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High-tech and the 'SQ' Factor

EVEN AS the global hospitality industry wrestles with the ever-changing world of high-tech to find new customers and rationalise its distribution and pricing policies, it is having to contend with new high-tech factors in retaining finicky customers. As competition grows, so does the complexity, confusion and the costs of doing business.

Some of these high-tech/high-touch trends were more than apparent at the November 2000 International Hotels & Restaurants Association annual congress in London.

The Internet: A Mixed Blessing

The Internet has contributed significantly to a media environment in which it is easier to reach consumers, but more difficult to influence them, according to Dr. Peter Yesawich, President and Chief Executive Officer, of market research company Yesawich, Pepperdine & Brown.

Questioning some of the hype behind the Internet growth, he noted that on one hand, the electronic bazaar created by the Internet was facilitating the clearance of unsold or "distressed" inventory, leading to more comparison shopping and commodity pricing within competitive product tiers. On the other, it had also created an "electronic bizarre" with the erosion of profit margins, greater pricing instability and more online auctions.

Dr. Yesawich said his company surveys had shown growing interest among consumers for using the Internet to source information and pricing (64 percent of respondents), make hotel reservations (52 percent), make airline reservations (52 percent), and make car reservations (48 percent). At the same time, 52 percent of respondents said they were concerned about making reservations because the personal information they provide about themselves may not be secure.

He pointed to the growing number of travel sites, including Internet travel agencies like Travelocity.com, previewtravel.com and Expedia.com, as well as travel auction sites like priceline.com, SkyAuction.com and EventSource.com. A recent survey had shown that 29 percent of respondents felt they were getting best prices from these and other such sites, up from 23 percent in 1999. The percentage of people saying they received the best prices from travel suppliers had dropped from 42 percent to 35 percent in the same period, and from travel agents up marginally from 35 percent to 36 percent.

Dr. Yesawich said the single most important change created by the Internet has been to give consumers greater control over the purchasing decision. This has meant the end of "consumer dependence" on suppliers. Online consumers not only determine what things are worth, but they also exercise greater control over transactions.

According to Mr. Mike Jones, Vice-President Global Distribution Services, Hilton International, this in itself is a source of concern as the Internet is making it possible for consumers to buy a product more cheaply through somebody else's site than the seller's. This is one of the major mistakes that hotel groups and other suppliers are making in approaching distribution over the Internet. Over time, Mr. Jones indicated, it will have to be rectified.

He said suppliers of travel products over the Internet have to find ways to retain control over the inventory. They also need to ensure that their Internet strategies are designed to make more money rather than less. Mr. Jones said it is no use having a Web site which is not bookable, and badly-run Web sites can do far more damage than good.

Today, the Internet is the most expensive distribution channel operated by Hilton. Mr. Jones indicated that the benefits are going to take time, even through direct

bookings are growing at the rate of 200 percent per annum. However, this is based on small numbers. The Hilton Web site receives 40 million visits per annum but the reservations are less than 3,000 per annum, with bookings from the United States significantly ahead of those from Europe and the Pacific Asia region.

Mr. Jones said that for the first time in the history of the travel industry, there is complete price transparency. This has raised concern about commoditisation in the industry and has required hotels to ensure that they have yield management systems which help them understand what products they put into the market, at what price, and at what times. "It needs a lot of thought and a clear strategy," he said.

Mr. Jones added that hoteliers should fight against giving the Internet a bad name as a repository for heavily-discounted stock. He also asked: Where do wholesalers fit in the new equation? "If a third party is going to sell marked-up rates, why shouldn't the consumer buy those same products directly through us at those rates?"

Mr. Jones said that at the moment, hotel Internet sites are underpowered and dramatically underperforming. One reason for this was that many sites originally were not designed for the hotel industry but for airlines. The complexity of the travel product also does not help. Selling lodges is much simpler over the Internet than selling full-service hotels. Other problems include quality of the content, usability of the site, the need to have many languages and connectivity.

Customer Satisfaction Versus Commitment

While the Internet is upsetting the distribution and pricing apple cart in the search for customers, the prospects of keeping customers may be a little more basic.

