



A Restoration in Hotel Loyalty

Developing a blueprint for reinventing loyalty programs



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Foreword



Often I find myself engaged in discussions with hotel executives about customer loyalty. Many executives tell me how important loyalty is to their businesses, but few say they have cracked the code on building long-term loyalty. We understand that it can be hard to secure organizational commitment to invest in brand loyalty. During challenging times, operators and owners are focused on cost management, and when demand is strong investing in down-the-road loyalty initiatives is hard to justify.

We believe that now is the right time for hotel owners and brands to invest in customer loyalty. According to the Harvard Business Review article, “Roaring Out of Recession”, those companies that master the delicate balance between cutting costs to survive today and investing to grow tomorrow do well after a recession. Those that deploy a combination of defensive and offensive moves, have the highest probability—37 percent—of breaking away from the pack.¹ Further, reinvesting in building customer loyalty is important to amplify the return on investment of prior budget allocations to customer-facing initiatives.

In October 2012, Deloitte’s Travel, Hospitality, and Leisure practice engaged in extensive consumer loyalty research, surveying 4,000 travelers and conducting two in-depth focus groups with frequent business and leisure travelers. This research has given us deep insights into hotel guests’ travel behaviors, attitudes, and engagement preferences.

In this report, *A Restoration in Hotel Loyalty: Developing a blueprint for reinventing loyalty programs*, we explore how to increase the effectiveness of loyalty programs. Our research points to two over-arching and compelling conclusions:

- The best-case scenario is that hotel loyalty programs as they are constituted today have either little or no impact on travelers’ purchase decisions, and, worst case, these programs drive undesirable brand-switching behavior
- Hotel brands and owners that choose to instead

build differentiated loyalty programs and a customer experience that anticipates and integrates priority customers’ personalized needs have the potential to capture incremental market share, as indicated by these facts:

- Roughly 30 percent, on average, of hotel loyalty members are “at risk” of switching their preferred brand
- Nearly 50 percent, on average, of hotel loyalty members’ annual hotel spend is not with their preferred brand

Despite these sobering statistics, we are excited for the future because hotel brands and owners are well-positioned to restore loyalty in their brands. Within this report, we provide strategies for companies to consider as they endeavor to rebuild their loyalty programs, these strategies include:

- Encourage specific behaviors with unexpected rewards
- Make rewards personally meaningful
- Provide in-the-moment accessible rewards
- Be forgiving; don’t penalize behavior that loyalty programs encourage
- Reshape the customer experience

We are available to assist clients with implementing these strategies. Our experience in data analytics can be applied to support companies’ efforts to unleash the power of their loyalty membership data. We can help companies establish priority customer segments and methods for measuring loyalty. Further, our customer experience service can benefit companies as they work to provide differentiated experiences that will entice competitors’ “at-risk” customers. Finally, our human capital practice can provide assistance evaluating and building front-line employee commitment to the delivery of guest experiences that build brand affinity.

We would welcome the opportunity to discuss how Deloitte can assist you with loyalty restoration.

Adam Weissenberg

Vice Chairman

U.S. Travel, Hospitality, and Leisure Leader

Deloitte & Touche LLP

Introduction

Hotel brands' foundations show signs of erosion

Glorious blue skies give way to sudden tumultuous storms, sheer thousand-foot cliffs tower over the froth-laden waves of the Pacific Ocean and the legendary Pacific Coast Highway snakes its way through the tallest trees in the land. Along one magnificent stretch near Big Sur, dotting the cliff tops like stars twinkling in the midnight sky, the occasional house can be seen, standing tall and secure, defying gravity amid the rugged terrain. Withstanding nature's erosive forces, heavy rains, high-force winds, and mudslides, these homes have endured for decades because of their solid foundations. Originally built at a time when workmanship was at its peak, these multi-layered, thick, deep blocks of concrete have withstood the test of time without cracking or buckling. These magnificent homes have been updated and maintained by loving owners and revered by passersby for generations, while those built on lesser foundations have toppled into the abyss.

As the stability and future existence of any one of these homes is solidified by its foundation, brands too require a strong foundation to thrive in challenging times. Difficult to build and even harder to maintain, a strong foundation only exists when there is an organization-wide commitment to act in the best interests of the brand and prevent brand dilution. Companies that make this commitment and successfully foster this same commitment in their employees on a daily basis can realize benefits that transcend customer brand recognition. These companies can achieve brand affinity characterized by an emotional connection between the brand and its customers. Such an affinity can likely result in an expanding share of wallet captured by the preferred brand, and over time substitutes and competing brands will likely become less attractive.

Our research on loyalty within the hotel industry yielded a startling view of the lack of brand affinity among hotel travelers, even those considered to be loyal customers by traditional measures like frequency of stay. According to our survey of 4,000 travelers, hotel loyalty program members are not loyal to their preferred brand and loyalty programs drive undesirable brand-switching behavior:

- **Share of wallet of preferred brand is low.** Only one out of four hotel travelers allocate more than 75 percent of their share of wallet to their "preferred" brand. Even high frequency travelers only spend 58 percent of their



spend with their preferred brand and 65 percent report having stayed with two or more brands in the past six months

- **Past customer experience trumps loyalty programs.** High frequency travelers rated past experience as being the most important attribute to their overall hotel experience, which suggests customer experience has more of an impact on their decision to revisit than the loyalty program
- **A distinct generation of the "Newbie traveler" is emerging.** We identified a Millennial traveler that stays in upscale and luxury hotels frequently for business and leisure, although their travel preferences, behaviors and attitudes are distinctly different from those of other travelers

These findings indicate that hotels' approach to building loyalty is incomplete. Reliance on the prevailing approach to loyalty programs that rewards repeat purchases with point-based discounts has built a false sense of security. This approach does not take into account the share of wallet being lost to other brands, nor does it integrate the unique opportunity that hotels have to build loyalty, even brand affinity, through customer experience. We argue that hotel companies should adopt a wider view of loyalty building and reinvent programmatic approaches to better suit a market characterized by a myriad of hotel options and brand switching.

The many faces of loyalty

Loyalty programs are in need of significant repair. Across many consumer-based industries, consumers enroll in a multitude of brand loyalty programs, yet only a rare few are faithful or devoted to any brand. A glance at the loyalty-building approaches of many companies across a wide range of industries shows programs designed to elicit Pavlovian behavioral responses rather than to develop enduring emotional bonds with customers. Many are merely “me-too” offers of commoditized rewards for repeat purchases, more aptly named frequency programs than loyalty programs. Many businesses fail to utilize valuable consumer data collected at enrollment and point of purchase to differentiate their loyalty programs across customer segments. Little or no priority has been placed on delivering customized rewards or personalized experiences to connect with high-value customers. Employees treat customers as interchangeable commodities—faceless key fobs or bar-code numbers. While these programs may have some impact on purchasing behavior, they do little to build enduring emotional connections and positive brand attitudes among customers.

Consider, in contrast, the power that a brand can derive from a consumer base that feels an emotional commitment to that brand. This power can take many forms: less price sensitivity, a lower rate of switching to competing brands, or a cadre of enthusiastic brand advocates. Brand loyalty in this sense affords staying power in tough economic times and promotes growth during an up market.

Take this real-world example of brand loyalty - Sunset Foods, a family-owned food retailer located on the North Shore of Chicago. Since 1937, Sunset Foods (Sunset) has cultivated a customer base of multi-generational families without a formal loyalty program, even as other mom-and-pop grocers were shuttered by industry consolidation. Sunset uses a high-touch customer experience characterized by both subtle and not-so-subtle features. No memberships are required; no points for purchases are issued. Rather, each customer is greeted and given a shopping cart upon entering the store. Fresh, hot samples are skillfully prepared and offered to customers who can taste an assortment of dinner entrees being promoted that day. High-quality meats and fish are cut to size and seasoned with a rub or glaze upon request. The



According to "The 2011 COLLOQUY Loyalty Census," in 2010, U.S. loyalty program enrollment reached an all-time high of 2.09 billion memberships, up 16.3 percent from 2008, with the average U.S. household enrolled in over 18 different loyalty programs. Yet 1.13 billion, or 54 percent, of these loyalty memberships are inactive.

store carries multiple national brands as well as exclusive items, many of which are sourced from local restaurants or small businesses. Supporting local purveyors is core to Sunset's mission to support the local community, which helps the company generate goodwill and positive word of mouth.

Integral to Sunset's customer experience is its three-employee check-out process. The first employee empties the customer's shopping cart, the second rings up each item, and the third places items into a bag—paper or plastic, a personal choice made by each customer. Finally, after check-out, the customer is given a numbered card and proceeds to his or her car. In the loading lane, the customer hands the card to a loader who proceeds to place the bags into the trunk—all with a smile and with no tips allowed.²

Given issues of scale and cost structure, Sunset's high-touch approach is not practical for every business. However, Sunset's example illustrates the power and value of true customer loyalty. Over the years, Sunset seems to have prioritized what customers value above all else, and in doing so, has cultivated brand loyalty so emotionally charged and ingrained that it transcends generations.³ Brand loyalty such as this is rare and not easy to build, but it is well worth the effort.

While loyalty programs can be useful in building emotional commitment by encouraging consumers to adopt particular behaviors and attitudes, it is equally important for companies to hard-wire the pursuit of such commitment into their operations. Each customer touch point, if managed well, can be an opportunity to cultivate an emotional connection with the brand. Over time, the cumulative impact of these commitment-building interactions can create such an enduring sense of loyalty that points, price, and substitutes become less meaningful to consumers.

Research focus: Loyalty programs in the hospitality industry

Given these issues, we sought to understand the effectiveness of loyalty programs in the hotel industry. Our research draws on a broad portfolio of primary and secondary sources. We fielded two focus groups with eight participants each and conducted a proprietary survey of 4,000 travelers. We also conducted literature reviews, examined case studies of other consumer-based industries, and interviewed Deloitte professionals who serve hotel clients.

The results support our premise that loyalty programs do not prevent brand switching or build brand affinity. Hotel loyalty members show remarkably low affinity for their preferred brand. Furthermore, hotel loyalty members switch between brands and spend as much as 50 percent of their wallet with non-preferred brands. Of the hotel loyalty program members surveyed, 43 percent disagreed or strongly disagreed with this statement: "I will not switch to a competing brand that announces a better loyalty program."

Many report their intention to join even without a better offer, 45 percent disagreed or strongly disagreed with this statement: "I will not join another loyalty program because I want to focus on accumulating rewards [with my preferred brand]."

We analyzed the survey responses both in aggregate and within four discrete customer segments. This segmentation provided far greater insight regarding how these behaviors and attitudes differed between travelers.

Hotel loyalty members switch between brands and spend as much as 50% of their wallet with non-preferred brands.

Meet the travelers – Customer segmentation parameters

Participants in our survey were active travelers, having stayed at a hotel in the past 12 months. We identified the following customer segments from this group.

