DATABASE MARKETING IN THE TRAVEL AND TOURISM INDUSTRY

SUMMARY

An increasing number of organizations are developing customer databases in a bid to get closer to the customer and gain competitive advantage. This report investigates the practice of database marketing in a number of travel and tourism sectors, includes airlines, hotels, museums and tour operators. The investigation is framed within a number of database marketing theories and the study draws on UK and international case examples. The report examines the differences between direct marketing and database marketing, the different levels of sophistication at which database marketing can be practiced, the role of customer loyalty schemes, the ways in which a database can be segmented, the role of consumer data profiling companies, and current developments in database marketing. The use of database marketing for customer retention and business acquisition purposes is investigated. Customer retention strategies in the industry have traditionally centered round membership reward schemes. These are becoming increasingly sophisticated with different levels of membership and the formation of affinity partnerships. In order for true customer relationship building to take place it is vital for the industry to leverage the information on their database and provide customer recognition through the delivery of a personalized service. Business acquisition through customer retention is likely to be a key strategy in the future through the use of data mining and cross selling techniques. In this area the travel and tourism industry could learn from customer scoring and data warehousing techniques in other industries. The fusion of geo-demographic, lifestyle and life-stage data will provide new customer insights. The report concludes that the organizations must create a new marketing environment by moving away from transaction marketing towards the principles of customer relationship management.

INTRODUCTION - A NEW MARKETING ENVIRONMENT

If branding was the buzz term for the 1980s and early 1990s, then one-to-one marketing, micro marketing and relationship marketing are likely to be the terms that accompany us into the next century. Marketing know-how, technological advances and increasingly powerful databases will fuel the growth of these new forms of marketing.

Unlike the financial services, retail and fast moving consumer goods sectors, the travel and tourism industry has not traditionally been associated with sophisticated marketing practice. Despite the often high level of customer contact between customer and supplier, which lends itself to the new forms of marketing, the tourism industry is to some extent still associated with short term marketing practice, the emphasis being on one way communication from business to customer. Price wars, seasonal fluctuations in demand and low profit margins perhaps spring more readily to mind than customer databases, relationship building or market segmentation.

There is evidence however that the travel and tourism industry is adopting some of the marketing techniques more traditionally associated with other sectors. In a recent study

by The Bristol Business School, investigating the practice of direct marketing and the ownership of customer databases by small and medium sized businesses in the UK, the leisure and travel sector fared favorably in comparison with other sectors (Chart 1). The authors of the study emphasized however that the ownership of a database did not necessarily mean an organization practiced direct marketing or vice versa. The reasons for a strategic shift towards increased direct marketing were cited as competitor activity and customer demand, coupled with change within the company.

Direct marketing examples from a range of travel industry sectors increasingly feature in marketing journals such as Marketing Week and Precision Marketing as well as the UK travel industry's own journal The Travel Trade Gazette. Indeed a story dominating the travel headlines at the end of 1998 is testimony to the importance attached to the ownership of customer data. Thomson Holidays is in the process of negotiating access to customer data held by its network of preferred travel agents in return for higher commission payments and other incentives. Thomas Cook is strongly contesting this, arguing that its customer data is a core company asset. Both companies realize the strategic significance of data ownership both in terms of forming a barrier to competitors and as a tool to enable them to enter new markets.

Key management positions, certainly with the major players, are attracting people with direct marketing experience gained in other sectors such as publishing, politics or financial services. It is recognized that the marketing discipline remains the same regardless of the industry in which it is practiced.

DATABASE MARKETING Vs DIRECT MARKETING

While database marketing makes use of several direct marketing techniques, including response advertising, direct mail and telemarketing, it adopts a more holistic approach to marketing, with the emphasis on two-way, as opposed to one-way, communication with the customer. In his text "The Essential Guide to Database Marketing", J Davies lists the contents of an effective database marketing strategy.

"Database marketing involves at least the following elements: (1) Managing (2) a computerized (3) relational data-base system, (4) in real time, (5) of comprehensive, up-to-date, relevant data on customers, inquiries, prospects and suspects, (6) to identify your most responsive customers (7) for the purpose of developing a high-quality, long-standing relationship of repeat business, (8) by developing predictive models (9) which enable us to send desired messages at the right time in the right form to the right people … (10) all with the result of pleasing our customers, increasing our response rate per marketing dollar, lowering our cost per order, building our business, and increasing our profits."

