

# Customer loyalty in the hotel industry: the role of customer satisfaction and image

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## Keywords

Customer satisfaction,  
Customer loyalty, Hotels,  
New Zealand

## Abstract

Loyalty of a firm's customer has been recognised as the dominant factor in a business organization's success. This study helps us extend our understanding of the relationship between customer loyalty, customer satisfaction, and image. This is of considerable interest to both practitioners and academics in the field of hospitality management. The objective of this research is to identify the factors of image and customer satisfaction that are positively related to customer loyalty in the hotel industry. Using data collected from chain hotels in New Zealand, the findings indicate that hotel image and customer satisfaction with the performance of housekeeping, reception, food and beverage, and price are positively correlated to customer loyalty.

## Introduction

The hotel industry today has been recognised as a global industry, with producers and consumers spread around the world. The use of hotel facilities such as: room, restaurant, bar, nightclub or health club; is no longer considered a luxury. For many people these services have become an integral component of lifestyle. Moreover, in the last two decades, demand for and supply of hospitality services beyond that of the traditional services intended for travellers have escalated the growth of the hospitality industry globally, leading to intense competition in the marketplace. One of the greatest challenges facing hotel organizations today is the ever-growing volume and pace of competition. Competition has had major implications for the customer, providing:

- increased choice;
- greater value for money; and
- augmented levels of service.

Additionally, there is little to distinguish one hotel's products and services from another. Thus it has become imperative for hotel organizations to gain a competitive advantage.

There are two strategies most commonly used by hotel managers in order to gain a competitive advantage; they are:

- 1 low-cost leadership through price discounting, and
- 2 developing customer loyalty by providing unique benefits to customers.

Hotels that attempt to improve their market share by discounting price, however, run the serious risk of having a negative impact on the hotel's medium- and long-term profitability. As a result, it is quality of service rather than price that has become the key to a hotel's ability to differentiate itself

from its competitors and to gain customer loyalty.

Numerous examples illustrate that it is important that the hotel industry develop customer loyalty, as opposed to relying solely on pricing strategies. Researchers have shown that a 5 per cent increase in customer loyalty can produce a profit increase of 25 per cent to 85 per cent (Reichheld and Sasser, 1990).

Hence a dedicated focus on customer loyalty is likely to become a necessary prerequisite for the future survival of hotel organizations.

Hospitality managers believe that firms can improve their profits by satisfying customers. Studies show, however, that satisfying customers alone is not enough, since there is no guarantee that satisfied customers will return to purchase. It is now becoming apparent that customer loyalty is significantly more important than customer satisfaction in a business organization's success.

The increasing sophistication of customers' demands coupled with the increasing market competition has posed a new challenge to hotel managers. Hotel managers, therefore, are seeking ways to understand the most influential factors in customer loyalty.

This knowledge may assist hotel managers to implement strategies which will ensure that the hotel will receive loyalty from both existing and prospective customers.

## Loyalty

For the purpose of this study, it is assumed here that a "loyal customer" is a customer who repurchases from the same service provider whenever possible, and who continues to recommend or maintains a positive attitude towards the service provider.



### **Loyalty dimensions**

There are two dimensions to customer loyalty: behavioural and attitudinal (Julander *et al.*, 1997). The behaviour dimension refers to a customer's behaviour on repeat purchases, indicating a preference for a brand or a service over time (Bowen and Shoemaker, 1998). Attitudinal dimensions, on the other hand, refer to a customer's intention to repurchase and recommend, which are good indicators of a loyal customer (Getty and Thompson, 1994). Moreover, a customer who has the intention to repurchase and recommend is very likely to remain with the company.

### **Loyalty prerequisites**

Practitioners and researchers have not clearly identified a theoretical framework, identifying factors that could lead to the development of customer loyalty (Gremler and Brown, 1997). However, there is a consensus amongst practitioners and academics that customer satisfaction and service quality are prerequisites of loyalty (Gremler and Brown, 1997; Cronin and Taylor, 1992). Those technical, economical and psychological factors that influence customers to switch suppliers are considered to be additional prerequisites of loyalty (Selnes, 1993; Gremler and Brown, 1997). Recent studies also indicate that the firm's image may influence customer enthusiasm: value, delight, and loyalty (Bhote, 1996).

### **Relationship between customer satisfaction and loyalty**

Customer satisfaction is considered to be one of the most important outcomes of all marketing activities in a market-oriented firm. The obvious need for satisfying the firm's customer is to expand the business, to gain a higher market share, and to acquire repeat and referral business, all of which lead to improved profitability (Barsky, 1992). Studies conducted by Cronin and Taylor (1992) in service sectors such as: banking, pest control, dry cleaning, and fast food; found that customer satisfaction has a significant effect on purchase intentions in all four sectors. Similarly, in the health-care sector, McAlexander *et al.* (1994) found that patient satisfaction and service quality have a significant effect on future purchase intentions.

