The Analysis on the Influence of Customer Satisfaction and Promotional Activities on Consumer Loyalty

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ABSTRACT

Customer loyalty has always been one of the critical factors for brands to stand out in the field. This study investigates the correlation of customer satisfaction on customer loyalty and seeks the relationship between diverse promotional activities and customer loyalty. The research was conducted in China, and the analysis unit was customers of Luckin Coffee. According to previous research on promotional activities and customer loyalty, this study further examined the relationship between these two variables by adding specific and diverse types of promotional activity as secondary independent variables. Quantitative analysis was used based on 226 valid web-based surveys conducted with randomly selected customers of Luckin Coffee. Then factor analysis was used to integrate sample data, followed by Pearson correlation and linear regression to analyze the integrated data. This study concludes a positive relationship between customer satisfaction and customer loyalty. Promotions also positively impact customer loyalty, and customer satisfaction plays a mediating role among them. For practical implications, this study indicates that it is significant for Luckin Coffee to improve customer satisfaction and enhance promotional activities to increase customer loyalty for future success. For social implications, the conclusion drawn by this study could provide helpful information for similar businesses and related industries.

Keywords: customer loyalty, customer satisfaction, promotional activities, Luckin Coffee

1. INTRODUCTION

1.1. Background

In recent years, the demand of Chinese people for coffee has been increasing, which has resulted in the continuous expansion of the coffee market. Luckin Coffee is the leading enterprise in the Chinese local coffee market. Although it currently occupies a vast coffee market share, it should be cautious of increasing competitors. Luckin needs to think about improving customer loyalty in the future, which is also the topic and motivation of this paper.

In 2020, under the influence of stock market turmoil and coronavirus, Luckin Coffee fell into a shortage of funds. According to Luckin's 2020 annual report, the number of stores has decreased from 4,507 in 2019 to 3,898 in 2020, by 609 in total [1]. And its coupon subsidies to consumers decreased significantly, resulting

in a decline in consumer satisfaction and repurchase rate. Affected by the financial fraud scandal, Luckin's US shares plunged 85% before trading and finally withdrew from NASDAQ. Luckin's financial report in 2020 also shows that its loss reached 5.603 billion yuan in 2020 [1]. The scandal has brought not only great trouble to Luckin, but also exposed many problems of Luckin. Its marketing strategy lacks diversity and is highly dependent on coupons. Once the issuance of coupons is stopped, customers will not consume in Luckin, resulting in the decline of profits and low repurchase rate. On the other hand, customer satisfaction also affects customer loyalty to a great extent. Many customers have negative emotions towards the store because the store's delivery is not timely or the product quality is poor. If they are not satisfied with the store's service, they will not choose it next time. Therefore, Luckin needs to build customer loyalty by developing more diverse promotional activities and ensuring customer satisfaction.

1.2. Research Gap

Deng showed the research on Luckin Coffee's social media marketing strategy based on SICAS Model. Deng analyzed Luckin Coffee's social media marketing mode and gave corresponding development suggestions from marketing, combined with consumer behavior theory and the SICAS model [2]. Deng's article provides Luckin with novel views on social media marketing, but few related references only discussed Luckin's marketing means from the perspective of social media. This article will be expanded to study more diversified and representative marketing strategies. Previous studies have reported the impact of customer satisfaction on customer loyalty through six different factors [3]. The authors build a hypothetical model and use SPSS20.0 software to empirically analyze and test the model that examines six factors' effect on customer loyalty. This paper will select other influencing factors to investigate the relationship with customer loyalty, such as typical marketing methods and consumer satisfaction. This article will also collect consumers' responses by designing a questionnaire and analyzing the results by the regression model. This research plan contests the claim using a regression model to investigate the influence of customer satisfaction and promotional activities on consumer loyalty. Customer satisfaction is always an essential ratio of customer feedback, and it directly determines the company's profits. If a company does not earn high customer satisfaction, it will not survive for a long time in the competitive environment. In the new global coffee market, promotional activities have become a central issue affecting customer loyalty. Customers gain brand awareness from promotional activities, and they also build up customer loyalty from those strategies. Therefore, this paper proposes the hypothesis that consumer satisfaction and typical promotional strategies such as coupons positively impact customer loyalty.

1.3. Structure of paper

There is no doubt that Luckin has won the coupon price war. But how many of these customers drawn in by the low costs are loyal? In other words, how can Luckin consumers' loyalty be guaranteed? In this post, the article will look at the impact of customer satisfaction and promotional activities on customer loyalty and use a regression analysis model to understand the results. This paper assumes a strong link between them and tries to provide some recommendations based on that assumption.

