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# Customer loyalty marketing research: A comparative approach between hospitality and business journals

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### ABSTRACT

Businesses, including the hospitality sector discovered the importance of customer retention as a key success factor. Thus, customer loyalty is a topic that has received much attention since the 1990s as relationship marketing has become a popular marketing scheme. The purpose of this study was to review published research on customer loyalty to better understand its evolution and development in the hospitality industry. Specifically, the study took a comparative approach by examining published research from academic hospitality journals and business journals. A total number of 262 articles were reviewed. Topical areas, industry application, and research methods were discussed. Lastly, study limitations were discussed.

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## 1. Introduction

Hospitality marketers recognize that it is difficult for businesses to survive just by attracting new customers as most industry segments are mature and competition is so fierce. Additionally, service, as the core product of hospitality businesses, is distinctive with goods especially for being considerably affected by the customers' involvement and experience. The experience that exists in the consumer's mind is what creates a differentiation point from competitors so businesses strive to provide such products and services to satisfy the consumer's demand (Pine and Gilmore, 1998). Thus, hospitality marketers make eminent efforts to provide good experiences and ensure consumer delight by engaging in relationships with customers (Berry, 1983; Morgan and Hunt, 1994).

Many organizations progressed relationship strategies intended to maintain and enhance customer relationships and further obtain long-term competitive advantage. Hospitality marketers also believe that relational engagement leads to customer longevity, which is ultimately associated with customer loyalty (Berry, 1983; Morgan and Hunt, 1994). Businesses, including the hospitality sector discovered the importance of retaining their existing customers as a key success factor. Thus, customer loyalty is a topic that has received much attention since the 1990s as relationship

marketing has become a popular marketing scheme. The attention toward loyalty marketing has not declined and businesses are still trying to find various ways to enhance the effectiveness of loyalty marketing (McCall and Voorhees, 2010; Sheth and Parvatiyar, 2000; Shoemaker and Lewis, 1999; Srinivasan and Moorman, 2005).

All in all, marketing research, including customer loyalty topics, in the hospitality industry has been consistently growing and many scholars made efforts to provide the research status quo (Bowen and Sparks, 1998; Dev et al., 2010; Oh et al., 2004; Svensson et al., 2009). Based on the previous hospitality marketing research, this study attempted to take a closer look on a specific topic of customer loyalty. More recently, such an approach on narrowed area of interest has been employed in various hospitality and business review studies. Scholars such as Leung and Law (2007) analyzed research particularly on information technology within the hospitality industry, Lu and Nepal (2009) on sustainable tourism, Anderson and Xie (2010) on hospitality revenue management, Kusluvan et al. (2010) on human resources management issues in the tourism and hospitality industry, and Hesford and Potter (2010) on hospitality accounting as well. The purpose of this study was to review published research on customer loyalty to better understand its evolution and development in the hospitality industry. Specifically, the study took a comparative approach by examining published research from academic business and hospitality journals. This study analyzed topical areas and research methods by examining the prominent trends and further suggested directions for future research.

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## 2. Literature review

### 2.1. Significance of customer loyalty

Customer loyalty is described as a customer's repeat visitation or repeat purchase behavior while including the emotional commitment or expression of a favorable attitude toward the service provider (McAlexander et al., 2003; Petrick, 2004; Shoemaker and Lewis, 1999). Numerous studies emphasize the value of customer loyalty to be significant. It is known that loyal customers' visit frequency is higher and make more purchase than non-loyal customers do. They are also less likely to switch to a competitor brand just because of price and other special promotions and bring in new customers through positive word-of-mouth which can sometimes save a huge amount of the expenses for advertising (Haywood, 1988; Oliver, 1999; Petrick, 2004; Shoemaker and Lewis, 1999). Petrick (2004) argued that repeat customers are more than just a secure source economically, but they can also be information channels that casually create a linkage to their friends, relatives, colleagues, and other probable consumers and thus enable businesses to uphold a clientele base.

One of the most essential theories of loyalty marketing is that a small increase in loyal customers can bring a significant increase in profitability to a business (Reichheld, 1993; Reichheld and Sasser, 1990). Reichheld and Sasser (1990) found that a 5% increase in customer retention resulted up to a 125% increase in profits in their study in the service industry. Moreover, it has been known that it is six times more expensive to plan marketing strategies to attract new customers than it is to retain existing customers (Petrick, 2004). Companies realized they need to do all they can to retain the top 1% of the customers of the pyramid top as it was discovered that they generated as much profit as 50% of those at the bottom end of the pyramid (Forte, 2011). On the whole, loyalty marketing emerged as being necessary and ideal as customer loyalty has been recognized as a major source of competitive advantage for firms by having a powerful impact on performance. It has been recognized that enhanced customer loyalty reduces customer acquisition costs and increases revenue, which ultimately lead businesses to greater profitability (Lam et al., 2004; Reichheld and Sasser, 1990).

