

A Restoration in Hotel Loyalty

Developing a blueprint for
reinventing loyalty programs



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Foreword



Often I find myself engaged in discussions with hotel executives about customer loyalty. Many executives tell me how important loyalty is to their businesses, but few say they have cracked the code on building long-term loyalty. We understand that it can be hard to secure organizational commitment to invest in brand loyalty. During challenging times, operators and owners are focused on cost management, and when demand is strong investing in down-the-road loyalty initiatives is hard to justify.

We believe that now is the right time for hotel owners and brands to invest in customer loyalty. According to the Harvard Business Review article, “Roaring Out of Recession”, those companies that master the delicate balance between cutting costs to survive today and investing to grow tomorrow do well after a recession. Those that deploy a combination of defensive and offensive moves, have the highest probability—37 percent—of breaking away from the pack.¹ Further, reinvesting in building customer loyalty is important to amplify the return on investment of prior budget allocations to customer-facing initiatives.

In October 2012, Deloitte’s Travel, Hospitality, and Leisure practice engaged in extensive consumer loyalty research, surveying 4,000 travelers and conducting two in-depth focus groups with frequent business and leisure travelers. This research has given us deep insights into hotel guests’ travel behaviors, attitudes, and engagement preferences.

In this report, *A Restoration in Hotel Loyalty: Developing a blueprint for reinventing loyalty programs*, we explore how to increase the effectiveness of loyalty programs. Our research points to two over-arching and compelling conclusions:

- The best-case scenario is that hotel loyalty programs as they are constituted today have either little or no impact on travelers’ purchase decisions, and, worst case, these programs drive undesirable brand-switching behavior
- Hotel brands and owners that choose to instead

build differentiated loyalty programs and a customer experience that anticipates and integrates priority customers’ personalized needs have the potential to capture incremental market share, as indicated by these facts:

- Roughly 30 percent, on average, of hotel loyalty members are “at risk” of switching their preferred brand
- Nearly 50 percent, on average, of hotel loyalty members’ annual hotel spend is not with their preferred brand

Despite these sobering statistics, we are excited for the future because hotel brands and owners are well-positioned to restore loyalty in their brands. Within this report, we provide strategies for companies to consider as they endeavor to rebuild their loyalty programs, these strategies include:

- Encourage specific behaviors with unexpected rewards
- Make rewards personally meaningful
- Provide in-the-moment accessible rewards
- Be forgiving; don’t penalize behavior that loyalty programs encourage
- Reshape the customer experience

We are available to assist clients with implementing these strategies. Our experience in data analytics can be applied to support companies’ efforts to unleash the power of their loyalty membership data. We can help companies establish priority customer segments and methods for measuring loyalty. Further, our customer experience service can benefit companies as they work to provide differentiated experiences that will entice competitors’ “at-risk” customers. Finally, our human capital practice can provide assistance evaluating and building front-line employee commitment to the delivery of guest experiences that build brand affinity.

We would welcome the opportunity to discuss how Deloitte can assist you with loyalty restoration.

Adam Weissenberg

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Introduction

Hotel brands' foundations show signs of erosion

Glorious blue skies give way to sudden tumultuous storms, sheer thousand-foot cliffs tower over the froth-laden waves of the Pacific Ocean and the legendary Pacific Coast Highway snakes its way through the tallest trees in the land. Along one magnificent stretch near Big Sur, dotting the cliff tops like stars twinkling in the midnight sky, the occasional house can be seen, standing tall and secure, defying gravity amid the rugged terrain. Withstanding nature's erosive forces, heavy rains, high-force winds, and mudslides, these homes have endured for decades because of their solid foundations. Originally built at a time when workmanship was at its peak, these multi-layered, thick, deep blocks of concrete have withstood the test of time without cracking or buckling. These magnificent homes have been updated and maintained by loving owners and revered by passersby for generations, while those built on lesser foundations have toppled into the abyss.

As the stability and future existence of any one of these homes is solidified by its foundation, brands too require a strong foundation to thrive in challenging times. Difficult to build and even harder to maintain, a strong foundation only exists when there is an organization-wide commitment to act in the best interests of the brand and prevent brand dilution. Companies that make this commitment and successfully foster this same commitment in their employees on a daily basis can realize benefits that transcend customer brand recognition. These companies can achieve brand affinity characterized by an emotional connection between the brand and its customers. Such an affinity can likely result in an expanding share of wallet captured by the preferred brand, and over time substitutes and competing brands will likely become less attractive.

