
Chapter 14

Relationship marketing

Chapter Objectives

After working through this chapter, you should be able to:

- Understand the differences between a relationship marketing strategy and a transactional marketing strategy
- Identify the components of a relationship marketing strategy
- Evaluate the concept of loyalty in the context of hospitality
- Analyze the role of frequent guest programs in hotel branded chains.

Introduction

The usual focus of marketing activities has been on the acquisition of new customers. This traditional approach to marketing is described as transactional marketing. Once a customer has bought the product there is no attempt to develop the relationship further; the transaction is complete from both the customer's and the company's perspective. This approach to marketing used to be the dominant approach to marketing practice.

The concept of relationship marketing takes a different perspective, and looks at key customers as a business asset that should be nurtured. This approach recognizes that some customers have the potential to generate significant value for companies over a long time period. The focus of relationship marketing is therefore to attract, maintain and enhance customer relationships. In hospitality businesses, 'regular customers' have always been recognized as important customers. The owners and managers of hotels, pubs and restaurants naturally develop a close rapport with regular customers, giving them a special welcome, knowing their preferences, and making sure they are looked after well. However, for branded hospitality chains this recognition of key customers at the unit level was not easily transferred across all the other units in a chain until the ICT revolution provided the computer systems to construct and distribute guest histories. Whilst independently owned and managed units can build upon their traditions of hospitality and develop relationship marketing strategies for the unit, most of the theoretical discussions in this chapter have evolved from research into multiple-unit branded chains.

In this chapter we will explain what relationship marketing is, and discuss the economics of customer retention, the characteristics of relationship marketing, and what multi-unit hospitality companies need to do to implement a relationship marketing strategy. Finally, we will consider the role of loyalty and frequent guest programs in hospitality.

What is relationship marketing?

Relationship marketing is both a philosophy that puts customer retention at the heart of the business process and a marketing strategy, with a set of tools and practices, which a company uses to implement relationship marketing objectives successfully. Table 14.1 contrasts the traditional transactional approach to marketing with relationship marketing.

Gronroos (1994) defines relationship marketing as:

{to}identify and establish, maintain and enhance, and where necessary, terminate relationships with customers and other stakeholders, at a profit so that the objectives of all parties involved are met; and this is done by mutual exchange and fulfillment of promises.

The key point about relationship marketing is the recognition that customers who make repeat purchases have a high lifetime value. Lifetime value (LTV) is the present-day value of all historic and future profit margins earned from sales to a particular

Table 14.1 Relationship and Transactional Marketing

<i>Transactional marketing</i>	<i>Relationship marketing</i>
Single sale focus	Customer retention focus
Focus on product features	Focus on customer value
Short-term promotions	Long-term relational marketing
Customers tend to be price-sensitive	communication
Short timescale	Customers tend not to be price-sensitive
Discontinuous customer contact	Long timescale
Token commitment to customers	Continuous customer contact
Quality is an operations issue	High commitment to customers
	Quality is an issue for all employees

customer or segment. Building close relationships with key customers should be mutually rewarding for both the customer and the company.

However, a relationship marketing strategy should be targeted at selected hospitality customer segments. Not all customers want a relationship, and not all customers merit a relationship. We have already mentioned in Chapter 13 that hotels and restaurants have a large number of customers who are unlikely to return, and therefore trying to build a long-term relationship with these customers is not cost-effective. There are two other customer segments that are unlikely or unwilling to want to develop relationships with a hospitality company. Some customers are aware of the wide choice of competitor products in hospitality markets, do not want to limit their options by developing a relationship with a single brand, and prefer to switch their custom accordingly. Other customers are not interested in any type of relationship with any company, and simply look at the most appropriate quality, value and convenience available at the time of purchase.

There are several circumstances when a business customer may want a long-term relationship with a hospitality supplier. These include:

- When the hospitality product is strategically important or mission-critical – for example, as a component of a bundled offer of a tour operator.
- When financial risk is high – for example, when a company’s sales team is large and spends a lot of time on the road, and hotel accommodation becomes a major expense.
- To avoid switching costs – switching costs are incurred when changing to another hospitality provider, and are primarily search and negotiation costs. For corporate clients who arrange major conferences and hospitality events, and intermediaries who handle large volumes of bed-nights, the costs of switching supplier can be significant. Provided the hospitality organization is delivering customer satisfaction at a competitive price, then it is more convenient and cost-effective for the corporate clients and intermediaries to continue to purchase from their existing supplier
- When reciprocity is expected. A food service company may want a close relationship with a hotel company. In return for guaranteed accommodation for its sales team, the food company offers the hotel chain cheaper produce and processed food inputs for its restaurants.

