

# Cultivating Customer Patronage Through Vertical Integration Strategy in Hospitality Firms in Nigeria

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This paper explores possible alternatives through which customer patronage of hospitality-based firms can be cultivated, attracted, and sustained to remedy the phenomenal low patronage experienced in the hospitality industry. It adopts a theoretical analytical methodological paradigm and develops a logical framework involving downward integration strategy for hospitality firms, particularly hotels. The paper argues that the dwindling state of customer patronage in hotels can be addressed through vertical integration, involving downward trajectory, where the joint/complementary demand nexus between tourism and hospitality services can be explored. The paper concludes that given the dwindling trend of most firms' market, increasing trend can be triggered through customer cultivation and sustenance. Thus, the paper recommended the adoption of downward integration growth strategy, where investment in tourism attraction/destination can be used to cultivate customers for the hospitality industry.

*Keywords:* customer cultivation, customer patronage vertical integration, downward vertical integration, upward vertical integration

## Introduction

The prime focus of every business remains the satisfaction of its customers, which is its reason for being. Thus, it is argued that a business logically starts and ends with its customers for its short- and long-run existence (Middleton & Clarke, 2001 (as cited in Konecnik & Go, 2010); Ogbuji, 2012). Again, the whole essence of competition in business is who gets what share of the market, in the rivalry for customers (Kotler, Bowen, & Makens, 2010). The implication is that the lack of customers is symbolic of business failure, because every other objective of business is tied to the existence and satisfaction of the customer (Kotler et al., 2010; Middleton & Clarke, 2001).

However, researches on customer patronage have been limited to predictors related to components of the marketing-mix (Kotler et al., 2010; Panda, 2013; Oseni & Momoh, 2012; Rahmam, Abdelfattah, & Mohamed, 2014). The broad spectrum of the focus of researches relating price, product, place, and promotion mixes to customer patronage is that customer patronage can be attracted and sustained through relevant and appropriate manipulation of the marketing-mix components. Following the logical coherence of this thought, it appears that the potential customer must at least first exist before any of the marketing-mix appeals can be potent.

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When this trend of thought is viewed on the hospitality industry in Nigeria, where the firms are characterized by lack of or low patronage within the context of insecurity, poor culture of leisure, lack of tourist events, and low economic standard of living, reliance on customer attraction through marketing-mix appeals seems inadequate. To survive in this industry, “customer cultivation” is thought of as strategically logical to precede customer appeal. Thus, this paper presents a customer patronage cultivation model through vertical integration strategy. The contention is that in the hospitality industry where the customer (the tourist) is mostly a product of tourism (Chuku, 2011; Otunba, 2010; <http://tourism.gov.ng/>), the need for tourism mostly is inextricable with the need for hospitality; therefore, these complimenting or derived needs and demands may ultimately enhance the patronage of hospitality services. It follows that the phenomenal low patronage of hotels in Nigeria (Otunba, 2010; Chuku, 2011) can be ameliorated by way of customer patronage cultivation in the form of investments in tourism attractions to cultivate/produce the needed customers for hospitality businesses.

### **Statement of the Problem**

The poor customer patronage in the hospitality industry in Nigeria has become increasingly problematic. Firms in this industry, particularly the hotels that are operating below expected customer-patronage capacity the operating costs such as electricity, staff salaries, taxes, etc., do not vary with the rate of patronage (Otunba, 2010; Eketu, 2012c). The consequences of this customer-patronage sage are quite frustrating as an attempt to adjust often leads to maladjustment (Eketu, 2012a). For instance, the industry is characterized by high and uncompetitive prices, untrained staff, high rate of employee turnover, poor services, low remuneration, unmotivated staff, high unethical practices, and poor maintenance culture among others (Eketu, 2012b; Ekechukwu, 2014). The fear is that the complementary role the hospitality industry is expected to play in tourism development in particular, and economic development in general, is threatened.

However, attempts to use marketing mix to generate customer appeals have not yielded any adequate results. Thus, it behooves on us to craft out a customer cultivation model, using downward vertical integration growth strategy.

