
CRITICAL SUCCESS FACTORS FOR EXPERIENTIAL MARKETING: EVIDENCES FROM THE INDIAN HOSPITALITY INDUSTRY

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1. Abstract

With the continuous proliferation of communication media and frequently changing consumer expectations, the fight for capturing a prospect's mind-space has seen a radical shift from product or service orientation to a customer-experience driven approach. In the cluttered space of brands and advertising noise, consumer engagement is turning out to be the winning formula. The traditional product-centric positioning needs to be necessarily complemented by emotional buying triggers encountered during the "moments of truth" to lead to consumer action and advocacy.

In this paper, based on existing literature and a primary research conducted on 17 luxury restaurants and over 200 customers and service staff in and around Mumbai, we have identified seven essential factors (physical ambience, food quality, interaction with service staff, interaction with other customers, price, service quality and theme) contributing to a positive customer experience. The study examines the contribution of the service elements to customer perceived value and tries to explore the service gap model for delivering experiential value across restaurants. Furthermore, using these insights on the psyche of the Indian consumer and his response to experiential marketing; the paper also proposes an indicative framework to successfully launch and sustain experiential marketing from the perspective of the hospitality industry in India.

Field of Research: Experiential Marketing in Indian hospitality industry.

1. Keywords

Experiential Value, Customer Satisfaction,

Behavioral Intention, Service gap model, Price Reasonability

2. Introduction

Experiential marketing needs to be essentially understood as a concept, a philosophy which aims to provide holistic experiences to consumers at the right place and time. It involves engagement – appealing to consumers rationally to elicit logical thought, and simultaneously connecting with them emotionally through personal and meaningful experiences. Academicians and scholars have in the past explored different perspectives of how customer satisfaction is achieved by meeting customer needs the experiential way. However, consumer dining experiences and its significance in the creation of customer value from the point of view of the Indian hospitality industry have seldom been studied empirically.

Our present study on the use of experiential marketing in the Indian hospitality industry comprises three distinct parts. Firstly, the probable factors influencing experiential value from the customer's perspective have been identified through a combination of reviewing existing literature and primary research which have been narrowed down to a set of six potentially significant parameters through factor analysis. Secondly, the contribution of each of these identified factors towards the experiential value proposition of a restaurant has been explored and subsequently the impact of the aggregated experiential value on customer satisfaction has been estimated. Moreover, we have analyzed the impact of the satisfaction derived through the experience on the behavioral intention of a customer (repeat visit and desire to spread positive word-of-mouth) which directly influences the ROI on the experiential

marketing initiative undertaken by the restaurant. In the final section, we have developed a framework to identify the gaps existing in the service model of Indian restaurants in light of the critical success factors identified previously which initiates plausible action points through which the experiential marketing initiative of a restaurant can be further strengthened and sustained to maximize customer satisfaction and engagement.

3. Literature review

Service encounter elements are often studied by service marketing scholars to reveal personal interaction because increasing the pleasure of service encounters can "reduce the perceived risk associated with purchasing a service and improve the buying experience" (Julian and Ramaseshan, 1994). Service encounter elements are thus the precursors to experiential value. (Sulek and Hensley, 2004) argued that the atmosphere of a restaurant significantly affects its customer satisfaction. Bitner (1990), Baker et al. (2002) proposed that consumer interaction with intangible and tangible elements in the service environment (e.g., lighting, music and internal and external environmental design) or the periods during which a consumer interacts with physical facilities and other tangible elements in the service environment function as "critical exogenous constructs leading to endogenous impulse". These cues, which exhibit strong correlation with consumer merchandise value, subsequently influence customer advocacy.

Specific behaviors, including the behavior of service employees and other customers, also function as "key determinants of perceived service quality and also of consumer satisfaction" (Andaleeb and Conway, 2006; Wu and Liang, 2005). Keng et al. (2007) found that personal interaction encounters and physical environmental interaction encounters have significant influence on customer experiential value. Baker and Cameron (1996); Brocato and Kleiser (2005), and Sommer and Sommer (1989) proposed that since consumer-to-consumer interactions can influence consumer service satisfaction, managers must be aware and sensitive to such interactions. However while a consumer-to-consumer interaction like social facilitation, positively impacts consumer-to-consumer interaction, social intrusion, in which consumer perceive other consumers in the service setting as intruders, can be potentially adverse (Baker and Cameron, 1996).

