Consumers' elasticity of substitution toward restaurant selection

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1. Introduction

Objective of Study

In a competitive era where there are many restaurant chain businesses in the market, the benefits belong to the customer since they have more choices and the restaurants have to keep their standard at the highest level in order to retain its customers. Unfortunately, not all restaurants gained the same popularity among the consumers and the ones with higher market shares tend to have longer waiting queues. Furthermore, each of the customers have different patience levels so they will often look for alternative choices if their first choice restaurant has a long waiting line. This study is conducted to understand the factors and mechanics that affect the decision of consumers to choose their alternative restaurant choices. Eventually, this research study will be able to define which markets that each restaurant is competing in. The main objective of this research is to interpret the data and information that were gathered from online surveys into an insightful analysis which can be used for later studies in relevance to the restaurant and food industry.

Scope of Study

This research will focus on all groups of consumers who resided in Thailand. The target size of the data will be at least 300 of online survey samples which the time frame of the study will be started from the month of February to April of 2020. The survey will be distributed through online channels including Facebook, Line, Instagram direct message, and etc. The target restaurants of this research will be the independent restaurants and franchises located in the shopping malls around the country. Therefore, we expected to interpret the data we gathered into an incisive explanation as much as possible within the limited time frame.

Significance of Study

The result from this study will provide a clear explanation of the mechanism and factors that affect the consumer decision. Furthermore, this research paper also provides the market definition of the restaurant chain industry. The result from this study can be used as a guideline for both restaurant businesses to develop their business model and government regulators to implement the policies effectively in accordance with the results from this research study. It is important to know and understand the market definition because there are many sub markets in the restaurant chain industry and each of the restaurants had different characteristics, customers, and structures which the same policies or business models might not be able to apply for all of them.

The remaining parts of this paper were organized as follows. Firstly, the literature review. Secondly, the industry background which will discuss the market structures and which market that each different players are competing in. The next part is emphasized on the methodology and theoretical frameworks that were adopted in this study. Finally, this research will provide the conclusion about the market definition and consumer behaviors in the restaurant chain industry.

2. Literature review

The restaurants in Thai malls

The restaurants that located in Thai malls are increased currently, since the rise of department store branches and establishing the new strategy that make the malls or department stores be the “ food destination”, in order to attract the consumers to go to that malls, the area allocation for restaurant increases from 20-25 percent to 30-40 percent of the total area of the malls. Moreover, the malls will select which restaurants could place in that particular malls to meet the need of consumers (Thansettakij, 2018)

There are many types of restaurants in Thai malls to serve all of consumer’s demand. In this paper, I will categorize types of restaurants into 7 big groups which are fast food, Western food, Japanese food, hotpot, Northern east Thai food (Esan), Thai food and Chinese food, most of them are operated by the big restaurant chain groups.

How do the restaurant chains group plan their restaurants?

The big corporation that operates many restaurant brands called restaurant chains. In Thailand, we have seven main restaurant chains such as Central restaurant group, Minor group, etc. Each of the restaurant group will launch restaurant brands that cover all types of the restaurant that are on demand in the market.

The main reason that contributes to the selecting each brand for the restaurant chains is the profit margin, it is explicitly seen that if there is some demand or the opportunity that the corporation could achieve or gain the advantages of that market, they will build up that type of restaurants. Each restaurant chain group that has to have all types of restaurant brands is to get all of the market value of all types of restaurant market (Karen Glanz phD, 2007).

The fast food restaurant in Thai malls

Fast food is the quick prepared and minimal service dishes, the menu will be simple since it has to keep the core competence of quick and convenience.

Thai people tend to consume Thai fast food more, such as Mc donald, KFC or Burger King. The reason that this type of restaurant is more famous for Thais than the past are that the higher disposable income of Thais that make higher purchasing power of Thais (Sirikeratikul, 2016), moreover, Thais tend to select the restaurants that have air conditioner not open air restaurant than before. However, most of the fast food's consumers are teenagers and children because of the convenience, taste, low price and marketing strategies make it popular for them (International Journal of Science and Research, 2014).

