

Chapter 1

Introduction

1.1 The Origin of the Dissertation

The purpose of this dissertation is to study the impact of functional performance, technical performance, brand trust and brand affect on the mediating variables; customer loyalty and perceived value. In addition, this dissertation examines the impact of these mediating variables on the dependent variables i.e. price insensitivity, positive word-of-mouth and perceived brand image, in luxury hotels in Thailand. This dissertation also examines the moderating effect of collectivism and the situation specific (business and leisure) on the relationships between these antecedents and the mediating variables.

Building and maintaining loyalty lies at the heart of marketing concept and researcher, have continuously examined brand loyalty in marketing management (Fournier, 1998; Dillon, Madden, Kirmani, and Mukherjee, 2001; Brown, Kozinets, and Sherry, 2003; Yi and La, 2004). The importance of loyalty is described by Jacoby, Chestnut, and Fisher (1978) as: the success of a brand in the long term is not based on the number of consumers that buy it once, but on the number of consumers who become regular buyers of the brand. From a customer point of view, loyalty serves as purchasing strategy that reduces risk inherent in using multiple vendors, reducing switching costs, and gains the customer access to new technologies faster than non-loyal customers (Chow and Holden, 1997). Customer value is known to play a vital role in marketing relationships (Gutman, 1982). Woodruff (1997) suggested that customer value is the new source of competitive advantage. Kotler, Bowen, and Makens (2003) defines customer delivered value as the difference between the total customer value and total customer cost of a marketing offer. Loyal customers expect to pay a fair price, but still demand value from the relationship. Service firms continually provide the perceived value to retain their customers (Lovelock, Patterson, and Walker, 2001). Hence, loyalty and value are the important

factors in driving profitability, reducing costs and to retain the customers in the manufacturing and service sectors.

To retain and increase the number of customers, brand trust and brand affect are important factors of relationship marketing, commitment, loyalty and value (Morgan and Hunt, 1994; Chaudhuri and Holbrook, 2001; Ringberg and Gupta, 2003). In the service sector, the provision of high quality services enhances customer retention rates, helps attract new customers through word-of-mouth advertising, and enhances productivity, which leads to improve financial performance and profitability (Lewis, 1993; Llosa, Chandon, and Orsingher, 1998). Therefore, the impact of these factors (service quality, brand trust and brand affect) on the loyalty-value relationships and its consequences are the main objectives of this dissertation. To the author's knowledge, this is the first study which explores the relationships between antecedents and mediating variables leading to the consequences of those relationships in luxury hotels in Southeast-Asia.

This chapter includes the origin of the dissertation, followed by the academic and managerial importance of the topic area, research objectives, research questions, contributions and dissertation structure.

1.2 Academic Importance of the Topic Area

Loyalty as a marketing concept, is widely accepted and is measured in terms of both attitude and behavioral elements (Jacoby and Kyner, 1973; Dick and Basu, 1994). However, loyalty is firstly defined only as a behavior measure (Kumar, Ghosh, and Tellis, 1992; Neal, 2000; Mittal and Kamakura, 2001; Balingier, Blair, and Echambadi, 2002). These measures include proportion of purchase, probability of purchase (Massy, Montgomery, and Morrison, 1970), probability of product repurchase, purchase frequency (Brody and Cunningham, 1968), repeat purchase behavior, purchase sequence (Kahn, Kalwani, and Morrison, 1986), and multiple aspects of purchase behavior (Ehrenberg, 1988). Jacoby, Chestnut et al. (1978) argued that only the behavioral measures are inadequate as they capture only the static outcome of a dynamic process, which is consistent with the findings of many researchers (Sciffman and Kanuk, 1987; Dick and Basu, 1994; Oliver, 1999; Gounaris

and Stathakopoulos, 2004). Chaudhuri and Holbrook (2001, p.83) identified brand loyalty in two different aspects: behavioral and attitudinal. Behavioral loyalty is defined as “the willingness of the average consumer to repurchase the brand”, whereas attitudinal loyalty is defined as “the level of commitment of the average consumer toward the brand”.

