

CRM Efforts, Different Paths to Loyalty: Members and Non-members in the Hotel Industry

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CRM 활동이 충성도에 미치는 영향: 호텔 산업에서 회원과 비회원 고객 비교

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Abstract Since it is essential to have good relationships with customers for their loyalty, the importance of CRM has been increasing. While CRM attempts to satisfy different segments of customers with different strategies, there are not many studies conducted to examine the effect of CRM efforts on those different customers. This study explored to examine how those different customers respond to the CRM efforts depending on their memberships in the hotel industry.

As results of the study, it was found that for all customers without and with membership, the effect of maintaining stage of CRM process was significant. However, for customers without membership, the maintaining stage of CRM process have positive effect on both satisfaction and commitment while for customers with membership, its effect was significant only on commitment.

요 약 고객의 충성도를 높이기 위해 고객과의 좋은 관계가 필수적이며, 이에 따라 CRM의 중요성은 더욱 증가하고 있다. CRM은 고객에 따라 각각 그에 맞는 전략으로 각기 다른 고객의 요구를 만족시키고자 하는 한편, 기업의 CRM 활동들이 각기 다른 고객에게 어떻게 영향을 미치는 지에 대해서는 연구가 많지 않다. 본 연구는 호텔 산업의 비회원 고객과 회원 고객의 경우, 각각 CRM 활동에 어떻게 반응하는 지를 고찰하고자 하였다. 연구 결과, 회원 고객이나 비회원 고객 모두 CRM의 관계유지활동이 유의한 영향을 미치는 것으로 나타났으나, 비회원고객의 경우에는 관계유지 활동이 만족도(Satisfaction)와 몰입(Commitment) 모두를 높인 반면, 회원고객의 경우에는 몰입만을 높이고, 이에 따라 충성도가 높아지는 것으로 나타났다.

Key Words : CRM, Hotel Industry, Membership, Relationship Quality

1. Introduction

Satisfaction and commitment are the two main variables for relationship quality[6]. They have been often included in the studies on Customer Relationship Management (CRM) as the dependent variables for CRM

process because CRM is focused on maintaining good relationships with customers. Maintaining customers has been well-recognized essential[3] since the customer acquisition cost is more than customer retention cost[8] and reducing customer defection can increase the profit[14].

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However, it is interesting that the effects of commitment and satisfaction on loyalty are reported to be different depending on the relationship orientation. Garbarino and Johnson [5] argued that for high relational customers, commitment rather than satisfaction is the mediators between attitudes and future intentions to buy while for low relational customers overall satisfaction is the primary mediating construct between the attitudes and future intentions.

Therefore it is expected that CRM strategy may influence differently depending on customers' relationship orientation. The companies may store more data about their customers, but still it is noted that they do not know the existing customers well, or how to attract new customers[2]. Each customer has a different value to a company, and CRM can help segment existing customers based on their values to the company. However it is important to understand that some customers do not want to have any relationship while others do.

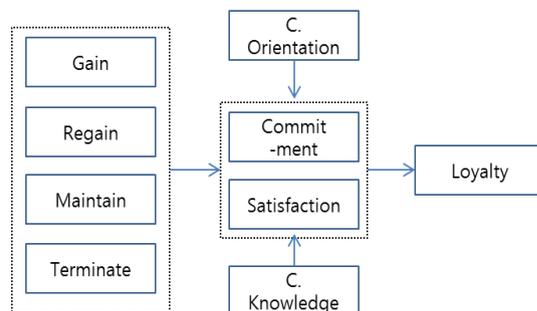
Therefore this study attempts to explore the differences between customers with different level of relationship orientation and to understand if there are different effects of CRM and the paths to reach to loyalty. This study is conducted with customers of hotel chains. Among those customers, some are already members of the hotel chain while others are not. They have different level of relationship orientation. The analysis seeks to determine if membership could make differences in the effect of each stage in CRM Process, as well as the paths to satisfaction, commitment and loyalty.

It is expected that people who are in a membership in a company will have certain level of loyalty, but it is also interesting to know how the CRM efforts work to members and non-members. Such a view of CRM will provide better theoretical background to enhance the understanding of as well as improve the practice of CRM.

