

**THE EFFECT OF MARKETING MIX ON GUEST SATISFACTION AND
GUEST RETENTION IN FIVE STAR HOTELS**

RONAK RAEESI

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ABSTRACT

Providing customer satisfaction and retention is one of the biggest challenges in service industries. Organizations today are putting on efforts to identify and manage existing customers. Among the popular marketing theories, the 8Ps of Lovelock service marketing mix recognized the critical factor in business for competitive differentiation, customer satisfaction and customer retention. This study examines the relationship between the marketing mix components, guest satisfaction and retention. Also it investigates the mediating effect of satisfaction on the relationship between marketing mix and guests' retention in five – star hotels in Kuala Lumpur. Furthermore, this research tries to discover the existence of difference in the level of satisfaction and retention based on nationality that the guests are Malaysian or international. In this research the non- probability and convenient sampling is chosen and by using Likert Scale's questionnaire the data were collected from 25 five-star hotels in Kuala Lumpur. And data were analyzed according to the collected questionnaires by structural equation modeling using the Partial Least Squares (PLS) approach. During the analysis several methods were used such as, reliability and validity analysis, t-test and independent t-test. The results of this study show all the 8 Ps of marketing mix components has a positive relationship with the satisfaction and, among the marketing mix components, service or product has the largest effect on satisfaction. Furthermore nationality has not made a difference in terms of level of satisfaction and retention. This study provides hotel professionals with an assessment of Lovelock marketing mix theory to measure and manage guest satisfaction and retention in five star hotels in Kuala Lumpur.

ABSTRAK

Memberi kepuasan dan mendapatkan kesetiaan pelanggan adalah salah satu cabaran terbesar dalam industri perkhidmatan. Organisasi hari ini meletakkan kepada usaha untuk mengenal pasti dan menguruskan pelanggan yang sedia ada. Antara teori-teori pemasaran yang popular, teori campuran perkhidmatan pemasaran 8Ps daripada Lovelock diiktiraf sebagai faktor kritikal dalam perniagaan untuk perbezaan daya saing, kepuasan pelanggan dan kesetiaan pelanggan. Kajian ini mengkaji hubungan antara campuran komponen pemasaran, kepuasan dan kesetiaan pelanggan. Selain itu, ia juga mengkaji kepuasan sebagai kesan mediator di dalam hubungan antara campuran pemasaran dan kesetiaan pelanggan di hotel bertaraf lima bintang di Kuala Lumpur. Kajian ini juga mengenalpasti kewujudan perbezaan dalam tahap kepuasan dan kesetiaan berdasarkan kewarganegaraan pelanggan samaada warganegara Malaysia atau antarabangsa. Dalam kajian ini persampelan bukan kebarangkalian dan pensampelan mudah dipilih dengan menggunakan soal selidik Skala Likert. Data dikumpul dari 150 pelanggan di 25 hotel bertaraf lima bintang di Kuala Lumpur. Data dianalisis berdasarkan struktur persamaan pemodelan (SEM) menggunakan pendekatan Partial Least Square (PLS). Semasa analisis beberapa kaedah telah digunakan seperti kebolehpercayaan, analisis kesahihan, ujian-t dan ujian-t tidak bersandar. Keputusan kajian ini menunjukkan semua komponen campuran pemasaran 8Ps mempunyai hubungan yang positif dengan kepuasan dan antara komponen campuran pemasaran, perkhidmatan atau produk mempunyai kesan yang paling besar terhadap kepuasan pelanggan. Kewarganegaraan tidak memberi perbezaan dari segi tahap kepuasan dan kesetiaan. Kajian ini menyediakan profesional hotel dengan penilaian teori campuran pemasaran Lovelock untuk mengukur dan mengurus kesetiaan pelanggan di hotel bertaraf lima bintang di Kuala Lumpur.

