

# DETERMINANTS OF GEN Z CUSTOMERS' LOYALTY IN THE RESTAURANT BUSINESS IN DONGGUAN CITY, CHINA: A CASE STUDY OF HAIDILAO HOTPOT RESTAURANT

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## Abstract

Considering the rapid development of the food service industry, restaurants are facing more challenges. This study aimed to determine how marketing factors, such as perceived food quality, perceived service quality, perceived price reasonableness, perceived convenience, promotion, and perceived store image, affect customer loyalty among Generation Z consumers in Haidilao hotpot restaurants. Additionally, the study looked at the mediating roles of brand image in the hotpot restaurant industry based on the social exchange theory. The survey collected data from 493 Gen Z customers of Haidilao hotpot restaurants in Dongguan City, China. The results indicated that perceived product quality ( $\beta = .138$ ;  $p < .001$ ), perceived price reasonableness ( $\beta = .266$ ;  $p < .001$ ), perceived convenience ( $\beta = .106$ ;  $p < .009$ ), and promotion ( $\beta = .133$ ;  $p = .001$ ) had direct impacts on customer loyalty. The results also showed that brand image mediated between perceived product quality ( $t = 3.543$ ,  $p = .000$ ), perceived service quality ( $t = 4.170$ ,  $p = .000$ ), perceived convenience ( $t = 3.141$ ,  $p = .002$ ), and perceived store image ( $t = 5.021$ ,  $p = .000$ ), and customer loyalty.

**Keywords:** Marketing Mix, Restaurant, Gen Z Customer, Brand Image, Customer Loyalty

## Introduction

The restaurant business plays a significant role in the food service industry and society since it strongly drew public attention for its extensive scale, rapid growth, and widespread influence (Singh et al., 2024). In 2022, the Chinese restaurant profit sector attached value sales of 5.7 trillion yuan (Blazyte, 2024), and the hotpot restaurants accounted for 13.7% (480 billion yuan) of this total (4 trillion yuan) and

is expected to attain 669 billion yuan by 2025 (Qianzhan, 2023); Hotpot's social attributes and low entry barriers lead to prosperity (Qianzhan, 2021) and challenges. In China, as of November 2023, there were 416,000 hot pot-related businesses nationwide, with 66,000 new companies, new forces emerged quickly (Redfood, 2023). Meanwhile, thirty-one thousand hot pot-related businesses had been canceled or suspended as of 2023 (Redfood,

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2023). Besides, more than 60% of hot pot consumers are young people, between 18 and 30 years old (Chinabaogao, 2022), or Generation Z, who were born between 1995 and 2010, have enormous potential spending power (Van den Bergh et al., 2024). Therefore, hotpot restaurant businesses have been facing certain challenges because of many new entrants. Among all hotpot restaurant customers, increasing the retention of Gen Z customers is significant. Meanwhile, the mix of marketing factors is the most common factor widely used to represent customers' experiences and perceptions of their purchasing with businesses (Aljumah et al., 2022). In this research, marketing factors, namely perceived food quality, perceived service quality, perceived price reasonableness, perceived convenience, promotion, and perceived store image, are proposed to determine the loyalty of Gen Z restaurant customers in China. Meanwhile, brand image is the potential mechanism of how each marketing factor affects customer loyalty (Dam & Dam, 2021).

Research on the roles of each marketing mix factor in contributing to customer loyalty with brand image as the mediator, is still limited in particular in the context of Gen Z restaurant customers in Dongguan, China (Ahmad & Akbar, 2023). This study used Haidilao restaurants in Dongguan City, China, as a case study because they were one of China's most popular and leading hotpot restaurant brands among the young generation.

The results are expected to provide new and additional knowledge on relevant

literatures and expansion of the application of the social exchange theory within the food service industry. They also promise for useful guidelines for managers, marketers, and restaurant owners in creating effective marketing strategies to cultivate customer loyalty and ensure long-lasting business prosperity.

### Objective

This study aims to provide novel insights into the impact of each marketing mix factor on consumer loyalty, mediated by brand image, using the framework of social exchange theory.

### Literature Review

Based on social exchange theory, this study intends to explore the effects on customer loyalty and the mediating roles of brand image in the hotpot restaurant industry, focusing on Gen Z customers in Dongguan City, China.

