YIELD MANAGEMENT V RELATIONSHIP MARKETING

'There is a tide in the affairs of men which taken at the flood leads onto fortune .... on such a full sea are we now afloat'

Yield Management (Y.M.) is defined as allocating the right capacity to the right customer at the right time at the right price in order to maximise revenue yield.

This paper will contend that the focus of Y.M. literature and practice to date places emphasis on capacity, time, and price and that any reference to the right customer is specified only by their ability to pay the hotelier's best price.

This approach may be deemed short term, transactionally biased and, product orientated as this prescriptive implementation of Y.M. prohibits the development of relationship marketing with its significant rewards so well debated by professors McDonald, Buttle & Teare to the theme of 'Owning Your Customer' at the H.C.I.M.A. 1997 Annual Conference.

In their seminal article in the Harvard Business Review Jan-Feb 1998 "Preventing the Premature Death of Relationship Marketing" Fournier, Dobscha and Mick state that:

"Relationship Marketing is in vogue..... this new, increasingly efficient way that companies have of understanding and responding to their customer's needs and preferences seemingly allows them to build more meaningful connections which promise to benefit the bottom line".

Their main findings are that there is an imbalance between ‘giving and getting’ that ‘when companies ask their customers for friendship, loyalty and respect, they often don’t give these in return.’

To allow relationship marketing to take place it is essential to adopt policies which positively discriminate in favour of corporate buyers, intermediaries and to loyalty card holder to whom much is promised, e.g. ‘H Honours’, ‘Forte Corporate Privilege’, ‘Holiday Inn Priority Club’ etc.

To implement positive discrimination effectively it is necessary to challenge the commonly held perceptions and interpretations of the ‘Hotel Proprietors Act’ 1956, which most authors including Pannett and Boella (1996) define thus:-

“The hotel must ‘hold out’ as ready and willing to take travellers without special contract, i.e. the hotelier may not pick or choose”.

The contention here (unrefuted to date either by legal opinion or by the professional body, the H.C.I.M.A.) is that this is concerned with availability on the day of the traveller’s arrival. Provided that no other (illegal) discrimination is exercised e.g. race, creed, etc, the hotelier is free to apply prudent commercial criteria as is implicit in relationship marketing to advance reservations. A number of rooms division managers concur that this practice is carried out covertly.

This paper does not advocate the demise of Y.M. The proposal is that the synthesis of Y.M. and relationship marketing is truly synergetic and to date largely ignored and, in turn, adds real value for all stakeholders - the operating company (the property owners), shareholders, customers and staff indeed, win win all round.

To subject this proposal to some initial scrutiny and to achieve pre-conference feedback, an abstract was published in the May/June 1998 edition of ‘Hospitality’ (the H.C.I.M.A. Journal).

The following three excerpts have been extracted from a very supportive 'mail bag'. From Stuart Jauncey of Oxford Brooks University (an established author on Yield Management),

"The link between Yield Management and Relationship Marketing is certainly a very interesting concept and one that should be explored. In short I think that this is an appropriate, exciting and important topic for a conference paper."

(May 1998)

From Professor Malcolm McDonald of Cranfield University, School of Management, a leading academic in the field of Relationship Marketing, "Since I don't really know about yield managements, I will comment on relationship marketing. Having said this, your opening definition of YM sounds precisely the same as a host of similar definitions applied to different topics. It could, for example, be a perfect definition of marketing. It also prescribes perfectly the whole point of market segmentation. The latter, I think is more promising in that all relationships should be <u>appropriate,</u> or requisite and any sensible organisation would make the relationship perfectly match the requirement. Relationship marketing literature, I'm afraid, contains an enormous amount of drivel and seems to have been taken over by unfocussed , happy clappy, born-again enthusiasts for the nostrum. Sensible scholars and practitioners believe that relationship marketing is as described in your opening paragraph. Loyalty schemes in the main, are little more than discounts, given by poorly positioned organisations who have joined the bandwagon. It strikes me that loyalty cards should only be given once we know something useful about the customers (a bit like British Airways Blue, Silver and Gold cards). I personally would prefer to give preferential treatment to my most profitable customers, but most loyalty schemes don't discriminate, hence the behaviour referred to in your article, which strikes me as being eminently sensible".

