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The Implications of Bank Loyalty Card Programs for Hotel Owners

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Abstract

This thesis looks into hotel loyalty programs and the relationships between the involved players: hotel brands, hotels, guests, and financial institutions (co-branded credit card partners). Past studies have been conducted around loyalty programs structures and their associated value to guests. To better understand the intricacies of loyalty programs, phone interviews were conducted with industry professionals. This thesis examines the business relationships of the industry players and the flow of loyalty points. Hotel owners emerge as the net losers from the expansion and growth of these loyalty programs.

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The Implications of Bank Loyalty Card Programs for Hotel Owners

by

Bethany Huan

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ABSTRACT

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This thesis looks into hotel loyalty programs and the relationships between the involved players: hotel brands, hotels, guests, and financial institutions (co-branded credit card partners). Past studies have been conducted around loyalty programs structures and their associated value to guests. To better understand the intricacies of loyalty programs, phone interviews were conducted with industry professionals. This thesis examines the business relationships of the industry players and the flow of loyalty points. Hotel owners emerge as the net losers from the expansion and growth of these loyalty programs.

Chair Date

BIOGRAPHICAL SKETCH

Bethany is a senior in the School of Hotel Administration minoring in real estate. From a young age, Bethany enjoyed spreading the joy of hospitality. She attended a vocational magnet high school specializing in hospitality and culinary arts. In order to pursue her aspirations in the hospitality industry, Bethany applied to and enrolled in Cornell University's School of Hotel Administration.

This loyalty program research opportunity was posed to Bethany by the Hotel School's Center for Hospitality Research. She was motivated to research this topic because of her past internships and career interest in the hotel brand space. Intrigued by loyalty programs, she wanted to learn more about the relationships among the involved entities.

On campus, she served as the president for Cornell's American Hotel & Lodging Association (AH&LA) chapter. Under her leadership, the chapter won the AH&LA Stars of the Industry award. She is currently a member of the Cornell Undergraduate Asia Business Society (CUABS) and serves on the executive board for the Ye Hosts Honorary Society, the School of Hotel Administration's honorary society. Bethany works as a teaching assistant for the Hospitality Development & Planning course, the Food Service Management course (culinary), and the Restaurant Management course.

In the past, Bethany has worked in food and beverage operations, hotel operations, real estate, and hotel development. Bethany gained valuable experience as an intern at the Arizona Biltmore, Loews Regency New York, DoubleTree Suites, Inland Real Estate Investment Corporation, VEREIT, and Hilton Worldwide. After graduation, she will be working in the hotel brand space by returning to Hilton Worldwide in McLean, Virginia as an analyst.

This thesis is dedicated to my parents, siblings, and high school teacher, Chef John Branda

Thank you for all your advice, support, and encouragement throughout all these years

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INTRODUCTION

Hotel loyalty programs have been growing and increasing the size of their membership significantly in the past few years. The goal of loyalty programs is to promote guest's attitudinal loyalty and to encourage guests to return to the brand's hotels (Dowling, Hammond, & Uncles, 2003). Past research has shown that the success of loyalty programs has been categorized by three program drivers: the program structure, the reward structure, and the customer fit (McCall, Voorhees, & Calatone, 2010). Any strategic partners must also align with these program drivers to ensure synergy between the partners and to benefit the guest. Past studies have shown that the creation of loyalty tiers has allowed the brands to provide more value to their guests by fulfilling their specific needs through tier benefits (O'Brien & Jones, 1995). A study by Chu et al. (2012) demonstrated that co-branded credit cards are a common way for brands and merchants to promote customer spending and loyalty.

Although there is research on loyalty programs, there have not been any studies conducted to understand the relationships among all of the hotel loyalty program entities: hotel brand, hotel, guest, and financial institutions (co-branded credit card partners). The purpose of this thesis is to better understand the loyalty program partnership with financial institutions and its implications on hotel owners. This thesis explains the dynamic relationships among the program entities and their collaboration to issue and redeem loyalty points. The structure of these relationships and partnership contracts reveals the drawbacks for branded hotel owners. With such knowledge, hotel brands and financial institutions will know the impact their partnerships have on hotel owners.

LITERATURE REVIEW

In order to gain exposure to previous knowledge, two areas of study were reviewed. The first area focused on hotel loyalty programs and their principles, value proposition, components, and results. The second area focused on co-branding. Available research delved into existing practices in the hotel and other industries, most notably airlines. The literature and research found on hotel loyalty programs focus on three parts of the programs: the elements that make a rewards program successful, the value the program creates for the guests, and the impact the hotel market has on the programs. Past studies and research were consulted in order to gain a better understanding on the loyalty program space and affiliated brands, customers, and financial partners.

A loyalty program has two primary objectives: to increase profits through sales revenue and to create a strong bond between the brand and the customer (Dowling, Hammond, & Uncles, 2003). Increased purchase frequency and larger product selections assist profit growth. The bond between the brand and the customer can be developed into a strong relationship which will retain the customer and increase the likelihood of his or her future patronage.

The term loyalty has multiple definitions available, however, for this study loyalty is defined as consumer or guests' deep commitment to repurchase or rebook at a preferred brand (Oliver, 1997). Specifically, this thesis examines attitudinal loyalty.

Attitudinal loyalty is distinguished by the customer's attitude and opinion of the brand which leads to the resulting relationship between the customer and the brand (Dowling, Hammond, & Uncles 2003). It is characterized by the emotional commitment and trust that a customer has with the brand (Malek & Tanford, 2015). The element of trust has been shown to contribute to the growth of a committed relationship which then leads to brand loyalty (Bowen &

Shoemaker, 1998). Customers who ranked highly in emotional commitment were shown to be less price sensitive and less inclined to switch brands due to competitor discounts (Tanford & Malek, 2015).

Hotel Loyalty Programs Structures

The hotel industry has well-established and sophisticated loyalty programs which have become a growing part of the business within the industry's major firms. A study by Clay M. Voorhees, Ryan C. White, Michael McCall, and Praneet Randhawa in 2015, indicated that loyalty marketing had grown into a six-billion-dollar industry, where firms spend millions in order to keep their guest loyalty programs up to date. While many of the programs have similar benefits, there are some that have unique program offerings based on the member's tier. Loyalty program tier statuses are membership levels that are earned based on a minimum number of stays and offer special benefits to the tier members. The members in the higher tiers earn more benefits during their hotel stays. In a 2011 study, six of the major hotel chains' loyalty programs were compared and their benefits were categorized into three types (Shanshan, Wilco, & Eric, 2011):

1. <u>Core benefits</u> - Benefits that all the programs offered and thus had become an industry standard
2. <u>Partially common benefits</u> - Benefits that only a couple of programs included
3. <u>Individual benefits</u> - Benefits that were unique to the hotel chain.

This study also showed that the major brands continuously turned unique individual brand benefits into core benefits by imitating the unique benefits offered by their competition. An example of this is Starwood's mobile application (app). This app, launched in 2014, allowed guests to use their phone as a key to unlock their guestroom door. At that time, this was considered an individual benefit to Starwood Preferred Guests program. However, in the following years the other major brands: Hilton, IHG, and Marriott all launched their own versions and therefore converted the mobile key into a core benefit. This example demonstrates that hotel brands often have difficulty creating long term program differentiation because competitors imitate each other's unique benefits. Literature on loyalty program structures are be broken down in this section into the program principles, value, operations, and results.

Successful Loyalty Program Principles

Program drivers are the elements that make a rewards program successful in achieving its purpose. There are three categories of hotel loyalty program drivers: structure of the program, structure of the rewards, and customer fit. Rewards programs are designed to create loyalty among their guests and are intended to use incentives to provide the best rewards for the program's best customers (McCall, Voorhees, & Calatone, 2010). Research has shown that there are ten principles to an effective loyalty/customer reward program.

1. Foster consumer engagement - This creates a deeper and stronger emotional connection with the brand.
2. Create a two-way proposition - This proposition should create high value for the guest at low costs to the firm. This can be seen in membership perks like free WiFi for loyalty members in the major brands. This is a service that the hotels typically charge the guests for but with minimal costs, the hotel is able to create high value for guests.
3. Capitalize on consumer data - Capture data on the guests so that the hotels can customize and create better guest experiences by anticipating their needs.
4. Segment the program into tiers - These tiers are based on guest spending, engagement, and consumer profiles and reward guests with the benefits they value.
5. Create dynamic tiers - This creates spending hurtles and switching barriers for guests to move up the tiers and earn more rewards.

6. Form strategic partnerships - These corporate alliances allow the loyalty members to exchange their points and rewards for products and services offered by other firms. This is a way that the programs can expand their offerings.
7. Cater the program to the consumer’s desires - Customers desire choice and control of their awards. Programs should provide flexibility in reward options and the redemption intervals to earn the rewards.
8. Avoid commodization through differentiating from their competitors - Avoid indirect price wars through reward discounts and focus on differentiating by providing unique offerings.
9. Avoid price sensitivity traps - Frequent discounts can convert loyal guests into price-sensitive guests. Therefore, programs should minimize price-related benefits.
10. Embrace new technologies - Implement new technology into the programs to interact with the guests according to their preferences.

The competitive landscape of loyalty programs has increased the value of tangible rewards offered by competing rewards programs. Although these rewards may not add a lot of particular value to the guest experience, guests expect to have these rewards. This expectation has caused the absence of these rewards to be particularly harmful to a program.

Loyalty Program Value Creation

The programs are created in order to incentivize customers to become brand loyal by providing special value and benefits to the members. Guests all have different profiles and in order for a guest to become more loyal and profitable for the hotels, the program has to create benefits that the guests value. Tiers enable the most profitable and most frequent guests to receive corresponding benefits. While hotel brands may tend to treat all guests equally, not all customers are equally profitable. Providing valuable (high spending and frequent) customers with standard value and service will not satisfy their needs because of their higher expectations. This in turn harms the opportunity for these customers to become brand loyal. For any program, the perceived value of the benefits must exceed the cost to create those benefits.

When a loyalty program is created, it is important to avoid onetime promotions that could devalue the loyalty currency and cause the customers to become price sensitive (O'Brien & Jones, 1995). While these types of promotions do help with brand exposure to potential customers, in the long run they can change customer behavior in undesirable ways. When special offers are created, they must be formed in a way that target the most desirable customer segment rather than price sensitive ones. A loyalty program should focus on being competitive in the choice of redemption, cash value of the benefits, the aspiration for the tiers, relevance of the benefits, and the convenience of the program. This does not encourage guests to be price sensitive and will create more attitudinal loyalty towards the brand.

Hotel Loyalty Program Operations

The current model of hotel loyalty programs are free for all members and share similar exchange ratios between cash, points, and rewards for the members. Most hotel loyalty programs, particularly the well-established programs, are affiliated with credit card companies and offer multi-functional member cards. Another major component of loyalty programs is their source of funding. In a 2013 study by Chen and Xie, Jeff Palmer, the Executive Vice President and Chief Marketing Officer of Accor North America, shared his insights in an interview saying "Loyalty programs cost about 5 percent of the gross profit to run, administer and operate. This has to come from somewhere, and it usually is built into the price of the program or the property has to absorb this cost.".

Hotel Loyalty Program Results

In a study by Clay M. Voorhees, Ryan C. White, Michael McCall, and Praneet Randhawa in 2015, price-sensitive customers who are more susceptible to brand switching are seen to be more sensitive in terms of their share of wallet, or how much they spent on the brand, than others when there is a loyalty program in place. However, when it comes to already brand loyal customers, loyalty programs do not have any direct effect on their share of wallet. In the airline industry, the study showed that airline loyalty programs were not able to drive consumer spending without a reputable and valued brand name. This study also showed that loyalty programs predominantly appeal to brand switchers but can also create real long-term loyalty from those who are brand loyal due to the brand's perceived value.

