A wake-up call for sleepwalking loyalty programs

A global benchmarking survey by EAN and Points
In 2017, Expedia Affiliate Network and Points carried out a benchmarking survey to assess the state of customer loyalty in the travel industry across multiple geographies and stakeholder groups.

Taken very broadly, the news from the survey is overwhelmingly positive. All signs seem to be pointing north for customer loyalty, with significant gains reported almost across the board, along with marked optimism about the years ahead.

But while the big picture looks promising, a closer look at the survey results raises questions, particularly around the sustainability of the conditions and tactics behind recent loyalty gains. As we will see in this report, some businesses attribute their gains to external factors – a strong economy, for instance, or weak competition – rather than strategic business moves. If those external factors go into reverse, will loyalty gains tied to them do the same?

Elsewhere, some markets and sectors seem to be heavily reliant on tried-and-tested techniques such as discounting and vouchers. While these can work in the short term, what is their potential impact on transaction value and customer lifetime value? And is their simplicity and short-term impact steering business owners away from investing in more innovative and sustainable approaches to loyalty?

All of this plays out against a background of changing consumer behavior, with increasing expectation of real value in exchange for their commitment to a brand. Those travel companies that tune in to consumer expectations, listen to what they want and invest in new services understand that product and experience-focused loyalty tactics are likely to be rewarded with a more stable and engaged loyalty base. The good news is that many survey respondents seem to have recognized that truth already – even if relatively few are yet acting upon it.

In the coming pages we’ll take a closer look at the findings from our loyalty benchmarking survey, and hear from industry experts on what they believe it takes to win at loyalty in 2018 and beyond.
Best and worst for loyalty increases, 2015–2017

France: ↑ 94%
USA: ↑ 74%
China: ↑ 90%
Korea: ↑ 71%
Brazil: ↑ 88%
Japan: ↑ 70%
A positive picture

The good news is that loyalty is increasing across both geographies and sectors, and respondents say they expect those increases to continue over the next two years.

Eighty-four percent of respondents said customer loyalty had increased in the past two years, and the same number expect loyalty to continue increasing in the coming two years. Declines in loyalty were only reported in two regions: Spain, where 6% of respondents said loyalty had decreased; and Japan, where the figure was 3%.

While the figures contradict reports of declining loyalty in travel¹, Stuart MacDonald, Vice President and General Manager of Points, isn’t surprised by them. “Both the concept and the category of loyalty are increasing,” he says. “We’re seeing overall health in loyalty from a programs perspective, and also seeing ongoing investment by suppliers in terms of working against the key drivers that keep travelers coming back.”

But while MacDonald points to active investment in loyalty, the majority of survey respondents cited external or tangentially related factors as the key to their loyalty gains. Some 70% of all respondents cited a stronger economy, with peak scores in the UK (88%) and Brazil (82%).

Increased marketing spend was also widely cited, at 72% in the UK and 73% in Japan. Changing customer demographics and improved product offering were also relatively high on the list, cited by 58% of respondents.

Since economic health and wider marketing budgets are prone to change, travel businesses may need to ask themselves whether the recent loyalty growth is sustainable. And, if not, what strategies might they start exploring to consolidate their gains and retain a long-term loyal customer base?

The discounting question

There is little doubt that discounting and vouchers can help win business, but they are not without drawbacks. First and most obviously, they drive down transaction values; second, they encourage precarious relationships based on price rather than affinity and experience. When hospitality research specialist Kalibri Labs analyzed the results of hotels’ direct booking pushes in 2016, it qualified positive initial findings by noting the heavy emphasis on discounting through loyalty schemes, and cautioned that “discounting is an expensive tactic that is not highly sustainable”.

