

## case study

# *Innovations of Loyalty Programs in the Hotel Industry*

By Tingtang Zhang

## Introduction

Many hotels offer loyalty programs to increase customer revisits and to gain customer loyalty. Hoteliers see the important role of loyalty programs in obtaining the sustainability and staying competitive in the customer-oriented service market. Traditional loyalty programs usually adopt point-system for customers to gain through purchase and to redeem nights/food for rewards. However, as the loyalty programs become competitive among different hotels, it becomes more difficult to maintain customer loyalty and let customers stay with the hotel/brand instead of switching to other hotels/brands. On the other hand, some pioneering hotels or hotel groups launched innovative loyalty programs to engage with the customers, thus enhancing customer loyalty. This case study presents a review of literature on loyalty programs and the role of social media and technology in loyalty programs. Then this case study analyzes and discusses some innovative loyalty programs offered by successful hotels/brands. Finally, discussions of such innovative adoptions and applications are conducted to provide insights for teaching purposes.

Customer loyalty has experienced an evolution over time. Oliver (1999) proposed a progressive development of customer loyalty following cognitive-affective-conation pattern. Cognitive loyalty refers to the state that customers prefer one product/brand to another because of the product/brand itself (Oliver, 1999). Affective loyalty refers to the phase that customers like the product/brand and process a positive attitude towards the product/brand because of a continuous satisfactory experience (Oliver, 1999). Conation loyalty, also termed as action loyalty, refers to the stage that customers develop deep commitment to repurchase and the customers' return intention has been "transformed into readiness to act" (Bowen & Chen, 2015: 418). Consistent with Oliver's (1999) loyalty evolution stages, Dick and Basu (1994) classified customer loyalty into four dimensions: true loyalty, latent loyalty, spurious loyalty, and low loyalty. Figure 1 depicts the four dimensions of customer loyalty.

## Theoretical Foundation

Meyer-Waarden (2015)'s study showed that the types of loyalty program rewards can have different effects on customer with lower or higher involvement. Customers with high involvement increase their loyalty program preference with compatible and intangible rewards

while the customer with lower personal involvement prefers immediate and tangible rewards. In the high-involvement situation, the companies can reward the customers with the points or the punches while in the low involvement situation, a delayed reward should be avoided.

Tanford, S. (2013)'s study evaluated the impact of loyalty program rewards tier. The survey result showed that elite members tended to give the higher score to the program than middle and entry-level members. Another important finding showed that though reward tiers depend on the stay frequency, surprisingly, middle and entry tiers have relatively higher loyalty behavior. They spend over half their nights in a preferred brand hotel. The less travel frequency leads to the recognized less loyalty. Hotels should restructure their loyalty program rewards. They can motivate the entry and middle tiers by one-time elite privileges such as VIP lounge on their next visit. Also, the companies should make efforts on building emotional commitment with psychological rewards, which can be cost effective as well.

According to Dorotic, Verhoef, Fok, & Bijmolt, 2014, no matter how many points the members redeem a reward, their purchase behavior increases during the redemption process. In addition, prior purchase motivates redemption behaviors. The length of membership, age, income and direct mailings are all factors that can influence redemption decisions. Moreover, the finding suggested that point expiry and binding thresholds are not a good idea to increase purchase behavior. The companies should actively try to encourage redemption to increase purchase indirectly. They can adjust their redemption system to make more loyal program members engaged. Good employee performance can lead customer satisfaction and loyalty (Matzler, Bailom, Hinterhuber, Renzl, & Pichler, 2004).

