

**The Role of Customer Relationship Management in The  
Operation of Small and Medium Hotels in Mui Ne, Vietnam**  
The Case of Hung Phuc Mui Ne Hotel



Bachelor's thesis

Valkeakoski Campus  
International Business Degree Programme

Academic year 2018

Chi Dung Duong

Degree programme  
Campus

International Business  
Valkeakoski

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**Year** 2018

**Title**

The Role of Customer Relationship Management in The Operation of Small and Medium Hotels in Mui Ne, Vietnam  
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#### ABSTRACT

The customer has always been a core element and source of revenue for any business. It is vital for business operators in every industry including those running small and medium hotels (SMHs) to recognize, measure and manage relationships with customer to preserve and increase the value of customer base. This thesis aims at specifying the importance of customer relationships management for SMHs in Vietnam, which is often forgotten or not invested properly.

The primary focus of the thesis is the Hung Phuc Mui Ne (HPMN), a small typical family-owned hotel in Mui Ne (Vietnam), with basic management and is solely run by a handful of family members.

The research methodology utilized in this thesis are bilingual questionnaires (Vietnamese and English) provided to the service users of the hotel as well as online sources namely magazines, articles, forums and reviews from booking sites.

The current situation and data analysis showed the heavy dependency of HPMN on booking sites and therefore, it is an imperative need that the hotel stand on its own feet and has a solid customer data base.

The recommended general strategies that HPMN should take into consideration in order to establish and maintain excellent relationships with its customers include three major components: Identify the business and the customer strategies, clarify the value offer to customer and leverage the hotel website as a sales and marketing channel.

**Keywords**

Strategy development process, Customer Relationships Management, Small and medium size hotels, Hung Phuc Mui Ne Hotel

**Pages**

50+

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## 1 INTRODUCTION

In an era where competitive advantages which are achieved through high quality products or services can easily be diminished due to the facts that excellent practices can quickly be learned and copied by competitors, enterprises must strike to figure out other competitive advantage sources, which can help them sustain their profitability as well as market share. In this context, the emergence of the concept Customer Relationship Management (CRM) has changed the whole picture of the marketplace in the sense that companies have move from transactional marketing thinking and practices to relationship ones, which put a stronger focus on creating and retaining connections and bonds with customers. Understanding the critical role of CRM but many firms fail to adopt the CRM thinking to their operation. The theory of this thesis is dedicated to providing insights about the strategy development process, which is the first and fundamental process in the strategic framework for CRM. The process includes analysis of business strategy and that of customer strategy, which are the foundation for enterprises to go one further step, that is to develop CRM strategy that suit their own corporate strategy and the customer segments that they target.

### 1.1 The assigning company

Hung Phuc Mui Ne Hotel (HPMH) is a family own hotel, which was built in early 2014 and completed at the end of the same year. The premises includes two connected buildings with twenty rooms all together. Although the hotel size is considered to be small, in comparison with other businesses in the area, it does offers different types of room such as single bed rooms, twin bed rooms, double bed rooms, triple bed rooms and quadruple rooms.

Being segmented in the small and medium size hotel, beside the basic amenities such as spacious room, air conditioner, private toilet with cold and warm water, cable television, personal hygiene equipment, HPMH offers other services including free internet access, laundry services, a free parking lot, free early morning alarming service.

HPMH's business model is somewhat popular in Mui Ne area. Besides, it also has a convenient store downstairs, where tourists and guests can find almost every necessity from beverage to biscuit, swimming suits and souvenirs are also available at the store. The convenient store, on the one hand, makes it comfortable for all the guests at HPMH to shop at any time, on the other hand, is a source of revenue for the business owner.

The profit of the business is also generated from another source which is the running of a domestic tour booking office. With this office, HPMH offers pick-up services from nearby airport for guests who would not want to have to hassle with local means of transportation. Moreover, once guests arrive at Mui Ne, the hotel receptionist also introduces to them the beautiful destinations in the regions and arrange local one-day tours to those places. There is an inshore fishing tour arranged by the business owner for those who would like to experience the life of a fisherman in Vietnam and those who wish to go to other nearby cities can also buy bus tickets on the premises.

Although there is not any official bookkeeping record, the business owner revealed that they earn approximately one billion Vietnam Dong per year, approximately forty thousand euros, which is quite a desirable profitability for many other businesses in the same field.

Since the establishment day, the business is mainly run by one of the sons in the family, with strong supports from the parents, and partly managed by another son, whose is not working permanently at the premises but acts as a hotline operator for the hotel. The son who works regularly is also the hotel receptionist and the tour organizer. He has tourism study background and has had experience in the field for a few years before he came back to administer the family business. This small enterprise currently has 3 regular employees whose main tasks are housekeeping and other cleaning jobs.

In September 2015, the hotel has decided to cooperate with some online booking sites such as Booking.com, Agoda.com and recently with Traveloka.com. It can be said that this online indirect selling is the most productive channel that the hotel has so far and for that reason, HPMH is highly dependent on bookings from those sites for incoming customers. The hotel relies heavily on the marketing that those booking sites provide and it does not invest in any marketing campaign. It has a website which contains quite basic information and has not been updated for quite a long time.

## 1.2 Research question, objectives and research methodology

The desired outcome of this thesis is to have a comprehensive answer for the research question:

*Which framework of Customer Relationship Management (CRM) should be applied to help Hung Phuc Mui Ne Hotel to improve business performance?*

The author wishes to achieve the following objectives at the end of the thesis writing process:

- 
- A comprehensive theory foundation for the strategy development process in customer relationship management (CRM)
  - A thorough analysis of the current situation of the whole lodging industry with a strong focus on small and medium size hotels.
  - An intensive study on the assigning company's current situation and its challenges.
  - A complete set of recommendations- a CRM framework based on a theoretical framework and actual analyses.

The methods to be used in this research are a questionnaire as well as secondary data from online sources namely magazines, articles, forum and reviews from booking sites. Concerning the questionnaire, it was printed and released to the guests accommodating at HPMN in the summer time 2018, therefore, a large proportion of participants is local tourists. However, there are also respondents from 9 other nations and the total number of questionnaire attendant are 93. The questionnaire, therefore, is designed in two languages: Vietnamese and English and it has ten questions with the multiple choice and likert scale format.

## 2 LITERATURE REVIEW

### 2.1 Definition of CRM

There are quite many ways of defining the CRM due to the fact that there are different types of CRM. "Customer relationship management is an interactive process for achieving the optimum balance between corporate investments and the satisfaction of customer needs to generate the maximum profit." (Robert Shaw, Business Intelligence, 1999)

"CRM is a strategy that uses information, including the wants and needs of the customers, to establish rapport with the customers and engender a dedicated, stronger relationship with individual customers and into long term business partnerships and vendor/business relationships" (Dickie, 1998).

However, in accordance with the scope and purpose of this research, CRM is defined as "a strategic approach concerned with creating improved shareholder value through the development of appropriate relationships with key customers and customer segment." (Payne, 2006)

CRM makes use of IT and relationship marketing strategies to build lucrative and fruitful as well as long-term relationships with customers. Thanks to CRM, firms have reliable sources of data, which allow them to understand better and respond quickly to customers' demand. This means CRM is not solely responsible by a single department, but there should be

integration of processes, operations and especially talents from all departments of organization.

As mentioned, there is no standard definition of CRM. Therefore, Ron Swift-a CRM guru has once suggested that each business should have its own interpretation of CRM, how important it is to the company's success in the present and in the future.

## 2.2 General thoughts about CRM.

CRM is not tactics like add-on selling, up-selling but is about strategic business decision, made by managers to achieve business goals. In specific, it is business approach that seeks to create, develop and enhance relationships with carefully targeted customers to improve customer value and corporate profitability as well as maximize shareholder value. CRM is not software, it is a process with involvement of people, which is well articulated. (Payne, 2006)

CRM is considered as vital element and usually put in agenda of many companies because of the facts that new technologies have enabled companies to target more precisely on chosen target segment, individual customers and new marketing thinking has recognized the limitations of traditional marketing and the potential of more customer-focused, process-based strategies.

Companies have the urgent need of finding alternative routes to competitive advantage because of the profound changes in the business environment: growth and diversity of competition, the development and availability of new technologies, the escalating expectations and empowerment of the individual, the advent of global operating environment, the erosion of conventional timeframes in the electronic-enabled era. Another reason for this urgent need is ease of duplication and market saturation quickly dispel initial indications of a winning formula. (Peppers, D., & Rogers, M., 2011)

Service such as in tourism and hospitality is more difficult to imitate than a physical product because service requires input and involvement from customer and the key differentiator is to provide service with consistence and distinction

Companies often struggle to answer the question about sources that should be used to design distinctive service/product. The answers may be: by leveraging the customer's expectation, preferences and behaviour to create and maintain ongoing dialogue with customer to exploit the information and insights that are obtained; by benchmarking or by innovation activities. (Payne, 2006)

The main goal of CRM: CRM aims at increasing the acquisition and retention of profitable customers by creating, maintaining and growing relationships with customers. Today CRM is strongly facilitated by the advent of new technologies which act as data processor and analyser help companies to better utilize and manage their huge amount of information captured from their customers; the increasing powerful hardware, software and e-services augmented by the decreasing costs of running them

### 2.2.1 The origin of CRM

The origin of CRM comes from the idea of relationship marketing, which appeared when the tenets of conventional transactional marketing which focused on using marketing pressures, particularly advertising, received no more positive respond from increasing sophisticated customers in matured markets.

The concept of relationship marketing does not exclude traditional transactional marketing, which based on marketing mix, but just “reposition” the organizational activities toward *engineering stronger bonds with their stakeholders including customers, distributors, suppliers, employees, unions, governments and other critical players in the environment.*

The essence of relationship marketing lies on three core elements:

- Relationship marketing is a move from functionally based marketing to cross-functionally based marketing. Traditional marketing thinkers believe that marketing strategies should be developed from the marketing department’s perspective, which often forgot the organization-wide implications. The traditional approach received quite many criticism for its budget driven manner. Moreover, it does not really take into account the interrelation among shareholders. Cross-functionally based marketing focuses on market by seeking to optimize the outputs.
- Relationship marketing emphasizes on multiple market domains-stakeholder groups instead of just traditional customer market. Apparently, on doing business, company does not only have interactions with one single customer markets including wholesalers, intermediaries, consumers but there are other groups which more or less influence or being influenced by the companies’ business. Those groups, including recruitment markets, influencer markets, referral markets, internal markets and supplier/alliance market, together with customer markets are known as extended set of stakeholders.
- Relationship marketing is a shift from marketing activities emphasizing on customer acquisition to those emphasizing on both customer acquisition and customer retention. In fact, companies reinforcing relationships with existing customer can potentially generate higher profit at lower cost than those having to acquire customers from to it is much more costly to get new customers than

to keep and grow the already exist customer. Therefore, once the customer acquisition is done, the next important step is always to retain the contact with customers since lifetime value of a customer is a source of profit for future of companies. However, it is undeniably true that not all customers are equally profitable and companies must be able to recognize that as soon as possible so that they can apply proper strategies to enhance and maximize the profitability from the targeted customers.

CRM is built on these principles of relationship marketing plus the strong facilitate of new technologies, which help manager to process massive data, analyse and make it ready for use.

### 2.2.2 The trends that lead to the rise of CRM

There are quite many factors that result in the evolution of CRM. Below are some of the most outstanding ones such as the transition from business activities focusing on increasing number and value of transactions to those that aim at gaining profitable relationships with multiple stakeholders; the changing in perception of role of customer; the shift from functions to processes in organizational structure, the balance of value trade-off; the recognition of proactive use of information rather than reactive manner; the greater involvement of technology in the process of managing and exploiting information base and finally the flourishing of one-to-one marketing approaches.

### 2.2.3 Types of CRM

So far there have been several classifications of CRM made by analyst firms. Meta Group, one of those firms, has suggested three types of CRM which they address as operational, analytical and collaborative CRM.

*Operational CRM* refers to the automation of business processes, in which front-office customer contact points are crucial part. Activities such as sales automation, marketing automation and customer service automation are categorized as operational CRM activities and which also deplete most of businesses' expenditure. Typical examples of operational CRM are operating call centres or adopting software applications which help sales people with the sales processes, often known as sales force automation system.

*Analytical CRM* includes activities such as capturing, organizing, storing, analysing, interpreting and utilizing the data which have been created from the operation of the business. Analytical CRM activities mainly focus on supporting the organizational back-office operations. In other words, this type of CRM is built to help business to deeply analyse, uncover and understand the needs and behaviour of potentially profitable customer. Data that processed by analytical CRM system include preferences of customers, procurement volume, structure of customers.

*Collaborative CRM* deals with the integration of customer interaction and channels of communication which help businesses to maintain and grow relationships with their profitable customer in a standardized and consistent manner. These channels can be hotline, email, website, fax, social media pages, etc. Collaborative CRM helps analyse which channel generate sales the most. This collaborative CRM also enables information flow between the enterprise and its employees.

