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**Adding Value to Hotel Loyalty Programs
for both Guest and Hotel**

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Abstract

Loyalty programs are widely used in the tourism and hospitality industry, indeed instances where airlines, hire-car agencies and hotels are not part of a program are rare. Loyalty Programs not only encourage and reward customer loyalty but allow a company to learn specific details about an individual's patterns and behaviour. However while these programs are widely utilised little has been written about them in tourism and hospitality marketing literature.

This study has three purposes, to analysis the Scandinavian hotel loyalty program marketplace, to analysis member/non-member behaviour and attitudes and to draw conclusions as to what will make loyalty programs more valuable to both the member and hotel. Empirical data was collected from international hotel chains within Scandinavia, from members of the RicaCard loyalty program and from a survey of the general population of Gothenburg, Sweden.

The main results indicated that little differentiation existed in terms of design and to a lesser extent range of rewards within the marketplace and that guests where often members of several programs. The conclusions suggested that by giving members more opportunity to invest in a program, especially early on they may become more committed to one program and therefore become loyal to a hotel chain.

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1. OVERVIEW

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1.1 Introduction

Over the past years the notion of a firm adopting Relationship Marketing has become more and more popular. Stemming from the idea that the existing 4P's or transaction based approach to marketing was inadequate for the majority of industries (Grönroos 1996), terms such as Marketing Orientation (Grönroos 1996), Part-Time Marketer (Gummesson 1987) and Point of Marketing (Gummesson 1991) became fashionable. Managers became more aware of Internal Marketing and earning the customers trust and commitment (Morgan and Hunt 1994) all in the belief that a customer who purchased from a firm 10 times was more profitable than a 10 individuals making one purchase (Reichheld & Sasser 1990).

Firms introduce Relationship Marketing, or at least adopt a more relationship driven approach to their marketing activities for a number of profit driven reasons; amongst them learning about their customers characteristics and preferences, being able to create customer value through offering a mass customised product or simply to be able to better satisfy the needs and wants of existing customers ensuring they continue to purchase the product of the firm into the future (Payne, et al 1995).

Indeed examples of customer relationship management can be seen at most firms, especially those involved in service industries; telecommunications or internet providers, offer 12 month contracts, pubs recognise their regular customers with cheap drinks and department stores have store credit cards with low interest rates or special offers. Packages, clubs, memberships and contracts all in different ways encourage consumers to not only use a goods or service but also purchase it again and again.

One noticeable attempt build and manage customer relationships has been through the advent of customer loyalty programs (Sharp and Sharp, 1997). Loyalty Programs allow customers to earn points they can redeem for discounts or other rewards and benefits by repeatedly purchasing a firms product. Point based loyalty programs can be seen in the in many different industries from Airlines, Credit cards, Retailers, even radio stations now

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have clubs that listeners can join and earn points with when they enter a *secret word* into an internet account that they hear during the day on that radio station.

The popularity of loyalty programs is not surprising given that not only do loyalty programs generate revenue but they also allow firms to learn about their customer (Kumar and Shah 2004) as every transaction or comment they make can be directly recorded, catalogued and attributed to an individual, additional allow firms to create value for the customer by offering rewards and benefits that appeal to them (O'Malley, 1998) and by being able to offer a mass customised product (Grönroos 1994) based on the preferences and characteristics learned from previous experiences. These factors can all contribute to a stable loyal customer base.

Yet despite the apparent win-win situation Loyalty programs offer to both consumer and firm much suspicion is still directed towards these programs. Customers are unwilling to trust and commit to an organisation whose existence is based upon their willingness to part with their hard earned income (O'Malley and Prothero 2002). This is only heightened when the customer believes they are appearing to be getting something for nothing.

Whether loyalty programs do give the customer a genuine excuse to participate in a positive relationship with a business, or just provide another avenue for venting cynicism at profit driven *corporations* they are a widely used tool that companies are using to manage and maintain existing customers, especially so in the hotel industry that this study will look at specifically. Our study will explore this subject and address many of the issues involved in providing a successful sustainable and profitable program.

1.2 Problem Discussion

Loyalty programs promote customer loyalty through providing members who use a company's product regularly with rewards and additional value, making it popular among consumers (Liebermann, 1999). Passingham (1998) suggested that the popularity of such programs has led to an increasingly competitive landscape with various companies within

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the same industry offering loyalty programs. Consequently consumers often enrol in loyalty programs of multiple companies within the same industry, such as grocery retailers, airlines, hotels and credit card providers.

Many researchers have indicated that research in this area has been far from comprehensive. Sharp and Sharp (1997) noted that there is a lack of research on the appropriate measures of effective loyalty programs while Bolton et al, (2000) suggested that there is virtually no prior research about the effect of loyalty programs on consumer's purchases of services or on organization's financial outcomes. This would suggest that simply by implementing a loyalty programs firms expect to see results and that little is understood about the elements of a program that make it work and the impact loyalty programs have on customer attitudes and behaviour and most importantly its effect on Loyalty.

Dowling & Uncles (1997) suggested that for any customer loyalty program to be as effective as possible given the prevailing competitive conditions, it must leverage the brand's *value proposition* in the eyes of customers. But once again little is know about what that *value proposition* should be. They also discussed that it is the importance of designing a reward scheme that maximizes the consumer's motivation to make the next purchase.

From the studies above it can be said that in order to maximize the effectiveness of the loyalty program, how consumers value a program is significant. However, Reinartz & Kumar (2002) identified that most loyalty programs that exist today are very similar and in absence of any clear differentiation or special value proposition.

Some researchers indicated that many of the loyalty programs that exist today are organization benefit oriented and they actually failed to build long-term relationship with consumers. O'Malley and Prothero (2002) suggest that consumers are still cynical towards relationship marketing, seeing words such as trust, commitment and mutual benefit as rhetoric designed to increase company profits, thus as long as the consumers

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view's the relationship as being orchestrated by the firm, primarily for the firm's own benefit, they view the relationship with an 'us versus them' mentality as apposed to a 'marriage'.

Fournier et, al. (1998) also suggest that relationship marketing is not being used effectively by organizations, they suggest that because organizations only look at a relationship from their own point of view they can never really create a relationship that is two way, consumers feel that the relationship is limiting their freedom of choice, destroying trust and the consumers attitude towards the relationship. They suggest that relationship marketers need to 'live with native' to truly understand what consumers want from relationships, and be more open and honest about why the organization wants the relationship in the first place.

In summary, it is widely accepted that loyalty programs can be an effective way of building loyalty if done correctly. Design, Rewards, Value are widely accepted as being vital components of a successful program but what makes a successful Design, Reward or Value is unknown or at least requires a greater understanding. This includes understanding what members (including those who are not currently members but could potentially become members in the future) demand and value from programs and understanding their behaviour and attitudes towards such program.

1.3 The focus and purpose of this study

The purpose of this study is to provide guidelines as to how hotel loyalty programs can be of greater value to both the member, in terms of what the program is offers them, and the hotel, in terms of creating loyalty through the use of the program. Our study will do this by identifying areas where programs are ineffective from either the member's or hotel's point of view and suggest strategies that may be implemented in order to rectify the situation.

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Purpose - to investigate how to add value to hotel loyalty programs to the customer and the hotel.

To be able to provide such recommendations requires the study to be undertaken from two different angles. Firstly what the member values from a loyalty program must be identified which can be achieved through a study of member (including potential members) attitudes and behaviour towards programs.

Research Question One – To understand how to increase the value of a hotel loyalty program through investigating the attitudes and behaviour of members towards loyalty programs

What a hotel values from a loyalty program is probably much less mysterious - increased profits through loyal customers, however understanding the way in which programs are used by hotels is important. Thus the second section of this paper will take into account the current marketplace that exists within Scandinavia, this can be taken both from an external viewpoint in studying the competitors and products that exist within the marketplace or from a generic internal viewpoint, analysing the basic network between players and the tasks that need to be performed in order for the successful implementation of a program. From these two studies we will then be able to make recommendations on how to add value to the program, in terms of what needs to be added and how to do it.

Research Question Two – To investigate the disposition of the existing Scandinavian Hotel Loyalty Program market both in terms of the external marketplace and internal program design

This study from here forth is divided into four sections. The literature review will summarise the existing knowledge not only on loyalty programs, but the overarching relationship marketing theory from which loyalty programs can be argued to be a part of, it will also cover the basic concepts of creating customer satisfaction and the creation of loyalty through satisfaction.

Our fieldwork will be explained in the following chapter. This section will be divided into two subsections demonstrating the method for collecting and analysing data relating

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to members values, attitudes and behaviour and secondly data relating to the hotel loyalty program market place. Each section will be divided under the same headings, firstly we will identify the sources and locations from where data was collected and the reasons for collecting this type of data. Secondly the tools used for the data will be identified and explained followed by a summary of the type of data collected, finally the analysis methods used to give meaning to the data will be explained.

The processed results obtained from all of the data will be presented in chapter four. This will follow the same two section format used during the fieldwork whereby results are divided between the research questions stated above. The results will provide both prompted and unprompted responses from both existing and potential members while the results from the market place analysis will investigate program design, program value and program offerings, these results will provide the groundwork for the analysis in the following chapter.

The analysis will attempt to explain and apply the results to the study based on the theories outlined in the literature review. This will once again be demonstrated in terms of what the member values in the program and what currently exists within the Scandinavian hotel loyalty program market place.

In the final chapter a number of conclusions and will be made as to how hotel loyalty programs can be improved to provide extra value for both customer and hotel. This will be achieved through the combination of the results and analysis of research questions one and two.

2. LITERATURE REVIEW

2. LITERATURE REVIEW

2.1 Introduction

Extensive Research has been undertaken in the area of managing existing customers, given that it is universally accepted that it is more efficient to keep existing customers than acquire new ones this is not surprising (Reichheld and Sasser 1990). In this literature review we therefore examine what has been written on the subject of customer relationships, both why they are important to businesses, what elements make for successful customer relationships and also the issues surrounding how businesses fail to effectively use customer relationship theories in the business world.

From this broad overview we will begin to focus more on customer loyalty and the related concepts that affect customer loyalty including, behavioural loyalty, attitudinal loyalty, customer satisfaction and switching costs, the basic definitions and principles behind customers satisfaction and how customer satisfaction creates loyalty.

Finally a review of loyalty program theory will be undertaken, including definitions, types of loyalty programs, how they can be created, maintained and effectively managed as a marketing tool.

2.2 Relationship Marketing

2.2.1 Introduction

Relationship Marketing grew out of wide spread recognition both in theoretical and practical circles that the traditional and widely accepted transaction approach to marketing (where all marketing decisions are based around the 4Ps - Place, Product, Promotion and Price) was inadequate for an increasing amount of products in an increasing amount of markets.

The 4Ps approach was suitable when the product was a simple standard product, or consumer good and had a large mass market of anonymous customers. However overtime more and more organisations began realizing that increasingly, customers no

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longer wished to remain anonymous, mass markets were fragmenting and competition was becoming more intense and global (Grönroos 1996). Simply manipulating customers into making a transaction was no longer adequate.

It was with this in mind that various terms such as life time value, service quality and mass customisation entered popular marketing vernacular. Under this new way of thinking, which some even deemed to be the new marketing paradigm, keeping a customer became as important making the sale. Especially for industries involved in services, learning about the customer and tailoring the service to their needs was evermore important. Organisations attempted to grow relationships with customers as apposed to sales and the term Relationship Marketing was born.

2.2.2 Background of Relationship Marketing

Definitions and Basic Concepts

Relationship Marketing is not new, despite its relatively new addition to marketing theory practical examples of relationships between buyer and seller have existed for as long a business has been conducted. Indeed some have dubbed the emergence of Relationship Marketing as a return to marketing's Basic Form (Grönroos 1996).

Relationship Marketing Theory stems from two independent schools of thought. The first being the Nordic approach that developed in the early 1980's (Gummesson et, al.1997) where relationships are understood from a service point of view. Understanding how to create customer value or increase customer satisfaction levels is the key to understanding Relationship Marketing and Relationship Management.

The Nordic School recognizes the importance and extra value for both buyer and seller of relationship based interaction as apposed to the transaction based interaction (Payne et al 1995) in terms of 'Life Time Value' of the customer to the firm and 'Customer Value' of a personalized product to the customer.

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It notes the vital role the customer plays in the service encounter and encourages the thinking that Customer Service and Marketing are much closer together perceived than under traditional transaction based marketing.

The Industrial Marketing and Purchasing (IMP) School was born from the realization that Industrial Marketing was different from consumer marketing due to the interdependency of organisations on each other, therefore understanding the workings of a network was vital to understanding relationships (Halinen 1996).

The network approach to Relationship Marketing highlights mutual interests and the uniqueness of each individual relationship. By working together a relationship can be profitable for both parties and can obtain outcomes that would have been impossible to achieve without the relationship creating a state of mutualism (Horne & Worthington 1996).

While predominately studying business to business relationships and partnerships aspects of the Network Approach, such as mutual benefits and noting that many different interactions between many different individuals and organisations make a single relationship successful, this thinking can be applied to service based relationship marketing especially with regard to intense, lengthy or regular relationships. These two schools are by no means contradictory, more so looking at relationships from a different angle.

According to Halinen (1996) these two schools of thought suggest that Relationship Marketing has two cornerstones;

- ❖ That relationships are temporal, in that it occurs over a period of time and that over its lifecycle the nature of the relationship will change and,
- ❖ That relationships are dyadic, in that a relationship involves two or more parties with different motivations and reasons for participation in the relationship.

The basic principal behind implementation of relationship marketing strategies is that Relationship Management can increase profitability through customer retention.

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According to Reichheld and Sasser, (1990) losing customers to a service based company is what the 'scrap heap' is to a good-based company – a defective product. Creating Zero defections requires all employees understand the lifetime value of a customer, thus persuading the customer not to simply make a purchase, but to make another one sometime in the future.

Due to the many different ways Relationship Marketing is used in the business world a set definition has been hard to derive. We have compiled the following list of basic concepts that most Relationship Marketing strategies and studies revolve around:

- ❖ Doyle and Thomas (1992) suggest that it is long term in orientation thus in order to become a preferred supplier one must build trust over a period of time and develop skills in the area of understanding customer needs and relationship development.
- ❖ It incorporates the shift in emphasis from manipulation to genuine customer involvement (McKenna, 1991)
- ❖ Identifying and working towards common goals (Buttle, 1996) has a direct influence on both commitment and trust (Morgan and Hunt, 1994).
- ❖ Emphasizing the need to attract, maintain, and enhance customer relationships (Berry 1983; Grönroos 1983) possibly through Internal marketing, designed to shape employees' attitudes and behaviour toward their jobs, the customers, and the internal environment, which can help service firms ensure that the customer service interaction is satisfactory. This may include identifying areas outside traditional marketing mix activities.

To build successful relationships, business must concentrate on earning trust (Heide and John, 1992; Gundlach and Murphy, 1993; Weitz and Jap, 1995) commitment (Crosby, 1990; Anderson and Narus, 1990; Morgan and Hunt, 1999), and highlighting mutual benefit (Dwyer, 1987; Morgan and Hunt, 1999) to both parties involved in the relationship.

Trust

Trust can said to be present when the parties involved accept that they can rely on each other to perform actions that will result in mutually beneficial outcomes, such is its importance that Morgan and Hunt (1994) proclaim that the efficiency, adjustment, and even survival of any social group depends upon the presence or absence of such trust. A

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trustworthy party should display elements of reliability, integrity, consistency, competency, honesty, fairness, responsibility, helpfulness, and benevolently

Anderson and Narus (1990) suggest that when a trustworthy relationship is formed, parties will be reluctant to break this relationship. Even after actions have taken place which where detrimental to one party, trust can be maintained if one firm believes its partner has taken the expected actions, but that forces beyond its control have negated the expected outcomes. Trust in the business world is characterized by lower intensity and less personal than in a social sense given that where trust is broken in interpersonal relations, participants expose themselves and their own resources to potential loss whereas in inter-organisational relations, it is the firm that potentially will incur the loss (Anderson and Narus, 1990).

Thus deciding weather to engage in or refrain from trusting responses or actions will be decided upon the firm's prediction of the extent to which the partner firm will follow through on its current promises (Anderson and Narus, 1990). When a firm trusts another firm's ability to follow through on what they say a stable and predictable relationship can be created, which in leads to integrative behaviour, which eventually prolongs the duration of the relationship (Ganesan, 1994)

According to Gounaris (2005) the more the client trusts the service provider, the more affectively committed to the provider the customer becomes. This trust appears to be directly linked to quality of the service offered and how the party interacts and bonds with the other party. According to Morgan and Hunt (1994) because 'relationships characterized by trust are so highly valued that parties will desire to commit themselves to such relationships' but because commitment brings with it vulnerability parties must trust each other prior to them committing. Affective commitment is dependant on trust.

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Commitment

Commitment comes from the will of a party to continue with and invest into a given relationship, (Gounaris, 2005) Commitment may not be as strong on both sides on an activity (Leek et, al. 2002), for example suppliers may more concerned about gaining the commitment of their customers in the relationship than vice versa.

There are two different types of commitment based on the motivation for the relationship: affective and calculative commitment (Mathieu and Zajac, 1990). Both types have relatively stable attitudes and beliefs about the relationship but stem from different motivations for maintaining a relationship.

An affectively committed company desires to continue a relationship because it *wants* to, it likes the partner and enjoys the partnership (Buchanan, 1974) it experiences a sense of loyalty and belongingness. Calculative commitment arises when a partner is *forced* to continue the relationship due to anticipation of high termination or switching costs associated with leaving from the relationship (Allen and Meyer, 1991) this may include the high transaction costs a party will incur when changing firms.

Gounaris (2005) found that affectively committed customers are much more likely to trust the supplier, than calculative commitment customers, which means they are much more likely to continue in the relationship than those that are simply there for calculative reasons, not only will they be more willing to remain in the relationship but also invest or activity contribute to the partnership.

Mutual Benefit

Shared values directly influence both commitment and trust (Morgan and Hunt 1994), which form the corner stones of successful customer relationships. Thus for a relationship to have long term possibilities both parties must feel that they gain from the relationship which can be achieved through shared values or mutual benefits.

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Relationship's where asymmetrical dependence occurs in an exchange situation makes one party susceptible to the power and influence of the other party. The more powerful party is in a position to create more favourable terms of trade asymmetrical dependence relationships are less stable and likely to break up over time. Maintaining status quo is not a profitable action for the dependant partner over the long run, thus forming only a Calculative Commitment, which is less likely to last than a relationship that is built on mutual benefits, which is likely to build trust and create affective commitment (Gounaris 2005).

The Commitment-Trust Theory

Morgan and Hunt (1994 pp 24) tested the relationship between sellers (manufacturers) and buyers (outlets and stores) in the typically competitive, turbulent and global tire industry. The study found that typical measures of quality such as customer satisfaction or product performance had little effect on the relationship commitment. They believe that;

- ❖ Trust occurs when the parties share common values, communicate and believe that the other party will not take advantage of the other.
- ❖ Commitment arises not only from trust but from shared values and belief that the partner would be difficult to replace
- ❖ The majority of relationships characterized by poor cooperation could also be characterized by poor levels of commitment and trust.

From these findings good relationships are built on a solid platform of Commitment and Trust, which can be created from finding partners with shared values and seeking mutual benefits.

Relationship Marketing offers an alternative to traditional 4Ps or Transaction Marketing. Transaction marketing is aimed at manipulating a customer into making a purchase where Relationship Marketing is focused on learning about the customer and realizing that the next purchase is as important as the one they are making now. Table 2.2.1, developed from the text in Grönroos (1996) demonstrates the main differences between Transaction based Marketing and Relationship based Marketing.

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Table 2.2.1 Transaction v Relationship Marketing

Transaction Focus	Relationship Focus
Orientation to Single Sales Discontinuous Customer Contact Focus on Product Features Short Time Scale Little Emphasis on customer service Limited commitment to meeting customer expectations Quality is the concern of production staff	Orientation on Customer Retention Continuous Customer Contact Focus on Customer Value Long term scale High customer service emphasis High commitment to meeting customer expectations Quality is the concern of all staff

Source - Adapted from text - Grönroos 1996

2.2.3 Relationship Marketing Management

Where do relationships exist?

In order to enhance and profit from a relationship, Relationship Marketers must first identify where relationships exist. Many different relationships exist and exert influence on the end relationship between buyer and seller, for example the firm's relationship with its delivery organisation can affect the price the customer will pay for delivery (Payne et al 1995). Payne, et al (1995) believe that a firm must build relationships in six different constituencies that contribute to customer value. They believe these 6 constituencies include Internal Relationships (those between the firm and its staff), Referral Relationships, (those between the firm and people who recommend the firm to customers), Influence Relationships (those between the firm and organisations whom have influence over a market place e.g. competition, governments etc), Employee Relationships (those between the firm and potential employees - the type of people the firms attracts as employees), Supplier Relationships (those between the firm and organisations who provide materials necessary to being able to provide the core product) and Customer Relationships (those between the firm the those who buy the firm's product)

Managing Relationships

Peppers et al (1999) talk about the implementing one-to-one marketing. They suggest that one-to-one marketing learning about your customer at every possible opportunity.

