Empirical Estimation of Customer Loyalty in Tourism Industry

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How to Develop a tool to estimate Customer Loyalty in Tourism

Abstract

Purpose: This paper addresses the concept of measuring customer loyalty in the Hospitality Industry. Performance in tourism industry has been attracting researchers, practitioners and various interested parties / agencies for some time. However, there are few studies on performance measurement in the tourism industry when compared to studies done for other industries. It is also noted that these theoretical or empirical studies are limited to hotel sector alone and not in travel industry (Atkinson and Brander Brown, 2001; Phillips, 1999, Enz et al. 2001.)

Widely accepted facts about customer satisfaction prove that it is in the best interest to keep customers happy in a bid to win and sustain their loyalty. However, majority of these studies do not tell how to measure the satisfaction. Measuring customer satisfaction is relatively a new concept to many companies that have been focusing exclusively on information derived from financial statements mainly; income statements, cash flow statements and balance sheets. Companies have now recognised that the new global economy has changed business performance and practises forever. The main challenge in measuring customer satisfaction in the hospitality industry is how to quantify, analyse, measure and track customer satisfaction. Owing to this challenge, companies are unable to find ways of doing it and exactly how to do it well. They need to understand the processes of gathering relevant information, to be able to analyse it, draw correct inferences and make right decisions. Without a clear and accurate sense of what needs to be measured and how to collect, analyse and use the data as a strategic weapon to drive the business, no firm can be effective in this new business climate.

In my conclusion, I recommend a model which can be used in estimating customer loyalty.

Design / Methodology / Approach: following an assessment of various literatures rather than from a priori theory, a model was developed from the data. It was found to uphold a strong relationship between customer loyalty and customer satisfaction.

Findings: Three hotels were identified. A customer satisfaction/loyalty questionnaire was completed by ten clients from each hotel. The theme of this paper was drawn from the data collected.

Managerial Implications: in determining customer loyalty, the management is required to develop a framework of assessing the value of customer satisfaction. According to Rust & Zahriek, 1993, the framework enables managers to find out which customer variables have the greatest impact and how much should be spent to improve satisfaction variables.

Keywords: customer loyalty, customer satisfaction, model, hospitality, establishment, hotel, product, net promoter score, variable
Introduction
The success of the techniques employed to achieve customer loyalty should be capable of being measured to provide a sound basis of evaluating performance and identifying areas which require more attention for considerable improvement in order to reap the benefits of customer satisfaction.

Organizations are facing more intense customer service pressures than ever before. When a service failure occurs, the organization’s response has the potential either to restore customer satisfaction and reinforce satisfaction or exacerbate the situation and drive the customers to a competing firm (Smith, Bolton & Wagner 1999).

All businesses would like customers to do something, to take action such as; visiting your website, making a purchase, recommending you to others and introducing new clients, signing up for superfluous services offered at the hotel and giving you feedback which can be positively employed improve the present situation. Rationally, you want them to continue doing business with you once they do it for the first time, especially since you probably invested heavily get them to do business with you the first time and you may not be willing to incur additional cost the second time. The objective is to create a "loyal" customer who engages in profitable behaviour.

Terry G. Vavra, (1997) states that customer satisfaction (according to a comprehensive review conducted by Yi (1993)) has been defined in two basic ways: as either an outcome or a process. The outcome definitions characterise satisfaction as the end state resulting from the consumption experience. Alternatively, satisfaction has been defined as a process, emphasizing the perceptual, evaluative and psychological process that contribute to satisfaction. Satisfied customers tolerate higher margins that can be used to better pay their employees. This boosts employee morale, reducing employee turn over, which in turn helps to produce satisfied customers and so on. If well managed, customer satisfaction leads to heightened customer loyalty which consequently reduces customer turnover, lowers customer price sensitivity, reduces the cost of failed marketing and of new customer creation, reduces customer operating costs due to increased numbers, improves efficiency of marketing strategies and enhances business reputation. The effect of this would be increased market share for the service provider, sustainable operational efficiency, low operating costs with a net effect of increased profits and a smile from all stakeholders.

