

Relationships Matter!

Insights into Customer Relationship Management

By Madigan Pratt

Relationships are the foundation upon which loyalty is built. And there is a direct connection between the bottom line profit of your resort and the degree of customer loyalty your resort maintains. More loyalty translates to greater revenue and profit. Simply put:

$$\text{Relationships} + \text{Loyalty} = \text{Revenue} + \text{Profit}$$

Proving Loyalty Leads to Profit

The linkages between relationships on one end and profit on the other are well documented.

- Research from the prestigious consulting firm Bain & Company shows that depending on the industry, when firms retain just 5 percent more of their best customers, corporate profits can be boosted 25 to 85 percent.
- There are numerous studies reporting that companies lose between 10% and 20% of its customers every year. At the high end, this equates to a 100% customer turnover every five years.
- In the seminal book on the subject, "The Loyalty Effect", Frederick F. Reichheld informs us that *Loyalty Leaders*, companies with the strongest customer relationships, grow at close to twice the industry average and do so more cost effectively.
- And finally, in a 2004 McKinsey Report it's stated that the average business spends \$100 to acquire a new customer and only \$10 to keep one.

Not just interesting facts, but impressive ones indeed. So why then isn't there more of a balance in spending on customer retention vs. customer acquisition programs?

This is a particularly good question for luxury resorts to ask. The answer for most companies lies in the desire to get more customers. More is generally thought to be better and the best way to get more is to attract new customers. Correct? Not necessarily.

Sales statistics show the average company has a 60 to 70 percent probability of selling again to existing customers and a 20 to 40 percent sales probability of successfully selling to lapsed customers. Contrast those two statistics with the fact that, on average, a company has only a 5 to 20 percent probability of making a successful sale to a new prospect.

Getting customers, existing and lapsed, to return and "stay" with you again is significantly easier than trying to find new customers.

Resorts still determined to focus their marketing efforts on attracting new customers need to ask themselves a question, "What is the most effective advertising I can have?" [Note: here advertising is used to connote any means to attract new customers – including advertising, public relations, promotion or direct communications with prospective guests.]

While some may argue that the Internet is the most effective way, the truth is that word-of-mouth is still your most effective advertising vehicle – not only in terms of quantity, but also in terms of quality. According to Reichheld:

Customers who show up on the strength of a personal recommendation tend to be of higher quality – that is, to be more profitable and stay with the business longer – than customers who respond to conquest advertising, sales pitches, or price promotions.

And who produces the most positive word-of-mouth for your resort? Your most loyal customers.

Looking Ahead

More and more resorts are looking to develop or expand their customer relationship management (CRM) programs. In doing so they are redistributing their marketing budget to place greater emphasis on customer retention and less on customer acquisition.

CRM isn't easy. Beyond redistributing marketing funds resorts are learning that there is a greater need for cross-functional coordination. Departments that may have worked almost in a silo must now share information and work more closely than ever before with other departments.

But for those committed to being successful, the rewards are evident. Who wouldn't want to be recognized as a *Loyalty Leader*? Who wouldn't want to grow at twice the industry average?

Your Database

If relationships are the foundation upon which loyalty is built, your database is the foundation upon which relationships are created, maintained and nurtured. There is a straight line from your database to relationships to loyalty and ultimately to increased profit.

While every resort has a PMS which serves as a customer database, the records it contains are oftentimes inadequate or inappropriate for effective database marketing or relationship building purposes. It can contain incomplete information (especially if groups represents a healthy portion of your business), and is usually not standardized or up-to-date. The average American family moves every five years so every year you could lose contact with 20% of your customers if corrective action isn't taken.

Customer relationship marketing requires a centralized marketing database – a repository for all the disparate databases you may have – your PMS playing an important role along with customer and prospect records you collect on the web, media inquiries and sales calls. A good CRM database will keep records up to date even if a past guest moves. It will allow you to mine the data and determine who your best customers are. It will allow you to profile your *best customers* so you can reach out and attract more guests just like them.

Seek Out Specialists

There are numerous CRM software vendors that tout their products as being the *ultimate CRM solution* however you do need to be careful. Technology and software are only enablers that can provide a pathway to the solution. No matter how great the technology may be and how much it costs, the technology is only as good as the people you have deploying it.

If you are serious about getting your CRM program off on the right foot, plan on working with database and direct marketing specialists. They know how to develop programs designed to get people to act while at the same time deepening your customer relationships.

Direct marketing is more of a science than an art. For this very reason you shouldn't ask your advertising agency to drive your program. It will not get you where you want to be. If they insist, have your agency test their programs against those of a direct marketing specialist and then work with the winner.

Start Now

As you begin developing marketing budgets for 2007 step back and take a hard look at the best way to allocate funds for customer acquisition and customer retention programs. Think about where you are today and where you want to be in the near future.

How close are you to reaping the rewards to be known as a *Loyalty Leader*?

Madigan Pratt is managing director of Madigan Pratt & Associates, Inc. an award-winning marketing optimization and CRM consulting firm. If you have a question about Loyalty or CRM contact him at roi@MadiganPratt.com. He will be writing a regular column on Loyalty and CRM for *Resort Management Magazine* and looks forward to addressing your questions in our next issue.