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Making Customer Satisfaction Pay: Connecting Survey Data to Financial Outcomes in the Hotel Industry

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Abstract
Despite the conventional wisdom that measuring customer satisfaction makes good business sense, there is a small but growing point of view that such measurements provide little or no actionable information to drive business outcomes. In contrast to that view, as we explain here, it is our position that companies should never stop measuring customer satisfaction, and instead they should take the necessary steps to ensure that measures of customer satisfaction are designed to provide the full benefit possible from such research.

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by Gina Pingitore, Ph.D., Dan Seldin, Ph.D., and Arianne Walker, Ph.D.
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Making Customer Satisfaction Pay:

Connecting Survey Data to Financial Outcomes in the Hotel Industry

by Gina Pingitore, Dan Seldin, and Arianne Walker

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Dan Seldin, Ph.D., is a Director in the Corporate Research and Marketing Sciences Department at J.D. Power and Associates. Primarily responsible for overseeing research design and statistical analyses for the travel and hospitality, utilities, telecommunications, sports, commercial vehicle and emerging industries for J.D. Power and Associates, his duties include designing study methodology, sampling, and questionnaires; providing research support; analyzing data; assisting with writing proposals and study findings; and presenting study findings to clients for numerous syndicated and proprietary studies (dan.seldin@jdpa.com).

Arianne Walker, Ph.D., is Director, U.S. Automotive Research at J.D. Power and Associates. Prior to joining J.D. Power and Associates in 2004, she served as director for institutional research and assessment at Mount St. Mary’s College in Los Angeles, and she taught several courses at the Graduate School of Education and Information Studies, UCLA. She has published articles and monographs in numerous journals (arianne.walker@jdpa.com).

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EXECUTIVE SUMMARY

In recent years, reports in the business press have questioned the value of measuring customer satisfaction, suggesting that such research does not explain or predict financial performance. To the contrary, in this report we demonstrate that customer satisfaction research, when designed and executed with the prerequisite psychometric and statistical rigor, does in fact yield actionable insights and show clear linkages to actual financial outcomes. We focus here on customer satisfaction measurements in the hotel industry and their connection to financial performance. All hoteliers know that in order to survive they need to attract and retain guests. However, hoteliers also need to know specifically what it takes to satisfy their guests. This report describes the key operational and performance indicators needed to improve satisfaction and presents evidence that satisfying hotel guests yields a measurable financial return on investment. This survey determined that customer satisfaction directly bears on repeat purchases and on the likelihood of making recommendations. The study found, for instance, that guests who experienced outstanding service were likely to spend more on ancillary items in subsequent hotel stays. Getting things right is important. Four key performance indicators particularly affected guests’ evaluations: reservation was accurate, check-in was completed within five minutes, no problems were experienced during the stay, and no billing errors occurred. Guests who experienced all four of these performance indicators were most likely to grant the hotel a top satisfaction rating.
Despite the conventional wisdom that measuring customer satisfaction makes good business sense, there is a small but growing point of view that such measurements provide little or no actionable information to drive business outcomes. In contrast to that view, as we explain here, it is our position that companies should never stop measuring customer satisfaction, and instead they should take the necessary steps to ensure that measures of customer satisfaction are designed to provide the full benefit possible from such research.

In this report we demonstrate that when a respondent-level sample and an analytical plan are properly designed and executed, clear and robust linkages are found between satisfaction rates and guests' ancillary spending and frequency of return. Based on a survey of guests in an upscale hotel chain, this study tests the ideas that customer satisfaction and repeat patronage are important to the hotel industry.