It further urged hotel groups to “optimize loyalty programs to ensure they result in a deeper base of members, so that … the consumer benefits from a superior stay experience that aligns with their preferences.” ²

Even so, travel businesses continue to heavily rely on them. Discounts and coupons are the single most popular tactic for driving loyalty across the board, with 61% of respondents using them (rising to a peak of 72% in Brazil); awarding points and miles is used by 52% of respondents, rising to a peak of 82% in the UK. This is despite belief in their efficacy being oddly muted: only 17% of respondents believe discounts and coupons are “very effective”, and 34% take a neutral or negative view of their effectiveness. Points and miles receive even less enthusiasm, with 10% describing them as “very effective” and 39% taking a neutral or negative view.

Perhaps even more tellingly, only 46% of respondents said they believe rewards have a significant effect on customer loyalty. Instead they see quality of offering as paramount, with 71% citing it as having the most impact on whether customers are loyal (price and customer service came joint second here, on 59%).

“Research shows the customer experience is a more important loyalty factor [than discounting],” says May Haukedahl Wilson, Head of Partnerships - Norwegian Reward at Norwegian Air Shuttle. “However, discounting is an easy solution for many as you see an instant effect. Many companies tend to be a bit impatient in wanting to see results.”

1. The decline of customer loyalty – and what the travel industry can do about it: VisionCritical, May 2016
**Fig 1: Factors contributing to loyalty growth**

*Question: Which of the following factors, if any, are contributing to the increase in customer loyalty?*

- Stronger economy: 70%
- Stronger competitive position: 60%
- Increased marketing budgets: 59%
- Changing customer demographics: 58%
- Improved product offering: 58%
- Improved user experience: 17%

**Fig 2: Factors that influence customer loyalty**

*Question: Which of the following factors, if any, do you think have the most impact on loyalty for your customers?*

- Quality of offering: 71%
- Price: 59%
- Customer service: 59%
- Ease of use: 55%
- Choice: 52%
- Rewards: 46%
- Brand reputation: 21%

**Fig 3: Metrics used to measure loyalty**

*Question: How do you measure customer loyalty in your company?*

- Social sentiment: 61%
- Loyalty scheme membership: 58%
- Repeat purchase rates: 67%
- Loyalty scheme engagement: 52%
- Customer referrals: 50%
- Net promoter score: 44%
- All of the above: 19%
What does loyalty mean?

One of the problems with loyalty is that there is relatively little consensus on what it means and how to measure it. Our survey respondents were mixing and matching a range of metrics, from social sentiment to loyalty scheme membership to repeat purchase rates.

Few respondents were taking a truly comprehensive approach, however; only 19% said they were using all six metrics included in our survey (see figure 3).

The most popular measurement tactic overall was social sentiment (61%), but the figure masks significant regional differences. Social rises to a high of 80% in the UK, but plunges in parts of APAC, falling to 34% in Korea and 30% in Japan, where engagement in loyalty schemes is the key measure (used by 69% in Korea and 68% in Japan).

Norwegian’s May Haukedahl Wilson stresses that measuring the success of an airline loyalty program goes beyond loyalty to the brand itself, and adds that one of the goals of measurement should be to explore what works and what doesn’t: “As well as measuring loyalty internally, ideally you also need to measure loyalty with the partners. If you can show that you are building loyalty throughout the program, that’s when it becomes really strong. Testing is key. What we think might drive loyalty is not necessarily what actually does.”

For Points’ Stuart MacDonald, there are multiple definitions of loyalty, but it all comes back to one key indicator: how often a customer comes back.

“There is the concept of loyalty as the likelihood a customer is going to use a specific provider on multiple occasions because they are loyal to them, and then there is loyalty from a program perspective or as a service that is tied back to a reward. They are closely aligned but not the same thing. The frequency of repeat is the key measure.

All these providers are trying to provide an experience and a series of incentives that is going to bring the traveler back.”