According to the definition and dimensions of experiential value, a few studies have examined how the variables are related. Smith and Colgate

(2007) indicated that experiential value is derived from how a product creates appropriate experiences, feelings and emotions in a customer. Lee and Bang (2004) examined online shopping behavior and proposed that consumer online shopping value (utilitarian and experiential value) positively influences consumer satisfaction. Gallarza and Gil-Saura (2006) proposed that perceived value is a direct antecedent of consumer satisfaction. Moreover, Shieh and Cheng (2007) tested a consumer behavioral model of adolescent and young adult online gamers and proposed that experiential constructs (social function, empathy and escapism) positively impact satisfaction. Statistics-driven examination of these links has been initiated by Nelson et al. (1992), who demonstrated the relationship of customer satisfaction to profitability among hospitals, and Rust and Zahorik (1991), who examine the relationship of customer satisfaction to customer retention in retail banking. The Bank Administration Institute has also dwelt on these ideas, in particular Roth and van der Velde (1990, 1991).

Thus, while most existing works have dwelt only on the significant factors influencing experiential value and their effect on customer satisfaction, our research attempts to extend this study to explore the holistic impact of experiential marketing induced customer satisfaction on customer behavior which directly generates the ROI. Further, we have attempted to address the need of mapping these significant factors to current practices in the Indian hospitality industry to identify prominent gaps existing between their service model and customer expectations which will enable Indian restaurants to carefully utilize and completely leverage the powerful customer engagement features of experiential marketing.

5. Objectives

The objective of the paper is to frame two models, one showing need of experiential marketing to gain customer satisfaction and induce positive behavioral intentions and the other one service gap model in Indian hospitality industry. The models, discussed at the end of this study are conceptualized on a set of hypotheses and proving them through an exploratory research.

5.1 Hypotheses for Model1

H1: Customer satisfaction has a linear relationship with experiential value and price reasonability of a restaurant, as perceived by the customer

H2: Behavioral intentions of customers have

strong linear relationship with the customers' satisfaction level.

5.2 Hypotheses for Model2

H3: There is at least one element of experiential value, for which there lies a significant difference between customer expectations and perceptions of customer expectations held by restaurant managers.

H4: There is at least one element of experiential value, for which there lies a significant difference between the importance of an element of experiential value in generating customer satisfaction as perceived by restaurant manager and the service mechanism designed to deliver the same element to a customer.

H5: There is at least one element of experiential value for which there lies a significant difference between the service mechanism designed to deliver the element of experiential value to customer and the degree by which it is actually delivered as perceived by customers.

6. Methodology

6.1 Research Framework

Based on the above literature review and hypotheses, this study proposes an integrated research model. The research is conducted through primary survey based on questionnaire, followed by statistical analysis.

6.2 Questionnaire Development and sample study

Two questionnaires were developed, one for customer survey and the other for surveying restaurant managers. This investigation used a 5-point Likert scale to rate the questionnaire responses from 1 (Very Poor/ Insignificant) to 5 (Excellent/Essential) using questions taken from previous consumer behavior studies and modified based on industry features, as suggested by practitioners of the hospitality industry and researchers of experiential marketing. Pilot runs of the questionnaire were administered to twenty customers and two professional managers in the Bistro Grill Restaurant and Aromas Restaurant at Hiranandani Park, Mumbai. Questions were eliminated in response to (1) respondent suggestions and (2) item factor loading. The final draft of Questionnaire for restaurant managers consists of two parts - his understanding of the importance of different factors generating experiential value and his self rating about how the restaurant delivers all these parameters to a

customer. The questionnaire for customers contains mainly four sections – his expectations from a restaurant, his judgment about the different service encounter elements of a restaurant, his satisfaction level and his behavioral intentions when he is satisfied or dissatisfied. The final Questionnaires were floated to one hundred eighty customers and thirty two restaurant managers. The following section outlines the operational definitions for all variables and measurement tools.

