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Does CRM System Really Matter?: An Exploratory Study of CRM System in the Hotel Industry in Singapore

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ABSTRACT

Organizations in practically every industry are now adopting Customer Relationship Management (CRM) systems as a mission-critical business strategy. As CRM systems evolve from mere technology solutions used for capturing customer interactions into strategies aimed at deriving maximum value from them, businesses today realize the importance of these systems in attaining and sustaining competitive edge. Hotel industry emphasizes customer service and multiplicity of customer touch points. Consequently, hotels may be expected to place great importance on the CRM in order to achieve and sustain their competitive edge. Surprisingly, an exploratory study of four hotels in Singapore, which vary in size, market (local or global) and target customers (leisure guests or business travelers), shows that some of them do not use CRM system or exploit its potential. This paper explores and presents the reasons behind this phenomenon.

Keywords

CRM, competitive strategy, customers' level of expectation, hotel industry.

INTRODUCTION

Competition, technological advances, globalization, and economic recessions have contributed to the growing phenomenon of customer churn. Consequently, customer retention has become the ultimate determinant of firms' survival. In order to become more customer focused, organizations in practically every industry are now adopting Customer Relationship Management (CRM) as a mission-critical business strategy (Eckerson and Watson, 2000).

CRM systems have evolved from mere technology solutions used for capturing customer interactions into strategies aimed at deriving maximum value from them. According to Day, Dean and Reynolds (1998), CRM offers three benefits: Increase in switching costs for customers, increase in customer satisfaction, and decrease in overall marketing expenditure for the firm. In the hotel industry, these benefits are expected to lead hotels to higher profitability by increasing sales, declining customer acquisition costs, and increasing profitability from customers willing to pay a premium for "better" service (Piccoli, O'Connor, Capaccioli and Alvarez, 2003). Nevertheless, in a recent article, Carr (2003) warned that such thinking is based on a mistaken assumption that as Information Technology's (IT) potency and ubiquity increase, so does its strategic value. According to Carr (2003), what makes an IT truly strategic is not ubiquity but scarcity.

Providing outstanding personal service is not a new concept in the hotel sector (Piccoli et al., 2003). Because all hotels may already know the importance of CRM system for their competitiveness and may have been using it, according to Carr's (2003) argument, CRM has become essential to competition but inconsequential to strategy in the hotel industry. Is this true? To answer this question, we conducted an exploratory study of four hotels in Singapore, which vary in size, market (local or global), ownership and management (local or foreign), and target customers (leisure guests or business travelers). Practical

insights allow us to conclude whether CRM system does or does not really matter in the hotel industry in Singapore and unveil the reasons behind their answers.

LITERATURE REVIEW

Overview of CRM

According to Laudon and Laudon (2004), CRM is both a business and technology discipline. Couldwell's (1998) business and process perspective defines CRM as a "combination of business process and technology that seeks to understand customers from the perspectives of who they are, what they do, and what they are like".

At its core, CRM is a simple, intuitively appealing concept: Attract new customers, know them well, give them outstanding service and anticipate their wants and needs. CRM uses IT to integrate all of the business process surrounding the firm's interactions with its customers in sales, marketing, and service. IT has been identified by many authors as one of the key success factors for CRM implementation (Goodhue, Wixom and Watson, 2002; Hall, 2001). In the past, a firm's processes for sales, services and marketing were highly compartmentalized and did not share much essential customer information. There was no way to consolidate all of this information to provide a unified view of customer across the firm. CRM system aims to solve this problem by integrating the firm's customer-related processes and consolidating customer information from multiple channels so that the firm can present one coherent face to the customer (Laudon and Laudon, 2004). In addition, CRM system also increases reach into new markets without high incremental costs, tailors customer marketing, and increases firm's responsiveness (Gamble, Stone and Woodcock, 1999). When companies do these things well, increased revenues and profits are likely to follow (Goodhue et al. 2002).

The Potential of CRM System in the Hotel Industry

An ever increasing competitive marketplace is changing the basis of competition in the hotel industry. The location advantage is fixed and attracting and retaining customers based on facilities and amenities is becoming difficult as they have become increasingly standardized across competing brands (Piccoli et al., 2003). Furthermore, price competition is unattractive, even more so as consumers are able to easily find and compare prices over the Internet (O'Connor, 2002). Consequently, consumers are increasingly displaying less brand loyalty (Gamble et al., 1999). Given these reasons, CRM system offers a great opportunity for hotels to increase customer value and provides a tool to systematically attract, acquire and retain customers (Lin and Su, 2003).

