Use of Data to Design and Operate Hotel Loyalty and Marketing Programs

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DS 780: Data Science and Strategic Decision Making

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Mar. 29, 2020

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Hotel Loyalty Programs (LPs) first began in the early 1980s following in the footsteps of recently deregulated airlines who were seeking ways to differentiate themselves from their competitors (Watkins, 2013). Initially, hotel LPs offered rewards in the form of free flights, but quickly transitioned to offering free hotel nights and other hotel perks (Watkins, 2013). The purpose of hotel LPs are to foster repeat business through rewarding frequent customers (Lo, Im, Chen, & Qu, 2017). Benefits to hotels from LPs include customers who will buy more from the hotel chain while paying premium prices and referring new customers. One study shows that LP members are willing to spend an average of $27 more per stay for business travel and $23 for leisure travel at their preferred hotel brand (Bothun, Kennedy, & Lieberman, 2016).

The competitive environment for hotels has changed significantly since LPs were first introduced. Traditionally, hotel reservations were primarily booked either directly with the hotel (in-person or over the phone), or through a travel agent. Beginning in the mid-1990s, and enabled by the Internet, Online Travel Agencies (OTAs) entered the market (Webb, 2016). Microsoft launched Expedia in the United States in 1996 and Priceline followed in Europe the next year. These services allowed travelers to compare options and make their own reservations without travel agents. This represented a double-edged sword for hotels. A positive effect of OTAs was that hotels could make excess inventory available through OTAs to increase their occupancy rate. The downside introduced by OTAs was a deal-seeking culture that allows travelers to make reservations closer to their travel dates, lowering prices and disturbing formerly stable revenue management processes (Webb, 2016).

The rise of the sharing economy has more recently created additional competition for hotels. Specifically, companies entering the short-term home renting market such as Airbnb in

2008, HomeAway in 2006, and FlipKey in 2007. A study focused on lodging in Texas found that Airbnb has a negative impact to hotel room revenue, while Airbnb enjoys an almost zero marginal cost to add or remove rooms from supply (ZERVAS, PROSERPIO, & BYERS, 2017).

The effects of these market changes have increased the need for the hotel industry to strengthen their LPs as a competitive advantage to encourage repeat customers and create loyalty to their brand. This paper will look at how hotels can use data to achieve those goals.

Tailored Service Offerings

One of the best ways that hotels can use data to operate their loyalty program is to personalize offers to their LP members based on the members' interests. The data used to personalize services and offers can come from both directly collecting the data or extrapolating it from recorded behavior (Piccoli, Lui, & Grün, 2017). Some examples of how hotel directly collect general customer preferences include user profile where LP members select if they prefer high or low floors, close-to or away-from elevators, bed types (e.g. king vs. two doubles), arrival amenities like bottles of water or snacks, and choices between earning bonus points or a free breakfast each morning. Members of the LP can also specify their reservation-level preferences if they are different than their general preferences or indicate a special request for that particular stay. Examples could include a late check-in or check-out, celebrating a special occasion, or use of an upgrade certificate.

Many hotel chains will send reminder emails prior to the beginning of a reservation to remind their LP members that they can add and revise their preference related to that reservation via the hotel chain's website or mobile application. One study showed that when customers who experienced service personalization via email reminders or the LP website/mobile application there was a 61% higher chance that the customer would book again directly through the hotel vs.

those customers who did not on their first visit (Piccoli, Lui, & Grün, 2017). The same study showed that customers who had booked their first stay through an OTA and then selected at least one service personalization option were 23% more likely to book directly through the hotel's website for a second reservation. Direct booking is much more preferable since no fees would be paid to an OTA for being an intermediary. If a hotel chain is not currently reminding their LP members of the option to customize their service preferences, they should begin doing so to reap the benefits. Non-LP reservation holders should also be notified of the option to customize their service preferences by signing up with the LP.

Social Media Integration and Engagement

Hotels can mine LP members' social media profiles for the likes, dislikes, and preferences while traveling for business and leisure. Many large hotel chains such as Marriott and Hilton offer bonus points for each social media account linked to your LP profile. Knowing the link between your LP members and their social media accounts enables hotel chains to crowdsource feedback and preferences (Jennings, Giorgio, Murali, & Goggin, 2014).

Social media is a rich area for hotels to engage their LP members. Marriott International created a command center, dubbed M Live, at its Bethesda, MD headquarters to perform real-time social interaction with their guests (Samuely, 2016). One of the technologies used by M Live is geo-fencing, which tracks guests within virtual boundaries around all of Marriott's properties worldwide, and taps into their public social media postings on platforms such as Instagram and Twitter (Josephs, 2017). According to the same article, the idea of M Live is to spark memorable moments by interacting with Marriott guests. One example included seeing guests posting of their engagement at Marriott's Gaylord Opryland Hotel in Nashville, TN. Marriott's M Live team sent a congratulatory bottle of champagne to the guests' room. The

guests posted about the surprise on social media with a thank you to Marriott, giving the hotel chain a positive interaction with those specific guests and turning the guests into unofficial brand ambassadors for Marriott.

Unique Experiences and Rewards

Hotels are now using their LP member data to offer unique experiences tailored to their guests' interests. This can provide several benefits for a hotel chain. The first is LP members can be encouraged to book a stay that meets certain criteria (within certain dates, at certain locations, etc.) in order to qualify for the reward. Unique experiences can be a competitive advantage against other hotel chains and sharing economy companies like Airbnb. LP members who take advantage of unique rewards are also likely to act as brand ambassadors by posting pictures of themselves enjoying the experience while mentioning the hotel chain.

Some examples of unique experiences that hotels have done in the past include Best Western's promotion where the grand prize was an exclusive Disney experience in Los Angeles to meet the star of the movie, *Zapped* (Nastasoiu & Vandenbosch, 2019). Kimpton Hotels tries to learn as much as possible about its Kimpton Karma LP members. Using that knowledge they then offer customers customized amenities like a cocktail stations with their favorite beverages or a sports-themed treats with their hometown teams as inspiration (Nastasoiu & Vandenbosch, 2019).

Conclusion

Hotel chains must continue to innovate and strengthen their loyalty and marketing programs as they face new competitors and an evolving competitive market. The lodging industry is faced with low switching costs when it comes to brand loyalty (Nastasoiu & Vandenbosch, 2019). On top of that they are up against deal-seeking consumers and sharing

economy competitors that can flood a market with almost no capital needed, driving down costs. Hotels have been using data gathered about members of their loyalty programs to differentiate themselves and create repeating customers. Successful strategies have included tailoring service offerings to guests' preferences, engaging with guests in innovative ways to turn them into brand ambassadors, and offering unique rewards and experiences. As hotel chains continue to gather more and more data over time, they must explore additional ways to maintain and build loyalty by meeting the changing needs of their customers.

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