



## Winning the race for guest loyalty

*When frequent travelers choose a favorite program, they aren't the only ones who reap rewards.*





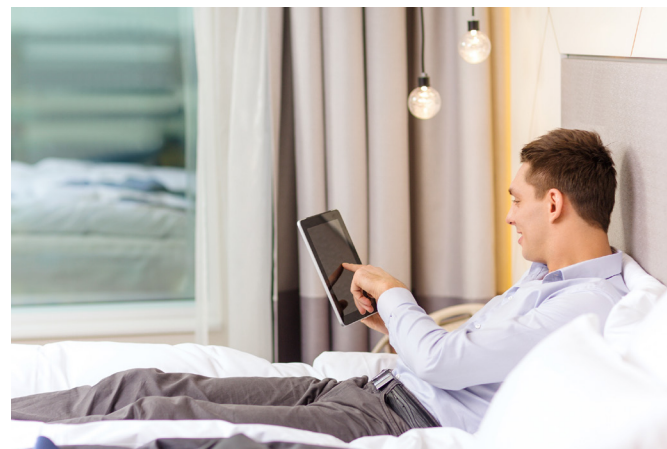
## Executive summary

There is a distinct difference between a hotel customer who has enrolled in a loyalty program and a customer who makes regular, truly loyal use of the brand because of it. For most customers, only one brand “wins”—and the prize is a dedicated relationship that enhances revenue in the long term. The journey past that behavioral tipping point is part science, part emotion. To turn your customers into enthusiastic, even passionate brand devotees, you need to understand the patterns in how different travelers view and use rewards. And you have to use that insight to craft a program that stands above the ordinary and the expected.

If you were to take a look on the average business traveler’s phone, chances are you’d find apps and account numbers for a number of hotel loyalty programs. Every major brand maintains its own program, and most frequent travelers belong to several—for most programs, this membership is passive, dispassionate, and lacking a clear sense of what makes them different from one another. Most—but not all.

Many high-frequency travelers have carried their relationship with a particular brand loyalty program past a tipping point. In fact, two-thirds of high-frequency travelers stay at the same hotel brand for more than half their travel days, regardless of location. It may be convenience, habit, or features that help a given program “win” a given customer. But once the traveler crosses that barrier, emotion comes into play too. Casual decisions become intentional, and enthusiasm can verge on fanaticism.

The tipping point that converts episodic guests into dedicated loyalists is the place where a hotel’s loyalty program transforms from a cost center to a revenue engine. The challenge is finding it—and knowing how to drive your most important customers across the line.



The loyalty game is a race. Many brands vie for the loyalty of the early-stage, dispassionate customer, but the ultimate prize is typically reserved for one brand alone. Once the customer reaches the tipping point and becomes actively loyal, there is no second place. Consumers who have a conscious favorite among hotel brands will spend extra money and drive extra miles to patronize that brand—even if they don’t have rewards to use at the moment.

To win that race, you need to stand apart. You must understand your customers, know what they really value, and deliver rewards that matter to them on their own terms.

## The loyalty arms race

Hotel loyalty programs are not only ubiquitous, but they've also become hard for consumers to distinguish from one another. To hotels, they bring both significant cost and significant potential value. One determinant of that value is the structure of the rewards program itself and how it influences customer behavior. For example, the long-established norm is to reward travelers based on dollars, stays, and nights. In the race to stand apart, hotel brands that use unconventional structures may find an advantage.

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*Percent who have downloaded at least one hotel mobile app:*

Millennials



Generation X



Boomers



Seniors



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Engaged loyalty makes a customer's value greater than the sum of its parts: A business traveler who is actively loyal to one brand might do far more business with that brand than the aggregate amount of business he or she might do with five brands to whom he or she feels no real attraction. So sharing five indifferent travelers with four other brands might be less valuable than winning the active loyalty of a single traveler.



## More options, more competition

An increasingly complex marketplace has given hotel loyalty programs more competition with which to contend.

Online travel agents (OTAs) are valuable in that they drive customers through the front door. But their principal sales lever is the deepest available discount in the moment of purchase, not a brand relationship. Blinded websites take this behavior a step further and completely remove brand from the customers' purchase decision. And their revenue models take money out of the system at the partial expense of hotels' own bottom lines.