In the current business world, and more specifically in the tourism industry, customer loyalty can seem elusive and magical to those trying to obtain it yet, there are a lot of good reasons for businesses to pursue customer loyalty as a strategic objective. Customers are expensive to acquire and hence, keeping them loyal allows you to amortize those costs.
Unlike others, loyal customers are often willing to pay premium prices. And everyone seems to have a different formula for making that loyalty happen such as;

1. Developing brands that resonates with your audience
2. improving your customer service
3. Spending more money on marketing
4. improving your quality control processes
5. Invest in customer relationship management software

This study established that, initiatives like these don’t build customer loyalty. Customers become loyal because of the experiences they have as a result of these types of initiatives.

**History of customer satisfaction measurement**

Customer satisfaction measurement has its roots in the Total Quality Management (TQM) movement, but was explored early on from a social–psychological perspective by marketing theorists. While the TQM School focused on the more pragmatic application of satisfaction information to design and manufacture, the marketers explored the psychology of satisfaction—how it was formed and the nature of its impact on future purchase behaviour.

Customer satisfaction measurement should be to feed consumer reactions into the design of the product, so that management can anticipate changing demands and requirements and set economical production levels. By conducting a consumer research, you are able to know how the product is performing in the market, what people think of the product, why some people will buy/not buy it and hence redesign the product to make it better as measured by quality and uniformity that are best suited to the end users of the product and to the consumer company (Deming, 1993)

**Background to the study**

This research revealed that all hotel operators under the study are aware of the fact that the best customers are loyal. Since they cost less to serve, are willing to pay more than other customers and often act as word-of-mouth marketers of the company. However, they have not yet developed a tool to measure/calculate customer loyalty. Many advocates of loyalty initiatives argue that customers pay their way because the up-front costs of accruing them are amortized over a large number of transactions and they are familiar with company processes. Not surprisingly, efforts to measure customer satisfaction on a national wide basis are now underway in many countries. For example, United States (US) is establishing a national quality index. Efforts are also underway in Japan, Singapore and the EC countries (Claes 1992)

The driving force in doing business is to satisfy the customer and ensure that they are loyal. Customer satisfaction in the hospitality industry is the state of mind that customers have about an establishment when expectations have been met or exceeded over the life time
of the product or service. Customer retention is the businesses’ true measure of relationship values and instead of getting a customer to make a sale, hotel industry should be focusing on getting a sale to make a customer. This means that service quality expectations, timelines, provision of value added services, among others are issues that require constant attention in the hospitality industry while on the road to achieving or sustaining a position among the leaders in the market.

The orientation of customer satisfaction is no recent phenomenon. Many very successful business people over the years have identified the importance of focusing on customer satisfaction. The British car manufacturer, Sir Henry Royce, whose name is synonymous with quality, laid down the principles of customer satisfaction when he declared, “Our interest in Rolls –Royce cars does not end at the moment when the owner pays for and takes delivery of the car. Our interest in the car never wanes. Our interest is that every purchaser of Rolls-Royce car shall continue to be more than satisfied”

Customers often react strongly to service failures so that an organizations recovery efforts to be equally strong and effective (Smith, Bolton & Wagner, 1999). Because customer satisfaction has a direct impact on the primary source of future revenue streams, for most companies it is expected to be an important complement to traditional measures of economic performance, providing useful information not only to the firms themselves, but also to shareholders and investors, government regulators and buyers.

**Research design and methodology**

In my approach I used both primary and secondary data. The research considered customer satisfaction as subjective and non-quantitative in state and therefore, measurement was based on a representative sample and statistically analysed. The interviews for the primary data were directed at the focus groups to obtain information directly related in evaluating the level of satisfaction by the customers. Decision tree modelling technique was used to analyse data especially for the part o variables used to determine customer loyalty e.g. average transaction value, customer lifetime value, attitudes, past experiences, perceived constraints, experiential destination and location. The study also utilised existing historical information, data or any records including past financial performance records, customer evaluation feedbacks and other relevant information.

The technique of establishing whether customers would recommend others was used as a basis to highlight the key components of customer satisfaction. By asking respondents if they commend a certain establishment, I conducted a measuring system called “Net Promoter Score” or NPS. I interviewed respondents using a zero-to-ten-point scale, with ten being the highest rating. I divided respondents into three categories: “promoters,” “passives” and “detractors”. Those who rated the company a nine or ten were
considered “promoters”, seven and eight are “passive” and six and below “detractors”. The NPS was determined by subtracting the percent of “detractors” from the percent of “promoters”, with fifty and above considered good scores.