6.3 Operational Definition of variables

- 1) Experiential Value is defined as customer assessment of food quality, service quality and different service encounter elements like restaurant environment (Light, Sound, Temperature, Aesthetics, Smell, Theme conveyed, interior decoration), interaction with service employees(how courteousness and proactive they are to serve customers) and other customers during service encounter. By definition, restaurant environment measures consumer perceptions of the environment (Wakefield and Baker, 1998). Interaction with service employees was defined as consumer perceptions of the attitudes and behavior of service employees (Baker et al., 2002). Interaction with other consumers was defined as consumer perceptions of their interactions with other consumers (Huang, 2003).
- 2) Price reasonability is the customers' perception about how justified the prices of a restaurant is with respect to his willingness to pay for the food and service offered
- 3) Consumer satisfaction was defined as pleasure obtained from the product and service. Customer Satisfaction measure consists of responses to a single question. The problems associated with the use of a single response variable were mitigated by: the simplicity of the question; and Yi's (1990) suggestion that a single overall satisfaction measure scored as this one was is "reasonably valid"
- 4) Behavioral Intention dimensions are repeat visit, and spread of good word of mouth by a satisfied customer.
- 5) The Service Quality Gap model (A Parsuraman, V Zeithaml and LL Berry, 1990) tells us about 5 gaps. Our study identifies 3 gaps in the hospitality service model. Gap1 is the gap between customer expectations and perceptions of the same by the managers. Gap2 is the gap between the understanding of

managers about the service requirements of customer and the blueprint to actually deliver the service. Gap3 is the gap in between service delivery design or standard and what is actually delivered to customer as perceived.

7. Data Analysis and Findings

7.1 Factor Analysis

For data analysis, descriptive statistics and analytical tools were applied by using SPSS 16.0 version. Kaiser – Meyer – Olkin measure of sampling adequacy was used to examine the appropriateness of factor analysis. Since KMO value (Table 1) is 0.616 (greater than 0.5) it has been decided to use factor analysis. Bartlett's test of sphericity (Table 1) was used to test the hypothesis that the variables with each dimension are uncorrelated in the population. A large value of the test statistics ($P < 0.05$) favored the rejection of null hypothesis and thus it supported the use of factor analysis for data analysis.

The data obtained were executed with factor analysis using principle component analysis utilizing Varimax rotation method with Kaiser Normalization in order to reduce the information in multiple variables into a set of weighted linear combinations of those variables. Factor analysis helped in identifying the latent variables, which were contributing to the common variance in a set of measured variables. In factor analysis only those component were considered whose Eigen value was greater than 0.95, Kaiser rule (i.e. the retention of principal components with Eigen values above 1). Table 2 shows the application of Principal Component analysis to the data obtained for determinants of experiential value in selected luxury restaurants in Mumbai.

As it can be seen from table 2, extraction sums of squared loadings yield first six components accounting for 79.182 percent of total variance whereby component 1 accounts for 22.996 percent of total variance, component 2 accounts for 13.760 percent of total variance, component 3 accounts for 13.493 percent of total variance, component 4 accounts for 11.990 percent of total variance, component 5 accounts for 8.961 percent of total variance and component 6 accounts for 7.981 percent of total variance. But the results obtained with simple extraction sums of squared loadings show asymmetrical nature of data. So the data was also applied with Rotation sum of squared loadings using principal component analysis. The result obtained (table 2) were more symmetrical and thus component obtained by rotation sum of square was considered for further evaluation.

To determine number of factors for the study Screeplot was constructed (Figure 1). Screeplot indicated a distinct break between the steep slopes of factors at factor number 6 after which there was a gradual trailing off associated with rest of the factors.

Component matrix showcases the relationship between factors and individual variables but the results were difficult to be interpreted because the factors were correlated with many variables. In order to have a transformed matrix with simpler factors, matrix was rotated utilizing Varimax rotation method with Kaiser Normalization and the resultant matrix (Table 3) was considered for interpretation purpose.

The results obtained from table 2, table 3 and figure 1, can be displayed in the form of table 4, which projects factors extracted along with attributes, % of variance covered, respective Eigen values, and factor loadings.

To calculate the scores of these underlying components of experiential value, as derived from the survey from the listed original variables a component score coefficient matrix is derived (Table 5). The values of the six factors derived from the factor analysis are calculated using these coefficients of the major loading attributes from table 5.

