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**THE CONTRIBUTION OF  
CUSTOMER RELATIONSHIP MANAGEMENT  
TO SALES PERFORMANCE IN THE HOTEL BUSINESS**

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## ANNOTATION

Marketing is such a complex field that Wannamaker (died 1922) made the following famous statement: „I know that half of my advertising spending is wasted, I just don't know which half.”<sup>1</sup> It seems that not much has changed. According to a 2012 study from McKinsey and OWM only 15% of the responsible marketing managers believe that they know how much the different communication channels contribute to the company's success. Agencies rate the competence of their clients much lower, only 3% are considered to have this capability.<sup>2</sup>

The aim of this dissertation is to evaluate the influence of the most common direct marketing channels in the hotel business (e-mail and post mail) and the communication frequency on the re-buying behavior, i.e. the behavioral loyalty of existing hotel customers within a Customer Relationship Management context. Within the complex construct of CRM, marketing communication plays a central role in creating remembering effects and in initiating booking impulses, but neither the question of a worthwhile frequency nor the quality of the two different media channels as a message transmitter within CRM have been evaluated so far.

In order to answer these questions the marketing activities of four five-star hotels in Germany and the booking behavior of the message recipients were measured and analyzed over a period of 4.5 years. Within a “Big Data” environment and the usage of an integrated CRM system, it was for the first time possible to carry out a long-time study about the effects of communication on loyalty. All studies so far evaluated only the short-term effects of communication actions on sales but did not focus on the value of communication over time for creating loyalty for hotel guests in the luxury hotel segment.

The promotion work has resulted in an enhancement of the ECSI loyalty model by the variables communication channel, frequency and time. The discussion within the scientific community which response function best describes the results of communication within CRM could be answered by a concave downward equation. With the help of a regression model, a formula has been developed which helps to calculate an effective communication frequency

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<sup>1</sup> C.F. Dettmer H., Hausmann T., Kloss I., Meisl H., Weithöner U. (1999). 'Tourismus-Marketing-Management'. R. Oldenburg Verlag, München, P. 290

<sup>2</sup> C.F. McKinsey, OWM (2012). 'Hohe Investitionen auf geringer Faktenbasis', Düsseldorf, P. 6

per channel. The findings help to create a worthwhile relationship marketing (RM) strategy to generate positive results.

**Key words:** CRM, communication frequency, channel quality, loyalty, hotel business

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## ABBREVIATIONS

ACSI	American Customer Satisfaction Index
Avg	Average
CEO	Chief Executive Officer
CLV	Customer Lifetime Value
CMO	Chief Marketing Officer
CPC	Costs per Click
CPC	Costs per New Customer
CPI	Costs per Interest
CPM	Costs per Thousand
Com	Commission
CPO	Costs per Order
CPR	Costs per Request
CRA	Customer Relationship Analytics
CRC	Customer Relationship Communications
CRM	Customer Relationship Management
CRM	Customer Relationship Marketing
CRO	Customer Relationship Operations
CRS	Central Reservation System
ECSI	European Customer Satisfaction Index
FO	Front Office System
IBE	Internet Booking Engine
IT	Information Technology
KPI	Key Performance Indicator
M.	Management
MPE	Multi Property Edition
Pers.	Personalized
PMS	Property Management System
POS	Point of Sale
Res	Reservation
RFM	Recency Frequency Monetary
RM	Relationship Marketing
RMS	Revenue Management System
Rev	Revenue

ROI	Return on Investment
ROP	Return on Promotion
SCSB	Swedish Customer Satisfaction Barometer
SQL	Structured Query Language

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## INTRODUCTION

New technologies, globalization and the abundant reservoir of choices to configure a business make management an ever-harder task.<sup>3</sup> Even though this statement was made in 1998 it is currently more to the point than ever before. Higher competition, globalization, more demanding customers are only a few of the characteristics of the international hotel market. To master this situation the sustainable increase of customer loyalty is one of the main goals of executives all over the world, because loyal customers give companies a base to count on. That is the reason why CRM plays such a significant role nowadays.

The goal of an efficient CRM strategy is to develop, keep and retain profitable customers. Many studies describe the effects of customer loyalty to an organization. Reichheld and Sasser calculated with a profit boost by up to 100% by retaining just 5% more customers;<sup>4</sup> loyal customers intend to be less price-sensitive and would accept a 5% price increase in order not to endanger a relationship<sup>5</sup>; the retention of loyal customer's costs only 15 to 20% compared to the acquisition of new customers.<sup>6</sup> Summarized loyalty provides companies more security, more growth and a better profitability.<sup>7</sup> Especially for the hospitality industry, Customer Relationship is one of the most important success factors<sup>8</sup> with communication playing an integral part. The aim of this dissertation is to evaluate the influence of the most common direct marketing channels in the hotel business (e-mail and post mail) and the communication frequency on the re-buying behavior, i.e. the behavioral loyalty of existing hotel customers within a Customer Relationship Management context. Within the complex construct of CRM, marketing communication plays a central role in creating remembering effects and in initiating booking impulses, but neither the question of a worthwhile frequency nor the quality of the different media channels as a message transmitter within CRM have been evaluated so far.

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<sup>3</sup> C.F. Zahra S. A., O'Neill H. M. (1998). 'Charting the landscape of global competition: Reflections on emerging organizational challenges and their implications for senior executives'. *Academy of Management Executive* 12 (4), PP. 13-21

<sup>4</sup> C.F. Reichheld F., Sasser E. (1990). 'Zero defections: quality comes to service'. *Harvard Business Review on Point*, Product Number 519, P. 3

<sup>5</sup> C.F. Homburg C., Rudolph B. (1995). 'Wie zufrieden sind ihre Kunden tatsächlich?'. *Harvard Business Manager*, No 1, 17. Jg., Hamburg, P. 43

<sup>6</sup> C.F. Müller W., Riesenbeck H.-J. (1991). 'Wie aus zufriedenen Kunden auch anhängliche Kunden werden'. *Harvard Manager*, No. 3, 13. Jg., PP. 67-79

<sup>7</sup> C.F. Gruner A. (2003). 'Markenloyalität in der Hotellerie'. Verlag Dr. Kovac, Hamburg, P. 47

<sup>8</sup> C.F. Kopatz A., Waskönig A., Wassel P., Ploss D. (2002). 'Kundenbindung im Hotelgewerbe'. *Loyalty Management + Communications GmbH*, Hamburg, P. 39

Several theses are part of this dissertation: One, communication actions influence directly the number of bookings from existing customers within a CRM strategy. Two, a qualitative distinction between the different communication channels as message transmitter exists. Based on the number of senses touched the value of post mail and of a multi-channel communication should be much higher than the channel e-mail. Three, the importance of communication for creating loyalty within CRM increases over time. The longer the last purchase is in the past the more important should be the role of communication for creating buying impulses. Four, an s-shaped response function is not adequate to explain communication effects within CRM as learning effects should not be necessary for existing customers, instead the creation of remembering effects should be the most important trigger for the generation of new bookings, reflected by a concave exponential function.

The responsibility for its success is with marketing management. Theoretically, this would mean that with the growing relevance of CRM also the role of the Chief Marketing Officers (CMO) should have gained more importance. However, this is not the case. Nowadays, in less than 50% of the company's the marketing management is hierarchically positioned at a level, which represents its importance.<sup>9</sup> Kotler, Calder, Malthouse and Korsten asked in the 2012 fall issue of the MIT Sloan Management Review "What can CMO's do to become as indispensable as they should be?"<sup>10</sup> One of the biggest hurdles why marketing departments are in that position is because of the fact that marketing is regarded by many senior management teams as unaccountable and financially innumerate.<sup>11</sup> This dissertation and the developed Relationship Management Loyalty model (in the following abbreviated with RM Loyalty Model) should help to improve the situation since it provides numbers which gives reliability which leads to an increase of trust which finally should lead to an improved role of the CMO within an organization.

Another point in respect of the topicality of the subject is the "Big Data" phenomena (see 'The trouble with travel distribution' in McKinsey Quarterly, February 2012<sup>12</sup> or 'Finding Value in the Information Explosion' in MIT Sloan Management Review 2012<sup>13</sup>) with which

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<sup>9</sup> C.F. McKinsey, OWM (2012). 'Hohe Investitionen auf geringer Faktenbasis', Düsseldorf, P. 6

<sup>10</sup> Kotler P., Calder B. J., Malthouse E. C., Korsten P. J. (2012). 'The Gap Between the Vision for Marketing and Reality'. MIT Sloan Management, Vol. 54 No.1, P. 14

<sup>11</sup> C.F. Maklan S., Knox S, Peppard J. (2011). 'Why CRM Fails - and How to Fix It'. MIT Sloan Management Review, Vol. 52, No. 4, P. 77

<sup>12</sup> C.F. Carey R., Kang D., Zea M. (2012). 'The trouble with travel distribution'. McKinsey Quarterly, February 2012

<sup>13</sup> C.F. Beath C., Beccerra-Fernandez I., Ross J., Short J. (2012). 'Finding Value in the Information Explosion'. MIT Sloan Management Review, Vol. 53, No. 4

companies are faced with which make it almost impossible to measure the results of marketing. This dissertation aims at providing a better understanding about the intertwined connection between IT and marketing and should create through this a qualitative better base for future quantitative research.

The main questions, which will be answered in this dissertation, are: What is the role of direct communication within Customer Relationship Management? What are the effect of on- and offline messages on customer loyalty, measured by the number of additional sales? Does communication directly and positively influence the purchase frequency of already existing customers? To answer the questions data from four five-star hotels in Germany, which has been collected over a period of 4.5 years was taken. In total 249742 customers with 474521 bookings were included in the total data set of this dissertation. Luxury hotels are very suitable to research customer loyalty, since guests in this segment have normally a direct influence where to stay even if they are not part of the booking process. The lower the hotel segment, the less influence the customers have, especially business travelers are often obliged to stay in a certain hotel or hotel group. This would distort the research results.

So far, research about loyalty focusses on short-term effects, and is mainly transaction oriented. Especially for companies in the service industry with a low buying frequency, the long-term effects are extremely important. For the hospitality industry for example, no research was able by now to show the long-term effects of CRM on loyalty. The reason is the missing link between campaign management and booking systems, which prevents the quantitative analysis of communication effects on loyalty over a long period. This situation leads to the circumstance that the management is mainly aware of the fact that CRM is important but without knowing the exact result of their investments. The monetary evaluation of CRM and clear numbers about its contribution to company success is therefore an essential part of strategic planning on the senior management level.

The dissertation starts with the theory behind Customer Relationship Management, the role of satisfaction and loyalty as the desired outcome. Furthermore, the role of communication is reviewed within the context and finally the current models of loyalty from the ACSI to the ECSI-model are explained. In the second main chapter, the theory will be enhanced by the context in reality and previous experiences in the field. The specifications of the hotel business are explained and the extraordinary role of communication for a location based product. In addition, the aspects of technology, which is intertwined with CRM and the current situation, are described as well as the different methods to measure marketing success. Following the two chapters, the new “RM Loyalty Model” will be developed based on the ex-ante defined theoretical basis and the practical current needs. The model shows the role of



communication and time within Relationship Marketing and modifies the existing ECSI-model with these variables by limiting the measurable result to the repurchase behavior by disregarding attitudinal aspects. In the fourth main chapter, the available test data is explained as well as the performed data analysis using SPSS statistical software. The pre-defined hypothesis are confronted with the results to verify respectively falsify the theoretical made assumptions about the role of communication within Customer Relationship Marketing.

Although a huge amount of data was available for the analysis limitations exists. The result of Relationship Marketing actions is correlated to many different factors. Communications is only one part of the overall concept of Customer Relationship Management, which can be regarded as a philosophy of how to run a company. It is obvious that the efforts have to be limited to specific aspects; in this case, the measurement of the number of communication actions sent to the test group, review the used media channels and count the generated bookings. The approach of the “RM Loyalty Model” is to get a clearer picture of the value of communication within CRM; knowing that many other factors are responsible for generating customer satisfaction and customer loyalty. A company in the service industry like a hotel has several elements, which finally form the overall picture of a company.<sup>14</sup> The author had no influence on elements like human resources, budget allocation or product and service offerings. Nevertheless, the available data should provide a fundamental base to get a clearer understanding of the role of marketing within CRM.

Several outcomes can be regarded as significant. One is that the importance of communication to increase loyalty within CRM can be confirmed. A clear correlation exists between the approach of stay-in-touch with existing customers and their behavioral feedback in form of additional purchases. A further result is that RM activities result in a concave increasing exponential graph, which means that learning effects play no role for the success of communication with existing customers. The creation of remembering effects is the central aspect of Relationship Marketing. In addition, the differences in respect of quality as a message transmitter between the most common media channels in direct marketing post mail and e-mail could be approved. The replacement of post mail with e-mail because of budget concerns from the management can be regarded as at least questionable. A further outcome of the dissertation is the development of a formula to calculate an efficient communication frequency per media channel. Harvard’s Neil Borden, former president of the American

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<sup>14</sup> C.F. Rafiq M., Ahmed P. K. (1995). 'Using the 7Ps as a generic marketing mix'. In 'Marketing Intelligence & Planning', Volume: 13 Issue: 9, PP. 4-15

Marketing Association, realized already in the 1940s that there is no set formula for successful marketing. Instead, the marketer must choose the best mix from the set of all possible mixes.<sup>15</sup> With the defined formula, managers have a helpful tool to create a meaningful communication strategy, which regards costs as well as the quality aspects per channel.

The main conclusion is the confirmation that marketing plays a central role for a company's economic success. With the findings of this dissertation and the developed equation, which calculates the effect of communication on the re-buying behavior of existing customers, marketing managers can define a worthwhile CRM strategy and should also be able to show their sustainable contribution to a company's success and therefore help to improve the standing of marketing within an organization. On the other hand, companies have a lot of work ahead. RM success is tightly connected to a marketing oriented IT strategy. Without a central customer data warehouse, which collects data from all relevant sources, cleanse the data and covers all necessary marketing channels marketing is not measurable at all. CEO's have to understand the role of IT for marketing success and have therefore adopt their skills to support during the decision making process and the introduction of an IT strategy, which covers the changing needs.

The theoretical part of Customer Relationship Management was based on significant books and papers providing a basis. Two articles mainly influenced this research: One is from Reichheld and Sasser from 1990. In their article 'Zero defections: quality comes to service' in the Harvard Business Review<sup>16</sup> the role of CRM and the effects of loyalty were clearly estimated which gave an idea of the potential of a correct implemented CRM concept. The other is the article 'The role of communication and trust in explaining customer loyalty' from Ball, Coelho and Machás<sup>17</sup> who enhanced the ECSI satisfaction model by the factor communication and showed that communication has a clear influence on customer loyalty.

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<sup>15</sup> C.F. Kotler P., Calder B. J., Malthouse E. C., Korsten P. J. (2012). 'The Gap Between the Vision for Marketing and Reality'. MIT Sloan Management, Vol. 54 No.1, P. 13

<sup>16</sup> C.F. Reichheld F., Sasser E. (1990). 'Zero defections: quality comes to service'. Harvard Business Review on Point, Product Number 519

<sup>17</sup> C.F. Ball D., Coelho P. S., Machás A. (2004). 'The role of communication and trust in explaining customer loyalty'. European Journal of Marketing, Vol 38, No 9/10

**Object of this study:**

The long-term effects of Customer Relationship Management on loyalty within the luxury hotel business.

**Subject of this study:**

This dissertation will focus on the influence of the variables media channel and communication frequency over time on the sales performance of existing customers in the luxury hotel segment in Germany to investigate the assumed relationship between communication and sales performance over time, which results in a model to predict behavioral effects of CRM actions.

**Actuality of the Topic and Novelty:**

Within the hospitality business the steadily increasing share of bookings through indirect channels, such as Expedia, hotels.com etc., has reduced the profit margins significantly over the past years. Therefore, the support of direct distribution channels is in the focus of most hotel companies. CRM or Relationship Marketing is a central part of a direct distribution strategy, but the effect of communication on the re-buying behavior of existing customers, as well as the value of the different media channels has been mainly unexplored so far. Marketing budgets are spent on channels and marketing actions without knowing exactly the effects, decisions are made by gut feeling instead of numbers. However, the measurability of marketing actions is more requested than ever before especially by the senior management. The novelties of the dissertation are:

1. Based on the theoretical and practical research a new model for explaining loyalty especially for the purpose of Customer Relationship Management was developed. Using the foundation of the existing European Customer Satisfaction Index the author developed a model, which adds the variables media channel, communication frequency and time to the existing variables image, expectations, perceived quality, perceived value, satisfaction and complaints.
2. For the first time it was possible to evaluate the effects of an ongoing communication on loyalty in the hotel business from a long-time perspective. Through the usage of the Big Data approach, meaning the technical link between transaction data and marketing data over a long period, the author confirms the theoretical assumption that communication plays an important role by building customer loyalty. This new knowledge is extremely important to show that marketing is finally measurable.

3. The author was able to show that the response function for CRM activities is not s-shaped like many authors assumed so far. The response function for CRM instead is concave which means that existing customers react different from customers with no knowledge about a product, no learning effects are needed to create a response.
4. The qualitative distinction between e-mail and post mail as a message transmitter within CRM was proven. The two most important direct marketing channels have clearly different values as message transmitters. The ongoing replacement of post mail through the less expansive media channel e-mail can be regarded as not worthwhile.
5. Based on the findings of the data analysis and the theoretical research the author was able to define a model, which marketing managers can use to calculate a sensible communication frequency per media channel. For the first time marketing managers can define a threshold level until which communication drives positive effects to the economic outcome of a company. With the help of the developed formula the definition of an overall communication strategy, the creation of a worthwhile marketing plan and the budget allocation to the different media channels are supported, only to mention a few practical benefits.

#### **The Purpose of Research:**

The purpose of the dissertation is to define the role of CRM in the hotel business and its contribution to loyalty. With the enhancement of the ECSI satisfaction model the author describes the value drivers for CRM. This dissertation provides the foundation for strategic management decisions to generate long-lasting customer relationships. Especially the necessity of communication within CRM for creating loyalty is in the focus.

#### **Aim and Tasks:**

**The aim of this research is to evaluate the influence of the different direct marketing channels and the communication frequency on the re-buying behavior, i.e. the behavioral loyalty of existing hotel customers in the luxury hotel segment within a Customer Relationship Marketing context.**

The tasks are:

1. Collect all reservation and direct marketing data from several luxury hotels, which run their CRM activities based on a central data warehouse including a multi-channel campaign management system. The link between these normally independent data sources is the prerequisite to identify within a six month period launch customers and monitor their buying behavior over a period of four years.

Record all direct marketing actions through the media channels e-mail and post mail as well as the communication frequency throughout the four-year test period. Link all direct marketing and booking data to evaluate the influence of communication through the different channels on the buying frequency of existing hotel customers.

2. Evaluate the distinctive differences between the reviewed media channels as a message transmitter.
3. Find the best fitting equation to describe the test data.
4. Develop a formula to calculate a meaningful communication frequency to improve loyalty within a CRM construct.
5. Create a loyalty model for Customer Relationship Management.

**The main Hypothesis of the Research Question:**

Over the last decades, researchers have intensively analyzed the short-term effects of advertising on creating learning effects and sales results, both for the business-to-business as well as for the business-to-consumer market. Almost no research has been made so far about the long-term effects of communication on loyalty as part of an overall Customer Relationship Management strategy. Managers especially from the luxury hotel segment focus on long-lasting relationships with their customers but without knowing the economical outcome. The overall research questions were defined to reduce this uncertainty, trying to close gaps in the existing loyalty models.

The **key research questions** are:

“Is there a relationship between communication and the creation of loyalty in form of an increasing buying frequency in the luxury hotel segment? What is the influence of the variable time in the construct of loyalty? Are there qualitative distinctions between the most common communication channels e-mail and post mail as a message transmitter within Customer Relationship Management?”

**Main hypothesis:** Based on theoretical research and the “RM Loyalty Model” of the author the main hypothesis is:

**H: Direct communication actions within Customer Relationship Management, using on- and offline direct marketing channels, directly and positively influence the purchase frequency.**

### **Limitations of the Study:**

The hotel business is very fractured and influenced by many external factors. The study and the results including conclusions and suggestions are based on four five star hotel properties in Germany. The findings can differ for other hotel types or other locations etc.

The author had no influence on the communication strategy or other factors like product, price, people, processes, physical evidence etc. (7 P's of marketing).

### **The Methodology of the Study:**

In order to measure the results of CRM it was necessary to link data from campaign management systems (what was sent and when to whom) with the data from the reservation systems (who booked what and when) of the participating hotels. This methodology allowed monitoring the influence of communication actions on the booking behavior of hotel customers. By now only a very few software systems were able to collect the relevant data, which is the reason that fundamental research about the outcome of CRM for the hotel business is almost not existing. The collected campaign and customer data came from the CRM system *dailypoint*<sup>TM</sup>.

The following methods were used in the statistical part: Descriptive statistics, non-parametrical test of hypothesis, correlation analysis (Pearson), coefficient of determination, curve-fit and regression analysis, exponential equation to describe the test data and to define a formula to calculate a worthwhile communication frequency for Relationship Marketing.

### **The Main Results:**

The dissertation confirms that communication is an important factor for the creation of behavioral loyalty. A clear distinction in quality exists between e-mail and post mail as a message transmitter. Learning effects are not necessary to create loyalty for existing customers. The creation of remembering effects through an on-going communication plays a role within CRM. With the developed RM-Channel Frequency formula, marketers have a tool to calculate a meaningful communication frequency for the reviewed channels.

**The Size of Promotional Work:** 177 pages with 51 figures, 25 tables and 12 tables in the appendix

**The Structure of the Dissertation:** The dissertation is separated into four main chapters:

Chapter 1 covers the theoretical approaches of CRM and RM,

Chapter 2 links the theory with the reality and previous experiences, in Chapter 3 the model for communication within RM and the hypothesis was developed,

Chapter 4 describes the empirical analysis with its interpretations followed by conclusions and suggestions.

### **Approbation of the Results of Research:**

The results of the research and the process were presented in ten international scientific conferences, among others at the University of Latvia, the University of Applied Sciences Kufstein, and Cornell University as well at several public conferences, and in more than 30 publications including four monographs related to the topic were published.

### ***Authors Presentations in Scientific Conferences:***

1. Toedt M., “Psychological Reactance in the After-Sales-Phase of Hotel Bookings”, Current Issues in Management of Business and Society Development - 2011, International Scientific Conference of the University of Latvia, May 5 - 7, 2011, Riga, Latvia, Thomson Reuters
2. Toedt M., “The Influence of Media Channel on the Booking Behavior of Hotel Guests”, Current Issues in Economic and Management Sciences, International Scientific Conference of the University of Latvia, November 10 - 12, 2011, Riga, Latvia
3. Toedt M., “The Influence of Communication Frequency on the Booking Behavior of Hotel Guests”, 14<sup>th</sup> Facility & Real Estate Management Congress, International Scientific Conference of the University of Applied Sciences Kufstein, January 19 – 20, 2012, Kufstein, Austria
4. Toedt M., “A Marketing Optimization Model for CRM Activities”, New Challenges of Economic and Business Development – 2012, International Scientific Conference of the University of Latvia, May 10 - 12, 2012, Riga, Latvia, Thomson Reuters
5. Toedt M., “The Role of Communication with Customer Relationship Marketing”, Innovative Approaches of Management Research for Regional and Global Business Development, International Scientific Conference of the University of Applied Sciences Kufstein, August 3 – 5, 2012, Kufstein, Austria
6. Toedt M., “Big Data – Challenges for the Hospitality Industry”, 14<sup>th</sup> Facility & Real Estate Management Congress – Hotel and Leisure Facilities, International Scientific

- Conference of the University of Applied Sciences Kufstein, February 6 – 8, 2013, Kufstein, Austria
7. Toedt M., “The Role of Communication to Create Loyalty within the Hotel Business”, International Business & Economics Conference, University of Applied Sciences Kufstein, November 29 – 30, 2013, Kufstein, Austria
  8. Toedt M., “Qualitative Distinctions between Media Channels for Creating Loyalty in the Service Industry”, The 2nd Global Virtual Conference, Goce Delchev University Macedonia & THOMSON Ltd., April 7 - 11, 2014, Slovakia
  9. Toedt M., “The Development of a Response-Function for Customer Relationship Marketing”, 9<sup>th</sup> International Academic Conference, IISES – International Institute of Social and Economic Sciences, April 13, 2014, Istanbul, Turkey
  10. Toedt M., “Big Data in the Hotel Business - Let's Bring the Dots Together”, Cornell Hospitality Research Summit (CHRS) 2014, Cornell University, October 12-14, 2014, Ithaca, USA

***Authors Presentations in other Conferences (among others):***

1. Toedt M., “Mass Customization - Wege der Umsetzung in der Hospitality-Industrie“, Heilbronn Hospitality Symposium, University of Applied Sciences Heilbronn, October 13th, 2011, Heilbronn, Germany
2. Toedt M., “Der gläserne Tourist – Datenschutz und Datenverwendung im Tourismus“, Master Forum Tourismus, University of Applied Sciences Munich, June 17th, 2013, Munich, Germany
3. Toedt M., „Big Data und die Hotellerie“, German Chapter Meeting Kaiserslautern, Cornell Hotel Society, September 20<sup>th</sup>, 2013, Kaiserslautern, Germany
4. Toedt M., “Big Data – Wie die Datenflut die Hotellerie verändern wird“, EHMA Annual Meeting, European Hotel Manager Assoziation, November 2nd, 2013, Berlin, Germany
5. Toedt M., „Big Data in der Hotellerie“, Brennpunkt eTourism Kongress, University of Applied Sciences Salzburg, 2013, Salzburg, Austria
6. Toedt M., “Big Data – nur eine Hype oder die Zukunft”, Vortragsforum der Hotellerie, German Hotel Association (IHA), January 9th, 2014, Frankfurt, Germany
7. Toedt M., “Big Data in der Hotellerie”, eMarketing Day, HSMA -Hospitality Sales & Marketing Association Germany, February 17th, 2014, Munich, Germany



8. Toedt M., “Big Data, Individualisierung und Personalisierung auf Basis von Information“, Future Hotelforum, Fraunhofer Institut IAO, May 15th, 2014, Stuttgart, Germany
9. Toedt M., “Big Data – Making it work for hotels and guests”, HITEC Technology Show, HTEFP -Hospitality Financial and Technology Professionals, June 26<sup>th</sup>, 2014, Los Angeles, USA
10. Toedt M., “The Digital Hotel: How to Profit From Big Data and Analytics”, Hotel Technology Next Generation, www.htng.org, October 21<sup>st</sup>, 2014, Budapest, Hungary

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1. Toedt M. (2011). 'Psychological reactance in the after-sales-phase of hotel bookings'. In International Conference "Current Issues in Management of Business and Society Development - 2011. University of Latvia, Riga, PP. 781-789, Thomson Reuters Web of Science
2. Toedt M. (2011). 'The influence of media channel on the booking behavior of hotel guests'. In International Conference “Current Issues in Economic and Management Sciences”. University of Latvia, Riga, PP. 632-642, Library: University of Latvia, Libr. of manag.-econ., 0511089863
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4. Toedt M. (2012). 'The influence of communication frequency on the booking behavior of hotel guests'. In International Conference "International FM & RM Congress". University of Applied Sciences Kufstein, Kufstein, PP. 151-162
5. Toedt M. (2013). 'Big Data – challenges for the hospitality industry'. In International Conference "FM & REM Congress". FH Kufstein, Kufstein, PP. 165-176
6. Toedt M. (2013). 'Big Data – Challenges for the Hospitality Industry'. In "Business Management Strategies and Research Development" - Discussion Paper No 8. University of Applied Sciences Fulda, Fulda, PP. 109-119
7. Toedt M. (2013). 'A model for loyalty in the context of customer relationship marketing'. In "International Scientific Forum, ISF 2013", December 12-14. European Scientific Institute, Vitrina University, Tirana, Albania, PP. 229-236, ISBN 978-608-4642-17-6

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9. Toedt M. (2014). 'Qualitative Distinctions between Media Channels for Creating Loyalty in the Service Industry'. In 'GV - Proceedings in GV - the 1<sup>st</sup> Global Virtual Conference'. EDIS - University of Zilina, PP. 117-120, ISBN 978-80-554-0866-8
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***Monographs and Parts of Monographs:***

1. Toedt M., Frehse J. (2005). 'Innovationen in der hotelbetrieblichen Praxis: Webbasiertes Customer Relationship Management bei ArabellaSheraton'. In "Erfolg durch Innovation"; Pechlaner H., Tschurtschenthaler P., Peters M., Pikkemaat B. Fuchs M., Gabler Edition Wissenschaft, Wiesbaden, PP. 445-460, ISBN 978-3824482375, Library: University of Applied Sciences Munich, 00/QQ 900 P365 E6
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6. Toedt M. (2013). 'Big Data - Challenges for the Hospitality Industry'. epubli GmbH, Munich, P. 83, ISBN 978-3-8442-5136-4, Library: University of Applied Sciences Munich, BV041000035
7. Toedt M., (2014). 'Marketing-Controlling mit dailypoint'. In "Hospitality Controlling"; 2<sup>nd</sup> Edition; von Freyberg B. Erich Schmidt Verlag, Berlin, PP. 301-320; ISBN 978-3-503-144808
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10. Toedt M. (2014). 'Email-Marketing versus Social Media'. die lobby; No. 02. Austrian Hotel Association, Vienna, PP. 6-7
11. Toedt M. (2014). 'Big Data: Was muss die Hotelbranche jetzt tun?'. Hotel & Technik No. 02. AT-Fachverlag GmbH, Stuttgart, P. 65
12. Toedt M. (2014). 'Kannibalisierung des Vertriebs vermeiden'. Hotel & Technik, No. 3. AT-Fachverlag GmbH, Stuttgart, P. 16
13. Toedt M. (2014). 'Der Zeitpunkt entscheidet'. Retrieved from <http://www.austrianhotelcircle.at/zeitpunkt-entscheidet>, 25.08.2014. ÖHV - Austrian Hotel Circle, Wien

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# 1 THEORETICAL APPROACH OF CRM AND RM

## 1.1 Marketing and the Link to Customer Relationship Management

Marketing and Customer Relationship Management are strongly intertwined. A classic definition of marketing is the four P's approach, which stands for product, price, place and promotion. The product includes the products and services of a company, price represents the pricing strategy, place the distribution strategy and promotion the communication strategy. For the service industry like the hotel business, three additional P's extends the P-approach of marketing which are namely process, people and physical facilities and evidence. Process means the process management, people stands for the human resource policy, management, physical evidence and facilities for everything, which is tangible.<sup>18</sup>

Today marketing is a market -oriented management not any more for consumer goods; it is also expanding to other areas like industrial goods, services and non-profit organizations.<sup>19</sup> For Kotler marketing is a concept of planning and execution in the areas of pricing, promotion and distribution of products and services to gratify the goals of a company. Meffert explains marketing as the market oriented management for planning, coordinating and controlling all company activities on current and potential markets<sup>20</sup> and finally Weis explains marketing as an overall philosophy and a concept of planning and acting based on systematic generated information. All activities should be focused and consequently adopted to the current and the future needs of the market with the goal to satisfy the demand and the individual goals of a company.<sup>21</sup>

Over the last 15 years marketing have been changed tremendously and is more complex, faster, technical, analytical and enriched continuously with a growing number of channels that enables an organization to stay in touch with the consumer in multiple ways. Marketing is now a days an evolving subject.<sup>22</sup> This rapid change in Marketing can be seen by the definitions of the American Marketing Association. In 2007 and 2004, the American Marketing Association revised the official definition of marketing twice, which had been unchanged since 1985. Before 1985, it was untouched for 50 years.

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<sup>18</sup> C.F. Dreyer A., Dehner C. (1998). 'Kundenzufriedenheit im Tourismus'. R. Oldenburg Verlag, München, P. 18

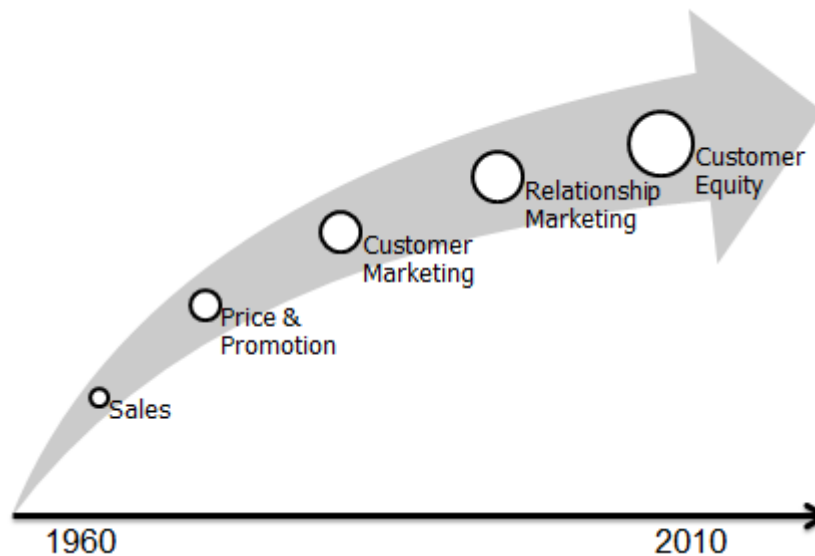
<sup>19</sup> C.F. Bruhn M. (2009). 'Relationship Marketing'. Vahlen, München, P. 5

<sup>20</sup> C.F. Weis C. (1995). 'Marketing'. Prof. Klaus Olfert. Friedrich Kiehl Verlag GmbH, Ludwigshafen, P. 18

<sup>21</sup> C.F. Weis C. (1995). 'Marketing'. Prof. Klaus Olfert. Friedrich Kiehl Verlag GmbH, Ludwigshafen, P. 19

<sup>22</sup> C.F. McKinsey, OWM (2012). 'Hohe Investitionen auf geringer Faktenbasis', Düsseldorf, P. 6

In 2004, Marketing was defined as an organizational function and a set of processes for creating, communicating and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders. In 2007, the embrace of internet-time led the American Marketing Association to revision the only 3-year-old definition. The latest version defines Marketing as the activity, conducted by organizations and individuals that operate through a set of institutions and processes for creating, communicating, delivering, and exchanging market offerings that have value for customers, clients, marketers, and society at large.<sup>23</sup>



**Figure 1. The Evolving of Marketing since 1960**

*Source: Own Figure (2013) based on Kwortnik R. (2009). 'Strategic Marketing'. PDP. Cornell University, P. 60*

The figure above describes the changes of marketing from the past to the current state-of-the-art from a scientific standpoint. In the 1960's pushing a product into a market was dominant. In the 1970's Price and Promotion took over and the first segmentation models and measurement tools appeared. In the 1980's Customer Marketing was in the focus, which included segmentation and targeting, and satisfaction measurement. The next phase was the era of Relationship Marketing followed by the current Customer Equity approach where customer insights and the customer lifetime value play a central role.<sup>24</sup>

<sup>23</sup> C.F. American Marketing Association (2007). 'AMA proposes new Marketing Definition'. <http://magnostic.wordpress.com/2007/05/21/ama-proposes-new-definition-of-marketing>

<sup>24</sup> C.F. Kwortnik R. (2009). 'Strategic Marketing'. PDP. Cornell University, P. 60

In the following chapter, the focus is on the role of Relationship Marketing within the overall concept of Customer Relationship Management.

## **1.2 Customer Relationship Marketing as a Part of Customer Relationship Management**

Dick, Basau spoke already in 1995 about a dramatic shift in marketing away from a traditional transaction-oriented marketing to a longer-term focus of obtaining and keeping customers.<sup>25</sup> Today, the primary focus of marketing activities in an organization is often on the development, maintenance and enhancement of consumer loyalty toward its products or services.<sup>26</sup> This shows that the nature of marketing as a discipline is changing. Managing customer relationships for retention of higher-value customers is becoming a strategic focus in more and more service enterprises.<sup>27</sup> This can be summarized with the term Customer Relationship Management.

Customer Relationship Management and Customer Relationship Marketing are commonly used for the same topic, abbreviated with the letters CRM. Customer Relationship Management includes all efforts of a company to influence positively the relationship between a company and a customer in order to stabilize respectively to enhance the relationship.<sup>28</sup> CRM requires a sustained program of investing in and developing a wide range of resources, e.g. brand, distribution networks, supply chains and knowledge.<sup>29</sup> The focus of CRM is to gain and keep profitable customers and those with a high potential. This implicit that CRM is not for every customer; CRM is focused on valuable customers.

CRM is a part of business management. In the 50's and 60's of the last century the product was in the focus of the management, followed by the market and competition orientation in the 1990's with the aspect of customer orientation and now-a-days the network-orientation.<sup>30</sup> From a scientific point of view, Customer Relationship Management has not a

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<sup>25</sup> C.F. Grönroos C. (1995). 'Relationship marketing: the strategy continuum'. *Journal of the Academy of Marketing Sciences*, Vol. 23 No. 4, P. 252

<sup>26</sup> C.F. Dick A. S., Basu K. (1994). 'Customer loyalty: toward an integrated conceptual framework'. *Journal of the Academy of Marketing Sciences*, Vol. 22 No. 2, PP. 99-113

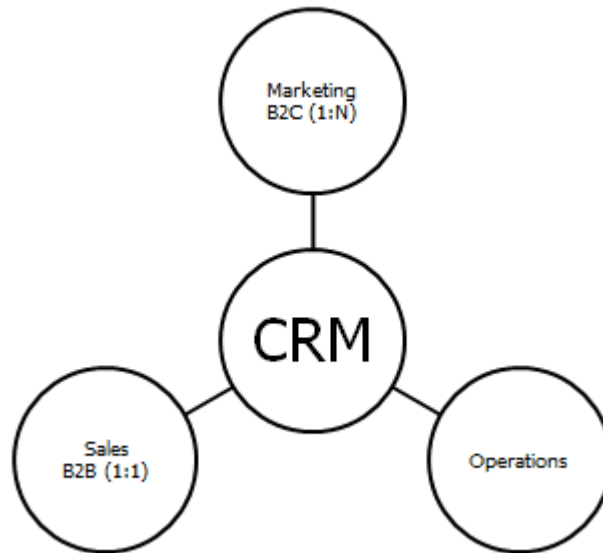
<sup>27</sup> C.F. Ball D., Coelho P. S., Machás A. (2004). 'The role of communication and trust in explaining customer loyalty'. *European Journal of Marketing*, Vol 38, No 9/10, P. 1285

<sup>28</sup> C.F. Bruhn M., Homburg (2005). 'Handbuch Kundenbindungsmanagement'. Gabler Verlag, P. 8

<sup>29</sup> C.F. Maklan S., Knox S., Peppard J. (2011). 'Why CRM Fails - and How to Fix It'. *MIT Sloan Management Review*, Vol. 52, No. 4, P. 78

<sup>30</sup> C.F. Meffert H., Burmann C., Kirchgorg M. (2008). 'Marketing'. GWV Fachverlage GmbH, Wiesbaden, P. 8

long history so far. In the 1990's first Business-to-Business relationships were in the focus of CRM.<sup>31</sup> Articles about Business-to-Consumer relationships came a little bit later something around the year 2000.<sup>32</sup>



**Figure 2. The Different Areas of Customer Relationship Management**

*Source: Own Figure (2013) based on Neckel P., Knobloch B. (2005). 'Customer Relationship Analytics'. dpunkt.verlag GmbH, Heidelberg, PP. 42-44*

The focus of the B2B approach of CRM is on the one-to-one communication, the B2C on the other side embraces the field of mass communication, the communication between the sender and multiple known recipients. A further area is the operation, which includes the interaction at the point-of-sale where the consumer and the company directly interact. This distinction is necessary to de-complex the term CRM and to identify the different areas in which an organization can be active. A sub-subject of Customer Relationship Management is the so-called Customer Relationship Marketing (also abbreviated with the letters “CRM”) or Relationship Marketing (RM). The subject of Relationship Marketing aroused in the mid 1980's. It reflects the development from a classic inside-out oriented transaction marketing to a more outside-in oriented relationship marketing. Within relationship marketing not the 4P's

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<sup>31</sup> C.F. Dwyer R.F., Schurr P., Oh S. (1987). 'Developing buyer-seller relationships'. Vol. 51 No. 2, PP. 11-27; or Morgan R., Hunt S. (1994). 'The commitment-trust theory of relationship marketing'. Journal of Marketing, Vol. 58 No. 3, P. 20

<sup>32</sup> C.F. Gronholdt L., Martensen A. and Kristensen K. (2000). 'Customer satisfaction measurement at post Denmark: results of application of the European Customer Satisfaction Index methodology'. Journal of Total Quality Management, Vol. 11 No. 7, PP. 1007-1015; or Cassel C., Eklof J. A. (2001). 'Modelling customer satisfaction and loyalty on aggregate levels: experience from the ECSI pilot study'. Total Quality Management, Vol. 12 No. 7-8, PP. 834-841



are the starting point, the starting point is the relationship between a company and its existing customers. Many practitioners as well as in many publications Customer Relationship Management (CRM) and Customer Relationship Marketing (CRM) are used as a synonym for the subject of keeping customers loyal. In the following, the marketing oriented part of CRM is abbreviated with RM.

In general when the focus is on analysis and communication obviously two areas of marketing, the term Customer Relationship Marketing is more accurate. Grönroos define Relationship Marketing as it is to identify and establish, maintain and enhance and when necessary also to terminate relationships with customers and other stakeholders, at a profit, so that the objectives of all parties are met, and that this is done by a mutual exchange and fulfillment of promises.<sup>33</sup>

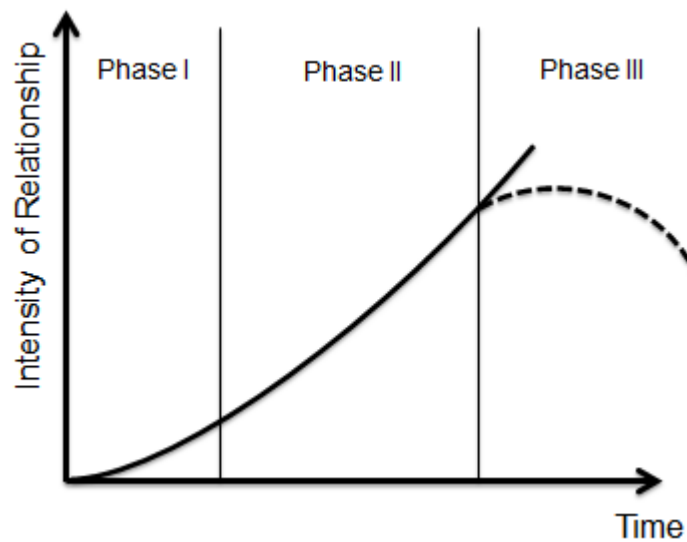
Harker who analyzed 26 different definitions of Relationship Marketing (RM) respectively Customer Relationship Marketing found out that an organization, which is engaged in proactively creating, developing and maintaining committed, interactive and profitable exchanges with selected customers (partners) overtime is engaged in Relationship Marketing.<sup>34</sup>

Based on the different definitions the author defines Relationship Marketing as a sub-domain of Customer Relationship Management, which aims at creating relationships with existing customers through marketing actions. The goal is to increase revenues and buying frequencies to gain a higher share of wallet to enhance the lifetime value of a customer. RM is therefore not a single project but a marketing strategy focused on the customer with the goal to maintain and increase the profitability of a company.

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<sup>33</sup> C.F. Grönroos C. (1994). 'From Marketing mix to relationship marketing: towards a paradigm shift in marketing'. *Management Decision*, Vol. 32 No 2, PP. 4-20

<sup>34</sup> C.F. Harker M. J. (1999). 'Relationship Marketing defined? An Examination of current Relationship Marketing Definitions'. *Marketing Intelligence & Planning*. MCB University Press, Bradford, P. 16



**Figure 3. The Different Phases of Customer Relationships**

*Source: Own Figure (2013) based on Bruhn M. (2009). 'Relationship Marketing'. Vahlen, München, P. 60*

The Customer Relationship Lifecycle consists of three phases, which are described in the figure above. Phase one includes the acquisition of new customers, phase two is characterized through the attempt to grow and intensify the relationship between existing customers and the organization, phase three finally addresses the exit respectively the re-gaining of former migrated customers.<sup>35</sup> During the different phases of the lifecycle, each booking transaction is relevant. A transaction consists of several steps, which can be described with the customer journey approach.

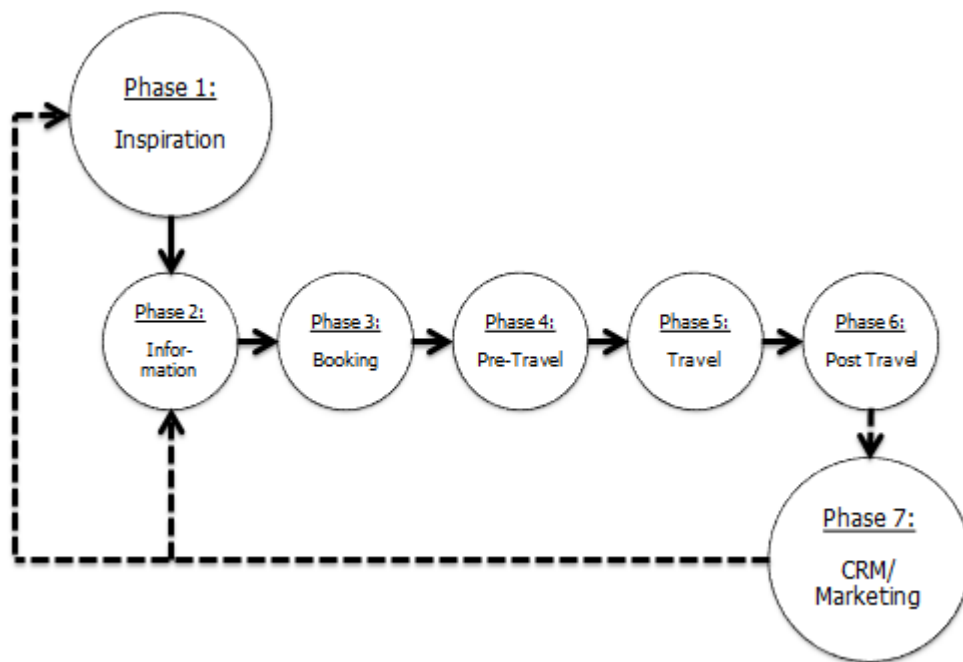
### 1.3 The Customer Journey Approach and the Buying Process

The customer journey of a traveler starts far before the travel, contains the actual travel experience itself followed by a reflection period afterwards. Processes like planning, marketing, sales, controlling and customer relationships are intertwined with the delivered services during the different phases.<sup>36</sup> The preparation phase at the native place of the traveler starts for a vacation normally between 30 and 330 days before the actual travel, business trips requires only up to 14 days. During this first phase, the consumer searches for information, makes the travel decision including the booking and buys equipment if needed. The second

<sup>35</sup> C.F. Bruhn M. (2009). 'Relationship Marketing'. Vahlen, München, P. 4

<sup>36</sup> C.F. Werthner H. (2005). 'Informationstechnologie und touristische Innovationen'. in "Erfolg durch Innovation". GWV Fachverlag, Wiesbaden, P. 502

phase consists of the travel execution and starts with the embarking, followed by the transportation, the lodging at the destination and all activities there, the transportation back and the arrival at home. The third phase is the post-processing at home which includes the memory of the travel, the reflection and the sharing of the made experiences with others. The post-processing phase lasts for travelers up to 60 days for business travelers no longer than 7 days.<sup>37</sup> Instead of the traditional approach described above Google, the dominant search engine divides travel into five stages: from dreaming, over planning, to booking, to experiencing and finally sharing.<sup>38</sup>



**Figure 4. The Customer Journey in seven phases from a CRM Perspective**

Source: Own Figure (2013) based on Freyer W. (1995). 'Tourismus'. Oldenburg Verlag GmbH, München, P. 43 and Google (2012). 'The five stages of travel'. Retrieved from <http://www.thinkwithgoogle.com/insights/featured/five-stages-of-travel/>

Both approaches do not cover the overall complexity of the customer journey from a Customer Relationship Management point of view. Carey, Kang and Zea stated that

<sup>37</sup> C.F. Freyer W. (1995). 'Tourismus'. Oldenburg Verlag GmbH, München, P. 43

<sup>38</sup> C.F. Google (2013). 'The five stages of travel'. Retrieved from [www.thinkwithgoogle.com/insights/emea/featured/five-stages-of-travel/](http://www.thinkwithgoogle.com/insights/emea/featured/five-stages-of-travel/); 25.05.2013

organizations must understand that the customer experience begins before the time of sale — and even before the time of search — but also extends well after purchase and travel.<sup>39</sup>

The model of the author described in the figure before therefore divides the customer journey into seven phases. The journey starts with the inspiration phase, where intrinsic or external processes generate some kind of need for a new travel. In phase 2 the consumer starts the search for information consciously and unconsciously. Phase 3 includes the booking process itself followed by the timespan until the actual travel. A short period of only several days after the travel is the phase of reflection. Phase 7 is optional and only applicable for qualified customers. Since RM should not target every customer the line is dotted as well as the connection back to the beginning which describes the potential influence of the RM activities on the buying behavior of the consumer.

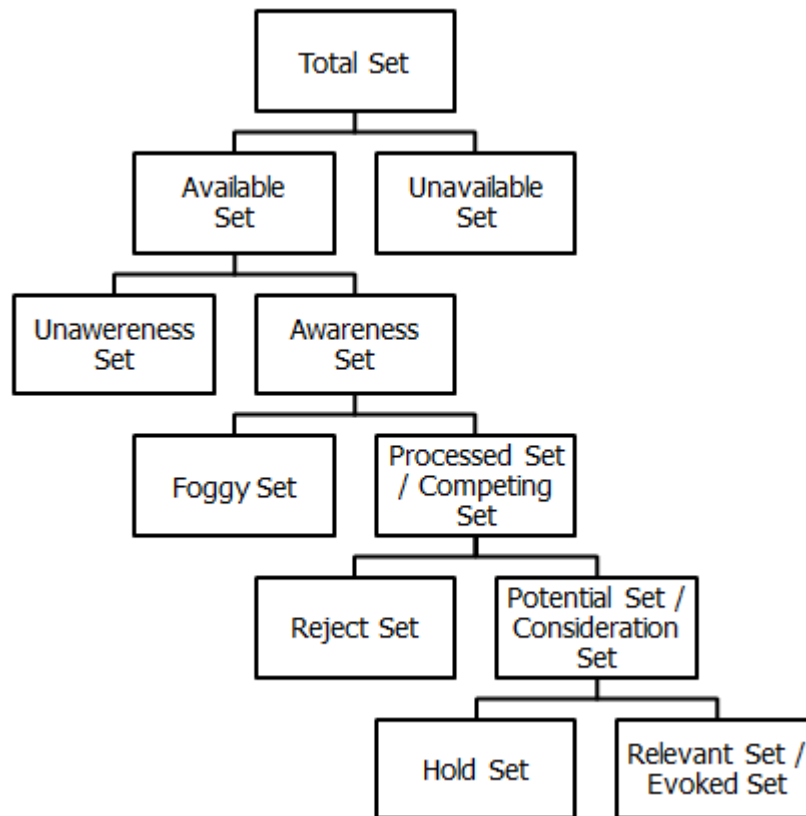
The RM activities of a company should create remembering effects and buying impulses. In theory, the remembering effects should support the brand positively during upcoming buying decisions. Therefore, the brand must be part of the consideration set which is defined as the set of brands brought to the mind of the consumer on a particular occasion.<sup>40</sup> Trommsdorff further distinguish the consideration set into the hold set and the relevant set also called evoked Set. The hold set includes temporarily deferred brands; the evoked set the preferred brands, which the consumer takes into consideration during the buying process.<sup>41</sup>

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<sup>39</sup> C.F. Carey R., Kang D., Zea M. (2012). 'The trouble with travel distribution'. McKinsey Quarterly, February, P. 2

<sup>40</sup> C.F. Nedungadi P. (1990). 'Recall and Consumer Consideration Sets: Influencing Choice without Altering Brand Evaluation'. in Journal of Consumer Research, Vol. 17, P. 264

<sup>41</sup> C.F. Trommsdorff V., Steinhoff F. (2013). 'Innovationsmarketing'. Vahlen, P. 325



**Figure 5. The Role of Brands for the Selection during the Buying Process**

Source: Own Figure (2013) based on Nedungadi P. (1990). 'Recall and Consumer Consideration Sets: Influencing Choice without Altering Brand Evaluation'. in *Journal of Consumer Research*, Vol. 17, P. 264, Trommsdorff V., Steinhoff F. (2013). 'Innovationsmarketing'. Vahlen, P. 325

The figure above describes the brand selection process in different steps. The total set is divided into the available and the unavailable set. First is further distinguished into the unawareness and awareness set with all brands the consumer knows. The awareness set can further be narrowed down to the foggy set and the competing set. The competing set includes brands, which the consumer knows better. The next level is divided into the reject set and the consideration set. The reject set contains brands the consumer neglects. In the final level, brands are separated into the hold set which includes temporarily rejected brands and the evoked set respectively relevant set.

