

Consumer Intelligence Series

What's driving customer loyalty for today's hotel brands?

Through PwC's ongoing Consumer Intelligence Series, we gain directional insights on consumer attitudes and behaviors in the rapidly changing media, hospitality, and technology landscape.



Series overview and study objectives

PwC's Consumer Intelligence Series interviewed 1,026 business and leisure travelers to understand how their preferences are influencing investment priorities for the world's leading hotel loyalty programs. We analyzed their responses to gain deeper insights into four questions that focus on customer loyalty within the lodging industry:

1. Are the loyalty behaviors of the rising millennial traveler unique to this age group or indicative of a larger macro trend among travelers?
2. How does loyalty program currency value drive loyalty, engagement, and ultimately value for brands and owners?—Especially in an increasingly competitive and consolidated hotel market.
3. What do travelers find to be the most compelling aspect of hotel loyalty programs and what can hotel brands do to drive engagement? And if faced with a tradeoff between hard and soft benefits, where should hotel loyalty programs focus?
4. How can traditional hotel loyalty programs compete with the increased presence of sharing economy travel options?



¹ Demographics—1026 total respondents interviewed
59% business travelers (min 10+ nights/year)
41% leisure travelers (min 5+ nights/year)
14% of sample: 21-29 years old
21% of sample: 30-39 years old
20% of sample: 40-49 years old
22% of sample: 50-60 years old
23% of sample: 61-69 years old

Key findings

1. For loyalty programs, are the attitudes of millennials unique or do they represent a larger macro trend among travelers?

In assessing loyalty, we wanted to understand how attitudes and behaviors change by age group. Are millennials—defined in our study as those between ages 21 and 29 who will soon make up a large part of the buying economy—less loyal and less committed to a single loyalty program?

One of the many interesting responses to our survey reflected the average number of loyalty memberships each age group held. We found that they are far more alike than not.

Millennials: not that different from other travelers

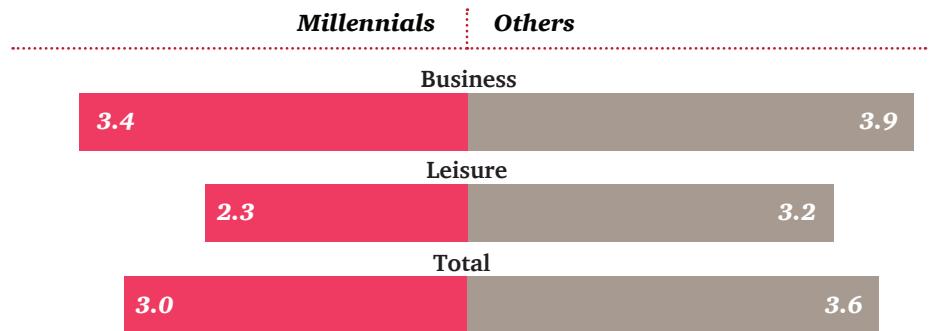
On average, travelers aged 30 and older have **3.6** loyalty memberships



Millennials who travel for business however, belonged to an average of 3.4 loyalty programs—fewer than business travelers aged 30+ (3.9) and ahead of leisure travelers aged 30+ (3.2).

Loyalty programs attract business and leisure travelers alike

Average memberships



In contrast, millennial leisure travelers belonged to fewer loyalty programs—only 2.3 on average. Possible reasons for the difference include:

- Millennial leisure travelers have more interest in using sharing-economy versus traditional options (see Section 4);
- Millennial leisure travelers have not had the same amount of time to amass the volume of memberships that others have;
- Millennial leisure travelers have not experienced travel the same way or to the same extent as travelers aged 30+ or business travelers.