## The Role of Technology and Social Media

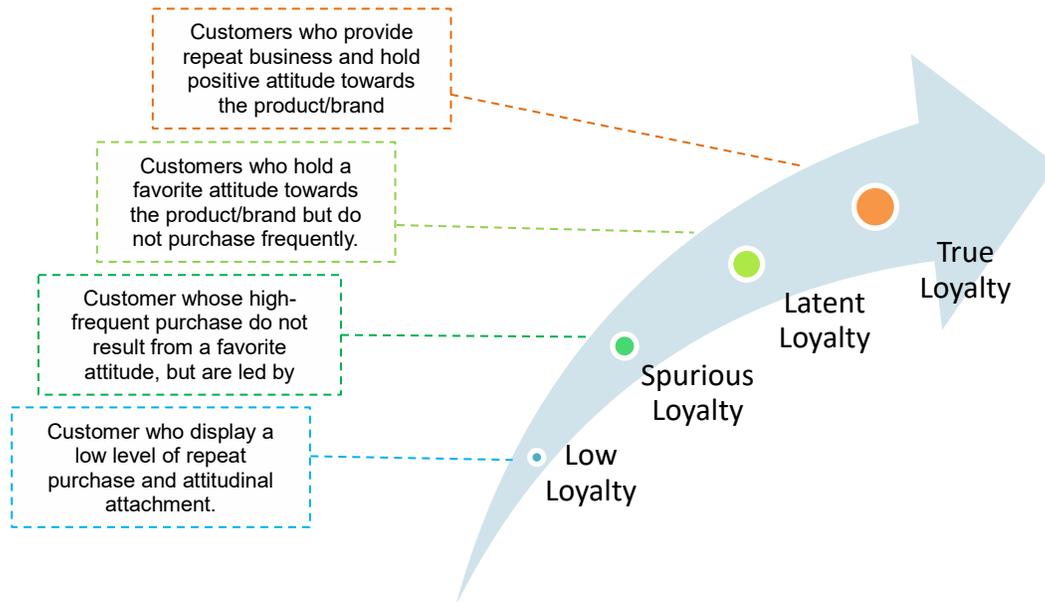
Kimpton Hotels and Restaurants was awarded the 2012 COLLOQUY Loyalty Awards. According to the compare senior managers (Allison, 2012), the employees of Kimpton did an exceptional job of providing genuine care to the customers and created the unforgettable experience. Emphasizing the care of the employees brought extra rewards of its loyalty program. Customers can enhance the loyalty of other customers through the word of mouth (WOM), or the eWOM (Gruen, Osmonbekov, & Czapslewski, 2006). Brand managers recognize the significant role of social media in growing loyalty programs. Via social media, the consumers can participate and engage

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Figure 1

## Customer Loyalty Dimensions



with brands directly (Laroche, Habibi, Richard, & Sankaranarayanan, 2012). Lancôme use the data from social media to analyze customer preference and promote the loyalty program and new products to its followers. The Clymb adds its Twitter and Facebook intent with the email list. By analyzing the responses, the company can figure out which social media its target marketing prefers to use.

Besides the social media, developing the user-friendly mobile apps and data analytic are two important technology innovations that have an important impact on customer loyalty (Buhalis & Law, 2008). To be the market leader, T-Mobile uses analysis tools from SAS to analyze customer data such as current plan rates, credit ratings, and the amount of talking time (Davenport & Dyché, 2013). The compare categorizes the customers effectively and provides matched loyalty programs. The app developed by Starbuck makes their loyalty program more interactive and more effective (Kaplan, 2012). When you log in, you can know how many points you already have easily, the promotion of today, make payments, and find a nearby Starbucks location.

### Case Illustrations

#### Case 1 Hilton HHonors

Besides its old loyalty program Hilton HHonors, Hilton launched a new program called Hilton Travel Professionals program recently. It is an educational tool for the customers to learn the basic knowledge of the brand, information about the various loyalty programs, and the update of the Hilton Worldwide. Also, Hilton cooperated with a travel agent loyalty program called Unlimited Budget. After enrolling in the Unlim-

ited Budget program, the member put into his or her member number when he or she books the Hilton hotels online through GDS (Global Distribution System) or hiltontravelagents.com. Every time the reservation process finishes, the member can earn points as cash rewards on his or her Unlimited Budget® Stored Value MasterCard® Card. The money in the store can be used for family trip, the groceries, and the gifts. Also, Hilton launched @play in its loyalty program, which means the members can use their points to bid for concert such as live nation concerts tickets and some once-in-a-life-time experiences like taking a private drum lesson with legendary rocker. Hilton HHonors helps the guests to find great vacation deals to be foodies and adventurers of the destinations.