The actual buying process consists of three phases the input with endogenous and exogenous influences, the decision making process and the output, finally the result.<sup>42</sup> In order to create a loyal customer base it seems to be logically that the consumer satisfaction

<sup>42</sup> C.F. Dettmer H., Hausmann T., Kloss I., Meisl H., Weithöner U. (1999). 'Tourismus-Marketing-Management'. R. Oldenburg Verlag, München, P. 46

with a product or service is an important variable in creating loyalty. Therefore, the role of satisfaction will be evaluated next.

#### **1.4 The Role of Customer Satisfaction to Create Loyalty**

The field of research of satisfaction is a subject of several different areas. Satisfaction can be looked at from a business, from a psychological or from a social psychological standpoint. Therefore, no general definition exists, which covers all different perspectives. From a psychological view, satisfaction appears if an expected or a strived goal will be achieved.<sup>43</sup> The scientific research in the business field started during the industrialization. At the beginning the focus was on employee satisfaction, see for instance Taylor, the Hawthorne Experiments, Maslow or the Herzberg theory. Customer satisfaction, which is of interest within the context of CRM, came much later.

In general, after a purchase of a product or service a satisfied consumer has a higher likelihood to repurchase another product from the company, and to say positive things about the company or its product to other potential purchasers.<sup>44</sup> Since Customer Relationship Management, focuses on existing customers who have some kind of experience with the brand, the product and services of an organization it can be assumed that customer satisfaction plays a central role for the future behavior of a customer.

Yang and Peterson supports this assumption, as they were able to show a direct link between customer satisfaction and loyalty. In their context, satisfaction is the basis for building loyalty between a consumer and a company.<sup>45</sup> Consumer satisfaction with a service can be regarded as a key factor in determining whether customers will return to the service provider in the event future services are needed.<sup>46</sup>

There are many different approaches to define customer satisfaction. Schambacher defines satisfaction as an emotional reaction based on an economical exchange. For him satisfaction is the emotional reaction of a consumer to a company performance.<sup>47</sup> For Dreyer,

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<sup>43</sup> C.F. Wenninger G. (2002). 'Lexikon der Psychologie'. Akademischer Verlag GmbH, Heidelberg, P. 52

<sup>44</sup> C.F. Encyclopedia Britannica (2012). 'Customer Satisfaction'. Retrieved from <http://www.britannica.com/EBchecked/topic/147434/customer-satisfaction>, 27.05.2013

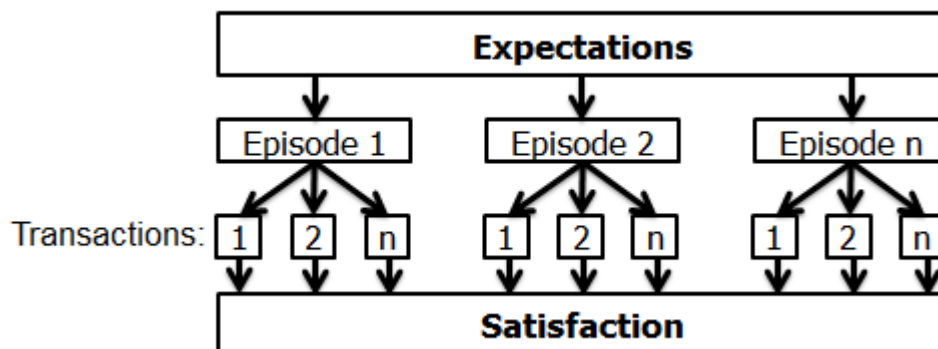
<sup>45</sup> C.F. Yang Z., Peterson R. T. (2004). 'Customer Perceived Value, Satisfaction and Loyalty: The Role of Switching Costs'. *Psychology & Marketing*, Vol 21, No. 10, PP. 799-822

<sup>46</sup> C.F. Hall M., Elliott K., Stiles G. (1993). 'Hospital patient satisfaction: correlates, dimensionality and determinants'. *Journal of Hospital Marketing*, Vol. 7 No. 2, PP. 77-91

<sup>47</sup> C.F. Schambacher K., Kiefer G. (2003). 'Kundenzufriedenheit: Analyse, Messbarkeit und Zertifizierung'. Oldenburg Wissenschaftsverlag,

satisfaction is the individual comparison between the own expectations and the actual experience with a used product or service. Dissatisfaction implies that the expectations of the consumer were too high or the quality of the product or service too low.<sup>48</sup> Yi defines satisfaction as the evaluation of the perceived discrepancy between some comparison standards and the perceived performance of a product.<sup>49</sup> Meffert sees satisfaction as the conformance between the subjective expectations and the perceived experience (target-performance comparison) with a product or service. If the expectation meets the perceived level, the customer is satisfied.<sup>50</sup>

The difficulty with satisfaction is that it is related to a complete consumption experience.<sup>51</sup> The consumption experience consists normally of several episodes, each containing different transactions, which represent individual sub-services.<sup>52</sup> The following figure describes the model of satisfaction within a complex service environment. Satisfaction occurs on a transaction level during the consumption aggregated in episodes. Satisfaction is also the consumption outcome of the different episodes and transactions and finally the judgment of the entire experience.



**Figure 6. Model of Satisfaction in a Complex Service Environment**

*Source: Own Figure (2013) based on C.F. Bruhn M. (2009). 'Relationship Marketing'. Vahlen, Munich, P. 3*

München, P. 5

<sup>48</sup> C.F. Dreyer A., Dehner C. (1998). 'Kundenzufriedenheit im Tourismus'. R. Oldenburg Verlag, München, P. 21

<sup>49</sup> C.F. Yi Y. (1990). 'A critical review of consumer satisfaction'. Review of Marketing. American Marketing Association, Chicago

<sup>50</sup> C.F. Meffert H., Burmann C., Kirchgeorg M. (2008). 'Marketing'. GWV Fachverlage GmbH, Wiesbaden, P. 127

<sup>51</sup> C.F. Grigoroudis E., Siskos Y. (2009). 'Customer Satisfaction Evaluation: Methods for Measuring and Implementing Service Quality'. Springer, P. 4

<sup>52</sup> C.F. Bruhn M. (2009). 'Relationship Marketing'. Vahlen, München, P. 3

The figure follows the comprehensive definition of Oliver: “...Satisfaction is the consumer’s fulfillment response. It is a judgment that a product or service feature, or the product or service itself, provided (or is providing) a pleasurable level of consumption-related fulfillment, including levels of under- or over-fulfillment...”<sup>53</sup> The expectation of a consumer towards a future event is a key factor for the satisfaction level afterwards.

### **Expectations and its Influence on the Perceived Quality of the Consumer**

Each consumer has individual needs, different experiences, and slight variance of information and knowledge of alternatives. Service provider, product, price and marketing create an image, which the consumer links to a certain quality. On top, indirect communication from third parties can raise expectations.<sup>54</sup> The C/D (confirmation / disconfirmation) paradigm approach sees satisfaction as the result of a psychological comparison.<sup>55</sup> Satisfaction arises if a consumer compares the actual output of a service or product with his individual expectations of the nominal output.<sup>56</sup> This means if the nominal output meets the actual output satisfaction occurs.

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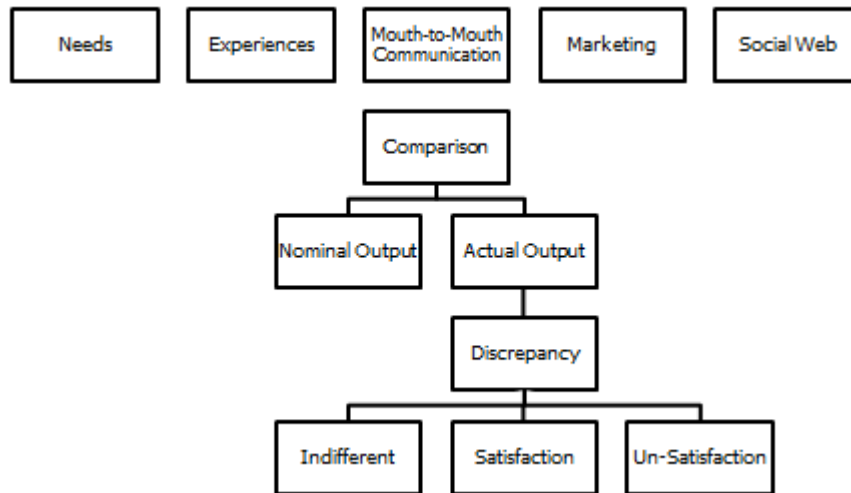
<sup>53</sup> C.F. Oliver (1997) seen in Grigoroudis E., Siskos Y. (2009). 'Customer Satisfaction Evaluation: Methods for Measuring and Implementing Service Quality'. Springer, P. 4

<sup>54</sup> C.F. Dreyer A., Dehner C. (1998). 'Kundenzufriedenheit im Tourismus'. R. Oldenburg Verlag, München, PP. 24-25

<sup>55</sup> C.F. Schneider W., Kornmeier M. (2006). 'Kundenzufriedenheit: Konzept, Messung, Management'. Haupt, P. 20

<sup>56</sup> C.F. Moser K. (2007). 'Wirtschaftspsychologie'. Springer, London, P. 128





**Figure 7. The New C/D Paradigm**

*Source: Own Figure (2013) based on Stauss B., Seidel W. (2002). 'Beschwerdemanagement'. Hanser Fachbuch, P. 56 and Bruhn M. (2003). 'Kundenbindungsmanagement - Eine Einführung in die theoretischen und praktischen Problemstellungen'. Editor: M. Bruhn, C. Homburg, P. 10*

The figure shows the different factors, which are responsible for the individual expectations of a consumer. The author added the social web since especially evaluation platforms are a new kind of word-of-mouth communication. If the actual output differs from the nominal output, the consumer can react with satisfaction if the actual output was better than expected. He can react with indifference if it meets the expectations, and with dissatisfaction, if the actual output did not meet the expectations.

Furthermore the service encounter itself respectively the episodes and transactions can be differently weighted. Using the two-factor-theory of Herzberg as a base with its motivation and hygiene factors from the research of job satisfaction,<sup>57</sup> the outcome of a service encounter can be regarded a) as a normal service, which does not drive satisfaction or b) as an exceptional event.

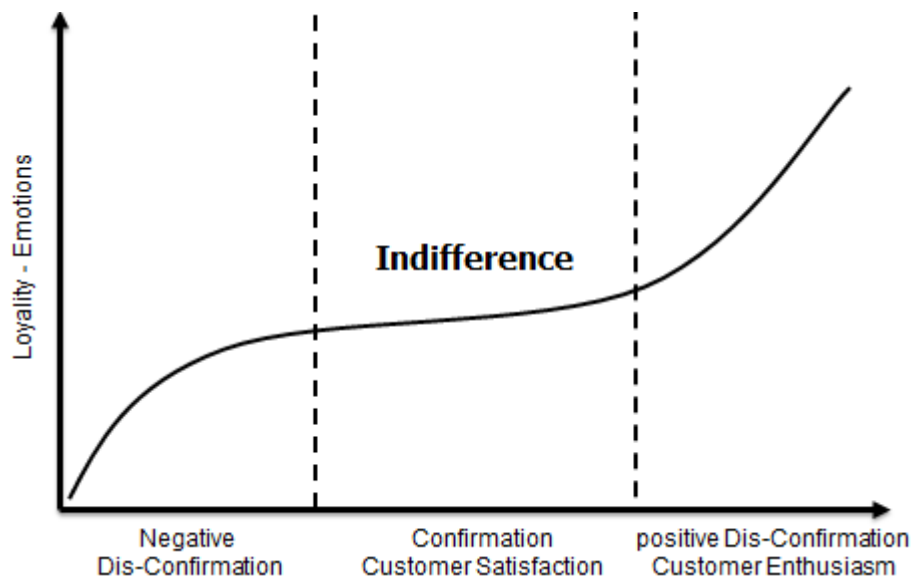
The non-existence of a hygiene factor drives un-satisfaction. The existence of a hygiene factor will normally not be realized, it is an expected feature. Through a motivation

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<sup>57</sup> C.F. Herzberg F., Mausner B., Snyderman B.B. (1959). 'The Motivation to Work'. John Wiley, New York

factor satisfaction occurs. If no motivation factors exists the consumer get a feeling of indifferent emotions.<sup>58</sup>

Quality can be divided into a routine and an exceptional dimension. Latter contains additional services from the supplier.<sup>59</sup> The Kano model provides three areas of quality: must-be quality with basics, which are expected from the consumer, one-dimensional quality, which contains requirements, which should be provided by the supplier, and attractive quality with products or services, which are not expected. The lack of attractive quality has no negative effect.<sup>60</sup> Through the creation of features, the consumer perceives as an attractive quality the transformation from the emotion satisfaction to enthusiasm, which should be made. Both states of emotion are regarded as pleasant but the intensity of excitation for enthusiasm is far higher than for satisfaction.<sup>61</sup> The possibility to influence the re-buying behavior of an existing customer positively through a higher degree of emotions is assumed.<sup>62</sup>



**Figure 8. The Influence of Emotions on the Re-Buying Behavior of Customers**

Source: Own Figure (2013) ased on Rost W. (1990). 'Emotionen: Elexiere des Lebens'. Springer, Berlin, P. 40

<sup>58</sup> C.F. Moser K. (2007). 'Wirtschaftspsychologie'. Springer, London, P. 133

<sup>59</sup> C.F. Bruhn M. (2009). 'Relationship Marketing'. Vahlen, München, P. 70

<sup>60</sup> C.F. Bruhn M. (2009). 'Relationship Marketing'. Vahlen, München, P. 70

<sup>61</sup> C.F. Rost W. (1990). 'Emotionen: Elexiere des Lebens'. Springer, Berlin, P. 40

<sup>62</sup> C.F. Barsky J., Nash L. (2002). 'Evoking Emotions: Affective Keys to Hotel Loyalty'. Cornell Hotel and Restaurant Administration Quarterly, Feb, Vol. 43, No. 1, PP. 39-46

The theory of the role of emotions for the re-buying behavior is described in the figure above. In theory, organizations with a higher degree of enthusiasm on the consumer side shall be able to create a higher degree of loyalty.

An important factor of a potential fluctuation of satisfaction is the individual perceived value. The individual value contains of four different variables: the price, the benefit, the benefit with the existing price of the product or service and the price-value-relationship. The perceived value influences customer satisfaction and is an advantage to build switching barriers.<sup>63</sup> In the service industry, the evidences of value are the variables people, process and physical environment.<sup>64</sup>

Consumers are likely to experience fluctuations in their value perception. A central role of the value perception plays the price. It can be argued that value is low price.<sup>65</sup> However, what happens with the value if the consumption of the service or product lies in the past, does the time influence the value evaluation respectively the satisfaction level?

### **The Role of Time on Satisfaction**

As seen before customer satisfaction is the result of information processing during the different sales phases, the pre-sales, the consumption and the post-sales. The current performance is checked with the individual expectation in a kind of a target-performance comparison. The evaluations of the perceived quality are based on expectations, which the consumer makes based on his own individual experiences. These experiences are permanently modified.<sup>66</sup> The last set of the definition of satisfaction from Lingenfelder and Schneier (1991) brings a new factor into the evaluation process; it is the factor time. It implies that through an ongoing learning process the individual expectations from a consumer towards a product or service can vary. In theory the longer the consumption lies in the past the chance that the evaluation of a product will change resulting in a new judgment rises. Satisfaction can therefore not be regarded as a fix value, satisfaction is a variable, which can potentially increase or decrease.

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<sup>63</sup> C.F. Bruhn M. (2009). 'Relationship Marketing'. Vahlen, München, P. 74

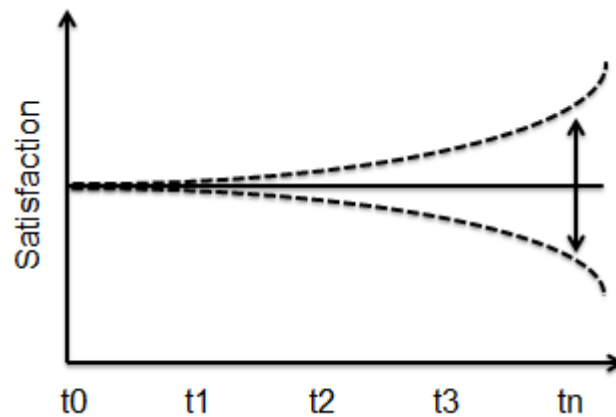
<sup>64</sup> C.F. Hellstrand P. (2009). 'Understanding Guest Satisfaction'. <http://www.hospitalitynet.org/news/4044511.print>, 23.09.2010, P. 1

<sup>65</sup> C.F. Petrick J. (2004). 'The Roles of Quality, Value, and Satisfaction in Predicting Cruise Passangers Behavioural Intentions'. *Journal of Travel Research*, P. 398

<sup>66</sup> C.F. Lingenfelder M., Schneier W. (1991). 'Die Zufriedenheit von Kunden - Ein Marketingziel?'. *Marktforschung & Management*, No 1, 35. Jg, Stuttgart, PP. 29-34

What influence does time have on satisfaction? Press and Ganey stated that time may have an effect on the formation of a customer's subsequent satisfaction attitude.<sup>67</sup> As time goes by the consumers reflect differently which can produce either an increase or decrease in satisfaction, analyzed MacStravic by surveying consumers about their satisfaction several months after a service encounter.<sup>68</sup> In addition, Richins and Bloch reported a change in satisfaction following a product purchase.<sup>69</sup>

From a post-sales perspective, satisfaction can be separated in two phases. In the first phase, post-usage beliefs about product attributes are compared with pre-purchase expectations. In the second phase, expectancy disconfirmation beliefs and initial expectation beliefs, as recalled from memory, are combined to produce the satisfaction evaluation. This two-phase process suggests that satisfaction evaluation evolves. The whole process is iterative and may therefore change over time.<sup>70</sup>



**Figure 9. The Influence of Time on the Level of Satisfaction**

*Source: Own Figure (2013) based on MacStravic R.S. (1994). 'Patient loyalty to physicians'. Journal of Health Care Marketing, Vol. 14 No. 4, PP. 53-59 and Richins M., Bloch P. (1991). 'Post-purchase product satisfaction: incorporating effects of involvement and time'. Journal of Business Research, Vol. 23 No. 2, PP. 145-158)*

The figure above describes the effect of time on the level of satisfaction of a consumer.  $t^0$  stands for the time right after the service encounter. Based on external influences

<sup>67</sup> C.F. Press I., Ganey R. (1989). 'The mailout questionnaire as the practical method of choice in patient satisfaction monitoring'. *Journal of Health Care Marketing*, Vol. 9 No. 1, PP. 67-75

<sup>68</sup> C.F. MacStravic R.S. (1994). 'Patient loyalty to physicians'. *Journal of Health Care Marketing*, Vol. 14 No. 4, PP. 53-59

<sup>69</sup> C.F. Richins M., Bloch P. (1991). 'Post-purchase product satisfaction: incorporating effects of involvement and time'. *Journal of Business Research*, Vol. 23 No. 2, PP. 145-158

<sup>70</sup> C.F. Oliver R. (1980). 'A cognitive model of antecedents and consequences of satisfaction decisions'. *Journal of Marketing Research*, Vol. 17 No. 4, PP. 460-469

the customer will potentially evaluate the service experience differently, either better, the same or diminished later on.

However, it is unclear how satisfaction may change following a service encounter. Research especially in the area of the hospitality industry is limited regarding the relationship between satisfaction and loyalty and the passage of time.

## 1.5 Loyalty as a Result of Customer Satisfaction

Loyalty is a rich concept with many definitions.<sup>71</sup> For LaBarbera loyalty is at least influenced by a positive satisfaction toward a service provider.<sup>72</sup> Bendall and others determined a positive correlation between satisfaction and consumer loyalty.<sup>73</sup> The Stanford Encyclopedia of Philosophy defines loyalty in the way that “loyalty is characterized as a practical disposition to persist in an intrinsically valued (though not necessarily valuable) associational attachment, where that involves a potentially costly commitment to secure or at least not to jeopardize the interests or well-being of the object of loyalty.”<sup>74</sup> In a business context loyalty is a psychological awareness process or the observable reaction of a consumer, where intentional and factual retention or intensification of the relationship is based on specific reasons.<sup>75</sup> Loyalty includes an individual's intention to return to a service provider, as well as the intention to recommend the provider to others.<sup>76</sup> The following figure describes the correlation between both variables.

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<sup>71</sup> C.F. Ball D., Coelho P. S., Machás A. (2004). 'The role of communication and trust in explaining customer loyalty'. *European Journal of Marketing*, Vol 38, No 9/10, P. 1273

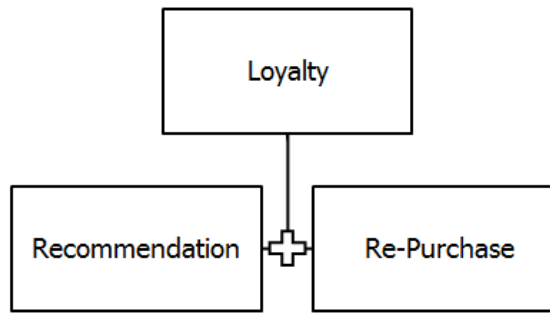
<sup>72</sup> C.F. LaBarbera P., Mazursky D. (1983). 'A longitudinal assessment of consumer satisfaction/dissatisfaction: the dynamic aspect of the cognitive process'. *Journal of Marketing Research*, Vol. 20 No. 4, PP. 393-404

<sup>73</sup> C.F. Bendall-Lyon D., Powers T. L. (2003). 'The Influence of Mass Communication and Time on Satisfaction and Loyalty'. *JOURNAL OF SERVICES MARKETING*, Vol. 17 No. 6. MCB UP Limited, Bradford, P. 592

<sup>74</sup> Stanford Encyclopedia of Philosophy (2011). 'Loyalty'. retrieved from <http://plato.stanford.edu/entries/loyalty/>, 12.09.2011

<sup>75</sup> C.F. Keaveney S. M. (1995). 'Customer Switching Behaviour in Service Industries. An Exploratory Study'. *Journal of Marketing*, Vol. 59, No. 2, PP. 71-82

<sup>76</sup> C.F. LaBarbera P., Mazursky D. (1983). 'A longitudinal assessment of consumer satisfaction/dissatisfaction: the dynamic aspect of the cognitive process'. *Journal of Marketing Research*, Vol. 20 No. 4, PP. 393-404



**Figure 10. The two Aspects of Loyalty from a Business Perspective**

*Source: Own Figure (2013) based on Bendall-Lyon D., Powers T. L. (2003). 'The Influence of Mass Communication and Time on Satisfaction and Loyalty'. Journal of Services Marketing, Vol. 17 No. 6. MCB UP Limited, Bradford, P. 593*

Retention and loyalty are in many cases used as synonyms for customer loyalty. Bruhn argues that loyalty requires a positive attitude from the consumer towards a company and its services, retention on the other side can exist with a negative attitude towards a company.<sup>77</sup>

The author defines loyalty as follows: a consumer is loyal if he purchases products or services from the same organization on a regular basis, due an inner belief and not an obligation to do so. The marketplace provides an adequate number of substitutions and the customer is willing to recommend the organization and its products or services.

A common approach is to distinguish the concrete consumer behavior into attitudinal or intentional loyalty and factual or behavioral loyalty.<sup>78</sup> Bruhn only divides into attitudinal loyalty or attachment and ligation loyalty.<sup>79</sup> Attitudinal loyalty is defined as both a positive affect toward the relationship's continuance, and the desire to continue to remain in the relationship, and is sometimes defined equivalently with relationship commitment.<sup>80</sup>

Attachment describes the voluntary commitment of a client towards a company. The foundation is the fulfillment of special needs such as social, psychological or emotional needs. Ligation is the result of an involuntary tie between a consumer and a company. Emotional dominated relationships normally show a high level of attachment. Power dominated or forced relationships have in most of the cases a ligation character; the customer is aware about his binding and stays with the company only because of the market power of the supplier or

<sup>77</sup> C.F. Bruhn M. (2009). 'Relationship Marketing'. Vahlen, München, P. 85

<sup>78</sup> C.F. Dick A., Basu K. (1994). 'Customer loyalty: toward an integrated conceptual framework'. Journal of the Academy of Marketing Science, Vol. 22 No. 2, PP. 99-113

<sup>79</sup> Bruhn M. (2009). 'Relationship Marketing'. Vahlen, München, PP. 85-88

<sup>80</sup> C.F. Morgan R., Hunt S. (1994). 'The commitment-trust theory of relationship marketing'. Journal of Marketing, Vol. 58 No. 3, P. 20

because a switch to a competitor is impossible. Rudolph claims people under ligation loyalty search for alternatives and try to get out of the dependency.<sup>81</sup> Both characteristics of loyalty behavioral and attitudinal loyalty are highly intertwined.<sup>82</sup> Strong attitudinal loyalty makes customers normally more resistant against marketing from competitors<sup>83</sup> and makes customers more resistant to counter-persuasion and search for alternatives.<sup>84</sup>

Loyalty can also be distinguished into the four dimensions cognitive, affective, conative and action loyalty.<sup>85</sup> Cognitive includes the competency of the employees; affective dimension results on emotional aspects and conative dimension stands for the concrete repurchase intention.

Another factor within the construct of loyalty is time. The relationship between an organization and a consumer goes normally through several steps. Potential clients become actual customers, and current customers leave. From a psychological standpoint, it can be assumed that the more a user is familiar with a product the higher is the possibility of a repurchase since the brand is most likely part of the evoked set and always in the mind of the consumer when it comes to new purchase decisions. In theory, the chance for organizations, which offer products with a low buying frequency, the creation of loyal customers should be more difficult than for providers of products and services for the daily use.

The same arguments about the development of satisfaction over time described earlier can be used for loyalty. It can be granted for sure that ongoing learning processes influence the level of loyalty. Based on new experiences loyalty can stay stable, increase or decrease. Therefore, loyalty measured several months post-purchase is better at predicting actual behavior than loyalty measured immediately following a purchase.<sup>86</sup> Loyalty over time can be regarded as the basis of future purchase intentions. It was reported that a consumer's intention to repurchase at an initial point in time might act as the adaptation level for future intentions at some later date.<sup>87</sup>

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<sup>81</sup> C.F. Rudolph A., Rudolph M. (2000). 'Customer Relationship Marketing'. Cornelsen, Berlin, PP. 35-36

<sup>82</sup> C.F. Ball D., Coelho P. S., Machás A. (2004). 'The role of communication and trust in explaining customer loyalty'. *European Journal of Marketing*, Vol 38, No 9/10, P. 1273

<sup>83</sup> C.F. Gundlach G., Achrol R., Mentzer J. (1995). 'The structure of commitment in exchange'. *Journal of Marketing*, Vol. 59 No. 1, PP. 78-92

<sup>84</sup> C.F. Dick A., Basu K. (1994). 'Customer loyalty: toward an integrated conceptual framework'. *Journal of the Academy of Marketing Science*, Vol. 22 No. 2, PP. 99-113

<sup>85</sup> C.F. Oliver R. (2010). 'Satisfaction: A Behavioral Perspective on the Consumer'. M.E. Sharpe, New York, P. 454

<sup>86</sup> C.F. Morrison D. (1979). 'Purchase intentions and purchase behavior'. *Journal of Marketing*, Vol. 43 No. 2, PP. 65-74

<sup>87</sup> C.F. Oliver R. (1980). 'A cognitive model of antecedents and consequences of satisfaction decisions'. *Journal of Marketing Research*, Vol. 17 No. 4, PP. 460-469

Loyalty and emotions are highly intertwined. In theory, if a customer is enthusiastic about a service encounter, an emotional relationship is generated between the buyer and the organization, where a change to a competitor is possible at any time, but will not be executed because of personal preferences.<sup>88</sup> A study from Cornell revealed a correlation of emotions on the re-purchase behavior. In particular for products in higher segments the emotional factor in regard of loyalty seems to be very high.<sup>89</sup>

As explained the satisfaction as well as the loyalty level are influenced over time. It can be assumed that the better a consumer can remember a certain experience the more stable is the loyalty level. Therefore, the communication between a company and its customers can be regarded as a loyalty transmitter.

## **1.6 The Role of Communication for Loyalty Improvement**

Communication plays a central role within Customer Relationship Management (CRM). Especially in the service industry, a well-structured and valuable communication has a strong effect on consumer perception. Ball, Coelho and Machás cited that a qualitative valuable communication leads to trust, satisfaction and loyalty.<sup>90</sup> The word communication is derived from the Latin word “communicare” and stands for connection. The Encyclopedia Britannica defines communication as “the exchange of meanings between individuals through a common system of symbols.”<sup>91</sup>

Communication can be divided into explicit and implicit communications. Explicit means definite messages that are given to receivers, either oral or written. Implicit communication is the price, the channels of distribution or the chosen medium.<sup>92</sup> The way communication is defined relies on the area where communication is used. Almost each scientific area has one or more specific definitions. Communication between parents and

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<sup>88</sup> C.F Bruhn M. (2003). 'Kundenbindungsmanagement - Eine Einführung in die theoretischen und praktischen Problemstellungen'. Editor: M. Bruhn, C. Homburg - 'Handbuch Kundenbindungsmanagement', P. 10

<sup>89</sup> C.F. Barsky J., Nash L. (2002). 'Evoking Emotions: Affective Keys to Hotel Loyalty'. Cornell Hotel and Restaurant Administration Quarterly, Feb, Vol. 43, No. 1, PP. 39-46

<sup>90</sup> C.F. Ball D., Coelho P. S., Machás A. 'The role of communication and trust in explaining customer loyalty', European Journal of Marketing, Vol. 38, No 9/10, 2004, P. 284

<sup>91</sup> Encyclopedia Britannica (2011). 'Communication'. Retrieved from <http://www.britannica.com/Ebchecked/topic/129024/communication>, 27.05.2013

<sup>92</sup> C.F. Morrison A. M. (2012). 'Hospitality and Travel Marketing'. Delmar, New York, PP. 465-466



children, between managers and employees or between companies and its clients has different aspects which are focused.

Communication is the transmission of information and meaning from one individual or group - the sender - to someone else - the receiver. The main objective of communication is the transmission of meaning. The process of communication is successful only if the receiver understands the idea like the sender intended it.<sup>93</sup> Not that complex is the definition from Köck and Ott where communication is the exchange of information between two or more people. In their case, messages can be verbal and or non-verbal.<sup>94</sup> The aspect of non-verbal communication adds a further variable to communication. It is not only the verbal exchange of information, communication also contains all other instruments like signs, music, touchable or non-touchable exchange channels. Therefore, communication can be regarded, depending on the transmitter, as a multi-sensual process.

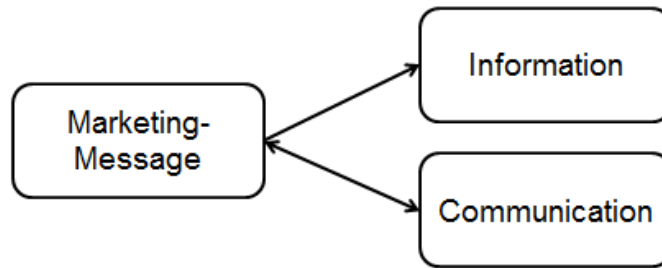
Like in the definitions mentioned above, communications is normally the exchange of information between the sender and the receiver. This is slightly different in marketing as in many cases communication is a one-way transfer of information from the transmitter to the audience. Therefore, Seeborn describes communication as the exchange of information respectively all forms of information transmission. A sender (communicator) sends a message to a receiver (communicant).<sup>95</sup> The following figure shows the two different types of marketing messages. It is either a one or a two-way communication ladder needs appropriate response channels.

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<sup>93</sup> C.F. Schoeneborn, D., Trittin, H., & Scherer, A. G. (2011). 'Transcending the transmission model: a reconstruction of CSR communication from a constitutive perspective'. in 'Working Paper No, 203'. University of Zurich, P. 6

<sup>94</sup> C.F. Köck, P., Ott, H. (1994). 'Wörterbuch für Erziehung und Unterricht'. Verlag Ludwig Auer, Donauwörth, P. 213

<sup>95</sup> C.F. Seeborn J. (2011). 'Gabler Kompaktlexikon Werbung'. Gabler Verlag, Wiesbaden, P. 111



**Figure 11. The Difference between Communication and Information**

Source: Own Figure (2013) based on Köck P., Ott H. (1994). 'Wörterbuch für Erziehung und Unterricht'. Verlag Ludwig Auer, Donauwörth, P. 213 and Seebohn J. (2011). 'Gabler Kompaktlexikon Werbung'. Gabler Verlag, Wiesbaden, P. 111

Pepels recognize under marketing communication the planned approach to influence the meanings of recipients towards the own goals with the usage of instruments.<sup>96</sup> In general, the goal of marketing communication can be subdivided into economical and psychological goals. Economic goals are profit, revenue, market share; psychological goals are the reduction of buying barriers, the increase of a specific product acceptance, the creation of interest for a product, image transfer,<sup>97</sup> the targeted setting of buying impulses or the usage of communication within Relationship Marketing to increase loyalty.

Solely the numeration of the communication channels respectively the goals of marketing show how complex it is to verify and measure communication results. Hard- and soft-facts, measurable and almost non-measurable aspects are part of the construct of communication. The condition to drive results from communication action the message itself must be perceived by the recipients therefore the perception of messages will be reflected in the following.

A central intention from a sender using communication is the influencing of meanings, attitudes, expectations or behaviors of the receiver. In marketing the communication process basically covers the question who says what, to whom, over which channel, with what result<sup>98</sup>; or in other words who communicates what, under which conditions, through which

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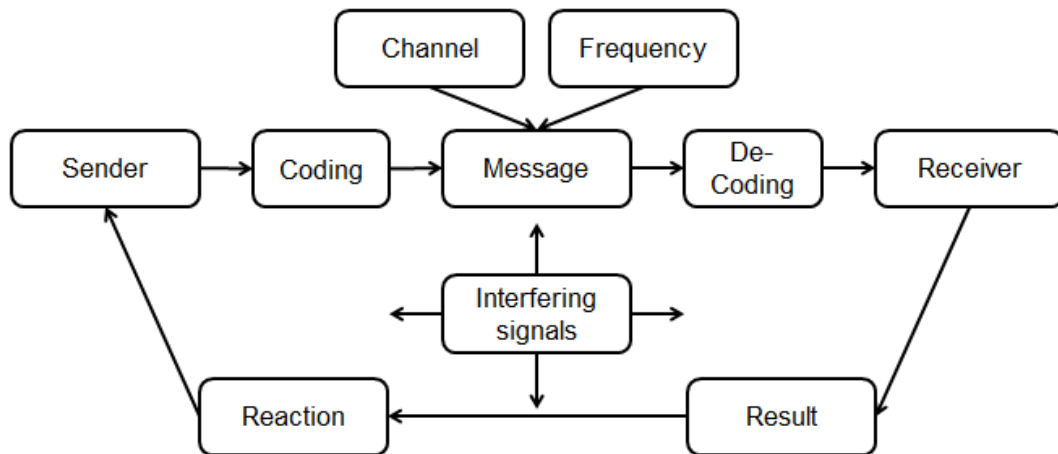
<sup>96</sup> C.F. Pepels W. (2004). 'Marketing'. Oldenburg Verlag, München, P. 645

<sup>97</sup> C.F. Seebohn J. (2011). 'Gabler Kompaktlexikon Werbung'. Gabler Verlag, Wiesbaden, PP. 120-121

<sup>98</sup> C.F. Dettmer H., Hausmann T., Kloss I., Meisl H., Weithöner U. (1999). 'Tourismus-Marketing-Management'. R. Oldenburg Verlag, München, P. 267

communication channel to whom and what is the effect of communication after the decoding of the communication message?<sup>99</sup>

The following figure shows the concept of communication. A transmitter codes a message and sends it to the receiver. Interfering signals may interrupt the perception and decoding of the message, which finally influences the result.



**Figure 12. Functional Chart of the Communication Process**

Source: Own Figure (2013) based on Rudolph A., Rudolph M. (2000). 'Customer Relationship Marketing'. Cornelsen, Berlin, P. 31 and Kotler P., Bliemel F. (1995). 'Marketing-Management: Analyse, Planung, Umsetzung und Steuerung, Volume 1'. Schäffer-Poeschel, P. 910

In order to get results from a communication effort first the message has to be perceived by the recipient. This is the prerequisite for the success of a communication. The perception of a message can be happen consciously, unconsciously and selectively.<sup>100</sup>

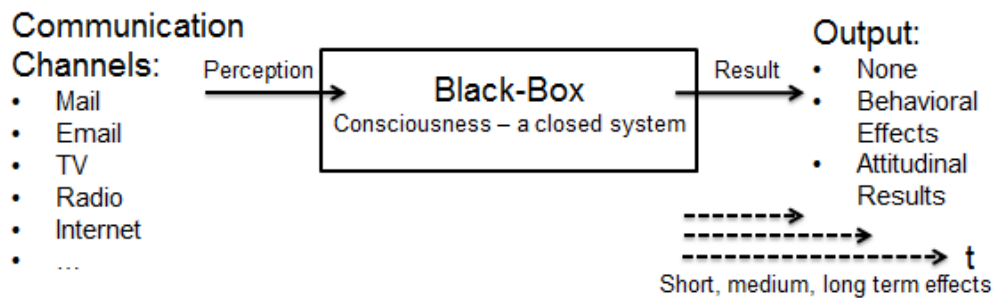
One aspect why direct and individual communication is getting more important for today's marketers is the fact that through the increase of mass communication channels messages are often not be perceived by the receiver which means the effectiveness of mass marketing channels decreases continuously.

The unconscious perception of messages played in the scientific history a central role especially for mass marketing. Although unconscious perception exists, it is characterized by a short-term recognition. In general the higher the attention respectively the perception level

<sup>99</sup>C.F. Rudolph A., Rudolph M. (2000). 'Customer Relationship Marketing'. Cornelsen, Berlin, P. 31

<sup>100</sup> C.F. Dettmer H., Hausmann T., Kloss I., Meisl H., Weithöner U. (1999). 'Tourismus-Marketing-Management'. R. Oldenburg Verlag, München, P. 50

of the receiver is, the better are the learning and the communication effects.<sup>101</sup> The figure below describes the dilemma of communication. Different channels compete with the recipient's awareness. An output can only occur, if the message is perceived and the input is processed by the consciousness of the individual. The output can either be nothing or potentially measurable by an attitudinal change or by behavioral effects such as buying a product or an active recommendation to others. The effects can be short, medium or long-term.



**Figure 13. The different Media Channels and its Effects on the Consumer**

*Source: Own Figure (2013) based on Dick A., Basu K. (1994). 'Customer loyalty: toward an integrated conceptual framework'. Journal of the Academy of Marketing Science, Vol. 22 No. 2, PP. 99-113 and Dettmer H., Hausmann T., Kloss I., Meisl H., Weithöner U. (1999). 'Tourismus-Marketing-Management'. R. Oldenburg Verlag, München, P. 50*

The consciousness of a human being is like a closed system. At first, impulses from the outside do not enter consciousness. Perception processes happen selectively and only if needs are activated. This selection process prevents a communication overload. The perception itself is an interaction and finally a compromise between objective impulses from the outside and subjective individual experiences.<sup>102</sup>

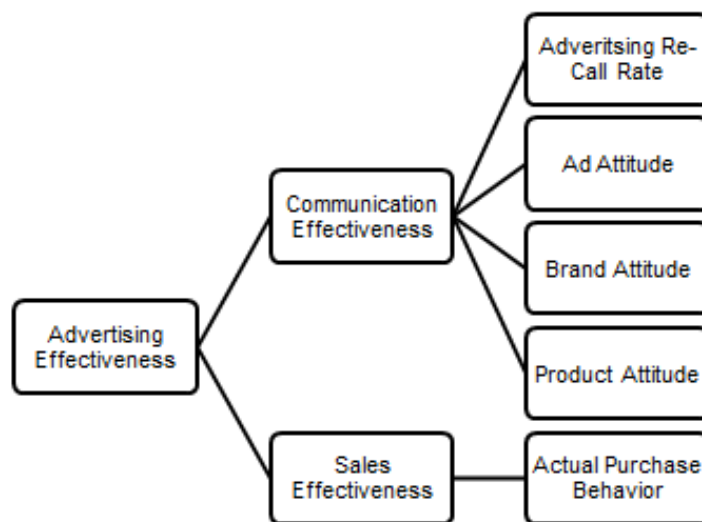
Based on the individual receiver messages can be differently perceived, and processed. In total, three so called disturb signals compromise the communication message; these are selective perception, selective bias and selective memory. Selective perception is a filter because of a potential information overload this means the receiver perceives only such information for which he has a current need or is part of its personality. The second disturb signal, the selective bias, is based on a cut and dried opinion from the receiver of the message,

<sup>101</sup> C.F. Seebohn J. (2011). 'Gabler Kompaktlexikon Werbung'. Gabler Verlag, Wiesbaden, P. 119

<sup>102</sup> C.F. Dettmer H., Hausmann T., Kloss I., Meisl H., Weithöner U. (1999). 'Tourismus-Marketing-Management'. R. Oldenburg Verlag, München, PP. 50-51

which leads to the effect that only such information is perceived and processed which fits to the existing opinion. Selective memory is the third disturb signal, which describes the fact that the receiver only remembers parts of the message.<sup>103</sup>

In the following, the different models to measure the result of communication and the effectiveness of advertising will be reviewed. There are two dimensions to measure advertising effectiveness: communication effectiveness and sales effectiveness. Communication effectiveness summarize a series of inner processes after a consumer received the stimulus of an advertising message, sales effectiveness represents the direct effect on the purchase behavior of the recipient.<sup>104</sup>



**Figure 14. The Attitudinal and Behavioral Effects of Advertising**

*Source: Own Figure (2013) based on Chen-Yin L., Haiung-Peng H., Shu-Wan Y. (2010). A fit perspective: A critical factor to communication marketing'. International Journal of Organizational Innovation, Vol. 3, No. 2, P. 421*

The figure above lists the effects of advertising. It can be stated that the final goal of a marketing communication should always be a positive influence on the actual purchase behavior of the recipient, even if the communication intention is focused on brand or product attitude. The outcome has to be economically beneficial in a business environment.

<sup>103</sup> C.F. Dettmer H., Hausmann T., Kloss I., Meisl H., Weithöner U. (1999). 'Tourismus-Marketing-Management'. R. Oldenburg Verlag, München, PP. 268-269

<sup>104</sup> C.F. Chen-Yin L., Haiung-Peng H., Shu-Wan Y. (2010). 'A fit perspective: A critical factor to communication marketing'. International Journal of Organizational Innovation, Vol. 3, No. 2, P. 421

The measurement of communication effectiveness in marketing has taken place in several evolutionary steps. Today the scientific research differentiates between S-R, S-O-R and involvement models to measure advertising effectiveness. It started with the stimulus-response (S-R) model, a model that assumed a linear result function with the independent variable stimulus based on a message and a dependent variable response, which represents the reaction of the recipient.<sup>105</sup> The theory was based on the assumption of a homogenous society where every recipient would react in the same way. The S-R model neglects the circumstances under which an effect occurs.<sup>106</sup> Especially the assumption of a homogenous society can be regarded as a fundamental bias. Our society today is more fragmented and heterogeneous than ever before,<sup>107</sup> each consumer today is an individual, which has to be taken into consideration when it comes to measure marketing results.

The S-R model was followed by the stimulus-organism-model (S-O-R). The additional variable organism contains interfering factors such as perception, learning processes, motivations and opinions.<sup>108</sup> The S-O-R model is a hierarchy model where the result comes in several steps. The AIDA model is a so-called S-O-R model. The disadvantages of the model are that it simplifies too much, external influences are not regarded and it is assumed that receiver always react in the same way.<sup>109</sup> It is obvious that the involvement of a receiver towards a sender can play a significant role in the construct for the perception of a communication. Krugman was the first who introduced the term involvement to the research of advertising effects. Krugman realized that receivers learned a certain marketing message even if they were not actively searching for information.<sup>110</sup> This was contrary to the S-R and S-O-R models used so far for explaining marketing effects.

Krugman disproved the image of the rational acting consumer, who actively reflects marketing messages. Contrary marketing messages are in many cases only incidentally perceived and only a few information stays in the mind of the receiver.<sup>111</sup> This confirms the

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<sup>105</sup> C.F. Rosenstiel L. v. (1996). 'Psychologie der Werbung'. Komar-Verlag, Rosenheim, P. 46

<sup>106</sup> C.F. Dettmer H., Hausmann T., Kloss I., Meisl H., Weithöner U. (1999). 'Tourismus-Marketing-Management'. R. Oldenburg Verlag, München, P. 275

<sup>107</sup> C.F. Holland H. (2009). 'Die aktuellen Trends des Dialogmarketings'. ONEtoONE 12, P. 33

<sup>108</sup> C.F. Rosenstiel L. v. (1996). 'Psychologie der Werbung'. Komar-Verlag, Rosenheim, P. 49

<sup>109</sup> C.F. C.F. Dettmer H., Hausmann T., Kloss I., Meisl H., Weithöner U. (1999). 'Tourismus-Marketing-Management'. R. Oldenburg Verlag, München, PP. 275-280

<sup>110</sup> C.F. Pfeiffer M. (2008). 'Humor in der Werbung - Neue Erkenntnisse der Forschung'. Grin Verlag, Norderstedt, P. 19

<sup>111</sup> C.F. Glusac N. (2005). 'Der Einfluss von Bonusprogrammen auf das Kaufverhalten und die Kundenbindung von Konsumenten'. DUV, Innsbruck, P. 124

pre-described effect that each individual receiver perceives and processes messages differently. The disturb signals of selective perception, selective bias and selective memory are to mention.<sup>112</sup>

However, involvement is not a synonym for attention or interest. For the information process, the relevance of the messages plays the central role for the receiver.<sup>113</sup> Krugman stated that „the number of bridging experiences, connections or personal references per minute that the viewer makes between his own life and the stimulus”<sup>114</sup> is decisive for the perception of messages.

This means involvement can be regarded as the relevance and the importance a certain subject has for the individual. Not the product itself involves the consumer; it is the situation, the individual importance of single product features within a specific situation.<sup>115</sup> The determinants of involvement are based on the personal current situation, the product, the media and the message involvement.<sup>116</sup>

The focused target within Customer Relationship Marketing is the group of existing customers and therefore the involvement theory underlines the role of communication in this area. Since existing customers have some kind of experiences, feelings toward a certain service encounter, a product or a brand, they shall have some kind of interest in transmitted messages given that a positive satisfaction level still exists. This means existing customers are involved and therefore more open to marketing messages as people who are not familiar with the product or even do not know the product. The situation that messages are being perceived even if the consumer is not actively searching for information underlines the role of communication. This leads to the conclusion that for Relationship Marketing even non-actively perceived messages create remembering effects and influences attitudinal and behavioral loyalty. Therefore, the author assumes that the perception of marketing messages of existing customers is higher than the perception level of people with no involvement.

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<sup>112</sup> C.F. Dettmer H., Hausmann T., Kloss I., Meisl H., Weithöner U. (1999). 'Tourismus-Marketing-Management'. R. Oldenburg Verlag, München, PP. 268-269

<sup>113</sup> C.F. Glusac N. (2005). 'Der Einfluss von Bonusprogrammen auf das Kaufverhalten und die Kundenbindung von Konsumenten'. DUV, Innsbruck, P. 124; see also Kroeber-Riel, W. (1993). 'Bildkommunikation - Imagestrategien für die Werbung'. Vahlen, München, P. 98

<sup>114</sup> Krugman H. E. (1965). 'The impact of television advertising: Learning without involvement'. Public Opinion Quarterly; Fall65, Vol. 29 Issue 3, PP. 349-356, P. 355

<sup>115</sup> C.F. Dettmer H., Hausmann T., Kloss I., Meisl H., Weithöner U. (1999). 'Tourismus-Marketing-Management'. R. Oldenburg Verlag, München, PP. 281-282

<sup>116</sup> C.F. Trommsdorff, V. (1995). 'Involvement'. Handwörterbuch des Marketing; Tietz B., Köhler R., Zentes J., Stuttgart, PP. 1071-1074

For the long-term effect of Relationship Marketing actions, not only the perception plays a central role. Since the connection between a company and its customers can ideally last for a long period, especially in industries with a low buying frequency, the number of the transmitted messages over time and the generated effects are of interest. Therefore, the communication frequency and potential learning effects are considered to be important for the long-term success of marketing actions.

If a communication was successful and the receiver perceived and decoded the message following awareness levels are affected: cognitive level (thinking, learning, knowing), affective level (feeling, wishing, requiring) and conative level (selecting, deciding, doing).<sup>117</sup> A reaction on a perceived message starts with a short-term effect right after the perception, followed by a long-lasting memory effect and a final behavioral reaction.<sup>118</sup> Rosenstiel describes effective advertising with the following steps: First the message has to be perceived by the receiver, than he may not forget about the noted message, the receiver has to develop a positive attitude towards the product and finally the receiver has to expend the energy to be really interested in and to decide to buy the product.<sup>119</sup> A central role for communication success is of course the perception of a message, followed by learning and remembering effects. The problem in this context is that a receiver typically forgets even perceived marketing messages quite quickly.<sup>120</sup> Therefore, the communication frequency is another important variable for creating remembering and learning effects, which eventually result in a conative reaction.

