# Staying Out of the Dark

*A Single Study Illuminates Tactical and Strategic Responses*

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# Agenda

- Business Context
- Research Objectives
- Research Method
- Analytic Approach
- Results
- Actions
- Key Take-Aways

# Business Context—Setting the Scene

- At the start of 2001, the lodging industry was experiencing **softening revenue**, due to a decline in business travel
  - Business travelers represent the lion's share of Marriott's hotel chain revenue
- **Energy costs were soaring** with California in "energy crisis mode"
- Hotel operators were looking for ways to offset a portion of higher energy costs
- In March, the lodging industry began to institute an "Energy Surcharge" for guests in California hotels
- Marriott wanted to explore strategies to help operators affected by extreme energy costs increases offset those increases by:
  - Expanding Energy surcharge beyond California
  - Implementing an Early Checkout fee to help manage inventory
  - Exploring a linen conservation program

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# Setting the Scene

- **Energy surcharge:** A nightly surcharge for every room, on a temporary basis to offset rising energy costs
  - $4.99 per night at Marriott Hotels
  - $3.99 per night at Courtyard Hotels
- **Early checkout fee:** A flat fee for departing one or more nights earlier than the reservation specified and charged only if notice is given after check-in
  - $100 at Marriott Hotels
  - $50 at Courtyard Hotels
- **Linen conservation program:**
  - Gives guests a choice of whether they want towels and/or sheets changed daily
  - Not changing linen daily would conserve water and reduce the amounts of detergent and bleach released into the environment.

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# Setting the Scene

- While some hotel managers had started to implement these programs, Senior Management was concerned about potential impact on brand equity (market share and brand image) across several time frames:
  - Within six months
  - Within one year
  - Long term:  more than 1 year in the future

# Research Objectives

- Assess impact of Energy Surcharge and multiple surcharges (+ early checkout fee) on short-term, intermediate and long-term brand usage and brand equity from business travelers
  - Awareness of Energy surcharge in California
  - Reactions to surcharges (based on both experience and concept)
  - Impact if surcharges implemented at competitive brand properties
- Assess impact on short-term demand
  - Impact if multiple charges vs one (e.g. Energy & Early check out)
- Provide guidance on roll out
  - Should fees be expanded beyond California, maintained only in current locations, or discontinued completely?
- Provide guidance on how to communicate fees to maximize guest acceptance and preserve brand image

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# Method – Quantitative Phase

- Purpose:
  1. To provide definitive data about impact of single and multiple surcharges
  2. To measure impact on brand equity via changes in attitudinal ratings
     - If attitudes do not change, the longer-term impact on brand equity is not likely to be an issue
     - Shifts in attitudinal ratings will signal potential damage to brand equity
- 400 telephone interviews among business travelers who recently stayed at a Marriott or Courtyard, and choose /influence hotel brand choice
- Evenly divided among guests who had recent stay experience at a energy surcharge hotel and those w/out.

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# Method – Qualitative Phase

- Purpose:
    1. To provide additional detail about nuances behind quantitative results; the “Why” behind the numbers
    2. To allow greater probing of emotional reaction to single and multiple fees to fully understand surcharges in general
    3. To probe reaction to potential implementation of Energy surcharge
- 4 focus groups among business travelers – 2 in Los Angeles and 2 in Chicago

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# Questionnaire Flow

<u>Current State</u>

- Brand usage
- ***Assessor***® Gates
  - First choice brand
  - Likely to stay on next trip
  - Value
  - Likeability
- Brand perceptions
- Loyalty
- Inertia
- Energy surcharge awareness

<u>Post Exposure</u>

- Tradeoff exercise (CASEMAP)
  - Brands
  - Room rates
  - Surcharges
- Notification of Marriott/Courtyard offering
  - Energy surcharge (cell 1)
  - Energy surcharge + Early checkout fee (cell 2)
- Repeat ***Assessor*** Gates
- Repeat brand perceptions

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# Method — Tradeoff Exercise

How many points would you give [INSERT MOST PREFERRED BRAND] at $170 per night with no surcharge and no fee? __6__

And how many points would you give [INSERT LEAST PREFERRED BRAND] at $100 per night with no surcharge and no fee? __5__

- From this exercise, we learn that this individual would rather pay $70 extra per night to stay at the most preferred instead of least preferred brand (weak preference)

