Desarrollando el valor de un destino a través de la aplicación del concepto de Customer Lifetime Value al marketing turistico

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Objective

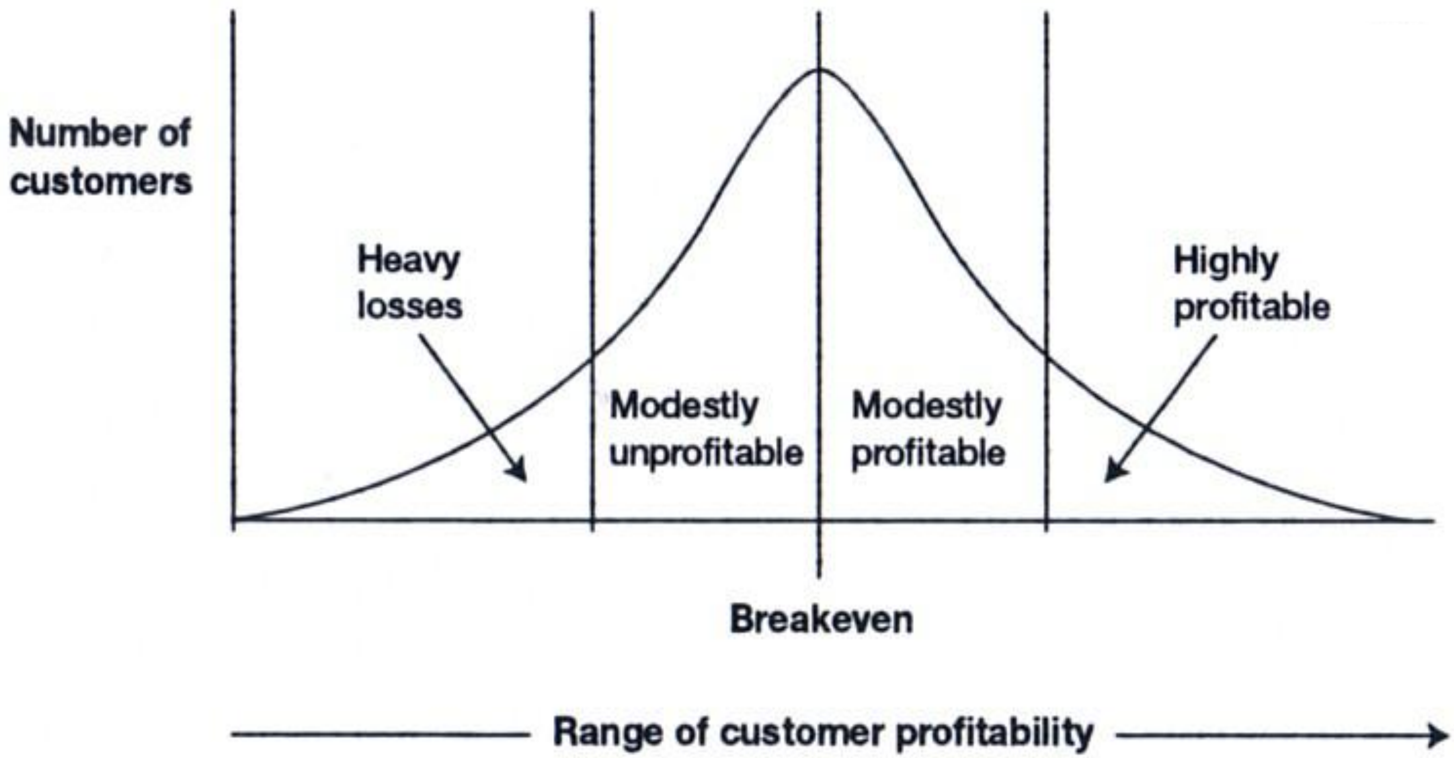
- Most national and regional tourism and destination marketing organizations (National Tourism Organizations, NTOs) are still focused on measuring how many visitors they are attracting instead of trying to measure the real long-term value of those visitors.
- One possible reason these organizations maintain a short-term view of relationship marketing is a very limited application of tools and metrics such as CLV that would help them to understand the true long-term value of tourists.
- In order to develop a better perspective of the real value of a tourism destination we propose applying the CLV tool in the tourism industry, namely to NTOs.
- The objective is to help shift the focus of the NTOs towards adopting a long-term tourist value orientation by applying one of the most powerful analytical tools that marketing has generated in the last ten years – the Customer Lifetime Value perspective (Berger and Nasr, 1998).

