

## THE IMPACT OF SERVICE QUALITY AND PRICE TO CUSTOMER SATISFACTION AND CUSTOMER LOYALTY IN SWISS-BELHOTEL MALEOSAN MANADO

by:

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### ABSTRACT

Loyalty of the firm's customers has been recognized as the dominant factors in a business organization's success. Service quality and price are vital competitive policy to keep customer support and build great base. Hotels are trying to win customer loyalty by providing good quality services, affordable price and also make sure that customers are satisfied. This study is aimed to analyze the influence of service quality and price to customer satisfaction, service quality and price to customer loyalty and customer satisfaction to customer loyalty. This study is conducted in Swiss-Belhotel Maleosan Manado with 99 respondents. This study uses Path Analysis Method and also includes validity test, reliability test, and classical assumption. The results of the study indicate that service quality and price has a positive significant influence to customer satisfaction; service quality and price has a positive significant influence to customer loyalty; and customer satisfaction has positive significant influence to customer loyalty.

**Keywords:** *service quality, price, customer satisfaction, customer loyalty*

### INTRODUCTION

#### Research Background

Globalization era, significant developments happen in various aspects, including technology, science and economics. Globalization itself influences almost all aspects of society in the world especially in Indonesian society, which creates the competitiveness to be the best in particular aspects. In Indonesia, there are new companies that open new businesses and compete to attract consumers. It makes the services company such as telecommunications companies, transportation companies, banks, and hotels are growing quickly. Each company is required to understand the needs and wants of the consumers. Companies that want to survive must have a value that makes them different from other companies. In this case offering more value will give satisfaction to consumers and push the existing customers to return to the stores. Companies in business should always observe the changes of consumer behavior.

Hotel industry has a significant contribution in supporting economic activity in North Sulawesi, especially in Manado because the existence of many hotels operated in Manado supports the local governments of North Sulawesi which tend to prioritize tourism industry as one of the leading sectors in North Sulawesi. However, the existence of hotels is not only seen in association with the tourism sector because it is more than just a place for tourists to stay. Nowadays, the hotel is also the place of large-scale meetings such as workshops, discussion panels, weddings, corporate meetings, launching a new product for a company. Also currently the middle-high society use hotel to spend weekend.

The hotel industries are expected to be responsive and have a quick response to these changes. Design of buildings, interior and exterior of the hotel room, the atmosphere created in the hotel room, and food and beverages, along with the entire existing facility are examples of the products that they sell. The services are offered by the hotels are employee's skills in serving its customer, attracting customer, providing what customers' needs and even making the customers feel comfortable, because if they do not do that then the customers can look for other hotels that can meet their needs. The development of the hotel industry in Manado is very fast and it creates more competitors to be the best hotel in Manado. Many things can affect the hotel industries. One of the way that hotel management can do to attract and keep the customer is providing the best

quality service to make customer satisfied with the provided services which will make them to be the loyal customer.

Service company should be able to design appropriate marketing strategies in order to achieve the goals, those are: customer satisfaction and creating customer loyalty. One of the way to give satisfaction to the consumer is the appropriate pricing. For consumers, the price is one consideration in making a purchase decision, while for the company, the price is an element of the marketing mix that brings in revenue. In choosing a hotel, consumers have the emotional factor to be considered in determining their choice. Every customer has a different thought and ways in choosing the hotel to stay. Swiss-belhotel Maleosan Manado as the object of this study is one of the four-star hotels in Manado. The hotel is classified as 4 star hotel in Manado.

### **Research Objectives**

The research objectives in this study are to analyze the influence of:

1. Service Quality to Customer Satisfaction.
2. Price to Customer Satisfaction.
3. Service Quality to Customer Loyalty.
4. Price to Customer Loyalty.
5. Customer Satisfaction to Customer Loyalty.

## **THEORITICAL FRAMEWORK**

### **Theories**

#### **Service Quality**

Traditionally, service quality has been conceptualized as the difference between customer expectations regarding a service to be received and perceptions of the service being received (Grönroos, 2001). Parasuraman et al. (1988) said that service quality is about what consumer makes an opinion of an overall firm's brilliance or superiority. Parasuraman et al. (1988) identified five dimension of service quality (reliability, responsiveness, assurance, empathy, and tangibles) that link specific service characteristics to consumers' expectation.

