

Cabo san viejo – hbs assignment



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3Overall loyalty reward program⁵ Cabo San Viejo's customer base 1 General information Cabo San Viejo (CSV) is a health resort based in Palm Springs.

CSV has one big resort and four smaller day-spas. The company was founded in 1992 where the concept was ahead of its time. In the following years the total amount of stays at the big resort (Palm Springs) kept on increasing (Exhibit 7). 96% rate their stay at CSV highly, while 62% rate their stay at CSV beyond what they expected. A lot of customers (67%, Exhibit 6) know CSV via ' word-of-mouth. 32% return within 5-6 years from their first visit, from those returning customers another 62% returns again within the next 5-6 years (Exhibit 6). To evaluate these number, branch figures would be needed so there is no way to say if these figures are good or not. 2 The ageing of the customer database At first most of this seems positive, however the average age of the customer database kept on rising. Over the past twelve years the average age has increased from 47 to 57 in 2004 (Exhibit 7). If this trend continues, the average age will keep on rising and this could result in a major decrease in customers.

In a theoretical scenario the company could eventually end up without any customers. Rejuvenation of the consumer base is therefore very important. The problem with rejuvenation of the customer database is that younger consumers are probably less wealthy than the older consumers (In the summer the average HHI > 150K drops from 82% to 59% while the average age also drops with 4 years, Exhibit 6). Combined with the price segment CSV is operating in this could very well be the explanation of why the average of the consumers also keeps increasing.

The CSV resort vacations are simply too expensive for the younger people. 3 Customers are becoming more heterogeneous Another problem for CSV is that serving the customers as good as possible is becoming harder and harder due to the fact that, according to CSV, the customers are becoming more heterogeneous. Knowing that the current customer database of CSV is far from complete it is becoming increasingly hard to act on the different needs and wishes of different customers. A good CRM system is needed to attend on the needs of the different customers as good as possible.

A good CRM system is also needed if the company is going to implement a customer loyalty reward program. The CRM system should be able to provide valuable information on the clients so CSV can make important decisions on which customers should be rewarded and how they should be rewarded. 4 Lack of cross-selling Next to the CSV resort there are also four day-spas. The four day-spas all offer different kind of treatments and health programs which a lot of customers really like. Customer research shows that a lot of the customers of the day-spas really like to go to the CSV resort for a complete health vacation. My dream is to go to Cabo San Viejo in Palm

Springs for a week,” one customer said. “ It would be the thrill of a lifetime,” exclaimed another, “ like seeing an Elton John concert in Las Vegas (P9). ”

However there are not a lot of customers who started going to the day-spas and ultimately went to the CSV resort in Palm Springs. This lack of highly desired ‘ cross-selling’ leaves a lot of room for improvement from CSV’s side as there is a lot of interest from the current day-spa customers. Therefore there should be a bigger focus on ‘ cross-selling’ from the day-spas to the Health resort. Complaints and the lack of a loyalty program Furthermore lately there have been some complaints and remarks about the lack of a loyalty reward program. Returning customers feel they should be rewarded for bringing their business to CSV. They feel the need to feel appreciated for being a returning customer. One client for example said: “ All of us loyal customers think that. If I’m a return guest at CSV and I’ve been coming here for years, I’ve obviously got the money to afford it, so it’s not about money and it’s not about the tangible value of the rewards” (P8, customer quotes).

These returning customers basically claim there should be some sort of reward program or another way to make them feel special and appreciated, they want to experience that wow-factor that makes them feel like they are the most important customer of CSV. Also most of CSV’s competition is using reward programs. The customers therefore expect CSV to do the same. 6

Conclusion To conclude, it’s probably safe to say CSV shouldn’t be happy with the current trend of their customer database. There is a lot of room for improvement on cross-selling but the most important threat is the ageing of the customers.

This could very well lead to a point where CSV doesn't have enough customers to be profitable anymore. Rewards program It would make sense for CSV to adopt a rewards program. By viewing the customer base (chapter 1) you can see there are a lot of problems which could be solved. The most important thing for customers is the surprising effect during and/or after their stay. If customers get an experience exceeding expectations, they will be surprised, which makes them delighted and makes them want to return. Increasing retention can therefore be the strategic objective.

If CSV implements a CRM-system, they can gather a lot of information about their customers. This will give important insights in the needs and CSV also can use this system to approach people more personal (currently this is very hard because the customers are more heterogeneous). 1 Stimulating retention The ageing of the customers is a problem which can be solved by stimulating younger people to visit CSV. The figures in exhibit 6 show that younger people have less money to spend. What also can be seen is that the cost is the primary reason for why guests do not return.