In a consumer context, relationships may be sought when the customer values benefits over and above those directly derived from the hospitality experience. For example:

- Recognition – a customer may feel more valued when recognized and addressed by name
- Personalization – for example, over time a restaurateur may come to understand a customer's particular preferences or expectations
- Risk reduction – a relationship can reduce, or perhaps even eliminate, perceived risk. For example, a customer may develop a relationship with a branded restaurant chain to reduce the perceived performance and physical risk attached to eating when away from home
- Status – customers may feel that their status is enhanced by a relationship with an organization, such as an elite health club in a hotel.

The economics of customer retention

Hospitality companies lose customers each year, for natural and competitive reasons. Consumer customers grow older and move through the family life cycle, changing their employment, home, lifestyle, and consumption habits. Corporate customers and intermediaries go through similar changes, with growth, mergers, takeovers, relocation, downsizing and demise. In addition to this natural loss of customers, competitors lure customers away with new-product initiatives, new openings, price deals, and attractive marketing communication campaigns. For these reasons, hospitality companies traditionally have relatively high customer defection rates. Companies therefore need continually to attract new customers to replace lost ones.

The fundamental reason for companies wanting to build relationships with customers is economic. Companies generate better results when they manage their customer base in order to identify, satisfy and retain their most profitable customers. This is the core goal of relationship marketing strategies. Improving customer retention rates has the effect of increasing the size of the customer base. If competitors lose customers at the rate of 20 percent each year and you lose customers at 10 percent each year, in a few years, other things being equal, you will have a significantly larger customer base. However, there is little merit in growing the customer base aimlessly. The goal must be to retain existing customers who have future profit potential, or are important for other strategic purposes. Not all customers are of equal importance. Some customers may not be worth recruiting or retaining at all – for example, those who have a high cost-to-serve, are debtors or late payers, or are promiscuous in the sense that they switch frequently between suppliers.

Other things being equal, a larger customer base delivers better business performance. Similarly, as customer retention rates rise (or defection rates fall), so does the average tenure of a customer. Tenure is the term used to describe the length of time a customer remains a customer. The impacts of small improvements in customer retention are hugely magnified at the higher levels of retention. For example, improving the customer retention rate from 75 percent to 80 percent grows average customer tenure from 10 years to 12.5 years. Managing tenure by reducing defection rates can be critical for business performance. Research suggests that an increase in

customer retention of 5 percent could increase profits from between 35 percent and 95 percent for some service firms (Buttle, 1995). One of the reasons why service firms (including hospitality companies) can increase the profitability significantly by reducing customer defection rates is due to the high fixed and semi-fixed cost structure of the industry. This means that the marginal costs of servicing a repeat customer are relatively small.

Managing customer retention and tenure intelligently generates two key benefits:

- 1 Marketing costs are reduced. Less needs to be spent replacing lost customers. In addition to reducing the costs of customer recruitment, costs-to-serve existing customers also tend to fall over time
- 2 As tenure grows, companies better understand customer requirements. Customers also come to understand what a company can do for them. Consequently, suppliers become better placed to identify and satisfy customer requirements profitably. Over time, as relationships deepen, trust and commitment between the parties is likely to grow. Under these circumstances, revenue and profit streams from customers become more secure.

Characteristics of relationship marketing

Hospitality companies who want to implement a relationship marketing strategy successfully need a strong service culture, including a commitment to internal marketing, an effective segmentation strategy, an interactive relational database in all properties, trust from their customers, and to develop customer recognition and reward strategies. We will discuss each of these factors in more detail.

Service culture

The starting point for a successful relationship marketing strategy is the company's service culture. The company needs to invest in a genuine customer-orientated service philosophy that delivers the service quality customers expect. This investment includes a financial commitment to maintain and improve the quality standards and physical product, and to provide systems and procedures, that facilitate quality service. If the company cannot deliver the service experience customers expect, it cannot hope to develop long-term relationships with them.

Internal marketing is considered to be an essential component of an effective relationship marketing strategy. In Chapter 12 we discussed the crucial role of customer-contact employees in delivering customer satisfaction, and the importance of internal marketing programs to communicate with and empower employees. A service culture that fosters employee involvement and encourages employees to build close relationships with customers provides a strong foundation for a successful relationship marketing strategy.

