

# What Makes a Worthwhile Hotel Loyalty Program?

## An analysis of Hilton customer loyalty program

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### ABSTRACT

Customer loyalty programs are becoming more and more prevalent across industries. The main goal of this paper is to discuss five key features loyalty programs in hotel industry should possess to be outstanding and analyse the case of Hilton HHonors program with the five features to evaluate their practical use. Overall, Hilton has been effective in increasing customer satisfaction, improving brand revenue and limiting the loss of customers by adopting the Hilton HHonors program. However, some flaws in Hilton's loyalty programs are also revealed under the in-depth case analysis. Therefore, suggestions indicating frequent evaluations and monitoring of the existing loyalty programs are then proposed.

**Keywords:** *Hilton, HHonor programs, five features, loyalty, profit.*

## 1. INTRODUCTION

Among strategies companies rely on to survive, customer loyalty programs have emerged as very popular ones. According to Merriman [21], 70 percent of current consumers are involved in various loyalty programs sponsored by different organizations. During the last decade, companies across diverse industries have widely applied loyalty programs to increase customer retention [22] and companies' profitability [23]. Under such a market environment and increasingly fierce competition, hotels are also implementing loyalty programs. Nevertheless, opinions are divided as to whether loyalty programs work. Some theoretical and empirical research supports the view that loyalty programs produce positive outcomes [24], while others note that companies lose credibility by overemphasizing on loyalty programs [25]. According to Nunes and Drèze [19], effective loyalty programs need to accomplish five primary objectives, and different strategies may be adopted to achieve different goals. In this paper, Hilton HHonors program will be specifically focused in that the way Hilton establishes its loyalty program fits well with Nunes and Drèze's proposed objectives. Therefore, by using Nunes and Drèze's research as the theoretical framework, this paper will first identify five key features loyalty programs in hotel industry should possess to stand out, before evaluating

the corresponding elements of Hilton HHonors program and giving suggestions.

## 2. CUSTOMER LOYALTY PROGRAMS AND THEIR OBJECTIVES

Improving relationships with the most loyal customers may be significant. Sasser, Schlesinger and Heskett [15] argued that it is generally cheaper to maintain the existing customers than to attract new ones. By paying more attention to the existing customers and adopting the frequent flyer program in 1981, American Airlines managed to obtain a competitive advantage and raise its profits [5]. On the heels of American Airlines' success, companies in many other industries have started to apply similar loyalty programs [17]. As pointed out by Kumar and Reinartz [16], loyalty programs reward consumers according to 'their repeat purchases or engagement with the brand'. In general, loyalty programs take various forms, such as reward systems, customized magazines, virtual communities, or consumer clubs [18], and they are applied by different companies to fulfil different purposes.

Right now, almost all hotels set that customer is highest as their target goal and use the loyalty program to create more loyalty customers. In the research report from Kalibri Labs, it found out that

around 40 to 60 percent of hotel room bookings came from those loyalty groups [7]. Therefore, a hotel's ability to retain or even increase the number of loyalty members can be seen as a key element to the long-term growth. From the article written by Nunes and Drèze, it combined all the materials of establishing a perfect loyalty system to a loop. And this loop indicates that loyalty program objectives relate to profit gains, data collections, additional purchase encouragement, increased customer utilization and defection discouragement [19] (Figure 1). As one of the leading multinational hotels, Hilton has been studying and implementing the loyalty program since a long time ago. By studying the reasons for Hilton's success, other hotels can improve their loyalty programs to achieve some beneficial results for them. In the following content, all the content in the loop will be presented in the Hilton's loyalty program to prove that Hilton's program is successful and worth learning from other hotels.



Figure 1 all the materials of establishing a perfect loyalty system to a loop

### 3. MOTIVATE CUSTOMER TO GIVE MORE OF THEIR BUSINESS

A very common phenomenon is that the loyalty program can increase the amount of business purchased by existing customers. While many hotels' loyalty programs can also increase certain purchases, Hilton has done a tremendous job of boosting them. To get a better understanding of Hilton's loyalty program, we had a five-minute Q&A session with a Hilton executive. He pointed out the key of Hilton's success is using its unique tier system. In Hilton, tier system is one of hotel loyalty program that base point system but act like a video game once consumers are compelled to unlock the next reward level. At their core, hotel loyalty programs try to get people to make irrational decisions by taking advantage of greedy minds. Once people know they need only a few more nights or a spa to get that next tier of elite status, people will stay with their preferred brand even though another hotel can bring more convenience or a lower price.