RESEARCH METHODOLOGY

This study adopted in-depth multiple case study methodology. Case research offers an opportunity for study in an area where relatively little prior research exist. The case study approach is appropriate when the phenomenon under investigation is complex and when manipulation of any variables is almost impossible (Bonoma, 1995). The study of CRM in hotels meets these conditions.

Since we are doing an exploratory case study, according to Yin (1994), it should be preceded by statements about (a) what is to be explored, (b) the purpose of the exploration and (c) the criteria by which the exploration will be judged successful. We have put forward the first two criteria clearly in our introduction; whereas the latter one that includes validity and analytical generalization will be elaborated in the data collection and data analysis subsection. Preceding theory, however, is not necessary in exploratory study (Dube and Pare, 2003; Yin, 1994).

Case Background

Singapore is a small island state of 685 square kilometers with a multiracial population of 4.18 million. Although it has no natural resources, under strong government leadership, Singapore has progressed from a third world country to a first world country in 35 years (Lee, 2000). Singapore has world class airport, seaport, and public transportation infrastructure comprising bus and mass rapid trains. Over 6,000 multinational corporations have established regional head offices in Singapore. Singapore is also known as the Shoppers' Paradise. Travel and tourism is one of the key industries in Singapore. In 2002, nearly 7.6 million people visited Singapore for business or leisure and contributed US\$ 303 million to the GDP.

Singapore is a regional focus for the hotel industry in Southeast Asia and a gateway for the growing hotel sector in Peoples' Republic of China. Singapore has 102 listed hotels (with over 31,000 rooms), ranging from small family businesses to major global players. Table 1 shows the hotel and visitor statistics.

	2002	2003
Standard Average Occupancy Rate (Gross Lettings/Available Room Nights*100)	74.44%	67.13%
Nominal Average Occupancy Rate (Paid Lettings/Available Room Nights*100)	68.25%	56.8%
Visitors arrival in Singapore	7,567,039 (0.6% increase from 2001)	6,125,480 (-19.05% decrease from 2002)
- From Asia	70%	71.8%
- From Europe	14.6%	14.3%
- From Oceania	8.5%	7.8%
- Elsewhere	6.3%	6.1%

Table 1. Singapore Hotels' Occupancy Rate and Visitors Statistics

(Source: Singapore Tourist Promotion Board)

Note: The 19.05% fall in 2003 is attributed to SARS.

The cases were generated from industry contacts, available reports, and related websites. An attempt was made to target hotels that vary in size on the basis of the number of employees and rooms. In addition, the cases were targeted to get both foreign and local hotels.

Once a hotel was identified, its IT manager was contacted for participation in the project. In some cases, we were assisted by either the assistant IT manager or the users of the hotel's CRM system.

The in-depth study consisted of four hotels. For confidentiality, we identify them as Hotel A, Hotel B, Hotel C, and Hotel D. Table 2 gives a description of the respective hotels.

Hotel	Local or Global Market	Management	Number of Employees (full-time)	Number of Rooms
Hotel A	Local (4 star)	Local	165	392
Hotel B	Global (5 star)	Foreign	600	610
Hotel C	Global (5 star)	Foreign	Around 400	373
Hotel D	Local (4 star)	Local	Close to 100	223

Table 2. Descriptions of the Hotels

DATA COLLECTION AND ANALYSIS

Construct validity is supported by employing multiple data collection methods and using multiple sources of evidence, achieving data triangulation (Yin, 1994). In this way, the different sources of data provide several explanations for the same phenomenon. This research used three sources of data using different collection methods:

- (1) Semi-structured interviews with IT managers and users
- (2) Direct observations of the working environment and the CRM
- (3) Secondary data such as relevant documents and media reports.

The study was conducted in two phases. In the first phase, we conducted a two-month field visit during which data collection was mainly done by direct observation and semi-structured interviews with open-ended questions to provide greater insights and reduce bias. Interviews were based on the main issues of the hotel's CRM system and the impact of the system to its competitive advantage. In the second phase, we conducted follow-up one-month field visits to clarify the findings from the first phase. To ensure that the correct facts were communicated during interview, more specific questions were asked when clarification was needed. Interviewee's comments on the industry and competition were verified through telephone interviews with similar hotels. For example, comments of IT manager of Hotel A were validated by telephone interviews with four other hotels. Secondary data was also sought to further justify our observation and interview results.

