Managing Guest as an Asset: a Conceptual Review in the Context of Accommodation Services

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Abstract

This article discusses the concept of a customer as an asset of business in the accommodation industry. The purpose of this article is to examine the value of guests as a firm asset and to propose a model for managing guests as an asset in the context of accommodation services. A guest is considered an asset due to its role in providing revenue to the accommodation firm. Because of this role, the accommodation guest needs to be managed appropriately. This article argues that guest service evaluation (i.e. service quality, perceived value, and guest satisfaction) and service loyalty are important factors in the development of guest lifetime value. The proposed model of managing guests as an asset consists of marketing instruments, service evaluation, guest loyalty, and financial outcomes provides a comprehensive guide on how accommodation firms can manage the lifetime value of their guests. Finally, as there are limited studies examining this issue, future research should test the proposed model.

Key words: Customer, asset, loyalty, accommodation

Introduction

The fast and ever-changing social, economic, and technological advances have led to the movement of goods and services through the once traditional boundary of nations. Consequently, in many industries, including accommodation industry, firms face intense competition not only from domestic competitors but also from international competitors. In such a situation, a strategy that has been widely accepted to maintain and to develop business is by creating competitive advantage (Oliver, 2010). To develop competitive advantage, the issue of managing business assets (both tangible and intangible) effectively and efficiently, is undeniably, an important issue. Because of the strategic role of an asset for any business organization, business practitioners and academics continually try to understand and find a better method to manage assets.

Although many studies have been conducted to understand how to manage business assets, most studies focus on tangible assets as an infrastructure to produce a product or to serve customers (Blattberg, Getz et al. 2002). Attention to the customer, as an intangible asset and one

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of the most important factors for the survival of any business, is limited. On the other hand, the technological development has affected many firms shifting their focus from product-centric to customer-centric (Gurau and Ranchhod, 2002). The consequence of this change is that understanding customer behaviour and the profitability that can be created from serving the customer is now a key factor in building competitive advantage. Unlike tangible asset which generally decrease in value, a well-served customer could potentially create a higher value if they are satisfied (Prince, 2005). The customer, as an intangible asset, is also an important determinant of the market value for a firm (Nenonena and Storbackab, 2015). Thus, customers are essentially a financial asset that any business firms should manage like any other asset (Blattberg, Getz et al. 2002).

In the accommodation industry, managing the customer as an asset is crucial, as the customer behaviour in this industry, as in other service industries, is very complex. This complexity stems from several reasons; the production of an accommodation service is concurrent with consumption, accommodation services cannot be kept, warehoused, or reimbursed, and accommodation services are obviously difficult to homogenize (Zeithaml, Bitner et al. 2009). Because of this complexity, scant attention is given to this issue; leaving little understood on how to manage customer as an asset (Nenonena and Storbackab, 2015). This paper examines the accommodation guest as an asset of business in this context. More specifically, this paper has two purposes, namely (1) to understand the value of guests as an accommodation asset, and (2) to discuss the role of customer evaluation and customer service loyalty in the formation of the guests as an accommodation firm asset.

**Guest as a value asset**

Customers, both individual and organizations, are separate entities from the firm. Although separate, the customer can be seen as a part of a firm or the assets owned by the firm. Customers are part of the firm because they have a value that can be beneficial for the firm. In the marketing literature, the term customer value has been defined in two different ways. First, customer value is defined as the value given by a customer to a firm (Chang, Chang et al. 2012). Second, the meaning of customer value is given by the firm to the customer or the value perceived by the customer which is called customer’s perceived value (Clemes, Gan et al. 2011). This second meaning of customer value is derived from micro economic theory known as the customer’s perception of the benefits they receive from the firm compared to what they give, both in the form of financial or non-financial consideration. In the context of the accommodation industry, the benefit of guests for the accommodation firm is used to interpret the guest value. Correspondingly, the value perceived by a guest is one factor in shaping the process of the guests to be an asset for the accommodation firm.