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Companies must first identify who their customers are, what they want and how they come in contact with the company. Differentiate them based on value and needs, improving how you interact with these customers and finally customize these interactions based on what you have learnt.

Based on this highly differentiated customer information one can design the relationship so a customer will evaluate the relationship in a positive way. Relationships are evaluated on the process and outcome of the various interactions involved in the relationship (Holmlund and Strandkiv 1997). By identifying the various interaction points, an organisation can design the way it interacts with its customers. Of course various interactions will have a greater bearing on the customers' evaluation of the overall relationship but these points can be identified through the differentiation process.

Existence of Part Time Marketers, Point of Marketing

The term part-time marketer was coined by Gummesson (1987) to describe people outside the marketing department who have an effect on the customer's perception of the organisation. They may exist within any department of an organisation and will almost certainly outnumber those who are full time marketers. The way they do their job effects the customer's perception of the company just as an advertisement, slogan or logo can if not more. Gummesson (1991) later coined the term 'Point of Marketing' to describe any opportunity to influence favourably the customer's present and future purchases.

These two terms highlight the fact that relationship marketing occurs not through the marketing department as do catalogues or advertising campaigns but through part-time marketers working behind a register, answering phones and making deliveries. Therefore various Points of Marketing do not always fall under the jurisdiction or budget of the marketing department. This poses many problems for Relationship Marketers most importantly how to control marketing when points of marketing occur in departments they have no control over (in terms of access and control of resources), by people with no

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marketing skills or experience. From this problem the need for organisations to become more *Marketing Orientated* was born.

Marketing Orientation

Amongst others Grönroos notes the need for organisations to develop a more marketing orientated approach to their design. By acknowledging the existence of Part-Time Marketers, and Points-of-Marketing in almost all departments a firm has little choice but to recognize that the Internal Marketing of the company is the role of the entire organisation, not simply the Marketing Department. Of course specialist marketers can help install a marketing consciousness throughout the organisation; however in order for a company to truly be marketing oriented each department must recognize their responsibility as marketers of the firm and the nature of the marketing message must be a directive from head office not the marketing department which may only not have authority over other departments in an organisation

Marketing and Relationship Marketing

Relationship marketing forces changes to the way traditional marketing activities are undertaken and in many cases can enhance what can be achieved (Grönroos 1996). For example how can marketing planning take place when the resources used for Relationship Marketing are not under the control of the marketing department? Instead marketing planning must be an element of every plan in every department with a marketing oriented corporate plan as a guideline.

Relationship marketing demands individual customer recognition and therefore more specific customer segments are required, no longer is it acceptable to attract a small section of a large crowd, Under Relationship Marketing firms must attract as many individual's business as possible by creating a product that is tailored to a much more specific market segment perhaps based on information in a customer file rather than broad demographics such as age and income (Grönroos 1996).

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But in order to be able to build these databases and customer files, customer research becomes of greater importance. Fortunately relationship marketing presents many more opportunities to learn about your customer and provides much more specific information than traditional transaction based marketing (Grönroos 1996) a successful relationship marketing design can obtain individual information about a customer’s behaviour and customer satisfaction levels at every interaction between firm and customer.

Making relationships work

There are a number of theories as to what makes the relationship work and keep working, as explained earlier Morgan and Hunt’s study believed that Co-operation is born from Trust and Commitment, the same authors also propose that trust and commitment are usually found where; The partners have been chosen carefully, the structure of the relationship is planned so that both parties and benefit, and there is an amicable method for dispute resolution, the partners allow time for the relationship to grow, communication is strong, and the companies act in a trustworthy manner both inside and outside the relationship (Morgan and Hunt 1994).

But relationships are not always sought after by the one party, indeed it may not be beneficial for one party, the value of the relationship may have changed, it may even be threatening to one party, or the transaction costs and risk associated with changing the relationship may outweigh the negative effects of a poor relationship (Blois 1996).

Horne and Worthington (1996) draw on an example from the biological world. They believe like parasites different types of relationships produce difference results for each partner, the process called Symbiosis allows parasites to work together to achieve a result that would have been impossible without the relationship, mutualism, to a situation where both parties loss out from the relationship, Synnecrosis, (See Table 3.3.2)

Table 2.3.2 Nature of Relationships

Win-Win	Win-Neutral	Win-Lose	Lose-Neutral	Lose-Lose
Mutualism	Commensalism	Parasitism	Amensalism	Synnecrosis

Source - Horne and Worthington 1996 pp 550

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By understanding the type of relationship that you are in, or what kind of relationship has developed, one can try understanding the motivations for various actions by other parties and being able to use this understanding to produce a productive or effective relationship.

2.3 Customer Loyalty

2.3.1 Customer Loyalty Overview

Customer loyalty can be defined as a situation when a customer has a positive attitude towards a company, expresses a willingness to repurchase from that company and actually does make the next purchase from that company rather than from a competitor (Chojnacki, 2000).

Reynolds (2002) explained the importance of customer loyalty should be seen not only as only a tool to gain market share but as a tool to maximise the value of individual customers. This means shifting the emphasis from selling one million widgets, to that of ensuring that the companies' widgets are used daily by its customers for the next 20 years. That customer loyalty in a nutshell is earned one customer at a time.

Butscher (2002) stated that most customer loyalty strategies offer primarily financial benefits. In essence, they provide price discounts and discounts are the last thing that creates loyalty among customers. Customers who buy the organizations' product or service merely because of its price will not continue to do so if they can find a better price elsewhere. The only way to create long-term customer loyalty is to establish a true relationship with customers, which is based not on financial incentives, but on emotion, trust and partnership. (Butscher, 2002)

Why Customer Loyalty?

Loyal customers, who have emotional connections, are less likely to switch to rival companies based on price alone, additionally loyal customers tend to spend more money than non-loyal customers (Bowen and Shoemaker, 2003).

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Barsky and Lin's research (2004) also came to a similar conclusion; satisfied guests are less price-sensitive. They also found that it is possible to bring business travellers back as private travellers by improving customer loyalty as opposed to simply lowering prices. It is important to understand the value of retaining loyal customers since they are not restricted by contracts, which means that they are always able to switch to other hotels (Shapiro and Vivian, 2000).

Dunn (1997) from Carlson Marketing suggested that companies who adopt loyalty strategies may have a number of goals or expectations from implementing these strategies, these may include, acquiring high value customers from competitors and maximising the value of those they already have, identifying existing customer that could be of greater value to the company in the future, keeping a "core group" of moderate value customers and generating "opportunity cost" for using a competitor

Positive and Negative Effects of Customer Loyalty

Diller (2000) defined both positive and negative ways in which customer loyalty may effect to hotels from an economic point of view. Loyal customers tend to bring more certainty to hotels since they will stay at the hotels frequently. Moreover loyalty customers will bring more feedback, both positive and negative, to the hotels, which is indispensable to the hotel's development. The feedback can provide new ideas,, highlights areas that need improvement and influence their marketing strategy towards non-loyalty customers. Needless to say, the trust between loyal customers and hotels is a precious asset. However, having too close relationship with loyal customers and paying attention only to their opinions may bring inflexibility and inactivity to the hotels.

Loyal customers have strong effect towards the hotels growth since the more they satisfied, the more they give recommendations. It is a well-known fact that recommendation and positive words of mouth is the best marketing strategy for hotels. However if hotel makes loyal customers feel bad, those customers may spread negative word of mouth.

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It is more profitable for hotels to have loyal customers instead of several opportunistic customers. The cost of convincing loyal customers to stay in a hotel compared to that of obtaining new customers is much lower. Furthermore hotels loyal customers cost less to take care of from a guest management point of view given they are already aware of hotel procedures and can form accurate expectations based of their experience from the previous stays. Diller (2000) mentioned that loyalty customers are less price-sensitive, but at the same time he is unsure of their expectation for lower prices as a compensation for their loyalty. It is also important to be aware of the costs of having customer loyalty programs.

Customer Loyalty in Hotel Industry

Customer loyalty is particularly important to the hotel industry, because most hotel-industry segments are mature and competition is strong. Often there is little differentiation among products in the same segment. (Bowen and Shoemaker, 2003).

Managing Customer loyalty through a customer relationship approach has become a significant marketing strategy given most of services which hotels offer, are intangible. It is difficult to differentiate themselves from other competitors. Because of this, hotels have been making an effort to succeed in the industry by improving service quality and the service itself in order to maximize the customers' satisfaction and ensure guests become "loyal guests".

O'Malley and Prothero (2002) have defined that the purpose of relationship marketing is to create, extend and keep the relationships with customers and other stakeholders. Because of this fact, customer loyalty as relationship marketing is significant. Barsky and Nash (2002) mentioned that the emotions a guest feels during a hotel stay are vital components of satisfaction and loyalty. However it is important to recognise the difference between customer satisfaction and customer loyalty. Customer satisfaction assesses how much the transactions exceeded customers' expectations whereas customer

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loyalty assesses how possible it is that the customers will return to the hotel (Bowen and Shoemaker, 2003).

Diller (2000) mentioned that the fact loyalty is difficult to measure as a serious matter for hotels. As it can make it difficult to reward loyalty since the value of loyalty is established by both qualitative and quantitative phases. However this problem can be seen as challenge as if hotel could overcome the matter, then the hotel can differentiate itself from the other hotels.

2.3.2 Customer Loyalty related concepts

Sällberg (2004) indicated that there are different concepts positively related to why customers continue to purchase a certain brand or from a certain firm. She introduced four concepts, which are behavioural loyalty, attitudinal loyalty, customer satisfaction and switching costs.

Behavioural loyalty and attitudinal loyalty

According to Schultz & Bailey (2000), behavioural loyalty focuses on the value of the brand to the customer. Keenhove (2003) indicated that behavioural loyalty is a customer's repeat patronage behaviour, developed a relationship overtime.

For any companies, customer loyalty becomes more meaningful only when it translates into purchase behaviour. Purchase behaviour generates direct and tangible returns to the company as compared to the effects of pure attitudinal loyalty where commitment and trust that do not translate directly into actual purchase behaviour. Therefore, it is important for a company to build behavioural loyalty. Pure attitudinal loyalty of a customer without behavioural loyalty may provide only limited or no tangible returns to the company. Most loyalty programs in existence today reward behavioural loyalty.

As mentioned earlier, attitudinal loyalty is consisted from trust, emotional attachment, and commitment to a brand and a relationship. Customer attitudes have been known to

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influence customer behaviour (Ajzen & Fishbein, 1980) however customers exhibiting a positive attitude may not translate that into purchase behaviour due to a relatively more favourable attitude toward another brand (Dick & Basu, 1994). The positive attitude strength of a customer needs to be complemented by high attitude differentiation (compared to other brands) in order for the company to expect sustained purchase behaviour from the customers in the long run.

Baloglu (2002) suggested that customer loyalty should be studied on a two-dimensional scale as behavioural (repeat patronage) and attitudinal (commitment) loyalty. And here is the chart of loyalty typology based on behaviour and attitude, which is used in Baloglu's study in 2002.

Figure 2.3.1 – Customer loyalty segmentation by Behavioral loyalty and Attitudinal loyalty

		Attitude	
		Low	High
Behaviour	High	Spurious Loyalty	True Loyalty
	Low	Low Loyalty	Latent Loyalty

Source: Baloglu (2002 pp 48)

The chart shows four loyalty archetypes based on the cross-classification of attitudinal and behavioural loyalty levels, which are true loyalty, latent loyalty, spurious loyalty, and low loyalty.

Customers with true loyalty are characterized by a strong attitudinal attachment and high repeat patronage. They are the one always patronage a particular brand or a company, and are least vulnerable to competitive offerings.

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Those with latent loyalty low patronage levels, although they hold a strong attitudinal commitment to the firm. Their low patronage may occur because they do not have enough resources to increase their patronage or because of the price, accessibility, or distribution strategy may not encourage them to become repeat customers.

Customers with spurious loyalty make frequent purchases, even though they are not emotionally attached to the brand or the firm. The high patronage levels of spuriously loyal customers can be explained by factors such as habitual buying, financial incentives, convenience, and lack of alternatives, as well as factors relating to the individual customer's situation.

Finally, the low loyalty group shows low levels of both attitudinal attachment and repeats patronage. It can be said that spurious and low loyalty groups are highly volatile and susceptible to incursions from competitors.

Customer Satisfaction

There are a number of studies completed to develop a consensual definition of customer satisfaction. Most definitions have stated that the notion of customer satisfaction as a response to an evaluation process. There are many themes of customer satisfaction as a summary concept; fulfilment response (Oliver, 1997), affective response (Halstead et al., 1994), overall evaluation (Fornell, 1992), Psychological state (Howard and Sheth, 1969), global evaluation judgment (Westbrook, 1980), summary attribute phenomenon (Oliver, 1992), and evaluation response (Day, 1984).

Many firms are putting a lot of effort into improving customer satisfaction since it is believed that customer satisfaction generates superior economic returns. Fornell (1992) stated that high customer satisfaction increases loyalty for current customers, reduces price elasticity, protects current customers from competitive efforts, lowers the cost of future transactions, reduces failure costs, reduces the need to attract new customers, and enhances the reputation of a firm. According to the research on the relationship between

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quality and customer satisfaction and economic benefits, conducted by Anderson, Fornell and Lehmann (1994), even though economic returns from improving customer satisfaction are not immediately realized, with a long run perspective, increasing customer satisfaction is extremely important because it affects future cash flows and market share increases.

Fornell, et al (1996) stated that Customer satisfaction is generally seen as having a simple effect on loyalty. From the study of relationships between customer satisfaction and loyalty, done by Jones & Sasser (1995), highly satisfied customers become highly loyal customers. They found the link between satisfaction and loyalty in markets where customers have choices is a simple, linear relationship as satisfaction goes up so does loyalty. This finding can be applied to the hospitality industry given that customers have a number of choices. Therefore customer satisfaction is especially important in order to improve loyalty.

Switching Costs

Switching cost is defined by Porter (1980) as “one time” cost, as opposed to the ongoing cost associated with using a product or provider once a repeat purchase relationship is established.

Burnham et al (2003) indicated switching cost as the onetime costs that customers associate with the process of switching from one provider to another. Furthermore, switching costs is not only “economic” cost, but also “non economic cost” such as search costs, transaction costs, learning costs, loyal customer discount, customer habit, emotional cost, and cognitive effort, coupled with financial, social, and psychological risk on the part of the buyer (Fornell, 1992)

According to Dick and Basu (1994), switching costs can lead businesses to falsely assume that all repeat purchase customers are loyal to the firm when many are less that satisfied but perceive the cost of switching to an alternative supplier to be too high. Jones

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et al (2000) suggested that the creation of switching costs could be used to complement customer retention strategies.

2.4 Customer Loyalty Programs

“Loyalty programs are structured marketing efforts which reward, and therefore encourage loyal behaviour, behaviour which is hopefully of benefit to the firm” (Sharp and Sharp 1997 pp 474).

A customer loyalty program is a scheme where customers are rewarded for repeat patronages (O’Malley, 1998) Johnson (1998) stated a loyalty program as any marketing program is designed to increase the lifetime value of current customers through a long-term interactive relationship. Sharp and Sharp (1997) mentioned that loyalty programs, which provide customers with loyalty incentives, are back in the marketing spotlight. The airlines' frequent flyer schemes were amongst the first in this new wave of very large-scale consumer oriented programs. Now there are programs offered by hotels, supermarkets, financial institutions and all sorts of retailers. Today many of companies have internal and external partners in order to bring a wide range of rewards, which appeal to customers tastes and desire.

The Difference between sales promotion and loyalty promotion is the length of term. Usually customers that companies obtained through a promotion will leave when the promotion ends since there is nothing to stop them from going back to their former patterns. However loyalty promotion will keep the customers over a longer term.

Smith (2000) distinguished between six types of loyalty programs; service program, information and advice program, discount program, community program, access program, and point program. Service program is the one provide special services as their point of differentiation, such as VIP services. Information and advice program is the one use information or advice to enhance a product experience. Discount program provides members discount. Community programs evolve around getting customers interact with one another. Access program provides customers with an avenue to exclusive events.

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Point program is the one that customers receive points when they purchase products or services, and they achieve a reward when they have collected a certain number of points.

Butscher (2002) pointed out it is important to understand the financial issue regarding to the program. One of the main reasons for a program to be terminated is that hotel failed to control the cost. For that reason the program should meet customers' expectation and at the same time, should be cost efficient for the hotels.

Jones and O'Brien (1995) said that the combination of the five elements determines the value of a loyalty programs for customers, those elements are summarised below are;

- ❖ The cash value of redemption reward
- ❖ The range of choice of rewards
- ❖ The aspiration value of the rewards
- ❖ The subjective likelihood of achieving rewards
- ❖ The scheme's ease of use

3. FIELD WORK

This study was developed in two sections, the first being to investigate member values, attitudes and behaviour towards loyalty programs and secondly to investigate the existing loyalty program market place. The results obtained from the two questions could then be compared to identify gaps between what each party wants from the loyalty program and what each party actually gets. Thus the conclusions at the end of this paper are the made from results of two separate studies that will be explained in sections 3.1 and 3.2 respectively.

3.1 Member attitudes and behaviour towards loyalty programs

In order to investigate what members value from hotel loyalty programs we needed to obtain data regarding individual's opinions, attitudes and behaviour towards them, given that attitudes and behaviour from those who are members and those who are not may differ the respondents needed to come from both groups.

3.1.1 Research Locations

In order to obtain data from current members of hotel loyalty programs we attempted to seek the co-operation of a major hotel chain in Scandinavia. Hotel Consultant, Mr. Morten Olsson, provided us with numerous contacts within the Scandinavian Marketplace and including that of Hotell Liseberg Manager, Mr Mats Östblom. Mr Östblom provided access to Hotell Liseberg's guests and helped us to get in touch with Rica Hotel's marketing department in their head office in Norway.

Rica Hotels is the largest hotel chain based in Norway, It was founded by Prince Carl Bernadotte & Jan E. Rivelsrud in 1975 with Restaurangkedja A/S. Rica Hotels is the only hotel chain, which covers the whole country. In 1998 it started to expand into Sweden and now there are more than 90 hotels in 61 cities within the area. Hotell Liseberg Heden is a hotel located in Gothenburg, Sweden. It became a partner hotel of Rica Hotel in January 2004. Rica Hotels offers two loyalty programs which their customers can choose between; RicaCard and SAS EuroBonus to their customers.

Field Work

Data from those who are not members of hotel loyalty programs was collected from the streets of Gothenburg. Gothenburg (Göteborg) is the second largest city in Sweden with a population of over 500 000. Its status as the largest port city in Scandinavia, and its unique location, situation almost half way between all three Scandinavian Capitals, its passion for festivals and major events and Europe's fourth largest theme park make it a popular destination for both business and leisure tourists with a healthy tourism and hospitality industry. We conducted research on the streets of Gothenburg in central, public locations throughout the summer of 2005. Those locations were Jarntorget, a public square around three kilometres from the City Centre, Kungssportsplatsen and public place directly outside the Gothenburg Tourist Office in the middle of town and Gothenburg Centralstation, Gothenburg's major intercity transport terminal. Given the centrality of all three locations they attract a diverse range of people from the Gothenburg Area.

In summation, secondary data was collected from existing members of the RicaCard Loyalty program while data from non-members was collected from the streets of Göteborg and in the foyer of Hotell Liseberg, Heden.

3.1.2 Data Collection

Rica Hotel Loyalty Program Survey

The Secondary data used in this research was collected from the Rica Hotel chain. The surveys were distributed by Rica hotels headquarters in the November 2004. RicaCard sent emails over the course of a month to all 887 of their Swedish members who had been a member of the program for at least six months and stayed at least three nights in a Rica Hotel requesting that they complete an attached survey.

Rica gave the members two weeks to answer and reply to the questionnaire, it resulted in 553 respondents. Of these 553 people, 150 added a comment relevant to the Hotel Loyalty Program usually expressed as a complaint or a suggested improvement to the program.

Field Work

General Public Interviews

The first part of the interview process, consisting of short one-on-one interviews were held in the lobby of Hotell Liseberg. These interviews took place over 3 two-hour sessions during the month of June 2005. Respondents were selected at random from Hotel Guests passing through the lobby, however those appearing to not be busy or not in a rush and not distracted were given preference over those who were, respondents were asked if they were members of a hotel loyalty program, those who were, were not interviewed. Their main points were recorded. After three sessions 27 interviews had been completed.

