Crisis management practices and strategic responses through customer loyalty and price strategy in hard times: Evidence from fine-dining restaurants

Fatih Semerciöz\textsuperscript{a}, Çağlar Pehlivan\textsuperscript{b}, Aytuğ Sözüer\textsuperscript{c}, Aslı Mert\textsuperscript{d} \textsuperscript{*}, \textsuperscript{†}

\textsuperscript{a,c} Istanbul University, Istanbul, 34320, Turkey
\textsuperscript{b} Kocaeli University, Kocaeli, 41380, Turkey
\textsuperscript{d} Istanbul Arel University, Istanbul, 34295, Turkey

Abstract

Management practices, strategic responses and strategies is an important part of strategy research. However, little is known about the linkage of those themes in general, restaurant services context and crisis times in particular. Thus, this study examines the relationships among crisis management practices such as income and cost reductions and efficiency and competitiveness improvement, strategic responds such as reactive and proactive responses, adding customer value and gaining flexibility and strategies of customer loyalty and price strategy within the context of “branded” restaurants in Turkish hospitality industry. The study employs a questionnaire that evaluates the attitudes of fine dining restaurants in terms of those themes during economic downturn in 2009. Evidence from 45 restaurants reveals that strategic responses, management practices, and customer royalty have significant relationships.

1. Introduction

The global food and beverage market was estimated at USD 3,840 billion in 2010. Most economists argue that the primary catalyst of the economic downturn was the sub-prime mortgage crisis and the associated collapse of the financial derivatives markets (Economic Outlook for the Global Food and Beverage Market, 2009). It was USD 3,500 billion in 2007, and thus has grown by approximately three percent per annum despite the recession. Emerging

\* Corresponding author. Tel. + 90-212-473-7000 (Ext. 18294) fax. +90-212-590-8880
Email address: fsemerci@istanbul.edu.tr

† This paper has been financially supported by the Unit of Scientific Research Projects at Istanbul University (Project No: UDP-54722).
markets such as China, India and Brazil are seen as drivers of growth as the recession contracted consumer spending in developed markets. On the other hand, the rising price of raw materials such as animal feed, energy, and other commodities such as packaging materials are concerns for the producers. Turkey is an attractive market for potential investors: it was ranked 5th in a rating analysis by Business Monitor International (BMI) regarding the Food and Drink industry, Q3 2010 CEE Business Environment Ratings thanks to its large size of population (nearly 73 million), lack of market maturity or saturation, its favorable long-term economic structure and GDP per capita. Additionally, as a major agricultural producer with an increasingly positive food and beverage trade balance, Turkey offers easy access to raw materials. The food and beverage sector, which is largely dependent on the agricultural sector in Turkey, has an important share in the country’s production i.e. a share ranging between 18-20 percent (Turkish Food and Beverage Industry Report).

The economic downturn also ravaged the lodging sector of the hospitality industry. According to data released by Smith Travel Research (STR), the US lodging industry experienced occupancy levels in 2009 at nearly 55 percent, well below the long-term average and rates (an average decline of nearly 9 percent), resulting in double-digit decreases in RevPAR nation-wide (17 percent). Food and beverage levels during the 2008-2010 economic downturn in clubs Raymond R. Ferreira) further examined the impacts of the recent economic downturn on the US hotel industry, investigating nearly 35,000 properties. They reported additional fluctuations in both occupancy and ADR as a result of the financial crisis of late 2008-2010. Higher-end properties were suggested to be more susceptible to the recent economic crisis as compared to national averages, with STR reporting a 24 percent decline in RevPAR within the luxury hotel segment in 2009. Further investigation of trends revealed that limited-service midscale hotels were more negatively affected by the financial crisis than were midscale properties serving food and beverages.

2008 was a tumultuous year for businesses in the food and beverage sector. By August 2008, food commodity prices had peaked and since then have been falling. A strong cereals harvest in 2008 boosted grain stocks and the global economic downturn helped soften demand for both oil and food. These falls are now flowing through into a dramatic reduction in food price inflation and the beginnings of real price reductions for the consumer, with the weakness of the pound limiting the extent of real price deflation for UK consumers (Food & Beverage, 2012).