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LIST OF ABBREVIATION

GDP	Gross Domestic Product
EIU	Economist Intelligence Unit
UNWTO	United Nations World Tourism Organization
ETP	Economic Transformation Programme
NKEA	National Key Economic Areas
MTTP	Malaysia Tourism Transformation Programme
GDS	Global Distribution System
CS	Customer Satisfaction
CR	Customer Retention
KL	Kuala Lumpur
SEM	Structural Equation Modeling
PLS	Partial Least Squares

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CHAPTER 1

INTRODUCTION

1.1 Introduction

This chapter gives a background to the thesis topic where concepts such as marketing mix, customer satisfaction and customer retention will be introduced and explained. Afterwards, the problem discussion will be presented which in turn will lead to the study's purpose and research questions. Finally, before the thesis outline is presented, the significance and limitation of the study of this study will be stated.

1.2 Background of the Study

The services sectors play an increasingly important role in the global economy and the growth and development of countries. Over the years, the services sectors have been growing in its size and contribution to the Malaysian economy. For instance, the services sectors contributed approximately 58.6 percent of the nation's real GDP in 2011 with the largest growth sector shown in hotel and restaurant

services (14.4%). The finance and insurance sub-sector expanded further by 6.8% following continued growth in bank lending and higher fee-based income. The real estate and business services sub-sector recorded a sustained growth of 8.7% and the wholesale and retail trade sub-sector registered a growth of 6.8% also, the communication sub-sector grew by 6.5% while the transport and storage sub-sector registered a growth of 4.3% in 2011 (Bank Negara Malaysia, 2011).

The hotels today not only cater to the basic needs of the guest like food and shelter provide much more than that, like personalized service etc. Hotels today are a “Home away from home”. Similar to many developing nations, the hotel industry in Malaysia has become one of the most vital sectors, drivers and/or engines of growth and development of the Malaysian economy because Malaysia was the ninth most visited countries during 2011 with 24.7 million tourist arrivals and it has become one of the leading tourist destinations, competing with other popular destinations (EIU, Tourism Malaysia, UNWTO, 2011).

In a highly competitive hotel industry, hotels must find ways to make their services stand out among the others by various and different services from the others. To achieve this, hoteliers must understand their customers’ needs and expectations – and then set their services in a way to satisfy them by meeting their needs and retain them by going beyond their needs (Gustafsson et al., 1999).

In order to improve customer satisfaction and customer retention, the hotels need to know which service attributes might affect on customers. Moss (2001) stated that failure to give necessary attention to marketing mix attributes that comprise product or service, price, place, physical evidence, promotion, participants, process and productivity or quality might result in a customer’s negatively evaluating the hotel services and may ruin the chance of that guest returning to the hotel.

According to Lovelock and Wirtz (2007), the combination of all of the factors that effect on guest's satisfaction and retention is collected in the service marketing mix. Hence, it is important for the hotels to have a clear view on the impacts of the 8 P’s of marketing mix on customer satisfaction and customer retention in the market. Since a customer’s satisfaction and customer retention are influenced by the service

marketing mix and the provision of marketing mix has become a major concern of all businesses (Berry and Parasuraman, 2004).

This research therefore aimed at studying effect of marketing mix on customer satisfaction and customer retention on hotel services which used five-star hotels in Kuala Lumpur.

1.3 Problem Statement

The year 2012 augurs well for the tourism industry with the achievement of a major milestone of welcoming one billion international tourists globally. Regionally, Asia and the Pacific recorded the highest growth with an increase of 7% tourist arrivals compared with the average global growth of 4%. This reflects the vitality of the tourism industry in the region (UNWTO Conference, 2013).

Tourism industry as one of the increasingly important sectors in the service sector has been a major player in the growth of the Malaysian economy. In order to tap the growth potential of tourism and to realize Malaysia's aspiration of becoming a high-income country by 2020, Malaysia launched the Economic Transformation Programme (ETP). Towards this end, tourism has been identified as one of the national key economic areas (NKEAs) to propel this economic transformation. In this regard, the Malaysia Tourism Transformation Programme (MTTP) was formulated to achieve the targets of attracting 36 million international tourists and generating RM168 billion in terms of tourist receipts. This translates into an expansion by 3 times the foreign exchange earnings, thus contributing RM3 billion (USD1 billion) revenue per week in 2020. This strategic ambition will be achieved based on the themes of luxury and first class hotels; family fun; business tourism; and international events, spa and sports (UNWTO Conference, 2013).

