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ANALYSIS OF FACTORS AFFECTING CUSTOMER RETENTION PRACTICE IN THE HOTEL INDUSTRY

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A THESIS SUBMITTED TO THE SCHOOL OF COMMERCE DEPARTMENT OF
MARKETING MANAGEMENT, ADDIS ABABA UNIVERSITY IN PARTIAL
FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER
OF ARTS IN MARKETING MANAGEMENT.

Addis Ababa
June 2015

**ADDIS ABABA UNIVERSITY SCHOOL OF COMMERCE
GRADUATE STUDIES MA PROGRAM**

**ANALYSIS OF FACTORS AFFECTING CUSTOMER RETENTION
PRACTICE IN THE HOTEL INDUSTRY**

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LETTER OF CERTIFICATION

This is to certify that Tsedenya Mengesha carried out her thesis on the topic entitled Analysis of factors affecting customer retention practice in the hotel industry. This work is original in nature and is suitable for submission for the award of Master of Marketing Management.

GIRMA TEGENE (Asst. Professor)

(Thesis Advisor)

DECLARATION

I declare that the research entitled Analysis of factors affecting customer retention practice in the hotel industry is my original work and has not been presented in Addis Ababa University or any other University, and that all sources of material used for the research have been duly acknowledged.

Tsedenya Mengesha

(The Researcher)

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Date: _____

ACKNOWLEDGMENTS

First and for most I thank GOD for being with me all the way through. My appreciation goes to my advisor Girma Tegene (Asst Professor) for his guidance and support. I also owe many thanks to my family and friends especially Meseret Tefera and Kalkidan Tadesse for their continuous assistance.

Last but not least, my gratitude goes to those who participated in the research study especially who have dedicated their time in filling out the questionnaires promptly and sharing their experiences and views regarding the research topic.

LIST OF ABBREVIATIONS /ACRONYMS

ANOVA	Analysis of Variance
AU	African Union
BR	Brand image
CLRM	Classical linear regression model
CR	Customer retention
CRM	Customer relationship management
ECA	Economic Commission for Africa
NGO	Non-governmental organization
PR	Price perception
SA	Customer satisfaction
SPSS	Statistical Package for Social Sciences
SQ	Service quality
TR	Customer trust
UN	United Nations
UNESCO	United Nations Educational, Scientific and Cultural Organization
VIF	Variance inflation factor

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ABSTRACT

Customer retention has been the choice of many companies owing the fact that, it generates more profit by reducing the cost incurred in acquiring new customers. Moreover, customer retention plays a vital role in increasing customer base through positive word of mouth. This implies, customer retention is beyond satisfying and maintaining existing customers. Therefore, effort is required from companies to upgrading customer retention strategies. Hence this study aims at analyzing the factors that influence customers to stay loyal and investigate the relationship between customer satisfaction, service quality, price perception, customer trust, brand image and customer retention. A questionnaire survey was used to collect the primary data and the population of the study comprises of all the individuals who are customers of selected four star hotels in Addis Ababa for the period of the data collection which is from April 1 to April 30. Ten hotels has been selected using simple random sampling technique and a sample of 384 respondents were taken using purposive sampling technique and methodologies like correlation, multiple regression and ANOVA are used in the research. The result of correlation analysis shows moderate and high relationships between customer satisfaction, service quality, price perception, customer trust, brand image and customer retention. However the multiple regression result indicates that customer satisfaction, service quality and price perception to have a significant positive effect on customer retention. On the other hand the study reveals the absence of significant relationship between customer trust and brand image. Of the five factors service quality explains the change in customer retention more strongly followed by customer satisfaction and price perception respectively. The one way ANOVA illustrates the absence of significant difference between business customers and those who use the hotel service for entertainment purposes. This current study has its own limitation since this research is only conducted in Addis Ababa it is difficult to generalize.

Key words: customer satisfaction, service quality, price perception, customer trust, brand image, Hotel, customer retention

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

In today's highly competitive, dynamic and challenging business environment, the level of consumer product acceptance and preference are critical for the survival of a business. In the 21st century consumers are becoming more rational and speculative in their purchase decision and are willing to spend on products they believe will give them value and maximize their utility owing to the fact that several factors must be considered. In addition to these, globalization enables consumers to get access to valuable information about a product and service before purchase decisions are made. This situation force companies to put an extra effort in attracting and retaining customers. Nowadays in highly competitive business environment let alone attracting new customers, even keeping existing customers is very difficult. This situation is clearly exhibited in the Ethiopian hotel industry for the past few years.

Customer Retention is the maintenance of the patronage of people who have purchased a company's goods or services once and the gaining of repeat purchases. Customer retention occurs when a customer is loyal to a company, brand, or to a specific product or service, expressing long-term commitment and refusing to purchase from competitors (Mathapati, 2009). These customers buy more per year, buy higher priced options, buy more often, are less price sensitive, are less costly to serve, are more loyal, talk favorably about the company and its products and have a higher lifetime value (Hughes, 2006). This implies, customer retention is beyond satisfying and maintaining existing customers. Therefore, effort is required from companies to upgrading customer retention strategies.

Customer retention has been the choice of many companies owing to the fact that, it generates more profit by reducing the cost incurred in acquiring new customers. In order to succeed in business, companies should segment and target customers given that it is very difficult and costly to satisfy every customer in the market. Companies normally would aim to make a profit on each transaction. Now companies are focusing on their most profitable customers, products, and channels (Kotler & Keller, 2006).

Attracting a new customer can cost five times as much as pleasing an existing one. In addition, it might cost 16 times as much to bring the new customer to the same level of profitability as that of the lost customer. Customer retention is thus more important than customer attraction (Kotler, 2000). Moreover, according to Reichheld, (2001) increase in customer retention rate by 5% increases profit by 25% to 95 %.

The objective of a customer retention strategy should be to nurture long-term relationships with customers through trust, responsiveness, customized services and reliability. Customer retention activity begins at the point when the customers sign up to the services. To retain customers the company needs a powerful database, which should store detailed customer profile data and a full communications history, thus allowing the customer base to be segmented and to target specific groups of customers with tailored offerings (Xevelonakis, 2005). Thus, customer retention is, perhaps, the best measure of quality and reflects the firm's ability to hang on to its customers by consistently delivering value to them (Kotler et al., 2005).

Ethiopia is one of the oldest uncolonized and independent country in history that possess the highest number of UNESCO World Heritage Sites in Africa. Moreover, Ethiopia is a multi-ethnic, multi-religious and multicultural country with a number of religious and cultural celebrations, practices and holidays throughout the year (Alelign, 2013). Ethiopia is also a strategically important country in the Horn of Africa for most countries and therefore, many international meetings and conferences are held in the capital. This creates a huge demand for accommodation at an international standard and even an increase in such a demand is expected in the future. Consequently, people who have understood the demand have started investing in the hospitality industry at different levels and capabilities (Gobena & Gudeta, 2013).

The hotel industry provides the two basic physiological needs of a human being i.e. food and shelter which make the sector very relevant. Quality of services provided in hotels determines the perception of customers about a given country or locality and outsiders might generalize the culture of the country based on the way they are treated in the hotels. These shows, that other than contributing to the economy of a country, hotels play a vital role in building the image of a country.

In Addis Ababa where this research paper focuses there are different star rated hotels however four star hotels are selected for the study. Currently, there are thirty four, four star hotels in the capital. (Source: Ministry of Culture and Tourism) Consequently, this research paper examines factors affecting customer retention practice in the hotel Industry with a particular focus on selected ten four-star hotels. Hence, draw a significant and feasible suggestions based on the findings.

1.2 Statement of the problem

In the context of the emerging markets and strong competitors, companies are busy in attracting new customers. However, they are facing a challenge in keeping costs down while attracting new customers.

Hence customer retention becomes important due to the increase in competition, rising costs of marketing, changes within the channels of distribution and increased awareness level of customers. Companies can also benefit from this strategy through the profits derived from sales, profits from reduced operation costs and profits from referrals. Customer retention has undeviating impact on the market share of the organization (Steenkamp as cited in Jawaria Fatima Ali et al, 2010).

Although keeping guests satisfied is important, loyal customers bring more value than satisfied customers do. A highly satisfied customer generally stays loyal longer, buys more as the company introduces new products and upgrades existing products, talks favorably about the company and its products, pays less attention to competing brands and is less sensitive to price, offers product or service ideas to the company, and costs less to serve than new customers because transactions are routine (Kotler & Keller, 2006). This allows the hotel to reduce marketing costs, earn more customers, increase market share and significantly increase occupancy rate and profitability (Minghetti, 2003).

Therefore the need for retaining existing customer rises but, due to heightened competition and increasing number of new entrants in the market with a better service offer it becomes difficult. As a result the first step in the process of implementing this strategy requires identifying the factors that influence customers to stay with a particular service provider. Especially in the hotel

industry where there are a number of factors influencing customer decision making companies must be well aware of the factors and work towards the accomplishment.

Thus this research paper will identify the factors that affect customer retention and assess their impact. Additionally it investigates the perceptions of factors across different consumer groups, customers who needed accommodation for business verse for leisure. Overall, the results from the study will allow companies to adjust their marketing strategies according to the prevailing situation in the industry.

1.3 Basic Research questions

The research intends to give answers to the following questions:

- ★ What factors affect customer retention in the hotel industry?
- ★ Which factors are more important in measuring the success of customer retention in the hotel industry?
- ★ How does perception of factors across different consumer groups (i.e customers who needed accommodation for business verse for leisure) influence customer retention?

1.4 Objectives

1.4.1 General objective

Generally, the aim of the study is to examine factors affecting customer retention practice in the Hotel Industry with a particular focus on four-star hotels in the context of emerging markets and strong competitors. And hence, draw a significant and feasible suggestions based on the findings.

1.4.2 Specific objectives

- ★ To examine factors affecting customer retention in the hotel industry.
- ★ To identify and examine which factors are more important in measuring the success of customer retention in the hotel industry.
- ★ To compare perceptions of factors across different consumer groups (i.e. customers who needed accommodation for business verse for leisure)

1.5 Hypothesis

Based on the research objective set the following hypothesis were developed and tested using appropriate statistical tools.

Hypothesis One

H₀: Customer satisfaction does not have a significant impact on customer retention

H₁: Customer satisfaction does have a significant impact on customer retention

Hypothesis Two

H₀: Service quality does not have a significant impact on customer retention

H₁: Service quality does have a significant impact on customer retention

Hypothesis Three

H₀: Price perception does not have a significant impact on customer retention

H₁: Price perception does have a significant impact on customer retention

Hypothesis Four

H₀: Customer trust does not have a significant impact on customer retention

H₁: Customer trust does have a significant impact on customer retention

Hypothesis Five

H₀: Brand image does not have a significant impact on customer retention

H₁: Brand image does have a significant impact on customer retention

Hypothesis Six

H₀: There is no significant difference in retention factors between customers who visited the hotel for business and leisure.

H₁: There is significant difference in retention factors between customers who visited the hotel for business and leisure.

1.6 Scope of the study

This research will cover the issue of factors affecting the customer retention practice in the hotel industry taking the case of selected four-star hotels in the capital city Addis Ababa. The study focuses on customers who have used accommodation and other services for over a night in the selected four-star hotels. For the purpose of this study the variables under consideration are service quality, price perception, brand image, customer trust and customer satisfaction.

1.7 Operational definition of terms

1. **Brand image:** the impression in the consumers' mind of a brand's total personality which are real and imaginary qualities and shortcomings.
2. **Customer retention:** an assessment of the product or service quality provided by a business that measures how loyal its customers are.
3. **Customer satisfaction:** the degree of satisfaction provided by the goods or services of a company as measured by the number of repeat customers.
4. **Customer trust:** is conceptualized as existing when one party has confidence in the other party's reliability and integrity (Ranaweera & Prabhu, 2003).
5. **Hospitality:** is the act of kindness in welcoming and looking after the basic needs of guests or strangers, mainly in relation to food, drink and accommodation (Mackenzie and Chan, 2009).
6. **Price perception:** it can be defined as “the process by which consumers interpret price and attribute value to a good or service”. (Malik, Yaqoob & Aslam, 2012).
7. **Service quality:** an assessment of how well a delivered service conforms to the client's expectations.

1.8 Significance of the study

Conducting a research on customer retention strategies in the hotel industry and determining the factors and consequences will create a win-win environment for both companies and consumers. It will also help companies in the industry to identify the major factors in keeping existing customers.

The rationale behind conducting this research is mainly to fill the knowledge gap that exists among companies in realizing the benefits of keeping existing customers and the reluctance they show in considering and incorporating the factors in the company's marketing strategies. It will also enable managers in the hotel industry to focus their marketing activities towards keeping customers rather than attracting new ones and appreciate the benefits of customer retention.

Furthermore, the study will enhance the knowledge of the researcher with regard to the concept raised on the study and their consequences on customers as well as organizations. It also serves

as a point of reference since a good number of researches have not been done in the area and could be used for further studies on similar topics.

