

# **Customer Relationship Management in the Hospitality Industry**

What do hotel companies need to make strategic decisions,  
achieve superior customer service and gain competitive advantage?

by

Wolfgang Emperger

© 2004 Wolfgang Emperger - All rights reserved.

No part of this dissertation may be reproduced, photocopied, stored on a retrieval system, or  
transmitted without the express prior written consent of the author.

# **Acknowledgements**

The author gratefully thanks and acknowledges the assistance provided by:

The staff of Henley Management College and GFW that went the extra mile to handle all my enquiries and provided good Customer Service.

All participants that took the time to contribute to the practical research.

Serenata's Board of Directors that provided great support throughout the entire course.

And last but not least my family.

## **Note**

This study was initially drafted as an MBA dissertation. This document has been modified from its original content to be distributed to Serenata customers and partners. Some chapters and appendices contained confidential data related to the University and were therefore excluded from this public excerpt.

The document provides the reader with significant and valuable insight in the deep subject of CRM, focusing on the hospitality industry.

# Table of Contents

Abstract .....	5
1 Introduction .....	6
1.1 Scope of the Dissertation.....	6
1.2 CRM – an Overview .....	7
1.3 The Hospitality Industry.....	8
2 Literature Review .....	10
2.1 What is Customer Relationship Management? .....	11
2.1.1 Definition and History of CRM .....	11
2.1.2 CRM Categories .....	12
2.2 CRM Prerequisites .....	14
2.2.1 Strategy First, then CRM .....	14
2.2.2 Organizational Culture and Acceptance.....	15
2.2.3 Handover to Operations .....	19
2.3 Using CRM to Achieve Competitive Advantage.....	20
2.3.1 Customer Generic Strategies.....	20
2.3.2 Customer Intimacy .....	22
2.3.3 The Loyal Customer.....	23
2.3.4 Strategic decisions.....	24
2.4 CRM in the Hospitality Industry .....	28
2.4.1 The Opportunity .....	28
2.4.2 The Challenge .....	29
2.5 What is the Payback of CRM (ROI) .....	31
2.5.1 Short term results .....	31
2.5.2 Long-Term Benefits .....	32
2.6 Conclusion.....	34
3 Problem and Hypothesis .....	36
3.1 The Problem .....	36
3.2 Research Hypothesis .....	37
3.2.1 Hypothesis.....	38
3.2.2 Further Exploration .....	38
4 Analysis and Discussion of Findings.....	40
4.1 Research Objectives .....	40
4.2 Quantitative Data Analysis.....	40
4.3 Qualitative Data Analysis.....	48
4.4 Summarized Analysis.....	51
5 Conclusion .....	53
5.1 Hypothesis.....	54
5.1.1 Hypothesis 1 .....	54
5.1.2 Hypothesis 2 .....	55
5.1.3 Hypothesis 3 .....	57
6 Recommendation and Closure.....	58
6.1 Recommendation.....	58
6.1.1 Hotel Companies .....	58
6.1.2 CRM Software Companies.....	59
6.1.3 Further Research .....	59
7 Appendix .....	60
8 Bibliography .....	61
9 Glossary .....	67

## Figures

Figure 1 - The basic steps of CRM (CRM cycle) .....	13
Figure 2 - Causes of failure to achieve CRM benefits .....	16
Figure 3 - Treacy & Wiersema's value disciplines .....	20
Figure 4 – Database-driven CRM .....	25
Figure 5 - Growth by Word of Mouth (US Airlines) .....	33
Figure 6 - Value disciplines .....	41
Figure 7 - CRM by organizational level.....	42
Figure 8 - Cross tab - Value discipline / Data ownership .....	43
Figure 9 - Guest management .....	44
Figure 10 - Operations .....	44
Figure 11 - CRM objectives .....	46

## Tables

Table 1 - Brand loyalty.....	23
Table 2 - U.S. Lodging Industry Growth 1991 – 2000 .....	23
Table 3 - Examples of hotel-guest segmentations.....	27

# Abstract

In this dissertation, the author investigates Customer Relationship Management (CRM) in the Hospitality Industry. The analysis identifies the hotel corporations' needs and expectations, the prerequisites of a successful CRM implementation and beneficial appliance of the same. The findings will assist CRM software companies to build a state-of-the-art CRM suite and hotel companies to apply Customer Relationship Management successfully.

The initial literature review investigates CRM in general: What is CRM, what are fundamentals of CRM, ways to gain competitive advantage and how to measure return on investment. The review shows that the underlying strategy and organizational culture of a company are especially important prerequisites for CRM. It is identified that most failures to achieve CRM benefits are due to a lack of internal strategy. Treacy and Wiersema's (1993) value disciplines form a good framework to build a customer-oriented and focused organizational strategy. Customer Relationship Management must not only focus on the existing and frequent customer base; it needs to manage all customers of the organization. Return on CRM investment will fall in place automatically after the base is set properly. Main drivers are increased customer satisfaction, an increased number of referrals and a decrease in marketing costs.

The practical fieldwork focuses on the specifics of the hospitality industry. The fieldwork is conducted in two ways.

Firstly, through an internationally distributed online questionnaire, which identifies the needs and requirements of hotel companies and their priorities. Secondly, a discussion group of existing CRM users discuss how CRM can be used successfully, and identify the difficulties their companies face.

The analysis of both research approaches shows that qualitative and quantitative research complement each other. The survey identifies the importance of a centralized management of guest records and the linked possibility for campaign management activities. Global accessibility of chain-wide guest information needs proper management and access restrictions to avoid misuse of stored data. Hotel organizations are aware that they need an underlying strategy and culture to support CRM, however, many companies are uncertain in their focus. The findings show that almost 40 % of respondents do not have a clear corporate strategy. Hotel companies need to include all organizational levels during the definition and implementation phase of the CRM project. Internal acceptance and return on investment is strongly dependent on user support at hotel level.

The dissertation states the identified hypotheses. The assumptions, essential for CRM success, are centralized profile management, underlying culture and strategy as well as system and data integrity.

The findings of the research can be used by hotel companies, CRM consultants as well as by CRM software companies. The hypotheses allow further research on individual success factors of CRM.

“CRM is never done, it is an ongoing effort!”

# 1 Introduction

## 1.1 *Scope of the Dissertation*

The dissertation tries to find and analyze the hotel corporations' needs and expectations, the prerequisites of a successful CRM implementation and beneficial appliance of the same. CRM programs are often developed in a black box, initially considering some customer input, but then focusing on technology. A detailed customer requirement analysis helps to ascertain the positioning of CRM products and identify the very needs of hotel organizations.

The dissertation investigates collaborative and operational CRM, targeting the customer relationship side of CRM in general business. Analytical CRM is touched, as it is the base for customer evaluation and segment identification. To explore those theoretical issues, selective research is based on CRM books, up-to-date focused journal articles, selective White Papers and credible CRM web portals. The theoretical findings are compared to the hotel industry's specific needs. This is supported by the field research, which specifically targets executives and marketing specialists in the lodging industry.

## **1.2 CRM – an Overview**

A panel discussion of CRM experts working with CRMGuru.com (2002) brought CRM down to its essence: “Customer relationship management (CRM) is a business strategy to select and manage the most valuable customer relationships. CRM requires a customer-centric business philosophy and culture to support effective marketing, sales, and service processes. CRM applications can enable effective customer relationship management, provided that an enterprise has the right leadership, strategy, and culture.” Basically everything is said within this statement. CRM is a marketing hype, supported by new technology.

Customer loyalty decreases due to a multitude of channels and increasing transparency of the market. This is mainly due to the rapid growth of the Internet, economic globalization and comparable quality. Especially in the hotel industry, the basic product (hotel room) is very similar, when comparing the same quality level. The customers’ focus is more on the soft factors, like personal treatment and attention.

Internally, corporations try to streamline business processes. CRM can help through report automation and technologically supported business flows. In return, less manual intervention and manpower is needed.

### **1.3 The Hospitality Industry**

Hotel corporations are late adapters in terms of technology. The overall focus on IT is very little, as hotels are driven by daily operations. Throughout the industry, the percentage of academic education is generally low and General Managers at hotel level usually come from the operational side of business.

Customer Relationship Management, particularly on hotel chain level, is very challenging but also very important, as the hospitality industry deals with perishable goods and needs to manage supply and demand with a sure instinct. The lodging industry enjoys easy data access, but lacks data transparency, quality and analysis. Accessibility of data throughout different customer touch-points is limited. Once checked into a hotel, a customer deals with multiple touch-points like the reception, the restaurant or the gift shop. All keep their individual and independent customer records.

At corporate level, the data exchange from hotels to headquarters and between hotels is very limited. Reporting is mainly submitted on paper or through time-consuming self-made spreadsheet models. Customer data exchange is basically non-existent. Guest recognition throughout different hotels of one corporation is, if at all, supported through a simple number on the guest's loyalty card, provided that the guest enrolled in the hotel group's loyalty program at some point.

The industry disposes of an excess of information about their customers. Guests need to register with their name and address during check-in. In some countries, guests even need to provide their passport data and more detailed private information. In addition, people are very likely to share their personal preferences with hotel staff to make their stay more enjoyable. The partial information that is being communicated by the guest to several attendants from one or multiple hotels, needs to be brought together and collected in a common place. Frequently, the different departments keep their own local filing systems. For example, a guest stays at Hotel A of Hotel Corporation Top Travel and requests a corner room with a king-size bed on a higher floor. After arriving in his room, the guest calls the front-desk agent that he would like to have the complimentary sparkling water exchanged with non-sparkling water. Wouldn't it be great if the above-mentioned preferences would be prepared before arrival of the guest at Top Travel's Hotel B? The information needs to be accessible throughout hotels of the same corporation to benefit the organization and support the recognition of customers throughout all hotels of the corporation.

## **2 Literature Review**

### **Approach to the Literature Review**

The literature review investigates Customer Relationship Management in general as well as the specifics of the hospitality industry.

It begins with an overview of CRM and then addresses some of the key items in the CRM context. What is necessary for a successful implementation, how does the organization benefit and how can ROI be measured?

### **Sources of the Literature Review**

The following sources were reviewed. Literature focused on general marketing/CRM as well as industry-specific articles.

