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# Enhancing the Guest Experience and Engagement in Hotels

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# Table of Contents

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Introduction	3
Research Methodology	4
Key Findings	6
Does Customer Engagement Impact Business Performance?	6
Taking a Closer Look at the Hotel Sector	7
Which Hotels Have The Most Engaged Customers Today?	8
Additional Insights from the Research	9
Implications for the Reader	9
Appendix: List of Brands	12

## Introduction

Enhancing Customer Satisfaction and Loyalty has been an area of focus for managers, business leaders, academics and research consultants for more than two decades. The advantages of focusing on enhancing customer loyalty are well understood, and compelling statistics around the costs associated with keeping an existing customer versus attracting a new one abound. As customer loyalty increases, so does share of spend in a given category, positive word-of-mouth, and retention rates.

To monitor performance and focus improvement efforts, many organizations rely on customer feedback systems. Today, a variety of disparate measures exist across these feedback systems when assessing loyalty. Some organizations still use customer satisfaction as a proxy for loyalty; others rely on the Net Promoter Score (an advocacy based measure); still others incorporate retention measures to gauge stated loyalty and link it to actual behaviors.

Since our inception in 2000, PeopleMetrics has played an important role in the evolution of customer loyalty measurement, interviewing close to 600,000 customers in service industries. Over the years, the findings from our primary and secondary research have led us to the development of our Customer Engagement model.

The PeopleMetrics Customer Engagement model takes today's common metrics of 'loyalty' to a different level. Not only do we track a customer's willingness to return to and recommend an organization, but we also assess whether or not a customer would go out of his way to continue doing business with a company and if he feels passion, even love, for the brand and experience.

Our point of view is that organizations should go beyond providing a satisfactory experience to customers. They should instead strive to engage them by developing a rational and emotional connection. As this is accomplished, an engaged customer will have a strong

bond with the company, making it harder for competitors to attract them.

To understand the role of Customer Engagement in the service industry today, PeopleMetrics launched the Most Engaged Customers Study in 2008<sup>1</sup>. This annual study focuses on:

- Quantifying the impact that Customer Engagement has on business performance
- Identifying the key drivers of Customer Engagement and industry differences
- Ranking companies according to levels of Customer Engagement

Information on our approach and the key research findings follow.

<sup>1</sup> Data for The Most Engaged Customers Study (2008) was collected in Q3 2007.

## Research Methodology

### Sample Profile

#### Overall Study

Partnering with Greenfield Online, PeopleMetrics conducted close to 10,000 online interviews across four service-based industries: Casual Dining, Hotels, Retail and Banking.

To ensure a diverse representation in our study, PeopleMetrics and Greenfield reached out to a nationally representative sample of the US population. The final distribution of customers across main groups is within +/- 10 points of the U.S. Census figures. This was expected upon a review of the brands that customers were asked to rate<sup>2</sup>: half of the company list consisted of Retail stores and many of these, for instance, were skewed towards female buyers.

Still, as illustrated by the charts included below, the overall representation of different demographic groups is strong and, most importantly, in line with the profile of customers of the brands included.

<sup>2</sup> A comprehensive list of brands included in the study is provided in the appendix.

### Hotel Industry

With regard to the Hotel industry, 774 interviews were completed among guests of the following chains:

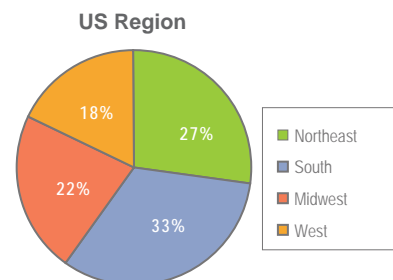
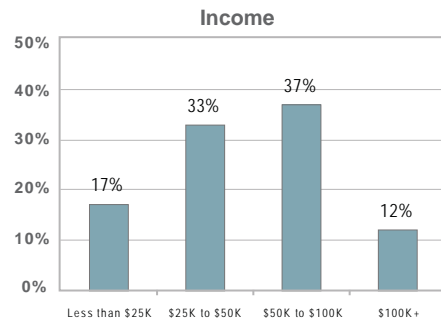
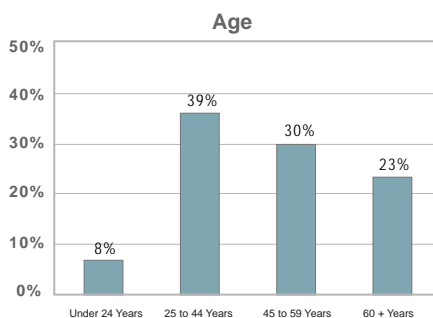
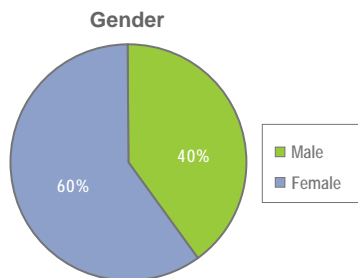
- Choice Hotels
- Hilton
- Marriott
- Ritz-Carlton
- Starwood
- The Four Seasons
- Wyndham

