Travel loyalty: Discount discontents

*How loyalty programs can deepen engagement, improve profits
and drive brand allegiance*

Executive Report

Travel and Transportation

How IBM can help

To succeed in today's hyper-competitive world, travel and transportation companies need to solve increasingly complex problems and seize new and exciting opportunities faster than their competitors. They must continue to drive operational excellence and enable collaboration across enterprise functions and between members of emerging ecosystems. Above all, industry leaders must run the business well amidst constant change. The IBM Travel and Transportation practice understands these challenges and brings its extensive industry experience, business insight and technical prowess to bear on these challenges.

From discounts to true brand loyalty

Born out of the competitive crucible of the airline fare wars in the 1980s, travel loyalty programs have enjoyed meteoric membership growth. In fact, they have become a central feature of successful companies across the travel sector. Our recent IBM survey confirmed that many travelers are both happy with, and responsive to, loyalty programs. Nevertheless, too often, the programs are simply complicated discount schemes that exacerbate price-based competition, while doing little to foster deeper, more meaningful customer-to-travel brand engagement. To gain true customer loyalty, travel loyalty programs must reward travelers for more profitable decisions, incentivize a broader set of interactions between travelers and brands, and experiment with a diverse set of loyalty personalization opportunities.

Executive summary

Travel loyalty programs are a highly successful component of the modern travel ecosystem. They are popular with consumers, who willingly sign up for – and use – multiple programs, and are revered by travel executives and shareholders for the revenue and profits they produce. Increasingly, other travel provider departments are benefiting from the traveler insights that loyalty programs deliver to their data-hungry systems and employees.

But in spite of all their many contributions, travel loyalty programs have yet to achieve their full potential. To better understand and identify specific ways travel loyalty programs can be improved, the IBM Institute for Business Value (IBV) and the Economist Intelligence Unit (EIU) surveyed 3,833 travelers from 13 countries between May and August of 2015. Analysis of survey responses enables us to see past the success of travel loyalty programs and explore actions travel providers can take to bring a revolution to these critical corporate engines of customer insight and engagement.

Our research reveals that while travel loyalty programs do a good job of tracking customer spending and rewarding desired behavior through discounts, they do little to develop true loyalty. We discovered that current program models work well for most travelers, but many travelers are also open to experimenting with new models. In addition, our findings show that overall interest in travel is high, and many travelers are eager to engage with travel brands. In this report, we explore the current state of travel loyalty programs and outline three areas in which travel providers can improve customer engagement, drive greater brand advocacy and position themselves to increase profitability.

67 percent of travel loyalty program members **would switch for a better deal**

Loyalty program **advocates** are up to 3 times more likely than antagonists to **desire theme-based, rewards-share or socially driven enhancements**

Airline programs attract more participants than hotel or rental car loyalty programs, but members **are the least satisfied**

Three perspectives on the current travel loyalty landscape

The Rashomon Effect is the phenomenon by which multiple parties observe the same event, yet form radically divergent perspectives about what occurred. This concept is essential to fully understanding travel loyalty programs: travelers, travel executives, and the various departments and partners of the companies that run them have differing views of these complex and intricate incentive systems.

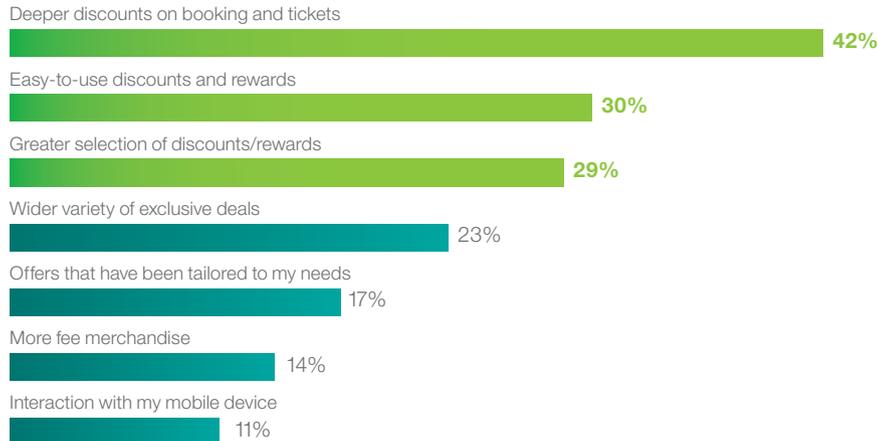**Travelers equate loyalty programs with discounts**

The complexity of travel loyalty programs should not be underestimated. Faced with a stunningly wide array of rewards and an almost infinite number of ways to redeem accumulated points or miles, travelers can find the web of rules and restrictions that govern loyalty processes intimidating. Yet despite these complexities, travelers persist in making loyalty programs work for their personal benefit. What motivates travelers to endure these challenges? In a word: discounts (see Figure 1).

Considering the advertising that surrounds travel loyalty programs, this finding is not too surprising. Most programs are promoted as discount-generation systems by both travel providers and the wide array of credit card companies, banks and other partners that market point-based and mile-based incentives. Travel providers have made subsequent efforts to convince loyalty program members that the value and luxury their programs provide are more important than discounts. However, these efforts are frustrated by the incentive structures that define most programs, rewarding continued spending with deeper discounts.