#### Social Exchange Theory

Social Exchange theory, developed by George Homans in 1958, explains the exchange rule in people's relationships that relationships between two parties are designed with cost-benefit analysis instead of their emotions, and the relationships continue as long as their perceived benefits exceed their costs (Cook et al., 2013). This theory has been used in different contexts, such as tourism, business relations, employee-organization relationships, marketing, and management (Wang et al., 2022).

## Customer Loyalty

Customer loyalty is a customer's dedication to businesses with a specific company, making repeat purchases, sharing information with others around them, and recommending them (Oliver, 2014). Ratasuk (2022a) studied the relationship between marketing factors and customer loyalty in coffee shops.

## Brand Image

Keller (1993) considered the brand image to be customers' perceptions of the brand. Marketers found the crucial role brand image plays in brand equity, customer satisfaction, loyalty, and customer repurchase intention (Ogba & Tan, 2009). For example, researchers Singh et al. (2021) tested that good brand image plays a significant role in customer loyalty in the context of fast-food restaurants.

## Perceived Product Quality

Perceived product quality refers to the quality of a product perceived by customers and overall comments on the quality they experienced (Szybillo & Jacoby, 1974), which can lead to many good results. High quality can make customers pleasant and cause a good outcome (Lina, 2022). For instance, verified the link between brand image and perceived product quality in the context of the coffee chain industry.

## Perceived Service Quality

Perceived service quality involves employees and the process by which employees provide customers with service (Spreng & Mackoy, 1996); it is defined as the difference between the service customers

receive and what they expect (Chikazhe et al., 2022). Perceived service quality has been involved in many contexts, such as hospitals, transportation, and libraries (Zaid et al., 2020). Researchers Zaid et al. (2020) found that perceived service quality positively impacts patient satisfaction and behavioral intentions in the medical industry.

### Perceived Price Reasonableness

Perceived price reasonableness refers to customers' perception of the value that customers exchange for the benefit of owning or utilizing the good or service, perceiving whether the price of the product and service is worthy or not compared to what customers cost on it (Rehman et al., 2023). In the study of Bernardo and Purwanto (2022), if Japanese restaurant customers perceived the price as fair or reasonable, they were more satisfied.

## Perceived Convenience

Perceived convenience refers to customers' perception of the convenience of restaurant access; it involves a tangible location or availability for customers to get products or services (Ing et al., 2020). Ing et al. (2020) found that convenience significantly influences customer satisfaction and loyalty in Sabah full-service restaurants.

## Promotion

Promotion is recognized as all kinds of sales marketing activities, including sales promotion and direct marketing; research considers it a vital part of business and a significant component of marketing processes (Lahtinen et al., 2020). Rivaldo et al. (2022) proved that promotion played an essential

role in customer loyalty in the context of the bank.

### Perceived Store Image

Perceived store image refers to customers' perception of the environment in which the restaurant provides. A good store image could lead to a good brand image and develop customer loyalty (El Moussaoui et al., 2023). The research of Chatzopoulou et al. (2022) revealed that store image, for example, atmosphere, can impact customer emotions and buying decisions in the context of pharmacies. Marketing factors, brand image, and customer loyalty.

### Hypothesis Development

According to the social exchange theory, customer loyalty is determined by reciprocity exchanges that depend on perceived marketing mix factors such as the quality of food and

service, reasonable prices, convenience, promotions, and the store image (Al Muala, 2012; Ratasuk & Buranasompob, 2021).

Positive perceptions of marketing mix factors cause positive exchange relationships because customers feel satisfied with the brand in exchange for loyalty (Rastogi et al., 2024). Trust, satisfaction, and emotional connection foster a positive image of the brand, resulting in increased customer loyalty (Salmiah et al., 2024). As a result, customers continue to support the brand, driven by their favorable perception of it (Gazi et al., 2024).

Thus, we propose that all marketing factors positively influence brand image and customer loyalty. Additionally, brand image mediates between marketing factors and customer loyalty. These hypotheses are illustrated in Table 1.

**Table 1** Research Hypotheses

Hypotheses	
H1a	Perceived product quality positively influences customer loyalty.
H1b	Brand image positively mediates the relationship between perceived product quality and customer loyalty.
H2a	Perceived service quality positively influences customer loyalty.
H2b	Brand image positively mediates the relationship between perceived service quality and customer loyalty.
H3a	Perceived price reasonableness positively influences customer loyalty.
H3b	Brand image positively mediates the relationship between perceived price reasonableness and customer loyalty.
H4a	Perceived convenience positively influences customer loyalty.
H4b	Brand image positively mediates the relationship between perceived convenience and customer loyalty.

