

# CUSTOMER RETENTION PRACTICES OF GROUP, OR BRANDED HOTELS, AS COMPARED TO PRIVATE OR OWNER-MANAGED HOTELS: AN EXPLORATORY STUDY

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There is room for improvement when it comes to customer retention in the hotel industry in South Africa. This study explores the importance attributed to customer retention practices by the managers of group or branded hotels, as opposed to private or owner-managed hotels. For group or branded hotels, as well as for private or owner-managed hotels, the overall importance attributed to customer retention activities does not differ significantly. It is hoped that the findings of this study will add to the relatively limited research into services marketing in the hospitality industry – and specifically in the hotel sector.

*Key phrases: Customer retention, hotels, relationship marketing, customer compatibility management, customer defection management, service failure management, service recovery*

## INTRODUCTION

An increasing proportion of the workforce in both developed and developing countries is employed in the service sector, which includes such industries as tourism and hospitality, education, medical and hospital services, retailing, as well as communications and construction services (McColl *et al* 1998:43). It is estimated that services account for between 70% and 85% of the gross domestic product (GDP) of developed countries (Johnston & Michel 2008:80) and for 52% of the GDP of developing countries (Hill 2007:245). It is estimated that tourism contributed 8.3% (or some R83.1 billion) of South Africa's GDP in 2006 (South African Tourism, Strategic Research Unit 2007:2). Tourism therefore contributes to higher levels of employment, and raises the national income as well as the foreign exchange rate *and* the balance of payments.

The growth in the tourism industry in South Africa is largely attributable to phenomenal growth in business and leisure demand (Kloppers 2005:28) as well as to an increase in the number of foreign visitors to the country: the end of September 2007 saw the highest number of arrivals in South Africa ever recorded for the third quarter – an increase of 9.4% compared with the same period in 2006 (South African Tourism, Strategic Research Unit 2008:5). This growth is also evident in the accommodation industry, which experienced a 19.1% growth in income in the fourth quarter of 2007, when compared to growth in 2006 (Statistics South Africa 2008:2). Hotels were responsible for 10.8% of this growth (Statistics South Africa 2008:3).

This study focuses on the hotel industry in Gauteng. Despite being the smallest of South Africa's nine provinces (covering approximately 17 000 square kilometres or

1.4% of total land area) Gauteng is home to 8 million people (Gauteng Provincial Government 2008) and contributes a third of South Africa's GDP and 10% of Africa's GDP (Gauteng Economic Development Agency 2008).

Hotels can be categorized according to their size, or to how they are owned and managed (Claver-Cortés *et al* 2007:7): they can be group/branded hotels, or private/owner-managed. It is reasonable to assume that differences might be observed in how these two different types of hotel operate (Claver-Cortés *et al* 2007:14; Kim *et al* 2007:440).

Sigala (2005:409) argues that the service industries are undergoing significant developments, not the least of which is that their marketing strategies are shifting from customer acquisition to customer retention. It is thus imperative that hotels attract customers, satisfy their needs – but then *retain* them. Doing so will give them a greater chance of survival than hotels which do not do this (Choi & Chu 2001:289). Once an organization of whatever kind is successful in retaining customers, it can build relationships with them (Reicheld & Sasser 1990:105-108; Hoffman *et al* 2003:334). Building relationships with customers is extremely important as repeat business is more profitable than business from new customers (Zineldin & Philipson 2007:230).

Businesses should therefore attempt to satisfy their customer needs and build relationships with them, as this will give them a far greater chance of succeeding (Patterson *et al* 2006:263) and will also give them a competitive advantage over rivals (Torres & Kline 2006:300).

Despite the best attempts of businesses to provide high-quality service, customers do not always remain loyal (Kurtz & Clow 1998:380-381 & 403). This is yet another reason why businesses should attempt to build relationships which will lead to customer retention (Kurtz & Clow 1998:380-381&403). Relationship marketing allows businesses to build relationships with customers (Claycomb & Martin 2001:385&396) that should ultimately lead to long-term success.

In the competitive hotel industry, characterised by 24/7 operations and fluctuating demand (Lewis & McCann 2004:6), as well as by the inherent uncontrollability of the industry due to the fact that it is constituted primarily of people dealing with other people (Magnini & Ford 2004:280), it is becoming increasingly important to satisfy guest needs (Ngai *et al* 2007:1376) and to focus on customer retention rather than customer acquisition (Gilbert *et al* 1999:25). Kim and Cha (2002:336) comment that for hotels to create a competitive advantage, they must develop a set of relationships that not only create value, but are also difficult for their competition to emulate.

The purpose of this article is to determine the perceptions of hotel managers of the importance of customer retention practices – i.e. building relationships with customers, and managing customer-to-customer interaction, defections, service failures and service recovery – for the two different types of hotel.