VIZ: Score of Theme = $0.522 \times \text{Uniqueness of theme} + 0.521 \times \text{Execution of theme}$

7.2 Regression Analysis

Regression analysis was applied by using Minitab 15 version. The factor scores calculated from the values of original surveyed variables as obtained from factor analysis are multiplied with corresponding weightages given by customers indicating the importance they give to those factors in their expectations from a restaurant. The Weighted average score including all the six factors stand for the score of experiential value as perceived by a customer. The other important predictor for generating customer satisfaction is how reasonable is the price of the restaurant. Customer satisfaction is defined as the return on investment that he makes. The return on investment is difference of perceptual experiential value and the price he pays for the service. So the reasonability of price is strongly correlated with customer satisfaction. Regression analysis is performed to establish the relationship of customer satisfaction to the derived experiential

value and price reasonability i.e. the proximity between what the restaurant charges him and his willingness to pay. The result of regression analysis is tabulated in Table 6.

The P values show the relationships between customer satisfaction and the predictors Reasonable price ($p=0.00$) and Experiential value ($p=0.00$) being significant. The T values show customer satisfaction being more dependent on price reasonability than on experiential value. The high R-square value (72.6%) shows that the predictors explain a significant proportion of the variance of rated customer satisfaction. Regression analysis shows a linear relationship between Customer satisfaction to experiential value and price reasonability, thus proving the Hypothesis H1.

7.3 Correlation Test

The correlation analysis is performed using Minitab 15 version. Correlation test will prove if there is any linear correlation between customer satisfaction level and behavioral intentions. Two consecutive correlation tests are performed, the first with "Willingness to come again" and customer satisfaction and the second with "Willingness to spread a good word of mouth" and customer satisfaction. The results are furnished in table 7.

The p values show that the correlations between the behavioral intention variables and customer satisfaction has very significant correlation since the p values are less than $\alpha=0.05$. Thus hypothesis H2 is proved.

7.4 2-t sample test for gap model

2-t sample test is performed across all the factors leading of experiential value, identified through factor analysis to find out if there is any factor for which there lies a significant difference between customer expectations and managerial perceptions i.e. gap1. The results are shown in Table 8.

There lie significant differences in Interaction with other customers and Price reasonability leading to gap1. Hence hypothesis H3 is proved. The same test is applied across all the elements for gap2 and gap3 as well. Only those factors that show significant differences are captured in Table 9.

Results depicted in table 9 statistically show that there is a difference in managerial perception and service design in service response time leading to

gap2. Hence, Hypothesis H4 is proved. Table 9 also depicts a significant difference between service design and standards and customer perceptions about service delivery for Physical Ambience which accounts for gap3. Hence hypothesis H5 is proved.

8. Discussions

8.1 Model 1

Hypothesis H1 and H2 being proved by statistical analysis makes it pretty evident that service encounter elements can give rise to positive cognition in the customer, what we call the customer perceived experiential value. This experiential value if delivered to a customer economically; leads to customer satisfaction. Customer satisfaction in turn instigates positive behavioral intentions like repeat visit and positive word of mouth. A model describing the same is pictorially represented in Figure 2.

8.2 Model 2

Statistical analysis proves hypotheses H1, H2 and H3. So it can be inferred that in Indian hospitality industry there are evidences of Gap1, Gap2 and Gap3 leading to customer gap i.e. difference between what he expects from a restaurant and what he perceives to get. The lesser these gaps are, the more is the customer satisfaction level.

9. Conclusion

The paper identifies an almost exhaustive set of all service encounter elements in Indian hospitality industry, that make a customer sense, feel, think, act and relate, i.e. engage customers the experiential way. The statistical research shows how positive cognition about the service encounter experiences leads to higher value for the customer and enhances his willingness to pay. The paper also replicates the generic service marketing Gap model for Indian luxury restaurant industry and identifies the gaps that prevail at each level of service quality. The study finally derives an indicative framework to address these gaps through economic experiential marketing i.e. delivering experiential value at a reasonable price, enhancing customer satisfaction. The proposed model extends previous work in the area but is distinguished by its focus on the holistic value network spread through experiential marketing and its use of the network to engage customers in positive behavioral intentions like repeat visit and positive word of mouth advertising.

9.1 Future Scope

The future scope of the research lies in understanding how a customer's expectations from a restaurant are guided by his or her demographics and psychographics to prescribe a framework for differential experience treatment on separate demographic and psychographic segments to engage customers better. The other direction where our research can take significant stride is to investigate how strongly the profitability of a restaurant is correlated the behavioral intentions of its customers. Our present work, appended with researches in these two directions can give an end to end empirical model to launch an experiential marketing campaign for hospitality industry and calculate the return on investment of the campaign.

