Cabo San Viejo: Rewarding Loyalty

**MKTG 6140 Customer Relationship Marketing**

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**Issue**

Cabo Can Viejo is now faced with deciding on whether or not to implement a rewards/loyalty program and if so, how to go about making this change.

**Background**

Cabo San Viejo was founded in 1977 in Palm Springs, California by Dave and Florence Blumenthal as one of the nation’s first and leading health and wellness brands. The founding was inspired by a successful life change by Dave and the two created a place where smokers, overweight people, and others could go to feel better and learn how to live happier and healthier lives.

*Mission Statement*

Cabo San Viejo seeks to help people unlock their hidden potential so they can become healthy, happy, fully self-actualized individuals.

*Offerings*

Due to the fact that wellness means different things to different people (body, mind, soul, relaxation, lose weight, etc…), the full-service, overnight destination resort strives to offer many diverse activities to ensure that everyone who comes to Cabo San Viejo can find what they are looking for in order to be “healthier”; whatever healthier means to the individual.

Cabo San Viejo offers numerous activities such as six gymnasiums, weight training rooms, squash and racquetball courts, a meditation area, skin care and beauty salons, massage rooms, sauna, steam and inhalation rooms, whirlpools, private sun bathing areas, four pools, a cross-training pool, aquatic therapy, strength training equipment, a driving range, and a nine-hole golf course. They also offer a full range of wellness services including more than 60 daily fitness classes and activities, wellness lectures, workshops for stress management, disease prevention and weight loss, healthy cooking classes, nutritional consultations, alternative medicine awareness programs, and spa treatments.

Since the opening of Cabo San Viejo, four smaller CaboDaySpas have been opened in Miami, Hilton Head, SC, Aspen, CO, and on Nantucket Island in Massachusetts. These day spas are not as extensive as the Palm Springs location because they operate as “an entirely different business.” They are a day spa that is focused primarily on the pampering part of wellness and are not overnight resorts.

*Customers*

Cabo San Viejo can accommodate a maximum of 288 guests and their goal is to keep occupancy levels at the optimum level (270) throughout the year. The rates for the rooms are per occupant and the minimum stay is 4 nights. Most guests are quite active and spend an average of $455 per day on accommodations and $165.36 on services. Cabo San Viejo receives about 3,500 new guests per year: 75% of guests are female; 67% have heard of the resort by word of mouth; most common reasons for visiting are relaxation, being healthy, spa treatments, and fitness; 96% rate their stay highly; most guest live in western California; 32% of first time guests return within 5-6 years; and 62% of repeat customers return within another 5-6 years.

The summer is the most challenging time of the year and because of this, they reduce the room rates by 35%, which brings in a different clientele base than usual. Because of the discount, this crowd is generally younger and less affluent. You see these guests taking full advantage of their stay because these guests feel they should maximize every dollar’s worth.

*Marketing and Sales*

The marketing and sales department spends about $2.76, $1.32, and $1.92 million a year on marketing, advertising, and sales respectively. The marketing department handles pricing and promotions with the goal of meeting specific revenue and occupancy targets. The marketing goal is not to educate people about Cabo San Viejo but to rather evoke “the right emotions so people are reminded that they want to feel good.” The most widely used form of advertising is spent on brand awareness (online, radio, and print) with occasional money spent on partnership efforts.

*Competition*

While Cabo was one of the first wellness resorts, a new trend in wellness has created fierce competition from all kinds of businesses. Cabo San Viejo’s first competitors were other major destination spas across the whole country and the only differences were the different target offers. In recent years however, new players are emerging as competitors including day-spas, beauty salons, high-end health clubs, cruise ships, and vacation resorts. Regional Sales Manager Claes Van Zandt stated, “We’re competing against everybody because a lot of people take one vacation a year.”

**SWOT Analysis**

*Strengths*

Cabo San Viejo is regarded as one of the nation’s first and leading health & wellness brands, quickly becoming one of the best destination resorts in the world. The Health Resort was founded in 1977 and was renowned as the nations “premier total vacation / fitness resort” by a leading magazine journalist by 1982. Located in Palm Springs, California, Cabo San Viejo draws clientele from all over the world due to its strong reputation of being the best at what they do. The staff at the resort (i.e. personal trainers, guest service agents, etc.) is very friendly, well versed, and expertly trained to enhance the guest experience and make them want to come back. The staff is part of the reason why the resort has such a high customer satisfaction rating due to their dedication, combined with the management of capacity (not overfilling the resort to full capacity, allowing guests to have flexibility in their daily activities).