**Table 1** Research Hypotheses (Cont.)

Hypotheses	
H5a	Promotion positively influences customer loyalty.
H5b	Brand image positively mediates the relationship between promotion and customer loyalty.
H6a	Perceived store image positively influences customer loyalty.
H6b	Brand image positively mediates the relationship between perceived store image and customer loyalty.

### Methodology

This research mainly studied Gen Z restaurant customers in Dongguan, China. Therefore, the population of interest is unknown. This study conducted stratified purposive sampling in all 14 Haidilao hotpot restaurants located in Dongguan City, China, to affirm a good representation of the sample to the population (Neyman, 1992). To ensure the sufficiency of the final data, 40 Gen Z customers aged 18 and older who were born between 1995 and 2005 were selected from each restaurant, and a total of 560 were initially approached (Cochran, 1977; ETC, 2020; Kim, 2012). The data collection was conducted offline, in front of the restaurants. Potential respondents were approached and asked whether they were qualified before being informed about anonymity, confidentiality, and voluntariness. Each respondent took about five to ten minutes.

### Research Tool

This study employed questionnaires for extensive data collection within a limited time (Bell et al., 2022). The questionnaires contained

demographic characteristics, namely gender, age, education, and income, and question sets measuring all latent variables. The question's wording was modified from scales that showed adequate validity and reliability in earlier research. A five-point Likert scale, with one denoting strongly disagree and five denoting strongly agree, was used to measure them.

Perceived product quality was measured by a five-item scale adapted from Sullivan and Kim (2018). Perceived service quality was measured using a five-item scale from Singh et al. (2021). Perceived price reasonableness was measured employing a five-item scale from Ratasuk and Buranasompob (2021). Perceived convenience was measured using a six-item scale from Ratasuk and Gajesanand (2020). Promotion was measured using a five-item scale from Raji et al. (2019). Perceived store image was measured using a five-item scale adapted from Ratasuk (2022a). The brand image was measured using a six-item scale from Ratasuk and Buranasompob (2021). Customer loyalty was measured by a five-item scale from Singh et al. (2021).

### Control Variable

Four control variables were involved in this study: Gender, age, education, and income, which were selected since they significantly impacted brand image and customer loyalty in previous research (Ratasuk & Gajesanand, 2022).

### Estimation Method

PLS-SEM was utilized in this study's structural equation modeling analysis, and the Sobel test was used as a mediation test. WarpPLS program version 8.0 is the newest version that can produce high-quality and precise results, working well with several variables and relationship paths, and more likely to present non-normal distribution data (Hair Jr et al., 2021; Ratasuk, 2022b). Compared to CB-SEM, PLS-SEM is more suitable for this research because it is not only efficient for smaller sample size but also non-normal distribution data (Hair Jr et al., 2017).

The university research ethics committee approved this study and granted it the following reference number: PIM-REC 007/2567.

### Results

As shown in Table 2, out of 493 (88.03%) respondents, 303 (61.46%) were female, and the rest were 190 (38.54%) males. 213 (43.21%) respondents were between 21 and 30 years old, followed by 207 (41.99%) respondents between 18 and 20 years old. 354 (71.81%) respondents have a bachelor's degree, followed by 117 (23.73%) with a master's degree. 217 respondents (44.02%) have disposable income between 2000 and below 2000 RMB per month, and 187 respondents (37.93%) have disposable income between 2001 and 4000 RMB per month.

**Table 2** Correspondents' Characteristics and Descriptive Statistics

Control Variables		Descriptive Statistics
Gender	Male	190 (38.54%)
	Female	303 (61.46%)
Age	18-20 years old	43 (8.72%)
	21-22 years old	213 (43.21%)
	23-25 years old	207 (41.99%)
	26-27 years old	25 (5.07%)
	28-29 years old	5 (1.01%)

**Table 2** Correspondents' Characteristics and Descriptive Statistics (Cont.)

Control Variables		Descriptive Statistics
Education	High School Diploma and below	10 (2.03%)
	Associate Degree	11 (2.23%)
	Bachelor's Degree	354 (71.81%)
	Master's Degree	117 (23.73%)
	Doctoral Degree	1 (0.20%)
Income (Per Month)	2000 and below 2000	217 (44.01%)
	2001-4000	187 (37.93%)
	4001-6000	55 (11.16%)
	6001-8000	21 (4.26%)
	8001-12,000	6 (1.22%)
	Above 12,000	7 (1.42%)

Before presenting the PLS-SEM analysis, the convergent validity was tested using factor loadings, which are expected to be no lower than .5 to be acceptable, composite reliability values, which are supposed to be no less than .7 to be satisfactory, and the Average Variance Extracted (AVE) values which needs to be no lower than .5 to be acceptable (Hair Jr et al., 2020). The findings showed that the factor loadings ranged between .593 and .860, the lowest composite reliability value was .797, and the lowest average variance extracted value was .506. Hence, the convergent validity is satisfactory.

