



The relationships between CRM, RQ, and CLV based on different hotel preferences

Shwu-Ing Wu*, Pei-Chi Li

National Chin-Yi University of Technology, Department of Business Administration, Taiwan, ROC

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ABSTRACT

This study uses Structural Equation Modeling (SEM) to investigate the strength of the relationships among Customer Relationship Management (CRM), Relationship Quality (RQ), and Customer Lifetime Value (CLV) from a consumer viewpoint. This study also investigates whether or not these relationship models show significant differences based on different hotel type preference groups.

An analysis of 688 effective questionnaires produces two main findings. (1) CRM has a positive influence on RQ, and RQ has a positive influence on CLV. (2) Consumer groups with different hotel preferences reveal a partial interference effect on the relationships among CRM, RQ, and CLV. In other words, different hotel preferences create significant differences in the strength of partial relationship paths.

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1. Introduction

An enterprise which set up a Customer Relationship Management (CRM) system to find and keep its best customers and develop long-term relationships with loyal customers will acquire greater profits (Christy et al., 1996). Therefore, CRM has gradually been applied to the hotel industries to enhance the relationship between enterprise and its customers (Liu et al., 2007). Because the enterpriser believes that the relationship between a hotel and its customers is direct and intimate, the positive effects of CRM will significantly enhance the Relationship Quality (RQ) between hotel industries and their customers, increasing the hotel's Customer Lifetime Value (CLV) (Garbarino and Johnson, 1999; Kim and Cha, 2002; Leu and Hsieh, 2000). However, based on the customer's viewpoint, few studies have explored if these relationships exist; this is the major issue of this study.

The competition in hotel industries is quite severe, thus hotels must improve their quality and services to win new customers. In addition to attracting more customers, hotels must also maintain the loyalty of existing customers because the cost of gaining new customers is approximately five times greater than the cost of keeping old customers (Rosenberg and Czepiel, 1984). As a result, CRM has become a hot topic in the hotel industry. In the customer-oriented era, customers hold the key to a hotel's fate, and good customer relationships have become an important intangible asset

for hospitality companies. A hotel must realize the real needs of its customers before it can effectively seize new business opportunities. Moreover, the relationship between a hotel and its customers is inseparable, making CRM a very important factor in maintaining RQ and enhancing CLV.

Although most hotel enterprises make great efforts to improve their CRM practices to satisfy the needs of their customers, few enterprises know how much customers feel the effects of CRM actions. Therefore, this study investigates the influence of CRM on RQ factors such as customer satisfaction, trust and commitment in the hotel industry. This study also examines whether or not RQ enhances CLV factors such as customer usage quantity, loyalty, word of mouth, and purchase intentions.

Most previous studies on CRM or CLV are based on the enterprise's point of view (e.g. Jae et al., 2004; Khirallah, 1999; Swift, 2001). However, this study takes the customer's viewpoint to investigate the implementation of CRM practices by a hotel, whether or not the RQ with customers will be improved, and whether or not the CLV can be further enhanced. In addition, this study investigates differences in the relationships among CRM, RQ, and CLV based on different hotel type preferences.

Based on the research background and motivations that explore if relationships exist between CRM, RQ, and CLV based on the customer's viewpoint, the following describes the research objectives of this study:

1. To investigate the influence of CRM on RQ.
2. To investigate the influence of RQ on CLV.
3. To investigate differences in the relationships between CRM, RQ, and CLV based on different hotel type preferences.

* Corresponding author at: National Chin-Yi University of Technology, Department of Business Administration, No. 35, Lane 215, Section 1, Chungshan Road, Taiping, Taichung 411, Taiwan, ROC. Tel.: +886 4 23924505; fax: +886 4 23929584.
E-mail address: wusi@ncut.edu.tw (S.-I. Wu).

This study uses literature review to develop the research framework and questionnaire; then empirical study is used to produce its results. The hotel industry can use these results as a reference for employing CRM strategies.

2. Literature review and hypotheses

2.1. Customer Relationship Management (CRM)

Spengler (1999) proposed that CRM should really be called Contact Management, which represents the specific collection of all information on the interaction between the customer and the company. A CRM system includes call center, database and customer care functions that support data analysis. CRM is an enterprise-level strategy and business model that is based on the customer as the core, and uses information as a fulfillment tool. The major goal of CRM is to satisfy customer needs in time, to build strong and long term relationships with customers, and to increase business profit. In areas of severe enterprise competition, any business operation that strengthens customer loyalty is an indispensable competitive advantage.

CRM represents the relationship between an enterprise and the customer, and the key is the “relationship.” In other words, an enterprise can positively affect customer behavior through effective communication and understanding. CRM can reinforce an organization’s capability in acquiring customers, keeping customers and enhancing the value of customers. Therefore, the objective of CRM is to seize appropriate opportunities, and through appropriate channels, provide appropriate products and services to the appropriate customers. These measures make it possible to increase interactive opportunities (Swift, 2001).

