

EXPLORING LOYALTY in 2022

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As new emerging trends in travel behaviours emerge, what does this mean for loyalty within hotels?

As travel recovers from the COVID-19 pandemic, changes in consumer behaviour have forced us to re-examine the place of loyalty in travel, and consider what is required out of loyalty programmes to drive trust and encourage return visits.

Changes in the nature and duration of stays, increased focus on localised travel, shrinkage of corporate travel, and pent up demand, are all shaping what guests are looking for from their travel experience and in return, what an attractive rewards programmes should look like. This is coupled with the challenge of hotels having to do more with less as the industry struggles with staffing issues. There is a requirement to revisit loyalty and that is what this white paper addresses.

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In October 2021, at the year's leading revenue management conference, 'Leadership From Chaos', we brought together seven leaders within the industry to discuss and unpack what loyalty means today for the hotel industry. Their discussion formed the basis of this white paper.

AREAS DISCUSSED

- *What is loyalty today?*
- *Do we believe there is loyalty to a hotel and if so what attracts a guest?*
- *What is the value of loyalty to an organisation?*
- *What are the drivers of loyalty and what part does brand play in this?*
- *What does a structure within a hotel need to look like to maximise loyalty?*
- *Is a loyalty programme or loyalty currency still really important in a world where the key people for whom the currency is important i.e. corporates, may not be staying at your hotel or staying less?*
- *How can you build and recognize loyalty through different booking channels?*
- *How does loyalty integrate with revenue management?*



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WHAT IS BRAND LOYALTY?

Brand loyalty is defined as 'the positive association consumers attach to a particular product or brand. Customers who exhibit brand loyalty are devoted to a product or service, which is demonstrated by their repeat purchases despite competitors' efforts to lure them away'

Loyalty Programmes are the rewards given by a company to those customers who make repeat purchases from the company. Membership levels are typically earned through spend – the higher the spend, the higher the membership level, and the greater the privilege received by a customer in the form of rewards.

Covid 19 has forced us to revisit what loyalty within travel really means. The pandemic caused a worldwide reduction in international travel, down 74% on the previous year, as everyone was told 'stay home, save lives'. While the emergence of vaccines provided fresh hope as travel restrictions are gradually relaxed, some consumer trends look set to stay in the short to medium term at least. These include a reduction in corporate travel, and for leisure travellers, trends indicate fewer stays, staying closer to home but with a higher spend.

It is no surprise therefore that in line with changing customer requirements, there is pressure on loyalty programmes to evolve and adapt to meet the new trends in travel. This paper will address a number of issues relating to loyalty and its place in hotels today.

WHAT IS LOYALTY TODAY?

Covid 19 has forced us to revisit what loyalty within travel really means. With a reduction in business travel looking here to stay for the medium term at least in many markets, and shifts in the nature and frequency of personal travel, loyalty programs have come under scrutiny in terms of their relevance to today's traveller, reflecting on whether the traditional loyalty programs, which were typically built for the corporate road warrior still offer a deliverable and meaningful reward structure.

