Calculating and Reporting Customer Profitability at:

Marriott International Inc.

Site Visit Summary

Site Visit Date: October 19, 2005

Site Visit Location: Bethesda, Md.

Site Visit Hosts:

- Stephan Chase—vice president, customer relationship strategy
- David Roberts—vice president of global pricing and North American revenue management

I. General Overview of Calculating and Reporting Customer Profitability

Company Snapshot[1]	
Industry:	Lodging
Revenue:	$10 billion
Employees:	133,000
Headquarters:	Washington, D.C.
Web Site:	www.marriott.com

Marriott was founded in 1927 by John and Alice Marriott as an A&W root beer stand in downtown Washington, D.C. When winter came, the root beer stand was not generating enough income due to the cold weather. Hence, the Marriotts sought to make money from another type of venture and began to cook Mexican food in their kitchen and take it down to sell at the root beer stand. The company thus evolved and eventually built its first hotel in Arlington, Va. in 1957. In 1984, Marriott entered the timeshare business, which has come to be known as MVCI.

In 2005, Marriott International manages and franchises approximately 2,600 properties in more than 65 countries. Hotels are categorized by such brands as:

- Marriott Hotels & Resorts (MHR),
- Renaissance Hotels and Resorts (RHR),
- Courtyard by Marriott,
- Residence Inn by Marriott, and
- Fairfield Inn by Marriott.

Both MHR and RHR are considered full-service brands, while Courtyard is considered select-service, and Residence Inn is an extended-stay brand. Approximately 10 percent of Marriott's revenue comes from international operations. The company also manages more than 30 golf courses.

The company operates under two fundamental philosophies as articulated by its founder J.W. Marriott, "If you take care of the associates, they'll take care of the customer, and they'll (customers) keep coming back," and "Success is never final."

[1] Source: www.hoovers.com (retrieved October 2005)

CALCULATING AND REPORTING CUSTOMER PROFITABILITY

Marriott's journey into uncovering customer profitability began with the company's loyalty program initiative. As a new employee, the director of brand management was tasked with quantifying the value of customer loyalty. He was influenced by the book *The Loyalty Effect: The Hidden Force Behind Growth, Profits, and Lasting Value* by Frederick F. Reichheld. The journey eventually led to the company's current focus on customer profitability.

Customer Profile(s)

Marriott counts three distinct types of customers: extended stay guests, transient guests, and meeting planners. Extended stay guests are those that stay five or more nights. Data suggests that, on average, these customers stay about 13 nights. Transient guests are those that stay less than five nights, with an average of two nights. Meeting planners book a minimum of 10 rooms at a time; planners from associations and large corporations manage meetings of thousands of guests. For example, the Orlando World Center is primarily a "group house"—that is, a hotel that mostly accommodates meeting planners' guests; 70 percent of this facility's rooms are sold to groups in any given year. The company understands that various purposes such as business trips, conferences, vacations, and/or family visits bring customers to stay with them.

Marriott contends with having different views of the customer in various parts of the company. This inconsistency is related to properties viewing customers as either meeting planners or transient and extended stay guests. For example, account managers may view IBM as the customer because its employees stay at the hotel. The challenge consists of answering the question, "Who is the customer?" Is it IBM or the individual who works for IBM? For Marriott, what matters most is who is making the final purchasing decision—that determines who the customer is. The others involved are identified as influencers. Moreover, individuals and entities can be viewed as having value that is realized, expected, or potential in the context of a product or service. Value is further described in terms of frequency (room nights), margin, or influence (personal and positional).

Governance and Structure

Customer profitability analysis occurs within the customer relationship strategy function under the marketing senior vice president as part of the company's loyalty program, Marriott Rewards. The vice president of customer relationship strategy is responsible for the strategy of the company impacting individual customers. Finally, all customer-related functions roll up to the executive vice president of sales and marketing.

There are five resources equally aligned to the senior vice president of customer relationship marketing with various focus areas, for example, one resource is responsible for e-mail marketing, another for communications, and yet another for promotions. In addition to these resources, there is a call center with approximately 300 people in Salt Lake City, Utah. The center is tasked with answering questions about the Marriott Rewards program such as how to redeem points from partners like American Airlines. Lastly, the company has a problem resolution call center staffed with experts who work quickly to resolve customer problems.