In the hotel industry there is trend of commoditization in rewards programs. In the market, competing firms are constantly imitating other company's program innovation (Voorhees, McCall, & Carroll, 2014). As the rewards programs value offerings start to converge and look similar, individual programs are no longer able to differentiate themselves. While the programs strive to increase customer acquisition, these customers are often members of numerous loyalty programs and are not attitudinally loyal to any of the brands. A problem faced by the loyalty programs now is that they have essentially provided an overall discount to guests without successfully differentiating their brand at all. As a result, their profits decrease due to the cost of the programs while their market shares remain constant.

Loyalty programs have also helped guest's return frequency. Voorhees, McCall, and Carroll's 2014 study showed that the number of days between stays for guests who were members of the rewards programs was lower on average than the number of days for guests who were non-members.

In another study by Gandomni, Amir, and Zolfaghari in 2013, the profitability of loyalty programs was tested and the results proved that if the firm was able to maintain the satisfaction among its customers, it would be more profitable for a company to not offer a loyalty program. However, the study noted that if there was customer experience dissatisfaction early in a customer's experience then the firm would be less profitable than if there was no loyalty program in place.

Co-Branding Loyalty Programs

Hotel loyalty programs use the co-branding strategy as a method to expand their customer base, engage their members, and provide more benefits. According to Park et al. (1996), co-branding is the "paring [of] two or more brands to form a separate and unique product". Co-branded products were brand alliances that were able to successfully absorb the positive brand associations of the original brands (Washburn et al., 2000). In a study by Washburn et al. (2000) it was seen that co-branding was a beneficial strategy to both partners regardless of whether their brand equity was considered low or high prior to the brand-alliance. The study also revealed that a well-founded positive brand image was not influenced by the co-branding partnerships regardless of whether the partnerships were positive or negative.

Credit Card Partnerships

One of the most common ways the co-branding strategy is seen is through credit card partnerships. The first co-branded program was by Continental Airlines and the Bank of Marine Midland (now HSBC) in the USA in 1986 (Chu, 2012). The first co-branded credit card was released in 1990, by AT&T and Universal Bank. This co-branded credit card partnership created 5.2 million credit card activations in only nine months. The success in this business partnership lead banks to look at retailers, airline companies, and other merchants to create more potential strategic partnerships. These co-branded products give the partners the unique opportunity to increase customer acquisition and therefore the ability to increase their spending. According to Chu et Al., (2012), more than 50% of credit cards in the USA are co-branded credit cards. It was seen that a sense of visual identity and sense of pride for the co-branded product helped to prevent brand switching. Their results showed that long-term co-branding partnerships are most successful with strong brand image and reputation when the partners have a strong affective loyal customer base. Even though co-branded credit cards have been in the market for decades, there is are few studies around the relationship between the banks and the brands. This thesis explains the dynamic business relationship between financial institute and the hotel brand and the co-branded credit card partnership creation process.

These past studies have created a strong foundation on the principles, value proposition, components, and results of hotel loyalty programs. The co-branded credit card relationship in the hotel industry is one of the main business partnerships that the hotel loyalty program participates in. There is minimal literature covering this relationship and the impacts it has on the hotel brand's other business relationships. This thesis fills this information vacuum and elaborates upon the effects co-branded credit card partnerships have on hotel franchisees. This study reveals more information about the structure of these co-branded partnerships, their growth potential, and their impact on the hotel franchisees.

RESEARCH QUESTION

Recently, major hotel companies have been expanding their loyalty programs in hopes of growing their membership bases. This growth in loyalty programs has led to the integration of new technology. For example, some hotels have produced loyalty program mobile applications that can be used to choose a guest room prior to check in and unlock the guest room door. This study is intended to expand upon the current knowledge of hotel loyalty programs by looking at the parties that are involved in the loyalty program (brand, hotels, guests, and financial institutions) to learn more about their co-branded credit card partnerships and associated implications on hotel owners. Although a lot of studies have been conducted to measure the effectiveness of loyalty programs with respect to the guests, there has been little research conducted on the other stakeholders–business partners. This study answers the question, what impacts do hotel loyalty co-branded credit cards have on franchisees?

This research investigates the relationships between hotel brands, hotels, and financial institutions and evaluates efforts to improve these partnerships. This study maps out the relationships between the entities involved in the loyalty programs as well as the flow of loyalty points between these entities. Past research has already delved into the structure of loyalty programs; however, there is little knowledge on the relationships among the program partners. This research addresses that deficit in loyalty program space knowledge and helps to further grow and improve hotel loyalty programs and the hotel brand's business partners.

METHODOLOGY

This study outlines these partnerships' structures, influencing factors, and potential growth opportunities. To understand the structure of loyalty programs, initial research was conducted on the hotel loyalty programs websites. Five loyalty programs were analyzed: Marriott Rewards, IHG Rewards Club, Hilton Honors, Starwood Preferred Guests (SPG), and Wyndham Rewards. Together, these companies consist of hotel brands that range from luxury to economy hotels. Cumulatively, these brands have over 23,600 hotels worldwide according to the Marriott, IHG, Hilton, and Wyndham company websites.

Hotel Loyalty Program	Number of Hotels (2017)
Marriott Rewards	5,700+
Starwood Preferred Guests	
IHG Rewards Club	5,000+
Hilton Honors	4,900+
Wyndham Rewards	8,000+

Table 1: Hotel Programs Consulted

Firms and representatives of the hotel brand, financial institution, and hotel/ownership industries were contacted to gain industry knowledge. To add further breadth, Barclaycard was contacted for a financial institution's perspective. Felcor Lodging Trust Incorporated (Real Estate Investment Trust) and an independent hotel owner were contacted to learn about the owner's perspective. The General Manager of the Hampton Inn & Suites Brenham, Texas was interviewed to gain insight from the hotel operations standpoint. The specific individuals interviewed can be found in the appendix.

Personal contacts in the industry as well as contacts through professors were helpful in conducting research on the hotel brands' loyalty program sector. Other times, correspondence with hotel brand representatives was made in person at the Cornell Hotel School and with the help of the advisory board for the Center of Hospitality Research at Cornell University.

Before any conversation, the company websites were researched and the loyalty programs were analyzed. After contact had been established, phone interviews were scheduled as an opportunity to ask specific questions about the loyalty programs and associated partnerships. The news was also perused to see if any new relevant events to the loyalty programs that might have impacted the contact's firm.

Along with the scheduling of the phone call, interview questions were provided to the company representative upon request. Examples of interview questions provided to the financial institution are as follows:

- What are ways the co-branded credit card partnership can be initiated?
- Who creates the RFP – for the partnership?
- What ends the partnership?
- What are the bank's goals of this co-branded credit card partnership?
- What makes a brand a desirable partner?
- What are the alternative brand partnerships to co-branded cards?
    - How do these alternatives compare to co-branded cards?
    - Which of these card types are more profitable?
- How can this co-branded partnership improve in the future?
- How is the loyalty point compensation determined?
- Is the partnership profit sharing? How does it work?
- How are the drawbacks of this relationship?
    - What do the banks want more of?
- Where do you realistically see the partnerships changing?

Figure 1: Sample Interview Questions for the Bank

The questions varied between each interview based on the literature available, the interviewee's company, as well as past conversations with professionals. The first interviews were conducted with a brand to understand the landscape of the loyalty programs. The initial interview questions gathered knowledge about the brand's particular points system and partnerships. The questions were modified to confirm similarities across the loyalty programs after each interview with the brands. Interview questions evolved from a general, fact-gathering approach to a more specific, detail oriented approach. The questions were updated and rephrased to fill in gaps of information from past interviews for the upcoming interviews. The interviews questions were all customized to the interviewee to understand not only the interviewee's perspective, but also the perspective of the entity represented by the interviewee. As partnership details were revealed, notes were transcribed and later broken down into three categories: the partnerships, the perspectives provided, and the insight to the market structure. From there, any gaps in the information were identified as a topic of further research.

Brands were contacted first in order to understand the dynamics of the loyalty programs themselves. General questions such as "How do the brands determine who they should partner with?" were asked in order to understand the brand perspective. Then, information gaps in hotel partnership literature were explored with questions like "How do the loyalty points flow between the business partnerships, hotels, and guests?" were asked. Inquiries were made around the current program structure and partnerships in order to understand the partnership dynamics that was not found in literature. After the brands were interviewed, the franchisees and the financial institutions were interviewed to grasp the impact the loyalty program partnerships have on the hotels and banks. Once all of the data collection took place, the information was organized by entity. The information was then broken down into the relationship dynamics among the entities and was converted into diagrams and charts. Implications were drawn from the results of the findings and addressed.

FINDINGS

The proliferation of hotel loyalty programs has made them an industry standard and a necessity for larger hotel brands. With the volume of loyalty programs across the industry, guests are often overwhelmed with their options and have become more selective of which programs to join, enrolling in only the programs that maximize their utility, match their desires, and provide meaningful value. Bob Behrens, Vice President of Marriott Rewards and The Ritz-Carlton Rewards, mentioned that some guests prefer the simplicity of using only one type of currency. Guests prefer earning points over cash back rewards when the points hold more value and provide a special benefit. This section discusses how the number of points for a night redemption is determined. Guests pay different point amounts to redeem a hotel stay for various reasons, which will be explored later in this section. The points are dynamically revenue managed partially to prevent guests from comparing point redemption and point values across the various hotel brands.

One of the main ways guests can accumulate loyalty points is through the use of co-branded credit cards. In many cases, the partnership creates multiple co-branded credit cards to appeal to separate customer types:

- Card users who see the value in brand loyalty, desire brand status, want the perks, prefer fast point accumulation, and are willing to pay an annual fee.
- Card users who are brand loyal and want to earn more points at an accelerated rate but are not willing to pay an annual fee on their card.

The section elaborates on the following topics:

- Hotel industry market influences
- Hotel loyalty program relationship dynamics
- Hotel loyalty point cycles

Hotel Industry Market Influences

It is important to understand the structure of the hotel market in relation to that of similar industries like the airline industry. The hotel industry struggles with various constraints with its franchise model. These constraints consist of lower revenues through night redemptions, increased costs for member benefits, more pressure to upgrade the hotel to changing brand standards, and royalty fees. Specifically, the hotel industry sees a brand standardization delay and an inability to reach market dominance unlike the airline industry as seen in Table 2.

Hotels	Airlines
No Market Dominance – Consistent Competition	Market Dominance
Brand Standardization Delay	Brand Consistency

Table 2: Hospitality Loyalty Industry Characteristics

As more hotel brands assume an asset light strategy, various limitations begin to arise in the hotel industry. Unlike the airline industry, where there is a less competitive landscape, hotels must compete among themselves even those under the same umbrella brand. Similarly, since hotel brands do not control their hotels, pricing cannot be centralized like that of the airline industry. In an interview with Mark Nasr, Senior Managing Director of Loyalty, Ancillary, eCommerce, and Customer Relationship Management (CRM) at Air Canada, he discussed the differences between the competitive landscapes of the airline and hotel markets. Within the United States, the top four airlines (Delta Air Lines, Southwest Airlines, American Airlines, and United Airlines) comprise approximately 80% of the US airline market. In some cases, he mentioned, it can be seen that a single dominant airline can make up 50-60% of an airport. Unlike the airline industry, the hotel industry is fairly unconsolidated but offers more differentiated products. In the US, there are no markets where a single hotel company truly dominates the market. This is caused by the different business models between the two industries as hotels are a franchised business. When it comes to customer interaction with airlines, the airline industry can maintain customer experience consistency since it is directly in control of that interaction. With the franchise model, hotel brand standards are created to maintain consistency, however, when new innovations are implemented, some hotels are slower to adopt them.

Hotel Loyalty Program Relationship Dynamics

To understand the relationships among the various entities involved in the hotel loyalty program, this research focused on the following major stakeholders:

- Hotel brands - the creator of the loyalty program and original issuer of the loyalty points
- Banks - the financial institution that partners with the hotel brands to create co-branded credit cards
- Hotels - the individual hotels and owners that create franchise and management agreements with the hotel brands
- Guests - the customers to the credit cards and hotels and loyalty programs' target market

Various phone interviews were conducted to better understand the relationships between these different entities and how they are structured. From these conversations, a relationship diagram was constructed to map out the priorities of each party as seen in Figure 2. This section elaborates on two of these relationships: the franchise relationship between the brand and the individual hotel/owner and the co-branded credit card relationship between the brand and the financial institution.

