Customer Satisfaction:

Applying Concepts to Industry-wide Measures

Hotel customers' emotions can cement their loyalty to your operation, but those emotions are slightly different for each hotel segment.

BY JONATHAN BARSKY AND LEONARD NASH

We began our research on customer satisfaction nearly 20 years ago, believing that customer satisfaction plays a fundamental role in achieving customer loyalty and profitability. Co-author Barsky and various associates published a number of their findings in five *Cornell Quarterly* articles since 1990, each of which addressed a different customer-satisfaction issue (see the list overleaf).

To test and advance the research thread in those articles, we decided several years ago to create an ongoing national survey and online database to study customer satisfaction with hotels and other hospitality industries in the United States. We drew upon critical issues relating to customer satisfaction raised and answered in this series of *Cornell Quarterly* articles and on our experience with various hotel chains. Using this research we devised a national survey system based on theoretical advances central to measuring satisfaction (e.g., disconfirmation paradigm, consumer emotions) and other more applied issues affecting survey construction (e.g., scaling, sampling, question selection, reporting).[1]

Each quarter 35,000 new interviews are added to this database. To our knowledge, the Market Metrix Hospitality In-

[1] Jonathan D. Barsky and Leonard Nash, "Evoking Emotion: Affective Keys to Hotel Loyalty," *Cornell Hotel and Restaurant Administration Quarterly,* Vol. 43, No. 2 (February 2002), pp. 39–46.

Selected *Cornell Quarterly* Articles on Aspects of Customer Satisfaction

(1) Jonathan D. Barsky and Susan Dittman, "Theory S: Total Customer Service," *Cornell Hotel and Restaurant Administration Quarterly,* Vol. 31, No. 1 (May 1990), pp. 88–95.

(2) Jonathan D. Barsky and Richard Labagh, "A Strategy for Customer Satisfaction," *Cornell Hotel and Restaurant Administration Quarterly,* Vol. 33, No. 5 (October 1992), pp. 32–40.

(3) Jonathan D. Barsky and Stephen J. Huxley, "A Customer-Survey Tool: Using the 'Quality Sample,'" *Cornell Hotel and Restaurant Administration Quarterly,* Vol. 33, No. 6 (December 1992), pp. 18–25.

(4) Jonathan D. Barsky, "Building a Program for World-Class Service," *Cornell Hotel and Restaurant Administration Quarterly,* Vol. 37, No. 1 (February 1996), pp. 17–27.

(5) Jonathan D. Barsky and Leonard Nash, "Evoking Emotion: Affective Keys to Hotel Loyalty," *Cornell Hotel and Restaurant Administration Quarterly,* Vol. 43, No. 2 (February 2002), pp. 39–46.

dex (MMHI) is the largest in-depth industry-wide measure of hotel performance based on guest evaluations (see the box on page 78 for a description of the MMHI).

The scope of this project continues to offer unprecedented opportunity for new research. For example, the MMHI is able to spotlight industry trends such as the dip in satisfaction scores after September 11, 2001.

This article highlights research findings obtained in the initial two years of the MMHI.[2] These highlights, presented below, include an overview of customer-satisfaction trends, recent insights regarding the emotions that affect the guest experience, an overview of a customer-segmentation model of the U.S. hotel industry, and insights into hotel loyalty programs and customer-loyalty behavior.

Overall Industry Trends

The events of 9/11 and the worsening economy forced the hotel industry to reduce costs, including staffing cutbacks and reductions in services and amenities, which exacted a toll on the guest experience. After 9/11, the combined effects of the Iraqi war, the SARS virus, and a weak economy further challenged the hotel industry. Customer satisfaction has since recovered from the events of September 11, however. The pre-9/11 customer-satisfaction score of 83 in quarter three of 2001 slumped to 81 in the first quarter of 2002, but slowly climbed to 83 in the third quarter of 2003 (see Exhibit 1). Hotel companies that invested in staffing and restored selected services and amenities led the industry through the recovery.

Comparing performance across hospitality-industry sectors, casinos consistently score higher than other hospitality businesses (i.e., hotel, car rental, and airline) while airlines receive the lowest scores of the four sectors (see Exhibit 2).

Although the airline industry's score of 75 is below that of other hospitality sectors, passenger satisfaction has improved in recent quarters because there are fewer passengers, fewer planes in

[2] Special thanks to John P. Walsh, managing editor, *Hotel & Motel Management*, for permission to draw on previously published materials for this article.

the sky, and less lost luggage than in the late 1990s. Operating fewer planes is also associated with better on-time performance and fewer flight cancellations. Other factors, such as expanded self-service check-in programs, have also helped improve the overall customer experience.