II. Customer Segmentation

Customer profitability analysis is being conducted on the approximately 5 million active Marriott Rewards members, who comprise more than 10 percent of meeting attendees, 50 percent to 60 percent of transient and extended stay room nights, and overall $4 billion in annual revenue. The frequency of purchase for these customers varies extensively in that the average purchase is nine room nights per year with some customers staying more than 200 room nights in a year. While most customers stay at multiple brands, they tend to concentrate stays on one brand.

Segmentation Overview

Marriott Rewards primarily segments customers behaviorally. The company has published or public segments that are mutually exclusive such as:

- **platinum**—75 room nights in a calendar year,
- **platinum premiere**—this is a select group of platinum-level members,
- **gold**—50 room nights in a calendar year, and
- **silver**—10 room nights in a calendar year.[2]

Downgrade rules are gradually enforced; however, the year immediately following the tragedy of September 11, downgrades were not enforced.

In addition to published segments, Marriott Rewards has unpublished segments that are also mutually exclusive:

- 1/9/10/80 segmentation,
- early opportunity,
- tenured opportunity,
- focus, and
- defecting.

The 1/9/10/80 segmentation is identified from the value of X, where "X" is a number representing a certain million members who had a paid stay between 19XX and 20XX, as shown in the table on page 5.

[2] Work is underway to change these groupings based on most recent 12 months or calendar year, whichever is in favor of the customer.

Percentile	Percent of Room Nights (RNs)	Percent of Extended Stay
Top one percent	18 percent	16 percent
Next 9 percent	43 percent	17 percent
Next 10 percent	17 percent	13 percent
Bottom 80 percent	25 percent	5 percent

This analysis enabled Marriott to segment customers but did not account for the spending component. Therefore, the company created a measure called relative spending.

Relative spending is a calculation designed to determine how much a member spent relative to other members on the same day of the week in the same hotel during the same month. The data is gathered based on isolated members with one- or two-day stays at each hotel, assigning the daily spending by day. The relative spending calculation determines which days each member was in each hotel, creating a custom "average member spend" for each stay. Then a ratio is created of the member spend to the normalized average spend. Lastly, the data is normalized again for the length of the stay (up to seven days). Relative spending calculations enable Marriott to identify highest spending customers while ensuring a well-distributed portfolio in terms of brands and markets. Further, the company believes that frequency data only tells part of the story and that relative spending provides a more well-rounded analysis. Figure 1 on page 6 provides sample data presented in terms of relative spending.

Relative Spending Data (Sample)

Brand	Factor	Relative Spending: Lowest				Highest
XX1	Members	**13%**	25%	19%	21%	22%
	RN's	98	95	92	85	81
	Spend	**96**	**127**	**150**	**171**	**202**
XX2	Members	**2%**	12%	33%	49%	4%
	RN's	197	197	185	177	176
	Spend	**72**	**88**	**100**	**110**	**122**
XX3	Members	**3%**	14%	43%	38%	2%
	RN's	188	181	167	151	141
	Spend	**48**	**57**	**63**	**69**	**80**
XX4	Members	**5%**	16%	21%	34%	24%
	RN's	217	218	209	205	200
	Spend	**106**	**131**	**157**	**178**	**209**
XX5	Members	**9%**	33%	27%	25%	5%
	RN's	258	256	252	242	240
	Spend	**71**	**89**	**102**	**116**	**131**
XX6	Members	**6%**	23%	31%	37%	4%
	RN's	116	106	102	95	86
	Spend	**61**	**74**	**84**	**94**	**106**
XX7	Members	**18%**	31%	23%	22%	5%
	RN's	250	248	230	219	210
	Spend	**49**	**65**	**70**	**79**	**87**

Figure 1

Customers are also segmented by demographics with "off the shelf" segmentation systems that characterize households according to demographics assisting in properly targeting and engaging customers. Further, the segmentation systems can be merged with Marriott's proprietary primary research. Figure 2, page 7, shows sample demographic data segments.

Demographic Segments (Sample)

Group	Cluster Name	Age	Income	Urbanicity	% of US HH's
Boomer Barons	Summit Estates	36-55	Wealthy	Outer Suburbs and Towns	1.20%
Mature Wealth	Established Elite	46-65	Wealthy	City and Surrounds	1.50%
Mature Wealth	Corporate Clout	46-55	Wealthy	City and Surrounds	0.97%
Boomer Barons	Skyboxes & Suburbans	36-55	Wealthy	Outer Suburbs and Towns	1.25%
Golden Years	Sitting Pretty	46-65	Wealthy	Outer Suburbs and Towns	1.90%
Cash & Careers	Shooting Stars	30-45	Wealthy	City and Surrounds	1.13%
Boomer Barons	Leveraged Lifestyles	36-55	Wealthy	Outer Suburbs and Towns	2.21%
Cash & Careers	Hard Chargers	30-45	Affluent	City and Surrounds	1.32%
Jumbo Families	Kids & Clout	36-45	Affluent	Outer Suburbs and Towns	1.44%
Jumbo Families	Tots & Toys	30-45	Affluent	Outer Suburbs and Towns	1.31%
Flush Families	Solid Single Parents	36-54	Affluent	City and Surrounds	1.65%
Aging Upscale	Career Centered Singles	46-65	Affluent	City and Surrounds	2.31%
					18.19%