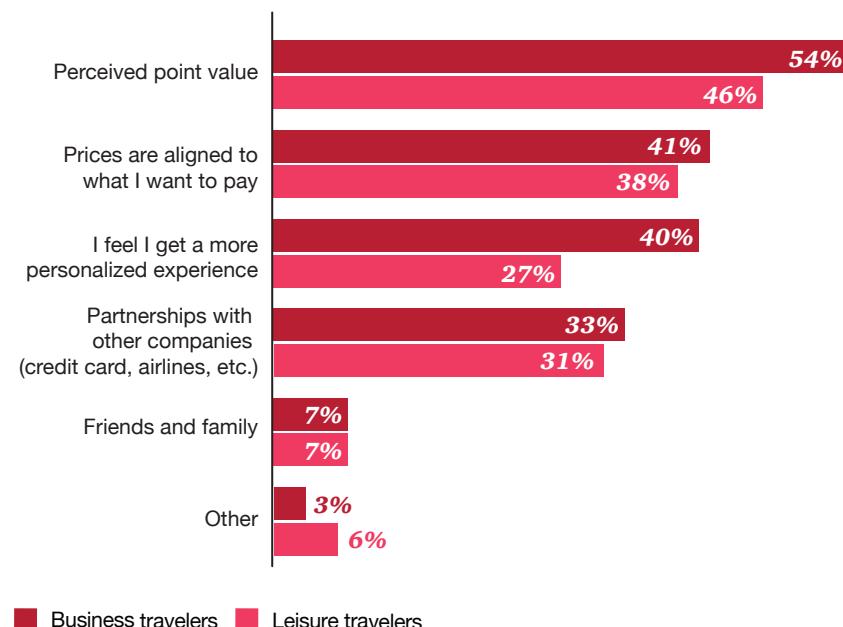
Ultimately, the differences were not significant enough to suggest a vast difference between millennials and 30+ travelers. *In fact, we now have to ask if we have over-indexed for millennials and ignored a larger macro trend that spans millennials and beyond?*

2. The economics of redemption: the loyalty-value exchange

When we analyzed what motivates travelers to pick a certain loyalty program (see graph), we found that point value and prices are top of mind for both business and leisure travelers. However, the absence of loyalty benefits in the top three most-valued preferences among leisure travelers has interesting implications.

In assessing the economics of loyalty redemption, the question to ask is this--who should these programs be built for and how do loyalty programs, redemption frequency and redemption benefits work together?

What motivates travelers to pick a certain program?



Base: Total business travelers (600); total leisure travelers (426)
Q7. What motivates your decision to belong to a loyalty program?

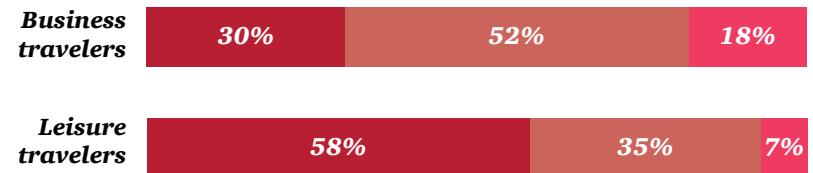
Beyond understanding what motivates travelers to join certain loyalty programs, companies need to navigate how best to drive brand engagement. Especially since travelers are averaging 3+ loyalty programs each. How can a company differentiate itself from the other programs their members are signing up for?

Ultimately, brands that drive the greatest engagement will likely accrue the highest revenue gains. We asked business and leisure travelers how often they have redeemed their points in the last year. The answers were somewhat surprising. Nearly 60% of leisure travelers have not redeemed their points in the last year.

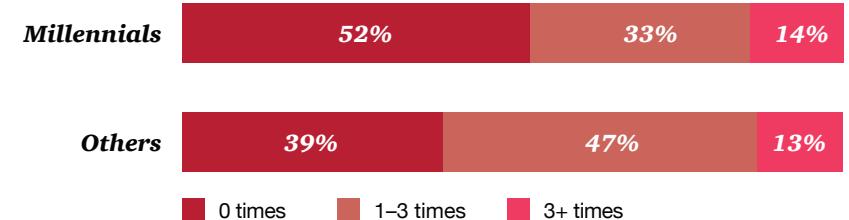
We also wanted to know if millennials were any more engaged than the typical traveler. At first glance, it would seem millennials engage less than older segments.

How often did travelers redeem points in the past year?

Business vs leisure



Millennials vs others



However, on closer analysis we find that millennial behavior is similar to that of leisure travelers. This leads us to believe that it's not behavior but rather volume of travel that is the driving force behind engagement.

Regardless of the reason, brands that can figure out how to engage with leisure and millennial travelers on a more consistent basis stand to foster a broader, more loyal base.

