

## A PRELIMINARY STUDY ON THE BENEFITS OF LOYALTY PROGRAMS IN MALAYSIAN CITY HOTELS

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### ABSTRACT

*Hotels spend millions of dollars annually to grant benefits to their loyal members. However, despite having a huge portion of investment on this loyalty program benefits, the effectiveness of such programs in delivering benefits to members is still questionable. In-depth interviews of 14 hotel executives from either Front Office or Marketing department were primarily conducted to explore hotel's benefit structures. The taxonomical benefits offered by six city hotel loyalty programs were compared and summarized. The transcripts and tapes derived from the interviews were analyzed, coded and summarized into categories. The findings were structurally compared. Findings revealed that although these six city hotels sharing the same thirteen core benefits, but each hotel is trying very hard to differentiate themselves from their competitors. It is beneficial for hoteliers in improving their current loyalty programs or designing new loyalty programs for their hotel. Uniquely, this study provides benefit taxonomy summary of the six city hotel loyalty programs in Malaysia and compares the benefits categorized into three levels: core benefits, partially common benefits and individual benefits.*

**Keywords:** *Benefits, hotel executives, loyalty programs, Malaysian city hotels*

## INTRODUCTION

The Loyalty programs were first introduced by American Airlines' through their (AAAdvantage program) in the year 1981. Hotels and car rental agencies followed the suit and introduced their own loyalty programs to their customers. Then, Holiday Inn and Marriott navigates their Priority Club and Honored Guest, in year 1983 and was the first loyalty program in the hotel industry worldwide. Because of their ubiquity in the marketplace, worldwide complementary services companies including airlines, hotels, retailers and car manufacturers, have increasingly used loyalty programs to conduct their customer database (Mimouni-Chaabane & Volle, 2010). They believed that loyalty programs could act as the most important marketing tactic in driving customer loyalty.

Loyalty programs, which are in reality repeat-purchase rewards programs, were employed by various hospitality firms on the basis of mutual bonding between customer and firm. Management scholars and practitioners generally agree that loyal customers are vital to the long-term success of hospitality organizations (Skogland & Siguaw, 2004). As a marketing strategy, the program offers incentives and reward to its members with the objective of fostering more customers' loyalty to the company (Lacey R, 2003; Leenheer, Van Heerde, Bijmolt, & Smidts, 2007; Omar, Aziz, & Nazri, 2011; Yi & Jeon, 2003). Loyal customers bring benefits such as more frequent purchasing cycles, greater profit margins and advertising effects for prospective customers (Han & Back, 2008; 2007; McCall & Voorhees, 2010). Businesses can also increase revenue from loyalty as reported by Omar et al. (2011).

Recently, loyalty programs have become prevalent among luxury city hotels in Malaysia. A study by Steyn, Pitt, Strasheim, Boshoff, and Abratt (2010) indicates that loyalty programs are experiencing a new wave in Asian Pacific country and Malaysia, whereas it has reached its maturity stage in the United States and Europe. Ganesan (2006) highlighted that loyalty programs in Malaysia in year 2006 is only RM2.4 billion while growing at RM3.5 billion in 2010. Probably this is due to the tremendous changes from the early days until today with the emergence of various types of hotel format, offers a

wide assortment of products ranging from basic to prestigious product. The mature and saturated market has made it necessary for hoteliers to design their own strategies in fostering customer loyalty. A search for 3-5 star Malaysian hotels that adopt loyalty programs through the search engine Yahoo (<http://www.yahoo.com>, accessed in October, 2012) produced a list of 39 hotels all over the country. The continuous and marked change for local tourism and hospitality environment over the past decade, stable economy as well as large foreign investors to set up operations in Malaysia had contributed to the stiff competition among hotels in capturing customers.

Loyalty program membership benefits remain a vital factor in developing an interesting benefits program that can foster hotel guest loyalty. The impact is significant in addressing and maintaining hotel guests (Shanshan, Wilco, & Eric, 2011). However, the effectiveness issue of the benefits of loyalty programs remains inconclusive (Kim, Cho, & Han, 2012). Although each hotel believed that they are providing the best and valuable benefits to their guests, the type of benefits that customer really value remains unknown (Shanshan et al., 2011). In 1988, a table list of benefits accrued from 10 major hotel loyalty programs were established by Toh, Rivers, and Withiam (1991).