For the success of every business, there must be a harmonious and effective use of the three components of CRM. Traditionally, companies put more focus on operational and collaborative CRM, which result in the blurred role of analytical CRM. Nowadays, firms are more aware of the importance of analytical CRM, which helps them to have a thorough understanding about customers' behaviour and needs, thus create and deliver superior value to customers.

### **2.3 Strategy development process in CRM strategic framework**

Having realized the vital role of CRM, firms nowadays seem to pay more attention to implement CRM principles in their everyday operations. However, as CRM aims at dealing with a large number of individual customers concurrently in a synchronized and systematic manner, it is often the case that firms cannot realize full potential of CRM. Therefore, it is remarkably essential to have a systematic framework of CRM which every business can adhere to with ease. (Payne, 2006)

Businesses should consider CRM as critical set of processes which includes five components. The first component is a specific analysis on the strategy of the business, which is known as strategy development process. The second element is value creation process, in which firms from which firms gain competitive advantage. The third part is information management process, in which firms collect and wisely utilize the data that they captured from customers and other partners. The fourth process is multi-channel integration, which figure out the most appropriate combination of channels through which customer and suppliers interact with each other.

When implementing this critical framework, companies should clearly understand that the framework just provides general guidelines, in other words, it does not include all aspects of implementation, hence companies ought to modify it or enrich it with companies' own identities. The main goal of having a CRM strategic framework is to reveal CRM issues that have been obstacles for companies and prevent them achieving best business outcomes. (Peppers, D., & Rogers, M., 2011)

#### **Strategy development process**

After realizing the urgent need of having a CRM system, managers often tend to quickly look for and adopt a particular software with high hope that the newly adopted technology will solve all corporate issues. However, there are situations which companies can fall into such as the IT system does not fit into the company's culture, which often leads to the fact that the system is treated as a source of cost, which initially is considered as a competitive advantage generating source. Thus, before investing in new information management system, companies should examine their organizational structure and re-evaluate their strategies.

The strategy development process includes researching the organization's business strategies and customer strategies. And the goal of this process is not to develop business strategy for organization, it rather helps managers to understand the already existing strategies by analysing the whole industry picture as well as the competitive environment, so that managers can decide which strategy companies should focus on or how to develop a corresponding customer strategy.

### 2.3.1 Business strategy

Concerning the organization's business strategies, experts have classified them into two types: implicit and explicit. Implicit business strategy is often the one that is not expressed directly but acts as a guide for the board management to achieve success. Whereas, explicit strategy is the one that is publicly known.

#### a) Business vision

Business vision is a strong component of a business strategy. Therefore, firms should develop their vision in such a way that distinguish themselves from others, especially their rivals. A robust business vision can act as a comparative tool that companies can use to coordinate activities in their organization.

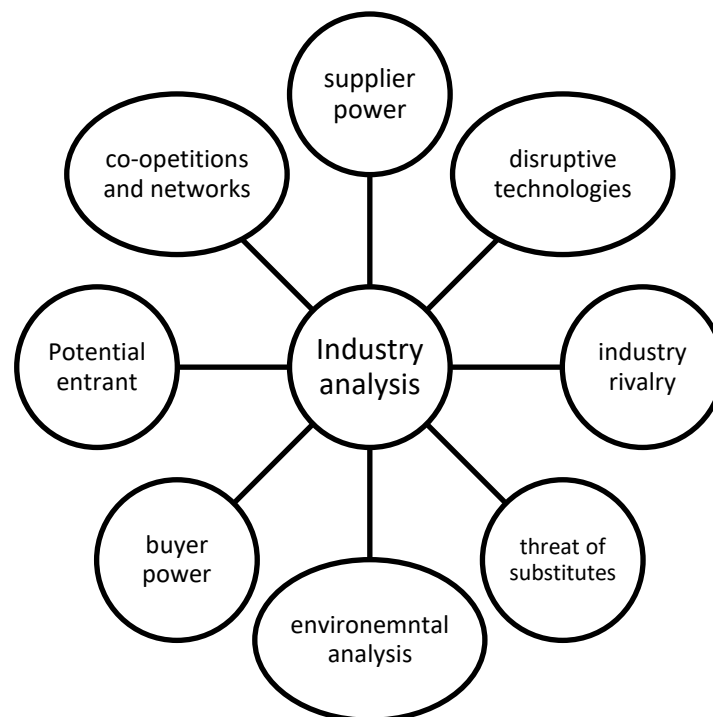
#### b) Industry analysis model:

Companies often use five forces framework suggested by **Michael Porter** to analyse the dynamics of the industry. By using this model, companies have better chances to understand all known and unknown factors, which directly and indirectly influence their business performance. In fact, companies can identify their competitive features as well as key success factors and foresee whether the industry is profitable or not. The five aspects of Michael Porter's framework include: industry rival (nature and level of competition), potential entrants (the ease of new entry to the market), threat of substitution (the competitive power of substitute products), buyer power (the degree of buyer power) and supplier power (the degree of supplier power)

The question which is often asked by enterprises, especially start-ups, nowadays is that whether Michael Porter's five forces analysis is enough for them to evaluate all the characteristics and long-term aspects of an industry? Put in today context, it is obvious that there are other factors that affect businesses' operation such as advancement in technology, the emergence of aggressive forms of entrepreneurship resulting from deregulation, e-commerce and new internet-based business strategies. Therefore, Stanley F. Slater and Eric M. Olson have suggested some other dimensions, which augmented Porter's five forces. The new elements are environmental analysis, co-operation and networks and the implications of disruptive technologies.

The combination of Porter's five forces and the three new dimensions makes a new and more contemporary analysis.

Figure 1. Industry analysis framework (Payne, 2009)



**Supplier power:** In the following cases, high supplier power exists: there are few suppliers in the market or a few suppliers have major influence in the market; the supplier is strong enough to integrate forward to customer's business; there is no direct substitute for the product supplied; customers have to bear high switching costs if they want to change to new suppliers since current supplier has unique product that is distinctive from other products; the industry is not the first priority of the

supplier. In any industry that has high supplier power, the profitability is low.

**Buyer power:** there are some conditions when buyer power is high: the switching cost to new supplier is low and the supplied product is ordinary; the purchase is made in bulk; the buyer is strong enough to integrate backwards; the price of the purchased product forms a large proportion in the price of the buyer's own product; the buyer operates in a low profitability industry. In any industry that has high buyer power, the profitability is reduced.

**Potential entrants:** in situations which existing barriers to new entry are high and new entry can provoke potential hostile retaliation from current companies, the threat of new entry seems to be low. When threat of entry is low, the industry is high profitable.

**Threat of substitutes:** the higher the threat of substitute, the lower the profitability of an industry. Threat of substitute is high when switching cost from current supplier to the substitute product supplier is low; it also high in the condition when the price of substitute product is lower than industry's product; if substitute product offers equal or higher quality, performance, function than industry's product, then the threat is high.

**Industry competition:** the competition in any industry means the amount of companies competing within that industry to win market shares. Intense competition occurs when the cost of building up structure and running business are high and companies need to continue with high volumes; when there are companies which have relatively similar size and capability co-exist; when switching costs are rather low; where exit barriers are so high that even unsuccessful companies have to remain until a particular time. And price war is often the case in such highly competitive industry. Obviously, the industry profitability is reduced in such high degree of competition marketplace.

**Environmental analysis:** an overview of external influences of the whole industry. This analysis includes considering political, economic, social, technological, legal and environmental aspects. It is also known as PESTLE analysis. Conducting PESTLE help every company in an industry understand better the competitive dynamics as well as opportunities and threats that company has to confront with.

**Disruptive technologies:** Most top-performing companies are good at responding to evolutionary technological changes but rather passive in initiating new changes or disruptive innovations. Firms that have successfully use disruptive technologies do not aim at competing with other companies in an established market but rather, they target new market segment, which is often forgotten or not have been thought of.

The disruptive innovations gradually become better and eventually satisfy all needs of mainstream customers in the established market. Disruptive technologies play an important role in the growth path of an industry.

**Co-opetitions and networks:** co-exist in the same industry, firms often compete with each other to win market share. However, in many cases, co-operation, not competing, is the key to success. Co-opetition gives firms opportunity to utilize resources more efficiently and together, to create superior values and deliver them to customer as well as to maximize corporate values. To have productive co-operation, companies should have a wide network, so that they have more options to choose for potential cooperation and it is companies job to evaluate and redefine relationships with all parties within as well as outside their value chain, so that they can broaden their networks and establish more profitable co-operation.

c) Michael Porter's generic strategies framework:

After analysing and understanding all the influences of the industry, companies should now be able to select suitable strategies to run their businesses and compete with others in the industry. Michael Porter has proposed a set of three generic strategies, which are methods of gaining competitive advantages aiming at getting more sales and customers. The generic strategies include cost leadership strategy, differentiation and focus strategy.

**Cost leadership strategy:** the strategy that suggests companies try to become the lowest cost manufacturer in the industry by taking advantage of economies of scale, exclusively use of technology, preferential access to low price raw material sources, low operating costs due to optimization. Companies applying this strategy wish to gain as much as possible market share through highly competitive pricing.

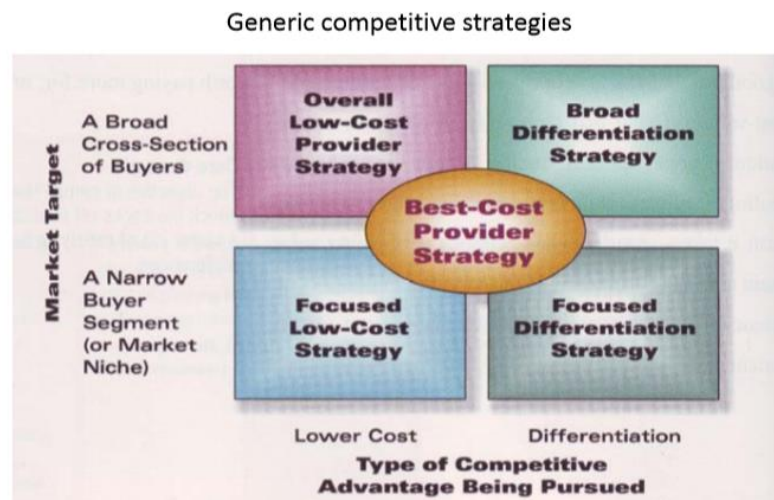
**Differentiation:** this strategy means companies try to generate innovation in its production to offer to customers products or services with unique features, functions, users' experience that competitors have not practiced and will take time to imitate. The differentiation can stem from using advanced technologies, product designs, great customer service, dealer networks, etc. The goal of this strategy is to earn higher price for the products/services that companies offer.

**Focus strategy:** this strategy refers to companies offers tailor-made products/services to a particular group of buyer or niche. Companies using focus strategy aim at serving a specific group of customer or market better than other competitors who adopt the other two strategies or also adopt focus strategy but concentrate on different segments.

Michael Porter has split up this focus strategy into two sub-strategies, which are focus low cost strategy and focus differentiation strategy. There is another strategy, which was called as the “*stuck in the middle*”, is actually the hybrid strategy when companies combine focus low cost and focus differentiation strategy.

The generic strategies of Michael Porter are demonstrated in the figure below in Arthur Thompson, A. J. Strickland III, John Gamble (2007).

Figure 2. Generic competitive strategies (Arthur Thompson, A. J. Strickland III, John Gamble,2007).



Conventional strategists believe that companies adopting more than one strategy simultaneously are unlikely to succeed. However, in practise, there are firms that used hybrid strategies and gained success. Those companies have been able to offer unique products at a low relative cost. Ikea is an outstanding example of companies utilizing hybrid strategies skilfully.

d) The market leader framework:

Another framework proposed by Michael Treacy and Fred Wiersema suggested three value disciplines for market leaders, which are operational excellence, product leadership and customer intimacy.

**Operational excellence:** adopting this strategy means companies strike to provide customer with decent products or services at reasonable and competitive prices as well as satisfying delivery service. Companies can only achieve operational excellence based on lean thinking or continual improvement and other CRM activities that bring out high internal efficiency. Equally important, companies should have pay serious attention to relationships with suppliers and collaborate with them closely to get adequate raw material with the best possible prices.

**Product leadership:** this strategy requires companies to invest in research and development, improve working environment so that entrepreneurial energy and innovation waves can blossom and be turned into creative inventions which add superior values to products or services. This strategy also calls for consideration in recruiting and retaining skilled employees. Moreover, companies should also collaborate with each other to take advantage of skills and knowledge that each possess to create values for the products or services.

**Customer intimacy:** this strategy emphasizes the importance of the relationships with customers, especially the existing ones, to the sustainable growth and profitability of the firms. To execute this strategy, firms need to beware all the contact points between customers and the firms and try to develop them towards the customized and personalized direction.

