Databased Marketing by Travel Agencies

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Databased marketing, understood as a comprehensive marketing strategy based on a memory of business transactions with customers, is a crucial step toward gaining competitive advantage in this rapidly changing world and industry. This article discusses the concept of databased marketing and presents the results of a survey of travel agencies in New Zealand. It shows that the travel agencies are involved only to a limited extent in the three identified areas of databased marketing: customer retention, product promotion, and customer creation. Especially in the areas of product promotion and customer creation, considerable opportunities exist to maximize the returns and effectiveness of the existing databases.

Tourism marketing in the 1990s appears little different from that in previous decades. Although access and availability of new technologies, such as the Internet, have widened the options available to the tourism operators, the basic approach toward attracting customers has essentially remained the same. Mass marketing, and especially one-way promotion of products, still is the state of the art in the tourism industry; few companies and sectors have ventured on new paths. Sure enough, nearly all tourism operators, whether tour operators or travel agencies, are collecting information on their customers; therefore, a multitude of opportunities exist to assemble detailed information on the consumers. In fact, few other industries involve such a high level of customer contact as does the tourism industry. However, very few make use of it. For example, when was the last time you received a letter from your travel agent suggesting a vacation trip to one of your favorite vacation destinations at or around your next birthday? Never? Exactly! Although these operators have plenty of information available on their customers, they rarely use these data to their advantage. And although there seems to be a general understanding in the tourism marketing literature that it is more cost-effective to re-attract previous customers, this notion is seemingly completely ignored by the practitioners in the industry itself. To simply use direct marketing to previous clients is just one application of databased marketing.

Satisfying or meeting customers’ needs and expectations has perhaps never been as important for travel agencies as it is today. Travel agencies have come under increasing pressure from a variety of types of competition. Tour operators are increasingly trying to sell directly to their end clients to cut out the profit margin of the travel agencies. Similarly, airlines have reduced the sales commissions for travel agencies to maximize their own profits in a time when many airlines are struggling to break even financially. In addition, the increasing availability of tourism information on the Internet, coupled with direct booking and payment facilities, has been touted by some to be detrimental to travel agencies (Bennett 1993; Stride 1996; Yesawich 1996), with the most extreme opinions even suggesting that the end of travel agencies is in the near future. Furthermore, the profit margins generally are very low on most products sold and require agencies to achieve minimum turnover levels to meet their basic overhead costs, which can be quite high when the agencies are located in downtown areas. Thus, travel agencies are very dependent on their repeat customers and can hardly afford to lose high-volume clients. But despite this heavy reliance on repeat customers, formalized travel agency loyalty schemes have not been widely established. By contrast, very few travel agencies have actually established “functioning” databases on their customers that would allow them to maximize their returns through databased marketing. Yet, issues such as lifetime value (Jackson 1989; Li 1995; Pine, Pepper, and Rogers 1995), customer attrition rates (Marsh 1994; Reichheld 1996; Reichheld and Sasse 1990), repeat purchasing behavior (Dick and Basu 1994; Jarvis and Wilcox 1976; Ostrowski 1993; Weiser 1995), and the like, which are part of a comprehensive analysis of brand loyalty, seem particularly important in the travel agency sector because of the low profit margins achieved, not unlike the situation in many packaged goods industries.

After reviewing the literature on travel agencies and discussing the fundamental concepts of databased marketing, this article reports the results of a study on the current practice of databased marketing in travel agencies in New Zealand. Based on the responses from 266 travel agency managers, the article analyzes the current approach to databased marketing with respect to its three dimensions: customer creation, product promotion, and customer creation.

