CHAPTER-3

REVIEW OF LITERATURE

3.1 Introduction

In the world of competition, “Acquiring new customers is important for business success, but maintaining customer relationships is just as crucial”. (Adhikari and Adhikari, 2009). Reichheld and Sasser (1990) studied that a 5% increase in customer retention resulted in the profit growth of 25 to 125% in nine service industries. Thus it denotes that strategizing relationship building with customer should be the primary focus of service firms. In the 21st Century’s extremely competitive scenario, at least one rule from the traditional business remains unchanged i.e. customers reigns supreme (Brink and Berndt, 2008). According to Jain and Jain (2006) customers act as the lifeblood for the organizations for generation of profit and revenue. Thus managing long-term relationships with the customer is highly essential for a service organization to earn loyalty and retention. Moreover satisfied customers allow the organization to move on the path of sustainable competitive advantage. It has also been estimated that the cost incurred for attracting new customers can be six times higher than that of retaining existing customers (Deasatnick, 1987 and Congram, 1991). Furthermore, service to loyal customers is less expensive and they can generate more profit to the organization. Today, customer retention and loyalty are the two difficult jobs for the marketers (Buttle, 1996). James Schorr ex-executive vice president of Holiday Inns, in his ‘Leaking Bucket Theory’, clearly defines how dissatisfied customers runs away from the service company exactly like water, falls out of a leaked bucket. Thus, retaining and sustaining customers in an organization is very much crucial to accomplish competitive advantage.

In service sector, relationships have always been given priority and the most significant thing is to keep in mind that services are inherently relationship-oriented (Gronroos, 2007). In the process of providing service through interactions, contacts establish with the customers. And eventually, some sort of relationships develop between the service firm and customers (Gronroos, 1990 and Bitner, 1995) when a customer perceives that there is a mutual way of thinking that exists between customer and service provider.
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(Gronroos, 2012). Hence, maintaining long-term relationships with customers is more vital than ever because slight increase in the number of loyal customers results a significant increase in profitability of the organization (Kim and Cha, 2002; Tepeci, 1999; Bowen and Shoemaker, 1998). In addition, relationship also ties the customer to the service company like adhesive through interactions and communication (Gronroos, 2012). Thus, the need to keep existing customers become priority in the face of intense competition (Reachheld and Sasser, 1990). Opuni (2014) also explored that, relationship marketing significantly adds value to a service firm as they mostly depend on customer relationships to achieve desired service quality levels, customer satisfaction and customer loyalty. As a result, relationship marketing plays a key role in service sector. Hence in services marketing; service quality, customer satisfaction and customer retention are driven by the effectiveness of relationship marketing (Heffernan et al. 2005; Horri et al. 2013; Akbari and Safarnia, 2012).

Therefore, relationship marketing is professed to be a significant component to develop customer satisfaction, loyalty and long-term relationships (Henning-Thurau and Hansen 2000). And relationship marketing is all about creating and maintaining long-term relationships between an organization and its customers (Shammout, Zeidan and Polonsky, 2006, Kim et al. 2001). Moreover, relationships marketing revolves around three core aspects; building relationships, retaining existing customers and recognizing internal and external markets (Drysdale 1999). A strong relationship with customer, based on high familiarity and effective communication, also can help in generating new and more practical product ideas from customers as well as staffs (Kiess-Moser and Barnes, 1992). Accordingly, relationship marketing is a philosophy that aims to sustain existing customers through improving interactions with them rather than acquiring new ones (Rao, 2005). However, simply focusing on customer retention strategy is not sufficient and it was found that in few cases, in retail banking perspective, though the customers are apparently satisfied with the services but still operations are not profitable in the long run (Storbacka et al., 1994). Hence, relationship building and management make sense to a company’s profitability (Grönroos, 1994).

This chapter analyses different literature related to the thesis in accordance to the research objectives. It also reviews various research studied related to relationship marketing application in hospitality and hotel industry. The major objective of this
Chapter is to give broad description about the scope and characteristics of customer relationship marketing and to reveal its importance in today’s cutthroat competitive scenario of the hotel industry. In the initial part of this chapter, the stages of development of relationship marketing was discussed to elucidate the theoretical aspect of relationship marketing. Different schools of thought are outlined and elements such as, satisfaction, loyalty, commitment and trust in between hotels and their customers are explored. Then, on the later part of this chapter, different research models related to relationship marketing constructs were analyzed to develop a conceptual framework of this research study.

For this study 163 research papers (periodicity: 1983-2015) related to customer Relationship Marketing approach and Hospitality & Hotel industry are exclusively reviewed. Furthermore, 10 Doctoral and 12 Master levels also referred for this study. Secondary Data Collected with help of Emerald insight, Proquest, Ebscohost and Google Search.

3.2 An Overview of Customer Relationship Marketing

It is rightly said by Ben Grossman, Founder of BigMark that “New marketing is about relationship, not the medium”. That’s why, relationship is a vital factor in ensuring quality endurance and business sustainability in the modern era of global economy. Etymologically, the word ‘relationship’ is derived from the noun ‘relation’ which is derived from the verb ‘relate’. The Latin root of the word relate, is ‘relatus’, which means “to refer” (Barnhart and Steinmetz 1988). According to Futrell (2012) relationships are about the connections individual parties share and the influence of the connection on the individual. As we have entered 21st century, we see that there is a paradigm shift in the approach and strategies of modern service firms towards their customers. Retaining and sustaining customer loyalty in today's hi-tech competitive market is really a essential challenge for the service firms. Moreover a business makes money only if it satisfies its customers by catering to their needs. This insight has motivated business firms to adopt a customer culture. From research it is found that attracting new customers is difficult and costly as compared to keep a current or already existed customer satisfied. So, companies realized this fact and hence focused on retaining the existing customers. However, according to Lau Wai Man (1998), a relationship between two parties cannot be maintained if either party is unable to get
benefits from it. Value sharing among participants is equally important for relationship longevity. In addition to above, customer value is considered as a key driver of customer satisfaction and loyalty. And the capability of an organization to offer better-quality services to the customers is considered as a most successful competitive strategies (Raval and Gronroos, 1996). Hence, the focus of business strategy for organizations is shifting from profit maximization and shareholder value, to creating customer value (Reichheld, 1993). Customer value is a perception of overall assessment of the utility of a service received and this perception establishes contentment which influences customer loyalty. Consequently Monroe (1990) defines customer perceived value as a transaction between the quality they perceive and the sacrifice they perceive through payment. Moreover it is the ratio between perceived benefits and perceived sacrifice.

Customer Perceived Value (CPV) = Perceived Benefits/Perceived Sacrifice

Whereas according to Zeithaml (1988) customer perceived value (CPV) is the overall assessment of the utility of a product based on the difference between what is received and what is given. In view of that, CPV is the assessment of pre-purchase expectation and post-purchase perception. In the present highly competitive market and times of changing customer value, it is exceptionally intricate to retain customers on a long-term basis. Therefore, a special bond through regular communication has to be developed to capture the heart and mind of the customer. And this is only feasible through relationship marketing also commonly referred as ‘customer-focused management’ (Gummesson, 1994). Therefore the worth of customer relationship marketing in an organization, highly dependent on the usefulness of customer value creation through firm bonding. Furthermore, though loyalty and relationships are not interchangeable; relationship marketing keeps the link between the company and customers intact and this at least gives a chance to the firm to convert a customer to a loyal one. Thus, the main challenge for an effective relationship marketing programme is to convert a transaction oriented relation to an emotionally connected loyalty.
3.2.1 Significance of Customer Relationship Marketing Approach for an Organization

According to the great management guru, Peter Drucker (1973) ‘The purpose of business is to create and then retain a satisfied customer’. Although business firm’s sole motto is profit maximization Drucker argued that ‘money is only a necessity; not a purpose’. Services are always intrinsically relational. Over the last 30 years service firms moved from the mass market culture to customization. Therefore, it is essential for the service firms to move away from the age old faceless ‘in and out’ transaction mentality to modern customer centric interface (Verma, 2012). In case of transaction oriented marketing focus was only on sales and presales activities but actual marketing starts with the ‘after sales’ process and this is the place where real relationships are developed. In this way marketing focus has changed to ongoing relationships from single once off transaction orientation (Skogland and Siguaw, 2004).

As 80/20 rule says, 80% of sales comes from the top 20% of the customers. Therefore, Zeithaml et al. (2001) segmented the customer criteria in form of a pyramid (Figure-3.1) in to different tiers according to their profitability and value to the service organization. From this pyramid it is found that platinum category customers are the most loyal while lead category of customers are least profitable.

![Customer Pyramid](image)

**Figure 3. 1 Customer Pyramid**

Hence, the main challenge for the service company is to search and segment the most potential customers to provide utmost satisfaction through highly customized services.

In today’s impersonal, arms length market place customer satisfaction retention and loyalty is no more a thing of the past. Relationship marketing brings them back to the forefront providing easy to apply solutions and strategies for establishing meaningful bonds with customer and converting them into reliable lifelong partners. For this reason companies employing relationship marketing approach always stress on customer retention rather than customer acquisition because research has demonstrated that loyal customers are more likely to be profitable. According to Kaur (2013) real customer relationships develop when a customer feels a genuine sense of loyalty to the organization which resulted from a series of gratifying experience. However relationships does not happen overnight. When a customer realizes some specialty and worth in interaction with the organization at that point only relationship develops. Furthermore when satisfying encounter reoccurs frequently; it becomes a relationship. So, relationships develop out of consecutive experience of customer satisfaction (Barnes, 2001). And relationship marketing happens when an organization involves itself in creating, developing and maintaining committed, interactive and profitable exchanges with selected customers (Harker, 1999).

Therefore, the key to successful customer relationship management programme is to identify the valued customers and ensure a continuous search for opportunities to provide value added customized services (Doyle, 2001). Likewise, relationship marketing has three objectives such as building relationships, maintaining relationships and enhancement of relationships (Rao, 2005). In a nutshell, relationship marketing is the process of creating, maintaining and enhancing strong value laden relationship with customers and stakeholders (Nargundkar, Panda and Ramkumar, 2000).

3.3 Origin and Evolution of Relationship Marketing Concept

Globalization of economy, rapid changes in business environment, technovation and rising trend of customer-centric business strategy have revolutionized the conventional marketing philosophy. As product-focused-marketing-strategy was unable to deliver in the global competitiveness, nurturing the existing customer became priority to achieve profitability (Barnes 1994). As a result customer relationship marketing concept is the
foremost innovative approach that emerged as a substitute of transactional marketing and also referred as customer relationship management (Payne et al., 1995).

3.3.1 Root of Relationship Marketing

“Relationship Marketing is an ‘old new’ idea but with a new focus” (Berry, 1995). Relationship Marketing has been a topic of serious discussion among academics and marketing practitioners since many years (Egan, 2008). During the industrial era the focus was on mass production and distribution. Accordingly marketing theories solely revolved around product marketing and the 4Ps concept was concerned only with mass marketing and standardized consumer goods as opposed to establishing relationships with individual customers. Though relationship is a core element of Business to Business (B2B) as well as services marketing, it was given less importance due to lack of research and practice. As marketing management is ‘supplier oriented’ (Gummesson, 2002), rather than ‘customer oriented’ as a result, in order to obtain an understanding of customers and their need relationship marketing concept was developed. Relationship marketing evolved in the marketing strategy continuum to eliminate the constraints of traditional marketing which was less customer-focused (Ngo & O’cass, 2009). Christopher et al. (2002) further declared relationship marketing as reincarnation of marketing phenomenon.

