What’s Next in Loyalty Programs: Highlights of the 2014 Cornell Loyalty Program Management Roundtable

Michael McCall Ph.D.
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Abstract
Loyalty programs have hit the maturity stage in the hospitality industries,” stated loyalty roundtable chair Michael McCall, as he opened the first session, “and many firms are now struggling to demonstrate the return on the investment in these programs and also to advance them to the next level. The goal of this roundtable is to discuss ways loyalty program executives can continue to extract value for these programs.” Held in Spring 2014 at the School of Hotel Administration at Cornell University, the roundtable brought together leading practitioners and researchers to examine ways to improve loyalty program management.

Keywords
Cornell, hospitality loyalty programs, brand loyalty, program design and management, customer lifetime value, and program relaunch

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Loyalty Program Management Roundtable
by Michael McCall, Ph.D.

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School of Hotel Administration
What’s Next in Loyalty Programs:
Highlights of the 2014 Cornell Loyalty Program Management Roundtable
by Michael McCall

Participants in the first Cornell Loyalty Management Roundtable focused on how to move hospitality loyalty programs off dead center, with a goal of finding ways to make customers truly loyal. With a goal of finding “next practices,” key issues covered by participants included best practices in program design and management, customer lifetime value, and program re-launch. The interaction of social media and loyalty are of particular concern, because those interactions have not yet crystallized, especially with regard to spending behavior. Participants considered that brand loyalty involves more than patronizing a brand, but also promoting and even defending it. Program redevelopment must be based on core marketing tenets, particularly meaningful points of differentiation.
ROUNDTABLE PARTICIPANTS

Chris Brogan, Senior Vice President, Hyatt
Bill Carroll, Senior Lecturer, Cornell University
Stephan Chase, VP Consumer Insights and Analysis, Marriott International
Jonathan Copulsky, National Managing Director, Brand and Eminence, Deloitte LLP
Carolyn Corda, Vice President, Epsilon
Christine Eberle, Managing Director, Accenture Hospitality
Allison Fitzpatrick, Partner, Advertising, Marketing, & Promotions, Davis & Gilbert LLP
Robert Karin, Davis & Gilbert LLP
Jeffrey Low, Founder and CEO, Stash Rewards
Michael McCall, CHR Research Fellow & Editor, Center for Hospitality Research Series, Cornell School of Hotel Administration
Kelly McManus, Director Guest Experience, Hilton Worldwide
Natalie Osborn, Senior Industry Consultant, SAS
Umar Riaz, Managing Director, Accenture Hospitality
Michelle Sarkisian, President, P3 Advisors
Michael Sturman, Professor, Associate Dean for Faculty Development, Academic Director of the Center for Hospitality Research and the Kenneth and Marjorie Blanchard Professor of Human Resources, Cornell School of Hotel Administration
Rohit Verma, Singapore Tourism Board Distinguished Professor in Asian Hospitality Management, Cornell School of Hotel Administration
Clay Voorhees, Associate Professor, Michigan State University
Mark Weinstein, Vice President, Commercial Services Strategy, Loyalty Programs & Strategic Partnerships, Hilton Worldwide
Jeff Zidell, Senior Vice President, Hyatt

ABOUT THE AUTHOR

Michael McCall, Ph.D., is the director of The School of Hospitality Business, and the NAMA Endowed Professor of Hospitality Business in the Eli Broad College of Business at Michigan State University. He earned his Ph.D. from Arizona State University and has held academic positions at Ithaca College and Cornell University. His research focuses on the role of customer reward programs in creating customer loyalty, rebate programs, and emotional intelligence. He currently serves on the editorial boards of Journal of the Academy of Marketing Science, Cornell Hospitality Quarterly, and Journal of Hospitality and Tourism Research. His work has been funded by the National Institutes of Health and the Center for Hospitality Research and has appeared in the Journal of Applied Psychology, Cornell Hospitality Quarterly, Journal of Socio-Economics, and the International Journal of Hospitality Management. At the time of the roundtable, he was CHR Research Fellow & Editor, Center for Hospitality Research Series, at the Cornell School of Hotel Administration, and chair of the business department at Ithaca College.
loyalty programs have hit the maturity stage in the hospitality industries,” stated loyalty roundtable chair Michael McCall, as he opened the first session, “and many firms are now struggling to demonstrate the return on the investment in these programs and also to advance them to the next level. The goal of this roundtable is to discuss ways loyalty program executives can continue to extract value for these programs.” Held in Spring 2014 at the School of Hotel Administration at Cornell University, the roundtable brought together leading practitioners and researchers to examine ways to improve loyalty program management.
What Is Working and What Is Not
Leading the initial session, Umar Ruiz explained that his role as managing director within Accenture’s Travel & Transportation practice has given him insight into the current state of loyalty programs. He addressed such key issues as how to differentiate and expand loyalty programs, gauge the effects of social media on loyalty (or disloyalty), and investigate the effects of personalization on loyalty programs.

