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Influencing Loyalty to Budget Hotels through Environment Elements, Experiential Marketing and Customer Satisfaction

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ABSTRACT

This study was conducted to examine and analyze the influence of environment through experiential element and customer satisfaction to loyalty marketing at a budget hotel in East Java. This study is a survey research. The sampling technique used is non-probability sampling. Samples were examined by 200 respondents. Analysis tool used is the SEM analysis.

The results of data analysis and discussion can be concluded this research hypothesis which states that: (1) environment element effect on experiential marketing in budget hotels in East Java, Indonesia (2) environment element effect on customer satisfaction at budget hotels in East Java, Indonesia (3) experiential marketing effect on loyalty in budget hotels in East Java, Indonesia (4) customer satisfaction effect on loyalty in budget hotels in East Java, Indonesia (5) environment element effect on loyalty through Experiential Marketing at budget hotels in East Java, Indonesia and (6) environment element effect on loyalty through customer satisfaction at a budget hotel in East Java; Indonesia be accepted.

Suggestions theoretical results of this study are expected to provide knowledge to contribute ideas, especially about the factors that influence loyalty. Benefits of empirical research is expected for the management of a budget hotel on the influence of environment through experiential element to loyalty marketing, and customer satisfaction in the hotel industry budget to determine how much demand will need budget hotels, especially budget hotels in East Java.

Keywords: Environment Element, Experiental Marketing, Customer Satisfaction, Loyalty

1. INTRODUCTION

Running a business today demands the company to try to determine an effective marketing strategy to address the main problems facing the company today that is how to attract and retain customers so that the company can survive. The growth of budget hotels has made more and more players entering the industry, requiring strategies to retain consumers. One way to compete in this industry is through experiential marketing. Experiential marketing will affect the value of customers that ultimately can shape customer satisfaction.

Customer satisfaction can help the company maintain its customers. With the presence of a wide selection of budget hotels and supported by advances in science and technology, the consumers can more freely in choosing a budget hotel they like. The hotel budget industry

itself is a fusion of products and services they sell. So to achieve good value from consumers, then the hotel budget must be able to meet the needs and desires of consumers both in terms of products and services. By doing so it is expected to arouse consumer interest to be interested in making purchases in the budget hotel and become loyal. Therefore, to win the competition, companies need to understand the importance of loyalty.

With the increasingly competitive level of business, many hotels are no longer focusing their marketing activities solely on the search for new buyers, but it is more to maintain and increase customer loyalty (customer retention or customer loyalty). According to Shoemaker and Lewis (1999), the cost of acquiring new buyers can be five times more expensive than the costs of maintaining old customers. Loyal customers will gladly reveal positive things and give recommendations about the company to others.

Customer satisfaction greatly affects customer behavior, especially customer loyalty embodied in the desire to buy back and recommend to others. Some hotels attempt to provide good service and quality through several ways such as by designing an attractive and different menu of dishes with competitors, creating an atmosphere that ensures visitor comfort, hygiene, how to serve food well, set appropriate prices, create a friendly impression through service employees, pay attention to customer needs and design an attractive interior. These efforts are designed to give customers an idea of the value creation of the company compared to competitors, in the hope of enhancing customer satisfaction and having a high emotional attachment to the company, so that the company can build true customer loyalty.

This kind of emotional attachment allows the company to understand carefully the customer's specific expectations and needs. Thus the company can increase customer satisfaction and customer satisfaction encourages the creation of customer loyalty. The quality of service assessed from the reliability or ability to provide services in accordance with the promised, responsiveness by providing services quickly and accurately, is a guarantee provided by the company so that customers can provide the trust, empathy or attention from the quality that has been given.

Customer loyalty is the key to success for the company, not only in the short term, but a sustainable competitive advantage. Loyal customers will not be easily influenced or transferred to other companies, loyal customers will always re-purchase and recommend the service provider company to others, because it triggered the feeling of satisfaction, pleasure, appreciated, and understood by the service providers. Customer loyalty will always arise to the customer if what is needed is provided by the company. The determination of the company's choice to be a loyal customer of a company that puts forward good service quality, will provide great benefits for the company so that the company's operations will run smoothly and the company is able to survive in the increasingly tight market competition today

1.1 *Problem Formulation*
Based on the background that has been described can be formulated problems as follows:
1. Does the environment element affect the experiential marketing in budget hotels in East Java, Indonesia?
2. Does the environmental element affect customer satisfaction at budget hotels in East Java, Indonesia?
3. Does experiential marketing affect the loyalty of budget hotels in East Java, Indonesia?
4. Does customer satisfaction affect the loyalty of budget hotels in East Java, Indonesia?
5. Does the environment element affect the loyalty through experiential marketing in budget hotels in East Java, Indonesia?

6. Does the environment element affect loyalty through customer satisfaction at budget hotels in East Java, Indonesia?

1.2 *Research Objectives*

The purpose of this study is to find the factors that contribute to customer loyalty in the hotel budget industry and offer suggestions to improve loyalty and develop lasting relationships and commit to customers.

Specifically this study aims to determine the effect:

1. Environment element towards experiential marketing at budget hotel in East Java, Indonesia
2. Environment element to customer satisfaction at budget hotel in East Java, Indonesia
3. Experiential marketing of loyalty to budget hotel in East Java, Indonesia
4. Customer satisfaction towards loyalty at budget hotel in East Java, Indonesia
5. Environment element towards loyalty through experiential marketing at budget hotel in East Java, Indonesia
6. Environment element to loyalty through customer satisfaction at budget hotel in East Java, Indonesia

1.3 *Research Benefits*

The theoretical benefits of this research are expected to provide knowledge for the community as well as the contribution of thoughts about how influential factors influence the loyalty. The empirical benefit in general usage of this research is to know the influence of environment element on loyalty through experiential marketing, and customer satisfaction in hotel budget industry to know how big demand of hotel budget especially budget hotel in East Java, Indonesia.

2. Literature Review

2.1 *Previous Research*

The first prior research used as a reference for this research is the research that has been done by Wu and Liang in 2009 in Taiwan. The study examined the effect of experiential value on customer satisfaction on service area environment in luxury hotel restaurant. The results of this study proved that environmental factors and direct interaction with employees and other consumers affect the experiential value. Another result of the research is direct interaction with employees affecting customer satisfaction. In addition, interaction with other consumers and service area environment affects customer satisfaction through experiential value.

The second prior research into which this study refers is a study by Haghighi et al., 2012 in Tehran. The purpose of this study is to examine the factors that affect consumer loyalty in the restaurant industry. The results of this study proved that the quality of food, service quality, restaurant environment, and prices affect customer satisfaction. And consumer satisfaction affects loyalty.

2.2 *Theoretical Framework*

1. Environment element

Environment element is the design of the atmosphere of space as a physical and social stimulus created by hotel managers to influence consumers who have psychological impacts so that the trigger to attract consumers come and stay so that it can increase the occupancy rate (Zeithaml & Bitner, 2003:85). The measurement of environment elements using indicators developed by previous researchers (Bitner (1992), Ryu and Jang (2008), Han and Ryu (2011), Heung and Gu (2012), Ryu and Han (2010), are:

a. Atmosphere

Atmosphere is a condition covering environmental background characteristics such as temperature, noise lighting, music, color, and aroma (Bitner, 1992). All of these factors can greatly affect how people feel, think, and respond to a particular form of service. The measurements of ambience dimensions proposed by Bitner (1992), Han and Ryu (2010) are: 1) Temperature, 2) Aroma, 3) Noise, 4) Music, 5) Interior design, 6) Lighting, 7) Colors, and 8) Cleanliness.

b. Space and function

Space and function create a service environment that generally exists to meet specific goals or consumer needs. Measurement of the dimensions of space and function using indicators developed by Bitner (1992) are: 1) Spatial planning, 2) Tata equipment, 3) Circulation, 4) Furnishings, and 5) Space function.

c. Signs, symbols, and artifacts

The use of these signs, symbols, and artifacts can be used as a hotel identity as well as to convey a message of rules of conduct (for example: no smoking). The quality of building materials, artwork, photographs, floor covering materials, and objects on display can signal symbolic meaning and create an overall aesthetic impression. The formative indicators used in this study use indicators developed by Bitner (1992), namely: 1) Hotel Name Entry, 2) Marker entrance - exit, 3) Antiques, 4) Pictures / paintings, 5) Style decoration, 6) Architectural Buildings, 7) Landmark Colonial Buildings, and 8) Historical.

The design of the atmosphere is done among others to attract consumers, trigger consumers to stay at the hotel and create a certain atmosphere which can then affect consumer emotions to influence how consumers behave.

The measurement of environmental elements used in this study using measurements according to Wu and Liang (2009) are:

a. Correct lighting
b. Comfortable temperature
c. Clean environment

2. Experential Marketing

According to Schmitt (1999:60) experience is the experience of personal events that occur due to a certain stimulus (eg given by the marketer before and after the purchase of goods or services). Experience is also defined as a subjective part of the construction or transformation of the individual, in direct emphasis on emotions and senses during immersion at the expense of cognitive dimensions. While the definition of marketing is an activity to anticipate, manage and achieve customer satisfaction through the exchange process (Evans and Berman, 1995:10).

According to Schmitt (1999) experiential marketing is a marketing approach that involves the emotions and feelings of consumers by creating positive experiences that are not forgotten so that consumers consume and fanatical towards certain products. The 3 key points focused in experiential marketing are: customer experience, consumption patterns, and rational and emotional decisions.

Experiential marketing is an approach in marketing that has actually been done since time immemorial until now by the marketers. This approach is considered very effective because in line with the development of the era and technology, marketers more emphasize product differentiation to differentiate their products with competitors' products. With the existence of experiential marketing, customers will be able to distinguish products and services with each other because it can experience and experience directly through 5

approaches (sense, feel, think, act, relate), both before and when consuming a product or service.

Schmitt (1999) stated that sense relates to styles and verbal and visual symbols capable of creating the integrity of an impression. To create a strong impression, whether through advertising, packaging or website, a marketer needs to choose the right color in line with the company profile. Feeling is very different from the sensory impression because it deals with the mood and emotion of one's soul. This is not just about beauty, but the mood and emotions of the soul that can generate happiness or even sadness. While think of the company's activities to challenge consumers, by providing problem-solving experiences, and encourage customers to interact cognitively or creatively with the company or product. Act / Action relates to the whole individual (mind and body) to improve life and lifestyle. Motivating, inspiring, and spontaneous messages can cause customers to do things differently, trying in new ways to change their lives better.

The marketing approach of Experiential Marketing is an approach that tries to shift the traditional marketing approach. This traditional approach has four characteristics: focus on first experience, test consumption situation, recognized rational and emotional aspects as trigger of consumption, and methods and devices are electic.

The main focus of experiential marketing is focused on sensory responses, influences, cognitive experiences, actions, and relationships. Experiential Marketing can be exploited effectively when applied to certain situations. Schmitt demonstrates some of the benefits that can be accepted and felt when a business entity adopts experiential marketing. These benefits include:

a. Resurrecting brands that are degenerating
b. Distinguish one product from a competitor's product
c. Creating the image and identity of a business entity
d. Promotes innovation
e. Introducing experiments, purchases, and most importantly loyal consumption.

From some definitions can be concluded that Experiential Marketing can be measured using 5 main factors. Experiential Marketing is a marketing approach that involves the emotions and feelings of consumers by creating unforgettable positive experiences. Thus consumers feel impressed and experience during the enjoyment of this company's products will be embedded in the mind, so that later customers are not only loyal but also disseminate information about the company's products in word of mouth. One of the marketing that can be done by business owners is with Experiential Marketing.

Experimental Variable Measurement according to Wu and Liang (2009) are:

a. Price can be received
b. The service provided is attentive
c. The food served is interesting

3. Custormer Satisfaction

According to Kotler (2000: 38) satisfaction is obtained when the needs and desires of customers are met. Satisfaction is the feeling of pleasure or disappointment of someone who emerges after comparing the performance (result) of the product to the expected performance (results) expected. According to Dutka (2008: 199) satisfied customer improved business and dissatisfied customer impair business. So customer satisfaction is not easy, how to create satisfaction while maintaining customer satisfaction. Customer dissatisfaction will cause the business entity difficult to survive in the face of competition. The importance of consumer satisfaction for marketing can be attributed to the fact that customer satisfaction will encourage repeat purchases and give the advantage of "word of mouth" publicity (Fornell, 1992).

Relationship level of customer satisfaction with customer behavior can be identified several types of customers are:

a. Apostles

Customers who rate their product performance exceed their expectations so that they can provide positive word of mouth information to others, or these highly satisfied customers who are loyal and continue to buy.

b. Defector

Customers who are quite satisfied (neutral) and ready to stop buying

c. Terrorist

Customers who have negative experiences that can spread negative issues

d. Hostages

Unhappy customers who still buy because of some conditions such as cheap prices, these customers are hard to talk because they often complain

e. Mercenaries

A very satisfied customer who is not really loyal, who might be a defector if it gets a cheap price elsewhere.

Companies must be able to create apostle customers, increase customer satisfaction buyers, and make them loyal. Companies should avoid terrorist and hostage customers, as well as reduce the number of mercenary customers (Schiffman and Kanuk, 2010: 23). Customer satisfaction is quite difficult to achieve. To satisfy customers requires a long, long, and not cheap process. Some theories used to measure customer satisfaction include Kotler (2003:72) put forward the theory by using four methods in measuring customer satisfaction, namely:

a. Complaints and suggestions system

Every customer-oriented company needs to provide the widest opportunity for them to share their suggestions, opinions, and grievances.

b. Customer satisfaction survey

Studies show that while customers are disappointed in one of four purchases, less than five percent will complain.

c. Spending the Stealth

This method is done by companies paying people to act as potential buyers to report strong points and weak points experienced while purchasing a competitor's product.

d. Missing customer analysis

This method is very unique where companies should contact customers who stop buying or who have turned to other suppliers to learn the reason for the incident.

From several definitions can be concluded that customer satisfaction is closely related to customer loyalty, where satisfied customers will become loyal customers. Then the loyal customer will become a powerful marketing force for the company by providing recommendations and positive information to other prospective customers. Customer satisfaction will be achieved if expectations match the reality received.

The measurement of customer satisfaction used in this study uses measurements according to Wu and Liang (2009), namely:

a. Satisfied with employees
b. Satisfied with the service provided
c. Satisfied with the owner's decision

4. Loyalty

According to Hennig-Thurau, et al., (2002) customer loyalty is widely accepted as one that helps the company to achieve long-term success, therefore in the context of customer

loyalty marketing is the ultimate expectation that the company wants to achieve. Loyalty is the result of a combination or multidimensional relationship of interest, attitude, sales achievement and customer behavior. Oliver (1999) defines customer loyalty as a deep commitment to buy back in the future, although situational influences and marketing efforts have the potential to lead to shifting behavior, the American Marketing Association (2007) defines loyalty as the level at which a consumer is consistently patterned the same store when shopping for products that are commonly purchased. Loyal customers are consumers who will not move to other products or other brands, whereas normal consumers are consumers who still have high loyalty, but there is still the possibility of moving to another product or another brand. The third level of consumers is a half-loyal consumer which means consumers still have a loyal attitude towards a particular brand, but some of his attitude is swicther attitude. The unlucky level of consumers is, consumers will always move from one brand or product to another brand or product.

Griffin (2005:34) classified the level of loyalty into 4 types:

a. Without Loyalty

The low attachment to a product is combined with a low repeat purchase rate. Some customers do not develop loyalty to products or services for various reasons. Companies should avoid targeting these types of buyers as they only contribute little to the company's financial strength.

b. Weak Loyalty

The low attachments are combined with high repeat purchases. This customer buys out of habit. This is a type of purchase "because we're used to it". These buyers feel a certain level of satisfaction with the company, or at least no real dissatisfaction.

c. Hidden Loyalty

A relatively high level of preference coupled with low repeat purchases. This happens because of the influence of the situation, not because of the influence of attitude. For example I am a big fan of Chinese cuisine and have a favorite Chinese hotel near home, but my husband is less fond of Eastern cuisine.

d. Premium Loyalty

The high degree of engagement and repeat purchases is also high, so it is the kind of loyalty most preferred to all companies.

Meanwhile, according to Zeithaml et al., (1996) the ultimate goal of the company's success in establishing relationships with customers is to form a strong loyalty. The concept of customer loyalty is more related to behavior (behavior) than with attitude (Griffin, 2005). The ultimate goal of a company's successful relationship with its customers is to establish strong loyalty.

The indicators of strong loyalty (Zeithaml, 1996) are:

a. Say positive thing

Is the delivery of information to others in the form of words positively about a service provider, usually a story or experience.

b. Recommend friends

Is a process that leads to invite others to come to enjoy the service provider as a result positive experience that has been felt.

c. Continue purchasing

It is the attitude of repeated buy-in by the consumer to a particular service provider that leads to repetitions that can be based on loyalty.

Customer loyalty is very important for companies that want to keep their business alive as well as the success of their business. Customer loyalty is a very important boost for creating sales.

Meanwhile, customer loyalty in the context of service marketing is a response that is closely linked to a pledge or a pledge to uphold the commitment that underlies the sustainability of the relationship and is usually reflected in the ongoing purchase of the same service provider on the basis of dedication and pragmatic constraints.

From several definitions it can be concluded that retaining customers has been perceived by many service providers as an important variable in winning the competition. With the creation of customer loyalty will lead to greater profitability and growth for the company. And loyal customers will tend to re-purchase for the product. The current marketing concept of emphasis is on consumer satisfaction, so a successful marketer must have a good sense of customer satisfaction and loyalty.

Measurement of loyalty that used in this study using measurements according to Lee et al., (2009) are:
    a. Say positive things to others
    b. Recommend to others
    c. Buy back

5. The influence of Environment Element on Experiential Marketing

The existence of a positive relationship between the environment element and experiential marketing shows that the experiential marketing done by the budget hotel offers an atmosphere that touches the five senses of the customer is an attractive interior design, coolness of the room, music and the product has a taste and aroma image that has been embedded in the heart customer.

6. Effect of Environment Element on Customer Satisfaction

The atmosphere of the hotel as a whole is an aesthetic and emotional effect created through physical characteristics whereby all connect with the senses of the consumer such as spatial designed for customer convenience, color use, lighting, and so on. Therefore, the establishment of the hotel cannot be separated from the initial preparation of the layout and design of the building in accordance with the needs of hotel operations as a whole.

7. Effect of Experiential Marketing against Loyalty

Hunt (1977) argues that overall customer satisfaction is a result of a process that emphasizes the perceptual, evaluative, and psychological process, resulting from "the use of experience". The use of experience is part of customer experience, where customer experience is everything that happens at every stage in the customer cycle from before the purchase until after the purchase and may include interactions beyond the product itself (Venkat, 2007). Oliver (1999) found that Experiential Marketing has a strong and significant influence on customer loyalty. Chang & Chen (2008) suggests that experience is an important variable for understanding consumer behavior, behavior toward experience and repurchase.

8. Effect of Customer Satisfaction Against Loyalty

According to Kotler & Keller (2010: 13-14) there is a positive relationship between customer satisfaction and loyalty. Customer satisfaction is if the company can meet customer expectations (expectations). Customer expectations are based on previous buying experiences, opinions from friends, and market information. A marketer must carefully cultivate the level of customer expectations appropriately. If they set expectations too low, customers may be satisfied but fail to attract new customers. If they set expectations too high, customers/buyers will be disappointed. In the hotel industry is very easy to set high expectations because guests cannot judge the product until they enjoy the product. But if the fact is not true then the customer will be very dissatisfied. Customer satisfaction depends on

product's perceived performance in delivering value to customer expectations relative. If the results are perceived by customers in accordance with their expectations then they are satisfied, if the perceived result exceeds expectations then the customer will be happy. Smart companies aim for the excitement of customers, promising only what they can provide and then delivering more than promised. One of the most important things in the hotel business is how to develop a particularly strong service culture (strong service culture), where the service culture focuses on serving and satisfying consumers.

9. The influence of Environment Element on Loyalty through Experiential and Customer Satisfaction

Bitner (1992) states that there is a positive relationship between dimensions of atmosphere, function and space, signs, symbols, and artifacts to customer satisfaction. Customer satisfaction positively affects customer loyalty by considering the perceived quality of service and satisfaction is the deciding factor. Satisfaction gained from customer experience can develop into loyalty (Lovelock & Wirzt, 2011:28). With the creation of an optimal level of customer satisfaction then encourages the creation of loyalty in customer mind who feel satisfied earlier. If a business entity improves customer satisfaction then customer loyalty will also increase, likewise if a business entity decreases customer satisfaction then customer loyalty will also decrease.

So the budget hotel should pay attention to the quality of the product be it the taste quality in order to blend with the heart of the customer, the menu the customer wants is always available in fulfilling the customer's wishes, the affordable price and the location is easy to reach, from this satisfaction the customer express willingness to recommend to others. In general, it shows that experiential marketing and customer satisfaction are important factors in order to obtain high level of customer loyalty. The existence of experiential marketing and customer satisfaction is good then the interest of customers to visit again will grow. In addition to Atmosphere and Experiential Marketing, customer satisfaction also affects the loyalty of customers who visit the budget hotel. An important concept to consider when building a loyalty program is customer satisfaction.

10. The Effect of Environmental Elements on Loyalty through Experiential and Customer Satisfaction

Bitner (1992) stated that there is a positive relationship between the dimensions of the atmosphere, functions and space, signs, symbols, and artifacts to customer satisfaction. Customer satisfaction positively affects customer loyalty by considering the perception of service quality and satisfaction is the deciding factor. Satisfaction gained from customer experience can develop into loyalty (Lovelock & Wirzt, 2011:28). With the creation of an optimal level of customer satisfaction then encourage the creation of customer loyalty in the mind that was satisfied earlier. If the business entity improves customer satisfaction then customer loyalty will also increase, so if the business entity decreases customer satisfaction then customer loyalty will also decrease.

So the budget hotel should pay attention to the quality of the product be it the taste quality in order to blend with the heart of the customer, the menu the customer wants is always available in fulfilling the customer's wishes, the affordable price and the location is easy to reach, from this customer satisfaction express willingness to recommend to others.

In general, this suggests that marketing experience and customer satisfaction are important factors for obtaining a high level of customer loyalty. The existence of experiential marketing and customer satisfaction both then the interest of customers to visit again will increase. In addition to Atmosphere and Experiential Marketing, customer satisfaction also

affects the loyalty of customers who visit the budget hotel. An important concept to consider when building a loyalty program is customer satisfaction

2.3 Research Model
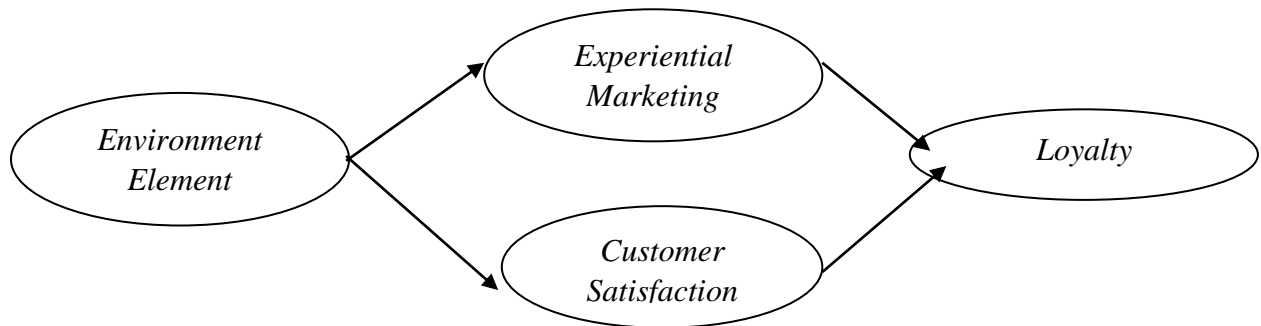
2.4 Hypothesis
Hypothesis proposed in this research are:
1. Environment Element effect on Experiential Marketing at budget hotel in East Java, Indonesia.
2. Environment Element effect on Customer Satisfaction at budget hotel in East Java, Indonesia.
3. Experiential Marketing effect Loyalty on budget hotels in East Java, Indonesia.
4. Customer Satisfaction effect on Loyalty in budget hotel in East Java, Indonesia.
5. Environment Element effect on Loyalty through Experiential Marketing at budget hotel in East Java, Indonesia.
6. Environment Element effect on Loyalty through Customer Satisfaction at budget hotel in East Java, Indonesia.

3. RESEARCH METHODS
3.1. *Research design*
    This type of research is survey research. Called survey research because this study was conducted on large and small populations, but the data studied is data from samples taken from the population.

3.2 *Identify Variables*
This study consisted of 1 exogenous variable and 3 endogenous variables:
1. Exogenous Variables (X): Environment Element
2. Intervening Variable (Y), consisting are:
    a. Experiential Marketing (Y1)
    b. Customer Satisfaction (Y2)
3. Endogenous Variable (Y): Loyalty (Y3)

3.3 *Operational Definition*
1. Environment Element
    It is an environmental element that can influence consumer purchasing decisions, satisfaction, and loyalty.
Measurement of Environment Element Variables according to Wu and Liang (2009) are:
    a. Correct lighting
    b. Comfortable temperature

c. Clean environment

2. Experiential Marketing

Is a marketing approach that involves the emotions and feelings of consumers by creating positive experiences that are not forgotten so that consumers consume and fanatic to certain products. Experimental Variable Measurement according to Wu and Liang (2009) are:
a. Price is acceptable
b. The service provided is attentive
c. The food served is interesting

3. Customer Satisfaction

It is an individual perception of product or service performance in relation to customer expectations.
According to Wu and Liang (2009) Customer Satisfaction refers to:
a. Satisfied with employees
b. Satisfied with the service provided
c. Satisfied with the owner's decision

4. Loyalty

It is the result of a process of optimizing and maintaining good relationships with customers, as well as expanding relationships by creating a value and doing word of mouth marketing which is an effective marketing system.
Measurements of Loyalty Variables according to Lee et al., (2009) are:
a. Say positive things to others
b. Recommend to others
c. Coming back

3.4 *Types and Data Sources*

The type of data in this study is quantitative data ie research data in the form of numbers in the form of the results of questionnaires that have been scored. Sources of data in this study using primary data. Data obtained from questionnaires filled by budget hotel customers in East Java through a survey by distributing questionnaires to obtain data from respondents.

3.5 *Data Measurement*

The scale of measurement of data used in this study is the scale of the interval is the scale of one with another scale has the same distance or size. The data measurement tool used is Likert Scale, by giving score for each category that are:

Strongly agree   : 5
Agree   : 4
Neutral   : 3
Disagree   : 2
Strongly disagree   : 1

3.6 *Data Collection Tools and Methods*

Data collection tool used in this study is a questionnaire is a data collection technique that is done by giving a set of questions or written statement to the respondent to be answered. Questionnaires are given to the respondent and then expected each respondent to answer questions in the questionnaire in their own opinion and perception. Data collection methods used in the research is survey and direct interview with the parties concerned.

3.7 *Population and Sample Research*

In this study, the study population refers to all budget hotel consumers in East Java. The sample is part of the number and characteristics possessed by the population. Sampling is done using Non probability sampling technique. Non probability sampling is a sampling technique that does not provide the same opportunity or opportunity for each element or member of the population to be selected as a sample. The sampling technique in this study uses quota sampling because it determines the sample of the population that has certain characteristics to the desired amount. Therefore, according to Muthén & Muthén (2014) sampling is taken for this study as many as 50 observations per variable (200 people).

1. Consumers never stay in budget hotel in East Java
2. Minimum age of 21 years.

The hotels consist of:

Table 1
Budget Hotel in East Java, Indonesia

NO	NAME	CITY
1	Fariz Hotel	Malang
2	Frank's Hotel	Surabaya
3	Hotel Huni Raya	Tosari
4	Grace Setia Hotel	Surabaya
5	Hotel Kenongo	Surabaya
6	De Mira Hotel	Surabaya
7	Hotel Sumekar	Sumenep
8	Ubud Hotel	MalangMalang
9	Hotel Permata Indah Permai	Banyuwangi
10	Hotel Tanjung Emas	Surabaya
11	Grage Malang Hotel	Malang
12	My Studio Hotel	Surabaya
13	Hotel Ashofa	Surabaya
14	Hotel Abba	Lumajang
15	Hotel Mitra Inn	Kediri
16	Hotel Gradia 2	Batu
17	Hotel Amerta	Tuban
18	Hotel Selopanggung	Kediri
19	Hotel Riche	Malang
20	Hotel Malang	Malang
21	Yello Hotel Jemursari	Surabaya
22	Citihub	Surabaya
23	Hotel 88	Surabaya
24	Hotel C 1	Sumenep
25	Hotel Emma	Malang
26	Hotel Ganefo	Surabaya
27	Hotel Paviljoen	Surabaya
28	Hotel Sahid Montana	Malang
29	Hotel Trio Indah	Malang
30	Ibis Rajawali	Surabaya

Source: https://www.lonelyplanet.com

3.8 *Data Collection Techniques*

Technique of taking data used in this research is questionnaire technique that is giving a set of question or statement written to responder to be answered.

3.9 *Data Analysis Techniques*

Data analysis technique used to discuss the problem in this research is Structural Equation Model (SEM). The Structural Equation Model (SEM) is a statistical technique that allows testing of a relatively complex set of relationships simultaneously. Complex relationships can be built between one or more dependent variables with one or more independent variables. There may also be a variable that doubles as an independent variable in a relationship, but becomes a dependent variable on other relationships given the existence of a tiered causality relationship. Each dependent and independent variable can take the form of a factor or construct constructed from several indicator variables. Similarly, among variables it can be a single variable that is observed or measured directly in a research process.

Data analysis technique used in this research is Structural Equation Model (SEM). In SEM, the measurement model, overall model, and structural model are measured. In addition, in this study also used path analysis (path analysis) to explain the relationship between variables that exist. With the use of this SEM method will be displayed a comprehensive model and can explain the relationship between one construct with another.

4. RESULT

4.1 *Description of Respondents*

Respondent data can be seen in Table 2 below.

Table 2
Classification of Respondents

Characteristic		Number	Percentage
Have been staying at a budget hotel in East Java, Indonesia	Yes	200	100
	No	0	0
	Total	200	100
Age	< 21 years old	0	0
	≥ 21 years old	200	100
	Total	200	100

Source: Data processed

Based on Table 1 it is known that all respondents are at least 21 years old, and respondents have never stayed in budget hotels in East Java, Indonesia. Therefore, data analysis can proceed to the next process.

4.2 *Descriptive Statistics of Variables*

Descriptive statistics are used to determine the responses of respondents to a variable to be studied, used the maximum and minimum value. Scale of this research using scale 1-5, hence minimum and maximal value can be categorized as follows:

$$\frac{\text{maximum value - minimum value}}{\text{number of classes}} = \frac{5-1}{5} = 0.8$$

So that can be obtained criteria of the variables presented in Table 3 below:

Table 3
Avg. Score Interval

Average Interval Score	Criteria for Each Variable
1 – 1.8	Strongly disagree
1.8 – 2.6	Disagree
2.6 – 3.4	Neutral
3.4 – 4.2	Agree
4.2 – 5	Strongly agree

Source: Data processed

Table 4
Statistics Description Variable Environment Element

No	Statement	Mean Score	Description
1	The right lighting is owned by budget hotels in East Java, Indonesia	3.53	Agree
2	The comfortable temperature is owned by budget hotels in East Java, Indonesia	3.78	Agree
3	The clean environment is owned by budget hotels in East Java, Indonesia	3.66	Agree
Mean score		3.65	Agree

Source: Data processed

Based on Table 3 and Table 4 it is known that for environment element variables have an average value of 3.65. This reflects that the average score of respondents 'answers agrees with the existing statement on the environmental element variable in which respondents' attitudes regarding consumer acceptance of appropriate lighting, comfortable temperature, and clean environment are applied in budget hotels in East Java, Indonesia.

