CHAPTER - 1

INTRODUCTION

Tourism Industry is one of the largest employer and the world’s largest service industries which generate a job a minute and provide employment to almost 14% of world’s population\(^1\).

Tourism has been a major social phenomenon of the society all along. It is improved by the natural urge of every human being for new experience, adventure, education and entertainment. The motivations for tourism also include social, religious and business interest. The spread of education has fostered a desire to know more about different parts of the globe. The basic human thirst for new experience and knowledge has become stronger, as communication barriers are getting overcome by technological advances. Progress in air transport and development of tourism facilities have encouraged people to venture out to the foreign lands\(^2\).

Tourism’s importance, as an instrument for economic development and employment generation, particularly in remote and backward areas, has been well recognized the world over. It is the largest service industry globally in terms of gross revenue as well as foreign exchange earnings. Tourism can play an important and effective role in achieving the growth with equity objectives, which we have set for ourselves. Tourism is one economic sector in India that has the potential to grow at a high rate and can ensure consequential development of the infrastructure at the destinations. It has the capacity to capitalize in the country’s success in the services sector and provide sustainable models of growth.

It has the potential to stimulate other economic sectors through its backward and forward linkages and cross sectoral synergies with sectors like agriculture, horticulture, poultry, handicraft, transport, construction etc. Expenditure on tourism induces a chain of transactions requiring supply of


goods and services for these related sectors the consumption demand, emanating from tourist expenditure, also induces more employment and generates a multiplier effect on the economy. As a result additional income and employment opportunities are generated through such linkages. Thus, expansion of the tourism sector can lead to large scale employment generation and poverty alleviation. The economic benefits that flow into the economy through growth of tourism in shape of increased state and national revenue, business receipts, employment, wages and salary income, buoyancy in central, state and local tax receipts can contribute towards overall social-income improvement and accelerated growth in the economy.

Tourism is overwhelmingly an industry of private sector service providers although the public sector has a significant role to play in infrastructure are either directly or through public private partnership mode. It is a multi sectoral activity characterized by multiple services provided by a range of suppliers. It is quite similar to manufacturing industry where the supply chain is as important as the end product. The related sectors include airlines, surface transport, basic infrastructure and facilitation system etc. Thus the growth of tourism cannot be attained unless the issues related to all the sectors are addressed simultaneously.

Another important feature of the tourism industry which is of particular significance to in India, is its contribution to national integration and preservation of natural as well as cultural environment and enrichment of the social and cultural live of the people. Over 740 million\(^3\) domestic tourists visiting different parts of the country every year return with a better understanding of the people living in different regions of the country. They have a better appreciation of the cultural diversity of India. Tourism also encourages preservation of monuments and heritage properties and helps the survival of the art forms, craft and culture.

The Indian Travel & Tourism Industry is expected to be the second largest employer in the world by 2019.

\(^3\) Ministry of Tourism, Performance Report (December 2011), Page 2.
The number of medical tourists is expected to reach 1.3 million by 2013, at a CAGR of 19% foreign tourist arrival (FTA’S) in India 2010 touched 5.58 million with a growth rate 9.3% as compared to a growth rate of 3.3% during 2009.4

India’s share in the total global tourist arrival and earnings remained quite insignificant at 0.52% of the world arrivals and the percentage of share of tourism receipts for 2006 was 0.90%.

Table 1.1 : Foreign Tourist Arrivals to India (In million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Arrivals</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>2.38</td>
<td>-6.03</td>
</tr>
<tr>
<td>2003</td>
<td>2.73</td>
<td>14.34</td>
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<tr>
<td>2004</td>
<td>3.46</td>
<td>26.82</td>
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<tr>
<td>2005</td>
<td>3.92</td>
<td>13.34</td>
</tr>
<tr>
<td>2006</td>
<td>4.45</td>
<td>13.49</td>
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<tr>
<td>2007</td>
<td>5.08</td>
<td>14.26</td>
</tr>
<tr>
<td>2008</td>
<td>5.28</td>
<td>3.91</td>
</tr>
<tr>
<td>2009</td>
<td>5.11</td>
<td>-3.22</td>
</tr>
<tr>
<td>2010</td>
<td>5.78</td>
<td>9.3</td>
</tr>
<tr>
<td>2011</td>
<td>6.29</td>
<td>8.9</td>
</tr>
</tbody>
</table>

Growth in 10 years that is 2011 over 2001: 92.65%

Source: Ministry of Tourism Report, 2011

India boasts of the world’s highest mountains, miles of coastline with excellent beaches, tropical forests and wildlife, adventure tourism, desert safari, lagoon backwaters, ancient monuments, and world heritage sites forts and palaces, and of course, the Taj Mahal. The Indian tourism and hospitality industry has thus emerged as one of the key sector driving the country’s growth. The tourism sector is thriving, owing to a huge surge in both business and leisure travel by foreign and domestic tourists.

According to the latest Tourism Satellite Accounting (TSA) research, realized by the World Travel and Tourism Council (WTTC) and its strategic partner Accenture, India’s travel and tourism industry is expected to generate approximately 100 billion US dollars in 2008, according to Smith Travel

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4 Ministry of tourism, Appraisal Report (March 2011), Page 1-5.
Research. Considering that these U.S. figures are based on an inventory of approximately 4.59 million rooms compared to the Indian branded room inventory of roughly 90000-100000 excluding the unorganized sector, which represents roughly another 100000 rooms, leads one to wonder about India’s tremendous potential.

The severe supply-demand imbalance has prompted hoteliers to increase rates significantly over the past two to three years. HVS maintains that India needs approximately 160000 new rooms in the nation’s top 25 markets. As this new supply enters the market a rate rationalization is expected; each market will vary based on supply HVS anticipates many markets to achieve stabilized rates in 2012.

This rate consolidation will also serve to induce demand from the mid-level domestic leisure segment and the meeting and conference segment both of which were previously priced out of the market. The industry will further benefit from the rising disposable income levels among Indians as the number of domestic holidays increases as well as per trip spending. Unfortunately, domestic tourism statistics are grossly skewed and all domestic travel is registered as tourism regardless of purpose of trip.

Based on these recording principles, domestic tourism visitation totalled roundly 529 million in 2007. Even if a mere 10% of the estimated domestic visitation can be correlated to tourism then India benefitted from approximately 53 million domestic tourists in 2007. Regardless of purpose of visit, domestic travel increased by 140% between 2000 and 2007 which can be viewed as an extremely positive trend for the lodging industry.

1.1 Hospitality Sector

The Indian hospitality sector has taken a paradigm shift from a nascent stage to an expansionary stage. It contributes 8.6% to the country’s GDP.

Hospitality industry can be empirically divided into two parts: entertainment areas like clubs and bars and accommodation. Accommodation takes the form of public houses, resorts, inns, campgrounds, hotels, hostels, serviced apartments and motels. The clubs and bars category includes restaurants, fast food areas and nightclubs.

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The hospitality industry also includes tourism support commercial activities like airline cabin staff and travel agents. Travel technology like applied information technology (IT) and its workers in hospitality, travel and tourism are included in the hospitality industry.

It is estimate that India will be 4th fastest growing nation in the Travel & Tourism sector our next 10 years.

Hospitality is about serving the guests to provide them with “feel-good-effect”. Today hospitality sector is one of the fastest growing sectors in India. It is expected to grow at the rate of 8% between 2007 to 2016. The industry is more dependent on metropolitan cities as they account for 75% to 80% of the revenues, with Delhi, Bangalore, Pune and Mumbai on the top.

“First world treatment at third world prices” is how industry sources define medical tourism in India. Although, India is a recent entrant into medical tourism it is fast catching up. According to a study by McKinsey and the Confederation of Indian Industry (CII), medical tourism in India could become a US$ 2 billion industry by 2012 (from US$ 350 million in 2006)\(^7\).

The key selling points of medical tourism industry are its cost effectiveness and its combination with the attractions of tourism; many travel agents are now selling combined packages of treatment and vacation. India has some of the best hospitals and treatment centres that are equipped with infrastructure and technology, which are at par with US, UK AND Europe at a fraction of costs – only a tenth and sometimes even a sixteenth of the cost in the west.

In fact according to the World Travel and Trade Council, Indian tourism will continue to grow at a rapid pace. It estimates that demand to grow at an average of 8.8% between 2004 and 2013, making India the world’s third fastest growing tourism market. The boom in the Indian tourism industry has cascaded to the rural areas as well. India continues to attract tourists owing to its splendid historical architecture and rich culture along with beautiful beaches, rural tourism or what is now called ‘responsible tourism’ is also fast gaining popularity with travellers flocking to discover the best in rural arts and heritage.

1.2 Lodging Services

Lodging sector and tourism industry are interdependent on each other. With increase in number of tourists, lodging industry holds up a higher position in hospitality sector. Lodging is an inclusive term that defines the different types of accommodation available to a traveller. Lodgings may vary in each but due to globalization most lodgings today are standardized with international services. The hotel industry grew with travel, as people needed places for shelter and food along the routes they travelled, whether by land, water or air. The hotel industry is, therefore, one of the oldest trade endeavours in the world. The first inns go back to 300 BC which were established for the people on the move spurred by the urge to travel\(^8\).