1.9 Organization of the study

This paper is organized in five chapters, in which the first is the introduction part containing background of the study, the statement of the problem, objective, research questions, hypothesis, scope, significance and organization of the study. The second chapter is all about reviewing literatures written on customer retention. In chapter three the research methodology that will be used to gather, analyze, interpret and present the data will be discussed. The output for the analysis is presented in the result and discussion part which represent the fourth chapter. And finally, summary of findings, conclusion and recommendations will be presented based on the findings of the research. References used for the study will be listed at the end of the research report.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 Introduction

The theoretical framework of this study focuses on factors affecting customer retention in the hotel industry with a special focus on four-star hotels in the capital city Addis Ababa. This literature review section thoroughly covers researches and reports previously done on hotels related with the practice of hotels in retaining their existing customers, the meanings of core concepts and historical background of the hospitality industry in Ethiopia.

2.2 Theoretical and Empirical Evidence

2.2.1 Customer Retention

Managing demand means managing customers. A company's demand comes from two groups' new customers and repeat customers. Unfortunately, classic marketing theory and practice centre on the art of attracting new customers rather than retaining existing ones. The emphasis has been on creating transactions rather than relationships. Discussion has focused on pre-sale activity and sale activity rather than on post-sale activity. Today, however, more companies recognize the importance of retaining current customers by forming relationships with them. In today's marketing environment, however, changing demographics, economic and competitive factors mean that there are fewer new customers to go around (Kotler et al., 2005).

Thus, although finding new customers remains very important, the emphasis is shifting towards retaining profitable customers and building lasting relationships with them. Companies have also discovered that losing a customer means losing not just a single sale, but also a lifetime's worth of purchases and referrals (Kotler et al.2005). Even if the company were to be sold, the acquiring company would have to pay not only for the plant and equipment and the brand name, but also for the delivered customer base, the number and value of the customers who would do business with the new firm (Kotler & Keller, 2006). Thus, working to retain customers makes good economic sense.

The concept of customer retention comes from the concept of customer orientation or customer focused marketing, which calls for organizing the company towards the satisfaction of the customer needs. Ideally this requires that the offering should focus on the customer and his needs and/or expectations. Most firms focus a significant amount of resources to attract and acquire new customers, instead of keeping the existing ones. It is generally thought that “once a customer is acquired, keeping the customer is simple through superior products and services” (Payne, 2006).

Customer retention invariably starts with the attraction of the customer through the retention process. Companies seeking to expand their sales and profits must spend considerable time and resources searching for new customers. In doing this, companies practically engage in lead generation and advertisements in the media to reach new prospects. Unfortunately, most marketing theories and practices are centered on the art of attracting new customers rather than on retaining and cultivation of existing ones (Kotler & Keller, 2008).

However, finding new customers and doing business needs time, effort and money. Ranjbarian et.al. (2011), companies should focus on retaining existing customers. The benefits of keeping customers happy and satisfied outweigh that of having a new customer patronize your brand, product or services (Erinle & Bharathi. S.) Winning new customers is a healthy and profitable business phenomenon. Though, maintaining and retaining existing customers is thrice healthier and more profitable for the business enterprise (Iruka & Ateke, 2014). According to Kotler (2000), customer retention is very important because it has a bearing on costs and profitability over time. James as cited in Martey, 2014 customer retention is important to most companies because the cost of acquiring a new customer is far greater than the cost of maintaining a relationship with current customer.

As Enyioko & Onwusoro, 2011 cited Sorce 2010, Customer retention is a performance indicator that has the tendency of a customer to “stick with” a brand above and beyond the objective and subjective assessments. Organizations must fulfill their promises to customers as this will lead to customer satisfaction, customer retention and long-term profitability for the organization. Just as a customer acquisition strategy aims to increase the customer base, the focus of customer retention is to keep a high proportion of current customers by reducing customer defections (Lombard, 2011). As Ahmed & Buttle (2001) cited in Ali et. al, 2013 intimate that customer

retention could be seen as the mirror image of customer defection, where a higher retention rate has the same significance as the low defection rate.

Customer retention in hotels is a major factor to be considered because lack of customers in the hotels will lead to lower sales thus closing up of the establishment. Retaining loyal customers for hoteliers is essential and a core factor in keeping the hospitality (hotels) in shape and competitive enough to level up the changing trends that has impacted such business and economic activities of the hotel markets (Schulz & Omweri, 2012).

According to Kotler & Armstrong (2006), hospitality industry recognizes that superior quality of service is one of the crucial factors within its control that can add value to its image and harmoniously will lead into customer retention and loyalty, then good image as well as the quality of service have become the key to hoteliers ability to differentiate itself from its competitors and retain its customers and gain their loyalty.

As Schulz & Omweri, 2012 cited Armstrong & Kotler (2008), as specific and important relation between corporate and managing performance would influence the organization profit. Those customers are assets to hotels and retaining customers in the hotels will boost high profits in return. Therefore good business image in hotels will lead to customer retention and in turn will yield high profits. This is because a hotel having more loyal customers will definitely have many customers and thus increase the hotels revenue.

Customer retention programs must include a customer centric management approach which identifies and segments profitable customers it wants to retain, customers who should be served well; and customers who should not be aggressively retained due to their marginal profitability. Gupta, Lehmann, D.R. & Stuart, (2004) as cited in Nataraj (2010), while fostering satisfaction and loyalty it is mutually beneficial for the business and customers, and it facilitates the efficient use of labor and technical resources to meet even more consumer needs. Moreover, Kotler & Keller (2006), believes that technological application have increasingly lead to customer retention, since customers have become increasingly driven by technology and are therefore demanding higher levels of services associated with technology. It is therefore imperative that hotels identify ways in which they can utilize new technologies to create services that contribute to increased value for their customers. On the other hand paying attention to complains is one of

the good tips to retaining customers. Gronroos (1994) as cited in Schulz & Omweri (2012), one should keep in mind the concept that the customer is always right and that customer complaints and compliments helps to discover more about the product.

2.2.2 Theories on Customer Retention

Ranaweera & Prabhu, 2003 as cited in Mascareigne 2009 & Boohene, Agyapong & Gonu (2013), most previous research conducted on the factors influencing customer retention have focused on retention from the customers' point of view. This is mainly due to the fact that several researchers perceive customer retention as the propensity for customers to stay with their services providers, and is therefore viewed as a behavioral factor.

Therefore the frameworks and models illustrating the factors influencing customer retention from the customers' point of view will be discussed as follows. According to Boohene et al. (2013), the two main theories Richards (1996) conversion model and Sharma and Patterson's (2000) relationship commitment model will be discussed.

Conversion Model

Richards (1996), provided a conversion model based on the fact that it is not enough to satisfy a customer, as satisfaction alone does not predict customer behavior. Payne (2006) as cited in Boohene et al. (2013), agrees that customer satisfaction helps to make committed customer however, the building of committed customers involves more than merely satisfying them.

In building his model, Richards (1996), identified three factors as drivers of commitment. These are level of involvement, attraction of alternatives and the extent of ambivalence.

1. **Level of involvement:** According to Richards, the more people are involved in a given choice, the more carefully they will choose and once they have made their choices they often stick to it. Hence, if the customer is dissatisfied but involved, his primary strategy will be to try and repair the relationship rather than seeking other alternatives. On the other hand, if the customers are both dissatisfied and uninvolved, they would not even care about fixing the relationship but simply switch providers.
2. **Attraction of alternatives:** One of the arguments of Richards (1996), is that the more the alternatives attract, the more dissatisfied customers will converse, meaning switch service

provider. If the alternatives available are not considered as being good conversion may then be delayed in spite of dissatisfaction. Ibid as cited in Mascareigne (2009), on the other hand if alternatives attract, customers may converse even though they are highly satisfied.

3. **The extent of ambivalence:** This means insecurity caused by the range of choices. According to Richards (1996), the advantages respectively the disadvantage of each alternative should be compared and reviewed. Being the state of ambivalence according to the author is when the customer is in a state in which they will wave whether to stay or leave. Ambivalence makes the customer less committed, although conversion is delayed as neither choice offer obvious advantage.

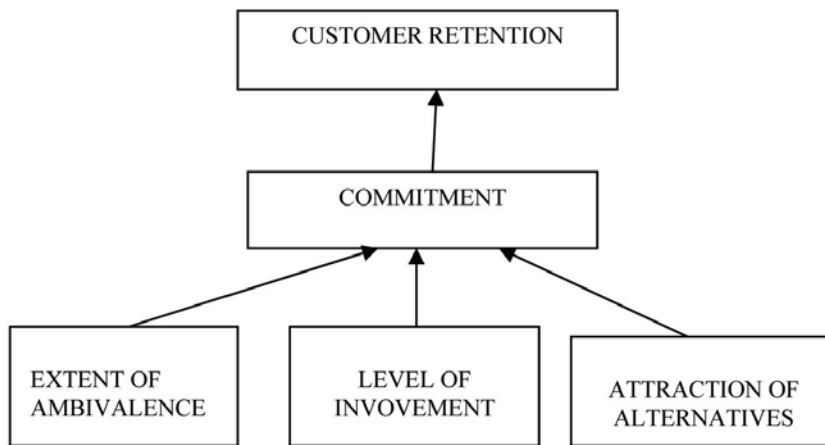


Figure 2.1 Richard's conversion model

Source: Richards, (1996)

Relationship Commitment Model

Sharma and Patterson (2000) as cited in Mascareigne 2009 & Boohene et al. (2013), provide a model showing the determinants of relationship commitment. The model consists of three factors, namely communication effectiveness, technical quality and functional quality all affected by trust in the relationship which in turns affect relationship commitment.

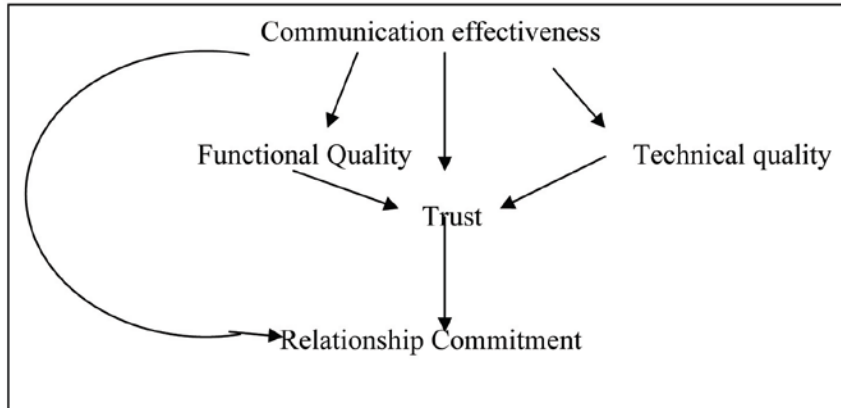


Figure 2.2 Conceptual model of the determinants of relationship commitment

Source: Sharma and Patterson, (2000)

1. **Trust:** Sharma and Patterson (2000), defined trust as the belief that the services provider can be relied on to behave in such a way that the long- term interests of the buyer will be served. Ibid as cited in Mascareigne (2009), the greater the level of trust the stronger is the relationship commitment.
2. **Service quality:** According to Sharma and Patterson (2000), service quality is divided into two main components, namely technical quality and functional quality. Technical quality is related to the actual outcomes or the core service as perceived by the client. Jansson & Letmark (2005) as cited in Boohene et al, (2013), speculate that the competency of the professionals in achieving the best return on investment for their client at acceptable levels of risks is viewed and technical quality is relevant to the promised service. Sharma and Patterson (2000), further argued that, functional quality is concerned with ‘what’ is delivered and ‘how’ the service is delivered. It is concerned with the interaction between the service provider and service receiver, and is assessed in a highly subjective manner. According to them, trust had a great impact on how quality is delivered, both in terms of functional and technical quality. The greater the quality perceived the stronger is the relationship commitment.
3. **Communication effectiveness:** is referred to the formal as well as informal sharing of meaningful and timely information between a client and an advisor in an empathetic manner. The purpose is to educate and keep clients informed about their investment in a

way they can understand. Strong communication skills are required to ensure that clients understand investments and thus become more confident in their ability to assess financial risks and outcomes. Effective communications also help customers through the unavoidable ups and downs of variable investment performances. Consequently, the greater the communication effectiveness the stronger the relationship commitment. (Sharma & Patterson, 2000).

2.2.3 Customer retention strategy

DeSouza (1992) as cited in Muhammad (2013), there are four steps for customer retention strategy. These are Measure Customer Retention, Interview Former Customers, Analyze Complaint and Service Data and Identify Switching Barriers.

Measure Customer Retention

DeSouza, (1992) as cited in Muhammad (2013), if companies do not managed customer retention than it is impossible to measure the customer retention. For measuring customer retention, they should maintain feedback data system from customers. Basically retention rate measure the percentage of customers those who retained.

Interview Former Customers

Normally, there is a negligence of firms that they do not care about customer's data who left them; it is a great chance for learning from lost customers directly or by expert. This data can be helpful for the market research, which assist the firm to take action for customers retaining DeSouza, (1992) as cited by Muhammad, (2013). Accordingly there are many reasons of customers' defect which are describing below:

1. Price defectors are defining that customer switch because of low- price offered by competitors.
2. Product defectors mean customers switch to others competitors because of the quality of product. This defect can be permanent.
3. Service defectors are being caused of poor customer service.
4. Market defectors those customer who left product not by the competitors but because transfer out of market area or stop business.