(May 1998)

From Professor Francis Buttle or the Manchester Business School, the University of Manchester who has made significant contribution in both fields,

"I think you are on to something quite important - using yield management principles to build long-term relationships with preferred customers. In my experience, YM is used arbitrarily to gouge the best price out of a customer, regardless of their status".

(May 1998)

Further confirmation and support may be found in Bowen, J (1997) where, in a review of hospitality research, he states:-

"As Yield Management matures in the hotel industry, more robust models will be developed that take into account total guest expenditure and the long term value of the guest. In developing yield management systems, it is important that customer retention be included in the model. Maximising revenue today has little value if it drives off tomorrow's customers".

There is then, a prima facie case to further develop the argument in support of the proposal for the synthesis of YM and RM.

In pursuance of this, the following issues will be examined and elucidated:-

1. The differential imperative.
2. Marketing in transition - towards a customer centric-organisation.
3. The information revolution and the emergence of wisdom.
4. The significance of loyalty/relationship marketing.
5. National Accounts and Intermediaries.
6. Yield Management is transactionally biased, mechanistic and therefore flawed.
7. Evidence from Past Practice and Conclusion.

1. The Differential Imperative

An examination of the regular 'E.T' (Executive Travel) surveys would reveal that there is currently in the UK little more than superficial differences between the various hotel brands at each market level. Perceptual mapping would also reveal a similar clustering with no player establishing a meaningful and potentially more attractive positioning than their competitors.

In his review of 'today's volatile, dynamic and complex hospitality industry', Simon Crawford-Welch (1994) selected a quote from Robert C Hazard Jr., President of Choice Hotels International,

"the 1990s will be the most competitive decade in the history of the lodging industry ..... every hotel must become more market driven, improving its product to create a unique, sustainable competitive advantage and perception of greater value among its guests".

In a U.K. context against the background of an increasingly consolidated (and rapidly polarising) lodging industry it is certain that this 'most competitive decade' will be the first decade of the next millennium. The differentiation imperative will rule, where success and failure will be more about winners and losers, with the former being those who can deliver that unique customer provision which is judged by the market to add greater value.

This paper will propound and examine the premise that relationship marketing when fully embraced, i.e. where there is a true balance between 'giving and getting' and where loyalty is based on trust and partnership, will prove to be one of the most significant policies to be pursued in the development and sustenance of competitive advantage. It will ascertain that the technology is now available to underpin this radically new way of interacting with our customers and that we are now entering the ....

.... tide in the affairs of men,
Which, taken at the flood, leads on to fortune;

William Shakespeare/Julius Caesar (1599) act 4, sc 3, 1. 215

That this synthesis will require genuine long term foresight and unprecedented levels of organisational responsiveness is certain. The common thread is the capacity to learn, according to Ray Stanton (1990):-

“The rate at which organisations learn may become the only sustainable competitive advantage”,

The paper will seek to support the proposal that relationship marketing’s capacity ‘to build more meaningful connections’ will deliver the promised bottom line benefits as it is a more holistic and rewarding approach in terms of profitability and is therefore true yield management. YM as is practised and advocated to date very much concentrates on the needs of the supplier. It is mechanistic and transactionally biased and as such is incapable of generating revenues and profit yields as compared to those which may be achieved in the long term through RM.

As in other industries, intelligent and selective use of customer information will have major implications for long-term strategies and competitive dynamics. Quantum-leap improvements in customer understanding will contribute to the building of sustainable competitive advantage thus fulfilling the conference theme of ‘applying the valve concept to yield management’.

