


The relationship between customer loyalty and customer satisfaction

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The relationship between customer loyalty and customer satisfaction

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Keywords

Customer loyalty,
Customer satisfaction,
Database marketing, Hotels

Abstract

Develops and implements a method for hotels to identify attributes that will increase customer loyalty. Other hotels can replicate the methodology used in this study. The study makes the uses of the hotel's database to draw samples for both focus groups and a mail survey. Based on 564 completed surveys from hotel guests, the authors found the relationship between customer satisfaction and customer loyalty was non-linear. The authors use the data to develop internal benchmarks for the hotel based on scores that were representative of loyal customers. The study makes use of the hotel's database to draw samples for both focus groups and a mail survey.

Introduction

It is commonly known that there is a positive relationship between customer loyalty and profitability. Reichheld and Sasser (1990) found that when a company retains just 5 percent more of its customers, profits increase by 25 percent to 125 percent. Their study caught the attention of both practitioners and researchers, arousing a great interest in customer loyalty. Gould (1995) helped consolidate the interest in loyalty through his research that supported Reichheld and Sasser's work. Today, marketers are seeking information on how to build customer loyalty.

The increased profit from loyalty comes from reduced marketing costs, increased sales and reduced operational costs. Loyal customers are less likely to switch because of price and they make more purchases than similar non-loyal customers (Reichheld and Sasser, 1990). Loyal customers will also help promote your hotel. They will provide strong word-of-mouth, create business referrals, provide references, and serve on advisory boards. Raman (1999) states, loyal customers serve as a "fantastic marketing force" by providing recommendations and spreading positive word-of-mouth; those partnership-like activities are the best available advertising a company can get. Loyal customers increase sales by purchasing a wider variety of the hotel's products and by making more frequent purchases. Bowen and Shoemaker (1998) found loyal hotel customers had higher food and beverage purchases than non-loyal customers. Finally, loyal customers cost less to serve, in part because they know the product and require less information. They even serve as part-time employees. The authors have collected anecdotes from service employees, stating how loyal customers are eager to serve as employees. Loyal customers

have been observed in hotels, telling other guests about the great restaurants in the hotels. In casinos, customers explain games and how the player's club works to other customers. Passengers on planes have explained the lightning system or the audio/visual system to other passengers. Therefore loyal customers not only require less information themselves, they also serve as an information source for other customers. Building customer loyalty is one of the biggest challenges for the hotel industry (Yesawich, 1997). This study investigates and develops methods that will help hotels increase customer loyalty.

Purpose of the study

The purpose of this study is to develop and implement a method for hotels to identify attributes that will increase customer loyalty. A second purpose is to produce a methodology that can be replicated by other hotels. This study will explore the relationship between customer satisfaction and customer loyalty in the hotel industry. The study will also reexamine the antecedents of loyalty. To first determine what can create loyalty toward the subject hotel.

Loyalty

Customer loyalty is difficult to define. In general, there are three distinctive approaches to measure loyalty:

- 1 behavioral measurements;
- 2 attitudinal measurement; and
- 3 composite measurements.

The behavioral measurements consider consistent, repetitious purchase behavior as an indicator of loyalty. One problem with the behavioral approach is that repeat purchases are not always the result of a psychological commitment toward the brand (TePeci, 1999). For example, a traveler may stay at a hotel



because it is the most convenient location. When a new hotel opens across the street, they switch because the new hotel offers better value. Thus, repeat purchase does not always mean commitment.

Attitudinal measurements use attitudinal data to reflect the emotional and psychological attachment inherent in loyalty. The attitudinal measurements are concerned with the sense of loyalty, engagement and allegiance. There are instances when a customer holds a favorable attitude toward a hotel, but he/she does not stay at the hotel (Toh *et al.*, 1993). A guest could hold a hotel in high regard, recommend the hotel to others, but feel the hotel was too expensive for him/her to use on a regular basis. The above approaches measure loyalty uni-dimensionally.