5. Technological defectors lead to those customers who left the product due to substitution product.
6. Organizational defectors describe those customers who left because of political policy within the organization.

Analyze Complaint and Service Data

DeSouza, (1992) as cited in Muhammad (2013), for marketing analysis, customer's complaint and feedback is very important for point out problems which are the reason of customers leaving.

Identify Switching Barriers

DeSouza, (1992) as cited in Muhammad (2013), a good retention strategy should identify the obstacles and resolve the problems which remained existing customers to transfer to other market competitors; it should not be a matter of low price and product quality offer by competitors.

2.2.4 Measuring customer retention

Customer retention rate can be measured by evaluating their characteristics in terms of repeat purchases, willingness in spreading positive word of mouth about the company to others, insensitiveness towards the changes in pricing of products and attitude of praising (not complaining) (Sharmeela, Gengswari & Padmashantini,2012).

The customer retention rate must be measured and managed in two ways; a crude customer retention rate, or a weighted one. Desouza,(1992) as cited in Ibok, George & Acha, (2012). A crude customer retention rate measures the total percentage of customers the organization retains based on the decline of escalation of customers over a specified period of time; while the weighted retention rate is calculated by weighting customers according to the volume of their purchases.

Accordingly, Ahmad and Buttle (2001), maintains that in the case of service firms, measuring retention should involve measuring the absolute number of customers who have been retained, as well as using a weighted rate, which takes into account the share of wallet as well as the life time value of a customer.

2.2.5 The benefits of retaining customers

According to Mudie & Pirrie (2006), the benefits of customer retention to the service provider and customers are

Benefits to the service provider

- Relational customers tend to increase their purchases over time, either because they are consolidating their purchasing onto a preferred supplier or because their own business/family has grown and there is a need for more.
- Experienced customers tend to make fewer demands on the supplier and fewer mistakes in their operation of the service. So productivity is improved and operating costs are reduced.
- Long-term satisfied customers will engage in positive word-of-mouth recommendation, thereby reducing the marketing spend necessary to attract new buyers.
- There is less need to offer price promotions to this group. Indeed these customers are likely to be less price-sensitive than others.

Benefits to the customer

- **Confidence benefits** arise from feelings of trust or comfort, or conversely from fewer feelings of anxiety, with the service provider. Of the three types of benefit, confidence benefits have been found to be the most important to customers.
- **Social benefits** often arise when the customer receives more than the technical benefits of the service. The service provider has become part of the customer's (life) support system. Such relationships are not confined to consumer services. They can also be present in business-to-business markets.
- **Special treatment benefits** include such things as getting preferential treatment, as with the loyalty schemes operated by most major airlines. The service provider may make concessions that would not be made otherwise. Interestingly, of the three categories of customer benefit, special treatment benefits are regarded as least important by consumers.

Reichheld (1996) as cited in Ahmed & Buttle (2001), identified six economic benefits of retaining customers.

1. savings on customers' acquisition or replacement costs,

2. a guarantee of base profits as existing customers are likely to have a minimum spend per period,
3. growth in per-customer revenue as, over a period of time, existing customers are likely to earn more, have more varied needs and spend more,
4. a reduction in relative operating costs as the firms can spread the cost over many more customers and over a longer period,
5. free of charge referrals of new customers from existing customers which would otherwise be costly in terms of commissions or introductory fees and
6. price premiums as existing customers do not usually wait for promotions or price reductions before deciding to purchase, in particular with new models or versions of existing products.

2.3 Hotels

The word hotel is derived from the French *hôtel* (coming from the same origin as hospital), which referred to a French version of a building seeing frequent visitors, and providing care, rather than a place offering accommodation. A hotel is an establishment that provides lodging paid on a short-term basis. Facilities provided may range from a basic bed and storage for clothing, to luxury features like en-suite bathrooms. Larger hotels may provide additional guest facilities such as a swimming pool, business center, childcare, conference facilities and social function services. Hotel rooms are usually numbered or named to allow guests to identify their room. Some hotels offer meals as part of a room and board arrangement (Chan & Mackenzie, 2013).

According to Chan & Mackenzie, (2013) Hospitality is the act of kindness in welcoming and looking after the basic needs of customers or strangers, mainly in relation to food, drink and accommodation. A contemporary explanation of Hospitality refers to the relationship process between a customer and a host. When we talk about the “Hospitality Industry”, we are referring to the companies or organizations which provide food and/or drink and/or accommodation to people who are “away from home”. However, this definition of the “Hospitality Industry” only satisfies most situations.

Different from other sectors, the hospitality industry is unique in its nature which tends to be service-oriented and has a strong emphasis on human exchange in the service delivery processes. A summary of key characteristics relating to the hospitality industry are listed below: Chan & Mackenzie, (2013)

2.3.1 Characteristics of the Hospitality Industry

- **Product-Service Mix:** In the hospitality industry, customers rarely consume pure products but a mixture of products and services. A successful hospitality business does not only count on its products and services, but also how they are delivered. The qualities of staff and the way they deliver the service are often more important than the tangible products in making a hospitality experience satisfactory or unsatisfactory. Hence, the two features can contribute to the total experience in the service delivery process.
- **Two-way communication:** In order to achieve service excellences in the hospitality industry, two-way communication is one critical factor which requires the involvement and participation of both customers and service staff in the service delivery process. Through interactions with customers, important messages about their needs and expectations can be received by service staff for their immediate actions to create customer satisfaction.
- **Relationship building:** The hospitality industry highly depends on repeated customers for survival. Building long term relationship with customers can benefit the organizations for generating stable revenues regardless of the instability of seasons and at the same time, developing brand reputations through positive word-of-mouth of the repeated customers.
- **Diversity in culture:** As hospitality are closely related to tourism industry, it is not surprising that people involved in this sector, no matter customers or staff are experiencing a diversity in culture through interacting with others. Staffs who work in a hospitality organization always have interactions with customers from different regions or to work and corporate with other colleagues who may have different backgrounds or cultures.
- **Labor intensive:** Since the hospitality industry is service-oriented in it's' nature, it requires a huge supply of labors to create a memorable experience for the customers. This

characteristic is especially true for those enterprises which target for high-ended customers.

2.3.2 Special characteristics of services marketing in the hotel industry

According to Bowie & Buttle, (2004) the special characteristics faced by hospitality marketers are seasonality, intangibility, perishability, inseparability, variability, interdependence, supply exceeding demand, and high fixed costs.

1. Seasonality and demand fluctuation

Seasonality refers to the fluctuations and demand in any given period. In hospitality operations, seasonality can occur at different seasons of the year, different months of the year, different times of the week and different times of the day.

The under or over-utilization of capacity creates operational difficulties. Sudden unexpected increases in customers can lead to production problems, unacceptable waiting times and dissatisfied customers. The profitability of hospitality companies suffers during low season periods, so one of the challenging roles for marketing is to increase demand in low season periods and to deflect over-demand from peak periods to other times.

2. Intangibility

Services are described as intangible products, meaning that they cannot be experienced, heard, seen, smelt, tasted or touched prior to being purchased. Hospitality consumers cannot really examine competing hotel, restaurant or leisure products without entering into a purchase contract and buying the product. Marketing intangibles create difficulties for the service provider. Customers often sense a higher level of risk, and also find it difficult to assess quality. Customers need to be provided with information to help them to choose an appropriate hospitality outlet to satisfy their particular needs and wants. The challenge for marketers is how to provide such information in a way that will encourage customers to choose their offer without raising customer expectations too high, and then failing to deliver customer satisfaction. The role of marketing communications in designing effective promotional material to generate appropriate bookings is crucial.

3. Perishability

Hotels and restaurants have a fixed number of rooms and seats available each day or night. Unlike manufactured products, which can be stored in warehouses, services cannot be stored;

this feature of service industries is called 'perishability'. The difficulty for hospitality companies is how to manage their capacity with a fluctuating demand pattern.

Hospitality managers recognize that managing the inventory is a critical issue in optimizing customer satisfaction, sales and profitability. The key marketing principles to ensure that the price at peak demand times is set to deliver the maximum return to the company, providing it is compatible with customer satisfaction. In low season periods, the aim is to generate additional sales by developing attractive promotions. Managing the booking process to ensure that the business achieves this balance is essential.

4. Inseparability

Customers have to be present to consume the hospitality product. The simultaneous production and consumption of services means that hospitality employees are an important part of the hospitality product. Equally, customers themselves play a significant part in the hospitality product by enhancing or spoiling the atmosphere for other customers. These factors mean that customer interaction with hospitality staff and other hospitality guests provides a variety of opportunities to influence customer satisfaction positively or negatively.

5. Variability

Partly as a result of inseparability, hospitality operations suffer from considerable fluctuations in the standards of delivery of the service. This is called variability, and is influenced by human factors. Services comprise a high element of interaction between customers and staff; indeed, every service performance is a unique event. Human interaction cannot be standardized, and consequently it is impossible for service companies to deliver a totally non-variable experience. Companies respond to this problem of variability by trying to standardize their operations and training their staff to perform according to the company's standard operating procedures, but with varying degrees of success.

6. Interdependence

Tourists make a variety of travel purchase decisions in one trip, and their overall satisfaction with a visit is based upon a complex set of evaluations of different elements including the travel arrangements, accommodation, attractions and facilities of a destination. Visitors may base their decision to travel to a particular destination on the range of attraction, ease and accessibility of transport, image of the destination, price and 'word of mouth'. This means that the generation of demand for some hospitality operations are directly connected to the demand for complementary

tourism products i.e. the demand is interdependent. The response to interdependency is that individual businesses, regardless of the tourism sector they operate in have to cooperate in the promotion of their destination. Destination marketing organizations work closely together with local government and tourism authorities to promote demand for tourism in their own particular area.

7. Supply exceeds demand

The hospitality industry is frequently described as a fragmented industry with low barriers to entry. It is relatively easy to obtain finance and buy or build a hospitality company. Although regulations obviously vary in different countries, government planners have generally welcomed the development of sustainable tourism. Despite record numbers of people traveling for business and leisure purposes, the growth in hospitality capacity has not always been matched by a sufficient growth in demand. When supply exceeds demand the competitive environment becomes more intense, and price competition can affect all firms' profitability.

8. High fixed costs

The cost structure of hospitality firms influences marketing activity. Hospitality businesses are capital, labor and energy intensive. Typical hospitality firms have high property costs and also employ large numbers of staff, many of whom are fulltime, permanent employees. These costs do not change; they are 'fixed' regardless of the number of customers using the premises. During periods of low demand, high fixed costs erode the profitability of the business. Companies need to generate sales to help make a contribution towards the fixed costs. The marketing response to seasonality and high fixed costs is to design attractively priced promotions to stimulate sales in the low season.

2.3.3 An overview on the hospitality industry of Ethiopia

The First modern Hotel in Ethiopia started in 1907 by Empress Taitu and the Hotel was named after her. The next generations of Hotels were opened during the five years Italian occupation and were called "ALBERGO". The third generation Hotels were built during the establishments of AU and ECA. Then came the 1974 revolution where all private Hotels were nationalized and consequently operated by the Government, except the Hilton Hotel which was managed independently. Finally, the current period which started in 1991 with the principles of free

market economy led to the establishment of independent and chain Hotels (Gobena & Gudeta, 2013).

Ethiopia is strategically located in the Horn of Africa and therefore, many international meetings and conferences are held in the capital. This creates a huge demand for accommodation at an international standard and even an increase in such a demand is expected in the future because the importance of Ethiopia in Africa has been growing and as a result, many international organizations have been continuously strengthening their institutions and augmenting their personnel in Ethiopia (Gobena & Gudeta, 2013).

According to a study conducted by the Embassy of Japan in Ethiopia (2008), the presences of a number of international organizations in Addis Ababa such as the African Union (AU) and the Economic Commission for Africa (ECA) have even more increased the demand for hotels. A relative increase of investment is recently observed in the hotel & tourism sector. The hotel industry consists of many different services, including accommodation, restaurants, cafes and catering. The market for the hotel industry, especially classified hotels in a developing country like Ethiopia, is closely linked to the tourism industry, because a majority of consumers for the sector services come from international tourists. The capital city, being a business centre and a conference venue, is host to annual conferences for UN branches, pan-African business organizations and special interest groups that have been attracting a growing number of delegates to the country each year. Conference tourism has great potential to grow and is poised to gain greater significance due to the development of several top hotels in Addis Ababa to meet the demand (Gobena & Gudeta, 2013).

In the face of increasing demand this study mainly focuses on the analysis of factors affecting customer retention practice in the Hotel Industry. In the next section core concepts and related works in the topic area will be discussed.

2.4 Factors affecting customer retention in the hotel industry

2.4.1 Conceptual Framework

After review of related literature the following conceptual framework is developed, in which customer satisfaction, service quality, price perception, customer trust and brand image were found to influence customer retention. These concepts and their correlation with the dependent variable, customer retention will be discussed.

Customer retention

As Riaz (2010) cited Kang (2004), Customer retention is the activity that a selling organization undertakes in order to reduce customer defection. Successful customer retention starts with the first contact an organization has with a customer and continues throughout the entire lifetime of a relationship. A company's ability to attract and retain new customers is not only related to its product or service but strongly related to the way it serves its existing customer and the reputation it creates within the marketplace.