LITERATURE REVIEW

Travel Agency Research

A general dearth of publications on travel agencies can be noted when reviewing the travel and tourism literature. This is not to say that nothing has been published on travel agencies, but considering the importance of travel agencies as information providers and their role in the distribution
channel, the amount of research conducted appears very small when compared to topics such as destination image and package tours. In fact, Ritchie (1996) noted that the whole area of travel agencies’ role and importance within the tourism distribution channel system remains largely unexplored. Yet, travel agencies serve as both information providers and planning/booking providers for a large share of travelers, particularly in the international context. For example, travel agencies commonly emerge as one of the top three information sources used by tourists (Duke and Persia 1993; Mihalik, Uysal, and Pan 1995; Snepenger et al. 1990). Especially in overseas travel (Duke and Persia 1993; Mihalik, Uysal, and Pan 1995) and traveling to destinations not visited previously (Snepenger et al. 1990), travel agents often are the primary source of tourism information sought by the tourists. However, some studies also have yielded a relatively small reliance on travel agents as information providers (Fodness and Murray 1997). No study has specifically investigated the role of travel agencies as information providers for different types of travel, although the aforementioned studies’ results would indicate that there could be significant differences between information search for, say, domestic and international travel. A range of other aspects of travel agencies has been studied by other researchers, including travel agency service and selection attributes (Kendall and Booms 1989; Meidan 1979; Persia and Gitelson 1993; Ryan and Cliff 1996, 1997), locations (Roehl and Krauss 1992; Rutledge and Hunter 1996), information technology needs and changes (Bennett 1993; Kroenes 1997; Richards 1995; Romeiss-Stracke 1997), travel agents’ role in family decision making (Michie and Sullivan 1990), advertising strategies (Laskey, Seaton, and Nicholls 1994), and adaptation to changing requirements by clients and the more effective use of relationship marketing (Bennett 1993; Goldsmith, Flynn, and Bonn 1994; Marsh 1994; Richter 1996).

Databased Marketing

The core concept of databased marketing is “building up sufficient information or data on individual people so that you can carry out complex communication programs with them” (Fletcher, Wheeler, and Wright 1994, p. 139). This definition easily relates that databased marketing is focused on the one-to-one relationship with customers that allows for relationship, niche, and micro marketing.

Airlines were, according to Petrisson, Blattberg, and Wang (1993), among the first traditional mass marketers that started to apply databased marketing. The first frequent flier program (FFP) was launched in 1981 in the aftermath of airline deregulation in the United States (Goetz and Sutton 1997; Pustay 1992; Verchere 1993). They were intended to create consumer loyalty by increasing the switching barrier or increasing the costs of switching (i.e., losing benefits). Other travel businesses, such as hotels and car rental agencies, soon followed and launched their own frequent-user programs or went into joint programs with airlines. Today, most loyalty schemes of airlines, hotels, car rental agencies, credit cards, and other companies are heavily interlinked. Increasingly, airline loyalty schemes are teaming up and not only among those airlines offering flight sharing.

The loyalty schemes of the major airlines and hotel companies extend into the millions of members. For example, Toh, Rivers, and Withiam (1991) indicated that the frequent guest program of Marriott had 3.5 million members and that similar programs of the following hotels also had more than 1 million members: Holiday Inn, 2.8 million; Hyatt, 1.3 million; and Hilton, 1 million. Verchere (1993) mentioned that there were 30 million members of FFPs in the United States alone, although a large number apparently were members of several FFPs. This number was up from about 18 million a few years earlier (Toh and Hu 1988). The sheer numbers of members and, therefore, potential repeat customers and information on them are mind-boggling. Sometimes, to simply get an idea of who the customers are and how much they spend is a major benefit of tracking behavioral data in a database. For example, one Los Angeles restaurant that started a frequent diner program (FDP) in 1991 learned that its best customer had spent $21,000 in the first year (Casper 1993). One might expect that once restaurant chains have fully fledged FDPs, the member numbers in these will easily surpass those in the airline and hotel industries combined. More recently, programs such as “Fly Buys” that allow consumers to collect points from purchases of nearly anything have emerged and are likely to surpass any of the more specialized, industry-specific programs. The extent to which any of these loyalty schemes has actually increased loyalty remains unknown because a large proportion of the members are unknown because a large proportion of the members are members in numerous programs so that one would assume that their “loyalty” cancels itself out. A pragmatic view of those programs suggests that they simply serve as discount providers for frequent users whereby those who are not members or who do not use the services very often are subsidizing those who are members and/or who use the services frequently.

Collins and Wallace (1995) provided an example of a tour operator that used its database for an effective mailing of its brochure. Instead of mailing the brochure to everybody in its database, the firm cleaned the database and selected about 50% of the names, achieving a more than doubling of the response rate for considerable savings both in postage and brochure printing costs. Morris (1994) suggested another application of customer databases, namely, using them in designing new products.