The Second part of the interview process (Street Surveys) were implemented in Gothenburg in 2005, specifically August 30th at Kungsportplatsen, August 31st at Jarntorget, and September 2nd at Gothenburg Central station. The surveys were collected between 11.00 and 13.00. Respondents were chosen at random from members of the population sitting in public space in the areas mentioned above. As per the interviews in Hotell Liseberg preference in selection was given to those appearing not to be busy or distracted and those who were members of loyalty programs were not interviewed. After three sessions 87 valid interviews had been completed

3.1.3 Field Material

We chose to learn about what members' value by investigating their attitudes and behaviour towards loyalty programs. We gathered this information from members and non-members through prompted and unprompted responses, in two separate interviews and obtained secondary data from the Rica Hotel Chain which also consisted of a prompted and unprompted section. Thus the material used in this research could be divided into member's prompted responses, member's unprompted responses, non-member's prompted responses and non-members unprompted responses.

Field Work

Prompted Responses

To gain an understanding of *member* attitudes to specific elements of loyalty programs, data from current members was obtained via a questionnaire obtained from Rica Hotels. It was designed during November 2004 by Rica's headquarters in Oslo and consisted of twelve multiple response questions relating to the member's perceived quality and satisfaction with the program ([see Appendix 3.1.1](#)).

Due to the secondary nature of the survey only 6 of the 10 questions concerned member's attitudes and behaviour towards loyalty programs, and therefore were relevant to this research. Those questions were;

1. Where did you learn about the RicaCard program?
2. Are you a member of another hotel loyalty program?
3. If so which ones?
8. How satisfied are you with the benefits offered by RicaCard
9. How important is the program when you choose hotels
10. How satisfied are you overall with the RicaCard loyalty program

In order to investigate the values of those who are *not members* of hotel loyalty programs we conducted interviews with members of the general public. The Street interview was designed to find out how important specific elements of the loyalty program are to customers. It took the form of a questionnaire, which consisted of two parts;

- ❖ Section one contained 5 background questions gender, age group, main reason for travel, frequency of travel, and if they are a member of any loyalty programs for any enterprise.
- ❖ Section 2 consisted of 14 questions based on the constant-sum scales; they asked respondents to allocate a fixed number rating point (maximum 10, minimum 1), relating to how strongly they agreed with a statement relating to 14 elements of a loyalty program. Each Question represented a different element that affects the nature and characteristics of various loyalty programs. Those elements were;
 - the rewards offer a significance of momentary discount
 - the width of the range of benefits offered
 - the externality of rewards (rewards offered other than the products of the original chain e.g. Hotel offering Movie/Airline Tickets
 - the basic appeal of the rewards
 - being recognised when returning to a business
 - the annoyance of others receiving Special Treatment
 - the rewards offer false hope
 - the appeal of smaller rewards more often
 - the appeal of larger rewards less often

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- the effect of the point blackout period (where unredeemed points are lost over a period of time)
- the importance of the program being easy to use
- the effect existing levels of usage has on loyalty programs
- the effect of the familiarity of the brand associated with the program
- the Likelihood of Joining a loyalty program

[\(See appendix 3.2.2\)](#)

Unprompted Responses

Unprompted responses were also gathered from members and non-members in order to understand respondent's primary values attitudes and beliefs towards loyalty programs. For *non-members* this was done via asking respondents to simply tell us what encourages them to participate in loyalty programs. And what discourages them from participating in loyalty programs.

This was carried out over two separate interviews, the first being conducted in a one on one style in the lobby of Hotell Liseberg Heden, the second being conducted at the conclusion of the street survey mentioned above.

In order to collect unprompted data regarding *member's* values, attitudes and behaviour towards hotel loyalty programs we once again drew on the secondary results of the survey obtained from and undertaken by Rica Hotels. In this case respondents were simply asked to 'please provide any other information you feel relevant to the RicaCard loyalty program' at the conclusion of the 10 question member survey. While the question was not exactly the same as that directed to non members, the open ended unprompted nature of the questions and the context in which the question was given ensured the responses provided results which could be compared with that of the opinions from non-members and still provide relevant conclusions.

To summarise unprompted and prompted data from existing members of hotel loyalty programs was collected from a survey designed and distributed by Rica Hotels, it consisted of a 10 questions multiple response section and an unprompted comment section. Unprompted and prompted data was collected via a survey consisting of 5

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background and 12 multiple response questions, and a comment section, additional unprompted data was collected from one on one.

3.1.4 Analysis Methods

Rica Survey – Multiple Response section

A basic frequency analysis of the data was completed with the data. This is the essential first step, in order to picture the characteristic of the collected data. Following the result of frequency analysis, a number of hypotheses were created, and these hypotheses are tested through Correlation analysis and Regression analysis involving measuring the strength of the relationship between two variables. The Pearson correlation coefficient measures the degree to which there is a linear association between two interval scaled variables. Regression analysis is a statistical technique that is used to relate two or more variables. When the correlations are significant, null hypothesis can be rejected. The hypotheses were designed to test the significance of certain elements in creating member satisfaction.

General Public Street Survey - Multiple response section

A statistical analysis of the multiple response section of the Street Survey was conducted. Since it was designed as 1-10 scaled, lower number means low degree and higher number indicates higher degree of agreement with each of 14 sentences. Initially means of all 14 variables were taken and compared secondly the mean figures for each variable were compared between the various demographic elements mentioned earlier. This demonstrates not only important elements of what motivates members to become active participants of the program, but for the various characteristics of demographics to appear. This is useful to investigate what each segmentation demands in loyalty program.

Unprompted attitudes and behaviour

Unprompted responses were taken from both members (through the RicaCard Survey) and non members (one on one interviews and street survey comments), the similar nature of the comments allow them to be analysed in a similar matter.

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In order to make sense of the 152 comments attained through the Rica Survey the comments needed to be sorted, this was achieved through a content analysis. A Content Analysis is an observation technique used to analyze written material into meaningful units. Content analysis has been defined as a systematic, replicable technique for compressing many words of text into fewer content categories based on explicit rules of coding (Krippendorff, 1980). Holsti (1969 pp 14) offers a broad definition of content analysis as, "any technique for making inferences by objectively and systematically identifying specified characteristics of messages" Thematic analysis approach is one of the most common approaches to content analysis. The coding scheme is based on categories designed to capture the dominant themes present in data (Franzosi, 2004).

Thus the data was separated into various groups that were linked by a common theme, given the large number of responses however this was needed to be done a second time and subgroups created.

The 152 comments were categorized into four large groups regarding the to a broad area of the program they related to, these four groups were; Ease of use, Benefits for members, Likelihood of achievement, and other. Once completed those categorized comments were broken down further into narrower groups relating to the specific issue within the broad area they related to.

The fact that both the data obtained from the comments from the street survey and the one on one interviews in Hotel Liseberg came from asking the respondents to answer the same two questions allowed us to combine the data and analysis these comments together to get a better understanding of non member attitudes and behaviour towards loyalty programs. As per the Rica Survey Comment section we used a Content Analysis, although given that fewer responses were involved this was only completed to one level. Analysis was then drawn based on a comparison on the results obtained from all both collections of data

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3.1.5 Validation and Limitations

The street survey conducted in Gothenburg was chosen at random however difficulty was found in obtaining older respondents. Given that the project was conducted in Sweden by English speakers many of the older respondents approached could not communicate sufficiently in English to provide accurate answers, this resulted in a survey that was skewed towards younger respondents.

The secondary data obtained from Rica Hotels is obviously hotel specific. Given the sensitive nature of the data collected it was not possible to compare this data with that of other hotels in the industry. In this study however it is largely used to confirm findings from other sources rather than provide conclusions in themselves.

3.2 The Current Marketplace

To be able to investigate the current market place we would need data that allowed us to view the major competitors and their products as well as the network of actors and actions that allow the program to be successfully operated. Thus the marketplace was looked at from both an external and internal perspective.

3.2.1 Research Locations

Data was collected directly from the six international hotel chains, which operate within Scandinavia (Norway and Sweden). Data was readily available and therefore collected directly from the chains themselves, usually from websites but occasionally through making contact with the hotel through telephone or email. The hotel chains concentrated on in this research are Rica, Scandic, Radisson SAS, Best Western, Choice, First and Elite, these hotels are all international, are based in Scandinavian countries or have hotels within the area.

3.2.2 Collection

The data needed to construct an overview of the loyalty program marketplace was collected between August - November 2005. It was done through Internet; given the fact that the program is one of the main marketing strategies for hotels; the information

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regarding the program could be easily found on the hotel's websites mainly within the sections of loyalty program, FAQ and room booking system. The factors, which were focused, were about the programs, discounts, internal/external services and special treatments.

3.2.3 Field Material

To investigate what currently exists in the marketplace an understanding of how point based loyalty programs are used by Hotels in the current environment required. In order to do this we attempted to summarise data relating to three areas of the industry; product offering, monetary value, and program design. This data was obtained from six international hotel chains operating in Scandinavia (Rica, Elite, Scandic, Best Western, Choice & Radisson SAS).

Product Offering

Information was gathered on five areas;

- ❖ Discount – Monetary services that the program offers to all of their members.
- ❖ Internal Rewards – Rewards that the members can redeem to the hotels service/products.
- ❖ External Partners and Rewards – Partners and the rewards that the members can use/redeem.
- ❖ Special Treatments – Non-monetary services that the program offers to all of their members
- ❖ The return on investment a member will receive after 10 nights staying at each hotel and using each program

Product Value

A Simulation was conducted in order to know what the monetary value of the rewards offered from each programs. Firstly we have set the conditions as date, room, person and location, which a person stays at a hotel. The total price was discovered by the chains' booking system on their websites. Based on the total price, we have calculated the points the person will earn from the stays and what can be redeemed from that amount of points.

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Program Design

To understand how the program is designed and works all those parties (organisations or individuals) had to be identified, and what they have to actually do for the program to be completed. Secondly, these actions were placed into chronological order and interactions between parties were then identified.

3.2.4 Analysis

Once the data was collected it was analysed through a variety of methods, from an external viewpoint we attempted to describe both what the programs offer and how valuable each program is in terms of the return a member would see should they use the program. Additionally we attempted to demonstrate how a loyalty program works by designing a template demonstrating how and where actors interact with each other and what tasks need to be performed in order for the program to be successfully delivered.

Program Positioning

The data obtained from the marketplace was used to form a product positioning map of the marketplace based on what the *program offers* and the *monetary value* (to the member) of each program. Thus identifying features and characteristics of each program and positioning and comparing them with other products offered in the market place.

Program Design

We designed a task diagram to understand how loyalty programs are designed and how they work. Our diagram studied the actions and processes that a user is required to do to achieve a task. It gives an understanding of the network of actors and how information flows within it. The task analysis enables an appropriate allocation of tasks within the new system. The functions to be included within the system and the user interface can then be accurately designed and specified. The information flows are important for the maintenance of an existing system. A failure to allocate sufficient resources to an action increases the potential for costly problems arising in later development phases. Data

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collected from the internet was used to build the task diagram through the identification of all actors, events and actions involved in the process of delivering a loyalty program.

3.2.5 Validation and Limitations

In order to gather information on the current loyalty program market place, we used mainly information gathered from the hotel the chains' website, given the Internet is one of the main marketing resource used by hotels to promote their products, including their loyalty program, information was readily and easily available, where it wasn't required data could be easily collected by contacting the hotels directly (through telephone or email). Given the marketing nature of both loyalty program and website it is possible that the data may have been promoted in a exaggerative manor, but given the legal responsibilities firms must adhere to when advertising and the fact that data collected was merely on a have/have not basis this should not have had an effect on the accuracy of the results and conclusions of our study.

While we do acknowledge the cost of running the loyalty program to the hotel will dramatically affect the success of the loyalty program, in this study we do not include it any aspects of cost. To have included cost would have required a much wider range of sensitive data which hotels would be reluctant to provide given the industry wide aspect of this part of the study.

3.3 Summary

This study now comprises to two separate studies firstly the opinions attitudes and behaviour or members and potential member towards loyalty programs. This was done through collecting prompted responses and then using unprompted responses to confirm these findings. Existing member data was collected through secondary data conducted by Rica Hotels, potential member data was collected from the streets of Gothenburg through a questionnaire.

Data from the hotel loyalty Program Marketplace was collected directly from the internet pages of six international hotel chains in Scandinavia. The data was then divided into

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three areas, Information relevant to program design, program offerings and program value. The program offering and value were used to indicate each programs position in the marketplace compared to the other five programs. While information regarding program design was used to identify actors, events and interactions that occur during the loyalty program process.

4. EMPIRICAL RESULTS

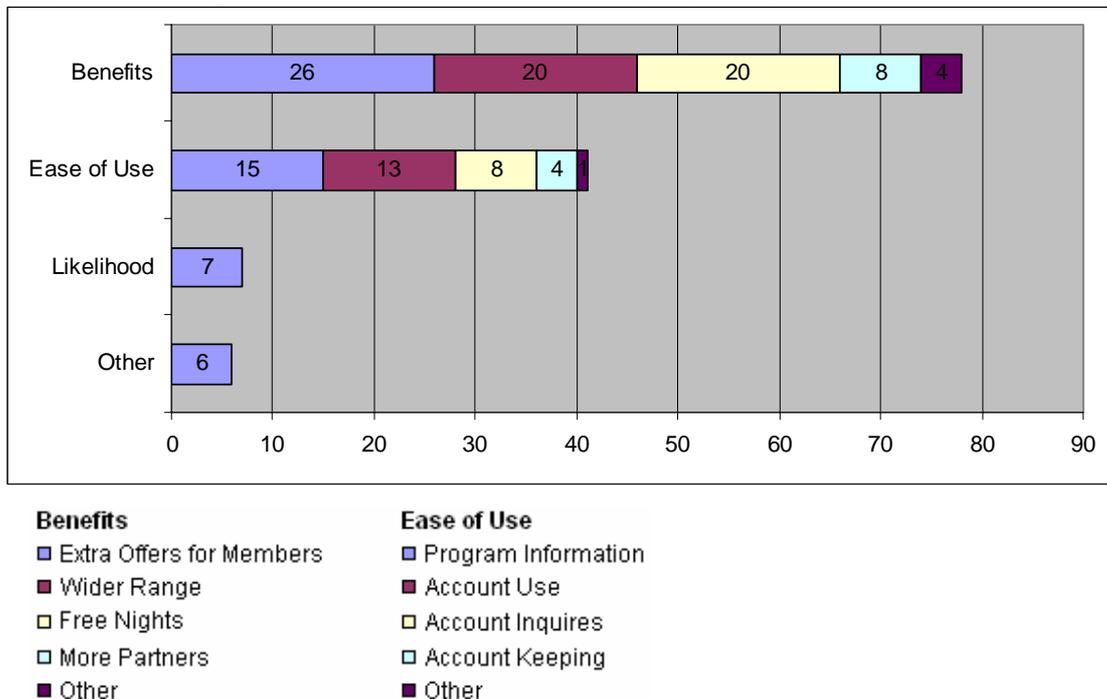
4.1 Unprompted Member values towards Hotel Loyalty Programs

As stated previously the RicaCard Comment section received 152 valid responses the vast majority of them complaints or recommendations for improvement. The comments largely fell into the broad categories of Ease of use, Benefits for members, Likelihood of achievement, and other. These categories were then broken down further into groups that demonstrated the areas where members believed the program could improve specifically.

4.1.1 Rica Card Member Survey Comments

The basic results from this survey showed that of the issues brought up by members the program’s rewards and benefits seemed to attract the most attention with 78 comments. Next largest group of regards the ease of use of program of which there are 41 comments in total, There are seven comments regarding the likelihood of achieving rewards, and six comments which don’t fit into any of these groups (See Graph 4.1.1).

Graph 4.1.1 – Categorisation of Comments from Rica’s Spring Survey



[See Appendix 4.1.1](#)

Empirical Results

Benefits

The issues that RicaCard members raised with regard to programs benefits included 28 comments requesting a wider range of opportunities for obtaining and spending points. 26 comments expressed a desire for extra offers which are only available to members. Finally, 20 comments stated that free night stays should be more readily available.

Ease of Use

There were 15 inquiries regarding the retrieving information which included comments regarding the system of providing information as being not well organized causing members inconvenience and confusion.

Secondly, 13 comments related to the actually using the program for example it may be difficult to collect points, redeem points, make inquire; many comments suggested providing convenient locations for members to interact with the program. Many Swedish members expressed displeasure at having to contact Norway for all account inquiries, such as account information, redeeming points and responding any question about the program.

Likelihood of Achievement

Some members are not appreciated to the fact that it takes time to obtain rewards, and have to wait until the points get a big amount. The survey highlighted the importance of two areas of the RicaCard program that appear to be failing in the eyes of the programs members, specifically the rewards and benefits and the programs ease of use. For the RicaCard program customers want rewards and benefits to be readily available and easily earned and the want to be recognised as a regular customer through special treatment.

The second area, ease of use, members demanded an improved method of delivering information, and simpler procedures for earning and redeeming points which members indicated currently was difficult and confusing.

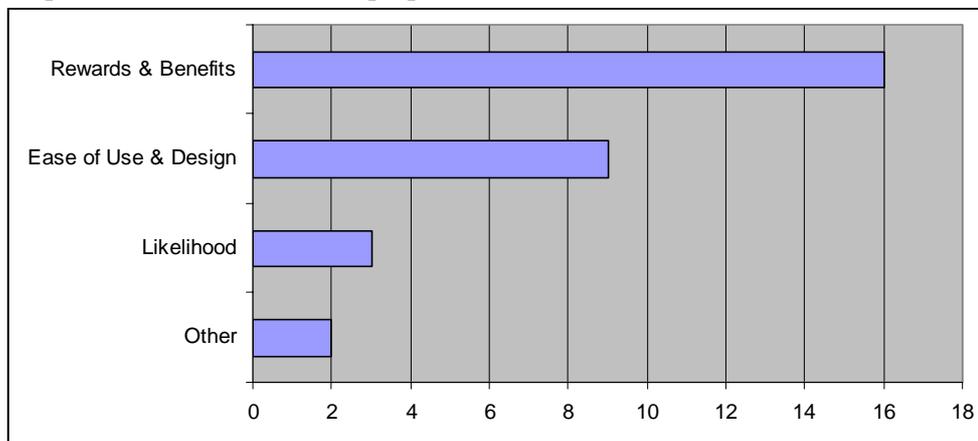
Empirical Results

4.1.2 Hotell Liseberg and Street Survey Comments

Graphs 4.1.2 and 4.1.3 demonstrate the summarised responses from the comments collected from both the interviews conducted within Hotell Liseberg and from the comment section of the street survey. They demonstrate the elements of loyalty programs which encourage or discourage from people becoming active members.

The elements that encourage members to become active members can be categorized into four groups: Rewards and Benefits, Ease of use, Likelihood, and others. There are 30 comments about positive factors in total.

Graph 4.1.2 – Factors that make people want to become an active member



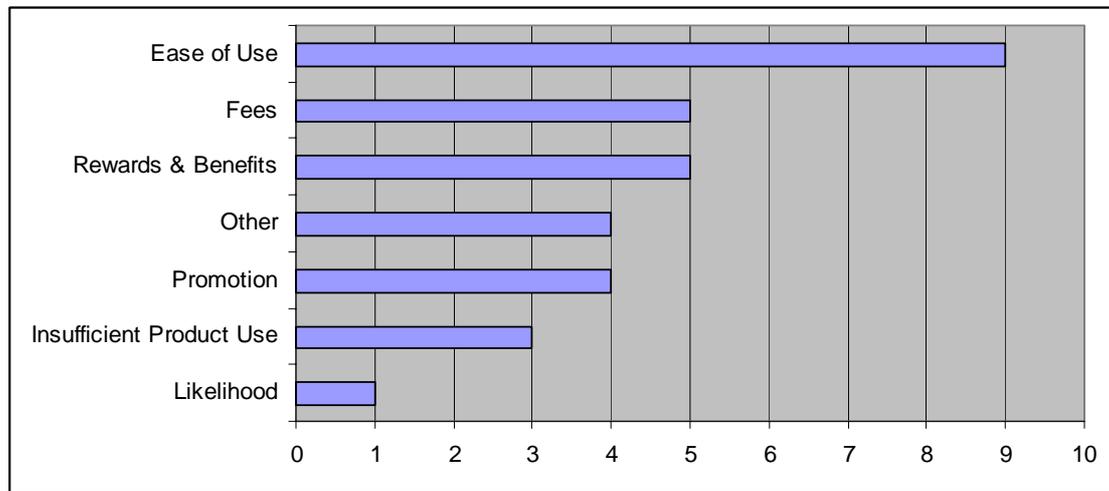
[See Appendix 4.1.2](#)

Monetary rewards and benefits such as discounts can be seen as a significant factor in motivating people to want to become active members. Special offers and invitations offered exclusively to members such as special events and special access to facilities are also effective.

Respondents suggest a program that is easy to use and provides information easily and on demand are both a critical factors in encouraging them to use a program. Additionally respondents are more motivated by benefits that are tangible and if it is possible to redeem their points rather frequently. Recognition is also important; while a number of respondents voiced concerns over the reliability of the programs in handling private information.