Customer Lifetime Value (CLV)

- General marketing has changed in the last years towards creating long-term customer relationships instead of focusing on single transactions.
- Many industries today recognize the need to:
  - 1) invest marketing resources into creating long-term relationships with the customers, and
  - 2) measure the long-term economic value of their individual customers.
- Customer Lifetime Value (CLV) is defined by Kotler and Keller (2006) as the net present value of the stream of future profits expected over the customer’s lifetime purchases.

Loyalty = Profitability ?
Typical Customer Value Distribution

Customer value distribution



Source: Robert E. Wayland and Paul M. Cole, *Customer Connections* (Boston: Harvard Business School Press, 1997), 120. Adapted with permission.

Not all the customers are the same …

- Usually in our customer base we would have good customers and bad customers, the average distribution of customers is:
  - 1/3 are high profitable customers
  - 1/3 are average profitable customers
  - 1/3 are low profitable (or unprofitable) customers
- Most of the times the customer acquisition cost is the same (for good or bad customers)
- The problem is investing marketing resources in acquiring bad customers
- The problem is even worse when we invest marketing resources to retain these bad customers.

The real problem is that most of the times …

we just don’t know

…

we don’t know the real value of our customer base

What makes a good or a bad customer?

- Margin per customer:
  - Revenues per customer
  - Cost to serve the customer
- Length of the relationship (retention rate)
- Customer Acquisition cost
- Customer Retention cost

How much is a customer worth to the firm?

Profit per Transaction: Revenue - Cost

What's wrong with this?

- Example - Cellular Service
- Year 1 Revenue: $20/month = 20 x 12 = $240 year
- Year 1 Costs
  - CTS: $14/month = 14 x 12 = $ 168 year
  - Acquisition cost ("Free" phone) = $150 year
- Year 1 Profit = $240 - ($168+$150) = -$78
- Year 2 Profit = $240 - $168 = $72
- Two Year Profit = -$78 + $72 = -$6
- Year 3 Profit = $240 - $168 = $72
- Three Year Profit = -$6 + $72 = $66
- We need to keep the customer for 3 years to make a positive profit.
- How much is an average customer worth to the firm? We need the probability of retention.

Add Retention

- Lets say probability of retention is 70%
- Churn rate is 30%
- Expected Value to the firm is .....

Three year profit = -\$78 + .7 × \$72 + .7 ×.7 × \$72+ ....

Four year profit = -\$78 + .7 × \$72 + $.7^2$ × \$72+ ....

Five year profit = -\$78 + .7 × [\$72 + .7 × \$72 + $.7^2$ × \$72 + $.7^3$ ×\$72]

- Lifetime profit CLV = -\$78 + .7 × \$72 × [1 + .7 + $.7^2$ + $.7^3$ + ...]

CLV = -\$78 + .7 × \$72 × [1/(1-.7)] = \$90

- What happens if probability of retention is 80%?

CLV = -78 + 57.6(1/(1-.8)) = \$350

We can summarize this in a CLV formula

$$CLV_1 = \sum_{a=1}^{N} \frac{(M_a - c_a) r^{(a-1)}}{(1+i)^a} - AC$$

If M and c are relatively fixed across periods the formula can be simplified:

$$\textbf{CLV} = \frac{\textbf{Margin}}{\textbf{(1 – Retention Rate + Interest Rate)}} \textbf{ - Acquisition Cost}$$

