Tackling the Biggest Challenges in Hospitality and Gaming

CONCLUSIONS PAPER

Insights from a webcast sponsored by SAS and the Center for Hospitality Research at Cornell University's School of Hotel Administration

Featuring:

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This webcast was part of the Insights and Innovations for Hospitality and Gaming Webcast Series, sponsored by the Center for Hospitality Research at Cornell University's School of Hotel Administration and SAS. Each webcast highlights a hot topic in the hospitality and gaming industry, including data quality, labor planning, customer loyalty programs, sustainability and more.

Is my customer loyalty program doing all it could?

Are daily deals such as Groupon discounts helping or hurting my restaurant?

Is our organization's IT infrastructure where it should be?

These questions have been nagging at hospitality and gaming management professionals for years. As new technologies and business models gain hold in the industry, there is natural uncertainty about where those forces play in, or in some cases, whether they even should at all.

More than just pondering these questions, experts and researchers from Cornell's Center for Hospitality Research investigated them – and presented their findings on issues that could spell the difference between an organization thriving or simply surviving.

Is my loyalty program doing all it could?

Key findings from the report, *Customer Loyalty: A New Look at the Benefits of Improving Segmentation Efforts with Rewards Programs,* Michael McCall, PhD, of Cornell University, Clay Voorhees PhD, and Roger Calantone PhD.

Across the hospitality field, most organizations have a loyalty program of some sort or another, designed to stimulate frequent and repeat purchases from its customers. Fly a certain number of miles to get a free ticket or an upgrade. Stay at a brand's properties a certain number of nights to earn a promotional rate or free night's stay. Get your meal card punched 12 times and get the 13th meal free. All variations on a theme: You frequent us, we'll give you something back.

But is your loyalty program doing what it should? Is it bringing in more new revenue than it is giving back in rewards? Could it be delivering even better results?

"The concern we hear most frequently from managers is that they have this program, and they're not really sure what it's doing for them, but it seems to cost them a lot of money," said Michael McCall, a visiting scholar and research fellow at the Cornell University Center for Hospitality Research.

One problem with the state of many loyalty programs is their sameness, McCall said. They tend to segment customers into precious metal categories based on their level of spending: a silver tier, gold tier and platinum tier.

"We looked at these tier programs and wondered if there's a better way of segmenting your customers," said McCall. The first step McCall took was to revisit early literature on segmentation for marketing purposes, to clearly understand the six basic characteristics that enable meaningful and useful segmentation:

- **Identification.** Can you identify your customers? It may be difficult for a restaurant to capture identifying information about its customers, but a hotel has a better shot at identifying repeat guests.
- **Substance.** Does the segmentation category as it is defined represent enough customers for the organization to be able to meet and serve its needs profitably?
- **Accessibility.** Can you gain access to the customer? The customer can opt in by providing an email address, for instance, but are there other touch points that can be used to gain access to the customer?
- **Stability.** Is the segment stable and localized enough that you can plan appropriate treatments? If the segment is by definition transient, it won't be very meaningful for practical purposes, unless you can manage a skeet-shooting approach to marketing.
- **Responsiveness.** Are customers likely to respond to the kinds of offers you might provide through your loyalty program? For instance, if they're infrequent travelers already, will a bonus based on four nights' stay in a short period have any appeal? Probably not.
- **Action-ability.** Knowing the kinds of offers to which a segment will likely respond, can you generate those types of promotions to capture that customer base?

McCall then applied these six basic ideas of segmentation to a loyalty program, to see how these concepts can improve how a firm reaches out, identifies those important customers, and defines the most relevant loyalty program for those customers.

Within that framework, McCall suggests basing segmentation strategies on three basic categories of knowledge about customers:

- **Descriptive measures** of the segment, such as demographic and psychographic information.
- **Financial measures**, such as dollars spent, miles or segments flown, and rooms booked.
- **Customer engagement**, a concept that acknowledges the value of customers who are active on social media and can serve as ambassadors for your brand.

"This idea of engagement is at the core of a loyalty program," said McCall. "You don't want simply repeat patronage; you want people who are going to spread positive word of mouth about your firm, people who are going to encourage their friends and family to do business with you as well. These are actually your best customers, because they are marketing for you."

McCall described his investigation into how hospitality and gaming organizations can mesh these six ideas with these three basic categories. The research team gathered data from a multinational lodging firm on more than 100,000 customers and 1.2 million transactions. How long had customers been in the loyalty program? How frequently did they visit the properties? How long between visits? What room revenue, food and beverage revenue, and other revenue did they generate during their visits?

