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Tourism product as a factor of competitiveness of the Serbian economy and experiences of other countries

THEMATIC PROCEEDINGS

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UNIVERSITY OF KRAGUJEVAC
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VALUE CREATION AS A FACTOR OF ATTRACTING AND RETAINING CUSTOMERS IN THE HOTEL INDUSTRY

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Abstract

The aim of this paper is to highlight the importance of the value in hotel services in order to attract and retain customers. Value is subjective and determined by the consumer. In the literature the value is defined as the ratio of benefits and costs that the consumer has in process of purchase and consumption of goods and services. The benefits from buying and using a product or service are related to its design, quality, reputation, image. On the other hand, costs are related to the amount payable for the purchase of products/services, and physical and psychological effort and time to obtain them. Creating and delivering value in the hotel industry is an instrument for attracting and retaining customers in order to build their long-term loyalty.

Key Words: *value, retaining, customers, hotel industry, loyalty*
JEL classification: *D11, M21, M31, Z30.*

Introduction

A successful hotel companies are trying to create and deliver to the guests services that meet or exceed their expectations. This strategy aims to create customer satisfaction or even their enthusiasm. Delivered services of superior value that exceed customer expectations are the source of sustainable competitive advantage. Satisfied and delighted customers are a sure way to create loyalty. In this sense, hotel companies create and implement marketing strategies aimed to better understanding of guests' desires and needs, in order to identify profitable market segments, improve the quality of services and create value for the customers.

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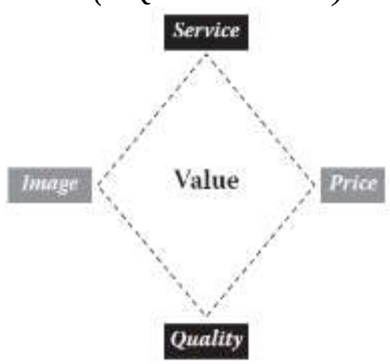
Creating value for customers

Faced to numerous challenges, companies are continuously developing new business concepts in order to lessen the negative trends in the environment and take the advantage of the positive ones (Mandarić et al., 2013). In order to build long-term relationships with customers (CRM), special attention should be paid to the concept of creating value for consumers. This concept had been gaining importance in the 90s of the XX century. Modern enterprises in a competitive environment started to realize the importance of creating and delivering value to customers, as a condition for the survival and profitability on the market. Creating high-value results in high level of consumer satisfaction. Companies are constantly looking for additional sources of value that will exceed customer expectations and enable the company to differentiate itself from the competitors. The main way in which companies are trying to find out what is the value for consumers is to know what they buy and the extent to which their needs are met. Most marketing research seeks to describe and explain the habits and experiences of consumers in the purchase and consumption. Dating habits of consumers are based on direct contact with customers or their own experience of the company, as well as on the successes and failures of competitors (Sekulić, 2016).

Peppers and Rogers (2005), state that "the only value that a company creates is the value that comes from consumers - the only one you have now and you will have in the future. Business success depends on winning, keeping and increasing consumers. Consumers are the only reason to build factories, employing workers, held meetings and invests in a business activity. Without customers there is no business". The most commonly used definition of value for consumers is the definition of Morris Holbrooke: "value for consumers is the difference between the benefits which the consumer receives the purchase and use of products and services and sacrifices that include investments at their acquisition and use." This definition suggests that the value for the consumer is the sum of the different benefits that the consumer receives, the invested cash and psychophysical efforts in the process of purchasing and using products and services (Maričić & Đorđević, 2012; Đorđević & Zečević, 2015). Value is subjective and determined by the consumer. This means that each consumer can define what the value is for him. Value should not be identified with satisfaction. Although there is no agreement to define the value, most authors agree that the value consists of the costs and benefits incurred as a result of buying a product or service. Simplifying, the value may be defined as the ratio of benefits and costs. The benefits that the consumer has in the process of buying and using a product or service is related to their design, quality, reputation, image. On the other hand, the acquisition value is associated with costs. Costs related to the amount payable for the purchase of products/services, and physical and psychological effort and time to obtain them. Consumers seek to maximize the value in terms of the limited information, mobility and income. Consumers evaluate which company delivers the highest value and direct their attention to such company. The main challenge for marketing-oriented companies is to define, create and deliver value, which is intangible (Marinković, 2012). The company creating and delivering superior value achieves a high level of customer satisfaction and profitability. Superior value is the one that exceeds consumer expectations over a longer period of time. It is a value that the competitors find difficult to copy, which is a source of sustainable competitive advantage (Mandarić & Petković, 2015). As Đorđević and Zečević (2015) suggest, value for tourists is a complex category and has certain characteristics: 1) subjectivity - each user estimates service value from different perspectives, 2) the impossibility of measuring value, 3) relativity - the value of services is based on the perception of service users, where experience plays an important role, so that the same services to different users can give a completely different experience and create different perceptions of value, 4) comparability - the value of tourist services is based on a comparison of the value of services provided by other entities in the same destination.