### Survey Design

The survey asked customers to rate two of over 100 service providers on a recent (within the last three months) service experience along a number of dimensions. Specifically, questions related to:

- Overall levels of Customer Engagement (Retention, Effort, Advocacy and Passion)
- Functional elements of the service experience: quality and variety of products and services, cleanliness and appearance of service setting, and overall efficiency of the service process.

## Study Demographics



- Emotional elements of the service experience: problem resolution, company reputation, brand, employee attitudes and behaviors.
- Open-ended commentary: Actions taken because of an outstanding or poor service encounter, reasons for feeling passionately connected to an organization, and detailed description of problem experiences.

The graphic below depicts the PeopleMetrics Customer Engagement Model that consists of eight overall dimensions: six emotional and two functional in nature. All of the questions in our survey were asked in support of these.

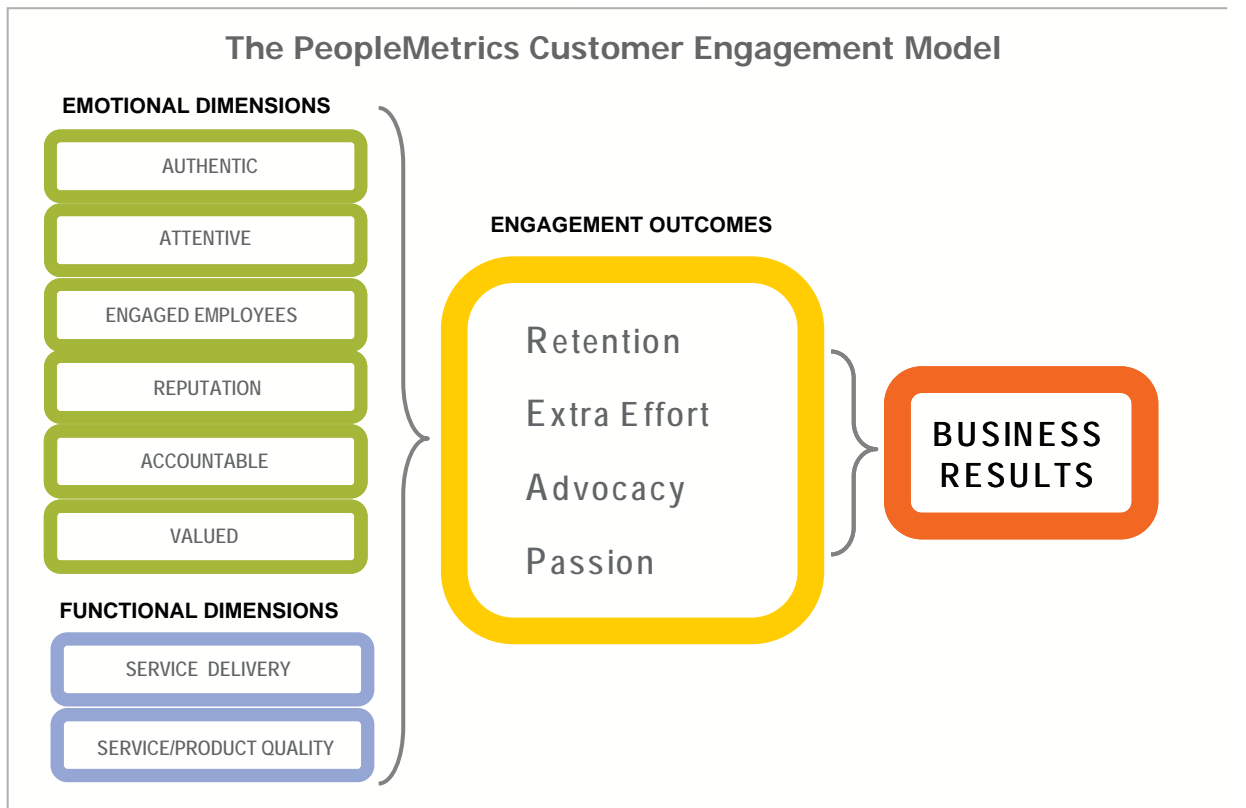
## Financial Analysis

To gain insight into the relationship between Customer Engagement and Business Performance, we also conducted a financial analysis among customers of all publicly traded companies included in the study. Key steps in this analysis are listed below:

### Step 1: Identifying High and Low Performers

The first step was to segment all brands into high and low performers based upon their Customer Engagement Index (% Engaged Customers<sup>3</sup>).

