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Do reward programs truly build loyalty for lodging industry?

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ABSTRACT

Hotel brands have sought numerous ways to build the relationship with their customers. Inspired by the airlines' success, most major hotel chains have developed loyalty programs that reward customers for repeat business. However, the effectiveness of reward programs has been questioned. To explore reward programs' potential to alter normal patterns to behavior, this research investigates how the timing of rewards affects customer loyalty for hotels and whether the effectiveness of these reward structures is moderated by customer satisfaction. This research also examines whether customer's value perception of loyalty program truly affect brand loyalty or program loyalty. In order to test the research framework, a 2 × 2 full-factorial, randomized, between-subject experimental design was conducted. In total, 209 respondents participated in the study. The results indicate that immediate rewards are more effective in building a program value than delayed rewards. Moreover, the value of loyalty program affects customer loyalty only through program loyalty to the extent that the program provides value to the customer. Finally, satisfaction plays an important moderating role on reward timing. Delayed rewards work better than immediate rewards only if customers are satisfied with hotel experience. In contrast, the immediate rewards in the dissatisfied experience become effective in their capacity to invoke customer loyalty.

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1. Introduction

Hospitality brands have sought numerous ways to build the relationship with their customers. Inspired by the airlines' success, most major hotel chains have developed loyalty programs that reward customer repeat business (McCleary and Weaver, 1991). For instance, Marriott spent $54 million in 1996 on its Honored Guest program, while Hyatt invested $25 million in its loyalty program that same year (Skogland and Siguaw, 2004). These programs aim to enhance the customer's sense of membership in a unique club with benefits from this membership. However, reward programs are costly for hotel firms; initiation and maintenance of such a program requires investment, and free rooms or upgrades, newspapers, and other perks are expensive. As rewards improve, guests often seek the best deal—whether that means the best prices or the richest rewards. A typical traveler holds membership cards to several hotel chains' rewards programs. A recent study by J.D. Power and Associates found that only a third of the 13,335 travelers surveyed showed strong loyalty to a specific hotel brand (as cited in Mattila, 2006).

Given the managerial relevance of reward programs, academics have also recently begun to show interest in this topic (e.g., Mattila, 2006; Tideswell and Fredline, 2004; Shoemaker and Lewis, 1999; Tepeci, 1999). Hotel companies are investing millions of dollars each year on their reward programs. These programs have been designed with the goal of fulfilling guests' needs and desires on the premise that customer satisfaction will ensure guest loyalty. However, the effectiveness of reward programs has been questioned. In this study, to explore reward programs' potential to alter normal patterns to behavior, this research investigates how the timing of rewards affects customer loyalty for hotels and whether the effectiveness of these reward structures is moderated by customer satisfaction. This research also examines whether customer's value perception of loyalty program truly affect brand loyalty or program loyalty.

2. Literatures

2.1. Loyalty

Dick and Basu (1994) have proposed loyalty indexes based on composites of attitudinal and behavioral measures. Engel and Blackwell (1982) defined 'true' loyalty as the preferential attitudinal and behavioral response toward one or more brands in a product category expressed over a period of time by a consumer. Shoemaker and Lewis (1999) implied that 'true' customer loyalty is difficult to build and sustain without including the underlying attitudinal aspects of the customer that drive

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customer behavior. Typically, researchers measure five types of behavior during certain time intervals to operationalize loyalty in a competitive market: (1) the percentage of customers buying a brand, (2) the number of purchases per buyer, (3) the percentage of customers who continue to buy the brand, (4) the percentage of customers who are100% loyal, and (5) the percentage of customers who also buy other brands—duplicate buyers (Ehrenberg, 1988). However, this kind of behavioral definition has been criticized for its limitations in predicting future behavior—the inability to distinguish between repeat purchase behavior attributable to convenience vs. commitment (Yi and Jeon, 2003).

Attitudinal loyalty has been often defined in the context of brand as it captures the affective and cognitive aspects of brand loyalty, such as brand preference and commitment (Gremler and Brown, 1996; Mellens et al., 1996). Jacoby and Chestnut (1978) explored the psychological meaning of loyalty. A psychological approach implies attitudinal loyalty that includes cognitive, affective, and conative elements (Back, 2005; Oliver, 1997). While attitudinal loyalty may be considered a mere mediator of marketing instruments that affect behavioral loyalty, its measurement is a prerequisite for the understanding of how stimuli affect cognitive and affective processes that make customers to become or remain loyal in their deeds (Noordhoff et al., 2004). Therefore, operationalization of customer loyalty would have to consider behavioral, attitudinal and cognitive aspects in the development of a composite index

