BUILDING LOYALTY: CREATING VALUE THROUGH CUSTOMER EXPERIENCES

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ABSTRACT

A review of the academic and practitioner literature on customer relationship management indicates a general consensus that quality, value, and satisfaction are critical variables in explaining customer loyalty in services, yet, although much is known about the relationship between the aforementioned variables and customer loyalty, they don't fully explain how customer loyalty is built? This paper argues that one critical variable has been excluded from consideration that impacts on customer loyalty, explicitly customer experiences. Therefore, the purpose of this paper is to rectify this significant gap in the literature and present relatively new perspective of customer loyalty that recognises that the customer has to interact with the components of a service in order for the service to become 'real' (Echeverri 2005) and that the successful management of customer experiences leads to a differentiated competitive advantage (Smith and Wheeler 2002). This paper proposes a preliminary conceptual model for building customer loyalty, one which incorporates the critical variable customer experiences and presents a number of propositions. This new approach has moved away from the typical loyalty building models and now incorporates all four critical variables, experiences, quality, value and satisfaction. These are significant variables in determining customer loyalty and to the best of our knowledge have not been collectively examined before. Due to the scarcity of research and interest in this area, it is perceived that this study will not only contribute substantially to academic knowledge in this area but will also make a significant contribution to tourism practice – informing practitioners on the criticality of the customer experience in building customer loyalty.

INTRODUCTION

"The core goal for Irish tourism is to develop and deliver distinctive, authentic and memorable experiences that stimulate increased visits, longer dwell times and higher expenditure" (ITIC 2006:55). Indeed one dominant theme that continuously appears to emerge from national reports is that due to the competitive nature of the Irish tourism industry, creating the total customer experience to build customer loyalty is being acknowledged as a real, sustainable differentiator and a key strategic success driver to create a stronger capacity in Irish tourism companies (Tourism Product

Development Strategy 2007-2013; Irelands Competitive Position in Tourism Report 2006). In light of such competition, leading edge tourism companies such as the Four Seasons group and the Forte Hotel Group are increasingly recognizing the importance of building customer loyalty as a strategic business objective (Erstad, 2001). This rests on customer relationship management's central premise that a firm's overriding strategy should be the attraction and retention of profitable customers because loyal customers will, in the long-term, buy more and pay a premium for doing business with those they trust and like (Peppers and Rogers, 2004).

However, in spite of the considerable research efforts in many salient fields of enquiry, such as customer relationship management, consumer behaviour, marketing and business strategy, service management and human resources, no acceptable theory exists that fully explains how customer loyalty is built. The latter may, at least partially be attributed to the fact that most research on customer loyalty has tended to focus on the inter-relationships between customer satisfaction, service quality, and value as an explanation (Cronin et al., 2000; Payne et al.,2000; Loveman and Heskett, 1999; Reichheld, 1996; Parasuraman et al., 1991;1988; Cronin and Taylor, 1992; Reichheld and Sasser, 1990) - a perspective which has been heavily criticized (Berry & Carbone, 2007; Dube and Renaghan, 2000; Pine and Gilmore, 2000;1999). For Donnelly et al, (2008) a major criticism is that one critical variable has been excluded from consideration that impact on customer loyalty, explicitly customer experiences. Although both CRM and brand literatures alike indicate that loyalty-building value is found is the successful management of the customer's experience with the product or service. Indeed little research exists that incorporates this variable which indicates a significant gap in our extant knowledge.

This article, therefore seeks to extend the conceptualization on building customer loyalty amongst tourism firms by identifying the conceptual deficiencies of past research. This paper also presents a model on customer loyalty that recognises that the customer has to interact with the components of a service in order for the service to become 'real' (Echeverri, 2005) and that the successful management of customer experiences leads to a differentiated competitive advantage (Smith and Wheeler 2002). In addition this article both synthesizes and builds on extant efforts to conceptualise the interrelationships of experiences, quality, value and satisfaction in relation to building loyalty. To the best of the authors' knowledge, no research has previously collectively incorporated these four critical variables into one loyalty building model. Subsequently, it would perceived that this study will not only contribute substantially to academic knowledge in this area, but will also make a significant contribution to tourism practice – informing practitioners on the criticality of the customer experience in building customer loyalty. The remainder of this paper is organized as follows, in the next section, the concept of customer loyalty is examined in depth and a number of arguments are presented. A new approach to building customer loyalty is then offered in the form of a conceptual model and a number of propositions are stated.

THE EXTANT CONCEPT OF BUILDING CUSTOMER LOYALTY

According to Jacoby and Kyner, loyalty "is (1) biased (i.e. non random), (2) behavioral response (i.e. purchase), (3) expressed over time, (4) by some decision making unit, (5) with respect to one or more brands out of a set of such brands, and is function of psychological (decision making evaluative) processes" (1973: 2).