In his vigorous reassertion of the achievement of strategic advantage through differentiation, Michael Porter (1996) states “A company can outperform rivals only if it can re-establish a difference that it can preserve. It must deliver greater value to customers or create comparable value at a lower cost, or do both”. Through this process of differentiation he affirms that “the arithmetic of superior profitability then follows: delivering greater value allows a company to charge higher average unit prices, greater efficiency results in lower average unit costs”.

However, in highly competitive situations there is a rapid diffusion and adoption of best practice - the ‘Me too’ syndrome which tends to negate any initial strategic advantage.

The question therefore is, can an hotel company which develops systems which synthesise the YM and RM approach, sustain its initial competitive advantage emerging a winner or for those who do not introduce such systems will they be left behind?

Dieter Huckestein (1997) (President of the hotel division of the Hilton Hotel Corporation) holds no doubts,

"The customer is in charge in the new world disorder .... that's why revenue maximisation must start with the customer viewpoint".

Coopers and Lybrand (1996) are unequivocal on the advantages of entering now "these transitions are underway but the gap between word and deed is often cavernous, providing ten years of upside opportunity for those who technically and organisationally travel furthest along the road".

2. Marketing in Transition - Towards A-Customer Centric Organisation

The Coopers and Lybrand (1996) analysis is a study of the future of, UK food retailing. Many of their findings can be adapted for application within the hotel industry:-

* Intensification of internal competition within the existing system. In the last ten years supply growth has outstripped demand growth. Increasingly, the stronger players will have to fight each other rather than take business from the weaker players.
* The long term erosion of mass marketing and its replacement by mass customerisation (at the very heart of one to one RM). As it becomes increasingly economically feasible to deal with large numbers of customers as individuals.
* Customer trends which make the hotelier's environment even more challenging. Derived from a range of customer polarisations, accelerating social trends and the increasing marketing literacy of consumers.
* Underlying consumer problems with the whole process of hotel stays:- reservations, check in, check out - often found to be time-consuming, repetitive, complex and tedious - there is an

underlying demand for process improvements which may of the factors of a full RM policy can facilitate and enrich.

Marketing is in transition, an hotel company which continues a prescriptive YM approach when relationship marketing should take precedence, will find that the primacy advantages gained by the earlier practitioners will place them at significant competitive disadvantage.

Our industry is by no means immune to the changes which are occurring in other areas of commerce and to which our customers are exposed.

Amongst the main transitions proposed and adopted from Coopers and Lybrand (1996) are:-

FROM	TO / AS WELL
Hotels and locations as greatest assets	Customers as greatest assets
“One too many” mass marketing	“One to one” mass customisation
Transactions and traffic flows	Customer lifetime value
Offering a product service range	Offering solutions and an experience
Limited channel access	Multi channel access, global distribution (multimedia and networks)
Right product, right place, right time	Anything, anywhere, anytime
A monolithic customer offer	Multiple relationship options
Data on what is bought	Knowledge on what is bought by whom and why
Marketing as on ‘add on’ department	Marketing as a core competence
No one in the organisation (below the CEO) who owns the customer	Customer-centric forms of organisation
Benchmarking	Path breaking
Customer loyalty schemes	Customer loyalty as the creed of the business

3. The Information Revolution And the Emergence of Wisdom

As we enter the 21st century we will witness phenomenal progression in technology development where according to the Boston Consultancy Group (1997) those who successfully manage the transformation will:-

1. ‘ Increase customer retention through tailored customer life cycle management, reaching the highest levels of the loyalty ladder,

2. Create a sustainable competitive advantage continuously reinforced by their learning capabilities and the exceptional permanent dialogue established with consumers'.

The role of multimedia and networks will be significant.

Multimedia

The convergence of computing, communication, commerce and creativity (accelerated by falling information processing and storage costs) will open up limitless new possibilities for interaction between people and information using words, speech, pictures and video.

"The change we are about to witness will overshadow the impact of the printed word, the industrial revolution and physical transport".

Peter Cochrane, (1995)

Multimedia has to be understood and addressed well before it is mainstream. It is about technology but ultimately it is about radically new ways of interfacing with customers.