Moving loyalty programs forward. Participants ultimately agreed that loyalty programs were not necessarily stalled, but the consensus was certainly that engagement and differentiation should be driving development as companies seek to expand their loyalty programs. Most hospitality sectors have hit a stage of maturity where all firms now offer loyalty programs which are sufficiently similar that consumers would be hard pressed to identify meaningful differences between them. To recapture value from their program, firms must redevelop their programs based on core marketing tenets, including a fresh segmentation of the market and developing meaningful points of differentiation. Undifferentiated programs will continue to underperform.

Evaluating loyalty. Behavior is easily the most valuable metric we use to evaluate loyalty, but understandings of customer behavior can be based on limited information. As marketplaces continue to evolve the challenges arise of tracking behavior connected to social media that move beyond repeat purchase, and tracking engagement with the brand and referral value through traditional and social platforms. Today’s version of loyalty involves more than simple purchase frequency. Instead, loyalty programs must evolve so that they track and reward these other loyal behaviors. Finally, as industries continue to consolidate, firms must synchronize their legacy databases to provide the ability to properly mine and apply historical data across their brand portfolio.

The effect of social media on loyalty. Social sharing has extensive value. As Kelly McManus, director of guest experience for Hilton Worldwide pointed out, social media make us up our game. Social media represent an opportunity, but it must be acted on. The key question to examine regarding use of social media is how to reward social value and create incentives for future loyalty. Low level social efforts (e.g., “liking” a Facebook page, following a twitter account, or even checking in at a hotel) certainly offer some value to a firm. However, the connection between such social media actions and spending behavior has not been firmly established. Until the actual value of these social behaviors is established, incorporating them formally into reward programs will remain problematic.
Personalization conundrum. Personalization is valuable, but a systematic approach to personalization may create unrealistic guest expectations regarding a hotel’s ability to offer a completely personalized experience with every stay. Thus, personalization cannot become the new normal, as it simply is not sustainable from a cost perspective. Expectations for personalized service begin when companies ask consumers for their preferences, potentially creating the expectation that the firms will act on those preferences every time. Thus, hospitality firms must figure out how to manage the preferences customers provide. This emerging expectation creates a tight walk for firms as they must ensure that their operations can handle implementation before they open Pandora’s box and promote individualized attention to their consumers.

Looking Ahead to Next Practices

Despite many years of loyalty programs, the key finding is that forced loyalty—purchases made simply to gain program points—is not loyalty at all. Instead, interactions with guests, including loyalty programs, must foster an emotional connection that can only be built over the course of several years. In that context, hospitality operators must determine which opportunities exist to create true, consistent loyalty. At the moment, the structure of most programs does not foster that kind of long-term relationship.

Potential next practices of loyalty management include:

- Finding ways to create “predictive loyalty,” to ensure future loyalty, since loyalty rewards are now based on past actions;
- Including surprise and delight in loyalty programs, since surprises humanize a program and create a personal connection that ties into the emotional construct of loyalty;
- Expanding into global markets—given that most loyalty programs are based on North American behavior, new programs must meet the needs of customers in emerging markets; and
- Using personalization in a subtle, even random way, to create delight without also creating an unrealistic expectation.

One key question that Cornell clinical professor Bill Carroll raised was that the crucial insight we may be missing about our consumers is not “Where have they been?,” but rather “Where will they go next?” Michele Sarkisian, president of P3 Advisors, pointed out that our main source of data—social demographics—are not necessarily good predictors of behavior. What predicts behavior is customers’ values.

“Next practices” must address the challenge that the industry now faces of encouraging true loyalty. Customers’ answer to the question of “Whom am I loyal to?” is based on a personalized and sincere experience, not on points or miles. Long-term guest value is gradually built over the course of the mid- and short-term. Thus, the industry must make sure to develop programs that create loyalty at every touchpoint.

