

Redefining service innovation at Starwood

Mark R. Vondrasek

The head of the hotel company's loyalty program, Mark Vondrasek, describes its approach to technology, guest loyalty, and disruptive new competitors.

Guest loyalty has always been important to Starwood, but a few years back we began to get far more granular in how we approached it as we studied the profitability of our guests in side-by-side comparisons. We found, for example, that the top 2 percent generated 30 percent of our organization's profits—an incredibly high concentration. We also learned that the “platinum” members of our loyalty program—Starwood Preferred Guest (SPG)—are many, many times more profitable than guests who aren't SPG members. Analyzing the data was eye opening, and really pushed us to reexamine how we think about loyalty and benefits.

We had a lot of “splitter” behavior, for example: guests who worked hard to reach a critical milestone of, say, 50 or 75 nights with us to attain SPG program status for the year but would then try to achieve a similar level of recognition with a competitor. This behavior touches on a classic challenge with loyalty programs: a little bit of animosity can build up between the program and the guests because we're essentially resetting their “barometer of value” every year. Guests can feel like Sisyphus: “As long as you roll that rock up the hill and clear certain hurdles, we'll extend benefits to you. But come January 1st, you're starting over.”

This led us to modify our program to add “stretch” benefits, so that no matter what program status a guest has reached there's always a carrot—for instance, the ability to reach lifetime platinum or gold

status. Now, if you miss a target by a handful of nights, we absolutely consider your prior-year contribution. These changes were successful, and led to exactly the sorts of results we hoped for. But a bigger lesson was that we heard what our guests were really saying to us, which was: “The way most loyalty programs do things is upside-down compared with the way we think about loyalty in our own lives. It’s got to be more reciprocal.” This also helped push us beyond our traditional views of customer segmentation and loyalty.

A changing landscape

Our guests’ expectations about service and what constitutes a good experience have increased considerably in recent years. Mobile technology has a lot to do with that. People use their phones for everything—the devices connect to some of the most personal aspects of our lives. With that comes a heightened expectation about what companies like ours should be able to do. We look for ways to turn these expectations into opportunities—for example, by adding functionality to the SPG app so that guests can bypass the line at check-in and use their mobile phones or Apple Watches as a room key. It’s not technology for technology’s sake, but rather to solve a true pain point.

The changing environment has also brought disruptive new competitors—most notably, the shared-economy companies like Airbnb. In part, I view them as the latest example of a group of companies that has always existed to get between us and our guests.

These shared-economy companies are a powerful motivator because they didn’t even exist a few years ago. I have great respect for them. They’ve gone from zero to scale very quickly. For us, this drives home the importance of agility and the ability to pivot and be quick. The days of five-year plans are over—now it’s “what are we doing in the next five months?” The reason we created an SPG app for Google Glass, for example, wasn’t that we suddenly expected to get 20 percent of our bookings through it. We just wanted to partner and move nimbly so that if wearable technology takes off, we will know how to be relevant, present, and first in that space.

Ultimately, the new competitors validate our strategy of personalization and of truly understanding our guests so well that they don't want to unplug from the infrastructure we've built for them. I want to make the SPG app the place where you let me know when you're getting off the plane, when you're running late and you really want a Diet Coke and a Cobb salad waiting in your room, and when you want us to open the business center early or leave the fitness center open late. Those kinds of advantages will help us not just weather this latest foray into disruption but also thrive in it.

Listen and learn

A lot of our technology initiatives and bets come straight out of insights we've taken from guests, who are constantly challenging us to understand their unique needs each time they travel. Ironically, a key way we do so is fairly retro and nontechnological—our “ambassador” program, which gives our most valuable guests a single point of contact. Ambassadors are specially trained associates in our contact centers who handle all of a guest's travel needs and provide a human connection to our organization.

They also provide an important feedback loop. Ambassadors have an incentive to catalog and bring forward the ideas and opportunities that bubble up through their conversations with guests. They meet together twice a month in peer groups to talk and share experiences. From these meetings, it can be pretty easy for us to spot pain points and start piecing together opportunities.

For example, one thing the ambassadors heard was “I don't understand. I travel from the United States to Europe, and my flight gets in at 7:30 AM. If I'm so important to you, why do I have to wait until 3 PM to check in?” Feedback such as this ultimately led to a benefit called YOUR24, which lets guests name their own check-in time for any trip. As simple as that sounds, it's a big differentiator for folks who travel internationally. By personalizing the service, we establish closer relationships with our guests and make it less likely they'll go elsewhere.

The program also benefits our contact-center employees. One thing we had struggled with before was the “pyramid effect”: if you were talented on the phones and wanted to progress, you pretty much had to become your supervisor. Now, we have new opportunities for these employees. We’ve even created paths from the ambassador program to sales roles in our various properties—something that didn’t exist five years ago. As a result of all this, turnover in our contact centers went down and employee satisfaction went up.

Another thing we heard from guests was how frustrating it is when they get a new program benefit and it’s inconsistent from region to region or property to property. So we’re as focused on improving the tools, infrastructure, and applications we use to provide these benefits as we are on improving the benefits themselves. We’re also very careful about placing fewer, bigger bets that connect end to end—and then rolling them out hard. Long gone are the days of “throw 100 darts and hope that 5 will stick.”

The power of partnership

Strategic partnerships are another way we’re working hard to cement loyalty. It’s really about creating “stickiness” across an entire spectrum of needs. We’ve heard guests say, for example, “I don’t just get dropped out of the sky and into your lobby.” That observation led to the creation of our program with Delta Airlines. Crossover Rewards, which we launched 18 months ago, creates ties between Delta’s loyalty program and ours and also involves benefits sharing. We recognize Delta frequent flyers in our hotels with certain benefits, and the airline does the same for our priority guests. The potential advantages are large. For our part, we have seen significant incremental revenues in our North American hotels from the program’s first year.

I think partnerships such as this will be increasingly important and that big, like-minded companies can create powerful synergies when they come together. Moreover, I believe the triangular relationships these partnerships create will be harder for others—including the shared-economy players—to emulate.

Of course, synergies happen with small companies, too. For example, one of our properties in Cupertino, California, recently worked with a Silicon Valley start-up to introduce a robotic butler that provides room service.¹ Now, do I think that robots are going to take over hotels in the next few years? No. But does something that's fun and a little "technology forward" work in Cupertino? Yes. At the end of the day, when new technologies emerge—and we can use them to delight our guests—we're going to be first. We're going to play in those spaces. We're going to learn.

And can you imagine telling your wife or husband, "You'll never guess what delivered my toothpaste last night"? ○

¹ See John Markoff, "'Beep,' says the bellhop," *New York Times*, August 11, 2014, nytimes.com.

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