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A comparison of the relationship marketing outcomes of SMEs vs large enterprises in the Kuwait fast food industry

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Abstract

Purpose – The purpose of this paper is to investigate the effects of retail chain size on a variety of relationship marketing performance measures in the Kuwait fast food industry. These include customer satisfaction, customer retention, penetration rate, preference ranking and share of customer.

Design/methodology/approach – A total of 49 fast food chains, operating a total of 508 restaurants, were included in the study. Interviews with the home office marketing managers of each chain were conducted. In addition, a quota sample of 650 consumers representative of the Kuwait population with respect to age and gender was selected for participation in the study.

Findings – Findings suggest that large enterprises (LE) exhibit superior outcomes than small- and medium-sized enterprises (SMEs) on many relationship marketing (RM) performance dimensions, including satisfaction, retention, penetration, preference and share of customer. In contrast, SMEs appear to have few advantages in achieving RM outcomes over LEs. Larger firms appear to use their superior resources to take actions to develop and manage customer relationships in ways that smaller firms cannot.

Originality/value – Kuwait is an important emerging market in the Middle East, and managers need to understand the dynamics of this specific market.

Keywords Kuwait, SMEs, Relationship marketing, Fast food, Large enterprises

Paper type Research paper

Introduction

Through the exploitation of revenue-generating petroleum products, Gulf States in the Middle East have rapidly transformed from subsidence herding, farming and fishing communities to emerging modern nations. In fact, in 2017, Kuwait was officially recognized by the British financial index compiler FTSE as an emerging market, joining their Middle Eastern neighbors Egypt, the United Arab Emirates and Qatar on the list. The reclassification of Kuwait is expected to lead to an estimated $700m inflow of capital from both local and foreign investors within the next few years (Pacheco, 2017). This is because emerging markets such as Kuwait possess numerous advantages, including low-cost labor, low-cost capital, high levels of economic growth and stable market systems (Pangboonyanon and Kalasin, 2018; Welsh *et al.*, 2006; Zhang *et al.*, 2014). However, research studies on emerging markets remind us that no two are identical, making it difficult to make generalizations. Instead, researchers need to conduct studies and interpret findings solely within the context of a specific market (Nielsen *et al.*, 2018). As such, and in

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light of the expected influx of new investment, it is more important than ever to establish a specific understanding of the dynamics of the Kuwait market.

In Kuwait, much of the food supply is imported to satisfy the requirements of an expanding population, especially foreign workers on temporary visas who make up more than half of the residents (Todd, 2017). In response to the growing demand, quick-service retail food (fast food) restaurants have proliferated throughout the country. Nevertheless, the size and scope of these restaurants varies, as the competitive landscape includes both small- and medium-sized enterprises (SMEs) and large enterprises (LEs). By their very nature, small firms have unique characteristics and qualities that distinguish them from their larger counterparts (Beaver, 2003). For example, some studies suggest that due to superior flexibility and responsiveness, small firms may actually outperform many larger companies (Bourlakis *et al.*, 2014). On the other hand, with fewer opportunities for organizational learning and knowledge sharing across multiple outlets, many smaller retail chains have steeper learning curves in comparison to their larger rivals (Lu and Wedig, 2013). In addition, larger companies are often able to achieve economies of scale, which can enhance productivity and return on investment. This is true for both privately held retail chains and franchised operations, which typically operate centralized supply and inventory management systems (Wang *et al.*, 2015). Given the contradictory conclusions, it is likely that the impact of firm size on performance is dependent on the particular industry in question and the nature of the performance measure (Bamiatzi and Hall, 2009).

In Kuwait, Western style dining habits are growing in popularity. As a result, there has been a escalating concern about the impact of this industry on consumer health and wellness (Burki, 2016). However, very few studies to date have examined the actual marketing performance of the firms operating in this industry, especially their ability to foster positive customer relationships despite the fact that the great majority of Kuwaiti consumers consider fast food to be harmful to their health (Musaiger, 2014). Moreover, because business practitioners have become increasingly concerned with enhancing customer relationships, analyzing performance from a relationship marketing (RM) perspective remains a fertile topic for academic researchers (Heiens *et al.*, 2015). Thus, the current study examines the ability of both large and small fast food enterprises in the Kuwait market to achieve important RM outcomes, including customer satisfaction and customer retention.

