Equity-based customer loyalty mode for the upscale hotels—Alternative models for leisure and business travels

Chyong-Ru Liu [a], Tsung-Chiung Wu [b,*], Pi-Hua Yeh [c], Shan-Pei Chen [d]

[a] Graduate Institute of Environment, Recreation and Tourism, National Changhua University of Education, Taiwan
[b] Department of Tourism, Recreation and Leisure Studies, National Dong Hwa University, Taiwan
[c] Department of Tourism and Leisure, Hsing Wu University, Taiwan
[d] Department of Tourism and Hospitality, Taipei Chengshih University of Science and Technology, Taiwan

ARTICLE INFO

ABSTRACT

The upscale hotel market is a fiercely competitive one, and the key to success is whether or not a hotel has placed a focus on equity-based customer loyalty. This study aims to evaluate equity-based customer loyalty models for two alternative travel styles, leisure and business travels. To this end, 326 surveys were collected from leisure travelers and 282 from business travelers, with model testing conducted through linear structural equation modelling. The results of this show that leisure travelers are more focused on brand equity while business travelers are focused on relationship equity, and that strengthening these will strengthen customer loyalty. Finally, marketing managerial implications and suggestions for future researches are also discussed.

© 2015 Elsevier Ltd. All rights reserved.

1. Introduction

Although experiencing increased globalization competition, the hotel industry faces the challenges of higher customer turnover, growing costs of customer acquisition, and rising customer expectation (Sigala, 2005). Hotels' ability to satisfy customers efficiently and effectively determines their performance and competitiveness. Therefore, customer equity strategies focusing on correlating a variety of programs (such as increasing product value, brand strategies and relationship management strategies) become relatively important for the hotel's overall value added (Rust et al., 2004). Hotel operators need a practical model for linking marketing investments and customer equity strategies to increase rates of customer retention.

Customer equity, a measure of the expected future behavior of a firm's customers, is a key asset that firms should monitor and nurture to maximize their long-term profits (Furinto et al., 2009). Customer equity consists of three antecedent factors: value equity, brand equity, and relationship equity (simplified as equity-based strategies in this study) (Rust et al., 2004; Leone et al., 2006; Severt & Palakurthi, 2008). Value equity is an objective evaluation by customers of the quality, price, convenience, and utility of a company's products (Rust et al., 2004). Brand equity is the awareness, preferences and behavior resulting from a customer's subjective and intangible assessment of a brand. It is also formed by brand awareness and brand image (Keller, 1993, 1998). Relationship equity is as the intention of customers to continually use products or services after subjective and objective brand evaluations (Lemon et al., 2001). Customer loyalty is as a customer's willingness to continuously buy or use certain products or services even when facing changing conditions (Oliver, 1997). By enhancing equity-based strategies, companies can increase profits, reduce customer acquisition costs and reduce the cost for serving repeat customers (Reichheld & Sasser, 1990). Thus, the level of customer loyalty can serve as an indicator of the effects of equity-based strategies (Vogel et al., 2008). For hotel operators, there are equity-based strategies in maintaining long-term customer loyalty.

The upscale hotel industry, including those meeting the standards of four- or five-star hotels, is no exception in this regard. To maximize their customer royalty, upscale hotel brands invest in various marketing expenditures, such as brand marketing, product value development, and relationship management. For example, Hotel News Resource (2014) reported that the global launch of the Westin Well-being Movement, which is an ambitious $15 million brand-wide campaign designed to enhance the well-being of guests and associates around the world by Westin Hotel & Resorts. Breaking Travel News (2014) publicized that Hilton Worldwide and DIRECTV decided to deliver the world's most popular TV service to more than half a million hotel guest rooms across the United States to enhance customer equality. A large number of upscale hotels, such as Hyatt Hilton, and Starwood, have developed relationship marketing programs, such as Hyatt Gold Passport, Hilton HHonors and Starwood Preferred Guest. The purpose of these programs is to build a long-term customer relationship.

* Corresponding author.
E-mail addresses: crliu@cc.ncue.edu.tw (C.-R. Liu), tcwu@mail.ndhu.edu.tw (T.-C. Wu), sophia.ph.yeh@lotus-tours.com.tw (P.-H. Yeh), spchen@tpcu.edu.tw (S.-P. Chen).

Customer loyalty is particularly important to the hotel industry, because most hotel industry segments are mature and competition is strong (Bowen & Shoemaker, 1998). Hotel companies are now seeking to develop loyal customers to maintain their advantage. However, no study has verified the causal relationship between equity-based strategies and customer loyalty for upscale hotels. Furthermore, an understanding of the relationship between equity-based strategies and customer loyalty for upscale hotels can help operators formulate equity-based strategies to strengthen customer loyalty.

Travel purposes have been known to affect lodging demands and have marketing and management implications (Oh & Jeong, 2004). Those who stay for leisure purposes have greater expectations for recreation, relaxation and entertainment than those who stay for businesses (Ariffin & Maghzi, 2012). Therefore, the hotel industry should plan for and provide different facilities and services to meet the various demands by business and leisure travelers (Chu & Choi, 2000). Although the 'star rating' of the hotel evaluation system might be strongly associated with expectations on hotel hospitality (Ariffin & Maghzi, 2012), it is not sufficient to depict the similarities and differences between demands of leisure and business travelers to upscale hotels. This issue is important because the mix of travelers can affect a hotel's business operations. Although the quality of staff services does not influence overall value for either leisure or business travelers, after controlling for the effects of perceived price and quality (e.g. quality of room, quality of public areas, and quality of staff services) (Kashyap & Bojanic, 2000), further understanding of the forces driving customer loyalty is critical. Few studies, however, have examined the causal relationship between a customer's perceived equity-based strategies and customer loyalty or how differences between business and leisure travelers affect hotel operations.