Figure 1: *Designing a Value (S-Q-I-P Diamond)*



Source: *Johnson, W., Weinstein, A. (2004), Superior Customer Value In The New Economy, CRC Press LLC, New York, p. 106.*

Johnson and Weinstein (2004) defined the value as the ratio of the consumer's perception of the benefits and the perception of the price of the product or service. Perceived benefit consists of two components: the perceived attributes of the product or service and the perceived attributes of substitutes. Perceived price also consists of two components: the perception of the price of the product or service and the perception of the price of substitutes. The authors note that the value consists of four main components: the service, quality, image and price. These components form a diamond values (S-Q-I-P). The vertical axis of the diamond (service and quality) form the backbone of supply firm, while the horizontal axis (image and price) gives a signal to the target market (Figure 1).

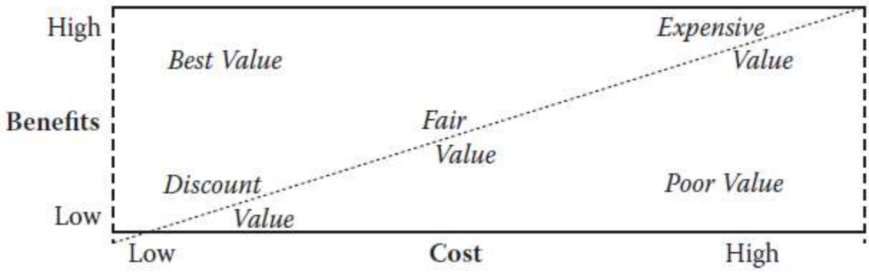
Gummesson (2008) emphasizes three dimensions of the value: cognitive value (fair and rational consumers' perceptions of price, quality and convenience), the emotional value (subjective and irrational consumer's perception of the company) and retention value (the number of repeat purchases).

Companies have to take into account all these elements individually, as fierce competition does not allow expression of weakness in any of these elements. To create value for consumers, managers analyze the strengths and weaknesses of the company compared to its competitors, in order to realize the opportunities for the achievement of this objective. The basic steps in this analysis were (Kotler et al., 2009):

- Identify the key attributes and benefits that have significant value for consumers. Consumers are wondering what level of attributes, benefits and performance is required in the selection of products or services;
- Assess the quantitative importance of different attributes and benefits. A consumer is required to evaluate the importance of different attributes and benefits. If these values differ significantly, marketers need to be grouped into segments.
- Assess the performance of the company and competitors to the values of attributes and benefits. Consumers compare the performance of the company and competitors with respect to each attribute or benefit.
- Assess how consumers in a certain segment evaluate performance of the company in relation to its main competitor on the basis of individual attributes and benefits. If the company's offer exceeds supply of a competitor in all important attributes and benefits, the

company can determine higher prices or lower prices and increase the market share.
- Check the delivered value over time. The company must periodically control the delivery of value in relation to its competitors due to economic and technological changes.

Figure 2: *Assessing a company's value*



Source: *Weinstein, A. (2012), Superior Customer Value: Srategies for Winning and Retainig Customers, CRCPress LLC, New York, p. 69.*

Value for consumers can be increased by increasing the benefits and reducing costs, increasing benefits more than increasing costs or reducing benefits with greater cost reduction (Figure 2). Looking at the ratio of benefits and costs to consumers, companies can deliver five types of values. These are the best value, the discount value, precious value, fair value and poor value (Weinstein, 2012).