The value of hotel loyalty programs is most often geared toward business travelers. As loyalty programs continue to mature and seek to drive value, hotel companies will need to decide how to prioritize investments. They need to ask themselves, "Do we design our programs to drive engagement across all segments? Or do we focus on the most profitable demographic?"

To dive a little deeper into the topic of engagement, we asked respondents who have redeemed points in the past 12 months, to consider each of five redemption item categories separately and to select all that applied. The categories included hard benefits (hotel nights, airline miles, merchandise) and soft benefits (upgrades or other experiences). Understanding what consumers find valuable will help guide targeted promotions for the things that people find engaging.

Business travelers value soft benefits

Our survey results showed that the primary redemption benefit valued by both business and leisure travelers is hotel nights—84% and 79% respectively. Room upgrades came in a distant second for business travelers at 21%, while the second choice for leisure travelers redeeming points was airline miles at 19%.

This difference in preference could lead us to believe that upgrades are priced outside of the range of points that a leisure traveler may accrue between redemptions, or an alternate conclusion could be that business travelers begin to develop more of a preference for experiential offerings like upgrades.

When a business traveler spends a good portion of his or her nights in a hotel room on work trips, they may choose to engage in an upgrade or up-sell opportunity when redeeming points for an upcoming leisure stay to help them differentiate their experience. Being able to derive the reason for a member's trip based on patterns can help hotels make more contextual offerings that drive greater opportunities for engagement.

What do business versus leisure travelers like to redeem points for?

Base: Redeemed points	Business travelers (n=423)	Leisure travelers (n=180)
 Hotel nights	84%	79%
 Upgrades	21%	12%
 Airline miles	13%	19%
 Merchandise	12%	7%
Other	0%	2%

Base: Total business travelers (600); total leisure travelers (426);
Q5a. Thinking about the past 12 months, how many times have you redeemed your points?
Q5b. What did you redeem your points for?

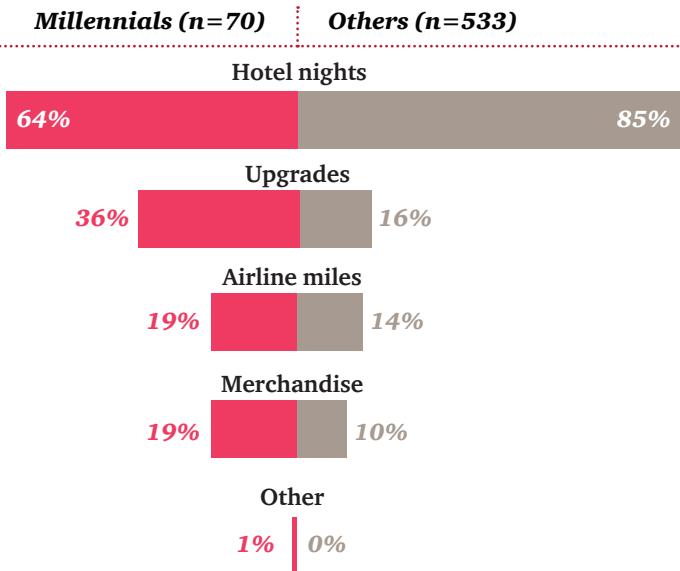
Travelers aged 30 and older prefer hard benefits whereas millennials want experiences

When we started to focus on redemption preferences based on age group, a different picture emerged. While hotel nights were still the number one choice for all travelers, 36% of millennial travelers chose upgrades as their second preferred reward, compared with only 16% of other travelers.

Millennials tended to behave more like business travelers when it came to point redemption. This leads us to believe they value softer benefits like upgrades more than travelers aged 30+, underscoring the macro-trend of increasing importance being placed on the guest experience.