### **Objective of the Paper/Question Addressed**

Considering the critical nature of the problem discussed above, this paper sought to generate a logically coherent and parsimonious theoretical analysis that will naturally trigger a paradigm shift from emphasis on customer appeal to emphasis on customer cultivation. This position is held because customer appeal is irrelevant where the customer is non-existing. From the foregoing objective, the fundamental question addressed in this paper is: “How can customer patronage be cultivated in the hospitality industry, where the industry is lacking patronage?”.

### **Methodology**

The paper builds on a theoretical logic and adopted tertiary analytical paradigm, involving logical theoretical analysis that flows from the purpose, objective, question, and discussion to provide a heuristic model for cultivating customer patronage in the Nigerian hospitality industry.

### **The Theoretical Framework**

The customer is a very critical stakeholder in every business. He/she largely determines both the short- and long-run existence of the business. The totality of any business customers constitutes the market focus of

the business (Porter, 1985; Aluko, Odugbesam, Gbadamosi, & Osuagwu, 2011). However, the theoretical framework of this paper is based on Kotler et al.'s (2010, p. 213) argument that, "Opportunities in diversification, market development, and product development can be seized through integrating backward, forward, or horizontally, within the business industry". This implies that within the context of vertical integration among other things, firms' market (customers) can be developed (cultivated). This tends to corroborate Porter's (1985) view that organizations can gain competitive advantage in the form of cost leadership, differentiation, and focus through generic strategies. Integration is one of such generic strategies. From this theoretical anchor point, the paper conceptualized that customer cultivation can be achieved through backward integration growth strategy.

## **Review of Literature**

### **The Nature of the Hospitality Service**

The concept of hospitality means the provision of care and comfort to people. As a business, the tendency that people need care and comfort even when they are away from home has made the provision of care and comfort an ever-growing business activity or sector. Wagen (1999) argued that, "Providing hospitality means offering a welcoming environment to visitors, and the hospitality industry is without doubt a people industry" (p. 26). Hospitality is offered to people, who are away from home, some only walking distance, others many miles from home. The hospitality industry comprises businesses whose primary activities are the provision of accommodation, selling of beverages for consumption on the premises, and provision of food and entertainment (Wagen, 1999; Middleton & Clark, 2001 (as cited in Konecnik & Go, 2010)).

Drawing from the foregoing, the hospitality service is quite different from the services offered by other service industries. Being a people industry, the providers and the consumers of the hospitality services have a prolonged physical attachment as the service consumption lasts. Therefore, it is implied in the argument of Adeyemo (2003) and Wagen (2001) that for the customers visiting hospitality operations, it is with some caution that we stereotype establishments with different sectors; the service provider delivers personal services to the customers who give instant assessment of the level of utility derived (Ali, Brookson, Bruce, Eaton, Heller, Johnson, Langdon, & Sleight, 2001; Middleton & Clark, 2001; Adeyemo, 2003; Wagen, 2001).

The hospitality sector represents a very broad spectrum of firms providing services ranging from accommodation, food, service beverage service, entertainment, relaxation, functional event management centers/banquet, gaming, commercial catering, and sporting events to recreation. Wagen (2001) argued that hospitality business involves making comfort available for a price to visitors. The hospitality industry could be said to be an industry that provides home away from home, and even more than the home can provide.

However, because the hospitality industry meets the needs of customers of both local and international (distant) origins, it is inextricably related to tourism. Tourists travel away from home, and they use the services offered by the hospitality industry. Not all users of the services offered by the hospitality industry are tourists; some can be non-travelers who just want to relax away from home. Thus, Wagen and Goonetilleke (2003) and Kotler et al. (2010) shared the view that in many cases and in most establishments, customers are a mix of locals and travelers. Considering the relationship between demand for tourism and demand for hospitality services, some forms of complementary nexus exist. This means that the demand for tourism makes the demand for hospitality services inevitable. It is this logical coherence that informs argument on cultivating customer patronage through vertical integrative strategy.

The hospitality industry has unique characteristics as a service industry. Such uniqueness affects the pattern of its investment, service delivery, and service purchase. Oseni and Momoh (2012) identified the characteristics of tourism service, which are directly shared by hospitality services as intangibility, inseparability, non-quantifiable, perishability, physical evidence, and instant evaluation. Kotler et al. (2010) contended that intangibility, inseparability, variability, and perishability are characteristics of service marketing.