Identification of firms
The sources about the firms in this study were obtained from academic journals, books, and online sources of information. The final list contained three firms. Table 1 provides the names of the firms and a brief description of each.

Thematic content analysis
Data collected from thirty respondents from the listed establishments was then subjected to a process of thematic content analysis. Responses from the target group formed the basis of the theme of this study. The data collected indicated that the extent to which the establishment was able to satisfy its customers was an indication of its general health and prospects for the future.

Findings
The respondents were of the view that good service is expensive but worth every penny. It can correctly be argued that customer satisfaction is not satisfactorily because satisfaction should be viewed as the “minimum standard” so that a higher standard is to make them “astonished”.

Asked what establishments need to do to achieve customer loyalty, the respondents held a believe that;

1. Hotels should make their customers feel the same way about the company as the audience feels about a great illusionist. they should carefully manage their customer expectations and exceed them (Grahams Roberts-Phelps, 2000)

2. Before hotels expect customers to show loyalty, they should show loyalty to them first.

3. Firms in the hospitality industry will have to go out of their way to “lock in customers” and hence minimise defections.

In his paper on Seven Crucial Elements of Customer Satisfaction, Dr. Gary S. Goodman points out that Customer satisfaction is measured by the likelihood that I'll purchase the same item, again; and that there will be a "halo effect" that will make me willing to purchase other fruits and vegetables from the retailer that sold me the cherries.

This research found loyalty as the key aspect of customer satisfaction. To many, loyalty was defined as a premium that customers are willing to pay because they have been satisfied in the past. Literally, this means they may be inclined to pay more for your services and totally disinclined to pay less for similar services from your competitors.

How do you measure the customer worth?
The question of how much the customer is worth poses three fundamental questions:

1. How much is a properly serviced customer worth?
2. How much difference does good customer service make?
3. What is the strategic versus tactical application of customer service techniques?

A properly serviced customer refers to the customer whom you have;

1. Identified his/her needs
2. Developed appropriate products and services to meet those needs appropriate in the sense of consistent with your business strategy and profit objectives.
3. Matched the product to the needs with appropriate prices, channels of distribution, presentation and marketing communications
4. Understood his/her need for service
5. Developed a service process which meets the customer needs.

The lifetime value of a customer according to Professor Mereline Stone is to calculate the difference between the costs of acquiring customers and the benefits and costs of retaining them. The required process is as follows;

1. Determine who are your target customers
2. Identify the costs of gaining and maintaining customers and of selling additional products/services to them
3. Identify the profit contribution arising from the sales made.
4. Identify the contribution of customer’s loyalty and how that loyalty supports or even creates increased sales.
5. Calculate a stream of net contribution over the years
6. Use discounted cash flow techniques to find the customers net present value.

Using historical data of customers in existence, lifetime value can be calculated and then extrapolated making adjustments where necessary. Though many companies may be uncomfortable about using past data as a predictor of future purchase behaviour, it is however been proofed as the most reliable methods of forecasting in many markets.

**How much does good customer service make?**

The answer to this question depends on how each company does its customer service and how it responds to its customer initiatives. There are no absolute answers here because every company is different and so is every group of customers.

The effect of good customer service can only be identified through a research study which should typically identify the following factors;

1. Contact Audit-level of contact by customers as to whether customers may often think about contacting an establishment but be dissuaded by the difficulty of achieving it.
2. The outcome of these contacts in terms of the relationship—A positive outcome leads to improved customer service but positive outcome can relate to many policy areas such as use right contact media, the right frequency and quality of contact, use of customer information to provide the right solution. ‘Right first time’ solution to problems and complaints well handled, that is, a negative outcome followed by a positive outcome.

3. How customers react to these outcomes—Once again, the picture is likely to be more complex. For example, well handled complaints or time taken to adjust the product to a customer’s need may do more to reinforce purchasing behaviour than no-problem contacts or products which are from the beginning absolutely right for the consumer. This is because usually, when customers complain, they receive higher quality attention than is normal. It may be because the only time they receive your attention is when they complain.

