



## Linking service quality, customer satisfaction and loyalty in casinos, does membership matter?



Yongdong Shi<sup>a</sup>, Catherine Prentice<sup>b,\*</sup>, Wei He<sup>c</sup>

<sup>a</sup> School of Business, Macau University of Science and Technology, Avenida Wai Long, Taipa, Macau, China

<sup>b</sup> Faculty of Business & Enterprise, Swinburne University, Hawthorn, Victoria 3122, Australia

<sup>c</sup> School of Management and Economics, University of Electronic Science and Technology of China, No. 2006, Xiyuan Avenue, West Hi-Tech Zone, Chengdu, Sichuan, China

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### ABSTRACT

The paper compares casino service quality evaluations, customer satisfaction and loyalty between casino members and nonmembers, and investigates the relationships among these variables. In particular, the study examines a mediation relationship by proposing that customer satisfaction intervenes between casino service quality and customer loyalty. The investigation is undertaken at six Macau casinos that provide membership to customers. The results show that customers without holding any membership have higher evaluations of casino service quality; nevertheless, casino members tend to choose the casino which they hold membership with as their first choice. The mediation testing indicates that including customer satisfaction in the model increases the variance in customer loyalty only in the case of casino members. Finally, each casino service quality dimension has different effect on gambler satisfaction and loyalty. The research yields insights into customer loyalty research. Strategic implications are provided for the literature as well as casino practitioners.

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### 1. Introduction

Competition among casinos has intensified in the Asia-Pacific region. One of the most recommended marketing approaches to gaining competitive advantages is building and maintaining relationship with customers as customer loyalty and retention is related to casino profitability (see [Kale and Klugsberger, 2007](#); [Prentice and King, 2011](#)). Understanding the importance of customer loyalty in profitability, casinos make every endeavor to attack gambler patronage. In addition to traditional marketing strategies such as advertising, personal communications, rewards and promotions ([Gruen et al., 2000](#); [Palmatier et al., 2006](#); [Palmer and Mahoney, 2005](#); [Wulf et al., 2001](#)), delivering quality service and enticing customers to join various loyalty programs are popular approaches to sustaining such relationship (e.g. [Baynes, 2011](#); [Prentice, 2013a,b](#)).

Service quality and customer satisfaction are commonly regarded as antecedents of customer loyalty (e.g. [Bolton et al., 2000](#); [Bowen and Chen, 2001](#); [Parasuraman et al., 1996](#)). However,

in the casino context, gaming consultants or experts claim that casino customer satisfaction surveys are waste of time and money. For instance, [Baird \(2002\)](#) indicates that casino guests, unlike customers in other industries, are fickle, and their satisfaction is highly likely to be determined by winning which attracts them to revisit the casino. Consistently, researchers ([Bowen and Chen, 2001](#); [Chen et al., 2005](#); [Prentice, 2013a,b](#)) argue that gambler satisfaction has very little influence on their patronage; whereas casino service quality exhibits a direct impact.

A number of studies have examined the factors of gambler satisfaction. For instance, [Johnson et al. \(2012\)](#) reported that some casino atmospherics affect gambler satisfaction. [Wong and Fong \(2010\)](#) found that casino environment and service delivery are related to gambler satisfaction. Very little research has been undertaken to examine the influence of gambler satisfaction on loyalty. Nevertheless, in practice, casinos do make every endeavor to satisfy customers in order to attract their patronage (see [Kale, 2005](#)). Given the research void, the current study examines the relationships among casino service quality, gambler satisfaction and loyalty.

Providing quality service and satisfying gamblers may be important to achieve their loyalty, but a large portion of variance in gambler loyalty is left unexplained (see [Prentice, 2013a,b](#)). Loyalty program is commonly regarded as an important factor of customer loyalty (see [Barsky and Tzolov, 2010](#)). Membership, represented

\* Corresponding author. Tel.: +61 406627622.

E-mail addresses: [ydshi@must.edu.mo](mailto:ydshi@must.edu.mo) (Y. Shi), [cathyjournalarticles@gmail.com](mailto:cathyjournalarticles@gmail.com) (C. Prentice), [hew@uestc.edu.cn](mailto:hew@uestc.edu.cn) (W. He).

by various membership cards that are segmented on the basis of consumption and gambling activities, is one of the most commonly practiced loyalty programs in casinos. To entice gamblers to join membership, casinos offer members various benefits and advantages on the basis of their membership status. The underlying mechanism is that membership benefits would attract customers to patronize and consume at the casino.