Incorporating this concept of loyalty, several competing loyalty building models have been proposed: (1) The quality models argue that service quality only impacts loyalty via satisfaction and value (Patterson and Spreng, 1997; Woodruff, 1997), others maintain that quality has a direct impact (Zeithaml et al., 1996; Parasuraman et al.,1991;1988), (2) drawing from the service literature, the value model maintains that value leads directly to the favorable outcome customer loyalty and that both service quality and satisfaction are precursors of value (Sweeney et al., 1999; Cronin et al., 1997; Gale, 1994), (3) the satisfaction model shows that customer loyalty is directly influenced by the variable satisfaction (Hallowell, 1996; Fornell et al., 1996; Anderson and Fornell, 1993), and (4) Oh (1999) proposed an integrative model of service quality, customer value and customer satisfaction. The model incorporates key variables such as perceptions, service quality, consumer satisfaction, customer value and intentions to repurchase which indicates that value is an immediate antecedent to customer satisfaction and repurchases intentions. Although researchers hold differing conceptualizations of loyalty and both the direct and indirect relationships of its major determinants, explicitly, value, satisfaction and quality, they all, nevertheless, agree that these three variables are important dimensions for building loyalty (Salegna and Goodwin, 2005; Cronin et al., 2000; Fornell et al., 1996; Cronin, 1992).

While this extant concept of loyalty has served the research needs of the scientific community for the past 40 years and has produced valuable insights into the process of building customer loyalty, it nevertheless has been criticised to a great extent (Salenga and Goodwin, 2005; Cronin, 2003; Smith and Wheeler, 2002; Dube & Renaghan, 2000; Cronin et al., 2000; Cronin and Taylor, 1992). The criticism relates mainly to the fact that it has become generally accepted amongst most loyalty

researchers to assume that the variables quality, value, and satisfaction are sufficient to building loyalty, to the exclusion of any new constructs. It is our view that one critical variable has been excluded from consideration that impacts on customer loyalty, explicitly customer experiences. This reflects what Smith and Wheeler (2002), as well as others argue – as we are now living in the age of experiences, firms must deliver to consumers a "branded customer experience." Both CRM and brand literatures alike indicate that loyalty-building value is found in the customer's experience with the product/service, hence a major key to building customer loyalty is the successful management of each customer's service experience. For Donnelly et al, (2008) the following arguments can be directed against the extant concept of customer loyalty:

1. The interrelationships between the variables of value, quality and satisfaction in building customer loyalty remain relatively unresolved and contradictory in the literature (Cronin et al., 2000). This knowledge deficit has implications for both practitioners and researchers. Without a clearer understanding by academics of how customer loyalty is built the existing gap between what academics are prescribing and what practitioners are practising will remain. Building customer loyalty without an understanding of how firms can achieve it can lead to a misapprehension of the importance of variables or even their omission from this process.

2. For Cronin (2003), there is a need to move away from the traditional quality → value → satisfaction → loyalty model to a new and more dynamic model for building customer loyalty, which incorporates new variables in order to enrich our understanding and bring a more holistic perspective to customer loyalty building. One such variable which has been identified in the customer

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relationships management literature is "customer experiences". This variable has received limited research in terms of building customer loyalty. Indeed, it is perceived that customer experience is a highly relevant component involved in both customer relationship management and in building customer loyalty. With the exception of Dube and associates (Berry and Carbone, 2007; Dube and Renaghan, 2000; Pine and Gilmore, 2000; 1999) little research exists and none in the Irish context, which examines this relationship thus there is a considerable gap that exists in academic knowledge. Donnelly et al, 2008 suggests an alternative approach for the conceptualization of building customer loyalty - one that recognises the customer experience as a critical component in building customer loyalty.

Due to the foregoing a new approach unfolds itself; the authors present the following overarching proposition:

Proposition 0: In order to successfully build customer loyalty a new and dynamic model is required, this model must collectively incorporate the three critical variables i.e. customer value, service quality and customer satisfaction as antecedents in building customer loyalty with the inclusion of one new variable the perceived customer experience.

