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The Enemy of Great

How One Hotel Operator Turned Customer Data Into Action

It's the dirty secret of the hotel frequent-guest industry: while raw membership rates are often in the millions, actual participation rates can leave something to be desired. Here's the story of how one hotel operator in Mexico hopes to use predictive modeling to turn a bloated, inert loyalty program into a relevant and engaging brand.

Fiesta Rewards is the frequent-guest program of Fiesta Americana and Fiesta Inn Hotels. These brands are owned by Grupo Posadas, the largest Mexican hotel operator with 92 locations in Mexico, the United States and South America under six hotel brands. From its pioneering days during the 1970's under founder Don Gastón Azcárraga Tamayo, when Posadas launched the first hotel chain in Mexico, the company has expanded through the exploration of new hospitality concepts. While small by U.S. standards, Posadas is nimble and growing, opening on average one new hotel per month.

Posadas was also a pioneer in loyalty, launching the first such program in Mexico, Programa Comercial Fiesta, in 1987. The program focused on the basics: free nights, upgrades and simple recognition elements, with a co-branded credit card following soon after. By the late 1990's, however, Comercial Fiesta had lost its way.

"We knew we could do much better," says Alfredo Reynoso, Director of Loyalty Marketing for Grupo Posadas. "Business travelers were telling us that they were stressed from being away from the office, and especially stressed being separated from their families— family is the core of Mexican society. We wanted to address those concerns in our loyalty program."

Thus was born Fiesta Rewards, a loyalty brand that helped reconnect harried frequent

travelers with the joys of family time. The program awards up to three points per peso, offers three tiers and delivers airline and hotel rewards, restaurant and merchandise gift certificates, whitewater rafting adventures and exotic beach getaways.

Early results of the 2000 re-launch were outstanding: higher involvement rates, robust redemption levels and members purchasing room nights at a 40 percent clip. But like so many monolithic hotel loyalty programs, Fiesta Rewards soon became a victim of its own success. Free enrollment meant a huge database, full of one-time guests who never reengaged with the brand. The program was still a huge revenue channel, but hid a skeleton in its closet: a high percentage of inactive members.

"Things were moving, but not as fast as they should have," says Reynoso. "Now some guests were signing up for the program and then simply not returning to Mexico. But unfortunately we didn't think that was the case with most of the inactivity. We thought we might be doing some things that our members didn't like that much."

Rekindling old fires

In other words, Big had become the enemy of Great. Now that they faced such rampant inactivity, Posadas had to adjust their strategy: improve the program's effectiveness by improving resource allocation. They needed to identify the members who were most likely to leave the brand, develop tactics to overcome the attrition and reengage with those members who could still be retained. But where to begin?

Fortunately, Posadas had three years of member transactional data sitting idle. Working with an outsourced consulting team, Reynoso's team developed a plan to analyze that data

What types of tactics made sense to apply against these segments?

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and develop a custom predictive attrition model— by looking at members who had already attrited, they hoped to predict which active members were most likely to leave. Equally important, however, was developing the ability to allocate precious marketing pesos through an effective segmentation strategy. The steps in this process included:

