

THE IMPACT OF HOTEL CHAINS ON THE CUSTOMER SATISFACTION AND LOYALTY

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Abstract: Starting from around year 1800 with the use of the term “*tavern keeping*”, tourism and hospitality today stand for the fastest growing industry and an important supporting factor of the economy as a whole. This growing trend led to the formation of hotel chains, the evolution of brand management and numerous successful strategies. For, being present on the global market and gaining customer loyalty is today’s must for the hotel chains. This paper focuses on the impact of hotel chains on customer satisfaction and loyalty. Research shows that there is a strong connection between brand positioning on the market and the customer perspective, which furthermore leads to an opportunity of gaining customer satisfaction and loyalty, as a prove for positively correlated relationship.

Key words: *hotel chains, customer satisfaction, brand loyalty, hospitality industry, hospitality trends*

1. INTRODUCTION

Beginning its existence since year of 1800, tourism and hospitality is one of the most popular and fastest growing industries offering new opportunities each and every day. For the past six decades, the industry is in a period of continued expansion and diversification with yearly average increase in international tourist arrivals of around 4%, starting with 25 million globally in 1950 to an 1186 million in 2015. [1] Its growth is also noted in tourism receipts, from US\$ 2 billion in 1950 to US\$ 1260 billion to 2015, international trade, jobs creation, infrastructure development, enterprises formation, and exports. As the industry grows and strengthens, so does the number of hotels and their continuous competition. Looking back to 1920s when the most of the hotel chains were formed, with the help of globalization, their names like *Hilton*, *Marriot International*, *Sheraton Hotels*, *InterContinental*, *Holiday Inn*, *Wyndham*, *Accor*, etc., are shaping the hotel industry today. Their continuous presence on the market results from more marketing and management activities undertaken during their operations among which are the branding strategies used to differentiate products and/or services, create value, and enhance financial performance. Consequently, customers view strong brands as a signal for quality, reduced risks, and simplified evaluation of service. [2] Differently from when they started their journey in the industry and they were the one or few hotels offering accommodation and food to tourists, over time, the need for existence and growth has put the customer in their organizational center. Customers are the one that drive hotel operations and change their offer since customer satisfaction is the business philosophy that creates value for customers, meets and exceeds expectations, and satisfies needs. [3] Furthermore, customer satisfaction is the perception of the value received and the key factor for the next product and/or service selection.

2. HOTEL CHAINS

The beginning of hotel chains goes back to 1919 when Conrad Hilton established the first *Hilton Hotel* in Cisco, Texas [4]; J. Willard Marriot opened the nine-stool root beer stand in 1927 which grew first into restaurant chain and evolved in today's *Marriott International* hotel company [5]; the first *InterContinental Hotel* was opened in Belem, Brazil [6]; Jay Pritzker purchased the *Hyatt Motel* in Los Angeles in 1957 [7]; Paul Dubrule and Gerard Pelisson opened Novotel in 1967 and established the today known *AcorHotels Group* [8]. The growth of hotel chains continues and in 1991 Starwood Capital Partners is formed in Chicago, today recognized as *Starwood Hotels & Resorts Worldwide, Inc* [9]. Another well respected leader in hotel industry is *Wyndham Worldwide* which started its journey in 2006 [10].

Today hotel chains dominate the hotel market when compared to independent hotels, and the credit for that goes not only to the opportunities offered with globalization but to the strategies that companies use and brand they build. According to the data from the hotel chains, almost all of the above mentioned chains own no more than 3% of their properties, and the remaining are under franchise and management contracts. With the use of franchise and management contracts as expansion strategies they are present in more than 100 countries around the world with an occupancy rate of around 70% during 2016. Both strategies, franchise and management contract, involve doing business under well established brand name, common layout, and design, sharing know how and ongoing technical and commercial support. Moreover, these strategies offer a tried and tested business model for some kind of financial compensation. [11] The importance of the brand, especially in hospitality industry, asks for continuous investment in their strength. Corporate responsibility and loyalty programs are additional strategies that strengthen the brand image in customer's

perception and build brand loyalty. Hotel chains build their membership loyalty programs so that they can offer the customers belonging to hotel brands but still keeping their personal uniqueness. The goal of those loyalty programs is to offer customers a long term relationship with relevant and personal benefits, which will be profitable both for the customer and the brand itself. The benefits customers can get vary from lower rates, late check outs, quick reservations and check ins based on room preferences, to free stays, guaranteed room types, arrival gifts, 48h room guarantee.

3. CUSTOMER SATISFACTION AND LOYALTY

Companies exist because they have a customer to serve, [12] and customers today are the center of business operations. Any company that desires to keep customers and make them loyal, must satisfy their need and wants. Customer satisfaction plays an important role in today's hospitality industry and hotel management strives to achieve it with the products and/or service offer mainly because it is seen as an indicator of future income and profit. Additionally, customer satisfaction is seen as determinant and predictable aspect of success which helps the company to assess its weaknesses and flaws, and without satisfying customers, competition especially in hotel industry isn't even possible. [13]

In order to satisfy customers it is important to understand what really customer satisfaction is and when does it happen. As it is defined in literature, customer satisfaction is seen as a customer's perspective in which his/her wants, needs and expectations are met or exceeded. Also, it is a business belief that leads towards value creation for customers, ability and responsibility to satisfy their needs, and anticipation and management of their expectations. [14] Given that, customers satisfaction will happen when their needs and expectations are met or exceeded.