- To accomplish this, we calculated the average level of Engagement for each company in the study and defined high performers as those with Engagement at least two points above



<sup>3</sup> Engaged Customers are defined as those who Agree or Strongly Agree with our four Engagement Questions (Retention, Effort, Advocacy and Passion)

the average and low performers with Engagement at least two points below the average (Average Engagement Index = 54%). Companies that did not meet our criteria were excluded from the analysis.

### Step 2: Gathering Financial Data

For each publicly traded corporation<sup>4</sup>, the following year-over-year (Q3 2006 to Q3 2007) financials were gathered:

- Return on Assets
- Return on Investment
- Revenue Growth
- P/E Ratio
- EPS (Earnings per Share)

### Step 3: Correlating Engagement to Financials

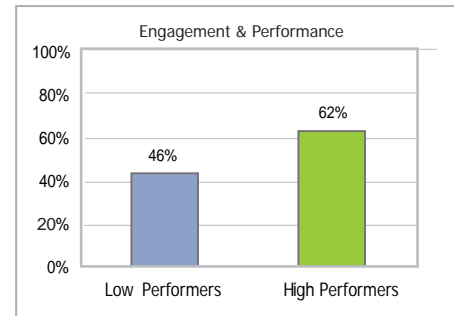
The next and final step was to determine the average financial score for each metric across companies in the low vs. high Customer Engagement groups and compare the performance of these groups.

## Key Findings

### Does Customer Engagement Impact Business Performance?

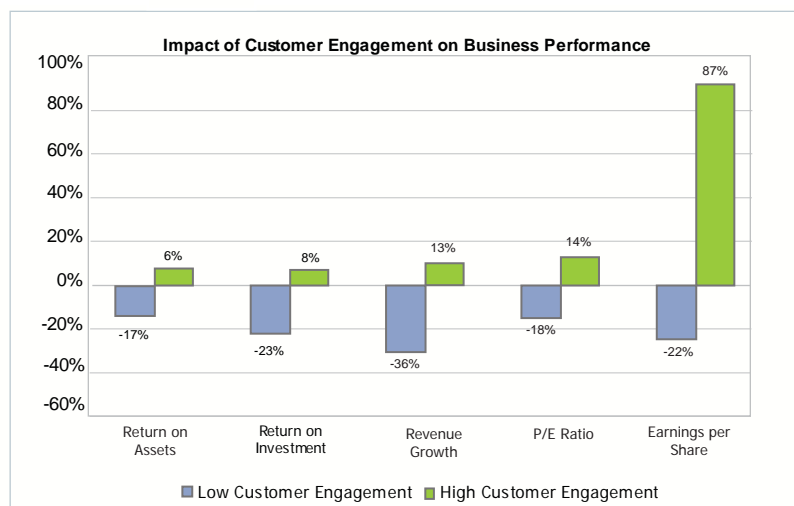
As discussed above, companies were classified into two groups based on their Engagement levels. There is a 16-point gap in Engagement levels between those who perform well (62%) and those that perform poorly (46%).

Based on the results of this analysis, we were able to validate our hypothesis that companies with high levels of Customer Engagement perform better financially than companies with low levels of Customer Engagement. Across all financial metrics analyzed, companies with high Customer Engagement outperform the industry average.