Moreover you should be interested not only in customers who are directly affected but also in those who are told by your existing customers how well to handle them. Customer satisfaction certainly leads to recommendation but satisfaction after good problem—resolution may lead to stronger recommendation than routinely good service.

Naturally, the longer your company has been measuring the connection between, on the one hand, good customer service and on the other, buying and recommending behaviour the more accurate your estimates will be.

4. The financial consequences; this is the translation of the customers’ relationship-affected buying behaviour into profit in accordance with the methodology described above.

5. Evaluating the tactical and strategic application of customer service—though some of the techniques of customer service may be used as tactical weapons, a strategic approach is more appropriate as it will also transform the way the business is also done. The two key strategic factors that must be considered in payback calculations are; competitive superiority and setting up barriers to competitive market entry.

Quantifying the impact of customer service

The opportunities opened by customer service are likely to affect both costs and revenue. Some lead to increased revenues while costs stay static or rise more slowly than revenue. The revenue and costs change that might result from different aspects of customer service must be identified and quantified.

Revenue growth plans may be based on factors such as, overall market growth, specific marketing strategies and anticipated competitive change. Areas to be considered where improved relationship is likely to make a difference include; improved retention rates, cross-
selling (how many customers buy both service. About service B because increased percentage will lead to additional profits since fixed costs will spread over larger revenues). Improved renewal rates and increased sales are becoming better by reactivating lapsed customers.

This analysis can indicate the areas where customer service may generate revenue growth by improving the effectiveness of policies that are already planned. Previous studies indicate that successful customer service delivers an experience that makes the customer feel important. Marketing initiatives should be aimed at reaching out to customers even as they help the organization better identify its customers. Firms in the hotel industry are tasked to initiate quality control processes which help to minimize the risk that the customer will experience product failure. Customer relationship management systems ensure a consistent experience across all the customer’s interactions with the business and consequently improved profit margins.

**Estimation of Customer loyalty Model**

After analyzing the data collected, I was able to develop the following model. The model, as was indicated with NPS measurement shows a very high correlation between customer satisfaction and customer loyalty. As mentioned earlier, the objective of this research was to develop a model of measuring customer loyalty and relationship value which increases profits in the hospitality industry. The development of the model is discussed below;

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**Estimation of Customer Satisfaction Model**
Respondents highlighted the above mentioned as the major variables which influenced their preference for various hotels. I therefore adopted them as the main parameters in estimating customer loyalty. It was predominantly noted that collecting such data is one of the clear performance measurement mechanisms and evaluation criteria with indicators that determines the level of customer satisfaction, which is key to developing a model of determining customer loyalty. Developing a model for organizations is therefore as simple as identifying the main parameters which influence customer loyalty, establishing the relationship between them and establishing how they eventually contribute to increase in proceeds.

It was apparent from the data collected that;

1. Increased customer loyalty was the end result, the desired benefit of all businesses. This approach leads to increase in customer retention and consequently increase in customer life value.

2. Customer loyalty was the result of well-managed customer retention programs; customers who are targeted by a retention program demonstrated higher loyalty to a business.

3. All customer retention programs relied on communicating with customers, giving them encouragement to remain active and choosing to do business with a company.

Variables contributing to the building of this model are discussed below;
**Customer Loyalty:** this study established that the loyal customers were generally satisfied with the services offered. Further they were willing to ‘evangelise’ about the superior service they were receiving. It was also observed that a customer driven service is the modern philosophy on business. This is because customers are changing, competitors are changing and the staffs are changing their expectations.

**Recommend the hotel to others:** After conducting the Net Promoter Score (NPS) a measuring system to determine whether the customers would recommend the hotels to others, the results were as follows; Promoters 86%, Passives, 10% and detractors 4% detractors. From the above data, NPS score (percentage of promoters minus detractors) was 82%. This was considered a good score since more than 80% of the respondents were satisfied and were willing to recommend the establishment to others. They were regarded as the businesses’ most effective marketing weapons, evangelizing for your product on your behalf. Given all these benefits, it’s only natural that businesses should turn to a diverse range of tools to develop customer loyalty.

