



# The impact of tier level on attitudinal and behavioral loyalty of hotel reward program members<sup>☆</sup>



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## ABSTRACT

The purpose of hotel reward programs is to cultivate customer loyalty, yet most studies on hotel loyalty do not consider reward programs, and even fewer evaluate reward tier. The current study investigated the influence of reward tier on attributes that have been established as key loyalty indicators in the hospitality and marketing literature. A sample of 800 hotel loyalty program members completed an online survey on which they rated their preferred brand on measures of attitudinal loyalty, behavioral intentions, and loyalty behaviors. There were significant differences between tiers on all measures, with the highest scores for elite members, followed by middle and base/entry level members. Effect size measures revealed that emotional commitment and program evaluation were core attributes differentiating tier levels. Behavioral loyalty increased as a function of tier level, with base, middle and elite members spending 53%, 66% and 78% of their hotel nights at a preferred program brand.

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## 1. Introduction

Loyalty programs have become a mainstay in the hotel business, and most programs use a tiered reward structure. Each tier offers increasingly desirable benefits and privileges, which are intended to motivate members to reach higher tier levels through increased purchases. Despite the prevalence of reward programs for hotels and other hospitality businesses, research on their effectiveness is limited and inconclusive (McCall and Voorhees, 2010). Even less is known when it comes to the influence of tier level on loyalty. This issue has great practical and financial significance for hotel operators, as documented in the Hotel Group and Loyalty Program Brand Vulnerability Study (cg42, 2012). That study projected a 13% attrition rate for members of the major hotels' loyalty programs in the subsequent 12 months, and further estimated that the three most vulnerable chains would lose close to \$2 billion from those programs. This loss stems primarily from the programs' most valuable members, the most frequent travelers, who are also likely belong to higher reward tiers (cg42, 2012).

While attrition is on the rise, the influence of program membership on hotel choice is increasing (Barsky, 2011). According to that study, 34.5% of members surveyed in 2011 said the loyalty program was their primary reason for hotel choice, up from 32.7% in 2009.

However, this growth was not equal across brands, and some even declined over that period (Barsky, 2011). Elite members belong to multiple programs, but tend to maintain alliances with one or two that offer the best benefits (Heney, 2010). Therefore, operators cannot simply assume that a tiered structure will allow them to retain their best customers.

The hospitality literature is replete with research on customer loyalty and its antecedents and consequences. That research documents the premise that loyalty is a multidimensional construct, including attitudinal loyalty, behavioral intentions, and actual loyalty behavior (e.g., Baloglu, 2002; Hansen et al., 2010; Tideswell and Fredline, 2004). Many sophisticated models have been developed to evaluate the relationships among these and other variables such as satisfaction and service quality (e.g., Bowen and Shoemaker, 2003; Han et al., 2011a,b; Lee and Back, 2010; Wilkins et al., 2010). Most of these studies use structural equation modeling, which has become quite popular in hospitality research. Although valuable for understanding the loyalty process, there is a disconnect between academic research and the needs of industry professionals. Reward programs and tiers are the primary mechanism used by hotels and other hospitality businesses to build customer loyalty. With few exceptions, hospitality loyalty research has not considered the role of loyalty program membership, let alone reward tier. The current research applies knowledge from the academic literature by investigating the influence of reward tier on multiple loyalty-related dimensions. The findings can help operators evaluate and improve the effectiveness of reward program structures.

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Another characteristic of existing loyalty studies is that they often consider behavioral intentions to represent loyalty behavior (e.g., Clemes et al., 2011; Gracia et al., 2011; Hansen et al., 2010; Lee and Back, 2010; Mattila, 2006; Skogland and Sigauw, 2004). Of course, hotel operators are more concerned with actual behavior. Reward programs typically use stay frequency as the criterion for achieving tier levels, with a certain number of nights or stays required to reach each tier. However, frequency is not loyalty. A guest who takes one trip a year and always stays at the same hotel is more “loyal” than a frequent traveler who stays at many different hotel brands, even though the latter may achieve a higher tier level. Many frequent travelers belong to multiple reward programs, so membership and/or elite status does not prevent defection. In addition, primary members who defect from one program typically shift their alliance to another (cg42, 2012). A better indicator of loyalty is the percentage of the time that a customer chooses a particular brand over others. In the current research, the effect of tier level on behavioral intentions as well as stay frequency and percentage is investigated, extending both academic and practical knowledge.

Hospitality is not the only industry for which research on loyalty program effectiveness is equivocal. A recent review of literature covering all industries attributes this to the fact that research has not yet determined what drives loyalty program effectiveness (Dorotic et al., 2011). They note that “prior research largely neglects the simultaneous impact of the LP and customer attitudes on their behavior” (p. 9). The current research begins to fill this gap by making the connection between reward tiers and attitudinal and behavioral loyalty indicators that have been investigated in the hospitality and marketing literature. It adds to the body of knowledge on hospitality loyalty, where research on tier effects is sparse and inconclusive. It aids practitioners by evaluating their assumption that tier levels are effective loyalty building mechanisms.