Major principles of database marketing

While the following statements may seem obvious, they are worth repeating and serve to highlight the importance of the customer relationship:

- Past consumer behavior is the best predictor of future behavior.
- A purchase is only one event in a customer's life. To figure a customer's true worth, you have to calculate lifetime value.
- Customers are more important than prospects.
- Certain customers are more important.
- Customers are more likely to share certain characteristics.

These principles echo the oft-cited 80/20 marketing rule, which recognizes that 80 per cent of your business is likely to be generated by 20 per cent of your customers and that it costs less to keep existing customers than to recruit new ones. Adhering to the above principles will require the development of an effective database and will place substantial demands on an organization. Each contact with the customer must be recorded in order to build up a history of buyer behavior and customer value. Customers should be 'scored' on the database, according to their value, in order to distinguish the more important ones. The user must determine which data are to be held on the database and how they are to be analyzed and fed back into the marketing planning process.

The virtuous circle

The challenge, facing an organization wishing to successfully practice database marketing, is summed up by Robert Shaw's "Virtuous Circle" concept, illustrated in figure one below.

Figure 1. Virtuous Circle
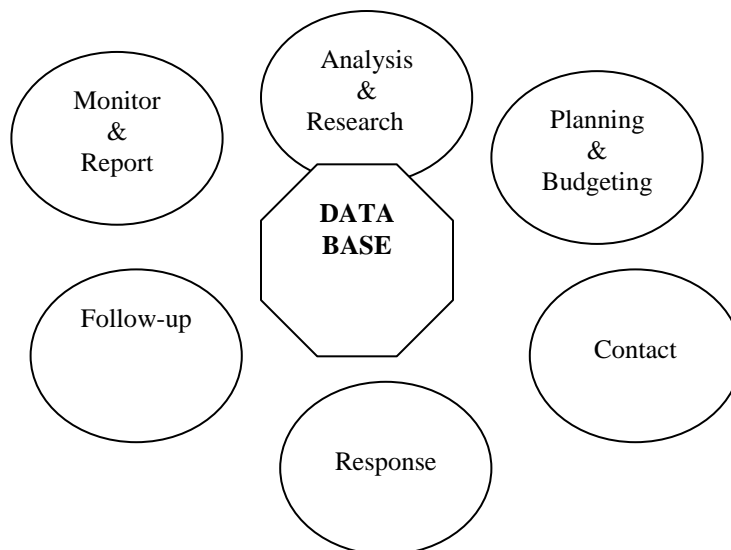
Source: R Shaw *Computer-aided marketing and selling*.

Shaw refers to six stages of marketing, all driven by a customer database and all linked to each other. He argues that an organization cannot truthfully claim that it practices database marketing until the circle has been completed. Shaw's concept moves database marketing up the agenda, where it becomes an integral part of the company's strategic planning.

The uses of database marketing

As chart 2 illustrates, there are a number of uses for a customer database and areas where it provides advantage over other forms of marketing. Undertaken effectively, database marketing is more easily measurable than traditional above the line marketing activity and a customer database can be used for analysis and evaluation of marketing effectiveness. The areas where database marketing can contribute to revenue streams are customer retention through relationship building and more focused targeting through improved customer knowledge.

CUSTOMER RETENTION STRATEGIES

The starting principle for implementing a customer retention strategy is that it is more cost-effective to retain existing customers when compared to the costs involved in recruiting new ones. Research by Coopers & Lybrand management consultants, suggests that many retailers lose between 30% and 40% of their customers annually, and spend five times more on trying to replace these customers than on working to retain those who remain. While customer retention is therefore a logical goal for any organization, it is also true that certain customers are more valuable and resources must be allocated accordingly. Database marketing can be practiced at three different levels and if a company knows the difference between the techniques applied at these levels, then it is in a position to budget and plan specifically for how their company might utilize these techniques for profit. At a basic direct marketing level, this may simply mean obtaining input from your customers, for example through customer service questionnaires, in order to provide them with a better service. At an applied loyalty marketing level, customers are given some reward in return for their loyalty. The word 'applied' is used, as it is the business provider who normally determines the reward. At the advanced relationship marketing level there is continuous dialogue between customer and provider. This two-way communication results in the customer receiving a high level of personal service and in the supplier receiving continuous feedback, which can be used to improve the service.