Further, Omar, Musa, Wel, and Aziz (2012) develop a baseline model to examine the role of loyalty program benefits offered by a leading superstore in Malaysia on its members' satisfaction and ultimately loyalty towards the store. However, at present, there is none empirical study that has been conducted on benefits of loyalty programs comprehensively in the Malaysian hotel scenario. This study adapted Shanshan et al. (2011) to explore hotel benefits structures. The taxonomical benefits offered by six luxury hotel loyalty programs were compared and analyzed.

## **LITERATURE REVIEW**

Sharp and Sharp (1997) defined loyalty programs as a marketing effort providing rewards based on the cumulative purchases from a company. Dowling and Uncles (1997) interpreted it as 'the underlying

belief of its popularity on the 80/20 Law', where revenue of the company (80%) comes solely from their customers (20%). Hence, it is vital to focus on 20% customers in retaining them. The current systems of loyalty programs allow members to collect points for a hotel stay and point's redemption through free night stays or upgrades room category. These programs normally offer an online membership account for guest reservations and personalize their bookings accordingly (Sigala & Christou, 2006).

A study by Hlavinka and Sullivan (2011) indicates that from the COLLOQUY's survey conducted in 2011, there were more than two billion loyalty program memberships in the United States. This is supported by another study that illustrated the development of loyalty programs worldwide (Van Heerde & Bijmolt, 2005). Retailers such as E. Leclerc in France invested ten millions of dollars per year to implement these loyalty programs (Saili, Mingli, & Zhichao, 2012). In the developing countries, the growth of loyalty programs is twice faster than that in developed countries (Saili et al., 2012). Hotels, airlines, casinos, car rentals and direct marketing companies established direct marketing services focusing on the mass market segment with the purpose of encouraging customer loyalty through program benefits (Vogt, 2011).

Loyalty programs on the other hand can be seen as effective tools in maintaining a high-end business travel market (Kwan, 2001). A well-established loyalty program benefits design can lead to a decisive competitive edge. This is due to customer information systems through loyalty program benefits that help identify individual guests' preferences, demographics and other forms of customer behaviour (Hendler & Hendler, 2004; Lal & Carrolo, 2004). The customer information derived from the database can also produce valuable customized services that matched individual requests (Sigala, 2005; Xu & Walton, 2005).

## **METHODOLOGY**

In-depth interviews of 14 hotel executives from either Front Office or Marketing department were performed to explore hotel's benefit

structures. A total of six loyalty programs in Malaysian city hotels were studied, including Sheraton Imperial Hotel, Renaissance, Park Royal, DoubleTree by Hilton, Inter-Continental Hotel and Hotel A. The term ‘Hotel A’ will be used throughout this paper to respect the anonymity policy of one hotel brand. However, Hotel A has no reservation on sharing information pertaining to their loyalty programs. The Five-star hotels are specifically located in Kuala Lumpur area and listed among the 45 city/business hotels associated and registered with the Malaysian Association of Hotels Malaysian Association of Hotels (MAH) (2012). A search for MAH member listing ([www.hotels.org.my](http://www.hotels.org.my), accessed in October 2012) shows that 14 Five-star hotels have adopted loyalty programs. All respondents were approached through email and phone calls to solicit their participation in this study. For those who replied the invitation and agreed to participate in this study, appointments were arranged. Six hotels turned down the invitation due to high occupancy and engagement with big events at their hotels. Another two hotels share the same loyalty programs with two of the six hotels studied (e.g. Hilton Hotel shared Hilton Honors with DoubleTree by Hilton, Marriott Hotel shared Marriott Rewards with Renaissance Hotel). Hence, the two hotels mentioned above will not be included in this research.

This study chose in-depth interview since it offers ‘rich’ and ‘complete’ data from interviewees (Easterby-Smith, Thorpe, & Lowe, 2002). Purposive sampling was employed for participants selected in the interview. Front Office or Marketing department hotel executives (holding at least supervisory positions or above) were selected mainly because they are the person in charge of handling loyalty program procedures as well as their in-depth knowledge of the associated mechanism and administrative logistics pertaining to the programs. Table 1 lists the detailed profile of the interviewees. The interviewees were 55% male and 45% female.