During and after data collection, we conducted a within-case analysis for each hotels followed by a cross-case analysis (Eisenhardt, 1989). The within-case analysis was then categorized on the basis of factors such as perceived competitive advantage and the hotel's characteristics. Through cross-case analysis, comparison was carried out to establish analytical generalization for the findings.

FINDINGS FROM HOTEL A

Hotel Background

Hotel A has been in the business for more than 30 years. It operates only in Singapore and is owned and managed by Singaporeans. It is located in the heart of the shopping center and is accessible easily by public transportation. Hotel A employs 165 full time staff. It has 392 rooms with an average occupancy rate of 85%. Most of the hotel's customers are leisure guests.

CRM System

When we first asked about the CRM system, IT manager quickly answered, "Fidelio", an outsourced, solution suite. According to the IT manager, Hotel A changed to Fidelio in 1998 from the previous system, which was not Y2K compliant, and its vendor was not in business anymore.

Figure 1 depicts how Fidelio functions in Hotel A. Bear in mind that Figure 1 only presents Fidelio's modules that are adopted by Hotel A. Some hotels may implement more modules, such as sales module to take care of corporate room booking. The main functions of Fidelio adopted in Hotel A are to store reservations data, customer data, track inventory data, and for guest accounting (billing). When a new customer calls/faxes/emails Hotel A to make a reservation, his/her basic information (e.g. name, birth date, type of room, etc) will be input to Fidelio. When the customer checks in, the front desk staff input more details (e.g. nationality and address) and update these into Fidelio. During his stay, the customer's expenses (e.g. room charges, telephones charges, food charges, etc) will be input to Fidelio for billing purposes. Thus, when the customer checks out, the hotel will have his/her "history file" in Fidelio. The "history file" makes available the customer's information to the front desk staff when customer revisits the hotel.

Neither sales automation nor any marketing activities are generated using the "history file".

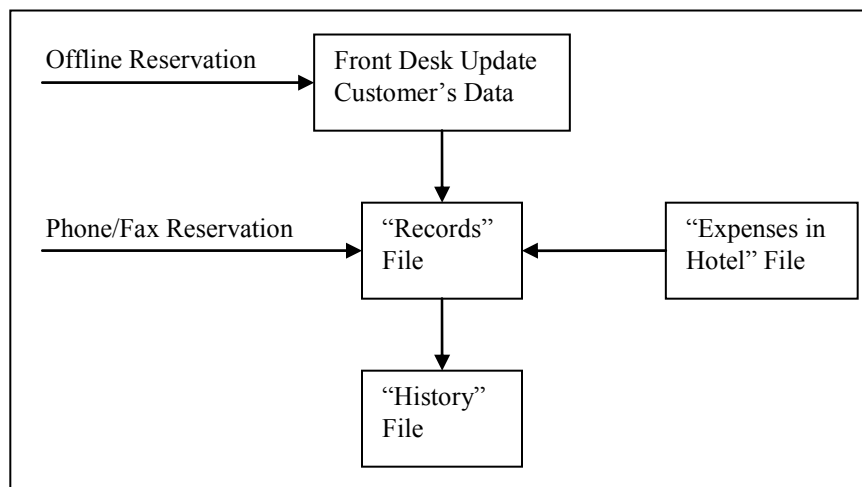


Figure 1. Fidelio Modules in Hotel A

Competitive Advantage

According to the manager, Hotel A's competitive advantage is its strategic location and rates. Its figure of repeat customers shows a steady increment each year. When asked for customer knowledge, they said that it only gives low competitive advantage for them. This may be because customer knowledge captured in Fidelio is just for ensuring the hotel's operational efficiency. The IT manager added, "Every hotel should have one operating system." Hence Fidelio, which functions more as an operating system to Hotel A, is a necessity; it is a support system, not a strategic one.

The IT manager further commented, "If you go to any five-star hotel, your expectations will be higher. Everything needs to be perfect. In normal hotels, there will be some problems and hiccups. So for us, the important things are location, rates". In other words, there is a trade off between highly personalized service and premium rates. Since Hotel A is targeting leisure guests who are "price-sensitive", as long as there is no major turmoil in the hotel's operational efficiency, the customers will not bother whether the hotel knows who they are, what they do, and what they are like. In addition, the IT manager also remarked, "Because we are local... for those local hotels, I can say that they will give the same standard answers (as us)."

