IMPACT OF CUSTOMER RELATIONSHIP MANAGEMENT ON CUSTOMER SATISFACTION AND ITS ROLE TOWARDS CUSTOMER LOYALTY AND RETENTION PRACTICES IN THE HOTEL SECTOR

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Abstract

Customer Relationship Management (CRM) is the strongest and the most efficient approach in maintaining and creating close relationships with customers in the service sectors including hotels. Moreover, effective CRM implementation will attain to increased revenue from business through the acquisition of new customers and retaining existing customers, reduced operative cost of hotel business, increased customer satisfaction and ensuring that long term profitability and sustainability. In order to, this descriptive research aims to analyze the relationship of CRM practices on customer satisfaction in the hotel sector. Further, this study examines that the impact of customer satisfaction on customer loyalty and customer retention practices in the hotel sector. Field survey has been conducted with the help of questionnaire and the responses were collected from 100 customers who have been used the hotel services at least one whole day in Uthagamandalam Taluk of Nilgiris District. Multi-stage sampling technique has been adopted to select sampling area. This study reported that execution of CRM practices like customer relationship upgrading capability, customer orientation strategies, customer value, customer interaction management practices, customer contact programmes and CRM technology positively connected with customer satisfaction in the hotel sector. Finally, it can be concluded that the customer satisfaction is significantly and positively associated with customer loyalty and their retention practices in the hotel sector.

Keywords: CRM, Service sector, Hotel industry, Customer Satisfaction, Customer loyalty & retention

1.1 Introduction

CRM is a sound business strategy that is based on the philosophy of "customer is king", i.e. Customer is put in the central place (Boris, 2012). The practices of maintaining a long-term relationship with customers are designated relationship marketing and more recently CRM. This is facilitate businesses to improve in understand the customer, retain customers through better customer experience, attract new customers, increase profitably and decrease customer management costs. The appropriate understanding and implementation of CRM strategy is the key success factors in present competitive market (Rajesh & Manivannan: 2013). The hospitality industry's backbone is comprised of customer service; a concept shared by all segments of the industry and is one of the largest employment generators for the country. Currently, this industry has generated employment opportunities about 53 million and is to be increased about 80 million in the end of 2017 (Kamlesh Barot, Ex-President, FHRAI). The hotel sector represents a broad segment of the hospitality industry. The standards of facilities and services offered have evolved over the last decade towards the extensive use of technology, environment friendly services, pricing, market segmentation, regional preferences, etc.

Hotel Sector in India: An Overview

The Indian hotel industry has seen a significant growth in room inventory across categories from upscale luxury to limited services and boutique & budget hotels. The occupancy and the room rates have seen continued gains both from the domestic and the international traveler in both the business and leisure segment. Presently, India has 132,885 hotel rooms spread across hotel categories and guest-houses. Currently, the number of rooms increased by 13 % compared to 2010 whereas the increase was about 55 % compared to 2002 (Refer Figure – 1). In the long term, the demand-supply gap of hotel rooms in India is very real and that there is need for more hotels across the country. For this an additional requirement of 180,000 classified guest-rooms across the country whereas adding about 114,000 hotel rooms over the next five years (source: HVS) and for every room constructed, 3-5 jobs are created.