Networks

The recognition that links between different organisations in a commercial system are vital to how the whole system works.

"Core business processes extend far beyond the boundaries of the single business .... those companies whose operating strategy is teaming with equally creative and expert technologists will win the global battles". McHugh, Merli and Wheeler (1995)

Current partnership initiatives are just a forerunner of entirely new global ways of working and competing, across market, across technologies and across supply chains.

Much of what we currently employ - list management, direct marketing, database marketing as it is currently used will be seen as entirely pedestrian as we enter the relationship age. Newell (1997) identifies the essential differences.

“Most database marketing does not target the individual. It is instead ‘mini mass-marketing’, a term coined by Lester Wundermann. Basically, ‘mini mass-marketing’ sends the same targeted message to a segment of people based on common, defining characteristics. Here we begin to differentiate between database marketing and relationship marketing, the targeting of selected groups of people as opposed to individuals”. Robert Cross (1997) develops a useful taxonomy which he defines as -

The Evolution of Information
DATA
(Independent facts)
↓
INFORMATION
(Interpretation of data)
↓
KNOWLEDGE
(assimilation of information to predict the future)
↓
WISDOM
(optimisation of knowledge to make the best decisions)

Despite talk about the value of knowledge, few people understand the direct link between knowledge and revenue. Decision makers have numerous options, even when they know with a high degree of certainty what the market will do. Wisdom guides the decision, maximising the possible revenue. And better than any other tool or process, Revenue Management enables companies to convert data into information, information into knowledge, knowledge into wisdom, and wisdom into revenue. The progression from fact to wisdom is integral to and exemplified by the practice of Revenue Management: and, it may be added is at the core of Relationship Marketing.

FACTS	**YIELD**	**DATA**
ANALYSIS	**YIELDS**	**INFORMATION**
FORECASTS	**YIELD**	**KNOWLEDGE**
OPTIMISATION	**YIELDS**	**WISDOM**

4. The Significance Of Loyalty/Relationship Marketing

The Boston Consultancy Group (1997) report. ‘Knowing Your Customer’, found that ‘customer focus groups are becoming accustomed to sharing data. They also demonstrate that customers still have doubts about how information is used. Collectors of data should defuse these fears by clarifying their position from the onset.

From both a legal and moral standpoint, they should:-

Be extremely cautious about protecting the confidentiality of customer data;

They should set basic guidelines to minimise commercial risk when they exploit data;

Avoid any customer manipulation;

Avoid intrusive campaigns;

Generally go beyond the basic legal requirement.

Lynne Roach (1993), Vice President of Database Marketing at Marriott, urges caution and the use of customer details sensitively.

She acknowledges one big minefield in database marketing; privacy. Although guests give the data freely they're sometimes surprised to find it's actually used. Keeping surprise from turning into offence is crucial. Roach says the trick is in the training.

Train employees to use the information well and it won't be a problem. "I am respectful of your privacy but informed of your preferences, what distinguishes the successful from the automaton is how you employ that information."

The more robust models called for by John Bowen (1997) which take into account total guest expenditure and long term value of the guest have arrived.

The American doyen in the field of loyalty and long term relationship marketing is Frederick Reichheld of Bain & Company. In 1994 Reicheld and his team published a report on a ten year study of Fortune 500 companies which radically altered their view of business economics and led them to develop a very different model. This is fully expounded in Reichheld's 1996 pivotal work - 'The Loyalty Effect'.

What drives this model is not profit but the creation of value for the customer, a process that lies at the core of all successful enterprises. Value creation generates the energy that holds these businesses together, and their very existence depends on it. The physics that governs the interrelationships and energy states of a business systems's elementary particles - its customers, employees , and investors - can be called '*the forces of loyalty'*. Because of the links between loyalty, value, and profits, these forces are measurable in cash flow terms. Loyalty is inextricably linked to the creation of value as both a cause and an effect. As an effect, loyalty reliably measures whether or not the company has delivered superior value: Customers either come back for more or they go elsewhere. As a cause, loyalty initiates a series of economic effects that cascade through the business system, as follows:

1. Revenues and market share grow as the best customers are swept into the company's business, building repeat sales and referrals. Because the firm's value proposition is strong, it can afford to be more selective in new customer acquisition and to concentrate its investment on the most profitable and potentially loyal prospects, further stimulating sustainable growth.