## LITERATURE BACKGROUND

### Customer retention management

Peppers and Rogers (2004:26) state that organizations often strive to increase their profitability without increasing their customer retention rates. Such organizations do not understand the importance of improving customer retention rates, and the impact this has on profitability (Clark 1997:295). Gamble *et al* (2006:230) explain the customer retention rate as the percentage of customers at the beginning of a given period that is still with the organization at the end of that period. DeSouza (1992:25) adds that the customer retention rate is more complex than would seem from this simple explanation of it. It can be calculated in two ways: a weighted retention rate, or a crude customer retention rate. The weighted retention rate factors in the volume of customer purchases, whereas a crude customer retention rate simply reflects the total percentage of customers the organization retains, by considering (as we have seen) the decline or escalation of customers over a specific period. When measuring retention, hotels should use a weighted rate, which considers both the volume of customers' purchases, as well as their life-time value to the business. Such a means of measuring should, of course, also take into account the absolute number of customers retained (Ahmad & Buttle 2001:42).

Peppers and Rogers (2004:26) argue that a retained customer is not necessarily a loyal customer – customer retention is not synonymous with customer loyalty (Kumar & Reinartz 2006:98). It is therefore important to understand why customers remain with an organization; one should not assume that when customers remain with a business it is a positive, mindful choice on their part. Customers may remain with an organization due to any number of ties they might have with it. Some of these could be positive, thereby increasing customer commitment – and satisfaction. Some ties may be negative: customers may remain 'loyal' to a business as in the case, for example, of a sales representative who is obliged to stay at a specific hotel every time she is in an area simply because of an agreement between the hotel and her employer.

By providing the highest level of satisfaction, businesses could attain higher levels of customer retention (Jones *et al* 2003:708). Satisfied customers can create strong

relationships with the business, leading to relationship durability – and customer loyalty and profitability.

Loyalty can be seen as having two dimensions – a behavioural as well as an attitudinal dimension (Peppers & Rogers 2004:56-57; Baloglu 2002:49; Colgate *et al* 1996:24; Stum & Thiry 1991:35). However, the focus in the literature on the subject has gradually shifted from an *attitude*-changing effort at creating a satisfied customer, to a *behaviour*-changing approach that seeks to create a loyal customer who will continue to buy from the organization (i.e. be retained), and who will make referrals. Approaches to relationship marketing have, in the past, focused largely on loyalty programmes to increase customer retention (Gable *et al* 2008) and have led to transactional devices in the hotel industry, such as frequent-user programmes, gifts for repeat guests, and free stays for meeting planners to encourage them to use the hotel and its facilities. Due to competitive pressures businesses should re-evaluate the benefits derived from such programmes. In this regard Bowen and Shoemaker (1998:20&23-24) state that reliability of service delivery should also be seen as an important factor in creating loyalty, since competitors cannot easily imitate this, whereas loyalty programmes are easily copied and bettered.

Customer retention management has several components: it is important to build relationships with customers, manage customer-to-customer interactions, reduce dissatisfaction, and try to reduce *potential* defections. In addition, service failures should be managed, and plans need to be put in place for service recovery when failures *do* occur – as they inevitable will.

### **Relationship marketing**

This study focuses on customer retention and the organization's relationship with its customers as an antecedent for customer satisfaction (and thus retention). For the purposes of this study relationship marketing is defined as the efforts by organizations to retain valued customers by building and maintaining long-term, trusting, and mutually beneficial relationships with them (Christopher *et al* 2002:4; Gummesson 1997:270; Kim & Cha 2002:322; Palmer 1997:321; Payne 2000:17; Torres & Kline 2006:293).

Zineldin and Philipson (2007:230) as well as Ryals (2002:241) explain that rather than focusing on attracting new customers, relationship marketing focuses on customer retention by developing, maintaining, and enhancing customer relationships over the lifetime of the customer. Kim and Cha (2002:321) add that if the hotel industry focused on building committed relationships with customers

(through relationship marketing), the result would be guest satisfaction, loyalty, referrals, references, positive word-of-mouth, and good publicity.

Torres and Kline (2006:293) as well as Gilpin (1996:148) argue that building long-term relationships with customers leads to the profitability and success of the business as such relationships obviate the need for the expensive process of attracting new customers. By offering customer delight, customers are retained, resulting in higher profitability. It is therefore not surprising that relationship marketing is becoming a key issue in hospitality marketing theory – and, indeed, in practice (Gilpin 1996:148). Gilbert *et al* (1999:25) agree that relationship marketing is highly appropriate and expedient for the hotel industry as guest information is already gathered through the guest registration process.

Zineldin and Philipson (2007:240), as well as Palmer (2001:115), list the core elements of relationship marketing as being: a focus on customer retention; long-term orientation; personal relationships, interactions and social exchange; distinguishing different levels of relationship between the buyer and the seller; high levels of customer dedication; and every employee being responsible to ensure service quality.

The following factors were identified from the literature as needing to be tested in the questionnaire: a focus on building long-term relationships with guests; ongoing management of relationships with guests; customizing relationships with individual guests or groups of guests; endeavouring to offer customized value to different guests (special prices or extra services); measuring guests' satisfaction levels with service at the hotel; recognizing and rewarding guests for their business; creating guest loyalty to the hotel; and maintaining databases of guest preferences and details.

