

EXPLORING THE RELATIONSHIP BETWEEN REVENUE MANAGEMENT AND HOTEL LOYALTY PROGRAMS

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ABSTRACT

Recently, there has been a shift among the structure of loyalty programs to not only reward the large spend of casino players, but also to compensate other frequent travelers of the hotel. As hotels continue to reevaluate the structure of loyalty programs, research was necessary to discover if these loyalty programs are extracting the maximum revenue per guest and creating overall revenue. The purpose of the study was to uncover the relationship between revenue management and hotel loyalty programs. First, a pilot study of a focus group was conducted, followed by thirteen in-depth interviews. After transcription, content analysis was performed, followed by the use of Atlas.ti to further analyze the data. Overall, the goal was to understand consumer behavior to drive repeat business. Revenue management used a loyalty program as a tool to track and gather data on the customer.

INTRODUCTION AND LITERATURE REVIEW

Loyalty programs have yet to be assessed from a revenue management perspective. The value perception of loyalty programs [10] [22], as well as the cost of switching brands [7] have been examined, yet this is strictly from a loyalty or marketing perspective. Customer relationship management [16] is a close bridge between revenue management and hotel loyalty programs that exists, calling for an immediate exploration of this area. The purpose of the study is to address a gap in the literature, while uncovering the relationship between revenue management and hotel loyalty programs and assess the managerial implications of that relationship.

The intent of a loyalty program is to drive customer loyalty and make the guest want to stay at the same hotel time and time again [6]. This study was grounded primarily in the components of loyalty, namely behavioral and attitudinal loyalty. Attitudinal loyalty [9] is described as a deep desire to maintain a relationship with a product, supplier or brand. Conversely, transactional loyalty, or often referred to as behavioral loyalty [15], relies on repeat patronage as an indicator of customer loyalty [8] [9]. Despite the contrast made between attitudinal and behavioral loyalty, other research [17] contends that loyalty must contain both a deep commitment to a brand (attitudinal) as well as repeat patronage (behavioral) in order to flourish.

The principle of dual entitlement also plays an important role in the theoretical framework when discussing fairness [11] [4], while also detailing fairness and its constraint on profit seeking. Under dual entitlement theory, consumers evaluate perceptions of price fairness based on the fairness of the process in which a company sets the price. Their article details how dual entitlement theory focused on how sellers' set prices; consumer perceptions of price fairness are based on the degree to which the price

charged accurately represents the cost of producing that product/service [3]. For example, if the price of a product is raised for no apparent reason, and the production cost remains constant, consumers will perceive this as unfair. It has been noted that loyal guests are less price sensitive, cost less to acquire, and also spend more than non-loyal guests [18], which indicates the importance of loyalty programs

A study by Reichheld and Sasser in 1990 [12] indicates that a firm with a 5% increase in loyalty could produce profit increases of 25-85%. Conversely, another article [5] stated that loyalty programs are neither cost effective nor foster true loyalty. The authors continue by emphasizing the lack of solid scientific research supporting the effectiveness of loyalty programs; the conclusion of the article encourages managers to proceed with caution when it comes to loyalty programs [5]. Other researchers explore switching costs [19], which are costs associated when a customer changes from one brand to another [18]. Switching costs may involve monetary [7] costs, such as loss of funds, or non-monetary switching costs, such as loss of relationship [19].

Analysis of the literature revealed that some important antecedents of loyalty are: value [2], service quality [20] and satisfaction [12]. Prior research has not fully explored the methods for measuring consumer loyalty or loyalty program success [1]. Loyalty from a revenue management perspective [17] seems to be a relationship that has not been fully explored, but could possibly shed light on the connection between hotel loyalty programs and revenue management practices. Lastly, using revenue management and customer relationship management together [14] will consider the lifetime value of the customer and not simply demand. Other research [13] emphasizes the need to integrate revenue management and customer centric marketing.

METHODOLOGY

During the course of analyzing the literature of these two disciplines, several questions emerged about the topics. These questions would serve as the methodological structure for the study. The research questions that emerged from the literature review involved the financial impact of loyalty programs, dynamic pricing, attitudinal vs. behavioral loyalty, and the overall interaction of revenue management and hotel loyalty programs.

A pilot study, consisting of a focus group, was conducted at a high-profile revenue management conference. The participants included both revenue management and loyalty marketing experts from hotel companies nationwide who were recruited via email after they registered to attend the conference. Following the pilot study, 13 in-depth interviews were conducted with different participants.

ATLAS.ti5 allowed for the interviews to be dissected using content analysis. The transcripts were coded, analyzed, and searched for potential categories. Data analysis for this study consisted of an integrated approach to coding, using inductive and deductive coding strategies.

DATA ANALYSIS AND RESULTS

Several themes emerged from the data during analysis: *understanding the consumer*; *strategy is at the core of revenue management*; *the smart consumer*, and *striving for emotional connection through transactional loyalty*. The overall goal of understanding the consumer and his/her behavior was mentioned several times by the participants: "It's just understanding the customer and understanding what it is that they want, to try and sort of tailor the rewards." The topic of the consumer/consumer behavior was mentioned in all of the interviews.