2. Sustainable growth enables the firm to attract and retain the best employees. Consistent delivery of superior value to customers increases employee' loyalty by giving them pride and satisfaction in their work. Furthermore, as long-term employees get to know their long-term customers, they learn how to deliver still more value, which further reinforces both customer and employee loyalty.

3. Loyal long-term employees learn on the job how to reduce costs and improve quality, which further enriches the customer value proposition and generates superior productivity. The company can then use this productivity surplus to fund superior compensation and better tools and training, which further reinforce employee productivity, compensation growth, and loyalty.

4. Spiralling productivity coupled with the increased efficiency of dealing with loyal customers generates the kind of cost advantage that is very difficult for competitors to match. Sustainable cost advantage coupled with steady growth in the number of loyal customers

generates the kind of profits that are very appealing to investors, which makes it easier for the firm to attract and retain the right investors.

5. Loyal investors behave like partners. They stabilise the system, lower the cost of capital, and ensure that appropriate cash is put back into the business to fund investments that will increase the company's value-creation potential.

Profits are not central to this new model, but they are nevertheless critically important, not just for their own sakes but also because they allow the company to improve its value creation, and because they provide an incentive for employees, customers, and investors to remain loyal. Still, the source of all cash flow, including profit, is the spiralling pool of value that springs from the creation of superior value for customers.

Buttle (1996) sums up the economics of relationship marketing.

'The impetus for the development of RM has been a growing awareness of the long-term financial benefits it can convey. RM is not philanthropic. It is a means to an end, and is based on two economic arguments. One: it is more expensive to win a new customer than it is to retain an existing customer. Two: the longer the association between company and customer the more profitable the relationship for the firm'.

5. National Accounts and Intermediaries

Much of the time it is corporate planners, rather than travellers, who undertake the purchase decision. Around 30 million room nights are influenced by the former where lodging selection is often restricted to an approved list (Bell 1993). 51% of companies have specific hotel policies and 21% insist that certain hotel companies are used whenever possible. Gilbert and Morris (1995) found the following:-

VARIATIONS IN COMPANY POLICY REGARDING HOTEL CHOICE	
COMPANY POLICY REGARDING CHOICE	HOTEL CHOICE
Discretion with advised company policy	38.8
Firm corporate guidelines	17.9
Traveller's Choice	28.4
Choice dictated by department	4.5
Discretion/firm corporate guide	1.5
Traveller and department choice	1.5
Traveller/firm corporate guide	1.5
Traveller/discretion	1.5
Other	1.5
No response given	3.0

Charles Handy (1989) uses as his symbol the shamrock to examine aspects of a company's organisation. The leaf which he describes as the professional core has been considerably downsized or reduced in most companies in recent years "If the core is smaller, who then does the work? .... All non-essential work which could be done by someone else is therefore contracted out to people who make a speciality of it and who should, in theory, be able to do it better for less cost."

Up to 70% of corporate travel reservations are contracted out to intermediaries. Typical of these is market leader, Hogg Robinson, Business Travel International who have contracts to provide accommodation from over 6,000 British organisations including 34% of the FTSE 100. In their

1997 Annual Report and Accounts, they claim to be winning many new corporate accounts and gaining additional business from existing clients. They, like American Express and Carlson Wagon Lit, note that the nature of the agent client relationship is changing, moving towards a fee based consultancy service. Essential to this is their relationships to hotels and airlines. The relationship is one of interdependence, and increasingly one of partnership and respect since the common focus for both is that of customer satisfaction.

