

*Full Length Research Paper*

# Customer retention practices of small, medium and large hotels In South Africa: An exploratory study

D. J. Petzer<sup>1</sup>, T. F. J. Steyn<sup>2</sup> and P. G. Mostert<sup>3\*</sup>

<sup>1</sup>Department of Marketing Management, University of Johannesburg, South Africa.

<sup>2</sup>Department of Management, School of Business, Cameron University, Lawton, Oklahoma, USA.

<sup>3</sup>School of Business Management, North-West University: Potchefstroom Campus, South Africa.

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**With the increasing competitive environment organizations are continually looking for innovative ways to not only acquired but also to retain their customers. The aim of this study is to establish the perceptions of hotel management of all sizes of hotel regarding the importance of customer retention practices. An interviewer administered, in office survey was used to collect data from a representative sample of 56 hotels in Gauteng province, South Africa. Probability, stratified, sampling was used to separate hotels according to ownership type and size. The findings indicate that no significant associations exist between the research variables and hotel size. It is evident, however, that significant differences exist between medium and large hotels when it comes to weekend guests who stay for business, as well as leisure, purposes. The study contributes to the relatively limited knowledge of services marketing in the hospitality industry, specifically in the hotel sector.**

**Key words:** Customer retention management, relationship marketing, compatibility management, customer defection, service failure, service recovery, hotels.

## INTRODUCTION

In most developed countries, around 80% of the workforce is employed in the service sector. Service sector Industries typically include education, retailing, tourism and hospitality, medical and hospital services, as well as communications and construction services (McColl et al., 1998). By the early 2000's it was estimated that services already accounted for between 70 and 85% of the gross domestic product (GDP) of developed economies (Johnston and Michel, 2008), and 52% of the GDP of developing economies (Hill, 2007). The hospitality industry was expected to grow by 6.2% and the tourism industry by 4.1% in 2007 (Economist Intelligence Unit, 2005). Indeed, the hospitality industry has grown phenomenally since 2001; this has been driven by both leisure and business demand (Kloppers, 2005). Tourism in South Africa contributes about 5% to the GDP (Dikeni, 2001) and helps to raise the national income, level of employment, balance of payments, and foreign exchange rates.

This study focuses on the hotel industry in Gauteng province, South Africa. Gauteng is home to 8 million people (Gauteng Provincial Government, 2008) and contributes a third of South Africa's GDP and 10% of Africa's GDP (Gauteng Economic Development Agency, 2008).

Hotels differ in type and size: Some have up to 800 bedrooms; some are full service establishments; some medium sized business class hotels; others do business in the budget sector; and there are, finally, the small country inns (McManus, 2000). Hotels accounted for 37% of total accommodation sales in South Africa in 2004 (Euromonitor International, 2005).

Organizations are continually looking for innovative ways to acquire, increase and retain business because the cost of losing customers is rising. Service is viewed as an important factor in customer retention. The role of service seems to be more critical than ever, a trend which will most probably continue well into the future (Choi and Chu, 2001). Choi and Chu show that those organizations which can attract, satisfy, and retain customers are more likely to survive than organizations which do not do this. Successful organizations define what customer retention means for business and create the necessary measures

\*Corresponding author. E-mail: [Pierre.Mostert@nwu.ac.za](mailto:Pierre.Mostert@nwu.ac.za). Tel: +27182991384. Fax: +27 18 293 5264.

to quantify their retention rate (Aspinall et al., 2001).

Kurtz and Clow (1998) claim that despite the efforts of service organizations to attract customers, and to manage supply, demand, and productivity in order to provide high quality service, their customers do not always remain loyal. Service organizations must go beyond simply satisfying customers: they should focus on building relationships which will lead to customer retention (Kurtz and Clow, 1998). Claycomb and Martin (2001) show how relationship marketing builds stronger relationships with customers. Such relationships ultimately lead to long term business success. Zeithaml et al. (2006) show how an organization that is familiar with the value of a customer relationship as well as with the cost of losing such a relationship will be able to precisely evaluate its investment in retaining a customer.

The aim of this study, then, is to establish the perceptions of hotel management in small, medium and large hotels regarding the importance of customer retention practices which include building relationships with customers, managing customer to customer interactions and defections, and managing service failure and service recovery.