Loyalty schemes

There are three essential elements to loyalty marketing: reward, recognition and relationship. Loyalty marketing has two aims: to encourage repeat business; and provide data to inform future marketing. It is potentially an excellent strategy for the travel industry as it involves periodic repeat purchases. A loyalty scheme, however, can be a

double-edged sword and requires careful management. The airlines pioneered loyalty schemes with their frequent flyer programs (FFP), closely followed by hotel companies with frequent guest programs. An FFP is expensive to run. Even in the early 1980s set-up costs were reported to be between $2m and $12m. These pioneering loyalty programs were built largely on the first 'R' of loyalty marketing, reward and this led to some spectacular failures. US airline Pan American offered free flights to its frequent flyers but had to provide 4.5 million free flights, a burden it could not afford. Indeed, its loyalty scheme was a major reason why Pan American hit the financial ropes. The Hoover debacle - free flights to the US in return for buying a £100 appliance - swiftly entered marketing folklore. This problem continues today with airlines having to introduce policies to prevent the financial burden caused by unredeemed air miles.

Another problem with loyalty marketing lies in the argument that reward-based schemes are in reality an example of discount pricing. As with all price-based competition it is easy to slip into a spiral of diminishing returns. Research by Mintel into retail loyalty schemes has concluded that the point of nil return for promotional and loyalty schemes is probably nearer than many retailers believe. Loyalty cards help pinpoint the most profitable customers, but at the cost of discounts of at least 1%, and the expense of maintaining and managing a large, complex database. Organizations in the travel and tourism sector need to ask similar questions of their loyalty schemes, to determine contribution to the bottom line.

A number of hotel companies claim their loyalty schemes give them competitive differentiation through customer recognition, not rewards. Kempinski Hotels & Resorts and Inter-Continental Hotels & Resorts, for example, stress that their loyalty schemes, Private Concierge and Six Continents Club respectively, are about offering benefits to customers during their stay, rather than points for prizes at a later date. Benefits include early check-in, late check-out, guarantee of corporate rate to business travelers, room upgrades and free access to health clubs. However, as table one shows, the major hotel groups are offering a very similar benefits package, although it should be emphasized that the reward points schemes will vary in sophistication and coverage.

Table 1 Hotel Loyalty Schemes

Hotel Scheme	Benefits
Bass Hotels & Resorts. Scheme: Priority Club Worldwide. Established: 1983 in US, 1994 in Europe. Membership: six million.	Priority check-in and check-out. Free newspaper. 20% off business center charges. Corporate members receive preferential family rates. Reward points scheme.
Hyatt Hotels and Resorts. Scheme: Hyatt Gold Passport. Established: 1987. Membership: Over two million.	Priority check-in and check-out. Room upgrades. Free morning newspaper, tea and coffee. Cheque cashing facilities. Reward points scheme.
Inter-Continental Hotels and Resorts. Scheme: Six Continents Club. Established: 1966. Membership: About 100,000.	Free two-night weekend on joining. Room upgrades. Priority check-in and check-out.
Kempinski Hotels & Resorts. Scheme: Private Concierge. Established: 1998. Membership: Target of 10,000 top	Priority check-in and check-out. Free access to health clubs. Guarantee rate to corporate customers.

spenders. Other schemes include Business Concierge and Personal Concierge.	
Marco Polo Hotels. Scheme: The Tai Pan Club. Established: 1988. Membership: Over 10,000.	Priority check-in and check-out. Free morning newspaper, tea and coffee. Free stays for spouses. Discounts on laundry and business center charges.
Oberoi Hotels & Resorts. Scheme: Oberoi Plus. Established: 1993. Membership: 750 in Europe.	Room upgrades. Free stays for spouses. Occasional gifts.
Summit Hotels & Resorts. Scheme: Summit Club. Established: 1996. Membership: Over 5,000.	Voucher for one free night stay after staying a minimum of two nights. Upgrades. Discounts on room rates. Priority check-in. gifts.
Hilton Hotels Corporation. Scheme: Hilton HHonors. Established: 1997. Membership: six million.	Reward points scheme allowing for reciprocal exchange with airline miles. Free newspaper. Free stays for spouses. Priority check-in and check-out. Newsletter. Free health club usage for VIPs. Room upgrades.
Best Western International. Gold Crown Club International. Established: 1989. Re-launched: 1996. Membership:	A global reward points scheme. Toll-free reservations. Discounts available. Room upgrades.