Methods

The measurement approach explained in this study is based upon the J.D. Power and Associates North American Guest Satisfaction Survey, which measures guest satisfaction by weighting the guest's ratings of various aspects of their hotel experience by their relative importance to the overall experience. Importance weights are derived through a series of factor analytic and other multivariate analyses which remove co-linearity among multi-ratings resulting in uncorrelated (i.e., unique) importance weights. These weights are then applied to the various ratings of the guest's hotel stay and result in scores ranging from a low of 100 to a maximum of 1,000. As seen in Exhibit 1 satisfaction scores are composed of seven key factors, with the Guest Room (24%) and Costs & Fees (23%) constituting almost 50 percent of the importance weight. The Hotel Facilities factor (19%) represents almost one-fifth of the importance weight, while the Check-In and Check-Out, Food & Beverage...
The Guest Satisfaction Index was found to be a significant predictor of stated intent to repeat the room purchase and to recommend the hotel.
Results: The Relationship between the Guest Satisfaction Index and Financial Outcomes

While creating a reliable and valid instrument to measure the guest experience is critical to help hoteliers know what is most important to their guests—as well as how they are delivering upon these expectations—the most important question to ask is, “What is the business benefit to measuring and improving guests’ satisfaction?”

Satisfaction, Intentions, and Subsequent Behavior

The Guest Satisfaction Index was found to be a significant predictor of stated intent to repeat the room purchase and recommend the hotel. As would be expected, Dissatisfied guests stated they would definitely return or recommend only 2 percent of the time, while 57 percent of Delighted guests stated they would definitely return to the hotel chain and 89 percent stated they would definitely recommend the brand.

The intentions of guests who state in a survey that they are likely to stay at that hotel again or to recommend that hotel is important only if those intentions can be connected to actual business outcomes. As explained above, we were able to track guests’ post-survey booking activity for the subsequent twelve months so that we could analyze the relationship between stated intentions and actual rate of return to the hotel chain. As seen in Exhibit 2, of the 24 percent of guests who stated that they would return, 19 percent actually did return for at least one additional night stay within one year of their rated stay. While the actual rate of return may seem small, hoteliers understand the substantial financial implications of increasing return rates by even one to two percentage points.

To assess the relationship between the number of recommendations made by guests and financial outcomes, the respondent-level data were aggregated to the property-level data, and property-level recommendations were

Footnotes:
6 Stated repeat purchase $F = 1122.17, p < .0001$ and recommendation intentions $F = 2717.27, p < .0001$.
7 $F = 37.35, p < .0001$ for stated to actual return visit.
true for ancillary spending during the subsequent visit, with Delighted guests increasing their ancillary spending during subsequent visits by an average of $10 (averaging $58, see Exhibit 3).

As discussed earlier, both the Guest Room and Costs & Fees factors are clear drivers of the overall guest experience. Despite the importance of these factors, however, individual property managers may have limited control over room rate or the layout and design of the facility. Therefore, it was deemed important to examine factors that were directly within the control of the individual property managers by examining the degree to which service delivery aspects of the staff influenced actual guest spending. The analyses identified that guests who rated their overall staff experience as outstanding spent more money on ancillary products and services than guests who did not rate their experience at that level. 11 On subsequent visits, guests who rated their staff experience as outstanding on their previous visit also spent more money on ancillary products and services. As seen in

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10 F = 17.68, p < .0001.

11 An “outstanding” rating came from guests who stated they “ Completely agree” with the following statement: “Overall the experience with the staff was outstanding.”
Exhibit 4
Exhibit 4, guests with a prior outstanding staff experience spent $57 on ancillary products and services, compared with $37 spent by guests who did not experience outstanding staff service on their prior visit.

Key Performance Indicators:
Identifying Specific Improvement Areas
To delineate the drivers of satisfaction, guests were also asked to provide information on key performance indicators of their experience, such as type and reservation inaccuracy; length of check-in time; type and billing inaccuracy; and type and problem incidence during the guest stay. Each of these key performance indicators had a substantial impact on satisfaction when the indicators were met versus when they were unmet. These indicators can be used to help hoteliers identify opportunities for operational improvement.

Exhibit 5 displays the four most important key performance indicators identified in the North American Hotel Guest Satisfaction Index Study, along with their impact on the Guest Satisfaction Index. Among guests who reported their reservation was accurate, the average Guest Satisfaction Index score was 765, compared with 621 among guests whose reservation was inaccurate. Guest Satisfaction Index scores were 91 points higher among guests who did not experience billing errors versus guests who did (759 vs. 668), and were 156 points higher among guests who did not experience any problems during their guest stay in comparison to those who did (767 vs. 611). A higher percentage of Delighted guests reported that their reservations and billing folios were accurate and their stays were void of problems, compared with Dissatisfied guests.

