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**“Creating customer value and the use of the product life cycle to  
generate strategic options for maturing  
low-cost service-retail markets.”**

A case study on The Spirit Group’s value pub food retail concept  
‘TWO FOR ONE’

**By**

**Claire Twaites**

**2007**

A dissertation presented in part consideration for the degree of  
Master of Business Administration

## **Abstract**

This is a case study on a low-cost service retail concept known as 'TWO FOR ONE', a pub-food chain owned by The Spirit Group. The dissertation aims to explore the nature and characteristics of the product life cycle for low-cost service retailers with the objective to establish strategic options. The nature of low-cost propositions is that price is the main strategic driver to compete for growth and market share. However in maturing markets where competition is high and margins are low, retailers seek alternative sources of differentiation. This study is important for two reasons: firstly, the literature on the product life cycle spans over 50 years, yet it does not study service retail markets – focusing instead on manufacturing or fast moving consumer goods. Secondly, not only is service retail a key area of modern business studies, but that there is a growing emergence of the low-cost provider in sectors such as short-haul flights (Easyjet); Multiple Grocers (Tesco); on-line retailers (Amazon) and pub-companies (J D Wetherspoons and TWO FOR ONE).

The concept of building superior customer value and growing customer loyalty are two themes for strategy that are explored in detail. These concepts are relatively new (being studying in the last 10-20 years) and there is a broad spectrum of opinion in the literature. However, the case study reviews the enablers of customer satisfaction and loyalty using four extensive customer surveys with a sample base of over 6000 consumers. Strategic options are considered in light of both the product lifecycle of the case study and the customer value and loyalty findings.

### ***The main conclusions of the study are:***

- *Product life cycle can be used as a basic management tool, provided its used at all levels of market, product form, class and brand and if external forces are considered*
- *Retail market life cycles are subject to complex and dynamic forces influenced by multi-site nature of retail. Low-cost service retail adds a further dynamic to life cycle performance. Strategy selection is therefore dependent on establishing the*

*life cycle stages of multiple sites and considering factors as well as price to provide differential advantage.*

- *The pub-food market is now showing early signs of maturing which will result in pressure on margins and further market consolidation.*
- *Customer value can also be defined as a function of 'price, quality, service and environment.'*
- *There is evidence of links between customer satisfaction, operational competency, site investment and profits.*
- *Investment in customer loyalty strategies is low in pub retailing, providing low returns on investment. Customer loyalty strategies should focus instead on low-tech' approaches to understanding customer needs, matching them with appropriate offers and communicating the offer to the target customer.*
- *Analysis of customer complaints show that service and quality of products are key dissatisfiers, suggesting that a zero defections policy is the first step to improving customer loyalty.*

Recommendations are made in light of the research findings and conclusions in the final chapter.

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The guidance from my supervisor Caroline Tynan has been invaluable and I am grateful for both her time and for the challenges she tasked me with. Additionally, Norma Holmes has provided, once again, her support and advice in helping me throughout this final stage of the MBA.

A dissertation is an enormous commitment and challenge for any MBA student, undertaking such a task during full-time employment should certainly come with a health warning! Inevitably the work has been undertaken during personal weekend and holiday time, this has come at the expense of time with friends and family. I'd therefore finally like to acknowledge the support and encouragement from my friends and family, without which I could not have endured the demands of the study: Jane and Luis Wishart, Mum and Dad, Kim Dale, Jeannie Holstein and Amanda Leonard – thank you all for your patience.

## Introduction

This study aims to explore the use of the product life cycle as a strategic marketing tool. The specific area of research is concerning retail service markets that are characterised by low-cost propositions. This is of particular interest because of the growing relevance of low-cost service providers in today's Western markets. Examples in the UK include: budget-airlines; multiple-grocers and pub retailing.

Price is the predominant strategy in these sectors, combined with a customer communication strategy to grow volume; however as geographical saturation is reached and / or competition intensifies, market maturity can be experienced. Companies with low-cost propositions reaching maturity must consider additional strategies to recycle growth. The areas of approach for building superior customer value and developing customer satisfaction and loyalty are explored as alternative strategies to re-launch lifecycle. The Research questions to establish this are as follows:

- i. To identify the nature, scope, characteristics of product lifecycle in low-cost service retail and to explore appropriate strategies to recycle growth at maturity stage.
- ii. To identify the drivers of customer value, satisfaction and loyalty and consider the impact of price in the context of low-cost service retail.
- iii. To explore and identify the link to profits.
- iv. To establish the value potential of customer loyalty.

The research methodology used to explore these areas is an in-depth single company case study. The case study has enabled the researcher in depth access to four major customer surveys (providing a total sample base of over 6,000 UK consumers), financial performance information and in-depth expert interviews with members of senior and Board executive management. The case study company is 'The Spirit Group', the managed pub company arm of Punch Taverns plc. The organisation owns and operates a low-cost service retail proposition, known as the 'TWO FOR ONE' pub concept. The aim is to enrich understanding of the subject

matters of: the product lifecycle; customer values; customer satisfaction and customer loyalty of matter by way of the case study and to propose appropriate strategies for growth.

## Chapter 1: Overview of the Pub Sector

(source: Lehman and Lehman, 2006) and the Spirit Group.

The British Beer and Pub Association (BBPA) estimates approximately 60,000 pubs in the UK; 89% of which are in England and Wales. The industry has three business operating models: 'Leased' (owned by large PubCo's or Regional Brewers, franchised to entrepreneurs who pay rent); 'Managed' (owned by PubCo's or Regional Brewers with freehold property run by an employed pub manager) and finally, 'Independents' (owned and operated by individual entrepreneurs). The BBPA estimates that Leased pubs are the largest group (50%), with Independents (31%) and Managed (19%) of the sector.

The roots of the British pub are linked to the old UK regional brewers and initially were unsophisticated 'outlets' for these vertically integrated manufacturers. Industry consolidation through mergers and acquisitions has been a feature of the industry, which was revolutionised by the 1989 'Beer Orders' (a Monopolies and Mergers Commission ruling). This freed the ties between the brewers and the pubs and since then the industry has become much more retail orientated. Large independent pub-owning companies emerged (e.g. J D Wetherspoons) and this brought with it increased price competition and a new focus on retailing standards. Legislation has also been a key feature of the industry: from the 'Beer Orders', to high taxation and sensitivity around health related issues: ('binge-drinking' and 'anti-social behaviour', smoking in pubs and healthier eating). Lehman's (2006) insight on these recent legislative changes and industry features are as follows:-

- **Smoking Ban (summer 2007) 'will have an estimated 6% negative impact on operating profits'**. This is based on Ireland's pubs sales volumes dropping by 6% in the 15 mths post the ban, with off-license retailers benefiting. When JDW created some trial no-smoking pubs like for like (LFL) operating margins were down 4%.
- **Licensing Act 2003 (allowing more flexible opening hours with a potential for 24 hr opening), came into force in November 2005 – some operators reporting a benefit of**

**+1-2% on revenues.** *Most Pubcos have applied only marginal extended hours rather than 24hr opening.*

- ***Additionally, VAT and Duty continues to be applied on each Budget and this is predicted to continue.***

These factors are likely to have an impact on growth prospects for the pub industry. Competition is also very intense, not only amongst the pub operators, but due to the huge growth of the take home alcohol market and 'staying in' becoming the new 'going out'. This is because town centres are less attractive late at night compared to entertaining friends at home additionally, drink drive laws over time have changed pub usage from 'boozers' to 'gastro pubs' and pub restaurants. Pubs therefore have to find innovative ways to attract and retain customers, who have become less loyal. Emphasis has been on quality, atmosphere and experience, as pubs cannot beat the off-license on price.

*"The Pub market is facing decline, there are 60,000 pubs, with 40,000 of them in decline and only approx. 20,000 growing. Eating out is growing, but it cannot compensate for decline in drink-led pubs. Drink volume has been struggling for a long time and pubs are suffering. The reasons for decline are changing consumer behaviour and lifestyle, the UK economy, change in job skills vs. manual labour, increase in choice, increase in quality of housing and women's buying power." (Managing Director of The Spirit Group, 2007).*

This study will focus on The Spirit Group, the managed pub arm of Punch Taverns plc, which is classed as one of the 'Big Four' UK pub operators (by number of pubs), amongst Enterprise Inns, also a leased Pubco and two managed Pubcos - Mitchells and Butlers (MAB) and J.D. Wetherspoons (JDW). Lehman's analysts prefer the leased model from an investment perspective because of higher margins, reliable rental income and lower cost base which makes these companies more easily defended. However, they point out that managed operators are better positioned to capitalise on the growth trend in food and related beverages (soft drinks, wine and coffee

## 1.1 Market trends and external market forces

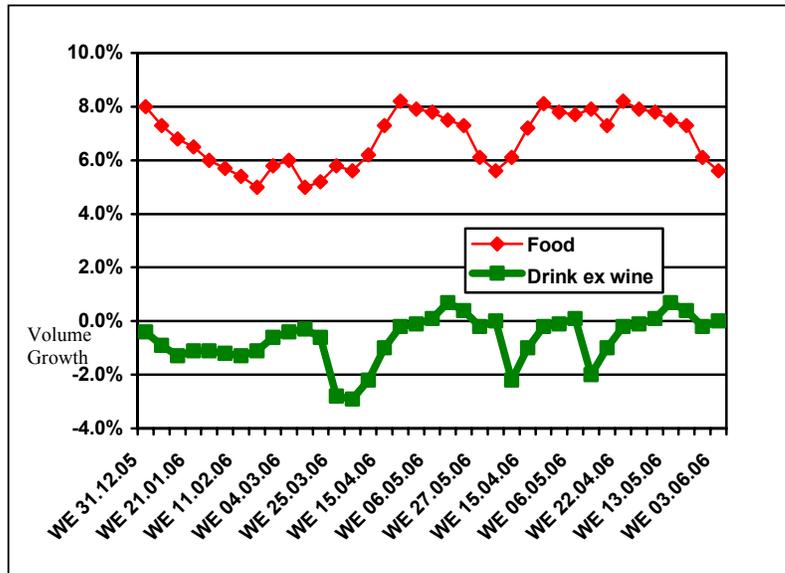
The aging population of the Nation has led to pub operators to target both the older age groups and families with food-led pubs. This has had particular impact in the suburban market with the growth of pub-food concepts and brands such as Toby Carvery, Brewers' Fayre, Harvester, Beefeater, Ember Inns, Two for One, Chef and Brewer, Vintage Inn etc. The nature of the food offer of these pubs attracts a broad spectrum of customers including families with children and the strong presence of women. The growth in the 45+ age group is particularly helping to drive the growth in frequent, value-for-money eating out of which this study is a focus. Whilst eating out is on the rise, pubs also compete against a widening range of alternatives (e.g. Starbucks, Costa Coffee, neither of which were around 10 years ago).

Mintel's Eating Out Habits report (2004), identifies that the share of the food pound for eating out is now 37% ; in the USA this figure is 50%. Mintel forecast that by 2025 the UK market will have caught up to this level and that the eating out growth will continue at a rate of 3% until the end of this decade. Deutsche Bank (2005) attributes the following social trends to the rise in demand for eating out: -

- Changing lifestyles of both parents working
- Growing demand for better quality food and environment to eat in
- Rising affluence and increasing numbers of working couples without kids
- Growing need for convenience eating as consumers look to maximise leisure time, means that value for money is a critical factor
- In summary we are becoming a Nation who 'cannot be bothered to cook, can't afford to cook, don't have time to cook, don't know how to cook'

They conclude that eating out spend has move from 'discretionary' to 'staple' with eating out becoming more affordable and no longer seen as special occasion. Deutsche Bank's growth prospects for the eating out sector is very positive but very much dependent on customer perception of 'value for money', with solid performance from mid-week eating periods when people are 'refuelling' and becoming focused on 'value for money'.

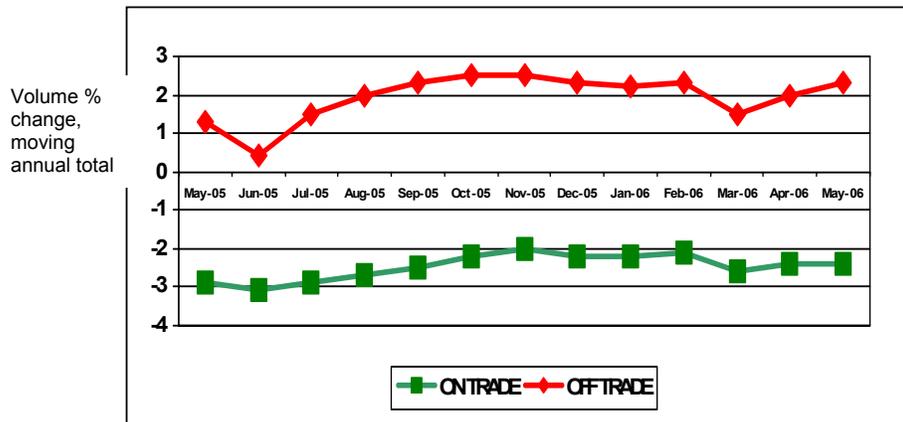
Whilst beer is the primary part of the pub sales mix (c.40% of revenue), growth is driven by food, which continues to outpace drink, see figure 1.



**Figure 1: UK managed pub sales by volume, rolling 13 weeks to the half year June 2006)**  
**Source: Nielsen Pubtrack (August 2006)**

The eating out market has grown by 4% in real terms since 1982 and increased by 5.9% in the last 10 years (source: Office of National Statistics). Lehman’s analysts report licensees at the ‘On-trade Summit 2006’ industry conference, as saying there is ‘a rise in demand for food since the introduction of the extended opening hours legislation.’ Pubs are increasingly responding to this trend by investing in their food offers. Tim Clarke CEO of Mitchells and Butlers confirms their strategy to grow food sales off the back of the growth trend “the biggest single customer-driven change will be the continued growth of eating out in pubs” (source: company report 2006).

Alcohol sales volumes in the off trade continue to grow, at the expense of the on-trade (pubs), see figure 2. Which highlights the requirement to have a compelling reason to visit pubs.



**Figure 2: Alcohol sales volume (moving annual total), year on year % change.**  
*Source: Nielsen (June 2006)*

### 1.2 Pub Sector Performance - overview

In spite of the legislative and market trend factors, investment in this sector has received much positive attention from The City. Analysts review of the sector (Nov 2005) recommended ‘buy’ status for Punch, Enterprise, Greene King and Mitchells and Butler on the basis that well run Pubcos are a ‘license to print money’ (Deutsche Bank, 2005). They report that the main risks to the industry are directly linked to the consumer spending health of the nation and the impact of the smoking ban in the UK in 2007.

### 1.3 Punch Taverns & The Spirit Group – a profile

Punch Taverns was formed in 1997 when it acquired a portfolio of pubs from the Bass Lease Company. The business has enlarged its portfolio through acquisition. In December 2005 Punch Taverns fought off rivals to reclaim the previously owned Spirit Group, a managed pub company. This has brought the estate to 9200 managed and leased pubs. Punch’s strategy is to have the highest quality leased and managed pub estate in the UK (i.e. strategically well placed in the market to deliver the best shareholder returns). Punch has recently re-organised The Spirit

Group, converting 750 pubs to lease, retaining 680 high quality managed pubs and disposing the remainder of the pubs.

The group is organised into 'Value Food-led' pubs (155 'Two for One' and 'Two for £10' unbranded pubs), 'Quality Food-led' pubs (144 'Chef and Brewer' and 5 'City Limits' bowling centres) 'City' and 'Locals' (pubs with 'quality food and drink' pubs and 'locals with/without food' pubs). The aim is to have an estate with clear consumer-focused propositions. This study will focus on the Value Food segment, with detailed analysis of the Two for One concept, which is a fast growing value-proposition in a maturing market.

The Venture Capital backing of Spirit Group has been fundamental in shaping the culture of Spirit. The mission statement strategy is: 'every customer leaves wanting to return, and recommend a to friend', the three main cornerstones of this strategy are: -

- **Our People** - *we're committed to recruiting and retaining the very best.*
- **Our Customer Offer** – *creating and sustaining the best value customer offer in all our pubs – the right combination of price, quality and service.*
- **The Way We Do Business** – delivering faster, better, lower cost to internal and external customers

**(Source: Company website: [www.thespiritgroup.com](http://www.thespiritgroup.com))**

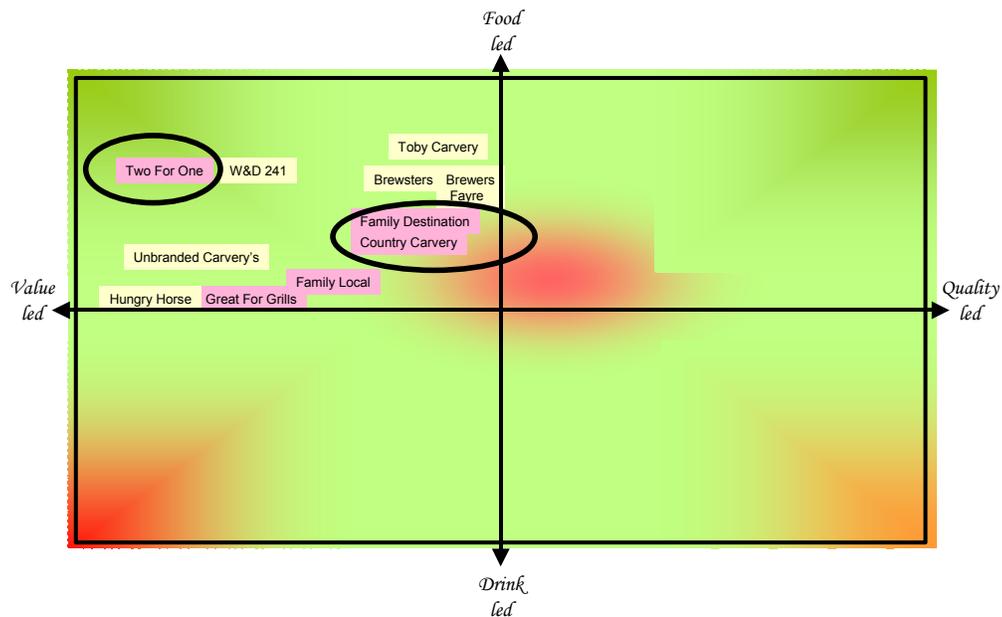
However, if you examine more closely some of the company values and actual behaviours of the organisation this is a lean operator where short-term results count the most. 'Faster, better, lower cost' has not supported a long-term customer strategy, with relatively low investment in training, people development and a customer-centric infrastructure. In fact, as part of recent restructuring the 'Director of Mad-about-the-market', a board-level customer-representing figurehead was axed! In spite of this, the restructured company is now focusing its operating teams on three key levers to improve customer satisfaction: 'service, standards and quality'. This study will look more closely at the key factors (referred to as 'drivers' in this study) that influence customer value and loyalty, and explore whether this can help

overcome some of the business challenges that faces the lifecycle of value propositions.

### 1.4 Value Food sector and competitive overview

Once an emerging market, this sector is becoming increasingly competitive, with more and more price competitiveness from both managed Pubco offers and independent pubs. Figure 3 shows the market landscape of the pub sector on a measure of 'quality / value' and whether pubs are 'food led' or 'drink' led. The circled pub offers are Spirit's Value Food offer and show that Two for One is a differentiated offer: a strong food-led pub with high levels of customer value.

**Figure 3: Value Pub Food Market Positioning**



It should be warned that in this context 'value' is defined by pricing levels, not customer value, which will be examined in the literature review. Competitors in the value-food market are identified in table 1. This shows that there is widespread competition, which is . By value the biggest competitor would be Mitchells and Butler. However, recent competition could emerge from Spirit's disposal strategy: selling 200 of its 'TWO FOR ONE' and 2 for £10 pubs to Orchid Pub Co. The future of Brewers Fayre is uncertain; Mitchells and Butlers are converting the sites it acquired into its own branded concepts, strengthening its position, whilst Whitbread

will continue to operate those pubs co-located with Premier Travel Lodges. Hungry Horse does pose some competitive threat, but its heartland is in the South, whilst 'TWO FOR ONE' heartland is in the Midlands and North. On a local basis independent and smaller Pubcos pose head to head competition, Spirit's competitive advantage in this sites is its ability to supply high levels of demand with its larger sized pubs and kitchen processes.

Brand / concept	Estimated no. of pubs	Owner
'TWO FOR ONE'	98	The Spirit Group (Punch)
2 for £10	55	The Spirit Group (Punch)
Barras	60	The Spirit Group (Punch)
'Various' value food-led pubs	200	Orchid pub co
Two for One	65	Marstons
Sizzling Pub Company	200	Mitchells and Butler
Unbranded Value Carverys	100	Mitchells and Butler, Marstons
Hungry Horse	140	Greene King
Hardy & Hansons	80	Hardy and Hansons
Brewers Fayre	200*	Whitbread <i>(*Mitchells and Butlers, have just purchased about half of this brand)</i>
Bostin Local	80	Marstons
Independent value-food pub operators	Estimated 200-500	Independent

**Table 1: Value-food competitive set, (estimates based on market insight).**

In summary, competitive threat is high in the value-food pub sector and is reaching maturity as more and more players reposition to a value proposition. As the industry continues to consolidate, the larger Pubcos with strong customer propositions and scale of economy will be the winners.

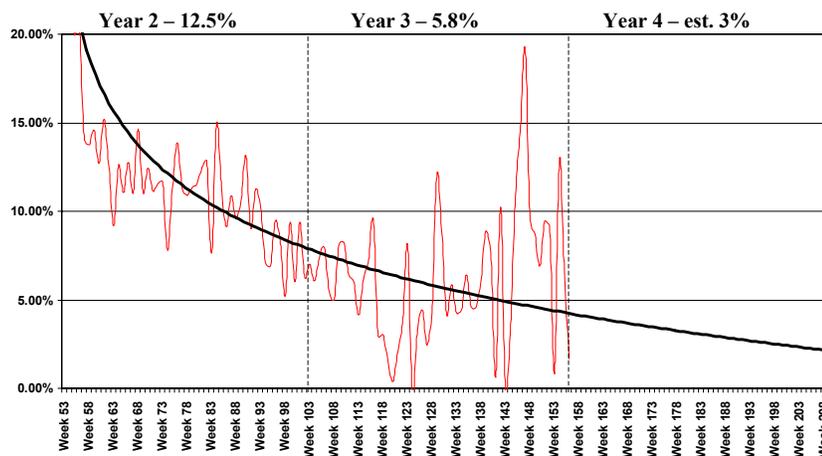
## 1.5 Value Food success and challenges

In spite of low retail margins and high operating costs, the value food segment has been a successful part of the market for Spirit. There are two main reasons for this: firstly, as identified in the 'market trends' overview a Value Food proposition has good strategic fit with the political, economic and social industry factors, being well placed to capitalise on the rising demand for casual dining, targeting families and older couples in the suburban market. Secondly, the company has a successful investment strategy involving relatively low CAPEX (capital expenditure) to reposition its mid-market pubs into value food –pubs. This has resulted in very high levels of volume growth from low levels of investment, resulting in industry-leading Returns on Investment (ROI).

The challenges for Spirit however are twofold: rising operating costs, putting pressures on margins, and the product lifecycle of value propositions maturing post investment. With respect to rising operating costs, these are set to continue to increase as the annual National Minimum Wage legislation impacts and the immediate rising costs of utilities (gas, water, electricity). In Spirit for example, the capped utility rates end this year, increased utility costs by 40%. Although comprising only 154 pubs, the Division is not only an important profit contributor; but the star performer in Spirit. For the year ended August '06 the business delivered over £160m in sales net of VAT, with a like for like store growth of 9%, total year on year growth of 13.8% and £40m outlet profit (up 1% on the previous year). The value food segment has enjoyed annual growth for over 4 years now, however this is still a young business (4 years since inception) in both an emerging market (high volume value pub-food) with favourable market conditions (see chapter 3). The business has developed by taking existing food-pub businesses operating in the mainstream mid-market and re-positioning to the value proposition. This has successfully grown meal volumes. However, following a period of healthy growth, the individual businesses start to plateau and growth rates become much lower. As the local market responds with competition and additional sites are converted in the

same catchment area, some pubs have experienced declining sales. The product lifecycle of TWO FOR ONE will be examined in detail in Chapter 4. However, the concern for the company is the lifecycle projection (see figure 4) which shows that growth slows down after four years to approximately 3% like for like sales.

## 241 Life Cycle (extrapolated)



**Figure 4: TWO FOR ONE pub concept life cycle, a forecast by Spirit.**

### 1.6 Summary

The case study will focus on the TWO FOR ONE value food concept in Spirit, the managed Pubco arm of Punch Taverns plc. The pub market is mature market that is highly fragmented and currently undergoing industry consolidation. There are significant political, economic, social and technological factors impacting on the industry, which has resulted in declining alcohol volumes. This has led to a focus in the growth part of the market - food revenue.

The competitive landscape is polarised between 'value' and 'quality' concepts. The TWO FOR ONE concept has been highly successful player in the value market with high levels of initial growth at introduction, but with maturing after three years.

Management at Spirit are concerned as to how to recycle growth to provide longevity in the marketplace. As pressure on margins from growing costs undermines the low-cost pricing proposition, other aspects of differentiation may need to be considered.

## **Chapter 2: Review of the literature on the constructs of product lifecycle, customer value and customer loyalty**

In this chapter the product life cycle (PLC) will be reviewed in detail in order to understand its nature, characteristics and use as a strategic marketing tool. Strategic options for the life cycle stages will also be examined. Two potential concepts for differential advantage will be examined in detail: customer value and customer loyalty.

### **2.1 Introducing the Product Life Cycle concept**

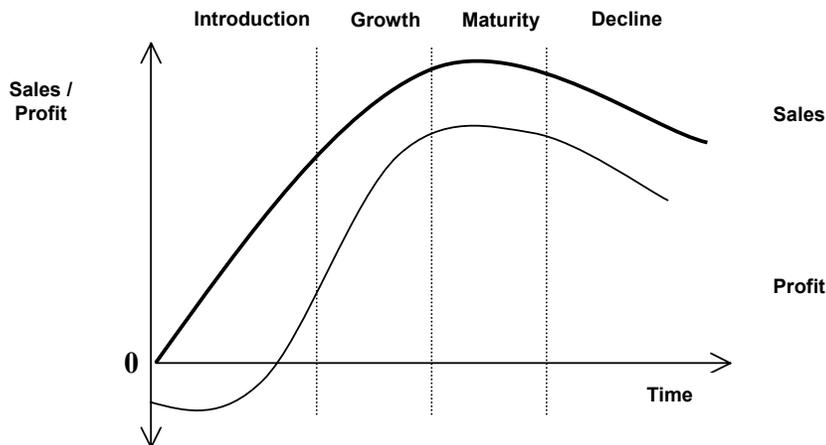
The concept of product lifecycle (PLC) has been in Marketing theory for over 50 years and has been the subject to much review in the literature as to its validity, practical application and the learning it may offer (see Hooley, 1995). Originally it was introduced as a concept by Dean (1950) and popularised by Levitt (1965). According to Hooley, (1995) it has been used as a foundation for Marketing Executives to review marketing strategies of brands and products within the firm's portfolio. However the theory also has its critics including Doyle (1994), Dhalla and Yuseph (1976), Polli and Cook (1969).

#### **2.1.2 What is the Product Life cycle?**

Meenaghan and O'Sullivan (1986, p.83) describe the product lifecycle:

*"Like biological organisms all products have a finite existence.... over time all products that have been 'born' onto the market will grow, mature and eventually die."*

Buzzell (1966, p.10) describes the PLC as representing ' *the unit sales curve for some product, extending from the time it is first placed on the market until it is removed.*' By its nature it can therefore be used as a planning tool to select marketing actions (Levitt, 1965; Polli, 1968; Polli and Cook, 1969 and Rink and Swan, 1979).



