

# **The Influence of Diminishing Marginal Utility on Customer Satisfaction and Repeat Dining Behavior in the Restaurant Industry**

Submitted by: M M Monish

USN: 23MBAR0441

CMS Business School JAIN (Deemed-to-be University)

Academic Year: 2024-2025

## **Abstract**

This paper explores the role of Diminishing Marginal Utility (DMU) in customer satisfaction and repeat behavior in the restaurant sector. DMU proposes that satisfaction decreases with repeated exposure to the same experience. This principle is rarely applied in service sectors like hospitality where repeat engagement is crucial. Primary data from over 200 respondents in five Indian metro cities-Bangalore, Mumbai, Chennai, Delhi, and Hyderabad-was analyzed using inferential statistics such as T-tests, ANOVA, Correlation, and Regression. The results indicate that while customers report high satisfaction on the first visit, their interest gradually declines, often due to lack of novelty. Key drivers that mitigate this trend include menu variety and affordability, while overly familiar ambiance may contribute negatively. These insights have implications for restaurant marketing and operations, urging managers to innovate periodically to sustain customer loyalty.

## **1. Introduction**

In the service-driven restaurant industry, customer retention is as vital as acquisition, if not more. The cost of acquiring a new customer is substantially higher than retaining an existing one. Despite this, restaurants frequently observe a decline in returning customers even when initial satisfaction is high. This study explores whether this drop can be attributed to Diminishing Marginal Utility (DMU)-an economic concept that posits each successive experience with the same product yields less satisfaction than the previous. While DMU is well-studied in economics and consumer goods, there is a research gap in its application to service experiences like dining. This research seeks to fill that gap and offer practical recommendations for restaurateurs.

## **2. Methodology**

A quantitative, cross-sectional research design was adopted for this study. Data was collected using a structured Google Form survey targeting regular diners in urban Indian centers. A total of 202 valid responses were collected using a mix of convenience and snowball sampling techniques. The survey included both demographic questions and psychometric scales measuring customer

satisfaction at the 1st, 3rd, and 5th visit stages. Independent variables included menu variety, pricing, ambiance, service quality, and loyalty programs. The dependent variable was the respondent's intention or frequency to revisit the restaurant. Data analysis involved cleaning the dataset for duplicates, handling missing values through mode imputation, and checking for outliers using Z-score and IQR methods. The final dataset was analyzed using T-tests, ANOVA, Pearson Correlation, and Regression via Microsoft Excel and SPSS.

## **3. Results & Analysis**

Descriptive statistics revealed a strong initial satisfaction (Mean = 4.5) which gradually declined by the 3rd (Mean = 3.8) and 5th (Mean = 3.1) visits. The paired T-test between 1st and 3rd visit showed a statistically significant decline ( $t =$

12.14,  $p < 0.0001$ ), while the T-test between 3rd and 5th visit was not significant ( $t = 0.61$ ,  $p = 0.54$ ). ANOVA further confirmed satisfaction varies significantly across different visit stages ( $F = 61.36$ ,  $p < 0.00001$ ). Pearson correlation showed a moderate negative relationship ( $r = -0.29$ ) between visit frequency and satisfaction. Regression analysis ( $R^2 = 0.374$ ) identified Menu Variety ( $p = 0.003$ ) and Affordability ( $p = 0.022$ ) as positive predictors of repeat visits, while Ambiance ( $p = 0.004$ ) was negatively associated. Surprisingly, Loyalty Rewards and Service Quality were statistically insignificant, suggesting they are necessary but not sufficient to ensure repeat visits.

#### **4. Discussion**

The results reinforce the theory of DMU in a service context. Customers report highest satisfaction during their first visit, likely due to novelty and anticipation. However, as familiarity increases, satisfaction declines, particularly if the restaurant environment and offerings remain unchanged. This supports the concept of hedonic adaptation—a form of psychological saturation. Managers must therefore seek to continuously re-engage customers through creative strategies. The negative impact of ambiance suggests that even well-designed spaces can lose appeal if not refreshed periodically. While service quality and loyalty rewards are important for maintaining a minimum standard, they do not substantially influence repeat behavior unless paired with emotional or experiential novelty. Restaurants must thus pivot from static service delivery to dynamic experience design.

#### **5. Conclusion & Recommendations**

Diminishing Marginal Utility has clear implications for the restaurant industry. Repetitive experiences result in reduced satisfaction and lower retention. To overcome this, restaurants must proactively introduce variation in their menu, environment, and customer engagement strategies. Based on the findings:

- Innovate menus regularly to sustain excitement
- Implement gamified and personalized loyalty programs
- Rotate ambiance themes or include seasonal makeovers
- Use CRM tools to track individual customer behavior and tailor offers
- Introduce surprise elements or exclusive experiences for loyal patrons

By strategically mitigating DMU, restaurants can foster long-term loyalty, reduce churn, and improve overall customer lifetime value. This research not only confirms a classical economic theory in a modern context but also offers actionable insights for business practitioners.

#### **Keywords**

Customer Satisfaction, Repeat Behavior, Diminishing Marginal Utility, Restaurant Industry, Menu Innovation, Regression Analysis, Customer Loyalty, Experience Design