The Center for Hospitality Research
Hospitality Leadership Through Learning

2012 Cornell Hospitality Research Summit: Building Service Excellence for Customer Satisfaction

by Glenn Withiam

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Cornell Hospitality Research Summit 2012

Building Service Excellence for Customer Satisfaction

by Glenn Withiam

ABOUT THE AUTHOR

Glenn Withiam is the director of publications at the Cornell Center for Hospitality Research. The CHRS proceedings series would not have been possible without the notes provided by the following session reporters: Elisa Chan, Nancy Chan, Laura Fraefel, Mathias Gouthier, Arnab Gupta, Rahul Kamalapurkar, Sanghee Park, Kate Loh Qiaoling, Natasha Singh, Kanika Thakran, Matthew Walsman, Jie Yang, Yunzi Zhang, and Enlin Zhou. The session reporter group was organized by Kimberly Schlossberg, CHR conference assistant

EXECUTIVE SUMMARY

The 2012 CHRS customer satisfaction and service excellence presentations rested on the goal of improving revenues by ensuring satisfied guests. Although hoteliers inherently understand the connection, a study by PKF Hospitality Research shows how tightly the two are related. Another important source of guest satisfaction is a well kept property. Inadequate capital expenditures in recent years have caused satisfaction issues for some hotels, while others have benefited by maintaining capex. Employees' attitudes are essential to guest satisfaction, and the pacing, continuity, and order of service procedures are also important in this regard. Service is far more important in the guest-purchase decision than even price and location. It's usually not necessary to guess what customers want, since many will tell you what makes them happy or unhappy, often in public social media forums. Marketing research also provides the keys to providing guest value and earning their loyalty.

Hotels have not gone as far as they might with integrating revenue management systems to make pricing decisions. Advanced revenue management information is available through internet analytics, in addition to traditional methods. Two chains that have developed new revenue management decision systems are Hilton Worldwide and InterContinental Hotels Group. Both are using a data driven approach to price optimization. Data for pricing decisions includes the difference between revenue forecasts and actual revenue, and one analysis is to determine the reasons for any discrepancies. Hotels should not ignore the strategic use of distribution channels, including GDS-based approaches.

Cornell Hospitality Research Summit 2012:

Building Service Excellence for Customer Satisfaction

by Glenn Withiam

The 2012 Cornell Hospitality Research Summit offered a substantial menu of presentations on service excellence and revenue management. Several presenters emphasized the value of satisfied customers in the form of higher occupancy that supports firmer room rates. The presentations focused heavily on strategies for building customer satisfaction and for developing integrated, data-driven revenue management approaches. Most critically, presenters suggested that the hotel industry should integrate technology into customer satisfaction strategies, since technology provides the information that is critical to service excellence. Integrating revenue management more tightly with the hotel's management strategies will help improve room rates and distribution. In its own right, distribution has become a critical aspect of hotel management.

Satisfied Guests Equal More Profits

An analysis by Mark Woodworth, president of PKF Hospitality Research, confirms that paying attention to customer satisfaction is well worth it. PKF analyzed guest-satisfaction data from 756 properties operated by Hyatt Hotels and Resorts, InterContinental Hotels Group, and Marriott International, although the three firms had no hand in the study itself. Overall, guest satisfaction had a reasonably strong correlation with gross operating profit per available room, but on further inspection Woodworth found that the relationship had to be controlled for both chain scale and location. Thus, the GOPPAR comparisons must be made among like-kind facilities.

Next, PKF's analysis looked at the factors that led to guest satisfaction in a sample of 128 comparable upper-upscale and luxury hotels, testing maintenance expenditures and rooms department expenditures per available room, and also gauging F&B revenue. For all the satisfaction measures in the study (including overall satisfaction, likelihood to recommend and return, and value), maintenance expenditures were significantly associated with guest satisfaction. Room expenditures also had a significant effect on likelihood to recommend and return. High customer satisfaction was also significantly correlated with stronger F&B revenue (from all sources, including restaurants, lounges, and bars). Not surprisingly, a high GOP led to a lower value perception.

Finally, Woodworth looked at the effects of capital expenditures and labor costs on customer satisfaction for 30 hotels in the sample. The study found that greater capex investments led to greater overall satisfaction and a likelihood to recommend the hotel, and higher labor costs increased the likelihood of a recommendation. This is important because satisfied guests who are willing to recommend the hotel meant an above-market GOP, and a higher GOP was also found when guests were satisfied with the building condition (which is related to capex). The next step, according to Woodworth, is to expand the study to more properties in different chain scales and to consider more expenditure factors in relation to guest satisfaction. Also worth consideration is the level of expenditures that connect with guest satisfaction.