Segmentation

The segmentation strategy should focus on customers who have a potentially high lifetime value, or are strategically significant in other ways. For example, they

might be reference customers (customers that other customers copy), or customers that initially enable a hospitality company to enter a market segment. The Pareto Principle (sometimes called the 80/20 rule) can provide an effective criterion for identifying customers that are strategically significant. This principle suggests that the top 20 percent of customers generate 80 percent of sales and profits. In hospitality, these customers include frequent travelers, corporations, and intermediaries. The branded chains are aware that frequent business travelers, who have a high lifetime value, are important customers and highly sought after. National and international corporations and key intermediaries also generate substantial volumes of hotel bed-nights. Hospitality chains use their customer relationship marketing executives to liaise regularly with these key accounts, nurturing the relationship and trying to protect the business from competitors. Hospitality companies need to be careful in applying the 80/20 rule, as the biggest customers may not be the most profitable. Big customers may require costly pre-, during and post-encounter service as well as deeply discounted rates, thereby reducing their profitability.

Customers who have a relatively low spend per transaction but a high frequency of visits can generate a high spend over the lifetime of their patronage. In family restaurants, the average sale is considerably lower than staying in a hotel. However, research discovered that a loyal 'pizza' customer had a lifetime value of \$8000.

A transactional marketing approach is appropriate when the potential lifetime value of a customer is low, and where customers choose not to engage in a long-term relationship with companies.

Figure 14.1 illustrates marketing strategies for frequent and lifetime value customers.

Database

Sophisticated information communications technology is a prerequisite for multi-unit companies interested in developing a relationship marketing strategy. The role

