

## CUSTOMER LOYALTY PROGRAMS FOR THE HOSPITALITY INDUSTRY AND THEIR IMPLICATIONS ON HOTEL REVENUES

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### ABSTRACT

*The privilege of being part of a select community determines the business and leisure tourists to become loyal to a certain brand. Their attachment towards the certain brand is followed up by the customer relationship management department. The article in question proposes a research within a five star hotel in Romania that had implemented a loyalty programme for their customer-base. The aim is to assess the correlation between the loyalty programme and the hotel's revenues. It is observed that "the staff recognised me by my name", an attribute of self-esteem, is in the top of client's preferences that are a part of the loyalty programme of the analysed hotel, closely followed up by "upgrades when available". Furthermore, the total of nights spent by the loyalty programme members is 30% out of the total nights spent in an entire year, and the revenue generated by them represents 30-35% of the total revenues of the hotel in question.*

**KEYWORDS:** *competitive business, customer incentives, loyalty programs, personalized offers, profit*

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### 1. INTRODUCTION

The hospitality industry holds a central role in the implementation of loyalty programmes for their clients. They are being segmented for evaluation based on preference criteria of business and leisure. The aim of these programmes is to encourage the consumers to purchase the necessary services from the same hotel: accommodation, meals, entertainment, conferences wellness and sport activities. According to the studies conducted by (Toh et al., 1991; Toh et al., 1993; Russo et al., 2016), the majority of the clients choose the hotel according to convenience of location, low or discount accommodation prices and frequent-guest programmes. Henceforth, it is known that loyalty programmes influence their purchasing decisions (Gupta et al., 2018).

The customer relationship management department is the creator of the frequent guest programme (FGP) and the majority of the hospitality chains have their own rewards system for their loyal clients. On the one hand, there is the question: "What do clients receive and what do they offer in exchange for being a member of the loyalty programme?" and on the other hand, "what revenues do loyalty programmes bring to a hotel?"

A successful loyalty programme represents the investment of the company in their long-term relationship with their customers. With all the above said, these programmes have to prove efficient and perceived as valuable to the clients. This is the only way the hotels can get revenue and further investments. For developing client loyalty, the hotels need to have overly satisfied customers.

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According to studies conducted by Kotler et al. (2006) loyal consumers that return to the hotel and offer positive reviews about it and other people generates a net revenue of \$150,000 for a luxury hotel. Managers need to identify those clients that represent the most potential of becoming loyal customers and invest time and special bonuses in that relationship.

The hereby document will only tackle the intricacies of loyalty programmes in relation to the revenues that they generate for hotels. The case study is qualitative based on interviews with room division manager within a luxury five star hotel in the hospitality industry in Romania.

## **2. LITERATURE REVIEW**

The customers in the hospitality industry continue to recruit more and more in their loyalty programmes. According to Bruneau et al. (2018), during 2012 and 2014, the number of total recruitments in the loyalty programmes in the United States had increased with 26%. However, the clients that are loyal to a programme don't necessarily develop the loyalty towards the company (Bruneau et al., 2018; NastasoIU & Vandenbosch, 2019).

The need for introducing the loyalty programmes has been studied by Pesonen et al. (2019) for a Finnish hotel chain. According to the results of the research, one can observe the client's desire to be enrolled in a loyalty programme. What does a loyalty programme need to offer? Business customers emphasise on upgrades and late check-outs, whereas leisure clients prefer basic amenities. Loyalty programs - involving bonuses and points - are more important for frequent business travellers than for those travelling for leisure.

McCleary and Weaver (1991) support the idea that an American individual that checks in on their own and pays for their own hotel room, would be willing to pay \$2 more for being in a loyalty programme of the hotel, but if the company they work at does it for them, they would be willing to pay \$10 more to be a part of the loyalty programme of the hotel. Therefore, significant differences can be observed, in the type of customers (business or leisure), as well as based on who pays (the client or the company) in regards to the loyalty programmes.

Although loyalty programmes are made for keeping customers loyal, the researches about their efficiency are inconclusive and non-consequent (Prentice & Wong, 2015).

The hotel companies make a considerable effort for determining clients to enrol in loyalty programmes. Nevertheless, most of the clients that sign up do not receive personalised offers, and no one keeps in contact with them after they sign up, they do not know how these programmes work and have no idea about their benefits it brings. Therefore, the hotel companies focus on the signing up step of as many clients as possible. Another important step would be the active engagement of hotel staff in keeping in touch with the clients' part of the loyalty programme. According to studies by Pesonen et al. (2019), Prentice and Wong (2015), Russo et al. (2016), conclusions can be drawn that in the hospitality industry managers need to allocate as much attention for the engagement and personalisation of loyalty services for their customers.