Example: Customer Lifetime Value in a Hotel Chain

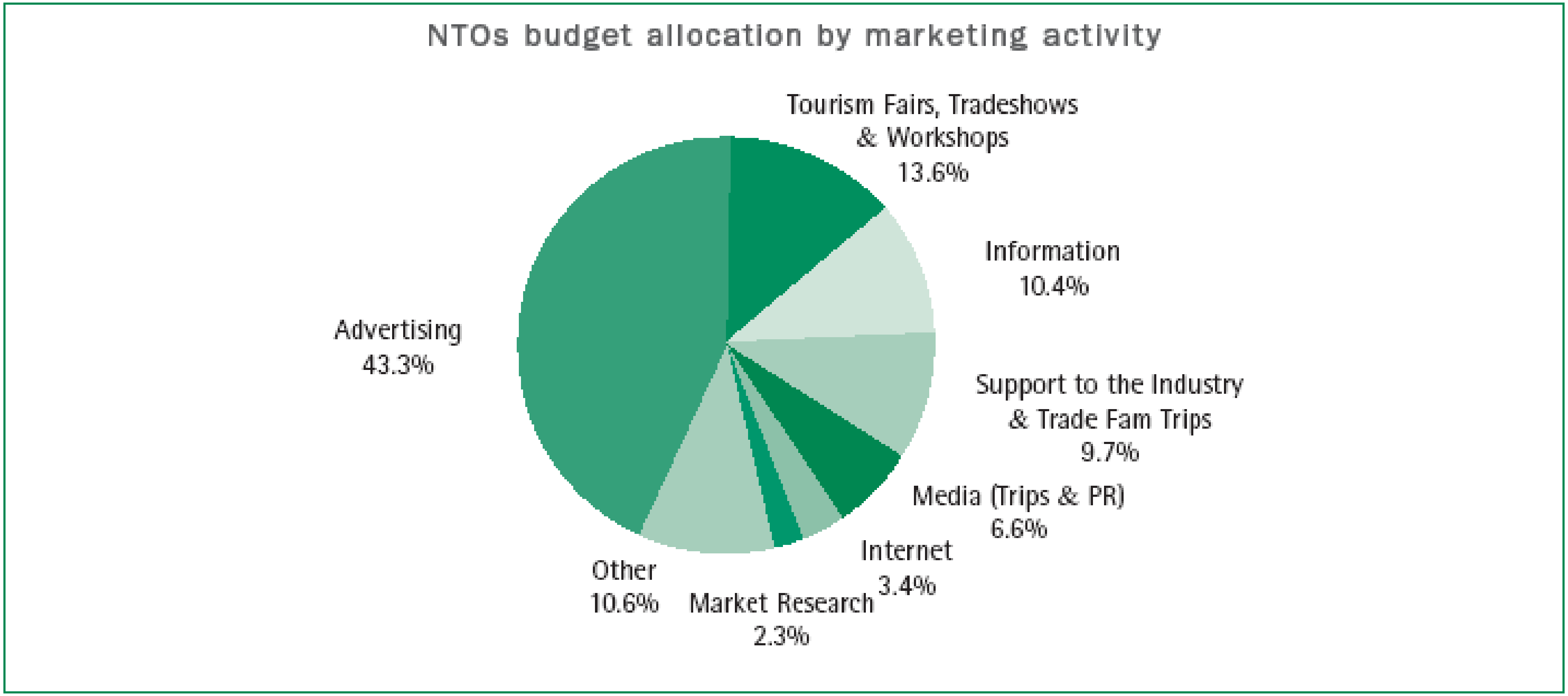
- Total number of unique guests: 115,000
- Average daily spend: US$750
- Number of days average guest stays: 2
- Average gross margin per room: 32%
- Average number of visits per year per guest: 1.2
- Average marketing expense per guest: US$130 (retention marketing)
- Average new guest acquisition cost: US$150
- Total number of repeat guests: 19,169
- Average guest retention rate: 16.67% (19,169/115,000=0.1667)
- Discount rate: 8%

$$\textbf{CLV} = \frac{\textbf{Margin}}{\textbf{(1 – Retention Rate + Interest Rate)}} \textbf{ - Acquisition Cost} = \frac{\textbf{(\$750 x 2 x 0.32 x 1.2) - \$130}}{\textbf{(1 – 0.17 + 0.08)}} \textbf{ - \$150 = \$340}$$