The confusion is perhaps understandable, as our results point out; while businesses wrestle with relatively new measures such as social sentiment, the consumer’s understanding of loyalty is in constant flux too. Many companies in the travel industry, particularly in the hotel segment, are already taking steps to examine changes in how customers behave, and trying to adapt their loyalty programs accordingly. For hotels, this can mean paying holistic attention to the whole guest journey, from booking to stay to rating/review, including all the potential touchpoints along the way. The Hilton Honors program – which is powered by Points to manage points and rewards – has been using data to deliver personalized experiences for several years. In an interview with DMN (Direct Marketing News), SVP and Global Head of Loyalty, Partnerships, and Customer Engagement Mark Weinstein said “We get to know who the guest is, we get to know what you like and what you don’t like about your stay experience, so that we can tailor the offers we make to you in the product experience.”

Each touchpoint has the potential to frustrate or to delight, and so each has a potential impact on whether experience-focused customers become loyal ones. As consumers move further down this road of seeking out experiences, travel businesses must think how to deliver them and cultivate loyalty in the process.

3. Personalization Is the Key to Hilton Worldwide’s Customer Loyalty, DMN, December 2016
4. Reinventing Loyalty: Goldsmiths University of London and Adobe, 2017
It’s one thing to get a piece of information that a traveler really likes a certain type of pillow, it’s another to make sure when they arrive that pillow is in their room.”

– Stuart MacDonald, Vice President & General Manager, Points Travel
The difference between insight and action

We’ve already seen that there is surprisingly muted enthusiasm for some of the most popular loyalty tactics. Perhaps even more surprising is the failure to adopt tactics that are seen as being as effective or more effective than discounting and points.

Globally, quality of offering was rated 71% when it comes to the factors that most impact loyalty, but only half of respondents were actively working to improve their product range and customer experience (51% for each, compared to 61% using discounting). Only 33% said they were taking steps to improve their breadth of product and service offering.

When you add in respondents’ opinions on the efficacy of particular tactics, these numbers become more surprising still. A full 76% believe that improving the customer experience end to end is “effective” or “very effective” in promoting loyalty; for improving the breadth of product and service offering, the figure is 81%. There is clear agreement on the positive effect of all these factors, and many are rated significantly more effective than discounting; and yet in terms of real market activity, it is still discounting that dominates.

The pattern repeats at sector level too. For example, airlines have a noticeably low opinion of points and miles despite being the sector that uses them the most. While 71% of airline respondents engage in points and miles activity, only 62% consider it “effective” or “very effective” – and that picture may well worsen as recent changes to major loyalty programs drive down the value of points earned. In contrast, 80% of airline respondents believe that gamification is “effective” or “very effective” – but only 44% are doing it. Focus on “very effective” responses and the contrast is even more striking: just 8% believe points are very effective, compared to 40% for gamification. Once again, new ideas struggle to win investment against tried-and-tested techniques, even when executives genuinely believe they can work.

For Jacob Miller, Expedia Group’s Senior Director, Global Loyalty and Customer Retention, enthusiasm for gamification is justified – but he recognizes the battle that new ideas face in terms of winning investment. “I couldn’t agree more that personalization and gamification are extremely effective in engaging customers. [But] it becomes a victim of prioritization and limited resources. [It is] always perceived as a nice to have – although personalization has now gone from nice to have to must have. It’s difficult for any company to reach that ‘nice to have’ backlog.”

With solid insight on the need to provide better products and experiences, it seems travel brands need to look at their loyalty efforts with fresh eyes, and start investing in areas they already accept could be significant drivers. The problem, of course, is that some tactics are easier to put into practice than others – and with years of usage behind them, discounts, vouchers and points represent the path of least resistance (and of least investment).

Points’ Stuart MacDonald highlights the difficulty of implementing true personalization, another area many of our respondents tipped to make a big difference to loyalty:

“Lots of things that are recognized as being key drivers and very important are also extremely difficult to operationalize. It’s extremely difficult to take something you know about a traveler and actually deliver it in the airport, in the air, in the hotel. It’s one thing to get a piece of information that a traveler really likes a certain type of pillow, it’s another to make sure when they arrive that pillow is in their room. There is a trend and desire to deliver a much more personalized experience but making it happen in the hotel is complicated.”
Fig 4: Use of social sentiment to measure loyalty, by region

Question: How do you measure customer loyalty in your company?