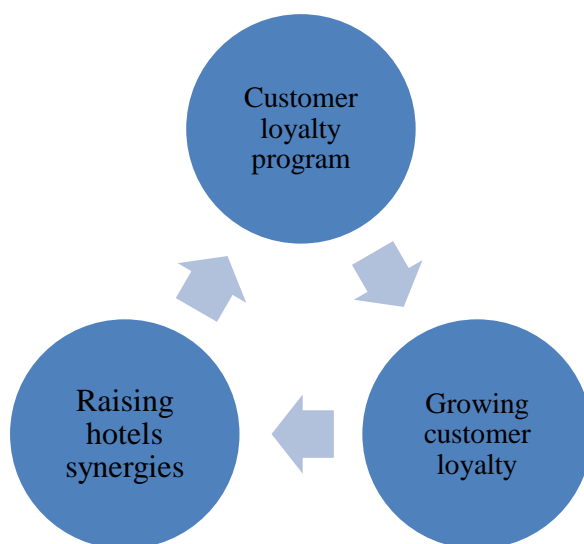
The main goal of a hotel loyalty program is to increase revenues, yet the written works condemn loyalty programs because of their incipency to do just that (Pesonen et al., 2019; Kang et al., 2015; Tuan et al., 2019).

According to Pesonen et al. (2019), the aim of these loyalty programmes is increasing bookings and visits.

Members of the loyalty programmes have direct access from the inside as well to the newest promotions and news about the hotel, special deals, the newest products that are lunched on the hotelier market (So et al., 2015) and the latest gadgets in terms of hotel services like keyless check-in.

Communication is crucial in loyalty programmes, and informed clients are happier with the services offered by the hotel, as well as use word of mouth to display their experiences to their friends. Loyal members of the hotel bring new members with them through word of mouth interaction.

Marquardt et al. (2017) considers that loyalty programmes are the engine of developing loyal clients for a company (fig. no.1). Loyalty towards the company leads to synergy creation (increasing efficiency through coordination of multiple actions of the stakeholders in regards to obtaining a common beneficial result).



**Figure 1. Customer loyalty program effects**  
*Source:* adapted from Marquardt et al. (2017)

In their research paper, Toh et al. (1991) have presented the main reasons for which clients of hotels do not enrol in loyalty programmes. The majority do not sign up for loyalty programmes because they have not heard of it (57% of respondents sustained this fact); going on too few trips was the second reason for which they did not sign up for loyalty programmes (19% of respondents); reduced flexibility in hotel choice (13% of total respondents); 6% considered the rewards as unattractive and 5% claimed too much paperwork. The five star hotel market in Romania has recorded in 2018, 34 hotels, out of which 10 are placed in Bucharest. The capital is a destination for business tourism. In 2018, in Bucharest, the demand was represented by 1,952,534 tourist arrivals in five star accommodation centres.

### 3. METHODOLOGY

After the description of the loyalty program of hotel "Zeus" it was critical to analyze the effects of the loyalty programs because of their impact on hotel revenues. The research paper was based on a quantitative research of the profit and loss account of hotel Zeus, and the report generated by the Room Division Manager of hotel Zeus. Are calculated the net profit margin, the expenditure rate, the net profit from loyalty programs, the profitability rate generated by the clients from loyalty programs and the expenditure rate generated by the clients from loyalty programs. Results are analyzed and interpreted.

Due to confidentiality reasons, the hotel will be named „Zeus” and throughout the research it should be referred to it as that. The hotel has 402 rooms, out of which 22 are apartments. 90 percent of „Zeus” guests are business people. The Israeli market is the hotel’s strongest market segment. The hotel’s rate is held between the Standard room of 127 EUR/night and the Grand Exclusive room of 550 EUR/night.

#### 4. RESULTS AND DISCUSSIONS

##### *The description of the loyalty program of hotel "Zeus"*

Essentially, the 125 million loyal clients can travel around the 6700 properties (includes all brands under the hotel's chains, not just Zeus) within 130 countries, and they would continue to benefit from the loyalty program provided by Zeus Bonvoy. Anyone can become a member of Zeus Bonvoy, and therefore can fully benefit from the special rates and discounts. The membership levels begin at 0-9 nights at any of the hotel's brands. After the membership foundation level, 5 other levels are created: Silver Elite, Gold Elite, Platinum Elite, Titanium Elite and Ambassador Elite (table no. 1).