Customer satisfaction

Customers are said to be satisfied because they have positive feelings which result from a process of evaluating what has been received against what was expected, including the purchase decision itself and the needs and wants associated with the purchase (Armstrong & Kotler, 1996).

According to Hu (2009), customer satisfaction can be defined as a cognitive or affective reaction to reply the delivered services. This can be specified in hotel industry as the reaction of customers in response to services which are given by the hotel.

As Riaz (2010) cited in Ylikoski (2000), "Customer satisfaction roots from a comparison between customer's expectations and experiences. It means positive reaction to a service experience. If the customers' perceived experience matches the expectations, customers are assumed to be satisfied. If the preceding expectations were higher than the gain of the service, the customers are considered to be disappointed and or dissatisfied".

Barsky & Nash, (2003) as cited in Amoako et al., (2012), Enterprises which are able to rapidly understand and satisfy customers' needs, make greater profits than those which fail to understand and satisfy them. As a result companies should develop and implement different strategies in order to create a good environment to understand customers and their expectations which in turn create a long term positive relationship.

Highly satisfied customers become loyal, talk favorably about the company and its products, pay less attention to competing brands, are less sensitive to price and offer product ideas to the company. It also costs less to serve existing customers than new customers because transactions are routine (Ali et al, 2013).

Stun & Thiery (1991) as cited in Ibok & Udofot (2012), maintain that satisfaction influences repurchased intention and satisfied customers are likely to be retained. The benefits of keeping customers happy and satisfied outweigh that of having a new customer patronize your brand, product or services. Some of the benefits that can be derived from a happy customer or a satisfied customer are reduced price sensitivity, reduced customer churn rate, increased referrals and increased repeat purchase (Erinle & Bharathi, 2012).

Service quality

A service is an economic activity that creates value and provides benefits for customers at specific times and places by bringing about a desired change in or on behalf of the recipient of the service. Although the process may be tied to a physical product, the performance is transitory, often intangible in nature and doesn't normally result in ownership of any of the factors of production (Lovelock & Wirtz, 2004).

Service quality is essential for an organization's survival and growth. Interest in service quality emerged in 1970s. Ever since, the topic has attracted substantial attention among researchers and practitioners. (Gronroos, 2001) as cited in Enyioko & Onwusoro (2009), Service quality is a form of attitude representing a long-run, overall evaluation which is different from customer satisfaction, a more short term, transaction specific judgment. The level of customer satisfaction is a result of the customer's comparison of the service quality expected in a given service encounter with perceived service quality. This implies that satisfaction assessments require

customer experiences while quality does not. (Caruana, Money & Berthon, 2000) as cited in Enyioko & Onwusoro, (2009).

Service quality as perceived by the customer may differ from the quality of the service actually delivered. Services are subjectively experienced processes where production and consumption activities take place simultaneously (Enyioko & Onwusoro, 2009). Ranaveer et al. (2003) as cited in Havaladar, Alexander & Dash (2011), showed that perceptions of service quality have a direct linear relationship with customer retention even in mass services with low customer contact. Also, price perceptions and customer indifference were found to have a direct linear effect on customer retention.

The hospitality industry recognizes that superior quality service is one of the crucial factors within its control that can add value and amicably will lead in customer retention and loyalty then good image. This helps the establishment to differentiate itself from its competitors and retain its loyal customers (Schulz & Omweri 2012).

Al Khattab (2011), stated that in the recent competitive environment, managers of the hotels should improve their services compared with their competitors. He believes this will not be achieved unless they fully understand their customer's needs and try to meet these needs.

Price perception

It can be defined as “the process by which consumers interpret price and attribute value to a good or service”. It has interested researchers for several years. It is a well known fact that price and quality are two important factors of value. They both lead to customer satisfaction and also customer retention, which help increase the profits of any business (Malik, Yaqoob & Aslam 2012).

Sproles & Kendall, (1986) as cited in Malik et al. (2012), Customers who are willing to pay higher prices for a product or services tend to be brand-conscious and prestige sensitive. They also believe price is an indicator of quality or prestige.

Price is another factor for customers to be retained or not to retain with companies. Due to competition, companies are playing with prices of products and services. Clients always required

products on most cheap price. Customers often switch mainly due to some pricing issues, for example high price perceived, unfair or deceptive pricing practices (Peng & Wang, 2006).

Voss et al. (1998) as cited in Sharmeela et al (2012), it is found that the price of company's offerings does affect customer satisfaction and hence it influences customer retention. The fairness of the price is the dominant determinant of satisfaction and it also influences the subsequent intention to return and stay longer with the company.

Ranaweera & Neely (2003) as cited in Mascareigne (2009), hold the hypothesis that the better the perceived price is the greater is the level of repurchase intentions. In their study they found that there was a direct relationship between price perception and customer behavioral intentions.

Abrat & Russell, (1999) as cited in Qadri & Khan (2014), found that customer perception about the price of the company products or services are important requirement for the customers to keep on with the existing service providers. Customers switch the existing service providers if the prices are too high of the company's products. According to Martin-Consuegra (2007) as cited in Qadri & Khan (2014), customers those who are price conscious are usually not ready to pay prices for service or product if they seemed that the price is not reasonable.

Brand image

According to Chiang & Chang (2006), Brand image considerably influences quality and trust professed by consumers. Simoes & Dibb (2001) as cited in Kayaman & Arasli (2007), argue that branding plays a special role in service companies because strong brands increase customers' trust of the invisible, enabling them to better visualize and understand the intangible and reduce customers' perceived financial, social or safety risk and also helps to optimize their cognitive processing abilities.

According to Schulz & Omweri (2012), business image is also concentrating on being pleasant, attractive and knowledgeable. This will help to create and maintain the kind of business image that creates first impression, gets good word-of-mouth and builds credibility. This thus has a great impact on customer satisfaction and thus influences customer retention. Hotel customers tend to lean toward the strongly established outstanding brands for easy selection, meanwhile feeling they are thereby reducing their purchase risk (Zhou, 2010).

According to Richards (1996) as cited in Schulz & Omweri (2012), Customers tend to repurchase and recommend a business with a favorable brand image in the belief that it assures high quality goods and services, such as excellent employee attitude and facilities. Gronroos, (1994) as cited in Schulz & Omweri (2012), quotes that “hoteliers have to control business image and be able to manage it properly in order for them to retain loyal customer and increase the size of customers.

Schulz & Omweri (2012), states that the retention of customers depends on the business image of the hotel or organization. The hotels need to portray a positive business image in order to retain customers or to have loyal customers. This entails provision of quality services, recognition of customer needs, and utilization of technology in providing the products and services to the customers.

Customer trust

According to Ranaweera & Prabhu (2003), trust is conceptualized as existing when one party has confidence in the other party’s reliability and integrity. Gounaris, (2003) as cited in Mascareigne (2009), argues that trust is a vital element in any type of relationship. The more the customer trusts a supplier the higher is the perceived value of relationship. Consequently, one can expect that the greater the chances will be that the customer remains in the relationship (Gounaris, 2005).

According to Chang, (2012) as cited in Chinomona & Sandada (2013), customer trust consists of affective and cognitive trust. In cognitive trust consumers are confident that the service provider is competent and reliable in keeping promises, whereas in affective trust consumers believe that while the service providers seek to maximize profits they also have genuine concern for customer needs.

The independent variables for the purpose of this study were taken from different articles and the authors are listed below.

Factors affecting Customer Retention	Connected Authors
Customer satisfaction	Sharmeela et al,(2012), Qadri & Khan,(2014), Jayantha & Geetha, (2014) and Wilson, Soni & O’Keeffe,(1995)
Service quality	Hamid & Cheng, (2011), Sharmeela et al,(2012), Ranaweera & Neely, (2003), Molapo & Mukwada, (2011) and Schulz & Omweri, (2012)
Price Perception	Qadri & Khan, (2014), Sharmeela et al,(2012), Ranaweera& Neely,(2003) and Molapo& Mukwada,(2011)
Customer trust	Qadri & Khan, (2014), Wilson, Soni & O’Keeffe, (1995) and Gounaris, (2005)
Brand image	Qadri & Khan, (2014), Krishnan & Govindarajan, (2013) and Schulz & Omweri, (2012)

Table 2.1 List of reference for the conceptual model

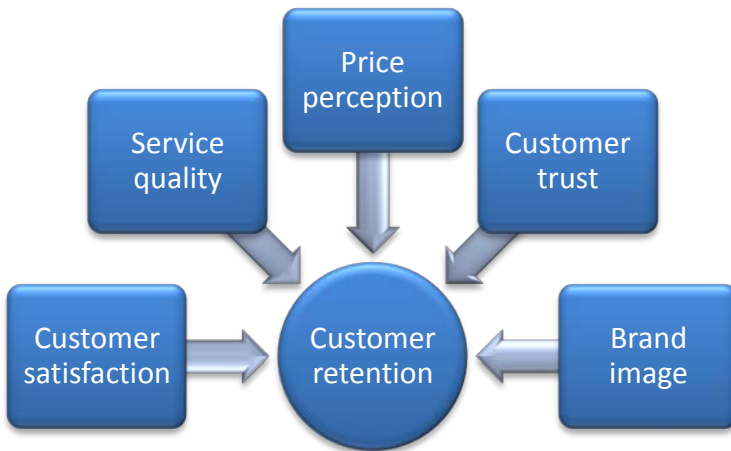


Figure 2.3 Conceptual Framework

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter deals with the research design and methodology that will be used to achieve the objectives of the study. Research approach and design, population of the study, sampling design and sampling techniques, source and instruments of data collection, procedure of data collection and method of data analysis are discussed. The validity and reliability test of the research and ethical considerations are also addressed in this chapter.

3.2 Research Design and Approach

In this study the researcher follows both the descriptive and causal research designs. Descriptive research design is employed for describing the characteristics of the study population. On the other hand causal research design was used to investigate the relationship between the dependent and independent variables.

In order to examine factors affecting customer retention practice in the Hotel Industry, the researcher follows quantitative methods to carry out the research. It is quantitative since the researcher has described factors affecting customer retention and in what extent these factors affect customer retention.

Quantitative research is based on the measurement of quantity or amount. It is applicable to phenomena that can be expressed in terms of quantity. It is often regarded as being purely scientific, justifiable, precise and based on facts often reflected in exact figures (Jonker & Pennink, 2010).

It also places heavy emphasis on using formalized standard questions and predetermined response options in questionnaires or surveys administered to large numbers of respondents. The main goal of quantitative research is to provide specific facts decision makers can use to (1) make accurate predictions about relationships between market factors and behaviors, (2) gain meaningful insights into those relationships, and (3) verify or validate the existing relationships (Hair, Bush & Ortinau's, 2003).

3.3 Population of the Study

The total population for the purpose of this study is all individuals who are customers of four-star hotel services in Addis Ababa for the specified term. Even if there are different customer groups who visited the hotel for different services (i.e. accommodation, food & beverage, gymnasium, etc), the study focuses on those who have used accommodation and other services for over a night. The sampled customers who filled out the survey questionnaires include both domestic and international customers who were over the age of 18 and had previously stayed in hotels.

3.4 Sampling Designs & Sampling techniques

Through the course of the study the researcher uses both probability and non probability sampling techniques to select the target population. From the probability sampling technique simple random sampling method is used to select ten hotels among the thirty four, four star hotels in the capital. Furthermore the number of customers who participated in the study was determined based on the number of rooms in each hotel and it was distributed proportionally among the hotels.

Besides determining how to allocate the number of customers among the selected hotels, how to select those customers was done using purposive sampling, a non probabilistic sampling technique.

3.5 Sample size

According to Amadi, (2005) a sample is quite adequate since a sample of 0.05 proportion of the population is believed to be satisfactory in making inferences as a result the researcher take a sample of ten hotels out of thirty four which is 29% of the total population.

On the other hand in order to determine the number of respondents the study adopts (Hair, Bush & Ortinau's 2003), sample size determination formula since the sample frame was not accessible and the population of respondents is unknown. Hence the appropriate standardized formula for calculating the necessary sample size would be:

$$n_0 = \frac{Z^2 pq}{e^2}$$

Where;

n_0 is the sample size, Z^2 is the abscissa of the normal curve that cuts off an area α at the tails ($1 - \alpha$ equals the desired confidence level, e.g., 95%)¹, e is the desired level of precision, p is the estimated proportion of an attribute that is present in the population, and q is $1-p$. The value for Z is found in statistical tables which contain the area under the normal curve.

Therefore, to illustrate consider $p=0.5$ (maximum variability), a 95% confidence level and $\pm 5\%$ precision. The resulting sample size is

$$n_0 = \frac{(1.96)^2(0.5)(0.5)}{(0.05)^2} = 384$$

Adopting this formula, the minimum required sample size was estimated to be 384 which will be distributed proportionally among hotels.

