BUILDING UP CUSTOMER LOYALTY IN HOSPITALITY INDUSTRY THROUGH CRM

LAI POOI SAN

UNIVERSITI TEKNIKAL MALAYSIA MELAKA

"I hereby declare that I have read this thesis and in my opinion this thesis is sufficient in terms of scope and quality for the award of Bachelor of Technology Management (High Technology Marketing)"

Signature   : ……………………………..

Name of Supervisor : IR. BUDIONO HARDJONO

Date   : ……………………………..

Signature   : ……………………………..

Name of Panel   : DR. NORAIN ISMAIL

Date   : ……………………………..

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Laporan ini dikemukakan sebagai
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Ijazah Sarjana Muda Pengurusan Teknologi (Pemasaran Teknologi Tinggi)

Fakulti Pengurusan Teknologi dan Teknousahawanan
Universiti Teknikal Malaysia Melaka

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DECLARATION OF ORIGINAL WORK

"I hereby declare that this project paper is the result of my independent work excepts that have been specifically acknowledgement"

Signature : ………………..
Name : LAI POOI SAN
Date : ………………..

DEDICATION

Special thanks to my beloved family members

Friends

Thank you to my supervisor and panel

IR. Budiono Hardjono

Dr. Norain Ismail

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ABSTRACT

In today's business world, customers are the core of business. Since customers are the source of profitability, marketers try hard to create the best competitive advantages to protect their market position. For hospitality industry, hotel management has conducted the Customer Relationship Management (CRM) as business strategy to gain loyal customers rather than attracting new customers. To ensure that CRM fully play its role, the four of CRM components (customer orientation, CRM organization, knowledge management and technology-based CRM) has become the valid measurement on organization performance to build customer loyalty in long term run. In order to achieve research objectives, the quantitative research is conducted through questionnaires distribution to 150 respondents of all rate hotels in Malacca, Malaysia. Based on the results, technology-based CRM is not significant effect to customer loyalty. The findings also had shown that customer orientation strong influence to customer loyalty.

Keywords: Customer Relationship Management, Customer Loyalty, Hospitality Industry.

ABSTRAK

Dalam bidang perniagaan, pelanggan adalah teras perniagaan. Disebabkan pelanggan adalah sumber keuntungan, pemasar hendaklah berusaha keras untuk menunjukkan kelebihan daya saing yang terbaik untuk melindungi kedudukan pasaran. Dalam industri hospitaliti, pengurus hotel telah manjalankan Pengurusan Perhubungan Pelanggan (CRM) sebagai salah satu strategi perniagaan untuk mendapatkan kesetiaan pelanggan dan bukannya menarik pelanggan baru. Untuk memastikan CRM memainkan peranan sepenuhnya, keempat-empat komponen CRM (orientasi pelanggan, organisasi CRM, pengurusan pengetahuan dan CRM berasalkan teknologi) telah menjadi ukuran yang sah ke atas prestasi organisasi untuk membinakan kesetiaan pelanggan dalam jangka masa panjang. Bagi mencapai objektif kajian, penyelidikan kuantitatif dijalankan melalui pengedaran soal selidik kepada 108 responden bagi semua hotel di kawasan bandar Melaka, Malaysia. Merujuk kepada keputusan yang didapatkan, CRM berasalkan teknologi tidak penting untuk mempengaruhi kesetiaan pelanggan. Akhirnya, orientasi pelanggan merupakan komponen yang paling mempengaruh kesetiaan pelanggan.

Kata kunci: Pengurusan Perhubungan Pelanggan, kesetiaan pelanggan, industri hospitaliti.

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LIST OF ABBREVIATION

CRM	=	Customer Relationship Management
CO	=	Customer Orientation
CRMO	=	CRM Organization
KM	=	Knowledge Management
TBCRM	=	Technology-based CRM
CL	=	Customer Loyalty
SPSS	=	Statistical Package for Social Science
PPMC	=	Pearson Product Moment Correlation
H_0	=	Hypothesis Null
H_1	=	Hypothesis Alternate
df	=	Degree of Freedom
%	=	Percentage
r^2	=	Regression Coefficient

CHAPTER 1

INTRODUCTION

1.1 Introduction

In 2014, Malaysia received 27.4 million tourists, signifying a growth of 6.7% compared to 25.7 million tourists in 2013. For the same period, tourist receipts have also increased by 10% from RM72 billion to RM65.4 billion. The tourism Malaysia has become the second largest foreign exchange earner and also the sixth highest contributor to its Gross National Income (GNI) (Tourism Malaysia, 2015). This means that the increasing development of hospitality industry has made all the hoteliers in Malaysia face a very strong competitor and it is difficult to protect their position especially in a small state Malacca.