At the same time, all purchases at Hilton are converted into a certain number of membership points

[6]. These points can be exchanged for several additional services, thus disguising the number of activities customers can do at the hotel. A great example is the HHonors Global Shopping Mall, an online "mall" with more than 20,000 products can be purchased with HHonors points. Also, based on this flexibility of the exchange point system and good welfare, Hilton's brand's name built an excellent word of mouth from consumers. And the increasing of customer satisfaction will drive people to buy more products and services and become more loyal to the brand (Figure 2) [9].



Figure 2 customer satisfaction

### 4. ENCOURAGE ADDITIONAL PURCHASE

A perfect hotel's loyalty program should not only pay attention to the physical customers' spending, but also potentially encourage them to have extra paying activities by improving cooperation with other industries. As stated by Berman [20], in order to encourage additional member purchases, building partnership in loyalty programs may help. Meanwhile, Dorotic *et al.* [3] agreed with such viewpoint by indicating the potential sales increase brought by partnerships. The partnership loyalty programs consist of many companies' corporate participation in one program, and customers joining the program can gain rewards from those cooperating [1]. Kumar and Reinartz [16] pointed out that establishing partnerships is conducive to companies on account of the increased appeal to members of loyalty programs by offering added chances of accumulating assets. The Hilton's executive couldn't agree more with these views and theories. He then listed some of Hilton Hotels' actual partners. By cooperating with the airline frequent flyer program for example, Hilton enables its loyalty program members to acquire extra points for both airline and hotel consumptions, which provides a sense of reward to customers [5] and incentivizes further purchases [3].

Additionally, partnership may benefit companies in the form of image alignment [14]. For instance, the positive image of American Airlines may further improve the brand image of Hilton due to their alliance in the same loyalty program [5]. When customers perceive an enhanced value in Hilton, they may be more willing to contribute additional consumptions to Hilton. The benefits stated above could be further substantiated by a middle manager from the Hilton Ningbo branch: "many customers book our hotel rooms at the

same time as they book flights, and the cooperation with airline company actually helps a lot to attract potential customers to Hilton.” However, as Kumar and Reinartz [16] proposed, risks will involve in loyalty programs if companies’ partner with inappropriate or superfluous corporations. Therefore, Hilton should perhaps stay cautious and frequently evaluate the partnership in its loyalty program to make necessary changes and updates

## 5. GATHER DATA

Under today's advanced information technology, a good loyalty program also needs to have sufficient access to a large amount of customer information. In this regard, Hilton Hotels has gone above and beyond.

Most of the customer's spending, including the direct and non-direct increased spending activities previously depicted, generates valuable data for Hilton. Hilton Hotel analyze that information to provide accurate marketing recommendations to customers by using the database, to maintain the relationship with customers and make customers feel valued. Also, improving customer satisfaction. First of all, through the cooperation with airlines mentioned above, Hilton collects customers' purchase records in hotels, and analyzes each customer's purchase preference, to accurately give its advertising promotion content, helping improve customer satisfaction and increase customer participation [6]. Second, Hilton has a leading corporate website to collect customer data on the site. Hilton Hotel subdivides the types of customers by the types of rooms they browse and their previous booking data. In this process, the value of customer relationship is also enhanced through its loyalty program website [6]. Finally, through big data collection and analysis to send specific e-mail to customers to effectively market, and let customers feel satisfied with the service and become more loyal. All in all, a successful employability program is inseparable from the collection of data, which helps its more effective implementation. It can help build a long-term relationship between the hotel and customers, accurately segment the customers' market, and personalize the marketing strategy and content. It can make potential customers more willing to increase consumption and improve customer satisfaction and participation.

## 6. TURN A PROFIT

Honestly, the amount of revenue generated through the loyalty program is a direct indicator of how good or bad the program is. From the previous process, the purpose of loyalty program is to incentivize extra business activities in the future by rewarding every purchase with a point system or a gift card that can be used in the Hilton or other patterners’ brands. These rewards will then suggest customers to return to Hilton

to enjoy more goods or services. The more that loyalty customers benefit, the more Hilton’s business benefits: A win-win for both Hilton and loyalty groups [4].

