

Summary paper: Role of Service Innovation in Enhancing Loyalty to Online Travel Agencies

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Abstract

This paper explores the relationship between service innovation, customer engagement, and brand loyalty, particularly within the context of online travel agencies (OTAs) in Thailand written by Rasmidatta (2022). The study was based on a quantitative empirical approach using a survey of 478 respondents. Key findings are presented as follow:

1. Service Innovation: This positively influences customer engagement and brand loyalty. Innovations in service offerings trigger customer interest and engagement, leading to a stronger connection with the brand.
2. Customer Engagement: It is a critical factor in building brand loyalty. The study finds that engagement, including emotional, cognitive, and behavioral responses, has a more substantial impact on loyalty compared to traditional service evaluations like perceived value.
3. Perceived Value: This influences both customer engagement and brand loyalty. Customers who perceive a high value in services tend to engage more deeply and remain loyal.

The study emphasizes that service innovation and customer engagement are key drivers of brand loyalty in the competitive OTA market, offering practical insights for service providers to enhance customer relationships through innovation and engagement strategies.

Keywords:

Online Travel Agencies, Service Innovation, Customer Engagement

Research Summary

The paper (Rasmidatta, 2022) discusses how service evolution factors, such as perceived service quality, customer satisfaction, and perceived value, have been extensively studied for their relationship with brand loyalty. However, recent studies have introduced customer engagement as an influential factor that interacts with these traditional evaluations and affects brand loyalty more effectively. The introduction emphasizes that customer engagement may be a smarter driver of loyalty compared to service evaluation, supported by past research. Also, the paper aims to answer several questions, such as the suitability of the latest measurement model for customer engagement in OTAs, and how much service innovation can trigger engagement and predict brand loyalty. In OTAs, service innovation drives both customer engagement and perceived value, and engaged customers tend to perceive higher value in the services they receive. These interconnected concepts help OTAs build long-term loyalty and competitive differentiation in a crowded market. By consistently innovating and enhancing perceived value, OTAs can keep customers engaged, leading to stronger brand loyalty.

1. Customer Engagement

- (a) Definition: Customer engagement refers to the emotional, cognitive, and behavioral connection that customers have with a brand. It goes beyond mere transactions and involves active participation and interaction with the brand across various touchpoints (online or offline).
- (b) In the OTA Context: For OTAs, customer engagement can manifest through various behaviors like actively using the OTA platform, interacting with the brand on social media, leaving reviews, or even participating in loyalty programs. Engaged customers are likely to spend more time on the platform, explore more options, and make frequent bookings.
- (c) Significance: Engaged customers are not only more loyal, but they also tend to promote the brand through word-of-mouth or social media interactions. In a competitive environment like OTAs, engagement helps build long-term relationships and differentiates the brand from others that focus only on transactional interactions.

2. Service Innovation

- (a) Definition: Service innovation refers to the introduction of new or significantly improved services that enhance the customer experience. This could include new functionalities, technologies, or processes that improve efficiency, personalization, or overall service delivery.
- (b) In the OTA Context: For OTAs, service innovation often revolves around personalization, mobile accessibility, real-time updates, and integrated booking systems. For example, companies like Expedia

and Booking.com have invested heavily in using artificial intelligence (AI) to offer personalized travel recommendations, smart pricing algorithms, and real-time customer service through chatbots.

- (c) **Significance:** Service innovation creates differentiation in a saturated market. OTAs that continuously innovate can meet the evolving needs of travelers, offering seamless experiences like automatic re-booking options or smart notifications for price drops. Google Travel, for example, offers users integrated experiences that combine flight, hotel, and trip planning into a single platform. These innovations make the service more convenient and valuable, directly impacting customer engagement.

3. Perceived Value

- (a) **Definition:** Perceived value is the customer's evaluation of the benefits received from a product or service relative to the cost paid. This value can be functional (e.g., price savings or ease of use), emotional (e.g., enjoyment or satisfaction), or social (e.g., status or prestige).
- (b) **In the OTA Context:** In OTAs, perceived value is often associated with price transparency, convenience, and the ability to access multiple travel options in one place. OTAs like Kayak and Skyscanner are popular because they offer price comparisons, helping customers feel that they are getting the best deals. However, perceived value also comes from features like loyalty programs (e.g., Expedia Rewards), where customers feel rewarded for repeat bookings, increasing their sense of value beyond just price.
- (c) **Significance:** Perceived value plays a crucial role in customer decision-making. Customers tend to engage more with OTAs that provide high perceived value—be it through better deals, convenience, or superior service—leading to stronger engagement and loyalty.

