



Getting personal

Who are your customers?

What do they need today? What might they need tomorrow? How will you keep them satisfied? Is satisfaction enough? What can you do to ensure they keep coming back to you time after time?

The ability to answer these questions is more vital than ever in today's competitive landscape. Estimates suggest that it is up to ten times more expensive to acquire a new customer than to retain an existing one. Building customer loyalty is not only the basis for repeat business, but also a means of broadening offerings, and cross-selling services. For a mature business customer retention is the key to increased profits.

Far-sighted tourism & leisure operators go beyond instant gratification to embrace the lifetime value of their customers. Evidence suggests that such companies are better prepared to withstand economic downturn, and the impact of shock events such as 9/11. Saga, the over-50's travel specialist

with a famously loyal customer following, managed to buck industry trends by posting a significant profit increase during the turbulent year of the SARS crisis and Iraq war.

In this article we discuss some of the reasons why it is now more crucial than ever, and also more difficult than ever, to identify and build strong relationships with the customer. We also consider some of the means by which companies in our industry might do this.

Tourism and leisure, fuelled by the growth of broadband, is one of the fastest growing e-commerce sectors. Attention has focused on the battle between operators and

intermediaries for supremacy in cyberspace. Meanwhile, it is clear that technology is shifting the balance of power in the direction of the customer.

Armed with a wealth of information, travel and leisure shoppers are able to compare offerings and prices as never before, and to make purchases from the comfort of an armchair. New "meta-search" engines like Kayak and Sidestep make this even easier by trawling the Internet in search of the best deals.

Web-savvy customers are also making increasing use of the internet to share feedback on tour operators, hotels and visitor attractions.

“In 2005 there will be 21 million fewer nuclear families (married couples with kids) in western Europe than 1995”. (Datamonitor)

“Around 95% of advertising is aimed at under-35s, but the majority of wealth and assets is held by people aged between 50 and 65. The UK's over-50s spend over £240bn a year, which amounts to over 40% of consumer spending”.

(Help the Aged)

“There will be over one billion internet users worldwide by the end of 2005”.

(eT forecasts)

“For the first time ever more leisure travel dollars in the US will be spent online than offline in 2005. In the US, some \$66 billion, or 58%, of leisure travel will be purchased online in 2005”.

(PhoCusWright).

Consumer review websites are fast becoming a first port of call for would-be shoppers.

The impact of new technology, by vastly increasing customer knowledge and choice, is likely to make consumers more demanding, more critical, and more fickle than ever before. And therefore harder to retain.

For the tourism and leisure sector, these changes will accelerate many of the long-term trends that are already re-shaping the industry, and subtly altering the identity of its customers.

Decline of the mass market

Individual purchasing decisions form a pattern of buying behaviour over time. These decisions emerge from a complex melting pot of social, cultural and economic influences.

For many years the travel & leisure industry designed products for a relatively stable customer base, in which familiar, identikit offerings could be targeted at broad social categories. This was typified by the standard 7 or 14 day beach package holiday, aimed squarely at the average nuclear family with two parents and two point four kids.

Hotels, resorts, restaurants and pubs had clear-cut demographic profiles. Leisure activities were mapped to static social groups. Football was predominantly male and working class; museums and art galleries middle class, and so on.

Marketing techniques made use of relatively crude profiling, based on broad age bands and social categories such as ABC1s. It was easier to know who your customer was in the old days.

To claim that all of this has now changed would be a gross exaggeration. The “mass market” customer still exists and will continue to be the lifeblood of many companies.

As a leading tour operator recently commented: “If you listened to some reports, you’d think that everyone wants to live in a tent in Outer Mongolia eating dried yak meat for a month...but our customers are looking for something more familiar!”

Nevertheless, figures suggest that the mass market is shrinking year after year, while real growth lies elsewhere.

Many commentators agree that contemporary western society is in a process of fragmentation, in which long-established identities are being broken down and re-fashioned.

Mega Trends

A wave of new “mega-trends”¹ is beginning to converge, creating new kinds of customers. Unfortunately, the identities of these customers are likely to be far more complex and changeable than ever before. Some of the key mega-trends and their implications for operators are as follows:

Age confusion. Children grow up faster, but adults behave younger. Over-50s prefer safaris to sewing. 10 year olds want hotel rooms with Wi-Fi and i-Pods. “Young fogies” go on caravan holidays, visit bingo halls, and play Scrabble in bars. Thirty-something “adultescents” read Harry Potter and seek out the latest white-knuckle rides.

The “grey” market is an untapped goldmine, but fraught with difficulty. Thomson Holidays used the “Young at Heart” brand for 20 years, but abandoned it when feedback showed the age group felt patronised by this description.