## Literature background

People undertake trips for holiday and leisure purposes, to visit their friends and relatives, for religious purposes, in order to receive health care, or for business purposes (South African Tourism, 2001). In many instances these people need to stay over for one or more nights and end up booking a room in a hotel. This could result in an once-off transaction, but in many instances the opportunity exists to lure guests back to the hotel and retain them as customers. Appiah-Adu et al. (2000) are of the opinion that the tourism industry has been slow in adopting the principles of marketing and that it can improve its performance and customer retention.

## Relationship marketing

The focus of this study is customer retention and the organization's relationship with its customers as an antecedent for customer satisfaction (and thus retention). For the purposes of this study relationship marketing is defined as the process of building and maintaining long term value, and creating relationships with customers (Buttle, 1996; Christopher et al., 2002; Gordon, 1998; Gummesson, 1997; Palmer, 1997; Payne, 2000b).

Ryals (2002) states that relationship marketing focuses on customer retention as well as on the management of customer relationships over the lifetime of the customer. Relationship marketing serves as a foundation for building and improving relationships with customers (Claycomb and Martin, 2001) and stronger relationships with customers result in competitive advantage over competitors. Retaining customers and building loyalty have be-

come the key factors in the implementation of relationship marketing for many organizations (Nasir and Nasir, 2005). Gilpin (1996) is of the opinion that the ability of an organization to build positive relationships leads to success in the long run, and that relationship marketing is becoming a key issue in hospitality marketing theory and practice.

Gilbert et al. (1999) argue that relationship marketing is highly suitable for the hotel industry: hotels already possess a lot of information about customers gleaned from the guest registration process. Palmer (2001) enumerates the components of relationship marketing as being: a focus on customer retention; long term orientation; tracing identifiable buyers; distinguishing different levels of relationship between the buyer and the seller; high levels of customer dedication; and service quality as being the responsibility of every employee.

## Customer retention management

Blattberg et al. (2001) state that customer retention is taking place when a customer keeps on buying the same market offering over a long period of time. For products with short purchase cycles, they define customer retention as occurring when 'the customer continues to purchase the product or service over a specified time period'. For products with long purchase cycles, they define customer retention as taking place when the customer indicates the intention to purchase the product or service at the next purchase occasion.

Payne (2000) defines customer retention rate as 'the percentage of customers at the beginning of the period who still remain customers at the end of the period'. Payne warns, however, that other more complex definitions might be more appropriate in instances where customers make use of more than one business simultaneously. In the case of a hotel, it stands to reason that customers may regularly stay at any number of different hotels. To measure customer retention, therefore, a number of factors need to be taken into account. These include the customer retention rate over time, the customer retention rate by market segment in terms of the different services or products offered, and share earned of the customer's wallet (Payne, 2000).

Measuring the customer retention rate is seen as the initial step in improving loyalty to, and the profitability of, a service organization (Payne, 2000a), yet many organizations do not understand the importance of improving customer retention rates, and the impact of these on profitability (Clark, 1997). The customer retention rate must be measured and managed and can be calculated in two ways: a crude customer retention rate, or a weighted one (DeSouza, 1992). A crude customer retention rate measures the total percentage of customers the organization retains, based on the decline or escalation of customers over a specific period of time. The weighted retention rate is calculated by weighting customers according to the volume of their purchases.

Ahmad and Buttle (2001) state that in the case of hotels, measuring retention should involve measuring the absolute number of customers who have been retained, as well as using a weighted rate, which takes into account the 'share of wallet', as well as the life time value, of a customer.

Service organizations need to understand why their customers remain with them and should not assume that when customers remain it is a positive, mindful choice on their part. Customers may stay with a service organization due to any number of (sometimes intangible) ties or links with it. Some of these are positive, and increase the dedication of customers as with, for example, increased satisfaction. Other links are negative, yet still tie the customer to the service organization: a sales representative, for example, is obliged to stay at a particular hotel every time the customer travels in the area because of an agreement between his or her company and the hotel. Retained customers represent an opportunity to increase profitability as well as loyalty.

Storbacka et al. (1994) suggest that customer relationship profitability is the result of improved quality in the service provided by an organization. A satisfied customer creates a strong relationship with the service provider; this leads to relationship durability and customer loyalty and retention.

Loyalty is widely considered to include both a behavioural, as well as an attitudinal, dimension (Baloglu, 2002; Colgate et al., 1996; Stum and Thiry, 1991) yet the focus in the literature has gradually shifted from an attitude changing effort at creating a satisfied customer, to a behaviour changing approach that seeks to create a loyal customer who will be retained and who will make referrals. Approaches to relationship marketing in the hotel industry have, in the past, focused largely on transactional devices such as frequent user programmes, gifts for repeat customers, and free stays for meeting planners to encourage them to use the hotel and its facilities. Yet nowadays researchers indicate that, due to competitive pressures, service organizations should re-evaluate the gains derived from loyalty programmes. Reliability of service delivery is also seen as an important factor in creating loyalty, since competitors cannot easily copy this (Bowen and Shoemaker, 1998).