CRM is a commercial strategy for sales and service in which an enterprise serves its customers. Whenever there is this kind of interactive relationship, a company’s messages will be exchanged with the appropriate customers (Kandell, 2000; Khirallah, 1999). Linoff (1999) pointed out that the objective of CRM is to keep customers that contribute to the enterprise, which is also a continuous improvement process. Swift (2001) proposed that CRM is a behavior in which an enterprise tries to understand and reach customers through full interaction; moreover, it is a business strategy that enhances customer loyalty and profit gaining.

2.2. Measurement of CRM

This study uses the customer’s perspective to investigate whether or not the customer is aware of CRM practices implemented by a hotel. This requires evaluating the level of consumer awareness of the presence of CRM actions by the hotel. Ming and Chen (2002) and Keeney (1999) found that customers’ needs for CRM actions include more diversified service channels, greater trust in hotel service, low service cost, quick access to services, extended service hours, easy access to services, privacy protection, and customized service. This study modifies the variables above to fit the hotel industry, and uses these items as CRM variables to evaluate customer’s awareness of CRM practices in hotels.

2.3. Relationship Quality (RQ)

Hennig-Thurau and Klee (1997) proposed that RQ represents the relationship between the customer and the enterprise, and this relationship depends on the level of customer satisfaction. Gummsson (1987) and Lee and Kim (1999) pointed out that RQ is the interaction quality between enterprise and customer, and can help to develop long term relationships. Crosby et al. (1990) found that when sales personnel emphasize RQ, they can reduce the insecurity and uncertainty experienced by the customer. This

in turn can generate customer trust and confidence in the future performance of sales personnel, and will affect customer interactions in the future. Kumar et al. (1995) proposed that RQ reflects customer trust, commitment, conflict, expectation of continuity, and willingness to invest.

Smith (1998) proposed that multiple factors contribute to RQ. The relationship between customer and company is positively related to the strength of the mutual satisfaction and expectations on both sides. Garbarino and Johnson (1999) pointed out that RQ includes satisfaction, trust and commitment, aspects which positively influence customers’ future intentions.

2.4. Measurement of RQ

RQ is an important index for evaluating the strength of the relationship between the supplier and customer. Many researchers agree that customer trust, satisfaction and commitment, are key factors in evaluating RQ. For example, Crosby et al. (1990) and Tam and Wong (2001) proposed that satisfaction and trust are key aspects of RQ; Mohr and Spekman (1996), Morgan and Hunt (1994), and Sanchez-Garcia et al. (2007) stated that trust and commitment are key factors in evaluating RQ. Chakrabarty et al. (2007), Garbarino and Johnson (1999), Ivens (2004), Ndubisi (2006), and Smith (1998) concluded that RQ is formed by satisfaction, trust and commitment. Thus, this study integrates the three items above to measure RQ. The following sections describe these factors in greater detail.

“Trust” means that the customers believe sales personnel will provide them with long-term benefit and service (Crosby et al., 1990). Doney and Cannon (1997) pointed out that trust is the reputation and level of caring exhibited by the opposite side as recognized by the decision maker on the target to be trusted, and includes objective reputation and psychological care. Garbarino and Johnson (1999) thought that trust is customer confidence in the quality and reliability of the service provided by the organization. Lee and Kim (1999) thought that trust is the level of confidence and willingness in the mind of a consumer. That is, consumer trust depends on the confidence and willingness to deal with a company, and such willingness originates from the reliability, integrity and honesty of the company (Moorman et al., 1993).

Customer “satisfaction” means the satisfaction of the customer during or after the purchase of a product or service, interaction with service personnel, and entire experience provided by the company compared to other companies (Selnes, 1993). Westbrook (1980) pointed out that satisfaction is a recognition and evaluation process in which customers compare their actual experience with their previous expectations. If a product meets or exceeds these expectations, the customer feels satisfied. Bearden and Teel (1983) and Oliver et al. (1997) thought that customer satisfaction means the level of like or dislike after consumption, which is an attitude based entirely on experience. Thus, the overall customer satisfaction is a key determinant of RQ (Ndubisi, 2006).

Customers’ “commitment” is very important to maintaining a relationship with the other side. Commitment to the relationship on the part of both partners is a key factor to successful RQ in the long run, and helps to enhance long-term benefits (Morgan and Hunt, 1994). Moorman et al. (1993) and Goodman and Dion (2001) thought that commitment occurs when one of the partners wants to continue and reinforce the relationship. Anderson and Weitz (1991) proposed that commitment includes the desire to develop a stable relationship, the willingness to make short term sacrifices for a long-lasting relationship, and having confidence in the stability of the relationship.

To ensure the content validity of the scales, the measurement items were selected and modified from prior studies. The measures for Trust, Customer satisfaction and Customer commitment

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