The Franchise Relationship

The relationship that hotels have with brands is dictated through their franchise agreement. Communications with Felcor Lodging Trust Incorporated, a real estate investment trust (REIT), were conducive in providing the hotel ownership standpoint: the hotel loyalty program is just considered another cost the hotel must pay the brand as part of the franchise agreement (which is determined through a percentage of the hotel's revenue). In a different interview, an independent hotel owner of several branded hotels expressed his concerns with the difficulty of maintaining evolving brand standards.

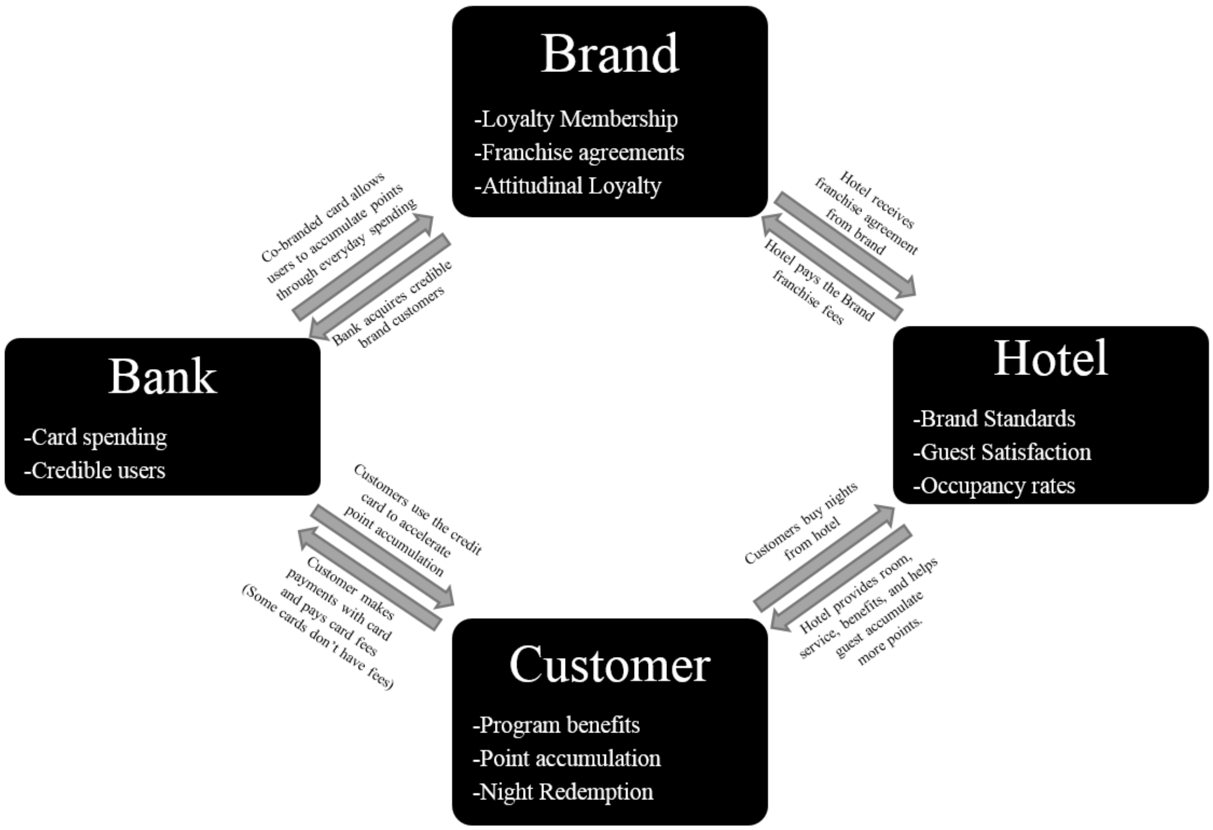

Figure 2: Hotel Loyalty Program Relationship Structure

Franchise Partner Priorities

It is important to know the goals and priorities of the entities involved to understand the positives and negatives of the franchise agreements. Figure 3 lists the priorities of the franchisor and the franchisee as found through the various interviews. In this relationship the hotel pays the brand royalty fees to use the brand's name and systems. Hotels are often incentivized to create a franchise agreement in order to gain financing.

Brand (Franchisor)	Hotel (Franchisee)
• Increase brand portfolio size • Maximize franchisee profitability • Increase guest loyalty • Increase number of loyalty members • Improve the guest experience • Increase technological innovation • Ensure brand consistency	• Carry a reputable brand name • Maintain brand standards • Reach high occupancy rates • Create positive guest experiences • Minimize operation costs • Maximize profit

Figure 3: Brand and Hotel Priorities

Mutually Beneficial Relationship

The overall franchise model is beneficial to both entities involved by providing the hotel with a brand or flag and increasing the brand's portfolio with more franchise agreements. This agreement gives the hotel the ability to join the brand's global distribution system (GDS) and markets the hotel to brand members. The hotel also gains brand standards and access to systems that help the hotel provide the best level of service and amenities in the industry. Consequently, these standards help the hotel create an overall positive guest experiences. The standards issued by the brand allow for economies of scale when it comes to procurement which help reduce some of the costs. Occupancy rates increase due to the hotel's participation in the brand's GDS and loyalty members. The growing membership rates in loyalty programs has led to a strong loyalty membership concentration among hotels' occupant mix. The general manager at the Hampton Inn & Suites Breham indicated that the loyalty program had a strong influence on the guests in the hotel and mentioned around 80-90% of the guests in her particular hotel were loyalty members.

While the brand's primary business is to franchise its brand standards, its fundamental goal is to create as many franchise agreements as possible. The brand also makes money through a percentage of the franchisee's sales, therefore to the brand is incentivized to ensure the hotel's success and strong occupancy rates. The brand portfolio's expansion with hotels helps the brand acquire new guests traveling to the newly added hotels, which can in turn increase loyalty program membership.

Further Relationship Alignment

While most of the priorities and goals of the partnership are met through the franchise model, there are some that are difficult to fulfill. As technology advances, the brands have to consistently improve their systems and create new technological innovation to grow and expand the guest experience. New technology is constantly implemented into hotels as brand standards. Discussions with owners revealed that franchisees struggle to implement the constantly improving brand standards due to the exceptional costs associated with them. The inability to implement the brand standards creates inconsistencies in guest experiences between different hotels of the same brand.

An example of this can be seen in recent technology innovation in the major brands with the implementation of keyless locks on guest rooms. Hilton Worldwide's hotels boast about their new locks that can be opened with the guest's mobile phone. However, guests are often disappointed when they arrive to a hotel that does not have the new locks installed and reflect their disappointment in their reviews. Owners that do not plan to renovate their hotels for an extended period of time face these negative consequences for having outdated brand standards.

Co-Branded Credit Card Partnership

When the brand and financial institution partner create a co-branded credit card, the bank compensates the hotel brand for issuing points associated with the credit card, using the hotel brand's image, and acquiring new card accounts from the brand's website and other channels. Although this relationship is a partnership, the bank compensates the hotel brand to use its brand.

Co-Branded Partner Priorities

Figure 4 summarizes the two partners' priorities and goals for their relationship. A hotel brand hopes to increase the loyalty of its guests by creating a "status accelerator" for its guests since many of the cards help to expedite the process of reaching elite status in the brand. Other intentions include the desire for guests to increase their spending in the hotels, and to create an incentive for guests to stay at their brand. From the financial institution side, it is apparent that the banks want to grow their business and expand their customer base by tapping into the high quality, higher spending, and strong credit customers of the hotel brand loyalty programs. The bank's goal in this partnership is to launch a co-branded credit card product that these creditable customers would be incentivized to use for their purchases in order to earn loyalty points.

Brand	Financial Institution
• Increase guest loyalty • Increase number of loyalty members • Improve the guest experience • Ensure brand consistency	• Acquire credible customers • Increase spending on cards • Earning cards fees

Figure 4: Co-Branding Partners Priorities

Co-Branded Credit Card Creation

Various phone interviews were scheduled with professionals at Barclaycard US who work with Barclaycard's partnerships with Wyndham, American Airlines, and JetBlue Airlines. They provided the financial institution perspective on these partnerships. The creation of the co-branded credit card partnership is laid out in Figure 5.

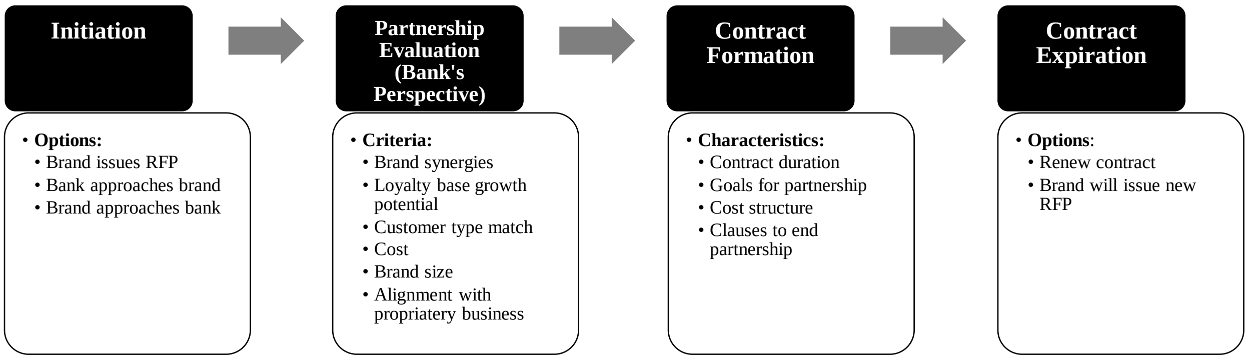

Figure 5: Co-Branded Credit Card Partnership Process

Initiation

In a typical situation, these co-branded credit card partnerships can be initiated through several different methods:

1. A retailer or brand with a loyalty program reaches out directly to the financial institution or hires a consultant in hope of expanding and strengthening the brand's loyalty base.
2. The financial institution reaches out to brands that have strong synergies with their business model and ideal customer base.
3. (In the case of larger and more reputable brands) The brands reach out to multiple financial institutions with a request for proposal (RFP). The financial institutions in return prepare a response, thus creating a selection of potential bank partners for the brand.

Partner Evaluation

When discussing how the financial institutions evaluate which brands to partner with, the team from Barclaycard emphasized the importance of combining the company's brand, reputation, size metrics (number of active members in the loyalty program), loyalty growth potential, cost, size of the entity, synergies between the partners' customer bases, and the credit worthiness of the brand's customer base. Banks determine the credit risk of the loyalty members through communications with the brand.

While it is important to expand the bank's customer market, the importance of synergies between the partnering brand and the bank was stressed numerous times. These synergies are often determined by a similar target market. For hotel co-branded credit cards, the financial institutions are typically looking to expand the number of credit card users who travel often and are willing to spend generously. An example of this is can be seen through the types of cards offered, as there are often co-branded credit card options that appeal to business travelers.

However, the bank will not approve and issue a credit card to all the applicants; therefore, there is a possibility for customers to become upset through a rejection and hence could influence their opinion on the two partnering companies. Brand synergies also involve a similar brand image that appeals to the lifestyle of a target market. A negative customer experience with one brand could become negatively associated with the other brand if they have a strong partnership. For a hotel, guest experience is an important aspect of the hotel product. If a guest were to have a bad interaction with the credit card company, this could influence the guest's brand perception.

Contract Formation

After the partners are evaluated and selected, the co-branded credit card partnership contract is negotiated. This negotiation covers several points: the contract duration for the partnership, the goals of each partner (typically with a contract severance clause in the event that partners do not achieve what they originally expected), and the cost structure of the partnership. The banks make money in these partnerships through one of the following scenarios: volume-based, the brand receives royalty payments based on the volume of sales on the credit card; revenue sharing, the brand receives a portion of the late fees and finance charges; or profit sharing, the brand negotiates and receives a portion of all the profit. Interestingly, according to

Barclaycard representatives, profit-sharing was considered uncommon for these co-branded cards. Contract costs are an important factor in the formation of the partnership which is elaborated on further in this section.

