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# Identifying, keeping and valuing profitable customers

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## ABSTRACT

**KEYWORDS:** *adding value, customer relationships, database technology, one-to-one marketing, lifetime value, customer loyalty, profitability*

*For obvious reasons companies are increasingly trying to focus on customers that deliver most to their bottom line — how to find them, keep them and develop them. There has undoubtedly been a lot of recent progress in this area, arguably much of it due to advances in database technology. Added to which, organisations must keep asking the right questions and analysing the answers presented. This paper seeks to raise some of the pertinent issues and questions as they currently apply to the UK travel industry.*

## INTRODUCTION

'Once a salesman, always a salesman' is an often-used saying. The first lesson learned

about selling is that you are most likely to get the desired outcome when you ask the right questions.

When you become more involved in marketing, again you quickly learn that you need to question everything. *Question, test, analyse, re-test, re-analyse . . .* this is the process by which one closes in on putting the right product in front of the group of customers most likely to purchase.

This paper, looking at *identifying* and *keeping* customers, seeks to pose questions rather than provide answers. Get the questions right and many of the answers tend to follow. It draws upon some experiences at Superbreak Mini-Holidays, plus others elsewhere in the travel industry, to illustrate some points.

## WHOSE CUSTOMER IS IT ANYWAY?

This is the first question to ask, and the topic of much debate in the UK travel industry currently. It applies to all situations where the principal (ie tour operator, airline, ferry company etc) distributes both direct to the public and through travel agencies.

The attraction for the principal to sell direct is not always just to reduce the cost of distribution and improve margins (although this is often a factor), but also to have the ability to communicate with the customer what and when the principal wants.

Travel agencies are understandably protective of their customer details and do not favour a situation where an operator or airline can market straight to their clients, perhaps even offering an inducement to

book direct next time. The situation is further complicated in terms of 'ownership of the customer' in that the travel agent is normally acting as agent for the principal, with the contract being between the customer and the principal, rather than the agent buying the stock and retailing in the true sense.

Thomson Holidays recently launched a Preferred Agents Scheme which brought this issue to the fore. Agents were offered enhanced commission earning opportunities, but had to provide Thomson amongst other things with the names and addresses of customers. At a Chartered Institute of Marketing Travel Industry Group (CIMTIG) meeting in January 1999, Thomson's head of direct and database marketing, Deborah Merryfield, stressed that 'this is not an attempt to go direct but to target different markets and actually drive business back into travel agencies', and was designed 'to start a relationship marketing programme which will be crucial in the next millennium'.

For most holiday operators the temptation has been there for a long time since they usually capture customer details in resorts (ie at the point of consumption). Butlins (the UK's leading holiday centre operator), for instance, has often been accused of trying to tempt customers to rebook whilst on holiday or via follow-up mailings. The operator or airline will often have more contact with the customer than the agent who sold the product, by virtue of representatives at airports, in resorts, on excursions etc.

And then there's the question of brochures and telephone numbers. Some agents would like operators not to feature their telephone number on brochures at all. Some major UK retail agency groups, such as Going Places, 'own label' certain operator brochures and have their own telephone call centres to act as a safety net for customers picking up a brochure and subsequently phoning from the comfort of home or office. There is no question that telephone booking and other forms of home shopping for travel products will continue to grow.

Ultimately, the key point is that if the agent adds value in the mind of the custo-

mer, then the customer will continue to prefer booking through an agent rather than direct.

This debate over who the customer 'belongs' to when booking through an agent will influence the way in which relationship marketing of many holiday products evolves. Some will be agent and customer, some will be principal and customer, and some may involve all three parties.

So the basic alternatives for the principal are as follows.

- (1) Distribute through agents — this can mean lower risk and 'payment by results' commission, but probably lower margins.
- (2) Tip the business mix more towards direct bookings — higher risk, but potentially improved margins and more customer control, so long as agents are not alienated.
- (3) Do customer marketing in conjunction with agents — probably an area likely to present much future opportunity, since many travel agents are not yet inclined to have properly maintained databases or regular dialogue with their customers. At Superbreak Mini-Holidays, which specialises in UK short breaks, the company has, for instance, consistently encouraged agents booking customer honeymoons to contact them prior to their first wedding anniversary to suggest a short break, given their high propensity to purchase a celebration treat. Disappointingly, very few have actually tried.