Name of hotel	No. of rooms	Allocation of sample in %	Sample size
Ambassador International Hotel	48	7	26
Churchill International Hotel	53	7	26
Friendship Hotel	104	15	57
Ghion Hotel	190	27	103
Jupiter (Bole) International Hotel	40	6	23
Kaleb Hotel	64	9	34
Kings Hotel	34	5	19
Monarch Hotel	80	11	42
Sarem Hotel	60	8	31
Seyonat Hotel	40	6	23
Total=	713	100%	384

Table 3.1 Sampling Distribution

Source: Own Survey (2015)

3.6 Sources and Instruments of Data Collection

In this study information and data is gathered from both primary and secondary data sources. The secondary sources such as books, journals, articles, reports and research papers written on the topic at hand are reviewed to refer about customer retention and factors affecting them from different researches previously done.

The primary data is obtained through structured survey questionnaires. Questionnaire survey is a research instrument consisting of a set of questions intended to capture responses from respondents in a standardized manner. Questions may be unstructured or structured. Unstructured questions ask respondents to provide a response in their own words, while structured questions ask respondents to select an answer from a given set of choices (Jonker & Pennink, 2010) that require the respondent to make a choice among a limited number of prelisted responses or scale points; they require less thought and effort on the part of the respondent; also referred to as closed-ended questions (Hair, Bush and Ortinau's, 2003).

Prior to the actual field survey pilot survey was conducted on a group of 10 respondents to check for consistency and suitability of the questionnaire. Then the actual data is collected using a self-administered survey questionnaire.

The survey questionnaires contain two parts. The first part describes the demographic profile of respondents including their gender, age, marital status, educational background and occupation. The second part contains five factors that affect customer retention in the hotel industry and the dependent factor customer retention as a point of analysis. It is developed in a five point likert scale with a probable response alternatives ranging from strongly agree to strongly disagree with values assigned 1-Strongly agree, 2-Agree, 3- Neutral, 4- Disagree and 5- Strongly disagree, was distributed and collected so as to get first hand data from respondents which are used to measure how strong the factors influence them to stay with a specific service provider. The questions are adapted from Molapo & Mukwada, (2011), Ranaweera & Neely, (2003), Qadri & Khan, (2014) Mascareigne, (2009) and Sabir et al., (2014) and translated to Amharic for respondent convenience. The measurement scale items for each factor were customer satisfaction (4 items), service quality (18 items), price perception (4 items), brand image (4 items) and customer trust (7 items).

3.7 Data Collection Procedures

The data collection process was done using a self-administered questionnaire to be filled by 384 hotel customers in order to find out their perception towards the current Ethiopian hospitality industry marketing activities pertaining to the factors influencing customers to be loyal to a particular service provider, with a special focus on hotels located in the capital.

The research is carried out at the service counter of the selected hotels from April 1, 2015 to April 30, 2015 by distributing the standard questionnaire to those customers who stayed in rooms with odd numbers based on their willingness to participate.

In some of the selected hotels receptionists distributed and collects the questionnaire on the other hand on few of the hotels distribution and collection of questionnaire was done by the researcher. Moreover, participants of the study were made well aware of the research objective and they were informed about the confidentiality of their responses.

3.8 Methods of Data Analysis

The study uses both descriptive statistics to analyze the demographic nature and characteristics and inferential statistic to examine factors affecting customer retention practice in the Hotel Industry. This study employed multiple regression analysis and correlation to examine factors affecting customer retention practice in the Hotel Industry approach which (Qadri & Khan, 2014) used in their study.

After collecting and sorting the questionnaire from the respondents data was coded, computed, and analyzed using the Statistical Package for Social Sciences (SPSS) software version 20. The analyzed data will be presented using tables and figures.

First the mean score of the factors was determined to identify favorable response of customers towards each factor. Then correlation analysis is used to investigate the relationship between the factors. Then by conducting a multiple regression analysis the study develops a group of independent variables such as service quality, customer trust, customer satisfaction, price perception and brand image that are useful in predicting the dependent variable which is customer retention. It will also be used to identify how much the independent variables contributes to customer retention by taking customer retention as a dependent variable and

service quality, customer trust, customer satisfaction, price perception and brand image as independent variables.

Finally one way ANOVA is used to test whether there is a significant difference among the different type of customer groups in terms of their perceptions towards the factors influencing customer retention.

3.9 Validity and Reliability

Validity often called construct validity refers to the extent to which a measure adequately represents the underlying construct that it is supposed to measure (Bhattacharjee, 2012). Validity is the degree to which a research instrument serves the purpose for which it was constructed; it also relates to the extent to which the conclusions drawn from an experiment are true (Hair, Bush & Ortinau's, 2003).

The soundness of the contents of the data collection instrument was ensured by the comments collected from managers and consultants experienced in the hotel industry of the country. As a result, the questionnaire items were adjusted by removing confusing words and to improve upon the clarity of the questions items to strengthen its reliability.

Reliability is the degree to which the measure of a construct is consistent or dependable. In other words, if we use this scale to measure the same construct multiple times, do we get pretty much the same result every time, assuming the underlying phenomenon is not changing. Note that reliability implies consistency but not accuracy (Bhattacharjee, 2012).

Reliability could be estimated mathematically or through pre-testing of the instruments. In this study, the data collection instruments i.e. survey questions for hotel customers are adopted from previous studies in the customer retention literature but modified to the hotel industry context. And statistically, Cronbach's alpha is commonly used to test internal reliability and essentially calculates the average of all possible split half reliability coefficients. A computed alpha coefficient will vary between 1 (denoting perfect internal consistency) and 0 (denoting no internal reliability). The figure 0.80 is typically employed as a rule of thumb to denote an acceptable level of internal reliability (Jonker and Pennink, 2010). Therefore the researcher uses this test to confirm the reliability of the instrument.

3.10 Ethical consideration

Ethics is defined by Webster's dictionary as conformance to the standards of conducts of a given profession or group. Ethics is the moral distinction between right and wrong, and what is unethical may not necessarily be illegal (Bhattacharjee, 2012).

In this research the researcher tried her best to follow an ethical path in the collection, analysis and interpretation of the data. In the process of collecting data permission is obtained both from customers as well as from selected hotels, a letter from Addis Ababa university school of commerce had been acquired and presented to the hotel managers and permission was granted to conduct the research.

Some of the basic tenants of the ethical behavior in research like voluntary participation and harmlessness, informed consent, anonymity and confidentiality and disclosure were kept in the research. In giving response to the questionnaire participants were informed why the research was conducted and how their response is handled with confidentiality. In the mean time to insure the confidentiality respondents were instructed not to write their names and moreover assurance was given by mentioning that the study is used for academic purposes only and will not be passed on to any third party. In addition to this they were aware that, if they feel any threat during the survey, they are free to withdraw from answering the questionnaire any time.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Introduction

This chapter represents the outputs from the analysis of data collected. It begins by explaining the demographic characteristics of respondents, the reliability test of the instrument, mean scores of variables. It then follows the descriptive analysis for the overall customer retention level. Finally the analysis of correlation, multiple regressions and one way ANOVA is conducted to evaluate the hypothesis.

4.2 Demographics characteristics of respondents

A total of 384 questionnaires were distributed for customers of four star hotels in different parts of the city. Out of which 309 were collected. However, only 298 questionnaires were usable to the research which made the response rate drop from 80.47 % to 77.60 %. The demographics features of the respondents are illustrated in the following table.

Table 4.1 Demographic Characteristics of Respondents

Gender	Frequency	Percent
Male	195	65.4
Female	103	34.6
Total	298	100%
Age of respondents	Frequency	Percent
18-29	117	39.3
30-40	90	30.2
41-54	65	21.8
55-65	20	6.7
Over 65	6	2.0
Total	298	100%
Marital status	Frequency	Percent
Single	142	47.7
Married	138	46.3
Divorced	17	5.7
Other	0	0
Total	297	99.7%
Educational level	Frequency	Percent

Elementary complete	0	0
High school complete	15	5.0
College Diploma	49	16.4
First degree	139	46.6
Above First degree	94	31.6
Total	297	99.6%
Occupation	Frequency	Percent
Government employee	73	24.5
Private employee	110	36.9
Self employed	62	20.8
NGO employee	42	14.1
Other	11	3.7
Total	298	100%

Source: Own Survey (2015)

The gender distribution of respondents who filled up the questionnaires revealed that male respondents comprises the highest number of respondents which is 65.4% and female respondents take the share of 34.6%.

The second component of the table shows the age distribution of respondents. From the five age categories the dominant age group of the respondents is the one between the age of 18-29 years (39.3%), followed by respondents between the age of 30-40 years (30.2%) and those between 41-54 (21.8%) ranked third. Finally respondents between the age of 55-65 and over 65 score 6.7% and 2% respectively.

The third component of the table represents the marital status of respondents. It has four categories namely single, married, divorced and other status. The highest score goes to married respondents which are 47.7%, the remaining 46.3% are single and 5.7% are divorced.

The distribution of respondents' educational level has five layers of categories which represent Elementary complete, High school complete, College Diploma, First degree and Above First degree. According to the above table the majority of respondents have first degree (46.6%), 31.6% of them have above first degree, 16.4% of them have college diploma and those respondents who completed high schools accounts for 5%.

Occupation of respondent has been one of the variables considered with five different layers of categories which represent Government employee, private employee, self employed, NGO

employee and others. Out of which the majority of them falls under private employee category with 36.9%, government employee take the second place with 24.5%, self employed respondents accounted for 20.8%, those working in NGO's are 14.1% and finally respondents in the others category score 3.7% comprising respondents who are retired, students and those of them working in the United Nation offices.

Table 4.2 Distribution of respondents' year of experience and frequency of visit

Year of experience with the hotel	Frequency	Percent
<1 year	138	46.3
1-5 years	107	35.9
6-10 years	26	8.7
> 10 years	19	6.4
Other	6	2.0
Total	296	99.3%
Frequency of visit	Frequency	Percent
Everyday	26	8.7
Every week	42	14.1
Every month	31	10.4
Often	48	16.1
Occasionally	145	48.7
Total	292	98%

Source: Own Survey (2015)

The above table represents respondents' year of experience with the hotel and the frequency of their visit. Concerning year of experience with the hotel respondents were given five choices to select among namely less than one year, 1-5 years, 6-10 years, more than 10 years and other. Out of which 46.3% of them have less than one year experience, 35.9% of the respondents have 1to 5 years of experience, 8.7% have 6 to10 years of experience, 6.4% have more than 10 years of experience and the rest accounts for 2% and those respondents are those who visited the hotel for the first time.

Frequency of visit is one of the issues covered in the first part of the questionnaire with five categories namely every day, every week, every month, often and occasionally. The majority of respondents visited the hotel occasionally which accounts for 48.7%, the second highest 16.1%

of respondents visited the hotel often, 10.4% of them every month, 14.1% of them every week and 8.7% of the respondents visited the hotel every day.

Table 4.3 Distribution of respondents' purpose of visit

Type of use	Frequency	Percent
Business	143	48.0
Leisure	88	29.5
Both	67	22.5
Total	298	100%

Source: Own Survey (2015)

In terms of the type of use or the purpose of visiting customers are divided in two major groups. These are customers who use the hotel for business purposes and those who use the service for leisure. Business customers represent 48% of the respondents, 29.5% represent leisure customers and the rest 22.5 % belong to customer group who use both services.

4.3 Reliability

4.3.1 Reliability of the research instrument

Table 4.4 Reliability statistics for the research instrument

Cronbach's Alpha	N of Items
.974	41

Source: own Survey (2015)

Reliability test was conducted to make sure the instrument used in the study was reliable. The elements under analysis are thirty four elements for the independent variables with the additional seven customer retention measurement instrument. The cronbach alpha for the general instrument is found to be 0.974 which is more than the acceptable range (Saunders, Lewis & Thornhill 2012).

4.3.2 Reliability of Customer Retention Determinants

Table 4.5 Reliability statistics for customer retention Determinants

Items	Cronbach's Alpha	N of Items
Satisfaction	.865	4
Price perception	.797	4
Brand image	.875	4
Customer trust	.889	4
Service quality	.919	18

Source: own Survey (2015)

It was also important to test the reliability of each dimension and make sure that they possess the reliability requirement. As observed from the table each dimension was run and its Cronbach alpha is greater than 0.7, greater than the acceptable range (Saunders et al, 2012). The result shows the Cronbach alpha for service quality and customer trust is higher among the others and exhibited 0.919 and 0.889 respectively.

4.3 Mean score for retention of customers

Table 4.6 Mean Score of variables for each customer retention dimensions

	N	Mean	Rank
TOTALSA	298	2.2097	5
TOTALPR	297	2.6338	1
TOTALBR	296	2.5389	2
TOTALTR	296	2.2551	4
TOTALSQ	295	2.3369	3
Valid N (listwise)	291		

Source: Survey SPSS output (2015)

The analysis of the mean scores for each customer retention dimension was computed to investigate favorable response of customers towards the factors. The above table depicts the

mean score of factors. Accordingly the result of the mean scores is ranked as one being the highest mean score while five being the least score. Price is the first factor customers respond favorably with the highest mean score of (2.63), followed by brand image (2.54) of the hotel. The third and fourth dimensions with favorable response are service quality (2.34) and trust (2.26) respectively. Finally the least favorable response was given to customer satisfaction with the lowest mean score of (2.21).

4.4 Overall Customer Retention

The mean score of overall customer retention level (2.34) marked the willingness customers' show to keep on being the customer of the hotel.