Satisfaction in the rental-car segment has improved in recent quarters. Car-rental companies have attempted to improve customer service, an area that was largely neglected when auto manufacturers owned the major players. Express service for frequent renters, an expanded selection of automobiles (including sports cars and sport utility vehicles), in-car amenities such as mobile phones, and self-booking through the internet are all examples of the industry trying to better serve its customers.

The companies delivering the highest customer satisfaction from the third quarter of 2002 through the third quarter of 2003 include both established brands (e.g., Four Seasons among the hotels) and newcomers (e.g., the air carrier JetBlue; see Exhibit 3, on the next page).

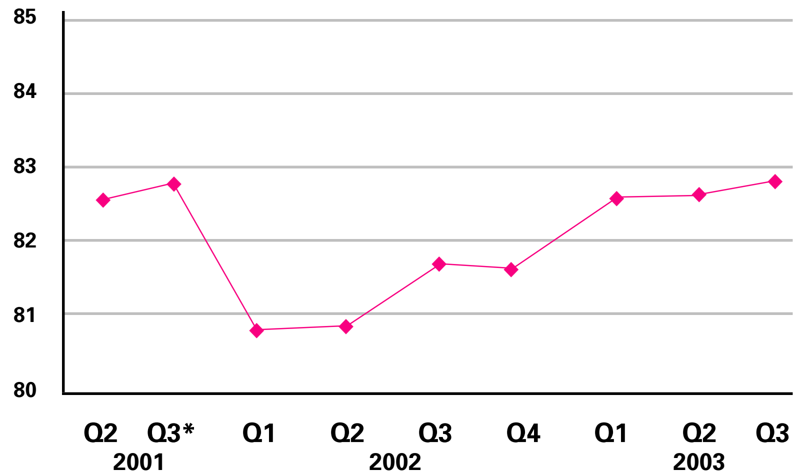
Emotions that Affect the Guest Experience

The Market Metrix research has demonstrated that emotions play an important role in hotel customers' satisfaction and loyalty, and that those emotions are a better predictor of customer loyalty than are traditional measures of product and service satisfaction. Guests are willing to pay substantially more per night for the promise of experiencing certain emotions during their stay.

The sets of key loyalty-inducing emotions are slightly different for each hotel-industry segment. For the luxury segment, for instance, the key loyalty emotions involve feelings of being pampered, relaxed, and sophisticated. At the other end of the scale, the key emotions for economy hotels are feeling comfortable, feeling welcome, and being practical. Other emotions that drive loyalty in one segment or another are feeling important (upscale), secure (midscale), and welcome (midscale and upscale). In contrast, a number of emotions do not figure strongly in hotel loyalty—including emotions that are often evoked in hotel advertisements. Those include feeling elegant and hip (or cool).

EXHIBIT 1

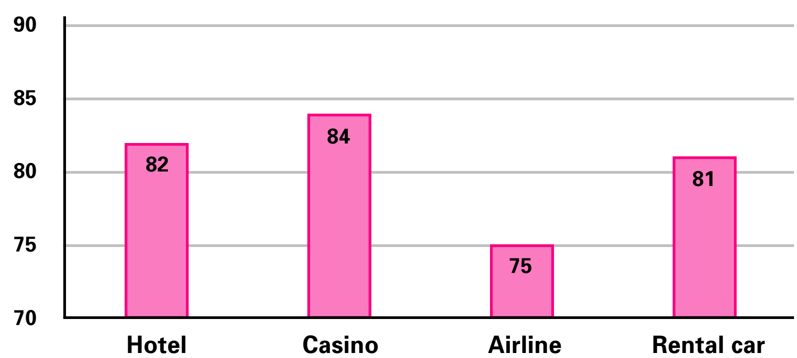
U.S. hotel industry customer satisfaction by quarter



*Q4 was not recorded due to the events of 9/11/01.

EXHIBIT 2

Customer satisfaction by industry (Q3 2002–Q3 2003)



Note: Graphs show mean scores for the quarters specified.