**Figure 5: The Product Life Cycle Curve.**  
*Adapted from Meenaghan and O'Sullivan, 1986 and Best, 2005*

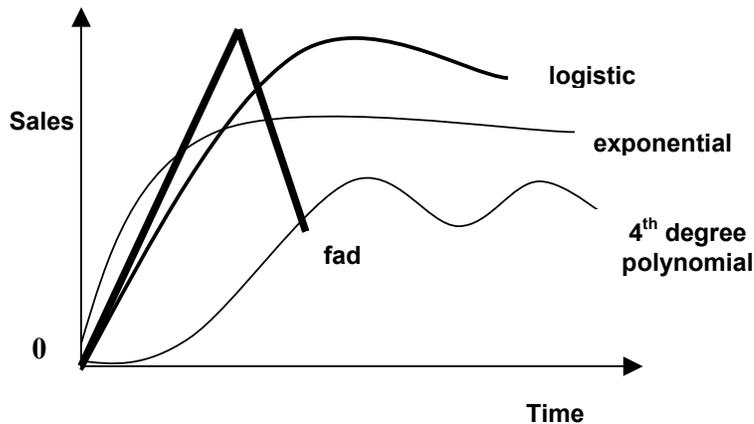
The lifecycle is illustrated practically as a curve, conceived as a normal distribution, showing sales /profit over time and split into several stages. The literature suggests a number of phases over time from four to six. The common four-stage model of introduction, growth, maturity and decline is shown in figure 5. There are relatively slow sales in the introductory stage. Buzzell, 1966, suggests potential reasons as: delays in production capability or distribution, technical problems or slow customer uptake with no profits until sales quicken in the growth stage. As sales and profit peak, the product is reaching maturity and follows an inevitable decline stage of sales where profits fall away. The profit curve in figure 5 shows no profit initially as research, development, distribution and advertising costs are incurred before unit sales commence. Profit begins in the early growth stage and peaks in late growth / early maturity stage. In a mature market there is more competition which results in lower margins as companies gain share through price discounting; profit decline then falls at a similar rate to the sales decline in the final stage. Table 2 shows Levitt's (1969) description of the stages in more detail:-

<p><b>Stage 1: Market Development</b></p> <p>New product is brought to market, no proven demand – sales are low and creep along slowly. Some new products may fail at introduction, with no growth stage.</p>
<p><b>Stage 2: Market Growth</b></p> <p>Demand starts to accelerate and the size of the total market expands – the ‘takeoff’ stage. Potential competitors jump in either copying the product or by making functional and design improvements. At this point brand differentiation begins. Strategy focuses on securing customer ‘preferrers’.</p>
<p><b>Stage 3: Market Maturity</b></p> <p>Demand levels off, sales are growing on a par with population, price competition is intense. Strategy is to achieve and hold brand preference, making finer differentiations in the product, customer services and promotions. Length of maturity stage can vary dramatically, e.g. women’s fashion fads vs the beer market in gradual but steady decline.</p>
<p><b>Stage 4: Market Decline</b></p> <p>The product begins to lose customer appeal and sales drift downward. The industry undergoes transformation, with aggressive tactics of mergers and buy-outs. Prices and margins are depressed, customers get bored.</p>

**Table 2: Lifecycle stages and characteristics, adapted from Levitt (1969)**

Whilst this classic bell-shape is the one most commonly cited in the literature as defining product lifecycle, there is evidence of alternative shapes. According to Polli and Cook (1969), it is incorrect to assume that a ceiling sales level in maturity stage represents market saturation; this can only occur when the formation of new product forms cannot be achieved with existing technology or new uses. This infers that products can be repositioned to find alternative uses or attract new market segments, as found by William Cox (1967) in his study of 258 ethical drug brands and J. Hinkle of the A.C. Nielson Company (1966), whereby a recycle pattern was found common place (see the fourth degree polynomial curve in figure 10). Dhalla and Yuseph (1976) found the four stage model to be simplistic vs more complex patterns of sales. Cox (1967) and Cunningham (1969) also identified the cycle-recycle patterns, as

mentioned above; additionally Rink and Swan (1979) identified six patterns, with the traditional four-phase bell-shaped pattern being the most common. These shapes have been summarised and developed by Meenaghan and O'Sullivan (1986). Their summary of life-cycle shapes is shown in figure 6.



**Figure 6: Alternative product life cycle shapes.**

**Source: Meenaghan and O'Sullivan (1986)**

The Meenaghan and O'Sullivan (1986) study of over eight scholar's empirically tested lifecycles summarised the four classic shapes that they outline as follows. The logistic curve involves an initial period of market development and is associated with 'low acceleration products'; the exponential curve is associated with products that have an obvious need and have 'high acceleration' curve shapes. The 'fad' takes off at a rapid rate, has no stage of maturity and falls into rapid decline. The fourth degree polynomial is when products cycle – recycle as a result of marketing investment.

Hooley's (1995) review of PLC showed conflicting opinions as to the validity of the PLC concept: from strong evidence of lifecycles by Rink and Swan's (1979) review of 70 mainly empirical study-based papers, to Mercer's (1993) conclusion of 271 papers that proof of the concept appeared difficult to find. Additionally, both Doyle (1994) and Dhalla and Yuseph (1976) questioned its existence and relevance. However, Hooley (1995) concludes after scanning the literature that there is enough

evidence and wide agreement to suggest that the four basic stages of introduction, growth, maturity and decline do exist in many goods and services.

### **2.1.3 Is the PLC useful?**

There is support for the PLC as a management tool to predict long term sales pattern and to plan strategies to extend the lifecycle of a product (Levitt, 1965; Polli and Cook, 1969; Kinra, 1993; Rink and Swan, 1979; Day, 1981): -

*“a useful tool to predict sales and assign priorities, plan for future expansion, capital and marketing [resource]. ...prevents trying to do too much at once, helping prioritise.” (Levitt, 1965, p.94).*

*“it’s a versatile framework and can direct management attention toward anticipations of the consequences.” (Day, 1981, p.65).*

However, it is difficult to forecast the length of the lifecycle and when the next stage will appear and how each stage will last, which can be misleading according to Dhalla and Yuseph (1976) and Hooley (1995). In spite of this Hooley (1995) agrees it helps to identify where offers are on the lifecycle and that it can help with strategic planning. Table 3 summarises marketing strategies by life cycle stage, based on the classic four-stage PLC model.

There are challenges that the model is over simplistic and does not take into consideration other complex forces that affect sales such as seasonal sales fluctuation, inflation and recession (Polli and Cook, 1969). Also, as to whether the PLC is an independent variable in strategy formulation or a dependent variable, a ‘natural process’ (Hiam, 1990). The notion that the lifecycle can be affected by strategies adopted is a ‘chicken and egg’ scenario that Hiam (1990) warns can lead to the theory becoming self-fulfilling.

Life cycle stage	Strategy
<b>Introduction</b>	<b>Product Launch / market establishment</b> to persuade early adopters of the product by generating awareness and trial and identifying distribution channels.
<b>Growth</b>	<b>Maximising market share</b> through market penetration and mass market advertising and promotion with the aim to acquire mass market preferers. Market segmentation commences with product extensions, extended products and price skimming.
<b>Maturity</b>	<b>Defend</b> market and brand position and share. Gain and defend share through competitive pricing whilst maximising profits and innovation to create brand extension and new distribution channels.
<b>Decline</b>	<b>'Milk' or 'harvest'</b> strategy, minimising investment and maximising income generation.

**Table 3: Summary of strategic choices by lifecycle stage**  
*(Based on Hooley, 1995; Meenaghan and O'Sullivan, 1986 and Dhalla and Yuseph, 1976).*

Another aspect of the lifecycle model, which affects its application as a useful business tool, is the confusion between the product (in it's various forms of classification) life cycle and market life cycle. According to Doyle (2000) product lifecycle being a description of how total sales of a product evolve over time, whereby market lifecycle describes how customers buying the product change over time. He argues that there is an important distinction between the two with market lifecycle of more strategic importance because markets evolve by adding customer segments with new entrants to the market. Polli and Cook (1969) however argued the opposite, finding the concept more useful for considering the sales behaviour of product forms than product classes; whereas, Harrell and Taylor (1981) found it was a valid tool for predicting the sales volume of a product class. In contrast Enis, La Garce and Prell (1977) believe management has little control over the direction of product forms and classes and therefore see the concept being of more use at brand level.

The literature would therefore suggest that studying the sales performance of a single brand alone could be potentially misleadingly. The lifecycle would need to be considered in the context of the other forms of product and market as a whole. In addition, it is necessary to consider that most of the studies on PLC have been on

either consumer durables and non-durables and a handful on industrial goods. There is little evidence of lifecycle on retail service concepts; this is an area that is therefore untested.

#### **2.1.4 Implications for management**

Evidence tested by Polli and Cook (1969) suggest that the lifecycle concept, '*when tested in a given market and found valid, can be a fairly rich model of sales behaviour (p. 399).*' The product lifecycle pattern may assist managers in planning future strategies to extend the growth stages of lifecycle by forecasting the product sales based on trend and use it as a prediction tool. Alternatively it may be even more helpful when considering strategic options within the context of the lifecycle of the market. The literature suggests that management can therefore take intervening action as appropriate.

Additionally Meenaghan and O'Sullivan (1986) found that the pattern of the life cycle could vary depending on four key factors: *product characteristics, marketing strategies employed, external environmental factors and market-related factors.* (Table 4 shows these factors and enablers of life cycle). They argue that the relationship and interaction between these factors is what establishes the shape of the curve and that PLC is therefore not purely time dependent; they stress that the strategic role of management can intervene and affect change over the life cycle. This poses important implications for management as it supports the views that sales and profits can be affected by intervention.

However, in order to potentially influence the shape of the curve, management would want to know what are the factors influencing the change in shape. Rink and Swan (1979) cite changing market and economic conditions and competition as the main factors. Tracking these factors and devising strategies to combat these changes would therefore be important for managers to consider. In addition to analysis of product lifecycle, managers need to be watchful of the market lifecycle to determine potential re-positioning of its offers to keep pace with the market. A company would

have to change focus out of maturing segments into emerging ones. Rachmann (1974) proposed two factors that would extend the length of life cycle: i) the permanence of the product (technological and patent ability) and ii) the permanence of the consumer, when consumable items are repeat purchased owing to strong customer loyalty. It is this notion of customer loyalty as a driver to extending the lifecycle that this study will explore.

Factors (O'Sullivan and Meenaghan)	Enablers of life cycle
1. Product Characteristic	<ul style="list-style-type: none"> <li>• Advantage or perceived superiority</li> <li>• Stimulates word of mouth comment</li> <li>• Low perceived risk</li> <li>• Fashion / fad</li> </ul>
2. Marketing Strategy	<ul style="list-style-type: none"> <li>• Manipulation of elements of the Marketing Mix (Price, Product, Promotion, Place, People)</li> <li>• Re-invest / harvest / divest strategy at maturity stage</li> </ul>
3. External Environment Factors	<ul style="list-style-type: none"> <li>• Technology</li> <li>• Competition (nature of and activities of)</li> <li>• Social and cultural variables – providing opportunities and threats to the performance of the product e.g. health concerns impact on McDonalds' sales</li> <li>• Market-related factors</li> </ul>
4. Market-related Factors	<ul style="list-style-type: none"> <li>• Channels of distribution</li> <li>• Organisational flexibility</li> <li>• Innovation</li> <li>• Stability of customer tastes</li> </ul>

**Table 4: Factors impacting on lifecycle, from O'Sullivan and Meenaghan, 1986**

The focus of most the literature appears to be around validating or disproving life cycle, the shape/s of the curves and the use of the life cycle as a forecasting / strategic tool. Very few of the pieces of literature concerning strategies to extend life cycle look at the subject matter of customer loyalty and customer value, tending to focus attention on classical marketing mix (e.g. O'Sullivan and Meenaghan, 1986) and competitive strategies (Porter 1980). This could be due to the main study era predating the interest in the subject matter of Customer Loyalty. This study aims to explore a service retail case study and consider whether the concept of customer value and loyalty could be used to lengthen the life cycle.

### 2.1.5 Competitive Strategies

According to Porter (1980) there are two main strategies that firms can pursue: cost-leadership and differential advantage. The former is about operational excellence in delivering to the customer consistently low prices (e.g. Asda), lower total cost from reliability (e.g. Volvo) or convenience (swift, dependable service. E.g. Dell, DHL). A differential strategy is one where companies seek to offer more benefits than competitors and hence, customer are willing to pay more. Accordingly there are four positioning strategies to gain competitive advantage: product leadership (innovation and technology, e.g. Apple Computers); service leadership (developing a value proposition to deliver outstanding service, e.g. Ritz-Carlton, British Airways); customer intimacy (communicating on an individual basis to learn about their needs and provide tailored solutions, e.g. Amazon.com) and brand leadership (products with emotional values attached to them e.g. Coca-cola which can command higher prices). However if companies try to pursue both strategies of cost leadership and differentiation they risk getting 'stuck in the middle'; a strategy that Sainsbury's has previously been accused of (Cronshaw, Davis and Kay, 1994).

Doyle (2000) suggests the following criteria for assessing perceived customer benefit: firstly, that the offer is unique vs. competitor offerings and secondly, that it is profitable and it is sustainable i.e. difficult for competitors to copy. The work of Traacy and Wisereama (see Doyle 2000, p79) also provides four rules for providing differential advantage:-

- *Provide the best offering in the marketplace by excelling in a specific dimension of value (i.e. unbeatable value or personalised service)*
- *Maintain threshold standards on other dimensions of value (ensure entry-level standards are met)*
- *Dominate the market by improving value year after year (continual improvement, faster than the competition)*
- *Build a well-tuned operating model dedicated to delivering unmatched value (match the operating model to deliver against the value proposition, e.g. cost / service to develop a winning proposition).*

Bateson and Hoffman (1999) suggest that there are three generic strategies that service firms can use to compete: broader range customer ('reach'), expand geographically to dominate the market ('geography') and increase market share ('share'). 'Reaching' customers is all about defining the catchment area around the sites by attracting customers to visit based on the strength of the offer. Expansion based on being first to market in each geographic area is seen as advantageous, based on the premise that second to market can be a disadvantage. Finally competing for share (locally and nationally) is about expanding both the service offered and the customer segments targeted. Bateson and Hoffman (1999) also warn that multiple strategies can mean a loss of focus, particularly given the complexity of managing multiple sites; they state that the 'end game' is to compete for share and loyalty. In the fight for market share from the competition, they point out that it is more costly to acquire new customers from the competition (i.e. the cost of advertising and tactical sales promotion) than it is to maintain existing customers. Accordingly, these existing customers are 'doubly valuable' because not all will be retained, offsetting any new customer gains.

### **2.1.6 Service cost leadership strategies – some implications**

As chapter 1.1 has shown, when companies are considering which competitive strategy to pursue, the product or market life cycle is a useful indicator. What has not been specifically explored in the literature, are strategies for cost leadership service providers in maturity. In these price-led 'low cost' service propositions, companies in the maturity stage of lifecycle will have to consider differential strategies to set them apart from the competition. This is an important concept for low-cost service operators because the main product being 'service' is reliant on trained personnel at point of purchase. In the UK labour is not only expensive, but is also subject to year on year 'National Minimum Wage' increases. This will therefore continue to put pressure on the margins of low-cost offerings. Previously, low cost pricing would have led to volume growth in the short term, yet faced with a maturing market; alternative ways to extract value for the shareholder will be required. As identified,

there are several strategic options a firm can consider: customer value and customer loyalty are two such strategies to consider and the concepts are increasingly seen as a source of competitive advantage (Woodruff, 1997 in Payne and Holt, 2001 and Bateson and Hoffman, 1999).

## **2.2 Customer Value**

It is a widely held belief (Doyle, 2000, Reichheld, 1996, Best, 2005) that building relationships with customers to meet their needs and develop their trust and loyalty is the key to achieving profitable growth and shareholder value. Doyle's summary formula to successful marketing is:

*.... (To understand) 'the needs of customers and develop a proposition they will regard as offering superior value.... (to) develop a service that customers will trust and want to continue to do business with...(which is) dependent on having built within the organisation a level of skills, capabilities and commitment that enables the firm to deliver superior value than competitors.'* (Doyle, 2000, p.p. 69).

He points out that companies should choose the right customers, as others do not have the potential to create value or the costs of servicing them outweigh the benefits or that the company does not have the appropriate skills to serve them effectively. Spirit for example chose not to operate the acquired Premier Travel Inn business it acquired as part of Scottish and Newcastle Retail as its core competencies is as a pub operator, not one of hotels. Once the company has a focused target customer, it can build long term relationships because loyal customers make faster and more profitable growth (Reichheld, 1994). This is dependent on maintaining a differential advantage (why customers perceive the firm as offering superior value to its competitors). In order to create differential advantage Doyle (2000) says the needs of the customer are to be understood, as are the strategies of competitors. A review of the literature by Payne and Holt (2001) found three different perspectives as to what constitutes value or customer value:

*'Creating and delivering customer value (adding value)';*

*'Customer-perceived value,' and  
'Value of the customer' (customer lifetime value).'*

Their review also identified several streams of value literature: the early key influences of consumer values and consumer value; the augmented product concept; customer satisfaction; service quality, and, the value chain. More recent perspectives were also identified: creating and delivering superior customer value; the customer's value to the firm; customer-perceived value; the concept of customer value and shareholder value and that of relationship value.

*Consumer value* is defined as 'preferential judgement', with consumer values being at the core of how these judgements are made (Holbrook, 1994), whereas 'values' being the deeply held and enduring beliefs of individuals (Rokeach, 1973). Some of the measures of the trade offs of values (benefits and sacrifices) were developed in the early 80's for example 'values and lifestyle' (VALs) by Mitchell (1983) and the 'list of values' (LOV) developed by Kahle (1983). Payne and Holt (2001) believe that understanding consumer values may help determine the context and outcome of the consumption event (the acquisition and use or appreciation of the product or service). Zeithaml (1988) also developed four consumer definitions of value, which are important in that they provide an understanding of the linkages between price, perceived quality and perceived value:-

1. *'Value is low price'*
2. *'Value is whatever I want in a product'*
3. *'Value is the quality I get for the price I pay'*
4. *'Value is what I get for what I give'*

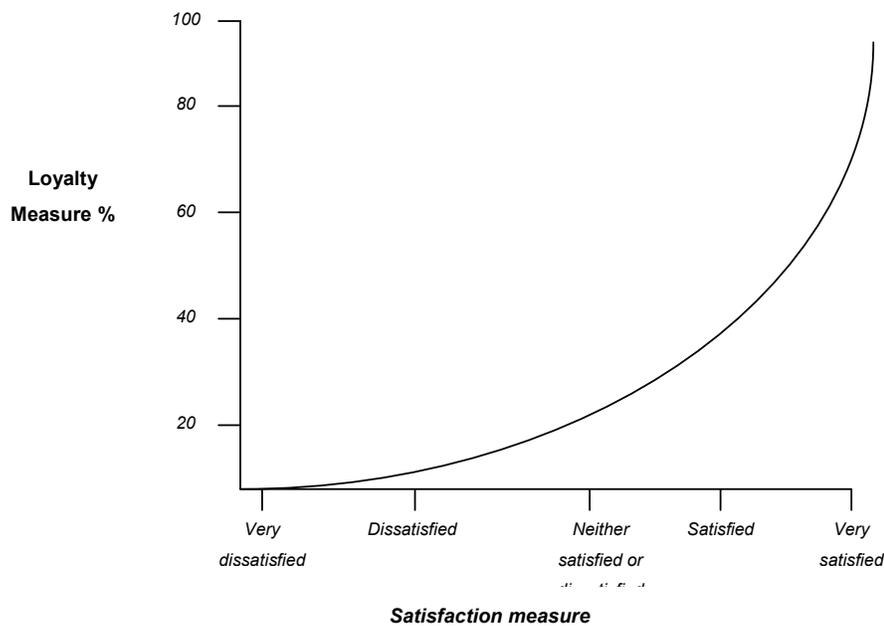
The concept of the *augmented product* as developed by Levitt (1969, 1980 and 1981) in Payne and Holt (2001) moves the traditional view of products in terms of inputs and outputs forward to considering the products as 'a promise, a cluster of value expectations of which its intangible parts are as integral as its tangible parts.' Lovelock (1995) has built on this concept in the context of services marketing with his useful 'flower of service model' – eight key elements of services which can be used to add value to the core service or product. Payne and Holt (2001) conclude that it is

a significant contribution to thinking in that it recognises additional elements beyond the product itself have a 'profound impact' on the value that be added for customers; however, its limitation is there is no measurement system with identifying which elements are likely to have an impact on customers.

*Customer satisfaction and service quality has been a subject of much interest by practitioners and academics. Customer satisfaction has been defined by Oliver (1997, p.p. 13):*

*“The consumer’s fulfilment response. It is a judgement that a product or service feature, or the product or service itself, provides a pleasurable level of consumption-related fulfilment.”*

Customer satisfaction is a very important concept because of the link between satisfaction levels and profits and customer loyalty - see figure 7, (also Anderson, Fornell and Lehmann, 1994; Yeung and Ennew, 2000, in Payne and Holt, 2001).

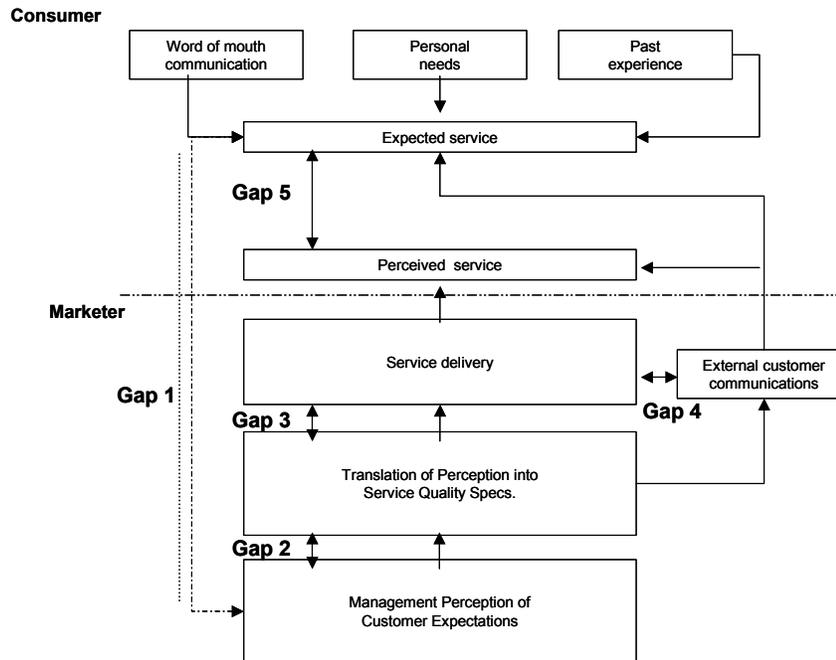


**Figure 7. The relationship between customer satisfaction and loyalty in competitive industries, from Heskett, Sasser and Schlesinger, 1997**

An important measure of service quality was derived from a systematic research programme by Parasuramen, Berry and Zeithaml (1988), which were based on perceived differences between product and service quality. The survey measures perceptions and expectations as an indicator of quality based on best in class firms vs. the particular company, comparing 'the gaps' between the two (the smaller the gap the higher the service quality expectation). They identified five dimensions of service quality to measure:

1. **Tangibles** – *the physical aspects of service firm, from equipment and facilities and personnel and communications materials*
2. **Reliability** – *the consistency and dependability of a firms' performance.*
3. **Responsiveness** – *commitment to provide its services in a timely manner i.e. not keeping a customer waiting for their table/order/meal/payment.*
4. **Assurance** – *competence or knowledge and skills in performing it's service, courtesy and safety*
5. **Empathy** – *understanding customers' needs and making services accessible to customers*

Their SERVQUAL model proved that a measure of service quality be found by identifying the gaps between customer expectations and perceptions of service performance. They concluded four gaps existed which would affect service quality perceptions, the model and the gaps are shown in figure 8.



**Figure 8: A conceptual model of service quality: 'SERVQUAL' – the gap analysis model, by Parasuraman, Berry and Zeithaml (1988)**

The use of such 'gap analysis' as a measure of service equality has been criticised. Cronin and Taylor (1992, 1994) who propose a SERVPERF model using performance based measures. Woodruff, Cadotte and Jenkins (1983) also conclude that modelling the difference between expectations and perceptions is complex, preferring measures of attitude. Bolton and Drew (1991) build on this to conclude that 'performance ratings affect attitude whereas the effects if disconfirmations are generally insignificant.' With respect of the five dimensions of service quality, work by other academics, has extended these further, for example Johnston's (1995) study on the management perceptions of service added further dimensions: *access, appearance/aesthetics, availability, cleanliness/tidiness, comfort, communication, competence, courtesy, friendliness, reliability, responsiveness and security*. His subsequent work with Silvestro, et al. (1990) included the customer's perspective and subsequently added: *attentiveness/helpfulness, care, commitment, functionality and integrity*. He concluded (1995) that SERVQUAL helps to identify what is important to customers, with 'tangibles' being the least important determinants of

service quality, however he contends that SERVQUAL does not highlight what satisfies or dissatisfies.

Some sectors have a wide variety of offerings, e.g. as pub-restaurants, (gastro independents, large scale value food pubs to classic local pubs serving food), in such sectors this measure could be difficult to use. This is because expectations and perceptions may vary from the 'excellent pub operator' to the offer being surveyed; depending on what the customer has in his or her mind as the competitive set. Zeithaml and Bitner (2003, p.p. 62-63) quote Davidow and Uttall (1989) to illustrate this point:

*'Levels of expectation are why two organisations in the same business can offer far different levels of service and still keep customers happy. It is why McDonald's can extend excellent industrialised service with few employees per customer and why an expensive restaurant with many tuxedoed waiters may be unable to do as well from the customer's point of view.'*

They argue that because of this fact service marketers need a more thorough and clearer definition of expectations in order to understand, measure and manage them. In the context of a value food-pub operation this is key because there is a possibility that the Company is pitching the offer too low based on the low price value positioning, or indeed wasting resources by over delivering on other aspects of the offer. Customer expectation can be viewed as two levels of standards, desired service and adequate service, i.e. the minimum tolerable level, with the extent customers recognise and are willing to accept the variation between the two being the 'zone of tolerance', (Zeithaml and Bitner, 2003). They define the zone of tolerance as 'range or window in which customers do not particularly notice service performance' where if it falls out of the range (very high or very low) customers will react in a very positive or negative way. Different customers will have different zones of tolerance and Zeithaml and Bitner (2003) acknowledge that price is a key lever: as prices increase, customers tend to be less tolerant of poor service; the question for a low-priced service offer is what is the zone of tolerance of the target customer? A study by Hadiri and Hussain (2005) on the hotel market in Cyprus to determine satisfaction levels using an adapted zone of tolerance model 'HOTELZOT' found that

there was a shortfall in the service quality provided, with the largest gap being in intangible elements.

### **Implications for low-cost service providers**

Restaurants and other products and services, which would include pubs, are increasingly low-margin commodities according to Doyle (2000); it is the superior knowledge of how to solve the problems of customers is the key to delivering customer value and competitive success. It therefore follows that an in depth knowledge of customers needs in both the purchase decision (i.e. which pub to visit to eat) and the whole customer experience will help determine what the customer perceives as superior value. Doyle also points out that there will be one or two critical interfaces or 'moments of truth' during the purchase decision and whole experience that will drive customer perception of value and whether to purchase or not. This is a key concept to understand to help provide lifecycle growth options for a cost-leadership service provider because understanding the process and managing the key moments of truth underpin the foundations for a strategy to deliver customer value and create competitive advantage, ( Doyle, 2000).