- Books
- Academic Journals
- Business Magazines
- Internet Publications

## ***2.1 What is Customer Relationship Management?***

### **2.1.1 Definition and History of CRM**

Customer Relationship Management has always encompassed the broad set of sales, marketing and customer service activities associated with serving customers. Up to now, the scope has not changed, however, the focus has changed considerably. (Peel, 2002)

The CRM term grew from the desire of combining the terms help desk, customer support, ERP (Enterprise Resource Program) and data mining. No summary expression was known and the terms could not be grouped under ERP. It is not entirely clear who introduced the term to the business world, but one can say that the term emerged from still ongoing trial and error approaches. (Oberkamp, 2002)

The first CRM initiatives, launched in the early 1990s, focused mainly on call center activities. Only later, companies widened the focus to include sales, and opened additional channels (Peel, 2002). But what is all the hype about - isn't CRM just a new form of database marketing? In some ways it is, but the innovation is to gain a 360-degree view of the customer, having all the data, from all touch-points, integrated in one system (Newell, 2003). CRM technology provides personalization to every customer and prospect. It attempts to gain a relationship with the customer through affinities and personalized communication, thus making the customer more transactive. (McKim, 2002)

Database marketing, which should be part of any sound CRM suite, identifies unique segments in the database, reacting to specific stimuli such as promotions. Database marketing does not interact; it relies heavily on rule-based delivery of communication (Francese & Renaghan, 1990).

### **2.1.2 CRM Categories**

Customer Relationship Management can be grouped into the following main categories (Dyché, 2001):

a) **Operational CRM**

'Customer-facing' CRM capability. Sales force automation systems and other systems that involve direct customer interactions.

b) **Analytical CRM**

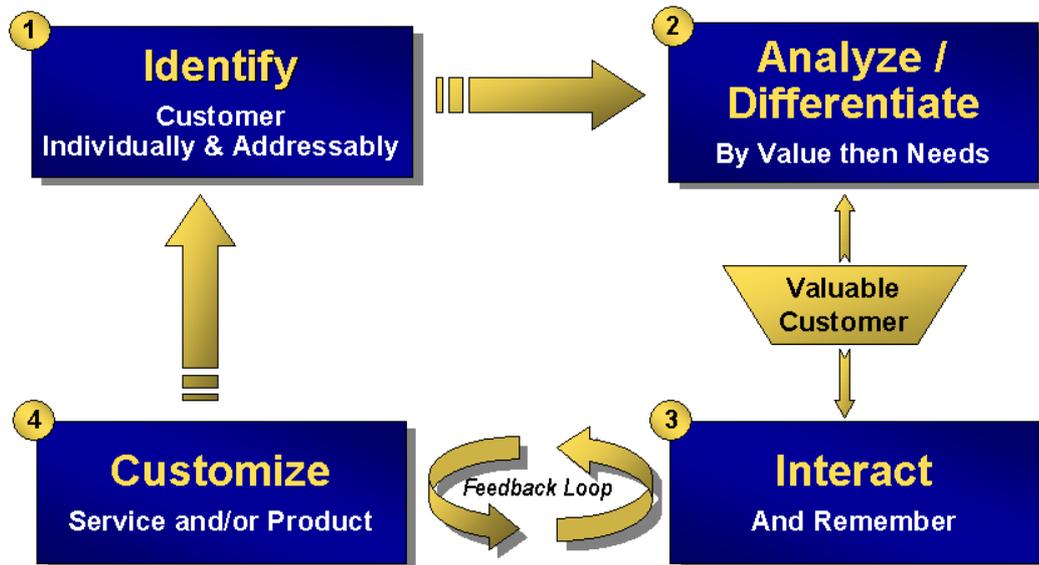
Use of data originating through operational CRM to enhance customer relationships. This data is combined with other organizational or external data to evaluate key business measures such as customer satisfaction, customer profitability, or customer loyalty to support business decisions. (Data Warehouse, Data Mining)

c) **Collaborative CRM**

Specific functionality that enables a two-way dialog between a company and its customers, through a variety of channels, to facilitate and improve the quality of customer interactions.

The main CRM categories reflect how many software companies package their modular CRM suite. The main categories are also reflected in the basic steps of CRM (Brendler, 2002).

Figure 1 - The basic steps of CRM (CRM cycle)



Source: Brendler Associates, Inc., 2002

It is important to evaluate existing marketing tools, proven processes and integration possibilities with the new solution. However, one needs to be careful when keeping old systems like the legacy database marketing tool, as it limits user acceptance of the new CRM suite and users are attached to the proven and accepted solution, which requires no change in attitude and handling (Yurong, 2002).

## **2.2 CRM Prerequisites**

A successful customer relationship management system is dependent on many basic business rules and underlying organizational factors.

### **2.2.1 Strategy First, then CRM**

One of the basic and most common sources of failure for CRM implementations is a missing customer strategy. Porter (1996) defines strategy “as the creation of a unique and valuable position involving a different set of activities”. A robust customer strategy based on customer segmentation is one of the first steps necessary when implementing a sound CRM solution (Gillies et al. 2002). The major segmentation variables summarized by Kotler (2000) are geographic, demographic, psychographic and behavioral segmentation. Gillies et al. (2002) state that it is not so important how customers are segmented, but that it is vital that the segmentation complements the business strategy. Companies that have the most successful CRM programs appear to be very selective in their customer segmentation process, which is congruent to their organizational strategy.

Freeland (2002) suggests that organizations must address four critical strategies and understand the key interplay between them:

- Identifying the customer
- Selecting the most appropriate channel to reach the customer
- Receiving the effects on the brand’s value
- Determining the most appropriate CRM capabilities

In a listing of distinct layers or building blocks to reach CRM excellence, Radcliff (2001) ranked Vision and Strategy on top with Technology only next to last out of a count of eight. It is also noted that too many CRM initiatives have an inward focus. The point of CRM is to achieve both, value for stakeholders and customers for a mutually beneficial relationship. Payne (2001, cited by Newell 2003:25) supports the low ranking of technology as he puts the question about CRM processes in a similar order. Strategy is first, followed by the value creation process.

Many executives mistake CRM technology for a marketing strategy and they allow the software vendors to drive their approach to customer management. Yes, CRM systems will lure high-profile customers, but if the system is not congruent with business strategy and based on a sound customer strategy, it will fail over the mid- to long term. (Rigby, 2002)

### **2.2.2 Organizational Culture and Acceptance**

Another basic prerequisite for a successful CRM project is internal support and marketing. The initial customer strategy must be supported through a proper internal business culture that lives the customer relationship philosophy from top-level management to front-of-house staff (Haley, 2003)

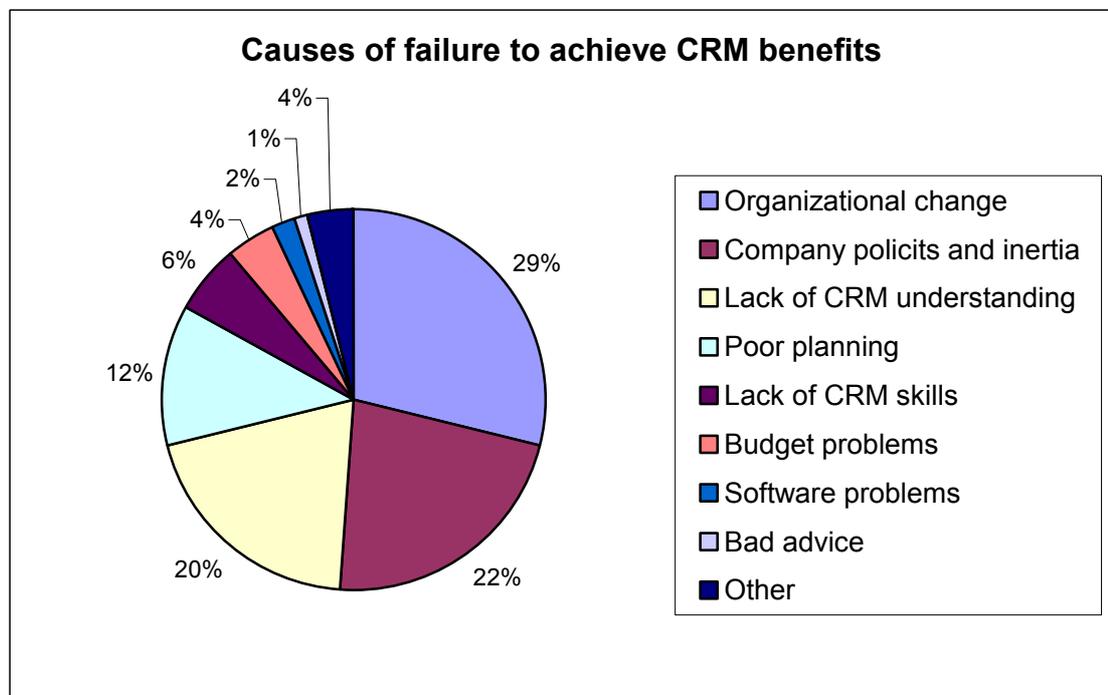
Jarvenpaa and Ives (1991) stated, “few nostrums have been prescribed so religiously and ignored as regularly as execute support in the development and implementation of management information systems”. Many past studies have

shown positive association between executive support and IT innovation success (Rai 1997).

Those findings still apply, as can be seen in a recent study by Gartner, Inc that rated CRM Excellence. The study showed that eleven out of the 16 winners and finalists show strong support from senior executives (Close, 2003). The management set sensible expectations and put heavy emphasis on employee buy-in and collaboration among employees.

A recent study by Forsyth (2002) showed causes for unsuccessful CRM implementation. As it can be seen in Figure 2, software issues are almost evanescent, however company politics and organizational change issues relate to approximately 50 % of failures.

**Figure 2 - Causes of failure to achieve CRM benefits**



Source: CRM-Forum.com July 2002, responses from about 900 CRM practitioners - client-side companies, CRM suppliers and Consultants

Customer Relationship Management does not create a new way of marketing. It upgrades the existing approach, with a more detailed focus on the customer. Dickie (2003) shows that this replacement requires change, which most people are afraid of. Change resistance needs to be addressed in the early stages of the project. 'Southern Companies' can be highlighted as they implemented an employee advisory board to act as an interface between the employees, the project team and the executive level.

Overcoming resistance to change is a widely investigated topic. Early and substantial work can be found by Lewin (1947) who points out that permanent change in behavior is a three-step process: Unfreezing previous behavior, changing, and then refreezing the new patterns. Kotter and Schlesinger (1979) show a more detailed approach, focusing on the key concepts of change. Each of their topics has advantages and disadvantages and can be used interchangeably, based on appropriateness. To overcome employee resistance in the CRM context, one needs to focus on 'education & communication' and 'participation & involvement' (Kotter and Schlesinger, 1997). Addressing resistance to change can be very time-consuming and needs to be approached in the early stages of a project. Education and communication helps people to understand the need for change and leads towards a mutual trust for the project. Participation and involvement is the key to success, as people are likely to accept their own work. However, possible challenges that may be faced are compromises when asking larger groups of employees without any leading decision makers (Thompson, 2001).

Roche (2003) identifies four early people-oriented warning signs:

- No executive support or visibility
- Too many individual projects going on – usually in different directions
- IT-driven or ‘hero culture’
- Not using a system integrator/project consultant

Permanent value audits need to evaluate the above. It is important that the implementation is done in a project-related fashion that combines all thematically related projects into a CRM project management office.

