



Loyalty: Cutting through Clutter in the Age of Experience

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A white paper in conjunction with

EyeforTravel North America 2019

October 28 - 29 | Hyatt Regency Chicago | Chicago, IL



Building a loyal customer base is a big issue in travel and hospitality. With insights from Wyndham Hotels & Resorts, Hilton, Cornell Center for Hospitality Research, JetBlue Technology Ventures, Mozio, CWT and many more, this white paper considers how a paradigm shift, driven by technology, and with lessons from the airlines, is prompting a rethink about the way brands view loyalty in the world of hotels.

5 Takeaways

- Brands must address loyalty throughout the customer journey, by building partnerships with all kinds of businesses to offer quicker gratification with smaller rewards.
- Hotels could better reward and incentivize loyalty through attribute-based booking and unbundling services, as the airlines have done.
- This could be the era for independent and small to medium chains, and it won't have to cost them the earth: with no legacy software, they can easily adopt start-up offerings.
- Reward points are not dead, but brands must go much further to offer an element of surprise, such as allowing hotel loyalty points to be redeemed for gas and shopping.
- Blockchain is still a nascent technology and could transform loyalty but the already competitive loyalty programs may resist it.

Every travel company wants a satisfied, loyal and returning customer. Faced, however, with growing choice about who to fly with, drive with, stay with and play with, today's fickle and increasingly brand agnostic traveler is ever harder to please. The dilemma is two-fold: firstly, how to keep existing customers loyal, and secondly, how to acquire and retain new customers.



It is about the strength of brand, and for any brand it is about the experience.

Eliot Hamlich, SVP Worldwide Loyalty & Partnerships
Wyndham Hotels & Resorts

What is clear, though, is that having a great loyalty program is not enough. Eliot Hamlich, SVP Worldwide Loyalty & Partnerships at Wyndham Hotels & Resorts, sums it up like this: "It is great to have a loyalty program that members find compelling and valuable. But if the experience is poor, you can have the best loyalty program in the world but it won't make a difference. It is about the strength of brand, and for any brand it is about the experience."

In the hospitality arena, the 'experience' is what has helped propel Airbnb from a small start-up in 2008 to a company on the verge of going public in 2018, with an estimated value of \$30-billion. But that growth has come at a price, and not everybody has welcomed the rise of so-called 'alternative lodgings'. Critics say they have put pressure on cities, forcing up rents, exacerbating homelessness and destroying neighborhoods. Meanwhile hotels, whether they are big, medium or small chains, independents or mom and pop outfits, have faced intensifying pressure on margins thanks to this competitor with a seemingly unlimited supply of rooms.

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From city pads to boats, tree houses and even igloos, both leisure and business travelers are constantly on the hunt for unique experiences, and it’s not just the likes of Airbnb and Expedia’s HomeAway that are posing a threat, either. Even Booking.com, a firm most recognized for its stranglehold on hotel distribution, has recently come clean on its stake in alternative lodgings. Having never before disclosed the scale of its homes and apartments business, the world’s biggest online travel agent (OTA) recently announced that since 2007, 750 million of its 3-billion bookings were for alternative accommodation – in other words, a quarter. And, in the past 12 months, around 40% of active customers have booked an alternative accommodation property.

In the fast-growing business travel arena, forecast to be worth \$1.7-trillion by 2022, people are also expecting more while on the road, and that includes where they stay. Recognizing that nothing lasts forever, Airbnb recently spent \$160-million acquiring the luxury apartment rental firm Lyric, which is targeting the ‘modern business traveler’. This is proof of the evolving landscape, and there are countless others shaking up the business travel scene. As Utpal Kaul, Global Head, New Product Innovation, CWT, says, thinking of the business traveler: “It’s increasingly becoming more plausible for people to stay at an Airbnb than a hotel.”



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Utpal Kaul, Global Head, New Product Innovation, CWT

It doesn’t end here. Today, as issues like sustainability become more of an imperative for governments and consumers, firms like Fairbnb are gaining global publicity. This co-operative ‘seeking to create a just alternative to existing home-sharing platforms’, is set to launch in five European cities. Although it has yet to prove if customers will potentially pay more for feeling good about their tourism, its 15% commission will go towards aiding local development projects. But McGill University professor David Wachsmuth, who has studied Airbnb intensively, believes more ethical alternatives will only work if city regulators enforce limits and stop Airbnb operators with multiple rentals from slashing prices and undercutting the do-better rivals¹.