Table 5
Statistics Description Variable Experiential Marketing

No	Statement	Mean Score	Description
1	The price / cost of stay at budget hotel in East Java, Indonesia is acceptable	3.64	Agree
2	Services provided at budget hotels in East Java, Indonesia are attentive	3.69	Agree
3	Food served at budget hotels in East Java, Indonesia is interesting	3.71	Agree
Mean Score		3.68	Agree

Source: Data processed

Based on Table 3 and Table 5 it is known that for experiential marketing variables have an average value of 3.68. This reflects that the average value of respondents' answers agrees with the existing statement on the experimental variables of: (1) The price / stay cost in budget hotels in East Java, Indonesia is acceptable, (2) The services provided in budget hotels in East Java, Indonesia are full attention, and (3) The food served at budget hotels in East Java, Indonesia is interesting.

Table 6
Statistics Description Variable Customer Satisfaction

No	Statement	*Mean Score*	Description
1	I am satisfied with the friendliness of budget hotel employees in East Java, Indonesia.	3.79	Agree
2	I am satisfied with the services provided by budget hotels in East Java, Indonesia.	3.63	Agree
3	I am satisfied with the decision of budget hotel owners in East Java, Indonesia if I have a complaint.	3.71	Agree
Mean score		3.71	Agree

Source: Data processed

Based on Table 3 and Table 6 it is known that customer satisfaction variable has an average value of 3.71. This reflects that the average value of respondents' answers agrees with the existing statement on customer satisfaction variable that respondents express satisfaction on: (1) hospitality of budget hotel employee in East Java, Indonesia (2) service provided by budget hotel in East Java, Indonesia and service given budget hotels in East Java, Indonesia (3) the decision of budget hotel owners in East Java, Indonesia if I have a complaint.

Table 7
Statistics Description Loyalty Variables

No	Statement	*Mean Score*	Description
1	I will say positive thing about budget hotel in East Java, Indonesia to others.	3.56	Agree
2	I would recommend budget hotel in East Java, Indonesia to others.	3.53	Agree
3	I will reappear budget hotel in East Java, Indonesia.	3.57	Agree
Mean Score		3.56	Agree

Source: Data processed

Based on Table 3 and Table 7 it is known that for loyalty variable has an average value of 3.

56. This indicates that the average value of the respondent's answer agrees with the existing statement on the loyalty variable in which the consumer's perception of the individual's assessment to buy back from the services provided by the same company, given the current situation and the situation that may occur.

4.3 *Test of SEM Assumption*
1. Univariate Outliers

Univariate outliers can be done by determining the thresholds categorized as outliers by converting the value of research data into a standard score or Z-score that has an average value of 0 with a standard deviation of 1.00.

Based on the results of data analysis shows that there are no cases or answers containing outliers because the maximum Z value more than ± 3.00. So it can be stated that not the outlier data. Therefore the process of data analysis can proceed.

2. Multivariate Outliers

        Evaluation of multivariate outliers was done through Mahalanobis Distance test at p < 0.001. Based on the research results obtained data value < 42.312, so it can be declared no multivariate outliers.

3. Normality Testing

        The statistical value for testing normality is called Z-value. If the Z-value > critical value then it can be expected that the data distribution is not normal. Critical values can be determined based on the 0.01 (1%) significance level of $\pm$ 2.58. Based on the test results show that there is no value > $\pm$ 2.58, meaning that the assumption of normality is met. For that, judging from the assumption of normality is acceptable.

4. Evaluation of Multicollinearity and Singularity

        Multicolinearity or singularity can be detected from the determinants of covariance matrices. The value of the determinant of very small covariance matrices gives an indication of a multicolinearity or singularity problem (Tabachnick & Fidel, 1998:716; in Ferdinand, 2002:108-109). Based on the test result, it is found that the value of the determinant of covariance matrix is 1.1728.103 which is still > 0. So it can be concluded there is no multicolinearity or singularity in this combination of data variables, so this research data can be analyzed further.

5. Test Validity, Reliability, and Constructive Variance

        Based on the results of analysis known that the research variables declared valid because the value λ (standardized loading) > 0.5. And the value of Reliability construct for all variables > 0.70. As for the value of varianc e extract all the variables that have a value > 0.5 so it can be concluded that all reliable variables.

6. Fit Model Testing (overall model)

Table 8
Structural Equation Modeling Index

Goodness of Fit Measure	Cut-off Value	Result	Description
χ^2-chi-square	Little	283.297	Good
Significant Probability	≥ 0.05	0.07	Fit
RMSEA	≤ 0.08	0.04	Fit
GFI	≥ 0.90	0.98	Fit
AGFI	≥ 0.90	0.97	Fit
CMIN/DF	≤ 2.0	1.04	Fit
TLI	≥ 0.95	0.98	Fit
CFI	≥ 0.95	0.96	Fit

Source: Data processed

Here is an explanation of each of the criteria:
1. χ^2-chi-square obtained for 283.30. The smaller the statistical value of Chi-Square (χ^2) the better the model.
2. RMSEA (The Root Mean Square Error of Approximation) of 0.04. RMSEA values that are smaller or equal to 0.08 are the indices for the acceptability of a model that shows as a close fit of the model based on degrees of freedom.
3. GFI of 0.98. Value ≥ 0.90 is a good model (fit).

4. AGFI (Adjusted Goodness of Fit) of 0.97, so it can be interpreted that the model is at a level fit.
5. CMIN / DF (The Minimum Sample Discrepancy Function) of 1.04 (χ^2 value relative $\leq$ 2.0) so it can be concluded there is an acceptable fit indication between the model and the data.
6. TLI (Tucker Lewis Index) of 0.98, where the recommended value as a reference for the acceptance of a model is the acceptance of $\geq$ 0.95, so it can be concluded that the model tested is good.
7. CFI (Comparative Fit Index) of 0.96 ($\geq$ 0.95), so it can be concluded that the model is good to measure the acceptance level of a model.

4.4 *Structural Equations*

Based on data analysis, it is known that the structural equation formed on the research model is:

Equation 1:
$$Y_1 = \beta_1 X_1$$
$$Y_1 = 0.46 X_1 \qquad R^2 = 0.21$$

Equation 2:
$$Y_2 = \beta_1 X_1$$
$$Y_2 = 0.61 X_1 \qquad R^2 = 0.21$$

Equation 3:
$$Y_3 = \beta_1 X_1 + \beta_2 Y_1$$
$$Y_3 = 0.18 X_1 + 0.73 Y_1 \qquad R^2 = 0.62$$

Equation 3:
$$Y_3 = \beta_1 X_1 + \beta_2 Y_2$$
$$Y_3 = 0.28 X_1 + 0.30 Y_2 \qquad R^2 = 0.10$$

Based on the results of structural equations can be described the influence between variables as follows:

Equation 1:
If the environment element changes it will lead to changes in experiential marketing with the direction of positive changes that if the environment element increases then experiential marketing will increase, and vice versa if the environment element decreases then experiential marketing will decrease.

Equation 2:
If the environment element changes it will cause changes in customer satisfaction with the direction of positive changes that if the environment element increases then customer satisfaction will increase, and vice versa if environment element decreases then customer satisfaction will decrease.

Equation 3:
If the environment element and experiential marketing change it will cause change of loyalty with positive change direction that if environment element and experiential marketing increase then loyalty will increase, and vice versa if environment element and experiential marketing decrease then loyalty will decrease.

Equation 4:
If the environment element and experiential marketing change it will cause change of loyalty with positive change direction that is if environment element variable and experiential marketing then loyalty will increase, and vice versa if environment element and experiential marketing decrease then loyalty will decrease.

4.5 *Hypothesis Testing*

Table 9 shows the significance of the research hypothesis which has the following meanings:
1. Effect of environment element towards experiential marketing equal to 0.37 and the influence is significant.
2. The influence of environment element on customer satisfaction is 0.45 and the influence is significant.
3. The influence of marketing experiential to loyalty of 0.42 and the influence is significant.
4. The influence of customer satisfaction on loyalty of 0.52 and the influence is significant.
5. The influence of environment element on loyalty through experiential marketing is 0.15 and the influence is significant.
6. Effect of environment element on loyalty through customer satisfaction equal to 0.23 and influence is significant.

Table 9
Hypothesis Testing

NO	INFLUENCE OF VARIABLES	ESTIMATE	STANDARD ERROR	CRITICAL RATIO	P	DESCRIPTION
1	*Environment Element → Experiental Marketing*	0.37	0.18	2.09	0.000	Significant
2	*Environment Element → Customer Satisfaction*	0.45	0.20	2.26	0.03	Significant
3	*Experiental Marketing → Loyalty*	0.42	0.19	2.21	0.03	Significant
4	*Customer Satisfaction → Loyalty*	0.52	0.11	4.64	0.00	Significant
5	*Environment Element → Experiental Marketing → Loyalty*	0.15	-	-	-	Significant
6	*Environment Element → Customer Satisfaction → Loyalty*	0.23	-	-	-	Significant

Source: Data processed

5. DISCUSSION and CONCLUSION
5.1 *Discussion*
1. Descriptive statistics environment element proves that the average value of these variables is 3.654 (agree). This means that respondents agree that: (1) the right lighting is owned by budget hotels in East Java. (2) The comfortable temperature is owned by budget hotels in East Java. And (3) Clean environment owned by budget hotel in East Java, Indonesia.

Test results on hypothesis 1 yield estimate value of 0.369 (p = 0.000) proves there are positive and significant influence of environment element to experiential marketing. This means that if the elements of the hotel environment in this study are measured by: proper lighting, comfortable temperature, and better clean environment, then experiential marketing will be better. The results of this study support the theory of environment elements expressed by Bitner (1992), Han and Ryu (2010) and Wu and Liang's research in 2009 in Taiwan and Haghighi et al., 2012 in Tehran.

2. The test results on hypothesis 2 resulted in the loading factor value of 0.451 (p = 0.026) proved to have a positive influence and significant environmental element on customer satisfaction. This means that if the environment elements get better, then customer satisfaction will be higher. Where customer satisfaction in this research is measured by: (1) satisfied with employee's friendliness, (2) satisfied with service, and (3) satisfied with owner's decision.
   The results of this study support the theory of environment elements expressed by Bitner (1992), Han and Ryu (2010) and Wu and Liang's research in 2009 in Taiwan and Haghighi et al., 2012 in Tehran.

3. The test results on hypothesis 3 resulted in a factor loading value of 0.418 (p = 0.029) proved to have a positive and significant impact of experiential marketing on loyalty. This means that if the better marketing experience, then the loyalty will be higher. The experiential marketing in this study is measured by: (1) the price / stay cost is acceptable, (2) Attentive service. And (3) the food served is interesting. The results of this study support the theory of experiential marketing expressed by Schmitt (1999) and Wu and Liang's research in 2009 in Taiwan and Haghighi et al., 2012 in Tehran.

4. Test results on hypothesis 4 proves there is a positive influence and significant customer satisfaction on loyalty of 0.516 (p = 0.029). This means that if customer satisfaction is higher, then loyalty will be higher. Where loyalty in this study is measured by: (1) will say positive things, (2) will recommend, and (3) will come back.
   The results of this study support the theory of purchasing decision-making processes expressed by Kotler (2000) and Dutka (2008) and research Bilal et al., 2014.

5. Test results on hypothesis 5 yield estimate value of 0.154 and prove there is a positive influence and significant environment element on loyalty through experiential marketing. It means that if: the influence of environment element towards experiential marketing is bigger and the influence of experiential marketing towards loyalty is bigger, then the influence of environment element toward loyalty through experiential marketing will be higher.
   The results of this study support the loyalty theory expressed by Thurau (2002) and Oliver (1997) and Wu and Liang's research in 2009 in Taiwan and Haghighi et al., 2012 in Tehran.

6. The results of testing on hypothesis 6 resulted in an estimate of 0.233 and proved to have a positive and significant influence on the environment element on loyalty through customer satisfaction. This means that if: the influence of the environment element on customer satisfaction is higher and the influence of customer satisfaction on the higher loyalty, then the influence of environment element on loyalty through customer satisfaction will be higher.
   The results of this study support the loyalty theory expressed by Thurau (2002) and Oliver (1997) and Wu and Liang's research in 2009 in Taiwan and Haghighi et al., 2012 in Tehran.

5.2 *Conclusions and Suggestions*
1. Conclusion
Based on the results of data analysis and discussion can be concluded that:

  a. The first hypothesis of this study that states that the environment element affects the experiential marketing in budget hotels in East Java, Indonesia; accepted.

  b. The second hypothesis of this study that states that the environment element affects customer satisfaction at budget hotels in East Java, Indonesia; accepted.

  c. The third hypothesis of this study which states that experiential marketing effect on loyalty in budget hotels in East Java, Indonesia; accepted.

  d. The fourth hypothesis of this study which states that customer satisfaction affects loyalty in budget hotels in East Java, Indonesia; accepted.

  e. The fifth hypothesis of this study which states that the environment element affects the loyalty through Experiential Marketing in budget hotels in East Java, Indonesia; accepted.

  f. The sixth hypothesis of this study which states that the environment element affects the loyalty through customer satisfaction at budget hotels in East Java, Indonesia; accepted.

2. Suggestions

  The theoretical suggestion of the result of this research is expected to provide knowledge for the contribution of thought especially about the factors that affect the loyalty.

  The empirical suggestion of this study are expected for budget hotel managers about the influence of environment elements on loyalty through experiential marketing, and customer satisfaction in the hotel budget industry to find out how much demand for budget hotel especially budget hotel in East Java.

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Subject relevance: Good

Professional/industrial relevance: Good

Completeness of the work: Honours

Acknowledgement of the work of others by references: Honours

Organisation of the manuscript: Honours

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Completeness of the work: Acceptable

Acknowledgement of the work of others by references: Good

Organisation of the manuscript: Acceptable

Clarity in writing tables graphs and illustrations: Good

Likelihood of passing the test of time: Acceptable

****

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4. Revisi Minor

29 Agustus 2023

Influencing loyalty to budget hotels through environment elements, experiential marketing and customer satisfaction

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Abstract: The purpose of this study is twofold: first, to examine the relationships between environment, marketing and customer satisfaction on building loyalty for hotel industry; and second, to test out those relationships through SEM analysis for further understanding of budget hotel industry dynamics. With an extensive literature review, we identified the research gap and proposed several hypotheses to study. 230 visitors in 30 budget hotels in East Java, Indonesia were surveyed for data collection. The data analysis confirms significant effects of environment elements on experiential marketing, environment elements on customer satisfaction, experiential marketing on loyalty, customer satisfaction on loyalty, environment elements on loyalty through experiential marketing, and environment elements on loyalty through customer satisfaction at budget hotels in East Java. This empirical study contributes to demand management in budget hotel industry through the influences of environment, experiential marketing and loyalty marketing. The hotel managers may design promotion strategies based on the study findings.

Keywords: environment element; experimental marketing; customer satisfaction; loyalty.

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1   Introduction

Like in any business, an effective marketing strategy is imperative in budget hotel industry to attract and retain customers for survival. The growth of budget hotels attracted more and more players entering the industry – requiring strategies to retain consumers. One way to compete in this industry is through experiential marketing; affecting the value of customers that ultimately shapes customer satisfaction.

With increasingly high competition, many hotels are no longer focusing their marketing activities solely on the search for new buyers, but it is more to maintain and increase customer loyalty and retention. The cost of acquiring new buyers can be five times more expensive than the costs of maintaining old customers (Gallo, 2014). Loyal customers will gladly reveal positive things and give recommendations about the company to others.

Experiential marketing efforts will however must consider environment element and customer satisfaction leading to establishment of loyalty. Environment element (including hotel atmosphere, space and function, signs, symbols, and artifacts) should influence customers' psychology so that they come and stay in the hotel. Customer satisfaction greatly affects customer behaviour, especially customer loyalty embodied in the desire to buy back and recommend to others. With the presence of a wide selection of budget hotels (supported by IT tools) consumers can navigate freely in choosing a budget hotel they like. The budget hotel industry itself is in a fusion state in providing products and services they sell. To achieve a good value (and future returns) from consumers, the hotel budget must be able to meet the needs and desires of consumers in terms of both products and services. By doing so, the hotel managers could expect to arouse consumer interest in making further purchases in budget hotel and make them more loyal to their hotels. To win the competition, budget hotels need to understand the importance of loyalty.

The review of current literature identifies a clear research gap in our understanding of the effects of environment element on customer satisfaction. Studies by Widowati and Tsabita (2017) and Tangkuman et al. (2020) reached to contradictory findings on the influences of environment elements on customer satisfaction. Chang and Lin (2022) and Ding et al (2022) show a positive and significant effect of environment on visitor satisfaction. However, Keshavarz (2016) shows no significant effect of environment on hotel guest satisfaction. Undoubtedly, both experiential marketing and customer satisfaction lead to garnering of customer loyalty. The interest to visit again a budget hotel is expected to increase if both experiential marketing and customer satisfaction are present.

The purpose of this study is to find the factors that contribute to customer loyalty in the hotel budget industry and offer suggestions to improve loyalty in budget hotels. For illustration, a popular tourist destination (East Java, Indonesia) and its thirty budget hotels are selected in the study. Specifically this study aims to determine the effect of:

1   environment element towards experiential marketing at budget hotels

2   environment element to customer satisfaction

3   experiential marketing to loyalty

4   customer satisfaction towards loyalty.

This research is expected to provide knowledge for the community as well as the contribution of thoughts about how influential factors influence the loyalty. The empirical benefit in general usage of this research is to know the influence of environment element on loyalty through experiential marketing, and customer satisfaction in hotel budget industry to know how big demand of hotel budget especially budget hotel in East Java, Indonesia.

2   Literature review

A prior research (Wu and Liang, 2009) in Taiwan examined the effect of experiential value on customer satisfaction on service area environment in luxury hotel restaurant. The results of this study proved that environmental factors and direct interaction with employees and other consumers affect the experiential value. Another result of the research is direct interaction with employees affecting customer satisfaction. In addition, interaction with other consumers and service area environment affects customer satisfaction through experiential value. Another research (Haghighi et al., 2012) in Tehran examined the factors that affect consumer loyalty in the restaurant industry. The results of this study proved that the quality of food, service quality, restaurant environment, and prices affect customer satisfaction. In addition, the consumer satisfaction affects loyalty. A study by Babu and Kaur (2020) suggested importance of sustainability practices in tourism supply chain for Indian hotel industry.

2.1   Environment element

Environment element is the design of the atmosphere of space as a physical and social stimulus created by hotel managers to influence consumers who have psychological

impacts so that the trigger to attract consumers come and stay so that it can increase the occupancy rate. The measurement of environment elements using indicators developed by several researchers Bitner (1992) and Heung and Gu (2012).

a   Atmosphere

Atmosphere is a condition covering environmental background characteristics such as temperature, noise lighting, music, colour, and aroma. All of these factors can greatly affect how people feel, think, and respond to a particular form of service. The measurements of ambience dimensions proposed by Bitner (1992), Han and Ryu (2010) are:

1   temperature
2   aroma
3   noise
4   music
5   interior design
6   lighting
7   colours
8   cleanliness.

b   Space and function

Space and function create a service environment that generally exists to meet specific goals or consumer needs. Measurement of the dimensions of space and function using indicators developed by Bitner (1992) are:

1   spatial planning
2   Tata equipment
3   circulation
4   furnishings
5   Space function.

c   Signs, symbols, and artifacts

The use of these signs, symbols, and artifacts can be used as a hotel identity as well as to convey a message of rules of conduct (for example: no smoking). The quality of building materials, artwork, photographs, floor covering materials, and objects on display can signal symbolic meaning and create an overall aesthetic impression. The formative indicators used in this study use indicators developed by Bitner (1992), namely:

1   hotel name entry
2   marker entrance – exit
3   antiques
4   pictures/paintings
5   style decoration
6   architectural buildings
7   landmark colonial buildings

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Han, H. and Ryu, K. (2011) 'New or repeat customers: how does physical environment influence their restaurant experience?', *International Journal of Hospitality Management*, Vol. 30, No. 3, pp.599–611.

8 historical.

The design of the atmosphere is done among others to attract consumers, trigger consumers to stay at the hotel and create a certain atmosphere which can then affect consumer emotions to influence how consumers behave.

2.2 *Experiential marketing*

According to Schmitt (1999, p.60) experience is the experience of personal events that occur due to a certain stimulus (e.g. given by the marketer before and after the purchase of goods or services). Experience is also defined as a subjective part of the construction or transformation of the individual, in direct emphasis on emotions and senses during immersion at the expense of cognitive dimensions. While the definition of marketing is an activity to anticipate, manage and achieve customer satisfaction through the exchange process.

According to Schmitt (1999) experiential marketing is a marketing approach that involves the emotions and feelings of consumers by creating positive experiences that are not forgotten so that consumers consume and fanatical towards certain products. The 3 key points focused in experiential marketing are: customer experience, consumption patterns, and rational and emotional decisions.

Experiential marketing is an approach in marketing that has actually been done since time immemorial until now by the marketers. This approach is considered very effective because in line with the development of the era and technology, marketers more emphasise product differentiation to differentiate their products with competitors' products. With the existence of experiential marketing, customers will be able to distinguish products and services with each other because it can experience and experience directly through 5 approaches (sense, feel, think, act, relate), both before and when consuming a product or service. Tourism marketers can focus on relaxation and attraction, exploration and excitement to upgrade tourism products (Aziz et al., 2022).

Schmitt (1999) stated that sense relates to styles and verbal and visual symbols capable of creating the integrity of an impression. To create a strong impression, whether through advertising, packaging or website, a marketer needs to choose the right colour in line with the company profile. Feeling is very different from the sensory impression because it deals with the mood and emotion of one's soul. This is not just about beauty, but the mood and emotions of the soul that can generate happiness or even sadness. While think of the company's activities to challenge consumers, by providing problem-solving experiences, and encourage customers to interact cognitively or creatively with the company or product. Act / Action relates to the whole individual (mind and body) to improve life and lifestyle. Motivating, inspiring, and spontaneous messages can cause customers to do things differently, trying in new ways to change their lives better.

The marketing approach of Experiential Marketing is an approach that tries to shift the traditional marketing approach. This traditional approach has four characteristics: focus on first experience, test consumption situation, recognised rational and emotional aspects as trigger of consumption, and methods and devices are electic.

The main focus of experiential marketing is focused on sensory responses, influences, cognitive experiences, actions, and relationships. Experiential Marketing can be exploited effectively when applied to certain situations. Schmitt demonstrates some of the benefits

that can be accepted and felt when a business entity adopts experiential marketing. These benefits include:

a   resurrecting brands that are degenerating

b   distinguish one product from a competitor's product

c   creating the image and identity of a business entity

d   promotes innovation

e   introducing experiments, purchases, and most importantly loyal consumption.

From some definitions can be concluded that Experiential Marketing can be measured using five main factors. Experiential Marketing is a marketing approach that involves the emotions and feelings of consumers by creating unforgettable positive experiences. Thus consumers feel impressed and experience during the enjoyment of this company's products will be embedded in the mind, so that later customers are not only loyal but also disseminate information about the company's products in word of mouth. One of the marketing that can be done by business owners is with experiential marketing.

2.3   Customer satisfaction

According to Kotler and Keller (2016, p.38) satisfaction is obtained when the needs and desires of customers are met. Satisfaction is the feeling of pleasure or disappointment of someone who emerges after comparing the performance (result) of the product to the expected performance (results) expected. According to Dutka (2008, p.199) satisfied customer improved business and dissatisfied customer impair business. So customer satisfaction is not easy, how to create satisfaction while maintaining customer satisfaction. Customer dissatisfaction will cause the business entity difficult to survive in the face of competition. The importance of consumer satisfaction for marketing can be attributed to the fact that customer satisfaction will encourage repeat purchases and give the advantage of 'word of mouth' publicity.

Relationship level of customer satisfaction with customer behaviour can be identified several types of customers are (Noyan and Simsek, 2011):

a   Apostles

Customers who rate their product performance exceed their expectations so that they can provide positive word of mouth information to others, or these highly satisfied customers who are loyal and continue to buy.

b   Defector

Customers who are quite satisfied (neutral) and ready to stop buying.

c   Terrorist

Customers who have negative experiences that can spread negative issues.

d   Hostages

Unhappy customers who still buy because of some conditions such as cheap prices, these customers are hard to talk because they often complain.

e   Mercenaries

A very satisfied customer who is not really loyal, who might be a defector if it gets a cheap price elsewhere.

Companies must be able to create apostle customers, increase customer satisfaction buyers, and make them loyal. Companies should avoid terrorist and hostage customers, as well as reduce the number of mercenary customers [Schiffman and Kanuk, (2015), p.23]. Customer satisfaction is quite difficult to achieve. To satisfy customers requires a long, long, and not cheap process. Some theories used to measure customer satisfaction include Kotler and Keller (2016, p.72) put forward the theory by using four methods in measuring customer satisfaction, namely:

a   Complaints and suggestions system

Every customer-oriented company needs to provide the widest opportunity for them to share their suggestions, opinions, and grievances.

b   Customer satisfaction survey

Studies show that while customers are disappointed in one of four purchases, less than five percent will complain.

c   Spending the Stealth

This method is done by companies paying people to act as potential buyers to report strong points and weak points experienced while purchasing a competitor's product.

d   Missing customer analysis

This method is very unique where companies should contact customers who stop buying or who have turned to other suppliers to learn the reason for the incident.

From several definitions can be concluded that customer satisfaction is closely related to customer loyalty, where satisfied customers will become loyal customers. Then the loyal customer will become a powerful marketing force for the company by providing recommendations and positive information to other prospective customers. Customer satisfaction will be achieved if expectations match the reality received.

2.4   Loyalty

According to Hennig-Thurau et al. (2002) customer loyalty is widely accepted as one that helps the company to achieve long-term success, therefore in the context of customer loyalty marketing is the ultimate expectation that the company wants to achieve. Loyalty is the result of a combination or multidimensional relationship of interest, attitude, sales achievement and customer behaviour. Oliver (1999) defines customer loyalty as a deep commitment to buy back in the future, although situational influences and marketing efforts have the potential to lead to shifting behaviour, the American Marketing Association (2007) defines loyalty as the level at which a consumer is consistently patterned the same store when shopping for products that are commonly purchased. Loyal customers are consumers who will not move to other products or other brands, whereas normal consumers are consumers who still have high loyalty, but there is still the possibility of moving to another product or another brand. The third level of consumers is

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a half-loyal consumer which means consumers still have a loyal attitude towards a particular brand, but some of his attitude is swicther attitude. The unlucky level of consumers is, consumers will always move from one brand or product to another brand or product.

TaghiPourian and Bakhsh (2015) classified the level of loyalty into four types:

a   Without Loyalty

The low attachment to a product is combined with a low repeat purchase rate. Some customers do not develop loyalty to products or services for various reasons. Companies should avoid targeting these types of buyers as they only contribute little to the company's financial strength.

b   Weak Loyalty

The low attachments are combined with high repeat purchases. This customer buys out of habit. This is a type of purchase 'because we're used to it'. These buyers feel a certain level of satisfaction with the company, or at least no real dissatisfaction.

c   Hidden Loyalty

A relatively high level of preference coupled with low repeat purchases. This happens because of the influence of the situation, not because of the influence of attitude. For example I am a big fan of Chinese cuisine and have a favourite Chinese hotel near home, but my husband is less fond of Eastern cuisine.

d   Premium Loyalty

The high degree of engagement and repeat purchases is also high, so it is the kind of loyalty most preferred to all companies.

Meanwhile, according to Zeithaml et al., (1996) the ultimate goal of the company's success in establishing relationships with customers is to form a strong loyalty. The concept of customer loyalty is more related to behaviour (behaviour) than with attitude. The ultimate goal of a company's successful relationship with its customers is to establish strong loyalty.

The indicators of strong loyalty (Zeithaml, 1996) are:

a   Say positive thing

Is the delivery of information to others in the form of words positively about a service provider, usually a story or experience.

b   Recommend friends

Is a process that leads to invite others to come to enjoy the service provider as a result positive experience that has been felt.

c   Continue purchasing

It is the attitude of repeated buy-in by the consumer to a particular service provider that leads to repetitions that can be based on loyalty.

Customer loyalty is very important for companies that want to keep their business alive as well as the success of their business. Customer loyalty is a very important boost for creating sales. Meanwhile, customer loyalty in the context of service marketing is a

response that is closely linked to a pledge or a pledge to uphold the commitment that underlies the sustainability of the relationship and is usually reflected in the ongoing purchase of the same service provider on the basis of dedication and pragmatic constraints.

From several definitions it can be concluded that retaining customers has been perceived by many service providers as an important variable in winning the competition. With the creation of customer loyalty will lead to greater profitability and growth for the company. And loyal customers will tend to re-purchase for the product. The current marketing concept of emphasis is on consumer satisfaction, so a successful marketer must have a good sense of customer satisfaction and loyalty.

3 Building research hypothesis

The literature review leads to conflicting findings of influences of environment elements to customer satisfaction. The research conducted by Widowati and Tsabita (2017) showed that the effect of the environment element on customer satisfaction was insignificant. Whereas another study by Tangkuman et al. (2020) showed that the influence of the environment element on customer satisfaction was significant.

Research conducted by Chang and Lin (2022) indicates that the perceptions of the hotel atmosphere (environmental elements) have a positive and significant effect on hotel customer satisfaction. Likewise, research conducted by Ding et al (2022) also suggests that the hotel environment (such as hotel ratings, rental prices, location, and service quality) has a positive and significant effect on hotel visitor satisfaction. However, research conducted by Keshavarz (2016) shows that hotel consumer expectations of the hotel environment have no significant effect on hotel guest satisfaction. These contradictions make this research on influences of budget hotel environment on hotel guest satisfaction interesting and worth the study.

In general, marketing experience and customer satisfaction are important factors for obtaining a high level of customer loyalty. The existence of both experiential marketing and customer satisfaction could interest a customer to visit again a budget hotel. In addition to atmosphere and experiential marketing, customer satisfaction also affects the loyalty of customers who would visit the budget hotel. The research model showing these relationships is presented in Figure 1. The research hypotheses presented below are grounded to this model framework.

Figure 1 Research model: influence relationships

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>
> Reference entry:
>
> Tangkuman, K., Tewal, B. and Trang, I. (2015) 'Penilaian Kinerja, Reward, Dan Punishment Terhadap Kinerja Karyawan Pada Pt. Pertamina (Persero) Cabang Pemasaran Suluttenggo', *Jurnal EMBA*, Vol. 3, No. 2, pp.884–95.