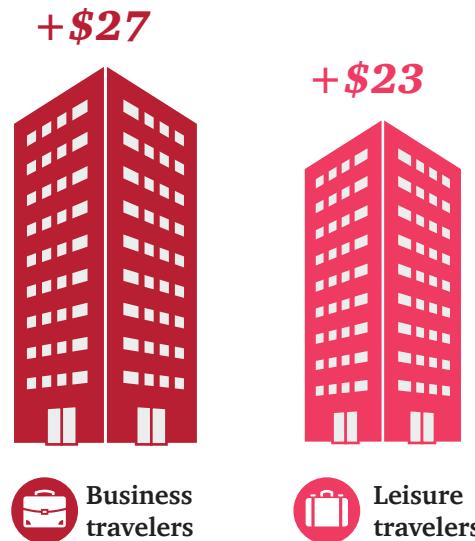
We expect that the creation of unique guest experiences and engagement through innovative experiential offerings will continue to be an important factor in driving guest loyalty and brand commitment in the future.

What do travelers like to redeem points for?



Most important of all, regardless of age, customers recognize and are motivated by point value. This is important for two reasons: First, as programs continue to balance driving engagement and value to members and property owners, they need to bear in mind how currency revaluations impact member behavior. Second, in a consolidating market, merging loyalty programs should focus on point value and ensure relative fairness across member bases.

How much more are travelers willing to spend per stay at their preferred hotel brand?



Loyalty = more \$\$\$ for a hotel brand

Hotels value their currency in different ways based on strategic interplay between loyalty programs, redemption benefits, and redemption frequency. We wanted to see if this interplay has added up to more dollars for the hotel and if so, how much?

Our survey showed that most travelers will pay an upcharge to stay at their preferred hotel. The majority of business (69%) and leisure (59%) respondents were willing to pay between \$10 and \$50 more per stay at their preferred hotel brand. However, on average, business travelers are willing to pay a bit more to stay at their preferred hotel brand compared to leisure travelers—\$27 versus \$23.

3. The impact of brand and preferences on loyalty

The previous sections focused on hotel loyalty programs specifically, however in this section, we're going to explore hotel and travel experiences, to determine what drives brand commitment and loyalty from guests.

Hotel loyalty is further compounded by what travelers value in a brand versus what they value in a loyalty program. For example, our focus group respondents rated Starwood Hotels & Resorts the most preferred brand in large part for its soft benefits—the experiences they had there.

Its loyalty program—SPG—however, ranked fourth in membership behind more tenured programs from Hilton and Marriott since hard benefits typically drive loyalty programs.

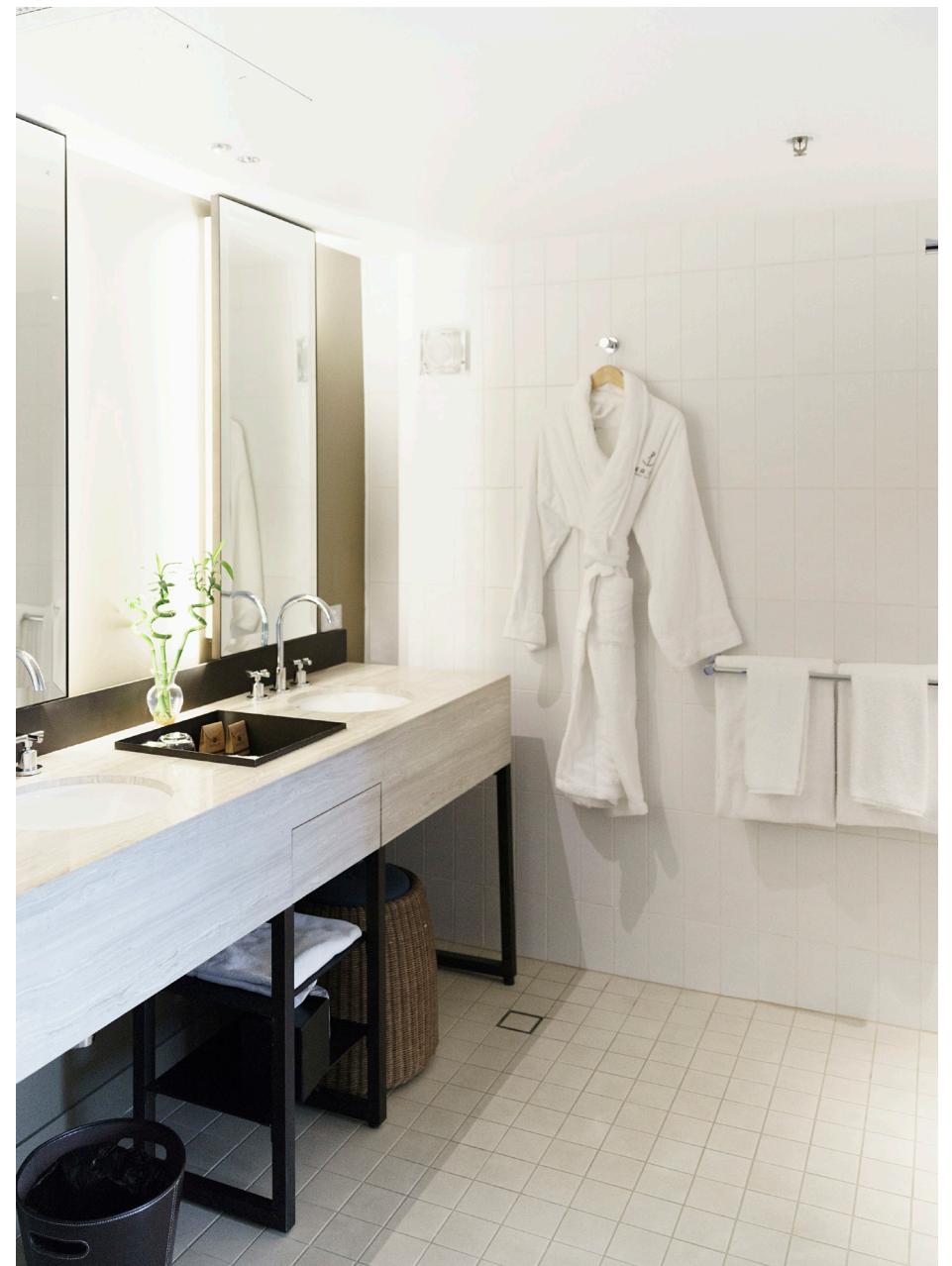
Room quality and then some . . .