EXHIBIT 3

Top brands by industry (Q3 2002–Q3 2003)

Segment	Company	Rating
Hotels		
Luxury	Four Seasons	90
Upscale	Walt Disney World Resorts	90
Upper mid-price	Wingate Inn	86
Mid-price	Country Inns & Suites by Carlson	86
Economy	Jameson Inns	85
Extended stay	Candlewood	89
Casinos		
Upscale casino	Bellagio	90
Casino	Golden Nugget	87
Airline		
Airline	JetBlue	92
Rental Car		
Rental car	Enterprise	83

Business Guests Will Pay More for Comfort

One of the most dramatic findings of this research is that providing high levels of comfort reduces the price sensitivity of business travelers. We found that business travelers in our sample are willing to pay an average of $13 more when comfort levels exceed their expectations. The ADR payoff is much greater for business travelers' comfort than it is for any of their other emotions. As a result, the return on investing in guest comfort is likely to be greater than that of investing in other loyalty-related emotions.

The potential difficulty in that finding about comfort, however, is that we need to determine how guests define comfort and to ascertain what products and services foster comfortable emotional experiences. We asked guests and managers to address these questions. Comments defining "feeling comfortable" fell into the following five areas: product, staff, arrival, value, and location.

Products for comfort. The emphasis placed on products, rather than services, as key elements of feeling comfortable, distinguishes feeling comfortable from other emotions.[3] When describing comforting products, guests most often commented about their room—in particular the room's design, a comfortable bed and room, room and hotel cleanliness, and convenient and special amenities. Additional product-oriented attributes are good food, an engaging atmosphere, noise control, and safety.

Staff support. Hotel staff members have a considerable influence on the feelings of comfort experienced by guests. Guests appreciate having friendly, knowledgeable, and helpful staff members whom they feel comfortable addressing. Guests felt comfortable knowing that they can trust the staff with their safety, belongings, messages, and wake-up calls. Many guests commented that it was comforting when the staff approached their stay with a responsive, attentive, and enthusiastic attitude. Guests mentioned efforts made to personalize their service as a contributing factor to their comfort.

Arrival. A respectful and accommodating staff is a critical element of a comfortable arrival. Using courteous words, repeating the guest's name, and treating the guest warmly makes guests feel comfortable. Arrival goodies, such as warm cookies and milk, were a comforting gesture appreciated by guests.

Value. Receiving value for the price paid makes guests feel comfortable with their hotel experience. Along that line, providing guests with complimentary gifts, food, and beverages can provide them with feelings of comfort. Among the free products that guests especially appreciated were coffee, popcorn, cookies, wine, and cocktails. Being part of a loyalty program and receiving an upgrade, special deal, or discount made guests feel comfortable with their decision to stay at a hotel.

Location. Having a location that's convenient for the purpose of the guest's visit gives guests a feeling of comfort. Specific advantages of an appropriate location mentioned were being close to restaurants, freeways, fun attractions, and businesses.

[3] This finding echoes the argument found in: L. Dubé, J. Le Bel, and D. Sears, "From Customer Value to Engineering Pleasurable Experiences in Real Life and Online," elsewhere in this *Cornell Quarterly* (see pp. 124–130).

EXHIBIT 4

Loyalty emotions by industry segment (Q3 2003)

	Economy	Mid-price	Upper mid-price	Upscale	Luxury	Extended stay	Casino	Upscale casino
Comfortable	●	●	●	●		●		
Welcome	●	●	●	●		●		
Content							●	●
Pampered					●			●
Relaxed					●			●
Secure		●	●					
Entertained							●	
Important				●				
Inspired							●	
Practical	●							
Respected						●		
Sophisticated					●			
Elegant								
Excited								
Extravagant								
Hip or cool								

Feeling Safe and Secure

Following 9/11 all hoteliers wanted their guests to feel safe and secure. Results of the MMHI indicate that while feeling secure is important to all guests, it is more important to guests staying in upper upscale, upscale, and midscale hotels.

Guests identifying high levels of selected emotional experiences, such as feeling secure, were asked to explain what caused these responses. For example, when guests reported feeling secure at a Holiday Inn in Peoria, Illinois, we asked them, "How did Holiday Inn Peoria make you feel secure?" Using the answers to that question, we created a comprehensive database of descriptions relating to security for each of the 16 emotions included in the Market Metrix Emotions Scale. Thematic analysis focused on identifiable themes and patterns. Comments defining *secure* fell into three main subjects: hotel, guestroom, and staff.

In general, guests' perceptions of hotel security increase when there is limited access to the hotel, a secure guestroom door, and visible staff presence.

Hotel. Comments about hotel security in general focused primarily on limiting access to the hotel. Guests were impressed and put at ease when the hotel's processes limited access to selected areas of the hotel. Tangible elements of security included requiring keys to enter elevators and a design that requires those entering the hotel to pass employees or security stations.