The word hotel was derived from the 14\(^{th}\) century Latin word ‘Hoste’ meaning person or thing that provides something for a guest, usually lodging and sometimes food. The concept of a hotel was to provide some sort of temporary lodging accommodations for transients. Hotels varied little in the ancient times when they were first described as simply being a boarding house providing a place to rest and nothing more. Throughout the early centuries (1AD forward) the evolution of the hotel was also minimal. In the Middle Ages when the hotels began to transform. They became not only places for transients to spend the night but the sometimes became hospices or temporary homes for the poor. Hotels soon acquired various and distinct descriptions such as it being an inn or a resort. And today there are so many variations from timesharing hotels to airport hotels it is overwhelming to begin to classify them\(^9\).

Hotels also evolved as the need and expectations of travellers changed. This ranged from the emergence of residential hotels in the mid 1800’s where people used hotels as a place to live as an alternative to permanent housing, staying for months at a time and paying their rent money, Some of these residential hotels called ‘Palace’ provided service worthy of a king. Personal service towards the guest has always been focal point of the hotel industry this is the one of the most important concept of the bed and breakfast or inn type of lodging. They provide an intimate and fully catered

\(^8\) AHLA Lodging Magazine, April 2010, Page 19.
\(^9\) Introduction to hospitality Industry by Dennis L. Foster, McGraw Hill Page. 3-16.
atmosphere. The owners of the inn welcome the guests into their home as if they were family. Some even provide spas and other activities of enhancing their experience and to provide more personal amenities for their guests.

Not only did hotels evolve from being solely a place to spend the night they often were the first to employ the new technologies of an era as a means to attract guests. This is most prevalent from the mid 1800’s onwards. These new technologies included the use of steel in the structure allowing for more storeys and additional rooms for the hotels, to having televisions in every room in the 1950’s to having internet and computer capabilities in the rooms today.

A hotel is an establishment that renders lodging in lieu of payment. This lodging is usually given in exchange for a specified predetermined amount of money. Modern hotels come equipped with climate control and attached bathrooms. Higher end hotels offer guests internet connectivity in their rooms and also throughout premises. A combination of meals and accommodation comes as a package in most hospitality establishments. Hotels are usually managed by professionally qualified managers. Junior workers usually maintain the hotel. Functions like cooking is usually done by professionally trained chefs.

As if accommodating India’s current room night demand was not a challenging task enough, base demand coupled with robust level of unaccommodated and induced demand will prove even more daunting. India measures roughly one third the size of the U.S. but features a population 370% greater at roundly 1.3 billion. This population is the second largest globally and accounts for 17% of the world’s population. Needless to say that the country’s lodging needs are being grossly underserved. The existing internationally branded rooms in India total approximately 40000 – less than the room supply of Manhattan, New York.

According to HVS, the Pan-India occupancy level exhibited a robust 72% and average room rate Rs 7,075 (approx. $177) for the fiscal year 2006/07. Moreover, according to the TSA research, travel and tourism is expected to contribute 6.1 percent to India’s national Gross Domestic Product.

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(GDP) and provide almost 40 million jobs by 2018. Also a Country Brand Index (CBI), 2008 survey conducted by future brand—a leading brand consultancy—in collaboration with public relations from Weber Shandwick’s Global travels & Lifestyle practice, has ranked India second in the value for money index.

The rapid growth of the Indian tourism industry has been instrumental in South Asia’s being the preferred tourist destination as noted by the UN World Tourism Organization (UNWTO). Foreign tourist arrivals during the period January-October 2008 increased by 370000 to 4.32 million during the corresponding periods of 2007. Number of foreigners visiting India as tourists in the October 2008 was 453000 as compared to 331000 in September 2008. Consequently, foreign exchange earnings from tourism in India rose from US $ 8.293 billion (January-October 2007) to US $ 9.696 billion (January-October 2008). Earlier in 2007 total number of foreign tourists visiting India were 5.08 million— an increase of 14.3% over 2006. There is shortage of 11, 0000 rooms across the country. 

In light of the challenges facing Indian tourism industry, the study report emphasizes that the future success of tourism enterprises relies upon delivering a (unique and complete holiday experience). In addition it has recognized that the underpinning critical success for the tourism industry is building customer loyalty through the creation of the total customer experience. A review of the literature indicates a general consensus that quality, value and satisfaction are major determinants of customer loyalty. However, while much is known about the relationship between the aforementioned variables and customer loyalty these variables do not fully explain how customer loyalty is built. Therefore, this research study seeks to reduce the existing gap in extant knowledge by identifying and examining a new determinant of customer loyalty—the customer experience. The overarching objective of this thesis was to examine the relationship between customer experience and customer loyalty. Indeed, both customer relationship management (CRM) and brand literature indicate that loyalty building is found in the customers experience with the product/service, hence

it is perceived that a fundamental key to building customer loyalty is the successful management of each individual customer's experience. The customer experience has been defined as involving three components: functional clues, humanic clues, and mechanic clues. Each one of these clue sets have been investigated individually in relation to their impact on loyalty\textsuperscript{13}.

Since the lodging industry has reached the maturity stages of its life cycles, retaining customers is a top priority for each hotelier (Lewis and Chauhan, 2000). Managing customer value by creating quality and service that customers can see now is considered a critical component of companies’ strategic marketing. Customer value is what builds loyalty. Loyalty usually implies satisfaction, but satisfaction is not loyalty. To stimulate loyalty hotel managers need to have clear understanding of ways in which their business contributes. At a general level, loyalty is shown by different propensities toward the brand, store or service. These propensities may be expressed in behaviour and attitude. Even the most tightly focused lodging brands simultaneously serve several market segments. In fact managing customer value by “creating quality” and service that customer can see now considered a critical component of company’s strategic marketing. In a survey conducted by Dude and Renaghan, it was observed that among five functional areas loyalty impact score was the highest (85%) followed by the quality of the personal and guest room design (83%), brand name and positive reputation (80%) and perceived value (80%). Customers can articulate not only the benefits they expect in a hotel, but the various functional areas of hotel operations and management that underline those benefits should also be considered\textsuperscript{14}.

The core of successful hotel operation and management consists in establishing and maintaining a profitable link between fulfilling the multifaceted customer needs that are most critical to satisfaction and the hotel’s physical facilities. In furthering the development for functional best practices, hotel managers must appreciate the breadth and intricacies of the


\textsuperscript{14} J King Saud University, Vol. 14, Admin, Sci(2) pp 83-103, Riyadh.
brand’s promises to the customer and be able to translate those promises into the concrete actions that deliver consistent service quality.

The ever increasing customer expectations forces companies to focus their efforts on not only providing exceptional services with value for money but also doing it better than their competitors. When the intangibility characteristic and labour-intensive nature of services are added on top of these providing services with zero defects is a rigid and unrealistic target. As Zemke and Bell (2000) adequately put forward, in the guest to provide high quality, cutting edge, customer-pleasing services, mistake do happen through no fault of the customer or service provider, while companies may not be able to prevent all mistakes and failures, they can and must learn how to recover from these problems (Hart et al 1990).  

Services companies in general and lodging sector in particular, have been increasingly encouraging their customers/guest to voice their complaints directly to them since these complaints are chance given to after what is going wrong during the provision of service (Blodgett et al, 1997). Once guest decides to complain, hoteliers have to be well prepared in both, tangible (structure, employees, procedures etc.) and intangible (prejudgment, still etc.) ways to offset the guest’s negative reaction to the service failures. To do so, all the necessary action should be taken by companies to more a customer from a state of disappointment to a state of satisfaction (Bell & Ridge, 1992).

In order to survive in this present world of competition, hotels will have to formulate marketing strategist in a way to not only woo customers toward them but also retain them. The secret here is that retention cost is very low when compared to the cost of attracting new customers. Some of the basic problems facing hotels today are provision of better service alternatives to its customers, generation of more income from non-core based services, improving the profitability of the hotel system and above all the “Customer Retention”. The root cause of all these problems lies in the failure to adopt marketing approach. This is so because the marketing concept will facilitate them to be more scientific in solving their business problems, satisfy their

customer’s requirements or needs and maintain a profitable win-win relation with their customers, which will enable hotels to stay closer to their customer’s maintain as well as increase market share and counter the competition successfully.

Most business executives would agree that sound business strategist include a concern for quality (Sounders and Graham, 1992; Yasin and Zimmerer, 1995). Nevertheless as important as quality may be, much confusion still exists when it comes to defining and operationalizing quality. Managers from different functional areas in firms tend to view the concept of quality from a variety of perspectives. “Quality is more than simply making a good product” (Takeuchi and Quelch, 1983, p.139). It is a multidimensional concept that cannot be easily defined or measured. This is most apparent in service industries where major emphasis has been placed on achieving technological advances at the expense of customer-service improvements (Barsky and Dittman, 1990). Too much emphasis is placed on “packaging” rather than on the human interaction that takes place in service delivery. This is particularly true within the lodging industry where perceptions of quality are highly dependent on the human element17.