Sources: Travel Trade Gazette, *Hotel World,* 1998; author's research, 1998.

If the rewards and the benefits can be copied so easily, then competitive advantage is short-lived. In our information society, customers can easily compare the offerings of one business with another. The short-term nature of the advantage derived from loyalty schemes has been a factor from the beginning. When American Airlines launched the AAdvantage program in 1981, United Airlines swiftly responded with their Mileage Plus program, offering a 5,000 miles enrollment bonus. The fragility of the competitive advantage gained by airlines' FFPs is illustrated by the existence of mutually exclusive cross-participation agreements. For example, Cathay Pacific, Singapore Airlines and Malaysian Airlines are partners in the 'Passages' air miles scheme. They are able to use their combined schedule mass to make agreements with competitors such as British Airways, to prevent them from making inroads with their own FFP. The relationship marketing expert, Merlin Stone, sums up this philosophy with, 'you stay out of our market with your FFP and we'll stay out of yours with our FFP.

Suppliers are aiming for increasing differentiation of their loyalty programs through the formation of "affinity partnerships" with other travel providers. Hilton HHonors, the hotel guest recognition program created by US-based Hilton Hotels Corporation, has partnerships with a large number of airlines, several car rental firms and a cruise company. These partnerships give HHonors international appeal and are critical to the success of the program. US research shows that 28% of business results from the scheme and that, HHonors members generally spend 25% more in hotels than non-members. The scheme is low cost to run and gives a link to loyal customers. It also provides a clear picture of who these customers are and their buyer behavior.

Despite the clear importance of the HHonors scheme, the UK launch generated 70,000 members in the first year, falling short of the 100,000 target. This reflects the

increasingly competitive nature of the hotel loyalty scheme marketplace. Indeed some marketers are beginning to question the validity of the customer loyalty and lifetime value concepts. They argue that, apart from exceptions such as charitable organizations, people reserve their loyalty for personal relationships with other people. Instead of presuming customer lifetimes it is more appropriate to think in terms of developing relationships (the third "R" of loyalty marketing) with customers, building on one successful service encounter at a time. The customer information on a database is leveraged to take the company into an advanced level of database marketing.

Developing a personal relationship with the customer

Advanced database marketing is about developing a continuous exchange of information with the customer. This information is used to provide the customer with a tailored personal service. A customer loyalty program can go so some way to providing that information, but it will not provide the whole picture. Consider the following hypothetical scenario, based on research at the Cornell Hotel School:

> "Business traveler Chris Talioferro has just picked up luggage at the airport baggage claim. As Chris steps out to the ground-transportation stop, the hotel courtesy van is waiting to meet the flight. In the van is Talioferro's favorite caffeine-free soft drink.
>
> Arriving at the front desk, the clerk greets Chris by name and asks for a quick signature on the hotel's registration card. All relevant guest information is already on the card, including method of payment. Just to be sure Talioferro hasn't changed plans, the clerk reconfirms that payment will be by gold card. Chris can see that the assigned room is the same as during the last time at this hotel. During that visit Chris mentioned that its glass-topped dinette-style table was useful.
>
> Entering the room, the bellhop turns the television to the recently merged Disney-CNN network, which the housekeeper noticed was always on when Talioferro occupied the room before. In the closet are much-needed extra hangers, plus a personally monogrammed robe.
>
> On the table is the *International Herald Tribune*, the newspaper Chris requested during the last visit. Opening the mini-bar, Talioferro finds plenty of macadamia nuts (the mini-bar attendant noticed that five packages disappeared during Chris's last stay) and Famous Amos chocolate-chip cookies. Chris also notices a bottle of Chateau Latour 1964, a preferred wine. Finally, Chris notes a message from the concierge telling about tickets to tonight's performance at the theater."

This is an example of advanced marketing in practice and is based on high quality information fed to the database through a process of staff awareness and empowerment.

That information is then fed back down to the front line again in order to further develop the relationship with the customer. To achieve this, the customer relationship ethos must permeate the whole organization and staff training is a key requirement.

Successful loyalty marketing on the Pacific Rim

Bob McKim of MSDBM, a database marketing agency, compares the Asia Pacific database and loyalty marketing strategies, based on personal service, with the Western-style rewards and benefits approach. Singapore-based Pan Pacific Hotel & Resorts is a luxury hotel chain with 20 properties in Europe, North America and the Pacific Rim. Pan Pacific cannot compete with the worldwide chains in terms of number of properties and relies on the sophisticated use of customer transaction and preference data to build a close relationship with its customers.