In Malaysia, Malacca has been declared as the one of UNESCO World Heritage City. Due to its historic attractions, Malacca has been revived as a top-pick holiday gateway. The declaration of "heritage city" also helps to boost up the development of Malacca's hospitality industry very well. All the hoteliers who have invested in this small state need to create a more effective strategy to fight for the incremental growth while not to just surviving in the hospitality industry.

In order to compete against other competitors, hotel services quality must be of good quality so also attract more customers. Every time every moment the hotel management should be thinking of ways to build up a grand razzmatazz hotel image by enhancing the hotel reputation and not forgetting to cater to walk-in guests with

the perfect quality hotel service. With sufficient investments capital hoteliers can easily establish a five-star luxurious hotel, by providing customers with different kinds of facilities from indoor to outdoor and enhancing their satisfaction further by giving them a good level of hotel service.

All of these efforts are just merely a part of hotel's management to fight for occupancy rate in a short term period. In making a long term goal, customer loyalty is the main key point for hotel management to be successful. With the number of hotels increasing dramatically, hotel management needs to be something out of the box so that it stands out from the rest. Right now, the most critical issue is on how the hotel management put in effort to retain customers. All of the other marketers are seeking information in building customer loyalty to compete.

Building customer loyalty is the biggest challenge in hotel industry. Creating customer loyalty has become the philosophy in businesses today because of loyal customers are the core of successful businesses.

1.2 Background of Study

Today, in business world, marketers recognize that customers are the core of a business. This incremental growth in hotel industry forces hoteliers seeks out any possible potential competitive advantage to differentiate itself from competitors.

As all marketers understanding, customer is the source of profitability. In order to attract traveler or tourism, improvement of service quality and development of new facilities are the efforts for hotel management achieving better organization performance. To clearly differentiate itself from competitors, customer loyalty exactly becomes the competitive advantage for hotel industry. Today many companies are racing to re-establish their connections to new as well as existing customers to boost long term customer loyalty (Chen and Popovich, 2003). This means that marketers are start to believe in retaining customer or building customer loyalty rather than attracting new customer in order can decrease the cost of

marketing activities in customer attraction. Therefore, customer loyalty needs to emphasize wider by hoteliers to let customers develop their repurchase behavior.

There are many ways to adopt the loyalty and the most common is creating value through customer relationship management (CRM). To gain customer loyalty, CRM become the strength for hotel industry. The capability of CRM is the tool that attracts new customers and retains the existing customers. CRM also can defined as a customer-focused business strategy which aims to enhance customer satisfaction and increase their loyalty by offering fast and customized services according to customer request (Amiri and Esmailpour, 2014). By using CRM, organizations can develop customer relationship through their own better information management.

Because of, it is recognized too insufficient studies that are made on the CRM components of service sectors (Mohammed and Rashid, 2012). Therefore, beside to identify the significant role of CRM, the four of broad behavioural components: key customer focus, CRM organization, knowledge management, and technology-based CRM (Sin et al, 2005) are used to analyse the customer loyalty in hospitality industry. A deep relationship between CRM components and customer loyalty is needed to examine through this research to provide more information about the outcomes of CRM such as customer loyalty (Basar et al, 2011).

1.3 Research Problem

In hospitality industry, customer satisfaction always hooked upon quality of service provided. In the long term run, although hotel managers make the improvement on service quality all the time, it is failed to fully satisfy customer's needs and at the same time other competitors will do so. In order to compete perfectly, hotel managers start to satisfy customers by providing different new kind of facilities such as conference room, fitness center, spa, children playground and golf course to keep their attraction.

Therefore, to be successful in market, hotel managers must concentrate on retaining existing customers rather than to attract new one. In current hospitality industry trend, the high competitive environment, long term relationship between customers has become the essential for management to success in business. The main purpose for building a good relationship with existing customer is to establish customers loyal to hotel. Since the price of accommodation almost similar among hotels, hotel managers have to realize that gain more loyal customers is more effective than attracting new customers by using different season promotions which just only can fight for a temporary occupancy rate.