A Closer Look at Capex

A study by Barry Bloom, of Boston University, dug more deeply into the question of how capital expenditures influence guest satisfaction. Looking at guestroom renovation, the study examined how guests responded in terms of how recently the rooms were renovated. Bloom looked at two years of data for 46 properties owned by a hospitality REIT, with customer satisfaction as the dependent variable. Using data from 2006 and 2007 in separate calculations, Bloom noted the significant relationship of customer satisfaction with RevPAR and GOPPAR. Then, again applying the

***Mark Woodworth*: It's clear that guest satisfaction is a function of both service excellence and a top-level facility. Hotel maintenance is a large factor in that equation.**

About the 2012 Cornell Hospitality Research Summit

In a concentrated two-day period, the Cornell Hospitality Research Summit 2012 presented over 80 presentations on a wide variety of hospitality-related subjects, all focused on the key issues to advance the hospitality industry. Given the industry's many moving parts, specialized disciplines, and parallel enterprises, the overall message from the CHRS is the need to engage all stakeholders in the critical elements that create success for hospitality enterprises: providing service and facilities that satisfy customers, giving operators the tools to expand revenues, and controlling costs to provide a reasonable return for investors. In the process, hospitality executives and academic researchers presented their research on the many disciplines and issues that come to bear on the contemporary hospitality industry, including customer service, distribution, hotel investment and value, human resources, internet analytics, pricing and revenue management, restaurant service and operations, social media, sustainability, and technology.

CHRS 2012 brought more than 230 hospitality industry practitioners and researchers to the Cornell School of Hotel Administration in October 2012. The CHRS was expressly designed by the Cornell Center for Hospitality Research (CHR) to balance input from academic researchers and industry executives, with research-based presentations, keynote panel discussions, and hands-on workshops. CHRS 2012 was also the capstone event for the twentieth anniversary of the Center for Hospitality Research. In an anniversary video, CHR advisory board members and former CHR directors explained the CHR's development as the foremost source of hospitality research.

***Barry Bloom*: The connection of capex with guest satisfaction should be a consideration in scheduling capital expenditures.**

***Stuart Greif*: Key customer satisfaction performance indicators are relatively consistent across cultures, but different cultures place various weights on those indicators.**

two years' data independently, Bloom found a significant relationship between how recently the guestroom had been renovated and the level of guest satisfaction. The more recent the renovation, the happier the guest. Most critically, the study demonstrates that guest satisfaction is not wholly dependent on service quality (although that is essential), but is also connected to the hotel's physical product. The connection of capex with guest satisfaction (and thus GOPPAR) should be a consideration in scheduling capital expenditures. Given that the study rests on a relatively small number of hotels, it should be repeated with a larger sample, but the study does provide an indication that a hotel could set a schedule of "defensive renovation" for the purpose of ensuring guest satisfaction.

Cross-border Guest Satisfaction

One of the complexities of operating an international brand is the inevitable comparisons that must be made from one country to another. While it's true that Americans provide the highest ratings and British, Germans, and French are the most critical (with Asians in the midrange), a new study by J.D. Power and Associates has found that travelers from various nations have more points in common than differences. As explained by Stuart Greif, vice president and general manager of the Global Travel and Hospitality Practice at J.D. Power and Associates, the reasons that guests give for choosing where to stay are relatively consistent from country to country, with the exception of Japanese travelers. Moreover, the overall drivers of guest satisfaction are similar in many countries.

The J.D. Power and Associates database includes nearly 100,000 travelers globally, about three quarters of them leisure travelers. Asian travelers are represented by Japan; Europe by France, Germany, Italy, Spain, and the United Kingdom; and the Americans in the survey are from Canada and the United States. For the travelers in this survey, the universal considerations of price and location were the top two hotel choice considerations. However, the third most important factor for the Japanese alone was getting a package deal, which was generally far down the list for travelers in other nations, most of whom relied on previous experience as a decision factor. [1]

Although satisfaction drivers are relatively consistent across these nations, Greif did highlight two differences. Japanese guests were less likely to put weight on cost and fees than were the North Americans, and F&B was slightly less important to the North Americans than to the Europeans or Japanese. That said, Greif pointed to key performance indicators that are nearly universal, albeit weighted differently: reservation accuracy, awareness of conservation programs,

[1] A separate study has explored the importance of package tours for travelers from Mainland China. See: Peng Liu, Qingqing Lin, Lingqiang Zhou, and Raj Chandnani, "Preferences and Attitudes of Chinese Outbound Travelers: The Hotel Industry Welcomes a Growing Market Segment," *Cornell Hospitality Report*, Vol. 13, No. 4 (Cornell Center for Hospitality Research).

***Michael Dixon*: The timing of service elements is critical to guest satisfaction, and those elements must also be connected in the guest's mind.**

***Enriccho Secchi*: Although service scripts are essential to service excellence, the ability to improvise on those scripts is also important.**

billing errors, internet connection problems (on property), guest-stay problems, check-in time, and staff interactions. Looking at differences, Greif noted that conservation programs were a lower satisfaction indicator for Japanese guests than all others, but when it comes to a delayed check-in, the Americans hate to wait, while Japanese guests are the most patient. On balance, problems of various types and the level of staff contact are the two factors that have the greatest effect on satisfaction worldwide. Moreover, Greif concluded, in all nations in the survey, an outstanding guest experience drives commitment and loyalty.

