Examining the Future of Hotel Loyalty

4 Steps for Refining Rewards Strategies via Personalized Pricing

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Loyalty programs could work so much better for hotels and their guests,

and if any hospitality executive doubts this claim, Hilton Worldwide has 57 billion points to support it. That jaw-dropping figure is the number of HHonors Points — enough to earn more than 1.6 million free room nights for members of the loyalty program — that Hilton customers could have earned by booking directly in 2015 but didn't because they procured a room through a third party, such as an online travel agent.

That shortfall hurt Hilton far worse than its guests. The people in that scenario who booked a room through an OTA found an acceptably low rate, perhaps factoring in the lost opportunity to amass more loyalty points or perhaps not. Meanwhile, the OTA still earned its commission, which probably ate into the hotel's profit margin more than the amount of a discount the property might have offered for booking direct.

It would seem that guests value money in their pocket more than points in their loyalty program ledger. Hotel groups, like the airlines, might only be making the problem worse for themselves as they raise the amount of points needed to redeem a free night. Most hoteliers have tried adding the same perks — free parking or free Wi-Fi, mobile check-in, etc. — to their loyalty programs, leaving them as undifferentiated as before.

If your customers care more about the money they can save than the points they can earn, shouldn't your hotel focus on the price it can offer valuable guests to ensure their loyalty? For forward-thinking hoteliers who answer yes, new Revenue Strategy solutions can take those companies down the path to personalized pricing, which rewards guests with dynamic discounts that truly reflect how much they contribute to a hotel's bottom line.

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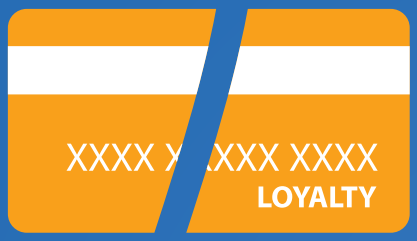

When Points Miss the Point

Points-based loyalty programs aren't going away, but savvy hotel groups are starting to aggressively advertise the exclusive discounts available to club members who book a room direct on the brand's website or call center.

Ancillary perks like redeeming points for Wi-Fi are still part of the pitch, but the most material incentive for the vast majority of guests would be an exclusive savings on the room rate. Points can still be stockpiled and cashed in for a free room night, but that's a proposition that could take months to be realized. Members-only discounts provide real, instant gratification to guests.

But the loyalty strategy of the future goes one level deeper than a blanket discount off the retail rate offered to all club members. Next-generation revenue management systems that apply predictive analytics can move hotels toward personalized pricing. Hotels can pull guests' spending behaviors from several sources, like a customer relationship management system or data warehouse, the property management system, or external databases. From there, they can analyze that data to come up with a value for that guest, based on whatever formula they like.

An integrated RMS can then use that information to apply a unique discount — which essentially is a percentage of the customer's worth reinvested into the top line — to a rate offered to each guest. The members-only offer only applies to the customer who comes to the hotel's booking engine and logs in to procure a room.

The upshot for guests is that their loyalty to a hotel translates into real money back in their pockets thanks to discounts they won't find on an OTA.

For the hotels, more of their business mix can migrate back to their direct channels, which are more profitable. Because the loyalty offers are "fenced" and not publicly viewable, they won't violate any rate parity agreements in a hotel's contract with its OTA partners. Most importantly, hotels can reward their highest-value guests the most.

The data science involved is complex, but there are four easy-to-follow steps for getting started on the path to next-generation loyalty strategy.

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1. Know Your Guest's Value

Whether your hotel is tracking only frequency of stay or more ancillary spending available at full-service hotels and resorts (including rounds of golf, meals from room service or the restaurant, or spa packages), it gathers all the data needed to measure how much your loyal guests are worth to your property. How your hotel quantifies the value of a guest enrolled in the loyalty program is completely up to you.

Perhaps the property seeks to reward the leisure traveler staying 10 nights per year with a higher room rate and out-of-room spend more than it rewards the budget-conscious business traveler who visits 30 nights per year. The most important consideration in the calculation is how much profit the guest tends to produce for the hotel through some combination of his or her visit frequency, ancillary spending and any "secret sauce" metric the hotel tracks. This idea of assigning a numerical value to loyal hotel guests has existed for decades in the way casinos handle their "player development" decisions in order to comp rooms or offer free-play bonuses to incentivize repeat business.

2. Segment Those Guests According to Profit

Once you know the value of each guest in your loyalty program, you must segment those customers into tiers by profitability. The top tier — in which guests receive the most aggressive discounts off the publicly listed best available rate — likely includes the guests who tend to book an expensive room type over peak dates and those who reliably spend on ancillaries on property. The lowest loyalty tier might be where your hotel puts the guests who always opt for the lowest-cost rooms and dates, even if they're relatively frequent visitors.