3.1   Influence of environment element on experiential marketing

The existence of a positive relationship between the environment element and experiential marketing shows that the experiential marketing done by the budget hotel offers an atmosphere that touches the five senses of the customer is an attractive interior design, coolness of the room, music and the product has a taste and aroma image that has been embedded in the heart customer.

Hypothesis 1   Environment Element effect on Experiential Marketing at budget hotel in East Java, Indonesia.

3.2   Effect of environment element on customer satisfaction

The atmosphere of the hotel as a whole is an aesthetic and emotional effect created through physical characteristics whereby all connect with the senses of the consumer such as spatial designed for customer convenience, colour use, lighting, and so on. Therefore, the establishment of the hotel cannot be separated from the initial preparation of the layout and design of the building in accordance with the needs of hotel operations as a whole.

Hypothesis 2   Environment Element effect on Customer Satisfaction at budget hotel in East Java, Indonesia.

3.3   Effect of experiential marketing on loyalty

Santi et al. (2020) argues that overall customer satisfaction is a result of a process that emphasises the perceptual, evaluative, and psychological process, resulting from 'the use of experience'. The use of experience is part of customer experience, where customer experience is everything that happens at every stage in the customer cycle from before the purchase until after the purchase and may include interactions beyond the product itself. Oliver (1999) found that Experiential Marketing has a strong and significant influence on customer loyalty. Chang and Chen (2008) suggests that experience is an important variable for understanding consumer behaviour, behaviour toward experience and repurchase.

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Hypothesis 3   Experiential Marketing effect Loyalty on budget hotels in East Java, Indonesia.

3.4   Effect of customer satisfaction on loyalty

According to Kotler and Keller (2016, p.14) there is a positive relationship between customer satisfaction and loyalty. Customer satisfaction is if the company can meet customer expectations (expectations). Customer expectations are based on previous buying experiences, opinions from friends, and market information. A marketer must carefully cultivate the level of customer expectations appropriately. If they set expectations too low, customers may be satisfied but fail to attract new customers. If they set expectations too high, customers/buyers will be disappointed. In the hotel industry is very easy to set high expectations because guests cannot judge the product until they enjoy the product. But if the fact is not true then the customer will be very dissatisfied.

Customer satisfaction depends on product's perceived performance in delivering value to customer expectations relative. If the results are perceived by customers in accordance with their expectations then they are satisfied, if the perceived result exceeds expectations then the customer will be happy. Smart companies aim for the excitement of customers, promising only what they can provide and then delivering more than promised. One of the most important things in the hotel business is how to develop a particularly strong service culture (strong service culture), where the service culture focuses on serving and satisfying consumers.

Li (2020) researched and analysed the effect of consumer satisfaction on consumer quality in luxury hotels in Malaysia in 2020. The results of this study prove that the effect of customer satisfaction on consumer quality in luxury hotels in Malaysia is positive and significant.

Hypothesis 4   Customer Satisfaction effect on Loyalty in budget hotel in East Java, Indonesia.

3.5 *Influence of environment element on loyalty through experiential and customer satisfaction*

Bitner (1992) states that there is a positive relationship between dimensions of atmosphere, function and space, signs, symbols, and artifacts to customer satisfaction. Customer satisfaction positively affects customer loyalty by considering the perceived quality of service and satisfaction is the deciding factor. Satisfaction gained from customer experience can develop into loyalty [Lovelock and Wirzt, (2011), p.28]. With the creation of an optimal level of customer satisfaction then encourages the creation of loyalty in customer mind who feel satisfied earlier. If a business entity improves customer satisfaction then customer loyalty will also increase, likewise if a business entity decreases customer satisfaction then customer loyalty will also decrease.

So the budget hotel should pay attention to the quality of the product be it the taste quality in order to blend with the heart of the customer, the menu the customer wants is always available in fulfilling the customer's wishes, the affordable price and the location is easy to reach, from this satisfaction the customer express willingness to recommend to others. In general, it shows that experiential marketing and customer satisfaction are important factors in order to obtain high level of customer loyalty. The existence of experiential marketing and customer satisfaction is good then the interest of customers to visit again will grow. In addition to Atmosphere and Experiential Marketing, customer satisfaction also affects the loyalty of customers who visit the budget hotel. An important concept to consider when building a loyalty program is customer satisfaction.

Hypothesis 5   Environment element effect on loyalty through experiential marketing at budget hotel in East Java, Indonesia.

3.6 *Effect of environmental elements on loyalty through experiential and customer satisfaction*

Bitner (1992) and Kampani and Jhamb (2021) stated that there is a positive relationship between the dimensions of the atmosphere, functions and space, signs, symbols, and artifacts to customer satisfaction. Customer satisfaction positively affects customer loyalty by considering the perception of service quality and satisfaction is the deciding

factor. Satisfaction gained from customer experience can develop into loyalty [Lovelock and Wirzt, (2011), p.28]. With the creation of an optimal level of customer satisfaction then encourage the creation of customer loyalty in the mind that was satisfied earlier. If the business entity improves customer satisfaction then customer loyalty will also increase, so if the business entity decreases customer satisfaction then customer loyalty will also decrease.

Hypothesis 6   Environment element effect on loyalty through customer satisfaction at budget hotel in East Java, Indonesia.

4   Research method

The factors considered and selected in this study for environment element, experiential marketing, and customer satisfaction are based on several prior researches. Environmental element can influence consumer purchasing decisions, satisfaction, and loyalty. Three measurable environment element variables according to Wu and Liang (2009) are:

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a   correct lighting

b   comfortable temperature

c   clean environment.

These three variables are considered in this study.

Experiential marketing is a marketing approach that involves the emotions and feelings of consumers by creating positive experiences that are not forgotten so that consumers consume and fanatic to certain products. Experiential Variable Measurement according to Wu and Liang (2009) and considered in this study are:

> **Commented [t13]:** Author: Please provide full reference or delete from the text if not required.

a   price is acceptable

b   the service provided is attentive

c   the food served is interesting.

Customer satisfaction is an individual perception of product or service performance in relation to customer expectations. According to Wu and Liang (2009) customer satisfaction refers to:

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a   satisfied with employees

b   satisfied with the service provided

c   satisfied with the owner's decision.

Loyalty is the result of a process of optimising and maintaining good relationships with customers, as well as expanding relationships by creating a value and doing word of mouth marketing which is an effective marketing system. Measurements of loyalty variables according to Zeithaml et al. (1996) are:

a say positive things to others

b recommend to others

c coming back.

Primary data was collected through a survey questionnaire (see Appendix) from customers who stayed in 30 budget hotels in East Java. The responses were in Likert scale 1 (strongly disagree) to 5 (strongly agree) for each question.

The data was collected by distributing questionnaires directly to hotel visitors. There were no significant difficulties in distributing the questionnaires. In total, 230 surveys were distributed and 225 filled in surveys were returned (97.83% response rate). However, 25 survey responses were rejected due to incomplete information or deficiencies. The resultant data set was created from 200 survey responses, which is considered adequate according to Hair et al (2010).

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4.1 Data analysis techniques

Data analysis technique used to discuss the problem in this research is structural equation model – *linear structural relationship* (SEM-LISREL). The structural equation model (SEM) is a statistical technique that allows testing of a relatively complex set of relationships simultaneously. Complex relationships can be built between one or more dependent variables with one or more independent variables. There may also be a variable that doubles as an independent variable in a relationship, but becomes a dependent variable on other relationships given the existence of a tiered causality relationship. Each dependent and independent variable can take the form of a factor or construct constructed from several indicator variables. Similarly, among variables it can be a single variable that is observed or measured directly in a research process.

Data analysis technique used in this research is SEM. In SEM, the measurement model, overall model, and structural model are measured. In addition, in this study also used path analysis (path analysis) to explain the relationship between variables that exist. With the use of this SEM method will be displayed a comprehensive model and can explain the relationship between one construct with another.

There are eight indicators chosen to represent the number of categorical data, namely:

Table 1 Eight indicators structural equation modelling index

Goodness of fit measure	Cut-off value
χ^2-chi-square	Little
Significant probability	≥ 0.05
RMSEA	≤ 0.08
GFI	≥ 0.90
AGFI	≥ 0.90
CMIN/DF	≤ 2.0
TLI	≥ 0.95
CFI	≥ 0.95

Source: Data processed

5   Survey analysis

Descriptive statistics of the data set are presented below.

Table 2   Statistics description variable environment element

No.	Statement	Mean score	Description
1	The right lighting is owned by budget hotels in East Java, Indonesia	3.53	Agree
2	The comfortable temperature is owned by budget hotels in East Java, Indonesia	3.78	Agree
3	The clean environment is owned by budget hotels in East Java, Indonesia	3.66	Agree
Mean score		3.65	Agree

    Source: Data processed

Table 2 shows the average of environment element variables is 3.65. This reflects that the average score of respondents 'answers agrees with the existing statement on the environmental element variable in which respondents' attitudes regarding consumer acceptance of appropriate lighting, comfortable temperature, and clean environment are applied in budget hotels in East Java, Indonesia.

Table 3   Statistics description variable experiential marketing

No.	Statement	Mean score	Description
1	The price/cost of stay at budget hotel in East Java, Indonesia is acceptable	3.64	Agree
2	Services provided at budget hotels in East Java, Indonesia are attentive	3.69	Agree
3	Food served at budget hotels in East Java, Indonesia is interesting	3.71	Agree
Mean score		3.68	Agree

      Source: Data processed

Table 3 shows the average of experiential marketing variables is 3.68. This reflects that the average value of respondents' answers agrees with the existing statement on the experimental variables of:

1   the price/stay cost in budget hotels in East Java, Indonesia is acceptable

2   the services provided in budget hotels in East Java, Indonesia are full attention

3   the food served at budget hotels in East Java, Indonesia is interesting.

Based on Table 4 the average of customer satisfaction variables is 3.71. This reflects that the average value of respondents' answers agrees with the existing statement on customer satisfaction variable that respondents express satisfaction on:

1   hospitality of budget hotel employee in East Java, Indonesia

2   service provided by budget hotel in East Java, Indonesia and service given budget hotels in East Java, Indonesia

3   the decision of budget hotel owners in East Java, Indonesia if I have a complaint.

Table 4   Statistics description variable customer satisfaction

No.	Statement	Mean score	Description
1	I am satisfied with the friendliness of budget hotel employees in East Java, Indonesia.	3.79	Agree
2	I am satisfied with the services provided by budget hotels in East Java, Indonesia.	3.63	Agree
3	I am satisfied with the decision of budget hotel owners in East Java, Indonesia if I have a complaint.	3.71	Agree
Mean score		3.71	Agree

    Source: Data processed

Table 5 shows the average of loyalty variables is 3.56. This indicates that the average value of the respondent's answer agrees with the existing statement on the loyalty variable in which the consumer's perception of the individual's assessment to buy back from the services provided by the same company, given the current situation and the situation that may occur.

Table 5   Statistics description loyalty variables

No.	Statement	Mean score	Description
1	I will say positive thing about budget hotel in East Java, Indonesia to others	3.56	Agree
2	I would recommend budget hotel in East Java, Indonesia to others	3.53	Agree
3	I will reappear budget hotel in East Java, Indonesia	3.57	Agree
Mean score		3.56	Agree

    Source: Data processed

6   Overall model fitness testing

Table 6 shows the overall model fitness.

Table 6   Structural equation modelling index

Goodness of fit measure	Cut-off value	Result	Description
χ^2-chi-square	Little	283.297	Good
Significant probability	≥ 0.05	0.07	Fit
RMSEA	≤ 0.08	0.04	Fit
GFI	≥ 0.90	0.98	Fit
AGFI	≥ 0.90	0.97	Fit
CMIN/DF	≤ 2.0	1.04	Fit
TLI	≥ 0.95	0.98	Fit
CFI	≥ 0.95	0.96	Fit

    Source: Data processed

1   χ^2-chi-square result is 283.30. The smaller the statistical value of Chi-Square (χ^2) the better is the model.

2   The root mean square error of approximation (RMSEA) is 0.04. RMSEA values that are smaller or equal to 0.08 are the indices for the acceptability of a model that shows as a close fit of the model based on degrees of freedom.

3   GFI of 0.98. Value ≥ 0.90 is a good model (fit).

4   Adjusted goodness of fit (AGFI) is 0.97, it can be interpreted that the model is at a level fit.

5   CMIN / DF (the minimum sample discrepancy function) of 1.04 (χ^2 value relative $\leq$ 2.0); it can be concluded there is an acceptable fit indication between the model and the data.

6   Tucker Lewis Index (TLI) of 0.98, where the recommended value as a reference for the acceptance of a model is the acceptance of ≥ 0.95; the model tested is good.

7   Comparative Fit Index (CFI) of 0.96 (≥ 0.95), so it can be concluded that the model is good to measure the acceptance level of a model.

7   SEM analysis

7.1   Structural equations

The structural equations of the research model are as follows:

$$Y_1 = \beta_1 X_1$$
$$Y_1 = 0.46\, X_1 \qquad R^2 = 0.21$$

(1)

If the environment element changes it will lead to changes in experiential marketing with the direction of positive changes that if the environment element increases then experiential marketing will increase, and vice versa if the environment element decreases then experiential marketing will decrease.

$$Y_2 = \beta_1 X_1$$
$$Y_2 = 0.61\, X_1 \qquad R^2 = 0.21$$

(2)

If the environment element changes it will cause changes in customer satisfaction with the direction of positive changes that if the environment element increases then customer satisfaction will increase and vice versa if environment element decreases then customer satisfaction will decrease.

$$Y_3 = \beta_1 X_1 + \beta_2 Y_1$$
$$Y_3 = 0.18\, X_1 + 0.73\, Y_1 \qquad R^2 = 0.62$$

(3)

If the environment element and experiential marketing change it will cause change of loyalty with positive change direction that if environment element and experiential marketing increase then loyalty will increase, and vice versa if environment element and experiential marketing decrease then loyalty will decrease.

$$Y_3 = \beta_1 X_1 + \beta_2 Y_2$$
$$Y_3 = 0.28\, X_1 + 0.30\, Y_2 \qquad R^2 = 0.10$$

(4)

If the environment element and experiential marketing change it will cause change of loyalty with positive change direction that is if environment element variable and experiential marketing then loyalty will increase, and vice versa if environment element and experiential marketing decrease then loyalty will decrease.

6.2   Hypothesis testing

Table 7 shows the significance of the research hypothesis which has the following meanings:

1   Effect of environment element towards experiential marketing equal to 0.37 and the influence is significant.

2   The influence of environment element on customer satisfaction is 0.45 and the influence is significant.

3   The influence of marketing experiential to loyalty of 0.42 and the influence is significant.

4   The influence of customer satisfaction on loyalty of 0.52 and the influence is significant.

5   The influence of environment element on loyalty through experiential marketing is 0.15 and the influence is significant.

6   Effect of environment element on loyalty through customer satisfaction equal to 0.23 and influence is significant.

Table 7   Hypothesis testing

No.	Influence of variables	Estimate	Standard error	Critical ratio	P	Description
1	*Environment Element → Experimental Marketing*	0.37	0.18	2.09	0.000	Significant
2	*Environment Element → Customer Satisfaction*	0.45	0.20	2.26	0.03	Significant
3	*Experimental Marketing → Loyalty*	0.42	0.19	2.21	0.03	Significant
4	*Customer Satisfaction → Loyalty*	0.52	0.11	4.64	0.00	Significant
5	*Environment Element → Experimental Marketing → Loyalty*	0.15	-	-	-	Significant
6	*Environment Element → Customer Satisfaction → Loyalty*	0.23	-	-	-	Significant

Source: Data processed

7   Discussion and conclusions

The descriptive statistics of environment element shows an average value of 3.654. This means that respondents agree that:

1   the right lighting is owned by budget hotels in East Java

2   the comfortable temperature is owned by budget hotels in East Java

3   clean environment owned by budget hotel in East Java, Indonesia.

Test results on Hypothesis 1 yielded estimate value of 0.369 (p = 0.000), which proves there are positive and significant influence of environment element to experiential marketing. This means that if the elements of the hotel environment in this study are measured by: proper lighting, comfortable temperature, and better clean environment, then experiential marketing will be better. The results of this study support the theory of environment elements expressed by Bitner (1992), Han and Ryu (2010) and Wu and Liang's research in 2009 in Taiwan and Haghighi et al. (2012) in Tehran.

The test results on Hypothesis 2 resulted in the loading factor value of 0.451 (p = 0.026) proved to have a positive influence and significant environmental element on customer satisfaction. This means that if the environment elements get better, then customer satisfaction will be higher. Where customer satisfaction in this research is measured by:

1   satisfied with employee's friendliness

2   satisfied with service

3   satisfied with owner's decision.

The results of this study support the theory of environment elements expressed by Bitner (1992), Han and Ryu (2010) and Wu and Liang's research in 2009 in Taiwan and Haghighi et al. (2012) in Tehran.

The test results on Hypothesis 3 resulted in a factor loading value of 0.418 (p = 0.029) proved to have a positive and significant impact of experiential marketing on loyalty. This means that if the better marketing experience, then the loyalty will be higher. The experiential marketing in this study is measured by:

1   the price/stay cost is acceptable

2   attentive service

3   the food served is interesting.

The results of this study support the theory of experiential marketing expressed by Schmitt (1999) and Wu and Liang's research in 2009 in Taiwan and Haghighi et al. (2012) in Tehran.

Test results on hypothesis 4 proves there is a positive influence and significant customer satisfaction on loyalty of 0.516 (p = 0.029). This means that if customer satisfaction is higher, then loyalty will be higher. Where loyalty in this study is measured by:

1   will say positive things

2   will recommend

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Reference entry:

Han, H. and Ryu, K. (2011) 'New or repeat customers: how does physical environment influence their restaurant experience?', *International Journal of Hospitality Management*, Vol. 30, No. 3, pp.599–611.

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Reference entry:

Han, H. and Ryu, K. (2011) 'New or repeat customers: how does physical environment influence their restaurant experience?', *International Journal of Hospitality Management*, Vol. 30, No. 3, pp.599–611.

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3 will come back.

The results of this study support the theory of purchasing decision-making processes expressed by Kotler and Keller (2016, p.317) and Dutka (2008) and research Bilal et al. (2014).

Test results on Hypothesis 5 yield estimate value of 0.154 and prove there is a positive influence and significant environment element on loyalty through experiential marketing. It means that if: the influence of environment element towards experiential marketing is bigger and the influence of experiential marketing towards loyalty is bigger, then the influence of environment element toward loyalty through experiential marketing will be higher.

The results of this study support the loyalty theory expressed by Thurau (2002) and Oliver (1997) and Wu and Liang's research in 2009 in Taiwan and Haghighi et al. (2012) in Tehran.

The results of testing on hypothesis 6 resulted in an estimate of 0.233 and proved to have a positive and significant influence on the environment element on loyalty through customer satisfaction. This means that if: the influence of the environment element on customer satisfaction is higher and the influence of customer satisfaction on the higher loyalty, then the influence of environment element on loyalty through customer satisfaction will be higher. The results of this study support the loyalty theory expressed by Thurau (2002) and Oliver (1997) and Wu and Liang's research in 2009 in Taiwan and Haghighi et al. (2012) in Tehran.

In conclusion, based on the results of data analysis and discussions it is noted that:

1 The first hypothesis that states that the environment element affects the experiential marketing in budget hotels is accepted.

2 The second hypothesis that states that the environment element affects customer satisfaction at budget hotels is accepted.

3 The third hypothesis which states that experiential marketing effect on loyalty in budget hotels is accepted.

4 The fourth hypothesis which states that customer satisfaction affects loyalty in budget hotels is accepted.

5 The fifth hypothesis which states that the environment element affects the loyalty through Experiential Marketing in budget hotels is accepted.

6 The sixth hypothesis which states that the environment element affects the loyalty through customer satisfaction at budget hotels is accepted.

There is no doubt some budget hotels attempt to provide good service and quality through several ways, such as, by designing an attractive and different menu of dishes with competitors, creating an atmosphere that ensures visitor comfort, hygiene, how to serve food well, set appropriate prices, create a friendly impression through service employees, pay attention to customer needs and design an attractive interior. These efforts are designed to give customers an idea of the value creation of the company compared to competitors, in the hope of enhancing customer satisfaction and having a high emotional attachment to *the* company, so that the company can build true customer loyalty.

This kind of emotional attachment allows the budget hotels to understand carefully the customer's specific expectations and needs. Thus a hotel can increase customer

satisfaction and customer satisfaction encourages the creation of customer loyalty. The quality of service assessed from the reliability or ability to provide services in accordance with the promised, responsiveness by providing services quickly and accurately, is a guarantee provided by the company so that customers can provide the trust, empathy or attention from the quality that has been given. Reliability of services may depend on sustainability practices in supply chain in hotel industry (Babu and Kaur, 2020).

Customer loyalty is the key to success for hotel, not only in the short term, but a sustainable competitive advantage. Loyal customers will not be easily influenced or transferred to other companies, loyal customers will always re-purchase and recommend the service provider company to others, because it triggered the feeling of satisfaction, pleasure, appreciated, and understood by the service providers. Customer loyalty will always arise to the customer if what is needed is provided by the company. The determination of the company's choice to be a loyal customer of a company that puts forward good service quality, will provide great benefits for the company so that the company's operations will run smoothly and the company is able to survive in the increasingly tight market competition today

Customer satisfaction can help a hotel maintain its customers. The demand for hotel capacity and expected number of visitors could fluctuate, which might necessitate tourism forecasting (Zhang, et al, 2022). With the presence of a wide selection of budget hotels and supported by advances in science and technology, the consumers can more freely choose a budget hotel of their liking. The hotel budget industry itself is a fusion of products and services they sell. So to achieve good value from consumers, then the hotel budget must be able to meet the needs and desires of consumers both in terms of products and services. By doing so it is expected to arouse consumer interest to be interested in making purchases in the budget hotel and become loyal. Therefore, to win the competition, companies need to understand the importance of loyalty.

This study contributed to our understanding of customer loyalty. The hypothesis testing provide greater understanding of various factors and how they affect the loyalty. This study also has practical implications for budget hotel managers. The empirical results suggest strong influence of environment elements on loyalty through experiential marketing, and customer satisfaction in budget hotels. Budget hotel managers in East Java can use this information in designing their promotional campaigns. Even though this research was conducted in East Java, this research model can be generalised to research in other locations by testing and analysing loyalty to budget hotels, especially loyalty that is influenced by environmental elements, experiential marketing, and customer satisfaction.

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Appendix

Questionnaire for data collection

Environment element

No.	Statement	Strongly disagree	Don't agree	Normal	Agree	Strongly agree
1	The right lighting is owned by budget hotels in East Java, Indonesia					
2	The comfortable temperature is owned by budget hotels in East Java, Indonesia					
3	The clean environment is owned by budget hotels in East Java, Indonesia					

Experiential marketing

No.	Statement	Strongly disagree	Don't agree	Normal	Agree	Strongly agree
1	The price/cost of stay at budget hotel in East Java, Indonesia is acceptable					
2	Services provided at budget hotels in East Java, Indonesia are attentive					
3	Food served at budget hotels in East Java, Indonesia is interesting					

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Customer satisfaction

No.	Statement	Strongly disagree	Don't agree	Normal	Agree	Strongly agree
1	I am satisfied with the friendliness of budget hotel employees in East Java, Indonesia					
2	I am satisfied with the services provided by budget hotels in East Java, Indonesia					
3	I am satisfied with the decision of budget hotel owners in East Java, Indonesia if I have a complaint					

Loyalty

No.	Statement	Strongly disagree	Don't agree	Normal	Agree	Strongly agree
1	I will say positive thing about budget hotel in East Java, Indonesia to others					
2	I would recommend budget hotel in East Java, Indonesia to others					
3	I will reappear budget hotel in East Java, Indonesia					

Influencing loyalty to budget hotels through environment elements, experiential marketing and customer satisfaction

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Abstract: The purpose of this study is twofold: first, to examine the relationships between environment, marketing and customer satisfaction on building loyalty for hotel industry; and second, to test out those relationships through SEM analysis for further understanding of budget hotel industry dynamics. With an extensive literature review, we identified the research gap and proposed several hypotheses to study. 230 visitors in 30 budget hotels in East Java, Indonesia were surveyed for data collection. The data analysis confirms significant effects of environment elements on experiential marketing, environment elements on customer satisfaction, experiential marketing on loyalty, customer satisfaction on loyalty, environment elements on loyalty through experiential marketing, and environment elements on loyalty through customer satisfaction at budget hotels in East Java. This empirical study contributes to demand management in budget hotel industry through the influences of environment, experiential marketing and loyalty marketing. The hotel managers may design promotion strategies based on the study findings.

Keywords: environment element; experimental marketing; customer satisfaction; loyalty.

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1
Introduction

Like in any business, an effective marketing strategy is imperative in budget hotel industry to attract and retain customers for survival. The growth of budget hotels attracted more and more players entering the industry – requiring strategies to retain consumers. One way to compete in this industry is through experiential marketing; affecting the value of customers that ultimately shapes customer satisfaction.

With increasingly high competition, many hotels are no longer focusing their marketing activities solely on the search for new buyers, but it is more to maintain and increase customer loyalty and retention. The cost of acquiring new buyers can be five times more expensive than the costs of maintaining old customers (Gallo, 2014). Loyal customers will gladly reveal positive things and give recommendations about the company to others.

Experiential marketing efforts will however must consider environment element and customer satisfaction leading to establishment of loyalty. Environment element (including hotel atmosphere, space and function, signs, symbols, and artifacts) should influence customers' psychology so that they come and stay in the hotel. Customer satisfaction greatly affects customer behaviour, especially customer loyalty embodied in the desire to buy back and recommend to others. With the presence of a wide selection of budget hotels (supported by IT tools) consumers can navigate freely in choosing a budget hotel they like. The budget hotel industry itself is in a fusion state in providing products and services they sell. To achieve a good value (and future returns) from consumers, the hotel budget must be able to meet the needs and desires of consumers in terms of both products and services. By doing so, the hotel managers could expect to arouse consumer interest in making further purchases in budget hotel and make them more loyal to their hotels. To win the competition, budget hotels need to understand the importance of loyalty.

The review of current literature identifies a clear research gap in our understanding of the effects of environment element on customer satisfaction. Studies by Widowati and Tsabita (2017) and Tangkuman et al. (2015) reached to contradictory findings on the influences of environment elements on customer satisfaction. Chang and Lin (2022) and Ding et al (2022) show a positive and significant effect of environment on visitor satisfaction. However, Keshavarz (2016) shows no significant effect of environment on hotel guest satisfaction. Undoubtedly, both experiential marketing and customer satisfaction lead to garnering of customer loyalty. The interest to visit again a budget hotel is expected to increase if both experiential marketing and customer satisfaction are present.

The purpose of this study is to find the factors that contribute to customer loyalty in the hotel budget industry and offer suggestions to improve loyalty in budget hotels. For illustration, a popular tourist destination (East Java, Indonesia) and its thirty budget hotels are selected in the study. Specifically this study aims to determine the effect of:

1 environment element towards experiential marketing at budget hotels

2 environment element to customer satisfaction

3 experiential marketing to loyalty

4 customer satisfaction towards loyalty.

This research is expected to provide knowledge for the community as well as the contribution of thoughts about how influential factors influence the loyalty. The empirical benefit in general usage of this research is to know the influence of environment element on loyalty through experiential marketing, and customer satisfaction in hotel budget industry to know how big demand of hotel budget especially budget hotel in East Java, Indonesia.

2 Literature review

A prior research (Wu and Liang, 2009) in Taiwan examined the effect of experiential value on customer satisfaction on service area environment in luxury hotel restaurant. The results of this study proved that environmental factors and direct interaction with employees and other consumers affect the experiential value. Another result of the research is direct interaction with employees affecting customer satisfaction. In addition, interaction with other consumers and service area environment affects customer satisfaction through experiential value. Another research (Haghighi et al., 2012) in Tehran examined the factors that affect consumer loyalty in the restaurant industry. The results of this study proved that the quality of food, service quality, restaurant environment, and prices affect customer satisfaction. In addition, the consumer satisfaction affects loyalty. A study by Babu and Kaur (2020) suggested importance of sustainability practices in tourism supply chain for Indian hotel industry.

2.1 Environment element

Environment element is the design of the atmosphere of space as a physical and social stimulus created by hotel managers to influence consumers who have psychological

impacts so that the trigger to attract consumers come and stay so that it can increase the occupancy rate. The measurement of environment elements using indicators developed by several researchers Bitner (1992) and Heung and Gu (2012).

a   Atmosphere

Atmosphere is a condition covering environmental background characteristics such as temperature, noise lighting, music, colour, and aroma. All of these factors can greatly affect how people feel, think, and respond to a particular form of service. The measurements of ambience dimensions proposed by Bitner (1992), Han and Ryu (2011) are:

1   temperature
2   aroma
3   noise
4   music
5   interior design
6   lighting
7   colours
8   cleanliness.

b   Space and function

Space and function create a service environment that generally exists to meet specific goals or consumer needs. Measurement of the dimensions of space and function using indicators developed by Bitner (1992) are:

1   spatial planning
2   Tata equipment
3   circulation
4   furnishings
5   Space function.

c   Signs, symbols, and artifacts

The use of these signs, symbols, and artifacts can be used as a hotel identity as well as to convey a message of rules of conduct (for example: no smoking). The quality of building materials, artwork, photographs, floor covering materials, and objects on display can signal symbolic meaning and create an overall aesthetic impression. The formative indicators used in this study use indicators developed by Bitner (1992), namely:

1   hotel name entry
2   marker entrance – exit
3   antiques
4   pictures/paintings
5   style decoration
6   architectural buildings
7   landmark colonial buildings

8 historical.

The design of the atmosphere is done among others to attract consumers, trigger consumers to stay at the hotel and create a certain atmosphere which can then affect consumer emotions to influence how consumers behave.

2.2 Experiential marketing

According to Schmitt (1999, p.60) experience is the experience of personal events that occur due to a certain stimulus (e.g. given by the marketer before and after the purchase of goods or services). Experience is also defined as a subjective part of the construction or transformation of the individual, in direct emphasis on emotions and senses during immersion at the expense of cognitive dimensions. While the definition of marketing is an activity to anticipate, manage and achieve customer satisfaction through the exchange process.

According to Schmitt (1999) experiential marketing is a marketing approach that involves the emotions and feelings of consumers by creating positive experiences that are not forgotten so that consumers consume and fanatical towards certain products. The 3 key points focused in experiential marketing are: customer experience, consumption patterns, and rational and emotional decisions.

Experiential marketing is an approach in marketing that has actually been done since time immemorial until now by the marketers. This approach is considered very effective because in line with the development of the era and technology, marketers more emphasise product differentiation to differentiate their products with competitors' products. With the existence of experiential marketing, customers will be able to distinguish products and services with each other because it can experience and experience directly through 5 approaches (sense, feel, think, act, relate), both before and when consuming a product or service. Tourism marketers can focus on relaxation and attraction, exploration and excitement to upgrade tourism products (Aziz et al., 2022).