The need for a multidimensional or “total quality” focus in the lodging industry is underscored by the complex environment. This environment is characterized by an overabundance of properties, reduced occupancy rates, and increased numbers of multi-national investors, forcing operators into a life-and-death struggle for a competitive edge (Sounders and Graham, 1992). However, hotels that implement successful quality programs not only have greater customer satisfaction – they also enjoy greater employee satisfaction, profit margins and lower operational costs than their counterparts who do not typically pay close attention to quality improvement (Yasin and Zimmerer, 1995). Strategies for gaining this advantage previously have centred on attempts to increase customer loyalty via such things as frequent traveller programs and “amenities wars”. However these programs perpetuate a costly,

vicious cycle. With each visit, customers expect more and more “give-aways” in exchange for their business\textsuperscript{18}.

A healthier approach is to focus on consistently providing the dimensions and level of quality that customers expect. This means that operators must have a mechanism for assessing customers’ perception of the level of quality their operations deliver. Lodging executives need a reliable accounting of the way their properties are viewed by guests, allowing for differentiation from their competitors (Yasin and Zimmerer, 1995). Developing such an assessment measure is not easy. The diversity of property types within the hospitality industry, combined with the varied needs of customers, suggest that the concept of delivered quality must be assessed from many angels. A luxury resort cannot be expected to deliver quality at the same level, and in the same context, as a roadside motel. Each property-type may deliver the best quality it can for its customers, and yet they are quite different. Consequently, the assessment measure has to include dimensions that reflect the large scope of the quality construct\textsuperscript{19}.

In today’s market place many service companies need to mobilize their internal energies in order to meet the challenges of changing environment. The hotel industry has grown rapidly in recent years to serve the increase number of guests. High quality service and enhancing customer satisfaction are widely recognized as important factors leading the success of companies in the hotel, catering and tourism industries (Barshy&Labagn, 1992; Legoherel, 1998; Choi & Chu, 2001). It is believed that customers who are satisfied are more likely to establish loyalty repeat purchases and favourable word-of-mouth (Fornell,1992).To attain the desired service quality lodging industry requires the integration of the marketing perspective (Davis & Vollwan,1990;Klassen & Rohledu 2001).Research has suggested that the knowledge and skills required for lodging management success have changed recent years(Su et al 1997/1998).The increased in level of competition has taken to the hotel industry to book for ways of maintaining and attracting customers. Retaining customers in lodging industry has

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become increasingly more important with increasing competition. Hotels that can attract, maintain, satisfy and retain customers are more likely to survive (Choi & Chu, 2001). In general, the longer the customer stays in the long term relationship the more profitable the relationship becomes to the organization.

The boom in India’s Tourism industry and the surge in tourist inflow to the country have percolated to other associate sectors like hospitality. The revenues for the Indian hotel and restaurant industry in the year 2006-07 exceeded US$ 118.85 million, an increase of nearly 22% over the previous year. The industry has been poised for rapid growth and is projected to be well worth over US$ 158.49 million by 2011.

And with this continuing surge in tourist inflow, this sector is likely to offer tremendous opportunity for investors. For example, while the estimated number of required hotels rooms is just around 240000, the current availability is just 90000 rooms – leaving a shortfall of 150000 rooms to be provided.

India’s hospitality sector is expected to see an estimated US$ 11.41 billion in the next two years and around 40 international hotel brands by 2011, according to a report by MaFoi Management Consultants. Moreover, the sector is expected to provide over 400000 jobs.

Along with these large scale expansion plans, international hotel asset management companies are also likely to enter India. Several global hotel chains see immense investment opportunities in the sector with global chains like Hilton, Marriott International, Berggruen Hotels, Cabana Hotels and many others have made investments of roundly $24.5 billion in 2007-08, which was an increase of roundly 56% over the previous fiscal year, emerging markets’ potential is not being fully tapped consider that investment bank derived 80% of their revenues from developed nations despite these countries accounting for only 71% of global GDP. Unfortunately many foreign institutional investors, hastened by poor recent equity market appreciation in India have withdrawn funds from these markets to patch holes cropping up in their U.S. portfolios.

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23 Ma Foi Management Consultant Report on Indian Hospitality, September 2011.
This trend coupled with soaring oil price and inflation level have surely caught up with the Indian economy in June; however India’s economic troubles similar to those face by other Ems and rich nations alike and are not indicative of mid or long term problems in the subcontinent. As highlighted previously, during time of global economic strife it is essential to shore up one’s domestic operations but defensive measures alone are not sufficient to guarantee a firms future. So as western markets slow investors need to keep their minds on foreign opportunities to balance their portfolios.

As inflation becomes a more common concern among the rich nations many emerging markets have been criticized for their loose fiscal policies. Although many rich nations have recently taken notice to inflation, India and many other emerging markets have been tackling the issue for much of 2008. India’s inflation rate was well maintained by the RBI at 3-4% through much of 2007-08 with a target less than 5%. Inflation stood at 3.5% as of late December 2007; however, WPI based inflation exhibited unchecked increases between March and July with a record 13 year high of 11.98% for the week ending August 125.

High oil, food, cement and steel prices have been largely to blame for inflation throughout Asian emerging economies.

By the very nature of tourism as a service industry, its efficient administration and successful operation depend largely on the quality of manpower. In the Asian and pacific region the shortage of skilled man power poses a threat to the overall development of tourism. International tourism is a relatively new phenomenon and therefore the lack of managerial capability exists at all level of the industry.

In particular, the rapid expansion of hotels of international standard in the region is creating a high level of demand for skilled and experienced staff. The nature of the decision facing hotel management is continually expanding. For their business to remain competitive, managers must be skilful in many diverse areas. For instance they must have a good understanding of how current events and the economy affect the market and develop skill in marketing their products. They must also strive to keep up with the

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technological innovations in the operational side of the industry. As part of the service industry, tourism is labour intensive and generally requires well developed social and language skills in a cross cultural working environment. These demands have placed considerable strain on small, independent operators, who cannot rely on the broad management expertise available to their multinational hotel chain competitors.

India registered an impressive growth of 24.2% in foreign tourist arrivals in 2010. Similarly domestic tourist visits also showed a growth of 10.7% last year. The number of domestic tourist visits to the states/UTs was 740 million as compared to 669 million in 2009 and 563 million in 2008\textsuperscript{26}.

According to PIB release the top ten states in number of domestic tourists visits (in millions) in 2010 were Andhra Pradesh (155.8), Uttar Pradesh (144.8), Tamil Nadu (111.6), Maharashtra (48.5), Karnataka (38.2), Madhya Pradesh (38.1), Uttarakhand (30.2), Rajasthan (25.5), West Bengal (21.1) and Gujarat (18.9). The contribution of top ten states was about 85.5% to the total number of domestic tourists visit during 2010. The percentage shares of top five states were Andhra Pradesh (21%), Uttar Pradesh (19.6%), Tamil Nadu (15.1%), Maharashtra (6.5%) and Karnataka (5.2%).

The number of foreign tourists visits (FTVs) during the year 2010 was 17.9 million as compared to 14.4 million of 2009 and 2008. This shows an impressive growth of 24.2% over 2009 as compared to a decline of 0.1% in 2009 over 2008.

The top ten states in terms of FTVs in millions during 2010 were Maharashtra (5.1), Tamil Nadu (2.8), Delhi (1.9), Uttar Pradesh (1.7), Rajasthan (1.3), West Bengal (1.2), Kerala (.66), Bihar (.64), Himachal Pradesh (.45) and Goa (.44). The contribution of top 10 states was about 90.3% to the total number of FTVs in the country in 2010. The percentage shares of top five states were Maharashtra (28.5%), Tamil Nadu (15.7%), Delhi (10.6%), Uttar Pradesh (9.4%) and Rajasthan (7.2%)\textsuperscript{27}.

\textsuperscript{26} Ministry of tourism, Annual report on tourist arrivals.
\textsuperscript{27} Ministry of tourism, Annual report on tourist arrivals.
1.3 Need for the Study

In a highly competitive hotel industry, individual hoteliers must find ways to make their products and services stand out among the others. To achieve this, hoteliers must understand their customers’ needs – and then set out to meet (or exceed) these needs. Jiju, Freenie & Sid (2004) made a research identifying the dimensions of service quality in the UK hospitality industry based on the SERVQUAL instrument. Their study had its focus on a hotel group however it doesn’t mention the type of hotels or the rating of stars given to the establishment. This makes it interesting whether the factor structured proposed in their study is valid in other type of hospitality establishment and also to look whether the perceived service quality dimensions differs by countries.

Hence, the study sets out to analyze the service quality dimensions of hotel guest using the SERVQUAL instrument as base in the emerging Indian market. The research questions were what are the effectiveness of service quality dimensions that are perceived and which dimensions are the best predictors of overall service quality provided by Indian hotels. Thus, there is need now to evaluate the customer satisfaction in relation to service quality offered by three types of hotels in India. We will try to measure service quality and customer satisfaction using the SERVQUAL model from the consumer’s perspective in order to know their perceptions.