According to Mr. Stuart Scher, Chairman, Taylor Nelson Sofres Hospitality & Leisure, research done in South Africa in the early 1900s to track why people converted from one religion to another is now being used in the business world to better understand why customers switch from one product to another, and to prevent them from doing so. The religious research showed that while

people may be "satisfied" with a religion, they may not necessarily be "committed" to it, which would make them targets for an approach by another religion.

Operating on the principle that what works in one environment will work in another, research done by an evangelist has been used extensively to help companies selling everything from colas to cars. The approach is now being expanded to the hospitality industry.

According to Mr. Scher, marketing theorists are admitting there is a disconnection between satisfaction and loyalty. Satisfied customers may not necessarily be loyal customers, but committed customers are more likely to be.

For example, citizens of some countries have an emotional attachment to their national airline because it is a source of national pride. Hence, they will remain committed to it and could be relatively forgiving even if its service levels are relatively poor. Similarly, a certain hotel chain could be where a person stays often as the brand has become a "home from home." Other chains may be better but cannot replace the emotional attachment to this chain.

But now, models are being developed which allow hotels to measure customer commitment rather than just satisfaction. These models allow brands to identify customers whose commitment merely needs to be consolidated as well

as those who are in danger of switching to a competitor. The new approaches strive to understand what motivates commitment and what can be done to maintain and improve it. They also help hoteliers understand what is undermining commitment and what can be done to counter it.

Hoteliers can go for complex modelling or try the relatively more simple approach suggested by Mr. Donald Cooper, Chairman and Chief Executive Officer of the Donald Cooper Corporation. He said hoteliers just need to work harder at identifying the stress in people's lives and ways they can make some of that stress go away.

He urged hoteliers to "think about these ways and test them out against your business and your life experience. Once understood, they will be powerful in understanding your relationship with your customers...and how to become their preferred supplier."

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Mr. Cooper said many business people think that money is the only "currency" in their customers' lives, so they can think of only one way to compete: cut their price. "But when you understand that there are four currencies in people's lives – money, time, feeling safe and feeling special – there are hundreds of ways to compete which are not about cutting prices."

While hoteliers cannot make everyone's stress go away, they can focus on understanding and serving specific, well-defined customers. Mr. Cooper said hoteliers should fully describe their target consumers, as well as their potential target customers. Then they should try and identify the stresses the customers face about life in general, and the specific stresses they face when they buy a product, in this case a hotel room.

Hoteliers then have to identify how they can help their guests relieve that stress, as well as the "preventors" – obstacles which prevent them from doing so. All this should be factored into a business which is essentially all about helping people, Mr. Cooper said.

Boutique Hotels: Making Inroads

The ability to make some of that stress go away could be one reason to explain the growing success of boutique hotels worldwide. By its very definition, "boutique" implies something that is very personal, individual and small. According to Mr. Chip Conley, Founder and Chief Executive Officer of the Northern California boutique hotel group Joie de Vivre (French for "The Joy of Life") a fundamental difference between a boutique hotel and a chain is the ability to establish an emotional connection with the guest.

According to Mr. Michael Shepherd, General Manager of the Savoy Hotel in London, boutique hotels also allow employees to be better motivated, well trained and deliver service which surpasses the guest's expectations. Because this can be done better than in mass-market properties, the result is customers who not only buy your product again and again, but tell dozens of their friends, free of charge. Boutique hotels also allow passionate hoteliers to manage the balance of ownership, debt service and the delivery of hospitality. These areas can be almost irreconcilable in larger hotels.

Another boutique hotelier, Mr. Andy Thrasyvoulou of U.K.-based myhotels, quoted Mr. John Jarvis, former Chief Executive Officer of Hilton Hotels, as saying that boutique lifestyle hotels are taking away some market share and will continue to do so as people become more adventurous, want change and grow bored of the same carpet in Paris, New York and Rome. He said boutique hotels enhance the quality of experience and minimise frustrations by moving "at the customer's pace, not at the convenience of the hotel."