Table 4.7 Descriptive statistics for overall customer retention

	N	Minimum	Maximum	Mean	Std. Deviation
Overall customer retention level	297	1.00	5.00	2.3401	.85545
Valid N (listwise)	297				

Source: Survey SPSS output (2015)

Customer's response towards their level of retention is presented in the table below. Through the evaluation made to investigate the level of customer retention, it is witnessed that most of the respondents agree to stay with the hotel they are currently a customer, represented by 51.3% response rate. The next highest response rate is 26.5% which stands for customers who strongly agree to continue their relationship with the hotel followed by 16.5%, where respondents are neutral in their decision to stay. Finally 4.7% and 0.7% of them show disagreement to stay customer of the hotel in the future.

Table 4.8 Overall retention level

		Frequency	Percent
Valid	Strongly agree	79	26.5
	Agree	153	51.3
	Neutral	49	16.5
	Disagree	14	4.7
	Strongly disagree	2	0.7
	Missing	1	0.3
	Total	298	100

Source: own Survey (2015)

4.5 Correlation

The Pearson correlation coefficient (sometimes called the Pearson product-moment correlation coefficient or simply the Pearson r) determines the strength of the linear relationship between two variables (Cronk, 2008). Pearson correlation coefficients (r) can take on only values from -1 to $+1$. The sign out the front indicates whether there is a positive correlation (as one variable increases, so too does the other) or a negative correlation (as one variable increases, the other decreases). The size of the absolute value (ignoring the sign) provides an indication of the strength of the relationship. A perfect correlation of 1 or -1 indicates that the value of one variable can be determined exactly by knowing the value on the other variable (Pallant, 2005). Coefficients close to 0.0 represent a weak relationship. Coefficients close to 1.0 or -1.0 represent a strong relationship. Correlation results that is greater than 0.7 are considered strong. Additionally, Correlations less than 0.3 are considered weak. Correlations between 0.3 and 0.7 are considered moderate (Cronk, 2008).

A Pearson correlation coefficient was calculated for the relationship between satisfaction, service quality, price perception, customer trust, brand image and customer retention. A strong and moderate positive correlation and a significant linear relationship are obtained between all factors and overall retention level. The correlation coefficients (r) for all variables range from 0.532 to 0.740 , which show a moderate and high correlation. The most correlated dimension with overall retention is service quality ($r(296) = 0.740$) followed by satisfaction ($r(296) = 0.687$),

brand image (r (296) =0.639), price perception (r (296) =0.602) and customer trust (r (296) =0.598).

The correlation between the factors shows that there is a higher correlation between service quality and brand image with pearsons correlation of (r (296) =.732). The rest of the factors which are moderately correlated are service quality and customer trust (r (296) =.691), service quality with satisfaction (r (296) =.683), satisfaction with brand image (r (296) =.670), customer trust with brand image (r (296) =.659),satisfaction with customer trust (r (296) =.656), price perception with brand image (r (296) = .635), satisfaction with price perception (r (296) = .615), price perception with service quality (r (296) = .544) and finally price perception with customer trust (r (296) = .532) respectively.

Table 4.9 Correlation between the factors and overall customer retention

		Correlations					
		TOTALSA	TOTALPR	TOTALBR	TOTALTR	TOTALSQ	TOTALCR
TOTALSA	Pearson Correlation	1					
	Sig. (2-tailed)						
TOTALPR	Pearson Correlation	.615**	1				
	Sig. (2-tailed)	.000					
TOTALBR	Pearson Correlation	.670**	.635**	1			
	Sig. (2-tailed)	.000	.000				
TOTALTR	Pearson Correlation	.656**	.532**	.659**	1		
	Sig. (2-tailed)	.000	.000	.000			
TOTALSQ	Pearson Correlation	.683**	.544**	.732**	.691**	1	
	Sig. (2-tailed)	.000	.000	.000	.000		
TOTALCR	Pearson Correlation	.687**	.602**	.639**	.598**	.740**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Survey SPSS output (2015)

4.6 Multiple Linear Regression Analysis

Multiple regression shows how much of the variance in the dependent variable can be explained by the independent variables. It also gives an indication of the relative contribution of each independent variable. Tests allow determining the statistical significance of the results, both in terms of the model itself, and the individual independent variables (Pallant, 2005).

A multiple linear analysis was conducted to see the predictive power of customer satisfaction, service quality, customer trust, price perception and brand image for customer retention by talking customer retention as a dependent variable. One of the SPSS outputs of the regression analysis is the model summary that includes the R square and the standard of the error term for the model. R Square (called the coefficient of determination) tells the proportion of the variance in the dependent variable (customer retention) that can be explained by variation in the independent variables. The Standard Error of the Estimate gives a margin of error for the prediction equation.

Assumptions of Multiple Regression

This part presents the test for the assumptions of classical linear regression model (CLRM) namely Outliers, Normality of the distribution, Linear relationship, Homoscedasticity (equal variance), Independent of residuals and Multicollinearity.

- 1. Outliers:** Multiple regression is very sensitive to outliers (very high or very low scores). Checking for extreme scores should be part of the initial data screening process. We should do this for all the variables, both dependent and independent, that will be used in the regression analysis.
- 2. Normality of the distribution:** Scores on each variable should be normally distributed. This can be checked by inspecting the histograms of scores on each variable. The residuals should be normally distributed about the predicted dependent variables scores (Pallant, 2005).
- 3. Linear relationship:** The relationship between the two variables should be linear. This means that when we look at a scatter plot of scores we should see a straight line (roughly), not a curve. The residuals should have a straight-line relationship with predicted dependent variables scores (Pallant, 2005).

4. **Homoscedasticity (equal variance):** The variability in scores for variable X should be similar at all values of variable Y. The scatter plot should show a fairly even cigar shape along its length. The variance of the residuals about predicted dependent variables scores should be the same for all predicted scores (Pallant, 2005).
5. **Independent of residuals:** the scores of any particular subject are independent of the scores of all other subjects.
6. **Multicollinearity:** This refers to the relationship among the independent variables. Multicollinearity exists when the independent variables are highly correlated $r=.9$ and above (Pallant, 2005). This characteristic can result in difficulty in estimating separate or independent regression coefficients for the correlated variables (Hair, Bush & Ortinau's, 2003).

Interpretation of output from standard multiple regression

Step 1: Checking the assumptions

Multicollinearity

There are basically two ways to detect multicollinearity. The first one is investigating the correlations between the variables in our model which are provided in the table labeled Correlations. While checking the correlation if we find low correlation coefficient which is less than .80 or .90 in this case multicollinearity is not a problem. The other way of checking multicollinearity is through tolerance and variance inflation factor (VIF). Tolerance is an indicator of how much of the variability of the specified independent is not explained by the other independent variables in the model and is calculated using the formula $1-R^2$ for each variable. If this value is very small (less than .10), it indicates that the multiple correlation with other variables is high, suggesting the possibility of multicollinearity. The other value given is the VIF (Variance inflation factor), which is just the inverse of the tolerance value (1 divided by Tolerance). VIF values above 10 would be a concern here, indicating multicollinearity. Commonly used cut-off points for determining the presence of multicollinearity is tolerance value of less than .10, or a VIF value of above 10 (Pallant, 2005).

Result

None of the coefficients are greater than .80 or .90 so we assume multicollinearity is not a problem. In the second case the tolerance values for the variables are greater than 0.1 and all VIF values are less than 10 as a result it proves that multicollinearity is not a problem and the result is displayed in the multiple regression result table below. (See annex 3)

Outliers, Normality, Linearity, Homoscedasticity, Independence of Residuals

One of the ways that these assumptions can be checked is by inspecting the residuals scatter plot and the Normal Probability Plot of the regression standardized residuals that were requested as part of the analysis. In the Normal Probability Plot we are hoping that the points will lie in a reasonably straight diagonal line from bottom left to top right. This would suggest no major deviations from normality.

In the scatter plot of the standardized residuals (the second plot displayed) we are hoping that the residuals will be roughly rectangularly distributed, with most of the scores concentrated in the centre (along the 0 point). What you don't want to see is a clear or systematic pattern to your residuals (e.g. curvilinear, or higher on one side than the other). Deviations from a centralized rectangle suggest some violation of the assumptions.

Result

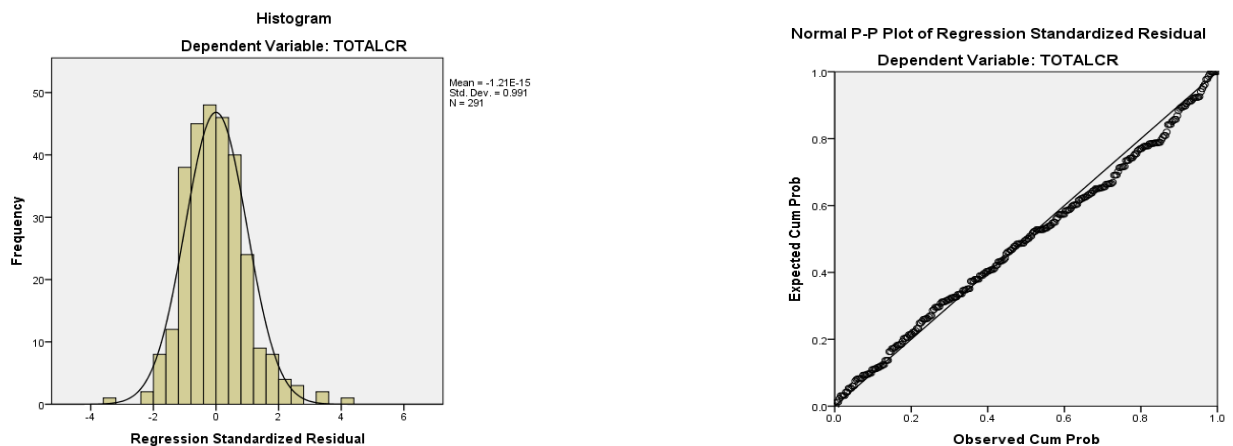


Figure 4.1 Histogram & Normal P-P plot

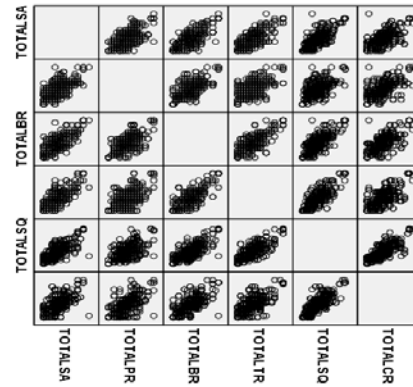
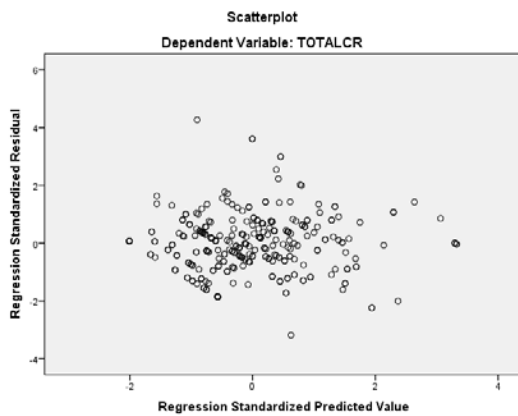


Figure 4.2 Scatter Plots

Result

All the scatter plots displayed above proves the assumptions consequently it can be concluded that none of the assumptions are violated. In addition to the results of the scattered plots, independence of Residuals can be check by calculating Durbin-Watson statistic. The Durbin-Watson statistic is used to test for the presence of serial correlation among the residuals. The value of the Durbin-Watson statistic ranges from 0 to 4. As a general rule, the residuals are independent (not correlated) if the Durbin-Watson statistic is approximately 2, and an acceptable range is 1.50 - 2.50 (Muluadam, 2015). In this case, Durbin-Watson is 1.892, close to 2 and within the acceptable range. We can assume independence of residuals. (See annex 3)

Step 2: Evaluating the model

R Square indicates how much of the variance in the dependent variable (customer retention) is explained by the model (which includes the variables of Total satisfaction, Total price perception, Total brand image, Total customer trust and Total service quality). In this case the value is 0.631. Expressed as a percentage (multiply by 100, by shifting the decimal point two places to the right), this means that the model explains 63.1 percent of the variance in customer retention.

Table 4.10 Model summary of factors and customers' retention

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.794 ^a	.631	.625	.52554	1.892

a. Predictors: (Constant), TOTALSQ, TOTALPR, TOTALTR, TOTALSA, TOTALBR

b. Dependent Variable: TOTALCR

Source: Survey SPSS output (2015)

The result of the regression illustrates that there is a strong association between the factors (satisfaction, price perception, brand image, customer trust and service quality) and customer retention level. The value of correlation coefficient between them is 0.794 which indicates significant positive correlation between the constructs. It further explains correlation between independent variables (satisfaction, price perception, brand image, customer trust and service quality) with and customer retention is 0.631. This implies 63.1% of the variation in customer retention level can be explained by variation in the independent variables. Generally the analysis provides that the factors (satisfaction, price perception, brand image, customer trust and service quality) have a strong effect on customer retention level and the increase of one of the factors will lead to a further increase in customer retention level.