Sequencing Service

As with so many other things, timing is essential to good service. In "choreographing" service, one has numerous levers to pull, including setting, timing, actions, and scripts. In his research on service sequencing, Michael Dixon, of the Naval Post Graduate School, has focused on the timing of service elements. Lest one think that the military disregards service, Dixon points out that service excellence is important in the treatment of troops. In considering the timing of service elements, Dixon took into account three effects: the peak effect (peaks and valleys in an experience), the end effect (people remember the final event most clearly), and the trend effect (which involves people's view of the direction of events). With regard to the trend effect, this explains why it's better to get something bad over with early, and this analysis also suggests spreading peaks chronologically.

Working with Cornell professor Rohit Verma, Dixon analyzed the season subscription concert packages offered by the Vienna Concert House (*Wiener Konzerthaus*). He found that subscription sales could be improved by manipulating the timing of the "big" concerts—spacing them apart in the season and interspersing smaller events. Applying these principles to hotel service, he notes two ways of looking at peaks in service. There are predictable peaks, which involve events that customers expect, and actual peaks, which are surprises that delight customers. While one might think that surprises are always good, one question they raise is whether it's better for customers know about a peak service point in advance so they can anticipate it. Regardless of the pacing of peaks and valleys, the elements of a service must be connected, Dixon concluded.

Improvising on Service Scripts

While it's clear that service scripts provide assurance that a task will be performed as specified, it's inevitable that associates will have to deviate from those scripts in certain situations. The ability to improvise on scripts is a critical ability, according to Enrico Secchi, of the University of Victoria. To that end, he has investigated service improvisation competence (Serv-IC), which is the aggregate ability of a firm's employees to respond in a timely and appropriate fashion to unanticipated events. His study found that the outcome of improvised service depends largely on the type of service. We know that for some services customers will trade off

CHRS presentations were moderated by industry and university experts who contributed their own insights. Here, Jan Schnabel, managing director of Marsh, Inc., opens the session on contemporary challenges.

***Jonathan Douglas*: Hotel design must draw on the guests' desire for an experience by developing a story that includes authentic guest experiences.**

personal treatment in exchange for service efficiency. So, for instance, guests at a quick-service restaurant are just as happy when counter associates stay on script and move things along, but that is less the case in an upscale restaurant. For hotels, this concept can be expressed in terms of degree of scripting versus customer experience level in a four-cell typology. Low scripting and experience might be found in an independent B&B, with "unstructured service," while a theme hotel's "scripted experience" would have both high scripting and high experience. Low experience with high scripting, "standardized service," could describe a select-service hotel, and a "personalized experience," with high experience and low scripting, might be typical of a boutique hotel.

Service improvisation influences these four types of service differently, Secchi found. For the personalized experience and the scripted experience, the ability to improvise had a positive effect. There was no effect on unstructured service, which after all has no script on which to improvise, but the effect of improvisation was negative for the standardized service property. Using a model based on this framework, Secchi examined the ADR, occupancy, and RevPAR for 242 hotels. He found an occupancy boost for hotels that have a high-experience service, notably the scripted experience (theme) properties. Secchi concluded that there seemed to be tradeoffs between low costs and lots of scripts, and high costs and experiential flexibility.

Staging the Guest Experience

Because many guests are seeking an experience, when Jonathan Douglas designs a room he also develops a back story for that design. Douglas, an architect who has designed many lodging projects, says that the hotel's design must deliver a story. Just as with a short story or novel, the design "story" should build up to a climax that crystallizes the experience. Douglas adds that stories are personal, with a clear theme and an appropriate energy level. Every part of the design contributes to a balanced and compelling story. Additionally, the design story should align with the property's brand, which itself has a story. Developing the story is a stepwise process that begins with a plan for what the guest should see, a program that supports the guest experience, concepts that take into account the realities of the site, and building concepts that bring the story to life. The result should be an excellent guest experience.

Douglas offered the following key experience elements for a resort story: harmony and respect for the setting, inspiring spaces, authentic guest experiences, spacious and personalized guest room, diverse and engaging resort amenities, a chef's market, spontaneous entertainment venues, and living libraries with branded giveback programs. To make the story real, the essential elements are: a guest experience with impact, natural harmony with the setting, views, positive physical connection with the environment, and eco-sensitive development. In conclusion, Douglas said

***Lewis Carbone*: One way to learn about the customer experience is to measure it in real time, based on the many clues guests use to assess their experience.**

***Mattias Gouthier*: To develop service excellence standards, you must be able to measure customer satisfaction. For this, hoteliers can draw on existing service excellence frameworks.**

that the idea is not to design the hotel to be an experience, but to design the experience to be a hotel.

