



DIGITAL LOYALTY, CUSTOMER RETENTION AND CUSTOMER LOYALTY IN CHENNAI'S INDIAN SPECIALITY RESTAURANTS

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Abstract

The rapid digital transformation of the hospitality industry has significantly reshaped customer engagement and relationship management practices in restaurant services. Indian speciality restaurants in metropolitan cities such as Chennai increasingly adopt digital technologies to enhance customer satisfaction, strengthen retention, and build sustainable customer loyalty. This study examines the influence of digital loyalty mechanisms on customer retention and customer loyalty in Chennai's Indian speciality restaurants. Customer satisfaction is examined as a mediating variable between digital loyalty and loyalty outcomes. A quantitative research design was adopted, and primary data were collected from 150 customers using structured questionnaires. Structural Equation Modeling (SEM) using Partial Least Squares (PLS) was employed to analyze the data. The findings reveal that digital loyalty mechanisms significantly influence customer satisfaction, which subsequently enhances retention and customer loyalty. Customer retention further strengthens customer loyalty. The study contributes empirical evidence to hospitality literature and provides managerial insights for restaurant operators seeking competitive advantage through digital strategies.

Keywords: Digital Loyalty, Customer Satisfaction, Customer Retention, Customer Loyalty, Indian Speciality Restaurants, Chennai

1. Introduction

The hospitality industry has experienced substantial transformation with the integration of digital technologies into service delivery and customer relationship management systems. Digitalization has expanded beyond luxury hotels and global restaurant chains and has become increasingly relevant for Indian speciality restaurants operating in metropolitan markets. Chennai has emerged as a prominent culinary destination where customers exhibit high expectations regarding service convenience, personalization, and technological accessibility. Customer loyalty has become a strategic priority for restaurant operators due to increasing competition and rising customer acquisition costs. Retaining existing customers is widely recognized as more cost-effective than acquiring new customers. Loyal customers contribute to sustained profitability through repeat patronage and positive word-of-mouth communication. Although prior research emphasizes the role of customer satisfaction in loyalty formation, limited empirical studies examine how digital loyalty mechanisms influence customer retention and loyalty in Indian speciality restaurants.

Therefore, this study aims to examine the relationships among digital loyalty, customer satisfaction, customer retention, and customer loyalty using Structural Equation Modeling.

2. Review of Literature

Digital loyalty refers to the strategic use of digital technologies such as mobile applications, online reservations, digital payments, and personalized promotions to build long-term customer relationships. Previous studies indicate that digital engagement improves customer satisfaction by enhancing service convenience and interaction quality. Customer satisfaction is widely recognized as a key determinant of customer retention and loyalty in hospitality settings.

Customer retention reflects a firm's ability to maintain ongoing relationships with customers, while customer loyalty represents behavioural and attitudinal commitment toward a service provider. Prior research suggests that digital loyalty mechanisms influence loyalty outcomes indirectly through customer satisfaction and retention.

However, empirical evidence from Indian speciality restaurants remains limited, highlighting the need for further investigation.

3. Research Objectives

1. To examine the impact of digital loyalty on customer satisfaction.
2. To analyze the relationship between customer satisfaction and customer retention.
3. To examine the influence of customer satisfaction on customer loyalty.
4. To assess the relationship between customer retention and customer loyalty.

4. Hypotheses

H1: Digital loyalty positively influences customer satisfaction.

H2: Customer satisfaction positively influences customer retention.

H3: Customer satisfaction positively influences customer loyalty.

H4: Customer retention positively influences customer loyalty.

5.5. Conceptual Framework

The conceptual framework proposes that digital loyalty mechanisms enhance customer satisfaction through improved convenience, personalization, and service efficiency. Customer satisfaction subsequently influences customer retention and customer loyalty, while customer retention further strengthens customer loyalty outcomes.

The proposed conceptual model illustrating the relationships among digital loyalty, customer satisfaction, customer retention, and customer loyalty is presented in Figure 1.