As mentioned earlier, customer value is an important determinant to retain customers and enhance company profitability. Zeithaml (1988) defined value as the customer’s overall assessment of the utility of a product based on perceptions of what is delivered and what is given. Sirdeshmukh, Singh, & Sabol (2002) also defined value as the consumer’s perception of the benefits minus the costs of maintaining an ongoing relationship with a service provider. These definitions are consistent with many researchers (Holbrook, 1994; Lovelock, Patterson et al., 2001; Hellier, Geursen, Carr, and Rickard, 2003; Wang, Hing, Chi, and Yang, 2004). When a firm delivers value, then it induces suppliers to create incremental profits, which are opportunities to cross-sell other company services, reducing operating costs, increasing purchases, and inducing positive word-of-mouth advertising.

Service quality is an essential strategy to boost the competitive environment (Parasuraman, Zeithaml, and Berry, 1985; Reichheld and Sasser, 1990; Zeithaml, Parasuraman, and Berry, 1990). It is also considered to be the important factor to enhance the profitability of companies (Gale, 1992; Zeithaml, Berry, and Parasuraman, 1996; Zeithaml and Bitner, 2000). Several studies reported the positive relationship between service quality and customer loyalty in the service sector (Pritchard and Howard, 1997; Pritchard, Havitz, and Howard, 1999; Kim, 2005). Maxwell (2001) also found a positive relationship between perceived quality and perceived value between customers in the U.S.A. and India. However, many service industries possess vastly different characteristics e.g. credence and experience properties, high and low personal contact, continuous and discrete transactions, membership and non-membership relationship, customized and standardized services, and so forth. Kasper, Vries, and Helsdingen (1999) commented that it is clear that the impact and strength of these characteristics may indeed vary by service type and by circumstance. Thailand is classified as an Eastern collectivist society by Hofstede (1980) and Triandis (1995) and it has never been colonized. Moreover, Thailand is

not just a collectivist culture, it is also “loosely structured”, a condition normally associated with Western individualism rather than Eastern tightness and cultural simplicity. The strength of the indigenous culture unmediated by imposition of a colonial culture together with the unusual and contradictory looseness of Thai society, may explain the originally unanticipated pattern of service relationships and service providers (Patterson and Smith, 2001). The impact of service quality on loyalty and perceived value in luxury hotels in Thailand has not received attention. Hence, service quality is also included as a construct for empirical testing in this dissertation.

Brand trust and brand affect appear to serve as key determinants of brand loyalty and perceived value (Chaudhuri and Holbrook, 2001; Sirdeshmukh, Singh, and Sabol, 2002). Brand trust leads to brand loyalty or commitment because trust creates exchange relationships that are highly valued (Morgan and Hunt, 1994). Therefore, brand trust has shown a positive relationship with behavioral and attitudinal loyalty for consumer products (Chaudhuri and Holbrook, 2001). To maintain brand relationships, the emotional determinants of brand loyalty needed to be considered separately. Dick and Basu (1994) have proposed that brand loyalty should be greater when more positive emotional mood and affect are present. Therefore, brands that make consumers “happy” or “joyful” or “affectionate” should prompt greater purchase and attitudinal loyalty (Chaudhuri and Holbrook, 2001). Sirdeshmukh, Singh et al. (2002) proposed that trust creates value by: (1) providing relational benefits derived from interacting with a service provider that is operationally competent, benevolent toward the consumer, and committed to solving exchange relationship problems, and (2) reducing exchange relationship uncertainty and helping the consumer form consistent and reliable expectations of the service provider in ongoing relationships. They also found a positive relationship between value and trust in both retail clothing and airline industry. Based on Chaudhuri and Holbrook’s (2001) findings, hedonic value in a product category was significantly and positively related to brand affect. Hence, brand trust and brand affect are also important constructs for empirical testing in this dissertation.

As mentioned before, brand attitudes and habitual buying behavior are attributes of brand loyalty. Additionally, several studies e.g. Fishbein and Ajzen (1975), Ajzen and Fishbein (1980), Balinger and Rubinson (1996) and Rundle-Thiele

and Mackay (2001) found a positive relationship between attitudinal and behavioral loyalty. This finding is consistent with Pritchard, Howard et al. (1992), Bennett and Rundle (2002) who found that behavior is strongly related to the attitudinal dimension. However, value drives loyalty, albeit imperfectly and has substantial support among marketing practitioners and scholars alike (Chang and Wildt, 1994; Neal, 1999). Sirdeshmukh, Singh et al.'s (2002) study found that the effect of trust on loyalty is only partially mediated by value. From their findings, the effect of value on loyalty is partially supported. Therefore, only the positive relationship between attitudinal and behavioral loyalty without considering the relationship between loyalty and value, is investigated in this dissertation.