The Encyclopedia Britannica defines learning as the alteration of behavior as a result of individual experiences. When an organism can perceive and change its behavior, it is said to learn.<sup>121</sup> Kotler and Bliemel go in the same direction as they argue that learning is the change of behavior of a person based on made experiences.<sup>122</sup> Beside the perception, the receiver must learn the content of a message and store it in his long-term memory since

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<sup>117</sup> C.F. Rudolph A., Rudolph M. (2000). 'Customer Relationship Marketing'. Cornelsen, Berlin, PP. 30-31

<sup>118</sup> C.F. Steffenhagen H. (1984). 'Kommunikationswirkung: Kriterien u. Zusammenhänge'. Heinrich-Bauer-Stiftung, P. 13

<sup>119</sup> C.F. Rosenstiel L. v. (1996). 'Psychologie der Werbung'. Komar-Verlag, Rosenheim, P. 15

<sup>120</sup> C.F. Rosenstiel L. v. (1996). 'Psychologie der Werbung'. Komar-Verlag, Rosenheim, P. 21

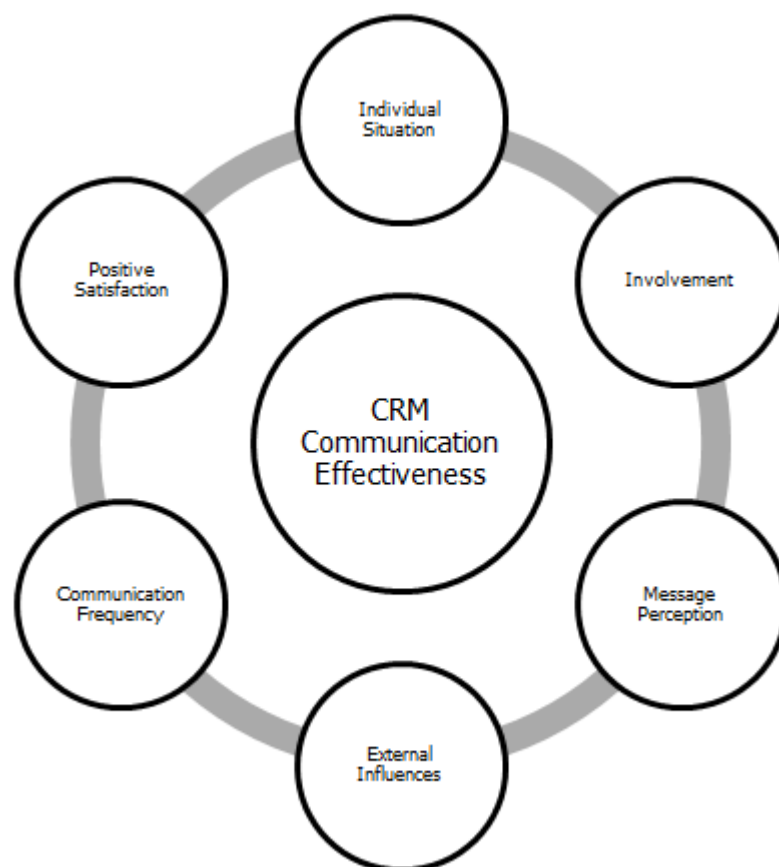
<sup>121</sup> Encyclopedia Britannica (2011). 'Learning'. Retrieved from <http://datubazes.lanet.lv:2090/Ebchecked/topic/333978/learning>, 27.05.2013

<sup>122</sup> C.F. Kotler P., Bliemel F. (1995). 'Marketing-Management: Analyse, Planung, Umsetzung und Steuerung, Volume I'. Schäffer-Poeschel, P. 299



normally a time lack exists between the perception and learning of a message and the doing, which means in a business environment buying the advertised products or services.<sup>123</sup>

Semantic networks are a model, which describes the storing effect of information in the head of the receiver, also called the black box. Adding respectively learning new information is only possible when the new content can be compared with an already existing one.<sup>124</sup> The effect is a growing network of keywords for different topics, which relates to each other. The task for a marketer is to transfer information, which will be perceived, stored by the receiver in the long-term memory, and combined with existing knowledge. The combination with keywords is necessary in order to reactivate the memory at a later point for instance during an upcoming buying decision process.



**Figure 15. Factors that Influences the Communication Effectiveness**

*Source: Own Figure (2013) based on Krugman H. E. (1975). 'What makes advertising effective?'. Vol. 23, No. 2. Harvard Business Review, PP. 96-103 and Dettmer H., Hausmann T., Kloss I., Meisl H., Weithöner U. (1999).*

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<sup>123</sup> C.F. Dettmer H., Hausmann T., Kloss I., Meisl H., Weithöner U. (1999). 'Tourismus-Marketing-Management'. R. Oldenburg Verlag, München, PP. 52-53

<sup>124</sup> C.F. Dettmer H., Hausmann T., Kloss I., Meisl H., Weithöner U. (1999). 'Tourismus-Marketing-Management'. R. Oldenburg Verlag, München, P. 53

*'Tourismus-Marketing-Management'. R. Oldenburg Verlag, München, P. 50 and Stauss B., Seidel W. (2002).*

*'Beschwerdemanagement'. Hanser Fachbuch, P. 56*

In summary, the success of transferring marketing information depends on the individual buying situation of the consumer, the perception of the message, the volume of information to process and the existing knowledge,<sup>125</sup> the current satisfaction level towards the product, the communication frequency, as well as the involvement and the relevance of the message at the time of perception. The author combined the pre-described variables for a successful communication in the figure above in the Relationship Marketing Communication Effectiveness Model.

Today a steadily growing number of channels are available to transmit messages from a sender to the consumer each channel with its own specifics, strengths and weaknesses. The choice of the used marketing medium has a direct influence on the perception of a message, the learning of the content and finally the attitudinal and behavioral result. It is obvious that the used channels within Relationship Marketing influence the communication effectiveness. Heinonen, Strandvik stated that the medium influences consumer responsiveness to marketing communication by being perceived as acceptable, neutral or disturbing. If the consumer considers marketing communication via a medium as disturbing it may negatively affect the attention to and perception of the message. In contrast, the medium may also enhance the acceptance of the marketing communication if it is perceived as appropriate for the specific marketing communication.<sup>126</sup>

Direct mail and e-mail are the dominant channels in direct marketing. A survey in 2010 revealed that the leading hotels in Germany used e-mail as part of their customer relationship management strategy. E-mail was the most used communication channel of the hotels.<sup>127</sup> In the last years, a replacement from classic post mail has been made by many companies, which favor cheaper electronic channels like e-mail. Heinonen, Strandvik compared the acceptance of mail versus e-mail as a marketing communication channel from

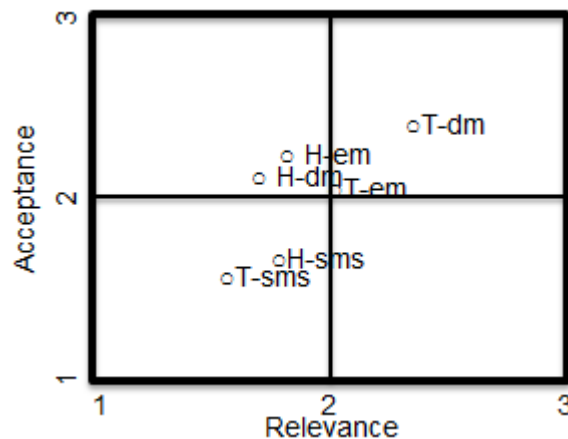
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<sup>125</sup> C.F. Dettmer H., Hausmann T., Kloss I., Meisl H., Weithöner U. (1999). 'Tourismus-Marketing-Management'. R. Oldenburg Verlag, München, P. 50

<sup>126</sup> C.F. Heinonen K., Strandvik T. (2005). 'Communication as an element of service value'. International Journal of Service Industry Management, Vol. 16 Iss: 2, P. 191

<sup>127</sup> C.F. Hug C. (2011). 'Einsatzmöglichkeiten, Anforderungen und Entwicklungstendenzen moderner Kommunikationskanäle zur Kundenbindung in der Hotellerie'. Hochschule Kempten, Kempten, P. 67

the consumer side. Using the three variable when, where and what they developed a communication channel quality matrix. The result can be seen in the following figure.



**Figure 16. The Acceptance and Relevance of Media Channels as Message Transmitter**

Source: Own Figure (2013) based on Own Image based on Heinonen K., Strandvik T. (2005). 'Communication as an element of service value'. *International Journal of Service Industry Management*, Vol. 16 Iss: 2, P. 192

*H = Hotel*

*T = Travel*

*dm = direct mail*

*em = e-mail*

*sms = short message service*

It can be seen that travel service related communication via direct mail has by far the highest values for acceptance as well as for relevance. For hotels, the medium e-mail seems to be slightly higher in quality as direct post mail. The channel sms was by far the weakest.<sup>128</sup> In 2002 when the research was done the channels direct mail and e-mail, where normally consumed at a specific time during a day compared to SMS, which is normally consumed immediately when a message arrives. The author assumes that due to the growing usage of smart phones and the continuous access to the own e-mails the quality of e-mail will more and more adapt to the results of SMS.

An aspect, which influences the quality of a message transmitter, is the sensory stimulants. The more senses an experience engages the more effective and memorable it

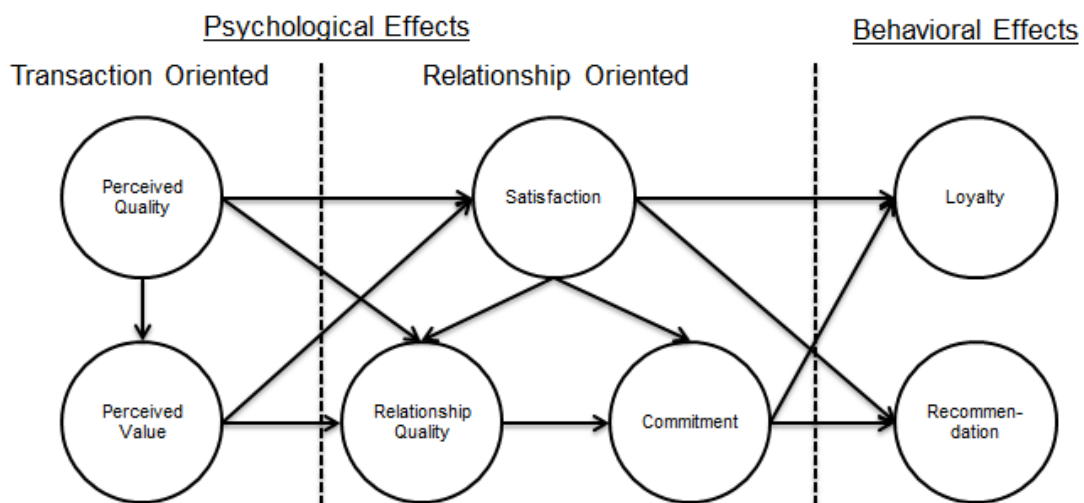
<sup>128</sup> C.F. Heinonen K., Strandvik T. (2005). 'Communication as an element of service value'. *International Journal of Service Industry Management*, Vol. 16 Iss: 2, PP. 190-192

should be.<sup>129</sup> It is obvious that the different message transmitters therefore provide different quality levels.

After reviewing frequency, learning and channel quality theories the different approaches to describe the effects of transmitting messages with response functions will be explored.

## 1.7 Current Models of Loyalty

Based on the former chapters the construct of loyalty can be described by the following figure. The psychological and behavioral effects can be separated into two areas, a cognitive and a conative part. On the psychological level the variables ‘perceived quality’ and ‘perceived value’ influence the level of satisfaction, which finally influences the commitment towards a supplier. The behavioral results are the possibility of recommendation and loyalty itself.



**Figure 17. Variables of Loyalty**

Source: Own Figure (2013) based on Bruhn M. (2009). 'Relationship Marketing'. Vahlen, München, P. 68

Loyalty and satisfaction are clearly separated variables or outcomes, as can be seen in the model, although they are clearly related.<sup>130</sup> In general, it can be stated that the higher the level of satisfaction the higher the chances for positive effects on loyalty.<sup>131</sup>

<sup>129</sup> C.F. Pine II J., Gilmore J. H. (1978). 'Welcome to the Experience Economy'. Harvard Business Review, July-August, P. 104

All common loyalty models follow the pre-described theoretical foundation and use satisfaction as their central element. The most mentioned models in the research are the American Customer Satisfaction Index (ACSI), the European Customer Satisfaction Index (ECSI) and the Swedish Customer Satisfaction Barometer (SCSB).<sup>132</sup> The Swedish Customer Satisfaction Barometer developed in 1989 was the first truly customer satisfaction index model.<sup>133</sup> The original model for the SCSB consists of four variables: customer expectations and perceived performance as antecedents of customer satisfaction, along with customer complaints and customer loyalty as its results.<sup>134</sup> For the SCSB loyalty is defined as repurchase behavior. The American Customer Satisfaction Index model (ACSI) was introduced in 1994 to measure the quality of goods and services as experienced by the consumer.<sup>135</sup> The variables for the ACSI are perceived quality, customer expectations, perceived value and because of the three variables overall customer satisfaction (ACSI). The ACSI uses a multiple indicator approach to measure overall customer satisfaction as a latent variable. The primary objective is to explain loyalty. Loyalty is the ultimate dependent variable in the model because of its value as a proxy for profitability. Loyalty within this approach is defined by repurchase behavior plus price tolerance.<sup>136</sup> The European Customer Satisfaction Index (ECSI) model is adapted from the SCSB and ACSI and consists of seven variables, with four drivers:

- image - which means the idea that customers have from the product or company;
- expectations - which means the information customers have made with products and services offered by the company;

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<sup>130</sup> C.F. Oliver R. (1999). 'Whence consumer loyalty?'. *Journal of Marketing*, Vol. 63 No. 4, PP. 33-44

<sup>131</sup> C.F. Hallowell R. (1996), "The relationship of customer satisfaction, customer loyalty, and profitability: an empirical study", *International Journal of Services Industry Management*, Vol. 7 No. 4, PP. 27-42

<sup>132</sup> C.F. Johnson M. D., Gustafsson A., Andreassen T. W., Lervik L., Cha J. (2000). 'The Evolution and Future of National Customer Satisfaction Index Models'. *University of Michigan Business School*, PP. 4-5

<sup>133</sup> C.F. Fornell C., Johnson M. D., Anderson E. W., Cha J., Bryant B. E. (1996). 'The American Customer Satisfaction Index: Nature, Purpose, and Findings'. *Journal of Marketing*, Vol. 60, P. 11

<sup>134</sup> C.F. Ogikubo M., Schvaneveldt S. J., Enkawa T. (2009). 'An empirical study on antecedents of aggregate customer satisfaction: Cross-country findings'. *Total Quality Management*, Vol. 20, No. 1, January 2009, P. 24

<sup>135</sup> C.F. Anderson E.W., Fornell C. (2000). 'Foundations of the American Customer Satisfaction Index'. *Total Quality Management*, Vol. 11, No. 7. Taylor & Francis, P. 871

<sup>136</sup> C.F. Fornell C., Johnson M. D., Anderson E. W., Cha J., Bryant B. E. (1996). 'The American Customer Satisfaction Index: Nature, Purpose, and Findings'. *Journal of Marketing*, Vol. 60, PP. 7-10

- perceived quality - which consists of product quality plus service quality and corresponds to recent experiences made with similar products or services;
  - perceived value - which means the price value relationship;
- and three consequences:
- satisfaction
  - complaints - which means the management of complaints and
  - loyalty - the long-term commitment and repurchasing intention of the customer.<sup>137</sup>

The following figure compares the three different models with their different variables. It shows the growing complexity of the models from the beginning with the SCSB to the current ECSI model. Within the models, the outcome respectively the measurable variable for loyalty is not the same. For the SCSB loyalty is equal to the repurchase behavior of the consumer, within the ACSI the factor price tolerance also plays a role and finally in the ECSI model loyalty is defined by the variables repurchases behavior, plus the intentions from the consumer to recommend the vendor and buy additional products or services.

**Table 1. A Comparison of the SCSB, ACSI and ECSI Loyalty Models**

<i><b>Variables</b></i>	<b>SCSB</b>	<b>ACSI</b>	<b>ECSI</b>
<i><b>Drivers</b></i>	customer expectations	customer expectations	customer expectations
	perceived performance		
		perceived quality	perceived quality
			Image
		perceived value	perceived value
<i><b>Consequences</b></i>	customer complaints		customer complaints
	customer satisfaction	customer satisfaction	customer satisfaction
	Loyalty = repurchase behavior	Loyalty = repurchase behavior plus price tolerance	Loyalty = repurchase behavior plus intention to recommend plus intention to buy addition

Source: Own Figure (2013) based on Ogikubo M., Schvaneveldt S. J., Enkawa T. (2009). 'An empirical study on antecedents of aggregate customer satisfaction: Cross-country findings'. *Total Quality Management*, Vol. 20,

<sup>137</sup> C.F. Ferreira I., Cabral J., Saraiva P. (2010). 'An integrated framework based on the ECSI approach to link mould customers' satisfaction and product design'. *Total Quality Management*, Vol. 21, PP. 1386-1387

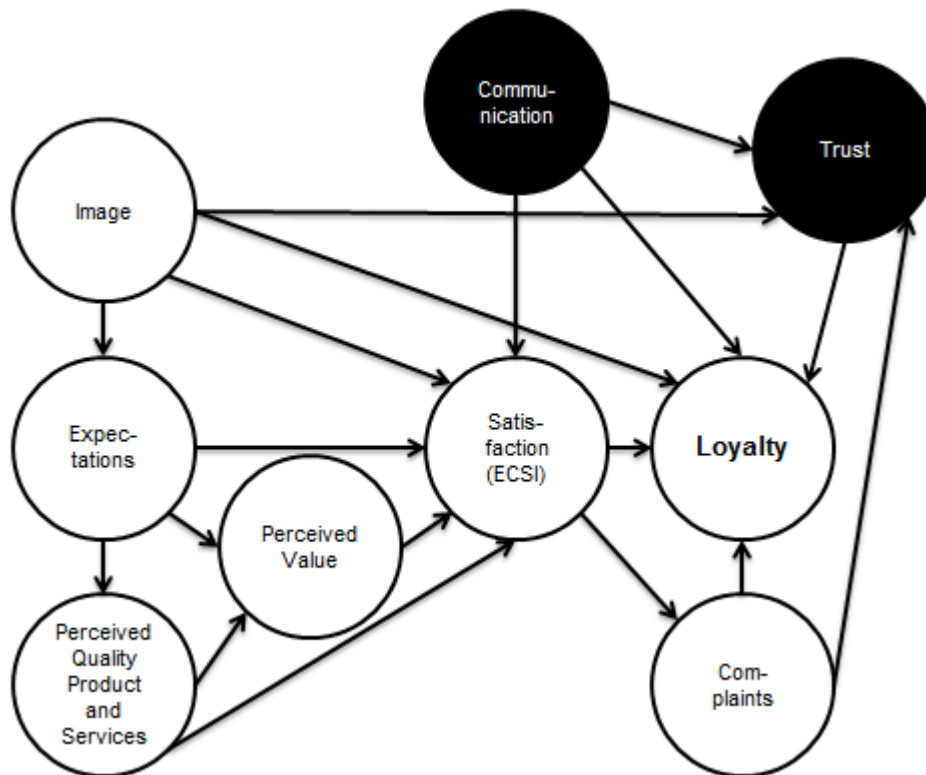
*No. 1, January 2009, P. 24 and Fornell C., Johnson M. D., Anderson E. W., Cha J., Bryant B. E. (1996). 'The American Customer Satisfaction Index: Nature, Purpose, and Findings'. Journal of Marketing, Vol. 60, PP. 7-10 and Ferreira I., Cabral J., Saraiva P. (2010). 'An integrated framework based on the ECSI approach to link mould customers' satisfaction and product design'. Total Quality Management, Vol. 21, PP. 1386-1387*

As described above loyalty and satisfaction are related, although clearly distinct. A positive satisfaction level has positive effects on loyalty as measured for instance for the ECSI model by Cassel and Eklof.<sup>138</sup> For the explanation of loyalty within the construct of Relationship Marketing, the pre-described loyalty models disregard a central element, the variable communication. An approach to implement the variable communication in a loyalty model is the 'Enhanced ECSI Model'. Ball, Coelho and Machás (2004) enhanced the ECSI model by the variables communication and trust. Their findings were that satisfaction is the most important variable for the explanation of loyalty, though the second highest effect on customer loyalty has the variable communication. They argue that in a regulated market with little differentiation in basic services, such as hotels in the same quality segment, communication may be an important strategic tool to differentiate the firm. They state that helpful, clear and personalized information not only enhances satisfaction and creates trust but also loyalty to a significant extent. Customer expectations, perceived value, complaints and trust present lower but also significant effects on loyalty.<sup>139</sup>

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<sup>138</sup> C.F. Cassel, C., Eklof, J.A. (2001), "Modeling customer satisfaction and loyalty on aggregate levels: experience from the ECSI pilot study", Total Quality Management, Vol. 12 No. 7-8, PP. 834-841

<sup>139</sup> C.F. Ball D., Coelho P. S., Machás A. (2004). 'The role of communication and trust in explaining customer loyalty'. European Journal of Marketing, Vol 38, No 9/10, PP. 1283-1284



**Figure 18. The Enhanced ECSI Model by Ball, Coelho and Machás**

*Source: Own Figure (2012) based on Ball D., Coelho P. S., Machás A. (2004). 'The role of communication and trust in explaining customer loyalty'. European Journal of Marketing, Vol 38, No 9/10, P. 1275*

The figure above shows the classic ECSI model enhanced by the two variables Trust and Communication (highlighted in black) and its relationships. Under communication summarized are not only direct marketing actions but also in-person communication with service personnel before, during and after a service transaction. Some authors indirectly support their assumption of the relevance of in-person communication, in particular findings from Lemon et al. (2001), Jones et al. (2000), Parasuraman et al. (1991) and Allen and Wilburn (2002) explaining the important role of personal relationship, personalization and customization in obtaining loyalty. Bruhn and Grund (2000) explicitly consider the construct “customer dialogue” in their researches.<sup>140</sup>

The second additional variable is trust. In the model, communication should affect all aspects of relationships, but largely trust as well as satisfaction and loyalty. An ongoing communication should enhance the level of trust toward the sender based on a higher

<sup>140</sup> C.F. Ball D., Coelho P. S., Machás A. (2004). 'The role of communication and trust in explaining customer loyalty'. European Journal of Marketing, Vol 38, No 9/10, P. 1277



familiarity with the product. Though one of the important findings of their research was that loyalty is explained less by trust than expected and more by communication. This means communication has a clear positive effect on loyalty.

As can be seen in the first chapter of this dissertation, Customer Relationship Marketing is a very complex topic, which is highly intertwined with the operational management of a company. Satisfaction can be regarded as a pre-requisite for creating customer loyalty and communication seems to play a significant role in this construct. Communication shall create remembering effects and buying impulses. However, communication also influences the expectations towards a product and therefore the satisfaction afterwards; since satisfaction is the result of a comparison process between the expectations and the perceived quality of the individual consumer.

The question for this dissertation is how the existing approaches of describing loyalty can be enhanced to evaluate the relevance of communication onto Customer Relationship Marketing especially for the area of the hotel business.

## 2 CONTEXT IN REALITY AND PREVIOUS EXPERIENCES IN THE FIELD

### 2.1 The Hotel Business and its Focus on Customer Loyalty

A touristic product in total is characterized by the fact that the product is non-material so the consumer is not able to feel, touch or see the product before the consumption. On top it is an abstract product since it is a combination of several components of time, space and people; it is different from country to country, from traveler to traveler and from time to time, the product cannot be stored and it consists of many different parts combined in one package.<sup>141</sup> Hotels as one part of a touristic product are characterized by the fact that they are tied to a location and are intangible until the actual arrival. The consumer first can evaluate the product after the arrival, which means that production and service are happening at the same time (una-actu principle).<sup>142</sup> For the marketing, this leads to the conclusion that the communication has to visualize the product and create a positive picture<sup>143</sup> in order to bridge the geographical distance.<sup>144</sup>

Since this dissertation uses data from German hotels in the analysis, the German hotel market is described briefly in the following. In 2011, the number of travelers reached an all-time high in Germany. 76% in number 70.3 million Germans above 14 years old made at least one vacation of more than five days and the most important lodging facilities were hotels.<sup>145</sup> As per the German Federal Statistical Office 394 million hotel nights were sold in 2011 on the German market which represents an increase of 3.6% to the previous year.<sup>146</sup> In August 2012 10254 hotels had more than 25 rooms with an average occupancy rate of 56% in Germany, 4254 hotels have at least 50 rooms and 239 hotels provides more than 250 rooms.<sup>147</sup> Since CRM is linked to an investment in hardware and software, it needs a certain organizational size. The author regards hotels with more than 50 rooms as aspirants for a formalized Customer Relationship Management.

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<sup>141</sup> C.F. Freyer W. (1995). 'Tourismus'. Oldenburg Verlag GmbH, München, PP. 113-114

<sup>142</sup> C.F. Freyer W. (1995). 'Tourismus'. Oldenburg Verlag GmbH, München, P. 230

<sup>143</sup> C.F. Bieberstein I. (1995). 'Dienstleistungsmarketing I'. Christian Weis. Kiehl, P. 53

<sup>144</sup> C.F. Bieberstein I. (1995). 'Dienstleistungsmarketing I'. Christian Weis. Kiehl, P. 252

<sup>145</sup> C.F. Forschungsgemeinschaft Urlaub und Reisen e.V. (2012). 'RA Reiseanalyse 2012 - Erste ausgewählte Ergebnisse'. FUR, Kiel, PP. 2-6

<sup>146</sup> C.F. German Federal Statistical Office (2012). 'Tourism'. Retrieved from <https://www.destatis.de/DE>

<sup>147</sup> C.F. Statistisches Bundesamt (2012). 'Binnenhandel, Gastgewerbe, Tourismus'. Fachserie 6, Reihe 7.1, August, Wiesbaden, P. 22

The average room rate without VAT increased by 1.4% to 92€ per night, which is still below the rate from 2008 before the global crisis of the economy started. About 10.6% of the hotel companies are part of a brand offering 38.3% of all available hotel rooms. In total more than 265000 employees are social security insured.<sup>148</sup>

Per definition, a hotel is a building that provides lodging, meals, and other services to the traveling public on a commercial basis.<sup>149</sup> A hotel product consists of four areas: the lodging (room size, bed type, cleanliness ...), food and beverage (restaurant, breakfast, lunch ...), product oriented additional services (spa, bar, shops, gym ...) and services (check-in, room-service ...).<sup>150</sup> The main categories in the hotel business are transient, resort, and residential hotels. Hotels are classed as transient when at least 75 percent of their guests are not permanent residents, resort hotels are luxury facilities with a focus on vacationers, residential hotels are apartment buildings with maid-service, dining room, and room meal service.<sup>151</sup>

Based on the retail format hotels can be further separated into the following formats: conference hotels, sport hotels, theme hotels, design hotels, family hotels and casino hotels.<sup>152</sup> Further, business hotels and resort hotels can be differentiated. A new trend especially in the budget sector is hostels.

From a quality standpoint, almost all countries offer a star rating from one to five stars to classify a hotel product. The more stars the better, but no general international accepted rating system is in place. A first approach to harmonize the hotel classification systems in Europe was started in 2010 under the patronage of HOTREC (Hotels, Restaurants and Cafes in Europe). The hotels associations of Austria, Czech Republic, Germany, Hungary, Netherlands, Sweden and Switzerland are the founding members of the Hotelstars Union. Estonia (2011), Latvia (2011), Lithuania (2011), Luxembourg (2011) and Malta (2012) joined the program since then. The partnership is providing a system with common criteria and procedures in the participating countries.<sup>153</sup> In 2011, 8258 of the German Hotels were rated officially with hotel stars.<sup>154</sup>

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<sup>148</sup> C.F. Luthe M., Warnecke T., Herzog L., Hobi A. (2012). 'Hotelmarkt Deutschland 2012'. IHA-Service GmbH, Bonn, PP. 6-7

<sup>149</sup> C.F. Encyclopædia Britannica (2012). 'Hotel'. Retrieved from <http://www.britannica.com/Ebchecked/topic/272833/hotel>, 27.05.2013

<sup>150</sup> C.F. Dreyer A., Dehner C. (1998). 'Kundenzufriedenheit im Tourismus'. R. Oldenburg Verlag, München, P. 12

<sup>151</sup> C.F. Encyclopædia Britannica (2012). 'Hotel'. Retrieved from <http://www.britannica.com/Ebchecked/topic/272833/hotel>, 27.05.2013

<sup>152</sup> C.F. Dreyer A., Dehner C. (1998). 'Kundenzufriedenheit im Tourismus'. R. Oldenburg Verlag, München, P. 13

<sup>153</sup> C.F. THE HOTELSTARS UNION (2012). 'Hotelstars'. Retrieved from <http://www.hotelstars.eu/en/>

<sup>154</sup> C.F. Luthe M., Warnecke T., Herzog L., Hobi A. (2012). 'Hotelmarkt Deutschland 2012'. IHA-Service GmbH, Bonn, P. 7

The quality of a hotel experience can be divided into a tech and a touch dimension. The tech dimension represents all tangible aspects, processes and hard-facts. The touch dimension covers the emotional areas like atmosphere, company culture, personality or complaint management. Hotel rating systems like “Hotelstars” cover mainly the tech dimension. When it comes to complaints, 44% are based on the tech dimension, 56% on the touch dimension.<sup>155</sup> Following the Kano model, both dimensions can be further separated into the levels basics, standards and attractions.<sup>156</sup>

Based on the type of a hotel product the marketing has some specifics, which have to take into consideration. With the change of a ‘sellers’ market to a ‘buyers’ market, marketing is regarded as a central success element of management. Since then companies are forced to use diverse channels to acquire new customers or to stay in touch with the existing ones.<sup>157</sup> In general, marketing can be separated into the areas of consumer goods, capital goods and services. Although the tourism belongs to the service industry, the marketing is much more complex as for instance the marketing for banks.<sup>158</sup>

A hotel product consists of several points, which underline the importance of marketing. A hotel is immaterial until the arrival which means the hotel is tied to a location, the consumer has to pass by to evaluate the product. A hotel room is not storable; a non-sold room is gone forever. A hotel is complementary to other touristic services; it is normally part of a whole package consisting for instance of the city, the transportation, leisure offerings etc.<sup>159</sup> Two more and very important points are specific to the hotel business which underline the importance of marketing; it is the low purchase frequency and the low brand awareness compared to other industries. Even if a hotel is part of a multi-national brand, a low market penetration combined with limited budgets results in a weak level of brand awareness on the consumer side. In Germany in 2011, 175 companies offered 258 brands additionally 65 hotel co-operations tried to attract the consumer with their trademarks.<sup>160</sup> In total 323 brands competed for the awareness of hotel customers.

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<sup>155</sup> C.F. Dreyer A., Dehner C. (1998). 'Kundenzufriedenheit im Tourismus'. R. Oldenburg Verlag, München, P. 39-43

<sup>156</sup> C.F. Bruhn M. (2009). 'Relationship Marketing'. Vahlen, München, P. 70

<sup>157</sup> C.F. Ziegler M., Morath J., Zingler M., Isenbart J., Schwadertapp W., Summa H. (2011). 'Future of Advertising 2015'. Arthur D. Little, Düsseldorf, P. 6

<sup>158</sup> C.F. Dettmer H., Hausmann T., Kloss I., Meisl H., Weithöner U. (1999). 'Tourismus-Marketing-Management'. R. Oldenburg Verlag, München, PP. 4-5

<sup>159</sup> C.F. Dreyer A., Dehner C. (1998). 'Kundenzufriedenheit im Tourismus'. R. Oldenburg Verlag, München, PP. 15-17

<sup>160</sup> C.F. Luthe M., Warnecke T., Herzog L., Hobi A. (2012). 'Hotelmarkt Deutschland 2012'. IHA-Service GmbH, Bonn, PP. 158-160

A study conducted by the GfK in 2007 revealed the following listing of hotel brands in Germany. The number in brackets represents the previous year 2006. The participants were asked what hotel brand is top of their mind.

1. Hilton 14.3% (12.6%)
2. Maritim 7.0% (6.6%)
3. Steigenberger 5.8% (6.3%)
4. Holiday Inn 5.7% (8.8%)
5. Ibis 5.2% (7.5%)
6. Mercure 2.6% (1.9%)
7. Novotel, Dorint Novotel, Dorint 2.4% (10.2%)
8. InterContinental 2.2% (1.6%)
9. Mövenpick 2.0% (1.3%)
10. Ramada 1.7% (1.5%)<sup>161</sup>

Hilton the number one in the ranking had in 2007 the moderate number of 15 hotels in Germany.<sup>162</sup> Since Hilton had the same limited marketing budgets and is also much smaller compared to the other hotel groups in Germany the assumption of the author is, that Paris Hilton and her presence in the boulevard media was responsible for the prime listing. Hotel companies, even multinational enterprises, are compared to other industries relatively small. Volkswagen annual revenue is above 100 billion €, the biggest hotel chain in Germany Accor generated 0,815 billion € in 2010, the “Neue Dorint” on the 10<sup>th</sup> place produced less than 250 million €. <sup>163</sup> These numbers explain why hotel companies have not the adequate funding for expensive mass-marketing channels.

During the buying decision process, the hotel brand influences the booking by 29.9%; personal recommendations with 64.9% and the star rating with 40.7% are far above. Hotel evaluations on the internet follow with 27.8%.<sup>164</sup> It can be stated the belonging to a brand does not replace other marketing activities. In order to stay in touch with their existing customer base to create remembering effects or buying impulses hotels have to rely on direct marketing channels.

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<sup>161</sup> C.F. Luthe M., Bohne H. (2008). 'Hotelmarkt Deutschland 2008'. Hotelverband Deutschland e.V., Berlin, PP. 98-106

<sup>162</sup> C.F. Luthe M., Bohne H. (2008). 'Hotelmarkt Deutschland 2008'. Hotelverband Deutschland e.V., Berlin, PP. 98-106

<sup>163</sup> C.F. Der Hotelier (2011). 'Dynamische Top 50'. No. 30. AHGZ, Stuttgart, P. 3

<sup>164</sup> C.F. Luthe M., Warnecke T., Herzog L., Hobi A. (2012). 'Hotelmarkt Deutschland 2012'. IHA-Service GmbH, Bonn, P. 202

Morgan and Regan had proven the correlation between customer satisfaction and a company's performance. Non-economic indicators like customer satisfaction or customer loyalty are linked to growth in sales or shareholder value.<sup>165</sup> In a normal economic environment, satisfaction is directly linked to loyalty. However, satisfaction does not necessarily result in repeat purchases or customer loyalty.<sup>166</sup> 60–80% of customers who were satisfied or very satisfied on a survey defect afterwards to a competitor.<sup>167</sup> In the automotive industry, for instance 90% of the customers are satisfied or very satisfied, but the repurchase rate is only 30 to 40%.<sup>168</sup> Nevertheless, satisfaction is conceived as the key to success in today's competitive landscape.<sup>169</sup> On the other hand, un-satisfaction does usually terminate the customer relation.<sup>170</sup>

In the tourism-industry, travel agencies have a share of 50% regulars, tour operator 25% and hotels about 5 to 7%.<sup>171</sup> In respect to loyalty, the aspects of attachment and ligation have to be considered.<sup>172</sup> Attachment describes the voluntary bond from a customer to the supplier. Ligation is the result of an un-voluntary bond. Emotional dominated relationships show a high level of commitment, un-voluntary loyalty results normally in a search for alternatives.<sup>173</sup>

In the hotel-industry, ligation loyalty is very common. Sales manager tries to negotiate contracts with companies providing special rates and services and the contractors return is a pre-defined volume of nights within a certain period. The travel manager of a company is the counterpart of the hotel sales manager. In such an environment, guests are finally often not part of the buying decision process. This means hotels regard customers as

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<sup>165</sup> C.F. Morgan N., Rego L. L. (2006). 'The Value of Different Customer Satisfaction and Loyalty Metrics in Predicting Business Performance'. *Marketing Science*, Vol 25, No. 5, PP. 426-439

<sup>166</sup> C.F. Bowen J. T., Shoemaker S. (2003). 'Loyalty: A Strategic Commitment'. *Cornell Hotel & Restaurant Administration Quarterly*, 44(5/6), P. 33

<sup>167</sup> C.F. Reichheld F. R., Markey Jr. R. G. (2000). 'The loyalty effect-the relationship between loyalty and profits'. *European Business Journal* 12(3), P. 137

<sup>168</sup> C.F. Reichheld F. (1996). 'The Loyalty Effect. The Hidden Force behind Growth, Profits and Lasting Value'. McGraw-Hill Professional, Boston, P. 236

<sup>169</sup> C.F. del Bosque I. R., San Martin H. (2008). 'Tourist Satisfaction - A Cognitive-Affective Model'. *Annals of Tourism Research*, Vol. 35, No. 2.. Elsevier Ltd., P. 551

<sup>170</sup> C.F. Mittal B., Lassar W. M. (1998). 'Why do Customers Switch? The Dynamics of Satisfaction'. *Journal of Services Marketing*, Vol. 12, No. 3, PP. 177-194

<sup>171</sup> C.F. Top Hotel (2001). '100% Loyalität, 0% Fluktuation'. No. 12, P. 62

<sup>172</sup> C.F. Bruhn M. (2009). 'Relationship Marketing'. Vahlen, München, P. 87

<sup>173</sup> C.F. Rudolph A., Rudolph M. (2000). 'Customer Relationship Marketing'. Cornelsen, Berlin, PP. 35-36

loyal although no attachment exists and the bookings were placed only due to a contractual obligation.

The aspect of voluntary and un-voluntary loyalty plays a significant role since the interest to create a bond between both parties starts from two different sides. The driver of voluntary loyalty is the customer; the supplier normally drives un-voluntary loyalty. Compared to litigation attachment has a stronger influence on the consumer loyalty.<sup>174</sup> For a hotel, loyalty can be defined as the likelihood of a customers' returning to a hotel and the willingness of that person to behave as a partner to the organization.<sup>175</sup>

There are different reasons why customer loyalty plays such a significant role in modern management: competition, saturated markets, interchangeable products, more experienced and demanding customers and an increased market transparency<sup>176</sup> through the internet and the web2.0 with Twitter, Facebook or evaluation platforms for hotels such as HolidayCheck or Tripadvisor. In addition, the soaring distribution costs for bookings through indirect channels are a reason to focus on loyal customers.

Even if most managers have a hard time when it comes to present real numbers and KPI's (Key Performance Indicators) for their CRM activities, almost everyone today agree that loyalty is a beneficial goal. Maintaining customer loyalty has moved to the forefront of marketing activities in an effort to develop long-term, mutually beneficial bonds with existing customers. Therefore, the central role within a sustainable management is the creation of a long-term and profitable customer base.<sup>177</sup> How valuable loyalty is shows the following figures: the lifetime revenue stream from a loyal pizza eater is about 8,000 US\$, for a Cadillac Owners 332,000 US\$.<sup>178</sup> Ritz-Carlton as one of the leading luxury hotel chains calculates with a CLV (Customer Lifetime Value) for individual guests of 100,000 US\$.<sup>179</sup> In 1990, Reichheld and Frederich released an article in the Harvard Business Review, which describes

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<sup>174</sup> C.F. Bliemel F. W., Eggert A. (1998). 'Kundenbindung. Die neue Sollstrategie?'. Marketing ZFP, 20. Jg. No.1, PP. 43-44

<sup>175</sup> C.F. Bowen J. T., Shoemaker S. (2003). 'Loyalty: A Strategic Commitment'. Cornell Hotel & Restaurant Administration Quarterly, 44(5/6), PP. 33-34

<sup>176</sup> C.F. Raab G., Werner N. (2009). 'Customer Relationship Management'. Verlag Recht und Wirtschaft GmbH, Frankfurt am Main, P. 11

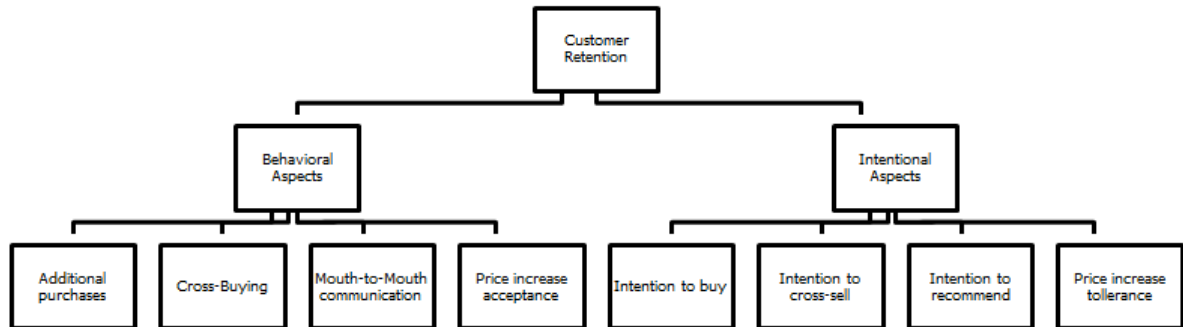
<sup>177</sup> C.F. Raab G., Werner N. (2009). 'Customer Relationship Management'. Verlag Recht und Wirtschaft GmbH, Frankfurt am Main, P. 5

<sup>178</sup> C.F. Heskett J., Jones T. O., Loveman G. W., Sasser Jr. W. E., Schlesinger L. A. (2008). 'Putting the Service-Profit Chain to Work'. Harvard Business Review, July-August 2008, P. 2

<sup>179</sup> C.F. Gardini M. A. (2004). 'Marketing-Management in der Hotellerie'. Oldenburg Wissenschaftsverlag, München, P. 233

the result of loyalty on the economic outcome of an organization. They stated that even 5% more loyal customers could boost profits by up to 100% depending on different variables.<sup>180</sup>

The effects of loyalty can be segmented into active and passive loyalty. Passive loyalty means the consumer does not switch even under less positive conditions.<sup>181</sup> From a revenue perspective, passive customers are also those who have only intentions to act in a positive way in the future but have not done it so far. The two different aspects of loyalty are shown in the following figure.



**Figure 19. Behavioral and Intentional Aspects of Customer Retention**

Source: Own Figure (2013) based on Homburg C., Bruhn M. (2008). 'Handbuch Kundenbindungsmanagement. Strategien und Instrumente für ein erfolgreiches CRM'. Gabler Verlag., Wiesbaden, P. 9

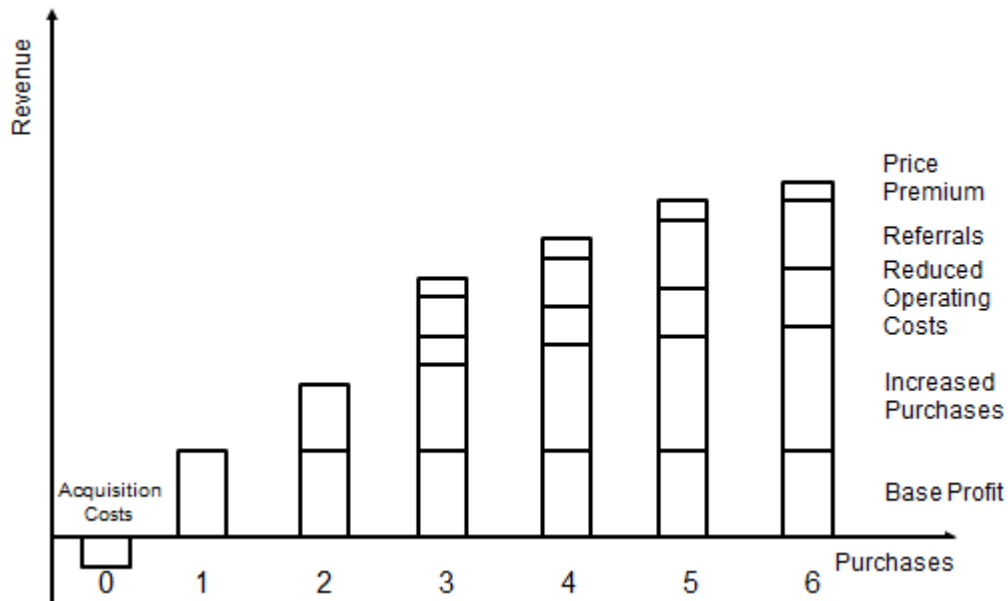
For a company active or behavioral loyalty is characterized by additional purchases, cross buying, a positive word-of-mouth communication and the acceptance of a price increase acceptance. The next figure describes the positive effects, which are linked with the number of additional bookings made by a repeat customer. The relationship starts with the acquisition costs respectively the marketing costs to get a new customer, with the first purchase a certain base profit can be generated which increases with additional bookings. With upcoming purchases, less support is needed due to the product knowledge of the customer, which reduces the operating costs. On top loyal customers potentially supports the acquisition of new customers through a positive word-of-mouth and finally loyal customers are less price-sensitive since they value the product and services.<sup>182</sup>

<sup>180</sup> C.F. Reichheld F., Sasser E. (1990). 'Zero defections: quality comes to service'. Harvard Business Review on Point, Product Number 519, P. 3

<sup>181</sup> C.F. Ball D., Coelho P. S., Machás A. (2004). 'The role of communication and trust in explaining customer loyalty'. European Journal of Marketing, Vol 38, No 9/10, P. 1273

<sup>182</sup> C.F. Reichheld F., Sasser E. (1990). 'Zero defections: quality comes to service'. Harvard Business Review on Point, Product Number 519, P. 4





**Figure 20. The Reasons why Loyalty has Positive Economic Effects**

Source: Own Figure (2012) based on Reichheld F., Sasser E. (1990). 'Zero defections: quality comes to service'. *Harvard Business Review on Point, Product Number 519, P. 4*

Bruhn stated that the intensive use of CRM leads to a better qualitative (customer satisfaction, customer loyalty etc.) and economical (profitability, growth rate) success<sup>183</sup> and Gruner lists the increase of security, more growth and profitability<sup>184</sup> as reasons for CRM. Consumer loyalty is valuable for a firm, as it is generally less expensive to maintain existing customers than to attract new customers.<sup>185</sup> Müller analyzed that catering loyal customers requires only 15 to 20% of the expenses as the acquisition of new clients.<sup>186</sup> The attraction of new guests costs three to five times as much as to retain existing ones and previous guests strongly influence others by word of mouth recommendation.<sup>187</sup> The US Hotel company Rosewood published acquisition costs for a new hotel guest of approximately 150 US\$.<sup>188</sup> A

<sup>183</sup> C.F. Bruhn M. (2009). 'Relationship Marketing'. Vahlen, München, P. 4

<sup>184</sup> C.F. Gruner A. (2003). 'Markenloyalität in der Hotellerie'. Verlag Dr. Kovac, Hamburg, P. 47

<sup>185</sup> C.F. Reichheld F., Sasser E. (1990). 'Zero defections: quality comes to service'. *Harvard Business Review on Point, Product Number 519, PP. 105-111*

<sup>186</sup> C.F. Müller W., Riesenbeck H.-J. (1991). 'Wie aus zufriedenen Kunden auch anhängliche Kunden werden'. *Harvard Manager, No. 3, 13. Jg., PP. 67-79*

<sup>187</sup> C.F. Hellstrand P. (2009). 'Understanding Guest Satisfaction'. Retrieved from <http://www.hospitalitynet.org/news/4044511.print>, 23.09.2010

<sup>188</sup> C.F. Chekitan S., Stroock L. (2007). 'Rosewood Hotels & Resorts: Branding ot Inceas Customer Profitability and Lifetime Value'. *Harvard Business School, No. 2087, P. 13*

market analysis from the German company Eismann revealed that 100 satisfied customers acquire about 30 new customers.<sup>189</sup> Finally, loyal customers are not that price sensitive compared to new ones, as an existing customer knows the product and the value and can better evaluate the price for the product. Homburg revealed that regular customers are willing to accept a 5% price increase for a satisfactory relationship.<sup>190</sup> Beside the price increase tolerance, Alegre and Juaneda analyzed that the expenditures of repeat customers increases too. In their report about vacationers in the Balearics, repeaters spent 16.5% more than first-timers. They argue that visits to the same area imply an emotional attachment and this is associated with a willingness to spend more.<sup>191</sup> Further advantages of a loyal customer base are the increase of tolerance, the growing willingness to give feedback and based on that a better knowledge from the company about the needs of the existing customers in order to improve product quality.<sup>192</sup>

Summarized the author follows the argumentation of Alegre and Juaneda who wrote that in marketing and tourism analysis, repeat visits have generally been regarded as desirable because, among other things, it is thought, first, that the marketing costs needed to attract repeaters are lower than those required for first-time tourists; second, a return is a positive indicator of one's satisfaction; third, an inertial attitude of high repeaters increases their likelihood to return. General research has also focused on the relationship between brand loyalty and price sensitivity, leading to the conclusion that loyalty reduces consumer sensitivity to price variations.<sup>193</sup>

One central aspect why hotel managers are focused on customer loyalty is the ongoing shift of the distribution to costly third party channels mainly caused through the internet. In 2011, 72% of the German society uses the internet for business or private use. 95% of the age-group 14 to 29 years old, 89% of the age-group 30 to 49 and still 68% of the group from 50 to 64. Most of them, 84% uses a computer at home to browse the internet, 35% do it in the office

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<sup>189</sup> C.F. Müller W., Riesenbeck H.-J. (1991). 'Wie aus zufriedenen Kunden auch anhängliche Kunden werden'. *Harvard Manager*, No. 3, 13. Jg., P. 69

<sup>190</sup> C.F. Homburg C., Rudolph B. (1995). 'Wie zufrieden sind ihre Kunden tatsächlich?'. *Harvard Business Manager*, No 1, 17. Jg., Hamburg, P. 43

<sup>191</sup> C.F. Alegre J., Juaneda C. (2006). 'Destination Loyalty - Consumer's Economic Behavior'. *Annals of Tourism Research* Vol. 33, No. 3. Elsevier Ltd, P. 695

<sup>192</sup> C.F. Raab G., Werner N. (2009). 'Customer Relationship Management'. Verlag Recht und Wirtschaft GmbH, Frankfurt am Main, PP. 113-114

<sup>193</sup> C.F. Alegre J., Juaneda C. (2006). 'Destination Loyalty'. *Annals of Tourism Research* Vol. 33, No. 3. Elsevier Ltd, P. 685

and 24% go online via a mobile device.<sup>194</sup> With the increased usage of the internet, customers have changed their search and booking habits for travel services. Between 2001 and 2011 the share of booking decisions influenced by the internet increased by 327% to a total share of 49%. In 2013, 29% of the population did not only search for information but also booked their travel online.<sup>195</sup> For 2013, the share of electronically generated bookings is forecasted at 40%, which represents an increase from 2008 to 2013 of 290%.<sup>196</sup> In 2011, the share of distribution channels in German hotels was the following: 5.7% walk-ins; 28.2% per fax, mail or e-mail; 25.09% by phone; 30.1% by electronic channels and 11% through tour operators, travel agents and others.<sup>197</sup> Already in 2009 depending on the type of property and the destination, 15 to 44% of all bookings came through online channels.<sup>198</sup> In 2011 in Germany, Austria and Switzerland on average 31.8% of the bookings came through indirect channels.<sup>199</sup> The annual sales volume of the travel sector in the year 2011 was almost 100 billion US\$, which is around a third of all global e-commerce activities.<sup>200</sup> The growing relevance of the internet have led to an increasing shift from direct to indirect booking channels which has also led to increasing distribution costs in form of commissions. The commission payment represents today a volume of 1.3 billion Euro.<sup>201</sup>

The shift from direct to indirect channels is fully charged to the profitability. The following figure shows the profit margins for the different channels. The margin starts with almost 95% for direct bookings and decreases down to 50% for hotel rooms distributed through wholesalers.