Contract Expiration

When the contract nears its expiration, the two partners begin to negotiate renewing the contract or the brand will issue a new RFP in search of a new financial institution partner.

Co-Branded Credit Card Examples

A couple of co-branded credit cards were compared to show the similarities between the various brand partnerships. In Table 3, Wyndham and Barclaycard's two co-branded credit card benefits are displayed to show how the two cards appeal to different types of guests as found from Wyndham's rewards website.

Wyndham Rewards Co-Branded Credit Cards		
	Wyndham Rewards Visa (Fee)	**Wyndham Rewards Visa (No Fee)**
Welcome Bonus	15,000 points after first purchase, Extra 15,000 after $1000 spent in 90 days	15,000 points after first purchase
Hotels	5 bonus points for every $	3 bonus points for every $
Everyday Purchases	2 Bonus Points per $ spent at utility, grocery, & gas stations	2 Bonus Points per $ spent at utility, grocery, & gas stations
All other purchases	1 bonus point for every $ spent	1 bonus point for every $ spent
Status	Automatic Platinum (3rd tier)	Automatic Gold (2nd tier)
Anniversary	6,000 bonus points annually with spending	-
Fee	$75	-

Table 3: Wyndham Rewards Co-Branded Credit Card Perks (2017)

Table 3 shows how the co-branded credit cards are structured so that customers who do not travel often can accumulate points through regular purchases and earn status in the hotels without an annual fee. On the other hand, guests who prioritize earning points and gaining rewards and benefits are more inclined to purchase the card with the annual fee. These two card options allow Wyndham and Barclaycard to acquire both types of users instead of limiting their credit card users to one type.

The co-branded credit cards of five major brands, Wyndham, Hilton, Marriott, Starwood, and IHG were compared in Table 4. These specific cards were selected because they were the most comparable among each brand's co-branded credit card options that require annual fees. It is evident that all of these cards target similar credit card users based on their card benefits. Each of these cards offers welcome bonuses to incentivize users to spend on the cards in the first few months of opening the account. All of these cards offer points for spending at the specific hotel brand and all other purchases. This structure promotes user spending at the brand's hotels, which increases hotel loyalty, and encourage overall spending on the card.

Co-Branded Credit Cards With Fees						
	Wyndham Rewards Visa (Fee)	**Hilton Honors Surpass® Card from American Express**	**Citi® Hilton Honors Reserve Card**	**Marriott Rewards® Premier Credit Card**	**Starwood Preferred Guest® Credit Card**	**IHG® Rewards Club Select Credit Card**
Welcome Bonus	15,000 points after first purchase. Extra 15,000 after $1000 spent in 90 days	100,000 points after spending $3,000 in purchases on the Card within first 3 months	2 Weekend Night Certificates after spending $2,500 in purchases within the first 4 months	100,000 points after $5,000 spent on purchases in first 3 months	25,000 points after $3,000 spent on purchases in first 3 months	60,000 points after $3,000 spent on purchases in first 3 months
Hotels	5 Bonus Points for every $	12 Bonus Points for every $	10 Bonus Points for every $	5 Bonus Points for every $	5 Bonus Points for every $ (Starwood) 2 Bonus Points for every $ (Marriott)	5 Bonus Points for every $
Airlines & Car Rentals	-	-	5 Bonus Points for every $	2 Bonus Points for every $	-	-
Everyday Purchases	2 Bonus Points per $ spent at utility, grocery, & gas stations	6 Bonus Points per $ at restaurants, grocery, gas stations	-	-	-	2 Bonus Points per $ at restaurants, grocery, gas stations
All other purchases	1 Bonus Point for every $	3 Bonus Points for every $	3 Bonus Points for every $	1 Bonus Point for every $	1 Bonus Point for every $	1 Bonus Point for every $
Status	Automatic Platinum (3rd tier)	Automatic Gold (3rd tier)	Automatic Gold (3rd tier)	Automatic Silver (2nd Tier)	-	Automatic Platinum (3rd Tier)
Anniversary	6,000 Bonus Points annually with spending	Free weekend night	Free weekend night after spending $10,000 annually	Free night stay	-	Free night stay
Annual Fee	$75	$75	$95	$85	$95	$49

Table 4: Major Hotel Brands' Co-Branded Credit Cards with Fees

Among the co-branded credit cards in Table 4 all of the cards with the exception of the Starwood Preferred Guest card offer automatic elite status to users. Similarly, these same cards offer anniversary benefits to encourage users to continue using their cards after their first year. While the Starwood card seems to offer fewer benefits compared to the other cards, the Starwood card offers other unique benefits through its various partnerships.

Unique Co-Branded Credit Card Brands

Most brands only partner with one financial institution to prevent competition between brand partners; however, some exceptions are made to this arrangement such as the ten American Airlines (AA) co-branded credit cards available. As seen on American Airline's website, AA currently has five cards each offered by two different financial institutions, Citi and Barclaycard. After speaking with Barclaycard, it was clear that this type of arrangement is not ideal for either financial institution. This particular scenario was created as a result of the US Airways and American Airlines merger. At the time of the merger, Citi had a co-branded credit card partnership with US airways that had been in effect for around twenty-five years while American Airlines had a co-branded credit card with Barclaycard. During the merger negotiations, the brands decided to proceed with duel issuance considering that the two financial institutions would be offering comparable products.

Types of Branded Credit Cards

This study has focused on co-branded credit cards, but this type of card is not the only option for financial institutions and brands. Among the other options are private label cards and travel rewards cards.

Private Label Cards

Private label cards are loyalty credit cards that can only be used for transactions at the merchant or brand. The popularity of private label cards has decreased since it has failed to promote substantial spending and therefore does not align with the financial institute's spending goal. Likewise, private label cards did not promote additional guest loyalty since holding the card did not incentivize users to return to the store more frequently. Unlike the co-branded card, private label cards did not expedite the loyalty point accumulation process through everyday purchases. The co-branded credit card structure incentivizes the user to spend money on the credit card with their everyday purchases to earn loyalty points that can be later used at the hotels. As seen in Table 5, a private label card does not promote spending on the card nor does it promote brand loyalty.

	Travel Rewards Card	**Co-Brand Card**	**Private Label Card**
Promotes Card Spending	✓	✓	-
Promotes Brand Loyalty	-	✓	-
Result:	Lacks Brand Loyalty	Ideal Card	Lacks Spending

Table 5: Partnership Credit Card Types

Travel Rewards Cards

Another card option is the travel rewards card. This card accumulates its own points that can be redeemed and transferred for loyalty points on multiple travel programs. Travel rewards cards like the Chase Sapphire Preferred card are structured so the card has its own points for the user to earn through everyday spending. These points can be transferred in a one-to-one conversion to multiple loyalty programs, such as airline companies, Hyatt Gold Passport, IHG Rewards Club, Marriott Rewards and The Ritz-Carlton Rewards. This may be preferable for credit card users, however, it is not an ideal partnership card for the brands involved. Each brand agrees to a partnership with the intentions of growing its brand equity and thus, creating more brand loyalty. Travel rewards cards prevent customers from becoming truly brand loyal to any of the brand partners since users can choose which programs to transfer their points to and only transfer points to a brand when necessary. Similarly, for the banks, it is important to maintain brand synergies which can be difficult and complex if there are multiple entities and partners involved. As seen in Table 5, a travel rewards card will not work for brands that are trying to promote brand loyalty.

Hotel Loyalty Point Cycles

The hotel loyalty programs' success is dependent on guests' ability to accumulate and realize their loyalty points. Hotel loyalty points are passed through the various entities through various processes and business agreements. There are effectively two models for how loyalty points flow between the entities. The difference in these two models depends on whether the bank has agreed to purchase loyalty points from the brand and therefore assumes the liability to

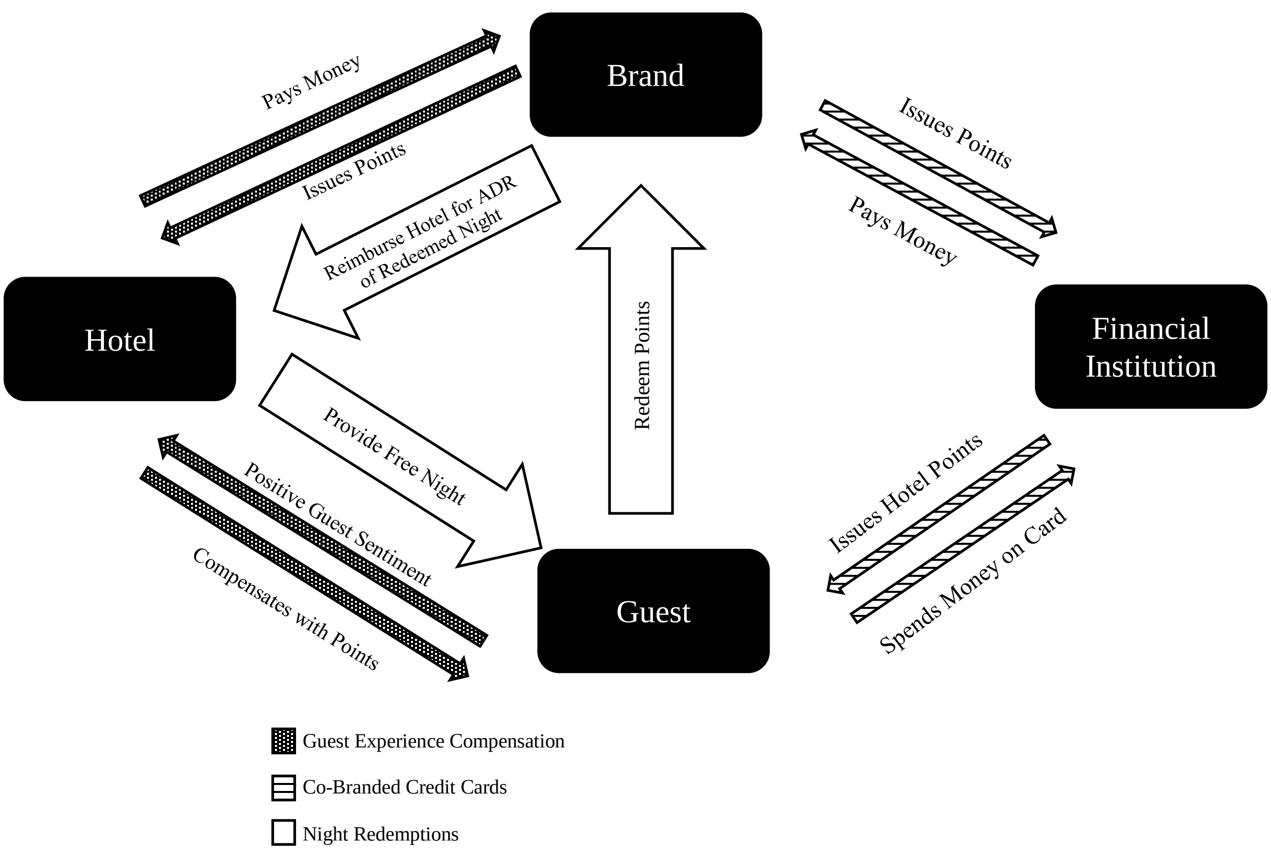

Figure 6: Points Flow Between Players: Financial Institution Buys Points Model

issue these purchased points to the card users or whether the bank does not purchase the points from the brand. There is also the traditional method of point accumulation in the hotel industry in which guests earn points for each stay at a branded hotel. This traditional method has not been included in Figure 6.

Point Issuance Methods

As seen in Figure 6. points can flow between the four entities through three different methods that are elaborated upon in a step by step fashion in this section:

1. Co-branded credit cards
2. Night redemptions
3. Guest Experience Compensations

Co-Branded Credit Card Loyalty Point Issuance

Co-branded credit cards have two different ways for points to be issued by the brand and received by the guest:

1. Financial institutes purchase the loyalty points from the brand and issue the points to the guests.
2. Financial institutes do not purchase loyalty points and informs the brand to issue points to the guests based on user spending.