All this has raised the question: who needs a bland, boring, big, box hotel? Well maybe nobody does, and in response to growing competition, Marriott very recently announced the launch of an online rental platform for luxury homes! But not all hotels believe this is the way to go. In a first quarter earnings call, Hilton President and CEO Chris Nassetta responded to Marriott’s move saying²: “The short answer is at the moment, that’s not something that we’re pursuing... The longer answer is...that we fundamentally think that home-sharing is a different business.”

Instead, Hilton has been going after the younger customer, adding trendy brands like Tru by Hilton and Motto by Hilton.

Journey to experience

Needless to say, the chains that are big household names have all been evolving their powerful rewards programs to become more effective. Wyndham Hotels & Resorts, which has one of the world’s largest hospitality loyalty programs, is one.

Back in 2015, the group ambitiously re-launched its Wyndham Rewards with the aim of keeping things simple, offering a flat free-night redemption rate. In essence, no matter which hotel a guest chose to redeem points at – be it at a

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300-room upscale resort in the Caribbean or a budget-minded roadside hotel – a free night would cost the same at every location: just 15,000 points. While this worked in generating new signups, increased engagement, and the program was named the most rewarding in 2017, critics have argued that it worked for loyal members, but it didn't work for all hotels; guests were choosing to spend their free night points in high-end properties like Wyndham Grand Hotel, leaving rooms empty at the lower end of Wyndham's offering.

Hamlisch sees it a little differently: "Our research continues to show that members value a free night more than any other reward. At the same time, however, we have come to appreciate over time that not all members stay with us enough to be able to achieve that award in a reasonable amount of time. So as we have gone through a program evolution we have focused, and premised the new contract on being more rewarding to our core members, who we call the 'everyday traveler'."

Partnership power

'Simplicity and generosity' have been put at the heart of the Wyndham program, and building partnerships has been central to this.

Wyndham already has a number of partnerships outside hospitality, where members can earn and redeem points. Among these are agreements with:

- DoorDash, an on demand food delivery service in the US that is growing very rapidly abroad. With DoorDash, Wyndham Rewards members can earn 250 points for each food delivery. In addition, members will also be able to get the food delivered free of charge when staying at a Wyndham property.
- Marathon Gas Stations – Wyndham's research has shown road trippers, road warriors or consultants on the road for a number of days a week fork out a substantial amount on gas. The opportunity to earn Wyndham Reward points when they fill up at the pump was a critical part of the value proposition.
- Viator – Wyndham members can now earn and redeem points for more than 100,000 tours and activities around the globe.
- Collinson - Focusing on delivering a valuable experience, Wyndham members can now earn points whenever they shop online at more than a thousand online retailers.

Of course, Wyndham is not alone in working to make its loyalty program more meaningful. In 2017, Marriott International began to overhaul its Rewards program. Today, Marriott Bonvoy is a far-reaching and well-known loyalty program that uses personalization to attract consumers, delivers better value and even lowers costs through improved inventory planning.

Flexibility was key, and the move meant that travelers could redeem points for partial room payments and e-commerce purchases. And, in what was said to be a first for a domestic loyalty program, family points could even be pooled into family accounts.

Whatever the loyalty offering, brands increasingly understand that the 'experience' must stack up – both what happens at the property and online. Jörg Esser, a former group director at Thomas Cook and now a partner at the German consultancy Roland Berger, says that in order to stay relevant it is imperative that companies shift focus towards much stronger partnerships at every touch point along the customer journey.

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This was one of the drivers behind the JetBlue Technology Ventures (JTV) \$2.25-million investment in Miles, a mobility-based platform which is similar to a frequent flyer program but for all forms of transport. "With Miles, no matter how you travel – by foot, bike, car, plane, or boat – you can earn rewards in a simple and unobtrusive way," says Bonny Simi, President of JTV (the investment arm of the US-based low cost airline JetBlue). Miles can then be redeemed from retailers such as Amazon, Starbucks, Target, Whole Foods, Bath & Body Works, Canon, Cole Haan, HelloFresh, NatureBox, and many more.

Simi puts it simply: "The wide variety of rewards coupled with the novel approach to earning them puts Miles in a position to revamp customer loyalty and develop more meaningful engagement between companies and consumers."