2. Research Model and Hypotheses

As shown in Fig. 1, the research model includes Gaining, Regaining, Maintaining, and Terminating stages of CRM Process, Satisfaction, Commitment, and Loyalty as CRM Performance, and Customer Orientation and Customer Knowledge Competence. As well, this model

includes the idea of the moderating effect of membership in that membership might make differences in the relationships among the factors. It is expected that members will have different paths from non-members have since for high relational-orientation customers, commitment are mediating to future intention while for low relational-orientation customers, satisfaction is mediating to future intention[5].



[Fig. 1] Research Model

2.1 CRM Process and Relationship Quality

Reinartz, Krafft, and Hoyer[15] defined CRM process as 'a systematic process to manage customer relationships to maximize the value of the relationship portfolio', and identified three stages of the process - initiation (gain and regain the relationship with customers), maintenance, and termination of the relationship. Gaining and regaining stage are the process to attract potential and dormant customers, and maintaining stage is the process to keep the current customers for up-selling or cross-selling by providing customized products and services. Satisfaction, Loyalty and Commitment are included as CRM performance. Satisfaction and Commitment, as the result of relationships between customers and the businesses over time[1], have been viewed essential in relationship quality[6].

Because well-designed CRM Process will help the businesses recognize customers' value[15] and customize offers to individual customer preferences[4,9,18], it is expected that CRM process will increase customers' perceived relationship quality. Therefore we expect:

- H1: CRM process (Gain, Regain, and Maintaining stage) will have a positive effect on 1) Commitment and 2) Satisfaction.

It is also expected that for members, the relationship between CRM process and Commitment is stronger while for non-members, the relationship between CRM process and Satisfaction will be stronger. According to Garbarino and Johnson[5], for high relational-orientation customers, Trust and Commitment are mediating to future intention while Satisfaction is mediating to future intention for low relational-orientation customers. Customers with memberships are likely to be high relational-orientation customers while customers without memberships are likely to be low relational-orientation customers. Therefore we expect:

H2a: For customers with high relational orientation, the effect of CRM process on Commitment is stronger than for customers with low relational orientation.

H2b: For customers with low relational orientation, the effect of CRM process on Satisfaction is stronger than for customers with high relational orientation.

Terminating stage is expected to have a negative effect on Commitment and Satisfaction. The Terminating stage is about either reducing services or increasing service fees to terminate the relationship between customers and a firm. Therefore, it is plausible that customers would have negative feelings with the terminating efforts of a firm no matter how much and how often they buy its products. Therefore,

H3: Terminating stage will have a negative effect on 1) Commitment and 2) Satisfaction.

It has been reported that Satisfaction influences positively Loyalty[6,17], since satisfaction is pleasurable fulfillment[12]. Commitment is also found to influence loyalty positively[13]. However, different effects of satisfaction and commitment based on customers' relational level were found[15]. In this study, overall satisfaction was found to mediate the factors for low relational customers while for high relational customers, commitment - rather than satisfaction - is the mediator between attitudes and future intentions to buy. Therefore,

H4a: For customers with high relational orientation, Satisfaction will have a positive effect on

Commitment

H4b: For customers with low relational orientation, Commitment will have a positive effect on Satisfaction

H5: (1) Commitment and (2) Satisfaction will have positive effects on Loyalty

2.2 Customer Orientation & Customer Knowledge Competence

Customer Orientation is viewed as perceived atmosphere and culture of a firm to understand customers' needs while Customer Knowledge Competence is viewed as perceived knowledge of a firm about customers.

Since customers can have good feelings about the firm when they perceive that customer oriented employees try to help them hard, it is expected to lead to Satisfaction and Commitment[16]. Also, if a firm already collected much information and therefore knows about the customers a lot, it is possible that customers would be more committed to the relationship. However, due to the privacy issues, its effect on Satisfaction is not expected.

H6: Customer Orientation will have a positive effect on (1) Satisfaction and (2) Commitment.

H7: Customer Knowledge Process will have a positive effect on Commitment.