The economic slowdown had an adverse impact on M&A activity in the F&B sector in 2009. The sector witnessed 1,005 M&A transactions valued at $43 billion USD in 2009, a decline of 73.1 percent in terms of transaction value and a 37 percent decline in the number of transactions (IMAP’s Food & Beverage Industry Global Report, 2010).

Several studies have examined the effects of a crisis in hospitality industry including studies that described different occurrences of terror (Aziz, 1995; Pizam & Mansfeld, 1996; Leslie, 1996), classification of violent activities relevant to the industry (Pizam, 1999; Faulkner & Russell, 2000), the political and economic benefit associated with cessation of terror activities (Anson, 1999; Butler & Baum, 1999), prescriptions for preparing for future crisis situations or reacting to past crisis events (Sönnmez et al., 1999; Cohn, 2001; Lynch, 2004). However, there is not so much about the effects of economic crisis in hospitality industry particularly from management point of view. Thus, to better understand those relationships, the study investigates the links between management practices, strategic responses, price strategies and customer loyalty concepts. To address this general research question, we reviewed the extant literature and conducted a quantitative research to test the relationships among those in the scope of fine dining restaurants in Istanbul. Although previous studies shed some light on the inquired constructs, we had limited insights for such a competitive service industry setting. So, this study is expected to contribute to the literature by revealing a diverse perspective from an emerging market context.

The next sections of the paper will present the conceptual development of the study, followed by the research methodology, and a brief discussion of the findings.

2. Literature Review and Hypotheses

2.1. Crisis Management Practices and Strategic Responses

In Chinese, the term “crisis (weiji)” is expressed with two characters, the first meaning “danger” and the second “opportunity”. It is often used as a catchall concept that encompasses all types of “unness” events. In this perspective, the term crisis applies to all situations that are unwanted, unexpected, unprecedented, and almost unmanageable, causing widespread disbelief and uncertainty. (Boin, Kofman & Overdijk, 2004) As the meaning of the word crisis turning point, good or bad, life and death moment, a sudden deterioration in the direction of developments occurring, is dangerous moment (Dinçer, 2009). According to Koçel (1998: 1-4), before anything else crisis is a situation that cannot be detected in advance by the organization and unexpected. The most distinguishing feature of routine crisis
situations, emergency response and quick action is imperative. Crisis situation, the organization's crisis in detecting, preventing or responding to changes according arises in the case of insufficient. There are three features of a crisis: a) it should be a surprise, sudden and unexpected event, b) it should eradicate the image of a business’, person or a destination and c) time available to solve it should be limited creating stress (Kalpaklıoğlu, 2010).

The term crisis is used in all areas politics, society and the economy (Glaeser, 2005: 1), which often implies large effects on the majority of a population. Modern crisis leads to high economic costs, surpasses classical precautions, creates unique, comprehensive and multidimensional and related problems with snowball effects, affects vital resources, which limits the operational area that a manager can play within (Boin & Lagadec, 2000).

Crisis management is the art of making decisions perceiving clues of such an event to head off or mitigate its effects, often while the event itself is unfolding. This often means making decisions about your institution’s future while you are under stress and while you lack key pieces of information (Seçilmiş & Sarı, 2010).

Before occurring, a crisis leaves some clues to be felt. Such clues imply hitches in any system of an organization. Management will be successful if realizes symptoms before it occurs. Thus, they should apply crisis management techniques consisting of all activities, which will prevent and mitigate the effects of a crisis when it starts. A crisis leads to high level of uncertainty, which requires a business to concentrate on decisions regarding the survival. Thus, such a business should focus on choosing and implementing appropriate strategy, which is a part of strategic management thinking (Karakaya, 2004)

Crisis management can be separated into three parts. The first is the estimation of the various risks to a particular business. The four broad areas of social, technological, political, and economic sectors are regarded as important external factors. These factors could be termed “normal” as they occur within typical and expected parameters. Some authors focuses on terrorism, foreign and domestic political instability, international conflict, and monetary and trade instability as primary sources of what he calls “high order,” or abnormal, corporate crises (Cushnahan, 2004).

Crisis management is the management and coordination of your institution’s responses to an incident that threatens to harm, or has harmed, your institution’s people, structures, ability to operate, valuables and/or reputation. It takes into account your planning and automatic incident response, but must also dynamically deal with situations as they unfold, often in unpredictable ways.

Top management in any company is responsible for the prediction of any crisis. Typically, a crisis sends direct and indirect signals to the organizations before they occur. Sometimes top managers do not analyze or take good care of some of those signals, or ignore them to leave them get in a crisis.