Gender confusion. Traditional roles are blurred, as women gain economic power and have fewer children, while men take an active role in parenting and become more fashion-oriented. Bars and sports teams may target women, while spas may target men.

Lifestages. Declining birth rates, increased longevity and change in gender roles mean that conventional lifestages are delayed or skipped altogether. Travel and hospitality operators have to cater for more singles, older people with young children, as well as family structures where divorce, remarriage and step-children may produce complex age combinations.

Luxury and budget. Customers can’t always be slotted neatly into spending categories according to income. Evidence shows a growing trend towards economising in some areas, whilst splurging in others. Travellers may fly no-frills, but upgrade to a luxurious hotel.

Comfort and security. Enthusiasm for interior decoration, cookery and garden design, and the popularity of pampering activities, form a trend towards “cocooning”. Alongside this goes an increased need for security in the uncertain post 9/11 world. Hotel operators introduce more home comforts and design principles in their rooms, and deploy biometric technology to increase guest security.

Connectivity. The decline of the nuclear family creates a desire for new forms of social belonging, which can take highly diverse

forms ranging from the rising popularity of book groups, to the huge success of websites like www.friendsreunited.com. Some resorts are turning to the village concept popular with retail malls and mixed-use developments. The 21-acre The Ritz Carlton, Lake Las Vegas has created an urban-style resort with a retail village, featuring a casino, office space, luxury condominiums, shopping, restaurants, and pedestrian promenades.

Getting Personal

Once people derived their identities from the cohesive groups to which they belonged: ties of family, company, community, class, and gender. Now they are more likely to see themselves as individuals. Shopping and leisure choices reflect this and are creating an ever increasing demand for personalised services. This trend lies behind the emergence of boutique hotels like InterContinental Hotels Group's Indigo and Choice's Cambria.

The challenge for big companies is to provide the level of personalisation customers want on a mass scale. Many customers react against the global uniformity of a McDonalds and seek something more "authentic". Some hotel operators may choose to create an experience of personal choice by offering a variety of brands in the same complex.

Meanwhile, the Internet and individualisation march hand in hand. The rise of Dynamic Packaging in the travel industry shows how technology can transform a mass market product into a customised one that appeals to the independent mind-set of today's shopper.

Work & play

The 1980's slogan "work hard, play hard" has come to fruition. Working hours are longer than ever. Demand for leisure services continues to grow fast as customers seek to balance work pressures with recreation. However traditional boundaries between the spheres of work and leisure are becoming blurred. Technology is eroding the difference between workplace and home space, as mobile phones and BlackBerries enable people to work anywhere, anytime.

Marriott's hotel rooms illustrate how hotel operators are catering for a new generation of travellers whose trips are equal parts work and play, and who yearn for the comforts of home even when they're thousands of miles away. According to a Marriott spokesman, "People sit on their beds, laptop open, with a glass of wine, TV on in the background. If you watch them, it looks like work and relaxation together."²

The Experience Economy

Customers crave a new intensity of experience and want to have stories to tell their friends, whether by jetting off on weekend city breaks, visiting exotic destinations or sampling the latest exercise craze for Pilates or pole-dancing. Companies like Lastminute.com are capitalising on this appetite for new horizons and spontaneity.

The creation of memorable experiences may hold the magic key to building relationships with customers. Some analysts have gone as far as to say we are entering a new economic phase: the "experience economy." According to this view, just as developed societies have moved from the manufacturing to the service phase, the next stage will be the transformation of services into high-value experiences.

Economists like Gilmore and Pine in the US argue that stimulus-hungry consumers are growing bored with mass-produced services that have turned into price-driven commodities. They argue that the future economy will be based on providing customers with a unique experience for which providers can charge a higher price.³

Companies become "experience stagers." Disney, one of the most successful operators in our industry, has been trailblazing this approach for many years. But not all companies have to open theme parks. The Starbucks phenomenon typifies this process. More than just a cup of coffee, Starbucks' success is based on the successful staging (at premium price) of an experience which combines comfort, a hip ambience, tasteful surroundings and technology.

It is hard to accept that price will no longer be a key factor in selling future services (the airline and fast-food markets suggest otherwise). However the idea of the "experience economy" is one that the industry should be able to successfully leverage in building strong customer ties. Tourism & leisure companies trade in the stuff of dreams, pleasure and entertainment. It ought to be far easier for them to create memorable experiences, than for, say, financial service providers.

Technology & imagination

When it comes to tracking the complex needs of customers, and cementing strong relationships, there is no single approach that is going to meet all requirements. A creative combination of "hard" and "soft" techniques, of technology and imagination, is likely to yield greatest success.

The online travel boom is leading to a huge growth in the amount of customer

"Per capita consumption of alcoholic drinks among UK women increased 27% between 1998 and 2003".