THE EXPLORATORY PROCESS OF THE NEW APPROACH TO BUILDING CUSTOMER LOYALTY

Although the framework was developed ex post from analysing reviewed literature, it is useful to provide an introductory overview of its major components, before launching into its more detailed discussion. The overall structure of the model is

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illustrated in figure 1. In addition to the model presented, a number of propositions have been stated in light of issues that have emerged in the literature.
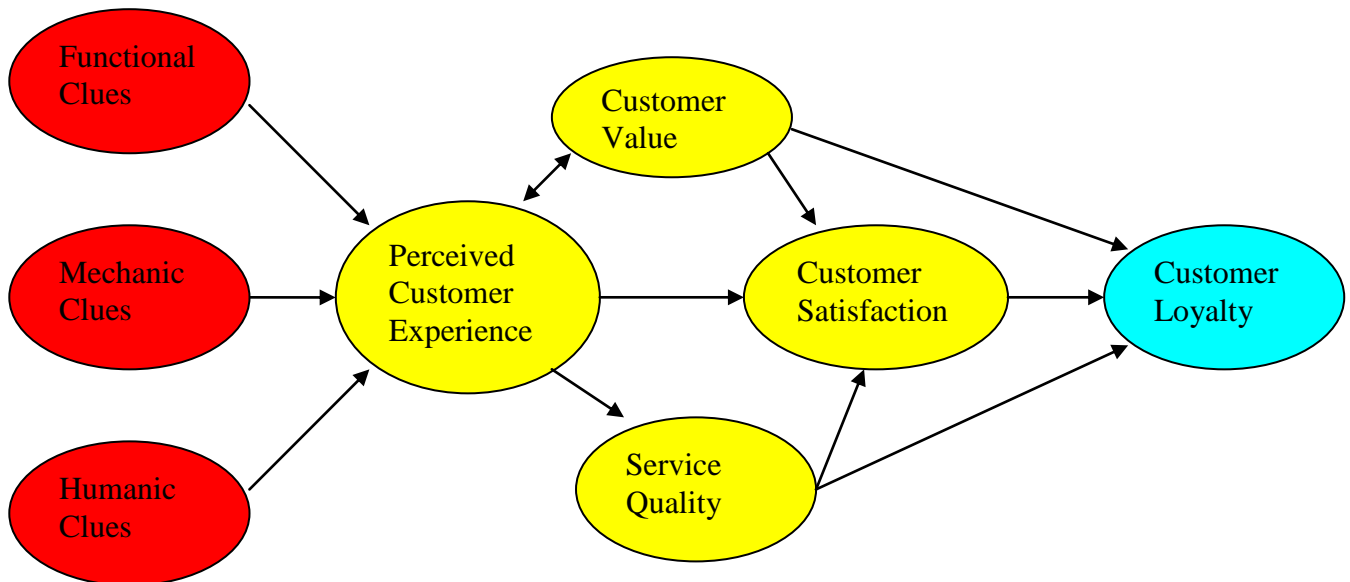
Figure 1: The Loyalty Building Model

Figure 1 depicts the interrelationships between the four critical variables in relation to building customer loyalty; these are the perceived customer experience, service quality, customer value and customer satisfaction. The model commences with the perceived customer experience variable and it is composed of three fundamental antecedents: functional, mechanic and humanic clues. These are the initial components underpinning the loyalty building process. For Carbone and Haeckel (1994:9) the perceived customer experience "is the "take away" impression formed by peoples encounters with products, services and businesses - a perception produced when humans consolidate sensory information" hence this variable has critical impact on the customers judgement of service quality, value, satisfaction and ultimately

impacts the building of customer loyalty. The customer experience variable has an indirect relationship with customer loyalty via the service quality, customer value and customer satisfaction constructs. Businesses now seek to retain customers by identifying what their target customers value and by creating valuable experiences (Wang, Po Lo, Chi and Yang, 2004; Smith and Wheeler, 2002). Hence a two way relationship exists between perceived customer experiences and value. In addition many researchers have indicated a significant relationship exists between customer experience and service quality (Berry et al., 2002; Rowley, 1999).

Customer satisfaction plays a pivotal role in the interrelationships between all variables involved and is a significant determinant of customer loyalty. Indeed many researchers found that the customer satisfaction is strongly influenced by value and quality (Dahlsten, 2003; Cronin et al., 2000; Pizam and Ellis, 1999) and indeed customer experiences (Rowley, 1999). Both the service quality and customer value variable have a direct and indirect impact on customer loyalty, with the indirect relationships being mediated by the customer satisfaction variable (Cronin et al., 2000).

PERCEIVED CUSTOMER EXPERIENCE

According to the Oxford English dictionary, the term experience is defined as the "actual observation of or practical acquaintance with facts or events" (Swannell, 1992: 369). Within the services literature, the depiction of *actual* and *practical acquaintance* is analogous to Echeverri's (2005:3) definition of services "as something that becomes "real" when a customer interacts with some specific prerequisites – such as organisational structures, activities, people, and other

customers. Customers will always have an actual experience when they engage with a service provider (Mascarenhas et al., 2006).