A study of hotel guests conducted by Bowen and Chen (2001) supports the notion that there is indeed a positive relationship between loyalty, repeat business (retention), and profitability. According to Egan (2001) a number of scholars in the field of relationship marketing (Buttle, 1996; Reicheld, 1996) consider the causal links between satisfaction, loyalty, and profitability to be rather tenuous. They maintain that this model cannot be accepted without criticism and that accepting this model unconditionally will deceive the marketer (Egan, 2001). The aim of the present study is not to propagate the unconditional acceptance of this model; its focus is rather to examine customer retention as the heart of relationship marketing.

Customer retention management has several components. It is important to build relationships with customers, to manage customer to customer interactions, to reduce dissatisfaction, as well as to try and reduce potential defections. In addition, service failures should be managed, and hotels should put in place plans for service recovery.

### **Compatibility management**

The relationships between customers, and specifically customer to customer interaction (also referred to as compatibility management), can affect customer satisfaction and retention as customers often receiving simultaneous service with "fellow customers" (Wu, 2007). Rowley (2000) adds by explaining that customer to customer interactions can either enhance or impoverish the service encounter as, for example, a smile or kind word from a fellow customer may make the service more enjoyable, while obnoxious or rowdy behaviour may have the opposite effect. The challenge is to manage customer compatibility in order to encourage positive encounters between customers and minimize negative ones (Martin, 1996). In many instances service experiences occur when other customers are nearby. This applies to services that take place regularly or routinely such as in public transport used by commuters to get to and from work. It also applies to services that take place less frequently, even only on occasion such as playing a round of golf, or staying at a hotel for business or when on holiday (Grove and Fisk, 2001; Parker and Ward, 2000).

Hotels exhibit many characteristics typical of service organizations that require customer compatibility management (Rowley, 2000; Martin and Pranter, 1989). Guests are constantly in close contact with one another, they intermingle in and around swimming pools, or in conference facilities, for example and verbal communication between customers is likely in hotel lobbies, restaurants, and other entertainment areas. Hotels also offer many activities for guests, creating the opportunity for interaction. All of this suggests that in the hotel industry customer compatibility and the management thereof requires careful attention.

### **Customer defection**

Customer defection is defined as 'customers forsaking one service provider for another' (Garland, 2002). Reicheld (1996) postulates that an increase in the defection rate results in dwindling cash flow to the business. This will occur even if the organization is able to replace lost customers by acquiring new ones: the profitability of customers increases over time (Trubik and Smith, 2000). Although customer defection has a negative impact on profits, few organizations do anything about it (Credle, 1995). A reduction in the customer defection rate can increase profits substantially more than could growth in

in market share, improved profit margins, or factors related to competitive advantage (Colgate et al., 1996).

The customer defection rate refers to the tempo at which customers leave the organization over time (Page et al., 1996). To understand the full implications of defections, the organization must determine the lifetime value of a customer and the revenue a customer would generate over his or her lifetime (Claycomb and Martin, 2001).

According to DeSouza (1992), Martin-Consuegra et al. (2007) and Seawright et al. (2008) the following customer defection groups can be identified: Customers who switch to a competitor offering lower prices, customers who switch to a competitor offering a better product, customers who leave because of inadequate service, customers who are lost because they go out of business, customers who switch to a product or service from outside the industry and customers who leave because of internal or external political considerations.

Ahmad (2002) asserts that managers have to make an extra effort to institute control devices that keep track of customer defections. Pearson and Gessner (1999) suggest that a monitoring process be put in place to detect customer defection since quick response is of the essence to stop defections. Dove and Robinson (2002) also advocate that organizations should develop systems to alert them when customers threaten to defect.

A well executed study of customers who have defected can provide information that will identify the underlying, core reasons for their departure. It can also describe employee attitudes toward service quality, develop a better understanding of why the customer has ended the business relationship, and show whether or not there is an identifiable profile of customers who have defected. Such a profile can be used for the early discovery of customers at risk of leaving (Corner, 1996).