### **Compatibility management**

Patterson *et al* (2006:263) argue that the high level of human involvement in the 'manufacturing' and delivering of many services implies that the quality of service can be influenced by the behaviour of other customers. Moore *et al* (2005:488) add that the interactions between customers in a service setting range from mere observations of one another to asking other customers for advice concerning a potential purchase.

When customers experience a service, encounters with other customers can add to, or detract from, their evaluation of that service and its provider. Such evaluations naturally influence future patronage decisions (Moore *et al* 2005:484). Although

positive customer-to-customer interactions could result in more positive word-of-mouth as well as customer loyalty (Moore *et al* 2005:488), the challenge in a service setting remains to manage customer compatibility in order to encourage positive encounters between customers, and minimize negative ones (Martin 1996:165). The significance of managing customer compatibility from a business's perspective lies in the fact that even when customers are satisfied with the service they have received, they may be dissatisfied with the way they have been treated by other customers (Kurtz & Clow 1998:389).

Service organizations, and in particular hotels, require customer compatibility management (Rowley 2000:166; Martin & Pranter 1989:10-11) since hotel guests are constantly in close contact with one another and are, furthermore, likely to communicate with one another in hotel lobbies, restaurants, bars, or other entertainment areas. Interaction can generate either empathy or hostility (Rowley 2000:165; Martin 1996:166; McGarth & Otnes 1995:271) and can thus have a significant influence on customer satisfaction (Moore *et al* 2005:488; Rowley 2000:165; Rowley 1996:15; Martin 1996:166).

The foregoing explains why it was necessary to include questions in the questionnaire which tested managements' attitudes to the following factors: attracting similar or compatible guests to the hotel; promoting positive encounters between guests; putting rules and policies in place to guide the behaviour of guests during their stay; managing the physical environment to facilitate the interactions between guests; helping guests to follow correct procedures in lodging grievances; recognizing and rewarding guests for good behaviour; enforcing standards of behaviour; introducing guests to each other; encouraging employees to provide managements with information regarding the behaviour of guests; and overseeing the interactions between guests.

### **Customer defection**

Customer defection occurs when customers stop coming back to the service provider (Gilbert *et al* 1999:25), forsaking it for another (Garland 2002:318). Noting customer defections is important for any business. Shajahan (2004:163) suggests that customer defection indicates two important things: that the value offered to customers is deteriorating, and that cash flow is reduced (Reicheld 1996:56). A decline in cash flow occurs even if a business is able to *replace* lost customers by acquiring new ones, as it costs considerably more to attract a new customer than to retain an existing one (Magnini & Ford 2004:280; Knox *et al* 2003:26; Kim & Cha 2002:322) and also because of the fact that the profitability of customers increases over time (Buckinx & Van den Poel 2005:253; Trubik & Smith 2000:206). Customer

retention, therefore, has a direct influence on the business's profitability (Chi & Qu 2008:624). Despite this, few do anything about defections (Credle 1995), preferring to rely on marketing activities geared towards getting new customers (Knox *et al* 2003:26).

A reduction in the customer defection rate – the tempo at which customers leave the organization over time (Page *et al* 1996:821) – can increase profits considerably more than would be possible through improved profit margins, a competitive advantage, or growth in market share (Colgate *et al* 1996:23-24). The full impact of customer defections can best be determined by considering the lifetime value of a customer – the net present value of the expected future contribution a business can expect from a customer over that customer's lifetime relationship with the business (Peelen 2005:275; Peppers & Rogers 2004:116; Knox *et al* 2003:26).

Although customer satisfaction has a significant influence on customer defection (Chandrashekar *et al* 2007:158; Walsh *et al* 2006:414), customers can defect even if they are satisfied. DeSouza (1992:25-26) classifies customers who defect as one of the following: customers defecting due to lower prices offered by competitors; customers switching to a competitor offering a better product; customers defecting due to inadequate service; customers defecting to businesses from outside the industry; and customers who switch because of internal or external political considerations.

Ahmad (2002:26) suggests that businesses have to make an effort to establish control devices that keep track of customer defections, as it is difficult to define the exact moment when a customer defects (Buckinx & Van den Poel 2005:265). Businesses should therefore develop monitoring systems that will alert them when customers threaten to leave (Dove & Robinson 2002), as instant action could possibly reduce, or even stop, customers from defecting (Pearson & Gessner 1999).

And yet, even if customers do defect, the business can gain valuable insights into itself by considering why this happened. It can also investigate employee attitudes toward service quality, and determine whether or not it is possible to develop a profile of customers who have defected. Corner (1996:4) explains that developing such a profile will enable businesses to identify customers who are at risk of defecting – and then take action to prevent them from doing so (Peelen 2005:239).

