



The 3Rs for Tourism – The Benefits of Creating Customer Loyalty

Customer Retention, Repeat Business and Positive Recommendation are controllable parts of your business, that implemented appropriately, can significantly improve your performance at a fraction of the cost of marketing to potential new customers. The tourism industry generally has a very strong focus on attracting new visitors, particularly in respect of the international market. Of course new visitors are important, but the old adage of “its cheaper to retain existing customers than attracting new ones” is more important than ever in a declining/stagnant business environment, which we are seeing for many of our international and domestic markets.

The starting point for enhancing customer loyalty is for business to understand the behaviour of its customers. The focus must be to quantify the level of customer retention, repeat business and recommendations.

The key driver for the 3Rs is the quality of the customer experience. You won't retain customers, achieve repeat business or have people extolling the virtues of your business to others unless the customer experience is of the highest quality.

So how does business go about obtaining this information? As TNZ CEO Kevin Bowler said to the New Zealand Tourism and Hospitality Research Conference delegates recently “Quality research and insights are a vital ingredient to ensuring we're ready to handle the range of changes in front of us.” Research is just as important for business as it is for Tourism New Zealand.

Initially the objective is to obtain baseline data that can be used to measure and benchmark your performance over time. Most businesses one would hope survey their customers. If you don't already ask your customers about the 3Rs, it shouldn't be difficult to include the questions in existing surveys:

- On a scale of 0-10 where 0 means 'not at all likely' and 10 means 'extremely likely' will you visit XYZ attraction again in the next two years (retention question for individual customers)?
- On a scale of 0-10 where 0 means 'not at all likely' and 10 means 'extremely likely' will you continue to arrange visits for your clients to XYZ attraction in the next two years (retention question for inbound operators and other ongoing group business)?
- How many times in the last year have you visited XYZ attraction (repeat visit question)?
- On a scale of 0-10 where 0 means 'not at all likely' and 10 means 'extremely likely' how likely is it that you would recommend XYZ attraction to a friend or colleague (recommendation question)?

A number of operators are still using a 'satisfaction' question rather than the recommendation one. There is extensive research that indicates that high levels of visitor satisfaction are not a good indicator of customer loyalty or future consumer behaviour. Whereas, the responses to the

recommendation question are a strong indicator of customer loyalty and future consumer behaviour.

Asking the questions and analysing the answers is of course only the beginning point. Business needs to quantify the size and value of customer loyalty as determined by the 3Rs.

Customer Retention – more customers stick with you year after year

The retention question enables businesses to determine what percentage and number of customers is retained each year. This will vary considerably from sector to sector and from business to business. The accommodation sector, especially if focusing on the business sector, would look to retain a much higher percentage of customers than say a visitor attraction. The higher the retention percentage, the fewer new customers required to achieve the same level of business. With an inbound operator the expectation of the visitor attraction would be achieve a high level of retention from that sector, assuming the business operator was providing a quality customer experience.

Repeat Business – they come back more often

The repeat business question gives operators an indication of the percentage of customers who visit more than once over a specific period (eg one year). For visitor attractions the ability to attract repeat customers is based around a combination of improvements/changes in the offering and the quality of the overall customer experience. Improvements or changes on their own may be insufficient to attract repeat customers. As with retention the value of repeat business is that it can reduce the need to attract new customers and the cost associated with that.

Customer Recommendations – they tell others to do business with you

There has been an explosion in the growth of websites used by visitors to comment and rank any kind of tourism facility or service. They do have at least two shortcomings for the prospective customer seeking advice on visitor facilities/services. First, the number of people willing to submit their views and opinions can be small in relation to the total users of the facility or service. Thus the sample may not be representative of all users of that service. Second, in most cases those submitting their views and opinions are not known to you and may have very different views on what they consider to be good, bad or indifferent. The recommendation opinion, however, is coming from a known source whose views you respect or not. The ability to make a decision should be much easier to make when the recommendation comes from a friend or colleague than an unknown person. The recommendation question provides the opportunity for business to increase its customers at little or no cost. Word of mouth recommendation from a known and respected source has far more credibility than opinions from other sources.

How much is a loyal customer worth?

Let's make some assumptions regarding XYZ visitor attraction.