To reach this hypothetical goal, this paper could use questionnaires to examine customers' present feelings and opinions about Luckin, revealing specific issues that need to be addressed. Furthermore, the regression analysis can assess the relationship between customer loyalty and satisfaction. The internal and external competitive environments and the scenario under competitive settings should also be considered.

After concluding, this paper hypothesizes that "Luckin will no longer issue coupons in the future" and considers the company's new position in the coffee industry. Moreover, the article will propose several promotional strategies and analyze their impact on customer loyalty.

2. LITERATURE REVIEW

In recent years, the coffee market has become more competitive as coffee brands continue to grow. Customers' choices become more varied, such as price, taste, coffee bean quality, packaging, and ease of purchase are all factored in. Therefore, improving customer loyalty and customer satisfaction becomes the key to whether the brand can stand out. A large and growing body of literature has investigated them a lot.

2.1. Customer Loyalty

Customer loyalty is a tendency for customers to develop a preference for a particular product or service, form an "attachment" preference, and then repeat the purchase [4]. It isn't easy to define, but some literature has given it three approaches to measure it: Behavioral measurements, attitudinal measurements, and composite measurement [5].

In 2001, John T. Bowen and Shiang-Lih Chen examined how customer pleasure influences customer loyalty. John T. Bowen used focus groups and a mail survey to illustrate the point. As a result, they discovered a non-linear link between customer happiness and customer loyalty. Furthermore, they found in their publications that Reichheld and Sasser in 1990 identified a positive association between customer loyalty and profitability, while Oliva's study in 1992 found that a slight change in satisfaction might lead to a significant shift in loyalty increment.

2.2. Customer Satisfaction

Customer satisfaction is the critical success to measure customer loyalty. According to Kotler and Keller in 2009, "a person's feelings of pleasure or disappointment result from comparing a product perceived performance (or outcome) to expectations."

The promotion component of the marketing theory is also a critical component that has had a profound impact on this research. Some researchers related promotion (or marketing theory) to customer loyalty and analyzed their relationship. To determine its effect, Ande Langga, Andriani Kusumawati and Taher Alhabsji in 2020 investigated the influence of intensive distribution and sales promotion towards customer-based brand equity, repurchase intention, and WOM (word-of-mouth) [6].

They found something important is as follows. First, incentives distribution had a significant and positive influence on brand equity and repurchase intention. Secondly, sales promotion had a substantial and positive impact on WOM, but it did not influence brand equity. Last but not least, brand equity had a significant influence on repurchase intention and WOM. But repurchase intention did not influence WOM. These findings will be of great help in this subsequent research.

Finally, the paper will use the above research findings to construct the questionnaire to further examine the relationship between customer loyalty and customer satisfaction and suggest the relevance based on the influence of promotion on customer loyalty.

2.3. The influence of customer satisfaction and promotional activities on customer loyalty

Concluded by John T. Bowen and Shiang-Lih Chen, there is a positive correlation between loyal customers and profitability which means having high customer loyalty is one of the essential elements for brand development [5]. Improving customer loyalty could alternately benefit a company's future. This study focuses on two factors that have been proven related to customer loyalty: Promotion and customer satisfaction.

In marketing mix strategies, promotion is one of the crucial elements for companies to survive. Proven by Solimun and Fernandes: Effective communications between a brand and its customer positively affect customer loyalty [7]. Also, Md. Motaher Hossain and Nusrat Jahan Suchy supported the correlation between satisfaction with communication and customer loyalty as positive and essential for users. However, as a part of a promotional campaign, their study has brought a significant result that there is no relation between sales promotion (bonus, price-offs) and customer loyalty [8]. The conclusion indicates that good communication could help improve customer loyalty, but not all promotional activities work effectively. John T. Bowen and Shiang-Lih Chen explained that customer satisfaction does not equal customer loyalty. A minor change in satisfaction can lead to a substantial shift in loyalty increment [5]. A successful brand should realize that although customer loyalty and customer satisfaction are not linear proportional, having satisfied customers is not enough because only extremely satisfied customers have a greater chance of becoming loyal to the brand.

The relationship not only exists between promotion and customer loyalty but also between customer satisfaction and customer loyalty. As shown by the investigation on customer loyalty and customer satisfaction, the promotion has a significant positive effect on customer satisfaction. The more reasonable the promotion delivered, the better customer satisfaction [9]. Previous studies found that these three factors are closely related to each other. It is stated in Susanto's investigation about the influence of customer purchase decisions on customer loyalty and satisfaction that customer satisfaction could be measured through promotion, and customer loyalty could be measured through satisfaction [10].