Figure 2

Additionally, Marriott leverages data from companies like Acxiom who provide information on United States individuals. These companies provide information such as marital status, net worth, income, etc. In addition, these companies create segmentation systems that categorize households by various demographic dimensions. Acxiom's household demographic system is called Personicx. There are 70 Personicx clusters, of which Marriott tends to concentrate on those that focus on wealthier households.

Demographic data enables Marriott to create an index of the penetration of these segments among the top X percent of customers. Figure 3, page 8, shows the data further indexed.

Indexed Demographic Data

Cluster Name	Age	% of US HH's	Percent of Top X% Transient	Percent of Top X% Extended	Density Index Transient	Density Index Extended
Summit Estates	36-55	1.20%	3.1%	1.8%	2.6	1.5
Established Elite	46-65	1.50%	4.9%	3.6%	3.3	2.4
Corporate Clout	46-55	0.97%	5.1%	3.3%	5.3	3.4
Skyboxes & Suburbans	36-55	1.25%	4.7%	2.6%	3.8	2.1
Sitting Pretty	46-65	1.90%	2.6%	2.8%	1.4	1.5
Shooting Stars	30-45	1.13%	2.8%	1.9%	2.5	1.7
Leveraged Lifestyles	36-55	2.21%	5.0%	3.0%	2.2	1.4
Hard Chargers	30-45	1.32%	4.6%	3.2%	3.5	2.4
Kids & Clout	36-45	1.44%	4.4%	2.2%	3.1	1.6
Tots & Toys	30-45	1.31%	4.0%	2.4%	3.1	1.9
Solid Single Parents	36-54	1.65%	2.0%	2.1%	1.2	1.3
Career Centered Singles	46-65	2.31%	2.6%	3.2%	1.1	1.4
		18.19%	**45.90%**	**32.21%**	**2.5**	**1.8**

Figure 3

The company is interested in demographic information because it indicates whether someone is a likely buyer, and it is useful in brand differentiation. Additionally, demographic information enables Marriott to assess how it is performing in the marketplace by comparing its customer behavior with survey data covering the travel market.

Further, Marriott has identified approximately six to seven macro customer segments based on customer behavior. Each customer segment is categorized by relative spending. For example, a high-value behavioral customer who may not be a big spender at the hotel could be viewed favorably in a low-occupancy environment but less favorably in a high-occupancy environment. Segments include customers who, through behavioral characteristics, are anticipated to be more profitable. The macro customer segments are sub-segmented based on a variety of factors. For example, extended stay customers and transient customers may both be very high-value customers.

Customer segmentation information is used to identify customers with the highest value. Moreover, the company has identified a segment of customers that appear to have defected from their hotels. Because Marriott is primarily relying on customer behavior to make this identification, it does not initially know the reason for the customer's downturn in travel. Customer contact has determined that most instances are matters of the customer in question simply traveling less. Still, there are instances where customers have truly defected, and customer service agents are empowered to try to win the customers back.

Further, Marriott is in the process of designing an enterprise segmentation strategy. Currently two mutually-exclusive customer segmentation schemes are utilized by marketing—a needs-based segmentation and customer and life-style segmentation. The objective for the company is to develop and maintain relationships with customers meeting certain stay patterns while identifying such factors as trip occasion, brands, and property. Additionally, Marriott seeks to understand how this information fits into the overall market and critical market segments to ensure opportunities are being maximized and trends are being identified.

Segmentation and Business Strategy

Segmentation and predictive modeling enable Marriott to deepen engagement with its customers resulting in more responsive and proactive efforts like incenting (proactive) behavior instead of just rewarding (reactive). Further, predictive modeling contributed to the tripling of incremental revenue associated with major promotions, which exceeded the company's goal for the entire year. Hence, segmentation strongly supports and enables the company's business strategy by uncovering ways to maximize customer value.