#### e) SWOT analysis

SWOT analysis is an overall evaluation that every business often relies on and utilizes when it come to examine its strengths, weaknesses, opportunities and threats. Using this analysis, companies can scrutinize the internal and external business environment.

Regarding the **external environment**, manager of a business should be able to detect the macro-environmental factors such as demographic, economic, technological, political-legal, and social-cultural as well as micro-environmental forces such as the customers, competitors, suppliers and distributors. Each of the mentioned factor is associated with opportunities and threats for a business.

An **opportunity** is an event or a situation which the business can leverage and perform profitably. An opportunity can be examined based on two dimensions: *attractiveness* and *success probability*. The success probability is high when the company' strengths match the key requirements for operating in chosen market and surpass those of its competitor.

An environmental **threat** is defined as any challenge which is caused by unfavourable external factor that could result in a deterioration in business result. Similar to its counterpart, threat is also examined from two different angles, *seriousness* and *probability of occurrence*.

Assessing **internal environment** mean firms need to analyse its *strengths* and *weaknesses* in every area of an organization such as marketing, sales, financial, logistics, manufacturing and organizational competencies. If companies can leverage its strengths to seize the available opportunities as alleviate threats, they will have high possibility to succeed in their

business. Of course, weaknesses need to be minimized and in the long run, companies should try to overrun those weaknesses too.

### 2.3.2 Customer strategy

After completely analysing all the factors that influence the business and selecting appropriate business strategies, companies should move on which the next step, which is to figure out their target customer base. By identifying which group of customers should be targeted and which not, firms can concentrate and direct all of their strengths and resources to retain and grow their business.

Customer strategy consists of evaluating the existing as well as potential group of customers and it also identifies the proper form of segmentation. In order to have a clear and accurate customer strategy, firms should collect a significant amount of data from customer and able to use tools and techniques to analyse the collected data.

Customer segmentation step helps firms to realize how their customers have been approached and segmented as well as how the firms allocate and utilize their resources, so that they can have better concentration, instead of stretching investment-where companies' resources are spent on all customer equally and leads to inefficiency.

Who are customers?

There are three broad groups of customers including direct buyers, intermediaries and end users or final consumers. In different industries and different period of time, the role of each group varies. In many cases, companies invest more in building relationships with end users whereas in other cases, the role of intermediaries is central.

#### a) Market segmentation procedure

Market segmentation means to divide a market into several smaller market segments based on the customer's characteristics. In order to have an accurate market segmentation, companies should first define relevant market, then set up criteria for market segment viability, evaluate different alternative bases for segmentation and lastly is to select specific segments.

**Defining relevant market:** Relevant market is defined by specifying the broad customer group which company aims at selling its product or service to. This task also requires company to review their strengths and weaknesses as well as the available resources that company can use in order to conquer or to compete in desired market. A served market is

defined based on certain factors such as geographic scope, types of customers, breath of service line.

**Criteria for market segment viability:** To have an answer for the question whether a market segment is viable or not, companies should be able to figure out whether the size and characteristics of the segment are measurable or not; whether companies can earn long-term profit from the segment; whether companies can win the segment within the limit of budget; whether the segment is sustainable or it will soon merge with other segment as the service matures.

Hospitality companies when identifying different customer groups must evaluate each segment's attractiveness and then choose the segments which are most potential and appropriate for the companies' internal resources as well as the external environment.

Kotler and Keller (2009) have listed out criteria which they believe a segment must have so as to be considered as attractive and worth investing.

*Measurability:* this means companies must be informed the segment metrics such as the size, the purchasing power, purchase frequency, disposable income, growth rate.

*Substantiality:* the selected segment must be large enough in size and demand so that it is profitable enough for companies to invest their budget in promoting activities.

*Accessibility:* the target customer group member must be reachable through communication channels so that promoting messages from companies are properly communicated.

*Differentiable:* the segments must be distinguishable in terms of concept and they respond differently to different set of marketing programs, otherwise, there is no sense to separate customers into groups.

*Actionable:* this means with the selected segments, marketers can formulate marketing programs to attract and to serve the members of the segments.

Different alternative bases for segmentation: A segmentation base acts as a filter for company to target the most relevant or desirable segments in the whole market. There are several ways to segment a market that can be applied for both business-to-business and business-to-consumer segmentation. Morritt (2007) suggested that hospitality companies should use two or more filters to figure best fit segments of customer. The following categories are, on the one hand, classical classifications, on the other hand, contemporary forms of segmentation.

*Business-to-consumer market segmentation:*

*Geographic segmentation:* Known as the most widely used filter for hospitality companies for its low cost and readily available necessary information (Morritt, 2007). This method segments customers according to their places of physical living by collecting and analysing information such as postcodes, by which customers can be segmented into metropolitan, sub-urban or rural groups. Geographical segmentation can be very small such as a few miles radius but it can also be very large such as countries wide.

*Demographics and socioeconomic segmentation:* this method based on differences on demographic and socioeconomic factors such as age, sex, life circle stage, income, social class, family size, ethnic groups. This method is often used in combination with geographical segmentation to form a two-stage segmentation process, known as geodemographic segmentation.

*Purpose of trip segmentation:* This approach segments customers into business travellers and leisure travellers or non-business travellers as there are differences among these two groups in terms of their needs, preferences as well as price sensitivities. Business travellers are often less price sensitive, high time restricted and also expect more business services and facilities such as conference rooms, high speed internet access.

*Product segmentation:* this form of grouping is often made based on managerial intuition or common practice in the industry without market research. With price/product segmentation, hospitality companies classify customers into budget, economy, mid-price, upscale and luxury hotels.

*Psychographic segmentation:* this approach takes customer buying behavioural aspects into consideration by analysing data about their lifestyles, values and personality.

*Channel segmentation:* this method groups intermediaries such as travel agents, tour wholesalers, incentive travel planners or operators by function and common characteristics shared by functional groups (Morritt, 2007). The task of hotel managers is to decide which channel segments would best fit their hotel's target market.

*Benefit segmentation:* this form of segmentation groups people who seek for the benefits of a product or service together. Many studies conducted in lodging industry shown that benefits related to location, cleanliness and price are the three most wanted benefits. Other benefits hotel customers favour are safety, quiet, recognition, romance (Morritt, 2007).

*Usage segmentation:* this approach segments customers on the basis of their degree of usage. In particular, under this perspective, customers are classified into heavy users or frequent travellers, medium users, occasional

users and non-users. Customers are also divided into groups based on their status of awareness such as unaware, aware, interested, enthusiastic. Heavy users is often the group that marketers concern about.

*Brand loyalty segmentation:* this approach classifies customers according to their degree of loyalty to a particular product or service. There are four types of loyalty which are true loyalty, spurious loyalty, latent loyalty and no loyalty (Baron et al, 2010). This classification is based on two dimensions: repeat purchase and relative attitude, which means the degree of being aware of a product/service's existence and showing favour or disfavour toward it. True loyalty is when repeat purchase and relative attitude are both high. Spurious loyalty occurs when relative attitude is low but repeat purchase is high, which is often the case when hospitality companies offer promotions, deals to attract customers in the short term. Latent loyalty is the result of low repeat purchase and relative attitude is high. This situation happens when customers heard about the hotels and would like to come or come back but hesitate to do so due to barriers such as inconvenient locations, difficult opening time and so on. No loyalty occurs when both repeat purchase and relative attitude are low. In this case, offers from hospitality companies are often perceived as unappealing and undifferentiated. Hospitality companies establish brand loyalty with customer through relationship marketing programs and they often offer customers various loyalty programs to retain profitable contacts.

*Organizational segmentation:* Beside individual customers, hospitality companies also target organizations such as schools, associations or corporations. Lodging industry experts have specified these organizations as corporate business travellers, associations, tour groups, government agencies, incentive travel and the SMERF group, which is abbreviation of social, military, educational, religious and fraternal group. Organizational customers are segmented into six groups: gatekeeper, influencer, decider, approver, buyer and user. Among these six groups, decider should be the target group that small and medium size hospitality firms form their marketing strategies on.

Besides, organizational buyers are also segmented based on size and number of occupied room rights.

*Choosing specific segments:* The decision that enterprise take on which segment to focus on must be made with serious consideration about existing and future potential values and profitability of the segments. The chosen market segment must match with enterprise's strategic strategies. Although there are already four steps available for companies to follow to identify the right segmentation, companies should consider another perspective concerning segmentation before selecting the final form of segmentation, that is level of segmentation.

b) Level of segmentation:

The fact is that one customer can belong to different segments, therefore, beside clarifying which segmentation base for the business to focus on, companies must also consider the level of segmentation which includes macro-segmentation and micro-segmentation or one-to-one segmentation. (Payne, 2009)

The one-to-one segmentation leads to the fact that companies, instead of offering a choice with one standard offering and use mass marketing to approach as one segment homogeneous market, have to now think in a different way, that is to shift to an individualized marketing environment. Don Peppers and Martha Rogers, in their excellent work, have point out the need of shifting from mass market to one-to-one market. They also pointed out the strong role of exploiting e-commerce as a supporting means to deepen the level of segmentation.

One-to-one approach does not mean that companies must treat every single customer in a different manner, it would cost much efforts and lots of resources, especially with a business-to-consumer market. Rather, one-to-one approach means companies should understand the economic importance of each customer so that they would adopt and apply appropriate marketing strategy and technique in order to gain full profitability from customers.

#### *Permission marketing*

One concept that is super relevant to one-to-one approach is permission marketing, introduced by Seth Godin of Yoyodyne Entertainment, cited in Payne (2006). The concept means only with permission gained by customers, can companies send marketing promotional message to them. Supporters of this concept believe that by introducing it, marketers will not have face the problem when people attention are interrupted by marketing promotional information or advertisements. Permission marketing, in fact, has opened up a great opportunity for potential customer to receive the promotional information as well as activities themselves without the feeling of being forced to accept those advertising stuff. In other words, customers accept messages from marketers voluntarily. This approach also creates precious chance for companies to build better relationships, improve brand awareness and eventually maximize chances to make sales with customers who have given signals to learn more about companies' offerings.

#### *Mass customization*

Another concept which is closely related to one-to-one is mass customization, which means customer will receive tailor-made accompanying package service when buying physical product, instead of

buying tailor-made product, which can be expensive, at least in customer's thinking pattern. Mass customization itself refers to the ability to produce and deliver a tailored solution for customer by combining standard components, modules with customer-specific selection or desired feature. The concept can only be adopted when there are interacting points between customers and manufacturers, such as store or websites so that companies can learn about their customer's desires, interests and needs and then use them for future offerings. By adapting this concept, companies can learn from customers and adapt their offerings to suit customers better in later transactions. Mass customization, on the one hand, help companies to understand customer deeper and produce more fit products to customer, on the other hand, it is a practice that help retain customers. Providing companies with their interests, desires and needs, customers are teaching companies how to serve them. Companies, if properly learn, will respond by offering tailored solutions which are cost-effective and thus satisfy customers. The whole process of teaching, learning and responding often take lots of time and efforts, thus increases the switching cost of customers and can be a competitive advantage of the adopters.

In order to achieve mass customization, firms need to set up technological infrastructure which acts as interactive point between customers and companies and also customers' needs collecting channel. Secondly, there must be a data processing mechanism which will interpret customers' input data and transfer the processed data to production. And last but not least, companies must be able to configure or customize its productions towards the direction that help companies to respond quickly to customers' needs flexibly.

#### *Customer segments in relation with selection of product/service and marketing planning*

At the end of customer strategy development process, companies should also think of the nature of products and service which they will sell to particular group of customers. A quick review on product/service offer by companies and their target market will help managers to have an overview in characterizing the product policy and marketing planning.

Figure 3. Customer segments in relation with selection of product/service and marketing planning (Payne, 2009)

		PRODUCTS	
		Present	New
MARKET	Present	<b>Market penetration</b> <ol style="list-style-type: none"> <li>1. Increasing number of users               <ol style="list-style-type: none"> <li>(a) attracting competitors' users</li> <li>(b) converting non-users into users</li> </ol> </li> <li>2. Increasing purchasing frequency</li> <li>3. Increasing average quantity purchased per transaction</li> <li>4. Increasing lifetime value (customer retention)</li> </ol>	<b>Product development</b> <ol style="list-style-type: none"> <li>1. Product improvement</li> <li>2. Product quality extensions</li> <li>3. Product line extension</li> <li>4. New product development</li> </ol>
	New	<b>Market development</b> <ol style="list-style-type: none"> <li>1. Increasing number of users in new market segments in present geographic market</li> <li>2. Increasing number of users in new market segments               <ol style="list-style-type: none"> <li>(a) Regional</li> <li>(b) National</li> <li>(c) International expansion</li> </ol> </li> </ol>	<b>Diversification</b> <ol style="list-style-type: none"> <li>1. Concentric</li> <li>2. Conglomerate</li> </ol>

### 2.3.3 Customer acquisition

Companies value the importance and role of customer acquisition process differently depending on which situation they are having. A newly established firm may invest more in acquisition activities than the well-established ones which may already have a certain amount of customer and will focus more on retaining activities.