Gauging the Customer Experience

Today's most successful companies are focused on the learning about their customers' experience in connection with their product or service. Lewis Carbone, of Experience Engineering, presented the concepts behind a mobile app prototype, known as Experience Value Management, which is intended to assess customers' experiences in real time. Assisting in the research underlying this software was Jonathan Carbone, Kathy LaTour, and Michael LaTour. On leave from the University of Nevada, Las Vegas, Kathy LaTour is a visiting professor at the School of Hotel Administration, where Michael LaTour is a visiting researcher. Customers use three types of clues to determine their experience: functional, mechanic, and humanic. These clues create both positive and negative feelings that contribute to the customer's experience. The clues must be aligned to create a connection with the guest, and it's important to learn which clues are too much, too little, or nice touches. Carbone applies a systematic method of scanning, evaluating, and developing clues. As more data are collected, hoteliers can learn which points are important to which guests, since some things are more critical for some customers than others.

Toward a Service Excellence Standard

Hospitality firms espouse the goal of delighting customers through excellent service. But it doesn't always happen, in part because of financial limitations, but also because the pieces are not always in place to ensure customer delight. Moreover, the real goal extends beyond service excellence and delighting customers to encouraging them to recommend and return to the business. To that end, Mattias Gouthier, of the EBS Business School Center for Service Excellence, has studied the elements that would create a standard for service excellence, since existing models do not seem to be sufficient. Three standards already exist for the elements of a service excellence framework, ISO 9001, ISO 10002, and the German standard DIN SPEC 77224. These embrace four key elements: the core producer value proposition, proactive complain management, personal service, and the extra element that surprises and delights the guest. The core assumptions for developing a standard are **(1)** a service excellence program cannot succeed without management support; **(2)** only delighted employees can produce delighted customers; and **(3)** you must be able to measure customer delight to manage it (as with any other objective). Among other steps, this means encouraging customers to express their delight. The next step in the process is to develop a European standard for service excellence systems. More than ten countries are involved in this project, which will include the employee delight factor.

Satisfied Employees Create Satisfied Customers

Both the service-profit chain and the emotional contagion model come to similar conclusions: employees drive cus-

***Mareia Valverde*: Employees' good moods are contagious, and this improves guest satisfaction. Thus, managers should pay attention to employees' attitudes.**

***Mary Beth McEuen*: Brand managers must understand human motivation, including the fact that people are driven by multiple motivations.**

tomer satisfaction. Studies using each of these individually have failed to explain the entire employee-customer relationship, but combining the two provides a better model of how employee mood rubs off on customers. To test this notion, a study by Mireia Valverde, Yury Ustrov, and Gerard Ryan, of Universitat Rovira i Virgili, surveyed both employees and customers on their views of a hotel reception service encounter. The study took in 59 employees and 519 customers in 47 hotels. The researchers concluded that both models help to forecast the employee-to-customer satisfaction connection. However, missing in the data is the key to elevating employees' moods and what specific human resources practices lead to employee satisfaction. Cultural differences enter into both of those issues, but in any event managers need to pay attention to employees' mood and satisfaction, while all hands work to ensure that customers' needs are satisfied.

Improving the Guest Experience through Connections

Because people are wired to be social, they respond favorably to brands that engage them and to employees who are also engaged. As explained by Mary Beth McEuen, vice president and executive director of the Maritz Institute, consumers are increasingly motivated by brands that offer such attributes as kindness and empathy, friendliness, high quality, and social responsibility. She suggests that brand managers first understand the science of human motivation and behavior and then creatively apply those insights in brand-management strategies. Research from Harvard has shown that people are simultaneously driven by multiple motivators, including acquiring status and stuff, defending their status, engaging and cooperating, and creating a better self and world. People are wired to relate to each other, and social rewards activate the same brain centers as money does. As a consequence we like what our friends like, defend what we have advocated, and identify with people and brands that share our values.

Tying these observations into a brand management approach, McEuen used the acronym RULE: reframe, understand, listen, and engage. First, marketers must reframe their appeal to consider the whole person in their marketing (not just as a consumer), and all four motivating drives can be activated. Second, in understanding their customers, a self-relevant brand aligns to human values to create a brand community. Third, the company must pay careful attention to customers and immediately respond to customer conflicts when they are identified. Finally, the entire organization should engage the customer to create the brand experience. In conclusion, McEuen said that in addition to understanding the science and art of human-value related brand man-

***Vaibhav Garg*: Hotels must not only have consistent service, but also identify the best practices that foster service improvement.**

***Maria Barton*: The top reasons that customers leave are related, including poor staff attitude, failure to make guests feel valued, and poor service.**

agement, the effort requires heart, to genuinely see people as people and strive to make their lives better.