**Table 1. The main benefits of the Zeus Bonvoy Loyalty Program**

<b>Silver</b>	<b>Gold</b>	<b>Platinum</b>	<b>Titanium</b>	<b>Ambassador</b>
Stay 10 nights in a year	Stay 25 nights in a year	Stay 50 nights in a year	Stay 75 nights in a year	Stay 100 nights and spend \$20,000 in one year
<i>Earn 10% Bonus Points on Stays</i>	<i>Earn 25% Bonus Points on Stays</i>	<i>Earn 50% Bonus Points on Stays</i>	<i>Earn 75% Bonus Points on Stays</i>	<i>Earn 75% Bonus Points on Stays and get personal assistance with your stays - anytime, anywhere.</i>
<i>Receive Priority Late Checkout</i>	<i>Receive an Enhanced Room Upgrade</i>	<i>Enjoy a Room Upgrade, including Select Suites</i>	<i>Enjoy a Room Upgrade, including Select Suites</i>	<i>Have the flexibility to choose Your 24. 24-hour check-in and checkout time</i>
<i>Access a Dedicated Elite Reservation Line</i>	<i>Enjoy 2 p.m. Late Checkout</i>	<i>Choose a Platinum Welcome Gift at Check-In</i>	<i>Choose a Titanium Elite Welcome Gift at Check-In</i>	<i>Choose Ambassador Welcome Gift at Check-In</i>

*Source: created by author after Zeus Bonvoy Loyalty Program*

The guests' loyalty has a direct impact, first of all, by returning to the hotel and generating constant revenues every time that customer travels to Bucharest. Second, it is also a cost saving when the guest becomes a member and reserves through direct channels and not through OTA (such as Booking.com, Expedia, etc.).

Uniqueness offered by the analyzed hotel is difficult to replicate by competitors and this is the main reason why it is always one step ahead in the clients' choices and preferences.

Offering an unforgettable experience and hard to replicate by the hotel industry competitors, more and more customers become loyal to Zeus brand.

According to the Room Division Manager of Zeus hotel the program offers attractive financial benefits and the clients are excited about the rewards. The clients feel close to the brand. They feel at home. Like part of a family as a member and are willing to pay higher prices with \$23. The clients stated that the quality of the service is worth the money that they were paying for this brand. The clients liked to be recognised and treated as a special customer.

According to the Room Division Manager of Zeus hotel almost 30% from the hotel net profit is produced by the customers from the loyalty programs.

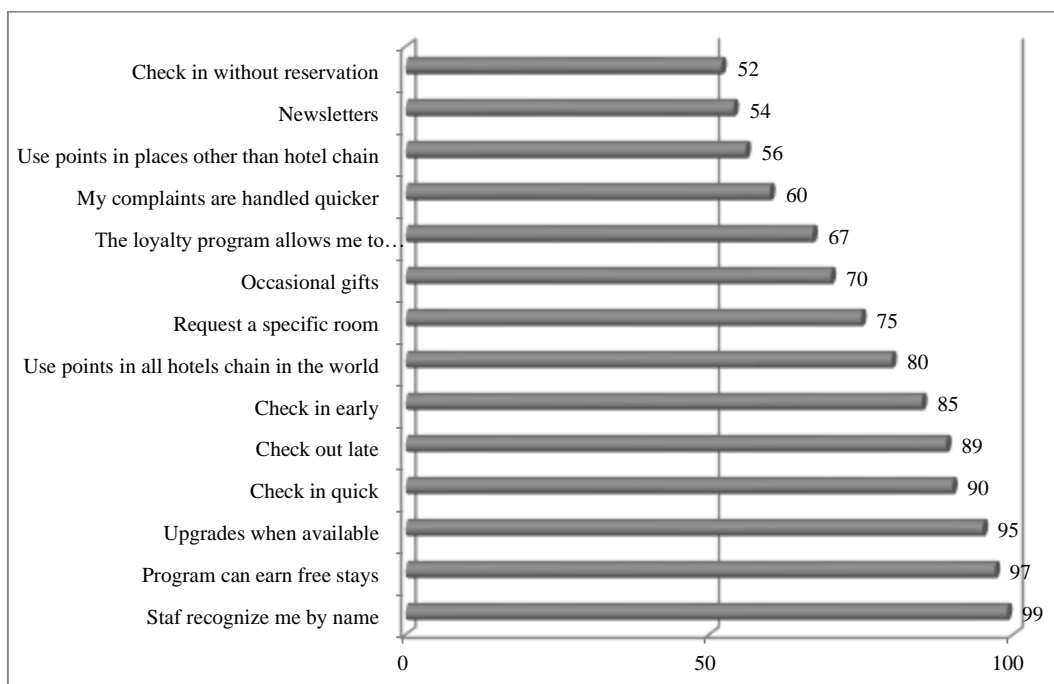
The financial indicators of Zeus hotel are presented for the period 2014-2017 (see table no.2): the net turnover rising from 1,637,428 RON in 2014 to 6,895,700 RON in 2017. The net profit has grown from 1,273,743 RON in 2014 to 4,541,673 RON. Net profit margin (net profit /net turnover) is favorable, of 65.86% in 2017. The total expenditure has increased from 1,090,132 RON in 2014 to 4,541,673 RON in 2017 generating an expenditure rate of 116.84% in 2014 and 101.88% in 2017.