Background

The theoretical foundation that explains the fundamental differences between SMEs and LE is the resource-based theory of the firm. According to the resource-based view, resources are at the core of firm strategies. Therefore, differential endowment of organizational resources is an important determinant of organizational performance (Barney, 1991). A company's resources include human, organizational, information and relational elements such as the skills and knowledge embedded in organizational actors, as well as general corporate culture (Hunt, 2000). Evidence indicates that SMEs, regardless of the country in which they operate, are challenged by their constraints in accessing resources (De Massis *et al.*, 2017). Since smaller firms are likely to have fewer resources, direct head-to-head confrontation with their larger and more resource-rich rivals is probably unwise. In fact, it has long been established that smaller firms tend to perform better if they use different strategies from those followed by their larger rivals (Caves and Pugel, 1980). Hence, a strategy based on strategic differentiation is probably the best course of action for many SMEs.

In the case of SMEs, it has been suggested that market orientation and RM practices can help to differentiate SMEs and give these firms competitive advantage over their larger counterparts (Keskin, 2006). In fact, Reijonen *et al.* (2012) demonstrated that SMEs that have adopted these perspectives are more capable of achieving their growth objectives than those that have not. Because smaller firms have less organizational bureaucracy, they can

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potentially build strong customer relationships by responding to customer needs more quickly than is possible for their larger counterparts (Gurahoo and Salisbury, 2019). Instead, larger companies may be more methodical and deliberate, leading to slower response times. On the other hand, some studies suggest that SMEs are not always nimble and responsive to customer needs. In one study, Walsh and Lipinski (2009) found the marketing concept not as well developed or influential in SMEs as it is in large corporations, and Pelham (2000) similarly found a significant impact of size on market orientation. Thus, a question arises as to whether or not SMEs are more likely to enjoy positive outcomes related to RM practices as compared to their larger counterparts within the Kuwait fast food industry.

The study and practice of RM has experienced tremendous growth over the past two decades. Despite the absence of a universally accepted definition of RM, it can be thought of as the process of building relationships at every point of interaction with the customer (Theron and Terblanche, 2010). RM is a natural offshoot of the marketing concept, which holds that customer needs should drive the firm's decisions, and its corollary, the retailing concept, a management orientation that focuses a retailer on determining the needs of its target market and satisfying these needs more effectively and efficiently than its competitors (Levy *et al.*, 2019). The emphasis on RM is understandable when you consider the substantial costs of acquiring and serving the needs of new customers (Tillmanns *et al.*, 2017). Instead, focusing on the needs of loyal customers is usually much cheaper and provides a higher return on investment than the cost of acquiring new customers (Reinartz *et al.*, 2005).

According to Jones *et al.* (2015), the vast majority of consumers have a positive attitude toward RM and would choose a company that engages in RM over a company that does not. With the gradual adoption of the RM perspective in the field of retailing, the focus for many retailers began to shift from merely attracting new customers to caring for existing customers and providing them with relational benefits (Jung *et al.*, 2013; Xu *et al.*, 2006). Of these relational benefits, it is widely acknowledged that engendering customer satisfaction is perhaps the most essential (Leverin and Liljander, 2006; Palmatier *et al.*, 2006; Rust and Chung, 2006). In fact, the popularity of RM is driven by the considerable body of evidence validating the profit impact emanating from customer satisfaction, an important tenet of the service-profit chain (Hogreve *et al.*, 2017). This is because customer dissatisfaction is widely regarded as the most prominent brand-switching trigger (Bogomolova and Grudinina, 2011). Therefore customer satisfaction is inextricably linked to customer retention, and both of these dimensions are widely regarded as important RM outcomes (Palmatier *et al.*, 2006; Zhang *et al.*, 2016).

