

Marketing Challenges for the Next Decade

by *Chekitan S. Dev and
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**Information technology will drive a brave, new world of marketing—
provided marketers figure out how IT can help them.**

The changes affecting (or afflicting) the travel industry are no secret. The industry faces broad-based globalization of its business, deregulation of industries and markets, privatization of state-owned assets, and revolutionary technological advances (as described in the preceding article). Those changes are affecting the industry in ways that are only now becoming apparent. If business operators are to succeed in such an uncertain environment, they need to anticipate

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those changes, analyze their impact, and, when possible, lead their firms into new opportunities as a result of this analysis.

Anticipating change and identifying new opportunities require industry leaders to discover the forces driving change, analyze how those changes will affect the industry, and define what firms can do to prosper in this dynamic setting. To complete such an analysis, one must obtain reliable information about forces shaping the future, find an appropriate framework to evaluate the effects of those forces, and determine appropriate courses of action. Such an analysis was the purpose of the marketing think tank described in this article.

The November 1998 think tank on marketing was sponsored by the International Hotel and Restaurant Association (IH&RA) in Manila, Philippines, in conjunction with the IH&RA's Annual World Congress and was cosponsored by the Hospitality Sales and Marketing Association International (HSMIAI). Over 30 marketing experts gathered for a two-day program to explore the changing role of marketing in the hospitality and travel industries. Participants were drawn both from within and outside the hospitality industry. The group included representatives from supplier companies to provide opportunities for cross-pollination of ideas and to stimulate creative thinking.

Assisting think-tank participants were two facilitators in addition to ourselves: Ewout Cassee, president of the board of directors of the Hotel School of The Hague, Netherlands, and Nicola Pogson, of the IH&RA.

In the following sections, we offer the rationale for the think tank, its objectives, and a description of the process, followed by the points arising from the discussions that took place.

Why a Marketing Think Tank?

The methodology for the Manila think tank was tested at the Annual World Congress of the IH&RA in Mexico City in November 1996, with over 40 participants from several leading travel-industry organizations and firms. The need for a formal think tank was further validated by the more than 45 senior travel-industry executives participating at technology think tanks in Singapore and Nice.¹ The outcome of those pilot tests clearly identified the need for an in-depth look at the future of marketing in the travel industry.

Think-tank Process

Thirty participants were invited based on recommendations from HSMIAI, the IH&RA, and other contributing stakeholders. Drawn from a cross-section of travel-industry segments and firms, the participants were engaged in work that required them to think about the future. The group included suppliers, consultants, analysts, academics, research-and-development specialists, government officials, and industry-association executives and leaders.

To define and describe the future of marketing in the travel industry, the 30 think-tank participants were given the following objectives:

- (1) Identify the major challenges facing travel marketers,
- (2) Determine the action steps to address each challenge, and
- (3) Assess the priorities for the immediate future.

Using an interactive-workshop technique, the think tanks examined the major forces driving changes in organizations, industries, and government within the ensuing three to five years. Each participant had a chance to cast votes for those

¹ The procedure is described in detail on page 35 of the preceding article.

changes that she or he believed were most important.

The Findings: Key Challenges and Action Steps

We found that we could list the six challenges identified by the think tank by using the acronym "market." The challenges were as follows:

- M**anage distribution costs,
- A**nalyze customers,
- R**ethink the business model,
- K**eep control of technology,
- E**valuate internet-based opportunities, and
- T**rack the next big thing.

Key Challenge #1: Manage Distribution Costs

Managing distribution costs has become a major concern among hospitality firms. Barry Sternlicht, the CEO of Starwood Hotels and Resorts, recently mentioned distribution cost as a key strategic priority. Airlines, for instance, rank distribution costs as their third-largest expense, after fuel and payroll, but also consider distribution costs to be the most controllable of the three. In the months before this think tank convened, at least five major airlines announced commission caps to travel agents, and hotel companies have considered taking similar action. Participants agreed that distribution costs will attract increased scrutiny for three reasons: the spiraling cost of distribution, pressure from financial markets to improve net income, and the opportunity afforded by the internet to reduce distribution costs from as much as US\$30 per room to less than US\$1.²

² Contrary to the think-tank participants' assumption, however, McKinsey and Company found that internet-based businesses had a higher cost of customer acquisition than did catalogue firms, owing to the poor conversion of browsers to buyers on the internet. See: Glenn Withiam, "The Internet 1: Is Anyone Making Any Money Here?," *Cornell Hotel and Restaurant Administration Quarterly*, Vol. 40, No. 6 (December 1999), p. 12.