III. Understanding the Cost to Serve Customers

Marriott has been estimating the profitability of individual Rewards members since 2001. The results of this effort are used in strategy development and organizational alignment. Marriott's customer profitability approach consists of three components: product, value, and engagement. This approach enables a clear understanding about each individual customer and the associated value components. The product component is important because the company must determine which products a customer is likely to buy in the future. The same is true for the value component, where quantifying customer value in the context of their lifetime as well as individual products and/or groups is essential. Finally, the engagement component focuses the company on capturing and acting on customer information that enables the realization of greater market share and provides the opportunity to create more relevant offers. Understanding customer value in each of the above-mentioned contexts is clearly significant for Marriott.

The company understands that unlike other businesses in other industries, Marriott customers are typically profitable from the beginning of the relationship with the company. Marriott approximates customer profitability through an analysis of relative customer spending as well as estimates of incremental profitability.

CALCULATING AND REPORTING CUSTOMER PROFITABILITY

The methodology for calculating customer profitability is about understanding the differences in rate paid measured against standardized costs, and assigning specific costs. Marriott focused on Rewards members because the data is more readily available and most of the differentiation in the customer base had to do with rate paid rather than the difference in serving customers. Some key information that is important to acknowledge in calculating customer profitability is that some customers pay 40 percent more than others for similar products. Moreover, Marriott understands that hotels are primarily a fixed-cost business, and costs tend not to vary as much as revenues.

The following factors are used in calculating customer profitability by brand:
- percent of fixed cost (includes hotel costs excluding interest, depreciation, and commissions),
- margin on occupancy,
- margin on ADR (average daily rate), and
- margin on other revenue.

Hence, Marriott does not calculate individual or segment customer cost-to-serve except for evaluating cost-to-serve by channel, such as the Internet.

Customer Profitability Process

The process of calculating customer profitability at Marriott involves understanding the differential revenue and applying it to some fixed costs of the hotel such as hotel staff. The compiled data provides percent fixed cost for the hotel on an average rate, margin on occupancy (how much money is made net on a certain fixed cost on an average rate), and margin on average daily rate (ADR). Hence, what is calculated is hotel profitability or "house profit," meaning hotel profit before interest and depreciation expense.

Marriott's process also involves calculating displacement: Because each hotel has a fixed amount of rooms to sell, maximizing the hotel occupancy becomes a critical success factor in maximizing revenue. Hence, the company selectively takes demand based on price, length of stay, and booking window, among other things. For example, at most hotels, Sunday nights have relatively low occupancy. Therefore, a customer who routinely stays on Sundays has higher value, since it is unlikely this customer is displacing other business. On the other hand, Tuesday nights tend to have higher occupancy, and on these nights, substantial displacement occurs. Therefore, customers paying the same amount might have differing values to Marriott's hotels based on the days of the week they travel.

The inputs to the displacement model are the hotel occupancy on the nights of stay in question and the hotel's average rate on those same dates. The model, based on this data and demand forecasting methodologies, estimates displacement in terms of room nights and revenue. Figure 4 on page 11 shows a graph with curves based on historical data and uses the relationship between changes in demand and changes in revenue. For example, at 95 percent occupancy, 40 percent of additional demand cannot be accommodated. This approaches a natural limit at 100 percent where no additional demand can be met.

Displaced Revenue Graph

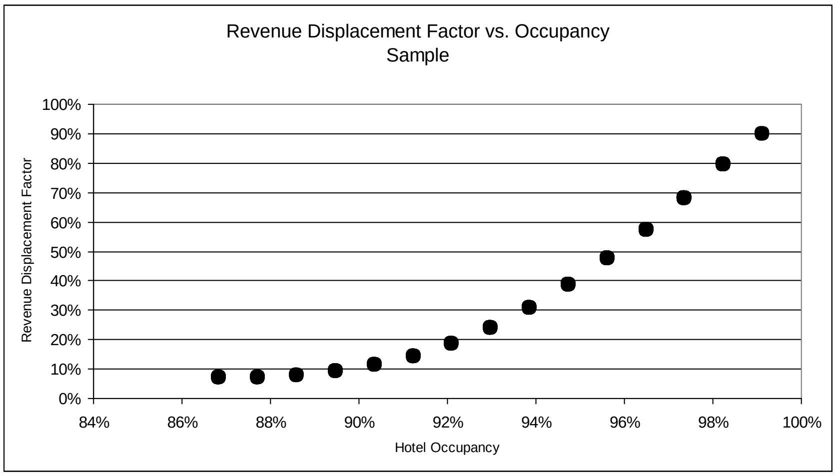


Figure 4

The graph demonstrates a displaced value equation where, at each occupancy level, the model will give a corresponding "revenue displacement factor." The factor is then multiplied by the average rate for the specified hotel on the specified night(s) of stay.