Companies that create a fair value can not increase nor lose the market share regardless of the combination of price and quality of products and services. The discount, fair and expensive value provide consumer benefits in accordance with the cost of their acquisition. Best value is a situation where the cost of obtaining a value is lower compared to the benefits that consumers receive. This position allows the company to achieve a competitive advantage and a good market position. On the opposite side there is a poor value, which means that the costs of acquiring certain products and services are high, and the benefit is very low. This position is unfavorable for the company and is a recipe for a disaster.

The concept of value has experienced a certain evolution in the way of his understanding in the organization. Initially, the company considered the only price and quality are value generators for consumers. This understanding has undergone changes, so that more attention is paid to services, as an important component of value. However, companies did not stay long in this position, because they have realized that the consumer does not buy the product or service, but the benefits that they provide. Therefore, marketing-oriented companies observed value as a multidimensional concept whose basic components of the results are the product, process quality, price and the cost of obtaining a product or service (Heskett et al., 2003).

In the process of value creation, if extract price and quality as the most important dimensions, the company can use one of the nine strategies to create value. Strategies for creating value are shown in Figure 3. Quality is most usually defined as the set of product's or service's attributes or characteristics, which have the ability to satisfy the expressed needs (Sekulić&Mandarić, 2014).

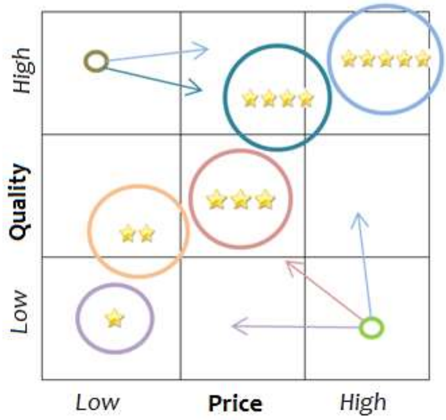
Figure 3: *Price/Quality Strategies*

Source: *Johnson, W., Weinstein, A. (2004), Superior Customer Value In The New Economy, CRC Press LLC, New York, p. 134.*

Best position is a super value, which is characterized by the highest quality of products / services that the consumer can buy at a relatively low price. By contrast, there is a rip-off value, which represents the most unfavorable position for the consumer. This position means that the consumer paid very expensively non-quality product or service. If both price and quality are high it is a premium value and if both price and quality are low it is an economy value.

The largest number of hotels with one star can be found in the field of economy value (low cost / low quality). Hotels with two stars are in a field of good value (higher quality of service and low price), while a three-star hotel occupying a central part in the array - the medium value (average level of quality and prices). The high value (above average price and higher quality of service) is characteristic of the four-star hotels, while the premium value (high-price / high quality of service) is a feature of five-star hotels (Figure 4).

Figure 4: *Price/Quality Strategies in the Hotel Industry*



Source: *Sekulić, D. (2016). Kvalitet u funkciji obezbeđivanja satisfakcije korisnika hotelijerskih usluga, doktorska disertacija, Ekonomski fakultet, Kragujevac, p. 187.*

Hotel companies can be found in the short term in other positions. Thus, if the hotel is in a position of rip-off value (low quality and high price), it will quickly run out of guests and collapse due to competitive pressure. If the hotel wants to survive in the market, it will have to move in the direction of reducing the price and / or increase the quality. On the other hand, over the long-term hotel can not survive in a position of super value (the high quality and low price). High quality of service can not be provided at low cost. This strategy can be applied in hotels which enter the market in order to achieve as high as possible market share. However, this position threatens the profitability of the hotel and is unsustainable in the long term. Hotels that are in this position decide to increase the price rather than to reduce the level of services.

By creating the superior value for the consumers a company builds high value brand and achieve high market price. In this way, the company can differentiate itself from other competitors in the industry and significantly increase its market value (Mandarić & Milovanović, 2016). The company must identify its own opportunities for value creation, which are consistent with its competitive advantages. Based on this, the management should set the target segment of consumers according to which it focuses its own forces to deliver adequate value.