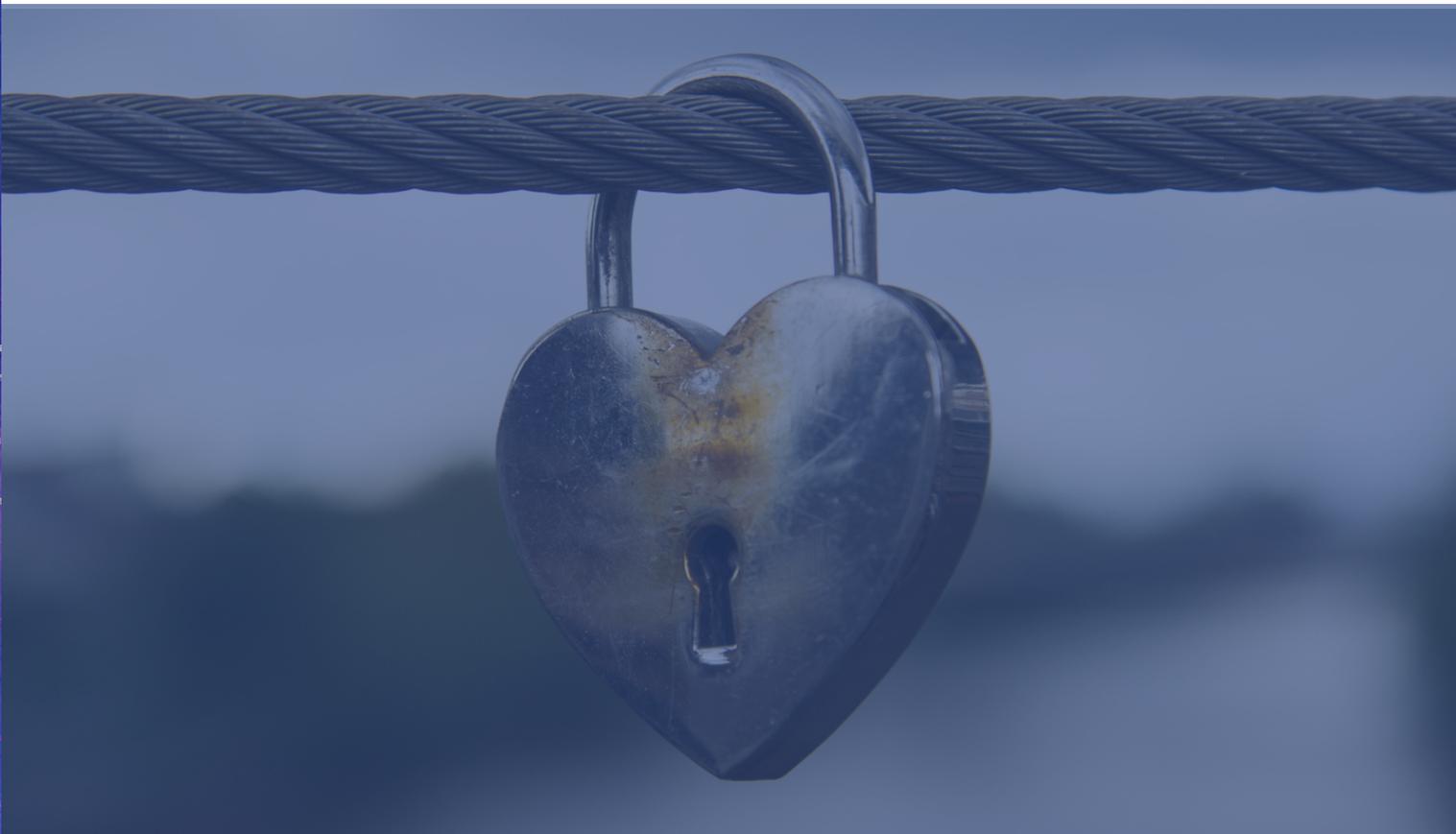
Looking with fresh eyes at what loyalty is, the industry needs to re-visit the objectives of a loyalty programme, and define what loyalty means to a customer base before building a strategy.

Jens Munch, CEO of Pace Revenue explains, 'We don't always know what value we are creating. We think we have created value 'A' but customers think we have created value 'B'. We need to define what loyalty we have before we can start building a strategy for building it or augmenting it.'

HOW HAS THE TRADITIONAL VIEW OF LOYALTY CHANGED?

Key to this is recognising that business-derived definitions of loyalty may not represent what the customer thinks and now is the perfect opportunity to step away from structure of traditional programmes and recognise that while reward and recognition are still important, the speed of delivery has gained in importance. There is also the increasing need to recognise that although customers may not necessarily be a customer for life, in their eyes, this doesn't mean that they are less 'loyal'. This puts pressure on the 'Recency, Frequency, and Monetary value'* (RFM) success benchmarks of loyalty programmes which is a marketing analysis tool used to identify a company's or an organization's best customers by measuring and analysing spending habits.

**RFM is a strategy for analyzing and estimating the value of a customer, based on three data points: Recency (How recently did the customer make a purchase?), Frequency (How often do they purchase), and Monetary Value (How much do they spend?).*



"More than three-quarters of consumers have changed their buying habits in the past 18 months—and are increasingly willing to change brands."

- McKinsey

HOW DOES A PREDOMINANTLY LEISURE-ORIENTED TRAVELLER FIT INTO THE RFM MODEL?

Loyalty programmes were built around the needs of the corporate business traveller who wanted minimal contact with hotel staff, no check in queues, and the ability to dive out of the hotel and into the next meeting without taking a breath. This is in direct opposition to the needs of the Leisure Traveller who frequently is happy to talk and spend time with staff discussing the facilities of the hotel or what to do in the local area. The result is that rewards from pre-Covid loyalty programmes hold no meaning for the new traveller.