As seen earlier in this research, IT is rated almost last in the failure rate of CRM projects. Does this mean that IT is not important? IT plays a major role, but it should not be the driver of the project. One of the reasons IT has a small failure rate is due to overwhelming lack of strategy; therefore shortages in the software and hardware environment are not identified. It is assumed that IT-sophisticated organizations would have the necessary technological resources to support CRM initiatives (Iacovou et al., 1995). Even if software inefficiencies are found, they can often be traced back to inappropriate business processes. Other failures are seen in internal extensions of transaction processing that fail to provide the analysis and intelligence that deliver value. However those occurrences can be traced back to weak project planning and user expectation management during the design process. (Newell, 2003)

### **2.2.3 Handover to Operations**

Some CRM projects fail during the final stages, when the project is finished and the implementation is handed over to daily operations and line staff. As described above, persistence to change is a key item, which needs to be addressed early in the project to overcome user resistance. In addition some companies go as far as issuing a mandatory CRM use after activating the features and turning off the legacy system (Rigby, 2002).

Whenever the project is closed, external consultants will move on to new projects and internal attendants will move back into their line position. Detailed expertise will not be available for daily operations, unless the corporation plans to implement proper support and management staff for the new procedures. This ideal scenario needs to be planned during the project. Potential candidates should hold strategic positions within the project and receive all their training throughout the project. This ensures first-line information from the people responsible for the implementation project (Wysocki, Beck & Crane, 2003).

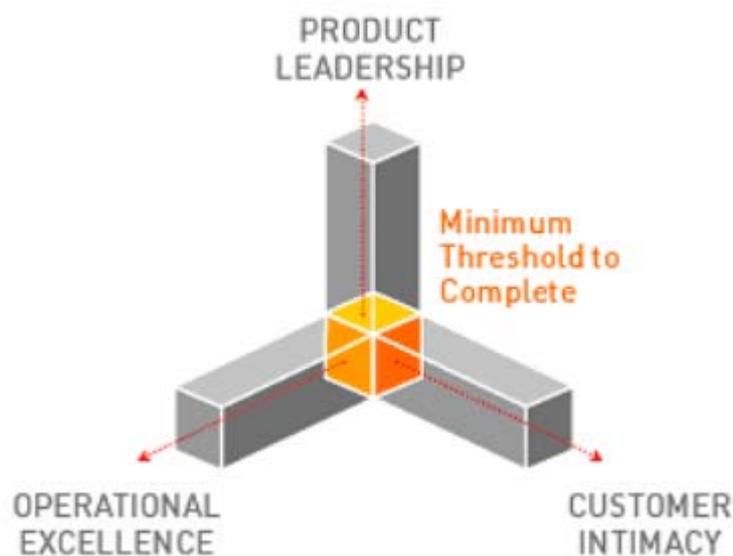
CRM needs to be integrated in the corporate strategy, and the company's leaders need to play a role model in using the system and support of the strategy.

## 2.3 Using CRM to Achieve Competitive Advantage

### 2.3.1 Customer Generic Strategies

CRM can be positioned around Treacy and Wiersema's (1993) value disciplines.

Figure 3 - Treacy & Wiersema's value disciplines



Source: Treacy & Wiersema, *The Discipline of Market Leaders*, Harper Collins 1995, adapted by Gartner

The diagram shows three dimensions of value. Companies need to excel at one dimension, while maintaining threshold standards on the other two. Market leaders typically do so, however, pioneer companies have gone further and mastered two disciplines.

Operationally excellent companies follow a strategy to lead the industry in price and convenience (quality, price and ease of purchase). Many of the hotel chains follow this strategy in their low-budget division. Accor Hotels can be seen as the industry leader, combining quality, low price and ease of access in their Formule 1 and Etap hotels (Jones T, 2000).

Companies that follow a strategy of Customer Intimacy try to shape the products and services to fit the expectation and definition of their customers. Companies focus on long-term loyalty and the lifetime value of customers. Marriott Corporation can be identified as a leader in Customer Intimacy through their strong membership program Marriott Rewards. Marriott benefits from its coverage throughout the world and many members will drive ‘an extra mile’ to stay with their preferred hotel chain. But those returns aren’t for free, which can be seen in Marriott’s \$54 million investment during the launch process in 1996 (Skogland, 2004).

Corporations focusing on product leadership push their products into the realm of the unknown or the highly desirable. Products and quality are constantly reviewed and kept at the leading edge of the industry. Four Season and Ritz-Carlton are two global hotel chains focusing on highest quality. They have an appropriate reputation but constantly need to focus on quality enhancements to live up to customers’ expectations. (Rigby, 2002 / Bowen, 1998)

CRM supports all three of Treacy & Wiersema’s (1993) value disciplines. It is especially strong when focusing on Customer Intimacy (operational and collaborative CRM). Analytical CRM can be the base for product decisions and an Operational Excellence strategy.

### **2.3.2 Customer Intimacy**

Customer Intimacy focuses on relationships with the customer and does not look at a single transaction but on the customer's lifetime value. The corporation builds a relationship with the customer, identifies the customer's needs and wants. Through delivery of those important items the customer becomes loyal. To be loyal, the customer does not need to possess a loyalty card. However it is an identifier and even a status symbol, whenever a customer reaches a high level with any corporation. The airlines invented the loyalty card, but the hotel industry follows very closely. The customer can easily be identified with the card (Power, 2004). With modern integrated CRM systems, a loyalty card is not necessarily a must anymore. The CRM system recognizes the customer and summarizes the preferences and other details, the customer communicated throughout different SBU's (Strategic Business Unit) of the corporation, in the central customer database (Newell, 2003).

In a study by Cornell University (1998) about rating factors intended to engender loyalty, only 27 % of respondents thought that a loyalty program that earns points is important (the survey was conducted with frequent travelers and guests of luxury hotel chains). However, 57 % want the hotel to use information from prior stays to customize services, and 41 % would like to speed up the registration process with previously stored information (Bowen, 1998). Please see Appendix 1 for details on the study.

### 2.3.3 The Loyal Customer

Ever increasing budgets are spent on marketing to bond customers' to individual brands. However, one can see that actual brand loyalty is fading (Freeland, 2002).

**Table 1 - Brand loyalty**

Age	1975	2000
20 – 29	66 %	59 %
30 – 39	73 %	59 %
40 – 49	77 %	60 %
50 – 59	82 %	59 %
60 – 69	86 %	65 %
70 – 79	93 %	73 %

Source: DDB Life Style Study, 2000

The lucrative frequent business travel segment with the age groups between 30 and 59 has fallen an average of 18 %. Some of it can be traced back to an ever-increasing supply of hotels. In the US alone, the number of hotel brands has increased by 35 % with an overall increase of rooms by 45 % between 1990 and 2000. (Matovic, 2002)

**Table 2 - U.S. Lodging Industry Growth 1991 – 2000**

Year	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Brand size (avg. rooms)	13.804	13.746	13.823	14.100	14.217	13.849	13.881	14.201	14.372	14.838
# of rooms	140	144	146	147	150	160	170	177	185	188

Source: Price Waterhouse Coopers 2001, American Hotel & Lodging Association 2001

Research on customer loyalty primarily focuses on customer satisfaction. Not all repeat-purchases come from loyal customers (Bolton 1998). The hotel does not need to focus on all customers with retention and loyalty efforts. Many travelers have no influence in their travel plans, as corporate restrictions and preferred

agreements with specific hotel providers leave them without a personal choice. In this case, the customer relationship is built on the hotel's sales force automation system and the contact is the guest's corporate travel manager. This scenario can also occur vice versa. For some reason, even beyond the hotel or customer's control, loyal and satisfied customers may still switch (Ganesh et al., 2000). Guests can be analyzed through the corporation's data mining tool and put in special segments, whenever they are driven by corporate travel policies. However one needs to keep in mind the positive effect of word-of-mouth marketing that these customers have. A satisfied frequent business traveler is a 'no-cost marketing machine' that has enormous reach (Frabotta, 2000).

#### **2.3.4 Strategic decisions**

A basis for strategic decisions is the proper collection of information, which can be used for further analysis of the guest structure and to identify potential patterns in travel/amenity preferences (Glazer, 1999). This means that companies need to evaluate first what results they want to see, before defining the data loaded into the data warehouse. A major obstacle to effective data mining is inadequate data gathering (Smith, 2001).

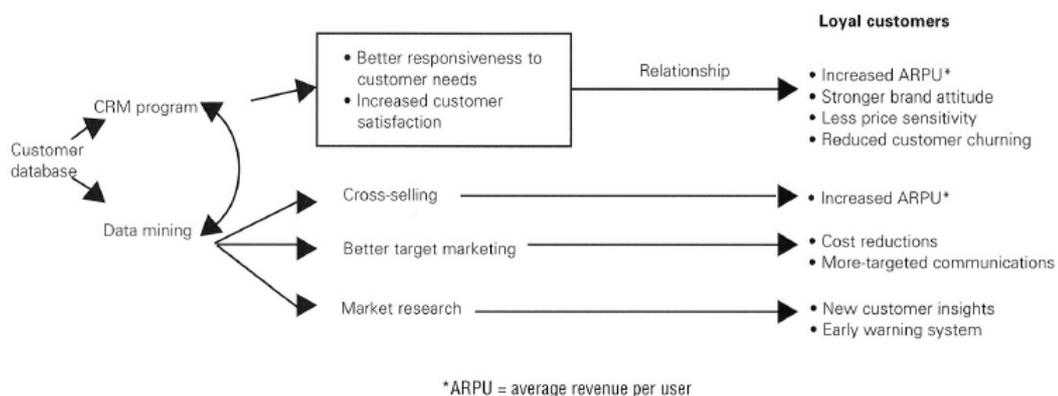
The key information, necessary for detailed analysis, can be summarized as follows (Winer, 2002):

- **Personal data** – address information, memberships, ...
- **Transactions** – This should include a complete listing of stays and reservations, as well as all customer interactions throughout all channels and customer touch points (activity management)

- **Customer Contracts** – This applies more to Sales Force Automation tools and company contracts, in which each customer contact (sales call) is logged and linked to the contract.
- **Descriptive Information** – Additional information for more detailed analysis of the customer (e.g. preferences or complaints => resolutions / semi-automated)
- **Response to Marketing Stimuli** – This part should contain whether the customer responded to a direct marketing campaign, sales contact or any other direct contact.

Data mining on the collected information is a philosophy of its own and requires its own strategy.

**Figure 4 – Database-driven CRM**



Source: Dowling G, CRM: In B2C Markets Often Less Is More, California Management Review, 2002

Data-mining techniques help to reveal relationships and data patterns that can be used to create customer segments (Piccoli et al., 2003). A common statement is that obtaining a new customer is seven times as costly as retaining an existing customer. Having information like the customer's birthday can boost profits, as it

cements brand loyalty. However, a prerequisite is a proper strategy and proper usage of the customer information (Nickell, 2002).