The foregoing explains why it was necessary to include questions in the questionnaire which tested managements' attitudes to the following factors: using a database to identify guests who leave and do not come back; identifying the reasons why guests leave; measuring the customer defection rate; identifying the key service

dimensions that lead to guest retention; comparing the hotel's service quality with that of competitors; comparing the customer retention rate *or* defection rate of the hotel with that of other hotels; analysing complaints; implementing strategies to counter guests defecting; and allocating resources to keep guests from leaving.

### **Service failure**

A service failure leads to a negative customer experience, which results in an unfavourable perception of the business (La & Kandampully 2004:392). The customer perceives a loss as the result of a failure by the service provider (Patterson *et al* 2006:264). Weun *et al* (2004:135) define the severity of service failure in terms of the customer's perceptions of it.

La and Kandampully (2004:390) explain that due to the high level of human involvement in service production and consumption, mistakes are unavoidable. This is especially true when considering the relative flexibility associated with providing services rather than goods. Magnini and Ford (2004:280), as well as Lewis and McCann (2004:6), explain that the high degree of interaction between customers and employees in the hotel industry provides many opportunities for service failures to occur, rendering it almost impossible to eliminate all such mistakes in a hotel.

Service failures within a hotel environment could occur in the service process (Lewis & McCann 2004:7), or in the physical surroundings (Cranage 2004:202). Hoffman *et al* (2003:339-340) identify three types of service failure that can occur in the physical environment in which hospitality services are delivered: cleanliness issues (e.g. bad odours), mechanical problems (e.g. breakdown of equipment such as toilets and elevators), and facility-design issues (e.g. elevators that cannot cope with demand or bedrooms located in noisy or busy areas of the hotel).

Although a service failure may not necessarily result in lost customers, it does negatively impact on the customer's confidence in the business (Cranage 2004:210). It is therefore imperative to identify likely failure points in the service delivery process, as well as methods to prevent failures from occurring again (Cranage 2004:211; Ahmad 2002:19). It is highly beneficial to service providers to reduce the likelihood that service failures will occur: doing this will help them to reduce the costs associated with recovery from service failures (La & Kandampully 2004:391).

The foregoing explains why it was necessary to include questions in the questionnaire which tested managements' attitudes to the following factors: identifying service failure points or areas where failures occur; determining the reasons why service failures occur; identifying prospective employees with good



communication skills to successfully handle complaints; developing training programmes to provide employees with good communication skills to successfully handle complaints and serve guests pro-actively; adapting the organizational structure of the hotel to reduce service failures; dividing service tasks into manageable parts that can be successfully managed so as to reduce service failures; controlling situations where guests come into contact with employees by attempting to ensure employees listen to guests and respond to the particular needs of guests; ensuring managers are knowledgeable about potential problems in situations where guests come into contact with employees; and conducting exit interviews with departing guests.

Since service failures are unavoidable, it becomes necessary for service providers to proactively develop service recovery strategies that diminish the effects of such failures (La & Kandampully 2004:391).

### **Service recovery**

Weun *et al* (2004:134) define service recovery as that which organizations do in response to service failures. Boshoff and Klemz (2005:1) explain that service recovery is any appropriate strategy put in place to correct service failures; it is a strategy which aims to restore the customer's level of satisfaction and keep the customer loyal. Service recovery is therefore concerned not only with recovering dissatisfied customers, but also with improving a business (Johnston & Michel 2008:80). Ngai *et al* (2007:1388) suggest that responding appropriately to service failures will result in a win-win situation for the customer and the business, and could ironically even result in unforeseen *opportunities* for the business (Torres & Kline 2006:294).

Lewis and McCann (2004:8) explain that one of the consequences of poor or ineffective service recovery is that the customer is let down for a *second* time. This could result not only in the customer defecting but also in his spreading negative word-of-mouth about the business. Properly managed service recovery, however, positively influences customer satisfaction and loyalty (Torres & Kline 2006:294; Magnini & Ford 2004:279): it not only helps to retain customers (Yuksel *et al* 2006:12) but it can also result – again ironically – in a *higher* level of satisfaction than the customer would have experienced if the service failure had not occurred in the first place (Baron & Harris 2003:64).

The way in which customers evaluate service failures and subsequent service recovery efforts depends on how the customer views the service, and on how much importance is placed on 'what' is done, rather than on 'how' it is done. The manner in

which the service recovery is offered – the ‘how’ – is more important when the strength of business-client relationship (its closeness, duration, and the degree of customization involved) is greater. However, the ‘what’ which is offered in place of bad service is of more significance when the service is critical to the customer, and when the cost of switching service providers is high (Cranage 2004:214).

Different service recovery efforts will impact customer satisfaction differently. Organizations apologizing for the service failure have a greater effect on customer satisfaction (Lewis & McCann 2004:8) – provided that the recovery occurs immediately following the service failure (Wirtz & Mattila 2004:161) – than offering customers compensation for service failures (Ngai *et al* 2007:1388). This does not, however, imply that organizations should not compensate customers for service failures, as offering discounts or compensation could be seen as an additional – and thus more ‘powerful’ – apology from the organization than if it uses only one service recovery strategy (Wirtz & Mattila 2004:162).