Travel agents both corporate and leisure are essential for the distribution and availability of hospitality products through their global networks.

In a case study of THISCO (the hotel industry switch company) Knowles (1998) reported thus:-

'Focusing specifically on travel and the Internet, it is predicted that travel booking on the World Wide Web, in 1997 at $400 million a year, will hit $4 billion by the year 2000. It is estimated that 4.4 million people in the USA bought travel-related services on line in 1996 and 11.3 million are very interested in booking on-line. The American Society of Travel Agents show that 38% of agents have an Internet connection or are connected to another on-line system such as CompuServe. Some 47% of frequent business travellers and 32% of frequent pleasure travellers use on-line services according to the Travel Industry Association of America.'

Len Louis (1997) Marketing Director of Best Western hotels noted that in the agency dominated UK short break and weekend market it is essential that your brochure is on the shelf of all branches of high street travel agencies as well as on screen.

In a significant (1993) study by Horwarth Consulting in 'making the case for management contracts', ten leading travel agents were sampled as follows:-

"In your opinion, which type of hotel generally offers the most consistent quality (i.e. least complaints/highest customer satisfaction) Chain-managed; Franchisee-managed; Independent (no brand)?"

85 per cent of all respondents claimed that chain-managed and franchise-managed properties represented the most reliable quality. Only 15 per cent of respondents indicated that independently managed hotels were the most reliable.

Summary of Responses

HOTEL USERS/AGENTS KEY CRITERIA			
	Hotel Chains	Franchise Operators	Independent Operators
Quality of Product	Consistent	Inconsistent	Very inconsistent
Ease of Booking	Easy	Easy	Variable
Availability of Booking	High	Good	Fragmented
Name/Brand Recognition	High	High	Variable
Problem Handling	Corporate	Variable	Direct
Payment Commission	Excellent	Variable	Inconsistent
Central Group Booking	Excellent	Variable	Direct
Responsiveness to Needs	Good	Poor	Poor
*Attentiveness to long term relationship and appropriate/flexible trading terms and conditions			

National Account companies both directly and through their corporate travel agencies are segments with whom long term relationships are essential. The preference expressed for chains reinforces Horwarth's recommendation that owners should, more profitably, place their properties under the brand management of global contractors, a prime factor in the ongoing polarisation.

Hotel companies may also grant user benefits by a variety of card schemes and other incentives and may try to sustain relationships with individuals through a range of database generated initiatives. In reality in our industry there already exist many long standing relationships based on a variety of factors of which price is only one. Buttle (1996) criticises short term price led transaction focus on two main grounds.

1. Short-termism has promoted a form of hit-and-run marketing in which the customers best interests are not served.

2. Short-termism has not served corporate self-interest either because, it is more costly to attract new customers than it is to retain existing ones.

6. Yield Management is Transactionally Biased, Mechanistic and Therefore Flawed.

In their 19 January 1996 review and analysis of the Granada, Forte hostile takeover bid, Kleinwort Benson Research examined 'THE INFAMOUS £100m PROFIT IMPROVEMENT (their description). Granada asserted that it could achieve an additional £100m P.A. profit from Forte assets, a significant amount of this was to be found in Yield Management.

'Granada spent most of the bid with the view that Forte did not have a yield management system and that if their bid succeeded they would install one'.

'In fact Forte started to install the AERONOMICS YM System in Spring 1995'. Kleinwort described this as one of the most sophisticated systems on the market with a potential to increase room rates by a further 2%-3% p.a.

Orkin (1988) describes the prescriptively mechanistic nature of YM as, 'a technique which will efficiency and speedily match supply with demand by fluctuating price levels by anything up to 80,000 times in a single day' - entirely transactionally biased. Imagine the effect on your market if you followed this pricing rollercoaster.

Although they may only have 8 or 9 discounting classifications and 5 or 6 pricing levels the paradox is well illustrated in the application of Forte/Granada's A1 or AERONOMICS system as observed by the author.