Adding to an already crowded landscape, now some of these OTAs and other third-party programs are developing loyalty programs of their own. OTA loyalty programs are calibrated to make it easier for infrequent (and leisure) travelers to amass meaningful rewards more quickly. A customer who becomes actively loyal to a portal that provides consistent low prices is not likely to have any loyalty left over for a single brand, especially if the portal's enticements are "portable" from one brand and one stay to the next.

Entrants that rely on completely new business models, such as *HomeAway* and *onefinestay*, are disrupting the competitive landscape. It's no longer as simple as "which hotel"—now travelers, especially the growing Millennial population, which prizes flexibility and customized experiences, have an alternative to hotels altogether. It is the growth of this "sharing economy" that could potentially have a dramatic effect on the hotel industry. *Airbnb*, active in 192 countries, is poised to become the world's largest lodging provider within the next year.<sup>1</sup> While a broader range of budget options is part of the company's appeal, it also threatens hotels by offering travelers personalization, flexibility, and "authentic" local experiences—internationally at first, but with an increasing domestic focus, down to the neighborhood level. *Airbnb* also provides an easy online buying experience: mobile access already drives 26 percent of its traffic.<sup>2</sup>

The result? Even though 79 percent of its San Francisco guests say saving money was the reason they chose an *Airbnb* host instead of a hotel, they spent more and stayed longer than traditional hotel guests.<sup>3</sup>

### They don't remember boom boxes. Will they remember you?

As consumer preferences evolve, so do consumer identities. Generation is an important measure of these changes. The key to winning the loyalty race may lie with the generation that's flexing the most market muscle today: Millennials.

The generation of American adults between ages 18 and 34 numbers 80 million and spends \$600 billion a year.<sup>4</sup> By 2025, they will make up three-quarters of the workforce—which is to say, frequent business travelers.<sup>5</sup>

There are six major traits that make Millennial travelers different from the generations before them:

1. Digital natives: Millennials grew up in the digital age and are generally at ease using devices for all aspects of daily life, often viewing their phones as an extension of themselves
2. Constant connectedness: Millennials are highly social and interconnected creatures who use digital platforms to proactively, publicly, and compulsively share and engage with peers
3. Value authentic and exclusive experiences: Millennials are explorers at heart who like to wander off the beaten path in search of memorable or exclusive experiences that help establish individuality
4. Demand flexibility and variety: Millennials are often hesitant to make advance commitments and are attracted to varied and individualized experiences
5. Participate in the sharing economy: Millennials do not value ownership as much as their parents and embrace collaborative consumption when it fits with their needs and lifestyle
6. Seek affordable luxury: Millennials aspire to a lifestyle beyond their means, taking pride in finding the best values and acting opportunistically to secure deals

1 Business Insider, "Airbnb Is On Track To Be The World's Largest Hotelier," November 16, 2013

2 TechCrunch, "Airbnb Mobile Usage Soars as Its iOS App Passes 1 million Downloads, Accounts for 26% of all Traffic," September 27, 2012

3 Forbes, "Airbnb and the Unstoppable Rise of the Share Economy," November 27, 2013

4 Center for Media Research, "Tech Savvy Millennials Take Over Spending from Boomers," April 22, 2014

5 Brookings Institute, "How Millennials Could Upend Wall Street and Corporate America," May 28, 2014

Millennial travelers value cash and discounts as much as anyone else, but they value “soft” benefits like VIP treatments and “authentic experiences” more than other groups. Thirty-two percent of Millennials rate “unique experiences” as a very important factor in their hotel loyalty program selection whereas only 14 percent of all older generations feel the same. They make quick buying decisions and expect quick gratification. More than three-quarters expect a loyalty program to pay some kind of reward within three months.

Millennials are famously comfortable with digital and mobile technology, and when they receive the “experiences” they value, they share them over social networks. If they like something, they broadcast that opinion. If they dislike something, they’re even more vocal. And they dislike it when brands tell them what to do.

