

# A Study on Role of Loyalty Membership Programs in Hotels

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## **Abstract**

Loyalty Membership program is a Marketing strategy which focuses on customer retention, brand loyalty by offering rewards to the guest in the form of redeemable points which he/she gains after spending specific amount of money, discounts, freebies and special rates, etc. This has become a trend in past few years as the programs have proved to be very beneficial in retaining customers and have helped in revenue generation. All customer oriented industries like retail shops, restaurants, hotels, airlines have started Loyalty programs which have different rewards features or benefits according to their brand. Customers, who visit/stay in Hotels, travel frequently usually sign up for Loyalty programs which are offered on complimentary basis in many International Hotel Chains. The Hotel's or brand's aim is to achieve the targeted revenue and maximum occupancy figures through special rates offered to its members. However the guest may demand more than what is offered to him when he/she is enrolled and has reached the highest tier of the program. At times it is difficult for the Hotel to meet high expectations of the guest as they may prove to be a loss of revenue. Few customers feel the program should be customizable for them as and when they require it. This research studies advantages and disadvantages of Loyalty Membership Program and challenges faced by the Hotel while dealing with such enquiries. Loyalty programs in Hotels stimulate behavioral loyalty which is based on principle on rewarding customers for intensity of purchases and their buying value

## **Objectives of Research:**

To understand what are Loyalty Membership Programs with reference of Membership Programs of International Hotel Chains and other brands.

To understand how hotels benefits from the programs.

To study the challenges faced by Hotels while running Loyalty Membership

Program.

### **Methodology**

The research is completed with the help of secondary data available on the internet and Marketing textbooks.

### **Keywords:-**

Loyalty Membership Program, customer retention, brand loyalty, customer loyalty.

### **Introduction**

In 18th century American retailers began giving out copper tokens with purchases that could be used later for redemption. In the 19th century they realized that giving away copper tokens was costlier for them hence copper coins were replaced with green stamps which did not cost much for any business. In 1981 the first full scale loyalty program 'Frequent Fliers' was introduced by American Airlines. They were first to revolutionize the customer Loyalty Program and today they have over 50 million members in their revamped AAdvantage Program. Many Airlines, Hotel chains even other well retailer brands have imitated the same concept as AAdvantage Program. In 1990 card based loyalty programs also became popular as it was with a card based system it was easier for them to keep a track the loyalty than the stamp or coin based loyalty Program.

### **Loyalty Membership Programs in 21st Century**

The rise of ecommerce and digital payment infrastructure it is possible for any business to start a reward or a Loyalty Program. Loyalty programs have evolved tremendously. They were simply made to reward customers so as to spend certain amount of price in a Hotel. Throughout history and in a modern context, loyalty programs have been moving customers along their 'customer journey'. A customer journey can be described as series of steps the average customer moves through in their interaction with the Hotel, the loyalty program is designed to offer rewards and incentives that move along. The need of physical loyal membership cards have been replaced by a mobile application which also helps to make the stay of the customer better. A Loyalty Program is a marketing strategy which is designed to build customer loyalty by providing incentives to profitable customers.

### **It is based on the following propositions:-**

Customers demand more involving relationships with the purchased products.

Many such customers have a tendency to be loyal.  
They are profitable customers

The customers become business builders by buying more, paying premium prices and bringing in new customers through referrals. (O'Brien and Jones 1995) Dowling and Uncles 1997 claim that loyalty programs not always change the customer behaviour in established competitive market. The brands are able to identify their loyal customers because of the database technology. A loyalty program has to target a valuable customer segment.

Every business tries very hard to retain its customer, make them do repeat purchases most importantly they want their customers to be loyal to their organization as it is found that it costs five to eight times less to retain existing customers than attracting new customers. Today at every corner we have a new business i.e a restaurant, café, Hotel opening up, which makes it a difficult task to retain its old customers. Hence International Hotel chains such as The Marriott International, Hyatt, IHG, Taj Hotels and Resorts came up with strategies to build customer loyalty and maximize their revenue. One common marketing strategy is a Customer Loyalty Program started by every Hotel brand.

Features of Loyalty Program

A customer has to enroll to the program which is generally free of cost as very few customers would purchase a program which comes with a fee.

Once he/she enrolls they get benefits such as:-

2 to 10 points (depends on the brand) per dollar spent in the Hotel

Complimentary Wifi

Member discount (INR 500/- to INR 1000/- lesser)

Late checkout till 2 pm

A customer who is travelling for business purpose usually opts for a customer loyalty program as he travels frequently and stays in particular Hotel. When such frequent traveler is enrolled his first preferred Hotel would be where he gets free points for various purchases (after considering good reviews, customer preference, exceptional service, past stays etc.) After certain number of stays, nights or number of points the customers reach the next level in the loyalty program wherein they get value added benefit such as :-

Free room upgrade

Free room nights

Access to VIP Lounge

Points redemption on meals and stays.