In segmenting their market they have seven categories of corporate discount or CORPORATE PRIVILEGE. These are allocated to national account companies and major intermediaries on the basis of their annual usage/revenues spent with Forte. In addition, LPR (local privilege rates) exist usually at lower discount levels. Because the system is entirely geared to maximise yield, higher discounted CP categories e.g. 5, 6 and 7 are often closed out to this segment. Therefore, those who spend most with the company are unable to book despite room availability. On occasions, an inelegant system of manual override may be invoked. In their recently relaunched corporate privilege scheme they state that 'priority availability is given on rooms even during peak periods', as this paper went to print, an explanation of how this was applied was not available.

A further irony exists. Their other key loyalty scheme is the pointcard system of one point given for every £10 spent. 'Rewards' range from 'Free Meals' to free rooms and leisure breaks. A proviso is that rooms must be booked 21 days in advance but, even then, because this is set at pricing level 5 (staff standby and powerpoint) i.e. lowest priority, rooms though available, are often closed out. Echoes of Hoovers Free Flight fiasco.

This would certainly seem to meet Buttle's experience quoted earlier 'that YM is used arbitrarily to gouge the best price out of customers regardless of their status and potential' fulfilling Bowen's concern of 'driving off tomorrow's customers'.

If the AERONOMICS system is regarded by Kleinwort's as 'one of the most sophisticated on the market' then other 'less sophisticated' systems must be found as flawed due to their intrinsically transactionally biased approach.

Kimes (1994) warns that 'if customers view yield management as unfair, the increased revenues resulting from YM may be short lived. On the other hand, nearly all capacity-constrained service firms should consider adapting a YM system'.

As currently practised YM inhibits the development of a relationship and thus the all round added value to be found there.

7. Evidence from Past Practice and Conclusion

The author spent some 11 years with Strand Hotel (J Lyons & Co) in various management positions and, prior to entering teaching, managed a Forte Hotel for two years.

The following anecdotal evidence is offered in support of the argument presented here.

As an Assistant Rooms Division Manager at the Cumberland Hotel, Marble Arch (c.900 rooms, 4 star) for three and a half years in the early 70's, the Hotel on average achieved 85-87% occupancy C. 8% discounted from rack and a 68% repeat occupancy.

There was a significant policy of positive discrimination towards National Account companies, e.g. Esso. Marks and Spencer, Touche Ross and to key intermediaries e.g. The infant Expotel, Amex, Manos Travel etc, was carried out by closing out to all other sources of demand when appropriate.

In 'Marketing Hotels into the 90's' Melvyn Green (1987) singled out both the Cumberland and the Strand Palace as hotels to which people returned to time and time again, he erroneously attributed this to "the use of names'. Whilst recognition may have been a very welcome by-product from this high level of repeat business its achievement was through the policy of positive discrimination described.

In a study by McCaskey (1988) of the strategic environment of the Hotel Industry the movement towards an increasingly consolidate industry and the emergence of global brands was predicted as continuing throughout the 90s.

That this has occurred may be readily evidenced and, a prediction is made for a new structure to emerge in the lst decade of the New Millenium.

That new structure will be of an increasingly polarised industry where most current middle ranking players are absorbed into the oligopoly of key global players and only they and a number of small independent will remain.