The third approach, composite measurements of loyalty, combine the first two dimensions and measure loyalty by customers' product preferences, propensity of brand-switching, frequency of purchase, recency of purchase and total amount of purchase (Pritchard and Howard, 1997; Hunter, 1998; Wong *et al.*, 1999). The use of both attitude and behavior in a loyalty definition substantially increases the predictive power of loyalty (Pritchard and Howard, 1997). The two-dimensional composite measurement approach has been applied and supported as a valuable tool to understand customer loyalty in several fields, such as retailing, recreation, upscale hotels and airlines (Day, 1969; Jacoby and Kyner, 1973; Backman and Crompton, 1991; Pritchard *et al.*, 1992; Pritchard and Howard, 1997).

The authors of this study have adopted the composite approach to customer loyalty. For this study, loyal customers are customers who hold favorable attitudes toward the company, commit to repurchase the product/service, and recommend the product to others.

Methodology

The site for this study was The Lenox Hotel, in Boston. Its owner is the Saunders Hotel Group (SHG), a nationally-recognized hotel company that owns and operates landmark hotels in Boston, Connecticut, and Florida. SHG is known for customizing solutions in accordance with each hotel's unique situation. The Lenox, realized the importance of retaining loyal customers and knew that if they were going to have loyal customers they needed to have information about their customers. SHG worked with Group 1 Software to create a data warehouse to store its customer information. One of their first uses of the database was to find out how they could better serve their existing

customers. This two-step process involved focus group study and survey research.

To ensure the members of the focus groups were important customers, SHG used its database to select customers that would be invited to the focus groups. This allowed them to specify the characteristics the focus group participants would possess. A problem with focus groups can arise when the members are recruited from a research supplier's list. Using the database to recruit focus group members gives the researcher control over who is participating in the focus group.

One of the authors moderated the focus groups for The Lenox. The following are examples of the type of information the focus groups produced. When asked to think about times they had received outstanding service at a hotel, one participant stated:

While planning a last minute trip, I found the town's hotel rooms were booked, but somehow the hotel found me a room. Actions like this increase my loyalty to the hotel.

Several members of the focus group indicated they are more particular when traveling for pleasure than when they are traveling for business purposes. As one customer put it:

Especially if I were here on a pleasure trip with my wife. The whole thought of being here for pleasure means that it has to be really nice. We are here for a big smile and to really enjoy this experience. With business, I can put up with an aggravation or two. Pleasure, I won't stand for a single one. Because that destroys this moment that I am trying to create with the person I'm with.

Business travelers have frequently mentioned that they want a hassle-free stay. The moderator asked members of the focus group what a hassle-free stay is. One focus group participant responded:

You just want it hassle-free, where you go into the room and everything works. You don't have to spend time with the staff getting the basic things you need.

Another participant commented:

In a hotel where the experience is hassle-free, the staff has the attitude that my job is your pleasure.

The focus groups at The Lenox allowed management to have in-depth conversations with their customers. The outcome of the focus groups was a better understanding of some of the hotel's features that are important to the customers and, of the customers' service expectations. This information helped develop specific questions for a survey instrument. One of the limitations of a focus group is that it only represents the views of a small number of people. A survey going to a larger group will either confirm or disconfirm that a large

population of customers shares the opinions of the focus group.

Database used to generate mailing lists for customer surveys

The survey instrument was developed based on the findings of the focus groups. It was pre-tested using a portion of the Lenox's database. The Lenox's database manager selected 2,000 people who had stayed in the hotel at least once during the last 12 months, from the hotel's database for the survey. The survey was pre-tested and several revisions were made based on the pre-test. The respondents' names were printed directly on the envelopes instead of labels, because the results of previous qualitative research with hotel guests indicated that customers were more likely to open the mail with their names directly printed on the envelopes instead of labels.

Results

Response rate

Of the surveys, 1,000 were mailed with a \$2 bill as an incentive and 994 were mailed without any incentive. The response rate for those with an incentive was 38.5 percent (385 respondents) and 16.2 percent (161 respondents) for those without an incentive. The overall response rate was 27.4 percent (546 responses). Normally one would do a follow-up phone survey to non-respondents, to check the responses of non-respondents against the responses on key questions. Funds were not available to do this in this study, creating a delimitation of the study.