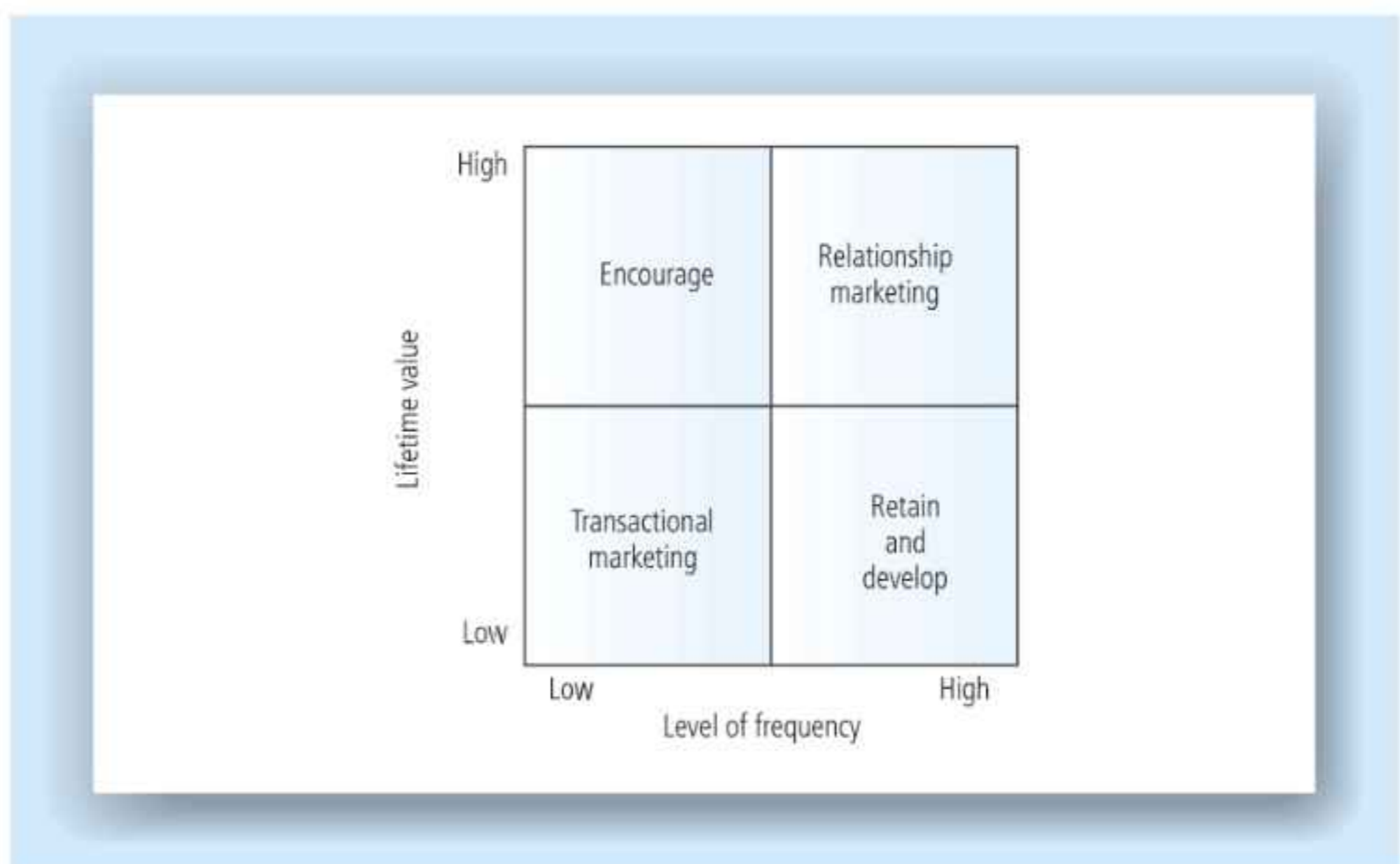


Figure 14.1 Marketing strategies for frequent and lifetime value customers

of the database is to record customer information, monitor consumption activity and facilitate marketing communication activity to relational target markets.

Recording customer information

Regular customers mention their preferences to the customer-contact employees during their stay in a hotel. These preferences might include personal factors, such as a favorite newspaper or type of pillow, or a food allergy. For customers who stay in several hotels belonging to the same hotel chain, these preferences can be recorded in customer information files on the database. This enables all the hotels in the chain to access the information easily, and provide regular customers with enhanced service.

Monitoring consumption

Hospitality companies need to track the sales pattern of key accounts and record the characteristics of key customer transactions in all the chain's properties. Monitoring consumption activity enables the company to identify potential new key accounts, reward those customers who maintain current high value sales, and track accounts that are declining in sales volume.

Marketing communication campaigns

In Chapter 9 we discussed the role of the database in personalizing communications with key customers. The database is crucial in identifying key customers to target with specific promotions, and in providing accurate contact information.

Trust and commitment

Trust and commitment are core concepts in relationship marketing. Customers must have confidence in the company's competence and integrity. In this sense, it helps for the customer and the company to have shared values. It is less attractive for customers to develop a relationship with a company whose activities conflict with the customers' value set. Trust is built up over time, and depends upon the company being competent in delivering on its promises, and not exploiting the customer. The long-term relationship provides opportunities for the company to demonstrate its values and fairness to the customer. By trusting the company, the customer feels secure in the relationship and the company earns the customer's commitment.

As part of a long-term relationship, there is an implication that both parties are prepared to make short-term sacrifices for longer-term benefits. From a hotel company's perspective, this means that opportunistic behaviors to make short-term profits should be avoided – for example, the company may maintain a price commitment to key customers during high season periods.

Case study 14.1 provides an illustration of successful relationship marketing.

Case study

14.1 Relationship marketing and the English Rugby Union Football team

Exclusive Hotels, owner of five-star Pennyhill Park, AA Hotel of the Year, has entered into a mutually rewarding relationship with the English Rugby Football Union. The hotel became the

official England Rugby's pre-match venue and training facility in Surrey – partly because Exclusive Hotels willingly spent £150,000 on a good-quality rugby training pitch. General manager David Broadhead said: 'They use the hotel approximately sixteen weeks of the year, and international sport is at such a level now that people are used to this level of comfort. A lot of the gym equipment in our new spa has been bought in consultation with the RFU and designed for players. It's really more of a partnership than a client–customer relationship'.

(Source Hayward, 2003)

Clearly, delivering consistent customer satisfaction is an essential condition for implementing a relationship marketing strategy. Customers who suffer from inconsistent service standards cannot give their trust to a company that is incompetent.

Recognition and reward

Customers who have entered into a relationship with a company generally expect recognition. The customer information file on the database enables key customers to be identified before checking in to the hotel. Bedrooms on executive floors and individually named suites easily identify key customers to all of the customer-contact employees, who should be trained to recognize, greet and look after them appropriately.

A mutually beneficial relationship implies that there are rewards for both parties. We have already discussed how the company gains in additional sales and profits by cultivating long-term relationships with key customers. Loyal customers should also be rewarded for their patronage. Whilst recognition plays an important role in rewarding customers, tangible reward systems can help to build customer loyalty.