This study takes management practices in times of a crisis as income reduction, cost reduction, operational efficiency and competitiveness improvement as Alonso-Almeida & Bremer (2013) takes as factors affected by the impact of a crisis. Thus, we posit;

**Hypothesis 1:** Crisis management practices are related to strategic responses.

### 2.2. Strategic Responses, Customer Loyalty, and Price Strategy

Several studies have shown that businesses generate different responses to cope with a crisis. Some authors note that the most successful strategies to overcome a crisis make use of proactive measures; for instance, increasing marketing spending, new product development (Laitinnen, 2000; Pearce & Michael, 1997; Ang et al., 2000; Alonso-Almeida & Bremer, 2013). Some others agree that tourism establishments should execute cost-cutting strategies by maintaining existing staff levels and instead relying on gains in work-time or efficiency to gain flexibility (Henderson, 1999; Okumus & Karamustafa, 2005; Taylor & Enz, 2002).

Thus, this study employs four different measures as strategic responses as in Alonso-Almeida and Bremer (2013). The first component, reaction, groups the measures taken by the restaurant, due to a decline in income. The second, customer value added, denotes the management’s commitment to increasing quality and services as part of a strategy to anticipate threats and be prepared to counter them when they arise. The third component, flexibility, is closely related to the management of a restaurant’s operations. Flexibility includes measures to reduce fixed costs and to gain flexibility. The fourth component, proactiveness, includes activities that strengthen a firm’s competitive position. In light of this argument, we propose;

**Hypothesis 2:** Strategic responses are related to customer loyalty strategy.

**Hypothesis 3:** Strategic responses are related to price strategy.
2.3. Customer Loyalty and Price Strategies

As far as it is known, (1) loyal customers buy more, (2) loyal customers spend a larger share of their income at the supplier, (3) loyal customers tend to be less price-sensitive than other customers and (4) loyal customers spread positive word-of-mouth and thereby increase the customer base (Williams & Naumann, 2011). In addition, high levels of customer satisfaction and loyalty enjoy lower price sensitivity (Alonso-Almeida & Bremser, 2013).

Food and beverage businesses must think carefully about how they engage with consumers and shoppers to secure their share of available spend. Companies must consider the different ways in which people obtain and use the information that informs the choices they make. The influence of traditional ‘push’ media such as television advertising is diminishing. The power of ‘pull’ media such as the Internet is growing fast and transforming the relationship between business and consumer.

With consumers’ disposable income squeezed by the reduced availability of cheap credit, and their desire to spend impacted by falling confidence, it is not surprising that shopping habits are changing. However, price and value are becoming increasingly central to the choices that shoppers make about where to shop and what to buy (Food & Beverage, 2012). Following this line of argument, we suggest;

**Hypothesis 4:** Customer loyalty strategy is related to price strategy.

The conceptual model of the study is exhibited in Figure 1.

Figure 1. The Conceptual Model

3. Methodology

3.1. Data and Measures

This study aims to understand the relationships among crisis management practices, strategic responses, customer loyalty and price strategy in a restaurant services context. After reviewing the relevant literature, a questionnaire is developed, inquiring managerial responses during 2009 economic downturn.

As of February 2014, there were 60 “branded” fine dining restaurants in Istanbul, Turkey. All of those restaurants were contacted via email or phone and invited to participate the survey. Eventually, 45 restaurants returned the questionnaire, yielding a response rate of 75% (=45/60). High-level managers and administrators in the restaurants were targeted as key-informants because of their familiarity with strategic management, marketing and communication within their organizations.

The questionnaire consisted of measures for income reduction, cost reduction, efficiency improvement, competitiveness improvement, reactivity, added customer value, flexibility, proactive, customer loyalty strategy, and price strategy with 5-point Likert scales and demographic information regarding both the respondent and the participant “branded” fine dining restaurants.
3.2. Analysis and Results

The collected data was analyzed through a factor analysis of principal component extraction method with varimax rotation. It yielded 2 items for income reduction, 3 items for cost reduction, 3 items for efficiency improvement, 3 items for competitiveness improvement, 5 items for reactive, 8 items for added customer value, 4 items for flexibility, 2 items for proactive, 3 items for customer loyalty strategy and 2 items for price strategy with factor loadings over 0.40. Variables and reliabilities are shown in Table 1. It should also be noted that the Cronbach’s alpha values for crisis management practices and strategic responses as unidimensional constructs are 0.82 and 0.92 respectively.