Schmitt (1999) stated that sense relates to styles and verbal and visual symbols capable of creating the integrity of an impression. To create a strong impression, whether through advertising, packaging or website, a marketer needs to choose the right colour in line with the company profile. Feeling is very different from the sensory impression because it deals with the mood and emotion of one's soul. This is not just about beauty, but the mood and emotions of the soul that can generate happiness or even sadness. While think of the company's activities to challenge consumers, by providing problem-solving experiences, and encourage customers to interact cognitively or creatively with the company or product. Act / Action relates to the whole individual (mind and body) to improve life and lifestyle. Motivating, inspiring, and spontaneous messages can cause customers to do things differently, trying in new ways to change their lives better.

The marketing approach of Experiential Marketing is an approach that tries to shift the traditional marketing approach. This traditional approach has four characteristics: focus on first experience, test consumption situation, recognised rational and emotional aspects as trigger of consumption, and methods and devices are electic.

The main focus of experiential marketing is focused on sensory responses, influences, cognitive experiences, actions, and relationships. Experiential Marketing can be exploited effectively when applied to certain situations. Schmitt demonstrates some of the benefits

that can be accepted and felt when a business entity adopts experiential marketing. These benefits include:

a   resurrecting brands that are degenerating

b   distinguish one product from a competitor's product

c   creating the image and identity of a business entity

d   promotes innovation

e   introducing experiments, purchases, and most importantly loyal consumption.

From some definitions can be concluded that Experiential Marketing can be measured using five main factors. Experiential Marketing is a marketing approach that involves the emotions and feelings of consumers by creating unforgettable positive experiences. Thus consumers feel impressed and experience during the enjoyment of this company's products will be embedded in the mind, so that later customers are not only loyal but also disseminate information about the company's products in word of mouth. One of the marketing that can be done by business owners is with experiential marketing.

2.3   Customer satisfaction

According to Kotler and Keller (2016, p.38) satisfaction is obtained when the needs and desires of customers are met. Satisfaction is the feeling of pleasure or disappointment of someone who emerges after comparing the performance (result) of the product to the expected performance (results) expected. According to Dutka (2008, p.199) satisfied customer improved business and dissatisfied customer impair business. So customer satisfaction is not easy, how to create satisfaction while maintaining customer satisfaction. Customer dissatisfaction will cause the business entity difficult to survive in the face of competition. The importance of consumer satisfaction for marketing can be attributed to the fact that customer satisfaction will encourage repeat purchases and give the advantage of 'word of mouth' publicity.

Relationship level of customer satisfaction with customer behaviour can be identified several types of customers are (Noyan and Simsek, 2011):

a   Apostles

Customers who rate their product performance exceed their expectations so that they can provide positive word of mouth information to others, or these highly satisfied customers who are loyal and continue to buy.

b   Defector

Customers who are quite satisfied (neutral) and ready to stop buying.

c   Terrorist

Customers who have negative experiences that can spread negative issues.

d   Hostages

Unhappy customers who still buy because of some conditions such as cheap prices, these customers are hard to talk because they often complain.

e   Mercenaries

 A very satisfied customer who is not really loyal, who might be a defector if it gets a cheap price elsewhere.

Companies must be able to create apostle customers, increase customer satisfaction buyers, and make them loyal. Companies should avoid terrorist and hostage customers, as well as reduce the number of mercenary customers [Schiffman and Kanuk, (2015), p.23]. Customer satisfaction is quite difficult to achieve. To satisfy customers requires a long, long, and not cheap process. Some theories used to measure customer satisfaction include Kotler and Keller (2016, p.72) put forward the theory by using four methods in measuring customer satisfaction, namely:

a   Complaints and suggestions system

 Every customer-oriented company needs to provide the widest opportunity for them to share their suggestions, opinions, and grievances.

b   Customer satisfaction survey

 Studies show that while customers are disappointed in one of four purchases, less than five percent will complain.

c   Spending the Stealth

 This method is done by companies paying people to act as potential buyers to report strong points and weak points experienced while purchasing a competitor's product.

d   Missing customer analysis

 This method is very unique where companies should contact customers who stop buying or who have turned to other suppliers to learn the reason for the incident.

From several definitions can be concluded that customer satisfaction is closely related to customer loyalty, where satisfied customers will become loyal customers. Then the loyal customer will become a powerful marketing force for the company by providing recommendations and positive information to other prospective customers. Customer satisfaction will be achieved if expectations match the reality received.

2.4   *Loyalty*

According to Hennig-Thurau et al. (2002) customer loyalty is widely accepted as one that helps the company to achieve long-term success, therefore in the context of customer loyalty marketing is the ultimate expectation that the company wants to achieve. Loyalty is the result of a combination or multidimensional relationship of interest, attitude, sales achievement and customer behaviour. Oliver (1999) defines customer loyalty as a deep commitment to buy back in the future, although situational influences and marketing efforts have the potential to lead to shifting behaviour, the American Marketing Association (Keefe, 2008) defines loyalty as the level at which a consumer is consistently patterned the same store when shopping for products that are commonly purchased. Loyal customers are consumers who will not move to other products or other brands, whereas normal consumers are consumers who still have high loyalty, but there is still the possibility of moving to another product or another brand. The third level of consumers is

a half-loyal consumer which means consumers still have a loyal attitude towards a particular brand, but some of his attitude is swicther attitude. The unlucky level of consumers is, consumers will always move from one brand or product to another brand or product.

TaghiPourian and Bakhsh (2015) classified the level of loyalty into four types:

a   Without Loyalty

The low attachment to a product is combined with a low repeat purchase rate. Some customers do not develop loyalty to products or services for various reasons. Companies should avoid targeting these types of buyers as they only contribute little to the company's financial strength.

b   Weak Loyalty

The low attachments are combined with high repeat purchases. This customer buys out of habit. This is a type of purchase 'because we're used to it'. These buyers feel a certain level of satisfaction with the company, or at least no real dissatisfaction.

c   Hidden Loyalty

A relatively high level of preference coupled with low repeat purchases. This happens because of the influence of the situation, not because of the influence of attitude. For example I am a big fan of Chinese cuisine and have a favourite Chinese hotel near home, but my husband is less fond of Eastern cuisine.

d   Premium Loyalty

The high degree of engagement and repeat purchases is also high, so it is the kind of loyalty most preferred to all companies.

Meanwhile, according to Zeithaml et al., (1996) the ultimate goal of the company's success in establishing relationships with customers is to form a strong loyalty. The concept of customer loyalty is more related to behaviour (behaviour) than with attitude. The ultimate goal of a company's successful relationship with its customers is to establish strong loyalty.

The indicators of strong loyalty (Zeithaml, 1996) are:

a   Say positive thing

Is the delivery of information to others in the form of words positively about a service provider, usually a story or experience.

b   Recommend friends

Is a process that leads to invite others to come to enjoy the service provider as a result positive experience that has been felt.

c   Continue purchasing

It is the attitude of repeated buy-in by the consumer to a particular service provider that leads to repetitions that can be based on loyalty.

Customer loyalty is very important for companies that want to keep their business alive as well as the success of their business. Customer loyalty is a very important boost for creating sales. Meanwhile, customer loyalty in the context of service marketing is a

response that is closely linked to a pledge or a pledge to uphold the commitment that underlies the sustainability of the relationship and is usually reflected in the ongoing purchase of the same service provider on the basis of dedication and pragmatic constraints.

From several definitions it can be concluded that retaining customers has been perceived by many service providers as an important variable in winning the competition. With the creation of customer loyalty will lead to greater profitability and growth for the company. And loyal customers will tend to re-purchase for the product. The current marketing concept of emphasis is on consumer satisfaction, so a successful marketer must have a good sense of customer satisfaction and loyalty.

3 Building research hypothesis

The literature review leads to conflicting findings of influences of environment elements to customer satisfaction. The research conducted by Widowati and Tsabita (2017) showed that the effect of the environment element on customer satisfaction was insignificant. Whereas another study by Tangkuman et al. (2015) showed that the influence of the environment element on customer satisfaction was significant.

Research conducted by Chang and Lin (2022) indicates that the perceptions of the hotel atmosphere (environmental elements) have a positive and significant effect on hotel customer satisfaction. Likewise, research conducted by Ding et al (2022) also suggests that the hotel environment (such as hotel ratings, rental prices, location, and service quality) has a positive and significant effect on hotel visitor satisfaction. However, research conducted by Keshavarz (2016) shows that hotel consumer expectations of the hotel environment have no significant effect on hotel guest satisfaction. These contradictions make this research on influences of budget hotel environment on hotel guest satisfaction interesting and worth the study.

In general, marketing experience and customer satisfaction are important factors for obtaining a high level of customer loyalty. The existence of both experiential marketing and customer satisfaction could interest a customer to visit again a budget hotel. In addition to atmosphere and experiential marketing, customer satisfaction also affects the loyalty of customers who would visit the budget hotel. The research model showing these relationships is presented in Figure 1. The research hypotheses presented below are grounded to this model framework.

Figure 1 Research model: influence relationships

3.1   *Influence of environment element on experiential marketing*

The existence of a positive relationship between the environment element and experiential marketing shows that the experiential marketing done by the budget hotel offers an atmosphere that touches the five senses of the customer is an attractive interior design, coolness of the room, music and the product has a taste and aroma image that has been embedded in the heart customer.

Hypothesis 1   Environment Element effect on Experiential Marketing at budget hotel in East Java, Indonesia.

3.2   *Effect of environment element on customer satisfaction*

The atmosphere of the hotel as a whole is an aesthetic and emotional effect created through physical characteristics whereby all connect with the senses of the consumer such as spatial designed for customer convenience, colour use, lighting, and so on. Therefore, the establishment of the hotel cannot be separated from the initial preparation of the layout and design of the building in accordance with the needs of hotel operations as a whole.

Hypothesis 2   Environment Element effect on Customer Satisfaction at budget hotel in East Java, Indonesia.

3.3   *Effect of experiential marketing on loyalty*

Santi et al. (2020) argues that overall customer satisfaction is a result of a process that emphasises the perceptual, evaluative, and psychological process, resulting from 'the use of experience'. The use of experience is part of customer experience, where customer experience is everything that happens at every stage in the customer cycle from before the purchase until after the purchase and may include interactions beyond the product itself. Oliver (1999) found that Experiential Marketing has a strong and significant influence on customer loyalty. Chang and Lin (2022) suggests that experience is an important variable for understanding consumer behaviour, behaviour toward experience and repurchase.

Hypothesis 3   Experiential Marketing effect Loyalty on budget hotels in East Java, Indonesia.

3.4   *Effect of customer satisfaction on loyalty*

According to Kotler and Keller (2016, p.14) there is a positive relationship between customer satisfaction and loyalty. Customer satisfaction is if the company can meet customer expectations (expectations). Customer expectations are based on previous buying experiences, opinions from friends, and market information. A marketer must carefully cultivate the level of customer expectations appropriately. If they set expectations too low, customers may be satisfied but fail to attract new customers. If they set expectations too high, customers/buyers will be disappointed. In the hotel industry is very easy to set high expectations because guests cannot judge the product until they enjoy the product. But if the fact is not true then the customer will be very dissatisfied.

Customer satisfaction depends on product's perceived performance in delivering value to customer expectations relative. If the results are perceived by customers in accordance with their expectations then they are satisfied, if the perceived result exceeds expectations then the customer will be happy. Smart companies aim for the excitement of customers, promising only what they can provide and then delivering more than promised. One of the most important things in the hotel business is how to develop a particularly strong service culture (strong service culture), where the service culture focuses on serving and satisfying consumers.

Li (2020) researched and analysed the effect of consumer satisfaction on consumer quality in luxury hotels in Malaysia in 2020. The results of this study prove that the effect of customer satisfaction on consumer quality in luxury hotels in Malaysia is positive and significant.

Hypothesis 4   Customer Satisfaction effect on Loyalty in budget hotel in East Java, Indonesia.

3.5 Influence of environment element on loyalty through experiential and customer satisfaction

Bitner (1992) states that there is a positive relationship between dimensions of atmosphere, function and space, signs, symbols, and artifacts to customer satisfaction. Customer satisfaction positively affects customer loyalty by considering the perceived quality of service and satisfaction is the deciding factor. Satisfaction gained from customer experience can develop into loyalty [Lovelock and Wirzt, (2011), p.28]. With the creation of an optimal level of customer satisfaction then encourages the creation of loyalty in customer mind who feel satisfied earlier. If a business entity improves customer satisfaction then customer loyalty will also increase, likewise if a business entity decreases customer satisfaction then customer loyalty will also decrease.

So the budget hotel should pay attention to the quality of the product be it the taste quality in order to blend with the heart of the customer, the menu the customer wants is always available in fulfilling the customer's wishes, the affordable price and the location is easy to reach, from this satisfaction the customer express willingness to recommend to others. In general, it shows that experiential marketing and customer satisfaction are important factors in order to obtain high level of customer loyalty. The existence of experiential marketing and customer satisfaction is good then the interest of customers to visit again will grow. In addition to Atmosphere and Experiential Marketing, customer satisfaction also affects the loyalty of customers who visit the budget hotel. An important concept to consider when building a loyalty program is customer satisfaction.

Hypothesis 5   Environment element effect on loyalty through experiential marketing at budget hotel in East Java, Indonesia.

3.6 Effect of environmental elements on loyalty through experiential and customer satisfaction

Bitner (1992), Kampani and Jhamb (2021), and Vera and Trujilo (2017) stated that there is a positive relationship between the dimensions of the atmosphere, functions and space, signs, symbols, and artifacts to customer satisfaction. Customer satisfaction positively affects customer loyalty by considering the perception of service quality and satisfaction is the deciding

factor. Satisfaction gained from customer experience can develop into loyalty [Lovelock and Wirzt, (2011), p.28]. With the creation of an optimal level of customer satisfaction then encourage the creation of customer loyalty in the mind that was satisfied earlier. If the business entity improves customer satisfaction then customer loyalty will also increase, so if the business entity decreases customer satisfaction then customer loyalty will also decrease.

Hypothesis 6   Environment element effect on loyalty through customer satisfaction at budget hotel in East Java, Indonesia.

4   Research method

The factors considered and selected in this study for environment element, experiential marketing, and customer satisfaction are based on several prior researches. Environmental element can influence consumer purchasing decisions, satisfaction, and loyalty. Three measurable environment element variables according to Wu and Liang (2009) are:

a   correct lighting

b   comfortable temperature

c   clean environment.

These three variables are considered in this study.

Experiential marketing is a marketing approach that involves the emotions and feelings of consumers by creating positive experiences that are not forgotten so that consumers consume and fanatic to certain products. Experiential Variable Measurement according to Wu and Liang (2009) and considered in this study are:

a   price is acceptable

b   the service provided is attentive

c   the food served is interesting.

Customer satisfaction is an individual perception of product or service performance in relation to customer expectations. According to Wu and Liang (2009) customer satisfaction refers to:

a   satisfied with employees

b   satisfied with the service provided

c   satisfied with the owner's decision.

Loyalty is the result of a process of optimising and maintaining good relationships with customers, as well as expanding relationships by creating a value and doing word of mouth marketing which is an effective marketing system. Measurements of loyalty variables according to Zeithaml et al. (1996) are:

a say positive things to others

b recommend to others

c coming back.

Primary data was collected through a survey questionnaire (see Appendix) from customers who stayed in 30 budget hotels in East Java. The responses were in Likert scale 1 (strongly disagree) to 5 (strongly agree) for each question.

The data was collected by distributing questionnaires directly to hotel visitors. There were no significant difficulties in distributing the questionnaires. In total, 230 surveys were distributed and 225 filled in surveys were returned (97.83% response rate). However, 25 survey responses were rejected due to incomplete information or deficiencies. The resultant data set was created from 200 survey responses, which is considered adequate according to Hair et al (2010).

4.1 Data analysis techniques

Data analysis technique used to discuss the problem in this research is structural equation model – *linear structural relationship* (SEM-LISREL). The structural equation model (SEM) is a statistical technique that allows testing of a relatively complex set of relationships simultaneously (Muthén and Muthén, 2014). Complex relationships can be built between one or more dependent variables with one or more independent variables. There may also be a variable that doubles as an independent variable in a relationship, but becomes a dependent variable on other relationships given the existence of a tiered causality relationship. Each dependent and independent variable can take the form of a factor or construct constructed from several indicator variables. Similarly, among variables it can be a single variable that is observed or measured directly in a research process.

Data analysis technique used in this research is SEM. In SEM, the measurement model, overall model, and structural model are measured. In addition, in this study also used path analysis (path analysis) to explain the relationship between variables that exist. With the use of this SEM method will be displayed a comprehensive model and can explain the relationship between one construct with another.

There are eight indicators chosen to represent the number of categorical data, namely:

Table 1 Eight indicators structural equation modelling index

Goodness of fit measure	Cut-off value
χ^2-chi-square	Little
Significant probability	≥ 0.05
RMSEA	≤ 0.08
GFI	≥ 0.90
AGFI	≥ 0.90
CMIN/DF	≤ 2.0
TLI	≥ 0.95
CFI	≥ 0.95

Source: Data processed

5   Survey analysis

Descriptive statistics of the data set are presented below.

Table 2   Statistics description variable environment element

No.	Statement	Mean score	Description
1	The right lighting is owned by budget hotels in East Java, Indonesia	3.53	Agree
2	The comfortable temperature is owned by budget hotels in East Java, Indonesia	3.78	Agree
3	The clean environment is owned by budget hotels in East Java, Indonesia	3.66	Agree
Mean score		3.65	Agree

Source: Data processed

Table 2 shows the average of environment element variables is 3.65. This reflects that the average score of respondents 'answers agrees with the existing statement on the environmental element variable in which respondents' attitudes regarding consumer acceptance of appropriate lighting, comfortable temperature, and clean environment are applied in budget hotels in East Java, Indonesia.

Table 3   Statistics description variable experiential marketing

No.	Statement	Mean score	Description
1	The price/cost of stay at budget hotel in East Java, Indonesia is acceptable	3.64	Agree
2	Services provided at budget hotels in East Java, Indonesia are attentive	3.69	Agree
3	Food served at budget hotels in East Java, Indonesia is interesting	3.71	Agree
Mean score		3.68	Agree

Source: Data processed

Table 3 shows the average of experiential marketing variables is 3.68. This reflects that the average value of respondents' answers agrees with the existing statement on the experimental variables of:

1   the price/stay cost in budget hotels in East Java, Indonesia is acceptable

2   the services provided in budget hotels in East Java, Indonesia are full attention

3   the food served at budget hotels in East Java, Indonesia is interesting.

Based on Table 4 the average of customer satisfaction variables is 3.71. This reflects that the average value of respondents' answers agrees with the existing statement on customer satisfaction variable that respondents express satisfaction on:

1   hospitality of budget hotel employee in East Java, Indonesia

2   service provided by budget hotel in East Java, Indonesia and service given budget hotels in East Java, Indonesia

3 the decision of budget hotel owners in East Java, Indonesia if I have a complaint.

Table 4   Statistics description variable customer satisfaction

No.	*Statement*	*Mean score*	*Description*
1	I am satisfied with the friendliness of budget hotel employees in East Java, Indonesia.	3.79	Agree
2	I am satisfied with the services provided by budget hotels in East Java, Indonesia.	3.63	Agree
3	I am satisfied with the decision of budget hotel owners in East Java, Indonesia if I have a complaint.	3.71	Agree
Mean score		3.71	Agree

      Source: Data processed

Table 5 shows the average of loyalty variables is 3.56. This indicates that the average value of the respondent's answer agrees with the existing statement on the loyalty variable in which the consumer's perception of the individual's assessment to buy back from the services provided by the same company, given the current situation and the situation that may occur.

Table 5   Statistics description loyalty variables

No.	*Statement*	*Mean score*	*Description*
1	I will say positive thing about budget hotel in East Java, Indonesia to others	3.56	Agree
2	I would recommend budget hotel in East Java, Indonesia to others	3.53	Agree
3	I will reappear budget hotel in East Java, Indonesia	3.57	Agree
Mean score		3.56	Agree

      Source: Data processed

6 Overall model fitness testing

Table 6 shows the overall model fitness.

Table 6   Structural equation modelling index

Goodness of fit measure	*Cut-off value*	*Result*	*Description*
χ^2-chi-square	Little	283.297	Good
Significant probability	≥ 0.05	0.07	Fit
RMSEA	≤ 0.08	0.04	Fit
GFI	≥ 0.90	0.98	Fit
AGFI	≥ 0.90	0.97	Fit
CMIN/DF	≤ 2.0	1.04	Fit
TLI	≥ 0.95	0.98	Fit
CFI	≥ 0.95	0.96	Fit

      Source: Data processed

1   χ^2-chi-square result is 283.30. The smaller the statistical value of Chi-Square (χ^2) the better is the model.

2   The root mean square error of approximation (RMSEA) is 0.04. RMSEA values that are smaller or equal to 0.08 are the indices for the acceptability of a model that shows as a close fit of the model based on degrees of freedom.

3   GFI of 0.98. Value ≥ 0.90 is a good model (fit).

4   Adjusted goodness of fit (AGFI) is 0.97, it can be interpreted that the model is at a level fit.

5   CMIN / DF (the minimum sample discrepancy function) of 1.04 (χ^2 value relative $\leq$ 2.0); it can be concluded there is an acceptable fit indication between the model and the data.

6   Tucker Lewis Index (TLI) of 0.98, where the recommended value as a reference for the acceptance of a model is the acceptance of ≥ 0.95; the model tested is good.

7   Comparative Fit Index (CFI) of 0.96 (≥ 0.95), so it can be concluded that the model is good to measure the acceptance level of a model.

7   SEM analysis

7.1   Structural equations

The structural equations of the research model are as follows:

$$Y_1 = \beta_1 X_1$$
$$Y_1 = 0.46 \ X_1 \qquad R^2 = 0.21$$
(1)

If the environment element changes it will lead to changes in experiential marketing with the direction of positive changes that if the environment element increases then experiential marketing will increase, and vice versa if the environment element decreases then experiential marketing will decrease.

$$Y_2 = \beta_1 X_1$$
$$Y_2 = 0.61 \ X_1 \qquad R^2 = 0.21$$
(2)

If the environment element changes it will cause changes in customer satisfaction with the direction of positive changes that if the environment element increases then customer satisfaction will increase and vice versa if environment element decreases then customer satisfaction will decrease.

$$Y_3 = \beta_1 X_1 + \beta_2 Y_1$$
$$Y_3 = 0.18 \ X_1 + 0.73 \ Y_1 \qquad R^2 = 0.62$$
(3)

If the environment element and experiential marketing change it will cause change of loyalty with positive change direction that if environment element and experiential marketing increase then loyalty will increase, and vice versa if environment element and experiential marketing decrease then loyalty will decrease.

$$Y_3 = \beta_1 X_1 + \beta_2 Y_2$$
$$Y_3 = 0.28\ X_1 + 0.30\ Y_2 \qquad R^2 = 0.10 \tag{4}$$

If the environment element and experiential marketing change it will cause change of loyalty with positive change direction that is if environment element variable and experiential marketing then loyalty will increase, and vice versa if environment element and experiential marketing decrease then loyalty will decrease.

6.2 Hypothesis testing

Table 7 shows the significance of the research hypothesis which has the following meanings:

1 Effect of environment element towards experiential marketing equal to 0.37 and the influence is significant.

2 The influence of environment element on customer satisfaction is 0.45 and the influence is significant.

3 The influence of marketing experiential to loyalty of 0.42 and the influence is significant.

4 The influence of customer satisfaction on loyalty of 0.52 and the influence is significant.

5 The influence of environment element on loyalty through experiential marketing is 0.15 and the influence is significant.

6 Effect of environment element on loyalty through customer satisfaction equal to 0.23 and influence is significant.

Table 7   Hypothesis testing

No.	Influence of variables	Estimate	Standard error	Critical ratio	P	Description
1	Environment Element → Experimental Marketing	0.37	0.18	2.09	0.000	Significant
2	Environment Element → Customer Satisfaction	0.45	0.20	2.26	0.03	Significant
3	Experimental Marketing → Loyalty	0.42	0.19	2.21	0.03	Significant
4	Customer Satisfaction → Loyalty	0.52	0.11	4.64	0.00	Significant
5	Environment Element → Experimental Marketing → Loyalty	0.15	-	-	-	Significant
6	Environment Element → Customer Satisfaction → Loyalty	0.23	-	-	-	Significant

Source: Data processed

7   Discussion and conclusions

The descriptive statistics of environment element shows an average value of 3.654. This means that respondents agree that:

1   the right lighting is owned by budget hotels in East Java

2   the comfortable temperature is owned by budget hotels in East Java

3   clean environment owned by budget hotel in East Java, Indonesia.

Test results on Hypothesis 1 yielded estimate value of 0.369 (p = 0.000), which proves there are positive and significant influence of environment element to experiential marketing. This means that if the elements of the hotel environment in this study are measured by: proper lighting, comfortable temperature, and better clean environment, then experiential marketing will be better. The results of this study support the theory of environment elements expressed by Bitner (1992), Han and Ryu (2011) and Wu and Liang's research in 2009 in Taiwan and Haghighi et al. (2012) in Tehran.

The test results on Hypothesis 2 resulted in the loading factor value of 0.451 (p = 0.026) proved to have a positive influence and significant environmental element on customer satisfaction. This means that if the environment elements get better, then customer satisfaction will be higher. Where customer satisfaction in this research is measured by:

1   satisfied with employee's friendliness

2   satisfied with service

3   satisfied with owner's decision.

The results of this study support the theory of environment elements expressed by Bitner (1992), Han and Ryu (2011) and Wu and Liang's research in 2009 in Taiwan and Haghighi et al. (2012) in Tehran.

The test results on Hypothesis 3 resulted in a factor loading value of 0.418 (p = 0.029) proved to have a positive and significant impact of experiential marketing on loyalty. This means that if the better marketing experience, then the loyalty will be higher. The experiential marketing in this study is measured by:

1   the price/stay cost is acceptable

2   attentive service

3   the food served is interesting.

The results of this study support the theory of experiential marketing expressed by Schmitt (1999) and Wu and Liang's research in 2009 in Taiwan and Haghighi et al. (2012) in Tehran.

Test results on hypothesis 4 proves there is a positive influence and significant customer satisfaction on loyalty of 0.516 (p = 0.029). This means that if customer satisfaction is higher, then loyalty will be higher. Where loyalty in this study is measured by:

1   will say positive things

2   will recommend

3   will come back.

The results of this study support the theory of purchasing decision-making processes expressed by Kotler and Keller (2016, p.317) and Dutka (2008).

Test results on Hypothesis 5 yield estimate value of 0.154 and prove there is a positive influence and significant environment element on loyalty through experiential marketing. It means that if: the influence of environment element towards experiential marketing is bigger and the influence of experiential marketing towards loyalty is bigger, then the influence of environment element toward loyalty through experiential marketing will be higher.

The results of this study support the loyalty theory expressed by Thurau (2002) and Oliver (1999) and Wu and Liang's research in 2009 in Taiwan and Haghighi et al. (2012) in Tehran.

The results of testing on hypothesis 6 resulted in an estimate of 0.233 and proved to have a positive and significant influence on the environment element on loyalty through customer satisfaction. This means that if: the influence of the environment element on customer satisfaction is higher and the influence of customer satisfaction on the higher loyalty, then the influence of environment element on loyalty through customer satisfaction will be higher. The results of this study support the loyalty theory expressed by Thurau (2002) and Oliver (1999) and Wu and Liang's research in 2009 in Taiwan and Haghighi et al. (2012) in Tehran.

In conclusion, based on the results of data analysis and discussions it is noted that:

1   The first hypothesis that states that the environment element affects the experiential marketing in budget hotels is accepted.

2   The second hypothesis that states that the environment element affects customer satisfaction at budget hotels is accepted.

3   The third hypothesis which states that experiential marketing effect on loyalty in budget hotels is accepted.

4   The fourth hypothesis which states that customer satisfaction affects loyalty in budget hotels is accepted.

5   The fifth hypothesis which states that the environment element affects the loyalty through Experiential Marketing in budget hotels is accepted.

6   The sixth hypothesis which states that the environment element affects the loyalty through customer satisfaction at budget hotels is accepted.

There is no doubt some budget hotels attempt to provide good service and quality through several ways, such as, by designing an attractive and different menu of dishes with competitors, creating an atmosphere that ensures visitor comfort, hygiene, how to serve food well, set appropriate prices, create a friendly impression through service employees, pay attention to customer needs and design an attractive interior. These efforts are designed to give customers an idea of the value creation of the company compared to competitors, in the hope of enhancing customer satisfaction and having a high emotional attachment to *the* company, so that the company can build true customer loyalty.

This kind of emotional attachment allows the budget hotels to understand carefully the customer's specific expectations and needs. Thus a hotel can increase customer

satisfaction and customer satisfaction encourages the creation of customer loyalty. The quality of service assessed from the reliability or ability to provide services in accordance with the promised, responsiveness by providing services quickly and accurately, is a guarantee provided by the company so that customers can provide the trust, empathy or attention from the quality that has been given. Reliability of services may depend on sustainability practices in supply chain in hotel industry (Babu and Kaur, 2020).

Customer loyalty is the key to success for hotel, not only in the short term, but a sustainable competitive advantage. Loyal customers will not be easily influenced or transferred to other companies, loyal customers will always re-purchase and recommend the service provider company to others, because it triggered the feeling of satisfaction, pleasure, appreciated, and understood by the service providers. Customer loyalty will always arise to the customer if what is needed is provided by the company. The determination of the company's choice to be a loyal customer of a company that puts forward good service quality, will provide great benefits for the company so that the company's operations will run smoothly and the company is able to survive in the increasingly tight market competition today

Customer satisfaction can help a hotel maintain its customers. The demand for hotel capacity and expected number of visitors could fluctuate, which might necessitate tourism forecasting (Zhang, et al, 2022). With the presence of a wide selection of budget hotels and supported by advances in science and technology, the consumers can more freely choose a budget hotel of their liking. The hotel budget industry itself is a fusion of products and services they sell. So to achieve good value from consumers, then the hotel budget must be able to meet the needs and desires of consumers both in terms of products and services. By doing so it is expected to arouse consumer interest to be interested in making purchases in the budget hotel and become loyal. Therefore, to win the competition, companies need to understand the importance of loyalty.

This study contributed to our understanding of customer loyalty. The hypothesis testing provide greater understanding of various factors and how they affect the loyalty. This study also has practical implications for budget hotel managers. The empirical results suggest strong influence of environment elements on loyalty through experiential marketing, and customer satisfaction in budget hotels. Budget hotel managers in East Java can use this information in designing their promotional campaigns. Even though this research was conducted in East Java, this research model can be generalised to research in other locations by testing and analysing loyalty to budget hotels, especially loyalty that is influenced by environmental elements, experiential marketing, and customer satisfaction.