Payne (2009) suggests that the process of acquiring customer should not neglect the issues such as acquiring customers at a lower cost, acquiring new attractive customers and acquiring more customers utilizing new channels. To initiate this process, companies ought to review the customer segments, the size of each segment, the expected profitability of the average customer in each segment and the overall profit potential of each segment overall; available channels and costs of acquiring customers through existing channels that are currently in use and the objective is to figure out the costs variation when acquiring different customer segments.

There are multiple channels to gain new customers such as direct mails, TV commercial, direct salesforce which are quite traditional and websites, newsletter, advertising through social media are the modern ones which enable firms to reach a larger number of prospects with a small fraction of costs used for traditional means. However, since the nature of customer segments which includes demographic, preference, cultural, geographic characteristics are dissimilar, companies should not underestimate the traditional channels and solely utilize the internet-based ones. Being able to identify the properly efficient channels and understand the relative costs attached to each channel are the key to success in customer retention process. (Peppers, D., & Rogers, M. ,2011)

#### 2.3.4 Customer retention and loyalty

Customer long-term relationship is a corporate asset that cannot be duplicated by rivals, and because of the uniqueness as well as the sustainability, this asset becomes a significant competitive differentiation for every company. It is widely accepted that retaining an established relationship with customer is less costly than to acquire a new one. Moreover, companies also benefit from profitable relationships which result from long association (Reichheld and Sasser, 1990)

A sustainable loyalty requires the presence of both behavioural and attitudinal loyalty, which in fact are high patronage behaviour and high relative attitude. As mentioned in brand loyalty segmentation, there are four types of loyalty, which are distinguished based on relative attitude and repeat purchase dimensions, which are introduced by Dick, A.S. and Basu, K. (1994). Those types of loyalty are true loyalty, spurious loyalty, latent loyalty and no loyalty, showed in figure below.

Figure 4. Types of loyalty. Source: Adapted from Dick, A.S. and Basu, K. (1994)

		Relative attitude	
		High	Low
Repeat purchase	High	True loyalty	Spurious loyalty
	Low	Latent loyalty	No loyalty

#### *Rewarding loyalty*

Kumar and Shah (2004) have suggested a conceptual framework which incorporates four stages of rewarding loyalty.

##### *Stage 1: capturing customer data*

Customer data about purchase transaction, demographic info will be collected and stored in central data warehouse, available for being analysed. This type of data is known as behavioural data.

##### *Stage 2: building loyalty amongst all customers*

The behavioural data is sorted and analysed using two dimensions: purchase behaviour and profitability, which aims at producing potential plans to build loyalty amongst all customers.

Figure 5. Behaviour analysis: linking purchase behaviour and profitability. Source: Kumar, V. and Shah, D. (2004)

		Profitability	
		Low	High
Purchase behaviour	High	Habit purchase of one type of product/service	Frequent purchase of a large quantity of products/services from an organization
	Low	Infrequent purchase of products/services from an organization	Infrequent purchase of a range of products/services from an organization

*Actions needed for each type of customers:*

*Top-left quadrant:* Identify and target this type of customer to create positive impressions towards the manufacturer so that it can apply upsell or cross-sell tactics with these customer in the future.

*Bottom-left quadrant:* This group of customers could be new customers who are not yet familiar with the brand and firms should apply promotional activities that increase brand image as well as frequency of buying.

*Top-right quadrant:* High valued customer and needed to be retained through loyalty program.

*Bottom-right quadrant:* This group is potentially high valued customer and companies need to implement promotional activities to increase the purchasing frequency from this group.

With this behavioural analysis, Tier 1 reward is offered to all customers who are currently purchasing and or purchased in the past the company's product regardless of their attitude or purchase pattern. The Tier 1 reward act as an incentive for customers to record their purchase(s) with the firm whenever they conduct a purchase. In addition, it is also a tool to attract new customers. The buyers will be rewarded in accordance with the proportion of their spending. This Tier 1 reward aims at building the customer behavioural loyalty.

*Stage 3: the customer selection process*

As customers differ from each other with regards to their potential profitability that companies can gain from, rewarding programs for each of the groups should also be specific. Customer selection process involves dividing customers into groups based on four measures: attitude analysis, behaviour analysis, customer profile information and customer lifetime value.

Regarding attitude analysis, Kumar and Shah (2004) suggest that the analysis should be build on the basis of two dimensions which are attitude strength and attitudinal differentiation.

Figure 6. Attitude analysis: for which customers should attitudinal loyalty be cultivated. Source: Kumar, V. and Shah, D. (2004)

		<b>Attitudinal differentiation</b>	
		<b>Low</b>	<b>High</b>
<b>Attitude strength</b>	<b>High</b>	Strong positive attitude towards all sellers of a product/service including the company and its competitors	Strong positive attitude towards the company
	<b>Low</b>	Weak attitude towards the company's product/service and not beware the difference between products offered by all sellers.	Aware of better features that the company product/service has than those of competitors but attitude towards the company's product is weak.

*Recommended actions for each group of customers in attitude analysis:*

*Top left quadrant:* More activities from the company aiming at differentiating its offerings from those of competitors

*Bottom left quadrant:* Attitudinal loyalty is needed here but it may not be worth the effort.

*Top right quadrant:* Continue cultivate the attitudinal loyalty with this group of customers.

*Bottom right quadrant:* There is a need to cultivate the attitudinal loyalty here.

Behavioural loyalty is important and needed for a firm to generate profit, attitudinal loyalty on the other hand, helps the firm to create exit barriers. The later requires a thorough customer selection process, which is the basis of Tier 2 reward. For effective Tier 2 reward, firms need to have the ability to collect accurate customer profile information concerning the psychographic and demographic details, based on which firms can predict the future profitability that a particular customer can bring about for firms. And in this context, firms need to take Customer lifetime value (CLV) into consideration.

*Stage 4: sustaining loyalty for selected customers*

By investigating the CLV of all customers, firms can not only group customers into low, medium and high CLV, but are also able to determine what type of rewards should be offered to customers as Tier 2 reward. At this stage, both behavioural analysis and attitudinal analysis are used besides the CLV to produce appropriate rewards. It is suggested in Payne (2006) that although Tier1 and Tier 2 reward occur concurrently, companies should utilize Tier 2 as bonus reward for specific customers, which is invisible to competitors and seen as a differentiating feature.

## 2.4 Value proposition

Value proposition is a step in which firms try to define the relationship between what they offer and what customers purchase by identifying how firms satisfy their customer's requirements across the whole product utility cycle (being purchased, utilized and disposed). In specific, value proposition defines how product or service's performance attributes fulfil the needs of customers and at which costs. It is essential for businesses to understand what customers are not identical and their needs also vary. Therefore, the value proposition to each customer or group of customers needed to be clearly articulated at individual level.

Payne (2006) defines value as a package of total benefits that enhance the core product. Values offered by a product/service, in other words, are what solve customers' problems and customers are willing to pay for. Customers, when buying a product/service, often expect benefits and values that the product/service provides, also known as *the offer*.

### 2.4.1 The total value offer

An offer includes an essential core which is surrounded by multiple features and benefits which can be tangible or intangible. Therefore, when examining an offer, there are many levels needed to be considered. In

Payne (2006), it is suggested that every product should have the following value layers.

*Core or generic level:* For hotel service, the core value can be spotless room with shower and air-conditioner, cable TV.

*Expected level:* This level consists of the core product plus a minimal extra service or product function. In hotel context, it can be included breakfast at the hotel's restaurant.

*Augmented level:* At this level, business offers extra features that helps differentiates itself from other product/service providers. For instance, an included in-room breakfast or free laundry service.

*Potential level:* At this level, business tries to offer additional features that may be of use of particular group of customers and this could help also in attracting new customers as well as creating favourable relationships with existing customers. For example, hotels can offer vouchers which their guests can use to purchase local excursions tickets at some percentages discount.

The concept of product/service value with different layers has significantly changed the way of thinking of managers. The major task of managers is to recognize the profound impact of small features that add more values to the product/service sold to customers. However, as there is no particular guideline on identifying which elements to be added to the core product, managers need to be flexible and able to adopt the general frame to their specific businesses.

#### 2.4.2 Formulating the value proposition

Value proposition is a step in which firms try to define the relationship between what they offer and what customers purchase by identifying how firms satisfy their customer's requirements across the whole product utility cycle (being purchased, utilized and disposed). In specific, value proposition defines how product or service's performance attributes fulfil the needs of customers and at which costs. It is essential for businesses to understand what customers are not identical and their needs also vary. Therefore, the value proposition to each customer or group of customers needed to be clearly articulated at individual level.

Michael Lanning and Lynn Phillips in their consultant work, have suggested that in order to formulate the value proposition, firms should determine the target clients, the benefits that companies offer to clients, the price charged relative to the competition and a formal statement of the value proposition. Payne (2009) has specified his fellows' suggestion by pointing out that a value proposition approach that companies adopt should consist of three steps:

### *Step 1: Analysing market based on value*

Understanding the position of the firm in the market is the first step in the value proposition formulation and in this context, a positioning analysis with value map can be a useful tool. A positioning analysis provides a graphical presentation of the firm as well as its competitors based on attributes such as prices and target market. Through this analysis, the firm can have a clear overview where it positions in the market and possibly come up with a plan to achieve larger market share.

### *Step 2: Evaluating opportunities in each segment to provide superior product/service*

In the old days companies used to adopt the macro-segmentation or market aggregation but now, that approach seems to be outdated and companies now pay more attention to evaluate the opportunities and limitations of each segment to figure out which segments are most appropriate to be focused and companies then deliver superior customer value. Even when the offers of the firm and its competitors are technically identical, the firm can still win customers' heart and pocket through efforts of differentiating its offers from others' through branding and relationships. Here the role of supplementary services such as payment method, order taking process, hospitality, consultation, etc is significant.

### *Step 3: Explicitly choose the value proposition that optimizes the opportunities.*

When selecting the value proposition, firms should understand that the characteristics which make up some markets are different from other, therefore the value proposition for each market segment is also contrasting.

## 2.4.3 Value delivery system

Value delivery is considered as a vital part in the entire value proposition process. This system consists of three steps: choose the value, provide the value and communicate the value.

Choosing the most relevant value proposition require understanding in several aspects such as forces driving demand, competitors' performance (their products/services, prices), customers economics and the purchasing process, etc. In providing value step, it is important to develop a whole product/service packages that offer superior value to customers at a reasonable and competitive price by focusing on product/service quality and performance, cost structure, pricing strategy, delivery channel, flexibility and responsiveness to customers. In the last step, communicate the value, the role of promotional activities is outstanding. Through those

activities, firms convince their target customer that they deliver superior values in comparison with those from competitors. This step involves advertising, sales promotion and of course sales force.

## 2.5 Interaction channels

There are numerous interaction channel options, which are categorized into six groups, namely sales force (including the personal representation, account management), outlets (including retail stores, branches, depots, kiosks), telephony (including call centre, telephone, fax, etc), direct marketing (including traditional TV advertisements, direct mail, radio), e-commerce (including direct email, digital TV and internet-based media) and m-commerce (including mobile telephony, SMS, 3G mobile services).

*Sales force:* Face-to-face interaction with customer enables sales staff to deal with complicated or non-standard request from customer. Moreover, sales force also provides purchase recommendations to as well as collect feedbacks from customer. In addition, sample products and printed materials, which are offered by the sales force often contain a large amount of necessary information that directly educate customer about the product/service. However, the major disadvantage of this channel lies on the high costs it takes from approaching customers to closing the deals.

*Outlets:* Physical selling premises offer customers excellent chances to physically touch, inspect and experience the products or services before making final purchase and also convenient for returning unexpected products. However, the opening hours can be a limitation for this channel. Other drawback is the high cost it takes to maintain the premises and the unequal individual attention that each customer receives when visiting the sites. To tackle these matters, many businesses have introduced the in-store web-based service channel to serve customers better. Moreover, there are other tactics that are used in stores nowadays such as issuing loyalty cards, which aims at collecting customers' data to be used in other channels such as direct mail, email, etc.

*Telephony:* Basically, with call centres, service can be offered 24/7 and standardized, which helps reduce cost of operating for companies. Moreover, with this channel, complex and unclear questions can be dealt with ease by suitable skilled personnel. Another benefit of the channel is that it can be outsourced, which helps the firm to reduce the cost of maintaining and operating such a department. However, it has some minuses such as customers cannot actually have physical inspection of a product. Moreover, because of its nature, purchasing through telephone still has not gained trusts from the majority of customers yet and when outsourced, the quality of service may not be as good as the outsourcing companies expect.

*Direct marketing:* This channel, particularly traditional TV advertising and radio, allows firms to reach a wide range of customer within a certain geographic area. It is even more customized when firms use direct mail, which is based on the customer database firms collected from customers. Firms can convey a large amount of detailed information about their products to customers or prospects through product catalogues. However, the responsiveness of customer and the inflexibility of the direct mail make this channel less attractive to businesses. Cost of advertising on TV and radio, of sending mails also discourage small and medium size businesses to use this channel.