Getty and Thompson (1994) studied relationships between quality of lodging, satisfaction, and the resulting effect on customers' intentions to recommend the lodging to prospective customers. Their findings suggest that customers' intentions to recommend are a function of their

perception of both their satisfaction and service quality with the lodging experience. Hence, it can be concluded that there is a positive relationship between customer satisfaction and customer loyalty.

### **Relationship between image and loyalty**

An organization's image is an important variable that positively or negatively influences marketing activities. Image is considered to have the ability to influence customers' perception of the goods and services offered (Zeithaml and Bitner, 1996). Thus, image will have an impact on customers' buying behaviour.

Service literature identifies a number of factors that reflects image in the customer's mind. Image is considered to influence customers' minds through the combined effects of advertising, public relations, physical image, word-of-mouth, and their actual experiences with the goods and services (Normann, 1991). Similarly, Grönroos (1983), using numerous researches on service organizations, found that service quality was the single most important determinant of image. Thus, a customer's experience with the products and services is considered to be the most important factor that influences his/her mind in regard to image.

Heung *et al.* (1996), in their study on hotel brand loyalty in the free independent traveller's market, found hotel image to be an important factor, and to maintain a relatively high score rating among loyal customers. Mazanec (1995) found image to be positively associated with customer satisfaction and customer preference (a dimension of customer loyalty) in luxury hotels. This indicates that a desirable image leads to customer satisfaction and customer preference, while an undesirable image may lead to dissatisfaction.

### **The proposed model**

For the purpose of this study, thus, it is imperative to examine the relationship between customer loyalty and the two prerequisites; customer satisfaction and image in the hotel industry. It proposes to examine three sets of relationships:

- 1 How the image of a hotel affects customer loyalty.
- 2 How customer satisfaction affects customer loyalty to a hotel.
- 3 How the combination of image and customer satisfaction in a hotel affect loyalty.

Based on these three relationships a model is proposed in Figure 1.

This model predicts that customer satisfaction and image directly influence customer loyalty. Reception, food and beverage, and the housekeeping department of a hotel represent the operations necessary to satisfy the basic needs of hotel guests (Gunderson *et al.*, 1996). Hence, for the purpose of this research, customer satisfaction is measured according to the performance of these three departments of the chain hotels. As price or value is similarly considered an important factor that influences and assists in the development of customer satisfaction (Getty and Thompson, 1994), price is also included as a measurement factor.

### Hypotheses

The objective of this study is to identify the relationships that exist between customer loyalty and its two prerequisites; customer satisfaction and hotel image, in the hotel industry. To this end, three hypotheses have been developed, based on the three relationships identified in the previous section:

- H1*: Hotel image is positively related to customer loyalty.
- H2*: Customer satisfaction with reception, housekeeping, food and beverage, and price is positively related to customer loyalty.
- H3*: Hotel image and customer satisfaction with the hotel's performance significantly explain the variance of customer loyalty.

This research focuses on hotel chains because customer loyalty is considered to be a more important issue for hotel chains than

for independent hotels (Heung *et al.*, 1996). The unit of analysis in this research is individual guests at chain hotels. To achieve this objective, cross-sectional data were collected from chain hotel customers.

### Construct measurement and reliability

The variables used for this study (see Table I) were identified from the research literature.

Customer loyalty, customer satisfaction, and hotel image were measured using Likert-type scales: "1" (strongly disagree), "3" (neutral), and "5" (strongly agree). To collect the data, questionnaires accompanied by a covering letter and a chocolate bar incentive were distributed to 237 guests of five different chain hotels in Christchurch, New Zealand. The questionnaires were delivered through the reception desk to those guests checking in during the three weeks' data-collection period. A total of 158 surveys were returned, of which 106 (45 per cent) proved usable.

## Results

A simple regression analysis between each independent variable (customer satisfaction with: reception, food and beverage, housekeeping, price and hotel image) of customer loyalty was conducted (see Table II) to test *H1* and *H2*.

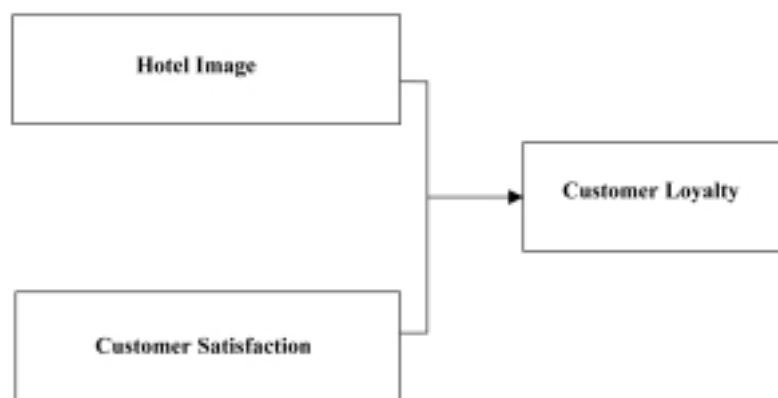
The results of the simple regression tests indicate that there is strong evidence to support *H1* and *H2*. To test the relationship between customer satisfaction variables and customer loyalty, a multiple regression was conducted. The results are shown in Table III.