For Berry et al. (2006:53), this service experience is actually "a series of discrete sub-experiences that is full of messages that impact how customers feel and tell a story about the service and company that provides it". Indeed the experience becomes memorable when the company engages their customers in inherently personal ways (Mascarenhas et al., 2006; Anderson et al., 2006; Bendapudi and Bendapudi, 2005). However, for Pine and Gilmore (1999: 2), it is important to realise that actual experiences are distinct from services in that "when a person buys a service, he purchases a set of intangible activities carried out on his behalf. But when he buys an experience, he pays to spend time enjoying a series of memorable events that a company stages – as a theatrical play-to engage him in a personal way. The nature of experiences is that they are staged, personal and memorable.

According to Fynes and Lally (2006:20) "they must have a distinctive, authentic and differentiator factor creating added value formed by taking a holistic approach of the surrounding environment". This implies that creating customer's experiences are embedded in the performance of a company's ability to personalise specific prerequisites (Mascarenhas et al., 2006). It is these embedded experience prerequisites or clues allow customers to "form perceptions based on the technical performance of the service (functional clues), the tangibles associated with the service (mechanic clues), and the behaviour and appearance of service providers (humanic clues)" Berry et al. (2006: 43). These clues influence the customers' rational and emotional

perceptions of the quality of the service and create the actual service experience (Berry and Bendapudi, 2003).

Functional Clues

For Berry et al. (2006), functional clues are concerned with the technical quality of the service offering, specifically the reliability and competence of the actual service. For instance in a restaurant, this clue refers to the actual food itself and the efficiency of the service. Its presence or absence can have a serious impact on the creation of the customers' experience. Indeed, the importance of getting this clue right the first time was clearly illustrated by Keaveney's (1995) study on why customers switch service suppliers; they found that 44 percent of customers attributed switching to a failure in the actual quality of the product/service. From the literature, a number of clues have been attributed to impinging on the actual products/services provided in the total customer experience. According to Tucker (1991), the speed of the service process and delivery is important and depends on both the accessibility and the location of the product or service. Convenience is also a vital clue to be considered and is reflected in how well the service matches the needs and expectations of the customer such as opening times range of services/products provided and the extent the product/service is customised (Tucker, 1991). For Rowley (1994), keeping up with technology has probably become one of the most important clues for all businesses to improve the core product/service provided.

Indeed, it is fundamental for the service experience that businesses evaluate and manage the functional clues of their core product/service effectively to meet their customers' service expectations (Berry et al., 2006). However, functional clues alone

are not sufficient enough to exceed customer's expectations, as customers generally expect a business to know their core product/service and to provide this as promised (Berry and Carbone, 2007). This is consistent with Parsa et al.'s (2005) research that indicated that while the quality of restaurant food was fundamental to success; excellent food alone did not guarantee success. Therefore two other sets of clues are also important in order to exceed customers' expectations and to differentiate the service offering, these are the mechanic and humanic clues as illustrated in Figure 1.

Mechanic Clues

Mechanic clues are drawn from inanimate objects or environments and offer a physical representation of the service. For example, building design, equipment, furnishings, displays, colours, sounds, smells, lighting and other sensory clues visualise the service, communicating with customers without words (Haeckel et al., 2003). While a variety of terms have been utilized by scholars to explain this concept such as "the physical environment" (Baker, 1987), "atmospherics" (Kotler, 1973), "marketing environment" (Turley and Milliman, 2000), "service environment" (Cronin, 2003) and "servicescapes" (Booms and Bitner, 1981), there is, nevertheless, a common theme that the mechanic clues encompass "the environment in which the service is assembled and in which the seller and consumer interact, combined with tangible commodities that facilitate performance or communication of the service" (Booms and Bitner, 1981: 36). For this paper we will utilise the term "servicescapes" in an attempt to explain mechanic clues. During the customer experience, customers are affected by a variety of mechanic clues as indicated by the environmental psychology and marketing literature. Research in environmental psychology is based on the stimulus-organism-response (SOR) model which finds that the physical

environment or servicescape impacts the customers' cognitive, behavioural and emotional responses (Spangenberg, Crowley and Henderson, 1996).

Numerous studies provide collaborating evidence that servicescapes has a strong impact on a customer's behavioural intentions and loyalty (Foxall and Yani-de-Soriano, 2005; Cronin, 2003; Foxall and Greenley, 1999) which leads them to either continue or discontinue doing business with a certain service provider (Tombs and McColl-Kennedy, 2003; Hoffman and Turley, 2002). Indeed Palmer, (2005) maintains that the servicescape must be efficient and effective in order for the customer to respond efficiently and effectively to the supplier indicating that customers respond to their environment as a whole, after assessing the effects of all clues present. There is general agreement in the literature that servicescapes are composed of three dimensions:

1. Ambient conditions include background characteristics of the environment such as temperature, lighting, noise, music, and scent.
2. Spatial layout and functionality refers to the physical surroundings of the service environment such as the positioning of equipment/furniture, the size, the shape and the spatial relationship between the objects. The functionality is the ability of these items to assist and support in the achievement of a customers' objectives and enjoyment.
3. Signs, symbols and artefacts are clues in the servicescape that communicate information and messages about the environment to the consumers. Items such as signage and décor are utilized to communicate and enhance a certain image or mood, or to direct customers to desired destinations (Bitner, 1992).