3.3.2 Development of Relationship Marketing Concept

According to a proverb from Middle East “As a merchant, you’d better have a friend in every town”. And this historical viewpoint inspired by Gronroos (1994) to connect the value attached to relationships in a business perspective. Buttle (1996) also argued that merchants of middle age were well aware of the significance of valued customers. Hence, the concept of customer relationship is nothing new. Although relationship is an old concept it has been practiced mostly by the modern marketers in recent scenario (Shanthakumar and Xavier, 2000). For this reason Brito (2011) coined relationship marketing as “Old wine in new bottle”. Relationship marketing is an emerging marketing concept since 1990s and literature on relationship marketing also emerged at an exponential rate (Christopher, 1999). Leaders in services marketing considered relationship marketing concept as a source to bridge the gap between organization and customers. The concept of relationship marketing has developed with the emergence of
service marketing in which customer plays a major role. Though relationship marketing was introduced preliminarily by Gronroos (1982) as “interactive marketing” in service context; Berry (1983) initiated the term “relationship marketing” at American Marketing Association’s Services Marketing Conference. It has been argued that Berry (1983) was the first to introduce the term ‘relationship marketing’ as a modern concept in marketing (Grönroos 1990; Morgan & Hunt 1994; Sheth & Parvatiyar 1995; Aijo 1996; Henning-Thurau & Hansen 2000; Christopher et al. 2002; Buttle 2006). Levitt (1983) further highlighted the significance of relationship management with customer through after sales services. Later on, Jackson (1985) initiated the term ‘relationship marketing’ in business-to-business (B2B) context in contrary to transactional approach. Afterward, the notion of customer relationship marketing spread like wildfire during 1990s. The idiom became trendy in the period from 80s and 90s where the focus shifted from customer acquisition to customer maintenance. Primarily relationship marketing concept emerged within services marketing and industrial marketing context (Lindgreen et al., 2004; Christopher et al. 1991 and Gummesson, 1991). The primary focus was on customer satisfaction and long-term retention rather than customer transactions (Kotler, 1991). According to many researchers, relationship marketing considered as a strategy to enhance customer relationship to increase profit level of the company (Berry, 1983; Gummesson, 1993; Grönroos, 1994; Storbacka et al 1994). Christopher (1996) pointed out that marketing must change its focus from brand values and should emphasize on the creation of customer value. Sheth and Parvatiyar (1995) and Gronroos (1994) considered relationship marketing as a paradigm shift from the traditional 4P’s i.e. product-focus to people-focus (Aijo, 1994). Whereas Duncan and Moriarty (1998) developed a communication-based model of marketing that exclusively focuses on relationship building as compared to traditional 4Ps model. Webster (1992) also considered it a shift of focus that emphasizes from products to people. However, Rao and Perry (2002) argued that it is not paradigm shift but rather a marketing approach where management considers product/service, customer, and organization factors.

3.3.3 Evolution of Relationship Marketing Era

Relationship marketing, in true sense is an evolution of the marketing concept, since there is a shift in focus from the need to engage in transaction towards the need to develop long customer relation. Figure3. 2 presents the developmental trend in
marketing approach and demonstrates the shift from mass marketing to customer relationship marketing. Christopher, Payne and Ballantyne (1991) have explained the evolutionary journey of product focused consumer marketing from 1950’s towards the customer focused relationship marketing of 2000 era.

**Figure 3.2 Developmental Trends in Marketing**

<table>
<thead>
<tr>
<th>1950s</th>
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<th>2000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Marketing (Mass Marketing)</td>
<td>Business to Business Marketing</td>
<td>Non-profit and societal marketing</td>
<td>Services Marketing</td>
<td>Relationship Marketing</td>
<td>Marketing as a Social and Economic Process-relationship marketing</td>
</tr>
</tbody>
</table>


White (2010) elaborated different eras of marketing starting from pre-industrial trade era to newly proposed relationship and social marketing era as depicted in Figure 3.3.

**Figure 3.3 Marketing Eras**


Below Figure 3.4 depicts the changing dynamics of marketing focus from product dominance to service dominance phase where customer relationship is intrinsically associated with service orientation. It describes the shifting focus of marketing trend in 1800s i.e. product–focused to customer centric service orientation in the era of 2000.
According to the study in 1800s, the primary focus of marketing was on 'product'. And this trend continued till 1950s. But later on the focus shifted gradually towards 'sales'. Since then keeping sales as the main focus, companies started to create innovative ideas of marketing to market their products and make them more accessible. So, there was increase in competition amongst the market players. Eventually, from being market dominant the companies evolved being service dominated and so the outcome was customer relationship marketing.

Figure 3.5 below illustrates the evolutionary phases of relationship marketing through emphasizing on all market domains from 1950s to 2000s (Christopher et al. 2002).
According to the study of Christopher et al. (2002), relationship marketing evolved in and around early 1990s subsequent to service marketing.

### 3.3.4 Journey from Transactional Marketing to Relationship Marketing

Previously transaction marketing concept was widely accepted by the marketers as a popular phenomenon. Transactional marketing concept originated during the industrial era as mass marketing approach where production grew rapidly along with the range and complexity of goods and services offered also increased (Webster 1992; Sheth & Parvatiyar 2000; Gummesson 2008). However due to lack of access towards customer information and interaction a gap has been seen between companies and customers. To bridge this gap customer relationship concept was gradually evolved. Previously marketing approach was dominated by transactional thought, until it was challenged by relationship marketing theory. As a result a lucid shift towards relationship marketing occurred in the areas of industrial marketing and services marketing. And at the same time a shift of focus was also seen from the traditional transaction-based approach towards a more relationship-oriented one (Christopher, 1996; Gronroos, 1994; Gummesson, 1987).
Thus, relationship marketing developed as a new paradigm in marketing literature (Brodie et al., 1997; Gummesson, 1997; Grönroos, 1994; Kotler, 1991). Strandvik and Storbacka (1996) in form of transitional curve, which described the shifting orientation of product focused transaction orientated marketing towards relationship orientation (Figure 3.6).

**Figure 3.6 The Transitional Curve of Relationship Marketing**

![Transitional Curve of Relationship Marketing](image)


The above learning curve says that initially the relationship building activities were mostly product based. However, with a transition the companies are making relationships based on their resources and competencies.

In contrast to transactional marketing where the emphasis is only on creating customers; as in case of relational marketing the purpose was not only restricted to customer satisfaction but also with retention, recovery and customer value creation (Bruhn, 2003).

As viewed by Christopher et al. (2002), transactional marketing emphasizes on customer acquisition while relationship marketing emphasizes on all marketing domains as well as customer retention (Figure 3.7). According to the study, the shift of marketing focus changed from functionality to cross-functionality.

Lindgreen et al. (2004) also explained the evolutionary stages of transactional marketing approach that focused on customer gain or acquisition to relationship marketing approach that focuses on customer retention in form of a life cycle curve (Figure 3.8). The curve depicts how the significance of relational marketing emerged along with the decline of functional i.e. transactional marketing.

**Figure 3.8 Transactional Marketing vs Relational Marketing**

Britto (2011), distinguished between transaction marketing and relationship marketing as two distinct strategies that can be adapted alternatively by an organization (Figure 3.9). According to the study transaction marketing is action oriented which concentrates on managing resources on the other hand relationship marketing is interaction oriented and focuses on managing relationships.

Figure 3.9 Transaction vs. Relationship Marketing


Nevertheless, Grönroos (2007) and Gummesson (2002) proposed that, though different studies distinguished between relationship marketing and transactional marketing, still there is some argument that these two approaches rather viewed as a continuum. To conclude, beyond doubts relationship marketing is a paradigm in marketing literature, even though it is a new but old concept. But the conceptual bases of relationship marketing are not yet completely developed even after two decades of existence.

3.4 Relationship Marketing - Different Schools of Thoughts and Approaches

Different schools of relationship marketing developed in different contexts and are characterized by different areas of focus. Basically, relationship marketing schools of thought is categorized into four types (Palmer et al. 2005; Coote 1994; Christopher et

3.4.1 Nordic School of Thought

The Nordic school originated in 1970s from the field of service marketing in response to various limitations in the transactional marketing approach (Gummesson, 1997). In the year 1990 Nordic School of thought was developed as a marketing school in Scandinavia and Finland as the pioneer in services marketing and relationship marketing research (Gronroos & Gummesson, 1985 and Berry & Parasuraman, 1993). In Nordic School approach, service management is the core of relationship building, stimulating loyalty as well as extension of customer life-cycle (Gronroos, 1990 and Gronroos and Gummesson, 1985). And three core processes have been identified by Nordic School i.e. interaction process, dialogue process and value process. This school emphasized on the significance of services and industrial marketing as compared to product marketing. The priority was shifted from goods and services to customer value and more emphasis on qualitative research than quantitative research (Britto, 2011). Simultaneously it was further supported by factors such as creating networks, establishment of strategic partnership, development of customer database as well as effective management of relationship-oriented marketing communications (Gronroos, 2004).

![Figure- 3.10 Nordic Approach to Relationship Marketing](source: Christopher et al. (2002), Relationship Marketing: Creating Stakeholder Value, Butterworth-Heinemann, Oxford.)
Though Nordic school emphasized the long-term relationship maintaining perspective of services marketing but it has not mentioned about relationship marketing. However terms like buyer-seller interactions and interactive marketing (Grönroos, 1980) customer relationship life cycle (Grönroos, 1983) and interactive relationships (Gummesson, 1987) were used. Furthermore, it has also discussed about the significance of perceived quality and its two determinants: customer’s expectations and perceptions in service context. The link between perception and expectation studied extensively in the area of services marketing. Researchers developed different models exclusively based on the relationship between customer expectations and perceptions.

### 3.4.2 Industrial Marketing and Purchasing (IMP) Group of Thought

The IMP Group – Industrial Marketing and Purchasing group was originated in Scandinavia in 1970s focusing on organizational relationships between B2B industries. It also has research centers in few Universities of UK and France (Britto, 2011). The IMP Group approach related to the B2B markets where transactions cannot be ignored, but take place as part of interaction between organizations (Gummesson, 1987). This form of interaction between organizations and people comprises the relationships between buyers, suppliers and other stakeholders linked to the network (Palmer, Lindgreen, Vanhamme, 2005, pp. 320). Like Nordic School of thought, IMP Group also focused more of qualitative research philosophy and strong emphasis on case studies (Hakansson, 1982).

### 3.4.3 The Anglo-Australian Approach

Anglo-Australian approach was based on the studies of Buttle (1996, 2004) and Payne and Ballantyne (1991, 2005) from Cranfield School of Management. According to the study of Christopher et al. (1991) this school of thought emphasized in increasing customer value and relationship enhancement with the organization. Anglo-Australian school mainly based on the work of Christopher et al. (1991) that focuses on the synergy between service marketing approach, quality management and customer relationship economics.

The study identifies six markets as the core of relationship marketing as presented in figure 3.11. The model comprises of six markets namely internal, referral, influence, supplier and alliance, recruitment, and customer markets, as the centre of focus.
(Christopher et al. 1991). Further the model was also refined and extended by Payne; Ballantyne and Christopher (2005) in context of stakeholder management.

**Figure 3.11 Six Market Model of Relationship Marketing**


In this school of thought marketing strategy focuses on a relationship rather than transactions and highlights the vital relationship between internal marketing and external marketing. Furthermore, it realizes the significance of customer retention economics and thus ensures the right amount of funds and resources properly allocated to retain and attract customers.