In a detailed study of international RM activities, Samiee *et al.* (2015) recognize multiple dimensions that may be used to identify and define the nature of buyer–seller relationships. For example, one way customer satisfaction contributes to customer retention is through the formation of reasonably stable brand repertoires (Bogomolova and Grudinina, 2011). As long as customers remain satisfied with the relationship, these brand repertoires serve as the limited consideration set from which consumer decisions are made. Consequently, establishing a brand within the consumer's brand repertoire is a significant determinant of a brand's success, and we use the percentage of customers who have tried the brand (penetration rate) as a proxy for inclusion in the consumer brand repertoire, another essential RM-related outcome. Unfortunately, not all repeat purchasers can be categorized as brand loyal. According to one popular view, it is the attitudinal preference of the repeat buyer that is the foundation for true customer loyalty (Dick and Basu, 1994; Lui-Thompkins and Tam, 2013). Therefore, it may be argued that another important RM outcome is the measurement of customer loyalty with an emphasize on the preference that customers may have for a specific brand. Finally, an increasingly popular RM outcome measure is a company's share of a customer's business, also known as "share of wallet" or "customer share" (Shaikh *et al.*, 2018; van Doorn and Verhoef, 2008).

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Hypotheses

Irrespective of company size, RM has become the primary concern for many firms (Palmatier *et al.*, 2006), and customer satisfaction remains an important goal (Netzer *et al.*, 2008). Nevertheless, the route to achieve customer satisfaction can take many paths. For many small firms, creativity and innovation may be the preferred approach. For example, it has long been recognized that innovative activity tends to emanate more from small firms than from large firms (Acs and Audretsch, 1988). This indicates that small firms may often resort to a strategy of innovation in order to remain viable, and this innovative behavior may lead to higher levels of customer satisfaction. In support of this position, and perhaps counterintuitively, Rego *et al.* (2013) recently demonstrated a negative relationship between market share and customer satisfaction. In other words, companies with higher market share actually have fewer satisfied customers. Their conclusions attribute this primarily due to the difficulty that firms with larger market shares have in satisfying a greater number of customers.

Considering this finding within the context of the Kuwait fast food industry, anecdotal evidence suggests that SMEs often modify their menus to meet the needs of niche segments. This is especially important in Kuwait, since 70 percent of their total population of over 4m people is comprised of foreign born residents (Fonseca, 2019). On the other hand, the larger chains are more likely to offer a more standardized set of menu options that, while efficiently meeting the basic needs of the largest group of customers, fails to elicit the deepest level of contentment. Therefore, although larger chains may offer location-based advantages and more competitive price points, this does not always translate to higher levels of customer satisfaction, especially when considering the many expatriate groups within the Kuwait market that form distinctive segments with unique taste preferences. Consequently, in the case of the Kuwait fast food industry, we offer the first hypothesis:

H1. Customer satisfaction levels will be higher for SMEs than for LEs.

Turnover in a company's customer base is referred to as "churn," and minimizing the churn rate is a top priority for businesses, regardless of size. Proactive churn retention programs have become quite sophisticated in recent years and, given their superior resources, it is more likely that larger firms would have the skills and budget to identify and target those customers with the highest risk of churning (Ascarza, 2018). Furthermore, another popular strategy that firms use to retain current customers is through a relational price discount, including both initial discounts to attract new customers and frequent buyer discounts to engender customer retention (del Rio Olivares *et al.*, 2018). Considering the costs associated with both churn retention programs and customer retention strategies based on relational price discounts, we offer the second hypothesis:

H2. LEs will have higher customer retention rates than SMEs.

Recent research by Min *et al.* (2016) suggests that larger firms should have an advantage over smaller firms with regard to customer acquisition costs. Specifically, a firm's customer acquisition costs are actually quite sensitive to market-share position, with market-share leaders enjoying lower costs than followers. The greater sensitivity of acquisition cost to market-share position can be attributed to the "observability" of many customer acquisition efforts, which tend to initiate reactions from rival firms. Alerted to the customer acquisition efforts of their smaller rivals, larger competitors may aggressively seek to prevent the investing firms from achieving their market penetration objectives and acquiring larger market shares (Xue *et al.*, 2006). Therefore, as Min *et al.* (2016) conclude, the effectiveness of the same amount of investment on customer acquisition might be less than expected as competition increases and share position weakens. As such, we offer the third hypothesis:

H3. LEs will have higher penetration rates (percentage of customers who have tried the brand) than SMEs.

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Social exchange theory suggests that social relationships can be understood through economic principles. According to social exchange theory, individuals tend to assess the profits and losses associated with social relationships and select those that maximize the benefits to themselves (Blau, 1964). The theory assumes that individuals regularly make these balance sheet calculations before deciding which social ties will best meet their specific needs. In the marketing literature, social exchange theory has been used to explain the impact of RM efforts on the strength of customer relationships (Hennig-Thurau *et al.*, 2002). Specifically, those marketers that can offer the highest return on the customer's investment of time, effort and money are able to build the strongest customer relationships.