Instead, they seek the wisdom of the crowd—and the cloud. The average Millennial checks 10 online sources before making a purchase, and trusts advice from strangers online more than his or her own friends and family. Twenty-four percent of Millennials check social media or customer review sites before booking a hotel, whereas only 16 percent check with family.

These traits have meaningful implications for loyalty. Millennials are incredibly savvy—their comfort online and trust of crowd-sourced reviews, combined with their pursuit of affordable luxury, makes them rigorous researchers. They do their homework to find the best experience, and as a result, could potentially make many decisions about their loyalty before even experiencing a stay. They have limited resources, so when they spend it, they want to be sure it rewards them.

Once they find a brand that works for them, Millennials are more likely to stay loyal than other generations—brands must have customized, targeted messaging and offers to get the Millennials from the start, or risk leaving a lot on the table if their loyalty goes to a competitor.

Put a bad taste in a Millennial’s mouth, and you’ve likely lost that customer for good. Convince a Millennial you really care, and you may have a customer for life.

## Making the early race count

The ideal loyalty customer will pass the tipping point, forsake all others, and do business only with their preferred brand. However, with so many customers wandering in the early-stage desert of multiple loyalty memberships that don't command much actual loyalty, you must compete effectively for the low-share-of-wallet customer even as you try to bring that customer to the next level.

In a survey of more than 3,000 U.S. high-frequency travelers that Deloitte conducted in early 2014, travelers reported membership in an average of 2.6 programs and active use of 1.8 programs. More than half belong to multiple programs, and a full 89 percent of memberships are reported to be active at any given time. The average customer spends just over half of stays at his or her most-frequented brand each year.

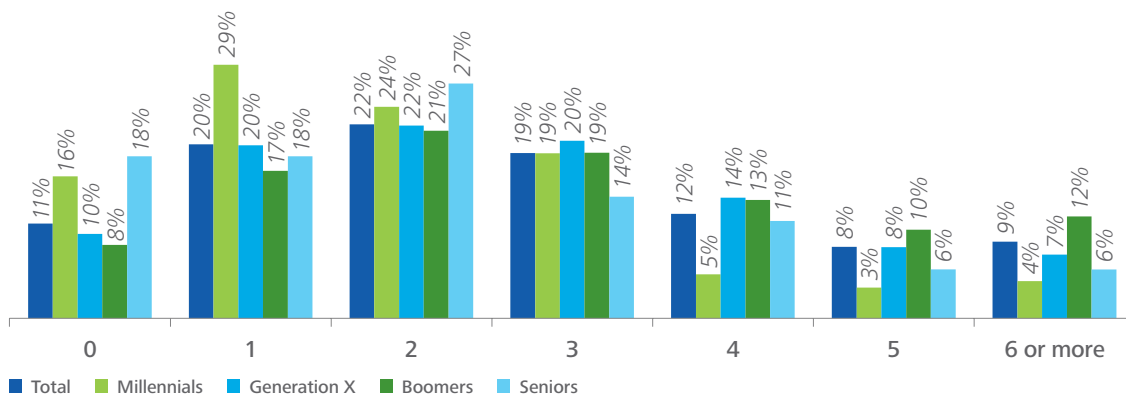
These figures highlight the disconnect between the people who have taken the superficial step of signing up and those who have focused their energy in their program of choice.<sup>6</sup>

Loyalty is not sticky early on. Enrollment alone does not translate into loyal business for the hotel. But this period of low returns is not a valueless one: It is a time of incubation. Customers wait and see which program will provide them with the greatest rewards before they start to behave loyally. While they're waiting, the programs that let them accrue benefits such as status and points can be influential drivers of brand preference.

Remember how much the influential Millennial generation values quick gratification. Remember that the brand that locks in a loyalty customer first is the brand that "wins" that customer over the very long term.



Number of loyalty programs by age cohort



<sup>6</sup> Deloitte's 2014 Hotel Customer Loyalty Survey, n=3001

## The power of true customer loyalty

As in most business circumstances, the margin of victory lies in victory on the margins. Most travelers who become loyal to a specific hotel rewards program do it for the most old-fashioned of reasons: 68 percent choose the one in which they've accumulated the most points. But if that's true across all programs, then the ones that set themselves apart will be the ones that look beyond the standard motivations and find a way to capture the remaining 32 percent.

