

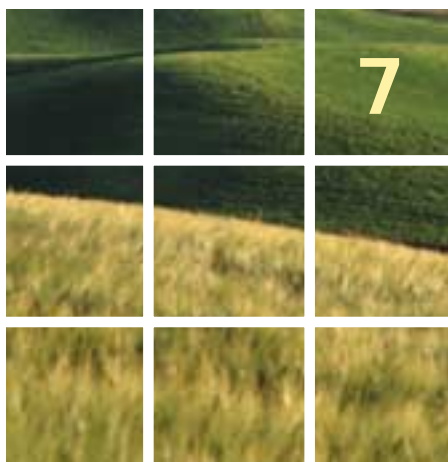


Knowledge, information and access to customers will be the currency of success in the economy of the future – requiring nothing less than a redefinition of the hospitality industry. The industry has historically built its success on well-located properties. In the future, real estate *and* technology platforms will give hospitality companies access to, and the

the commercial traveler or the leisure tourist, affect the value of a hospitality company? How can these companies get the most value from different customer segments? Hospitality companies must begin by building a fundamentally new business model that supports value given to both tangible and intangible assets, including knowledge, information, and

Leveraging the Customer Asset in Today's Hospitality Industry

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ability to generate information about, the assets of the future — customers.

This redefinition will take place as broad-based trends fundamentally change the hospitality industry's business model and the requirements for success. Globalization, consolidation, convergence and the transfer of real estate into the public markets are among powerful forces reshaping the hospitality industry in the global economy. New technologies are transforming the industry's access to consumers, including computer networking and advances in relationship database management and mining techniques. Physical assets, like a hotel property and its location, are just one source of profit. Successful hospitality companies must now manage the customer asset as diligently as they have managed facilities and capital in the past.

Redefining the hospitality industry

How can the hospitality industry leverage customer information — and particularly the customer relationship — more effectively and profitably? How do particular customer segments, such as

customer relationships.

Customer asset management can generate substantial profits in the coming years, but it requires vast amounts of easily accessed and analyzed information — and therein lies the challenge for hospitality executives. Yes, today's hospitality companies are creating detailed customer databases with information about customer brand loyalty, for example. Unfortunately, these companies' analysis and use of that wide-ranging information is often episodic, delayed and disintegrated.

The typical hospitality company, for example, tends to rely on property-based occupancy, rate and financial data to benchmark itself against competitors and industry trends. A company might generate information from its own operations to measure customer satisfaction and use a loyalty program database to determine its most valuable customers.

But all of these data and analyses are badly flawed because they give a far from comprehensive (or even realistic) view of the hospitality company. Business plans



that rely solely on property-based data to support capital and resource allocation decisions run the risk of failure, for example, because they don't take into account all of the company's value drivers, particularly its many levels of customer assets. Similarly, loyalty program data bases are often inaccurate because they don't include the most profitable, or sometimes even the most loyal, customers.

Challenges to the customer relationship

Just as the customer relationship has become so vital to the success of hospitality companies, emerging challenges ironically threaten that relationship. Hospitality companies, for example, face outside competition from technology companies like Microsoft, AT&T, and AOL, and from credit card companies like American Express. These companies are forging one-on-one hospitality relationships with customers by helping them make all of their travel plans, often in time-pressured situations. This role gives them a leg-up on owning the customer relationship.

Another challenge to the customer relationship is the high cost of the technology needed to gather, clean (i.e., making sure that data is accurate and comprehensive), store, and leverage information. This is a particular problem for small companies with modest budgets that must upgrade to state-of-the-art technology if they hope to compete in the new global economy.

Current industry strategies

Executives who search the management literature for insights on how to overcome challenges to the customer relationship and capitalize on industry trends are finding it difficult to determine the most effective strategy for their companies. Generally, they must choose between the soft, intuitive perspective of relationships (customer-driven approach) and the hard

shareholder (profit-driven) perspective based on traditional tangible assets. This debate between customer-driven strategies and profit-driven strategies has been with us for years. Unfortunately, neither approach fully satisfies the industry's current needs.

Because the hospitality industry leverages customer relationships (as well as capital and physical assets) to create wealth, it needs a strategy that helps it to invest in both customer segments and the geographical markets that promise



the greatest rewards in its core competencies, while balancing its appetite for risk.

Customer equity

The asset value of customer relationships is called "customer equity." Customer equity is the total lifetime potential of a customer based upon the net cash flow from that person over time.

To measure customer equity, we must identify the cash flows received from a particular customer or segment of customers and then estimate the capital required to establish and maintain that customer or segment. The value of this cash flow is determined by the volume of purchases, the margin of those products and the duration of the customer relationship. Although much of this kind of information tends to be historical, recent advances in the ability to measure

customer loyalty and model the customer's potential future purchases mean that customer equity can now be forecasted. By combining historical and potential purchase behavior data with attitudinal data, it is possible to build an understanding and measurement of customer equity.