### 3.4.4 North American approach

The North American approach is based on the work of Berry (1983), Levitt (1983), Payne (1995) and Gronroos (1997) and Sheth and Parvatiyar (1995) which focused on buyer and seller relationships within the organizational environment. This approach concentrates on sustaining relationships with the potential customers. According to researchers from this school, the organization should be structured and managed so that customers can be served with superior service. The North American School also made a significant contribution to the measurement of service quality with the development of a well known model known as SERVQUAL.
3.4.5 Chinese Approach

Relationship marketing concept was initiated as ‘guanxi’ means personal relationships which was popularly used in China around 770-470 B. C. as an ancient system of marketing practice (Lovett, Simmons and Kali, 1999, Wong and Tam, 2000, Wong, 2007). Gronroos (1996), viewed guanxi essentially as a Chinese cultural construct whereas relationship marketing deals with service delivery process for carry out business. According to Geddie et al. (2005), guanxi philosophy focuses on creating the bond or relationships prior to transaction process so that the company and customer becomes one cooperative unit. Whereas Ambler (1995) viewed guanxi as epitome of trust and a willingness to engage in a process that produces mutual benefits. Today’s organizations should learn from the Chinese that a ‘good’ relationship should be seen as an obligation rather than a right. Just as U. S. businesses used to regard brand equity as an asset, the Chinese see guanxi as an asset (Ambler and Styles, 2000). Hence it’s a Chinese system of doing business on the basis of personal relationship, contrasting to the Western practice of relationship marketing which focuses on specification and enforcement of contracts (Lam and Lin, 2003, p. 1437, Davies et al., 1995).

3.5 Popular Definitions of Relationship Marketing

Different researchers have defined relationship marketing differently. Conceivably, the first definition by Leonard Berry (1983) was “attracting, maintaining and enhancing customer relationships in multi-service organizations” is the most cited among all the definitions. Relationship marketing is marketing with the conscious aim to develop and manage long term and /or trusting relationships with customers, distributors, suppliers or other parties in the marketing environment American Marketing Association (1995). Business Directory defines relationship marketing as the “Marketing activities that are aimed at developing and managing, trustworthy and long-term relationships with larger customers. In relationship marketing, customer profile, buying patterns, and history of contacts are maintained in a sales database, and an account executive is assigned to one or more major customers to fulfill their needs and maintain the relationship”. In Wikipedia, relationship marketing was first defined as a “form of marketing developed from direct response marketing campaigns which emphasizes customer retention and satisfaction, rather than a dominant focus on sales transactions”.

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Discussed below are few of the popular definition and connotation of relationship marketing by different researchers.

**Jackson (1985, P.25),** “Relationship marketing is marketing to win, build and maintain strong lasting relationships with industrial customers”.

**Jackson (1985, P.120),** “Marketing concentrated towards strong, lasting relationships with individual accounts”.

**Thorelli (1986),** “Relationship marketing as a part of developing “network paradigm” which recognizes that global competition occurs increasingly between networks of firms”.

**Christopher et al (1990),** “A tool to turn current and new customers into regularly purchasing clients and then progressively move them through being strong supporters of the company and its products to finally being active and vocal advocates for the company”.

**Grönroos (1990),** “The role of marketing is to establish, maintain, and enhance relationships with customers and other partners, at a profit, so that the objectives of the parties are met. This is achieved by a mutual exchange and fulfillment of promises.”

**Berry and Parasuramen (1991),** “Relationship marketing concerns with attracting, developing and retaining customer relationships.”

**Porter (1993),** “Relationship marketing is the process whereby both parties the buyer and provider establish an effective, efficient, enjoyable, enthusiastic and ethical relationship: one that is personally, professionally and profitability rewarding to both parties”.

**Gronroos (1994),** “Relationship marketing is to identify and establish, maintain and enhance, and when necessary, also terminate relationships with customers and other stakeholders, at a profit, so that the objectives of all parties involved are met. This is done by a mutual exchange and fulfillment of promises”.

**Ballantyne (1994),** “Relationship marketing is an emergent disciplinary framework for creating, developing and sustain exchanges of value, between the parties involved whereby exchange relationships evolve to provide continuous and stable links in the supply chain”.

**Buttle (1996),** “Relationship marketing is the development of mutually beneficial long-term relationships between suppliers and customers”.

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Morgan and Hunt (1994), “Relationship marketing refers to all marketing activities directed to establishing, developing and maintaining successful relational exchanges”.

Palmer (1994), “Relationship Marketing constitute the strategies to enhance profitability through a focus on the value of buyer-seller relationships over time.”

Lynch (1996), “Relationship marketing is selling by using psychological rather than economic inducements to attract and retain customers”.

Buttle (1996), “Relationship marketing, the development of mutually beneficial long-term relationships between suppliers and customers”.

Parvatiyar and Sheth (1998), “Relationship marketing is the ongoing process of engaging in cooperative and collaborative activities and programs with immediate and end-user customers to create or enhance mutual economic value, at reduced cost”.

Morris et al (1998), ”Relationship Marketing is a strategic orientation adopted by both the buyer and seller organizations, which represents a commitment to long-term mutually beneficial collaboration.”

Ian H. Gordon (1998), “Relationship Marketing is an ongoing process of identifying and creating new values with individual customers and then sharing the benefits from this, over a life time association.”

Harker (1999), “Relationship Marketing occurs when an organization engaged in proactively creating, developing and maintaining committed, interactive and profitable exchanges with selected customers or partners overtime”.

Some recent definitions on Relationship marketing which have been reviewed and analyzed are as follows:

Gummesson (2002), “Relationship Marketing is interaction based on interactions within networks of relationships”.

Kotler (2003), “Relationship marketing (RM) marks a significant paradigm shift in marketing, a movement from thinking solely in terms of competition and conflict toward thinking in terms of mutual interdependence and cooperation. It recognizes the importance of various parties, suppliers, employees, distributors, dealers, retailers cooperating to deliver the best value to the target customers”.

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Kotler & Armstrong (2004), “Relationship marketing is the overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction”.

Sin et al. (2005), “Relationship marketing is a comprehensive strategy and process that enables an organization to identify, acquire, retain, and nurture profitable customers by building and maintaining long-term relationships with them”.

Lusch and Vargo (2006), “Relationship marketing is the process in society and organizations that facilitates country exchange through collaborative relationships that create reciprocal value through the application of complementary resources”.

Grönroos (2007), “Relationship marketing is to identify and establish, maintain and enhance, and when necessary terminate relationships with customers (and other parties) so that the objectives regarding economic and other variables of all parties are met. This is achieved through a mutual exchange and fulfillment of promises”.

Lambert (2010), “Relationship marketing is being viewed as strategic, process oriented, cross-functional, and value-creating for buyer and seller and as a means of achieving superior financial performance”.

3.6 Key Elements of Relationship Marketing

Relationship quality is the vital factor to affect customer repurchasing behavior and measures the strength of the relationship (Hennig-Thurau and Klee, 1997; Garbarino and Johnson, 1999). Major constructs of relationship quality are trust, satisfaction and commitment (Morgan and Hunt, 1994; Crosby et al., 1990; ). Smith (1998) combined most of the scholars’ perspectives to define the measurements of relationship quality as satisfaction, trust, and commitment. Hence, the amalgamation of trust, commitment and satisfaction are the best tools to measure the relationship strength. Morgan and Hunt (1994, p.22) in their Commitment-Trust theory revealed that “the presence of relationship commitment and trust is central to successful relationship marketing and both trust and commitment mediate the relationship between satisfaction and loyalty”. Hence, trust and commitment are usually seen as key elements of relationship marketing for establishing, developing, and maintaining long-term relationships with customers and stakeholders (Morgan & Hunt 1994). Furthermore, trust is extensively required to establish commitment and long-term relationships. Therefore, trust and commitment are both requisites and consequences of long-term relationships and established during the dynamic interactions that occurs between the customers and their
service providers. As a result trust and commitment considered as the heart of relationship marketing Delen (2006). On the other hand, the study of Nguyen Hau and Viet Ngo (2012) in Vietnamese B2B firms revealed that, among the key components of relationship marketing orientation, trust, bonding, shared value, and reciprocity have positive influence on customer satisfaction, whereas communication and empathy does not.

3.6.1 Constructs of Relationship Marketing in Different Contexts

The application of Trust and Commitment theory and their different perspectives has been further supported by many researchers. Lindgreen (2001) developed a conceptual model for studying relationship marketing dyads as shown in figure 3. 12. According to this model relationship marketing has eight constructs like trust, commitment, communication, conflicts co-operation, power and non-opportunistic behaviour. In retail environment De Wulf et al. (2001) also analyzed commitment and trust as relationship marketing tactics to achieve satisfaction and loyalty.

Figure 3.12 Relationship Marketing Dyads

Egan (2004) considered trust and commitment as the key indicator of relationship marketing strategies. Ndubisi and Chan (2005), added few other components as fundamental variables of relationship marketing in terms of perceived relationship quality and customer satisfaction. In context of Malaysian Banking sector the research resulted into four key constructs of relationship marketing such as trust, commitment, communication and conflict handling. According to Rezvani et al.(2011) different dimensions of relationship marketing including trust, commitment, connection and conflict control have positive impact upon customer satisfaction and loyalty (Figure 3.13).

**Figure 3.13 Relationship Marketing Elements**

[Diagram showing relationship marketing elements: Trust, Commitment, Connection, and Conflict leading to Customer satisfaction and Customer loyalty]


**Figure 3.14 Relationship Marketing Constructs**

[Diagram showing relationship marketing constructs: RM Practices: Trust, Competence, Conflict handling, Commitment, Communication, Social and Financial bonds leading to Key Marketing variables: Top management commitment, Employee commitment, IT infrastructure, leading to Customer loyalty]

Anabila and Narteh (2012) identified six constructs of relationship marketing i.e. trust, commitment, competence, conflict handling, communication and social & financial bonding having considerable positive effect on customer loyalty (Figure 3.14). On the other hand, Omar et al. (2012) too proposed a model for Islamic banking system in Malaysia to illustrate the synergistic effect of trust, commitment and communication skills to enhance brand loyalty (Figure 3.15).

**Figure 3.15 Relationship Marketing Constructs and Brand Loyalty**

<table>
<thead>
<tr>
<th>Relationship Marketing</th>
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<tbody>
<tr>
<td>• Trust</td>
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<td>• Commitment</td>
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<td>• Communication skills</td>
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Brand Loyalty


Dash and Rajshekar (2013) also examined five relationship marketing dimensions i.e. commitment, trust, bonding, conflict-handling, communication and relationship quality on overall customer satisfaction in Indian banking service sector. Combining different views of previous research, the study identifies some of the major constructs of relationship marketing are discussed below.

### 3.6.1.1 Trust

Trust has been defined as the belief that an exchange partner is honest and/or benevolent (Geyskens et al, 1998). Moorman et al. (1992) recognized trust as ‘a willingness to rely on an exchange partner in whom one has confidence’. Morgan and Hunt (1994) pointed out that trust exists “when one party has confidence in an exchange”. Lagrosen and Lagrosen (2012) declared trust as a significant element of relationship marketing concept. Hence, trust has been considered as an essential relationship model building block and referred as the key factor of successful relationship development in many research studies (Wilson, 1995; Naude and Buttle, 2000; Goodman and Dion, 2001; Casielles, 2005).
3.6.1.2 Commitment

Since, relationship building strategy highly depends on the commitment of the customer to continue with the organization; that results in long-term customer retention and loyalty (Venetis and Ghauri, 2004). Commitment has been considered as a crucial element of the relationship marketing paradigm (Morgan and Hunt 1994). According to Dwyer et al. (1987) commitment is defined as “an implicit or explicit promise of relational continuity between exchange partners”. Whereas, Gruen et al. (2007) declared it as a psychological attachment to a company. Commitment is defined as an enduring desire to maintain a valued relationship (Moorman et al., 1992). In the literature of relationship marketing, commitment has extensively been recognized to be an essential part of any long-term trade relationship (Morgan & Hunt 1994). It is often considered as a purpose to build and maintain a long-term relationship (Anderson & Weitz 1992, Dwyer, Schurr & Oh 1987, Moorman, Zaltman & Despandé, 1992).

