

Organizing for digital marketing success in tourism

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Abstract

We are in full mobile revolution and there are increased opportunities for personalized marketing through digital platforms. Customers are continuing to spend more hours a day on a mobile device, still wanting connection, context, and convenience. In order to keep pace with their expectations, there is a real need of investing in mobile, in online distribution channels, being on a continuous test-and-learn loop, attracting online shoppers, increasing conversion rates, and having data mining tools to assess customer choices and understand the customer's preferences and booking patterns.

Keywords: Mobile revolution; Consumers' app preferences; Test-and-learn loop; CARE; DCA

JEL Classification: L83; L86; M31; O33

The travel-industry landscape is shifting, mobile apps being the way forward

In April 2015, Heather Linton (a Ph.D. student in the Cornell University School of Hotel Administration), and Rob Kwortnik, Ph.D. (an associate professor of services marketing) asked a challenging question: “*(Cornell Hospitality Report) The Mobile Revolution Is Here: Are You Ready?*” (Linton and Kwortnik, 2015) They started in their approach from the fact that the remarkable connectivity of today's travelers allows them to make travel arrangements and share information before, during, and after their trips, each phase of the travel cycle requiring a distinctive approach for mobile, and (among others) travelers preferring a general multiple firm travel app. They underlined significant questions for future research, such as: *what are consumers' app preferences, their motivations for installing travel apps, and why they are deleting the apps that they do download; why older people are more interested than younger people in handling ancillary activities on their mobile devices.*

December this year brought to us an excellent interview – with Lee McCabe, Facebook's first-ever global head of travel and education strategy – taken by McKinsey's representatives Alex Dichter and Nathan Seitzman. (Dichter and Seitzman, 2015) They discussed about the actual issues of the increasing importance of mobile, what makes a winning app, and how travel companies can organize themselves for digital success, within the context in which Lee McCabe (a former marketing leader at Expedia Inc., one of the world's leading travel companies) helps hotels, airlines, online travel agencies (OTAs), and other travel companies connect with the more than 1,5 billion people worldwide who use Facebook, whose fans' recommendations influence heavily in real time and at scale the travel choices. According to McCabe, people-based

platforms will continue to create a catalyst for travel, and as the world has shifted to mobile (in August 2015 one billion people logged onto Facebook in a single day, about 84% of them being on mobile) we will assist at the opportunities' increasing for personalized marketing through digital platforms. Here below are some recommendations resulted from this clever conversation:

- deeper relationships and real ongoing conversations with customers that drives results;
- a better understanding of customers' desire of having all the communication in one place, and of being able to respond to messages, looking at special offers, or downloading tickets in a central spot;
- understanding that things are changing: people are now spending more hours a day on a mobile device, including multiscreening; almost everyone has a smartphone, and a lot of services are offered by a third party on a mobile device;
- understanding that businesses: have to be far more sophisticated with both their tracking and data analysis; have to develop the best app possible, and to working with other companies that are doing well on mobile;
- understanding that despite the fact that the marketing landscape is changing, people want the same three things: *connection with a company* (mobile being absolutely the best way to make that happen); *context* (a personalized experience); *convenience* (which might be the most important element);
- understanding the lessons Facebook learned along the way about mobile and apps: ease of access; meeting the objectives quickly; test-and-learn environment and culture; the importance of data science, taking better advantage of big data (better targeting);
- the importance of avoiding ambiguity in the organizational structure, a clean organizational structure being paramount;
- the most important piece of advice for a supplier or an online travel agency (OTA): to invest in mobile and in data science, and to organize to move fast, being on a continuous test-and-learn loop, being clear about company's, and - perhaps the most important thing - thinking about people first, keeping pace with consumer expectations... and bookings will follow.

Trends in online distribution channels used in the hospitality industry, and the most critical marketing measures

At the end of November 2015, Gerry Brown – The Customer Lifeguard, (Brown, 2015) the developer of the concept of the Four Principles of Customer Experience (*Culture, Commitment, Communication and Community*) as the foundation for launching a successful customer experience strategy, choose to speak about Isadore Sharp, the CEO of Four Seasons Hotels, a builder by trade, who knew from the very beginning the importance of forging close

relationships with guests, employees and managers, on the basis of four pillars: quality, service, culture and brand.

Starting from this, Brown made an analysis by highlighting “A Brand-Aid Solution” with four components: Own the brand – Deliver the experience; Everyone is in the customer experience business; Bigger must be Better- the Fred Goodwin School of (miss)management; Bringing the brand to life – Show them that you CARE: Consistency, Authenticity, Responsibility, Engagement.

In our opinion, this is the right framework to make a link between the above mentioned approach and the actual need of attracting online shoppers, increase conversion rates, and have data mining tools to understand the customer’s preferences and booking patterns to be able to develop a long-lasting relationship, as argued on June 16th, 2015, by Juan Duran, an associate with the Vancouver HVS office in Canada, who focuses on appraisals, market and feasibility studies and consulting services for the hospitality industry. (Duran, 2015) According to Duran, in order to retain customers, improve hotel positioning, gain a competitive advantage in markets that are sometimes saturated with hotel supply, and provide marketing exposure to a wider range of market segments, *hoteliers must invest in online distribution channels*, such as: websites, Global Distribution Systems (GDS), and online travel agents (OTAs), *the most critical marketing measures being the customer acquisition cost* (CAC - the price a hotel pays to acquire a new customer, which can have a significant impact on RevPAR performance and asset value growth) and *the customer lifetime value* (CLV - a prediction of the value a business will derive from its entire relationship with a customer), both being valuable metrics not shown on today’s financial statements and having to be analyzed independently.