THE CUSTOMER PYRAMID

From a databased marketing point of view, one can segment the market of potential customers into two very general categories: the customers who have previously purchased one’s product and on whom data records exist in the database and the noncustomers who have no previous purchase records (Figure 1). Within those two general categories, one can further segment and classify along several dimensions. Among the customers, it is important to recognize the recency of the last purchase. Thus, one may identify current customers who are at the very moment purchasing the product, previous customers, and lost customers who will never buy one’s product again either because they were dissatisfied, always purchase different products, or moved away. Among all three types (current, previous, and lost customers), one can further discriminate along their frequency of purchase and their monetary value, which completes the
Customer Retention

Customer retention focuses on the current customers, that is, those who currently are staying in the hotel, occupying airline seats, or booking their travel with travel agencies. Essentially, customer retention is all about "making them happy and bringing them back." This requires the recognition that the "customer is the king," and tourism companies should strive to obtain as much input as possible from the customers to improve and perfect their products. Questionnaires are an easy way in which to find out more about the likes and dislikes of consumers, although companies should not fall into the "satisfaction survey" trap. To simply survey whether customers are satisfied or dissatisfied does not yield the information required; even satisfied customers might not come back (Prokesch 1995; Reichheld 1996; Weiser 1995). More important would be to obtain information on what consumers really want. Rewards to current customers in the form of points or miles have almost become the standard in most tourism industry sectors and probably are the most written about and documented aspect of databased marketing. A focus on current customers also can include a very individualized service component whereby customers are treated on a one-to-one level and the company is aware of the specific needs, desires, and habits of individual consumers. For example, a travel agent only needs to know the general destination of the client to compose a package after the likings of the client without having to ask for each individual item requirement.

Product Promotion

Product promotion addresses previous customers and uses the information collected and stored on them such as their addresses and demographic and behavioral data. This aspect of databased marketing can yield substantial savings and incremental sales increases if applied correctly (Hughes 1995). Product promotion can range from mailing to every name on file over user-defined segmentation to using computer-defined segmentation. User-defined segmentation involves the use of traditional segmentation approaches such as by geographic, demographic, and behavioral characteristics. Behavioral segmentation in a travel agency context could be the selection of all those consumers who previously have booked adventure tours to promote another adventure tour, or it could be the mailing of a brochure with long-haul destinations and tours to those clients who previously have booked long-haul packages or flights. A more sophisticated approach is computer-defined segmentation. As Kyzer (1995) noted, "To be most effective, profiling should be done without preconceived notions about which information will be significant" (p. 28). It moves away from the dependence on managerial wisdom and intuitiveness and toward a computer modeling process to arrive at segments that share common characteristics. It allows for the inclusion of a much wider range of input variables than usually can be thought of or considered by managers. Through advanced statistical modeling procedures, segments or clusters of customers are established. However, it is at this point that managers need to look at these segments to identify the common traits that can be exploited to offer a specific product. The emphasis here is on identification of products; these may or may not be products that currently are being offered. Whereas in user-defined segmentation a product is in mind and the segmentation of the customer database comes second, in computer-defined segmentation this process is reversed, allowing for the development of tailor-made products to niche markets that might otherwise have been overlooked for lack of recognition.

Customer Creation

Customer creation deals with, as it already expresses, new customers or being better at turning noncustomers into customers. Whereas in the past most tourism companies and destinations relied largely on consumers coming to them with or without awareness creation (i.e., without destinations advertising themselves), the future will require more innovative approaches owing to increased competition, stagnating or reduced demand growth, and increasing fragmentation and individualization requirements of consumers. Customer creation can range from simple acquisition of mailing lists over the establishment of preferred customer profiles to modeling and identification of potential customers who might not have previous purchase histories with either the competition or related service companies through the use of household and/or census data based on characteristics of...
current application where geographic information systems attain their critical role because of their ability to tie information to individual households and, therefore, to addresses. Addressability is one of the primary criteria of effective segmentation and marketing. For example, a travel agency might have identified a segment of previous customers and would like to target people with similar characteristics because it appears to be a very profitable segment. Some of these characteristics might include an annual household income of more than $100,000, dual-income earners, and more than three trips overseas per year. With the help of a GIS system that incorporates the relevant data on all households, a travel agency can identify those households that are in the same city or its vicinity and target them by mail, telephone, or both. This modeling of potential customers on the household level is, at least currently, at the forefront of databased marketing applications in the customer creation level.

**METHODOLOGY**

Because there is no comprehensive guide to travel agencies in New Zealand, travel agencies and their addresses were compiled using the most recent versions of the yellow pages for all directory areas in New Zealand. Thorough checking for double entries due to cross-listing in different directories and, more frequently, due to also being listed as having advertisements ensured that the original mailing list did not include multiple listings of the same agencies. In total, 915 travel agencies were identified, considerably more than estimates mentioned previously (Lawton and Page 1997).