Pan Pacific's most valued guests are enrolled in the Pacific Club International (PCI). On arrival they are given an immediate room upgrade and special amenities sent to the room. The staff is empowered to treat PCI guests differently and each one is greeted by name. On returning home, the PCI member receives a thank-you letter from the general manager of the hotel. In contrast McKim recounts how, as a member of the Sheraton Hotel network, in the past three years he has not received any automatic room upgrades, daily newspapers or other special amenities, all promised to him under the loyalty scheme. This point emphasizes the double-edged nature of loyalty marketing. By telling a frequent customer that he is important, a company is creating high expectations. If these expectations are not met, then this type of customer is in a powerful position to damage the company through negative word of mouth recommendation.

The loyalty programs of United Airlines and Singapore Airlines highlight different organizational cultures. United has created loyalty among its 11 million frequent flyer members through upgrades and bonus miles. The main thrust of Singapore's loyalty program is customer service, implemented personally by telephone and in-flight. In business and first class, passengers are greeted personally by name on boarding and receive a special gift half way through the flight. Singapore does offer limited seating upgrades and free flights through the "Passages", the Asian travel industry air points program.

Successful loyalty marketing is clearly a mix of rewards, recognition and relationship. According to the relationship marketing expert, Merlin Stone, Cathay Pacific defines loyalty marketing as integrating customer database marketing (storage, collection and manipulation of customer data), frequency marketing (activating frequent flyers through physical, tangible monetary and near-monetary rewards) and relationship marketing (special personalized individual service and recognition). However in a competitive environment it is increasingly difficult to obtain customer data through the promise of some future reward. Special service and recognition are the strongest incentive but the hardest to deliver.

Relationship marketing in the museums and arts sectors

Relationship marketing must be developed with the understanding that the receiving party has a need for or interest in what you have to say. It is most appropriate when both the buyer's and the seller's motivation to commit to the relationship is high. In this context, the arts and culture tourism market is well suited to relationship marketing. In the UK, a 17.6 per cent rise in below the line spend, by this market, was estimated, with this trend forecast to increase. The Natural History Museum (NHM) of London has a membership program consisting of 8,000 which is managed by a dedicated Membership section with three full-time staff, located within the Development & Marketing department. While it is the job of Marketing to attract people to the museum, it is Membership's task to convert those visitors to members, with life membership the ultimate goal. The majority of membership recruitment takes place on-site.

Developing a long-term relationship with its' members results in a number of benefits for NHM. Firstly, it satisfies the NHM's educational remit to increase access to this unique source of information. Secondly, it encourages repeat custom, leading to increased visitor spend in the museum's restaurants and gift shops. Thirdly, in a climate of decreasing government funding, it represents a body of people who can be called upon to provide support in the event of the museum being faced with closure or political pressure.

The successful development of the membership program in just three years is down to a number of factors. Firstly, it represents value for money – just 2.5 visits to the museum and the membership has paid for itself. Secondly, constant dialogue and communication with members. This is achieved through the quarterly magazine, which includes details of special events only available to members. For example there might be a talk by a botanist in December on Christmas plants, or a behind-the-scenes visit to the electro-microscopic unit, where members get to use multi-million pound equipment. Thirdly, it is about knowing your membership base. NHM discovered this when they sent a recruitment mailshot to a general list of people who had completed the customer questionnaires on-site. However the majority of these are tourists, visiting London from all over the UK. The mailing was unsuccessful, as the NHM membership base is located in the southeast of England and specifically the London area, within a reasonable journey time of the museum in order to be able to take advantage of membership.

The membership department holds a limited amount of information on each member at present and, now that it feels it has reached a critical mass, is planning a number of measures, which will improve its database marketing capability. A questionnaire has been sent to a sample of 1,000 requesting a range of lifestyle, life-stage and behavioral data. Secondly, the development of more integrated systems is planned. At present a member's name and address is held on a separate table to their response details. There is also a need for more uniformity across departments. For example the Development Trust department, also within Marketing, operates a separate system and, if a member makes a donation, there is no immediate way of Membership being aware of this. Thirdly, the membership card has a magnetic strip, which is swiped and provides information on

visiting patterns. Monitoring members' responses and behavior more closely in the future would largely replace the need for mailing out a questionnaire. This is an expensive exercise, which will become unfeasible as membership expands.