### **2.3 Customer Loyalty**

Reichheld (1996) recognises the link between customer value and customer loyalty. His definition of what drives customer value is, 'a full array of features, such as product quality, service, sales support, and availability'. He proposes that Marketing's job is 'to ensure that the efforts of each department are co-ordinated into effective delivery of a unique value proposition, which will provide superior value and, thus, earn customer loyalty'. He identifies four basic tools to manage loyalty:

- *Measurement systems based on retention economics.*
- *Customer targeting based on lifetime value.*
- *Defection analysis.*
- *Value proposition revision and renewal.*

Once the needs of the customer are understood and a differential advantage has been established, the aim is to building a continuing relationship with customers so that they become repeat customers (Doyle, 2000). His definition of customer loyalty is: *'the customer's willingness to continue buying from the company'* ( p.p.80)

An alternative approach is to define customer loyalty as having three component parts, which combine to form a customer loyalty index (CLI):

*'CLI = customer satisfaction x customer retention x customer recommendation.'* (Best 2005).

Growth from new customer acquisition masks lost customers, measured in terms of 'retention rate' / 'defection rate'. Figure 9 is a theoretical model of this concept based on a retailer having a 10 million customer base; assuming a moderate growth rate of 10% more customers p.a., if the retention rate falls below 95%, the overall growth rate is in net decline. This shows that power of customer loyalty over acquisition. In mature or slow-slow stages of the lifecycle model, defection rates soon destroy the overall growth.

Retention rate	Annual customer base	New customers +10%	Growth rate
100%	10,000,000		
95%	9,500,000	10,450,000	4%
90%	9,000,000	9,900,000	-1%
85%	8,500,000	9,350,000	-6%
80%	8,000,000	8,800,000	-12%

**Figure 9: Hypothetical model of the impact of retention levels to overall growth (adapted from Doyle 2000).**

The profitability impact of defections is so important, that according to Reichheld and Sasser (1990) defections should become a key performance measure for senior management and a part of incentive schemes. His philosophy on the service industry is that if it measured quality in terms of 'zero defections' (just as manufacturing sectors do) companies would strive to ensure that it kept every profitable customer it served and that companies 'can boost profits by almost 100% by retaining just 5% more of its customers.' Understanding what is causing customer

defection can provide focus on delivering exactly what customers value. Collecting this information is easier in service industries that operate customer databases, e.g. financial services or in sectors where EPOS (electronic point of sale) is linked to customer information, so that purchase patterns can be analysed over time; however, this is less easy in the pub food sector, where no customer data is retained. However, the philosophy of a zero defections culture may help in raising the bar on delivery of customer service and complaint handling, simply by having an in-depth understanding of customer satisfaction drivers.

Reichheld and Sasser (1990) have also assessed the profitability of customers across different sectors. This study showed that there were differences in profitability in spite of similar pricing and concluded that the variances were due to retention rates, with loyal customers generating higher net cash flow – up to 6 or 7 times the amount of a new customer. They also identified the following sources to make loyal customers more profitable: -

- *Acquisition costs of new customers (advertising, direct mail, management time); estimated at 6 times more cost vs. cost of keeping an existing customer*
- *The longer a customer is retained the greater the total sum of annual base profits (earnings on purchases before allowing for loyalty effects)*
- *Revenue growth from loyal customers increasing their spending over time*
- *The cost of serving regular customers decreases over time as less time is spent explaining the offer*
- *Satisfied customers recommend the business to others, know as referrals. This word of mouth costs nothing but is worth a lot.*
- *Old customers are normally less price conscious than new and are potentially prepared to spend more*

Another way to evaluate the profitability of customer loyalty is consider the lifetime value of a customer (CLV). The lifetime value is the net present value of customer cash flow over time (Best, 2005). Several academics recommend this metric to acquire, grow and retain profitable customers (see Reinartz and Kumar, 2003; Rust, Zeimal, and Lemon, 2004, Hogan et al. 2002, in Rajkumar and Kumar, 2004) and

have proven a link between CLV and profitability. According to Rajkumar and Kumar, 2004, there is a potential for improved profits when managers design resource allocation rules that maximise CLV, in other words designing marketing communications that maximise lifetime value.

However, according to Reinartz and Kumar (2002) not all 'loyal' customers are profitable. This is dependent on the cost to serve the customer, how price sensitive they are, how well they advocate the product or service to others and the cost of communicating to the customer via different channels and frequency. Their study on the link between loyalty and profits showed that profitability did not necessarily follow loyalty and that accordingly different customers need to be treated in different ways. This study has important implications for customer relationship marketing (CRM) strategies that utilise technology to communicate to customers. However, CRM in the pub sector tends to be un-sophisticated, utilising low-budget channels of communication such as free-shared door drop (fairly untargeted); this is because the data capture in pub is not currently a way of doing business owing to the low transaction cost which would yield low returns on CRM technology investment. It is therefore difficult to establish whom the loyal customers are, let alone how to manage them more profitably.

### **2.3.1 Implications**

The link between customer satisfaction and retention is important in considering lifecycle stages, because in less competitive markets customer retention is easier even with low levels of satisfaction due to few substitutes. Conversely as competition grows, customers can easily switch choice of provider if they are not completely satisfied (Best, 2005).

## **2.4 Summary of the Literature Review**

In spite of criticism by some (Dhalla and Yuseph, 1976); Doyle, 1993 and Mercer, 1994), there is widespread evidence that products and markets have a life cycle (Dean, 1950; Levitt, 1965; Buzzell, 1966; Cox, 1967; Polli and Cook, 1969, Rink and

Swan, 1979; Meenaghan and O'Sullivan, 1986 and Hooley, 1995). Limitations of the lifecycle include: that it is too simplistic, not taking other complex factors affecting it e.g. recession and seasonality (Polli and Cook, 1969); that the lifecycle can be affected by strategies, a 'chicken and egg' scenario leading to the theory becoming self-fulfilling, (Hiam, 1990) and the confusion of the distinction between brand, product class, product form, i.e. the product itself or the market for that product (Doyle, 2000; Polli and Cook, 1969; Harrell and Taylor, 1981 and Enis, La Garce and Prell, 1977). However, the review of the literature would suggest that it has a general use as a useful prediction and planning tool, managers can use it to determine intervening strategies to extend life cycle.

Most of the literature that considers strategies to extend lifecycle focuses on classic manipulation of the marketing mix, with little attention paid to how the development of customer loyalty can be used as a strategy; this is possibly because the bulk of the literature predates the concept of customer loyalty. Additionally, very little is understood about lifecycle of retail / service products and even less about the nature of low-cost service providers - the literature being focused on studies of industrial products, healthcare drugs and consumer products. Given the rise of the service industry in modern markets and the growing dominance of the low-cost service provider, this is an important area of study for modern business.

The implications for cost leadership customer propositions are therefore, to understand the implications of lifecycle and then determine strategy to maintain growth. The nature of service firms is also complex in that multiple sites are a feature. Three key strategies for service firms are: extending customer reach, geographical expansion and increasing market share (Bateson and Hoffman, 1999). In competing for share, maintaining customer loyalty is more cost effective than the acquisition of new customers owing to the cost of advertising and tactical sales promotion (Reichheld and Sasser, 1990). In maturing markets low-cost operators will also need to consider differential strategies to compete, as low prices are a feature of competing for share. Growing customer value and customer loyalty is

seen as two such sources of competitive advantage (Reichheld, 1996; Woodruff, 1997; Bateson and Hoffman, 1999; Doyle, 2000 and Best 2005).

Customer value, customer satisfaction, customer loyalty and profits are all closely linked (Doyle, 2000 and Heskett, Sasser and Schlesinger, 1997). Therefore understanding these concepts in the context of cost leadership services is an important area of research. The literature on customer value is extensive and complex, with little agreement over its definition (Payne and Holt, 2001). The topics defining customer value include: consumer values and customer value, the augmented product concept, customer satisfaction and service quality, the value chain, the customer's value to the firm and customer-perceived value, customer value/shareholder value and relationship value.

The link between customer satisfaction and performance has been proven (Anderson, Fornell and Lehmann, 1994; Yeung and Ennew, 2000 and Heskett, Sasser and Schlesinger, 1997). An important aspect of satisfaction is product and service quality, which can be measured in order to understand the gaps of customer expectations and perceptions of service performance (see SERVQUAL: Parasuramen, Berry and Zeithaml, 1988); this is a potential key to understanding how to add customer value, building loyalty and subsequent growth in profits. Price is an important factor in that it can widen (in the case of low-cost) or narrow (high price) the customer's 'zone of tolerance' of service quality (Zeithaml and Bitner, 2003). In conclusion, if companies can identify the drivers of value and customer satisfaction, close the performance gaps, then the literature would suggest that customer loyalty will follow, leading to increased profits in the long-run.

Once the needs of customers are understood and a differential advantage has been established, then the aim is to build continuing relationships with customers so they become repeat customers (Doyle, 2000). The role of the marketer is to align company efforts into delivery of the unique value proposition (Reichheld, 1996). There is evidence of a strong case for a customer loyalty strategy, for the following reasons:

- *Growth is a function of new customer acquisition and retention / defection levels, in mature markets where new acquisitions fall, defection destroys overall growth (Doyle, 2000)*
- *Loyal customers are up to 6 or 7 times more profitable (Reichheld, 1990)*
- *There is a link between customer lifetime value and profit (Hogan et al., 2002; Reinartz and Kumar, 2003; Rust et al., 2004 and Rajkumar and Kumar, 2004).*
- *A zero defections policy may boost profits by retaining 5% more of customers (Reichheld, 1990)*

However, there is counter-evidence that not all loyal customers are profitable (Reinartz and Kumar, 2002), albeit their study focused on high cost customer relationship strategies. There are tools to manage loyalty including: retention measures; targeting based on customer lifetime value; defection analysis and revision and renewal of the value proposition (Reichheld, 1996).

## **2.5 The literature review conclusion and implications for this study**

An understanding of the lifecycle of the market and product may provide insight, which may predict future performance and hence aid planning and strategic decision-making. Low-cost service retailing is an untested area of this research, this case study of the 'TWO FOR ONE' pub concept aims to explore the area further. In order to do so an understanding of the lifecycle of the eating out market, the pub dining market and that of 'TWO FOR ONE' will be required.

In considering potential growth strategies for a maturing market, a study of the drivers of customer value within the case study may be useful. This is because the literature suggests a strong link between customer value, customer satisfaction, customer loyalty and profits; this is to be proven in the context of low-cost service retailing using 'TWO FOR ONE' as a case study. Measuring customer satisfaction and the gaps in performance may identify potential opportunities to add value and grow customer loyalty. An understanding of the loyalty levels in the context of low-cost service and the potential customer lifetime value may strengthen the modern

argument of a market (customer) led organisational strategy, whereby all company efforts are focused on the delivery of the unique value proposition.

## **Chapter 3: Research Methodology**

### **Research area: extending the life cycle of low-cost retailing in a maturing market.**

This study aims to explore the use of the product life cycle as a strategic marketing tool. The specific area of research is concerning retail service markets that are characterised by low-cost propositions; in some cases these markets are starting to reach maturity. Price is the predominant lever for cost leadership; this is usually combined with an extensive customer communication strategy to grow volume. However, as geographical saturation is reached and / or competition intensifies, market maturity can be experienced. Companies in this position are faced with developing differentiation strategies to gain competitive advantage. The areas of building superior customer value, customer satisfaction and loyalty are explored as alternative strategies to re-launch lifecycle.

#### **3.1 Research questions**

- i. To identify the nature, scope, characteristics of product lifecycle in low-cost service retail and to explore appropriate strategies to recycle growth at maturity stage.
- ii. To identify the drivers of customer value, satisfaction and loyalty and consider the impact of price in the context of low-cost service retail.
- iii. Explore and identify the link to profits.
- iv. To establish is the value potential of customer loyalty.

#### **3.2 Research approach: single company case study**

The research will be concluded within the context of The Spirit Group's value-food pub concept 'TWO FOR ONE'. This single-company case study will provide in-depth understanding of the dynamics of low-cost strategies in maturing markets. The data collected will provide findings and create points for discussion in the context of the theories and understanding from the literature review, this will be achieved by using

multiple-method analysis to create converging lines of evidence. The rationale for using Spirit's 'TWO FOR ONE' concept as a single case study is because it is a *representative case of a low-cost service retailer facing maturity*. By having detailed access to company information, customers and employees within the value-sector, the aim is to provide a rich case study to build conclusions, that may have relevance and application in other low-cost maturing markets. The findings will give rise to implications for management in such markets. This case will explore current understanding as reviewed in the literature (chapter 2), with a view to confirming, extending or challenging it. Definitions of a case study include:-

*"(It's) an all-encompassing method – covering the logic of design, data collection techniques, and specific approaches to data analysis...a comprehensive research strategy." (Yin, 2003, p14).*

*" To illuminate a decision or set of decisions: why they were taken, how they were implemented and with what result." (Schramm, 1971, in Yin, 2003, p 12).*

According to Yin (2003) case studies are extensively used in social science research, in the field of management and business studies as well as being frequently used in academic dissertations. Alternative research methods include experiments, surveys, histories and the analysis of archival information. Yin (2003) notes that each research method has advantages and disadvantages dependent on three conditions: *"the type of research question, the control an investigator has over the actual behavioural events and the focus on contemporary as opposed to historical phenomenon"*, (Yin, 2003, p.1).

The multi-method single company case study has been chosen in this instance because the nature of the research, which spans several topic areas: how customer value, satisfaction and loyalty can be used as a strategy to recycle growth in a maturing low-cost market. To determine this, customer research in the field of low-cost service provision is required; in order to do this an existing product offering needs to be examined, one whereby no influence can be exerted on the offer during the test. Finally, this is a current issue owing to the nature of the presence of low-

cost service providers (some of which are now in maturity) as a modern day phenomenon. This is the key reason that Yin (2003, p.2) would support this method:

*“(It) allows investigators to retain the holistic and meaningful characteristics of real-life events – such as individual **life-cycles**, organisational and management processes....and **the maturation of industries.**”*

It should be noted, however that the case study has its weaknesses and according to Yin (2003) it has been criticised for ‘insufficient precision (i.e. quantification), objectivity or rigour.’ It is therefore subject to criticism from a rational perspective, which may undermine the insight it provides as being un-scientific. In order to mitigate this, systematic procedures are required as well as avoiding biased views to influence the findings and conclusions. Other drawbacks include the concern of over generalising from a single study, however the goal of the case study is to expand understanding. Another frequent complaint about case studies is that they can take too long and result in long-winded documents. In spite of these criticisms, the strength of the case study is that it can deal with a full variety of evidence – documents, interviews and observations (Yin, 2003). However, for the purposes of this research, by focusing on a single organisation case study, broad generalisations can be reached as to how customer loyalty and satisfaction strategies can help maturing low-cost markets.

### **3.3 Research Philosophy**

Research philosophy affects the way we go about research: ‘(it) depends on the way that you think about the development of knowledge.’ (Saunders, Lewis and Thornhill, 2003). There are three dominant views in the literature: *positivism, interpretivism and realism*. Positivists look at social reality using law-like generalisations as a natural scientist; they are interested in the causes of social phenomenon to explain behaviour and test theory by deduction, they are independent and objective. An interpretivist look at the details of a situation as reality to understand behaviour, they develop theory through induction and are interactive. Realism is the belief that matter is an object of perception and has real existence.

Given the complex nature of the case study and multiple sources of evidence, the research philosophy in this study is *positivist* in nature, testing theory by deduction. This is because there are many theories concerning customer strategies to build differentiation, the job of this research is to test them using a case study rather than to developing new theory. The case study is on the researcher's own company, the advantage of being a practitioner researcher is the ability to access research and the understanding of the complexity of the organisation. The disadvantage of a practitioner researcher is the risk of carrying around assumptions and pre-conceptions; the presence of a practitioner may also prevent the explanation of issues that might enrich the research.

### **3.4 Case study design**

This study is a single-case design, which is appropriate for the nature of this research as a representative example of a low-cost service proposition. The objective of the case study is to test the well-formulated theories of Product Life-cycle, Customer Value and Customer Loyalty. Yin (2003) recommends the use of a protocol to increase the reliability of the case study and act as a guide for research. A protocol lays out the rules and formalities of any procedure "*it guide(s) the investigator in carrying out the data collection from a single-case study*" (Yin, 2003, p. 67). He also proposes that a case study protocol has the following sections: an overview of the case study and relevant readings of the topics being investigated; field procedures, sources of information and procedural reminders; case study questions including 'table shells' for specific arrays of data; finally, a guide for the report outline, format, presentation of data and bibliographical information. The structure of this case study dissertation has been designed with these protocol procedures in mind.

### **3.5 Research analysis**

One of the principles of data collection is to use multiple sources of evidence (Yin, 2003). This approach is a strength of the case study method as it provides the

opportunity to use many different sources of evidence. Its advantage is the development of converging lines of enquiry, which is known as a process of triangulation. Thereby findings and conclusions are likely to be more convincing and accurate, according to Yin (2003). Table 6 shows the multiple sources of evidence and lines of enquiry to be studied.

### 3.6 Reliability and validity

In order to validate this case study as a reliable piece of research, the commonly used (in social science research) 'design tests' have been applied. This will evaluate the case study according to the three specific tests in table 6.

<i>Tests</i>	<i>Case study tactic</i>	<i>Post research findings and limitations</i>
<i>Construct validity</i>	<i>Establishing correct operational measures for the concepts being studied</i>	<i>The research has been undertaken using hard financial data and customer research from a sample of 6000 respondents. The methodologies of which are sound and robust. The expert interview questions were scripted and transcribed to ensure common themes were explored</i>
<i>External validity</i>	<i>Establishing the domain to which a study's findings can be generalised</i>	<i>The findings of this study concern single company behaviour; it is suggested that similar patterns may be experienced in other low-cost service retail sectors, but each case may be subject to their own additional internal factors.</i>
<i>Reliability</i>	<i>Demonstrating that the operations of a study – such as the data collection procedures – can be repeated, with the same results.</i>	<i>The financial and customer data would certainly be repeated with the same results by another researcher. The expert interviews may generate very slight variations depending on the researcher's line of questioning and probing; however the question framework would mitigate against this.</i>

**Table 6: Case study tactics design tests.**

**Source: Kidder and Judd, 1986 in Yin 2003.**

Considerations as to the reliability of research data are proposed by Easterby-Smith et al (2002):-

- will the measures yield the same results on other occasions?
- will similar observations be reached by other observers?

- Is there transparency in how sense was made from the raw data?

These aspects have been considered carefully during the measurement and data collection processes, much of the raw data is included in the appendices and how this was analysed is detailed in this methodology. These are risks based on the facts that the time horizon is such that this is a snapshot in time owing to the time constraint of the nature of a dissertation. Equally, as a practitioner researcher, there is a potential for bias, notwithstanding any potential observer and participant error. In order to ensure the findings are valid a high degree of structure is required.

The aim of this dissertation is that the case study research has external validity - that it will be applicable to other research settings and organisations. This is potentially at risk by the nature of the single organisation study and therefore it cannot be assumed that the results of this research can be generalised. However, the study of PLC in the context of service retail is a new area of research; it can be tested in other retail organisations as a model for further validation.

### 3.7 Methods of Primary data collection

Table 7 outlines the plan for data collection to answer the questions of this research project:-

Research question area	Enquiry source	How this will be researched and analysed
Identify the nature of the lifecycle of low-cost pub retailing and strategic implications	Taylor Nelson market research, Mintel reports. Spirit company data. Expert interviews.	Lifecycle curves compared to theory, interviews with management, draw conclusions and observations.
What are the drivers of customer value, satisfaction and loyalty – what role does price play in this?	Mercer survey, customer satisfaction survey, Empathica and Mystery Shopper findings. Customer Complaints Expert interviews	Triangulation of findings of surveys and management interviews
Exploring the links between customer value, customer satisfaction, customer loyalty and profits in a cost-leadership proposition?	Customer satisfaction survey Mystery Customer survey results vs. sales and profit.	Review surveys and draw conclusions. Coloration exercise between pub performance and customer satisfaction measures

How loyal are customers to low-cost retailers? What is the value potential of this loyalty?	Expert interviews	Review findings of surveys and interviews

**Table 7: Data collection plan.**

### 3.7.1 Expert interviews

Five members of senior executive and board management from the case company were interviewed during January and February 2007. A list of interviewees is given in table 7. The interviewees have extensive experience of pub retailing, and some also having previous career experience with other retailers (e.g. Boots, Brakes Food Service, Gala Bingo) in the marketing, commercial or finance functions. Data was collected from 30-45 minute in-depth, face-to-face interviews, with a standardised line of enquiry discussion and interviewing technique. The responses were captured as interview summaries against the pre-set questions. Tape recording was not chosen to capture the responses because of the potential unease / barrier to open communication it can present; whilst this allowed for a more natural discussion, the data capture is reliant on the quality of the note taking.

Marketing Director
Managing Director
Strategy Director
Customer Insight Manager
Customer Relationship Manager

**Table 7: Spirit expert interviewees**

A guide for the interviews was drawn up with themes for discussion with open questions designed to allow for consistency. Appendix 1 contains the interview guide template and copies of the transcripts generated. The themes for discussion were: *customer value, low-cost (price) strategies, customer satisfaction and the drivers of customer satisfaction, customer loyalty and the drivers of customer loyalty, customer satisfaction strategies (in Spirit), customer loyalty strategies (in Spirit), customer*

*recovery strategies (in Spirit)*. During the interview, probing questions were asked when it was felt necessary to explore a topic in more depth, or to clarify a particular issue.

### **3.7.2 Data analysis – expert interviews**

All interview summaries were transcribed from the notes, generating in excess of sixteen pages of data. The approach used was a form of thematic analysis, this followed with reading and identifying segments of data that correspond to specific themes. The common themes have been analysed using simple tables of results. Where appropriate, quotations have been extracted from the interview transcripts to illustrate the points made. The process aimed to establish a convergence of evidence to establish the findings and conclusions. The weighting of the expert interviews is taken in the context that their responses are guided from various sources: knowledge, interpretation of information they have access to and their personal experience. Whilst the knowledge and interpretation varies across the individuals, the collective experience adds an extremely important element of realism to the research.

### **3.7.3 Customer questionnaires**

The Company has conducted four extensive surveys, these concern customer attitude towards satisfaction and customer perceived value. They are analysed in this case study, having been selected because they span the key research issues. The specialist expertise of this research from the four international and national reputable companies provides strong credibility. All have robust methodologies with very large customer sample bases (which has generated responses from a total of over 6000 consumers in the UK). On reviewing the quality of these surveys and breadth of coverage, there were insufficient gaps found to warrant any further additional primary research. Table 8 outlines the methodology, method and sample base for each survey.

Study and rank importance	What the survey measures	Method	Sample base
<b>1. Mercer Survey (2006)</b>	<ul style="list-style-type: none"> <li>Customer satisfaction benchmarked across all competitors for the TWO FOR ONE concept and all Spirit concepts</li> <li>The drivers of advocacy (word of mouth) and their ratings</li> </ul>	On-line questionnaire of general public, undertaken annually by third party	4010 respondents from 10,000 base
<b>2. Spirit Customer Satisfaction Survey (2007)</b>	Customer Satisfaction in the TWO FOR ONE segment	Face-to-face interview questionnaire with existing customers, 10 minutes per respondent; bi-monthly.	300-350 per round
<b>3. Now to Wow (Mystery shopper programme, monthly)</b>	Standards of delivery of the key measures of customer satisfaction.	One survey completed by a 'mystery shopper' in every pub every month	One shopper per pub, per month, generating 1212 reports per annum  (Weighted 3 <sup>rd</sup> because some shoppers are employees and may exert bias)
<b>4. Empathica research (2007)</b>	<ul style="list-style-type: none"> <li>Customer feedback on changes to the customer offer</li> <li>Customer feedback on areas for further improvement</li> <li>Customer satisfaction on key measures</li> </ul>	Exit interview of existing customers by way of on-line internet questionnaire <a href="http://www.spiritpubtalk.com">www.spiritpubtalk.com</a> and via Spirit call centre 'The Hub'	Pilot study completed Jan' 07 generating 475 responses.  (Weighted last in view of pilot nature of survey)

**Table 8: Customer surveys used in the case study to provide multiple sources of evidence on the matters of customer value, satisfaction and advocacy.**

A more detailed outline of the four customer research sources and their methodologies are as follows: -

**'The Mercer Survey' ('Mercer')** conducted by Mercer Management Consulting company for Spirit. This is an international organisation, represented in 26 companies, established for 35 years with expertise in management consulting. Mercer works across industry with major companies in aerospace, automotive, aviation, chemicals, pharmaceuticals, communications, computing, consumer goods,

financial services, health care, media and entertainment, manufacturing, oil and gas, private equity, retail, transportation, and utilities.

The aim of the research was to assess customer satisfaction ratings in a competitive context and to determine drivers of customer advocacy (word of mouth recommendation). Using a demographically representative sample panel (externally sourced) of 10,000 consumers, yielding 4,010 respondents and 9,670 separate ratings, an average of 2.4 ratings per respondent, 509 Spirit Food outlets were rated of which over 380 ratings related to the concept 'TWO FOR ONE'. This is a strong sample base from which to take meaningful findings. The panel consumers were contacted through mail and asked to complete an on-line questionnaire. Data tables are provided to a Commercial Analyst at Spirit for statistical analysis, with care taken to strip out any inappropriate data e.g. outside of geographical coverage of company. The data is collated and presented as management information (see appendix 4 for the findings), whereby the Insight Manager and Commercial Analyst in Spirit draw the conclusions of the survey. The limitations of this survey are two-fold. Firstly, on-line panelling via the use of the Internet tends to exclude representation from older groups (many of whom do not have access to the internet); to overcome this the data is weighted to National Averages to reduce the distortion. Secondly, the pub market is highly fragmented and this is compounded as consumers do not recognise pub Branding (and often confuse the brands with each other), therefore in order to get useful data a very large sample base of 10,000 was conducted.

**Spirit Customer Satisfaction Survey ('CSS').** Surveyplan Company, one of the larger independent FIELDWORK organisations in the UK, conducts this survey bi-monthly for Spirit. The field-based research is conducted in a sample of 20 number of 'TWO FOR ONE' pubs, each month, with face-to-face questioning of actual customers being undertaken for approximately 10 minutes per customer. A sample of 300-350 customers' feedback is thus generated, with data tabulated and provided to Spirit for analysis, interpretation and insight. A copy of this questionnaire can be found in appendix 2.

**Now to Wow ('N2W')** – the Spirit Mystery Shopper monthly survey. This is also conducted independently by the Retail Eyes Company, one of the UK's fastest growing research agencies with over 35 clients in the country's largest retailers and service providers. They specialise in collating, analysing and communicating real time business performance measurement and customer feedback, with the aim to enable the client to continually improve the service they offer their customers. A panel of consumers, representative of the target customer of each brand are selected within the catchments of every pub and invited to visit the pub and have a full meal experience. The mystery shopper then completes a standardised questionnaire on line for collation by Retail Eyes. A copy of this questionnaire is in appendix 3.

**The Empathica Survey ('Empathica')**. This Canadian-based researcher has pioneered on-line researching with actual customers to measure post-event visit experiences. Their philosophy is continuous customer feedback in all stores. They specialise in food service retailing in Canada and the USA and now in the UK, as well as covering retailing in Petro-convenience and grocery industries. Empathica works with over 60 organizations encompassing over 20,000 individual retail units that provide customer feedback on a monthly basis. They have a client list within the Retail, Food Service, Petro-Convenience and Grocery industries. Spirit is recently trialling their survey methodology in 30 pubs in the Midlands and North West of England, the most recent results were published in January 2007.

### **3.8 Sources of secondary data**

**The Taylor Nelson survey ('TNS')**. In order to further understanding of the market lifecycle, the Taylor Nelson eating out market report has been reviewed. Taylor Nelson Sofres PLC (TNS) is a leading market research and information group, the world's largest provider of custom research and analysis, a leader in political and social polling and a major supplier of consumer panel, media intelligence and TV and radio audience measurement services (source: TNS website). Their weekly omnibus survey generates a sample of UK consumers who have eaten out in the last 7 days.