In the future, each hotel must work to create loyalty on an individual basis. Ultimately, loyalty is more than points or currency; it is an emotional, personal experience. Loyalty helps the industry to maximize value, and it is the most efficient mechanism for marketing. We can create further loyalty by making people feel good, using surprise and delight to create a better experience, and working to create collaborative relationships with our customers that can inform our future practices.

The following three areas comprise next practices for monitoring the effectiveness of reward programs: customer value, optimization, and a broader analysis of costs and benefits.

Customer value. Formally assessing customer value is critical as firms move beyond short-term revenue goals. Advanced ROI models can adopt a long-term perspective and calculate lifetime value using flexible formulas. This is particularly important for evaluating loyalty programs, as many of the benefits of membership may not appear in the short term. If a program can develop a form of commitment that causes consumers to simply resist switching, these benefits will only emerge with a longitudinal approach to value assessment.
Optimization. Once firms establish their programs’ ROI, they need to determine how to optimize that program. To do this, firms must identify opportunities for differentiation as well as conditions under which program effectiveness can be enhanced. This can be as simple as targeting a re-calibrated set of customers, restructuring program tier thresholds, or finding opportunities to reduce costs.

Cost-benefit analysis. With respect to costs, the current narrow consideration of costs and benefits can skew perceptions of program performance. For example, some programs may appear as cost centers within a firm, based on ROI assessments. However, the analysis should also embrace the broader cost savings that may obtain through this program. For example, marketing research costs and direct marketing investments can be reduced. Unless both the strategic importance and cost savings of loyalty programs are considered, the risk is that the program will be under-valued and, as a consequence, under-funded.

Loyalty and Customer Lifetime Value

While we often speak of customer lifetime value, an important facet of how we examine loyalty and the purpose of loyalty, we often forget to take into account the influence an individual has in creating that lifetime value in others. While lifetime value is inherently individual, our experience as humans is not, and each one of our customers has the opportunity to influence the decisions of others as well.

Cornell’s Bill Carroll: Don’t overlook local long-term loyal customers, such as small meeting planners.

Roundtable chair Michael McCall: One strategy is to find ways to develop loyalty that don’t involve discounts—such as value-added services.

Session leader Bill Carroll brought up four key points for discussion:

- One of every six rooms is booked for small meetings. Thus, hotels must find ways to incentivize repeat business from small meeting planners and engender their loyalty;
- Hotels should use the “secrets of surprise” to influence revenue by knowing and understanding customers;
- Hotels may want to move beyond revenue management to total customer value; and
- The industry must determine which is a more valuable metric return on investment (ROI) or return on engagement (ROE).

Looking further at the first point, a key element of our audience that we often overlook or undervalue is the small meeting professional, whose loyalty—on a local level—involves a long-term relationship that relies on the local establishment to create a valuable experience. Thus, hotel operators must determine what makes sense regarding these local relationships, and find ways to reward them for their loyalty in a way that makes sense given ethical and contractual considerations.

Hospitality firms can take small steps to ensure that customers are getting value out of the firms’ loyalty programs.
The value of an airline reward program is more than points; it's a better experience overall. So, the issue becomes how to ensure that better experience every time. For example, Mike McCall pointed out that customers will feel more valued if they are picked up at the airport in a limo and treated like a VIP instead of being given a room discount, even if those two things have the same value.

As is the case with customization, hospitality firms need to connect with their guests as individuals to create engagement and develop community. McCall suggested that firms are undervaluing the opportunities to develop loyalty and need to reevaluate how customers receive value on personal and corporate levels, as well as examine the influence of a loyal customer in the long run.

**Conceptualizing and Measuring Loyalty and Engagement**

Measuring evaluate engagement and attachment is complex, as pointed out by session leader Clay Voorhees, of Michigan State University. Firms separate their consideration of loyalty and rewards, and customers may do the same. This is the reason that it's so difficult for hospitality firms to determine whether customers are attached to us due to rewards earned, whether they're in long-term relationships, or whether they're loyal. To increase loyalty, we must first examine the ways that we measure it.

Creating brand loyalty is difficult; measuring it is even more difficult. Brand loyalty is based on the cumulative effect of multiple good experiences with a certain brand.

However, in the event of bad experiences there is a key point where a customer attributes a lousy time as a characteristic of a brand rather than an exceptional failure. Thus, firms must ensure that daily operations are supporting daily loyalty, making measurement of those interactions essential.