## 2. Literature review

### 2.1. Reward tiers

Tiered reward levels are the norm for hotel loyalty programs. Reward tiers are considered effective because they build a sense of identity within each tier that can lead to commitment to the brand (McCall and Voorhees, 2010). Tiers also provide feelings of status as members compare themselves to other levels (Drèze and Nunes, 2009). Members of elite tiers feel superior, particularly if their numbers are small, thus increasing exclusivity. Research suggests that a 3-tier system will maximize member satisfaction, although the study did not address loyalty (Drèze and Nunes, 2009). The study involved hypothetical scenarios judged by students, so the applicability to actual reward programs is tentative. Nonetheless, an examination of existing hotel programs suggests that some may be operating at suboptimal levels. Of the thirteen major chains, seven have a 4-tier structure, five have a 3-tier structure, and one has two tier levels.

In an analysis of reward programs for eight major hotel chains, Shoemaker and Lewis (1999) cataloged the benefits provided to regular, middle and elite tier levels. They classified benefits into three categories: financial, functional, and psychological/emotional. Shoemaker and Lewis distinguish between frequency programs and loyalty programs, of which frequency programs focus on monetary rewards whereby customers exchange their business for point accumulation that can be used for purchases. Loyalty programs, on the other hand, involve customized recognition and emotional rewards such as personalized amenities and services tailored to each guest’s needs. Shoemaker and Lewis (1999) argued that loyalty programs should move toward

relationship building that will produce loyalty to the brand, and not just the frequency program.

Higher tier levels are associated with greater costs to hotel operators, which are assumed to bring higher revenues. The relationship is not this simple, according to a study by Voorhees et al. (2011). They created customer segments based on revenue streams from rooms, food and beverage, and other sources, and compared these to the existing tier structure. The highest revenue group consisted of only elite members; however, there were substantial proportions of elite members in low revenue segments as well. In addition, over 50% of the customers in the segment with the second highest revenue per customer were from base or middle reward tiers. Taking costs into account, research suggests that there is a weak link between hotel frequent-guest programs and profitability (Shanshan et al., 2011). That study noted that there is limited research to support the notion that such programs can increase guest loyalty, despite the assumption by operators that they do. Shanshan et al. analyzed the benefits of the top six hotel loyalty programs, and interviewed financial management professionals from the same companies to arrive at an estimate of costs. The interviews revealed that high tier members are provided with a variety of costly benefits including spa visits, wine and meals. Most of the professionals interviewed showed little interest in quantifying the performance of their loyalty programs (Shanshan et al., 2011). Although the study did not evaluate costs/benefits by tier, it highlights the importance of evaluating the assumption that reward tiers produce loyalty outcomes that benefit the business. These include attitudinal and behavioral loyalty, which are discussed next.

### 2.2. Attitudinal loyalty

Shoemaker and Lewis (1999) were among the first to recognize the need to consider the attitudinal determinants of hotel loyalty, just as marketing researchers have contended that loyalty contains both attitudinal and behavioral dimensions (Dick and Basu, 1994). Research has established that emotional commitment is a key antecedent to loyalty behavior for hotels (Bowen and Shoemaker, 2003; Han et al., 2011a; Mattila, 2006; Tanford et al., 2011). Commitment is linked to trust in the brand, and Morgan and Hunt (1994) argued that effective relationship marketing requires both. Research has obtained support for the influence of trust in loyalty for hotels (Lee and Back, 2010; Wilkins et al., 2010) as well as casinos (Baloglu, 2002; Sui and Baloglu, 2003; Tanford and Baloglu, 2012).

With a few notable exceptions (Tanford et al., 2011; Whyte, 2004), research has not built reward tiers into investigations of attitudinal loyalty. High tier members had significantly higher affective (i.e., emotional) commitment than low tier members, who did not differ from non-members in research by Tanford et al. (2011). That study is limited due to a small sample of higher tier members, which necessitated merging the tiers above the base or entry level. Thus, it was not possible to separate the responses of the most elite members. The only hospitality study to evaluate the attitudinal loyalty of reward tiers at every level investigated airline frequent flyer members (Whyte, 2004). A commitment scale was created that included emotional attachment, trust, and affection. The percentage of “completely or mostly loyal” reward program members increased steadily as a function of tier, with the basic level (bronze) at 39%, followed by silver (48%), gold (58%) and platinum (69%). Research in the retail sector provides further insight into the relationship of program membership to attitudinal loyalty, although reward tier was not investigated, as most retail programs do not have tiers. Supermarket shoppers who were reward program members were higher in trust, commitment, and favorable attitudes toward the business than nonmembers (Gómez et al., 2006).

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