*E-commerce:* The role of internet nowadays has become much more significant and it has long been a trend that people use internet for shopping because of its ease of use and convenience. For businesses, internet allows them to provide service 24/7 to customers and mass customization can be easily done through website. Besides, wide range of customer can be reached regardless of geographic distance. Constantly changing and improving technologies have added more functions that enable firms to interact with their prospect and customers easier and more efficiently. Generally, the emerge of internet-based channels has helped businesses to reduce the marketing and sales costs tremendously. However, the other side of the coin is concerns about customer data security, which has been quite vulnerable to recent cyber attacks.

*M-commerce:* the channel has all the plusses of e-commerce and telephony channel but more advanced than those two, m-commerce really assists companies in customization since it not only records a customer's previous purchase history and contacts but also enables companies to extend their specific offers to customers individually according to their location at a particular point in time. Moreover, payment can be made with mobile phones within a few second really makes this channel worth investing more efforts in optimizing from companies' point of view.

### **3 CURRENT SITUATION ANALYSIS**

#### **3.1 Mui Ne's tourism industry analysis**

According to industry analysis framework (Figure 1), in every industry, there are eight factors that should be analysed so that businesses understand better how attractive or competitive an industry can be and tourism is not an exception, therefore, to give HPMN hotel an overview of the landscape of tourism in Mui Ne, the following part is going to discuss about industry rival (nature and level of competition), potential entrants (the ease of new entry to the market), threat of substitution (the competitive power of substitute products), buyer power (the degree of

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buyer power) and supplier power (the degree of supplier power), environmental analysis, co-opetitions and networks and the implications of disruptive technologies.

### 3.1.1 Potential entrants

Generally, the existing barriers for new hotel business to enter the market are quite weak. In specific, according to a decree number 92/2007/NĐ-CP on June 1<sup>st</sup>, 2007 there is no restriction on opening new hotel business on non-military land, moreover, investors are requested to comply with local authorities' regulations about environment, noise, general infrastructure planning and architecture, etc. But in Vietnam in general and Mui Ne in particular, even in areas which are close to school, clinic or hospital where certain distance must be maintained, it is still possible to build up new hotels due to high bribery and corruption. Therefore, from legal perspective, there is no hinderance for new market entry.

Since there are quite many businesses which are relatively same size and there is no giant which can manipulate the whole market, therefore, the retaliation from already established businesses are relatively weak.

From the above two aspects, it can be concluded that potential entrant for this market is high. And since the high potential entry, the profit of the market is quite low.

### 3.1.2 Supplier power

There are some travel agencies which organize tours for travellers to visit Mui Ne and incorporate all services that their customers need during their stay in Mui Ne including accommodation. Those companies can be split into two types: companies base in Mui Ne area and those not base in Mui Ne. In Mui Ne-based category, there are companies that are dedicated for serving foreign tourists and other are for domestic, meaning Vietnamese tourists. In a survey in 2014 by *binhthuan.org.vn*, there were 43 travel companies in Binh Thuan province, 8 of which are international operators and the rest are domestic ones. These international operators often contract with local hotels and resorts and become suppliers of these businesses. Some of the popular suppliers such as Pegas Touristik Vietnam-a joint venture between a local start-up with Pegas Touristik Russia; Anex Vietnam-a joint venture between local company and Anex Russia; Focus Travel-a Vietnamese firm operating inbound and outbound tour packages, have extremely strong voices in negotiating with hotels and resorts since the business between hotels and such travel companies works in such a way that Pegas Touristik, for instance, would book allotments in some hotels and resorts during a certain period of time, usually from October to

April, so that it can provide accommodations for its customers who have booked the whole travel package in Vietnam, in which Mui Ne is one of the destinations. Under this contract with supplier like Pegas Touristik, hotels could save much time and efforts for marketing and sales activities and have a substantial source of guest. On the other hand, they must maintain almost fixed room rates, which are relatively lower than what they quote the walk-in guests. The other local travel operators such as Tam Hanh Travel, Ha Phuong Travel just simply act as carriers between Mui Ne and other cities like Ho Chi Minh city, Nha Trang.

On the other side, the non- Mui Ne based companies such as Vietravel, Saigontourist also organize tour package including accommodation for tourists visiting Mui Ne. However, unlike the Pegas Vietnam's business model, those travel operators do not book allotment at hotels but in most cases, they just book certain amount of rooms in certain time-frames, not the whole season like other do. This is due to the fact that potential customers of those firms are mainly local tourists, who are nowadays, with the availability of Internet, becoming more informed and tend to book accommodation and organize tours themselves. Therefore, this market segment is quite small and low-margin and it explains why Vietravel, for example, does not book allotment for long period of time. So generally, the power of this type of supplier is quite low.

### 3.1.3 Buyer power

In 2017, according to statistics from Department of Culture, Sport and Tourism of Binh Thuan province, there were about 5.1 million tourists including international and domestic travellers paid a visit to and accommodated in Mui Ne. Beside those travellers who have purchased tour packages and are arranged and scheduled to reside in particular lodging businesses, others have a wide range of possibility of selecting where to stay. Since there is a bountiful supply of accommodation in Mui Ne, these tourists could easily choose to stay in different hotels from unrated guest-houses to five-star resorts and generally the switching cost that they bear is relatively low and almost costs nothing for travellers to switch from one hotel to another. Even on booking sites, such as *booking.com*, *agoda.com*, the requirement for a customer to pay a penalty for being absent at the reserved hotel is very lenient. In addition, the nature of the tourism' products in Mui Ne is generally quite ordinary, even boring. Particularly, hotels offer basic services such as accommodation, catering and more superior hotels may have spa and healthcare services. There is one five-star resort which has a golf course, however, that is not a popular and prevalent sport for the majority of tourists coming to visit Mui Ne. So generally, suppliers for the basic services are plentiful and services are quite identical, therefore, buyers have a greater power and thus the

competition among players in the market is tough and industry profit is declining.

#### 3.1.4 Threat of substitutes

Airbnb has been an “annoying” substitute of hotels in different places over the world. This type of business has been extremely popular in Europe, where room rates at hotels are often quite high and local people have apartments which are not in use. Airbnb in Vietnam and particularly in Mui Ne is quite different since there are many guest houses, hotels and resorts offering lodging services with various price levels from a few dollars to hundred of dollars per room per night. Therefore, when looking at Airbnb in Mui Ne, travellers can easily recognize most of the offers are from hotels, which consider Airbnb as a sales and marketing channel to attract more customers and increase sales. So those businesses make attempts to post their offers tirelessly. Generally, this model has not yet become prominent and the interaction on the site which means the reviews and feedbacks are still meagre, therefore, it has not gained much attention from both travellers and investor yet. However, Airbnb can potentially become a direct substitute of guest-house and hotels, particularly the small and medium ones.

Another type of business which has been a fairly good replacement for hotel in many areas in Vietnam but not yet gained any success in Mui Ne area is homestay. According to *booking.com*, among top ten best homestays in Mui Ne area, there is only one place which has features of a homestay such as being close to the nature, living together with the host, etc. Others are just small hotels and guest-houses which designate themselves as homestay just a means of attracting more customers who look for homestay in Mui Ne.

All in all, for the time being, the threat of substitutes is still idle and not that explicit. However, as mentioned, in the long run, they could potentially change the structure of the whole industry and particularly affect the small size lodging businesses.

#### 3.1.5 Industry competition

According to Department of Culture, Sport and Tourism in Binh Thuan province, up to July 2018, there are 477 hotels and resorts in Binh Thuan, in which 209 are small and medium sized businesses. As mentioned above, those businesses offer accommodation with a wide range of prices together with the identical services which really make the competition among businesses become tougher and tougher. The decline in Russian

tourist market in recent years due to the political and economic crisis in Russia and Ukraine has really made supply exceeded over demand. Another factor which makes rivalry fiercer is the unplanned construction of new building dedicated for lodging business, which is rooted from the bad management of the local authority in Mui Ne. This is clearly shown in the decree number 92/2007/NĐ-CP on June 1<sup>st</sup>, 2007 which regulates the establishment of hotels and resort. And last but not least, the fact that service offered by businesses in Mui Ne is quite similar to each other and not unique at all has resulted in an implicit and unrecorded price war among businesses, which is quite understandable in this context.

### 3.1.6 Environmental analysis

Mui Ne, as a part of Vietnam's territory, is fully influenced by any national political, economic, social, technological, legal and environmental policies and changes.

Regarding politics, Vietnam is one of the five nations which are still remaining the single-communist party states. Under communist rule, the corporate tax is 20 percent and the Value Added Tax is 10 percent in 2018, according to *tradingeconomics.com*. Since the communist party solely rules the country, opposing parties hardly have any chance to raise their voices, which on the one hand shows the lack of democracy in Vietnam but on the other hand indicates the stability for foreign investors planning to invest long-term into Vietnam. With this perspective, long-term investment, especially those in touristic constructions can be reassured that there is minimum threat of political instability.

With regards to economic situation in Vietnam, as reported by *tradingeconomics.com*, the Vietnamese government has so far maintained quite well the whole economic picture in which GDP growth rate is kept around 6 percent (6.79 percent in June 2018), unemployment rate fluctuates around 2 percent (averaged 2.28 percent from 1998-2017), inflation rate year-on-year is controlled at 3.98 percent in September 2018. The positive economic picture setting in Vietnam in recent years means that consumers have more purchasing power and demand for relaxation has increased, which was stated in a report by the Vietnamese Tourism Association. In particular, in the first half of 2017, the number of domestic tourist has risen by 25 percent in comparison with the end of 2016. In addition, economic growth also enabled the government to increase public expenses, especially in public infrastructure, which is gradually improved and thus attracts more investors.

Concerning the social factors, Vietnam is a populous country with over 95 million inhabitants (December 2017) and almost 77 percent of which

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participate in the labour force (December 2017). Moreover, the average wages in Vietnam are generally quite low (starting from 4 million Vietnam Dong, equal 160 euro per month), which is a great advantage for Vietnam as an appealing investment destination when attracting international as well as domestic investors. The workforce's competence in Vietnam is being improved gradually due to the emergence of more and more educational and training institutions, with over 45 national recognized universities and colleges in 2013 and other unlisted international institutions operating in Vietnam. Moreover, another reason for this capability improvement is that, as a consequence of globalization, more and more multinational tourism and hospitality corporation have entered Vietnam market and applied international standards and requirements on their service, management process, the personnel, etc. Some of the giants having been operating in Vietnam since the past decades are Intercontinental Hotels Group (IHG), Accor Hotels, Hyatt, Wyndham Hotel Group, etc.

In terms of environmental factor, Vietnam is among the countries that are directly affected by global warming, which means it is projected that in the upcoming years, some of the costal cities in Vietnam will be drown below sea level which can lead to the vanishing of some tourist destination along the costal line of Vietnam. Besides, the status quo of environment in Vietnam nowadays really worries its people as well as investors since the construction of industrial zones over the country without sufficient and efficient governing mechanisms and partly because of the loose control of local authorities have abetted irresponsible and unethical companies to damage the environment mercilessly. The scandal of Formosa Chemicals and Fibre Corporation, a steel manufacturer from Taiwan, sneakily disposing untreated chemical waste into the sea in 2016 has caused severe damages to the ocean and thus badly impacted the tourism of several costal cities in mid-Vietnam.

With respect to legal perspective, in spite of many attempts from central government made to cut down the red tape, bureaucracies still rank top among the challenges facing investors in Vietnam, reported by Vietnam's Chamber Commerce and Industry (VCCI) in 2017. Copyright infringement is another worrisome issue that discourage many foreign investors. In hospitality industry, reality in Vietnam shows that it is quite challenging to regulate and govern the copyright and patterns. In fact, successful business models, especially those of SMEs, such as leisure travel, adventure travel have been quickly duplicated.

### 3.1.7 Disruptive technologies

The emergence of internet has changed dramatically the buyer's behaviours and thus lead to the changes of business philosophy and

approaches in almost any industry in Vietnam and hospitality is not an exception for this trend. Internet has enabled travellers to take into consideration a wider range of alternative for their holiday destinations. In particular, travellers in Vietnam now can look for and book accommodation several months prior to their actual travel via websites such as *booking.com*, *agoda.com*, *traveloka.com*, *trivago.vn*, etc. Through internet, particularly the booking sites and travel forums, tourists can justify their choice by reading through reviews of other travellers about that property, which was quite limited in the past when booking was mainly through travel agencies and telephone. On the other hand, business owners in Vietnam have leveraged the internet to advertise their properties which not only increase the exposure of their business to potential customers but also cut down the marketing expenses and the intermediary costs. The role of travel agencies, which acted as middle men in the past, has now diminished due to the fact that travellers can arrange accommodation themselves. Moreover, the popularity of mobile phone which are connected with internet has made it even much easier for travellers to plan their trip before hand including booking accommodation.