However, these benefits also prompt customers to become members of multiple entities. Particularly in the case of Macau and Las Vegas, customers often visit and play at several casinos during each trip. Patronage and retention may not be effective indicators of customer loyalty. On the other hand, those who are not involved in any membership may patronize and stay loyal to the entity. Consequently, measuring effectiveness of loyalty program can be challenging (Robert, 2013; Yi and Jeon, 2003). A few studies (Dubé and Shoemaker, 1999; Liu, 2007; Shoemaker and Lewis, 1999) have examined the effectiveness of these programs on customer loyalty. Although significant, the effect is rather small. The effectiveness is also contingent upon various drivers and conditions (McCall and Voorhees, 2010; Yi and Jeon, 2003). McCall and Voorhees (2010) propose three categories of drivers that may affect loyalty program effectiveness in the hospitality industry. Bolton et al. (2000) and others (e.g. Homburg et al., 2005) suggest that loyalty program is likely to operate as moderators. The effects of loyalty program are inconclusive. Given popularity of membership programs in the casino industry, especially in the case of Macau since these programs were only introduced with debut of international casino operators over the last decade, understanding loyalty program effects would help marketers determine the more appropriate strategies in a competitive environment. Previous research on loyalty program is primarily focused on its effect on members. The current study approaches the effectiveness of loyalty program from a different perspective by including members and non-members to analyze their attitudes and behaviors. The following section presents the relevant literature review and forms hypotheses to test the research objectives.

## 2. Literature review

### 2.1. Casino loyalty program and membership

Customer loyalty has a positive relationship with casino profitability (Kale and Klugsberger, 2007). The factors that affect gambler loyalty have implications for profitability. Loyalty programs, service quality (e.g. Parasuraman et al., 1996; Prentice, 2013a,b) and customer satisfaction (e.g. Bowen and Chen, 2001; Hallowell, 1996) are commonly recognized to be key influences in the formation of consumer loyalty in service environment.

Loyalty programs have been widely researched and generally acknowledged to be an effective approach to gaining customer loyalty (e.g. Bolton et al., 2000; Uncles et al., 2003). Previous research on the effects of loyalty program has reached two inconsistent conclusions (Bolton et al., 2000; Dorotic et al., 2012; Dowling and Uncles, 1997; Uncles et al., 2003). One stream of research views loyalty program as encouraging customer loyalty and usage, regardless of quality service delivery (e.g. Bolton et al., 2000). An alternative view concludes that “Given the popularity of loyalty programs, they are surprisingly ineffective. . . The program is unlikely to significantly increase the relative proportion of loyal customers or profitability” (Dowling and Uncles, 1997, p. 81). These researchers argue that some customers would purchase the firm’s products anyway, regardless of benefits associated with loyalty programs. The view is particularly true in the case of casino gamblers. Research on gambling motives (e.g. Smith and Preston, 1984; Stewart and Zack, 2008) indicate that gambler visits and revisits to a casino are mainly triggered by these motives.

Nevertheless loyalty programs are one of the most common marketing approaches to attracting gambler loyalty in casinos (see Baynes, 2011). Membership cards that can be swiped at all transactions (casino games, restaurants, stores, hotel stays) are provided to customers who participate in respective loyalty programs offered by the casino. The transactional data is used to structure offers and rewards. These benefits include accessing to various special events, free accommodations and cash back programs (Palmer and Mahoney, 2005). The level of benefits is dependent on the level of customer relationship with the casino. Additionally, membership benefits include utilitarian factors (e.g. economic savings, convenience, gifts), hedonic factors (e.g. personalized treatment, exploration of new products, entertainment), and symbolic factors (e.g. recognition by firm, social status) (Dorotic et al., 2012). Despite their likely influence on customer loyalty behaviors, these offerings can incur huge cost on casinos.

Barsky and Tzolov (2010) indicate that loyalty programs are only effective for selected groups of customers (e.g. Elite Elders segment), but not effective for the largest segment of casino customers, labeled Unmoved Members in their study. The authors suggest that better personal treatment, enhanced promotions and perks should be offered to engage these customers. Crofts’s (2011) thesis provides a thorough review of casino loyalty programs in the USA and concludes that casino management and employees should be involved in loyalty programs and endeavor to engage customers with new programs in order to enhance effectiveness of the programs. Research into effectiveness of loyalty programs is inconclusive. These studies are primarily focused on members’ attitudes (i.e. satisfaction) and behaviors (repurchase). In some cases, customers who are not involved in any loyalty programs patronize the casino frequently. Their repetitive patronage may be attributed to their loyalty or simply to their inertia or personal idiosyncrasies (i.e. favoring the casino’s fengshui, better chance of winning). In other cases, those who are in possession of some casino membership are not even aware of these programs, behaving like non-members. Hence, studying members per se is not sufficient to capture effectiveness of loyalty programs (Barsky and Tzolov, 2010). Understanding non-members’ attitudes and behaviors could help casinos gain better insights into loyalty program effects. In view of The, The study examines the attitudes and behaviors of both members and non-members.

As discussed previously, casino members, or loyalty program participants, are provided with membership benefits, depending on their recorded consumption behaviors which are used to classify members into different tiers. Those on the top tiers can access VIP services which are specially designed to cater for casino high rollers; those at the lower tiers can still access some special service that non-members are unable to such as hotel room discounts or food vouchers (see Prentice, 2013a). The level and range of service received by members and non-members are often vastly different despite their consumption behaviors. Such experience may affect their perception of casino service quality, subsequently their attitudes (the level of satisfaction) and behaviors (repurchase). Consistent with the foregoing discussion, the following hypothesis is offered:

**H1a.** Casino members have higher level of service evaluation than non-members.

**H1b.** Casino members have higher level of satisfaction toward the casino than non-members.

**H1c.** Casino members have higher level of loyalty toward the casino than non-members.

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