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Appendix

Questionnaire for data collection

Environment element

No.	Statement	Strongly disagree	Don't agree	Normal	Agree	Strongly agree
1	The right lighting is owned by budget hotels in East Java, Indonesia					
2	The comfortable temperature is owned by budget hotels in East Java, Indonesia					
3	The clean environment is owned by budget hotels in East Java, Indonesia					

Experiential marketing

No.	Statement	Strongly disagree	Don't agree	Normal	Agree	Strongly agree
1	The price/cost of stay at budget hotel in East Java, Indonesia is acceptable					
2	Services provided at budget hotels in East Java, Indonesia are attentive					
3	Food served at budget hotels in East Java, Indonesia is interesting					

Customer satisfaction

No.	Statement	Strongly disagree	Don't agree	Normal	Agree	Strongly agree
1	I am satisfied with the friendliness of budget hotel employees in East Java, Indonesia					
2	I am satisfied with the services provided by budget hotels in East Java, Indonesia					
3	I am satisfied with the decision of budget hotel owners in East Java, Indonesia if I have a complaint					

Loyalty

No.	Statement	Strongly disagree	Don't agree	Normal	Agree	Strongly agree
1	I will say positive thing about budget hotel in East Java, Indonesia to others					
2	I would recommend budget hotel in East Java, Indonesia to others					
3	I will reappear budget hotel in East Java, Indonesia					

5. Revisi Final dan Amandemen Sheet

08 September 2023

Amendment Sheet

T1 – C.E Susanti is the first author and corresponding author

T2 – CE Susanti biography

> Christina Esti Susanti Studied undergraduate education at Atma Jaya Catholic University Yogyakarta (Faculty of Economics) in 1988. Studied Masters in Management at Brawijaya University, Malang in 1998. Doctor of Management Science at Airlangga University in 2009. As a permanent lecturer at the Faculty of Business – Widya Mandala Surabaya Catholic University. Reviewers at: International Journal of Business Information Systems (IJBIS), International Journal of Research and Innovation in Social Science (IJRISS), Journal of Economics and International Business Management (JEIBM). The author owns 11 Copyrights and 10 SCOPUS indexed articles with research interests in the fields of Marketing Management, Consumer Behavior, and Service Management.

T3 – Purnendu Mandal biography

> Purnendu Mandal is a Professor at the College of Business, Lamar University. His research interests are in policy planning and modelling, strategic information systems and healthcare management. His teaching interests are in strategic management, project management and production management. He received his PhD in System Dynamics from the University of Bradford. He published widely and served in editorial board of several journals. He is also the book series editor of *Managing the Asian Century*, Springer Nature.

T4 – Benny Suwito biography

> Benny Suwito. S1 and S2 Philosophy of Theology: College of Theological Philosophy, Widya Sasana Malang, 2010. Moral Theology License: Universidad de Navarra, 2013. Doctor of Moral Theology: Universidad de Navarra, 2017. Philosophy Lecturer, Faculty of Philosophy Widya Mandala Surabaya Catholic University, Theology Lecturer in Providentia Dei Higher Seminary. Executive Director Youcat Indonesia. Praeses John Maria Vianney Institute of Theology Lecturer (IMAVI). Member of Indonesia Bioethics Forum. Lecturer Courses: Fundamental Theology, Fundamental Morals, Morals of Sexuality, Marriage and Family, Bioethics, Business Ethics, Professional ethics, and

Philosophy of Medicine. Research Fields: Christian Ethics, Family Ethics, Business Ethics, Ethics of Excellence.

T5 – delete the line; this paper has not been presented anywhere.

T6 – Tangkuman et al (2015)

T7 - Wu, Cedric His-Jui. and Austin Rong-Da Liang. (2009) 'Effect of experiential value on customer satisfaction with service encounters in luxury-hotel restaurants', *International Journal of Hospitality Management*, 28(4):586-593

T8 – Han and Ryu (2011)

T9 – Keefe, 2008

T10 - Tangkuman et al (2015)

T11 – Chang and Chen (2022)

T12 – Wu and Liang (2009)

T13 - Wu and Liang (2009)

T14 - Wu and Liang (2009)

T15 – Reference

Hair, J.F., Black, W.C., Babin, B.J. and Anderson, R.E. (2010) '*Multivariate Data Analysis'*. 7th Edition, Pearson, New York.

T16 – Han and Ryu (2011)

T17 – Reference added

T18 - – Han and Ryu (2011)

T19 – Reference added

T20 – Reference added

T21 – Reference deleted.

T22 - Reference

Thurau, Thorsten Hennig, Kevin P. Gwinner, and Dwayne D. Gremler. (2002) 'Understanding Relationship Marketing Outcomes: An Integration of Relational Benefits and Relationship Quality', *Journal of Service Research*, Volume 4, No. 3, February 2002, pp. 230-247

T23 – Oliver 1999

T24 - Reference added

T25 – reference added

T26 – Oliver 1999

T27 – Reference added

T28 – 2011

T29 – Issue no 3

T30 – London

T31 – Delete this reference

T32 – New York

T33 – 2015

T34 – Delete this reference

Additional reference:

Keefe, Lisa, M. (2008) 'Marketing Defined?', *Marketing News*, January 15, 28–29.

Influencing loyalty to budget hotels through environment elements, experiential marketing and customer satisfaction

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Abstract: The purpose of this study is twofold: first, to examine the relationships between environment, marketing and customer satisfaction on building loyalty for hotel industry; and second, to test out those relationships through SEM analysis for further understanding of budget hotel industry dynamics. With an extensive literature review, we identified the research gap and proposed several hypotheses to study. 230 visitors in 30 budget hotels in East Java, Indonesia were surveyed for data collection. The data analysis confirms significant effects of environment elements on experiential marketing, environment elements on customer satisfaction, experiential marketing on loyalty, customer satisfaction on loyalty, environment elements on loyalty through experiential marketing, and environment elements on loyalty through customer satisfaction at budget hotels in East Java. This empirical study contributes to demand management in budget hotel industry through the influences of environment, experiential marketing and loyalty marketing. The hotel managers may design promotion strategies based on the study findings.

Keywords: environment element; experimental marketing; customer satisfaction; loyalty.

Biographical notes:

Christina Esti Susanti Studied undergraduate education at Atma Jaya Catholic University Yogyakarta (Faculty of Economics) in 1988. Studied Masters in Management at Brawijaya University, Malang in 1998. Doctor of Management Science at Airlangga University in 2009. As a permanent lecturer at the Faculty of Business – Widya Mandala Surabaya Catholic University. Reviewers at: International Journal of Business Information Systems (IJBIS), International Journal of Research and Innovation in Social Science (IJRISS), Journal of Economics and International Business Management (JEIBM). The author owns 11 Copyrights and 10 SCOPUS indexed articles with research interests in the fields of Marketing Management, Consumer Behavior, and Service Management.

Purnendu Mandal

Commented [t1]: Author: Please provide biographical details of not more than 100 words.

Benny Suwito

Benny Suwito. S1 and S2 Philosophy of Theology: College of Theological Philosophy,   Widya Sasana Malang, 2010. Moral Theology License: Universidad de Navarra, 2013. Doctor of Moral Theology: Universidad de Navarra, 2017. Philosophy Lecturer, Faculty of Philosophy Widya Mandala Surabaya Catholic University, Theology Lecturer in Providentia Dei Higher Seminary. Executive Director Youcat Indonesia. Praeses John Maria Vianney Institute of Theology Lecturer (IMAVI). Member of Indonesia Bioethics Forum. Lecturer Courses: Fundamental Theology, Fundamental Morals, Morals of Sexuality, Marriage and Family, Bioethics, Business Ethics, Professional ethics, and Philosophy of Medicine. Research Fields: Christian Ethics, Family Ethics, Business Ethics, Ethics of Excellence.

1
Introduction

Like in any business, an effective marketing strategy is imperative in budget hotel industry to attract and retain customers for survival. The growth of budget hotels attracted more and more players entering the industry – requiring strategies to retain consumers. One way to compete in this industry is through experiential marketing; affecting the value of customers that ultimately shapes customer satisfaction.

With increasingly high competition, many hotels are no longer focusing their marketing activities solely on the search for new buyers, but it is more to maintain and increase customer loyalty and retention. The cost of acquiring new buyers can be five times more expensive than the costs of maintaining old customers (Gallo, 2014). Loyal customers will gladly reveal positive things and give recommendations about the company to others.

Experiential marketing efforts will however must consider environment element and customer satisfaction leading to establishment of loyalty. Environment element (including hotel atmosphere, space and function, signs, symbols, and artifacts) should influence customers' psychology so that they come and stay in the hotel. Customer satisfaction greatly affects customer behaviour, especially customer loyalty embodied in the desire to buy back and recommend to others. With the presence of a wide selection of budget hotels (supported by IT tools) consumers can navigate freely in choosing a budget hotel they like. The budget hotel industry itself is in a fusion state in providing products and services they sell. To achieve a good value (and future returns) from consumers, the hotel budget must be able to meet the needs and desires of consumers in terms of both products and services. By doing so, the hotel managers could expect to arouse consumer interest in making further purchases in budget hotel and make them more loyal to their hotels. To win the competition, budget hotels need to understand the importance of loyalty.

The review of current literature identifies a clear research gap in our understanding of the effects of environment element on customer satisfaction. Studies by Widowati and Tsabita (2017) and Tangkuman et al. (2015) reached to contradictory findings on the influences of environment elements on customer satisfaction. Chang and Lin (2022) and Ding et al (2022) show a positive and significant effect of environment on visitor satisfaction. However, Keshavarz (2016) shows no significant effect of environment on hotel guest satisfaction. Undoubtedly, both experiential marketing and customer satisfaction lead to garnering of customer loyalty. The interest to visit again a budget hotel is expected to increase if both experiential marketing and customer satisfaction are present.

The purpose of this study is to find the factors that contribute to customer loyalty in the hotel budget industry and offer suggestions to improve loyalty in budget hotels. For illustration, a popular tourist destination (East Java, Indonesia) and its thirty budget hotels are selected in the study. Specifically this study aims to determine the effect of:

1   environment element towards experiential marketing at budget hotels

2   environment element to customer satisfaction

3   experiential marketing to loyalty

4   customer satisfaction towards loyalty.

This research is expected to provide knowledge for the community as well as the contribution of thoughts about how influential factors influence the loyalty. The empirical benefit in general usage of this research is to know the influence of environment element on loyalty through experiential marketing, and customer satisfaction in hotel budget industry to know how big demand of hotel budget especially budget hotel in East Java, Indonesia.

2   Literature review

A prior research (Wu and Liang, 2009) in Taiwan examined the effect of experiential value on customer satisfaction on service area environment in luxury hotel restaurant. The results of this study proved that environmental factors and direct interaction with employees and other consumers affect the experiential value. Another result of the research is direct interaction with employees affecting customer satisfaction. In addition, interaction with other consumers and service area environment affects customer satisfaction through experiential value. Another research (Haghighi et al., 2012) in Tehran examined the factors that affect consumer loyalty in the restaurant industry. The results of this study proved that the quality of food, service quality, restaurant environment, and prices affect customer satisfaction. In addition, the consumer satisfaction affects loyalty. A study by Babu and Kaur (2020) suggested importance of sustainability practices in tourism supply chain for Indian hotel industry.

2.1   Environment element

Environment element is the design of the atmosphere of space as a physical and social stimulus created by hotel managers to influence consumers who have psychological

impacts so that the trigger to attract consumers come and stay so that it can increase the occupancy rate. The measurement of environment elements using indicators developed by several researchers Bitner (1992) and Heung and Gu (2012).

a   Atmosphere

Atmosphere is a condition covering environmental background characteristics such as temperature, noise lighting, music, colour, and aroma. All of these factors can greatly affect how people feel, think, and respond to a particular form of service. The measurements of ambience dimensions proposed by Bitner (1992), Han and Ryu (2011) are:

1   temperature
2   aroma
3   noise
4   music
5   interior design
6   lighting
7   colours
8   cleanliness.

b   Space and function

Space and function create a service environment that generally exists to meet specific goals or consumer needs. Measurement of the dimensions of space and function using indicators developed by Bitner (1992) are:

1   spatial planning
2   Tata equipment
3   circulation
4   furnishings
5   Space function.

c   Signs, symbols, and artifacts

The use of these signs, symbols, and artifacts can be used as a hotel identity as well as to convey a message of rules of conduct (for example: no smoking). The quality of building materials, artwork, photographs, floor covering materials, and objects on display can signal symbolic meaning and create an overall aesthetic impression. The formative indicators used in this study use indicators developed by Bitner (1992), namely:

1   hotel name entry
2   marker entrance – exit
3   antiques
4   pictures/paintings
5   style decoration
6   architectural buildings
7   landmark colonial buildings

8   historical.

The design of the atmosphere is done among others to attract consumers, trigger consumers to stay at the hotel and create a certain atmosphere which can then affect consumer emotions to influence how consumers behave.

2.2   *Experiential marketing*

According to Schmitt (1999, p.60) experience is the experience of personal events that occur due to a certain stimulus (e.g. given by the marketer before and after the purchase of goods or services). Experience is also defined as a subjective part of the construction or transformation of the individual, in direct emphasis on emotions and senses during immersion at the expense of cognitive dimensions. While the definition of marketing is an activity to anticipate, manage and achieve customer satisfaction through the exchange process.

According to Schmitt (1999) experiential marketing is a marketing approach that involves the emotions and feelings of consumers by creating positive experiences that are not forgotten so that consumers consume and fanatical towards certain products. The 3 key points focused in experiential marketing are: customer experience, consumption patterns, and rational and emotional decisions.

Experiential marketing is an approach in marketing that has actually been done since time immemorial until now by the marketers. This approach is considered very effective because in line with the development of the era and technology, marketers more emphasise product differentiation to differentiate their products with competitors' products. With the existence of experiential marketing, customers will be able to distinguish products and services with each other because it can experience and experience directly through 5 approaches (sense, feel, think, act, relate), both before and when consuming a product or service. Tourism marketers can focus on relaxation and attraction, exploration and excitement to upgrade tourism products (Aziz et al., 2022).

Schmitt (1999) stated that sense relates to styles and verbal and visual symbols capable of creating the integrity of an impression. To create a strong impression, whether through advertising, packaging or website, a marketer needs to choose the right colour in line with the company profile. Feeling is very different from the sensory impression because it deals with the mood and emotion of one's soul. This is not just about beauty, but the mood and emotions of the soul that can generate happiness or even sadness. While think of the company's activities to challenge consumers, by providing problem-solving experiences, and encourage customers to interact cognitively or creatively with the company or product. Act / Action relates to the whole individual (mind and body) to improve life and lifestyle. Motivating, inspiring, and spontaneous messages can cause customers to do things differently, trying in new ways to change their lives better.

The marketing approach of Experiential Marketing is an approach that tries to shift the traditional marketing approach. This traditional approach has four characteristics: focus on first experience, test consumption situation, recognised rational and emotional aspects as trigger of consumption, and methods and devices are electic.

The main focus of experiential marketing is focused on sensory responses, influences, cognitive experiences, actions, and relationships. Experiential Marketing can be exploited effectively when applied to certain situations. Schmitt demonstrates some of the benefits

that can be accepted and felt when a business entity adopts experiential marketing. These benefits include:

a   resurrecting brands that are degenerating

b   distinguish one product from a competitor's product

c   creating the image and identity of a business entity

d   promotes innovation

e   introducing experiments, purchases, and most importantly loyal consumption.

From some definitions can be concluded that Experiential Marketing can be measured using five main factors. Experiential Marketing is a marketing approach that involves the emotions and feelings of consumers by creating unforgettable positive experiences. Thus consumers feel impressed and experience during the enjoyment of this company's products will be embedded in the mind, so that later customers are not only loyal but also disseminate information about the company's products in word of mouth. One of the marketing that can be done by business owners is with experiential marketing.

2.3   Customer satisfaction

According to Kotler and Keller (2016, p.38) satisfaction is obtained when the needs and desires of customers are met. Satisfaction is the feeling of pleasure or disappointment of someone who emerges after comparing the performance (result) of the product to the expected performance (results) expected. According to Dutka (2008, p.199) satisfied customer improved business and dissatisfied customer impair business. So customer satisfaction is not easy, how to create satisfaction while maintaining customer satisfaction. Customer dissatisfaction will cause the business entity difficult to survive in the face of competition. The importance of consumer satisfaction for marketing can be attributed to the fact that customer satisfaction will encourage repeat purchases and give the advantage of 'word of mouth' publicity.

Relationship level of customer satisfaction with customer behaviour can be identified several types of customers are (Noyan and Simsek, 2011):

a   Apostles

   Customers who rate their product performance exceed their expectations so that they can provide positive word of mouth information to others, or these highly satisfied customers who are loyal and continue to buy.

b   Defector

   Customers who are quite satisfied (neutral) and ready to stop buying.

c   Terrorist

   Customers who have negative experiences that can spread negative issues.

d   Hostages

   Unhappy customers who still buy because of some conditions such as cheap prices, these customers are hard to talk because they often complain.

e   Mercenaries

A very satisfied customer who is not really loyal, who might be a defector if it gets a cheap price elsewhere.

Companies must be able to create apostle customers, increase customer satisfaction buyers, and make them loyal. Companies should avoid terrorist and hostage customers, as well as reduce the number of mercenary customers [Schiffman and Kanuk, (2015), p.23]. Customer satisfaction is quite difficult to achieve. To satisfy customers requires a long, long, and not cheap process. Some theories used to measure customer satisfaction include Kotler and Keller (2016, p.72) put forward the theory by using four methods in measuring customer satisfaction, namely:

a   Complaints and suggestions system

Every customer-oriented company needs to provide the widest opportunity for them to share their suggestions, opinions, and grievances.

b   Customer satisfaction survey

Studies show that while customers are disappointed in one of four purchases, less than five percent will complain.

c   Spending the Stealth

This method is done by companies paying people to act as potential buyers to report strong points and weak points experienced while purchasing a competitor's product.

d   Missing customer analysis

This method is very unique where companies should contact customers who stop buying or who have turned to other suppliers to learn the reason for the incident.

From several definitions can be concluded that customer satisfaction is closely related to customer loyalty, where satisfied customers will become loyal customers. Then the loyal customer will become a powerful marketing force for the company by providing recommendations and positive information to other prospective customers. Customer satisfaction will be achieved if expectations match the reality received.

2.4 *Loyalty*

According to Hennig-Thurau et al. (2002) customer loyalty is widely accepted as one that helps the company to achieve long-term success, therefore in the context of customer loyalty marketing is the ultimate expectation that the company wants to achieve. Loyalty is the result of a combination or multidimensional relationship of interest, attitude, sales achievement and customer behaviour. Oliver (1999) defines customer loyalty as a deep commitment to buy back in the future, although situational influences and marketing efforts have the potential to lead to shifting behaviour, the American Marketing Association (Keefe, 2008) defines loyalty as the level at which a consumer is consistently patterned the same store when shopping for products that are commonly purchased. Loyal customers are consumers who will not move to other products or other brands, whereas normal consumers are consumers who still have high loyalty, but there is still the possibility of moving to another product or another brand. The third level of consumers is

a half-loyal consumer which means consumers still have a loyal attitude towards a particular brand, but some of his attitude is swicther attitude. The unlucky level of consumers is, consumers will always move from one brand or product to another brand or product.

TaghiPourian and Bakhsh (2015) classified the level of loyalty into four types:

a   Without Loyalty

The low attachment to a product is combined with a low repeat purchase rate. Some customers do not develop loyalty to products or services for various reasons. Companies should avoid targeting these types of buyers as they only contribute little to the company's financial strength.

b   Weak Loyalty

The low attachments are combined with high repeat purchases. This customer buys out of habit. This is a type of purchase 'because we're used to it'. These buyers feel a certain level of satisfaction with the company, or at least no real dissatisfaction.

c   Hidden Loyalty

A relatively high level of preference coupled with low repeat purchases. This happens because of the influence of the situation, not because of the influence of attitude. For example I am a big fan of Chinese cuisine and have a favourite Chinese hotel near home, but my husband is less fond of Eastern cuisine.

d   Premium Loyalty

The high degree of engagement and repeat purchases is also high, so it is the kind of loyalty most preferred to all companies.

Meanwhile, according to Zeithaml et al., (1996) the ultimate goal of the company's success in establishing relationships with customers is to form a strong loyalty. The concept of customer loyalty is more related to behaviour (behaviour) than with attitude. The ultimate goal of a company's successful relationship with its customers is to establish strong loyalty.

The indicators of strong loyalty (Zeithaml, 1996) are:

a   Say positive thing

Is the delivery of information to others in the form of words positively about a service provider, usually a story or experience.

b   Recommend friends

Is a process that leads to invite others to come to enjoy the service provider as a result positive experience that has been felt.

c   Continue purchasing

It is the attitude of repeated buy-in by the consumer to a particular service provider that leads to repetitions that can be based on loyalty.

Customer loyalty is very important for companies that want to keep their business alive as well as the success of their business. Customer loyalty is a very important boost for creating sales. Meanwhile, customer loyalty in the context of service marketing is a

response that is closely linked to a pledge or a pledge to uphold the commitment that underlies the sustainability of the relationship and is usually reflected in the ongoing purchase of the same service provider on the basis of dedication and pragmatic constraints.

From several definitions it can be concluded that retaining customers has been perceived by many service providers as an important variable in winning the competition. With the creation of customer loyalty will lead to greater profitability and growth for the company. And loyal customers will tend to re-purchase for the product. The current marketing concept of emphasis is on consumer satisfaction, so a successful marketer must have a good sense of customer satisfaction and loyalty.

3 Building research hypothesis

The literature review leads to conflicting findings of influences of environment elements to customer satisfaction. The research conducted by Widowati and Tsabita (2017) showed that the effect of the environment element on customer satisfaction was insignificant. Whereas another study by Tangkuman et al. (2015) showed that the influence of the environment element on customer satisfaction was significant.

Research conducted by Chang and Lin (2022) indicates that the perceptions of the hotel atmosphere (environmental elements) have a positive and significant effect on hotel customer satisfaction. Likewise, research conducted by Ding et al (2022) also suggests that the hotel environment (such as hotel ratings, rental prices, location, and service quality) has a positive and significant effect on hotel visitor satisfaction. However, research conducted by Keshavarz (2016) shows that hotel consumer expectations of the hotel environment have no significant effect on hotel guest satisfaction. These contradictions make this research on influences of budget hotel environment on hotel guest satisfaction interesting and worth the study.

In general, marketing experience and customer satisfaction are important factors for obtaining a high level of customer loyalty. The existence of both experiential marketing and customer satisfaction could interest a customer to visit again a budget hotel. In addition to atmosphere and experiential marketing, customer satisfaction also affects the loyalty of customers who would visit the budget hotel. The research model showing these relationships is presented in Figure 1. The research hypotheses presented below are grounded to this model framework.

Figure 1 Research model: influence relationships

3.1   Influence of environment element on experiential marketing

The existence of a positive relationship between the environment element and experiential marketing shows that the experiential marketing done by the budget hotel offers an atmosphere that touches the five senses of the customer is an attractive interior design, coolness of the room, music and the product has a taste and aroma image that has been embedded in the heart customer.

Hypothesis 1   Environment Element effect on Experiential Marketing at budget hotel in East Java, Indonesia.

3.2   Effect of environment element on customer satisfaction

The atmosphere of the hotel as a whole is an aesthetic and emotional effect created through physical characteristics whereby all connect with the senses of the consumer such as spatial designed for customer convenience, colour use, lighting, and so on. Therefore, the establishment of the hotel cannot be separated from the initial preparation of the layout and design of the building in accordance with the needs of hotel operations as a whole.

Hypothesis 2   Environment Element effect on Customer Satisfaction at budget hotel in East Java, Indonesia.

3.3   Effect of experiential marketing on loyalty

Santi et al. (2020) argues that overall customer satisfaction is a result of a process that emphasises the perceptual, evaluative, and psychological process, resulting from 'the use of experience'. The use of experience is part of customer experience, where customer experience is everything that happens at every stage in the customer cycle from before the purchase until after the purchase and may include interactions beyond the product itself. Oliver (1999) found that Experiential Marketing has a strong and significant influence on customer loyalty. Chang and Lin (2022) suggests that experience is an important variable for understanding consumer behaviour, behaviour toward experience and repurchase.

Hypothesis 3   Experiential Marketing effect Loyalty on budget hotels in East Java, Indonesia.

3.4   Effect of customer satisfaction on loyalty

According to Kotler and Keller (2016, p.14) there is a positive relationship between customer satisfaction and loyalty. Customer satisfaction is if the company can meet customer expectations (expectations). Customer expectations are based on previous buying experiences, opinions from friends, and market information. A marketer must carefully cultivate the level of customer expectations appropriately. If they set expectations too low, customers may be satisfied but fail to attract new customers. If they set expectations too high, customers/buyers will be disappointed. In the hotel industry is very easy to set high expectations because guests cannot judge the product until they enjoy the product. But if the fact is not true then the customer will be very dissatisfied.

Customer satisfaction depends on product's perceived performance in delivering value to customer expectations relative. If the results are perceived by customers in accordance with their expectations then they are satisfied, if the perceived result exceeds expectations then the customer will be happy. Smart companies aim for the excitement of customers, promising only what they can provide and then delivering more than promised. One of the most important things in the hotel business is how to develop a particularly strong service culture (strong service culture), where the service culture focuses on serving and satisfying consumers.

Li (2020) researched and analysed the effect of consumer satisfaction on consumer quality in luxury hotels in Malaysia in 2020. The results of this study prove that the effect of customer satisfaction on consumer quality in luxury hotels in Malaysia is positive and significant.

Hypothesis 4   Customer Satisfaction effect on Loyalty in budget hotel in East Java, Indonesia.

3.5   Influence of environment element on loyalty through experiential and customer satisfaction

Bitner (1992) states that there is a positive relationship between dimensions of atmosphere, function and space, signs, symbols, and artifacts to customer satisfaction. Customer satisfaction positively affects customer loyalty by considering the perceived quality of service and satisfaction is the deciding factor. Satisfaction gained from customer experience can develop into loyalty [Lovelock and Wirzt, (2011), p.28]. With the creation of an optimal level of customer satisfaction then encourages the creation of loyalty in customer mind who feel satisfied earlier. If a business entity improves customer satisfaction then customer loyalty will also increase, likewise if a business entity decreases customer satisfaction then customer loyalty will also decrease.

So the budget hotel should pay attention to the quality of the product be it the taste quality in order to blend with the heart of the customer, the menu the customer wants is always available in fulfilling the customer's wishes, the affordable price and the location is easy to reach, from this satisfaction the customer express willingness to recommend to others. In general, it shows that experiential marketing and customer satisfaction are important factors in order to obtain high level of customer loyalty. The existence of experiential marketing and customer satisfaction is good then the interest of customers to visit again will grow. In addition to Atmosphere and Experiential Marketing, customer satisfaction also affects the loyalty of customers who visit the budget hotel. An important concept to consider when building a loyalty program is customer satisfaction.

Hypothesis 5   Environment element effect on loyalty through experiential marketing at budget hotel in East Java, Indonesia.

3.6   Effect of environmental elements on loyalty through experiential and customer satisfaction

Bitner (1992), Kampani and Jhamb (2021), and Vera and Trujilo (2017) stated that there is a positive relationship between the dimensions of the atmosphere, functions and space, signs, symbols, and artifacts to customer satisfaction. Customer satisfaction positively affects customer loyalty by considering the perception of service quality and satisfaction is the deciding

factor. Satisfaction gained from customer experience can develop into loyalty [Lovelock and Wirzt, (2011), p.28]. With the creation of an optimal level of customer satisfaction then encourage the creation of customer loyalty in the mind that was satisfied earlier. If the business entity improves customer satisfaction then customer loyalty will also increase, so if the business entity decreases customer satisfaction then customer loyalty will also decrease.

Hypothesis 6   Environment element effect on loyalty through customer satisfaction at budget hotel in East Java, Indonesia.

4   Research method

The factors considered and selected in this study for environment element, experiential marketing, and customer satisfaction are based on several prior researches. Environmental element can influence consumer purchasing decisions, satisfaction, and loyalty. Three measurable environment element variables according to Wu and Liang (2009) are:

a   correct lighting

b   comfortable temperature

c   clean environment.

These three variables are considered in this study.

Experiential marketing is a marketing approach that involves the emotions and feelings of consumers by creating positive experiences that are not forgotten so that consumers consume and fanatic to certain products. Experiential Variable Measurement according to Wu and Liang (2009) and considered in this study are:

a   price is acceptable

b   the service provided is attentive

c   the food served is interesting.

Customer satisfaction is an individual perception of product or service performance in relation to customer expectations. According to Wu and Liang (2009) customer satisfaction refers to:

a   satisfied with employees

b   satisfied with the service provided

c   satisfied with the owner's decision.

Loyalty is the result of a process of optimising and maintaining good relationships with customers, as well as expanding relationships by creating a value and doing word of mouth marketing which is an effective marketing system. Measurements of loyalty variables according to Zeithaml et al. (1996) are:

a   say positive things to others

b   recommend to others

c   coming back.

Primary data was collected through a survey questionnaire (see Appendix) from customers who stayed in 30 budget hotels in East Java. The responses were in Likert scale 1 (strongly disagree) to 5 (strongly agree) for each question.

The data was collected by distributing questionnaires directly to hotel visitors. There were no significant difficulties in distributing the questionnaires. In total, 230 surveys were distributed and 225 filled in surveys were returned (97.83% response rate). However, 25 survey responses were rejected due to incomplete information or deficiencies. The resultant data set was created from 200 survey responses, which is considered adequate according to Hair et al (2010).

4.1   Data analysis techniques

Data analysis technique used to discuss the problem in this research is structural equation model – *linear structural relationship* (SEM-LISREL). The structural equation model (SEM) is a statistical technique that allows testing of a relatively complex set of relationships simultaneously (Muthén and Muthén, 2014). Complex relationships can be built between one or more dependent variables with one or more independent variables. There may also be a variable that doubles as an independent variable in a relationship, but becomes a dependent variable on other relationships given the existence of a tiered causality relationship. Each dependent and independent variable can take the form of a factor or construct constructed from several indicator variables. Similarly, among variables it can be a single variable that is observed or measured directly in a research process.

Data analysis technique used in this research is SEM. In SEM, the measurement model, overall model, and structural model are measured. In addition, in this study also used path analysis (path analysis) to explain the relationship between variables that exist. With the use of this SEM method will be displayed a comprehensive model and can explain the relationship between one construct with another.

There are eight indicators chosen to represent the number of categorical data, namely:

Table 1   Eight indicators structural equation modelling index

Goodness of fit measure	Cut-off value
χ^2-chi-square	Little
Significant probability	≥ 0.05
RMSEA	≤ 0.08
GFI	≥ 0.90
AGFI	≥ 0.90
CMIN/DF	≤ 2.0
TLI	≥ 0.95
CFI	≥ 0.95

Source: Data processed

5   Survey analysis

Descriptive statistics of the data set are presented below.

Table 2   Statistics description variable environment element

No.	Statement	Mean score	Description
1	The right lighting is owned by budget hotels in East Java, Indonesia	3.53	Agree
2	The comfortable temperature is owned by budget hotels in East Java, Indonesia	3.78	Agree
3	The clean environment is owned by budget hotels in East Java, Indonesia	3.66	Agree
Mean score		3.65	Agree

Source: Data processed

Table 2 shows the average of environment element variables is 3.65. This reflects that the average score of respondents 'answers agrees with the existing statement on the environmental element variable in which respondents' attitudes regarding consumer acceptance of appropriate lighting, comfortable temperature, and clean environment are applied in budget hotels in East Java, Indonesia.