- High-performing companies are able to yield an annual average increase in Return on Investment 8% above the industry average, while low-performing yield an ROI 23% below the industry average.
- The annual revenue growth for high-performing companies is 13% above the industry average; while the average revenue growth for low-performing companies is 36% below the industry overall figure.
- The average P/E ratio of high-performing companies is 14% above the industry average, while low-performing companies stand at 18% below the industry average.

Comparisons for the financial metrics analyzed are illustrated in the chart below.



<sup>4</sup> Engagement scores for brands from the same parent company were combined together in this analysis.

## Taking a Closer Look at the Hotel Sector

### *Impact of Customer Engagement on Business Performance in the Hotel Sector*

The financial analysis was also conducted within the Hotel sector. Trends observed in the overall analysis held true across this sector:

- Hotels with low Customer Engagement also perform below the industry average across the financial metrics analyzed.
- The average Return on Equity of high-performing chains is 24% above the industry average, while low-performing companies yield an ROE that is 17% below the industry average.
- The average P/E ratio of high-performing companies is 15% above the industry average, while the average P/E ratio of low-performing companies is 27% below the industry average.

### *Additional Insights into Customer Engagement in the Hotel Sector*

To identify trends specific to the hotel industry, a separate analysis was undertaken focusing on perceptions and feedback from customers from the following chains:

- Choice Hotels
- Hilton
- Marriott
- Ritz-Carlton
- Starwood
- The Four Seasons
- Wyndham

The main research questions driving our efforts were:

- 1) What can hotels do to improve Customer Engagement levels?
- 2) Do the drivers of Customer Engagement for hotel guests differ from the overall drivers of Customer Engagement? If so, how are they different?

- 3) Which hotel chains have the Most Engaged Customers today?

### *What can hotels do to improve Customer Engagement levels?*

Having confirmed the direct relationship between Customer Engagement levels and financial performance, a driver analysis<sup>5</sup> was conducted to identify the most influential factors impacting Customer Engagement in the Hotel Sector.

The analysis showed that hotel guests are not only engaged by the functional elements of the experience, but also by emotional elements:

#### **Emotional Dimension #1 - Attentive Employees Make a Difference**

Attentive employees who are able to provide customers with appropriate options represent the number one emotional driver of Customer Engagement for hotel chains.

#### **Emotional Dimension #2 – The Need to Feel Valued**

Customer Engagement is also driven by the staff's ability to enhance their customer's self-esteem. Providing consistent service quality, valuing guests and fulfilling promises positively impacts levels of Engagement.

#### **Functional Dimension #1 - The Quality of the Service**

In regards to the functional pieces that most impact Customer Engagement, the variety of service offerings (i.e., amenities) and the convenience of the hotel are essential in securing Engaged customers.

#### **Functional Dimension #2 – The Delivery of a Reliable Service**

A hotel's reliability is another key functional driver of Engagement among hotel guests.

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<sup>5</sup> Multiple regression techniques were employed to help uncover the key drivers of Customer Engagement. A key driver is an area that, if worked upon, will have a significant impact on levels of Customer Engagement – it is the “make a difference” element of the customer relationship when it comes to driving desired attitudes and behaviors.

**Do Hotel Customer Engagement drivers differ from the overall drivers of Customer Engagement? If so, how are they different?**

The table shown compares the Customer Engagement drivers within the Hotel sector to the overall drivers of Customer Engagement for all service industries (the overall analysis also takes into account Retail, Banking and Casual Dining).

Supporting our findings on what drives Customer Engagement, customers from these two chains praise the staff and the quality of the service received at these locations. Below is a sample of the comments from customers who “love” staying at these top performing locations:

- “[The] Four Seasons always lives up to your expectations. Their service

Engagement Dimension: Survey Item	Driver Rank	
	Hotel	All Industries
<b>Service Quality:</b> There was an appropriate variety of product/service offerings	1	2
<b>Attentive:</b> The employees I interacted with offered me appropriate choices	2	
<b>Service Quality:</b> In general, COMPANY is convenient	3	4
<b>Service Delivery:</b> The Service Process was reliable	4	
<b>Valued:</b> In general, the employees I interact with provide a consistent level of service quality	5	3
<b>Valued:</b> In general, the employees I interact with value me as a customer	6	1
<b>Service Quality:</b> The Environment: The location/setting was clean	7	
<b>Engaged Employees:</b> Employees made the experience fun		5
<b>Valued:</b> In general, the employees I interact with make good on their promises		6
<b>Service Delivery:</b> The Service Process was efficient		7
<b>Engaged Employees:</b> Employees went above and beyond to meet my needs		8
<b>Valued:</b> In general, the employees I interact with treat all customers equally		9

As can be noted, there is a fair degree of overlap between the two. This confirms that, regardless of industry, Customer Engagement is impacted by more than just the functional elements of the experience and can be maximized through the development of an emotional connection with customers.