- **Proficient traveler:** Gen X and early Baby Boomers (33 to 60 years old); time pressed; household income more than \$100,000; travels 50,000+ miles/year - (sample size: 136)
- **Moderate traveler:** Gen X and early Baby Boomers (33 to 60 years old); patient; mixed-purpose traveler (both business and leisure); household income of \$50,000 to \$100,000; travels up to 50,000 miles/year - (sample size: 187)
- **Mature Leisure traveler:** "Go with the flow," pressure-free baby boomers and seniors; leisure-only travel; household income of up to \$100,000 - (sample size: 376)
- **Newbie traveler:** Millennial (18 to 32 years old); tuned in to social media; experience-driven traveler; social and tech savvy, any income level - (sample size: 194)

At times, we also discuss findings based only on frequency of travel, without regard to demographics. These travelers are referred to as high frequency travelers, individuals who log more than 50,000 miles of travel annually.



Considerations for restoring loyalty

It doesn't have to be this way. True loyalty can be deliberately sought and engendered. We believe a truly loyal consumer base—with a brand affinity so strong that substitutes become meaningless—can be built through differentiated approaches.

Companies that harness the power afforded by truly loyal customers can alter the status quo. The data, technologies, and skillsets exist to drive meaningful improvements. Our approach to loyalty restoration integrates these assets to give hotel executives a powerful competitive differentiator: a 360° view of loyalty. When loyalty is viewed from a full-circle standpoint, companies can think about building it in the same way that construction workers build a home. Just as a blueprint defines the type of home to be built,

Defining customer loyalty

Customer loyalty is defined as a feeling of attachment or affection for a company's products, services, and people. These feelings manifest themselves in many forms of customer behavior. The ultimate measure of loyalty, of course, is share of purchases in the category.

Jones & Sasser 1995

Loyalty is a long-term commitment to repurchase involving both repeated patronage and favorable attitude. **Dick & Basu 1994; Stank et al. 1999**


In a business context, loyalty can be defined as a customer's commitment to do business with a particular organization, purchasing their goods and services repeatedly, and recommending the services and products to other people. **Mallory & Barnett 2000**

Loyalty truly exists when the customer resists pressures to switch to another brand. **Ngugen & Leblanc 2001**


Service providers desire customer loyalty, because a customer that has an "attitudinal and behavioral commitment" to a service business may repurchase even if they are dissatisfied with the last experience. **Weiner 2000**


executives can create a blueprint for the kind of loyalty they want to create. Executing the blueprint, in each case, requires a well-defined process: a series of steps in which each step adds a critical component to the structure. And when effectively followed, the process yields a result—a house or a feeling of loyalty—that matches the original blueprint and is built upon an enduring foundation.


Our considerations for restoring loyalty among hotel industry consumers include the following four steps.

 **Step 1 – Redefine loyalty:** Any hotel that endeavors to restore customer loyalty should secure organization-wide understanding and agreement as to the specific customer behaviors and attitudes that are to be considered characteristic of a loyal customer. Any such determination should be made after considering the tradeoffs inherent in different forms of loyalty.

Clearly defined loyalty is easy to measure. When emotional loyalty exists possible metrics could include customer referrals, social media reviews, or constructive customer feedback forms. In contrast, a transactional relationship could be measured by repeat purchase without any consideration for frequency or share of wallet.

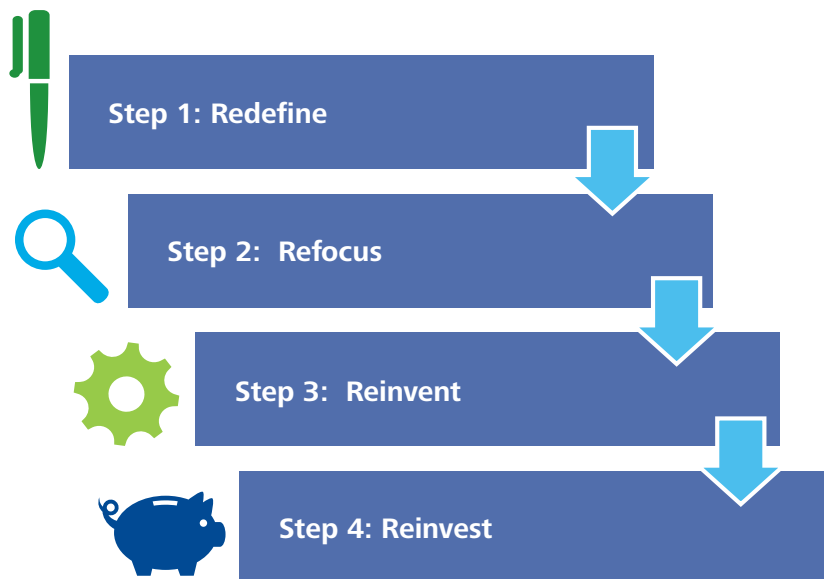
 **Step 2 – Refocus on priority customers:** Loyalty membership databases are overflowing with information about customer demographics, travel preferences, and profitability. Mining this data will likely produce a rich understanding of discrete customer segments with distinct service preferences. These data-driven insights can be used to determine which customers' brand loyalty is critical to build and maintain.

 **Step 3 – Reinvent programs and experiences:** It takes a comprehensive, coordinated process to build relationship-based, enduring loyalty that can be measured by share of wallet. Successful execution requires everyone throughout the organization—customer service, marketing, operations, and information technology—to work from the same blueprint and contribute essential elements.

 **Step 4 – Reinvest in capabilities and infrastructure:** Companies should build the technology, talent, training, and infrastructure to deliver differentiated customer experiences that extend beyond the on-premise experience. Technology, especially, can be a powerful way to engage customers the way they want to throughout all stages of travel—planning, doing, and sharing.



Steps for restoring loyalty



A Love-Hate relationship

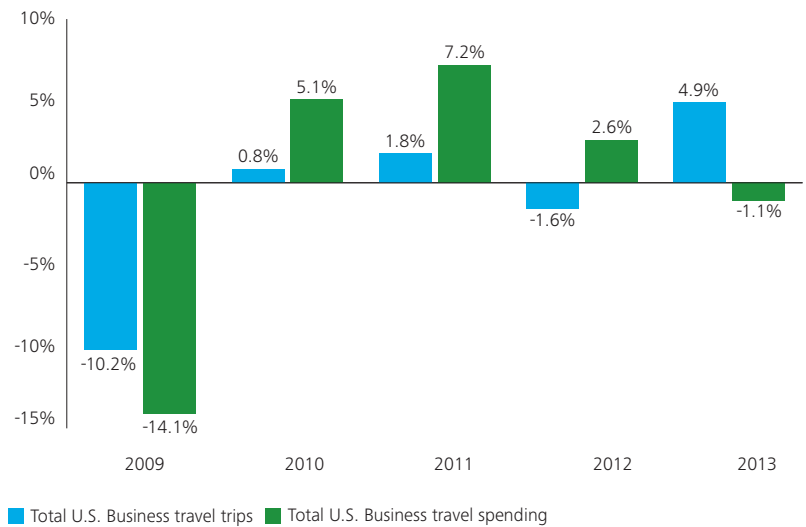
Love it or hate it, Americans travel a lot. Travel is a means to an end. Business travel enables people to earn a living, while leisure travel provides enjoyment. Both worthwhile “ends”, but nonetheless travel can be challenging, particularly since 2001. Possibly, a bit of an overstatement, but consider the following quote.

“Traveling is a brutality. It forces you to trust strangers and to lose sight of all that familiar comfort of home and friends. You are constantly off balance. Nothing is yours except the essential things – air, sleep, dreams, the sea, the sky – all things tending towards the eternal or what we imagine of it.”

– Cesare Pavese

Due to economic turmoil in Europe, slower growth in China, and U.S. unemployment, companies are expected to curb business travel growth in the United States through the end of 2012. As a result, in October, the Global Business Travel Association (GBTA) revised its 2012 forecast and now expects total U.S. business travel spending to grow 2.6 percent in 2012, reaching \$257 billion by the end of the year. While this is a moderate increase since last quarter, when GBTA estimated growth for 2012 at 2.2 percent, the uptick in spend is largely being driven by rising business travel costs. Total business trip volume is expected to reach 438.1 million for 2012—a reduction of -1.6 percent from 2011, when total business trip volume was 445.0 million.

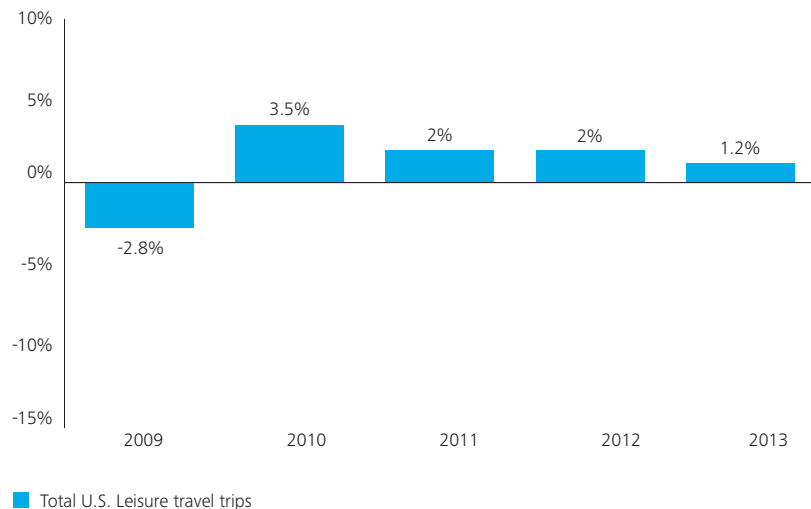
U.S. Business travel outlook



Source: Global Business Travel Association, www.GBTA.org, accessed October 2012

According to the U.S. Travel association direct spending on leisure travel is projected to reach \$590 billion in 2012, up from \$564 billion in 2011. Trip volume is expected to reach 1,575 million in 2012—a 2.0 percent increase from 1,544 million trips in 2011.

U.S. Leisure travel outlook



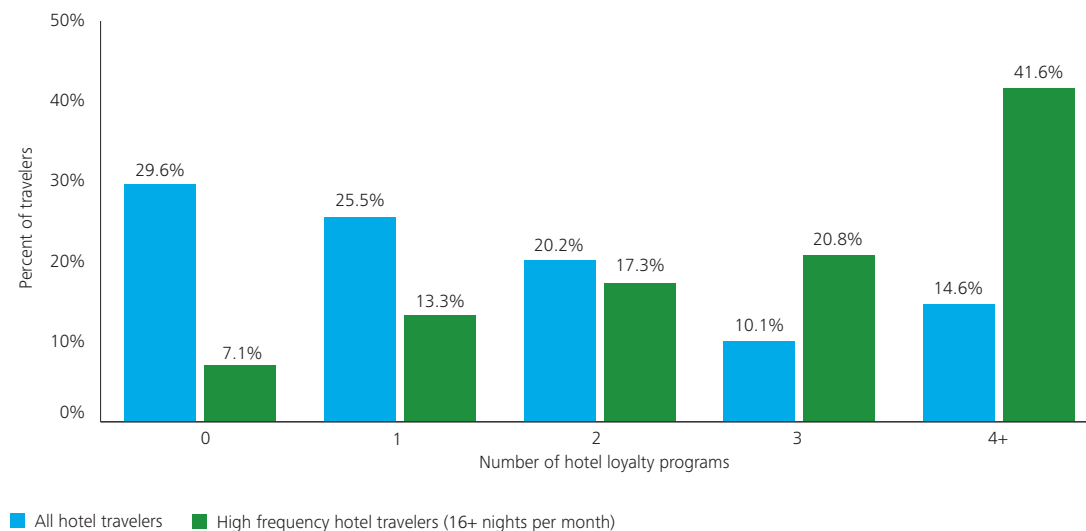
Source: U.S. Travel Association, ustravel.org, accessed October 2012

Loyalty members are far from loyal

Lack of commitment poses a double-edged sword

Hotel loyalty members are in uncommitted relationships with their preferred brands. Many hotel travelers are members of multiple hotel loyalty programs. Our research found that approximately 45 percent of hotel travelers, and 80 percent of high frequency (16+ nights per month) hotel travelers, hold two or more loyalty cards. Of the high frequency travelers, 41.6 percent are members of four or more loyalty programs (see Figure 1).