1.4 Statement of Problem

Due to the lack of research and interest in this area this study not only contributes substantially to extent academic knowledge, but also makes a significant contribution to tourism practices ultimately it bridged the knowledge gap by conceptualizing customer loyalty through identifying a number of key determinants. Hence, a major theoretical contribution of this thesis is the fact that it both synthesizes and builds on extant efforts to conceptualize and build loyalty. The main practical implication is that it provides best practice guidance for building customer loyalty through the customer experience. Indeed, for destination managers it highlights the importance of focusing on each of the experience clues – functional, mechanic and humanic – in order to create the total customer experience, a key determinant in building customer loyalty. Furthermore, this study also offers a methodological contribution of
data collection in the form of blueprinting – a critical technique in illustrating the customer experience process while this technique has been in existence for the last 20 years, it has not commonly been utilized. Therefore, this study offers a guideline for future researchers in term of this data collection technique.

Over the past decade, unprecedented economic growth has seen India’s Gross Domestic Product (GDP) almost double in size in line with this overall economic experience, the Indian tourism industry has become a major economic sector of enterprise and of national and regional wealth creation. Indeed, the industry at present constitutes approximately 16000 tourism enterprises, generating 4 billion euro in revenue earnings, employing 140000 people, and is currently the largest Indian owned internationally traded sector within the economy.

However, as the study notes that the landscape is changing and the tourism industry is at a significant turning point in its evolution. The industry has seen, due to unparalleled economic growth a “significant loss in competitiveness which, if not redressed, will undermine the capacity of the industry to benefit the strong economic growth in envisaged in international tourism in the years ahead”. Further while the tourism industry has matured it is still characterized by the dominance of individual small to medium size enterprises competing in an increasingly global, international tourism marketplace. In consequence, the group notes that there is weak access to market and operational intelligence, a lack of management resources and market power and little or no financial banking. There is also a tendency amongst Indian tourism firms to adopt the ‘complacency syndrome’ where there is little flexibility and adaptability of product to the changing need of the customers. The tourism company operates extremely competitive industry which is primarily characterized by continuous transformation (Wahab and Cooper, 2001). Thus in light of these challenges this research study materialized.

A key strategy which has recently been adopted by the tourism sector to overcome these challenges is to focus on creating long-term relationship

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28 Economic Times, 18th September, 2011.
with consumers, thereby building customer loyalty. Building customer loyalty is critical as it not only results in customers staying with a service provider for longer, but they also purchase more from that service providers (Peppers and Rogers, 2004). Businesses are now moving away from the long accepted strategy trying to gain market share to a more long term and profitable approach: building customer loyalty. The rationale for this is those loyal customers buy more from one business over their competitors so that as businesses’ sales increase, they gain a stronger market position and benefit from positive referrals and word of mouth (Griffin, 2002). However, while identifying the importance of customer loyalty is one, examining how it is built is quite another. 

In spite of the considerable research efforts in many salient fields of enquiry such as customer relationship management, consumer behaviour, marketing and business strategy, service management and human resources, no acceptable theory exists that fully explains how customer loyalty is actually built.

During the past few decades, customer satisfaction and service quality have become a major area of attention. Both concepts have strong impacts on business performance and customer behaviour. Service quality leads to a higher profitability (Gundersen et. al 1996) and Customer Satisfaction (Oliver, 1997). Furthermore, a number of empirical studies indicate a positive relationship between customer satisfaction and customer loyalty (Kandampully and Suhartanato, 2000; Dimitriades, 2006; Chi and Qu, 2008; Faullant et al, 2008) as well as between customer satisfaction and positive word of mouth (Soderlund 1998). Therefore, one of the key strategies for customer focused firms is to measure and monitor service quality and customer satisfaction which is a major concern in the lodging sector.

There are several tools available for measuring customer satisfaction. In hotels, one of the most popular tools is a guest comment card (GCC). GCC’s have the advantages of small size, easy distribution and simplicity.

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When analyzing the data gathered in such a way managers can get information about the attributes that have an impact on guest’s satisfaction.

In the highly competitive hotel industry service becomes one of the most important elements for gaining a sustainable competitive advantage in the marketplace. Consequently the effort of service managers and academic researchers are directed towards understanding how customers perceive the quality of service.

Customers are likely to view services as a variety of attributes that may, in different ways, contribute to their purchase intentions and perceptions of service quality. Although researchers (Gronroos, 1984; Parasuraman, Berry and Zeithaml 1985, Parasuraman, Zeithaml and Berry, 1998; Zeithaml, Parasuraman and Berry 1990) have focused on different aspects of service quality, they all agree that the emphasis should be on customers. The most common definition of the concept is Attitude. Which results from a comparison of customers’ expectations with perceptions of performance (Parasuraman, Berry and Zeithaml 1985, Parasuraman, Zeithaml and Berry 1988). What is more customer perceive service quality as a multi-dimensional concept\(^{31}\).

The specific nature of services makes it difficult to provide measure and maintain their quality however, Parasuramam, Berry and Zeithaml and Parasuraman, Zeithaml and Berry (1985, 1988) presented the SERVQUAL scale which became the most popular instrument for measuring the service quality.

The lodging business has evolved over the past few centuries from an aboriginal service limited to just providing space for overnight rest to an augmented product designed to meet the overall needs of the guest. This evolution of the attribute bundle in the lodging industry took place due to several factors. The most important of these are the industries desire to increase guest’s satisfaction – both local and foreign, the intensity and globalization of competition, the complexity of the modern environment and the fast pace of the change in the prompt service, attractive atmosphere, cleanliness and sports facilities are but a few examples of such attributes. The industry continues to make every endeavour to satisfy its customer as it

\(^{31}\) Total Quality Management, Vol. 9, No 6, 1999. 431-443
recognizes that they are the key to success or even a prerequisite for survival in today’s competitive world therefore service quality that leads to customer satisfaction is considered a prime objective pursued by all hospitality establishments at the present time\textsuperscript{32}.

1.5 An Overview

The Indian Hospitality Industry is one of the fastest growing sectors of the Indian economy. Riding on the economic growth and rising income levels that India has witnessed in recent years. The sector has emerged as one of the key sectors driving the country’s economy. The current market size is US$ 23 billion, accounting for 2.2% of India’s GDP. Rising disposable incomes and increase in double-income household have also played a part in this growth phenomenon.

The size of the Indian hospitality industry is estimated as a sum of revenues of two segments; revenues generated from travel for purposes such as business, leisure, visiting friends and relatives, religious, meetings and conferences, and revenue generated by consumers eating out at any form of outlet – restaurants, fine dining, Quick Service Restaurants (QSRs), takeaways, dhabas or any other form of unorganized eateries.

1.6 Indian Hotel Sector

As per an analysis by the Economy Survey of India and Technopak (2008), the Indian hotel industry is estimated at US$ 17 billion; 70% (US$ 11.85 billion) contribution comes from the unorganized sector and the remaining 30% (US$ 5.08 billion) comes from the organized sector.

The foremost contribution of the organized hotel industry comes from 5-star hotels as shown in (table 1). Despite a dip in the year 2009, an upward trend in growth of the overall hotel sector is expected, whereby the industry is expected to grow to US$ 36 billion by 2018 as shown in Figure 1.1.

\textsuperscript{32} J. King Saud University, Vol. 14, Admin Sci(2) , pp 83-103.
There has been a consistent increase in the number of hotel rooms in recent years; growth of 5% in the last 3-4 years. However, this rate of increase is still not enough to meet the rising demand; further investment is required in this sector to meet this demand. The hotel sector is expected to see an estimated investment of US$ 12.17 billion in the next 2 years, and an addition of over 20 new international hotel brands by 2011.

### Table 1.2: Breakup of Indian Lodging Sector as on September 15th 2011

<table>
<thead>
<tr>
<th>Category</th>
<th>EAST</th>
<th>NORTH</th>
<th>SOUTH</th>
<th>WEST</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Nos</td>
<td>Rooms</td>
<td>Nos</td>
<td>Rooms</td>
<td>Nos</td>
</tr>
<tr>
<td>5 STAR DELUXE</td>
<td>9</td>
<td>1367</td>
<td>38</td>
<td>8945</td>
<td>25</td>
</tr>
<tr>
<td>5    STAR</td>
<td>3</td>
<td>322</td>
<td>40</td>
<td>4811</td>
<td>33</td>
</tr>
<tr>
<td>4    STAR</td>
<td>11</td>
<td>743</td>
<td>46</td>
<td>3824</td>
<td>49</td>
</tr>
<tr>
<td>HERITAGE</td>
<td>32</td>
<td>1198</td>
<td>8</td>
<td>361</td>
<td>8</td>
</tr>
<tr>
<td>3    STAR</td>
<td>33</td>
<td>1659</td>
<td>95</td>
<td>4532</td>
<td>193</td>
</tr>
<tr>
<td>2    STAR</td>
<td>12</td>
<td>365</td>
<td>23</td>
<td>920</td>
<td>31</td>
</tr>
<tr>
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<td>1</td>
<td>42</td>
<td>6</td>
<td>122</td>
<td>6</td>
</tr>
<tr>
<td>UNCLASSIFIED</td>
<td>211</td>
<td>8023</td>
<td>456</td>
<td>17022</td>
<td>341</td>
</tr>
<tr>
<td>TOTAL</td>
<td>280</td>
<td>12521</td>
<td>736</td>
<td>41374</td>
<td>686</td>
</tr>
</tbody>
</table>


### 1.7 Phases of Growth

The growth story started in the 1980s, when the development of several hotel projects kicked off to cater to ‘The Asian Games’ in New Delhi. The hotel sector in the past used to be polarized into two extremes – luxury
hotels on one end and unclassified hotels on the other. However, lately there has been an emergence of mid-segment chains of hotels.