The second part of the output that we are interested in is the ANOVA summary table. For now, the important number is the significance in the right most column. If that value is less than .05, we have a significant linear regression. If it is larger than 0.05, we do not. The ANOVA summary table for the regression analysis is observed that the significance level is less than 0.05 ($p < 0.05$) that illustrate we have significant linear regression. The ANOVA result above shows the significance of the model as a whole and it lead to the concluded that the combined impact of the independent variables on overall customer retention is significant.

Table 4.11 ANOVA result for the factors and customers retention

ANOVA ^a						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	134.602	5	26.920	97.469	.000 ^b
	Residual	78.716	285	.276		
	Total	213.317	290			

a. Dependent Variable: TOTALCR

b. Predictors: (Constant), TOTALSQ, TOTALPR, TOTALTR, TOTALSA, TOTALBR

Source: Survey SPSS output (2015)

Step 3: Evaluating each of the independent variables

In this part of the study we are interested in comparing the contribution of each independent variable included in the model to the prediction of the dependent variable. This information is available in the output box labeled coefficients, which are presented below. To compare the different variables we use the standardized coefficients.

Checking the value in the column marked Sig. will tell us whether this variable is making a statistically significant unique contribution to the equation. This is very dependent on which variables are included in the equation. If the Sig. value is less than .05 (.01, .0001, etc.), then the variable is making a significant unique contribution to the prediction of the dependent variable. If greater than .05, then we can conclude that that variable is not making a significant unique contribution to the prediction of your dependent variable (Pallant, 2005).

In this case, service quality, satisfaction and price perception have a significant influence on the overall customers retention at 95% confidence level ($p < 0.05$), indicating that of these factors are important in assessing the overall retention of hotel customers. However, brand image and customer trust does not have a significance influence in customer retention as $p > 0.05$.

Therefore, our decision for the hypothesis testing is going to be rejecting the null hypothesis and accepting the alternative hypothesis for hypothesis one, two and three. Therefore we accept the hypothesis stating that service quality, customer satisfaction and price perception have a significant impact on customer retention. On the contrary, we accept the null hypothesis and

reject the alternative for hypothesis four and five since brand image and customer trust does not have a significant impact on customer retention.

In the following section the interpretation for the beta coefficient will be discussed. The results in the table illustrates service quality (B=0.486), satisfaction (B=0.258), price perception (B=0.193), brand image (B=0.20) and customer trust (B=0.19). In this case the largest beta coefficient is 0.486, this is for service quality. This means that, of these five variables service quality makes the largest unique contribution in explaining the dependent variable, followed by customer satisfaction that also made a statistically significant contribution (B=0.258). The Beta value for brand image and customer trust was lower (B=0.020) and (B=0.019) respectively, indicating that they made less of a contribution.

Step 4: Constructing the regression equation

The last output in the analysis of the multiple regression models represents the output for the beta coefficients of each factors of customer retention. To construct a regression equation we use the unstandardized coefficient values. This is where the actual prediction equation can be found. The regression equation for this research is presented below.

$$\mathbf{CR=B_0 + (B_1) SA + (B_2) PR + (B_3) BR+ (B_4) TR+ (B_5) SQ+ e}$$

Where,

CR= customer retention

SA= satisfaction

PR= price perception

BR= brand image

TR= customer trust

SQ= service quality

B₀= Constant

B₁ to B₅= beta coefficients and

e=the error term

Table 4.12 Multiple regression result of the factors and customers' retention

		Coefficients ^a						
		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
Model		B	Std. Error	Beta	T	Sig.	Tolerance	VIF
1	(Constant)	.033	.115		.284	.777		
	TOTALSA	.258	.058	.250	4.416	.000	.404	2.475
	TOTALPR	.193	.051	.186	3.755	.000	.529	1.892
	TOTALBR	.020	.059	.020	.339	.735	.356	2.806
	TOTALTR	.019	.058	.018	.330	.741	.433	2.307
	TOTALSQ	.486	.066	.439	7.368	.000	.365	2.741

a. Dependent Variable: TOTALCR

Source: Survey SPSS output (2015)

When substituting the results in the model it gives us:-

$$CR = 0.033 + 0.258 SA + 0.193 PR + 0.020 BR + 0.019 TR + 0.486 SQ + e$$

4.7 One way ANOVA

Analysis of variance (ANOVA) is used to determine the statistical difference between three or more means. The term *one-way* is used since there is only one independent variable. ANOVA can be used in cases where multiple independent variables are considered, and it allows the analyst to estimate both their individual and their joint effects on the dependent variable (Hair, Bush and Ortinau's, 2003).

Hotel customers could be categorized as those who visited the hotel for business and leisure based on the purpose of their visit. The researcher of this paper is going to test this proposition by hypothesizing the retention factors difference between these two groups.

Hypothesis Six

H₀: There is no significant difference in retention factors between customers who visited the hotel for business and leisure.

H₁: There is significant difference in retention factors between customers who visited the hotel for business and leisure.

Table 4.13 Customers' retention factor difference between different customer groups

ANOVA

		Sum of Squares	Df	Mean Square	F	Sig.
Satisfaction	Between Groups	2.565	2	1.282	1.864	.157
	Within Groups	202.952	295	.688		
	Total	205.517	297			
Price perception	Between Groups	.193	2	.096	.142	.868
	Within Groups	199.425	294	.678		
	Total	199.617	296			
Brand image	Between Groups	4.302	2	2.151	2.839	.060
	Within Groups	222.002	293	.758		
	Total	226.303	295			
Customer trust	Between Groups	.104	2	.052	.080	.923
	Within Groups	191.888	293	.655		
	Total	191.992	295			
Service quality	Between Groups	1.069	2	.535	.884	.414
	Within Groups	176.562	292	.605		
	Total	177.632	294			

Source: Survey SPSS output (2015)

The means of satisfaction, price perception, brand image, customer trust and service quality in customer retention of two different groups (business and leisure) were compared using a one-way ANOVA. As a result, no significant difference was found for all factors as $p > 0.05$. Different groups of hotel customers didn't vary significantly on their level of retention in all the factors. Therefore we accept the null hypothesis and reject the alternative hypothesis. As the customer groups of business and leisure have no different retention level in terms of the five factors dividing them with such factor does not hold ground. This implies the hotels should find other factors that can distinguish this customer groups in the customer retention process.

4.8 Recommendation by the respondents

The customers finally were asked to put their opinion and remarks on the performance of hotels in the capital. Concerning the performance of hotels in the capital the customers suggest that hoteliers need a total reformation with respect to their performance especially in the aspects of the customer handling and overall management. The major comments are presented below.

- ★ Structural upgrading to the old systems and renovation is required for a few very old hotels in Addis which are still provide quality services to meet the current market standard and to survive in the stiff competition.
- ★ Customers believe that the price they are paying is unfair compare to the service provided and recommend hotels to rethink their pricing policies to make service price reasonable.
- ★ As the name indicates the sector is supposed to provide customers comfort and treatment however lack of customer treatment and poor customer handling is witnessed among the hoteliers. Quality problems especially speed of delivery in room services is one of the issues that needs the attention of the management.
- ★ It would have been better if hotels provide an arrangement by which they give customers financial protection against any loss or harm for the time they reside in that specific hotel.
- ★ They don't keep in touch with customers after they leave the hotel. Keeping in touch can help them to remind the customers.
- ★ Most of the hotels do not encourage green environment development instead they focus on building artificial buildings which are not environmental and which impact the creation of fresh natural recreation area.
- ★ Hotels in the capital do not have the satisfaction of their customers as their top priority. We can easily verify this by their unmasked reluctance to serve custom made dishes ordered by their customers. Most of the standardized hotels in Addis do not giving an individual attention for their customers, and their fist line employees have no interest to do at most to satisfy customers. There is also incapability of professional service provision except few finger counted hotels.
- ★ Although it is good to give priority to foreigners, in most hotels the attendants give due attention to them forgetting first come first served principle. They do not treat foreign and domestic customers equally. As long as all customers pay the required service charge

they should be treated equally. Customers should not be treated by their physical appearance and the same service should be provided to every one without discrimination.

- ★ The design of the hotel buildings must be compatible with the environment sometimes there are problems associated with sound pollution especially with those hotels built off main roads. If that is the case they need to have sound proof technologies.
- ★ Most hotels in Addis are trying to be competitive with each other's but the reality on the ground is different. To tell some facts most of the hotels advertise through their websites what you will not see in reality which deceive customers and which is an ethical. Hence it's better to reflect their true image on advertisements.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

The result of the analysis of this study has been discussed in the earlier chapter. The focus of this chapter is going to be in the summaries of the findings, conclusion, recommendation and areas for further researches.

5.1 Summary of Findings

The first part of the analysis presents the results of the demographic characteristics of respondents and the reliability test for the research instrument and the factors under investigation. Descriptive statistics and the Cronbach alpha were used to illustrate and test the variables of interest.

The result of the mean score indicates frequency and descriptive statistics used to determine favorable response of customers towards each of the constructs. It shows that among the factors considered to be necessary for retaining existing customers and building long term association with customers' price is the first factor customers respond favorably with the highest mean score of (2.63). This implies that the hotel customers are happy how the hotel handles price related issues these might include attractive and flexible pricing policies. The factor that is ranked second in its mean score is brand image with a mean score of 2.54. The implication behind this is that hotel customers are pleased with the image the service provider reflects in the market towards its overall service provision. Service quality, customer trust and satisfaction are the third, fourth and fifth in their mean scores.

Descriptive statistics for overall customer retention indicates that the majority of customers (77.8% of respondents) have intention to stay with their respective specific hotel. This implies that majority of them are satisfied with the services rendered by their choice of hotel. This further indicates that the rest 22.2 % of customers requires attention in this competitive environment.

The Pearson correlation coefficient shows that the relationship customer retention and the factors affecting it have strong and moderate relationship. Strong and positive significant correlation

was observed between service quality and customer retention ($r=0.740$). This indicates that as service quality increases, customer retention increases and vice versa. This finding is consistent with the empirical studies of Molapo & Mukwada, (2011), Boohene et al, (2013) and Oyeniya, Omotayo and Joachim, (2008). They all found that there was a positive association between perceived service quality and customer retention.

Moderate and positive relation was found between customer satisfaction, brand image, price perception, customer trust and customer retention with ($r=0.687$), ($r=0.639$), ($r=0.602$) and ($r=0.598$) respectively. This findings are congruent with Boohene et al (2013), Ali et al, (2010) and Inkumsah, (2013), Qadri & Khan, (2014), Krishnan & Govindarajan, (2013) and Schulz & Omweri, (2012), Sharmeela et al,(2012), Wilson, Soni & O'Keeffe, (1995) and Gounaris, (2005).

Therefore, it can be concluded that, service quality had strong and positive significant relationship with customer retention. And moderate and positive significant relationship was found between customer satisfaction, price perception, customer trust, brand image and customer retention. All the five variables in the conceptual framework of the research had significant positive relationships with customer retention.

The results generated by running multiple regression revealed that the impact of the factors on customer retention and the R^2 value is 0.631. This implies that the model explains 63.1% of the variance in customer retention, indicating that the remaining variance in customer retention is attributed to other factors which are not included in this study. It also shows that service quality ($B = 0.486$), customer satisfaction ($B = 0.258$) and price perception ($B = 0.193$) have a significant influence on customer retention at 95% confidence interval. However brand image and customer trust failed to have any significant influence on customer retention.

Finally one way ANOVA was conducted to check whether there is difference between groups and the result proves the absence of significant difference between business and leisure customers in their factor evaluation. This implies that in the hotel industries the priority customer groups give to specific factors are identical as a result there is no need to formulate different customer retention strategies for different customer groups.

5.2 Conclusion

The aim of conducting this study is to investigate the factors that affect customer retention in the hotel industry and determine which factors have a considerable impact on customer retention. To this effort the study was undertaken by reviewing secondary data written on related topics, collecting and analyzing primary data through survey questionnaires; the primary data is collected through self administered questionnaires from customers of ten four star hotels in the capital Addis Ababa with a five point Likert scale five being strongly disagree and one strongly agree to examine the objective of the study.

To check the level of customer retention and to measure the relationship with the factors which are mentioned to influence customer retention seven questions were raised. According to the data analysis performed using both qualitative and quantitative methods findings show that service quality has a greater impact in determining the decision of customer to stay with a specific service provider. In other words, customer retention level is highly affected by the quality of service delivered by the hotel. The attributes of service quality is the combination of tangibility, reliability, responsiveness, assurance and empathy. Above all other things if customers are comfortable with the quality of the service they will continue their relationship with the hotel and also recommend others to use the service of the hotel.

The study has also urges those in the hospitality industry to focus on customer satisfaction as it is ranked as the second factor in increasing customer retention level. In conclusion the probability of customers to look for other service provider is low if they are satisfied with the overall service provision of the hotel. In addition to this price perception is also the other factor that influences the customer retention level in hotels. If customers believe what they are being charged is not reasonable compared to the service provision and if the service providers are too rigid in their pricing policies and fail to accommodate customers' interest, customers will show reluctance to continue relationship with the hotel. This means customers would be better-off if their concern related to price is handled flexibly.