#### **Perceived Price**

Kotler (2012:383) defined price is not just a number on a tag. It comes in many forms and performs many functions. Rent, tuition, fares, fees, rates, tolls, retainers, wages, and commissions are some example of price. Cheng et al. (2008) suggested that there are two ways in which the price perception can be calculated. One of them is price reasonableness, which tells that how the costumers perceive the price while relating it to the competitors. The second one is value for money that involves the comparative position of the service provider according to the price.

#### **Customer Satisfaction**

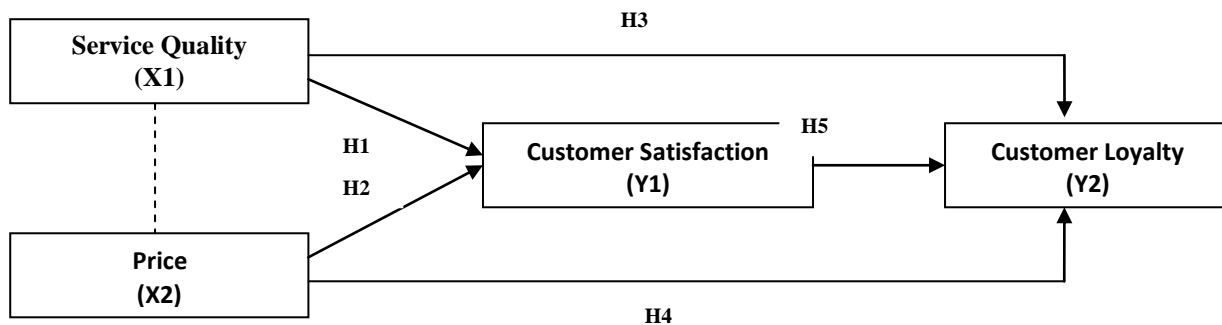
Boselie et al (2002) stated that customer satisfaction is defined as the determinant that how much the firm's goods, maintained, services and improvements are capable of meeting the expectations of the customers. Customer's satisfaction is an enjoyable completion which the customers get in the utilization, which means that consumers feel that the utilization has completed his/her some wants, wishes, requirements, aim etc and this complete ion is enjoyable (Oliver, 1999).

#### **Customer Loyalty**

Customer loyalty means a customer would return or continue to use the same product or other products of the same organization, make business referrals, and intentionally or even unintentionally providing strong word-of-mouth references and publicity (Bowen and Soemaker, 1998). Loyal customers are those who are not easily swayed by price inducement from competitors, and they usually purchase more than those less loyal customers (Baldinger and Rubinson, 1996). Customer loyalty as the mind set of the customers who hold favorable attitudes toward a company, commit to repurchase the company's product/service, and recommend the product/service to others (Pearson, 1996:68).

### Previous Research

Akbar and Perves (2009) found that, trust and customer satisfaction are significantly and positively related to customer loyalty. Customer satisfaction has found to be an important mediator between perceived service quality and customer loyalty. Abdullah (2012) found that, customers of restaurant have negative impression about product and service quality fairness, price fairness, staff's service, environment of the restaurant, image of the restaurant and loyalty of the restaurant. Kandampully and Suhartanto (2000) found that image of the hotel, the customer satisfaction and housekeeping was significant to customer loyalty but on others hand the customer satisfaction with reception, food and beverage are not significant.



