What price loyalty?

There's no such thing as a free lunch – so who ends up paying for guest loyalty programmes? As the global chains battle to outdo each other by offering more and more freebies, we wonder if it really pays off

By Raini Hamdi and Steve Shellum

A DOUBLE-SIDED coin, or a double-edged sword? Few issues are guaranteed to raise the hackles among hotel professionals more than guest loyalty programmes, which have escalated into a free-for-all scrap among the industry giants – with plenty of mud-slinging, name-calling and no-holds-barred tactics worthy of a worldwide wrestling title match.

The gloves are off in the battle to win the hearts and wallets of guests – and it's a fight that many contestants wish had never started.

There's no denying that guest loyalty programmes are part and parcel of today's super-competitive hotel industry, with untold millions of dollars spent every year on giving away valuable freebies to keep guests coming back for more.

The unwritten rule of never bashing your competition goes to the wall when it comes to this rather delicate issue. Each year, when the Freddie Awards (the Oscars for loyalty programmes) are announced, there's a mad PR frenzy to bask in the spotlight.

This year, for example, the Starwood Preferred Guest (SPG) programme came out as overall winner, but Marriott was quick to point out that its Marriott Rewards won the most categories. It was also quick to release to the media a chart comparing the number of points required by Marriott and arch-rival Starwood loyalty club members to claim similar awards (*HOTEL Asia Pacific*, June 2001).

Naturally, in this exercise, Marriott came out way ahead.

But, as the global chains slug it out to come up with the biggest and the best programmes, the cost of operating them has gone through the roof. At the same time, the very reason they exist – to imbue the highest loyalty among the widest group of guests – has become a moot point.

If truth were known, even the groups with the biggest loyalty programmes would have to admit that they have become a real pain in the neck to administer.

The intense competition in the industry has developed into a highly complex game, with loyalty programmes being an integral part of it, along with product, branding, packaging and distribution.

To be sure, loyalty programmes do give chains a competitive tool in gaining market share: Hilton International and Starwood Hotels and Resorts, for example, both report that about 30% of their reservations come from their respective Hhonors and SPG programmes.

But, with the way loyalty programmes have evolved, many industry observers believe the big chains have long lost the plot, while smaller groups are being forced to enter the fray more as a defensive measure than anything else.

This competitive tool does not come without serious misgivings. There are issues about liability for chains, while hotel owners do not necessarily agree with how the burden of running and maintaining the programmes should be shared.

Nor do they necessarily see an equal distribution of benefits to hotels under the programme.

Meanwhile, the fundamental question of whether such programmes create loyalty remains in the air, especially when it is an axiom that air miles, not hotel points, are the currency of choice in loyalty programmes, and frequent travellers need a special wallet just to fit the various cards offered by the industry.

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Do they create loyalty? The original intention of hotel loyalty programmes was to identify, understand, reward and keep one's best customers, thereby increasing a hotel's yield from them.

But, with the maze of airline alliances, coupled with hotel, car-rental, credit-card and non-air partners, cross-earning and back-end redemption options, points for miles, miles for points, qualifying rates and non-qualifying rates, it's tempting to challenge the global chains on whether they are actually any closer to knowing and keeping their best customers than they were when the programmes were launched.

Some leading hotel executives don't dispute the contention that it is dubious that these programmes actually create loyalty.

Richard Hartman, MD of Six Continents (formerly Bass Hotels & Resorts) for Asia Pacific, says bluntly: "You can't do business without loyalty programmes, but I don't believe there are a lot of people who don't wish they never happened, because they're expensive to run, and it's debatable whether or not they actually create loyalty.

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"The lesson is, every differentiator, unless it can't be duplicated, eventually becomes a qualifier, including loyalty programmes."

What they have come down to, according to Hartman, is "guests converting their company's money into their own money – and the best thing is, it's tax-free".

And there's no way out for chains, he says. "It's the same thing as putting minibars in rooms. The operational profit is minimal, but once someone does it and it works, everyone else does it or they are competitively disadvantaged.