3.6.1.3 Communication

A major predecessor to trust and commitment is communication (Morgan and Hunt, 1994). Mohr and Nevin (1990) described communication as a glue used to hold the relationships. Anderson and Narus (1990) observed that exchange of real time information between organization and customers is an indispensable predecessor of trust, simultaneously, trust and communication results into satisfaction that leads to long-term retention and commitment in the relationship. Anderson (1998) and Singh (1988) considered word of mouth also as a form of informal communication between a service firm and customer. Satisfied customers often spreads positive word of mouth regarding the service and often recommends other while negative word of mouth through complaints and suggestions encourages negative promotion.

Ntale et al. (2013), from their study also found that relationship marketing is directly associated with word of mouth which will lead to repeated purchase and customer loyalty. Duncan and Moriarty (1998) state that relationships are impossible without communication and communication plays a vital role for maintaining and attracting customer relationships (Holden and O’Toole, 2004). Subsequently when an organisation communicate latest information regarding service updates and testimonials ultimately it leads to relationship commitment and trust. Commitment and trust develop when firms communicate valuable information, including expectations, marketing
intelligence, and evaluations of the partner’s performance. Sin et al. (2002) state that communication often promotes trust through solving dispute and aligning perceptions and expectations. Additionally, communications also inform the dissatisfied customers regarding their service recovery steps. Similarly, when there is an effective communication established between an organization and its customers, it improves relationship and customer’s loyalty.

3.6.1.4 Bonding

Bonding can be defined as “the psychological, emotional, economic and physical attachments in a relationship arising from association and interaction in a relational exchange (McCall 1970)”. Liljander & Strandvik (1995), Smith (1998) and Arantola (2002) considered the sole objective of relationship marketing, is to create strong bonding with the customers. Because bonds are regarded as the keystone for customer loyalty. Whereas, Roberts et al. (2003) acknowledged customer bonding as a significant part of relationship marketing process. According to Zeithaml and Bitner (1996) bonds, generally helps to create relationship and strongly attach customers to the organization. Furthermore, Clay (2013) justified that relationship bonding ultimately locks the customers thereby fostering sustainable competitive advantage. There are three basic levels of relationship bonding such as financial, social, structural (Liang and Wang, 2005; Lin et al., 2003; Parasuraman, 1991) that have positive impacts on relationship quality. Financial bonding are the form of incentives, offers and discounts used to woo customer loyalty. Social bonding are interpersonal interaction through different media and formats to have personal touch with the customers (Beatty and Lee, 1996) to provide service cater to their needs and requirements. Lastly, structural bonding is the innovative package and service differentiation provided by the organisation to attain competitive advantage (Berry, 1995).

3.6.1.5 Conflict Handling

Conflict is one of the unavoidable situation happens in service sector; often considered as a relationship-destroying behaviour and a major source of customer dissatisfaction. Conflict occurs when an individual perceives incompatibility between his or her personal goals, needs and desires (Jumaev et al. 2012). Conflict with the service provider have a negative impact on the customer's satisfaction level as well as...
probability of continuing with the relationship (Johnson; Barksdale and Boles 2003). Hence, conflict handling is an important relationship builder. Conflict handling is defined as a supportive element in eliminating negative aspects (Ndobisi and Chan, 2005). Moreover, conflict management enhances relationship quality in an organization (GHasemi et al. 2013; Anabila and Narth, 2012; Rezvani et al., 2011; Ndubisi and Chan, 2005 and Dwyer et al., 1987). Conflict can be managed with skills like effective communication, problem solving and negotiation. And conflict handling measures are, to prevent the occurrence problems, the ability to timely resolve the problems, and effective service recovery strategy.

3.7 Relationship Marketing Outcomes

Evans & Laskin (1994) specified that customer satisfaction, customer loyalty, increased profitability, and quality products are few of the outcomes of relationship marketing. However, relationship marketing dimensions often result into two desired outcomes; customer satisfaction and loyalty. Many experts considered that, there exists an indispensable relationship between customer loyalty and satisfaction; as satisfaction leads to attitudinal loyalty (Lovelock, Patterson and Walker, 2001). Rizan et al. (2014), observed that customer loyalty and retention are extremely reliant on the customer’s actual satisfaction. Castañeda (2011), conclude that the satisfaction–loyalty relationship is moderated by customer involvement and mediated by trust. While Hocutt (1998) considered satisfaction as an important component of relationship marketing and the relationship between trust and commitment is mediated by satisfaction. It also has been proved from the study of Storbacka, et al. (1994) that, higher level of customer satisfaction leads to a higher customer loyalty. Though there is high correlation between customer satisfaction and loyalty, the nature of relationship is complex and forms different constructs (Bennett and Rundle-Thiele, 2004). Bowen and Shoemaker (1998) argued that satisfaction only measures the gap between expected service and the service actually delivered; on the other hand loyalty measures how far a customer likes to revisit as well as recommends to friends and relatives. Hence customer satisfaction may be a requisite for loyalty but satisfied customers may not be loyal one (Oliver, 1999; Reichheld, 1996). However, the core philosophy of relationship marketing stresses on the development of long-term retention of existing customers. While, Hennig-Thurau et al. (2002) again considered word of mouth as a significant outcome
of relationship marketing. There is no doubt that customer satisfaction is key for customer relationship (Grönroos, 1994) on the other hand word of mouth is a clear evidence of satisfaction (Buttle, 2011; Ranaweera & Prabhu, 2003).

3.7.1 Customer Loyalty

Oliver (1999) has described loyalty as a deeply held commitment to repurchase a preferred product or service consistently in the future against all odds and at all costs. For service sector loyal customers are the key to success (Pullman and Gross 2004). It has been specified by Bowen and Shoemaker (1998) that even a slight deviation in customer loyalty percentage results in to a substantial increase in profit generation. Reichheld and Sasser (1990) have established the link between customer relationship, customer loyalty and profitability and concluded that loyal customers are comparatively less prone to switching than un-loyal customers. According to Raman (1999) loyal customers acts as a “fantastic marketing force” by providing recommendations and spreading positive word-of-mouth and are profitable for the company through repeat purchases. As defined by Yim and Chan (2008) “customer loyalty is the sincere commitment to purchase a product or service constantly”. Doyle (2002) states that one of the critical factors to build customer loyalty is customer satisfaction. According to his study a highly satisfied customers will always stay longer with the company, will purchase more, promote the services, will not get affected by the attractive offers by the competitors and lastly shall be less sensitive to price.

However, Barnes (2003) and Dick and Basu (1994) argued that, repeat purchasing cannot be a sole indicator of customer loyalty, some sort of emotional attachment also requires to build relationship. Customer loyalty is generally divided into attitudinal loyalty and behavioral loyalty (Aydin and Özer, 2005). Attitudinal loyalty describes customer’s attitude toward loyalty by measuring customer preference, buying intention, supplier prioritization and recommendation willingness. Whereas, behavioral loyalty relates to shares of purchase and purchasing frequency. Oliver (1997), distinguished the phases of customer loyalty in to four stages namely cognitive, affective, conative and action loyalty (Figure 3. 16). First stage of loyalty is cognitive loyalty i. e. associated with the belief of the customer and comprises of perceived service quality and customer value. Second is the affective stage where customer’s expectations matches with the perception which results customer satisfaction. Third is the conative stage where
consumers have trust and commitment to buy. Then it leads to the final stage of action loyalty.

**Figure 3.16 Stages of Customer Loyalty**

![Customer Loyalty Diagram]

**Source:** Oliver, R. L. (1997), Satisfaction: A Behavioral Perspective on the Customer, McGraw-Hill, New York

Peck et al. (1999) developed the ‘customer loyalty ladder’ (figure 3.17) which presents the customer’s involvement in a service organisation through six stages starting from ‘Prospect’ to a ‘Partner’. And relationship marketing aims to move customers up the ladder of loyalty until they ultimately become partners.

**Figure 3.17: Customer Loyalty Ladder**

![Customer Loyalty Ladder Diagram]

**Source:** Peck, H., Payne, A., Christopher, M., Clark, M. (1999), Relationship Marketing Strategy and Implementation, Butterworth Heinemann,
Roberts et al. (2003) also developed a scale to measure intangible aspects of service firms in form of the above six indicators that are: sharing information, positive word of mouth, recommending others, repeat purchasing, availing additional services and trying latest services. The study identified that relationship quality constructs predicts behavioral intentions in a more proficient way in comparison to service quality.

3.7.2 Customer Satisfaction

“The key to customer retention is customer satisfaction” (Kotler, 1995). Customer satisfaction is the essential foundation for an organization to retain customers in long run (Guo, Xiao and Tang, 2009). 21st century’s business revolves around the customers and growth of the business is directly proportional to the satisfaction level of customer. Because satisfied customers will do more business with the company which leads to profit maximization (Gerson, 2004). As well as, satisfied customers are less prone to brand switching (Kotler, 2001). Storbacka et al. (1994), proposed that continuous satisfaction with the service episode creates a bond between customer and the organization and these bonds act as a switching barriers alongside customer satisfaction. Customer satisfaction has also been considered as one of the elementary foundation of relationship marketing (Grönroos, 1994; Gummesson, 1998; Berry, 2002). Customer satisfaction results when a product or service meets or exceeds a customer’s expectation. Satisfaction is the customer’s evaluation of a product or service in terms of whether that product or service has met its needs and expectations (Zeithaml and Bitner, 2000). Thus satisfaction level of customer purely depends upon the mapping of expectation and perception regarding the service. Oliver (1980) in his model viewed satisfaction as a transaction specific evaluation of a service encounter which eventually transforms into the customer’s overall attitude towards the firm. According to Oliver (1997) customer satisfaction is a judgment, that product or service provides a gratifying level of consumption. On the other hand Tse and Wilton (1998) defined satisfaction as the assessment of the perceived incongruity between expectations and the actual performance. Whereas Marković and Janković (2013), viewed customer satisfaction as a post consumption evaluative judgment. According to Vavra (1992) the ability of a company to satisfy a customer should be the most important marketing strategy. And customer satisfaction is the major focus in the relationship marketing perspective (Grönroos, 1994; Sheth and Parvatiyar, 1994). Kotler et al. (2001) again concluded that
customer satisfaction completely relies on the expectations of the customer verses the actual service delivery. Accordingly, satisfaction is the comparison between the expected and the actual value delivery. Satisfaction is when performance matches with the customer expectations and dissatisfaction is when performance does not match with expectations. Consequently, satisfaction plays a major role for customer retention (Rust and Zahorik, 1993). Therefore, customer satisfaction has developed extensively as a crucial dimension to monitor and control relationship marketing activities.

3.7.3 Relationship Marketing, Customer Loyalty and Satisfaction

Relationship marketing concept broadly revolves around customer loyalty (Dick and Basu, 1994) and satisfaction. One of the crucial postulation in relationship marketing theory is that long-term loyal customers are profitable. And this profitability attains through perceived value which leads to customer satisfaction that forms long term relationships (Storbacka et al., 1994 and Palmer et al, 2005). Heskett et al., (1993) argued that satisfied customers become loyal and dissatisfied customers are more likely to switching over. Customer loyalty is highly dependent on satisfaction which is a key ingredient in relationship marketing. According to Doyle (2002) the three foundation of relationship marketing are, customer satisfaction, loyalty and customer value management. In addition, relationship marketing strategy highly influences relational outcomes through customer satisfaction, commitment and trust, repurchase intentions and referrals (Mohammad Al-Hersh et al. 2014; Johnson et al. 2003).