The company's existing methodology to calculate normalized incremental customer profitability is shown in Figure 5, page 12.

Methodology

- Estimate split between *Room Revenue* and *Other Revenue* for each customer stay by matching the market segment associated with the stay with the ADR associated with that market segment at that property.
- Estimate *Displaced Room Revenue* for each hotel for each day of week for each period. Similarly estimate *Displaced Other Revenue.*
- *Flow* =
  Min(*Room Revenue*, *RN's * Hotel ADR*) – (*RN's * Hotel ADR * Pct Fixed Cost*) +
  Max(0,(*Room Revenue* – (*RN's * Hotel ADR*)) * *Margin on ADR*) +
  *Other Revenue * Margin on Other Revenue*
- Displaced Flow =
  Min(*Disp RR, RN's * Hotel ADR*) – (*Disp RN's * Hotel ADR * Pct Fixed Cost*) +
  Max(0,(*Disp RR* – (*RN's * Hotel ADR*)) * *Margin on ADR*) +
  *Hotel Other Revenue * Disp RN's * Margin on Other Revenue*
- *Net Flow = Flow – Displaced Flow*
- *Normalized Net Flow = Net Flow/*
  Average Net Flow for a Specific Property

Figure 5

Moreover, Marriott is undergoing a transition in terms of calculating customer profitability. For 2006, the executive vice-president of sales and marketing approved plans to capture, store, and analyze spending data for all Marriott Rewards members. This initiative will be driven by marketing and supported by information resources (IR). Assembling the data for this project will take a team of three to five people from IR with the primary analysis performed by two individuals from marketing. Further, the finance and revenue management function will provide support in estimates of displacement and other issues related to demand and pricing.

This initiative will increase the accuracy and decrease the time it takes to create profitability estimates.

Customer Profitability Metrics and Cost of Sales

Until the above referenced spending project is complete Marriott will not have a formal process for measuring customer profitability performance Rather, the company uses relative spending and incremental profitability, depending on which applies more to the specific task at hand. For example, Marriott is currently calculating the value of its accounts. By virtue of the importance that displacement plays in the value of an account, the company is employing incremental profit for this effort. For an upcoming major promotion aimed at individual customers, Marriott is employing relative spending, due to the relative ease with which this figure can be calculated. When properly normalized both these calculations enable Marriott to determine without prejudice, geographically or by brand, the value of its customers.

In regards to cost of sales, the company's annual report presents recovered costs as part of income. This is due to the fact that Marriott charges back for services rendered (marketing costs, for example): Hotel owners are charged for Marriott Rewards program operational costs. The vast majority of these costs go back to hotels when guests redeem room nights at the hotels. Other costs go to pay the administrative costs of the program. It is important to note that Marriott continuously must demonstrate how its programs add value (how marketing efforts are adding value to hotel owners' profitability).

Challenges of Customer Profitability

Incremental profit varies considerably by brand, but it also varies within brand as Figure 6 below demonstrates.

Incremental Profit Variations

30 Room Nights
4,794 Customers
Average Incremental Profit
$2,800

45 Room Nights
1,911 Customers
Average Incremental Profit
$4,150

60 Room Nights
906 Customers
Average Incremental Profit
$5,475

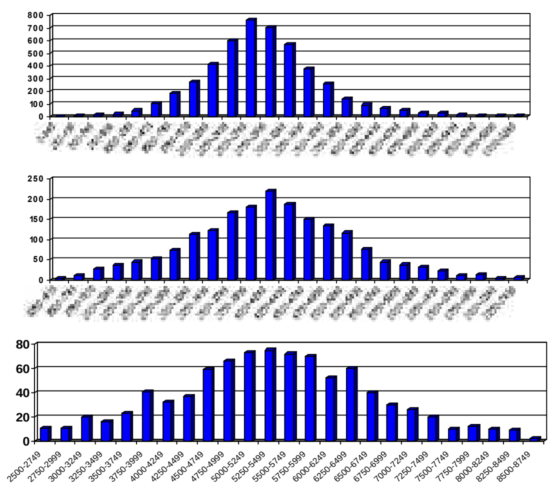


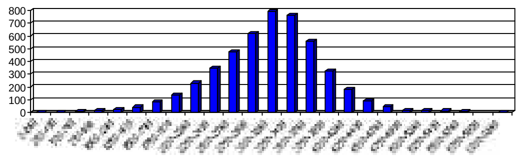
Figure 6

The company takes a further step to normalize data in order to be able to make accurate estimations of customer profitability across markets with different pricing dynamics.