Duran explained that the first step is to focus on the channels that produce the best customers in terms of loyalty and profit will generate the highest CLV (Gross profit from all historic purchases for an individual customer). In the second step, distribution channels should be optimized based on CAC (Marketing Campaign Costs/Total Customers Acquired) and CLV. He also recommended avoiding a common mistake among hotel operators who optimize based on the gross revenue of the initial guestroom booking. Duran proved also his expertise by underlining the different roles in the hotel’s marketing program played by:

- *hotel website* (the most critical marketing tool, which reflects and emphasizes the hotel’s image and competitive edge; the hotel’s website could yield the lowest CAC and the highest CLV, if managed skillfully by having a direct interaction with the customer which could lead to a long-term relationship);
- *GDS* (that connects hotels with consortia - global associations of travel agents that provide hotels primarily with major sources of corporate business, booking airline, car, hotel, and other travel arrangements for their customers; can make a valuable contribution even at a higher CAC

and a lower CLV, by offering marketing exposure to a wider range of market segments, and bringing demand during periods of low occupancy; can have a significant impact on the amount of commercial demand captured; an effective way of increasing business from this distribution channel is investing in a targeted GDS and consortia advertising campaign);

- OTAs (which can boost occupancy in need periods and help diversify a hotel's client base by introducing guests that otherwise might not have considered staying at that particular hotel; has the highest cost for hotels; can also make a valuable contribution even at a higher CAC and a lower CLV; to position and rank hotels in the results screen each OTA uses a slightly different algorithm).

Investing in profitable customer relationships, and improving company's ability to predict by better understanding customer choices

Five years ago, while making predictions for the new decade (2010-2020), Chekitan S. Dev (Cornell University School of Hotel Administration), John D. Buschman (Florida International University), and John T. Brown (University of Houston) argued that the primary focus of the hospitality marketers needs to be on investing in profitable customer relationships (a key measure being lifetime value, and the basis for deciding how much to invest in each relationship being estimating the net present value of future cash flows from each customer or customer account), which involves: looking at marketing as an investment; looking at profit per customer as the key goal; moving from customer transactions to customer relationships. (Dev, Buschman, and Bowen, 2010)

A year later, in 2011, Rohit Verma, Ph.D. (a distinguished professor of service operations management at the Cornell University School of Hotel Administration; now he is the Executive Director for the new Cornell Institute for Healthy Futures, officially launched on November 2, 2015, as a cross-campus collaboration between the School of Hotel Administration, SHA and the College of Human Ecology, CHE) pledged in a consistent manner for better understanding and predicting customer choices made among the many lodging and dining options, arguing that the more the host can learn about what factors their guests take into account when they make a decision accordingly, the better the host is able to meet those decision criteria and boost tourism statistics. Within that framework, Professor Rohit Verma recommended: *assessing customer choices* by using the discrete choice analysis (DCA: identify choice criteria; develop choice experiments; collect responses and estimate choice models), and conducting extensive analyses (using decision support systems); *obtaining managerial insights from discrete choice modeling, and developing the insights and strategies suggested by the resulting information*. He expressed his belief that it is essential for hospitality marketers to have a sophisticated customer choice approach in order to achieve the success, by using DCA so as to improve company's ability to predict three things: *market share; their customers' willingness to pay; how desirable customers consider company's hospitality services*. (Verma, 2011) In what concerns the above mentioned recently launched Cornell Institute for Healthy Futures (CIHF), allow us to add that we totally

agree with the idea of integration of the disciplines to promote a more holistic view of healthcare (bringing hospitality principles to health policy, management, and design, and improving service in healthcare, wellness, and senior living), as argued by Professor Rohit Verma. (Webb, 2015) In fact, at SANABUNA International Conference we expressed our belief in the development of health and wellness tourism. (Avram and Rațiu, 2014) As shown within SANABUNA framework, we face today, both at the national and global level, a real serious challenge with “Health, Nutrition, Fitness and Wellbeing”, this philosophy of action requiring a more rapid adaptation to changing economic trends and new thinking. (Purcarea, 2012)

In the same year, 2011, while approaching the topic of “*New Media: Connecting with Guests throughout the Travel Experience*”, Lisa Klein Pearo and Bill Carroll (also from Cornell University) showed that hospitality marketers are challenged to identify when a consumer is ready to move from one stage to the next, and to supply the appropriate tools, their constraints with new media (which represent opportunities to acquire and retain customers) involving only access and engagement. In the authors’ opinion, in order to encourage company’s loyal customers to recruit new customers through social media, and find new customers directly through the interests they express, hospitality marketers can use new technologies. (Klein Pearo and Carroll, 2011)

And as a conclusion: gathering guest feedback in real-time from multiple channels

Coming back in 2015, allow us to highlight that GfK, at the beginning of December, (GfK, 2015) just brought to our attention its successful partnership with a leading hotel group (which uses GfK Echo solution to gather guest feedback in real-time from multiple channels and viewing this feedback on a single dashboard) aiming to bring relevant and current data and analyses to its hotel operators so they can use it to improve the guest experience. And in this respect, this hotel group extended the gathering of feedback beyond the traditional mechanism of surveys to include social listening intelligence from channels such as web reviews and social media, and on the basis of the specific analysis distributes actionable customer experience information to employees and managers at each hotel.

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