The japanese food restaurant in Thai malls

We couldn't deny that Japanese food is one of the favorite foods for Thai people as we can see many Japanese restaurants around Bangkok and local both in malls and stand alone that make Thailand the largest Asean market for Japanese food (Pitsinee, 2019). There are many Japanese restaurants that are conducted by the big food chain groups such as Oishi group, Central restaurant's group Ootoya. This market has the potential to grow furthermore as we can see more of Japanese food brands that are established in this year and the growth of the market share that increase more than 10%.

The Thai consumer behavior toward Japanese food is that they easily accept the Japanese food as their perception about Japan as the good quality things and healthy food. According to higher demand for japanese food, there is more competition in this market, therefore the price of Japanese food is going to be lower, in order to attract more consumers to access the Japanese food (Food story, 2020). The report also shows us that even though the economy is going to be good or bad, Japanese food can still grow.

The Western restaurant in Thai malls

Western food used to be the type of food that Thai people are not so familiar with and not everyone could have or go to the Western restaurant since it is the sense of the upper class of Thai people. But currently, Thai people can access the Western restaurants and food more easily. One of the reasons is that the Western ingredients for cooking the Western food can be easily bought from supermarkets such as Foodland, Villa market that make Western food has more influential power among Thai people. (Suthorn, 2019)

As Thai people are interested in Western food more, there are many new Western restaurants built up to serve the demand of Thai people, not only for high class people like the past but they will serve all of the classes in the society, as we can see more Western restaurant that can be affordable for low to middle class. Moreover, the Western restaurants also have the menu that fusion Thai ingredients and spice to make people easily access more and can be the outstanding point of Western food in Thailand also, we could see the Western restaurants in malls that have the menu that kind of Thai style such as Tom-yum spaghetti or steak that topped with Thai style sauce.

The Hot pot restaurant in Thai malls

Hot pot restaurants can be divided into many types, for example, suki which is the Thai style hot pot that we are familiar with for a long time, the brands that serve this type of hot pot are MK, Coaca, Neo Suki,etc. For the other type of hot pot is the japanese style that we called shabu or sukiyaki. This type of hot pot is usually sold in buffet restaurants, since consumers tend to value the worthiness of the food, like no limitation of order that will give the freedom of consumers to order any dishes that they want. Therefore, the value of this type of restaurant will focus on the worthiness and price, we usually see the promotion of shabu buffet restaurants that pay 3 persons when come 4, etc. For the market of a la carte hot pot restaurants, such as MK restaurants will have the selling point of branding and amount of restaurants that are available in department stores that can cover every location (Marketeer Team, 2019).

Currently, the hot pot restaurants have the competition in form of the quality of the food and the adaption of the restaurants to meet the needs of consumers like the technology in the restaurants or the beautiful presentation rather than the discount price that the players usually did in the past. The competition of this market.

The hotpot restaurants in Thai malls don't have many big players in the market, the big players are MK restaurants, Shabushi, Hotpot which are the hot pot restaurants that are placed in every department store of Thailand. The strategies that they are using will be about the quality conscious since currently, consumers care more about the quality and taste of the food more than the worthiness in terms of quantity and price.

The North-east Thai restaurants in Thai malls

The starting point of the North-east Thai or Esan food is the street food that is sold beside the street or ordinary stand alone Esan restaurant. There is the development of this type of restaurant every year, we can see Esan restaurants at the department stores that are the well-known brand, that is the evidence that Esan food has progressed in the food industry. Moreover, there are many new extrances that want to enter in this market all the time. (Taokaemai,2018)

Even though the popularity of foreign nation food in the department stores, the Thai nation restaurants are spot on the light. Especially Northern east Thai food or we call Esan food, that is very famous for Thai people, it can serve every lifestyle of Thai people and foreigners as well. Although the ingredients, process of cooking are traditionally Thai style that we are accustomed to, the groups of consumers of this type of restaurants serve middle to high income people (Marketeer, 2019).