Regarding this blunt statement of the IT manager, we conducted telephone interviews with several randomly selected local hotels, similar to Hotel A. We found out that these hotels do not have IT manager or IT staff; not to mention a CRM system or any customer relation services.

FINDINGS FROM HOTEL B

Hotel Background

Hotel B is a multinational, U.S. based hotel. In Singapore, it has 610 rooms with an average occupancy rate of 75%, and employs 600 full-time staff. All staff, from the door-man to the cleaning service, are very poised. Staff greet every customer they run into as if they all know each customer personally. Located near the Singapore convention center, we observed that there were more business guests than leisure guests in the hotel.

CRM System

Hotel B has an in-house best-of-breed CRM system, called Charley (not a real name). The aim of the system is to attain customers' satisfaction by anticipating their needs, which in turn will ensure customers loyalty. Charley records guests' preferences and this information is shared throughout its international hotel chains. Since the opening of Hotel B in Singapore in 1996, it has embraced Charley, which is managed by its US headquarters. Besides Charley, Hotel B also installed Fidelio. However, in contrast with Hotel A, Hotel B does not regard Fidelio as their CRM system; instead it is known as their property maintenance system to handle check in, make reservations, check out, and other operations. Thus, the main function of Fidelio is to maintain the hotel's internal operation efficiency. As mentioned by the IT manager, "First we had property maintenance system which is Fidelio for checking-in check out. But based on customer needs and relation management, we used Charley system. (The) other hotels in Singapore do not have Charley; it is unique to this hotel."

Since Charley is not yet integrated with Fidelio, when a customer checks in and he is a new customer in Singapore, but has stayed in Hotel B in US before, the front desk officer will retrieve his preferences through Charley and give him a personalized service. If he changes some of his preferences, they will take note and pass it to the guest recognition department who will manually key-in any update to Charley.

Competitive Advantage

Hotel B's competitive advantage is customer knowledge. As commented by the manager, "Charley enables us to fulfill guests' needs without their knowing that we know their needs. That is how we provide customized service to guests." Hence, for Hotel B, knowing the customers (their needs, their likes and dislikes) is very important. Accordingly, Charley is deemed to give the hotel a very high competitive advantage in Singapore. Fidelio, on the other hand, is just for internal operational efficiency. As mentioned by the IT manager, "Fidelio is with everybody (almost every up-market hotel in Singapore has Fidelio). It has the same features. It is (a) standard package, you see."

FINDINGS FROM HOTEL C

Hotel Background

Hotel C is a foreign hotel based in US. Its location in the heart of Singapore's shopping district is very strategic. It has 373 rooms with approximately 70% average occupancy rate, with an estimated 80% business guests.

CRM System

In the late 90s, Hotel C implemented an in-house CRM system, which we call Martha (not the real name). Martha has an interlinked network across Hotel C's international hotel chains. The powerful Martha, however, is complex and difficult to be learned by new employees. Due to this consideration, Hotel C replaced Martha's front desk module with the industry standard Fidelio (the same system used by Hotel A and Hotel B) about three years ago. A staff commented, "Fidelio is definitely more user friendly as compared to Martha... (also) new staff recruited from other hotels, can learn it quickly because it is used by many hotels in Singapore. Fidelio is used for the hotel's daily operations such as check-in, check-out, and house keeping. Like Hotel B, Fidelio is not yet integrated with Martha. Thus, every time a repeat customer checks-in, the hotel staff manually feed-in the customer's information from Martha to Fidelio. In contrast, every time a new customer checks-in, they key-in his/her information from Fidelio to Martha.

This tedious data feeding can be avoided if the hotel totally replaces Martha with Fidelio. When asked about this, a hotel staff answered, "We could have got rid of Martha and used Fidelio completely; Fidelio does not provide very detailed reservation patterns. So, in a way Martha can help us track down maybe the (detailed) guest (information) which Fidelio is not capable of. Fidelio is capable of doing things like how many customers checked in this month but more detailed business patterns, I

don't think Fidelio is capable of doing that." By keeping Martha, Hotel C shares customer information with its brand chains anywhere in the world.