**Which Chains Have the Most Engaged Customers Today?**

Out of the seven Hotel chains included in our study, The Four Seasons and the Ritz-Carlton have the highest Customer Engagement scores today.

Rank	Organization
1	The Four Seasons
2	Ritz-Carlton
3	Marriott
4	Hilton
5	Starwood
6	Choice Hotels
7	Wyndham

is great and the employees are very accommodating.” (Four Seasons Guest)

- “Their people make a difference - they are all trained, friendly, polite and go the extra distance to be of service.” (Four Seasons Guest)
- “Everyone, including the maid, addresses me by name every time they see me. I always feel special, and always feel like I’ve come home again.” (Ritz-Carlton Guest)
- “Their customer service is exceptional. Concierges go way out of their way to make me feel special and acknowledged. Even the doormen greet me by name!” (Ritz-Carlton Guest)

## Additional Insights from the Overall Research

The wealth of data collected through this research has also given us the opportunity to study trends across sub-groups and explore the impact of service experience on Customer Engagement levels. A few additional insights that may help target research efforts to different audiences and guide the interpretation of results are:

- Overall, 54% of customers nationally can be considered engaged.
- Older customers (60+ years) are less likely to be engaged than younger customers.
- Engagement levels vary by industry.
  - Out of the industries included in our research, Hotels yielded the highest levels of Customer Engagement, while Banking yielded the lowest.
- Drivers of Engagement do not vary greatly across industries.
  - The overlap between industry-specific drivers and overall drivers of Engagement is evidence that, regardless of industry, Customer Engagement is impacted by more than just the functional elements of the experience and is maximized through the development of an emotional connection with customers.
- Through word-of-mouth, both Engaged and Disengaged customers will influence the opinion of potential customers.
  - In addition to developing a bond with the organization, a portion of Engaged customers will also speak publicly about their experiences. A few examples are included below:
    - “I have posted a critique on their site about how nice [they] are.”
    - “On Yahoo! Answers, I told someone asking for the best [type of company] to

go with them.”

- Similarly, Actively Disengaged customers also spread their poor opinions publicly:
  - “I have called the company more than once. I have posted opinion polls online. I have emailed the company. I have contacted the bank directly and I have told friends and family the problems that I have had with them.”
  - “I called and spoke with [the] manager, discussed [my] experience with friends and family, and also posted on national and local discussion forums regarding the experience.”
- Other actions taken by Actively Disengaged customers include: bringing the negative experience to the attention of the organization’s managers or to customer service, as well as often saying that they will “never return.”
- A successful problem recovery process is essential in maintaining your customer base: more than half of customers who experience a problem that is handled well by the organization are Engaged. On the contrary, only 15% of those who do not believe that the organization handled their problem well are Engaged.

## Implications for the Reader

Clearly, a focus on Customer Engagement will make a difference to your business. Hotels that engage more of their guests have better financial results than those that fail to engage. Engagement is going to be impacted by a combination of functional (convenience, cleanliness, choice, efficiency) and emotional (feeling valued, having fun, trusting in the consistency of service delivery) elements of the experience.

In thinking about how this research applies

to your business, you should consider the following:

**1) Do you know how engaged your customer base is?**

- More than a single measure of advocacy or retention, Customer Engagement introduces an emotional element to the measurement process. Are you currently measuring these emotional pieces? Do you know what proportion of your customer base would strongly agree that they would go out of their way to visit one of your hotels, recommend you, come back, and feel passionate about you and your brand?

**2) Do you know how your customers segment based upon Engagement?**

- It is important to know your overall level of Engagement, but also to uncover the proportion of customers who are: fully engaged, engaged, on the fence and actively disengaged. Those in the lowest segment can spread viral word-of-mouth affecting your brand strength and reputation. Those sitting on the fence represent an opportunity for movement, an increase in Engagement scores and, more importantly, positive behaviors.