Table 1. Results of factor analysis and reliability test for constructs used in the questionnaire.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Number of items</th>
<th>Explained variances (%)</th>
<th>Cronbach’s alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Reduction</td>
<td>2</td>
<td>69.27</td>
<td>.554</td>
</tr>
<tr>
<td>Cost Reduction</td>
<td>3</td>
<td>77.88</td>
<td>.854</td>
</tr>
<tr>
<td>Efficiency Improvement</td>
<td>4</td>
<td>53.25</td>
<td>.550</td>
</tr>
<tr>
<td>Competitiveness Improvement</td>
<td>3</td>
<td>58.55</td>
<td>.640</td>
</tr>
<tr>
<td>Reactive</td>
<td>5</td>
<td>69.24</td>
<td>.888</td>
</tr>
<tr>
<td>Added Customer Value</td>
<td>7</td>
<td>55.92</td>
<td>.881</td>
</tr>
<tr>
<td>Flexibility</td>
<td>4</td>
<td>58.69</td>
<td>.764</td>
</tr>
<tr>
<td>Proactive</td>
<td>2</td>
<td>70.34</td>
<td>.570</td>
</tr>
<tr>
<td>Customer Loyalty Strategy</td>
<td>3</td>
<td>89.36</td>
<td>.940</td>
</tr>
<tr>
<td>Price Strategy</td>
<td>2</td>
<td>84.99</td>
<td>.822</td>
</tr>
</tbody>
</table>

To test hypotheses, Pearson correlation analysis was first applied among unidimensional constructs of crisis management practices, strategic responses, customer loyalty strategy and price strategy. It reveals that crisis management practices are significantly related to strategic responses ($r = 0.81; p < 0.01$), customer loyalty strategy ($r = 0.60; p < 0.01$), price strategy ($r = 0.49; p < 0.01$). Strategic responses significantly relate to customer loyalty strategy ($r = 0.66; p < 0.01$) and price strategy ($r = 0.60; p < 0.01$). Customer loyalty strategy is in a significant relation with price strategy as seen in Table 2.

Table 2. Correlations and Descriptive Statistics

<table>
<thead>
<tr>
<th>No.</th>
<th>Constructs</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Crisis Management Practices</td>
<td>2.99</td>
<td>0.77</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Strategic Responses</td>
<td>2.91</td>
<td>0.84</td>
<td>.81**</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Customer Loyalty Strategy</td>
<td>4.02</td>
<td>1.19</td>
<td>.60**</td>
<td>.66**</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Price Strategy</td>
<td>3.48</td>
<td>1.13</td>
<td>.48**</td>
<td>.65**</td>
<td>.67**</td>
<td>1</td>
</tr>
</tbody>
</table>

* Correlation is significant at the 0.01 level (2-tailed)
** Correlation is significant at the 0.05 level (2-tailed)

Thus, all 4 hypotheses are supported.
However, Pearson correlation analysis was applied once more to present the relationship in details. This time, results revealed that income reduction is significantly related to reactive ($r = 0.60; p < 0.05$), added customer value ($r = 0.49; p < 0.05$), flexibility ($r = 0.68; p < 0.05$) and proactive ($r = 0.49; p < 0.05$) as is cost reduction in responses of reactive ($r = 0.74; p < 0.05$), flexibility ($r = 0.59; p < 0.05$) and proactive ($r = 0.65; p < 0.05$) in terms of strategic responses. Efficiency improvement relates to responses of added customer value ($r = 0.56; p < 0.05$) and flexibility ($r = 0.37; p < 0.05$) as does competitiveness improvement to strategic responses in terms of reactive ($r = 0.35; p < 0.01$), added customer value ($r = 0.60; p < 0.05$), flexibility ($r = 0.46; p < 0.05$) and proactive ($r = 0.45; p < 0.05$).

In addition, customer loyalty strategy is in significant relation with reactive ($r = 0.44; p < 0.05$), added customer value ($r = 0.68; p < 0.05$) and flexibility ($r = 0.59; p < 0.05$) as is price strategy in reactive ($r = 0.44; p < 0.05$), added customer value ($r = 0.68; p < 0.05$), flexibility ($r = 0.47; p < 0.05$) and proactive ($r = 0.36; p < 0.05$). Overall, being all the correlations are positive.