Geographically, while initially the focus was on the major metros, the shift is now towards tier-II and tier-III towns and cities. In the future, there will be more multi-tourism in the offing, spanning different geographies. In terms of operational aspects, there has been a shift from ownership and franchise model to the management model.

The evolution of the hotel industry over the years has been illustrated below under the various heads of operations, location and proposition (Figure 1.2 to 1.3).

Figure: 1.2


Figure: 1.3


Figure: 1.4

There have also been changes in the strategic focus as well as investment requirements of the hotel industry (Figure 1.5 & 1.6).

**Figure: 1.5**

![Diagram showing strategic focus phases]


**Figure: 1.6**

![Diagram showing investment needs phases]


**Phase I**

While the first phase of business in the 1990s saw aggressive expansion in the 5 star hotel segment, it also saw the entry of several franchise and Hotel Management Companies (HMC). This created a big gap in the mid-market segment as the organized sector had nothing to offer to this segment. The value of land of a hotel project stood at 5% to 10% of the overall project cost in metros during this period and debt was primarily raised through conventional methods of approaching banks or Tourism Finance Corporation of India Ltd (TFCI).

**Phase II**

The next decade saw a shift of ownership model towards HMC, considering that the new brands entering into the business had by then made inroads and were on an expansion spree. These new entrants focused on the mid-segment – largely neglected in the first half of the cycle.
While the aggressive and rapid expansion pushed the real estate costs up, it affected infrastructure development, new businesses and at the same time new hotel projects. The growing economy did bring into limelight the advantages that a tier-II or tier-III city had to offer in terms of lower land and other costs, and the more friendly nature the State Boards acquired in order to boost this much wanted development.

This led to the entry of existing brands into this budget segment/mid-market hotel segment and also the entry of several new players. The investment needs for this cycle were achieved by both conventional means and through joint ventures and private equity investments. Existing corporations in diverse fields of business ventured into hospitality to take advantage of their brand equity.

Phase III

The coming years, post 2010, however, will see a rebound of the first phase. While the growth of budget brands will continue as that has been regarded as the long term area of growth, the industry will see a lot of consolidation. Over 65% unorganized sector is bound to go through a phase of identification – evaluation– selection, wherein the franchisee partner is bound to have its flag hoisted once the evaluation criteria is passed.

1.8 Growth Drivers

The tremendous growth of India’s hospitality industry can be attributed to a number of factors which may be broadly classified into three categories - regulatory, external, and internal.

1.9 Regulatory Growth Drivers

Policy & Tax Incentives and Amendments

The Department of Tourism, Government of India has initiated a number of steps as listed below:

- Foreign Direct Investment (FDI) allowed in all construction development projects including construction of hotels and resorts, recreational facilities, and city and regional level infrastructure
- Reduction of expenditure tax for upscale hotels
- Introduction of a new category of visa - ‘Medical Visa’ (‘M’-Visa) for Medical Tourism
• Tie-up with the United Nations Development Program (UNDP) to promote rural tourism. The Ministry has also sanctioned 102 rural tourism infrastructure projects to spread tourism and socio-economic benefits to identified rural sites with tourism potential.

• Plans to permit the issuance of visa-on-arrival by 2009 for persons arriving from specific countries under the pilot project. Additionally, several incentives have been announced at the Central as well as State levels. These are summarized in Table 1.3.

Table 1.3: Central and State Level Incentives

<table>
<thead>
<tr>
<th>Central Level Incentives</th>
<th>State Level Incentives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elimination of customs duty for import of raw materials, equipment, liquor etc.</td>
<td>Exemption of luxury tax and sales tax for 5-7 Years for new projects</td>
</tr>
<tr>
<td>Capital subsidy program for budget hotels</td>
<td>Small capital subsidy for the development of budget hotels</td>
</tr>
<tr>
<td>Fringe Benefit Tax exempted on créche, employee sports, guest house facilities</td>
<td>Below market rate allotment of land controlled by state for development projects</td>
</tr>
<tr>
<td>Five year income tax holiday granted to 2-4 star hotels established in specified districts having UNESCO-declared World Heritage Sites</td>
<td>Five year income tax holiday for 2-4 star hotels and convention centers (minimum seating 3,000 people) in NCR</td>
</tr>
<tr>
<td></td>
<td>In order to increase built-up area in Delhi, zonal auction rate has been brought down</td>
</tr>
</tbody>
</table>


1.10 Bed and Breakfast Concept

Furthermore, the Government of India is recognizing the availability of spare rooms with a large number of house owners by classifying these facilities as the ‘Incredible India Bed and Breakfast Establishments’, under ‘Gold’ or ‘Silver’ category. This “bed and breakfast” concept is popular abroad and is now fast catching up in India.

1.11 The Hospitality Industry

The value of brand to the customer, the growth in emerging markets, the importance of consumer-facing technology and the sourcing, development and retention of human capital have helped shape the hospitality industry over the past five years. These, along with the growing importance of the sustainability agenda and exogenous events and cycles are the key trends that will define success in the market place in 2015. Our report explores in detail these key trends, which impact both the hospitality industry, as well as the other sectors which make up the wider travel experience.
1.12 Domestic Market Potential

The steady increase in demand from western travellers is supporting the hospitality industry in emerging markets, however it is not the key driver. By forcing their strategies on the business and international leisure travellers, hospitality groups are ignoring the largest market segment; the domestic traveller number far exceed their international arrivals; India has over 563 million domestic traveller, compared to inbound arrivals of five million; in China there are 1.9 billion domestic travellers compared to inbound arrivals of 52 million.

These domestic travellers are the most important factor in the expansion of the emerging hospitality markets. The increase in their numbers and spending power is being driven by strength of underlying economic development and prosperity in China and India. One effect of this is a rise in business travel; whilst the US business travel market is expected to stagnate over the next five year, growing at 0.3 per cent per year, China’s business
travel spending will grow 6.5 per cent annually to 2013.” More importantly, economic development coupled with a rapid growing population results in the proliferation of the ‘middle classes’. In China, rising disposable income amongst the local populace has led to a greater appetite for travel, with the greatest impact being felt in domestic and inter-regional tourism markets.

However, this rising disposable income is relative and far from equivalent to a traditional western perception of a ‘middle class’ income. Middle class in the emerging markets need to be offered competitively priced hospitality, tempting them away from the unbranded guesthouses that currently have the lion’s share of the market.

Their growing desire to adopt more westernized standards of living – and holidaying – offers significant potential for the domestic and inter-regional tourism markets. Premier Inn, the UK budget hotel operator which has begun a modest expansion into India, expects their clientele base in India to be 9:1 in favour of domestic travellers.

1.13 LOCAL BRANDS DOMINATE LOWER-END PRODUCT IN EMERGING MARKETS

Local brands dominate hotel development in the lower-midscale and budget sectors and are expanding more aggressively into Tier II and Tier III cities, such as Nanjing and Zhenzhou in China or Chennai and Surat in India. Whilst margins may be tighter, given the scale of the domestic markets the opportunity for lucrative returns cannot be ignored.

One of the most significant impacts of the recession for the hospitality industry in India and China has been a marked shift away from the luxury sector as cost-conscious international leisure travellers have tightened their belts and businesses have cut back on long-haul travel and downgraded their executive travel option. It has yet to be seen whether the long-term impact of this will be a rebasing of prices at the upper end of the market, a more permanent structural shift towards the lower end of the market or merely a shot term impact. However, coupled with the surge in domestic travel due to the growing middle classes in emerging markets, this is fuelling demand for lower-midscale, budget and even ultra-budget hotels.

Some international brands already have a presence in the mid-market and budget sectors; the main players in china are InterContinental Hotels
Group’s (IHG) Holiday Inn Hotels & Resorts and Holiday Inn Express, Accor’s ibis Hotels and Wyndham Hotel Group’s Super 8. However these international mid-market and budget brands pale into insignificance in comparison with the local Chinese budget brands. Home Inn Hotels, Jin Jiang Hotels, Green Tree Inns and 7 Days Inn each have between 300-500 hotels currently, with expansion plans in the hundreds of hotels.

In contrast, even domestic budget brands remain relatively undeveloped in India. The Sarovar Group and Indian Hotels have launched their own budget brands, Hometel and Ginger, with plans to have eight hotels and 30 hotels open by the end of 2010 respectively. Budget hotel group Tune Hotels.com has announced plans to build a presence in India of around 70 hotels within the next seven years.

There remains significant capacity for branded product in emerging markets, particularly at the lower-end. Across the BRIC countries, the number of branded rooms increased from 29 per cent of total rooms in 2004 to 35 per cent at the end of 2009 and is projected to rise to 44 per cent if current pipeline projects are included. This remains significantly behind the US and UK markets, where branded rooms are forecasted to make up 68 per cent and 60 per cent of the total supply respectively.