Figure - 1: Growth in Number of Hotel Rooms
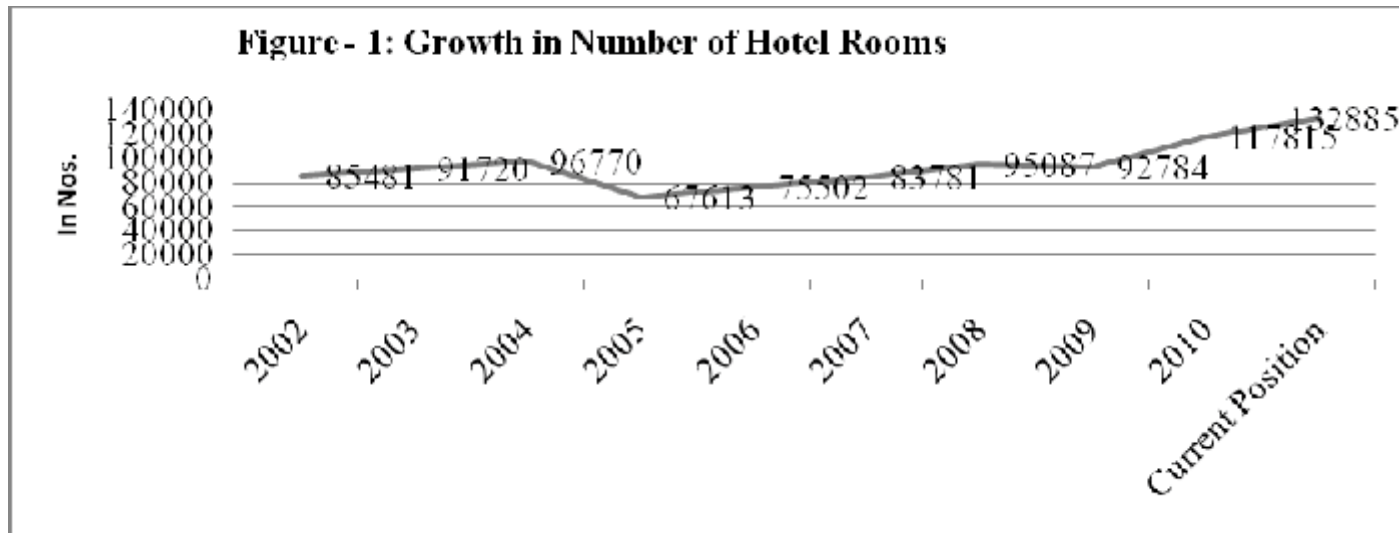
Source: Ministry of Tourism, Govt. of India

Performance of Hotel across Categories: Present Position in India

Hotels are an integral part of a tourist's visit to a place. With the aim of providing standardized, world class services to the tourists, the Government of India, Department of Tourism has a voluntary scheme for classification of fully operational hotels in the Star Hotels (5 Star Deluxe, 5 Star, 4 Star, 3 Star, 2 Star & 1 Star) and Heritage Hotels. Currently, there were 8,707 (1629 categorized and 7078 uncategorized) hotels functioning across categories but 81.29% of hotels have been unclassified (Refer Figure – 2). Nearly 2/10th of the hotel comes under star categories and 0.8% of heritage hotels.

Figure - 2: Distribution of Hotels across Categories
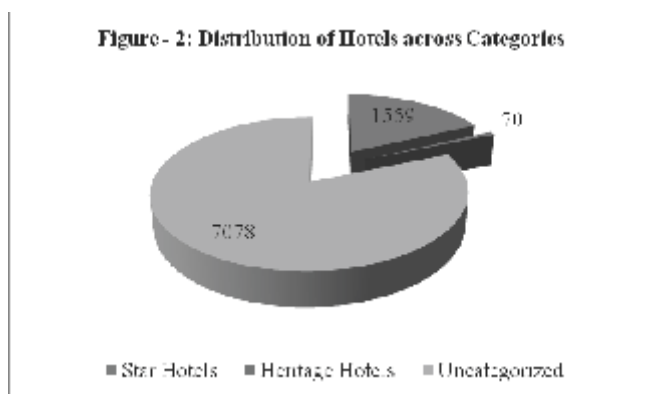
Source: Ministry of Tourism, Govt. of India

One-Star hotels: These hotels provide a limited range of amenities and services, but adhere to a high standard of facility-wide cleanliness. There were about 260 One Star hotels with about 10,900 rooms. Their share in total number of approved hotels was 15.96% whereas the share in total number of rooms was 8.2%.