Addressing the pain points

In travel, there is a growing recognition that companies need to expand their loyalty offering to enable guests to earn and redeem points in multiple ways. Chris Anderson, a professor and director at Cornell Center for Hospitality Research, believes in the future we can expect to see a lot more of this.

But is a points-based system going far enough?

Speaking about hospitality specifically, Anderson thinks not. "I think the attention span of people, especially younger generations, makes a points-based system a little too intermediate. People would rather have quicker gratification with smaller incremental value [such as food & beverage or another offer] than have to wait for the big-ticket items [like a free room night]. We are going to see a lot more of that."



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Chris Anderson, Professor and Director, Cornell Center for Hospitality Research

This is not to say, however, that points are dead. For the frequent business traveler who is still accumulating lots of points and miles, Anderson believes that a points-based system remains very attractive.

Business travel behaviour is changing, and is becoming more 'consumerized'³, something that CWT is trying to address. Kaul explains: "With so much information at everybody's fingertips, traditional brand loyalty just doesn't exist in the same way any more and I don't have a good answer to this fundamental shift in user behavior. So, the question is: how do you now create those hooks that will bring people back to your brand?"

How indeed do you hook the 21st century customer? A recent report commissioned by Amadeus and IHG and titled *Drivers of Change in Hospitality*⁴ argues for the 'beginning of the end for room types' and a shift towards unbundling services and attribute-based booking, following the example of low-cost airlines. Cornell's Anderson, who contributed to the report, told EyeforTravel that this presents a real opportunity. "Yes, there is some post-confirmation upgrading and unbundling that has been going on for a long time largely facilitated by Nor1 [an upselling platform]. But at the point of transaction there is very little unbundling that is happening in lodging, and nobody is doing it well"

So, while airline customers have become accustomed to paying for what used to be free, lodging has typically done the opposite. "We have in a way reverse unbundled. You used to pay for Wifi or breakfast: now it's free, and so on," he says.

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Commenting on the shift outlined in the IHG-Amadeus report, which calls for the beginning of the end for room types, he continues: "Part of this process is trying to undo all that and go back to giving people the option to purchase only what they need and then adding value by bundling other aspects of the room and the service. Where that really comes into play in loyalty is that as you start to sell the bass-line product through an attribute-based model, then you can reward and incentivize loyalty through adding on attributes and services and providing a lot of those as perks to loyal members."

Selling in such a way will go some way to converting the "mercenary leisure traveler" in the direct channel. As it stands, in many cases, all hotels have left to offer loyal members are room upgrades, and these depend on a lot of other factors including availability. "The move could allow hotels to sell in a much more refined way, incrementally showing the value of loyalty by rolling back different products and attributes," Anderson adds. These perks could include anything from functional items like cots, softer pillows, or different bed types to smart technology like voice-based assistants.



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Anderson

According to Kaul, room sharing in a 24-hour period could also be a fresh revenue generating opportunity, especially in hotels geared towards business travelers.

Anderson, who cites the success of the low-cost carriers like Ryanair and Southwest Airlines as proof, maintains that for the majority of people, price is still a major driver. However, the reality is that when you add back the ancillaries, these airlines are often no cheaper than legacy carriers.

While the OTAs will no doubt follow suit with attribute-based booking, Anderson argues that this "will be a bit down the road at the property level"

So, time is of the essence. The good news for hotels - perhaps less so for the environment - is that there is no shortage of demand. More people than ever are traveling and they are doing so more frequently. In 2018, according to the World Tourism Organization, tourism arrivals grew by 6%. A survey from STR, the hotel market data and benchmarking firm, found that 38% of those travelers visited multiple destinations, 29% took more than three international holidays a year, and even so-called infrequent voyagers typically travelled at least once.

Artificial Intelligence: all hyped up?

In a bid to convert loyal customers faster and acquire new ones, travel brands are looking to technology. A lot has been said about how artificial intelligence (AI) can help to deliver personalized offers, but this still has a way to go. Hamlich says: "Personalization is a buzzword in our industry and like many others we are very focused on delivering a personalized experience for our members. However, for us it really is an omnichannel focus – that is, everything from making sure our members have a personalized experience when they sign into their member account, through to the booking process, personalized pre- and post-stay emails, and in asking our members which their channels of preference are."

In 2019, a major focus for Wyndham is the increasing use of SMS and text messaging as well as understanding member preferences around social platforms like Facebook and Instagram.