Consistent with the tenets of social exchange theory is the notion that customers are expected to project positive thoughts and feelings toward a specific company or brand when receiving functional and/or social benefits from this relationship (Pervan *et al.*, 2009). In a study of fast food restaurants, Frank (2012) discovered that the primary determinants of positive customer attitudes included brand image, social recognition and perceived competitive advantages, all of which are factors that LEs can be expected to possess to a greater degree than SMEs. As might be predicted by social exchange theory, LEs are likely to outperform SMEs in their ability to offer customers both functional and emotional benefits, thus enhancing brand-related thoughts and feelings. This, in turn, is likely to lead to higher preference scores, as suggested in the following hypothesis:

H4. LEs will score higher on the measure of customer preference than SMEs.

In contrast to market share, or the proportion of total industry sales that can be attributed to a specific firm, RM efforts have long recognized the importance of increasing the share of a customer's business. Customer share can be defined as the "proportion of potential sales to a specific customer captured by a seller" (Palmatier *et al.*, 2007, p. 213). To maximize this metric, firms frequently use economically oriented RM strategies such as loyalty programs and direct marketing efforts (Verhoef, 2003). As suggested by the resource-based view of the firm, larger companies are more likely to possess the financial resources required to do so. In addition, to be most successful, marketers need to specifically target these efforts toward their best customers. Because identifying and targeting individual customers requires a significant investment in customer relationship management systems, it is also likely that larger firms will excel in this practice to a greater extent than SMEs. Consequently, we propose our final hypothesis:

H5. LEs will have a larger customer share than SMEs.

Data collection and variables

At the time of the study, 68 fast food restaurant chains, each representing a separate brand, were operating in Kuwait. Most of these fast food chains had multiple locations throughout Kuwait, operating approximately 537 fast food outlets in total. Some of these were local brands and some were international brands with franchising rights held by local partners. Note that since the study focused on SMEs and LEs, only multiple-outlet fast food restaurant chains were included in the study and single proprietorships were not considered. In fact, there were 15 single-outlet brands operating in Kuwait that were excluded from the study. Also, four retail chains declined to provide information. These four were also excluded. Therefore, a total of 49 fast food chains, representing 49 separate brands, were included in the study. These 49 chains operated a total of 508 restaurants, approximately 94.6 percent of the market based on total number of fast food outlets. Interviews with the home office marketing managers of each chain were conducted by trained professional interviewers. Each interviewer was assigned the task of gathering information on a variety of details, including the number of outlets and the approximate number of customers per day.

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To collect the consumer data necessary to test the hypotheses, a quota sample was selected on the basis of age and gender. Secondary data sources provided age and gender statistics for the Kuwait population as a whole, which were then used as a guideline for the percentage of respondents to be included in each age and gender category. A total of 650 consumers were contacted and interviewed. In the end, 601 respondents agreed to fully participate in the study. No differences in age or gender representation were evident between the respondents and the population as a whole ($X^2 = 2.76$, df $= 2$, $p = 0.10$), indicating that the consumer sample was representative of the Kuwait population with respect to age and gender.

The study included a variety of constructs pertaining to RM performance and firm size. Specifically, consistent with the hypotheses, five RM-related items were included: the average satisfaction rating for the brand by current users (SAT), the percentage retention of customers after trial (RET), the percentage penetration of a brand into the market (PEN), the average preference ranking for the brand (PREF) and share of customers: the share of visits to each fast food chain per year (CUSHARE). It is important to note that all of the variables in the study were operationalized at the aggregate-level by brand. This means that the 601 consumer responses were aggregated into an average, a percentage, or a total, as appropriate, pertaining to each of the 49 fast food brands.