Two-Star hotels: These categories usually provide good accommodation and better equipped bedrooms, each with a telephone and attached private bathroom. There were about 495 Two Star hotels with about 22,950 rooms. Their share in total number of approved hotels was 30.39% whereas the share in total number of rooms was 17.3%.

Three-Star hotels: These hotels having more spacious rooms and add high class decoration and furnishing and color TV. They also offer one or more bars or lounges. With more than 1/3rd hotels (505 Hotels out of 1629) in the category, three star hotels accounted for about 22.65% of total rooms i.e., 30100 hotel rooms out of 132885.

Four Star hotels: these categories much more comfortable and larger. It provides excellent cuisine (table d'hôte and a la carte), room service, and other amenities. There were about 134 Four Star hotels with about 20,770 rooms. Four star hotels comprised 8.23 % of the total number of approved hotels and about 15.6% of total rooms in various categories.

Five-Star hotels: These hotels usually offer most luxurious premises, widest range of guest services, as well as swimming pool and sport and exercise facilities. There were about 165 hotels with about 43,965 rooms. Their share in total number of approved hotels was 10.13% whereas the share in total number of rooms was 33.08%.

Heritage Hotels: These are hotels to preserve the India

heritage, has started a scheme, where old heritage buildings, places constructed before 1935 were converted into hotels but heritage grand hotels are those which are more than 100 years old. There were about 70 hotels with about 4200 rooms.

1.2 Objectives of the study

1. To analyze the relationship of CRM practices on customer satisfaction in the hotel sector

2. To explore the most important CRM component on customer satisfaction in the hotel sector

3. To examine the impact of customer satisfaction on customer loyalty and customer retention practices in the hotel sector.

1.3 Hypotheses of the study

1. There is a significant and positive effect of CRM practices on customer satisfaction in the hotel sector

2. Related CRM components have greater influence on the customer satisfaction in the hotel sector

3. Customer satisfaction is significantly and positively associated with customer loyalty and customer retention practices in the hotel sector.

1.4 Statement of the Problem

In the 21st Century CRM is playing a vital role for the entire business environment including hotel business all over the world. For the hotel sector, success and profitability are dictate by the ability to continually acquire, retain and service their customers, and ensure that customers remain customers for life. Simply says that the performance of hotels depends on the level of their understanding of their customers. Generally, CRM practices in the hotel sector focuses on loyal customers through identification of target customers, acquisition of new customers and retaining the existing customers through developing good relationships with them. These relationships development with customers will lead to improve customers' satisfaction, which in turn make them loyal customers. So, this current research moves to study the impact of CRM on customer satisfaction and also study how customer satisfaction will make loyal customers and their retention practices.

1.5 Scope of the study

1. The study would help to understand the importance of CRM practices on customer satisfaction.

2. This study would bring out the responsibility of customer satisfaction in the hotel sector towards customer loyalty and retention practices.

II. RESEARCH METHODOLOGY

This descriptive research design has been completely depends on the primary data and the data were collected from customers who have been used the hotel services at least one whole day in Uthagamandalam Taluk of Nilgiris District, Tamil Nadu State. The primary data were collected through the questionnaire. This questionnaire is an attempt to study the overall impact of CRM practices in the hotel sector to the customer satisfaction. In order to the CRM practices categorized into customer upgrading capability (thirteen parameters), customer orientation strategies (four parameters), customer value (five parameters), customer interaction management practices (16 parameters), customer contact programmes (four parameters) and CRM technology (three parameters). Further, the above mentioned CRM practices studied on its impact of customer satisfaction (five parameters), customer loyalty (fifteen parameters) and customer retention practices (nine parameters) in the hotel sector and also examine the relationship of customer satisfaction towards customer loyalty and their retention practices. The responses against these parameters collected through the five-point likert scaling technique. The variables about socio-economic characteristics of the customer like gender, age group, educational qualification, occupation, monthly income, and place of living included in the questionnaire. The responses of 100 customers considered for the final study and the customers were selected from various sizes of hotels. Multi-stage sampling technique is the most suitable for the present study. The theoretical inputs of the study were collected from journals, books and websites. The primary data were collected during the months of March, April and May'2014. Cross tabulation, Pearson correlation (r), multiple regression and F test used to draw the inference of the study. The final research model is given in the figure -3.