Both business and leisure travelers say room quality is the #1 reason for choosing a hotel. If room quality represents table stakes, let's examine what other factors tell us about brand preference. Only business travelers have loyalty programs in their top three criteria for drivers of brand preference.

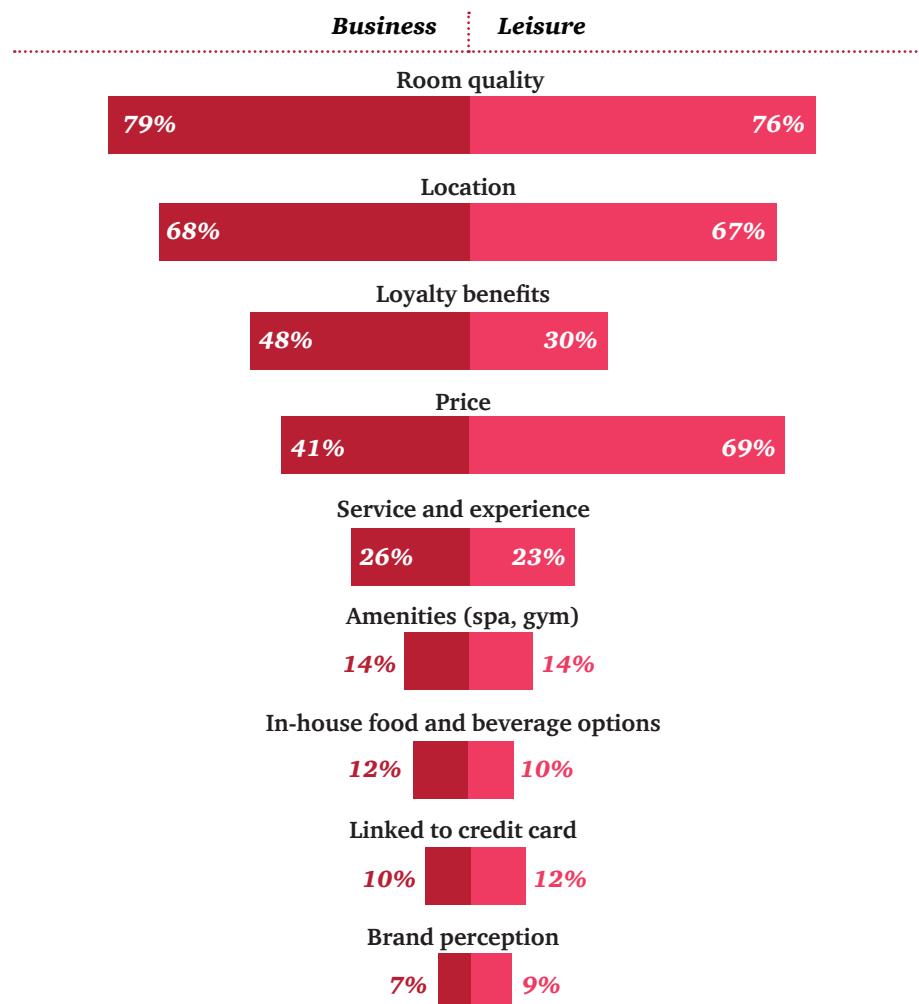
In fact, overall, travelers say loyalty is derived from other preferences including hotel accessibility (such as convenience, ease of finding, and sheer number of locations), promotions (such as rate reductions, upgrades, double points, free nights, etc.,) and service.