**Good will:** this study established that goodwill is yet another aspect of customer satisfaction i.e. the higher the goodwill, the more the recommendations from the satisfied/benevolent/supportive customers. According to accountants, good will is an intangible asset, but it has value. It is the reasonable expectation that clients or customers will return to do business with you in the future. This can arise from habit, from developing a sense of community, kinship, or friendship with purchasers. Good will is, in part, a desire to do business with you, again.

**Satisfaction:** Fornell, C. (1992) says that customer satisfaction generally means customer reaction to the state of fulfilment, and customer judgement of fulfilled state. Further, I discovered that satisfaction was the best predictor of loyalty, good will, and repeat business are the truest indicators of genuine customer satisfaction and are directly observable during transactions and as transactions conclude. Customers email their feelings, attitudes, and intentions through distinctive verbal and nonverbal clues that can be monitored, measured, and managed.

**Value for money:** Quality of service rendered and the superiority of the products offered determines customers’ feeling as regards value for their money. Upon further reflection and assessment of the attributes that emerged from the data, there was an observation of a great correlation between how customers felt about value for money, satisfaction and consequently, customer loyalty. As aforementioned, all satisfied customers indicated that they were satisfied with the quality of services offered compared to what they were paying.

**Product (Service):** The product/service was the major contributor to customer loyalty. The product was noted to be a key touch point with which they spent most time. The product also, as a touch point created the strongest emotional reaction, as it is in the product experience that
the brand promise was fulfilled. The product itself is your most valuable customer touch point, and creating a positive experience here is essential to building customer loyalty.

It was noted that for customers to feel they have a good relationship with various hotels, they must first feel they have a good relationship with the product.

**Location:** For the guests at Utalii hotel, the major consideration to the venue was location as it is within the city and ideal for business meetings, workshops and seminars. In the contrary, proximity was not a consideration for choice of location to the other establishments. For the Heritage the location was idea for the guests looking for quiet holidays. At Serena Beach hotel, the main motivation for choosing it was to have a feel of a Coastal/beach hotel, where they could enjoy maximum sun bath, a swim at the ocean and a “direct fresh air form India”. From the above observation, it was clear then that the customers were looking for locations where their needs would be adequately addressed, which had an influence on satisfaction.

**Expectations of the product’s users:** The respondents showed a lot of appreciation if the service providers seemed to truly understand and address the characteristics of the experience they desired in their products. Successful businesses seemed to competently address variance between the organization’s objectives against the users’ as they consume the hospitality products. It was also noted that marketing strategies and the most efficient customer service processes won’t deliver loyal customers if those customers do not have a positive experiences with your product

**Past experiences:** In regard to past experiences as an item of this study, the flow of the experience as the user interacted with the product was investigated. It was noted that positive experiences created the emotional bond that lead to customer loyalty.

Past experiences with the product; since customer loyalty is all about making customers feel good about their relationship with your business. A number of respondents stated that they would like to spend time with people who make them feel good and well-appreciated.

**Attitudes:** It was noted that the guests’ attitude towards a certain establishment was largely determined by the theme of the establishment i.e. a coastal hotel for sunbath, swim at the ocean; Heritage hotels for maximum relaxation and quiet holiday and Utalii hotel ideal for corporate seminars and workshops, as is in the neighbourhood of the government offices.

The guests at the Heritage and Serena talked passionately about the establishments and their attitude which formed the basis of the choice of the same. They had Positive attitudes which seemed to drive positive behaviours in this context i.e. being loyal to the hotels. Since affirmative attitudes lead to positive actions, both approaches were useful in this study.

Still on the same note, this research established that there are two approaches when discussing customer loyalty; the attitudinal and the behavioural approaches (Peppers & Rogers, 2009).
Looking at each approach further, Pepper and Rogers explains that; “the attitudinal definition of loyalty implies that loyalty is a state of mind. By this definition, a customer is "loyal" to a brand or a company if they have a positive, preferential attitude toward it. They like the company, its products or its brands, and they therefore prefer to buy from it, rather than from the company's competitors. But the emphasis is on "willingness," rather than on actual behaviour, per se. In terms of attitudes, then, increasing a customer's loyalty is virtually equivalent to increasing the customer's preference for the brand. It is closely tied to customer satisfaction, and any company wanting to increase loyalty, in attitudinal terms, will concentrate on improving its product, its image, or other elements of the customer experience, relative to its competitors. The behavioural definition of loyalty, on the other hand, relies on a customer's actual conduct, regardless of the attitudes or preferences that underlie that conduct. By this definition, a customer is "loyal" to a company if they buy from it and then continue to buy from it. Loyalty is concerned with re-purchase activity, regardless of any internally held attitudes or preferences. In the behavioural definition, loyalty is not the cause, but the result of brand preference. A company wanting to increase customer loyalty will focus on whatever tactics will in fact increase the amount of repurchase behaviour - tactics that can easily include, without being limited to, improving brand preference, product quality, or customer satisfaction.”