In addition, since the primary point of interest in this study is to compare SMEs to LEs on each of the RM-related outcomes, chain size (the number of outlets in the market operated by a given brand) was also calculated. Table I reveals the number of outlets per brand for the 49 fast food restaurant chains. Note that the 49 chains averaged 10.37 outlets each, with a standard error of 1.92, a median of 5 and a mode of 3. An examination of the "cumulative % brands" column in Table I reveals a natural split with regard to the smallest and the largest chains between 13 and 23 outlets per brand. Therefore, those chains with 13 or few outlets were classified as SMEs whereas chains with 23 or more outlets were classified as LEs. This division resulted in 42 SMEs and 7 LEs. The SMEs represented 85.7 percent of the brands and 44.1 percent of the outlets, while the LEs represented 14.3 percent of the brands and 55.9 percent of the outlets.

Analyses

In order to test our hypotheses, a number of statistical tests were performed. We began with an analysis of the data by country of origin to determine if SMEs and LEs were equally

Outlets per brand	No. of brands	% brands	Cum. % brands	Total no. of outlets	% outlets	Cum. % outlets
2	6	12.24	12.24	12	2.36	2.36
3	8	16.33	28.57	24	4.72	7.08
4	4	8.16	36.73	16	3.15	10.23
5	7	14.29	51.02	35	6.89	17.12
6	4	8.16	59.18	24	4.72	21.84
7	6	12.24	71.42	42	8.27	30.11
9	4	8.16	79.58	36	7.09	37.20
10	1	2.04	81.62	10	1.97	39.17
12	1	2.04	83.66	12	2.36	41.53
13	1	2.04	85.70	13	2.56	44.09
23	1	2.04	87.74	23	4.53	48.62
32	2	4.08	91.82	64	12.6	61.22
41	1	2.04	93.86	41	8.07	69.29
50	1	2.04	95.90	50	9.84	79.13
52	1	2.04	97.94	52	10.24	89.37
54	1	2.04	99.98	54	10.63	100
Total	49	100		508	100	

Table I. Outlets per brand

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distributed between domestic and international brands. This is because country of origin could potentially serve as a moderator variable that could confound the findings (Cilingir and Basfirinci, 2014). The results of a χ^2 test of the data are shown in Table II. As shown in Table II, the statistical test of the cross-tabulation between firm size and country of origin is not statistically significant ($p = 0.23$). Therefore, the results suggest that SMEs and LEs are equally likely to be either domestic or international firms and that country of origin need not be considered when analyzing the results.

The hypotheses suggest that the RM-related variables differ by the size of the retail chain. In other words, customer satisfaction, customer retention, penetration rate, preference ranking and share of customer will differ between SMEs and LEs. Specifically, *H1* proposed that SMEs would outperform LEs on customer satisfaction, whereas *H2*–*H5* all suggested that LEs would outperform SMEs on each of the other RM outcomes. Because the hypotheses are based on generalizations from previous unrelated research, rather than replications of studies within the same context, the analysis can be considered exploratory in type. Thus, the appropriate methodology is the simple *t*-test for comparisons of means (Kuiper and Hoijtink, 2010). Table III shows the results of the *t*-tests for the comparisons of the sample means of the two SIZE subgroups for each variable as reported by the 601 consumer respondents. As can be seen in Table III, LEs actually outperform SMEs on each of the RM performance variables, including customer satisfaction, customer retention, penetration rate, preference ranking and share of customer. Therefore, *H1* is rejected, while support is offered for *H2*–*H5*.

In summary, the findings suggest that LEs have higher customer retention rates, higher penetration rates, higher customer preference scores and a larger share of their customers' total purchases than their smaller rivals. It appears that size really does matter and that the superior resources available to LEs may result in exceptional outcomes over a wide range of RM performance dimensions. As a consequence, SMEs appear to be at a competitive disadvantage in the Kuwait fast food industry.

Table II. Cross-tabulation of size and brand country of origin

Country of origin	SMEs	LEs	Total
Domestic			
n	24	2	26
Expected *n*	22.3	3.7	
International			
n	18	5	23
Expected *n*	19.7	3.3	
Total			
n	42	7	49

Notes: $X^2 = 1.967$, $p = 0.161$, Fisher's exact test: $p = 0.230$

Table III. RM outcomes by retail chain size

RM outcomes	Size	Mean	*t*	*p*	Findings
SAT	SMEs	6.30	2.356	0.023	LEs > SMEs
	LEs	7.01			
RET	SMEs	0.5258	5.112	0.000	LEs > SMEs
	LEs	0.7364			
PEN	SMEs	0.3477	6.471	0.000	LEs > SMEs
	LEs	0.7899			
PREF	SMEs	0.17	2.464	0.000	LEs > SMEs
	LEs	0.86			
CUSHARE	SMEs	0.0116	2.654	0.037	LEs > SMEs
	LEs	0.0734			