CLV and the Tourism Industry

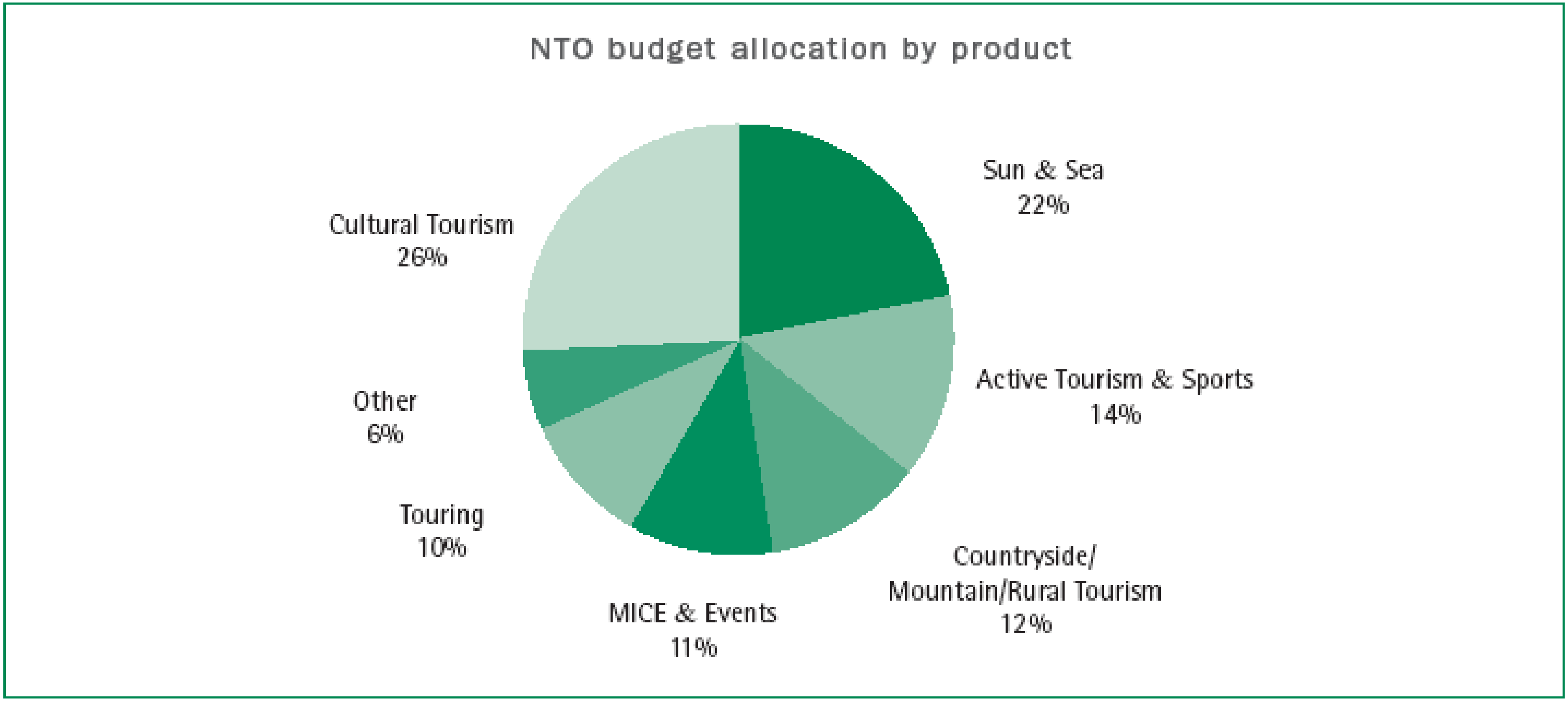
- There is a lack of utilization of CLV within the public side of the Tourism industry (NTOs).
- CLV is becoming extensively used by the private side of the Tourism industry (hotels, airlines, travel agencies, etc). But we have not found evidence in the tourism marketing literature of any NTO using CLV as an analysis and decision making tool.
- This lack of use may in fact be a consequence of the lack of research studies analyzing the applicability of CLV specifically to the public tourism marketing sector. In fact, our preliminary research and literature review failed to find any published studies applying CLV at the tourist level within NTOs.

NTO Investments by Marketing Activity



Source: Structures and Budgets of National Tourism Organizations, 2004-2005, WTO

NTO Investments by Product



Fuente: Structures and Budgets of National Tourism Organizations, 2004-2005, WTO

Table 15 NTO budget allocation (euro)