The results in Table III indicate that the variable, customer satisfaction with housekeeping was found to be significant; on the other hand customer satisfaction with reception, food and beverage and price was not found to be significant. To identify the relationship between customer loyalty and image and customer satisfaction (to test *H3* – see Table IV), the variables were simultaneously tested with each dependent variable in one model. The beta values of both image and customer satisfaction with housekeeping were also found to be significant. This clearly indicates the importance customers place on housekeeping services and the influence this has on customer satisfaction and hotel image.

As seen in Table IV, hotel image and customer satisfaction with reception, food and beverage, housekeeping, and price together significantly explained 34 per cent of the variance in customer loyalty. Thus, Table IV clearly indicates that the combined effect

**Figure 1**

Model of the relationships between hotel image, customer satisfaction and customer loyalty



**Table I**  
Construct operationalization

Variable	No. of Items	Description
<b>Customer loyalty</b>	2	Two items are used to operationalise customer loyalty, intention to recommend and intention to repurchase
<b>Image attributes</b>	6	This dimension is operationalised based on the guest's perception of the hotel location, physical facilities, interior design, price, the quality of the goods and services provided, and staff performance
<b>Image holistic</b>	4	The operationalisation of the holistic dimension of hotel image is based on the customer's perception of the hotel's atmosphere, reputation, external appearance, and the layout
<b>Satisfaction with reception</b>	4	This variable is measured by the customer's perception of the receptionist's willingness and ability to provide service, the physical appearance of the reception area and its ambience
<b>Satisfaction with food and beverage</b>	6	Satisfaction with the food and beverage is operationalised according to the guest's perception of the willingness and ability of the personnel to provide service, the opening hours of the restaurant or bar, the ambience of the food and beverage area, and the quality of the food and beverage
<b>Satisfaction with housekeeping</b>	4	Satisfaction with housekeeping is operationalised according to the guest's perception of the staff's willingness and ability to provide service, room amenities, and room comfort
<b>Satisfaction with price</b>	3	The value of the price paid for accommodation, food and beverage, and other services provided is considered to be the operationalisation of customer satisfaction with the price variable

**Table II**  
Regression of each independent variable towards customer loyalty

Variable	R <sup>2</sup>	F ***	$\beta$	T ***
<b>Hotel image</b>	0.312	45.74	0.231	6.763
<b>CS. reception</b>	0.136	15.932	0.647	3.992
<b>CS. food and beverage</b>	0.147	17.440	0.147	4.176
<b>CS. housekeeping</b>	0.248	33.294	0.625	5.770
<b>CS. price</b>	0.129	15.073	0.452	3.883

Note: Significant at  $p < 0.01$  (\*\*\*)

**Table III**  
Regression of customer satisfaction towards customer loyalty

Variable	$\beta$	T	Sig.
<b>CS. reception</b>	0.214	1.211	0.229
<b>CS. food and beverage</b>	0.027	0.628	0.531
<b>CS. housekeeping</b>	0.433	3.207	0.002***
<b>CS. price</b>	0.180	1.439	0.153

Notes: Significant at  $p < 0.01$  (\*\*\*) ;  $R^2 = 0.295$ ;  $F = 10.252$ \*\*\*

of hotel image and customer satisfaction on customer loyalty is very high.

## Discussion of the findings

### Hotel image

The findings from this study suggest that hotel image and customer satisfaction with

reception, housekeeping, food and beverage, and price are important factors in determining customer loyalty. Previous studies show that the image of the location, employee attitude, facilities, and services of a hotel constitute important factors in determining customer loyalty (Ostrowsky *et al.*, 1993). Therefore, customers tend to repurchase and recommend a business with a favourable image in the belief that it provides an assurance of high quality goods and services.

### Customer satisfaction

The hypothesis tests indicate that customer satisfaction with the performance of reception, food and beverage, the housekeeping department, and price are important factors in determining whether a customer will repurchase and/or recommend. Moreover, it is particularly important to note that customer satisfaction with housekeeping was found to be the only significant factor that determined customer loyalty when tested in the model. One possible explanation for this is that housekeeping, from a customer's perspective, represents the core benefit of a hotel (temporary accommodation), while reception, food and beverage, and price are regarded as supporting factors (factors that assist the delivery of the hotel's core benefit). Consequently, hotel guests perceive

satisfaction with housekeeping to be more important than satisfaction with reception, food and beverage, and price when deciding whether to return, recommend, and demonstrate loyalty to the hotel.