For Bitner a customer's environmental perception is affected by these three dimensions and "each dimension may affect the overall perception independently and/or through its interactions with other dimensions" (1992: 65). Clue congruency in both tangible and intangible dimensions is crucial to the servicescape concept and in the creation of the service experience (Hoffman and Turley, 2002, Bitner, 1992). Wall and Berry (2007: 62) argue that "mechanic clues are especially influential in affecting quality perceptions for services in which customers experience the facilities for an extended time, such as hotels and airplanes" and that "mechanic clues also have the ability to influence customers before either the functional or humanic clues". This is mainly due to influence that mechanic clues have on customers' expectations. Conducive to this, Bitner (1990) proposed that the "servicescape" can influence customers through its effects not only on perceived performance but also on expectations. Mechanic clues have been found to function as implicit service promises that lead to inferences about what the service would be like (Zeithaml, Berry and Parasuraman, 1993). Subsequently, this implies that the customer's perceptions of mechanic clues are related to not only experience perceptions but also their expectations of the service.

Humanic Clues

In addition to mechanic clues, employees' behaviour and performance during the service also provide powerful clues that influence the customers perceived customer experience and service quality (Berry et al., 2006; Berry and Bendapudi, 2003; Bitner, Zeithaml, Berry and Parasuraman, 1993; Zeithaml, Parasuraman and Berry, 1985). Humanic clues are concerned with the actions and appearance of employees and the

service providers such as the choice of words, tone of voice, and level of enthusiasm, body language, neatness and appropriate dress (Berry et al., 2006). Human interaction provides a good opportunity in which to convey respect and high regard to the customers and, as a result, exceed their expectations and create an emotional involvement (Berry and Carbone, 2007).The extant literature has suggested that employee performance and interaction is an important humanic clue in the creation of the actual customer experience (Berry and Carbone, 2007; Berry et al., 2006; Rowley, 1994; Bitner, 1992). The quality of the person-to-person interaction between an employee and a customer (known as a "service encounter,") is an important basis for how a customer judges the service experience (Hennig-Thurau, 2004; Czepiel et al., 1985). Indeed, extensive service quality research has found that service employee's behaviour affects the customer's perception of the service (Zeithaml et al., 1996; Bitner, 1990; Parasuraman et al., 1985).

It is fundamental for companies to identify the humanic clues of an employee's behaviour and performance in order to meet and exceed customer's expectations (Berry et al., 2006). Recent research conducted by Specht et al. (2007) discovered that perceived employee effort is more important for customer satisfaction than are perceived abilities, suggesting that managers should focus predominantly on effort, including performance elements that represent social competence. Similarly, in a study based on restaurant tipping, Lynn and Grassman (1990) discovered that both the number of courses ordered and bill size positively related to the amount of tip given and concluded that bill size and the number of courses both measured the server's effort, hence customers were rewarding the server's perceived efforts. This would further suggest that perceived effort leads to customer satisfaction. Subsequently, the

employee performance is crucial to the humanic clue aspect of the actual customer (Berry et al., 2006).

Thus while mechanic clues set the stage by influencing customers' expectations, humanic clues typically play a crucial part in delivering on the promise through the employees/service providers' performance (Wall and Berry, 2007). Wall and Berry in their research on the combined effect of mechanic and humanic clues on customers perceptions of service quality in a casual dining setting, found that customers expectations of the service were significantly higher when mechanic clues were positive rather then negative. In addition the results of the study also indicated that humanic clues dominate mechanic clues in relation to the customer experience concept. Ideally, both sets of clues should be consistent in their message to customers but should inconsistency occur, it is better to have superior humanic clues. Subsequently it would be perceived that these three sets of clues are critical components in creating the perceived customer experience variable. However much remains to be learned in terms of these clues as little research exists that has investigated the combined effect of humanic and mechanic clues on service quality and experience with the exception of Wall and Berry 2007. In addition, to the best of our knowledge limited or no research exists that has examined the combined effect of all three sets of clues on these variables. Moreover, the concept of orchestrating mechanic clues to manage expectations is also an under explored notion in both the services and the tourism sector. These emerging issues directly affect the perceived customer experience and ultimately impact the loyalty building model, hence the following propositions:

P1.The perceived customer experience is composed of three categories of clues; they are functional, mechanic and humanic.