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Graph 4.1.3 – Factors that make people not want to become an active member



[See Appendix 4.1.3](#)

The 31 comments regarding elements of a program that discourage members from becoming active members can be categorized into seven groups: Rewards and benefits, Ease of use, Likelihood, Fees, Unexpected promotions, rarely use of the services and others.

For respondents rewards and benefits are important. If they are not appealing enough or if they are not what people want people will lose enthusiasm for the program. Once again ease of use plays a large role in members' attitude and behaviour towards loyalty programs, there were 12 respondents out of 30 who mentioned that if the program seems difficult to use they don't want to become members even if the rewards appeal.

The Likelihood of earning enough points to be able to redeem them is also of considerable concern to potential members. People will tend to forget about the program or lose their enthusiasm towards it, if it takes very long time to obtain rewards and benefits. A Membership fee is another factor that will contribute to potential members deciding against joining a program. People may need convincing that the cost of the fee represents value for money. A Fee can be a huge barrier.

Members indicated that if they feel that a loyalty program generates excessive promotional material to their members they will be discouraged from joining them. They

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can get the impression that the program just uses members to promote and sell their products, not for the purposes of loyalty building. The level of promotion has to be considered carefully.

4.1.3 Unprompted attitudes and values towards Loyalty Programs

Table 4.1.4 - Main results from RicaCard's members

Benefit	Ease of use
Not enough extra offers only available for members.	Hard of get detailed information about program.
Range of choosing benefit is not wide enough	Hard to use the account.
Difficult to obtain the reward of free night stay, because of the small availability and too much regulation.	

From the analysis of the recommendations and complaints from RicaCard's members, it was found that comments regarding the programs ease of use and Benefits were most frequent. In this case members wanted special treatment available for members, wider range of choosing benefits and availability of reward, which is free night stay in this case. Additionally members stated that programs should be easier to use through improved distribution of information and simplifying the procedures for earning and redeeming rewards.

Regarding to the ease of use of program, it is very essential to have information in several languages, at least English information, and also should provide information clearly. In order to implement that, it is necessary to organize the web pages and to provide more/better information to employees, since both internet and encounter of employees are main interface between program and member.

Table 4.1.5 - Main encourage/discourage elements to become an active member in Loyalty program.

<i>Encourage elements</i>	<i>Discouraging element</i>
Benefit	Ease of use
- Attractive discounts only for members.	Fees & Promotions
- Special offers only for members.	Unappealing benefit
Ease of use	

The data collected from Hotell Liseberg and the Street Survey Comments provided remarkably similar results, both the ease (difficulty) of use of the program and perceived

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quality of the benefits offered were significant as both as factors that may contribute to a member actively participating in a program and also by discouraging a person from actively participating in a program. Additionally both surveys indicated that members wanted benefits that recognised and treated them as special customers. The similarity between the two surveys is significant especially given that these comments were unprompted.

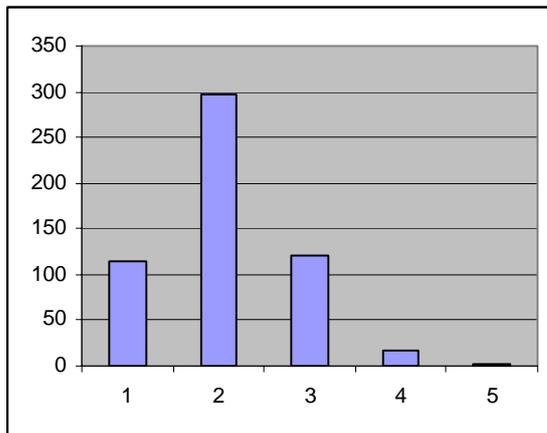
4.2 Attitudes and Behaviour towards specific Loyalty Program Elements

4.2.1 RicaCard Member survey Multiple Response Section

Frequency Analysis

Around 96% of respondents admitted a loyalty program played at least a small role in hotel selection (Graph 6.3.1) while almost 75% suggest that it was either very important or fairly important. Only 3.2% suggested that loyalty programs played no role in their hotel selection process.

Graph 4.2.1 - How important are loyalty programs when choosing between Hotels?



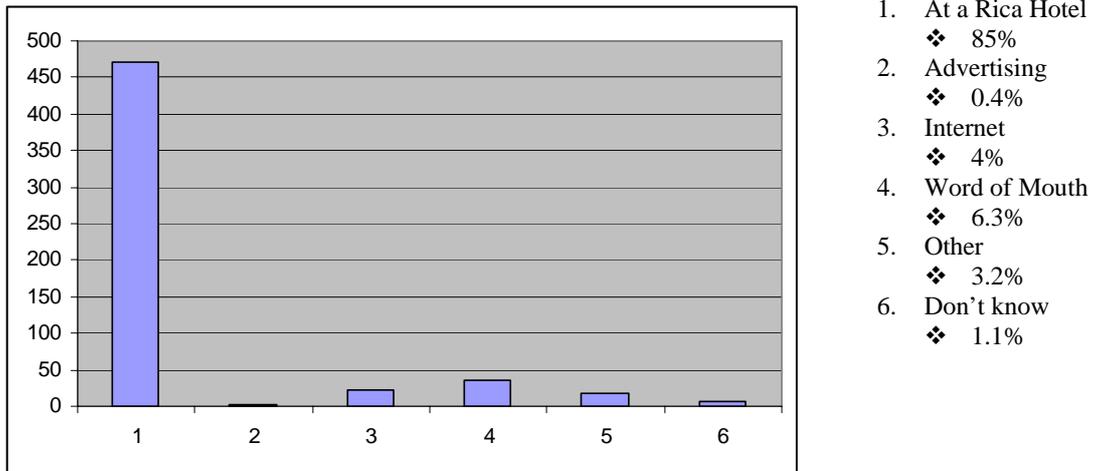
1. Very Important	20.8%
2. Fairly Important	53.8%
3. Of Little Importance	21.8%
4. No Importance	3.2%
5. Don't know	0.4%

Of those surveyed 85% indicated that they first learnt of Rica Card (Graph 4.2.1) while staying in the hotel. The remaining alternatives barely total 15%. The poor result of advertising can perhaps be

contributed to the fact that advertising may include in house promotion or internet promotion that may have been effective in reaching the potential member but fallen into another category under this survey.

Graph 4.2.2 - How did you learn about Rica Hotel's Loyalty Program?

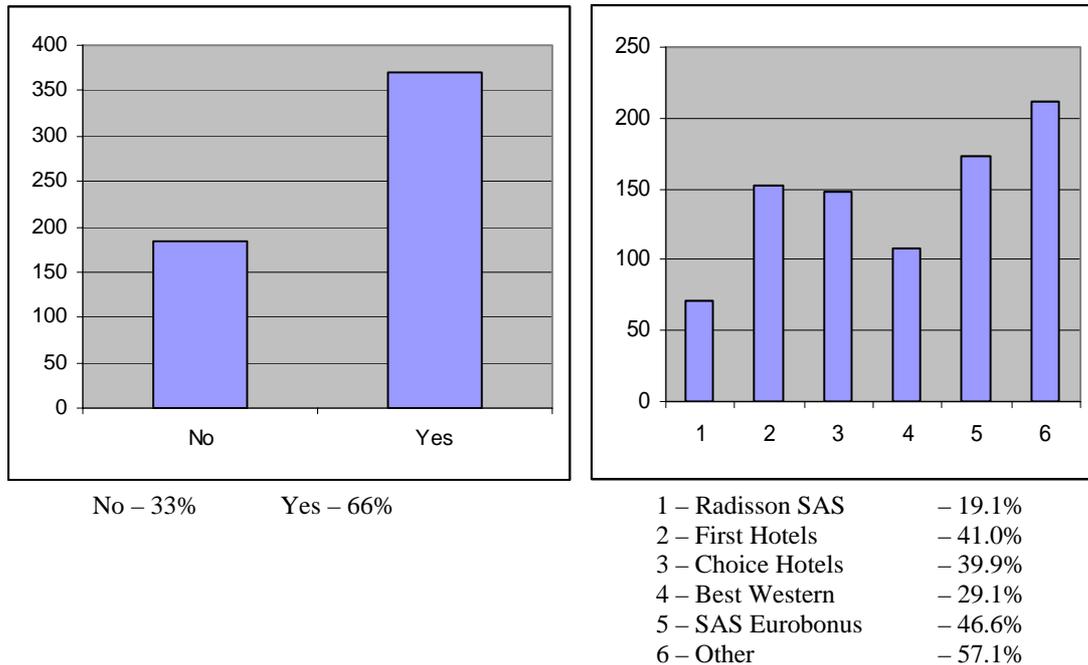
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1. At a Rica Hotel
❖ 85%
2. Advertising
❖ 0.4%
3. Internet
❖ 4%
4. Word of Mouth
❖ 6.3%
5. Other
❖ 3.2%
6. Don't know
❖ 1.1%

Interestingly around two-thirds of the respondents are members of at least one other program (Graph 4.2.3a and Graph 4.2.3b). Of those who are a member of other programs. Of those programs SAS Eurobonus was the most popular but all other listed options enjoyed significant numbers.

Graph 4.2.3 – a) Are you a member of another program? b) If so which ones?



Importantly 371 'yes' respondents turned into 864 respondents when asked which programs they were a member of (in this questions respondents could indicate more than one program if they were a member of more than one program) this means that the

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average member who is a member of more than one program is not just a member of two 2.32 programs in addition to that of Rica Card.

The actual result is probably higher than that given that a respondent choosing 'other' may be a member of more than one program not listed, this can contribute to the exceedingly high 'other' response as well as the fact that major hotel chains such as Sandic/Hilton and Sheraton were not included.

Hypotheses Testing

The data provided by Rica allows us to explore the relationship between various components of the Rica Card Loyalty program. Firstly, given the notion that an individual is more likely to regularly use a product that provides a high level of satisfaction, we will attempt to reject null hypothesis 1;

Null Hypothesis 1 - General Satisfaction in the program has no effect on the importance of the loyalty program in choosing hotel.

Null Hypothesis 1		A statistical analysis of the data provided by the Rica Card
Correlation	0.264	Spring Survey demonstrates that there is a positive
Correlation Squ	0.070	correlation of 0.264 between general satisfaction in the
Coefficient	0.210	program and importance of the loyalty program in choosing hotel.

This equates to a 7% likelihood that an increase/decrease in a customer's satisfaction with the program will result in an increase/decrease in the importance of the loyalty program in the decision making process. Thus every one unit increase in the 'General Satisfaction with the programs' will result in a .210 increase in the 'importance of loyalty programs in Hotel Choice.'

Given that the correlation between these two variables is significant we can reject null hypothesis 1 and state that General Satisfaction in the program does have an effect on the importance of the loyalty program in choosing hotel.

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Given Hypothesis one, investigating the elements that create satisfaction is of importance, not only identifying them but also assigning a weight to each element in terms of its influence on satisfaction. The data from Rica allows us to identify two elements that may influence general satisfaction, thus null hypotheses 2a and 2b are put forward;

Null Hypothesis 2 - Level of satisfaction with program benefits has no effect on level of general program satisfaction

<i>Null Hypothesis 2</i>		There appears to be a very significant positive correlation between satisfaction with program benefits and general program satisfaction of 0.688. Thus 47.5% of the variance in program satisfaction can be explained through the member's satisfaction with the rewards and benefits offered by the program.
Correlation	0.688	
Correlation Squ	0.475	
Coefficient	0.557	

Accordingly for every one unit increase in Satisfaction with benefits will flow through to a 55.7% of a unit, increase in program satisfaction. Thus we can reject null hypothesis 2a and state that satisfaction with a program's rewards and benefits does have a positive effect on general satisfaction with the program

Having reject both null hypotheses we make the assumption that amongst other items the value a member places on a reward and benefits offered by a program influences the customers general satisfaction with the program. Increasing general satisfaction in the program has a positive effect on the role the program plays in the hotel selection process.

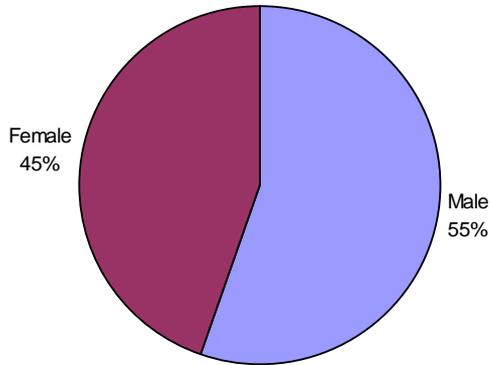
4.2.2 Street Survey Multiple Response Section

Description of the Population

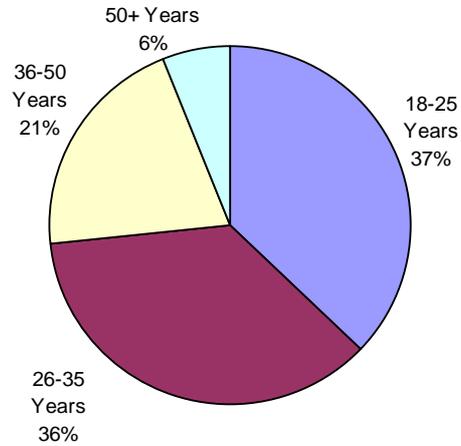
Seventy-seven people responded to the survey conducted on the streets of Göteborg. Of these people 55% were male and 44% were female. The majority of respondents were aged between 18 and 25 (37%) followed by those ages 26-35 (36%), those aged 36-50 made up 21 percent of the population while 6% of respondents were aged over 51.

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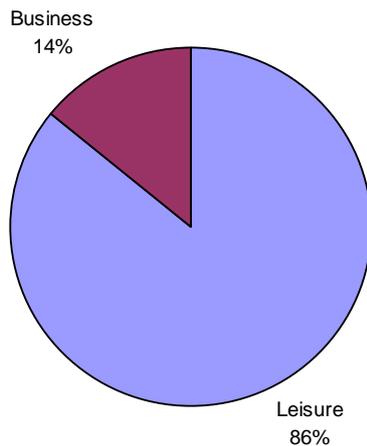
Graph 4.2.4 – Gender



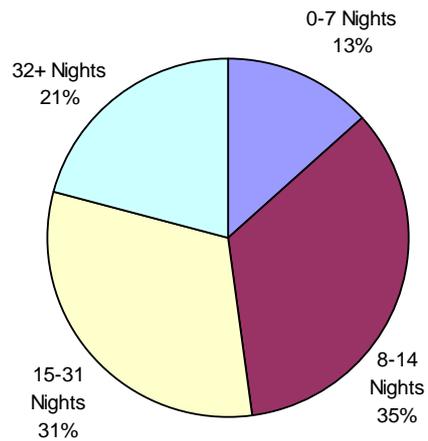
Graph 4.2.5 – Age Group



Graph 4.2.6 – Purpose for travel



Graph 4.2.7 – Nights/year in paid accommodation

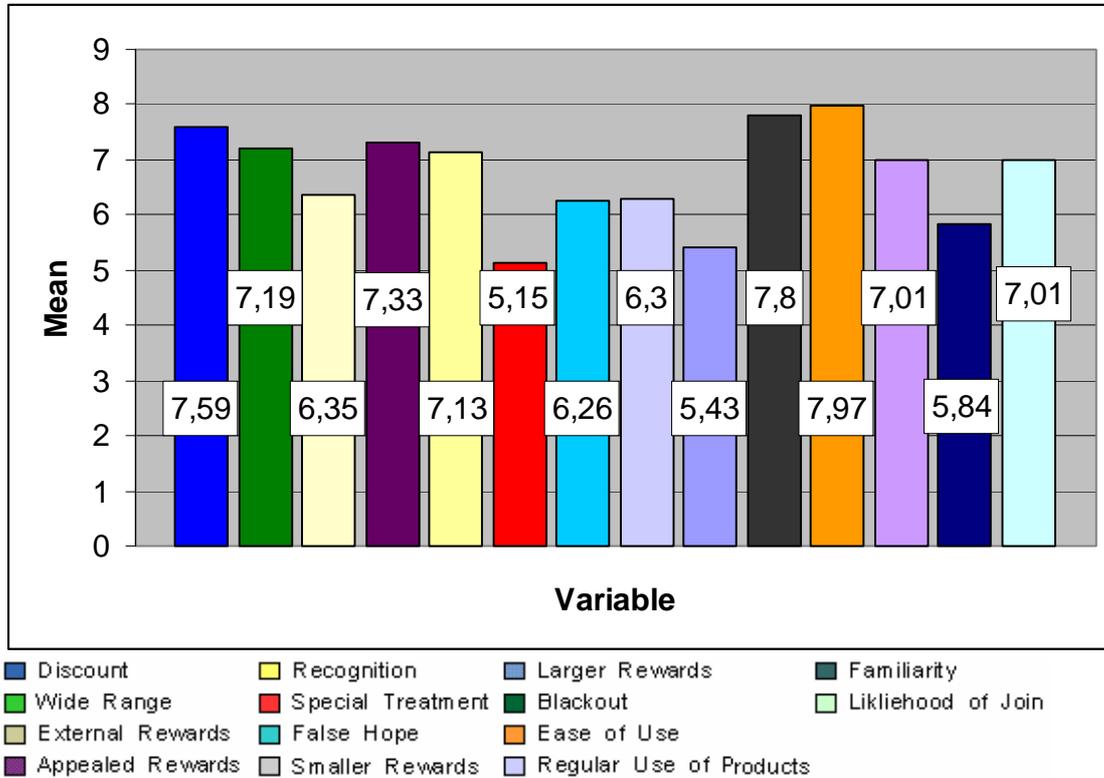


The respondent questioned mainly travelled for leisure purposes (75.3%) as apposed to business (11.7%). Most suggested they spent 15-31 nights per year in paid accommodation, followed by 0-7 nights per year (19.5%), 8-14 nights per year (15.6%) and finally those who stay more than 31 nights in paid accommodation made up 14,3% of the population.

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Responses from the Street Survey

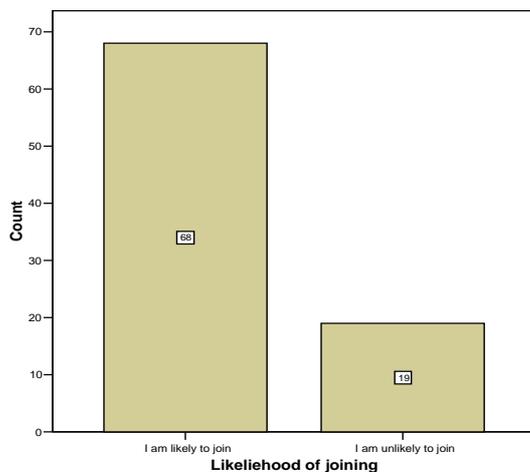
Graph 4.2.8 Comparison of mean responses to each variable



[\(See Appendix 4.2.1\)](#)

Comparisons of overall means of factors which motivate potential members to become active members indicate the idea of which factors are more important than others. Rather

Graph 4.2.9 – Likelihood of Joining a LP



high means are: Ease of use, Blackout system, Discount and Appealing rewards. Special treatment of other is not important, however recognition of ones self rated pretty high. In addition, from these comparisons it can be said that people prefer smaller rewards compared to larger rewards (see graph 2.2.8).

Comparison by Likelihood of Joining a loyalty program - Question 14 asked

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respondents to indicate how likely they were to 'never join a point based loyalty program' in (Graph 4.2.9) the respondents have been grouped into two categories, those respondents who graded the question 0-5 were placed in the category 'likely to join a program' while those who graded the question 6-10 were placed in the category 'unlikely to join the program'

The results indicated that 78.2% of the respondent would be likely to join a program, and while 21.8% were unlikely to join a program only 2.3% of all respondents indicated that would never join a point based loyalty program.

The group of people who are unlikely to join rates ease of use higher as an important factor to make them become active members, and they have strong impression of programs as programs give false hope, they get annoyed when other customers get special treatment, and blackout system is more critical for them.

The group of people who are likely to join, rates discount and appealing rewards as important factors which make them become want to become members. (See appendix 4.2.2)

Comparison of means by Demographics

Comparison by Sex - Comparisons of means by gender show that male has strong preference to ease of use and special treatment of others compared to females. In addition, in terms of the size of rewards, female favour smaller rewards more often, and males prefer larger rewards, and female prefer becoming members of products and services they use more often. (See appendix 4.2.3)

Males don't want to stand out from the crowd, they just want to use the program and take the reward at the end with as little impact on their life as possible, and they resent other being treated differently. Females prefer regular benefits and are more likely to join a program where they are already regular customers, females enjoy recognition.

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Comparison by Age - Comparison of means by age group illustrates that older people are less likely to join, discount, ease of use, recognition, special treatment become more important with age (See [appendix 4.2.4](#)).