What is it worth to capture those marginal customers with an extraordinary appeal? Quite a lot. Once a Millennial business traveler establishes allegiance to one brand loyalty program, he or she will pay up to \$41 more per night and drive up to 15 minutes out of his or her way to stay with that brand.



# \$41/night

*Additional that a Millennial business traveler is willing to pay to stay at a hotel in his or her loyalty program.*

This loyal behavior spills over into leisure travel, where the same respondents said they would pay up to \$35 more per night to patronize their brand of choice.

That can be a rational decision; once you're in a program, sticking with it enhances the value that program offers you. But loyal customers can reach a point at which reason may actually give way to passion. Two-thirds of all travelers who have an identified favorite loyalty program say they would remain with it even if they were to lose all their points and status. Among Millennial travelers, that response shoots up to three-quarters.

To break out of the loyalty arms race—to move from the transactional business of commoditized offerings and begin emotional interactions with truly loyal customers—you must take a close look at how you structure and differentiate your loyalty programs. Part of that task is tangible. Tackling the tangible part makes the emotional payoff possible.

## In the search for valued offerings, there's less unexplored territory

If getting customers to cross the loyalty tipping point depends on moving past “table stakes” rewards, it doesn't help that the definition of “table stakes” keeps getting broader. One solution is to think beyond individual rewards and to rely instead on a mutually reinforcing system of rewards that gives your customers variety and choice. First, though, check your portfolio for elements that are simply outdated:

**High quality and great service?** Even a cash-off-the-street walk-in customer expects that for no extra charge.

**Free WiFi?** Guests are accustomed to being connected every minute, at work, at home (and increasingly at airports and in subways), and they expect a hotel experience to be no different.

For frequent traveling Millennials in the Deloitte survey, free WiFi ranked with cleanliness and comfort as a top-three hotel attribute—not a perk, but an expected basic. Consider that for many business travelers today, a hotel room isn't a respite from work. It's an auxiliary office. If you do the kind of work that leads to business travel, chances are you do the kind of work that requires constant internet access. You may try to style it as an added amenity, but your guests think of it in the same terms as 120 volts from the outlet and water from the faucet.





If cost were no object, it would be easy to break out of the arms race with rewards people really value. Anyone would flock to a hotel brand that offered 10 free nights for each paid night, or a new car with each booking. In the real world, you need to balance the cost of a reward against the value it will drive.

That requires deep knowledge of your clientele, and deep analytical capabilities to make sure you can measure what you're generating against what you're investing. The sentiment of loyalty itself is a means to an end. The real currency of a loyalty program is the change it drives in consumer behavior.

### Finding the place where loyalty becomes real

Mere enrollment in a loyalty program doesn't indicate active loyalty. For some frequent travelers, that's because they aren't paying that much attention. Others may be deliberate and savvy in hedging their bets while brands compete for them. In either case, that early stage of participation remains an area in which profit is possible, but breakout to the next level is preferable.

There is no uniform recipe for getting there. Each customer set will have a different tipping point, and they may not even compare on the same scale: One person might cement his or her loyalty following a single, amazing customer experience, another might "tip" after accumulating a threshold number of points, and another may respond simply to the weight and familiarity of repeated stays.

To identify your most important customers and probe for the tipping point that matters most to each one, you have a powerful resource: data. You've stored it from your own interactions, and you can enhance it through research. When a hotel brand uses analytics to pry insights out of the massive customer data available to it, it can identify and target different types of customers to get them to the tipping point more quickly.

## Understanding the behaviors that drive loyal purchasing

Deloitte's survey results identify three archetypal behavior patterns among hotel loyalty program customers. Each archetype has a different tipping point on the path to active, emotional brand loyalty, which means the task of getting them past that point can be different for different customers.



### "Habit-formers"

**How they become loyal:** 62 percent choose to be loyal to a program after they have accumulated the most points with that brand or after they have stayed there very frequently.

**How they use their rewards:** Most habit formers trade on their loyalty opportunistically—82 percent of people in this group redeem their points when the opportunity is appropriate, such as after they've already planned a trip, or once they've received a promotional offer. However 18 percent are "Planners" and plan ahead to use points. When they redeem, they're more likely to redeem for hotel stays.