Country	Operating costs (euro million)		Change (%)	Marketing costs (euro million)		Change (%)	Share of marketing costs in total budget (%)	
	2004	2005		2004	2005		2004	2005
Australia	24.8	26.9	8	64.5	64.2	0	72.2	70.5
Austria	15.7	16.4	5	29.8	29.8	0	65.5	64.5
Canada	12.0	11.9	-1	40.8	35.1	-14	77.2	74.7
Chile	0.2	0.2	8	1.5	1.6	10	89.3	89.5
Colombia		0.2			1.4			90.0
Cyprus	9.2	10.6	16	35.4	41.3	17	79.4	79.6
Czech Repuplic	1.7	1.4	-15	5.6	5.4	-3	77.1	79.3
Denmark	9.7	9.9	3	17.8	17.4	-2	64.9	63.7
Dominican Republic		3.3			14.3			81.2
El Salvador		0.1			0.2			76.6
Estonia	0.2	0.2	55	1.7	2.6	55	91.5	91.5
Finland	7.4	7.6	2	19.1	18.9	-1	72.0	71.4
France	14.3	15.3	4	34.4	35.6	4	70.0	70.0
Germany	14.5	13.5	-7	16.6	17.6	6	53.4	56.6
Greece	66.0	68.0	3	33.5	53.7	60	33.7	44.1
Guatemala	5.7	5.8	2	8.9	8.9	1	60.8	60.6
Honduras	0.7	0.6	-20	1.9	1.8	-7	73.5	76.4
Hungary	9.2	6.7	-27	14.6	10.9	-25	61.3	61.9
India	3.2	3.4	6	9.9	16.0	61	75.5	82.5
Ireland	21.4	23.0	8	38.1	43.0	13	64.1	65.2
Italy	26.5	24.2	-9	11.1	25.6	130	29.5	51.4
Korea, Republic of	15.9	17.0	7	14.1	15.0	7	47.0	47.0
Lithuania	0.3	0.3	1	0.6	0.8	31	66.7	72.2
Luxembourg	1.3	1.4	5	1.7	1.6	-4	56.1	53.8
Macao (China)	2.1	5.9	185	21.9	25.0	14	91.3	80.8
Malaysia	23.2	21.6	-7	71.6	73.1	2	75.5	77.2
Malta	9.6	9.6	0	12.5	13.1	5	56.6	57.6
Nepal	0.02	0.02	29	0.6	0.6	-3	96.1	94.9
New Zealand	8.8	9.3	6	25.3	27.8	10	74.2	74.9
Norway	7.0	10.0	43	14.2	18.5	30	67.0	64.9
Peru	1.0	1.1	5	10.8	11.2	4	91.2	91.2
Philippines	7.4	9.0	21	4.1	4.8	19	35.4	35.0
Poland	1.3	1.4	10	7.3	6.3	-13	85.2	82.0
Portugal *				45.4	47.7	5		
Romania	1.4	2.0	38	4.6	3.7	-19	76.5	65.5
Slovakia	0.6	1.6	168	1.8	4.7	163	75.3	75.0
Slovenia	1.8	1.9	6	6.3	6.6	5	77.8	77.6
South Africa	12.0	11.7	-3	41.4	44.8	8	77.5	79.3
Spain	30.7	35.9	17	54.3	60.3	11	63.9	62.7
Sweden	5.5	6.2	13	8.9	7.8	-13	61.7	55.5
Switzerland	16.1	15.3	-5	26.3	27.9	6	62.0	64.6
Tunisia	10.0	10.8	8	26.5	23.9	-10	72.7	68.9
Thailand	10.8	11.7	8	14.6	14.0	-4	57.4	54.4
United Kingdom	37.5	37.8	1	35.3	33.9	-4	48.5	47.2
United States	0.3	0.3	0	1.4	4.6	226	83.4	94.2
Total/average	**447.3**	**467.4**	**4**	**791.3**	**859.7**	**9**	**63.9**	**64.8**
Total/average		**470.7**			**871.1**			**64.9**

N=45/See Annex VI for amounts in US dollars/* Since data on operating costs are not available for Portugal, the information supplied is presented here but has not been considered in computing the average.

No NTO reported using CLV as a research tool for tourism marketing planning

Table 7 Use of research in marketing planning (from 1 - most important to 6 - least important)

Types of research	Level of importance					
	1	2	3	4	5	6
Data collection on the actual level of demand (arrivals, nights, distribution by region and/or season, share by nationality, etc)	9	1	1			
Data collection on the structure of demand segments (e.g. age, income, motives, etc)	1	5	2	3		
Research on "Image"	2	1		2	4	3
Measuring marketing effectiveness		2	2	1	2	2
Trends and the development of potential demand	2	5	2	3	1	
Special segmentation studies		2	1	1	1	3
Other						

Tourism Marketing decision making seems to be focused in volume of visitors and receipts

Of the various indicators that reflect tourism demand and that can be used by the government to determine the amount to be allocated to the NTO budget, the following were mentioned:

Indicators	Number of mentions
International tourism receipts	11
Total arrivals at registered accommodation units	5
Total overnight stays at registered accommodation units	4
Total revenue from tourism taxes	2
International tourist overnight stays at registered accommodation units	2
International tourist arrivals at registered accommodation units	1
International tourism receipts from tourism taxes	1

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Table 18 Ranking of main source markets vs. NTO marketing budget allocation

Market by Importance / Average Share in:	1	2	3	4	5	Other	Total
International tourist arrivals (%)	23.7	11.1	8.9	7.4	5.6	43.3	100
Budget allocation (%)	18.5	11.6	9.0	6.2	3.9	50.8	100