1.14 Future Supply Shortages

Looking to the future, the Chinese market continues to grow at a faster rate than its room supply, despite the surge of rooms that became available in anticipation of the 2008 Olympic Games. However, the impact of investment decisions made during the economic downturn in 2008 and 2009 is likely to limit supply growth in 2010 and beyond. This may lead to a shortfall of supply in future year, particularly in the mid-market to budget sectors, as the market continues to expand.

India’s pipeline has proved more resilient than the global average, partly due to development in anticipation of the 2010 commonwealth Games. As a result of this resilience, there is a risk that elements of the Indian hotel market may move into over-supply, at least in the short term. The majority of the current Indian pipeline relates to upscale and luxury product in Tier I – and to some extent Tier – II cities. Industry analysts are already starting to question the economic viability of incremental top end hotels in core cities
such as Delhi, Mumbai and Bangalore, until demand ultimately catches up with supply in the middle term.

Nevertheless, across India as a whole, India’s tourism secretary has referred to a shortage of around 150,000 rooms and a serious under-supply of rooms of an adequate standard even in Tier I cities. The majority of that shortage is in the budget, economy and mid-market sectors which currently have limited pipelines.

**Figure 1.8 : Percentage of branded rooms across China and India from 2004 to current day (including pipeline)**

**Figure 1.9 : Rooms growth compared to T&T industry growth from 2005-2010**
India has the second largest population in the world, estimated at 1.2 billion. By 2016 its population is expected to be larger than that of the US, Europe, Russia, Australia, New Zealand, Japan and Canada combined. With fertility rates higher than the replacement rate, the country is forecast to become the most populous in the world by 2015.” GDP per head is forecast to grow by 93.9 per cent between 2010 and 2015 (table 1.4). Although economic growth rates are slightly lower than in China, India has great long-term potential as an outbound tourism market.

**Table 1.4 : GDP Per Head in US $**

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</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>1,761</td>
<td>4,280</td>
<td>143.0</td>
<td>9,120</td>
<td>113.3</td>
<td>17,180</td>
<td>88.4</td>
</tr>
<tr>
<td>India</td>
<td>765</td>
<td>1,370</td>
<td>79.0</td>
<td>2,620</td>
<td>91.2</td>
<td>4,310</td>
<td>64.5</td>
</tr>
<tr>
<td>Japan</td>
<td>35,704</td>
<td>41,140</td>
<td>15.2</td>
<td>49,230</td>
<td>19.7</td>
<td>59,800</td>
<td>21.5</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>37,886</td>
<td>35,740</td>
<td>-5.7</td>
<td>45,900</td>
<td>28.4</td>
<td>54,500</td>
<td>18.7</td>
</tr>
<tr>
<td>United States</td>
<td>42,736</td>
<td>48,230</td>
<td>12.9</td>
<td>57,070</td>
<td>18.3</td>
<td>76,190</td>
<td>33.5</td>
</tr>
</tbody>
</table>

*Source: The Economist Intelligence Unit, 20 May 2010*

The local population has a great appetite for travel with the greatest impact being felt in domestic and regional tourism markets. In 2008, according to the State/Union Territories Departments, 562.9 million domestic visits took place, an increase of 156 per cent from 2000.
International tourism is also increasing in popularity with the Ministry of Tourism reports 10.8 million departures in 2008, a similar rate of increase of 146 per cent from 2000. Indians who travel for leisure within the Asia-Pacific region are more likely to stay with friends and relatives than in hotels. Popular short-haul destinations include Singapore, Dubai, Malaysia and Thailand, all of which have large expatriate Indian populations.

We believe the international travel will grow in line with increased levels of per capita GDP and disposable income and long-haul destinations such as Europe will become more popular. The World Tourism Organization (UNWTO) predicts that India will account for 50 million outbound tourists by 2020.

India has the second largest population in the world, estimated at 1.2 billion. By 2016, its population is expected to be larger than that of the US, Europe, Russia, Australia, New Zealand, Japan and Canada combined.

Brand is likely to become a more important factor in the choice of luxury travellers as key locations become increasingly saturated with top end hotels.

Most major operators have more than one mass market brand in their portfolio but only one luxury brand. At the top end of the market, greater brand differentiation is required to entice consumers. Few operators want to risk cannibalizing their own customer base by creating another competing brand.

Location is frequently cited as the main reason for selecting a hotel for both business and leisure purposes. When it comes to luxury brands, however, key gateway locations are already reaching saturation. Of the 29 key locations considered, there is an average of 5.6 luxury hotels in each location; with some cities have more than 10 competing luxury hotel brands.

According to STR Global figures, the average growth in new luxury hotel developments in Europe has been flat between 2004 and 2009, and we expect this trend to continue over the next five years. North America continues to invest in a large number of luxury hotel developments, its growth more than double of its nearest competitor Asia. It has achieved this via significant growth-upwards of an average of four per cent per year between 2004-2009 – in six key cities. Atlanta, Boston, Chicago, Dallas, San Francisco and Washington DC. As the Chinese, Indian and Russian economies grow
and their major cities attract more visitors, luxury hotel brands may fight for space in these markets too.

As the market becomes increasingly saturated, luxury hotels will need to differentiate themselves from their competitors even more than in the past. Brands that can offer something truly unique or compelling are likely to win market share and the ability to innovate will be crucial for success.

The websites of many top end hotel chains are currently difficult to distinguish from one another with frequent repetition of the words 'luxury' and 'experience' and relatively similar messaging.

Apart from differentiation, consistency remains a challenge for luxury brands. A positive experience can influence consumers to seek out the same brand when travelling to a new location; a negative experience can stop them going back to the same brand. Experience generally outweighs reputation or brand promise.

Consumers who have experienced something positive once at the top end of the market expect to find the same quality whenever and wherever in the world they stay with the same brand. Over the next five years, luxury brands will have to deliver this consistency in an ever more competitive and saturated marketplace.

By 2015, mass market 'Lifestyle' brands will increase both in number and in scale by providing a differentiated offering to consumers and sufficient financial returns to owners and operators.

Lifestyle brands focus on a specific experience, style or image rather than functionality. They often have basic services at a property level, tend to be smaller in scale-in terms of room number-and try to create an emotional connection with their guests.

Many of the current Lifestyle brands are positioned within the mass market. Operators have been able to introduce such brands without the risk of cannibalizing their existing mass market offer, because of the highly differentiated, experiential appeal of Lifestyle hotels. The challenge these brands face is to order to gain economies of scale without damaging their boutique appeal.
The above report on the industry keeps the perspective of the ‘Hospitality Industry’ in which the researcher has embarked a study initiative.

1.15 Customer Profiling

Understanding who your customer is and how to locate them is a critical part of any business success. Valuable and long-term customers are fundamental to a strong, successful business and are hard to replace. According to a 2008 survey by the CMO Council, loyal customers are 15 times as likely to increase spend as high-risk, intermittent customers are—and acquiring new customers can cost five times as much as satisfying and retaining current ones. Once you get these customers, are you using what you know about them to keep them—and help get new ones? In today’s unpredictable economic climate, it’s important to target markets precisely and eliminate unnecessary expenses associated with broad-brush marketing, selling, and servicing. Savvy marketers use customer profiling to understand their best customers. Who are they? What do they have in common? These marketers understand the importance of profiling to identify the common demographic criteria—such as SIC codes, business location, and employee size—that represent their best customer segments. They can then take steps to retain these top customers and acquire more just like them. This information can be combined with buying and response behaviour for even more precise segmentation. It’s not enough to simply select prospects based on how much they spend or what products they buy. It’s equally important to understand the external market context they fit into, so you can find more like them. Knowing how to harness the power of critical customer data can be the difference between an unsuccessful sales and marketing strategy and significant ROI.

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
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<th>5</th>
<th>6</th>
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<th>8</th>
<th>9</th>
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<tbody>
<tr>
<td></td>
<td>Osaka</td>
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<td>Atlanta</td>
<td>Chicago</td>
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<td>Sao Paulo</td>
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<td>Dallas</td>
<td>Kuala Lumpur</td>
<td>Boston</td>
<td>Washington DC</td>
<td>Singapore</td>
<td>Paris (11)</td>
</tr>
<tr>
<td></td>
<td>Seoul</td>
<td>Moscow</td>
<td>Milan</td>
<td>Hong Kong</td>
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<td>London (17)</td>
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<td>Tokyo</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source: Deloitte Research, December 2009*
Some characteristics correlate positively with companies performing well in customer relationship management: excellent products, excellent management, and the informed use of knowledge about customers. An insufficient knowledge base of customers limits the value which a company can offer to those customers. Knowing customers better, a corporation can precisely invest in valuable customers and reduce the cost spent on poorly performing customers. The basic component of customer knowledge comes from a customer profile that is obtained by the use of a database and data mining technologies used in organizations. Building customer profiles is one of the most popular strategies for knowing more about customers. In summary, using a customer profile is the technique which converts raw information about customers into the strategic-support knowledge that reinforces the value of goods which companies offer customers.