Therefore, the hotel industry is a very important component of the tourism industry, because it satisfies the most important needs of the tourist which is accommodation. In order to increase the portion of hotel industry in Malaysia economy, the hotels must satisfy and retain their guests. To build customer satisfaction with hotels guarantee a high rate of customer retention and reduced cost for recruiting new customers which leads to long-term profitability. From the hotel's perspective, to retain their customers, they should try to make customers satisfied with their services and offerings. Due to the importance of the hospitality and hotel industry and its vital relation with the guests, the emphasis of recent academic and managerial inquiry in the hotel industry has focused on determining the services that effect on the guest satisfaction and retention (Sim et al., 2006).

The hotel industry is characterized by the presence of many hotels which present a wide range of services to their customers and the service marketing mix is considered as a major tool that it helps hotels to provide guests' needs and meet their expectations. Also the service marketing mix made it necessary for hoteliers to save their hotels from losing the customers and gain the competitive advantage among other competitors. According to Al Muala (2012), by adopting marketing mix, the provision of better products is not only accomplished but in addition, the saving of costs and time in developing and promoting the product is also accomplished.

Yelkur (2000) reported, it is important for hoteliers to realize that the service marketing mix factors (product or service, price, place, physical evidence, promotion, participants, process and productivity or quality) can help them to increase customer satisfaction and customer retention. Thus to adopt the service marketing mix theory can improve the customer satisfaction and customer retention in hotels.

In today's changing global environment, hotels are facing intensifying competition and rapid deregulation. Focusing on five- star hotels, the research is conducted because according to the observations in the recent years with the purpose of different researches, the researchers found out that the five- star hotels are suffering from very intense competition in its international market (Min, 1996). Thus to achieve competitive advantage and efficiency; the five- star hotels have to seek

profitable marketing tools such as the service marketing mix to differentiate themselves.

Secondly, many studies have been conducted in hotels related fields, but a few studies have been conducted in the service marketing mix in hotels. Also, in previous researches about the effects of the service marketing mix in hotels, most of the studies have attempted to discover evidence about the level of customer satisfaction and customer retention in hotels by studying only several service attributes or / and studying the effects of 4 P's of marketing mix (product, price, promotion, place) on customer satisfaction and customer retention; however, there are very few studies that have developed evaluation for assessing the effects of 8 P's of Lovelock marketing mix comprehensively on customer satisfaction and customer retention in hotel industry (Jun & Cai, 2001).

1.4 Research Objectives

The main goal of this research is to investigate the effect of marketing mix on guest satisfaction and retention on five-star hotels in Kuala Lumpur. Therefore the objectives of this study are:

1. To examine the impact of marketing mix on customer satisfaction in luxury hotels.
2. To examine the impact of customer satisfaction on customer retention in luxury hotels.
3. To examine the mediating effect of satisfaction on the relationship between marketing mix and guests' retention in luxury hotels.
4. To examine if there are any differences in the levels of customer satisfaction and customer retention based on the nationality that the guests are Malaysian or international.

1.5 Research Questions

According to the objectives explained previously, this research answered to the following research questions.

1. Does (a) product or service, (b) Process, (c) participants, (d) price, (e) place, (f) physical evidence, (g) promotion, (h) productivity or quality has a significant effect on guest satisfaction in five-star hotels?
2. Does guests' satisfaction affect the guests' retention of five-star hotels?
3. Does hotel guests' satisfaction mediate the relationship between marketing mix and Customer Retention?
4. Are there any differences in the levels of customer satisfaction and customer retention based on the nationality that the guests are Malaysian or international?

1.6 Scope of the Study

This study investigates the effect of 8P's of Lovelock service marketing mix on guests' satisfaction and retention in five-star hotels in Kuala Lumpur. Twenty five 5-star hotels as listed in table 1.1 were included in this study.