Hoffman *et al* (2003:340) found that hotels implement the following service recovery strategies: they offer guests coupons; they give guests their room for free; they offer guests replacement services; or they simply do not respond to the service failure. These strategies seem inadequate when one considers that the way in which service failures are dealt with will determine guest satisfaction and loyalty towards the hotel (Magnini & Ford 2004:279).

La and Kandampully (2004:394) as well as Boshoff and Staude (2003:11) offer the following guidance in planning for successful service recovery: immediately recover from the service failure or offer customers alternative options to meet their needs; communicate with customers experiencing service failures; be understanding; provide feedback; offer an explanation for the service failure; compensate customers for the service failure and acknowledge their understanding of why it occurred; empower employees to respond suitably to failures; ensure service recovery employees are professional in their actions; and provide training for those employees involved in service recovery. The training of employees who deal with service recovery is essential as successful recovery from a service failure usually depends on the decision-making skills and judgement of these employees (La & Kandampully 2004:392; Magnini & Ford 2004:279). Service recovery training should address the following: information processing; employees’ emotional response to customers experiencing service failures; assuring guests; employee empowerment; and establishing how service recovery can contribute to *employee* satisfaction (Magnini & Ford 2004:281). In addition to training, hotel management should emphasize the

importance of service recovery by rewarding employees for correctly dealing with service failures (Ngai *et al* 2007:1388; La & Kandampully 2004:394).

Although service recovery costs money, the benefits gained outweigh the costs: customers gain trust in the service provider and thereby become committed and loyal to it (Valenzuela *et al* 2006:68).

The foregoing explains why it was necessary to include questions in the questionnaire which tested managements' attitudes to the following factors: putting a service recovery process in place to win back guests who have experienced a service failure; using a standardized service recovery strategy applicable to all guests; varying service recovery strategies according to the seriousness and criticality of the service failure; varying service recovery strategies according to the importance of the individual guest to the hotel; communicating with distressed guests; being empathetic with guests who have experienced a service failure; providing feedback to guests regarding progress in rectifying a failure; offering explanations to guests for why a failure occurred; empowering, supporting, and involving employees in dealing with a service failure; and ensuring employees deal with guests in a professional manner when addressing service failures.

## **PROBLEM STATEMENT AND RESEARCH HYPOTHESES**

No study could be found on the relation between hotel type (group/branded hotels, as opposed to private/owner-managed hotels) and customer retention strategies in South Africa.

The objective of this study is to establish the perceptions of the managers of the two different kinds of hotel about the importance of customer retention practices – building relationships with customers, managing customer-to-customer interaction, defections, service failures, and service recovery.

The following null hypotheses were formulated, based on the foregoing literature survey:

H<sub>0</sub> 1: Hotel type is not related to whether or not customer retention rates are measured.

H<sub>0</sub> 2: There is no significant difference between customer retention rates and hotel type.

H<sub>0</sub> 3: There is no significant difference between the importance attributed to customer retention activities by the different types of hotel.

## METHOD

An interviewer-administered, in-office survey was used to collect data from hotel managers in Gauteng. The questionnaire was based on ideas gleaned from the literature study. It contained structured and unstructured questions, and was pre-tested among hotel managers (general and marketing managers) before it was fielded.

A multiple-item unlabelled 5-point scale was used to measure the perceptions of hotel managers of the importance of customer retention practices. Multiple-item scales involve gauging a number of statements linked to a specific object (Aaker *et al* 2004: 293). An unlabelled scaled response format was used for the multiple-item scale, and only the endpoints of the scale were identified (Burns & Bush 2000:306).

A representative sample of 125 hotels was drawn from the population under study (the target population contained 182 hotels). A probability sampling technique, stratified sampling, was used to draw a sample from the population. The population was separated into different strata according to hotel type and size. Ownership of hotels is either 'group/branded', or 'private/owner-managed'. Hotels with 50 or fewer rooms were classified as 'small', those with 51 to 150 rooms were classified as 'medium', and hotels with 151 or more rooms were classified as 'large'. A sample was then selected from the different strata using systematic sampling. Drop-down substitution was used to compensate for non-response error. According to Burns and Bush (2000: 411) this method can be used when a researcher employs systematic sampling. In this study, drop-down substitution entailed contacting the next hotel manager on the list immediately following the name of the hotel manager who had refused to respond. It goes without saying that the substitution could not be up for interviewing on the *original* sampling list.

## RESULTS

### Sample profile

The population of the hotels in Gauteng was 182 and a sample of 125 hotels was selected. Fifty six hotels (45%) from the sample responded. Group/branded hotels constituted 71%, and private/owner-managed hotels 29% of the realized sample. Seventy per cent of the respondents were general managers, the rest were assistant general managers, marketing managers, operations managers, and personal assistants. Respondents had been in their current position for anything from 10 weeks to 15 years, the mean being 4.04 years. Respondents indicated that their

hotels had existed from anything between 2 and 60 years, the mean being 12.83 years.

