

## **How Various Factors Influence Customer Retention**

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### **Abstract**

This study has been done to check that how different variables effects the customer retention. In this paper the questionnaire was used as the collecting instrument. The idea of this study was clearly told to the respondents. The research was done on 300 respondents through which 170 filled questionnaires were returned. We have used the co relation analysis and the regression analysis. Reliability analysis was also done. Pearson co relation analysis was used to test the developed hypothesis. Through the findings we come to know that Customer loyalty have positive effect on the customer retention. With the help of this study the conclusion and the future recommendations are mentioned.

**Key Words:** Factors, Customer Retention, Customer Loyalty, Service Quality, Customer Satisfaction, Environment

## **Introduction**

### **Background of topic**

Customer retention in simple words is defined as checking of the business that helps to measures how loyal its customers are. On the other hand it is also defined as maintaining the customer towards their product (White and Yanamandram, 2004). Customer retention is the main goal for the firms that helps in maintaining their business (Coviello , 2002). There are a large number of firms that are linked with the customer retention .The companies are bound to plan for the customer retention to get the targeted outcome Kotler (2003).

Customer retention occurs when the customers are fully satisfied with the service provided by the hotels (Grønhaug and Gilly, 2001). On the other hand the customers are very much loyal towards their brand (hotel) and it results in the customer retention of that brand (Buttle, 2004). Every owner focuses on the customer retention to attain the maximum profits and benefits (Dawkins and Reichheld, 2009).

There are few studies that explain the influence of the different factors that influence the customer retention in hotels. This is very much easy for the customers to get dissatisfied with the gives services to them (Colgate and Lang, 2001; Colgate and Norris, 2001)

### **Purpose of Study**

The Main and foremost cause of this study is to find out the influence of the different factors on the customer retention.

### **Significance and scope of the study**

In this study the main significant of this is that customer retention is the basic action for any business for the maximum output. This study is done to explain the relationship between service quality, customer loyalty, environment, customer satisfaction and customer retention.

This study will help the business owners to work on these factors because these factors are the basic need of the every customer. And with the help of this study the business owners can prosper their hotel business.

This research is also useful for other similar organizations who are facing the problems in maintaining their customers.

## **Literature Review**

### **Customer Retention**

In almost every business there is a factor of customer retention. The brands try their best for the customer retention. Many researchers have been done to find the factors behind the customer retention ( Levesque and McDougall,1996, p.14).

All the leading companies of the world are bound to understand the importance of the customer retention Omotayo I, (2008).

The customer retention focuses on the behavior of the repetition, and it is also considered as very much close to the brand loyalty and purchase intention ((Hennig-Thurau and Klee,2007).

(Jones and Farquher, 2003). In many researches the customer satisfaction and the customer retention is taken or studied at the same time because they both have the relationship. Through Customer retention and the customer satisfaction we can access the customer's loyalty and for this the customer retention is studied deeply

According to Ennew and Binks (1996) there is a strong relation between the customer retention and service quality. Many researchers have also shown the relationship between the customer retention and service quality (Hennig-Thurau 1997) . Customer retention is the main factor for the key of success for any business. So every brand (hotel) owner should focus on the customer retention.

### **Service Quality**

According to Lenka et al. (2009) he defines the service quality as ' it is the overall examination of any service provided by the company, comparing the performance of the firm of that service with the general expectations of the customer. Who expect the service (Ladhari, 2009)

According to the research of Jamal and Anastasiadou (2007) they claim that there are some effects of the service quality on the customer retention and the customer satisfaction.

Service quality is one of the main factors that affect the customer retention in the business. The brands should strictly focus on the service quality. Service quality is very much related to the customer retention. Many researchers showed the positive impact of the service quality on the customer retention Cody and Hope (2009). In other words the service quality is very much necessary for any business specially in hotel industry.

### **Customer Satisfaction**

According to Kotler(2000) Customer satisfaction on the other side it is also defined as the it is the behavior of the customer after purchasing the product . Customer satisfaction is defined as “ it is a term that is in the market that shows how products and services provided by the company meets the expectations of the customer (Spreng, 2006).

On the other hand customer satisfaction is also defined as “the reaction of the customers after getting the service according to their expectation and it results in their inner satisfaction. It is also important for the marketers and the business man because it provides the way that they can use to improve and enhance their business.

According to (Thai 2008) to the loyal customers becomes habitual of their purchasing decision from the same brand that results in the customer satisfaction.

When there is the customer satisfaction therefore also arises the customer retention that results in the benefit for the hotel. The customers who purchases regularly from the same brand then they are highly satisfied from that brand (Lam , 2010). Customer satisfaction also results in creating the positive word of mouth for that business and it results in the customer retention (Jones and Suh, 2000) . There are many researchers who focus on the customer satisfaction to attain the customer satisfaction (Bontis 2007).

### **Customer Loyalty**

In simple words (Lenkaet, 2009 defined the customer loyalty as when the customer becomes habitual of any brand, service, store, product then the factor of customer loyalty arises.