"It's the same thing with club lounges, club floors, signature restaurants, health spas, fitness centres ... If you go through the history of the hotel business, less than half of these really added value. Take balconies in Hawaii – the fact is, less than 5% of guests ever sat on the balcony except, perhaps, for the first five minutes in the room. But now you can't build a hotel in Hawaii without balconies.

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"It would be wonderful if you actually build loyalty, but that's debatable."

Ho Kwon Ping, chairman of Banyan Tree Hotels & Resorts, agrees that most loyalty programmes, whether by airlines or hotels, actually dig their own graves.

"This is because these points-based programmes have created several problems. First, most people accumulate more points than they can use, and these unredeemed points become considerable liabilities, a kind of capacity overhang which only grows larger and larger over time, like a tumour.

"Second, consumers seem to prefer to redeem their hotel points with airline trips, rather than with another hotel.

"Third, research has found that consumers are quite fickle when it comes to choice of hotels, compared with airlines."

Hartman recalls the Pan-Am lesson. It was the first airline to launch a frequent-flyer programme, as a defensive, last-resort move to capture market share lost due to poor service, food and delivery.

"When it was selling the company, Pan-Am had this enormous liability which it was told to get rid of. It put a deadline on redemptions, and ran out of money because of it. Its aircraft were flying people for free, and it actually helped destroy the company."

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JW Marriott Hotel Bangkok
Beijing New World Courtyard
Renaissance Harbour View Hotel Hong Kong
Singapore Marriott Hotel
New World Renaissance Makati City (Manila)
New World Renaissance Kowloon
Renaissance Seoul Hotel
Amsterdam Marriott Hotel
Wuxi New World Courtyard

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JW Marriott Hong Kong
Hotel New Otani Tokyo
London Marriott Hotel County Hall
London Marriott Hotel Grosvenor Square
Renaissance Sydney Hotel Circular Quay
Singapore Marriott Hotel
JW Marriott Hotel Bangkok
Surfers Paradise Marriott Resort
Kauai Marriott Resort and Beach Club
New York Marriott Marquis

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According to Bruce Wolff, senior VP of distribution sales and marketing, Marriott Rewards is by far the industry's biggest and most comprehensive loyalty programme, with 15 million members and 2,000 hotels in 60 countries. It features 60 programme partners, including 39 airlines, and offers more than 300 different types of award.

Last year, membership in Hong Kong and China increased by 86% (compared with an average of 18% worldwide), with members booking twice as many room nights and giving Marriott 89% additional revenue.

"The power of Marriott Rewards is undeniable. The figures speak for themselves," says Wolff, who – before joining Marriott in 1984 – spent 13 years with TWA, where he gained a deep understanding of airline loyalty programmes.

"Members spend an average of 49% of travel nights with Marriott brands, and member activity accounts for nearly 40% of all Marriott International room nights. Frequent travellers typically double their number of stays with Marriott after joining Rewards."

Last year, members living in Hong Kong redeemed their awards in Marriott hotels as follows: US (30%); Asia, other than Japan, China and Hong Kong (23%); China (18%); Hong Kong (17%); Japan, Australia, Canada and the UK (2% each).

The three most popular types of awards redeemed were: hotel stays (76%); points to miles (18%); and combination/vacation package awards (3%).

Owners' perspective

But how expensive is it to run a hotel loyalty programme, and who bears the costs?

Not a single chain interviewed ventured to give *HOTEL Asia Pacific* the figures on running or maintaining their programmes, and it's difficult to measure cost-effectiveness based solely on percentage of bookings received, as there are also issues such as liability and opportunity costs.

Generally, the big cost areas are communications, administration, marketing and recruiting new members. Major chains are quite successful in leveraging their programmes to gain market share but, according to Roy Tan Hardy, Millennium & Copthorne's (M&C) senior VP of marketing, they are facing – more than ever – the challenge of how to continuously customise their communications and benefits in order to make their programmes more compelling and, in doing so, manage their costs.