Several studies revealed that relationship marketing, customer loyalty and satisfaction are strongly connected to each other. 'Relationship marketing-satisfaction-loyalty' link have examined by many researchers in different perspectives. Accordingly it conclude that relationship quality influences customer loyalty and satisfaction which results repeat purchase and positive word-of-mouth (Sivanandamoorthy and Achchuthan 2013; Jesri et al. 2013; Mostafavi Shiraji and Mat Som 2013; Jumadev 2013; McDonnell et al. 2011; Alrubaiee 2010; Chi & Qu, 2008; Bodet 2008; Sharma 2007; Ndubisi and Chan, 2005; Homburg, C., & Giering 2001; Oliver, 1999). Huang (2012) from his study identified that relationship quality, customer satisfaction and loyalty are proportionate to each other. Figure 3.18 depicts how relationship quality gives rise to customer satisfaction which ultimately leads to customer loyalty.
Baharun and Naderian (2013), investigated the impact of three major elements of relationship marketing in hotel industry in Malaysia. The study concludes that relationship marketing elements i.e. trust, commitment and communication plays a significant role to achieve customer loyalty and satisfaction moderated by switching costs (Figure 3.19).

Figure 3.19 Relationship Marketing, Customer Satisfaction and Loyalty Association

Rizan; Warokka and Dewi (2014), further examined the connection between customer loyalty and relationship marketing through using variables like trust and satisfaction in Indonesia Banking sector (Figure 3. 20).

Figure 3.20 Relationship Marketing, Customer Satisfaction and Loyalty


3.7.4 Relationship Marketing and Customer Retention

It have been observed that profit of the companies raised to 100% through only a 5% increase in customer retention (Riechland and Sasser 1990; Gaglilano and Hathcote, 1994). Therefore, retaining existing customer is more economic than frequently in search for fresh customers (Bove and Johnson, 2002). Due to satisfied customers encourage and recommend other customers through referral marketing (Boles, Barksdale and Johnson, 1997). Accordingly, satisfaction is often considered as a predictor of repurchase (Raval and Gronroos, 1996). Figure 3. 21 describes how customer satisfaction results company profitability (Egan, 2001). The study explored that customer satisfaction level increased with the improvement in service quality of the organization. Similarly, customer satisfaction leads to life-time relationship in form of customer retention and loyalty. Furthermore, customer retention results in organizational profitability.
Crosby et al. (1990), considered customer retention as a significant outcome of buyer-seller relationship. Tikkanen and Alajoutsijarvik (2002), studied that a repeat purchase activity is a form of long-term relationship in an organization. Hence, organizations adopting customer relationship philosophy must prioritize on customer retention strategies. Accordingly, relationship marketing also emphasizes on different tactics to retain customers.

Hennig-Thurau and Klee (1997) critically examined the satisfaction–retention relationship through a conceptual model, which hypothesized that the relationship between satisfaction and customer retention is moderated by the relationship quality constructs.

**Figure 3.21 Satisfaction-Retention Relationships**

![Satisfaction-Retention Relationships Diagram](image)

**Source:** Egan, J (2001). Relationship Marketing; Exploring Relational Strategies in Marketing. Harlow: Prentice Hall

Crosby et al. (1990), considered customer retention as a significant outcome of buyer-seller relationship. Tikkanen and Alajoutsijarvik (2002), studied that a repeat purchase activity is a form of long-term relationship in an organization. Hence, organizations adopting customer relationship philosophy must prioritize on customer retention strategies. Accordingly, relationship marketing also emphasizes on different tactics to retain customers.

Hennig-Thurau and Klee (1997) critically examined the satisfaction–retention relationship through a conceptual model, which hypothesized that the relationship between satisfaction and customer retention is moderated by the relationship quality constructs.

**Figure 3.22 A Conceptual Model of Satisfaction-Retention Relationships**

![Conceptual Model of Satisfaction-Retention Relationships](image)

In this study relationship quality has been introduced as a three-dimensional variable that integrates service-related quality perception, trust and commitment of the customer (figure 3.22).

Nonetheless, few researchers argued that satisfaction may not be a valid measure of relationship strength. Similarly, Reichheld (1993), explored that every time customer retention may not be the result of satisfaction. Whereas, Storbacka et al. (1994) argued that in some cases, dissatisfied customers also happy with their relationship with the service provider. Furthermore, because of high switching costs, dissatisfied customers also remain loyal to the service providers.

3.7.5 Relationship Marketing and Word of Mouth Communication

In this technotronic revolution, smart customers convey their reactions to the service experiences either positively or negatively through different electronic media. This form of informal communication popularly known as word of mouth (WOM) communications otherwise known as ‘buzz’ in marketing, often helps an organization to attract new customers. WOM plays a pivotal role in service sector to create long term associations with the customers (Zeithaml et al., 1985, 1993). For this reason word of mouth communications has been recognized as a priceless vehicle for promotion. And undeniably it builds trust and commitment that results in to an interminable relationship with the customer (Dithan 2009). Buttle (1998) nicknamed WOM as free advertising, as positive word of mouth is up to nine times more powerful than official advertising Day (1971). Therefore, according to Harwood and Garry (2006), WOM is the biggest asset for service industry, which not only facilitates repeat purchase and customer loyalty but also maintain relationships (Harwood and Garry, 2006). Correspondingly, Shirsavar, et al. (2012), revealed that relationship marketing, perceived quality, customer expectations, satisfaction and loyalty are the factors influencing positive word of mouth. Moreover, Maxham (2001) asserted that the service recovery strategy of an organization often leads to customer loyalty and Positive word of mouth. Hence, word of mouth has been a unique marketing tool for the hospitality industry since the emergence of the marketing concept. Kim and Lee (2001), investigated in luxury hotels in Seoul, and found that, higher the rate of guest confidence and communication, higher the relationship quality; and higher the relationship quality, greater will be the guest commitment and repeat purchase and positive word of mouth. With the advancement of
technology, word of mouth has become more easier and considered as word of mouse. Thus, hoteliers need to recognize the significance and influence of electronic word of mouth on guest’s purchasing decisions of hospitality services (Tag-Eldeen et al. 2011).

3.8 Role of Service Quality

“I can’t think of a business problem, issue or priority that is unaffected by the quality trust. Quality does it all. It saves, it sales, it satisfies” Alen (1998). Quality plays a crucial role in service sector. In an organization different aspects of quality are customer satisfaction, retention, loyalty, price, profitability, customer service and word of mouth. Many researchers have identified the positive relationship between service quality and organizational performance (Rao, 2005). Quality is continuous anticipating and exceeding the requirement and expectations of customers. Kasper et al. (1999) defined quality as the degree to which the service provider can satisfy the expectation of the customer. So, service organizations have to develop an understanding of what customers expect. Increased competition and deregulation in many service-dominated industries resulted in concentration on service quality as a means of achieving competitive advantage (Rampal and Gupta, 2000). Service quality considered as a tool to differentiate the services to achieve competitive edge (Bapat et al. 2015).

Service quality is defined as “the degree and direction of discrepancy between consumer’s perceptions and expectations in terms of different but relatively important dimensions of the service quality which can affect their future behavior” Parasuraman et al. (1985). Thus, service quality has a high impact on organizational performance because, it is linked to customer, satisfaction, retention and loyalty (Mohsin, 2005). Huang (2012) further argued that relationship quality, customer satisfaction and loyalty are proportionate to each other and relationship quality gives rise to customer satisfaction and hence, customer loyalty. Hence, service quality is critical to develop loyal customers (Kadempully, 2000). And service companies need to design their service strategy according to customer’s viewpoint. Gronroos (1983) described how service quality and perceptions are inter-linked and the factors that constitute perceived service quality. Gronroos (1988) developed a model to measure perceived service quality (Figure 3.23 ), and according to the model two types of quality matters in a service operation. Technical quality is WHAT customer gets while functional refers to
HOW customer gets. As services are intangible customer search for the evidences of service in every transactions in form of people, process and physical evidences and corporate image. Perceived quality is the degree of satisfaction, can be ascertained by measuring the deviation between perceived service and expected service.

**Figure 3.23 Total Perceived Quality Model**

![Diagram of Total Perceived Quality Model]


**3.8.1 Customer Service Expectations**

Customer expectations are pretrial beliefs about a product that serve as benchmark against which performance is judged (Olson and Dover, 1979). Parasuraman et al., (1988) viewed expectations as desires or wants of customers, what they feel service provider should offer rather than would offer. A successful service process strives to match or exceed expectations. Nonetheless, customer expectations are used differently in service quality and customer satisfaction literature. In case of satisfaction perspective; expectations are predictors of what is likely to happen in next transactions whereas in service quality aspect, expectations are what the customers wish for. Accordingly, expectations are made by customer regarding transaction preconceived set of ideas used as the determinant of service quality (Parasuraman et al., 1985, Zeithaml, 1993). Furthermore, the whole service operation is a failure if it doesn’t meet the customer’s expectations, as it influences satisfaction (Coye, 2004). Thus, expectation constructs play a key role customer evaluation of service quality.
3.8.1.1 Levels of Service Expectations

Levels of service expectations as shown in figure 3.24 are of two types i. e. desired service and adequate service. Desired service is the ideal expectation that reflects what customers actually want compared with the predicted service that likely to occur. Desired service is the best of the service that a customer hope to receive and adequate service is the level of service a customer is willing to accept. Comparing desired service expectations to perceived service received results in a measure of perceived service superiority. Service encounter that falls below adequate service leads to dissatisfaction and above desired service leads to customer delight and zone of tolerance is the acceptance level of service expectations.

**Figure 3.24 Levels of Service Expectations**

![Levels of Service Expectations Diagram]


3.8.2 Assessment of Service Quality

At the time of service encounter, customers interact closely with the service providers and get an inside knowledge of the service organization and this knowledge gives them an opportunity to critically assess the service provided. And, service quality plays an important role in adding value to the overall service experience. Therefore, service quality, customer service and satisfaction are directly linked to each other. However according to Bitner (1990), Bolton and Drew (1991) and Chadee and Mattsson (1996), perceived service quality related to attitude and overall evaluation; whereas, customer satisfaction associated with transactional specific measures. In a service organization if the customer is provided with high quality service and his overall experience will meet or exceeds his expectation then it leads to satisfaction. And a satisfied customer will bring more customers through referral marketing.
3.8.3 Measuring Service Quality

Parasuraman, Zeithaml and Berry (1985), developed GAP model to audit the service quality management process effectively (Figure 3.25). According to this model, service quality assessment can be done through measuring the gap between perceived service and expected service. The researchers proposed that customers have certain expectations regarding service quality that ruled by word of mouth, personal needs, past experiences and promotional campaign. After completion of the service transactions they compare the actual experience i. e. perceived service with their predetermined expectations, that results satisfaction or dissatisfaction. It can be presented through a formula as follows. Hence, the gap not only measures the quality of service delivered but also a determinant of satisfaction and dissatisfaction level of the customers (Pizzam and Ellis, 1999).

Perceived Service Quality \( (Q) = \text{Perceived Service} \ (P) – \text{Expected Service} \ (E) \)

If,

Perceived service \~\ Expected service = Satisfaction
Perceived service > Expected service = Customer Delight
Perceived service < Expected service = Dissatisfaction

**Figure 3.25 Determinants of Perceived Service Quality**

![Diagram of Determinants of Perceived Service Quality]

As depicted in Figure 3, Parasuraman, Zeithaml, and Berry, L. L. (1985) developed a conceptual model of service quality primarily based on 10 criteria or determinants i.e. Access, Communication, Competence, Courtesy, Credibility, Reliability, Responsiveness, Security, Tangibles and Understanding of customers. Later on, after further refinement they condensed the list of ten determinants to five significant predictors of service quality in GAP analysis model are: tangibles, empathy, responsiveness, assurance and reliability. Tangibles refer to the physical evidences, infrastructure, interior, paraphernalia, appearance of staffs, and the communication media of the service, etc. Reliability is the skill to execute the promised service accurately and timely. Responsiveness is the enthusiasm or willingness to help customers to facilitate prompt service delivery. Assurance reflects the acquaintance and courteousness of the staffs to attain trust and confidence of the customers. Similarly, empathy, is the intensity of providing personalized services to the customers with a sense of compassion.