2.2. Value perception of loyalty program

Loyalty program was defined as supplier's structural effort that provides customers with loyalty incentives such as points redeemable for prizes or discounts to increase customers' attitudinal and behavioral commitment to the supplier's market offering (Sharp and Sharp, 1997). Liu (2007) regarded a loyalty program as a program that allows consumers to accumulate free rewards when they make repeated purchases with a firm. Consumers perceive this loyalty program as an organized marketing activity which offers the customers additional rewards or benefits (De Wulf et al., 2003). Loyalty program should be perceived as valuable by customers to build loyalty. O'Brien and Jones (1995) suggested that five elements of a loyalty program determine the value of a loyalty program: (1) the cash value of the redemption rewards (e.g., the ratio of the cost of an airline ticket to the dollar purchases necessary to accumulate frequent-flyer points), (2) the range of choice of these rewards (e.g., choice of flight destinations), (3) the aspirational value of the rewards (e.g., exotic free travel is more desirable than a cash-back offer), (4) the perceived likelihood of achieving the rewards (e.g., how many points are required to qualify for a flight), and (5) the schemes ease of use. However, there are still other views on value perception. Johnson (1999) argued that attainability, redemption behavior, and relevance determine the value of a loyalty program. Dowling and Uncles (1997) added psychological benefits of belonging to a program and accumulation points. They noted that the summary of accumulated points and the qualification for a reward could be regarded as the psychological rewards in the frequent buyer program.

The potential of a loyalty program to attract members depends not only on the value of its rewards but also on when the rewards are available. In marketing literatures, immediate and delayed rewards are used for timing of redemption. The immediate rewards are psychological, namely, a feeling of participation, the anticipation of future rewards, and a sense of belonging. The reward with a discount feature gives price discounts on certain items of the assortment for loyalty program members only. In this way, a discount feature supplies member customers with immediate rewards for their purchases (Yi and Jeon, 2003). The delayed rewards are a bimonthly summary of accumulated points and sometimes the qualification for a reward (Dowling and Uncles, 1997). The reward with a saving feature gives loyalty program members saving points, dependent on the monetary amount spent at the company. A program member can redeem these points for a reward, such as a free product, after s/he has reached a saving threshold (see, e.g., Drèze and Hoch, 1998). The saving feature stimulates customers to show loyal purchase behavior to reach certain threshold levels (Lewis, 2004), which is called the points-pressure mechanism (Taylor and Neslin, 2005). Further, a saving feature creates switching costs (Zhang et al., 2000): if a consumer stops purchasing s/he loses the accumulated saving points. The meaningfulness and relevance of this distinction is supported by empirical observations of the packaged goods industry, where it has been found that immediate incentives were effective in getting consumers to switch away from competing brands while delayed incentives retained consumers by rewarding their future purchases (Zhang et al., 2000).

Timing plays a significant role in the redemption of rewards (LeClerc et al., 1995). Previous research shows that customers tend to prefer delayed reward to immediate reward when the delayed reward is of higher value (Banks et al., 1992). When the value of the reward is only a small fraction of the total value of the product or service, consumers would not mind postponing the reward to a later date, especially if the delayed reward offers a higher value (Keh and Lee, 2006). From a mental accounting perspective, Soman (1998) demonstrates that the temporal delay between choice and redemption tends to cause consumers to underweight the future effort of redemption. As a result, the higher perceived value of delayed rewards is seen as more attractive to consumers. The product itself is not of utmost concern to customers, and the timing of reward is likely to become an important factor in harnessing the customers' value perception. Hence, this study proposes the following hypothesis.

Hypothesis 1. Timing of reward-immediate rewards and delayed rewards have direct impact on value perception of the loyalty program.

2.3. Effects of value perception of loyalty program on loyalty

As Rothschild and Gaidis (1981) suggested, incentives offered by the loyalty program may elicit loyalty to the program (deal loyalty) rather than to the core product (brand loyalty). Dowling and Uncles (1997) also noted that the value perception of the loyalty program does not necessarily transform into brand loyalty. This is because a customer is likely to derive value from the loyalty program rather than from a product or service. Customers may sometimes end up associating their loyalty towards a particular reward program (e.g., AAdvantage Program) rather than the brand (e.g., American Airlines) (Dowling and Uncles, 1997). That is, a customer may hold program loyalty, not brand loyalty. In that case, the deal may induce brand switching because it is likely to be more reinforcing than the product itself. In a survey of its Honors members, Hilton hotels learned that 19% of them would not stay at a Hilton without such a membership program. Marriott also reported that its frequent guest program members spent two and a half times more at Marriott than they did before joining the program (Seacord, 1996). McCleary and Weaver (1992) found that business travelers who belonged to frequent guest programs were willing to pay more than nonmembers for a hotel room and frequent guest program members were more likely to bring their families along to stay in the hotel. Again, it was noted that the popular frequent-user programs generally result in loyalty to a particular frequency program rather than to the hotel brand.

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