III. RELATED LITERATURES

Abdul Alem et al. (2013) investigate the relationship

between various CRM dimensions and organization performance towards financial, customer, internal process, learning and growth of three and five star hotels. The responses were collected from 152 managers of Malaysian hotel sector. The result of this study shows that CRM dimensions like customer orientation, CRM organization, knowledge management and technology based CRM have a positive and significant impact on different perspectives of hotel performance. On the other hand, CRM technology failed to show a significant relationship with learning and growth perspective hotel performance in Malaysia. Amin-Reza et al. (2013) in their descriptive and analytical study presents a model for successful implementation of CRM for small and medium-sized enterprises (SMEs) in Zahedan industrial city, Iran based on the perception of industrialists and professionals. The results of the study indicated that the factors like strategy, process, culture, human resource, structure, knowledge management and change management affecting the success of implementing CRM for SMEs. Amirreza et al. (2013) in their study aims to test the relationship of perceived value, service quality and customer expectation with customer satisfaction across five different 3-star hotels of Kuala Lumpur, Malaysia. The authors concluded that there is a positive relationship between perceived value, service quality, customer expectation and customer satisfaction but service quality as the most significant factor for effecting the customer satisfaction. Priya et al. (2013) their casual and descriptive research design analyzing that how private, public and foreign sector banks can use CRM concept in converting customer need as business opportunity. A finding of this study shows that there is a significant difference towards use of CRM tool for measuring customer satisfaction among various groups of banks. This is followed by there is significant difference in the opinion of the three groups regarding time of measuring customer satisfaction and components of customer satisfaction like customer retention/ loyalty strategy. Moreover, there is a positive link between CRM performance, customer satisfaction and retention with relationship inertia and also switching costs significantly influencing the link between these variables in bank branches of State Bank of India, West Bengal (Arup Kumar & Bivraj Bhusan; 2012). Gauri et al. (2012) aims to analyze the CRM used by retail malls of Big Bazaar,

Marks & Spencer, Reliance, Value Mart, Pantaloons, Shopper Stop, Reebok & Adidas factory in South Delhi as regards to attract the customers and to gain their loyalty. In order to this research consider the components of discounts, loyalty point programmes, varieties, special offers & personalized services, infrastructure, quality, time saving , free offers, samples, gifts, consumers contests and after sales service. The authors concluded that building of good personal relationship helps both the firm and the customer in providing better services and maintain loyalty. Khaligh et al. (2012) investigates the impact of CRM on customer loyalty and retention in the Iranian telecom industry. This study says that flexibility and explicitly of the pricing policies is an important factors to increase customer loyalty and benefit of the telecom companies. Further, the commitment and vision of the management system is highly required for a successful CRM implementation in Iranian telecom sector. Rozita Shahbha (2012) conclude that the benefits of E-CRM like internet, up to date of financial institutions, service quality, international customers' satisfaction, improve cash flow management, safety and transaction security have positive effect on customer satisfaction. The impact of CRM is to improve relationships with customers in organizations and E-Commerce (Mohammad Behrouzian; 2011). Mehdi &Venkatesh (2011) investigate the barriers for successful implementation of CRM and compare its practices in public and private sector of Iranian banking industry according to the opinion among top, middle and lower levels management. Inadequate supporting budgets and senior management support, lack of communication and technology advancement, lack of customer management skills, lacunae in standardizing of CRM, inter-departmental inconsistencies, lack of complementary customer management skills, lack of cultural readiness and lack of scientific customer segmentation and commoditization of products and rising customer demands are the most important barriers of CRM implementation whereas these barriers to be significantly higher in the Public sector than the Private sector. Saroj Kumar and Arun Kumar (2011) in their research paper attempt to analyze the satisfaction level of CRM among various age groups, gender, category of patient, marital status, monthly income, occupation and educational qualification of the customers of private