Connection Between the Three Concepts

In the context of OTAs, customer engagement, service innovation, and perceived value are deeply interconnected, working together to build customer loyalty.

1. Service Innovation Drives Customer Engagement:

- (a) When OTAs introduce new services, such as personalized recommendations or seamless mobile integration, they enhance the customer experience. These innovations make it easier for customers to interact with the platform, leading to higher engagement. For example, Trip.com leverages AI to offer curated travel packages based on user preferences, which increases interaction and encourages customers to spend more time on the platform. Innovation attracts attention, makes the service more compelling, and encourages customers to become more involved with the brand.

- (b) According to a McKinsey report, 67% of customers become more engaged with brands that offer personalized experiences, reinforcing the connection between innovation and engagement.
2. Perceived Value Enhances Engagement:
- (a) Perceived value is crucial in encouraging customers to engage with a platform repeatedly. When customers feel they are receiving high value for their time and money, they are more likely to return. For instance, Priceline uses deep discounts and express deals to give customers a sense of high value, which keeps them engaged on the platform.
 - (b) Studies show that perceived value significantly influences repeat purchase behavior and brand advocacy. Customers who perceive a high value in the services offered are more likely to engage with the brand across multiple touchpoints (e.g., mobile apps, websites, social media).
3. Service Innovation Enhances Perceived Value:
- (a) Service innovation directly improves perceived value by offering better features, greater convenience, and more personalized experiences. For example, Booking.com's innovative user experience, where customers can see real-time availability, last-minute deals, and AI-powered suggestions, increases the perceived value of the platform.
 - (b) Innovations that simplify the booking process or introduce new functionalities (e.g., real-time price tracking) give users the impression that they are getting more benefit for their money. This higher perceived value leads to stronger engagement and ultimately loyalty.
4. Engaged Customers Perceive Higher Value:
- (a) Engaged customers are likely to perceive more value in a brand's offerings because their emotional and cognitive involvement enhances the overall experience. For instance, customers who participate in loyalty programs like Expedia Rewards often perceive greater value due to the personalized rewards and exclusive benefits they receive, which in turn keeps them more engaged.
 - (b) Engaged customers are more likely to discover and appreciate innovative features offered by OTAs, which strengthens their perception of the brand's value. According to research from Harvard Business Review, engaged customers are more likely to experience a stronger emotional connection to a brand, which increases their perceived value of the services offered.

Findings from the paper

The study's findings suggest that online travel agencies (OTAs) should prioritize service innovations that enhance customer engagement because customer engagement is the most critical driver of brand loyalty.

1. **Engaged Customers Are More Loyal:** The research shows that customer engagement has the strongest direct effect on brand loyalty ($\beta = .695$). Engaged customers are not just satisfied with the service—they are emotionally and cognitively connected to the brand. This connection increases their likelihood of repeat business, advocacy, and long-term loyalty. Thus, by focusing on engagement rather than simply transactional satisfaction, OTAs can build deeper, more durable relationships with their customers.
2. **Service Innovation Enhances Engagement:** Service innovation, whether through new features, personalized services, or seamless user experiences, was found to significantly enhance customer engagement ($\beta = .557$). When OTAs introduce innovative services, such as personalized booking systems, real-time travel updates, or unique travel packages, they capture the attention of customers, making them more likely to engage with the platform. Innovations that surprise and delight users, or that solve pain points in the booking process, contribute to stronger engagement, which in turn fosters loyalty.
3. **Differentiation in a Competitive Market:** The OTA industry is highly competitive, and customers often choose services based on price comparisons and convenience. By offering innovative services that go beyond the basics—such as loyalty programs, personalized recommendations, or improved user interfaces—OTAs can differentiate themselves from competitors. This creates added value for customers and increases their emotional and psychological investment in the brand.
4. **Engagement Strengthens Customer-Brand Relationships:** Engaged customers are more likely to participate in value co-creation, where they actively interact with the brand, leave feedback, and spread positive word-of-mouth. This creates a cycle of value that strengthens the customer-brand relationship. For example, if a customer enjoys using an OTA's personalized travel recommendation system, they are more likely to share their experience with others, driving organic growth and reinforcing their own loyalty.
5. **Long-term Business Sustainability:** OTAs that innovate to engage customers will not only retain more customers but also benefit from increased customer lifetime value. Engaged customers tend to make more frequent bookings, exhibit higher spending, and become brand advocates. This loyalty translates into sustainable long-term business success in an industry where switching costs for consumers are low and competition is high.