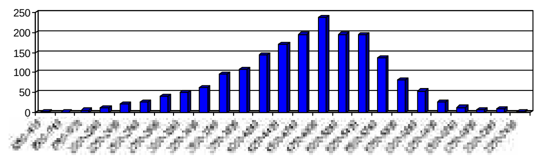
As the graph in Figure 7 on page 14 shows, once the data is normalized, the normal curve is extended on the lower profit side and shortened on the higher profit side.

Normalized Incremental House Profit

30 Room Nights
4,794 Customers
Average Normalized
Incremental Profit
$3,100



45 Room Nights
1,911 Customers
Average Normalized
Incremental Profit
$4,675



60 Room Nights
906 Customers
Average Normalized
Incremental Profit
$6,225

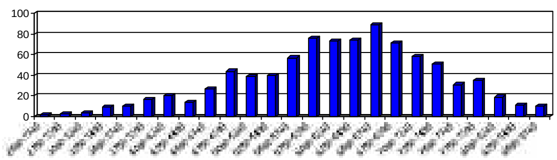


Figure 7

Further, Marriott created a graph that shows room night volume versus normalized incremental profit for large accounts. Each dot in Figure 8 on page 15 represents the transactions of corporate accounts aggregated over a certain period of time, normalized for incremental profit. There is no pattern to this data, but it does demonstrate the existence of lower volume accounts with higher normalized incremental profit. By analyzing this data, the company is able to make more effective decisions, and the data provides an opportunity to rationalize account management. This perspective will be used to inform the aforementioned account segmentation.

Room Night Volume

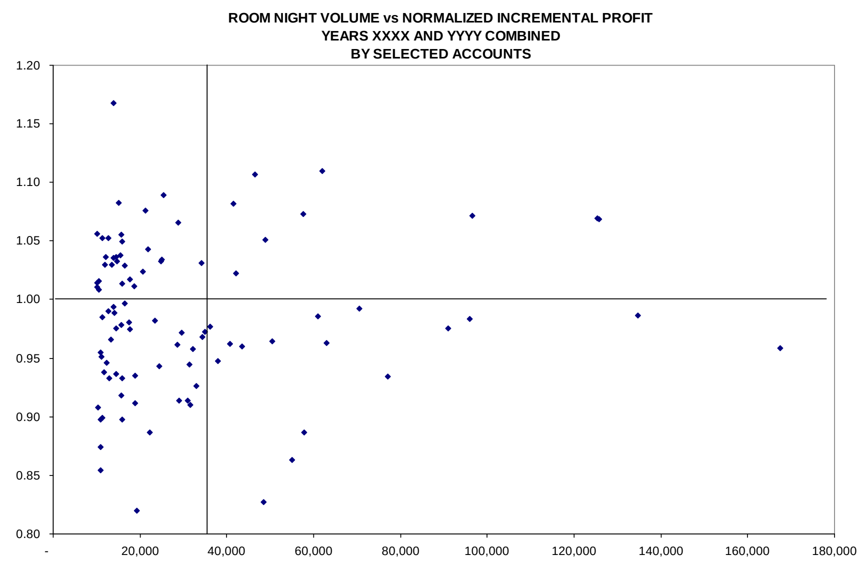


Figure 8

Working with Stakeholders

In addition to promotions and the account segmentation effort, the company's incremental profit methodology has been used to set strategy and demonstrate the importance of calculating profitability on a more routine basis. This effort includes stakeholders from revenue management, finance, information resources, and marketing. Presentations are made to senior executives on an as-needed basis.

Market Share and Customer Profitability

Marriott measures market share by RevPar (revenue per available room) index. This measure is calculated by multiplying the average daily rate by hotel occupancy and then compared with market information provided by a third party to create an index for each property, region, or market. The company notes that the figure is indifferent whether a hotel sells 1,000 room nights to 1,000 people or to 100 people as long as the rate is the same. However, customer profitability analytics has shown that the latter case (1,000 room nights sold to 100 people) leads to selling more room nights in the future, thus supporting short-run and long-run market share. Hence, market share information does not necessarily directly translate to future customer profitability. The company understands that another area where share results do not directly correlate to future customer profitability is in survey research. For example, if fewer customers account for a larger proportion of sales, that may look unfavorable according to some survey metrics, but this occurrence may actually be a desirable outcome. The company seeks to address this apparent disconnect and attain balance between customer profitability and market share tracking.