On other hand (Jacoby) also defined customer loyalty as “it is the non random behavior or response of the customer that has been shown over time for making any decision with respect to more than one alternative brand .But Oliver (2009) criticized this definition and he says that the customer loyalty is the combination of three human

behavior and the behavior are cognition ,affect and behavioral intention.When the level of competition arises then the customer loyalty is greatly checked. If other brand provides the alternate brand in good quality and less price the customer will defect towards that brand ( Lenka., 2009).

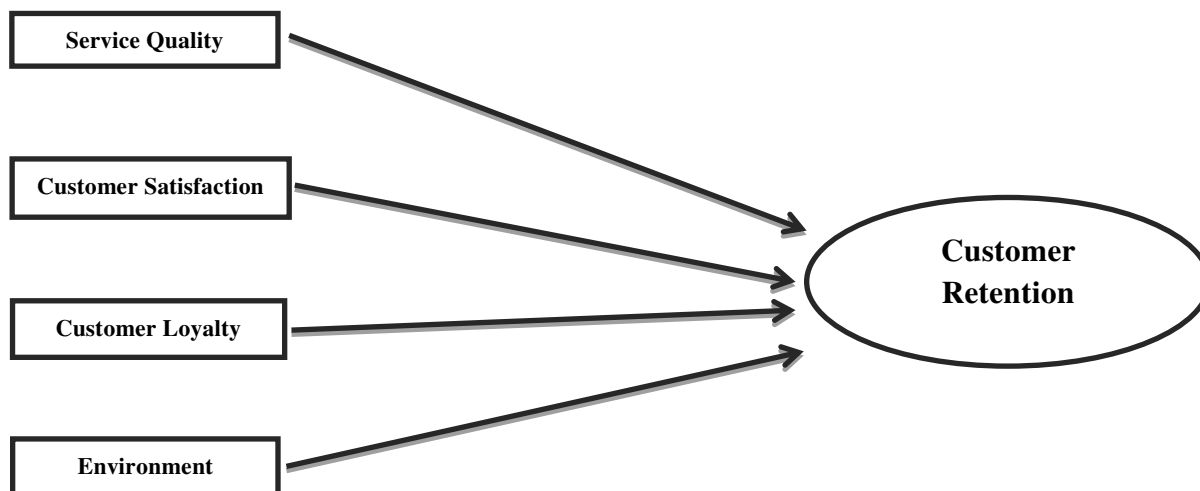
Customer loyalty is the positive result of the customer's experience attributes and how much he is satisfied with the product. It may include service or a product. It is also defined by the Jacoby that it is the result of frequent buying of the customer from the same organization.

So customer loyalty is the main factor of the customer retention and it is very much beneficial for the economic activities of the business. Jacoby, and Chestnut, (1978)

## Environment

The environment is defined as “ the location or area that consist of living or non-living things (Morgan & Daryle, 2007).I terms of business it is also defined as he area which is very much suitable or comfortable for the customer. Here the area is taken as in terms of business or organization. In business terms the environment plays the main role for the customer retention and for the employees as well .When the environment of the company will be very much friendly and comfortable for the customers then the customers will attract towards that business and it will results in the customers and which is very much beneficial for the company's earning and making the good image in the market (Klee, 1997). So every organization should focus on the factor of environment to make their customers stick with their brand.

## 2.6 Conceptual Model



This model shows that the independent variables are graft on the left side and the dependent variable is grafted on the right side of the model. In this table all the independent variables are focusing or directly affecting the dependent variable and the dependent variable is customer retention. The hypothesis for this research is given below:

## **Research Hypothesis**

Following are the research hypothesis of the study:

**H<sub>1</sub>:** Service quality has positive influence on the customer retention.

**H<sub>0</sub>:** Service quality has no positive influence on the customer retention.

**H<sub>2</sub>:** Customer satisfaction has positive influence on the customer retention.

**H<sub>0</sub>:** Customer Satisfaction has no positive influence on customer retention.

**H<sub>3</sub>:** Customer loyalty has positive influence on the customer retention.

**H<sub>0</sub>:** Customer loyalty has no positive influence on the customer retention.

**H<sub>4</sub>:** Environment has positive influence on the customer retention.

**H<sub>0</sub>:** Environment has no positive influence on the customer retention.

## **Methodology**

In this research the casual research has been used to explain the effect of the independent variables (service quality, customer satisfaction, customer loyalty, environment t) on the dependent variable (customer retention).The data for this research has been taken from 300 participants by using the educational and psychological measurement table (Krejcie, Robert 1970) . Total number of 160 questionnaires from out of 300 was returned which were completely and correctly filled by the participants which were acceptable for the study to carry on. In this research the convenient sampling is been used to collect data from the participants to carry on the research.

## **Instruments**

In this paper we have used the method which was previously adopted in the studies, the questionnaire was composed of total 19 questions. First4 questions were of personal

demographic and remaining 15 were of the 5 variables which were used in this paper. Statistical package for social sciences (SPSS) version 20.0 was used for the analysis of the variables collected through the questionnaire.