The firm included in the study has a loyalty program tiered like most: grouped into low spenders, medium spenders and high spenders, said McCall. “But when we did a deeper dive to see if there were unique characteristics – special nuggets of people who come to this firm’s properties with different sorts of needs – we found that there were actually seven segments nested within those three tiers.

“At the low end, you might have your once-a-year visitors who come to the property fairly infrequently and don’t really spend a lot when they do. There are the value-seekers, customers who are primarily looking for a better deal, who will come when you offer promotions that meet those needs. When we looked at the upper tier, here is where it started to get interesting. In the upper tier, we tend to treat customers as though they are all homogenous, but in fact we found multiple segments within that one tier.

“There are the Elitists (we’ve given the groups arbitrary names) who are very status oriented. They spend a lot of money, and they enjoy fine treatment. Every loyalty program has a group of premium customers who like the better treatment, but if you look carefully, in terms of stay frequency and how much they spend, there may be other categories there.”

McCall’s research revealed a notable subgroup within the top tier, affectionately dubbed “the Whales.” “These are people who don’t necessarily show up at your property often,” said McCall. “In fact, from the data we looked at, this group of people might not show up at one of your properties for years, or maybe once or twice every two to three years, but when they do, they spend a large amount of money.

“These are people who are different from your traditional high-status customers. What might you be able to do with them? You might be able to encourage them to come more often. They might be responsive to other sorts of promotions besides the rewards that appeal to the Elitists.”

The Elitists may be your most profitable customers, but the Whales and other distinct subgroups represent good value as well. Customers in these subgroups could grow more valuable if they are recognized as different and offered more targeted, relevant benefits.

“The important consideration is that loyalty programs are here to stay, and everyone is going to have one,” said McCall. “What we’re arguing here is that if you look carefully at the segmentation that you have – if you try to identify and really understand the kinds of customers you have at a deeper level – you’ll be able to generate a much more favorable reward program outcome.”

There can be a distinct difference in spending habits, needs and preferences within a single loyalty program tier – which suggests that there are ways to offer more differentiated rewards instead of one-size-fits-all treatment.

Top Takeaways

Applying the basic concepts of marketing segmentation enables loyalty programs to:

- Identify subgroups within your major program tiers.
- Offer tailored benefits to make the program more valuable to those subgroups.
- Differentiate the program from other programs that have just a few basic tiers.

Are daily coupon deals helping or hurting my restaurant?

Key findings from the report, *The Effects of Daily Deal Use on Consumer Perceptions and Behavior,* by Sherri Kimes, PhD, of Cornell University; and Utpal Dholakia, PhD.

Love them or hate them, but there's no denying them. Daily deals such as Groupon and other coupon offers, particularly online deals, are capturing consumers' imagination and changing their purchase behaviors. There has been a lot of buzz about daily deals. Not surprisingly, not all of it is favorable.

On the plus side, daily deals can bring a restaurant additional exposure, customers and revenue. But there are plenty of possible downsides. First and most obvious, discounts cut into revenue. When the total bill is lower, wait staff may be frustrated by getting lower tips for the same work. You might be offering discounts to customers who would have happily paid full price. Worse, you might fill the tables with discount customers who displace your loyal full-price customers.

And while daily deals may bring in new customers, are they good ones? Many restaurateurs believe that customers who use daily deals tend to be cheap and not likely to return unless they get a similar deal. They also worry that deep discounts will diminish the perception of brand value.

These all seem like logical concerns, so Sherri Kimes of Cornell University and Utpal Dholakia of Rice University set out to see if these concerns were valid. In August 2011, they conducted an online survey of 931 respondents who had purchased a daily deal of some sort. Of this survey population, they targeted those who had purchased a restaurant daily deal (617 of them) and particularly those who had done so within the previous three months (30.9 percent of the entire sample, 288 respondents).

The survey provides preliminary and intriguing answers to restaurant operators' questions about daily deal customers.

Are these new or existing customers? Of respondents who had used a restaurant daily deal within the previous three months, 22 percent were new customers, 44 percent were infrequent customers, and 34 percent were frequent customers. So the deals enticed new customers but also cannibalized some full-priced business, offering discounts to customers who would likely have visited the restaurant anyway.

Are these customers cheap, only in it for the savings? "Commonly held beliefs about daily deal users, as put forth in the industry media, assert that they're cheap, they're not going to come back, they're only loyal to the next deal, and they won't spend any more than the coupon amount," said Kimes. "So we wanted to see if this is true; is this really how coupon customers behave?"