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TABLE 1
KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.616
Bartlett's Test of Sphericity	Approx. Chi-Square	316.670
	Df	91
	Sig.	.000

TABLE 2
Total Variance Explained

Com- ponent	Initial Eigen values			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.136	29.540	29.540	4.136	29.540	29.540	3.220	22.996	22.996
2	1.952	13.943	43.483	1.952	13.943	43.483	1.926	13.760	36.756
3	1.562	11.155	54.638	1.562	11.155	54.638	1.889	13.493	50.249
4	1.481	10.576	65.214	1.481	10.576	65.214	1.679	11.990	62.239
5	.995	7.104	72.319	.995	7.104	72.319	1.255	8.961	71.200
6	.961	6.863	79.182	.961	6.863	79.182	1.117	7.981	79.182
7	.648	4.627	83.809						
8	.525	3.748	87.557						
9	.493	3.525	91.082						
10	.423	3.020	94.102						
11	.308	2.202	96.304						
12	.247	1.766	98.071						
13	.166	1.187	99.258						
14	.104	.742	100.000						

Extraction Method: Principal Component Analysis.

Scree Plot

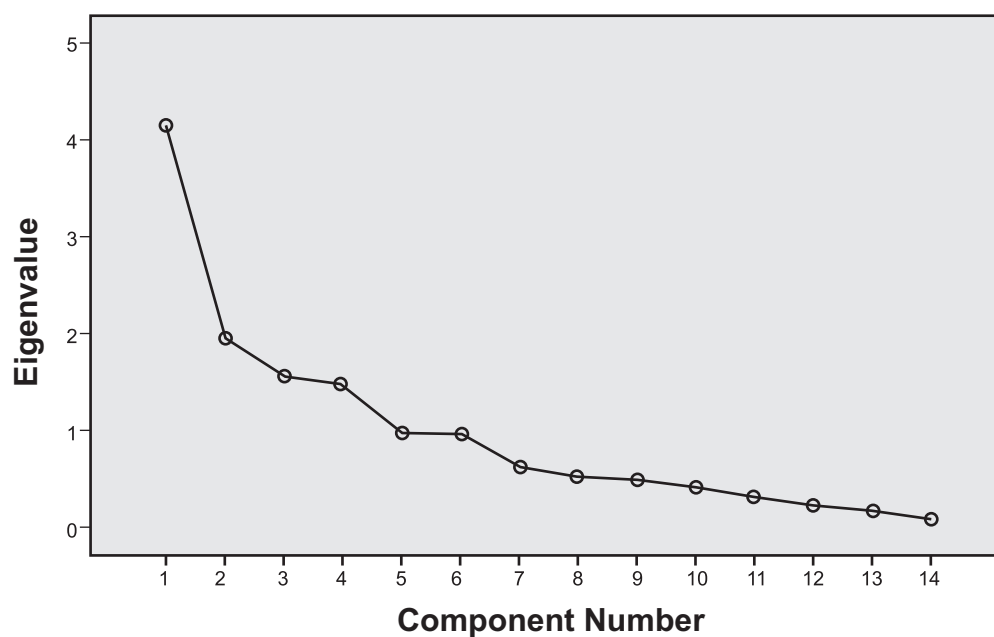


FIGURE 1

TABLE 3
Rotated Component Matrix

	Component					
	1	2	3	4	5	6
Lightexp	.818	-.049	.065	-.011	-.020	.060
smellexp	.770	.269	.056	.199	.127	-.035
tempexp	.745	.206	.005	.020	-.159	-.182
decorex	.662	.138	.229	-.035	.248	-.017
foodppt	.637	-.005	.027	-.138	.493	-.274
soundexp	.613	.394	.236	-.224	-.315	-.170
servcourt	.243	.890	-.023	.047	.014	.055
servpro	.119	.861	-.002	.015	.270	-.033
uniquetheme	.072	.067	.925	.031	.186	-.162
themeexc	.199	-.078	.919	-.126	.039	.098
waittable	.159	-.052	-.107	.894	.157	.027
queuealong	-.141	.100	.015	.865	-.227	-.038
foodtaste	.012	.278	.240	-.031	.790	.069
Intothercs	-.142	.018	-.046	-.014	.022	.963