This process is determined in the contract between the financial institute and the brand through a couple of contract costs. The bank compensates the hotel brand for the:

- Issuance of points associated with the credit card activity
- Ability to hold the points in its account and issue them to the guests
- Ability to use the brand name, logo, imagery, other marketing material
- Acquisition of new credit card accounts form the hotel brand’s channels such as its website and email lists

Each of these rates are determined by the hotel brands and are dependent on the market rates for the points and the brands’ internal costs to issue the points.

Banks Purchase and Issue Points

In this process, the bank takes on the risk of paying the brand for points that users may or may not earn or use. While some entities have exclusive loyalty point flow systems, Figure 7 depicts all the ways points can move between entities in this situation when the financial institution buys the points from the brands.

Figure 7: Loyalty Point Issuance through Co-Branded Credit Cards:

A step by step process of how this points dynamic works is outline below:

1. The financial institution purchases points from the brand and holds the points in its account.
2. Credit card users spend money on the co-branded card and are awarded with hotel loyalty points by the financial institution.

In this particular situation, the exchange of points from the brand to the financial institution causes the financial institution to incur a liability for holding the points it purchased from the brand. This means that the bank takes on the risk of holding these points with the uncertainty of whether users actually earn and redeem their points. This risk has made this particular model unpopular with banks and so banks like Barclays are more in favor of the point model that does not require the banks to purchase and issue the points.

Brands Issue Points Directly to Card Users

In the more commonly used co-branded credit card points issuance model, the financial institution notifies the brand whenever points need to be issued to a card user's account based on the card user's spending.

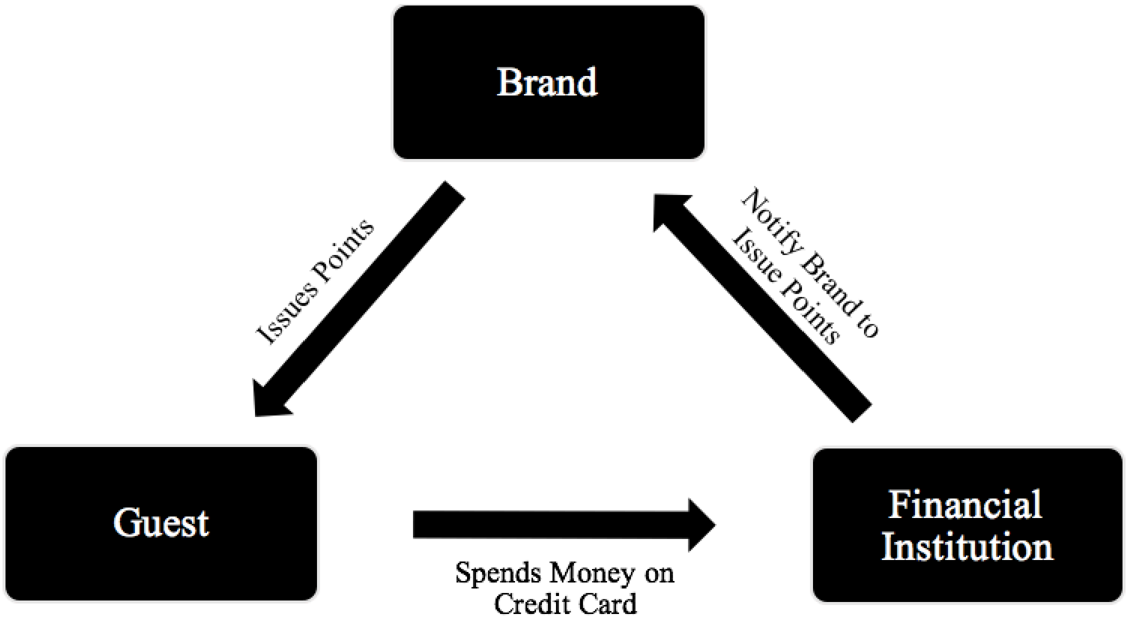

Figure 8: Brand Issues Points to Guest Model

Figure 8 shows a closer depiction of this points flow agreement in the co-branded credit card partnership contract. In this partnership contract, the financial institution agreed with the brand that the following procedure occurs:

1. Guest spends money on the co-branded credit card.
2. Financial institutions notify the brand that points need to be added to the card user's account.
3. Brand adds the appropriate number of points into the card user's loyalty account.

In this particular model, the financial institution does not take on the liability of owning the points. Instead the brand directly issues the points to the guests who can then redeem the points as they please.

Room Night Redemption Process

In Figure 6, the room night redemption process is depicted in the white arrows. Figure 9 shows a closer look at the relationship between the brand, hotel, and guest. This process can be explained through the following steps:

1. Guests redeem their points for a night through the brand website.
2. Hotel brand reimburses the hotel for a portion of the ADR of the redeemed night (reimbursement metrics are further discussed).
3. Hotel provides service and the redeemed night to the loyalty member.

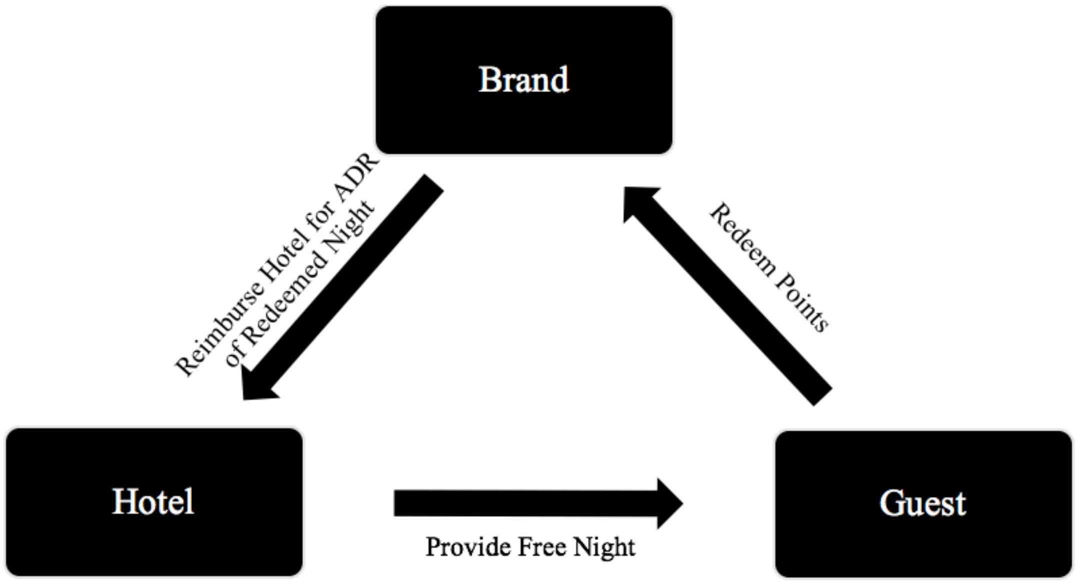

Figure 9: Night Redemption Process

In an interview with IHG's loyalty team, it was revealed that the total number of points necessary to redeem a room night is dynamically revenue managed. Hotels are internally ranked in tiers to determine the number of points necessary to redeem a night. Each hotel has a different point value based on whether it is a high demand hotel, the location of the property, or the seasonality and demand period for the date of stay. Therefore, the number of points necessary to redeem a night could fluctuate depending on the level of demand for the hotel based on the point in time. While hotels of the same flag typically are around the same number of points, some properties may be worth more or less depending on the criteria previously mentioned. This point redemption valuation of properties is refreshed and updated every couple of years.

Hotel Redemption Night Reimbursement

A major component of the hotel redemption process is the way the hotel brands reimburse the hotels for the redeemed night. Figure 10 shows the reimbursement structure for how Marriott International reimburses its owners for redemption nights.

Award Certificate Reimbursements to Property
Standard Rewards

Luxury and Upper Upscale Brands:
When a Marriott Rewards member redeems an award certificate at the property, the property receives reimbursement in one of three ways:

1. Nights when occupancy is *greater than or equal to 96.00%*, the hotel is reimbursed at 90% of the ADR* or
2. Nights when occupancy is *greater than or equal to 90.00% and less the 96.00%*, the hotel is reimbursed at 50% of the ADR* or their blended rate, whichever is higher or
3. Nights when occupancy is *less than 90.00%* the hotel is reimbursed at their blended rate which is calculated every year in December.

Upscale and Upper Midscale Brands:

When a Marriott Rewards member redeems an award certificate at the property, the property receives reimbursement in one of three ways:

4. Nights when occupancy is *greater than or equal to 96.00%,* the hotel is reimbursed at 85% of the ADR* or
5. Nights when occupancy is *greater than or equal to 90.00% and less the 96.00%*, the hotel is reimbursed at 40% of the ADR* or their blended rate, whichever is higher or
6. Nights when occupancy is *less than 90.00%* the hotel is reimbursed at their blended rate which is calculated every year in December.

Figure 10: Marriott International's Redemption Night Reimbursement Rates

As seen in Figure 10 the amount an owner is reimbursed depends on the chain scale of the hotel flag and the occupancy of the hotel for the night of redemption. Through the information in Figure 10 it can be seen that the hotel brand will never fully reimburse the hotel at its full average daily rate (ADR) for the night of the redemption. In this reimbursement matrix it can also be seen that there are two different scales for what percentage a hotel is reimbursed based on whether it is a luxury or upper upscale hotel compare to whether it is an upscale or upper midscale hotel.

Negative Guest Experiences Compensation

Guests are compensated for negative guest experiences. Hotels sometimes buy loyalty points from the brand to gift to their guests to compensate for any service failures.

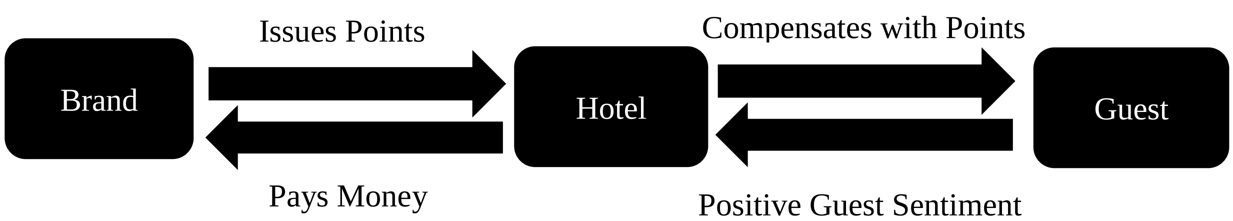

Figure 11: Guest Experience Point Compensation

In this process, when the hotel experiences a service failure the following steps are taken:

1. The hotel will purchase points from the brand at a fixed rate.
2. The hotel will gift the points to the dissatisfied guest to experience a service recovery.
3. The impact of the negative experience the guest underwent will be mitigated and will result in an overall positive guest sentiment towards the hotel.

According to the General Manager of the Hampton Inn & Suites Brenham, it costs the hotel approximately $100 to purchase 30,000 Hilton Honors points. Unfortunately, this metric is not comparable to that of the other loyalty points of other major hotel brands because of the different pricing metrics.

Points Promotions

In discussions with representatives from Marriott Rewards, The Ritz-Carlton Rewards, Hilton Honors, and IHG Rewards Club, points promotions were brought up consistently among the different brands. Every year, in addition to the benefits that the co-branded credit cards offer, the loyalty programs launch a couple of promotions to help all guests accelerate their points accumulation. Some of these promotions allow the guests to accumulate double or triple the number of points they normally would at a hotel stay during a specific time frame, offer free night stay vouchers, or offer free gifts to guests who stay at one of the hotels during the time frame.

DISCUSSION AND IMPLICATIONS

This study has focused on the partnerships and expansion of hotel loyalty programs. Hotel loyalty programs in particular must stay relevant and up to date for guests in order to remain competitive in the market. While many programs imitate each other through member benefits, the primary method that hotel brands use to distinguish themselves is through new technology implementation such as mobile technology and program benefits. The consistently updated program features have helped brands remain favorable to guests; however, these program features have increased costs to owners. While this adapting structure of the loyalty program has grown increasingly unfavorable to owners, programs' increased number of partnerships also create negative implications for owners' bottom lines. Owners face harsh consequences as the hotel brands grow and expand their loyalty program partnerships to help guests earn and redeem their reward points: owners must provide more costly membership benefits while still maintaining the evolving brand standards.