"They have to provide more compelling, non-traditional and customised rewards – their best customers are demanding them," says Tan Hardy, who is very familiar with the whole issue, having been involved with rewards programmes at American Express and Bass.

According to Tan Hardy, both owners and chains end up paying for the programmes.

"What the guest can – or is willing to – pay for a hotel stay is determined by many factors other than loyalty points, including market economics, competitive environment and travel-policy guidelines.

"Therefore, the room-rate threshold [qualifying rate] that will ideally allow you to pass some of these costs on to the guest may not necessarily be ideal.

"Of course, you can set limitations on what constitutes a qualifying rate, but you make the programme less attractive. So, with limited capacity to pass on some of the costs to the guest, it leaves you with the remaining two constituents – owners and chains."

Owners, indeed, are seeing the costs of these programmes rising.

Today, Starwood automatically deducts 6% – compared to 5% previously – of an SPG member's total guest bill (including rooms, F&B and other expenses) from any of its properties. The fee is used to pay award points and operate the programme.

Aron Harilela, director of the Hong Kong-based Harilela Group whose management-company partners include Bass and Starwood, sees costs rising further.

"The costs of maintaining and promoting loyalty programmes are increasing, and will continue to do so as they become more competitive," he says.

"For example, an assessment fee, an agent's fee and a GDS fee are charged for each loyalty member's stay. This cost may be increased if, for example, a member is given double miles.

"Increasingly, rewards are given away as a method of attracting customers, and all these costs are the responsibility of the individual hotel."

Owners do recognise that, if their management companies were to stop the programmes, many customers would go elsewhere. "It's an inverse reward," says Harilela.

But many owners are pressing the chains to provide greater accountability and burden-sharing of the programmes.

One owners' representative, who declined to be named, says: "When 1.8% of my hotel revenue goes to my management company for these programmes, I think I deserve to know exactly where this money is going – how much goes to administration, for instance?

"There is little accountability for

this fee that is going somewhere. There must be total transparency to avoid any misperception, and chains can do a better job at communicating with owners to convince them that the benefits do, indeed, override the costs.

"They have done well to communicate the benefits to customers, but do these programmes really bring additional revenue to owners?"

He also maintains that the benefits of such programmes are not evenly distributed to member hotels. "They do bring in guests, but more to business hotels, so they may be less justified for leisure hotels. Leisure is dictated by package, not 10 or 100 points."

Harilela believes that, since loyalty programmes are more brand-focused than driven by individual properties, chains should share the costs. After all, these schemes benefit their distribution, reputation and, in successful cases, boost their management fees.

"Since they create strong brand awareness and distribution, costs should be funded through brand-marketing provisions made by the brand manager."

With guests expecting more from a hotel, and with chains trying to outperform each other by giving away more, Harilela believes it might be time for management companies to re-evaluate what loyalty programmes should look like.

"This cannot continue indefinitely," he says, adding that it must be kept in mind that repeat business is generated through product quality and consistent delivery of good service, not only through loyalty schemes.

One way, he says, is for chains to look at forming alliances with other industries to share the burden of the costs.

Chains' perspective

Hilton International sells close to 30% of its room nights chainwide to Hhonors members. "That says it all," says the group's president for Asia and Australia, Koos Klein. "Who's going to take the risk to stop, if all the others continue?"

He denies that differentiators such as Hhonors' double-dipping policy (where guests earn points and miles for each qualifying stay) makes the programme more expensive, and he does not agree that the cost of operating loyalty plans will necessarily rise.

The trick, he says, is partnership.

"We have about 55 airlines that have agreed to have their points used in our hotels, and vice versa, and we are the only one with four car-rental companies signed up. We have lots of partners with whom we can develop joint activities, which means among us we can create a lot of value through cooperation, while bringing down the costs of these programmes.