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<sup>194</sup> C.F. Bertsch M., Huth N., Arenz R. (2011). 'Netzgesellschaft'. BITKOM, Bundesverband Informationswirtschaft, Telekommunikation und neue Medien e. V., Berlin, PP. 9-11

<sup>195</sup> C.F. Luthe M., Warnecke T., Herzog L., Hobi A. (2012). 'Hotelmarkt Deutschland 2012'. IHA-Service GmbH, Bonn, PP. 166-167

<sup>196</sup> C.F. Spalteholz B. (2011). 'Die Wertschöpfungskette aus Sicht des Hoteliers'. Spalteholz Hotelkompetenz GmbH & Co. KG. Dehoga Verlag Interhoga, Berlin, P. 3

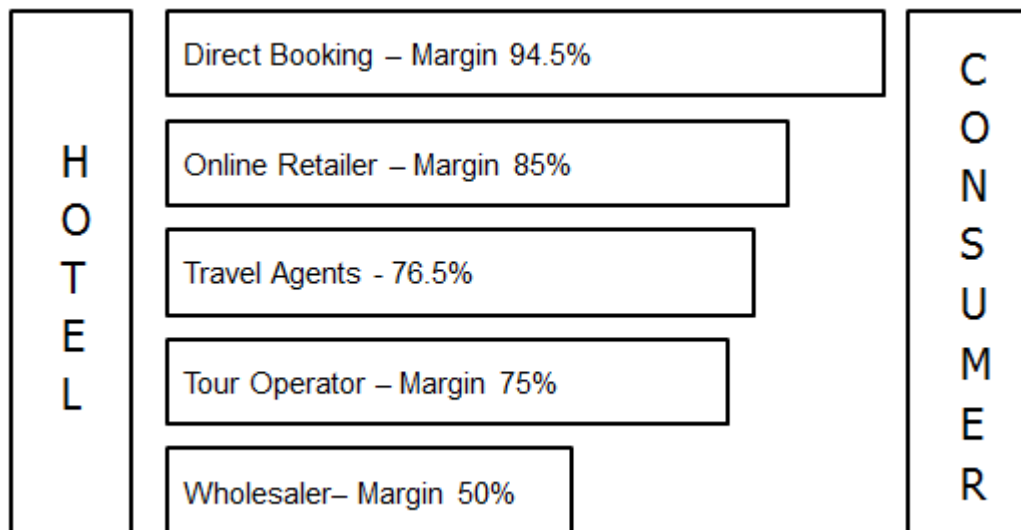
<sup>197</sup> C.F. Luthe M., Warnecke T., Herzog L., Hobi A. (2012). 'Hotelmarkt Deutschland 2012'. IHA-Service GmbH, Bonn, P. 170

<sup>198</sup> C.F. Pütz-Willems M. (2009). 'Internet Portale Teil2'. retrieved from [www.hospitalityinside.com](http://www.hospitalityinside.com)

<sup>199</sup> C.F. Schegg R., Fux M. (2012). 'Die Macht der Buchungsportale'. Institut für Tourismus, Fachhochschule Westschweiz, Siders, P. 15

<sup>200</sup> C.F. Carey R., Kang D., Zea M. (2012). 'The trouble with travel distribution'. McKinsey Quarterly, February, P. 2

<sup>201</sup> C.F. Schegg R., Fux M. (2012). 'Die Macht der Buchungsportale'. Institut für Tourismus, Fachhochschule Westschweiz, Siders, PP. 5-6



**Figure 21. Overview of the Profitability of the different Hotel Booking Channels**

*Source: Own Figure (2013) based Spalteholz B. (2011). 'Die Wertschöpfungskette aus Sicht des Hoteliers'.*

*Spalteholz Hotelkompetenz GmbH & Co. KG. Dehoga Verlag Interhoga, Berlin, P. 14*

79% of the internet bookings 2011 in Germany came through only three distributors, HRS, Hotel.de and Booking.com.<sup>202</sup> Commissions of 10% to 30% are charged for a booking generated through an indirect channel, and the commission tendency is increasing. In 2011, the average commission was 14.85%.<sup>203</sup>

Because of the soaring distribution costs, almost all hotels try to empower the direct distribution. Beside the hotel website and social media Relationship Marketing is a central part of a direct distribution strategy since loyal customers normally book a hotel more frequently direct by using hotel own channels like the hotel website. The own channels have significant cost advantages. As Carey, Kang and Zea wrote suppliers should shift from a business-to-business, channel-centric approach to a decidedly customer-centric one: the overarching goal should be to win customers, not to fight a zero-sum game with intermediaries.<sup>204</sup> In order to remain or become profitable hotel managers in particular have to focus on loyalty.

<sup>202</sup> C.F. Luthe M., Warnecke T., Herzog L., Hobi A. (2012). 'Hotelmarkt Deutschland 2012'. IHA-Service GmbH, Bonn, P. 173

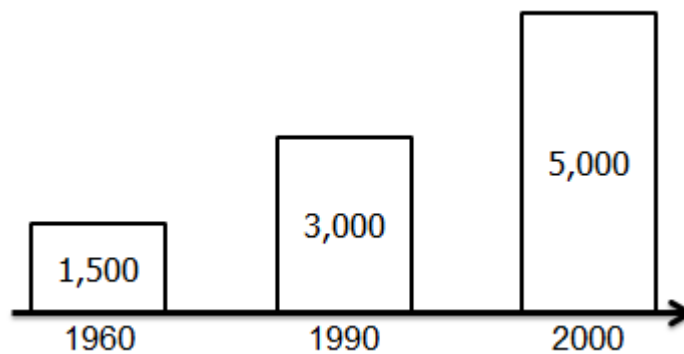
<sup>203</sup> C.F. Sponsel D. (2011). 'Preispolitik der führenden Buchungsportale wirft neue Fragen auf'. in HDV DEPESCHE; Nr 73. HDV, Bad Honnef, PP. 6-7

<sup>204</sup> C.F. Carey R., Kang D., Zea M. (2012). 'The trouble with travel distribution'. McKinsey Quarterly, February, P. 4

## 2.2 The Role of Communication in Marketing

### 2.2.1 The Media Society and the Communication Overload

Each day a person living in an industrialized country is exposed to several thousand advertisements. The following figure shows the development between 1960 and 2000. In 1960, 1500 advertisement messages a US resident was exposed every single day, the number doubled until 1990 to 3000 and in the year 2000 about 5000 messages were estimated.<sup>205</sup> Due to the similarities of the markets, homothetic numbers can be assumed for Western Europe. Yankelovich estimates that a person who lived in a city in 1980 saw up to 2000 advertisement-messages a day, compared with up to 5000 today.<sup>206</sup> Holland mentions 3000 messages<sup>207</sup> through the channels television, radio, internet, newspapers and magazines, billboards, shop windows etc.



**Figure 22. The Development of the Number of Advertising Messages since 1960**

Source: Own Figure (2013) based on Aufreiter N. A., Elzinga D., Gordon J. W. (2003). 'Better Branding'. *The McKinsey Quarterly* No 4, P. 30

The before mentioned numbers are controversially discussed. Bauer, Geyer came in 1965 to only a third respectively 500 opportunities to exposure<sup>208</sup> instead of 1500. The American Association of Advertising Agencies calculated in 2007 a number of 600 to 625

<sup>205</sup> C.F. Aufreiter N. A., Elzinga D., Gordon J. W. (2003). 'Better Branding'. *The McKinsey Quarterly* No 4, P. 30

<sup>206</sup> C.F. Story L. (2007). 'Anywhere the Eye Can See, It's Likely to See an Ad'. *The New York Times*, New York

<sup>207</sup> C.F. Holland H. (2009). 'Die aktuellen Trends des Dialogmarketings'. *ONEtoONE* 12, P. 33

<sup>208</sup> C.F. Preston I. L. (1969). 'Advertising in America: The Consumer View (Book Review)'. *Journal Of Consumer Affairs*, 3(1), P. 82

potential exposures whether noticed or not; 272 were from TV, radio, magazines and newspapers.<sup>209</sup>

The more channels are available for the transmitting of marketing messages the higher the ad exposure per consumer is. Variables like the destination where a consumer lives, in a rural or urban environment, his way to work and the kind of transportation he takes, the time he spent on the internet or in front of the television, etc. plays a role of how many ad's the consumer is exposed to. Based on the pre-mentioned variables the author agrees more with the assumption of several thousand instead of several hundreds.

Through the internet and the growing number of media channels, the number of ad exposures also went up in the past years. However, not the number of exposures but the number of noticed exposures is critical for success. The consumer has to perceive the message to decode, to learn and potentially react. In 1965 Bauer, Geyer came to the conclusion that only 76 exposures, rounded 15%, were noticed from a total of 500 ads.<sup>210</sup> In 1985, 18% of TV users stated that they were able to remember TV commercials recently seen. In 2002, the number dropped to 8%. On the other hand, the advertising budget increased by 175% between 1990 and 2000.<sup>211</sup> Although the spending was higher, it led to weaker results and to a communication overload.

Kroeber-Riel confirmed these numbers and used as an explanation the term information overload. He concluded that only 5% of the advertising messages finally reaches the consumer.<sup>212</sup> It can be stated that the so-called communication overload plays a significant role for the marketing today. Bendall-Lyon and Powers came therefore to the conclusion that mass communication has no influence on satisfaction or loyalty.<sup>213</sup>

Yankelovich confirms this assumption as he found out that half of the 4110 people who took part in a survey said that they thought marketing and advertising today were out of control. The reason why explains the executive vice president of marketing and sales at Universal Orlando Resort, who says that the landscape is overly saturated as companies press

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<sup>209</sup> American Association of Advertising Agencies (2007). "How many advertisements is a person exposed to in a day?". Retrieved from <https://ams.aaaa.org/eweb/upload/faqs/adexposures.pdf>

<sup>210</sup> C.F. Preston I. L. (1969). 'Advertising in America: The Consumer View (Book Review)'. *Journal Of Consumer Affairs*, 3(1), P. 82

<sup>211</sup> C.F. Seelbach T. (2011). 'AFNB Symposium Mai 2011 - Gehirn und Konsum', München, P. 10

<sup>212</sup> C.F. Dettmer H., Hausmann T., Kloss I., Meisl H., Weithöner U. (1999). 'Tourismus-Marketing-Management'. R. Oldenburg Verlag, München, P. 50

<sup>213</sup> C.F. Bendall-Lyon D., Powers T. L. (2003). 'The Influence of Mass Communication and Time on Satisfaction and Loyalty'. *Journal of Services Marketing*, Vol. 17 No. 6. MCB UP Limited, Bradford, P. 603

harder to make their products stand out.<sup>214</sup> Googles Senior Vice President of Americas Sales peers into the future of advertising: “The deluge of information could drown the consumer”.<sup>215</sup>

31% of the German population complain to constantly suffer from this phenomenon, 30% from time to time. Totaling both groups the following levels for the different age-groups are: 14 to 29 years old 45%; 30 to 49 years old 65%; 50 to 64 years old 65% and 65 years and older 70%.<sup>216</sup>

One reason for the communication overload is the undifferentiated sending of messages. It seems that marketers’ neglect the fact that a homogenous target group does not exist anymore, each consumer is an individual represents a single target. One communication message for all customers is no more meeting the requirement. Consumers suffering under a communication overload need an individualized direct communication, which are of interest and provide real value.<sup>217</sup> The consumer today is increasingly unique, connected and informed.<sup>218</sup> Communication messages should be customized using the existing guest data to fulfill this requirement.

## ***2.2.2 Transaction versus Relationship Oriented Marketing***

The management possess four instruments to retain customers: the product, the price, the promotion and the distribution channels (the place).<sup>219</sup> Organizations in the service sector have three additional P’s: processes, people und physical evidence. Dettmer argues that the traditional 4 P’s of marketing are all a kind of marketing communication since the price, the distribution channel(s) and the product itself provide information and are therefore a kind of communication respectively promotion.

In the area of marketing two distinguished approaches are in place, it is the transaction-oriented marketing and the relationship-oriented marketing. The subject of

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<sup>214</sup> C.F. Story L. (2007). 'Anywhere the Eye Can See, It's Likely to See an Ad'. Retrieved from <http://www.nytimes.com/2007/01/15/business/media/15everywhere.html?scp=1&sq=5%2C000+advertisements&st=nyt>, 11.06.2011, The New York Times, New York

<sup>215</sup> Woodside D. (2011). 'Route to 2015'. Retrieved from <http://thinkwithgoogle.com/quarterly/innovation/route-to-2015.html>

<sup>216</sup> C.F. Bertsch M., Huth N., Arenz R. (2011). 'Netzgesellschaft'. BITKOM, Bundesverband Informationswirtschaft, Telekommunikation und neue Medien e. V., Berlin, P. 37

<sup>217</sup> C.F. Holland H. (2009). 'Die aktuellen Trends des Dialolgmarketings'. ONEtoONE 12, PP. 33-34

<sup>218</sup> C.F. Dean S. F. (2011). 'Hotel business intelligence seeking its identity'. Retrieved from [www.hotelnewsnow.com](http://www.hotelnewsnow.com), P. 2

<sup>219</sup> C.F. Raab G., Werner N. (2009). 'Customer Relationship Management'. Verlag Recht und Wirtschaft GmbH, Frankfurt am Main, PP. 115-117

relationship marketing aroused in the mid 1980's. It reflects the development from a classic inside out oriented transaction marketing to a more outside-in oriented relationship marketing. Within relationship marketing not the 4P's are the starting point, the starting point is the relationship between the company and its customers.<sup>220</sup> Instruments used for relationship marketing are among others mailings, outbound phone calls, newsletters, corporate publishing, loyalty cards and clubs, events,<sup>221</sup> e-mail, the social web with platforms like Facebook, twitter, LinkedIn, Xing or blogs.

**Table 2. Overview of the Differences between Transaction and Relationship Marketing**

	<b>Transaction Oriented Marketing</b>	<b>Relationship Marketing</b>
<b>Timeframe</b>	Short term	Long term
<b>Marketing object</b>	Product	Product and interaction
<b>Marketing goal</b>	Get new clients - selling of products now	Get new client, keep clients, retain clients – selling of products now and in the future
<b>Communication Strategy</b>	Show product	Stay in touch
<b>Economic goals</b>	Sales, increase turnover	Same plus improve of customer lifetime value and profit margins

Source: Own Figure (2013) based on Bruhn M. (2009). 'Relationship Marketing'. Vahlen, München, P. 15

The figure above describes the different approaches of marketing. The most important differentiator is the targeted timeframe; for transaction oriented marketing short term effects are in the focus in order to sell a specific product, acquire new clients and finally increase the turnover. For Relationship Marketing, the long-term effects are central for the marketers. Everything is based on a “stay-in-touch” strategy to get new, keep current, and retain former clients who should buy now or in the future the products of the transmitter. The improvement of the lifetime value and acceptable profit margins are the economic goals.<sup>222</sup>

The “stay-in-touch” strategy shall embed the brand in the brain of the consumer to avoid that the receiver forgets the product experiences made in the past; communication

<sup>220</sup> C.F. Bruhn M. (2009). 'Relationship Marketing'. Vahlen, München, P. 5

<sup>221</sup> C.F. Dreyer A., Dehner C. (1998). 'Kundenzufriedenheit im Tourismus'. R. Oldenburg Verlag, München, P. 170

<sup>222</sup> C.F. Bruhn M. (2009). 'Relationship Marketing'. Vahlen, München, P. 15



therefore has important remembering effects.<sup>223</sup> The goal is that the brand becomes a part of the evoked set of the consumer and the communication receiver considers the product during current or future buying processes. This results in the fact that even regular customers need an ongoing penetration with marketing communications to reduce the risk of migration and to create buying impulses.

An organization engaged in proactively creating, developing and maintaining committed, interactive and profitable exchanges with selected customers (partners) overtime is engaged in relationship marketing.<sup>224</sup> Beside relationship and transaction-oriented marketing, the aspect of service-oriented communication plays an increasing role especially in the hospitality industry. „Traditionally, advertising and marketing communication have been considered in general as sales-generating functions. In a service context it is, however, relevant to change the perspective and look at communication as a part of the service.”<sup>225</sup>

For the hotel business service oriented marketing relates to the travel phases of booking, pre-travel, travel and post travel from the pre-explained customer journey (see chapter 1.3 The Customer Journey Approach and the Buying Process). During these phases, the hotel can transmit relevant and useful information to increase satisfaction or avoid dissatisfaction and create up- and cross-selling opportunities as a side effect. For instance, the remark before arrival that a spa-treatment should be booked beforehand to avoid difficulties due to unavailability helps to avoid complaints and discontent.

### ***2.2.3 Customer Segmentation and Communication Channels in Direct-Marketing***

Based on the specifics of the tourism industry a professional marketing management was developed relatively late, first at the beginning of the 1990's because of the change from a seller to a buyer market. Due to the growing market saturation, the importance of communication has steadily increased since then.<sup>226</sup>

Overall marketing communication can be divided in above and below the line. Above the line summarizes the classic forms like advertisement or public relations, below the line

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<sup>223</sup> C.F. Meffert H., Burmann C., Kirchgeorg M. (2008). 'Marketing'. GWV Fachverlage GmbH, Wiesbaden, P. 700

<sup>224</sup> C.F. Harker M. J. (1999). 'Relationship Marketing defined? An Examination of current Relationship Marketing Definitions'. Marketing Intelligence & Planning. MCB University Press, Bradford, P. 16

<sup>225</sup> Heinonen K., Strandvik T. (2005). 'Communication as an element of service value'. International Journal of Service Industry Management, Vol. 16 Iss: 2, P. 186

<sup>226</sup> C.F. Dettmer H., Hausmann T., Kloss I., Meisl H., Weithöner U. (1999). 'Tourismus-Marketing-Management'. R. Oldenburg Verlag, München, P. 1

contains product placement, sales promotions, sponsoring or direct marketing. With the exception of direct marketing, all mentioned channels are mass-communication channels. Direct marketing is a form of individual communication, as the receiver is known.<sup>227</sup> The communicational part of Customer Relationship Management is also named direct communication, direct marketing or 1:1 marketing. It is the choice of communication since customers are addressable and can be directly selected and connected through the different available channels.

Direct marketing is an essential part of the implementation and operation of Customer Relationship Marketing.<sup>228</sup> Per definition, direct marketing is the direct contact between a seller and a consumer. A seller can measure response to an offer because of its direct addressability.<sup>229</sup> Dettmer, Hausmann, Kloss, Meisl and Weithöner added the aspect of interactivity to direct marketing. In their mind, direct marketing summarizes all marketing activities to build an interactive relationship with a targeted person in order to create an individual and measurable reaction. Constituent is the interactivity which means only such channels are part of direct marketing, which allows an individual interrelation between advertiser and receiver.<sup>230</sup> Direct marketing has two functions, first is distribution and second is communication.<sup>231</sup> The latter is a clear aspect of RM.

In 2010, 95% of companies in Germany were involved in direct marketing. From the 76.2 billion Euros spent for advertising almost two-third went into dialog marketing and the share will further increase.<sup>232</sup> In a current study 86% of the asked companies stated that the importance of a direct dialog with their own customers would further increase by 2020.<sup>233</sup> Although citing the CEO of the OWM (German association of marketers) no other investments in such a dimension is based on less factual knowledge about the real outcome.<sup>234</sup>

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<sup>227</sup> C.F. Dettmer H., Hausmann T., Kloss I., Meisl H., Weithöner U. (1999). 'Tourismus-Marketing-Management'. R. Oldenburg Verlag, München, PP. 263-264

<sup>228</sup> C.F. Hoepner G. A., Schminke L. H. (2012). 'Dialog-Marketing und E-Commerce'. uni-edition, Berlin, P. 1

<sup>229</sup> Encyclopædia Britannica (2012). 'Direct Marketing'. Retrieved from <http://www.britannica.com/Ebchecked/topic/164911/direct-marketing>, 27.05.2013 see also Morrison A. M. (2012). 'Hospitality and Travel Marketing'. Delmar, New York, P. 523

<sup>230</sup> C.F. Dettmer H., Hausmann T., Kloss I., Meisl H., Weithöner U. (1999). 'Tourismus-Marketing-Management'. R. Oldenburg Verlag, München, P. 456

<sup>231</sup> C.F. Dettmer H., Hausmann T., Kloss I., Meisl H., Weithöner U. (1999). 'Tourismus-Marketing-Management'. R. Oldenburg Verlag, München, P. 458

<sup>232</sup> C.F. Deutsche Post AG (2011). 'Dialog Marketing Monitor 2011', Bonn, P. 3

<sup>233</sup> C.F. Client Vela (2010). 'Frischer Wind für Ihren Erfolgskurs'. Swiss Post, München, P. 15

<sup>234</sup> C.F. Eisenbrand R. (2012). 'Aus dem Weg aus der Ahnungslosigkeit'. ONEtoOne, No 12. J&S Dialog Medien, Hamburg, P. 11

Holland explains the triumphant success of direct marketing with the objective fact that a homogeneous mob does not exist in our modern society; the opposite is reality the society is fragmented far deeper than ever before. The result each consumer is an individual with its own needs, interests, preferences or requirements. Simplified the condition for mass marketing does not exist anymore.<sup>235</sup> For mass marketing, the spreading losses of channels like newspapers, TV or radio are getting more extensively. The consumer act more individual and therefore one-to-one marketing is becoming increasingly important.<sup>236</sup>

However, the rising level of competition among firms has resulted in an overload of consumers with direct marketing solicitations. Today a sizable proportion of consumers perceive direct marketing solicitations to be a nuisance or an invasion of privacy.<sup>237</sup> Therefore, it is an ever-harder task that a transmitted marketing message is getting perceived and accepted by the consumer. The author follows the statement from the MIT that customer loyalty cannot be fast tracked merely through mailing lists or CRM technology.<sup>238</sup> Communication plays a central role for creating remembering effects and buying impulses, both central elements for Customer Relationship Management.

A key element of CRM is the segmentation of the different target groups. The following figure describes the four different partnerships in Relationship Management a firm has to cater: supplier partnerships, internal partnerships, lateral partnerships and buyer partnerships. Within the buyer partnerships, it can be subdivided into intermediates and ultimate buyers ladders are in the focus of this work.

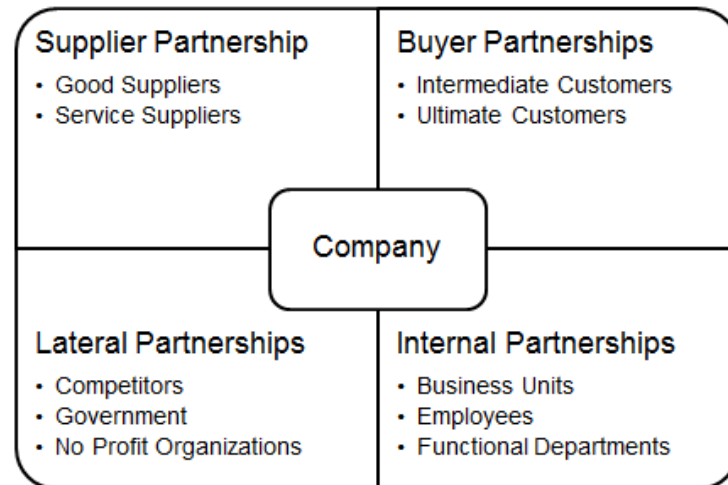
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<sup>235</sup> C.F. Holland H. (2009). 'Die aktuellen Trends des Dialolgmarketings'. ONEtoONE 12, P. 32

<sup>236</sup> C.F. Holland H. (2009). 'Die aktuellen Trends des Dialolgmarketings'. ONEtoONE 12, P. 33

<sup>237</sup> C. F. Akaah P. I., Korgaonkar P. K., Lund D. (1995). 'Direct Marketing Attitudes'. Journal of Business Research No. 34. Elsevier Science In., New York, P. 211

<sup>238</sup> C.F. Maklan S., Knox S., Peppard J. (2011). 'Why CRM Fails - and How to Fix It'. MIT Sloan Management Review, Vol. 52, No. 4, P. 78



**Figure 23. Target Groups of Relationship Marketing**

*Source: Own Figure (2013) based on Morgan R., Hunt S. (1994). 'The commitment-trust theory of relationship marketing'. Journal of Marketing, Vol. 58 No. 3, P. 21*

The purpose of Relationship Marketing (RM) is to identify and establish, maintain and enhance and when necessary also to terminate relationships with customers and other stakeholders, at a profit, so that the objectives of all parties are met, and this is done by a mutual exchange and fulfillment of promises.<sup>239</sup> The success of direct marketing within Relationship Marketing depends on the offer, the communication elements, the timing, and the selection of customers. The selection of the right target group is one of the core activities of direct marketing.<sup>240</sup> 40% of the success relates finally to the selection of the right target group.<sup>241</sup> As mentioned before Customer Relationship Management is to improve or at least maintain the profitability of a firm. This circumstance makes it clear that CRM cannot cater the needs of every customer. The key principle is to invest in customers with a high return on investment. Using the principle of Pareto 80% of the revenues comes from 20% of the clients.<sup>242</sup> If profit is used instead of revenue, Rapp concludes that 20% of the profitable customer generates 180% of the profit of a company since many of the other customers are a

<sup>239</sup> C.F. Grönroos C. (1994). 'From Marketing mix to relationship marketing: towards a paradigm shift in marketing'. Management Decision, Vol. 32 No 2, PP. 4-20

<sup>240</sup> C.F. Bose I., Xi C. (2009). 'Quantitative models for direct marketing: A review from systems perspective'. in European Journal of Operational Research, No. 195, Pp. 1 - 16. Elsevier, P. 2

<sup>241</sup> C.F. Deutsche Post AG (2012). 'Fundraiser im Dialog'. Retrieved from <http://www.deutschepost.de>, P. 5

<sup>242</sup> C.F. Rowe C. W. (1989). 'A Review of Direct Marketing and How it can be Applied to the Wine Industry'. International Journal of Wine Marketing, Vol. 1 Iss: 2, P. 8

losing bargain.<sup>243</sup> The profitable guests shall be in the focus of CRM; those are the right target group.

The ABC-segmentation model uses the Pareto principle. It uses the revenue or the profit margin normally within a certain period and separates customers into A, B and C; A-customers are highly valuable, B-customers are good ones, C-customers are midsize or small customers.<sup>244</sup> C-customers represent 80% of the customer base, B 81 to 95% and A-customers are the top 5%.<sup>245</sup> The disadvantages of the ABC-analysis are the limited number of variables. It disregards for instance the number of transactions made by a customer or when the last transaction was made. Since loyalty consists of behavioral and attitudinal loyalty<sup>246</sup> and behavioral loyalty is defined as repeated transactions<sup>247</sup> the ABC-method is not complex enough to define a sophisticated Relationship Management strategy or to select target groups for an efficient media allocation.

Following Shoemaker the following customer segments can be identified in general: first-timers, repeat customers, clients characterized by more than 2 purchases and inactive customers respectively clients. Reinartz, Kumar uses the classification of true friends (profitable and loyal), butterflies (profitable but disloyal), barnacles (unprofitable but very loyal) and strangers (neither profitable nor loyal).<sup>248</sup> Both approaches to segment existing customers show the limitation of the ABC-method, which does not include the profitability or the number of purchases.

In order to develop a CRM strategy or to allocate the communication budget and to select appropriate media channels the RFM segmentation model is the most common analytical tool in the area of direct marketing. It is a customer value based approach which includes the variables R = recency of last purchase, F = frequency of purchases and M = monetary ratio.<sup>249</sup> The RFM model is a quantitative method to separate customers who are

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<sup>243</sup> C.F. Rapp R. (2000). 'Integration kundenorientierter Strategie, Organisation und Informationsmanagement'. in IM - Information Management & Consulting, No.1, P. 14

<sup>244</sup> C.F. Hoepner G. A., Schminke L. H. (2012). 'Dialog-Marketing und E-Commerce'. uni-edition, Berlin, P. 255

<sup>245</sup> C.F. Scholz-Reiter B., Heger J., Meinecke C., Bergmann J. (2012). 'Integration of demand forecasts in ABC-XYZ analysis: practical investigation at an industrial company'. International Journal of Productivity and Performance Management, Vol. 61 Iss: 4, PP. 445-446

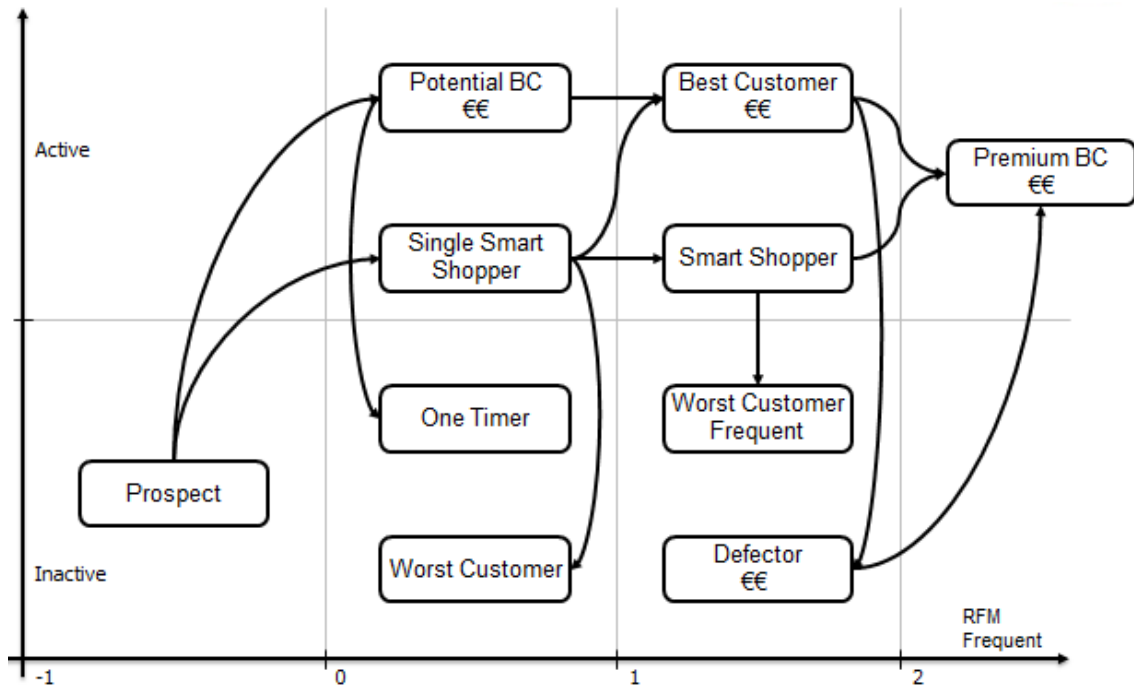
<sup>246</sup> C.F. Chaudhuri A., Holbrook M. (2001). 'The chain of effects from brand trust and brand effect to brand performance: the role of brand loyalty'. Journal of Marketing, Vol. 65 No. 2, PP. 81-93

<sup>247</sup> C.F. Ball D., Coelho P. S., Machás A. (2004). 'The role of communication and trust in explaining customer loyalty'. European Journal of Marketing, Vol 38, No 9/10, P. 1273

<sup>248</sup> C.F. Reinartz W., Kumar V. (2011). 'The Mismanagement of Customer Loyalty'. in "Increasing Customer Loyalty". Harvard Business School, P. 97

<sup>249</sup> C.F. Neckel P., Knobloch B. (2005). 'Customer Relationship Analytics'. dpunkt.verlag GmbH, Heidelberg, PP. 210-211

likely to make purchases from those who are not. Customers are clustered into segments according to their most recent day of purchase, the number of purchases made and the monetary value of their purchases.<sup>250</sup> Based on the different segments a company can develop a customer segment migration map (see figure below), allocate budgets accordingly and define appropriate media channels per segment.



**Figure 24. Potential Migration of the Customer Segments in the RFM Model**

*Source: Own Figure (2013) based on of Toedt, Dr. Selk & Coll. GmbH, Munich*

Especially for costly post mail, the RFM method is a well-proven approach for an efficient budget allocation. For electronic channels like e-mail the low costs seduced many marketers to neglect customer segmentations and penetrate customers with mass e-mails.<sup>251</sup> In the following the two dominant channels in direct marketing today, i.e. e-mail and post mail, are evaluated.

<sup>250</sup> C.F. Alencar A. J., Ribeiro E. M., Ferreira A. L., Schmitz E. A., Lima P. M. V., Manso F. S. P. (2006). 'Optimized RFV analysis'. Marketing Intelligence & Planning, Vol. 24 Iss: 2, P. 107

<sup>251</sup> C.F. Gomersall J. S. (2011). 'Behavioral E-Mail and eRFM - die nächsten Schritte im E-Mail-Marketing'. Retrieved from <http://www.email-marketing-forum.de/Fachartikel>

## The Message Transmitter E-mail

Epsilon a dominant player in the area of direct marketing conducted a quantitative and qualitative study with nearly 1500 US consumers in 2010. By asking of what is their preferred channel for receiving information about hotels and travel 65% indicated e-mail, 16% said post mail only 4% named Facebook.<sup>252</sup> Over the last 10 years, e-mail marketing has become a convenient and dynamic mode of communication that enables marketers to promote and to communicate at a much lower cost and with a potentially higher global reach<sup>253</sup> than with post mail.

About 60% of the companies in Germany are engaged in e-mail marketing. It is the most common online-marketing channel today.<sup>254</sup> In the hotel business, almost every company uses the channel to promote offers and to stay in touch with its guests.

In 2010, the 30 biggest hotels (revenue wise) in Germany used e-mail as part of their Customer Relationship Management strategy. E-mail was the most used marketing channel.<sup>255</sup> The reasons for the triumphant success of e-mail marketing are the low costs and the easiness to stay in touch with the own customers.<sup>256</sup> The moderate cost situation enables companies to extend the distribution of marketing messages also to target groups, which were based on a customer value evaluation normally not included in communication actions.<sup>257</sup>

Another plus factor is the quick possibility to answer. E-mail newsletter generates often response rates of 10% and more.<sup>258</sup> The experience of the author follows Hoepner and Schminke who state that the response rates of e-mail newsletter are very low compared to classic print mails.<sup>259</sup> For classical post mails, two percent can be used as a break-even level for response.<sup>260</sup>

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<sup>252</sup> C.F. Epsilon (2010). 'Checking in on consumers: How hotel marketers can meet evolving customer expectations', Irving, P. 5

<sup>253</sup> C.F. Cheung M. (2008). 'Click here': the impact of new media on the encoding of persuasive messages in direct marketing'. *Discourse Studies* 2008; 10. SAGE Publications, Los Angeles, P. 161

<sup>254</sup> C.F. Wiewer V., Anweiler R. (2011). 'Der Europäische Social Media und E-Mail Monitor - Teil2'. Retrieved from <http://www.ecircle.com/de/knowledge-center/studien.html>, 26.12.2011. eCircle, München, P. 7

<sup>255</sup> C.F. Hug C. (2011). 'Einsatzmöglichkeiten, Anforderungen und Entwicklungstendenzen moderner Kommunikationskanäle zur Kundenbindung in der Hotellerie'. Hochschule Kempten, Kempten, P. 67

<sup>256</sup> C.F. Aschoff M. (2002). 'Professionelles Direkt- und Dialogmarketing per E-Mail'. Hanser Fachbuch, Wien, P. 2

<sup>257</sup> C.F. Kreuz P., Förster A.; Schlegelmilch B. (2001). 'Customer-Relationship-Management im Internet'. Norderstedt, P. 68

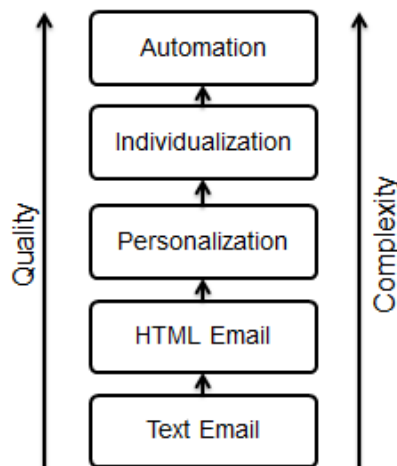
<sup>258</sup> C.F. Holland H. (2009). 'Direktmarketing. Im Dialog mit dem Kunden'. Vahlen, München, P. 72

<sup>259</sup> C.F. Hoepner G. A., Schminke L. H. (2012). 'Dialog-Marketing und E-Commerce'. uni-edition, Berlin, P. 274

<sup>260</sup> C.F. David Shepard Associates (1998). 'The New Direct Marketing: how to implement a profit-driven database marketing strategy'. McGraw-Hill, New York, P. 450

Beside the technological aspects, the acceptance of e-mail within the population has been increased over the last years. In 2010, 65% of the European population used the internet to send and receive e-mails. In 2002, the share was about 35% (see Eurostat 2010). The low costs and the increased channel acceptance both have led to a replacement strategy in the hotel business over the last years. Especially US companies shifted almost 100% of their communication efforts from post mail to e-mail. This is contrary to the recommendations that the best approach for marketing success is an integrated, multichannel strategy.<sup>261</sup>

No standards exist with regard to the frequency of communication actions. For e-mail communications, the time between two messages is on average one to three months. Although the channel allows to frequently staying in touch without high costs marketers tend to send less.<sup>262</sup>



**Figure 25. Evolution of E-Mail Marketing**

*Source: Own Figure (2013) based on Aschoff M. (2002). 'Professionelles Direkt- und Dialogmarketing per E-Mail'. Hanser Fachbuch, Wien, P. 15*

The figure above shows the evolution path of e-mail marketing. At the beginning, pure text e-mails were dispatched followed by graphical designed HTML e-mails. The status quo today in the hotel business is a personalized HTML e-mail, which means the prefix and name of the receiver is included in the mail, the content is not individualized. E-mail marketing is therefore in most of the cases a form of a non-differentiated mass marketing since no content

<sup>261</sup> C.F. Epsilon (2010). Checking in on consumers: How hotel marketers can meet evolving customer expectations', Irving, P. 5

<sup>262</sup> C.F. Nati J. (2011), 'Wann und wie oft? Das optimale Timing von E-Mails', retrieved from <http://www.marketing-boerse.de/Fachartikel/details/Wann-und-wie-oft-Das-optimale-Timing-von-E-Mails>, 18.12.2011



individualization or timely triggered dispatch exists. This is astonishing since it is assumed that 40% of the success of a mailing is linked to the content.<sup>263</sup> The reason for this development stage in e-mail marketing is based in a non-marketing-oriented IT strategy, which will be explained later on.

The need for individualization of the content is reasoned on the new generation of consumers. The consumers today are characterized that they grew up in prosperity, with a high educational level, are mobile, technically driven with information everywhere. With the transformation of the consumers the habits and values changes as well which leads to a new buying decision process. The consumer is multidimensional and unpredictable. With the growing differentiation of the consumers, the need for individual information is increasing. The result is that marketing which meets the interests of a general populace is getting more difficult.<sup>264</sup>

### **The Message Transmitter Post Mail**

Although the flexibility in production and costs are negative compared to e-mail direct post mail is overall still the number one of the direct marketing channels. However, through the increasing cost pressure the expenditures for post mail in 2010 decreased by 8% to about 9.4 billion Euros in Germany.<sup>265</sup> The response-rates are about 1% in Western Europe.<sup>266</sup> A study from 2011 shows conversion rates for Facebook of 2% and 4% for e-mail.<sup>267</sup> The experience of the author with e-mail campaigns for several hundred hotels between 2004 and 2012 is below 1% for the channel e-mail.

A study made in Austria in 2011 revealed that 75% of the participants prefer printed and mailed invoices versus invoices sent by e-mail. Even 67% of the younger people (15 to 35 years old) preferred an offline version. The test persons characterized the media post mail as secure, reliable, customer friendly and easy to use. Email was characterized as eco-friendly. Also younger people (61%) neglect to receive only online communications, 69% prefer a multi-channel communication. Overall one key finding of the research was that the higher the

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<sup>263</sup> C.F. Deutsche Post AG (2012). 'Fundraiser im Dialog'. Retrieved from <http://www.deutschepost.de>, P. 5

<sup>264</sup> C.F. Dettmer H., Hausmann T., Kloss I., Meisl H., Weithöner U. (1999). 'Tourismus-Marketing-Management'. R. Oldenburg Verlag, München, PP. 71-73

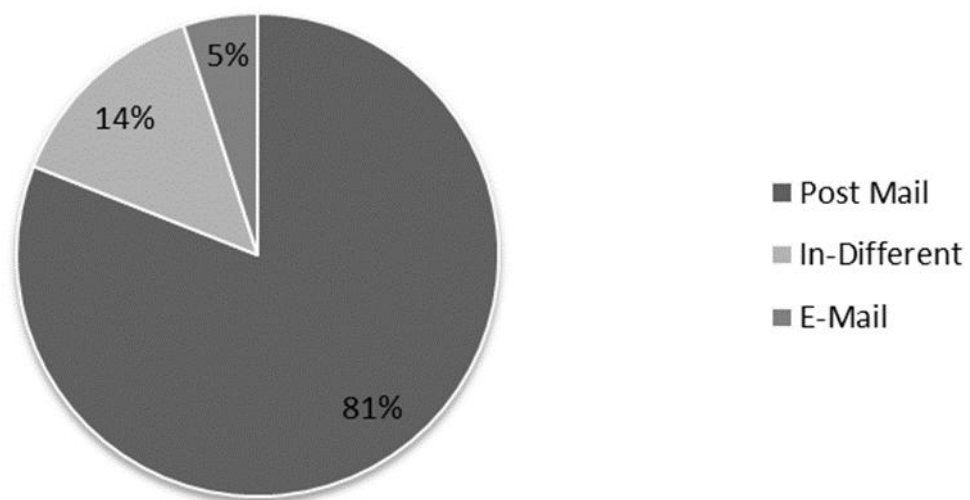
<sup>265</sup> Acquisa (2011). 'Dialog Marketing Monitor 2011: Print stabil, digital wächst'. Retrieved from <http://www.haufe.de/acquisa/newsDetails?newsID=1307647320.29&chorid=00560203>

<sup>266</sup> C.F. Canon (2006). 'Personalisierte, vollfarbige Dokumente vervielfachen Response-Rate'. Retrieved from <http://www.presetext.com/news/20060102003>

<sup>267</sup> C.F. Mies S. (2011). 'Effektivität von E-Mail-Marketing vs. Facebook'. Artecic AG, Bonn

importance of the communication subject is for a consumer the more the receiver prefers an offline communication.<sup>268</sup> These findings play a role for the RM process since existing customers especially loyal ones feel an emotional binding to the supplier, which means theoretically that the higher the customer loyalty is the more the consumer prefers at least a communication mix with some offline mail actions.

The test persons were also asked how pleased they are when receiving holiday wishes by post or e-mail. 81% indicated they were glad to receive a post card, only 5% were happy about holiday wishes sent by e-mail or SMS.<sup>269</sup> This shows how consumers evaluate the value of the different communication channels. It seems the recipient makes a comparison of the different media types about the costs and the needed time to produce as well as to deliver and therefore rate an offline mail higher as an online mail.



**Figure 26. Preferred Media Channels for Holiday Wishes**

*Source: Own Figure (2013) based on Wasserbacher H. (2011). 'Kommunikation zwischen Unternehmen und Kunden: Papier versus E-Mail?'. IFES - Institut für empirische Sozialforschung GmbH, Teinfaltstraße 8, 1010 Wien, Wien, P. 24*

Nevertheless as part of a replacement strategy, more and more organizations use solely electronic channels. 20% of the success of marketing action is tied to the used media

<sup>268</sup> C.F. Wasserbacher H. (2011). 'Kommunikation zwischen Unternehmen und Kunden: Papier versus E-Mail?'. IFES - Institut für empirische Sozialforschung GmbH, Teinfaltstraße 8, 1010 Wien, Wien, PP. 3-20

<sup>269</sup> C.F. Wasserbacher H. (2011). 'Kommunikation zwischen Unternehmen und Kunden: Papier versus E-Mail?'. IFES - Institut für empirische Sozialforschung GmbH, Teinfaltstraße 8, 1010 Wien, Wien, P. 24

channel.<sup>270</sup> 45% of consumers expected already in 2004 the replacement of direct mail through e-mail.<sup>271</sup> It is questionable if the replacement strategy of offline mailings is worthwhile, because of the different qualities of the available media channels as message transmitters within CRM.

### 2.3 The Hotel Technology Landscape and its Influence on RM

Hotels especially the traditional luxury grand hotels have always tried to create a special customer experience long before data base systems or other information technologies where available. The Hotel “Vier Jahreszeiten” in Hamburg, Germany provides a nice example for a guest record system. It is dated back to the 1920s. 22000 individual cards were stored in drawers, creating an unrivalled database of personal service. Data on these cards contained the detailed name, address, how to address the person (including all academic and aristocratic titles), preferred rooms, flowers the guest loves / hates, how many pillows and so on.<sup>272</sup> Today computer systems have replaced the drawers and technology is regarded as a central part of CRM. For marketing purposes especially customer data about transactions, behavior, satisfaction, demographic, communication etc. is of interest. Over the last years, more and more systems have been introduced in almost all areas of a hotel.

Between 1995 and 2000 the hotel industry spent almost 7.6 billion US\$ in Information Technology (IT). The result: no increase in revenue, no improvement in profitability.<sup>273</sup> Bruhn mentions an overall failure rate of CRM of 60 to 85%<sup>274</sup> and only 14% of all CRM projects meet the original expectations.<sup>275</sup> IBM came to the conclusion that only 7% of campaign management tools, which are part of a CRM system, are finally successful.<sup>276</sup> Marklan, Knox and Peppard wrote 2011 in an article for the Massachusetts Institute of Technology (MIT) “the complexity of CRM makes a success very difficult. During the last 10 years many

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<sup>270</sup> C.F. Deutsche Post AG (2012). 'Fundraiser im Dialog'. Retrieved from <http://www.deutschepost.de>, P. 5

<sup>271</sup> C.F. DoubleClick's (2004). 'Fifth Annual Consumer Email Study Shows Consumers Open to Marketing Messages Within Transactional and Service Messages'. Retrieved from <http://www.thefreelibrary.com/>

<sup>272</sup> C.F. Augustin A. (2006). 'How We Built The Most Famous Hotels? - Raffles Hotel Vier Jahreszeiten Hamburg'. [http://hotel-online.com/News/PR2006\\_3rd/Sep06\\_VierJahreszeiten.html](http://hotel-online.com/News/PR2006_3rd/Sep06_VierJahreszeiten.html), 11.09.2010, P. 1

<sup>273</sup> C.F. Piccoli G. (2008). 'Information Technology in Hotel Management - A Framework for Evaluating the Sustainability of IT-Dependent Competitive Advantage'. *Cornell Hospitality Quarterly*, August 2008, P. 283

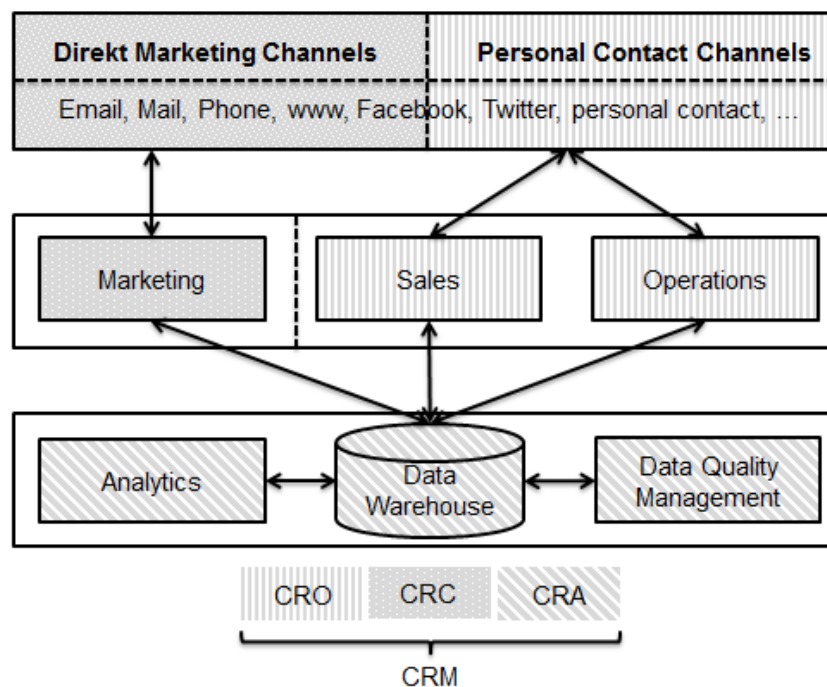
<sup>274</sup> C.F. Bruhn M. (2009). 'Relationship Marketing'. Vahlen, München, P. 14

<sup>275</sup> C.F. Neckel P., Knobloch B. (2005). 'Customer Relationship Analytics'. dpunkt.verlag GmbH, Heidelberg, P. 36

<sup>276</sup> C.F. Badget M., Ballou S., LaValle S. (2004). 'Doing CRM right: What it takes to be successful with CRM'. IBM Business Consulting Services, Somers, NY, US, P. 18

marketers seem to have bet the family silver on customer relationship management investments with little to show for it.”<sup>277</sup>

One reason for these numbers is caused by the fact that IT-investments are simplified to hard- and software. An investment in IT should be regarded as a system consisting of the elements IT, people, organizational structure and processes.<sup>278</sup> Finally, only about 40% of the success of a CRM project relates to the technology.<sup>279</sup> The system should be reviewed in pre-defined intervals, adapted to the environment if needed and enhanced by a systematic benchmarking and Kaizen process. In general, CRM technology can be divided into the areas of Customer Relationship Operations (CRO), Customer Relationship Analytics (CRA) and Customer Relationship Communications (CRC)<sup>280</sup> for the department sales, marketing and client services.