Hotel Brand Strategy

Asset Light Strategy

The importance of owner and hotel brand relations has grown significantly as hotel brands segregate their management and franchise businesses from their real estate business. Recently, hotel brands have begun to transition to an asset light strategy, in which the hotel brands no longer own their properties but are focused more on their franchise and management agreements with their property owners. One of the first brands to conduct a real estate spin off, Marriott International, transitioned its owned hotels in 1993 into a real estate investment trust (REIT) which is currently known as Host Hotels & Resorts (formerly known as Host Marriott). This allowed the brand to spend its efforts expanding its brand portfolio of hotels, therefore allowing it to focus on its core business. Other examples of the asset light strategy can be seen in December of 2016 with Hilton's creation of two new separate companies, Park Hotels & Resorts and Hilton Grand Vacations, for its real estate business and its timeshare business respectively. These three independent publicly traded companies now allow each entity to focus on its core business and give Hilton the opportunity to focus on its management business. In January of 2017, AccorHotels, Europe's largest hotel operator, also announced its plan to split-off its hotel-owning subsidiary, HotelInvest. Positive owner relations are vital to the success of the asset-light strategy since hotel brands no longer own their properties and need owners to invest in their properties to reflect quality brand standards that create a consistent and positive guest experience. This enables the hotel brand to focus its resources on supporting their loyalty programs.

Strategic Partnerships

Another strategy that the hotel brands undergo to remain competitive in the market is the creation of strategic partnerships with firms within the travel, food, and utilities industries. Guest engagement is crucial to create attitudinal loyalty to the programs which causes hotel brands to increase their number of partnerships. Hotel loyalty programs have two types of partnerships: partners to help guests accumulate points and partners to help guests redeem their points. Some partners can be used to both accumulate and redeem the hotel loyalty points. Examples of these partners are airline partnerships such as Delta Airlines, United Airlines, American Airlines, Virgin America, JetBlue Airlines, Alaska Airlines, and many more. In hotel loyalty programs like Hilton Honors and Starwood Preferred Guest, members are able to accumulate hotel points by flying with the airline partners and are also able to redeem their hotel points on flights or by converting their points into airline miles. Other types of partnerships consist of retail, dining, home security, utility bills, and car rentals/transportation.

Partnerships that are used to accumulate points exclusively can be seen through products like co-branded credit cards. Accumulation partners give the brands the opportunity to issue more points to guests and therefore guests are able to gain more points at an accelerated rate and climb to higher loyalty program tiers faster. While this benefits the guests and allows them to realize their tier and point perks at the properties faster, this has caused owners to incur more costs since the owners have to provide those benefits. In programs like Hilton Honors, silver members are given welcome water bottles upon each stay and gold members are provided with complimentary breakfasts. Members are able to rise to silver and gold membership statuses quicker through the accumulation partnerships and thus owners see a larger volume of elite status members in their hotels. The increased volume in elite members in the hotel properties means that owners must buy more water bottles to distribute and prepare for more guests to feed at breakfast. Other elite benefits include access to executive lounges and automatic room upgrades upon availability. As loyalty members dominate the mix of hotel occupants, owners now face higher costs to maintain them.

Impact on Owners

There are many drawbacks for a hotel owner to be a franchisee as listed:

1. Franchisees experience increasing pressure to upgrade their hotels to the rapidly changing brand standards in order to fulfil loyalty guest expectations.
2. Hotels face increasing costs related to the loyalty member benefits.
3. Franchisees realize lower revenues due to point redemptions.
4. Owners need to pay franchise royalty fees which also decreases revenues.
5. Hotels need a brand in order to get financing.

These concepts are elaborated on throughout this section.

Experiential Mobile Innovation Costs

Loyalty program updates have been implemented at a faster pace with the increase of technological advancements. One of the most common ways for brands to connect their hotel technology with guest's technology is through interactive mobile applications (apps). The apps require the guests to join the loyalty programs in order to gain access to all of the technological perks. This membership requirement has grown more important as the brands increase the hotel technology features that depend on the mobile application. Recent technological innovations include RFID hotel door locks and keyless entry which allow guests to unlock their guestrooms with their smart phones. The mobile app detects that the guest is within a couple of feet from their guestroom door and prompts the guest if he or she would like to open his or her door. The lock detects the presence of the phone and then unlocks the door for the guest, eliminating the need to carry an extra door key. Other technological perks include the ability to use the mobile app to check-in to the hotel. This allows guests to bypass the front desk and save time. These advancements in the program appeal to guests because it creates a more convenient hotel experience. However, all of these advancements require owners to update the features in their hotels and infuse more capital into their buildings. While brands take pride in their new technology implementations in the hotels, not all of the hotels have the latest technology and are up to the most recent brand standards which has created variation among guest experiences in hotels of the same brand. Brands have focused on technological innovations in hopes to generate more guest loyalty to distinguish themselves from their competition. Although it in uncertain whether these innovations have improved guests' attitudinal loyalty towards a brand, the mobile applications have significantly helped the brands increase the number of loyalty members in their programs.

Brand Standards

Although the loyalty programs promote guests to stay at more of the brand's hotels, this has given guests the ability to become more sensitive to variances in the hotel experiences especially when one hotel is behind on the brand's latest innovations. This variation between hotels of the same brand shows that the challenges that the hotel brands have to maintain their brand standards across their hotels. Owners are pressured by the hotel brands to maintain brand standards in order to properly reflect the brand and by guests who are easily dissatisfied.

Hotel brands inspect their hotels approximately every year, depending on the brand, to ensure that the hotel is meeting brand expectations. During these inspections the brand makes sure that the hotel is complying with brand standards and tells the hotel which parts must be improved to stay on par with brand standards. If the hotel is not up to brand standards, a warning will be issued and the hotel is given an update timeframe. Hotels that are not updated within this timeframe may lose their brand flag, subject to negotiations between the brand and franchisee. Hotels that have not yet implemented the latest technology face the threat of losing their brands but also suffer the negative reviews of guests who have already stayed at a hotel of the same brand that was more updated. This variance in guest experience between hotels of the same flag shows brand inconsistency and thus creates guest dissatisfaction. While the brands and loyalty programs advertise convenience through technology, hotels brand standards are only required to be updated once every couple of years showing a disconnect between what the brands and loyalty programs are promoting in the guest experience and what the owners are willing and able to deliver.

Tier Benefit Costs

Owners also suffer when they have to deliver tier benefits. In co-branded credit card partnerships, credit card users are often automatically promoted to higher loyalty tiers, therefore inflating the number of higher tier members. Owners provide tier benefits of water bottles, room upgrades, free breakfasts, and VIP lounges as a cost. The increased number of guests in the higher loyalty tiers increase hotel expenses to deliver the benefits that guests expect.

These benefits consist of revenue reducing perks and cost creating perks. Revenue reducing perks can be seen through complimentary drink tickets. The hotels are not increasing their costs, but they are not be making revenue off of the loyalty members who redeem the drink tickets. Cost creating benefits are perks that require additional cost. This can be seen through complimentary water bottles for members because the hotels have to purchase the water bottles. As program membership grows, hotel owners experience decreased revenues to deliver the program benefits members are promised.

Redemption Night Revenue

The biggest issue of all is the decreased revenues franchisees face due to member’s redemption nights. The current reimbursement structure for redeemed nights is unfavorable to hotel owners as seen in the following case scenario. Owners are reimbursed significantly less for redeemed nights which shows that guest redeemed nights are not favorable to owners. Franchisees with limited service hotels and full service hotels experience different impacts towards their revenues through their redeemed room reimbursements.

In the findings section, the reimbursement structure for Marriott International was used to create two scenarios to see the differences in reimbursement between a full service hotel and a limited service hotel when they are at 90% occupancy and at 97% occupancy. These occupancy rates were selected because the Marriott reimbursement structure provided different reimbursement rates at less than 90%, 90-96%, and greater than 96%. The ADRs used are estimated numbers for full service and limited service hotels. In the 90% occupancy scenario, it can be seen that the limited service hotel does receive an expected lower reimbursement than the full service hotel, plus the full service hotel does have the ability to make more revenue through different channels such as food and beverage purchases or parking. Therefore full service hotels are less impacted by the discounted reimbursement rates for redemption nights.

Redeemed Night Reimbursements to Hotels at 90% Occupancy		
	Full Service Hotel	Limited Service Hotel
Hotel Occupancy	90%	90%
ADR for night	$110	$80
Reimbursement Calculation	90% Occupancy = Reimbursed 50% of ADR	90% Occupancy = Reimbursed 40% ADR
Room Night Reimbursement to Owners	$55	$32
Other Revenue Streams	Food and beverage, parking, etc.	None

Table 6: Case - Redeemed Night Reimbursements to Hotels at 90% Occupancy

The results of the 97% occupancy scenario showed the same results as the 90% occupancy scenario, with lower reimbursement rates for the limited service hotel. However, when compared with full service hotels at 90% occupancy, limited service hotels at 97% receives $13 more in reimbursement. However, this $13 can easily be made up at a full service hotel through other guest purchases. While limited service hotels do have a lower operating cost due to their limited services and amenities compared to those of full service hotels, it can be seen that reimbursement nights at limited service hotels hurt the hotel owner’s revenue more than a reimbursement night at a full service hotel.

Redeemed Night Reimbursements to Hotels at 97% Occupancy		
	Full Service Hotel	Limited Service Hotel
Hotel Occupancy	97%	97%
ADR for night	$110	$80
Reimbursement Calculation	90% Occupancy = Reimbursed 90% of ADR	90% Occupancy = Reimbursed 85% ADR
Room Night Reimbursement to Owners	$99	$68
Other Revenue Streams	Food and beverage, parking, etc.	None

Table 7: Case- Redeemed Night Reimbursements to Hotels at 97% Occupancy

This reimbursement structure is unfavorable to limited service hotels in particular because their main source of revenue is the room rate. If the room rates are reimbursed at a portion of the ADR, the hotel is realizing lower profits. As seen in the Table 6 and Table 7, hotels at lower occupancy rates realize even smaller reimbursements. When a hotel is at a higher occupancy rate, the franchisee would prefer fewer redemption nights to occur since the hotel could likely sell the rooms at the full rate instead of the decreased reimbursed rates.

Luxury Resort Hotel Revenues Based on Occupancy & Redemption					
Occupancy	80%	85%	90%	96%	100%
Key Count	417	417	417	417	417
Redeemed Reimbursement %	Blended (Estimated 40%)	Blended (Estimated 45%)	50%	90%	90%
ADR	$ 250	$ 250	$ 250	$ 250	$ 250
Revenue					
No Redemptions	$ 83,400	$ 88,613	$ 93,825	$ 100,080	$ 104,250
10% of Guests Use All Points	$ 78,396	$ 83,739	$ 89,134	$ 99,079	$ 103,208
Owner's Loss at 10% Redemption Nights	**$ (5,004)**	**$ (4,874)**	**$ (4,691)**	**$ (1,001)**	**$ (1,043)**
25% of Guests Use All Points	$ 70,890	$ 76,428	$ 82,097	$ 97,578	$ 101,644
Owner's Loss at 25% Redemption Nights	**$ (12,510)**	**$ (12,184)**	**$ (11,728)**	**$ (2,502)**	**$ (2,606)**

Table 8: Sample Luxury Resort Reimbursements & Franchisee Revenue Losses

Another case was created to see what actual losses owners would face if there were some redemption nights (at the all-points rate) compared to their revenues they would make if their rooms sold at ADR. In Table 8, the redeemed reimbursement for percentage for the hotel at 80%

occupancy was estimated to be 40% and for 85% occupancy was estimated to be at 45%. Table 8 shows that as occupancy decreases, the revenue also decreases when there are redemption nights. When the mix of guests who redeem nights through an all-points rate increases, the revenue for that night decreases as well. For the 90% occupancy column, when 25% of those guests redeem nights through points it can be seen that the hotel will only receive 87.5% of the revenue it would receive if all the rooms were paid with all-cash.

