

# Hotel Loyalty Programmes: What May and May Not Work

Hotels should consider developing customer loyalty programmes that balance economic and social rewards to establish “sustainable relationships” with their customers, suggest the SHTM’s Associate Professor Jin-Soo Lee, Assistant Professor Nelson Tsang and Assistant Professor Steve Pan. In a recently published study, the researchers explore how customers perceive different types of rewards and how those perceptions influence customer loyalty. Their particular concern lies in how that loyalty is expressed in terms of customer behaviour that supports the company.

## **Customer Loyalty through Relationship Marketing**

According to the researchers, relationship marketing is used by marketing firms to “develop and sustain long-term relationships with valued customers”, and is “prevalent in the hospitality industry”. The popularity of relationship marketing, for both companies and their customers, has led to a proliferation of loyalty and reward programmes designed to reward customers and make them feel “special, important and appreciated”.

The rewards offered by companies might be in the form of economic or social benefits. Hotels, for instance, might offer economic rewards in which, as the researchers put it, “members accumulate points to redeem for a free room, free food and beverage, and discounts”, or social rewards that offer personalised services, preferential treatment and attention.

The researchers explain that economic rewards help to build customer loyalty, especially among new members, by enhancing trust and commitment. Social rewards, in contrast, help firms to build relationships with their customers, because the customers perceive the benefits as rare and exclusive and thus “increase a sense of belonging and emotional attachment”. In retail industries, economic rewards are generally considered to be more effective in boosting customer loyalty because members fear losing the economic benefits.

Nevertheless, the researchers note that the mechanisms by which economic and social rewards affect customer loyalty in the hospitality and service industry are relatively underexplored, and suggest that social benefits may be just as important as economic benefits. This position they base on the concept of “relational worth”.

Relational worth, write the researchers, can be described as the “non-financial, social benefits” that companies accrue from building relationships with their customers, and includes five dimensions – advocacy, immunity, openness, acquiescence and honesty – that indicate, for instance, a customer’s willingness to share positive information about the firm and defend it from criticism, and the extent to which they will remain loyal “despite an appealing offer from competitors or negative publicity about the firm”. Hence, relational value is highly regarded by firms.

## **Effectiveness of Loyalty Programmes Considered**

The researchers conducted an online survey with 334 participants, almost evenly split between men and women. To take part, the participants had to be members of hotel reward programmes and to have stayed at the related hotels at least once in the past year. They subscribed to various loyalty programmes, such those of the Hilton and Marriott hotel groups, and their monthly incomes ranged from less than US\$2,000 to more than US\$8,000.

The participants were presented with one of two scenarios describing a hotel reward programme. The “social reward” scenario offered what the researchers describe as “preferential benefits” including “personal recognition and extra attention” and a member-exclusive personal lounge, health club, concierge services and invitations to special events. The programme did not include financial or economic incentives. In contrast, the “economic reward” scenario offered financial incentives such as reward points that could be redeemed for a free night, spa and massage services or a room upgrade, but offered no social rewards.

After reading the scenario, the participants indicated their hypothetical loyalty to the programme, their perceptions of its social and economic rewards, the hotel’s “relationship marketing investment” (how much effort they thought the hotel put into building a relationship with them) and the five dimensions of relational worth.

## **Continuance and Affective Commitment Promoted**

Those participants who read the social rewards scenario perceived the hotel's marketing investment to be more associated with the provision of social rather than economic rewards, whereas the opposite was true for those who read the economic rewards scenario. The researchers found that offering economic incentives promoted greater "continuance commitment", whereby customers want to maintain their relationship with the programme so that they can continue receiving rewards. Social rewards, in contrast, promoted "affective commitment", whereby customers want to maintain their relationship with the company because they are anxious about losing the "relational investment".

An important difference between the two types of commitment is that continuance commitment is directed towards the programme rather than the company, whereas affective commitment is directed towards the company itself. Hence, when the researchers looked at whether the two groups differed in terms of their relational worth – that is, how likely they were to behave in ways that would benefit the hotel – they found that those in the social rewards group were more likely to indicate, for instance, that they would "actively defend and recommend" the hotel (the advocacy dimension of relational worth), that they would be strongly resistant to "switching to hotels that offer better deals" (immunity) and willing to "make suggestions for improvement" (openness).

The researchers suggest that these findings demonstrate that providing social rewards increases customers' emotional attachment and affective commitment to a company, and

hence they are more likely to behave in ways that are beneficial to it.

## **Economic and Social Benefits Should be Balanced**

What the researchers call the "distinct natures" of social and economic rewards offer some insights into how hotels can attract customers and maintain their long-term loyalty. They explain that although economic reward programmes are attractive to customers and promote loyalty, they tend to offer "similar economic benefits in competing with one another" and these benefits are easily replicated by other companies. Hence, loyalty to a reward programme "does not always translate into company loyalty" and economic benefits alone are not sufficient to prevent customers from switching to other programmes.

Social benefits, in contrast, generate more loyalty from customers, who tend to be "intrinsically motivated to stay with a hotel" because the personal service they receive helps them to become emotionally attached and committed to it, and thus provide greater relational worth.

The best compromise, then, is to offer a loyalty programme that balances economic and social benefits. As offering economic benefits is costly, the researchers suggest that hotels should consider only offering sufficient financial incentives to "merely meet and not greatly exceed" members' expectations. However, they should also offer social rewards with more customised offerings that instil a sense of "belonging and emotional attachment" in customers.

The researchers provide an example of how the JW Marriot Phuket,

in collaboration with the Phuket Marine Biology Centre, offers Marriot Reward members the opportunity to participate in releasing baby turtles into the sea. This is such a "rewarding and memorable experience", especially for children, that members are reluctant to switch to another hotel offering "equal or better financial incentives".

## **Looking to the Future**

Overall, the researchers show that money is not necessarily everything when it comes to keeping customers. However, they also acknowledge that there is still much work to be done in understanding how customers respond to the loyalty programmes offered by hotels. For instance, it is still not clear how "different tiered memberships" affect customer loyalty and relational worth, and whether loyalty programmes also prompt customers "to forgive service providers" when they experience service failures. These, they suggest, would be fruitful topics for future research.

### **POINTS TO NOTE**

- Hotel loyalty programmes are effective in promoting customer loyalty.
- Financial incentives promote loyalty to the programme but not the company.
- Social incentives promote loyalty to the company and can provide greater relational worth for hotels.
- Loyalty programmes that balance the two types of incentives are likely to be most effective.

Lee, Jin-Soo, Tsang, Nelson and Pan, Steve. (2015) "Examining the differential effects of social and economic rewards in a hotel loyalty program". *International Journal of Hospitality Management*, Vol. 49, pp. 17-27.