*Weaknesses*

Some of the strengths of Cabo San Viejo also play a part in some of their weaknesses. The high amount of pampering each guest receives comes at a high price; making a trip to the resort rather unrealistic for those who aren’t in a high tax bracket. The average household income of guests exceeds $150,000 annually, which means that it is mostly an appealing destination for the wealthy. This misses a rather large portion of their potential market; except for in the summer when they lower their prices. During the summer months, Cabo San Viejo sees an influx of less affluent customers who want to get every dollar’s worth of their trip because it’s a lavish vacation for them; this actually leads to much lower profits throughout the summer. Another market segment that the Health Resort seems to miss is the male audience since statistics show that 70-80% of their guests are female.

Another weakness that Cabo San Viejo seems to have is the lack of a loyalty program, which customers feel is important because the customer service appears to be hit or miss. You have guests saying “why did she get flowers?” or “why does that worker remember that guest’s name, but not mine?” which is leading to jealousy, dissatisfaction, and certain individuals feeling rather upset.

The last weakness addressed is that Cabo San Viejo has a lack of cross-functional promoting. The CaboDaySpas don’t advertise the Cabo San Viejo Health Resort and vice versa. This is a key marketing tool that they are missing out on because it doesn’t require any outside marketing, it’s simply advertising other services from within. Having locations in Miami, Hilton Head, or Aspen, the day spas could easily advertise the resort and do more to get guests interested in taking a bigger vacation.

*Opportunities*

While Cabo San Viejo has been a successful heath resort, the company is interested in ways they can continue to be one of the top vacation spots for health conscious consumers. One opportunity for the company to grow would be to explore new untapped consumer market segments. The current clients for the resort include mostly middle-aged women. This provides Cabo San Viejo the ability to increase their client base if they target other markets such as males and younger demographics.

Since the club provides a wide variety of offerings, it would be able to attract these new markets with activities and services that would interest them. Based on previous evaluations, the company has had positive reactions from men who have stayed at the resort. The challenge has been getting them there; so if the company can increase their male clientele base, they will have many more satisfied customers. Likewise, younger consumers could have a large impact on future growth for the resort. If Cabo San Viejo attracts this younger market, they will ultimately bring in a whole new set of loyal customers that will continue to visit their establishment for years to come. Cabo San Viejo has a very high repeat business, so by marketing to this untapped market segment, the company will be able to increase am additional loyal client base and continue to grow their business.

Another opportunity for the company is an increase in health awareness across the nation. As consumers continue to become more health conscious, the resort and its offerings will stand out among competitors. While the current competitors have some of the same offerings, Cabo San Viejo has been able to set itself apart as a place that encourages a healthy lifestyle and provides clients with the tools necessary to make healthier changes in their lives. So as individuals continue to be more concerned about healthy lifestyles, the offerings of the resort will be more appealing to consumers and Cabo will attract more of those individuals that are interested in living and vacationing in a healthy environment.

*Threats*

While Cabo San Viejo has been successful and has opportunities to grow its business, there are a few industry challenges they face as well. One major threat to the company is that the industry is becoming increasingly more competitive. There are a number of different types of businesses that are now competing against the resort. The increased competition has come in the form of an increasing number of day spas and beauty salons, as well as high-end health clubs and vacation resorts. Since Cabo San Viejo is a premier health resort, it has to compete for customers with other vacations such as cruises and destination resorts that also pamper their guests.

Another threat the company faces is the rise in competition that has increased the expectations of customers. Since there are now many more companies with similar services, clients are increasing their expectations with regards to customer service and other offerings. This means that in order to maintain and continue to establish loyal customers, the resort will have to not only satisfy the expectations of both new and returning guests, but will also have to strive to go above and beyond those expectations with each. This challenge only continues to escalate over time as customer’s expectations will continue to increase.