#### Case 2 Hyatt Gold Passport

Hyatt has loyalty program called Hyatt Gold Passport with three levels. The entry level is the regular Hyatt Gold Passport membership. The member can earn five points per dollar, free nights with no blackout dates, and miles for airplane. After five stays or fifteen nights, the membership can be updated to Platinum Membership. The customers can earn 15% more than the beginners, stay the rooms with premium Internet access, and guaranteed 72-hour room availability. The members who have 25 stays or 50 nights can be upgraded as Diamond Memberships. Besides the extra 30% points bonus, the members can gain four suite upgrades annually.

#### Case 3 Marriott Reward Program

Marriott Reward program members can earn and redeem their points at 15 hotel brands in 70 countries. Members can save 35% of their money when they rent cars on Hertz, enjoy the free WIFI, and use the

points for upgrading, dining, or gifts for their friends or family members. Recently, Marriott partnered with the Container Store, a retailer specializes in storage and organization solutions. Marriott encourages the member to take a selfie with a suitcase and sent it to the official website through email or social media like Facebook and Twitter. The participants can invite their friends and family members to vote for them. The winner can earn free four nights at Towne Place Suites and \$500 in travel essentials from The Container Store. This promotion makes their members share more brand information to their acquaintances indirectly.

Additionally, Marriott cooperated with United Mileage Plus to offer rewards packages (Air + Hotel) for their Reward Plus members. The users will receive 10% more Mileage Plus miles when they redeem for a Marriott Rewards Hotel + Air Package. In 2014, Marriott implemented Reward Badges (extra points) (Ollila, 2014). Members can earn the badges based on the level of their memberships, the nights they have been stayed, the number of brands they have stayed, and social activity of their account. For example, the memberships can upgrade from regular membership to gold, silver, and the platinum. When the members stay with the brands of Marriott Group such as Ritz-Carlton, JW Marriott, EDITION, Autograph Collection, Renaissance, AC Hotels, Marriott, and Courtyard at the first time, they can earn a brand badge (25 points each). To be a brand explorer, he or she can earn a 5-brand explorer badge (50 points) after he or she stay at five different Marriott hotels, 10-brand explorer badge (75 points) after staying at 10 different Marriott brand hotels, and the brand explorer badges (250 points) if he or she tries all brands of Marriott Group. The members can earn social badges by donation or referring the Marriott to their friends through social media as well.

Marriott Rewards won the best rewards program in hospitality in 2014 (Marriott.com, 2014). According to the report (Fileri, & McLeay, 2014), though most consumers first know the basic information about the programs through hotel staff, peer recommendations, which can be considered as the WOM or the eWOM, have more influence when the customers decide which programs to participate. On the other hand, the loyal customers will recommend the programs to their friends or family members twice as the other guests. According to Marriott, using the tool of the WOM or the eWOM is a more cost-effective way to create awareness of their loyalty programs than other advertisements.

#### ***Case 4 Air Miles Travel Rewards Program***

Air Miles offers travel rewards programs operating in Canada. It partners with many airlines, stores, and credit cards to allow its members to gain Air Miles while purchasing at different departments. Air Miles members then can redeem the Miles on flights. This program has been popular among Canadian populations for years until 2011 when Air Miles Canada announced the Miles from the program through 2011 would expire in 2017. This announcement led to many rushing last minute flight bookings because customers don't want to forfeit any of their

rewards. Considering the angry backlash from its members, Air Miles retracted their expiration clause one month before the predetermined expiry date. Still, the majority of its members were not happy because they had been forced to spend their points for the sake of not wasting the accumulated Miles. This massive misjudgment cost Air Miles about 250,000,000 dollars and a huge number of members (Keats, 2017).

### **Discussion and Activities**

- What benefits do hotels receive by offering a loyalty program for their customers?
- What factors define a successful loyalty program for the hotels/ brands?
- What factors could make a loyalty program innovative?
- What are the roles of employees in enhancing customer loyalty?
- What role does technology play in enhancing customer loyalty?
- What roles do customers play in terms of customer relationship management and loyalty programs?
- Is social media and eWOM important in promoting customer loyalty?

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