It is crucial to examine what is meant by the value of the guest as an asset from the accommodation firm’s point of view. Customer value, in the literature, is known as lifetime value, customer lifetime value, customer equity, or customer cost-effectiveness (Kim, Jung et al. 2006). To be consistent with the majority of previous studies, this paper uses the term of guest lifetime value (abbreviated as GLV). Ryals and Knox (2005) defines customer lifetime value simply as the present value of a customer’s future purchases. A similar definition is provided by Bayon, Gutsche et al., (2002) as the sum of the individual customer lifetime value from the firm’s point of view. A more detailed definition is given by Berger, et al. (2002), namely a discounted net contribution margin over time of the customer. This definition implies that the revenue deliv-
erred to the firm less the firm’s costs related to retaining a relationship with the customer. These definitions have similar meaning that the customer is an entity providing firms with income (and at the same time spending expenditure to obtain and serve them) and to become an integral component of the overall value of a firm.

As an entity, the customer can be organizations, households, and individuals, but, in the discussion of customer lifetime value, customers are associated with individuals rather than as organizations and households. Based on the characteristics of the customer’s value, thus customer can be classified as a firm asset. Firms cannot perfectly predict how many customers will contribute to a firm’s net worth (Bolton, Lemon et al. 2004). However, firms can calculate the approximate value of the expected cash to be obtained from the customer (Ryals and Knox 2005). With a better prediction of the revenue and expense to be paid for a certain period, a service firm can predict customer value (Berger, Bolton et al. 2002). Following customer lifetime value model developed by Gurau and Ranchhod (2002) and Ryals and Knox (2005), the model of GLV in accommodation service context can be depicted in Figure 1.

![Figure 1. The framework of accommodation guest lifetime value (Adapted from Gurau and Ranchhod (2002) and Ryals and Knox (2005))](image)

Guest lifetime value consists of total financial contribution, which is accommodation revenue deducted by accommodation expenditure, for a guest in his or her relationship with an accommodation firm. Because GLV is basically the current value of revenue for a certain time in the future (Kim, Jung et al. 2006; Nenonena and Storbacka 2015), conceptually, the calculation of the present value (discounted cash flow) is similar to those used in finance to examine the feasibility of an investment, such as Internal Rate of Return and Net Present value method. Guest lifetime also considers the defection and retention aspects (Ryals and Knox 2005). The longer the guest stays, the higher the margin accumulation received by the accommodation firm. GLV in the early period of a relationship is usually lower than in the maturity and declining stages of the relationship between the customer and the business firm (Prince 2005). In the insurance industry, for instance, many insurance firms have identified students as potential customers. Although in the short term they may not be profitable, in the future they could generate profit for the insurance firms. Thus, many insurance firms compete to offer specific promotions to students in the anticipation that they can retain them as profitable customers in the future.

The conceptual framework of GLV indicates that the value of accommodation guest relationship can be improved in two ways. First, the level of margin can be increased by intensifying revenue from the guest or by lowering the costs to acquire and serve guests. The second is
by increasing revenue by extending the duration of the relationship with guests (retention rate). Accommodation firms can do a trade-off between cost and revenue by improving the quality of accommodation to increase the likelihood of extending the gains obtained from the longer relationship with guests. Thus, by knowing the predicted revenue and expenditure associated with the guest, a firm will be able to develop a marketing strategy more effectively and accurately.

Proposed model

Customer lifetime value is the difference between revenue earned and costs incurred to acquire guests during the period of a person to be a customer of a firm (Kim, Jung et al. 2006; Chang, Chang et al. 2012). The author argues that the customer evaluation on accommodation service (perceived service quality, guest satisfaction, and guest perceived value) and guest service loyalty are strategic factors for the accommodation firm to manage its guests as a business asset. How both service evaluation and service loyalty have a strategic role in developing guest lifetime value is shown in Figure 2.