Transaction value: For majority of guests at Utalii hotel around (95%), transaction value was not a concern because they were booked in by their employers. Actually they did not have an idea on the hotel charges. Conversely, for the other hotels, the guests were paying for themselves and they indicated that they choose these place because there is value for money.

**Lifetime value:** Life time value of a customer in the hospitality is defined as the net present value of the profit an establishment expects to realize from a customer for the duration of their relationship. The implication therefore is that customer lifetime value focuses on customers as assets rather than sources of revenue. The volume of purchases made, customer retention rates, and profit margins are factors taken into account in calculating customer lifetime value. Strategies for increasing customer lifetime value aim to improve customer retention and lengthen the life of the relationship with Customer lifetime value has intuitive appeal as a marketing concept, because in theory it represents exactly how much each customer is worth in monetary terms, and therefore exactly how much a marketing department should be willing to spend to acquire each customer.

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**Perceived constraints:** No perceived constraints were reported. However, only one respondent at the Heritage hotels (who had been visiting the establishment annually for the last eighteen years) pointed out a perceived constraint in his income level which was likely to reduce and this would hinder his continued holiday enjoyment at the establishment in the future. He was only hoping that the establishment could consider revising their charges downwards in order to accommodate his future holiday plans.

From the above feedback, there is a lead on what to look for when estimating customer loyalty in tourism.

**Estimating Customer Loyalty**

In his article on *turning customer data into profits with a spreadsheet*, Jim Novo (2000) states that customer loyalty describes the tendency of a customer to choose one business or product over another for a particular need. In the packaged goods industry, customers may be described as being "brand loyal" because they tend to choose a certain brand of product more often than others. Customer loyalty becomes evident when choices are made and actions taken by customers. Customers may express high satisfaction levels with a company in a survey, but satisfaction does not equal loyalty. Loyalty is demonstrated by the actions of the customer; customers can be very satisfied and still not be loyal.

Customer data and models based on this data can tell us which customers are most likely to respond and become loyal, no matter what kind of front-end marketing program you are running or how you "wrap it up" and present it to the customer. The data will tell you who to promote to, and how to save precious marketing funds in the process of creating customers who are loyal to you longer.

By analysing some of the data from the Heritage and Serena, I narrowed to the most loyal customers and found that on average, they buy or visit the hotels at least once every 2 years. By tracking these customers, I discover that 30% of them may miss out their 2 year holiday occasions. In addition, 85% of the 30% who skip never come back. As the management, you will waste a significant amount of money trying to get them back. You are therefore advised to develop a way to identify high loyalty customers who are at risk, and take action before they go away. This is accomplished by using the data customers create through their
interactions with you to build simple models or rules to follow. These models can be your early warning system, and will alert you to situations like the "2 year skip" example above in time for you to do something before the customer defects. Behaviour models allow the data to speak to you about the loyalty status of the customer before it's too late.

**Conclusion and final remarks**

This paper established various parameters which were used to develop a model which can be used to determine customer loyalty. Establishments in the hospitality industry can identify key variables to measuring customer loyalty, mechanisms of ensuring sustainability, and a surveying tool which is relatively easy to design, understand and credible enough that employee performance and compensation can be attached, and also provide reports for management actions, most importantly facilitating managerial decision making processes which address creation and provide ways of sustaining customer satisfaction and loyalty.

Loyal customers are high-value customers. Businesses operating in the hospitality industry need to understand that every customer wants to be a loyal customer. However, they should first be enchanted. User experience is a complicated business, but if they understand all the elements involved, it isn’t an unsolvable problem. They should pay attention to the right details, and achieve great results.

