

**Factors and customer satisfaction of budget hotel customers  
in China**

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**Abstract**

**Purpose** – The purpose of this research was to study the customer perception toward marketing mix (7P’s), customer satisfaction and customer loyalty of budget hotel in China.

**Design/methodology/approach** –The researcher distributed 450 questionnaires during the month of September to October to the customers who stayed at budget hotel in China. There were 400 questionnaires completed and usable. Collected data from questionnaires processed by computer program in terms of frequency, mean, standard deviation and regression.

**Findings** – Results showed that customer perception toward product/service and promotion had a positive impact on custom satisfaction, and customer satisfaction had a positive impact on customer loyalty.

**Management implications** – The budget hotel operators can use the result to determine their target market, make a good marketing mix plan to make the customer satisfaction and loyalty.

**Keywords:** Budget hotel, Customer perception, Customer satisfaction, Customer loyalty, Marketing mix (7P’s)

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## **Introduction**

With the rapid development of economy in China, business activities between enterprises become more and more frequently and also the tourist market in China become more and more irritable. A new hotel state - budget hotel catering to the new customer demand, it has been supposed to have great development potential, which turns it to be one of the hot spots of investment. The travel and hospitality industry in China has witnessed a robust growth in recent years (Qin, 2007). The number of leisure, business and VFR tourists (visiting friends and relatives tourists) in 2011 in China had reached about 2.64 billion person/times that a rise of 12% and with an estimated about 1.93 trillion Yuan in revenue, representing an increase of 21% over the previous year. A large number of tourists create a prerequisite for the rapid development of budget hotel industry in China (The Analysis of Budget Hotel, 2012). With the market expands quickly, the competitions between budget hotels become more and more intense. For the purpose of gaining sustainable competitive advantage, the budget hotel has performed the customer resource scrambling war. To satisfy the budget hotel customers have been the advantageous weapons of budget hotels (Qin, 2007). Under the conditions of this fierce competition and how to improve customer satisfaction, thereby increasing customer loyalty has become the unavoidable marketing theme.

## **Literature review**

Literature review in this study included 5 areas: budget hotel, customer perception, marketing mix (7P's), customer satisfaction, and customer loyalty.

## **Budget hotel**

Budget hotel is a new type of hotel that is a modern hotel existence to meet demand changes in tourism market; it is opposed to the traditional full service hotel (Scott, 2012). It is relatively price cheaper when compared with luxury hotels. Budget hotel just provide basic services and facilities. Actually, there is no standardization for the budget-hotel (Teng, 2010). And Xiao et al. (2012) stated that budget hotel is the hotel that focus on customers in middle and small enterprise

business people, leisure and self-help tourists, house prices moderate, and small and medium-sized hotel. The word “budget” means “cost” and “worth”, it refers to the “price” rather than just in the sense of “cheap”.

### **Customer perception**

Consumer perception was defined as “customers’ beliefs concerning the service received” (Parasuramn et al., 1985). Thang and Tan (2003) indicated that “perception is the process of selecting, organizing and interpreting information inputs to produce meaning”. Positive perception towards a particular brand or product helps the company to retain their customers (Solomon, 1996). In this study, the model of nature of consumer perception use to explain how marketer gets into consumer decision making by customer perception which can mean “the effective communication between customer perception and products” (Hawkins et al., 2004).

Parasuraman et al. (1995) stated that perception is one important factor in the customer satisfaction. And Kotler et al. (1999) stated that “customer satisfaction is a result of what customers think will happen (expectations), interacting with what customer think did happen (perceptions)” and “if the product’s performance falls short of the customers’ expectations, the buyer is dissatisfied; if performance matches expectations, the buyer is satisfied; if performance exceeds expectations, the buyer is delight” (Kotler et al., 1999).

### **Marketing mix (7 P’s)**

Marketing mix is the set of marketing tools that uses to pursue its marketing objective in the target market (Kolter et al., 1994). In marketing, the 7P’s refer to the product, price, promotion, place, people, process and physical evidence that make up the marketing mix. They are an extension of the basic 4P’s. Booms and Bitner (1981) advised to add 3 more elements about service on that include people, process and physical evidence on the basis of traditional market marketing theory 4P’s. “People” refers to the employees of the organization with whom customers come into contact with. “Process” is the processes and systems that within the organization that affects its marketing process. “Physical evidence” is elements

within the store that included the store front, the staff uniforms, signboards, etc.