3. Research Methodology

Subjects are hotel customers. In the study of Garbarino and Johnson[5], infrequent individual theater ticket buyers are viewed as low relational customers while consistent subscribers are seen as high relational customers. As such, this study also viewed customers with memberships of a hotel as high relational customers and those without memberships as low relational customers. Therefore, people who had stayed at a hotel within a year with/without memberships are invited to participate in the survey. 239 subjects have completed the survey. After the descriptive and frequency analysis, 220 responses are usable.

The variables were measured with 7-point Likert scale (strongly agree - strongly disagree). Measurement items from Reinartz et al.[15]'s study are adapted for CRM

process. The reliabilities for all the items for CRM process (regain, maintain, and Terminating stage) are over .8 (.8168, .8580, .8332, respectively except for gain because it has only one item).

Customer orientation items are adapted from the studies of Homburg, Hoyer, and Fassnacht[7] and Lytle, Hom and Mokwa [11], while the measurement items for Customer Knowledge Process are adapted from the study of Li and Calantone[10]. The reliabilities are .8753 for Customer Knowledge Process and .9251 for Customer Orientation. The measures for Loyalty, Satisfaction, and Commitment are adapted from Hennig-Thurau, Gwinner, and Gremler[6]. The reliabilities for satisfaction, commitment and loyalty are .9172, .9461, and .7339, respectively.

4. Analysis and Results

Two hundred twenty distinct and usable data points were obtained via online survey of hotel customers. The ages of respondents were fairly evenly distributed across 20's, 30's, 40's and 50's. Female respondents were 35.5%, while 63.6% of respondents were male. 46.8% of respondents answered that they had membership accounts.

4.1 CFA results

CFA was conducted to examine the measurement model. Composite reliabilities for all variables were .70, and AVEs for all variables were over .50 (Fornell and Larcker, 1981). The CFA results show that the measurement model is good ($\chi^2 = 638.69$ ($df = 284$) ($p < 0.001$), GFI=.84, CFI=.94, TLI=.92, RMSEA=.068). Loadings were all significant at $p < .05$, and their Squared Multiple Correlations (SMCs) exceed 0.50.

4.2 Main studies

Path analysis was conducted with the two separate data sets; one from the customers, who maintain a membership account with a certain hotel chain (sub-sample size was 103), and the other from the customers who do not have a membership account (sub-sample size was 117).

First, as shown in Table 1, the overall fits for both datasets were good. The fits for the model with *member*

data indicates good (chi-square (45 degree of freedom) = 32.44, $p = .92$, root mean squared error of approximation (RMSEA) = .00 $p=1.0$, goodness-of-fit index (GFI) = .96, comparative fit index (CFI) = 1.00) (Bentler 1990; Browne and Cudeck 1993; Hair et al. 1998). In terms of *non-member* data, overall fit of the model was good (chi-square (45 degree of freedom) = 62.10, $p = .046$, RMSEA = 0.025 $p=.77$, GFI = .94, and CFI = .97).

Secondly, as shown in Fig. 2 and Table 1, significant paths were identified. From CRM process, only Maintaining stage was significantly associated with CRM Performance, either Commitment or Satisfaction. It was found that there are positive paths from Commitment to Loyalty, Satisfaction to Loyalty, and Customer Orientation to Satisfaction, and a negative path from Terminating stage to Satisfaction.

