"We Know What You Want!"

...no really, we do, you told us!

By Mark B. Hoare

In the previous "We Know Why You Stay!" article we focused on repointing our thinking toward the fundamentals of Value Based Pricing, and aligning that to a rejuvenated understanding of our guests, why they stay and how that directly affects their perceived value proposition at the time of shopping and purchasing the products you are offering them.

In this article we take a step back and review an established and powerful tool that has been used across many industries, including: airlines, retail, insurance, financial services, healthcare, and hospitality. This tool helps to qualify and quantify what it is that customers value most, what trade-offs they are prepared to make and how it drives their purchasing selections, especially when there are so many alternate hotel products to choose from.

Many hotels, and hotel companies, set out their stall neatly with what can only be described as *experimental* products and pricing, based on what they think their hotel product [the stay] is worth rather than definitively knowing that they have the right price-point and value proposition for their guest mix. Others elected to replicate a successful property in their area and peg their services and pricing to that of their competitor. Not a totally ruinous approach, but the opportunity for those hotels to be leaders in their market rather than followers is next to zero.

So how do we set out and qualify exactly what it is the travelers to our destination want out of their hotel stay, and quantify the value they attribute to that experience? Answer: by using Conjoint Analysis.

WHAT IS CONJOINT ANALYSIS? - Conjoint Analysis is a proven tool, or technique, for evaluating consumer preferences for product features. It is most powerful when identifying which attributes and conditions are proven to best influence the consumer in making the actual purchasing decision. The objective is to collate conclusive data on what variables the consumer values most. With this intelligence in hand Product Management can construct products and service bundles combining the most popular features. Essentially it is all about understanding consumer choices and the trade-offs they are willing to make.

THE BASICS - In order to better understand conjoint analysis let's use a hotel industry example. Consider you wanted to reserve a hotel stay and you had a choice of spending $120 or $190 for a room-night. If this was your only consideration then the choice is clear: the lower priced room-night is favorable. What if the only consideration in booking a room was the comfort of staying in an oversized room? If room size was the only consideration then you would probably prefer an oversized room over a regular sized room. Finally, consider that you can

have a room with a sea view, or a room with a property view. Almost everyone would favor the sea view.

However, in a real purchase situation consumers rarely make purchase decisions based on a single attribute like comfort. Consumers examine a range of features or attributes and then make choices or trade-offs that drive their ultimate purchase selection. With conjoint analysis we examine these trade- offs to determine the blend of attributes that will be most appealing to the consumer. By using conjoint analysis the hotel company can determine the optimal features for their product or service. In addition, conjoint analysis will identify the ideal marketing message by identifying the features that are most aligned to the guest's reason for staying. "We know Why You Stay!"

> **Conjoint analysis examines these trade-offs to determine the blend of attributes that will be most appealing to the consumer.**

BASIC EXAMPLE – By way of a basic example, conjoint analysis presents choice alternatives between products/services defined by sets of attributes. Using the individual choices mentioned above, and the table below, we see that if size of room, price and view are the only choice attributes, there are still numerous combinations of stay options.

Offer	Room Size	Price	View
1	Over-Sized	$190	Property View
2	Standard Size	$190	Property View
3	Over-Sized	$120	Property View
4	Standard Size	$190	Sea View
5	Over-Sized	$190	Sea View
6	Standard Size	$120	Property View
7	Standard Size	$120	Sea View
8	Over-Sized	$120	Sea View

Given the above choices, offer #8 is the most likely preferred choice while offer #2 is probably the least preferred offer. The preference for the other offers depends on the needs of the individual guest.

Conjoint analysis can be used to determine the relative importance of each attribute, attribute level, and combinations of attributes. If the most preferable product is commercially unviable, which offer #8 probably is, then conjoint analysis will isolate the next most preferred *alternate* offer.

When used in conjunction with specific traveler segment intelligence, such as: demographics, physiographics, purpose of travel [i.e. business, leisure], gender, etc. you will be able to identify market segments for which distinct products may be attractive. For example, the leisure traveler and the business traveler may have very different preferences which could be met by developing targeted hotel stay offerings.

When shopping products, consumers will always be making trade-offs. A guest might like the luxury of an oversized room, and the prospect of a sea view, but will pass on the offer due to price. In this case, the price has a high *utility* value. Utility can be defined as a number which represents the value that consumers place on an attribute. In other words, it represents the relative "worth" of the attribute. A low utility indicates less value; a high utility indicates more value.