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Frequently in hospitality, however, ‘AI’ use cases have centered on creating chatbots to tackle mundane tasks – so, not really AI at all. For example, where people don’t want to hang around waiting on a phone to talk to an agent, chatbots, with the ability to interpret texts and respond accordingly while learning along the way, are proving a valuable addition. But what this really amounts to is natural language processing (NLP) with the ability to process, look for patterns and learn over time. Done well, this machine learning-based service can add value to consumers while reducing demand for call center capacity. It’s also relatively straightforward; using IBM Watson technology, it is possible to quickly and easily create a chatbot.

Outside of this, AI use cases are few and far between for individual hoteliers, although this is changing as the drive continues to develop platforms that are able to learn from customer behavior.

“It is definitely going to come: it is just a matter of trying to find the right use cases,” says Anderson, who believes that AI will play a central role if the shift towards unbundling and attributed-based booking continues. “Hoteliers are definitely going to need a little more help as they strip out and de-bundle the room into a series of different attributes,” he says.



When we talk about technology and artificial intelligence transforming hospitality, and how data and analytics are fueling this change, we never forget that ultimately it will continue to be people who bring it to life

Chris Silcock, Chief Commercial Officer and EVP, Hilton

What customers do not need are a hundred choices, and this is an example of where AI and machine learning (ML) technology can replace traditional approaches. Typically, a robust experimental design, and a whole series of tests with numerous consumers would be needed before having any idea of what four options to show: computers can do this far more quickly and easily. However, it is clear that humans will continue to play a crucial role; as the IHG-Amadeus report reveals, in 2018 nearly two thirds of hotel guests globally (63%) preferred interacting with hotel staff to self-service technology.

Chris Silcock, Chief Commercial Officer and EVP at Hilton, is in agreement: “We are and always will be, a business of people serving people. At our hotels, our team members serve as local experts who know their community and can provide real, everyday connections. But more and more we’re seeing how technology, data and AI can add to our guests’ experiences. But when we talk about technology and artificial intelligence transforming hospitality, and how data and analytics are fueling this change, we never forget that ultimately it will continue to be people who bring it to life.”

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The era of the SMEs and independent hotels

The good news for hotels is that with cloud-based AI and machine learning platforms, the whole dynamics of software development have really changed in the last five years. “Now you can basically get access to really sophisticated algorithms in a cloud-based platform for, well, not zero [cost], but very efficiently,” says Anderson, adding that “with the legacy systems of old it becomes hard and very complicated to manually create a lot of these approaches. But as we get into a more modular world with open APIs it becomes much easier to add things like ML and AI on top of those systems.”

This is exactly what Amadeus Hospitality has been building with IHG, and it is not alone. Competitors include Sabre Hospitality Solutions and Oracle Hospitality, as well as smaller brands like Pegasus, which recently joined with Travel Tripper in a merger backed by Accel-KKR, a leading technology-focused private equity firm.

In the evolving distribution landscape, where Google is now a major player, there is not a lot of choice for hotels, and it is fair to say that vendors have been slow to invest in R&D to build consumer-facing products that drive conversions. However, that is changing as investment flows into the sector.

“The industry is experiencing an influx of money from investors because it is being recognized that hotels are under-utilizing technology in many areas. That is certainly true in our space, which involves anything to do with pricing, reservations and distribution. Customer acquisition in general,” says Gautam Lulla, the CEO of Travel Tripper.

The opportunity is huge and evolving. While the big chains, which are dominant in the US, have long had their own in-house technology, it is estimated that they represent around 20% to 30% of the global hotel market. In Europe, Asia and elsewhere, most hotels fall into the category of small to medium-sized chains, those with around 10 to 150 hotels, and independents. It is these hotels that rely heavily on vendors, and so are driving the current flurry of investment. “But where does the hotel market end? Does it end in a hotel that is 20 rooms? What about those properties that have just five rooms? They are also in the lodging industry,” says Ulla, “and so there is the whole long-tail – nobody knows how big it is.”



Now you can basically get access to really sophisticated algorithms in a cloud-based platform for, well not zero [cost], but very efficiently

Anderson

Unlike in the airline space, technology provision to hotels is traditionally far more fragmented. There is a class of system for one function, and a class of system for another – hence the rise of platforms like 2018 EyeforTravel startup awards winner Apaleo, a property management system (PMS) that plugs into other hotel technology.