Action Steps

Evaluate distribution-channel effectiveness. Participants recommended examining each channel's costs (direct and indirect) and benefits (tactical and strategic). Companies should not just look at reducing travel-agent commissions, but must think about how they can get each channel to operate more effectively, how they can actually get more business, and how they can ensure that they obtain the right kind of business from each channel.

Consolidate the distribution function. The participants were concerned about the number of entities involved in booking business and the consequent potential for overlap and inefficiency. A hotel not only has a rooms reservation department, but its banquet department accepts reservations, and so do its restaurants, spas, and golf courses. In addition, every hotel handles its own reservations, but also receives reservations via the central reservation system, the web site, and sales representatives, among others. Consolidating some or all of those offices seems inevitable. Some hotel companies are experimenting with accepting room reservations only at a central location. Participants see the following model for the future. The reservation function will be separated from the hotel. Sales people at reservation departments will market the hotel and not just book reservations. Three factors that are driving hotels toward a model such as this one are saving costs by consolidation, increasing revenue via better conversion, and saving costs by locating to low-cost areas (since the marketing and reservations function can take place anywhere).

Understand the customer's desire for direct access to inventory. The participants could not assess the extent to which customers want access to the hotel's inventory, so that they could book the "last

room" directly. If customers do, in fact, want last-room capability, hotels may need to put selected inventory in customers' hands. That matter will require more investigation.

Simplify the distribution process. The consensus was that the distribution process is messy and getting messier, owing to the many channels and rates. The group's suggestion was to focus on finding ways to make it simple for the user, the individual supplier of the hotel involved, and for those using a given distribution channel.

Key Challenge #2: Analyze Customers

The participants concluded that the industry doesn't understand as much as it needs to about its customers. While the industry captures considerable data on its customers, those data are rarely assembled to create useful knowledge about customers. Thus, hospitality marketers need to learn more about who customers are, why they buy, what they buy, and what motivates them to buy. Academe needs to conduct more studies on those topics.

Action Steps

Study travel patterns and trends. Participants expressed considerable interest in knowing more about travel patterns and trends. The group believes that many studies are either *ad hoc* (with no systematic process) or they are done by companies that have a vested interest in the results. What's needed, the group concluded, is a clear assessment of travel patterns and trends and objective and unbiased studies of prospective travel patterns. Marketing studies need to go beyond telling us, for example, that last year 20 percent of people traveling did so in a combination of business and pleasure. That doesn't help us to make proactive strategic decisions as much as knowing what is likely to happen three or four years ahead.

Understand the total experience. The general manager of a major-brand hotel in an Asian capital city explained the difficulty his hotel faces in encouraging repeat guests: “The customer’s repurchase doesn’t just depend on his or her experience at just my hotel, but on the total experience. So, to the extent that it depends on the total experience, I need to co-opt other partners in the process of managing the total experience.” Hoteliers need to recognize that the hotel stay is only part of the travel experience. Some entities are already attempting to influence travel purchases by offering destination-wide services. For example, a business hotel in a developing country uses its local contacts to facilitate a visiting executive’s entire trip—helping with visa formalities, arranging business services and meetings with local officials and executives, providing information on current local events and cultural protocol, arranging customs and immigration clearance, setting up a seamless transfer of business messages to the hotel room (including internet access), taking care of such local needs as gifts for local partners, and post-departure follow up and tying up loose ends.

Appoint “solution” managers. This action step derives from the concept that companies are really in the business of selling solutions rather than products and services. Participants talked about appointing “solution managers” as part of the business at both property and corporate levels. Some segments of the travel industry have begun to recognize the importance of this concept. For example, a series of advertisements by United Airlines in the *Wall Street Journal* declared: “For gate agents, read problem solvers.” Hospitality operators need to implement this philosophy at all levels of the business. The opportunity here is to take isolated “best practice”

examples like those in use at Ritz-Carlton (“If you pick up the phone, you own the call”) and Westin (“Service Express”), extend the idea to encompass all employees, and make it a standard operating procedure for all hotels.

