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## Customer Relationship Management in Tourism

### Chapter outline

A lot of effort is required by small tourism businesses to attract new customers. It makes sense then to consider the potential for stimulating repeat visits and/or referrals from them, because it can a more efficient use of scarce resources to stay in touch with previous customers than to spend on advertising to attract a continual stream of new ones. Customer relationship management (CRM) emerged from the IT sector during the mid-1990s as a means to enhance customer loyalty. CRM loyalty programmes that provide economic incentives have a positive effect on customer retention and market share. A small increase in the number of loyal customers can result in reduced marketing costs, increased sales, and higher profits. While traditional promotional activities are necessary to attract new customers, there are opportunities for small tourism businesses to supplement these with initiatives to increase loyalty. Five fundamentals of effective CRM are discussed: develop a philosophy of nurturing long term mutually beneficial customer relationships that foster a sense of community or belonging; develop a customer database; select customers who offer maximum yield; provide added value to selected customers; communicate with loyal customers via direct media in a *meaningful* way. Even if a loyalty programme to attract repeat business is not practical or feasible, there will still be opportunities to encourage customers to create conversations about the brand with others through word-of-mouth referrals. Online customer reviews and ratings, along with the advice of friends, play a major role in consumers' tourism purchase decisions.

### Learning aims

To enhance your understanding of:

- The rationale for customer relationship management (CRM)
- The fundamentals of an effective customer loyalty programme
- Opportunities to stimulate word-of-mouth (WoM) referrals.

## Key terms

### Loyalty

The commitment by a customer to return to the business to make further purchases, and/or to recommend the business to others.

### Customer relationship management (CRM)

A philosophy, technology, strategy and tactics, making use of customer information to stimulate increased customer loyalty.

### Word-of-mouth (WOM and eWOM) referrals

A powerful organic source of brand image development that occurs naturally, and where a firm can actively encourage satisfied customers to create conversations about the brand with others in their network. Also known as *influencer* marketing.

## Customer loyalty

The ultimate aim of any promotion is to generate customers (sales). The greater the amount of sales that are in the form of repeat purchases, the greater the benefits for the business. Small tourism businesses put in a lot of effort to attract new customers, who should then be regarded as a resource for the firm to capitalise on for mutual benefit. As discussed in 4: *Tourism Marketing Planning*, a resource is something within the firm's control that could represent a potential competitive strength. A customer relationship management (CRM) programme that increases customer loyalty is valuable to the business because it reduces marketing costs and increases yield. An effective CRM programme is not only a potential source of competitive advantage, but is also an intangible asset on the balance sheet that adds to the financial value of the brand. Importantly, effective CRM is also valued by customers when they are suitably rewarded for their repeat business. Loyalty programmes offering economic incentives can have a positive effect on customer satisfaction, customer retention and market share (Verhoef, 2003).

### Critical point: Customer loyalty shouldn't be confused with customer satisfaction

Customer satisfaction does not denote loyalty. While loyalty is built on customer satisfaction, a business could have high levels of satisfaction but have little loyalty. Satisfaction is a perception about how needs were met during a past service transaction, whereas loyalty is future behavioural intention/action. A customer could be very satisfied with a service, and yet quite easily switch to another brand offering a cheaper deal, or not be in a position to visit the business again.

For businesses operating in markets where there is potential for repeat visitation, the starting point is to set up a customer database, as a basis for developing a loyalty programme. It can be more efficient use of scarce promotional resources to stay in touch with previous customers, than only attempt to attract the attention of consumers with costly mass media advertising. It makes sense then to supplement the promotional plan objectives to increase new customers, with a customer relationship management (CRM) programme to foster increased loyalty. The key aims of CRM are to increase customer retention and stimulate repeat purchases (Chang et al., 2002; Marchand, 2006; Ozgener & Iraz, 2006). CRM can be used to boost capacity, increase the contribution towards fixed costs of the business, and save on marketing costs. A 5% increase in customer retention levels can result in an increase in profitability of 25% - 100% (Reichheld, 1996). Therefore it can be at least five times more cost-effective to retain existing customers, rather than continually acquire new ones (Ozgener & Iraz, 2006). For small accommodation businesses, effective CRM can also help to counter the competition from online travel agents (e.g. Hotels.com), search engines, and other third party information and transaction channels (Tian & Wang, 2017).

### Industry insight: 50% of revenue from 3% of customers

A marketing representative of one of Australia's most recognised travel agency chains, during a guest speaking role in one of my classes, told us that 50% of the company's revenue that year came from only 3% of their customers. A further 45% of revenue came from another 27% of customers, while 5% of revenue came from a staggering 70% of customers. Speaks volumes about the value of retaining high yield repeat customers doesn't it?

Tourism businesses were among the early adopters of CRM technology, particularly hotel chains such as the Ritz Carlton (Vogt, 2011), and Harrah's (Lee et. al., 2003). The cruise ship industry has also been a leader in tourism CRM. A cruise ship will rarely depart with any empty suites, because the marketing team stays in touch with the company's frequent customers. It is not uncommon in the US for example for travellers to have undertaken over 20 cruises with the same company. The most frequent customers are offered a cruise at short notice, where capacity needs to be filled quickly, with a heavily discounted, or even free, offer. Cruise companies know these customers will spend enough on board (e.g. bar packages, casino, shore excursions, souvenir photos) to make a contribution towards the fixed costs of the business, which are incurred regardless of whether the cabin is occupied or empty. So, the marketing plan for any tourism business should consider developing initiatives to retain selected customers, in addition to attracting new customers. However, even though there is a growing body of CRM research in the tourism literature, little has been published about CRM activities of small tourism businesses (Vogt, 2011; Rahimi & Kozak, 2017), and the long