Loyalty

We will now discuss the concept of loyalty, the relationship marketing ladder of loyalty, frequent guest programs in hospitality, and customer disloyalty.

The concept of loyalty

We have established that virtually all hospitality companies are interested in encouraging customers to repeat purchase and generate positive word-of-mouth. However, there is a distinction between a frequent customer and a loyal customer. Frequency is not an indicator of loyalty – for example, a frequent business traveler might be compelled to stay at a particular brand because of his company's expenses policy. Other frequent customers may regularly patronize the establishment because there are no effective competitors in the area, and these customers could easily defect if serious competition emerged in the neighborhood. Indeed, some frequent customers might even be extremely dissatisfied with the offer, and complain, but still have to stay because of the lack of alternatives. Just because a customer visits a hospitality premises on a regular basis, it does not mean they are loyal!

A loyal customer is true, faithful and constant. A loyal customer is completely satisfied with the marketing offer, emotionally committed, and does not seriously

consider competitor alternatives. There is also evidence to suggest that totally satisfied customers are six times more likely to repurchase, and probably have a greater propensity for loyalty than partially satisfied customers. Loyal customers take ownership of the relationship and refers to the brand in first person terms (for example, loyal pub customers often refer to 'my local pub'), they tune into the marketing communication messages sent out by the brand, and shut out the messages from competitors. If there is a service problem, loyal customers are more likely to report it because they genuinely want to help. Price is less of an issue, and is considered as part of an equitable brand value proposition. Most importantly, loyalty creates a major barrier to switching behavior and is closely linked to relationship marketing. True loyalty can transcend rational behavior, and customers who are truly loyal to their hospitality brand have become emotionally involved with the brand, its persona and its values. Customer loyalty is therefore a powerful concept in marketing.

However, customer loyalty is a complex phenomenon. A key issue is to aim to build loyalty with customers who belong to the target market profile; attracting loyalty from the 'wrong customers' can be dangerous and embarrassing. Building customer loyalty to the brand, and to the unit, is important for the hospitality marketer. In hospitality, customers can be both brand-loyal and loyal to specific units from several brands. There is evidence to suggest that harder, more standardized brands generate customer loyalty to the brand, whilst softer, less standardized brands tend to generate loyalty towards individual units. What is certain is that frequent travelers who visit many destinations on a regular basis become hotel-loyal and not only brand-loyal. An international frequent traveler might therefore stay at first-choice hotels from a range of brands depending upon the location, choosing the Hilton in New York, the Holiday Inn at Birmingham, the Marriott in Athens, the Novotel in Sydney, and the Shangri-La at Kowloon, Hong Kong.

Activity 14.1

Think about your relationships with hospitality brands.

- Can you identify brands (or units), where you have a transactional relationship?
- Are there any brands (units) to which you are especially loyal?
- Can you explain your feelings as a customer towards these brands?
- If you work for a hospitality brand, has your relationship with the brand changed because of your experience as an employee?

It is a common misconception that all companies should adopt a relationship marketing strategy. However, there is a role for transactional marketing in commodity mass markets – for example, in the contract-catering sector. Building frequency is a legitimate marketing objective and strategy, just as building loyalty is an appropriate objective and strategy for companies seeking to develop a relational approach to marketing. Table 14.2 presents the different marketing approaches that can be adopted when developing a frequent or a loyal customer base.

Table 14.2 Marketing Strategies Targeting Frequent versus Loyal Customers
(Adapted from Lewis and Chambers, 2000, reproduced by kind permission of R. C. Lewis)

<i>Marketing activities</i>	<i>Frequent customer base</i>	<i>Loyal customer base</i>
Objective	Build traffic, sales and profitability	Build brand desirability, sales and profit
Strategy	Incentivize repeat transactions	Build personal brand relationships
Focus	Segment behavior	Individual emotional and rational needs
Tactics	Sales promotions, focus on free offers/discounts/rewards; frequent guest program with incentives	Customized communications, preferred status, emotional rewards, added value upgrades; loyalty guest programs with recognition and rewards
Measurement	Transactions, sales growth	Individual lifetime value, emotional responses, attitudinal change

The relationship marketing ladder of loyalty

Research into consumer buyer behavior has categorized customers into six different types according to their usage and loyalty, and different marketing strategies are required for these different types of customers. The bottom of the ladder of loyalty starts with ‘prospects’, who need to be persuaded to make a first purchase and experience the offer. Once consumers have actually become ‘purchasers’, then the task is to encourage them to become regular ‘clients’, and then to turn clients into ‘supporters’ and supporters into ‘advocates’. Finally, ‘advocates’ become ‘partners’ in the ultimate, mutually rewarding relationship (Figure 14.2). The idea of the loyalty ladder is to progress appropriate customers further up the ladder. However, customers can of course also move down or off the ladder; and some customers will choose not to move at all. The loyalty ladder recognizes the need for segmenting customers in terms of the propensity for loyalty and their lifetime value. Whilst LTV can be calculated using the customer retention rate, achieved spend and variable costs, it is much more difficult to determine a customer’s propensity to be loyal.