It's not a straight forward science however, as customer satisfaction will vary from person to person, depending on a whole host of variables which may be both psychological and physical. The challenge for companies in recent years has been to measure these perceptions. Measurement usually makes use of a feedback survey of some kind. Customers are asked to respond to a set of questions or statements using a 4 or 5 point Likert type scale. The customer completes the survey by evaluating the service they have received in terms of their perception and expectations.

Companies can compare the completed surveys with previous surveys to see if they are improving or getting worse, or benchmark their satisfaction survey results with that of other companies. The ultimate aim of measuring customer satisfaction must be to act on the information gathered, close the "gaps" between the customer's perception of service and the actual service provided. Recent thinking by leading customer service gurus such as Dr Ken Blanchard concludes that customers should not be merely satisfied. They should be delighted. That's one more challenge for companies who claim to have achieved 100% customer satisfaction.

1.16 Service Satisfaction

Research in the satisfaction literature provides evidence that satisfaction is an emotional outcome that results from a positive evaluation (Westbrook and Oliver, 1991). Hunt (1975) considers satisfaction as an
evaluation on which the service is at least as good as it is supposed to be. Moreover Engel et al. (1990) suggests that customer satisfaction may result in interaction between a customer’s pre purchase expectation and post-purchase evaluation. A customer is considered to be satisfied with his/her expectations. As customer satisfaction is influenced by the availability of customer services, the attributes of service has become such a major concern.

Because of the intangibility, inseparability, variability and perishability of services, (Parasuraman et al, 1985) degree of customer satisfaction depends on their perceptions of service attributes and facilities. In the hospitality industry, in order to promote customer satisfaction, hotel attributes such as room quality, reputation of hotel, helpfulness of staff are considered by customers as factors for evaluating hotel performance (LeBlanc and Nguyen, 1996; Cadotte and Turgeon, 1988). Barsky and Labagh (1992) also study the satisfaction issue by asking the respondents to evaluate performance based on different hotel attributes. Dolnicar and Otter (2003) reviewed 21 studies undertaken 1984-2000 looking at hotel attributes. From the 21 journal articles Dolnicar and Otter (2003) extracted 173 hotel attributes included such factors as: image, service, price/value, hotel, room, food and beverage, security and others. Callan (1996) summarized a number research projects that had been conducted and of particular interest in finding that within many of these, the standard of cleanliness was rated as the most important in the selection of accommodation by customers. The importance of cleanliness has also been identified more recently by Lockyer (2000) and Lockyer (2002). Research has also shown that in hospitality industry, the quality of interpersonal interaction between the customer and the contact employee greatly influences customer satisfaction (Bitner et al., 1994; Lovelock, 1996). Knutson (1988) and Cadotte and Turgeon (1988) recognized that clean, comfortable, well maintained rooms, convenient locations, a safe environment as well as prompt and courteous service as important components of customer satisfaction. In Saleh and Ryan’s (1992) study of 30 hotel attributes, important or determining factors for customer’s selection of hotels were found to be: clean, spacious rooms, comfortable bed, the
availability and food value of a restaurant, friendly staff and efficient service, convenient parking, as well as interior décor and exterior aesthetics.

In a competitive marketplace where businesses compete for customers, customer satisfaction is seen as a key differentiator and increasingly has become a key element of business strategy. "Customer satisfaction provides a leading indicator of consumer purchase intentions and loyalty." "Customer satisfaction data are among the most frequently collected indicators of market perceptions.

The customer experience has been defined as involving three components: Functional clues, humanic clues and mechanic clues. Each one of these clue sets have been investigated individually in relation to their impact on loyalty. The relationship between customer experience and loyalty in different studies is often hypothesized to be

- There is a direct relationship between functional clues and loyalty.
- The relationship between functional clues and loyalty is mediated by the variables – value and quality.
- There is a direct relationship between mechanic clues and loyalty.
- The relationship between mechanic clues and loyalty is mediated by value and quality.
- There is a direct relationship between humanic clues and loyalty.
  The relationship between humanic clues and loyalty is mediated by value and quality.

Assessing service quality is a troublesome exercise due to service intangibility in a restaurant, for example two things are provided – food which is obviously tangible and personal services which are intangible. In hotels, on the other hand, the tangible and intangible products are highly intertwined and have even greater impact on the guest assessment of service quality therefore, the present study entitled “Customer Profiling, Attribute Evaluation and Customer Loyalty in Lodging Industry” will give significant contribution to tourism practices which will bridge up the knowledge gap of the managers by conceptualizing customer loyalty. In view of this, the study was planned with below mentioned objectives;
1.17 Objectives of the Study

The present study will base on the following objectives in order to get the empirical results on customer satisfaction in Indian hotels:

1. To identify the benefits and facilities sought by customers of Indian hotel industry.
2. To segment and profile the market for hotel industry based on psychographic, demographic and behavioural variables.
3. To review the previous studies those had conducted in this connection in order get more knowledge of customer satisfaction in hotel industry.
4. To describe the service quality dimensions in hotel business those affect the customer satisfaction using SERVQUAL model as base.
5. To separate the dominant service quality dimensions that influence customer satisfaction in Indian hotels.
6. To decide statistically the performance rank of service quality dimensions as per customers satisfaction through factor analysis.
7. To conclude the empirical facts after using factor analysis through SPSS and provide key points for betterment/satisfaction of guest in Indian hotel industry.

1.18 Hypotheses

$H_{01}$: The performance of Service Quality dimensions is same on customer satisfaction in 4 star hotels.

$H_{02}$: The performance of Service Quality dimensions is same on customer satisfaction in 5 star Indian hotels.

$H_{03}$: The performance of Service Quality dimensions is same on customer satisfaction in 5 star deluxe hotels.

$H_a$: The performances of Service Quality dimensions are not same on customer satisfaction in three types of hotels under consideration by the study.

1.19 The Questionnaire

The study under consideration will use modified SERVQUAL as base to measure the customer satisfaction in Indian hotels. The SERVQUAL model as the basis for the structured questionnaire because it provides information on our research questions in which we are trying to know how consumers perceive service quality in Indian hotels. In order to get the response of guests
on service provided by hotels, a questionnaire will contain two parts. 1st part of the questionnaire will for **General and Demographic information**. The demographic part provides general information of respondents on age of guest, gender, education, duration of stay in hotel etc and 2nd part of the questionnaire is for Service perceived by guests/provided by the hotels. The quality of services is measured by 7 dimensions (Tangibles, Reliability, Responsiveness, Assurance, Empathy, Reputation and Security). There will 41 statements for measuring service quality in the hotels in our case. The following abbreviations will use to represent the service quality dimensions.

<table>
<thead>
<tr>
<th>Service Quality Dimension</th>
<th>Abbreviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tangibles</td>
<td>TA</td>
</tr>
<tr>
<td>Reliability</td>
<td>RL</td>
</tr>
<tr>
<td>Responsiveness</td>
<td>RN</td>
</tr>
<tr>
<td>Assurance</td>
<td>AS</td>
</tr>
<tr>
<td>Empathy</td>
<td>EM</td>
</tr>
<tr>
<td>Reputation</td>
<td>RE</td>
</tr>
<tr>
<td>Security</td>
<td>SE</td>
</tr>
</tbody>
</table>

### 1.20 Administering of questionnaires

As mentioned above a closed-ended questionnaire will circulate for collecting the responses of customers on service quality offered by Indian hotels. The study will use a convenience sampling technique to get the responses fit for the study. To judge the quality of services of Indian hotels, the hotels will divide into 3 categories i.e. 4 Star Hotels, 5 Star Hotels and 5 Star Deluxe Hotels.

### 1.21 Measurement

The SERVQUAL model as base will use to assess consumers’ perceptions regarding service quality in three types of hotels. The perceptions of customers (guest) will measure by using a 5-point scale to rate their level of agreement or disagreement (1 for strongly disagree and 5 for strongly agree), on which the higher numbers indicate higher level of perceptions which means higher level of satisfaction. The following scales will use in study for service quality provided by three types of hotels in part- 2 of the said questionnaire:
<table>
<thead>
<tr>
<th>Level of Agreement</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Disagree</td>
<td>1</td>
</tr>
<tr>
<td>Disagree</td>
<td>2</td>
</tr>
<tr>
<td>Neutral</td>
<td>3</td>
</tr>
<tr>
<td>Agree</td>
<td>4</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>5</td>
</tr>
</tbody>
</table>

There is direct relationship between satisfaction and service quality provided by hotels. Consumer’s satisfaction judgments are the result of consumer’s perceptions. The developed questionnaire will include forty one (41) items where four items correspond to the tangibles dimension, five items correspond to the reliability dimension, seven items to the responsiveness, nine items correspond to the assurance dimensions, seven items to empathy, four items to reputation and five items for security. Respondents will ask to indicate their degree of agreement with each of the items on five-point Likert scale. The Statistical Package for Social Sciences (SPSS) 16.0 will be used to tabulate the data gathered from the research questionnaires.