The 'SQ' Factor

While hoteliers are mesmerised with high-touch and high-tech issues, the opening and closing speeches of the IH&RA convention pointed to the emergence of other issues well beyond either. According to Mr. John McGrath, Deputy Chairman of the Prince of Wales Business Leaders Forum, socially responsible business practice is no longer an option but an essential requirement of competitive business.

In 1999, a Millennium Poll cosponsored by the Business Leaders Forum to gauge public attitudes in 23 countries found that two in three citizens wanted companies to go beyond their

historical role of making a profit, paying taxes, employing people and obeying all laws. They wanted companies to contribute to broader social goals as well.

Today's younger generation, who are both corporate employees and customers, are expecting business leaders and managers worldwide to deliver higher standards and better performance. They are far less willing to trust – they want to be shown, and they want to be involved.

Companies which are responsive to consumers, which run their businesses according to honest and decent standards and which believe that only the best will do, will have the competitive advantage, said Mr. McGrath. However, he was concerned that "we often lose the plot – because we see the evidence but we don't always manage these issues of reputation and engagement in society as if they were serious business issues. As the business community at large, we don't always enable our employees and customers to understand and share these ideas with us."

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He noted that recent anti-globalisation protests in Seattle, Davos, Washington, Bangkok, Melbourne and Prague have heightened the need to develop a human dimension to challenges of globalisation. "Protests against the perceived downsides of globalisation and international capitalism may be misplaced – but the attitudes and concerns are real. Businesses are being called more to account – by major corporate customers and those in their supply chains, by new recruits and employees, by consumers and communities, by the media, and frankly by anyone who has access to the Internet these days."

Hotels and restaurants play a central role in the communities in which they operate. Poverty and crime in local communities affects the quality of the guest experience. Local employment and training programmes can be valuable long-term strategies in reducing poverty and its negative spillover effects on local tourism.

Mr. McGrath has been heading a Business Leaders Forum task force promoting the Human Capitalism Campaign, designed to encourage socially-responsible business practices for managers at all levels. He said social issues for management include:

- Engaging business partners such as suppliers and business partners in the cause of corporate social responsibility
- Mobilising employees to engage in communities
- Developing tomorrow's business leaders through management development and the business school curriculum
- Ensuring that companies do more to report progress and results and benchmark performance on economic, environmental and social measures.

(The full agenda can be found on the Web site of the Business Leaders Forum at www.pwblf.org.)

The IH&RA's closing speech was given by Mr. Ram Gidoomal, CBE, Chairman of Winning Communications. He took participants on a personal journey, starting from the days when he and his family arrived in the U.K. as refugees from East Africa to the business empire they own today. He went through a series of some very traditional management formulas about the management of change but ended with a discussion about the growing trend towards spirituality in business.

He said: "Leadership, aspiration, vision and inspiration are topics that go beyond the material and the everyday business world. And such terminology is more and more to be found in discussions of business today. It's

striking how many books on marketing and salesmanship, to take just one example, include discussion of what one might call the 'spiritual' element of the subject.

"There was a time when doing business was a matter of techniques and methods. Today, what one believes forms part of the equation." He said that much more attention is being paid to spiritual and metaphysical aspects than 30 years ago. "When I was studying physics then, we were taught that matter is concrete and reality was made up just so. But today the mind, too, is being looked at by scientists and the world of the non-material, which some call the soul, is being taken seriously as an observable thing rather than a meaningless concept.

"Seeing clearly...involves much more than the objective and material. It is poetry, prophecy, religion – and business is recognising this too."

Mr. Gidoomal said that the spiritual element is interwoven into many business debates. The discussion about ethical and moral business, for example, is discovering that a profitable business has moral and ethical responsibilities to people besides those who buy goods and services from it. A factory, for example, has environmental obligations to its surroundings.

"So let me suggest that businesses consider, after the intelligence quotient (IQ) and the emotional quotient (EQ), the importance of the SQ factor – the spiritual quotient. 'S' can refer to whatever you like in this area – Sabbath, soul, psyche, sport, recreation, stress-relief and more.

"Perhaps the best way of managing change is to keep in mind whatever truth-values we personally find important. A journey of spiritual discovery is not a separate world or an alternative option to success in business. In fact it lies at the heart of truly successful business in a world of change."

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