The Museum of Modern Art (MoMA) in New York is at the forefront of arts marketing, operating a customer database, a 45,000-strong membership program and an award-winning web site. Undertaking research and trading members up to a higher level of membership are two key aims of MoMA's database marketing program. Research is essential for the museum in telling them if their exhibitions are meeting the needs of their visitors and members. In addition to focus groups and surveys, MoMA has recently introduced barcoded swipe cards, which register data on attendances – how often, to what event, cost, etc. In addition to providing feedback on the success of exhibitions, these data can also be used to more tightly target mailshots. For example, frequent visitors can be rewarded for their patronage by personal invitation to special events. Those members who have not visited for a while can be offered an incentive such as a free meal in a restaurant or perhaps a special event based on their interests. The key to the success of the museum's marketing lies in the constant response analysis and follow-up, which is undertaken.

MoMA 's web site receives 100,000 visits and has a membership section, which clearly sets out the different levels of membership and the benefits package. Membership starts with "individual" at $75 all the way up to "major benefactor" at $10,000. The benefits at each level are clearly differentiated in order to encourage people to step up membership involvement and cash donations every year.

BUSINESS ACQUISITION STRATEGIES

In addition to customer retention, database marketing is used for business acquisition purposes. In the travel and tourism industry business acquisition has traditionally been interpreted as any new product sale – even if that sale is from existing customers. In other industries, this is more likely to be referred to as a customer retention strategy. This is an important distinction to make and is indicative of the traditional product-driven approach, adopted by the travel industry. If loyalty marketing is about retaining customers and capturing data on them, then business acquisition is about analyzing that data and turning it into intelligence which can then be acted upon to generate additional business, either from existing or from new customers. The cost of building a database of 500,000 customers is estimated to be about #50,000, taking up to six months to build and incurring additional costs in respect of annual management fees. With this level of investment, businesses must look for tangible returns.

Business acquisition at Thomson Holidays

With a database containing detailed information on eight million customers, Thomson Holidays, one of the leading mass tour operators in the UK, have a strong base to explore

for business acquisition purposes. Comprehensive data on attitudes, demographics, satisfaction, intention to purchase, buyer behavior and preferences, are collected on 90 per cent of Thomson customers through completion of the Customer Service Questionnaires (CSQ). These questionnaires include address and party composition and can be tied back to booking information to give a powerful combination of marketing data. As an indication of the increasingly important role which database marketing will play in the organization, Thomson has recently set up a Relationship Marketing Unit to manage a range of marketing activities, driven by the customer database. The emphasis is on generating revenue through customer retention – building loyalty and looking for cross-sell opportunities – as opposed to recruiting new customers.

Thomson has enough historical data to start to analyze behavioral trends and build statistical models to predict future trends. This segmentation will enable them to identify cross-sell opportunities as well as encouraging some customers to trade up to more expensive holidays. In order not to waste resources, Thomson uses the RFM formula (recency, frequency and monetary value) for targeting purposes. This formula enables Thomson to concentrate its marketing effort on customers who are more likely to give a return on marketing investment. Most of their database marketing will be focused on tapping into niche markets through the development of specialist products. These markets return relatively healthy profits in what is overall a low margin business. Research has also shown that these more up-market customers are more comfortable with booking direct.

However, the majority of Thomson distribution is through an extensive travel agent network and, in addition to direct communications, database marketing will be used to develop mutual collaborations with that network. In the past, tour operators received, from the travel agent, all the details of a customer's booking, except the name and address. Thomson are now attempting to introduce a policy for their network of preferred agents whereby the agents provide Thomson with access to their customer databases. In return, the agents will benefit from increased database marketing activity undertaken by Thomson. It is envisaged in the future that agents would gain access to parts of Thomson's database. This would enable agents to provide a more personalized service to their customers. For example, if a customer has traveled with Thomson in the past his details could be brought up on screen to provide the sales consultant with access to valuable information. Increased collaboration and sharing of data between businesses in the supply chain looks set to become a trend in the future. Scandinavia Seaways, the transport and cruise operator, envisage that the data sensitivity problem could be overcome by using an agency as a middleman to manage the principals' and the distributors' customer data, for the mutual benefit of both parties.