Business operators in tourism industry should also understand that managing customers for loyalty should never be interpreted as managing them for direct profit measurement. Business operators in hospitality industry are encouraged to employ techniques to win and sustain customers’ loyalty and increased profits will follow as night follows day.

Further, hotel managers and operators need to extensively consult with the clients for purposes of establishing the products’ characteristics/features they desire. Moving on from sharing information, buyers and sellers need to examine their current activities together in order to explore and optimise processes (Macdonald, Rogers & Woodburn, 2006)

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**Table 1: List of the firms used in this study and brief description**

<table>
<thead>
<tr>
<th>Name of Hotel</th>
<th>Description</th>
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<tbody>
<tr>
<td>Kenya Utalii Hotel</td>
<td>This is a 3* Hotel located in Nairobi city in Kenya. Majority of the clients are locals and the corporate/government clients attending seminars and</td>
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workshops. In addition to providing hospitality services, the hotel is used as a “laboratory” by Kenya Utalii students for the practical sessions and also for industrial training.

| Heritage Hotels | This is a 4* Camp Site establishment located at Samburu (North Eastern Part of the country). Majority of the clients are foreigners. The establishment is suitable / ideal for a quiet holiday. |
| Mombasa Serena Hotel | This is a 5* hotel located at Coastal part of Kenya. Majority of the clients are foreigners who come for holidays. The hotel is famous for its personalised service. |
AMY K. SMITH, RUTH N. BOLTON, and JANET WAGNER

Customers often react strongly to service failures, so it is critical that an organization's recovery efforts be equally strong and effective. In this article, the authors develop a model of customer satisfaction with service failure/recovery encounters based on an exchange framework that integrates concepts from both the consumer satisfaction and social justice literature, using principles of resource exchange, mental accounting, and prospect theory. The research employs a mixed-design experiment, conducted using a survey method, in which customers evaluate various failure/recovery scenarios and complete a questionnaire with respect to an organization they recently had patronized. The authors execute the research in the context of two different service settings, restaurants and hotels. The results show that customers prefer to receive recovery resources that “match” the type of failure they experience in “amounts” that are commensurate with the magnitude of the failure that occurs. The findings contribute to the understanding of theoretical principles that explain customer evaluations of service failure/recovery encounters and provide managers with useful guidelines for establishing the proper “fit” between a service failure and the recovery effort.

A Model of Customer Satisfaction with Service Encounters Involving Failure and Recovery

Organizations are facing more intense customer service pressures than ever before. When a service failure occurs, the organization’s response has the potential either to restore customer satisfaction and reinforce loyalty or to exacerbate the situation and drive the customer to a competing firm. Service recovery refers to the actions an organization takes in response to a service failure (Gronroos 1988). Recovery management is considered to have a significant impact on customer evaluations, because customers are usually more emotionally involved in and observant of recovery service than in routine or first-time service and are often more dissatisfied by an organization’s failure to recover than by the service failure itself (Berry and Parasuraman 1991; Bitner, Booms, and Tetreault 1990). Keaveney (1995) finds that service failures and failed recoveries are a leading cause of customer switching behavior in service organizations. Therefore, well-executed service recoveries are important for enhancing customer satisfaction, building customer relationships, and preventing customer defections (Fornell and Wernerfelt 1987).

Although service recovery is recognized by researchers and managers as a critical element of customer service strategy, there are few theoretical or empirical studies of service failure and recovery issues. Studying service recovery is challenging because recovery is triggered by a service failure, making systematic empirical research difficult to conduct in either a laboratory or a field environment. Previous research on service recovery has focused on developing classification schemes (Bitner, Booms, and Tetreault 1990; Hoffman, Kelley, and Rotaclay 1995; Kelley, Hoffman, and Davis 1993) and providing correlational or anecdotal support for the effect of service recovery on customer satisfaction (Kelly and Davis 1994; Spreng, Harrell, and Mackey 1995). Recently, Tan, Brown, and Chaudhurshakaran (1998) examined the influence of customers’ judgments of satisfaction, trust, and commitment after a service complaint experience. However, to date, no one has developed a theory-driven model of customer satisfaction with service fail-

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