For travel agents generally the lessons should be clear.

- (1) 'Add value' to the purchase process by offering some or all of the following:
  - choice
  - convenience
  - competitive prices
  - expertise
  - security.
- (2) Choose selectively the products and principals to promote — will these partners help grow the business in the medium or long term?

- (3) Consider the circumstances where introducing the principal more into the customer relationship may be beneficial — this of course requires trust.

Richard Carrick, deputy managing director of Airtours Holidays, at the 1998 ARTAC Conference (Association of Retail Travel Agent Consortia) spoke of ‘accelerating partnerships’ between agent and principal based on:

- (a) reputable brands — which make travel agents’ selling tasks easier;
- (b) differentiated products — which the agent and customer can identify with;
- (c) intelligent delivery — good staff training programmes, measurable promotions, brochure supply, etc.

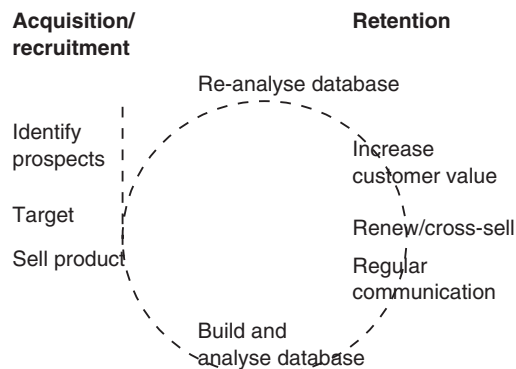
Thomson Holidays, the UK’s market leader for outbound package holidays, has always worked with agents, while also having the philosophy of creating a strong consumer brand and thus driving consumers into agencies. There is pressure on them currently to revisit their distribution mix because perhaps agents, with the exception of in-house retailer Lunn Poly, are directionally selling away from them.

Superbreak has also reviewed its marketing mix, although driven by very different circumstances. The company has very little consumer brand franchise and its market strength was built by treating the travel agent as the customer. (‘Get it right for the agent and he/she will recommend you strongly to the end consumer’.) Customer address details are not obtained on any travel agency booking and, in fact, like the agent the company is slightly vulnerable to purchase seepage direct to the hotels. It seeks to ‘add value’ through choice, competitive pricing and ease of booking. The stimulus to broaden the distribution base has come from the strong focus of major multiples on their ‘in-house’ tour operations, the introduction by some agents of booking fees on lower-value transactions and a wish to test new products more effectively.

### THE IMPACT OF DATABASE TECHNOLOGY

For all the theory about organisations becoming more customer focused and market orientated, there has really been only *one* overriding driver of marketing change, namely technology. Or perhaps more specifically, databases. Virtually all new initiatives have spun from the opportunities presented by technology, and this is not likely to change in the foreseeable future.

The virtuous circle of good marketing practice can perhaps be best summarised by what is called the ‘Spiral of Prosperity from Customers’.<sup>1</sup>



From this, one is constantly trying to segment and refine one’s business. This could for example be:

- (a) the same product to different markets — eg hotel rooms sold to the corporate, conference, groups, leisure break, incentive and ‘off-the-street’ markets; or
- (b) different products to the same market — eg multi-destination package holiday brochures.

Out of this refinement has stemmed the phrase ‘one-to-one marketing’, which is very much in vogue currently. It is misleading in the sense that few businesses bring a product or service to the market for one customer. What is happening is that products or services are being shaped to appeal to like-minded customer groups. ‘All-inclusive’ holiday resorts may be a reasonable example of this.

Where individual customer focus is more relevant is in terms of ‘one-to-one servicing’.

You make the customer feel like he/she is valued for their individual, ongoing custom through the way you serve them, handle their telephone calls, write to them, handle problems and offer after-sales care. With current technology there should be no excuses, since it can be as simple as personalising letters.