**Mintel's Pub Catering Leisure Intelligence**, August 2006. Mintel International Group Ltd. is a global supplier of consumer, media and market research, with over thirty years experience. They specialise in in-depth studies of market segments and use robust sampling and statistical analysis techniques and as such is widely revered in the academic and industry world. According to their report, there are three main sources of information and research stages used in the compilation of Mintel reports:

- Consumer research, where exclusive research is conducted for individual reports as well as drawing upon non-exclusive large scale surveys
- Trade interviews (usually conducted by telephone), both formal and informal, with relevant members of the trade
- Mintel Information Consultancy and market size and economic database.

Their reports are written and managed by analysts with experience in the relevant markets; having interviewed the senior management team of Spirit it is evident that the Mintel market statistics are reviewed as more robust than TNS.

### **3.9 Methodology – summary**

The methodology selected is a single case study in order to provide in-depth analysis on one company. This has provided access not only to senior management, but also to in-depth primary customer research and financial information to support the case. The disadvantages of this method are two fold: firstly, potential practitioner-researcher bias; secondly, the single case does not provide conclusions that can be cross-references with another similar case. In spite of this the depth that this study offers is significant and the un-precedent access in one company is extremely valuable.

Using a positivist approach to research, theory has been tested by deduction using multiple sources of evidence, which also includes secondary research (Mintel and TNS). The sources of evidence are extensive, this can be criticised by some as being complex and un-scientific. However by exploring converging lines of enquiry (triangulation) and weighting the findings according to source of information, the limitations have been minimised. Due to the nature of case study analysis, the

findings have been combined with the discussion around application to theory, limitations and implications for management.

## **Chapter 4: Research Findings**

This chapter will provide the research findings, firstly by studying the product lifecycle at market, product form, class and brand level. This is undertaken using market data and financial information from The Spirit Group. Strategic options are then reviewed in light of the PLC findings, the expert interviews and the literature. The chapter will then focus on the area of customer value using findings from the four customer surveys and expert interviews. A review of links between customer value, satisfaction, loyalty and profit is also included. Finally, the concept of customer loyalty is explored within the case study. The discussion is included in this findings chapter and any limitations or implications for management are also included.

### **4.1 Product Lifecycle**

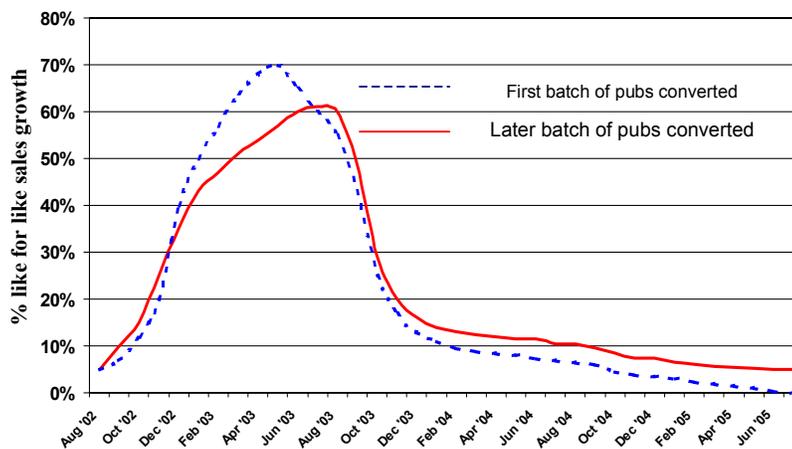
This concerns a detailed review at brand, market, class and form using the case study financial data and market statistics from external sources. The aim is to explore the research question: *“the nature, scope, characteristics of product life cycle in low-cost service retail and to explore appropriate strategies to recycle growth at maturity stage.”*

#### **4.1.1 Product lifecycle – brand level**

Using the case study of TWO FOR ONE, an analysis of the lifecycle in figure 10 shows that the concept experiences the classic bell-shaped curve as found in the literature review. Sales rise sharply with growth levels reaching 60-70% in the first two years, after which this growth rate tails off quite rapidly. After 3 years the group of pubs show signs of maturity. The two lines represent two pools of pubs; the blue line being the earliest pubs converted to the concept and the red line the latest pubs. The reason this has been split out is to show that although the first sites perform much better, with sales peaking higher, the overall pattern is the same bell-shaped curve. Profit over time has not been shown because unlike consumable products, there is little research and development cost up front, equally there has been limited

costs associated with distribution and advertising. This is due to the nature of pub retailing whereby both the critical mass cannot warrant advertising and that pub development is based on rolling out a successful operating model. For the purposes of this research it is assumed that profits have risen and fallen in line with sales and follow a similar pattern (based on knowledge that the average net profit margin for the concept is 24%).

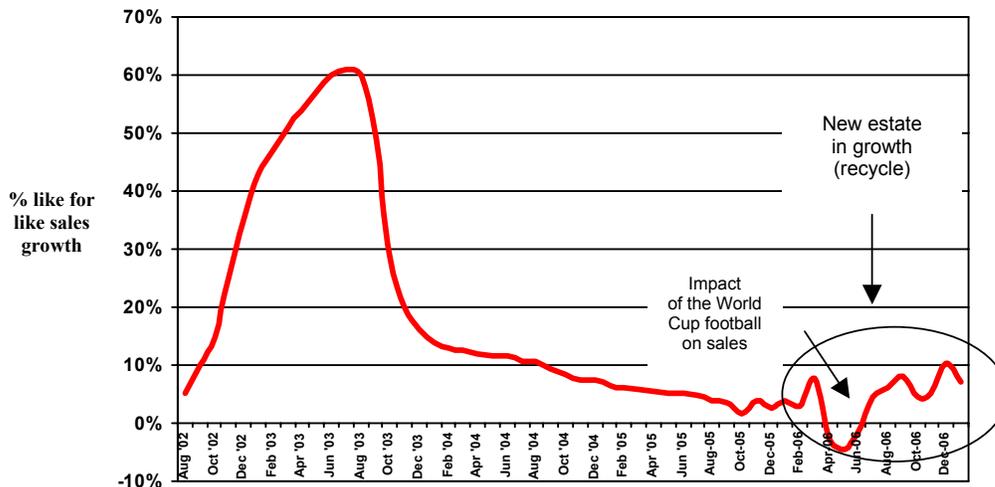
**Figure 10: The lifecycle of 'Two for One'**



Source: Spirit financial data (Aug 2005)

Latest company events have included the disposal of individual pubs, which are either in decline or have reached maturity. This new estate of TWO FOR ONE has been plotted on figure 11 and yields interesting results; the concept is now showing a period of growth known as cycle-recycle (as identified also by Cox, 1967; Hinkle, 1966 and Cox and Cunningham, 1969). The PLC curve also shows the negative year on year impact of the World Cup as an external factor and then the re-growth post disposal of under-performing sites. This indicates that retail products may have more complex factors at play than just the brand itself. This supports the argument that lifecycle varies depending on market, form or class and brings a new finding; that in the case of (multiple-site) retail products, the lifecycle of individual stores can impact on the brand performance. This would suggest that management ought to

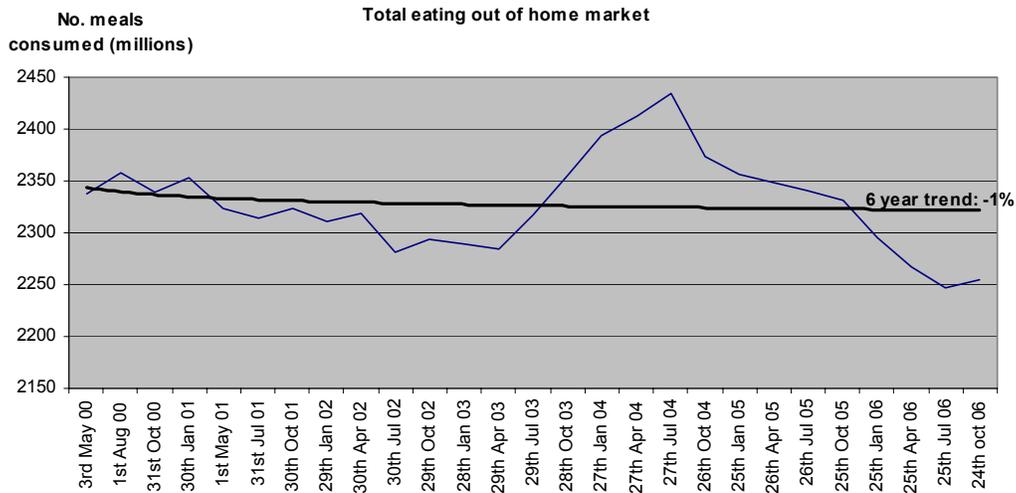
focus energy on both estate and operations management strategies to influence individual store performance as well as considering brand-level life cycle strategies.



**Figure 11: The lifecycle shape of 'Two for One' showing latest data post the disposal of under-performing pubs. Source: Spirit latest financial data plotted as a graph.**

#### 4.1.2 Product lifecycle – the market

The literature review raised some concerns around the differences between brand, form and class product lifecycle, therefore, both the lifecycle of the eating out and pub-catering market have been studied. The total eating out market is reviewed in figure 12 to show that over the last six years, there has been no significant change in the trend of the market lifecycle. The levels of demand are showing signs of a mature market, with six year meal volumes down by 1%. The shape of the market growth is also characterised by a peak in growth in the summer of 2005, with demand reaching 2448 million meals. This was preceded by a trough in demand for two years and followed by volumes falling off to 2252 million meals in Autumn 2006. One explanation of the fluctuation in demand is the notion (Polli and Cook, 1969) that there are other complex forces that affect sales such as inflation, recession, unseasonable weather and even major events such as the impact on demand from the World Cup ( as seen in fig. 11 in July 2006).

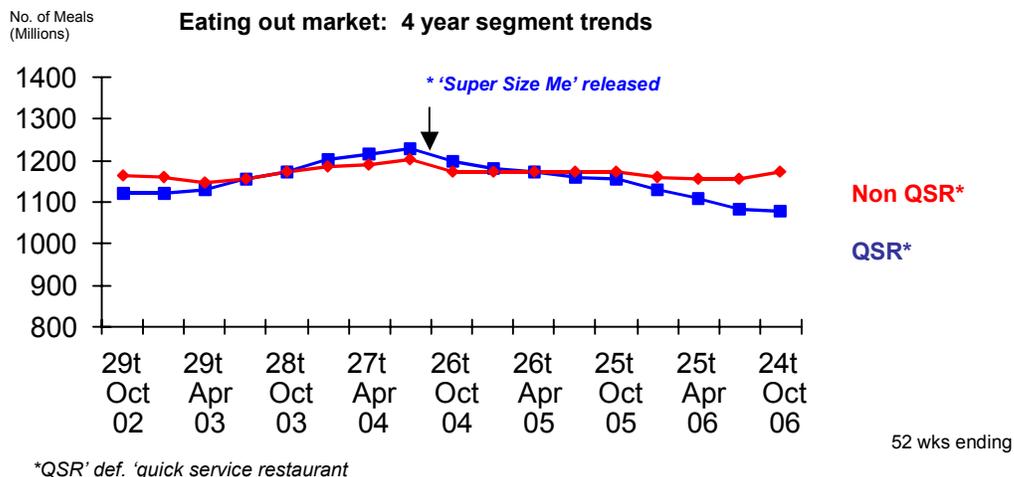


**Figure 12: Total eating out market 6 year period and trend**

**Source: Taylor Nelson (TNS) – Eating Out Market Survey, Oct 2006**

#### 4.1.3 Product class and product form life cycle

The literature also indicates the added complexity of product classes and forms. Further analysis of what’s going on in the total market validates the usefulness of investigating product class. This is because when the market is broken down to Quick Service Restaurants (QSR) and non-QSR (see figure 13), there is a difference in the pattern of lifecycle, with non-QSR in maturity (2 year trend: 0% growth) and QSR in the decline stage (2 year trend: –10%).



**Figure 13: Lifecycle of quick service vs. non quick service establishments**

**Source: Taylor Nelson – Easting Out Market Survey, Oct 2006.**

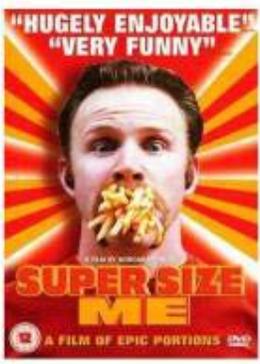
Outlets	26th Oct 2004	25th Oct 2005	24th Oct 2006	Trend vs Last Year %	Trend vs 2 Years %
Burger House	180.1	166.0	146.0	-12	-19
Pizza Place (Off Premise)	153.7	141.9	139.6	-2	-9
Fish and Chips	276.2	256.4	231.1	-10	-16
Chinese (Off Premise)	296.5	298.1	271.8	-9	-8
Indian (Off Premise)	134.6	127.2	122.4	-4	-9
Total Fried Chicken	61.1	62.5	64.0	2	5
Sandwich bar/bakery	24.4	27.7	31.7	15	30
<b>Total QSR</b>	<b>1198.3</b>	<b>1154.6</b>	<b>1077.4</b>	<b>-7</b>	<b>-10</b>

**Table 9: Product forms in the QSR class and their growth status**

**Source: Taylor Nelson – Eating Out Market Survey, Oct 2006**

Figure 9 breaks this down further to the forms within QSR. Analysis of the product forms in this product class goes some way to explaining the difference in lifecycle stages. The demise of the fast food segment has been a recent feature of the food service industry and has been well reported in the press against a backlash against 'junk-food' and rising levels of obesity. A documentary-film called 'Super-size Me' (see insert) was released in September 2004 and documented Morgan Spurlock (the protagonist's) health whilst he conducted an experiment of eating only food from McDonalds for a month. The results of the film were dramatic; not only on Mr

Spurlock's health, but that commentators suggested that it triggered the start of potential demise of the fast food industry.

	<p><b>Insert: Super-Size Me, a film about the affects of Fast Food on health</b></p> <p><i>Was Morgan Spurlock responsible for triggering the product lifecycle of McDonalds and other fast food restaurants from growth to decline stages?</i></p> <p><i>The lifecycle of the QSR sector shows a direct coloration between the drop in sales and the film's release plus associated widespread press coverage. Commentators have suggested that this is evidence of an environmental factor impacting on the lifecycle.</i></p>
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Conversely the product forms in the non-QSR product class, the largest segment of which is pubs (44%), are showing early stages of maturity. Table10 shows the size and performance of these market segments.

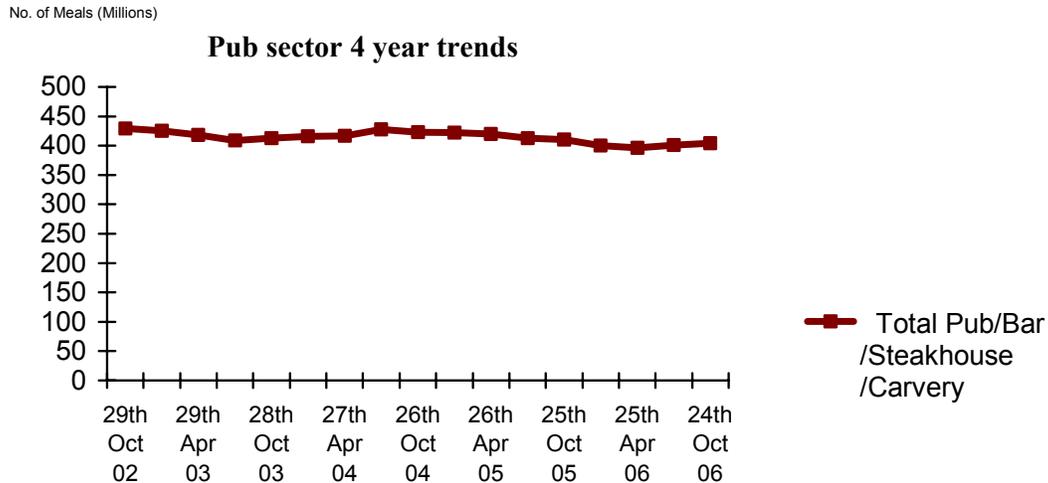
Outlets	26th Oct 2004	25th Oct 2005	24th Oct 2006	Trend vs Last Year %	Trend vs 2 Years %
Pubs	422.7	410.2	404.0	-1	-4
Cafe/Coffee Shop	113.1	119.0	121.9	2	8
Italian Rest(inc OnPrem Pizza)	100.4	99.6	98.2	-1	-2
In Store Restaurant	71.3	72.4	66.7	-8	-6
Hotels	66.0	66.7	69.0	3	5
Indian (On Premise)	75.1	68.0	72.8	7	-3
Chinese (On Premise)	81.7	80.8	78.1	-3	-4
Total Non QSR	1172.5	1173.1	1172.4	0	0

**Table 10: Product forms in the Non-QSR class and their growth status**

**Source: Taylor Nelson – Eating Out Market Survey, Oct 2006**

The two-year trend of the pub segment is –4%, with key growth areas coming from café/coffee bars and hotels. Since both of these segments serve different occasions it would be too simplistic to say that the pub customers have switched into these alternative outlets. More likely other factors are changes in visit frequency (down marginally, -0.04 visits in two years according to the Taylor Nelson survey) or the growth in eating in the home. Figure 14 breaks down to the product form level of the

pub sector, within which the TWO FOR ONE pub concept sits. This suggests that the sector is experiencing late stages of maturity, with meal volumes falling by –1% from Oct 05 to Oct 06 and the two year position being –4%.



**Figure 14: Pub sector meal volumes**  
**Source: Taylor Nelson – Eating Out Market Survey, Oct 2006**

### How reliable is the Taylor Nelson survey?

The volume sales data from TNS is contradicted by sales data from Mintel (2006), which indicates that the total eating out market has grown by 26.2% over the period 2001 to 2006, with pub catering being the single most important restaurant destination with a growth of 30%. Mintel (2006) forecasts modest growth in the eating out market, which will underpin the pub-catering segment. However, they too predict market maturity as ‘inevitable in the next few years’. This suggests that whilst absolute volumes might be slowing down, value has been growing due to price increase and customers spending more by trading up to more expensive items. The Spirit Insight Manager is also uncertain as to the market predictions:

*“ You’ve got to question science behind some of the forecasts – the accepted wisdom is that eating out would grow 3-4% p.a., based on US market of 50 cents in the \$ spent on eating out, however UK market is now maturing / declining.” Customer Insight Manager, Spirit, (2007).*

Similarly, the Director of Strategy is much more optimistic about the market prospect and he questions the statistics shown by TNS, believing that the Mintel data more accurately reflects the true market position: *“intuitively, Mintel appears more accurate – the market still has legs”*. His opinion is that the market lifecycle has limited value in lifecycle implication terms *“it follows the economic lifecycle”*; he strongly follows the Tesco philosophy of going for market share *“Terry Levy (Tesco, CEO) comments about their 30% share in terms of ‘still being 70% to go at.’”* His conclusion on the matter is:

*“Whether the market is in flat or modest growth is slightly irrelevant, because it’s about mopping up and taking share; there are huge swathes of geography. Take our (consumer demand) catchment of 3-5 miles radius; well the UK is 1000 miles by 300 miles big – that’s 300,000 square miles to go at – we have only 1000 sq miles of this!”* (Spirit Group Director of Strategy, 2007).

#### 4.1.4 Key factors influencing the lifecycle

From a market and pub catering segment perspective, Mintel (2006) has identified the following factors impacting on lifecycle:

- Favourable demographic trends with more affluent consumers, increasing numbers of sophisticated third agers, more singles and higher proportion of professional workers;
- Favourable lifestyle habits including fast casual dining for those with less time to cook
- There are no immediate threats to pub eating out from a macro-economic perspective

The Customer Insight Manager observes that there is increasing supply, which is lagging demand, and that this will put pressure on growth prospects in the value segment. He also believes that from a global eating out perspective that the food retailers’ who have been fighting back the eating out trend through ranging, fresh, organic, local produce that’s easy to prepare and increasing consumer interest and awareness on cooking in the home. Other market factors cited by the Management team at Spirit are as follows:-

*“At market level, it’s less about lifecycle as such – it’s linked to economic lifecycle. At present the market is buoyant even though there is contradictory market stats.”* (Director of Strategy).

*“The last 10 years has seen astronomical growth, however over the last 3 years the market is maturing as it becomes saturated. Eating out is growing, but in other (non-pub) sectors. The market dynamics are the polarisation of quality and value.” (Marketing Director).*

*“ The overall eating out market in decline (Taylor Nelson), however Mintel predicts modest growth. Pub eating out has a similar prognosis with marginal growth in pub catering.” (Customer Insight Manager).*

From a value-food pub perspective, the management team is more optimistic:

*“Now we have a new estate, we don't have such a tired lifecycle as once thought. This will yield us 5-10% year on year growth as long as we get the basics right: market demand ; investment in the environment and volume food operators to run it.” (Director of Strategy).*

*“241 is a winning formula: low selling price x good quality food x straightforward pub environment..” (Marketing Director).*

*“I'm a great believer that the UK trend follows the US closely, therefore value has the brightest future. UK population is polarised between the wealthy and the not so wealthy. There is currently pressure on consumer spending; therefore people are looking for value. Then there's the family lifestyle where families don't sit down together – going out is a good way for them to reconnect.” (Managing Director).*

However, the 3 year maturity trend for this value concept is of concern, during an interview with a Senior Operator whom has run 'TWO FOR ONE' pubs since their inception, it was suggested that there are three factors that have impacted its lifecycle: 'lack of investment in the pub; poor manager capability and cannibalisation' (having multiple TWO FOR ONE pubs, 2 for £10 deal pubs and local pubs with '241' and '2 for £8' deals all in the same catchment areas). Table 11 shows the management opinion as to the factors concerning the maturity. Similarly, the view held by the Director of Strategy who compared the underlying performance of great sites like The Storeyteller, Rotherham (which has had 6 years of year on year growth) and is still in double-digit growth with the 'tail' of under performing sites. The reason he gives is: 'wrong investment choice, the sites were old and tired or where the offer

simply didn't work in that location.' Now that Spirit has 'churned' (divested) these sites and has a new estate portfolio, the lifecycle is back in growth.

Reasons for 241 maturity	Managing Director	Strategy Director	Business Development Operations Manager	Marketing Director	Consumer Insight Manager
<b>Internal factors</b>					
Capacity				Capacity constraint	
Marketing spend	Marketing to leverage the brand asset.			Marketing (spend to generate awareness and trial	
Manager	Manager	Manager capability	Manager	Manager Capability	
Investment		Lack of investment	Lack of investment	Lack of Investment	
Location		Offer didn't work in site location			
<b>External factors</b>					
Competition			Competition and density of site locations	Competition	
Economy, market		General economy			Pub and eating out market lifecycle
Substitutes					Rise of the supermarkets

**Table 11: Reasons for the 241-lifecycle maturity.**

Source: Spirit Expert Interviews, Jan-Feb, 2007

#### 4.1.5 Lifecycle findings – summary

Following a period of initial dramatic growth, TWO FOR ONE quickly moves out of the growth stage into maturity. This pattern concurs with the lifecycle model of the classic logistical bell-shaped curve, however the timeframe of this relatively new concept (only five years) may also suggest fad-type behaviour, with rapid growth quickly over as the new brand is out of fashion. However, the findings from the

expert interviews are that there is a combination of internal constraining factors and external forces that cause maturity / decline in sales. The internal factors are focused primarily around individual site dynamics: the capability of the pub manager and the lack of investment in the fabric of the pub are the two most commonly cited reasons. Other internal factors are capacity constraints (cannot service any more customers), under-investment in marketing spend to create awareness and trial and the nature of poor site selection ('TWO FOR ONE' simply didn't work in the particular location selected). External factors concur with the lifecycle model theory that lifecycle is impacted on by: general economic conditions, by the nature of the product market and form and the impact of higher levels of competition in maturing markets and finally substitute product offerings (eating in – facilitated by the supermarket retailers).

Since Spirit sold the under-performing pubs in decline, the TWO FOR ONE estate is now showing signs of growth and is in a cycle-recycle stage of its lifecycle. An in-depth study at brand level has revealed that retail products are even more complex than consumable brands and that there is a product lifecycle of individual stores, which in turn can affect the brand lifecycle picture.

The overall eating out market in volume terms is in maturity with sales growth at –1% and pubs starting to show signs of decline –4% in two years. Whilst Mintel (2006) has found the market in value terms to be in strong growth, with modest growth predictions for the future, it warns of an inevitability of the market reaching maturity. The opinion of the senior managers in Spirit is that there is plenty more opportunity in spite of the market lifecycle because the market is very fragmented and that share can be gained through consolidation.

## **Conclusion**

The findings support the academic view that lifecycle needs to be considered on all levels of market, product form and brand. Additionally, this study has shown that the

nature of retailing is complex and individual store performance dynamics must be taken into account. In the case of the pub eating-out market, there are conflicting statistics, some favourable market conditions and growing competition; the market appears therefore to be in early stages of maturity – further industry consolidation is therefore likely. Strategic options will now be reviewed in the context of these findings.

## 4.2 Strategic options

Chapter 4.1.3 has found conflicting market information varying from evidence of a mature market, to one of growth. A simplistic view of the ‘TWO FOR ONE’ concept has shown that it experiences maturity after 4 years, however site-by-site analysis has identified favourable conditions for growth. Additionally, divesting the under-performing sites can boost the brand’s overall lifecycle back into growth stages. Table 12 shows the strategic options as found in the literature and compares these with the options selected by Spirit.

Lifecycle stage and options	Spirit strategy
<p><b>Market Growth: -</b> Demand starts to accelerate and the size of the total market expands – the ‘takeoff’ stage. Potential competitors jump in either copying the product or by making functional and design improvements. At this point brand differentiation begins. Strategy focuses on securing customer ‘preferrers’.</p>	<ul style="list-style-type: none"> <li>• Conversion of suitable pubs in the middle pub dining market into the concept of TWO FOR ONE – rapid roll out to 175 pubs within 6 years.</li> </ul>
<p><b>Maturity :-</b> <b>Defend market and brand position and share.</b> Gain and defend share through competitive pricing whilst maximising profits and innovation to create brand extension, new distribution channels; make finer differentiations in the product, customer services and promotions</p>	<ul style="list-style-type: none"> <li>• Price has actually crept up over 3.5% vs. price reduction.</li> <li>• There has been development of food and service propositions and refurbishment investment into older pubs.</li> </ul>
<p><b>Decline: -</b> <b>‘Milk’ or ‘harvest’</b> strategy, minimising investment and maximising income generation. Merger and buy-outs</p>	<ul style="list-style-type: none"> <li>• In 2006, Spirit sold individual pubs showing decline stages of lifecycle, repositioning others into the lease model and retained the pubs in growth stages.</li> <li>• The resulting ‘TWO FOR ONE’ estate of 98 pubs has been bolstered by the acquisition of Millhouse Inns (adding 32 pubs to the portfolio).</li> </ul>

**Table 12: Strategic option analysis finding**

This review has identified that there are further potential options for Spirit to consider. In defending and gaining market share, there are four emerging gaps to the company's strategy: -

- To complete distribution opportunities gaining further share of value pub dining market through conversion of the estate and acquisition (different models or formats may be required to achieve this).
- Establish competitive price positioning in areas of competitive intensity
- Product Differentiation through service and promotion
- Innovate brand and build brand extension opportunities

Consider Tesco, operating in a relatively mature and consolidated market, has in fact adopted each of these strategies. It is continuing geographical expansion to the extent that it will build new stores within 2 miles of each other (e.g. the new Tesco store at Burnage, only two miles from the East Didsbury store in South Manchester). Additionally, Tesco actively price-watches key product lines based on local competition; whilst innovating with brand extension opportunities e.g. Tesco Metro and Tesco Extra. It has also very successfully broadened its reach, differentiating through homewares, electrical goods and financial services. Table 13 evaluates these options in the context of Spirit.