Thai restaurants in Thai malls

As mentioned above of the first part of the reviews of literature, the total area provided for restaurants in department stores increases, so the amount of restaurants will be more, Thai restaurant brands also have the new entrants in this market. The report suggests that the total market value of Thai restaurants will increase 4-5 percent. (Siri Osiri, 2018)

The Thai restaurants in department stores would serve in Thai modern style. Since most of the customers target are the middle to high income people and foreigners, therefore the taste of the food will not be so intense like Thai restaurants beside the street or the stand alone Thai restaurants.

Chinese restaurants in Thai malls

The trend of the Chinese food in Thailand has good performance in the restaurant industry. The main reason that makes this type of restaurant successful is because many Chinese tourists have the vacation in Thailand. (Thansettakij, 2019) (หาได้เท่านี้)

The factor that influence the consumer's restaurant selection

What are the factors that drive the consumer's selection of restaurants ? According to the literature that I have researched, the reasonable factors that drive the consumer to select the restaurants are the quality of the food which includes the hygiene of the food, the cleanliness of the restaurant, the atmosphere or the environment inside the restaurants, and the service quality. The deeper factors that influence the choice of the consumer are the comfortness of the restaurant, level of noise, waiting queue (speed of the service), parking facilities, and etc. (Frank Cullen, 2008). Based on secondary desk research, these were the common factors that determine a consumer's restaurant selection.

The evaluation of waiting time

The waiting time for acquiring the products and services of the restaurants has a negative impact on the consumer's satisfactory levels. In order to mitigate the dissatisfaction of the consumer from the cost of waiting time, the restaurant should reduce the waiting time to bring the satisfaction back to the consumer and changes the consumer's perception towards the waiting time of the restaurants, as the consumers once experienced the long waiting time, they tend to remember that those particular restaurants should not be visited again since they have to wait for a long time. For the suggestion, the restaurant should adopt the idea of "waiting time guarantee" to ensure the time that consumers have to wait, this will enhance the satisfaction of the consumer if the time that was guaranteed is shorter than the actual time that the consumers wait, they will be more satisfied. (Piyush Kumar, Manohar U. Kalwani, Maqbool Dada)

3. Industry Background

Market Structure

Behind the success of the restaurants that we are familiar with such as MK restaurant, The Pizza Company, KFC, and Zen were operated by the big corporations. Each of these corporations manage many restaurant brands in order to serve the demand of the consumers and gain the market share as much as possible. There are six major restaurant chains in Thailand, consisting of Singha corporation, Oishi group, Minor international, MK restaurant group, ZEN corporation group and Central restaurant group. All of the big corporations' restaurant chain portfolio covered most of the type of restaurants except for the Oishi group that are concentrated on the Japanese cuisines. The total market value of the restaurant chain was 400 billion Baht. The highest earner in the market as of 2018 was the Minor group whose revenue was approximately 17.7 billion Baht. Meanwhile, the MK restaurant group was the second highest earner with the revenue of 16 billion Baht followed by the Central group and the Oishi Group with the revenue of 12 billion and 1.7 billion Baht, respectively. (Prachachat, 2019)

The food service market was the market that was easy to enter but hard to survive. According to the research of the Economic Intelligence Center (EIC), the restaurant business was the third place of all business types that had most new entrants which was 3 percent. Furthermore, the food service business was also the third place in market exit rate which accounted for 2 percent of all businesses in Thailand.

Market Conduct

The restaurant chained business usually focused on either the high income segment or the lower income segment. The customers tend to be more concerned about the experiences which required the restaurant to be more than just a dining place but the service quality also needs to match with the quality of the food. Moreover,the Fast Casual trend which was the combination between fast food and casual dining gained popularity among the modern customers. The growth rate of the Fast Casual food is 8 percent in 2016 which is higher than the regular fast food restaurant which was 4 percent.In addition, the customization feature of the fast casual helps provide satisfaction to the new generation customers that weighed the experiences more. The Arno's burger was one of the successful fast casual restaurants which served the customized burgers and steaks with a fine dining quality but reasonable price. The other reasons that contributed to the rapid growth rate of the restaurant chained business was from the development of the delivery system from the food delivery services which had the growth rate of 10 percent per year during 2013 to 2018. Furthermore, most of the major players in the market have eyed on expanding to the AEC markets through merger and acquisition. The CRG group was one of the biggest players that targeted the vietnam markets due to its potential growth. Therefore, the improvement of the online platform and the delivery services were highly contribute to the growth of the food services market in Thailand.