Focus on Consistency

Consistency of service is one of the driving forces of the recent reorganization of the brands operated by Taj Hotels Resorts and Palaces, according to Vaibhav Garg, manager of the Vivanta by Taj—Coral Reef, Maldives. In addition to its Vivanta group, Taj offers differentiated tiers labeled Luxury, Collection, and Gateway Hotels. In addition to consistency, the hotels also seek to identify best practices to foster service improvement. This includes listening to guests and noting their constantly changing requirements.

Importance of Service Innovation

Few hospitality operators would debate the concept that excellent service is critical to customer satisfaction and business success. Looking at service innovations, Maria Barton, of Deloitte Consulting, pointed to four service-related factors as the top reasons that customers desert retail operations: undesirable staff attitude, failure to make the customer feel valued, dishonesty or lack of integrity, and poor service. Such common excuses as price, location, or reward programs are far down the list of reasons for lost customers. Three well-known ways to innovate service are personalization, targeted interactions, and a full view of the guest as a customer—yet too many operations fail to take advantage of these strategies. These approaches will build the relationship between the operation and the customer.

Technology will abet these strategies, for instance, if a company responds to a customer's tweets with specific information. When guests perceive that someone actually cares about their situation, their perception of the company and service improves—with a demonstrated direct improvement in revenue. The current technological environment provides substantial data about guests, and Barton urges rapid analysis and use of those data to interact with guests. In this way, guest data become a corporate asset, and should be treated as such. With this knowledge at hand, a hospitality firm can "give back" to the guest, by developing a service experience that expressly responds to the guest's particular needs and desires. This may include a plain and simple experience, or it may be a more involved interaction. Your data will tell you which experience the guest desires. Most critically, a single strategy to service innovation will neither suffice nor last for any length of time.

Improving Service with Customer Comments

Yogeesh Chandra sees the hospitality industry missing a huge opportunity to improve service by its failure to apply the lessons of guest comments on social media. His firm, RateGain, has developed a scorecard-based approach to service improvement. Chandra, who is a vice president with

***Yogeesh Chandra*: Hotels that do not make use of guest comments and reviews are missing a substantial source of data.**

***Rob Kwortnik*: Education may be one way to reduce some guests' tendency to remove items from the hotel guest room.**

RateGain, pointed out that only 5 percent of hotel team members read hotel reviews and most executive teams spend less than an hour per month discussing reviews. Yet, here is a rich source of guest data. RateGain thus created seven scorecards that can be the basis of setting strategic goals and creating an implementation strategy. Each scorecard has from 18 to 40 key performance indicators. By integrating the reviews, hotels can relate comments to specific issues, for example, rooms, services, or value, which then relate to such outcomes as guest satisfaction, revenue, or businesses processes. The model then creates a feedback loop that starts with guest comments, flows through improving operations, and results with improved online reputation. That reputation is the source of additional online reservations.

The Case of the Purloined Pen

Guests regularly walk away with hotel room amenities and equipment, but the question is, why do guests take what they take? An analysis by Cornell's Rob Kwortnik found numerous reasons for "lifting from lodging." Kwortnik surveyed 192 hotel guests to find out what they took and why they took it. The list of loot will be familiar to hoteliers. Bath amenities, pens, stationery, coffee or tea, and the room key were most frequently mentioned, although towels, slippers, and even the hair dryer (with its cord neatly cut) also showed up on the list. Guests viewed the amenities and several other small items as part of the room rate, and even those who took slippers gave that explanation. The few people who took pillows justified that theft on the grounds of needing them for personal use, and appreciating their high quality. Top reason for taking the ashtray was that it is a souvenir.

That last response applies to many other items, including door hangers, pens, mugs, and stationery. Kwortnik suggested that hoteliers consider the promotional value of such small items in terms of marketing. But the guests in the sample also had advice for managers who don't want to lose FF&E. Bolting them down or conducting an educational campaign regarding theft were the two most acceptable shrinkage-prevention methods, followed by using dispensers, putting price tags on the items, or using unbranded items. Kwortnik believes the dynamics regarding bathroom amenities might change if guests knew what hotels do with opened shampoos and soaps, for example, by highlighting the hotels' donations to homeless shelters. What he cannot explain is the most unusual theft that was reported: one guest cut out a section of the newly laid carpet.