The customer satisfaction leads to customer loyalty given the long-term relationship, and the loyalty further improves the corporate image. When compared the tactics for new customer attractions and retaining the existing ones, it is stated that the cost for new customers is higher. For, managers keep their focus on the existing customers, trying to retain them with policies and procedures that manage customers' satisfaction and loyalty.

4. CUSTOMER SATISFACTION, BRAND IDENTIFICATION AND HOTELS PROFITABILITY

Looking in the correlation of customer satisfaction and company's profitability, there are researches that show mixed results. From certain economists' perspective customers satisfaction comes from the company's investments in their offer of products and/or services lowering their profitability. [15] [16] However, the significant relationship between customer satisfaction and future financial performance of the company has been proved by more researchers with actual research results that show the positive relationship in all profitability measures including net revenues and earnings. [17] [18] Customer satisfaction has been seen as a non-financial measure that affects and improve the entire corporate performance, and for that it is in the focus of top management activities.

Millennials, defined as born between 1980 and 2000, are seen as the fastest growing segment of hotel consumers with an increase of 20% in 2010 and expected increase of 50% by 2020. Differently from other customer segments in hotel industry, they prefer luxury, in means of experience, socialization over privacy, and uniqueness. [19] Their influence in hospitality industry has been identified by major players who follow the trends of millennial travelers and work hard to satisfy their needs. Some of the latest introduction to hotels' operations are the use of smart technology, among other, for booking hotel service, texting a

string of emoji with a name and room number when ordering food or drink; owning a studio to create short films, shows, webisodes for brand promotion; music related loyalty program events; contributors who recommend everything like where to eat, go or what to see. They go even further and place beacons in hotel properties in order to recognize reward club members with the use of their smart phone application, and send personalized notification and offer to the customer. [20]

Customer’s identification of a certain brand leads to a favorable outcomes including stronger perception of quality. Furthermore, the level of satisfaction with certain hotel offer is key for next selection. [20] According to the survey of Global Business Travel [21] travelers, mostly business travelers, see the hotel brand as most important factor for decision making given their consistency in any property around the world.

With the brand identified, customers’ wants and needs satisfied, hotel chains create programs to retain customers and make them loyal. The relationship between customers satisfaction, customer loyalty and hotel profitability, has been noticed by the hotel chains and clearly stated in their annual reports. The Table 1 shows the number of members that joined hotel chains loyalty programs from 2014 to 2016.

| Hotel chain | Year | | | 2016 occupancy rates | 2015 |
|-------------------------------|---------|------|------|----------------------|------|
| | 2016 | 2015 | 2014 | | |
| InterContinental | 106* | 92 | 84 | | |
| Marriott International | 85 | 54 | 49 | 56% | |
| Hilton | 60 | 52 | 44 | 56% system-wide | |
| Hyatt | 8** | 20 | 18 | 32% system-wide | 35% |
| Wyndham | 45,9*** | 45 | 32,2 | | |

Table 1: Members in hotel chains loyalty programs (in millions)

* number of members stated as 16% increase of new member enrolment in IHG annual report

**number of members that are active, total number of enrolled members not known

***number of members stated as 0,2% increase in Wyndham’s annual report for 2016

Looking at the statistics presented in hotels’ annual reports from 2014 to 2016, it is clearly that the number of their program members is continuously increasing. Moreover, hotel chains look at the occupancy rates of their rooms by their program members since it speaks for the customer satisfaction and loyalty. According to Marriot International in 2016 around 56% of the room occupancy system-wide came from their members, and the same percentage is noted in Hilton Hotels too. Hyatt Hotels also point out the importance of their loyal customers and activities they undertake to retain them since the occupancy rate of their members for 2015 and 2016 is 35% and 32% respectively. Even though Wyndham Worldwide doesn’t provide exact percentage of the occupancy rate by their members, they do state that members stay at their brands more frequently and drive incremental room nights higher ADR and a longer length of stay than nonmembers. Accor Hotels looks at loyalty as a growth driver and their loyalty program is substantially recast. This is due to their findings that members of Le Club AccorHotel program are more active and generate more revenue for the group, more precisely from 2014 to 2016 the number of their cardholders has increased of 73%, making 30% contribution in total room sales. [22] - [34]

5. CONCLUSION

Tourism and hospitality is with no doubt the fastest growing industry in the world. Hotel chains have taken the advantage of globalization and extended on every possible market in the world mostly through franchise and managerial contracts. These expansion strategies offer not only presence for broader target market but also presence under a well known brand with consistency in products and services. Having their consistency, loyalty programs, and corporate responsibility put the customer in center, results with brand identification, customer satisfaction and loyalty, and higher profitability. Moreover, with Millennials Generation on the market as the most influential segment who further shapes the industry, identifying customer needs, wants and expectations and exceeding them is the key for success among hotels. For that, hotel chains focus on the available resources like smart technology, and take good advantage of it by including them in booking, ordering, recommendation, and that doesn't go unnoticed.

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