Harrah's Hotels and Casinos discovered that customers who paid \$100 to \$500 accounted for 80 % of the company revenue. This segment only accounted for 30 % of overall guests. In addition, the company saw a \$ 100 million increase from customers that visited more than one property (cross-sells) since the inception of their CRM program in 1997. In 2001, Harrah's ranked first in U.S industry profit growth (Levinson, 2001).

**Effective data mining needs to follow a few guidelines:**

It is important to evaluate if the analysis models are created internally or will be outsourced to second-tier research firms. Outsourcing might be a solution for smaller hotel companies with little internal know-how. Larger corporations normally integrate the analysis. Well-trained staff and IT personnel is required for successful data mining (Magnini, Honeycutt & Hodge, 2003). The most effective projects occur when responsible staff, IT managers and providers collaborate throughout the project and share appropriate information (Brandel, 2001 / Cline, 1999).

As stated by Francese & Renaghan (2003), the CRM system needs to build on selective segmentation and predictive models. The depth of the segmentation between individual hotels and corporate level may differ and several levels can exist. For example, the hotel will be interested in the detailed market code information, such as Group Association Healthcare and Group Association Government, the corporate interest, however, will be about identifying the main

market group, i.e. Association (Shaw, 2001). As more information about customers is available and analytical capabilities are getting stronger, the identification of cross segments, especially targeting psychographics traits, such as personality and lifestyle, can be useful in the hospitality industry (Plog 2001).

**Table 3 - Examples of hotel-guest segmentations**

<u>Geographic:</u>	Nations States Counties Cities
<u>Demographic:</u>	Age or life-cycle stage Gender Income
<u>Psychographic:</u>	Social class Life-style Personlity Behavior Occasion of purchase decision Occasion of use Bereft sought User status (e.g. potential, former, first time) Usage rate Loyalty status Buyer-readiness stage

Source: Kotler P, Bowen J, Makens J, Marketing for Hospitality and Tourism, Prentice Hall, 1999

It is important that the queried information is accountable and that the outcome is accessible in a timely manner. Frequently research requests from individual hotels to headquarters take too long and at the time of delivery it is too late to act on the findings (Stevens, 2001).

There is no definite and fixed approach to a company's data mining activities as it involves a continuous cycle of inputs and outputs. As conditions in the competitive environment change over time, the models must be modified and refined. Flexibility is needed and short decision-making processes support a market-oriented analytical tool (Cline, 1999).

## **2.4 CRM in the Hospitality Industry**

Due to a very specific business handling in the hotel industry, which is usually built around and focused on the PMS system in place, the hospitality industry lags behind when it comes to implementing CRM solutions.

### **2.4.1 The Opportunity**

The perception of many hotel companies is that implementing CRM is very troublesome. Creating and maintaining a high-quality customer database is very costly and the benefits are not guaranteed. A necessary change of the organization's philosophy is very challenging, as people are reluctant to change (Piccoli et al., 2003).

Hotel companies have always tried to keep a close relationship with their customers, but the focus was more on the local relationship between one hotel and the client. Loyal customers stay with a hotel more often and spend more money (Dowling, 2002). Hotel chains introduced frequent traveler programs when the value of loyalty became a topic. CRM seems the next logical step (Reinartz & Kumar, 2002). Through the growth of the Internet, consumers easily find comparable prices and price competition is unattractive (O'Connor, 2003). CRM is a good strategy for hotel companies to differentiate themselves from their competitors (Francese & Renaghan, 1990).

The hospitality industry is perfect for the appliance of CRM principles. A study conducted in 1999 by Arthur Andersen at the New York University showed that already one-third of hotel corporations had a structured data warehouse. 50 percent of the rest were in the planning stage or intended to implement a data warehouse in the near future (Cline, 1999).

However a centralized collection of data does not automatically deliver a comprehensive view of the guest. CRM can only be achieved through highly personalized service at each customer touch-point and only few companies in the hospitality industry appear to have reached this stage (Magnini, Honeycutt and Hodge, 2003).

### **2.4.2 The Challenge**

There are two main challenges for implementing CRM in the lodging industry: A lack of standardization and IT-system integration within each brand or even hotel. This requires heavy focus on interfacing possibilities of the CRM software and the analysis of different processes within each local system.

Secondly, there may be up to three parties holding a stake in an individual property: The owner, the local management company and the brand. The difficulty is the financial responsibility of the implementation, data-ownership and availability (Piccoli et al., 2003).

Accurate data entry and collection is a huge issue at the operational level.

Frequently hotel companies face a data dilemma when investigating the current situation, before starting with data takeover for their new CRM system. It is very

important to clean data first and to start with a clean and credible system. Data problems lead to limited value of the data warehouse, in addition to diminishing the value of proposed models (Shaw, 2001)

There are two major causes for data inefficiency. Firstly, there is missing or inaccurate data. For example, it is difficult to create a profile of the occupation of customers, if there are only few guest records containing this information. The normal time to get data in a (business) hotel environment is during check-in, however, the guests want to finish this procedure as quickly as possible.

Collection of business cards may be a potential solution to this problem (Magnini, Honeycutt and Hodge, 2003). The other major limitation is poorly entered data, which complicates data analysis. Additionally it paints a bad picture of the hotel chain, when direct marketing campaigns are sent to the guests, labeled with incorrect spelling of the name or address. A detailed entry standard needs to be defined regarding formats, text case and redundant codes (Stevens 2001). Some modern CRM systems have semi-automated cleaning processes included to deal with the large number of guest records in internationally operating hotel chains.

As stated by Slutter (2003) automated systems recognize data flaws, e.g.:

- Correct values according to the data domain (set of valid values)
- Related data elements must be correct (e.g. City: Houston / State: TX)
- Proper salutation, based gender and language (Mr. / Mrs.)
- Identification of intelligent dummy values (e.g. Zip: 88888)

However, the better the initial data is entered, the more accurate the automated systems and the greater the overall data quality will be.

## **2.5 What is the Payback of CRM (ROI)**

Measuring ROI in the context of CRM can be very subjective, but it will provide a company with the ability to identify which components of CRM improve customer relations (Dyché, 2001). Many of the CRM implementation decision processes span over a long period of time, as the ROI is not easily visible and a substantial upfront investment is necessary. There is a need to illustrate the real value (Hines, 2002).

### **2.5.1 Short term results**

Return on CRM investment is normally visible over the long term, through improvement in the company's strategic objectives. The recent economic slowdown caused companies to focus more on financial measures and short-term results (Peel, 2002). Especially division and line managers need to show quick payback. The strategy must be strong, especially when divisions fund the project. Line managers who have to measure up to their targets rather invest in personnel and marketing on their existing raw data (McNulty, 2003).

Short-term ROI is hardly measurable in terms of money and the immediate benefits tie back to a customer-oriented strategy. It is sometimes overlooked that a clean data structure, which is normally set during the implementation project, or even beforehand, is the basis for accurate reporting and better results (Schuster, 2002). One of the returns, that is easily and quickly identified is a major saving in mailing costs, as the percentage of undelivered pieces will normally decrease

substantially. In addition, the soft factor of properly spelled names and addresses will raise the company's credibility. Campaign management shows another major factor, that is the ability of marketing staff to pull queries themselves, without any external marketing company or IT assistance (Dyché, 2001). One needs to be careful not to mix up CRM program benefits and ROI. It is important to set KPI's (Key Performance Indicators) in an early stage of the CRM project or even better before the project starts, to get a clear and unsolicited comparison over the legacy process.

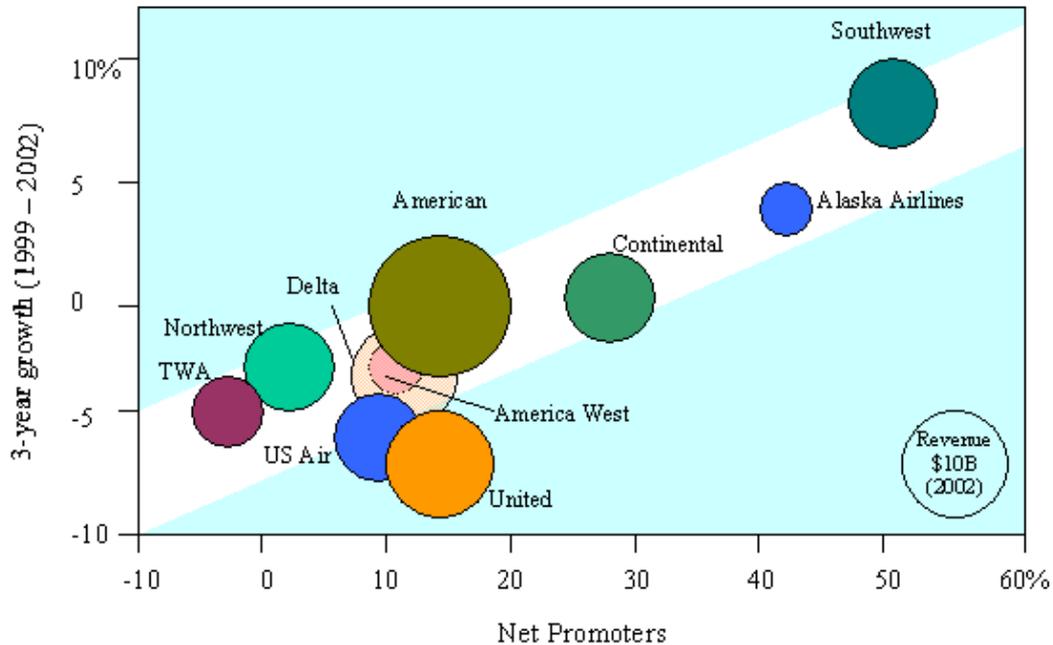
An item, barely considered is the 'opportunity cost' of doing nothing! The company may save money, however the competition is building market share as they have taken the CRM dive and gained an advantage (Lee, 2001). In this scenario the company loses the first-mover advantage and will remain/become a follower, as a CRM approach is becoming a necessity to survive in the lodging industry.

### **2.5.2 Long-Term Benefits**

Long-term benefits of CRM are more oriented towards the interactive part of customer relationship and in the lifetime value of customers. To gain comparable numbers, it is essential to evaluate the existing situation. An important numbers that a company needs to increase is the number of 'Net Promoters'. The net-promoter figure is calculated by subtracting the percentage of guests that are saying they are unlikely to make a recommendation from the percentage of guests that are extremely likely to do so. In most industries, especially in the service

industry, there is a strong correlation between the percentage of Promoters and a company's growth rate (Reichheld, 2003).