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Each tier will group together all loyalty program members with a customer value within some range. For example, one hotel's top tier could include guests with values of $150 to $200, and its lowest tier might group together members with values between $1 and $25.

You completely control how many segments or loyalty tiers to use in your hotel. In general, the more tiers loaded in your RMS, the more flexibility you have in moving away from the BAR for certain guests. With too few segments, you run a greater risk of treating all loyalty program members like the same person.

VIPs need to be rewarded above and beyond for their loyalty and spending, but even the club members in the lowest tier are entitled to discounts as well. In the latter case, the offer might just be 5% or 10%, or even $5 or $1, off BAR.

3. Start Reinvesting in Your Guests

If it is integrated with your CRM system, data warehouse or other databases, the RMS will import customers' worth data every day and segment those people in their appropriate tiers. This way, loyalty program members' most recent stay and total spending will be reflected in their profiles when they go to book their next stay.

From there, personalized pricing starts with hoteliers adopting a strategic mind-set of reinvestment, which is already widely used in casinos. Reinvestment is when a hotel applies a percentage of a customer's daily value as a discount to the room rate offered to that guest.

For the sake of simple math, let's examine two customers in the same top hypothetical loyalty tier, which includes all club members with daily worth between $100 and $200. Bill is worth $120, and Jill is worth $150, according to the hotel's proprietary formula. They're each looking to book a room with a publicly listed BAR of $200. If the hotel specifies a reinvestment rate of 20% in the RMS for that tier for that date, the pricing engine will take 20% of the guests' daily worth and subtract it from the BAR price offered. So Bill's discount is $24 (20% of $120), and his room rate is $176. Jill's discount is $30 (20% of $150), and her rate is $170.

The reinvestment rate does not need to remain static at your hotel. The rate could be treated like any other discount decision if your RMS allows you to practice Open Pricing, which is the philosophy of pricing all room types, segments and booking dates independently of one another. For example, reinvestment could be flexed to a lower rate, such as 5% or 1%, on a highly compressed night guaranteed to sell out. The reinvestment rate is another highly effective lever hotels can manipulate to maximize profits while also taking care of very important guests.

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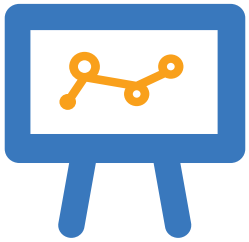

4. Train All Departments to View Loyalty Differently

When an RMS can access customer worth information and enable data-driven reinvestment decisions and bespoke pricing, it benefits all facets of a hotel's strategy.

The revenue management department can use personalized pricing to apply smart discounts without overinvesting on peak booking dates or on guests who don't need as big an incentive to stay and spend on property.

Personalized pricing is a major opportunity for the sales and marketing team to entice customers to book directly and join the loyalty program. Your hotel can credibly say that members get special discounts based on their loyal spending behaviors. The next step is more personalized marketing, where a hotel can send an offer for a certain amenity or a certain booking date based on historical data saved about an individual guest.

The front desk and call center staff will need to be trained to look up customers in the CRM or property management systems and locate the special rate code determined by that person's loyalty tier and reinvestment rate. Customers would also learn how to look up their personalized rates directly from the booking engine, much the same way the front desk staff would. This way, both customers and employees could be confident they arrived at the optimal room rate.

Conclusion

Personalized pricing will be the future of hotel loyalty, especially if hoteliers continue to devalue the points-based model with higher redemption hurdles and undifferentiated perks. Your highest-value — and likely most profitable — guests will want to see their loyalty rewarded not in the form of faster Wi-Fi, but as a price they can only get by logging on and booking directly with you.

It will require investment (in an RMS able to retrieve and analyze customer worth data) and reinvestment (in your most valuable guests). But the returns on both show that there is no time like the present to move your hotel in this direction.

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About Duetto

With solutions that address the true challenge of today's distribution landscape, Duetto provides unique and powerful Revenue Strategy tools to optimize profit and guest loyalty. Duetto delivers powerful insights on pricing and demand to hotels and casinos through a 100% cloud-based application.

Utilizing new consumer-centric data sets such as web shopping regrets and denials, social reviews, air traffic, weather, and more, Duetto GameChanger transforms the way hotels and casinos price and sell rooms by providing better and more actionable information. Make informed distribution choices and independently yield all channels, dates and room types with Open Pricing to drive healthy revenue and optimize profitability.

Thanks to modern cloud architecture, new features and upgrades are delivered seamlessly with zero system downtime. This rapid innovation enables Duetto to provide an industry-leading user interface and experience that's continually improving.

Working with and for the hospitality industry, Duetto is changing the game.

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