### **Customer satisfaction**

Satisfaction is defined as “an overall evaluation of performance based on all prior experiences with a firm.” (Jones et al., 2000).

### **Confirmation-disconfirmation theory**

Customer satisfaction is defined as “a post purchase evaluative judgment concerning a specific buying decision” (Homburg and Giering, 2001). According to the confirmation-disconfirmation paradigm, customers assess their levels of satisfaction by comparing their actual experiences with their previous experiences, expectations, and perceptions of the product’s performance (Oliver, 1980). Customer satisfaction is the starting point to build customer loyalty; it is a loyalty’s stock that will improve image of corporate, therefore a long-term relationship (Gandolfo, 2010).

Customers’ satisfaction affects customers’ loyalty directly. In business activities, companies make great effort to improve customers’ satisfaction, reducing customer dissatisfaction, attracting new customers, and maintaining existing customers (Anna, 2006). Satisfaction or dissatisfaction is more than a reaction to the actual performance quality of a product or service. It is affected by prior expectations regarding the level of quality.

Hallowell (1996) indicated that there is a connection between customer satisfaction, customer loyalty and profitability. Customer satisfaction improves profitability increased. However, there are some customers who will never be satisfied or will never be profitable to the product or service of budget hotel, the corporate should not waste energy and budget to satisfy all customers, the customers should focus on are the customers who can satisfy in a profitable way (Anna, 2006).

### **Customer loyalty**

Loyalty has been defined as “a deeply held commitment to re-buy or re-patronize a preferred product or service consistently in the future, thereby causing repetitive same-brand-set purchasing, despite situational influences’ and

marketing efforts' having the potential to cause switching behaviour" (Chaudhuri and Holbrook, 2001).

Customer loyalty consisted of both an attitudinal commitment to the relationship, such as price insensitivity, and other, more-overt loyalty behavior, such as positive word of mouth and repeat patronage (Oliver, 1999). Comparison-level theory and the patronage literature provided the theoretical underpinnings for the loyalty construct. As discussed previously, the standard by which someone determines his or her satisfaction with a service and, hence, whether that person should switch or remain in that relationship is founded on comparison-level theory. The manner in which a service experience is assessed is based largely on the next-best alternative relationship. As soon as the current level of outcomes drops below the perceived comparison level for alternatives, the customer is motivated to leave the relationship (Thibaut and Kelley, 1959). Thus, guests who are satisfied with a service when compared with available alternatives should report greater loyalty to that service than dissatisfied guests.

### **Conceptual framework**

The conceptual framework (Figure 1) was conducted based on the literature review to study about "Factors and customer satisfaction of budget hotel customers in China". The research will study (1) the impact of customer perception toward marketing mix (7P's) on customer satisfaction and (2) the impact of customer satisfaction on customer loyalty.