SERVICE QUALITY

Service quality is described as the comparison customers make between their expectations about a service and their perceptions of the actual service performance (Parasuraman et al, 1994, 1988, 1985; Grönroos, 1984, Lewis and Boom, 1983). In services organisation, the assessment of the quality of a service is made during the actual delivery process which usually involves a customer employee encounter. This is consistent with extant research which has found that there is a link between quality and experience. For example, both Ing-san and Der-Jang (2005: 4) and Zeithamal and Bitner (2000) found that "the quality of service achieved relies entirely on the impression the customers have of the service person (employee) delivered during the course of providing service". This is also similar to the humanic clues in the model, which propose that the employees' behaviour during the service has a powerful effect on the customers' perceptions of the service quality (Berry and Bendapendi 2003; Zeithaml et al. 1993).

Customer's perceptions of service quality are subjective evaluations of the service experience, and customer expectations are standards against which service experiences are judged (Zeithaml et al., 1993). For that reason, in addition to humanic clues, the physical environment or servicescape provide strong mechanic clues that impact not only the customers' perceptions of service quality but also their expectations (Wall and Berry, 2007). As companies seek to not only meet but exceed customer expectations, it would appear that these two sets of clues should be consistent in their message to the customer. For instance, "a comfortable, beautifully

decorated restaurant that delivers excellent service by courteous, well dressed employees is likely to receive higher service quality ratings from customers than a restaurant that is not strong in one but not both of these clue categories", (Wall and Berry, 2007:63). As the functional clues are concerned with the technical quality of the core product/service (Berry et al., 2002), that is the food itself in the previous scenario; it would then be perceived that this category of clues are also critical in influencing the level of perceived service quality. Moreover, Rowley (1999) maintains that a significant relationship exists between customer experience and service quality and argued that customer experience and satisfaction were inextricably linked with service quality. Indeed, some authors have proposed a link between the service attributes (physical facilities, people's behaviour) and service quality (Dabholkar, 1996; Haywood-Farmer, 1988). As a result the following proposition has emerged:

P2. Perceived customer experience has a direct effect on the customers perceived service quality.

Research findings are mixed as to the relationship that exists between quality and loyalty. In an investigation of four service providers, Zeithaml et al., (1996) observed a significant relationship existed between service quality and loyalty. Cronin and Taylor (1992) show divergent results and did not find a direct relationship between quality and loyalty. Indeed, they concluded that service quality had less of an impact on purchase intentions than did consumer satisfaction and that quality is an antecedent of the latter. For Cronin et al., (2000) this apparent contradiction is an indication that quality provides only a partial view of customer loyalty and that

"models of consumers' evaluations of services that consider individual variables or direct effects are likely to result in incomplete assessments of the basis of these decisions. Thus, the services manager who only considers the likely effect of a service quality initiative on his or her customers' behavioural intentions errs if he or she does not also consider the impact of such a strategy on the value and satisfaction attributed to his or her firms services" (210).

Collaborating evidence to support this logic was provided by Cronin et al., (2000) who found an indirect relationship between quality and loyalty through satisfaction and value independently of each other. The gap that may occur between expectations and perceptions of the service is not only a measure of quality but is also a determinant of the customers' level of satisfaction (Pizam and Ellis, 1999). Caruana 2000's study which surveyed 1000 bank retailers also indicated that customer satisfaction does play a mediating role in the effects of service quality on service loyalty. On this basis, customer satisfaction is indicated as acting as a mediator in the relationship between service quality and customer loyalty as per Figure 1. This would indicate that quality has a link to the other variables in determining behavioural intentions and ultimately loyalty. However as Cronin et al. (2000) and Zeithaml (1996), did find that service quality had a direct impact on behavioural intentions and loyalty, this would suggest that the influence of perceptions of service quality on loyalty is considerably more integrated than is reported in other literature. For this reason our model depicts a direct relationship between service quality and loyalty and provides the following propositions.

P3. Service quality has both a direct and indirect effect on customer loyalty; the indirect relationship with loyalty is mediated by the satisfaction variable

P4. Service quality has a direct impact on customer satisfaction

CUSTOMER VALUE

For Woodruff (1997) value is a "customer's perceived preference for and evaluation of that product attributes, attribute performances, and consequences arising from use that facilitate (or block) achieving the customers goals and purposes in use situations" (176). Dube and Renaghan's (2000) research determined that loyalty in the hotel business is strongly influenced by customers experiencing 'visible value' everyday of their stay rather than meeting customers' expectations on the attributes that motivated their booking. Interestingly, they found that loyalty diminished considerably when customers did not obtain 'visible value' every day of their stay. Their research found that, for all guest types, the top three major drivers of 'visible value,' in order of importance, were: guest-room design, physical property (exterior, public space) and interpersonal service, however, interpersonal service was placed second by leisure and business-meeting guests. This suggests that the physical environments of the service as well as the individuals involved in delivering the service are major experience components that impact on customer value. From a tourism context, the identified relationship between experience and customer value is critical considering that extant research has identified customer value as a key driver of success for tourism enterprises (TPRG).