N=22

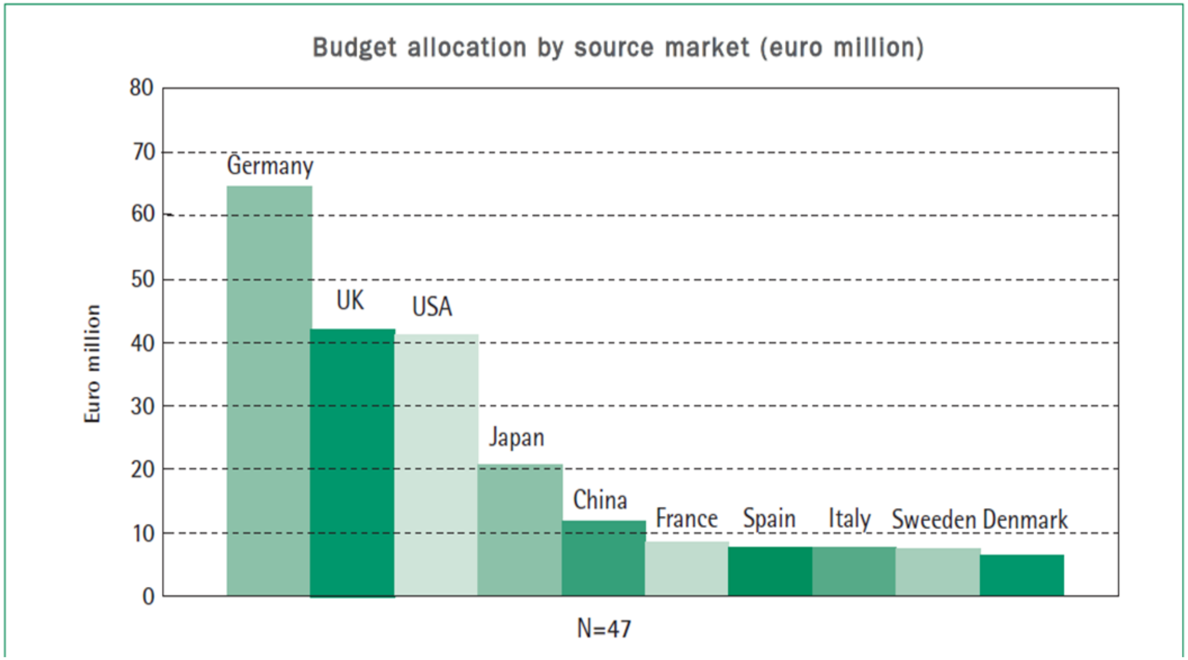


Table 20 The ranking in importance of the main criteria for budget allocation (from 1 - most important to 6 - least important)

	Operating costs	Estimated costs of planned activities	Present market importance (Share in present demand)	Market potential	Total available budget for current year	Financial support of third parties in marketing activities
Rank	6	4	1	3	2	5