For travelers, loyalty is about receiving benefits they don't actually request.

For leisure travelers meanwhile, loyalty is tied less to hotel rewards programs and more to price-related deals as well as the availability of a range of brands—and price points—withina hotel company's portfolio.



What do travelers value most about preferred hotel brands?



"If you travel a lot to the point that you know the ins and outs of the system, I don't think anybody would say they would prefer to book through a third party."

Customer preferences drive loyalty

After room quality and location, business travelers value loyalty benefits over room price—not surprising, since their companies typically cover room price on a business trip but loyalty points add up to free nights as a leisure traveler over time. Conversely, leisure travelers are more price-sensitive and less motivated by loyalty benefits.

However, some do believe price “is not an issue because there’s a price point available for each brand” which indicates the larger brands with a broader portfolio can maintain more loyalty from a customer.

Business travelers of all ages, along with leisure travelers aged 30+, also value personalized experiences, including:

- An efficient and courteous check-in process
- Acknowledgment of program membership and participation
- Concierge service for tickets, recommendations, and more
- Welcome gifts at check-in or in the room
- Welcome e-mail from hotel managers before check-in

"I can ask the concierge anything and they'll make it happen."

"I'll get a welcome e-mail from the manager, asking if I need anything in advance of my arrival."

In response, hotel companies must continually assess their overall loyalty programs as well as their ability to create special moments that drive loyalty among today's travelers.

Savvy travelers know what they want—and how to get it

Travelers are increasingly savvy about the ins and outs of hotel loyalty programs. They search third-party sites for comparisons, and book directly with hotels to get more points and the best prices. This is in part because they can earn hotel loyalty points, take advantage of promotions, request upgrades and extra service for special occasions.

4. Is the sharing economy disrupting loyalty?

As travelers leverage technology for better prices, more unique experiences, and additional choices, they sometimes turn to sharing economy options for their lodging needs. Despite its appeal, however, sharing economy options do come with challenges. Our respondents expressed concerns about security, hygiene, and uncertain quality.

While 88% of leisure travelers and 90% of business travelers said they were aware of non-traditional accommodations, they did not use these options very often (16% business; 24% leisure).

In fact, for many business travelers, the sharing economy is not an option. Almost one third of business travelers we surveyed could not use a non-traditional option because their corporate policy does not allow it; liabilities include theft, personal harm, property damage, and more. And many business travelers did say they prefer the fringe benefits that accompany a hotel stay.

Similarly, most of the leisure travelers interviewed had concerns about quality and safety.

Millennial leisure travelers embrace sharing-economy options

Among millennial leisure travelers enthusiastic about the sharing economy, 60% seek adventure. In general, these younger travelers are less risk averse, more price sensitive, and seek unique experiences at a good value.

They are more flexible—able to travel more or less at will and without restrictions on length of stay. They are also more comfortable with technology and social media: meeting people, finding things, and buying goods and services online.