How many points would you give [INSERT MOST PREFERRED BRAND] at $170 per night with no surcharge and no fee? __2__

And how many points would you give to [INSERT MOST PREFERRED BRAND] at $100 per night with the energy surcharge AND the early checkout fee? __9__

- From this exercise, we learn that this individual would rather have the surcharge/fee than pay $70 extra per night (strong preference)

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# Method — Loyalty and Inertia

- Loyalty questions:
  - Overall satisfaction
  - Likelihood to recommend brand
  - Likelihood to switch to another hotel
- Inertia questions
  - Brand choice criteria
  - Beliefs about differences in quality among hotels
  - Feelings about room rates versus quality
- Responses to loyalty and inertia questions create a profile for each respondent and a lens through which to evaluate his or her reactions

# Analytic Approach

Objective: Assess **<u>immediate</u>** impact of fees

- Compared responses of guests who stayed at California hotels to those who stayed at non-California hotels (experienced fee and not experienced)
  - Since Energy surcharge had only been in effect for about a month, major differences were not anticipated and were not found
- Results from tradeoff analysis are used to determine immediate impact of Energy surcharge, Early checkout fee, and room rate revisions
  - Exercise deals with "What will you do on your next visit?"
- Tradeoff output:
  - Relative brand preference, expressed as share of preference for Marriott/Courtyard versus key competitors
  - Importance of brand versus room rate versus having no extra charges versus both charges
  - Ability to simulate immediate shifts in "market" share if Marriott/Courtyard implements a charge OR if a competitor does

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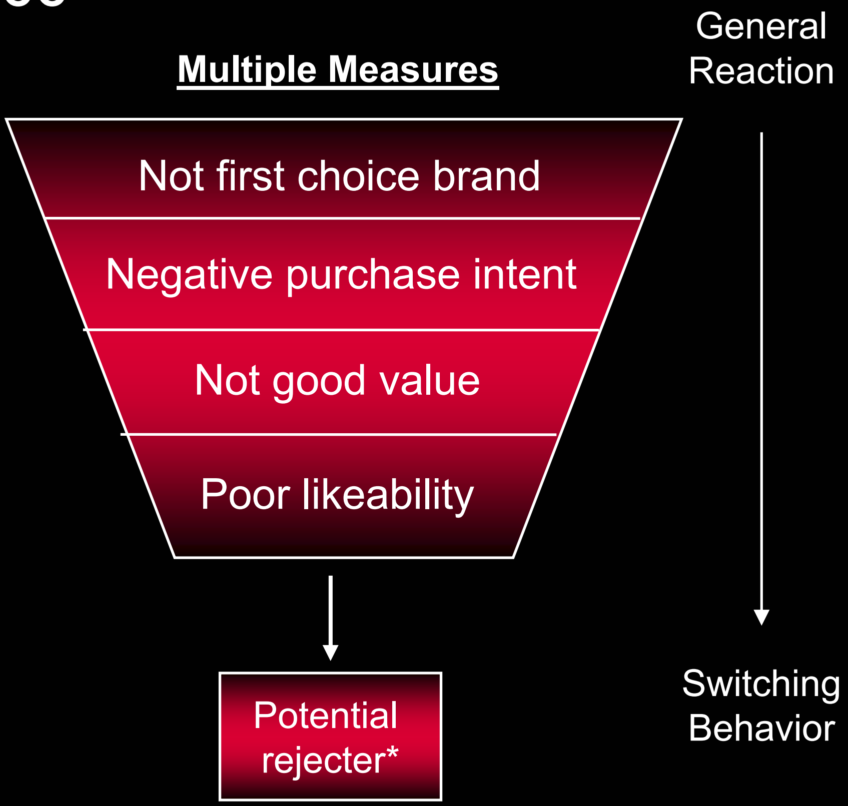
# Analytic Approach

## Objective: Assess **<u>intermediate</u>** impact of Energy surcharge/Early checkout fee

- Multiple attitudinal & simulated acquisition measures in M/A/R/C's ***Assessor***® Gates used pre and post-exposure
- Together with loyalty & inertia, these measures provided an estimate of **Rejection rates =** an indication of the 1-year impact of surcharges on share




*Assuming 100% awareness & distribution.