### **Service failure**

A service failure can be defined as an error, mistake or problem that occurs in the service delivery process (Hedrick et al., 2007), leading to customers' expectations not being met (Chan and Wan, 2008). Customer expectation is determined by the standard of service delivery expected. From the customer's perspective, service failure can be viewed as any situation where something in relation to received service has gone wrong (Palmer, 2001) and front line staffs have a pivotal role to play in ensuring the quality of service encounters.

Due to the fact that the production and consumption of services cannot be separated, service failures often occur at the point of consumption. Hotels are characterized by continuous provision of services, as well as by highly fluctuating demand. These factors cause the hotel industry to be especially vulnerable to service failures (Lewis and McCann, 2004). Cranage (2004) is of the opinion that a service failure does not necessarily result

in lost customers though it does negatively impact on the customer's confidence in the organization. It is therefore important to identify possible failure points in the service delivery process, as well as methods to prevent failures from occurring again (Cranage, 2004; Ahmad, 2002).

Cranage (2004) identifies the physical surroundings as a possible source of failure. It is possible to identify three main types of service failure in the physical environment in which hospitality services are delivered (Hoffman et al., 2003): cleanliness issues (e.g. bad odours), mechanical problems (e.g. breakdown of equipment such as toilets and climate control systems), and facility design issues (e.g. bedrooms located in noisy or busy areas of the hotel, elevators or escalators which cannot cope with demand). The role of service recovery to remedy such failures is discussed next.

### **Service recovery**

Boshoff and Klemz (2005) view service recovery as any appropriate strategy which can be put in place to correct service failures, with the aim of reinstating the customer's level of satisfaction and thus keeping the customer loyal. Organizations should have a 'win back' programme in place to keep high value customers (Griffin, 2001). A service organization should plan for service recovery: when this is successful it can lead to a higher level of satisfaction than that initially felt by the customer (Schoefer, 2008; Baron and Harris, 2003).

Customers who complain are more likely to return to the organization even though their complaint is not handled satisfactorily than those customers who do not complain when a service failure is experienced. Service recovery after customer complaints is as important as (if not more important than) providing good service initially (Eccles and Durand, 1998). Satisfying complaints creates optimal conditions for customer retention (Stauss, 2002). Eccles and Durand (1998) stated that a service recovery operation should be implemented whenever a customer complains. Such a strategy should involve the empowerment, training, and management of employees to resolve complaints, the rewarding of successful service recovery efforts, as well as communicating 'best practices' to all employees.

A study of the hotel industry found that hotels most commonly offer coupons, refrain from asking the guest to pay for the room or do not respond to the service failure at all and simply present the customer with a replacement in order to recover from service failure (Hoffman et al., 2003).

In a study of loyal customers, Craighead et al. (2004) found that loyal customers express greater displeasure when less serious problems occur. When a serious problem occurs, loyal customers tend to be more understanding as long as adequate recovery efforts are put in place. Loyal customers who experience less serious problems attach less importance to an apology, but expect

management to deal with the problem quickly. For serious (or highly critical) problems, loyal customers expect an apology, sincerity, fair compensation, an added value offer and fast recognition of the problem as well as solutions to it. The findings concur with similar results obtained by Matilla (2001): customers who are 'emotionally bonded' to an organization has a low tolerance when it comes to service failure.

McDougall and Levesque (1999) identify the provision of assistance in conjunction with an apology and compensation as one of the commonest and most frequently used recovery strategies. Assistance as a recovery effort involves action to rectify the problem in order to bring the customer back to experiencing the level of service initially expected. Matilla (2001) states, furthermore, that service recovery efforts should be made to order, they should match the perceptions of a customer regarding the seriousness of the failure.

According to Colgate and Norris (2001) three major factors influence the decision of a customer to remain with, or leave the organization after a service failure has been experienced. The first is the level of satisfaction with the service recovery after a complaint has been lodged. Some customers leave even though they are happy with the service recovery. The second is the level of loyalty customers have towards the organization. Customers with a strong sense of loyalty tend to remain with the organization even though a service failure has been experienced. Customers who are less loyal tend to leave. The third factor is the perceived barriers to exit. High barriers to exit discourage customers from leaving.

Magnini and Ford (2004) consider training hotel employees to successfully carry out service recovery as critical in the hotel industry. It is impossible for a hotel or any service business to eliminate all service failures, since a hotel cannot control all of the many factors involved in service delivery. Hotels are reliant on people and their employees to deal with their guests. Magnini and Ford (2004) state, furthermore, that five areas need to be covered in a service recovery training programme: information processing, emotional responses, arousing guest self assurance, empowerment of employees and a demonstration of how service failure recovery can positively influence employee satisfaction. A difficult job well done is, after all, more likely to lead to work satisfaction than an easy situation.