Table 3   Statistics description variable experiential marketing

No.	Statement	Mean score	Description
1	The price/cost of stay at budget hotel in East Java, Indonesia is acceptable	3.64	Agree
2	Services provided at budget hotels in East Java, Indonesia are attentive	3.69	Agree
3	Food served at budget hotels in East Java, Indonesia is interesting	3.71	Agree
Mean score		3.68	Agree

Source: Data processed

Table 3 shows the average of experiential marketing variables is 3.68. This reflects that the average value of respondents' answers agrees with the existing statement on the experimental variables of:

1   the price/stay cost in budget hotels in East Java, Indonesia is acceptable

2   the services provided in budget hotels in East Java, Indonesia are full attention

3   the food served at budget hotels in East Java, Indonesia is interesting.

Based on Table 4 the average of customer satisfaction variables is 3.71. This reflects that the average value of respondents' answers agrees with the existing statement on customer satisfaction variable that respondents express satisfaction on:

1   hospitality of budget hotel employee in East Java, Indonesia

2   service provided by budget hotel in East Java, Indonesia and service given budget hotels in East Java, Indonesia

3 the decision of budget hotel owners in East Java, Indonesia if I have a complaint.

Table 4 Statistics description variable customer satisfaction

No.	*Statement*	*Mean score*	*Description*
1	I am satisfied with the friendliness of budget hotel employees in East Java, Indonesia.	3.79	Agree
2	I am satisfied with the services provided by budget hotels in East Java, Indonesia.	3.63	Agree
3	I am satisfied with the decision of budget hotel owners in East Java, Indonesia if I have a complaint.	3.71	Agree
Mean score		3.71	Agree

Source: Data processed

Table 5 shows the average of loyalty variables is 3.56. This indicates that the average value of the respondent's answer agrees with the existing statement on the loyalty variable in which the consumer's perception of the individual's assessment to buy back from the services provided by the same company, given the current situation and the situation that may occur.

Table 5 Statistics description loyalty variables

No.	*Statement*	*Mean score*	*Description*
1	I will say positive thing about budget hotel in East Java, Indonesia to others	3.56	Agree
2	I would recommend budget hotel in East Java, Indonesia to others	3.53	Agree
3	I will reappear budget hotel in East Java, Indonesia	3.57	Agree
Mean score		3.56	Agree

Source: Data processed

6 Overall model fitness testing

Table 6 shows the overall model fitness.

Table 6 Structural equation modelling index

Goodness of fit measure	*Cut-off value*	*Result*	*Description*
χ^2-chi-square	Little	283.297	Good
Significant probability	≥ 0.05	0.07	Fit
RMSEA	≤ 0.08	0.04	Fit
GFI	≥ 0.90	0.98	Fit
AGFI	≥ 0.90	0.97	Fit
CMIN/DF	≤ 2.0	1.04	Fit
TLI	≥ 0.95	0.98	Fit
CFI	≥ 0.95	0.96	Fit

Source: Data processed

1   χ^2-chi-square result is 283.30. The smaller the statistical value of Chi-Square (χ^2) the better is the model.

2   The root mean square error of approximation (RMSEA) is 0.04. RMSEA values that are smaller or equal to 0.08 are the indices for the acceptability of a model that shows as a close fit of the model based on degrees of freedom.

3   GFI of 0.98. Value ≥ 0.90 is a good model (fit).

4   Adjusted goodness of fit (AGFI) is 0.97, it can be interpreted that the model is at a level fit.

5   CMIN / DF (the minimum sample discrepancy function) of 1.04 (χ^2 value relative $\leq$ 2.0); it can be concluded there is an acceptable fit indication between the model and the data.

6   Tucker Lewis Index (TLI) of 0.98, where the recommended value as a reference for the acceptance of a model is the acceptance of ≥ 0.95; the model tested is good.

7   Comparative Fit Index (CFI) of 0.96 (≥ 0.95), so it can be concluded that the model is good to measure the acceptance level of a model.

7   SEM analysis

7.1   Structural equations

The structural equations of the research model are as follows:

$$Y_1 = \beta_1 X_1$$
$$Y_1 = 0.46\ X_1 \qquad R^2 = 0.21 \tag{1}$$

If the environment element changes it will lead to changes in experiential marketing with the direction of positive changes that if the environment element increases then experiential marketing will increase, and vice versa if the environment element decreases then experiential marketing will decrease.

$$Y_2 = \beta_1 X_1$$
$$Y_2 = 0.61\ X_1 \qquad R^2 = 0.21 \tag{2}$$

If the environment element changes it will cause changes in customer satisfaction with the direction of positive changes that if the environment element increases then customer satisfaction will increase and vice versa if environment element decreases then customer satisfaction will decrease.

$$Y_3 = \beta_1 X_1 + \beta_2 Y_1$$
$$Y_3 = 0.18\ X_1 + 0.73\ Y_1 \qquad R^2 = 0.62 \tag{3}$$

If the environment element and experiential marketing change it will cause change of loyalty with positive change direction that if environment element and experiential marketing increase then loyalty will increase, and vice versa if environment element and experiential marketing decrease then loyalty will decrease.

$$Y_3 = \beta_1 X_1 + \beta_2 Y_2$$
$$Y_3 = 0.28\ X_1 + 0.30\ Y_2 \qquad R^2 = 0.10$$

(4)

If the environment element and experiential marketing change it will cause change of loyalty with positive change direction that is if environment element variable and experiential marketing then loyalty will increase, and vice versa if environment element and experiential marketing decrease then loyalty will decrease.

6.2 Hypothesis testing

Table 7 shows the significance of the research hypothesis which has the following meanings:

1 Effect of environment element towards experiential marketing equal to 0.37 and the influence is significant.

2 The influence of environment element on customer satisfaction is 0.45 and the influence is significant.

3 The influence of marketing experiential to loyalty of 0.42 and the influence is significant.

4 The influence of customer satisfaction on loyalty of 0.52 and the influence is significant.

5 The influence of environment element on loyalty through experiential marketing is 0.15 and the influence is significant.

6 Effect of environment element on loyalty through customer satisfaction equal to 0.23 and influence is significant.

Table 7 Hypothesis testing

No.	Influence of variables	Estimate	Standard error	Critical ratio	P	Description
1	Environment Element → Experimental Marketing	0.37	0.18	2.09	0.000	Significant
2	Environment Element → Customer Satisfaction	0.45	0.20	2.26	0.03	Significant
3	Experimental Marketing → Loyalty	0.42	0.19	2.21	0.03	Significant
4	Customer Satisfaction → Loyalty	0.52	0.11	4.64	0.00	Significant
5	Environment Element → Experimental Marketing → Loyalty	0.15	-	-	-	Significant
6	Environment Element → Customer Satisfaction → Loyalty	0.23	-	-	-	Significant

Source: Data processed

7   Discussion and conclusions

The descriptive statistics of environment element shows an average value of 3.654. This means that respondents agree that:

1   the right lighting is owned by budget hotels in East Java

2   the comfortable temperature is owned by budget hotels in East Java

3   clean environment owned by budget hotel in East Java, Indonesia.

Test results on Hypothesis 1 yielded estimate value of 0.369 (p = 0.000), which proves there are positive and significant influence of environment element to experiential marketing. This means that if the elements of the hotel environment in this study are measured by: proper lighting, comfortable temperature, and better clean environment, then experiential marketing will be better. The results of this study support the theory of environment elements expressed by Bitner (1992), Han and Ryu (2011) and Wu and Liang's research in 2009 in Taiwan and Haghighi et al. (2012) in Tehran.

The test results on Hypothesis 2 resulted in the loading factor value of 0.451 (p = 0.026) proved to have a positive influence and significant environmental element on customer satisfaction. This means that if the environment elements get better, then customer satisfaction will be higher. Where customer satisfaction in this research is measured by:

1   satisfied with employee's friendliness

2   satisfied with service

3   satisfied with owner's decision.

The results of this study support the theory of environment elements expressed by Bitner (1992), Han and Ryu (2011) and Wu and Liang's research in 2009 in Taiwan and Haghighi et al. (2012) in Tehran.

The test results on Hypothesis 3 resulted in a factor loading value of 0.418 (p = 0.029) proved to have a positive and significant impact of experiential marketing on loyalty. This means that if the better marketing experience, then the loyalty will be higher. The experiential marketing in this study is measured by:

1   the price/stay cost is acceptable

2   attentive service

3   the food served is interesting.

The results of this study support the theory of experiential marketing expressed by Schmitt (1999) and Wu and Liang's research in 2009 in Taiwan and Haghighi et al. (2012) in Tehran.

Test results on hypothesis 4 proves there is a positive influence and significant customer satisfaction on loyalty of 0.516 (p = 0.029). This means that if customer satisfaction is higher, then loyalty will be higher. Where loyalty in this study is measured by:

1   will say positive things

2   will recommend

3   will come back.

The results of this study support the theory of purchasing decision-making processes expressed by Kotler and Keller (2016, p.317) and Dutka (2008).

Test results on Hypothesis 5 yield estimate value of 0.154 and prove there is a positive influence and significant environment element on loyalty through experiential marketing. It means that if: the influence of environment element towards experiential marketing is bigger and the influence of experiential marketing towards loyalty is bigger, then the influence of environment element toward loyalty through experiential marketing will be higher.

The results of this study support the loyalty theory expressed by Thurau (2002) and Oliver (1999) and Wu and Liang's research in 2009 in Taiwan and Haghighi et al. (2012) in Tehran.

The results of testing on hypothesis 6 resulted in an estimate of 0.233 and proved to have a positive and significant influence on the environment element on loyalty through customer satisfaction. This means that if: the influence of the environment element on customer satisfaction is higher and the influence of customer satisfaction on the higher loyalty, then the influence of environment element on loyalty through customer satisfaction will be higher. The results of this study support the loyalty theory expressed by Thurau (2002) and Oliver (1999) and Wu and Liang's research in 2009 in Taiwan and Haghighi et al. (2012) in Tehran.

In conclusion, based on the results of data analysis and discussions it is noted that:

1   The first hypothesis that states that the environment element affects the experiential marketing in budget hotels is accepted.

2   The second hypothesis that states that the environment element affects customer satisfaction at budget hotels is accepted.

3   The third hypothesis which states that experiential marketing effect on loyalty in budget hotels is accepted.

4   The fourth hypothesis which states that customer satisfaction affects loyalty in budget hotels is accepted.

5   The fifth hypothesis which states that the environment element affects the loyalty through Experiential Marketing in budget hotels is accepted.

6   The sixth hypothesis which states that the environment element affects the loyalty through customer satisfaction at budget hotels is accepted.

There is no doubt some budget hotels attempt to provide good service and quality through several ways, such as, by designing an attractive and different menu of dishes with competitors, creating an atmosphere that ensures visitor comfort, hygiene, how to serve food well, set appropriate prices, create a friendly impression through service employees, pay attention to customer needs and design an attractive interior. These efforts are designed to give customers an idea of the value creation of the company compared to competitors, in the hope of enhancing customer satisfaction and having a high emotional attachment to *the* company, so that the company can build true customer loyalty.

This kind of emotional attachment allows the budget hotels to understand carefully the customer's specific expectations and needs. Thus a hotel can increase customer

satisfaction and customer satisfaction encourages the creation of customer loyalty. The quality of service assessed from the reliability or ability to provide services in accordance with the promised, responsiveness by providing services quickly and accurately, is a guarantee provided by the company so that customers can provide the trust, empathy or attention from the quality that has been given. Reliability of services may depend on sustainability practices in supply chain in hotel industry (Babu and Kaur, 2020).

Customer loyalty is the key to success for hotel, not only in the short term, but a sustainable competitive advantage. Loyal customers will not be easily influenced or transferred to other companies, loyal customers will always re-purchase and recommend the service provider company to others, because it triggered the feeling of satisfaction, pleasure, appreciated, and understood by the service providers. Customer loyalty will always arise to the customer if what is needed is provided by the company. The determination of the company's choice to be a loyal customer of a company that puts forward good service quality, will provide great benefits for the company so that the company's operations will run smoothly and the company is able to survive in the increasingly tight market competition today

Customer satisfaction can help a hotel maintain its customers. The demand for hotel capacity and expected number of visitors could fluctuate, which might necessitate tourism forecasting (Zhang, et al, 2022). With the presence of a wide selection of budget hotels and supported by advances in science and technology, the consumers can more freely choose a budget hotel of their liking. The hotel budget industry itself is a fusion of products and services they sell. So to achieve good value from consumers, then the hotel budget must be able to meet the needs and desires of consumers both in terms of products and services. By doing so it is expected to arouse consumer interest to be interested in making purchases in the budget hotel and become loyal. Therefore, to win the competition, companies need to understand the importance of loyalty.

This study contributed to our understanding of customer loyalty. The hypothesis testing provide greater understanding of various factors and how they affect the loyalty. This study also has practical implications for budget hotel managers. The empirical results suggest strong influence of environment elements on loyalty through experiential marketing, and customer satisfaction in budget hotels. Budget hotel managers in East Java can use this information in designing their promotional campaigns. Even though this research was conducted in East Java, this research model can be generalised to research in other locations by testing and analysing loyalty to budget hotels, especially loyalty that is influenced by environmental elements, experiential marketing, and customer satisfaction.

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Appendix

Questionnaire for data collection

Environment element

No.	Statement	Strongly disagree	Don't agree	Normal	Agree	Strongly agree
1	The right lighting is owned by budget hotels in East Java, Indonesia					
2	The comfortable temperature is owned by budget hotels in East Java, Indonesia					
3	The clean environment is owned by budget hotels in East Java, Indonesia					

Experiential marketing

No.	Statement	Strongly disagree	Don't agree	Normal	Agree	Strongly agree
1	The price/cost of stay at budget hotel in East Java, Indonesia is acceptable					
2	Services provided at budget hotels in East Java, Indonesia are attentive					
3	Food served at budget hotels in East Java, Indonesia is interesting					

Customer satisfaction

No.	Statement	Strongly disagree	Don't agree	Normal	Agree	Strongly agree
1	I am satisfied with the friendliness of budget hotel employees in East Java, Indonesia					
2	I am satisfied with the services provided by budget hotels in East Java, Indonesia					
3	I am satisfied with the decision of budget hotel owners in East Java, Indonesia if I have a complaint					

Loyalty

No.	Statement	Strongly disagree	Don't agree	Normal	Agree	Strongly agree
1	I will say positive thing about budget hotel in East Java, Indonesia to others					
2	I would recommend budget hotel in East Java, Indonesia to others					
3	I will reappear budget hotel in East Java, Indonesia					

Influencing loyalty to budget hotels through environment elements, experiential marketing and customer satisfaction

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Abstract: The purpose of this study is twofold: first, to examine the relationships between environment, marketing and customer satisfaction on building loyalty for hotel industry; and second, to test out those relationships through SEM analysis for further understanding of budget hotel industry dynamics. With an extensive literature review, we identified the research gap and proposed several hypotheses to study. 230 visitors in 30 budget hotels in East Java, Indonesia were surveyed for data collection. The data analysis confirms significant effects of environment elements on experiential marketing, environment elements on customer satisfaction, experiential marketing on loyalty, customer satisfaction on loyalty, environment elements on loyalty through experiential marketing, and environment elements on loyalty through customer satisfaction at budget hotels in East Java. This empirical study contributes to demand management in budget hotel industry through the influences of environment, experiential marketing and loyalty marketing. The hotel managers may design promotion strategies based on the study findings.

Keywords: environment element; experimental marketing; customer satisfaction; loyalty.

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1
Introduction

Like in any business, an effective marketing strategy is imperative in budget hotel industry to attract and retain customers for survival. The growth of budget hotels attracted more and more players entering the industry – requiring strategies to retain consumers. One way to compete in this industry is through experiential marketing; affecting the value of customers that ultimately shapes customer satisfaction.

With increasingly high competition, many hotels are no longer focusing their marketing activities solely on the search for new buyers, but it is more to maintain and increase customer loyalty and retention. The cost of acquiring new buyers can be five times more expensive than the costs of maintaining old customers (Gallo, 2014). Loyal customers will gladly reveal positive things and give recommendations about the company to others.

Experiential marketing efforts will however must consider environment element and customer satisfaction leading to establishment of loyalty. Environment element (including hotel atmosphere, space and function, signs, symbols, and artifacts) should influence customers' psychology so that they come and stay in the hotel. Customer satisfaction greatly affects customer behaviour, especially customer loyalty embodied in the desire to buy back and recommend to others. With the presence of a wide selection of budget hotels (supported by IT tools) consumers can navigate freely in choosing a budget hotel they like. The budget hotel industry itself is in a fusion state in providing products and services they sell. To achieve a good value (and future returns) from consumers, the hotel budget must be able to meet the needs and desires of consumers in terms of both products and services. By doing so, the hotel managers could expect to arouse consumer interest in making further purchases in budget hotel and make them more loyal to their hotels. To win the competition, budget hotels need to understand the importance of loyalty.

The review of current literature identifies a clear research gap in our understanding of the effects of environment element on customer satisfaction. Studies by Widowati and Tsabita (2017) and Tangkuman et al. (2015) reached to contradictory findings on the influences of environment elements on customer satisfaction. Chang and Lin (2022) and Ding et al (2022) show a positive and significant effect of environment on visitor satisfaction. However, Keshavarz (2016) shows no significant effect of environment on hotel guest satisfaction. Undoubtedly, both experiential marketing and customer satisfaction lead to garnering of customer loyalty. The interest to visit again a budget hotel is expected to increase if both experiential marketing and customer satisfaction are present.

The purpose of this study is to find the factors that contribute to customer loyalty in the hotel budget industry and offer suggestions to improve loyalty in budget hotels. For illustration, a popular tourist destination (East Java, Indonesia) and its thirty budget hotels are selected in the study. Specifically this study aims to determine the effect of:

1 environment element towards experiential marketing at budget hotels

2 environment element to customer satisfaction

3 experiential marketing to loyalty

4 customer satisfaction towards loyalty.

This research is expected to provide knowledge for the community as well as the contribution of thoughts about how influential factors influence the loyalty. The empirical benefit in general usage of this research is to know the influence of environment element on loyalty through experiential marketing, and customer satisfaction in hotel budget industry to know how big demand of hotel budget especially budget hotel in East Java, Indonesia.

2 Literature review

A prior research (Wu and Liang, 2009) in Taiwan examined the effect of experiential value on customer satisfaction on service area environment in luxury hotel restaurant. The results of this study proved that environmental factors and direct interaction with employees and other consumers affect the experiential value. Another result of the research is direct interaction with employees affecting customer satisfaction. In addition, interaction with other consumers and service area environment affects customer satisfaction through experiential value. Another research (Haghighi et al., 2012) in Tehran examined the factors that affect consumer loyalty in the restaurant industry. The results of this study proved that the quality of food, service quality, restaurant environment, and prices affect customer satisfaction. In addition, the consumer satisfaction affects loyalty. A study by Babu and Kaur (2020) suggested importance of sustainability practices in tourism supply chain for Indian hotel industry.

2.1 Environment element

Environment element is the design of the atmosphere of space as a physical and social stimulus created by hotel managers to influence consumers who have psychological

impacts so that the trigger to attract consumers come and stay so that it can increase the occupancy rate. The measurement of environment elements using indicators developed by several researchers Bitner (1992) and Heung and Gu (2012).

a   Atmosphere

Atmosphere is a condition covering environmental background characteristics such as temperature, noise lighting, music, colour, and aroma. All of these factors can greatly affect how people feel, think, and respond to a particular form of service. The measurements of ambience dimensions proposed by Bitner (1992), Han and Ryu (2011) are:

1   temperature
2   aroma
3   noise
4   music
5   interior design
6   lighting
7   colours
8   cleanliness.

b   Space and function

Space and function create a service environment that generally exists to meet specific goals or consumer needs. Measurement of the dimensions of space and function using indicators developed by Bitner (1992) are:

1   spatial planning
2   Tata equipment
3   circulation
4   furnishings
5   Space function.

c   Signs, symbols, and artifacts

The use of these signs, symbols, and artifacts can be used as a hotel identity as well as to convey a message of rules of conduct (for example: no smoking). The quality of building materials, artwork, photographs, floor covering materials, and objects on display can signal symbolic meaning and create an overall aesthetic impression. The formative indicators used in this study use indicators developed by Bitner (1992), namely:

1   hotel name entry
2   marker entrance – exit
3   antiques
4   pictures/paintings
5   style decoration
6   architectural buildings
7   landmark colonial buildings

8 historical.

The design of the atmosphere is done among others to attract consumers, trigger consumers to stay at the hotel and create a certain atmosphere which can then affect consumer emotions to influence how consumers behave.

2.2 *Experential marketing*

According to Schmitt (1999, p.60) experience is the experience of personal events that occur due to a certain stimulus (e.g. given by the marketer before and after the purchase of goods or services). Experience is also defined as a subjective part of the construction or transformation of the individual, in direct emphasis on emotions and senses during immersion at the expense of cognitive dimensions. While the definition of marketing is an activity to anticipate, manage and achieve customer satisfaction through the exchange process.

According to Schmitt (1999) experiential marketing is a marketing approach that involves the emotions and feelings of consumers by creating positive experiences that are not forgotten so that consumers consume and fanatical towards certain products. The 3 key points focused in experiential marketing are: customer experience, consumption patterns, and rational and emotional decisions.

Experiential marketing is an approach in marketing that has actually been done since time immemorial until now by the marketers. This approach is considered very effective because in line with the development of the era and technology, marketers more emphasise product differentiation to differentiate their products with competitors' products. With the existence of experiential marketing, customers will be able to distinguish products and services with each other because it can experience and experience directly through 5 approaches (sense, feel, think, act, relate), both before and when consuming a product or service. Tourism marketers can focus on relaxation and attraction, exploration and excitement to upgrade tourism products (Aziz et al., 2022).

Schmitt (1999) stated that sense relates to styles and verbal and visual symbols capable of creating the integrity of an impression. To create a strong impression, whether through advertising, packaging or website, a marketer needs to choose the right colour in line with the company profile. Feeling is very different from the sensory impression because it deals with the mood and emotion of one's soul. This is not just about beauty, but the mood and emotions of the soul that can generate happiness or even sadness. While think of the company's activities to challenge consumers, by providing problem-solving experiences, and encourage customers to interact cognitively or creatively with the company or product. Act / Action relates to the whole individual (mind and body) to improve life and lifestyle. Motivating, inspiring, and spontaneous messages can cause customers to do things differently, trying in new ways to change their lives better.

The marketing approach of Experiential Marketing is an approach that tries to shift the traditional marketing approach. This traditional approach has four characteristics: focus on first experience, test consumption situation, recognised rational and emotional aspects as trigger of consumption, and methods and devices are electic.

The main focus of experiential marketing is focused on sensory responses, influences, cognitive experiences, actions, and relationships. Experiential Marketing can be exploited effectively when applied to certain situations. Schmitt demonstrates some of the benefits

that can be accepted and felt when a business entity adopts experiential marketing. These benefits include:

a   resurrecting brands that are degenerating

b   distinguish one product from a competitor's product

c   creating the image and identity of a business entity

d   promotes innovation

e   introducing experiments, purchases, and most importantly loyal consumption.

From some definitions can be concluded that Experiential Marketing can be measured using five main factors. Experiential Marketing is a marketing approach that involves the emotions and feelings of consumers by creating unforgettable positive experiences. Thus consumers feel impressed and experience during the enjoyment of this company's products will be embedded in the mind, so that later customers are not only loyal but also disseminate information about the company's products in word of mouth. One of the marketing that can be done by business owners is with experiential marketing.

2.3   Customer satisfaction

According to Kotler and Keller (2016, p.38) satisfaction is obtained when the needs and desires of customers are met. Satisfaction is the feeling of pleasure or disappointment of someone who emerges after comparing the performance (result) of the product to the expected performance (results) expected. According to Dutka (2008, p.199) satisfied customer improved business and dissatisfied customer impair business. So customer satisfaction is not easy, how to create satisfaction while maintaining customer satisfaction. Customer dissatisfaction will cause the business entity difficult to survive in the face of competition. The importance of consumer satisfaction for marketing can be attributed to the fact that customer satisfaction will encourage repeat purchases and give the advantage of 'word of mouth' publicity.

Relationship level of customer satisfaction with customer behaviour can be identified several types of customers are (Noyan and Simsek, 2011):

a   Apostles

Customers who rate their product performance exceed their expectations so that they can provide positive word of mouth information to others, or these highly satisfied customers who are loyal and continue to buy.

b   Defector

Customers who are quite satisfied (neutral) and ready to stop buying.

c   Terrorist

Customers who have negative experiences that can spread negative issues.

d   Hostages

Unhappy customers who still buy because of some conditions such as cheap prices, these customers are hard to talk because they often complain.

e   Mercenaries

A very satisfied customer who is not really loyal, who might be a defector if it gets a cheap price elsewhere.

Companies must be able to create apostle customers, increase customer satisfaction buyers, and make them loyal. Companies should avoid terrorist and hostage customers, as well as reduce the number of mercenary customers [Schiffman and Kanuk, (2015), p.23]. Customer satisfaction is quite difficult to achieve. To satisfy customers requires a long, long, and not cheap process. Some theories used to measure customer satisfaction include Kotler and Keller (2016, p.72) put forward the theory by using four methods in measuring customer satisfaction, namely:

a   Complaints and suggestions system

Every customer-oriented company needs to provide the widest opportunity for them to share their suggestions, opinions, and grievances.

b   Customer satisfaction survey

Studies show that while customers are disappointed in one of four purchases, less than five percent will complain.

c   Spending the Stealth

This method is done by companies paying people to act as potential buyers to report strong points and weak points experienced while purchasing a competitor's product.

d   Missing customer analysis

This method is very unique where companies should contact customers who stop buying or who have turned to other suppliers to learn the reason for the incident.

From several definitions can be concluded that customer satisfaction is closely related to customer loyalty, where satisfied customers will become loyal customers. Then the loyal customer will become a powerful marketing force for the company by providing recommendations and positive information to other prospective customers. Customer satisfaction will be achieved if expectations match the reality received.

2.4   *Loyalty*

According to Hennig-Thurau et al. (2002) customer loyalty is widely accepted as one that helps the company to achieve long-term success, therefore in the context of customer loyalty marketing is the ultimate expectation that the company wants to achieve. Loyalty is the result of a combination or multidimensional relationship of interest, attitude, sales achievement and customer behaviour. Oliver (1999) defines customer loyalty as a deep commitment to buy back in the future, although situational influences and marketing efforts have the potential to lead to shifting behaviour, the American Marketing Association (Keefe, 2008) defines loyalty as the level at which a consumer is consistently patterned the same store when shopping for products that are commonly purchased. Loyal customers are consumers who will not move to other products or other brands, whereas normal consumers are consumers who still have high loyalty, but there is still the possibility of moving to another product or another brand. The third level of consumers is

a half-loyal consumer which means consumers still have a loyal attitude towards a particular brand, but some of his attitude is swicther attitude. The unlucky level of consumers is, consumers will always move from one brand or product to another brand or product.

TaghiPourian and Bakhsh (2015) classified the level of loyalty into four types:

a   Without Loyalty

The low attachment to a product is combined with a low repeat purchase rate. Some customers do not develop loyalty to products or services for various reasons. Companies should avoid targeting these types of buyers as they only contribute little to the company's financial strength.

b   Weak Loyalty

The low attachments are combined with high repeat purchases. This customer buys out of habit. This is a type of purchase 'because we're used to it'. These buyers feel a certain level of satisfaction with the company, or at least no real dissatisfaction.

c   Hidden Loyalty

A relatively high level of preference coupled with low repeat purchases. This happens because of the influence of the situation, not because of the influence of attitude. For example I am a big fan of Chinese cuisine and have a favourite Chinese hotel near home, but my husband is less fond of Eastern cuisine.

d   Premium Loyalty

The high degree of engagement and repeat purchases is also high, so it is the kind of loyalty most preferred to all companies.

Meanwhile, according to Zeithaml et al., (1996) the ultimate goal of the company's success in establishing relationships with customers is to form a strong loyalty. The concept of customer loyalty is more related to behaviour (behaviour) than with attitude. The ultimate goal of a company's successful relationship with its customers is to establish strong loyalty.

The indicators of strong loyalty (Zeithaml, 1996) are:

a   Say positive thing

Is the delivery of information to others in the form of words positively about a service provider, usually a story or experience.

b   Recommend friends

Is a process that leads to invite others to come to enjoy the service provider as a result positive experience that has been felt.

c   Continue purchasing

It is the attitude of repeated buy-in by the consumer to a particular service provider that leads to repetitions that can be based on loyalty.

Customer loyalty is very important for companies that want to keep their business alive as well as the success of their business. Customer loyalty is a very important boost for creating sales. Meanwhile, customer loyalty in the context of service marketing is a

response that is closely linked to a pledge or a pledge to uphold the commitment that underlies the sustainability of the relationship and is usually reflected in the ongoing purchase of the same service provider on the basis of dedication and pragmatic constraints.

From several definitions it can be concluded that retaining customers has been perceived by many service providers as an important variable in winning the competition. With the creation of customer loyalty will lead to greater profitability and growth for the company. And loyal customers will tend to re-purchase for the product. The current marketing concept of emphasis is on consumer satisfaction, so a successful marketer must have a good sense of customer satisfaction and loyalty.

3   Building research hypothesis

The literature review leads to conflicting findings of influences of environment elements to customer satisfaction. The research conducted by Widowati and Tsabita (2017) showed that the effect of the environment element on customer satisfaction was insignificant. Whereas another study by Tangkuman et al. (2015) showed that the influence of the environment element on customer satisfaction was significant.

Research conducted by Chang and Lin (2022) indicates that the perceptions of the hotel atmosphere (environmental elements) have a positive and significant effect on hotel customer satisfaction. Likewise, research conducted by Ding et al (2022) also suggests that the hotel environment (such as hotel ratings, rental prices, location, and service quality) has a positive and significant effect on hotel visitor satisfaction. However, research conducted by Keshavarz (2016) shows that hotel consumer expectations of the hotel environment have no significant effect on hotel guest satisfaction. These contradictions make this research on influences of budget hotel environment on hotel guest satisfaction interesting and worth the study.

In general, marketing experience and customer satisfaction are important factors for obtaining a high level of customer loyalty. The existence of both experiential marketing and customer satisfaction could interest a customer to visit again a budget hotel. In addition to atmosphere and experiential marketing, customer satisfaction also affects the loyalty of customers who would visit the budget hotel. The research model showing these relationships is presented in Figure 1. The research hypotheses presented below are grounded to this model framework.

Figure 1   Research model: influence relationships

3.1   Influence of environment element on experiential marketing

The existence of a positive relationship between the environment element and experiential marketing shows that the experiential marketing done by the budget hotel offers an atmosphere that touches the five senses of the customer is an attractive interior design, coolness of the room, music and the product has a taste and aroma image that has been embedded in the heart customer.

Hypothesis 1   Environment Element effect on Experiential Marketing at budget hotel in East Java, Indonesia.

3.2   Effect of environment element on customer satisfaction

The atmosphere of the hotel as a whole is an aesthetic and emotional effect created through physical characteristics whereby all connect with the senses of the consumer such as spatial designed for customer convenience, colour use, lighting, and so on. Therefore, the establishment of the hotel cannot be separated from the initial preparation of the layout and design of the building in accordance with the needs of hotel operations as a whole.

Hypothesis 2   Environment Element effect on Customer Satisfaction at budget hotel in East Java, Indonesia.