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Starwood's MD of brand marketing for Asia Pacific, Nelli Yong, says that, although the hotels pay a fee for each member staying at a property, "the returns on incremental business from just our Platinum members alone more than offsets the annual operating budget of the programme".

She did not reveal this budget.

SPG now has 10 million members who, in the past year, have redeemed more than 100,000 free night awards worth more than US$30 million, based on a companywide average daily rate of $150.

Yong says chains have to ensure their loyalty programmes stand above the crowd by providing overall quality in benefits and service. "If you are just there to provide points and the usual benefits, then you are just another programme and incurring costs without being able to drive incremental revenue.

"When your programme stands out, it becomes a differentiating tool that gives the brand a stronger identity and a point of difference for customers when choosing one brand over another.

"Without these distinctions, hotel rooms are just commodities."

Eventually, says Yong, the "wallet will do the talking" and frequent travellers will begin to weed out the "less-travelled cards".

This year, Starwood plans to take its member-award possibilities to the next level. It will be creating a series of exclusive redemption options of one-of-a-kind vacation packages designed to highlight its properties around the globe.

HOW are independent hotels and small- to medium-sized chains faring in the loyalty stakes?

Interviews suggest a clear trend back to recognition programmes, rather than the more points-driven system of building guest loyalty. In short, product differentiation is becoming a key driver to survival.

The smaller players realise they cannot fight their battles in the big boys' arena, but they believe there are still plenty of travellers out there whose choice of lodging establishment is not driven by whether or not the hotel or chain has a loyalty programme.

Rather, they make their decisions based on unique product and high levels of service.

"We do not think that a traditional loyalty programme will be a major factor in a consumer's decision to stay in one of our hotels," says Banyan Tree's Ho, who is currently developing a recognition programme for the group. ▶

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"We try to have other unique selling points, other points of differences that make a guest experience unique, including the Sanctuary for the Senses concept, the Banyan Tree Spa, the product design and signature standards.

"What we want to do with our programme is to reward our guests for choosing to return to our hotels, to make them feel that we do appreciate their patronage. Our rewards will not be given through points that can be redeemed with airlines but will, instead, involve a range of complimentary services and products. Research has found that people who receive an unexpected gift – either a product or a service – appreciate it more than just accumulating points, which is rather impersonal."

Details of Banyan Tree's recognition plan will be released soon.

Similarly, M&C – even with a portfolio of 89 hotels in 13 countries – says it is staying clear of the loyalty programme battle and is, instead, developing a recognition programme.

"A chain the size of ours cannot realistically adopt a 'me-too' approach and develop a frequent guest programme to compete with the more established major players – at least not in its current state and form. And even if we could, the returns would be hard to justify," says Tan Hardy.

"A recognition programme, coupled with the ability to award a selection of pre-

COMPETITIVE COMPARISON CHART

	Starwood Preferred Guest	Hilton Hhonors	Hyatt Gold Passport	Marriott Rewards
Number of locations	Over 700 locations Over 70 countries	More than 2,000	202	More than 2,000
Point earning structure (non-elite level)	5 points per eligible US$1 spent	2 Starpoints per eligible US$1 spent	5 points per eligible US$1 spent	10 points or 3 miles per US$1 at Marriott Hotels, Resorts and Suites; 10 points or 1 mile per US$ spent on room rate at Courtyard
Airline partners	30	55	26	22
Frequent flyer conversion ratio (for most airlines)	1 point = 1 airline mile	10,000 points= 1,500 airline miles 20,000 points= 3,500 airline miles 50,000 points= 10,000 airline miles	3 points = 1 airline mile	2.5 points = 1 mile
Award blackout dates	None	Diamond VIP	No blackout dates	"Stay Anytime" Reward allows members to override all blackout dates and capacity controls
Stays to earn a free night*	3 stays	6 stays	5,000 points	US$750
Elite point bonus level	50% bonus	15% bonus	Diamond members 30% bonus; platinum members 15%	Silver 20%; gold 25%; platinum 30% (all at select hotels)
Room upgrades	Complimentary elite level upgrades	Elite level upgrade after 5 stays	Diamond members – Regency Club upgrade	—

* Based on average spend of US$350 per stay.
† Six Continents is not included as it is a "guest-recognition programme".
Source: HOTEL Asia Pacific/hotel groups

Who says it's lonely alone?