### Reliability

Reliability was calculated for the measurement sets which assessed the importance of customer retention activities associated with relationship marketing, customer compatibility management, customer defection management, service failure management, and service recovery. The reliability statistics for the measurement sets are presented in Table 1.

Table 1: Reliability statistics

Measurement sets	Cronbach's Alpha
Customer retention activities associated with relationship marketing (8 items)	0.754
Customer retention activities associated with customer compatibility management (10 items)	0.898
Customer retention activities associated with customer defection management (9 items)	0.829
Customer retention activities associated with service failure management (9 items)	0.748
Customer retention activities associated with service recovery (10 items)	0.758

It is evident from Table 1 that Cronbach's Alpha for all measurements sets is above the acceptable limit of 0.70.

### Validity

Factor analysis techniques were used to determine the structure validity of the measurement sets (Diamantopoulos & Schlegelmilch 1997:216).

For content validity, hotel managers who took part in the pilot study validated the questions, and the structure validity was assessed for the measurement sets determining the *frequency* with which customer retention activities were performed. The measurement sets for relationship marketing, customer compatibility management, customer defection management, service failure management, and service recovery were also assessed.

The Kaiser-Meyer-Olkin Test of Sampling Adequacy (KMO) was conducted to determine whether or not adequate correlation existed between the activities contained within each measurement set, before a factor analysis could be conducted. A KMO statistic, an associated Bartlett's p-value, and an Anti-image Correlation statistic are determined when using this test. A KMO statistic of greater than 0.7, an associated p-value of less than or equal to 0.05, and an Anti-image Correlation

statistic of greater than 0.6 indicate that adequate correlation exists to enable the researcher to conduct a factor analysis for a measurement set (Hair *et al* 1998:99).

It is evident from Table 2 that for each measurement set, the KMO statistic is greater than 0.7, the associated Bartlett's p-value is less than or equal to 0.05, and the Anti-image Correlation statistic is greater than 0.6 for the statements in the measurement set.

Once adequate correlation was found to exist between the activities assessed, a factor analysis for each measurement was performed (Diamantopoulos & Schlegelmilch 1997:216). The Extraction Method: Principal Axis Factoring and the Rotation Method: Varimax with Kaiser Normalization were used (SPSS 2003:434). The structure validity results for each measurement set, as well as the subsequent factor analysis, are illustrated in Table 2.

Table 2: The structure validity and the results of the factor analysis for each measurement set

Measurement set	KMO Statistic	Bartlett's p-value	Factors	Cumulative percentage of variance explained
The frequency with which relationship marketing activities are performed (8 items)	0.772	0.000	2	69.5%
The frequency with which customer compatibility management activities are performed (10 items)	0.844	0.000	2	65.8%
The frequency with which customer defection management activities are performed (9 items)	0.883	0.000	2	70.1%
The frequency with which service failure management activities are performed (9 items)	0.708	0.000	1	44.0%
The frequency with which service recovery activities are performed (10 items)	0.773	0.000	2	65.40%

In all the cases (except the penultimate activity) second-order analysis seemed redundant as it could reveal only one second-order factor.

With the first round of factor analysis, the nine items measuring service failure management activities could not be reduced to two, three, or four factors. The items were grouped under one factor, which explains 43.99 per cent of the variance.

The findings presented above indicate that the results of the study are representative of the population under study, namely hotels in Gauteng. The findings also indicate that the measurement sets used in the study are reliable and valid.

## Purpose of stay

Eighty one per cent of respondents who stay at hotels (of both types) in Gauteng during the week stay for business purposes; the rest, 19%, stay for leisure. Another finding is that the majority of guests (65%) who stay at hotels in Gauteng over the weekend stay for leisure.

To determine whether significant differences exist between the mean percentages of the two hotel types (group/branded, or private/owner-managed) the Independent Sample T-test and the Mann-Whitney U Test were conducted. The Mann-Whitney U Test, a non-parametric test, was used since at least one of the groups contains fewer than 30 responses and a normal distribution of results cannot be assumed (Tustin *et al* 2005:624-625; Diamantopoulos & Schlegelmilch 1997:181-182).

Since it is not sufficient simply to report that a significant difference exists between means, a measure of the effect's size is also indicated, i.e. the ETA coefficient is given. This measure assists in estimating the difference between two groups in the dependent variable. An effect size of 0.50 up to 1.00 indicates a large effect between the dependent and independent variables (to be precise, a large difference between two groups in the dependent variable). An effect size of 0.30 to 0.50 indicates a medium effect between the dependent and independent variables, while a score of below 0.30 indicates little or no effect between the dependent and independent variables (Rosenthal *et al* 2000:15).

The significance testing results indicate that the p-values are all over 0.05 for the mean percentages of guests who stay for either business or leisure both during the week and over weekends – at both group/branded and private/owner-managed hotels. The main finding is that the mean percentages of group/branded hotels and private/owner-managed hotels are not significantly different when it comes to why guests stay at these hotels both during the week and over weekends.