Figure 2 shows that accommodation firms need to invest in marketing instruments to stimulate the customer’s behaviour in order to create value that the customer expects. Marketing instruments include all marketing mixes, which differ from one firm to another. There are many marketing mixes identified by past researchers and the consensus is that product, promotion, price, distribution are acknowledged as a basic marketing mix of a tangible product (Kotler and Armstrong, 2015). In the service sector, other scholars (Zeithaml, Bitner et al. 2009) propose additional mixes, which are physical evidence, people, and process. In the service context, Bolton, Lemon et al. (2004) identify six categories of marketing mix, namely: quality program, promotion (especially direct marketing), relationship marketing, marketing communication, and channel distribution. In the accommodation industry context, there are ample examples of other marketing mix categories which have been identified (Al Muala and Al Qurneh, 2012). Although there are differences in the marketing mix between the previous
studies, the essence of the service marketing mixes is alike; the differences are most likely due to the differences in the industry context. In addition, previous studies also tend to agree that marketing instruments will generate revenue (through its effect on customer buying behaviour) and affect costs, both fixed and variable cost (Marshall, 2010). Price affects the evaluation of service, especially their perceived service value which in turn affects the customer demand and firms’ margin.

As in other service industry, there are three indicators that show the intensity of the relationship between the accommodation and its guests, namely: the duration (length) of the relationship, the depth of the relationship, and the breadth of the relationship (Prince, 2005). The length of the relationship is the retention rate, whether guests are likely to continue (or dismiss) their relationship with the accommodation provider. The depth of a relationship is signalled with the occurrence of guests using the service in a given period. In addition, the depth is also reflected in a customer’s decision to upgrade and purchase premium services. The breadth of the relationship between accommodation providers and its guest is reflected in the different guest behaviour depending on the stage of the relationship. The breadth of the relationships is also reflected with purchasing other services (add-on services) from an accommodation firm for a certain period. Hotel guests tend to consume other hotel services more regularly at hotels to which they sense satisfaction compared to hotels where little is satisfied (Bowen and Shoe-maker, 2003). Based on this discussion, the author argues that the concept of the intensity of the relationship between accommodation service provider and its guests is a form of customer service loyalty. The next section will discuss customer service loyalty from the perspective of guest asset management.

Customer Service Loyalty

Customer service loyalty is the bonding feeling followed by a consistent purchasing behaviour from a certain service. It is an important concept that draws attention from both practitioners and academics in the field of services marketing (Wu, Zhou et al. 2011). The studies conducted to understand the phenomenon of loyalty first used a one-dimensional approach, that is, either a behavioural or an attitudinal dimension. Because of the weakness of this single dimensional approach related to its measurement, some experts use two dimensions approach which measures customer loyalty with both behavioural and attitudinal dimensions (Han, Kwotnik et al. 2008). Using this approach, a guest is considered as loyal if he or she has a good attitude towards an accommodation service and always consumes the services if the need arises. Subsequent developments in recent studies on customer loyalty show that the loyalty dimension is considered as a multi-dimensional rather than a single-dimensional or two-dimensional (Suhartanto, Clemes et al. 2013).

Although past researchers have been aware of the existence of multi-dimensional customer loyalty, Oliver (2010) was the first scholar to examine the issue of multi-dimensional loyalty. Based on the past studies, Oliver (2010) defines customer loyalty (to a brand) as a profoundly held psychological commitment to the re-purchase of a favoured product/service regularly in the future. Thus, it triggers recurring same-brand or same brand-set purchasing, despite situational impacts and marketing efforts from competitors that possibly can instigate a changing behaviour. This definition highlights that attitude expression not only hints to customer behaviour to repurchase a service in the future, but it will also act to repel the marketing efforts made by accommodation contenders and competitors. Thus, a true loyal guest in term of attitude will lead to a preference for a certain accommodation brand. Oliver conceptualiza-
tion of loyalty suggest that loyalty is not a contrast (loyal and disloyal) or multi-group typology (e.g., low, spurious, latency, and high loyalty), but it is a series or continuum of four phases: cognitive, affective, conative, and ultimately behavioural loyalty. Based on these stages, a guest will build a confident feeling towards a service in preference to another service (cognitive). Then, he or she will have a sense of loving towards the service (affective), and raise his or her intention to buy (conative). Finally, at the end when a need and opportunity arises, he or she actually purchases the service (behavioural loyalty).