Jonathan Liu, Director of Marketing and Revenue Strategy, GLH Hotels, summarises the issue 'We are trying to get a balance of RFM modelling between those who stay and spend a lot, and also the Mr & Mrs Jones who come 3 times a year and spend all their wallet with us. How do you reward them for loyalty when they don't typically fit into a RFM Model?'

DO WE BELIEVE THERE IS LOYALTY TO A HOTEL AND IF SO, WHAT ATTRACTS A GUEST?

Research from rDialogue** takes stock of just what guests want from loyalty programmes and would seem to support the hypothesis that guests are looking for more than just points. For example, 78 percent of travel members value a programme that recognizes them as a member and 67 percent value experiences just for members.

Munch from Pace believes loyalty is more of an emotional engagement and this is not expected to be rewarded. 'Customers don't buy nine coffees at a coffee shop to get one free. The connection runs deeper than that. Which raises the question should repeat purchased be rewarded, or should there be investment in what created the emotional connection in the first place?'

But as Elizabeth Cunningham, Head of Loyalty Marketing and Proposition, IAG Loyalty points out, loyalty is not just one thing. 'You can have emotional loyalty, but you can have this in conjunction with transactional loyalty. People like getting points to get something for free based on their loyalty. People want to feel like they are a member of something and feel special and a number of ways to do that.'

** <https://www.hotelmanagement.net/guest-relations/guest-loyalty-changing-here-s-how-to-capitalize-it>

THE VALUE OF A LOYALTY PROGRAMME TO HOTELS

What value does loyalty have with a hotel organisation? How can we measure the impact on the bottom line? 'At GLH Hotels, the value of loyalty is assessed as the 'contribution to overall profit', says Liu. "All revenue streams, including rooms, meeting and events, conference and dining, are examined with the associated costs of distribution offset against them. For example, for loyal corporate guests, GDS costs are considered when evaluating the value of the booking to the hotel, in addition to the lost profit through displaced business. It all boils down to 'who provides the best contribution to profit?' "

But Liu goes onto explain that from an hotel owner's perspective, it can be a double-edged sword. "At corporate city centre hotels, points drive huge spend for Meeting and Events, etc. For leisure hotels, it's all about redemption and what we get is much less than from other channels. It's all about a balance of what your individual hotel is trying to achieve and if that fits the market you are playing in".

For Thomas Magnuson, CEO and CoFounder of Magnuson Hotels, the concept of loyalty is one he believes people get too hooked up on. Ultimately for his organisation, the focus is on driving the highest net revenue for their franchise owners. How this is achieved is not of importance. "Loyalty is very fluid for us and very elusive. It's a channel, it's a tool."



WHAT CAN HOTELS DO TO BUILD LOYALTY?

If the pull of points-based loyalty schemes is waning, what can hotels do to drive loyalty? David Goodman, Director of Sales, EMEA, Duetto suggests that although loyalty can be 'bought' by hotels – through discounting, pricing, and the experience offered - the effective implementation of technology solutions when combined with utilisation of available customer data can deliver a bespoke customer service, based on recognising guest preferences. "The guest feels super special, and you haven't had to devalue your rate.' Over and beyond this though, there seems to be consensus that every member of a hotel's team has a responsibility to build loyalty with every customer touch point from point of booking, to service in the restaurant. All these experiences have the ability to make, and just as quickly break, a guest's loyalty to a particular brand. Cunningham goes as far to say "There are no KPIs within a hotel that loyalty doesn't touch if you do it properly. It needs to be built into every touch point."

But just as every member of the hotel team contributes to driving loyalty, Munch believes that this is nothing without an owner to set the strategy for a culture to support this. He goes on to say "Organisational design is critical. Who owns loyalty? I'm a firm believer in data and ownership to make it happen and make it happen consistently. We need a CEO of loyalty to uncover who is loyal and why are they loyal with a team to then implement it. Often that part is missing. We don't have the data and we don't have ownership."

He goes onto say, "98% of companies have no one to own data. No data strategy. No data governance. Revenue management is a very strong candidate for that as its very data driven".

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Jens Munch- CEO and Founder, PACE Revenue



ARE POINTS-BASED PROGRAMMES STILL VALID?

According to the latest insights from the [Data & Marketing Association \(DMA\)](#), a third of customers (34%), especially millennials and younger consumers, demand more bespoke and alternative benefits for their loyalty instead of points.*

It is thought that consumers now need to understand the value of a points-based loyalty scheme and to be reassured that their engagement with brands is worth it.

Paid-for loyalty schemes are becoming increasingly popular and with further growth expected as consumers give up collecting points that have no clear benefit for them. Amazon Prime, for example, has built up a UK subscriber base numbering in the millions partly because of its clear package of benefits, such as its next-day delivery service.

Thomas Magnuson of Magnuson Hotels suggests that more and more people are disenfranchised with the complexity and rules of points. "Points are a gimmicky way to create loyalty but they are not really creating loyalty." He goes on to say that with changing customer behaviours, such as the reduction in corporate travel, and combining personal and business time, consumers are focussing more on what's important to them. Members of the Magnuson Hotels VIP Programme don't earn points but get access to an unpublished rate below parity, 365 days of the year, anywhere you want to go which he believes is a lot more in line with what consumers want. Julie White, Vice President Commercial, EMEA, Wyndham Hotels and Resorts, also believes that loyalty is "no longer about points. It's about accessibility and a different type of connection."

The question as to whether points are still relevant or not, is not as easy as a yes or no, says Cunningham. "The value of points can be significantly more compelling where you can collect points in everyday spend for example", citing the Nectar Loyalty card where you can use points collected from your weekly shop at Sainsburys at British Airways for example. This choice as to where to earn and burn points has a huge value for members she goes on to say, but it "has to come with all the other stuff such as service and delivery."

*<https://www.warc.com/newsandopinion/news/consumers-want-to-know-the-point-of-points-based-loyalty/43337>

HOW SHOULD HOTELS APPROACH THEIR LOYALTY STRATEGIES IN THE POST COVID WORLD?

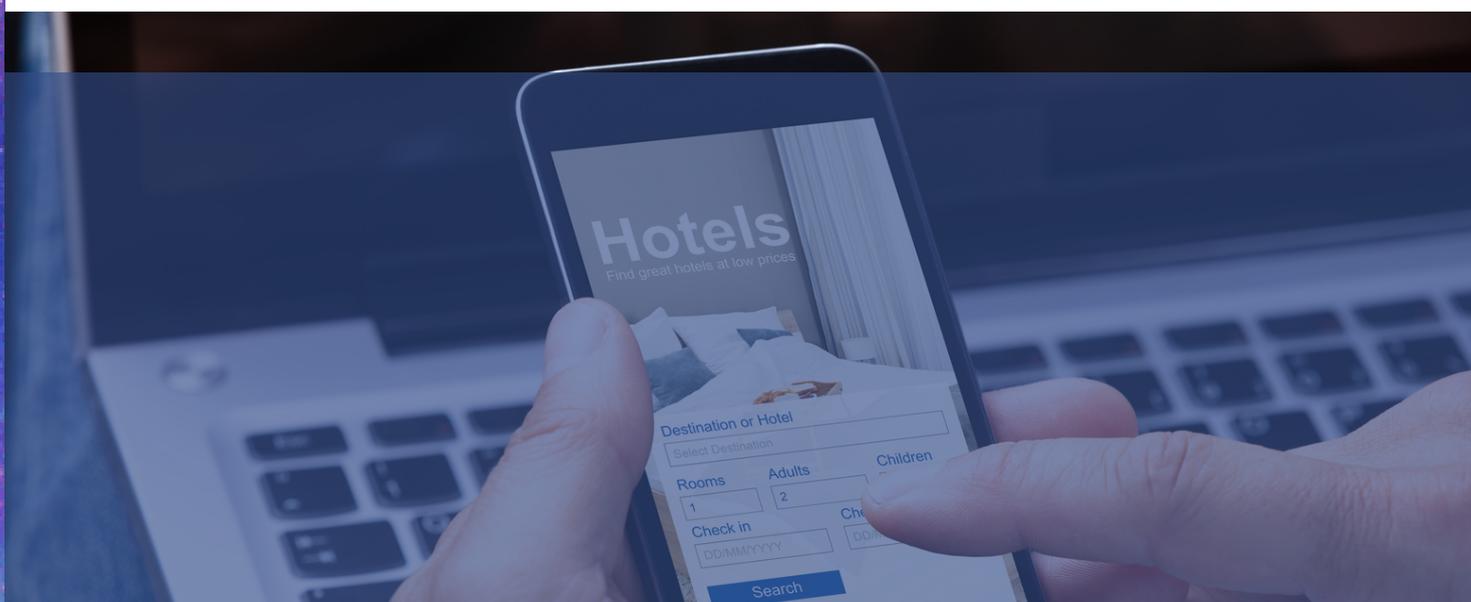
While recognising that there is a new leisure traveller we are looking to engage with, there are still fundamentals at the heart of any loyalty strategy. Steve Risk, Founder, Inspire Loyalty proposes that we need to go back to the basics of capturing data and using it effectively and when coupled with the right mix of product service and location, loyalty can start to be rewarded

With the growth of the leisure traveller, Munch sees value in effective segmentation exercises to define the nature of our product and the different guests we have staying and the success of loyalty programmes is in discovering drivers for each of these groups. "We have to be smart about the early part of discovery. Let's work out what type of product we have here. Are they mainly transactional? Are the financial rewards the most important thing here? For the business traveller, it's about convenience. The segmentation needs to be by property and by customer. We can ask them. Why do you keep coming back? We need to work out the drivers. We need to ask them rather than assume or tell them the drivers."

CAN YOU BUILD LOYALTY WHEN GUESTS HAVE BOOKED THROUGH OTA'S OR ALTERNATIVE THIRD PARTIES?

With the reduction in business travel, loyalty programmes designed to attract the leisure traveller have gained increased importance. However, Goodman believes leisure bookers are price sensitive and therefore will book on an OTA, a channel which does not in itself promote loyalty to brand.com.

The challenge here is to convert the OTA booker to Loyalty Club member, as this is where we see the lowest cost of sale and can offer access to a closed user group which is an immediate benefit. "This is the ideal opportunity also to offer loyalty club members value added as an incentive" says Cunningham. "We know they typically generate a higher spend so hotels won't lose ultimately lose anything."





HOW WILL THE NEW TYPE OF GUEST LOYALTY INTEGRATE WITH REVENUE MANAGEMENT?



Enforced lockdowns and the closing of retail space during the Covid pandemic accelerated the emergence of the Digital-First Consumer who expects technology to be fully integrated into the customer journey. In turn, more data on consumer behaviour is available allowing a more personalised response to travel research and booking. These expectations are fuelled by personalised experiences from Amazon, Deliveroo and Domino's Pizza all of whom are known as experts in personalisation of the customer journey,

The need to deliver a personalised, rich experience has thrown a huge question over the longevity of tier-based loyalty programmes which are often viewed as commoditising the loyalty offer. Loyalty programme managers recognise the need for significant and radical change to deliver experiences that create a deeper relationship with the guest.

Revenue management and pricing technology therefore needs to satisfy the need to create new connections and a greater balance between price and value. The aim is to merge CRM and pricing data to predict guest spend across multiple departments and factor in total spend, and potential profitability, and factor this into pricing decisions based on lifetime value rather than focusing purely on transactional based pricing.

As Klaus Kohlmayr, Chief Evangelist, IDEaS says, "The current concept of loyalty is not working. The points-driven approach is commoditisation of loyalty. When you peel it back and think 'What is loyalty?', it's when (a guest) goes back every year, they get to know the community, they get to understand and feel part of a family. Loyalty doesn't come from points, it's because of the feelings and emotions and experience they have whilst they are in that place."

This opens up the opportunity to sell non-rooms products and services at other stages in the customer journey and merchandise more items based on customer behaviour data. As a result, we see an alignment of the revenue and loyalty roles, where pricing can synergistically play into the hands of loyalty and both can work to improve the bottom line (rather than work in opposition giving away free rooms)

In a recent survey, Deloitte found that when customers trust a brand, not only are they loyal with 62 percent buying almost exclusively from that brand but 85 percent of respondents recommended that brand to a friend.* Successful loyalty programmes can help establish trust. The goal should be to create an all-encompassing human experience that includes everyone who interacts with a brand's customers.

WHAT ARE THE DRIVERS OF LOYALTY AND WHAT PART DOES BRAND PLAY IN THIS?

Brand value propositions play a huge role in engendering customer loyalty. Many brands such as Hilton, reference the number of loyalty members that participate in brand programmes as a measure of customer satisfaction, alongside other measurements such as global network effects created by the distribution of brand properties. But a brand name alone will not deliver a long term sustainable loyalty proposition and with changing traveller needs and travel patterns, the industry recognises that customers are looking for more options, different experiences, and potentially rewards that extend beyond their stay at the hotel.

Cunningham explains, "Brand is hugely important. This is where you build the trust. That's how you measure advocacy. But there are differing views about how much you can build loyalty through brand alone. A loyalty programme that can play into the brand is something separate and can drive loyalty too and provide richer data. It can provide a more personalised and richer experience through data captured over and above the brand."

Playing into the brand by defining loyalty experiences or engagements based on the brand value proposition may seem easier to gain traction at the higher end of the market where there may be more options readily available. However that doesn't stop brands from experimenting with third party alliances such as the 'World of Hyatt' Credit Card, offering accelerated point earning on a number of day-to-day activities, including fitness memberships, dining, and transportation** However, gaining and delivering on the emotional connection has its challenges where the experience on property is limited service.

**<https://www2.deloitte.com/content/dam/Deloitte/es/Documents/bienes-consumo-distribucion-hosteleria/deloitte-es-five-ways-travel-loyalty-programs-can-balance-customer-business-values.pdf>*

***<https://skift.com/2020/01/14/the-future-of-hotel-loyalty-recognizing-more-than-the-stay/>*

Magnuson echoes this sentiment "There is so much commoditisation of travel products. Brand is very effective in loyalty in highly differentiated products in hotels - the higher you go up the chain scales, there is a linkage emotionally in the product and service"

He explains that in much of the hotel industry which is franchised, it is very difficult to activate a top driven promise at the property level. "McDonalds is fabulous. You know what you get. Expectations and product match, loyalty can be generated. Some hotel brands are like that, People do not feel like they have been disappointed. That's where we see brand and loyalty link up".

As technology takes over the more mundane and repetitive processes often removing access to hotel staff and guest interaction, is this trend for people interacting less likely to reduce service levels especially around recognition?

Risk, of Inspire Loyalty, sums up the concern, "If I stay at a Premier Inn, I know what to expect. I know the location and what I need and expect. What would delight me would be if they recognised me as someone who stayed last week. If I stay at the W Hotel, I feel completely valued, I go to my room and there is a personal token. That is a real connection. Some will depend on the price that you pay. But its weak that a brand like Premier Inn can't recognise who stayed before. These are basics before we look at how to go a step further.'



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Tom Magnuson, CEO and Co-Founder, Magnuson Hotels



HOTEL

CONCLUSION

Changing customer behaviours have forced us to rethink what loyalty means for hotels. A decrease in corporate travel, the growing importance of the leisure traveller, and the increasing expectation for personalised services tailored to individual preferences, mean that the relevance of traditional points based loyalty programmes and their value to both guest and hotel is diminishing, requiring a review of what loyalty means today.

Companies such as Amazon and Deliveroo have driven demand for more bespoke and personalised benefits from loyalty programmes. As a result, there is an expectation for hotel loyalty programmes to create a greater emotional connection with the guest, acknowledging their personal preferences as opposed to a 'one size fits all' approach. What does this mean for points-based loyalty programmes? There is still value associated with points-based programmes and people still like to feel they are getting 'something for free' especially when there is choice as to where points can be earned and burnt, through the establishment of affiliate programmes.

There is still debate as to how loyalty programmes can support the leisure traveller whose importance is growing. Although they typically may only travel a handful of times a year, their repeat business necessitates a different approach to reward, one that lies outside the Recency, Frequency, and Monetary Value model corporate programmes have been designed around.

When it comes to delivery of the greater 'emotional connection' associated with driving loyalty today, this is a team wide responsibility. Loyalty can be built or broken at any stage in the customer journey and all team members should know their contribution to engendering loyalty through every interaction.

And what does this mean for revenue management? Pricing strategies need to support this new approach to loyalty. There is a requirement for technology to merge CRM and pricing data to predict guest spend across departments and potential profitability and make pricing decisions based on lifetime spend rather than transactional based pricing. We need to move on from the view that loyalty programmes give away 'free rooms' and look at the lifetime value of the customer

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*<https://www.warc.com/newsandopinion/news/consumers-want-to-know-the-point-of-points-based-loyalty/43337>