

# Customer value in the hotel industry: What managers believe they deliver and what customer experience

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## Abstract

Delivering value for customers has become a central theme in business. The paper examines customer value from two perspectives, i.e. that of service provider and that of the customer. A total 231 managers and 385 customers responded to the survey. The results indicate that managers' perception of customer value is different to what customers' experience as customer value. The differences persist across different classes of hotels. These results suggest there is a need to align management and customer perspectives to optimize customer value as delivered and experienced. Specifically, hotels should invest in customer understanding and customer linking activities. Crown Copyright © 2007 Published by Elsevier Ltd. All rights reserved.

*Keywords:* Customer value; Service quality; Hospitality industry; Business hotels

## 1. Introduction

The study of customer value has become one of increasing interest to researchers and managers (Slater and Narver, 2000), and is regarded as the next source of competitive advantage (Woodruff, 1997). Customer value and service quality have also been of great interest to hospitality researchers (Ekinçi et al., 2003; Oh, 1999; Kim and Oh, 2004). The main responsibility of hoteliers is the delivery of quality service to customers (Su, 2004). Choi and Chu (2001) suggest that to be successful in the industry, hoteliers must provide superior customer value and this must be done continuously and efficiently. In addition, hoteliers need to put more emphasis in improving the quality of their services offerings and in ensuring that the needs and expectations of their guests are being met (Haywood, 1983). This especially true because the hotel sector is highly competitive and is central to the success of the tourism industry.

Service provision can be viewed from two different perspectives: that of the service provider or that of the customers and the perspectives would be expected to differ.

That is, gaps might arise between expectation and actual performance, and differences between perception of the service by the service provider and service receiver (Saleh and Ryan, 1991). Specifically, in the hotel industry, there are some problems involved in the evaluation of service provision. Some customers may perceive a service as being comparatively unimportant while for others it is critical. Management has to optimize under such conditions and may place significant importance upon the tangible components of the hotels such as good décor, etc. (Hartline et al., 2003) to cover for the diversity of their clients. Previous studies have examined customer value from the customer's perspective (Sanchez et al., 2005) or the provider's perspective (Eggert and Ulaga, 2002; Liu et al., 2005) but rarely has research sought to achieve both perspectives in a single study, in particular in the hospitality and tourism sectors. There are several studies in this area that had been published in the hospitality and tourism context mainly related to service quality topics (see Baker and Crompton, 2000; Bigne et al., 2005; Ekinçi and Riley, 2001; Weiermair and Fuchs, 1999). This research seeks to achieve this, i.e. customer value as seen by the provider and also as seen by the customer. In other words, the paper seeks to investigate different perceptions of customer value between managers and customers in hotel establishments.

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The context of this study is an important component of the tourism industry in Indonesia namely the hotel sector. The main reason for choosing the hotel industry as the research context is that the tourism industry has become an increasingly important sector as a foreign exchange earner in Indonesia (Blueprint of Indonesia Tourism Marketing, 2003). This is because the tourism industry is considered to hold the best prospect for contributing to the Indonesian economy. The main objective of the Indonesian tourism industry is “making Indonesia as the most popular tourism destination in the South East Asia region” (Blueprint of Indonesia Tourism Marketing, 2003). This indicates that the Indonesian tourism industry plays an important role as a foreign exchange earner.

## 2. Conceptual background

### 2.1. Defining customer value

The concept of value has been applied in various fields such as economics, social science, accounting, finance, strategy, product management, information system, marketing (Huber et al., 2001; Ulaga and Chacour, 2001) and in tourism research (Sanchez et al., 2005). It is considered an abstract concept (Weinstein and Johnson, 1999); hence, its interpretation varies according to the context (Sweeney and Soutar, 2001). Holbrook (1999) defines customer value as “an interactive relativistic preference experience” (p. 5). Zeithaml (1988, p. 3) identifies four diverse meanings of value: (1) “value is low price, (2) value is whatever one wants in a product, (3) value is the quality that the consumer receives for the price paid, and (4) value is what the consumer gets for what they give”. In a parallel vein, Flint et al. (1997) suggest that value can be classified as values, desired values, and value judgments. The notion of value judgment is the customer’s assessment of what has happened (benefits and sacrifices). This implies that value is a process of interpretation of what the customer feels concerning the product or service consumed, relative to the sacrifices (generally price or time). Patterson and Spreng (1997) point out that customer value in the marketing literature is generally defined from the consumer’s perspective. In the tourism sector context, Sanchez et al. (2005) investigate the value perceived by customers in general, and tourists in particular. Specifically, they investigate the consumption and purchase experiences of the tourists.

In analyzing these definitions, there are two common themes in most definitions of value: the notions of “trade-off” and “benefit-sacrifices”. Trade-off can be interpreted as a difference between benefits and sacrifices. That is, customer value is created when the customer perceives that the benefit of consuming products/services exceeds the sacrifices (Slater and Narver, 2000). In the narrow perspective, benefit is identified as quality, while sacrifice is represented as a price. This interpretation reflects that value is emphasized as a monetary conceptualization (Sweeney and Soutar, 2001). This narrow perspective is

criticized as too simplistic and only reflects one dimension of the perceived benefits and sacrifices bundle (Sweeney and Soutar, 2001). Hence, the concept of value needs to include the total bundle of benefits and sacrifices including both monetary and non-monetary aspects. Bolton and Drew (1991) argue that defining value as a function of quality is not enough. It is argued that perceived benefit should be considered as some combination of physical attributes, service attributes, technical support, competence, experience, and social rewards (Petrick, 2002; Walter et al., 2001).

For the purpose of this study, customer value is defined as a trade-off between total perceived benefits and total perceived sacrifices. The term perceived is suggested to reflect the experiential view, in which it is believed that value judgment is dependent upon the consumers’ experience. This study adopts the Sweeney and Soutar (2001) scale and the Petrick (2002) scale. The Sweeney and Soutar (2001) scale consist of four components of quality, price, emotional value, and social value. The Petrick (2002) scale consists of five components: behavioral price, monetary price, emotional response, quality, and reputation. The components of customer value in this study are reputation for quality, value for money, and prestige. Reputation for quality captures the notion of quality and reputation and to some extent emotional value. Value for money can be viewed as comparing the benefits and sacrifices and represents monetary valuation. Prestige captures the social value of associating oneself with a product or a service (hotel) and represents what the “important others” think about the respondent for patronizing a given hotel.

### 2.2. The importance of customer value

Delivering superior value to customers is important for business success (McDougall and Leveque, 2000; Spiteri and Dion, 2004). The source of superior customer value can be identified from organizational resources and capabilities, such as human resource management, innovation, knowledge management, organizational culture and structure (Mittal and Sheth, 2001; Walter and Jones, 2001; Weinstein and Pohlman, 1998). For hotels to deliver superior customer value, i.e. provide the best quality, best prices, and best service, they should view themselves as value-producing entities (Weinstein and Pohlman, 1998). This requires best practice and of innovative thinking at all levels in the organizations (Knox, 2002), valuable core competencies (Walter et al., 2001), mission, strategy, and systems (Dummond, 2000).

Providing superior customer value has a positive impact on stakeholders, i.e. customers (Eggert and Ulaga, 2002; Oh, 1999; Woodruff, 1997), employees, and shareholders (Mittal and Sheth, 2001). Organizations with a strong commitment to delivering of superior customer value would benefit from a supportive corporate culture that focuses on customers’ expressed and latent needs (Narver et al., 2004). Superior customer value has been associated

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