The big guys, as Amadeus admits, have also seen the opportunity in the SME and independent space, hence its recent \$1.52 billion acquisition of TravelClick, which has business intelligence and operational services. According to Joe Yousseff, EVP Corporate Development and Marketing at Amadeus, the group has been asking the question: “How can we bring our industrial scale platform learnings, and apply some of them to the smaller central reservation systems (CRS) of the world. We want to be able to address both sections in the market and we have the capabilities that can address both.”

So, it’s game on for the tech vendors, according to Anderson: “I think you see a big paradigm shift happening in the technology space, which is why IHG is partnering with Amadeus.”

IHG has a lot of legacy to overcome, which is why it needs a heavyweight vendor like Amadeus. Small to medium hoteliers, and independents, on the other hand, might look to partner with one of the smaller vendors to tackle the evolving distribution landscape. In this, the ability to plug into a range of different products services will be essential.

“I think we will see this happen quickly and perhaps even quicker among smaller and medium sized firms because they don’t have the legacy issues that the big brands have,” says Anderson.

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Tech investment pays off

Travel companies that are already investing in technology are seeing the benefits. Emre Mangir, President of Mozio Group, the New York-based transportation search engine company, for one, says: "We started investing in technology that enabled our support teams to get information quicker. The result was that we saw customer satisfaction scores increase by 20% in cases where we implemented this technology. The technology allowed the agents to access disparate data through a single interface and then we build it in house."

Disparate data, however, remains a challenge. "The problem is not just data in your own system: it's data in your third-party systems, and this demands links to APIs and collaboration," says CWT's Kaul. "Another challenge that data companies face is data accountability – as in, who owns that data?" Firms need to be sure that they are reaching the right person. "Getting the right people and systems to access the immediate data is not trivial and many companies suffer from that," he says.



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Gautam Lulla, CEO, Travel Tripper

So, perhaps the drive to build a loyal customer base has another element. Keeping existing customers loyal, acquiring and retaining new ones, and hiring getting the right people and software to achieve these goals.

Blockchain: Is there Buy In?

In 2018, when blockchain hype hit the travel industry, loyalty was widely cited as an obvious use case. Blockchain uses cryptography to keep exchanges secure; it provides a decentralized database, or 'digital ledger', of transactions, which everyone on the network is privy to. In essence, the network is a chain of computers that must approve an exchange before it can be verified and recorded⁵.

Early moves came from Loyyal, a start-up which set out to become a single loyalty platform, linking the most popular loyalty programs across industries. Meanwhile, in the airline space, Singapore Airlines was the first to launch a blockchain enabled digital wallet for members of its frequent traveler program KrisFlyer. However, while building an operator-independent loyalty ecosystem is a promising use case for blockchain technology, so far it has failed to gain significant traction with large brands.

Matt Baer is CEO of KeyoCoin, a start-up helping small to medium-sized travel businesses which have historically been largely unable to offer their own loyalty programs because their customers are so transient. "It is this community that has most to gain from the decentralization of rewards programs," he says. While Baer understands the healthy skepticism in the hospitality industry around blockchain, which is still a nascent technology, he is clear about its promise. As just one example, he says "blockchain offers a new paradigm for data ownership, giving consumers the opportunity to share their data with the companies they want to, and get paid when they do"

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Blockchain qualities include:

- The ability to redeem points before they expire and staying on top of multiple programs.
- The possibility for a standard approach for collecting and redeeming rewards across multiple businesses, with points stored in a single wallet. In a study by Nielsen, 79% of customers said that the ability to choose between different types of rewards would be welcomed.
- Millennials are familiar with bitcoin and are therefore more likely to adopt the program.
- Distributed ledgers can help to lower costs.
- Blockchain can mitigate the risk of data leaks or exposure and does not need a trusted intermediary. However, it is not a miracle database technology through which the issues of data protection and privacy are resolved 100%.

Conclusion

Without customers, travel brands do not have a business. So building a loyal customer base, acquiring new customers and keeping them sweet is a business imperative. In a world of endless choice and demanding consumers, brands will have to go much further than ever before to achieve what the Amadeus-IHG report refers to as 'cult status'. Choosing the right people and partners, while choosing appropriate incentives and technology are all in the mix. But most importantly, perhaps, will be the ability to cut through the clutter and simplify the offering in this fragmented \$1.7-trillion industry.

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