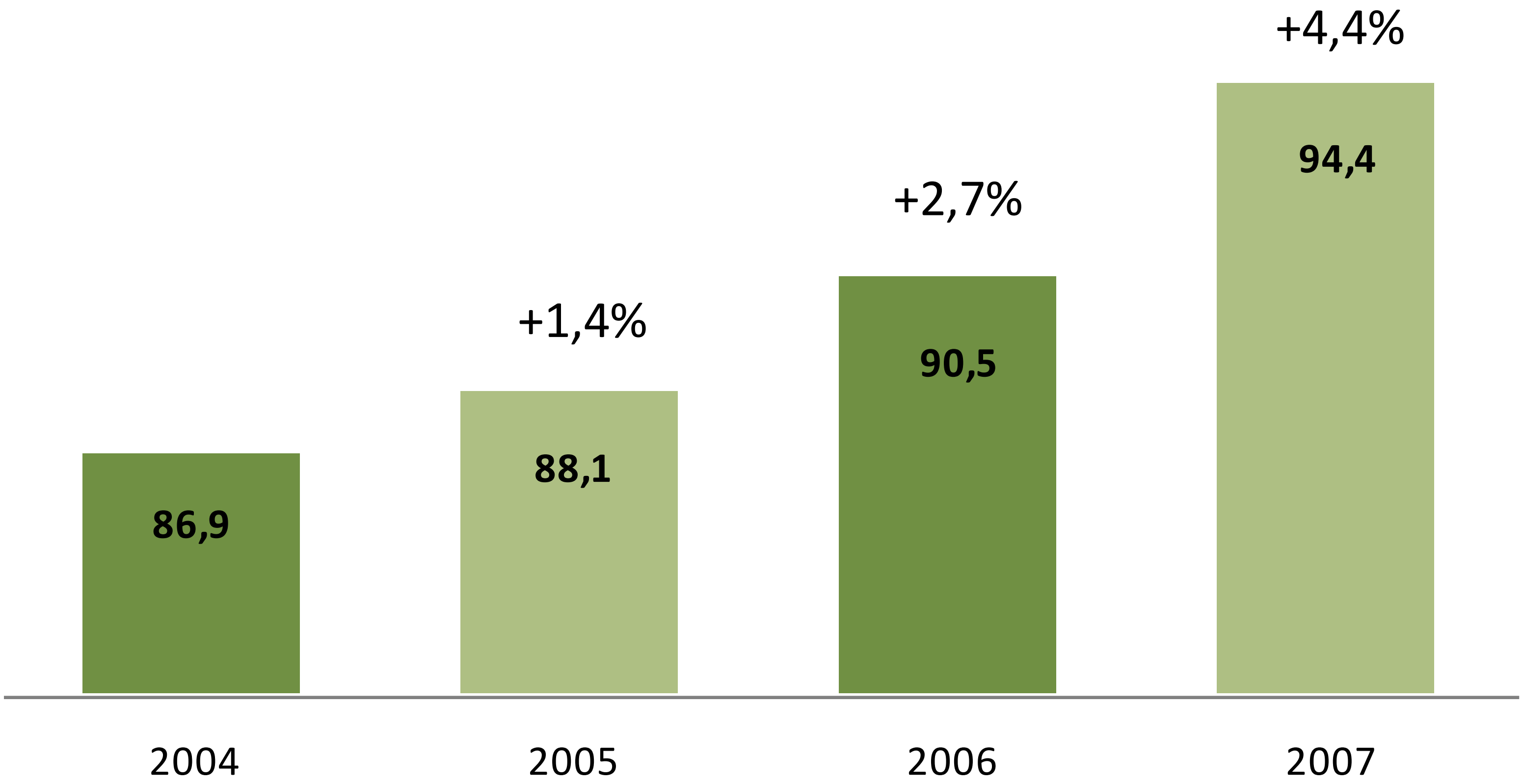
N=10

Applying CLV to Tourism Marketing

Can we apply CLV in the Tourism Industry?

- Margin per customer:
  - Revenues per customer (**<u>YES</u>**)
  - Cost to serve the customer (**<u>NO</u>**)
- Retention rate (the survival rate, or the probability that an average customer remains in our customer base) (**<u>YES</u>**)
- Acquisition cost (marketing money invested to attract new customers) (**<u>YES</u>**)
- Retention cost (marketing money invested to keep customers) (**<u>YES</u>**)
- Interest rate (to discount the future cash flow to a present value) (**<u>YES</u>**)