Then, to effectively leverage customer equity, customer value must then be clearly understood, which means the value drivers must be defined. How much your current customers are spending—and on what—is perhaps the easiest way to look at customer value. But these data can give a false picture. For example, two customers may spend the same amounts on your product, but spend quite differently on your competitors' products. They may initially appear to have the same value to you, but in reality they have quite different values.

Customer equity strategy

A customer equity strategy (CES) has five components:

1. Build dynamic market intelligence to evaluate, control, and modify customer performance over time.
2. Leverage technology as a competitive weapon.
3. Align organizational infrastructure.
4. Understand and value market opportunities by customer segment.
5. Articulate market-based strategies.

Before beginning the CES strategy process, we use a CES Scorecard, a diagnostic and benchmarking survey that measures the ability of the hospitality company to maximize customer value. The CES Scorecard compares a company to its competition based upon core competencies, access to capital, and appetite for risk. It is an invaluable tool, because it helps the firm discover where it really stands today and where it ought to be, and can be, tomorrow. The findings of this survey help to guide the strategy process.



1. Build dynamic market intelligence to evaluate, control, and modify customer performance over time.

CES employs several tools to build market intelligence, including Continual Valuation which automates the valuation process, making asset information widely available to executives on a continuous basis so they can make daily decisions.

A Value Driver Analysis identifies those behavioral, demographic, psychographic, and economic factors that create customer value.

A Market Share Analysis identifies the hospitality company's most valuable customers, which customers spend significant funds with competitors, and how to best target those customers to gain greater market share.

2. Leverage technology as a competitive weapon.

If it is the customer that holds so many value opportunities in the future, technology is the key that unlocks this value by leveraging information to realize customer equity value and support the company's new business model.

Unfortunately, much of today's technology doesn't fully serve companies' needs. For example, most customer information systems currently require modeling that can only be performed by technical staff. These systems also require statistical or systems knowledge. Because of these constraints, a company's use of this technology is often episodic and less than effective.

An integrated customer equity management system, however, alleviates these technological drawbacks by automating popular searches with accessible and easy to manipulate end-user interfaces which can also be structured as Intranet browser-based solutions. Management spends less time on waiting for the data it needs and more time on strategy.

The objective is to capture a single view of the customer as opposed to the

multiple views that are found in most organizations. Multiple views generally provide a confusing picture that is hard, at best, to interpret and use. By providing a single view of the customer, the integrated customer equity management system brings together a wealth of information from a wide variety of sources and puts it into actionable formats that support and speed managerial decisions.

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Customers, for example, tend to touch hospitality businesses in a variety of different places. They connect with the company through the Internet and direct mail. They speak with sales people by phone and in person, with operators at the central reservation system, with receptionists upon check-in at the hotel, with service staff during their stay, and with cashiers upon their check-out.

At each of these so-called touch-points, hospitality companies can gather and integrate information into a system that provides a comprehensive singular view of the customer. The system can then be supplemented with additional information gleaned from subsequent interactions.

To collect information on their customers, some hospitality companies have spent large sums on data warehousing — central computer-based repositories where transactional data is stored and mined when management must decide whether or not to introduce additional products and services, or when it wants to identify ways to improve on the delivery of existing products and services.

But gathering and storing information is one thing. It is quite another to access and leverage that information to support initiatives that increase revenue or decrease costs. Current data warehousing methods make leveraging that vital information clumsy at best, and nearly impossible at worst.

The hospitality industry needs a technological system that is secure, immediately available, easy to use, one

that cleans data, and provides fraud and error detection. This technological system should also collect, assemble, and analyze market information, including unfulfilled customer needs, competitors, channels, costs and product/service offerings. With this system, management will better understand competitive challenges, easily identify and assess market opportunities, and better position the firm at the point of purchase.

Fortunately, a company doesn't have to start with currently cumbersome data warehousing systems. Meta data — or subsets of data — can be very useful. Sampling techniques and predictive modeling can be sufficient for a number of key sales and marketing functions that can bring significant quick wins early in the CES process. A data mart is an effective way to begin targeting the most valuable customers and understanding the tasks that management should focus on. In effect, a data mart helps a company become customer-oriented without the huge upfront costs of investing in a complete data warehouse.

At the same time, a data mart automates and re-engineers diverse sources of customer data for operational uses,



creating the foundation for a complete data warehouse and customer touch point technological system which encompasses customer care, sales force, direct mail, Internet systems, and back-office. It also integrates information on customer acquisition, retention, cross selling, market share analysis, benchmarking, forecasting, and campaign management.