### 3.1.8 Co-opetitions and networks

Co-opetition is a new trend which has not become popular in Vietnam hospitality industry. The industry has, however, witnessed some co-operations among multinational groups and local companies to form joint ventures. According to *Báo Đầu tư Bất động sản*, a local magazine on real estate investment, some of the famous partnerships are between Accor Hotels and Sun Group, a domestic conglomerate which also operates in hospitality area; between Intercontinental Hotels Group (IHG) and BIM Group, another domestic giant which operates in different industries and hospitality is included. Those co-operations, as mentioned, can only be seen with large groups, at small and medium sized business level, at least there has not anything been announced.

Concerning networks, many hotel owners still maintain and create new connections with travel agencies and open tour operators so that they will supply their partnered hotels and resorts with an enduring source of guest. For instance, as mentioned in earlier part, Pegas Touristik Vietnam makes contracts with local properties in Mui Ne and Nha Trang and then fulfil those places with its customers. Another form of network that can be seen at small and medium sized business level is that those SMEs with limited resources try to partner with or in other words, outsource some of the services which they cannot afford or do not have the resources to include on premises such as restaurant, spa, bar, pick-up services, etc. The solution is that the hotel party tries to find reliable local partner which can undertake the missing services of the hotel party. In this way, all parties

form a value chain that on the one hand will bring about convenience to their customers, on the other hand can maximum the profit that they can earn from each customer.

## 3.2 SWOT analysis of Hung Phuc Mui Ne Hotel

### 3.2.1 Strengths

As mentioned in the early parts, Hung Phuc Mui Ne Hotel is a family business which is operated by three family members and their employees. There are several plus points which have been mentioned in quite many reviews about the property by its guests on booking and travel websites such as Booking.com, Agoda.com and Tripadvisor.com namely extremely spotless, quiet at night, a grocery store attached; excellent on-premise customer care: friendliness, communication-English speaking skills, helpfulness; already known among South Korean tourists, young and dynamic manager with long term vision, innovative minds, etc. Among the factors that are appreciated by customers, the business does have some components which can help differentiate itself from many other businesses nearby and in fact have so far made this property a favourable place for many tourists, according to reviews on the internet sites.

The first success factor is that the hotel has excellent on-premise customer services, which include hotel-related services, laundry service, travel service. Upon arrival at the hotel, tourists are warmly welcomed by the hotel staff, especially the receptionist, who can communicate perfectly with tourists in both Vietnamese and English language, is also the “heart” of the business. They will then be offered some free cool drinks and friendly greetings by the business owners, which really make them feel good after a long tiring travel from other cities. Then guests are quickly checked in within a few minutes and personally showed their room by the hotel staff. The principle of the hotel is that no matter how busy the business is, there will always be one staff member, who is responsible for escorting the guests to their rooms. That staff member is also in charge of helping the guest with their luggage if needed. Once enter the room, guests are gently and carefully introduced all the facilities in the room and their usage. They are also briefly reminded the rules of the hotel politely and finally, before leaving the room, staff member always not forget to refer to the reception where the guests can make queries or request during their stay at the premise. This escorting to the room is not often seen in other same size hotels and guest houses and it creates to the guests the feeling of being special that they are well taken care of, that they receive a premium service at a reasonable price. The fact is that this has surprised many guests, since they supposed this kind of to-the-room guidance only exists in expensive hotels and resorts. In addition, the staff members are always proactive in

providing information about local area as well as other cities in Vietnam to their guests and also help organize excursions to visit local destinations so that the guests can save time in planning their travel as well as having useful tips for their time in Vietnam. Moreover, the receptionist often spends time sharing with the hotel guests about Vietnamese culture from different perspectives so that they know more and better about the country they are visiting, which they probably cannot find somewhere else and must otherwise spend much time and efforts to discover. In conclusion, with this way of operating, the hotel could offer its guests a whole package including different services, creating customers convenience and quality as well as value for money.

Secondly, the open-mindedness with can-do attitude and innovative minds of the business owners are really prestigious assets that the business possesses. Being highly aware that the market is quite competitive with easy entrance of new comers, the business owners are always pondering about making their business appealing to potential customers by learning from different sources, from other hotels to the internet. So far, they have managed to invest money in equipping the rooms with more modern and useful facilities. Together with that, they also re-decorated the rooms with paintings and flowers so that the rooms look more cosy. Also, they have changed the exterior of the hotel by planting more flowers in the garden and re-arranging the reception area.

Thirdly, the grocery store which is attached to the hotel has really offered the guests accommodating at the hotel a more pleasant experience since it has a wide range of goods from everyday necessities such as beverage, cookies, snacks, to swimming suits and souvenirs. The diversity of product range in the store together with reasonable prices really make it easier and more convenient for the guests since they do not have to carry heavy stuff from other shops back to hotel. Moreover, the opening hours of the shop also allows the guests to shop almost every time they wish. The target customer of this shop is not only the internal guests from the hotel but also walk-in buyers and local citizens, therefore, the flow of goods is relatively smooth and although there is not any accurate audit, the business owners revealed that the inventory turns are quite fast. In comparison with other nearby businesses in the area, this attachment is really a distinct point since it is certainly quite costly for same size businesses to open up a grocery store that is only dedicated to the internal customers meaning the hotel guests. Moreover, the costs of running the shop and the obsolescence of the goods are among the obstacles with hinder other hotel owners from opening such grocery store like HPMN hotel. If properly employed, this could be a competitive advantage of the hotel.

### 3.2.2 Weaknesses

There are some disadvantages that the business is experiencing such as the lack of swimming pools and attached restaurant, financial incompetence -small innovation budget, simple decoration both inside and outside, heavy rely on booking sites such as booking.com, agoda.com; no aftersales service or mechanism to keep in touch and take advantage of its customers. Those elements can be classified into two groups: changeable and unchangeable factors. Three most significant weaknesses that the hotel can work on to change are the dependence on booking sites, lack of aftersales service and relationship with customers, plain interior and exterior design.

Although there has not been any survey or serious investigation about the accurate volume of customers acquired through those mentioned booking sites, the business owners estimated that three fourth of the guests have been gained from those sites. With this co-operation, the booking sites provide platforms which connect hotel owners and travellers. The booking sites are also in charge of advertising online, however, those advertisements are not dedicated to any specific business, but they are rather general ads about the tourist destination. The business owners do not need to actively seek for potential customers, their jobs are quite simple that they just simply provide information about their capacities, rent rates, pictures about their business and update the allotment status. Of course, business owners must sign contract with their partners- booking sites, to pay commission fees for each successful booking. The commission fees range from 15 to 18 percent, depending on each platform. These types of platform, on the one hand, help small and medium sized businesses to reduce advertising costs and bridge travellers and accommodation providers, on the other hand, make it more difficult for hotels to do business since there are too many suppliers for almost identical services. Moreover, the commission fees are also somewhat concerns hotel owners.

The second weakness that faces HPMN is the lack of after sales service. This is totally understandable since most of the booking is done indirectly, through booking sites, therefore, every contact between guests and the hotel in between after booking and before arrival is done via intermediary sites and the ease of contacting with customers through booking platforms reduces the efforts of creating customer data base as well as maintaining relationship with customers. As a result, although having been operating for over three years, the business does not have its own customer data base and thus, most of the contacts with customers are initiated from customers' side and the business is still relying on booking sites and paying high commission fees. In other words, there is no mechanism that the hotel uses to store customer contacts, which can be use afterwards for different purposes such as marketing. Because of that, it is quite

challenging for the staff to recognize the customers when they return to the hotel. The business owners have not clearly understood the vital role of maintaining the customer relationships and the fact that gaining new customers is more costly than maintaining existing customers.

The third disadvantage which has been existing in HPMN hotel is the ordinary design of the interior and exterior are. The premise has twenty rooms that are available for rent and all of them have identical decoration style with white colour as primary tone such as white walls, milky glazed ceramic tiles, white bedclothes and other basic facilities. To some guests, it may be a bit too simple, or even boring style. The hotel itself looks pretty new and modern since it has been well maintained. However, the fact that it was built together with the grocery store has restricted the room for outdoor decoration such as garden with flowers, hammock and yards with green. Moreover, on peak season, it is challenging to find enough space for guests to wait for check-in and check-out.

### 3.2.3 Opportunities

There are quite many external environmental indications that project the growth trend of tourism in Vietnam in general and Mui Ne's hospitality industry in specific. Some outstanding signs are the fact that Vietnam becomes well-known as a safe tourist destination, the state's attempts to attract foreign tourists, the weak national currency of Vietnam- Vietnam Dong, the diverse and appealing culture, the popularity of internet, especially mobile internet; the world economics prospect which is close relation with the increasing of household income, etc. Among those mentioned opportunities, the ones that are most attractive and have highest success possibility are the widely use of internet on mobile devices, the emergence of Vietnam as a safe tourist destination and the governmental efforts in attracting new foreign travellers.

Generally, the internet has changed dramatically the whole hospitality industry, both from customers and business owners' perspectives. In fact, from customers' point of view, in comparison to that of about fifteen years ago, in the 2003, when internet was only used among small groups due to lack of infrastructure support in Vietnam, most of the bookings were made through phone call and travel agencies. In 2006 for instance, Vietnam only welcomed 3 million foreign tourists whereas, Thailand-a neighbouring country had welcomed 13 million, according to *toquoc.vn*. Moreover, information about destinations, entertainment and accommodation were not easily assessable for tourists as it is today. Nowadays, checking for information and reviews about a destination is quite straightforward and uncomplicated within a few clicks which has partly led to the fact that the number of tourists coming to Vietnam has increased gradually. Mobile internet has enabled travellers to easily plan their trips within shorter time then it used to take, to have a wider range of selection on accommodation,

to review their potential hotels and to reduce the intermediary costs from travel agencies. In addition, payment and cancellation are also conducted through internet now within a few steps facilitating the travellers much more than in the past. From business owners' stand, it is much more convenient for them to learn about other businesses' competitive advantages including prices so that they can actively adjust their price and improve their position to attract potential customer better. The internet also allows businesses to approach a larger pool of potential customer with lower cost and if they are aware of the importance of customer relationships, they could leverage this advancement to profit their business sustainably.

Secondly, Vietnam in recent years is known to international travellers as one of the safest place to travel. This is true since in Vietnam, even in vibrant cities or sandy coasts, the level and density of crime is relatively low, in comparison with other countries in the region, *theculturetrip.com* reports. Moreover, the political situation in Vietnam, in which Communist party is in the sole position has reinforced the safety and sentiment of foreign travellers and investors. This fact has been proved by many US magazines during the past years such as *Business Insiders* (2014), *SafeAround*, *Tripadvisor*, etc. Most common crimes in Vietnam are pick-pocketing, purse or camera ripping, weed marketing and prostitution commissioning. Those crimes are often seen in cosmopolitan such as Ha Noi, Ho Chi Minh city-the two super cities of Vietnam, where thieves using motorbikes are quite common. However, local authorities have launched campaigns as well as found legal forces to patrol the touristic areas. In smaller towns such as Mui Ne, crimes to tourists are not frequently reported and it is quite safe to hang out even late in the evening. The only annoying issue that are prevailing sentiment of many travellers is the traffic, especially in large cities. As pedestrians, crossing the street can be challenging and it can be quite risky for those who want to experience with driving scooters around the cities.

Subsequently, in recent years, the central government has introduced new rules which facilitate the travel and stay of foreign tourists. For instance, since 2014, Vietnam has adjusted its visa policy towards positive directions that up to now, citizens from 23 countries around the world including France, Finland, Germany, Spain, UK, etc. do not need to apply for visa when entering Vietnam within a certain period, which is normally 15 days or 30 days, according to *ipfs.io*. Although the visa is not that significant, lifting the visa application and visa fees have reduced the hassles caused by bureaucracy and thus encouraged more international travellers to come to visit Vietnam and spend more money in Vietnam. Moreover, local police officers now do not require business owners to present guests' passports directly to the police station anymore, they have rather started to integrate an electronic registration system, which is done quickly by

receptionists by filling online forms and passports will then be given back to the guests within a few minutes. And last but not least, although there are still several matters that need to be resolved, both central and local authorities are trying to improve the status quo of Vietnam's tourism in general and that of Mui Ne in specific. Promotion campaigns have been deployed on different scales and through different channels from fairs to social media and television ads such as Vietnam's tourism on CNN in 2010, Vietnam's stand in trade fairs in Spain in 2018, etc. On local scale, campaigns to improve locals and tourists' awareness on protecting environment and the beaches in specific have been conducted and initially have raised people attention.

#### 3.2.4 Threats

Along with opportunities, there are several threats that concern every business in Vietnam in general and in Mui Ne in particular. Severe competition, natural disasters, world economic-political crisis, environmental degradation and global warming are among the top threats.