2.4. Conclusion

For this study, loyal customers commit to repurchasing the product and recommend the brand or product to others.

Due to the close relationship between promotional activities, customer satisfaction, and customer loyalty, this study focuses on investing the influence of various promotional activities on customer loyalty through customer satisfaction. It is proven by multiple journals that there is a positive correlation between customer satisfaction and customer loyalty. Still, the result of these articles did not clearly show the exact relationship between these two factors. This study researched the same topic to re-exam such theories and to seek the precise relationship between these two factors. As stated in multiple journals, promotion is one of the crucial factors of marketing mix theory that plays a vital role in customer loyalty. This study re-exams the relationship between promotion activities and customer loyalty and found the most effective promotional activities that improve customer loyalty. Although previous studies stated no relation between sales promotion (bonus, price-offs) and customer loyalty, Luckin was well-known for its coupon incentives [8]. This study seeks the relationship between customer loyalty and promotion and investigates the effectiveness of such strategies.

The hypotheses of this study are as follows:

H1. Customer loyalty is related and proportional to customer satisfaction.

H2. Promotional activities have positive influence on customer loyalty through customer satisfaction

3. METHODS

3.1. Research Design

A questionnaire was developed to study the impact of customer satisfaction and typical marketing campaigns on customer loyalty. The questionnaire adopted the Likert Scale to collect respondents ' comments to verify the previously constructed hypotheses of Luckin Coffee's customer loyalty. The questionnaire contained two sections: the first section about consumers' demographics and the second section about factors influencing customer loyalty. The questionnaire was mainly distributed online through the Internet. To ensure the validity of the questionnaire, the respondents were required to have consumption experience in purchasing

Luckin Coffee's products. The survey time is from December 10, 2021, to December 14, 2021. The respondents are mainly company employees, college teachers, and students. A total sample frame of 502 consumers was obtained from the network providers, including 226 valid and 276 invalid questionnaires. And a 45% effective response rate was collected in this survey. This article will use SPSS analytic software to implement regression analysis and verify the significance between different factors.

Table 1 Likert Scale

Construct	Code	Measurement items	No. of items
Customer Loyalty	CL1	I will repurchase Luckin's product	3
	CL2	I will recommend the brand Luckin to other people	
	CL3	I will try new products that are launched by Luckin	
Customer Satisfaction	CS1	I am satisfied with Luckin's product quality/flavour	2
	CS3	I am satisfied with the delivery time of Luckin's delivery service	
Promotional Activity	PA1	Luckin's coupon incentive is important to me	7
	PA2	If there were no coupons, I won't purchase Luckin's product	
	PA3	Celebrity endorsement can boost my desire to buy Luckin's product	
	PA4	Limited packaging can boost my desire to buy Luckin's product	
	PA5	Limited packaging gives me a unique consumer experience	
	PA6	Luckin's brand advertising on social media can boost my desire to buy	
PA7	I don't mind seeing brand advertising on social media		

3.2. Data Collection

In the context of the current consumer structure upgrade and the pursuit of consumer experience, Luckin adopts a new Internet retail model that combines "online + offline," breaking the traditional coffee brands relying only on an offline store sales model. Moreover, it enters the market at a low price and has gained a particular customer base through its high-cost performance. To investigate the paper's hypothetical question and explore the factors influencing customer loyalty and satisfaction, the paper designed the questionnaire with whether or not the customer would repurchase and how satisfied they were with the products and services as factors to consider.

This paper received 502 surveys in all, 226 of which were legitimate. The two age groups of 18-22 and 23-30 years old accounted for the most significant number of persons in the surveys collected. The percentage of firm employees was 46.02 percent, in line with the brand's customer group positioning: young working people. From the valid questionnaires, 156 respondents (69.03%) indicated a solid readiness for repurchase (Score >3). There are 150 persons (66.38 percent) interested in purchasing new products. Furthermore, 164 people (72.56 percent) said they would recommend it to their friends, and 148 people (65.49 percent) said coupons greatly impact their buying decisions.

3.3. Data Analysis

To analyze the valid data and construct supportable results to test the hypotheses mentioned above, this study constructed four types of data analysis to determine the relationship between the listed variables.