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# Analytic Approach

Objective: Assess **intermediate** impact of Energy surcharge/Early checkout fee

- Loyalty and inertia accounts for differences between immediate reactions and actual stay behavior
- Using a latent class factor analysis, M/A/R/C classified respondents into 3 Inertia segments: **Inert, Neutral, Active**
- Inertia segments combined with Loyalty classifications to form 6 segments:

| | | |
|---|---|---|
| Loyal and inert | Loyal and neutral | Loyal and active |
| Not loyal and inert | Not loyal and neutral | Not loyal and active |

- Rejection rates were adjusted based on Loyalty and Inertia segments (for example respondents who were both loyal and inert were not classified as Rejecters.)

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# Analytic Approach

Objective: Assess **longer-term** impact of energy surcharge/ early checkout fee

- Changes in attitudes are used to measure the impact of Energy surcharge and Early checkout fee on Brand equity
  - Shifts in attitudes signal potential damage to brand equity and a likely share/revenue decline in the long run
- Analysis was a simple comparison of brand perceptions before and after concept exposure
  - With two attributes, impact of just Energy surcharge could be measured separately from impact of Energy surcharge plus Early checkout fee

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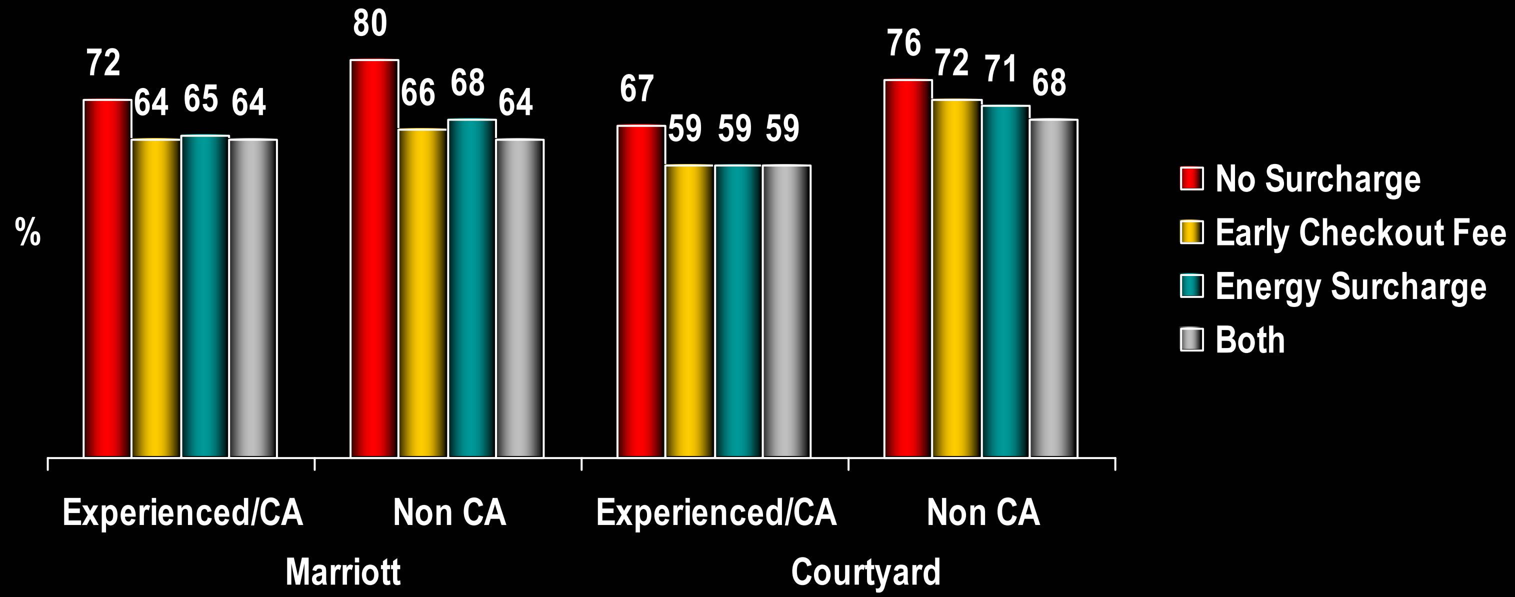
# Results—Immediate Impact

## *Tradeoff Exercise Results*

- No measurable immediate impact was seen
- Implementing either kind of surcharge would not significantly impact Marriott or Courtyard preference share
  - This pattern is fairly consistent between guests exposed to energy surcharge and guests not exposed