**Figure 27. Overview of the Different Technological Links within CRM**

Source: Own Figure (2013) based on Neckel P., Knobloch B. (2005). 'Customer Relationship Analytics'.

dpunkt.verlag GmbH, Heidelberg, PP. 42-44

<sup>277</sup> Maklan S., Knox S., Peppard J. (2011). 'Why CRM Fails - and How to Fix It'. MIT Sloan Management Review, Vol. 52, No. 4, P. 77

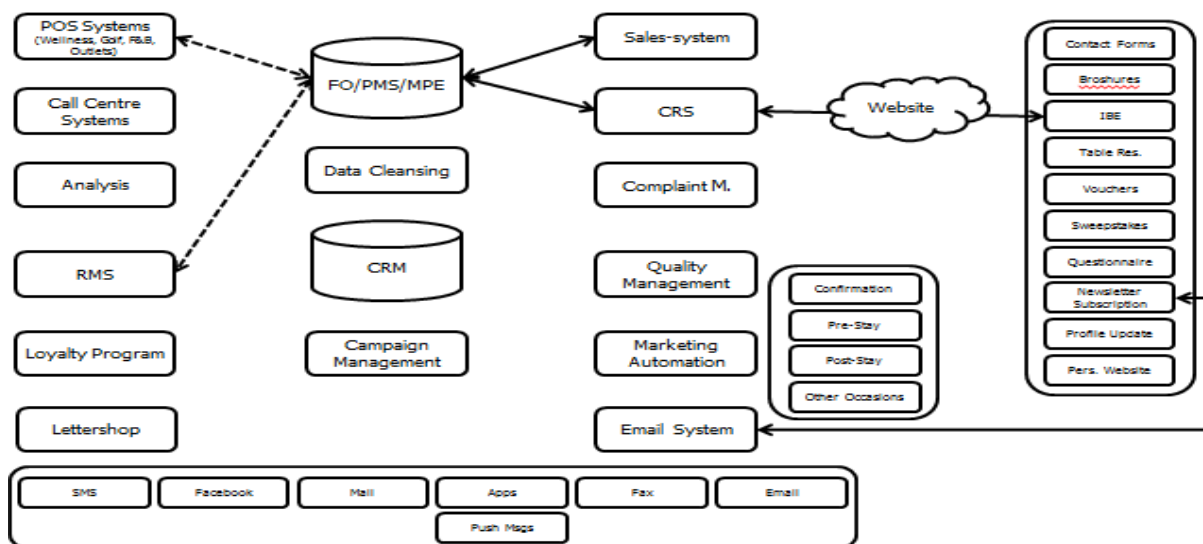
<sup>278</sup> C.F. Piccoli G. (2008). 'Information Technology in Hotel Management - A Framework for Evaluating the Sustainability of IT-Dependent Competitive Advantage'. Cornell Hospitality Quarterly, August 2008, P. 283

<sup>279</sup> C.F. Raab G., Werner N. (2009). 'Customer Relationship Management'. Verlag Recht und Wirtschaft GmbH, Frankfurt am Main, P. 13

<sup>280</sup> C.F. Neckel P., Knobloch B. (2005). 'Customer Relationship Analytics'. dpunkt.verlag GmbH, Heidelberg, PP. 42-44

The figure above describes the CRM technology architecture with the three different areas CRO, CRC and CRA. Relationship Marketing consists primarily of analytical and communicational CRM. The key element in this context is a central customer data warehouse, which should be separated from the different operational systems. A data warehouse stores systematically all transactions, reactions and the customer behavior in order to optimize continuously client related business processes. It is a learning system (closed loop architecture) to adopt products, services and communication to the need of the customer base. A data-warehouse is a further stage of a marketing database. A marketing database collects a pre-defined set of data; a data warehouse instead collects data from different sources without having a pre-defined reason.<sup>281</sup>

There are several reasons why an operational system should not be used as a data warehouse. In operations, the focus is on stability in a multi-user environment, high operating speed, which means a limited data volume. The handling of current processes gives the ability to prognosticate the required hardware resources (load balancing). Within analytics, the key elements are time-consuming processes to improve data quality and the storing of as much data as possible from many different sources to analyze the available data. The variable complexity of data analysis processes makes it impossible to prognosticate hardware resources which conflicts with operations if everything were integrated in one system.



**Figure 28. Common Marketing-Relevant Data Silos in the Hotel Business**

<sup>281</sup> C.F. Hoepner G. A., Schminke L. H. (2012). 'Dialog-Marketing und E-Commerce'. uni-edition, Berlin, PP. 36-37

*Source: Own Figure (2012) based on Toedt, Dr. Selk & Coll. GmbH, Munich, July 2012*

The above figure lists the most common software tools within a hotel, which store customer data and shows the linking between them. It is obvious that most of the data is stored in un-connected systems. Across the industry four out of five organizations store customer data in various, unconnected systems.<sup>282</sup> Based on the many years of experience of the author it can be stated that on average 10 different software systems for storage of marketing-relevant guest data are in place in a hotel. Such a redundant IT landscape adds data storage costs but more significantly make data more difficult to access.<sup>283</sup> The figure (explanation of abbreviations<sup>284</sup>) shows that many systems co-exist without any or only slight connections. On average just the core operational systems the Property Management System (PMS), the sales software and the booking engine are normally connected adequately.

Using the customer journey as an explanation the following systems are mainly in place: During the information phase, the customer leaves data on the website, subscribes potentially the e-mail newsletter or orders hotel brochures. During the reservation, data is stored in the reservation tool (Central Reservation System or Internet Booking Engine), sales system and the PMS. In the pre-stay phase, the customer gets e-mail messages, letters or calls. During the stay, the customer leaves data in the restaurant, in the spa and the entertainment (TV) system. After the departure, an online questionnaire asks for feedback and finally the customer receives marketing messages over different channels.

In a perfect environment, the CRM system (data warehouse) is in the center of the IT landscape and collects data from all marketing relevant sources. For a hotel, this would be for instance at least the PMS, the website, the e-mail management system, the letter shop, online questionnaires, the loyalty and voucher program. Dean (2011) describes the current IT situation in the hotel business as following: “On top of our current challenges with data and systems, we’re facing the obstacle of silos throughout our companies. We only have a small piece of the big picture. With almost all major brands having a CRS that is different from the PMS that is different from the RMS that is different from the sales automation system, you

<sup>282</sup> C.F. von Lieven S. (2011). 'Raus aus dem Datensumpf'. in 'direkt marketing' 02-2011. Acquisa, Freiburg, P. 32

<sup>283</sup> C.F. Beath C., Beccerra-Fernandez I., Ross J., Short J. (2012). 'Finding Value in the Information Explosion'. MIT Sloan Management Review, Vol. 53, No. 4, P. 3

<sup>284</sup> Used abbreviations in Figure: CRS - Central Reservations System; FO – Front Office, IBE - Internet Booking Engine; M. - Management; Pers. – Personalized; MPE – Multi Property Edition; PMS – Property Management System, POS - Point of Sale System; RMS - Revenue Management System; Res. - Reservation

have a ‘hodge podge’ of systems that do not link nor talk to one another efficiently, if at all.<sup>285</sup> This prevents companies from forming a coherent view of the individual customers. Although the technical capacity to deliver what consumers need arguably exists, it cannot be delivered as the data is dispersed in pockets across a dysfunctional ecosystem.<sup>286</sup>

Therefore, one of the biggest challenges in today’s CRM initiatives is the design of a sustainable IT landscape coping the investments, which have been made over the last years. Often decisions were made on departmental level or the non-existence of a marketing oriented IT strategy led to data silos, which make it finally almost impossible to create a central customer profile. The current IT situation is a reason why marketing actions or RM activities cannot be measured adequately, or why researchers can hardly find quantitative data to work with.

Hotels have access to mind-boggling customer data. Collected during the customer journey everything from basic personal information to preferred meals, interests, booking patterns or preferences is stored somewhere.<sup>287</sup> The availability and ongoing exponential growth of customer data is clearly an asset for the hotel industry especially for decision-making and communication. The following statement from the inventor of the Tesco Loyalty Card program who said, “Data is the new oil”, summarizes the potential, which data can provide.<sup>288</sup> The increase of systems combined with the fact of dropping storage costs and the triumphant success of social media have led to an exponential growth of data over the last years. Today 44 % of the German companies calculate with an exponential increase of data.<sup>289</sup> The volume of data is expanding approximately by 35% to 50% on an annual base. Companies process about 1000 times more information than a decade ago.<sup>290</sup> Accordingly to McKinsey in 15 of the US economy’s 17 sectors, companies with more than 1,000 employees store, on average, over 235 terabytes of data.<sup>291</sup> One terabyte is about 1,024 gigabyte. This phenomenon of an on-going growing amount of data is called “Big Data”.

Mc Kinsey believes that “Big Data” may become a new type of corporate asset that will cut across business units and functions as much as a powerful brand does, representing a

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<sup>285</sup> Dean S. F. (2011). 'Hotel business intelligence seeking its identity'. Retrieved from [www.hotelnewsnow.com](http://www.hotelnewsnow.com)

<sup>286</sup> C.F. Carey R., Kang D., Zea M. (2012). 'The trouble with travel distribution'. McKinsey Quarterly, February, P. 6

<sup>287</sup> C.F. Carey R., Kang D., Zea M. (2012). 'The trouble with travel distribution'. McKinsey Quarterly, February, P. 5

<sup>288</sup> Eisenbrand R. (2012). 'Aus dem Weg aus der Ahnungslosigkeit'. ONEtoOne, No 12. J&S Dialog Medien, Hamburg, P. 11

<sup>289</sup> C.F. von Lieven S. (2011). 'Raus aus dem Datensumpf'. in direkt marketing 02-2011. Acquisa, Freiburg, P. 32

<sup>290</sup> C.F. Beath C., Beccerra-Fernandez I., Ross J., Short J. (2012). 'Finding Value in the Information Explosion'. MIT Sloan Management Review, Vol. 53, No. 4, P. 2

<sup>291</sup> C.F. Brown B., Chui M., Manyika J. (2011). 'Are you ready for the era of 'big data''. McKinsey Quarterly, Oct 11, P. 2

key basis for competition,<sup>292</sup> so does Fuchs and Mathies who argue that sustainable success of tourism organizations rely significantly on the collection, storing and processing of relevant data and the generating of information out of it.<sup>293</sup> In a study from IBM 1700 marketing experts agreed that the phenomenon of “Big Data” will change their work environment significantly.<sup>294</sup>

The “Big Data” phenomenon combined with the existence of data stored in departmental silos<sup>295</sup> respectively dispersed in pockets across a dysfunctional ecosystem<sup>296</sup> as seen before in the information technology map, yet only a few companies – if any - truly maximize the potential of the data at their disposal.<sup>297</sup> However, a central customer profile is required to create clean reports for decision making, to work efficiently and to run a qualitative marketing and controlling. This means the main barrier to introduce Relationship Marketing is the lack of an integrated CRM technology structure.<sup>298</sup> The knowledge of the management and the ability to leverage technology generates competitive advantage; but only a few companies really leverage it effectively.<sup>299</sup> “Big Data” is therefore first a management and organizational issue since the awareness of the topic and the creation of the required structure are pre-requisites for success.

“Big Data” stored in a data warehouse growing every day with data about transactions, customer behavior, feedback etc. requires sophisticated cleansing processes. The quality is crucial for success. Bose, Xi states that data preparation is always an indispensable job because real life data always has missing values and noise.<sup>300</sup> In general, the complexity of data management is highly underestimated<sup>301</sup> although data quality is regarded as the key element of success.<sup>302</sup> Adriaans, Zantinge writes that “without the right data there is little gold to be mined; here again, we must apply the rule ‘garbage in, garbage out’”.<sup>303</sup>

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<sup>292</sup> C.F. Brown B., Chui M., Manyika J. (2011). 'Are you ready for the era of 'big data''. McKinsey Quarterly, Oct 11, P. 2

<sup>293</sup> C.F. Fuchs M., Mathies C. (2005). 'Informationstechnologie als Quelle von Innovationen'. in "Erfolg durch Innovation". GWV Fachverlag, Wiesbaden, PP. 295-296

<sup>294</sup> C.F. IBM (2012). 'Willkommen in der Ära des Chief-Executive-Kunden'. Retrieved from <http://www.ibm.com/smarterplanet>

<sup>295</sup> C.F. Brown B., Chui M., Manyika J. (2011). 'Are you ready for the era of 'big data''. McKinsey Quarterly, Oct 11, P. 4

<sup>296</sup> C.F. Carey R., Kang D., Zea M. (2012). 'The trouble with travel distribution'. McKinsey Quarterly, February, P. 6

<sup>297</sup> C.F. Carey R., Kang D., Zea M. (2012). 'The trouble with travel distribution'. McKinsey Quarterly, February, P. 5

<sup>298</sup> C.F. Client Vela (2010). 'Frischer Wind für Ihren Erfolgskurs'. Swiss Post, München, P. 11

<sup>299</sup> C.F. Maklan S., Knox S., Peppard J. (2011). 'Why CRM Fails - and How to Fix It'. MIT Sloan Management Review, Vol. 52, No. 4, P. 85

<sup>300</sup> C.F. Bose I., Xi C. (2009). 'Quantitative models for direct marketing: A review from systems perspective'. in European Journal of Operational Research, No. 195, Pp. 1 - 16. Elsevier, P. 14

<sup>301</sup> C.F. Schnake A. (2010). 'Potenzial ausschöpfen'. Acquisa No.03. Haufe-Lexware, Freiburg, P. 20

<sup>302</sup> C.F. Neckel P., Knobloch B. (2005). 'Customer Relationship Analytics'. dpunkt.verlag GmbH, Heidelberg, P. 97

<sup>303</sup> Adriaans P., Zantinge D. (1996). 'Data Mining'. Addison-Wesley, Harlow, P. 9



A study from 2010 revealed that only 40% of SAP users trust the data they have in their system, 47% have only an average trust level and seven percent have no trust in their data.<sup>304</sup> These numbers can be applied as well to the hotel business.

## 2.4 Marketing-Controlling

The following figure shows the different media types often used during the customer journey. The column “measurements” contains the common performance indicators generally used by marketers which are CPO (Costs per Order), CPM (Costs per Thousand) or CPC (Costs per Click).

**Table 3. Different Media Channels and their Performance Indicators during the Customer Journey**

Media	Measurements - Performance Indicators	Customer Journey		
		Before	During Travel	After
Print/TV	Reach and CPM	X		
Computer: Internet Search	CPC	X	X	
Computer: Social Media	Followers, Fans, Connections	X	X	X
Mobile	Check-Ins, Location		X	X

Time →

Source: Own Figure (2013) based on Klein Pearo L., Carroll B. (2011). 'New Media - Connecting with the Guests throughout the Travel Experience'. in "Cutting Edge Thinking and Practice". John Wiley & Sons, Hoboken, P. 383

The common performance measurements of marketing are listed below:

$$CPO = \frac{\text{Total Promotion Expense}}{\text{Number of Orders}}$$

Formula: 1

Title: Cost per Order

Source: C.F. David Shepard Associates (1998). 'The New Direct Marketing: how to implement a profit-driven database marketing strategy'. MrGraw-Hill, New York, PP. 526-527

CPO = Cost per Order

<sup>304</sup> C.F. Schnake A. (2010). 'Potenzial ausschöpfen'. Acquisa No.03. Haufe-Lexware, Freiburg, P. 16

$$CPM = \frac{\text{Total Promotion Expense} * 1000}{\text{Number of Pieces Mailed}}$$

Title: Cost per Thousand

Formula: 2

Source: C.F. David Shepard Associates (1998). 'The New Direct Marketing: how to implement a profit-driven database marketing strategy'. McGraw-Hill, New York, PP. 427-428

*CPM = Cost per Thousand*

$$CPC = \frac{\text{Total Promotion Expense}}{\text{Number of Clicks}}$$

Title: Cost per Click

Formula: 3

Source: C.F. Hoepner G. A., Schminke L. H. (2012). 'Dialog-Marketing und E-Commerce'. uni-edition, Berlin, PP. 272-274

*CPC = Cost per Click*

$$CPI = \frac{\text{Total Promotion Expense}}{\text{Number of Generated Interest}}$$

Title: Costs per Interest

Formula: 4

*CPI = Cost per Interest*

*EBENDA*

$$CPR = \frac{\text{Total Promotion Expense}}{\text{Number of Requests}}$$

Title: Costs per Request

Formula: 5

*CPR = Cost per Request*

*EBENDA*

$$CPC = \frac{\text{Total Promotion Expense}}{\text{Number of New Customers}}$$

Title: Costs per new Customer

Formula: 6

*CPC = Costs per new Customer*

*EBENDA*

Front-end success measurements have to be separated from back-end performance indicators like profit margins. The measurements listed above are mainly related to costs not to revenue or profit. This classical view of marketing performance indicators is a result of the slight or non-existing capabilities to track revenue or transaction oriented indicators.

Combining front-end and back-end measurements means finally measure marketing profitability. The following formula combines costs and profit to calculate the Return on Promotion for a certain marketing action.

$$ROP = \frac{\text{Contribution} - \text{Cost Per Order} * 100}{\text{Cost per Order}} \quad \text{Formula: 7}$$

Title: Return on Promotion

Source: C.F. David Shepard Associates (1998). 'The New Direct Marketing: how to implement a profit-driven database marketing strategy'. McGraw-Hill, New York, PP. 446-447

*ROP = Return on Promotion*

Traditionally hotel marketers measure the result of a marketing action by creating a special promotion code. A unique code (rate code) is used in a promotion and is simultaneously available in the hotel reservation system. At the end of the promotion, the number of bookings with the promoted rate code is counted and the revenue totaled up. At a first sight, this approach seems to be very accurate but it is not. The reasons are manifold: First, the receiver has to mention at the reservation respectively has to book the promoted rate code. If the customer books something different, the booking will not be counted even if the buying impulse was originally generated through the promotion. Secondly, if the reservation is made with the help of the reservation department of the hotel, the employee has to ask for the code and then search and add the right promotion code in the system. Hotels have easily several thousand different rate codes in the reservation system, which make errors easy. The four hotels included in this study have in total 2,584 different rate codes. Thirdly, many reservation systems store in the stay history only the rate code of the last night. If a customer prolongs or changes a booking, the promoted rate code gets off the record. The booking is not counted for the promotion result. It can be stated, that the measurement of promotion results using a promotion code seems to be very inaccurate.

Most of the marketing performance indicators of media activities fall short to gauge successes. With electronic communications, better tools are available for measuring conversions. Since what is really needed is a way to record consumer interactions: the number and nature of customer contacts and how they converted to reservations.<sup>305</sup>

Direct marketing provides the potential to measure exactly the results. Bose, Xi states that it is relatively easy to analyze the result of a single mailing. Though in order to measure

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<sup>305</sup> C.F. Klein Pearo L., Carroll B. (2011). 'New Media - Connecting with the Guests throughout the Travel Experience'. in "Cutting Edge Thinking and Practice". John Wiley & Sons, Hoboken, P. 372

the success of multiple communications over multiple channels the process takes a long time, is extremely complex and is very costly.<sup>306</sup>

Today, only a few hotel companies are able to track the success of their marketing or CRM initiatives. Therefore, the majority of managers regard marketing investments as unaccountable and financially innumerate.<sup>307</sup>

Summarized the different sections in this chapter described the specifics of the hotel business and the need of an efficient Relationship Management to stay respectively to become economically successful. Due to small budgets and a weak market penetration of hotel companies in general a direct communication with the own guests plays a central role within CRM for hotels. New channels and technologies make marketing more demanding than ever before. Therefore, in the next chapter a new model will be developed which describes the role of communication within Customer Relationship Management.

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<sup>306</sup> C.F. Bose I., Xi C. (2009). 'Quantitative models for direct marketing: A review from systems perspective'. in European Journal of Operational Research, No. 195, Pp. 1 - 16. Elsevier, P. 15

<sup>307</sup> C.F. Maklan S., Knox S., Peppard J. (2011). 'Why CRM Fails - and How to Fix It'. MIT Sloan Management Review, Vol. 52, No. 4, P. 77

### **3 A MODEL FOR DEFINING THE ROLE OF COMMUNICATION WITHIN CRM**

#### **3.1 The Situation of Marketing in Hospitality**

Bass wrote that there is no more difficult, complex or controversial problem in marketing than measuring the influence of marketing on sales.<sup>308</sup> Although this statement was made more than 40 years ago the situation overall seems to be still the same. Asking managers for hard-facts and clear numbers about the direct influence of their marketing activities on the performance of the company, almost none can give a sustainable answer.

In a closed and manageable environment, the measurement especially of direct marketing campaigns should not be that hard. The company knows to whom it talked to and in order to measure the result the upcoming production of the recipients have only to be reviewed. When it comes to multiple promotions using different channels, the complexity grows exponentially especially when the timeframe increases. Since the approach of Customer Relationship Marketing is not on a transactional and short-term basis, measuring the result is difficult and so far almost impossible.

The reasons why in the hotel business no sophisticated study exists about the influence of RM on the buying frequency and loyalty of hotel guests is manifold. Summarized the following topics have prevented the success analysis for Relationship Marketing so far:

- Scientific aspect:
  - CRM is a young discipline, the research therefore is very limited especially for the hotel business
  - Only a limited number of universities provide a study path for the hotel business and even less perform active research
- Technological aspects:
  - Hotel companies have on general a diversified IT landscape with many different systems respectively data silos which are not connected
  - Only a few data warehouse systems are in place

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<sup>308</sup> C.F. Bass F. M. (1969). 'A Simultaneous Equation Regression Study of Advertising and Sales of Cigarettes'. Journal of Marketing Research Vol. 6, No. 3, PP. 291-300

- The poor data quality in the different systems makes the collection of data and the generation of valuable analysis difficult
- A multi-channel campaign management system have to be used for several years covering at least the common channels post mail and e-mail
- A sophisticated marketing controlling based on a central data warehouse have to be in place
- Managerial aspects:
  - In order to implement respectively to run RM a new kind of marketing managers are needed with a deep knowledge of IT, analytics, direct marketing combined with hotel knowledge
  - Marketing is in many hotels still focused on creative work like texting and editing images. A modern direct marketing is an exception in the hotel business
- Organizational aspects:
  - Beside the needed budget and structure to keep an on-going communication between the company and the customers alive, the RM activities have to be in place for a longer time to evaluate results.

All this combined is the reason why the effect of marketing communication on the behavior of hotel guests is not really investigated so far.

For this work the usage of the CRM Data Warehouse and campaign management system *dailypoint*<sup>TM</sup> was a prerequisite to analyze the success of Customer Relationship Management. The system collects data from all marketing relevant sources of a hotel; it cleans the data in a 350-step process and provides a sophisticated multi-channel campaign management system with the needed marketing controlling tools to measure the result of each promotion.

### **3.2 Communication as an Element of a CRM Performance Strategy**

Meffert stated that the communication planning has to consider oblivion effects. A certain part of the budget should be allocated to compensate it in order to retain customers – the Relationship Marketing budget.<sup>309</sup> Through an ongoing communication, an emotional

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<sup>309</sup> C.F. Meffert H., Burmann C., Kirchgeorg M. (2008). 'Marketing'. GWV Fachverlage GmbH, Wiesbaden, P. 700

binding can be built which leads to behavioral effects<sup>310</sup> such as recommendation through word-of-mouth or finally the purchase of products from the sender.

Experts agree that communication has a central role within Customer Relationship Management (CRM). Especially in the service industry, a well-structured and valuable communication has a strong effect on consumer perception. Ball cited that a qualitative valuable communication leads to trust, satisfaction and finally loyalty.<sup>311</sup> The unanswered question so far is how valuable communication is and what the right communication frequency is. Within Relationship Marketing, the interest is about the Life-Time-Value of each recipient and the number of additional transactions the customer can contribute in the end. In the model of Bitran and Mondschein (1996), it was shown that multi-mailings outperformed single mailings in terms of revenues earned in the end.<sup>312</sup>

Communication within RM has two different functions. The message should remind the receiver about a brand, a service or a product and it should create a buying impulse. The problem in this context is that a receiver tends to forget even perceived marketing messages typically quite fast.<sup>313</sup> Besides the perception of a message, learning effects play a significant role in the scientific research. The theory says that the receiver must learn the content of a message and store it in his long-term memory as normally a time lack exists between the perception and learning of a message and the behavioral effects.<sup>314</sup> Semantic networks should positively influence the effect of marketing messages. Within RM receivers know the product and combine the sender or the message with some kind of experiences. Semantic networks therefore should support the learning and remembering effects for existing customers.

In order to create a buying impulse the right timing is important. Is the customer at a point in the decision making process where he is searching consciously or unconsciously for information the chance that the message will be perceived and create a positive conative output for the sender is better than in times where no travel is planned. It is clear that the higher the frequency the better the chance of the transmitter to contact the consumer in the

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<sup>310</sup> C.F. Dettmer H., Hausmann T., Kloss I., Meisl H., Weithöner U. (1999). 'Tourismus-Marketing-Management'. R. Oldenburg Verlag, München, P. 287

<sup>311</sup> C.F. Ball D., Coelho P. S., Machás A. (2004). 'The role of communication and trust in explaining customer loyalty'. *European Journal of Marketing*, Vol 38, No 9/10, P. 284

<sup>312</sup> C.F. Bose I., Xi C. (2009). 'Quantitative models for direct marketing: A review from systems perspective'. in *European Journal of Operational Research*, No. 195, Pp. 1 - 16. Elsevier, P. 12

<sup>313</sup> C.F. Rosenstiel L. v. (1996). 'Psychologie der Werbung'. Komar-Verlag, Rosenheim, P. 21

<sup>314</sup> C.F. Dettmer H., Hausmann T., Kloss I., Meisl H., Weithöner U. (1999). 'Tourismus-Marketing-Management'. R. Oldenburg Verlag, München, PP. 52-53

buying decision phase. Theoretically, the more a company communicates with its customers the higher should be the generated outcome.

The goal of reaching an optimal contact frequency conflicts normally with the existing communication budget.<sup>315</sup> Although this statement is no longer correct for many online channels. The frequency of media post mailing is limited due to the costs for postage and printing. This is, however, not valid for other communication channels. The dropping distribution costs for e.g. e-mail have led to an exponential growth of dispatched messages. The danger is an over-communication and overload of messages, which can theoretically create the so-called boomerang effect. The effect based on a psychological reactance means that the receiver adopts a defense posture towards the sender, which can finally result in an attitudinal as well as a behavioral reaction. The receiver can change his attitude or re-evaluate the relationship; he can react with resistance, opposition, and aggression towards the sender.<sup>316</sup>

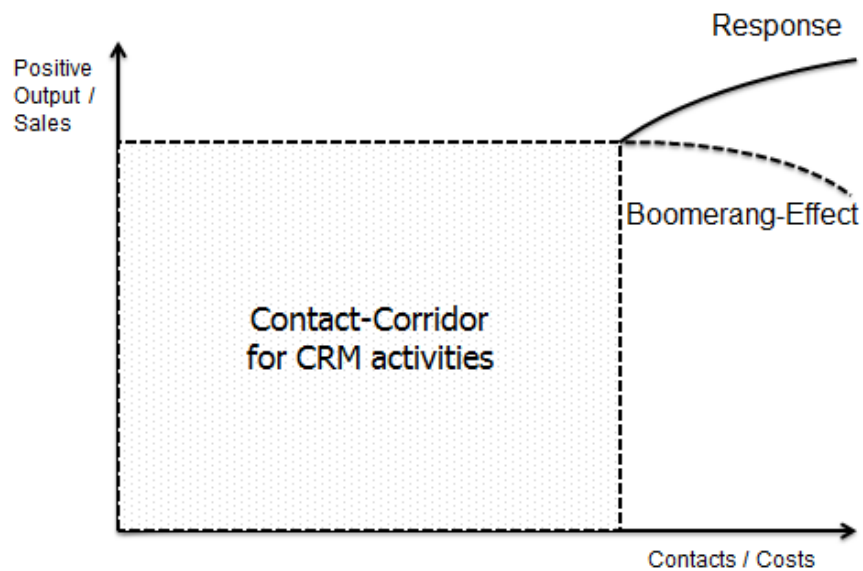
In practical use the reaction can be a disregard of the transmitted marketing messages, the active opt-out for future messages, the migration to a competitor or a negative word-of-mouth which can harm the sender severely especially if the receiver uses social media platforms to communicate his discontent. This assumption is drawn in the following figure. It shows that up to a certain level communication should always be beneficial.

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<sup>315</sup> CF. Dettmer H., Hausmann T., Kloss I., Meisl H., Weithöner U. (1999). 'Tourismus-Marketing-Management'. R. Oldenburg Verlag, München, PP. 352-353

<sup>316</sup> C.F. Wendlandt M., Hansen U. (2005). 'Reaktanz als Stolperstein des Beziehungsmarketing'. In: Haas, A.; Ivens, S. (Hrsg.). *Innovatives Marketing*. Gabler Verlag, Wiesbaden, P. 141





**Figure 29. Potential Corridor for a Meaningful Communication Frequency within RM**

*Source: Own Figure (2012) based on Wendlandt M., Hansen U. (2005). 'Reaktanz als Stolperstein des Beziehungsmarketing'. In: Haas, A.; Ivens, S. (Hrsg.). Innovatives Marketing.. Gabler Verlag, Wiesbaden, P.*

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The dotted line represents the boomerang effect theory and its result on the buying behavior of the message recipients. Following the theory from a certain number of communications on additional messages harms the relationship between a sender and the receiver, which finally leads to a migration to other vendors. The author believes that the reaction onto an over-communication of an emotional product like a hotel leads in general only to a disregard of messages not to more severe actions like the migration to a competitor. Therefore, the author believes that the response function flattens but does not go downwards.

The unanswered question in this context is also, what is an adequate communication frequency within Relationship Marketing in the current media environment? Zielke measured learning effects based on a monthly message exposure.<sup>317</sup> The frequency for e-mail newsletter is very diverse. Companies send messages on a weekly, some on a monthly, and others on a quarterly rate. However, what is correct? Therefore the channel quality of the different media channels, i.e. e-mail and post mail as a message transmitter have to be considered by the development of the model.

Either the marketing for a product or service can add value, decrease value or it does not influence the value of a company. The key point for marketers is to create a positive

<sup>317</sup> C.F. Meffert H., Burmann C., Kirchgeorg M. (2008). 'Marketing'. GWV Fachverlage GmbH, Wiesbaden, P. 698

reaction from the consumer because of the transmitted messages. The advertising environment, oblivion effects and new experiences influences the consumer behavior. Finally, there is no question that communication between a hotel and its guests is an important area of Customer Relationship Marketing.

In general, the value of communication can be seen from two perspectives: from the receiver and from the transmitter. A receiver of a marketing message evaluates the value of a communication based on his individual needs, goals, interests, the current situation etc. High content relevance and the media acceptance add value, whereas low content relevance or low media acceptance decreases value.<sup>318</sup> Value from communication is created through four factors, content (what), presentation (how), place (where) and time (when). This corresponds to Heinonen's (2004) perceived service value model that consists of technical, functional, spatial and temporal value dimensions. Heinonen's model builds on and extends Grönroos' perceived service quality model (Grönroos, 1982) in order to cover e-services and explore customer perceptions of temporal and spatial value in addition to technical and functional value.<sup>319</sup>

From a sender perspective, the value of communication is finally the outcome. It is not only the generated revenue, which is important also the associated costs per channel have to be considered. Ladder has led to the mentioned replacement strategy and the growing displacement of the media post mail with electronic channels. The question within the topic of marketing efficiency is which is not answered yet, what are the most valuable channels, what is the most efficient direct media mix for a successful Relationship Management strategy especially for the hotel business?

A hotel stay is connected to some kind of experiences and feelings. Hotels are therefore characterized on average by a high product involvement of the consumer. It can be argued that this involvement leads to an environment where the acceptance and the perception level of a marketing message is higher compared to products with a lower involvement. This means consumers are more responsive to marketing messages from high involvement products or services.

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<sup>318</sup> C.F. Heinonen K., Strandvik T. (2005). 'Communication as an element of service value'. *International Journal of Service Industry Management*, Vol. 16 Iss: 2, P. 194

<sup>319</sup> C.F. Heinonen K., Strandvik T. (2005). 'Communication as an element of service value'. *International Journal of Service Industry Management*, Vol. 16 Iss: 2, PP. 187-188

In order to generate an intended outcome the sender has to use the right communication channels.<sup>320</sup> However, each media channel has individual characteristics and limitations<sup>321</sup> concerning its value-creating factors. The difficulty is that a continuously growing number of communication channels enter the market, each channel with individual qualities, costs and therefore different value drivers. In theory, the number of senses touched by a marketing medium should have a direct correlation on the level of perception, learning and the outcome. A mailing piece should sensory stimulate the processing of the message and enhance its theme. The more senses are engaged in the process, the more effective and memorable it should be.<sup>322</sup> The intensity a media channel is being perceived by the consumer influences the results. It can be assumed that the more often a message will be sent to the consumer and perceived the more intense are the generated effects.

Messages through the different channels like TV, radio, print advertisements, email, post mails or postings on Facebook have different functions in the daily routine and different psychological effects. Summarized each channel has a specific quality as a message transmitter.<sup>323</sup> Beside the touched senses the location where the message is received, the time when it is read, or is the processing part of a certain daily routine represents additional differentiators.<sup>324</sup> Consumer responsiveness and attention to marketing communication is influenced by the situation (when and where) in which the consumer receives the marketing messages.<sup>325</sup>

For RM the direct marketing channels play the dominant role namely e-mail and post mail. One aspect why direct communication is getting more and more important for today's marketers is the fact that mass communication is often not perceived by the receiver, which means the channel-effectiveness is at least questionable. Although unconscious perception exists, unconscious perception is characterized by a short-term recognition. The higher the

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<sup>320</sup> C.F. Hofbauer G., Schöpfel B. (2010). 'Professionelles Kundenmanagement'. Publicis Publishing, Erlangen, P. 160

<sup>321</sup> C.F. Toedt M. (2011). 'The Influence of Media Channel on the Booking Behavior of Hotel Guests'. in *Current Issues in Economic and Management Science*. University of Latvia, Riga, PP. 632-642

<sup>322</sup> C.F. Pine II J., Gilmore J. H. (1978). 'Welcome to the Experience Economy'. *Harvard Business Review*, July-August, P. 104

<sup>323</sup> C.F. Dettmer H., Hausmann T., Kloss I., Meisl H., Weithöner U. (1999). 'Tourismus-Marketing-Management'. R. Oldenburg Verlag, München, PP. 292-293

<sup>324</sup> C.F. Toedt M. (2011). 'THE INFLUENCE OF MEDIA CHANNEL ON THE BOOKING BEHAVIOR OF HOTEL GUESTS'. in *Current Issues in Economic and Management Science*. University of Latvia, Riga, P. 637

<sup>325</sup> C.F. Heinonen K., Strandvik T. (2005). 'Communication as an element of service value'. *International Journal of Service Industry Management*, Vol. 16 Iss: 2, P. 191

attention respectively the perception level of the individual is the better are the communication effects.<sup>326</sup> In front of this background, the question is what is the quality of the most common direct marketing channels e-mail and mail? Both media types touch different senses; are read at different times or different locations during a day just to mention two differentiators. The following table aggregates and rates the differences between the channels e-mail and post mail.

**Table 4. Evaluation of the Media-Channel Quality of E-Mail and Post Mail**

Media Channel	Location or Daily Routine	Easiness to Perceive Message	Touched Senses	Needed Time to Delete	Easiness to Respond	Total
E-mail	2	2	1	2	6	11 Points
Post Mail	5	6	4	3	2	20 Points

Source: Own Figure (2012) based on Dettmer H., Hausmann T., Kloss I., Meisl H., Weithöner U. (1999). 'Tourismus-Marketing-Management'. R. Oldenburg Verlag, München, PP. 292-293 and Heinonen K., Strandvik T. (2005). 'Communication as an element of service value'. *International Journal of Service Industry Management*, Vol. 16 Iss: 2, P. 191

To evaluate the different channels a scale from one to six was used; one equals poor performance; six equals high value.

- "Location of daily routine" evaluates the where and when of the media consumption.
  - o E-mail is regarded as relatively low since due to the growing number of smart phones more and more e-mails are being received on the go, which means the concentration towards the medium is relatively low. Result: 2 points
  - o Post mail is regarded as good since many consumers opens post mail at a certain point of a day, which means the concentration towards the message is high. Result: 5 points
- "Easiness to perceive message" evaluates how long and how difficult it is for a receiver to perceive the content of a message.

<sup>326</sup> C.F. Seebohn J. (2011). 'Gabler Kompaktlexikon Werbung'. Gabler Verlag, Wiesbaden, P. 119

- E-mail is due the limited size of the screen of many utilities more difficult to perceive. In addition content within e-mail newsletter are commonly only teasers, which link to a website. Result: 2 points
- Post mail is regarded as very valuable as the media makes it very easy to transmit the content of a message. Result: 6 points
- “Touched senses” reflects how many senses are needed respectively touched by the media which influences the outcome.
  - For e-mail, only sight is engaged. Result: 1 point
  - For post mail hearing, sight, touch and potentially smell is engaged. Result: 4 points
- “Needed time to delete” represents the time a receiver needs to delete the message. The shorter the required time the shorter is the processing of the message.
  - Deleting an e-mail needs only one mouse click. Result: 2 points
  - Deleting a post mail message requires slightly more time due to the collection of the different pieces. Result: 3 points
- “Easiness to respond” answers the question if the receiver can directly answer.
  - The strength of the media e-mail is the easiness to respond, no media breach is required. Result: 6 points
  - Answering a post mail requires time or the usage of a different media channel, both is negative. Result: 2 points

The qualitative assessment of the channels e-mail and post mail is represented by the following result: The channel e-mail generated 11 points, post mail 20 points. Based on the assessment post mail can be regarded as qualitative more valuable to transmit marketing messages than e-mail. A replacement strategy in favor of electronic channels is therefore questionable. Following this channel quality evaluation the outcome of post mail should be higher than for e-mail.

### **3.3 Response-Functions and there Role for CRM**

Advertisement-Response-Functions are used to refer the quantitative relationship between some input of advertising and some output of presumed value for the advertiser.<sup>327</sup> In

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<sup>327</sup> C.F. Simon J. L., Arndt J. (1980). 'The Shape of the Advertising Response Function'. Journal of Advertising Research, Vol. 20, Number 4, P. 12

literature, response functions are mainly described as s-shaped or concave downward increasing functions. Both theories start with the assumption that the efficiency of marketing messages increases disproportionately with a growing communication frequency and that a kind of saturation effect occurs at a certain level.<sup>328</sup> So far the scientific community has not agreed on which of the response functions is appropriate to describe the results of communication actions within Customer Relationship Management. However, this is of high interest since this knowledge would have significant effects on the definition of CRM strategies.

An s-shaped response function is reflecting the theory that consumers have to receive a certain amount of messages before they show a reaction. In order to show the learning effects over time in comparison to the number of messages received, Zielke exposed consumers to a weekly advertisement campaign over 13 weeks and a second target group to a monthly campaign over a period of 12 months.<sup>329</sup> The first campaign with 13 advertisements over a period of 13 weeks with the high frequency caused in high recall numbers during the campaign period with a strong decline after the ending. The second was a monthly campaign evenly distributed over the timer period of one year. The result was a weaker but ongoing digressive increase. The analysis showed that an increased frequency leads to better recall numbers; however, the learning effect goes down since oblivion effects work against the learning effects.<sup>330</sup>

A majority of persons interested in marketing believe that the advertising response function has an inflection point and is s-shaped. Economists such as Dean, Chamberlin, Comanor, Wilson, and Porter claim that there are initial increasing returns to scale of advertising.<sup>331</sup>

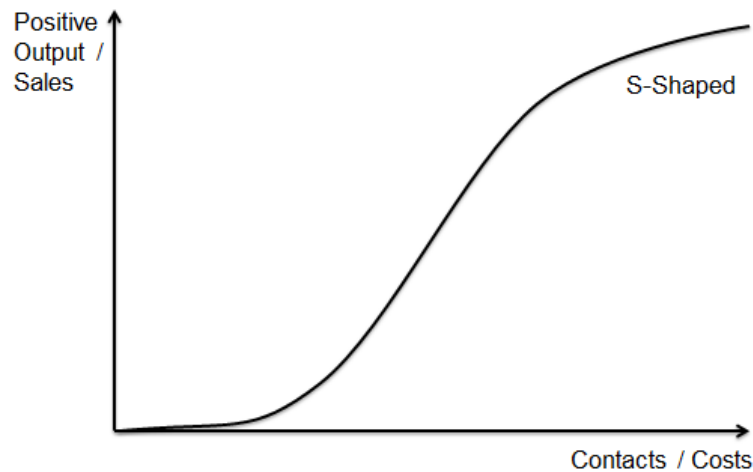
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<sup>328</sup> C.F. Dettmer H., Hausmann T., Kloss I., Meisl H., Weithöner U. (1999). 'Tourismus-Marketing-Management'. R. Oldenburg Verlag, München, P. 352

<sup>329</sup> C.F. Meffert H., Burmann C., Kirchgeorg M. (2008). 'Marketing'. GWV Fachverlage GmbH, Wiesbaden, P. 698

<sup>330</sup> C.F. Zielke H. A. (1959). 'The Remembering and Forgetting of Advertising'. *Journal of Marketing*, N. 3, PP. 239-243

<sup>331</sup> C.F. Simon J. L., Arndt J. (1980). 'The Shape of the Advertising Response Function'. *Journal of Advertising Research*, Vol. 20, Number 4, P. 13



**Figure 30. A Model of an S-Shaped Response Function**

*Source: Own Figure (2012) based on Krugman H. E. (1975). 'What makes advertising effective?'. Vol. 23, No. 2. Harvard Business Review, PP. 96-103*

The supporters of the s-shaped logistic response function argue that a consumer needs first some input to generate a result afterwards. The figure above describes this theory and shows the two inflection points, the first when the graph goes upwards and a second when the increase flattens. The area between the two inflection points is the so-called contact-corridor, which means too less communication is inefficient as well as too much.<sup>332</sup> The s-shaped function suggests that the consumer has to learn first a message and needs several contacts to process the content to trigger an output. The author assumes that the type of the promoted product plays an important role on the necessity of learning effects to generate measurable results. The less complex a product or the cheaper a product is the less steps are needed to create purchase impulses.

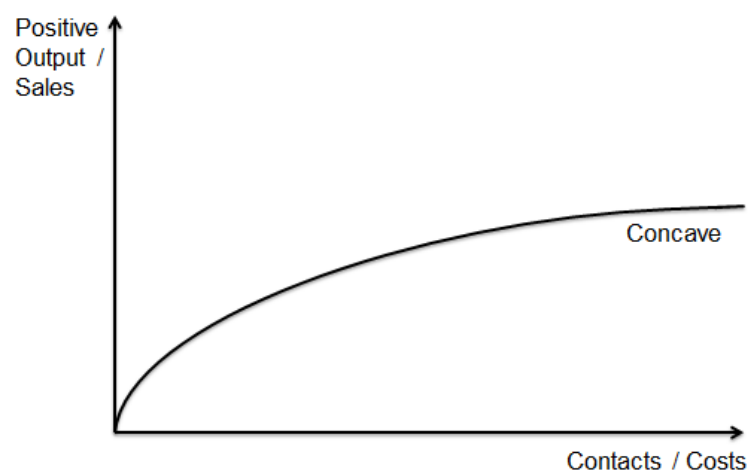
The Three-Hit theory of Krugman supports the s-shaped response function. Krugman differentiates the buying process into three steps. Based on his assumption a consumer has to perceive a message three times. In the first contact the consumer has to learn what the product is, than he has to realize and understand the offered benefits and finally in the third step weather the product fulfills his individual needs or not. Krugman concludes that it is pointless to advertise too little and it is counterproductive to advertise too much.<sup>333</sup>

<sup>332</sup> C.F. Dettmer H., Hausmann T., Kloss I., Meisl H., Weithöner U. (1999). 'Tourismus-Marketing-Management'. R. Oldenburg Verlag, München, PP. 352-353

<sup>333</sup> C.F. Krugman H. E. (1975). 'What makes advertising effective?'. Vol. 23, No. 2. Harvard Business Review, PP. 96-103

Proponents of the Three-Hit theory define effectiveness to be a minimum of three confirmed contacts over an agreed-upon period. The number three came to be a commonly accepted industry standard.<sup>334</sup> Nevertheless, the Three-Hit theory did not necessarily imply a need for three, or even two physical advertising exposures. Kamin analyzed that the probability of perceiving a commercial three times increases by up to 12 contacts. In his theory, 5 to 20 potential contacts are regarded as an effective frequency.<sup>335</sup> Cannon argues that the three steps are a series of mental steps in message processing which might take place in conjunction with a series of advertising exposures but can also triggered by a single exposure.<sup>336</sup> The cases of Kamin and Canon show the importance to differentiate between communication frequency and perception of a marketing message, since transmitting does not mean that the receiver perceives the message and learns the content. It can be stated that the Three-Hit theory does not support the assumption that a contact dose should be three messages.

The second response function mainly mentioned in the literature is a concave downward increasing logistic function. The graph in the following figure describes the model. It shows that an output is generated from the beginning on, no learning effects are needed to trigger a reaction.



**Figure 31. Example of an Concave Downwards Response Function**

<sup>334</sup> C.F. Cannon H. M., Leckenby J. D., Abernethy A. (2001). 'Beyond Effective Frequency: Evaluating Media Schedules Using Frequency Value Planing'. Wayne State University Department of Marketing, PP. 5-6

<sup>335</sup> C.F. Kamin H. (1978). 'Advertising Reach and Frequency'. Vol. 18, No. 1. Journal of Advertising Research, P. 25

<sup>336</sup> C.F. Cannon H. M., Leckenby J. D., Abernethy A. (2001). 'Beyond Effective Frequency: Evaluating Media Schedules Using Frequency Value Planing'. Wayne State University Department of Marketing, PP. 5-6



Source: Own Figure (2012) based on Simon J. L., Arndt J. (1980). 'The Shape of the Advertising Response Function'. *Journal of Advertising Research*, Vol. 20, Number 4, PP. 12-13

The theoretical root of the concave-downward curve is in the microeconomic *law of diminishing returns* to productive inputs. At the level of the individual buyer, the reasoning is that a given message conveys less and less information with each additional exposure. Krugman's Three-Hit theory can also be used to explain the concave curve. Krugman claims that the first exposure creates curiosity, the second brings recognition and first number three creates an output. Following this approach, it leads to the hypothesis that returns to both frequency and reach for marketing messages are decreasing.<sup>337</sup>

Dettmer assumes that the efficiency of a marketing message with increasing contacts rises only disproportional and a kind of saturation effect appears.<sup>338</sup> Simon and Arndt wrote that studies using physical and monetary variables add up to the conclusion that there is no increasing returns to advertising.<sup>339</sup> This means both disagree with the theory of s-shaped response functions. None of the studies so far analyzed response functions in the context of Customer Relationship Marketing. The theories of an s-shaped as well of a concave response function follow the same approach that the efficiency of a marketing message decreases with the number of transmitted messages. Therefore, the aspects of reactance as well as of cognitive dissonance will now be reviewed.

The assumption that the efficiency of a message decreases with the frequency leads to the conclusion that a kind of saturation effect appears on the side of the receiver.<sup>340</sup> The intended positive output of marketing communication opposes the negative effect, the reactance or in other words the resistance against some pressure. The downwards inflection point within a response function can be regarded because of a reactance from the target group. It means that the inflection point represents a certain communication frequency where an over-commercialization may increase a negative reaction from the sender.<sup>341</sup>

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<sup>337</sup> C.F. Simon J. L., Arndt J. (1980). 'The Shape of the Advertising Response Function'. *Journal of Advertising Research*, Vol. 20, Number 4, PP. 12-13

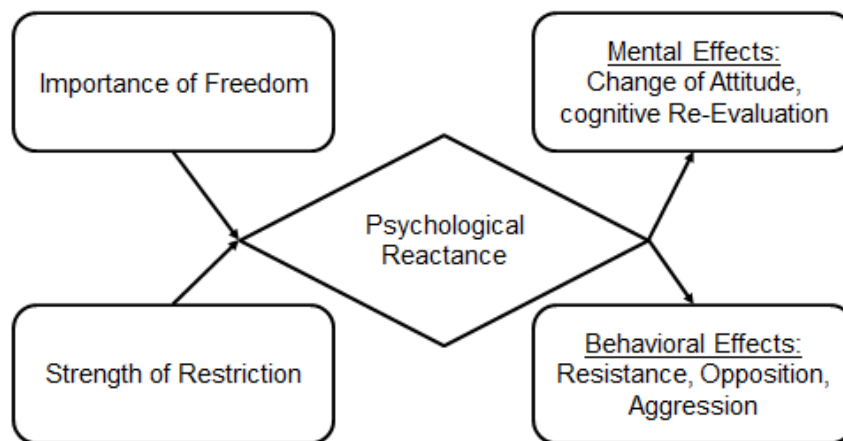
<sup>338</sup> C.F. Dettmer H., Hausmann T., Kloss I., Meisl H., Weithöner U. (1999). 'Tourismus-Marketing-Management'. R. Oldenburg Verlag, München, P. 352

<sup>339</sup> C.F. Simon J. L., Arndt J. (1980). 'The Shape of the Advertising Response Function'. *Journal of Advertising Research*, Vol. 20, Number 4, P. 24

<sup>340</sup> C.F. Dettmer H., Hausmann T., Kloss I., Meisl H., Weithöner U. (1999). 'Tourismus-Marketing-Management'. R. Oldenburg Verlag, München, P. 352

<sup>341</sup> C.F. Krugman H. E. (1975). 'What makes advertising effective?'. Vol. 23, No. 2. *Harvard Business Review*, PP. 96-103

Jack W. Brehm developed the reactance theory.<sup>342</sup> According to the theory, if individuals feel that any of their free behaviors, in which they can engage at any moment now or in the future, is eliminated or threatened with elimination, the motivational state of psychological reactance will be aroused.<sup>343</sup> Reactance is also the resistance, which normally occurs, if someone feels an inadequate restriction.<sup>344</sup> As described in the following figure the level of reactance shown by the individual depends on the importance of freedom and the strength of the experienced restriction.<sup>345</sup> If reactance occurs depends on the individual threshold level of the involved person. Below the individual threshold level psychological reactance does not occur. Mental as well as behavioral effects are potential results of reactance.



**Figure 32. Causes and Results of Psychological Reactance**

Source: Own Figure (2012) based on Wendlandt M., Hansen U. (2005). 'Reaktanz als Stolperstein des Beziehungsmarketing'. In: Haas, A.; Ivens, S. (Hrsg.). *Innovatives Marketing*. Gabler Verlag, Wiesbaden, P.

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Psychological reactance can be summarized with the resistance against internal or external restrictions or pressures. A high volume of marketing messages can be understood as an effort of hard selling which represents an external restriction, which is potentially followed

<sup>342</sup> C.F. Brehm J. W. (1966). A theory of psychological reactance. In: Burke W.W., Lake D. G., Paine J. W., *Organisation Change; A Comprehensive Reader*. San Francisco: Jossey-Bass; PP. 377-389

<sup>343</sup> C.F. Miron A. M., Brehm J. W. (2006). 'Reactance Theory - 40 Years Later'. *Zeitschrift für Sozialpsychologie*, 37 (1), P. 10

<sup>344</sup> C.F. Schönplflug W., Schönplflug U. (1997). 'Psychologie'. *Psychologie Verlags Union*, Weinheim, P. 34

<sup>345</sup> C.F. Wendlandt M., Hansen U. (2005). 'Reaktanz als Stolperstein des Beziehungsmarketing'. In: Haas, A.; Ivens, S.; *Innovatives Marketing*; Gabler Verlag, Wiesbaden, P. 140

by reactance.<sup>346</sup> The resistance of consumer against the purpose of influencing through too many marketing messages is called boomerang effect. The condition for the boomerang effect is that the individual threshold level is bypassed.<sup>347</sup> Behavioral or mental effects occur.<sup>348</sup> Such an act of defiance occurs if the receiver experiences the effort of influencing as inadequate or too much. The individual tries than to regain its freedom through an opposite reaction.<sup>349</sup> If an advertisement strategy is too aggressive and tries to influence the attitude of the receiver too obviously, the approach can easily be understood by the individual as a restriction of the personal freedom.<sup>350</sup> Psychological reactance occurs normally before a buying decision is made.<sup>351</sup> Summarized the reactance approach can be regarded as an important brick to define a minimum respectively a maximum communication frequency, also called contact corridor, in which communication generates a positive effect towards a product, a service or a brand.