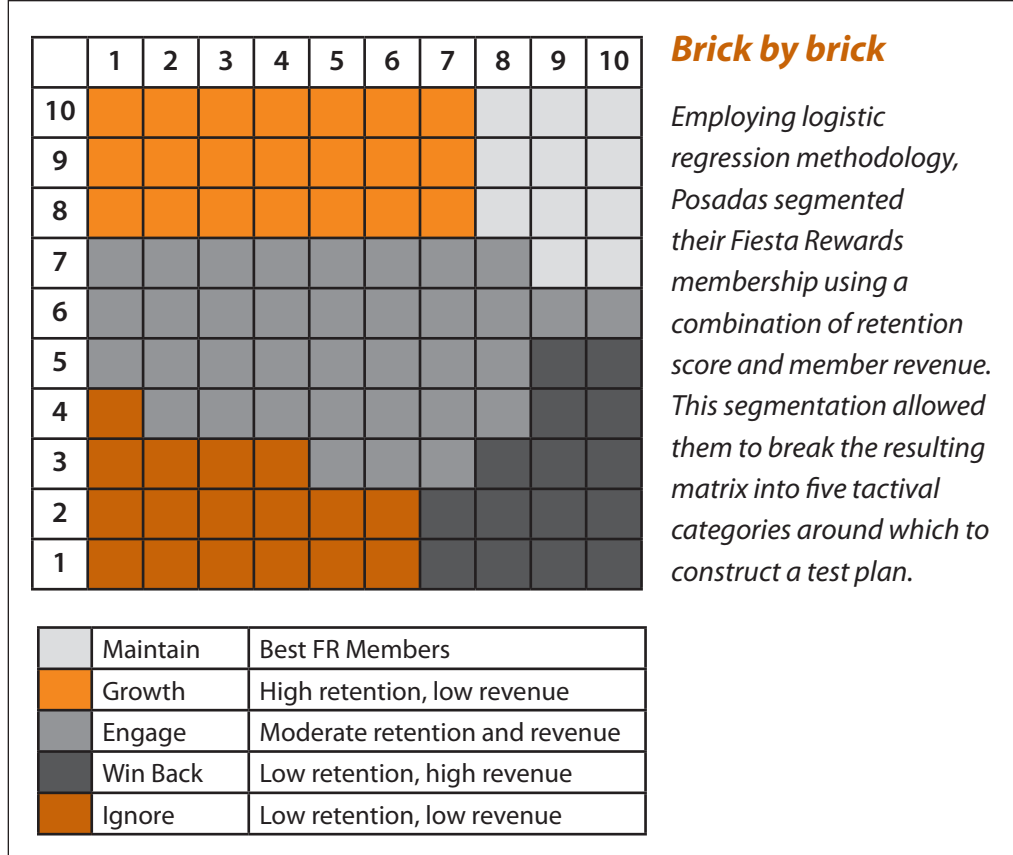
Defining attrition: Delving into the three years of data, Posadas defined a 24-month pre-period and a 12-month post period. The team defined a member with an earn event—either a hotel stay or a purchase with the program’s co-branded credit card—in the pre-period, but with no earn event in the post period, as an attriter. Members with earn events in both periods were defined as retained. Members with no earn events in either period were defined as inactive—and because there was no data history on that large segment, the team couldn’t score those customers.

Identifying predictors: The next step involved identifying behaviors that would help Posadas score current members on their likelihood to defect from the brand. This insight allowed the team to decide where to most effectively allocate their marketing

budget. Looking at the multitude of hotel and credit card behavior variables, the analysts narrowed them down to a superset deemed the most predictive for attrition: earn activity in the past 12 months, days between visits, spend, presence of an e-mail address, number of visits, recency and tenure.

Segmentation analysis: Employing logistic regression methodology to generate a predictive retention model algorithm, the team next segmented members using a combination of retention score and member revenue. This segmentation gave them a behavior matrix through which they could determine resource allocation.

Test strategy: The results of the segmentation analysis (shown in the chart below) suggested the solution to Reynoso’s retention problem. What types of tactics made sense to apply against these segments? The team broke the matrix into five tactical categories: Maintain, Grow, Engage, Win-back and Ignore. They hoped to construct a test plan that would drive retention and reengagement with the brand.



Finally, the team developed a testing tree with control and test groups. The Maintain test group would receive dialogue heavy on soft benefits and recognition; the Grow and Engage groups would receive offers designed to increase frequency by one extra stay within a 90-day period; and the Win-back and Ignore groups would receive an offer for a free night or upgrade for a paid stay within 90 days. Responders would be added to the regular communications stream, while non-responders would receive a second offer or go into the Round File depending on their value.

But what about the inactives—the members with no history within the three-year period? Was there any data available that would help Reynoso's team make smarter win-back offers to this large percentage of languishing customers?

Fortunately, there was one interesting piece of information available: point balances. Because of long points expiries, there were plenty of inactive members in the file with significant balances—while currently incommunicado, they had engaged before. That insight led to a simple but potentially effective strategy: segment this group through a ranking system and test methods to reactivate them. Still, with 91 percent of this group showing no points balance or activity, the team faced a daunting challenge.

"At this point, I joked about changing careers, or perhaps moving out of the country," says Reynoso.

Nonetheless, the team implemented another testing tree. The Win-back and Engage groups received new membership

cards with offers of balance round-ups toward free nights, upgrades and dining certificates for stays within the 90-day test period. The no-balance group receive new pre-loaded points balance offers for stays within the period. Whether this strategy was enough to move the needle remained to be seen.

The jury? Still out

And what about the results? Did Posadas retain a larger percentage of active members? Did they convince inactive members to reengage with the brand? The bad news is that, as of this writing, it's too soon to tell—Posadas is still in the middle of their testing period. The good news is that Reynoso's team went from having no insight, no testing and no measurement plan, to having all three. They now have a measurable marketing strategy that turns data into insight. Even if the test results are woefully disappointing, Reynoso's team can recalibrate, test and measure repeatedly until they hit on the winning formula. If successful, they'll vanquish Big, and become Great once again.

"We now know who is in our database," says Reynoso. "We have a plan to communicate with each segment. We have a strategy to engage and win back customers. I'm sure that I'll be able to come back soon and bring very good news about our success."

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