Besides, the discriminant validity is tested using the Heterotrait-Monotrait (HTMT) ratio, which should not over than .90 to be acceptable, and .85 to be good (Hair Jr et al., 2020; Hair Jr et al., 2021). The results indicated that the highest HTMT ratio was

.886, representing and acceptable level of discriminant validity.

Discriminant validity was confirmed by comparing the square roots of the Average Variance Extracted (AVE) values for each variable with their related correlations. According to Hair Jr et al. (2021), discriminant validity is considered acceptable when the square root of the Average Variance Extracted (AVE) value for each variable is greater than its correlation with other variables. The results shown in Table 3 indicate that none of the correlations between variables surpassed the related square root of AVE values, thus confirming the discriminant validity.

Table 3 showed that all the composite reliability and Cronbach's Alpha values were above .7, indicating satisfactory reliability based on Fornell and Larcker (1981) criteria. In addition, complete collinearity Variance

Inflation Factors (VIF) were used to evaluate multicollinearity among variables and Common Method Bias (CMB). Kock (2015) proposed that a Variance Inflation Factor (VIF) value below 3.3 indicates the lack of substantial multicollinearity

and CMB. The highest variance inflation factor (VIF) recorded in Table 3 was 2.7, indicating the absence of significant multicollinearity issues and confirming that the model is unaffected by CMB.

**Table 3** Correlations and Reliability Test Results

Variables	CL	BI	PPQ	PPR	Promo	PSQ	PC	PSI
CL	(.774)							
BI	.616	(.712)						
PPQ	.545	.587	(.721)					
PPR	.555	.378	.421	(.825)				
Promo	.467	.400	.342	.499	(.782)			
PSQ	.448	.603	.502	.268	.241	(.716)		
PC	.489	.536	.474	.351	.306	.436	(.654)	
PSI	.465	.655	.496	.276	.400	.538	.416	(.664)
Composite	.882	.859	.843	.914	.887	.836	.815	.797
Reliability (CR)								
Cronbach's Appha	.832	.802	.765	.882	.841	.753	.726	.782
Full Collin. VIF	2.187	2.700	1.862	1.689	1.547	1.781	1.613	1.988

**Note:** CL = Customer Loyalty, BI = Brand Image, PPQ = Perceived Product Quality, PPR = Perceived Price Reasonableness, Promo = Promotion, PSQ = Perceived Service Quality, PC = Perceived Convenience, PSI = Perceived Store Image

### PLS-SEM Results

The proposed hypotheses were tested using the PLS-SEM after the model quality was deemed acceptable. Figure 1 revealed

the PLS-SEM analysis results. The Sobel test was also used to conduct the mediation test, and the outcomes were shown following the PLS-SEM results.