Respondents' characteristics

Among the respondents, 57.3 percent were male and 42.7 percent were female. Of the respondents' 23 percent were between the ages of 41 years to 50 years. The annual income level of the respondents was measured by household income before tax, with the majority (64.6 percent) making above \$85,000.

Satisfaction and loyalty

The results of our study verified that customer satisfaction does not equal customer loyalty. In our study, satisfaction was measured by a seven-point Likert scale, 7 = very satisfied, 4 = satisfied, and 1 = very dissatisfied. Two measures of customer loyalty used in this study were the respondent's intent to return and their willingness to perform marketing activities, such as recommending the hotel to others. Table I compares the scores on overall satisfaction with the customers' willingness to return and recommend the hotel.

These results verified the nonlinear and asymmetric relationship between customer satisfaction and customer loyalty. Based on Coyne (1989), there are two critical thresholds affecting the link between satisfaction and loyalty. On the high side, when satisfaction reaches a certain level, loyalty increases dramatically; at the same time, when satisfaction declined to a certain point, loyalty dropped equally dramatically (Oliva *et al.*, 1992). In our study, as the customer satisfaction measurement raises one unit from 6 to 7, the customer loyalty indices increase by over 100 percent.

Furthermore, the results of this study were consistent with Oliva *et al.*'s (1992) study; a minor change in satisfaction can lead to a substantial change in loyalty increment. A total of 63 percent of the respondents who were very satisfied (7) and 29.8 percent of the respondents, who scored a (6), strongly agreed that they would recommend the hotel, which they were loyal to, when the topic of the hotel came up in conversation. The results show that as customer satisfaction declined from "very satisfied" (7) to a 6, the willingness to communicate a positive message of the hotel dropped more than 50 percent.

Managers should realize that having satisfied customers is not good enough, they must have extremely satisfied customers. Moreover, a small increase in customer satisfaction boosted customer loyalty dramatically. In addition to benefiting from the extremely satisfied customers' repeat patronage, the hotel managers can save their marketing expenses because of the extreme satisfied customers' marketing power. Therefore, hotel managers should not be content with having satisfied customers. They need customers who are very satisfied.

Benefits of loyalty

The results of our study supported the contentions that there is a positive correlation between loyal customers and profitability. Loyal customers indeed provide more repeat business and were less likely to shop around for the best deals than non-loyal customers. For example, overall, the respondents indicated they stayed at this specific hotel only 66.67 percent of the time on return visits, but among the respondents who claimed that they would definitely return, 88.52 percent stayed at The Lenox on return visits. Also, more than half (59 percent) of the respondents, who would definitely return, did not shop around before making their reservation, compared to only 5.1 percent who gave a neutral response to this question.

The importance of word-of-mouth can never be overemphasized in the hotel industry, since hotel customers prefer personal information sources. Positive word-of-mouth increases the hotel's reliability and decrease customer's perceived risk. The results showed that among the respondents who would definitely stay at the hotel when they return to an area, 96.9 percent had spread positive word-of-mouth for the hotel. The average number of people to whom they had told positive things about the hotel was an average of 8.29 people. On the other hand, 87.7 percent of the respondents who scored a 6 on the intent to return, had told people positive things about the hotel and on average they told 6.29 people. Once again, the results verified that loyal customers indeed spread positive word-of-mouth and made recommendations. Loyal customers are critical for the hotel business. How to create loyal customers is deemed universally an essentially important task for the hotel managers.

Implications for practitioners

Performance versus importance of loyalty factors

In order to understand which valuable benefits developed customer loyalty, the survey asked the customers what attributes would develop their feelings of loyalty and their ratings of how the hotel performed on a specific attribute. The results revealed that giving customers non-smoking rooms upon their request would advance customer loyalty to a great extent (82.3 percent). Most respondents said a check-in and check-out time that suited them would affect their loyalty (51.2 percent). Similarly, almost half of the respondents (49.3 percent) indicated that if they could check in when they arrived, even if it was before check-in time, their loyalty would be boosted. On the other hand, when evaluating the hotel's performance, the guests perceived the hotel performed well on meeting their requests for non-smoking rooms. However, less than half of the respondents, 37.2 percent, stated they could check in and check out at the time that suited them and

only 39.2 percent of the respondents could check in before the designated time. If The Lenox could develop a system for flexible check-in and check-out times they could create stronger customer loyalty among this group.