### **Date Analysis techniques**

Reliability analysis is used in this paper to check the reliability of the questionnaire. As it is said in the previous studies that reliability analysis acceptance range is above 0.70(Nunnally, 1978) . Pearson correlation analysis is used to check the relationship between the different variables. And the linear regression analysis is used to find the influence of the independent variables on the dependent variables.

### **Data Analysis and Results**

The Frequency table shows that the data collected from respondents include 60% male and 40% female.

**Table no.1**

<b>Reliability Statistics</b>	
Cronbach's Alpha	N of Items
.753	15

### **Interpretation**

In order to verify the inter item consistency of items, Cronbach's alpha test was run on spss .The Cronbach's alpha test is used to identify that how much our responses on our research are reliable .The Cronbach's alpha shows values in above table involving the value of each variable .The values are above to the standard value proposed by (Nummally, 1978) of **0.70**, which demonstrates that our instrument is reliable and we can unquestionably apply various statistical tests and interpret the outcomes with certainty.

**Table no. 2**

		CS	SQ	CL	E	CR
CS	Pearson Correlation	1	.510	.433"	.502"	.529
	Sig. (2-tailed)		.018	.000	.001	.026
	N	170	170	170	170	170
SQ	Pearson Correlation	.527	1	.424"	.573"	.571
	Sig. (2-tailed)	.018		.002	.000	.046
	N	170	170	170	170	170
CL	Pearson Correlation	.533"	.624"	1	.508	.648
	Sig. (2-tailed)	.000	.002		.032	.025
	N	170	170	170	170	170
E	Pearson Correlation	.525"	.628"	.508	1	.509
	Sig. (2-tailed)	.001	.000	.032		.036
	N	170	170	170	170	170
CR	Pearson Correlation	.529	.571	.648	.509	1
	Sig. (2-tailed)	.023	.046	.025	.036	
	N	170	170	170	170	170

### Interpretation

Correlation test was implemented to analyze the relationship between variables. Correlation table suggested all the variables were positively correlated to consumer purchase intention. The most correlated variable was **CL** having Pearson Correlation value of  $r(120) = .648$ ,  $p < 0.01$  showing **strong and positive** relationship with CR. It was followed by E with Pearson correlation value of  $r(120) = .509$ ,  $p < 0.01$  illustrating **moderate but positive** relationship with Cr. Third important variable was **SQ** having Pearson correlation value of  $r(120) = .571$ ,  $p < 0.01$  illustrating moderate **but positive relationship** with CR. Forth variable was **CS** having Pearson correlation value of  $r(120) = .529$ ,  $p < 0.01$  portraying moderate but positive relationship with CR. It is therefore clear that there is significant relationship between variables at  $\alpha = 0.01$ .



**Table no.3**

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.331 <sup>a</sup>	.367	.003	.94169

a. Predictors: (Constant), E, CL, SQ, CS

**ANOVA<sup>b</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.997	4	.999	13.127	.035 <sup>a</sup>
	Residual	146.320	165	.887		
	Total	150.317	169			

a. Predictors: (Constant), E, CL, SQ, CS

b. Dependent Variable: CR

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.993	.367		5.428	.000		
	CS	.044	.098	.037	.444	.658	.839	1.191
	SQ	.010	.087	.009	.109	.913	.875	1.143
	CL	.149	.096	.129	1.549	.012	.846	1.182
	E	.055	.091	.049	.601	.025	.870	1.150

a. Dependent Variable: CR

**Interpretation**

The first table of model summary shows that R square value is .367. Which indicates that our model of research contributes 36% in our research study. It means that 36% change in dependent variable is caused by independent variables. The 2<sup>nd</sup> table of ANOVA shows that our model is good fit model as the Sig value <0.05. As 0.05 is our confidence interval value. The 3<sup>rd</sup> table of Coefficients shows that we have got no

multicollinearity among our variables because the value of tolerance and VIF is near to 1.

## **Conclusion**

From this study we have concluded that customer retention can be increased with different variables. Different variables have positive effect on the customer retention. This study is a proof that customer retention is created due to the customer loyalty.

Moreover it is concluded that the restaurant/hotel managers should pay maximum attention to the above mention variables to get the customer retention. Managers are not required to just pay attention to the quality of the food but also should pay attention to the different variables to get the customer retention.

## **Limitations and Future Recommendations**

It is universally said that every 1 is not the perfect, everyone has its limitations, in the same way this study has also its limitations. The very 1<sup>st</sup> limitation of this study is that the convenient sampling method was used in this study. This method is not that much authentic because the research should be conducted more than one sampling method. And the 2<sup>nd</sup> limitation of this study is that the area for this research was small and the rate of the respondents was also very low.

Different variables could be studied in the future to get more understandings about the customer retention. We can use the moderating variable to find the relationship between customer retention and the variables. After avoiding these limitations in the future study, we can get the clear results about the customer retention. We can also get the clear results of customer retention after using different sampling methods/techniques.

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