and being a part of charity campaign while just having her/his coffee, is easy to transform to loyal customer from customer. As a further step, the companies' major dream of single brand loyal customers will be appealed.

### ***5.3 Limitations and Directions for Future Research***

This section deals with the limitations of the present study and suggests some directions for further research on topic. As any other study, this study has its limitations which may lead to further research. First of all, in this paper it was not our ambition to examine the consumer buying behaviour entirely. We only looked at small part of it and limited variables which could be related to the concept of loyalty and loyalty programmes. Therefore, it is not included that other variables operate even better to understand the relationship between consumers buying decision and loyalty. Instead we have confirmed that loyalty programmes are one of the most powerful marketing tools for effecting consumers' decisions.

In this process, because of financial and time limitations, it was not achievable to perform with bigger number of respondents and making a comparative study of more companies. Indeed, having a chance to interview marketers and to reach more information from business side would be useful in evaluating the stability of the model for future loyal predictions.

Finally we do not wish to close this paper without suggesting a future field of research that is closely related to our research aims and objectives that have not been developed; the analysis of the influences of different types of loyalty programmes ( for example, changing environment will bring different types of loyalty programmes) on emotional and behavioural loyalty. Each of these tools shows significant differences to its management and deployment.

## Appendix A: Questionnaire

Hello:

You are asked to take part in a questionnaire on loyalty and purchasing decision. About 100 people will be asked to complete this questionnaire which will take approximately 5 minutes to complete.

Your involvement is entirely voluntary and your opinions are highly valuable. To ensure confidentiality, your information will be coded. In addition, your answers will be kept strictly confidential and result from this research will only be reported in a master's level dissertation.

Thank you very much for your time and support.

Melike ODABASI, melikeodabasi@yahoo.com

### 1) Are you a:

Female

Male

### 2) Which of the following best describes your age?

Under 18

18 to 27

28 to 35

36 to 49

50 to 55

Over 56

### 3) Which of the following best describes your occupation? (Please choose more than one if applicable)

Student

Full-Time Employee

Part-Time Employee

Self Employment

Professional

Other, please specify: .....

### 4) How often do you visit Coffee Shops?

Daily

4-5 times a week

2-3 times a week

once a week

Once a month

once a fortnight

Less than once a month

Other, please specify: .....

**5) What time of the day do you normally visit coffee shops? (Please choose more than one if applicable)**

- Mornings
- Lunch time
- Afternoons
- Other, please specify: .....

**6) Do you usually stay in or take away?**

- Stay in
- Take away
- Both (i.e , stay in and take away) equally

**7) How do you choose your Coffee Shop?**

- Because you feel comfortable and committed to the brand
- Because of contingency factor, such as promotions, daily mood, location and so on
- Because of the repeated satisfaction you get from your purchase
- Other, please specify: .....

**8) Do you feel loyal to any coffee shops? (Here loyal means; if all coffee shops available in one place, will you only choose a specific one you like?)**

- Yes (If it is yes, please go to question 9)
- No

**9) Which of following coffee shops do you feel most loyal?**

- Starbucks
- Costa Coffee
- Caffè Nero
- Other, please specify: .....

**10) For the following statements, on a scale of 1-10 (where 1 is not very important and 10 are very important) how important is a loyalty program (such as loyalty cards or point cards) in motivating your purchase decision from coffee shops?**

- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10

**11) How important is consistent product quality in motivating your purchase decisions?**

1 2 3 4 5 6 7 8 9 10

**12) How important is timely delivery in motivating your purchase decisions?**

1 2 3 4 5 6 7 8 9 10

**13) How important is the customer service (such as recognition of name or drink, eye contact, smile, warm welcoming by the front line employees) in motivating your purchase decisions?**

1 2 3 4 5 6 7 8 9 10

**14) How important is environmentally responsible activities (such as fair-trade, shared planet, ethical production) in motivating your purchase decision?**

1 2 3 4 5 6 7 8 9 10

**15) How important is store atmosphere (such as lighting, music, design, free Wi-Fi, clean toilets) in motivating your purchase decision?**

1 2 3 4 5 6 7 8 9 10

**16) How important are charity events in motivating your purchase decision?**

1 2 3 4 5 6 7 8 9 10

**17) Do you have any additional comments on loyalty programs and purchase decisions not covered in this questionnaire? If so, can you list them below please?**

.....  
.....

Many Thank

## Appendix B: Results of the Questionnaire

Q1	Are you a	Female					Male				
		47					49				
Q2	Which of the following best describes your age	Under 18	18 to 27	28 to 35	36 to 49	50 to 55	Over 56				
		3	19	36	17	14	7				
Q3	Which of the following best describes your occupation? (Please choose more than one if applicable)	Student	Full-time Employee	Part-time Employee	Self Employment	Professional	Other				
		13	30	11	16	24	7				
Q4	How often do you visit Coffee Shops?	Daily	4-5 times a week	2-3 times a week	Once a week	Once a month	Once a fortnight	Less than once a month	Other		
		30	15	21	15	4	4	4	3		
Q5	What time of the day do you normally visit coffee shops? (Please choose more than one if applicable)	Morning			Lunch Time		Afternoons		Other		
		44			28		44		1		
Q6	Do you usually stay in or take away?	Stay in			Take away			Both equally			
		38			38			20			
Q7	How do you choose your Coffee Shop?	Because you feel comfortable and committed to the brand			Because of contingency factor			Because of the repeated satisfaction		Other	
		22			28			31		15	
Q8	Do you feel loyal to any coffee shops? Here loyal means; if all coffee shops available in one place, will you only choose the specific one you like?)	Yes					No				
		57					39				
Q9	Which of following coffee shops do you feel most loyal?	Starbucks			Costa Coffee		Caffe Nero		Other		
		33			7		10		8		
Q10	How important is a loyalty program (such as loyalty cards or point cards) in motivating your purchase decision from	1	2	3	4	5	6	7	8	9	10
		15	17	6	5	16	13	6	8	9	1
Q11	How important is consistent product quality in motivating your purchase decisions?	1	2	3	4	5	6	7	8	9	10
		4	5	2	6	4	8	12	21	20	14
Q12	How important is timely delivery in motivating your purchase decisions?	1	2	3	4	5	6	7	8	9	10
		2	3	4	8	9	10	10	17	20	13
Q13	How important is the customer service (such as recognition of name or drink, eye contact, smile, warm welcoming by the front line employees)?	1	2	3	4	5	6	7	8	9	10
		3	3	5	7	16	8	7	15	24	8
Q14	How important is environmentally responsible activities (such as fair-trade, shared planet, ethical production) in motivating your purchase decision?	1	2	3	4	5	6	7	8	9	10
		5	10	7	9	15	12	6	16	9	7
Q15	How important is store atmosphere (such as lighting, music, design, free Wi-Fi, clean toilets) in motivating your purchase decision?	1	2	3	4	5	6	7	8	9	10
		6	3	3	6	7	15	9	18	16	13
Q16	How important is charity events in motivating your purchase decision?	1	2	3	4	5	6	7	8	9	10
		9	19	8	17	16	7	7	6	5	2

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