Strategic option	Suitability	Rationale
Geographical expansion	Yes	There are only 133 sites post the conversions of recent acquisition sites. There are large gaps in geographical representation, especially the South East.  Analysis has shown favourable market conditions and customer appeal to justify expansion of current format.
Competitive price positioning in areas of competitive intensity	Yes	Regional pricing to gain market share, based on petrol and grocery retailing tactics. Spirit has proven competency in this area with micro-market drinks pricing success; this could be transferred to food pricing.
Differentiate product, service and promotion	Yes	Perfecting the current value proposition underpins this, followed by understanding the drivers of satisfaction and loyalty. Additional services may also be explored to extend customer reach and trading opportunities.
Innovate brand extension	?	Current model not yet at full geographical scale; potential to

opportunities		innovate into other markets after expansion maximised. Potential routes: adult dining, high street, local pubs, different volume food style model e.g. Carvery or buffet ?
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**Table 13: Analysis of further strategic options**

Another sector to compare is the budget flight operators. This market is still in growth, fuelled by geographical expansion into new flight routes. Where capacity is maximised, the operators are finding new ways to recoup revenue, for example allowing the pre-booking of seats for an additional fee (Monarch) and reducing baggage allowances to incur penalty charges (Ryanair). Innovation in this sector is emerging in the form of budget trans-Atlantic and budget Business-class travel. Strategies in both the grocer and budget-flight sectors suggest that once a successful value proposition is found, geographical expansion follows, then pricing. Innovation and brand extensions also appear to help recycle growth as new markets are found.

The nature of the lifecycle for the eating out, pub sector and the TWO FOR ONE concept has now been explored and understood and lifecycle strategic options have been considered. There is a convergence of opinion emerging around the theory that the value proposition is key to sustaining growth – see Traacy and Wisemara (1995), Porter (1980) and also expert opinion from the Spirit Management team: -

*(The strategy for future growth is) “To drive volume by having compelling value and production engineering.” David Martin, 2007.*

*(Delivering superior value to customers is about)...“firstly getting quality x value x service x experience right.” Kevin Hall, 2007.*

*“The value proposition has to be bang on... value is still the tag for the Grocers and it is an understood proposition; differentiation is achieved through quality without adding price.” Martyn Drake, 2007.*

*“...geographical expansion; understand price and set the base level; quality: volume and generosity of food and communication.. (operational) delivery of quality; and speed (of service) - how easy is it, when you can't even set up a tab? ! (Managing Director)*

On this basis, the question for management is how well can the organisation develop its value proposition to create differential competitive advantage? Also to consider what aspects of customer value, satisfaction and loyalty should management focus on perfecting?

### **4.3 Customer Value – findings**

The research findings from the customer surveys and expert interviews will now be considered to identify the drivers of customer value, satisfaction and loyalty, considering the impact of price.

#### **4.3.1 Establishing what constitutes Customer Value in the context of service retail.**

The three theoretical perspectives found in the literature review are validated by the expert interviews (see table 14). However, an additional perspective from the Spirit Management was also found; the belief by the management team is firstly to get the combination of factors right for the customer (customer perceived value) and then craft the customer offer accordingly. The management consensus definition is that:

$$***Customer value = price x quality x service x environment***$$

This theory has also been proven as a means-end model by Zeithaml (1988). The customer value drivers of *price x quality x service x environment* have been established as 'group think' as a result of the 'Mercer Survey,' an important piece of annual research (see chapter 3.7.3). The Mercer work is part of the on-going commitment to customer insight at Spirit; £300k p.a. is invested in research programmes designed to listen to and understand customer needs.

Definition of customer value	Managing Director	Strategy Director	Customer Relationship Manager	Marketing Director	Consumer Insight Manager
Adding value		Y			Y
Customer-perceived value		Y	Y		Y
Value of the customer			Y		
<b>Other</b> (All part of customer perceived value)	Price x quality x service	Quality x service x environment	Quality x value x service	Price x quality x service	

**Table 14. Summary finding of what constitutes customer value to Spirit, based on Payne and Holt, 2001**

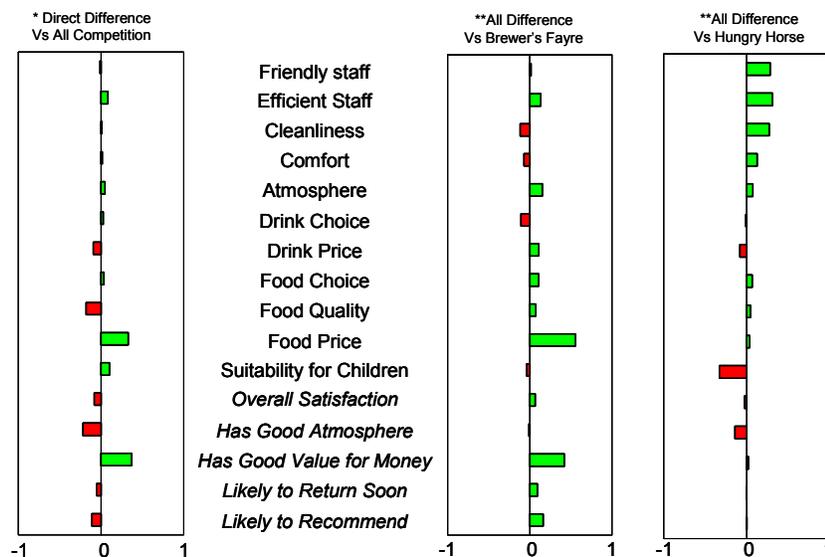
A potential weakness of this ‘group-think’ is that Spirit is putting all it’s eggs in one basket, by relying on the one study. This could lead to all customer strategies and allocation of resource being aligned to the four areas, potentially overlooking other important aspects of customer value. This study will seek to verify whether or not the four areas are valid priorities or not by comparing other pieces of Spirit customer research with some of the theoretical models and other findings from the literature review.

#### **4.3.2 Benchmarking customer value, satisfaction and advocacy**

IN figure 15, the Mercer Survey (see methodology in chapter 3.7.3) benchmarks drivers of customer advocacy and satisfaction against the competitive set. All Spirit concepts and the competition (including independent pubs) are rated on a scale of 1 to 10 on key hygiene factors that make up quality, service and value: food quality and drink quality; friendliness of staff and efficiency of service; food price and drink price. The environmental factors measured are: cleanliness, comfort, atmosphere and suitability for kids. These factors then lead to the three major measures that Mercer use to determine customer appeal: ‘good value’, ‘good atmosphere’ satisfaction, likelihood to return and advocacy (word of mouth recommendation). Figure 15 shows these key customer satisfaction measures vs. ‘all competitors and vs. the two key benchmarked competitors: Brewer’s Fayre and Hungry Horse. 380

consumers responded on 'TWO FOR ONE' in the on-line survey; the amalgamated results are scored '0' when the rating was equal to that of the competitor, '0 to -1' when less favourable to the competition and '0 to +1' when better than the competition

The Mercer study shows that the TWO FOR ONE concept is leading the market on value for money and food prices, with friendly and efficient staff, atmosphere, food choice and quality ahead of the direct competition: Brewer's Fayre (BF) and Hungry Horse (HH). Whilst likelihood to return and recommend ratings are higher than BF and on par with HH, the concept is behind the market in these two key areas. The survey findings would suggest that this is linked to better environment and staff in the overall market competition, where the offers are not low-cost lead.



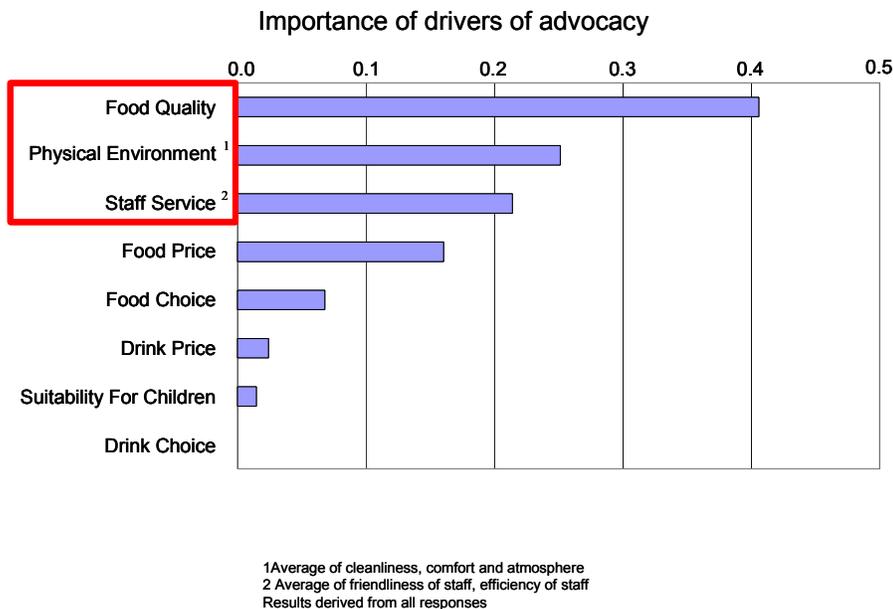
\* Direct Comparisons are those where Spirit and the competitor pub were rated by the same customer.  
 \*\*'All' Comparisons look at Spirit and competitor ratings irrespective of which customer rated them

**Figure 15: Customer ratings for TWO FOR ONE vs. direct competition and market competitors.**  
**Source: Mercer Survey, Spring 2006.**

The Mercer survey also makes an important distinction between customer satisfaction and customer advocacy. On questioning the Customer Insight Manager as to why this is so, he responded:

*“Satisfaction as a measure is ‘floppier’ than advocacy because consumers can be relatively easily satisfied vs. being amazed enough to recommend. The Mercer survey therefore measures advocacy, Reichheld’s net promoter score principles are used on the basis that he said of surveys, that there’s only one question you ever need ask ‘would you recommend?’”*  
*Spirit Customer Insight Manager, Jan’ 2007.*

It appears, that Spirit sees this as a key customer performance indicator – all executives interviewed quoted advocacy as a key measure and were able to tell me what its drivers are: ‘food quality, physical environment and service’. This level of awareness is a good indicator that management has a good level of customer awareness, which in theory will minimise the gap between management perception of customer needs and the delivery of them (as found in the SERVQUAL model, chapter 2.2). The advocacy drivers were deduced from the on-line survey (which has been run twice over two years and yielded exactly the same results), the top three were confirmed as: Food Quality, Physical Environment and Service (see figure 16). Surprisingly, food price was not featuring in the top three; the rationale explained by David Martin for this is two-fold: firstly that the drivers represent an aggregate over all food pubs (not just value food) and secondly, that whilst price may drive trial and repeat visit, customers are more likely to recommend to friends if they are confident of the quality aspects that constitute value vs. price alone.



**Figure 16: Advocacy drivers in food pubs**

**Source: Mercer survey, April 2006**

The literature review included a piece of research on consumer-needs from different classes of (native) Taiwanese restaurants: ‘fancy’ and ‘ordinary’ (Cheng, 2006). In spite of this study being in another continent with a very different culture and eating out market, the top satisfiers and drivers of repeat visits have the same findings as the Mercer UK pub survey. Cheng (2006) found the top three to be: ‘quality of the products, service staff and interior surroundings’ (environment was deemed more important in ordinary restaurants vs. ‘fancy’ ones, where ‘means of payment’ was also cited as a factor). His study would therefore suggest that regardless of position in the market (in terms of ‘quality’ or ‘value’), management should focus maximum efforts on perfecting food quality (for price paid), physical environment (cleanliness, comfort and atmosphere) and service (friendliness and efficiency of staff). The expert interviewees similarly all place importance on the same findings as the Mercer survey.

*“It’s about tailoring and delivering your offer that most closely matches the customers’ needs. The mechanisms to deliver this are better understanding the customer and communicating and augmented the core offer, closely aligning it to their needs.” Customer Relationship Manager, Jan’ 2007.*

The theories found in the literature (Doyle, 2000, Reichheld, 1996 and Best 2005), that knowledge of customer needs precedes the creation of superior value is also the philosophy adopted by the Spirit organisation.

#### **4.3.3 Validating the drivers of customer value, satisfaction and loyalty**

In order to validate the findings of the Mercer Survey, a cross matching of findings from other surveys and studies are used. The studies in the cross match analysis are:

- i) Three Spirit customer surveys: 'Customer Satisfaction Survey' (CSS), 'Empathica' and 'Now to Wow' (see methodology and background in chapter 3.7.3).
- ii) Two theoretical service quality models: 'SERVQUAL' by Parasuramen et al. 1991 and 'Service Quality Satisfiers and Dissatisfiers' by Johnson, 1995.
- iii) A study of Customer Needs from Restaurant Classes by Cheng, 2006.

All customer satisfaction and dissatisfaction drivers mentioned in each of these studies are listed in a table (see table 15), with each survey scoring a count of '1' each time the driver is featured. The occurrences are totalled to provide a score, with the drivers sorted in order of the frequency that the driver featured across all studies.

	Customer satisfaction driver	Score	Spirit Customer Satisfaction and Service				Theoretical models		
			Mercer (2006)	Customer Satisfaction Survey (2007)	Empathica (2007)	Now to Wow (2007)	SERVQUAL (Parasuraman et al., 1991)	Customer Needs from Restaurant Classes (Cheng 2006)	Service quality satisfiers and dissatisfiers (Johnson, 1995)
Service	Friendliness / helpfulness / courtesy	6.0	1		1	1	1	1	
Service	Efficiency / reliability	6.0	1		1	1	1	1	
Environment	Comfort	5.0	1	1			1	1	
Product quality	Food quality	5.0	1	1	1	1	1		
Product quality	Drink Quality	5.0	1	1	1	1	1		
Price	Food price	4.0	1	1	1		1		
Price	Drink price	4.0	1	1	1		1		
Satisfaction	Overall level of satisfaction	4.0	1	1	1		1		
Advocacy	Likelihood to recommend	4.0	1	1	1	1			
Service	Knowledge of staff	3.0				1		1	
Service	Access / convenience	3.0				1	1	1	
Service	Safety guarantee	3.0				1	1	1	
Service	Supply of information / integrity	3.0				1	1	1	
Environment	Cleanliness	3.0	1			1		1	
Environment	Atmosphere	3.0	1	1		1			
Environment	Exterior surroundings	3.0				1	1		
Value	Good value for money	3.0	1	1	1				
Service	Empathy: personal attention to specific needs	2.0				1		1	
Service	Availability of product	2.0				1		1	
Service	Means of payment	2.0				1	1		
Service	Reliability	2.0				1		1	
Environment	Internal surroundings	2.0				1	1		
Product quality	Food range	2.0		1	1				
Product quality	Drink range	2.0		1	1				
Service	Neat appearance of staff	1.0				1			
Service	Service guarantee	1.0				1			
Environment	Suitability for kids	1.0	1						
Environment	Modern equipment	1.0				1			
Satisfaction	Likelihood to return soon	1.0	1						

**Table 15: Spirit customer satisfaction drivers ranked by occurrence across theoretical studies (SERVQUAL, 1991; Cheng, 2006; Johnson, 1995)**

The research shows the top customer measures to be:

1. Service, defined as: friendliness, helpfulness, courtesy, efficiency and reliability
- =2. Comfortable environment
- =2. Product quality
- 3 Price
- 4 Customer satisfaction / likelihood to recommend

In every occasion, Spirit measures ‘likelihood to recommend’ which is otherwise referred to as ‘customer advocacy’. These findings concur with the Mercer survey, however this is not an indicator of the customer priority order. In order to establish this, a similar exercise has been conducted, this time establishing the rank order of importance found across: Spirits’ Mercer survey (2006); Johnson’s (1995) service quality satisfiers and dissatisfiers; Cheng’s (2006) restaurant customer needs and also using a ‘zone of tolerance’ study into Hotels by Nadiri and Hussain (2005).

These academic studies have been selected because Johnson is a leading researcher in the field of service operations and service quality; his 1995 study builds on earlier studies of service quality satisfiers and tests both satisfiers and dissatisfiers within a major high street UK bank with a sample base of 431 customers. Whilst this is not directly relevant to hotel and catering, banks have identifiable customers who will have had more than one single experience of the service and have an on-going relationship involving many transactions over a number of years which provides a robust test ground. Additionally, two hotel and catering industry studies have been used. As previously discussed, Cheng's 2006 study of 'quality' and 'value' restaurants in Taiwan, reviews a sample base of 517 customer responses to customer needs and customer satisfaction. Whilst this is not a UK based study, its findings have some direct coloration to the UK studies. Finally, another foreign study, this time in Cyprus by Nadiri and Hussain (2005) surveyed 285 customers across four, five star and resort hotels, to establish the zone of tolerance of customer satisfaction. They used the SERVQUAL (Parasuramen et al., 1991) as a basis to establish customer perceptions and satisfaction.

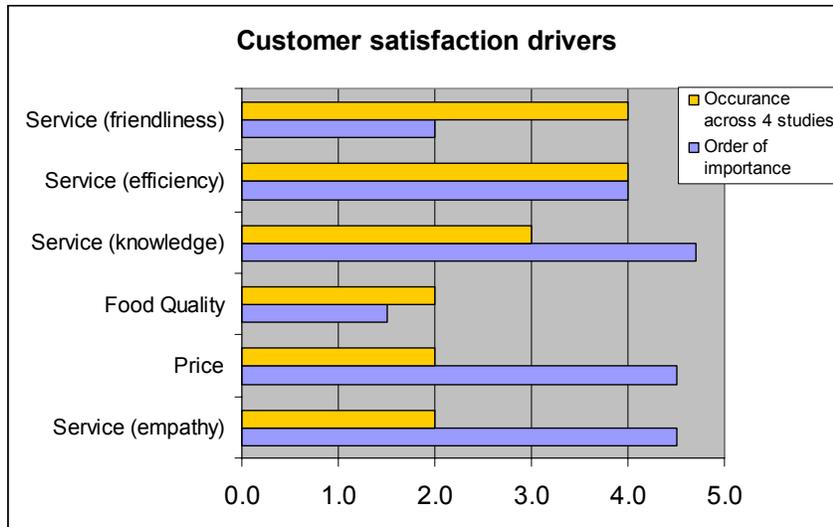
The cross matching reveals that in spite of the differences in findings across the banking, hotel and restaurant sector, there is coloration in some of the top satisfaction drivers. Table 16 shows the drivers listed with a score of 1 up to 10 allocated by each study's finding, e.g. Cheng found service friendliness, helpfulness and courtesy the most important ('1'). The frequency of each driver being mentioned is monitored with 4 being the highest number of occurrences; an average level of importance score is established by the sum total of rankings divided by number of occurrences. The list of drivers have been sorted by frequency of occurrence, then average score (the lower the score then higher level of importance).

	Customer satisfaction driver	Avg. level of importance	Frequency of occurrence	Mercer (2006)	Cheng (2006)	Johnson (1995)	HOTELZOT (Nadiri & Hussain, 2005)
Service	Friendliness / helpfulness / courtesy	2.0	4.00	3	1	1	3
Service	Efficiency / reliability	4.0	4.00	3	7	4	2
Service	Knowledge of staff	4.7	3.00	3		6	5
Service	Supply of information / integrity	7.0	3.00		9	5	7
Product quality	Food quality	1.5	2.00	1	2		
Service	Empathy: personal attention to specific needs	4.5	2.00			2	7
Price	Food price	4.5	2.00	4	5		
Environment	Internal surroundings	5.5	2.00		3	8	
Environment	Cleanliness	5.5	2.00	2		9	
Environment	Comfort	6.0	2.00	2		10	
Environment	Exterior surroundings	6.0	2.00		4		8
Service	Safety & security	6.5	2.00		6	7	
Service	Means of payment	7.0	2.00		8		6
Product quality	Drink Quality	1.0	1.00	1			
Service	Access / convenience	1.0	1.00				1
Environment	Atmosphere	2.0	1.00	2			
Service	Availability of product	3.0	1.00			3	
Service	Neat appearance of staff	4.0	1.00				4
Product quality	Food range	5.0	1.00	5			
Price	Drink price	6.0	1.00	6			
Environment	Suitability for kids	7.0	1.00	7			
Product quality	Drink range	8.0	1.00	8			

**Table 16: Customer drivers by occurrence and level of customers' importance**

This review has found that the four most important drivers of are service-based. The other area of high importance, but featuring less often in the research (only twice) is product quality. Price features lower down the priority list and equal to another service measure: personal attention to needs / empathy, with environment next. These findings support Johnson's and Silvestro et. al. (1990) conclusion that the intangible measures of service quality is more important than the tangibles of price and environment. The findings are also summarised in figure 17.

The study would suggest that indicators of good service feature highly amongst customer satisfaction levels followed by price and quality. This matches the Spirit Management philosophy that customer value is *quality x service x price* and therefore validates it as useful in focusing management decisions on servicing and improving these customer needs.



**Figure 17: Customer satisfaction drivers found across Mercer (2006) and the four academic studies in this research.**

In spite of the Spirit organisation’s awareness of and commitment to closing the gap on delivery of customer needs, there is evidently some more work to do to align the organisation behind this strategy. This was established in the expert interviews by management scoring only 58% out of 100% to the question “on a scale of 1-10, how customer-led is Spirit as an organisation?” The common cited barriers to overcome are: cultural mindset linked to short-term return strategy; listening to and acting on the customer insight (customer and manager feedback) ; improving complaint handling procedures; investing more in customer focus groups and panels; more investment in front-line training and overcoming supplier contractual agreements to give the customer what they want.

Interviewee	Score out of 10 for Spirit as a Customer-led organisation.	Cited barriers and suggestions to overcome them
Managing Director	5	<ul style="list-style-type: none"> <li>- Cultural mindset and barriers</li> <li>- Recruitment strategies and processed to overcome mindset problems</li> <li>- Complaints are not discussed and often dismissed</li> </ul>
Marketing Director	5	<ul style="list-style-type: none"> <li>- to act quickly on the information we collect</li> <li>- to collect manager's views</li> <li>- to set up customer focus groups</li> <li>- to change cultural attitude away from defensive to listening and acting upon feedback</li> </ul>
Director of Strategy	6.5	<ul style="list-style-type: none"> <li>- historic culture of being short-term, venture capital-backed</li> <li>- overcome cost hurdles to spend more on customer-led initiatives</li> </ul>
Customer Insight Manager	6	<ul style="list-style-type: none"> <li>- invest more in insight; switch bias from monitoring operational compliance to customer insight</li> <li>- overcome drinks contractual barriers to give the customers what they want</li> <li>- strong links to service training</li> <li>- acting on the findings of customer research</li> <li>- complaint recovery</li> </ul>
Customer Relationship Managers	6.5	<ul style="list-style-type: none"> <li>- more structured customer panels</li> <li>- joining up all customer feedback including complaints</li> <li>- more customer research up front</li> <li>believing what the customers say, not what we want to hear</li> </ul>

**Table 17: Becoming a customer-led organisation – management opinion from expert interviews (2007).**

#### **4.4 The link between customer value, customer satisfaction, customer loyalty and profits.**

Having established that a customer value proposition is based on *quality x service x price and environment* the case study now explores the theory that there is a link between customer satisfaction, profits and loyalty (Heskett et.al., 1997; Anderson et.al., 1994; Yeung and Ennew, 2000). An overview of the four pub concepts operating in the market segments of quality-food, value-food, quality-drink, and value-drink shows that the higher customer satisfaction scores, value and advocacy, the more likely that profits are superior (table 18). The City-Metro pubs buck the trend, showing superior sales growth to the other segments, yet one of the lower customer scores; this suggests there are other dynamics at play here. On questioning the

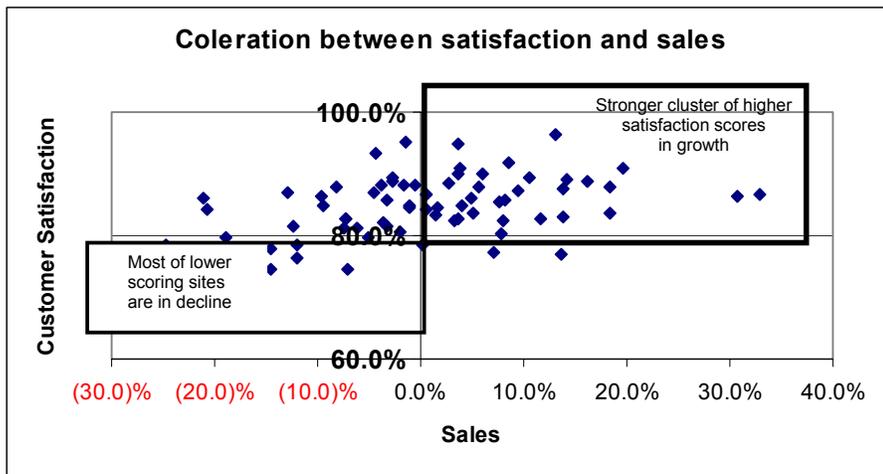
Management team, the reason for the good performance in this segment is because sales this year are comparing against last year, when these pubs, which are predominantly in London, were adversely affected post the summer terrorist tube bombings; also because the economy in London is very buoyant presently.

	Great Locals	City Metro	Chef and Brewer	TWO FOR ONE
	Value: drink-led	Quality: drink-led	Quality: drink-led	Value: drink-led
Average like for like store sales growth (at half year 2007)	-0.8%	10.8%	2.8%	7.4%
Customer satisfaction score	71%	74%	78%	86%
Customer Advocacy	71%	66%	79%	80%
Value for Money rating	53%	41%	55%	85%

**Table 18: Spirit pub concepts by segment showing coloration between sales growth, satisfaction, advocacy and value. Source: Spirit financial data and CSS (October 2006).**

In order to establish a more robust analysis of profits vs. satisfaction a pub-by-pub review of the 'TWO FOR ONE' concept has been undertaken. Figure 18 plots year to date sales growth percentage against year to date Now to Wow (Mystery Shopper) scores. These measures have been used for two reasons: sales have been used as a better indicator of growth because of the variables involved in delivering profit (individual site manager ability to control labour, stock, consumables and repairs). Secondly, the mystery shopper programme measures against satisfaction criteria, therefore the higher the score, the higher the inherent level of satisfaction. Further research would involve obtaining a pure satisfaction score by pub, however this is currently not measured. The analysis shows that of the sites scoring over 80% on satisfaction measures in Spirit, the majority of them are in growth. Although this study suggests that it does not follow that high mystery shopper scores automatically lead to growth, there is evidence that sites scoring below 80% are more likely to be in sales decline. This also indicates that growth / decline is one of the functions of levels of customer satisfaction.

According to the Spirit management team, two of the key site dynamics impacting on sales growth or life cycle are the quality of the pub manager and the level of investment in the pub; these factors were compared vs. the pub Mystery Customer results (a measure of delivery of customer service quality). Whilst coloration does exist between the factors, there is a 'chicken and egg' affect – managers are graded according to sales growth and mystery customer performance, therefore establishing cause or effect limits the use of this as a measure.



**Figure 18: TWO FOR ONE pubs plotted by satisfaction and sales performance**  
**Source: Spirit Financial data and Mystery Shopper Survey scores at year ending Aug' 2006**

The analysis on the links between customer satisfaction, advocacy, value and sales, at both segment and pub level is not completely conclusive. However, the study has shown evidence that links do exist: i) TWO FOR ONE has the highest value, satisfaction and advocacy rating in Spirit and also performs well on these measures vs. the competition in the Mercer Survey (appendix 4), ii) TWO FOR ONE has one of the highest sales performances in Spirit, iii) on a pub by pub level, the stronger the satisfaction score, the more likely that the pub will be in good growth. The implication for management is that strategies that build customer value and grow satisfaction, loyalty and advocacy are favorable conditions for maximising sales growth potential. Further research for value concepts would be useful to establish the zone of tolerance for low-cost propositions. This would not only help to establish

areas for improvement, but where resource can possibly be removed to strengthen the low-cost proposition by reducing cost.