**Figure 5 - Growth by Word of Mouth (US Airlines)**



Source: Reichheld, The One Number You Need to Grow, Harvard Business Review, December 2003

Companies that score very high referral rates are eBay and Amazon with their customer-centric models supported by leading-edge technology.

Additional customer care, supported through an integrated profile and activity tracking of the guest, leads to increased loyalty. The end of a hotel stay is especially important, since this is what remains in the customer's recollections. This does not mean that the check-in process can be sloppy, but the guest recognizes if there is an upswing during his stay. Cruise lines are leaders in applying behavioral science as they end each day with a raffle or show and end the cruise with a fabulous captain's dinner (Chase, 2001).

Analytical CRM can be measured in two ways. The soft factor is the increased credibility of reports due to clean and standardized data. The second and hard fact is the time that is saved through automated generation of reports, instead of manual data collection at each SBU (Peel, 2002). The time used for those activities can be measured, to show the savings in labor cost. In addition, the room for human error is minimized with an automated system.

## **2.6 Conclusion**

Given the complexity and large number of related topics, the author will not pretend that the review is exhaustive. The document tries to cover a larger audience, reviewing CRM basics but also specifics such as underlying strategies and application models.

CRM is not new; it is a modern form of marketing and data analysis that became popular with growth of the Internet and a networked world. CRM had a tough start, as the anticipation was that the installation of the software would solve all issues. Many CRM projects failed due to unprepared organizational strategies and lack of employee involvement. Employee integration proved especially critical, since the employees are the actual users of the system. CRM can be placed around Tracey & Wiersema's value disciplines. Especially customer intimacy builds on the bond between the corporation and its customers. However, CRM helps the company to identify valuable customers and to seek trends through sophisticated data mining models. Information gathered, can further be used to proceed with one or more of the described value disciplines.

Return of CRM investment is still one of the grey areas, since only few key indicators are available. It is important to measure processes well ahead of the project start. Short-term benefits and paybacks are often the trigger for a CRM decision. In the longer-term, the return is mainly seen in the automation of processes and knowledge about the market and customer segments. Proper and more targeted campaigns streamline the marketing process and make profitable customers even more profitable.

## **3 Problem and Hypothesis**

This section builds on the literature review but will also highlight the specific issues of the lodging industry.

### **3.1 *The Problem***

The hotel industry automatically collects lots of information about their guests. This does not require a CRM approach, as in many countries the registration process during check-in is mandated by law.

Frequently the decision and implementation for a CRM system is handled as a standard procedure without specific care and investigation. Insufficient research will lead to unqualified decisions and gaps between the hotel corporations' needs and the CRM software provided by the vendor. A piece of software cannot create a customer relationship philosophy within companies. Technology will not drive the change, but a customer-oriented culture can be supported and strengthened by a suitable CRM system. But CRM needs a basic IT infrastructure and technological commitment is barely seen in this industry. Integration between headquarters and the individual hotels is rare and even then, numerous manual steps are involved to exchange and use the data. Hotels are operations-minded and will rather invest in new kitchen supplies than in sophisticated IT systems.

The general problem of CRM in the hospitality industry is a gap between the data collection, data analysis and the output. Those gaps minimize the functionality of CRM systems to simple data collection and storage tools. Campaigns are triggered at hotel level as well as on central level without detailed data analysis. Guests receive numerous marketing materials from different hotels of one chain as well as from the corporate marketing department. If there is no sophisticated central de-duping, guests may even receive several marketing pieces for corporate mailings.

### ***3.2 Research Hypothesis***

This study is built to identify the needs of hotel corporations. The accompanying questionnaire targets corporations that already have an automated CRM process in place, corporations that are in the implementation process, and others that do not have a CRM system in place. Input from both sides will be valuable.

Corporations that do not have an existing system in place or that are currently in the definition phase will indicate, how their decision process is influenced and the key items they are looking for. In this context, the plain system requirements as well as the prerequisites identified in the literature research are covered.

Organizations that do have a CRM system in place will provide information on the key modules and functionalities as well as areas for improvement and application models.

### **3.2.1 Hypothesis**

The hypothesis is deduced from theory and previous research outlined in the literature review:

*“To successfully manage a hotel corporation’s many customers through multiple touch-points and gain competitive advantage, a CRM approach – built around a centralized profile management – must be in place.”*

Practical research will be further analyzed and compared to the stated hypothesis.

### **3.2.2 Further Exploration**

The hypothesis puts the customer in the center of the CRM approach. Everything is built around the guest, and the centrally managed guest profile should be the driver for integration and communication needs.

Reporting capabilities are focused around the guest and hotel corporations are able to identify trends by grouping and segmenting their guest structure. All activities and communication with the guests are linked to one centrally managed profile. This applies to central information as well as to communication triggered through either hotel in the chain. Guest communication also includes complaints from guest side, possible resolution and reaction time. This allows standardized workflows and cross-communication of occurrences in a business unit, with possible effect on others.

The guest profile is linked to operations, but on the other hand, valuable data can be pulled for segmentation and targeted marketing campaigns. The tight integration of data offers easy identification of response rates and revenue generated by activities.

## **4 Analysis and Discussion of Findings**

### ***4.1 Research Objectives***

The fieldwork will build on the findings from the literature research and identify the specifics of the lodging industry. The fieldwork is conducted through an online questionnaire on an international basis, as well as through a discussion of existing CRM users (hotel corporations that use CRM).

### ***4.2 Quantitative Data Analysis***

This section will provide an overview of the individual questions and sections in the questionnaire. Frequency distribution provides both an indication of the number of out-of-range, missing, or extreme values, as well as insights into the central tendency, variability, and shape of the underlying distribution (Malhotra, 1999).

This information provides a good impression for specific variables and forms the foundation for further analysis and comparisons to the qualitative research.

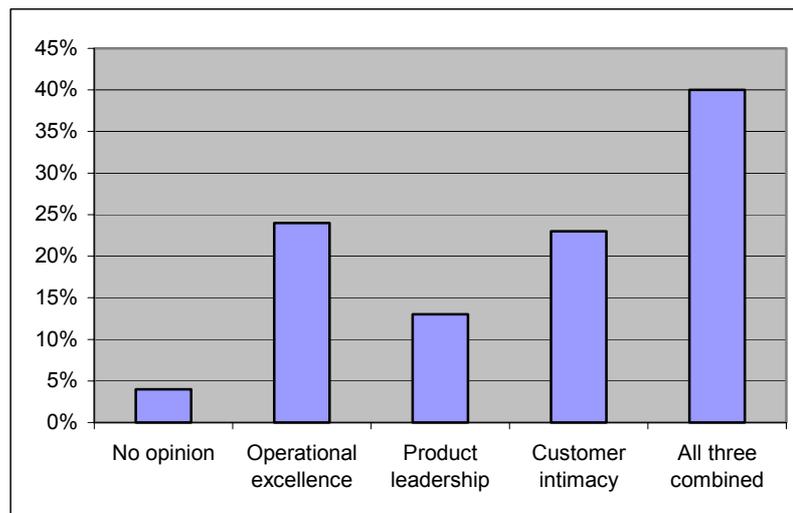
### Section 1 – Personal Details:

As indicated above, 93 % of respondents identified themselves and requested a copy of the study

### Section 2 – Organizational Strategy:

Operational excellence and customer intimacy showed 25 % of responses for each one. However about 40 % respondents indicated that they follow all of the three value disciplines, identified by Tracey & Wiersema (1993). Not having a clear strategy is one of the problems of the hotel industry, regardless of CRM. The result is that hotel companies often get stuck in the middle, trying to satisfy too many needs at once.

Figure 6 - Value disciplines



It is clear to most participants that a CRM system or at least a customer-oriented strategy is a must in business. There might be some exceptions, where the use is dependent on the individual situation. This might be the case for budget hotels, where the only driver is the price.

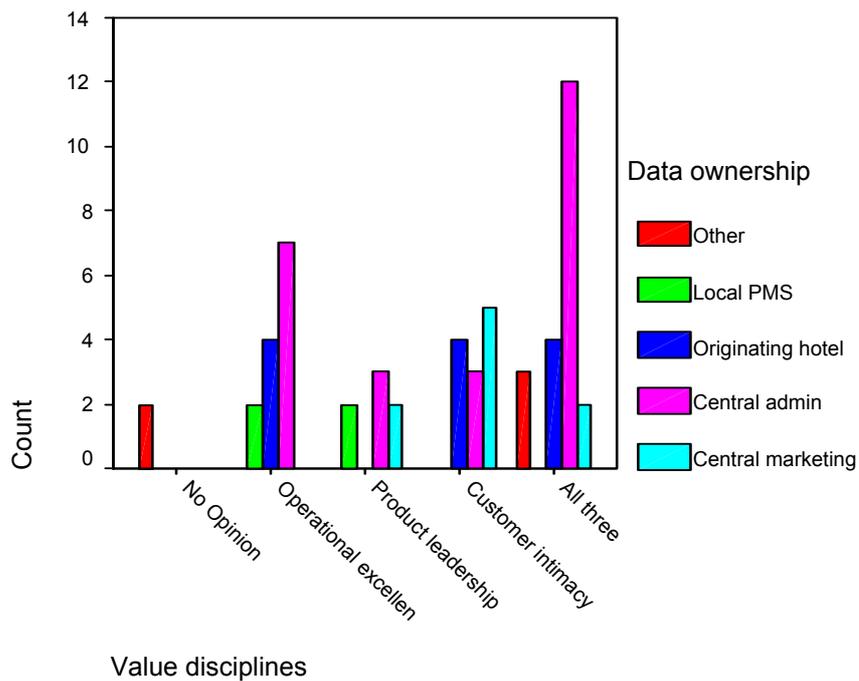
The importance of CRM applications is ranked highest by Central Reservation, followed by Regional Sales Offices and the individual hotel. This clearly indicates that availability at the customer touch-point is higher rated than internal data availability at headquarters and regional management level. Figure 8 shows the mean of the importance of a CRM application to different organizational levels. In this and further analysis, the weighting used ranges from 1 (most important) to 5 (least important) as used in all rating questions.

**Figure 7 - CRM by organizational level**

	N	Mean	Std. Deviation
Importance of CRM - HQ	55	2,00	1,106
Importance of CRM - Regional Mgmt	55	2,11	,994
Importance of CRM - CRO	55	1,65	1,075
Importance of CRM - Regional Sales	55	1,95	1,061
Importance of CRM - Hotels	55	1,93	1,200
Valid N (listwise)	55		

To ensure successful management of a system, an administrator is required. The operational management is seen as task of the central Sales & Marketing department; however, most of the respondents see the ownership of central guest profiles as a duty of the operational administrator. This indicates some uncertainty in responsibilities and might tie back to an unclear organizational structure and strategy. This is supported by a cross-reference with question 1, which indicates that most of the respondents that follow multiple value disciplines actually see the ownership with the central administrator.