**Figure 1. Conceptual Framework**

*Source : Theoretical Review*

### Hypothesis

- H1 : Service Quality has positive influence on Customer Satisfaction
- H2 : Price has positive influence on Customer Satisfaction
- H3 : Service Quality has positive influence on Customer Loyalty
- H4 : Price has positive influence on Customer Loyalty
- H5 : Customer Satisfaction has positive influence on Customer Loyalty

## RESEARCH METHOD

### Types of research

Causal study is an explanation for some characteristic, attitude, or behavior of groups, individuals, or other entities (such as families, organizations, or cities) or for events. Most social scientists seek causal explanations that reflect tests of the types of hypotheses. Causal study design differs from exploratory or descriptive study design in several ways. First, the primary focus of causal study is to obtain data that enables studyers to assess "cause-effect" relationship between two or more variables. In contrast, data from exploratory and survey study design enables studyers to assess noncausal relationship between variables. The concept of causality between several independent variables (x) and one dependent variables (y) in study design specifies relationship that are investigated in causal study studies and stated as if X, then Y.

### Place and Time

This study will use to the customers of Swiss-belhotel Maleosan Manado between August – September 2013.

### Population and Sample

Hair and Wolfinbarger (2010:131) stated that population is an identifiable group of elements (for example, people, products, organization) of interest to the studyer and pertinent to the information problem. Hair and Wolfinbarger (2010: 130) stated that sample is selection of a small number of elements from a larger defined target group of elements and expecting that the information gathered from the small group will allow judgments to be made about the larger group. The samples of this study are 99 respondents. The sampling method is a non random sampling technique.



### Data Collection Method

This study uses a self-report data. A self-report study is a type of survey, questionnaire, or poll in which respondents read the question and select a response by themselves without studyer intervention. A self-report is a method which involves asking a participant about their feelings, attitudes, and beliefs and so on.

### Operational Definitions and Measurement of Research Variables

The general explanations about variables in this current study that will be analyzed are stated as follows:

1. Service quality (X1) is a level of good or bad condition that is presented by Swiss-belhotel Maleosan Manado in order to satisfy consumers by providing or delivering services which more than customer expectations.
2. Price (X2) is something that should be paid for what will be accepted later.
3. Customer satisfaction (Y1) is a feeling of perceived customer after using a service.
4. Customer Loyalty (Y2) is the condition where someone wants to make a commitment to use a service from a brand.

The dimension of each variable can be translated into a question in questionnaire and will be measured using Likert scale to indicate the degree of agreement or disagreement. Likert scale is designed to examine how strongly subjects agree or disagree with statements on a five-point scale (Sekaran & Bougie, 2009:152).

### Data Analysis Method

#### Validity and Reliability Test

Validity is the extent to which the conclusions drawn from an experiment are true (Hair & Wolfinbarger 2010:120). In general, validity involves determining the suitability of the questions (statements) chosen to represent the construct. One approach to assess scale validity involves examining content validity. Scale reliability refers to the extent to which a scale can reproduce the same or similar measurement result in repeated trials. Thus, reliability is a measure of consistency in measurement (Hair & Wolfinbarger 2010:156). In this study the measurement of reliability doing with the SPSS program with used method Cronbach's Alpha, where the questionnaire is reliable if the value of Cronbach's Alpha more than 0.6.

#### Path Analysis

Christy Lleras (2005) defined path analysis is a statistical technique used primarily to examine the comparative strength of direct and indirect relationships among variables. Path analysis was used to analyze the pattern of relationships between variables in order to determine the directly or indirectly effect of independent variables (exogenous) to dependent variable (endogenous). The formulas of Path Analysis in this study in show as follows:

$$Y1 = X1 + X2 + e... (1)$$

$$Y2 = X1 + X2 + Y1 + e...(2)$$

Descriptions:

Y1 = Customer Satisfaction

Y2 = Customer Loyalty

X1 = Service Quality

X2 = Price

## RESULT AND DISCUSSION

### Result

#### Validity and Reliability

The validity test result of each variable while the variables of service quality, price, customer satisfaction and customer loyalty indicate the valid result. It can be seen that number of correlation coefficient of each variable is more than  $r$  table.  $R$ -table is obtain from the value of degree of freedom ( $df$ ), where  $df = n - k - 1$ ,  $99 - 4 - 1 = 94$ . The value of  $r$ -table when  $df = 97$  is 0.168. So it can be conclude that each indicator of each variable is valid and can be used for the next step of this study. The reliability test of each variables indicate the reliable result, with the alpha cronbach more than 0.6. The alpha cronbach of service quality (X1) is 0.740, price (X2) is 0.754, customer satisfaction (Y1) is 0.789, and customer loyalty (Y2) is 0.776.

