by Amitava Chatterjee, CHTP

Assessing **Guest Value**

Successful CRM is not about providing the best service on the block; rather, the key to creating and maintaining effective relationships with guests is in providing appropriate service. We know that all guests are not equal, which is why loyalty programs were invented. However, in today's commoditized world, they may have lost their edge, and are no longer viewed as strategic differentiators.

What are hospitality companies doing about CRM? IBM Business Consulting Services (BCS) research over a 24-month period reveals that CRM ranked fourth in a list of technology initiatives. Further, IBM's Global CRM Study[1] indicates only 50 percent of CRM initiatives are successful, therefore hospitality leaders must give their programs increased focus, giving them an opportunity to pay closer attention to their most profitable and loyal guests. Additionally, in an era threatened by commoditization where differences between hospitality offerings have the potential to blur, companies will have to fall back on superlative service and positive guest experiences to make a lasting impression on a discerning clientele.

CRM in the hospitality industry primarily centers on the loyalty program, resulting in a guest-centric CRM strategy. Guests who participate in the loyalty program are segmented into tiers, based upon room nights accrued over the program-stipulated time period, usually a year. Guests receive preferential treatment based upon the loyalty program tier status that they have achieved. This approach has three direct results:

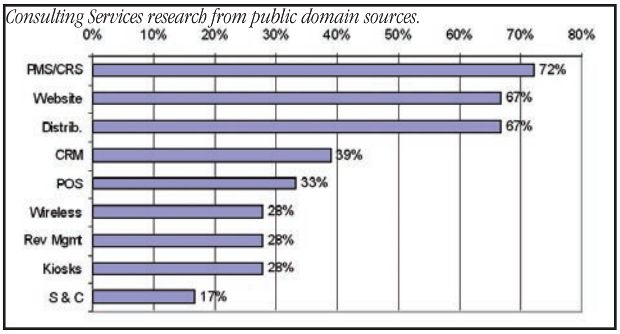
- Guest value is based upon volume of room nights accrued; profitability is not considered.
- Guests in the same tier all receive the same treatment.
- Programs do not always focus on other influential groups that also use hotel services, e.g. meeting planners, travel agents, etc.

Is the industry focused on the right metrics?

Hospitality companies traditionally focus on RevPAR as a measure of how well they are performing. However, RevPAR neglects to account for revenue earned in other areas, such as food and beverage, leisure activities (e.g., spas), and the impact guests have on increasing a hotel's profitability. IBM recommends that hospitality enterprises start measuring and tracking guest profitability. Metrics such as ProfPeG will help gauge the impact guests have on the bottom line.

This begs a question—are hospitality companies in a position to measure profitability on a per-guest basis, or do they need to be more mindful of tracking and apportioning costs across various guest segments, and, indeed guests, in order to truly evaluate ProfPeG?

Source: IBM Business Consulting Services research from public domain sources.



Analysis of hospitality company technology initiatives in the last 24 months.

Do Not Just Count Volume of Room Nights – Not All Top Tier Guests are Equal

Most loyalty programs count accrued room nights in determining what loyalty status and associated privileges should be awarded to members. On the other hand, factoring guest profitability (think ProfPeG or profit per guest) into the equation provides hospitality companies with an opportunity to target those who are not only frequent guests, but who also have historically helped (and therefore, have a propensity to do so in the future) improve the bottom line by virtue of their spending patterns. Hospitality companies must maximize the profitability of their guest segment mix by working closely with CRM, distribution, marketing and revenue management departments.

Segments Are Not Homogenous in Needs, Wants and Cost of Service Delivery

The high volume leisure traveler is unlikely to be interested in the same services as the high volume business traveler, despite being in the same tier of a loyalty program. One may want a high amount of interaction with hotel personnel during the stay, while the other may want to be left alone and provided specific amenities, such as high-speed Internet access and in-room printing capabilities. Further, one may want to check in with the front desk, while the other would prefer the freedom and empowerment of self service. It is important to note that the differences in the costs of the services provided to these types of guests is significant, and worthy of investigation, before offering the same services to all guests in a tier. As such, to truly optimize resources, one must carefully compare both the perceived value and the service costs in order to allocate limited resources in the manner expected to deliver the maximum return on investment.