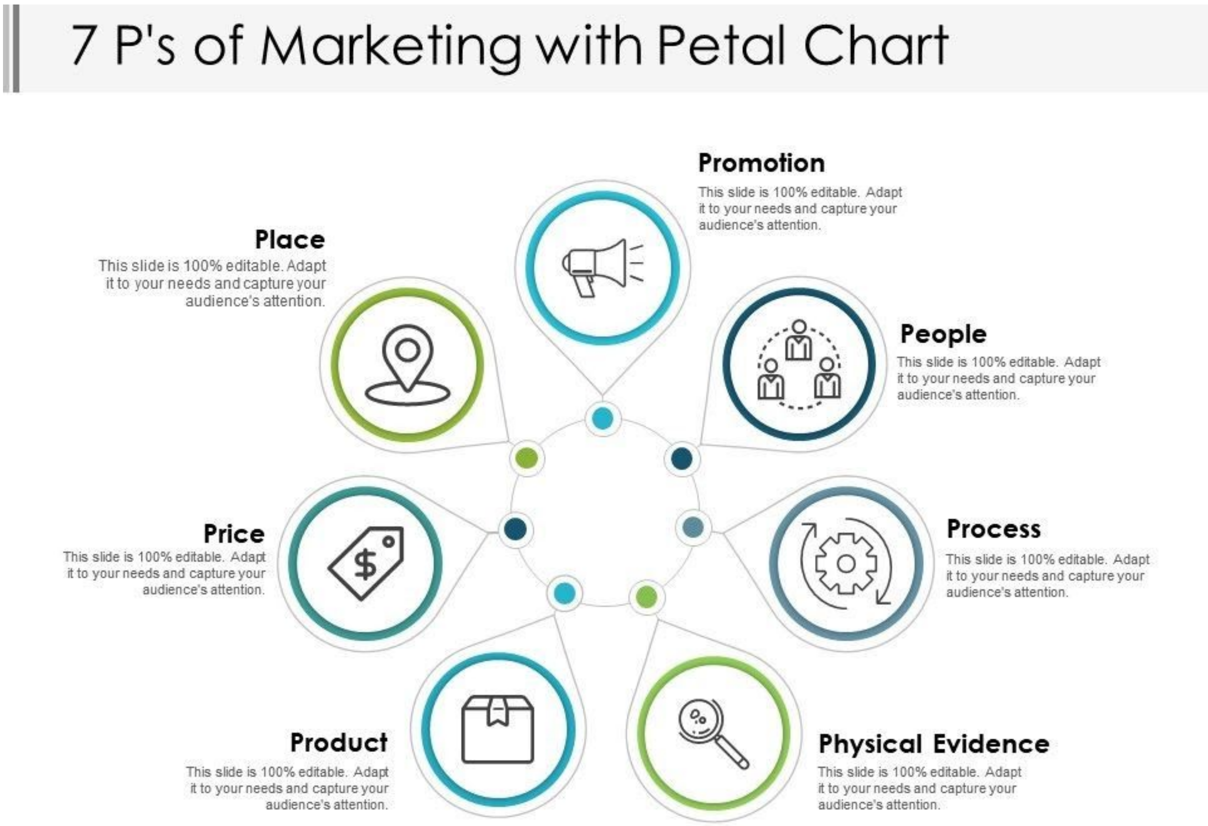
Market Performance

The overall growth of the food service market was around 4 percent during 2013 to 2018. According to the market analysis from the EIC, the expected growth of the food service market will be around 4 to 5 percent during 2019 to 2020 despite the economic fluctuation. The competitiveness in Asian cuisine market is intense, especially the Japanese cuisines whose market value accounted for 18 billion Baht. Moreover, the performance of the chained restaurant tends to outperform the non chained restaurant in recent years. From the analysis of Euromonitor, the revenue of the chained restaurant was increased by 9 percent per year while the branch expansion rate was increased by 8 percent each year. While, the growth in revenue and branch expansion of the non chained restaurant was 4 and 2 percent per year, respectively. The rapid growth rate of the chained restaurant was due to the expansion to the department stores which also has a high growth rate.