Figure 1. Loyalty program membership among hotel travelers



Membership does not equal loyalty. Of course, membership alone does not mean loyalty program members actually stay at a competitor's hotel. However, the threat to the preferred brand represented by multiple-card-holding behavior among hotel loyalty members can be substantial.

Multiple loyalty memberships among hotel consumers are also the proverbial double-edged sword. The same factors that make it easy to switch from a preferred brand also make it easy to switch to the preferred brand, making multiple-loyalty-program members a potentially valuable asset and source of competitive advantage. For example:

- Hotel A courts Hotel B's loyalty program members with offers designed to capture a greater share of their hotel spend
- Hotel B utilizes their enrollment data to identify inactive loyalty program members—who are likely frequenting the competition, including Hotel A—and target them with customized offers or incentives

- Hotel B has a strong advantage over competitors that do not use a data-driven, targeted approach
- Hotel A fails to capitalize on available customer data insights to retain share of wallet and build an emotional attachment with loyalty members who are enrolled in multiple programs



Leisure travelers more prone to commit

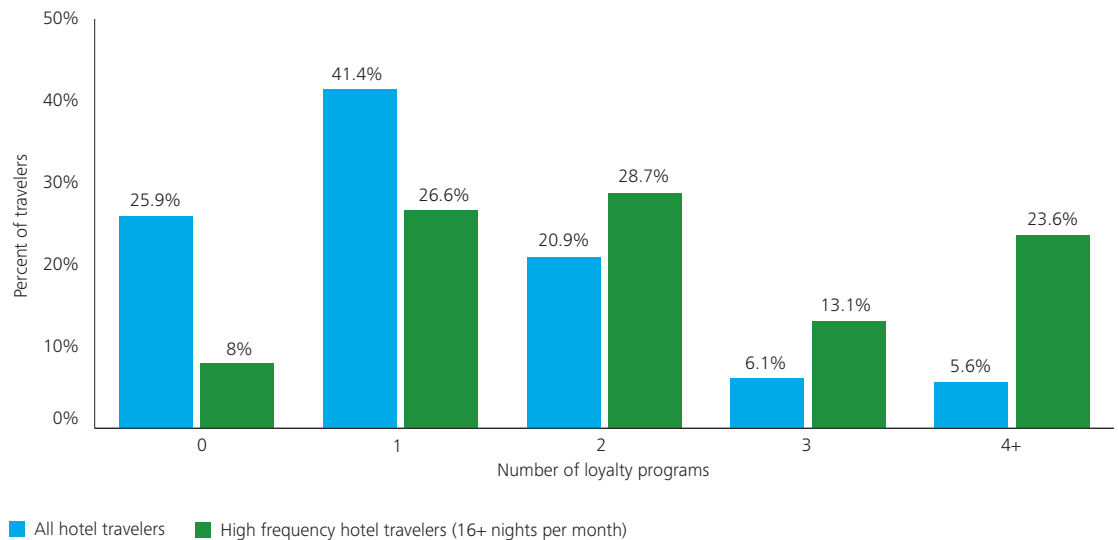
Individuals that are members of multiple hotel loyalty programs are more likely to be targeted by competing brands. To better understand actual participation, we segmented our survey responses based on travelers' frequency and purpose of travel.

High frequency travelers: We expected the high frequency traveler, wanting to reduce the uncontrollable aspects of travel, would value consistency of service and be relatively more committed to their preferred brand than a leisure traveler. According to one focus group participant, "After a whole day of travel, there's nothing better than going into a hotel that you stay at often and the person behind the desk walks up to you and hands over the room keys and says enjoy your stay." Further, 82 percent of Proficient travelers rated consistency of service as important or very important to them. Therefore, we were surprised to find that 65.4 percent of high frequency travelers participated in two or more hotel loyalty programs in the past six months (28.7 percent in two programs, 13.1 percent in three, and 23.6 percent in four or more) (see Figure 2).

- **Travel frequency** compares high frequency travelers (16+ nights per month at a hotel) against all travelers (stayed at a hotel in past 12 months).
- **Purpose for travel** compares all travelers versus all leisure travelers (traveled in past 12 months) irrespective of frequency of travel.

We found that for high frequency travelers switching brands is driven by two primary reasons. First, these programs lack significance with these travelers. Second, the inherent structure of loyalty programs encourages the switching behavior they are intended to prevent. We believe that preferred brand location availability and corporate travel policies have a minor impact on brand switching. Over 90 percent of high frequency travelers' preferred brands are part of a major hotel brand family with extensive footprints. And, while we do acknowledge that corporate travel policies can prevent high frequency travelers from staying at their preferred brand in higher-priced markets, we believe the overall result is small in terms of actual switching.

Figure 2. Hotels – Loyalty members participation in multiple programs





Far more impactful is that high frequency travelers ranked loyalty programs 12th out of 26 hotel experience attributes in terms of overall importance to them. Further, loyalty programs encourage these high frequency travelers to hop between programs. According to one focus group participant, “I have signed up for half-a-dozen hotel loyalty programs, but I am not loyal to any of them. I only use them to check what kind of deals I can get.”

Leisure travelers: We were intrigued to learn if leisure travelers—free to travel and stay at their own discretion, quite possibly compelled by fond memories of prior visits—might be loyal to one brand. What we found was a classic “fortunately-unfortunately” scenario. Leisure travelers are more loyal to their preferred brand than the typical hotel traveler, and many of them reported having built a personal relationship with their preferred brand and its people. In fact, nearly half of hotel customers who stayed in a hotel in the past six months and are enrolled in only one loyalty program were leisure travelers. Also, 69.1 percent of leisure respondents reported that they would stay again at their preferred brand (versus 57.8 percent of all hotel customers) and 41 percent of leisure travelers also reported having

built a personal relationship with the hotel brand and its people (versus 37 percent of all hotel customers). However, the unfortunate part of this scenario is that even though leisure travelers report having more affinity for and a higher likelihood to stay again at their preferred brand, they are less frequent travelers. Leisure travelers disproportionately accounted for over 60 percent of the inactive loyalty program members—those who did not stay in a hotel in the past six months—compared to 45 percent of all loyalty program members.

Lack of affinity creates vulnerability to disloyalty Spending at non-preferred hotels. Whether hotel loyalty members switch because of offers from competing hotels, fluctuations in hotel availability, or a simple desire to try new things, the outcome is the same—a loss of revenue for the preferred brand. As seen in Figure 3, only 26.7 percent of high frequency and 25.3 percent of total hotel travelers surveyed spend more than 75 percent of the hotel spend with their preferred brand. Further, a substantial percentage—roughly 35 percent of high frequency travelers and 40 percent of total hotel customers—spend up to half of their hotel dollars with non-preferred brands.

Failure to capture 100 percent of a customer’s wallet share does not necessarily point to a problematic lack of loyalty. Many people have a natural inclination to experience new things, to experiment in new ways.

“I travel a lot. I hate having my life disrupted by routine.” – Caskie Stinnett

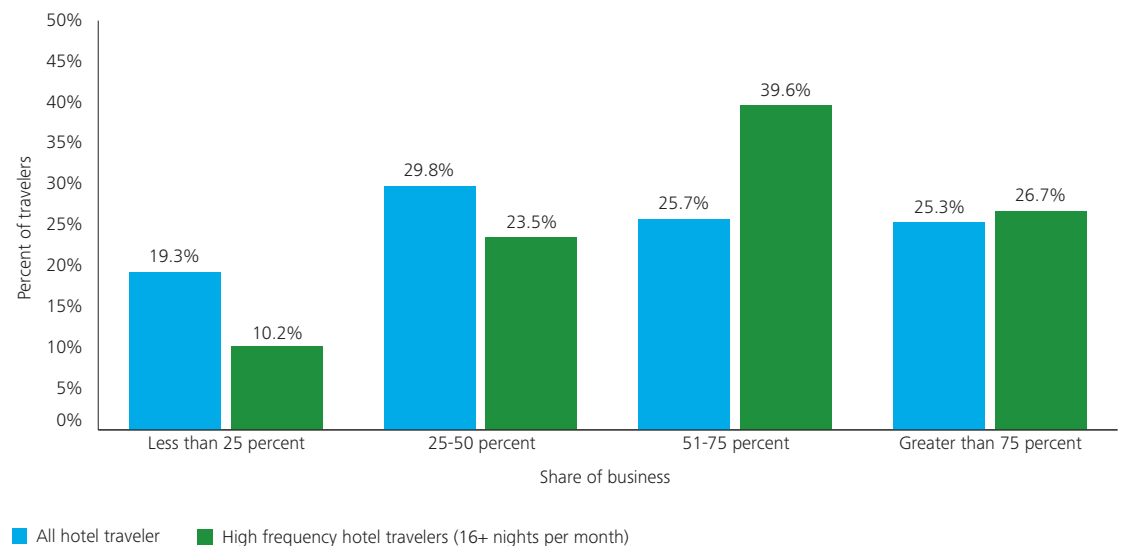
Therefore, even the most loyal hotel customers will likely stay at a different brand now and then. However, our research indicates that loyalty programs that fail to build brand affinity are especially vulnerable to undesirable brand switching.

Brand switching and technology. Brand switching, as well as a general lack of brand affinity, is facilitated by the rise in consumer power enabled by advances in technology.⁴ Today, hotel consumers have greater access to information and more choices than ever before. They

make informed decisions about where to stay based on recommendations from friends and family as well as online travel websites and use of mobile applications. Further contributing to hotel consumers’ power are the low switching costs enabled by the Internet. From anywhere, and at any time, consumers can cancel reservations and book at a different hotel with a few mouse clicks. The cost of switching is even lower where customers can cancel without paying a penalty and without giving 24 hours’ notice.