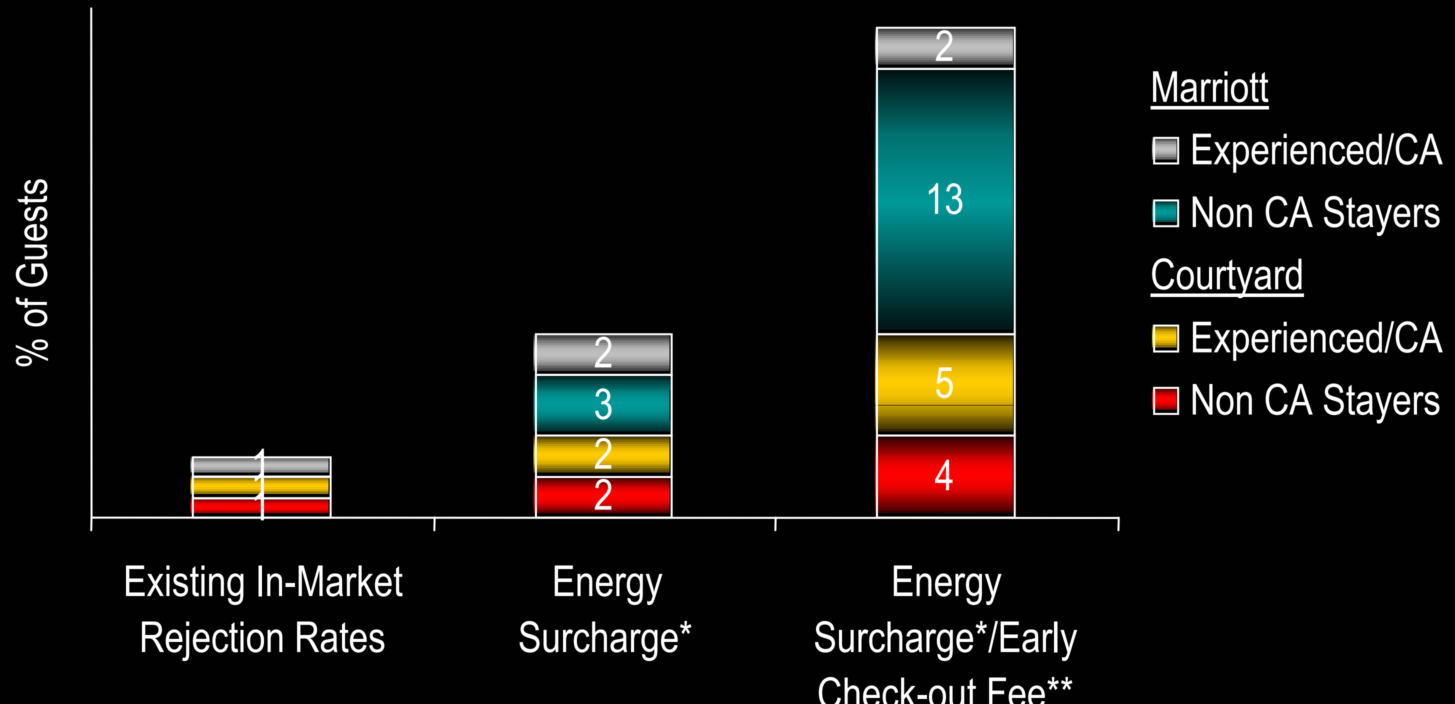
# Results—Immediate Impact
## *Tradeoff Exercise Simulation Results*

- Simulations of CASEMAP results showed:
  - If Marriott imposed additional charges/fees and competitors did not, Hilton stood to benefit, especially for non-California hotels
  - Hilton Garden Inns outside California would benefit if Courtyard exercised both an Energy surcharge and an Early check-out fee and no competitors followed suit
  - Neither Marriott nor Courtyard would gain if any individual competitor imposed the Energy surcharge, Early check-out fee or both
  - Marriott brands held to a higher standard vs key competitors

# Results—Intermediate Impact

*Estimated Rejection Rates (loyalty & inertia adjusted )*

- Looking out a year, imposing just an Energy surcharge has a negligible impact on Marriott/Courtyard rejection rates
- On the other hand, rejection rates have the potential to increase if more than one charge is imposed