Life without a big chain's loyalty programme does not hurt badly, Patrick Fiat, GM of Singapore's Royal Plaza on Scotts, tells Raini Hamdi

WHEN the hotel was a Crowne Plaza, did the Bass loyalty programme help to boost business?
Yes, absolutely. The Priority Club certainly did generate additional room nights.

Now that you are independent, do you feel you lose clients without a chain's loyalty programme backing?
No, we are not affected by the lack of a chain hotel's loyalty programme. This is reflected by our corporate base, which has increased from 65 per cent during the days of Crowne Plaza to above 80 per cent since independence.

A hotel loyalty programme is not the only determinant in the selection criteria; it is just one of the many deciding factors. There are many other more compelling reasons such as price, location, service and value-adds.

How do you compete with the big chains which have loyalty programmes?
We compete on two fronts:

a) As a member hotel of Summit Hotels & Resorts, our guests have access to the strategic alliances that Summit has with major frequent flyer programmes worldwide.
b) Our own frequent guest loyalty programme, Royal Returns, has a host of fine benefits and privileges to reward guests who stay with us time and again. Based on the number of visits and room nights, guests enjoy privileges that range from a bottle of wine to food vouchers and upgrades to the Royal Club with all its benefits of complimentary breakfast, afternoon tea and evening cocktails. Easy to administer and cost effective, we are able to pass on the savings in the form of tangible benefits to our guests. In comparison, a chain hotel's loyalty programme which has become a "defence" against other hotel chains, can be quite costly to maintained as many of these programmes are outsourced to external marketing companies. This dilutes the profitability of the hotel's bottomline.

What is the best way for independents to build loyalty?
As mentioned by Richard Hartman in a previous article (*HOTEL Asia Pacific*, April 2001), one of the weaknesses of chain hotels is that they have difficulties in differentiating themselves.

At Royal Plaza on Scotts, we believe we have come up with an innovative differentiator – our free mini bar, which is available in all rooms. A revolutionary benefit, this fantastic value-add-on has produced the "wow" effect on many guests, and has been very successful in building guest loyalty and ensuring repeat business. In this competitive market, you have to continuously reinvent and innovate to stay ahead.

Another differentiator is guaranteed early check-in and late check-out. This benefit, unlike with most hotels, is not "subject to availability".

Our corporate guests highly appreciate this, and many return to enjoy this privilege.

ferred airline miles, is what we are initially moving towards.

"We have also invested heavily into creating a differentiated product in many of our hotels around the world. The customer loyalty prescription consists of many ingredients other than points and rewards. We are picking the ones with which we stand a better-than-average chance of winning."

Shangri-La Hotels & Resorts' guest recognition programme is tied in with a number of airlines to offer greater awards. With a base of 300,000 members in Asia, North America and Europe, the company views it as a "crucial and strategic part of the business in relation to customer retention and building brand loyalty".

"The programme is designed to enhance every stay with a range of extra benefits and privileges, with guests' personal preferences remembered and reflected in every aspect of our hospitality," says PR director Julia Record.

The group recently announced an alliance with KLM, increasing its total number of frequent-flyer partnerships to 27, which it claims is the largest number of loyalty programmes from an Asian-based hotel company.

The Peninsula Group is about to launch a totally revamped guest recognition programme to replace the Peninsula Privilege Card programme, which has been in place since 1982.

According to the group's general manager of marketing, Simon Pearson, the old scheme was "very much geared towards rate benefits of 20-40%, with other benefits decided by the individual hotels".

"From that point of view, it was geared towards the individual hotels, rather than the group. We decided it had to be a groupwide benefit, so we asked the existing Privilege Card members what they really wanted to see, because we didn't want to impose anything on them."