Talk to your customers. This intuitively obvious action step often is not well implemented. Marketers need to establish a continuing dialogue with customers—before the purchase, during the stay, and after they return home. The participants urged hospitality operators to apply multiple methods for customer contact, and not rely only on such traditional methods as comment cards and surveys. Every customer-contact employee can have an ongoing conversation with customers as a way to understand their needs and responses to product offerings. What this means is that to create the ultimate customer-centric hotel, every customer-contact employee becomes a researcher, salesperson, and problem solver. Of course, employees must be trained to perform those functions. Where multiple languages are spoken, managers may have to provide all such employees with basic instruction in conversational English plus easy-to-identify devices such as flag pins identifying employees’ languages.

Key Challenge #3: Rethink the Business Model

Participants urged new thinking about the contemporary hospitality-marketing model. The group generally agreed that the current business model is broken. Symptoms include declining satisfaction scores, diminishing brand loyalty, increasing commoditization of the product, disgruntled franchisees, disenfranchised local communities, increasing supplier control, underperforming technology investments, and high turnover of employees. A revised business model would take a bal-

anced stakeholder approach by investing in value-adding products and services, building customer relationships, creating and developing knowledge workers, and giving back to the host community.

Action Steps

Define value drivers. Participants suggested examining whether the company’s product and service offerings actually add value for its customers. Rather than simply add more services and call that better service, for instance, operators should ask, do the services we provide really add value? Customers may actually want fewer, carefully targeted services. This analysis will tell operators what they do that adds value for their customers.

Focus on lifetime value of the customer. Participants stressed the need for businesses to incorporate in planning processes a measure of a customer’s lifetime value. The keys are maximizing each customer’s lifetime value and working to ensure customer retention, instead of focusing on individual transactions in isolation.

Invest in lifelong-learning programs. Too many people who work for and with hospitality companies are not able to pursue a life of learning, for which many have a need or desire. As long as companies treat their employees as effectively exchangeable cost commodities rather than business partners, companies will be reluctant to invest in employees’ lifelong professional development. In cases where companies do invest in their employees, lifelong-learning programs can help to ensure a group of effective employees who can themselves add to customer value. Participants suggested that marketing programs should offer employee educational incentives, recognize employee educational achievements, and actually pay for continuing education.

Incorporate social responsibility. Participants felt that companies can no longer pay lip service to social responsibility. Instead, socially responsible principles need to be incorporated clearly, precisely, and measurably into the business model. Whether it is planting trees, teaching in local schools, building houses, or providing surplus meals, participants concluded that social responsibility will become an increasingly necessary component of a winning marketing message. To make this work, this would entail tying measures of social responsibility to each employee's overall compensation plans, as some companies have begun to do.

Key Challenge #4: Keep Control of Technology

Technology is a large and increasing expense for most corporations. At the same time, our participants noted that many managers feel technology is getting away from them. For example, none of the senior-level participants at the workshop professed to having a good handle on IT's capabilities, how it works, how it benefits the company, and exactly what value it adds to the customer's experience.

Action Steps

Give marketers technical training. The group said that marketers must learn to make effective use of technology. This means that marketers themselves must learn to use information technology, rather than rely on IT people for technical support.

IT employees should report to the marketing department. The participants were well aware that this recommendation is controversial (especially for IT personnel). Indeed, one general manager remarked, "That's never going to happen on my watch." Nevertheless, the participants believe that IT has been

underexploited for marketing functions. The group suggested that IT is headed down the same path as the reservations function, which formerly was part of the front-desk operation, but now is under the marketing umbrella. Reservations became part of marketing because its function was redefined to be revenue maximization rather than merely taking reservations.