Attracting and retaining consumers

Attracting and retaining customers is the key goal of CRM strategies. The basic philosophy of relationship marketing is based on retaining existing customers with long-term profitability of the business in order to achieve long-term competitive advantage in the market (Mandarić, 2016). Loyal customers are the pillar of profitability of hotel companies. In this process, the initial activity is attracting (acquiring) the consumer. When attracting customers, the hotel management has to give answers to three questions: what potential consumers need to be targeted; how to access them; how to conceive offer to attract them. Management must clearly define the concept of the new consumer. These consumers can be classified into two groups: Consumers who have not been in touch with the hotel company; and consumers who have used the services of a particular hotel, but not yet used the new services offered by the hotel. Strategies to attract consumers may differ for these groups of consumers. The costs of attracting new customers who have not been hotel guests can be high, especially if they are competitive hotel guests. Choosing customers that hotel company wants to attract has to respect factors such as: what is the estimated value of the customer and how much will the hotel earn if attract hotel guest from competitors. The success of the strategy of attracting customers can be measured through three indicators: the number of customers attracted by the company, the cost of attracting and value of attracted consumer (Buttle, 2009).

In order to attract new and old guests, hotel companies use different forms of marketing communications such as advertising, promotion, publicity and public relations (Stutts & Wortman, 2006).

Advertising of hotel products and services includes activities to attract potential and current users of hotel services. The goal of advertising is to encourage the sale of hotel services in the facility (in-house selling). For creating advertising responsible is staff of Sales and Marketing at large hotels or this job is done by specialized marketing agencies. In the process of creating advertising important are two functions: creative, which includes designing attractive promotional campaigns or ads, and selecting appropriate media who are responsible for the placement of advertisements to the target market. Most commonly, advertisement of hotel products and services is done through brochures and flyers in the room and in the hotel, TV and radio advertising, advertising by post, the Internet, e-mail, boards on transport vehicles, using billboards and personal contact. Advertising can be very expensive, and therefore the effectiveness of advertising should be measured. The effectiveness of advertising depends on the advertising message that is sent to the target market. When creating advertisements, attention should be paid to those ads who: draw attention by picture and sound, are easy to remember, have a low cost, contribute to an increase in sales of hotel services, do not become obsolete quickly and attract the target segment of customers.

In the hotel industry the term *promotion* applies to special packages of products and services offered by the hotel. Hotel may offer at a single price lodging, meals and car rentals. Packages are advertised through ads, brochures or direct mail. Packages can be a weekend for couples, family package holidays or celebrations. Hotels usually advertise discounts, free offers, extra loyalty points. Price reductions are promoted mostly in the period when demand is lower. Free offer is used for introduction of new services offered by the hotel or to stimulate new customers. Extra points are offered to clients in order to return back to the hotel and then they receive a reward for their loyalty. Thus, for example, a hotel can promote the "summer vacation" in the winter months. The price includes accommodation in a hotel, use of swimming pool, a gala dinner with the theme of the summer holidays and free cocktails with rum. Hotels often use special events to promote their services. The famous luxury hotel "Palais Coburg" in Vienna for the New Year promote a single package that includes: a welcome champagne, accommodation, New Year's Eve gala dinner, an exclusive selection of wines, fireworks, ballet soloist of the Viennese Opera, brunch of the 1st of January, and tickets to the Viennese New Year concert. In addition, hotels can promote additional points or free flights if guests use the hotel accommodation in the period. This form of promotion services, a hotel can advertise in certain media.

Publicity refers to spreading information about the hotel free of charge by the media. However, the publicity can be positive or negative. Media as an independent source of information influence the formation of public opinion. A very important segment of Director of the hotel is to build a positive relationship with the media. An example of positive publicity is when the media write that some famous actor has visited a particular hotel. However, the hotel can feel the effects of negative publicity when the media publish news that in a nearby hotel occurred murder, which belongs to the same chain brand. In such situations, the hotel must have a proper relationship with the public.

Public relations aim to create a positive public opinion about the hotel. Include all the activities which focus on the relations with media, current and potential clients and the local community. Public relations means that the hotel provides press releases, speeches, published photos and other gestures to create a positive image of the hotel in public, and thus contributed to the improvement of business. The advantage of public relations is that this is free marketing tool for the hotel in relation to advertising. Through these activities potential clients are informed that the hotel was a good member of the community. Activities include organizing charity events, fundraising or voluntary employee participation in charitable causes. The success of public relations is measured by the number of people who saw or heard the message that the hotel sent.