*SWOT Overview*

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| **Strengths** | * Very prestigious, one of the best destination resorts in the world * Clientele from all over the world * Staff (personal trainers, guest services, etc.) are all very friendly and well trained * Strong repeat business * Extremely high customer satisfaction ratings |
| **Weaknesses** | * No loyalty program currently leads to jealousy * Customer service seems hit or miss * Extremely expensive * Company lacks cross-functional promoting * Doesn’t attract the male audience |
| **Opportunities** | * Untapped Market Segments; males and younger demographics * Increase in demand with increase in health awareness |
| **Threats** | * Increased competition * Increase in customer expectations |

**Strategic Issues and Problems**

*Situation*

Cabo San Viejo is now considering implementing a new rewards/loyalty program because they are concerned with addressing the following issues:

* *Remaining competitive* with their competition who are now offering rewards programs to their customers and pushing Cabo San Viejo to become more aggressively competitive,
* *Increasing sales* as a rewards program would make them more competitively matched,
* Attracting more *new customers* and encouraging them to return by enticing them with rewards such as recognition or monetary value, and
* *Building customer equity* and satisfaction by acknowledging repeat customers’ loyalty.

Implementing a rewards program would hopefully achieve the following:

* *Enhanced guest recognition* and satisfaction,
* *Tangible benefits* such as discounts or coupons to the customers to keep them returning,
* *Special guest privileges* to ensure that repeat customers feel valued, and
* *Acknowledging their customers’ loyalty* by providing gifts.

*Issues*

If a rewards system is not implemented, the biggest concerns of Cabo San Viejo is that they will not remain highly competitive within their industry. Increased competition and new players are now requiring that Cabo San Viejo provide similar rewards to those of their competitors. There are however a few concerns that need to be kept in mind with regards to implementing such a system:

* Customers are *not concerned with monetary rewards;* they are more interested in recognition and preferential treatment as repeat customers,
* Cabo San Viejo is worried about the idea of giving *preferential treatment* to some because they are committed to making *every* customer feel like they are their *most important* customer, and
* Customers of Cabo San Viejo generally have *high incomes and classier tastes*, so providing the right kind of rewards is tricky because they need to be high end.

There are also a few other major issues that should be noted with regards to implementing a rewards program. First of all, Cabo San Viejo currently has an outdated CRM system that is incomplete, expensive to replace, and Cabo San Viejo and the CaboDaySpas CRM systems are not currently connected (cross-functional) which means that without a new system, they are not able to link rewards among various locations. Secondly, they currently have an aging customer base which means that attracting a younger audience is essential to staying competitive. However, younger individuals have grown accustomed to rewards programs, and in many cases expect it. Therefore, the absence of a rewards system could deter younger customers from coming to Cabo San Viejo and make them more likely to visit competitors with loyalty programs instead.

*Alternative Solutions*

A rewards/loyalty program would offer the customers recognition and rewards for visiting Cabo San Viejo. However, implementing this program would be tricky as some customers come many times a year for a few days, and other customers come once a year for many days. Therefore, a rewards system needs to remain fair and the question becomes, what should Cabo San Viejo reward customers for; money spent, days stayed, or visits?

Each member can be given a member card which consists of information regarding their preferences, instead of creating a loyalty program. The card can be linked to a database that documents their preferences such as what room locations they prefer, activities and treatments they favor, when they are most likely to visit, or how much they spend on average. This allows Cabo San Viejo to customize the facilities based on their needs. From the database, they will come to know their customers’ preferences and can tailor to their needs accordingly.

*Barriers*

One of the main problems they may face with implementing a reward or recognition system is that they do not have an updated CRM database; they may offend some of the old customers whose preferences may not have been previously noted. The issue of grandfathering in old customers is difficult because the information on previous customers is simply not available and starting fresh might agitate those already loyal customers. So in order to cross this hurdle, Cabo must explain to an already valued customer the details of a new system and ask them to fill out what their needs are so that Cabo can update it in the database and they will then see improvements with regards to customer service and recognition.

Alongside this issue, implementing a new CRM system would be costly due to the cost of the system, cost of training, and cost of extra hours needed to master the new program so that employees can continue to uphold the high expectations of excellent customer service which Cabo San Viejo prides itself on.