According to statistics from Binh Thuan Tourism Department, till the end of 2017, the total number of lodging business in Binh Thuan province, which are mainly located in Mui Ne and a minor amount in other areas are 474. Almost half of the places-209 businesses, are categorized into medium and small sized segment, including registered and unregistered guest houses, hotels from one to three stars standard. The figure above communicates that the competition in this industry in Mui Ne area is quite fierce since a lot of businesses with identical products are trying to compete in a small market. Price war is often seen in such competitive industry and since there is not any strong reaction from existing players nor from local authorities to limit new entrants, this status quo will seriously and definitely last long.

Global warming is another concern of local business owners, travellers and also governments. A report by United Nation and cited on a The Guardian's article in 2008 indicated that Vietnam is among the nations which will be badly affected if the sea level rises by one meter and costal cities would lose their seaside land. In fact, the impact of global warming can be seen in Mui Ne area everyday. High tides wash away the sand and the beach has been deteriorated over time and white sand beaches have been replaced by hundreds of sandbags to prevent the waves to come closer to the bank. Moreover, in recent years, the number of typhoons that hit Vietnam fluctuate from 13 to 16 per year and the record has been reported so far was in 2017 with 16 typhoons and 4 tropical depressions. What remarkable are the severity of the storms is higher and even the places which were in the past considered as safe places and would never be reached by typhoon, have now been hit with lots of damage to property and losses for

human (20 people died in Damrey typhoon in 2017 in Nha Trang Bay- the neighbouring town of Mui Ne, reported by *Vietnamet.vn*)

Tourism, like many other industries, has been tremendously affected by changes in world's economics and politics. The annexation of Crimea by Russian federation in 2014 is an example, which led to several consequences including economic sanctions imposed against Russian government, organizations and individuals. Those sanction had put Russian economics into chaos and strongly influenced the spending of Russian travellers abroad, particularly those travelling to Vietnam. Likewise, tensions between Vietnam and China from 2011 up to now about the disputed occupation of China in East Sea (South China Sea) has caused crisis in Vietnam's tourism since Chinese travellers account for a large proportion in international travellers coming to visit Vietnam. Those events have had ore or less impacts on the small and medium sized businesses.

#### 4 DATA ANALYSIS

Data was collected in the form of questionnaires, in printed form delivered directly to every single guest coming to stay at HPMN. The questionnaire includes ten questions with multiple choice, likert scale form.

The questionnaires were delivered to the guests of HPMN during summer holiday 2018. Due to the features of the tropical climate in Vietnam, it is quite warm in the summer and most of the travellers are local tourists. Therefore, among the 93 respondents there are around 52 percent of them are local tourists and even though there are usually not many foreign tourists in this season, the were still international travellers coming from 9 countries such as Thailand, Singapore, South Korea, China, Germany, Canada, Austria, Czech and England. The gender proportion is distributed unequally, with 43 percent are male and the rest are female participants.

Most of the respondents are 16 to 54 years old, with over 92 percent, the rest are teenagers below 16 years old and elderly people aged over 55 years old. More specifically, there are over 33 percent are those from 16 to 26 and the other dominant age group is from 27 to 54 years old and made up over 58 percent.

Over half of the participants state that they travel in a group which can include school, company, club, etc. The other say they are family travel (29 percent) couple travel (10 percent) and 7 percent answer that they travel alone.

The majority of respondent admit that they have learned about HPMN via booking sites such as booking.com, agoda.com with over 77 percent. Only almost 10 percent have learned from the hotel website and approximately the same percentage have learned from friends and relatives' recommendations.

When asked about recommendations for HPMN, 30 percent of the guests suggest that the business should invest more in the in-room facilities such as new equipment, table and chair, decorations. 15 percent suggest the hotel to change the exterior part, including wall colour, garden. However, there are over one fourth believe that the hotel should not change anything and remain the current condition.

Concerning the satisfaction of the guests when accommodating at HPMN, on the scale from 1 to 5, over 90 percent of respondents received the values from their paying and stated that they are satisfied with the receivables at HPMN, especially there are almost 57 percent expressed their extreme contentment. However, there are still 7 percent of the surveyed guests did not delight with the hotel's offers.

Regarding the likeliness to come back to stay in HPMN if they should come back to Mui Ne, over 74 percent are determined that they would likely to come back to stay, 19 percent will probably return and 6 percent are likely to give other places a try.

With regards to the initial customer loyalty program, generally this is quite unfamiliar to travellers, especially the local travellers since this idea is not popular among lodging businesses in Mui Ne. Therefore, when being asked about the loyalty program, almost 10 percent of participants are doubtful and not willing to join. However, on the positive side, among those who are willing to participate in the program, 29 percent would like to get free laundry service as a fringe benefit, 20 percent wish to have free bicycle rent and 9 percent like to be offered vouchers to shop at the down-stair grocery store. Not surprisingly, since there are quite many participants with Asian background, almost one third of them would like to have a discount directly on room rate.

With reference to the advertising channel, over 40 percent respondents believed that Facebook and Instagram are effective channels to promote the hotel, Google Adwords is the second recommendation with 20 percent votes, 13 percent chose to advertise on Youtube channel, meanwhile there are still some travellers who think travel agencies are useful with 8 percent point.

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## 5 RECOMMENDATIONS AND CONCLUSION

Based on the analysis of the current situation within the hospitality industry in Vietnam in general and in Mui Ne in particular, the SWOT analysis including internal environment and external environment of the business, the data collected from the survey, the writer has come up with some recommendations, which together form a framework of customer relationship management that not only HPMN can benefit from but other small and medium businesses can also learn from and apply for their own case. The framework includes three elements as mentioned in the theory part: business and customer strategies, the value offered to customer and the optimal interaction channels.

### 5.1 Business and customer strategies

#### 5.1.1 Business strategy

As indicated in the upper part, the very first step in figuring out development strategy for a business is to understand and determine a vision-as a compass for that business. Apparently, the HPMN has not clearly set up its business vision yet, therefore, the business is run without knowing the direction and what to become in the future. A suggestion in terms of business vision for the hotel can be:

*“A family run hotel which offers graceful and bright accommodations with English speaking, friendly and helpful staff at affordable prices, Hung Phuc Mui Ne is always striving to deliver extraordinary services to every individual customer. With this philosophy, innovation and continuous improvements are extremely important and considered as key to success for Hung Phuc Mui Ne.”*

Through the business vision, the role of differentiation and customer intimacy or customer relationship are highlighted and should always be covered in HPMN’s business strategy. To be more specific, the following parts will be dedicated to clarifying these two factors.

As analysed in early part, the competition among accommodation providers in Mui Ne is quite brutal due to many reasons including identical products and enormous number of lodging businesses. This tough competition often leads to price wars and as the result, the profit that businesses gain is getting smaller and smaller. Therefore, based on the resources that HPMN is possessing now, it is suggested that the hotel should try to differentiate itself from the others by leveraging the available resources. There are two possible paths that HPMN can pursue to apply the differentiation strategy.

The first path is to, instead of focusing only on the hotel service itself, which is quite indistinguishable among all players, HPMN could try to get involved in a value chain in which HPMN plays a vital role. The value chain includes travelling with HPMN's partner bus-lines from Ho Chi Minh city to Mui Ne and back, accommodating at HPMN hotel, shopping at HPMN's grocery store, hiring bicycles and motorbikes and booking excursion trips to local destination at HPMN's booking office, eating at HPMN's partner restaurants. All the partners are carefully selected with specific requirements so that the service quality that is perceived by customer is always high and well-maintained. This model has several pluses such as creating convenience for travellers, especially for those who do not have much time to plan and would like to buy a whole service package; offering high performance services to customers; creating multiple contacting points with customer, which facilitates the establishment of relationship with customers; being a sustainable source of revenues for all involving parties.

Within this first path, differentiation strategy can also be applied in each link of the chain. In particular, when organizing excursions to local destinations, HPMN can exploit new excursion trips, which are not the traditional routes that other tour operators are doing. For instance, there are some conventional destinations that most tourist offices would guide their travellers to visit, HPMN can do something beyond that by introducing new tours which combine sight-seeing activities and food-tasting activities since cuisine is part of culture and a lot of tourists would like to learn about local cultures whenever they visit new places. In order to do this, HPMN would have to find some local restaurants that meet basic hygienic, price requirements from HPMN. So far, the majority of local tour operators in Mui Ne just exploit the traditional route and forget or not aware of the cultural aspect. Therefore, there is high potential in this new field.

The second path to differentiate HPMN from other businesses is to take advantage of all the available resources that the business has such as the attach grocery store, the motorbikes and bicycles for rent, the laundry services, etc. Those resources can be leveraged to serve the customer acquisition, retention and loyalty program, which will be described in detail in the upcoming parts.

By applying differentiation strategy, HPMN will be able to step away from the red ocean, in which many other businesses are competing severely with each other to gain little profit, the business now has its own blue ocean, in which it create trends for customers and there is no competitor so that it can gain high profit as well as expanding the customer base, which is extremely important for every business in this new era.

## 5.1.2 Customer strategy

### a. Customer segmentation

Geographically, according to the result from the survey combined with the reviews on *Booking.com* and the reveal from the business owners, the local tourists play a big role in the proportion of customers accommodating at HPMN. The Vietnamese tourists travel mainly in the summer time and the during some major holidays in Vietnam such as the April 30<sup>th</sup> and Labour Day-May 1<sup>st</sup>, the National Day-September 2<sup>nd</sup>, the Lunar New Year-usually in late January and beginning of February. Although local tourists spend lots of money on hotels in those holidays, their stay often last averagely 1,58 days, according to reports in 2016 from Department of Sport, Culture and Tourism of Binh Thuan province, which is almost half of international tourists-3,12 days averagely. Although it is not shown in the survey results, as the matter of fact that the questionnaire was released in summer holiday, when most of foreign tourists have left, Russian tourists rank second in the list of nation that have citizen come to reside at HPMN, according to interview with business owners. And this result is backed by the statistics from Department of Sport, Culture and Tourism of Binh Thuan province in 2017, in which over 142 thousand tourists from Russia came to visit Vietnam. Rank third in the list are the tourists from South Korea and China. Travellers from these two countries particularly like HPMN, which can be recognized through their reviews on booking sites which come together with the scores they grade each hotel they been to. The next position in the survey result belongs to tourists from Southeast Asian nations such as Singapore, Thailand, Malaysia. Again, although there is not any official investigation, observation from business owners and online reviews show that the number of tourists coming from those nearby nations is increasing. And lastly, there are also tourists coming from European countries, however, due to the fact that those tourists do not enjoy staying together with Russian and Chinese tourists, they tend to choose other places in Vietnam to visit or stay very short time in Mui Ne.

Demographically, it showed in the survey result that 57 percent are male tourists and the rest are female and 90 percent of those respondents are at the age from 16 to 54 years old. This age group is particularly true since the survey was made in summer when students are free from school and travel with their parents. However, the business owners revealed that the age group is a bit older, which is approximately from 19 to around 55 years old. And the survey also showed that over half of the participants travelled in groups, almost 30 percent travel with family and 10 percent in couple and 7 percent travel alone.

In conclusion for the customer segmentation, based on the available information, it can be inferred that there should be a focus on marketing efforts to local travellers, Russian, South Korean and Chinese, Southeast

Asian countries including Thailand, Singapore, Malaysia. Moreover, the gap between male and female guests is not significant but still there are more gentlemen than ladies who come to stay at HPMN. The age group ranges from 19 to 55 years old and most of them travel in groups, with family, in couple and some travel alone.

b. Customer acquisition, retention and loyalty program

As indicated in early parts, the main source of customers of HPMN come from booking sites (77 percent-survey result) and the cost of acquiring each new customer from this source is equal the commission fees for each successful booking through these sites, which means 15-18 percent of the transaction value. Having understood that the commission fees are quite high and in the long run, it brings no benefits for HPMN to continue acquire new customers through this channel, the business owners should, for the time being, still utilize these booking sites. However, it should simultaneously pay attention to building its own customer database by collecting customers' contact and start to keep in contact with customers without using the intermediary platforms of those booking sites. In other words, the hotel and its customers should exchange contact and information directly and in this context, the hotel should take the initiative to proactively keep in contact with customers. Depending on the budget it has, the business owner can buy an ERP software, which helps manage the customer database efficiently or in the meantime, it can just use Microsoft Office tool such as Excel to manage the database from customers. The database, ideally should consists of customer's names, nationality, time of accommodating at HPMN, email address or other social media contacts, HPMN's member card number (if necessary).

Beside maintaining the traditional method of obtaining new customers through booking sites, the hotel should focus on utilizing its own website as a channel to gain new customers. In fact, it should invest more efforts in renew the websites by translating all content into Vietnamese and English language and then the content of the posts themselves have to be appealing and reliable, which will be described in detail in the interaction channels.

The efforts of obtaining and retaining customers will be more likely to succeed with the attractive customer loyalty programs, which could be mistakenly understood as a tool to retain customer only but in fact also help to attract new customers. The superiority of the proposed loyalty program is that it has two tiers, which corresponds with the framework by Kumar and Shah (2004), mentioned in early parts.