Therefore CSV should give customers a discount on a second visit. This will take away the reason " cost" for not visiting CSV a second time and give CSV a second opportunity to build up an emotional bond with the customers. Especially younger people, who have less money to spend, this may be attractive. Besides, if a customer visits twice, the chances of an emotional connection will be higher, which can increase the retention rate. As seen in exhibit 6, the return rate of ' returned visitors' is almost twice of the return of ' first-time guests'. 2 Cross-selling

Next to the CSV resort there are four day-spas. As said in chapter 1, customers of the day-spas really like to go to the CSV resort. CSV can use this opportunity by cross-selling. CSV can pull on customers by introducing a system where customers of the day-spas can collect points, which can be used for free activities at the CSV. Each time a customer goes to a day-spa for a massage, the customer collects points. On the website of CSV or a brochure, the customer can see what can be done with these points. For example, if a customer likes a massage, he can collect points for a free massage at CSV.

This system will improve cross-selling, which will lead to more customers at CSV. 3 Connect personally A lot of customers feel they should be rewarded for visiting CSV. They want to feel special and important. CSV can take away undervalued feelings by doing little things like giving flowers when a customer is arriving, a personal greeting (by name), and giving little presents during their stay. For these things a good CRM system is needed. By gathering and saving information about customers CSV would be able to better attend to the needs and desires of customers. Structure rewards program

The approach of the strategy is divided into different reward programs. This has been done to create a specific approach for the different customer groups. The types of programs we will discuss are a cross-selling program, a program for the relative young 'middle aged' customers and the improvement of the overall loyalty reward program. 1 Cross-selling program

The firm is active in more branches and they could profit from that with a cross-selling reward program. Customers from CaboDaySpas should profit

from the fact that they are visitors of the wellness centers of Cabo San Viejo already.

These customers are interested in wellness and for them it is a small step to a full-service overnight destination resort. So for these people there should be a sort of point system. At entrance they will get 1 point assigned just to reward the visit. If the visitor buys a 'regular' activity (cost for customer: low/average) they will also get 1 point and with the purchase of a luxurious activity (cost for customer: high) they will get 2 points on their card.

Eventually the customers will be able to hand-in these points to obtain a free activity or a discount at the full service resort of Cabo San Viejo.

This way the company will attract customers out of the smaller properties to the (more profitable) resort. 2 Program for young 'middle-aged' customers
The fact that the customer base of Cabo San Viejo lacks on young customers (under 50 years) should be tackled with a program. To make the resort attractive to young people and rejuvenate the customer base the company could give customers under 40 a discount at their second visit. These relative younger people may not have as much to spend as older customers and with a discount it would be affordable for them also.

These relative young people are the new 50ers in about 10-15 years, so it is wise to attract and bind them at this stadium already! 3 Overall loyalty reward program
The loyal customer is dissatisfied about the lack of a loyalty reward program. To help this Cabo San Viejo needs to improve the overall loyalty reward program. First thing that must be taken into account is a good solid CRM system. With the right information about the customers, the

company can personalize it's approach to the customers and especially to the loyal/important clients.

The idea is to send all customers a gift on their birthday (or after their 3rd visit, on their wedding anniversary or Valentine's Day etc.) to remind them that Cabo San Viejo cares about their customers. The bigger the share of wallet of the customer is, the more expensive their gifts should be. The gifts and transport will be outsourced by a specialized company. The information about the customers will come from the improved CRM system. Next to this new CRM system that is needed, the staff (front and back-office) should really think out of a customer's perspective, willing to learn from customers and treat them as family.

For second-time customers it would be a birthday card with a nice bouquet. Customers that have visited CSV a few times should be rewarded with some nice candles or some sort of health package or something in that category. The program should have three levels, so for the true loyal customers who have visited CSV more than three times the gifts can be a bit more expensive, however money or tangible value is not the issue for most customers so personal interest of customers should always be taken into account when sending a (small) gift.

With this program CSV would really exceed the expectations of the customer, because they will get something they did not expected and they know that they are not forgotten and that CSV cares about them. This way CSV will bond with their customers and will create a lot of " real loyalty commitment customers" with a higher repeat purchase and a high attitude

towards CSV. Through the program the last variable, attitude towards the brand, will rise (slides class 4, P13, A combined approach to loyalty). As a consequence of more high commitment customers the company will also have a higher retention rate (in 5 years CSV needs to aim to a percentage of 40% for first time customers and 70% for second time customers in 5-6 years which are now respectively 32% and 62%), which leads to more profit on the long-run. Another improvement in the overall loyalty reward program is not really a reward, but more one on personalizing. At arrival in the overnight destination it would be nice to welcome the customer with a personal welcome message on the TV screen.

This could simply be taken care of with a linked system between the reservation system and the TV network on the resort. The effort is not that high and the consequence is a happier customer because he or she feels unique. This is a small example of exceeding the expectation. Of course it is dangerous to raise the standard too high, because then customers won't take a lower standard anymore. That is why we kept these improvements simple yet effective.