Brand switching and younger consumers. Much of the brand-switching behavior seen in the hotel industry may be due to the fact that younger consumers are less likely to be brand loyal.⁵ Born in the Internet era, younger consumers generally rely less on brand names as an indicator of product reliability, turning instead to the Internet for product information, user reviews, and substitutes. This phenomenon is apparent in the hospitality industry, which has seen an explosion in travel websites dating back at least to the late 1990s. In 2012, more than 117 million online travelers are expected to use travel websites, which is 61 percent of the Internet users in the United States.⁶

Figure 3. Share of wallet given to preferred brand



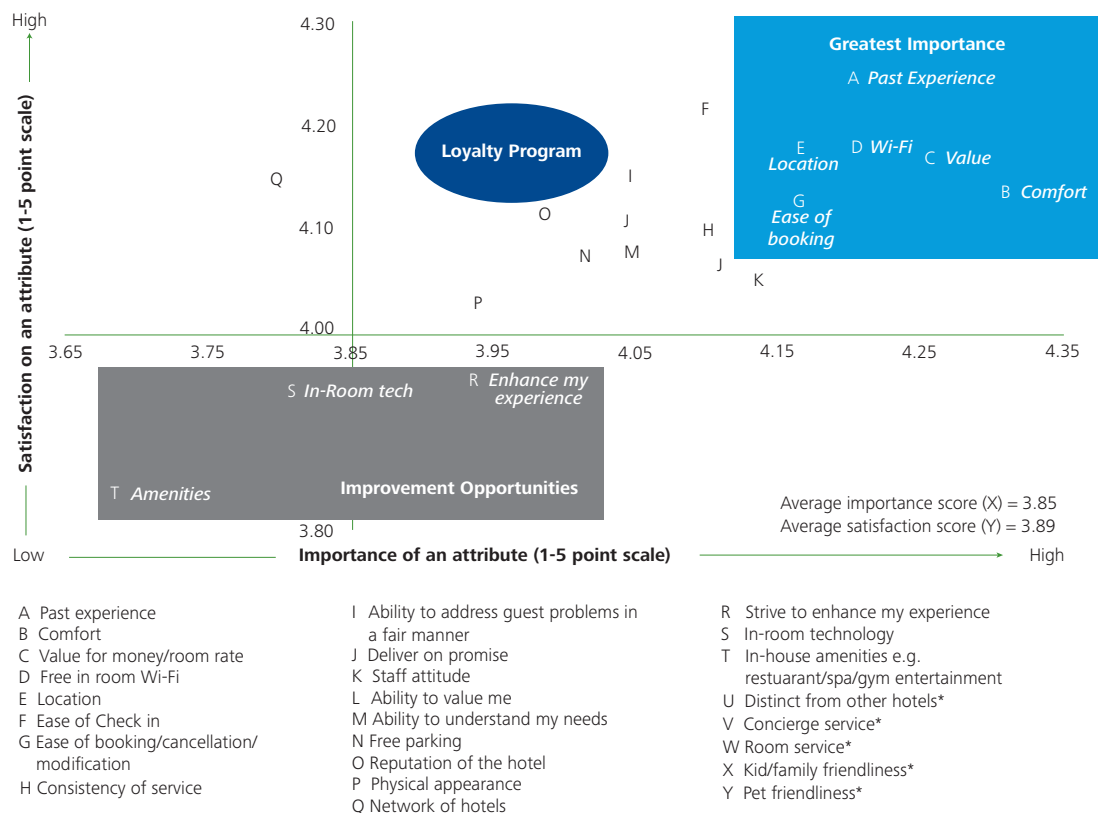
How loyalty programs fall short

Commoditized loyalty programs are just table stakes

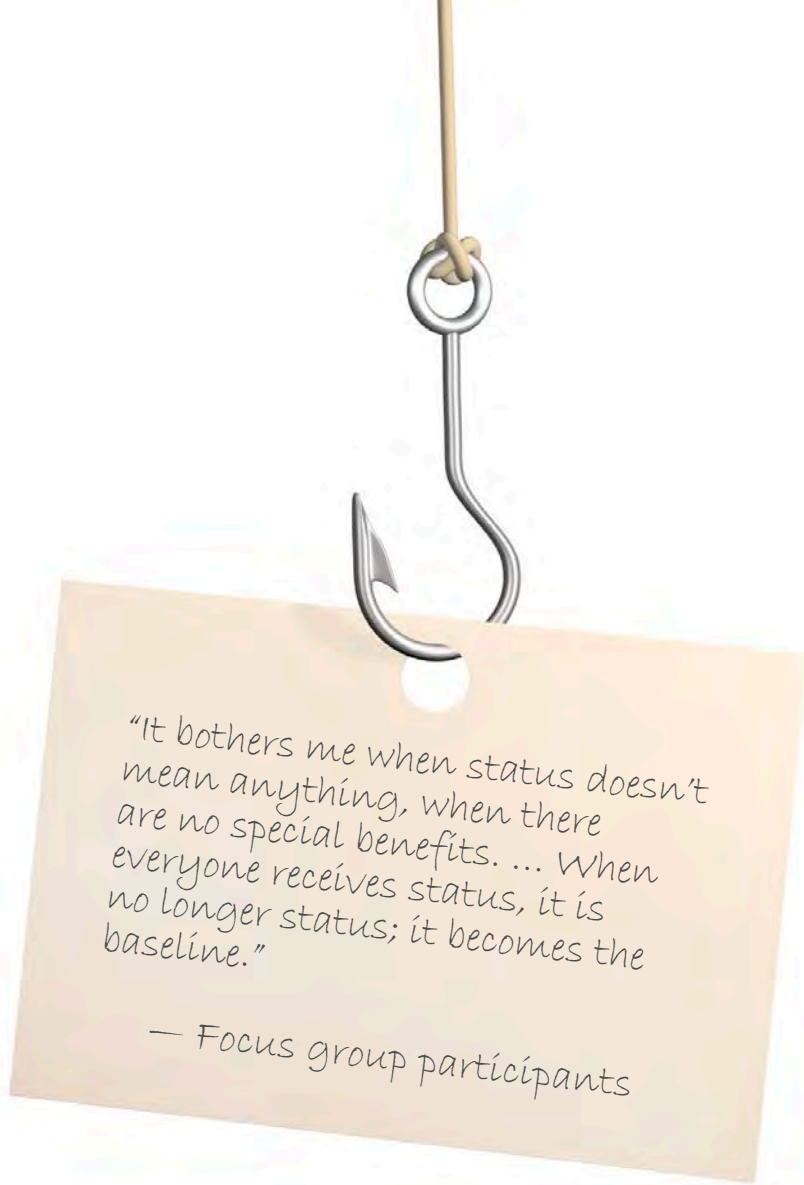
Loyalty programs are one of many attributes contributing to the overall brand experience. Hotel operators are mistaken if they expect loyalty programs alone to build brand affinity among their consumers. It is unwise to overestimate the impact of programs that encourage habitual behavior with commoditized rewards, or underestimate the importance of delivering outstanding service in a marketplace flush with competing options.

Loyalty programs perceived as table stakes. To better understand the role loyalty programs play within the context of the overall hotel experience, we asked survey respondents to force-rank a set of hotel attributes for importance and satisfaction (see Figure 4). High frequency travelers placed the greatest importance on past experience, comfort, value, and free in-room Wi-Fi. These travelers ranked loyalty programs similar in importance and satisfaction to attributes widely considered to be table stakes, such as ease of cancellation, consistency of service, and staff attitude. This suggests that loyalty members are just as likely to switch hotels if they get a better offer from a competitor as they would be if they had a bad experience at their preferred hotel.

Figure 4: Hotel loyalty programs
Importance and Satisfaction (High frequency travelers)



Note for U - Y: Five attributes namely distinct from other hotels (3.16, 3.89), concierge service (3.16, 3.51), room service (3.01, 3.51), kid family friendliness (2.93, 3.51), and pet friendliness (2.73, 3.38) are excluded from the chart as they are outliers.



Loyalty programs don't make or break a stay. It is surprising to find that loyalty programs were not more important or satisfying to high frequency travelers. Across industries, these same travelers rated hotel loyalty programs among the most innovative and generous, second only to those of casinos and grocery retailers. However, when we asked about the overall hotel experience and what is most important to them, loyalty programs were ranked 12th out of 26 attributes. We think that part of this seeming inconsistency relates to when a traveler thinks about the hotel experience, and loyalty programs are not the focus of the question, other attributes take priority. This is good news and bad. Hotel visitors will likely notice when the experience surpasses their expectations, and when it falls short. The loyalty program is not what is going to make or break their stay, particularly as these are relatively undifferentiated versus other hotels.

Hotel loyalty programs need a “meaningful” hook

Diminishing value of one-size-fits-all programs: Travelers do not place a great deal of importance on loyalty programs relative to other attributes of the hotel experience. Further, they are not as satisfied with these loyalty programs as with many other attributes. This was amply reflected in the comments from our focus group participants—both those who traveled frequently and those who did not. Resoundingly, participants affirmed that hotel loyalty programs are undifferentiated and typically fail to make customers feel like they matter. One focus group participant summed it up this way: “Hotels have so much data that can get us better service, and they are not using it.”

Merely a transactional relationship

The failure to foster a personal connection with customers means that customers do not develop brand affinity and the relationship remains transactional. “You scratch my back and I will scratch yours,” as one focus group participant put it. In short, the hotel customers we spoke with expected hotels to give them something meaningful in return for their business. Moreover, the way many hotel loyalty programs are set up not only encourages this transactional relationship, but also often fails to deliver the expected meaningful benefit. Accumulating reward points towards a free night's stay was meaningful at one time—before the landscape became saturated with loyalty programs and consumers' kitchen counters were littered with account numbers and point-summary statements. Today in many cases, loyalty programs amount to dressed-up price discounts which contribute to undesirable brand switching behavior.

Build affinity via customization

To build affinity and loyal customers, hotels should consider reinventing what their customers overwhelmingly consider to be uninspired loyalty programs that lack personal and customized experiences. Any effort to upgrade loyalty programs should factor in the mix of hotel-stays experienced by their higher-priority customer segments. Customers who regularly stay at a variety of hotels (e.g., luxury, upscale, extended-stay segments) have a greater basis for comparison and are likely to expect differentiated perks and rewards—not only from their preferred brand,

but also across segments as well. For example, the Newbie traveler, (Figure 5) who stays across the spectrum of hotel segments, will likely expect more personalized benefits from a loyalty program offered by a luxury hotel than that of an economy hotel. By comparison, Mature Leisure travelers, who travel less and stay with family or friends nearly half of the time, will likely be less aware or appreciative of differentiation in loyalty program attributes.

We have provided a rank-ordered prioritization of attributes based on importance and satisfaction to each of the four traveler segments. This technique helps hotel executives prioritize attributes that are most and least important to customers to evaluate strategies for improving loyalty programs.

Loyalty program priorities: The survey responses indicate that ease of earning and redeeming points is universally important. However, conducting focus groups provided greater insights into the additional attributes most important to travelers.

Proficient travelers are most interested in location and comfort: Loyalty programs are more important to the Proficient traveler than any other segment we identified. Out of 26 different attributes related to the overall hotel experience, Proficient travelers ranked loyalty programs 12th in overall importance (see Appendix). These travelers are laser-like focused on points. They earn points largely through business-related travel, and redeem them for personal leisure trips. These points can add up to provide significant financial benefit, as approximately 80 percent stay at luxury or upscale hotels with high room rates. Hence, they value opportunities to earn points, particularly for expenses incurred on-premise, such as in-room dining.