### "Program experts"

**How they become loyal:** 18 percent choose to become actively loyal to a brand based on the loyalty program, including the benefits and "perks" it provides.

**How they use their rewards:** These travelers tend to be more strategic than "Habit-formers" in how they plan to accrue and use their points and status. Seventy-nine percent redeem when an opportunity arises, and 21 percent are "Planners" who identify a target number of points to earn before redeeming their rewards. When they do redeem, most choose hotel stays as the reward, but not as often as "Habit-formers."

### "Passive"

**How they become loyal:** This group, representing 20 percent of respondents, pick a hotel because of preferences unrelated to the brand's loyalty program, like experience and convenience.

**How they use their rewards:** These travelers are less likely to redeem their points, no matter why they picked their favorite brand.

## From insight to action: The Five Fs of activated loyalty

While there is no single recipe for bringing frequent travelers to and across the loyalty tipping point, there are a number of broadly effective strategies you can use to approach the challenge.

1. Foster your fanatics
2. Find out what they want
3. Form a customized guest experience
4. Feed the virtuous circle
5. Fine-tune your offering

### 1. Foster your fanatics

Understanding and adapting to the differences among your guests can disproportionately impact the outcome of your loyalty program.

The majority of travelers redeem their points at opportune times, but there are some notable exceptions. More than four in five “Habit Formers” and almost as many “Program Experts” redeem their points through promotions, after a trip is booked or at check-in, so increasing the visibility of these types of redemption options may encourage more usage. Travelers who think ahead about the use of their rewards, or “Planners,” are only a small portion of the population (18 percent of habit formers and 21 percent of program experts)—they pick a set number of points and wait for that goal before redeeming. Targeted marketing materials that encourage this group to reach their goals sooner may be very effective.



Millennials are also demonstrating interesting behaviors which should be observed and considered for how they evolve over time. More than half of Millennials redeem their points for things other than hotel stays. Almost one-third do not redeem them at all, nearly twice the rate of all older generations. And failure to redeem is a negative. While you may get to “keep the money,” however it’s accounted for, you also forfeit a customer experience that would have reinforced appreciation and loyalty. People who redeem their loyalty points generate more revenue in the long run,

Millennials exercise their rewards in non-traditional methods more regularly than their older counterparts—redeeming points for rewards other than stays (including free flights, merchandise, and concert tickets). And among Millennials who travel at least in part for work, 45 percent think about their loyalty programs in terms of “number of free nights earned” rather than “number of points” or “status.”

Because different types of travelers will behave differently and will have different expectations for the brands they stay with, it can pay to offer flexibility in the ways customers can to engage with the program and how they can redeem benefits. Consider which customer attributes are likely to stay and those that are likely to evolve, and anticipate the ways in which your loyalty program might have to evolve as key segments—such as Millennials—mature.

## 2. Find out what they want

Hotels tend to focus on the stay itself rather than what brings guests in the door or the relationship with the guest once they have left. Many hotels do a good job of rewarding repeat visits, but to build lasting relationships, they must understand the customers' decision-making process and work to enhance customer experience at every touch point—before, during, and after each stay.

There are simple ways you can use the loyalty program to encourage guest behaviors. For example, you can use points incentives to encourage “Program Experts” to book on the direct hotel site instead of an OTA site. Or you can motivate “Habit Formers” to trade in points during a stay for amenities, upgrades, wireless access, free parking, or other items of value.

Using information can help you understand how your brand relates to the rest of the market so you can better manage the rewards you offer. For example, small brands may need to work harder: customers who are loyal to the largest hotel brands are more likely to stay there for at least 75 percent of their stays, while customers more loyal to smaller chains are more likely to only staying there 50 percent of the time or less. One way to learn about customer preference is from them, using the same channels they use: Social media can help you “crowdsource” customer feedback about what works and what doesn't.

When you learn what guests want, reward them early and often. More nights of the same experience they've already paid for has one kind of value, but a mix of experiential and product-based rewards can give them a welcome taste of the high life.