Hotels with good interior lighting in public areas (especially hallways, stairways, and elevators) and ample exterior lighting made guests feel secure. Parking lots that had good lighting (bright lights that illuminated all of the lot) and that can be seen from the guest room increase a guest's sense of security.

The MMHI

Launched in 2001, the Market Metrix Hospitality Index (MMHI) is a national indicator of customer satisfaction, emotions, loyalty, and price sensitivity regarding hotel, car rental, and airline facilities and services available to consumers in the United States. The data for the MMHI are gathered from a national consumer panel. Each quarter 35,000 new interviews are conducted with travelers about their recent hotel, car-rental, and airline experiences. The results provide evaluations for all major U.S. hospitality brands in all 50 states.

Participants evaluate their recent experiences with hospitality products and services, as well as provide details about their travel habits and respond to general demographic questions. To measure the emotional component, respondents are asked the extent to which they experienced each of the 16 emotions on the Market Metrix scale during their travels. Responses are recorded using a proprietary ordinal scale. Participants are asked additional questions, such as how likely they are to return to that hotel, the price they paid, and how much additional they would have paid before switching brands.

The respondent profile of the MMHI is reasonably representative of the national consumer market for U.S. hotels, car-rental companies, and airlines and is modified each quarter to reflect current market conditions.* This is determined based on rigorous comparisons to U.S. Census data (income and age distribution), fair-share analysis (responses per brand versus supply by brand), and current industry customer profiles (e.g., AH&LA lodging-industry-guest profile, which gives average rate, length of stay, purpose of stay, income, age, and gender).—*J.D.B. and L.N.*

* For the respondent profile as of February 2002, see: Jonathan D. Barsky and Leonard Nash, "Evoking Emotion: Affective Keys to Hotel Loyalty," *Cornell Hotel and Restaurant Administration Quarterly,* Vol. 43, No. 2 (February 2002), p. 41.

Hotels with noticeable security efforts, such as cameras and security patrols, added to a feeling of security and a belief that the hotel was being controlled.

Guest room. The most important security feature of the guest room itself was a secure door. Guests mentioned deadbolts, flip locks, chain locks, electronic locks, and big, sturdy doors. Rooms equipped with a personal safe made guests feel that they and their belongings were more secure.

Staff. When staff members confirmed that a person was a guest at the hotel before allowing access, guests felt secure. Knowing that everyone is screened before entering the hotel builds confidence and trust in the hotel. Simply having hotel staff members in evidence, especially security staff, made guests feel more secure with their presence in the hotel, whether it was working at the front desk or patrolling parking lots. The ability to see staff members and know that they are available contributes to a sense of security.

Customer-segmentation Model of the U.S. Hotel Industry

To gain additional insight about U.S. hotel customers, we split the industry into distinct customer groups based on geo-demographic, behavioral, and attitudinal dimensions. Based on Ward's method of hierarchical cluster analysis[4] using standardized data from our MMHI database, 22 distinct segments were identified (see Exhibit 5).

One-half of U.S. Hotel Revenue Comes from One-fourth of Guests

According to the MMHI, 25 percent of travelers spend more than $1,700 each per year on hotels, representing nearly half of all U.S. hotel spending. The ADR for these high-spending travelers is approximately $120. Not surprisingly these upper-crust folks earn 35-percent more than the average guest ($98,038 per year) and stay approximately 20 nights per year in hotels (seven nights more than other guests). The average age of this

[4] J.H. Ward, "Hierarchical Groupings to Optimize an Objective Function," *Journal of the American Statistical Association*, Vol. 58 (1963), pp. 236–244.