As individuals get older they become less likely to be willing to join a program, at the same time significance of almost all factors increases, clear trends are identifiable in areas regarding benefit quality. As such they appear to place great importance on so many elements of the program that they become almost impossible to satisfy and which may lead to a cynical attitude towards the program resulting in the steady decrease in 'likelihood of joining a program' mentioned above. As opposed to the younger demographic who demand little and are more likely to join perhaps indicating that 'they are getting something for nothing' act in an opportunistic manner.

Comparison by Nights per Year in paid accommodation - Comparison of means by the number of nights in paid accommodation indicates that heavy travellers are more likely to join programs in general, and light travellers perceive blackout systems negatively. Wide range of benefits increases with amount of travel, and light travellers prefer smaller rewards more often, frequent travellers prefer larger rewards less often. (See [appendix 4.2.5](#)).

The more nights an individual travels per year the more the program appears to mean to them. They want a bigger range; they forget about the blackout period and begin to want bigger rewards. Thus a heavy traveller could be summarised as having ambitious goals from the loyalty program, probably explained by the fact that they feel the more nights they stay the more likely they are to benefit from the program. These elements are almost opposite in the light traveller, they attempt seek to maximize what they can get from as little as possible (smaller rewards, no blackout period)

Comparison by main purpose for travel - Comparison of means by purpose for travel shows that leisure travellers prefer discounts and business travellers demands more

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recognition. Business travellers have an aversion to the blackout system, and they demand external rewards more than the leisure traveller (See appendix 4.2.6).

The Leisure traveller sees the loyalty program as a way to get more from their holiday; they want discounts and appealing rewards. Both factors they associate with the value of a holiday and which they associate with the hotel. The business traveller demands recognition and benefits outside the hotel, perhaps associated with status.

Based on these explanations we derived the following summary of each demographic (See Table 4.2.10) by identifying either a motive for the demographic to join and participate in the program or the type of behaviour a demographic will display when interacting with the program.

Table 4.2.10 – Characteristics of Demographics within a Loyalty Program.

Demographic	Characteristic	Demographic	Characteristic
Male	Convenience	Female	Recognition
Older	Demanding	Younger	Opportunistic
Heavy Traveller	Ambitious	Light Traveller	Beggar
Business Traveller	Status	Leisure Traveller	Fun

4.3 The Marketplace

As loyalty programs are a key strategy used by hotels to create repeat business all of international hotel chains in the Scandinavian marketplace have their own loyalty programs. As basic reward, the chains offer free nights at one of their hotels based on either the members' number of stays or points. Additionally the chains often have external partners such as other hotels, airlines, free brochures, hire cars etc in order to have a wide range of rewards. At the same time, some hotels offer internal rewards, which allow the members to redeem their points for telephone bills, bar/restaurants and cleaning during their stay. In order to have overview of these programs, we have gathered information from international hotel chains, which have their hotels within Scandinavian countries. Information is based on the hotels website (August-November 2005).

4.3.1 Product Offerings

All of programs introduced in this thesis do not have any membership fee and the information is regarding the benefits that the basic member can receive.

As demonstrated, all of the hotels offer free nights as rewards for the members and there are two ways of earning points; by number of stays or by amount of money spent. However most of the hotels have set the system to let the members gain a free night after their 10th stay.

The information was gathered on four area we identified as being fundamentally important in defining the characteristics of a loyalty program, those being; discount, internal rewards, external partners and rewards and special treatments.

- ❖ Discount – Monetary services that the program offers to all of their members.
- ❖ Internal Rewards – Rewards that the members can redeem to the hotels service/products.
- ❖ External Partners and Rewards – Partners and the rewards that the members can use/redeem.
- ❖ Special Treatments – Non-monetary services that the program offers to all of their members

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Rica Hotel

Rica Hotels is the largest hotel chain based in Norway; it was founded by Prince Carl Bernadotte & Jan E. Rivelsrud in partnership with Restaurangedja A/S in 1975. Rica Hotels is the only hotel chain, which covers the whole of Norway. In 1998 it started to expand into Sweden and now there are more than 90 hotels in 61 cities within the area.

RicaCard offers 500points to the members for each stay and after 10nights (5000points), a free night during weekend will be offered to the members. The points are valid for three years and are redeemed on a first earned first spent basis. The external partners of Rica Hotels include ELIXIA (training centre), NSB (Norwegian train), Avis Car Rental, Shell (in Norway), Strömma Turism & Sjöfart AB (Tourist Company) and a hotel, Skene House in Aberdeen.

Rica Hotels offers unique rewards as golf weekend, wine tasting and experiences in nature. Rica Hotel's loyalty program differs from others by the way the hotel communicates with the members. Since the hotel asks for the members' interests, they "design" special offers for each category. Members interested in golf get golf offers, and members, who are not interested in golf, do not.

Scandic

Scandic is a hotel chain in the Scandinavian region with over 135 hotels in 10 countries. The hotel originally founded in Laxå, Sweden, in 1963 under the name of Esso Motor Hotel started expanding outside Sweden into Norway and Denmark in 1972. In 2001 Hilton International (HI), an operating division of the UK based Hilton Group PLC acquired Scandic hotel for £620.2 millions and since then, the hotel has been successfully integrated into the Hilton family.

HHonors is a loyalty program that can be used at over 2700 hotels within the Hilton Family; Hilton, Conrad Hotels, Doubletree, Embassy Suites Hotels, Hampton Inn, Hampton Inn & Suites, Hilton Garden Inn, Hilton Grand Vacations Club, Homewood Suites by Hilton and Scandic, which are located all over the world.

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Though the methods of earning the points differ with each brand, it is 1,000 HHonors Base points per night for eligible rate stays at Scandic hotels. However members who do not earn points in any 12-month consecutive month period may be removed from the Program and, if so, are subject to forfeiture of all accumulated points. The member may reactivate the account by staying at HHonors hotel, earning/purchasing points or request rewards. Failure to take the actions within the prescribed 90-day period will result in the closure of the Member's account and the forfeiture of all accumulated points.

Discounts that HHonors offer are free stays for spouse, low prices at the Scandic hotel shop (where available) and 20% off at the hotels restaurants during weekends. In order to have free nights, the main internal reward, the members should have at least 7,500 points for Hilton Family and 10,000 points for Scandic hotels. Furthermore the members can redeem their points as below within the hotels. However these rewards are only available at participating hotels, which any of Scandic hotels are not included. The other internal rewards are “15% dining discount” for 5,000points, “Buy one meal, get the second meal of equal or lesser value free” for 7,500points, “Free in-room movies —book of five certificates” for 7,500points, “Buy three nights, get the fourth night free” for 10,000points and “Buy two nights, get the third night free” for 12,500points.

As external partners, HHonors has partnerships within airline, train, cruise, car rental, credit card, newspaper and real estate companies. With these partners members can either earn points or spend their points and redeem. However besides airline partners, it is difficult to redeem for non-America residents since mainly the rewards are only redeemed in America.

A reward, which can be redeemed with the smallest points, is Avis 1-car-class upgrade or American Airlines US\$50 Gift Certificate (US \$currency only) with 2500 points. On the other hand a reward with the largest points is 8-day Eastern Caribbean (Carnival Legend) from New York City, with 7000,000 points.

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HHonors offers the following services as special treatments for just being the member; “free weekday newspaper”, “complimentary access to the hotel sauna”, “expedited check-in”, “service from HHonors guest manager”, “late check-out upon request” and “express check-out”.

Another unique system that HHonors have is Double Dipping. Though it is common that the other hotels’ loyalty programs allow the members to have miles instead of their points, the points can be added as only either for hotel points or airline miles. However HHonors is the only hotel, which allows the members to earn both hotel points and airline miles for the same stay (“the Double Dip”). Moreover HHonors allows the members to purchase the points from 1,000 to 40,000 points per calendar year. A point costs \$0.01 if the member purchases more than 10,000points at a time and \$0.0125 under 10,000points.

Best Western

Best Western International, Inc., is the world's largest hotel brand with more than 4,000 hotels in 80 countries. Best Western was founded in 1946 by M.K. Guertin, a California-based hotelier with 23 years of experience in the lodging industry. Best Western is not a publicly traded company. It is a non-profit membership association. Best Western is a membership association of independently owned and operated hotels. Each hotelier is entitled to valuable benefits as a Best Western member and each has a voice in the operation of the company. The loyalty program, Gold Crown Club points, may be earned at all properties in North, Central and South America, Europe, Australia and New Zealand. The method of earning points is simple, 1point =1US dollar. The members who do not use their cards for two years, their membership will be terminated and any outstanding points will be cancelled.

The program offers special seasonal discounts and services to the members. Rewards within the hotels are either free nights or Best Western Travel Card. The card is a reload able stored value card that can be used towards Best Western stays. The minimum

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amount of the card is 15 US dollars, which can be redeemed by 500 points. The members can redeem to a free night from 800 points.

The members can earn 250 miles with one of Best Western's global airline partners with each qualifying stay at Best Western hotels worldwide and no flight is required. Moreover Gold Crown Club International has variety of awards, including free room nights at Best Western hotels worldwide, Best Western Travel Cards, airline miles, and dining, shopping and entertainment at your favourite places from Starbucks to Target to Universal Studios. The categories of rewards are auto, dining, free nights, miscellaneous, travel, charitable donations, entertainment, merchandise, shopping and Kids Futures Education Savings Account. However these rewards are not available for Scandinavian residents. For the residents, free rental car at Avis is available.

The smallest reward that the members can redeem is donating \$2 to Red Cross Donation by 50 points and the largest reward is Sharp Aquos B6 series 13-inch TV by 11,900 points. However the TV can only shipped to US residence members and the largest rewards, which the other members can redeem, is a free night at the hotel by 3600 points. Furthermore the program offers a unique system that the members can transfer points from one account to another, as long as the accounts share the same address.

Radisson SAS

Radisson SAS Hotels & Resorts, part of Rezidor SAS Hospitality, currently operates 133 hotels in Europe, the Middle East and Africa. The loyalty program, Gold points plus, is run by a hospitality company Rezidor SAS Hospitality. It currently operates 248 hotels in 47 countries with nearly 50,000 rooms either in operation or under development. Rezidor SAS manages selected Carlson brands in Europe, the Middle East and Africa: Radisson, Park Inn, Regent and Country Inn. Rezidor SAS Hospitality is a wholly owned subsidiary of the Stockholm-based SAS Group. SAS is owned partly by the three Scandinavian governments and partly by private sector interests in these countries.

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Gold points plus is a loyalty program that is offered by Rezidor SAS Hospitality and participated by the hotel brand; Radisson SAS, Park Inn, and Country Inns & Suites hotels in Europe, the Middle East and Africa (EMEA; Europe, the Middle East and Africa). The members will earn Gold Points that can be exchanged for Award Stays and room upgrades, airline miles and other amenities. The methods of earning points differ to each brand. In the case of Radisson SAS hotels, EMEA, the members will earn 20 Gold Points for each qualifying euro spent. Furthermore the members can also earn Gold Points at the partner hotels in the Americas, Asia, Australia and in South Pacific at Radisson SAS Hotels & Resorts, Park Inn and Park Plaza Hotels and Country Inns & Suites by Carlson. However the members, who did not use their cards for two years, will be terminated their memberships and any outstanding points will be cancelled. As a member of the program, it is possible to have “Special offers including added values, hotel discounts and offers from travel partners”, “5% discount on all-day dining restaurants” and “Member exclusive offers”.

The members can redeem their Gold Points for free rooms (Award Stays) at any of over 400 Radisson SAS, Park Inn, and Country Inns & Suites hotels worldwide. Furthermore the members can redeem to these rewards with less points than a free night. “Instant room upgrade” for 10,000 Gold Points, “Two-for-one dining” for 8,000 Gold Points, “Pay TV movie” for 6,000 Gold Points and “Express laundry for one item of clothing” for 3,000 Gold Points.

Goldpoints plus has 12 Frequent Flyer Programme partners and save the children as an external partner. The rewards that members can redeem with minimum points are laundry at the hotels with 3000 points and 12500 points for a free night at one of their high-standard room.

As a member, the program allows early check-in and late checkout and best available room in category booked. Furthermore “Book now Earn later” is a system that the members book their free nights now, even before the members have earned enough points.

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The members who failed to have enough points by the free night will be charged for the room with the best available rate.

Choice Hotels

Choice Hotels Scandinavia ASA was established as a company in Norway 1990, with exclusive franchise rights for Norway according to an agreement with Choice Hotels International. In 1994, a 20-year Master Franchise agreement between Choice Hotels AS and Choice Hotels International was signed. The agreement gives the company exclusive rights to market the brands Comfort, Quality and Clarion in Scandinavia, as well as access to the chain's international distribution and reservation systems. The company was listed on the Oslo Stock Exchange in April 1997, and has its own operations and marketing organisations in Sweden and Denmark. Now Choice Hotel Scandinavia ASA has more than 140 hotels in the Scandinavian countries.

Choice Hotels has five different brands depending on the target market. Comfort Hotel as "Bed and Breakfast brand", Quality Hotel as a "City business/Conference brand" in or close to city centres or near airports, Quality Resort that offers an especially wide range of activities close to major attractions, Clarion Collection as a new brand for smaller business hotels with a limited range of services but which focuses on individual service where guests should feel at home and Clarion Hotel as first class business hotels with an international atmosphere, high room standards, excellent restaurants and conference facilities.

The members within the program will earn points by staying in a Choice Hotel, which can be converted later into stays in the hotels or trips. Basically the member will earn one point per Crown paid when staying at Choice Club prices, Nordic Hotel Passport prices or other agreed prices. In the case of staying for a course/ conference, they will earn 750 bonus points per night and 500 bonus points per night when staying at special prices/ crew prices. However no bonus points are given for special events/weddings/dinners etc. If the members stay a night in connection with a special event, they receive 750 bonus points per night. Furthermore the members receive 750 bonus points per night in Choice

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Hotels outside the Nordic countries, Estonia and Latvia. The bonus points are valid for three years (36 months) from the date they were earned. After this date they automatically lapse and cannot be used. The oldest points are used first.

One of the discounts that the program offers is “Restaurant voucher valued at SEK 35 (only in Sweden)”. It is a restaurant voucher that can be used to pay for food or beverages in the hotel restaurant (does not apply to spirits or cigarettes) at Quality and Clarion Hotels in Sweden, which the members receive every day they stay. The other discounts are “Choice Club price”, “10% discount on weekdays at all Choice Hotels in the Nordic countries, Estonia and Latvia”, and a “Nordic Hotel Passport valued at NOK 100”, which is included in the members Choice Club Card (does not apply to test cards). The passport guarantees the hotels’ best prices during weekends and in the summer.

The programs external partners are Malmö Aviation (500 bonus for each flight), Hertz (500 points for every renting, free membership in Hertz #1 Club Gold and reduced age limit to 23 years, which is normally 25) and FOREX in the Nordic countries (the members get better exchange rate than FOREX's regular rate).

The smallest reward within the program is a free night during weekend for 10,000 points and the largest is a free night for a family room for 30,000points. Special treatments that the program offers are “Waiting list priority” (the member will be given priority on hotel waiting lists) and “Booked rooms guaranteed until 9 pm” (the hotels hold the room that the members have booked until 9 pm, and they don't have to confirm).

First Hotels

First Hotels was begun in 1993 through acquisition of then SARA Hotels in Sweden. Since then First Hotels have grown through both purchasing additional hotels and building new hotels from the ground up. Currently First Hotel has 54 hotels in Sweden, Norway and Denmark. First member is a customer loyalty program that gives the members bonus points for every cent they spend in First Hotel. If the member has not

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used First Member for overnight stays or other goods and services throughout the course of a three-year period, or if the mailing address given ceases to be valid and no updated address has been submitted to the hotel, First Hotels may terminate the membership. It is possible to earn points from the bill of all food and drink from the hotel's restaurant, mini-bar purchases, cable TV, and telephone use. The points are converted to vouchers that will be sent to the members three times per year. The vouchers can be used during the stays, or shopping with any of the business partners. Each voucher is worth to 2500 points.

The program has special offers from First Hotels and external partners and local special offers depending on location. First Member vouchers, which the members receive every 2,500 points may also be used as a payment method at all bars and restaurants connected to the First Member program. If the members wish to make use of their First Member vouchers in restaurants or bars, each voucher has a value of 125 NOK/DKK/SEK.

As external partners, the program has partnerships between Fritidsresor in Sweden (the members can use the bonus points), O'Learys restaurants (can use bonus vouchers), Rotana Hotels (can use bonus points), hertz (bonus vouchers can be used to rent a car at the weekend and Comwell Hotels (get points for the hotel stays).

The smallest reward that the program offers is voucher, which can be used as a payment method. The voucher can be used at all bars and restaurants connected to the First Member program. Voucher has a value of 125 NOK/DKK/SEK. On the other hand the largest is a free night on weekday at First Hotel Reisen (Stockholm) and Vargergs Kurort Hotell & Spa (Vargergs), with 15,000points which is worth to approximately 2000SEK. Their special treatments are Guest profile with personal preferences, such as smoke-free room and guaranteed reservation even upon late arrival.

Elite Hotels

Elite Hotels consists of 17 quality hotels - from Malmö in the south to Luleå in the north Sweden. Each hotel has a unique history and the majority is housed in carefully restored

Empirical Results

buildings where the hotels ambition has been to unite classical style with modern trends in order to achieve harmony. The hotels' loyalty program members can earn bonus points for an overnight stay at any Elite Hotel, regardless of the room rate. The points can also be collected for food and beverages purchased in the hotel restaurants, use of the in-room minibar and telephone calls in connection with accommodation. If no bonus points are registered during a 12-month period, Elite Hotels reserves the right to discontinue the provision of regular printed information to the member. If no bonus points are registered during a continuous three-year period, Elite Hotels reserves the right to terminate membership and cancel any unutilised bonus points without prior notice. The discount service that the program offers is restaurant check worth SEK 25/night. As internal rewards, the members can redeem the points to either restaurant checks or free night at hotels.

Malmö Aviation is one of the external partners that the program has and it offers 500 points per one-way trip in connection with accommodation at Elite Hotels. By staying at Hansen Hotel Group in Copenhagen or Rainbow Hotels in Norway, the members earn 500 points per night. In addition the program offers newspaper subscriptions as well.

As special treatments, the program offers free newspaper every night. As a unique system, the members can also collect valuable points for food and beverages purchased in the hotels' restaurants, use of the in-room minibar and telephone calls in connection with accommodation.

Summary of Results

Discount – The entire hotel chains have discounts, mainly special offer on the room rate. While the other chains only offer discounts, which can be utilized at the hotels, Rica and Choice offers the discounts cooperated with external partners.

Internal Rewards – The basic internal reward within the seven chains is a free stay at the hotel. However Rica offers unique rewards as wine tasting and golf package, Scandic

Empirical Results

and Radisson offers restaurant discounts, room upgrade, free laundry etc, which can be redeemed during the members stay at the hotels. Furthermore Radisson offers unique system, “Book Now, Earn Later”. With this system the members do not need to wait until they earn enough points for a free night.

External Partners and Rewards – Besides Rica and First, all of the chains have partner relationship between airlines, which the members can earn either airline miles or hotel points. Scandic even allows the members to earn both the miles from more than 55 airlines and the hotel points, which they call “Double Dipping”.

The other popular external partners are rent car companies and hotel chains. Three of the chains have rewards, which the members can redeem their points at rent car companies. Rica, First and Elite, which do not have their own hotels as wide as the others have external partner hotels.

However the hotel chains based in USA have many rewards that their members can only redeem in USA, which may not be attractive for Scandinavian residents, as Jones and O’Brien (1995) state programs will be of more value to members if they are easy to use.

Special Treatment – In this perspective, Scandic and Choice are offering best services. This service is important to make the members feel “they are special” as Sharp and Sharp (1997) said that loyalty programs are structured marketing efforts which reward, and therefore encourage, loyal behaviour” behaviour, which is, hopefully, of benefit to the firm.

4.3.2 Program Value

In order to have practical idea of what customers gain from each loyalty programs, we have set a situation and gathered the information such as total price of the stays, points earned by the stays and the benefits which can be redeemed by the points.

Empirical Results

First we have set the conditions as date, room, person and location, which a person stays at a hotel. The total price was discovered by using the chains' booking system on their websites. Based on the total price, we have calculated the points the person will earn from the stays and finally, we have examined that to what can the person redeem.

Conditions

Date: November 1-11 (10 nights)

Room and person; 1 room for 1 adult

Location; nearest hotel from Gothenburg Central Station (Sweden) or the bus stop for the airport

Situation; The person will arrive at the hotel by own means and will as such will not be eligible for any points associated with travel, the person will not eat/drink at the hotels bar/restaurant, use mini-bar or phone in the room

Rica Hotel

Total Price: 10,035SEK

Points be earned: 5,000Points

From this amount of points, the member could receive one double room for weekend (Fri-Sat or Sat-Sun) for 5,000points.