* $4.99 per night MHRS; $3.99 per night Courtyard

** $100 fee MHRS; $50 fee Courtyard

# Results—Long-Term Impact
## *Impact of Energy Surcharge on Brand Equity*

- Marriott International's overall equity is likely to suffer as a result of an added Energy surcharge
  - "Nickel and dime" perceptions of guests most significantly impacted

| **Base = Energy Surcharge Concept** | **Marriott** | **Courtyard** |
|---|---|---|
| **Q.27/Q.70 Best describes Marriott/Courtyard (7-point scale)** | **% change Pre/Post** | **% change Pre/Post** |
| *% Top-2 Box Rating* | | |
| Trusted brand | *-14* | ***-18*** |
| Leader | *-14* | *-1* |
| Makes business travel more predictable | *-12* | *-11* |
| Does not "nickel and dime" you | ***-30*** | ***-27*** |
| Generally worth paying more | *-7* | *-5* |

NOTE: Bolded numbers indicate significance at 80% confidence level

# Results—Long-Term Impact

## *Impact of both charges on Brand Equity*

- Marriott's equity will decline even further by additionally imposing the Early checkout fee
- Little evidence that combined fee will hurt Courtyard's equity more than single fee

| Base = Energy Surcharge/Early Checkout Concept | Marriott<br>% change Pre/Post | Courtyard<br>% change Pre/Post |
|---|---|---|
| **Q.27/Q.70 Best describes MHRS/CY (7-point scale)** | | |
| *% Top-2 Box Rating* | | |
| Trusted brand | ***-36*** | *-8* |
| Leader | ***-29*** | *-4* |
| Makes business travel more predictable | ***-28*** | *-10* |
| Does not "nickel and dime" you | ***-26*** | ***-28*** |
| Generally worth paying more | ***-16*** | ***-12*** |

NOTE: Bolded numbers indicate significance at 80% confidence level

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# Quantitative Results for Tactical Responses

- Quantitative study designed with most conservative approach, assuming that only Marriott and Courtyard added charges and competitors did not

- Findings indicated that the impact of a surcharge/fee would have limited negative repercussions if most competitive hotels were also charging

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# Qualitative Results for Tactical Responses

- Focus Group respondents told us of the importance of explaining the reasons for the charges
  - Energy surcharge in California made sense, but not acceptable in all markets
- Respondents said to be believable, the hotel had to visibly demonstrate it was serious about conservation:
  - Hotel should take obvious steps to reduce energy usage by turning down AC in unoccupied rooms, using fluorescent bulbs, recycling, installing motion-sensitive lighting
- Respondents said these types of actions would show Marriott cared about conservation and not just about lowering costs

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# Results for Strategic Response

- Surcharges would have long-term impact on Marriott International's brand equity as a trusted brand and as a hospitality leader
- MI's brands should not lead the market in implementing an Energy surcharge
  - The first to charge is "gouging," the second is responding to competition
- Fees could damage organization's strategic mission
- Early check-out fee in opposition to MI's heritage as a trusted, caring brand that understands guests' needs
  - Travelers would be penalized for their efficiency in being able to get home to family sooner than planned

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# Actions

- Halt roll-out of Energy surcharge & Early checkout fee
- Consider reaping PR benefits by foregoing surcharges across the U.S.
- Develop a comprehensive plan to over-communicate details about any surcharges
- Share information about energy conservation efforts with guests
- Urge hotel managers to introduce conservation measures
- Reinforce training of housekeepers to keep unoccupied rooms at moderate temperatures

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# Key Take-Aways

- Looking at immediate vs. mid vs. long-term impact can yield different perspectives and, therefore, result in different decisions
- Asking about Attitudes *as well as* Behaviors paints a richer picture of the possible outcomes of the business decision

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# Key Take-Aways

- Due to the comprehensive design of the study, the Research fostered department-specific recommendations and made results actionable to wider audiences:
  - Tactical operations advice for the field
  - Communication strategy for marketing
  - Long-term strategy for Brand Management
- While most business decisions require Quantitative results for statistical accuracy, Qualitative combined with Quantitative, in *any* order, can:
  - Help explain the Quantitative findings and
  - Bring them alive (make them human and easier to relate to), so the data has **context** and **life**

# Questions & Discussion

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