Focusing on Five Stars

In the midst of an information tsunami, hotel guests appreciate a reliable method for rating hotels. Based on that concept, Shane O'Flaherty, CEO of *Forbes Travel Guide*, explained his firm's expanding effort to develop a global rating scale for hotels. With a ratio of about 30 percent facility and 70 percent service and experience factors, the Forbes rating includes over 500 service and facility standards, many of them involving critical consumer touchpoints. O'Flaherty noted that the hotel industry in Asia continues to advance, particularly in high end properties. Some of the over-the-top

***Shane O'Flaherty*: Hotel guests appreciate a reliable method for rating hotels, particularly a method that includes numerous diverse touchpoints.**

***Rob Rush*: True guest loyalty involves creating an emotional connection with guests. Truly loyal guests visit more often and are generally more satisfied.**

features found in Asian luxury hotels include huge bathrooms, touchpads to control room systems, free VOIP for international calls, and spa suites. Perhaps one reason for the Asian focus on facilities is that Chinese travelers diverge from those in other nations by placing more weight on the facility than on the service in their rating of hotels. Also hot is the London market, O'Flaherty said. It vies for the title of having the most five-star hotels of any world city. Its hotels also are involved in the bathroom trend, and it is particularly known for modern facilities in historic buildings.

Improving Guest Value to Gain Loyalty

The winter of 2011-12 was one of the warmest and driest seasons on record in North America, and ski areas in the northeastern United States struggled financially. However, Vermont's Stowe Mountain Resort had a reasonably successful season, due to a guest loyalty strategy, accord to Michael Colbourn, Stowe's vice president for marketing. In an effort to build loyalty, Stowe several years ago called in LRA Worldwide, which surveyed guests to determine their loyalty levels and then helped Stowe to implement a guest-relationship program. Rob Rush, LRA's CEO, explained that the survey covered all aspects of the guest experience, not just the ski mountain. From this survey, Stowe identified customers who are emotionally connected, and who are more likely than others to engage in multiple activities while at the resort, to visit more often, and spend more during their stay. These guests are also more likely to be satisfied with their stay. Looking at the skiing experience, Stowe found six different customer segments based on attitude. The three highest value segments included advanced skiers who prefer upscale accommodations, skiers who value experience over price, and relatively inexperienced skiers who are looking for a "total" experience that includes shopping and dining as well as skiing. The three lower value segments were the price sensitive skiers who go from resort to resort looking for the lowest price, another price sensitive group looking for great skiing for little money who aren't interested in other amenities, and a group who are focused only on the ski experience and will spend money to get that, if necessary.

Distribution and Revenue Management

Despite all that's been written about revenue management and competitive pricing, Natalie Osborn of the SAS Institute believes that many hotels have not gone far enough in their pricing strategies. Given the immense store of available data, the fact that hotels still set prices manually makes little sense, she believes, especially since that ends up largely being a game of follow the leader. Instead, she recommends managing demand effectively by using a revenue management systems approach that incorporates competitive data, applies business rules constraints, and provides user overrides as appropriate. Competitive price data are readily available and can be used as an alternative to a decision system. Using data collected from one OTA for one night, for example, Osborne found that a single hotel's change in price could be either good or bad, and so other hotels should not blindly follow until they make the determination of whether the

***Natalie Osborn*: An effective revenue management system manages demand by incorporating competitive data and using business rules constraints. "Follow the leader" is a bad approach.**

***Ravi Mehrotra*: For effective rate management, hotels must break down the silos and consider all aspects of the operation.**

pricing change makes sense. Since competitors' prices do influence demand for a particular hotel, managers should keep track of reference prices and analyze competitors' rates to determine the overall sensitivity of the market to rate changes. By taking into account price elasticity, a hotel's management can set prices appropriately to bring in more customers and more revenue.

Total Revenue Managementt

The core concept of revenue management is elegantly sensible, but hotels have found the implementation to be notably complex, especially in full-service hotels, with their many sub enterprises. Because the traditional approach to revenue management does not provide an optimum solution, Ravi Mehrotra, founder and president of IDeaS, explained a two-prong approach to revenue management that includes both an analytics perspective and a business perspective. As a starting point Mehrotra noted that most hotel operations are operated as silos, when instead the hotels should considering all operations in concert. Complex though this may be, it's possible to break the problem into its component parts and then solve each piece. Information technology provides the information and analysis that allow the managers to develop strategies and make pricing decisions.

Even a multi-night stay involves more complexity than a single-night booking. Then, if function space is involved, that must be included in the calculation, so that the demand for rooms and function space is met appropriately. The answer is to iteratively compare demand against price for each element until a solution is reached that gives the greatest revenue for a particular price and demand level. The interative process involves a feedback-oriented loop of baseline, strategy, procedures, forecast demand, pricing, optimization, measurement, modification, and then returning to the new baseline, taking into account all revenue sources. At root, analysts must state their assumptions when creating mathematical decision models and then track those assumptions to see whether they are applicable in reality. Mehrotra warns that rate parity is not the goal; instead one should aim for yield parity, and determine how to measure that. In closing, he also noted that pricing power comes from brand consistency and differentiation, while transparency leads to a pricing challenge.

Strategic Pricing and Revenue Management

Hilton Worldwide and InterContinental Hotels Group both sought to move beyond simple pricing to a strategic stance in revenue management. Matters were complicated for both firms by their immense global systems comprising numerous brand tiers and many franchisees. In two separate presentations, representatives of Hilton and IHG explained their approach to the strategic pricing and revenue management.