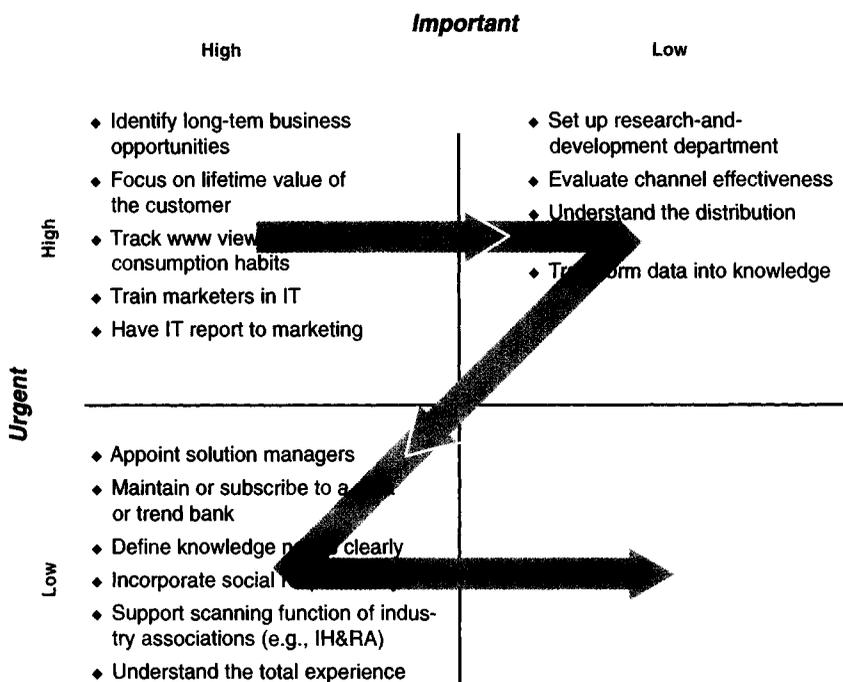
Clearly define knowledge needs and transform data to knowledge. Participants concluded that at present there is too much emphasis on data, and too little emphasis on knowledge. Thus, the consensus was to build a system based on what needs to come out of it, rather than what is going in. "Drowning in data, starved for knowledge" was a frequent refrain. Part of the problem, participants asserted, was that it was the "techies" who were defining the system based on technologically expedient solutions rather than usefulness to the user.

Along that line, participants agreed to refer to "knowledge-based" marketing instead of database marketing as a philosophical and practical shift from numbers of digits to useful information. Doing so would put the focus on developing technology-based marketing applications that were decision support systems rather than simply data generators. Examples might include merging yield-management and guest-history databases to create new and interesting ways to create offers for customers based on why they buy; what, where, and when they buy; who actually buys; how they buy; and how much they pay.

Broaden technical understanding to include all employees. Participants considered technology to be a modern tower of Babel, where people are talking different languages, nobody's talking to each other, and we're all talking at cross

Participants suggested that the IT department should report to the marketing department—controversial though that might be.

Exhibit 1
Urgent-Important (Z) matrix of marketing action steps



Participants were asked to vote on the top-three most-urgent action steps (need to be done immediately) and top-three most-important steps (will have the most impact). The top left-hand corner is Priority 1 (high urgency, high importance), followed at top right by Priority 2, and then at bottom left by Priority 3. No Priority-4 items were recorded.

purposes. The marketers see IT as absorbing immense amounts of money, from which they're receiving too little of value. Thus, the participants see the IT department becoming the new whipping boy for some companies—with management viewing IT as disorganized, doing too little, asking for too many resources, and not being customer oriented.

Key Challenge #5:
Evaluate Internet Opportunities

Even before the full, market-clearing effects of Priceline.com, eBay, and other web sites became evident, the think-tank participants knew that the internet would be important to future sales. The challenge is to make “e-commerce” work to the mutual best advantage of businesses and customers alike.

Action Steps

Study what works. Participants worried that hospitality operations were throwing big money at the internet without really understanding what works and what does not work. For example, while the internet represents a potentially powerful and cost-effective business source, the group saw many unanswered issues, such as how to expand internet use without alienating existing channels of distribution; how to justify investment in internet-related technology within the traditional return-on-investment framework; how to account for cannibalization of existing business as against new business; and how to prevent transaction costs from going up when customers use the internet to look (i.e., to shop around) but still book through traditional channels.

Track surfing and consumption habits. The group suggested tracking web hits and consumption habits to determine what is really going on with the internet and what the data are revealing about electronic commerce. The purpose here was to better understand who was visiting web sites, where they were looking, how many were buying, what they were buying, how much they were paying, and when and whether they were coming back. The key to compiling this information, the participants believed, is balancing the marketer's need to know (by “tagging” surfers) with the consumers' desire to maintain control over their data and keep their actions private. Ideas on how to do this included creating, supporting, or funding independent entities that could provide this data to decision makers in a timely and accurate manner while keeping customer specifics confidential.