Consumer loyalty is indicated by an intention to perform a diverse set of behaviors that signal a motivation to maintain a relationship with the focal firm, including allocating a higher share of the category wallet to the specific service provider, engaging in positive word-of-mouth, and repeat purchasing (Zeithaml, Berry et al., 1996). Loyalty and positive word-of-mouth are favorable behaviors that are likely to occur when the customers are satisfied with the quality of service. Hartline and Jones (1996) found that value has a large effect on word-of-mouth relative to quality of hotel experiences. Moreover, attitudinal and behavioral loyalty contributed to brand outcomes such as market share and relative price in Chaudhuri and Holbrook's (2001) study. Brand-loyal consumers may be willing to pay more for a brand because they perceive some unique value in the brand that no alternative can provide (Pessemier, 1959; Jacoby, Chestnut, and Fisher, 1978; Reichheld, 1996). This uniqueness may derive from greater trust in the reliability of a brand or from more favorable affect when customers use the brand. Chaudhuri and Holbrook (2001) found that behavioral loyalty has a positive relationship with market share but not relative price, while attitudinal loyalty has a positive relationship with relative price but not market share. Kumar (2002) concludes that symbolic associations may play an important role in strengthening loyalty to a brand. Perceived brand image is normally retrieved from consumers' memory (Romanuik and Sharp, 1999). Loyal customers may use more of the brand due to its likeability or identify with its image (Upshaw, 1995; Kim and Kim, 2004). In this dissertation, the author employs

perceived brand image, positive word-of-mouth and price insensitivity as the consequences of customer loyalty and value.

It has been established that customers' disposition and behaviors are influenced by the norms and beliefs of the cultural environment (Triandis, 1989). Usunier (1996) notes that loyalty is a key concept on collectivist cultures and relationships are expected to endure. Additionally, the collectivist customers have a strong cultural incentive to stay in relationships and high levels of loyalty to service providers. Strauss and Mang (1999) found that the cultural differences have a significant effect on service evaluation. The hospitality sector is generally classified into two segments, which are service-oriented business travelers and price-driven leisure travelers (Aufreiter, Elzinga, and Gordon, 2003). Additionally, Aline (2002) finds that in a luxury hotel like Four Seasons, two-thirds of their business is derived from business customers. Watkins (2003) concludes that price is the most important selection criterion for business travelers, whereas amenities are the crucial factor for leisure travelers. Therefore, the cultural related variables (individualism and collectivism) and the situation specific variables (business and leisure traveling) serve to moderate the relationship between antecedents (service quality, brand trust, brand affect) and loyalty and perceived value.

In this dissertation, the author examines and extends the framework underlying the links between customer loyalty and value and its consequences in Thailand. The objective is to assess the chain of effects of the antecedents (service quality, brand trust and brand affect) on loyalty and value to its consequences (price insensitivity, positive word-of-mouth and perceived brand image). The impact of brand trust and brand affect to loyalty and value represents to the author's knowledge the first time such an investigation of a luxury service product experience has been concluded in the Southeast-Asian context. Two moderating variables (the cultural related variable and the situation specific variable) are also included.

1.3 Managerial Importance of the Topic Area

The importance of brand loyalty has been recognized in the marketing literature for at least six decades (Brown, 1952). In addition, Aaker (1991) has

discussed the role of loyalty in the brand equity context and noted that brand loyalty leads to certain marketing costs, more new customers, and greater trade leverage. Dick and Basu (1994) also suggest another loyalty-related marketing advantage, greater resistance to competitive advantages.

Customer value is increasing and is seen as the next source of competitive advantage (Woodruff, 1997). Customer value has a considerable big impact on consumer retention and company profitability (Dawkins and Reichheld, 1990; Reichheld and Sasser, 1990; Reichheld, 1996). Reichheld and Sasser (1990) report work which looked at the net present value profit improvement of retaining customers. It was suggested that for a number of service and business-to-business organizations, a 5 percentage point increase in retention could yield up to 125% improvement in net present value profit.