*Lack of Action*

If no such rewards/loyalty system is implemented, the biggest concerns of Cabo San Viejo are that they will not remain highly competitive within their industry. Increased competition and new players are now requiring that Cabo San Viejo provide similar rewards to that of their competitors. Therefore, a lack of action including any kind of customer recognition or rewards program might result in lower loyalty from customers and ultimately lower revenues. Two other big concerns are that Cabo San Viejo is focused on obtaining repeat customers and a loyalty program would be a useful tool to increase these numbers, and in order to attract a younger generation of customers a rewards/loyalty program almost seems essential.

**EvaluatioN OF OPTIONS**

*Option 1 – Loyalty Programs*

The first potential option would consist of two parts. The first part involves implementing a rewards program for repeat customers at the CaboDaySpas where they could earn rewards points that could be redeemed at the Cabo San Viejo overnight resort in Palm Springs. The second part involves implementation of a customer recognition program that would give recognition to repeat customers with the intent of making them feel recognized and valued as a returning Cabo San Viejo customer. The second part would also include implementation of a computerized CRM system that would track customer information and preferences over the course of multiple visits.

Implementation of a rewards program at the CaboDaySpas would take place immediately with this option. After 5 visits to any of the Cabo Day Spas, customers will have accumulated enough points to earn a 10% discount at the Cabo San Viejo overnight resort in Palm Springs. The rewards points could only be earned at the CaboDaySpa locations since CaboDaySpa customers tend to be more price-sensitive than the customers at the Cabo San Viejo overnight resort who are generally wealthier and less price-sensitive. This recognizes loyal customers at the CaboDaySpas and gives these potentially price-sensitive customers a chance to try the overnight resort in Palm Springs at a substantial discount, which has the potential of making them lifelong customers at the resort. Excluding resort-only customers from accumulating rewards points has the benefit of allowing these customers to relax and focus on the exemplary service and amenities at the resort rather than unnecessarily bringing up the issue of prices and potential discounts at the resort itself. One potential negative outcome to implementing a rewards program in this manner is that resort-only customers may feel alienated or less valued because they are not receiving similar discounts that CaboDaySpa customers are receiving.

A recognition program for repeat customers will be implemented at both the Cabo San Viejo overnight resort and at the CaboDaySpa locations. This customer recognition program will utilize a newly installed CRM system that will track customer activity and service preferences. All Cabo San Viejo locations will have access to a centralized CRM database where entries made at one location will be viewable at all other locations. Upon arrival at any Cabo San Viejo location, repeat customers will receive a greeting by name from a Cabo San Viejo associate and receive a list of recommended activities the customer may be interested in based on activities they participated in on previous visits.

Additionally, at the Cabo San Viejo resort in Palm Springs, repeat customers will receive a fruit basket or flowers and a greeting card addressed to the customer by name. Under this program repeat customers will not receive any preferential treatment regarding the scheduling of activities or services. This recognition program has the benefit of making repeat customers feel noticed without alienating first time customers or making them feel like they are in a lower tier than repeat customers; upholding Cabo San Viejo’s values with regards to making every customer feel like the most important customer. One potential negative outcome resulting from this recognition program is that it fails to grant repeat customers any type of preferential treatment when scheduling activities, which was a common customer request.

*Option 2 – Memberships*

Several options are available that deal with an overall marketing approach, and also on relationship marketing that may help improve upon the perceived weaknesses Cabo San Viejo and its affiliates are having. The debate the owners are having over a loyalty program is only the first of many marketing debates Cabo San Viejo should have.

One issue the company faces is the need to lower pricing in the summer months by a full 35%. This change is due to demand, as less are prone to vacation when the weather is nice. Coupled together with an already high price point, a 35% drop in revenue is quite extreme. A way to address this issue is through a membership program. Their high prices force many out of the market for their services. However, providing a way to extend the payments on a monthly basis over the course of a year would prove beneficial for those with less luxurious incomes.

This membership would guarantee revenue during the summer months and the company could afford to lower their prices much less than the already present 35%. This approach also provides for a sense of equality amongst the less affluent. A tiered approach based on use would be the optimal way of implementing the membership; charging more for those using the facilities more.