Moderate travelers are most interested in comfort and room rate: These value-conscious travelers are particularly interested in a hotel experience and loyalty program that delivers economic value. Of the 26 hotel experience attributes, value for money, free in-room Wi-Fi, and free parking were ranked 2nd, 5th, and 6th, respectively. Loyalty programs were ranked 16th in importance. The Moderate travelers' emphasis on value is apparent in their ranking redemption value and ease of earning/redeeming as their two most important loyalty program improvement areas (see Table 1).

Figure 5. Hotel mix of stay (by customer segment)

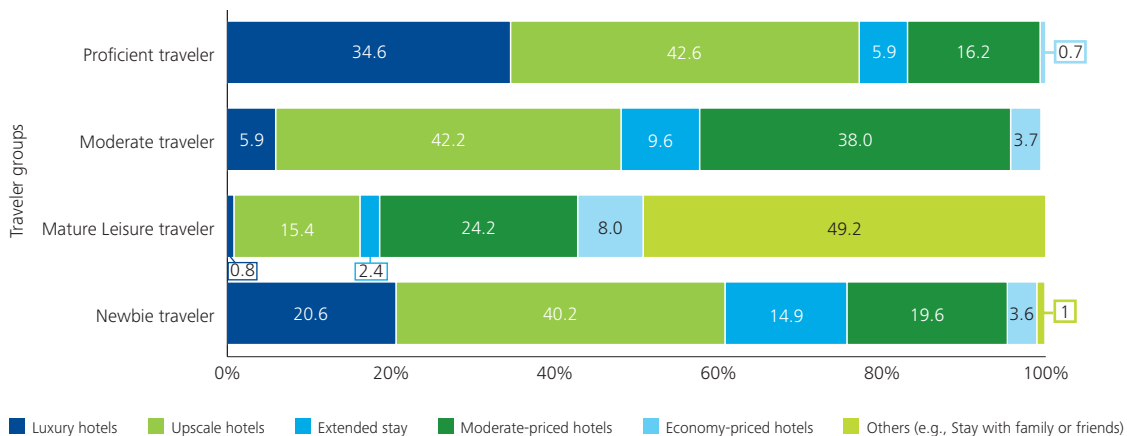


Table 1: Hotel loyalty program rank ordered improvement opportunity (based on reported importance and satisfaction by attribute)

Attribute	Proficient traveler	Moderate traveler	Mature Leisure traveler	Newbie traveler
More opportunities to redeem points	1	6	5	13
Ease of earning points	2	3	4	9
Highest points per dollar spent	3	7	6	1
More opportunities to earn points	4	4	3	7
Ease of redeeming points	5	2	2	5
Redemption value per point	6	1	1	11
Selection of hotels	7	5	8	10
Allows customization of rewards to suit my needs	8	8	7	6
Makes me feel important	9	10	11	3
Opportunities to redeem points for merchandise	10	13	12	14
Rewards focus on providing experiences	11	12	13	2
Provides unique rewards	12	11	10	4
Promotions with other travel companies	13	9	9	8
Distinct from other loyalty programs	14	14	14	12

*Rank Ordered from 1 -14, 1 is high.

Mature Leisure travelers are most interested in room rate and comfort: Mature Leisure travelers pay out-of-pocket for their travel and, in essence, purchase their reward points, unlike the business travelers’ “free” points. Mature Leisure travelers tend to be older and may not have the financial resources or need to travel enough to benefit from loyalty programs designed for the heaviest of travelers. Compared to other travelers, Mature Leisure travelers ranked loyalty programs the lowest in overall importance, 21st out of the 26 hotel experience attributes we surveyed. This lack of importance is likely driven by how points are awarded and redeemed, which just does not work for many Mature Leisure travelers for three reasons: they are less frequent travelers; 50 percent of their trips are spent with friends and family; 60 percent of hotel stays are at lower priced hotels. Therefore, it can take them a long time to accumulate points. All of these factors point to the importance of customized loyalty programs.

Newbie travelers are most interested in comfort and ability to value them: Unique to Newbie travelers, they are part of the millennial generation. Often referred to as the Entitlement generation, coming of age during the booming 1990s, they expect more than those who came before them. This can be seen in how Newbies rate the overall hotel experience. Both “ability to value me” and “ability to understand my needs” were among the Newbie’s top 5 most important attributes. In contrast, loyalty programs were ranked 16th in overall importance by this group. This lack of relative importance of loyalty programs may be due to hotels’ programmatic undifferentiated approach to building loyalty. In fact, for the Newbie, important things to fix with loyalty programs are those attributes related to differentiation—provide experience based rewards; offer unique rewards; and make me feel important. Empowered by technology and influenced by social media, Newbies make informed travel decisions and are likely to give their attention to hotels with personalized, differentiated loyalty programs (see Table 1).

The high stakes of loyalty restoration



The costs of a breakdown in hotel loyalty

Let's assume for argument sake that loyalty programs were not broken and hotel travelers were 100 percent satisfied with their preferred brand's loyalty program. If this were fact, could we expect that loyalty program members would exclusively stay with their preferred brand? This might even be possible given the extensive brand footprint of many major hotel companies. However, the very essence of travel precludes us from ever suggesting 100 percent loyalty is realistic. Much of what makes travel appealing to people relates to our desire to experience new places, which includes new hotels. Nonetheless, we assumed complete loyalty for purposes of estimating "at-risk" revenue, if a loyal customer switched their preferred brand, and revenue opportunity assuming the preferred brand were to capture 100 percent of customer share of wallet.

Customer propensity to switch preferred brands:

To inform our estimate of "at-risk" revenue, we assessed loyalty members' propensity to switch their preferred brand. Based on survey responses to a series of attitudinal statements related to switching behavior, we measured customer's propensity to switch their preferred brand: a switching vulnerability index (SVI). Based on our analysis (Table 2), with SVIs of 70 and 73, respectively, the Proficient and Newbie travelers' propensity to switch their preferred brand is much lower than the average traveler (SVI = 100).

Switching Vulnerability Index (SVI) defined

SVI is a measure of a customer's propensity to switch preferred brand. It is based on a series of attitudinal statements related to switching behavior. Respondents that disagreed or strongly disagreed with eight attitudinal statements were considered more inclined to switch. The typical traveler has an SVI of 100.

- An SVI >100 suggests an above average propensity to switch and weaker brand affinity
- An SVI <100 indicates a below average propensity to switch and stronger brand affinity

Brand affinity defined

Brand affinity refers to the emotional connection consumers have to a specific brand and therefore directly relates to consumer loyalty. A consumer with affinity for a brand is typically more immune to offers from competitors and unlikely to seek out alternatives.

Table 2: Switching Vulnerability Index (SVI) by customer segment

Attitudinal statements relating to preferred brand	% of Respondents who disagree or strongly disagree			
	Proficient	Moderate	Leisure	Newbie
I will not shift to a competing hotel to take advantage of a short-term promotion	27%	44%	56%	27%
I will not join another loyalty program because I want to focus on accumulating rewards	33%	46%	57%	26%
If available, I will stay at my preferred hotel group brands, even when I visit a foreign country	16%	27%	37%	21%
If available, I stay at the same hotel brand/group when traveling for business or leisure	12%	23%	29%	23%
I will stay at the same hotel next time	14%	22%	25%	21%
I will continue to patronize this hotel even if it discontinues the loyalty program	32%	37%	36%	27%
I will not switch to a competing loyalty program that announces better rewards	32%	43%	53%	30%
I will not switch to a competing hotel loyalty program even after achieving highest status level	28%	42%	49%	27%
Disagree/Strongly Disagree Weighted Average	24%	36%	43%	25%
*Switching Vulnerability Index (SVI)	70	103	124	73
Note: Average Traveler SVI = 100				

Estimating revenue opportunity and “at-risk” revenue.

In Table 3 we estimate revenue “at risk” by traveler segment, a projected average hotel-spend-per-customer and revenue-lost-per-customer (to competing brands) based on self-reported share of business with the preferred brand.

Proficient travelers are most loyal to their preferred brand, but also spend heavily on non-preferred brands:

Luxury and upscale hotels with a well-run operation should consider the Proficient traveler a priority customer. Proficient travelers spend more on hotel rooms, are more loyal to their preferred brand, less price sensitive, and more predictable travelers than any of the other customers we considered.

We estimate the Proficient traveler spends \$26,000 annually on hotel rooms, \$6,000 more than the next biggest spending customer. Also the most loyal of customers, the Proficient traveler spends 58 percent of their hotel room budget with their preferred brand, compared to 51 percent for the next most loyal segment—the Mature Leisure traveler. Also, with 70 percent of their stays at luxury and upscale hotels, and their ranking value for money/room rate lower in overall importance than any other segment, the Proficient traveler is seemingly less price-sensitive. Furthermore, these travelers expense their travel costs to their employers. Admittedly, corporations have tightened their oversight of travel budgets in recent years, but the Proficient traveler is still likely less price-sensitive than a Mature Leisure traveler paying out of their own pocket and living on a fixed income. Finally, the Proficient traveler is attractive due to the predictable nature of their travel—on average 10 nights per month.



Predictable travelers help hotels to smooth their occupancy rates which benefits operational efficiency. Interestingly, operational efficiency is also important to retention of the Proficient traveler. Hotels that cater to this customer will need to perform at a high level, as 81.6 percent of Proficient travelers reported “past experience” as important or very important to them when selecting a hotel.

Compared to other travelers we considered, the Proficient travelers are more loyal to their preferred brand. However, they should not be taken for granted, particularly given that 42 percent of the Proficient traveler’s annual spend goes to a non-preferred brand and 24 percent of them lack affinity and are “at risk” for switching their preferred brand. Further, with nearly 80 percent of them enrolled in two or more hotel loyalty programs, chances are good these “at-risk” customers will be targeted by competing brands trying to lure them away.

For these reasons, we believe this is the ideal time for brands that cater to the Proficient traveler to refocus and reengage this priority customer by providing more than an efficient experience. Away from home and family, Proficient travelers value personal connection and want to feel that they matter. According to one focus group participant, “Any kind of personalization really helps. I got stuck at a hotel on my birthday and they knew it. The hotel left a basket of food and a free movie in my room and that was the most fantastic thing ever—I am there forever now.” By providing personalized experiences customized to travelers’ unique tastes and preferences, a preferred brand can build affinity among Proficient travelers, possibly increasing their share of wallet and reducing their “at-risk” clients.

Newbie travelers stay with many brands, yet still are uncharacteristically loyal to their preferred brand: In addition to their age, this segment is attractive for their travel frequency, tendency to book higher-end rooms, and preferred-brand loyalty, which is atypical for their youth. Young with many years of travel ahead, the potential lifetime value of a Newbie traveler makes this segment attractive. Also, Newbie travelers are frequent travelers staying on average 8 nights per month in hotel rooms. Further, 65 percent of the time they stay at luxury and upscale hotels and 49 percent of their wallet is spent

with their preferred brand. Interestingly, even though the Newbie traveler spends nearly 10 percent less of their budget with their preferred brand than the Proficient traveler, the “at-risk” population for both segments is nearly identical at roughly 25 percent. This suggests that while Newbies are more prone to stay with multiple brands, they also have affinity for their preferred brand—as much as the older Proficient travelers. It is surprising that the percentage of “at-risk” Newbies is not higher given an inverse correlation between age and brand disloyalty.⁷

Table 3: Revenue opportunity and “at risk” revenues by customer segment

Interpreting the data in Table 3. We made directional estimates of annual hotel spend, percentage of spend at the preferred brand, the percentage of spend at other brands, and percentage of travelers “at risk” of switching in each segment. These projections are based on self-reported stays per month, portion of stays in preferred brand, typical hotel accommodation type (e.g., luxury, upscale, economy), our estimate of average nightly room rates, and responses to a series of attitudinal questions related to loyalty. As this table is based on consumer survey responses and a series of estimates, consider the data in the table as only indicative of the differences across the four segments and not an exact calculation.