The concept of a core strategy was mentioned frequently amongst the participants, with the word strategy being mentioned 32 times: “So, what you don’t wanna do is sell too many rooms in advance to the lower, lowest end folks, and then not have rooms available for...you know, your higher valued casino customers”, “...you’re gonna give it to them for \$200, now they’re seeing that there’s value in the proposition that you’re giving them...that for being a member you’re gonna get a cheap discount. And therefore you’re being rewarded for that loyalty”. In addition, several participants indicated the idea of exclusivity in the loyalty program as a strategy for obtaining new members.

The conception of revenue management and dynamic pricing was mentioned by a few participants: “...guests almost know that there are different price premiums for a different room asset”. Participants also mentioned the knowledge of the consumer: “I think that consumers are savvy enough at this point to understand that price is a function of supply and demand, right?” Many of the participants stated that consumers have information and awareness to different pricing practices in the hospitality industry.

Many of the participants did mention an emotional connection to a hotel or brand in some capacity: “I mean you capture a lot of business being with such a great brand, because the brand recognition brings guests in too”. In doing so, they related the emotion back to “brand loyalty” or “brand recognition”. The sole mention of “emotions” or “feelings” was by the researcher in conversation with a participant. One of the participants stated, “No” as their answer, and the researcher had to probe further for an explanation: “...emotional connection part, no, but the repeat visits or the purchases are not looked at across the portfolio instead of with one individual property”.

The participants shared an emphasis on repeat guests and enticing the guest to return to the property. The responses shared a common view of, “striving for an emotional connection”, or, “the goal is to have an emotional connection”, and the methods were mainly, “repeat visits”, “offering discounts”, or, “motivating by points”, such as: “We do speak a lot to the repeat guests...”, “How we draw people into the program is the discounts...” The related codes were mentioned often as well: repeat visit (9); transactional loyalty (7); loyalty is repeat business (4); incentive to return (5), and frequency (9).

Paradigm Model and Analysis

The discussed themes were integrated into a paradigm model (Figure 1) with central categories of: revenue management, loyalty programs, strategy, data, tracking behavior, and goal of understanding the consumer. It originated with the connection between revenue management and hotel loyalty programs: the common goal is to understand the consumer.

The first main facet of revenue management and hotel loyalty programs was strategy. For example, one main strategy mentioned was converting guests from booking with online travel agencies, to booking directly. A topic of debate was whether loyalty programs drive emotional connections with their brand, or just repeat visits or purchases. A common theme amongst the participants was striving for the emotional connection by focusing on repeat visits; the emotional connection to the brand was associated with brand loyalty. An emotional connection to the brand was contradictory to the idea transactional loyalty. Revenue managers were mainly concerned with maximizing revenue, therefore indicating that the main focus was on repeat visits.

Overall, the relationship between revenue management and hotel loyalty programs can be described in a single word: data. The data from the loyalty program was crucial to revenue management’s goal of

maximizing revenue. The current focus of revenue management, in regards to the loyalty program, was on repeat visits, and utilizing that data to incentivize guests to return.

DISCUSSION AND IMPLICATIONS

Revenue managers are not concerned with the financial expense of loyalty programs, however the data that can be tracked i.e. spending habits, place of spend, hotel preferences, gaming data, is of the utmost importance. From a revenue management perspective, loyalty programs encourage repeat visits, and in turn, guests may or may not form an emotional connection. Further, dynamic pricing, a core principle of revenue management, could potentially increase loyalty in hotel guests by offering exclusivity to loyal members and those who book directly. Overall, revenue management's involvement with the loyalty program is limited.

The results of this study provide a more thorough understanding of how revenue management interacts with the hotel loyalty program. Revenue management uses the loyalty program for the data collected in order to make more informed decisions on offers and promotions. The results of this study suggest that revenue managers are mainly concerned more with repeat visits to the hotel. In addition, the study reveals that revenue managers had very limited involvement with loyalty programs, indicating they possess very little understanding of the complete loyalty concept. Revenue managers appear to lack the comprehension of the emotional component (attitudinal loyalty) of customer loyalty. In turn, guests that possess true loyalty are generally less price sensitive, therefore dynamic pricing will generally not have negative effects.

A key finding of the study is that hotels with sophisticated loyalty programs should implement cross-training programs between revenue management and loyalty programs. A more direct connection between revenue management and hotel loyalty programs should be established in order to increase hotel revenues. This study reveals that the loyalty program is an essential tool for revenue managers, providing vital data in order to yield rates, send offers, and develop promotions. Lastly, this study adds considerable results to the limited literature base on revenue management and hotel loyalty programs by evaluating loyalty programs from a revenue management perspective.

LIMITATIONS AND SUGGESTIONS FOR FUTURE RESEARCH

One main limitation is these results are not generalizable to a larger population; due to the qualitative approach to this study it cannot be replicated. Another limitation is the presence of the researcher during data collection. The fact that the researcher is present in the respondent's environment may have lead the participants to possibly alter their answers in some way. Lastly, there were no participants that represented a hotel without the gaming aspect in the study. The results of the study indicate that revenue managers are not very concerned with the financial expenses of a loyalty program. These findings can serve as a basis for the future study, however, perhaps interviewing financial executives rather than revenue managers may give more insight as to the exact expense and profit of loyalty programs. Further, possibly taking this study to a different area, with non-gaming hotels, could provide more insight to the topic.

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