Scandic

Total Price: 11,900SEK (1,190SEK per room per night)

Points be earned: 10,000points

From this amount of points, the member could receive one free night at Scandic Hotels (10,000points), Avis 1-car-class upgrade (2,500points), 15% dining discount (5,000points), "buy one meal, get the second meal of equal or lesser value free" (7,500points), free in-room movies, which is book of five certificates (7,500points) and "buy three nights, get the fourth night free" (10,000points).

Best Western

Total Price: 12,860SEK (1,649.35USD)

Sunday-Thursday 1,425 SEK (182.76 USD)

Friday-Saturday 730 SEK (93.63 USD)

Empirical Results

Points be earned: 1,649.35points

From this amount of points, the member could receive one free night (from 800 points) and Best Western Travel Cards, which is worth 15 USD (500points).

Radisson SAS

Total Price: 15,290SEK (1,639.60 EURO)

Points be earned: 32,792points

From this amount of points, the member could receive one free night within the hotel group (from 10,000points), instant room upgrade (10,000 points), two-for-one dining (8,000 points), pay TV movie (6,000 points) and express laundry for one item of clothing (3,000 points).

Choice Hotel

Total Price: 14,950SEK (12,650NOK)

Points be earned: 12,650 points

From this amount of points, the member could receive a free night for 10,000 points during weekend and 20,000 points for weekday.

First Hotel

Total Price: 9,580 SEK

Sunday-Thursday 999SEK

Friday-Saturday 794SEK

Points be earned: 9,580 points

From this amount of points, the member could receive two vouchers, which can be used as a payment method at all bars and restaurants connected to the First Member program. Each voucher has a value of 125 SEK. (2,500 points).

Elite

Total Price: 17,790SEK

Points be earned: 17,790 points

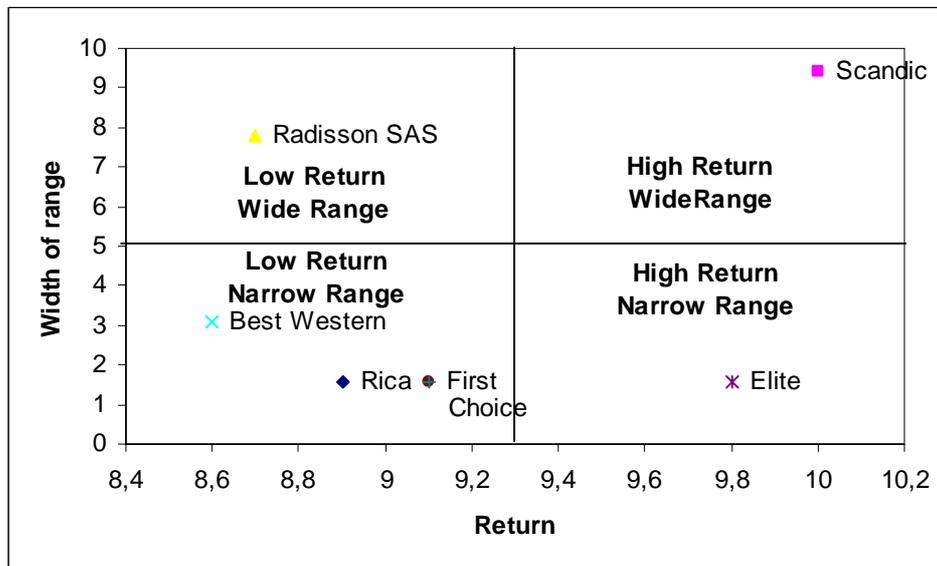
By the points, the person can have a free night for 12,500 points.

Empirical Results

4.3.3 Marketplace Positions

Table 4.3.1 demonstrates the current Scandinavian Hotel Loyalty program marketplace in terms of the width of range each hotel offers the percentage value of the rewards offered compared to money spent. The values are weighted depending on the results of their relation to what the other competitors are offering and the importance customers place on each element based on the findings from the street survey conducted in this research.

Figure 4.3.1 Information Map – Scandinavian Hotel Loyalty Programs



Hotel	Benefit	Width of Range
Rica	8,9	1,57
Scandic	10	9,4
Radisson SAS	8,7	7,8
Best Western	8,6	3,1
Choice	9,1	1,57
First	9,1	1,57
Elite	9,8	1,57

[For calculations see appendix 4.3.1](#)

High Return-Wide Range – Programs in this section can be said to be the most attractive, but must concentrate on maintaining their position given that improvement in these criteria can change the positioning of each of the lines that divide the four sections. Scandic is the only hotel chain, which existed in this type as it obtained 10 for benefits and 9,4 for width of range.

Empirical Results

High Return-Narrow Range – In this type, programs have high return but a limited range. In order to have more attractive satisfaction, the programs should try to expand both internal and external rewards. However as Butscher (2002) pointed out, it is important to understand the financial issue regarding to the program and renovation must be considered and preceded carefully. The programs in this type has great potential to be in High Return-Wide Range type, as they already have enough return to satisfy the members. Elite hotel was in this type by earning 9,8 for benefits and 1,57 for width of range.

Low Return-Wide Range – If programs are in this type, they should focus on setting higher return. It can be done by setting fewer nights to have free night or including the amount of cost that the members spend at hotels restaurant, bars, etc as points. Again since this reformation may cause financial problem it should be considered carefully. The programs in this type also have great potential to be in High Return-Wide Range type. Radisson SAS placed in this type since it got 7,8 for width of range but only 8,7 for benefits.

Low Return-Narrow Range – Programs in this type must immediately be reconsidered and should be reconstructed since just having loyalty program will not satisfy the members that they will not be loyalty customers. The most of chains, Best Western (8,6-benefits and 3,1-width of range), First (9,1 and 1,57), Choice (9,1 and 1,57) and Rica (8,9 and 1,57), situated in this type.

4.4 Generic Loyalty Program Design

4.4.1 Actors

From viewing the various loyalty programs offered by hotels in the Scandinavian Marketplace it was evident that exchanges and interactions took place between four individuals or organisations during the loyalty program process. Those being;

- ❖ Program Organisation – is responsible for running the program, providing a central meeting interface for actors involved in the program. Monitor Accounts
- ❖ Members – use the service provided by the 'Point Earning' Organisation earning points and then redeems points from a point-spending organisation.
- ❖ Point Earning Organisation – Provide Product to members in exchange for Points

Empirical Results

- ❖ Point Spending Organisation – Provide Point Based Benefits to members in exchange for points

It is entirely possible that The Program Organisation, The Point Earning and the point-spending organisation, are in fact sub-organisations of a parent company or three totally different stand-alone organisations. Or a blend of all three, regardless of this the roles played by the three organisations remain distinct.

4.4.2 Events

Events are a chronological list of proceedings that take place over the life of a loyalty program, in order for it to run smoothly. By identifying these events we can identify what *actions* are required to be completed by each actor in order to allow the event to be completed successfully. This allows incidents where actors interact with each other to be identified and additionally who is responsible for which area. This is important in fixing service failures and improving the quality of the service, and distributing resources. Our study identified eight events that take place over the lifecycle of the loyalty program.

Those being;

- ❖ Program Initiation – Approval for program to go a head
- ❖ Program Building – Partners and Benefits arranged
- ❖ Program Promotion – Program is promoted to potential members
- ❖ Membership Building – Membership grown
- ❖ Core Business – The points are earned
- ❖ Account Maintenance – Accounts are updated
- ❖ Contact – Inquires made, information gathered
- ❖ Arrange Benefits – Points Redeemed
- ❖ Benefit Distribution – Benefit used

4.4.3 Actions

Once all the actors and events have been identified it can easily be seen what role or act each actor must do to enable the process to move onto the next event and as such create a successful loyalty program product. These actions are listed below;

Empirical Results

Program Initiation

Once the need for a program has been established an organisation must be created in order to run the program. The *Program organisation* must design the program, how it works and its other basic elements and characteristics.

Program Building

The Program Organisation must seek partners to be both point earning organisations and point redeeming organisation by promoting the benefits of becoming a partner, negotiating agreements for payments, compensation. The *Point Earning Organisations* will make a decision to join the program based on perceived benefits to organisation, as will the *Point Spending Organisations*.

Program Promotion

The Program Organisation will design the promotional program, distribute promotional material and information to relevant places, likely to include point earning organisation, this will be the first opportunity for the *Member* to learn of and form opinion about the program.

Membership Building

The Member will make a decision to join the program at a destination designated on promotional material; the Program Organisation will collect member information from points designated in design process, likely to include Point Earning Organisation, and a website among others.

Core Business

The Point Earning Organisations provides a product to the member, recording the earning of points by member; the Member will use Product from point Earning Organisation and receive points in return by indicating that they belong to the program.

Empirical Results

Account Maintenance

The Point Earning Organisations must forward the point information to the Program Organisation; the Program Organisation will collect point information from the Point Earning Organisation and update the member accounts.

Contact

At this state the member may make account inquiries through channels promoted through communication material, the Program Organisation will answer member's inquiries through the designated channels and encourage members to use the program through additional promotions likely to include special offers, incentives etc

Arrange Benefits

Once the member has earned enough points to receive an award or benefits they must redeem them through the point organisation that will intern supply them with a form of confirmation (likely through vouchers, tickets, confirmation letters etc). The program organisation must also confirm and arrange this with the point-spending organisation.

Benefit Distribution

Point Spending Organisation will provide service to member while the member must simply redeem and enjoy product provided from the Point Spending Organisation.

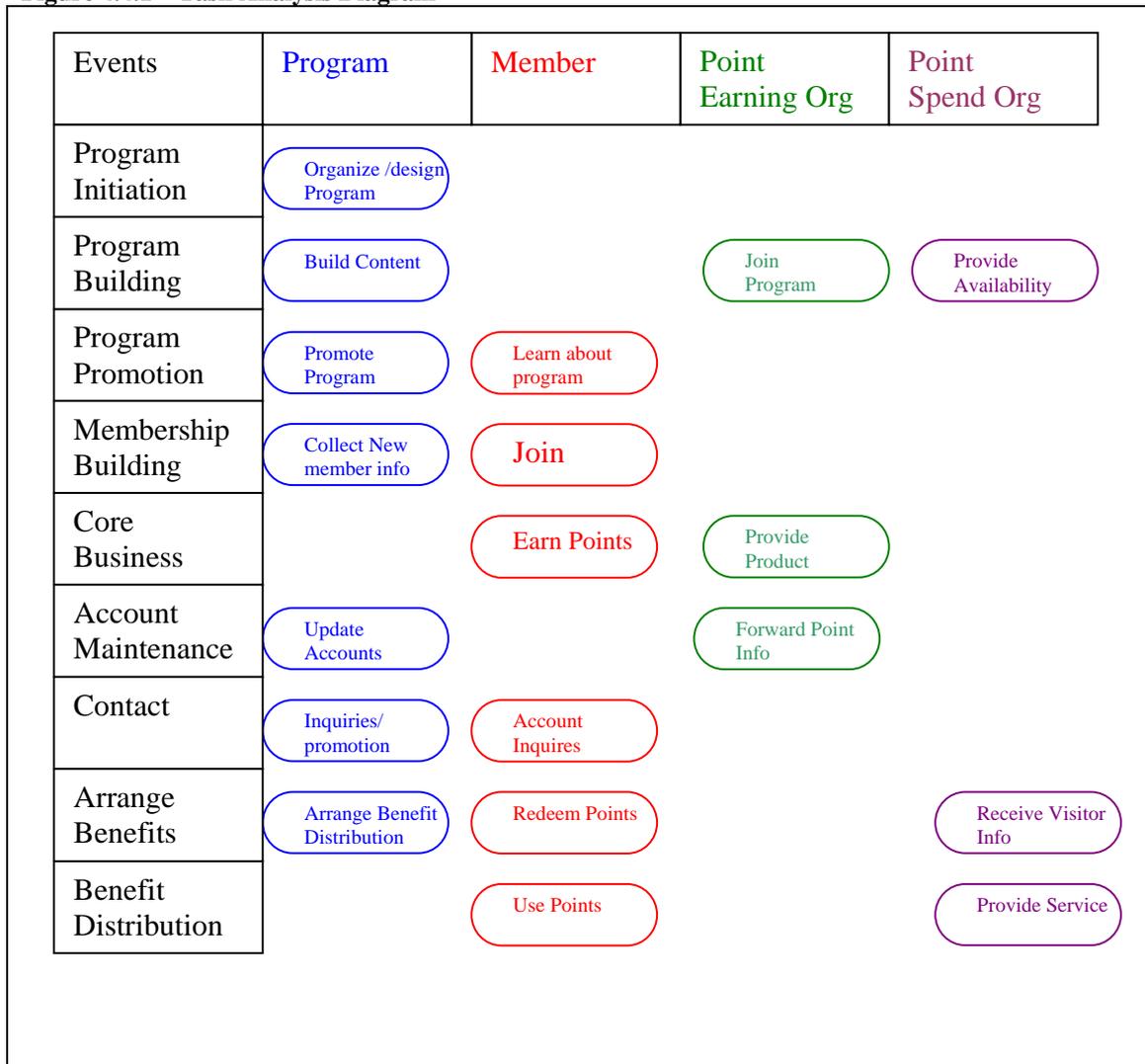
4.4.4 Task Analysis

Once all actors, events and actions have taken place they can be placed in the Task Analysis (See Figure 4.4.1) from the chronological order of actions each party must do, and is therefore responsible for is listed. Where two or more actors have actions at the same event an interaction between actors will occur, for example at the program promotion stage the promotion designed by the program organisation persuades the member to join the program. The task analysis clearly identifies these instances.

Empirical Results

It should be remembered that model is a generic plan of how a point based loyalty program may work and includes only actions that must be completed in order for the process to be completed. For example it is likely but not essential that the point-earning organisation will play a role during the program promotion stage. However the only way a program can be promoted in a consistent manor is if the umbrella Program Organisation is responsible for program promotion.

Figure 4.4.1 – Task Analysis Diagram



5. ANALYSIS

5.1 Overview

This analysis chapter will attempt to provide a basis from which to make the recommendations as to how to add value to hotel loyalty programs to the customer and therefore hotel. Firstly we will analysis the results of the empirical findings to ascertain what add value to customer Loyalty programs appeal to members. Secondly we will analyse the current marketplace, in terms of the competitors and the products they offer and the design of each program.

5.2 Loyalty Programs from a Customer Perspective

5.2.1 Creating Satisfaction

Importantly people do want to join loyalty programs, this is overwhelmingly evident from the empirical data, with around 80% of respondents indicating they are more likely than not to join a program, however despite the positive skew it remained only the 8th most significant variable measured. This suggests that the people are happy to join and use these programs but still direct a certain level of cynicism towards the program, thinking that that the hotel is only interested in taking their money (O'Malley and Prothero 2002), thus they will only use the program actively and enthusiastically under certain circumstances. This analysis will firstly attempt to explain what those conditions are.

The result of the hypothesis tests conducted previously is important as it suggests that loyalty programs have an effect on the guests choice of hotel, by increasing general satisfaction the individual is more likely to take the loyalty program into account when selecting hotels. While the correlation can only be classed as low to medium one must take into account the high number of variables that effect hotel choice such as location, purpose of visit, price etc. This demonstrates that being satisfied with a loyalty program will increase the influence of the program in hotel choice but it is only one variable in a large pool of factors which influence choice. This in itself is not surprising and is stated by many researchers and studies on customer satisfaction including Fornell (1992) and

Analysis

Oliver (1997) creating satisfaction in the product creates loyalty. What is not known is which program elements effect general satisfaction.

The data collected gave us a number of sources from which we could determine which elements members perceive as being important in creating satisfaction. The Rica Survey demonstrated that there is a link between the satisfaction with rewards and benefits and the influence in determining general satisfaction however this is probably unsurprising and is discussed previously by many researches including Dowling & Uncles (1997) and Liebermann (1999). What wasn't known was more specific details about specific elements of the program that can create satisfaction with rewards and therefore the program.

The results from street survey provided four elements of a loyalty program that proved more important than other elements we measured those being (in order of importance)

- 1 – The program must be easy to use
- 2 – There should not be a blackout (time limit) period on earning and spending points
- 3 – The benefits must offer a significant discount on the product
- 4 – The rewards must appeal to the user

The unprompted results reinforced both these findings with the 'quality of benefits' and 'ease of use' also featuring prominently. Ease of use obviously features prominently in both prompted and unprompted cases (although it was not measured in the secondary Rica Survey). 'Discount' and 'Appealing Rewards' can possibly fall under the same heading in a unprompted response given a respondent may see both these elements as being benefits of the program thus not mentioning them specifically. It is significant that 'The blackout period' is significant only when prompted.

Interesting 'The blackout period' was only mentioned when prompted. This suggests that this element will not be at the forefront of the guests mind and unless prompted may not influence the potential member to join or not join a program. The method in which a hotel communicates the existence of a blackout period is therefore important, by promoting it at the start of the program the hotel risks losing the customer, by not

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informing the member until a later stage of the program the guest may see the hotel as acting opportunistically, leading to a loss of trust between the two parties and destabilising the relationship (Morgan and Hunt 1994).

These elements make up the elements, which are most significant in effecting the customer's perception of a loyalty program. Therefore they should be considered in all 'loyalty program points of marketing' (Gummesson, 1991) exchanges between organisation and members (or potential members) this has implications for the way advertising, Internet sites are designed and the way staff are trained.

While the significance of each of the 14 elements measured in this study varies from demographic to demographic, incidents where these elements are not among top grouping of significance is rare, however the volatility of other elements change dramatically between demographics (the street survey measured demographics by sex, age group, nights per year in paid accommodation, and main reason for travel).

As Grönroos (1994) suggest true relationship marketing not only allows but demands *mass customisation*, this survey indicated volatile differences between four demographics, in truth members come from a mixture of all four demographics, and fall into many more, their income, background, family size, presumably give similarly volatile results with grave implications for member values and satisfaction and thus effective programs.

5.2.2 The Cheat Factor

The fact that 'two thirds of members are members of 3.23 programs demonstrates that simply throwing points at members does not make a loyal customer. By signing up a potential guest you merely creating attitudinal loyalty, signing up a member does not create behavioural loyalty.

If one makes the assumption that loyalty programs are in fact worthwhile and an effective tool in manipulating a member's decision making process then it can be concluded that the strength of the loyalty program product is vital not only because there is a two thirds

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chance the member will have the choice of 3.23 programs to choose from, but by choosing one program they are harming their chances of earning rewards in their other 2.3 programs, thus the member has something to lose by using an inferior product.

Leek et al, (2002) suggests commitment to a relationship may not be as strong from both parties point of view, and in this case the commitment by the member towards the program appears to be far less than that of the hotel towards the guest. By using one program the member is *cheating* on the other 2.23 programs. Given the fact that the customer has very little chance to invest additional resources in the program this is not surprising, thus where commitment occurs it is of an affective nature (as opposed to calculative commitment) whereby the guest maintains the relationship solely because they want to (Mathieu and Zajac, 1990). There is nothing binding the member to the program such as a contract and transaction costs (in terms of wasted points) only occur once a member has used the program over a period of time.

5.2.3 Learning about the program

The fact that overwhelmingly members first learn about the RicaCard program while in the hotel stresses the importance of ensuring the program is promoted and presented well in each hotel. This is the location where a potential member is most likely to learn about the program and as such form an opinion on it and ultimately decide to join or not to join.

5.3 Loyalty Programs from a Hotel Perspective

5.3.1 How are loyalty programs used in the Scandinavian Market Place

While in the Scandinavian Marketplace all Hotel Loyalty programs can be classified according to Smith's (2000) definition of a point based loyalty program, all programs included elements or characteristics of other types of programs, demonstrating that Smiths categories are by no means mutually exclusive. Indeed instances of programs trying to include elements of service, access or discount based programs are frequent. In short programs are attempting to create a value for their members in a variety of ways.

Analysis

How Hotels attempt to Create Value

Jones and O'Brien (1995) believed that there are five factors that will add value to a program from a customer's point of view, below is a summary of their findings.

- ❖ The cash value of redemption reward
- ❖ The range of choice of rewards
- ❖ The aspirational value of the rewards
- ❖ The subjective likelihood of achieving rewards
- ❖ The scheme's ease of use

Examples of these elements being commonly associated with all the programs studied are frequent. The free night is the most basic reward within hotel industry's loyalty program. Obviously from hotel's point of view it is cheap and easy to provide and given that to earn this reward the customer must already be frequently using this product suggests that it is probably of value to the member. This is the basic reward for customers who frequently use the hotels services (Shapiro and Vivian, 2000) that aims to increase the lifetime value of the guest (Johnson 1998).

All of the programs have a hierarchy of membership levels, based on the number of stays a member makes in a year. Members can upgrade to a level, which offers more services and benefits as they use the hotel and its services more. As Jones and O'Brien (1995) state the aspiration aspect of a 'gold level' membership may encourage members to actively participate in the program.