	Proficient traveler	Moderate travelers	Mature Leisure traveler	Newbie traveler
Annual hotel spend per customer	\$26,000	\$12,000	\$8,000	\$20,000
Average night stay per month	10	6	5	8
Average nightly room rate	\$210	\$170	\$150	\$200
% of hotel spend per customer with preferred brand	58%	49%	51%	49%
% of hotel spend per customer with other brands (opportunity)	42%	51%	49%	51%
% of customers “at risk” to switch	24%	36%	43%	25%

See Appendix for detailed methodology.



Mature Leisure and Moderate travelers are value seekers who stay with their preferred brand nearly half the time, but many are "at risk": On the basis of annual hotel spend per customer, the Mature Leisure and Moderate segments are fairly comparable. Both of these travelers spend 50 percent of their wallet with their preferred brand, on par with the Newbie group. In accordance with their value-seeking behavior mentioned earlier, Mature Leisure and Moderate travelers most often frequent moderate-priced or economy hotels, 65 percent and 50 percent of their hotel stays, respectively. However, these travelers reported having less attitudinal affinity for their preferred brand—43 percent of Mature Leisure travelers and 36 percent of Moderate travelers are "at risk" for brand switching.

The role of technology in building customer engagement

Strategic investment in those technologies that provide opportunities to engage customers or facilitate their travel will potentially provide hotels with a powerful differentiator. Technology affords the means to reengage and build affinity with "at-risk" customers. Further, it provides the potential to capture incremental share of wallet from loyal customers by accommodating priority customers' travel behaviors and preferences and even engaging them off-premises. However, hotels should understand how their priority customers use technology and engage them at every stage of the travel process—planning, traveling, and sharing. This understanding, which can be derived by data mining of loyalty member databases and monitoring online websites, should guide the formulation of any technology strategy and subsequent investment.

A hotel's technology strategy should be customized according to the travel behaviors and preferences of their priority customers. A one-size-fits-all strategy will likely be less effective given the broad spectrum of technology adoption and ways customers want to be engaged that were reported by our survey respondents.

Based on the responses from our survey respondents (see Tables 4 and 5) and the traveler segments we considered, customized strategies will be required to meet the unique travel preferences of each group. In today's web-enabled world, hospitality companies can engage customers at every stage of the travel process—planning, traveling, and sharing. However, given the rapidity with which new technologies emerge and an explosion of travel-related applications and websites, hospitality companies should invest in technology with a strategic purpose.

Our survey shows that the travel booking and planning behaviors and customer engagement preferences among the respondents were notably different across customer segments. These differences further underscore the need for differentiated, targeted approaches for building loyalty and customer engagement.

Proficient traveler: The majority reported use of online booking and hotel apps, 74 percent and 60 percent, respectively. Similarly, 76 percent reported use of travel websites to make price comparisons and 81 percent reported email as their preferred mode of engagement.

Moderate traveler: Consulting with family members was reported by 67 percent of Moderates, compared to 53 percent who have shared opinions on social networking sites, and 90 percent who have compared prices on travel websites. Overwhelmingly, 90 percent prefer contact through email. On the other hand, only 30 percent reported use of hotel apps and only 26 percent have written hotel reviews, although this was higher than that reported by any of the other traveler segments.

Mature Leisure traveler: These travelers are not savvy users of social websites, but they do research on hotel websites and price comparison websites, with 68 percent and 80 percent of them, respectively, reporting usage. The Mature Leisure traveler is less willing to be engaged compared to other customers, however 75 percent of them prefer email over other forms of communication.

Newbie traveler: Across online uses, booking behavior, and mode of engagement preference, the Newbies' reported usage is higher than the other three types of travelers. The only exception being the use of hotel websites, which is likely due to the fact that brand distrust is higher among younger people.⁸

Table 4: Online use, booking behavior, and preferred modes of engagement by segment

		Proficient traveler	Moderate traveler	Mature Leisure traveler	Newbie traveler
Online use/activity ¹	Book online	73%	67%	60%	75%
	Researched information/ reviews about hotels	54%	61%	68%	42%
	Written a review about a hotel	20%	26%	13%	37%
	Used a social media site to research and/or plan travel	19%	20%	7%	36%
	Use hotel app	60%	30%	6%	63%
Travel booking behavior ²	Consults family members	71%	76%	71%	93%
	Visits social media and review sites	57%	52%	25%	97%
	Visit price comparison sites	76%	90%	80%	99%
	Use social networking sites to share opinion of hotels	54%	53%	14%	96%
Preferred Mode of engagement ³	Social networks and media	50%	52%	14%	90%
	Telephone	55%	52%	31%	88%
	Email	81%	90%	75%	94%
	Send destination suggestions	67%	68%	41%	89%
	Send personalized messages that meet my travel needs	73%	72%	60%	91%

Supporting survey questions:

1. During the past 12 months, which of the following online activities have you done either on a computer or a web-enabled smartphone while traveling for business or leisure purposes?
2. Please indicate how frequently you behave in these ways before/while/after reserving hotel rooms? (Respondents selecting always, often, and sometimes)
3. Please indicate how frequently you would like hotels/airlines to engage you or interact with you in the following ways. (Respondents selecting always, often, and sometimes)

Building your blueprint

Restoration in loyalty considerations

This is the perfect time for hotels to invest to restore brand loyalty, even as the economy sputters along and global pressures persist. There is no shortage of opportunity for those brands that choose to invest in breaking out of the frequency-based sea of “me-too” loyalty programs. Hotel companies can approach this opportunity with small initiatives and incremental steps; start by changing a few things, maybe at a couple of hotels or in limited markets. Whether you choose to start small or go big, consider creating your “4RE” blueprint.

A hotel “4RE” blueprint for loyalty restoration will combine company assets—data, technologies, and skillsets—into a powerful differentiator. Just as a blueprint details the type of home to be built, companies can build their blueprint for the type of loyalty they want to foster. Executing the blueprint, in each case, requires a well-defined process: a series of steps in which each step adds a critical component to the structure. And when effectively followed, the process yields a result—a house or a feeling of loyalty—that matches the original blueprint and endures as long as it is maintained over time.

We believe that hotels that choose to restore loyalty among hotel industry consumers should consider following these four steps:

Step 1 – Redefine loyalty: Customer loyalty, a well-studied topic, has been defined and measured in many ways. Therefore, any hotel that endeavors to restore customer loyalty should secure organization-wide understanding and



agreement as to the specific customer behaviors and attitudes that will be considered characteristic of a loyal customer. To determine these expectations, hotels should consider the tradeoffs inherent between different forms of loyalty.

Customer loyalty that endures over time and is characterized by an emotional bond with the brand is widely considered the most valuable and most difficult to build. Apple, for example, enjoys this kind of loyalty where its customers repeat purchase with little or no consideration of competitive offers, will refer others and advocate on behalf of the brand, and forgive minor service issues without a loss of loyalty. Apple has cultivated this loyalty by delivering excellent products and services. It also helps that customer involvement is typically high when purchasing computers and smartphones, which are high-priced items where customer satisfaction is important.

Similarly, a hotel stay is also a high customer involvement purchase, particularly when booking online or when taking a leap of faith and booking at a hotel for the first time. Therefore, hotels with well-run operations and consistency of service are better positioned to strengthen their loyalty programs in a way that engenders emotional loyalty and avoid the deal-seeking transaction-based loyalty typical in the industry today.

Clearly defined loyalty is easy to measure. When emotional loyalty exists possible metrics could include customer referrals, social media reviews or constructive customer feedback forms. In contrast, a transactional relationship could be measured by repeat purchase without any consideration for frequency or share of wallet.

Step 2 – Refocus on priority customers: Loyalty membership databases are overflowing with information about customer demographics, travel preferences, and profitability. Mining this data will likely produce a rich understanding of discrete customer segments with distinct service preferences. Weigh the tradeoffs of these discrete customer groups to determine investment priorities by customer segments. For example, one group may visit frequently, but the cost to serve this segment is relatively high compared to another group that stays infrequently, but is also very low-touch. Using these data-driven insights determines which customer segment’s brand loyalty is critical to build and maintain (see Table 5).

Companies should take a data-driven view of the experience attributes and engagement preferences most important to each customer segment, and then evaluate the resources and infrastructure required to deliver. For the customers outlined in this research, for instance, the following importance/satisfaction criteria should be considered.

Step 3 – Reinvent programs and experiences: Armed with an analytic blueprint, companies can add meaningful differentiation into loyalty programs and recreate the customer experience to include personalized touch points for high-value customers. To build enduring relationship-based loyalty that can be measured by share of wallet will require a comprehensive approach and coordinated process. A comprehensive approach will include both loyalty programs and customer experiences based on differentiated, meaningful rewards and interactions informed by customers’ travel preferences and behaviors. Coordination throughout the organization is necessary to successful execution: customer service, marketing, operations, and information technology must work from the same blueprint and contribute essential elements.

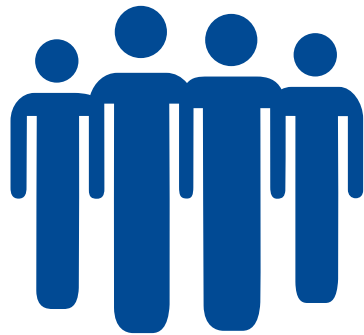
Reimagine Loyalty Programs: Consider replacing programmatic approaches to building loyalty with personalized rewards to encourage high-value behaviors and customer experience initiatives that appeal to discrete priority customer segments. By replacing one-size-fits-all loyalty programs with empowered front-line employees, loyalty can be built throughout the entire hotel experience in ways that are unexpected and individually meaningful.

Table 5: Customer preferences by traveler segment

	Proficient traveler	Moderate traveler	Mature Leisure traveler	Newbie traveler
Hotel experience uniquely important	Ease of booking, Ease of check-in, Free In-room Wi-Fi, location	Value for money, Free parking, Free Wi-Fi, Deliver on promise	Value for money/ Room rate, Ease of check In, Staff attitude	Ability to value me, Understand my needs, past experience
Planning/booking behaviors frequency	Hotel app, Social media websites	Online book, Read reviews	Hotel website, Price comparison sites	Travel app, Social media, Write reviews, Friends family
Engagement preferred	Phone, Destination suggestions	Phone	Email	All/Any

Cake provides a useful metaphor for thinking about how to reinvent loyalty programs. Think about it, who doesn’t like cake? You like cake, but the cake you LOVE is probably different from the one you were served at your friend’s birthday party last weekend. Think about all the possible cakes made by combining different batters, frostings, and decorations. We recommend that loyalty programs, like cake, are tailored to provide rewards that suit individuals’ preferences and encourage specific behaviors. Let them eat cake!