The results:

- guaranteed reservations with 24-48 hours notice and – critically – not subject to availability;
- check-in/check-out at any time; and
- priority reservations during the high season.

A number of non-priorities for loyalty programmes also emerged from the Peninsula's research, most notably: no fruit basket or newspapers (guests would be surprised if they didn't get them as part of the standard service); and no preferred rate

(price is not the issue among guests when talking about recognition).

"We looked at that and decided, 'OK, there's an opportunity to introduce five or six benefits that will become standardised throughout the group'.

"At the same time, the members wanted something personalised to reflect each individual hotel, as a kind of signature," says Pearson.

The new programme will be launched in September or October. "We want to be sure the operational procedures are in place before going live."

Pearson takes pains to point out that the programme is not designed to compete with the global players. "We have about 3,000 names on our Privilege Card database, which will be increased next year to about 20,000. We are not playing the numbers' game."

Although at press time the final details were still being worked out, membership will be based on revenues spent with the group, including F&B, rather than the number of stays at hotels. There will be two levels – probably set at US$10,000 and $4,000 – depending on the location of the property.

"There is a big price differential between, say New York and Manila, and we want to have equal balance across the board," says Pearson.

Accor is also reviewing its loyalty programmes, according to VP sales and marketing for Asia, Rob Hornman, with a new worldwide Sofitel loyalty card expected to be launched early next year.

"We hope to avoid the problems of other groups by not having worldwide multi-brand programmes, but having them tailormade for specific regions or a single brand.

"We are currently launching a regionally specific programme in Brazil and, based on that success, we are considering launching something similar in Asia. It's a pragmatic approach to avoid creating a global monster.

"I personally feel, as an hotelier, that you should recognise loyal customers in a personal way, like rewarding them with a free ticket to Bali or a round of golf.

"Also, some programmes work against hotels or airlines when it comes time to redeem benefits. Guests can become very frustrated when told there is no allotment available for an airline seat or hotel room on a certain day."

Hornman, Tan Hardy and David Wu, VP of sales and marketing Asia Pacific of Stamford Hotels & Resorts, believe new CRM technology and the internet are on the side of the smaller operators.

"The good thing about the internet is that, by making loyalty programmes web-based, it is now easier to make bookings direct and redeem benefits this way," says Hornman. "It is creating an incentive for the guests to book directly with the hotel, thus making the booking cheaper for the hotel company as there is no third party involved.

"In this case, loyalty has a direct value for the hotel company."

Says Wu: "Costs in the internet arena are relatively small compared with the growing returns, and I predict there will be consolidation and sharing of similar sales and marketing platforms."

Yet another prediction is that the big loyalty programmes will converge.

"I see hotels creating alliances like the airlines, where two global chains might combine loyalty programmes," says Hornman. "And why not? For the airlines, it was the first and most logical area of cooperation."

Tan Hardy agrees. "As with everything in the business world today, my guess is we will see a convergence of programmes, or the emergence of a coalition of loyalty programmes, like the Air Miles programme in the UK and Canada.

"Airlines will probably take the lead role because frequent-flyer miles will continue to be the loyalty currency of choice. And these could very well be web-based programmes – which would significantly reduce the costs to all its partners."

WHATEVER happened to the days when hotels earned the loyalty of their guests by standing above the rest, providing excellent facilities and services, making sure that everyone knew what they stood for – and delivering what they promised?

For some luxury groups, that precept has never changed.

Mandarin Oriental, for example, does not operate a frequent-stay programme and – perish the thought – has no plans to do so.

It does, however, have a "guest-recognition programme" designed to ensure that it "delivers the appropriate customer recognition, which acknowledges customer loyalty".

"The company has a philosophy that all of our guests should receive consistently high standards of service whilst staying in our hotels," says a company spokesman. ■

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Kauai Marriott Resort and Beach Club
New York Marriott Marquis