After reviewing the reactance theory, the approach of cognitive dissonance will be explained. Within the area of the social psychology, the cognitive dissonance theory is regarded as the most influential one of the cognitive consistence theories. Consistence theories explain the pursuit of human beings of reducing conflicts.<sup>352</sup> The theory goes back to Festinger and his article 'A Theory of Cognitive Dissonance'.<sup>353</sup> The trigger for cognitive dissonance is the realization of the individual that the decision for a product is also a decision against an alternative, if the alternative and the chosen object are on the same attraction level. Another trigger is if the individual buys something, which was not its original desire or if the individual gets information afterwards, which devaluates or disagree the choice. The fourth trigger is if a person in a position of trust argues that the chosen product is not as good as the alternative.<sup>354</sup>

It can be summarized that the theory starts at the point where an individual has to make a decision and this process may initiate an internal stress condition. The decision against

<sup>346</sup> C.F. Rosenstiel L. v. (1996). *Psychologie der Werbung*; Rosenheim: Komar; P. 183

<sup>347</sup> C.F. Kroeber-Riel W., Weinberg P. (2003). 'Konsumentenverhalten'. Vahlen, München, P. 208

<sup>348</sup> C.F. Wendlandt M., Hansen U. (2005). 'Reaktanz als Stolperstein des Beziehungsmarketing'. In: Haas, A.; Ivens, S. (Hrsg.). *Innovatives Marketing*. Gabler Verlag, Wiesbaden, P. 141

<sup>349</sup> C.F. Gniech, G.; Grabitz, H. J. (1978). 'Freiheitseinengung und psychologische Reaktanz'. Frey, D.; *Kognitive Theorien der Sozialpsychologie*. Bern, Hans Huber Verlag, P. 52

<sup>350</sup> C.F. Rosenstiel L. v. (1996). 'Psychologie der Werbung'. Komar, Rosenheim, P. 182

<sup>351</sup> C.F. Felser G. (2001). *Werbe- und Konsumentenpsychologie*. Stuttgart: Schäffer-Poeschel; P. 15

<sup>352</sup> C.F. Raab G., Unger A., Unger F. (2010). 'Marktpsychologie'. Gabler Verlag, Wiesbaden, P. 42

<sup>353</sup> C.F. Festinger L. (1957). 'A Theory of Cognitive Dissonance'. Evanston. Stanford University Press, Stanford

<sup>354</sup> C.F. Rosenstiel L. v. (1996). 'Psychologie der Werbung'. Komar-Verlag, Rosenheim, P. 203

an alternative can lead to the situation that the individual questioning its decision. This situation of a psychological disagreeable tension is called cognitive dissonance. The individual tries to reduce this uneasy situation in order to come back to a mental balance.<sup>355</sup> In order to get a mental balance the individual starts a targeted quest for arguments in order to verify the already made decision.<sup>356</sup> Festinger realized the following psychological reactions: collecting of consonant information in order to argue respectively verify the own decision; appreciation of value of the own decision; ignoring dissonant information, which are contrary to the own decision.<sup>357</sup> Schenk, Donnerstag and Höflich found out that cognitive dissonance plays a significant role during the buying process as dissonance can appear after the buying decision was made and due to new information about the product received after the product was bought.<sup>358</sup>

The psychological reactance theory is to differentiate from the cognitive dissonance theory as reactance happens before or during a decision, cognitive dissonance instead happens after a decision was made. During the reactance process the alternative is rated more attractive, exactly the opposite happens during cognitive dissonance.

Following the different theories, the definition of a correct response function for CRM activities is a central aspect of this dissertation. Is the model of an s-shaped response function more appropriate or the theory of a concave function? Perception and learning are part of the Three-Hit theory of Krugman. Krugman differentiates the buying process into three steps. Based on his assumption a consumer has to perceive a message three times before an output is generated. In the first contact, the consumer has to learn what the product is, than he has to realize and understand the offered benefits and finally in the third step whether, the product fulfills his individual needs or not a reaction is created. Krugman concludes that it is pointless to advertise too little and it is counterproductive to advertise too much.<sup>359</sup> Proponents of the Three-Hit theory define effectiveness to be a minimum of three confirmed contacts over an agreed-upon period. The number three became a commonly accepted industry standard.<sup>360</sup>

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<sup>355</sup> C.F. Hornung R., Lächler J. (2006). 'Psychologisches und soziologisches Grundwissen für Gesundheits- und Krankenpflegeberufe'. Beltz, Weinheim, P. 104

<sup>356</sup> C.F. Dettmer H., Hausmann T., Kloss I., Meisl H., Weithöner U. (1999). 'Tourismus-Marketing-Management'. R. Oldenburg Verlag, München, P. 52

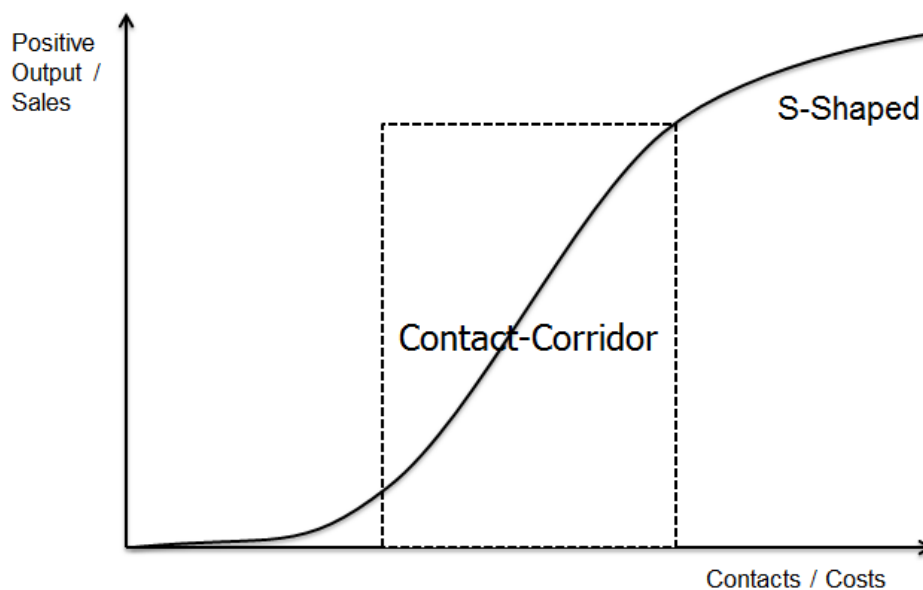
<sup>357</sup> C.F. Festinger L. (1957). 'A Theory of Cognitive Dissonance'. Evanston. Stanford University Press, Stanford, P. 3

<sup>358</sup> C.F. Schenk M., Donnerstag J., Höflich J. (1990). 'Wirkung der Werbekommunikation'. Böhlau, Köln, P. 56

<sup>359</sup> C.F. Krugman H. E. (1975). 'What makes advertising effective?'. Vol. 23, No. 2. Harvard Business Review, PP. 96-103

<sup>360</sup> C.F. Cannon H. M., Leckenby J. D., Abernethy A. (2001). 'Beyond Effective Frequency: Evaluating Media Schedules Using Frequency Value Planing'. Wayne State University Department of Marketing, P. 5-6

The fact that with a growing communication frequency of messages increases the level of perception including linked learning effects of the content or the Three-Hit theory of Krugman all result in the assumption of an s-shaped response function for marketing communication. Using the contact corridor model, this means that the dispatch of only a few messages would not be effective, a minimum number of actions are needed to generate measurable results. The question to answer is how this theory fits to the approach of Customer Relationship Management. Are learning effects needed if a consumer already knows the product?



**Figure 33. Meaningful Communication Frequency for an S-Shaped Response-Model**

Source: Own Figure (2012) based on Krugman H. E. (1975). 'What makes advertising effective?'. Vol. 23, No. 2. *Harvard Business Review*, PP. 96-103 and Wendlandt M., Hansen U. (2005). 'Reaktanz als Stolperstein des Beziehungsmarketing'. In: Haas, A.; Ivens, S. (Hrsg.). *Innovatives Marketing.. Gabler Verlag, Wiesbaden, P.*

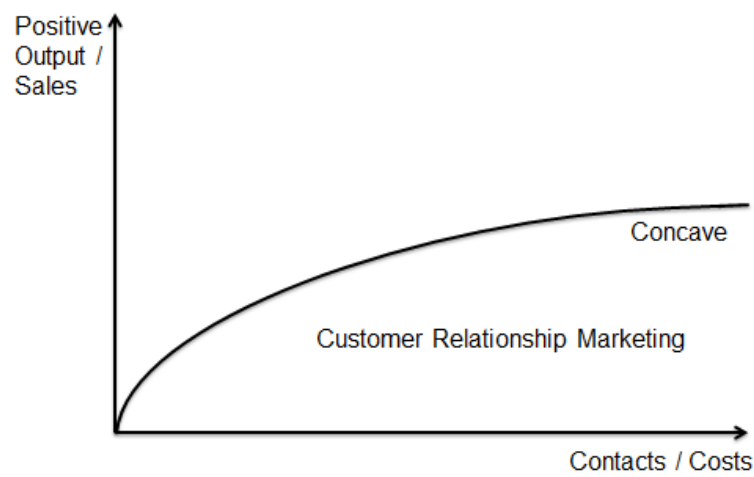
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The figure above shows the contact corridor for an s-shaped response function. The s-shaped response function shows that if the number of transmitted messages is below a certain threshold the result is under proportional the same goes ditto for the transmitting of too many messages. A saturation effect flattens the function, which means the company spends too much. Leaving the contact corridor by dropping below a certain communication threshold or exceeding is therefore from a budget perspective un-efficient.

The author declines the assumption of an s-shaped response function, as learning effects should not play a significant role for current customers, which have some level of product knowledge. For relationship communication, it should not be important if a customer stayed once or several times in a certain hotel, he consumed and experienced the products and

services. The consumer painted a certain picture in his mind; the experience confirmed or disconfirmed the expectations, which finally led to satisfaction or dissatisfaction. Therefore, no minimum number of contacts is needed; results should be generated from the first message on.

Instead of the s-shaped response function, which is commonly used in the scientific community an increasing concave downward logistic function, as described in the following figure, seems to be more appropriate to describe the effect of communication for Customer Relationship Management.



**Figure 34. Prognosticated Response Function for RM Activities**

Source: Own Figure (2012) based on Dettmer H., Hausmann T., Kloss I., Meisl H., Weithöner U. (1999). 'Tourismus-Marketing-Management'. R. Oldenburg Verlag, München, P. 352

The graph in the figure shows that an output is generated from the beginning on, no learning effects are needed to trigger a reaction. The main role of communication within RM is the creation of remembering effects, which finally should lead in a re-consumption of the products or services.

The theoretical root of the concave-downward curve is in the microeconomic *law of diminishing returns* to productive inputs. At the level of the individual buyer, the reasoning is that a given message conveys less and less information with each additional exposure. This means the efficiency of a marketing message with increasing contacts rises only disproportional, as a kind of saturation effect appears<sup>361</sup> which leads to the form of a

<sup>361</sup> C.F. Dettmer H., Hausmann T., Kloss I., Meisl H., Weithöner U. (1999). 'Tourismus-Marketing-Management'. R. Oldenburg Verlag, München, P. 352

downward concave graph. Therefore, it is assumed that a concave-downward graph represents the effect of communication on the buying behavior of existing customers.

### **3.4 The Role of Time within Relationship Marketing**

When leaving a hotel almost nothing reminds the customer on his made experiences. Not like products for the daily use, nor the brand itself creates remembering effects after a stay. As described before the hotel industry is characterized by the situation that even multi-national hotel chains normally do not advertise in prime class mass media channels. The reasons are narrow budgets and a diversified organizational structure, both leads to very weak brand awareness levels on the consumer side. In order to stay in touch hotels have to rely on direct marketing channels using the existing customer data.

Some perceptions of messages, which for instance do not come directly from a certain hotel can a receiver connect in his individual semantic network with the hotel product, which creates remembering effects and potentially trigger some behavioral results. As an example broadcasts on television, which play always in the same area provide therefore high advertising potential for the local tourism vendors. However, this effect is not controllable. Direct communication is a controllable action to create targeted remembering and behavioral effects.

Each consumer is part of an ongoing learning process. New experiences and impressions displace or enrich respectively permanently modify<sup>362</sup> older experiences and impressions. The result for the hotel business in a globalized competitive environment results mainly in growing expectations towards the provided products and services.

Although theoretically the effect on loyalty towards a product can be a stabilization of the relationship, an increase or a decrease, in practice the consumers are more and more demanding since their comparison set is ongoing increasing which raise the expectation level on quality.

As time goes by consumers reflect therefore differently.<sup>363</sup> In addition, new experiences are clearer, stronger and better present in the mind of the consumer than older

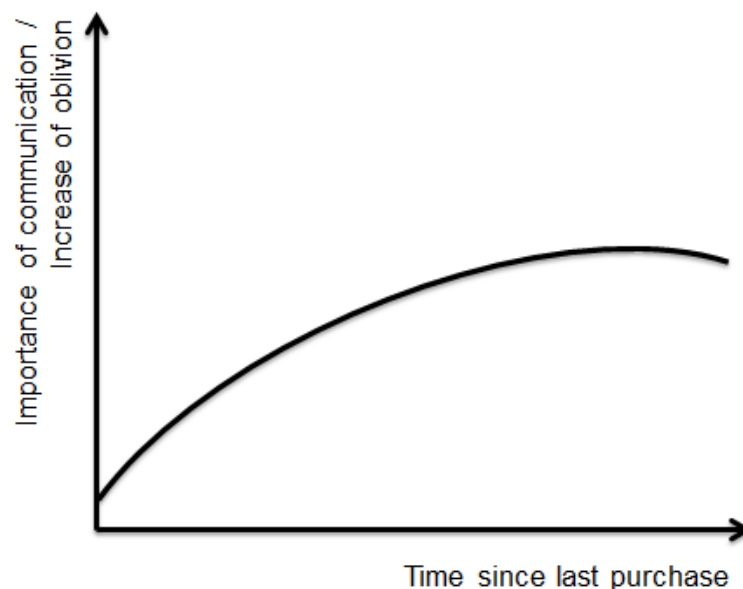
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<sup>362</sup> C.F. Lingenfelder M., Schneier W. (1991). 'Die Zufriedenheit von Kunden - Ein Marketingziel?'. *Marktforschung & Management*, No 1, 35. Jg, Stuttgart, PP. 29-34

<sup>363</sup> C.F. MacStravic R.S. (1994). 'Patient loyalty to physicians'. *Journal of Health Care Marketing*, Vol. 14 No. 4, PP. 53-59 or Richins M., Bloch P. (1991). 'Post-purchase product satisfaction: incorporating effects of involvement and time'. *Journal of Business Research*, Vol. 23 No. 2, PP. 145-158

ones. The picture of an encounter declines over time if not permanently awaked through current incidents. This means for Relationship Marketing that it is of high importance to generate remembering effects. The longer the last purchase lies in the past the more important is the communication between an organization and its customers in order to keep them as customers.

The purpose of Relationship Marketing is to improve the Customer Lifetime Value (CLV) in the long run through the generation of additional sales which were not be made without an ongoing communication. The importance of this stay-in-touch-effect is increasing the longer the last purchase lies in the past, especially when the buying frequency is on average as low as in the hotel business.



**Figure 35. The Increasing Importance of Communication to Existing Customers over Time**

Source: Own Figure (2013) based on Lingenfelder M., Schneier W. (1991). 'Die Zufriedenheit von Kunden - Ein Marketingziel?'. *Marktforschung & Management*, No 1, 35. Jg, Stuttgart, PP. 29-34 and Richins M., Bloch P. (1991). 'Post-purchase product satisfaction: incorporating effects of involvement and time'. *Journal of Business Research*, Vol. 23 No. 2, PP. 145-158

The figure shows the pre-described effect of Relationship Marketing and its importance for enhancing the CLV of a consumer. The longer the consumption of a product lies in the past the more important is the communication between the organization and its customers. As long as the experience is still clear in mind communication plays not a central role. With the increasing appearance of oblivion effects, communication efforts and the associated remembering effects are getting more important. Finally, at some point in time if



no new purchases were made the relationship can be regarded as terminated which is displayed in the figure with the downward effect of the graph.

### **3.5 A new Model of Loyalty for Explaining Relationship Marketing**

Several models try to explain loyalty, such as the Swedish Customer Satisfaction Barometer (SCSB), the American Customer Satisfaction Index (ACSI) or the European Customer Satisfaction Index (ECSI). All try to explain loyalty within a complex construct with several variables and with a central factor named customer satisfaction. None of these approaches to define loyalty has been applied to the topic of Customer Relationship Marketing. For this dissertation, the author enhances the existing ECSI (European Customer Satisfaction Index) model and the findings of Ball, Coelho and Machás to develop a model, which can be used to evaluate the role of CRM, especially the marketing oriented side of CRM.

The “classic” ECSI model is used since it is a well-established tool for assessing customer satisfaction and loyalty.<sup>364</sup> The construct includes the variables customer satisfaction, perceived value, perceived quality, expectations, image, loyalty and complaints.<sup>365</sup>

The “RM Loyalty Model” developed by the author enhances the ECSI model with the variables communication channel, time and frequency. Based on the theoretical research in the previous chapters the model explores the role of direct marketing on consumer loyalty. The following table shows the enhancements and differences between both models. The model uses the existing findings of the ECSI model where the driver variables expectations, perceived quality, image and perceived value leads to the consequences customer satisfaction, complaints and loyalty.

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<sup>364</sup> C.F. Ball D., Coelho P. S., Machás A. (2004). 'The role of communication and trust in explaining customer loyalty'. *European Journal of Marketing*, Vol 38, No 9/10, P. 1272

<sup>365</sup> C.F. Ferreira I., Cabral J., Saraiva P. (2010). 'An integrated framework based on the ECSI approach to link mould customers' satisfaction and product design'. *Total Quality Management*, Vol. 21, P. 1387

**Table 5. Drivers and Consequences in the RM Loyalty Model compared to the ECSI Model**

<b><i>Variables</i></b>	<b>ECSI</b>	<b>RM Loyalty Model</b>
<b><i>Drivers</i></b>	customer expectations	customer expectations
	perceived quality	perceived quality
	image	image
	perceived value	perceived value
		<i>communication channel</i>
		<i>frequency</i>
	<i>time</i>	
<b><i>Consequences</i></b>	customer complaints	customer complaints
	customer satisfaction	customer satisfaction
	Loyalty = repurchase behavior plus intention to recommend plus intention to buy addition	<i>Loyalty = repurchase behavior</i>

Source: Own Figure (2013) based on Ferreira I., Cabral J., Saraiva P. (2010). 'An integrated framework based on the ECSI approach to link mould customers' satisfaction and product design'. *Total Quality Management*, Vol. 21, PP. 1386-1387

Ball, Coelho and Machás added the variables 'communication' and 'trust' to their "Enhanced ECSI-Model". Trust is disregarded in the "RM Loyalty Model" since its relevance on loyalty was evaluated not as high as expected in former research. The variable communication included in the "Enhanced ECSI-Model" covers not only direct marketing actions but also in-person communication with service personnel before, during and after a service transaction. Although different authors support their approach likes Parasuraman et al. (1991) or Bruhn et al. (2000) the personal customer dialogue is disregarded in the "RM Loyalty Model". The reason is that the main common direct marketing tools are post mail and e-mail and both channels are normally used more for a one-way transfer of information than for a dialogue.<sup>366</sup>

<sup>366</sup> C.F. Seeborn J. (2011). 'Gabler Kompaktlexikon Werbung'. Gabler Verlag, Wiesbaden, P. 111

Within this work, communication is therefore defined as a one-way transfer of messages from a company to its existing customers using direct marketing channels. Within the hospitality, in-person communication after a stay is especially for individual guests uncommon and excluded.

A further differentiator in the “RM Loyalty Model” is that the author regards communication not as a single variable. Communication summarizes too many different elements, which are regarded as too important to be summarized in only one variable. Instead of communication, the variables are “communication channel” and “frequency” as well as “time”. The communication channel is further sub-divided by the transmitters e-mail and direct post mail, the two most common direct marketing channels overall, not only in the hotel business.

The driver variable frequency stands for the number of messages sent from a company to its existing customers. Since remembering effects should be a central aspect within Customer Relationship Marketing this variable is extra listed in the model. The model should determine the contact corridor for RM, which means from where to where communication is economically beneficial for the sender.

The third additional variable is “time”. Time in the model is defined as the period between the present date and the last purchase of a customer in the case of a hotel the last stay of a guest on site. The factor time plays a central role within RM.

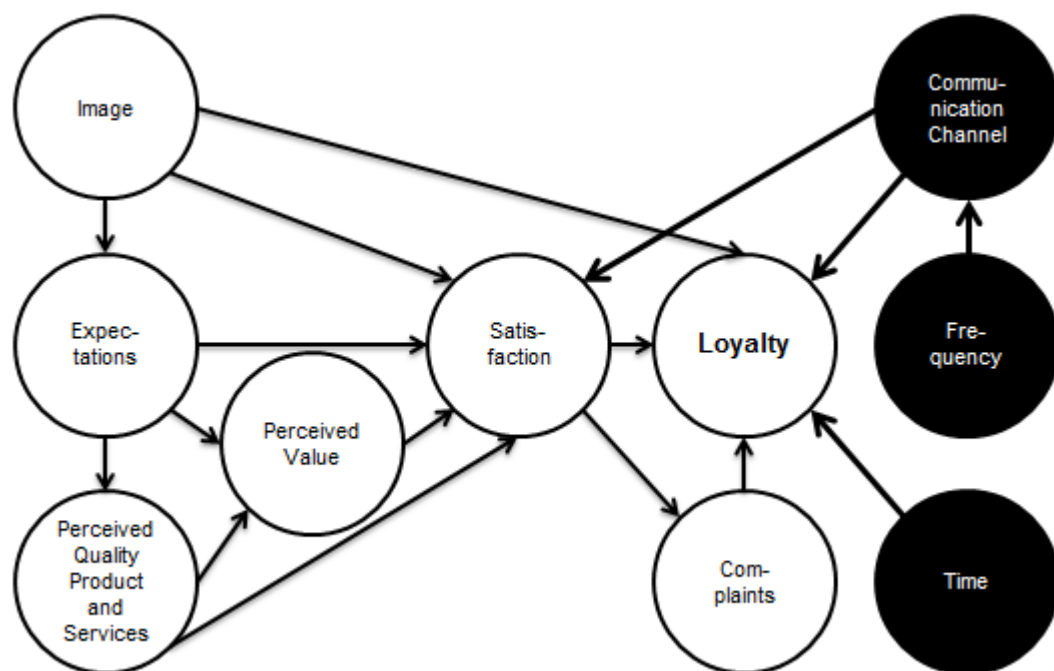
For instance in the automotive industry a BMW driver is a BMW client until he switches the brand, in the hospitality industry a person is regarded as a customer even after his departure. First, after passing a certain period (for instance 2 years<sup>367</sup>) without showing up again a consumer is not treated as a customer anymore, he is then described as a former or migrated customer. It can be argued, the longer the last product consumption lies in the past the higher is the possibility that a consumer is defected. Even if the consumer is still loyal from an attitudinal point of view for the economic outcome of an organization the behavioral effects are central.

It can also be assumed that the importance of Customer Relationship Marketing increases over time in order to keep the memories alive and create new purchase impulses. This underlines the necessity of the variable time within in the “RM Loyalty Model”.

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<sup>367</sup> In the RFM model the switch from an active to a passive customer is for instance 24 months – see dailypoint™ CRM Software

The value of RM should be measured with the positive economic effects. Even if for instance brand building is the predefined goal of a communication, the ultimate goal is generating revenue at least in the end. Therefore, the author follows Harvey, Mogg and Enis who evaluated the value of communication respectively its effectiveness in terms of conversion of consumer attention to purchase action.<sup>368</sup> The model does evaluate customer loyalty in form of the generated behavioral results, which means the repurchase behavior of the consumer. The outcome is measured in the model by the additional generated number of hotel bookings. This approach adds finally the economic outcome of loyalty to a satisfaction model and describes the value of Customer Relationship Marketing for an organization.



**Figure 36. The RM Loyalty Model for Explaining Relationship Marketing**

Source: Own Figure (2012) based on Ball D., Coelho P. S., Machás A. (2004). 'The role of communication and trust in explaining customer loyalty'. *European Journal of Marketing*, Vol 38, No 9/10, P. 1277

The figure above shows the whole “RM Loyalty Model”. The circles represent constructs, which are linked with a number of manifest variables. The lines represent causal relationships between the different and interrelated variables. The white circles are the

<sup>368</sup> C.F. Heinonen K., Strandvik T. (2005). 'Communication as an element of service value'. *International Journal of Service Industry Management*, Vol. 16 Iss: 2, pp.186 - 198, P. 187

variables of the ECSI model with their relationships among each other.<sup>369</sup> The bold black lines and black circles represent constructs and relationships specific to the revised model.

### 3.6 Overall Research Questions and Main Hypothesis

Over the last decades, researchers have intensively analyzed the short-term effects of advertising on creating learning effects and sales results, both for the business-to-business as well as for the business-to-consumer market. Almost no research has been made so far about the long-term effects of communication on loyalty as part of an overall Customer Relationship Management strategy. Managers especially from the luxury hotel segment focus on long-lasting relationships with their customers but without knowing the economical outcome. The overall research questions was defined to reduce this uncertainty, trying to close gaps in the existing loyalty models.

The **key research questions** for this dissertation are:

“Is there a relationship between communication and the creation of loyalty in form of an increasing buying frequency in the luxury hotel segment? What is the influence of the variable time in the construct of loyalty? Are there qualitative distinctions between the most common communication channels e-mail and post mail as a message transmitter within Customer Relationship Management?”

**Main hypothesis:**Based on theoretical research and the “RM Loyalty Model” of the author the main hypothesis is:

**H: Direct communication actions within Customer Relationship Management, using on- and offline direct marketing channels, directly and positively influence the purchase frequency.**

The following chapter will prove the hypotheses using a quantitative research conducted over a period of 4.5 years. The basis for answering the research question was the monitoring of the communication action with existing customers from four German hotels and the transaction behavior of the recipients.

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<sup>369</sup> C.F. Ferreira I., Cabral J., Saraiva P. (2010). 'An integrated framework based on the ECSI approach to link mould customers' satisfaction and product design'. Total Quality Management, Vol. 21, P. 1387

## 4 EMPIRICAL ANALYSIS OF THE RM LOYALTY MODEL – RESULTS & INTERPRETATION

### 4.1 The Process of Research

A common quoted definition of scientific research is from Kerlinger who defined research as “a systematic, controlled, empirical, and critical investigation of hypothetical propositions about the presumed relations among natural phenomena.”<sup>370</sup> In general, a research project should search for a theory, test the theory or solve an existing issue. The prerequisite is the existence of a problem and that a solution is necessary.<sup>371</sup> Obviously, this is the case for Customer Relationship Marketing where facts about the value are clearly missing.<sup>372</sup> The assumed value of communication and its role within the construct of CRM described in the theoretical part of this work, which is summarized by the predefined hypothesis, shall be verified respectively falsified in the following analysis.

The aim of research can be fundamental or demand based due to the aim, the range, the method and the needed time.<sup>373</sup> This research is a fundamental research generating fundamental knowledge about the importance of Relationship Management, which can be applied to a broad range of industries. Since RM is a long-term approach, the author had to collect a huge amount of data over a long period in total 4.5 years, to analyze the effects of communication on the re-buying behavior of existing customers.

The role of empirical social research in the tourism industry is constituted in terms of market research, which summarizes the acquisition, interpretation and analysis of available data.<sup>374</sup> Secondary data means collecting and processing of available data<sup>375</sup> or the analysis of existing statistical materials.<sup>376</sup> Secondary data consists of data, which has been collected at an earlier stage, for a different purpose and by people or systems, who are not directly involved in the actual evaluation.<sup>377</sup> The data used for this dissertation is secondary data,

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<sup>370</sup> Kerlinger N. F. (1972). 'Foundations of behavioral research'. Holf, Rinehart and Winston, P. 11

<sup>371</sup> C.F. Sevilla C. G., Ochave J. A., Punsalan T. G., Regala B. P., Uriarte G. G (2007). 'Research Methods'. Rex Bookstore, Inc., P. 2

<sup>372</sup> C.F. Attelsander P. (2008). 'Methoden der empirischen Sozialforschung'. Erich Schmidt Verlag, Berlin, PP. 4-5

<sup>373</sup> C.F. Atteslander, P. (2008). 'Methoden der empirischen Sozialforschung'. Erich Schmidt Verlag, Berlin, P. 52

<sup>374</sup> C.F. Seitz E., Meyer W. (2005). 'Tourismusmarktforschung: ein praxisorientierter Leitfaden für Tourismus und Fremdenverkehr'. Vahlen, München, P. 6

<sup>375</sup> C.F. Dreyer A., Dehner C. (1998). 'Kundenzufriedenheit im Tourismus'. R. Oldenburg Verlag, München, PP. 119-120

<sup>376</sup> C.F. Friedrichs, J. (1980): Methoden empirischer Sozialforschung, Opladen: Westdeutscher Verlag, P.192

<sup>377</sup> C.F. Meyer, W. (2007). 'Datenerhebung: Befragungen - Beobachtungen - Nicht-Reaktive Verfahren'. in Stockmann, Reinhard, 'Sozialwissenschaftliche Evaluationsforschung', Band 6. Waxmann, Münster, P. 229

which has been gathered by the CRM system *dailypoint™* over a period of 4.5 years by running RM activities for four different hotels. The data was not built for the purpose of this research, no primary data for instance through surveys was specifically built or assembled.<sup>378</sup> The usage of secondary data was necessary for several reasons. The evaluation of RM affects many different key areas of how to run a marketing department. Beside the operational aspects the execution of all marketing actions during the whole test period through the author had to be done but the participating companies were of course not willing to give up the complete control of their RM activities for research reasons. These circumstances made it necessary to use secondary data to measure the results of RM for a representative test group. The advantages of using secondary data is among others cost and time but also high-quality, reanalysis to offer new interpretations or the wider obligations of the business researcher. On the other side limitations normally exists like the complexity of the data, no control over data quality or the absence of key variables.<sup>379</sup> However, for this research all necessary data was available.

Research is differentiated in quantitative and qualitative research. Qualitative research is more of an interpretational nature where specific mindsets or opinions are in the focus. This dissertation contains a quantitative research with a large sample size; it is concerned with hypotheses testing, and with a high reliability but a moderate validity.<sup>380</sup> A moderate validity exists because the hotel business is too fractured to produce one valid answer for the research questions. Differences in terms of hotel categories, type of hotels, i.e. hostels, resorts, city hotels, geographical differences, or differences in target groups, i.e. individual travelers, business travelers, groups<sup>381</sup> etc. exists and have to be taken into consideration in evaluating the results and adopting to an organization. Reliability means the extent to which the measurements are reproducible by the same person using different measures or by others using the same measures.<sup>382</sup> Validity embraces to which extent a measuring really measures what it was supposed to.<sup>383</sup> *Ceteris paribus*, the results of this research are representative for

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<sup>378</sup> C.F. Mazzocchi M. (2008). 'Statistics for Marketing and Consumer Research'. Sage, London, P. 27

<sup>379</sup> C.F. Bryman A.; Bell E. (2007). 'Business Research Methods'. Oxford University Press, New York, PP. 325-326

<sup>380</sup> C.F. Collins J., Huddey R. (2003). 'Business Research: A practical guide for undergraduate and postgraduate students'. Palgrave Macmillan, New York, P. 55

<sup>381</sup> C.F. Dreyer A., Dehner C. (1998). 'Kundenzufriedenheit im Tourismus'. R. Oldenburg Verlag, München, P. 13

<sup>382</sup> C.F. Zeller R. A., Carmines E. G. (2009). 'Measurement in the social sciences; The link between theory and data'. Cambridge University Press, Cambridge, P. 6

<sup>383</sup> C.F. Schnell R., Hill P. B., Esser E. (2005). 'Methoden der empirischen Sozialforschung'. Oldenburg Wissenschaftsverlag, München, P. 304

the participating hotels because of the large sample size,<sup>384</sup> all customers within a certain period were included in the research and not a representative sample was taken. The research fulfills the census requirement, which is an attempt to collect data from the total population of interest.<sup>385</sup>

The following quantitative research will start with descriptive statistics to explore the available data, define the correlations between the different variables and finally use a regression analysis to determine the best fitting equation for RM. The available data variables for this research were the individual guest file, the communication attempts per channel and the generated number of bookings. Beside that the gender, the sex and all information correlated to a hotel booking were available.

## **4.2 The Data for the Evaluation of CRM**

The data was collected through the Customer Relationship Marketing system *dailypoint™*. The software is developed and distributed by TS&C, a Munich based company ([www.TS-and-C.com](http://www.TS-and-C.com)) founded in 2005. TS&C is most likely the leading provider for analytical and communicational CRM software within the hospitality industry and follows the “Big Data” approach. Clients are hotel groups like *Maritim Hotels*, *InterContinental Hotels & Resorts*, *Design Hotels* or *Falkensteiner Hotels* as well as many individual hotels mainly from the four and five star category. By the end of 2014 approximately 700 Hotels are using *dailypoint™* for their RM initiatives. On a modular basis, the software covers almost all relevant areas of marketing, from data cleansing, data warehousing, campaign management, quality management, marketing automation to customer segmentation and behavioral marketing. Beside the own generated data *dailypoint™* is connected to many different operational sources within a hotel. The goal is to collect and connect all marketing relevant data in order to create a central marketing profile for each customer. The system is a learning system, which tracks and links all interactions, transactions, reactions and enriches the knowledge of each individual guest profile continuously. The success of each marketing action can be precisely measured in *dailypoint™* since the system compares the target groups of the different marketing actions with the data coming from the reservation systems. The

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<sup>384</sup> C.F. Schnell R., Hill P. B., Esser E. (2005). 'Methoden der empirischen Sozialforschung'. Oldenbourg Wissenschaftsverlag, München, P. 304

<sup>385</sup> C.F. Sharpe N.R., De Veaux R.D., Velleman P.F. (2010). 'Business Statistics'. Pearson Education International, PP. 44-46



Return on Promotion (ROP)<sup>386</sup> as well as the booking impulse generated from marketing messages can be measured and analyzed in detail. The faulty plotting of campaign success, which is common in the hotel business using reservation or rate codes to measure the effects of marketing actions is therefore not needed.

The system follows the data warehouse principle and is specifically designed for analytical and communicational purposes, which differentiate the system from other providers which tools are mainly focused and developed for operational needs. *dailypoint*<sup>TM</sup> is one of the first systems which are designed for the “Big Data” challenge. “Big Data” summarizes the phenomenon of a continuously growing amount of data. The volume of data is expanding approximately by 35% to 50% on an annual base. This leads to the fact that company’s today process about 1000 times more data than a decade ago.<sup>387</sup> The “Big Data” phenomenon combined with the existence of data stored in departmental silos<sup>388</sup> respectively dispersed in pockets across a dysfunctional ecosystem,<sup>389</sup> as described in Chapter II in the information technology map, only a few companies – if any - truly maximize the potential of the data at their disposal.<sup>390</sup> Nevertheless, a central customer profile is required to create clean reports for decision making, to work efficiently and to run a qualitative marketing and controlling. This means the main barrier to introduce Relationship Marketing is the lack of an integrated CRM system.<sup>391</sup> The prerequisite to accomplish the research for this dissertation was the presence of an integrated CRM system, which fulfills four key requirements:

- 1) The CRM system has to run in several companies for at least four years, as Relationship Marketing is a long-term approach to improve the lifetime value of existing customers;
- 2) The system has to store all campaign-relevant data for online and offline marketing actions;
- 3) The system must be also connected to the reservation data in order to track the result.

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<sup>386</sup> C.F. David Shepard Associates (1998). 'The New Direct Marketing: how to implement a profit-driven database marketing strategy'. McGraw-Hill, New York, PP. 446-447

<sup>387</sup> C.F. Beath C., Beccerra-Fernandez I., Ross J., Short J. (2012). 'Finding Value in the Information Explosion'. *MITSlaon Management Review*, Vol. 53, No. 4, P. 2

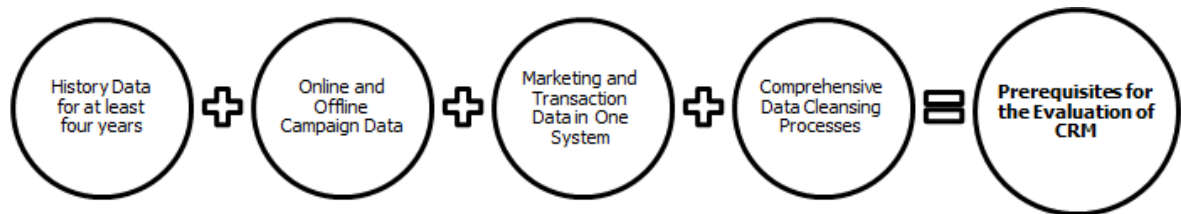
<sup>388</sup> C.F. Brown B., Chui M., Manyika J. (2011). 'Are you ready for the era of 'big data''. *McKinsey Quarterly*, October, P. 4

<sup>389</sup> C.F. Carey R., Kang D., Zea M. (2012). 'The trouble with travel distribution'. *McKinsey Quarterly*, February, P. 6

<sup>390</sup> C.F. Carey R., Kang D., Zea M. (2012). 'The trouble with travel distribution'. *McKinsey Quarterly*, February, P. 5

<sup>391</sup> C.F. Client Vela (2010). 'Frischer Wind für Ihren Erfolgskurs'. *Swiss Post, München*, P. 11

4) A complex data cleansing process must be implemented to not only collect a high volume of data but also make it usable for qualitative analysis.



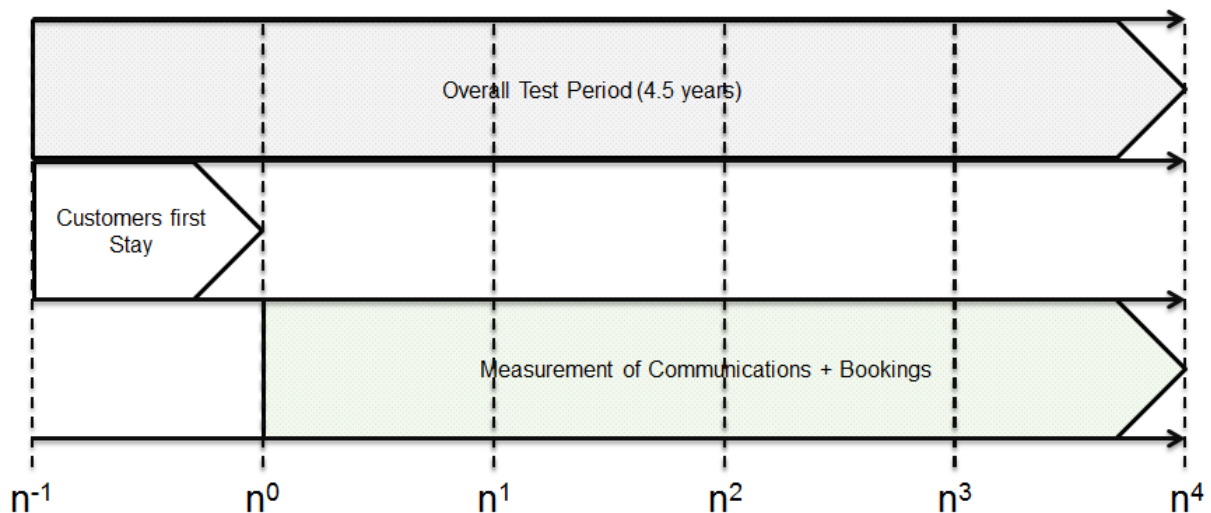
**Figure 37. Prerequisites for the Evaluation of CRM**

*Source: Own Figure (2013) based on Neckel P., Knobloch B. (2005). 'Customer Relationship Analytics'. dpunkt.verlag GmbH, Heidelberg, P. 97 and Brown B., Chui M., Manyika J. (2011). 'Are you ready for the era of 'big data''. McKinsey Quarterly, October, P. 4*

From the point of view of the author only hotel companies which uses the dailypoint™ software family were qualified for taking part in this research. No other software tool, provider or hotel company could be identified who were able to provide comparable data sets. It seems that hotel companies today have no overall control about their RM activities. This situation makes it so difficult respectively almost impossible to find qualified researches about the long-term effect and the value of Customer Relationship Marketing for the tourism industry.

The goal of the research was to measure the influence of Relationship Marketing (RM) on the booking behavior of existing hotel customers. The data was collected from four 5star Hotels (only one is officially rated from the German Hotel Association) in Germany, three business hotels in major cities and one resort in the Bavarian Alps. All hotels were member of the same hotel brand and were operated the whole year with no closing dates. Seasonal hotels like ski resorts were not part of this research. Hotels in lower categories were not be taken into consideration since especially in lower hotel segments factual buying patterns (ligation loyalty) for business travelers can be found which means the guest himself is not part of the buying decision process. Contracts between companies and hotels often define which hotel an employee has to take. This is not the case in the luxury segment. The higher the hotel category the higher is the likelihood that the guest is the main driver for the booking respectively can select which hotel to choose.

All included hotels have run their direct marketing actions through dailypoint™ which qualified them for this research. In total 249742 customers in the database with 474521 bookings were included in the total data set. The data was pulled from the hotels Property Management Systems (PMS)<sup>392</sup> and then imported into dailypoint™. The system was used to clean and segment the target groups, dispatch the marketing actions and measure the results. The extracted data from dailypoint™ were then aggregated by the author using SQL statements and afterwards imported into SPSS for the statistical work.



**Figure 38. Description of Test Group**

*Source: Own Figure (2012), shows the methodology of the data collection throughout the test period of 4.5 years. Based on Toedt M. (2011). 'The influence of media channel on the booking behavior of hotel guests' in Current Issues in Economic and Management Science. University of Latvia, Riga, PP. 632-642*

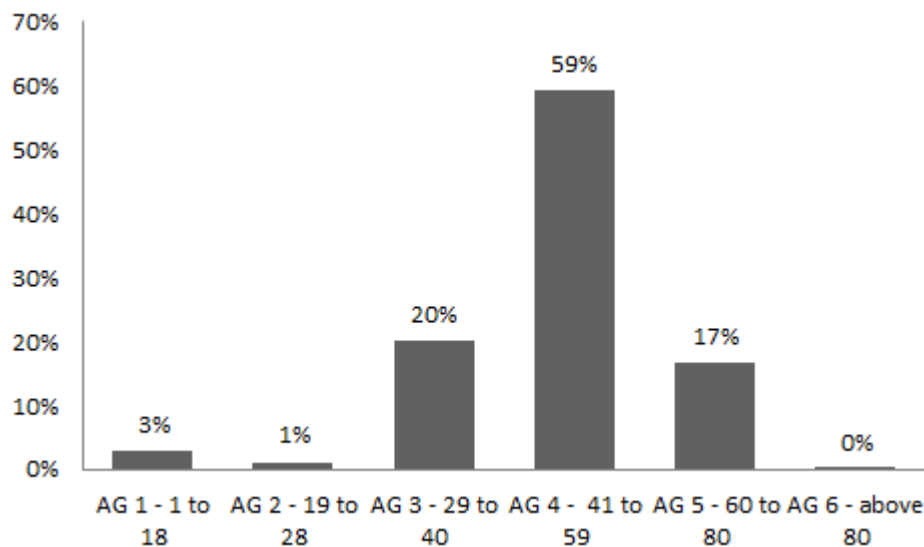
The figure above shows the process of the data collection process over the period of 4.5 years. As the dissertation is focusing on RM only existing customers were taken into consideration. Since existing customers know the product influences such as the web2.0 with evaluation platforms like Tripadvisor or HolidayCheck, which play a significant role for the acquisition of new guests,<sup>393</sup> should be minimized. Therefore in order to rate the value of Customer Relationship Management it was necessary to narrow down the total number of

<sup>392</sup> A PMS system is the reservation management system of a hotel which contains all necessary data to process a hotel booking. This starts with the guest profile and ends with all relevant booking details, from the date the reservation was made to the arrival and departure date, the rate code which contains the price information or the segment code which links the guest to a predefined segment such as business or individual traveler.

<sup>393</sup> C.F. Luthe M., Warnecke T., Herzog L., Hobi A. (2012). 'Hotelmarkt Deutschland 2012'. IHA-Service GmbH, Bonn, P. 202

hotel guests in the data base to the customer group of the so-called “First-Timers”. These new customers had their first stay within the second half of the year 2007 ( $n^{-1}$  to  $n^0$  in the figure above). In total 5222 guests could be identified who had their first stay between July and December 2007 in one of the four hotels. Since the effects of communication should be measured only first timers with either a correct mail address or valid email address were included in the test group. Through the restriction on first timers already existing regular customers or other guest segments which already showed some kind of behavioral loyalty through the booking of several hotel stays before were excluded. From  $n^0$  to  $n^4$  respectively from January 2008 to December 2011, all direct marketing actions within the four year test period were executed through *dailypoint*<sup>TM</sup>. Through this circumstance, all bookings generated after the dispatch of a message from members of the target group were tracked and included in the research. From January 2008 ( $n^0$ ) 1826 customers from the total set of 5222 first-timers received communications either through email or post mail, 1367 only received post mails, 87 only received email and 372 received both email and post mail. The email receivers actively opted-in for online communication, the receivers of offline mailings were selected using the value based RFM model of *dailypoint*<sup>TM</sup> which means only customers who were statistically ranked as valuable were addressed with offline mailings.

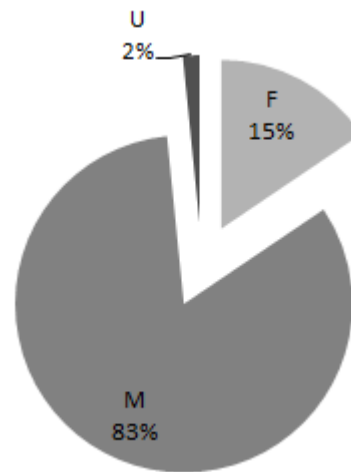
Using the RFM method hotels normally intend to use expansive marketing channels like post mail only for valuable guest segments, on the other side online marketing actions like email newsletter are mainly dispatched to all available guests since the associated costs are extremely low. As only first timers were included in the test group the assumed qualitative differences of the customers and a value driven media selection could be reduced to a minimum. The reason for that is the variable frequency in the RFM model; all consumers in the test group had the same value at the beginning (active), only the monetary aspect could be different (big spender versus small spender). Since the selected hotels were located in Germany the majority of the included customers, in numbers 88% were from Western or Eastern Europe.



**Figure 39. Age Groups represented in the Test Group**

*Source: Calculations made by the author (2013), represents data from test group (n=5222). Customers were summarized in six age groups (AG). AG 4 represents for instance customers in the age from 41 to 59 years old.*

As can be seen in the figure above, the test-group consists to 96% of customers between 29 and 80 years of age. 20% of the guests were in the age group of 29 to 40 years, the majority of the guests namely 59% were in the age group of 41 to 59 and 17% were between 60 and 80 years old. As shown in the next figure 83% of the customers were male (“M”), 15% female (“F”) and 2% families (“U” stands for unisex). These numbers do not mean that so few families or almost no kids were guests of the different hotels. It can be assumed that the percentages were much higher in reality but commonly hotel employees enter only the person in the reservation system who is responsible respectively pays the bill, which is in the western oriented society mainly the male person.



**Figure 40. Test Group by Gender**

*Source: Calculations made by the author (2013), represents data from test group (n=5222) coming from the reservation systems of the participating hotels.*

All included communications were either relationship or transaction oriented marketing messages. Automated dispatches were not be used by the hotels and booking related communication actions like pre- and post-stay<sup>394</sup> (e)mails were excluded from the research since otherwise the communication frequency was falsified with messages which relates to an existing booking and not to the attraction of new bookings. This means service related communications were not included in the data set.

The generated bookings of the test group within the four-year period represent about 3.1% of the total number of 442408 bookings generated between 2008 and 2011 from the four hotels in total. Only completed bookings of the preselected customers were measured which means the departure date of the last stay had to be before the end of n<sup>4</sup>. Measuring the period of four years was necessary because of two reasons; one a hotel product is characterized by a low buying frequency and two it was important to have enough time to communicate to the test group and to measure the outcome afterwards. Only with this approach, the research was able to evaluate the influence of communication actions on the purchase behavior of hotel customers. The period of four years was taken because the former research by the author,

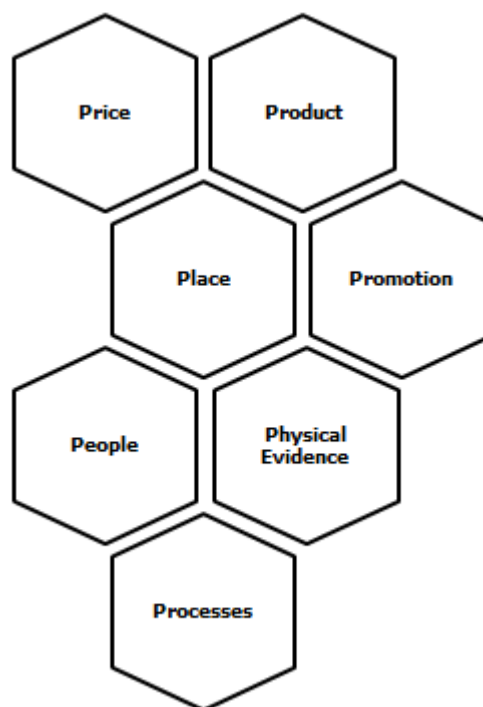
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<sup>394</sup> Pre- and Post-Stay Communication: Through marketing automation capabilities some hotels have started to send marketing messages between booking and arrival in order to inform as well as to up- and cross-sell additional products. Post-Stay is mainly used for quality management reasons to send questionnaires and to evaluate and develop the own service offering.

which considered only two years of history data, seemed to be not appropriate enough to measure the long-time effects of RM for the hospitality.<sup>395</sup>

### 4.3 Research Limitations

The result of Relationship Marketing actions correlates with many factors. Since Relationship Marketing is one part of Customer Relationship Management, which can be regarded as a philosophy of how to run a company it is clear that the author had to limit his efforts on specific aspects. In this case, the measurement of the number of communication actions sent to the test group, review of the used media channels and analyzing the generated outcome in form of new hotel bookings. The approach of the “RM Loyalty Model” is to get a clearer picture of the value of communication within CRM; knowing that many other factors are responsible for generating customer satisfaction and customer loyalty with its positive related behavioral effects.



**Figure 41. The Seven Elements of CRM**

*Source: Own Figure (2013) based on Dreyer A., Dehner C. (1998). 'Kundenzufriedenheit im Tourismus'. R. Oldenburg Verlag, München, P. 18*

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<sup>395</sup> C.F. Toedt M. (2011). 'THE INFLUENCE OF MEDIA CHANNEL ON THE BOOKING BEHAVIOR OF HOTEL GUESTS'. in Current Issues in Economic and Management Science. University of Latvia, Riga, PP. 632-642

As described in the chapters before an organization in the service industry like a hotel has in total seven elements, which form the overall picture of a company. The 7 P's displayed in the figure above are product, price, place, promotion, physical evidence, people and processes.<sup>396</sup> The author had no influence on these elements. In addition, neither budget allocation nor strategic or operational decisions for the different areas, which are sales, marketing and operations, were suggestible.

The right target group, the right offer and the right medium are regarded as the main drivers for marketing success.<sup>397</sup> The participating hotels sent e-communications to actively opted-in subscribers, offline mailings were sent to customers with a verified post address and to pre-defined target groups using in most of the cases a RFM model. The used system *dailypoint™* tried to enrich and improve the available customer data with each new transaction. Therefore, it can be the case that customers of the target group were not included either in on- or offline mailings from the beginning on due to missing data.

The entire communication strategy and execution was done by the hotels individually without any influences by the author. This means for instance that the design and the content were done by the hotels. The content was not individualized which means a standard message was dispatched to all recipients; the messages were only personalized. The author regards this circumstance at that time as tolerable since in theory the main reason for sending messages within Relationship Marketing is to create remembering effects. Nevertheless, for future research the role of individualized content within CRM should be taken also into consideration. Since relevant content should theoretically lead to a higher perception level for instance in form of increasing opening rates of email communications which again should have positive impacts on the economic outcome. Beside the communication, which was sent by the hotels individually it could be the case that members of the test group received additional communications from the hotel chain itself.