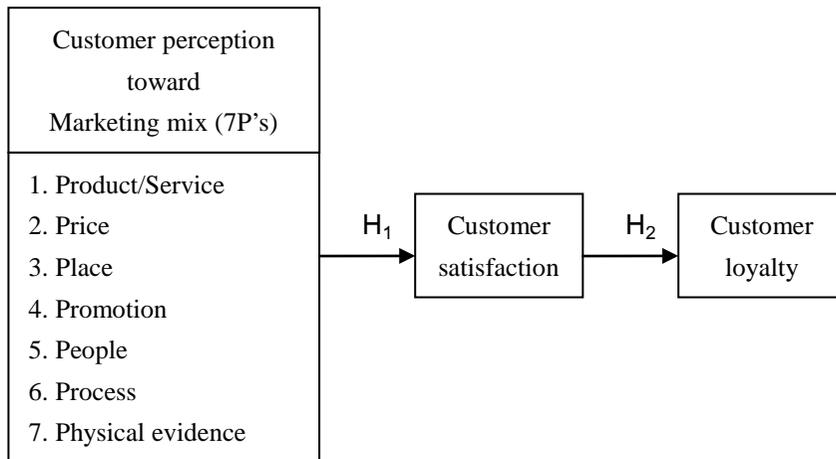


Figure 1 Conceptual Framework

## Methodology

### Population and sample

The questionnaires were distributed 450 questionnaires in three budget hotels (7 Days Inn, Jin Jiang Inn and Green Tree Inn) in five cities (Beijing, Shanghai, Guangzhou, Wuhan and Guilin) in China from September 25<sup>th</sup> to October 26<sup>th</sup>, 2012, the completed questionnaires and usable were 400 questionnaires.

### Research Instrument

In this study, the questionnaire was designed in English language and translated into Chinese language.

According to Aaker (1991, 1996) and Keller (2000), the researchers used the five range scales to collect data from samples and used the five point Likert Scale method to measure the agreement level in each part.

The reliability of the questionnaires was measured by using the Cronbach's Alpha coefficient. Nunnally (1978) has indicated 0.70 to be an acceptable reliability coefficient. The result of Cronbach's validity instrument by Cronbach for all 400 questionnaires is greater than 0.7 that the data were acceptable.

**Data analysis**

In this study, the researcher used five point Likert scale and usable data was processed by computer program in terms of frequency, mean, standard deviation and regression. Multiple regression used for finding the relationship between customer perception toward marketing mix (7P's) and customer satisfaction. Simple regression used for finding the relationship between customer satisfaction and customer loyalty.

**Result**

Table 1 summarized the demographic characteristics of the respondents that consisted of 202 males and 198 females. 69.3% of respondents were 20-30 years old and 17.20% of respondents were 31-40 years old, 8.50% of respondents were under 20 years old and 5.00% of respondents were over 40 years old. Therefore, budget hotels were especially attractive and suitable to young customers in China. Most of the sample (261 or 65.30%) had bachelor's degree. Of the 400 respondents, 102 (25.50%) had annual incomes of RMB 12, 000-24, 000 and 109 (27.20%) had annual incomes of RMB 24, 001-36, 000. Most (103 or 25.80%) of the respondents had 2 times stay at budget hotel per year.

**Table 1** Characteristic profile of Respondents (N=400)

Characteristic	Frequency	Percentage (%)
<b>Age</b>		
under 20	34	8.50
20-30	277	69.30
31-40	69	17.20
Over 40	20	5.00
<b>Gender</b>		
Male	202	50.50
Female	198	49.50
<b>Education</b>		
High school/lower	46	11.50
Bachelor	261	65.30
Master	85	21.20
Doctor	8	2.00
<b>Annual Income (RMB)</b>		
Under 12,000	97	24.30
12,000-24,000	102	25.50
24,001-36,000	109	27.20
Over 36,000	92	23.00
<b>Times stay at budget hotel per year</b>		
1	61	15.20
2	103	25.80
3	60	15.00
4	59	14.70
5	38	9.50
More than 5	79	19.80

Table 2 below showed the agreement level of customer perception toward marketing mix (7P's) that all these seven elements were in the agreement level that has the mean score in 3.41 - 4.20.

**Table 2** Analysis of the agreement level of customer perception toward marketing mix (7P's)

Marketing mix (7P's)	Mean	SD	Level of Agreement
1.Product/Service	3.67	.83	Agree
2.Price	3.69	.82	Agree
3.Place	3.71	.84	Agree
4.Promotion	3.61	.85	Agree
5.People	3.73	.84	Agree
6.process	3.87	.77	Agree
7.Physical evidence	3.66	.83	Agree
Total	3.7057	0.8257	Agree

3.41 – 4.20 are considered as agree

Regarding to the regression analysis as table 3, there was the relationship between customer perception toward marketing mix (7P's) and customer satisfaction at Adjusted  $R^2 = 0.424$  (42.4%).  $F=42.946$ , the significant level was 0.000 ( $\text{sig} < 0.05$ ), the significant level of product/service and promotion were 0.000 ( $\text{sig} < 0.05$ ).