The survey asked a series of questions designed to measure customers' value consciousness and their propensity to use coupons. "When we compared those who had used a restaurant daily deal and those who had not, there was no difference in value consciousness. Customers who did not use daily deals were just as value-conscious as those who did, which kind of refutes the point that these are people who are necessarily cheap."

Do daily deal customers lack loyalty? "Looking at relational loyalty, we found no difference between users and non-users of daily deals," said Kimes. "So this thought about daily deal users being only loyal to the next deal might not necessarily be true, at least according to our survey results."

When new, infrequent and frequent customers were asked if they would return to that restaurant or recommend it to their friends, all three groups said yes – and that they would likely return to the restaurant even if they had to pay full price. "I do have to say that, of the three groups, the new customers were less likely to go back at full price than the already existing customers, but they were still likely to go," Kimes noted.

Do daily deal customers spend less? "We looked at how much consumers order and spend when using daily deals compared to what they usually order and spend at a restaurant," said Kimes. "We found that they purchased pretty much the same as they normally do – maybe a little bit less, but about the same."

Do they tip less? The survey asked about tipping behavior. Did daily deal users tip on the full amount of the check or the net amount? Respondents pretty much said they tipped on the full amount of the check. "Of course, you've got to take that self-reported behavior with a grain of salt," Kimes noted, "because they're not necessarily going to say, 'Hey, I stiffed the waiter.'"

Who are these daily deal customers?

They are younger, which is not surprising, because much of this daily deal activity takes place online. They tend to be higher-income people who go out for dinner more often. No surprises there, except their incomes do seem to defy the perception that they are cheap. They tend to live in urban and suburban areas. No surprises there, since Groupon and similar promotions are less prevalent in smaller communities.

However, an interesting and potentially important finding is that daily deal users tend to be what Kimes calls "market mavens," the people who like to be first to experience and recommend a venue. "They want to be the trendsetters who say, 'Hey, we went to eat at this new restaurant last night; you really ought to try it out, it was fantastic.' These might be the kinds of customers to really push your brand to other people.

"Daily deal users also tended to be more impulsive purchasers, inclined to buy things without necessarily thinking about it too much," said Kimes. "They like change; they like to try new restaurants and new food." That means that once you get them into the restaurant, these customers might be more influenced by suggestive selling.

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Sherri Kimes

Singapore Tourism Board Distinguished Professor in Asian Hospitality Management, Cornell School of Hotel Administration

Continuing the Research

The online survey provided some interesting preliminary insights into daily deal users and their behaviors, but there are limitations to relying on self-reported behavior, Kimes noted. "Just because people say they'll go back again doesn't necessarily mean they will. This was also an online survey, so there's also the possibility that the people who answered this might be different from the people who don't use the Internet as much. And this was just a US-based study, so it might be interesting to look at this in other parts of the world."

Kimes and Dholakia have several follow-on studies in the works:

- A survey of restaurant operators to gather their experiences and opinions about daily deal customers, which already bears interesting contrasts to what customers say about themselves.
- Analysis of restaurant point-of-sales data to quantify the difference between average order, check and tips for daily deal users and non-daily deal users.
- A choice experiment to gauge how customers react to various restrictions, such as daily deals that can only be used on specific days, or other terms that enable a restaurant to better control its capacity.

"In short, the online survey was a really interesting study," said Kimes. "A restaurant wants to make sure it can fill its capacity, but they also want to make sure they're not cannibalizing their existing business. Daily deals can be a really great thing if used in an appropriate way. We've found that customers love them, they're likely to return, and this could be a really good thing for restaurants if managed properly."

Top Takeaways

Daily deal users aren't all that different from non-daily deal users.

- Daily deal users aren't necessarily cheap, and they tend to have higher incomes.
- Some cannibalization occurs; about one-third of daily deal users were frequent customers.
- Daily deal users are just as likely to return and recommend the restaurant.
- Daily deal users are highly likely to return even at full price.
- Daily deal users tend to be "market mavens" who could be good advocates for your brand.

Is our IT infrastructure where it should be?

Key findings from the report, *Network Exploitation Capability: Mapping the Electronic Maturity of Hospitality Enterprises,* by Gabriele Piccoli, PhD and Bill Carroll, PhD, of Cornell University; and Larry Hall.

The information framework of hospitality organizations is based on a host of internal and external systems. Internally, there are reservations systems, property management systems, revenue management systems, channel management systems, customer relationship management systems and so on. Externally, there are mobile applications, search engines, online travel agencies, social media sites, global IP networks, cloud computing and more. Every IT sphere has seen rapid technology evolution, obsolescence – and opportunity.