Implications from the paper

The paper offers a substantial theoretical contribution by demonstrating that customer engagement mediates the relationship between service innovation and brand loyalty, positioning engagement as the central driver of loyalty in service industries. It also broadens the application of service-dominant logic (SDL) by showing how service innovation can be leveraged to enhance engagement and loyalty.

1. Integration of Service Innovation and Customer Engagement:

This study expands the service-dominant logic (SDL) and relationship theories by demonstrating the pivotal role of customer engagement as a mediator between service innovation and brand loyalty. Traditionally, brand loyalty has been explained using relationship theories that focus on post-purchase behavior. This research adds a new layer by highlighting the role of engagement beyond purchase. The results show that customer engagement serves as a full mediator, meaning that service innovation primarily influences loyalty through enhancing engagement. The study suggests that service innovations, like improved user experiences or personalized services, trigger customer engagement, which then leads to loyalty. This finding helps bridge the gap between product-centric innovation approaches and customer-centric engagement strategies, combining them into a cohesive model that enhances loyalty in competitive markets such as OTAs.

2. Expanding Customer Engagement Theories:

Customer engagement is identified as a crucial construct, contributing to both cognitive and emotional attachment to a brand, thus explaining brand loyalty. The study confirms that customer engagement is not merely about behavioral participation but involves cognitive, emotional, and psychological dimensions. This supports prior work by Brodie et al. (2011) and Vivek et al. (2012) but also adds new evidence for the significance of engagement in highly competitive industries. The findings suggest that the relationship between engagement and loyalty is stronger than previously considered, indicating that customer engagement is a stronger predictor of brand loyalty than traditional evaluations like perceived value or service quality. This elevates the importance of designing services that foster deeper customer engagement beyond just satisfaction.

3. The Role of Service Innovation in Loyalty Formation:

The study provides a new perspective on how service innovation fits within the loyalty formation framework, showing that while service innovation ($\beta = .557$) significantly influences engagement, its direct

effect on brand loyalty is weaker. This suggests that the real value of innovation lies in how it encourages customer interaction and involvement, rather than simply providing functional benefits. This adds to the service-dominant logic (SDL) framework by reinforcing that services must be designed not just to deliver value but to engage customers in a way that creates emotional ties to the brand. This nuanced understanding of service innovation helps scholars better explain loyalty in dynamic service industries.

4. Nomological Network Expansion:

The research contributes to expanding the nomological network of service innovation and customer engagement by incorporating new insights into how these variables interact to shape brand loyalty. It integrates multiple constructs (customer engagement, service innovation, perceived value, brand loyalty) into a single theoretical framework, offering a more comprehensive explanation for loyalty formation in OTAs. This integrated approach goes beyond traditional marketing models, which often consider these factors in isolation. The predictive power of customer engagement as a mediator also suggests that engagement-driven models can be applied across different service industries, not just OTAs, offering broader theoretical applicability.

5. Shift from Transactional to Engagement-Oriented Strategies:

The findings imply a shift in focus from transactional measures like service quality and satisfaction toward engagement-oriented strategies. While service innovation and perceived value remain important, they should be viewed as tools for enhancing customer engagement, which ultimately drives loyalty. This theoretical insight urges scholars and practitioners to prioritize creating experiences that engage customers emotionally and cognitively, fostering stronger brand loyalty.

The managerial implications derived from the study provide valuable insights for online travel agencies (OTAs) and other service-oriented businesses. OTAs and service-based organizations should prioritize customer engagement through innovative and personalized services. By fostering active interaction on digital platforms, delivering consistent value, and innovating services, businesses can build stronger customer loyalty in competitive environments.