Whatever you offer, make it easy for newcomers to see and live the long-term value of loyalty to your program, so they will skip the waiting game and focus their limited attention and time on your program. When you show them a clear path forward in their achievements, they can see what is coming next and have a realistic path to getting there.

## 3. Form a customized guest experience

Touch points, and the ways people react to them, are as varied and numerous as the guests themselves. Customize the ways you reach out to people by understanding the value from their point of view.

Customers have come to expect the basics—such as cleanliness, comfort, and value for money—and a loyalty program that shines in these areas can be truly meaningful.

In addition to traditional rewards and “softer” rewards in the form of personal and authentic experiences, don't overlook empathy. Customers are beginning to demand, and will appreciate, the feeling that you really think they're special—that each of them truly matters. It takes more than a personalized desk greeting to convey that feeling. If you can make the guest feel like part of a community, his or her stays will mean more than building point equity or a stepping stone to some faraway reward.

When you know your guests well, there is no end to the ways you can turn that insight into ways to customize your offering. The yoga practitioner who finds a mat waiting in the room, or the theatergoer who finds the concierge with ticket options at the ready, can build a memory far more powerful than a free night would ever inspire. Some of the most appreciated touches cost nothing at all. For example, some female business travelers resent the implication that they aren't traveling alone, and prefer to receive only one key at check-in. If an individual traveler voices that preference and you do a good job logging it, she will appreciate her next visit that much more.

#### 4. Feed the virtuous circle

Data drives loyalty, and loyalty drives data. Feed that cyclical relationship and you can thrive. Starve either side of it, and the other side is likely to wither in response.

Data is your friend. One of the biggest opportunities of a loyalty program is the customer data it gives you access to. It's likely you are already performing some degree of data collection, analytics, and segmentation, but it's also likely there's more you can do to classify and micro-target your loyalty customers.

Understand what drives customer choice based on their loyalty type, and then rely on your existing analytics to identify the places that will have biggest impact for a particular customer. Learn to learn from customer behavior indicators. For example, if a certain customer hasn't stayed in 10 weeks, you may have found that's the point at which many guests in his segment fall off. An unsolicited offer of a free night or steep discount might be the right prompt at the right moment to bring that customer back into the fold. Trends in a customer's staying patterns can also help you craft deals that entice them to use sub-brands or extend the length of stays. And data analysis is the foundation of calculating a customer's lifetime value to your business.

#### 5. Fine-tune your offering

It's important to recognize that the most successful loyalty programs are a carefully calibrated system of rewards, activities and capabilities. Simply setting out a "buffet" of rewards and incentives is no longer enough to retain guests in your loyalty program. You have to find the right balance for your brand, and you will likely have to revisit and adjust it often.

Employing the "Five Fs" through strong people, processes and technology can create a strong system which is sustainable and hard to replicate.

Technology is critical to gathering the right data from all your systems and deriving the right insights to drive behavior. But technology isn't the only indispensable component of the loyalty solution. The most effective program rules and the most innovative, well-targeted rewards won't be effective if your people don't back them up.

Everyone in the hotel should understand the various dimensions of the program, be able to promote it to guests, and let guests see them as personal extensions of the brand promise.





## Upgrade your brand to be their “home away from home”

Plenty of hotel brands use the concept of home and comfort in their marketing. When it comes to loyalty programs, it's important to remember that home is more than a physical location. It's a sense of unquestioned belonging.

Travelers feel that they belong—that they have a “home” brand—when that brand succeeds in carrying them over the tipping point from serial transactions to a sustained emotional relationship. In relationships between two people, such an emotional bond begins with feelings like *you know me*, *you care about me*, and *you give me what I really need*. In the relationship between your hotel brand and its customers, the emotional bond has the same foundations. But to build them across many people and many behavioral types, you need to put in more methodical effort, starting with powerful analytics.



If you succeed in getting a customer to sign up for your loyalty program, you've only laid the foundation of a profitable long-term relationship. When you are able to understand that customer's motivation, answer it with rewards that really matter, and drive the customer over the threshold from passive to active loyalty, that sense of belonging will follow naturally. From that point forward, every step through your lobby door will be a welcome home.



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