#### **4.4 The Value of Loyalty**

The case study expert interviews reveal that loyalty measures and clear loyalty strategies are not in place:

*“We do not adopt further (loyalty) strategies, (we’ve) tried IT solutions, they are very costly and didn’t work...” (Director of Marketing).*

*“(I’m) not sure that’s what we need.... collector cards, Gold Cards, redemption vouchers etc... McDonald’s don’t have a loyalty scheme they focus on consistency; they back their offer and introduce new stuff they fundamentally back what they do ...” (Managing Director)*

*In pubs, there is no EPOS customer database.... we have no transactional data, frequency, spend per customer.... (Customer Relationship Manager)*

When Punch acquired Allied Domeq, Allied had an IT based Customer Relationship loyalty programme. Some of the senior team were a part of the Allied team and revealed just how costly the scheme was (£1.5m), the scheme did not evidence any short to medium return on this investment and the Venture Capital backers promptly removed it when Spirit was formed. Evidently the cash was used to invest in the pub estate whereby return on investment is over 30%. The lack of transactional data and the cost to data manage, store and contact customers appears to be a current barrier to this sector. Additionally, Spirit appears to have a different perspective on loyalty as a driver of growth; they prefer advocacy:

*“It (loyalty) is not as powerful as advocacy – recommendations grow the business..” (Managing Director).*

*“Loyalty schemes drive loyalty e.g. Boots Advantage card, Tesco Clubcard, but intuitively what drives loyalty itself – it’s about the advocacy rankings...” (Strategy Director).*

Reichheld (1996) includes renewal and revision of the value proposition as one of the basic tools in managing loyalty. Spirit appears to adopt this approach as its predominant strategy to grow advocacy, centring activity on understanding customer advocacy drivers and delivering to these customer needs:

*“We focus on price, product quality (production and absolute), we invest in our pubs, we try to increase levels of service..” (Marketing Director).*

*“In value food the offer is so strong we should be ploughing our money into getting it right – the basics so that people return.” (Managing Director).*

*“It’s about tailoring and delivering your offer that most closely matches the customers’ needs” (Customer Relationship Manager).*

One weakness in this sole approach, is failing to review other indicators of customer loyalty and their worth. Alternative measures include the rate and cost of defections, (Doyle, 2000 and Reichheld and Sasser, 1990), which means that by focusing on closing quality defects and recovering potential lost customer (complaints) companies can turn around their life cycle (see chapter 2.3). Customer complaints are shown in table 19, this reveals that over 2000 customers have written to complain. At this rate that’s 8000 customer per annum; if they each tell 2 of their friends then another 16,000 potential customers may be ‘lost’; in turn, if each of these customers brought 3 other guests that could add up to as much as £400,000 in lost revenue p.a. Given that the British culture is not to complain, they just vote with their feet – imagine multiplying this figure by ten that’s up to £4 million in lost sales revenue! The complaints analysis is another indicator for TWO FOR ONE and other companies as to the key areas of customer dissatisfaction. This analysis also shows that once again, the top 4 factors most important to customers are service and quality related.

Customer Complaints by category and quantity - TWO FOR ONE					
<u>Complaint category</u>	Nov' 06	Dec ' 06	Jan '07	Feb '07	Total
Quality - Tastes Great?	113	110	104	62	521
Service - Attitude	83	66	67	56	403
Service - Efficiency	80	69	88	43	402
Quality - Looks Good	38	17	36	26	176
Availability - Availability	31	38	42	21	171
Cleanliness - Inside	14	28	26	16	118
Service - Knowledge	26	16	17		79
Atmosphere - Atmosphere	10	12	13	4	54
Service - Friendly	9	8	5	6	53
Other - Other	13	12	4	13	44
Cleanliness - Toilets	3	3	2	6	33
Deal - Two For One	9	6	6	3	26
<b>TOTAL</b>	<b>429</b>	<b>385</b>	<b>410</b>	<b>256</b>	<b>2080</b>

**Table 19: Customer Complaints by Category. Source: Spirit customer relations reports.**

#### **4.6 Findings – summary**

Research question one was to identify the nature, scope, and characteristics of product lifecycle in low-cost service retail and to explore appropriate strategies to recycle growth. The value food-pub case study has identified that the lifecycle stages discussed in the literature exist. However, for the PLC to be used effectively as a strategic marketing tool, all levels of market, product form, class, brand and store level need to be taken into account. The food-pub sector itself is starting to show signs of maturity as the growth in eating out slows; this market is subject to further consolidation and there is scope for scale operators with winning value propositions to mop up share. The study has also identified several strategic options for companies in low-cost maturing market to consider; one option is to develop the value proposition further.

Research question two was to identify the drivers of customer value, satisfaction and loyalty and consider the impact of price in the context of low-cost service retail; and additionally to explore and identify the link to profits. This case study has found that customer value is defined as price x quality x service. Whilst price is the primary motivator to visit, additionally service (friendly, efficient and knowledgeable staff) and

product quality have been identified as the top two priorities to drive satisfaction and loyalty. There is also some evidence to support the theory that satisfaction, value and loyalty are linked to profits, however there are exceptions to this rule due to other external factors.

Research question three was to establish is the value potential of customer loyalty. The case study company belief is that advocacy measures are preferred over loyalty ('word of mouth grows the business'). Additionally, IT-based customer data capture and subsequent customer relationship marketing activities have not proven return on investment in the Spirit case study. Customer loyalty is not measured in the organisation and the company prefers to spend its resource renewing and revising the customer proposition to drive loyalty. Alternative measures such as customer complaints support the findings from question two. The implication for management is that focus on raising service and quality can mitigate complaints which in turn may minimise defection rates and help to recycle growth. Further research might also consider in detail the aspect of price optimisation in geographic locations as a lever for growth.

## Chapter 5: Summary, conclusions and recommendations

### 5.1 Summary

The research area was concerning how to extend a maturing life cycle in retail markets characterised by low-cost propositions. This is of particular interest because of the growing relevance of low-cost service providers in today's Western markets (e.g. in the UK: budget-airlines; multiple-grocers; pub retailing are three such sectors). Price is the predominant strategy in these sectors, combined with a customer communication strategy to grow volume, but as providers reach geographical saturation and / or are under competitive threat, market maturity can be experienced, leaving operators to seek differentiation strategies. Features of retail service provision are: growing labour costs (annual National Minimum Wage increases) and the rising cost of utilities (impacting on every store/site location). These factors can erode profit margins for operators trying to maintain a competitive low-price position.

Using the Spirit Group's 'TWO FOR ONE' food-pub retail concept as a case study, an in-depth review of the product-lifecycle has been conducted. In order to explore strategic growth options, the concept of creating superior customer value and customer loyalty has been examined.

The research questions addressed in the case study findings were:

- i. To identify the nature, scope and characteristics of product lifecycle in low-cost service retail.*
- ii. To identify the drivers of customer value, satisfaction and loyalty and consider the impact of price in the context of low-cost service retail.*
- iii. Explore and identify the link to profits.*
- iv. To establish is the value potential of customer loyalty.*

## 5.2 Conclusions

### 5.2.1 Conclusions on the nature, scope and characteristics of the Product Life Cycle.

***The Product Lifecycle, whilst simplistic, can be used as a basic management tool (provided it is used at all levels of 'product' and by taking external forces into consideration).***

This study has shown that on a simplistic level, product lifecycle analysis can aid planning and forecasting and guide management to select appropriate strategies. This was substantiated by several academics including: Dean, 1950; Levitt, 1965; Buzzell, 1966; Cox, 1967; Polli and Cook, 1969, Rink and Swan, 1979; Meenaghan and O'Sullivan, 1986 and Hooley, 1995. It has also been shown that in order to provide appropriate depth of insight, the lifecycle needs to be analysed on all levels: market, product form, product class and at brand level. This supports the findings of Doyle, 2000; Polli and Cook, 1969; Harrell and Taylor, 1981 and Enis, La Garce and Prell, 1977. The case study has also identified that managers need to take into account the impact of external forces on life cycle (as also identified by Meenaghan and O'Sullivan, 1986): social (e.g. health concerns), political (e.g. no-smoking legislation impact on pubs), economic (growth or recession) and even the impact of seasonality and major one-off events (such as the World Cup).

Whilst studies on the product lifecycle span the literature for over fifty years, there is a limited amount of research in recent times; with a gap in providing understanding on service retail and, the dynamics of low-cost service life cycles. As previously mentioned, this is not only important because of the growth of low-cost services, but because of the emergence of the service industry post the manufacturing era (upon which most of the PLC studies are based).

***The life cycle for retail markets are subject to complex and dynamic forces; it is influenced heavily by geographical distribution (site location). The implications of this are as follows:-***

- In this case study lifecycle continues to remain in growth stage as distribution expands geographically; as each store reaches its first year anniversary growth rates can continue to be favourable. At years 3 onwards-individual sites are susceptible to maturity and some may start to show decline. This overall trend is likened to the classic bell-shaped logistical PLC curve, but in this case instance the maturity stage comes relatively quickly. Whilst not every retail organisation may experience the same timings of life cycle change from one stage to another, it is anticipated that a similar pattern will emerge, i.e. that growth is rapid during geographical expansion, slowing as competition catches up in terms of offer or price.
- Retail sites are not homogenous products like consumables; they are affected at local level and compete in local, not national markets.
- Freehold retail sites are individual assets as opposed to a brand asset; therefore profit maximisation decisions may impact on a site-by-site level (e.g. the sale of a central freehold London site may yield optimum profit vs. on-going trading).

This has several implications for management. Firstly, the growth stages of the life cycle from new site openings may provide a misleading understanding of the true brand health; therefore, the underlying performance of the core or mature stores would need to be determined. Secondly, sites may need the flexibility to compete locally e.g. on price and product range. The findings have also shown that life cycle is affected by individual site performances; two major factors requiring management focus being: building the capability of its managers and the level of investment in the site. Finally, retailers may manage their product as an estate portfolio of assets, rather than building brand distribution and brand asset.

***Low-cost service retail adds a further dynamic factor to life cycle performance.***

The TWO FOR ONE case study has shown that being first to local market with a compelling customer offer at affordable prices, can lead to explosive growth at the introduction stage of life cycle. Years one and two of each site remain in very positive growth as word of mouth advocacy fuels new business. However, this concept has shown it can be susceptible to reaching maturity by year three for the following reasons:-

- *Constraints in site capacity*
- *Manager capability*
- *Lack of investment to keep the site fresh*
- *Competitive forces on a local level*
- *Customers reaching boredom threshold or seeking more variety*

There is also evidence that the low-cost TWO FOR ONE proposition still has growth prospects in year six onwards; these are sites with exceptionally high performing managers, have had annual investment and experience low competitive intensity. This indicates that management effort can be focused on i) increasing site capacity through speed of service or physical extension, ii) raising manager capability, iii) maintaining a regular programme of refurbishment, iv) developing local counter-competitive tactics such as price competition and promotion, and v) developing the offer to keep it fresh for the customer.

***The pub-food market is starting to show signs of maturity***

As discussed in chapter 1, the supply of food pubs is set to increase post the ban on smoking in pubs as drink-led pubs reposition to food propositions. This may negate the growth prospects through raising competitive intensity. Whilst the market conditions for eating out remain favourable, there is a conflict between Taylor Nelson statistics (showing a mature market) and the Mintel Report, 2006 (indicating modest growth in the short to medium term). The implications for managers in the pub market needs to be taken in the context of what is a very fragmented market, with

few scale operators. This would imply further consolidation, a feature in maturing markets.

### **5.2.2 Strategic options - conclusions**

The nature of the multiple –site dynamics of retail, means that the strategy cannot be looked at on one level. The strategies adopted will be dependent on individual site life cycles. Furthermore, the ‘health’ of the brand can be determined by reviewing the core estate performance. In the case of the TWO FOR ONE concept, this suggests a life stage in the last stages of growth, heading towards maturity. Therefore understanding the ‘true life cycle’ is key to management being able to select the appropriate strategy.

### **5.2.3 Customer value, satisfaction and loyalty – conclusions**

***Customer value in low-cost retail is a combination of Price x Quality X Service; these elements in turn deliver customer satisfaction and loyalty. Spirit management also sees word of mouth advocacy as a stronger indicator for growth than that of loyalty.***

Value is not just about low price; this is according to the Spirit Management in the pub case study and it also supports the opinion found throughout the literature. The findings reveal that in order to build differentiation, the aspects of customer satisfaction, loyalty and advocacy that matter most to the customer are:-

- *Service*
- *Quality*
- *Price*

Whilst the proven customer dissatisfiers are defections in service and quality, price is seen as the initial motivator. However failures of service and quality are not only mentioned as the top two drivers of dissatisfaction, but when they are delivered well,

they drive advocacy. The comparison to the SERVQUAL model revealed that whilst the gap between management perceptions of customer needs is low, there is still an operational delivery gap. Fundamentally, it's about building and having the organisational capability to deliver on all three of these areas: service, product quality and price.

***In retail, there are links not only between customer satisfaction, operational competency and profits, but also with level of investment in the individual store (pub) sites.***

Site by site analysis in the case study supports the theories of Doyle (2000); Heskett et. al. (1997); Anderson et. al. (1994); and Yeung and Ennew (2000) that there is a link between customer satisfaction and performance. Additionally, the findings are of particular significance to retailers is the site-specific performance of managers and levels of investment and the link to profits.

#### **5.2.4 Customer loyalty – conclusions**

***Investment in customer loyalty mechanics is very low in pub retailing; the technological route is expensive and lacking in return on investment.***

The EPOS (electronic point of sale) data management from till transactions and subsequent customer contact processes are prohibitively costly (over £1.5m in the case of the Allied Domeq pub company). The nature of this industry is that customers are not 'known' at corporate level and therefore one to one marketing tactics and loyalty measures are not possible. Resource is focused instead on understanding customers, augmenting the offer to match customer segment needs and communicating the offer to the target customer. This is a view held by the Customer Relationship Manager at Spirit and also proposed by Doyle (2000). Low tech' economical routes to building relationships and communication is an area for further study. For this sector focus would be better spent in two areas: firstly, establishing how defections can be minimised through a more robust complaint

handling and customer recovery process. Secondly, by focusing on the priorities identified in this study (service and quality) in order to perfect the value proposition.

### **5.3 Recommendations**

Recommendations are proposed in view of the findings and conclusions in this chapter. These are presented on three levels: retail companies, TWO FOR ONE / low-cost concepts and the impact on the consumer.

#### **Retail Companies**

Companies in general may find the application of life cycle analysis useful for planning and strategic purposes. It also raises company awareness of potential issues the product faces. This is provided that economic, competitive and other external factors are tracked and that market, form, class and brand analysis is undertaken. In retail sectors, life cycle is more complex owing to the single-site local life cycle characteristics. For the purposes of clarity, at brand level the lifecycle needs to be split into the categories of: new sites (1-2 years), established sites (2-3) showing growth, established sites showing maturity (3+ years) and established sites in decline (3-4+ years). Similar to portfolio management, the strategies adopted are different for each category. It would follow therefore that Brand health can then be established by stripping out the new sites and out-lying sites in decline. A simple portfolio management approach to strategic options for each group of sites can then be applied as shown in figure 19. This model shows the objective of the introduction stage to be to complete geographical expansion, adopting the tactics to achieve this; market share maximisation is the objective in the profitable growth sites; for sites in maturity a range of tactics to defend and gain share are shown, and finally, the harvest / divest strategy and tactics for sites in decline.

<b>High sales growth</b>	<u><b>Growth</b></u> <b>Objective: maximise share</b> - Advertising and promotion - Grow loyalty - Extend product range - Price optimization - Segment the market by customer group / occasion -	<u><b>Introduction</b></u> <b>Objective: complete geographical expansion and expand distribution</b> - Generate trial and awareness
<b>Low sales growth</b>	<u><b>Maturity</b></u> <b>Objective: Gain / defend share</b> - Competitive pricing - New customers, new markets via innovation and brand extensions - Adding value by up-selling and cross selling	<u><b>Decline</b></u> <b>Objective: milk or harvest</b> - Minimise investment - Maximise income - Divest the bottom end of the estate
	<b>High profits</b>	<b>Low profits</b>

**Figure 19: Retail life cycle strategies using portfolio management approach. Source: this has been developed as a summary of this study.**

By using the PLC as portfolio management tool, estate strategy plans can be drawn up to manage site-specific life cycle performance issues. Additionally, the underlying brand performance can be determined and appropriate marketing strategies deployed.

**‘TWO FOR ONE’ and other cost leadership operations**

Low-cost retailers face not only the multiple-site life cycle issue but also the complexity of reaching a ceiling of growth quite quickly and maturing as competitors price match. From the literature review and research findings, the appropriate strategies in the TWO FOR ONE case study emerge as follows:-

- i) **Maintain growth year after year, by maximising geographical distribution** in areas of low/no presence through acquisition and conversion of existing estate.
- ii) **Grow and defend market share in existing sites using the following tactics: -**

- a. Growing customer loyalty by ensuring the offer is attuned to the customer insight (from new trends and feedback); tailor marketing communications to build relationships using new channels of communication (example internet). For this sector a low tech' approach to loyalty is more appropriate than expensive Customer Relationship database marketing. The first step of which is establishing how defections can be minimised by understanding customers' zones of tolerance. Secondly, establishing the priorities (within service, quality and environment) to perfect the aspects of customer satisfaction that will subsequently grow loyalty.
- b. Optimising price (up and down) depending on competition. In Spirit this will require sophisticated understanding of the local markets and competition, however this competency has been established on drinks pricing. The pricing model is also similar to the practises in the Petrol Forecourt Retailing and Multiple Grocer sectors.
- c. Supporting 'Deal' pricing with aggressive external marketing communications broadening the catchment 'reach' around each site, focusing on core target customer.
- d. Segmenting the occasions (lunch, evening, midweek and weekend) by customer group and tailor the offer and marketing communication accordingly. Examples in TWO FOR ONE include Pensioners lunch deal; workers on the move brunch and coffee offers; family weekend special occasions. Extend the product range to exploit these segments and review hours of operation with a view to extending where possible.
- e. Develop permanence of product by overcoming the lack of trade-markable brand name (TWO FOR ONE cannot be owned, there are two other competitors trading under this name).
- f. Establish a well tuned operating model, dedicated to delivering unmatched value.

**iii) Re-cycle the growth stage of existing sites**

This can be achieved by refreshing sites via a refurbishment programme and supported further by adding new dimensions to the offer. In TWO FOR ONE this would include building extensions and / or adding new complimentary offers e.g. hotel or children's play barn.

**iv) Maintain the health of the brand by differentiating against the competition**

In a low-cost arena, price needs to be a given; the right quality for the price paid equation is a key part of this. The research has identified that service is the aspect of differentiation to solve, specifically having service that is friendly, efficient and knowledgeable. The tactics to support this strategy as follows:

*Friendly:* this is a function of people therefore building Human Relations policies and practises around recruitment, retention and training would support this.

*Efficient:* the causal effect of low-cost is the generation of high volume (demand). Therefore all aspects of offer and operations would need to be aligned behind providing a simple, fast and easy offer to execute. McDonald's have perfected much of this thinking in the design, build, logistics and operation of its offer. Often by stripping out unnecessary processes, this not only speeds up service, but removes cost (a strategy adopted by budget airlines).

*Knowledgeable:* the above elements precede the delivery of staff knowledge. If the right people are selected, trained and retained to deliver a simple, straightforward offer, then service that is knowledgeable should follow.

## **Creation of superior value for the customer**

If service x quality x price x environment is the formula for superior value, then winning companies will be those who have the right combination of knowledge, skills, resource and culture to be truly-customer led (also known as market-lead). Such an organisation will be at the forefront of consumer insight and trend and able to lead the market with innovation to meet and exceed customer expectations. Superior value is the ultimate goal, leading to value added throughout not only the supply chain but to the maximisation of shareholder value.

## **5.4 Final Conclusions**

This dissertation has explored the themes of product lifecycle, customer satisfaction and customer loyalty in a low-cost service retail chain. Whilst the study concerns one company and a specific sector, the value-food pub market, important conclusions and recommendations have been established that can be applied to other retail sectors. The main conclusions of this research are:

- The product life cycle can be used as a strategic marketing tool, provided it is viewed on all levels and external factors are taken into account.
- Retail product concepts are multiple-site in nature, this adds a further dimension to the PLC as each store experiences it's own stage of life cycle.
- Retail lifecycle therefore needs to be undertaken by age of store, this in turn will ensure the appropriate strategies are undertaken by age of site.
- Introduction of a competitive low-cost price offer into the market can fuel fast growth at early stages of introduction, combined with geographical expansion. However as competition intensifies and the market matures (as is now found in food-pub retail) further sources of differentiation are required.
- Whilst price is the initial motivator, service and quality are the top satisfiers and dissatisfiers. By focusing on improving these aspects, companies can seek to minimise defections. Growing loyalty this way can be more cost effective than the cost of new customer acquisition.

- Customer value is a function of price x quality x service x environment, this can grow loyalty, however the measure of advocacy is also seen as a stronger indicator for growth.
- In retail, there are links between customer satisfaction and levels of site investment, manager capability and profit.
- High technology customer loyalty programmes do not provide a return in pub retailing; management instead focuses on matching the offer to customer needs and communicating this offer to the target customer. One area that the case study company could improve is its approach to customer retention.

Recommendations have been made in view of these conclusions for three groups; retailers in general, the Spirit Group and also application for other low-cost sectors. The impact for consumers is that as companies improve their understanding of consumers' growing demands and levels of expectation, then they will seek to make improvements to deliver superior value in order to compete. This will inevitably lead to more choice, variety and value for the UK consumer.

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## Appendices

### Appendix 1: Expert interview guide and transcripts.

#### Research interview

<b>Interviewee</b>	
<i>Date and time</i>	
<i>Duration of interview</i>	

#### Questions for discussion

<p><b>What is the nature of the life-cycle of the market when applied to pubs?</b> <i>Where are: i) eating out, ii) pubs, iii) the value sector, iv) 'TWO FOR ONE' in their lifecycles?</i></p>
<p><b>What does 'value' mean to the customer?</b></p>
<p><b><i>How would you define a low-cost (price) strategy?</i></b></p>
<p><b><i>What are your perceptions of the drivers of customer satisfaction in value sectors, generally?</i></b></p>
<p><b><i>What are do you think the levels of expectation are like in our value food pubs ?</i></b></p>
<p><b>What's your perception of how important price is within these factors ?</b></p>
<p><b>What is understood by the term 'customer loyalty'</b></p> <p><b>What strategies does Spirit adopt to drive loyalty?</b></p>
<p><b>What competitive strategies are/might Spirit follow to grow share in the value market</b></p>

<b>How might Spirit deliver superior value to its customers ?</b>
<b>What are the barriers to this?</b>
<b>On a scale of 1-10 how customer-led is Spirit as an organisation?</b>
<b>Why do you say that ?</b>

## Research interview

<b>Interviewee</b>	<b>Andrew Knight, Managing Director</b>
<i>Date and time</i>	<b>28<sup>th</sup> February, 2007</b>
<i>Duration of interview</i>	<b>40 mins</b>

***What is the nature of the life-cycle of the market when applied to pubs?***

***Where are: i) eating out, ii) pubs, iii) the value sector, iv) 'TWO FOR ONE' in their lifecycles?***

- Pub market is facing decline – 60,000 pubs, with 40,000 of them in decline, 20,000 growing.
- Eating out is growing, but cannot compensate for decline in drink-led pubs
- Drink volume has been struggling for a long time and pubs suffering.
- Reasons for decline: changing consumer behaviour and lifestyle, UK economy, job skills vs manual labour, increase in choice, increase in quality of housing, women's buying power

***Value?***

- I'm a great believer that the UK trend follows the US closely, therefore value has the brightest future. UK population is polarised between the wealthy and the not so wealthy. There is currently pressure on consumer spending; therefore people are looking for value. Then there's the family lifestyle where families don't sit down together – going out is a good way for them to reconnect.

***241?***

We're very good at transforming a business form a local pub to a 241, when we get very good year one growth by annihilating the competition, followed by a good year 2. We're not so good at what's new in these pubs. If we were in other industries we'd focus on a marketing campaign to leverage the power of the brand, However the single site dynamics mean we're not able to leverage marcomms. We need to look at targeting lapsed users.

The good managers work very hard to generate more trade.

***What does 'value' mean to the customer?***

PRICE is the lead driver, then quality x service

People are prepared to hang around for a good deal – look at the Harrod's sale where people camp out – people are looking for a deal; they want to feel like they are getting something for a cheaper price. However, no matter how cheap, if the quality and service isn't there then people won't return.

I also think that people won't tell you price is the most important – there's a bit of inverted snobbery

***How would you define a low-cost (price) strategy?***

You need to understand price very well

Need to be cheaper than the competition

We're not comparing like for like on food meals it's not the price of a bottle of in 1 pub vs another

The absolute cheapest is not always it either – compare run down unsafe looking pub 20p cheaper than the one next to it with roses round the door – which one will the customer choose?

I put £1.5m of cost into the business by choosing whole onion rings vs reconstituted - getting the quality right

It's about getting all levers right :

- Headline price
- Environment
- Service

Blocking competition capability to match price

Need to get marcomms right to communicate what you get for the price (weights and measures)

***What are your perceptions of the drivers of customer satisfaction in value sectors, generally?***

Food quality is very important and portion size is linked to that

We've yet to define what food quality is

Speed is essential this is the toughest to crack (McDs is fast)

Then there's the nice to do's : friendly and pleasant – makes the operation even better,

***What about the notion that service is potentially the most important?***

People will forgive service if they get hot steak cooked to their liking for a £5 that's fast.

In value food its about getting the basic processes right, more robust processes

Customers just want good food and convenience – they're not coming out for the interaction and service.

**How would you define the term 'customer loyalty'**

It's about frequency of customers returning

Although it's not as powerful as advocacy – recommendations grow the business

**What strategies does Spirit adopt to drive loyalty?**

Not sure that's what we need...collector cards, Gold Cards, redemption vouchers etc...

In value food the offer is so strong we should be ploughing our money into getting it right – the basics so that people return.

*McD's don't have a loyalty scheme, they focus on consistency. They back their offer and introduce new stuff they fundamentally back what they do ...*

**What competitive strategies are/might Spirit follow to grow share in the value market ?**

- Geographical expansion
- Price (understand it) and set the base level
- Quality
  - o Volume and generosity of food and communicate size, how it's cooked, where its from
  - o Delivery of Quality
  - o Sourcing – we're not clear on this
- Speed – how easy is it (can't even set up a tab!)

**On a scale of 1-10 how customer-led is Spirit as an organisation?**

5 (but used to be a '2' before we got behind customer insight and research)

**Why do you say that ?**

The barriers are mindset and behaviour

Some parts of the business are more focused than others

When I see a member of accounts payable with a pen portrait of the customer on their desk then I'll know we're getting there.

To enable it it's about:

- recruitment
  - - processes
  - - attitude to complaints – they're just not talked about. I receive a selection a week and follow up to see how the complaint has been handled – very defensive some of them.
- There's a huge cultural mountain to climb here.