P5. Creating customer value through customer experiences is critical in building customer loyalty.

In order to create a memorable branded experience Smith and Wheeler (2002:45) state that "companies must have absolute clarity which segments are most profitable, what these best customer's value, and how the organisation can create and deliver on a

promise which differentiates from the customer" They also argue that loyal can be obtained by exceeding the expectations of this target customer and a subsequent benefit is that these will attract others with similar values. Nevertheless in order to achieve this, it is necessary to identify and define what the target customer values in order to create and deliver the complete memorable experience. This would imply that a two way relationship exists between the perceived customer experience and customer value and the following proposition is presented.

P6. A two way relationship exists between the perceived customer experience and customer value variables – (1) Its necessary to create the total customer experience in order to provide customer value and (2) in turn it's important to identify what the target customer values in order to orchestrate the total customer experience.

Loyalty behaviors such as relationship continuance, increased market share and recommendation (word-of-mouth) results from customer's beliefs that the quantity of value received from one supplier is greater than that available from other suppliers (Hallowell, 1996). Indeed, many marketing strategists and industrial organisational economists have stressed that the creation of customer value is one of the crucial variables involved in determining customer loyalty and ultimately ensuring a company's success (Higgins, 1998; Kordupleski and Laitamaki, 1997; Reichheld, 1996; Gale, 1994). However, the relationship between customer value and loyalty still remains ambiguous within the literature. For instance, Sirdeshmukh, et al. (2002) found that value had a direct relationship with customer loyalty. In their study of assessing the effects of quality, value, and customer satisfaction on consumer behavioural intentions in service environments, Cronin et al (2000) found both direct and indirect effects of service value on behavioural intentions. These authors perceive

that considering only value as an explanation for loyalty is likely to give an incomplete assessment as to the basis of loyalty. For Patterson and Spreng (1997), the positive relationship between value and loyalty is interceded by satisfaction, further indicating that value does not on its own fully explain the loyalty concept. Additionally convergent evidence suggests that service quality is a critical determinant of perceived value (Cronin et al., 2000; Bolton and Drew, 1991), which, in turn, impacts on satisfaction (Cronin et al., 2000; Day and Crask 2000; Patterson and Spreng, 1997; Woodruff, 1997) in determining behavioural intentions and loyalty (Cronin et al., 2000). Due to the foregoing, the value variable is positioned as having both a direct and indirect effect on loyalty, with the indirect relationship being interceded by the satisfaction variable in Figure 1.

In addition to its mediating role in the service quality loyalty relationship, numerous studies show that a relationship also exists between value and satisfaction. Satisfaction is perceived as being both an evaluative and emotional based response to the service encounter (Oliver, 1997) and is the result of a customers perception of the value received in a transaction or relationship – where value equals perceived service quality relative to price and customer acquisition costs (Heskett et al., 1990) - relative to the value expected from transactions or relationships with competing vendors (Zeithaml et al., 1990). Indeed in Woodruffs (1997) customer value hierarchy model, three levels of satisfaction parallel the three stages of the value hierarchy implying that each value stage leads to a stage of satisfaction. His model depicts the value concepts as antecedents and customer satisfaction as the endogenous construct. This is consistent with Figure 1 which displays value as having a direct impact on satisfaction. Based on the foregoing these propositions are put forward:

P7. Value has both a direct and indirect impact on customer loyalty; the indirect relationship with loyalty is interceded by customer satisfaction.

P8. Customer value has a direct effect on customer satisfaction

CUSTOMER SATISFACTION

As most tourism and hospitality services are an amalgam of product and services, it would be possible to state that satisfaction with such an experience for example a hotel stay is a sum total of satisfactions with the entire individual attributes of the products and services that make up the experience (Pizam and Ellis, 1999). Reuland et al (1985: 145), suggest that satisfaction in hospitality services is a function of a combination of three components: the material product (such as the food itself in restaurant) the behaviour and attitude of the employees, and the environment (such as the room design and layout). Likewise, Berry et al, (2002) have categorised the customer experience into three similar sets of components known as clues that is functional, humanic and mechanic respectively. Therefore it would be perceived that these clues which have been previously outlined and displayed in Figure 1 as components of the perceived customer experience have a direct influence on customer satisfaction.