From this foundation, a hospitality company can build an easily accessible multi-channel data warehouse that integrates the customer touch-point system and still provides the ease of access management needs to effectively leverage the customer information, whether it's for marketing campaigns, expansion plans, or new product introductions.

As part of the technology information system, a fully integrated PMS/CRS system should be supplemented with a private network that leverages Internet accessibility without compromising security or reducing performance. The network helps a hospitality company do business with its strategic alliances and partners, and at the same time tracks transaction histories to reduce book-keeping errors and any under-reporting of revenues.

In growing from a CES data mart to a full-fledged data warehouse, and to avoid the cumbersome structures currently constraining many companies, the hospitality firm should do much more than simply develop the data warehousing technology itself. It should also:

- Integrate all customer contact points to improve data.
- Integrate the CES system into new product development.
- Use back office systems that have ABC (activity based costing) capabilities to understand profitability by customer segment.
- Develop organizational metrics to support the customer asset.
- Reduce low profitability customers.

- Develop sales and marketing campaigns to encourage desired customer behaviors.
- Continuously market, utilize, and refine the customer information.
- Re-tool operations for specific segments.

3. Align organizational infrastructure.

A CES strategy includes an infrastructure plan that unifies a hospitality company's organization, human resources, business

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processes, and operating systems to create a customer-focused organizational infrastructure.

For the strategy to be successful, there must be sponsorship and buy-in to a customer service culture throughout the company. Tools like performance targets, evaluation processes, performance metrics, and incentive and reward systems can help the entire organization successfully leverage the customer asset and maximize customer value.

4. Understand and value market opportunities by customer segment.

A CES strategy focuses on the customer relationship, the company's marketing of its brand, and product positioning. Creating customer intimacy is the heart of this strategy.

It begins by analyzing a hospitality company's assets and opportunities. A cross-selling analysis identifies the opportunity for increasing market share with additional products and services of the company and its strategic alliance partners. For example, it could assess whether a customer who reserves a hotel room is also a likely target for a club

membership. Benchmarking compares hospitality companies to their competition to determine who owns the customer relationship and what it will take to claim and keep that relationship.

A customer acquisition analysis studies the company's potentially most profitable customers and supplies sources for identifying more of these profitable customers. Together, this information helps a hospitality company understand the loyalty of customer segments as well

as their historical behavior, which in turn helps the company forecast the value of new product and service introductions, and acquire and service new customers.

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Customer segmentation vs. market segmentation

With the new tools of measuring the increasingly important customer asset, traditional market segmentation based on travel motivation (business, leisure, convention, etc.) will give way to customer segmentation based on relative customer equity value.

Such a customer equity segmentation is valuable because it supports more effective means of leveraging the equity in a hospitality company's customers. A hospitality company, for example, will know which customer segments require



the least amount of operational cost and returns the greatest revenue. They can then be targeted to strengthen the existing relationships and build loyalty. The company can also identify customers that are a drain on the organization and should either be dropped or targeted to modify their behavior into greater profitability.

With customer equity segmentation, each new hospitality program and service will target only those customers with specific needs. These customers, in turn, will create communities seeking similar hospitality products and services. With customer equity segmentation, the hospitality experience can be personalized, and multiple products and services created at a single property that would be marketed both one-to-one and one-to-many. This segmentation offers the greatest possible capture for the particular product or service.

Marketing with the new business model

Implementing a CES strategy requires changes in a hospitality company's marketing mindset and strategy. Basically, CES can create a longitudinal and trigger-based marketing campaign management system. This system would have automated sales and marketing campaigns keyed to significant events to manage sales across the lifetime of a customer, rather than a marketing campaign keyed to a singular event. The trigger for that longitudinal marketing campaign will be customer behavior.

Tracking a customer segment that has frequent stays, for example, could trigger a customer reward campaign to help sustain the relationship. Marketing leisure-based products and services to business travelers would extend stays and increase revenues. Or, cross-

marketing brands within the same company would increase customer equity.

Hospitality companies in the new century

The hospitality company of the early 21st century must respond to the global economy by becoming global itself — at least in its customer access — to compete most effectively. It must also

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Management through their personal computers will easily access current, integrated and accurate measures of a company's customer and property assets. That information, as a result, can be easily integrated into every day business decisions, driving operations as well as capital and resource allocations. With uniform data mart and data warehousing technology, hospitality companies will identify their most valuable customers, generating longitudinal and trigger-based marketing campaigns that focus on those primary targets. Currently less valuable customers will be guided

into (and rewarded for) behaving more profitably.

Clearly, with the dramatic changes wrought by the newest industry trends, the Information Age and the global economy, hospitality companies must successfully leverage their customer assets if they are going to thrive. Whether it is upgrading to a uniform technology platform or adopting a new company-wide customer focus, the CES tools and

strategy process will greatly help hospitality companies manage and leverage their customer assets and customer equity to claim greater market share.



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