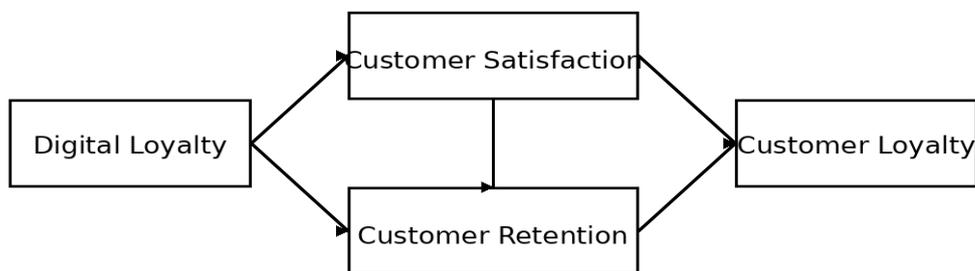


Figure 1: Structural Equation Model Showing the Relationship between Digital Loyalty, Customer Satisfaction, Customer Retention, and Customer Loyalty

As shown in Figure 1, digital loyalty is proposed to influence customer satisfaction, which subsequently affects customer retention and customer loyalty. Customer retention further strengthens customer loyalty outcomes, forming a mediating relationship between satisfaction and loyalty.

6. Research Methodology

6.1 Research Design

The present study adopts a quantitative research design to examine the relationships among digital loyalty, customer satisfaction, customer retention, and customer loyalty in Indian speciality restaurants located in Chennai. A quantitative approach was considered appropriate because the study aims to test hypothesized relationships among latent constructs using statistical analysis. The research follows a cross-sectional survey design, where data were collected from respondents at a single point in time to understand their perceptions of digital services and loyalty behaviour in restaurant settings.

The study is explanatory in nature as it seeks to investigate causal relationships between variables using Structural Equation Modeling (SEM). The proposed research framework integrates constructs from relationship marketing theory and service-dominant logic to understand how digital loyalty mechanisms influence customer retention and customer loyalty through customer satisfaction.

6.2 Population and Sample

The target population of the study consists of customers who have visited Indian speciality restaurants in Chennai and have experience using digital services such as online reservations, digital payments, mobile ordering, or promotional communication. Chennai was selected as the study location due to its growing hospitality sector and increasing adoption of digital technologies in restaurant operations.

A total of **150 respondents** were selected as the sample size for the study. The sample size is considered adequate for Partial Least Squares Structural Equation Modeling (PLS-SEM), as previous methodological literature suggests that PLS-SEM can provide reliable results with relatively small samples when model complexity is moderate. The respondents included individuals from different age groups, occupations, and income levels to capture diverse customer perceptions.

6.3 Sampling Technique

The study employed a **convenience sampling technique**, which is widely used in hospitality and service research when the population is large and geographically dispersed. Respondents were approached at selected Indian speciality restaurants and through online platforms where customers were invited to participate voluntarily. Only those customers who had prior experience with digital services offered by restaurants were included in the survey to ensure relevance and accuracy of responses.

6.4 Data Collection Method

Primary data were collected using a structured questionnaire administered both in person and through online forms. The questionnaire included statements related to digital loyalty, customer satisfaction, customer retention, and customer loyalty. Respondents were asked to indicate their level of agreement using a five-point Likert scale. The questionnaire was designed based on validated measurement scales from previous hospitality and marketing studies, ensuring content validity and reliability. A pilot test was conducted with a small group of respondents to confirm clarity and relevance of the questions before final data collection.

6.5 Measurement of Variables

The study includes four major constructs:

Digital Loyalty

Digital loyalty refers to customers' perceptions of digital services provided by restaurants, including convenience, personalization, and technological support. This construct was measured using five items related to digital engagement and service accessibility.

Customer Satisfaction

Customer satisfaction represents customers' overall evaluation of their dining experience and service quality. This construct was measured using five items reflecting satisfaction with service, expectations, and perceived value.