hospitals in Greater Noida. This study reported that all the factors except gender associated with their level of satisfaction on CRM in private hospitals. Anna Kralj and David Solnet (2010) in their study proposes a service management framework for the study of competitive advantage in casino hotels, in Australia. Using data collected from 303 employees, an exploratory case study in service climate and customer satisfaction is presented. The findings suggest that the service climate is highly correlated with customer satisfaction. Krishna Murthy and Anupama (2010) in their empirical study aims to explore the reasons behind customer's loyalty and the impact of customer retention strategies adopted by financial exchange service organization in Andhra Pradesh. This study concluded that the customer usage of products like currency exchange, air ticketing and tours, money transfer and investment options is dependent on satisfaction levels and also type of service used is dependent on customer willingness to avail the service again. Jay and Dwi (2000) reported that the hotel image and customer satisfaction with the performance of housekeeping, reception, food and beverage, and price are positively correlated to customer loyalty in the New Zealand hotel industry.

IV. ANALYSIS AND DISCUSSIONS

4.1 Socio-economic Characteristics of the Customers

Distribution of the customers based on their gender, age group, educational qualification, occupation and monthly income is given in the Table – 1. It shows that the majority (72%) of the customers is male, nearly 2/5th of the customers are belongs to the age group of 26-40 years, nearly half of the customers participated in this study have completed higher education, nearly 3/5th of the customers are self-employed, majority (47%) of the customers should earn above Rs. 30,000 per month and 46% of the customers are living in urban areas. (Table 1)

4.2 Relationship of the CRM Practices to the Satisfaction of the Customers in the hotel sector

Ho1: There is a significant and positive effect of CRM practices (customer relationship upgrading capability, customer orientation strategies, customer value, customer interaction management practices, customer contact programmes and CRM technology) on customer satisfaction in the hotel sector

The above said hypothesis has been analyzed with the help of 'r' co-efficient and it is used to find the association level of CRM practices to the customer satisfaction in the hotel sector. The correlation level is

+0.2 to less than +0.6 = Moderate positive effect and vice-versa

+0.6 to +1.0 = Strong positive effect and vice-versa

Less than +0.2 = Low positive effect and vice-versa(Table.2)

4.3 Regression Model for CRM Practices to the Customer Satisfaction in the Hotel Sector

Multiple regression analysis has been used to exploring the most important CRM component to the customers' satisfaction in the hotel sector. This analysis is made of Y-customer satisfaction, with the explanatory components like X1- customer relationship upgrading capability;

X2- customer orientation strategies; X3- customer value; X4- Customer interaction management practices;

X5- customer contact programmes;

X6- CRM technology;

The following regression model is fitted for performance:

$Y = Y = b_o + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6 e$

Where,

$b_1, b_2, \ldots\ldots$. are partial regression coefficients; b_o-constant

Ho2: Related CRM components have greater influence on the customer satisfaction in the hotel sector(Table 3)

Regression Equation: $Y = -0.441 + 0.252X_1 + 0.182X_2 + 0.684X_4$

It is observed from the Table – 3 that significance of various CRM components on customer satisfaction coefficients is tested by t-statistic. It can be concluded that the coefficients for customer interaction management practices, customer relationship upgrading capability, and customer orientation strategies are significant at 1% level. Further, the coefficient of customer value ($t = 1.929$; $p>0.05$), customer contact programmes ($t = 0.471$; $p>0.05$) and CRM technology ($t = 0.634$; $p>0.05$) has been excluded in the above model

because of calculated 't' value is not significant at 5% level. Further, R2 value of regression model comes out 0.759 which is greater than the value of 0.50. Hence, it can be concluded that the customer interaction management practices, customer relationship upgrading capability, and customer orientation strategies are the most important CRM components to customer satisfaction in the hotel sector because of calculated value of 'f' significant at 1% level towards these CRM components to customer satisfaction (f = 100.568**; p<0.01).(Table 4)