"Sometimes it's more adventurous to go off the beaten path and stay in someone's home and you get good value as well."

Leisure travelers prefer . . .

Sharing-economy option because:

Value for price  60%

Feels more like home  59%

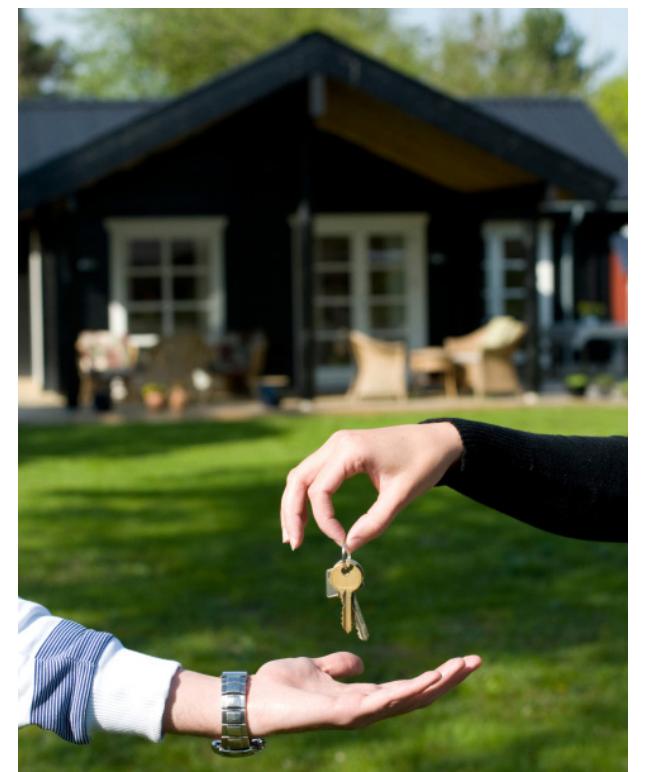
Helps discover new places  55%

Hotel because:

Easier to book  80%

Convenience  78%

Personalized experience  53%





The power of brand

For both business and leisure travelers, the option of staying at a sharing-economy property becomes more feasible when it is combined with a recognizable hotel brand. However, questions and concerns still exist, for example:

- What guarantees would customers have for service, quality and cleanliness?
- How would properties be regulated and managed?
- What standards would be used to measure compliance?
- How would companies keep track of all the properties?
- What requirements/criteria would a sharing-economy property need to fulfill to gain access to a hotel brand name?
- Would a new brand name be created to communicate joint features/benefits?
- Would there still be personal interaction between property owner and renter for access to the property?
- Would lack of accountability and compliance damage the hotel brand's value?

Some travelers believe this kind of arrangement would constitute an overextension of the brand. Meanwhile, all leisure travelers in the focus group agree they would stay more frequently at a sharing-economy property if they could also generate hotel-brand loyalty points for their stays.

Key implications

- 1.** Millennials are not unique in their attitudes and behaviors toward loyalty programs. In fact, they are quite similar to travelers aged 30+. Rather than targeting millennials per se, brands are well advised to look at all age groups as they shape and implement loyalty programs—since their attitudes and behavior are more similar than they are different.
- 2.** As loyalty programs continue to mature, hotel companies will need to decide how to prioritize investments that drive brand engagement across all consumer segments, while simultaneously targeting the most profitable demographic. Ultimately, brands that drive the greatest engagement will likely accrue the highest revenue gains.
- 3.** After room quality, business and leisure travels have different criteria for preferences and loyalty programs. Room price is less relevant to business travelers since they're usually not paying; loyalty programs are important because they mean free nights down the road. Leisure travelers meanwhile, are more price-sensitive. Brands are well advised to tailor benefits and loyalty programs accordingly.
- 4.** While the sharing economy has garnered a lot of attention, most travelers—other than adventure-seeking young millennials—are wary of the unknown quality the sharing economy represents. Rather, they want the reassurance that a brand name provides the guarantee of safety, security, and quality. An opportunity may exist for hospitality companies to align with sharing-economy partners; however, many questions around the execution of that model exist.

For more information on this research, the PwC Consumer Intelligence Series, or how digital transformation is shaping the entertainment and media industries, please contact one of our specialists:

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