A membership would also provide an opportunity to visit all 5 sites the company controls. If a customer travels frequently, it provides the option to be available without a large payment out of pocket to visit. This would be an optimal approach for a traveling business person, but also allows for someone who is just visiting to enjoy the services. This would provide a boost for cross-functional marketing. Informing membership customers they could use the facilities at all Cabo institutions may influence members to try these separate entities out.

Most importantly, memberships provide a way for the company to take advantage of first time customers overall satisfaction. A satisfied customer at the end of their stay may see themselves visit often and quickly sign up for a membership, when realistically they will visit infrequently. However, a membership program would allow for the company to track visits and facility use providing key information in relationship marketing. For the customers who do visit often, you could track which facilities they use most and tailor an experience specific to them. After X amount of visits you qualify for Y, or more specifically, the company would know exactly who visits most and could provide the flowers and fruit baskets without other customers becoming jealous.

At the resort, a 50-60% repeat customer base is what drives revenue. So if the company were to choose to avoid the membership program, a referral CRM approach may be beneficial. For every new customer referred, the referring customer receives an incentive such as a free 4 day stay or a free one extra day. Although many of the customers have the funds to easily pay for these days, it would show appreciation of their efforts. Any lost revenue would be paid for by the new customer’s fees so the loss of revenue shouldn’t be a factor.

The drawbacks of such a membership program would be the possibility of a decrease in overall revenue. Suppose the frequent visitors continue to outnumber the infrequent, even with a guaranteed revenue stream, these frequent visitors could visit more often than their membership payments account for. Then coupled with the incentives for CRM, Cabo could be spending more than they were taking in. So, while the guaranteed revenue is present, the membership program would have to constantly be adding new members with infrequent visits if this situation became reality.

Also, how to tier the memberships? If a customer visits one time over their expected amounts throughout the year, do they charge for an entire new tier? Also, if a frequent visitor visits less, does Cabo refund the money? So, although the membership program has perks for the company it also presents a host of new issues.

Implementation of the membership program would present more costs as well. Does Cabo begin to print cards to be carried by the customer for that stay, or do they trust the customers with a simple photo ID and hope the employees at the counter are trained well enough to spot fakes from all 50 states? Does Cabo “grandfather” in past visits from known frequent visitors and leave out those who have only visited once or twice? And how do you distinguish from the two? How much do you charge for each tier of membership? Do you charge extra for those who visit both the resort and day spas even though they may visit less than someone who only visits one? Although membership answers some questions in revenue, cross-functional marketing, and relationship marketing, it raises many other issues and questions.

As for the referral program for the resort, an issue to consider is continuing motivation for those who have already made referrals and cashed in the rewards packages. Cabo would essentially be making the customer the sales person, and although this is appealing to the marketing department, it leaves the customer to then expect more and more rewards based on exceeding referrals, which this customer base has already come to expect.

The referral program also leaves open the possibility of fraud. If an individual has already planned a visit, then meets someone who asked then to put them down as a referral for money, both customers are receiving the stay at discounted prices without Cabo having anyway to track or proof of the collaboration. So, even if the visiting customer spends the money received for giving a false referral at Cabo, the company loses money from the “referring” customer’s free stay.

**Final Recommendation**

We recommend that Cabo San Viejo implement the strategy outlined in Option 1. Implementation of a rewards program at the CaboDaySpas will give price-sensitive repeat day spa customers a chance to experience the overnight resort at a substantial discount. The customer recognition program and newly installed CRM system will ensure that repeat customers at all Cabo San Viejo locations will feel valued as loyal Cabo San Viejo customers.

Option 1 is the most cost effective way to increase perceived value as discussed in the article *Perceived Value and Customer Loyalty in Financial Services* (Juan Carlos Fandos Roig, Javier Sànchez García and Miguel Ángel Moliner Tena). Implementation of the rewards program will increase functional value, while the customer recognition will increase emotional value and social value. As outlined in the model by Fandos Roig et al., functional value, emotional value, and social value are three of the six dimensions of value that lead to increased customer satisfaction. Increasing customer satisfaction will lead to increased intentional loyalty and ultimately increased behavioral loyalty.