#### Path Analysis

**Table 1. Model Regression I**

Model	Standardized Coefficients		
	Beta	t	Sig.
1 (Constant)		1.454	.149
X1	.540	6.258	.000
X2	.229	3.471	.001

- Regression coefficient for service quality is 0.540 and has 0.000 significance; it means that if service quality of Swiss-belhotel Maleosan Manado increases, the customer satisfaction will increase as much as 0.540.
- Regression coefficient price is 0.299 and has 0.001 significance, means that if Swiss-belhotel Maleosan Manado provides more competitive and affordable price, then it will increase customer satisfaction as much as 0.299.
- Based on the result of the regression coefficients, the most influential factor to the customer satisfaction is price. It is indicated by the regression coefficient of price which is larger when being compared to another variable, with regression coefficient off 0.540 and significance of 0.000.

**Table 2. Model Regression II**

Model	Standardized Coefficients		
	Beta	t	Sig.
1 (Constant)		.173	.863
X1	.240	3.540	.001
X2	.182	2.072	.041
Y1	.561	6.933	.000

- Explanation of the regression equation in model II shows that the regression coefficient for the variable service quality shows a positive and significant value that is equal to 0.240. The explanation can be interpreted with the statement, if the quality of the service increases, customer satisfaction will be increased and it can give a good impact on increasing customer loyalty.
- The regression equation for price variable shows a positive and significant value that is 0.182. It means that the performance of price has impact to the customer loyalty, which means that if price is more competitive and affordable, it will increase customer satisfaction, and it will give impact to customer loyalty.
- The regression equation for variable of customer satisfaction shows a positive and significant value. The value of standardized coefficient is 0.561 and the significant is 0.000. It means that the customer satisfaction influence customer loyalty so, if the customer satisfaction increases, the customer loyalty will be increased as well.

d. Based on the results of the regression coefficients, the most influential factor to customer loyalty is customer satisfaction, as evidenced by the high value of the regression coefficient for the variable of customer satisfaction which is 0.561 with significance of 0.000.

**Table 3. Coefficient of Determination**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.804 <sup>a</sup>	.646	.635	1.55574

The percentage amount of customer loyalty to be explained by the variable of service quality, price and customer satisfaction is indicated by the value of Adjusted R Square (R) which is equal to 0.635. It means that the customer loyalty is able to be explained by the variable of service quality, price and customer satisfaction with a score of 63.5%, while the remaining 36.5% (100% - 63.5%) is explained by other variables that are not examined in this study.

### Discussion

The result shows that service quality has a significant and positive influence to the customer satisfaction, which means that, the performance of the service quality in Swiss-belhotel Maleosan Manado has succeeded to create customer satisfaction. In this case, Swiss-belhotel Maleosan Manado must maintain the level of service quality that it currently has, such as always make sure that all the equipment that used by customers are clean and in a good condition.

The price in Swiss-belhotel Maleosan Manado has a significant and positive influence to their customer satisfaction as the dependent variable, which means, when it offers more affordable price or they give discount in special period, it will have effect on customer satisfaction. This means that the price in Swiss-belhotel Maleosan Manado has a good performance to build their customer satisfaction. It supported with previous study by Malik et al, (2012) which stated that price has significant impact on customer satisfaction.

The result is service quality has an influence to the customer loyalty through the customer satisfaction. It will explain that, when Swiss-belhotel Maleosan Manado increases its service quality, the customer satisfaction will also increase. When the customer satisfaction is already built, the customer loyalty will increase automatically. It means that, customer satisfaction in Swiss-belhotel Maleosan Manado is a good intervening variable between service quality and customer loyalty. In hotel industry customer will be satisfied if the service meets customers' expectation, such as easy procedure when customer will check-in and check-out. It is supported by previous study by Akbar and Perves (2009) which indicated that service quality and customer satisfaction have significant influence to customer loyalty.