Managing Unprofitable Customers

In terms of managing unprofitable customers, Marriott cites that it has a low number of unprofitable customers. The company tends not to prospect among customers with no engagement with the brand, except in targeted promotions to people it knows to be frequent travelers. Further, the company understands that unlike credit card companies, Marriott does not lose money on most of its customers during their first year of travel.. The majority of Rewards members are recruited at a Marriott hotel at the time of a reservation or upon arrival. However, there are rare cases when a customer displaces more profit than he or she generates. This occurs under special circumstances, for example, a gentleman staying in the downtown Chicago Marriott was only paying $50 per night. The reason he received such a low rate is because he was somewhat of a local celebrity, and therefore, received special treatment because of other business he drove to the hotel. This set of circumstances is rare.

Enabling Technologies

Marriott is very "data rich" in terms of transactional customer data; however, information on revenues is not systematically transmitted from the properties to corporate headquarters. Hence, the company must make assumptions in its customer profitability approximations. For example, information is available on total revenue from an individual stay, and the general rate category that a customer falls under is known. By using software tools from SAS (www.sas.com), Marriott can estimate room revenue and "other" revenue per customer and apply an algorithm to compute the room margin. Despite having to make some assumptions, the analysis has proven very helpful because it has highlighted low-frequency customers who are much more profitable than some higher-frequency customers.

Hence, most of the customer profitability analysis involves a PC workstation and Base SAS. Marriott has recently created a marketing data mart in conjunction with implementing a campaign management system from Unica (www.unica.com) that will enable the company to cut down on manual tasks. For example, customer scores will be maintained and will be able to be accessed during campaign creation rather than having to re-run scoring algorithms each time a campaign is executed. The plan is to populate the new data mart with detailed spending data in 2006, which will increase the accuracy of the company's customer estimates.

IV. Reporting Customer Profitability Information/Use of the Information

Marriott has demonstrated a worthwhile return on investment for its customer profitability initiatives through an increase in organizational revenues and customer satisfaction. For example, the company uses an estimate of potential revenue to provide special recognition to customers while they are on-property in an attempt to improve the customer experience that will then encourage an increase in future purchases.

Employee Motivation

Associates are motivated via rewards directly tied to RevPar (revenue per available room). There is no specific employee motivation tied to customer profitability. However, they are rewarded for achieving thresholds of guest satisfaction and associate satisfaction. Sample bonus components for a hotel general manager may include 15 percent human capital, 15 percent guest satisfaction, and 25 percent RevPar (index and budget).

Communicating Customer Profitability

Marriott's customer profitability information is disseminated to marketing and customer service resources through customer contact systems. Customer profitability information is used to differentiate service levels between segments to target marketing and sales efforts, design new products, and to set strategy.

The company's communication of customer profitability is not yet a routine aspect of Marriott's business practices. This condition will likely change in the 2006/2007 time frame. The marketing function makes primary use of customer profitability analysis by leveraging predictive models used in hotel recognition and promotional efforts. Hence, customer profitability information impacts the following areas:

- customer loyalty,
- marketing,
- sales,
- customer service,
- problem resolution,
- retention, and
- new product development.

The goal is to estimate the net present value of the net house profit anticipated from customers engaged with Marriott. Thus, marketing hopes to be able to manage Marriott's relationship with its customers as an asset to the company.

Decision Making and Quantifying Value

Customer profitability information impacts and contributes to effective decision making in developing marketing strategy, investment decisions, and future strategy formulation. Marketing is better able to identify which Marriott Rewards members should be targeted for retention and for developing greater engagement. Marketing also uses the information in setting goals and objectives. Further, customer profitability information aids in investment decisions in terms of capturing, storing, and analyzing hotel spending data. Lastly, customer profitability information enables the creation of insights for account management and group sales.

In terms of quantifying value, predictive modeling has enabled Marriott to increase incremental revenue by at least 0.5 percent to 0.75 percent. This is a significant number to the company; because this number represents pure profit; incremental increases are quite impactful.

