
**DETERMINANTS OF CUSTOMER RETENTION IN HOPITALITY
INDUSTRY**

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ABSTRACT

Purpose – The purpose of this paper is to discuss the determinants of customer retention in hospitality industry which if strategized well, could lead to higher growth and profitability for the firm and consequently the industry.

Design/methodology/approach – This article is based on a review of the academic and popular customer retention literatures.

Findings - Hospitality Organizations need to strengthen on certain important factors like its People, Added Value, Service Quality, Customer Satisfaction, Customer Loyalty, Complaint Handling, Customer Relationship Management, and Switching Costs. These factors have a strong bearing on customer retention and if organizations bring off these factors in an organized manner, it can lead to firm's growth and long term profitability.

Originality/value – The paper integrates viewpoints from industry and academia and factors that can lead to customer retention have been discussed.

Key Words- *Hospitality Organizations, Critical factors, Customer Retention.*

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INTRODUCTION

Every Business Firm wants to make profit and profit cannot be made by mere selling the product .Organizations has to retain the customers for term profits.

In the present stringent competitive scenario attracting new customers is very tough and retaining them is even tougher. Many organizations experience defections even when they believe that customers were satisfied with their product/service. So, the firms are forced to think what different they could have done to retain those customers.

The costs of acquiring customers to replace those who have been lost is definitely very high. This is because the cost for acquiring customers is spent only in the beginning stages of commercial relationship. (Reichheld and Kenny, 1990). In addition long term customers buy more and , if satisfied, may generate positive word of mouth promotion for the company. Long term customers are less time consuming and also less sensitive to price fluctuations(Healy ,1999). Hotels that can attract, preserve, satiate and retain customers have more chances to survive. (Choi and Chu, 2001). So, Customer Retention is indispensable for survival, as longer the relationship with the customer more profitable it is to the organization. The Indian hospitality industry has recorded healthy growth fuelled by robust inflow of foreign tourists as well as increased tourist movement within the country and it has become one of the leading players in the global industry. The Indian Hospitality Industry contributes around 2.2 per cent of India's GDP.The industry is expected to reach INR 230 billion by 2015, growing at a robust CAGR of 12.2 per cent. India will be investing around INR 448 billion in hospitality industry in the next five years, according to a report 'The Indian Hotel Industry Report – 2011 Edition' by CYGNUS Business Consulting & Research Firm. In the next two years, a total investment of INR 545.2 billion is expected that will add over 20 new international brands in the hospitality sector.

This highly fuelled and fast growing industry is facing a major challenge/ problem of retaining its customers. So, this study examines the Critical Factors / Key Result Areas of Customer Retention in Hospitality Industry. This article has its focus on the strategies that firms can use to retain the profitable customers .Hospitality Organization if focuses on these determinants can strengthen the relationship with customers and retain them for long term.

DETERMINANTS OF CUSTOMER RETENTION**PEOPLE**

Almost 70% of identifiable reasons why customers switched to competitors were associated with a dissatisfying service experience with a service provider during the service encounter

(Whiteley, 1991). The intangible feature of service industry makes it more difficult to retain the customers as we are selling him a experience not a product. The quality of service provided by the service provider is one of the deciding factors of repurchase and maintaining long term relationship with an organization (Barksy & Labagh, 1992; Bitner et al; 1990; Bolton & Drew, 1992). So the quality of people which is the most important p of service marketing mix is very crucial in attracting as well as retaining customers. Hotel employees need to be smart, courteous, well spoken ,friendly, ready to respond, having full knowledge of the product etc.

The “people factor” is the most important factor in satisfying and retaining customers in service industry (Yuksel & Yuksel, 2000).

ADDED VALUE

Another important influential factor in customer retention is added value. In a previous study by Jones,D. , Mak, B. & Sim, J. (2005), perceived value has been defined as “ the customer’s overall assessment of the utility of a service based on the perceptions of what is received and what is given” (Zeithaml & Bitner, 2003, p. 491). However there are many other aspects of added value which goes beyond the monetary price. Creating added value for the customers is not a easy task as it may include visible hotel attributes like location, ambience, F&B services, physical property, shopping, free or reduced parking, in- room facilities and amenities etc.