Frequent and loyalty guest program

In our discussion earlier in this chapter, we explained the crucial difference between frequency and loyalty. This distinction should also apply to any discussion of frequent guest programs (FGP) and loyalty guest programs (LGP). However, in everyday language these expressions are virtually interchangeable, and hospitality companies use the term FGP to apply to any loyalty program.

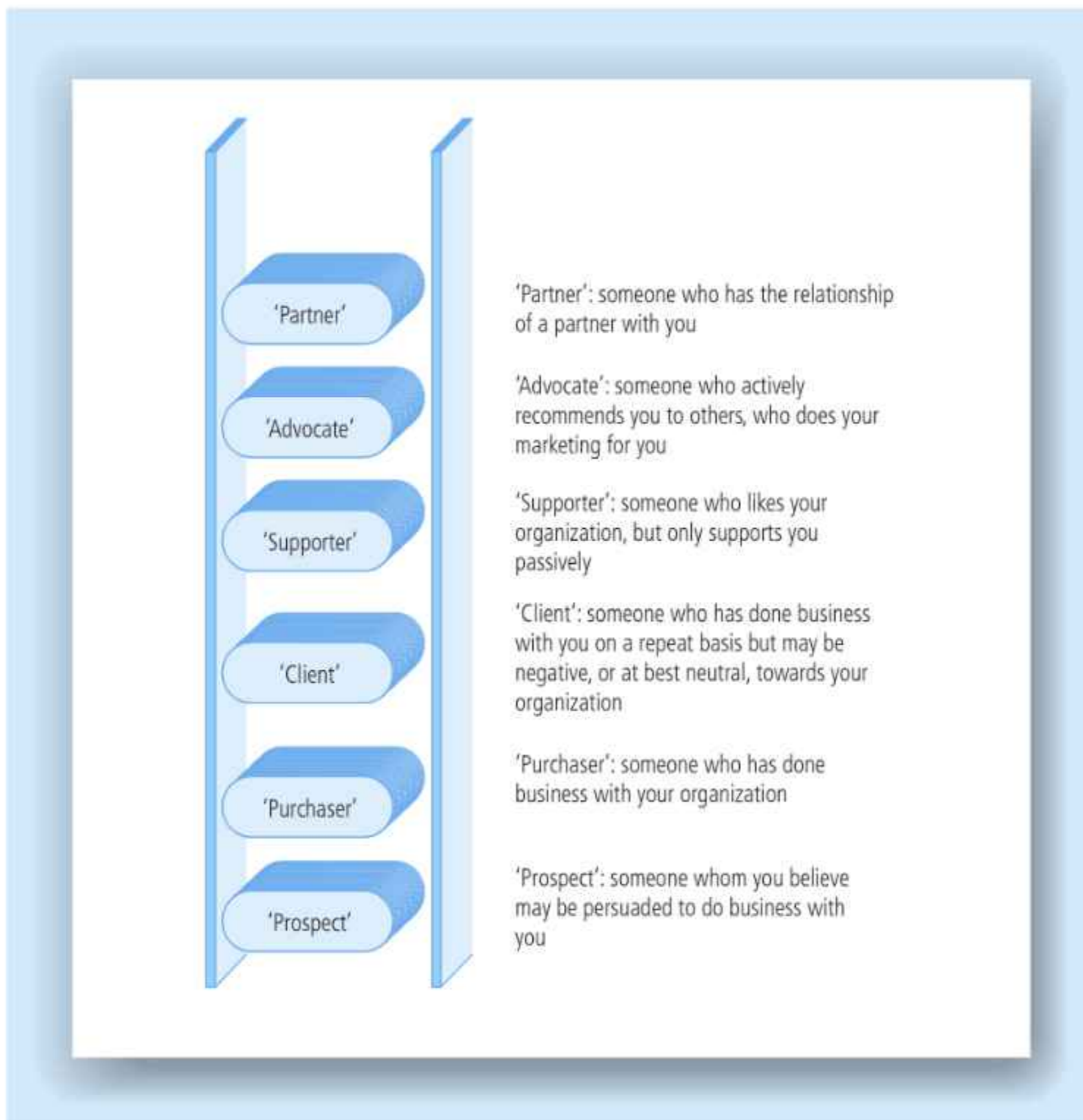


Figure 14.2 The relationship marketing ladder of loyalty (Peck *et al.*, 1999)