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Fig 5: Perceived effectiveness of loyalty tactics versus adoption

Questions: How are you currently driving customer loyalty in your business? / In your opinion, how effective are each of these tactics in driving customer loyalty on a scale of 1 -5, where 1 is ‘Not at all effective’ and 5 is ‘Very effective’?

- Points and miles: 52% adoption, 60% effective or very effective rating
- Gamification: 30% adoption, 64% effective or very effective rating
- Discounts and coupons: 65% adoption, 66% effective or very effective rating
- Personalization: 57% adoption, 69% effective or very effective rating
- Improving product selection: 51% adoption, 70% effective or very effective rating
- Creating a distinctive brand: 47% adoption, 75% effective or very effective rating
- Improving customer experience: 51% adoption, 76% effective or very effective rating
- Breadth of product and service: 33% adoption, 81% effective or very effective rating

Percentage of OTAs with a loyalty program: 91%

Percentage of OTA loyalty programs with more than 50% of customers signed up: 9%
While the research revealed a positive outlook for loyalty, some sectors are seeing slower growth. Airlines were the least likely to report loyalty growth, with 71% pointing to an increase over the last two years and 29% reporting no change.

Loyalty companies were the second weakest sector for growth. Here 79% reported an increase, 17% reported no change and 4% reported a decline.

As Stuart MacDonald points out, the results from the airline sector are to be expected from what is by far the most mature part of the travel loyalty landscape: “On the airline side, loyalty as a category is very mature. The first program is more than 30 years old. Among legacy carriers a lot of their existing client base is well established, so there is less upside to grow and they are facing competition from new arrivals and low cost carriers that don’t have active loyalty programs and are working hard to draw travelers away from traditional providers.”

Indeed, airlines themselves acknowledged the maturity of the market in our survey results. Of the airline respondents that expected their loyalty levels to flatline in the coming two years, 100% put it down to the business reaching maturity, and 83% said that “customer loyalty has reached a peak.”

For Jacob Miller there is also a degree of disillusionment with the established airline programs. “Some postulate that it’s because the programs are getting very complicated,” he says. “It’s about knowing customers and what they value. I think it comes down to customers feeling that airlines are cheapening the value proposition. There’s a betrayal of trust, a feeling that the points I already earned with you are worth less, and they just became harder to earn again.”

May Haukedahl Wilson agrees that there is a natural maturation of the market, but also points to new competitors from outside the travel industry: “It’s natural that growth is slowing down, and the biggest competitors could just as well be non-airline loyalty programs. Airlines have to up their game and optimize the experience.”

As for loyalty companies, they appear to be facing new competition as the relatively new sector matures. Among the respondents that reported a decrease in loyalty, 100% ascribed it to a “weaker competitive position”; similarly, 100% of those who expect loyalty to decrease in the coming years blame the negative outlook on “increase in competitor activity”. There is no mistaking the fact that this is an increasingly contested space.

For OTAs – relatively new entrants to the loyalty program space – the big issue is achieving penetration. While 91% report having a program – exactly the same score as in the airline sector – only 9% report that more than 50% of users have signed up; indeed, the norm is much lower, with 59% of OTAs reporting that their loyalty program has signed up only 1%-25% of customers. Jacob Miller is open about the sector’s lagging behind others, particularly when compared to major ecommerce players outside of travel: “We have to get more sophisticated in how we drive loyalty. At Expedia Group, we are learning more about customers and more about how to maximize their value both to us and to themselves. To be forthright, we have a lot of work to do. It comes down to knowing our customers and understanding what needs to be communicated to them at what time, to be valuable to them.”
Customers are increasingly wanting to take pride in what they buy and where they buy it. It’s an era of over-communicating within social networks. People are talking a lot more about what they are buying and where they are buying. If you can associate a positive image to the brand, that is going to help people feel that pride and declare where they are buying their travel and hopefully influence others.”