**Figure 8 - Cross tab - Value discipline / Data ownership**



### **Section 3 – CRM functionalities:**

Question 8 about CRM functionalities is one of the main key identifiers for CRM requirements and desires. It rates individual CRM modules by importance to the user. The average throughout the following subsections is 4,05. Modules around or above that value are a must have, as those are rated as very or most important.

In regards to guest management the centralized option to manage guest profile is the most important base, followed by supporting modules. The two main accompanying modules are de-duping of guest profiles and system-supported data cleansing. These three items actually build the core functionality to manage profiles successfully and provide a clean starting point for any CRM activity.

A very delicate item that takes CRM to the next level is a mortality list, especially when bulk mailings are sent frequently. It is identified to be important, but needs the other modules to build on.

**Figure 9 - Guest management**

	N	Mean	Std. Deviation
CRM functionalities - Profile mgmt	53	1,26	,524
CRM functionalities - Data cleansing	53	2,04	,999
CRM functionalities - De-duping	53	1,83	1,087
CRM functionalities - Mortality list	53	2,89	1,325
CRM functionalities - Loyalty program	53	2,09	,861
Valid N (listwise)	53		

Guest activity tracking is most important from the operational point of view.

Complaint management in particular is seen critical and rated higher than general customer survey tracking. Research shows that proper problem follow-up and quick resolution actually bonds guests to the company as they proved professional in problem solution and the last activity in the guest's mind has a positive touch.

**Figure 10 - Operations**

	N	Mean	Std. Deviation
CRM functionalities - Guest activity tracking	53	1,75	,731
CRM functionalities - Complaint mgmt	53	1,79	,840
CRM functionalities - Survey tracking	53	2,58	,908
CRM functionalities - Process mgmt	53	2,45	1,011
Valid N (listwise)	53		

Sales & Marketing is looking for an overall solution as every item is rated below average with a maximum of 1,85. When focusing on data mining, the sophisticated approach is more desired than just a basic data mining approach.

Additional items considered are web-based solution, to reduce maintenance and increase ease of use and accessibility as well as MS Office integration.

Surprisingly, user-defined fields are not so important and were mainly rated as

most important by the CRM consultants, as they are aware of the very specific user requests. Some of the existing CRM users may not be aware that some of their special requests may even be incorporated in user-defined fields.

Segmentation for further analysis and use should mainly be on behavioral and psychographic items. From an integration point of view, 50 % of respondents desire a two-way interface between the CRM application and the local PMS, providing detailed stay and reservation information. To 35 % of respondents, a separate entry application would be feasible, if the CRM application were the leading system. 50 % see it as a major obstacle when users need to toggle between applications, as it will minimize system acceptability and therefore eliminate the key-supporting unit, which is responsible for a high percentage of data input.

#### **Section 4 – CRM Objectives:**

The business processes for which organization would apply CRM are mainly guest management, data analysis and marketing management.

The second key question in the survey is question 13, which tries to identify potential return on investment parameters. In return, this will help to identify which applications could best be positioned to address those requirements.

Financial objectives for a CRM implementation and therefore main ROI indicators are an increase in incremental revenue as well as an improved profitability. It seems clear to organizations that CRM is not necessarily a cost saver, especially during the early stages of the project. One of the savings that might be seen the earliest are savings in mailing costs, as the number of return pieces decreases and more targeted mailings can be sent.

**Figure 11 - CRM objectives**

	N	Mean	Std. Deviation
CRM objectives - Increase revenue	53	1,60	,716
CRM objectives - Reduce costs	53	2,66	,939
CRM objectives - Improve profitability	53	1,75	,998
CRM objectives - Process improvement	53	2,34	,898
CRM objectives - Reduced mailing costs	53	2,15	,949
CRM objectives - S&M efficiency and effectiveness	52	1,52	,727
CRM objectives - Increase average customer revenue	52	1,67	,857
CRM objectives - Increase customer profitability	52	1,77	,877
CRM objectives - Increase customer loyalty	52	1,38	,631
CRM objectives - Increase Net Promoters	52	2,23	,899
CRM objectives - Competitive advantage	52	1,71	,848
CRM objectives - Qualified database	53	1,62	,657
CRM objectives - Customer service	53	1,66	,706
CRM objectives - Spread information	53	1,87	,785
CRM objectives - Must-have	53	2,26	1,077
Valid N (listwise)	52		

From a Sales & Marketing perspective, the main interest is on customer loyalty and lifetime value, which actually outperforms financial objectives. The number of Net Promoters does not seem so much of concern even if it is directly linked with loyalty. Only satisfied customers will be loyal and therefore recommend the hotel chain. Concerning internal operations there is also a high interest to be more efficient and effective. This is mainly supported by a clean customer database and clear segmentation as well as ease of data retrieval.

The main operational interest is the above-mentioned clean and accurate customer database. This ensures all guest communication is kept within the guest's one single central profile and therefore accumulated information is available for everybody and can be used to proactively address the guests' desires. Most of the corporations, also existing CRM users have no clear ROI measures in place or the respondent was not aware of any. Only 15 % of respondents indicated that they have clear numbers in place to measure CRM ROI. Potential measures are, for example, reduction in mailing costs.

### **Section 5 – Organizational Background:**

This section was already treated in the chapter discussing main segmentation. It mainly tries to identify if there are different anticipation patterns, which can be cross-referenced to the groups/segments shown in section 5.

### **4.3 Qualitative Data Analysis**

This section will put the answers/discussion points together and try to identify some trends.

#### **What is CRM?**

To start the discussion, a very general question of ‘What is CRM’ was asked. Respondents stated the high failure rate of CRM projects, but linked that high failure rate to lack of organizational culture and strategy. The group shared the opinion that CRM needs to be supported by top management and needs to be lived throughout the organization, from the CEO to the housekeeper. One participant sees the abbreviation of CRM as ‘Customers Really Matter’! It was noted that CRM is actually about the customer and not a self-fulfilling activity.

#### **Organizational strategy / customer focus**

The organizations that already started a CRM implementation asked for some external advice from consulting firms. They are not trying to start with a huge project that cannot show immediate benefits to the organization. It is actually a common approach to implement CRM in phases, with immediate focus on existing information that can be used in the short-term. Quick use and benefit of CRM will ensure employee buy-in and support. The focus is on the individual guest, e.g. through pre-arrival lists or identification of big spenders at other hotels of the same corporation.

One of the main challenges is the integration of different PMS systems and arriving at a data standard, which enables a comparison in a centralized place. The

implementation should be incremental and needs to build on the internal customer strategy, since the piece of software can only support an overall CRM approach, but cannot be the driver of it. When identifying individual guests, the focus needs to be on each guest of the hotel chain, not just the ones that are enrolled in the organization's loyalty program. It was identified that some of the biggest spenders are actually not part of any loyalty program. "Points aren't important to everyone – the experience is!" This means the focus on CRM should target each guest, and the organization needs to spend more effort on servicing customers than spending millions on getting more and more guests enrolled.

Corporations have mixed opinions about third-party channels, like web bookings through Expedia. These providers deliver very limited guest information and make it very hard for organizations to match this guest to a possibly existing profile. Proactive service cannot be provided as guests can't be identified before check-in. Even sophisticated matching and de-duping software is not able to identify dupes based on the name only. This leads back to the question, if customers book on price or on brand? Rate parity and low price guarantees on the hotels' website may drive the customer back to book the brand directly, which has many benefits for the organization. The customer is identified immediately, no commissions need to be paid and excellent service can be provided to the guests, as they are immediately identified.

## **Use and ROI of CRM**

Most of the ROI on CRM comes through increased customer revenue and easier and more targeted marketing access to the customer. However hotel corporations need to be careful not to ‘over-contact’ their guests.

The initial requirement is the agreement of the guest to be contacted this way.

Centralized mailing activities are mainly treated with sufficient care. However one needs to raise this awareness in individual hotels, especially if they have access to a wider guest range through the corporate guest database. It may be very tempting for them to have access to e.g. all golfers that stayed with one of the hotels of the corporation nationwide. With the invention of e-mail, massive customer contacts have become very inexpensive. The corporation needs to put strict guidance in place, in order not to overwhelm customers and give customers the feeling that whenever they are contacted, they receive something really valuable.

Real ROI can also be measured through customer satisfaction and benchmark numbers of the competitive set<sup>1</sup>. For more frequent customers, one could also create a ‘Customer P&L’ to identify the real value of a guest. Similar activities can already be seen in the gaming environment when guest benefits are decided.

## **Future Outlook**

CRM is an ongoing effort and not a one-time software installation. Corporations need to continuously invest in customer communication. One of the main goals is to also reach to customers that do not take part in a loyalty program and provide up-to-date customer information to all touch points. This may include pre-arrival messaging, upselling and customized benefits.

---

<sup>1</sup> Hotels that are in the immediate area and compete for the same guests.

#### **4.4 Summarized Analysis**

Overall, the quantitative and the qualitative research are congruent and point in the same direction. Both approaches complement each other and during analysis, substantial information could be pulled from both sources.

Data ownership is seen at central level and the main benefit of CRM is at central level. However critical information needs to be given back to the hotel as they communicate directly with the customer.

Guest profile management and campaign management were identified as the main items in the qualitative analysis. Their importance can also be seen in the questionnaire result, as these two items have the lowest mean. Profile management has a mean of 1,26 and campaign management of 1,55. The only other functionality that comes close is a centralized data warehouse with a mean of 1,57. This item, also identified in both research approaches, is seen important, as different PMS systems need to be pulled together, and as it forms the base for the above-mentioned modules.

In the qualitative analysis, it was identified that security is a big item for hotel corporations. This knowledge can be used especially for campaign settings. The concern is that individual hotels will simply take the data and blast it off and so over-communicate to customers. Internal focus and the importance of an administrator can be seen in the questionnaire, as approximately 65 % state that a full-time administrator is required to manage the system. This would include setup of user logins and the management of access rights.

Return on investment and objectives of CRM show the same focus on increase in customer loyalty. The focus group identified an important item, that loyalty should not only be measured for loyalty program members, but for all guests. Increase in loyalty has by far the lowest mean of 1,38. Exceeding the guests' expectations can increase loyalty. It does not require a full-blown CRM software to address that item, but a notification of a frequent guest's arrival to the front desk staff may increase awareness. An example would be that frequent guests should not be walked to a different hotel in an oversold situation.

In contrast to the revenue, there is also focus on costs when researching CRM ROI. The item that is most important is the efficiency and effectiveness of sales and marketing activities. This basically summarizes the entire guest communication outside the operational units. The base for cost savings is a clean and well-structured centralized guest-marketing database. Guests have enough unique identifiers like interests and preferred travel locations to ensure proper and targeted communication. Duplication of guest entries are eliminated and the guest profile is up-to date, regardless where the guest communicated a potential address change.