1. Prioritizing Customer Engagement:

Customer engagement has the most significant impact on brand loyalty, as shown by the study's findings. This means that managers should focus on creating strategies and services that foster deeper engagement with their customers. Engagement goes beyond just satisfying customers; it involves emotionally connecting with them and

ensuring ongoing interactions with the brand. Managers can implement engagement-centric initiatives by offering personalized experiences, promoting user interaction on online platforms, and encouraging participation in loyalty programs. These strategies will enhance customer involvement and foster long-term loyalty.

2. Leveraging Service Innovation:

The study shows that service innovation plays a critical role in enhancing customer engagement. Managers should focus on introducing new and improved services that resonate with customer needs and preferences. By consistently innovating, businesses can not only keep existing customers engaged but also attract new ones. Examples of service innovations include personalized travel suggestions, AI-powered chatbots for customer service, or real-time travel updates. Innovation must target the pain points or preferences of customers to truly drive engagement and, subsequently, loyalty.

3. Co-creation and Social Media Engagement:

The study highlights the importance of customer co-creation as a way to build stronger customer-brand relationships. Managers should leverage platforms like social media to encourage customers to engage in value co-creation by sharing experiences, offering suggestions, and interacting with the brand. This can be done by maintaining a presence on social media, creating interactive content, and encouraging users to share their experiences. Active customer involvement in content creation and brand discussions will help deepen engagement and foster loyalty.

4. Emphasizing Digital Communication Channels:

Given the increasing role of digital platforms, managers should focus on improving and maintaining robust online communication channels. Ensuring that customers can easily interact with the brand via social media, websites, or apps is crucial. Regular newsletters, promotions, and feedback channels also enhance customer engagement. Managers should also facilitate seamless experiences across digital touchpoints, ensuring that customers can transition smoothly between different platforms, such as mobile apps, websites, and social media.

5. Targeted Marketing for Enhanced Perceived Value:

Perceived value significantly influences both customer engagement and loyalty. Managers should aim to communicate the value of their services effectively through targeted marketing campaigns. Highlighting the unique benefits and convenience of their services, such as better prices, exclusive deals, or superior user experience, will help

increase perceived value. Personalized marketing efforts that address individual customer preferences or demographic-specific offers can also enhance the perceived value, thus improving engagement and loyalty.

6. Monitoring and Adapting to Market Changes:

The study emphasizes that service innovation and customer engagement are dynamic. Managers must continuously monitor market trends and customer feedback to adapt their services accordingly. Implementing feedback loops, such as customer satisfaction surveys and online reviews, can provide insights into areas of improvement and innovation. Regularly updating services and responding to changing customer needs helps businesses stay relevant in a competitive market and ensures continued customer loyalty.

Potential research gaps for future study

Longitudinal Studies on Customer Engagement and Loyalty

The current study establishes associations between service innovation, customer engagement, and brand loyalty, but does not confirm causality due to its cross-sectional design. Longitudinal studies could track how service innovations and engagement strategies affect loyalty over time. A long-term study could reveal temporal patterns in customer behavior, such as how quickly customers respond to innovations and how sustained engagement translates to loyalty. For instance, does customer engagement increase steadily with continued innovation, or is there a point of diminishing returns? By tracking these changes over time, future research can establish a stronger causal relationship between innovation-driven engagement and brand loyalty.

Exploring Other Antecedents of Customer Engagement

The study focuses primarily on service innovation and perceived value as drivers of customer engagement. However, customer engagement is likely influenced by additional factors such as brand trust, emotional connection, or corporate social responsibility (CSR). Researchers could examine how these factors independently or interactively influence customer engagement. For instance, in industries like travel or hospitality, trust and safety are critical—how does this factor into engagement, especially during crises such as the COVID-19 pandemic? Similarly, exploring the role of CSR initiatives could show how brand ethical practices influence customer loyalty through engagement. This would add nuance to the theoretical model, making it more applicable across industries with different customer priorities.

Cross-Cultural Comparisons of Service Innovation and Engagement

The current study is situated in Thailand, which limits generalizability to other cultural contexts. Cross-cultural research can assess how cultural dimensions (e.g., individualism vs. collectivism) affect customer responses to service innovation. Cultures with high individualism (e.g., the US, UK) may respond more positively to innovations that offer personalization and individual control over travel experiences, while more collectivist cultures (e.g., Japan, South Korea) may value innovations that enhance community and group experiences. Understanding these nuances can help companies in the travel and hospitality sector tailor innovations that fit local preferences, further driving engagement and loyalty.