Boshoff and Staude (2003) state that successful service recovery can be achieved through communicating with the unhappy customer, being compassionate, providing feedback, supplying an explanation for the service failure, empowering employees to respond suitably when receiving complaints, ensuring that employees who deal with customers are professional when doing so, and ensuring that employees dealing with customers are suitably dressed. Little and Marandi (2003) contend that, in addition to these steps, the organization should ensure that it is easy for the customer to complain by making sure that employees are trained to set the customer at

ease. A hotel should also establish a policy concerning complaints. This can be done by, for example, publishing a customer service quality guarantee, which will give customers the confidence to complain. A recovery strategy should also be put in place as fast as possible – certainly before negative attitudes set in.

### **Problem statement, objectives and research hypotheses**

In the existing literature on the subject no study could be found on the significance of the size of the hotel in relation to customer retention strategies in South Africa. The objective of this study is therefore to establish the perceptions of hotel management of small, medium, and large hotels regarding the importance of customer retention practices (building relationships with customers, as well as managing customer to customer interactions, defections, service failure and service recovery). For the purpose of this study, hotels with 50 or fewer rooms are classified as small, while those with 51 to 150 rooms are classified as medium, and those with 151 or more rooms are classified as large.

The objectives of the study are firstly, to determine whether or not hotel management of small, medium and large hotels measures customer retention rates and secondly, to determine the perceptions of hotel management in small, medium and large hotels regarding the importance of activities associated with customer retention management.

The following hypotheses are formulated, and arise out of the discussion of the literature on the subject:

**Hypothesis 1:** There is an association between the size of the hotel and whether or not customer retention rates are measured by the hotel.

**Hypothesis 2:** There are significant differences between customer retention rates based on the size of the hotels.

**Hypothesis 3:** There are significant differences between the perceived importance of customer retention activities and the size of the hotel.

### **METHOD**

An interviewer administered, in office survey was used to collect data from hotel managers in Gauteng. The questionnaire was designed using insights from the literature study. It contained structured and unstructured questions and was pre-tested among hotel managers (general and marketing managers) before it was fielded. Pre-testing involved fielding a number of questionnaires in order to ensure the questionnaire was free of potential problems. The questionnaire firstly contained a section that introduced the survey and a number of screening questions. This was followed by a section that explored the purpose for guests stay at the hotel. The third section examined competitive marketing and customer retention strategies employed by the hotel. The last section gained insight into respondents' demographics. A representative sample of 125 hotels was drawn from the population under study (the target population contains 182 hotels). A probability sampling technique, namely

**Table 1.** Reliability statistics

Measurement sets	Cronbach's alpha
Customer retention activities associated with relationship marketing (8 items)	0.754
Customer retention activities associated with customer compatibility management(10 items)	0.898
Customer retention activities associated with customer defection management (9 items)	0.829
Customer retention activities associated with service failure management (9 items)	0.748
Customer retention activities associated with service recovery (10 items)	0.758

stratified sampling, was used to draw a sample from the population under consideration. The population was separated into different strata according to the ownership type and size of the hotel. A sample was then selected from the different strata using systematic sampling. Drop down substitution was used to compensate for non response error. Drop down substitution involves selecting the next hotel from the list when the hotel initially selected as part of the sample could not or would not participate in the study (Burns and Bush, 2000). Before results are presented, it is important to report on the reliability of the measurement sets used in the study as well as to assess the structure validity of these measurement sets.

### Reliability

The reliability was calculated for the measurement sets which assess the importance of customer retention activities associated with relationship marketing, customer compatibility management, customer defection management, service failure management, and service recovery. The reliability statistics for the measurement sets are presented in Table 1. It is evident from Table 1 that Cronbach's alpha for all measurement sets is above the acceptable limit of 0.70. The measurement set were found to be reliable.

### Validity

Structure validity was assessed for the above mentioned measurement sets with the use of factor analysis techniques (Diamantopoulos and Schlegelmilch, 1997). The extraction method, principal axis factoring and the rotation method: Varimax with Kaiser normalization was used (SPSS, 2003). The results of the factor analysis are presented in appendix A and the measurement sets were found to be valid. In order to assess content validity, hotel managers who took part in the pilot study validated the questions contained in the questionnaire.

The following section presents the results together with the statistical techniques used in the study to obtain these results.