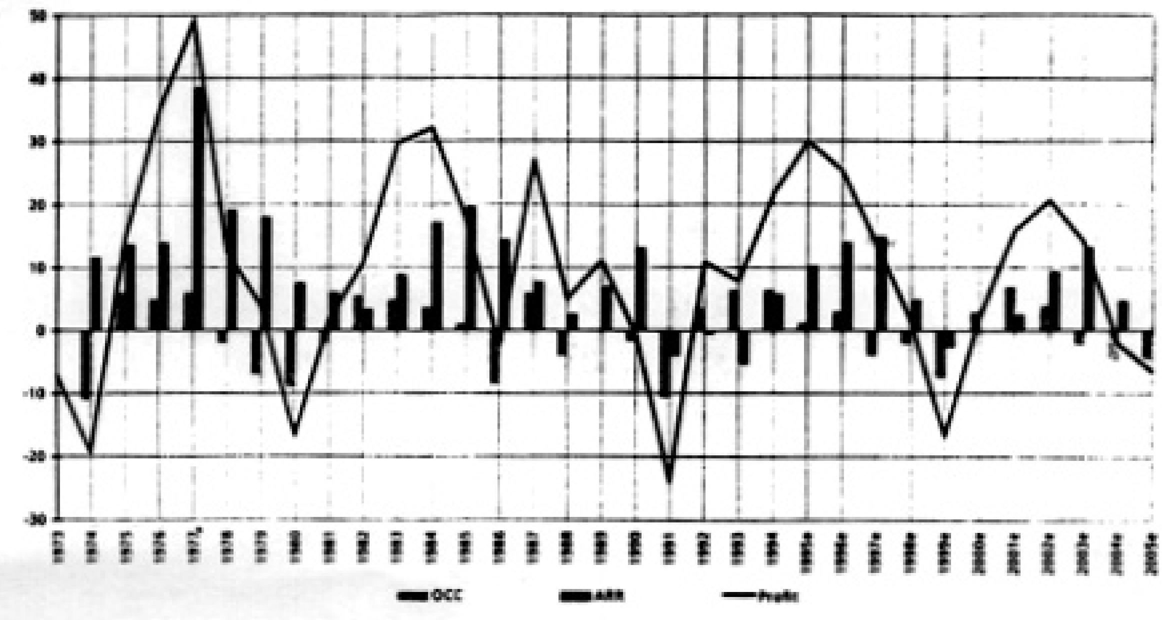
This phenomena may already be observed in contract catering, in bar/restaurants where successful formula are bought out by the main players e.g. Bass-Browns; Whitbread-Pelican.
In their 1995 upbeat assessment of the prospects for UK Hotels plc Kleinwort Benson research noted that whilst profitability grew in 94 by 26% and predicted a further 15.5% growth for '95.

'These developments are not industry wide.   The chasm between UK Hotels Plc and unquoted companies is widening by the day as worringly large numbers of unaffiliated hotels degenerate into slums.   Within UK Hotels Plc, size of hotel chain has re-emerged as a key variable.   The larger companies are performing materially better than smaller chains and we expect this trend to remain as an industry norm'.

The 1998 UK Hotels group directory - Deloitte & Touche and the University of Huddersfield noted a large fall in the number of independent hotels since 1992.
Diseconomies of scale, typical PIMS related factors etc. will find divestment options increasingly attractive to the middle ranking players, their holding companies and their shareholders as the industry enters its next, inevitable, downturn. The cyclical trends are well illustrated in James Capel's (1996) London Hotels Cycle. Those who engender long term loyalty via R.M. are building in at very least protection against the worst excesses of the slump.

London Hotels Cycle

London Hotels occupancy pts. ch, ARR and profit %



Sources: PKF, GBS and JC estimates

This predicted future structure can be readily modelled on the polarised UK grocery retail market where 'Four companies now control three fifths of all food sales and the battle for market share continues', (Pennington 1996).

Lessons are to be learnt from Tesco whose rapid ascendancy is well documented and who now command 17% (Jan' 98 verdict research) of its market. Over the last four years they have taken a radical, relationship based, approach to the market (not just the storecard). The Boston Consultancy Group (1997) see this as 'just the start of a long and continuous cultural and organisational transformation' where Tesco will, 'create a sustainable competitive advantage, continuously reinforced by their learning capacity and exceptional permanent dialogue established with customers'.

In the hotel industry, the battle for market share over the next decade will be won through differentiation policies which are perceived by guests to be of greatest value - they after all are in charge in the new world disorder - Porter's arithmetic of superior profitability will then follow..

The strong recommendation here is that the company which fully embraces relationship marketing tempered by YM will take that tide at the flood leading on to fortune.