Correlations table with descriptive statistics is presented in Table 3.

Table 3. Correlations and descriptive statistics

| # | Constructs & Variables               | Mean | Std. Dev. | 1   | 2   | 3   | 4   | 5   | 6   | 7   | 8   | 9   | 10  |
|---|-------------------------------------|------|-----------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| 1 | Income Reduction                    | 2.99 | 1.27      | 1   |     |     |     |     |     |     |     |     |     |     |
| 2 | Cost Reduction                      | 2.17 | 1.24      | 0.61** | 1   |     |     |     |     |     |     |     |     |     |
| 3 | Efficiency Improvement              | 3.64 | 0.89      | 0.33* | 0.15 | 1   |     |     |     |     |     |     |     |     |
| 4 | Competitiveness Improvement         | 3.33 | 0.99      | 0.44** | 0.36* | 0.53** | 1   |     |     |     |     |     |     |
|   |                                     |      |           |     |     |     |     |     |     |     |     |     |     |     |
| 5 | Reactive                            | 2.79 | 1.19      | 0.60** | 0.74** | 0.09 | 0.35* | 1   |     |     |     |     |     |
| 6 | Added Customer Value                | 3.25 | 0.94      | 0.49** | 0.29 | 0.56** | 0.60** | 0.39** | 1   |     |     |     |     |
| 7 | Flexibility                         | 2.81 | 1.08      | 0.68** | 0.59** | 0.37* | 0.46** | 0.65** | 0.62** | 1   |     |     |     |
| 8 | Proactive                           | 2.61 | 1.08      | 0.49** | 0.65** | 0.24 | 0.45** | 0.68** | 0.41** | 0.48** | 1   |     |     |
|   |                                     |      |           |     |     |     |     |     |     |     |     |     |     |     |
| 9 | Customer Loyalty                    | 4.02 | 1.19      | 0.45** | 0.26 | 0.60** | 0.57** | 0.44** | 0.68** | 0.59** | 0.24 | 1   |     |
| 10| Price                               | 3.48 | 1.13      | 0.51** | 0.23 | 0.50** | 0.38*  | 0.44** | 0.68** | 0.47** | 0.36* | 0.67** | 1   |

* Correlation is significant at the 0.01 level (2-tailed)
** Correlation is significant at the 0.05 level (2-tailed)

4. Discussion

This study aims to present the relationships among crisis management practices, strategic responses, customer loyalty and price strategy in a fine dining restaurant services context. Management practices applied in case of a crisis such as income and cost reductions and efficiency and competitiveness improvements is somehow related to the strategic responses given like reactive or proactive approaches and adding customer value and gaining flexibility by the “branded” fine dining restaurants. In addition, those strategic responses are leading “branded” fine dining restaurants to follow two strategies: Customer loyalty strategy and price strategy. Evidence reveals that fine dining restaurants in Istanbul, Turkey during crisis times as in the economic downturn in 2009, focus on efficiency and competitiveness improvement instead of income and cost reduction practices. They mainly prefer strategically responding to such a situation with adding customer value rather than being proactive or reactive or gaining flexibility. It is also possible for us to say that they base heavily their strategies more on customer loyalty than price.

When it comes to the relationships, we may say that fine dining restaurants, responding reactively to the crisis situations, mostly practice managerial applications of cost reduction. In addition, they respond with adding more customer value, they mainly try to implement efficiency and competitiveness improvement practices. When gaining
more flexibility, fine dining restaurants focus on income reduction practices. The study also reveals that if they respond proactively to the crisis situations, they mainly implement cost reduction practices.

Fine dining restaurants whether following customer loyalty or price strategy mainly respond to crisis situations with adding more customer value. It is also revealed that customer loyalty strategy is related to the price strategy.

References


Food and Beverage Industry Global Report 2010, pp 7


Koçel, T., İşletme Yöneticiliği, Beta Basım Yayın Dağıtım, İstanbul, 1998 .p 1


Shanahan Christopher (2009) “Economic Outlook for the Global Food and Beverage Market Food Industry Research Analyst Global Chemicals, Materials and Food San Antonio”, Texas USA April 23rd pp 1-19