## RESULTS

### Sample profile

The population of the hotels in Gauteng was 182 and a sample of 125 hotels was selected. Fifty six hotels (45%) of the sample responded. Large hotels constituted 18%, medium hotels 51%, and small hotels 31% of the sample. 70% of the respondents were general managers, the rest consisting of assistant general managers, marketing managers, operations managers, and personal assistants. Respondents had been in their current positions for a period of between 10 weeks and 15 years, with a mean of 4.04 years. Participants also indicated that their hotels had been in existence from anything between 2 and 60

years (the mean was 12.83 years).

An analysis of variance (ANOVA) and the Kruskal-Wallis test were performed to determine whether significant differences existed between the means of at least two of the three groups (small, medium and large) of hotels studied (SPSS, 2003; Diamantopoulos and Schlegelmilch, 1997). The main finding is that the mean number of years for which the small, medium and large hotels studied had been in business, does not differ significantly.

### Purpose of stay

81% of respondents who stay at hotels in Gauteng during the week stay for business related purposes for all sizes of hotel (small, medium and large) and guests who stay at Gauteng hotels during the week for leisure amount to 19%. Another finding is that the majority (65%) of guests who stay at hotels in Gauteng over the weekend stay for leisure purposes.

An analysis of variance (ANOVA) and the Kruskal-Wallis test were performed to determine whether significant differences exist between the means of at least two of the three groups of hotel; small, medium, and large (SPSS, 2003; Diamantopoulos and Schlegelmilch, 1997). No significant differences exist between the mean percentages of guests who stay during the weekend at small, medium and large hotels in Gauteng for business related and for leisure purposes (ANOVA and Kruskal-Wallis test p-values are greater than 0.05). Significant differences exist, however, between small, medium and large hotels percentages, since the mean percentages of guests who stay for business related as well as leisure purposes over weekends are significantly different for at least two groups (ANOVA and Kruskal-Wallis test p-values are less than 0.05). The Post Hoc test reports that the p-value associated with Scheffe's multiple comparisons test is 0.033 when the mean percentages of medium and large hotels are compared indicating a significant difference between these two groups. Large hotels attract more guests who stay for business related purposes over weekends while smaller hotels attract more guests who stay for leisure purposes over weekends.

### Customer retention measurement practices

Respondents were asked to indicate the customer reten-

**Table 2.** The number and percentage of small, medium, and large hotels that measure their customer retention rates

	Measure customer retention rate?				Total	
	No		Yes		N	%
	N	%	N	%		
Small hotels	7	41.2	10	58.8	17	100
Medium hotels	8	27.6	21	72.4	29	100
Large hotels	2	20.0	8	80.0	10	100
Total	17	30.4	39	69.6	56	100

**Table 3.** Customer retention rates of hotels

Question	Mean (%)	Standard deviation
What do you estimate the current customer retention rate for guests who stay for business-related purposes to be?	66.3	23.7
What do you estimate the current customer retention rate for guests who stay for leisure purposes?	38.1	31.1
What do you estimate the current overall customer retention rate of the hotel?	65.8	21.1

tion rates (percentages) of guests who stay for business related purposes, as well as for guests who stay for leisure. They were asked to also indicate the overall customer retention rate of their hotel.

### Customer retention rates measurement

Respondents were asked whether or not they measure the customer retention rates of their hotels. The Pearson chi square test was conducted; a p-value of less than 0.05 supports the null hypothesis that there is no association between variables (Diamantopoulos and Schlegelmilch, 1997). Also under consideration was whether or not significant associations exist between hotels which measure their customer retention rates and the size of hotel in question; the Pearson chi square test was used here. A p-value of less than 0.05 supports the null hypothesis that there is no association between variables (Diamantopoulos and Schlegelmilch, 1997). A Phi coefficient was also calculated to signify the strength of the association between the variables; the values reported vary from between 0.00 and 1.00. High Phi coefficients indicate stronger associations between the variables concerned (Diamantopoulos and Schlegelmilch, 1997). Cramer's V coefficient was also calculated to signify the strength of the association between the variables (a value between 0.00 and 1.00). A higher Cramer's V coefficient, signals a stronger association between the variables concerned (Tustin et al., 2005; SPSS, 2003; Diamantopoulos and Schlegelmilch, 1997). The extent of the association is determined using the same rules as for the ETA coefficient (Rosenthal et al., 2000). Table 2 illustrates the number and percentage of small, medium

and large hotels that measure their customer retention rates.