Industry operators are fully aware of the positive impact that customer loyalty brings to their businesses and they have been constantly exploring various approaches to increase customer loyalty. Given the interest and its high recognition on customer loyalty, research on the subject expanded to various areas and industries both theoretically and practically. The domain of loyalty was limited to customers' repeat purchase behavior in early studies. However, research on customer loyalty evolved appreciably and subsequent studies started to propose the customers' psychological attachment to the service provider or the brand as an important aspect (Sheth and Parvatiyar, 2000). Overall, loyalty has been perceived as a multi-dimensional construct and its research progress shows immense development (Bowen and Chen, 2001).

### 2.2. The construct of customer loyalty

To date, customer loyalty has been mostly accepted in the marketing literature as a three dimensional conceptualization: behavioral, attitudinal, and composite (Bowen and Chen, 2001; Jones and Taylor, 2007). The behavioral perspective measures loyalty as the static outcome of a dynamic process including antecedents such as actual consumption, repeat purchase, duration, longevity, frequency, proportion of market share, and word-of-mouth recommendations (Baloglu, 2002; Jones and Sasser, 1995; Mechinda et al., 2008). Probability of future purchase of a brand and brand switching behavior are also examples that have been addressed to assess behavioral loyalty (Jacoby and Kyner, 1973;

Ostrowski et al., 1993). Ultimately, behavioral loyalty involves the actual 'share of wallet' – the degree of buying or using of the service – and their future purchasing intention (Jones et al., 2007; Jones and Sasser, 1995; Kim et al., 2008; Tanford et al., 2010). Therefore, academic and the real business world both emphasize its importance since it is of utmost crucial to the service provider and it highly relates to revenue and prosperity (Chao, 2008).

The attitudinal approach conceptualizes loyalty as a function of a psychological process (Jacoby and Chestnut, 1978) and measures loyalty in terms of a consumers' strength of affection toward a brand (Baloglu, 2002; Petrick, 2004). Trust has been considered as a key factor in building customer loyalty (Bowen and Chen, 2001; Morgan and Hunt, 1994). Emotional attachment or commitment could be defined as liking the company or the brand, enjoying the stay at a particular property, and having a sense of belonging to the company.

Composite loyalty implies that neither the behavioral nor the attitudinal loyalty approach alone describes loyalty. Instead it suggests that loyalty should be simultaneously considered from a behavioral and attitudinal perspective (Backman and Crompton, 1991; Dick and Basu, 1994; Petrick, 2004). Dick and Basu (1994) proposed repeat patronage (behavioral dimension) and relative attitudes (attitudinal dimension) to conceptualize loyalty. Relative attitudes were described into three categories: cognitive – those related to informational determinants toward a brand, affective – those related to feelings toward a brand, and conative – those related with behavioral characters toward a brand. They argued that true brand loyalty exists only when consumers' attitude and intention all point to a focal preference toward the brand at the same time. Similarly, Oliver (1999) argued that consumers develop a sense of loyalty in the order from cognitive, affective, and to conative and finally in a behavioral manner. Since composite measurements of loyalty combine both the behavioral and the attitudinal perspective, customers' preference of product, frequency of purchase, recency of purchase, total amount of purchase, and propensity of switching brands are taken into consideration for measurement (Bowen and Chen, 2001).

### 2.3. Factors that influence customer loyalty

Numerous studies attempted to identify the determinants of customer loyalty (Dick and Basu, 1994; Lee and Cunningham, 2001; Yang and Peterson, 2004). Researchers may have distinctive ideas in conceptualizing loyalty, thus, resulting in different discussions in verifying the antecedents of loyalty. Nonetheless, it has been suggested that customer loyalty may be fostered with distinctive outcomes depending on its factors and therefore, it should be managed and integrated strategically (Shoemaker and Bowen, 1998). Overall, factors that influence customer loyalty were categorized into two big sets in this study: one related to internal factors, and the other related to external factors. Internal factors are described as factors associated internally, which affect the organization to serve its customers directly. The firm holds the ability to facilitate with the strategies and tactics. In contrast, external factors are conditions external to the firm and relate to how consumers recognize the brand with respect to the brand competition. These are often formidable as control is limited from the firm (Duffy, 2003; Kotler et al., 2010).

#### 2.3.1. Internal factors

Examples of internal factors include the product itself (brand), service quality, promotion mix, and costs. A brand is the genuine value that customers demand today, thus a product that creates an extraordinary experience becomes a loyalty-enabling brand. Promotions and marketing tactics are utilized not only to create a strong brand from enhancing customer experience and building

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