Strategy 1	Encourage specific behaviors with unexpected reward
Strategy 2	Make rewards personally meaningful
Strategy 3	In-the-moment, accessible rewards matter
Strategy 4	Be forgiving; don't penalize behavior
Strategy 5	Reshape the customer experience

Five strategies to consider:

1 *Strategy 1 – Encourage specific behaviors with unexpected rewards.* Leverage your insight into the behaviors of high value customer segments by offering loyalty rewards to elicit these behaviors and increase their occurrence. For example, a hotel can analyze booking data to determine which loyalty members often travel with children. When these loyalty members return to the hotel, offer them complimentary children's programming and story-time turn-down service to help kids remain calm and quiet at night. The parents, as well as other hotel guests, will appreciate the relaxing environment and their children will feel uniquely special.

2 *Strategy 2 – Make rewards personally meaningful.* Hotels, for example, can develop strategies to stimulate more frequent in-room dining during a leisure traveler's stay. By analyzing frequent traveler history, a hotel can determine those loyalty members who typically order in-room dining and a glass of wine with their meal on the night of their arrival. Use this information to encourage additional in-room dining with a next-night offer of a complimentary glass of a special vintage. Alternatively, book rooms during slow periods by hosting special wine tastings in the hotel restaurant with discounted hotel stays for these same wine aficionados.

3 *Strategy 3 – In-the-moment, accessible rewards matter.* Do you remember when fast food restaurants used instant-win coupons? The customer used a nickel to scratch off the coupon's varnish to see if they had won a free burger or milkshake, on the spot. People had fun playing the game, even if they did not win. Think how long it could take for someone who travels twice a year to earn a free night. What do these frequency-only designed loyalty programs say to these travelers? You do not matter, you are not a priority. From what we have seen, these travelers may actually be more loyal to your brand than your frequent travelers, so why not reward them during their stay? Even something small, a token, can make an impact on these travelers, particularly if the reward is unexpected.

4 *Strategy 4 – Be forgiving; don't penalize behavior that loyalty programs encourage.* Hotels could learn a thing or two from one auto insurance provider who advertises that they will reward policy holders who return for the time they spent with another carrier. One focus group participant who lost status said this: "When you get your status it opens up a whole other level of brands and concierge service—it stinks when you lose it. Had it with [hotel brand A] and then lost it, so I went all [hotel brand B] so I wouldn't lose that."

5 Strategy 5 – Reshape the customer experience:

The hotel customer experience can and should be informed by priority customers’ travel preferences and behaviors. Each touch point with a priority customer is an opportunity to build loyalty. The technology exists to coordinate among all customer-facing departments to deliver personalized experiences both on and off the hotel premises—a customer experience so powerful that the connection a felt for a preferred brand would be difficult to sever.

Imagine a staff that’s beyond efficient. Before or during check-in, a concierge sees on his tablet’s screen a guest’s preferences. As a result, when the guest enters his room, the temperature is already perfect; the blinds are partially open and the lights on low; the refrigerator is stocked with his or her favorite drinks and snacks. The TV scrolls an itinerary: special offers—say, for dinner reservations or tickets to a show—can be accepted with a simple touch on the screen. Reservation systems for restaurants and spas recognize the guest’s loyalty status and update a tally of points earned toward rewards.

- *Connecting with guests—before, during, and after their stay—is important to creating repeat customers.* When the technology for delivering personalized marketing messages is integrated throughout a hotel—in the guest rooms, in the restaurants, in the bars, and in all the public and private places—service can be responsive, effective, and relevant.
- *Technology can be used to give guests more control over their experience.* For example, with a fingertip command on a TV interface or phone, a guest might determine lighting and temperature, set a wake-up call that also opens the drapes and turns on the television, charge minibar purchases to the hotel billing system, maintain a “living itinerary” (as an individual or group member), and—of course—receive and accept special offers. Configurable interfaces push branding to the guest.



Step 4 – Reinvest in foundational capabilities and infrastructure:

Build the technology, talent, training, and infrastructure necessary to deliver differentiated customer experiences that extend beyond the on-premise experience. Training is very important. Front-line staff members who always greet guests with a warm hello or grab the elevator door can make such a difference. The role of customer-facing technology is increasingly important to enable customer engagement during travel planning, doing, and sharing. Particularly as hotels experience a generational shift to a younger customer base, IT skills and technology infrastructure will be critical to meet consumer needs throughout the entire travel process.

Case study exhibit

Case Study:

Four Seasons Hotels and Resorts

The Four Seasons “formula” in action:

“The reason for our success is no secret. It comes down to one single principle that transcends time and geography, religion and culture. It’s the Golden Rule – the simple idea that if you treat people well, the way you would like to be treated, they will do the same.”⁹

Isadore Sharp, Founder and Chairman
Four Seasons Hotels and Resorts

Treat your employees well and they will treat your customers better. Four Seasons hires the right people who have the orientation to serve others. It places more emphasis on a person’s attitude rather than on experience in the hospitality industry. “We want people who like other people, and are therefore more motivated to serve them,” Sharp said. “Competence we can teach; attitude is ingrained”.¹⁰ Four Seasons success in creating a satisfied work force is recognized by its inclusion in Fortune Magazine’s “100 Best Companies to Work For” for the 15th year in a row. Four Seasons is one of only 13 companies that have received this distinction every year since the company began tracking in 1988.

Deliver personalized service to everyone. Many luxury hotels secretly reward their best customers. Four Seasons does not differentiate customers based on frequency of stay. “We don’t have a point system; everyone is a VIP. You wouldn’t believe how many notes we take on every guest,” says a PR spokesperson for the Four Seasons Hotels and Resorts.¹¹ A customer visiting Four Seasons for the first time or a frequent guest at the hotel will receive the same, best class service, be it in the house keeping or concierge or any other service. “We fill in the blanks, regardless of who you are. We make it happen,” says Maggie O’Rourke, a concierge at Boston’s Four Seasons Hotel.

Empower consumer choice by embracing social media. Four Seasons is embracing social media in a big way to enhance position and perception, increase sales, lead to conversions, extend the service model, protect the brand reputation, build loyalty and activism, and create a personal experience that mirrors the hotel experience.¹² Four Seasons launched a new website in 2012, with an increased emphasis on customer reviews. Prospective travelers can access reviews from TripAdvisor, Twitter, and Facebook. Four Seasons does not remove or block any reviews. According to Four Seasons Chief Marketing Officer, Susan Helstab, “It really does require that incredible sense of confidence that says we deliver our promise.”¹³

Use social media to create “off premise” customer touch points:

Each property is integrated into Four Seasons’ social media strategy enabling free flowing communications and better customer service. For instance, when a Twitter user posted that he was on his way to stay at Four Seasons Hotel Silicon Valley at East Palo Alto, the local Twitter account (related to the hotel at East Palo Alto) responded by offering assistance and booking a reservation at on-site restaurant Quattro. In another case, the hotel raised awareness about reopening of its Toronto property at a new location by holding a contest using an Instagram mobile app.¹⁴

Case Study:

Patagonia: Creating loyalty through values

In 2011, Patagonia, the Californian apparel company, launched “The Common Threads Initiative”. The initiative is a pledge that a customer can take to help the environment by reducing excess consumption. In the pledge, Patagonia agrees to build quality products that have a long lifetime, repair them when required, and recycle when something is no longer useful. In return, they ask that their customers buy only what they need, fix things when needed, reuse and share what they don’t need any more, and to recycle the rest.

One wouldn’t think that asking their customers to buy less of their product would be a great marketing plan to increase sales—but that is not the point here. Patagonia is dedicated to protecting the environment and since 1985 has given 1 percent of their sales for the preservation and restoration of the earth. The company believes that its customers, like them, want to protect the environment, and cause the least amount of harm as possible. Patagonia creates loyalty with its customers by sharing the same values and giving back to the communities and the world we live in. The company is so committed to the cause and to making it easier for people to help the environment that it partnered with eBay to create a portal for people to buy and sell previously owned Patagonia products. While the intention is to help the world we live in, creating loyalty will be an added benefit.

Case Study:

Neiman Marcus: It’s not all about the points

In 1984, Neiman Marcus launched their InCircle rewards program which over time has become a leading example of successfully building loyalty by rewarding their customers with not only points and promotions but experiences and top notch service as well.

The program has a tiered structure, the more you spend the more rewards you reap and it isn’t all about discounts. Once you reach a certain level you obtain access to a concierge service where an InCircle access advisor can provide anything from fashion sourcing to unique travel experiences, VIP tickets, dining, and more.

The company’s customers are going to spend no matter what but providing experiences that are tailored to the preferences and lifestyles of its customers’ show that Neiman Marcus understands its customers and appreciates their loyalty.



Case Study:

Neiman Marcus: Building loyalty from within

Neiman Marcus' loyalty program, InCircle, owes much of its success to the commitment the company makes to train its employees. From senior leadership to store employees, the program is fully supported and embraced by all.

Regardless of their position all new hires undergo training for the InCircle program. Neiman Marcus also created "InCircle Ambassadors" who are staff members responsible for knowing all the ins and outs of the program and can answer any question a customer might have. They also provide ongoing training to the rest of the store staff. Ensuring your program is understood by your employees on the ground is critical to remaining consistent in your messaging and offerings and helps to maintain and create strong relationships with your customers.¹⁵

Luxury retailers know that relationships drive sales," says Luxury Institute CEO Milton Pedraza. "The right hiring, education programs and Customer Culture help to promote more productive relationships and higher sales.¹⁶

Case Study:

Apple Improving loyalty programs by having no program at all—playing on the emotions

One of the most innovative companies with some of the most loyal customers doesn't need a program at all. Attractive and consistent design, original products, creative marketing, and more all play a role in the brand loyalty Apple has created.

Apple's product release strategy is something to be admired. They have created a culture for their brand that inspires—to the point that thousands of people are willing to sleep outside of a store just to be the first to get a new product. The high quality of products will keep people buying but it is that desire to be the first to buy a product, the pride of owning the newest apple product while being envied by the rest of us who have to wait weeks or months to get our hands on it, and the feeling of empowerment that comes with it that fuels the cult-like loyalty that Apple has created.

Creating an emotional connection with your customer by understanding what motivates them, what makes them feel inspired and empowered can be a successful strategy in creating brand affinity.