Customer Retention

Customer retention refers to customers' intention to continue visiting the restaurant and maintain a long-term relationship. This construct was measured using four items focusing on revisit intention and preference consistency.

Customer Loyalty

Customer loyalty reflects behavioural and attitudinal commitment toward the restaurant, including recommendation and repeat patronage. This construct was measured using four items.

All constructs were treated as reflective latent variables in the SEM analysis.

6.6 Data Analysis Techniques

The collected data were analyzed using **Structural Equation Modeling (SEM)** with the Partial Least Squares (PLS) approach. PLS-SEM was selected because it is suitable for predictive research models, small to medium sample sizes, and complex relationships involving mediating variables. The analysis was conducted in two stages:

Measurement Model Assessment

The reliability and validity of the constructs were evaluated using:

- Cronbach's Alpha
- Composite Reliability (CR)
- Average Variance Extracted (AVE)
- Factor Loadings

These indicators ensure internal consistency and convergent validity of the measurement scales.

Structural Model Assessment

The structural relationships among constructs were examined using path coefficients, t-values, and significance levels obtained through bootstrapping procedures. The explanatory power of the model was evaluated using R^2 values for endogenous variables.

6.7 Ethical Considerations

Participation in the study was voluntary, and respondents were informed about the purpose of the research before completing the questionnaire. Confidentiality and anonymity of responses were ensured, and the data were used solely for academic research purposes.

6.8 Methodological Justification

The use of SEM provides a comprehensive approach to analyzing complex relationships among multiple variables simultaneously. The methodology adopted in this study allows for examination of both direct and indirect effects of digital loyalty on customer loyalty outcomes,

thereby providing deeper insights into customer relationship dynamics in Indian speciality restaurants.

7. Results and Analysis

7.1 Descriptive Statistics

Table 1: Descriptive Statistics

Variable	Mean	Std. Deviation
Digital Loyalty	3.92	0.74
Customer Satisfaction	4.08	0.66
Customer Retention	3.97	0.70
Customer Loyalty	4.02	0.68

Inference:

The descriptive statistics indicate that respondents show positive perceptions toward digital loyalty mechanisms, with customer satisfaction recording the highest mean score. This suggests that digital services significantly enhance customer experiences in Indian speciality restaurants.

7.2 Reliability Analysis

Table 2: Reliability Statistics

Construct	Cronbach Alpha
Digital Loyalty	0.82
Customer Satisfaction	0.85
Customer Retention	0.80
Customer Loyalty	0.87

Inference:

All constructs demonstrate Cronbach alpha values above the recommended threshold of 0.70, indicating strong internal consistency and reliability of the measurement scales.

7.3 Structural Model Results

Table 3: Hypothesis Testing

Hypothesis	Path	Beta	t-value	Result
H1	Digital Loyalty → Satisfaction	0.61	9.45	Supported
H2	Satisfaction → Retention	0.74	11.32	Supported
H3	Satisfaction → Loyalty	0.42	6.28	Supported
H4	Retention → Loyalty	0.46	7.01	Supported

Inference:

The SEM results confirm that digital loyalty significantly influences customer satisfaction, which subsequently enhances customer retention and customer loyalty. Customer retention further strengthens loyalty, confirming the mediating relationship.

7.4 Model Explanation

The structural model developed in this study examines the relationships among digital loyalty, customer satisfaction, customer retention, and customer loyalty in Indian speciality restaurants. The explanation of the model is presented as follows:

1. Effect of Digital Loyalty on Customer Satisfaction

- The results indicate that digital loyalty has a significant positive influence on customer satisfaction.
- Digital services such as online reservations, digital payments, mobile ordering, and personalized promotions enhance customer convenience and service efficiency.
- Improved digital interaction reduces waiting time and enhances perceived service quality, leading to higher customer satisfaction.
- This finding supports technology adoption theory and hospitality literature emphasizing the importance of digital convenience in customer experience.