Time elapsed in developing loyalty makes measurement challenging. Loyalty isn't always immediately reflected in profits. A change in loyalty programs can take up to three years to demonstrate ROI. Even more troublesome, an existing program can perform in the green even though it's actually failing because it is not actually driving loyalty.

Loyalty is where the hospitality model of a house of brands is strong because it creates a situation where consumers are loyal to an experience that is specific to a certain house. As Stephan Chase, VP consumer insights and analysis, Marriott International, pointed out, brand advocacy is not the ultimate in brand loyalty. The ultimate is defending a brand, because consumers must be dedicated enough to be at the point of having integrated that brand as a part of their identity. Brand identification at this level can be an effective way to increase repeat purchase. It also helps extract price premiums and makes customers immune to competitive offers. As a result, identifying ways to reward behaviors that promote brand identification should be a focus of the modern reward program.

Looking at new metrics for loyalty, the conversation automatically turns to engagement: how engaged are our consumers, and how can we build on this engagement to...
create broader and more profitable loyalty? Developing new metrics that help recognize regional cultural differences and the different needs of different kinds of travelers is key.

Much more research needs to be done on measuring engagement. While there are baseline metrics for employee engagement, these don’t directly transfer into the consumer world, so more effort is needed to see whether the dimensions that constitute employee loyalty (i.e., vigor, dedication, and absorption) also hold in consumer markets and whether these measures are effective predictors of the broad range of loyal behaviors.

Additionally, as Christine Eberle, managing director, Accenture Hospitality, pointed out, one of the most valuable digital metrics that is increasingly popular is not just measuring consumer brand engagement, but measuring which of our customers are influential and how to draw on that influence to create higher loyalty. For firms to compete on a global level, metrics must adapt for our increasingly digital, ever-expanding global markets. As an example, firms may want to give highly networked individuals multiple rewards for their supportive actions toward a firm. Rationally, this makes sense as they stand to provide a greater reach for the brand. Then again, such a policy would require customers to be differentiated based on the size of their social network and not simply the money they spend with a firm. At this point, we don’t know enough about consumer expectations for equal versus equitable treatment to determine whether this would be acceptable.

Loyalty Program Management and Re-launch

Loyalty programs are constantly evolving, and to continue to build relevance throughout the world we need to figure out what we would like to do differently in the future. Considering the possibility of relaunching existing loyalty programs, session leader Rohit Verma, of Cornell University, opened a discussion of what could be different and what features would be retained. Many hospitality and retail firms don’t have and don’t need loyalty programs. To begin with, companies like Disney and Walmart don’t need to offer additional points or other incentives to gain their customers’ loyalty. However, customers expect loyalty programs when they stay at hotels, purchase coffee, or book an airline itinerary. Even though various firms’ programs seem similar they represent a key element of competition.

The face of loyalty programs in hospitality is changing. In some cultures, for instance, attaining a higher level in a loyalty program or a rewards program is a status symbol. Thus, many customers are willing to pay extra for the social status that comes with being a high-ranking member, regardless of how that status is actually obtained. Creating an exclusive, high-status group is valuable for social reasons, even if there are no real functional benefits to a higher status—it’s about the perceived value. Consumers love status even when they don’t see any functional benefits. Although all the seats on an airplane arrive at the same time, for instance, being able to board a few minutes ahead of other passengers is seen as a status symbol. Loyalty program members like to know their place in the hierarchy and how to move up in the pecking order. We can use this information to create smart loyalty programs that will drive behavior.

The search for program status, combined with the fact that loyalty programs are ubiquitous, creates a challenge in terms of how the industry manages customer relationships. Firms need to determine how to create value and motivate consumers even though everyone is already in the loyalty program. The threat is that loyalty may not seem so special. Even more challenging, firms must choose between giving loyal customers discounts and providing a membership that provides premium service. The future of loyalty program management may involve making smart choices in how we reward loyal customers—that is, with discounts or with premiums. That decision may be based on access to big data and consumer behavior.

Ultimately, redeveloping loyalty programs can be worthwhile as long as hospitality operators are cognizant of the ways to create value for the best consumers. Deciding between offering discounts and offering premiums is a key factor moving forward because it connects the plan with consumer hierarchies and elements of status that consumers value, thus driving loyalty behavior.
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