(Datamonitor)

"In 1971, more than half of us (53%) lived in households of four people or more. By 2003, that figure had fallen to just over one third (37%). A quarter of all children now live in one-parent households".

(UK Office for National Statistics)

"60% of young men aged between 20 and 24 are now living with their parents. In 1991, only 50% of men in the same age group were living at home".

(UK Government)

"UK package holidays, as a proportion of total overseas holidays sold, fell from 55% in 2004".

(Mintel)

transaction data available for storage and analysis. Indeed, the battle to control this knowledge is a key part of the power struggle between supplier and intermediary. The anticipated rise in RFID usage will lead to the further rise of this information mountain.

This growth is leading to a renewed interest in Customer Relationship Management (CRM) software. In the wake of the post 9/11 downturn many companies scaled down strategic investment in CRM systems. However CRM sales are now on the rise again, as software begins to move towards the next stage of sophistication, the generation of deep insights into customer behaviour and predictive analysis.

Big ticket operators endeavour to re-create the intimacy of the village pub on a mass scale. CRM offers a way of capturing knowledge of customer needs, and offering large-scale personalised service based on this knowledge. Behaviour patterns can be tracked over time, and used to cross-sell or up-sell as appropriate. CRM also allows companies to identify their most lucrative, "high value" customers, and to prioritise them with loyalty programs and red carpet treatment.

A pioneer approach has been Harrahs' Winners Information Network (WINet). The database provides an integrated, nationwide system that allows real-time communication between all Harrahs' casinos. Sales reps are armed with critical information about every customer's tier (platinum, gold or diamond), as well as their eating and spending preferences. The same customised service can be offered regardless of whether the customer is visiting New Jersey or Las Vegas. CRM has enabled Harrah's to develop segmentation and marketing programmes around the expected lifetime value of each customer. When customers walk in, Harrah's staff greet them by name and reward them for returning. The most profitable visitors are tempted back with lavish promotions.

Emotional connections

Innovative companies incorporate lifestyle preferences in their online customer interactions. US hotel operator Joie de Vivre Hospitality uses its "Hotel Matchmaker™" tool, which guides customers through questions about their personal tastes, interests and personalities before matching them up with an appropriate hotel, suggested itinerary, and local activities. Joie de Vivre aims to make the customer's web experience as uniquely memorable as the actual stay.

Ultimately the most successful companies will build loyalty through the creation of highly differentiated experiences. An attention to detail is important, as in the identification of "high impact moments". Starwood developed its iconic "Heavenly Bed" to satisfy one such moment for weary business travellers — the feeling when they first collapse onto the duvet. Such moments can engender emotional connections which are highly effective in winning repeat business, and word-of-mouth recommendations.

In developing these experiences companies need effective customer feedback loops. But the new buzzword on the block is "co-creation." This goes way beyond traditional feedback to engage customers in new creative ways, from participating in advertising, to having input into the actual design of products and experiences. The interaction between company and customer becomes not just the place where value is extracted, but also where it is created.⁴

Companies and customers may even form web-based virtual communities around a particular destination or activity. For example, tour operators may seek to partner with increasingly popular online travel blogs like MyTripJournal.com.

This may be blue-sky thinking, and more of a future possibility than a present reality. What is beyond doubt is that today's operators need to develop business models that are much more customer-centric than in the past.

This might mean maximising customer lifetime value by developing a suite of niche brands, through which the same guests can progress, as Starwood is doing with its W Hotels for a hip 20-plus age group, Westin for travellers in their 30s and 40s, and St. Regis for affluent older travellers.

It might also mean shifting the focus of strategy from winning market share to increasing share of a customer's wallet, turning low-value into high value customers and rewarding them as operators like Harrah's have done.

It might even mean creating the executive role of Chief Customer Officer as a focus through which compartmentalised business lines can be channelled, as Delta Airlines, and many consumer goods firms have done.

It will certainly mean importing new thinking from senior management in the Fast Moving Consumer Goods (FMCG)

sector as InterContinental and Starwood have done, as the focus shifts from managing assets to managing customer-led brands.

The old boundaries between operators, distributors and sellers are dissolving, and it has been said that now "everyone is a retailer."⁵ This means that everyone is now customer-facing. Those who use this as an opportunity to build long-term loyalty will enjoy the rewards. Those who don't may find customers voting with their feet. Or more likely with their mouse-clicks. ●

1 Datamonitor, Global Consumer Trends, July 2004.

2 Michael Jannini, executive vice-president lodging brand management, Marriott (New York Times 11th March).

3 Gilmore and Pine, The Experience Economy, 1999 etc.

4 Prahalad and Ramaswamy, The Future of Competition, 2004.

5 "Everyone is a retailer", Deloitte Research Consumer Brief, May 2004.

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