The origin of rewarding customers for their patronage in tourism dates from the 1970s, when American Airlines introduced a successful frequent flyer program (FFP) that was quickly imitated by competitors. The airlines' system of managing their FFP provided hotel companies with a template that they copied, and today's FGP enable frequent travelers to receive points and/or air miles whenever they stay at a hotel in the scheme. Although a number of chain restaurants have tried to launch frequent diner programs, few have been successful apart from the Hard Rock Café. The following discussion relates to hotel brands.

A frequent guest program that adopts a transactional approach to marketing aims to build traffic by offering rewards from a wide range of services, including hotels and travel, retail and financial products. In contrast, companies that adopt a relational approach encourage regular customers to join a club to receive recognition as a privileged guest, and focus rewards on added benefits during the stay at the hotel.

Each of the major hospitality brands recognizes the importance of offering a guest program to reward regular customers (see Table 14.3), and the customers are very

Table 14.3 The Frequent Guest Programs of International Hotel Brands

<i>Brand</i>	<i>Program</i>
Accor Hotels	Compliments
Best Western	Gold Crown Club
Hilton	HHonors
Holiday Inn	Priority Club
Hyatt	Gold Passport
Marriott	Rewards
Shangri-La	Golden Circle
Six Continents	Six Continents Club
Starwood	Preferred Guest

aware of their importance to the hotels. All of these programs provide different levels of membership, which are determined according to the number of nights a customer stays in the hotels. The higher the number of stays, the more generous the benefits become as a customer graduates to the top tier of VIP membership. Some programs allow customers to 'double dip' – this means that a customer who has an airline FFP membership can earn air miles whilst staying at the hotel, and at the same time earn points from the hotel, which are credited to their FGP. We will review two different programs here: Hilton's HHonors and Shangri-La's Golden Circle.

Hilton HHonors

The Hilton program is open to customers staying in any of their current lodging brands, ranging from the budget properties to luxury hotels. However, customers who are on discounted rates booked via channels such as wholesalers, tour operators, aircrew, and Internet auction sites are excluded from the scheme. There are four levels of membership:

- 1 Blue – there is no minimum qualifying number of stays; benefits include expedited check-in, free newspaper, spouse stays free, and express checkout.
- 2 Silver VIP – to qualify a customer has to have a minimum of four qualifying stays or ten qualifying nights. The benefits include 15 percent bonus points, and complimentary access to the hotel's health club.
- 3 Gold VIP – to qualify a customer has to have a minimum of 16 qualifying stays or 36 qualifying nights. The benefits include 25 percent bonus points, and upgraded accommodation when available, depending upon the type of hotel/brand.
- 4 Diamond VIP – to qualify a customer has to have a minimum of 28 qualifying stays or 60 qualifying nights. The benefits include 50 percent bonus points, guaranteed reservations availability up to 48 hours before booking, and a reward 'planner' service to help arrange all the customer's travel needs.

Hilton has agreements with more than 60 airlines, and encourages double dipping. The rewards for staying in the budget brands are considerably lower in value than those in the mid- and upscale brands. Hilton has negotiated an extensive network of partners to provide customers with the opportunity to either earn HHH

points when using their services, or redeem points. The partners include AT&T Wireless for telephone services, Chase and CITIMortgages for real estate finance, Critics Choice Video for DVD and VHS films, FTD.com for flowers, GMAC Insurance, and several car hire firms including National Car Rental.

Although Hilton promotes its guest program as a world of 'recognition and rewards', the scale of the program, with many millions of members from a wide range of hospitality target markets staying at 2,400 hotels and able to redeem their points from a variety of products and services, suggests that this is really a transaction-orientated FGP.