However, previously used determinant i.e. ‘Access’ also sometimes used for measuring service quality. Because, in service sector ease of accessibility in form of convenient location often plays a major role.

3.8.4 Service Quality Management in Hotel Sector

Service quality management plays a significant role in measuring customer’s perceived experience during their stay. In tourism and hospitality perspective quality found as the ‘the consistent delivery of products and guest services in accordance with the expected standard’ (Kapiki 2012). Therefore, understanding the customer expectations is a valuable affair for the hotel business (Hayes et al. 2011). Lockwood (1999) considered service quality to be one of the major success factor for hotel sector. As it is directly proportional to loyalty and satisfaction (Heskett et al. 1994); is also crucial to establish strong customer relationships (Henning-Thurau and Hansen, 2000). Bucak (2014) considered service quality as a critical component in hotel sector as it is associated with customer satisfaction and revisiting. Many studies have found that service quality results customer loyalty and positive word-of-mouth (Rust et al., 1995; Boulding et al., 1993; Bolton and Drew, 1991). In other words, a superior service quality level results in higher level of customer satisfaction that ultimately leads to form successful customer relationships which is highly profitable for the hotel sector. Thus hospitality
services mainly depends on customer perceived service quality and satisfaction as well as customer value. Berry and Parasuraman (1991) also claimed that customers are the adjudicators of service quality. For hotel sector service quality has been considered as a critical success factor. Excellent service quality has the competence for customer attraction, retention, increase market share as well as has a positive influence on relationship management. Since it has a positive effect on customers’ repurchase intentions and it enhances customers’ preference to buy more, to buy again, become less price sensitive and to look for other services (Venetis and Ghauri, 2004). The study of Markovic and Raspor (2010) indicated that ‘reliability,’ ‘empathy and competence of staff,’ ‘accessibility’ and ‘tangibles’ are the key factors to influence service quality expectation of guests in Croatian hotel industry. At the same time the study of Akbaba (2006) in Turkey hotels highlighted that the most important factor in predicting business travelers’ overall service quality evaluation was ‘tangibles’, followed by ‘understanding and caring’, ‘adequacy in service supply’, ‘assurance’, and ‘convenience’ respectively. Furthermore, Manhas and Ramjit (2015), identified factors like front office, food and beverage, value, location and ambience, product knowledge and presentation leads to customer satisfaction, brand loyalty and repeat purchase in north Indian luxury hotels. Furthermore, Rao and Sahu (2013), in their study at Hotel Mayfair, Bhubaneswar concluded that front office staffs are the ‘nerve centre’ of the hotel.

Hence, service quality is the customer’s individual interpretation of their experience with their service provider and measuring the quality of service is a major challenge for the service providers. For this reason researchers emphasized on finding ways to measure the quality of customer services (Parasuraman et al. 1988, 1991, 1994; Zeithaml et al. 1990, 1993). Parasuraman et al. (1988, 1991 and 1994) has invented an instrument or measurement scale i.e. SERVQUAL MODEL to quantify the gap between service quality and customer expectations (Figure 3. 26).
According to SERVQUAL model service quality is the ‘gap’ between the expected service and the perceived service. The gap can be measured by subtracting the performance rate from the customer’s expectation rate through a score card.

The SERVQUAL model measures service quality through twenty two parameters which fall into five dimensions that are valid and applicable to any service organization (Zeithaml et al. 1990; Parasuraman et al. 1994; Lovelock et al. 1999). SERVQUAL model has been adapted by many researchers and practitioners in the hospitality industries to generate useful managerial insight and understanding of service quality (Saleh & Ryan, 1992; Baker & Fesenmaier, 1997).

### 3.8.5 Implementation of SERVQUAL Model in Hotel Sector

The SERVQUAL model was developed by a Parasuraman, Zeithaml and Berry in 1988. This model intended to measure different gaps between the provided services and the service actually perceived by the customers. SERVQUAL measures service quality through a questionnaire based on RATER scale having five dimensions that measures both the customer expectations of service quality, and their perceptions of the service they receive. A huge number of research has been done, related to application of SERVQUAL Model in Hotel Sector to measure customer satisfaction. Markovic et al

3.8.6 Extended SERVQUAL

SERVQUAL, further modified by different researchers to develop extended version scales to be applied in different sectors. Cronin and Taylor (1992) developed a performance based measurement model i.e. SERVPERF as an alternative approach of SERVQUAL. The main focus of SERVPERF was to investigate the relationship between service quality, customer satisfaction and repurchase intention through various constructs of SERVQUAL.

Afterwards different researchers experimented SERVQUAL model and service quality index to apply in hospitality sector including hotels and restaurants. Kukanja and Tanja (2013), Knutson, B. et al. (1990, 1991, 1992), Getty and Thompson (1995), Tribe and Snaith, (1998), Juwaheer (2004), Choi and Chu. (1999), Kim et al. (2009), Ekinci and Riley (1999), Fu and Parks (2001), Keith and Simmers (2011) reinvented and reinvestigated the SERVQUAL constructs through slight modification in hospitality services. In hotel context, Knutson et al. (1990) developed LODGSERV designed to measure consumers' expectations for service quality in the hotel experience. LODSERV contains 26 statements based on the five dimensions of service quality. Then, LODGQUAL, another model for hotel sector was introduced by Getty and Thompson (1994), which was based on three dimensions, tangibles, reliability and contact. Later on, Stevens et al. (1995) again developed an instrument called DINESERV to assess customers’ perceptions of restaurant service quality which contained 35 items correspond to SERVQUAL, measured on a seven-point Likert scale, ranging from 1 (strongly agree) to 7 (strongly disagree). Subsequently, Kukanja
and Tanja (2013), Markovic et al. (2010), Kim et al. (2009), Ekinci (1999), Huang (1997), Keith and Simmers tested the reliability of DINESERV in measuring service quality in hotels and restaurant services. Wong Ooi Mei et al (1999) also examined the dimensions of service quality in the mid-luxury hotels in Australia. They used SERVQUAL as a foundation and developed a new scale called the HOLSERV scale.

### 3.8.7 Association of Service Quality and Relationship Marketing

Review of literature revealed the significance of association between the underpinnings of relationship marketing, perceived service quality dimensions, and customer loyalty where satisfaction plays a mediating role. Therefore, in form of repurchase intentions both service quality and satisfaction lead to customer loyalty (Newman, 2001; Ehigie, 2006; Naderian). Due to delivering quality customer service is mandatory to survive in present competitive market place; a clearer understanding of the relationship between service quality, satisfaction and loyalty is highly required to target valued customers. Christopher, Payne and Ballantyne (1991) also established a model that presents an integrative form of service quality, customer service and relationships economics. According to the researchers, the key challenge of relationship marketing is to bring three functional activities i.e. customer service, quality and marketing to much closer alignment (Figure 3.27).

**Figure 3.27 Relationship Marketing, Customer Service and Quality**

![Figure 3.27](image)

Strobacka et al. (1994) established the series of the effect of service quality on satisfaction, retention and loyalty; that ultimately gives rise to customer relationship profitability (Figure 3.28)

**Figure 3.28 Relationship Profitability Model**


Adoyo (2012) studied that service quality dimension are an essential element of relationship quality to achieve greater customer loyalty. Gaurav and Khan (2013) elucidate the impact of relationship marketing elements and perceived service quality on customer loyalty through a conceptual model. Vanpariya (2010), highlighted on the effect of customer service quality and emotional satisfaction, on loyalty and overall relationship quality in retail service sector. The study of Venetis and Ghauri (2004) reveal that, service quality is the most important factor in establishing long-term customer relationships and customer retention. Mokhtar et al. (2011) studied that service quality dimensions has strong impact on satisfaction and loyalty. Rizka and Widji (2013), maintain that customer relationship marketing attributes act as a linking pin between customer loyalty and service quality. Es (2012) developed a model in context of automotive industry to showcase the relationship between service quality and customer satisfaction and loyalty (Figure 3.29). The study assumes that service quality can influence customer loyalty, as high service quality accelerates the customer loyalty score.
Service Quality

Customer Loyalty

Customer Satisfaction


Kheng et al. (2010) in context to Malaysian Banking Industry demonstrated how service quality dimensions are associated with customer satisfaction and loyalty in as shown in Figure 3.30.

Source: Kheng, Lo Liang, Ramayah, T. and Mosahab, Rahim (2010), The Impact of Service Quality on Customer Loyalty: A Study of Banks in Penang, Malaysia, International Journal of Marketing Studies, 2)2, pp. 57-66
Similarly, Khan and Fasih (2014), in their study analyzed the role of service quality dimensions to achieve customer satisfaction and loyalty in Banking sector of Pakistan; which presented in the below Figure 3.31. The result found that, the five service quality dimensions are positively correlated with customer satisfaction and loyalty.

**Figure 3.31 Service Quality, Customer Satisfaction and Loyalty**

![Diagram showing the relationship between service quality, customer satisfaction, and customer loyalty.]


Although the primary goal of relationship marketing is to sustain relationships with the customers for achieving long time retention and loyalty. However, prioritizing only on the delivery of promised service is not adequate. Therefore, the focus should be on the significance of perceived service quality after the service is delivered. This concept can be applied to the hotel sector through a smooth and efficient operational system to deliver quality service and ensure customer satisfaction and loyalty. Ramanathan and Ramanathan (2011) in context of UK hotel industry studied and found that, service quality in terms of customers’ expectation and perception results customer loyalty, increased business performance and enhance organizational image. While, Choi and Chu (2001) in Hong Kong hotel industry identified that service quality, ambience, and value are the three significant factors to determine the satisfaction level of the guests as well as their influential factors in determining guest’s overall satisfaction levels as well as the possibility of revisiting to the same hotels. Furthermore, Singh et al (2012),
found that there is a definite link between satisfaction response, brand loyalty, word of mouth and repeat purchase in Marriott India. According to Sharma (2014) due to existence of significant service gap in each service quality dimensions, the hoteliers should emphasize on overall improvement in terms of total quality management.

Hence, one of the most considerable aspect to affect the performance of a hotel business is to improve service quality, which ultimately results in financial growth and sustainable competitive advantage (Zhang et al, 2011). However, Boon-itt and Rompho (2012) argued that there is no such thing as ‘the best’ method to improve the service quality in hotel sector as it is reliant upon the category of hotel and the country where it is located.

