

Loyalty for Sale?

Loyalty programs are not 'one size fits all'...



By Mark G. Haley

Hospitality loyalty programs tend to fall into two broad categories:

- Points-based frequency programs where the guest earns points based on spend or stays that can be exchanged for rooms or other benefits
- Recognition programs where guest preferences are captured, retained and communicated throughout the brand and utilized to enhance future visits

The intent of both types of programs is to drive customer loyalty and to make the guest want to continue to choose to stay at that brand's hotels again and again. Many observers eloquently argue that points-based programs have become a commodity

and are merely a cost of doing business now, since all large chains have them. Not having one becomes a negative attribute, but having one is simply the price of entry.

In this article, we assert that both varieties of programs have their place, including points-based, and that different organizations establish different programs according to their size, competitive posture and other attributes. These choices lead to other decisions about what technology to deploy and how to administer it.

Large, multiple segment operators with broad geographic distribution (Marriott, Starwood, Hilton, et al) build out points-based programs like beavers building dams. It is in their nature to do so and guess what... hotel guests like them! Points-based programs have numerous virtues:

- They are voluntary: the guest decides to join and decides to share their personal information.
- They are easy to understand: You stay. You spend. You get points. Then you get free stays for points.

- They are straightforward to administer, with the right investments in technology and business process integration
- They support non-points-based awards also, such as special registration lines, upgrades, etc

If points-based programs have all these positive attributes, why would someone build a recognition-based loyalty program? Simply, because they have to! In order to accumulate enough points to fund a meaningful stay or partner award, one needs quite a few stays.

But for a single hotel or small chain, it is difficult to assign enough value to a given stay to accumulate enough points to give away a stay. You need lots of opportunities to have stays to make a points-based program effective. Plus, you need plenty of locations that members can redeem awards in (such as Hawaii), probably different from where they earned them.

Rather than creating “me-too” points-based programs, many smaller brands and independents wisely try other formats of loyalty programs. One format, briefly offered, gave frequent customers the opportunity to earn shares of Jameson Inns stock! More commonly, these other loyalty program formats revolve around guest recognition.

The essence of a guest recognition-based program revolves around capturing guest preferences and making them available to enhance future stay experiences. Some of these programs call for enrollment and use of a member ID number. The Wyndham By Request program is a great example of this class of program. Others are based on staff

observations, where line personnel are incented to record relevant guest behaviors, so that the request can be anticipated on the next visit. Denihan Hospitality’s MAGIC (Marketing and Guest Information Center) represents this class of program, using sophisticated database tools to match up guest reservations with existing profiles, and no enrollment or member number is called for.

Of course, the points-based programs support elements of guest recognition. Examples include flagging elite members as such to associates, populating

reservations with key preferences such smoking or not, and so on. The difference is that in a points program, the points are the currency valued by the guest. In a recognition program, the experience becomes the currency and thus a tangible extension of the brand.

Technology Strategies

Different types of programs call for different technology strategies to support them effectively. A points-based system, generally used by major brands, typically “bolts onto” the Central Reservations System (CRS), with two-way integration into the brands’ designated Property Management System (PMS). Some of these systems allow associates to interact with the loyalty program to update member addresses or other profile elements or even to allow associates to award extra points as a means to resolve a service issue that a guest may have encountered.

Stay transactions in a points program also incur an accounting transaction, where the hotel that got the stay has to pay the brand for the points. The technology needs to support

**You stay. You spend.
You get points.**

these transactions as well. This money funds the program's operation and promotion and a portion is accrued to pay for future award redemptions. When an award is redeemed, the hotel or partner is paid out of that accrual account on a pre-defined basis. The perceived cost of points and perceived low reimbursement rate for redemptions often become "points" of contention between brands and their hotels. Everyone wants to offer guests the programs, but no one wants to pay for them.

These accrual accounts are actually liabilities on the balance sheets of the points-based frequency programs. As many member point balances sit for years before redemption or write-off, these liabilities swell to very significant amounts in larger programs. Alleviating the balance sheet impact of these accruals can induce programs to make it relatively easy to redeem awards (good for members) or engage in aggressive write-offs of stale points (bad for members).

Strategies for making redemptions easier include:

- Point-swapping agreements with other frequency programs (airlines, etc). Point-swapping agreements can also increase liabilities, of course!
- Allowing for merchandise awards (golf clubs and other leisure items preferred)
- Using points to purchase upgrades to suites or nicer rooms, where the traveler can stay in an ocean view suite

at their negotiated corporate regular room rate

These all require enabling technology applications with external partners or hotel PMSs.

Another major class of technology impact on points-based programs comes from the many ways one can earn points in addition to hotel stays. Most large programs offer private label

credit cards, where members can earn program points for spend on the cards; often with double points for spend in the brand's properties. Others have tie-ins to telephone companies or others that are willing to pay the

brand for points awarded to members that they can market to. These connections call for the necessary interfaces, typically at the mainframe level.

All of this enabling technology is complicated and expensive. They demand people, systems and resources to build, manage and maintain them. These costs are another reason that points-based programs are the province of large hotel companies, and smaller organizations need to find another way to compete.

A recognition program typically calls for richer interaction with the loyalty program database from the PMS. If the program does not utilize member ID numbers known to the guest, then tools for matching reservations and profiles become more important. This

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technique is called “householding” in the database marketing world, and is usually coupled with data hygiene tools to standardize addresses, name formats, etc.

Recognition-based programs are generally spared the need to build or buy technology to connect with third parties for point-swaps, external point awards and so on.

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As noted above, this is one reason smaller companies are more likely to choose a recognition program.

In Summary

Different organizations need to do different things to encourage repeat patronage and commit the customer to their business. This article highlights some of the differences between two major classes of programs, and articulates why one type, points-based, are favored by larger enterprise, and recognition-based programs by smaller hotel companies. In practice, many programs share attributes of both of these approaches. The code to crack for any hotelier wishing to invest in a loyalty program is to build the model that fits their organization and services their guests the best way possible, using the right combination of valuable resources. ■

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