Do Not Overlook Travel Planners

Hospitality companies have a great opportunity to interact with, and improve the quality of their relationship with guests on property. However, this approach neglects the importance of travel planners, e.g., meeting planners and corporate travel managers. While such interactions are less-frequent and less likely to be with hotel staff, travel planners' roles as decision makers and influencers are no less important. In fact, travel planners are key intermediaries who can prevent a direct link between hospitality companies and their guests, or they can be powerful allies capable of promoting certain brands. However, many hospitality companies do not fully recognize this, with few offering loyalty programs specifically tailored to them.

The Importance of CRM to the Customer-centric Enterprise

Successful CRM initiatives directly improve the bottom line of an organization—every interaction at every touch point provides the opportunity to contribute to positive (or negative, if not managed correctly) experiences, loyalty and, if the right guests are targeted—profitability and a healthy bottom line. In a study of business leaders around the world, 65 percent to 75 percent of respondents viewed CRM as important in delivering revenue growth[2]. This revenue growth may be achieved through improving the acquisition rate of new customers, as well as increasing existing customer satisfaction, which has the potential to improve the retention rate of current customers. Several studies discuss the link between customer satisfaction and its impact on the bottom line. In addition, a 2 percent increase in customer retention is equivalent to a 10 percent reduction in costs[3]. From a purely logical standpoint, it is more beneficial to retain one's existing customers, further strengthening the bottom line, than it is to recruit new customers. The retention of loyal, valuable customers presents an opportunity for the hospitality industry.

How should a hospitality company stand out from the rest? The only true way for a hospitality company to differentiate itself is through the creation and upkeep of a strong brand, with its associated experience attributes and unique customer service. Not only should the service be unique, but hospitality companies should strive to tweak the attributes and tailor compelling points of difference for different guest segments, and where viable, different guests—this will create a positive, lasting impression. Thus, it is important to provide appropriate service at every interaction based upon intelligent profiling and valuation of guests. Hospitality companies must leverage technology investments to create these superlative guest experiences without increasing the cost of service delivery.

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[1] http://www-1.ibm.com/services/us/bcs/html/2004_global_crm_study_gen.html

[2] "Doing CRM right: what it takes to be successful with CRM". Bladgett, M, LaValle, S, & Ballou, S, IBM Business Consulting Services. Somers, NY, 2004.

[3] Caterer and Hotel Keeper

Hotel Internet Marketing Survey: continued from page 144

line reservation department as the most effective at delivering business volume they want at the price they want. Meeting planner Web sites were considered least effective of all channels to deliver the desired business volume.

- Surprisingly, while almost all hotels had their own Web site, there were still a small number (10 percent) that did not. Of those who did, there is still a small number (10 percent) that did not yet offer booking capability on their Web site. There was a wide range of booking engines in use. SynXis and Pegasus were the most often named vendors after brand-supplied booking engines.

- The average spending for online marketing was just over $50,000 per year. The range was from $1,000 to $180,000 and the most often cited range of spending was $25,000 to $35,000 per year. While many hotels have begun to embrace the use of online marketing, fully 25 percent of the hotels claimed their online budget was "too small to note."

- Revenue managers are onsite in most hotels and spend almost 2.5 hours per day on channel management. The revenue manager is most often the decision maker on online travel agency usage with the directors of sales and marketing a close second.

- While many hotels are starting to use their online channels to collect customer profile information, there are more than 33 percent who are not. Just over half of the respondent hotels report actually using customer profile information to drive marketing campaigns.

- Most hotels expect increases in small groups and leisure market segments and relatively flat results in most other segments. They expect to spend more marketing dollars overall, particularly focusing increases in online initiatives. In spite of this added spending for online marketing, there is little change expected in sales staffing levels for the forthcoming year. It could be assumed that additional online funding would come from some overall budget increase and some shifting from print advertising rather than sales staffing funds.

- While a minority of hotels actually documents their distribution strategy, the hotels that do commit it to writing feel their efforts are effectively deployed.

- The greatest area of concern for these hotels over the next five years is maintaining awareness of their property in the online space on their own Web site, through search engines and online travel agencies.

- Most hotels anticipate significant growth in online business volume with the average expected increase to be at least 50 percent by 2008 over 2005 levels. These projected increases were for businesses through their own Web sites and third party Web sites, and excluded changes in GDS volume.

- Most respondents expected search engines to be the online channel to have the greatest impact followed by third party travel agencies.

- When asked how they would spend $100,000 to improve distribution channels, the lion's share of the respondents indicated they would spend money on their own Web site and on the interactive media and search engine marketing that would further improve its results.

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