Competitive Advantage

Like Hotel B, customer knowledge is the hotel C's competitive advantage. Being an established brand in the US, it is very important for hotel C to manage the reputation. The manager further mentioned that since most of the guests are from US, Hotel C must maintain the same service quality with the US headquarter. Using Martha, Hotel C can retrieve detailed information about repeat customers from its worldwide hotel chains. In this way, every hotel in the chain has the same piece of customer information to offer personalized service and to maintain a coherent face towards its customer. According to an Event Executive, "The fact that it is an international brand..., people expect a certain high standards... because there is minimum standard established already. So branding is there and also the guarantee that they will be well taken care of."

A staff further remarked about Fidelio's and Martha's strategic value for the hotel: "I wouldn't say (that Fidelio brings strategic competitive advantage) because most other hotels have it. So (Fidelio) is not really a competitive advantage, it's a prerequisite. Martha in a way is much powerful." Thus, we can conclude that Hotel C's CRM system, which is Martha, has high impact on the hotel's strategic competitive advantage. With Martha, Hotel C is able to maintain an average of 83% customer satisfaction level on yearly basis.

FINDINGS FROM HOTEL D

Hotel Background

Serving the local market, Hotel D is Singapore's first riverside designer "hip" hotel. All its 223 rooms have state-of-the-art computerized automation feature, allowing guests to connect to the Internet free of charge with unlimited access 24 hours a day. The hotel provides custom-made beds for different needs such as for tall men and the handicapped. Expansive glass ceilings cover not only its dining room but also its swimming pool, which make dining and swimming activities eye-catching along the street frontage. Recently, Hotel D received a "merit" award for its architecture from the Singapore Institute of Architects.

Supporting System

The hotel has been using HIS, a solution suite system, for the last three years. HIS is integrated with the hotel's Point of Sales system and Security Card System. Both the operational manager and IT manager claim that HIS is merely a supporting system. Thus, it would be misleading to regard HIS as the hotel's CRM system; needless to argue whether it brings competitive advantage for the hotel. According to the hotel's operations manager, they use HIS mainly for internal operation efficiency (check in, check out and in-house guest transaction) and for report generation to measure business performance.

Competitive Advantage

When asked about the hotel's competitive advantage, the IT manager spontaneously acclaims: "The hotel's unique, hip and artistic design". Located in trendy entertainment district, its bold design has proved an attraction for Hotel D's customers. During our observation, many young leisure guests checked in into the hotel. Obviously, this group of people is the main target of Hotel D. According to the hotel's IT manager, the occupancy rate can reach up to 90% during holiday season. Thus, Hotel D's unique design and style is its competitive strategy and has worked so far even without a sophisticated CRM system. During our last visit to the hotel, we heard that Hotel D will implement Customer Loyalty Point. However, the IT manager told us that it would be a simple point-calculation for customer retention.

CROSS CASE ANALYSIS

From the above findings, we derive a cross case analysis as shown in Table 3.

	Hotel A	Hotel B	Hotel C	Hotel D
Scope: Local or global market?	Local	Global	Global	Local
Management: Local or foreign	Local	Foreign	Foreign	Local
Target customer	Leisure guests	Business travelers	Business travelers	Young leisure guests

Any CRM system in the hotel? (according to the hotel perspective)	Yes (outsourced)	Yes (in-house)	Yes (in-house)	No
How strategic is the CRM system for the hotel's competitive advantage?	Very low	Very high	High	N.A.
What is (are) the hotel's competitive advantage(s)?	Location, Price	Customer knowledge	Customer knowledge	Artistic design

Table 3. Cross Case Findings

Four important points can be highlighted from Table 3. Firstly, there is a misconception about CRM system. The IT manager of Hotel A claimed that Fidelio is their CRM system. However, from our observation, Hotel A only uses Fidelio for maintaining its internal operation. Moreover, findings from Hotel B and C which are also using Fidelio show that Fidelio is being used as a property maintenance system. Obviously used as a support system, Fidelio does not matter for the hotel's strategic competitive advantage. Hence, while CRM as a concept is widely recognized by scholars, many practitioners seem to have a wrong idea about CRM. CRM system is about integrating all of the customers' touch points with the firm (in this case, the hotel) to understand the customers and tailor a customized service for them. Given this understanding, Hotel A does not have any CRM system as it claimed.

Our first point brings us to our next point. For those hotels which have "real" CRM system (Hotel B and C), CRM does matter for their strategic competitive advantage because it has not become a commodity yet. As shown in Table 3, both hotels' CRM systems were developed in-house and unique to the respective hotel. However, since CRM system, as with any IT system, is highly replicable, the opportunities for this kind of individual advantage may not be sustainable. Vendors of standardized CRM packages are increasingly entering the hotel industry making the technology broadly accessible and affordable over time. As a result, over time, both the technology and its modes of use may increasingly become commoditized.