Number of customers annually	100,000
Average customer transaction (\$)	\$20
Average number of transactions (visits) per year per customer	1
Percentage of customers retained (%)	50%
Percentage of repeat customers/visits (%)	0%
Average number of recommendations per customer annually	0.25
Percentage of recommendations that become customers (%)	50%
Net income as a percentage of revenue (%)	10%

Annual revenue: \$2,000,000

Net income: \$200,000

How many customers do you achieve if there is 50% retention (50,000), no repeat visits (0) and 12.5% of total visits ($0.25 \times 50\% = 12,500$) through recommendation. The answer of course is 62,500 which is a shortfall of 37,500 that has to be made up through new customers. With this situation the loss of revenue would be \$750,000 ($37,500 \times \20) and \$75,000 in net income.

What if we could:

- Increase the numbers that return to 60% ($100,000 \times 60\% = 60,000$)
- Achieve an increase in repeat visits from 0% to 10% ($100,000 \times 10\% = 10,000$)
- Increase the average number of recommendations per customer annually from 0.25 to 0.5 ($100,000 \times 0.5 = 50,000$)
- Increase the percentage of recommendations that become customers from 50% to 60% ($50,000 \times 60\% = 30,000$)

Customer numbers would, instead of reducing to 37,500, reach the same total as in the example ($60,000 + 10,000 + 30,000 = 100,000$). Any new visitors would be a bonus and add considerably to the revenue and net income.

In this example the value of the 3Rs is 37,500 customers, \$750,000 in revenue and \$75,000 in net income. In addition there can be significant savings in marketing or more investment can be made in growing new customers that eventually increase retention numbers, repeat customers and recommendations. It is the prime example of a virtuous circle (opposite to vicious circle)

Capturing and retaining loyal customers?

Loyalty as defined by Frederick Reichheld the author of *The One Number You Need Grow* defines loyalty as “The willingness of someone – a customer, an employee, a friend – to make an investment or personal sacrifice in order to strengthen a relationship. For a customer that can mean sticking with a supplier who treats him well and gives him good value in the long term, even if the supplier does not offer the best price in a particular transaction.” How do we get people to go so far for a business?

Key loyalty factors:

- Great service across all touchpoints for the customer
Where the customer comes into contact with the business it will provide an experience which is good, bad or indifferent, while providing the business with an opportunity to offer the customer a great customer experience by managing the customer/business interface.
- Build and retain relationships (short and longer term) with customers that encourage trustworthiness
- Reputation
If the business has a strong reputation/brand with its market this will add credibility to any recommendations made.
- New and changing developments (today's WOW is tomorrow's norm)
Innovation is the key to ensuring that relevant new developments differentiate the offering from competing attractions.
- Value for money
Expensive can offer value for money in the same way that cheap may not. It is the overall experience which will determine a customer's perception of value for money.
- Identifying the target market
Targeting the wrong market can produce a poor customer experience score because their expectations were different from those that the attraction was aimed at.

Summarising the benefits of focusing on the 3Rs

- If you aren't collecting data on retention, repeat business and recommendation you should be, as it makes sense to concentrate on your existing customers rather than investing heavily in speculative marketing campaigns with only the possibility of attracting new ones
- Using the calculator will show you the impact of poor performance in retention, repeat business and recommendations which places increased emphasis on marketing to make up for lost customers, reduced revenue and net income
- High levels of retention, repeat business and recommendations are achieved through delivering great customer experiences
- Research indicates that loyal customers are more profitable than other customers
- Following the data collection and benchmarking within your business the next step is to develop a customer experience strategy to deliver great customer experiences and maximise the potential for improved retention, repeat business and improved recommendations
- Continuous measurement of the customer experience is important. This is best achieved by using the Net Promoter Score (NPS¹) methodology

Measuring the Customer Experience - Net Promoter Score (NPS)

Many businesses survey their customers through very comprehensive questionnaires that cover a large number of areas within the business. The analysis of this information is often difficult and time consuming and much of the data is irrelevant to the performance of the business. NPS is

¹ Net Promoter, NPS, and Net Promoter Score are trademarks of Satmetrix Systems, Inc., Bain & Company, and Fred Reichheld

used worldwide by many organisations to provide a quick and comprehensive assessment of the customer experience. These include Apple Computers, Sony, South West Airlines and thousands of others. In New Zealand it is used by tourism organisations including Air New Zealand, House of Travel, Rangitata Rafts and many others in other industries.

The basis of NPS is the “Recommendation Question”. The example below indicates its simplicity and ease of completion.