As generic as these factors are, they are quite suitable descriptions of the hospitality and tourism service sector. Intangibility represents the fact that services cannot be seen, tasted, felt, heard, and smelled before purchase. Inseparability refers to the impracticability of separating service from the providers; variability describes the fact that the quality of services depends on who provides them and when, where, and how; perishability describes the possibility of storing service. Service cannot be stored for later sale or use; and physical evidence implies that buyers of tourism and hospitality services consider the environment, the arrangement of the offices, the types of equipment, the color of the building, etc. (Oseni & Momoh, 2012).

### **Cultivating Customer Patronage**

The customers of a business may be potential or real, the former are those who have the need to be satisfied, but are yet to establish any business contact, while the latter are those who have made the contact in furtherance of satisfying their needs by purchasing the services or goods provided by the business. In every sense, the customer is as important as the relevance of the business. Customer patronage is the sustenance of customer loyalty to buy a product or service. Wagen and Goonetilleke (2003) contended that the customer is the key to an industry. A study of an industry is first and foremost a study of its customers, and the services and products supplied by the industry are all geared toward meeting the needs of the customer.

However, it is strongly contended in Kotler et al. (2010), Wagen and Goonetilleke (2003), Jian (2014), and Mattila (2006) that a customer can only exist where a real need exists. Again, the consistency in this thought would mean that a potential customer can be created or “cultivated” by simply creating a need to exist. Considering this consistency, the construct, “cultivating customer patronage” is used to connote every conscious design that makes a need exist, with designed activities for its inevitable satisfaction.

### **Integrative Growth Strategy**

In a world of stiff competition, the need to take advantage of opportunities in the environment, within the capacity of business strength, has made business strategy very important in the pursuit of business long-term objectives. Integration strategies tend to be relevant when there is the strength to take advantage of the opportunities that exist vertically downward, vertically upward, or horizontally. Kazmi (2008, p. 314) argued that, “Integration means combining activities related to the present activity of a firm”. This may involve upward, downward, or horizontal moves on the value chain to concentrate more comprehensively on the customer groups and needs that are currently being served. This may further involve the firm’s concern to adjust itself adjacent to businesses (Mishra & Akbar, 2007). Kazmi (2008) further argued that, “Integration is an expansion strategy as its adoption results in a widening of the scope of the business definition” (p. 318).

However, although integration may be horizontal or vertical, this paper is focused on vertical integration. Vertical integration occurs when a firm engages in making new products that serve its own needs or serving as a customer for output. A firm may adopt either backward or forward integration strategy. Kazmi (2008)

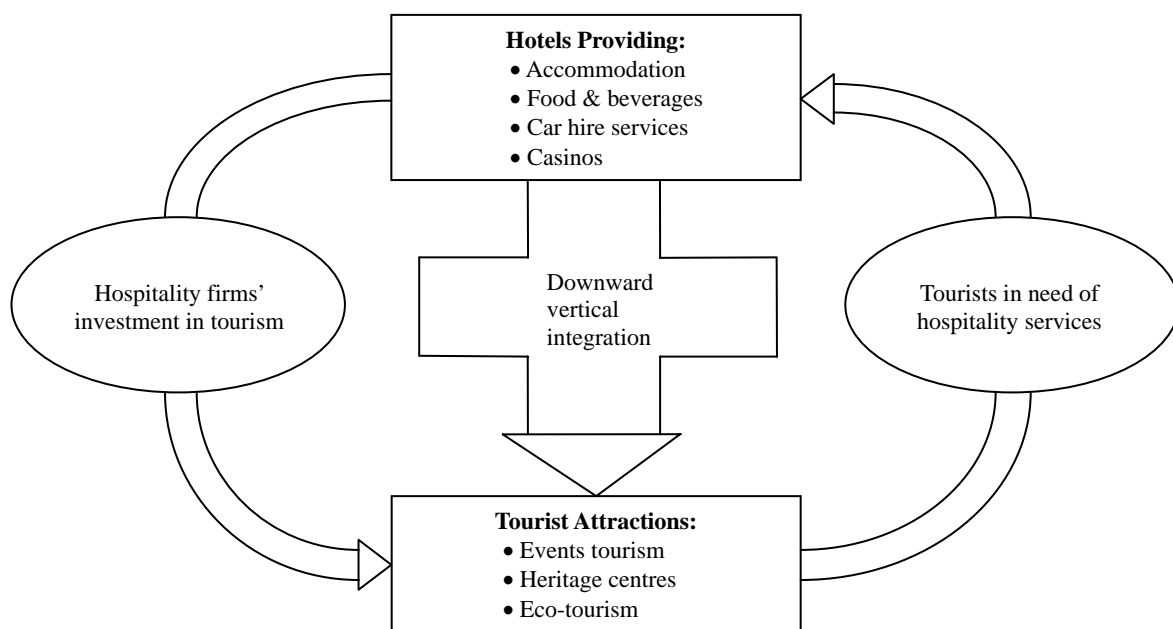
contended that the former means retreating to the sources of raw materials, while the latter moves the firm ahead, taking it nearer to the ultimate customer. From the above, it implies that backward integration ultimately tries to ensure a continuous supply of raw materials for production processes at low cost, whilst forward integration ultimately tries to ensure a ready market for the firm's product through distribution channel control (<http://www.freemba.in/articlesread.php?artcode>).