3.9 Customer Relationship Marketing in Hospitality Services

Increasingly, relationship marketing is becoming the basis of marketing policy in service sector. Hospitality sector is largely people based; hence relationship management is more significant for them. Abbey (1999) proposes that hotel industry is primarily a service sector where relationship marketing plays a vital role. In general marketing programme of hotels usually focuses on attracting new customers through different lucrative offers and services. Due to hotels are associated with hospitality; they often recognize the significance of developing a database that includes detail information of characteristics, needs and preference of all the guests. Certainly, regular customers or repeat visitors also expect that they should be given extra privilege as loyal customers of the hotels. Creating a group of loyal customers is just like ‘money in the bank’ for a hotel, but loyalty again requires a long-term relationship in which a hotel earns its guest’s trust (Bowen and Shoemaker, 1998). Due to intrinsic nature of service industry customer relationships are critical to ensure loyalty especially for the hospitality sector where relationships create more value. In hotel business and tourist industry relationship marketing is directed to create brand loyalty (Cosic and Djuric, 2010). Interaction or Moment of Truth between hotel and customer leads to satisfaction and dissatisfaction (Mukhopadhyay, 2001). In the hospitality sector, expectations are created by the promise, which is also influenced by prior experience, references by friends and relatives and brand image. So, every guest walks in to the moment of truth with an expectation which defines the value for a guest (Doyle, 2001). Hence, for hotel
industry service quality is highly prioritized to perform employee–guest relations. In addition, an effective customer relationship management programme of a hotel will possibly increase the overall profitability (Buttle 1996; Christopher et al. 2002; Grönroos 2007; Gummesson, 2008). However, in today’s extremely competitive scenario, expecting customer loyalty is highly exceptional (Buttle, 1996). Therefore, retention of long-term customer relationships are even more increasingly critical. Moreover, McIlrroy and Barnett (2000) also concluded that, in hotel sector relationship marketing is one of the form to achieve sustainable competitive advantage.

3.9.1 Customer Service and Care in Hotels

Customer care is defined as a service that one can offer to another which is essentially intangible and does not result in the ownership of anything but brings about customer delight and satisfaction (Kotler, 1998). Customer care helps the service firm to acquire new customers, provide utmost satisfaction and build loyalty. Due to rising competitive market scenario to provide quality service and customer satisfaction is the major goal for hospitality service industry. Hence hospitality services have to update the customer service strategies time to time. Weimstein and Johnson (1999) have identified three levels of service offering which can be implemented in hotel sector (Christopher C. Doyle, 2001) are as follows:

- **Core Benefits**: The basic service provided by the hotel e.g. Lodging and Boarding
- **Hygiene Factors**: Minimum level of expectations of customers regarding a hotel services on absence of which customer gets dissatisfied. Ex. Neat and clean room, room service, wake up calls, in room amenities, laundry services etc
- **Satisfiers**: These are the unique selling point of the hotel which differentiates from its competitors. In form of additional value added services leads to high level of customer satisfaction.

Christopher, Payne and Ballantyne (1991) suggest the addition of people, processes, and customer services for relationship marketing. Customer service can also be seen as a process which provides time, place and form utilities for the customer which involves pre-sale, sale and post-sale transactions. In hotel sector customer care services starts when the guest enters in to the hotel premises. It ranges from the parking facility,
check-in at front office, staffs attitude towards the guests, ambience, room services, food quality, service recovery, security, check-out and after sales services. Though the core of any service company is to create customers but they also have to find different ways to satisfy the customer to achieve long term retention and loyalty. Thus, customer care is a major facet in moving customers up the ladder of loyalty (Kotler, 1998). Marketers now recognize that developing effective systems of customer care can provide major long-term benefits to the guests and the hotel as well. Moreover, customer service plays a pivotal role in the practice of relationship marketing and customer retention. According to Lovelock et al. (2005), the service product in the hotel sector consists of three ingredients: core product, supplementary services and delivery processes. The core products are lodging and boarding, supplementary services are the range of facilities and amenities and the delivery process is the mechanism of service deliverance. Figure 3.32 presents the blue print of a service delivery process rendered to a guests from check-in to check-out.

**Figure 3.32 Service Delivery Process in Hotel Sector**

Source: http://www.slideshare.net/vicku1111/service-blueprint, [Accessed: 18th April, 2015]
Booms and Bitner (1981) extended the classic 4Ps framework into the 7Ps marketing mix by including processes, physical evidence and participants in service context. This model achieved huge popularity and was accepted widely in the field of services marketing. In the model, ‘process’ refers to the procedures, mechanisms and flow of activities by which the service is acquired, ‘physical evidence’ refers to any tangible goods that facilitate the service performance, and ‘participants’ refers to the individuals who are involved in service delivery. Balaji (2014), explained on the 7 Ps of marketing mix in hotel perspective as given below in Table 3.1. He classified different facilities provided by hotels in form 7Ps of marketing mix i.e. product, price, place, promotion, physical evidence, people and process.

**Table 3.1 7Ps in Hotel Sector**

<table>
<thead>
<tr>
<th><strong>Product</strong></th>
<th>Reception, Area, Rooms, Entertainment, Shopping, Personnel, Care, Communication, and Transport, Medical, Restaurants, Bars, Loungers, Swimming pools, Parks.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Price</strong></td>
<td>Occupancy period, star category, Room capacity, Air-conditioning, Location, Room service, Taxes.</td>
</tr>
<tr>
<td><strong>Place</strong></td>
<td>Near Airports, Bus stands, Stations, Ports, Tourists, Spots, Shopping areas, Places of worship.</td>
</tr>
<tr>
<td><strong>Promotion</strong></td>
<td>Advertising, publicity, sales promotion, Word-of-mouth, Public Relations, Broadcasting.</td>
</tr>
<tr>
<td><strong>Physical Evidence</strong></td>
<td>Tariff cards, Rate charts, Interior decoration, Furnishing, Housekeeping, Display boards, Lighting, Valets, Banquet Halls, Swimming Pools, and Gardens Halls.</td>
</tr>
<tr>
<td><strong>People</strong></td>
<td>Reception staff, House Keeping Staff, Banquet staff, Bell boys, Waiters, Chiefs, Maintenance staff, Administrative Staff</td>
</tr>
<tr>
<td><strong>Process</strong></td>
<td>Housing keeping, Food Preparation, Check-in, Check-out, Foreign Exchange, Room service, Secretarial services, Meeting arrangements, Functions and Maintenance.</td>
</tr>
</tbody>
</table>

**Source**: Adapted from Balaji, C. (2014), A Study on Services Marketing Mix With Reference to Hotel Industry in Mayiladuthurai Town, International Journal of scientific Research, 3 (10), pp. 91-93

7Ps framework further revised through adding ‘people’ instead of ‘participants’ with an emphasize on human resources involved in the service delivery process Lovelock et al. (2005).
3.9.2 Loyalty Management in Hotels

With the changing focus of marketing in the hospitality industry moving towards relationship marketing to secure their loyal customer (Tideswell and Fredline, 2014). In today’s hospitality industry, keeping a long-term relationship with valued customers will sustain competitive advantages (Byeong Yong Kim and Haemoon, 2004) and requires a more comprehensive approach than an exclusive focus on service quality or customer satisfaction (Vargo and Lusch, 2004). Accordingly, they strategize different loyalty programmes to delight the guests through rewarding them (Laskarin, 2013). Loyalty programmes are perceived as one of the powerful relationship marketing tools to increase customer retention as well as company profitability. Effective loyalty programmes also help a hotel in attaining a higher level of customer satisfaction. Loyalty programmes can be defined as a basic marketing process to encourage loyalty behavior through different rewards, which expectantly leads to profitability (Sharp and Sharp, 1997). Whereas, Rayer (1996) defined loyalty programmes as an instrument to identify and reward those customers who are loyal, usually through cumulative points every time they stay. Moreover with ICT revolution, it becomes more easier to track and manage the customer profile in a better way. Thus, customized quality service can be provided to the guests according to their expectation and individual need. For this reason, loyalty programmes have been strategized by hotel sector for customer attraction, persuading longer stay, and also to sustain long-term relationships. In this way, rewarding system are more effective in building customer loyalty intentions as compared to discount offers. Membership card, gift coupons, special discounts, payback offer are few of the loyalty programmes generally offer by hotels. Connectivity with the customers through electronic media also improve customer relations and contribute towards the building of customer loyalty (Gilbert; Powel-Perry and Widjoso, 1999). Furthermore, retaining loyal customers is significant for organization’s profitability as they are less price sensitive. Through frequent guest programmes, regular guests are usually given first priority and privilege. In the same way, if guests will be given special attention, they will be ready to spend more on their trustworthy service provider (Gjivoje, 2008). Nevertheless, as pointed out by Jones and Sasser (1995) in the case of ‘false loyalty’, customers neither recommend the hotel to
others nor they feel proud to be associated. Hence, loyalty programmes are successful to attain their objective only to some extent.

3.9.3 Service Recovery Strategy of Hotels

It has been proved from numerous research that the primary goal for most of the hotels are to provide utmost customer satisfaction and to sustain guest loyalty. However, a major unavoidable situation for hotel industry is service failure due to non-human or human error, an inevitable cause for customer dissatisfaction (Kau and Loh, 2006). Customer dissatisfaction is directly associated with spreading of negative word of mouth and dissolution of relationships with the service provider. Therefore, it is the responsibility of the hoteliers to handle the situation of service failure through a specific set of actions to resolve customer problems. This procedure of proactive actions of a service provider in response to customer complaints is known as considered as service recovery strategy (Gronroos, 1988). McCollough and Bharadwaj (1992) service recovery paradox often leads to even higher level of satisfaction as compared to service that had been correctly delivered on the first time. Thus, hoteliers should develop explicit guidelines to train their staffs to infuse failure handling skill within them. XiaoRan (2014) further suggested to concentrate on implementing exact procedures and policies for reacting to guest’s problems and complaints quickly and timely. In addition, hotel managers should direct their frontline staff to avoid any kind of discrimination by teaching how to properly treat angry guests by demonstrating empathy, attentiveness and apology (Abou and Abou, 2013). Though, service quality is an essential component of customer satisfaction, hoteliers should provide best of the service for the first time, but in case of failure proper recovery strategy should be applied to lessen dissatisfaction level (Hassan et al., 2014). Kau and Loh (2006) proposed that the levels of customer trust, loyalty and word of mouth are considerably higher for those guests who were satisfied with the service recovery strategy as compared to dissatisfied ones. In addition, Chueh etal. (2014), also also hold the view that there is a positive correlations among service recovery, customer satisfaction, and relationship retention in context to catering services.

3.10 Earlier Research on Relationship Marketing approach in Hospitality Sector

Relationship Marketing is an emerging area of research and discussion since a decade. Many researchers have examined different constructs of relationship marketing strategy
in hospitality and hotel sector. According to Kandampully (2006), this is truly a strategic turning point for hospitality managers to step into the new paradigm of customer-centred direction if they aim to gain market leadership.

Jawabreh (2014) attempted to find the variables and factors that influence the impact of customer relationship marketing of Five Stars Hotels in Aqaba Economic Zone. According to the study, though marketers have considered brands as assets, the real asset is brand loyalty and without which a brand has no value. Thus, goal of customer relationship marketing is to convert buyers into loyalists and loyalists into enthusiasts or evangelists.

Kalaskar (2013), concluded that, to attract, maintain and retain the hotel guests in this highly competitive world one has to have sound marketing strategies and marketing plan in hand to gain competitive advantage and sustain in the long term business.

Bhavani (2013) from his research on five star hotels in Hyderabad city, suggested that the customer relationship management approach is highly essential to accomplish the service expectations and developing rapport with customers also decreases the level of dissatisfaction.

The study of Essawy (2013) aimed to find out the factors affecting the relationship marketing programmes by independent hotels in Egypt. The study explored that the dominant factors to influence relationship marketing are size of the hotels, number of employees, monetary resources, customer pressure and business proficiency.

Narteh et al (2013) in their study tested the impact of six key relationship marketing practices, namely competence, commitment, conflict handling, trust, communication, and relational bonds on customer loyalty in Ghanaian luxury and first-class hotel industry. They suggested that all six relationship-marketing practices have a significant and positive effect on customer loyalty in the hotel industry.

Sahoo (2011), in her research revealed that trust, commitment, fulfillment of promises, ethical practices, mutual exchange, customization, emotional bonding and customer orientation are the major ingredients to create relationships in star hotels in Bhubaneswar and Ahmedabad.
Azmian, Nasrinahr and Foroughi (2012), found that relationship marketing is significantly correlated with service quality, personal connections, customer satisfaction and retention, in Malaysian hotel sector.