**Table 2. Analysis of the generated profit by the clients partaking in the loyalty program of Zeus hotel**

	2014	2015	2016	2017
Net Turnover (RON)	1637428	4095516	6473856	6895700
Net Profit (RON)	1273743	3361470	3974842	4541673
<i>Net Profit Margin (%)</i>	<i>77.79</i>	<i>82.08</i>	<i>61.40</i>	<i>65.86</i>
Total Expenditure (RON)	1090132	3075609	2775881	4457933
<i>Expenditure rate (%)</i>	<i>116.84</i>	<i>109.29</i>	<i>143.19</i>	<i>101.88</i>
<b>Net Profit from loyalty programs</b>	<b>382123</b>	<b>1008441</b>	<b>1192453</b>	<b>1362502</b>
<i>Profitability rate generated by the clients from loyalty programs (%)</i>	<i>23.34</i>	<i>24.62</i>	<i>18.42</i>	<i>19.76</i>
<i>Expenditure rate generated by the clients from loyalty programs(%)</i>	<i>35.05</i>	<i>32.79</i>	<i>42.96</i>	<i>30.56</i>

Source: Calculations made by the author based on the profit and loss account of hotel Zeus, and the report generated by the Room Division Manager of hotel Zeus

It is critical to analyze the effects of the loyalty programs because of their impact on hotel revenues. Thus, the net profit generated by the loyalty program amounted to 30% of the total net profit from the hotel company, resulting in 1,362,502 RON by the end of year 2017. The profitability rate and the expenditure rate generated by the clients within the loyalty program had been determined: 19.76% profitability rate for 2017 and 30.56% expenditure rate for 2017.



**Figure 2. Hierarchizing the benefits of the loyalty program used within the hotel from the perspective of its members**

Source: Provided data by the author through the intermediary of the Room Division Manager of Hotel Zeus

The discovery of benefits provided by loyalty programs incorporated within hotels for the client members is imperative, for the reason that if the hotel offers exactly what clients demand, this matter will be reflected onto the hotel's revenue through the profitability and expenditure rate.

On the first place of what is seen as essential in meeting client demand would be the "staff recognizing clients by their names", this being an attribute related to self-esteem and social status, it's not a contribution to money-saving which makes it all more interesting.

What comes next in client preferences relates to "upgrades when available, Check in quick, Check out late and Check in early. All of these elements are connected to time management, and importance of its reduction. Other important attributes for clients include Use points in all hotels chain in the world, Request a specific room and Occasional gifts.

Clients are sensitive to social attributes: loyalty programs allow them to enhance their social status, as well as an attribute related to communication: quick complaint handling. On the last three places, the following attributes are elected: Use points in places other than hotel chain; Newsletters and Check in without reservation (see Fig. no.2).

Clients within the loyalty program from Hotel Zeus generate 35% of the total revenue of the hotel, and 30% of the total profit. The total spent nights by the clients partaking in the loyalty program represents 30% of the total spent nights in a year.

## 5. CONCLUSIONS

It can be observed from this document that according to the level of loyalty, the benefits of the loyalty programmes vary from priority to bookings and check-in, preferential prices, various upgrades, and access to lounge, and included breakfast.

Practically, the over 125 million loyal clients can travel to the 6,700 properties (all the brands of the hotel chain, not only Zeus) of 130 countries and benefit from the same loyalty programme Zeus Bonvoy. Loyalty programs are outstandingly effective in creating more revenues to hotels.

The clients stated that the quality of the service is worth the money that they were paying for this brand. The clients liked to be recognised and treated as a special customer.

The loyalty programme brings to the hotel frequent travellers and once won over by hotel Zeus, these bring financial revenues. Moreover, the client's feedback is essential to the hotel. Written expectations of an experienced client can help the hotel be more aware and up to date with their demands, expectations, and preferences. Clients that are members help the hotel to create an experience based on their expectations and even exceeding them.

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