Our research on loyalty within the hotel industry yielded a startling view of the lack of brand affinity among hotel travelers, even those considered to be loyal customers by traditional measures like frequency of stay. According to our survey of 4,000 travelers, hotel loyalty program members are not loyal to their preferred brand and loyalty programs drive undesirable brand-switching behavior:

- **Share of wallet of preferred brand is low.** Only one out of four hotel travelers allocate more than 75 percent of their share of wallet to their "preferred" brand. Even high frequency travelers only spend 58 percent of their



spend with their preferred brand and 65 percent report having stayed with two or more brands in the past six months

- **Past customer experience trumps loyalty programs.** High frequency travelers rated past experience as being the most important attribute to their overall hotel experience, which suggests customer experience has more of an impact on their decision to revisit than the loyalty program
- **A distinct generation of the "Newbie traveler" is emerging.** We identified a Millennial traveler that stays in upscale and luxury hotels frequently for business and leisure, although their travel preferences, behaviors and attitudes are distinctly different from those of other travelers

These findings indicate that hotels' approach to building loyalty is incomplete. Reliance on the prevailing approach to loyalty programs that rewards repeat purchases with point-based discounts has built a false sense of security. This approach does not take into account the share of wallet being lost to other brands, nor does it integrate the unique opportunity that hotels have to build loyalty, even brand affinity, through customer experience. We argue that hotel companies should adopt a wider view of loyalty building and reinvent programmatic approaches to better suit a market characterized by a myriad of hotel options and brand switching.

The many faces of loyalty

Loyalty programs are in need of significant repair. Across many consumer-based industries, consumers enroll in a multitude of brand loyalty programs, yet only a rare few are faithful or devoted to any brand. A glance at the loyalty-building approaches of many companies across a wide range of industries shows programs designed to elicit Pavlovian behavioral responses rather than to develop enduring emotional bonds with customers. Many are merely “me-too” offers of commoditized rewards for repeat purchases, more aptly named frequency programs than loyalty programs. Many businesses fail to utilize valuable consumer data collected at enrollment and point of purchase to differentiate their loyalty programs across customer segments. Little or no priority has been placed on delivering customized rewards or personalized experiences to connect with high-value customers. Employees treat customers as interchangeable commodities—faceless key fobs or bar-code numbers. While these programs may have some impact on purchasing behavior, they do little to build enduring emotional connections and positive brand attitudes among customers.

Consider, in contrast, the power that a brand can derive from a consumer base that feels an emotional commitment to that brand. This power can take many forms: less price sensitivity, a lower rate of switching to competing brands, or a cadre of enthusiastic brand advocates. Brand loyalty in this sense affords staying power in tough economic times and promotes growth during an up market.

Take this real-world example of brand loyalty - Sunset Foods, a family-owned food retailer located on the North Shore of Chicago. Since 1937, Sunset Foods (Sunset) has cultivated a customer base of multi-generational families without a formal loyalty program, even as other mom-and-pop grocers were shuttered by industry consolidation. Sunset uses a high-touch customer experience characterized by both subtle and not-so-subtle features. No memberships are required; no points for purchases are issued. Rather, each customer is greeted and given a shopping cart upon entering the store. Fresh, hot samples are skillfully prepared and offered to customers who can taste an assortment of dinner entrees being promoted that day. High-quality meats and fish are cut to size and seasoned with a rub or glaze upon request. The



According to "The 2011 COLLOQUY Loyalty Census," in 2010, U.S. loyalty program enrollment reached an all-time high of 2.09 billion memberships, up 16.3 percent from 2008, with the average U.S. household enrolled in over 18 different loyalty programs. Yet 1.13 billion, or 54 percent, of these loyalty memberships are inactive.

store carries multiple national brands as well as exclusive items, many of which are sourced from local restaurants or small businesses. Supporting local purveyors is core to Sunset's mission to support the local community, which helps the company generate goodwill and positive word of mouth.

Integral to Sunset's customer experience is its three-employee check-out process. The first employee empties the customer's shopping cart, the second rings up each item, and the third places items into a bag—paper or plastic, a personal choice made by each customer. Finally, after check-out, the customer is given a numbered card and proceeds to his or her car. In the loading lane, the customer hands the card to a loader who proceeds to place the bags into the trunk—all with a smile and with no tips allowed.²

Given issues of scale and cost structure, Sunset's high-touch approach is not practical for every business. However, Sunset's example illustrates the power and value of true customer loyalty. Over the years, Sunset seems to have prioritized what customers value above all else, and in doing so, has cultivated brand loyalty so emotionally charged and ingrained that it transcends generations.³ Brand loyalty such as this is rare and not easy to build, but it is well worth the effort.

While loyalty programs can be useful in building emotional commitment by encouraging consumers to adopt particular behaviors and attitudes, it is equally important for companies to hard-wire the pursuit of such commitment into their operations. Each customer touch point, if managed well, can be an opportunity to cultivate an emotional connection with the brand. Over time, the cumulative impact of these commitment-building interactions can create such an enduring sense of loyalty that points, price, and substitutes become less meaningful to consumers.

Research focus: Loyalty programs in the hospitality industry

Given these issues, we sought to understand the effectiveness of loyalty programs in the hotel industry. Our research draws on a broad portfolio of primary and secondary sources. We fielded two focus groups with eight participants each and conducted a proprietary survey of 4,000 travelers. We also conducted literature reviews, examined case studies of other consumer-based industries, and interviewed Deloitte professionals who serve hotel clients.