**Table1:** Hotel chain profit growth rate by year

Hotel company	2009	2010	2011
	in %		
1. Hilton	34.6	35.8	39.2
2. Starwood	31.8	35.4	37.7
3. Marriott	35.0	36.2	35.2
4. Choice	26.8	24.8	26.0
5. Intercontinental	25.8	23.6	25.4
6. Hyatt	17.0	21.3	21.0
7. Wyndham	16.5	14.9	13.5
<b>Total hotel industry</b>	<b>32.7</b>	<b>34.5</b>	<b>34.5</b>

The Hilton hotel loyalty program is gradually increasing each year and the most efficient program than other brands from the data shown above [8]. And according to the research provided by Hall, loyalty program increased customer retention in Hilton by 5 percent, which can boost profits by an impressive 25 to 95 percent [6]. All of these enhancements are a good indication that Hilton's program is excellent.

## 7. DISCOURAGE DEFECTION

The last function of the Loyalty Program is to reduce customer churn. In fact, Many hotels have fallen into a misconception that millions of dollars spent on increasing customers satisfaction and making customers choose the hotel brand faithfully, but only little proportion of attention will be paid in preventing the negative effect cause by defection [10]. Because reducing member attrition is one of loyalty program aims [1], for the exact purpose of evaluating the achievement of hotel loyalty program, discourage defection can be considered as a very important criterion. And the main factors proved to have direct effect on defection are switching cost and affective commitment [10]. The price that customers must give up when they change preferred brand is switching cost. As pointed out by Jones, Mothersbaugh and Beatty [12], the customers will stay with the providers due to the high switching cost. In accordance with Han, Back and Kim [4], switching cost can be divided into tangible cost and intangible cost. Hilton provides certain privileges for different level membership and it will be quicker for higher members to accumulate points and get more services. With the favorable reward system increase the tangible cost [10]. At the mean times, executive said exactly that the loyalty program can greatly enhance customer loyalty. He pointed out that Hilton allows members finance the charity with their points, which make them feel proud as a member of Hilton [5]. And customer who want to leave the program need to consider about the lost since losing the title of membership will increase the intangible cost.

## 8. DEFECTS OF HILTON LOYALTY PROGRAM

Nevertheless, according to Berman [20], although most forms of loyalty programs may succeed in

encouraging excess purchases and increasing customer utilization, not all expected objectives are realized by adopting certain loyalty programs. In spite of the fact that switching cost increase the difficulties of leaving the hotel, it isn't long-term strategy. Emotional commitment is the real trick can keep the customer away from the discounts offered by the competitors [11]. In accordance with Tanford [10], affective commitment which can be stimulated by brand-related attributes heavily, is negatively relate to customers' defection. Although the affective commitment is an important factor to prevent defective activities, Hilton didn't play the cards well. According to Hanover [2], an effective loyalty program only has three tiers, not only control the membership of high tier to have the sense of superiority but also provide the incentive for the lower tier to achieve a higher level. And take a look at Hilton loyalty program which build up four tiers member: Blue, Silver, Gold and Diamond. The advantage for being Blue members is digital check-in or earning points, and those advantages are not enough to turn customers back to Hilton for ten times and upgrade to Silver. "This leaves Blue members feeling unimportant, devalued and affects overall satisfaction and return rate" [5]. In conclusion, Hilton doing well in switching cost but they do need to make an effort on increasing affective commitment.

## 9. CONCLUSION

This paper has reviewed the question: What is the five key features loyalty programs in hotel industry should possess to stand out, and what elements make Hilton's loyalty programs so successful? Through the comparison of theoretical and practical cases, Hilton's loyalty program perfectly matches all the good structures in loop. It also proves that Hilton's programs are effective in increasing customer satisfaction and improving brand revenue. Also, it is effective in limiting the loss of loyalty customers. All these characteristics prove that Hilton's loyalty program can be an effective example to learn by other hotels. However, Hilton's program still has some flaws, and it needs to continue to study and improve its loyalty program. Therefore, other hotels should learn from Hilton's strengths and avoid making the same mistakes as Hilton. Again, thorough qualification determination, careful evaluation and frequent monitoring of loyalty programs are of great importance. [1]

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