Nearly 70% of hotels in Gauteng measure their customer retention rates. It is interesting to note that on average 80% of large hotels measure their customer retention rates, followed by just over 72% of medium sized hotels, and nearly 59% of small hotels. The Pearson chi square test for significant association shows a p-value of 0.460 which indicates support for the null hypothesis that measuring customer retention rate is not determined by hotel size. The null hypothesis can therefore not be rejected. The size (small, medium and large) of the hotel is thus not significantly associated with whether or not the customer retention rate is measured. A Cramer's V coefficient of 0.167 indicates a small association between size and measuring customer retention rate. The main finding here is that there is no association between hotel size and measuring customer retention rate (hypothesis 1).

### Ways of measuring the customer retention rate

Respondents indicated two methods were used to measure customer retention rates. About 82% said that customer retention rate is measured using an electronic database management programme with a guest history feature. The rest (18%) indicated the use of questionnaires when guests check in. Respondents were also asked what their current customer retention rate was for guests who stayed for business related purposes, as well as the customer retention rate for guests staying for leisure and what the overall customer retention rate of their hotel was. The results are given in Table 3.

**Table 4.** Significance testing of the mean customer retention rates for small, medium and large hotels

	Small hotels		Medium hotels		Large hotels		ANOVA (p-value)	Kruskal-Wallis Test (p-value)
	N	Mean %	N	Mean %	N	Mean %		
Customer retention rate for guests who stay for business-related purposes	17	71.2	27	61.7	10	70.0	0.396	0.708
Customer retention rate for guests who stay for leisure	17	36.6	27	41.1	10	32.8	0.758	0.725
Overall customer retention rate	17	73.4	27	60.8	10	66.5	0.157	0.328

**Table 5.** Significance testing of the overall means of different sized hotels' perceptions of the importance of activities associated with customer retention

	Small hotels		Medium hotels		Large hotels		ANOVA (p-value)	Kruskal-Wallis Test (p-value)
	N	Mean	N	Mean	N	Mean		
Relationship marketing	17	4.60	27	4.50	10	4.55	0.790	0.879
Customer compatibility management	17	3.81	27	3.48	10	3.48	0.458	0.314
Customer defection management	16	4.27	26	4.08	10	4.02	0.585	0.678
Service failure management	17	4.49	27	4.38	10	4.43	0.791	0.610
Service recovery	16	4.53	27	4.47	10	4.51	0.811	0.790

Respondents estimated that approximately 66% of guests who stayed for business related purposes were retained. Only 38% of guests who stayed for leisure were retained. The results indicate that a far greater number of guests who stay for business purposes are retained than when it comes to guests who stay for leisure. Respondents estimated an average customer retention rate of nearly 66% for their hotels.

Significance testing was conducted to determine whether or not the mean customer retention rates are significantly different for the different hotel sizes (small, medium and large) and to determine whether or not significant differences exist between the mean retention rates of small, medium, and large hotels. An analysis of variance (ANOVA) and the Kruskal-Wallis test were performed (SPSS, 2003; Diamantopoulos and Schlegelmilch, 1997). The results are presented in Table 4.

The results of significance testing indicate that the p-values associated with differences between the mean customer retention rates at small, medium, and large hotels are all above 0.05. The main finding here is that the mean customer retention rates at small, medium, and large hotels do not differ significantly (hypothesis 2).

#### **Different sized hotels' perceptions of the importance of activities associated with customer retention management**

Questions about activities in customer retention manage-

ment were identified, and are listed in the literature survey. The insights here were used to formulate questions determining respondents' perceptions of the importance of activities associated with customer retention management. Table 5 contains the composite results for the various activities.

An analysis of variance (ANOVA) and the Kruskal-Wallis test were performed to determine whether significant differences exist between the mean scores of two or more of the three groups (small, medium and large) of hotel, and the importance they attribute to activities associated with customer retention (SPSS, 2003; Diamantopoulos and Schlegelmilch, 1997). Table 5 presents the customer retention activities (relationship marketing, customer compatibility management, customer defection management, service failure management and service recovery) and the importance which different sized hotels attach to these. A five point unlabelled Likert scale was used to measure the level of importance (where 1 is 'not important' and 5 is 'very important') respondents attach to each customer retention activity.

The p-values associated with differences between the overall means for the importance attributed by different sized hotel to activities associated with retaining customers, are all above 0.05. The main finding is that the overall means indicating the importance attributed to customer retention activities (relationship marketing, customer compatibility management, customer defection management, service failure management, and service recovery) by the

different sizes of hotel are not significantly different (hypothesis 3). In summary the results of the hypothesis testing are as follows:

**Hypothesis 1:** Stating that there is an association between the size of the hotel and whether or not customer retention rates are measured by the hotel, was not supported.