Identify long-term business opportunities. Taking the long-term view, participants considered the opportunities arising not only from the advent of the internet, but also the increase in global travel and unprecedented levels of competition. They suggested that marketers need to know what role such diverse sites as Yahoo, Amazon, and Expedia will play in the future of hospitality marketing.

Log on to the “dotcom” generation. Participants noted the importance of connecting with cyber-savvy people under age 30. They felt that today's decision makers, strategists, strategic thinkers, and advisors generally could not relate to the needs of this customer group. Participants themselves did not have a sense of what members of the dotcom generation are looking for—or how they seek out their information. Certainly, because the internet is a commonplace for young people, they use (or view)

the internet in ways that are different from the 40-plus baby boomers (not to mention 60-plus travelers).

Key Challenge #6: Track the Next Big Thing (NBT)

A number of participants thought that they had failed to foresee the potential of new media and felt surprised by the seemingly sudden popularity of the internet. The participants speculated about what other technological marvels might be on the horizon. One possible NBT candidate was convergence of communication (telephone), information (computer) and entertainment (broadcasting and cable) and the implications of that convergence for hospitality marketing. Participants' general concern is to be more aware of the environment, so that they can proactively take advantage of any future developments rather than having them effectively drop from the sky.

Action Steps

Set up a research-and-development function. Evolving from operations analysts and revenue managers, an R&D specialist is the next position required for key management support at the property and corporate level. Participants at both levels spoke of the need specifically to devote resources to continual research and development. The participants suggested, for instance, that managers regularly ask employees, customers, and suppliers whether there is a better way to do something. When someone offers a suggestion, the participants said that it is imperative that managers test those suggestions. Such environmental scanning has the potential for becoming a significant source of long-term competitive advantage.

Study customers' businesses. Granting that hospitality managers spend considerable time studying their own businesses, their competi-

tors, and matters that relate to the hospitality business, participants identified an urgent need for hospitality managers to go a step further and study customers' businesses. They suggested studying the customers' customers, the customers' competitors, and the customers' suppliers. Such an analysis will give hospitality purveyors a fuller picture of how customers' businesses operate and how the hospitality industry can help them do a better job of succeeding in that business.

Maintain or subscribe to a data or trend bank. Marketers are hungry for knowledge and want to subscribe to services that provide useful knowledge. Thus, the participants suggested that marketers identify or develop data banks that can help managers keep pace with change in their businesses. Tying this to an earlier point about turning data into knowledge, an ideal solution might be one where a decision maker could support and contribute to a databank that in turn allows the person to make queries about a specific opportunity or challenge and receive a customized response at a reasonable cost. The group also cited the importance of supporting the data-collection efforts of Horwath, Smith Travel Research, PricewaterhouseCoopers, and PKF Consulting.

Support the environmental-scanning function of industry associations. Participants saw the value of conducting more think tanks. Most participants said that being able to anticipate change was an important objective that could be reached in part with the assistance of professional associations.

Priorities

By asking each participant to rank the action steps identified above, we were able to prioritize them on a two-dimensional Z matrix. Each participant was asked to vote

on the top-three most-urgent action steps (need to be done immediately) and top-three most-important steps (will have the most impact). This matrix is interpreted in the fashion of the letter Z (see Exhibit 1). The top left-hand corner is Priority 1 (high urgency, high importance), followed at top right by Priority 2, and then at bottom left by Priority 3. We recorded no Priority-4 items, which would appear at bottom right.

Aiming for Success

Success in the future will belong to those who are able to identify strategic opportunities for survival and growth. The goal of any think tank is to raise awareness of key forces and probe deeply into their meaning and consequences. As a next step, the reader is encouraged to think through each of the key points presented in this report and is challenged to develop competitive strategies to address those challenges.

The results of this think tank should be considered more directional than definitive, for trends continue to develop rapidly around the internet (as demonstrated by the merger of AOL and Time Warner, for instance). Moreover, the viewpoints represented here are those of the individuals who were able to attend the Manila congress. While we were careful to invite senior representatives from all the major industry segments and stakeholder groups, by no means did this group represent the entire industry.

We believe that creative, pioneering industry leaders will recognize the opportunities created by new marketing technologies and seek ways to adopt marketing strategies to develop competitive advantage. Marketers must shift their thinking toward developing a knowledge-intensive, interactive marketing environment. **CQ**