It can also be the case that the selected "First-Timers" were already customers in one of the other hotels of the hotel chain, as the chain consisted of more than the four participating hotels. However, for this work brand loyalty was not in the focus, the author wanted to analyze the re-buying effects for customers of the four selected hotels. Therefore, although

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<sup>396</sup> C.F. Rafiq M., Ahmed P. K. (1995). 'Using the 7Ps as a generic marketing mix'. In 'Marketing Intelligence & Planning', Volume: 13 Issue: 9, PP. 4-15

<sup>397</sup> C.F. Deutsche Post AG (2012). 'Fundraiser im Dialog'. Retrieved from <http://www.deutschepost.de>, 04.11.2012, P. 5



several limitations exist the available data should provide a fundamental base to get a clearer understanding of the role of marketing within CRM.

## **4.4 Results of the Data Analysis**

### **4.4.1 Descriptive Statistics of the Research Data**

The collected campaign and customer data from *dailypoint*<sup>TM</sup> was first imported into a Microsoft Access database and there aggregated and prepared by a number of SQL statements. The data analysis was done in 2012 and 2013 with the software SPSS statistics Version 20.

The following table describes the five variables used in the analysis. The variables are the “Number of e-mails sent”, representing the number of e-mails sent to people in the test group who actively opted-in for e-communications; “Number of post mails sent”, representing the number of post mail pieces shipped to members of the test group mainly selected by a value-driven RFM-analysis methodology; “Number of communications sent”; representing the number of e-mails and post mails sent to people of the test group who received messages through both channels; “Number of bookings” are the number of bookings generated by people of the test group within the test period from  $n^0$  to  $n^4$ ; “Number of booking incl. 2007” represents the number of bookings including the bookings made in the phase from  $n^{-1}$  to  $n^0$  where the “First-Timers” were identified. The independent variables are the number of messages for each communication channel, which influences the dependent variable “Number of bookings”. The “Number of bookings” represents the economic outcome. All numbers refer to the 5222 records, which represent the selected “First-Timers”. As can be seen in the table, the number of communications received by members of the test group varies between 0 and 31 for e-mails, 0 and 44 for post mail and 0 and a maximum of 71 messages for people who received both e-mail and post mail. Not every one of the 5222 reviewed “First-Timers” received messages through the different channels. 1826 customers from the total set of 5222 “First-Timers” received communications either through email or post mail, 1367 only received post mails, 87 only received email and 372 received both email and post mail. The mean, median, mode, the standard deviation or the variance in the table below refer to the total number of the test group. Therefore, the mode is for instance 0 for all three channels which means that many of the 5222 customers have not received any message. For the variable “Number of booking incl. 2007” the mode is 1 which reflects the criteria that only existing customers with at least one stay were selected. The mean for “Number of bookings” which represent the bookings within 2008 to 2011 is 2.64 but the mode is 0. The

heterogeneity of the data is also described by the high values for the variance and the standard deviation.

**Table 6. General Statistics for Variables**

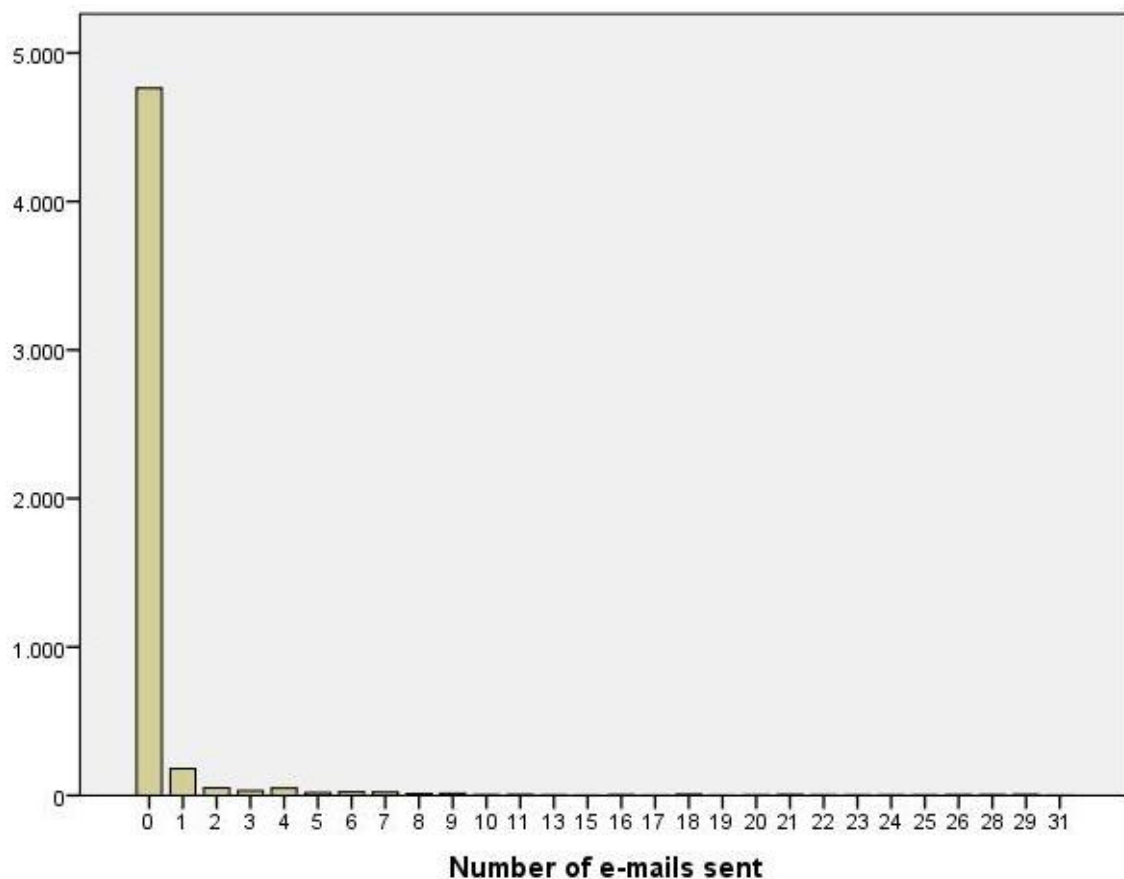
		Communication channels (independent variable)			Bookings (dependent variable)	
		Number of e-mails sent	Number of post mails sent	Number of communications sent	Number of bookings	Number of booking incl. 2007
N	Valid	5222	5222	5222	5222	5222
	Missing	0	0	0	0	0
Mean		,45	2,54	2,98	2,64	3,64
Median		,00	,00	,00	,00	1,00
Mode		0	0	0	0	1
Std. Deviation		2,405	5,920	7,101	10,260	10,260
Variance		5,785	35,052	50,423	105,263	105,263
Range		31	44	71	206	206
Minimum		0	0	0	0	1
Maximum		31	44	71	206	207

*Source: Calculations made by the author (2013), test data consists of 5222 first timers. Data was collected between 2007 and 2011 from four five star hotel properties in Germany.*

On the following pages, the three independent variables, which represent the three different communication channels, are described in detail. In order to compare the different media channels as a message transmitter for CRM the multi-channel communication is regarded as a separate media channel which consists in this case of post mail and e-mail.

### **Description of the Variable Communication Channel E-Mail**

The following figure shows the recipients of e-mail messages on the y-axis and the number of received e-mail communications on the x-axis. It is obvious that most of the people in the test group in numbers 91.2% respectively 4763 customers with a first stay in the second half of 2007 have not opted-in for online communication and therefore haven't received marketing messages through e-mail. Due to the strict data protection regulations in the European Union respectively in Germany where the hotels are located only customers who actively opted-in (8.8% or 459 customer of the test group) received e-mail communications between 2008 and 2011.



**Figure 42. Number of Receivers of E-Mails within the Test Group**

(Source: Calculations made by the author (2013), represents data from test group ( $n=5222$ ). It shows how many customers (y-axis) have received how many e-mail communications (x-axis) throughout the test period.

*X-axis: number of e-mail communications sent*

*Y-axis: number of recipients*

From the 459 e-mail recipients 72% were included in five or less e-mail marketing actions; 88% received a maximum of ten e-mails, for instance 181 customers received one e-mail, 51 received two. Different points seem to be responsible for the low e-mail frequency: Some recipients were potentially not included in the e-mail communication at the start of the data collection and the frequency of e-mail communications was low in the beginning. The e-mail actions were mostly dispatched on group level, in 2008 15 e-mail messages were sent, 2009 13, 2010 23 and 2011 22 messages. A table of how many customers received how many e-mails (Table Appendix I. Number of E-Mails sent) can be found in the appendix.

In order to evaluate the value of purely e-mail communication the following statistics shows the results only of customers who received exclusively communications by e-mail. The following filter was applied to the data: Total number of emails sent greater or equal one & total number of mails sent equal null & total number of bookings from the second half year 2007 on greater or equal one. Due to the applied filters, missing post address information, or

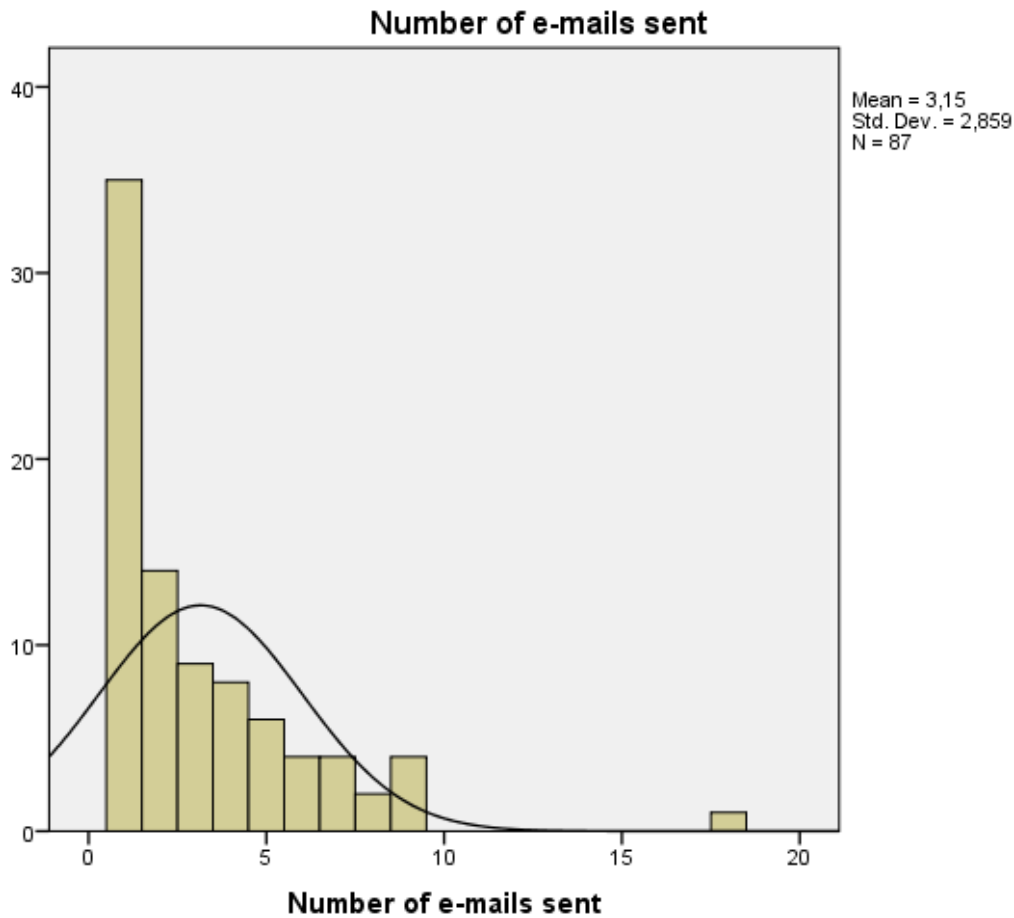
because of a value based RFM selection only 87 customers received exclusively messages by e-mail. The table “Statistics Variable e-mail” describes the test group. The customers received between 1 and 18 e-mails throughout the test period with a mean of 3.15 messages.

**Table 7. Statistics Variable E-Mail**

		Number of e-mails sent (#Receivers)
N	Valid	87
	Missing	0
Mean		3,15
Std. Deviation		2,859
Variance		8,175
Range		17
Minimum		1
Maximum		18

*Source: Calculations made by the author (2013), test data consists of 87 customers who have solely received e-mail communication between 2008 and 2011.*

For the detailed numbers of how many customers received exclusively how many e-mail communications please see appendix (Table Appendix II. Customers who received E-Mails exclusively). The detailed description of the data as well as the following graph shows that the variable was not characterized by a normal distribution (Gauss).



**Figure 43. Number of Customers who received only E-Mail Messages**

*Source: Calculations made by the author (2013), represents data from test group. It shows how many customers (y-axis) have received how many e-mail communications (x-axis) throughout the test period.*

*X-axis: number of e-mail communications sent*

*Y-axis: number of recipients*

The next table shows the number of bookings for the filtered e-mail recipients. The numbers show that only 4.6% of the online subscribers did not make additional purchases in test period. 95.4% of the customer with an active opt-in made additional purchases and 54% had at least additional two bookings within the four-year test period. These numbers confirm the assumption that most of the 87 customers were not included in e-mail communications from 2008 on.

**Table 8. Number of Bookings<sup>398</sup>**

	# Bookings	E-mail Recipients	Percent	Valid Percent	Cumulative Percent
Valid	0	4	4,6	4,6	4,6
	1	22	25,3	25,3	29,9
	2	21	24,1	24,1	54,0
	3	7	8,0	8,0	62,1
	4	7	8,0	8,0	70,1
	5	5	5,7	5,7	75,9
	6	1	1,1	1,1	77,0
	7	1	1,1	1,1	78,2
	8	2	2,3	2,3	80,5
	9	2	2,3	2,3	82,8
	10	1	1,1	1,1	83,9
	Total	87	100,0	100,0	

*Source: Calculations made by the author (2013), test data consists of 87 customers who have solely received e-mail communication. The table shows the number of bookings from the test group between 2008 and 2011.*

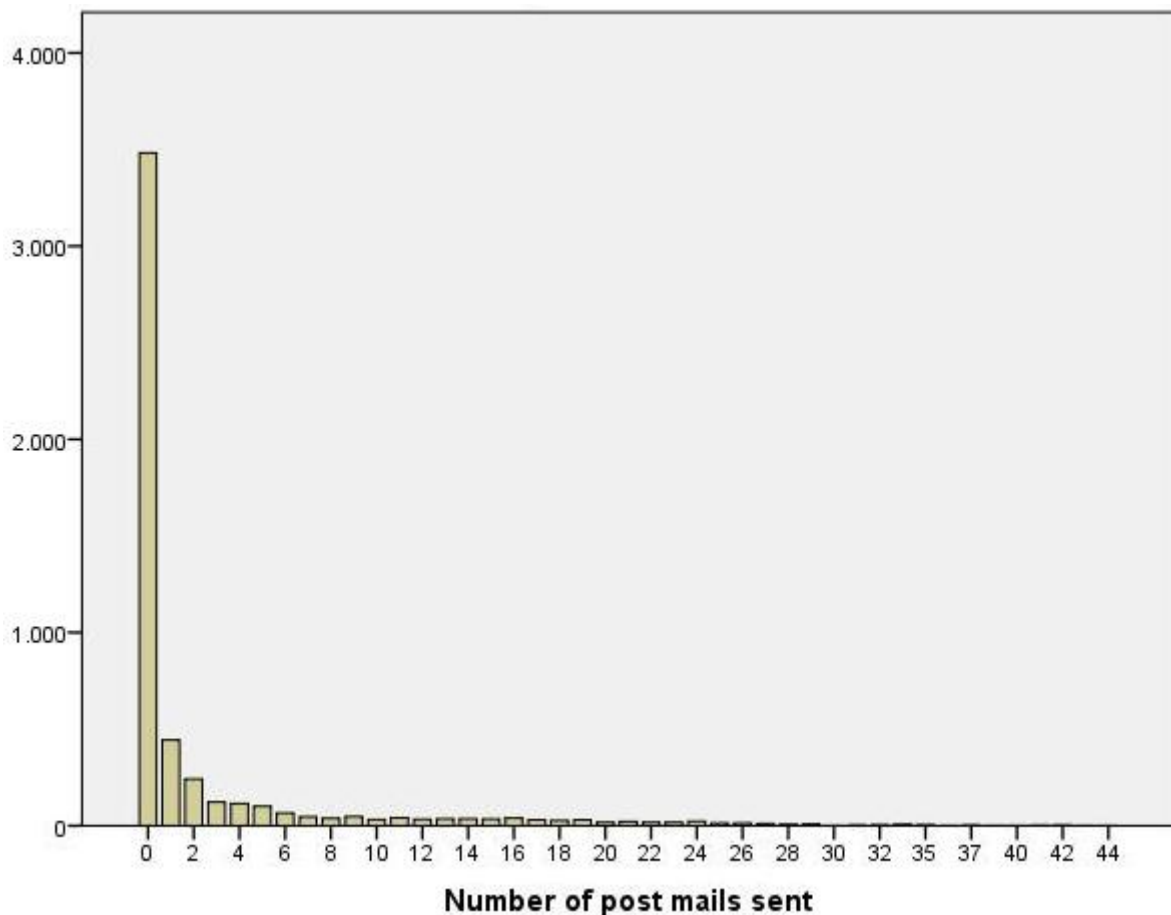
It seems that an active opt-in for e-mail communication is an indicator for behavioral loyalty. To draw the conclusion, a high rate of opt-ins is a sign for satisfaction and product quality.

### **Description of the Variable Communication Channel Post Mail**

Most of the customers in numbers 66.7% with a first stay in the second half of 2007 have not received offline communications by post. Due to a missing post address or the fact of limited budgets, and the focus on valuable customer segments using the RFM methodology only 1739 respectively 33.3% of the customers received at least one post mail piece.

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<sup>398</sup> Table is limited to the top 10 results



**Figure 44. Number of Receivers of Offline Mails within the Test Group**

*Source: Calculations made by the author (2013), represents data from test group (n=5222). It shows how many customers (y-axis) have received how many post mail communications (x-axis) throughout the test period.*

*X-axis: number of post mail communications sent*

*Y-axis: number of recipients*

From the group of 1739 recipients who received communications by post mail 59% (e-mail 72%) were included in five or less marketing actions; 72% (e-mail 88%) received a maximum of ten post mails. These numbers show that during the test period the four selected hotels were actively using the channel post mail, which is the number one channel in traditional direct marketing. A detailed list of how many customers received how many post mail actions can be found in the appendix (Table Appendix III. Number of Post Mails sent). Contrary to the channel e-mail where the dispatch was done group wide for all hotels, offline mail actions were also done on property level. In 2008 105 post mail campaigns were distributed, 2009 101, 2010 93 and 2011 67. With the increase of e-mail, marketing actions from 2010 on the number of offline mailings decreased significantly. These numbers reflect the replacement of offline marketing through the lower-priced channel e-mail. The reason for the high number of offline mailings is based on the situation that the hotels sent also recurring

mailings for instance on a monthly basis like birthday greetings or so-called vacation reminders. Latter are marketing actions, which should remind a customer that he booked a room last year at approximately the same time but has not booked so far.

In order to evaluate the value of the channel post mail the following statistics were limited to only customers who received solely post mail. The following filter was applied to the data: Total number of mails sent greater or equal one & total number of e-mails sent equal null & total number of bookings from the second half year 2007 on greater or equal one. Due to the applied filters, missing opt-in for e-mail communication, missing post address information or because of a value based RFM selection the number of recipients was limited to 1.367 customers who received exclusively communication by post mail.

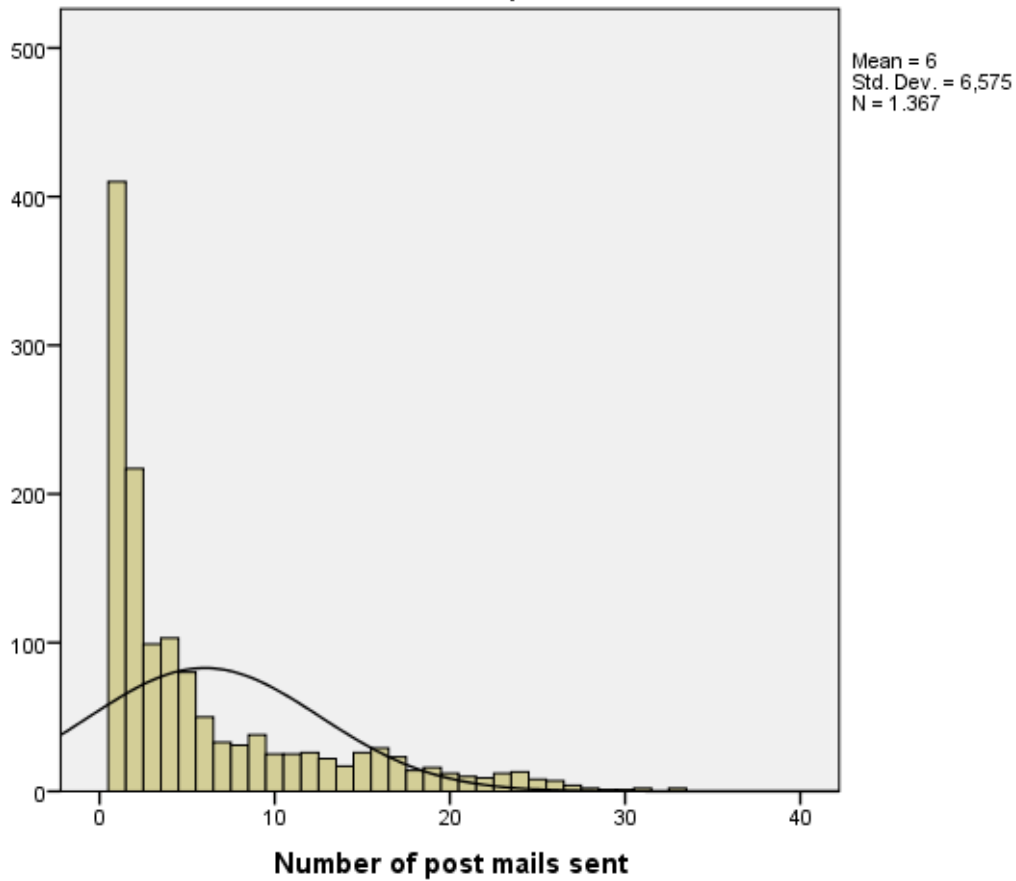
**Table 9. Statistics Variable Post Mail**

		Number of post mails sent
N	Valid	1367
	Missing	0
Mean		6,00
Std. Deviation		6,575
Variance		43,235
Range		32
Minimum		1
Maximum		33

*Source: Calculations made by the author (2013), test data consists of 1367 customers who have solely received post mail communication between 2008 and 2011.*

The post mail group received on average six messages with a maximum of 33 messages over the period of four years. 410 persons who represent 30% received one offline mailing, 217 received two and 25 received 10 mailings. For the detailed numbers of how many customers received solely how many mail communications please see appendix (Table Appendix IV. Customers who received Post Mail exclusively). The detailed description of the data as well as the following graph shows that the variable was not characterized by a normal distribution (Gauss).





**Figure 45. Number of Post Mails sent to Customers who received only Post Mail**

*Source: Calculations made by the author (2013), represents data from test group. It shows how many customers (y-axis) have received how many post mail communications (x-axis) throughout the test period.*

*X-axis: number of post mail communications sent*

*Y-axis: number of recipients*

The following table shows the number of bookings for the filtered post mail recipients. The numbers show that only 3% (e-mail 4.6%) of the offline recipients did not make additional purchases during the test period. 97% of the customer with offline communication booked additional stays.

**Table 10. Number of Bookings<sup>399</sup>**

# Bookings	Post Mail Recipients	Percent	Valid Percent	Cumulative Percent
Valid	0	41	3,0	3,0
	1	336	24,6	27,6
	2	266	19,5	47,0
	3	158	11,6	58,6
	4	124	9,1	67,7
	5	89	6,5	74,2
	6	61	4,5	78,6
	7	44	3,2	81,9
	8	26	1,9	83,8
	9	23	1,7	85,4
	10	23	1,7	87,1
Total	1367	100,0	100,0	

*Source: Calculations made by the author (2013), test data consists of 1367 customers who have solely received post mail communication. The table shows the number of bookings from the test group between 2008 and 2011.*

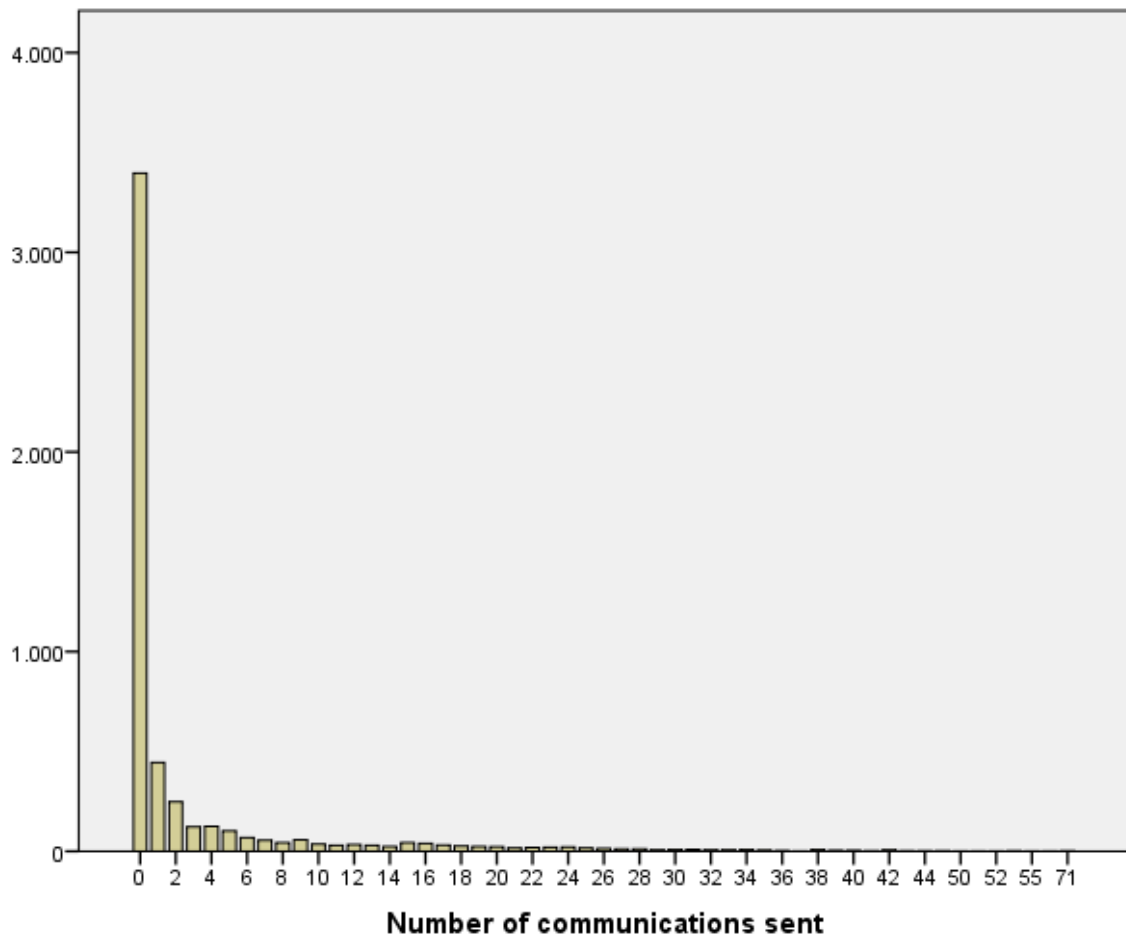
It seems that the high number of repeat bookings was supported through the usage of the RFM methodology by the hotels where a higher booking frequency leads to more communication actions.

### **Description of the Variable Multi-Channel Communication**

If a person of the test group received communications by the channels e-mail and post mail the receiver was marked as a multi-channel receiver. Most of the customers in numbers 65% with a first stay in the second half of 2007 have not received any communication, not by e-mail and not by post mail because of the pre-explained reasons.

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<sup>399</sup> Table is limited to the top 10 results



**Figure 46. Number of Receivers of Communications within the Test Group**

*Source: Calculations made by the author (2013), represents data from test group (n=5222). It shows how many customers (y-axis) have received how many multi-channel communications (x-axis) throughout the test period.*

*X-axis: number of multi-channel communications sent*

*Y-axis: number of recipients*

From the total group of 5222 customers 1826 recipients received communications by post mail or e-mail. 57% (post mail 59%; e-mail 72%) were included in five or less marketing actions; 71% (post mail 72%; e-mail 88%) received a maximum of ten communications. A detailed list of how many customers received how many post mail actions can be found in the appendix (Table Appendix V. Number of Communications sent).

In order to evaluate the value of the multi-channel communication the following statistics were limited to only customers who received both post mail and e-mail. The following filter was applied to the data: Total number of emails sent greater or equal one & total number of mails sent greater or equal one & total number of bookings from the second half year 2007 on greater or equal one. Due to the applied filter, missing opt-in for e-mail communication, missing post address information or because of a value based RFM selection the number of recipients who received both post mail and e-mail messages was limited to 372

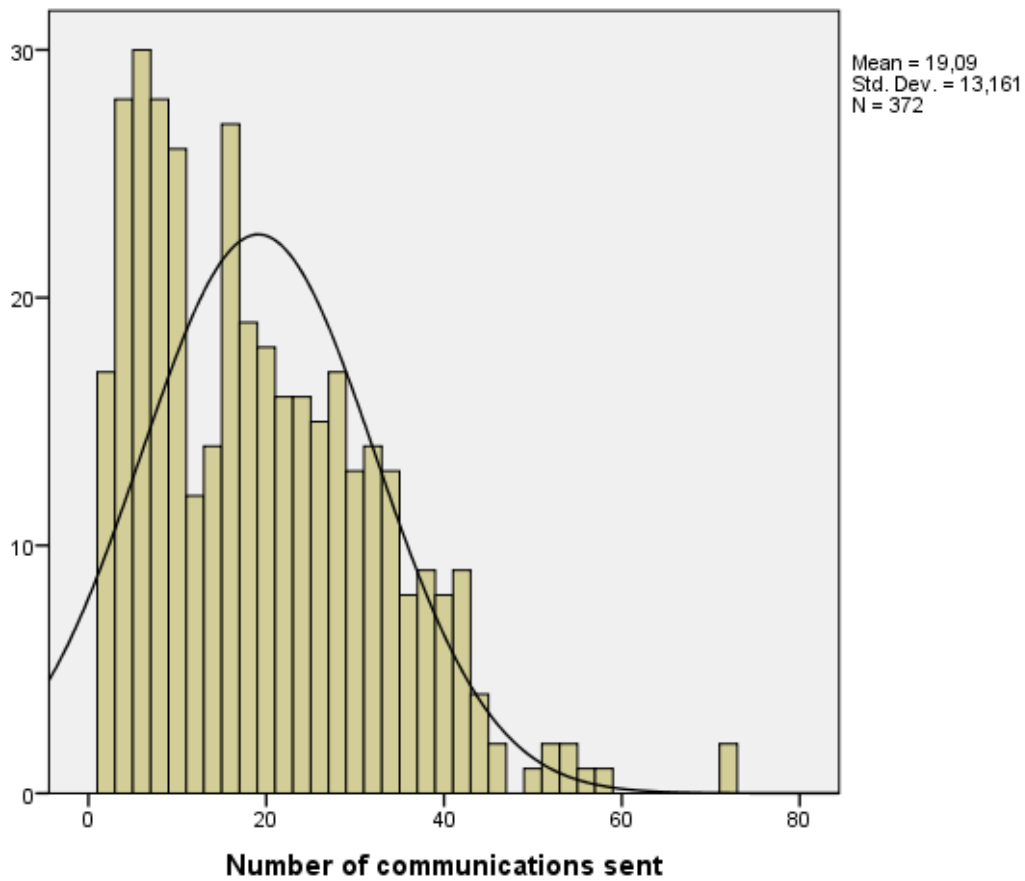
customers. The next table “Statistics for the Variable Multi-Channel Communication” describes the filtered test group. The customers received between two and the high number of 71 post messages and on average 19.09 messages characterized by a high standard deviation.

**Table 11. Statistics for the Variable Multi-Channel Communication**

		Number of communications sent (#Receivers)
N	Valid	372
	Missing	0
Mean		19,09
Std. Deviation		13,161
Variance		173,201
Range		69
Minimum		2
Maximum		71

*Source: Calculations made by the author (2013), test data consists of 372 customers who have received multi-channel communication between 2008 and 2011.*

For the detailed numbers of how many customers received how many messages through both reviewed channels please see appendix (Table Appendix VI. Customers who received the Multi-Channel Communication). The detailed description of the data as well as the following graph shows that the multi-channel communication was not characterized by a normal distribution (Gauss).



**Figure 47. Number of Receivers of Multi-Channel-Communications within the Test Group**

*Source: Calculations made by the author (2013), represents data from test group. It shows how many customers (y-axis) have received how many multi-channel communications (x-axis) throughout the test period.*

*X-axis: number of multi-channel communications sent*

*Y-axis: number of recipients*

The next table lists the number of bookings for the filtered multi-channel recipients. The numbers show that only 1.6% (post mail 3%; e-mail 4.6%) of the multi-channel recipients did not make additional purchases in the reviewed four-year period. 98.4% of the customers with offline and online communication booked additional stays.

**Table 12. Number of Bookings for Multi-Channel Recipients<sup>400</sup>**

#Bookings	Multi-Channel Recipients	Percent	Valid Percent	Cumulative Percent
Valid	0	6	1,6	1,6
	1	60	16,1	17,7
	2	41	11,0	28,8
	3	52	14,0	42,7
	4	32	8,6	51,3
	5	24	6,5	57,8
	6	17	4,6	62,4
	7	12	3,2	65,6
	8	7	1,9	67,5
	9	14	3,8	71,2
	10	7	1,9	73,1
	11	4	1,1	74,2
	12	9	2,4	76,6
	13	8	2,2	78,8
	14	7	1,9	80,6
	15	4	1,1	81,7
	16	2	,5	82,3
	17	6	1,6	83,9
	18	1	,3	84,1
	20	2	,5	84,7
Total	372	100,0	100,0	

Source: Calculations made by the author (2013), test data consists of 372 customers who have received multi-channel communication. The table shows the number of bookings from the test group between 2008 and 2011.

The figures seem to confirm the assumption that communication actions, which are dispatched through different channels, generate higher perception levels and higher response rates in form of additional bookings than the penetration through one single channel.

#### ***4.4.2 Non-Parametrical Test of Hypothesis Correlation between Variables on the Sales Performance***

In the following, it was evaluated if the distribution was significant between the variables e-mail, post mail, multi-channel communication and the generated number of bookings within

<sup>400</sup> Table is limited to the top 20 results

the test group. A non-parametrical test (median test) was used since the variables were not characterized by a normal distribution as seen before in the chapter 4.4.1 about descriptive statistics. The median test revealed a significance level of 0.000 for all three variables, which is below the threshold level of 0.05. The null hypothesis could be rejected for all variables, which mean that the communication channels post mail, e-mail and the multi-channel communication had a significant influence on the number of bookings made by the recipients of marketing actions within the test group. The details of the median test are available in the Appendix (Table Appendix VII. Hypotheses Test Summary Number of E-Mails; Table Appendix VIII. Hypotheses Test Summary Number of Post Mails; Table Appendix IX. Hypothesis Test Summary Number of Communications.) The result is the verification of the assumption that the independent variables are the different communication channels, which influences the dependent variable “number of bookings”.

### **Correlation between Variables throughout the Test Period**

Since the null hypothesis could be rejected, the strength of the correlation between the variables was measured in the next step with the Pearson Correlation systematic. The following table shows the correlation between the different media channels and the number of bookings. The bold numbers represent the Pearson Correlation coefficient, which range from -1.00 to +1.00.<sup>401</sup>

The further away the correlation is from zero, the stronger is the relationship. A minus represents a negative a plus a positive correlation between the variables. All three channels showed a positive correlation coefficient. For the channel e-mail, the correlation on the number of bookings was 0.237, for post mail 0.302, and for multi-channel, the correlation value was 0.332. The Sig. 2-tailed level was .000 for all variables, which shows that there is significance between the different communication channels and the number of bookings. This means that as one variable goes up or down so will the other or in other words the number of bookings increases if existing customers are being penetrated more frequently.

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<sup>401</sup> C.F. Leblanc D. C. (2003). 'Statistics: Concepts and Applications for Science'. Jones and Bartlett Publishers, P. 292

**Table 13. Correlations between Communication Channels and Number of Bookings**

		Number of e-mails sent	Number of post mails sent	Number of communications sent	Number of bookings
Number of e-mails sent	Pearson Correlation	1	,337**	,619**	<b>,237**</b>
	Sig. (2-tailed)		,000	,000	,000
	N	5222	5222	5222	5222
Number of post mails sent	Pearson Correlation	,337**	1	,948**	<b>,302**</b>
	Sig. (2-tailed)	,000		,000	,000
	N	5222	5222	5222	5222
Number of communications sent	Pearson Correlation	,619**	,948**	1	<b>,332**</b>
	Sig. (2-tailed)	,000	,000		,000
	N	5222	5222	5222	5222
Number of bookings	Pearson Correlation	<b>,237**</b>	<b>,302**</b>	<b>,332**</b>	1
	Sig. (2-tailed)	,000	,000	,000	
	N	5222	5222	5222	5222

\*\* . Correlation is significant at the 0.01 level (2-tailed).

*Source: Calculations made by the author (2013), test data consists of 5222 customers who had their first stay within the second part of 2007. The correlation represents the different communication channels and its influence on the number of bookings generated between 2008 and 2011.*

Based on the Pearson Correlation the Coefficient of Determination can be calculated. It is an important value within a regression analysis since it describes the value of the regression model. The value of the Coefficient of Determination varies between 0 and 1.<sup>402</sup>

The closer the value to one, the better is the correlation for the variables within the model. A Coefficient of Determination of 0.3 means that 30% of the variation within a regression model is explained by the variable. Conversely, this means that 70% of the result is explained by variables, which are not part of the regression model.<sup>403</sup> Within this dissertation, the contribution of communication to sales performance within Customer Relationship Marketing is in the focus of the author and will be evaluated. The different variables for

<sup>402</sup> C.F. Rahul J. (2009). 'Business Mathematics and Statistics'. Retrieved from <http://books.google.de/books?id=bghHkGnRRm0C>, 21.02.2104. VK Publications, New Delhi, P. 61

<sup>403</sup> C.F. Martens J. (2003). 'Statistische Datenanalyse mit SPSS für Windows'. Oldenbourg Wissenschaftsverlag, München, PP. 199-200



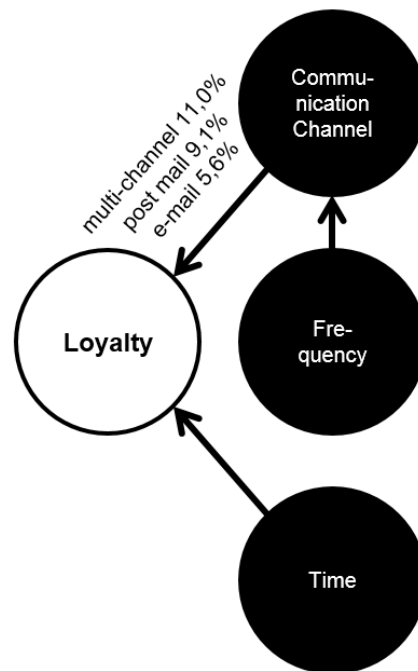
generating customer loyalty are described in the enhanced ECSI model in section “3.5 A new Model of Loyalty for Explaining Relationship Marketing”. The following table shows the Coefficient of Determination for the three media channels and their influence on the number of bookings.

**Table 14. Coefficient of Determination for the different Media Channels**

Media Channel	Pearson Correlation	Coefficient of Determination
E-mail:	$r = 0.237$	$R^2 = 0.056$
Post Mail:	$r = 0.302$	$R^2 = 0.091$
Multi-Channel Communication:	$r = 0.332$	$R^2 = 0.110$

*Source: Calculations made by the author (2013), results are calculated based on the Pearson Correlation of the communication channels and the generated number of bookings between 2008 and 2011 of the test data.*

Ceteris paribus, the channel post mail has an influence of 9.1% on the generation of bookings. The multi-channel communication showed the strongest influence with 11.0%. The e-mail showed the weakest with 5.6%. These figures support the thesis that a qualitative difference between the surveyed channels exists.



**Figure 48. The Influence of Communication on Loyalty within CRM**

*Source: Own Figure (2014) shows the influence of the analyzed influence of communication on the re-buying behavior (loyalty) of the test group (n=5222)*

Using the 5.6% as the base, it means that a multi-channel communication has a 96% higher quality than the channel e-mail on its own, and post mail has a 62.5% higher value than e-mail. Taking these results into account a complete replacement of post mail cannot be regarded as sensible. This means that managers who stopped sending post mails to customers overestimated the positive value of e-mail as a message transmitter within CRM significantly.

### **Development of the Correlation between Variables throughout the Test Period**

In the theoretical part, it was assumed that the importance of communication for creating loyalty within Customer Relationship Marketing increases over time. The longer the last purchase is in the past the more important should be the role of communication for creating remembering effects and buying impulses. In order to approve this assumption the strength of the correlation between the number of bookings and the number of dispatched communications was analyzed for the test period from 2008 to 2011. The following table shows the development of the numbers of the affected customers within each year (column “Customers”), the generated bookings (column “Bookings”) and gives an overview of the number of communications sent through the different channels. For instance, in 2008 1983 customers’ generated 7431 bookings; 211 customers received in total 564 e-mails and 1706 customers received 4709 mail pieces. It can be seen that the number of e-mail recipients increased over time and that from 2011 on the number of dispatched mail pieces decreased significantly.

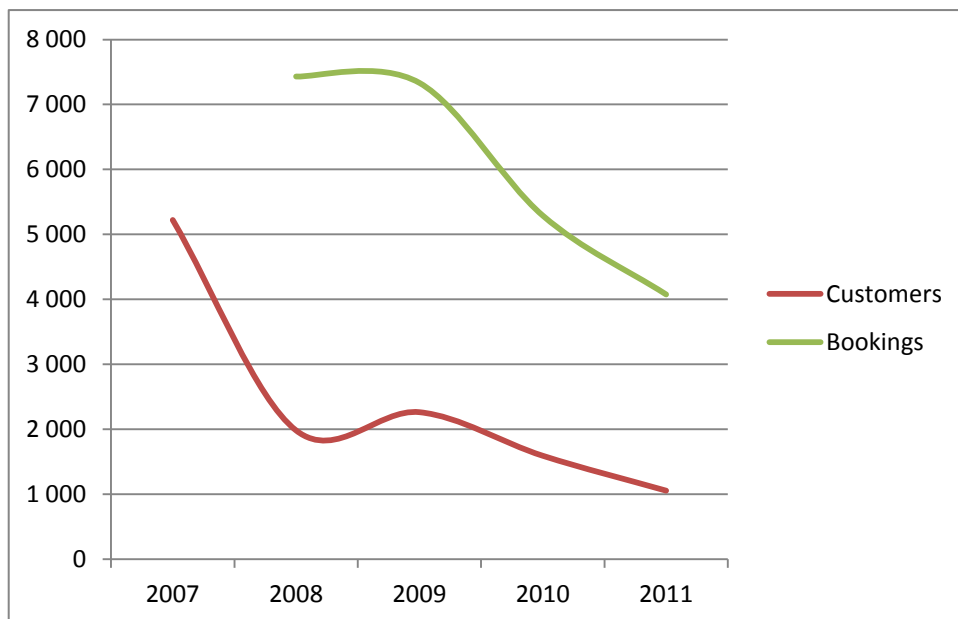
**Table 15. Communications and Bookings over the Years**

Years	Customers	Bookings	Email Recipients	Emails	Mail Recipients	Mails
2008	1.983	7.431	211	564	1.706	4.709
2009	2.264	7.333	202	806	1.456	6.078
2010	1.593	5.290	455	1.617	1.966	7.347
2011	1.056	4.076	674	1.460	2.117	4.685

*Source: Calculations made by the author. Data in the table is based on the used test data and give an overview of communications actions and the number of recipients throughout the test period*

The next figure focuses on the development of the selected customers and their number of bookings over the years. In order to show the churn rate for a Customer

Relationship Marketing initiative, the 5222 first timers who formed the test group were included in the customer graph as the starting point. The churn rate represents customers who terminate the relationship with the organization after the first booking.<sup>404</sup>



**Figure 49. The Development of Customers and the Generated Number of Bookings**

*Source: Calculations made by the author (2013), represents data from test group. “Customers” represents the number of repeat customers (n=5222) coming from the test group in the reviewed years. “Booking” represents the number of reservations made by the test group within the certain years.*

The customer graph shows a strong decline from 2007 to 2008. Because of the specifics of the hotel business, the share of one-timers is relatively high compared to other industries (see chapter “The Hotel Business and its Focus on Customer Loyalty”). The author assumes that the churn rate within the hotel business is around 80% which means that 80% of the customers never come back, they stay only once in a certain hotel. Therefore, the downturn of the customer graph in the first year seems to be normal. However, against the assumed concave downward function a slight increase in the second year can be seen. Within the context of Customer Relationship Marketing, this graph could mean that the chance to generate re-bookings from existing customers is high especially in the timeframe between 12 to 28 months after the first booking. Remembering and oblivion effects can both be used to explain this observation (see chapter 3.3 Response-Functions and there Role for CRM).

<sup>404</sup> C.F. Gabler Wirtschaftslexikon (2013). 'Churn Rate'. Retrieved from <http://wirtschaftslexikon.gabler.de/Archiv/120277/churn-rate-v4.html>. Gabler Verlag

This development is particularly interesting in view of the financial crisis and the world depression, which started in 2007. Although it could be assumed that the financial crisis with the watershed moment of the Lehman Brothers bankruptcy in mid-September 2008<sup>405</sup> would had strong negative impact on the re-buying behavior, the opposite could be observed. Only a slight downturn in the number of bookings and even an increase in the number of returning customers was the result for 2009. In the same period the total revenue of hotel business in Germany decreased by 9% compared to 2008,<sup>406</sup> the number of sold hotel nights slightly decreased in 2009 by about 1,4% and went up since then from 142,3 million nights to 158,2 million in 2011.<sup>407</sup>

In order to evaluate the role of time and its influence on the number of bookings the correlations between the variables was used as in indicator (for details about the correlation status calculation see “Tables Appendix X. Correlation Status between 2008 and 2011). The Sig. 2-tailed level was .000 for the variables, which shows that there is significance between the communication and the number of bookings.

**Table 16. Development of Correlation over Time**

Years	2008	2009	2010	2011
Correlation between Communication and Bookings	0.241	0.215	0.235	0.247

*Source: Calculations made by the author (2013), results represents data from test group (n=5222) and shows the development of the Pearson Correlation from 2008 to 2011; Communications per year: 2008 5273; 2009 6884; 2010 8964; 2011 6145; Bookings per year: 2008 7431; 2009 7333; 2010 5290; 2011 4076*

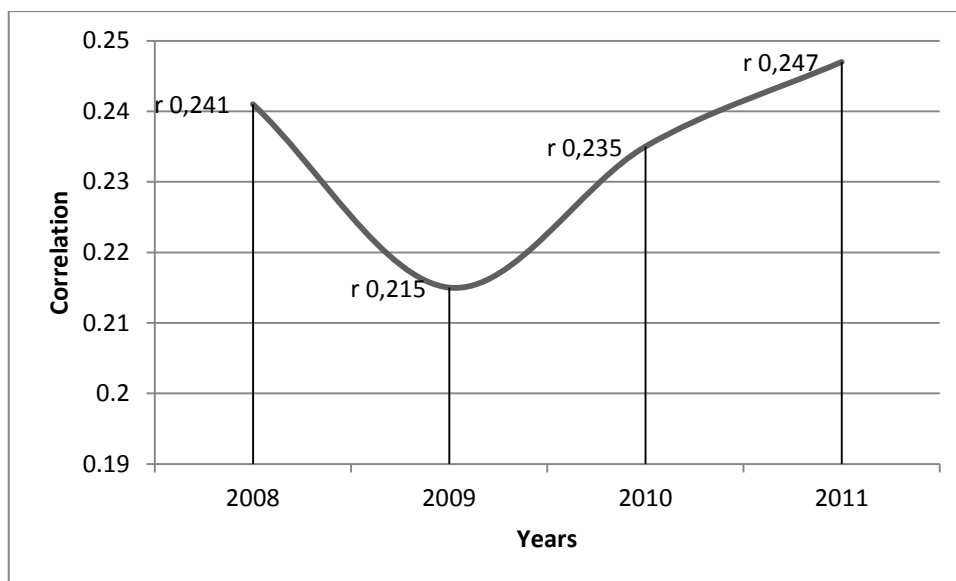
The correlations for the different years show the influence of communication on the number of bookings. It seems that communication plays an important role for additional bookings relatively close after the first purchase where the picture of the travel experience is still fresh in the mind of the individual hotel guest. This assumption is reflected by the correlation for the year 2008, which shows the second highest correlation within the overall test period. It means that customers who had their first stay in the second half of 2007 were

<sup>405</sup> C.F. PriceWaterhouseCoopers (2009). 'Lehman Brothers' Bankruptcy - Lessons learned for the survivors'. PWC Financial Services Institute, P. 2

<sup>406</sup> C.F. Statistisches Bundesamt (2013). 'Umsatz im Gastgewerbe'. Retrieved from <http://www.genesis-destatis.de>, Wiesbaden

<sup>407</sup> C.F. Luthe M., Herzog L., Hobi A., Schumann M., Warnecke T. (2013). 'Hotelmarkt Deutschland 2013'. IHA Service GmbH, Bonn, PP. 59-61

obviously influenced by the dispatched messages and booked additional stays in 2008. In 2009 and 2010, the influence of communication was not as high as in 2008. Although 6884 marketing messages were sent in 2009 (2008: 5273 messages) less bookings were generated, the same for 2010 (8964 messages). Since the total number of dispatched communications increased and the bookings went down the correlation was negatively influenced. First in 2011 where less messages were dispatched (minus 37% compared to 2010) combined with a moderate decrease of bookings by 23% the correlation went up to the highest value of all reviewed years.



**Figure 50. The Increasing Importance of Communication over Time**

*Source: Calculations made by the author (2013), represents data from test group. The graph represent the development of the correlation between communication and bookings during the test period.*

*r = Correlation*

The graph above shows the development of the correlation over time. It can be stated that the role of communication increases over time, which is also reflected by the trend line. Communication plays an increasingly important role for the creation loyalty the longer the customer lifetime lasts.

#### 4.4.3 Regression Analysis for the different Communication Channels

In the following, the best fitting equation to summarize the duster of points of the test data was identified with the help of a linear transformation.<sup>408</sup> By means of the Curve-Fit functionality within SPSS, the most appropriate equation for communication in general was determined. The tested equations were linear, s-shaped and exponential since these equations are mainly used in the literature to explain learning effects of communication actions (see Simon J. L., Arndt J. (1980)<sup>409</sup>, Dettmer, Hausmann, Kloss, Meisl, Weithöner (1999)<sup>410</sup> etc.). For the test the depending variable was the number of bookings including the bookings made in 2007, the independent variable was the total number of communications. To test the variables and the three different equations only records with communication (1826 customers) were included since values of zero would have impeded the calculation of the s-shaped model.