Hashem (2012) investigated the impact of customer relationship marketing on customers’ image for Jordanian Five star Hotels. The hotel which meets its obligations toward its customers has the highest mean values in their variables which reflect high degree of positive attitudes toward those CRM's tools.

Hashim et al. (2012), investigated that relationship quality in terms of trust, commitment and satisfaction can influence customer loyalty in a budget hotel in Malaysia. The case study revealed a direct relationship between relationship quality and loyalty. This study further emphasized on the significance of communication, customization, and comfort as customer loyalty tools.

Martín-Ruiz, Barroso-Castro and Rosa-Díaz (2012) have focused on a different phenomenon i.e service experience consisting of elements such as hotel ambience and facilities as a significant tool for customer satisfaction measurement. As per the research, service experiences develops a lasting relationship in Star hotels in Spain.

Lancaster and Luck (2010) explored how ‘Customer Relationship Marketing’ (CRM) has been embraced by UK hotels as a contemporary marketing strategy and has became an integral part of hotel operations.

Christou (2010) suggested a fundamental effect, that relationship satisfaction improves customer retention; in particular if the customer who purchases more is also satisfied.

Osman and Bowie (2009), concluded that that a transactional approach to marketing can be an effective strategy for hotels, which target niche segments with highly differentiated offers at competitive prices. They also found that this approach can create significant customer loyalty.

Shammout, Zeidan and Polonsky (2006) explored the impact of financial, social and structural bonds on guest loyalty among Arabic Five Star hotels. The case study found that structural bonds increase loyalty, although financial and social bonds were not found to have a significant impact on loyalty.

Geddie et al. (2005) investigated six constructs of relationship marketing related to hospitality like bonding, customer loyalty, empathy, reciprocity, satisfaction and trust.
The study also compared relationship marketing with Chinese principles of Gunaxi, where creating bond or relationship with the customers is the primary objective to form company and customer as a single cooperative unit.

Yeung Kurn Park and Jum-Gi (2004) analyzed that, relationship marketing provides hotels with long-term interest and satisfactory service because the perception of service and service personalization are possible. Hotels are required to take the relationship-oriented approach because relationship marketing has been developed as the critical marketing strategy in service industry. Trust, commitment and performance has direct relationships on the performance of the hotel.

Gilpin (1995), anticipated that although the hotel industry would appear to have all the right criteria for the implementation of relationship marketing, there was little evidence of understanding or implementation from this study. There was some evidence of strategic change within the market, with some companies, either starting to re-branding their product portfolios according to the customers being targeted or the development of pricing structures according to the customer’s needs rather than being product driven. However, it will take a change in management attitudes to implement a more behavioral approach of understanding the customer.

Hence, satisfying customers in a hotel is equivalent to retain customers rather than capture new customer. Likewise, in the hotel sector service quality and customer satisfaction significantly effect on the prospects of customer retention (Kandampully, 2005). Kandampully and Suhartanto (2000) also recognized customer loyalty as one of the major aspect for an organization’s prosperity and success. This study demonstrates the relationship between customer loyalty, customer satisfaction, and brand image in the field of hotel industry in NewZealand. The results found that that hotel image and customer satisfaction along with services provided are directly related to customer loyalty. Furthermore, according to McIlroy and Shirley (2000) relationship between customer loyalty and satisfaction, profitability and customer retention is described within the framework of relationship marketing. They further argued that though the significance of customer loyalty and its impact on organizational profit is unquestionable. However, it is more difficult to build customer retention. For this reason different loyalty schemes including discount cards facility can be used to retain customers.
Accordingly, it has been found that only a small proportion of frequent visitors are considered as ‘truly loyal’ guests (Carmen, 2005; Dick and Basu, 1994). Therefore hotel industry should formulate effectual strategies for fostering true loyalty through the provision of quality service and value-based rewards rather than cumulative points.

Simultaneously, Gilbert et al. (1999), emphasized on the utilization of internet technology as a relationship marketing tool to achieve global competitiveness. The study describes how major UK hotel chains have developed long-term relationships with customer with the help of world-wide web. Similarly Jawabreh (2014) also suggested for the utilization of CRM tools to improve customer interaction process.

3.10.1 Relationship Marketing Models in Hospitality

Many researchers in relationship marketing have developed different models irrespective of the constructs, dimensions and outcomes for hospitality service sector. In the following section some of the popular models and their significance for hotel sector have discussed in a concise mannaer.

3.10.1.1 Evaluating an Extended Relationship Marketing Model for Arab Guests of Five-Star Hotels

Figure 3.33 Relationship Marketing Model for Five-Star Hotels in Arab

An extended model of relationship marketing was developed by Shamout (2007) for Five-Star Hotels in Arab. The study discovered that social and structural bonds essentially affects relationship quality and emotions of the customers as compared to financial bonding. The model presents a strong relationship between emotions, relationship quality and customer loyalty (Figure 3.33). The researcher highlighted the exclusivity of emotions in relationship quality aspect to incur profitability and competitive advantage for the hospitality industry.

3.10.1.2. Relationship Marketing: An Evaluation of Trustworthiness within the Jordanian Hotel Sector

Kharouf (2010) proposed a model to evaluate the relationship between trustworthiness and relationship marketing in hotel sector in Jordan. This model clearly defines the determinants of 'trustworthiness' which ultimately leads to customer loyalty. The model presents 'trustworthiness' at the central point, in the midst of various determinants of 'trustworthiness' that have a direct relationship with the indispensable attributes. The model also explored that the outcome of 'trustworthiness' is measured by two types of customer loyalty; behavioral (low level) and attitudinal (high level) loyalty and also concluded that behavioral loyalty can lead to attitudinal loyalty (Figure 3.34).

![Figure 3.34 Relationships Marketing in Jordanian Hotel Sector]( inserted_image )
3.10.1.3 Relationship Marketing Orientations Model in Hotels in Hong Kong

Sin et al. (2006) developed Relationship Marketing Orientation model to study the link between relationship marketing orientation and business performance in 63 hotels in Hong Kong. They explored six constructs of relationship marketing that influences business performance that are trust, bonding, communication, shared value, reciprocity and empathy (Figure 3.35). According to the model, in case of hotel industry, the above six relationship marketing dimensions are positively correlated to trust, customer satisfaction and retention which further results in to financial growth.

**Figure 3.35 Relationship Marketing Orientation Model**

![Relationship Marketing Orientation Model](source.png)


3.10.1.4 Relationship Marketing with Customers in the Thai Hotel Industry

Preechanont (2009) conducted his research in eighteen hotels in Bangkok, Thailand and developed a relationship marketing model (Figure 3.36) for the Thai hotel industry showcasing hotel-customer relationships. The study examined nine relationship marketing elements i.e. personality, service quality, customer recognition, personal attention, product improvement, creativity, trust, commitment, friendship, and social
networks that plays a major role in relationship marketing strategies for customer loyalty and long-term relationships. The study also focuses on the significance of culture to influence a hotel’s relationship pattern with its stakeholders.

**Figure 3.3.6 Relationship Marketing Model for Thai Hotel Industry**

3.10.1.5 Host-Guest relationships Model for Thai Tourist Resorts

Sophonsiri (2008) conducted a study in Australia and Thailand which explored the development of host-guest relationships within the Thai resort industry. The study aimed to differentiate the cultural variations exist among the tourists from Australia and Thailand which impose relationship development. The study investigated the impact of special treatment benefits, social benefits, confidence benefits, communication, termination costs and opportunistic behavior for the development of trust and commitment. The researcher developed a model based on the study of Morgan and Hunt model to showcase host-guest relationships (Figure 3. 37). As per the study customer loyalty has been considered as a part of relationship marketing approach which can be attained through positive word of mouth communication and repurchasing behavior.

**Figure 3.37 Host-Guest Relationships Model in Thai Tourist Resorts**

![Host-Guest Relationships Model](image)

3.10.1.6 The impact of Customer Satisfaction and Delight on Loyalty in the Tourism and Hospitality Industry

This study aimed to test the impact of customer satisfaction and delight on loyalty in the context of tourism and hospitality. The findings from this study demonstrate that cognitive and affective loyalty are directly influenced by customer satisfaction and delight, conative loyalty is directly influenced by cognitive and affective loyalty, and action loyalty is directly influenced by conative loyalty. The results of this study hold value for today's researchers as this study fills the gap aroused in previous research done on customer satisfaction, delight and loyalty. Besides, the results suggested a new phenomenon for the loyalty dimension. This study also provides important information on emotional factors such as customer delight and affective loyalty which are critical concepts related to loyalty. Figure 3.38 depicts the relationship between customer satisfaction and delight on loyalty in the tourism and hospitality set up.

**Figure 3.38 Relationships between Customer Satisfaction and Delight on Loyalty**

![Diagram showing the relationship between customer satisfaction, delight, and loyalty](source)

**Source:** Kim, Mi Ran (2010), The importance of customer satisfaction and delight on loyalty in the tourism and hospitality industry, Michigan State University in partial fulfillment of the requirements for the degree of Doctor of Philosophy.
3.11 Conceptual Framework

By summarizing the above literatures, the conceptual framework is drawn for this research to portray the correlations among service quality, relationship marketing, customer satisfaction and loyalty.

Figure 3.39 Conceptual Framework

Source: Author

The framework showcased above, highlights the synergistic blending of service quality dimensions (Accessibility, Tangibility, Reliability, Assurance, Responsiveness, Empathy and additional services) and relationship marketing variables. In the framework the key assets that underpin customer relationship marketing are trust (Morgan and Hunt, 1994), commitment (Grossman, 1998; Chan and Ndubisi, 2004), Bonding (Clark 2007; Berry and Parasuraman 1991), conflict handling (Dwyer et al. 1987; Ndubisi and Chan 2005) and communication (Ndubisi and Chan, 2005; Morgan and Hunt, 1994; Crosby et al., 1990). These constructs have been linked to customer
loyalty and satisfaction in this research model. Accordingly, customer loyalty further correlated with customer retention, repeat visit, positive word- of-mouth and profitability for the hotel. Therefore, through maintaining healthy relationship with guests and providing qualitative service delivery results in more customers and more profitability (Bowen and Shoemaker, 1998).

3.12 Conclusion

After extensive reviewing of literature on relationship marketing concept, theories and approaches in hospitality and hotel set up, this study attempts to conceptualize relationship marketing within the star hotel industry in Bhubaneswar. This research endeavors to combine the advantages of each approach with a focus on the integration of service quality and relationship marketing as the core of customer satisfaction, loyalty and retention. According to this research, to develop a good relationship with new customers and maintain long-term relationships with existing ones, relationship marketing is a vital component. Hotel industry, with a suitable strategy in terms of relationship marketing approach, can increase their profitability by targeting committed and loyal customers. It is further recommended that hotels can find different ways of building life time relationships with customers. To establish a successful relationship marketing programmes to win customer loyalty, it is significantly required to identify and understand the exact needs and expectations of the customers. So that to provide excellent quality of customized service along with a setting of commitment and trust as a strong component of relationship building. Therefore, for hotel sector, the ultimate focus of relationship marketing is to enhance customer satisfaction, winning their trust and loyalty for sustaining a long-term relationship.

Finally, the chapter provides a review of successful relationship marketing models, which provide some guidance for developing a conceptual model for this study. The literature also reveals that perceived service quality and customer satisfaction are important determinants of customer loyalty. Thus relationship marketing have taken a central position in marketing strategy in the past two decades. Thus, in many situations, both sellers and customers are becoming more interested in conducting business transactions embedded within relationships.