4.9 Relationship of the Customer Satisfaction towards Customer Loyalty and Retention Practices in the Hotel Sector

Ho3: Customer satisfaction is significantly and positively associated with customer loyalty and their retention practices in the hotel sector. (Table 4)

It could be collected from the Table - 4 that the calculated value of correlation between customer satisfaction to customer loyalty (r = 0.467; p<0.01) and also to customer retention practices (r = 0.870; p<0.01) significant at 1% level. So, accept Ho3 and it can be reported that the customer satisfaction is significantly and positively associated with their loyalty and their retention practices in the hotel sector.

V. CONCLUSION

From the discussion mentioned above it can be concluded in the present study that CRM practices in the hotel sector have significant and positive effect on their customer satisfaction whereas customer interaction management practices and upgrading capability, customer orientation strategies are most important CRM practices to attain the customer satisfaction. So, the hotel sector must improve the relationship strategies with their customers. Then, the customers are loyal and their retention assured because customer satisfaction is significantly and positively associated with customer loyalty and their retention practices in the hotel sector. As the present study was focused only to probe into the CRM practices of hotel sector with the Indian customers' satisfaction, loyalty and their retention practices, further studies can be made with foreign customer (tourists) to measure the effectiveness of relationship management adopted by the Indian hotel sector.
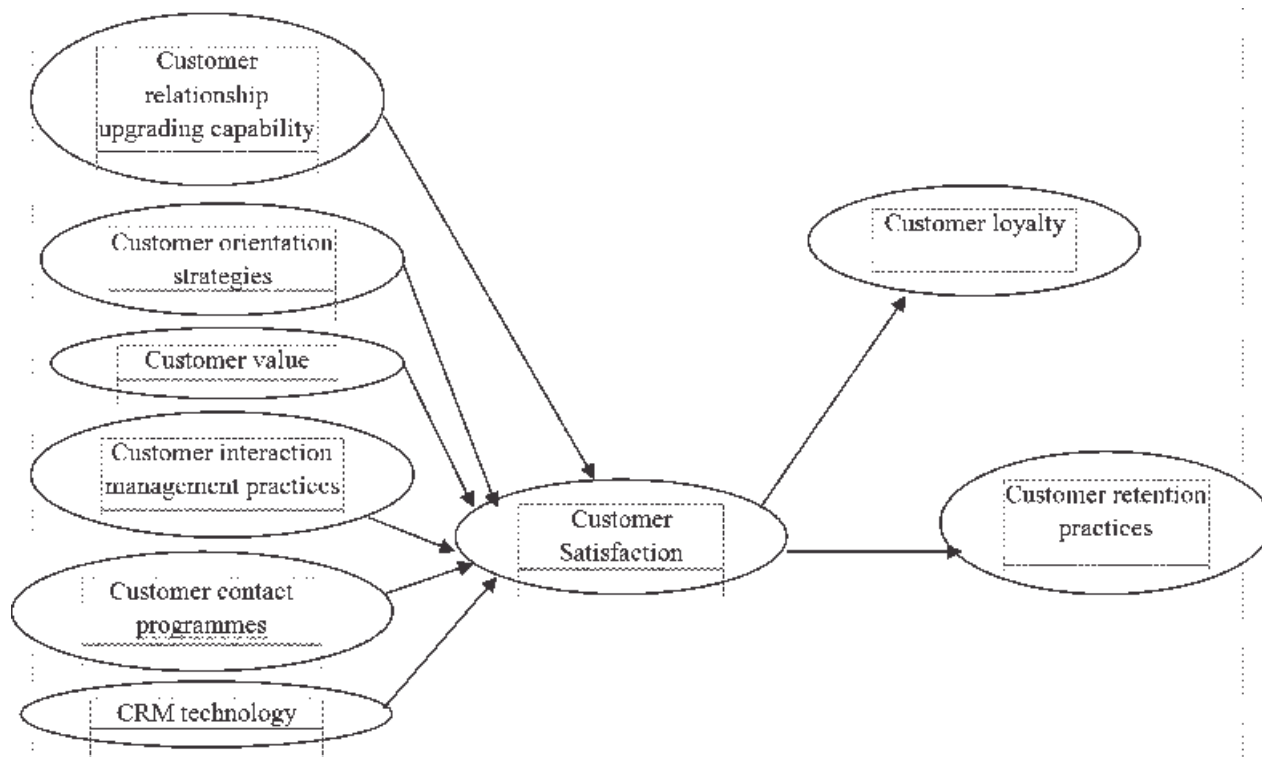
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Figure – 3: Research model towards CRM Components towards Customer Satisfaction