## Research interview

<b>Interviewee</b>	<b>David Martin, Customer Insight Manager</b>
<i>Date and time</i>	<b>23.01.07. 10:00 hrs</b>
<i>Duration of interview</i>	<b>65 mins</b>

### ***What is the nature of the life-cycle of the market when applied to pubs?***

***Where are: I) eating out, ii) pubs, iii) the value sector, iv) 'TWO FOR ONE' in their lifecycles?***

- There is increasing supply, which is lagging demand, demand is continuing after demand has pegged out, e.g. Fast Food declining demand vs expansion of stores.
- Overall eating out market in decline (Taylor Nelson), however Mintel predicts modest growth.
- Pub eating out has a similar prognosis with marginal growth in pub catering
- Question science behind some of the forecasts – the accepted wisdom is that eating out would grow 3-4% p.a., based on US market of 50 cents in the \$ spent on eating out, however UK market is now maturing / declining.
- Reasons for this paradox in the UK – ‘don’t underestimate the power of the food retailers’ who have been fighting back the eating out trend through ranging, fresh, organic, local produce that’s easy to prepare. Spending significant marketing effort on increasing interest and awareness on cooking in the home e.g. Sainsbury’s Jamie Oliver / try something new campaign.
- Potential learning from grocery retailing for the pub catering market

### ***What is your understanding of the term ‘value’ (to the customer)***

- Perceived quality / price.
- Quality is subjective, it can be influenced e.g. branding
- Inherent quality includes the tangible and intangibles elements i.e. the core product, surroundings, location, atmosphere and the customer base itself
- We have proven the drivers of quality and value for our customers through the Mercer Survey
- Satisfaction as a measure is ‘floppier’ than advocacy because consumers can be relatively easily satisfied vs. being amazed enough to recommend. The Mercer survey therefore measures advocacy, Reichheld’s net promoter score principles used on the basis that he said of surveys that there’s only one question you ever need ask ‘would you recommend?’

**How would you define a low-cost (price) strategy ?**

- Spirit has a low-cost strategy (12 mths ago) this is changing.
- This was to do with the strategic options then (prior to acquisition by a plc): private equity funded; short-term priorities; possible inflation of sales pre-sale (to inflate share price). (As a result) the Spirit business model was accelerated growth. The estate was poor (prime sites sold to Bass for cash), Spirit was generally ignored as a competitor by Scottish and Newcastle Retail (SNR) and MAB – it was seen as having the bottom end of the pub estate. The acquisition of SNR improved the profile of the estate and this started a change in strategy.
- Now, Spirit has churned the bottom of the estate; it's part of a PLC and therefore the commitment to low-price is less so. 'It's a muddle, are we a price-fighter or not?'
- The implications of this woolly strategy is that we have our heads in the sand on pricing in the Locals market – 'I can't believe that this isn't having a negative impact on sales' . Also, dialogues on 'TWO FOR ONE' show uncertainty as to volume x value x prices vs. the longer term.

**Should Spirit focus on low-cost or differentiation?**

- I believe you can have both. ...Sainsbury's has got much better at the Value card – it's horses for courses, 'not either or' (low-cost or differentiation). Humble Locals and TWO FOR ONE need to pull a more balanced lever and play up and down the strategies. In the middle market i.e. Value Dining the balance is difficult, however the middle of the market is TESCO – they do both low-cost and differentiation (Finest, organic, non-food products). Aldi do price, but now adding some more quality cues, Waitrose are all about added value.

**What are your perceptions of the drivers of customer satisfaction in value sectors, generally?**

- See CSS< Mercer

**How were the questions established as to the measures of satisfaction?**

- The CSS has evolved over time, the question choice has been informed by (tacit) knowledge and basic questions, i.e. specifically on food and drink.
- We have recently taken out all measures of how well we deliver service and cleanliness – these are measured via the Mystery Shopper programme.

**What are do you think the levels of expectation are like in our value food pubs**

- This is not specifically measured, but the 7 point rating scale on satisfaction levels is broad enough, the top 2 (very and extremely satisfied) boxes would suggest that if we are hitting these, then we are meeting the customers' expectations by implication.

**What's your perception of how important price is within these factors ?**

- See Mercer's findings

<p><b>What competitive strategies are/might Spirit follow to grow share in the value market</b></p> <ul style="list-style-type: none"> <li>- to drive volume by having compelling value and production engineering</li> <li>- There is more work to do on the engineering e.g. a car manufacturer would build a production line to deliver....our kitchens are cobbled together with little consideration as to production flows.</li> <li>- Around the edges we need to do 'better stuff', e.g. premium lines on the menu....how to make Specials interesting and energising</li> </ul>
<p><b>How might Spirit deliver superior value to its customers ?</b></p> <ul style="list-style-type: none"> <li>- Service and people as a differentiator</li> <li>- Friendliness of our staff is not talked up enough</li> </ul> <p><b>What are the barriers to this?</b></p> <ul style="list-style-type: none"> <li>- <i>Systemised environments like Value Food makes dialling up the human side more difficult but it adds differentiation</i></li> <li>- <i>Its simple to manage, but difficult to deliver, easy to communicate (to the business)</i></li> </ul>
<p>On a scale of 1-10 how customer-led is Spirit as an organisation?</p> <p>6</p>
<p><b>Why do you say that ?</b></p> <ul style="list-style-type: none"> <li>- <i>a) the level of investment in Consumer Insight (£1million), b) there's a decent level of interest (of the operators and senior teams) in listening to the results</i></li> <li>- <i>BUT an ultra commitment organisation would invest even more in customer research, we spend a lot on monitoring compliance, 2/3rds of the budget is spent on this vs. 1/3 on customer research – the balance is wrong. Poor standards require heavy measurements</i></li> <li>- <i>Also there are limitations in our product portfolio e.g. drinks supply contractual barriers (cannot stock fastest growing cider brand 'Magners'). There is way too little commitment to people and training, the lack of amount and quality of input from HR and training is telling, I don't see a strong link to training</i></li> </ul> <p>They sacked the Service Director on the basis that 'service is everyone's job', a belief held by the new Retail Director. 'I disagree.</p>
<p><b>Other – discussion turned to latest survey by Empathica on customer visits to our pubs.....</b></p> <ul style="list-style-type: none"> <li>- Empathica have found that 1 in 7 people have to wait &gt;30 mins for food. This is a high risk of losing some customers, because it's a major cause of dissatisfaction,</li> <li>- 1 in 9 customers are new customers, a great opportunity to influence these.</li> </ul>

<b>Interviewee</b>	<b>Jeremy Hipkiss, Director of Marketing</b>
<i>Date and time</i>	<b>16.02.07 – 12:25</b>
<i>Duration of interview</i>	<b>35 mins</b>

***What is the nature of the life-cycle of the market when applied to pubs?***

Where are: I) eating out, ii) pubs, iii) the value sector, iv) 'TWO FOR ONE' in their lifecycles?

The last 10 years has seen astronomical growth, however over the last 3 years the market is maturing as it becomes saturated. Eating out is growing, but in other sectors. The market dynamics are the polarisation of quality and value.

In 241 this is an invested concept: capital + offer, with 3 years growth before maturing.

***Why does it reach this plateau?***

- I) Capacity constraint (the ability to get more people seated)
- II) Failure to generate new visits from marketing
- III) Individual sites – driven by competition, management capability and lack of investment

**What are the contributing factors concerning customer appeal, i.e. are customers just getting bored with it?**

*There's no evidence of the offer not meeting customer needs (CSS, Mercer) the offer continues to 'tick the boxes'. NB the pub market is not a national market – it's a local '10 mile radius' market. If you are first to market you can clean up; however over time factors impact on decline:*

- *Capacity*
- *Investment (lack of)*
- *Manager (capability)*
- *Marketing (spend to generate awareness)*

241 is a winning formula: low RSP x good quality food x straightforward pub environment

The strategy for 241 has been to be true to the core customer and demographics, but the danger over the long-term is that this demographic is on decline vs C1 and Bs in growth. This is not an issue as we only have 161 pubs in this market, with lots of scope for expansion...unlike Supermarkets and McDs who are having to re-position.

***How would you define a low-cost (price) strategy ?***

We are definitely a low cost producer: low capital spend, reduction in cost of goods and labour – we try to pass this all on to our customers – like the Budget airlines – strip out all unnecessary costs to deliver low prices.

***How well is Spirit delivering this ?***

Our value for money scores are very good, but our capital costs have risen...we've increased the investment spend in our pubs, not sure if that's right...I'm wondering whether we should spend less CAPEX and drive volume by stripping out costs so that it's self serve, hot buffet food, low prices..

***What does 'value' mean to the customer?***

It's a combination of Price x Quality x Service that exceeds expectations to a significant degree  
The limiting factor is customers' price elasticity – the absolute price people are prepared to pay. Price is more important for elastic customers ; quality and service for inelastic customers

***What are your perceptions of the drivers of customer satisfaction in value sectors, generally?***

Price, quality, cleanliness, safety and friendly service

***What are the drivers of dissatisfaction?***

Cleanliness and (poor/ unfriendly) service .

***What are do you think the levels of expectation are like in our value food pubs ?***

There is a different level of expectation especially service and product quality

***Why do you say that ?***

Intuitively and the differences in the quality vs value eating out market – where there are different service and quality expectations.

***What competitive strategies are/might Spirit follow to grow share in the value market ?***

To grow share by having the ability to deliver at peak time (capacity management), delivering friendly service and hygiene factors and through aggressive marketing.

<p><b>What is understood by the term ‘customer loyalty’</b></p> <p>Ultimately, its about converting a new prospect inot a customer for life – several stages:</p> <p>Introduction  Encourage regular use  Become an advocate  Evangelist – this is the Nirvana</p> <p>Increasing loyalty is via this journey; by delivering on the promise, consistently  Evangelists are more forgiving – they are so important.</p> <p><b>What strategies does Spirit adopt to drive loyalty?</b></p> <p>We focus on price, product quality (production and absolute), we invest in our pubs, we try to increase levels of service.  Do not adopt further strategies, tried IT solutions, costly, didn’t work...</p>
<p><b>How might Spirit deliver superior value to its customers ?</b></p> <p>To drive advocacy of offers – delivering above expectations of value.</p> <p><b>What are the barriers to this?</b></p> <ul style="list-style-type: none"> <li>- Our ability to recruit good managers</li> <li>- Our external (company) image</li> <li>- Potentially the reduction in scale</li> <li>Rise in cost of goods</li> </ul>
<p><b>On a scale of 1-10 how customer-led is Spirit as an organisation?</b></p> <p>5</p>
<p><b>Why do you say that ?</b></p> <p>We collect a lot of data and don’t act on it.  There’s a lot of statistical information not acted on quickly</p> <p><b>We don’t collect and take into account anecdotal manager and customer views</b></p> <p>Going forward I want to set up customer and manager focus groups every month. For us to listen and not to challenge. That in itself will raise the customer culture – just by asking what should we stop/start/continue.</p> <p>We need to bring the organisation along with us, change attitudes be open to criticism, less defensive...we’ve become too partisan and defensive, wedded to our ideas.</p>

## Research interview

<b>Interviewee</b>	<b>Kevin Hall , Group Marketing and Planning Manager</b>
<i>Date and time</i>	<b>31/01/07 9:55</b>
<i>Duration of interview</i>	<b>35 mins</b>

### ***What's your perception of how important price is within these factors ?***

Spirit thinks this is the no. 1 lever. In the value market such as 241 it's a key message and element of the offer, then to layer on offer elements. Price is not the only piece , service and environment play a key part too.

### ***What does 'value' mean to the customer?***

It's the combination of frequency x level of spend x advocacy = value of the customer to company

Customer lifetime value and annualised value, but this is not measured

Customer value is quality x value x service, but it's also about convenience, which depends on occasion and the experience the customer receives

### ***What is understood by the term 'customer loyalty'***

It's about tailoring and delivering your offer that most closely matches the customers' needs  
The mechanisms to deliver this are better understanding the customer and communicating and augmented the core offer, closely aligning it to their needs.

It's about 1:1 marketing; tailor made communications and finding economic ways of doing this, by identifying meaningful cohort groupings. Give each customer what they want and tailor as much as possible, but economically.

### ***What strategies does Spirit adopt to drive loyalty?***

In pubs, there is no EPOS customer database, therefore need to try to create information and needs, vs responding to them. It's just as relevant in pubs vs financial services, however in financial services data is more easily grouped and data captured; in pubs occasionality is more personal than the just a pure purchasing context.

In order to do it you needs meaningful data to capture interests as well as data.

We have no transactional data, requery, sph. In old Allied, when we invested in the technology we were able to group customers into high and low value. It was known as the loyalty ladder, ranging from high frequency and high value to infrequent and low value. You

also need to know purpose of visit and tailor comms (food, drink, accommodation).

### **Why is this no longer used in Spirit?**

It is very very cash hungry; compare Tesco's investment which is £millions. There is a point at which CRMM becomes an asset (selling of data to other companies and Tesco's recent investment in DunHumby, acquiring a controlling share and taking the technology to the States).

Spirit was Venture Capital backed, the company needs cashflow and to sweat its assets – the money was released and invested elsewhere. There was a finite revenue budget and resource was therefore cut on a pure cost (of tying up) vs benefit (short-term returns).

Cost of the CRM program Allied had was £1.2m p.a. in maintenance and contact costs, additionally the in-house resource, IT, software and helpdesk – another 200-300k pa.

### **What's the future ?**

We are investigating low-tech lower cost, more independent feel ways to do CRM. There's a lot of customer pushback against 'junk mail' and corporate schemes and their perceived value (airmiles, shell smart, Nectar; Tesco is probably the only one seen as giving good value). Reading the trade press, I wonder if LOYALTY and schemes are past their sell by dates. However, Tesco is flying in the face of this trend.

The challenge is the cost of the data capture at 14-21p per customer, when it's rolled up to 700+ pubs x number of customers per pub that's a HIGH cost . £300k to capture information is not seen as palatable by the company. We're looking at ways of minimising this cost, testing web portal systems that captures data, checks it and holds it all on the internet it's cheaper and less labour intensive and will cost us about only £100 per month; compared to the old Leisure Gold card scheme - used to cost us £8k per month just to hold the data, capture was on top.

We're also investigating e-relationships, e.g. Amazon who are brilliant at it; great tailored to me vs offers, now that's how to create loyalty and customer relationship ; it's not about discount and 'points' collecting.

### **How is Loyalty measured?**

I don't think we can , we could if we developed a low-tech way of measuring frequency. Loyalty measurement depends on what you can measure – we haven't got any schemes to do this and attribute to frequency and spend.

**What are the perceived drivers**

Advocacy, great service, value, quality and offer. But have to get fundamentals right first.

The customer communications need to be relevant giving reasons to visit and value add, for example wine tasting and diners club.

Loyalty is not a magic bullet – if the offer is broken.

***How do we / should we recover customers?***

. The old Leisure Gold Card we had in Allied helped to understand who these people were and we'd mail out to lapsed users. Now no global way of doing this. We cannot track defectors as it's not measured. Letters of complaint and compensation is measured – the only company report we have on this is the cost of complaints per month. The area managers and pub managers deal with it all at local level and it's costed onto the P&L – this is the wrong way round: how much it cost vs how it was resolved.

Winning customers back is important because they can become your best advocates

***What competitive strategies are/might Spirit follow to grow share in the value market ?***

It's about developing loyalty outside of price/ creating low-tech ways to reach customers. Looking at total experience rather than purely the functionality of price and home-meal replacement; it's also about socialising and entertainment.

A more independent feel to get closer to customer 'mine host' landlord feel, positioning the offer chain or local...

In order to do that we need to understand: who the customers are, what they want and how to communicate to those customers. We can also look at recovery strategies and disaffection and understand what we need to do to deliver more to the customer. The old Leisure Gold Card we had in Allied helped to understand who these people were and we'd mail out to lapsed users.

***How might Spirit deliver superior value to its customers ?***

Firstly, getting quality x value x service x experience right  
understand what customers want and needs and understand where we are doing it and not doing it

***On a scale of 1-10 how customer-led is Spirit as an organisation?***

6-7

***Why do you say that ?***

We talk to customers about our menus and offers, we panel, and look at pricing and elasticity , but we could be far more customer centric.

***How?***

We could do more structured panels. Allied used to have a monthly Gold Card panel / Operations Director forum where loyal customers met and feedback.

We could join up all customer information e.g. linking feedback into 1 pot of information, to do this we'd need a very strong data warehouse

Do differently – research up front based on feedback

The challenge is do we believe then if it's not what we want to hear , especially our operators where they chose the food at menu presentations, not our customers . Sometimes there is selective hearing...

<b>Interviewee</b>	<b>Martyn Drake, Director of Strategy</b>
<i>Date and time</i>	<b>08/02/07 – 09:45</b>
<i>Duration of interview</i>	<b>10:30</b>

***What is the nature of the life-cycle of the market when applied to pubs?***

Where are: i) eating out, ii) pubs, iii) the value sector, iv) 'TWO FOR ONE' in their lifecycles?

At market level, it's less about lifecycle as such – it's linked to economic lifecycle. At present the market is buoyant even though there is contradictory market stats. Spirit is flying in the Value pub food sector and competition is piling in.

Whether the market is in flat or modest growth is slightly irrelevant, because its about mopping up and taking share; there are huge swathes of geography. Take our catchment of 3-5 miles radius, well the UK is 1000 miles by 300 miles big – that's 300,000 square miles to go at – we have only 1000 sq miles of this !

***What about TNS vs Mintel market reports?***

Intuitively, Mintel appears more accurate – the market still has legs

Look at budget hotels – also competing in the medium ground...

The Grocers market is now very consolidated, but still growing food sales – they are doing it through trade-ups: bigger packs. Terry Levy (Tesco) comments about their 30% share in terms of 'there's still 70% to go at'

***What about the lifecycle of 241 ?***

We know there are 2 lifecycles: the average estate lifecycle and an ideal lifecycle...this is the real underlying trend; e.g. The Storeyteller is still in double digit growth after 6 years of year on year growth; it's because its been looked after and has a great manager.

241s wear out quickly, 2 years ago (before we were owned by plc) the strategy was sale or IPO (Independent Public Offering – floatation on stock market)... this meant we weren't in it for the long-term, we didn't continue to invest. Some investments didn't work they were off-loaded, some were 'knackered' or the 241 offer simply didn't work in that location – this produced a false desktop lifecycle which produced the strategy of convert-invest-divest. Now we have a new estate, we don't have such a tired lifecycle as once thought. This will yield us 5-10% year on year growth as long as we get the basics right: market demand ; investment in the environment and volume food operators to run it.

***Are there any further contributing factors to maturity and decline?***

It's sometimes said we're 'at capacity' – however, the right manager can continue to grow the business through efficiency. The other reason sometimes quoted is cannibalisation of sites in proximity – this is less of an issue where there is no presence of alternative sites.

***What does 'value' mean to the customer?***

Tesco is a great model, as are Walmart...the key is to be true to your own values. Every company reaches expansion constraints; when geographic expansion is finished then you come up against the lifecycle (maturity / decline). Tesco is driving its trade – rather than slugging out hard on price, they have found a level with their competitors. Pub food is still very fragmented, many local independents trading 2 for £x – it will settle out in 2-3 years through industry consolidation to give a national average.

Value is still the tag for the grocers and it is an understood proposition; differentiation is achieved through quality without adding price.

Current trend is now GREEN ; the Grocers are seeking PR out of being the first to meet legislation trends. There is probably a long way to go yet before this is critical at our level – need to wait until market saturation. Maybe we'll need to consider having a carbon neutral footprint pub by 2012...

***How would you define a low-cost (price) strategy ?***

Spirit is not actively pursuing this at the moment, because of the organisational (ownership) changes.

WE lost scale with the disposals, which has not helped out competitive advantage with low cost. To continue the value proposition we'd need to get back to this as it's a big competitive advantage. However the market is still fragmented, consider the scale of WDB and SPC – still only at 100-200 sites; we're probably still the second biggest player.

It's about building a pipeline for acquisition to get us back to scale

***What are your perceptions of the drivers of customer satisfaction in value sectors, generally?***

I buy into the Advocacy driver findings in order. I also believe that advocacy is a better indicator for growth than satisfaction.

We need to be better at delivering on certain aspects.

Where does value sit in this?

Value / price is THE biggest driver of footfall, however word of mouth drives growth based on quality, service and environment.

The importance of the drivers differs whether you look at satisfaction or advocacy

What we do know is that the drivers of the drivers (Quality, service, environment) depends on great managers, people, convenience and level of on-going investment.

***What are do you think the levels of expectation are like in our value food pubs***

Perceptions are shaped by their other experiences – it's a competitive environment. Quality food establishments drives inherent expectations. Price + environment relationship benchmark is set by the competitive set.

***What's your perception of how important price is within these factors ?***

It is the biggest short-term lever for driving growth

***What is understood by the term 'customer loyalty'***

It's the next level on - getting a repeat visit vs just one hit driven from price.

Loyalty is the number of times a customer visits / their visit occasions.

Two levels – loyalty schemes drive loyalty e.g. Boots Advantage card, Tesco clubcard, but intuitively what drives loyalty itself – it's about the advocacy rankings vs satisfaction.

***What strategies does Spirit adopt to drive loyalty?***

We've targeted Diamond Club, targeting greys, their loyalty is quite reliable. But take Boots Vitamins as a case study...2 groups of customers: posh junkies vs those needed to take them for medical reasons. The former buys on impulse and can be target marketing to through offers, the latter buy on established reputation, it's a hygiene purchase, they won't stock up and therefore targeting offers at them doesn't return.

This shows that some customers are valuable than others and that it depends on the market.

***What competitive strategies are/might Spirit follow to grow share in the value market ?***

- Volume has to be king
- The value proposition has to be bang on – often we're commercially focused vs customer

focused (e.g. 241 deal mechanics are in favour of company vs customer); its too much of a grey area, the company needs to make a cabinet decision on this and stick to it

- The drivers of advocacy need to follow the value proposition

The value market has huge market share opportunity and there's scope for scale opportunities, it will fly for a number of years. Profit and turnover generation is a great opportunity , I see it lasting for 5 years at least.

***On a scale of 1-10 how customer-led is Spirit as an organisation?***

6-7

**Why do you say that ?**

Our strategies and concept design are built on customer insight.

However certain business nuances are historically based on the venture capital backed organisation, very commercially –led to the point of not being supportive of the customer.

Certain trade-offs still exist such as spending money on repairs and having no salads on the Chef & Brewer menu ! There are certain things we're not doing right.

There's definitely more to go at; our heart's in the right place. We're coming off a low base from a VC company which was overtly going for exit strategy therefore profit maximisation, over the long-term advocacy can become an empty phrase if not acted upon

## Appendix 2: Spirit Customer Satisfaction Survey questionnaire

INTERVIEWER'S NAME

CHECK QUOTA THEN START ON PAGE 2 INTERVIEWER'S NUMBER

QA Chapter 8 name of pub

QF

RESPONDENT'S NAME

\_\_\_\_\_

CURRENT ADDRESS

INTERVIEW DATE AND DAY:

\_\_\_\_\_

START TIME (INC AM/PM)

INTERVIEW LENGTH: \_\_\_\_\_

POSTCODE: (IN FULL)

TELEPHONE NUMBER (INC CODE):

**ask qb, Qc, qd, Qe1, qe2 & QF at the end of survey**

QB Please tell me the occupation of the **chief income earner** in your household

E-MAIL ADDRESS:

\_\_\_\_\_

Rank/ Training/ Qualifications – details:

c115

### Chapter 9

Chapter 10 Office use only

\_\_\_\_\_ AB 1  
 \_\_\_\_\_ C1 2  
 \_\_\_\_\_ C2 3  
 \_\_\_\_\_ DE 4

POSTCODE:

c7\119

QC WORKING STATUS OF RESPONDENT:

c116

full time..... 1  
 part time..... 2  
 not working..... 3  
 student..... 4  
 retired..... 5

Unit no

Date (dd/mm/yy)

Day (1=Mon, 7=Sun)..

Session (X=lunch, 0=evening).....

Interview length.....

Brand: \_\_\_\_\_

QE SEX:

1 c118

male..... 1  
 female..... 2

QE Are you a regular smoker, a social smoker or a non-smoker?

2

Regular..... 7  
 Social..... 8  
 Non-Smoker..... 9

Hello my name is ..... from Surveyplan, can you spare a few minutes to answer some questions about this pub? The pub owners are focusing on how they can improve this pub for their customers. The survey should only take 6-8 minutes.

Q1a	How often do you visit this pub? <i>SHOW CARD A</i>	c147 Every day/evening.. 1 4-6 times a week.....2 2-3 times a week.....3 about once a week.....4 about once a fortnight.....5 about once a month.....6 every 2-3 months.....7 less often.....8 first time today.....9 *
<b>* IF 'FIRST TIME TODAY' AT Q1a – CHECK QUOTA</b>		
Q1b	Have you eaten in this pub today? <i>please check on quota sheet</i>	c148 yes.....1 no.. 2
Q2a	<b>Do you drink wine in this pub?</b>	c149 yes.....1 ASK no.. 2 <i>SKIP TO Q3a</i>
Q2b	How satisfied are you with the range of wine this pub sells? <i>SHOW CARD B</i>	c150 extremely satisfied.....1 very satisfied.....2 fairly satisfied.....3 neither satisfied nor dissatisfied.....4 rather dissatisfied.....5 very dissatisfied.....6 extremely dissatisfied.....7
Q3a	<b>Do you drink beer in this pub?</b>	c151 yes.....1 ASK no.. 2 <i>SKIP TO Q3d</i>
Q3b	How satisfied are you with the range of beer this pub sells? <i>SHOW CARD B</i>	c152 extremely satisfied.....1 very satisfied.....2 fairly satisfied.....3 neither satisfied nor dissatisfied.....4 rather dissatisfied.....5 very dissatisfied.....6 extremely dissatisfied.....7
Q3c	And how satisfied are you with the quality of the beer served? <i>SHOW CARD B</i>	c153 extremely satisfied.....1 very satisfied.....2 fairly satisfied.....3 neither satisfied nor dissatisfied.....4 rather dissatisfied.....5 very dissatisfied.....6 extremely dissatisfied.....7

**ASK ALL**

Thinking about the drinks this pub sells, how satisfied are you with the following:

SHOW CARD B

READ ALL STATEMENTS.  
TICK START.

1 extremely satisfied	2 very satisfied	3 fairly satisfied	4 neither satisfied nor dissatisfied	5 rather dissatisfied	6 very dissatisfied	7 extremely dissatisfied
-----------------------------	------------------------	--------------------------	---	-----------------------------	---------------------------	--------------------------------

Are there some improvements you would like to see made to the range of drinks this pub sells?

**PROBE FULLY, PARTICULARLY FOR COMMENTS ON WINE, SOFT DRINKS, BEER AND SPIRITS**

.....

.....

Comparing this pub against others of the same type, how would you rate this pub in terms of :-

SHOW CARD C

	Better than others	About the same	Not as good as others
Range of drinks.....c164	1	2	3
Quality of beer.....c165	1	2	3
General level of prices.....c166	1	2	3

REFER TO Q1b – IF YES ASK Q4a-Q4d

ASK PEOPLE WHO EAT IN THE PUB. IF FOOD NOT EATEN IN THE PUB SKIP TO Q5a

Q4a Thinking about your meal today, how satisfied are you with the following:

SHOW CARD D

READ ALL STATEMENTS.  
TICK START.

1 extremely satisfied	2 very satisfied	3 fairly satisfied	4 neither satisfied nor dissatisfied	5 rather dissatisfied	6 very dissatisfied	7 extremely dissatisfied
-----------------------------	------------------------	--------------------------	--	-----------------------------	---------------------------	--------------------------------

- The choice of food 1.....2.....3.....4.....5.....6.....7
- The presentation of the food... 1.....2.....3.....4.....5.....6.....7
- The portion sizes... 1.....2.....3.....4.....5.....6.....7
- The general level of prices 1.....2.....3.....4.....5.....6.....7
- The quality of the food..... 1.....2.....3.....4.....5.....6.....7

Q4b Why are you ..... (READ OUT ANSWER FROM c171 AT Q4a) with 'the quality of food'? *PROBE FULLY, ASK: "What else?" PROBE FULLY*

.....  
 .....  
 .....

Q4c Are there some improvements you would like to see made to the range of food this pub sells?  
***PROBE FULLY, PARTICULARLY FOR COMMENTS ON STARTERS, MAIN COURSES AND DESSERTS***

.....  
 .....  
 .....

Q4d Comparing this pub against others of the same type, how would you rate this pub in terms of :-  
*SHOW CARD E*

Better than others	About the same	Not as good as others
--------------------	----------------	-----------------------

Choice of food..... c215	1.....	2.....	3.....
Presentation of food..... c216	1.....	2.....	3.....
Portion size..... c217	1.....	2.....	3.....
Food quality..... c218	1.....	2.....	3.....
Food prices..... c219	1.....	2.....	3.....