The questionnaire was developed based on the existing diverse literature on databased marketing. It included four sections: questions dealing with interaction with current customers, promotion to previous customers, creating new customers, and general attributes of the travel agency including ways of information.

Based on the target of more than 200 responding agencies that would allow for a further segmentation of the sample by maintaining a reasonable number in each segment, financial limitations, and the prediction of a response rate of about 30% in a one-time mailing, questionnaires were mailed to all 915 of the identified travel agencies. The questionnaire was addressed to the manager of each travel agency; however, it could not be ascertained whether it always was the manager who responded. The mailing included, besides the questionnaire, a cover letter and a postage-paid return envelope. In addition, an incentive was offered in the form of a summary report of the travel agency survey as well as the resident survey. This incentive was taken up by 75% of all respondents. It was recognized that such an incentive might not necessarily improve the response rate while at the same time increasing the total cost of the survey; however, it was done with the benefit of industry recognition in mind.

Within 4 weeks of the original mailing, some 266 travel agencies had responded, yielding a 29.1% response rate that was slightly lower than the predicted one. However, the target of 200 or more responses was achieved. In addition, 22 questionnaires were returned “addressee unknown,” which suggested that either those travel agencies had ceased to exist or had already moved some time ago without leaving forwarding addresses. The low entry and exit barriers in the travel agency business obviously are one contributing reason to a relatively high business turnover. The geographic representativeness of the respondents was examined. Response rates were compared from the large urban areas versus the rest of the country and from North Island versus South Island. The emerging differences were relatively small. For example, the response rate from the three major urban areas was 27%, compared to 33% for the rest of the country. Thus, these checks suggest that the respondents were representative of the population, at least with respect to geographic distribution.

**RESULTS**

Most of the travel agencies (63%) were located in the downtown area, and the vast majority of these (83%) were situated on the ground floor with display windows. Suburban shopping centers (28%) was another popular agency location. The vast majority of the travel agencies were “small” if measured by number of employees. Some 22% had 1 or 2 full-time equivalent employees, and another 58% had between 2.1 and 5 full-time equivalent employees. Only 6% had more than 10 full-time employees. Fully 79% mentioned that their agencies were part of national and/or international chains, and only 21% indicated that they were independent. On average, 73% of the agencies’ customers were private, with the remainder being business customers. However, some 23% of the agencies drew more than 50% business demand. When asked about their repeat business, the majority of respondents indicated that many of their customers were repeat customers. Most of the customer contact was initiated through “walk-ins” (43%) or phone calls (48%), with the former reflecting the importance of a ground-floor location.

A large majority of the respondents indicated that they kept computerized records of their clients and/or their transactions. The personal information included ranged from passport numbers (85%) and frequent flier data (92%) to birth dates (61%) and occupations (39%). The high importance placed on passport numbers and frequent flier data indicates that much of the booking was for international destinations. Information on past trips was generally held quite comprehensively, with most characteristics being recorded by 80% or more of the respondents.

**Customer Retention**

Less than half of all respondents indicated that they provide evaluation forms to their customers to obtain feedback from their customers on their service quality and delivery (Table 1). Of those agencies that did, most included such forms in the ticket wallets (56%) or sent them to customers after their trips (37%). Some 33% indicated that they provided such forms to all (100%) of their customers, and another 32% said that they provided them to 76% to 99% of their customers. Interestingly, some 76% of all respondents mentioned that they sent “welcome home” cards/letters to
their clients, which indicates an effort to get closer to their customers.

Only 28% of the respondents indicated that they used the information available to them to provide discounts for regular clients. Just 19% had developed special products and/or offers to their clients based on their past records. This indicates that discounting and very individualized service to current customers were not practiced very widely.

**Product Promotion**

Although 74% of the respondents mentioned that they had used direct mail for promotional purposes, much of that was of the “mass mailing” type rather than individualized offers. Only 33% had segmented their customers based on the information that they were holding on them, which indicates that most travel agencies had not attempted to understand their client composition in greater detail. The most frequently used segmentation variables were age, frequency of purchase, and lifestyle, with lifetime value being the least used. However, when asked which variables were used in establishing preferred customer profiles, lifetime value was mentioned considerably more often. Frequency of purchase was the most often mentioned characteristic.

Thus, although a lot of data are collected on the customers and even stored electronically, very few agencies make active use of those data as far as trying to better understand their customer composition. In addition, the lack of such analysis hinders a more directed targeting of their clients for specific product promotion, probably resulting in a considerable waste of financial resources in mass marketing efforts.