Franchisees face significantly decreased revenues with redemption nights. This reimbursement structure encourages the hotels to strive for occupancies above 90% and 96%. However, in February of 2017, only around 10% of the hotels across the United States operated above 90% occupancy according to STR. Therefore, there is a 90% chance that on any given night a hotel will be operating at lower than 90% occupancy and thus will be receiving only up to 50% reimbursement for the night redemptions on these days.

Redemption Points Value

In order to determine whether the hotel brands have oriented their programs to discourage guests from using their points on high ADR dates, one of the luxury hotels from a major brand was analyzed. This particular hotel is a resort with high and low demand periods. It can be expected that resorts will have higher redemption nights since redemption nights are anticipated to be used on leisure stays. In this analysis the all-point rates, combination rates, and all-cash rates to purchase a night were looked at. The rates were determined by selecting the same four days of the last weekend in the month, checking in on Friday night and checking out on Monday. The rates and redemption point metrics were found in Table 9. The point combination rates are all determined by the brand while the ADR is determined by the local market rate.

Point and Cash Combinations to Redeem a Night						
	Points					
Month	**0 (Rate)**	**20,000**	**25,000**	**30,000**	**35,000**	**40,000**
Apr-16	$225.40	$115.00	$89.00	$60.00	$30.00	$0
May-16	$164.64	$115.00	$89.00	$60.00	$30.00	$0
Jun-16	$227.36	$125.00	$99.00	$70.00	$40.00	$0
Jul-16	$274.40	$125.00	$99.00	$70.00	$40.00	$0
Aug-16	$274.40	$120.00	$94.00	$65.00	$35.00	$0
Sep-16	$196.00	$125.00	$99.00	$70.00	$40.00	$0
Oct-16	$196.00	$115.00	$89.00	$60.00	$30.00	$0
Nov-16	$196.00	$115.00	$89.00	$60.00	$30.00	$0
Dec-16	$219.33	$125.00	$99.00	$70.00	$40.00	$0
Jan-17	$203.84	$115.00	$89.00	$60.00	$30.00	$0
Feb-17	$203.84	$115.00	$89.00	$60.00	$30.00	$0
Mar-17	$203.84	$115.00	$89.00	$60.00	$30.00	$0

Table 9: Point and Cash Combinations to Redeem a Night

On this particular brand's website, there were specific point levels that could be redeemed at defined integers with combinations of fixed cash value rates. While the ADRs per month change based on forecasted demand for that four-day weekend, it can be seen that in the point and cash combinations there are three potential combinations. It is assumed that the high redemption combinations are used for times when the hotel has a high demand and the low redemption combination is used for the hotel's low demand periods. In Figure 12, the relationship between the rate and points combinations can be seen. The brand controls the combination redemption rates through the number of points which is at specific integers combined with set cash rates that are determined by the hotel demand. As seen in Figure 12, the combination rates are all linear and converge at 40,000 for the all-points rate. The only rates that are not influenced by the brand are the all-cash rates which is determined by the market rates.

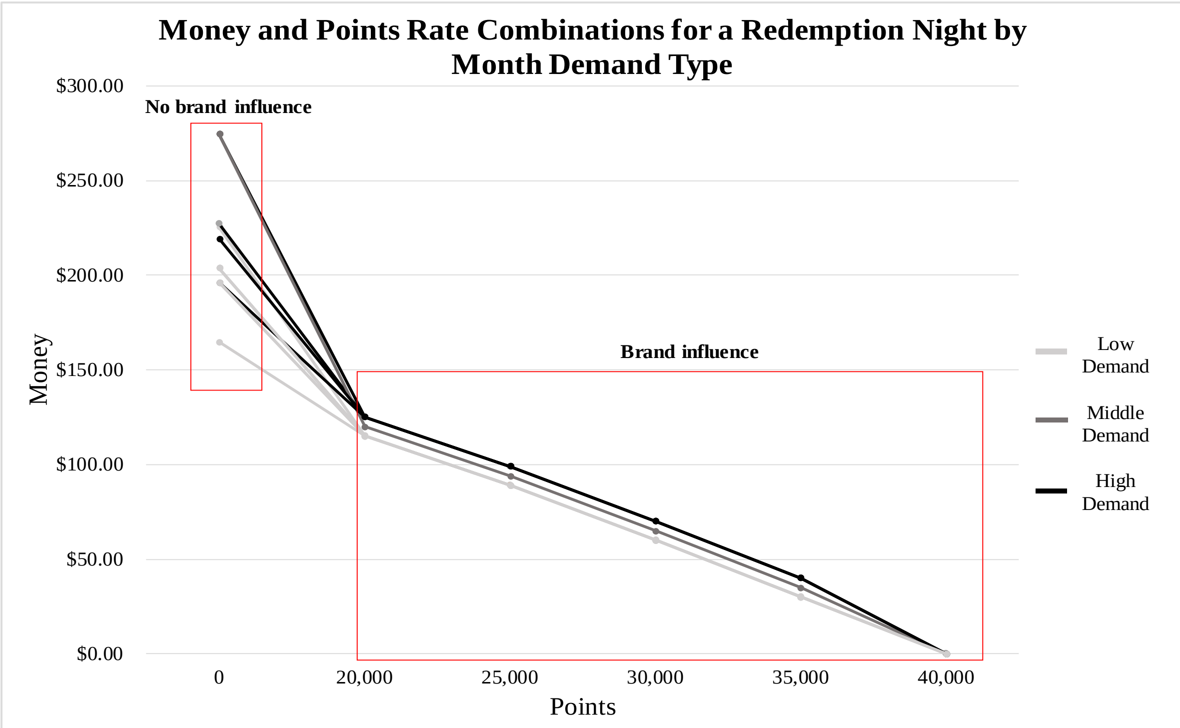

Figure 12: Money and Points Rate Combinations for a Redemption Night by Month with ADR

However, interestingly, it can be seen that regardless of the demand or the ADR, the room nights can be earned at the flat rate of 40,000 points. This contradicts the findings from an interview with IHG that mentioned the number of points in the all-points rate would fluctuate for an individual hotel based on seasonality and demand. In this scenario, it seems that this brand does not revenue manage the number of points it requires to redeem a night, regardless of demand period, considering all of the nights can be redeemed for 40,000 points around the year. Therefore, by plotting the ADR and the point value, which was calculated by dividing the ADR by the 40,000 points, it can be seen that there is a strongly linear relationship between ADR and points value as show in the Figure 13.

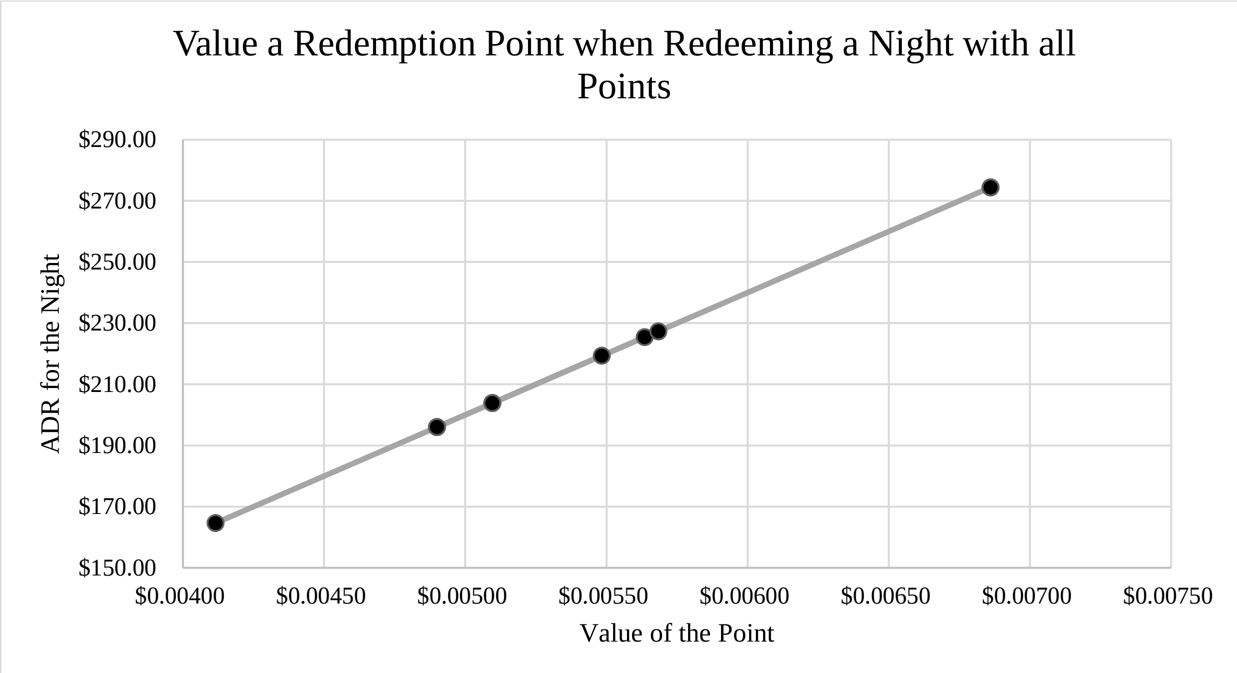

Figure 13: Value a Redemption Point when Redeeming a Night with all Points

This positive correlation shows that the value of the guest's points is higher when the ADR of the room is higher. This could incentivize guests to redeem their points for nights when there is an overall higher ADR in order to gain more value for their points. This redemption structure is the opposite of the owner's wishes. Owners would prefer to sell a high ADR room at the ADR rather than have a guest redeem the room night through points and thus receive a portion of their ADR through reimbursement.

On the same dates, the point values were the greatest when the room was redeemed entirely on points throughout all of the months except for the months that had the highest ADR. In the months of July and August with the highest ADR of $274.40 it can be seen that these were the only two months that the point value of redeeming the room night on all 40,000 points was lower than all of the other combinations with the exception July where the value points using the 40,000 points is greater than the value of points using the 35,000 points combination.