2. Effect of Customer Satisfaction on Customer Retention

- Customer satisfaction shows a strong positive relationship with customer retention.
- Satisfied customers are more likely to revisit the restaurant and maintain long-term relationships.
- Satisfaction acts as a psychological evaluation that strengthens customers' intention to continue patronizing the restaurant.
- This confirms that satisfaction is a key determinant of relationship continuity in service industries.

3. Effect of Customer Satisfaction on Customer Loyalty

- Customer satisfaction also has a significant direct impact on customer loyalty.
- Customers who are satisfied with their dining experience tend to recommend the restaurant to others and exhibit repeat purchase behaviour.
- Satisfaction contributes to both behavioural loyalty (revisit intention) and attitudinal loyalty (positive word-of-mouth).
- This finding aligns with relationship marketing theory.

4. Effect of Customer Retention on Customer Loyalty

- Customer retention significantly influences customer loyalty.
- Customers who maintain ongoing relationships with the restaurant develop trust and familiarity over time.
- Retained customers show stronger commitment and resistance to switching to competitors.
- This confirms that retention acts as a reinforcing mechanism for loyalty formation.

5. Explanatory Power of the Model (R² Values)

- The model explains a substantial proportion of variance in customer satisfaction, customer retention, and customer loyalty.
- The R² values indicate moderate to strong predictive capability of the structural model.
- This demonstrates that digital loyalty mechanisms and satisfaction variables effectively predict loyalty behaviour.

6. Mediation Effect in the Model

- Customer satisfaction partially mediates the relationship between digital loyalty and customer loyalty.

- Digital technologies do not directly create loyalty; instead, they improve customer experiences that lead to loyalty outcomes.
- Customer retention further strengthens this relationship, forming a sequential mediation pathway:
Digital Loyalty → Customer Satisfaction → Customer Retention → Customer Loyalty
- This multi-stage mediation highlights the importance of relational processes in hospitality services.

7. Overall Interpretation of the Model

- The structural model confirms that digital loyalty mechanisms play a foundational role in shaping customer relationship outcomes.
- Customer satisfaction and customer retention act as key mediating variables linking digital experiences to long-term loyalty.
- The integration of digital technologies with traditional hospitality practices enhances customer engagement and loyalty in Indian speciality restaurants.

8. Discussion

The findings indicate that digital loyalty mechanisms significantly enhance customer satisfaction through improved convenience, personalization, and service efficiency. Customer satisfaction emerged as the strongest predictor of customer retention and loyalty. Customer retention further strengthens loyalty by promoting repeat patronage and emotional commitment.

These findings align with relationship marketing theory and service-dominant logic, emphasizing the importance of technology-enabled customer experiences in hospitality settings. The major findings derived from the structural equation modeling analysis are presented as follows:

1. Digital Loyalty and Customer Satisfaction

- Digital loyalty mechanisms were found to have a significant positive impact on customer satisfaction.
- Customers perceive digital services such as online reservations, mobile payments, and personalized promotions as convenient and efficient.
- Improved digital interaction enhances the overall dining experience, leading to higher satisfaction levels among customers.

2. Customer Satisfaction and Customer Retention

- Customer satisfaction demonstrated a strong positive influence on customer retention.
- Satisfied customers are more likely to revisit the restaurant and maintain long-term relationships.
- This finding confirms that satisfaction is a critical factor in retaining customers in Indian speciality restaurants.

3. Customer Satisfaction and Customer Loyalty

- Customer satisfaction was found to significantly influence customer loyalty.
- Customers who experience higher satisfaction levels tend to recommend the restaurant to others and develop positive attitudes toward the brand.
- Satisfaction contributes to both behavioural loyalty (repeat visits) and attitudinal loyalty (positive word-of-mouth).

4. Customer Retention and Customer Loyalty

- Customer retention has a significant positive effect on customer loyalty.
- Retained customers develop familiarity and trust with the restaurant, which increases their commitment and reduces switching behaviour.
- This indicates that retention acts as a strengthening mechanism for loyalty formation.