According to Jones and O'Brien (1995) including a wide range of goods and services as part of the program will add value for the member. All of the programs have both internal and external rewards as key characteristics of their programs. Internal rewards can add value to the member's stay, while external rewards add value to programs through providing services usually required in conjunction with hotel accommodation such as airline tickets and hire car vouchers

Many benefits were offered regardless of membership level or nights stayed. Straight monetary discounts were often offered to members and special offers, discounts,

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vouchers and treatment were provided for simply choosing to join a program. As Barsky and Nash (2002) have mentioned, the emotions a guest feels during a hotel stay are vital components of satisfaction and loyalty. Non-monetary special treatments can make the members feel themselves as “special” and enhance customer value.

Finally there is a frequent example of hotels attempting to add value to their program by making it easy and convenient to use. The seven programs all have online account services on their websites so that the members can log in and check their current situation. Having online account service is beneficial for both the members and the hotel chains since the members can contact their program quickly, cheap, at any time and from any location while the programs can save costs compared to having customer service centre and member frustration at being placed on hold. Additionally within the seven programs, there are no hotel chains that charge membership fee to their members.

Programs also use simple methods for members to accumulate points; “Per stay” is an easy way of having idea of how long will it take to have rewards but also “per unit of currency spent” is a simple method to encourage members to spend more money at the hotel itself.

Unique Programs?

Even if a program offers attractive services, it will not be attractive if the other programs are similar. As Reinartz & Kumar (2002) identified most loyalty programs that exist today in all industries are very similar and in absence of any clear differentiation or special value proposition, organizations often squander valuable marketing resources attempting to build loyalty that may or may not result in a profitable outcome. In order to have successful program, it should be differentiated to the others, the hotel industry appears to be of very little difference.

There are some examples of differentiation; Rica offers special offers which are based on the members’ hobbies such as wine tasting and golf packages. Radisson SAS

Analysis

differentiates its redeeming point method by allowing members to “Book Now, Earn Later” where members can book free nights before earning enough points for those, they can earn the remainder of the points required between the time of booking and the night they redeem the free night while Elite and First have a wider range of areas where members can earn points inside the hotel such as the hotels’ restaurants, bars and telephones.

Yet in terms of the value of the return on points differentiation is minimal, with all competitors offering around a 9% return on money spent (for a free night). In terms of the range of rewards there is limited differentiation but in terms of the type of rewards offered, they all appear to follow a similar path, a hotel that offers one type of benefit will offer a free nights or room upgrades, the second level will be discounts within the hotel restaurant and bar, program partners are the usual suspects, hire car companies, airlines and movie tickets. Differentiation is at best limited.

Loyalty through Brand Names

According to Gounaris (2005) the more the client trusts the service provider, the more affectively committed to the provider the customer becomes. This trust appears to be directly linked to quality of the service offered and how the party interacts and bonds with the other party. By associating the hotels brand and logo with that of the programs the program can capitalise on the level trust already established by the hotel in the eyes of the member. This is a common marketing strategy used by hotels to promote the programs, it can see that the all hotels used the strategy to some extent by including their brand name and logos and colour schemes in their programs name and logo.

Likelihood of Achieving Rewards

As Jones and O’Brien (1995) mentioned, it is important for loyalty program to be not only attractive but also realistic for the members. Even if a program has a wide range and attractive benefits, it will not motivate the members if the processes of redeeming the rewards are too long or unpractical. As an industry as a whole, a member will receive an

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average return of approximately 9% and all bar one hotel will give away a free night for every ten nights spent at hotel. Given the member is asked for nothing more than their business this is probably a generous and achievable reward for their loyalty.

Economies of Scale

As a rule the smaller chains have “low return, narrow range” while the larger Scandic and Radisson, having access to many more partners offering a much wider range. Butscher (2002) said, it is important to understand the financial issues regarding to loyalty programs and the program should meet customers’ expectation and at the same time, should be cost efficient for the hotels. From this, it is probably not surprising that Scandic appears to offer the most efficient program from a ‘range and return’ point of view. Given its size the smaller chains have difficulties to develop their programs to the same extent as Scandic and Radisson, lower revenue and lower membership numbers make them a less attractive partner for external firms.

5.3.2 Hotel Loyalty Program Nature & Characteristics

Our task analysis demonstrates the many different interactions between all parties, not just those interactions with the member. The loyalty program is not merely about one transaction but a tool that the member will use repeatedly over a long-term period. Through looking at our task diagram alone various examples of both schools of relationship marketing are evident. Gummesson’s (1987) part time marketers are clear, only during the program promotion event may the traditional 4p’s occur, yet various interactions between member and other organisations provide opportunities for the member to form an opinion about the program. Those at the point earning organisations and point spending organisations must be aware of and responsible for their role as part time marketers the umbrella program organisation must therefore adopt a marketing orientation (Grönroos, 1994) throughout the program which is reflected in the communication with all other parties and in the way it allocates resources.

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Examples of the network approach to Relationship Marketing are also evident in the diagram. The diagram demonstrates that in order for the program to operate successfully the co-operation of four different parties acting in a network is crucial (Halinen 1996), information obtained from the member at the point spending organisation must be passed on to the program organisation and eventually onto point spending organisation, a hiccup in this flow of communication will ultimately damage the program and likely discourage the member from participating in the program in the future.

The relationship between guest and hotel is in what Worthington (1997) calls a state of mutualism, whereby all parties obtain objectives they could not have achieved by themselves, firstly the customer receives the reward/benefit which they would not have achieved had they stayed at ten nights at ten different hotels, as opposed to ten nights at one hotel, and the hotel benefits from gaining a loyal customer. These common goals or mutual benefits (Buttle, 1996) have a direct effect on the building commitment and trust (Morgan and Hunt 1994).

Payne et al (1995) suggested that relationships exist in many different areas that influence customer satisfaction, which will have different dynamics and as such will need to be managed differently. Obviously the member relationship is important and is demonstrated on the diagram. Interactions between the member and any organisation present not only the opportunity influence the members opinion but to also learn about the individual customer. The diagram also demonstrates that relationships exist between the suppliers (point spending organisations). Additionally the point-earning organisation will have influence and referral nature to its relationship with the program organisation.

This highlights the complex nature of the loyalty programs and the requirement for them to be managed through relationship marketing management, drawing on both the network and service approach.

The program offers very few opportunities for the customer to invest in the relationship (Gounaris, 2005) especially during the early stages of the relationship when a low amount

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of points means the low switching costs (Porter, 1980) in terms of lost points. Thus the level of commitment demonstrated by the program towards the member will be much higher than visa versa, as stated by Leek et al (2002).

6. CONCLUSIONS

The purpose of this paper was to provide a basis to make recommendations as to how to add value to hotel loyalty programs to the customer and the hotel. We attempted to do this through investigation of what members value and what hotels offer. Our conclusions on how to improve loyalty programs follow;

6.1 Many Demographics - One Program

Among the different demographics, there are different expectations towards programs, a single system within programs may not satisfy all members as different members will value differing elements. The only real attempt to customise a program was through the use of a hierarchy of membership levels (Gold Card, Silver Card etc) yet it would be fair to assume this is done to generate extra night stays as apposed to tailoring a program to the needs of a specific user.

Relationship marketing encourages loyalty not only through rewards but also through tailoring a product to the needs of an individual through learning about a customer. Loyalty programs allow a hotel to learn about a guest over time. Creating the 'John Smith Loyalty Program' with rewards and benefits based on the knowledge learnt would appear more attractive to a customer than trying to attract members through the use of a limited list of rewards. This does not need to be expensive or require extra partners; it might simply be about learning that Joe Citizen travels frequently with his family thus providing discounts on larger rooms, of free nights for the kids. Anna Svensson may enjoy a newspaper and coffee every morning, this can be a reward. Thus using the knowledge gained about a member to not only *mass customise* the core product (the hotel) but also to *mass customise* the loyalty program.

6.2 Building Commitment

Perhaps the most concerning results from the study, from a hotels point of view, was that members even when signed up are not necessarily loyal customers, they are willing to *cheat* on their relationship with a hotel, thus voiding or at least reducing the impact the loyalty program has on customer loyalty. Why is this?

Conclusion

Relationship Marketing is used by firms to establish, maintain and develop relationships with customers. By remembering and learning about individual customers; a service can be mass customised therefore providing a better service to the customer who will continue to use the product. The loyalty program is also a tool that can be used to collect this type of information. But for a relationship to grow from both perspectives, it requires trust and commitment from both parties and for both parties to benefit from the relationship. As expressed earlier both parties receive mutual benefits from loyalty programs, and programs attempt to leverage trust from association with a strong and well-known brand name but it is commitment where this type of relationship falls down.

As expressed earlier, commitment comes in two forms, affective (chosen commitment) and calculative (forced commitment), both are effective in creating repeat business and both have can have effective and profitable outcomes for the hotel and customer. Affective Commitment is predominantly how loyalty programs attempt to allow their members to commit. There is nothing binding them to the program, there are no consequences for them if they choose to terminate the relationship.

Certainly they are forgoing very little by using one of the other cards in their pocket. By switching programs they are probably changing very little in what they can achieve as this is a market place with very little differentiation, they will see a return of around one unit for every nine invested, the processes for earning and maintaining points are very similar and the main reward offered is a free night. Some range exists but to use a subjective statement little imagination exists.

The situation that arises is that a guests arrives at a hotel and is given a loyalty card for doing nothing, the card is the same as two others they have in their wallet which have the same benefits for around the same return. What part of this equation motivates the member to commit to one particular program?

Conclusion

Of course this level of commitment changes over time, if the guest does decide to commit to a program they will start to amass points, which will increase in value over time. A customer will assign a value to these points and in time the cost of forgoing these points by switching hotels will become too great.

Creating commitment through investment is seen as an effective method for building commitment, if something has been invested then something is at stake if the relationship fails. In this market place the customer does not invest at all in the relationship and even if they wanted to the hotel provides no opportunity to do so.

Due to an undifferentiated product, a lack of opportunities for the member to invest, and the unbinding nature of the relationship, commitment to a loyalty program develops only in the form of switching costs.

Increasing commitment may come in the form of increasing switching costs through allowing the member to accumulate points quickly in the beginning through a honeymoon period (where a guest earns double points for the first two months) or the customer earns points simply for joining meaning that they start with an accumulation of points.

Alternately by providing an area for the member to invest in the program such as a membership fee the member will have something to lose if the relationship fails. A membership fee was perceived negatively by respondents in this study but everyone has their price, and if the rewards are attractive enough to outweigh the fee then there is a greater chance that those who join the program may commit to it.

6.3 Influencing the members attitude

The program organisation, it is the central link between all actors involved in the program, ensuring all actors understand this will ensure that the program is run smoothly and therefore create value for all parties concerned. This must be reflected in the way the program is promoted within the organisations and by its staff. Given the independent

Conclusion

nature of the organisations involved to be able to do so successfully will require each organisation to adopt a program based marketing orientation whereby resources of each organisation are devoted to the promotion and implementation of the program. This is especially so during the period in which a member first joins a program.

Given that loyalty programs are least effective in their early stages where and how one learns about the program will greatly effect their level of affective commitment which is crucial in those early stages before the effect of switching costs kick in and nothing else is binding the member to the program. Information obtained for this study suggests that overwhelming this occurs while the customer is in the hotel. This would suggest than the way in which hotels promote their program in house is vitally important in ensuring that the program is successful.

Program promotion remains the program organisation's responsibility. However in this case it will be the point earning organisation, the hotel, who will be the one actually performing the promotion, only through a program based marketing orientation, can a department/organisation that is horizontally aligned within the programs hierarchy have any control over that department or organisation. Being aware of the role of part time marketers and points of marketing is crucial, and as such managers at all levels and in all departments must recognise their internal marketing responsibilities.

During the early stages promotion should be directed towards gaining trust (possibly through the associated brand name's reputation) and most importantly affective commitment through highlighting the aspiration nature of the rewards and benefits offered by the program.

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8. APPENDICES

8.1 Chapter 3 Appendices

Appendix 3.2.1 – RicaCard Member Feedback Questionnaire

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Members Questionnaire - Published from 02/12/2004 to 20/12/2004, 574 responses

1. How did you know about Rica Hotel's Loyalty program?

- a. At Rica hotel
- b. Advertisement
- c. Internet
- d. Word of month
- e. Other
- f. Don't know

2. Do you have other hotels' loyalty programs?

- a. No
- b. Yes

3. If so, which one?

- a. Radisson SAS
- b. First Hotels
- c. Choice Club
- d. Best western
- e. SAS EuroBonus
- f. Other

4. How much are you satisfied or dissatisfied with information about loyalty program which can be found on the internet?

- a. Very much satisfied
- b. Fairly satisfied
- c. Neither satisfied nor dissatisfied.
- d. Quite dissatisfied
- e. Very much unsatisfied
- f. Don't know

5. How relevant the information about Rica hotel's Loyalty program which you can find at www.rica.se?

- a. Very much relevant
- b. Quite much relevant
- c. Of little relevant
- d. Not relevant
- e. Don't know

6. There are emails which contains invitation of over nights stays, special package, and news letters from hotel which send out only to members. How do you evaluate this email service to members?

6.1 Gives me relevant information

- a. Very much
- b. Fairly much
- c. Not much
- d. Not at all
- e. Don't know

6.2 Information in emails attract my interest

- a. Very much
- b. Fairly much
- c. Not much
- d. Not at all
- e. Don't know

6.3 Makes me want to read

- a. Very much
- b. Fairly much
- c. Not much
- d. Not at all
- e. Don't know

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6.4 Contain attractive invitations and offers

- a. Very much
- b. Fairly much
- c. Not much
- d. Not at all
- e. Don't know

7. How often would you like to receive newsletter through email from Rica hotel's loyalty program?

- a. Once a week
- b. Once in two weeks
- c. Once a month
- d. Once in 4 months
- e. More seldom
- f. Don't want to receive any Newsletters.

8. How much are you satisfied or dissatisfied with reward which you get from Rica hotel's loyalty program?

- a. Very much satisfied
- b. Fairly satisfied
- c. Neither satisfied nor dissatisfied
- d. Quite dissatisfied
- e. Very much unsatisfied
- f. Don't know

9. How important are loyalty programs when choosing between Hotels?

- a. Very Important
- b. Fairly Important
- c. Of Little Importance
- d. No Importance
- e. Don't know

10. How much are you satisfied or dissatisfied with Rica hotel's loyalty program in general?

- a. Very much satisfied
- b. Fairly satisfied
- c. Neither satisfied nor dissatisfied
- d. Quite dissatisfied
- e. Very much unsatisfied
- f. Don't know

Appendix 3.2.2 – Street Survey Questionnaire

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Attitude towards Customer Loyalty Programs

Sex Age Main Reason for travel _____ nights/year _____

Are you a member of any point based loyalty programs eg Credit Card, Airline, Supermarket etc _____

Please indicate with a mark out of ten (10= Strongly Agree) how strongly you agree with the following statements

1. ___ I would join these programs if the rewards represented a good saving/discount on the good or good/service
2. ___ I prefer programs that offer a wide range of benefits
3. ___ I prefer programs that offer benefits other than that which the company offers eg Hotel offering Movie/Airline Tickets
4. ___ I would join these programs if the rewards appealed to me
5. ___ It is nice to be recognized and treated special when I return to a business
6. ___ Regular Customers should be treated differently from first time or one time customers
7. ___ Loyalty Programs offer false hope as rewards are usually impossible to earn and redeem
8. ___ I prefer smaller rewards more often
9. ___ I prefer larger rewards that I earn over a period of time
10. ___ If I lose points that I don't redeem over a period of time I am less likely to be an active member in a program
11. ___ Even if awards appeal, If programs are hard to use (earn/redeem points, gather information etc) I am unlikely to use them actively
12. ___ I would only join these programs if I already used the good/service regularly
13. ___ I would join these programs if I knew about them
14. ___ I would never join a point based loyalty program

Comments

What factors would make you an active member of a loyalty program

What factors would make you unlikely to be an active member of a loyalty program

8.2 Chapter 4 Appendices

Appendix 4.1.1 – Comment Groupings from Rica Spring Survey Guest Comments

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Benefits for members

- ❖ *Increase the number of companies involved*
 - a. Include more hotels inside and outside the Nordic countries
- ❖ *Wider range of benefits*
 - a. Special offer/free nights for families.
 - b. Should have rewards other than free nights such as free tickets for cinema, vouchers, free parking. (Rica has several, this suggests that information is not well presented).
 - c. More weekend packages and more rewards in Sweden.
- ❖ *Extra offers only available to members*
 - a. Extra offers cover many kind of guest interest (Gym, restaurant, TV and so on) and more events
- ❖ *Free nights*
 - a. There never seems to be bonus rooms available
 - b. Bonus rooms should be available on the weekend
- ❖ *Other 'Benefits' Comments*
 - a. Extra valuable bonus offers when you've reached more than 50 or 100 nights

Ease of use

- ❖ *Program information*
 - a. More language options, more general information in clear way (the website is messy so should be organized).
 - b. Should have more information regarding free nights/ available hotels and dates.
 - c. More information about “what is Rica Card”.
 - d. Employees need to know more about the program
- ❖ *Account use*
 - a. The system of redeeming points into free night is not well organized.
 - b. Have to contact Norway to redeem points.
 - c. Impossible to book a free night directly through the hotel.
- ❖ *Account inquiries*
 - a. Staff should be able to inform guests about status from the front desk
 - b. Account information sent via Post
 - c. Logging into accounts seems a problem
- ❖ *Account keeping*
 - a. Registration system is not well constructed. It's slow and not accurate.
- ❖ *Other 'Ease of Use' comments*
 - a. Big offer and Small offer to choose in the email news letter.

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Likelihood of achievement

- ❖ Reachable offer, and be able to obtain free nights faster.
- ❖ Be able to use points from the smaller amount.

