This study reports on a major case study was undertaken at the Shangri-La Hotel in Sydney, Australia. In-depth interviews of senior staff members and an analysis of internal and external documents helped to identify the key drivers behind customer retention at Sydney's most successful deluxe hotel. One major and overarching theme emerged from the data in reference to the development of relationships with key customers at the Shangri-La hotel. This was the level and style of service provided. Allowing this service to develop was a customer focused corporate culture, clear communication flows between management and staff, and value adding innovation.

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Abstract

This study reports on a major case study was undertaken at the Shangri-La Hotel in Sydney, Australia. In-depth interviews of senior staff members and an analysis of internal and external documents helped to identify the key drivers behind customer retention at Sydney’s most successful deluxe hotel. One major and overarching theme emerged from the data in reference to the development of relationships with key customers at the Shangri-La hotel. This was the level and style of service provided. Allowing this service to develop was a customer focused corporate culture, clear communication flows between management and staff, and value adding innovation.

Keywords

Relationship Marketing, Customer Retention, Hospitality industry
WHEN GREAT SERVICE LEADS TO GREAT CUSTOMERS: THE CASE OF SHANGRI-LA HOTEL SYDNEY

Introduction

The lifetime value of a key customer to the Shangri-La group of hotels is 120K US. That’s why relationship marketing is so important to us! Marketing Director, Shangri-La, Sydney.

The launch of a luxury hotel in Sydney offered an unprecedented challenge to Hong Kong-based Shangri-La Hotels and Resorts, launching the first stage of their expansion program into non-Asian locations. However, within three and half years from arriving on the shores of Australia, they had become the premier luxury hotel in Sydney, in terms occupancy rates and revenue per room. Relationship marketing strategies based around providing superior customer services has been a key driver in the success of this Premium Hotel. Consequently, the Shangri-La, Sydney, will be used as the exemplar for other new product launches by Shangri-La in non-Asian destinations.

To highlight how the Shangri-La, Sydney, has used quality service as a proactive relationship tool, this paper is divided into the following sections: Firstly, the background to the Shangri-La group and Shangri-La Sydney will be explained. This will be followed by a description of the methodology adopted. Thirdly, findings from the case study will be present that show how the use of quality services is a key driver in developing relationships with key customers and thus increasing customer repeat intention rates. Finally, conclusions will be drawn.

Current Situation

The Hong Kong-based Shangri-La Hotels and Resorts is the largest Asian-based deluxe hotel group in the region. The chain comprises 49 deluxe hotels and resorts in key cities of Asia and the Middle East and it is regarded as one of the world’s finest hotel management companies. In July 2003, the group took control of its first Australian property, Shangri-La Hotel Sydney (formerly ANA Harbour Grand Hotel) as part of a global expansion strategy that would see the group grow from 44 to 69 properties by the end of 2008. The company recognises that greater expansion opportunities are available through lease, joint venture or management contracts but such projects threaten control over the quality of the Shangri-La brand (Hamdi 2006). The group has over 40 projects under development in Canada, mainland China, France, India, Japan, Macau, Malaysia, Maldives, Philippines, Qatar,
Seychelles, Thailand, United Arab Emirates, United Kingdom and the United States. In this context, success in Sydney has far reaching implications for the success of the group. The struggles with cultural adaptation and adjustments to organisational processes will provide a springboard for organisational learning that will inform the group’s expansion into other non-Asian locations.

On his arrival at Shangri-La Sydney, the General Manager, Michael Cottan articulated a clear vision to his staff:

*We’re going to be the number one hotel in two years*

The realisation of this vision meant facing some key challenges unique to the Australian environment and new for the Shangri-La group’s singularly Asian experience of hotel management.

However, the performance figures showed rapid improvement under the new management and have been continuing to improve over the last four years. A competitor analysis carried out by ANA Harbour Grand Hotel showed they were ranked fourth against the other major luxury hotels in Sydney in 2001 and third in 2002 (ANA Harbour Grand Hotel Sydney 2002). In July 2003 Shangri-La, Sydney, was ranked fourth against its competitors (i.e. Four Seasons, Westin, Sheraton and Intercontinental) in occupancy ranking, third for average revenue per day and third for revenue share index. By December 2005 and December 2006 year-to-date figures showed that Shangri-La was ranked number one over all these key indicators. As further recognition of Shangri-La’s success, the hotel received 7 industry awards in 2005 (Weeden & Cottan 2006). In 2006 they Won Best Luxury Accommodation, NSW Tourism Awards; Australian Hotels Association Deluxe Hotel of the Year; and Australian Hotels Association Most Creative Marketing Campaign. The hotel was also voted as One of the Top 20 Overseas Business Hotels, Conde Nast Traveller (UK) 2006-07 which demonstrates Shangri-La’s growing international reputation (Shangri-La Hotels and Resorts 2006).

A major driver of their success is the repeat business they generate from key customers. The Shangri-La, Sydney, have achieved a 38% return guest ratio for the business segment and a 22% return guest ration for total guest numbers. Further, the lifetime value of a key customer to the whole Shangri-La group is estimated at $120,000 USD. Consequently, it is important for the purposes of preliminary theory generation to determine the factors that are responsible for the Shangri-La Sydney’s ability to develop relationships with key customers. Therefore, the following research question is put forward:

**Research Question:** What are the factors that have influenced repeat behaviour at Shangri-La Hotel, Sydney?
Methodology

A case study methodology was used for this research. Yin (1994) proposes a number of elements that are typical of this method of research.

A case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident. The case study inquiry copes with the technically distinctive situation in which there will be many more variables of interest than data points, and as one result relies on multiple sources of evidence, with data needing to converge in a triangulating fashion (Yin 1994).