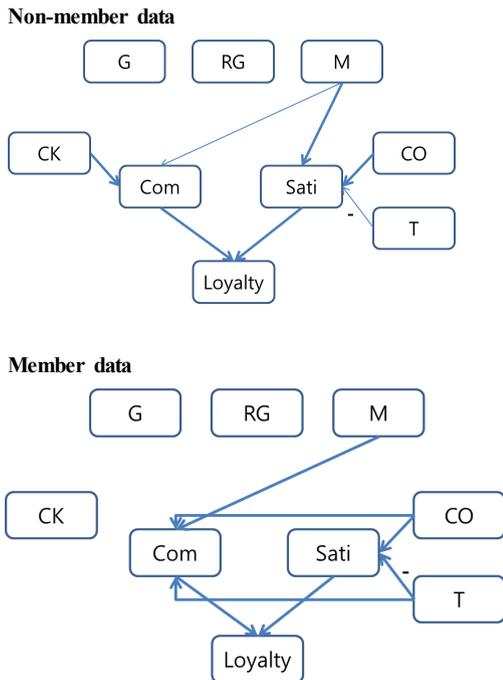
[Table 1] Test Results

	Member		Non-member	
	coeff.	t	coeff.	t
gain>commit.	0.05	0.63	0.04	0.54
regain>commit.	0.10	0.79	-0.13	-0.95
maintain>commit.	0.58*	3.44	0.25 ⁺	1.86
gain> satisfact.	-0.08	-1.72	0.00	0.06
regain>satisfact.	0.06	0.81	-0.11	-1.27
maintain>satisfact.	0.12	1.19	0.33*	3.94
terminate>commit.	0.20*	1.90	0.12	1.28
terminate>satisfact.	-0.14*	-2.34	-0.11 ⁺	-1.75
CO>commit.	0.36*	2.66	0.12	0.83
CO>satisfact	0.39*	4.81	0.56*	7.22
CK>commit.	-0.02	-0.12	0.37*	3.77
CK>satisfact.	0.03	0.34	0.03	0.54
commit.>satisfact.	0.05	0.92		
satisfact.>commit.			0.18	1.22
commit.>loyalty	0.66*	11.67	0.51*	6.29
satisfact.>loyalty	0.29*	3.24	0.24*	2.42
Goodness of Fit Stats.				
(df)	(45)		(45)	
χ^2 -square	32.44	p=.92	62.10	p=.05
GFI	0.96		0.94	
CFI	1.00		0.97	
RMSEA	0.00	p=1.0	0.025	p=.77

* Significant, + Significant (weak) at $p < .05$ (one-tailed test)

Commitment and Satisfaction are both well-known core variables for relationship quality, and these results again added one more example in support of such theory. Customers' perception of Customer Orientation of a hotel chain was found to have significant positive association with Satisfaction in both member and non-member data.

The negative relationship between Terminating stage and Satisfaction showed no difference between members and non-members. The path, however, was weaker in non-member data. As such, Terminating stage was found to have a positive relationship with Commitment for members ($t=1.90$).



[Fig. 2] Path Diagram (Non-member vs. Member)
 G: Gain, RG: Regain, M: Maintain, T: Terminate,
 CK: Customer Knowledge Process, CO: Customer Orientation, Com: Commitment, Sati: Satisfaction, Loy: Loyalty
 * Line: significant path, * Thin line: weaker but significant path at $p < .05$ (one tailed test)

On the other hand, different paths were found between non-member data and member data.

Commitment was found to mediate CRM Process and CRM Performance in *members'* data while Satisfaction was found to mediate in *non-members'* data. With members' data, Commitment was significantly positively related to Maintaining stage (Satisfaction was not significant). On the other hand, with non-members' data, Satisfaction was positively related to Maintaining stage ($t=3.94$). The path from Maintaining stage to Commitment was significant but weaker ($t = 1.86$).

Unexpectedly, there was no significant relationship between Commitment and Satisfaction across the membership. It was expected that for members, Commitment would lead to Satisfaction while Satisfaction would lead to Commitment for non-members[5].

As well, it is found that in members' data, Customer Orientation has a significant positive effect on Commitment (The path was not significant in non-members' data). On the other hand, in non-members' data, Customer Knowledge Process has a significant positive effect on Commitment (The path was not significant in members' data).

5. Discussion, Conclusions and Implications

In this study, how the effort of businesses in each stage would affect customers' satisfaction, commitment, and loyalty level was the main issue. As expected, Maintaining stage was found to have significant impact, but not other stages. Again, most of CRM practice is likely concentrated on the 'Maintaining stage'; and larger and more varied samples may be needed to assess other stages

The Terminating stage was found to have a negative effect on satisfaction level. This indicates that customers would want to be treated as valuable customers even though firms may regard them as not valuable customers. The idea of termination decreases the satisfaction level. This result was consistent across the member data and non-member data. Therefore, it is important to assess the value of customers and identify who is profitable and who is not. Subtle and sophisticated tactics may be needed at the termination stage, tactics that are not obvious to customers, to enhance CRM Performance.