**Table 17. Model Summary and Parameter Estimates**

Dependent Variable: TotalBookings_Inkl2007HJ2							
Equation	Model Summary					Parameter Estimates	
	R Square	F	df1	df2	Sig.	Constant	b1
Linear	,029	54,967	1	1824	,000	6,142	,282
S	,029	54,099	1	1824	,000	1,736	-,416
Exponential	<b>,059</b>	115,059	1	1824	,000	3,970	,023
The independent variable is Total_Comm#.							

*Source: Calculations made by the author (2013) on the basis of the test group (n=1826)*

The analysis showed that an exponential function best describes the research data since “R Square” shows the highest value of all three tested equations. This result confirms the assumption of the author that s-shaped response functions are not adequate to explain communication effects within Relationship Marketing. The following concave exponential function describes the influence of communication on the purchase behavior of hotel guests.

<sup>408</sup> C.F. Sachs L. (2004). 'Angewandte Statistik'. Springer, Berlin, PP. 568-569

<sup>409</sup> C.F. Simon J. L., Arndt J. (1980). 'The Shape of the Advertising Response Function'. Journal of Advertising Research, Vol. 20, Number 4, PP. 12-24

<sup>410</sup> C.F. Dettmer H., Hausmann T., Kloss I., Meisl H., Weithöner U. (1999). 'Tourismus-Marketing-Management'. R. Oldenburg Verlag, München, P. 352

$$f(x) = a * x^b$$

Formula: 8

Title: Concave downward exponential function

Source: C.F. La Torre D. R., Kenelly J. W., Reed I. B., Carpenter L. R., Harris C. R. (2011). 'Calculus Concepts: An Informal Approach to the Mathematics of Change'. Cengage Learning, P. 47

$f(x)$  = number of bookings

$a$  = initial amount (bookings)

$x$  = frequency (number of communications)

$b$  = exponential growth

In the next step, the exponential equations for the three different communication channels were determined. The test records were separated into three groups:

- A – Post Mail = customers who have only received post mail or no communication
- B – E-Mail = customers who have only received email or no communication
- C – Multi-Channel = customers who have received both email and post mail or no communication

The inclusion of customers without communication was possible since the s-shaped equation was excluded because of the prior conducted curve-fit test.

**Group A – Post Mail**

1367 customers received solely post mail, together with customers who have not received communications in total 4763 records were included in the calculation.

**Table 18. Variable Processing Summary for Group A**

	Variables	
	Dependent	Independent
	Number of booking incl. 2007	Number of post mails sent
Number of Positive Values	4763	1367
Number of Zeros	0	3396

Source: Calculations made by the author (2013), description of Test Group

**Table 19. Model Summary and Parameter Estimates for Group A**

Dependent Variable: Number of booking incl. 2007							
Equation	Model Summary					Parameter Estimates	
	R Square	F	df1	df2	Sig.	Constant	b1
Exponential	,360	2674,002	1	4761	,000	1,269	,109
The independent variable is Number of post mails sent.							

*Source: Calculations made by the author (2013)*

The following increasing concave downward exponential function could be defined for the channel post mail:

$$Y = 1,269 * x^{0,109} \qquad \text{Formula: 9}$$

Title: Concave Downward Exponential Function for the Channel Post Mail

*Source: Calculation made by the author (2013), C.F. La Torre D. R., Kenelly J. W., Reed I. B., Carpenter L. R., Harris C. R. (2011). 'Calculus Concepts: An Informal Approach to the Mathematics of Change'. Cengage Learning, P. 47*

*Y = number of bookings*

**Group B – E-Mail**

87 customers received solely e-mail, together with customers who have not received communications in total 3483 records were included in the calculation.

**Table 20. Variable Processing Summary for Group B**

	Variables	
	Dependent	Independent
	Number of booking incl. 2007	Number of e-mails sent
Number of Positive Values	3483	87
Number of Zeros	0	3396

*Source: Calculations made by the author (2013) based on the test group*

**Table 21. Model Summary and Parameter Estimates for Group B**

Dependent Variable: Number of booking incl. 2007							
Equation	Model Summary					Parameter Estimates	
	R Square	F	df1	df2	Sig.	Constant	b1
Exponential	,274	1312,924	1	3481	,000	1,020	,218
The independent variable is Number of e-mails sent.							

*Source: Calculations made by the author (2013)*



The following increasing concave downward exponential function could be defined for the channel e-mail:

$$Y = 1,020 * x^{0,218} \qquad \text{Formula: 10}$$

Title: Concave Downward Exponential Function for the Channel Post E-Mail

Source: Calculation made by the author (2013), C.F. La Torre D. R., Kenelly J. W., Reed I. B., Carpenter L. R., Harris C. R. (2011). 'Calculus Concepts: An Informal Approach to the Mathematics of Change'. Cengage Learning, P. 47

$Y = \text{number of bookings}$

**Group C: multi-channel communication**

372 customers received both e-mail and post mail, together with customers who have not received communications in total 3768 records were included in the calculation.

**Table 22. Variable Processing Summary for Group C**

	Variables	
	Dependent	Independent
	Number of booking incl. 2007	Number of communications sent
Number of Positive Values	3768	372
Number of Zeros	0	3396

Source: Calculations made by the author (2013) based on the test group

**Table 23. Model Summary and Parameter Estimates for Group C**

Dependent Variable: Number of booking incl. 2007							
Equation	Model Summary					Parameter Estimates	
	R Square	F	df1	df2	Sig.	Constant	b1
Exponential	,554	4678,938	1	3766	,000	1,058	,070
The independent variable is Number of communications sent.							

Source: Calculations made by the author (2013)

The following concave downward increasing exponential function could be defined for multi-channel recipients:

$$Y = 1,058 * x^{0,070} \qquad \text{Formula: 11}$$

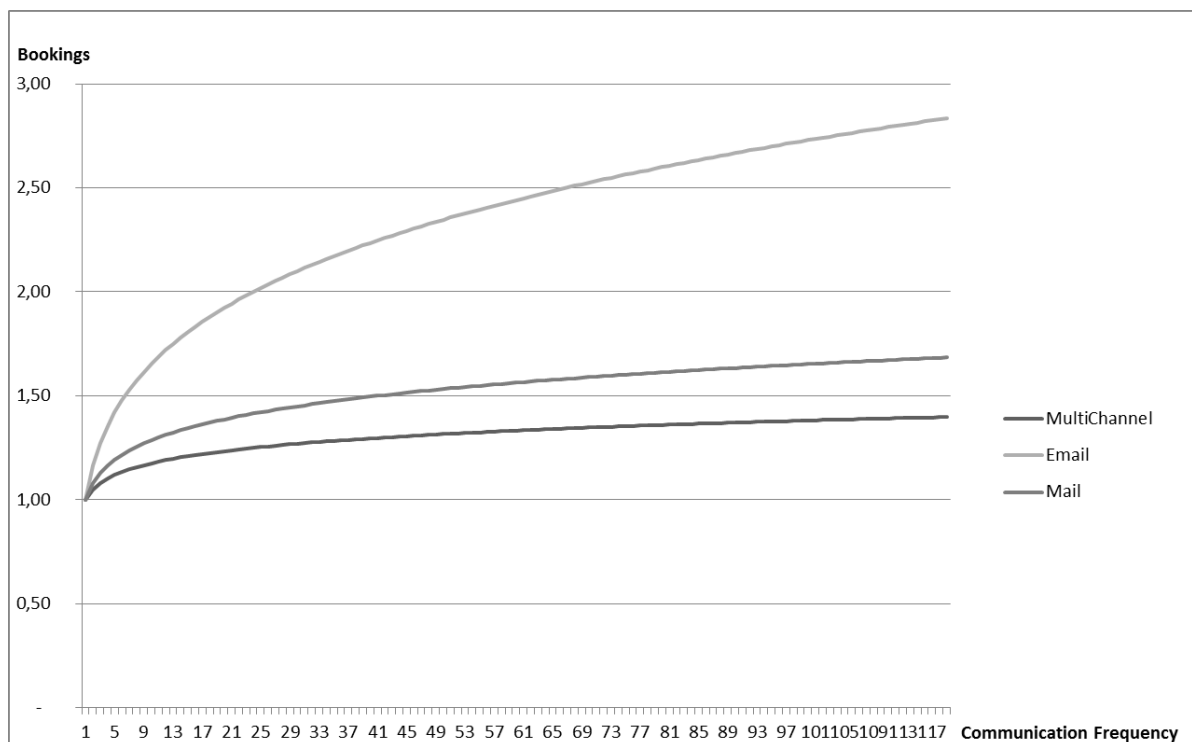
Title: Concave Downward Exponential Function for Multi-Channel-Communication

Source: Calculation made by the author (2013), C.F. La Torre D. R., Kenelly J. W., Reed I. B., Carpenter L. R., Harris C. R. (2011). 'Calculus Concepts: An Informal Approach to the Mathematics of Change'. Cengage Learning, P. 47

*Y = number of bookings*

### Comparison of the growth of three different Channels

To compare the three different channels the constant variable was standardized to the value one. The following figure shows the graphs for the three different communication channels. The x-axis represents the number of communications, the y-axis the number of bookings.



**Figure 51. The Effects of the Different Media Channels on the Number of Bookings**

Source: Calculations made by the author (2013) based on the regression analysis

The graph indicates that email has the strongest effect on the number of bookings, though the correlation and following the co-efficient of determination between email communication and bookings are the weakest of all three channels as seen before. The

functions of all three channels show that no boomerang effect appears within Customer Relationship Marketing though some kind of saturation effect can be seen, which the crest of the different graphs represents.

#### **4.5 The Practical Use of the RM Loyalty Model**

The complexity and the interrelations of marketing are so complex that Wannamaker made the following famous statement: „I know that half of my advertising spending is wasted, I just don‘t know which half.“<sup>411</sup> In this context one unanswered question for Customer Relationship Marketing so far is: what is the right communication frequency per channel to create a positive return? The author used the findings of the data analysis to develop a new formula, which should support managers to calculate a senseful communication frequency. The new formula is called “RM Channel Frequency Formula” and should help to answer at least the question of Wannamaker for the area of communication within CRM. The formula follows the theory of a break-even analysis and combines it with an adopted return on sales equation to compare the calculated profit margin for Relationship Marketing actions with the profit margin of a third party distribution, for instance through online travel agents. Which means it is beneficial for an organization to focus on direct communication as long as the profit margin for a direct distribution is higher than for an in-direct distribution. The following equation is a simplified model of the “RM Channel Frequency Formula”.

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<sup>411</sup> Dettmer H., Hausmann T., Kloss I., Meisl H., Weithöner U. (1999). 'Tourismus-Marketing-Management'. R. Oldenburg Verlag, München, P. 290

$$f(x) = \frac{\text{Rev. through RM} - \text{Costs for RM}}{\text{Rev. through RM}} > 1 - \text{Avg. Com.} \quad \text{Formula: 12}$$

**Title: RM Channel Frequency Formula – Basic Model**

*Source: Formula developed by the author, based on Preissler P. R. (2008). 'Betriebswirtschaftliche Kennzahlen: Formeln, Aussagekraft, Sollwerte, Ermittlungsintervalle'. Oldenbourg Wissenschaftsverlag, PP.*

33-34

*f(x) = threshold level up to the communication frequency for RM is beneficial*

With the knowledge that a concave downward exponential function explains the effects of communication on the buying behavior of existing customers the author enhanced the pre-described and simplified model and developed the “RM Channel Frequency Formula”.

$$f(x)^{i=1} = \frac{[(ax^b)_{i+1} - ax^b_i] * T * AVR - (C * T * x)}{[(ax^b)_{i+1} - ax^b_i] * T * AVR} > 1 - AC \quad \text{Formula: 13}$$

**Title: RM Channel Frequency Formula**

*Source: Formula developed by the author*

*f(x) = threshold level up to the communication frequency for RM is beneficial*

*a = initial amount (bookings)*

*x = frequency (number of communications)*

*b = exponential growth*

*i = number of communications*

*T = number of customers*

*AVR = average revenue per booking*

*C = costs per mail piece*

*AC = average commission paid for indirect booking channels in %*

The following example shows a calculation for the channel post mail; the used variables in the example are:

- Number of customers “T”<sup>412</sup>: 5,000
  - Costs per mail piece “C”: 1.50 €
  - Average revenue per booking “AVR”: 500 €
- 

<sup>412</sup> The use of a RFM methodology for a value driven target group selection is required

- Average commission paid for indirect booking channels “AC”: 15%

The average commission paid, which are due for third party bookings (indirect bookings) like through Expedia, is the benchmark to evaluate if a RM activity is economically meaningful or absurd. As a comparison, up to 30% commissions are due for each booking generated through indirect channels and the commission tendency is ascending. The average commission payment in 2011 was 14.85%.<sup>413</sup> The following table shows the calculation using the formula for the channel post mail. The column “Nr.” stands for the number of mailings; “Y” = number of bookings; “Growth” = the growth rate by sending an additional mail; “Response” = response rate in percentage; “Bookings” = Response \* Number of customers; “Revenue” = “Bookings” \* Average revenue per booking; “Costs” = Number of Customers \* Number of mails \* Costs per mail piece; “Profit M. %” stands for profit margin in percentage = 1 - (“Costs” / “Revenue”); “Rating” is “Y” if the costs in percentage is lower than the average commission paid for indirect bookings.

**Table 24. Example of RM Channel Frequency Calculation for Post Mail<sup>414</sup>**

#Communi- cations:	Y:	Growth:	Response:	Bookings:	Revenue:	Costs:	Profit M.:	Profit M. %:	Rating:
1	1,269	-							
2	1,369	0,10	9,96%	498	248.979 €	15.000 €	233.979 €	94%	Y
3	1,430	0,06	16,14%	807	403.585 €	22.500 €	381.085 €	94%	Y
4	1,476	0,05	20,70%	1.035	517.498 €	30.000 €	487.498 €	94%	Y
5	1,512	0,04	24,33%	1.217	608.349 €	37.500 €	570.849 €	94%	Y
6	1,543	0,03	27,37%	1.368	684.238 €	45.000 €	639.238 €	93%	Y
7	1,569	0,03	29,98%	1.499	749.588 €	52.500 €	697.088 €	93%	Y
8	1,592	0,02	32,28%	1.614	807.091 €	60.000 €	747.091 €	93%	Y
9	1,612	0,02	34,34%	1.717	858.512 €	67.500 €	791.012 €	92%	Y
10	1,631	0,02	36,20%	1.810	905.072 €	75.000 €	830.072 €	92%	Y

*Source: Calculations made by the author (2013) based on test scenario*

A sensible RM frequency is given if the calculated profit margin is higher than the benchmark, consisting of the costs for indirect bookings (commissions). *Ceteris paribus*, using the equation and the above formula up to 27 post mails can be regarded as a beneficial Relationship Marketing frequency. Beneficial means that the associated costs are lower than commissions for third party bookings. The calculated 27 marketing actions represent the overall test period of four years, this means 6.75 respectively six mails per year are a meaningful communication frequency within Customer Relationship Marketing for the

<sup>413</sup> C.F. Sponsel D. (2011). 'Preispolitik der führenden Buchungsportale wirft neue Fragen auf'. in HDV DEPESCHE; Nr 73. HDV, Bad Honnef, PP. 6-7

<sup>414</sup> The table is limited to 10 communication actions. See Appendix for a more detailed calculation.

channel post mail. A table with a calculation for up 37 marketing actions can be found in the appendix (Table Appendix XI: RM Channel Frequency Calculation for Post Mail).

For the channel e-mail the question regarding the right frequency cannot be defined by a profitability rating like for post mail since the costs per e-mail are negligible and consequently the calculated return (see next table) is always beneficial (for the calculation a cost per e-mail of 0.01€ was used). Though it has to be taken into consideration that all e-mail recipients in the test group actively opted-in for e-communications due to legal regulations which means the customers showed at least some level of interest for further information. This is contrary to the mail recipients, which were mainly selected by a RFM methodology since offline penetration requires no active opt-in from a customer. Therefore, it can be assumed that customers with an active opt-in shows a higher response rate than customers who were contacted without a prior approval.

**Table 25. Example of RM Channel Frequency Calculation for E-Mail<sup>415</sup>**

#Communi- cations:	Y:	Growth:	Response:	Bookings:	Revenue:	Costs:	Profit M.:	Profit M. %:	Rating:
1	1,020	-							
2	1,186	0,17	16,64%	832	415.956 €	100 €	415.856 €	100%	Y
3	1,296	0,11	27,60%	1.380	690.057 €	150 €	689.907 €	100%	Y
4	1,380	0,08	35,99%	1.800	899.763 €	200 €	899.563 €	100%	Y
5	1,449	0,07	42,87%	2.143	1.071.726 €	250 €	1.071.476 €	100%	Y
6	1,507	0,06	48,74%	2.437	1.218.575 €	300 €	1.218.275 €	100%	Y
7	1,559	0,05	53,89%	2.695	1.347.369 €	350 €	1.347.019 €	100%	Y
8	1,605	0,05	58,50%	2.925	1.462.488 €	400 €	1.462.088 €	100%	Y
9	1,647	0,04	62,67%	3.134	1.566.850 €	450 €	1.566.400 €	100%	Y
10	1,685	0,04	66,50%	3.325	1.662.503 €	500 €	1.662.003 €	100%	Y

*Source: Calculations made by the author (2013) based on test scenario*

Using the formula and the pre-defined sample data the number of generated bookings for a monthly e-mail newsletter would be 54 bookings; a newsletter send out every two weeks would still generate 31 bookings. Both frequencies are regarded cost-wise as beneficial. Although from the point of view of the author companies should give their clients the possibility to define their individual communication frequency in the personal settings within

<sup>415</sup> The table is limited to 10 communication actions. See Appendix for a more detailed calculation.

the CRM software. A calculation for up to 37 marketing actions can be found in the Table Appendix XII: RM Channel Frequency Calculation for E-Mail.

As can be seen, the formula is a help for marketers to evaluate a communication threshold level per channel. In an overall assessment, it is recommended to consider further costs, like for technology or employees, which are needed to run a CRM program, to get a more detailed cost-value analysis.

## CONCLUSIONS & SUGGESTIONS

### Prerequisites and Fundamental Needs for RM Success

Customer Relationship Management is a very complex construct consisting of parts like price, place, product, promotion, people, physical evidence and processes affecting mainly the areas of sales, marketing and client services. Almost all companies today do actively try to create customer loyalty although without having clear numbers about the outcome, especially when it comes to the question about the share which marketing communication contributes to the company success. The complexity and the interrelations of marketing are so complex that Wannamaker made the following famous statement: „I know that half of my advertising spending is wasted, I just don't know which half“<sup>416</sup> and in an recent article in the MIT Sloan Management Review Kotler, Calder, Malthouse and Korsten asked what “CMO's can do to become as indispensable as they should be?”<sup>417</sup> One answer to that is to provide measurable results, provide hard facts about the role of communication within Customer Relationship Management. Managers should change their thinking about marketing; a modern marketing is number driven, very technical and analytical. In other words, a modern marketing is by far more measureable as most of the managers thinks. Research about CRM, which focuses on the marketing aspect, is very rare. First articles were published in the early 1990's. Above all, in tourism and the hotel industry where loyalty plays a central role in the self-conception of many managers fundamental research is almost non-existing. One reason is that the hotel business is regarded as an industry of practitioners which led to the fact that for instance in Germany only Universities of Applied Sciences provide study paths which also led to a weak research culture. The situation in other countries is similar.

A second reason is the difficulty to collect numbers to measure the effects of RM. The hotel business is characterized by the fact of a low buying frequency, which means that research has to cope with a long time horizon, which has to be surveyed to get clear results.

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<sup>416</sup> C.F. Dettmer H., Hausmann T., Kloss I., Meisl H., Weithöner U. (1999). 'Tourismus-Marketing-Management'. R. Oldenburg Verlag, München, P. 290

<sup>417</sup> C.F. Kotler P., Calder B. J., Malthouse E. C., Korsten P. J. (2012). 'The Gap between the Vision for Marketing and Reality'. MIT Sloan Management, Vol. 54 No.1, P. 14



The next hurdle is the IT situation. IT and RM are highly intertwined and cannot be regarded as separate functions. A central data system is a pre-requisite and has to be in place for several years to generate the needed data to analyze long-term effects for a long-term topic like CRM and loyalty. CRM requires a sustained program of investing in and developing a wide range of resources, e.g. distribution networks, supply chains, marketing, IT and expertise.<sup>418</sup> Hotel companies are not only confronted with the “Big Data” phenomenon, almost none so far has a marketing oriented IT landscape, which connects marketing respectively campaign and reservation data. Ladder was the prerequisite of doing this research. Managers have to realize that modern marketing requires a rethinking of the organizational responsibilities and should take into consideration that a marketing-oriented IT infrastructure is a fundamental element for a sustainable development. The operational departments should no more dominate decision-making processes; marketing should be at least on the same level.

One aspect underlines the importance of loyalty significantly; it is the increasing share of indirect bookings coming from Online Travel Agents. Along with it, the commission payments endanger the overall profitability of many hotel companies. Since repeat customers tend to book more direct, CRM is a major part of a direct distribution strategy.

## **Findings and Suggestions**

### ***General Conclusions***

1. Through the comprehensive data analysis it can be confirmed that communication plays the assumed central role within Customer Relationship Management to create loyalty. Communication reminds the consumer about the made experiences, creates need and buying impulses and therefore results in a higher retention rate, respectively, an improved loyalty. Communication within CRM should be regarded as a demand management function to optimize long-term revenue contribution. The reviewed communication channels post mail, e-mail and multi-channel communication had a significant influence on the number of bookings made by the recipients of marketing actions.
2. An active opt-in to online communication reflects some form of interest and is at least a preliminary stage of loyalty since 95.4% of the customers with an active opt-in booked

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<sup>418</sup> C.F. Maklan S., Knox S., Peppard J. (2011). 'Why CRM Fails - and How to Fix It'. MIT Sloan Management Review, Vol. 52, No. 4, P. 78

- additional stays. To draw the conclusion, a high rate of opt-ins is a clear sign for satisfaction and product quality. Marketing and quality management departments should include the opt-in rate as a KPI into their tactical considerations.
3. The creation of loyalty and the introduction of a CRM strategy are a long-term project, and the importance of Relationship Marketing increases with the duration of the customer lifetime. The dissertation was able to confirm this statement. The correlations between communication and bookings went up over the years. This means the longer the last hotel stay is in the past, the more important are the remembering effects created by an ongoing Relationship Marketing.
  4. The analysis shows that communication also plays an important role for additional bookings close after the first purchase where the picture of the travel experience is still fresh in the mind of the individual hotel guest. This assumption is reflected by the correlation for the year 2008, which shows the second highest number within the overall test period.
  5. The research results confirms that the main purpose of communication within Customer Relationship Management is the creation of remembering effects, since an increasing concave downward exponential function described best the test data. This confirms the assumption that s-shaped response functions are not adequate to explain communication effects within Relationship Marketing and no learning effects are needed to generate additional sales to existing customers. In addition, no boomerang effect could be identified.
  6. One major outcome of the dissertation is the “RM Channel Frequency Formula”. With the formula, a so far unanswered question can be answered. What is a meaningful communication frequency, also called contact corridor, per media channel? Marketing strategies, which disregard the communication corridor, disregard cost efficiency. The best communication frequency per channel is a corridor above the perception threshold of the recipient but below the saturation level. Through the fact that communication within RM is represented by an exponential and not an s-shaped function there is no too less communication. The contact corridor starts with the first marketing action. With the help of the “RM Channel Frequency Formula”, marketers can calculate their individual top threshold level and an optimal communication frequency for the most common direct marketing channels. *Ceteris paribus*, using the formula (see chapter 4.5 The Practical Use of the RM Loyalty Model) up to 27 post mails throughout the test period of four years could be regarded as an efficient frequency. Efficient means that the calculated costs are lower than the distribution

costs through third party bookings. The calculated 27 marketing actions represent a period of four years; that means six post mails per year per customer are a meaningful communication frequency within Customer Relationship Marketing.

7. The formula can also be used for e-mail, however, with a different approach. Due to the little costs per e-mail, a positive cost / revenue relation normally always exists. From the point of view of the author, companies should give their clients the possibility to define their individual communication frequency. From the point of the author, a frequency of 14 days can be regarded as appropriate.
8. Overall, the suggested enhancement of the ECSI-model with the variables communication channel, frequency and time can be confirmed as meaningful. The variables media channel and communication frequency influence loyalty as well as the factor time. In the suggested enhanced ECSI model to describe loyalty for Relationship Marketing the measured value of loyalty is the actual buying behavior of existing customers.

Overall, the result of the data analysis verified the thesis that communication influences directly the “number of bookings” within a CRM strategy. The research results also confirm the thesis that a qualitative difference between the different communications channels as message transmitter within CRM exists. The value of post mail and of a multi-channel communication is much higher than the channel e-mail. It was also assumed that the importance of communication for creating loyalty within CRM increases over time. The results approve this thesis, the longer the last purchase is in the past the more important is the role of communication for creating remembering effects and buying impulses. The assumption that s-shaped response functions are not adequate to explain communication effects within CRM could be approved as well by the research results. This result also confirms the thesis that learning effects play no role for existing customers, instead remembering effects are in the center of CRM activities.

Based on the data analysis the main hypothesis could be approved.

**H: Direct communication actions within Customer Relationship Marketing, using on- and offline direct marketing channels, directly and positively influence the purchase frequency.**

**Confirmed** – A clear correlation between communication and bookings for the three marketing channels (post mail, e-mail and multi-channel communication) could be

determined. All equations showed positive growth variables, which results in a direct and positive influence on the number of purchases. Therefore, it can be stated that communication is a central part of a Customer Relationship Management strategy with a high impact on the repurchase behavior of existing customers.

### ***Conclusions aroused from the Data Analysis***

Based on the data analysis, the following conclusions have been drawn:

1. No learning effects are needed, remembering effects play the central role within CRM. The higher the frequency, the better the results. As can be seen in the chapter 4.4.3 “Regression Analysis for the different Communication Channels”, an increasing concave downward exponential equation is the best fitting function to describe the aggregated test data and the effect of communication on the buying behavior of existing hotel customers. The function confirms the assumption that no learning effects are needed to promote products to existing customers within the hotel business. The creation of remembering effects to drive needs and set buying impulses is in the center of Relationship Marketing.
2. For RM in general no boomerang effect exists for an emotional product like a hotel. Receivers of marketing actions potentially disregard messages but do not migrate to competitors due to the marketing penetration. The response function did not go downward; it only flattens following the microeconomic *law of diminishing returns* to additional inputs. The increasing concave downward exponential function (see chapter 4.4.3 section “Comparison of the growth of three different Channels”) shows that no measurable boomerang effect exists for current customers within a RM strategy. The function only flattens out.
3. For CRM e-mail communication is not a replacement for post mail, although the exponential growth in the equation for e-mail marketing recipients was higher than for recipients of post mail (see chapter 4.4.3 section). Two reasons could be responsible for this effect: The higher frequency of e-mail communication created higher booking impulses and the fact that the e-mail recipients actively opted-in for e-communications and therefore the test group was not homogeneous in this point. It can be assumed that customers who actively subscribe to an e-mail newsletter have some interest in the product and therefore a certain level of loyalty. In order to verify this conclusion customers without an opt-in had to be compared to offline recipients, which do not have to opt-in. This of course is against the European data protection laws. Finally,

due to a different media involvement the communication quality of e-mail was below post mail for the test group. *Ceteris paribus*, statistically measured, the channel post mail had a Coefficient of Determination 0.091, which means an influence of 9.1% on the generation of bookings. The strongest influence showed the multi-channel communication with (11.0%), the weakest the channel e-mail with (5.6%). Therefore, a replacement of post mail can be regarded at least as questionable. The numbers approve the assumption that a qualitative difference between the different media channels as a message transmitter exists.

4. The more channels are used to stay in contact with a customer, the better is the outcome. Therefore, a multi-channel communication is recommendable. The constant and the growth factor of the determined exponential equation for multi-channel communication showed lower values than the ones for e-mail and post mail communication. However, only 1.6% (post mail 3%; e-mail 4.6%) of the multi-channel recipients did not make additional purchases within the test period. 98.4% of the customers with offline and online communication booked additional stays.
5. For Relationship Marketing the existence of an s-shaped response function can be negated. As can be seen in the chapter 4.4.3 “Regression Analysis for the different Communication Channels”, the exponential equation was the best fitting function. Receivers do not have to become aware of a product or learn a certain message through a repeat penetration.
6. For RM the contact corridor starts with the first message since remembering effects plays a dominant role for existing customer relationships. There is no too less communication within Relationship Marketing. An increasing concave downward graph describes the effects of Relationship Marketing. Communication to existing customers generates measurable results starting with the first marketing action.
7. Within RM, a communication frequency above a certain threshold has no significant positive effects on the booking behavior of hotel guests. The equations for the different channels are concave downward increasing which means that diminishing results are being generated, but communication still has a positive effect on the booking behavior of the recipients. Based on the different costs per communication channel and the commissions for not directly generated bookings as a comparison, each channel based on the individual situation of a company has a certain communication threshold level which can be regarded as worthwhile (see chapter 4.5 “The Practical Use of the RM Loyalty Model”).

8. The role of CRM on the buying behavior is increasing over time. Relationship Marketing and the associated linked number of communications are getting more important the longer the relationship between a company and its customers lasts (see chapter 4.4.2 section “
9. Correlation between Variables throughout the Test **Period**”).

### *Suggestions aroused from the Conclusions*

#### **Suggestions for CEO's:**

1. CRM and Relationship Marketing is an important part of a direct distribution strategy. In order to stay or become profitable CEOs should take over the lead to guarantee a sustainable implementation.
2. Since IT is an essential part of Relationship Marketing CEOs should expand their IT knowledge significantly.
3. Hotel companies have access to mind blogging customer data, which is mainly dispersed in various data silos. In order to use the available asset CEOs should ensure that a marketing-oriented IT strategy is implemented to meet the challenges of “Big Data” and to allow a qualitative Relationship Marketing.
4. “Big Data” confronts companies with new challenges. CEOs should transfer the responsibility for this important topic to the marketing department and upgrade the role of marketing within the organizational structure.

#### **Suggestions for Marketing Managers:**

1. Beside the current marketing basics, marketers should enhance and deepen their knowledge about IT and statistics, as marketing is getting more and more data driven.
2. Communication to existing customers shows results from the first action on. Therefore, CRM should be an integral part of the marketing strategy.
3. Since no boomerang effect could be measured, marketing managers should try to increase the communication frequency as long as it is worthwhile from a cost-value perspective.
4. With the RM Channel Frequency Formula, marketers have a tool to calculate a sensible communication frequency for the different media channels.
5. It can be assumed that customers who actively subscribe to an e-mail newsletter have some interest in the product and therefore a certain level of loyalty. The number of e-

mail subscribers, e.g. collected during the check-out process, is a variable to measure customer satisfaction.

6. RM is a long-term strategy. The longer the relationship, i.e. the longer the last sales action lies in the past, the more important is the role of communication in order to generate bookings from existing customers.
7. E-mail is not a replacement for post mail. A multi-channel communication strategy based on a value-driven customer segmentation model (e.g. RFM) is the best choice to generate efficient results.
8. Post mail is a sensible communication channel as long as a value driven customer segmentation model (e.g. RFM) helps to identify the right target groups.

### **Suggestions for Universities:**

1. Relationship Marketing is a complex construct consisting of IT, statistics and marketing. Universities should apply their offerings to the new requirements especially with the upcoming phenomena of “Big Data”.
2. Universities should support more research projects relating to RM in the hotel business since hardly any research could be found for this industry.

### **Suggestions for researchers:**

For further research, several aspects should be of interest:

1. Marketing Automation – a new trend is the creation of automated distributed marketing actions. How does this new development improve the quality of communication and what are the effects for Relationship Marketing?
2. Multi-Channel and Multi-Level Campaigns - What are the results of multi-channel and multi-level campaigns in the end?
3. Dynamic content – With the creation of central customer data warehouses the knowledge about the individual interests and needs increases continuously. Using the knowledge customers should be penetrated with information, which meets their individual needs. What is the effect of dynamic content on the booking behavior?
4. What is the quality of the channels Facebook and Twitter in regard of CRM?
5. Are there differences in the results of this research when changing the geographical location or the type of hotels?
6. Differentiate the results for the different business segments of a hotel. Especially what is the influence of communication on the booking behavior of business travelers?

7. Identify the most efficient budget share with the highest ROI between Customer Relationship Management (frequency strategy) and customer acquisition (penetration strategy).

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## APPENDIXES

**Table Appendix I. Number of E-Mails sent<sup>419</sup>**

		Frequency (Receivers)	Percent	Valid Percent	Cumulative Percent
Valid	0	4763	91,2	91,2	91,2
	1	181	3,5	3,5	94,7
	2	51	1,0	1,0	95,7
	3	31	,6	,6	96,2
	4	49	,9	,9	97,2
	5	18	,3	,3	97,5
	6	23	,4	,4	98,0
	7	22	,4	,4	98,4
	8	12	,2	,2	98,6
	9	14	,3	,3	98,9
	10	4	,1	,1	99,0
Total		5222	100,0	100,0	

*Source: Calculations made by the author (2013). The table shows how many customers received how many e-mails during the test period.*

**Table Appendix II. Customers who received E-Mails exclusively**

		Frequency (#Receivers)	Percent	Valid Percent	Cumulative Percent
Valid	1	35	40,2	40,2	40,2
	2	14	16,1	16,1	56,3
	3	9	10,3	10,3	66,7
	4	8	9,2	9,2	75,9
	5	6	6,9	6,9	82,8
	6	4	4,6	4,6	87,4
	7	4	4,6	4,6	92,0
	8	2	2,3	2,3	94,3
	9	4	4,6	4,6	98,9
	18	1	1,1	1,1	100,0

<sup>419</sup> Table is limited to the top 10 results

	Total	87	100,0	100,0	
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Source: Calculations made by the author (2013). The table shows how many customers received exclusively how many e-mails during the test period.

**Table Appendix III. Number of Post Mails sent<sup>420</sup>**

		Frequency (#Receivers)	Percent	Valid Percent	Cumulative Percent
Valid	0	3483	66,7	66,7	66,7
	1	444	8,5	8,5	75,2
	2	241	4,6	4,6	79,8
	3	122	2,3	2,3	82,2
	4	115	2,2	2,2	84,4
	5	100	1,9	1,9	86,3
	6	66	1,3	1,3	87,5
	7	46	,9	,9	88,4
	8	38	,7	,7	89,1
	9	47	,9	,9	90,0
	10	32	,6	,6	90,7
	11	41	,8	,8	91,4
	12	33	,6	,6	92,1
	13	36	,7	,7	92,8
	14	35	,7	,7	93,4
	15	34	,7	,7	94,1
	16	39	,7	,7	94,8
	17	30	,6	,6	95,4
	18	27	,5	,5	95,9
	19	30	,6	,6	96,5
	20	18	,3	,3	96,8
	Total	5222	100,0	100,0	

Source: Calculations made by the author (2013). The table shows how many customers received how many post mail messages during the test period.

<sup>420</sup> Table is limited to the top 20 results



**Table Appendix IV. Customers who received Post Mail exclusively<sup>421</sup>**

		Frequency (#Receivers)	Percent	Valid Percent	Cumulative Percent
Valid	1	410	30,0	30,0	30,0
	2	217	15,9	15,9	45,9
	3	99	7,2	7,2	53,1
	4	103	7,5	7,5	60,6
	5	80	5,9	5,9	66,5
	6	50	3,7	3,7	70,2
	7	33	2,4	2,4	72,6
	8	31	2,3	2,3	74,8
	9	38	2,8	2,8	77,6
	10	25	1,8	1,8	79,4
	11	25	1,8	1,8	81,3
	12	26	1,9	1,9	83,2
	13	22	1,6	1,6	84,8
	14	17	1,2	1,2	86,0
	15	26	1,9	1,9	87,9
	16	29	2,1	2,1	90,1
	17	23	1,7	1,7	91,7
	18	14	1,0	1,0	92,8
	19	16	1,2	1,2	93,9
	20	12	,9	,9	94,8
Total		1367	100,0	100,0	

Source: Calculations made by the author (2013). The table shows how many customers received exclusively how many post mails during the test period.

**Table Appendix V. Number of Communications sent<sup>422</sup>**

		Frequency (#Receivers)	Percent	Valid Percent	Cumulative Percent
Valid	0	3396	65,0	65,0	65,0
	1	445	8,5	8,5	73,6
	2	248	4,7	4,7	78,3
	3	122	2,3	2,3	80,6
	4	125	2,4	2,4	83,0
	5	102	2,0	2,0	85,0

<sup>421</sup> Table is limited to the top 20 results

<sup>422</sup> Table is limited to the top 20 results

	6	68	1,3	1,3	86,3
	7	55	1,1	1,1	87,3
	8	43	,8	,8	88,2
	9	57	1,1	1,1	89,3
	10	36	,7	,7	89,9
	11	30	,6	,6	90,5
	12	33	,6	,6	91,2
	13	29	,6	,6	91,7
	14	24	,5	,5	92,2
	15	43	,8	,8	93,0
	16	39	,7	,7	93,7
	17	31	,6	,6	94,3
	18	26	,5	,5	94,8
	19	24	,5	,5	95,3
	20	22	,4	,4	95,7
	Total	5222	100,0	100,0	

*Source: Calculations made by the author (2013). The table shows how many customers received how many communication actions during the test period.*

**Table Appendix VI. Customers who received the Multi-Channel Communication<sup>423</sup>**

		Frequency (#Receivers)	Percent	Valid Percent	Cumulative Percent
Valid	2	17	4,6	4,6	4,6
	3	14	3,8	3,8	8,3
	4	14	3,8	3,8	12,1
	5	16	4,3	4,3	16,4
	6	14	3,8	3,8	20,2
	7	18	4,8	4,8	25,0
	8	10	2,7	2,7	27,7
	9	15	4,0	4,0	31,7
	10	11	3,0	3,0	34,7
	11	5	1,3	1,3	36,0
	12	7	1,9	1,9	37,9
	13	7	1,9	1,9	39,8
	14	7	1,9	1,9	41,7
	15	17	4,6	4,6	46,2

<sup>423</sup> Table is limited to the top 35 results

16	10	2,7	2,7	48,9
17	8	2,2	2,2	51,1
18	11	3,0	3,0	54,0
19	8	2,2	2,2	56,2
20	10	2,7	2,7	58,9
21	6	1,6	1,6	60,5
22	10	2,7	2,7	63,2
23	8	2,2	2,2	65,3
24	8	2,2	2,2	67,5
25	8	2,2	2,2	69,6
26	7	1,9	1,9	71,5
27	8	2,2	2,2	73,7
28	9	2,4	2,4	76,1
29	6	1,6	1,6	77,7
30	7	1,9	1,9	79,6
31	7	1,9	1,9	81,5
32	7	1,9	1,9	83,3
33	5	1,3	1,3	84,7
34	8	2,2	2,2	86,8
35	5	1,3	1,3	88,2
Total	372	100,0	100,0	

Source: Calculations made by the author (2013). The table shows how many customers received how many multi-channel communications during the test period.

**Table Appendix VII. Hypotheses Test Summary Number of E-Mails**

	Null Hypothesis	Test	Sig.	Decision
1	The median of differences between Number of e-mails sent and Number of bookings equals 0.	Related-Samples Wilcoxon Signed Rank Test	,000	Reject the null hypothesis.

Asymptotic significances are displayed. The significance level is ,05.

Source: Calculations made by the author (2013). The table shows that the null hypothesis could be rejected for the variable “Number of e-mails”, which mean that the communication channel had a significant influence on the number of bookings.

**Table Appendix VIII. Hypotheses Test Summary Number of Post Mails**

	Null Hypothesis	Test	Sig.	Decision
1	The median of differences between Number of post mails sent and Number of bookings equals 0.	Related-Samples Wilcoxon Signed Rank Test	,000	Reject the null hypothesis.

Asymptotic significances are displayed. The significance level is ,05.

Source: Calculations made by the author (2013). The table shows that the null hypothesis could be rejected for the variable “Number of Post Mails”, which mean that the communication channel had a significant influence on the number of bookings.

**Table Appendix IX. Hypothesis Test Summary Number of Communications**

	Null Hypothesis	Test	Sig.	Decision
1	The median of differences between Number of communications sent and Number of bookings equals 0.	Related-Samples Wilcoxon Signed Rank Test	,000	Reject the null hypothesis.

Asymptotic significances are displayed. The significance level is ,05.

Source: Calculations made by the author (2013). The table shows that the null hypothesis could be rejected for the variable “Number of Communications”, which mean that communication had a significant influence on the number of bookings.

**Tables Appendix X. Correlation Status between 2008 and 2011**

**Table Appendix X.1. Correlations Status 2008**

		Bookings2008	SumCom2008
Bookings2008	Pearson Correlation	1	,241**
	Sig. (2-tailed)		,000
	N	5222	5222
SumCom2008 (#Communications)	Pearson Correlation	,241**	1
	Sig. (2-tailed)	,000	
	N	5222	5222
**. Correlation is significant at the 0.01 level (2-tailed).			

Source: Calculations made by the author (2013). The table shows the correlation of communication and the number of bookings for the year 2008

**Table Appendix X.2. Correlations Status 2009**

		SumBookings2009	SumCom2009
SumBookings2009	Pearson Correlation	1	<b>,215**</b>
	Sig. (2-tailed)		,000
	N	5222	5222
SumCom2009 (#Communications)	Pearson Correlation	,215**	1
	Sig. (2-tailed)	,000	
	N	5222	5222
**. Correlation is significant at the 0.01 level (2-tailed).			

*Source: Calculations made by the author (2013). The table shows the correlation of communication and the number of bookings for the year 2009*

**Table Appendix X.3. Correlations Status 2010**

		SumBookings2010	SumCom2010
SumBookings2010	Pearson Correlation	1	<b>,235**</b>
	Sig. (2-tailed)		,000
	N	5222	5222
SumCom2010 (#Communications)	Pearson Correlation	,235**	1
	Sig. (2-tailed)	,000	
	N	5222	5222
**. Correlation is significant at the 0.01 level (2-tailed).			

*Source: Calculations made by the author (2013). The table shows the correlation of communication and the number of bookings for the year 2010*

**Table Appendix X.4. Correlations Status 2011**

		SumBookings2011	SomCom2011
SumBookings2011	Pearson Correlation	1	<b>,247**</b>
	Sig. (2-tailed)		,000
	N	5222	5222
SomCom2011 (#Communications)	Pearson Correlation	,247**	1
	Sig. (2-tailed)	,000	
	N	5222	5222
**. Correlation is significant at the 0.01 level (2-tailed).			

*Source: Calculations made by the author (2013). The table shows the correlation of communication and the number of bookings for the year 2011*

**Table Appendix XI: RM Channel Frequency Calculation for Post Mail**

Nr:	Y:	Growth:	Response:	Bookings:	Revenue:	Costs:	Profit M.:	Profit M. %:	Rating:
1	1,269	-							
2	1,369	0,10	9,96%	498	248.979 €	15.000 €	233.979 €	94%	Y
3	1,430	0,06	16,14%	807	403.585 €	22.500 €	381.085 €	94%	Y
4	1,476	0,05	20,70%	1.035	517.498 €	30.000 €	487.498 €	94%	Y
5	1,512	0,04	24,33%	1.217	608.349 €	37.500 €	570.849 €	94%	Y
6	1,543	0,03	27,37%	1.368	684.238 €	45.000 €	639.238 €	93%	Y
7	1,569	0,03	29,98%	1.499	749.588 €	52.500 €	697.088 €	93%	Y
8	1,592	0,02	32,28%	1.614	807.091 €	60.000 €	747.091 €	93%	Y
9	1,612	0,02	34,34%	1.717	858.512 €	67.500 €	791.012 €	92%	Y
10	1,631	0,02	36,20%	1.810	905.072 €	75.000 €	830.072 €	92%	Y
11	1,648	0,02	37,91%	1.895	947.654 €	82.500 €	865.154 €	91%	Y
12	1,664	0,02	39,48%	1.974	986.916 €	90.000 €	896.916 €	91%	Y
13	1,678	0,01	40,93%	2.047	1.023.365 €	97.500 €	925.865 €	90%	Y
14	1,692	0,01	42,30%	2.115	1.057.395 €	105.000 €	952.395 €	90%	Y
15	1,705	0,01	43,57%	2.179	1.089.325 €	112.500 €	976.825 €	90%	Y
16	1,717	0,01	44,78%	2.239	1.119.411 €	120.000 €	999.411 €	89%	Y
17	1,728	0,01	45,91%	2.296	1.147.866 €	127.500 €	1.020.366 €	89%	Y
18	1,739	0,01	46,99%	2.350	1.174.867 €	135.000 €	1.039.867 €	89%	Y
19	1,749	0,01	48,02%	2.401	1.200.563 €	142.500 €	1.058.063 €	88%	Y
20	1,759	0,01	49,00%	2.450	1.225.082 €	150.000 €	1.075.082 €	88%	Y
21	1,768	0,01	49,94%	2.497	1.248.531 €	157.500 €	1.091.031 €	87%	Y
22	1,777	0,01	50,84%	2.542	1.271.005 €	165.000 €	1.106.005 €	87%	Y
23	1,786	0,01	51,70%	2.585	1.292.587 €	172.500 €	1.120.087 €	87%	Y
24	1,794	0,01	52,53%	2.627	1.313.349 €	180.000 €	1.133.349 €	86%	Y
25	1,802	0,01	53,33%	2.667	1.333.354 €	187.500 €	1.145.854 €	86%	Y
26	1,810	0,01	54,11%	2.705	1.352.658 €	195.000 €	1.157.658 €	86%	Y
27	1,818	0,01	54,85%	2.743	1.371.311 €	202.500 €	1.168.811 €	85%	Y
28	1,825	0,01	55,57%	2.779	1.389.359 €	210.000 €	1.179.359 €	85%	N
29	1,832	0,01	56,27%	2.814	1.406.841 €	217.500 €	1.189.341 €	85%	N
30	1,839	0,01	56,95%	2.848	1.423.794 €	225.000 €	1.198.794 €	84%	N
31	1,845	0,01	57,61%	2.881	1.440.251 €	232.500 €	1.207.751 €	84%	N
32	1,851	0,01	58,25%	2.912	1.456.242 €	240.000 €	1.216.242 €	84%	N
33	1,858	0,01	58,87%	2.944	1.471.793 €	247.500 €	1.224.293 €	83%	N
34	1,864	0,01	59,48%	2.974	1.486.930 €	255.000 €	1.231.930 €	83%	N
35	1,870	0,01	60,07%	3.003	1.501.676 €	262.500 €	1.239.176 €	83%	N
36	1,875	0,01	60,64%	3.032	1.516.051 €	270.000 €	1.246.051 €	82%	N
37	1,881	0,01	61,20%	3.060	1.530.074 €	277.500 €	1.252.574 €	82%	N

Source: Calculations made by the author (2013) of a meaningful communication frequency for the channel post-mail using example from chapter 4.5 The Practical Use of the RM Loyalty Model

**Table Appendix XII: RM Channel Frequency Calculation for E-Mail**

Nr:	Y:	Growth:	Response:	Bookings:	Revenue:	Costs:	Profit M.:	Profit M. %:	Rating:
1	1,020	-							
2	1,186	0,17	16,64%	832	415.956 €	100 €	415.856 €	100%	Y
3	1,296	0,11	27,60%	1.380	690.057 €	150 €	689.907 €	100%	Y
4	1,380	0,08	35,99%	1.800	899.763 €	200 €	899.563 €	100%	Y
5	1,449	0,07	42,87%	2.143	1.071.726 €	250 €	1.071.476 €	100%	Y
6	1,507	0,06	48,74%	2.437	1.218.575 €	300 €	1.218.275 €	100%	Y
7	1,559	0,05	53,89%	2.695	1.347.369 €	350 €	1.347.019 €	100%	Y
8	1,605	0,05	58,50%	2.925	1.462.488 €	400 €	1.462.088 €	100%	Y

9	1,647	0,04	62,67%	3.134	1.566.850 €	450 €	1.566.400 €	100%	Y
10	1,685	0,04	66,50%	3.325	1.662.503 €	500 €	1.662.003 €	100%	Y
11	1,720	0,04	70,04%	3.502	1.750.944 €	550 €	1.750.394 €	100%	Y
12	1,753	0,03	73,33%	3.667	1.833.305 €	600 €	1.832.705 €	100%	Y
13	1,784	0,03	76,42%	3.821	1.910.462 €	650 €	1.909.812 €	100%	Y
14	1,813	0,03	79,32%	3.966	1.983.108 €	700 €	1.982.408 €	100%	Y
15	1,841	0,03	82,07%	4.104	2.051.804 €	750 €	2.051.054 €	100%	Y
16	1,867	0,03	84,68%	4.234	2.117.006 €	800 €	2.116.206 €	100%	Y
17	1,892	0,02	87,16%	4.358	2.179.095 €	850 €	2.178.245 €	100%	Y
18	1,915	0,02	89,54%	4.477	2.238.391 €	900 €	2.237.491 €	100%	Y
19	1,938	0,02	91,81%	4.590	2.295.164 €	950 €	2.294.214 €	100%	Y
20	1,960	0,02	93,99%	4.699	2.349.646 €	1.000 €	2.348.646 €	100%	Y
21	1,981	0,02	96,08%	4.804	2.402.038 €	1.050 €	2.400.988 €	100%	Y
22	2,001	0,02	98,10%	4.905	2.452.514 €	1.100 €	2.451.414 €	100%	Y
23	2,020	0,02	100,05%	5.002	2.501.227 €	1.150 €	2.500.077 €	100%	Y
24	2,039	0,02	101,93%	5.097	2.548.310 €	1.200 €	2.547.110 €	100%	Y
25	2,058	0,02	103,76%	5.188	2.593.883 €	1.250 €	2.592.633 €	100%	Y
26	2,075	0,02	105,52%	5.276	2.638.053 €	1.300 €	2.636.753 €	100%	Y
27	2,092	0,02	107,24%	5.362	2.680.913 €	1.350 €	2.679.563 €	100%	Y
28	2,109	0,02	108,90%	5.445	2.722.549 €	1.400 €	2.721.149 €	100%	Y
29	2,125	0,02	110,52%	5.526	2.763.038 €	1.450 €	2.761.588 €	100%	Y
30	2,141	0,02	112,10%	5.605	2.802.450 €	1.500 €	2.800.950 €	100%	Y
31	2,156	0,02	113,63%	5.682	2.840.847 €	1.550 €	2.839.297 €	100%	Y
32	2,171	0,01	115,13%	5.757	2.878.288 €	1.600 €	2.876.688 €	100%	Y
33	2,186	0,01	116,59%	5.830	2.914.824 €	1.650 €	2.913.174 €	100%	Y
34	2,200	0,01	118,02%	5.901	2.950.505 €	1.700 €	2.948.805 €	100%	Y
35	2,214	0,01	119,41%	5.971	2.985.375 €	1.750 €	2.983.625 €	100%	Y
36	2,228	0,01	120,78%	6.039	3.019.473 €	1.800 €	3.017.673 €	100%	Y
37	2,241	0,01	122,11%	6.106	3.052.839 €	1.850 €	3.050.989 €	100%	Y

*Source: Calculations made by the author (2013) of a meaningful communication frequency for the channel e-mail using example from chapter 4.5 The Practical Use of the RM Loyalty Model*