**Table 1: The Profile of Interviewees**

<b>Position</b>	<b>Number</b>
Front Office Supervisor	5
Front Office Manager	3
Front Office Assistant Manager	2
Marketing Assistant Manager	2
Marketing Executive	2

\* Self-compiled by researcher

A set of questions was profoundly reviewed and used as a guideline for discussion. Each interview took an hour. The interview session was recorded, transcribed verbatim and summarized, from which themes, categories and concepts were identified. Studies conducted in qualitative research literatures suggested that the interview process should be ‘audio-recorded if permitted, transcribed verbatim and analyzed in an iterative manner’(Fern, 2001; Jennings, 2001; Miles & Huberman, 1994). The transcripts derived from the interviews were repeatedly reviewed, coded and analyzed into categories.

## FINDINGS AND DISCUSSION

The taxonomical benefits of the loyalty programs were developed after the in-depth interview process took place. Table 2 provides the taxonomy of loyalty program benefits among six city hotels in Malaysia, while Table 3 details out the interviewed hotels with their summarized benefits. This study has managed to identify the core benefits defined as same benefits offered by all hotels, partially common benefits defined as part of benefits that are same among hotels studied and lastly is individual benefits defined as the unique benefit provided by the hotels.

**Table 2: The Taxonomy of Loyalty Program’s Benefits**

Core Benefits	Partially Common Benefits	Individual Benefits
1.Free enrolment	14.Online newsletter	24.Partner stays free
2.Pre-registration for easy check-in	15.Lifetime membership	25.Complimentary daily buffet breakfast
3.Priority check-in & check-out	16.Customer Support Centre	26.Concierge services for non-staying guests
4.Priority waitlist for reservations	17. Complimentary high speed in-room internet access	27.Complimentary pressing
5.Guaranteed room availability	18. Complimentary continental breakfast	28.Complimentary use of selected resort facilities
6.Guaranteed bed type	19. Choice of welcome amenities	29.Cash advance of up to USD300 per stay
7.Early check-in, late check-out	20. Room upgrade	30.Complimentary international paper
8.Free local calls	21.Complimentary access to Club-Executive floors	31.Online forum
9. Long distance calls &faxes		
10. Convert membership		

points to airline miles.	22. Moments/ Discovering Programmes	32.5th night free
11.Member offers	23.No blackout dates	33.Crossover Rewards with Airlines
12.Bonuses on rewards program points		34.Marriott Gift Shop
13. Levels of membership		35.Complimentary bev.
		36.Membership level
		37.Points earn partners

**\*Source: Self-compiled by researcher**

**Table 3: Hotels with Summarized Benefits**

Hotels	Core benefits	Partially Common Benefits	Individual Benefits
Hotel A	All hotels	14-16, 19-21	24-31
Sheraton	shared the same	14-19, 22-23	32-33
Imperial	benefits (items		
Renaissance	no. 1-13)	14, 17-18	34
Park Royal		15,17,19,22	35
Double Tree by Hilton		14-19, 20-21	36
InterContinental		14-17, 20, 23	37

**\*Source: Self-compiled by researcher**

The researcher has managed to identify 13 items (no. 1-13) for core benefits. All interviewed hotels provide free enrolment to their loyalty programs. It can be done online or upon checking in at the hotel. A pre-registration process also takes place to ease member's check-in. Guest preferences on the room as well as guests' information such as home address is already available during the pre-registration process. On top of that, as members of loyalty programs, check-in and checkout at exclusively designated area awaits them. Additionally waitlist for room reservations will be prioritized to members if they call for reservations during fully booked period. If the booking is made 72 hours prior to arrival, a room reservation is then guaranteed, together with the preferred bed type. For member's convenience, early check-in and late checkout are also available. Additionally, members enjoy free local and long distance calls as well as faxes at cost price. All six hotel loyalty program allows members to convert membership points to airline miles with participating partners. However, airline partners will vary among hotels. In line with the membership points, members can also enjoy offers such as weekend gateway as well as bonuses on reward points. The mechanics of membership levels among all hotels are similar. More benefits will

be given to higher level of membership accrued. Membership levels are subject to the number of nights stayed.