Appendix I: Hotel customer experience attribute importance ranking by customer segment

Rank	Proficient			Moderate			Mature Leisure			Newbie		
	Attribute	Importance (I)	Satisfaction (S)	Attribute	I	S	Attribute	I	S	Attribute	I	S
1	Location	89.0%	81.6%	Comfort	79.1%	77.0%	Value for money / room rate	88.8%	83.0%	Comfort	69.6%	54.1%
2	Comfort	85.3%	83.8%	Value for money / room rate	77.5%	72.2%	Comfort	87.0%	85.6%	Ability to value me	68.6%	67.0%
3	Free in room Wi-Fi	83.8%	80.9%	Location	77.0%	72.2%	Location	82.4%	79.3%	Value for money/ room rate	68.0%	70.1%
4	Ease of booking/ cancelation / modification	83.1%	80.9%	Ease of check-in	74.3%	77.0%	Ease of check-in	81.9%	85.4%	Ability to understand my needs	67.5%	67.0%
5	Ease of check-in	83.1%	84.6%	Free parking	73.3%	70.1%	Ease of booking/ cancelation / modification	81.6%	84.0%	Past experience	66.5%	67.0%
6	Ability to understand my needs	82.4%	79.4%	Free in room Wi-Fi	72.2%	69.5%	Staff attitude	81.4%	74.7%	Ability to address guest problems in a fair manner	65.5%	67.5%
7	Reputation of the hotel	82.4%	81.6%	Past experience	72.2%	75.9%	Free parking	79.0%	75.3%	Physical appearance	62.4%	60.3%
8	Staff attitude	82.4%	77.2%	Staff attitude	71.1%	70.1%	Past experience	77.7%	82.7%	Location	61.3%	63.9%
9	Consistency of service	81.6%	80.1%	Deliver on promise	70.1%	71.1%	Deliver on promise	77.4%	77.7%	Concierge service	60.8%	45.4%
10	Past experience	81.6%	83.8%	Ease of booking/ cancelation/ modification	69.0%	73.3%	Reputation of the hotel	74.5%	77.4%	Free in room Wi-Fi	60.3%	56.2%
11	Value for money/ room rate	80.9%	77.2%	Consistency of service	67.9%	76.5%	Consistency of service	74.2%	77.4%	Reputation of the hotel	60.3%	60.3%
12	Loyalty program	80.9%	80.1%	Ability to address guest problems in a fair manner	66.8%	69.5%	Ability to address guest problems in a fair manner	66.8%	70.5%	Consistency of service	58.2%	52.1%
				(16) Loyalty program	62.6%	63.6%	(21) Loyalty program	40.7%	57.7%	(16) Loyalty program	56.2%	63.9%

Appendix II: Learning from prior academic research on customer loyalty

Customer loyalty: Toward an integrated conceptual framework

Dick and Basu's (1994) customer loyalty model is a conceptualization of the combined effects of attitude and behavior. They suggest loyalty is the strength of the relationship between an individual's relative attitude and repeat patronage. Cognitive, affective, and conative antecedents of relative attitude are identified as contributing to loyalty, along with motivational, perceptual, and behavioral consequences. The loyalty model proposed by them divides customers into four loyalty groups—sustainable loyalty, latent loyalty, spurious loyalty, and unloyalty.

Implicit in the Dick and Basu model is the assumption that classification of customers into four loyalty groups on the basis of relative attitude and repeat patronage should then allow the prediction of other loyalty measures such as retention and defection.

Source: Dick, Alan S. and Basu, Kunal (1994), "Customer Loyalty: Toward and Integrated Conceptual. Framework", *Journal of the Academy of Marketing Science*, Vol 22(2), p. 99–113.

The mismanagement of customer loyalty

A study conducted by Reinartz, W. and Kumar, V. (2002), establishes that "not all loyal customers are profitable, and not all profitable customers are loyal". Reinartz and Kumar created a model segmenting customers into four different categories—true friends, butterflies, strangers, and barnacles—based on their profitability and their forecasted length of relationship. Based on the category the customer belongs to, they suggest that different strategies can be applied to maximize the profit of the respective relationship.

Source: Reinartz, W. and Kumar, V. (2002), "The mismanagement of customer loyalty". *Harvard Business Review*. Vol. 80, No. 7, pp. 86-94.

Brand loyalty: The link between attitude and behavior

The BrandBuilder model developed by NPD Group, Inc. in 1992 aimed at predicting market share shift based on changes in behavioral and attitudinal loyalty. The model assumes that buyers who are behaviorally loyal to a particular brand are expected to rate that brand attitudinally much more favorably than brands they either never buy or buy less often. Such loyal buyers were termed "real loyals." Some loyal buyers, however, do not exhibit attitudes that tie them to the brand and are classified as "vulnerables." It is believed that a higher percentage of real loyals stay loyal to a brand over time than do vulnerables. Furthermore, a vulnerable who has highly favorable attitudes toward a particular competitive brand is termed a "prime prospect" of that brand; The study states that prime prospects convert at higher rates to becoming high loyals (to the brand they rate highly) over time. Using this concept, a brand's loyal core is not just its behaviorally high loyal customers but also those who are behaviorally and attitudinally high loyal, i.e., the "real loyals."

Source: Baldinger, Allan L. and Rubinson, Joel (1996), "Brand loyalty: The link between attitude and behavior". *Journal of Advertising Research*.

Appendix III: About the research methodology

This report is based on an extensive web-based consumer survey, focus groups, executive interviews, case studies, and secondary research.

Consumer survey

We conducted the Deloitte Hotel and Airline Traveler survey in October 2012 among 4,000 travelers in the United States who either stayed at a hotel or took a flight in the past 12 months. The survey focused on traveler behavior and attitudes, including customer engagement preferences, travel-booking behavior, and the effectiveness of loyalty programs in the hotel and airline industries.

We looked at the responses in aggregate and by key consumer segments to understand the differences in preferences and loyalty drivers of travelers by demographics, income, purpose of travel, and frequency of travel. To provide actionable insights, we focused our report on four distinct traveler groups from among travelers who both stayed at a hotel and boarded a flight during the past 12 months.

Proficient traveler: Gen X and early Baby Boomers 33 to 60 years; Time Pressed; more than \$100,000 household income; and, travels +50,000 miles/year. (Sample: 136)

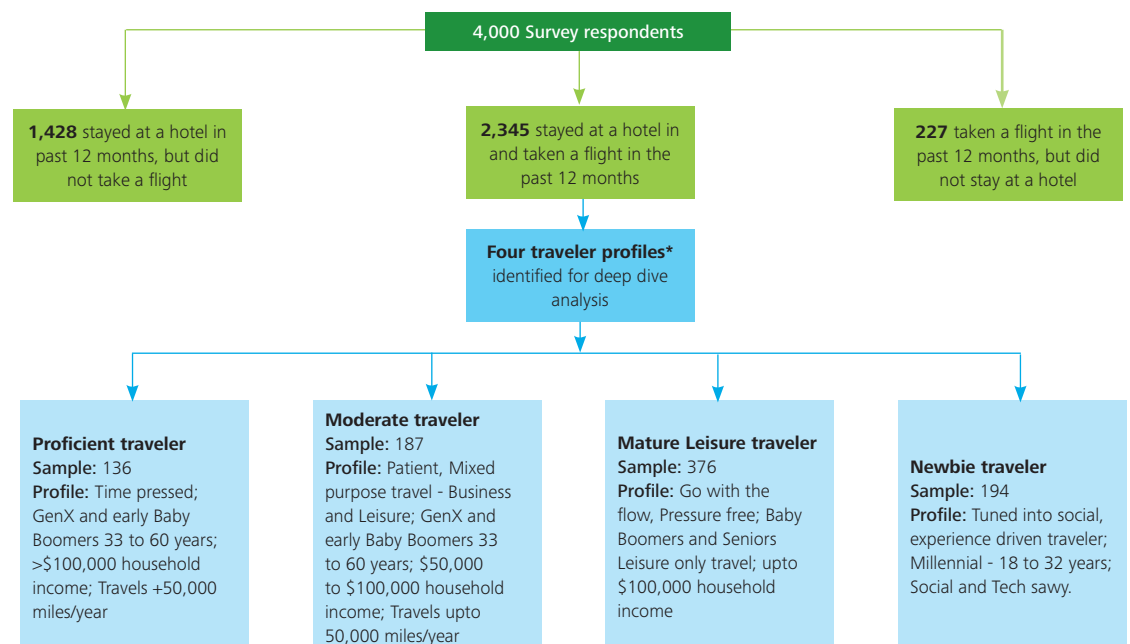
Moderate traveler: Gen X and early Baby Boomers 33 to 60 years; Patient, mixed purpose traveler – both business and leisure; \$50,000 to \$100,000 household income; travels up to 50,000 miles/year. (Sample: 187)

Mature Leisure traveler: Go with the Flow, Pressure free Baby Boomers and Seniors; leisure only travel; up to \$100,000 household income. (Sample: 376)

Newbie traveler: Tuned In to social media and experience driven traveler; Millennial – 18 to 32 years; social and tech savvy. (Sample: 194)

Although, analysis and considerations provided in this paper focus on the above four groups, we also provide insights into overall hotel and airlines customers.

Focus groups: Two focus groups of eight frequent leisure and business travelers were fielded to gain deeper insights into their feelings toward loyalty programs.



* Apart from analyzing the four travel groups this paper provides insights into hotel customers based on frequency of travel, and purpose of travel

Methodology to estimate revenue opportunity and "at-risk" revenues by segment

Hotel spend per customer for each of the four customer segments is projected based on respondents' average night stays per year and where these nights were spent (e.g., luxury, upscale, economy). We assumed average night room rates by segment (e.g., \$300, \$210). We determined the hotel spend with the preferred brand based on consumer attitudes in our loyalty survey results.

Annual hotel spend per customer = average nights per month by traveler segment x average nightly room rate

- Average nights per month is based on a weighted average of the traveler's responses; we used the mid-point of the range (e.g., 1-5=3 nights), and conservatively assumed 16 nights for the 16+ response.
- Survey Question: On average, how many nights did you stay at a hotel each month during the past 12 months? (0, 1 to 5, 6 to 10, 11 to 15, 16+)

Hotel spend per customer with preferred brand = annual hotel spend per customer x percent of hotel stays at the preferred hotel

- Average hotel spend per night is the weighted average based on luxury rate of \$300, Upscale \$200, Extended Stay \$125, Moderate-priced hotels \$150, and Economy \$100.
- Survey Question: In what type of accommodation do you most frequently stay when you travel (for business/leisure)? (Luxury hotels, Upscale hotels, Moderate-priced hotels, Extended Stay, Economy-priced hotels, Other)

Hotel spend per customer with other brands

(opportunity) = annual hotel spend per customer – hotel spend per customer with preferred brand

- Percent of hotel stays is based on a weighted average of the traveler's responses; Mid-point of response ranges (e.g. 0-25% = 12.5%; 25-50% = 37.5%; 51-75% = 62.5%) were used to arrive at this percentage.
- Survey question: During the past 12 months, what proportion of your hotel stays (i.e., nights) were at your preferred hotel? (Less than 25 percent, 25-50 percent, 51-75 percent, Greater than 75 percent)

Endnotes

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"I have signed up for half-a-dozen hotel loyalty programs, but I am not loyal to any of them. I only use them to check what kind of deals I can get"

"I wouldn't book my room based on brands but it was between 2 same priced hotels and one had a brand or amenity I like better I would go with that one"

"I want to be recognized as more than an average customer, I want the hotel to know my preferences make me feel more comfortable"

"It is not so bad when something goes wrong it is how they handle it that matters"



"It bothers me when the status doesn't mean anything, when there are no benefits"

"You earn those points so you earn that loyalty and they should show they appreciate your business"

"Any kind of personalization really helps. I got stuck at a hotel on my birthday and they knew it. The hotel left a basket of food and a free movie in my room and that was the most fantastic thing ever—I am there forever now."

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