Attitude consists of three components, namely cognitive, affective and conative. However, Eagly and Chaiken (2007) argue that the three components of attitude have frequently failed to appear as neatly separable in a straight factor analytical test. Thus, it is not necessary that measuring an attitude include all of these three components. Attitude can be formed or expressed primarily or exclusively on the basis of any one or a mix of these components (Eagly and Chaiken, 2007). As there is no agreement on the measurement of attitudinal loyalty, following Shankar et al. (2003), this study treats attitudinal loyalty as a specific dimension consisting of cognitive and affective aspects of attitude. In addition, the path between attitudinal loyalty and behavioural loyalty is included because this relationship is widely supported theoretically and empirically (Li and Petrick, 2010). This study suggests that brand service loyalty formation exists among attitudinal loyalty, conative loyalty and behavioural loyalty. Attitudinal loyalty is expected to influence conative loyalty and behavioural loyalty, and conative loyalty is expected to impact on behavioural loyalty. Finally, the behavioural loyalty of guests that is indicated by their length and frequency of stay will determine the accommodation firm revenue.

Customer Service Evaluation

The conceptualization of service loyalty indicates that the accommodation guests become an asset (by showing loyal behaviours) through the complex stages, especially through how they evaluate the service. Marketing literature has not clearly identified the theoretical framework of factors forming service loyalty (Suhartanto, Clemes et al. 2013). However, three elements of service evaluation, that is, perceived service quality, customer satisfaction, and perceived service value have been widely recognized as the building block of loyalty (Lovelock and Wirtz, 2007).

Service quality, the overall superiority of a service, is recognized as an important factor for customer loyalty (Clemes, Gan et al. 2011). It is an essential strategy for the survival of any business organization, because of its ability to influence customer buying behaviour and business performance. Service quality is also well-known as an important factor for building competitive advantage strategy (Clemes, Wu et al. 2009). As a result, many studies were dedicated to examining service quality in the service industry context. Those studies, generally using SERVQUAL, show that service quality has different dimensions in different cultural contexts (Ladhari, 2009). Other studies do not only measure the quality of service, but also test its relationship with other variables such as customer satisfaction, perceived service value, brand image, and purchase behaviour (Clemes, Gan et al. 2011). Primarily, these reports agree that perceived service quality is an imperative element that will affect customer satisfaction, perceived service value, and customer loyalty. The impact of service quality on customer service loyalty can be direct and indirect through service value and customer satisfaction. The high service quality will allow service providers to sell their services at a premium price. Thus, service quality will affect the value of the accommodation guest as an asset by increasing revenues from the sale of premium services.
Customer satisfaction is one of the purposes of the marketing events (Lovelock and Wirtz, 2007), connecting the consumer buying process and post-purchase phenomenon. Satisfying customers is a central element in marketing because of its effect on future customer behaviour, the level of profit, and the value of firm share (Anderson, Fornell et al. 2004). Many studies have been conducted to examine customer satisfaction and these can be organized into two groups. The first group studies measured the level of customer satisfaction as well as identify gaps in service delivery (Lai, Griffin et al. 2009). The purpose of these studies tends to be for managerial purposes due to the diagnostic characteristic of the study. The second group of studies examine customer satisfaction in relation with other variable (multivariate models) such as service quality, perceived service value, brand image, customer loyalty and its behavioural consequences (Lai, Griffin et al. 2009; Marshall, 2010). Overall, previous studies agree that customer satisfaction is not only responsible for the level of customer loyalty and retention, but also effects perceived service quality, perceived service value, and brand image on customer behaviour. In other words, how guests are satisfied will determine their future behaviour pattern in consuming the accommodation service.

Customers choose a service compared to other services because they believe that the service they purchased gives more value (Bhattacharya and Singh, 2008). Because of its importance in the customer decision-making process, the perceived service value is an important concept in marketing activities. As in the case of perceived service quality and customer satisfaction, perceived service value is inferred contrarily. Kotler, Bowen et al. (2010), for example, states that the value perceived by a customer is the difference between the benefits and the costs incurred to acquire a service. Gale (1994) explains it as the quality perceived by the client. Several definitions have been given by scholars, but generally those definitions agree that service value is the consumer’s general valuation of the service based on the perception of what is received and what is given as defined by Zeithaml, Bitner et al. (2009). Providing superior services will create a high perceived service value and strongly affect customer orientation, satisfaction, and customer loyalty (Clemes, Gan et al. 2011). Thus, providing high service value is an important strategy in building a competitive advantage for any service business. Because of the importance of service value in influencing customer behaviour, much attention is given to this construct in the accommodation industry.