**Hypothesis 2:** Stating that there are significant differences between customer retention rates based on the size of the hotels was not supported although significant differences exist between medium and large hotels in their ability to retain guests who stay for leisure purposes.

**Hypothesis 3:** Stating that there are significant differences between the perceived importance of customer retention activities and the size of the hotel was not supported.

## DISCUSSION

The aim of this study was to establish the perceptions of hotel management of all sizes of hotel regarding the importance of customer retention practices. The study contributed to the relatively limited knowledge of services marketing in the hospitality industry, specifically in the hotel sector.

With regards to the hypotheses formulated for the study, no association was found to exist between the size of the hotel and whether or not customer retention rates are measured by the hotel (Hypothesis 1), there are also no significant differences between customer retention rates based on the size of the hotels (Hypothesis 2) and finally no significant differences could be found between the perceived importance of customer retention activities and the size of the hotel (Hypothesis 3).

The majority of hotels in Gauteng measure their customer retention rate by means of an electronic database management programme with a guest history feature. Hotels in Gauteng retain a greater percentage of guests who stay for business related purposes than they do of guests who stay for leisure. It is recommended that hotels should have processes in place to be able to measure their customer retention rates and then develop strategies to improve their customer retention rates by concentrating on maintaining their share of business sector guests and on improving their retention of guests who stay for leisure purposes.

Hotels in Gauteng consider all activities associated with customer retention management especially relationship marketing as being important. Activities related to building and maintaining long term relationships with guests are ranked as the most important activity associated with retaining guests. There is no significant association between this attitude and the size of the hotel. Hotels in Gauteng frequently perform all activities associated with

relationship marketing. It is recommended that hotel management should customize relationships with individual guests or groups of guests, as well as maintain a database of guest preferences and guest details.

Respondents considered all activities associated with customer compatibility management as important, except the concepts of introduce guests to each other and oversee interaction between guests. Activities associated with managing the interaction between guests were ranked by most hotels in Gauteng as the least important factor in retaining customers. The following recommendations are therefore appropriate: attract similar or compatible guests to the hotel; promote positive encounters between guests, encourage employees to provide information regarding the behaviour of guests to management and managing the physical environment to facilitate interactions between guests.

The majority of activities associated with customer defection management were viewed as important. Only two concepts were considered as being of little importance: Managing the interaction between guests followed by managing the rate at which guests defect to other accommodation suppliers. Hotels need to identify the reasons why guests leave, they need also to measure their customer defection rate, identify the key service dimensions that lead to the retention of guests and they need to analyse guest complaints more carefully.

Hotels in Gauteng consider all activities associated with service failure management as being important. In this perception there is no significant correlation to hotel size. It is recommended that service failure points must be identified and managed, the reasons why service failures occur must be determined, employees with good communication skills to successfully handle complaints and serve guests pro-actively needs to be identified and exit interviews with departing guests needs to be conducted.

Hotels in Gauteng consider all activities associated with service recovery as being important. The activities related to service failure management and service recovery are ranked as the most important in retaining guests, although there is no significant correlation with the size of hotel in question. It is recommended that hotels across the board must provide feedback to guests regarding progress made in rectifying service failures, they need to empower, support and involve employees in dealing with service failures, they need to use a standardized strategy for service recovery that is applicable to all guests and they need to vary service recovery strategies according to the seriousness of the service failure.

## Limitations and future research

This study was confined to hotels in Gauteng, South Africa; representation for the whole of South Africa cannot therefore, be claimed. As such, findings should not be generalized to other geographic regions. It is recommended that a further study be carried out using the

same methodology and encompassing all the provinces of South Africa. It is further suggested that the grading of the hotel be incorporated as a variable to establish whether or not there are differences between the different grades of hotel within the same size groups.

### Concluding remarks

It is hoped that the findings of this study will add to relatively limited research into services marketing in the hospitality industry, specifically when it comes to considerations of the differences between hotels of different sizes. Three null hypotheses were formulated and the findings show that none of these were supported; there is no significant association between the variables studied and the size of hotels. In essence, size of a hotel is not a variable which indicate whether retention rates are being measured, what actual retention rates are or which retention active-ties are important to hotels. Two findings that stand out are that significant differences exist between medium and large hotels in their ability to retain guests who stay for leisure purposes over weekends and that small hotel need to work on attracting business guests.

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