For partially common benefits, 10 items were identified (no. 14-23). It was observed that online newsletter has become very popular in recent years. This might be due to the power of the internet and information technology, which influenced hoteliers to grab the opportunity and provide guests with the service. Members will receive latest promotion and program news concerning travel inspiration, insider knowledge and inspiring destination through their emails. Five out of the six programs offer lifetime membership while the remaining one program based its membership validity period on the active status of the member. The membership will expire if there are no points accrued during a 24-month period. Other than that, four programs offer exclusive customer support centre. All issues related to loyalty programs such as change of personal information and point's redemption will be entertained by the support staffs. Sheraton Imperial terms it differently, that is Special Elite customer service phone line. The majority of the hotels offer tangible or hard benefits such as high speed in-room internet access, complimentary continental breakfast and choices of welcome amenities.

Three programs however emphasized on intangible or soft benefits as well such as room upgrades and complimentary access to Club/Executive floor privileges. Interestingly, findings discovered that two programs promote no black-out dates. Members are free to redeem their stay at the hotel throughout the year with no restrictions/limitations on certain dates. Additionally, two loyalty programs have 'Moments/Discovering' program; which is an invitation to members to join hotels events and experiences. All pictures and information on the event will be uploaded in the hotel website after the event finish. For Park Royal, members do not just enjoy exclusive access to special activities, but also will be granted a chance to live like a local community in each city that events conducted.

The study found 14 items that were identified as individual benefits (no. 24-37). The benefits are offered by only specific hotels, recommending uniqueness of one loyalty program from the others (Shanshan et al., 2011). In an effort to create uniqueness, Hotel A



has managed to provide eight items differently such as complimentary pressing for one suit upon arrival, use of selected resort facilities, international newspaper on top of the free local newspaper, concierge services for non-staying guests and cash advance of up to USD300 per stay. Advancement of technology is also utilized by Hotel A through the establishment of an online forum, which encourages members to share tips and recommendations based on their past experiences staying at the hotel. On top of that, the benefits are also extended to spouses; they are entitled for 'spouse stays free' offer which comes together with breakfast. As for Sheraton Imperial Hotel, it promotes benefits such as crossover rewards with Airlines Programs and the redemption of 5th night stays free. Renaissance and Park Royal offer only one individual benefit: a 10% Gift Shop discount on retail merchandise and souvenirs for Renaissance and complimentary beverages for Park Royal Hotel.

This study also found that DoubleTree by Hilton provided four membership levels instead of three levels as practiced by the other five hotels. Their focus is to encourage members to stay at their hotel and use their services. Additionally, Inter Continental encourages points earning through participating partners. Members can easily earn points through everyday living such as renting cars, buying flowers and more. This study summarized that even though all hotels share the same 13 core benefits, each of them provides several individual benefits in attempts to differentiate themselves from their competitors. For example, considering the power of social media nowadays, the online forum approach by Hotel A seems to be taken very well by customers. However, this benefit may not remain unique forever, as the benefits of loyalty programs are easy to copy. More efforts need to be exerted in discovering ways to stay unique and different from competitors (Shanshan et al., 2011).

## **CONCLUSION AND FUTURE RESEARCH**

Marketing and front office personnel that handle loyalty programs can gain valuable insights from this taxonomy summary. Hoteliers need to establish more competitive individual benefit elements that cannot be easily copied by their rivals. This study contributes to the

loyalty program literature from the perspective of management or hotel employee. Future research could explore the perspective of the customers. Further study also may involve gap comparison between loyalty program members' preferences benefits and management/hoteliers perceptions of the benefits that their hotel offered. Additionally, future research also may focus on the lower scale hotel operations to give a different impact and scenarios. Lastly, the new secretary loyalty program conducted by Maya Hotel; Maya Pink Club may prove to be a very attractive case as the hotel is recognizing corporate secretaries and personal assistants who handle company bookings. It is interesting to find out from the hotel is rewarding specific customers instead of the common guest approach typically adopted by other loyalty programs.

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