EXHIBIT 5

Market Metrix hotel segmentation model

	Customer segment	Annual spending	Description
21	Manicures and Massages	$3,812	Young pleasure travelers living the good life in preferred hotels.
22	Black Ties	$3,283	Moneyed males who travel a lot, demand the best hotels, and get good deals on them.
3	Members on-the-Move	$2,514	Old, mostly male, frequent travelers who are hard to please but are faithful to hotel choices.
13	Long Stay	$2,411	Hard working, upper-middle-class guests who like to feel welcome and occasionally treat themselves.
6	Sign Up and Lock Down	$2,372	Old frequent travelers who seek security and join loyalty programs but are not necessarily brand loyal.
8	Ray Bans and Business Cards	$2,099	Mid-class business men who travel a lot, want to feel hip, and reject loyalty programs.
15	Savvy Loyalist	$1,990	Old frequent travelers who are bargain hunters, join programs, and use their memberships.
1	Malcontents	$1,770	Rate-shopping travelers who are extremely hard to please and reject loyalty programs.
18	Wannabees	$1,769	Middle-aged, low-income travelers who will spend beyond their means for a nice stay; easy to please; like to feel sophisticated and respected.
5	Dufflebags and Deadbolts	$1,215	Young female travelers with modest income; seek security but are unsatisfied with what they have found so far; neither loyal nor especially price sensitive.
2	Living it Down	$1,191	High-income travelers who are not engaged in their hotel stay; go for practicality; and are unsatisfied.
10	Splurgers	$1,182	Vacationers with modest income, who spend a lot on pleasure travel and who like to know they are getting good value for their money.
16	Smiles and Handshakes	$1,134	Middle-income business travelers who get a great rate, are generally happy, and say they would come back.
17	High Fidelity	$1,085	Completely content and loyal guests who seem to have found what they like and stick to it.
7	Good Times	$1,078	Middle income, young women who spend quite a bit to have a good time.
9	Hip to be Square	$927	Business travelers comprising more women than men; want to feel hip, cool, and elegant.
11	Amenity Me!	$900	Pleasure travelers who are excited to travel and want to be pampered.
19	Department-store Divas	$893	Women who want to feel extravagant and sophisticated for a low price.
4	Getting a Clue	$886	The “looking for a clue” segment (14) grown up and working on getting a better deal for the same experience.
20	Little Pink Houses	$867	Happy group of loyalists that pay little for an experience a bit more sophisticated than everyday life.
14	Looking for a Clue	$807	Young, low-income travelers who pay the highest rate, perhaps because they don’t know what is out there.
12	Penny Pinchers	$675	Unattached and unsatisfied penny pinchers who hate spending money for hotels (or anything) and feel extravagant when they book a room at any price.

group is 41.5 years old, which is slightly older than all hotel patrons (39 years old) and includes a preponderance of men (61 percent). These persons are four times as likely to join a frequent-stay program. Their levels of satisfaction and loyalty are, however, on par with other hotel guests.

Within this lucrative group are nine sub-segments. One of these groups we call Savvy Loyalists. These are old frequent travelers who are bargain hunters and join loyalty programs to take advantage of membership perks. Ninety-seven percent of the persons in this group are currently enrolled in a hotel frequent-stay program. They like being treated as different from other guests, because it makes them feel important. They typically stay with such brands as Courtyard, Hampton Inn, and Comfort Inn.

Another sub-group of big spenders is the Ray Bans and Business Cards. These mid-class businessmen (94-percent business, 67-percent male) travel frequently (21 nights per year), actively seek hip hotels, and reject loyalty programs. Ray Bans and Business Cards want to stay in a trendy hotel and location because it is important to them to look and feel stylish. They rebuff loyalty programs because joining would conflict with their independent nature. They patronize such hotel brands as Marriott, Courtyard, and Sheraton.

The largest pleasure-travel group of big spenders is the Wannabees. These are middle-aged, modest-income travelers who will spend beyond their means for a nice stay. Wannabees are easy-to-please guests who like to feel important and respected. Their average income is only $59,000, but they spend an average of $102 per night on 18 room-nights per year. The most important element of their hotel stay is being pampered. W Hotels, Ritz-Carlton, and Westin are this group's preferred hotel brands.

Perhaps the most interesting group is the Manicures and Massages. This group may be described as "young pleasure travelers living the good life in preferred hotels." These guests typically stay in Four Seasons, Ritz-Carlton, Fairmont, W Hotels, and other luxury hotels. These travelers are attracted to these hotels because of the relaxed content and comfortable experiences provided by these brands. Despite the size of this group (2 percent of all hotel customers), they contribute 6 percent of the amount spent on hotel rooms in the United States ($3,812 annually per person). Their ADR is a healthy $211, higher than that of any other customer group. Not surprisingly these upper-class folks earn $132,889 per year (32-percent more than the average guest) and are slightly younger than typical hotel patrons (36 years old).

Manicures and Massages come from big cities (e.g., New York, Houston, Santa Ana–Anaheim, Los Angeles) and from select suburban locations (e.g., Santa Rosa, California; New Brunswick, New Jersey; Bridgeport–Stamford, Connecticut). Evenly split between men and women (51-percent men), members of this high-spending group are less likely to join frequent-stay programs, but once in the hotel, they are easier to please than many other high-end travelers. These guests report higher satisfaction levels than any other customer group. As a result, these persons are 27-percent more likely to return to that hotel brand.

Regional Factors Affect the Equation

Our segmentation model of U.S. hotel consumers includes a geographic analysis of hotel-guest satisfaction. This analysis, which examines hotel results by city, state, and region, revealed considerable geographic differences in customer satisfaction.