**Customer Creation**

Only 15% of the respondents had acquired outside data sources, and most of those had obtained customer data from other agencies within the same chains. Mailing lists from other industry sources (e.g., hotels, tour operators) and from other sources (e.g., credit card agencies) were other sources
that were mentioned more often. Census data were mentioned by only 1% of all respondents. The typical use of such outside sources was to send this material by direct mail.

The low incidence of acquisition of outside data sources indicates that few travel agencies were actively involved in customer creation using a more refined way than just sending out general messages to the public via television, radio, newspaper, and magazine advertising. Besides the yellow pages, from which the names of all the travel agencies in this study were derived, a large number used newspapers (85%) and television/radio (75%) advertising as their ways of promoting their services and, therefore, their approach toward customer creation.

But how are the three areas of customer retention, product promotion, and customer creation interrelated? Do some agencies use all three approaches, others none, and others a combination? There are eight possible combinations among these three approaches. The travel agencies were categorized according to their use into these eight categories. Figure 2 provides an overview of the results. Some 14% of the responding agencies used none of the methods, whereas the other 86% used at least one method. Some 33% did solely product promotion, 10% did customer retention, and just 1% used solely customer creation methods. Product promotion and customer retention (27%) was the most popular combination of two approaches, with product promotion and customer creation (6%) coming in a distant second. Some 8% of the respondents used all three approaches and, therefore, employed the widest range of databased marketing strategies. That product promotion or combinations of product promotion with other approaches was the most popular strategy was no surprise given the data in Table 1. More noteworthy is the fact that only half of those who used the customer creation approach employed both of the other approaches as well. It also is obvious that there is no hierarchy in the strategies insofar as travel agencies would use product promotion as the basic strategy and then build on that, adding customer retention and finally customer creation. Some 12% of those who did use one approach or another did not use product promotion.

CONCLUSION

Based on a survey of 266 travel agencies, this study showed that the travel agencies were involved only to a limited extent in the three identified areas of databased marketing: customer retention, product promotion, and customer creation. Especially in the areas of product promotion and customer creation, considerable opportunities exist to maximize the returns and effectiveness of the existing databases. The current emphasis on general promotional channels such as television, radio, newspapers, and yellow pages indicates that few of the travel agencies are mining their own databases for a more effective approach.

Although the databased marketing paradigms of RFM and lifetime value have been firmly established and empirically supported for many decades, the vast majority of tourism companies have yet to recognize the value of using their databases for marketing purposes. The growing competition and segmentation in the face of globalization and stagnating demand growth in many traditional markets denote the need for turning to one’s current and previous customers to aggressively retain and re-attract a larger share of them.

Whereas the RFM model dates back to the 1910s and 1920s, the more widespread availability of computing power, recognition of lifetime value, awareness of the costs of obtaining new customers versus retaining old customers, stagnating demand, and decreasing brand loyalty have caused a shift in companies’ marketing orientation. Servicing and retaining current customers are now considered important variables and predictors of future profitability of companies (Petriason, Blattberg, and Wang 1993). It has never been more important to know one’s customers and to target potential customers most cost-effectively. The emergence of virtually dozens or even hundreds of new consultancies that help businesses in identifying new customers and keeping old ones (Baker and Baker 1993) indicates a radical shift from past marketing approaches. Relational databanks and mapping programs are the way of the 1990s and into the next millennium. Yet, it would appear as if the tourism industry as a whole still has to understand and implement the concept despite being originally among the leaders in using databased marketing. Especially in the hotel, restaurant, and travel agency sectors, individual companies currently are testing the ground, but the majority of companies still are using their traditional “gut feeling” approach to marketing, not unlike the situation used in site selection.

Until recently, very little was known about the actual spread and use of databased marketing in the tourism industry, especially in the accommodation, restaurant, and travel agency/operator sectors. More studies are needed on databased marketing applications and use in the tourism industry not only to gain a better understanding of its current applications but also, more important, to demonstrate its usefulness to the laggards in the industry.

In summary, tourism marketers need to recognize that past customer behavior, as recorded in actual business transactions (e.g., hotel or package tour bookings), is by far the best predictor of future buying behavior. Marketing based on a database of such transactions is the way to a successful future. However, tourism marketers and companies need to
realize that to use databased marketing effectively, they need to see the databases as memories rather than as mailing lists—memories that include all records of customer relationships.

REFERENCES