Price has an influence to customer loyalty through customer satisfaction, which means that when the price influences the level of customer satisfaction, it will automatically increase the customer loyalty. Price also has direct impact to customer loyalty. Customer loyalty is strong when there is an attitude which leads to repeat buying. Currently, the customers are smarter and they will choose the best price when they use a service. The high price may affect the purchase possibilities of the customers (Malik et al. 2012), so the hotel must give attention about the price setting like making a discount on weekend, it will build the customer loyalty.

In Swiss-belhotel Maleosan Manado, the customer satisfaction is important to build the customer loyalty. In its offered service, customer satisfaction have two job, which are as independent variable, that directly influence customer loyalty, and as intervening variable, that creates relationship between service quality and price to customer loyalty. Satisfaction and loyalty relationship happen when consumer satisfaction positively influences consumer loyalty. Customers will feel satisfy when their needs can be fulfilled by the service that they use. In the previous study, the customer satisfaction has strong influence to customer loyalty (Kandampully and Suharto, 2000). Customers who satisfy with the service will recommend the service to other people and they will also increase their purchase intention.



## CONCLUSION AND RECOMMENDATION

### Conclusion

The result of the study and the analysis of the factors that influence the customer loyalty of Swiss-belhotel, it can be concluded:

1. Service quality has effect on consumer satisfaction in Swiss-belhotel Maleosan Manado, it means that if the quality of service in the Swiss-belhotel Maleosan Manado improved, it will increase customer satisfaction levels. So, it can be concluded that the first hypothesis which states service quality has a positive influence on on customer satisfaction is accepted.
2. Price has an effect on consumer satisfaction. It means that if the offered price is more varied then customer satisfaction will be increased. It can be concluded that the second hypothesis which states that price has positive influence on consumer satisfaction is accepted.
3. Customer satisfaction can be an intervening variable among service quality on customer loyalty. It means that if the service quality increases, customer satisfaction will be increased and it will affect customer loyalty. The results of path analysis shows that service quality can directly affect customer loyalty. It can be concluded that service quality ha a positive influence on customer loyalty through customer satisfaction as an intervening variable or in other words, hypothesis 3 is accepted.
4. Customer satisfaction can be an intervening variable among price to customer loyalty. It means that if the offered price is more varied, then customer satisfaction will be increase and it will affect customer loyalty. The results of path analysis show that the price can directly affect customer loyalty. It can be concluded that price has a positive influence on customer loyalty through customer satisfaction as an intervening variable or in other words, hypothesis 4 is accepted.
5. Test results indicate that customer satisfaction is significant to customer loyalty, which means when customer satisfaction increases it will increase consumer loyalty. It can be concluded that customer satisfaction has a positive influence to customer loyalty or in other words, hypothesis 5 is accepted.

### Recommendation

The results and the conclusion of this study, there are some of recommendations:

1. The results show that service quality and price have strong influence on customer loyalty, so the hotel must give special concern to these two things in the form of improving the service quality and price. In order to improve the service quality, the company should improve the physical facilities, such as: adding entertainment facilities. Another factors that can affect customer loyalty is the delivery of services by the employee to customers in accordance with procedures. Awareness, responsiveness, understanding and give attention to problems from customer complaint also some important factors to be concerned or improved to make sure that the customers are still loyal to the hotel.
2. The service quality has strong influence to customer loyalty than price. It means that the hotel must improve its price setting. It may offer various prices or offers more discounts in special season. The offered price must also be in accordance with the facility that will be enjoyed by customers. If the offered price is suitable with what the customer expect, the customers will be satisfied and will be loyal to the hotel. It will automatically increase its profit.
3. From this study, the hotel will see the factors that must be prioritized and not to be prioritize. Service quality and price are two factors that must get special attention. The hotel must focus on the direct way of service quality and price to reach the customer loyalty. It may not give special attention on indirect way to get the loyalty because this study shows that customer can be a loyal customer without feeling satisfied. When the customers feel that the service quality is good and price is worth the service, the customers will be loyal to the hotel.

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