Steblein (1999) argues that there are three main types of case data, all of which share the focus on one complex organisational unit and a representational process of multi-method immersion. However, they differ in important aspects of the organisational reality that is studied. This particular study is an exemplar case. Exemplar cases are amongst the most influential data in organisational studies because they are so frequently taken up by academics and organisational participants as action-oriented templates that provide ‘ersatz organisational experiences against which they test other data and ideas’ (Steblein 1999, p.266). Further, the case study method is the most appropriate method to use when there is a need to investigate a specific arena in depth (Gummesson 2005; Deshpande 1983; Yin 1989; Yin 1989; Parkhe 1993) as is the case for this examination of how the Shangri-La utilised relationship marketing capabilities when entering the Australian hotel market.

Ten in-depth interviews, which ranged in length from 45 minutes to two hours, were conducted with management and supervisory staff from the Shangri-La, Sydney. To gain a representative cross-section, respondents included the General Manager along with representatives from various departments such as marketing, human resources, accounts, concierge, housecleaning, front office and food and beverage services. All but one interview was recorded and transcribed. The data was analysed in NVIVO qualitative software package. Further to the in-depth interviews, a document analysis was also undertaken. Documents from the Shangri-La and from various industry bodies were examined. The aim of this step was to triangulate the findings from the qualitative in-depth interviews.
Direct quotations from the interviews are used through the findings sections. The quotations help to highlight relevant themes (Miles & Huberman 1994; Yin 1994) and generate preliminary explanations (Deshpande 1983). Respondents’ quotes will be presented in italics.

Findings

Figure one shows the conceptual model that was developed for the success of the relationship marketing activities at Shangri-La, Sydney.

Figure 1: Conceptual model of relationship marketing at Shangri-La, Sydney

One major and overarching theme emerged from the data in reference to the development of relationships with key customers at the Shangri-La hotel. This was the level and style of service provided by the staff at the Shangri-La. As evidenced by one employee;

_The view and room size gets them in; the service gets them coming back_
Every interviewee commented that a key competitive advantage of Shangri-La was the service and if it were not for that then even the view of Sydney harbour would not be sufficient for the organisation’s success. Further, it was noted that it is the specific quality of that service, i.e. its unique Asian flavour, that was what impressed guests so much. Some descriptions of the style of service were given:

*Caring, a word that we probably all use, respect, sincerity, courtesey, helpfulness and humility is a big one*

It was this services that was seen to provide the Hotel with a sustainable competitive advantage over their competition. So what are were the major drivers behind the development of this style of service. Of the three themes to emerge, the development of a customer focused corporate culture was the strongest one. The others included clear communication flows between management and staff, and innovation.

The customer focussed, service orientated corporate culture did not just happen. An experience that typified the gulf in attitudes between the status quo and the Shangri-La ideal when the Hotel took over the premises was:

*I’ll never forget it. I arrived here, my family had arrived the day before and I was starting work the next morning and I called down to say can I get my suit pressed which I needed because I’d travelled and it was all crushed and so forth and in any of our hotels throughout Asia, ‘sure absolutely what time do you need it by?’ But the response I got was ‘Sorry mate, laundry’s closed’. That, to me that was the quintessential Australian culture because it wasn’t the guy at the end of the phone being rude, it was him saying ‘sorry, that laundry’s closed’ and it was a very Australian response.*

To top management’s frustration, and contrary to expectations, the process of ingraining the correct corporate culture took 18 months to two years.

Further too corporate culture, communication flows between staff and management at all levels was seen as another variable that help develop the unique customer service. For example, any VIP or Loyal customer would have their pictures distributed through the hotel so staff could refer to them by name. This helped to reinforce and build the relationship. Innovation also emerged from the data as an important element in the delivery of the unique quality service. A number of new processes were put in place to help provide a higher and unique level of service. For example, a tea service (Chinese green tea) was introduced to all customers on the executive levels once they entered their room for the first time.
Whilst the unique service was the main driver for relationship development, the attachment with the physical facilities also developed the relationship. The executive lounge, the room design and views all added to the relationship experienced by the key customers. Consequently, this has been added to the conceptual model, as it helps in the delivery of the customer service, and directly impacts on the sense of ‘relationship’ developed by the key customer.

**Conclusions**

Researchers acknowledge that increasing competitiveness in the business world has forced enterprises to seek new ways to increase customer satisfaction in order to create a sustainable competitive advantage (Berman, 2005; Gummesson, 2002; Verma, 2005; Zeithaml, Berry, and Parasuraman, 1996). For the deluxe hotel segment of the market, unique quality service could well hold the key to maintaining a competitive advantage over rivals - ‘good encounters may give them a competitive edge and will most likely result in repeat purchases and positive word of mouth’ (Chandon, Leo and Philippe, 1997, p65).

A major strategic competitive advantage of Shangri-La is its service quality; the blending of Asian hospitality in an Australian location. The organisational routines and activities associated with Shangri-La’s Asian-style of hospitality represent a strategic capability as the service is valued by customers, superior to competitors, difficult to replicate and specific to the organisation (Collis & Montgomery 1995). This approach to service is embedded in the corporate culture and is communicated to the customer through the marketing activities. It is this unique service that is the main driver of their successful relationship marketing activities.

Whilst acknowledging that this was a single case study, this exploratory research has identified the important elements needed in the deluxe hotel sector to develop relationships with key customers and thus increase repeat purchase. If the Shangri-La’s figures are correction for the life time value of a customer being $120,000 US, then exploring ways to develop retention must be a priority to organisations in this segment.
Reference List