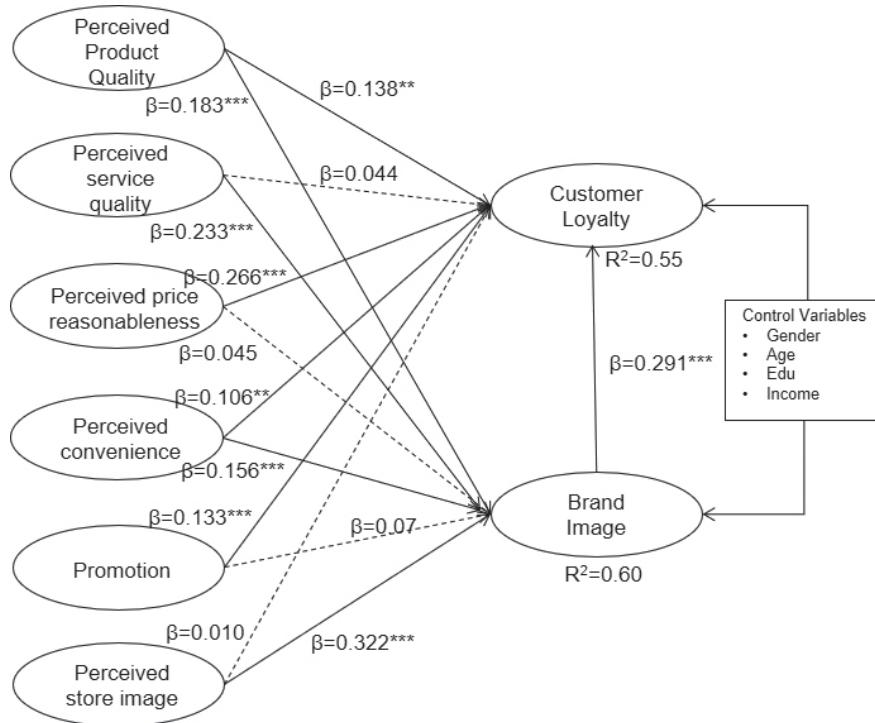


Figure 1 The PLS-SEM Results

Source: \*\*\*, \*\* and \* means p-value  $\leq .001$ ,  $\leq .01$ , and  $\leq .05$

Solid Lines Refer to Significant Paths, and Dashed Lines Refer to Non-Significant Ones.

Figure 1 presents the results of PLS-SEM, showing a positive and significant impact between brand image and customer loyalty ( $\beta = .291$ ;  $p < .001$ ). Also, all mediating effects were tested using the Sobel test (Preacher & Leonardelli, 2001).

Hypothesis 1a was supported by a positive and significant impact of perceived product quality on customer loyalty ( $\beta = .138$ ;  $p < .001$ ).

The result of hypothesis 1b suggested that perceived product quality positively influences customer loyalty through brand image mediation. It showed significant partial mediation of brand image between perceived product quality and customer loyalty ( $t = 3.543$ ,  $p = .000$ ), supporting hypothesis 1b.

The result of hypothesis 2b suggested that brand image positively mediated the relationship between perceived service quality and customer loyalty. It indicated a significant positive and complete mediation of brand image between perceived service quality and customer loyalty ( $t = 4.170$ ,  $p = .000$ ). Therefore, hypothesis 2b is supported.

Hypothesis 3a was supported by a positive and significant impact of perceived price reasonableness on customer loyalty ( $\beta = .266$ ;  $p < .001$ ).

Hypothesis 4a was supported by a positive and significant impact of perceived convenience on customer loyalty ( $\beta = .106$ ;  $p < .009$ ).

The result of hypothesis 4b suggested that brand image positively mediated the relationship between perceived convenience and customer loyalty. The Sobel test results indicated a significant positive and partial mediation of brand image between perceived convenience and customer loyalty ( $t = 3.141$ ,  $p = .002$ ). Therefore, hypothesis 4b was supported.

Hypothesis 5a was supported by a positive and significant impact of promotion on customer loyalty ( $\beta = .133$ ;  $p = .001$ ).

The result of hypothesis 6b suggested that customer loyalty and perceived store image are positively mediated by brand image. The Sobel test results indicated a significant positive and complete mediation of brand image between perceived store image and customer loyalty ( $t = 5.021$ ,  $p = .000$ ). Therefore, hypothesis 6b was supported.

Additionally, the results showed that no control variable had a statistically significant relationship with customer loyalty: Gender ( $\beta = .019$ ;  $p = .335$ ), Age ( $\beta = .048$ ;  $p = .143$ ), Education ( $\beta = -.016$ ;  $p = .361$ ), Income ( $\beta = .013$ ;  $p = .388$ ). Conversely, there is no impact of any control variables on brand image and customer loyalty: Gender ( $\beta = .016$ ;  $p = .361$ ), Age ( $\beta = .047$ ;  $p = .147$ ), Education ( $\beta = -.005$ ;  $p = .453$ ), Income ( $\beta = .027$ ;  $p = .271$ ).