V. Lessons Learned and Critical Success Factors

As a critical success factor, Marriott cites understanding not only its own customer base but also its customers in the context of the market to ensure that the company is not missing a critical segment. Also, the company notes that not taking "no" for an answer is necessary in terms of assembling or gathering the necessary data to calculate customer profitability. Invalid assumptions are often made that lead to that initial "no" response. Also, flat files are simple to work with and can enable customer profitability analysis without having to create initiatives out of creating relationship data marts with sophisticated front-end tools. Further, executive-level involvement helps enable and provide the necessary support for the customer profitability effort. Finally, calculating customer profitability requires a special kind of analytical lens, which can be very different than that provided in conventional finance and accounting coursework.

Marriott acknowledges the following lessons learned.

- The process could have been accelerated by more aggressively promoting early work as proof that accelerated efforts were warranted.
- While modeling requires advanced tools, handing data over to a tool and "letting it run" is not likely to lead to the proper insights.
- Special attention must be given to craft the customer profitability message in a way that each organization is able to identify the significance of it (what is in it for them).

Future Plans

Marriott's future plans include creating a better science of developing engagement among targeted customers based on their potential value, their propensities, and relevant demographics and/or psychographics characteristics. The company also wants to further the classification of top customers by stay patterns to aid in better serving them. Figure 9, page 19, shows an example customer stay pattern within a calendar year.

Customer's Stay Pattern

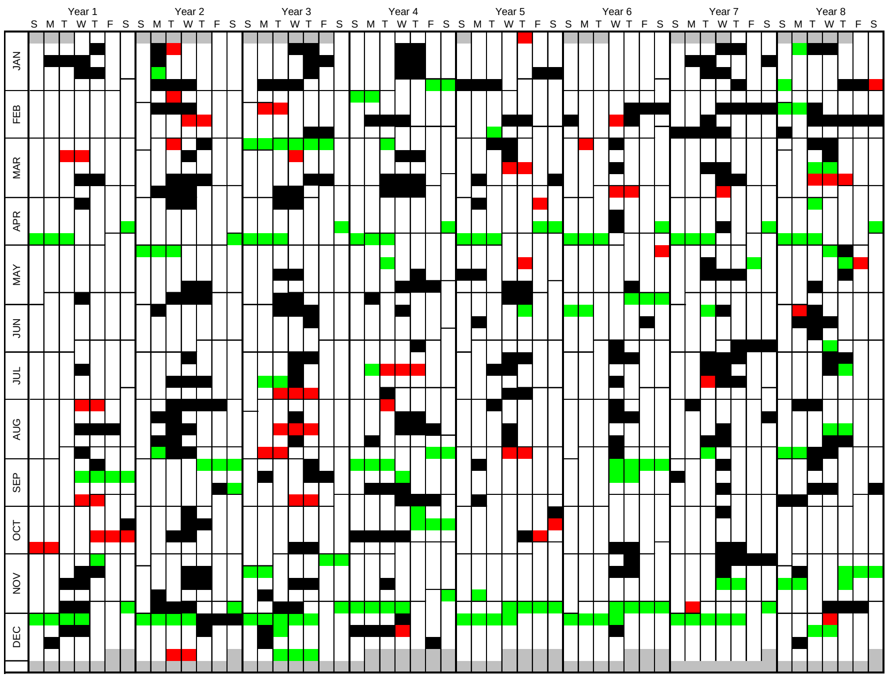


Figure 9

The development of viewing customer information in this way was spurred by viewing a map of Napoleon's march to and retreat from Moscow created by Charles Joseph Minard and popularized by Edward Tufte (http://tinyurl.com/8yrar). The map demonstrates multiple dimensions of information of the march. Napoleon started the march with nearly 450,000 men and ended up with only 10,000 due to incurring mortal tragedies along the way. The map showed many details of the march.

This inspired Marriott to create a view of a customer's stay pattern over the course of their relationship in a way that would similarly illuminate multiple dimensions. The map in Figure 9 shows relative spending data that will aid in exploring the situation with this particular customer. The black "ribbons" represent a neutral level stay in terms of spending, green represents a higher level of profitability, and red represents a lower level of profitability. An example of what can be gathered from this map is that there is a stream of green about the same time every year in the spring, sometime around April. What this information uncovered was, for example, this customer hosts an annual group meeting in a downtown major market hotel. Marriott plans to work on determining how

Commented [k1]: Rachele, I realize there's probably not much you can do, but the red and green in this figure look almost the same when printed. Is there a way to change the colors to shades of gray and provide a key?

to leverage these insights into improving customer relationship management and, thereby, customer profitability over the life of its customers.