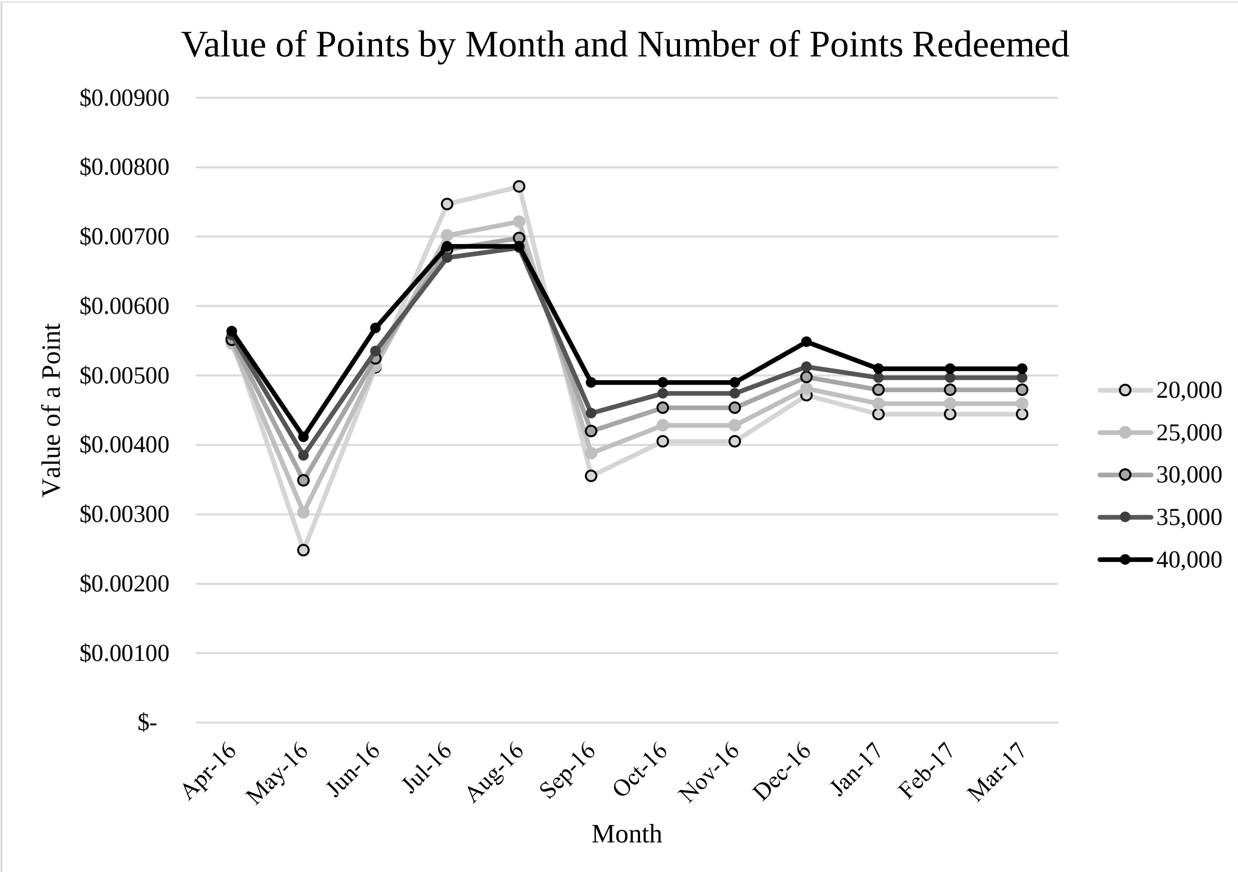

Figure 14: Value of Points by Month and Number of Points Redeemed

In Figure 15, ADR is compared to the point values from the different point redemption combinations. The full room redemption on points can be seen by the black points. It can be seen that there is a linear relationship between the all-points room redemption unlike the combination points redemptions. However, as ADR increases the combinations that use fewer points turn out to have more value per point. This can be seen through the value per point in the nights in Figure 14 that have the ADR of $274.40, where the combinations with 20,000 points and cash have the highest point values and the 40,000 point redemptions have the lower point values. This inversion in point value by combination could be a way that the hotel brands are attempting to decrease the appeal of redeeming a high ADR room night through all points.

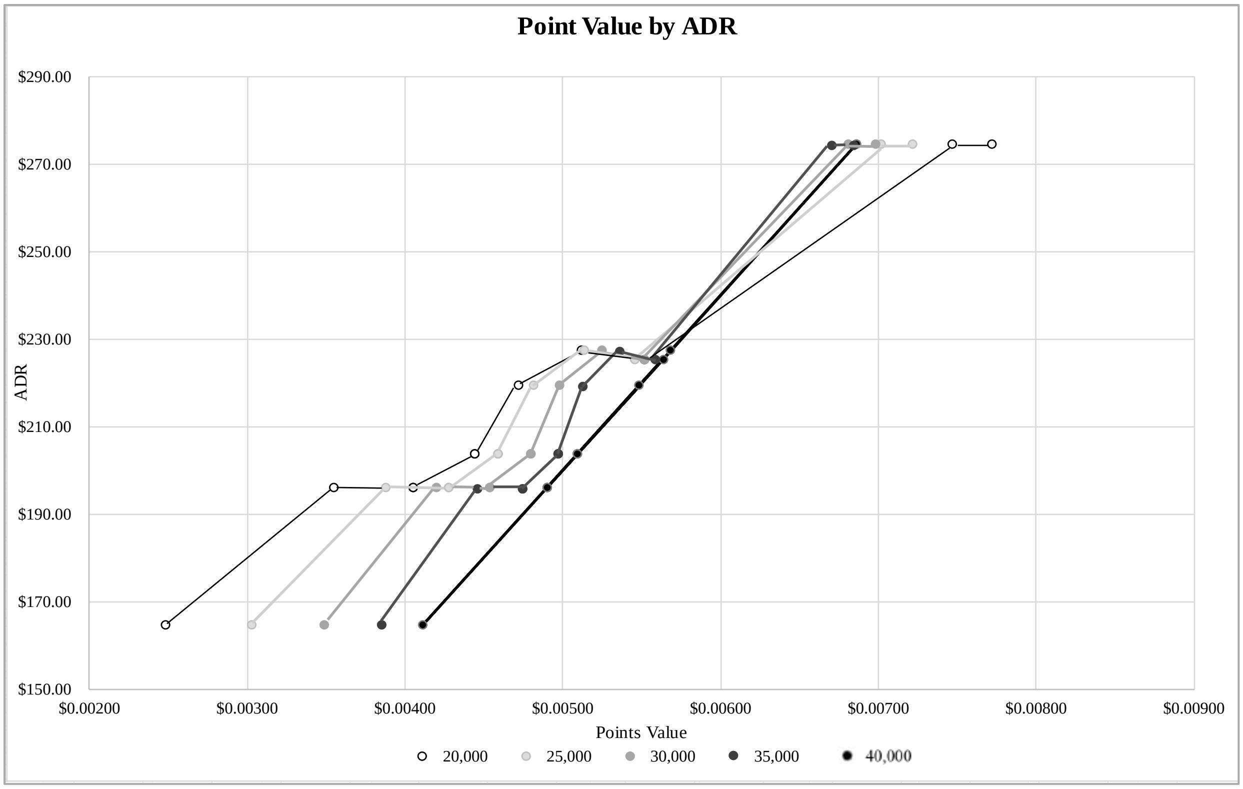

Figure 15: Point Value by ADR

While owners would prefer to sell their rooms through purely cash rates, the loyalty program structure favors guest's ability to redeem nights through points, thus reducing the revenue owners could make on that room night.

Brand Royalty Constraints

Hotel owners typically need a franchised brand name for their hotel to gain financing and often struggle if their hotel is unbranded. As a franchisee, the owners gain brand standards and access to the brand's global distribution system and the loyalty members. However, the brands constrain its franchisees by reimbursing them at a portion of a nights ADR for loyalty redemption nights. The brand also collects royalties which are a portion of the hotel's revenues in addition to the weaker revenues caused by the loyalty members. This franchise agreement constrains the hotel from generating more profit.

Conclusion

Brand Consistency

Hotel brand's primary business is to franchise and manage hotels and it is in the brand's interest to franchise as many hotels as possible. Since the individual hotel's hard good and capital expenditure money comes from the hotel owner, the owners constantly have to invest capital into the hotel to maintain brand standards. This has caused a gap in brand consistency across the hotels of the same flag or hotel brand name. This inconsistency can reflect poorly upon the loyalty program and the brand. While the brands check that their hotels are up to date and maintain brand standards every couple of years, these year gaps between the brand standards of each hotel can lead to vast differences in the hotel experience. Since brand standards and technological implementations like mobile keys in hotels are constantly changing, the multi-year gap between the hotel brand standards inspections can make one hotel seem significantly outdated compared to another hotel of the same flag.

These inconsistencies in the hotels brand standards between the different hotels can impact guests' perceptions of the brand. While technological advancements in hotels are beneficial, they can act as a double-edged sword for the hotel brand. Brands can boast about their technological innovation within their hotels but, guests may be disappointed and think about the brand if they stay in hotels that are not up to the latest brand standards.

Brands continue to focus on franchising to grow the number of hotels with their flags but their volume of hotels makes it difficult for the hotels to maintain brand consistency. Brands should inspect and update their hotels to meet brand standards more often to ensure brand consistency. While this will require more capital from the hotel owners, it is important to maintain the brand's reputation for consistent guest experiences. As a result of this, however, owners who are unable to maintain the latest brand standards may lose their brand flag, which will decrease the number of franchised hotels in the brand. While this may hurt the hotel brand's revenue streams, in the long run, becoming stricter on brand standards will help to protect the integrity of the hotel brands and their reputation.

The financial institutions partners would also be in favor of maintaining stricter brand standards to increase consistency. Guests' and customers' perception of a hotel's brand dictates its brand equity. This influences guests' loyalty and their hotel brand choice. Financial institution partners want to ensure that their hotel brand partner has strong brand equity to attract credit quality guests. As a result, financial institutions do not support owners because they want to see owners invest more into their hotels instead of decreasing their costs.

While brands and their loyalty programs are experiencing difficulty distinguishing their brands, ensuring brand consistency is a way brands can foster attitudinal loyalty. Brand consistency can be a way for a brand to distinguish itself instead of engaging in the typical "perk wars" the brands participate in to differentiate themselves to attract guests.

Room night Redemption and Reimbursement Structure

The current point redemption structure analyzed earlier favors the guests and their ability to use points. In this system, a redemption night on all-points can be redeemed for the same number of points regardless of the night's ADR or the demand season of the hotel. For owners, this can hurt the hotel's revenue streams and thus their investment because guests would be more inclined to redeem their points for a night that is at a higher ADR and is during a higher demand period to get the most value out of their points. This means that the hotel earns at most 90% of the ADR during one of the hotel's biggest demand periods when they could be earning 100%. In order for this system to be more owner friendly, the point redemption rates need to be dynamic in a similar way to ADR where the number of points to redeem a night would increase when ADR increases. This would discourage guests from redeeming nights during high demand periods so that owners can get their full ADR for those room nights.

Another option is for the brands to potentially increase the percentage of ADR reimbursement by occupancy because owners would prefer to have fewer redeemed nights during high occupancy and high ADR nights. Brands could use this to incentivize owners of unbranded hotels and developers to create a franchise agreement, especially if they are trying to franchise a new brand that needs traction in the highly competitive branded hotel space. Limited service hotels do not typically have additional streams of revenue aside from the room revenue and as a result are hurt significantly by the reduced ADR percentage reimbursement that they receive from the brands when a guest redeems a night through points. If the percentage of ADR were to increase this would create a more positive perception of redeemed nights for an owner rather than the current structure. These potential changes to the reimbursement and redemption process would help owners' gain more revenue through the loyalty programs from the brands.

LIMITATIONS AND FURTHER RESEARCH

Limitations

A few research limitations were noteworthy. All of the phone interviews occurred during the interviewee's work hours, and therefore many of the interviews were time constrained. This adversely affected the depth and scope of the discussions. Although follow-up questions were occasionally sent to the company representatives, the representatives had a tendency to provide less information through their response email than they would through a phone call. Possible reasons for this phenomenon are the generally slower transcription of ideas through typing compared to talking and the wariness in leaving a written record.

Another limitation faced was the small sample of contacts that agreed to help provide perspective and information. Roughly thirty professionals were contacted; however, only a small number of contacts agreed to a phone call. From there, only fifteen company representatives responded and answered questions. While perspectives from the hotel brand, hotel ownership, financial institution, and guest's side were accounted for, some of the entities had a lack of variety in firm perspective. The financial institution's perspective was particularly concentrated, being represented by four members of the same firm—Barclaycard. Similarly, on the ownership side, there were only a few contacts that communicated their perspective, and one of the contacts responded to questions through email which limited the information he could provide.

Further Research

Further research should be conducted to determine the implications of brand consistency on guest loyalty. The relationship between the franchisee and the franchisor should also be further explored. The average daily rate (ADR) reimbursement policies of other large hotel brands should be examined to find the differentiating factors between the brands and the implications on franchisees. Another concept related to reimbursement is the idea of dynamic redemption nights. There is little information on how hotels determine the number of points a guest needs in order to redeem a night. While loyalty members make up the majority of a branded hotel's guest mix, research should be conducted to determine whether the benefits of loyalty member occupancy outweigh the costs of the redemption nights and member benefits. Further research should investigate combination redemption rates as more brands are creating this option for members.

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APPENDIX A

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Financial Institute		
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Hotel/Owners Contacted:

Hotels/Owners		
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Bharat Patel	Owner	-
Larissa Dieterich	General Manager - Hampton Inn	Hampton Inn (Hilton)

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Sonu Kaur – IHG	Manager, Franchise Sales & Core Brands Development	IHG
Julia Russell	Senior Director - Global Loyalty Strategy and Innovation	Wyndham

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Guests
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