XYZ Attraction											
XYZ Logo	Gender:		Business Type: Visitor Attraction				Date:				
	Male	<input type="radio"/>	Age:15-19	20-39	40-59	over 60	Country of Origin:				
	Female	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>					
Have you visited XYZ within the last 2 years?						Yes	No	City/Town:			
			<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>					
How likely is it that you would recommend XYZ to a friend or colleague on a scale of 0-10 where 10 means ‘extremely likely’ and 0 means ‘not at all likely’											
	Extremely likely										Not at all likely
	10	9	8	7	6	5	4	3	2	1	0
Please tick one only											
Please state why you chose the score indicated above:											
Contact details (optional) Email:											
Phone:											

The surveys can be completed at the time of the visit either in hard copy or through a computer terminal placed at an appropriate site. The hard copy can be given to the customer on entering the facility which enables more control over the sample than via a computer terminal. Alternatively, if the email addresses are known a link to an online survey could be sent to customers.

The objective is to obtain an overall score for the customer experience. How this is calculated is described below.

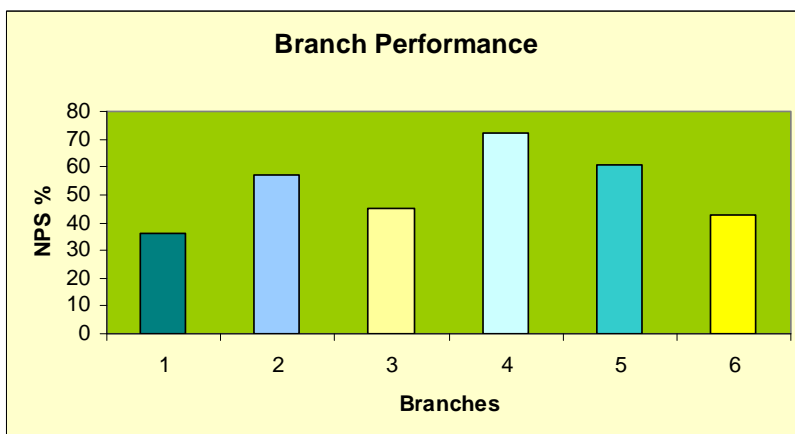
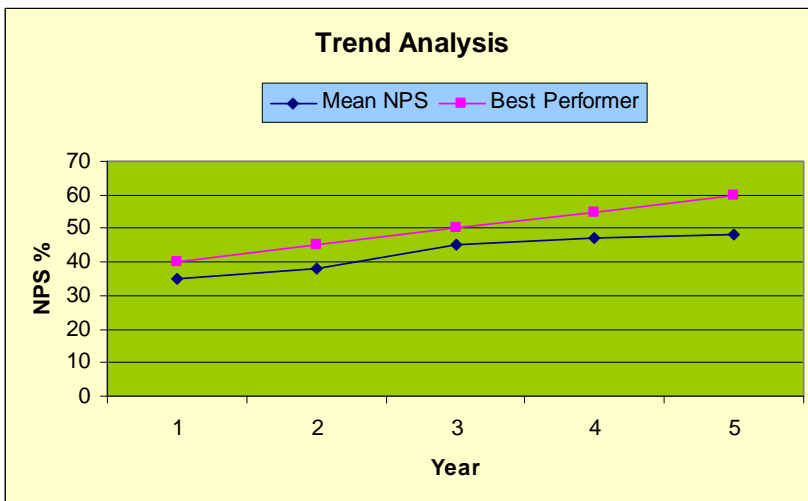
Score										
10	9	8	7	6	5	4	3	2	1	0
Promoters		Passively Satisfied		Detractors						
NPS = % Promoters - % Detractors Passively Satisfied are ignored										

How the three scoring categories impact on your business are:

- **Promoters** (score 9–10) are loyal enthusiasts who will keep buying and recommending others, fueling growth
- **Passives** (score 7–8) are satisfied but unenthusiastic customers who are vulnerable to competitive offerings
- **Detractors** (score 0–6) are unhappy customers who can damage your brand and impede growth through negative word of mouth

Using the information obtained from the questionnaires the NPS can be determined for the overall experience and also by age, gender, country of origin, repeat visit, date of visit. A key component of the score is the comments by customers in support of the score. This can identify key problem areas as well as highlight good performance.

The results can be presented in a number of ways depending on the type of business and whether it has multiple branches.



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