Forward-thinking hospitality organizations should be exploiting these technologies in a strategic and integrated way, said Bill Carroll, PhD. Carroll is a co-author of a Cornell University Center for Hospitality Research report that proposes a methodology for benchmarking an organization's IT maturity and creating a road map for improvement.

The report brings together diverse perspectives. Piccoli is an academic focusing on information technology (IT). Hall is an industry executive who develops demand management tools for hospitality enterprises. Carroll is an economist and industry veteran. Together they looked at network exploitation capability – how firms in the hospitality industry, specifically the hotel industry, can better manage and exploit technology to improve their revenue optimization, distribution management and marketing activities.

They devised a five-tier framework to classify the processes, behaviors and level of maturity of an organization's use of information technology:

- **Basic.** There are little or no systematic behaviors. Activities take place in departmental or functional silos. Individuals respond to network changes.
- **Systematic.** The organization has consistently performed activities related to demand generation, multichannel distribution and revenue optimization. There is governance but not integration.
- **Integrated.** Demand generation, multichannel distribution and revenue optimization are executed in an interrelated way as new technologies emerge. Systems and processes, both internal and external, are integrated to improve business processes and results.
- **Analytical.** Analysis and subsequent action goes beyond simple integrated response to technology, to the anticipation of future evolution. Firms analyze and anticipate what's going to happen in the future, in order to respond proactively.
- **Optimizing.** "At the highest potential level of exploitation are inherent processes that allow hospitality enterprises to respond to both technology changes and market changes that occur quickly," said Carroll. "Firms at this level have inherent processes that allow assets and organizational structures to easily respond and adapt to a dynamic world.

"The purpose of this report is really to stage future research and to help individual firms to evaluate and improve their performance," said Carroll. "The matrices in this report enable a firm to evaluate its own position, to benchmark its IT processes and systems on a maturity index. It also sets forth a paradigm that researchers can use for purposes of survey research or analysis, to capture or understand how technology developments are used within various enterprises, market conditions or regions of the world."

Top Takeaways

Hospitality firms can improve their revenue optimization, distribution management and marketing activities by more effectively managing and exploiting their IT technologies.

The more integrated and strategic an organization is in its use of IT, the more value and agility it can create.

By conceptualizing the IT maturity of an organization in a five-tier framework, hospitality firms can assess their status and create a road map for advancing up the levels.

To download a free copy of the report, *Customer Loyalty: A New Look at the Benefits of Improving Segmentation Efforts with Rewards Programs*: hotelschool.cornell.edu/research/chr/pubs/reports/abstract-15619.html

To download a free copy of the report, *Restaurant Daily Deals: Customers' Responses to Social Couponing:* hotelschool.cornell.edu/research/chr/pubs/reports/abstract-15899.html

To download a free copy of the report, *Network Exploitation Capability: Mapping the Electronic Maturity of Hospitality Enterprises:* hotelschool.cornell.edu/research/chr/pubs/reports/abstract-15839.html

About the Presenters

Michael McCall, PhD

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Michael McCall has published more than 40 academic articles and taught various marketing courses in the areas of marketing services, pricing and consumer behavior. His primary research program focuses on the role of customer reward programs in creating customer loyalty, rebate programs, and perceptions of value among competing hospitality and service products. McCall earned his PhD in experimental and applied social psychology from Arizona State University.

Sherri Kimes, PhD

Singapore Tourism Board Distinguished Professor in Asian Hospitality Management, Cornell School of Hotel Administration

Sherri Kimes is a professor of operations management at the Cornell School of Hotel Administration. Named the school's graduate teacher of the year three times, Kimes teaches restaurant revenue management, yield management, and food and beverage management. Her research interests include revenue management and forecasting in the restaurant, hotel and golf industries. She has published more than 50 articles in leading journals and has served as a consultant to many hospitality enterprises around the world. Kimes earned her doctorate in operations management in 1987 from the University of Texas at Austin.

Bill Carroll, PhD

Senior Lecturer, Cornell School of Hotel Administration

Bill Carroll teaches courses in economics, yield management, pricing and marketing distribution. He is also CEO of Marketing Economics, a consulting firm specializing in travel industry pricing, distribution, yield management and strategic planning. For more than 25 years, Carroll held a variety of senior positions in the travel industry. He has also written numerous articles on economics and travel industry topics. Carroll holds a BA in economics from Rutgers, an MS in labor studies from the University of Massachusetts and a PhD in economics from Penn State.

Learn more

To view the on-demand webinar, *Tackling the Biggest Challenges in Hospitality and Gaming*: sas.com/reg/web/corp/1680115

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