Hotels in Providence, Honolulu, and Wichita are providing the highest levels of satisfaction to their guests (Exhibit 6). Big-city guests least happy with their hotel experience are found in Philadelphia, while small-town guests are least happy in Canton, Ohio, and Sioux Falls, South Dakota. Not surprisingly, cities with the lowest guest satisfaction also reported shorter average stays and more price resistance than did those with satisfied guests.

Regional variations, likely caused by such factors as weather, the labor pool, and hotel supply, also were found within large hotel chains. Despite its heavily franchised organization, Holiday Inn was the most consistent hotel brand in delivering customer satisfaction to its guests throughout the country. On the other hand, Motel 6 showed the highest variation of guest satisfaction throughout its system, with Little Rock scoring highest and Los Angeles scoring lowest.

In terms of price sensitivity, guests staying at Honolulu hotels are willing to pay the greatest additional amount per night, about $13, before switching to another hotel. Hartford, Connecticut; Portland, Maine; and San Francisco hotel guests also indicated a willingness to accept relatively high rates. Conversely, hotel markets with the least tolerance for higher prices include the following three midwestern cities: Rockford and Peoria, Illinois, and Flint, Michigan. Guests there are willing to pay only $4 more per night before they would defect to another brand. Already faced with high tariffs, New York City hotel guests also ranked near the top of the price-sensitivity scale.

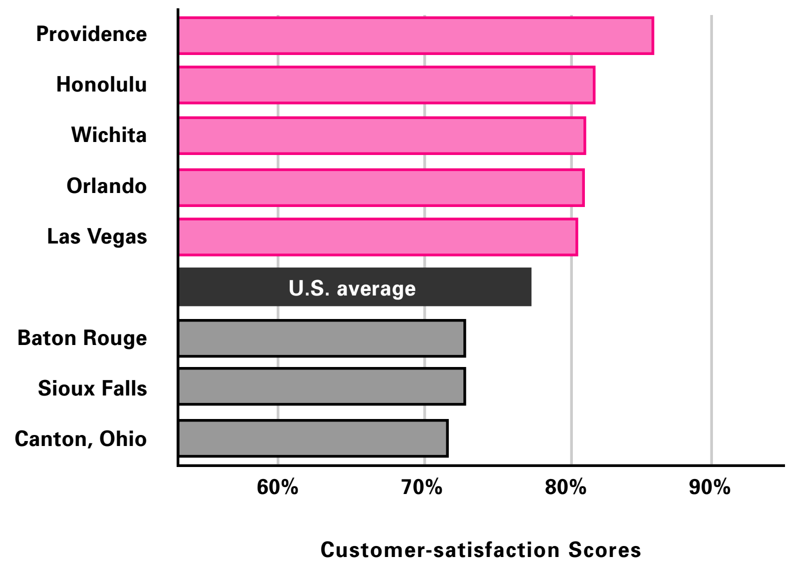
Providence, Rhode Island, was the only U.S. city where business travelers outnumber pleasure guests, while Atlantic City, New Jersey, had the highest proportion of pleasure travelers. Guests traveling to Honolulu recorded the longest average stay, while guests traveling to Billings, Montana, chalked up the shortest average stay.

The study also revealed that customer satisfaction depends on the guest's city of origin. The happiest hotel guests come from Atlanta, New York City, and Houston. The hardest-to-please guests originate in Seattle, Salt Lake City, and Oklahoma City.

Another interesting finding was that loyalty programs were more important for guests traveling to Atlantic City compared to any other city. We consider this to be an artifact of the large number of casino hotels there. As indicated earlier in this article, casinos' loyalty programs lead the industry and are well known for offering handsome program benefits, such as complimentary meals, rooms, shows, shopping discounts, private club access, and large loans to active members.