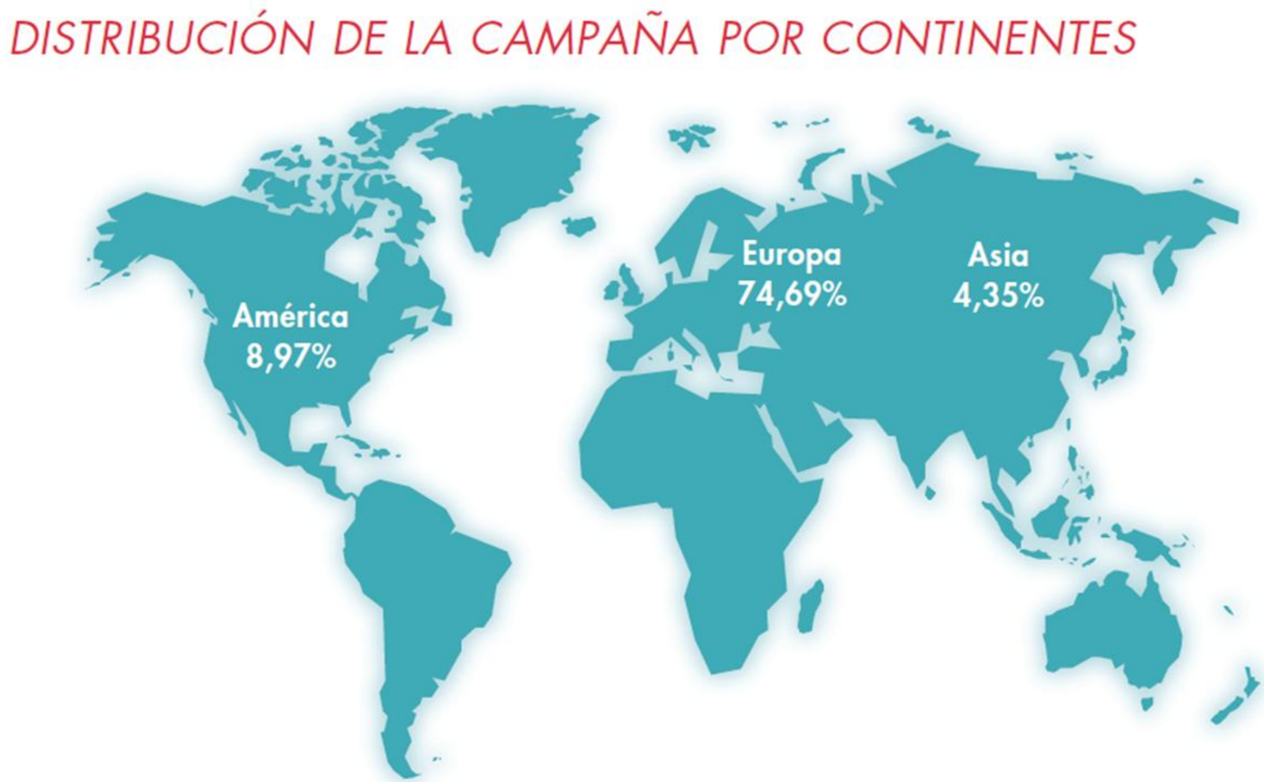
Spain.
Average revenue per customer



Gasto medio diario de los turistas internacionales llegados a España.
Euros y % Variación interanual.

GOBIERNO DE ESPAÑA
MINISTERIO DE INDUSTRIA, TURISMO Y COMERCIO
Secretaría de Estado de Turismo y Comercio
Secretaría General de Turismo

Spain.
Average marketing investment by market (attraction and retention costs by market)



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Secretaría General de Turismo

Spain.
Average tourist retention rate by market

ENTRADA DE TURISTAS NO RESIDENTES CON DESTINO ESPAÑA SEGÚN REPITEN VISITA Y PAÍS DE PROCDENCIA Año 2008

	Alemania	Francia	Italia	Reino Unido	Países Nórdicos	Total general
Primera vez	**1.143.128**	**1.108.110**	**875.338**	**1.677.669**	**708.715**	**5.512.961**
Repite visita	**8.909.389**	**7.024.204**	**2.450.476**	**14.094.594**	**2.862.238**	**35.340.901**
Una vez	459.587	491.439	293.766	610.912	248.143	2.103.847
Dos veces	864.743	584.411	456.833	1.026.356	425.312	3.357.655
Tres veces	958.167	555.782	429.598	1.198.740	365.814	3.508.101
De cuatro a seis	2.163.749	906.875	602.181	3.210.950	672.043	7.555.798
De siete a nueve	842.965	250.551	143.655	1.454.970	275.074	2.967.215
10 o más	3.620.177	4.235.146	524.443	6.592.667	875.852	15.848.285
Total general	**10.052.517**	**8.132.314**	**3.325.815**	**15.772.263**	**3.570.954**	**40.853.862**

Fuente: IET; Encuesta de gasto turístico (Egatur)

GOBIERNO DE ESPAÑA
MINISTERIO DE INDUSTRIA, TURISMO Y COMERCIO
INSTITUTO DE TURISMO DE ESPAÑA
INSTITUTO DE ESTUDIOS TURÍSTICOS

Conclusions (academic)

- Possible research contributions of this study:
  - Opening a new line of research in the tourism marketing area,
  - Creating a bridge between the tourism marketing and the customer lifetime value disciplines,
  - Filling a gap in the existing research literature in the tourism marketing area.

Conclusions (managerial)

- Applying CLV to NTOs would enable us:
  - (1) to improve our understanding of the true value of long-term relationships with tourists.
  - (2) to provide NTOs with improved tools and insights regarding how to most effectively assign their limited marketing resources and evaluate, measure and segment visitors to their destinations.
  - (3) to asses, develop and communicate the real value that a tourism destination adds to a country or region.
- Some other the benefits from using CLV in the Tourism industry are:
  - understanding the potential value of customers,
  - segmenting customers by levels of CLV,
  - developing optimal marketing strategies for different segments of customers,
  - customizing different marketing strategies for the same customer depending on the stage of the relationship,
  - deciding on the marketing investment necessary to obtain a positive CLV with different segments of customers.

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