A STUDY OF RELATIONSHIP BETWEEN CUSTOMER SATISFACTION AND CUSTOMER LOYALTY TOWARD AN ECONOMY HOTEL CHAIN IN GUANGZHOU, CHINA

Shie Sun

Abstract: This research aims to examine the main factors affecting customer loyalty and investigate the relationships between customer satisfaction on service quality and price and customer loyalty toward an economy hotel chain in city of Guangzhou, in the Guangdong province, China. Self-administered questionnaires were collected from 402 customers who have stayed in 7 Days hotels and the Pearson correlation employed for data analysis. The results of this study confirmed that service quality dimensions and perceived price are the main drivers of customer satisfaction in terms of affecting customer loyalty. Surprisingly, the findings also show that perceived price has a stronger impact on customer loyalty than any other service quality dimensions.

Key words: Customer satisfaction, service quality, price, customer loyalty.

1. Introduction

In the service industry, where building - and maintaining - a strong customer relationship is critical to retaining or increasing market shares, consumer loyalty matters a lot to companies. Customer loyalty is a widely studied concept (Bowen and Shoemaker, 1998; Hart et al., 1990; Shoemaker and Lewis, 1999). One of the most important benefits created by customer loyalty is increased profits. Reichheld and Sasser (1990) found that profits can increase from 25 percent to 125 percent when a company only retains 5 percent or more customers. Loyalty can be defined as a deeply held commitment to repeating the purchase of preferred services (Oliver, 1997; Bei and Chiao, 2001). It is considered the most valuable marketing effort (Bellizzi and Bristol, 2004) since a high level of loyalty can strongly affect profitability, market shares, and growth (Reichheld and Sasser, 1990; Zeithaml et al., 1996; Naumann et al., 2001). In the hotel industry, Raman (1999) argued that loyal customers serve as a “fantastic marketing force” because loyal customer will promote the hotel by providing recommendations and spreading positive word of mouth. Thus, customer loyalty does not simply come down to repeat purchase.

This study focuses on the hotel industry in China. Specifically, it looks at economy hot else in the Guangdong province. Economy hotels are expanding fast in China. However, because of the 2008 financial crisis and as a result of mounting competition among economy hotel chains, some Chinese economy hotels have seen their occupancy rate go down; hence the need for hotels to maintain a strong relationship with their existing customers and attract new ones. Thus, the issue of how to increase the occupancy rate or, conversely, how to prevent it from slowing down, remains relevant even in booming times.

The focus of this study is on customer satisfaction, service quality dimensions, and perceived price and on their relationships with customer loyalty at one economy hotel chain in the city of Guangzhou, in the Guangdong province, China; the 7 Days Hotel Chain, the second largest economy hotel chain in China. Specifically, this research seeks to explore six factors affecting customer loyalty (tangibility, reliability, responsiveness, confidence, communication and perceived price) and assess the importance of customer satisfaction in this particular business environment.

After considering the relevant literature, conceptual framework, and research methodology, this article focuses on the findings and the recommendations to be made based on these results.

2. Literature Review

- Perceived Service Quality

Perceived service quality is a widely studied construct in the service industry (Parasuraman et al., 1988; Cronin and Taylor, 1992). Zeithaml (1988) defined perceived service quality as the