Impact of Digital Transformation and AI in Service Innovation

With the rise of digital transformation and artificial intelligence (AI), OTAs and other service industries are rapidly adopting AI-driven solutions. Understanding how AI-powered service innovations influence customer engagement is critical. AI tools like chatbots, personalized recommendation engines, and automated customer support are revolutionizing service industries. Researchers can study the impact of these innovations on customer engagement and whether customers prefer the human touch over AI-enabled services. For example, does AI improve or reduce engagement when it comes to complex travel decisions? Investigating this can help businesses understand how to balance technology and human interaction to enhance the customer experience.

Investigating Service Innovation and Engagement in Crisis Contexts

In times of crisis (e.g., global pandemics, economic downturns), service innovation may play a different role in maintaining customer loyalty. Understanding how customer engagement behaves in these situations is crucial for crisis management. During the COVID-19 pandemic, many service industries were forced to innovate rapidly—offering flexible booking, virtual experiences, and enhanced safety protocols. Research could examine how these crisis-driven innovations affect long-term customer engagement and loyalty. Does crisis-induced innovation have lasting effects, or do customers revert to their pre-crisis behavior? This can help companies develop resilient innovation strategies that prepare them for future crises.

Gamification and Engagement in Service Industries

Gamification is increasingly being used in service industries to enhance customer engagement. Exploring its role in OTAs and other sectors could open new avenues for increasing loyalty. Gamification strategies, such as rewards systems, progress tracking, or competition-based engagement (e.g., loyalty programs that unlock exclusive experiences), are proven to enhance customer involvement. Future studies could analyze how these game-like elements interact with traditional

service innovations to boost engagement. For example, how does the psychology of rewards influence travel booking behaviors, and does gamification lead to deeper emotional connections with a brand?

Influence of Social Media Engagement on Brand Loyalty

As OTAs and service industries increasingly rely on social media for customer interaction, it's important to understand how social media engagement influences customer loyalty. Future research could investigate how social media influencers, user-generated content, and community engagement impact brand loyalty, especially for OTAs. For instance, how do customers engaged with OTAs via social media differ from those engaging through traditional platforms? Are there generational differences in how social media engagement influences loyalty? Understanding this can help brands tailor their marketing and engagement strategies for different demographics and platforms.

Role of Sustainability in Service Innovation and Customer Engagement

Sustainability is becoming a key concern for many consumers, especially in the travel industry. How service innovation in sustainable practices influences customer engagement is an emerging area of interest. Research could explore how innovations such as eco-friendly travel options, carbon offset programs, and sustainable tourism impact engagement and loyalty. Are customers more likely to engage with a brand that prioritizes sustainability, and how do these innovations affect their long-term loyalty? This research stream aligns with the growing trend of consumers choosing brands that align with their personal values.

Multi-Channel Engagement Strategies

Today's consumers often interact with brands across multiple channels (e.g., mobile apps, social media, websites). Understanding how engagement varies across these channels is crucial for developing effective multi-channel strategies. Research can investigate the role of omnichannel engagement in driving loyalty. Do customers engaging with a brand through multiple channels (e.g., social media, mobile apps, in-person interactions) exhibit higher loyalty than those using a single channel? This research could help businesses optimize their engagement strategies to meet customers where they are and offer seamless experiences across touchpoints.

Service Innovation in Emerging Markets

Emerging markets have different consumer behaviors, access to technology, and economic conditions. Understanding how service innovation drives engagement and loyalty in these markets can provide key insights. In many emerging markets, consumers may have lower technological literacy or different expectations

of service innovation. Future research could investigate whether simplified, low-tech innovations (e.g., basic mobile services) drive the same level of engagement as high-tech solutions in developed markets. Additionally, research could assess how economic factors (e.g., price sensitivity) shape the relationship between innovation, engagement, and loyalty in these regions.

Note

Kindly consider reading the complete paper published in the Khon Kaen Business School Journal of Business Administration and Accountancy (KKBSJ) at the following link: [Role of Service Innovation in Enhancing Loyalty to Online Travel Agencies](#).

References

- Rasmidatta, V. (2022). Role of service innovation in enhancing loyalty to online travel agencies. *KKBS Journal of Business Administration and Accountancy*, 6(3), 1–20.