## Discussion

This study discusses the impact of the marketing mix element of Gen Z customers' loyalty with the brand image as a mediating role based on social exchange theory. The results

showed that perceived price reasonableness, perceived product quality, promotions, and perceived convenience influence Gen Z customers' loyalty to hotpot restaurants respectively. These results are consistent with previous studies. For example, Singh et al. (2021) found positive impacts of price and product on customer loyalty in the fast-food industry in Fiji. Ing et al. (2020) found convenience positively impacts loyalty in the context of full service in Sabah. Meanwhile, Rivaldo et al. (2022) found that promotion positively impacts customer loyalty in the context of the bank. In addition, Hsiao et al. (2023) revealed how businesses can improve customer loyalty by applying the principles of social exchange theory. This addressed the problems that hot pot businesses expect to build and develop customer loyalty among Gen Z customers to improve competitiveness and achieve sustainable development.

The Sobel test verifies that brand image mediates between perceived store image, perceived service quality, perceived product quality, perceived convenience, and customer loyalty. These findings align with the research by Ratasuk and Buranasompob (2021) that enhancing perceptions of product and service quality can cultivate a favorable brand image and enhance customer loyalty. Meanwhile, the results are consistent with Ing et al. (2020) that convenience positively impacts loyalty through satisfaction in Sabah full-service restaurants. Moreover, the store ambiance was found to positively impact customer loyalty through brand identity in the research by Ratasuk (2022a).

## Conclusion

In the context of the hot pot restaurant industry in China, the results indicated that Gen Z customers' loyalty in Dongguan City, China, was directly influenced by perceived price reasonableness, perceived product quality, promotions, and perceived convenience, respectively. Moreover, perceived store image, perceived service quality, perceived product quality, and perceived convenience influence loyalty through the brand image.

Customers who perceive a high level of product and service quality, convenience, and store image tend to have a positive attitude toward loyalty and business. Moreover, customers who perceive a high level of price reasonableness and promotions will likely be loyal to hot pot restaurants.

In order to drive loyalty, the business should focus on building a positive brand image, a high level of perceived price reasonableness, perceived product quality, promotions, and perceived convenience, while brand image can be developed by high perception of store image, service and product quality, and convenience.

## Academic Contributions

This study 1) provides fresh perspectives on customer loyalty, particularly within the Chinese food service industry, and explores the impact of marketing factors on customer loyalty, particularly emphasizing the role of brand image. 2) Meanwhile, this is also the first time in which these concepts are being examined within the framework of Haidilao hotpot restaurant and among customers

from Generation Z. 3) Finally, the research delves into the social exchange theory, providing insights into its application in novel contexts such as Dongguan City, China, and establishments like Haidilao hotpot restaurant.

## Practical Contributions

This research proposes practical guidelines for restaurant managers to develop customer loyalty. According to the results, businesses should first promote their brand image. To promote brand image, they should: 1) Enhance the dining experience by establishing a unique and inviting ambiance that reflects the cultural aspects of hotpot dining. This could include traditional decor, comfortable seating, and appropriate lighting. 2) Provide excellent service and train staff extensively on customer service, focusing on politeness, responsiveness, and knowledge about the menu. 3) Source high-quality ingredients, using fresh ingredients to ensure the food not only tastes good but also meets health standards, and maintain authentic and traditional recipes, possibly incorporating regional variations to cater to local tastes and attract food enthusiasts. 4) Implement digital menus and tablet ordering to streamline the dining process and reduce wait times. Then, according to the results, businesses should also focus on improving factors that directly impact customer loyalty. They should: 1) Implement loyalty and rewards programs by developing a loyalty program that rewards repeat customers with discounts, special offers, or exclusive access to new restaurant dishes and events. 2) Communicate your

sustainability efforts to customers to enhance brand image and appeal to environmentally conscious consumers. 3) Well manage and eliminate food and water waste, recycle, reuse, and use environmentally friendly takeout packaging and utensils. 4) Use social media platforms to engage with targeted customers, share mouth-watering images and videos of the food and dining environment, and promote special offers.

### Limitations and Suggestions

The study has limitations: 1) The data gathered from Generation Z customers at 14 Haidilao hotpot restaurants in Dongguan, China, might not wholly reflect the consumption patterns of all Generation Z individuals, which

restricts the applicability of the findings. 2) The utilization of self-administered questionnaires may introduce subjective bias. 3) This study solely focuses on marketing mix factors and may have overlooked other variables crucial in fostering customer loyalty.

Suggestions for future research are:

- 1) Examine other factors affecting customer loyalty as mediating variables between marketing mix and customer loyalty, such as brand identity, customer satisfaction, and others.
- 2) Use the same approach in other commercial settings, like cafes and hotels.
- 3) Explore the effect of marketing mix on other desirable factors, such as customer repurchase and trust.

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