Hotels should strive to attract and retain consumers with current and future profit potential or are important for strategic reasons. However, not all consumers are equally important. Some consumers are not worth keeping, such as customers who have high costs of servicing, are late with payments, or are fickle (often changing hotels). The growth percentage of customer retention affects the increase in the time in which they are linked to the hotel company. Thus, increased customer retention from 75 to 80% cause an increase in effect on the binding period, from 10 to 12.5 years. Increased customer retention by 5% impacts the profit growth of hotel companies from 35 to 95%. Management of attracting and retaining customers has two benefits: reducing marketing costs and understanding better the needs and desires of consumers (Bowie & Buttle, 2011).

Attracting customers and bringing guests to the hotel, is the initial step of CRM processes and is the basis for formulating a customer retention strategy. Retaining customers means maintain continuous business relationship between the hotel and its guests. Buttle (2009) defined customer retention as the number of customers with whom the company does business at the end of the year, expressed as a percentage of the number of those guests who were active at the beginning of the year. Accordingly, the retention rate represents the ratio of the number of consumers who continue to use the products and services compared to the total number of customers at the beginning of the year. This rate is an important indicator of customer loyalty.

Bill Marriott once said that bringing a guest for the first time in the hotel "Marriott" will cost $ 10, but only $ 1 is required to invest to guest come back. If the guest is satisfied with the quality of services in the hotel, it will be difficult to decide to stay in another competitive hotel. Hotels consume vast resources to promotional activities to inform and convince the visitors that it is the right choice for them. If the customer comes back to the hotel, the funds invested are justified. However, if due to the poor quality of services customer went unsatisfied, he will not come back to the hotel. In this case all marketing efforts in attracting and retaining guests were spent in vain.

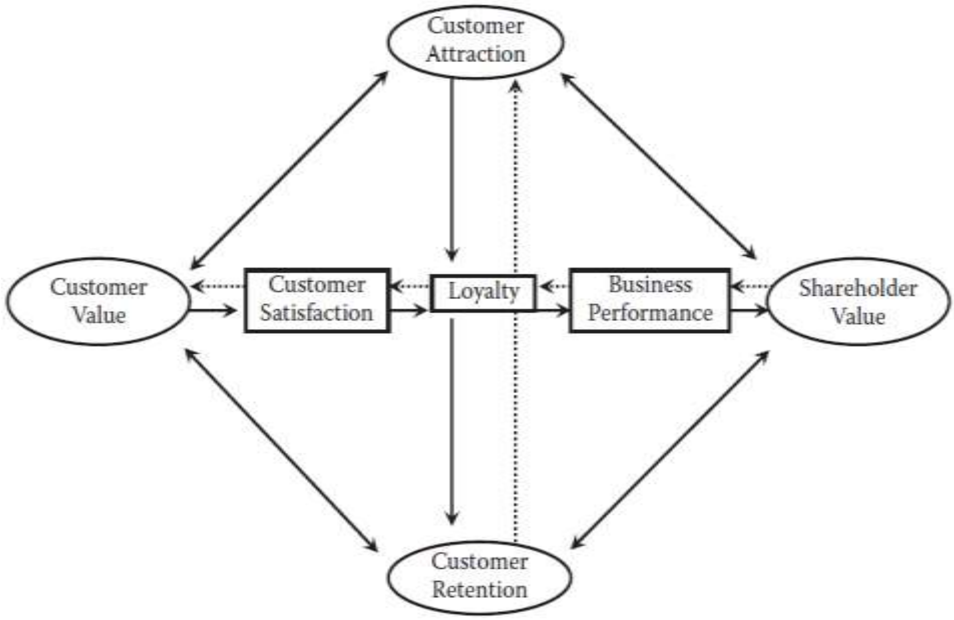
Design and implementation of a retention plan is based on continuous knowledge and understanding of the needs and desires of consumers. Designing customer retention program is implemented through five stages (Weinstein, 2012):

- determining current rate of customer retention;
- analysis of the problems of leaving consumers. This phase consists of three steps. First you need to identify consumers who have gone to competitors and then examine the causes of their departure, while in the third step strategy for their return should be conceived.
- set the target retention rates for the next period;
- investing in the retention plan designed at increasing customer loyalty;
- evaluation of customer retention performance program.