You can seek to segment customers in many ways. Profiling techniques allow us to distinguish in terms of various characteristics, including:

- socio-economic
- demographic
- geographic
- lifestyle
- behavioural

One can of course call on external databases to help — Acorn, Mosaic, Pinpoint, etc.

The reality in practice is that there are always compromises. For instance, with mass transportation for travel such as wide-bodied aircraft, intercontinental trains or cross-Channel ferries, how different can you actually make the customer experience for the vast majority? The same applies in a big hotel resort complex.

The motto is 'don't segment for the sake of it'. Target when it clearly fits your product.

## GETTING AND KEEPING CUSTOMERS

The first question to pose is 'What is the appropriate balance between efforts towards existing customers and new customers?' Conventional wisdom would say that it is roughly five times cheaper to get more from an existing customer than it is to gain a new one.

In practice of course you need a balance. The mix should depend upon the nature of your business. Club 18–30, for instance, a tour operator specifically targeting single young people, would need to have a strong emphasis on new customer recruitment, since existing customers will naturally exit by virtue of age or changing lifestyle.

There are two other good motives for gaining new customers — to inject freshness into your customer list, and to make you less vulnerable by broadening your base.

It is interesting to contrast the main recruitment mechanisms by which independent and multiple travel agents gain customers.

Independents would seek to expand their customer base via recommendation, local contacts, local advertising etc, whereas multiples would be driven by national campaigns, brand awareness and discount messages.

At Superbreak the strategy over the past two years is interesting to consider. With 94 per cent of all sales coming via travel agents at the end of 1996, and clear market leadership through the trade, the company was on the one hand in a strong position but on the other hand vulnerable. Potential problems included:

- (a) acquisition of a competitor by a multiple group;
- (b) consolidation/vertical integration, causing less focus by the major multiples on 'peripheral' sectors, such as UK short breaks;
- (c) introduction of booking fees by travel agency groups on lower-value transactions.

These concerns have in fact become reality over the past two years, but the business has coped well by working hard on the independent agency sector and new distribution alternatives. This has given the company a broader distribution base and all customers stand to benefit, including multiple travel agents, from the product developments that the company has introduced as a result.

As a slight aside, it is important for businesses to focus on why existing customers leave. While this obviously happens for a variety of reasons, by far the single biggest factor, accounting for 68 per cent of the total, is because of the attitude and service quality of staff. Food for thought?

### How to communicate with existing or potential customers

In this area, we are again presented with a huge range of options. These include:

- brochures
- broadcast media
- direct mail
- Internet
- telephone
- newspapers/magazines
- interactive TV
- other, eg bill inserts
- face to face

As with customer recruitment, you need to be clear on your objectives. The choice should depend upon the strategy. For instance, if you are trying to reach a small number of strong potential buyers you may use outbound telephone, whereas you may choose direct mail if wanting to suck in a larger number of interested enquirers. More general brand building as the objective would make broadcast media more appropriate.

A recent survey by Going Places, the second largest UK retail travel agency chain with nearly 800 shops, interestingly showed that the older generation is more likely to book holidays on the Internet than the young. Francesca Ecsery-Merens, their marketing and business development director, said 'There's a lot of hype about the Internet but there hasn't been much marketing action or commercial benefit from it yet.' Seventy-eight per cent of the 1,055 people polled by Gallup for Going Places still expressed a preference for talking to a travel agent face to face. The printed brochure still has a reasonable shelf life in the short to medium term.

Looking at the Superbreak situation, the company has historically put very little effort into brand building with the customer and virtually never meets the customer face to face. The communication objectives are very selective and highly targeted. Brand building has been directed at travel agents through brochure supply and sales support.

Market theorist Theodore Levitt once said 'The purpose of a business is to create and

keep customers.' Marketers are recognising that the first sale to a customer is often the most expensive, so the goal is a long-term relationship with a willing and satisfied customer. Whatever mediums are used, you must get the proposition clear.

### Lifetime value

The purpose of keeping customers should not merely be to hang on to them, but rather to maximise their value during their lifetime as a customer. Hence the expression 'lifetime value'. The best means of achieving this is by understanding your customer's behaviour.