Factor Analysis is used to confirm the variability among several correlated dependent and independent variables and group related variables into one factor for other kinds of analysis. The results of factor analysis are given in Table 2 and Table 3. Table 4 shows the result of Pearson Correlation which tested the relationship between customer satisfaction and customer loyalty and between Promotional Activity and customer loyalty.

Table 2 Factor Analysis - KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy	Bartlett's Test of Sphericity		
	Approx. Chi-square	df	Sig.
0.974	2361.323	66	0

Table 3 Rotated Factor Loadings

Construct	Code	Factor loadings		
		Factor 1	Factor 2	Factor 3
Customer loyalty	CL1	0.307	0.773	0.348
	CL2	0.448	0.583	0.41
	CL3	0.431	0.507	0.583
Customer Satisfaction	CS1	0.655	0.341	0.446
	CS2	0.243	0.427	0.792
Promotional Activity	PA1	0.484	0.219	0.739
	PA2	0.701	0.459	0.285
	PA3	0.545	0.534	0.386
	PA4	0.421	0.747	0.269
	PA5	0.545	0.472	0.461
	PA6	0.776	0.35	0.314
	PA7	0.561	0.392	0.515

Table 4 Pearson Correlation

Construct	Customer Loyalty	
	Pearson Coefficient	Sig.
Customer Satisfaction	0.822**	0
Promotional Activity	0.900**	0

* p<0.05 ** p<0.01

The range of values used in linear regression analysis is listed in Table 5. Linear Regression Analysis is used to further examine the relationship between customer satisfaction, promotional activity, and customer loyalty. Then to determine the strength of association between these variables.

Table 5 Linear Regression Analysis

	Unstandardized coefficients		Standardized coefficients	t	p	VIF	R^2	Adjusted R^2	F
	B	standard error	Beta						
(Constant)	0.315	0.115	-	2.734	0.007**	-	0.818	0.816	F (2,223) =500.721, p=0.000
Promotional Activity	0.756	0.057	0.744	13.219	0.000**	3.878			
Customer Satisfaction	0.175	0.054	0.181	3.214	0.002**	3.878			

Dependent variable: Customer loyalty
D-W value: 1.847

* p<0.05 ** p<0.01

Also, to compare the statistical models between those three listed variables, Hierarchical Multiple Regression is used to find out the mediating effect of customer satisfaction on the correlation between promotional activity and customer loyalty. The results are shown in Table 6.

Table 6 Hierarchical Multiple Regression

	Customer Loyalty					Customer Satisfaction					Customer Loyalty				
	B	Standard error	t	p	β	B	Standard error	t	p	β	B	Standard error	t	p	β
(Constant)	0.370**	0.116	3.178	0.002	-	0.313*	0.14	2.234	0.026	-	0.315**	0.115	2.734	0.007	-
Promotional Activity	0.914**	0.03	30.846	0	0.9	0.905**	0.036	25.389	0	0.861	0.756**	0.057	13.219	0	0.744
Customer Satisfaction											0.175**	0.054	3.214	0.002	0.181
R Square	0.809					0.742					0.818				
Adjusted R Square	0.809					0.741					0.816				
F value	F (1,224)=951.486,p=0.000					F (1,224)=644.594,p=0.000					F (2,223)=500.721,p=0.000				

* p<0.05 ** p<0.01

4. RESULTS

The previous paper used Pearson correlation analysis, regression analysis, and mediation to analyze and verify the relationship between Luckin Coffee's customer satisfaction, marketing strategies, and customer loyalty. And the proposed hypotheses were tested respectively by using the SPSS analytic software.

Firstly, this paper uses correlation analysis to study the correlation between loyalty, satisfaction, and marketing activities. It uses the Pearson correlation coefficient to express the strength of the correlation. See Table4. The correlation coefficient between loyalty and satisfaction is 0.483 and shows a significant level of 0.01, indicating a significant positive correlation between loyalty and satisfaction. The correlation coefficient between loyalty and marketing activities is 0.547 and offers a significant level of 0.01, which shows a significant positive correlation between loyalty and satisfaction. It can be seen that the hypothesis models have passed the verification.

In regression analysis, marketing activities and satisfaction are taken as independent variables, while loyalty is taken as the dependent variable. From the Table5, the formula of the model is: loyalty = 0.235 + 0.770*marketing activities + 0.181*satisfaction. The R square value of the model is 0.863, which means that marketing activities and satisfaction can explain 86.3% of the change in loyalty. The regression coefficient of marketing activities is 0.770 (t=13.714, P=0.000 < 0.01), which means that marketing activities have a significant positive impact on loyalty. The regression coefficient of satisfaction is 0.181 (t=3.340, P=0.001< 0.01), which means that satisfaction has a significant positive impact on loyalty. In conclusion, marketing activities and customer satisfaction have a significant positive impact on customer loyalty. It can be seen that the hypotheses have been verified.