The most initial step of the rewarding program is always to have some basic customer data. However, while Kumar and Shah's model requires to have customer's demographic data to act as input for analyses in next

steps and only reward those who already made transactions with companies, this proposed program is used to reward those who come to stay at HPMN for the first time. This is called Tier 1 reward. Potential customer when visiting the hotel website and wish to book accommodation at the hotel will be asked about the length of stay, number of rooms, types of room. Rewards will be given on the basis of value of the booking and the maximum value of the reward is 10 percent of the booking value.

The reward is given to customer in the form of a discount on transaction value, which will be deducted when customers pay or a shopping voucher at the attached grocery store of HPMN or a discount on ticket of any local excursions organized by HPMN. For instance, if Mr. Smith books two double rooms for 5 nights and has to pay 1,000 euro in total and he is granted a reward of 8 percent of his booking value, which means 80 euro, he then can choose either to get a 80 euro deducted directly when he makes payment to HPMN or he can get a voucher with the value of 80 euro to shop at the grocery store during his stay at HPMN or 80 euro deducted to the ticket of any excursion he books at HPMN's booking office. In case the ticket of the excursion Mr. Smith books is lower than 80 euro, then he will get that excursion free of charge and only pay the amount that exceeds 80 euro. There is no cash payment from the hotel for this reward. The value of the reward will be pre-determined by the business owners and programmed and be automatically shown as soon as the potential customer has entered the data concerning length of stay, types of room, number of rooms. In conclusion, the Tier 1 reward aims at attracting new customers and reward customers on the basis of transaction value.

For Tier 2 reward, customer database such as customer's names, nationality, time of accommodating at HPMN, email address or other social media contacts, HPMN's member card number (if necessary) are needed. Customers who come back to stay at HPMN the second to fourth time by reserving the accommodation directly through the hotel website or hotline will be offered 10 percent discount on transaction value or free motorbikes/bicycles rent within certain period of time or free laundry service within certain weight or a voucher to shop at HPMN's grocery store or discount on any excursion tickets organized by HPMN's booking office. All of the discount, voucher, promotion must not exceed 10 percent of the transaction value. And likewise, customers coming back to HPMN at the fifth time plus will get 15 percent discount in the forms of discount, voucher, promotion mentioned above. In conclusion, this Tier 2 reward customers based on the frequency of purchasing.

HPMN will proactively collect database from the customer to build the loyalty program. From the customer side, they will be invited to join customer loyalty membership after they check-in for the first time. The membership card is design in the form of an iron fridge magnet souvenir.

On the one side, it is picture of a chosen beautiful destination in Mui Ne, on the other side, it is a sticker which has space for customer to fill in their contact details including customer's names, nationality, time of accommodating at HPMN, email address or other social media contacts, HPMN's member card number. This kind of membership card, on the one hand, is a souvenir which reminds the card holder nice moments they have had in Mui Ne, on the other hand acts as a membership card, which allows its holder to be recognized once coming back to HPMN, to be able to check-in earlier and to have other benefits for Tier 2 reward.

The member card issued by HPMN can also be used for relatives and friends of the card holder. However, the reward they will receive is not as same as that of the card holder. In stead, they will receive the Tier 1 reward and if they wish to, they will also be invited to make their own membership card.

The purpose of this 2 Tier loyalty program is instead of paying 15-18 percent commission fees for booking sites, compete with other businesses on those platforms, have little room to customize own offers, easily be duplicated by competitors, hard to maintain relationship with customers, rely heavily on booking sites, etc, it allows HPMN to reduce the money paid for commission fees, to add more values to the total offer to customers, to gain more profit from paying less commission fees and from selling goods at the grocery store as well as organizing excursions, to have own customer database which can be used in the future for marketing purposes, etc.

## 5.2 Value offer to customer

As indicated in early part, the value offer to customer includes four layers: the core or generic level, the expected level, the augmented level and the potential level. Investigating the status quo of service by HPMN, it can be seen clearly that its service consists of three levels: the generic, the expected and the augmented ones.

Reviews on booking sites as well as Tripadvisor show that the guests highly appreciated the cleanliness of the rooms, which are also spacious and create the feeling of comfort. Moreover, inside the room, it is equipped with basic facilities such as air-conditioner, electric fan, cable TV set, refrigerator, makeup table, working desk and chairs, a big wooden wardrobe to hang cloths but can also be used as a storage. The water closet is filled with shower, toilet set and cool-hot water system. The bed clothes are changed and the room is cleaned up everyday so that the guests can feel the freshness. Besides, guests are also pleased with the noise-cancelling window glasses that isolate the noise and the weather effects as well as preserve tenants privacy and bring them quietness.

Moving to expected level, at the moment the hotel does not provide breakfast on premises, however, depending on the room rates, its guests can walk a few minutes to the nearby restaurants which have been non-official partners of HPMN for quite a long time. Coming to those restaurants, guests have a wide range of breakfast possibilities at reasonable prices, which is quite contrary to limited possibilities that guests usually find when having breakfast at the hotel's restaurant. Moreover, the hotel has now introduced other in-room facilities such as hair dryer, kettle, free coffee and tea so that its guests can have warm tea and coffee in the morning without leaving their rooms. Besides, another plus that guests like from HPMN's service is that it can be quite flexible in terms of check-in time. In fact, the standard check-in time in most hotels and resorts is 2 pm, however, at HPMN hotel, due to the fact that the housekeepers are quite professional and skillful, which allows them to have shorter cleaning time and get all the check-out rooms ready before the regulated time, guests can check-in a bit earlier starting from 12 o'clock. And then, to those travellers who prefer to travel at night and arrive at hotel late in the evening, it is also possible to check-in late by notifying the hotel owner prior to arrival.

Regarding the augmented level of value offered to customers, what can be considered as advancement in service performance at HPMN is that now the hotel has partnered with local fast food restaurant which allows the hotel to offer its guests fast food such as pizza, hamburgers, chips without coming to the restaurant. There is a menu set placed in every room with names, prices and description of all different types of fast food and those who wish to try them just need to contact the receptionist through telephone and within a couple of minutes, the order will be delivered to the door of the guests' room. Another feature of the hotel service that guests of HPMN like and many other places do not have is the incorporated grocery store, which as mentioned, makes it quite easy and convenient for guests to shop their basic necessities without carrying long distance. The next feature adored by many guests, observed from their reviews online, is the useful information and guidelines from the hotel staff, especially the receptionists, who can speak perfect English as well as Vietnamese, intermediate Russian language and quite knowledgeable. Reviews showed that the receptionists spent lots of time discussing with his guests about cross-cultures and particularly about Vietnam, which travellers like to hear the most. Many said they received meaningful tips and advices from the young receptionists for their trip in Vietnam and they believe that it is the staff, particular the receptionist that make their trip in Vietnam unforgettable, especially the hotel in Mui Ne. On the other hand, Vietnamese tourists really like the business owners, meaning the parents and thank them for their advices on entertainment, foods, seafood restaurants and other thingies.

So far, when investigating carefully the case of HPMN hotel, it is quite challenging to state that the business already successfully built up the fourth layer of the value it offered to its guests. However, the fourth level can be delivered to the customers through the new customer loyalty programs, which bring all guests coming in to reside at HPMN the feelings of both being treated specially and belonging to a group-customer loyalty group. The program is called 2 tier customer loyalty program, which has been described in detail in earlier part (customer acquisition, retention and customer loyalty program). Beside this loyalty program, in the future, HPMN can introduce a simple mobile application which allows its guests to make request and orders for grocery stuff or fast food through this application so that guests do not need to move an inch but get their orders delivered to their door. This would definitely be popular and adored by guests, who like convenience and are trendy.

### 5.3 Interaction channels: E-commerce on own website

As noticed in early parts, HPMN has its own website which contains quite basic information about the hotel, types of room, room rates, contact details, direction instructions. Other than those, the layer of the website is quite unappealing and the content is not rich, especially the English content is quite feeble and thus, according to the survey on 93 guests accommodated at the hotel during summer 2018, only 9 percent of the participants knew about the business through its website. Meanwhile, HPMN still has to pay the fees to maintain the website annually, which means there is a lot of room for improvements with this website.

Particularly, the hotel can now invest more time and efforts in developing the content of the website both in English and Vietnamese language so that the website is accessible for both local and international travellers. The content of the posts should not focus on selling or advertising the rooms of the hotel but they should aim at sharing information, particularly experience, tips and advices when travelling in Vietnam and specifically in Mui Ne. Posts about introducing local destinations, i.e. their history, specialities, locations, activities, recommended times to visit in year, means to visit, etc. should also be encouraged to pin on the website. Moreover, testimonials from former guests can also be selected and then published on the website so that other prospects can see how their fellows have spent their time and enjoyed staying at HPMN.

By posting articles about the above mentioned topics instead of posting advertisements, the business owners can attract more visitors to the hotel website and once these visitors find the usefulness of the tips and advices found on the website, they will gradually trust HPMN more and thus have a greater sympathy with what offered by the hotel. Once trust is built, it is much easier to do business.

After attracting more visitors to the website, the next step is to interact with them-the potential customer in a friendly and efficient way. The website should develop a Chat Bot, which is programmed to answer simple questions and lead the more complicated questions to the hotel personnel. All the queries from potential customers must be answered quickly and thoroughly to maintain the trust from customer that has been gained from earlier step.

Concerning the commercial content of the website, it should be updated regularly, especially the room rates, discounts, campaigns and particularly the customer loyalty programs. It should also be user-friendly, which allows users to customize their searches and selection easily. For instance, it should have the basic fields such as date of check-in, check-out; number of tenants, types of rooms, position, customer's note, payment method, etc.

The purpose behind investing in the website is to reduce the heavy dependence on the current booking sites, which are the main sources of guests for HPMN. And customer loyalty programs will play vital role in this plan: to gain and retain customer by its own, not rely on other booking sites. This will not only help the hotel cut the commission fees for booking sites and thus increase the revenue but also allows the hotel to have a direct contact with customers, interact with them and build relationships with them, which is considered as sustainable competitive advantage.

Social media sites such as Facebook, Instagram are also the places where quite many participants suggested HPMN to advertise since it is trendy now that people, especially the young generation use the social media quite regularly not only for contacting friends and relatives but also to share beautiful places they have been to. And in addition, the spreading speed of news or posts on social media now is quite impressive, therefore, a meaningful post would easily go viral and benefit the poster.

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## Questionnaire

### **Hung Phuc Mui Ne Hotel** Mui Ne, Vietnam

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#### **SURVEY**

*This 10-question survey is designed to gather data for the assessment of the service quality offered by Hung Phuc Mui Ne hotel and the customer loyalty program as a means of rewarding to loyal customers.*

1. Where are you coming from?
  - a. Vietnam
  - b. Europe, please specify
  - c. North East Asia, please specify
  - d. South East Asia, please specify
  - e. North America, please specify
  - f. South America, please specify
  - g. Australia, New Zealand
2. What is your gender?
  - a. Female
  - b. Male
  - c. Third gender
3. How old are you?
  - a. <16 years old
  - b. 16-26 years old
  - c. 27-54 years old
  - d. >55 years old
4. What kind of traveller are you?
  - a. Group traveller (school, company, club...)
  - b. Couple
  - c. Alone
  - d. Family
5. From where did you know about Hung Phuc Mui Ne Hotel (HPMN)?
  - a. Booking sites (booking.com, agoda.com, traveloka.com)
  - b. Website of HPMN hotel
  - c. Word of mouth (from friends, relatives, colleagues...)

- 
- d. Social media (Facebook)
  - e. Tourist agencies
  - f. Others, please specify
  - g. Did not know prior to arrival
6. What do you think HPMN hotel should improve?
    - a. In-room facilities
    - b. Out-room facilities
    - c. Extra services, such as ...
    - d. Others, such as ...
    - e. No need to change
  7. On the scale from 1-5, in which 5 is very satisfied and 1 is very dissatisfied, how satisfied you are when staying in HPMN hotel?
    - a. 1
    - b. 2
    - c. 3
    - d. 4
    - e. 5
  8. In case you should come back to Mui Ne, how likely would you stay again in HPMN hotel, on the scale from 1-5, in which 5 is definitely yes and 1 is definitely no?
    - a. 1
    - b. 2
    - c. 3
    - d. 4
    - e. 5
  9. If you would join HPMN hotel's loyalty program, what would you expect to gain, in term of fringe benefits offered by the hotel?
    - a. Free laundry service
    - b. Free bicycle rent
    - c. Voucher for shopping at the grocery store downstairs
    - d. Discount on room rate
    - e. I don't want to join
  10. In your opinion, where should a small and medium size hotel nowadays advertise itself?
    - a. Facebook and Instagram
    - b. YouTube
    - c. Through Google Adwords
    - d. Travel agencies
    - e. Others, such as ...

-----Thank you for your participation. We wish you a pleasant stay-----