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Discussion

Sarangi (2018) argues that it is vital for firms operating in emerging markets to establish effective distribution systems. Because all business outcomes are ultimately driven by consumer sales, any effective distribution system is dependent on the management of consumer demand at the retail level of the supply chain (Lau, 2012). Consequently, current research studies that seek to understand and profile the consumption patterns found in the Kuwait retail sector are crucial for new firms seeking to identify the most significant business opportunities in this important emerging market. Consistent with this aim, the purpose of this study was to investigate the effects of retail chain size on RM performance variables in the Kuwait fast food restaurant industry.

The results suggest that the larger companies (LEs) outperform the smaller companies (SMEs) in all of the areas tested: customer satisfaction, customer retention, penetration rate, preference ranking and share of customer. Therefore, with regard to RM outcomes, SMEs appear to have zero advantages in performance over LEs. Instead, it appears that larger firms in this market are using their competitive advantages and greater resources to engage in strategies that develop and maintain customer relationships in ways that smaller firms simply cannot. Larger firms seem to penetrate the market better. Once trial and penetration is achieved, these larger firms may enact tactics that lead to greater customer satisfaction and retention, which leads to a larger customer base that has higher preferences and loyalties than do the customers of smaller firms. In the end, these advantages and actions are likely to contribute to additional company growth, superior performance with respect to market share, and greater economies of scale. In turn, this is likely to lead to even greater disparities in resources that may further perpetuate their competitive advantages.

Although our expectations were mostly consistent with our findings, we did hypothesize that customer satisfaction levels would be higher for SMEs. However, the results failed to support this contention. One possible explanation comes from a recent study on the UK fast food industry. Using the dimensions of service quality drawn from the popular SERVQUAL scale found in the marketing literature, Nguyen *et al.* (2018) demonstrate that the "tangibles" dimension is the key factor driving customer satisfaction. Considering the superior resources available to LEs, it is likely that their physical facilities are significantly more updated and modernized than those of their smaller rivals. Once again, anecdotal evidence seems to support this view as the physical facilities of the larger chains appear to be more attractive and aesthetically pleasing. However, additional research would be needed to verify the veracity of this explanation.

In addition, the well-established literature on organizational learning suggests another explanation for the findings. This research stream contends that brands with multiple outlets have the potential for greater learning and knowledge sharing (Ho and Ganesan, 2013; Lu and Wedig, 2013; Tracey *et al.*, 2014). Since Kuwait is a small country with the vast majority of its citizens residing within the capital city, there is a tremendous opportunity for knowledge sharing across the outlets within a larger restaurant chain. In fact, findings by Butt *et al.* (2018) indicate that knowledge transfer within geographically clustered franchise systems often leads to significant sales performance gains. These advantages are also likely to be experienced in the realm of RM outcomes as well, which could further help explain our findings. Nevertheless, additional research should be conducted to test the veracity of this explanation as well.

The managerial implications of the study are particularly relevant for smaller firms. Lacking the ability to develop strong customer relationships in the market as a whole, entrepreneurs who set-up and run SMEs may need to make use of innovative strategies in order to gain a competitive edge. For example, Buckley and Prashantham (2016) acknowledge that, despite their inherent disadvantages, SMEs tend to be more locally focused, which can facilitate local adaptations on a market-by-market basis. Furthermore, Gunasekaran *et al.* (2011) suggest that

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another important path to increased competitiveness for SMEs is through human resource development, including the building of interpersonally focused local networks. Therefore, knowledge of the local market and the application of locally based business connections could allow SMEs to identify and exploit new market niches as yet uncontested by their larger rivals. Although our findings indicate that the majority of the SMEs in the Kuwait fast food industry have not been able to outperform LEs on RM outcomes, individual success stories do exist. For example, one small Kuwaiti hamburger chain has been able to experience rapid growth in recent years, even adding a restaurant location in Los Angeles (Holmes, 2017). However, in the fast food industry, size really does matter. Given their ability to foster and manage customer relationships, it is not surprising that many larger chains continue to outpace smaller competitors in multiple markets, including the emerging market of Kuwait.

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