3.3   Effect of experiential marketing on loyalty

Santi et al. (2020) argues that overall customer satisfaction is a result of a process that emphasises the perceptual, evaluative, and psychological process, resulting from 'the use of experience'. The use of experience is part of customer experience, where customer experience is everything that happens at every stage in the customer cycle from before the purchase until after the purchase and may include interactions beyond the product itself. Oliver (1999) found that Experiential Marketing has a strong and significant influence on customer loyalty. Chang and Lin (2022) suggests that experience is an important variable for understanding consumer behaviour, behaviour toward experience and repurchase.

Hypothesis 3   Experiential Marketing effect Loyalty on budget hotels in East Java, Indonesia.

3.4   Effect of customer satisfaction on loyalty

According to Kotler and Keller (2016, p.14) there is a positive relationship between customer satisfaction and loyalty. Customer satisfaction is if the company can meet customer expectations (expectations). Customer expectations are based on previous buying experiences, opinions from friends, and market information. A marketer must carefully cultivate the level of customer expectations appropriately. If they set expectations too low, customers may be satisfied but fail to attract new customers. If they set expectations too high, customers/buyers will be disappointed. In the hotel industry is very easy to set high expectations because guests cannot judge the product until they enjoy the product. But if the fact is not true then the customer will be very dissatisfied.

Customer satisfaction depends on product's perceived performance in delivering value to customer expectations relative. If the results are perceived by customers in accordance with their expectations then they are satisfied, if the perceived result exceeds expectations then the customer will be happy. Smart companies aim for the excitement of customers, promising only what they can provide and then delivering more than promised. One of the most important things in the hotel business is how to develop a particularly strong service culture (strong service culture), where the service culture focuses on serving and satisfying consumers.

Li (2020) researched and analysed the effect of consumer satisfaction on consumer quality in luxury hotels in Malaysia in 2020. The results of this study prove that the effect of customer satisfaction on consumer quality in luxury hotels in Malaysia is positive and significant.

Hypothesis 4   Customer Satisfaction effect on Loyalty in budget hotel in East Java, Indonesia.

3.5 *Influence of environment element on loyalty through experiential and customer satisfaction*

Bitner (1992) states that there is a positive relationship between dimensions of atmosphere, function and space, signs, symbols, and artifacts to customer satisfaction. Customer satisfaction positively affects customer loyalty by considering the perceived quality of service and satisfaction is the deciding factor. Satisfaction gained from customer experience can develop into loyalty [Lovelock and Wirzt, (2011), p.28]. With the creation of an optimal level of customer satisfaction then encourages the creation of loyalty in customer mind who feel satisfied earlier. If a business entity improves customer satisfaction then customer loyalty will also increase, likewise if a business entity decreases customer satisfaction then customer loyalty will also decrease.

So the budget hotel should pay attention to the quality of the product be it the taste quality in order to blend with the heart of the customer, the menu the customer wants is always available in fulfilling the customer's wishes, the affordable price and the location is easy to reach, from this satisfaction the customer express willingness to recommend to others. In general, it shows that experiential marketing and customer satisfaction are important factors in order to obtain high level of customer loyalty. The existence of experiential marketing and customer satisfaction is good then the interest of customers to visit again will grow. In addition to Atmosphere and Experiential Marketing, customer satisfaction also affects the loyalty of customers who visit the budget hotel. An important concept to consider when building a loyalty program is customer satisfaction.

Hypothesis 5   Environment element effect on loyalty through experiential marketing at budget hotel in East Java, Indonesia.

3.6 *Effect of environmental elements on loyalty through experiential and customer satisfaction*

Bitner (1992), Kampani and Jhamb (2021), and Vera and Trujilo (2017) stated that there is a positive relationship between the dimensions of the atmosphere, functions and space, signs, symbols, and artifacts to customer satisfaction. Customer satisfaction positively affects customer loyalty by considering the perception of service quality and satisfaction is the deciding

factor. Satisfaction gained from customer experience can develop into loyalty [Lovelock and Wirzt, (2011), p.28]. With the creation of an optimal level of customer satisfaction then encourage the creation of customer loyalty in the mind that was satisfied earlier. If the business entity improves customer satisfaction then customer loyalty will also increase, so if the business entity decreases customer satisfaction then customer loyalty will also decrease.

Hypothesis 6   Environment element effect on loyalty through customer satisfaction at budget hotel in East Java, Indonesia.

4   Research method

The factors considered and selected in this study for environment element, experiential marketing, and customer satisfaction are based on several prior researches. Environmental element can influence consumer purchasing decisions, satisfaction, and loyalty. Three measurable environment element variables according to Wu and Liang (2009) are:

a   correct lighting

b   comfortable temperature

c   clean environment.

These three variables are considered in this study.

   Experiential marketing is a marketing approach that involves the emotions and feelings of consumers by creating positive experiences that are not forgotten so that consumers consume and fanatic to certain products. Experiential Variable Measurement according to Wu and Liang (2009) and considered in this study are:

a   price is acceptable

b   the service provided is attentive

c   the food served is interesting.

Customer satisfaction is an individual perception of product or service performance in relation to customer expectations. According to Wu and Liang (2009) customer satisfaction refers to:

a   satisfied with employees

b   satisfied with the service provided

c   satisfied with the owner's decision.

Loyalty is the result of a process of optimising and maintaining good relationships with customers, as well as expanding relationships by creating a value and doing word of mouth marketing which is an effective marketing system. Measurements of loyalty variables according to Zeithaml et al. (1996) are:

a   say positive things to others

b   recommend to others

c   coming back.

Primary data was collected through a survey questionnaire (see Appendix) from customers who stayed in 30 budget hotels in East Java. The responses were in Likert scale 1 (strongly disagree) to 5 (strongly agree) for each question.

The data was collected by distributing questionnaires directly to hotel visitors. There were no significant difficulties in distributing the questionnaires. In total, 230 surveys were distributed and 225 filled in surveys were returned (97.83% response rate). However, 25 survey responses were rejected due to incomplete information or deficiencies. The resultant data set was created from 200 survey responses, which is considered adequate according to Hair et al (2010).

4.1   Data analysis techniques

Data analysis technique used to discuss the problem in this research is structural equation model – *linear structural relationship* (SEM-LISREL). The structural equation model (SEM) is a statistical technique that allows testing of a relatively complex set of relationships simultaneously (Muthén and Muthén, 2014). Complex relationships can be built between one or more dependent variables with one or more independent variables. There may also be a variable that doubles as an independent variable in a relationship, but becomes a dependent variable on other relationships given the existence of a tiered causality relationship. Each dependent and independent variable can take the form of a factor or construct constructed from several indicator variables. Similarly, among variables it can be a single variable that is observed or measured directly in a research process.

Data analysis technique used in this research is SEM. In SEM, the measurement model, overall model, and structural model are measured. In addition, in this study also used path analysis (path analysis) to explain the relationship between variables that exist. With the use of this SEM method will be displayed a comprehensive model and can explain the relationship between one construct with another.

There are eight indicators chosen to represent the number of categorical data, namely:

Table 1   Eight indicators structural equation modelling index

Goodness of fit measure	Cut-off value
χ^2-chi-square	Little
Significant probability	≥ 0.05
RMSEA	≤ 0.08
GFI	≥ 0.90
AGFI	≥ 0.90
CMIN/DF	≤ 2.0
TLI	≥ 0.95
CFI	≥ 0.95

Source: Data processed

5   Survey analysis

Descriptive statistics of the data set are presented below.

Table 2   Statistics description variable environment element

No.	Statement	Mean score	Description
1	The right lighting is owned by budget hotels in East Java, Indonesia	3.53	Agree
2	The comfortable temperature is owned by budget hotels in East Java, Indonesia	3.78	Agree
3	The clean environment is owned by budget hotels in East Java, Indonesia	3.66	Agree
Mean score		3.65	Agree

Source: Data processed

Table 2 shows the average of environment element variables is 3.65. This reflects that the average score of respondents 'answers agrees with the existing statement on the environmental element variable in which respondents' attitudes regarding consumer acceptance of appropriate lighting, comfortable temperature, and clean environment are applied in budget hotels in East Java, Indonesia.

Table 3   Statistics description variable experiential marketing

No.	Statement	Mean score	Description
1	The price/cost of stay at budget hotel in East Java, Indonesia is acceptable	3.64	Agree
2	Services provided at budget hotels in East Java, Indonesia are attentive	3.69	Agree
3	Food served at budget hotels in East Java, Indonesia is interesting	3.71	Agree
Mean score		3.68	Agree

Source: Data processed

Table 3 shows the average of experiential marketing variables is 3.68. This reflects that the average value of respondents' answers agrees with the existing statement on the experimental variables of:

1   the price/stay cost in budget hotels in East Java, Indonesia is acceptable

2   the services provided in budget hotels in East Java, Indonesia are full attention

3   the food served at budget hotels in East Java, Indonesia is interesting.

Based on Table 4 the average of customer satisfaction variables is 3.71. This reflects that the average value of respondents' answers agrees with the existing statement on customer satisfaction variable that respondents express satisfaction on:

1   hospitality of budget hotel employee in East Java, Indonesia

2   service provided by budget hotel in East Java, Indonesia and service given budget hotels in East Java, Indonesia

3   the decision of budget hotel owners in East Java, Indonesia if I have a complaint.

Table 4   Statistics description variable customer satisfaction

No.	Statement	Mean score	Description
1	I am satisfied with the friendliness of budget hotel employees in East Java, Indonesia.	3.79	Agree
2	I am satisfied with the services provided by budget hotels in East Java, Indonesia.	3.63	Agree
3	I am satisfied with the decision of budget hotel owners in East Java, Indonesia if I have a complaint.	3.71	Agree
Mean score		3.71	Agree

Source: Data processed

Table 5 shows the average of loyalty variables is 3.56. This indicates that the average value of the respondent's answer agrees with the existing statement on the loyalty variable in which the consumer's perception of the individual's assessment to buy back from the services provided by the same company, given the current situation and the situation that may occur.

Table 5   Statistics description loyalty variables

No.	Statement	Mean score	Description
1	I will say positive thing about budget hotel in East Java, Indonesia to others	3.56	Agree
2	I would recommend budget hotel in East Java, Indonesia to others	3.53	Agree
3	I will reappear budget hotel in East Java, Indonesia	3.57	Agree
Mean score		3.56	Agree

Source: Data processed

6   Overall model fitness testing

Table 6 shows the overall model fitness.

Table 6   Structural equation modelling index

Goodness of fit measure	Cut-off value	Result	Description
χ^2-chi-square	Little	283.297	Good
Significant probability	≥ 0.05	0.07	Fit
RMSEA	≤ 0.08	0.04	Fit
GFI	≥ 0.90	0.98	Fit
AGFI	≥ 0.90	0.97	Fit
CMIN/DF	≤ 2.0	1.04	Fit
TLI	≥ 0.95	0.98	Fit
CFI	≥ 0.95	0.96	Fit

Source: Data processed

1   χ^2-chi-square result is 283.30. The smaller the statistical value of Chi-Square (χ^2) the better is the model.

2   The root mean square error of approximation (RMSEA) is 0.04. RMSEA values that are smaller or equal to 0.08 are the indices for the acceptability of a model that shows as a close fit of the model based on degrees of freedom.

3   GFI of 0.98. Value ≥ 0.90 is a good model (fit).

4   Adjusted goodness of fit (AGFI) is 0.97, it can be interpreted that the model is at a level fit.

5   CMIN / DF (the minimum sample discrepancy function) of 1.04 (χ^2 value relative $\leq$ 2.0); it can be concluded there is an acceptable fit indication between the model and the data.

6   Tucker Lewis Index (TLI) of 0.98, where the recommended value as a reference for the acceptance of a model is the acceptance of ≥ 0.95; the model tested is good.

7   Comparative Fit Index (CFI) of 0.96 (≥ 0.95), so it can be concluded that the model is good to measure the acceptance level of a model.

7   SEM analysis

7.1   Structural equations

The structural equations of the research model are as follows:

$$Y_1 = \beta_1 X_1$$
$$Y_1 = 0.46\ X_1 \qquad R^2 = 0.21 \tag{1}$$

If the environment element changes it will lead to changes in experiential marketing with the direction of positive changes that if the environment element increases then experiential marketing will increase, and vice versa if the environment element decreases then experiential marketing will decrease.

$$Y_2 = \beta_1 X_1$$
$$Y_2 = 0.61\ X_1 \qquad R^2 = 0.21 \tag{2}$$

If the environment element changes it will cause changes in customer satisfaction with the direction of positive changes that if the environment element increases then customer satisfaction will increase and vice versa if environment element decreases then customer satisfaction will decrease.

$$Y_3 = \beta_1 X_1 + \beta_2 Y_1$$
$$Y_3 = 0.18\ X_1 + 0.73\ Y_1 \qquad R^2 = 0.62 \tag{3}$$

If the environment element and experiential marketing change it will cause change of loyalty with positive change direction that if environment element and experiential marketing increase then loyalty will increase, and vice versa if environment element and experiential marketing decrease then loyalty will decrease.

$$Y_3 = \beta_1 X_1 + \beta_2 Y_2$$
$$Y_3 = 0.28\ X_1 + 0.30\ Y_2 \qquad R^2 = 0.10 \tag{4}$$

If the environment element and experiential marketing change it will cause change of loyalty with positive change direction that is if environment element variable and experiential marketing then loyalty will increase, and vice versa if environment element and experiential marketing decrease then loyalty will decrease.

6.2 Hypothesis testing

Table 7 shows the significance of the research hypothesis which has the following meanings:

1 Effect of environment element towards experiential marketing equal to 0.37 and the influence is significant.

2 The influence of environment element on customer satisfaction is 0.45 and the influence is significant.

3 The influence of marketing experiential to loyalty of 0.42 and the influence is significant.

4 The influence of customer satisfaction on loyalty of 0.52 and the influence is significant.

5 The influence of environment element on loyalty through experiential marketing is 0.15 and the influence is significant.

6 Effect of environment element on loyalty through customer satisfaction equal to 0.23 and influence is significant.

Table 7 Hypothesis testing

No.	Influence of variables	Estimate	Standard error	Critical ratio	P	Description
1	Environment Element → Experimental Marketing	0.37	0.18	2.09	0.000	Significant
2	Environment Element → Customer Satisfaction	0.45	0.20	2.26	0.03	Significant
3	Experimental Marketing → Loyalty	0.42	0.19	2.21	0.03	Significant
4	Customer Satisfaction → Loyalty	0.52	0.11	4.64	0.00	Significant
5	Environment Element → Experimental Marketing → Loyalty	0.15	-	-	-	Significant
6	Environment Element → Customer Satisfaction → Loyalty	0.23	-	-	-	Significant

Source: Data processed

7   Discussion and conclusions

The descriptive statistics of environment element shows an average value of 3.654. This means that respondents agree that:

1   the right lighting is owned by budget hotels in East Java

2   the comfortable temperature is owned by budget hotels in East Java

3   clean environment owned by budget hotel in East Java, Indonesia.

Test results on Hypothesis 1 yielded estimate value of 0.369 (p = 0.000), which proves there are positive and significant influence of environment element to experiential marketing. This means that if the elements of the hotel environment in this study are measured by: proper lighting, comfortable temperature, and better clean environment, then experiential marketing will be better. The results of this study support the theory of environment elements expressed by Bitner (1992), Han and Ryu (2011) and Wu and Liang's research in 2009 in Taiwan and Haghighi et al. (2012) in Tehran.

The test results on Hypothesis 2 resulted in the loading factor value of 0.451 (p = 0.026) proved to have a positive influence and significant environmental element on customer satisfaction. This means that if the environment elements get better, then customer satisfaction will be higher. Where customer satisfaction in this research is measured by:

1   satisfied with employee's friendliness

2   satisfied with service

3   satisfied with owner's decision.

The results of this study support the theory of environment elements expressed by Bitner (1992), Han and Ryu (2011) and Wu and Liang's research in 2009 in Taiwan and Haghighi et al. (2012) in Tehran.

The test results on Hypothesis 3 resulted in a factor loading value of 0.418 (p = 0.029) proved to have a positive and significant impact of experiential marketing on loyalty. This means that if the better marketing experience, then the loyalty will be higher. The experiential marketing in this study is measured by:

1   the price/stay cost is acceptable

2   attentive service

3   the food served is interesting.

The results of this study support the theory of experiential marketing expressed by Schmitt (1999) and Wu and Liang's research in 2009 in Taiwan and Haghighi et al. (2012) in Tehran.

Test results on hypothesis 4 proves there is a positive influence and significant customer satisfaction on loyalty of 0.516 (p = 0.029). This means that if customer satisfaction is higher, then loyalty will be higher. Where loyalty in this study is measured by:

1   will say positive things

2   will recommend

3   will come back.

The results of this study support the theory of purchasing decision-making processes expressed by Kotler and Keller (2016, p.317) and Dutka (2008).

Test results on Hypothesis 5 yield estimate value of 0.154 and prove there is a positive influence and significant environment element on loyalty through experiential marketing. It means that if: the influence of environment element towards experiential marketing is bigger and the influence of experiential marketing towards loyalty is bigger, then the influence of environment element toward loyalty through experiential marketing will be higher.

The results of this study support the loyalty theory expressed by Thurau (2002) and Oliver (1999) and Wu and Liang's research in 2009 in Taiwan and Haghighi et al. (2012) in Tehran.

The results of testing on hypothesis 6 resulted in an estimate of 0.233 and proved to have a positive and significant influence on the environment element on loyalty through customer satisfaction. This means that if: the influence of the environment element on customer satisfaction is higher and the influence of customer satisfaction on the higher loyalty, then the influence of environment element on loyalty through customer satisfaction will be higher. The results of this study support the loyalty theory expressed by Thurau (2002) and Oliver (1999) and Wu and Liang's research in 2009 in Taiwan and Haghighi et al. (2012) in Tehran.

In conclusion, based on the results of data analysis and discussions it is noted that:

1   The first hypothesis that states that the environment element affects the experiential marketing in budget hotels is accepted.

2   The second hypothesis that states that the environment element affects customer satisfaction at budget hotels is accepted.

3   The third hypothesis which states that experiential marketing effect on loyalty in budget hotels is accepted.

4   The fourth hypothesis which states that customer satisfaction affects loyalty in budget hotels is accepted.

5   The fifth hypothesis which states that the environment element affects the loyalty through Experiential Marketing in budget hotels is accepted.

6   The sixth hypothesis which states that the environment element affects the loyalty through customer satisfaction at budget hotels is accepted.

There is no doubt some budget hotels attempt to provide good service and quality through several ways, such as, by designing an attractive and different menu of dishes with competitors, creating an atmosphere that ensures visitor comfort, hygiene, how to serve food well, set appropriate prices, create a friendly impression through service employees, pay attention to customer needs and design an attractive interior. These efforts are designed to give customers an idea of the value creation of the company compared to competitors, in the hope of enhancing customer satisfaction and having a high emotional attachment to *the* company, so that the company can build true customer loyalty.

This kind of emotional attachment allows the budget hotels to understand carefully the customer's specific expectations and needs. Thus a hotel can increase customer

satisfaction and customer satisfaction encourages the creation of customer loyalty. The quality of service assessed from the reliability or ability to provide services in accordance with the promised, responsiveness by providing services quickly and accurately, is a guarantee provided by the company so that customers can provide the trust, empathy or attention from the quality that has been given. Reliability of services may depend on sustainability practices in supply chain in hotel industry (Babu and Kaur, 2020).

Customer loyalty is the key to success for hotel, not only in the short term, but a sustainable competitive advantage. Loyal customers will not be easily influenced or transferred to other companies, loyal customers will always re-purchase and recommend the service provider company to others, because it triggered the feeling of satisfaction, pleasure, appreciated, and understood by the service providers. Customer loyalty will always arise to the customer if what is needed is provided by the company. The determination of the company's choice to be a loyal customer of a company that puts forward good service quality, will provide great benefits for the company so that the company's operations will run smoothly and the company is able to survive in the increasingly tight market competition today

Customer satisfaction can help a hotel maintain its customers. The demand for hotel capacity and expected number of visitors could fluctuate, which might necessitate tourism forecasting (Zhang, et al, 2022). With the presence of a wide selection of budget hotels and supported by advances in science and technology, the consumers can more freely choose a budget hotel of their liking. The hotel budget industry itself is a fusion of products and services they sell. So to achieve good value from consumers, then the hotel budget must be able to meet the needs and desires of consumers both in terms of products and services. By doing so it is expected to arouse consumer interest to be interested in making purchases in the budget hotel and become loyal. Therefore, to win the competition, companies need to understand the importance of loyalty.

This study contributed to our understanding of customer loyalty. The hypothesis testing provide greater understanding of various factors and how they affect the loyalty. This study also has practical implications for budget hotel managers. The empirical results suggest strong influence of environment elements on loyalty through experiential marketing, and customer satisfaction in budget hotels. Budget hotel managers in East Java can use this information in designing their promotional campaigns. Even though this research was conducted in East Java, this research model can be generalised to research in other locations by testing and analysing loyalty to budget hotels, especially loyalty that is influenced by environmental elements, experiential marketing, and customer satisfaction.

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Appendix

Questionnaire for data collection

Environment element

No.	Statement	Strongly disagree	Don't agree	Normal	Agree	Strongly agree
1	The right lighting is owned by budget hotels in East Java, Indonesia					
2	The comfortable temperature is owned by budget hotels in East Java, Indonesia					
3	The clean environment is owned by budget hotels in East Java, Indonesia					

Experiential marketing

No.	Statement	Strongly disagree	Don't agree	Normal	Agree	Strongly agree
1	The price/cost of stay at budget hotel in East Java, Indonesia is acceptable					
2	Services provided at budget hotels in East Java, Indonesia are attentive					
3	Food served at budget hotels in East Java, Indonesia is interesting					

Customer satisfaction

No.	Statement	Strongly disagree	Don't agree	Normal	Agree	Strongly agree
1	I am satisfied with the friendliness of budget hotel employees in East Java, Indonesia					
2	I am satisfied with the services provided by budget hotels in East Java, Indonesia					
3	I am satisfied with the decision of budget hotel owners in East Java, Indonesia if I have a complaint					

Loyalty

No.	Statement	Strongly disagree	Don't agree	Normal	Agree	Strongly agree
1	I will say positive thing about budget hotel in East Java, Indonesia to others					
2	I would recommend budget hotel in East Java, Indonesia to others					
3	I will reappear budget hotel in East Java, Indonesia					

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Influencing loyalty to budget hotels through environment elements, experiential marketing and customer satisfaction

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Abstract: The purpose of this study is twofold: first, to examine the relationships between environment, marketing and customer satisfaction on building loyalty for hotel industry; and second, to test out those relationships through SEM analysis for further understanding of budget hotel industry dynamics. With an extensive literature review, we identified the research gap and proposed several hypotheses to study. 230 visitors in 30 budget hotels in East Java, Indonesia were surveyed for data collection. The data analysis confirms significant effects of environment elements on experiential marketing, environment elements on customer satisfaction, experiential marketing on loyalty, customer satisfaction on loyalty, environment elements on loyalty through experiential marketing, and environment elements on loyalty through customer satisfaction at budget hotels in East Java. This empirical study contributes to demand management in budget hotel industry through the influences of environment, experiential marketing and loyalty marketing. The hotel managers may design promotion strategies based on the study findings.

Keywords: environment element; experimental marketing; customer satisfaction; loyalty.

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1   Introduction

Like in any business, an effective marketing strategy is imperative in budget hotel industry to attract and retain customers for survival. The growth of budget hotels attracted more and more players entering the industry – requiring strategies to retain consumers. One way to compete in this industry is through experiential marketing; affecting the value of customers that ultimately shapes customer satisfaction.

With increasingly high competition, many hotels are no longer focusing their marketing activities solely on the search for new buyers, but it is more to maintain and increase customer loyalty and retention. The cost of acquiring new buyers can be five times more expensive than the costs of maintaining old customers (Gallo, 2014). Loyal customers will gladly reveal positive things and give recommendations about the company to others.

Experiential marketing efforts will however must consider environment element and customer satisfaction leading to establishment of loyalty. Environment element (including hotel atmosphere, space and function, signs, symbols, and artifacts) should influence customers' psychology so that they come and stay in the hotel. Customer satisfaction greatly affects customer behaviour, especially customer loyalty embodied in the desire to buy back and recommend to others. With the presence of a wide selection of budget hotels (supported by IT tools) consumers can navigate freely in choosing a budget hotel they like. The budget hotel industry itself is in a fusion state in providing products

and services they sell. To achieve a good value (and future returns) from consumers, the hotel budget must be able to meet the needs and desires of consumers in terms of both products and services. By doing so, the hotel managers could expect to arouse consumer interest in making further purchases in budget hotel and make them more loyal to their hotels. To win the competition, budget hotels need to understand the importance of loyalty.

The review of current literature identifies a clear research gap in our understanding of the effects of environment element on customer satisfaction. Studies by Widowati and Tsabita (2017) and Tangkuman et al. (2015) reached to contradictory findings on the influences of environment elements on customer satisfaction. Chang and Lin (2022) and Ding et al (2022) show a positive and significant effect of environment on visitor satisfaction. However, Keshavarz (2016) shows no significant effect of environment on hotel guest satisfaction. Undoubtedly, both experiential marketing and customer satisfaction lead to garnering of customer loyalty. The interest to visit again a budget hotel is expected to increase if both experiential marketing and customer satisfaction are present.

The purpose of this study is to find the factors that contribute to customer loyalty in the hotel budget industry and offer suggestions to improve loyalty in budget hotels. For illustration, a popular tourist destination (East Java, Indonesia) and its thirty budget hotels are selected in the study. Specifically this study aims to determine the effect of:

1 environment element towards experiential marketing at budget hotels

2 environment element to customer satisfaction

3 experiential marketing to loyalty

4 customer satisfaction towards loyalty.

This research is expected to provide knowledge for the community as well as the contribution of thoughts about how influential factors influence the loyalty. The empirical benefit in general usage of this research is to know the influence of environment element on loyalty through experiential marketing, and customer satisfaction in hotel budget industry to know how big demand of hotel budget especially budget hotel in East Java, Indonesia.

2 Literature review

A prior research (Wu and Liang, 2009) in Taiwan examined the effect of experiential value on customer satisfaction on service area environment in luxury hotel restaurant. The results of this study proved that environmental factors and direct interaction with employees and other consumers affect the experiential value. Another result of the research is direct interaction with employees affecting customer satisfaction. In addition, interaction with other consumers and service area environment affects customer satisfaction through experiential value. Another research (Haghighi et al., 2012) in Tehran examined the factors that affect consumer loyalty in the restaurant industry. The results of this study proved that the quality of food, service quality, restaurant environment, and prices affect customer satisfaction. In addition, the consumer

satisfaction affects loyalty. A study by Babu and Kaur (2020) suggested importance of sustainability practices in tourism supply chain for Indian hotel industry.

2.1   Environment element

Environment element is the design of the atmosphere of space as a physical and social stimulus created by hotel managers to influence consumers who have psychological impacts so that the trigger to attract consumers come and stay so that it can increase the occupancy rate. The measurement of environment elements using indicators developed by several researchers Bitner (1992) and Heung and Gu (2012).

a   Atmosphere

Atmosphere is a condition covering environmental background characteristics such as temperature, noise lighting, music, colour, and aroma. All of these factors can greatly affect how people feel, think, and respond to a particular form of service. The measurements of ambience dimensions proposed by Bitner (1992), Han and Ryu (2011) are:

1   temperature

2   aroma

3   noise

4   music

5   interior design

6   lighting

7   colours

8   cleanliness.

b   Space and function

Space and function create a service environment that generally exists to meet specific goals or consumer needs. Measurement of the dimensions of space and function using indicators developed by Bitner (1992) are:

1   spatial planning

2   Tata equipment

3   circulation

4   furnishings

5   Space function.

c   Signs, symbols, and artifacts

The use of these signs, symbols, and artifacts can be used as a hotel identity as well as to convey a message of rules of conduct (for example: no smoking). The quality of building materials, artwork, photographs, floor covering materials, and objects on display can signal symbolic meaning and create an overall aesthetic impression. The formative indicators used in this study use indicators developed by Bitner (1992), namely:

1   hotel name entry

2   marker entrance – exit

3   antiques

4   pictures/paintings

5   style decoration

6   architectural buildings

7   landmark colonial buildings

8   historical.

The design of the atmosphere is done among others to attract consumers, trigger consumers to stay at the hotel and create a certain atmosphere which can then affect consumer emotions to influence how consumers behave.

2.2 *Experiential marketing*

According to Schmitt (1999, p.60) experience is the experience of personal events that occur due to a certain stimulus (e.g. given by the marketer before and after the purchase of goods or services). Experience is also defined as a subjective part of the construction or transformation of the individual, in direct emphasis on emotions and senses during immersion at the expense of cognitive dimensions. While the definition of marketing is an activity to anticipate, manage and achieve customer satisfaction through the exchange process.

According to Schmitt (1999) experiential marketing is a marketing approach that involves the emotions and feelings of consumers by creating positive experiences that are not forgotten so that consumers consume and fanatical towards certain products. The 3 key points focused in experiential marketing are: customer experience, consumption patterns, and rational and emotional decisions.

Experiential marketing is an approach in marketing that has actually been done since time immemorial until now by the marketers. This approach is considered very effective because in line with the development of the era and technology, marketers more emphasise product differentiation to differentiate their products with competitors' products. With the existence of experiential marketing, customers will be able to distinguish products and services with each other because it can experience and experience directly through 5 approaches (sense, feel, think, act, relate), both before and when consuming a product or service. Tourism marketers can focus on relaxation and attraction, exploration and excitement to upgrade tourism products (Aziz et al., 2022).

Schmitt (1999) stated that sense relates to styles and verbal and visual symbols capable of creating the integrity of an impression. To create a strong impression, whether through advertising, packaging or website, a marketer needs to choose the right colour in line with the company profile. Feeling is very different from the sensory impression because it deals with the mood and emotion of one's soul. This is not just about beauty, but the mood and emotions of the soul that can generate happiness or even sadness. While think of the company's activities to challenge consumers, by providing problem-solving experiences, and encourage customers to interact cognitively or creatively with the company or product. Act / Action relates to the whole individual (mind and body) to improve life and lifestyle. Motivating, inspiring, and spontaneous

messages can cause customers to do things differently, trying in new ways to change their lives better.

The marketing approach of Experiential Marketing is an approach that tries to shift the traditional marketing approach. This traditional approach has four characteristics: focus on first experience, test consumption situation, recognised rational and emotional aspects as trigger of consumption, and methods and devices are electic.

The main focus of experiential marketing is focused on sensory responses, influences, cognitive experiences, actions, and relationships. Experiential Marketing can be exploited effectively when applied to certain situations. Schmitt demonstrates some of the benefits that can be accepted and felt when a business entity adopts experiential marketing. These benefits include:

a   resurrecting brands that are degenerating

b   distinguish one product from a competitor's product

c   creating the image and identity of a business entity

d   promotes innovation

e   introducing experiments, purchases, and most importantly loyal consumption.

From some definitions can be concluded that Experiential Marketing can be measured using five main factors. Experiential Marketing is a marketing approach that involves the emotions and feelings of consumers by creating unforgettable positive experiences. Thus consumers feel impressed and experience during the enjoyment of this company's products will be embedded in the mind, so that later customers are not only loyal but also disseminate information about the company's products in word of mouth. One of the marketing that can be done by business owners is with experiential marketing.