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

TABLE 4

Factor	Attribute	Factor Loading	% of Variance Covered	Eigen Value
Physical Ambiance	Light	.818	22.996	3.220
	Smell	.770		
	Temperature	.745		
	Decoration	.662		
	Aesthetics of food presentation	.637		
	Sound/Music	.613		
Interaction with service staff	Courteousness	.890	13.760	1.926
	Proactiveness	.861		
Theme	Uniqueness of Theme	.925	13.493	1.889
	Execution of Theme	.919		
Service Response Time	Waiting time at table	.894	11.990	1.679
	Standing in Queue outside	.865		
Food Quality	Taste of food	.790	8.961	1.255
Interaction with other customers	How other customers around are behaving	.963	7.981	1.117

TABLE5
Component Score Coefficient Matrix

	Component					
	1	2	3	4	5	6
lightexp	.351	-.173	-.043	.005	-.056	.196
soundexp	.142	.198	.115	-.132	-.389	-.057
tempexp	.248	.023	-.049	.009	-.191	-.056
smellexp	.256	.011	-.046	.124	.044	.078
decorex	.213	-.057	.031	.000	.143	.084
foodtaste	-.089	.071	.028	.000	.627	.035
foodppt	.197	-.168	-.143	-.069	.421	-.182
servcourt	-.046	.510	-.017	.000	-.113	.064
servpro	-.119	.484	-.036	-.015	.123	-.051
intothercs	.098	.003	.010	-.017	-.010	.909
queuelong	-.069	.091	.122	.520	-.199	-.056
waittable	.091	-.114	-.041	.540	.169	.041
uniquetheme	-.112	.029	.522	.087	.019	-.129
themeexc	.014	-.069	.521	-.006	-.109	.155

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.
Component Scores.

TABLE 6

The regression equation is Satisfaction = 3.34 + 0.627 Are the prices reasonable + 0.209 Experiential Value				
Predictor	Coef	SE Coef	T	P
Constant	3.3409	0.4241	7.88	0.000
Are the prices reasonable	10.62716	0.09850	6.37	0.000
Experiential Value	0.20928	0.04540	4.61	0.000
S = 0.468580 R-Sq = 72.6% R-Sq(adj) = 71.6%				

TABLE 7

Behavioral intentions	Correlation coefficient	P-value
Willingness to come again and Satisfaction	Pearson correlation coefficient = 0.538	P-Value = 0.000
Willingness to suggest the restaurant to others and Satisfaction	Pearson correlation coefficient = 0.642	P-Value = 0.000

TABLE 8

Ambience Difference = μ (Amb_Cust) - μ (Amb_M) Estimate for difference: -0.018 95% CI for difference: (-0.348, 0.312) T-Test of difference = 0 (vs not =): T-Value = -0.11 P-Value = 0.913 DF = 107 NOT SIGNIFICANT
Food quality Difference = μ (FQual_C) - μ (FQual_M) Estimate for difference: 0.218 95% CI for difference: (0.006, 0.431) T-Test of difference = 0 (vs not =): T-Value = 1.84 P-Value = 0.131 DF = 107 NOT SIGNIFICANT
Interaction with Service staff Difference = μ (Staff_C) - μ (Staff_M) Estimate for difference: 0.873 95% CI for difference: (0.595, 1.511) T-Test of difference = 0 (vs not =): T-Value = 1.24 P-Value = 0.236 DF = 93 NOT SIGNIFICANT
Interaction with Other customers Difference = μ (Othcust_c) - μ (Othcust_m) Estimate for difference: 0.709 95% CI for difference: (0.386, 1.032) T-Test of difference = 0 (vs not =): T-Value = 4.36 P-Value = 0.000 DF = 107 SIGNIFICANT
Service Response time Difference = μ (ServQ_C) - μ (ServQ_M) Estimate for difference: 0.182 95% CI for difference: (0.078, 0.441) T-Test of difference = 0 (vs not =): T-Value = 1.39 P-Value = 0.168 DF = 107 NOT SIGNIFICANT
Price Reasonability Difference = μ (Price_C) - μ (Price_M) Estimate for difference: -0.527 95% CI for difference: (-0.841, -0.213) T-Test of difference = 0 (vs not =): T-Value = -3.33 P-Value = 0.001 DF = 107 SIGNIFICANT