Hence, compare to the higher cost of attracting new customers, the development of CRM is a good start to create and enhance customer loyalty. According to Liew (2008), the ultimate goal of CRM is to build customer loyalty.

Mohammad et al. (2013) stressed that CRM components are important determinants of organization performance perspectives. Furthermore, Sin et al. (2005) supported that researchers are strongly urged to incorporate the CRM components in the scale into future research, so that a valid measure of CRM can be ensured on an ongoing basis. Therefore, this study aims to contribute to identify the importance of CRM on building customer loyalty in hospitality industry. The research problem is on studying the important role of CRM and how the CRM components are used to analyze the relationships on customer loyalty.

1.4 Research Question

From the problem discussion above, the purpose of this study is to explore the important role of customer relationship management on customer royalty. In order to reach the purpose the following research questions are stated:

1. What are the components of CRM that have important roles on customer loyalty in hospitality industry?

2. What is the relationship between customer orientation and customer loyalty?

3. What is the relationship between CRM organization and customer loyalty?

4. What is the relationship between knowledge management and customer loyalty?

5. What is the relationship between technology-based CRM and customer loyalty?

1.5 Research Objective

The research objectives are stated as following:

1. To identify the components of CRM have important roles of CRM on customer loyalty in hospitality industry

2. To analyze the relationship between customer orientation and customer loyalty

3. To analyze the relationship between CRM organization and customer loyalty

4. To analyze the relationship between knowledge management and customer loyalty

5. To analyze the relationship between technology-based CRM and customer loyalty

1.6 Research Hypothesis

This study proposes the following hypothesis:

H1: Customer orientation has positive relationship on customer loyalty.

H2: CRM organization has positive relationship on customer loyalty.

H3: Knowledge management has positive relationship on customer loyalty.

H4: Technology-based CRM has positive relationship on customer loyalty.

1.7 Research Scope

The scope of this research is to identify the importance of the role of CRM on building customer loyalty in Malaysia's hospitality industry. In order to demonstrate that CRM has played a significant role in building customer loyalty, the relationship between CRM and customer loyalty is analyze through the four behavioral dimensions of CRM which including key focus customer, CRM organization, technology based CRM and knowledge management. Lastly, the effects of customer loyalty on organization performance are also examined too in research.

1.8 Research Limitation

The research has presented three principal of limitations. Firstly, the research is conducted in Malacca's town area only. Secondly, the sample size of research has limited the number of hotels to be conducted. Lastly, the sample is biased towards hotel that has paid attention to CRM in building customer loyalty. The low quality of data will be collected if the researcher assumed that respondents have the interest or knowledge on CRM.

1.9 Research Significance

In this research, an in-depth knowledge of CRM in building up customer loyalty towards hospitality industry will be presented. Researchers have to provide a comprehensive knowledge of CRM in order to let hoteliers realized the importance of CRM in acquiring new and retaining current customers for their long term business development. The limited research and publications of the use of CRM within the hospitality industry has given hospitality researchers the opportunity to contribute more to the development of theory in the CRM field.

At the same time, CRM has becomes the necessary part of today's service sector business competitive and its fast growing has led to the hotel management needing more sufficient information about CRM to handle customer relationship. As we know, consumer's needs changes continuously, understanding consumers' behavior has become a key success factor in the highly competitive environment especially in the hospitality industry. Although price is one of the advantages in all business fields, cost leadership is no longer becoming a valid reason for customer moving between suppliers. The role of CRM in the development of long term beneficial customer relationship has been focused in hotels to improve the organization performance. Through this research, customer loyalty will be the outcome of CRM which is strongly emphases to be the competitive advantages for hospitality industry.

1.10 Summary

In this chapter, the researcher has identified out the components of CRM which are customer orientation, CRM organization, knowledge management and technology-based CRM. To answer the research questions, the relationship between CRM components and customer loyalty towards hospitality industry is analyzed. The important knowledge of CRM is greatly emphasized in order to provide hotel management the comprehensive information to compete among competitors.