## Customer retention measurement practices

Respondents were asked whether or not they measured the customer retention rates of their hotels. Table 3 provides a detailed exposition of the results. The Pearson Chi Square Test was conducted and a p-value of less than 0.05 supports the null hypothesis that there is no association between variables (Diamantopoulos & Schlegelmilch 1997:146-147).

It was also established whether there was a significant association between hotels that measure their customer retention rates and type of hotel. Here the Fisher's Exact Test was used. A p-value of less than 0.05 supports the null hypothesis that there is

no association between the variables (Diamantopoulos & Schlegelmilch 1997:146-147). A Phi coefficient was also computed to signify the strength of the association between the variables (where the value reported varies between 0.00 and 1.00). High Phi coefficients indicate stronger associations between the variables concerned (Diamantopoulos & Schlegelmilch 1997:199-201). Cramer's V coefficient was also computed to signify the strength of the association between the variables, which is a value between 0.00 and 1.00. A higher Cramer's V coefficient signals a stronger association between the variables (Tustin *et al* 2005:635; SPSS 2003:309-310; Diamantopoulos & Schlegelmilch 1997:199-201). The extent of the association is determined using the same rules as for the ETA coefficient (Rosenthal *et al* 2000:15).

Table 3 presents the number and percentage of group/branded and private/owner-managed hotels that measure their customer retention rates.

Table 3: The number and percentage of group/branded and private/owner-managed hotels that measure their customer retention rates

	Measure customer retention rate?				Total	
	No		Yes			
	N	%	N	%	N	%
Group/branded hotels	12	30.00%	28	70.00%	40	100.00%
Private/owner-managed hotels	5	31.30%	11	68.80%	16	100.00%
Total	17	30.40%	39	69.60%	56	100.00%

From Table 3 it can be seen that nearly 70% of respondents indicated that the customer retention rate is measured at their hotels; the main finding is therefore that the majority of hotels measure their customer retention rates, irrespective of hotel type.

Fisher's Exact Test for significant association indicates a p-value of 1.000. This supports the null hypothesis that hotel type is not associated with measuring customer retention rates. A Phi coefficient of 0.012 indicates a negligible association between hotel type and whether or not customer retention rate is measured. **The main finding is that there is no association between hotels measuring their customer retention rates and hotel type (group/branded and private/owner-managed) (Hypothesis 1).**

### Ways of measuring the customer retention rate

Respondents indicated two ways in which they measure their customer retention rates. About 82% said that it was measured using an electronic database management programme with a 'guest history' feature. The rest (18%) indicated that they used questionnaires when guests check in. Respondents were also asked for



current retention rates for business guests as well as leisure guests – and what the overall customer retention rates were for their hotels. The results are given in Table 4.

Table 4: Customer retention rates of hotels

Question	Mean	Standard deviation
What do you estimate is the current customer retention rate for guests who stay for business?	66.3%	23.7
What do you estimate is the current customer retention rate for guests who stay for leisure?	38.1%	31.1
What do you estimate is the current overall customer retention rate of the hotel?	65.8%	21.1

Respondents estimated that approximately 66% of guests who stay for business are retained. Only 38% of leisure guests are retained. The results indicate that a far greater number of guests who stay for business are retained than is the case for leisure guests. Respondents estimated an overall customer retention rate of nearly 60% for their hotels.

Significance testing was conducted to determine whether the mean customer retention rates were significantly different for the different types of hotel. In order to determine whether significant differences exist between the mean customer retention rates of the two hotel types, the Independent Sample T-test and the Mann-Whitney U Test were used (SPSS 2003:337-341&484). Table 5 presents the results.

Table 5: Differences between the mean customer retention rates of the two types of hotel – group/branded and private/owner-managed

	Group/branded hotels		Private/owner-managed hotels		Independent Sample T-test (p-value)	Mann-Whitney U Test (p-value)
	N	Mean	N	Mean		
Customer retention rate for guests who stay for business purposes	38	68.32%	16	61.75%	0.357	0.169
Customer retention rate for leisure guests	38	35.87%	16	43.50%	0.463	0.675
Overall customer retention rate	38	66.25	16	64.69	0.805	0.970

The results of significance testing in Table 5 indicate that the p-values associated with differences between the mean customer retention rates for the two types of hotel are all above 0.05. The null hypothesis that there is no difference between the means can therefore be accepted and the main finding is that **the mean customer retention rates for guests who stay for business, on the one hand, and leisure**

**guests, on the other hand, as well as the overall customer retention rates are not significantly different for the different hotel types (Hypothesis 2).**

Perceptions of the importance of activities associated with customer retention management for the different hotel types

Questions about activities in customer retention management were identified and listed in the literature survey: these were used to determine respondents' perceptions of the importance of such activities. Table 6 contains the composite results of the various strategies used in customer retention management.