4. Theoretical Framework

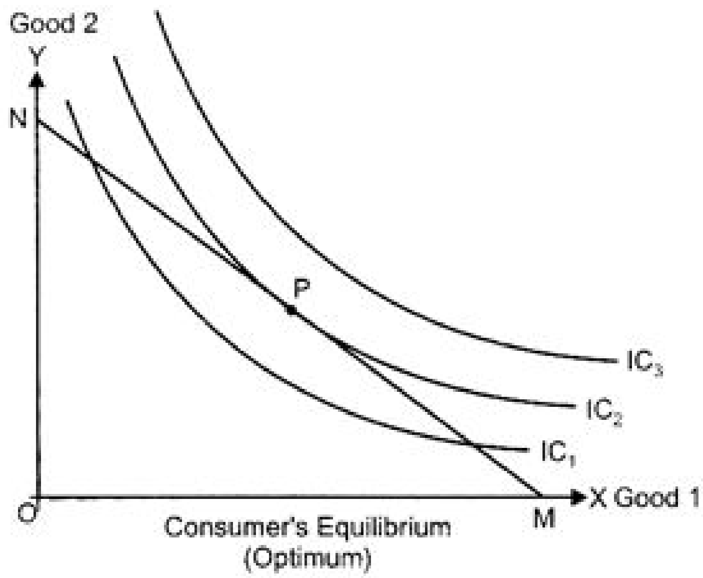
Marketing Mix (7Ps)

These marketing tools were used by the restaurants to attract the customers. The marketing mix consists of product, price, place, promotion, people, physical evidence, and process can be used to explain the consumer behavior because these factors affected the decision of the customers to purchase products or experience services from the restaurant.



Utility Theory

Utility theory is the theory that is based on an individual's preferences which assume that people behaved as if they had a utility function and acted according to it. Since each of the customers had different preferences so it is difficult to give a clear explanation without using the utility theory which depicts the satisfaction levels of the customers into consumption bundles in a graph form which was more tangible than the abstract explanation.



5. Methodology

In order to know the elasticity of consumer's restaurant in malls selection which is linked to the marketing mix of the restaurant, market power of the brand, types of restaurant that demanded by the consumers and the waiting time to have a seat in that restaurant (innovation and capacity). To answer the question of this article we use the SCP paradigm that we have collected the believable information from the secondary data via an online website in order to know the market structure, market conduct and market performance of the restaurant in the malls industry. The overall types of restaurant that we are going to study are selected by the observation of the restaurants in the department stores that may not perfectly cover all types of restaurants in the malls, we intend to study only the restaurants that we usually go to or the majority for everyone.

In the methodology section, we will describe how we are going to collect the data and analyze it. We use the method of doing surveys by creating the questionnaires launched through the online platform. We expect to gather approximately 300 to 350 respondents in minimum for our samples in order to analyze the impact and see the insight of the data, finally we got the samples totalling 598 respondents for our study. The data that we get will be in the form of both qualitative and quantitative data. The main purpose of doing this methodology is to find out what are the factors that make consumers select their alternate choice restaurants and also the consumer's substitution pattern of eat-out restaurants in malls.

The questionnaire's question will be separated into two parts. The first part is the basic information that we collect the demographic data, the questions are consisted of sex, age, career, income per month and living province. The next section questions are related to the restaurant selection behaviors of the consumers. The questions are covered of the frequency of going to the restaurant in malls per week, types of restaurant that usually go, factors the influence the restaurant selection which is linked to the marketing mix concept, what group of people usually go with, maximum waiting time to having seat in restaurant and which types of restaurants are your next choice if the first choice can't serve you or waiting time is excess your willingness.

Define market definition

1. Fast food
2. Hotpot
3. Thai Restaurant
4. Japanese Restaurant
5. Steakhouse
6. BBQ Grill
7. Pizza Company

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