Exhibit 5
Effect on guest satisfaction index of selected key performance indicators

<table>
<thead>
<tr>
<th>Key Performance Indicator (KPI)</th>
<th>Percentage Met</th>
<th>Impact on Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reservation was accurate</td>
<td>97%</td>
<td>144</td>
</tr>
<tr>
<td>Check-in was completed within five minutes</td>
<td>47%</td>
<td>52</td>
</tr>
<tr>
<td>No problems were experienced during the stay</td>
<td>93%</td>
<td>156</td>
</tr>
<tr>
<td>No billing errors occurred</td>
<td>97%</td>
<td>91</td>
</tr>
</tbody>
</table>

Exhibit 4
Ancillary spending levels in subsequent hotel stays, based on outstanding staff performance
In addition to examining binary key performance indicators where guests respond with a “yes” or “no” answer, continuous metrics can also be used to help identify improvement opportunities. Moreover, continuous metrics can be analyzed to determine where the optimal break point is relative to guest satisfaction. As an example, when we examined the amount of time required to check in as it relates to the Guest Satisfaction Index, we found the break point was five minutes (or less). That is, overall satisfaction was 784 among guests who were able to check in within five minutes or less, whereas overall satisfaction was 731 among guests who reported that their check-in time was greater than five minutes. More than one-half of Delighted guests (58%) reported checking in within five minutes, compared with less than one-third of Dissatisfied guests (32%).

Being consistent in executing against all four key performance indicators discussed in this report—that is, reservation accuracy, billing errors, check-in time, and problems during guest stay—yields the greatest benefit, as compared to executing against only one or two of these indicators. We created a counter for these four indicators (Exhibit 6) that ranged from zero to four and we crossed that counter with the Guest Satisfaction Index. Although only 1 percent of guests reported having no key performance indicators met, their overall satisfaction was 448, or 347 points lower than the reported average Guest Satisfaction Index of 795 among the 40 percent of guests for whom all four key performance metrics were met.

When examining each satisfaction group individually, the mean number of KPIs met or exceeded was 3.41 for Delighted guests, compared with only 2.42 for Dissatisfied guests, indicating that, on average, Delighted guests experienced one full key performance indicator met over and above those experienced by Dissatisfied guests. Stated
another way, 50 percent of Delighted guests had all four KPIs met, while only 13 percent of Dissatisfied guests had all four KPIs met, as shown in Exhibit 7.

By identifying the key performance indicators that need improvement for each hotel property and the relative importance of each of those items, hoteliers can identify areas in which to invest training and resources to provide the greatest opportunity to increase satisfaction and, subsequently, increase financial outcomes that provide the greatest benefit to their properties.

## Conclusion

The results of our analyses show clear linkages between measures of customer satisfaction and actual financial outcomes. Further, these measures can be used to identify specific areas for improvement, leading to additional opportunities for increased revenue. This report provides examples of optimized research design and execution that can help align guest satisfaction measures with business improvement goals. However, care must be taken to ensure that there is psychometric rigor in the measurement of guest satisfaction and that sampling and data collection methodology allow for connections to be verified to financial outcomes.

### Exhibit 7

<table>
<thead>
<tr>
<th>Index Zones of Satisfaction</th>
<th>Mean Number of KPIs Met</th>
<th>Percentage of All KPIs Met</th>
<th>Incidence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dissatisfied (≤ 550)</td>
<td>2.42</td>
<td>13%</td>
<td>7%</td>
</tr>
<tr>
<td>Indifferent (551–750)</td>
<td>2.95</td>
<td>29%</td>
<td>35%</td>
</tr>
<tr>
<td>Pleased (751–900)</td>
<td>3.24</td>
<td>41%</td>
<td>43%</td>
</tr>
<tr>
<td>Delighted (≥ 901)</td>
<td>3.41</td>
<td>50%</td>
<td>15%</td>
</tr>
</tbody>
</table>
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