TABLE 9

GAP 2: Difference of Managerial perception about customer expectations and managerial perception about orientation of service design and standards to meet customer expectations	Service Response Time Difference = $\mu(\text{ServQ_M}) - \mu(\text{ServQ_R})$ Estimate for difference: 0.709 95% CI for difference: (0.393, 1.025) T-Test of difference = 0 (vs not =): T-Value = 4.74 P-Value = 0.000 DF = 96 SIGNIFICANT
GAP 3: Difference of Managerial perception about orientation of service design and standards to meet customer expectations and the actual service delivery as rated by customers	Physical Ambiance Difference = $\mu(\text{PhyAmb_C}) - \mu(\text{PhyAmb_R})$ Estimate for difference: -0.899 95% CI for difference: (-1.278, -0.520) T-Test of difference = 0 (vs not =): T-Value = -4.70 P-Value = 0.000 DF = 103 SIGNIFICANT

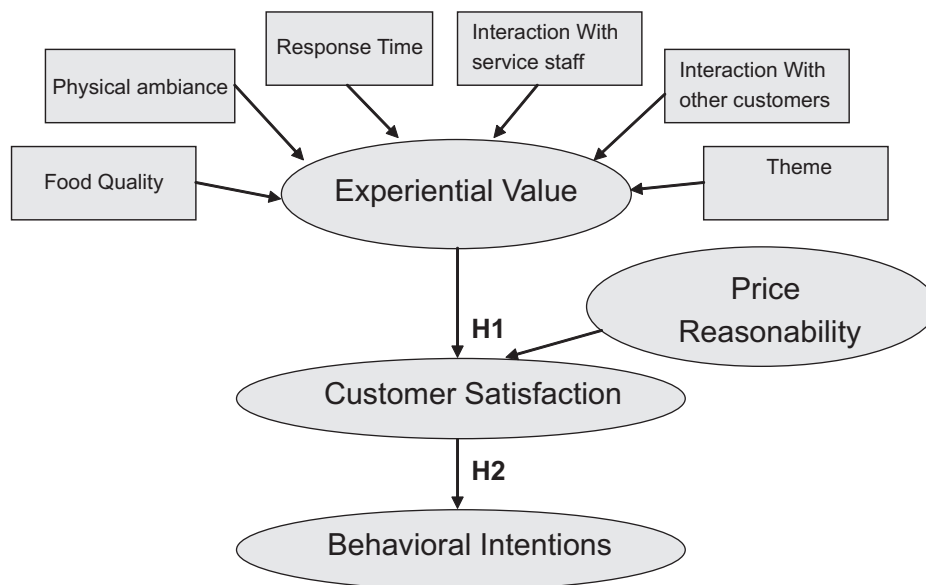


FIGURE 2

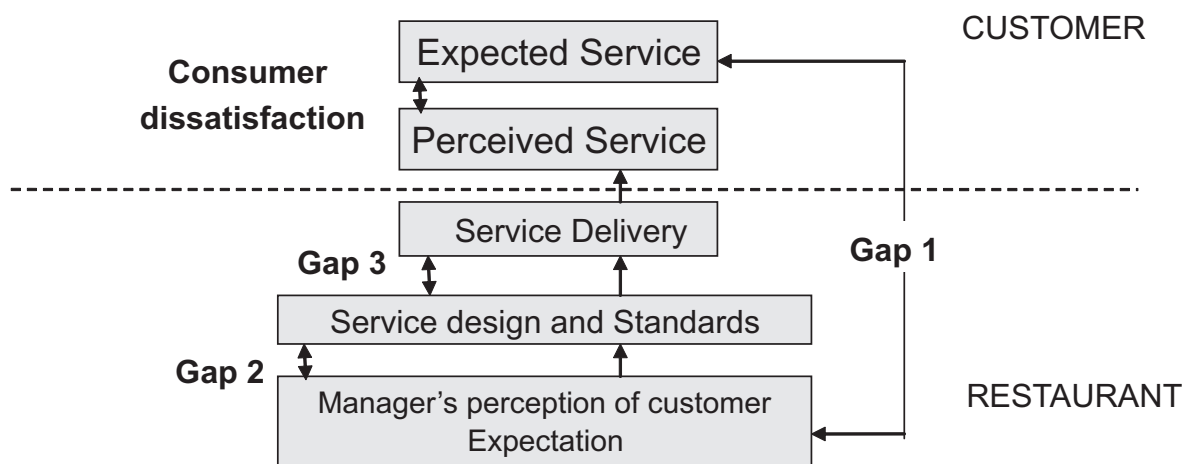


FIGURE 3