Late checkout

Early checking

Luxury car during a pickup or drop off service

Since members of loyalty program earn more points their points are redeemed at higher value rewards. Many researchers say that the system of different tiers in membership program are effective at incentivizing loyalty among hotel guests.

### **Benefits of Loyalty program to the Hotel.**

Today all International Hotel chains have developed new systems and implemented new procedures which helps in recognizing frequent guests at all participating properties, this creates an impression and a member is likely to return to the same hotel as he familiar with the people, facilities, services etc.

Research from Kalibri Labs found out that 40% to 60% room bookings came from loyalty members.

Increase in revenue

It has been observed that frequent guests generally spend more on facilities and services. Some guests even stay considering they will achieve the said number of points for redeeming later.

Brand Differentiation

Another benefit of having a customer loyalty program is it can help to distinguish your business from your competitors. Customers are often presented with an overwhelming number of choices for a single product or service. A rewards program can help a customer choose a business over one that doesn't offer any type of incentive and differentiate a brand from others that are similar.

### **Valuable Data**

While enrolling guests for loyalty program the Hotels collects information such as Home address, Business address, Contact numbers, email-id, designation, Nationality, date of birth, likes- dislikes, preferences etc. This data is useful for the Hotel brand while promoting, similarly the Hotel is able to segment the guests through collected information. These details can be used to create customizable offers.

### **Increased communication with the guest**

Due to the loyalty program a Hotel is able to communicate better with the guest since they have a whole lot of information of the guest. The Hotel brand is able to build brand awareness and increase in loyalty by providing valuable information on regular basis.

## **Dis-advantages of Loyalty Program**

### **Market Saturation**

Loyalty programs are a common strategy in every kind of Business with lot of similarities between them. All Hotels brands enroll guest for free, plus they get the same provisions after enrolling. But due to competition many brands are unable to pull back from their loyalty program commitments due to fearing loss in sales. Frequent customers have enrolled themselves that in different Hotel Loyalty programs so that wherever they go they are able to use the benefits.

### **Increase in Guest Demands**

Once the guest reaches the VIP status for example Gold, Platinum they start demanding more from what actually should receive. Example many Gold member get a free upgrade to the next category provided it is available, however the guest think they are supposed to get it every time they stay at the Hotel. If the Hotel denies giving an upgrade there chances they leave the Hotel and also leave at bad review on the Internet. Hence it has been observed by the Hoteliers that guests's demand increase once they reach a particular status.

### **Demand for discounted rates.**

It also has been observed that loyalty members get a special discounted rate for booking rooms. They usually get 20% discount on Best Available Rate but still they demand for more discounts on the already discounted rate.

Existing member does not always guarantee future probability of returning. Loyalty programs helps in return reservations, more repurchases however with time , their needs, lifestyle, income changes thus changes their buying pattern. Naturally guest prefer to opt out of that brand or form of loyalty program and find something which is a trend. It has been found out by Maritz poll that four out of ten loyalty program members quit at least one program.

### **Observation**

Considering the benefits and dis-advantages of Loyalty Membership Programs, it has been observed that there is a segment of corporate guests in who are regular guests in Hotels and usually visit the same Hotel as they get a low corporate rate. Many guests would not prefer to a Hotel which has high room rates. Example: A frequent corporate guest books room at JW Marriott Pune every time he travels for business as he gets the corporate (contracted rate or discounted rate). If the Hotel is in sold out position and ask the guest to book a higher category room which also at higher price, the guest simply denies to

book a room. After which he will search a budget hotel which does not come under Marriott Hotel chain.

However the same guest later might choose to stay in JW Marriott, Mumbai because he is member of Marriott and his main intention is to collect points. The moment he signs up more loyalty programs of different Hotel chains, he will first compare the benefits of the loyalty program, price of room and then make a final decision on booking of the rooms.

Here Loyalty program does play a role of getting the customer back to the brand but in different city. Hence it is very important that the Hotel brand should be always active on social media platforms such as facebook, instagram, youtube etc. The customers will think about the brand when the Hotel sends them promotional offers, discounts over email. New offers, choices should be created to beat the competition as guest demand instant gratification and control over earning rewards. One well known brand Hilton has introduced 'Shop with Points' concept in which the member can redeem their Hilton Honor Rewards points on ecommerce platform which is Amazon.com.

In case any Hotel brand offers such concept then there would be high chances of a segment of guests enrolling in the Loyalty Program, return reservations, repurchases just for the sake of accumulating points.

### **Conclusion:**

The competition between the various Hotel brands has increased as there is a new Hotel coming up every year. A guest who is member of the Loyalty program will look first at the rewards he/she is receiving upon booking a stay. A brand who has a different concept than other brands will surely generate considerable revenue and will keep on retaining all the customers. Hence the Hotels brands always have the challenge to come up with a creative reward which will focus on customer retention.

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