EXHIBIT 6

Top and bottom U.S. cities for hotel-guest satisfaction



Loyalty Programs: A Dwindling Proposition

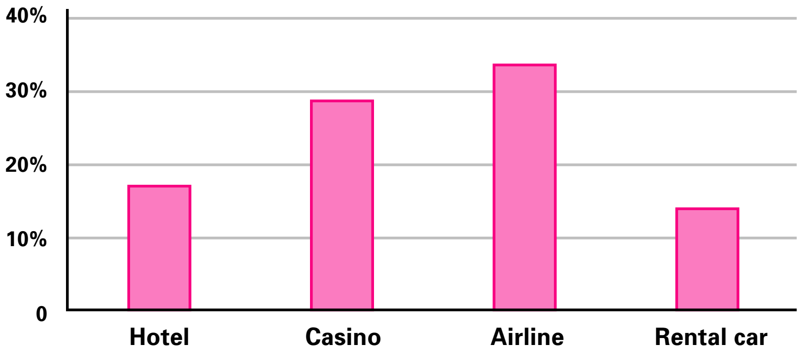
During the 1980s airlines introduced the concept of bonus miles for frequent fliers. Many other businesses, including hotels, followed the airlines' lead. In theory, loyalty programs offer marketing value and serve as a powerful inducement to return. The MMHI tests that theory by evaluating and assessing the success of customer-loyalty programs. This measure includes two components: the percentage of guests who are members of a brand's loyalty program (participation) and the importance of that program in the guests' decision to stay at that brand (effectiveness). The combination of these metrics is known as loyalty-program strength.

As shown in Exhibit 7, airlines have enrolled the highest proportion of their customers as loyalty-program members. Among hotel brands, Marriott International has enrolled the greatest proportion of its customers in the company's program, Marriott Rewards. By brand, SpringHill Suites, Marriott Hotels, and Residence Inn show the highest proportion of membership.

In terms of program effectiveness (the amount of influence a loyalty program exerts in product or service selection), airlines don't fare as well as other hospitality industries. The three leading airline loyalty programs only have about half the effect (in terms of drawing business) that the top casino programs wield on their customers (see Exhibit 8, overleaf).

EXHIBIT 7

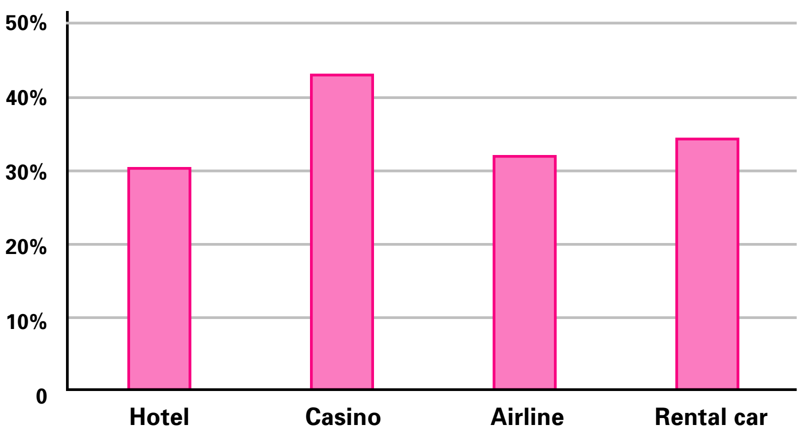
Loyalty-program participation



Note: Percentage of guests who are program members.

EXHIBIT 8

Loyalty-program effectiveness



Note: Percentage of guests citing the loyalty program as being important in the purchase decision.

Casinos excel in program effectiveness. During the first quarter of 2003, the loyalty programs conducted by Tropicana, Flamingo Las Vegas, and Grand Casinos were, on average, almost 50-percent more effective at advancing guest retention than were programs from the three hotel brands that had the most effective programs (namely, Walt Disney World Resorts, Fairmont Hotels & Resorts, and Renaissance Hotels & Resorts).

Well aware of this problem, hotels are beefing up their loyalty programs to compete for a shrinking pool of frequent travelers. For example, Marriott recently made it easier for its customers to move up to elite status and earn bonuses from Marriott Rewards by reducing the required number of annual hotel stays to 10 nights from 15 nights. This and other enhancements to the program recognize its most loyal members. The changes also extend benefits previously offered only at full-service Marriott properties to all Marriott brands.

Hilton Hotels Corporation's HHonors program, known for its "Double Dip" earning ability and award choices, continues to offer an increasingly generous combination of services, bonuses, and rewards. One Hilton hotel stay can add mileage to the guest's favorite airline loyalty program and accumulate points that may be redeemed for prizes, such as MP3 players, cameras, camcorders, watches, and computers.

Starwood Hotels & Resorts Worldwide's Preferred Guest program has been around for only four years, but has accumulated 28 Freddie Awards (the industry's most prestigious award). Known for its introduction of no blackout dates and free weekends, the Starwood program has expanded its enrollment to more than 10 million guests.