Q5a Would you recommend this pub to a friend?  
*SHOW CARD F*

c220	
extremely likely..	1
very likely..	2
fairly likely.....	3
neither likely nor unlikely.....	4
rather unlikely.....	5
very unlikely.....	6
extremely unlikely..	7

Q5b Is there any particular reason why you say you would be..... (READ OUT ANSWER FROM Q5a) to recommend this pub to a friend?  
*PROBE FULLY*

.....  
 .....

Q6 Overall how satisfied/ dissatisfied are you with your experience in this pub today?  
*SHOW CARD G*

c229	
extremely satisfied.....	1
very satisfied.....	2
fairly satisfied.....	3
neither satisfied nor dissatisfied.....	4
rather dissatisfied.....	5
very dissatisfied.....	6
extremely dissatisfied.....	7
not applicable.....	8

**ASK ALL**

Q7 How would you rate this pub in terms of its overall value for money?  
*SHOW CARD H*

c230  
 excellent value for money..... 1  
 very good value for money..... 2  
 fairly good value for money..... 3  
 neither good nor poor value for money..... 4  
 rather poor value for money..... 5  
 very poor value for money..... 6  
 extremely poor value for money..... 7

Q8 How strongly do you agree/ disagree with the following?  
*SHOW CARD I*

*READ ALL STATEMENTS.  
 ROTATE ORDER. TICK START.*

1	2	3	4	5	6	7
agree strongly	agree	slightly agree	indifferent	slightly disagree	disagree	disagree strongly

This pub has an appealing exterior.....c231 ..... 1 ..... 2 ..... 3 ..... 4 ..... 5 .....

This pub is comfortable inside.....c232 ..... 1 ..... 2 ..... 3 ..... 4 ..... 5 .....

This is the best pub of its type in the area.....c233 ..... 1 ..... 2 ..... 3 ..... 4 ..... 5 .....

I visit this pub because there is always something going on (*LOCALS ONLY*).....c234 ..... 1 ..... 2 ..... 3 ..... 4 ..... 5 .....

Q9 Why did you say that you agreed/disagreed ..... (*READ OUT ANSWER FROM c233 AT Q8*) that this pub is the best type in the area?  
*PROBE FULLY*

.....  
 .....  
 .....

Q10 What could this pub do better in relation to its customer service to make your visit more enjoyable?  
*PROBE FULLY.*

.....  
 .....

Q11 **We may need to contact you again to ask your opinions. Would you be willing to be re-interviewed at a later date?**

c280  
 yes..... 1  
 no.. 2

*OFFICE USE ONLY:*

c280  
 Telephone Number..... X  
 E-mail address..... 0

### Appendix 3: 'Now to Wow' mystery shopper questionnaire

Overall Experience	
1 Please provide an overall comment concerning aspects of the service received, based on the areas of measurement covered in the questionnaire. Please try to be as objective as possible. The aim should be to provide any information which will help the House Manager to understand and use the report. Please make sure that none of the information entered contradicts the rest of the report.	
Friendly	
2 Upon your arrival at the bar/your table when ordering your drink did the staff member acknowledge and serve you in a friendly manner (eye contact and smile)?	
Yes	5
No	0
3 Upon your arrival at the bar/your table when ordering your drink did the staff member seem pleased to see and serve you (as opposed to going through the motions)?	
Yes	5
No	0
4 Upon your arrival at the bar/your table when ordering your food did the staff member acknowledge and serve you in a friendly manner (eye contact and smile)?	
Yes	5
No	0
N/A - Did not eat	n/a
5 Upon your arrival at the bar/your table when ordering your food did the staff member seem pleased to see and serve you (as opposed to going through the motions)?	
Yes	5
No	0
N/A - Did not eat	n/a
6 When leaving the pub, did a member of staff give you a friendly, verbal farewell? Please answer N/A if pub/restaurant was too busy and it was difficult for staff to see customers leave. Please do not include door staff.	
Yes	2
No	0
N/A - staff busy	n/a
7 Did the staff member thank you for your drinks order?	
Yes	2
No	0
8 Did the staff member thank you for your food order when paying for your meal?	
Yes	3
No	0
N/A - did not eat	n/a
Efficiency	
9 Go immediately into the bar area and order a drink. Use the timebands to record the length of time it took for you to be served at the bar	
within 30 seconds	3
31 seconds to 2 minutes - but received acknowledgement prior to being served and apology when served	3
31 seconds to 2 minutes - but received acknowledgement prior to being served	2
31 seconds to 2 minutes - but received apology when served	2
31 seconds to 2 minutes	1
Over 2 minutes - but received acknowledgement prior to being served and apology when served	2
Over 2 minutes - but received acknowledgement prior to being served	1
Over 2 minutes - but received apology when served	1
Over 2 minutes	0
10 If you had to queue to be served at the bar, were you served in turn? Please answer N/A if you did not have to queue	

11 Did the staff member who served you offer you a choice of drinks and/or recommend a product/particular promotion (eg discount spirit double OR choice of beers etc)	
Yes	2
No	0
12 If ordering food at the bar/food ordering point, use the timebands to record the length of time it took for you to be served at the bar for food.	
Within 30 seconds	3
31 seconds to 2 minutes - but received acknowledgement prior to being served and apology when served	3
31 seconds to 2 minutes - but received apology when served	2
31 seconds to 2 minutes - but received acknowledgement prior to being served	2
31 seconds to 2 minutes	1
Over 2 minutes - but received acknowledgement prior to being served and apology when served	2
Over 2 minutes - but received acknowledgement prior to being served	1
Over 2 minutes - but received apology when served	1
Over 2 minutes	0
N/A - did not eat / did not order at bar	n/a
13 If you ordered food at your table, how long from being seated until a staff member arrived to take your food order?	
Immediately	3
Under 3 minutes	3
3 - 5 minutes	3
Over 5 minutes	-2
N/A - did not order at table	n/a
14 How long did it take for your main meal to be served? (time should exclude time taken for starters, and should start when finishing your starters where applicable)	
0 - 20 minutes	5
20 minutes 1 second to 25 minutes - but you were advised of a likely wait and apologies given	5
20 minutes 1 second to 25 minutes - but you were advised of a likely wait	3
20 minutes 1 second to 25 minutes - but apologies given	4
20 minutes 1 second to 25 minutes	2
25 minutes 1 second to 30 minutes - but you were advised of a likely wait and apologies given	3
25 minutes 1 second to 30 minutes - but you were advised of a likely wait	1
25 minutes 1 second to 30 minutes - but apologies given	2
25 minutes 1 second to 30 minutes	0
Over 30 minutes - but you were advised of a likely wait and apologies given	-2
Over 30 minutes - but you were advised of a likely wait	-4
Over 30 minutes - but apologies given	-3
Over 30 minutes	-5
N/A - did not eat	n/a
15 Please record the exact time it took for your meal to be served (in minutes and seconds)	
It took 8 minutes 22 seconds	
<b>Positive Attitude</b>	
16 Did the member of staff ask if you wanted another drink at ANYTIME throughout your meal including when you had finished your meal and your plates were being cleared away? Please answer N/A if you did not finish your drink during your meal	
Yes	n/a
No	n/a
N/A - did not finish / did not eat	n/a

17 Did staff make a satisfaction check-back at any time during the meal or at the end when your plates were cleared?	
Yes member of staff seemed concerned that everything was ok/we did enjoy our meal	4
Yes checkback done but member of staff was just going through the motions	2
no	0
N/A - did not eat	n/a
18 After your meal, did the member of staff ask if you would like anything else?(desserts, coffees)	
Yes	2
No	0
N/A - did not eat	n/a
19 Did you have cause to complain to a staff member during your visit (e.g. cold food, dirty glasses etc)? If yes, please explain what your complaint was about. DO NOT UNDER ANY CIRCUMSTANCES MENTION THAT YOU ARE A MYSTERY SHOPPER	
Yes - complaint was well handled	0
Yes - but complaint was NOT well handled	-5
No cause to complain	0
20 Did you see any member of staff smoking behind the bar/bar hatch or in the pub, if not on a break, including door staff? If yes, please provide a detailed description.	
Yes, behind the bar or in bar hatch	-10
Yes, in the bar/restaurant area	-10
Yes, elsewhere in the pub	-10
Yes, door staff smoking	-10
Yes, but staff member was on a break	0
No staff smoking	0
<b>Knowledgable</b>	
21 When you ordered your food, did the staff member ask if you would like any side orders/additional items or recommended a particular dish (if you asked) or promoted specials? Please score n/a if dish you ordered would not have side orders or you did not ask for a recommendation. Please provide as much detail as possible regarding what was said to you	
Yes	3
No	0
N/A - no side orders/recommendation expected/food not ordered	n/a
22 Please ask an appropriate question about your food/drink order. Was the member of staff you asked able to answer your question? Please comment on exactly what question you asked and what reply was given	
Yes	2
No, but they asked someone else, who was able to answer	1
No, but they did ask someone else, who was also unable to answer	0
No	0
<b>Available</b>	
23 Was the pub/bar serving food at the time of your visit? If no, please comment	
Pub was serving food	n/a
Pub does not serve food – visited outside of food times	n/a
Food not available due to a problem with kitchen	-15
Food unavailable due to staff shortages	-15
Other – please explain	-15
No explanation given	-15
24 Were your chosen FOOD and DRINK menu items available?(If a Drink Only Visit please answer in relation to Drink Products), if no please state which product was not available	
Yes	2
No - but alternatives were suggested	-1
No	-2

Looks Good	
25	Were all your plates and cutlery clean? If no, please comment
	Yes 2
	No -3
	N/A - did not eat n/a
26	Once received, was your meal well presented and as per the menu description? Please comment
	Yes 5
	No -2
	N/A - did not eat n/a
Tastes Great	
27	Was your drink served to the specified standard (e.g correct taste, measure, temperature, glass etc)?
	Yes 5
	No, glass not clean 0
	No, white wine not chilled 0
	No, foreign body in drink 0
	No, beer flat/cloudy/no head 0
	No, no ice/fruit in spirit and mixer 0
	No, beer not cold enough 0
	Other - please specify 0
28	Was your food served at an acceptable temperature? If no, please comment
	Yes 5
	No -2
	N/A - did not eat n/a
29	Was your meal cooked properly (eg vegetables/meat under/overcooked or salad not fresh)? If no, please comment
	Yes 5
	No -2
	N/A - did not eat n/a
Outside	
30	Was the exterior/entrance to the pub clean and tidy (e.g free from litter/broken glass)? If no, please comment
	Yes 2
	No 0
31	Did the exterior/entrance of the pub have hanging baskets in good order? If no, please comment
	Yes 2
	No 0
	N/A - eg wrong time of year / no hanging baskets n/a
32	Did the pub have clean paintwork? Please answer No if paint is dirty
	Yes 2
	No 0
33	Was the pub beer garden well kept (eg free from litter and weeds in flowerbeds)? Please answer N/A if no beer garden
	Yes 2
	No 0
	N/A - no beer garden n/a
34	Were all external tables clean, free from glasses and litter? Please answer N/A if there were no tables
	Yes 2
	No 0
	N/A - no tables n/a
35	Was the outdoor play area free from litter and well maintained? Please answer N/A if no play area
	Yes 2
	No 0
	N/A - no play area n/a
36	Was the car park free from litter/moss and weeds? Please answer N/A if no car park or the pub shares the car park with another location
	Yes 2
	No 0
	N/A - no car park n/a
37	Was the car park of the pub well lit? Please answer N/A if visit was during daylight or there is no car park or the pub shares the car park with another location
	Yes 2
	No 0
	N/A - no car park / shared car park / visited during daylight n/a

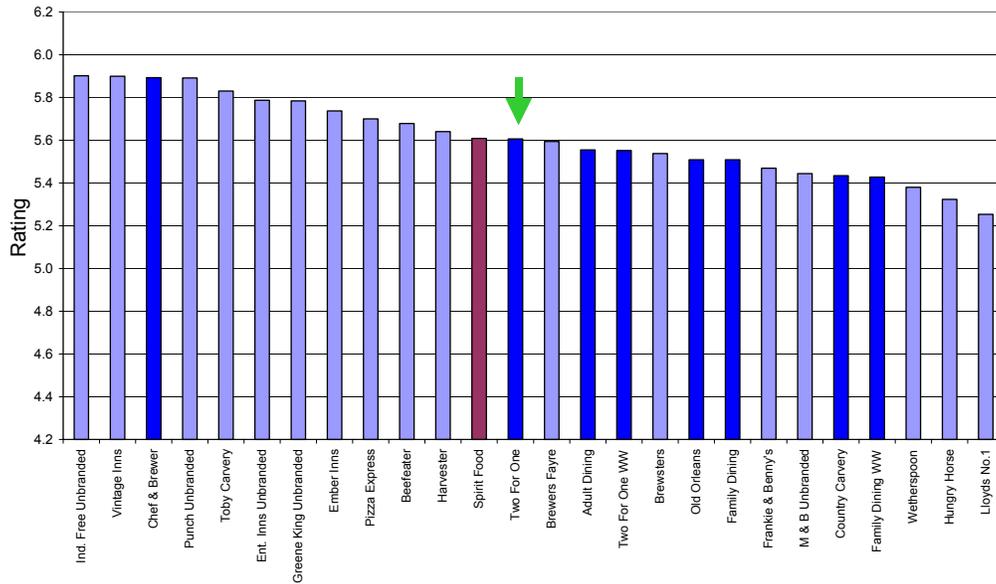
In The Pub	
Were the menus in good condition eg clean and not torn/bent/stained? Please answer N/A if menus displayed on chalkboards	
Yes	2
No	-2
N/A - chalkboards	n/a
Were the condiments clean and well stocked?	
Yes	2
No	0
N/A - did not eat	n/a
How long after you had finished your main course were your plates cleared away?	
Immediately	2
Within 3 minutes	2
3 minutes - 5 minutes	1
Over 5 minutes	0
N/A - did not eat	n/a
Were the following bar areas clean and tidy? (please check ALL that apply)	
Surface/top - Not sticky/wet, not too many empty glasses (1 or 2 is acceptable)	2
Back area - No piles of paperwork/rubbish/cleaning fluids on display	2
Neither	0
Was the interior of the pub clean and tidy (eg free from litter on floor, full ashtrays/ dirty glasses and plates on tables)? If no, please comment	
Yes	5
No - but staff were clearing the areas within 5 minutes	3
No	0
Toilets	
Which toilet did you visit?	
Male	n/a
Female	n/a
Based on your most satisfactory visit to the toilets, were the toilets: Please select all that apply and score the cubicle you are in.	
Clean and fresh	n/a
Well stocked with toilet paper	n/a
Well stocked with soap	n/a
Equipped with towels/functioning hand dryers?	n/a
Equipped with doors in working order? (locks)	n/a
Equipped with feminine hygiene facilities <i>(female only, if you the male toilets please tick)</i>	n/a
Hand basins and toilet free from blockage?	n/a
Free from water and litter?	n/a
Was the flush working properly?	n/a
If fitted, were toilet seats attached?	n/a
Based on your most satisfactory visit to the toilets, please rate the level of cleanliness from the list below.	
Very good - answered yes to all clean checkboxes	5
Okay - left one clean checkbox unticked	0
Below average - left two clean checkboxes unticked	-3
Bad - left three or more clean checkboxes unticked	-5
Atmosphere	
Please state below what promotions/messages (banners/chalkboards) were on display outside of the pub.	
Were there any external messages about food being served and the times it is available? Were all the posters including the sports posters up to date? Please be as detailed as possible eg how many were there, 2 meals for a £5 A Board standing outside the pub, discounts offered on drinks, were they clean/ledgible?	
Was the temperature in the pub comfortable? If no, please comment	
Yes	2
No	0

48 How did the pub smell? If strong smell, please give details (eg stale/kitchen etc)		
Fresh / Pleasant		2
Not Discernable		2
Slightly Unpleasant		0
Strongly Unpleasant		0
Too Smoky		0
49 With regards level of smoke in location: If there is a non smoking area, please answer this question relating to this area		
Level of smoke was acceptable		n/a
People were smoking at, or within a couple feet of, the bar		n/a
There were signs saying no smoking at the bar		n/a
There was a clearly signed non smoking area		n/a
You are a regular/social smoker		n/a
All above statements are false		n/a
<b>Detail of Visit</b>		
50 Please state whether you would be likely to return to this pub? If no, please state your reasons why		
Yes		n/a
No		n/a
51 Based solely on your experience today, would you assess the staff who served you as providing the following service? If neither, please state why		
Both Friendly and Professional		n/a
Just Friendly		n/a
Just Professional		n/a
Neither Friendly or Professional		n/a
52 What name was displayed as licensee outside of location? Example: Simon Rogers		
53 Please comment on the general level of trade in the pub/bar/restaurant?		
Empty - No customers		n/a
Quiet - Less than a quarter full		n/a
Average - About half full		n/a
Busy - Three quarters full		n/a
Full		n/a
54 Please provide a name and description of bar staff member who served you - name, gender, age, height, hair length, colour and glasses. Please avoid personal remarks		
55 Name/description of food server - name, gender, age, height, hair length, colour and glasses. Please avoid personal remarks		
56 What did you personally drink on this visit? PLEASE DETAIL ACTUAL BRAND/TYPE OF DRINK PURCHASED		
57 Please list food purchased		
58 Did any member of staff particularly stand out in terms of delivering outstanding/exceptional service? Please provide as much detail as possible. Staff members who have delivered outstanding/exceptional service will be considered for a 'WOW' factor (Great Service) reward.		
Yes		n/a
No		n/a
59 Would you recommend this pub to a friend? Please comment		
Extremely likely		n/a
Very likely		n/a
Fairly likely		n/a
Neither likely nor unlikely		n/a

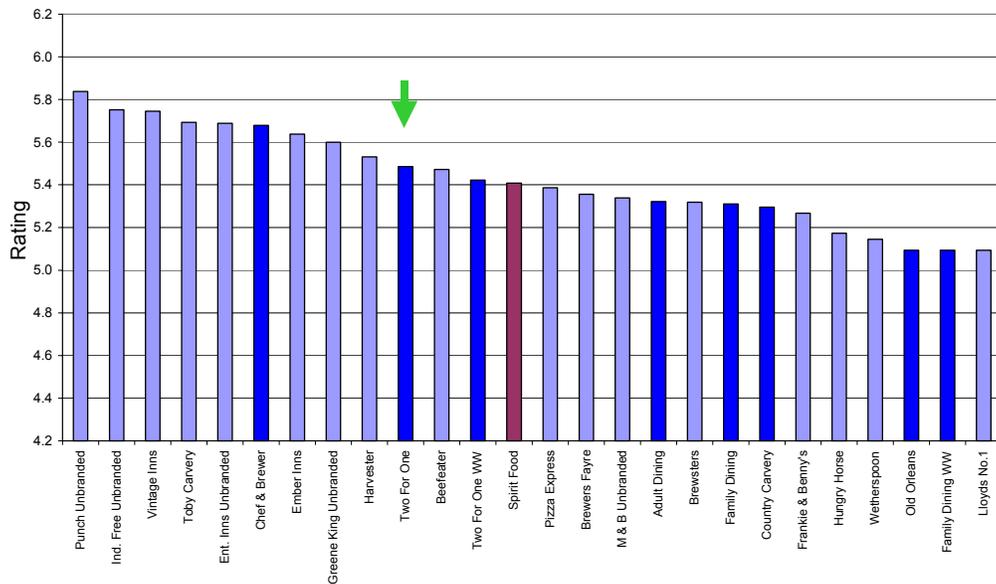
Rather unlikely	n/a
Very unlikely	n/a
Extremely unlikely	n/a

## Appendix 4: Mercer Survey – summary results

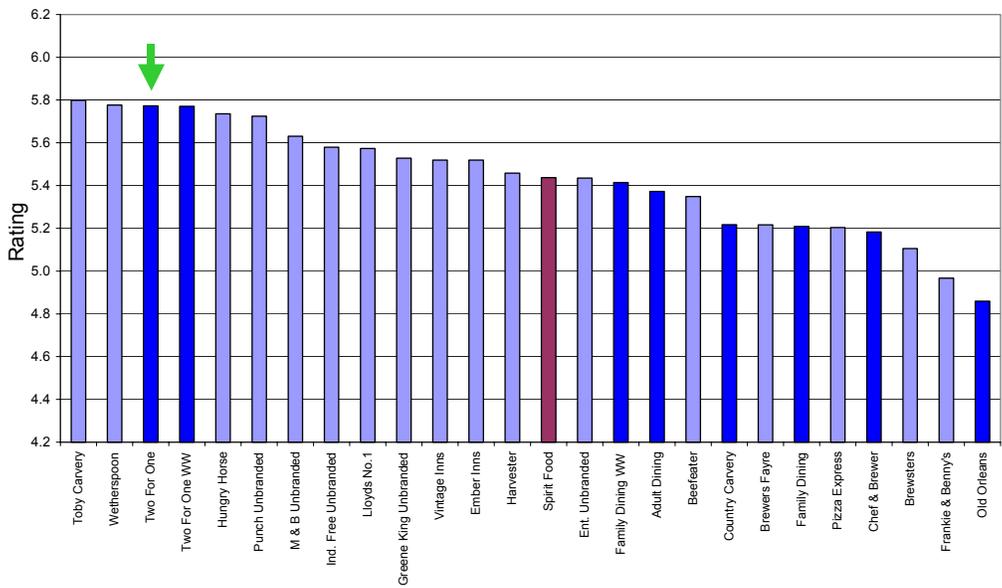
### Friendliness concept league



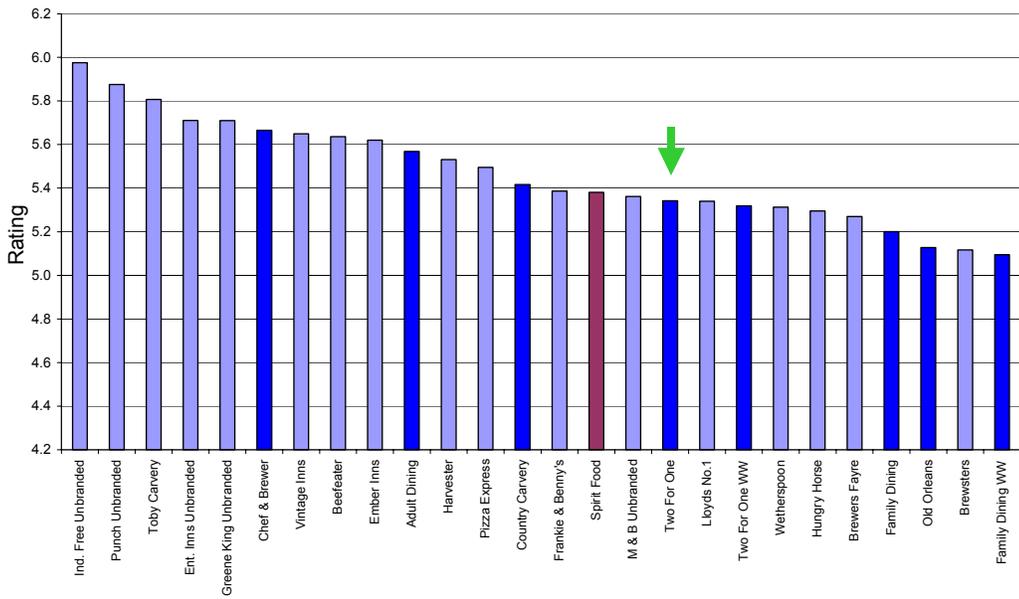
### Efficiency concept league



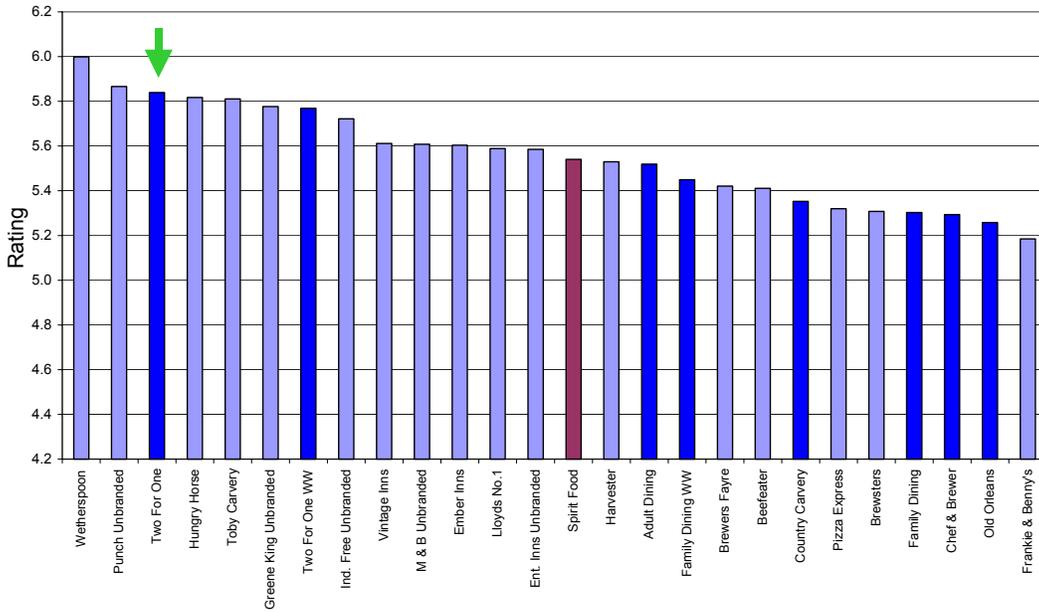
## Food Price concept league



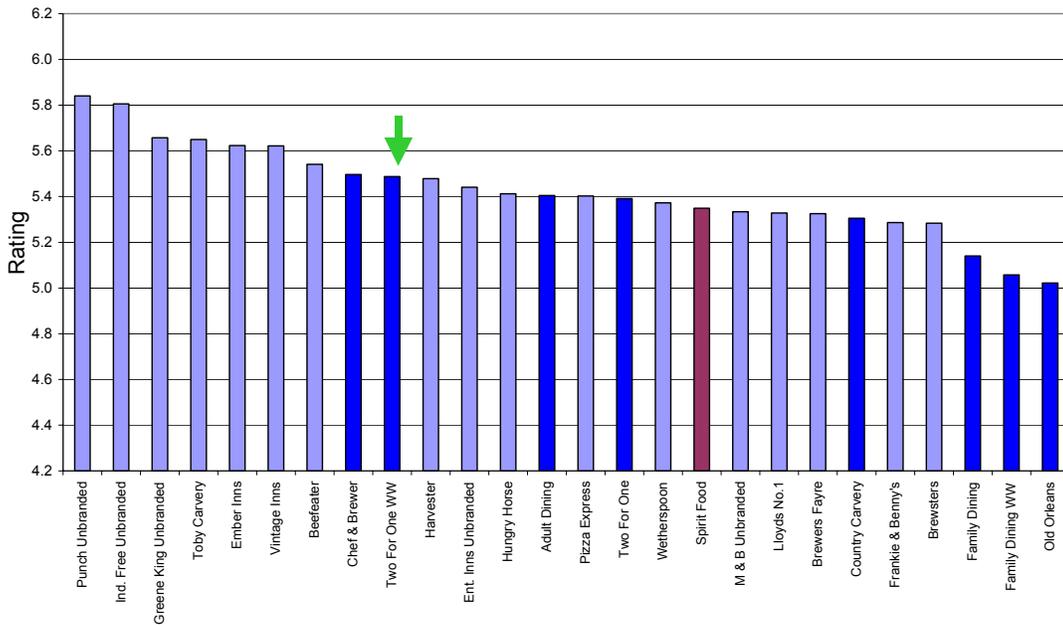
## Food Quality concept league



## Good Value concept league



## Satisfaction concept league



## Advocacy concept league

