



Understanding the dimensions of customer relationships in the hotel and restaurant industries



Sunghyup Sean Hyun^{a,*}, Richard R. Perdue^b

^a School of Tourism, Hanyang University, 17 Haengdang-dong, Seongdonggu, Seoul 133-791, Republic of Korea

^b Department of Hospitality and Tourism Management, Virginia Tech, Blacksburg, VA 24061, United States

ARTICLE INFO

Article history:

Received 20 March 2016

Received in revised form 30 January 2017

Accepted 9 March 2017

Keywords:

Customer relationships
Relationship marketing
Hospitality marketing strategy
Customer lifetime financial value

ABSTRACT

The purposes of this research were, first, to examine the dimensionality of hospitality customer relationships and, second, to develop a multi-dimensional customer relationship scale validated with both antecedent measures of marketing effectiveness and effect measures of financial performance. While hospitality marketing research has frequently focused on the relationships between various marketing actions and different dimensions of customer relationships, there is a lack of research examining customer relationships as a multi-dimensional construct. For both the hotel and restaurant industries, scale development procedures with confirmatory factor analyses were used to identify the dimensions of customer relationships: engagement, motivation, commitment, cross-buying, word of mouth, and defection. The nomological validity of these dimensions was tested using the antecedent of service quality and the effect of customer lifetime financial value. The paper concludes by articulating, first, the theoretical and practical applications of the proposed scale and, second, an agenda for future research.

© 2017 Elsevier Ltd. All rights reserved.

1. Introduction

Two key forces impacting hospitality marketing strategy and research underlie this research. First, over the last 25 years, the central paradigm of marketing theory has shifted from transactions to relationships (Bolton, 2016; Rust et al., 2004b; Vogt, 2011). Long-term customer-firm relationships are recognized as a key determinant of marketing success (Josiassen et al., 2014; Palmatier et al., 2009; Payne and Frow, 2005). Transaction-oriented marketing measured success purely on the basis of short-term transaction volume and revenue (Zineldin and Philipson, 2007). In contrast, relationship marketing adopts a longer term focus across four customer relationship dimensions: (1) customer acquisition, (2) customer retention, (3) relationship expansion, and (4) defection (Fakih et al., 2016; Kang and Hyun, 2012; Kim et al., 2010; Yoo and Bai, 2013).

Second, understanding the return on investment from hospitality marketing is widely recognized as a key hospitality and tourism research priority (Barros and Assaf, 2012; Berezen et al., 2013; Dwyer et al., 2014; Hanssens and Pauwels, 2016; Kim et al., 2006; Line and Runyan, 2012). For the past decade, the Marketing Science

Institute (MSI) has consistently ranked marketing return on investment as a first or second tier research priority (Marketing Science Institute, 2016a,b). Initially, the response to this call to action was the creation of aggregate, uni-dimensional measures of “customer lifetime financial value” and “customer equity” (Bolton et al., 2004; Gupta et al., 2006; Rust et al., 2004b). More recently, (MSI, 2016) has emphasized the importance of understanding the correlations between “soft” (attitudinal) measures such as relationship quality and “hard” (behavioral) metrics such as customer lifetime financial value and customer equity (Farris et al., 2015; Hanssens and Pauwels, 2016).

Most hospitality firms invest marketing resources (e.g., customer database management, customized service quality, loyalty programs) into customer relationships. The depth and strength of those relationships are, consequently, a key measure of long-term marketing success (Han et al., 2015; Josiassen et al., 2014). Existing hospitality research has separately examined various issues of customer acquisition (Cantalupo and Salvi, 2014; Jin et al., 2016; Kim and Perdue, 2013), customer retention (Dolnicar et al., 2015; Line and Runyan, 2012; So et al., 2016), customer defection or switching (Line et al., 2016; Qiu et al., 2015; Park and Jang, 2014) and, to a lesser extent, customer expansion (Perdue, 2002; Šerić et al., 2014). However, as noted, the existing research has tended to study these relationship dimensions separately. The existing research has not examined the multi-dimensional interactions between these

* Corresponding author.

E-mail addresses: sshyun@hanyang.ac.kr (S.S. Hyun), perduerr@vt.edu (R.R. Perdue).

relationship dimensions or how they conjointly impact a firm's success. Collectively, this represents a substantive gap in our ability to both understand the complexity of hospitality customer relationships and to evaluate the effectiveness of hospitality marketing strategies.

An extensive search of both the marketing and the hospitality scholarly literatures did not identify any existing, parsimonious, multi-dimensional measures of the relationships between hospitality firms and their customers. Such a measure will contribute theoretical value to the understanding of hospitality consumer relationships and provide a framework for better understanding the complex and mixed effects of marketing strategy (Kim et al., 2015; Vogt, 2011). Accordingly, the purposes of this research were, first, to examine the dimensionality of customer relationships for hospitality firms and, second, to develop a multi-dimensional customer relationship scale validated with both antecedent measures of hospitality marketing effectiveness and effect measures of financial performance.