Thus, we address the influence of equity-based strategies, value equity, brand equity and relationship equity on customer loyalty. If differences between equity-based customer loyalty model for these two important market segments of the hotel industry can be observed, it will have important implications for marketing management by hotel operators. The purposes of this study are to construct an equity-based customer loyalty model for upscale hotels and compare differences between models for leisure and business travelers.

2. Theoretical background

2.1. Equity-based strategies and customer loyalty

Customer-centered business perspectives have garnered attention since 1960, and customer-centered marketing theory and practices have developed over the past five decades (Rust et al., 2004). Rust et al. (2000) applied a customer equity model to the service industry, noting that an inverse ratio existed between customer equity and discount. A high discount reflects a low lifetime value and a positive relationship exists among customer average consumption, expected purchase frequency, and counter purchase ratio. That is, a company should understand its customers' needs, identify the most rewarded customers, adjust their marketing strategy, retain valuable customers, and maximize customer loyalty.

Ravald and Gronroos (1996) indicated that service quality will encourage repeat purchase and enhance customer loyalty. Zeithaml et al. (1996) also illustrated that businesses increase customer loyalty through launching equity-based strategies. Besides, brand equity could enhance perceived utilities and benefits of the branded products (Lassar et al., 1995). Through featuring the differences of branded product with other competitors, branding can increase the brand equity and, at the same time, enhance customer loyalty (Helgeson & Supphellen, 2004; Kressmann et al., 2006). Furthermore, Rust et al. (2004) indicated that value equity and brand equity may not be enough to retain customers in a fierce competitive market. Managing and enhancing relationship equity is necessary for business to sustain their customers.

Relationship equity aims to make customer sense extra benefits provided by the business and results in high customer loyalty (Chiu et al., 2005). In sum, enriching high level of equity-based strategies will contribute to maintaining high level of customer loyalty. The equity-based strategies are described below:

2.1.1. Brand equity

Brand equity is awareness, preference and behavior resulting from a customer's subjective and intangible assessment of a brand. It is also formed by brand awareness and brand image (Keller, 1993, 1998). Aaker (1991) asserted that brand equity is the combination of certain brand assets and debts that connect brand, name, symbol, and liabilities. They also note that it can increase or reduce value offered to customers offered by products or services. Sources of brand equity can be divided into brand loyalty, brand awareness, perceived quality, brand association, and other proprietary brand assets (Aaker, 1991). Furthermore, brand equity generates different values for different brands. It produces different reactions to brand knowledge when customers encounter different brands. Brand knowledge, a critical factor, consists of such dimensions as brand awareness and brand image (Keller, 1993, 1998). Therefore, we measured brand equity of upscale hotels using the dimensions of brand awareness, brand association, and brand image.

2.1.2. Value equity

A customer is a pursuer of value maximization (Kotler, 2000). Value equity is an objective evaluation by customers of the quality, price, convenience, and utility of a company's products (Rust et al., 2004). Perceived value equity influences consumer decisions. These perceptions are subjective, but recognizable. In the hotel industry, the degree of value equity is a comprehensive evaluation by customers of service qualities in the hotel industry. When measuring value equity for the hotel industry, dimensions typically used are location (Law et al., 2008), physical environment (Mattila & O'Neill, 2003), price (Ye et al., 2012), rooms, and beverage quality (Wilkins et al., 2007), and personnel services (Mattila & O'Neill, 2003).

2.1.3. Relationship equity

Lemon et al. (2001) defined relationship equity as the intention of customers to continually use products or services after subjective and objective brand evaluations. Relationship equity is the adhesive that glues a customer to a company irrespective of changes in the external environment. When a customer is willing to continue doing business with a certain enterprise, the enterprise can increase the lifetime value of the customer by maximizing the rate and quantity of the customer's future purchases and by minimizing the purchase rate of competitors (Blattberg et al. 2001; Rust et al., 2000). Relationship quality is frequently used to measure the success of a relationship marketing strategy. It is also an important indicator of the degree or strength of a relationship (Garbarino & Johnson, 1999). There are many different measurement dimensions for relationship quality. Dimensions of satisfaction, trust, and commitment were adopted by Weber (2000) in a study of relationship equity for meeting planners and business hotels. Hyun (2009a, 2009b) used the dimensions of trust, commitment, conflicting emotions, and satisfaction to assess customer relationship equity for chain restaurants and theme parks. To assess relationship quality of upscale hotels, we adopted three dimensions: trust (Morgan & Hunt, 1994; Roberts et al., 2003), emotional commitment (Morgan & Hunt, 1994; Roberts et al., 2003), and satisfaction (Oliver, 1999).

2.2. Conceptual framework and research hypotheses

Recently, scholars have explored a customer equity model for the convention industry (Severt & Palakurthi, 2008), the chain restaurant (Hyun, 2009a) and the theme park (Hyun, 2009b) but few pays attentions to the special needs for the upscale hotel industry. In order to better meet the marketing needs of upscale hotel industry, this study