Other

- ❖ More recognition as a frequent guest
- ❖ Keep the promises

**Appendix 4.1.2 – Comment Groupings from Street Survey Comments -
What encourages one to join and participate in program**

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Rewards and Benefits

- ❖ Benefit without doing anything different
- ❖ Benefits
- ❖ Have discount influence a lot
- ❖ H&M, can have discount every year
- ❖ Bonus, points, discounts and offers
- ❖ Visa master card =discount
- ❖ Convenient (just show card), benefit- up grade, free travel
- ❖ Member price, points and special offer
- ❖ Point, introduction and discount
- ❖ Gain benefit
- ❖ Point, information and discount
- ❖ Super market “ICA” =points-family, money back every month
- ❖ Up grade-take, wife to trip with business class, special facility and points
- ❖ Special event only for members
- ❖ Fun rewards
- ❖ Sheraton = Pratina has free breakfast, club special, And good facility

Ease of use

- ❖ Ease of collecting rewards, real rewards, frequency of use of that services
- ❖ 3 comments says ease of use
- ❖ No blackout
- ❖ Not many false
- ❖ 2 comments says to get information
- ❖ Easy access, regular Contact

Likelihood

- ❖ Tangible and consistent benefits
- ❖ If there are smaller and frequent rewards
- ❖ ICA =can redeem often

Others

- ❖ Being recognized
- ❖ High security, little advertisement

**Appendix 4.1.3 – Comment Groupings from Street Survey Comments -
What discourages one to join and participate in program**

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Rewards and Benefits for members

- ❖ Hope with no real reward. High investment, Little return
- ❖ Poor benefits
- ❖ Non appealing benefits
- ❖ No discount, long time
- ❖ More benefit for family members

Ease of use

- ❖ Difficult to use
- ❖ Hard to use
- ❖ If its complicated to earn points
- ❖ Difficult to use
- ❖ difficult to organise benefit trip, limitation
- ❖ ICA =too long time to gain point and complicated procedure
- ❖ Points doesn't offer benefit often and takes time
- ❖ Tricky information
- ❖ Complicated program and what rewards are rarely obtained

Likelihood

- ❖ If it takes long time to get rewards

Membership Fees

- ❖ Hidden tricks such as fees

Unexpected Promotions

- ❖ Phone calls, emails, advertisement.
- ❖ Direct mail
- ❖ Call, messages and forces
- ❖ Junk mail and post

Rarely use of the services

- ❖ Seldom use of that service
- ❖ Not using the services offers
- ❖ Not using the services often

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Others

- ❖ Business traveller usually doesn't care about program,
- ❖ they are not the one who choose hotel
- ❖ Always forget, not important
- ❖ Bad reputation
- ❖ Insecure

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Appendix 4.2.1 – Explanation of Elements

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 Discount	 Recognition	 Larger Rewards	 Familiarity
 Wide Range	 Special Treatment	 Blackout	 Likelihood of Join
 External Rewards	 False Hope	 Ease of Use	
 Appealed Rewards	 Smaller Rewards	 Regular Use of Products	

Discount – I would join these programs if the rewards represented a good saving/discount on the good or good/service

Wide Range – I prefer programs that offer a wide range of benefits

External Rewards – I prefer programs that offer benefits other than that which the company offers e.g. Hotel offering Movie/Airline Tickets

Appealed Rewards – I would join these programs if the rewards appealed to me

Recognition – It is nice to be recognized and treated special when I return to a business

Special Treatment – Regular Customers should be treated differently from first time or one time customers

False Hope – Loyalty Programs offer false hope as rewards are usually impossible to earn and redeem

Smaller Rewards – I prefer smaller rewards more often

Larger Rewards – I prefer larger rewards that I earn over a period of time

Blackout – If I lose points that I don't redeem over a period of time I am less likely to be an active member in a program

Ease of Use – Even if awards appeal, If programs are hard to use (earn/redeem points, gather information etc) I am unlikely to use them actively

Regular Use of Products I would only join these programs if I already used the good/service regularly

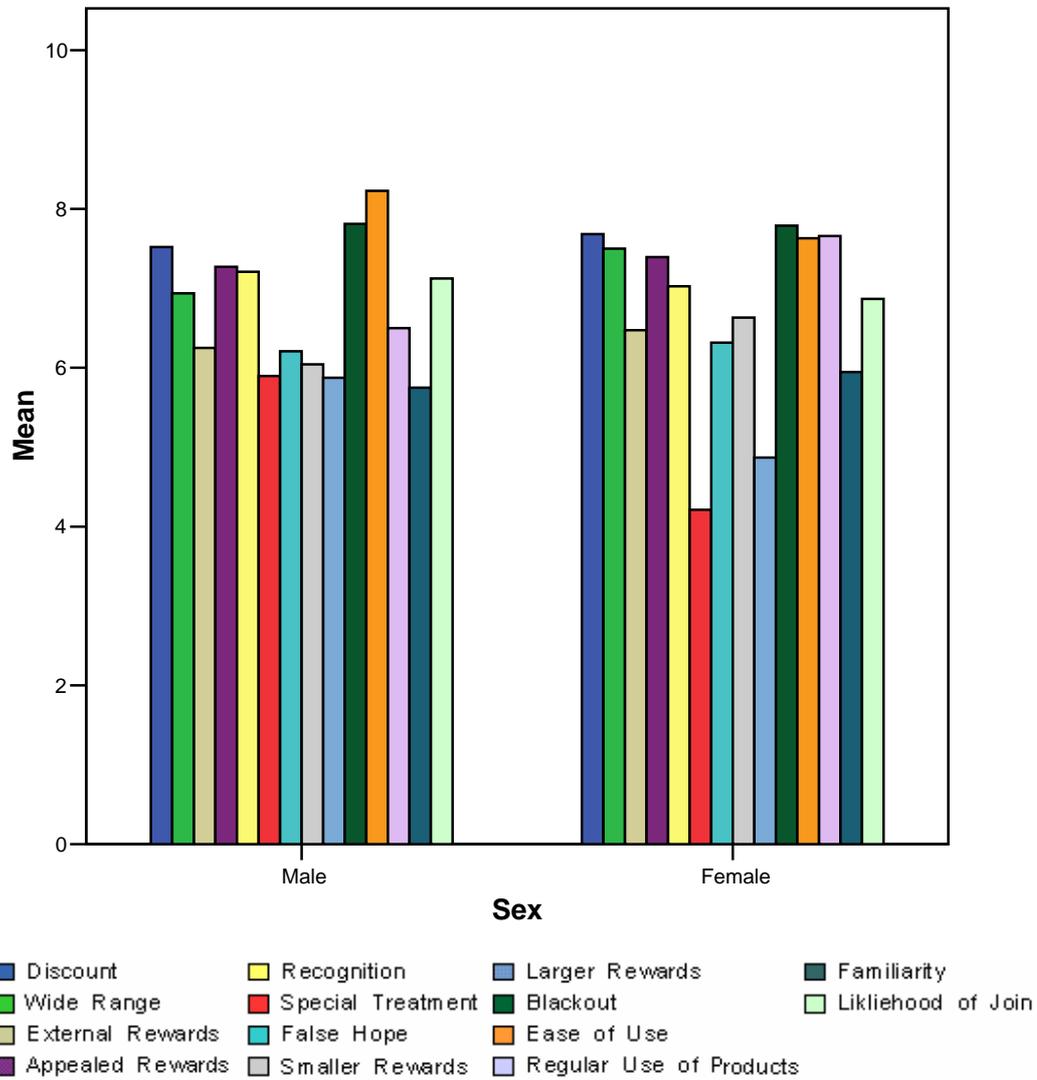
Familiarity – I would join these programs if I knew about them

Likelihood of Join – I would never join a point based loyalty program

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Appendix 4.2.2 – Means compared by Sex

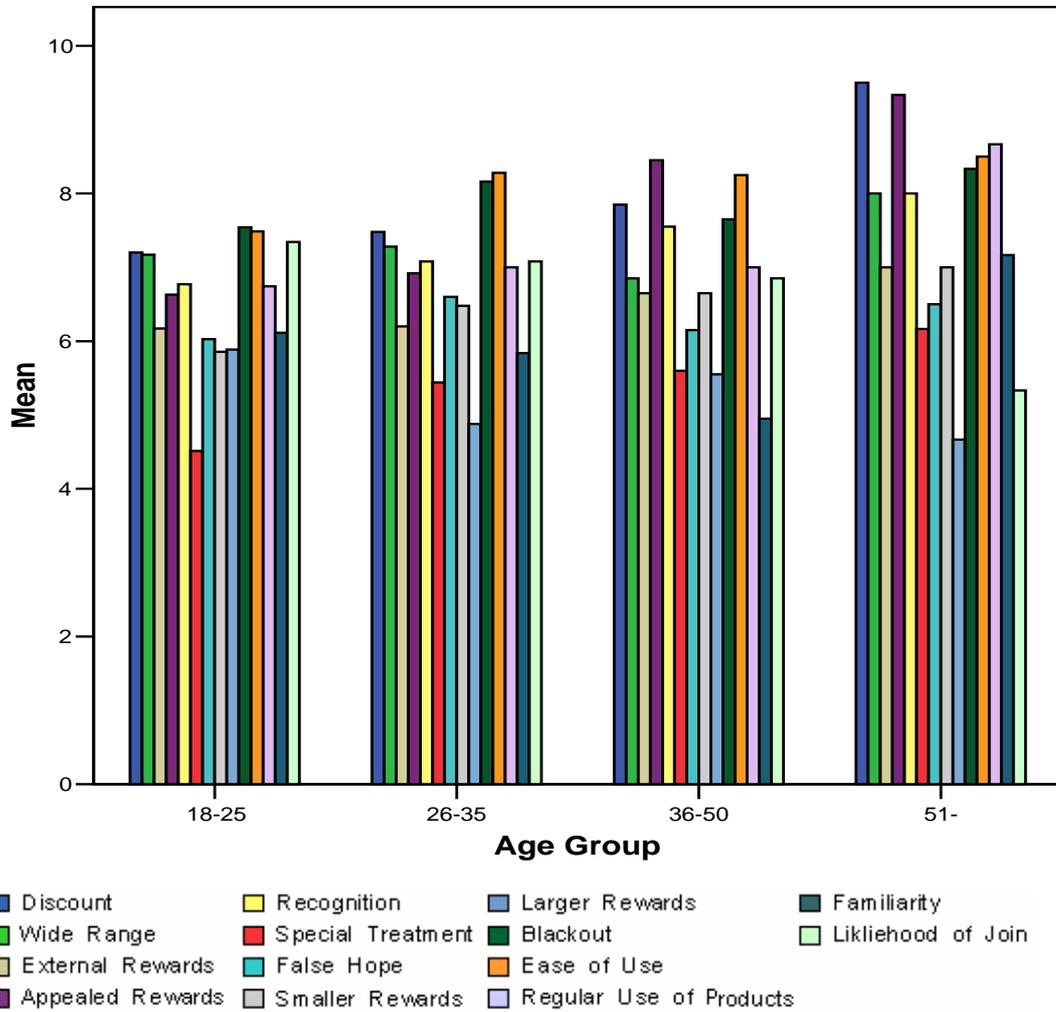
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Appendix 4.2.3 – Means compared by Age

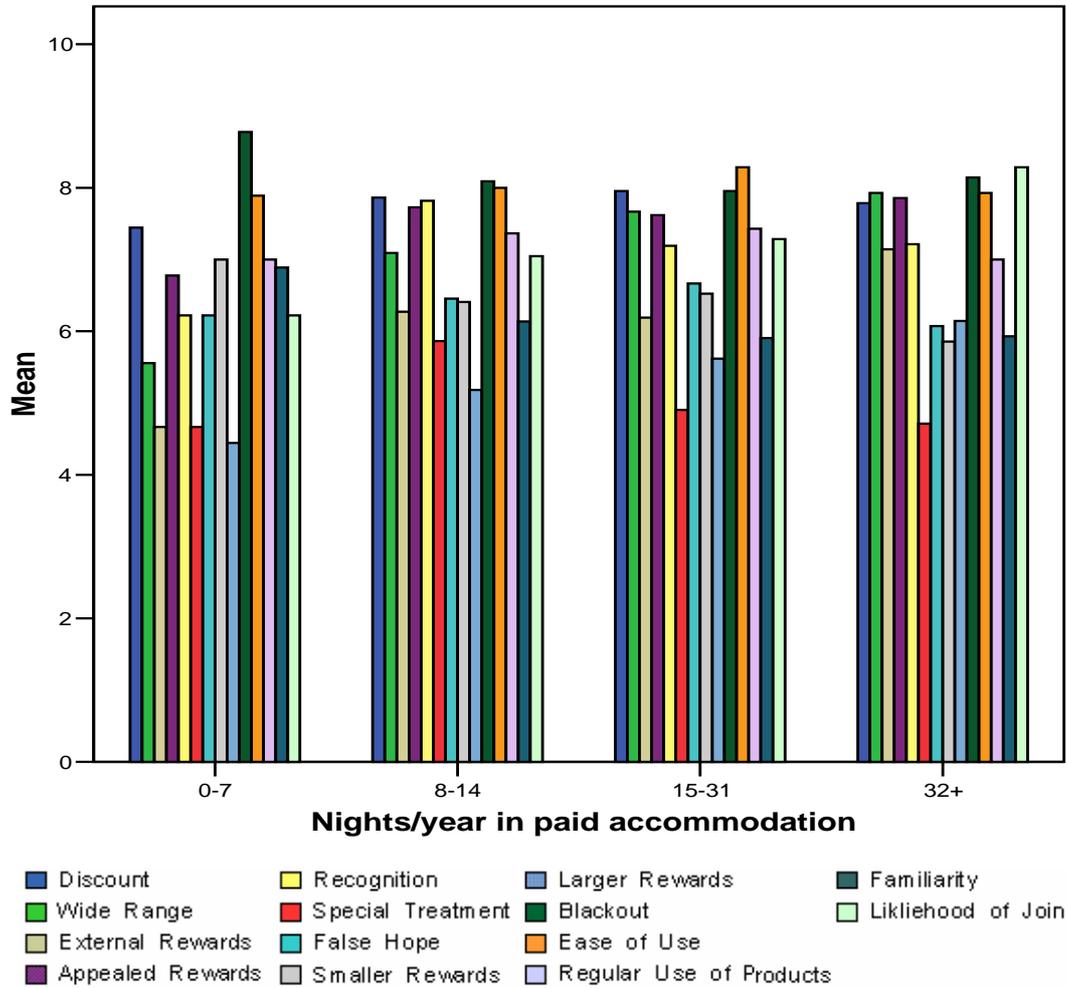
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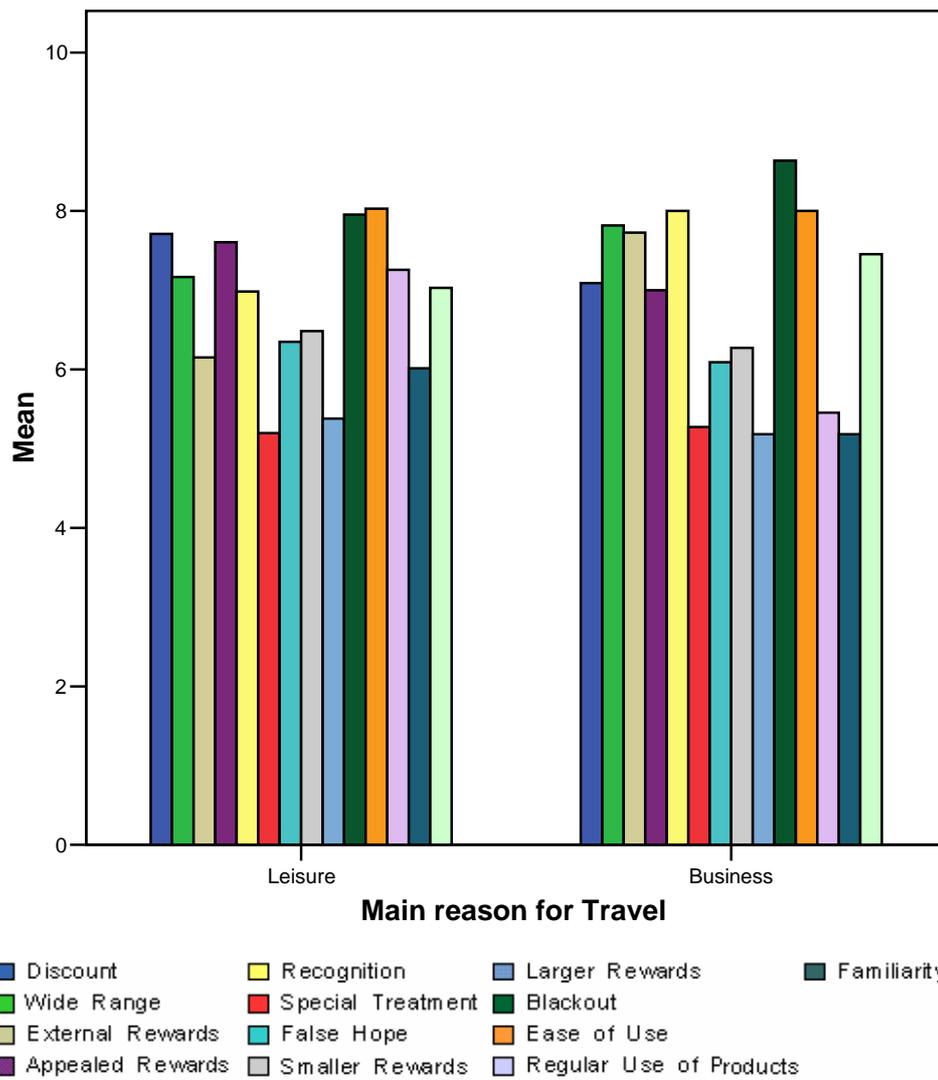
Appendix 4.2.4 – Means compared by Nights grouping

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Appendix 4.2.5 – Means compared by Purpose for travel

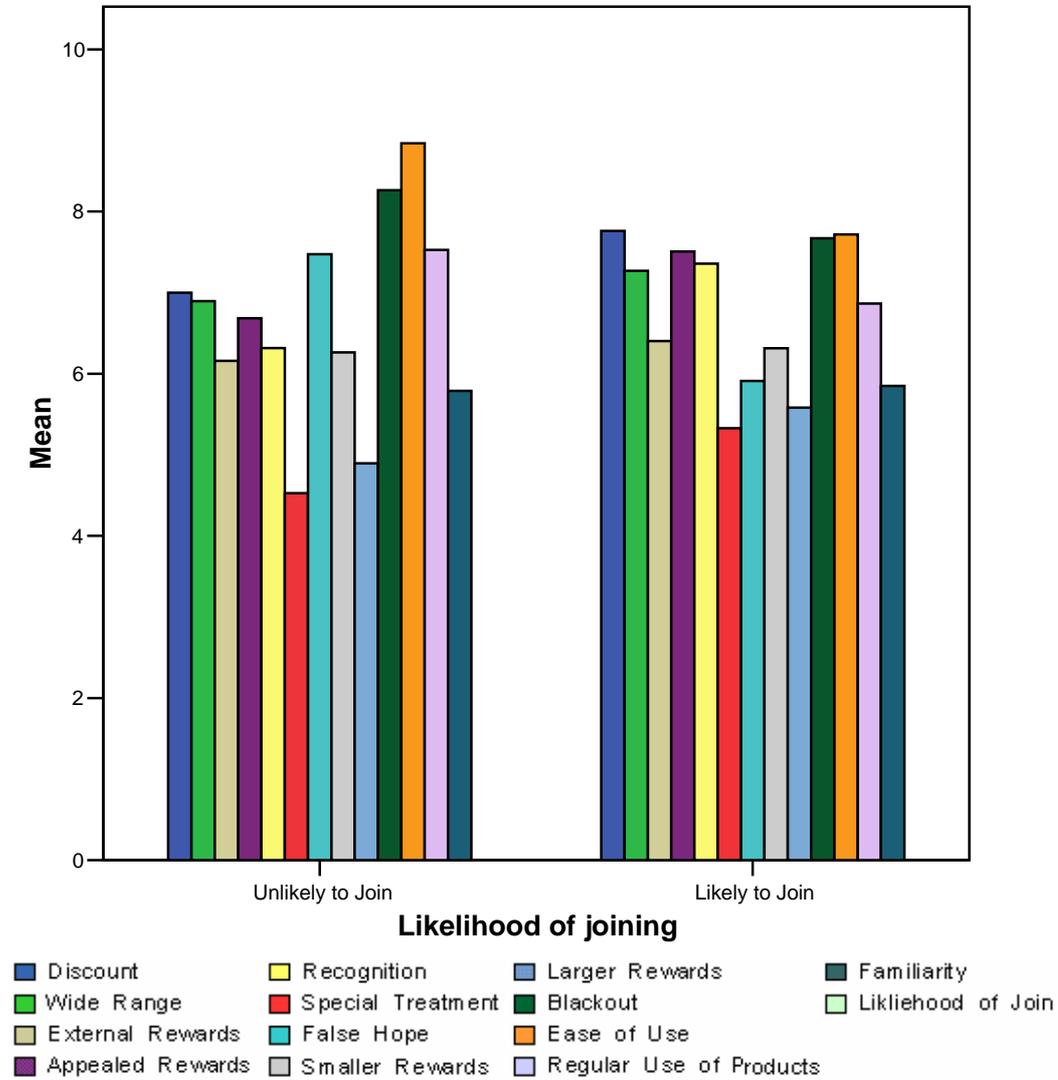
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Appendix 4.2.6 – Likelihood of joining

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Appendix 4.3.1 – Calculation method for Benefits and Width of range

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Calculation of Benefits

Based on the simulation, we have evaluated the seven hotels' loyalty programs in the perspective of "return" and "width of range". First, we have calculated the percentage of the free night within the cost of stays.

Ex, Rica hotel

Total Price: 10,035SEK Points be earned: 5,000Points

By the points, the person can have

- one double room for weekend (Fri-Sat or Sat-Sun) (5,000points)
- ⇒ The person has spent 10,035SEK in order to have a free night

We suppose that the person will redeem the points for a free night at the same hotel on December 1st (Thursday), 2005 or on the 3rd (Saturday) depend on the hotels regulation. If hotel allows the members to stay both weekday and weekend, we have chosen the day with higher price. However when the person's points were not enough to stay at the same hotel, we have chosen another within the same hotel group.

Ex; Rica Hotel

According to their booking system on the website, a free night on December 3rd, 2005 costs 990SEK (September 15th, 2005).

$$990/10,035=0,098=9.8\%$$

Ex Scandic

$$1,300/11,900=0,109=10.9\%$$

In this way, we got the following result

Hotels	A Free Night/Costs
Rica	9,8%
Scandic	10,9%
Radisson SAS	9,5%
Best Western	9,4%
Choice	10%
First ***	10%
Elite	10,7%

***Since the points the person earned from the stays is not enough to redeem a free night, we have set that the person spent additional 420SEK at the hotels restaurant.

Since Scandic has the highest percentage, we have set Scandic as ten and got the other hotels pints based on Scandic.

Ex; Rica Hotel

$$9,8/10,9=0,889$$

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Benefit
8,9
10
8,7
8,6
9,1
9,1
9,8

Calculation of width of range

Since the importance of “benefit” exceeds “wide of range” for customers, we have set significance of “wide of range” as 0.94 by the following calculation.

$$7.19/7.59=0.94$$

Hotels	Number of Benefits	Calculation	Width of Range
Rica	1	$1/6*0.94=0.157$	1,57
Scandic	6	0.94	9,4
Radisson SAS	5	$5/6*0.94=0.78$	7,8
Best Western	2	$2/6*0.94=0.31$	3,1
Choice	1	$1/6*0.94=0.157$	1,57
First	1	$1/6*0.94=0.158$	1,57
Elite	1	$1/6*0.94=0.159$	1,57

Since Scandic has the most rewards, which is 6, we have calculated the “width of benefit” as above.