As a mass tour operator selling a packaged product in a price sensitive market, Thomson realizes that investment in relationship marketing would not be an appropriate use of resources. However although one-to-one marketing would not be cost effective, there are areas in which the customer database could be used to add value to the customer's holiday experience while at the same time increasing revenue. One such area is the sale of excursions in the holiday resort. At present, armed only with a list of names, the resort

representative is expected to sell from a broad range of excursions to a group of people from a variety of different backgrounds and with a range of different interests. To make this sales challenge even more daunting the customers themselves know little about the excursions on offer as the Thomson brochure contains very little information about them. Thomson's aim is to make more information, from the customer database, available to the representative in order to facilitate the sale of excursions. For example on a previous Thomson holiday a family showed an interested in hiring a jeep to "get off the beaten track". This would also provide added value to the customer who sees that the information held by the company is being used to provide a better service. The resort representative would also be fed information from Thomson's database of customer complaints, to make them aware of any travelers who have not always had a satisfactory experience with the company.

Customer scoring versus RFM

As with customer retention strategies, business acquisition techniques can be employed with different levels of sophistication. It is arguable that RFM falls into the applied category, whereas customer scoring is a more advanced use of a database. Unlike RFM, which takes groups of customers, segments them and then treats everybody in that segment the same, customer grading scores customers on an individual basis. In some respects customer scoring differs from RFM in its bottom-up versus top-down approach: i.e. RFM looks at the overall market and attempts to segment it into smaller pieces. Customer scoring is more akin to relationship marketing and looks at the behavior of individuals and builds them into a base of customers. The problem with RFM is that it does not allow for customers of different worth within a segment. The financial, niche mail order and home shopping catalogue sectors have used customer scoring, but there is no evidence that it is being adopted by the travel and tourism sector. One problem lies in the size of the segments. More refined segmentation may produce segments which are too small to be cost effective. Margins are very tight in the travel industry and the cost of the mailing would be prohibitive. This may be remedied in the future with the development of digital print and video production technology, which would enable companies to provide the customer with a tailored product including such things as personal holiday itineraries. These developments would also enable travel and tourism organizations to move away from the current scenario whereby most selling to the leisure market is focused around the peak buying period of February and March. More personalized mailings could be sent at different times of the year, based on knowledge about when the customer is most likely to purchase.

Data warehousing

At an advanced level, a customer database can be a powerful tool to predict future customer behavior. However, this requires access to a complete range of information. Increasingly, the larger travel and tourism organizations may look to the development of a data warehouse to make such predictions. The objective is to pool customer data from

different parts of the organization in order to produce a more three-dimensional view of the customer base. The marketing industry refers to customer relationship management (CRM) as one of the most important goals of a data warehouse. Some banks and insurance companies have developed data warehouses. For example, a bank may want to understand its customers' purchasing patterns. The likelihood of a customer wanting a personal loan will be heavily dependent upon the status of their current account. If all the transactional and balance information is available within a data warehouse then accurate predictive models can be developed.

A number of travel and tourism organizations have predictive models for each product, which will infer future behavior. These are likely to be built from sample data and will be effective in their own areas. The problem is that separate models cannot take account of customer behavior in other areas of the business. Past behavior is the most powerful predictor of future behavior and if all the information can be pooled together then this will enable the development of the most powerful model. This will become increasingly important as we see the growth of vertically integrated companies and affinity partnerships, resulting in large quantities of customer data from across a range of travel, tourism and hospitality sectors.

The emphasis, therefore, will be on data mining, which has been defined by the Gartner Group as: "The process of discovering meaningful new correlation, patterns, and trends by sifting through large amounts of data stored in repositories and by using pattern recognition technologies as well as statistical and mathematical techniques". However there is a risk of information overload and of throwing all the data into analyses and seeing what comes out. Although the cost of computer processing halves every 18 months, this does not necessarily mean that organizations' computing bills also halve, but rather some organizations process twice as much data for the same money. It is now a thousand times cheaper to keep a customer name and address on a computer than it was 20 years ago, or for the same money you can maintain 1,000 times more customer information. Data warehouses are expensive to set up and run. On top of initial hardware costs, the phased integration of 30 source systems over five years, with 100 complex users and 400 general users, will involve processing costs of #1m per year, storage costs of #250,000 per year with the need to add 500Gb of space each year. Despite these costs, research by KPMG Management Consulting revealed that only 16 per cent of warehouse users were sure that they had measured the return on their investment.