Framework for loyalty research

One purpose of this study was to provide a framework for other hotels to replicate this research process for their own marketing research. The following four methods are recommended. The hotel should use its database to select members for focus groups and the sample for a survey based on desired characteristics. Use focus groups to gain insight into the issues. Use survey research on a continuing basis, as managers cannot make any conclusive decision based on this one-time result. Use internal benchmarks to set new goals.

Internal benchmarking

Based on the above analyses, we know that establishing loyal customers is critical for the hotel industry. Nevertheless, how can hotel managers build customer loyalty? Two measurements were suggested by this study: the first measurement was the benchmark scores for the features which would increase customer loyalty; the second one was the gap between expected service and perceived service.

Benchmarking has been applied to improve service quality since 1990. It is a method to identify the most effective practices by rigorous comparison of similar processes across organizations and even industries, then adopt them as performance goals (Chen, 1998). In this study, rather than develop the benchmarks on the best practices of others, internal benchmarks were developed based on the survey results. The scores of loyal customers, those who indicated they would definitely return, will be the internal benchmarks for managers to improve their service quality so as to increase customer loyalty. When the benchmark scores were reached, it does not guarantee that all the customers will return; nevertheless, the benchmark scores serve as a target for reaching a level that will create additional loyalty. Furthermore, by having these benchmarks in place, a hotel would be holding itself to a strict standard setting forth to drive the overall value of the hotel guests. A total of 13 features were expected to build customer loyalty in this study. Among the top five attributes that had a big gap between loyal customers and entire respondents, three of them are related to hotel employees. For example, "employees communicate the attitude that your needs are important to them" had the biggest discrepancy between

Table I

The relationship between overall satisfaction and intent to return and willingness to recommend the hotel

Score on overall satisfaction	Percent stating they would definitely return – recommend the hotel	Percent stating they would definitely return
7	62.6	65.0
6	29.8	24.6
5 and lower	7.6	10.4

Notes: 7 = very satisfied; 1 = very dissatisfied

the means of the entire sample and loyal customer (5.52 compared to 6.15). Followed by “If you make a request at the hotel, no matter how large or small, it is handled appropriately” had a gap of 0.61 (5.40 compared to 6.01). The third attribute was “When an employee of the hotel says she/he will do something, you know it will get done” (5.65 compared to 6.23). The benchmark scores were the goals for hotel managers to reach because it’s a target level of creating additional loyalty among customers, especially when the managerial efforts were so minor and the loyalty effects were so tremendous (Table II). For instance, personalized service was an area of opportunity for the hotel. Training employees to recognize customers and take extra care of them was imperative for this hotel.

Summary

Research was conducted on a sample of target customers from the hotel’s customer database. The research sought to discover the relationship between satisfaction and loyalty, investigate the benefits of loyalty, identify valuable benefits to the customers, and evaluate the current performance. The results indicate the relationship between satisfaction and loyalty was non-linear.

Table II

Benchmark scores of respondents who rated intent to return a “7” and the overall mean of all respondents

	Benchmark score	Overall score	Gap
Employees communicate the attitude that our needs are important to them	6.15	5.52	0.63
If you make a request at the hotel, no matter how large or small, it is handled appropriately	6.01	5.40	0.61
When an employee of the hotel says she/he will do something, you know it will get done	6.23	5.65	0.58
The staff recognizes you by name during your stay	3.95	3.39	0.56
The hotel offers you a hassle-free stay	6.51	5.98	0.53
You are certain that the service you received during each visit will be the same	6.34	5.83	0.51
The concierge at the hotel is well informed	6.41	5.92	0.49
The staff recognizes you upon arrival	4.11	3.63	0.48
You feel safe at the hotel	6.64	6.17	0.47
If you have a problem at the hotel it will be resolved to your satisfaction	6.32	5.85	0.47
You are confident that any communications you have with the hotel will be accurately received and acted upon	6.31	5.84	0.46
You feel comfortable leaving business papers and/or valuables in your room at the hotel	6.11	5.66	0.45
You know your room reservation will be in order when you arrive at the hotel	6.41	5.97	0.44

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