Most past studies on customer service value focus on its relation with other concepts such as service quality, brand image, customer satisfaction, as well as services related to outcomes, particularly customer behaviour towards the brand (Lai, Griffin et al. 2009; Clemes, Gan et al. 2011). These studies show that service value is an important determinant (either directly or indirectly through customer satisfaction) of customer loyalty to a service brand. Thus, together with service quality and guest satisfaction, service value is an important factor affecting the value of guests as an accommodation business asset. This effect is because the higher the guest’s perceived service value of the accommodation service, the longer the guest will stay.

Discussion

The accommodation service industry is very competitive and is considered to be in the mature stage (Kandampully and Hu, 2007). Due to the intense competition, the accommodation service firms need to switch their focus from product-centric where the guest is treated as an object in the business process to customer-centric where the guest is treated above everything else.
In accommodation service context, the basic premise of customer-centric orientation is creating a positive guest service experience during their stay. However, the positive experience is no longer based on one transaction, but rather, based on a series of transactions. This condition highlights the importance of the accommodation service firm’s need to develop a long-term relationship with their guests. In this relationship, the guest should be treated as an accommodation firm’s asset. Arguably, managing the guest as an asset must be considered an integral part of the success of accommodation firm business.

The proposed model of managing guests as asset consists of marketing instruments, service evaluation, guest loyalty, and financial outcome and provides a comprehensive guidance on how accommodation firms should manage the lifetime value of their guests. Through the proposed model, the accommodation services firms could assess the complete value of the guest as firms’ assets. In addition, the model also provides an understanding on the role of marketing instruments in influencing the financial outcome of the guest lifetime value through guest service experience and guest loyalty behaviour. As the model embraces the service evaluation and service loyalty model that have been widely accepted in the service industry (Zhang, Fu et al. 2014), the adoption of this model to manage the guest as an asset of the accommodation firms will not be problematic.

There are two potential benefits from applying the guest as an asset model. First, the model could assist managers to scrutinize how their marketing instruments affect guest behaviour as a source of revenue and expenditure. For instance, a common strategy currently used in the accommodation service industry is the development of loyalty program such as frequent-guest programs. Accommodation firms that embrace such a loyalty program may obtain a period of competitive advantage, but this advantage is lost once other accommodation firms mimic the program. The accommodation manager could use the proposed model to make a decision on how much to spend in supporting such a frequent-guest program. Second, the proposed model could help accommodation managers to compare the magnitude of resource allocation decisions regarding strategies that an accommodation service firm could carry out. For instance, an accommodation manager could compare the effect of frequent-guest loyalty program and emotional loyalty program on the guest lifetime value. Understanding the effect of such programs could help the accommodation managers to choose the best strategy to keep their business competitive.

Although the application of the proposed model of managing guest as an asset is encouraging, the implementation of the model has some challenges. In applying the model, the accommodation managers must collect longitudinal data on their marketing activities, service operation, and guest behaviour overtime. As it includes both business operation data and guest behaviour, the model is complex and thus requires the availability of an excellent database. Additionally, the sophisticated analytical skill on marketing metric is needed to examine the proposed model.

**Conclusion and further research**

Although the general understanding of firm asset leans towards and is focused more on tangible asset, this article highlights that the intangible asset, that is the guest, is an important factor in building a competitive advantage in the accommodation industry. Because of the importance of guest as an accommodation firm asset, managing guest effectively and efficiently will determine the future success of an accommodation business. The model of managing
guests as an asset consisting of marketing instruments, service evaluation, guest loyalty, and financial outcome provides a comprehensive template for accommodation managers to manage their guest.

The guest service evaluation and guest loyalty behaviour towards a service are considered as mediating factors between marketing instruments and customer lifetime value. The relationship between service evaluation and guest loyalty has been examined extensively in the literature. In contrast, any empirical study that examines the complex relationship model of managing guest as an asset, especially in accommodation service context, can hardly be found. Therefore, an empirical study on this issue will broaden our understanding of how to manage guest as an asset in the accommodation industry and expand our understanding of the determinants and consequences of customer service loyalty.

References


Managing Guest as an Asset:


