



SMITH TRAVEL RESEARCH

Hotel Loyalty Programs: An Overview and How They Benefit Hotels

By Jason Wight - HVS Canada

Throughout the travel and retail industries, consumers have been bombarded with countless loyalty programs, the aim of which is to retain customers and increase their loyalty to a specific brand or company. In the hotel industry, hotel loyalty programs or frequent guest programs have been around since the early 1980s, starting with the inception of InterContinental Hotel Group's Priority Club Rewards program. Since then, all the major hotel companies have created their own version of the hotel loyalty program and are constantly striving to present their program as offering the best value. This article will provide an overview of hotel loyalty programs, focussing on how they potentially benefit hotel owners and operators.

Loyalty Programs Overview

The purpose of loyalty programs is to provide guests with incentives to return to that particular brand or company, creating brand loyalty. The major hotel loyalty programs include Marriott Rewards, Hilton's HHonors, Starwood Preferred Guest, InterContinental Hotel Group's Priority Club Rewards, and Choice Privileges. Each year, the hotel loyalty programs are ranked by the Freddie Awards in such categories as Program of the Year, Best Customer Service, Best Award Redemption, Best Member Communication, Best Web Site, and Best Elite Level. From year to year, the ranking

tends to shift among the programs listed above. In 2009, Marriott Rewards was ranked number one in five categories, the most of any company.

Hotel loyalty programs have millions of registered members. InterContinental Hotel Group's Priority Club has the most at 44 million members, Marriott Rewards has around 30 million members, Hhonors has roughly 27 million members, and Starwood Preferred Guest has about 11 million members. Although there are a great number of members in each of these programs, not all the members are active. Out of all the members of each program, about 30% are actually active. To be active, a member must have a stay or a partner-related transaction within 12 months.

All the above programs are very similar in their makeup. Members receive hard benefits, such as points, when they stay at a participating hotel. Members can accumulate and redeem points in a variety of ways. In many programs, guests may obtain airline points instead of the designated hotel points. Along with awarding points, these programs offer different tiers to which members can climb with a certain number of stays. With each tier, additional soft benefits and perks are provided to the guest, such as no blackout dates, priority check-in, bonus points, and toll-free concierge phone numbers.

The cost of running the loyalty program as a whole can be broken down into two categories: Marketing & Administration Costs and Incentive Costs. These costs are funded primarily by the fees charged to individual hotels and also revenue generated from third party partnerships. Marketing & Administration Costs, which account for about 20% of the expense, include any cost related to the upkeep of the loyalty program, such as marketing, customer service, and database management. Incentive Costs, the costs incurred for the points, miles, rewards, or reward room nights, make up roughly 80% of a program's cost. When analyzing costs from a per-member perspective, the administration costs of loyalty programs are estimated at \$2 to \$3 per member, and communication costs range from \$2 to \$6 per member, depending on a member's level of activity. Direct email programs have reduced communication costs substantially.¹

Contribution

To determine whether loyalty programs are effective, it is important to identify what they contribute to hotel operations. The number of reservations members of the loyalty program contribute to a hotel is both quantifiable and directly related to hotel performance. Based on the numbers from various hotel companies, reservations from loyalty programs account for between 40% and 53% of total

room reservations. Loyalty programs are thus directly related to a large portion of a participating hotel's business.

The number of room reservations that come via loyalty programs is impressive, but this does not necessarily justify the costs the hotel incurs in participating in the loyalty program. After all, these loyalty programs are primarily funded by fees charged to the participating hotels. These fees are typically included in franchise marketing fees, which range from 1% to 4% of gross rooms revenue. In a recent study, it was found that there is a positive correlation between the amount that is spent on "Marketing Other", which includes loyalty program fees and advertising costs, and increased revenue for hotels in most segments (luxury, upper-upscale, upscale, midscale with F&B, midscale without F&B, and independent hotels). The study also identified a strong positive correlation between the amount spent on "Marketing Other" and the net operating income of a hotel for most segments, with the exception of luxury and economy hotels.² In other words, hotel loyalty programs are beneficial and positively contribute to both increased revenue and the profitability of hotels in most segments.

Guest Profile

The typical member of a guest loyalty program is an individual who travels 16 times or more per year. Those who travel less frequently do not register in hotel loyalty programs because they feel that they do not travel enough to benefit from membership in the program. Membership tends to be stronger among business travellers compared to leisure travellers. There is also a positive relationship between higher income and membership in a hotel loyalty program, which is no

surprise since those with a higher income also travel more frequently.

Taking this guest profile into account, hotel loyalty programs focus on the high-income, high-frequency traveller, even though there is greater member growth potential in the low-income/low-frequency traveller.³ Pursuing membership among low-income/low-frequency travellers simply does not yield the returns desired from a loyalty program. Since low-income/low-frequency travellers travel less, they are not as likely to develop an attachment to a particular brand and are more likely to seek a bargain when they do travel. Since high-income/high-frequency travellers stay in hotels more often, they are more likely to have a preference for where they stay and develop loyalty towards a particular brand or group of hotels. The high-income/high-frequency traveller is precisely the type of guest hotels aspire to capture through participating in loyalty programs, as it is this type of return guest who justifies the cost of being part of the program.

Another trait of members in hotel loyalty programs is that their loyalty strengthens as they climb the tiers of the program. As members move up the levels, they increasingly consolidate their spending within that particular family of brands.

Benefits

Hotel loyalty programs provide many benefits to both operators and owners. One major benefit is that loyalty programs provide an opportunity for hotels to gather information about guests, providing insight into who guests are, where they are from, and what their preferences are during a hotel stay. Loyalty programs also give hotels the opportunity to personalize the service delivery for the guest. By

having this guest information, hotel companies have a database from which to create focussed marketing campaigns for various regions or types of guest.

In addition, hotel loyalty programs are simply necessary for hotels to stay competitive within the industry. Although being affiliated with a hotel loyalty program does not necessarily differentiate a property from its competitors, not having a loyalty program will put a property at a disadvantage among its competitors. Members view the points they accumulate through loyalty programs as added value, and these members will seek hotels that will contribute this value to their stay.

Conclusion

Loyalty programs can be a very effective tool for hotels to utilize. In today's lodging industry, all major hotel companies have some sort of hotel loyalty or guest rewards program. Although hotel loyalty programs have a large cost associated to them, they have proven to contribute to both increased rooms revenue and net operating income. Hotel loyalty programs have proven to be very popular among business travellers, those who travel frequently, and those with high incomes. As members of a loyalty program climb the levels of a program, their spending becomes more focussed on hotels associated with that program. Loyalty programs also provide hotels with a wealth of information about their guests, allowing properties to provide personalized service and focussed marketing programs. That being said, a hotel loyalty program can only complement a hotel's good service and product. Without a consistent hotel product and without good service, guests are very unlikely to develop a bond and desire to habitually stay at a particular brand of hotel.

Footnote:

1. B. Carroll & J.A. Siguaw (2006). *An Examination of Internet Intermediaries and Hotel Loyalty Programs: How Will Guests Get Their Points?* *Cornell Hospitality Report*, 6(4), Retrieved September 18, 2009.
2. J.W. O'Neill, B. Hanson, & A.S. Mattila (2008). *The Relationship of Sales and Marketing Expenses to Hotel Performance in the United States*. *Cornell Hospitality Quarterly*, 49, 355-362. doi: 10.1177/1938965508324634.
3. F. Dekay, R.S. Toh, & P. Raven (2009). *Loyalty Programs: Airlines Outdo Hotels*. *Cornell Hospitality Quarterly*, 50, 371-382. doi: 10.1177/1938965509338780.

August 2009	Number of Rooms	Occupancy Rate (%)		Average Room Rates (in \$CAD)		RevPAR (in \$CAD)		Room Supply % chg	Room Demand % chg
		2009	2008	2009	2008	2009	2008		
Nova Scotia Area	1,378	69.8%	72.0%	\$115.47	\$112.93	\$80.60	\$81.31	0.9%	-2.2%
Halifax, NS	4,184	79.6%	85.3%	\$126.74	\$141.38	\$100.89	\$120.60	3.6%	-3.3%
Montreal Downtown	10,315	75.9%	80.5%	\$135.38	\$152.26	\$102.75	\$122.57	1.6%	-4.1%
Montreal Area	2,247	59.6%	65.9%	\$103.08	\$103.51	\$61.44	\$68.21	0.0%	-9.7%
Quebec City, QC	4,039	88.3%	92.9%	\$163.98	\$196.86	\$144.79	\$182.88	0.0%	-4.9%
Quebec Area	4,466	71.4%	73.0%	\$134.34	\$143.11	\$95.92	\$104.47	-0.1%	-2.3%
Toronto Downtown	14,504	79.5%	81.4%	\$142.10	\$153.63	\$112.97	\$125.05	1.1%	-1.2%
Toronto North/East	6,748	73.0%	77.1%	\$106.05	\$115.90	\$77.42	\$89.36	1.4%	-3.9%
Toronto Airport/West	8,644	60.1%	69.8%	\$99.38	\$107.80	\$59.73	\$75.24	5.0%	-9.6%
Ottawa, ON	7,516	69.9%	77.6%	\$123.18	\$127.70	\$86.10	\$99.10	0.9%	-9.1%
Ontario East	4,716	69.7%	73.1%	\$114.04	\$119.83	\$79.49	\$87.60	1.2%	-3.5%
Windsor/ Ontario SW	1,951	39.0%	60.4%	\$95.96	\$116.39	\$37.42	\$70.30	-2.0%	-36.7%
London/ Kitchener	2,965	51.3%	54.6%	\$94.04	\$104.18	\$48.24	\$56.88	0.0%	-5.9%
Ontario North/ Thunder Bay	2,395	77.6%	77.7%	\$98.47	\$99.39	\$76.41	\$77.23	1.0%	0.8%
Ontario NC/ Sudbury	4,748	73.8%	73.7%	\$123.02	\$126.10	\$90.79	\$92.94	4.5%	4.5%
Niagara Falls, ON	9,305	84.5%	89.8%	\$169.87	\$173.25	\$143.54	\$155.58	0.2%	-5.6%
Ontario Central	3,953	65.3%	67.8%	\$113.64	\$118.22	\$74.21	\$80.15	2.0%	-1.6%
Mississauga, ON	4,531	64.1%	69.0%	\$100.35	\$106.26	\$64.32	\$73.32	-1.5%	-8.6%
Winnipeg, MB	3,545	67.1%	72.1%	\$108.01	\$108.89	\$72.47	\$78.51	0.0%	-7.0%
Regina/Saskatoon, SK	2,454	73.2%	71.0%	\$117.72	\$114.44	\$86.17	\$81.25	3.2%	6.4%
Calgary, AB	8,658	72.4%	79.0%	\$139.25	\$146.92	\$100.82	\$116.07	0.3%	-8.2%
Edmonton, AB	9,136	67.1%	76.4%	\$120.47	\$125.62	\$80.84	\$95.97	2.3%	-10.2%
Alberta North Area	3,918	55.2%	74.4%	\$166.82	\$187.27	\$92.08	\$139.33	5.1%	-22.1%
Alberta South Area	7,490	62.2%	71.4%	\$139.95	\$153.30	\$87.05	\$109.46	2.6%	-10.7%
Vancouver Downtown	8,268	88.4%	87.8%	\$174.09	\$193.16	\$153.90	\$169.59	1.6%	2.3%
Vancouver/ Burnaby Area	2,071	80.3%	87.1%	\$135.53	\$139.65	\$108.83	\$121.64	4.9%	-3.3%
Richmond-Surrey/ East Area	3,993	77.7%	82.3%	\$120.51	\$132.84	\$93.64	\$109.33	0.0%	-5.6%
British Columbia Area	5,976	67.6%	66.3%	\$136.85	\$142.40	\$92.51	\$94.41	0.2%	2.2%
Kamloops/ Kelowna Area	4,394	74.2%	81.3%	\$134.46	\$138.39	\$99.77	\$112.51	0.3%	-8.5%
Vancouver Island	4,701	77.6%	84.4%	\$144.47	\$159.14	\$112.11	\$134.31	1.4%	-6.8%
Provinces									
Alberta	32,588	65.5%	75.1%	\$136.99	\$144.98	\$89.73	\$108.88	2.5%	-10.5%
British Columbia	30,912	74.4%	78.6%	\$133.92	\$141.57	\$99.64	\$111.27	0.9%	-4.5%
Manitoba	4,435	66.0%	66.4%	\$100.13	\$95.46	\$66.09	\$63.39	0.1%	-0.4%
New Brunswick	4,754	72.1%	73.2%	\$119.36	\$117.10	\$86.06	\$85.72	0.0%	-1.5%
Newfoundland	1,833	90.0%	88.9%	\$127.39	\$124.82	\$114.65	\$110.96	0.5%	1.7%
Nova Scotia	5,562	75.2%	79.0%	\$121.50	\$129.04	\$91.37	\$101.94	2.0%	-2.9%
Northwest Territories	325	52.1%	50.0%	\$144.53	\$149.00	\$75.30	\$74.50	0.0%	4.1%
Ontario	78,903	68.1%	73.5%	\$118.06	\$123.54	\$80.40	\$90.80	1.4%	-6.1%
Prince Edward Island	793	83.7%	86.7%	\$144.04	\$130.11	\$120.56	\$112.81	0.0%	-3.4%
Quebec	26,588	72.5%	78.3%	\$123.72	\$136.60	\$89.70	\$106.96	1.0%	-6.5%
Saskatchewan	6,888	72.3%	76.9%	\$106.64	\$98.28	\$77.10	\$75.58	2.2%	-3.9%
Yukon Territory	784	73.7%	76.3%	\$111.68	\$111.46	\$82.31	\$85.04	0.0%	-3.4%
Canada	194,365	70.8%	75.7%	\$124.74	\$130.91	\$88.32	\$99.10	1.3%	-5.3%

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DEFINITIONS

Occupancy:	Rooms sold divided by rooms available.
Room Revenue:	Total room revenue generated from the sale or rental of rooms.
Average Daily Rate (ADR):	Room revenue divided by rooms sold.
Room Revenue Per Available Room (RevPAR):	Room revenue divided by rooms available (occupancy times average room rate will closely approximate RevPAR).

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