The relationship between customer satisfaction and loyalty and their relationship with the concept of attracting and retaining customers may be illustrated by a model of the value / retention.

This model shows the seven determinants of profitable marketing oriented companies (Figure 5). The central place in the model occupies customer loyalty. If hotel companies create value for consumers, they will be successful in attracting and retaining them. High value for consumers affects their satisfaction and loyalty, which is the basic precondition for long-term profitability. On the other hand, customer loyalty depends on the performance of the hotel, as well as on the value provided by their owners and this in turn influences the retention of the consumer. The significance of this model is reflected in the following: it clearly shows the connections and relationships between concepts and is suitable for strategic management; it emphasizes that long-term relationship (retention) model is interfunctional because it indicates the connection between marketing and financial objectives.

Figure 5: *Customer Value/Retention model*



Source: *Weinstein, A. (2012), Superior Customer Value: Srategies for Winning and Retainig Customers, CRC Press LLC, New York, p. 194.*

Companies can use a variety of tactics to keep the consumer. Thus, the promotional campaigns are a short-term strategy, and CRM strategies affect the long-term value creation for services. To maintain consumers, companies need to meet the desires and needs of its customers and respond quickly to any signal regarding lack of interest of consumers for products or services of the company. It is important that consumers feel that the company cares about them. In addition, companies must quickly resolve complaints and appeals and show a willingness to negotiate with consumers who are valuable to the company (Passavant, 1995).

As the model value/retention shows, companies need to build consumer loyalty, to keep them. The most commonly used approaches for customer retention are building a database of customers, loyalty programs, offering long-term services (partnership, subscription), customized promotion focused on key customers, the use of brochures, catalogs and other promotional materials in order to remain in contact with the guests, presence in the media, visits to trade fairs, research needs and desires of consumers and the like. It can be said that there are many different tactics and strategies for customer retention. The selection of programs for which the company defined should be based on the following criteria: efficiency (low cost) effectiveness (likely to success), flexibility (corresponding organizational culture), compliance with the marketing plan, competitive advantage, ease of implementation, projected profitability.

Building long-term loyalty in the hotel industry

The high degree of competition in the hotel industry, the global transparency of price and supply, distribution and availability of information through websites and social networks on the one hand, and the wishes and needs of the modern consumer to seek out new and unforgettable experience on the other hand, complicate the ability of hotel companies to build long-term loyalty. It is therefore very important that hotel companies determine the degree of loyalty of its guests and create appropriate strategies for building long-term relationships with them. Among potential customers who have not yet stayed at a particular hotel and residential guests, we can identify several different forms of loyalty.

Bowie and Buttle (2011), according to the level of transactions (number of nights), identifies six categories of loyalty in the hotel industry. At the bottom of the scale are *potential guests*, who must be persuaded that they should try out the hotel. These are potential customers, who are not yet certain guests of the hotel. Therefore, hotel companies are trying to attract them and turn potential into actual *visitors*. Having an established relationship and a guest came to the hotel it becomes a *buyer*. The aim of the hotel industry in creating loyal customers is to translate buyers into *clients*. Clients are the ones who often reside in a specific hotel, but have a neutral attitude to the hotel company. The following segment consists of *supporters*, guests who have a positive attitude towards the hotel, prefer to stay in it but give passive support. *Lawyers* are guests who in addition to positive attitude actively support the hotel through the positive propaganda. This group of guests is the best promoter of the hotel. Finally there are *partners*. These are the guests who have strong relationships with the hotel company and are loyal to a particular hotel brand.