In practice not all customers perform the same. The spectrum will range from super-active high spenders to infrequent low spenders and inactives. One cannot emphasise enough that to have meaningful dialogue with different categories of customers, you must have a well-maintained database.

Original thinking by marketing practitioners was that you should never contact customers without trying to sell them something. Modern marketing approaches have stepped away from this, recognising the value of:

- explaining your products;
- telling customers that they are appreciated
  - the power of 'thank you';
- inviting customers to volunteer more information about themselves.

Supermarket loyalty cards are above all a means of helping the retailer understand who buys what, in what frequency and combination. Airline frequent-flyer programmes have the same objective. From this knowledge you can cross-sell, up-sell and so on.

One particular airline now welcomes frequent flyers by name over the speakers as they board their planes. This type of activity all results from databases and enables you to increase customer value over time.

Understanding the frequency and timing of purchase is also vital. In blunt economics it is far cheaper to renew an active customer than reactivate a lapsed one, so timing is everything. You also have to recognise the natural lifetime of a customer and not flog 'dead horses'. Most travel companies prob-

ably spend too many resources communicating with customers no longer in the market.

### So how do we really build loyalty?

Loyalty obtained from discounts and incentives is ultimately ersatz loyalty, which is not to say it is not relevant, but research shows that regular and long-standing customers value more highly the following attributes in their suppliers.

- (1) Convenience.
- (2) Appropriate, friendly contact and communication.
- (3) Recognition and privilege as a 'known' customer.
- (4) Different product offerings.
- (5) Effective and prompt problem solving.
- (6) Anticipation of their needs.

Loyal customers not only renew but also advocate you to others, pay less attention to the competitors and show a strong interest in new products or services you introduce. Complainers that are well dealt with can turn into the most loyal customers, and it is certainly true to say that customers are loyal to people, *not* the company they work for.

We should also remind ourselves that a 'low-value' customer might advocate our organisation to a potential 'high-value' customer, or move into the latter category over time.

### Retaining the most profitable customers

The steps involved in a retention strategy lead back to the starting point of this paper, namely to pose questions at every stage.

- (1) Identification. It is important to identify sub-groups within your customer base. The Pareto principle of 80 per cent of profit coming from 20 per cent of customers, probably applies to most travel businesses. Thomas Cook, for instance, has recognised this and introduced a scheme for their UK retail shops called 'Managing Local Markets', to help their

shops identify their most profitable customers. Andrew Windsor, their retail managing director, speaking at CIMTIG January 1999, cited the example of one of their largest shops at Meadowhall, Sheffield. Within 12 months profits soared from £100,000 to more than £500,000. 'We looked at the profitability in pounds and pence of customers in the last three years and set about targeting them. Just 16 per cent of customers accounted for 82 per cent of the business. It is important to get the right customers to be loyal — those who are profitable. The beauty of databases is that you really should be able to know who your profitable customers are.

- (2) Targeting. It is important, as is done at Superbreak, to 'score' your customer records. You are effectively creating your own internal customer segmentation. Another key question to ask is whether smaller, regular buyers contribute more over time than occasional large purchasers. In tour operating, where load factors are usually critical, regular low-value buyers can make an important marginal contribution.
- (3) Using all the available customer contact points. Do companies list, assess and pay proper attention to all the various customer contact points at their disposal? It should be remembered that customers can be contacted too often as well as not enough. Finding the optimum only comes from testing and evaluating.
- (4) Feedback. This is all about maintaining an effective relationship with the customer. Gathering feedback from your customers (by mail, telephone, in person, via third parties, etc) is invaluable. A tour operator can ring an agent after he/she has made a booking. A travel agent can ring a customer after they have returned from holiday. Simple, inexpensive and effective.

### CONCLUSION

All these points bring us back to having good information. Success hinges on your database

and the other information held by your people and your systems.

Remember that the two most powerful words in marketing are not 'new' or 'offer' but 'thank you'. Companies should be sincere towards their customers — as George Burns, the American comedian said, 'Sincer-

ity is the key, once you can fake it, you're made'.

#### REFERENCES

- (1) The Practitioner's Guide to Direct Marketing, Direct Marketing Centre.