5. DISCUSSION

The primary purpose of this paper is to examine the relationship between Luckin Coffee's customer satisfaction, marketing strategies, and customer loyalty. According to the test results, customer satisfaction and marketing strategies have a significant positive impact on customer loyalty. This shows that if enterprises want to improve customer loyalty, they can improve customer satisfaction and develop diversified marketing strategies.

Although previous literature has studied customer loyalty and customer satisfaction, it has rarely established a connection between them. It cannot deny that, as discussed in Bowen and Chen's article, there is a strong link between customer loyalty and satisfaction. Over time, there are an increasing number of elements that influence customer loyalty, and study into how to improve customer loyalty is becoming increasingly in-depth. This paper adds a new influencing factor, promotional activities, to judge the impact of customer loyalty—the article modeled and regressed the obtained results through a questionnaire. For the choice of model, the paper has also made some changes to the model selection process. It carries out factor analysis, correlation analysis, and multiple regression analysis on these three factors to convey the study findings more thoroughly and transparently.

The findings of this article can have many influences on marketing perspective and other retail coffee enterprises. The suggestions given to Luckin Coffee in this article are to improve the diversity of marketing strategies, such as celebrity endorsements, limited seasonal packaging, and designing more attractive holiday peripherals. Various marketing campaigns can continuously attract consumers' attention and introduce new traffic. On the other hand, Luckin should create official accounts on mainstream social media platforms like Tiktok and Red Booklet. They can regularly publish product-related content to increase the interaction rate with consumers and get their feedback. This can help Luckin improve customer satisfaction by revising customers' comments and retaining present customers.

Looking at this article from a theoretical point of view, this article considers marketing strategies when studying the factors that affect customer loyalty. And it concludes that promotional activities have a positive and significant impact on customer loyalty through the analysis of questionnaires and SPSS analytical software. This also expands the literature on the research on the influence factors of customer loyalty. In terms of the social implication, other companies, not limited to coffee retailers, should be aware of the critical impact of customer satisfaction and marketing strategies on customer loyalty after reading this article. Therefore, they can improve the customer loyalty of enterprises from these two aspects, such as increasing the delivery speed and opening offline theme stores.

Although this paper has important implications, it still has some limitations. First of all, the sample selection of this questionnaire is not entirely random and has limitations. Despite the questionnaire being distributed on the Internet, there are geographical limitations to a certain extent. Almost all respondents are from China, so if this conclusion is implemented internationally, the results may be inaccurate due to cultural differences. Companies in other countries should be cautious about this conclusion in light of reality. Secondly, there is no good follow-up analysis in terms of the regression analysis' professionalism, and the recommendations' feasibility has not been validated.

6. CONCLUSION

Due to the rising demand for coffee in China and the saturated coffee market, customer loyalty has become an essential factor that companies cannot underestimate. This article examines the relationship between customer satisfaction, promotions, and customer loyalty hence seeks the possibilities for Luckin Coffee to enhance its customer loyalty.

In summary, based on the above regression model results analysis, both hypotheses are proved valid. Luckin's customer satisfaction reveals a moderately significant correlation with loyalty, which means customer satisfaction positively influences customer loyalty. Also, promotional activities have positively influenced customer loyalty through customer satisfaction. Besides, the result also proved that customer satisfaction partially mediates the correlation between promotional activity and customer loyalty.

This study documents several vital contributions made to the Chinese coffee industry. In particular, this study suggests innovations in promotions from the perspective of "no more coupons." Improving customer satisfaction is the key to increasing customer loyalty. The advantages of fast delivery and good value for money should be maintained. In contrast, the brand should make innovations to create new brand memories to maintain the existing customer base and attract new ones in the long term.

The contributions made in this study have broad applicability. The findings should be primarily concerned with Luckin Coffee, as the research in this study was conducted on existing Luckin Coffee's customers. The survey was based on the current situation in the Chinese coffee market. Furthermore, other similar industries can also apply the conclusions of this study to their future development on customer loyalty. Still, more consideration is required in terms of geography, market context, and industry similarity.

This study analyses several essential elements for increasing user loyalty from a quantitative perspective, and the findings should inspire companies in similar industries. In addition, the conclusion of this study provides clear clues for future research on customer loyalty in terms of customer satisfaction and the types of promotions.

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