**3) Do you know what drives Customer Engagement for your unique customer base?**

- While the above findings are useful and provide insight for all hotels, the drivers of Customer Engagement may differ for your guests versus those of a competitor. The drivers may be built off your unique position and brand promise. As such, they need to be customized to your organization. Conducting your own driver analysis will give you a well-rounded assessment of

factors with the highest impact on Engagement within your organization.

**4) Do you currently collect and respond to real-time feedback from your customers?**

- Gone are the days of having to wait several months to receive results from a customer satisfaction or loyalty study. With technology and the Internet, companies can collect real-time feedback from guests. This feedback can be shared with the organization through Real-time Alerts that immediately communicate positive and negative customer feedback. Positive feedback should be used to recognize and reinforce the positive behaviors of the internal team. Negative feedback can be used to guide improvement efforts and attempt a 'win-back' opportunity with a customer.

**5) Do you know how well your employees are handling problems?**

- A problem that is handled poorly can lead to a truly disengaged customer, but a problem that is resolved effectively can turn that disgruntled customer into a true advocate of your brand and services. By collecting customer feedback in real-time, you will have the opportunity to follow-up with at-risk customers, helping to enhance your overall problem recovery process and boost your retention rates.

**6) Do you track Customer Engagement over time to assess improvements and setbacks?**

- Not only should you strive to understand what drives Customer Engagement for your organization, but monitoring these trends over time is also critical. By analyzing Customer Engagement

levels on an ongoing basis, you will be able to determine the success of actions implemented and to identify areas of concern.

**7) Do you know how the Engagement of your employees impacts the Engagement of your guests?**

- There is strong evidence in our research, as well as other academic and business publications, that engaged employees help to create engaged customers. The magical moments by which a loyal, passionate customer is created are dependent upon the people in your organization. Furthermore, customers have told us through this research that their views of a hotel are impacted by how much fun the hotel staff is having and making throughout the experience. This 'fun' experience only occurs through engaged, dedicated employees. If you aren't already doing so, you should understand the levels of Employee Engagement in your population and what drives employees to go above and beyond for your customers.

- prepared by Kate Feather and Yvone Chun

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*Detailed results from the 2008 Most Engaged Customers Study are available online through the PeopleMetrics nGauge™ Hub reporting tool. For more information about the PeopleMetrics Customer Engagement research or to inquire about the nGauge™ Hub, please contact: Kate Feather, Executive Vice President, People Engagement at: 215.979.8037 or via email: [kfeather@people-metrics.com](mailto:kfeather@people-metrics.com).*

## Appendix

<b>Banking</b>
Bank of America
BB&T
Capital One
Citibank
Comerica Bank
Commerce Bank
Compass Bank
Countrywide Bank
Fifth Third Bank
JPMorgan Chase Bank
KeyBank
National City Bank
PNC Bank
Sovereign Bank
SunTrust Bank
Wachovia Bank
Washington Mutual Bank
Wells Fargo Bank
<b>Casual Dining</b>
Applebee's
Bob Evans
Chili's
Cracker Barrel
IHOP
Olive Garden
Outback
Red Lobster
Ruby Tuesday's
Texas Roadhouse
<b>Hotels</b>
Choice Hotels
Hilton
Marriott
Ritz-Carlton
Starwood
The Four Seasons
Wyndham
<b>Retail</b>
Apparel
Abercrombie & Fitch
Aéropostale
American Eagle Outfitters
Ann Taylor
Chico's
Foot Locker
GUESS
J. Crew
Men's Wearhouse
Nine West
The Gap

The Limited
Urban Outfitters
Department
Dillard's
JCPenney
Kohl's
Macy's
Nordstrom
Saks Fifth Avenue
Sears
Discount
Big Lots
BJ's Wholesale Club
Costco
Dollar General
Dollar Tree
Family Dollar
Payless Shoes
Ross
Target
The TJX Companies (Marshalls and TJ Maxx)
Wal-Mart
Rental & Leasing
Alamo Rent A Car
Avis Rent A Car
Budget Rent A Car
Dollar Thrifty
Enterprise Rent A Car
Hertz Rent A Car
Specialty
Barnes & Noble
Bed Bath & Beyond
Claire's Boutique
Office Depot
PetSmart
Pier 1 Imports
Staples
Williams-Sonoma
Technology
Best Buy
Circuit City
GameStop
RadioShack