In order to determine whether or not significant differences exist between the two hotel types when it came to the *overall* mean scores relating to the perceived importance of activities associated with retaining customers, the Independent Sample T-test and the Mann-Whitney U Test were conducted (SPSS 2003:337-341&484; Diamantopoulos & Schlegelmilch 1997:180-182). The results are presented in Table 6.

**Table 6: Significance testing of the overall means showing perceptions of managers of the two hotel types about the importance of activities associated with customer retention**

	Group/branded hotels		Private/owner-managed hotels		Independent Sample T-test (p-value)	Mann-Whitney U Test (p-value)
	N	Mean	N	Mean		
Relationship marketing	39	4.5513	15	4.5083	0.780	0.550
Compatibility management	38	3.4579	16	3.8813	0.106	0.101
Customer defection management	38	4.1023	14	4.1984	0.651	0.664
Service failure management	39	4.3903	14	4.5159	0.399	0.361
Service recovery	39	4.4821	14	4.5643	0.514	0.634

From Table 6 it may be observed that group/branded hotels regarded relationship marketing as the most important activity associated with customer retention, while private/owner-managed hotels regarded service recovery as most important – albeit still marginally so. Compatibility management and defection management were the least important for both types of hotel.

The p-values associated with the differences between the overall means for the importance attributed to activities associated with retaining customers by the different hotel types, are all above 0.05. The null hypothesis that there is no difference between these means can therefore not be rejected. **The main finding is that the overall means indicating the importance attributed to customer retention activities (relationship marketing, customer compatibility management,**

**customer defection management, service failure management, and service recovery) by the different hotel types are not significantly different (Hypothesis 3).**

## **MANAGERIAL IMPLICATIONS AND RECOMMENDATIONS**

The majority of hotels in Gauteng measure their customer retention rates by means of an electronic database management programme with a 'guest history' feature. A greater percentage of guests who stay for business than guests who stay for leisure are retained as customers. The implication of this finding is that hotels should have processes to enable them to measure their customer retention rates – and then develop strategies to improve these, concentrating on maintaining their share of business guests, and on improving retention rates for guests who stay for leisure.

Hotels in Gauteng consider all activities associated with customer retention management – specifically relationship marketing (group/branded hotels) and service recovery (private/owner-managed hotels) – as being important. Activities related to building and maintaining long-term relationships with guests are ranked as most important in retaining guests. Managing interaction between guests is seen by both types of hotel as being of least importance. Hotels in Gauteng frequently perform all activities associated with relationship marketing. The implication of all of this is that hotel managements should customize relationships with individual guests or groups of guests, and maintain databases of guest preferences and guest details. Managing interaction between guests is important; private/owner-managed hotels, especially, should come to see this activity as being of value.

Respondents of both hotel types considered all activities associated with customer compatibility management as important, except 'Introduce guests to each other' and 'Oversee interaction between guests'. Activities associated with managing the interaction between guests were ranked by most hotels as being the least important factor in retaining guests. Thus, the following recommendations can be made: attract similar or compatible guests to the hotel; promote positive encounters between guests; encourage employees to provide information to management regarding the behaviour of guests; and manage the physical environment to facilitate the interactions between guests.

The majority of activities associated with customer defection management are viewed by managers of both types of hotel as important. Only two are considered to be of lesser importance: 'Managing the interaction between guests' followed by 'Managing the rate at which guests defect to other accommodation suppliers'. Hotels

need, thus, to do the following: identify the reasons why guests leave; measure the customer defection rate; identify the key service dimensions that lead to the retention of guests; and analyse complaints.

Hotels in Gauteng consider all activities associated with service failure management as important. In this perception there is no significant correlation to hotel type. The implications are as follows: service failure points must be identified and managed; reasons why service failures occur must be determined; prospective employees with good communication skills (to successfully handle complaints and serve guests proactively) must be identified; and exit interviews with departing guests must be conducted.

Respondents consider all activities associated with service recovery as important. The activities related to service failure management and service recovery are ranked as most important, and there is no significant association with hotel type in this perception. This all implies that hotels must provide feedback to guests regarding progress in rectifying any service failure; management should empower, support and involve employees in dealing with service failures; standardized strategies applicable to all guests should be used for service recovery; and service recovery strategies should be varied according to the seriousness and criticality of the service failure.

## **LIMITATIONS AND FUTURE RESEARCH**

The study was confined to hotels in Gauteng, South Africa: thus representativeness for the whole of South Africa cannot be claimed, and the study's findings should be treated with caution if generalizations to other geographic regions are considered. It is recommended that a further study be carried out using the same methodology and encompassing all the provinces of South Africa. It is further suggested that the grading of the hotel be incorporated as another variable to establish whether there are differences in perception between different grades of hotel.

## **CONCLUDING REMARKS**

It is hoped that the findings of this study will add to the relatively limited research into services marketing in the South African hospitality industry – specifically when it comes to the two types of hotel considered here.

Three null hypotheses were formulated and the findings show that none of these were supported, which indicates no significant association between the variables and the two types of hotel considered in this study.

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