It is almost a 'given' that any service firm must deliver the core or technical service with consistency if it wishes to stay in business (Gronroos, 1983; Kasper, Vries, and Helsdingen, 1999). Furthermore, customers seek and appreciate other benefits which relate to processes or how the service is delivered (referred to functional quality). Such benefits include social motives which encompass the comfortable and friendly ambience that is built up in some service relationships, as well as the extra things that a service provider might do for a long-term loyal customer (Gwinner, Grensler, and Bitner, 1998). Both research and company experience support that high service quality performance produces measurable benefits in profit, cost savings, and market share (Buzzell and Gale, 1987; Parasuraman, Berry, and Zeithaml, 1991). Businesses in top quintile of relative service quality on average enjoy an 8% higher price than their competitors (Gale, 1992). In the service sector, provision of high quality services increases customer retention rates, helps attract new customers through word-of-mouth advertising, enhances productivity, leads to high market shares, lowers staff turnover and operating costs, and improves employee morale, financial performance and profitability (Lewis, 1993; Julian and Ramaseshan, 1994; Llosa, Chandon et al., 1998). Therefore, it is valuable to assess the two types of performance (technical and functional) on loyalty and value to retain customers and enhance company profitability, especially in the service sectors (Gronroos, 1983).

The growth of relationship marketing has heightened interest in the role of trust in fostering strong relationships. In the service area, Berry (1996) states that owing to the inherent nature of services and abundant mistrust in America, positions trust as the single most marketing tool for a company. Brand trust leads to brand loyalty because trust creates exchange relationships that are highly valued (Morgan and Hunt, 1994). To maintain brand relationships, the emotional determinants of brand loyalty need to be considered separately. Gundlach, Achrol et al. (1995) suggest that commitment is associated with positive affect and this may prevent the exploration of other alternatives in the short run. Steady customer benefits are likely to accrue from such affective bonding in the long run.

To retain customers and drive brand profitability, brand loyalty and perceived value seem to be important factors. The reason is that brand-loyal consumers are willing to pay more because they perceive a unique value in the brand that no alternative can provide (Pessemier, 1959; Jacoby, Chestnut et al., 1978; Reichheld, 1996). This uniqueness may derive from greater trust in the reliability of a brand or from more favorable affect when customers use the brand. Heskett, Sasser et al. (1997) conclude that a loyal customer who returns and spreads positive word-of-mouth, has a net present value of more than \$100,000 to a luxury hotel. Brand image management may focus on its functional or symbolic distinctive characteristics and should help establish this brand's position, and therefore, enhance its market performance, but also maintain its image over time (Park, Jaworski, and MacInnis, 1986). An ideal approach for a brand is to use the functional route to loyalty and then use appropriate symbolic communication to strengthen the loyalty over a period of time. Additionally, loyal customers may use more of the brand due to identification with its image (Upshaw, 1995; Kim and Kim, 2004).

In service firms, a strong customer relationship is very important due to the intangible, ephemeral and often interpersonal nature of the service delivery process. However, to be successful in initiating and maintaining long-term relationships requires a clear understanding of motivations and other forces that entice customers to stay in a relationship. To enhance relationship marketing, it is important to understand the cultural context. People from high cultural context, collectivist societies establish and maintain business relationships. Usunier (1996, p.114)

concludes that “Loyalty is a key concept in collectivist cultures, which spreads from people to product, in as much as they are extensions on the self”. Chiou (1995) also describes collectivist Eastern cultures as being loyal because of their greater reliance on word of mouth about a product and through group evaluation of product performance rather than media claims. Hence, it might be expected that the core cultural values would impact on customer-service provider relationships, especially in service settings where social interaction is often essential for the service to be produced. This forms the basis for longer term relational exchanges between buyer and seller; and is a key determinant of service quality, loyalty and value (Parasuraman, Zeithaml, and Berry, 1988; Bitner and Hubbert, 1994; Kasper, Vries et al., 1999; Patterson, Mandhachitara, and Smith, 2001). To retain customers and enhance company revenue, it is necessary to identify the target customers. The reason is that in the hotel sector, half of the revenue is derived from frequent travelers, which is about 10 percent of total customers (Brown, 2004). Therefore, most luxury hotels classify customers into two categories, which are business and leisure (Aline, 2002; Aufreiter, Elzinga et al., 2003; Watkins, 2003).