Revenue Management Strategy

With 3,900 hotels worldwide, revenue management is a complicated process for Hilton Worldwide, as it is for other large hotel firms. Chris Silcock, Hilton's global head of revenue

***Chris Silcock*: A decision system helped provide the necessary support for effective revenue management chainwide, including franchise properties.**

***Craig Eister*: A rational revenue management system includes pricing strategies that make sense to all parties, particularly in regard to price changes.**

management, said that monitoring one year of inventory involves 208,780 data points. Specifically addressing the focused-service hotel model, Silcock explained the strategies needed for effective revenue management in franchise properties. Step one was the determination to buy a decision system, which provided essential analytic capability. Hilton then built a revenue management system, while Hilton International purchased a system from IDeaS. They selected IDeaS for its leadership in analytics and its hospitality knowledge. The next step was a proof of concept, by testing data in a 50-hotel simulation, followed by a live pilot in 20 properties. While the financial results were favorable (compared with competitors' RevPAR), technical issues required further considerations. After assessing both centralized and decentralized models, Hilton created a networked approach that included both models, so that the company could draw on its central strengths while taking advantage of the individual characteristics of many operators.

Pricing Strategy

InterContinental Hotels Group has a system comprising well over 4,400 hotels, with another 1,200 in the pipeline, and revenue of over $20 billion in rooms revenue through the IHG systems. Since 1993, the Holiday Inn brand has worked on inventory and pricing optimization, now under the IHG umbrella. IHG's general approach is to optimize best flexible rates and associated rates. Craig Eister, IHG's vice president for global revenue management, explained that part of the challenge was to select a method for rational price setting that made sense to all parties, particularly in terms of making clear to the guest why there might be a discounted price. Eister said IHG started at the beginning by researching models and analytics, then gathered feedback from hotel revenue managers and corporate and regional personnel, and developed and tested prototype systems. Eventually the firm conducted a live pilot test that showed a 3.2-percent RevPAR lift. Coordinating with the Revenue Analytics firm, IHG then developed its price optimization system, known as Perform, which also interfaced with the Holidex system. In conclusion, Eister said that response to the IHG system on the part of stakeholders was positive, and the system recorded a 2.7-percent increase in RevPAR.

Price Optimization

Given that a typical hotel faces over 76,000 pricing decisions each day, Dax Cross, president of Revenue Analytics explained that the necessary demand forecasting requires both precision and granular data. To aid in the decision, Cross has developed price sensitivity models that predict how demand would respond to changes in price positioning—both by a hotel and by its competitors. To make the system believable, the optimization model was made transparent to users, so that they could take action based on its recommendations. Among the principles used in this approach is to interact with the revenue management system's forecast frequently, replace the "last year" data with a moving average, and make

***Dax Cross*: Apply frequent forecasts to rate decisions, and avoid a race to the bottom.**

***Kelly Semrad*: Exploratory data analysis can give hotel managers the information they need for effective revenue management.**

certain the forecast is price sensitive. Above all, Cross warns hotels not to lead the way down in rate, since competitors will match such a move and then no one steals share. Instead, track a benchmark rate and focus on three to four competitors. With regard to price sensitivity, Cross recommends performing market tests to assess price response, record rate-price sensitivity by segment, and conduct breakeven analysis in the case of price decreases.

Exploratory Data Analysis

Helpful and comprehensive though they are, hotel industry reports do not provide hotels information in the form they need for revenue management, according to Kelly Semrad, of the University of Florida. But those reports are the starting point for a process known as exploratory data analysis (EDA), which can help managers project future rates and manage inventory. In a study with Robert Croes, of the University of Central Florida, Semrad discussed how to decompose averages using EDA, which includes analysis to break the data into batches and evaluate the spikes and dips in revenue—with a goal of focusing on the gaps between forecasts and reality.

The analysis starts by looking at a hotel's actual revenue, the revenue forecast, and the differences between them (the statistical errors). EDA then examines the hidden message in those statistical errors by considering them as a variable in a regression analysis. The analysis then proceeds over time as the situation changes. Modeling prices using averages does not work in an industry as dynamic as the hotel business. Thus, the data's patterns can be understood only in connection with the random fluctuations in those data. Data do have to be adjusted for seasonality, but as long as demand is uncertain, the solutions to pricing have to address that uncertainty.

Analyzing Web Distribution Efficiency

With hotel rooms being distributed by OTAs, search engines, and proprietary websites, hoteliers need to determine how efficiently they are using each of these channels. Thomas Maier, of DePaul University, demonstrated a framework for distribution efficiency which he called RCo2P: reach, consistency, content, and price parity. Taken together these factors can measure a hotel's internet presence. Reach is evaluated according to a hotel's presence in the three distribution channels: OTAs, search engines, and Brand.com. Consistency evaluates the hotel's marketing message as it appears on each channel. Content considers such matters as the hotel's booking amenities, virtual tours, mapping, local events, and language options. Finally, price parity is essential for reducing consumer confusion, and it is evaluated based on the hotel's control of price consistency on the multiple distribution channels.