The following presents a list of supposed utility values provided by an individual guest:

Comfort	Utility
Oversize	38
Standard Size	19
View	**Utility**
Sea View	18
Property View	11
Price	**Utility**
$120	45
$190	7

A number of insights can be derived from these utility scores. First, a greater value is expressed for the oversize room [38 verses 19], a moderately greater value is placed on a sea view over a property view room, but a much greater value is placed on the $120 price over the $190 price. It is also possible, and encouraged, to average all the

respondent's utilities, and also explicit sub-segments of respondents. The importance of an attribute can be calculated by observing the difference between its lowest and highest value, referred to as the *range*. That range denotes the maximum influence the attribute can contribute in an offer to that guest. In the above example:

- Room Size   Range = 19   (38-19)
- View   Range = 7   (18-11)
- Price   Range = 38   (45-7)

In order of impact these ranges indicate Price is the primary driver, Room Size next and View is relatively unimportant. This individual guest will make the purchase decision on price then comfort, with little regard for view. However, if this particular respondent was a leisure traveler, staying for multiple nights, View may well have had a much greater *range* and accordingly weighed more heavily on their purchase choice. Using these conjoint analysis techniques it is possible to not only evaluate an existing rate and selling strategy for validity, but can also be used to qualify new products and their combinations of attributes ahead of offering them to the market. Referred to as *What If?* analysis.

By way of an example: A hotel is looking to attract more mid-week business travelers to the property and wants to know the optimal combination of attributes in a new Business Rate that will appeal to business travelers using Upper Mid-scale market class hotels. Deriving *range* values for each of the following attributes would be appropriate:

- Price
- Guarantee/Cancel policy
- Complimentary Breakfast
- In-room Task Area
- Oversize Room
- Complimentary Wi-Fi
- Double Airline Miles
- Executive Lounge Access

For a new Leisure Rate the influencing attributes to be assessed would differ, and perhaps include:

- Price
- Children Free
- View
- Deposit Policy
- Day Spa Access
- Late Checkout
- Airport Transfers
- Discounted Local Attractions

What If analysis undertaken over the same respondent dataset could also include evaluating the influence of attributes *within* the single product offering. For example: determining the propensity for a guest to purchase the leisure product above if the price were 10%, 15%, or even 20% lower.

RELEVANCE – To further amplify the relevance of conjoint analysis to our industry… back in the mid-eighties Marriott set about defining a new hotel brand that would align with the: business traveler, who averaged six trips per year staying in motels or mid-tier hotels, and the leisure traveler traveling on average twice a year staying at hotels and motels. Rather than design the new hotel product based on what they presumed they knew through observation of these two segments, Marriott let these two segments define the new product [brand] for them. At the core of their information gathering process was Conjoint Analysis.

> **The power of conjoint analysis is that it predicts what products or services people will chose and assesses the weight people give to various factors that drive their decisions. As such, it is one of the most powerful, versatile and strategically important research techniques available.**

In Marriott's case they were developing an entirely new hotel brand from scratch, and one might argue that that was the most extreme application of Conjoint Analysis seen within our industry, and gave birth to *Courtyard by Marriott*. Even the brand name was chosen through the analysis process.

To give you a brief insight into the scope of the endeavor, Marriott established their optimal hotel design by factoring seven primary hotel features [facets]:

- Building Shape
- Rooms Format
- Food-related Services
- Lounge Facilities
- Non-room Services
- Leisure Facilities
- Security Factors

Across these seven facets were fifty attributes comprising 160 attribute levels. The survey's resulting output was at odds with the in-depth experience of Marriott executives who had expected that a smaller version of a typical Marriott hotel was needed. To their surprise the study resulted in a hugely successful new product that was distinctly different from the incumbent Marriott Hotel product, with clear appeal and alignment to a distinct target market segment.

APPLICABILITY - Is Conjoint Analysis right for me? As we have seen there are numerous, relevant applications for conjoint analysis at all levels within our industry. If you are seeking to configure a defined collection of attributes for a product and the consumer's purchase decision will be 'rational', conjoint analysis can definitely work. However, if the purchase decision s in any way driven by 'impulse' or by 'image' then this technique will not be of benefit. Fortunately, our focus in this article is on using conjoint analysis in support of developing a more consumer-aligned rate & selling strategy, and for this conjoint analysis excels.

As a closing example of applicability, a hotel was witnessing pressure from a lower price alternative and contemplated lowering its own prices. Then, the results of a conjoint analysis showed the market valued their products differently from the competitor's. They chose not to lower prices, but to slightly reconfigure their offering. As a result, bookings increased and they realized incremental revenues that they otherwise would have never seen. Not every situation is as dramatic, but when conjoint analysis done right it is powerful.

HOW TO MOVE FORWARD - Designing, conducting and analyzing a conjoint analysis study yourself is possible, and there are software products available to assist you. Nonetheless there are many nuances and important decisions to make in each step of the process. For example, there are different conjoint methodologies, each with its own approach to data collection. The one that is appropriate for you depends on the objectives of your study. Unless you already have a trained in-house resource who will execute several conjoint studies per year, it's likely that you will want to engage someone with experience in the field to help you navigate these nuances and then construct and execute your study according to the market you are in. ■

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