Especially the qualitative analysis shows that immediate payback and benefit is essential to get user buy-in. Benefits need to be given to the hotels in the early stages of the project, as they are the ones communicating with the customers and entering the data. A simple and immediate benefit is a daily list of arrivals, with a column showing the total value of the guest throughout the corporation, and not just production in this one hotel.

## 5 Conclusion

Customer Relationship Management in the Hospitality Industry.

In the literature review, the author investigated CRM in general terms: The history, the prerequisites of CRM, how to use CRM to achieve competitive advantage, and a basic coverage of return on investment. The little academic work available on CRM in the hospitality industry was researched in chapter 3.4. The fieldwork focused on the specifics of the lodging industry. A broad audience was reached with the web-based questionnaire. The survey mainly tried to identify the requirements of hotel companies and their priorities.

Hotel companies participating in the focus groups already have a CRM solution in place or are currently in the implementation phase. Therefore the focus is on current use of the system, return of investment and future strategy. The objective of the exploratory research was to verify the initial hypothesis.

## **5.1 Hypothesis**

In general, the initial hypothesis (Hypothesis 1) can be confirmed, however additional hypotheses will be stated, as identified during the practical fieldwork.

### **5.1.1 Hypothesis 1**

*“To successfully manage a hotel corporation’s many customers through multiple touch-points and gain competitive advantage, a CRM approach – built around a centralized profile management – must be in place.”*

This basic CRM focus was confirmed in both research approaches (quantitative and qualitative). Literature identified the importance of customer intimacy, which focuses on relationships with the customers. Loyalty actually decreases in the marketplace and people are more likely to switch between hotels. Due to multiple customer profiles, duplicated mailings and unqualified customer contact may occur. The importance of centralized profile management was confirmed in the survey, as it was chosen as the most important CRM functionality. Loyalty is the most important objective. The focus group confirmed those findings as the statements point in a similar direction. The hypothesis mentions ‘centralized profile management’. As it turned out, it is important that hotel corporations do not exclusively focus on individual guests and especially on loyalty program members. In many cases, upper class travelers and high-spenders are not interested in another loyalty card. They care more about recognition than loyalty points. In addition to individual guests, centralized profile management must

include all customers of the hotels, including travel agents, companies, airline crews, groups and their members. One respondent from the focus group put CRM in great new marketing terms, stating it as ‘Customers Really Matter’.

### **5.1.2 Hypothesis 2**

The second hypothesis was identified during the practical fieldwork.

*“Hotel companies need to have a customer-oriented strategy and culture throughout the organization, require executive support as well as early acceptance by the hotels, to successfully implement and use a system-supported CRM solution.”*

Automated CRM software is no immediate solution to fix a hotel company’s communication or customer problem. Firstly the organization needs to adapt its strategy and focus on the customer. Hotels need to work with the existing data and then implement a CRM solution to support the customer strategy and culture. Internal support needs to be ensured and top management has to show CRM commitment. It was identified in a survey by CRM-Forum (2002) that more than 50 % of CRM projects fail due to missing strategy.

Many times CRM implementations are central activities, without including the hotels in the decision or RFP (Request for Proposal) process. The solution is centrally decided and individual hotels do not know what they get. However the hotels are the main point of data entry as well as the main point for data output, as they are the ones facing the customers on a daily basis.

The fieldwork identified some shortcomings in this area. Especially the strategy is not entirely clear in all organizations. Hotels want to be everything to the customer, and lose focus on their core competencies. Almost 50 % of respondents pursue all of Tracey and Wiersema's (1993) value disciplines. This unclear strategy is a major barrier for a successful CRM implementation. However, the focus group showed that hotel companies open to external consultants and allow them to evaluate the environment and work on proper CRM prerequisites.

Hotels identified the need for executive support and proper internal marketing of the project. Many times data from the legacy system is used and put in the new CRM strategy to kick-off the project. But to avoid later problems in acceptance of the new system, one needs to plan a proper replacement strategy of the legacy system.

The implementation is planned in phases with the goal to show some benefits to the hotels in the very early stages. Potential approaches are simple centralized arrival lists or a centralized rating of the overall guest value, which provide huge benefit to the hotel with very little central effort.

### 5.1.3 Hypothesis 3

*“Hotel corporations need detailed data from each business unit to build one central database that can be used for chain-wide guest analysis, mailings and reporting. Data needs constant maintenance like de-duping, data cleansing and basic data preparation.”*

Literature review showed the need for one centralized database. In many instances, marketing has a different database than the operational database used by the hotels. This approach faces the danger of multi-contacts to the guests, like multiple birthday cards or irrelevant marketing pieces, offering certain hotel packages or events.

Practical fieldwork confirmed the theoretical review in most terms. However, many times hotel corporations lack detailed specifications and request all data they can get. As a result, hotel chains do not focus on the core information needs, but skim data from all over the place. This in turn increases the number of records to be analyzed and makes the CRM project unmanageable.

Whenever the scope is clear, hotel companies focus on guest management. As confirmed in the focus group, hotel chains identified the value of their centralized guest information and they are aware that it needs to be protected from unauthorized usage. Proper management plans are put in place that send a profile through a pre-defined matching and de-duping process before it is released for centralized mailing activities.

## **6 Recommendation and Closure**

### **6.1 Recommendation**

This dissertation identified necessary activities and prerequisites for:

- a) Hotel companies using or deciding to implement CRM software.
- b) CRM software companies.
- c) Further research on the best CRM approach.

#### **6.1.1 Hotel Companies**

It is essential to bring about a change in the business culture of the hotel company, at the very early stages of a CRM project. External consultants or even CRM implementation/software companies can assist during the transformation. Hotel companies need to open for external advice. The upfront investment for initial consultation will be recouped many times. Proper pre-work ensures a smooth implementation project and better acceptance by the users.

The new customer focus frequently requires a change in existing business procedures. As people are reluctant to change, different business procedures should be decided in project teams, including all parties involved. If user support is guaranteed in the early stages of the project, most CRM projects will succeed. The system does not stand still after implementation, but changes as the market's and customers' requirements are changing. CRM is never done!

### **6.1.2 CRM Software Companies**

CRM software companies need to listen to their customers: the hotels. Often, developers get lost in the worlds of bits and bytes and lose focus of the result. Hotel companies do not care how they achieve the result, but they will care about the quality of the result. As a successful CRM solution is not based on system functionality alone, software companies need to build internal marketing and strategic knowledge or partner with CRM consultants. Periodic focus groups and communication with the customers enables the software companies to adapt to any change in the market. Just like hotel companies, CRM software providers need to be aware that CRM is never done!

### **6.1.3 Further Research**

The hypotheses identified in the study can be used for further research on this topic. It would be especially interesting if there is a measurable difference in guest satisfaction and profit when applying the recommendations. Research could be based on each hypothesis individually. However to find the perfect CRM approach all hypotheses would need to be accepted.

This will conclude this dissertation, but:

“CRM is never done, it is an ongoing effort!”

## 7 Appendix

### Appendix 1 – Ratings of Factors Intended to Engender Loyalty

Feature	N	Top rating (7)	Top two ratings (6 or 7)	Overall mean
The hotel provides upgrades when available.	418	69,4%	94,5%	6,6
You can check in and out at a time that suits you.	417	59,2%	85,8%	6,4
The hotel uses information from your prior stay to customize services for you.	416	57,7%	87,5%	6,4
You can request a specific room.	418	44,7%	71,3%	5,9
Employees communicate the attitude that your problems are important to them.	418	42,6%	79,9%	6,1
When you return to this hotel your registration process is expedited.	416	41,1%	76,9%	6,1
The staff recognizes you by name.	421	39,4%	60,8%	5,6
The staff recognizes you when you arrive.	418	38,3%	63,2%	5,6
If the hotel is likely to be sold out at a time you normally visit, someone from the hotel will call you to ask whether you would like to make a reservation.	379	37,7%	63,6%	5,4
The hotel offers technologically equipped guest rooms so the room can become an office.	415	37,6%	67%	5,7
The hotel has a 24-hour business center.	411	34,1%	60,6%	5,4
The hotel has a frequent-guest program that allows you to earn points toward free accommodation.	406	27,8%	49,2%	4,9
The hotel provides you with occasional gifts.	417	23,7%	48,4%	5,2
When you make your room reservation, the hotel helps you with all other reservations.	403	20,1%	42,4%	5,0
The hotel has a credit card that allows you to accumulate points toward the hotel's frequent-guest program each time you use it.	397	19,6%	24%	4,1
The hotel has connections with individuals or organizations that help you enjoy your stay or be more productive.	389	13,4%	28,1%	4,3
The hotel provides programs for children.	363	8,3%	16,3%	3,0
The hotel sends out newsletters.	406	4,4%	12,3%	3,3

Source: Bowen JT, 1998, Loyalty: A strategic commitment, Cornell Hotel and Restaurant Administration Quarterly, 39(1): 12-25

## 8 Bibliography

### General References:

Abbott J, Stone M, Buttle F, 2001, Integrating customer data into customer relationship management strategy, *Journal of Database Marketing*, 8(4):289-300

Bereron B, 2002, *Essentials of CRM: a Guide to Customer Relationship Management*, John Wiley

Bethlehem J, 2000, The Routing Structure of Questionnaires, *Journal of the Market Research Society*, 42(1):95-110

Bolton RN, 1998, A Dynamic Model of the Duration of the Customer's Relationship with a Continuous Service Provider: The Role of Satisfaction, *Marketing Science*, 17(1):45-65

Bradburn NM, Sudman S, 1999, *Polls and Surveys: Understanding What They Tell Us (Social and Behavioral Science)*, John Wiley & Sons

Brandel M, 2001, Spinning Data into Gold, *Computerworld*, 35(13):67

Brendler WF, 2002, Executive Guide to CRM, OFDA Dealer Strategies Conference & Expo, October 2-4, 2002

Chase RB, Dasu S, 2001, Want to Perfect Your Company's Service? Use Behavioral Science, *Harvard Business Review*, Reprint R0106D

Churchill GA, 2001, *Marketing Research: Methodological Focus – 8<sup>th</sup> Edition*, South-Western College Pub

Close W, Eisenfeld B, Thompson E, 2003, CRM Award Winners/Finalists Provide Valuable Lessons, *Defying the Limits*, 4:52-53

Dickie J, 2003, Key Factors for Optimizing CRM Project Success, *Defying the Limits*, 4:59-61

Dillman DA, 2000, *Mail and Internet Surveys: The Tailored Design Method*, John Wiley & Sons

Dowling, G, 2002, Customer Relationship Management: In B2C markets, often less is more, *California Management Review*, 44(3):87-104

Dyché J, 2001, *The CRM Handbook: A Business Guide to Customer Relationship Management*, Addison-Wesley Professional