SERVICE QUALITY

It has been examined in previous studies that service excellence intensifies customer’s inclination to repeat purchasing, more purchasing, to buy allied services, to become less price sensitive and also spread a positive word of mouth (Anderson and Fornell, 1994; Anderson et al., 1994; Rust et al., 1995; Zeithaml et al., 1996; Bolton et al., 2000). Delivering quality service is a source of service differentiation and competitive advantage which attracts new customers and is also an important means of customer retention.

CUSTOMER SATISFACTION

When a customer purchases a product if the product performance does not meet customer expectations customer is dissatisfied, if product performance meets customer expectations he/she is satisfied and if performance exceeds the customer expectations it leads to customer delight. This is what hospitality industry strives for.

“Customer Satisfaction is a direct determining factor in customer loyalty, which, in turn, is a central determinant of customer retention” (Gerpott at al., 2001, p 253).

CUSTOMER LOYALTY

Customer Loyalty has emerged as a major factor in customer retention. Modern Loyalty Programmes first achieved prominence in Aviation Industry and have since spread rapidly through Retail, Hotels, Financial Services , Banking, Apparels and many more.

Loyalty Programmes offer incentives to repurchase in form of discounts, loyalty points, free stays, complimentary meals, drinks, gifts etc which motivates customers to make return visits. Second, they provide the company information like frequency of stay, purpose of stay, additional services purchased, preferred method of payment, room rates charged etc. which helps in understanding the needs of customers. Hotels can use this information to ensure that guests' unique needs are met in a seamless manner that can further lead to customer retention.

COMPLAINT HANDLING

Resolving customer complaints or grievances in a satisfactory manner plays a very crucial role in retaining the customers. Conflict Handling basically is the supplier's ability to a potential conflicts, resolve manifested conflicts before they create problems and the ability to discuss solutions openly with customers when problems do arise (Ndubisi and Wah, 2005:550). On an average, satisfied customer tells three people of their good experience while dissatisfied will tell eleven people. Satisfactorily resolving the customer complaints even make those dissatisfied customers more loyal towards company. So, complaint handling is an excellent opportunity/ touch point where dissatisfied customers can be converted into loyal customers. In a study by (Kotler and Keller, 2006 : 419-420) it was found that the organizations which encourage disappointed customers to complain and empower employees to remedy the situation on the spot have been shown to achieve higher revenues and greater profits.

CUSTOMER RELATIONSHIP MANAGEMENT

Managers believe that firms can improve their profits by satisfying customers. Studies shows, however, satisfying customers alone is not enough since there is no guarantee that satisfied customers will return to repurchase. So, it is very crucial to retain the customers and for retaining profitable customers maintaining long term relationships is very important. In a study by Rootman in 2006 it was discussed that organizations need to analyze customer needs, have to build lasting relationships with both active and future customers and they will have to satisfy customer needs. Hotels use various strategies like Loyalty Programmes, Field Selling, Call Centres, Bonus Points, Membership Cards, Database Management, Reservation Systems, Organizing Food/ Tea Festivals, Organizing Kids Competitions, member get member schemes and many more to maintain long term relationships with the customers and to retain them.

SWITCHING COSTS

Switching Costs are monetary and non monetary and tend to comprise three categories: procedural (where time and effort are the chief losses), financial (where financial resources are lost) and relational (where customer experiences psychological or emotional discomfort from loss of interactions and breaking of bonds with individuals involved with the relationship. (Burnham et al., 2003). So, switching costs is also one of the critical factors which if managed effectively can be used to retain profitable customers.

CONCLUSION AND RECOMMENDATIONS:

The contentions discussed earlier in this to address the KRA's(key result areas) or determinants or antecedents or critical success factors of customer retention included a proposal for hospitality organisations to create an inimitable value for customers.Hospitality Industry is selling an intangible product rather an experience which makes it more difficult to retain the customers for long term but if these factors are being focused and given fair trial in Hospitality Industry, the prevalent situation of performance can be enhanced and long term profitability can also be attained.

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