– Jacob Miller
The picture that emerges from our research and interviews is complex. While customer loyalty appears to be in rude health in all but a few isolated regions, there is a distinct feeling that few players are trying anything new.

As we have seen, familiar discounting tactics abound, and legacy players such as airlines are seeing their loyalty growth stagnate as customers look for more engaging, personalized experiences from their reward schemes.

Meanwhile, a widespread interest in new techniques does not seem to be translating into action. Few respondents to our survey were leveraging the perceived power of expanded product ranges and better customer service, let alone the new frontiers of personalization and gamification. The positive take-home is that the appetite is there – and as Stuart MacDonald points out, so is the technology: “In many ways we’re already seeing innovation. The ability to use data science to truly understand travelers’ needs and present that to them might not feel like loyalty but it absolutely is.”

“I think personalization is very important,” says May Haukedahl Wilson. “To be relevant in people’s personal lives and relevant to their personal interests. Ease and speed are things we will need of – customers are impatient and they want to be recognized immediately. Everything has to be more user-friendly than it is today. The consumer wants help now. They want to be understood better and they want the focus to be on them.”

Indeed, some travel businesses are already using artificial intelligence to look at historical booking and travel behavior to find patterns and then predict future wants and needs. More specialists in data gathering and analysis will no doubt emerge to help travel businesses get the best out of what they know about customers.

Loyalty programs can’t and won’t stand still, and our findings point the way towards the next phase of development: more focus on delivering quality, memorable experiences through superior product offerings and personalized service. Ultimately, the key to winning loyalty is still winning over the customer, and today it takes more than low prices to win them for good – successful brands understand what their customers love, and make it a part of the loyalty offering.
About the research

The research was commissioned by Expedia Affiliate Network and Points, and conducted by Atomik Research in October 2017. It targeted senior employees from offline and online travel agencies, corporate travel agents, loyalty companies and airlines. There were 523 respondents to the survey, representing Europe, the Middle East, the Americas and Asia. In addition Expedia Affiliate Network carried out a number of in-depth interviews with senior figures responsible for loyalty in established travel companies as well as some newer to the sector.

About Points

Points, publicly traded as Points International Ltd. (TSX: PTS)(Nasdaq: PCOM), provides loyalty e-commerce and technology solutions to the world’s top brands to power innovative services that drive increased loyalty program revenue and member engagement. With a growing network of almost 60 global loyalty programs integrated into its unique Loyalty Commerce Platform, Points offers three core private or co-branded services: its Loyalty Currency Retailing service retails loyalty points and miles directly to consumers; its Platform Partners service offers any developer transactional access to dozens of loyalty programs and their hundreds of millions of members via a package of APIs; and its Points Travel service helps loyalty programs increase program revenue from hotel and car rental bookings, and provides more opportunities for members to earn and redeem loyalty rewards more quickly. Points is headquartered in Toronto with offices in San Francisco and London.

About EAN

Expedia Affiliate Network (EAN) is the B2B partnership brand of Expedia Group. We work with businesses like yours to boost revenues and increase customer loyalty. How? By providing you with access to competitive rates and availability via robust, cutting-edge technology; built on years of research and development, every detail is specifically engineered to deliver you conversions, fast. And because we know you want to get the most out of your partnership with us, all of our solutions are wrapped-up with industry-leading business-to-business support and integration services.

Grow your loyalty program with Hotels.com For Partners

Hotels.com For Partners is an easy-to-integrate, ready-built e-commerce template constantly updated with the latest features from Hotels.com. It enables you to broaden your offering, and get more travelers booking with you again and again.

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