1.22 Coding

The dimensions/items are main variables will use in this study and we code these dimensions/items in order to ease our analysis of data so collected. Also, demographic information will collect from respondents and these variables have to be coded as well for analysis. Here is the coding of the variables for analysis will be:

**TANGIBLES (TA)**

**TA1** Ideal hotel should have modern equipments.

**TA2** physical facilities provided by hotels

**TA3** The physical environment of the hotel should be clean.

**TA4** Restaurants and bars of the hotel
RELIABILITY (RL)

RL1 When hotel promise to do something by a certain time, they should do so.
RL2 When a customer has a problem, hotel should show a sincere interest in solving it.
RL3 Hotel should perform the service right the first time.
RL4 They should provide their services at the time they promise to do so.
RL5 They should keep their records accurately.

RESPONSIVENESS (RN)

RN1 Employees should make information easily obtainable by the customers.
RN2 Employees should give prompt service to customers.
RN3 Employees are always willing to help customers.
RN4 Employees in a hotel should never be too busy to respond to customers' requests.
RN5 Speed of the service availed by the customer
RN6 Response for the demand in the hotel.
RN7 Giving information offering for the service

ASSURANCE (AS)

AS1 The behaviour of employees in hotel should instil confidence in customers.
AS2 Customers should be able to feel safe in their transactions with employees in the hotel.
AS3 Their employees should be well dressed and appear neat.
AS4 Their employees should be polite.
AS5 The attitude of the employees of this hotel shows me that they understand my needs.
AS6 The price of the service being charged by the hotel.
AS7 The employees of this hotel are able to answer my questions quickly and are problem solving.
AS8 The employees of this hotel are competent.
AS9 Employees of hotel should have the knowledge to answer customers’ questions.
EMPATHY (EM)
EM1 Hotel should give customers individual attention.
EM2 Their operating hours should be convenient to all their customers.
EM3 Employees should give customers personal service.
EM4 They should have their customers’ best interest at heart.
EM5 The employees should understand the specific needs of their customers.
EM6 Customer Insurance policy of the Hotel.
EM7 Hotel provision for the customer’s necessities.

REPUTATION (RE)
RE1 The retails stores around this hotel are conveniently located.
RE2 The layout of this hotel makes it easy for me to move around.
RE3 Booking of the room can be done at International level also.
RE4 All functioning in hotel as per government policy.

SECURITY (SE)
SE1 There are accessible fire exits at this hotel.
SE2 The medical facilities provided by doctors in hotel.
SE3 A secure safe is available in the room of this hotel.
SE4 The ambience of this hotel is excellent.
SE5 The trained and skilled security personnel appointed in Hotel.

1.23 Statistical Techniques – Factor Analysis
Factor analysis attempts to identify underlying variables, or factors, that explain the pattern of correlations within a set of observed variables. Factor analysis is often used in data reduction to identify a small number of factors that explain most of the variance observed in a much larger number of manifest variables. Factor analysis can also be used to generate hypotheses regarding causal mechanisms or to screen variables for subsequent analysis (for example, to identify co-linearity prior to performing a linear regression analysis). Factor analysis attempts to represent a set of observed variables $X_1, X_2, \ldots, X_n$ in terms of a number of ‘common’ factors plus a factor which is unique to each variable. The common factors (sometimes called latent variables) are hypothetical variables which explain why a number of variables are correlated with each other -- it is because they have one or more factors
in common. There are a number of different varieties of factor analysis: the
discussion here is limited to principal axis factor analysis and factor solutions
in which the common factors are uncorrelated with each other. It is also
assumed that the observed variables are standardized (mean zero, standard
deviation of one) and that the factor analysis is based on the correlation
matrix of the observed variables.

1.24 Input Data for factor Analysis

The variables should be quantitative at the interval or ratio level. Categorical
data (such as religion or country of origin) are not suitable for factor analysis. Data for which Pearson correlation coefficients can sensibly
be calculated should be suitable for factor analysis.

1.25 Karl Pearson’s Correlation Coefficient

To know the inter-correlation among items and factors, the Pearson
coefficient of correlation is calculated as:

\[
 r = \frac{N \sum XY - \sum X \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \times \sqrt{N \sum Y^2 - (\sum Y)^2}}
\]

Where

N = Total number of observation
X = Dependent variable
Y = Independent variable
\(\sum X\) = Sum of Dependent variable
\(\sum Y\) = Sum of independent variable
\(\sum X^2\) = Sum of the square of x variable
\(\sum Y^2\) = Sum of the square of y variable
\(\sum XY\) = Sum of product of both variables

1.26 Analytical Procedure for study - The Factor Analysis Model

If the observed variables are \(X_1, X_2, \ldots, X_n\), the common factors are \(F_1, F_2, \ldots, F_m\) and the unique factors are \(U_1, U_2, \ldots, U_n\), the variables may be
expressed as linear functions of the factors:

\[X_1 = a_{11}F_1 + a_{12}F_2 + a_{13}F_3 + \ldots + a_{1m}F_m + a_1U_1\]
\[ X_2 = a_{21}F_1 + a_{22}F_2 + a_{23}F_3 + \ldots + a_{2m}F_m + a_2U_2 \]

\[ \ldots \]

\[ X_n = a_{n1}F_1 + a_{n2}F_2 + a_{n3}F_3 + \ldots + a_{nm}F_m + a_nU_n \]

Each of these equations is a regression equation; factor analysis seeks to find the coefficients \( a_{11}, a_{12}, \ldots, a_{nm} \) which best reproduce the observed variables from the factors. The coefficients \( a_{11}, a_{12}, \ldots, a_{nm} \) are weights in the same way as regression coefficients (because the variables are standardized, the constant is zero, and so is not shown). For example, the coefficient \( a_{11} \) shows the effect on variable \( X_1 \) of a one-unit increase in \( F_1 \). In factor analysis, the coefficients are called loadings (a variable is said to 'load' on a factor) and, when the factors are uncorrelated, they also show the correlation between each variable and a given factor. In the model above, \( a_{11} \) is the loading for variable \( X_1 \) on \( F_1 \), \( a_{23} \) is the loading for variable \( X_2 \) on \( F_3 \), etc.

When the coefficients are correlations, i.e., when the factors are uncorrelated, the sum of the squares of the loadings for variable \( X_1 \), namely \( a_{11}^2 + a_{12}^2 + \ldots + a_{13}^2 \), shows the proportion of the variance of variable \( X_1 \) which is accounted for by the common factors. This is called the communality. The larger the communality for each variable, the more successful a factor analysis solution is. By the same token, the sum of the squares of the coefficients for a factor -- for \( F_1 \) it would be \([a_{11}^2 + a_{21}^2 + \ldots + a_{n1}^2]\) -- shows the proportion of the variance of all the variables which is accounted for by that factor.

1.27 Limitations of the Study

We are focusing our study in evaluating how consumers perceive service quality in these three types of Indian hotels in general. The study under consideration is evaluated the customer satisfaction level of 4 star, 5 star and 5 star deluxe hotels. There are some limitations associated with this study that need to be discussed. Firstly, the results obtain from this study would not be generalized to a wide range of similar situations concerning three types of hotels because of the non-probability sampling technique used even though the methodology used in this study could be applied to these similar situations. The study will use convenient sampling while survey of customers about service quality provided by Indian hotels. Also, the issue of consumers’ perceptions could be questioned because the sample size

43
consisted of respondents that come from both developing and developed economies that may differ. The said survey will limit to perceive services of the hotels whereas the research could be extended to expectation survey. But, the present study that identifying the perceptions of customers, the dimensions of service quality and their relative importance to customers for each specific segment of the hotel industry would definitely help managers in the challenge of increasing customer satisfaction.

1.28 Relevancy of the Study

Numerous studies have focused on lodging industry antecedents of the customers to identify ways to improve service quality, customer satisfaction and behavioural intention. Although customer loyalty constitutes a primary source of hotel marketing and exerts substantial influence on customer satisfaction and retention, research about loyalty attributes has been relatively neglected. Thus, present study focuses on attributes contributing customer’s loyalty in lodging industry.

This study is important from both practical and research perspective. First, testing of the constructs will contribute in enhancing the knowledge of researches and practitioners to understand the relationship among variables (psychographic, demographic and behavioural) and repeat visit intentions in lodging industry. Secondly, fostering certain attributes increases brand loyalties. Since hotel industry involves a high degree of understanding customer loyalty can be frequently influenced by the actions and services of the industry. Therefore, this is a significant research to study the benefits sought by the customers of the hotel industry. The findings of the study will help hotel managers when developing strategies to maximize performance of the service in retaining customers positively. This will increase customer loyalty.

A lot of hotels of western adaptation are about to be customized in the Indian context. We have to set Indian models for global hotel industry. This is a consumer oriented research and it will offer a hotel format which is designed as per customer expectations and this is ultimate requirement of all market strategies. In nutshell, there is a need to develop new strategies in India to upgrade the research findings of the past and to give latest recommendations in same regard. India is still lacking information on different attributes and
models associated with customer loyalty in lodging industry. Therefore, the study is having wide scope and would come up with best results for upgrading the status of Indian hotel industry. The study will be useful to the Hotel Industry specially Lodging Industry, policy makers, academicians, researchers and society at large. This study will also help the Hotel Industry to make some effective strategies to compete with their counterparts.

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