2. Literature review

2.1. Customer relationship management and marketing performance

Customer relationship management (CRM) focuses on creating, managing and expanding the relationships between a firm and its customers (Bolton, 2016; Vogt, 2011). The creation and management of customer relationships is a core focus of marketing theory and practice both in general and, more specifically, in the hospitality industry (Kotler et al., 2010; Ryu and Lee, 2013). As proposed by Rust et al. (2004b), the marketing actions of a firm (1) contribute to improved customer attitudes and preferences, which, in turn, (2) impact the depth and strength of the relationships between the firm and its customers, thereby (3) increasing a customer's lifetime financial value which, in aggregate, (4) contributes to customer equity and return on marketing investments.

Customer lifetime financial value is defined as the net present value of the future cash flows derived from a customer during her/his relationship with the firm (Rust and Chung, 2006). Building on the work by Berger et al. (2006), Gupta and Lehmann (2005), Kumar and Petersen (2005), and Rust et al. (2004c), customer lifetime financial value is derived from four components of the relationships between a firm and its customers: (1) customer acquisition, (2) customer retention, (3) relationship expansion, and (4) defection. According to Rust et al. (2000), customer equity is the aggregate discounted value of a firm's customers as determined by the time period (customer acquisition minus customer defection), the length of the planning horizon (customer retention), expected frequency of the customer's purchases per time period (relationship expansion), the customer's average spending per visit (relationship expansion), and the probability of return (customer retention) (Gupta et al., 2006). Substantial consumer research, both generically in marketing (Bolton, 2016; Rust and Chung, 2006) and specifically in hospitality (Line and Runyan, 2012), focuses on understanding the effects of marketing actions on these four relationship constructs. The following paragraphs review the literature on each of these relationship dimensions.

2.1.1. Customer acquisition

Customer acquisition is defined as that part of the customer relationship that begins with her/his initial engagement with the firm and proceeds through the first purchase until the first repeat purchase (Thomas, 2001). Customer acquisition research has focused primarily on the impact of marketing variables (e.g., price, promotion, discounts) on the attraction of new customers (Stahl et al.,

2012). Additionally, several studies have examined how customer acquisition strategies influence customer lifetime financial value.

For example, Lewis (2006) examined the relationships between a firm's customer acquisition promotional strategies and customer lifetime financial value, demonstrating that customers acquired through sales promotional efforts tended to have lower repurchase rates and lower lifetime values. Similarly, Thomas et al. (2004) examined the impact of product and service pricing on customer lifetime financial value, concluding that discounted pricing can help firms acquire new customers; but these customers tend to have shorter lifetimes with the firm and, consequently, lower lifetime financial value. A study by Anderson and Simester (2004) found that a discounting strategy can be a positive factor for first-time buyers but a negative factor for customer retention. Lewis (2005) explained that first-time buyers are more price sensitive; however, that sensitivity decreases with customer retention. They propose providing a series of diminishing discounts rather than a single deep discount. Moreover, there is growing criticism of discounting as a long-term revenue management strategy; arguing that while discounting may alter short-term results, the long-term effects are changes in customer perceptions of a fair and reasonable price (Forgacs, 2010). Cantalalops and Salvi (2014) provide a review of hospitality research on the effects of electronic word of mouth on new customer acquisition. Jin et al. (2016) extend this research by examining customer innovation on restaurant images.

2.1.2. Customer retention

Customer retention is defined as a customer's repeat purchase of a firm's products or services (Berger et al., 2006). Customer retention is a key antecedent of long-term customer relationships (Payne and Frow, 2005) and customer lifetime financial value (Hyun, 2009; Zhang et al., 2010). Sun and Li (2011) investigated the relationship between customer retention rate and a firm's profit using data provided by a digital internet service firm. They found that increasing customer retention by 0.8%, 1.2%, 2.6%, and 3.7% would increase firm profits by 0.3%, 0.8%, 1.6%, and 7.0% respectively. It is commonly argued by researchers that maintaining current customers cost less than attracting new customers (e.g., Coussement et al., 2010; Torkzadeh et al., 2006).

As a result, considerable research has focused on how to maintain current customers and increase the length of customer-firm relationships (e.g., Eisingerich and Bell, 2007; Kalaignanam and Varadarajan, 2012). Numerous studies have examined customer retention from a variety of perspectives, most notably service quality and customer satisfaction (Clemes et al., 2011; So et al., 2016). However, the evidence also suggests that customer retention is not, by itself, a strong measure of firm success. For example, Reinartz and Kumar (2000) found a low Pearson correlation between the length of customer relationships and firm profitability. Further, they found that 18.7 percent of customers generated relatively high profits for the firm even though their relationship tenure was short. In contrast another 21.2 percent generated relatively low profits even though they exhibited a longer lifetime relationship. Similarly, Dolnicar et al. (2015) question the value of intention to return as a measure of customer retention. Some customers who remained as returning customers nonetheless made small financial contributions to the firm. Clearly, understanding both customer retention and the long-term value of a customer are important research objectives for hotel and restaurant management (Forgacs, 2010).

2.1.3. Customer relationship expansion

Customer relationship expansion refers to "increasing purchases either of new products or the same products previously bought from the firm" (Berger et al., 2006, p. 157). There are two different types of relationship development: depth and breadth (Verhoef, 2001). Depth of relationship indicates the frequency

Download English Version:

<https://daneshyari.com/en/article/5108192>

Download Persian Version:

<https://daneshyari.com/article/5108192>

[Daneshyari.com](https://daneshyari.com)