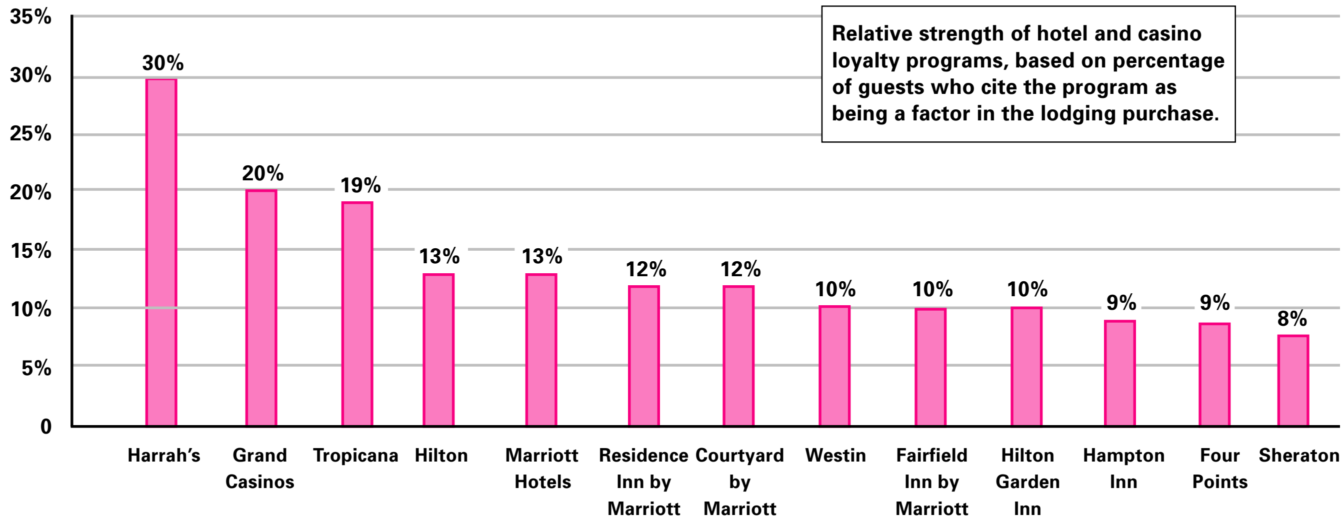
Strength of Loyalty Programs

Loyalty-program strength combines the percentage of guests who are members of a brand's loyalty program (participation) and the importance of that program in the guests' decision to stay at that brand (effectiveness). Loyalty-program strength represents program popularity among a brand's customers and its effectiveness in advancing guest retention.

As shown in Exhibit 9, casinos' loyalty programs outperform those of hotels. Among hotels, just three companies conduct the top 10 loyalty programs (among their several brands): Hilton Hotels Corporation (Hilton HHonors), Marriott International (Marriott Rewards), and Starwood Hotels & Resorts Worldwide (Starwood Preferred Guest). These corporate programs are the most well-known programs in the hotel industry.

EXHIBIT 9

Top casino and hotel loyalty programs

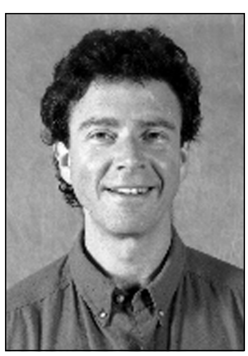


Casinos, however, achieve much higher scores for their loyalty programs than do hotels. For the overall measure of loyalty-program strength, the casinos with the top three programs—Harrah's Entertainment, Grand Casinos, and Tropicana—achieved scores almost twice that of the top hotel brands. For example, 54 percent of Harrah's guests reported being members of the loyalty program. The top three casino companies in this category averaged 25-percent higher rates of membership than did the top three hotel brands.

Casinos also excelled in program effectiveness. Casinos are well known for offering handsome program benefits, such as complimentary meals, rooms, shows, shopping discounts, private-club access, and large loans to active members. The loyalty programs conducted by Harrah's, Grand Casinos, and Tropicana are, on average, almost 50-percent more effective in advancing guest retention than are the ten programs administered by the top three hotel companies. Casinos' loyalty programs typically provide a membership card that is swiped at all transactions (i.e., casino games, restaurants, stores, and hotel stays). This behavior-tracking technology gives casinos unparalleled customer knowledge and, in turn, the ability to distribute generous benefits while maintaining a profit margin in the customer relationship.

Conclusion

Earning high satisfaction ratings from guests is an especially important strategy for hotel companies, because loyal customers are the principal driver of profits. Along with continuing to stay at a brand's properties, satisfied customers also refer new business. Companies with satisfied, loyal customers enjoy higher margins—and, consequently, greater profits—than do businesses that fail to retain and satisfy their customers. ■



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