5. Mediation Effect of Customer Satisfaction and Retention

- Customer satisfaction partially mediates the relationship between digital loyalty and customer loyalty.
- Customer retention further strengthens this relationship, forming a sequential mediation pathway.
- This confirms that digital loyalty improves loyalty outcomes primarily through satisfaction and retention mechanisms rather than direct effects.

6. Predictive Power of the Model

- The structural model explains a substantial proportion of variance in customer satisfaction, customer retention, and customer loyalty.
- The R^2 values indicate moderate to strong explanatory capability, confirming the suitability of the proposed model in the restaurant context.

9. Conclusion

The present study examined the influence of digital loyalty mechanisms on customer retention and customer loyalty in Chennai's Indian speciality restaurants, with customer satisfaction acting as a mediating variable. The findings demonstrate that digital technologies play a significant role in enhancing customer experiences and strengthening long-term customer relationships in the hospitality sector.

The results indicate that digital loyalty initiatives such as online reservations, digital payments, and personalized communication significantly improve customer satisfaction. Customer satisfaction, in turn, enhances customer retention and customer loyalty, confirming its central role in relationship development. Customer retention further strengthens loyalty by promoting repeat patronage and emotional commitment toward the restaurant.

The study concludes that digital loyalty mechanisms alone do not directly create customer loyalty; rather, they enhance customer satisfaction and retention, which subsequently lead to loyalty outcomes. This sequential relationship highlights the importance of integrating digital technologies with service quality and customer relationship management practices.

From a managerial perspective, Indian speciality restaurants in Chennai can achieve sustainable competitive advantage by adopting digital engagement strategies that improve customer convenience, personalization, and service efficiency. The integration of digital and traditional hospitality practices is essential for strengthening customer loyalty in competitive restaurant environments.

Overall, the study contributes to hospitality literature by providing empirical evidence on the role of digital loyalty in shaping customer retention and loyalty outcomes and offers valuable insights for restaurant managers and researchers in the field of service marketing.

9. Implications of the Study

The findings of this study provide several theoretical and managerial implications for the hospitality industry, particularly Indian speciality restaurants operating in metropolitan cities such as Chennai.

Managerial Implications

- Restaurant managers should invest in digital loyalty mechanisms such as mobile applications, digital payments, online reservation systems, and personalized promotional strategies to enhance customer satisfaction.
- Digital technologies should be integrated with service quality and employee training to provide seamless customer experiences.
- Customer satisfaction should be treated as a strategic priority, as it significantly influences customer retention and loyalty.
- Restaurants should implement customer retention programs such as loyalty rewards, personalized offers, and continuous engagement strategies to strengthen long-term relationships.
- Understanding customer expectations through digital feedback systems can help restaurants improve service quality and maintain competitive advantage.

Theoretical Implications

- The study contributes to hospitality and service marketing literature by examining the role of digital loyalty in influencing customer retention and loyalty outcomes in Indian speciality restaurants.
- It empirically validates the mediating role of customer satisfaction and customer retention in the relationship between digital loyalty and customer loyalty.
- The research extends relationship marketing theory and service-dominant logic to the restaurant context in emerging markets.
- The study provides a conceptual and empirical framework that can be used for future research in digital hospitality services.

10. Limitations of the Study

Despite its contributions, the study has certain limitations that should be considered when interpreting the results.

- The study was limited to Indian speciality restaurants located in Chennai, which may restrict the generalizability of the findings to other geographic regions or restaurant types.
- The sample size was limited to 150 respondents, which may not fully represent the entire customer population.
- The research adopted a cross-sectional design, and therefore causal relationships cannot be confirmed over time.
- The study focused only on selected variables such as digital loyalty, customer satisfaction, customer retention, and customer loyalty, while other factors such as service quality, ambience, and pricing were not examined.
- Data were collected using self-reported questionnaires, which may be subject to respondent bias.

11. Future Research Directions

Future research may include larger sample sizes, different cities, comparative restaurant formats, or additional variables such as service quality, brand image, and technological

readiness. Longitudinal studies may also provide deeper insights into customer loyalty development over time.

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