CHAPTER 2

LITERATURE REVIEW

2.1 Customer Loyalty

The growth of volume and pace of competition is faced by the hotel organizations today has reinforced customer loyalty becomes the hotel's ability to differentiate itself from its competitors. As Majumdar (2005) stated that "Customer loyalty is a complex and multidimensional concept". The complexity has make customer loyalty is hard to be define in a proper form which is can be agreed by everyone. According to Mcmullan and Gilmore (2008) as cited in Jacoby and Kyner (1973), there are no overall agreed definition of customer loyalty, the most widely accepted definition is loyalty is described as the biased, behavioural response (i.e. purchase), expressed over time, by having the decision making unit, with respect to one or more alternative brands out of a set of such brands, and is a function of psychological (i.e. decision making) process.

However, Oliver (1999) has defined loyalty as "a deeply held commitment to re-buy or re-patronize a preferred product or service consistently in the future, thereby causing the frequency of repeat-purchase to the same brand, despite situational influences and marketing efforts having the potential to cause switching behavior". This definition helps us to distinguish loyalty as attitudinal, behavioral and situational (Uncles et al., 2003). Attitudinal loyalty is expressed as an attitude that leads to an ongoing relationship with brand, the strong loyalty that often conditioned on positive attitude towards the brand (e.g. positive attitude of consumer to make the repeat purchase to the same preferred brand). Behavioral loyalty is

mainly expressed in terms of consumer behavior on purchasing whereby the consumer has been divided into categories of monogamous (100 percentage loyal), promiscuous (no loyalty to any product or service) and polygamous" (loyal to a brand in specific product line or category) that often conditioned on customer satisfaction (e.g. consumer pattern in past purchases). Lastly, situational loyalty is expressed as the purchase pattern of consumer is influence by purchasing situation such as individual's current circumstances and their characteristics (e.g. the desired product or service is too expensive or only available in special season) (Uncles et al., 2003 and Mascarenhas et al., 2006).

In a business context, loyalty describe as a customer's commitment in doing business with a particular organization, by repeatedly purchasing, and recommending the selected product or service to other people (McLiroy and Barnett, 2000). The aim of loyalty in a successful business is based on a long term beneficial relationship between customer and enterprise. The beneficial customer relationship will help firms to win customer loyalty, marketing shares and profit margin will consistently reduce the necessity costs of acquiring new customer. Hence, it has strongly reflected that loyalty is more profitable in retaining current customer rather than acquiring new customers to increase business growth.

2.2 Customer Relationship Management (CRM)

According to Mohammad et al. (2013), the concept of CRM can be defined in different ways meaning that different thing to different people, depending on context and other contingent factors. Therefore, there is no agreed definition about CRM (Abdullateef, 2010; Kevork and Vrechopoulos, 2009; Hamid, 2009; Ngai, 2005).

In previous researches, Kotler and Armstrong (2012) defined CRM as "the overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction". However, in a more technology-oriented perspective, Zikmund et al. (2003) defined CRM as "a business strategy that using information technology to provide an organization with a

comprehensive, reliable and integrated view of its customer base so that all processes and customer interactions help maintain and expand beneficial relationships". For some researchers, CRM also can be defined as the use of advanced technology involving database, data warehouse and data mining informed by enterprise's strategies and philosophies to increase customer retention rates and profitability (Xu and Walton, 2005; Nguyen et al., 2007). This has been strongly proved that CRM can be view from multiple perspectives (e.g. people, process, technology, strategy) (Mohammad et al., 2013).

Moreover, Kamakura et al. (2005) classified CRM into two categories: analytical and behavioral CRM. In analytical, CRM has refers to how an enterprise manages the customer's information through customer interaction. While in behavioral, CRM is the integration of various data (e.g. customer past purchases and service records, operations, service logs) to establish a more comprehensive view towards customer purchasing behaviour. From these two categories, it has showed that CRM is effectively becoming an advantage in managing long term customer relationship to enhance customer loyalty. While, according to Zablah et al. (2004), the main purpose of CRM is to build and maintain a profitable customer relationship. Therefore, the creating of CRM activities are mainly focus on building customer loyalty through sustaining relationship with customers over time.

2.3 CRM Components

Based on past related literature, (Sin et al., 2005) have hypothesized the concept of CRM as a multi-dimensional construct consisting of four broad behavioural components. These components are key customer focus, CRM organization, knowledge management and technology-based CRM. This is in accord with the general notion of successful CRM being implemented based on four key areas: people; processes; strategy; and technology (Fox and Stead, 2001) and the four behavioural dimensions (e.g. key customer focus, CRM organization, knowledge management and technology-based CRM) must interact to enhance long term organization performance.