To maintain a competitive advantage in the luxury hospitality industry, it is necessary to understand and investigate the impact of all drivers (service quality, brand trust and brand affect) of loyalty and value in the context of Southeast-Asia. The managerial importance of price insensitivity, positive word-of-mouth and perceived brand image revolves around the need to better understand the expected returns of loyal customers. Additionally, management is able to identify the customers precisely by using customer loyalty, value, and the cultural related variable. With a knowledge of the contribution of loyalty and value to consequences, management can determine the justifiable investment to the right target customers.

1.4 Research Interests

The main objective of this dissertation is to investigate the impact of the antecedents (technical performance, functional performance, brand trust and brand affect) to the dependent variables (price insensitivity, positive word-of-mouth and perceived brand image) through the mediating effects of loyalty (attitudinal and

behavioral) and value in Thailand. The moderating effects of the culturally related variable (individualism and collectivism) and situation specific variable (business and leisure) are also empirically investigated. This dissertation will be undertaken from the perspective of customers in the luxury hotel sector.

The following four parts of the major research questions are addressed in this dissertation:

1. Are there any positive relationships between the antecedents (functional performance, technical performance, brand trust and brand affect) and the mediating variables (attitudinal loyalty, behavioral loyalty, perceived value)?
2. Is there any positive relationship between the two aspects of customer loyalty (attitudinal and behavioral)?
3. Are there any positive relationships between the mediating variables (attitudinal loyalty, behavioral loyalty, perceived value) and the dependent variables (positive word-of-mouth, price insensitivity, perceived brand image)?
4. Do the moderating effects of related variables (individualism and collectivism) and situation specific variables (business and leisure) strengthen or weaken the relationships of the mediating variables (attitudinal loyalty, behavioral loyalty, perceived value) and its antecedents (functional performance, technical performance, brand trust and brand affect)?

1.5 Contribution

The contributions of this dissertation are summarized as follows:

1. The proposed conceptual model of this research provides a framework for the contribution of customer loyalty and perceived value to three measures of its consequences (price insensitivity, positive word-of-mouth and perceived brand image). The link between customer loyalty, perceived value and its consequences is investigated for the first time in the luxury hotel context.
2. The relationship between brand trust, brand affect and loyalty and value is examined in the luxury service sector, which is an extension of the Chaudhuri and Holbrook (2001) article.

3. The relationship between service quality (functional and technical performance) and loyalty and value is widely tested in several marketing articles. However, there are few empirical tests of the determinants of loyalty and value in the context of the luxury hotel industry in Southeast-Asia.

4. The moderating effects of cultural related variable and situation specific variable on the relationship between the antecedents and loyalty and value have not been widely examined in a Southeast Asian context. In addition, only the moderating effects of collectivism have strengthened the relationship between the antecedents and loyalty and value in this dissertation.

5. The inclusion of both the independent and the dependent variables through the mediating variables are derived from the existing constructs. However, the author draws the linkages of relationships based on the extent review literature. Moreover, the relationships between loyalty, perceived value and perceived brand image as outcome variable, which have not been widely investigated in marketing, are originated by the author. Furthermore, this dissertation does not investigate the relationship between loyalty and value, but rather considers them as two different mediating variables.

1.6 Dissertation Structure

This chapter includes the origin of the dissertation as well as academic and managerial importance of the area. Research interests and contributions have also been established. Chapter 2 provides an overview of the tourism and hotel industry in Thailand together with a hotel classification. Furthermore, this chapter includes the definition of luxury products and discusses previous studies on the luxury concept. Chapter 3 provides a review of literature relating to the proposed antecedents of customer loyalty and perceived value, which are functional performance, technical performance, brand trust and brand affect. The consequences of loyalty and perceived value are also provided in this chapter. This chapter also provides the theoretical foundation of the dissertation. Chapter 4 presents the proposed conceptual framework and hypotheses to be empirically tested. Chapter 5 discusses the research methodology used for this research. Chapter 6 presents the measurement model from

the data analysis. Chapter 7 reports the results and hypotheses testing. Finally, chapter 8 provides a discussion of the contributions and managerial implications of the research results. Limitations and directions for future research are also provided in this chapter.