

Focus on Customer Loyalty

For many years hospitality firms practiced conquest marketing. The goal of conquest marketing is to create as many new customers as possible. While marketing executives understood that it was important to satisfy the guests while they were on the property, they believed that guests' satisfaction was the overall responsibility of the operations people. Marketing's sole responsibility, they reasoned, was to continue to find new customers.

Marketing has changed and marketing executives now realize that their sole responsibility does not end when the customer walks in the door. Instead, they need to be concerned with the whole experience of their guests in order to ensure that not only will guests return to the property, but they will also tell their friends to come and visit. This emphasis on the encouragement of repeat business is what is now called loyalty marketing or retention marketing. This type of marketing is the wave of the future.

What do we mean by loyalty? Rob Smith, president of the loyalty marketing firm Focal Point Marketing, claims that loyalty occurs when the customer feels so strongly that you can best meet his or her relevant needs that your competition is virtually excluded from the consideration set and the customer buys almost exclusively from you – referring to you as “their casino” or “their hotel.”

Loyalty marketing is important because loyal customers are more profitable than non loyal customers. Research has shown that when compared to non loyal customers, loyal customers are profitable because they spend more money while on property, they are more likely to serve on advisory panels thus providing free advise, and more likely to tell management when problems occur thus staying and not going to other properties. They also tell on average 10

people about the property towards that they are loyal. The big question, of course, is how to create this loyalty.

A way to think about creating customer loyalty is The Loyalty Circle,[©] as shown in Figure 1. The three main functions on the circle are Process, Value, and Communication. The reader will notice that at different points along the circle, there are places where the customer might exit the circle and hence the relationship. The goal of hoteliers is to keep the customer in the circle by executing equally well the three functions of the circle. Equality is the key to the loyalty circle. If hoteliers are great on creating value for instance, but do not effectively communicate with the customer, then that customer may leave the relationship.

1



A Framework to Improve Customer Loyalty (c) Stowe Shoemaker, Ph.D.

On one side of The Loyalty Circle[©] is the Process, which is “how the service works.” It involves all activities from both the guest’s perspective and the hotelier’s perspective. Ideally, there should be no gaps in this process. For the guest, the process includes everything that happens from the time s/he begins buying the service (e.g., calling to make a reservation) to the time that they leave the property (e.g., picking up their car from a valet.) All interactions with employees are part of this process.

For the hotel, the process includes all interactions between the employees and the guests, the design of the service operations, the hiring and training of service personnel, and the collection of information to understand customers’ needs, wants, and expectations. One way to monitor the process is to use mystery shoppers. These mystery shoppers can range from professional firms to hotel students at local area colleges. Another way is to conduct focus groups with customers. A third way is to undertake large-scale survey research with current customers as well as past customers.

A second component of The Loyalty Circle[©] is value creation. Value creation is subdivided into two parts: value added and value recovery. Valued-added strategies increase loyalty by providing guests more than just the core product; that is, for hotels, offering more than just a place to sleep. Valued-added strategies increase the long-term value of the relationship with the service firm by offering greater benefits to customers than can be found at competing firms who charge a comparable price. Features that pertain to value added are of six types: *financial* (e.g., saving money); *temporal* (e.g., saving time); *functional* (e.g., making the process easier); *experiential* (e.g., enhancing the experience such as by getting an upgrade); *emotional* (e.g., more recognition and/or more pleasurable service experience); and/or *social* (e.g., interpersonal link

with a service provider). Temporal value is important business travellers have stated that they value their time at \$100 per hour and anything that saves them time, saves them money.

Consider for instance, the check-in process of a hotel. Research reveals that many frequent business travelers want to go immediately to their room and do not want to wait in line to check-in. If they have to wait in line for 15 minutes, they mentally figure they have spent \$25 to check-in. Waiting in line is especially annoying if the guest is a member of the hotel's frequent guest program and all guest's information is already stored on file. Certain technologies (e.g., blue-tooth software that works with one's PDA) allow guests to check-in, receive their room number, unlock their room, and have charges automatically billed to their credit card without having to check-in with the front desk. Moving these guests to this form of check-in would have the benefit of shortening the line for those guests who want to speak with a front desk clerk. This new check-in procedure speeds up and improves the process (*functional value*) and adds value because it saves the guests' time (*temporal value*).

The importance of value-added strategies in creating customer loyalty is illustrated in a study conducted by this author of business travelers who both spend more than \$120 per night for a hotel room and take six or more business trips per year. The study revealed that 28% of the 344 who spend more than 75 nights per year in hotels (38% of the total sample) claimed that the feature "is a good value for the price paid" is important in the decision to stay in the same hotel chain when traveling on business. A similar percentage rated the features "collects your preferences and uses that information to customize your current and future stays" and "accommodates early morning check-in and late afternoon checkout" important in the decision to stay with the same chain. Both these tactics are examples of features that add value to the core product offering.

Value-recovery strategies are designed to rectify a lapse in service delivery. The goal is to insure that the guest's needs are taken care of without further inconveniences. Empowering employees to solve problems and offering 100% guarantee are examples of value recovery strategies. The key to value recovery strategies is that the complaints be taken seriously by the hotel and that processes be put in place so that the same mistakes do not happen over and over again.

The final component of The Loyalty Circle[®] is communication. This side of the circle incorporates database marketing, newsletters, and general advertising. It involves all areas of how the hotel communicates with its customers. When communicating with guests, it is critical that external communications do not over promise what the service can deliver. It is also critical that the communiqué reflect the needs of the customer and that s/he does not receive offers in which the customer has no interest.

If marketers can focus the organization on these components they will create loyal customers who will return over and over again. If they do not focus on the components of the circle, they will be forced to focus on getting more and more customers to replace those who have left the circle.