Fink A, 1995, *How to Ask Survey Questions*, Sage Publications

Fletcher K, 2003, Consumer power and privacy: the changing nature of CRM, *International Journal of Advertising*, 22(2):249-272

- Freeland JG, 2002, *The Ultimate CRM Handbook*, McGraw-Hill,
- Forsyth R, 2001, Six Major Impediments to Change and How to Overcome Them in CRM (and Politics), CRM Forum, June 11, 2001
- Ganesh J, Arnold MJ, Reynolds KE, 2000, Understanding the Customer Base of Service Providers An Examination of the Differences Between Switchers and Stayers, *Journal of Marketing*, 64:65-87
- Gillies C, Rigby D, Reichheld F, 2002, The story behind successful customer relations management, *European Business Journal*, 14(2):73-77
- Glazer R, 1999, Winning in Smart Markets, *Sloan Management Review*, 40(4):59-69
- Greenleaf E, Winer R, 2002, Putting the customer back into Customer Relationship Management, *Advances in Consumer Research*, 29(1):357-360
- Hanssens DM, 2002, Information-driven marketing strategy, *International Journal of Medical Marketing*, 2(3): 219-224
- Iacovou CL, Benbasat I, Dexter AS, 1995, Electronic data interchange and small organizations: Adoption and Impact of Technology, *MIS Quarterly*, 19(4):465-485
- Jain R, Jain S, Dhar U, 2003, Measuring Customer Relationship Management, *Journal of Services Research*, 2(2):97-109
- Jarvenpaa SL, Ives B, 1991, Executive involvement and participation in the management of information technology, *MIS Quarterly*, 15(2):205-227
- Jobber D, O'Reilly D, 1996, Industrial mail surveys: techniques for inducing response, *Marketing /& Intelligence Planning*, 14(1):29-34
- Kennaugh C, 2002, Measuring the Return on Investment of CRM, *Defying the Limits*, 3:103-106
- Kinnear TC, Taylor JR, 1987, *Marketing Research - An Applied Approach: Exercises in Marketing Research*, McGraw-Hill Companies
- Kotler P, 2000, *Marketing Management – The Millennium Edition*, Prentice Hall
- Kotter JP, Schlesinger LA, 1979, Choosing strategies for change, *Harvard Business Review*, 2
- Lee K, 2001, Building competitive success into your brand through differentiated customer care, *Internet World*, December 13, 2001
- Lewin K, 1947, Frontiers in group dynamics: concept, method and reality in social science, *Human Relations*, I
- Malhotra NK, 1999, *Marketing Research: An Applied Orientation*, Prentice Hall

- Malhotra NK, Birks DF, 2002, Marketing Research: An Applied Approach, Prentice Hall
- Martin W, 2002 and 2003, CRM – Strategic Bulletin, S.A.R.L – Annecy
- McKim B, 2002 The differences between CRM and database marketing, Journal of database marketing, 9(4):371-375
- McNulty E, 2003, They Bought In - Now They Want to Bail Out, Harvard Business Review, 12:28-38
- Miller S, Read G, 1998, The ESOMAR Handbook of Market and Opinion Research, ESOMAR
- Merihue J, 2002, Marketing by the Numbers: How to Optimize Marketing ROI, Defying the Limits, 3:184-189
- Newell F, 2003, Why CRM Doesn't Work: How to Win by Letting the Customer Manage the Relationship, Bloomberg Press
- Oppenheim AN, 1996, Questionnaire Design, Interviewing and Attitude Measurement, Pinter Pub Ltd
- Peel J, 2002, CRM - Redefining Customer Relationship Management, Digital Press
- Plakoyiannaki E, Tzokas N, 2002, Customer Relationship Management: A capabilities portfolio perspective, Journal of Database Marketing, 9(3):228-237
- Porter ME, 1996, What is strategy?, Harvard Business Review, 6:61-78
- Power Aileen, 2004, Where should your loyalty lie?, Sunday Business Post, Jan 18
- Prahalad CK, Katzenbach JR, Chase S, 2002, Customer Relationship Management, Harvard Business Review, Harvard Business School Press
- Radcliff J, 2001, Eight Building Blocks of CRM: A Framework for Success, Gartner, Inc., 12:2
- Rai A, Bajwa DS, 1997, An empirical investigation into factors relating to the adoption of executive information systems: An analysis of E'IS for collaboration and decision support, Decision Sciences, 28(4):939 - 974
- Reichheld F, 2003, The One Number You Need to Grow, Harvard Business Review, 12:46-54
- Reinartz W, Kumar V, 2002, The Mismanagement of Customer Loyalty, Harvard Business Review, 7:86-94

Rigby D, Reichheld F, Schefter P, 2002, Avoid the Four Perils of CRM, Harvard Business Review, 2:101-109

Roche E, 2003, Avoiding CRM Program Failures To Truly Design Around the Customer, Defying the Limits, 4:64-66

SalesLogix, 2001, Fast ROI in Mid-Market Customer Relationship Management Solutions, CRM Project, 2

Saunders M, Lewis P, Thornhill A, 2003, Research Methods for Business Students – 3<sup>rd</sup> Edition, Prentice Hall

Schuster R, 2002, Creating the Business Case for CRM: An Approach That Works, Akibia Consulting

Shaw M, Subramaniam C, Tan G, Welge M, 2001, Knowledge Management and Data Mining for Marketing, Decision Support Systems, 31(1):127-137

Slutter L, 2003, Wanna save some money? Get rid of bad data!, Teradata

Smith M, 2001, Refining Raw Data, Printing Impressions, 43(9):36-37

Starkey M, Woodcock N, 2002, CRM systems: Necessary, but not sufficient. REAP the benefits of customer management, Journal of Database Marketing & Customer Strategy Management, 9(3):267-275

Stevens L, 2001, CRM Analytics – CRM by the Slice – Running Analytics is Expensive, so Companies Are Focusing on Areas with Customers, Internetweek, April 9:35-38

Stevens L, 2001, IT Sharpens Data Mining Focus – Instead of Building Data Mining Applications with No Clear Goal Companies Are Setting Priorities up front to Maximize ROI, Internetweek, August 6:29-30

Thompson JL, 2001, Strategic Management – fourth edition, Gray Publishing

Treacy M, Wiersema F, 1993, Customer Intimacy and Other Value Disciplines, Harvard Business Review, Reprint 93107

Treacy M, Wiersema F, 1995, The Discipline of Market Leaders, Harper Collins

Webb JR, 2002, Understanding and Designing Marketing Research – 2<sup>nd</sup> Edition, Thompson Learning

Wild R, 2002, Operations Management, Continuum

Winer RS, 2001, A framework for customer relationship management, California Management Review, 43(4):89-106

Woodcock M, Stone M, Gentle M, 2002, The Customer Management Scorecard: Managing CRM for Profit, Kogan Page

Wysocki RK, Beck R, Crane DB, 2003, Effective Project Management, John Wiley & Sons

Yurong X, David CY, Binshan L, David CC, 2002, Adopting customer relationship management technology, Industrial Management + Data Systems, 102(8/9):442-452

### **Hospitality Industry References:**

Bowen JT, Shoemaker S, 1998, Loyalty: A strategic commitment, Cornell Hotel and Restaurant Administration Quarterly, 39(1): 12-25

Breffni M, Sheryl E, Renaghan K & L, 2003, Integrating customer relationship management and revenue management: A hotel perspective, Journal of Revenue and Pricing Management, 2(1):7-21

Cline RS, 1999, Hospitality 2000 – The Technology, Lodging Hospitality, 55(7):18-26

Frabotta D, 2000, Getting to know all about you, Hotel and Motel Management, 2:30-32

Francesce PA, Renaghan LM, 1990 Database Marketing: Building Customer Profiles, Cornell Hotel and Restaurant Administration Quarterly, 31(1):60-63

Haley M, Watson B, 2003, The ABCs of CRM, Hospitality Upgrade – The Technology Source, 02(2/3), 03(1)

Jones T, 2000, Worldwide Travel Bargains, Transitions Abroad Magazine, XXIII (1/2)

Kotler P, Bowen J, Makens J, 1999, Marketing for Hospitality and Tourism, Prentice Hall

Levinson M, 2001, Harrah's Knows What You Did Last Night, Darwin Magazine

Magnini VP, Honeycutt ED, Hodge SK, 2003, Data mining for hotel firms: Use and limitations, Cornell Hotel and Restaurant Administration Quarterly, 44(2):94-105

Matovic D, 2002, The Competitive Market Structure of the U.S. Lodging Industry and its Impact on the Financial Performance of Hotel Brands, Doctor of Philosophy, Faculty of the Virginia Polytechnic Institute and State University

Nickel JA, 2002, Welcome to Harrah's, Business 2.0

O'Connor P, 2003, On-line pricing: An analysis of hotel company practices, Cornell Hotel and Restaurant Administration Quarterly, 44(1):88-96

Piccoli G, O'Connor P, Capaccioli C, Alvarez R, 2003, Customer Relationship Management – a driver for change in the structure of the U.S. Lodging industry, Cornell Hotel and Restaurant Administration Quarterly, 44(4):61-73

Plog S, 2001, Why Destination Areas Rise and Fall in Popularity, Cornell Hotel and Restaurant Administration Quarterly, 42(3):13-24

Shoemaker S, Bowen JT, 2003, Loyalty: A strategic commitment, Cornell Hotel and Restaurant Administration Quarterly, 44(5/6):47-52

Skogland I, Siguaw JA, 2004, Understanding Switchers and Stayers in the Lodging Industry, CHR Reports, 4(1)

### **Websites:**

American Hotel & Lodging Association, Available from: <http://www.ahma.com/>

InsightExec, Available from: <http://crm.insightexec.com/>

Oberkamp F, 2003. Origin of CRM [online]. CRMGuru.  
Available from: <http://www.crmguru.com> [Accessed 22 December 2003]

PriceWaterhouseCoopers - Hospitality & Leisure, Available from:  
<http://www.pwcglobal.com/Extweb/industry.nsf/docid/A475490CED245E078525675F006C114A>

Hines M, 2002, Gartner: ROI calculation isn't simple, but it is important for CRM, Available from: <http://searchcrm.techtarget.com/> [Accessed January 3 2004]

## 9 Glossary

CRM	Customer Relationship Management
ERP	Enterprise Resource Program
KPI	Key Performance Indicator
RFP	Request for Proposal
ROI	Return on investment
SBU	Strategic Business Unit – in this context a hotel or independent outlet

### **The author:**



Wolfgang Emperger leads Serenata's Technical Project Management Team. The focus and interest of the author aims towards strategic direction and business development within the hospitality industry. A specific focus is put on state-of-the-art CRM solutions and consultancy.

The author can be contacted via e-mail:

[WEmperger@serenata.com](mailto:WEmperger@serenata.com).