Table 1.1 Luxury (five-star) Hotels in Kuala Lumpur (www.expedia.com.my)

No	Hotel Name	Address
1	Grand Hyatt Kuala Lumpur	Jalan Pinang, 50450 Kuala Lumpur, Federal Territory of Kuala Lumpur, Malaysia
2	Hilton Petaling Jaya	Jalan Barat, 46200 Petaling Jaya, Selangor, Malaysia
3	Hilton Kuala Lumpur	3 Jalan Stesen Sentral, 50470 Kuala Lumpur, Federal Territory of Kuala Lumpur, Malaysia
4	Pullman Putrajaya Lakeside	No 2 Jalan P5/5 Presint 562200
5	Hotel Maya Kuala Lumpur	138, Jalan Ampang, 50450 Kuala Lumpur, Malaysia
6	Grand Millennium Kuala Lumpur	160 Jalan Bukit Bintang, Bukit Bintang, 55100 Kuala Lumpur, MY, Malaysia
7	Sheraton Imperial Kuala Lumpur Hotel	Jalan Sultan Ismail Kuala Lumpur, 50250
8	Double Tree by Hilton Hotel Kuala Lumpur	The Intermark, Jalan Tun Razak, 50400 Kuala Lumpur, Federal Territory of Kuala Lumpur, Malaysia
9	GTower Hotel	No 199 Jalan Tun Razak, KLCC, Kuala Lumpur, Malaysia 50400
10	Traders Hotel Kuala Lumpur	Kuala Lumpur City Centre, 50088 Kuala Lumpur, Malaysia
11	Shangri-La Hotel Kuala Lumpur	11 Jalan Sultan Ismail, Bukit Bintang, 50250 Kuala Lumpur, Federal Territory of Kuala Lumpur, Malaysia
12	The Majestic Hotel Kuala Lumpur	Jalan Sultan Hishamuddin Kuala Lumpur
13	Mandarin Oriental Kuala Lumpur	Jalan Pinang, Kuala Lumpur City Centre, 50088 Kuala Lumpur, Federal Territory of Kuala Lumpur, Malaysia
14	The Westin Kuala Lumpur	199 Jalan Bukit Bintang, Bukit Bintang, Kuala Lumpur
15	The Royale Chulan Kuala Lumpur	Jalan Conlay, 50450 Kuala Lumpur, Federal Territory of Kuala Lumpur, Malaysia

16	JW Marriott Hotel Kuala Lumpur	Kuala Lumpur, Selangor, Malaysia
17	InterContinental Kuala Lumpur	165 Jalan Ampang, 50450 Kuala Lumpur, Federal Territory of Kuala Lumpur, Malaysia
18	The Ritz-Carlton, Kuala Lumpur	168 Jalan Imbi, Pudu, 55100 Kuala Lumpur, Federal Territory of Kuala Lumpur, Malaysia
19	Le Meridien Kuala Lumpur	Jalan Stesen Sentral, Kuala Lumpur Sentral, 50470 Kuala Lumpur, Federal Territory of Kuala Lumpur, Malaysia
20	The Club at The Saujana	Jalan Lapangan Terbang Subang, 40150 Shah Alam, Selangor, Malaysia
21	Carcosa Seri Negara	Jalan Kebun Bunga, 50480 Kuala Lumpur, Federal Territory of Kuala Lumpur, Malaysia
22	Crowne Plaza Mutiara Kuala Lumpur	Jalan Sultan Ismail Kuala Lumpur 50250
23	Putrajaya Marriott Hotel	IOI Resort City, 62502 Sepang Utara, Malaysia
24	Pullman Kuala Lumpur Bangsar	No1 jalan Pantai Jaya, 59200 Kuala Lumpur, Malaysia
25	Putrajaya Shangri La	Presint 1, 62000 Putrajaya, Federal Territory of Putrajaya, Malaysia

1.7 Limitation of the Study

There are some limitations of this study which should be addressed in the future. In this study evaluating the customer satisfaction and customer retention rely only on guests' experience of the hotels' services, for this there is a supposition that the customers have informed idea about what their perceptions are about their service experiences. This study is also limited to only a few guests in a short period of time, which had an experience on five – star Hotels services in Kuala Lumpur. As a result the findings from this study cannot be generalized to other guests at any other time during the year and all the hotels in Malaysia. Furthermore one of the limitations of

the study is that most of the guests in the hotels are busy to answer all the questions so, only a few guests would answer the questionnaires completely. Another limitation of this study is the distance between five – star hotels because the five – star hotels are scattered over the Kuala Lumpur.