Shangri-La Golden Circle

Shangri-La's Golden Circle is for privileged guests who stay at Shangri-La or Traders Hotels. The focus is on guest recognition and individual personal preferences. There are three tiers of membership: Classic, Executive and Elite. Each hotel has an exclusive Golden Circle members' floor, and other benefits include private check-in and check-out, complimentary breakfast, spouse stays free, free access to the fitness center and swimming pool, and a suite upgrade if available at an extra charge of US\$25. Executive and Elite members enjoy additional welcome amenities, guaranteed reservations availability (72/48 hours prior to arrival), and early check-in. The only Golden Circle benefit that is not linked to hotel services is the air miles offered to customers, from approximately 25 airlines.

The Shangri-La program focuses on recognition and provides rewards linked to the hospitality offered by the hotel. With less than 50 hotels, two complementary brands, and narrow target markets, the Golden Circle is a genuine relational marketing program aimed at generating guest loyalty.

Activity 14.2

Log on to Hilton Hotels (www.hiltonworldwide.com) and Shangri-La Hotels (www.shangri-la.com). Both the Hilton HHonors FGP and the Golden Circle FGP are accessible from the home page.

- Compare the language used by Hilton and Shangri-La to describe their FGP
- Review the rewards offered and the conditions in both schemes
- What differences can you identify between these hotel companies' approach to marketing their FGP?

Disadvantages of frequent guest programs

The main disadvantages of FGP include the following:

- Benefits are awarded to individual guests, and the most frequent guests are those staying on business – so their companies pay for the hotel accommodation but do not gain the rewards
- There is the issue of who is liable for paying the tax on the benefits accrued from a FGP
- There is the potential liability of unredeemed rewards eventually being claimed

- Customers who stay in hotels frequently join the FGP of several hotel companies, which erodes competitive advantage and encourages customer switching behavior
- Costs are incurred setting up and administering the scheme.

Problems with relationship marketing

Relationship marketing has been criticized for a number of reasons. First, there is a limit to the number of relationships a customer can sustain with companies. Customers cannot have a one-to-one relationship with every hospitality company they patronize. Whilst companies build unrealistic expectations about their customers' willingness to give them trust, loyalty and commitment, consumers are bombarded with too many competing messages. In reality, consumers can only give their loyalty to a small number of brands. Consumers are also concerned about organizations' use of personal information, which has to be disclosed when staying in a hotel. Unsolicited communication in the form of direct mailings and email messages, which are trying to build a relationship with customers, can actually be counterproductive and turn customers away. Other criticisms include the following:

- Hospitality companies want customers to be loyal, but often fail to deliver the services that customers expect
- The special introductory offers to attract 'new' loyal customers mean that existing loyal customers, who are not offered the same terms, are not treated fairly
- Customers can change their preferences, and do not always want the same newspaper or drink every time they check in
- The treatment given to customers in the FGP can be upsetting, or even offensive, to other customers.

Indeed, some critics suggest that relationship marketing is not really about a genuine relationship but is in fact a one-way communication from company to the customer, and that when a customer tries to communicate with the company it does not seem to listen.

Conclusion

Despite the legitimate criticisms of relationship marketing, loyalty is a powerful concept. Those hospitality companies that can develop meaningful relationships with customers do gain a competitive advantage. However, a relationship marketing strategy is not appropriate for all branded hospitality chains; companies aiming to develop a relationship marketing strategy must have a strong service culture that delivers high customer satisfaction, effective service recovery strategies, and relevant recognition and reward policies, in order to create customer trust, commitment and loyalty.

In this chapter, we have explained:

- How relationship marketing strategies focus on customer retention and recognize the long-term value of loyal customers
- That transactional marketing strategies focus on customer acquisition and short-term, discontinuous customer contact
- That the lifetime value of regular customers is relatively high, and increases in customer retention can enhance profitability significantly
- That all hotel companies are aware of the importance of repeat guests, and have developed FGP to attract and reward frequent guests
- Why frequency is not an indicator of loyalty
- That loyal customers are less price conscious and are unlikely to consider competitors' offers
- That frequent guests are loyal to individual hotels, as well as to hotel brands
- That there are limits to the number of relationships customers can have with companies.

Now check your understanding of this chapter by answering the following questions:

Review questions

- 1 Analyze the differences between a relationship marketing strategy and a transactional marketing strategy within the context of hospitality
- 2 A hotel company is planning to develop a relationship marketing strategy. Explain what is required to implement an effective relationship marketing strategy successfully
- 3 Discuss the concept of customer loyalty in the hospitality industry
- 4 Evaluate the role of frequent guest programs in the international hotel industry.

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Part E

The marketing plan