The foregoing discussion implies that vertical integration growth strategies focus on raw material sourcing (backward) and distribution channel management (forward). Kotler et al. (2010) argued that integrative growth can be relevant where opportunities in diversification, market development, and product development can be seized through vertical growth. However, in this paper, the same movement is adopted, but with a paradigm shift that has the customer as the focal issue rather than the material input and output.

### **Integrative Strategy and Customer Patronage Cultivation in the Hospitality Industry**

It is argued in this paper that integrative growth strategies have been applied in a very limited scope, where targeted issues are mainly material sourcing and channel management. Drawing from its logical movement, either downward or upward, we have expanded its scope of utilization to cover customer patronage cultivation. The theoretical model is drawn from Kotler et al.'s (2010) identification of "market development" as one of the opportunities in diversification, which Kazmi (2008) earlier identified as an "expansion strategy".

However, considering the importance of the customer to every business, the paper has limited the concepts of "market development" and "expansion strategy" to the customer. The paper contends that market (customer) development and customer base expansion can be achieved through cultivating customer patronage, using the vertical downward integrative growth strategy. For instance, going by the customer value chain, hospitality-based firms can initiate a process that will create the needed customers for the industry, through downward vertical integration. This process can be initiated by hospitality firms, particularly hotels in direct investment in tourism destinations that will cultivate the movement and clusters of tourists.



*Figure 1.* Heuristic model of customer patronage cultivation through integrative growth strategy in hospitality firms.

Okoli (2014) argued that investments in or organization of tourist events automatically create event tourists. This follows that the low patronage currently experienced by hotels in Nigeria can be addressed through programmed investments in tourism destinations. Destinations such as tourist events, heritage sites, eco-tourism destinations, etc., can be used to cultivate and harvest the tourists (customers) such events will bring together. Customer identification and appropriate marketing-mix appeals can then be applied on the customer clusters to attract their use of hospitality facilities readily made for their use. This logical thought assumes that tourism events precede the consumption of hospitality services. Therefore, the investment in organization of tourist attractions by hospitality firms is a downward integrative growth strategy.

From the theoretical disposition presented above, we conceptualized the heuristic model presented in Figure 1 above.

### Conclusion, Implication, and Recommendation

Given the logical sequence provided in this paper, where hospitality firms can integrate downwardly to get involved in tourism attraction investments, it implies that hospitality firms can create their own customers. This paradigm shift has two logical implications. The theoretical implication of our proposed customer patronage cultivation model is the broadening of the scope of vertical integration growth strategy. This has included customer expansion besides the traditional focus on raw material input/supply control and finished goods distribution channel control. Thus, theories on customer patronage will include or even start from customer creation, identification, and satisfaction.

Practically, the customer cultivation model implies that firms creating or cultivating their customers may go into tourism operations through either outright ownership of investment or collaborative ownership behavior (mergers and acquisition). Based on these implications, the paper concludes that the lack of customer patronage often suffered by hospitality firms can be remedied through the adoption of integrative growth strategies to create the needed patronage. Thus, it is recommended that hospitality service firms should integrate backwardly by investing in tourist event programmes to generate sound customer base for their operations.

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