#### Hotel image and customer satisfaction

When hotel image and customer satisfaction with reception, housekeeping, food and beverage, and price were tested, hotel image and customer satisfaction with housekeeping were the only significant factors identified. This finding indicates that hotel image and customer satisfaction with housekeeping are the most important factors considered by customers in their discussion to repurchase, recommend and exhibit loyalty.

In conclusion, the results of the hypotheses tests indicate that hotel image and customer satisfaction with food and beverage, reception, housekeeping, and price are important factors in determining a customer's intention to repurchase, to recommend, and exhibit loyalty. Among these determinant factors, hotel image and customer satisfaction with housekeeping are the major considerations when customers repurchase, recommend, and exhibit loyalty.

#### Management implications and conclusion

While customer satisfaction is a widely accepted and proven prerequisite to gain customer loyalty, there have been relatively few studies on image as the prerequisite for customer loyalty. This research shows that the inclusion of image and customer satisfaction in one model not only highlights the importance of image, but also provides a more comprehensive understanding of how it influences both customer satisfaction and loyalty. This also suggests that both image and customer satisfaction should be included when measuring customer loyalty.

Findings from this research highlight that developing customer loyalty depends, not only on the hotel's ability to increase

customer satisfaction in terms of service performance, but also on its ability to establish a favourable image. Moreover, various aspects of the hotel operation, including the seven services marketing variables (product, place, price, promotion, people, process, and physical evidence) may directly affect the hotel image. Hence, it is crucial that the seven services marketing variables are managed and marketed in accordance with the hotel's image. For example, reduction in price may attract a particular category of clientele. To a customer, the hotel's clientele is an element that significantly and indirectly reflects the hotel's image. Hence, attracting customers who do not represent the image of the customer base may negatively affect the loyalty of existing customers.

Results from this study clearly indicate that all aspects of a hotel operation are not equally important to the customer. It was found that the hotel room and the ability and willingness of housekeeping staff to offer superior service were the most important factors determining customer loyalty. This research, therefore, suggests that any efforts towards quality improvement in a hotel should focus primarily on ensuring customer satisfaction with housekeeping. While acknowledging the importance of all aspects of the hotel operation, managers should recognise the significance of housekeeping to overall customer satisfaction. Thus it is imperative that management channel their resources into updating guest services in the room in accordance with the requirements of their clientele. For example, hotels that target business customers may find it necessary to adopt and/or keep pace with the latest advances in communication technology. Moreover, housekeeping is not traditionally considered by hotel managers as a front-line service department. Hence, service training offered to housekeeping staff is minimal in comparison with that provided for reception and/or restaurant staff. The research findings, however, highlight the importance placed by customers on housekeeping services. The authors therefore recommend that hotels incorporate special service training for housekeeping staff.

This study highlights the importance of image and customer satisfaction to improve loyalty. Moreover, in a hotel chain, this may present challenges for management since the performance of one hotel may influence customers' perception of other hotels in the same chain. It is thus vital to maintain consistency in service standards of all hotels belonging to the chain. This may prove difficult where the chain hotel has properties

**Table IV**

Regression of hotel image and customer satisfaction towards customer loyalty

Variable	$\beta$	T	Sig.
Hotel image	0.178	2.676	0.009 ***
CS. reception	0.020	0.109	0.914
CS. food and beverage	-0.038	-0.797	0.427
CS. housekeeping	0.273	1.894	0.061*
CS. price	0.102	0.817	0.416

Notes: Significant at  $p < 0.01$  (\*\*\*) and  $p < 0.1$  (\*);  $R^2 = 0.343$ ;  $F = 10.150$ \*\*\*

in different countries. Although customers value consistency highly, they equally value personalised service. Hence, it is important that a chain hotel also maintain its individuality through personalised service. Customer loyalty can therefore be nurtured by providing consistent superior room facilities, complemented by the personalised services of housekeeping staff.

The findings of this study contribute to the growing body of knowledge in services management and hospitality management. This study could be replicated in independent hotels, in chain restaurants and/or in other service sectors.

The strength of this research lies in the fact that it provides an actionable focus for the managers of chain hotels in their pursuit of a competitive advantage. The authors conclude that an organization's long-term success in a market is essentially determined by its ability to expand and maintain a large and loyal customer base. However, it is important to recognise that customer loyalty is time specific and non-permanent and, thus, requires continuous and consistent investment. Hotel organizations must, therefore, constantly strive to develop and maintain their customers' loyalty or, as is true in the majority of relationships, risk losing it to someone else.

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