2.3   *Customer satisfaction*

According to Kotler and Keller (2016, p.38) satisfaction is obtained when the needs and desires of customers are met. Satisfaction is the feeling of pleasure or disappointment of someone who emerges after comparing the performance (result) of the product to the expected performance (results) expected. According to Dutka (2008, p.199) satisfied customer improved business and dissatisfied customer impair business. So customer satisfaction is not easy, how to create satisfaction while maintaining customer satisfaction. Customer dissatisfaction will cause the business entity difficult to survive in the face of competition. The importance of consumer satisfaction for marketing can be attributed to the fact that customer satisfaction will encourage repeat purchases and give the advantage of 'word of mouth' publicity.

Relationship level of customer satisfaction with customer behaviour can be identified several types of customers are (Noyan and Simsek, 2011):

a   Apostles

Customers who rate their product performance exceed their expectations so that they can provide positive word of mouth information to others, or these highly satisfied customers who are loyal and continue to buy.

b   Defector

Customers who are quite satisfied (neutral) and ready to stop buying.

c   Terrorist

Customers who have negative experiences that can spread negative issues.

d   Hostages

Unhappy customers who still buy because of some conditions such as cheap prices, these customers are hard to talk because they often complain.

e   Mercenaries

A very satisfied customer who is not really loyal, who might be a defector if it gets a cheap price elsewhere.

Companies must be able to create apostle customers, increase customer satisfaction buyers, and make them loyal. Companies should avoid terrorist and hostage customers, as well as reduce the number of mercenary customers [Schiffman and Kanuk, (2015), p.23]. Customer satisfaction is quite difficult to achieve. To satisfy customers requires a long, long, and not cheap process. Some theories used to measure customer satisfaction include Kotler and Keller (2016, p.72) put forward the theory by using four methods in measuring customer satisfaction, namely:

a   Complaints and suggestions system

Every customer-oriented company needs to provide the widest opportunity for them to share their suggestions, opinions, and grievances.

b   Customer satisfaction survey

Studies show that while customers are disappointed in one of four purchases, less than five percent will complain.

c   Spending the Stealth

This method is done by companies paying people to act as potential buyers to report strong points and weak points experienced while purchasing a competitor's product.

d   Missing customer analysis

This method is very unique where companies should contact customers who stop buying or who have turned to other suppliers to learn the reason for the incident.

From several definitions can be concluded that customer satisfaction is closely related to customer loyalty, where satisfied customers will become loyal customers. Then the loyal customer will become a powerful marketing force for the company by providing recommendations and positive information to other prospective customers. Customer satisfaction will be achieved if expectations match the reality received.

2.4   Loyalty

According to Hennig-Thurau et al. (2002) customer loyalty is widely accepted as one that helps the company to achieve long-term success, therefore in the context of customer

loyalty marketing is the ultimate expectation that the company wants to achieve. Loyalty is the result of a combination or multidimensional relationship of interest, attitude, sales achievement and customer behaviour. Oliver (1999) defines customer loyalty as a deep commitment to buy back in the future, although situational influences and marketing efforts have the potential to lead to shifting behaviour, the American Marketing Association (Keefe, 2008) defines loyalty as the level at which a consumer is consistently patterned the same store when shopping for products that are commonly purchased. Loyal customers are consumers who will not move to other products or other brands, whereas normal consumers are consumers who still have high loyalty, but there is still the possibility of moving to another product or another brand. The third level of consumers is a half-loyal consumer which means consumers still have a loyal attitude towards a particular brand, but some of his attitude is swicther attitude. The unlucky level of consumers is, consumers will always move from one brand or product to another brand or product.

TaghiPourian and Bakhsh (2015) classified the level of loyalty into four types:

a   Without Loyalty

The low attachment to a product is combined with a low repeat purchase rate. Some customers do not develop loyalty to products or services for various reasons. Companies should avoid targeting these types of buyers as they only contribute little to the company's financial strength.

b   Weak Loyalty

The low attachments are combined with high repeat purchases. This customer buys out of habit. This is a type of purchase 'because we're used to it'. These buyers feel a certain level of satisfaction with the company, or at least no real dissatisfaction.

c   Hidden Loyalty

A relatively high level of preference coupled with low repeat purchases. This happens because of the influence of the situation, not because of the influence of attitude. For example I am a big fan of Chinese cuisine and have a favourite Chinese hotel near home, but my husband is less fond of Eastern cuisine.

d   Premium Loyalty

The high degree of engagement and repeat purchases is also high, so it is the kind of loyalty most preferred to all companies.

Meanwhile, according to Zeithaml et al., (1996) the ultimate goal of the company's success in establishing relationships with customers is to form a strong loyalty. The concept of customer loyalty is more related to behaviour (behaviour) than with attitude. The ultimate goal of a company's successful relationship with its customers is to establish strong loyalty.

The indicators of strong loyalty (Zeithaml, 1996) are:

a   Say positive thing

Is the delivery of information to others in the form of words positively about a service provider, usually a story or experience.

b   Recommend friends

Is a process that leads to invite others to come to enjoy the service provider as a result positive experience that has been felt.

c   Continue purchasing

It is the attitude of repeated buy-in by the consumer to a particular service provider that leads to repetitions that can be based on loyalty.

Customer loyalty is very important for companies that want to keep their business alive as well as the success of their business. Customer loyalty is a very important boost for creating sales. Meanwhile, customer loyalty in the context of service marketing is a response that is closely linked to a pledge or a pledge to uphold the commitment that underlies the sustainability of the relationship and is usually reflected in the ongoing purchase of the same service provider on the basis of dedication and pragmatic constraints.
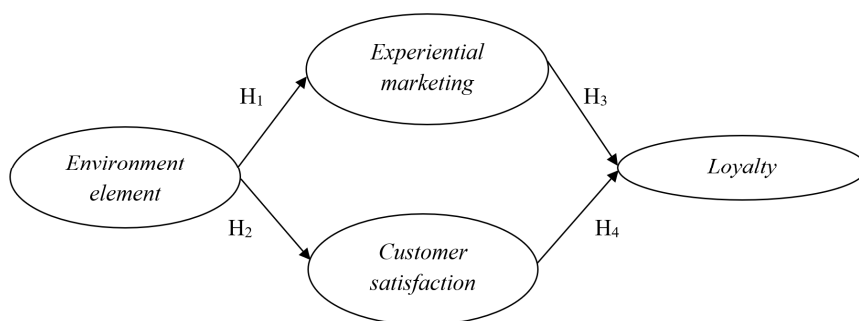
From several definitions it can be concluded that retaining customers has been perceived by many service providers as an important variable in winning the competition. With the creation of customer loyalty will lead to greater profitability and growth for the company. And loyal customers will tend to re-purchase for the product. The current marketing concept of emphasis is on consumer satisfaction, so a successful marketer must have a good sense of customer satisfaction and loyalty.

3   Building research hypothesis

The literature review leads to conflicting findings of influences of environment elements to customer satisfaction. The research conducted by Widowati and Tsabita (2017) showed that the effect of the environment element on customer satisfaction was insignificant. Whereas another study by Tangkuman et al. (2015) showed that the influence of the environment element on customer satisfaction was significant.

Research conducted by Chang and Lin (2022) indicates that the perceptions of the hotel atmosphere (environmental elements) have a positive and significant effect on hotel customer satisfaction. Likewise, research conducted by Ding et al (2022) also suggests that the hotel environment (such as hotel ratings, rental prices, location, and service quality) has a positive and significant effect on hotel visitor satisfaction. However, research conducted by Keshavarz (2016) shows that hotel consumer expectations of the hotel environment have no significant effect on hotel guest satisfaction. These contradictions make this research on influences of budget hotel environment on hotel guest satisfaction interesting and worth the study.

In general, marketing experience and customer satisfaction are important factors for obtaining a high level of customer loyalty. The existence of both experiential marketing and customer satisfaction could interest a customer to visit again a budget hotel. In addition to atmosphere and experiential marketing, customer satisfaction also affects the loyalty of customers who would visit the budget hotel. The research model showing these relationships is presented in Figure 1. The research hypotheses presented below are grounded to this model framework.

Figure 1   Research model: influence relationships

3.1   *Influence of environment element on experiential marketing*

The existence of a positive relationship between the environment element and experiential marketing shows that the experiential marketing done by the budget hotel offers an atmosphere that touches the five senses of the customer is an attractive interior design, coolness of the room, music and the product has a taste and aroma image that has been embedded in the heart customer.

Hypothesis 1   Environment Element effect on Experiential Marketing at budget hotel in East Java, Indonesia.

3.2   *Effect of environment element on customer satisfaction*

The atmosphere of the hotel as a whole is an aesthetic and emotional effect created through physical characteristics whereby all connect with the senses of the consumer such as spatial designed for customer convenience, colour use, lighting, and so on. Therefore, the establishment of the hotel cannot be separated from the initial preparation of the layout and design of the building in accordance with the needs of hotel operations as a whole.

Hypothesis 2   Environment Element effect on Customer Satisfaction at budget hotel in East Java, Indonesia.

3.3   *Effect of experiential marketing on loyalty*

Santi et al. (2020) argues that overall customer satisfaction is a result of a process that emphasises the perceptual, evaluative, and psychological process, resulting from 'the use of experience'. The use of experience is part of customer experience, where customer experience is everything that happens at every stage in the customer cycle from before the purchase until after the purchase and may include interactions beyond the product itself. Oliver (1999) found that Experiential Marketing has a strong and significant influence on customer loyalty. Chang and Lin (2022) suggests that experience is an important variable for understanding consumer behaviour, behaviour toward experience and repurchase.

Hypothesis 3   Experiential Marketing effect Loyalty on budget hotels in East Java, Indonesia.

3.4 *Effect of customer satisfaction on loyalty*

According to Kotler and Keller (2016, p.14) there is a positive relationship between customer satisfaction and loyalty. Customer satisfaction is if the company can meet customer expectations (expectations). Customer expectations are based on previous buying experiences, opinions from friends, and market information. A marketer must carefully cultivate the level of customer expectations appropriately. If they set expectations too low, customers may be satisfied but fail to attract new customers. If they set expectations too high, customers/buyers will be disappointed. In the hotel industry is very easy to set high expectations because guests cannot judge the product until they enjoy the product. But if the fact is not true then the customer will be very dissatisfied. Customer satisfaction depends on product's perceived performance in delivering value to customer expectations relative. If the results are perceived by customers in accordance with their expectations then they are satisfied, if the perceived result exceeds expectations then the customer will be happy. Smart companies aim for the excitement of customers, promising only what they can provide and then delivering more than promised. One of the most important things in the hotel business is how to develop a particularly strong service culture (strong service culture), where the service culture focuses on serving and satisfying consumers.

Li (2020) researched and analysed the effect of consumer satisfaction on consumer quality in luxury hotels in Malaysia in 2020. The results of this study prove that the effect of customer satisfaction on consumer quality in luxury hotels in Malaysia is positive and significant.

Hypothesis 4   Customer Satisfaction effect on Loyalty in budget hotel in East Java, Indonesia.

3.5 *Influence of environment element on loyalty through experiential and customer satisfaction*

Bitner (1992) states that there is a positive relationship between dimensions of atmosphere, function and space, signs, symbols, and artifacts to customer satisfaction. Customer satisfaction positively affects customer loyalty by considering the perceived quality of service and satisfaction is the deciding factor. Satisfaction gained from customer experience can develop into loyalty [Lovelock and Wirzt, (2011), p.28]. With the creation of an optimal level of customer satisfaction then encourages the creation of loyalty in customer mind who feel satisfied earlier. If a business entity improves customer satisfaction then customer loyalty will also increase, likewise if a business entity decreases customer satisfaction then customer loyalty will also decrease.

So the budget hotel should pay attention to the quality of the product be it the taste quality in order to blend with the heart of the customer, the menu the customer wants is always available in fulfilling the customer's wishes, the affordable price and the location is easy to reach, from this satisfaction the customer express willingness to recommend to others. In general, it shows that experiential marketing and customer satisfaction are important factors in order to obtain high level of customer loyalty. The existence of

experiential marketing and customer satisfaction is good then the interest of customers to visit again will grow. In addition to Atmosphere and Experiential Marketing, customer satisfaction also affects the loyalty of customers who visit the budget hotel. An important concept to consider when building a loyalty program is customer satisfaction.

Hypothesis 5   Environment element effect on loyalty through experiential marketing at budget hotel in East Java, Indonesia.

3.6 *Effect of environmental elements on loyalty through experiential and customer satisfaction*

Bitner (1992) and Kampani and Jhamb (2021) stated that there is a positive relationship between the dimensions of the atmosphere, functions and space, signs, symbols, and artifacts to customer satisfaction. Customer satisfaction positively affects customer loyalty by considering the perception of service quality and satisfaction is the deciding factor. Satisfaction gained from customer experience can develop into loyalty [Lovelock and Wirzt, (2011), p.28]. With the creation of an optimal level of customer satisfaction then encourage the creation of customer loyalty in the mind that was satisfied earlier. If the business entity improves customer satisfaction then customer loyalty will also increase, so if the business entity decreases customer satisfaction then customer loyalty will also decrease.

Hypothesis 6   Environment element effect on loyalty through customer satisfaction at budget hotel in East Java, Indonesia.

4   Research method

The factors considered and selected in this study for environment element, experiential marketing, and customer satisfaction are based on several prior researches. Environmental element can influence consumer purchasing decisions, satisfaction, and loyalty. Three measurable environment element variables according to Wu and Liang (2009) are:

a   correct lighting

b   comfortable temperature

c   clean environment.

These three variables are considered in this study.

Experiential marketing is a marketing approach that involves the emotions and feelings of consumers by creating positive experiences that are not forgotten so that consumers consume and fanatic to certain products. Experiential Variable Measurement according to Wu and Liang (2009) and considered in this study are:

a   price is acceptable

b   the service provided is attentive

c   the food served is interesting.

Customer satisfaction is an individual perception of product or service performance in relation to customer expectations. According to Wu and Liang (2009) customer satisfaction refers to:

a   satisfied with employees

b   satisfied with the service provided

c   satisfied with the owner's decision.

Loyalty is the result of a process of optimising and maintaining good relationships with customers, as well as expanding relationships by creating a value and doing word of mouth marketing which is an effective marketing system. Measurements of loyalty variables according to Zeithaml et al. (1996) are:

a   say positive things to others

b   recommend to others

c   coming back.

Primary data was collected through a survey questionnaire (see Appendix) from customers who stayed in 30 budget hotels in East Java. The responses were in Likert scale 1 (strongly disagree) to 5 (strongly agree) for each question.

The data was collected by distributing questionnaires directly to hotel visitors. There were no significant difficulties in distributing the questionnaires. In total, 230 surveys were distributed and 225 filled in surveys were returned (97.83% response rate). However, 25 survey responses were rejected due to incomplete information or deficiencies. The resultant data set was created from 200 survey responses, which is considered adequate according to Hair et al. (2010).

4.1   Data analysis techniques

Data analysis technique used to discuss the problem in this research is structural equation model – *linear structural relationship* (SEM-LISREL). The structural equation model (SEM) is a statistical technique that allows testing of a relatively complex set of relationships simultaneously. Complex relationships can be built between one or more dependent variables with one or more independent variables. There may also be a variable that doubles as an independent variable in a relationship, but becomes a dependent variable on other relationships given the existence of a tiered causality relationship. Each dependent and independent variable can take the form of a factor or construct constructed from several indicator variables. Similarly, among variables it can be a single variable that is observed or measured directly in a research process.

Data analysis technique used in this research is SEM. In SEM, the measurement model, overall model, and structural model are measured. In addition, in this study also used path analysis (path analysis) to explain the relationship between variables that exist. With the use of this SEM method will be displayed a comprehensive model and can explain the relationship between one construct with another.

There are eight indicators chosen to represent the number of categorical data, namely:

Table 1   Eight indicators structural equation modelling index

Goodness of fit measure	Cut-off value
χ^2-chi-square	Little
Significant probability	≥ 0.05
RMSEA	≤ 0.08
GFI	≥ 0.90
AGFI	≥ 0.90
CMIN/DF	≤ 2.0
TLI	≥ 0.95
CFI	≥ 0.95

Source: Data processed

5   Survey analysis

Descriptive statistics of the data set are presented below.

Table 2   Statistics description variable environment element

No.	Statement	Mean score	Description
1	The right lighting is owned by budget hotels in East Java, Indonesia	3.53	Agree
2	The comfortable temperature is owned by budget hotels in East Java, Indonesia	3.78	Agree
3	The clean environment is owned by budget hotels in East Java, Indonesia	3.66	Agree
Mean score		3.65	Agree

Source: Data processed

Table 2 shows the average of environment element variables is 3.65. This reflects that the average score of respondents 'answers agrees with the existing statement on the environmental element variable in which respondents' attitudes regarding consumer acceptance of appropriate lighting, comfortable temperature, and clean environment are applied in budget hotels in East Java, Indonesia.

Table 3   Statistics description variable experiential marketing

No.	Statement	Mean score	Description
1	The price/cost of stay at budget hotel in East Java, Indonesia is acceptable	3.64	Agree
2	Services provided at budget hotels in East Java, Indonesia are attentive	3.69	Agree
3	Food served at budget hotels in East Java, Indonesia is interesting	3.71	Agree
Mean score		3.68	Agree

Source: Data processed

Table 3 shows the average of experiential marketing variables is 3.68. This reflects that the average value of respondents' answers agrees with the existing statement on the experimental variables of:

1   the price/stay cost in budget hotels in East Java, Indonesia is acceptable

2   the services provided in budget hotels in East Java, Indonesia are full attention

3   the food served at budget hotels in East Java, Indonesia is interesting.

Based on Table 4 the average of customer satisfaction variables is 3.71. This reflects that the average value of respondents' answers agrees with the existing statement on customer satisfaction variable that respondents express satisfaction on:

1   hospitality of budget hotel employee in East Java, Indonesia

2   service provided by budget hotel in East Java, Indonesia and service given budget hotels in East Java, Indonesia

3   the decision of budget hotel owners in East Java, Indonesia if I have a complaint.

Table 4   Statistics description variable customer satisfaction

No.	Statement	Mean score	Description
1	I am satisfied with the friendliness of budget hotel employees in East Java, Indonesia.	3.79	Agree
2	I am satisfied with the services provided by budget hotels in East Java, Indonesia.	3.63	Agree
3	I am satisfied with the decision of budget hotel owners in East Java, Indonesia if I have a complaint.	3.71	Agree
Mean score		3.71	Agree

Source: Data processed

Table 5 shows the average of loyalty variables is 3.56. This indicates that the average value of the respondent's answer agrees with the existing statement on the loyalty variable in which the consumer's perception of the individual's assessment to buy back from the services provided by the same company, given the current situation and the situation that may occur.

Table 5   Statistics description loyalty variables

No.	Statement	Mean score	Description
1	I will say positive thing about budget hotel in East Java, Indonesia to others	3.56	Agree
2	I would recommend budget hotel in East Java, Indonesia to others	3.53	Agree
3	I will reappear budget hotel in East Java, Indonesia	3.57	Agree
Mean score		3.56	Agree

Source: Data processed

6   Overall model fitness testing

Table 6 shows the overall model fitness.

Table 6   Structural equation modelling index

Goodness of fit measure	Cut-off value	Result	Description
χ^2-chi-square	Little	283.297	Good
Significant probability	≥ 0.05	0.07	Fit
RMSEA	≤ 0.08	0.04	Fit
GFI	≥ 0.90	0.98	Fit
AGFI	≥ 0.90	0.97	Fit
CMIN/DF	≤ 2.0	1.04	Fit
TLI	≥ 0.95	0.98	Fit
CFI	≥ 0.95	0.96	Fit

Source: Data processed

1   χ^2-chi-square result is 283.30. The smaller the statistical value of Chi-Square (χ^2) the better is the model.

2   The root mean square error of approximation (RMSEA) is 0.04. RMSEA values that are smaller or equal to 0.08 are the indices for the acceptability of a model that shows as a close fit of the model based on degrees of freedom.

3   GFI of 0.98. Value ≥ 0.90 is a good model (fit).

4   Adjusted goodness of fit (AGFI) is 0.97, it can be interpreted that the model is at a level fit.

5   CMIN / DF (the minimum sample discrepancy function) of 1.04 (χ^2 value relative $\leq$ 2.0); it can be concluded there is an acceptable fit indication between the model and the data.

6   Tucker Lewis Index (TLI) of 0.98, where the recommended value as a reference for the acceptance of a model is the acceptance of ≥ 0.95; the model tested is good.

7   Comparative Fit Index (CFI) of 0.96 (≥ 0.95), so it can be concluded that the model is good to measure the acceptance level of a model.

7   SEM analysis

7.1   Structural equations

The structural equations of the research model are as follows:

$$Y_1 = \beta_1 X_1$$
$$Y_1 = 0.46\ X_1 \qquad R^2 = 0.21 \tag{1}$$

If the environment element changes it will lead to changes in experiential marketing with the direction of positive changes that if the environment element increases then

experiential marketing will increase, and vice versa if the environment element decreases then experiential marketing will decrease.

$$Y_2 = \beta_1 X_1$$
$$Y_2 = 0.61 \, X_1 \qquad R^2 = 0.21$$

(2)

If the environment element changes it will cause changes in customer satisfaction with the direction of positive changes that if the environment element increases then customer satisfaction will increase and vice versa if environment element decreases then customer satisfaction will decrease.

$$Y_3 = \beta_1 X_1 + \beta_2 Y_1$$
$$Y_3 = 0.18 \, X_1 + 0.73 \, Y_1 \qquad R^2 = 0.62$$

(3)

If the environment element and experiential marketing change it will cause change of loyalty with positive change direction that if environment element and experiential marketing increase then loyalty will increase, and vice versa if environment element and experiential marketing decrease then loyalty will decrease.

$$Y_3 = \beta_1 X_1 + \beta_2 Y_2$$
$$Y_3 = 0.28 \, X_1 + 0.30 \, Y_2 \qquad R^2 = 0.10$$

(4)

If the environment element and experiential marketing change it will cause change of loyalty with positive change direction that is if environment element variable and experiential marketing then loyalty will increase, and vice versa if environment element and experiential marketing decrease then loyalty will decrease.

7.2 Hypothesis testing

Table 7 shows the significance of the research hypothesis which has the following meanings:

1 Effect of environment element towards experiential marketing equal to 0.37 and the influence is significant.

2 The influence of environment element on customer satisfaction is 0.45 and the influence is significant.

3 The influence of marketing experiential to loyalty of 0.42 and the influence is significant.

4 The influence of customer satisfaction on loyalty of 0.52 and the influence is significant.

5 The influence of environment element on loyalty through experiential marketing is 0.15 and the influence is significant.

6 Effect of environment element on loyalty through customer satisfaction equal to 0.23 and influence is significant.

Table 7   Hypothesis testing

No.	Influence of variables	Estimate	Standard error	Critical ratio	P	Description
1	Environment Element → Experimental Marketing	0.37	0.18	2.09	0.000	Significant
2	Environment Element → Customer Satisfaction	0.45	0.20	2.26	0.03	Significant
3	Experimental Marketing → Loyalty	0.42	0.19	2.21	0.03	Significant
4	Customer Satisfaction → Loyalty	0.52	0.11	4.64	0.00	Significant
5	Environment Element → Experimental Marketing → Loyalty	0.15	-	-	-	Significant
6	Environment Element → Customer Satisfaction → Loyalty	0.23	-	-	-	Significant

Source: Data processed

8   Discussion and conclusions

The descriptive statistics of environment element shows an average value of 3.654. This means that respondents agree that:

1   the right lighting is owned by budget hotels in East Java

2   the comfortable temperature is owned by budget hotels in East Java

3   clean environment owned by budget hotel in East Java, Indonesia.

Test results on Hypothesis 1 yielded estimate value of 0.369 (p = 0.000), which proves there are positive and significant influence of environment element to experiential marketing. This means that if the elements of the hotel environment in this study are measured by: proper lighting, comfortable temperature, and better clean environment, then experiential marketing will be better. The results of this study support the theory of environment elements expressed by Bitner (1992), Han and Ryu (2011) and Wu and Liang's research in 2009 in Taiwan and Haghighi et al. (2012) in Tehran.

The test results on Hypothesis 2 resulted in the loading factor value of 0.451 (p = 0.026) proved to have a positive influence and significant environmental element on customer satisfaction. This means that if the environment elements get better, then customer satisfaction will be higher. Where customer satisfaction in this research is measured by:

1   satisfied with employee's friendliness

2   satisfied with service

3   satisfied with owner's decision.

The results of this study support the theory of environment elements expressed by Bitner (1992), Han and Ryu (2011) and Wu and Liang's research in 2009 in Taiwan and Haghighi et al. (2012) in Tehran.

The test results on Hypothesis 3 resulted in a factor loading value of 0.418 (p = 0.029) proved to have a positive and significant impact of experiential marketing on loyalty. This means that if the better marketing experience, then the loyalty will be higher. The experiential marketing in this study is measured by:

1 the price/stay cost is acceptable

2 attentive service

3 the food served is interesting.

The results of this study support the theory of experiential marketing expressed by Schmitt (1999) and Wu and Liang's research in 2009 in Taiwan and Haghighi et al. (2012) in Tehran.

Test results on hypothesis 4 proves there is a positive influence and significant customer satisfaction on loyalty of 0.516 (p = 0.029). This means that if customer satisfaction is higher, then loyalty will be higher. Where loyalty in this study is measured by:

1 will say positive things

2 will recommend

3 will come back.

The results of this study support the theory of purchasing decision-making processes expressed by Kotler and Keller (2016, p.317) and Dutka (2008).

Test results on Hypothesis 5 yield estimate value of 0.154 and prove there is a positive influence and significant environment element on loyalty through experiential marketing. It means that if: the influence of environment element towards experiential marketing is bigger and the influence of experiential marketing towards loyalty is bigger, then the influence of environment element toward loyalty through experiential marketing will be higher.

The results of this study support the loyalty theory expressed by Thurau et al. (2002) and Oliver (1999) and Wu and Liang's research in 2009 in Taiwan and Haghighi et al. (2012) in Tehran.

The results of testing on hypothesis 6 resulted in an estimate of 0.233 and proved to have a positive and significant influence on the environment element on loyalty through customer satisfaction. This means that if: the influence of the environment element on customer satisfaction is higher and the influence of customer satisfaction on the higher loyalty, then the influence of environment element on loyalty through customer satisfaction will be higher. The results of this study support the loyalty theory expressed by Thurau et al. (2002) and Oliver (1999) and Wu and Liang's research in 2009 in Taiwan and Haghighi et al. (2012) in Tehran.

In conclusion, based on the results of data analysis and discussions it is noted that:

1 The first hypothesis that states that the environment element affects the experiential marketing in budget hotels is accepted.

2 The second hypothesis that states that the environment element affects customer satisfaction at budget hotels is accepted.

3   The third hypothesis which states that experiential marketing effect on loyalty in budget hotels is accepted.

4   The fourth hypothesis which states that customer satisfaction affects loyalty in budget hotels is accepted.

5   The fifth hypothesis which states that the environment element affects the loyalty through Experiential Marketing in budget hotels is accepted.

6   The sixth hypothesis which states that the environment element affects the loyalty through customer satisfaction at budget hotels is accepted.

There is no doubt some budget hotels attempt to provide good service and quality through several ways, such as, by designing an attractive and different menu of dishes with competitors, creating an atmosphere that ensures visitor comfort, hygiene, how to serve food well, set appropriate prices, create a friendly impression through service employees, pay attention to customer needs and design an attractive interior. These efforts are designed to give customers an idea of the value creation of the company compared to competitors, in the hope of enhancing customer satisfaction and having a high emotional attachment to *the* company, so that the company can build true customer loyalty.

This kind of emotional attachment allows the budget hotels to understand carefully the customer's specific expectations and needs. Thus a hotel can increase customer satisfaction and customer satisfaction encourages the creation of customer loyalty. The quality of service assessed from the reliability or ability to provide services in accordance with the promised, responsiveness by providing services quickly and accurately, is a guarantee provided by the company so that customers can provide the trust, empathy or attention from the quality that has been given. Reliability of services may depend on sustainability practices in supply chain in hotel industry (Babu and Kaur, 2020).

Customer loyalty is the key to success for hotel, not only in the short term, but a sustainable competitive advantage. Loyal customers will not be easily influenced or transferred to other companies, loyal customers will always re-purchase and recommend the service provider company to others, because it triggered the feeling of satisfaction, pleasure, appreciated, and understood by the service providers. Customer loyalty will always arise to the customer if what is needed is provided by the company. The determination of the company's choice to be a loyal customer of a company that puts forward good service quality, will provide great benefits for the company so that the company's operations will run smoothly and the company is able to survive in the increasingly tight market competition today

Customer satisfaction can help a hotel maintain its customers. The demand for hotel capacity and expected number of visitors could fluctuate, which might necessitate tourism forecasting (Zhang, et al, 2022). With the presence of a wide selection of budget hotels and supported by advances in science and technology, the consumers can more freely choose a budget hotel of their liking. The hotel budget industry itself is a fusion of products and services they sell. So to achieve good value from consumers, then the hotel budget must be able to meet the needs and desires of consumers both in terms of products and services. By doing so it is expected to arouse consumer interest to be interested in making purchases in the budget hotel and become loyal. Therefore, to win the competition, companies need to understand the importance of loyalty.

This study contributed to our understanding of customer loyalty. The hypothesis testing provide greater understanding of various factors and how they affect the loyalty.

This study also has practical implications for budget hotel managers. The empirical results suggest strong influence of environment elements on loyalty through experiential marketing, and customer satisfaction in budget hotels. Budget hotel managers in East Java can use this information in designing their promotional campaigns. Even though this research was conducted in East Java, this research model can be generalised to research in other locations by testing and analysing loyalty to budget hotels, especially loyalty that is influenced by environmental elements, experiential marketing, and customer satisfaction.

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Appendix

Questionnaire for data collection

Environment element

No.	Statement	Strongly disagree	Don't agree	Normal	Agree	Strongly agree
1	The right lighting is owned by budget hotels in East Java, Indonesia					
2	The comfortable temperature is owned by budget hotels in East Java, Indonesia					
3	The clean environment is owned by budget hotels in East Java, Indonesia					

Experiential marketing

No.	Statement	Strongly disagree	Don't agree	Normal	Agree	Strongly agree
1	The price/cost of stay at budget hotel in East Java, Indonesia is acceptable					
2	Services provided at budget hotels in East Java, Indonesia are attentive					
3	Food served at budget hotels in East Java, Indonesia is interesting					

Customer satisfaction

No.	Statement	Strongly disagree	Don't agree	Normal	Agree	Strongly agree
1	I am satisfied with the friendliness of budget hotel employees in East Java, Indonesia					
2	I am satisfied with the services provided by budget hotels in East Java, Indonesia					
3	I am satisfied with the decision of budget hotel owners in East Java, Indonesia if I have a complaint					

Loyalty

No.	Statement	Strongly disagree	Don't agree	Normal	Agree	Strongly agree
1	I will say positive thing about budget hotel in East Java, Indonesia to others					
2	I would recommend budget hotel in East Java, Indonesia to others					
3	I will reappear budget hotel in East Java, Indonesia					