Maier tested this measure on twenty hotels in Chicago over a ninety-day period. Few of the hotels were making optimal use of their web distribution opportunities, and some were dangerously inconsistent. Economy hotels were most efficient in maintaining price parity, while luxury hotels were less so. Maier concluded that these hotels were

***Thomas Maier*: An analysis of distribution websites found that few hotels are making optimal use of the available distribution channels.**

***Cindy Estes Green*: Hotels should analyze their distribution channels and target the most cost-effective of those channels.**

focusing more on their online content than on price parity, even though price is a key criterion for most guests. He suggested that hotels consider search engine partnerships to promote preferential display sequencing, which was another problem identified by the study. To encourage guests to use Brand.com, hotel brands need to promote brand equity, which helps drive traffic to the hotel's website.

Targeted Distribution Strategies

With distribution costs increasing even as real ADR remains flat, Cindy Estis Green, of Kalibri Labs, argued for targeting distribution channels according to their cost effectiveness. She sees no end in the pressure on room rates, and overall demand is relatively inelastic. While it's true that hotels can partner with OTAs to grab market share, the hotelier has to figure out how to appear prominently in search results at critical points in the consumer's room search.

Understanding consumers' online behavior is essential in any distribution strategy. A hotel should consider its appearance in any of the eight facets of the booking process, which involves inspiration, search, planning, validating the choice, sharing information, experiencing the hotel, preparing for the trip, and booking the hotel—not necessarily in that order. Hotels must be aware of the many models used by web distribution channels, including Google hotel finder, which uses a bid model; Room Key, a meta search site with popunders that charges a 10-percent commission; and the many social sites, including Facebook, with its booking engine widget, and YouTube, with its merchandise store. The field is rapidly expanding with referral sites, such as gogobot, trippy, and hotelme, as well as merchandisers such as Groupon. TripAdvisor and Siri have also altered the distribution landscape.

In one regard, to the extent that these sites are gatekeepers, they can effectively act as toll booths, or they can be opportunities for traffic. Regardless of the function of these channels, industry distribution costs are headed upward. For this reason, hoteliers should conduct a flow-through analysis of the full cost of distribution to see which channels bring in the strongest GOP per room-night, or net operating income per room-night. Green's sample analysis found that GDSs and Brand.com were the two electronic sources with the highest NOI, and the telephone also makes a strong NOI contribution. Lower ADRs from opaque and market OTAs resulted in lower NOIs, by comparison.

In conclusion, Green urged hotels to establish their optimal channel mix by assessing GOP or NOI, recognizing that channel partners' primary function is to shift share, given that the marketplace has little incremental demand. She further suggested that revenue management should be reformulated to move beyond revenue and become profit contribution management. Finally, hotels with adequate facilities should take another look at the group and meetings market, since many groups are now using third-party booking agents.

The Value of GDSs

Picking up on Green's comment about potential NOI from GDS distribution, John Hach, of TravelClick, expanded on the dimensions of this distribution channel. To begin with, the internet did not entirely disintermediate travel agents. Small agencies either closed or merged in many cases, but large travel agencies are still rolling along, making 52 million hotel bookings worth about $16 billion in 2011. One reason that travel agents continue to operate is the "paradox of choice," in which consumers are paralyzed by having too many booking alternatives.

TravelClick surveyed 495 travel agents in twenty-five countries in 2011 to create a profile of the travel agency segment. Four GDSs were represented: Amadeus, Galileo, Sabre, and Worldspan. Despite the mergers, the travel agencies in the Americas are small on average, employing six or seven highly educated people. In Europe, the average employment is just over eight agents, and the typical Asian agency employs more fourteen agents. Brands are powerful in GDS distribution, said Hach. Many agents have at their fingertips the codes for the brands that they will search for their clients. Hotels must realize that just offering corporate or negotiated rates is not always sufficient, since the agent has the power to search for lower rates, even if that search confirms that the corporate rate is best. In any event, the travel agents want price parity in the GDS. The agents advise hotels to make sure that any promotion offers rate availabilities for all dates in a given search. They also want to see a dynamic rate update that inserts the best available rate (by date) into each message on the GDS. Moreover, the agents point out that rate alone doesn't always make the sale. The hotel also has to offer value, which often means free internet. As a closing point, Hach said that high value guests are loyal to their travel agent, and not so much to a hotel brand. ■

***John Hach*: Hotels should not overlook the power of GDSs as a distribution channel. Travel agents continue to be effective intermediaries.**

Participant interaction is an essential facet of CHRS. Here, Rocco Angelo, professor and associate dean at Florida International University makes a point.

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