

Monetizing ethical innkeeping

by Robert Cole 

In the hotel business, technology is not only something that improves efficiency or makes the guests' stay more enjoyable. Occasionally, it can also pose ethical dilemmas for innkeepers as well, particularly when it comes to the question of pricing. Robert Cole, founder of the consultancy RockCheetah, walks us through the issues.



E. M. Statler launched the modern hotel era with two celebrated quotes: “Life is service” and “The guest is always right.” Guest satisfaction was the focus of a Statler property.

Guest satisfaction is a leading driver of guest loyalty, which in turn translates into lifetime customer value – the holy grail of marketing objectives. Trust is essential for guest loyalty. Ethical innkeeping embraces policies that provide transparency, sustainability and accountability – the foundational factors for trust.

Today, many hoteliers operate multi-million dollar businesses with intense pressure applied by multiple, sometimes conflicting, constituencies:

- Hotel owners demand profit growth – particularly during periods of economic growth
- Management companies want to leverage big data to provide highly personalized offers
- Intermediaries demand special rates or higher commissions in exchange for booking volume
- Guests demand value and satisfaction

As a result, hoteliers may be motivated to rationalize Statler’s principled goals and make rules to capture short-term hotel profits. Avoiding practices that defy conventional wisdom or require guests to read fine print is the first step toward monetizing ethical innkeeping. Drip pricing that attracts guests with low “lead-in” rates, but adds mandatory fees at a later point is a guest-hostile practice that inhibits trust.

J.D. Power's 2012 Guest Satisfaction Index observed several major dissatisfiers among hotel guests:

- Charging guests more and providing less is not a winning combination
- Hotels that charge extra for Internet access are perceived as taking advantage of guests
- Rolling Internet charges into a generic "resort fee" heightens resentment among hotel guests

Exceeding guest expectations represents the greatest opportunity, with the key being relevant guest interactions. In 2013, J.D. Power identified staff engagement as a key differentiator for guest satisfaction:

- Overall satisfaction is highest among guests who interact with four or more staff types (excluding registration.)
- Hotels should never underestimate the power of the human element... the people aspect plays a key role in guest satisfaction and loyalty.

Today's hotel guest shares information through social networks and hotel review sites. As a result, guest satisfaction levels are highly amplified. Cornell School of Hotel Administration professor Chris Anderson assessed the impact of hotel reviews (another metric for satisfaction) on hotel performance.

- The percentage of consumers consulting reviews at TripAdvisor prior to booking a hotel room has steadily increased over time, as has the number of reviews they are reading
- If a hotel increases its review scores by 1 point on a 5-point scale, the hotel can increase its price by 11.2%
- A 1% increase in a hotel's online reputation score produces a 0.89% increase in ADR, a 0.54% increase in occupancy and a 1.42% increase in RevPAR.

Major hotel groups measure loyalty by the size of their frequent guest programs or the number of bookings made by members. This may be an excellent measure of frequent guest program performance, but frequency does not equal loyalty. While value plays an important role in loyalty, loyalty is not measured as a financial transaction measuring discounts or points. Value may drive transactions, but organizational values earn loyalty.

In the future, brand ethics will become even more critical due to Millennials' strong beliefs. Research of Millennials by the Intelligence Group underscores the importance of sound business ethics:

- 59% expressed that a company's ethics and practices are important factors in deciding what brands they will buy
- 30% of respondents to the survey have stopped supporting a brand because of something they learned about its corporate practices or ethics

Loyal customers happily pay a price premium for a desired brand. Think Apple Computer, Lexus, Zappos, Warby Parker – all offer quality products, at prices higher than those of generic equivalent products. The differentiator is exceptional customer service.

Loyalty improves profitability. The 1990 study, "Zero Defections – Quality Comes to Services" concluded that increasing customer retention rates by 5% increases profits by 25% to 95%. Fourteen years later, Sunil Gupta and his fellow researchers quantified the impact of acquisition cost, margin, and retention rate on customer value.

- A 1% improvement in acquisition cost improved customer value by .02% to .32%.
- A 1% improvement in margins improved customer value by approximately 1%.
- A 1% improvement in customer retention rate improved customer value by 2.45% to 6.75%, plus, the current retention rate, the greater the impact of improved retention.

The measure of ethical innkeeping is simple: If fear of negative guest reaction causes a hotel to mask a policy, it is probably unethical. Hiding a policy can often be perceived as less ethical than the policy itself. Ethical innkeeping is not only a long-held tradition of hospitality, but a smart business decision. Ethical innkeepers that share E. M. Statler's beliefs will engage satisfied guests, earn higher rates due to higher perceived value, and reduce marketing costs due to greater guest retention.

Better ethics make more sense and more dollars. The guest is always right.

Robert Cole is founder of RockCheetah, a hotel marketing strategy and travel technology consulting practice. His consulting clients include global hotel brands, travel technology providers, major publishers, consumer websites and the US Government. Robert's background includes leadership positions with leading hotel, travel and technology firms including Four Seasons, Anasazi, Sabre, Cendant & Mark Travel.

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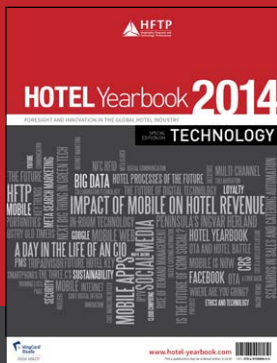
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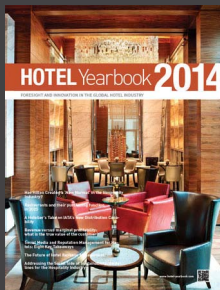
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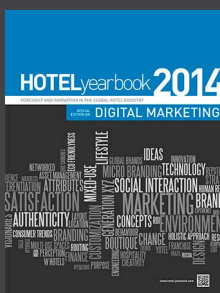
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