The one way ANOVA result indicates that in terms of customer retention level there is no distinction between customers staying in that hotel for business or leisure. This leads as to the conclusion that, hotels are not required to differentiate their service provision among different

customer groups and there is no need to formulate different customer retention strategies for different customer groups.

5.3 Recommendations

Customer retention management has the potential for delivering substantial benefits to firms in terms of long-term profitability. Firms also enjoy non-economic benefits from enhanced customer trust, commitment and cooperation. Nowadays, hotels are facing a real challenge in keeping costs down while attracting new customers. As a result the need for retaining existing customers rises however due to heightened competition and increasing number of new entrants in the market with a better service offer it becomes difficult. As a result checking the reason behind customer retention is worth investigating.

The finding of this research reveals the importance of service quality, customer satisfaction and price perception in influencing customer retention level in hotels. Based on the analysis the following possible recommendations can help hotels to rethink their marketing strategies towards retaining customers. Hotels should work harder to improve each dimension under service quality therefore the following considerations can be taken in creating and strengthening these dimensions.

Tangibility

In order to keep their current customers they should be concerned regarding the visual appearance of the hotel (both interior and exterior), the equipments they are utilizing to perform their duties and employees appearance.

Responsiveness

Employees have to be prompt, and show willingness to help customers at any circumstances and should inform precisely when services will be performed. In addition to this rules, regulations and procedures should be simple and spelt out to all customers, to reduce complaints.

Reliability

They need to be faster in finding alternatives, do things right without any delay and timely as promised. Staff sympathy, adequate and timely information, and complaints handling should be

given priority in the service deliver process of hotels. In order to do that hotels should recruit young and energetic staffs that can deal with the speed of delivering services.

Assurance

Hotels should rely on well-trained employees and they should have to open ways to get their employees update themselves with the contemporary knowledge of the business and the rules and regulations of their hotel since lack of knowledge among staffs of hotels will greatly amperes the service quality provided. Hoteliers should give priority to improve professionalism of their employees because they are the first contact with the customers which greatly influence the first impression about the hotel services. If a customer get disappointed by the employees for not delivering the service up to the standard at the right time and as per the requirement of the customer then that customer will be lost to other service providers, to accomplish this objective they need to monitor them when providing services to customers and provide them continuous training and experience sharing sessions. They can use this plate form to understand the reality in the ground and enable them to take corrective measures to change the situation. The assignment of updating the professionalism of employees should be not be left for hoteliers only it requires the collaboration of other concerned institutions i.e. hotel and tourism institutions, association of hotels and Ministry of culture and tourism to name a few.

Empathy

Hoteliers should put customers' interest first and try to understand and learn individual customers' needs to seize opportunities for a better way to serve the customer.. And they should find ways in providing customize services based on the request from clients and updated the services periodically as customers' expectations change over time. They can accomplish this through the application of Customer Relationship Management (CRM). These can enable service providers to easily trace customer expectation and special needs before they arrive in the hotel and serve them better. At the same time the system will help managers to monitor service delivered. The system will reduce customer complaints and allows the provision of fast, reliable and error-free services.

Pricing

Balance must be maintained between the quality of the service provision and the price being charged. In the process of price setting consideration must be given not only for the cost elements of delivering the service rather the cost of disappointing customers must be evaluated side by side. Otherwise, in the long run the cost of losing loyal customers and replacing them might exceed the pricing being charged today. Moreover, they have to take in to consideration the locals in their pricing policy.

5.4 Limitations & Implications for Future Research

The major constraint in the course of the study was time and unavailability and inaccessibility of secondary data and the primary data collection is also a real challenge due to the fact that most of the customers were not willing to take part in the research and fill out the questionnaires. Given that the study has covered only hotels in the capital city, Addis Ababa the results might not be transferred to other parts of the country.

Therefore, this study only gives a little glimpse of the current situation with regard to this issue and in the future a better in depth study needs to be undertaken on this topic by expanding the area coverage beyond Addis. Besides this to capture the whole picture in the industry other star rated hotels should be included in the study. Future research shall also be conducted by exploring other variables which might have a higher potential in explaining the variation in customer retention.

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APPENDICES

Appendix 1

A QUESTIONNAIRE ON FACTORS AFFECTING CUSTOMER RETENTION (To be filled by customers)

Addis Ababa University

School of Commerce

MA Program in Marketing Management

Dear respondents,

My name is Tsedenya Mengesha. I am a graduate student at Addis Ababa University School of Commerce. Currently I am conducting a research study on Factors affecting customer retention practice of hotels in Addis Ababa in partial fulfillment of Master of Arts Degree in Marketing Management at Addis Ababa University School of Commerce.

This questionnaire is prepared to collect information for a research on factors affecting customer retention practice of hotels. Any information provided in this survey will be handled with confidentiality and used for research purpose only, and will not be passed on to any third party. If you feel any threat during the survey, feel free to withdraw any time. It will take a few minutes to complete this questionnaire. Thank you for your precious opinions and participation.

For any further information, the researcher can be reached on the following address:

Tsedenya Mengesha

tsedenyamengesha@yahoo.com

0911713895

Instruction

- a. There is no need to write your name
- b. Please put ✓ or ✗ or circle in the boxes for questions with alternatives
- c. Please write your answer for question which needs explanation in the space provided

PART 1: General information

1. Gender

1a) Male 2b) Female

2. Age

1a) 18-29 2b) 30-40 3c) 41-54 4d) 55-65 5e) Over 65

3. Marital Status

1a) Single 2b) Married 3c) Divorced 4d) Other, Specify _____

4. Education Level

- 1a) Elementary complete 2b) High school complete 3c) College diploma
4d) First Degree 5e) Above first degree

5. Occupation

- 1a) Government employee 2b) Private employee
3c) Self employed 4d) NGO employee 5e) Other, Specify _____

6. How long have you been a regular customer to the hotel?

- 1a) < 1 year 2b) 1-5 years 3c) 6-10 years
4d) > 10 years 5e) Others, Specify _____

7. How frequently do you visit the hotel?

- 1a) Everyday 2b) Every week 3c) Every month
4d) Often 5e) Occasionally

8. Type of use

- 1a) Business 2b) Leisure 3c) Both

PART II: Specific Information

9. Please answer each statement below by putting a circle around the number that best reflects your degree of agreement or disagreement with that statement.

1=SA-Strongly Agree, 2=A-Agree, 3=N-Neutral, 4=D-Disagree, 5=SD-Strongly Disagree

A. Factors affecting customer retention

S/N	Factor 1: Satisfaction	SA	A	N	D	SD
1	I am satisfied with the overall service quality offered by the hotel.	1	2	3	4	5
2	I am satisfied with the professional competence of the staffs.	1	2	3	4	5
3	I am satisfied with the performance of the frontline employees of the hotel.	1	2	3	4	5
4	I am comfortable with the relationship I have with the hotel.	1	2	3	4	5

	Factor 2: Price Perception	SA	A	N	D	SD
1	The hotel took effective ways to help us know its pricing policies of the services.	1	2	3	4	5
2	The pricing policies of services from the hotel are attractive.	1	2	3	4	5
3	This hotel is offering flexible pricing for various services that meet my needs.	1	2	3	4	5
4	I will continue to stay with this hotel unless the price is significantly higher for the same service.	1	2	3	4	5
	Factor 3: Brand Image	SA	A	N	D	SD
1	I consider that this hotel's reputation is high.	1	2	3	4	5
2	I have a good feeling about the hotel's social responsibility.	1	2	3	4	5
3	The hotel delivered a good brand image to its customers.	1	2	3	4	5
4	It has a differentiated image from other hotel brands	1	2	3	4	5
	Factor 4: Trust	SA	A	N	D	SD
1	This hotel is reliable because it is mainly concerned with consumers' interest.	1	2	3	4	5
2	The billing system of the hotel is trustworthy.	1	2	3	4	5
3	The reputation of the hotel is trustworthy.	1	2	3	4	5
4	The policies and practice of the hotel are trustworthy.	1	2	3	4	5
	Factor 5: Service Quality					
	Tangibility	SA	A	N	D	SD
1	I am satisfied with the premises (infrastructure, building etc) of the hotel and it is visually appealing.	1	2	3	4	5
2	I am satisfied with the modern looking equipments of the hotel.	1	2	3	4	5
3	I am satisfied with the way employees dress.	1	2	3	4	5
4	I am satisfied with the visual appearance of the materials associated with the service.	1	2	3	4	5
	Reliability	SA	A	N	D	SD
1	I am satisfied with the services provided by the hotel as promised.	1	2	3	4	5
2	I am satisfied by the service of handling a problem (speed of problem solving).	1	2	3	4	5
3	I am satisfied with the way hotel provides the services at the time they promised.	1	2	3	4	5
4	I am satisfied with the way the hotel gets things right the first time	1	2	3	4	5
	Responsiveness	SA	A	N	D	SD
1	I am satisfied with the employees' promptness in providing services in the hotel.	1	2	3	4	5
2	I am satisfied with the willingness of employees to help customers. They are never too busy to respond to customer requests.	1	2	3	4	5
3	I am satisfied with the way employees in the hotel tell exactly when services will be performed.	1	2	3	4	5

	Assurance	SA	A	N	D	SD
1	I am satisfied with the security of the hotel.	1	2	3	4	5
2	I am satisfied with the employee's eagerness of instilling confidence to me.	1	2	3	4	5
3	I am satisfied of the knowledge of the employees (up to date knowledge about products, services, rules and regulations and policies of the hotel).	1	2	3	4	5
4	I am satisfied with employee's consistent courtesy.	1	2	3	4	5
	Empathy	SA	A	N	D	SD
1	I am satisfied with employee's individual attention to customers.	1	2	3	4	5
2	I am satisfied with the way the hotel place customers' best interests at heart.	1	2	3	4	5
3	I am satisfied with the way the hotel understand customer specific needs.	1	2	3	4	5

B. Customer Retention

		SA	A	N	D	SD
1	If I had needed a hotel services now, my hotel would be my first choice.	1	2	3	4	5
2	I plan to continue my relationship with this hotel in future.	1	2	3	4	5
3	I would recommend this hotel as the best service provider.	1	2	3	4	5
4	I would encourage friends and relatives to use this hotel.	1	2	3	4	5
5	I have said positive things about this hotel to others.	1	2	3	4	5
6	The relationship I have with this hotel is important to me.	1	2	3	4	5
7	I consider this hotel as my first choice.	1	2	3	4	5

10. Do you have any comment or suggestion on the service provision of hotels in Addis Ababa?

Thank you for your kind cooperation!

	□□□□□□ □□□□□□					
3	□□□□□ □□□□□ □□□□ □□□□□□□ □□ □□□□ □□□ □□□□□ □□□□ □□□□□□□	1	2	3	4	5
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		1	2	3	4	5
1	□□□□ □□□□□□ □□□□ □□ □□□ □□□□□□ □□□□□ □□□□□□□	1	2	3	4	5
2	□□□□□□ □□□□ □□ □□□□ □□□□□ □□□□□ □□□□□□□	1	2	3	4	5
3	□□ □□□ □□□ □□□□□ □□□□□□ □□ □□□□□ □□□□□□□□□□	1	2	3	4	5
4	□□□□□□ □□□□ □□□□ □□□ □□□□□□ □□□□□□□□□□	1	2	3	4	5
5	□□□□□□ □□□□ □□□□□ □□□□ □□□□□□□□	1	2	3	4	5
6	□□□□□ □□ □□□ □□□□□ □□□ □□□□□ □□□□	1	2	3	4	5
7	□□ □□□ □□□□□□ □□□□ □□□□	1	2	3	4	5

10. □□□□ □□□ □□□□ □□□□ □□□□□□ □□ □□ □□□□□□ □□□□ ?

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Appendix 3
SPSS Output used for testing Multiple Regression Assumptions

Correlations

		TOTALSA	TOTALPR	TOTALBR	TOTALTR	TOTALSQ	TOTALCR
TOTALSA	Pearson Correlation	1					

	Sig. (2-tailed)						
TOTALPR	Pearson Correlation	.615**	1				
	Sig. (2-tailed)	.000					
TOTALBR	Pearson Correlation	.670**	.635**	1			
	Sig. (2-tailed)	.000	.000				
TOTALTR	Pearson Correlation	.656**	.532**	.659**	1		
	Sig. (2-tailed)	.000	.000	.000			
TOTALSQ	Pearson Correlation	.683**	.544**	.732**	.691**	1	
	Sig. (2-tailed)	.000	.000	.000	.000		
TOTALCR	Pearson Correlation	.687**	.602**	.639**	.598**	.740**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	

** . Correlation is significant at the 0.01 level (2-tailed).

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.033	.115		.284	.777		
	TOTALSA	.258	.058	.250	4.416	.000	.404	2.475
	TOTALPR	.193	.051	.186	3.755	.000	.529	1.892
	TOTALBR	.020	.059	.020	.339	.735	.356	2.806
	TOTALTR	.019	.058	.018	.330	.741	.433	2.307
	TOTALSQ	.486	.066	.439	7.368	.000	.365	2.741

a. Dependent Variable: TOTALCR

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.794 ^a	.631	.625	.52554	1.892

a. Predictors: (Constant), TOTALSQ, TOTALPR, TOTALTR, TOTALSA, TOTALBR

b. Dependent Variable: TOTALCR