The results indicated that  $H_{11}$ : customer perception toward marketing mix (7P's) has a positive impact on customer satisfaction was accepted. Furthermore, customer perception toward product/service and customer perception toward promotion had a positive impact on customer satisfaction

**Table 3** Result of hypothesis test between customer perception toward marketing mix (7P's) and customer satisfaction

	Unstandardized Coeffienents		Standardized Coeffienents	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.294	.148		8.773	.000
product/service	.229	.050	.250	4.622	.000
Price	.018	.043	.022	.411	.681
Place	-.037	.043	-.050	-.871	.384
Promotion	.304	.049	.371	6.271	.000
People	.073	.053	.102	1.359	.175
Process	-.021	.044	-.028	-.474	.636
Physical evidence	.064	.045	.087	1.433	.153
R=.659 <sup>a</sup> , Adjust R <sup>2</sup> = .424, F=42.946 (Significant level = 0.05)					

Regarding to the regression analysis as table 4, there was the relationship between customer satisfaction and customer loyalty at Adjusted  $R^2 = 0.392$  (39.2%).  $F = 257.728$  and the significant level was 0.000 (sig < 0.05). Therefore,  $H_2$ : Customer satisfaction has a positive impact on customer satisfaction was accepted.

**Table 4** Result of hypothesis test between customer satisfaction and customer loyalty

	Unstandardized Coeffienents		Standardized Coeffienents	t	Sig.
	B	Std. Error	Beta		
(constant)					
Customer	1.059	.157		6.755	.000
satisfaction	.695	.043	.627	16.054	.000
R=.627 <sup>a</sup> , Adjust R <sup>2</sup> = .392, F=257.728 (Significant level = 0.05)					

### **Discussion & Implementation**

Based on the result of this research, most of budget hotel customers were (1)the young people who 20-30 years old; (2)both female and male customers(3)education level in bachelor's degree;(4)income more than 12,000 RMB/Year. Thus, these groups of customers were the target market that budget hotel operators should focus on.

This research studied the customer perception toward marketing mix (7p's) that involved product/service, price, promotion, place, people, process and physical evidence. The result showed that customer perception toward product/service and promotion had a positive impact on custom satisfaction. For the dimension of product/service, the most important factors that affect customer satisfaction were guest room and service. The product/service strategy of budget hotel was to provide clean and comfortable guest room with variety of facilities (e.g. TV, Telephone, Air-condition, refrigerator), to provide pleasant atmosphere in guest room, variety of guest room type, and ensure customers' safety and security and so on. This finding related to Oliver (1997) that satisfaction was a judgment that a product or service feature, or the product or service itself.

Ogeniy (2009) stated that promotion is a plan with the objective to increase sales of product or services within a short period; it helps to stimulate customers to make decisions of buying a product or service in the market. In this study, the discussion of promotion showed that the most important factor that affect customer satisfaction were promotion activities, such as, loyalty card (VIP card) get more discount, online reservation get discount and the benefit for members and so on.

Furthermore, the findings also showed that customer satisfaction had a positive impact on customer loyalty. It related with the previous research from (Gandolfo, 2010) that customer satisfaction is the starting point to build customer loyalty. It was a loyalty stock that will improve image of corporate in a long-term relationship. In business activities, to make great effort to improve customers'

satisfaction, reducing customer dissatisfaction are very important in attracting new customers, and maintaining existing customers.

### **Limitations and Further Research**

There are a few limitations associated with this study.

First, the various backgrounds of customers. Some customers need more explain to understand the questionnaire. Thus, these respondents may make some errors that influence the accurate rate of the answers.

Second, the substantial questionnaires made respondents take a long time to fill out it. Some impatient respondents fill out the questionnaires in hurry that without his /her real feelings, this may affect the accurate rate of the answers.

Third, the sampling group used in this study was limited, further research may encompass respondents in more budget hotels, such as Home Inn, Motel 168, Super 8, Han Ting Hotel, Ibis in China and in more cities.

Finally, this research studied about customer perception toward marketing mix (7P's), the further research could study customer perception toward 8p's.

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