1.8 Significance of the Study

The result of the study would give the deeper vision of relations between the service marketing mix and customer satisfaction and customer retention. This study identifies the factors that influence five- star hotels guests' satisfaction in Kuala Lumpur. First of all, knowing the importance of customer retention in hotel industry shows that the customer retention is based on three main points which are; first, satisfying customer needs, second, the creation of the relationship between the customer and the hotel (Hüttinger et al., 2010), and finally, meeting the need and expectation of the customer beyond their expectations (Bhattacharya and Sen, 2003). Therefore, this study served as advice to the managers to identify the guests' needs.

Secondly, by investigating the relationship between marketing mix components and customer satisfaction and customer retention it would be clear that which of the P's of the Lovelock marketing mix theory have more impact on the satisfaction of the hotel guests.

Thirdly, investigating the relationship between customer satisfaction and customer retention also its mediating role in the marketing mix and customer retention relationship emphasize that the focus of hotels which provide services should be solely on improving customer overall satisfaction.

Lastly, the significance of this study is that there are few comprehensive works on evaluating the effect of all 8P's of marketing mix on customer satisfaction and customer retention since most of the studies evaluated the effects of only some

attributes or 4P's of marketing mix (product, price, promotion and place) on CS and CR.

This study attempts to achieve the following assumptions:

1. It is expected to discover the level of satisfaction and retention towards five – star hotels in Kuala Lumpur.
2. It is expected to identify the relationship between marketing mix, customer satisfaction and customer retention and going further to investigate the mediating role of satisfaction in this assumed relationship.
3. It is anticipated to find the most important components of the marketing mix in five – star hotels in Kuala Lumpur.
4. It is anticipated to discover if there are any differences in levels of customer satisfaction and customer retention based on the nationality that the guests are Malaysian or international.

1.9 Definitions of Key Terms

In this research, there are several terms that represent the key words. They will be frequently used.

Lovelock Service Marketing Mix Theory: The 8P's of Lovelock marketing mix is a fundamental concept, powerful business tool and management paradigm or mind-set in marketing management. The 8P's of the marketing mix in hotel industry helps hoteliers to gain and sustain competitive advantage, also it have a pervasive influence on attracting new guests, satisfying and retaining existing guests and make them loyal to a hotel. These critical 8 P's in the Lovelock service marketing mix are

product or service, price, place, physical evidence, promotion, participants, process and productivity or quality (Lovelock, Wirtz, 2007).

Customer Satisfaction: Satisfaction is a person's feelings of pleasure or disappointment resulting from comparing a product's or service's perceived performance (or outcome) in relation to his or her expectations (Kotler, 2003). Customer satisfaction in hotel industry is a business philosophy leading to the establishment of value for guests, expecting and controlling their anticipation and showing ability (Dominci and R. Guzzo, 2010). Hotels should consider the customer desires and improve their services in line with their targeted market needs (Sim et al., 2006).

Customer Retention: Customer retention and loyalty have focused on the willingness of customers to enter and to stay in a relationship with the provider of a product or service based on their satisfaction (Anderson and Mittal, 2000; Bowman and Narayandas, 2001; Dver, 2001; Homburg and Giering, 2001). Customer retention in hotel industry means continuing an active relationship with guests and makes them commit to a specific hotel to return from this hotel (Clemmet, 1998).

Hotel Industry: The hotel industry is one of the largest industries in both global and national contexts and it plays a valuable role through contribution in economic growth in a country. The hotel industry is one of the very important components of the tourism industry, because it satisfies one of the most important needs of the tourist which is accommodation (Chon and Sparrowe, 2000).

1.10 Thesis Plan

The first chapter, introduction, already presented starting with an overall background where the concepts of marketing mix, customer satisfaction, and customer retention and hotel industry were introduced. The background further led to the problem discussion which was narrowed down to the overall purpose and

research questions of the thesis. The second chapter, the literature review, presents the relevant literature around the topic of the effect of marketing mix on guest satisfaction and retention on hotels. Chapter three identifies the methodology, the sampling and the instruments that were used to conduct the research.

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