The results support our premise that loyalty programs do not prevent brand switching or build brand affinity. Hotel loyalty members show remarkably low affinity for their preferred brand. Furthermore, hotel loyalty members switch between brands and spend as much as 50 percent of their wallet with non-preferred brands. Of the hotel loyalty program members surveyed, 43 percent disagreed or strongly disagreed with this statement: "I will not switch to a competing brand that announces a better loyalty program."

Many report their intention to join even without a better offer, 45 percent disagreed or strongly disagreed with this statement: "I will not join another loyalty program because I want to focus on accumulating rewards [with my preferred brand]."

We analyzed the survey responses both in aggregate and within four discrete customer segments. This segmentation provided far greater insight regarding how these behaviors and attitudes differed between travelers.

Hotel loyalty members switch between brands and spend as much as 50% of their wallet with non-preferred brands.

Meet the travelers – Customer segmentation parameters

Participants in our survey were active travelers, having stayed at a hotel in the past 12 months. We identified the following customer segments from this group.

- **Proficient traveler:** Gen X and early Baby Boomers (33 to 60 years old); time pressed; household income more than \$100,000; travels 50,000+ miles/year - (sample size: 136)
- **Moderate traveler:** Gen X and early Baby Boomers (33 to 60 years old); patient; mixed-purpose traveler (both business and leisure); household income of \$50,000 to \$100,000; travels up to 50,000 miles/year - (sample size: 187)
- **Mature Leisure traveler:** "Go with the flow," pressure-free baby boomers and seniors; leisure-only travel; household income of up to \$100,000 - (sample size: 376)
- **Newbie traveler:** Millennial (18 to 32 years old); tuned in to social media; experience-driven traveler; social and tech savvy, any income level - (sample size: 194)

At times, we also discuss findings based only on frequency of travel, without regard to demographics. These travelers are referred to as high frequency travelers, individuals who log more than 50,000 miles of travel annually.



Considerations for restoring loyalty

It doesn't have to be this way. True loyalty can be deliberately sought and engendered. We believe a truly loyal consumer base—with a brand affinity so strong that substitutes become meaningless—can be built through differentiated approaches.

Companies that harness the power afforded by truly loyal customers can alter the status quo. The data, technologies, and skillsets exist to drive meaningful improvements. Our approach to loyalty restoration integrates these assets to give hotel executives a powerful competitive differentiator: a 360° view of loyalty. When loyalty is viewed from a full-circle standpoint, companies can think about building it in the same way that construction workers build a home. Just as a blueprint defines the type of home to be built,

Defining customer loyalty

Customer loyalty is defined as a feeling of attachment or affection for a company's products, services, and people. These feelings manifest themselves in many forms of customer behavior. The ultimate measure of loyalty, of course, is share of purchases in the category.

Jones & Sasser 1995

Loyalty is a long-term commitment to repurchase involving both repeated patronage and favorable attitude. **Dick & Basu 1994; Stank et al. 1999**

In a business context, loyalty can be defined as a customer's commitment to do business with a particular organization, purchasing their goods and services repeatedly, and recommending the services and products to other people. **Mallory & Barnett 2000**

Loyalty truly exists when the customer resists pressures to switch to another brand. **Nguyen & Leblanc 2001**

Service providers desire customer loyalty, because a customer that has an "attitudinal and behavioral commitment" to a service business may repurchase even if they are dissatisfied with the last experience. **Weiner 2000**

executives can create a blueprint for the kind of loyalty they want to create. Executing the blueprint, in each case, requires a well-defined process: a series of steps in which each step adds a critical component to the structure. And when effectively followed, the process yields a result—a house or a feeling of loyalty—that matches the original blueprint and is built upon an enduring foundation.

Our considerations for restoring loyalty among hotel industry consumers include the following four steps.



Step 1 – Redefine loyalty: Any hotel that endeavors to restore customer loyalty should secure organization-wide understanding and agreement as to the specific customer behaviors and attitudes that are to be considered characteristic of a loyal customer. Any such determination should be made after considering the tradeoffs inherent in different forms of loyalty.

Clearly defined loyalty is easy to measure. When emotional loyalty exists possible metrics could include customer referrals, social media reviews, or constructive customer feedback forms. In contrast, a transactional relationship could be measured by repeat purchase without any consideration for frequency or share of wallet.



Step 2 – Refocus on priority customers: Loyalty membership databases are overflowing with information about customer demographics, travel preferences, and profitability. Mining this data will likely produce a rich understanding of discrete customer segments with distinct service preferences. These data-driven insights can be used to determine which customers' brand loyalty is critical to build and maintain.



Step 3 – Reinvent programs and experiences: It takes a comprehensive, coordinated process to build



Steps for restoring loyalty



Step 1: Redefine

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