Customer loyalty in the hotel industry can be defined as the commitment to the hotel or the specific hotel brand, which is based on a strong positive attitude, and is represented in the repeated transactions (Sekulić, 2016). If as the basis of the relationship between the guest and the hotel takes into account the number of overnight stays in a particular period and a particular attitude toward the hotel brand, it is possible to identify four types of loyalty: false loyalty, latent loyalty, stable loyalty, disloyalty. *False loyalty* occurs in a situation where is a high level of repeat overnights, but lower degree of preference, and positive attitudes towards a particular hotel brand. Revisiting occurs in a situation of limited alternatives, special discount, influence others and so on. As a result, the consumer can only temporarily exhibits such loyalty, and it is likely to exceed the competition. *Latent loyalty* occurs in a situation when the customer prefers a specific hotel brand, but often does not stay in it. The reasons may be the location, income, price and so on. *Stable loyalty* occurs when the customer prefers a specific hotel brand and is often resides in it. This is the most desirable situation for a hotel company and it must strive to maintain the quality of its services at a level that this hotel remains the first choice for his guests. A common situation is when there is *no loyalty*. The customer does not see the difference between alternatives, does not favor a single hotel brand, so the choice of hotels is based on a random selection, best price, location, etc.

Building customer loyalty towards a particular hotel brand, or hotel premises is very important for hoteliers. Hotel guests can be loyal to the brand, but also to some facilities belonging to different brands. More standardized brands are trying to build customer loyalty towards the brand, while smaller brands are seeking to build loyalty to the facility. What is certain is that guests who often travel to different destinations are more loyal to a particular hotel brand than hotel facility. This means that the guests who travel frequently choose a hotel based on location rather than on the basis of brand. This points to the need to adapt marketing strategies relationships with consumers. Most hotel brands use a combination of transactional and relationship marketing strategies depending on the needs of the target segment of consumers in order to build long-term loyalty (Osman et al., 2009).

Long-term loyalty occurs as a result of trust in the hotel brand or object, and may be transmitted from generation to generation, and thus become a part of the family tradition. Ritz-Carlton hotel company understands this well. Ritz-Carlton employees are known for their excellent service to guests and are able to create a "wow" level of satisfaction. A good example of focusing on the customer is that the company encourages its employees to spend about $ 2,000 per guest to fulfill their specific requirements. The aim is to support and encourage employees to take advantage of time, effort and money if necessary to improve the guest experience. There is an interesting story of a family who spent the weekend at the Ritz-Carlton in Tucson. When they were about to go out of the hotel the mother saw that her two-year son lost his favorite toy "Thomas The Tank Engine". The mother told employees that this is the favorite toy of her son and that he was sad because she could not find it. Employees have reviewed a hotel, but they could not find a toy, but they realized that something must be done about it. After the family left the hotel and went home, employees bought the same toy at the store and wrote an interesting story in the role of the Thomas. The letter seemed like it was written by Tomas, where he talks to the boy and tells his interesting stories and adventures he had had since he was left by the boy. In addition to the letter, employees sent the images of a train from hotel, how to explores hotel environment, cook in the kitchen and many others. Four days after the "lost" train with letters and photos arrived at the family's home address. The family shared this story via the Internet and social networks, what can now be found almost everywhere. Family noted that the Ritz-Carlton earned their trust for years to come. In this way, the company has secured the lifetime value of the consumer. Thanks to the positive experience, the family has not spread this story only to a narrow circle of friends, but also the story thanks to the Internet and social networks have heard many people around the world, resulting in a higher probability that one of them eventually become loyal and valuable Ritz-Carlton guest (Solomon, 2015).

Hotel companies should carefully analyze the loyalty of its customers. Determining the level and degree of loyalty enable selection of appropriate strategies for building long-term loyalty. The basis for creating and building long-term relationships with customers in the hotel industry are loyalty programs. The first loyalty programs have emerged in the 1970s when American Airlines introduced a program for passengers who fly frequently (Frequent Flyer Program - FFP). This program was soon copied by many airlines, as well as hotel and car rental companies. Loyalty programs are based on earning points based on the distance kilometers or number of nights realized. As a reward, program users receive the certain rewards such as free flight or night, discounts on regular prices of services and other benefits.

Conclusion

Hotel companies do not just satisfy their guests; they strive to amaze, astound, delight, or wow them. Superior customer value means to continually create experiences that exceed customer expectations. Value is the strategic driver that hotel companies utilize to differentiate themselves from their competitors in the minds of customers. This is not an easy task. Therefore, hotels are trying to create value for consumers through their products and services in order to attract new and retain existing guests.

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