Table - 1: Socio-economic Characteristics of the Customers		
Socio-economic Character	**No. of Customers**	**%**
Gender	Male	72	72
	Female	28	28
Age group (in years)	Upto 25	16	16
	26-40	39	39
	40-55	36	36
	Above 55	9	9
Educational Qualification	School education (VIII-XII)	35	35
	Higher education	49	49
	ITI/Diploma	16	16
Occupation	Employed	24	24
	Self-employed	58	58
	Professional	18	18
Monthly Income (in Rs.)	Upto Rs.10,000	22	22
	Rs.20,001 - Rs. 30,000	31	31
	Above Re. 30,000	47	47
Place of Living	Urban	46	46
	Semi-Urban	39	39
	Rural	15	15
Source: Field Survey		

Table – 2 : Relationship of CRM Practices to the Satisfaction of Customers in the Hotel Sector			
CRM Practices on Customer Satisfaction		**Association**	**Discussion**
Customer relationship upgrading capability	Overall Satisfaction	0.513**	This CRM practices have significantly correlated with customer satisfaction at 1% level (p<0.01) but moderate positive effect
Customer orientation strategies		0.464**	This CRM practices have significantly correlated with customer satisfaction at 1% level (p<0.01) but moderate positive effect
Customer value		0.231*	This CRM practices have significantly correlated with customer satisfaction at 5% level (p<0.05) but moderate positive effect
Customer interaction management practices		0.812**	This CRM practices have significantly correlated with customer satisfaction at 1% level (p<0.01) but strong positive effect
Customer contact programmes		0.475**	This CRM practices have significantly correlated with customer satisfaction at 1% level (p<0.01) b ut moderate positive effect
CRM technology		0.557**	This CRM practices have significantly correlated with customer satisfaction at 1% level (p<0.01) but moderate positive effect
Source: Field Survey;		**** 'r' is Sig. at 1% &* 'r' is Sig. at 5% level**	

Table – 3: Final Framework towards Relationship level of CRM Components on Customer Satisfaction				
Model	**Unstandardized Coefficients**		**t**	**R^2**
	B	**Std. Error**		
(Constant)	-.441	.170	-2.599*	
Customer interaction management practices	.684	.055	12.334**	.759
Customer relationship upgrading capability	.252	.053	4.792**	
Customer orientation strategies	.182	.059	3.096**	
Dependent Variable: Customers' satisfaction				
Source: Field Survey;		**Sig. at 1%; *Sig. at 5%**		

Table – 4 : Analysis of Variance for Regression				
	Sum of Squares	**df**	**Mean Square**	**F**
Regression	49.833	3	16.611	100.568**
Residual	15.856	96	.165	
Total	65.690	99		
Source: Field Survey; **Sig. at 1% & *Sig. at 5% level				

Table – 5 : Relationship of Customer satisfaction towards Customer Loyalty & Retention Practices in the Hotel Sector		
Independent variable	**Dependent variable**	**r-value**
Customer satisfaction	Customer loyalty	0.467**
	Customer retention practices	0.870**
Source: Field Survey; **Sig. at 1% & *Sig. at 5% level		

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