Commitment and Satisfaction were found that there are strong positive relationships with Loyalty. Therefore CRM Process should be designed to enhance Commitment and Satisfaction levels. Based on the results of analyses, the Maintaining stage was the almost the only stage that showed significant relationships with CRM Performance. This implies that there could be opportunities to enhance CRM Performance by utilizing CRM stages beyond just the Maintaining stage. Interestingly enough, however, it was found that the Maintaining stage has a positive

relationship with *Commitment* for members' data while the Maintaining stage has a positive relationship with *Satisfaction* for non-members' data. This indicates that CRM efforts should be designed differently to target members and non-members. For non-members increasing satisfaction should be the main goal. On the other hand, for members, increasing commitment level should be the primary goal.

Customer Orientation was found to have a significant relationship with Satisfaction across the member and non-member data. Customer Orientation was found to be important for all types of customers, but it is likely that sometimes managers may overlook potentially strong contribution of Customer Orientation as an aspect of corporate culture or atmosphere.

Furthermore, customer orientation was found to have a positive relationship with Commitment for members while the factor that boosted Commitment for non-members was Customer Knowledge Competence. This means that if hotel members perceive a hotel as seriously attempting to understand customers, and all the employees are encouraged to help customers by understanding customer requirements, then the members are most likely to increase their commitment level; though not the satisfaction level. On the other hand, non-members will increase satisfaction level if they perceived that hotels have a systematic process to collect customer data so as to understand customers and employees make serious attempts to understand the customers.

6. Limitation and further research

Even though the research has shown interesting results in terms of CRM Process and its impact on customers, there are some limitations. The biggest limitations of this study are in terms of the sample sizes. Due to this small sample size, the full structural path structure could not be investigated. While the small sample size does not necessarily detract much from the findings that were statistically significant, the smallness of the sample does mean that the results that were *not* statistically significant cannot be dismissed easily.

Another issue concerns the comparison of models between sub-groups (e.g., members vs. non-members). It

was concluded that these models appear to be different in the sub-groups primarily because path parameters that are significant in one model are not significant in the other. While it is legitimate to point out such results and draw conclusions from them, the strength of these conclusions is limited because no direct test of the difference between the parameter estimates is available due to the small sample size of the study. CRM conceptually is about relationships and mutual benefits. For non-members' data, however, service quality might also be an important factor in determining the satisfaction and loyalty levels, which are not included in the model.

The comparisons between the member model and the non-member model provided insights about how differently these two groups perceive the same practice and what are the important variables to satisfy these two different categories of customers. When members and non-members categories exist in an organization's customer base, then managers should adjust their strategies and tactics according to what appeals to each category. Also in this study, the effects of each stage in CRM Process were investigated from the customers' perspective. Terminating stage has been recognized as an important managerial issue: a way of pruning unprofitable customers. Accordingly, a lot of studies have focused on customer lifetime value calculation. The customers' data showed, however, that customers - even marginal and unprofitable ones - did not seem to like the idea of the Terminating stage. A clear implication is that the Terminating stage tactics have to be handled with extreme care and finesse.

Based on the research presented here, several issues for future research have become evident. Future research is needed not just to overcome some of the limitations but also to extend the work presented here.

Investigation of the CRM practice of a specific, branded hotel chain (or other such service organization) and that chain's own customers' perceptions of CRM practice would help understand the CRM process more thoroughly by comparing directly the perceptions of managers and customers.

This study does not include service quality measures in the models. Since service quality, relationship quality, and relational benefits are closely related to each other, it would be interesting to investigate the three concepts

jointly in the context of CRM.

The Internet and mobile technology has emerged as a major new medium for customers to interact with firms and as a new tool for information search, information delivery, and shopping. This study did not have the opportunity to thoroughly investigate the role of new medium in CRM settings. Studies of its impact on CRM would be insightful for managers in that, using the results of such studies, they can employ this new medium more effectively for enhancing customer retention.

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