Moreover, Dahlsten (2003) has noted that academics agree that "customer satisfaction is a function of the relationship between customer expectations and experience, that it is dependent upon value and that it is formed continuously" (74). Indeed, Rowley (1999:303) who based her study on measuring the total customer experience in a museum maintained that customer satisfaction is determined by the total customer experience "from the moment that a customer seeks to park their car, make a

connection through the telephone network, to the moment the customer leaves the museum with the appropriate information, or leisure experience". This indicates a strong connection with the customer experience and the level of customer satisfaction obtained. Based on the foregoing discussion, it is our contention that experience is an essential component for building loyalty and may even have a direct effect on loyalty. Nevertheless, it does not on its own fully explain the loyalty concept, value, satisfaction and quality are also important variables to consider.

P9. The level of customer satisfaction obtained is largely determined by the total perceived customer experience; therefore the perceived customer experience has a direct and significant impact on customer satisfaction.

Customer satisfaction has received considerable attention due to its importance in the customer relationship management literature and indeed its impact on customer loyalty (Cronin et al, 2000; Cronin and Taylor, 1992; Oliver 1980). As far back as 1983, Bearden and Teel argued that "it is generally assumed to be a significant determinant of repeat sales, positive word of mouth and consumer loyalty". LaBarbera and Mazursky (1983) research on brand loyalty indicated that customers were less likely to switch products/services if their levels of satisfaction were high. Indeed studies conducted by Cronin and Taylor (1992) in four service sectors found that customer satisfaction had a significant effect on purchase intentions in all four sectors. In addition to this Kandampully and Sahartanto (2000) research on loyalty in the hotel industry found that customer satisfaction with reception, housekeeping, food and beverage, and price are all important factors in determining whether a customer will repurchase/recommend and display loyalty. Several studies have also discovered

that a minimal change in the level of satisfaction can lead to a significant change in loyalty increment (Bowen and Chen, 2001; Oliva et al. 1992; Coyne, 1989). Indeed, much of the literature on the influence of customer satisfaction on building customer loyalty has been positive and generally implies that satisfaction is one of the determinants of customer loyalty (Hoisington and Naumann, 2003; Cronin et al., 2000; Gronholdt et al., 2000; Anderson and Fornell, 1994; Heskett et al., 1990; Cronin and Taylor 1992; Reicheld and Sasser, 1990; Zeithaml et al. 1990; Oliver 1980). Based on this it would be our contention that satisfaction has a direct and powerful impact on customer loyalty and the following proposition is put forward.

P10. Customer satisfaction is one of the most critical components in determining customer loyalty therefore customer satisfaction has a direct and significant impact on customer loyalty. A minimal change in the level of satisfaction can lead to a significant change in the loyalty level.

However, other studies have found that satisfaction has a less of a significant impact on customer loyalty than is traditionally perceived in the literature (Khatibi et al., 2002; Bowen and Chen, 2001). Indeed, Reichheld (1996) argues that although satisfaction is one of the necessary components for building loyalty, it does not necessarily guarantee loyalty. Bennet and Rhundle-Thieles'(2004) analysis of 267 businesses found that high satisfaction does not necessarily result in high loyalty which further illustrates that although loyal customers need to be satisfied, satisfied customers are not necessarily be loyal. As a result this final proposition is put forward:

P11. Although loyal customers need to be satisfied, satisfied customers are not necessarily loyal.

CONCLUSION AND FUTURE RESEARCH DIRECTIONS

This paper has reviewed the extant concept on customer loyalty and has argued that although much has been written about the relationships between service quality, customer satisfaction, and loyalty, researchers in this field have not been successful in totally explaining how loyalty is built. Indeed, our goal was to put forward an argument that research needs to move away from this traditional loyalty building approach, to one which incorporates newer variables such as customer experiences. Unquestionably, consumers now desire experiences and, in order to fully capitalise on this, businesses must deliberately orchestrate engaging memorable experiences. The tourism and hospitality sectors cannot fall behind with regard to adopting such fundamental strategies in both their business operations and marketing activities in order to achieve customer loyalty. Indeed Dube and Renaghan's (2000) research determined that loyalty in the hotel business is strongly influenced by customer's experiences and loyalty diminished considerably when customers did not experience 'visible value'. Therefore using the notions of customer relationship management as a basis, we have proposed a model that builds customer loyalty by creating value through customers' experiences. It is our contention that experiences are critical in building loyalty in conjunction with the other variables such as quality, value and satisfaction. These are significant variables in determining customer loyalty and to the best of our knowledge no research has previously collectively incorporated all four critical variables into one loyalty building model. Based on the foregoing, this proposed study makes a major academic contribution due to the scarcity of research

and interest in this area and a major practical contribution through the dissemination of results; indeed, the natural direction for further research is to define measures for the propositions and to test the validity of our model on a large tourism population. It is anticipated that this field of research will allow for the realization of valuable insights into the four critical variables with regard to building loyalty within an Irish tourism context.

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