The scenario that someday CRM system may become an affordable commodity, leads to our third point: Is it needed? Even though Hotel D realizes the existence of a packaged CRM system, they do not plan to buy one in the near future with a simple reason that they do not need it. On the other hand, serving global market, Hotels B and C stress the importance of customer knowledge to maintain a coherent face worldwide to their customers. Thus, the main reason for an international hotel chain to adopt CRM system is to maintain its coherent worldwide image. Local hotels do not necessarily need a CRM system because it is easier for them to maintain a consistent image compared with the international hotel chains.

Finally, we found that the local hotels we studied are targeting leisure guests, who may not be repeat guests, which makes CRM system even more pointless for them. This argument can be further elaborated by understanding the three levels of customer expectations, namely: Implicit, explicit and latent (Tenner and deToro, 2000). In the first level (implicit), as long as the hotel does not violate the customers' base expectation; the customers will not complain. Some examples of customers' base expectation in the hotel industry are a clean room with good air-conditioning. In the explicit level, satisfaction levels respond proportionally to delivery against customers' specification. For example, when a customer asks for a morning call at 5 am and the hotel fulfils the request, the customer will be satisfied. At the latent level, customers cannot be expected to appreciate the service until they experience it. However, once they experience it, they will become delighted and they will have a high satisfaction with the hotel. For instance, serving orange juice to a guest in Singapore who has asked for it when he/she stayed in US even before he/she orders it will delight him. Business travelers do not mind paying premium price as long as they are delighted with the hotel. In contrast, for leisure customers who are primarily "price-sensitive," conformance to their requirements (level two of customer expectation) will be enough to retain them. Accordingly, hotels targeting leisure customers only need a system to ensure their operational efficiency. If the hotel is targeting business travelers, who do not mind to pay premium price for customized value-added services, CRM system becomes a valuable investment.

LIMITATIONS AND FURTHER RESEARCH

In this study, we explored in depth CRM's competitive advantage in four hotels in Singapore. According to Yin (1994), a fatal flaw in doing case studies is to conceive of statistical generalization as the method of generalizing the results of the case. This is because cases are not "sampling units" and should not be chosen for this reason. Multiple cases should be considered like multiple experiments. Telephone interviews with several local and international brand chain hotels confirm the general

findings of this study. However, further research may want to pursue a quantitative research methodology to survey more hotels in Singapore and in other countries.

CONCLUSION

In the hotel industry, CRM system is still in its “early age”. CRM is an exclusive system developed in-house by those hotels in our study that have embraced it. It has not become a commodity yet. Accordingly, it contributes to the hotel’s competitive advantage. To some extent, this finding seems to support Carr’s (2003) argument. However, even in the current situation where CRM system has great potential to contribute to the hotel’s competitive advantage, for local hotels targeting local market, CRM does not matter because they do not seem to need it. Two reasons may explain this phenomenon. Firstly, in a small or niche business, it is relatively easy to keep in touch with customers’ preferences without CRM system – high-touch instead of high-tech. Since a local hotel manages substantially lesser amount of data than a major international hotel chain to achieve similar relationship with its customers, CRM system is not a valuable investment for them. Secondly, the local hotels in our study focus in leisure guests. By embracing CRM system, these hotels can exceed customers’ expectation and provide them higher satisfaction level. However, in contrast with business travelers who expect the hotel to perform at the third level of satisfaction, leisure guests define the hotel service quality as simply conformance to requirements. That is why hotels targeting leisure guests do not necessary need to install a CRM system; they can still survive, at least for now, without having a CRM system by simply ensuring their operational efficiency. Some authors warn that substantial investments in CRM are not right for everyone (Gronroos, 1990); our findings are in line with this view.

For practitioners, this study contributes to the understanding of what types of hotel necessitate CRM system. Through this understanding, managers can avoid unnecessary investment. However, this does not mean that managers in local hotels focusing leisure guests should forgo CRM system indefinitely. Hotel practitioners should be aware of the development of the CRM system in the industry. In a situation where off-the-shelf CRM systems, such as Serenata NetHotel become affordable to the extent that there are a growing number of local hotels embracing the system, it would be advisable for managers to follow suit. At this point of time, it would be interesting to investigate whether CRM system will still be regarded as strategic by international hotel chains.

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