If the contact, response and follow-up strategies are managed effectively, database marketing can be measurable and, as with all technology-based initiatives, it is important to go for "quick wins" to ensure ongoing organizational support. Sampling exercises are still important to identify what data is significant. While statistical sampling offers insights, it still requires effective managers, who know their business, to turn the data into intelligence and ultimately into action. Paralysis by analysis, although a cliché, is a real danger.

Lifestyle companies

The provision of consumer lifestyle data is a growth business as companies seek to obtain ever more detailed information on their customers. Companies such as CACI, ICD and Claritas, manage vast databases, containing information gained from political censuses and lifestyle questionnaires. The former source provides more extensive geographic coverage and is based on postcode or zip code, while the latter is more limited in its coverage but offers more depth of information. In its publicity material, Claritas lists customer database building, data enhancement, database management, lifetime value analysis and retention modeling, under its list of database marketing services. In addition to enhancing existing data, these companies also rent lists of individuals to organizations wishing to prospect for new business.

The reliability of the two sources of lifestyle data is open to debate. Firstly, the validity, in our postmodern era, of assuming that people with a similar post or zip code are likely to behave in a similar fashion, is questionable. Secondly, lifestyle questionnaires are subject to bias in terms of which type of person is likely to take the time to complete them and also the honesty with which they are completed. CACI's new product, PeopleUK, attempts to counter these criticisms by utilising a mix of geo-demographics, life-stage and lifestyle data. Claiming to be a classification of individuals, not postcodes, it segments the UK population into 46 different lifestyle types. The USA and UK are at the forefront of geo-demographic systems, however in 1998, CACI launched InSite Europe, offering a pan-European market analysis system and reflecting a growth in the European use of these data.

The travel and tourism organizations, which were interviewed in preparation for this article, had all made use of lifestyle data with varying degrees of success. The general opinion was that lifestyle data could add value but that there was no substitute for having your own customer data. One tour operator talked of lifestyle data "adding" color – the addition of extra variables assisting with more refined targeting and creative appeal. Scandinavia Seaways use FinAcorn which helps them group target segments according to their spending power. With respect to renting lists of names, the best results were obtained when the business was able to supply the lifestyle company with key behavioral data from its own database. This generated a much higher quality list of prospects and resulted in higher returns. Whether an in-house or bought-in list, testing is a key part of the process.

CONCLUSIONS

Database marketing offers a number of advantages to the user: the ability to measure marketing effectiveness; the ability to test new creative ideas and products; more information about the customer; and the opportunity to create barriers against competitors. However in order to achieve the full potential of database marketing, the database must become the core of an organization's marketing activity. As table 2 illustrates, this requires the creation of a new marketing environment and involves

moving away from the principles of transaction marketing towards those of customer relationship management.

Table 2. Transaction Marketing vs. Customer Relationship Management

Transaction Marketing	Customer Relationship Management
Focus on single sale	Focus on customer retention
Socio-economic groups	Fusion of life-stage, lifestyle and socio-demographic data
Media placement	Telemarketing/Targeted messages
Emphasis on product features	Emphasis on product benefits
Short time-scale	Long time-scale
Low customer service emphasis	High customer focus
Quality as a production issue	Quality concerns all staff
One-way communication	Ongoing dialogue with the customer
Limited customer commitment	High customer commitment
Focus on new customers	Focus on cross-selling to existing customers

Sources: author's research, 1998.

Travel and tourism organizations at the more advanced stage of database marketing are increasingly realizing the benefits of customer retention in addition to the recruitment of new customers as a means of developing new business. As competition for market share intensifies, the emphasis will increasingly shift towards cross-sell opportunities within the existing customer database.

Loyalty marketing looks set to continue as the key means of customer retention, but will become increasingly sophisticated with the development of different tiers of membership. There is a growing trend in affinity partnerships between providers of travel and tourism services, as loyalty schemes strive to increase their appeal. However in an increasingly crowded marketplace and with question marks over the legitimacy of the customer loyalty and lifetime value concepts, the current reward-based strategy, on its own, is not sustainable. The travel and tourism sector must also look towards database marketing as a means of cementing customer relationships through personalized service and successful individual service encounters with the customer.

Data mining techniques are growing in sophistication in the travel sector, although with its ease of application, it is likely that RFM will continue to be the building block for segmentation of the database. With the increase in affinity partnerships and integrated organizations, data warehousing offers an opportunity for the major players to fully utilize the range of customer data at their disposal.