Figure 1

To many customers, travel loyalty programs are synonymous with discounts

Loyalty features or incentives travellers would most like to see

Deeper discounts on booking and tickets
42%

Easy-to-use discounts and rewards
30%

Greater selection of discounts/rewards
29%

Wider variety of exclusive deals
23%

Offers that have been tailored to my needs
17%

More fee merchandise
14%

Interaction with my mobile device
11%

Source: 2015 IBM Travel Loyalty Program Survey, n=3,833
Question: "What new travel loyalty features or incentives would you most like to see in the near future?"

Take the case of a moderately frequent business traveler. Since 1998 he has flown between 80,000 and 120,000 miles per year, and has concentrated his spending on just one airline. He has earned over one million miles from flights and another 700,000 from affiliated loyalty programs, like credit cards and hotels. So far, he has redeemed about 750,000 miles for travel, which equates to about 11 percent of the total he has spent with the airline. If he redeems the remaining miles he has accumulated, he will reap a net discount of 25 percent.[1]

Clearly, travel loyalty programs are working well for this customer, as they are providing the desired sizeable discounts.

With the heavy focus travel providers and consumers put on discounts, it is understandable that so many consumers are relatively satisfied with their travel loyalty programs. Our survey found that 87 percent of rental car program participants and 86 percent of hotel program participants report being either "satisfied" or "very satisfied" with their travel loyalty programs. Even airline loyalty programs, which were the least satisfying to program participants, were deemed "satisfying" or "very satisfying" by 73 percent of respondents.

However, participation in, and satisfaction with, these programs does not necessarily persuade travelers to alter their travel decisions. For instance, travelers may select the same hotel repeatedly, regardless of whether the loyalty program delivers a sizable net discount. Even more disconcertingly, the differences between travel loyalty programs may not be significant enough for travelers to perceive.

Under these circumstances, travel loyalty programs may become a competitive necessity – because, without them, an airline, rental car company or hotel might lose share to providers that offer them. As an example, airline programs, which typically offer the deepest discounts and enjoy the highest rates of consumer participation, are also the least satisfying for consumers when compared to hotel, credit card, rental car, rail and travel aggregator programs (see Figure 2). In this way, airline loyalty programs that fit this trend are likely to be seen as discount schemes, not mechanisms that build customer loyalty.

Figure 2

Programs in each travel segment vary widely in levels of participant satisfaction

Loyalty program participation and satisfaction by segment

A similar model is found in the retail industry, where companies have long struggled with perpetual discounts. Retailers are addicted to price drops that attract buyers. As customers come to expect these discounts, retailers get locked into not just the newer low prices, but, more perniciously, a future of continuously falling prices. Of course, retailers also realize that discounts shrink margins, which is why they make ongoing efforts to build brands that help create and extract price premiums. To avoid the discount cycle that plagues retail, travel providers should consider how loyalty programs can be tools to improve, not dilute, margins.
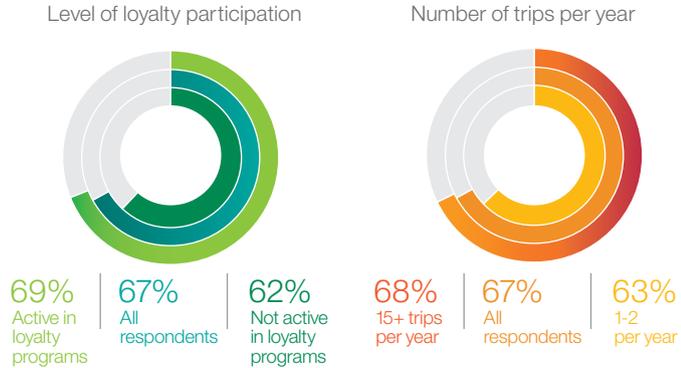
Executives' expectations for loyalty programs differ

Most travel executives are aware that travelers like loyalty programs for the discounts. But many also believe the programs successfully drive true loyalty. Unfortunately, too often, this is just wishful thinking. In fact, travelers are more loyal to discounts than to specific travel brands (see Figure 3).

But travel executives who see travel loyalty programs as a mechanism for attracting customers have ample reason to believe the programs are working as designed. As recently as 2012, the travel and retail industries had an equal number of loyalty program members. This is certainly one measure of success considering that the annual revenue of the retail sector was more than three times that of the travel sector that same year.[2]

Figure 3

A substantial portion of travel loyalty program members are willing to switch programs

Percent of respondents in each category that agree they would switch travel loyalty programs if they found a better deal somewhere else

Level of loyalty participation

Number of trips per year

69%
Active in loyalty programs

67%
All respondents

62%
Not active in loyalty programs

68%
15+ trips per year

67%
All respondents

63%
1-2 per year

Source: 2015 IBM Travel Loyalty Program Survey, by EIU, n=3,833
Question: "Do you agree or disagree with the following statements about travel loyalty programs?"

Many travel executives might also be pleased by the financial contribution loyalty programs make to overall corporate performance. While results vary widely by region, by segment, by company and by time period, some travel loyalty programs represent a significant share of a company's total value. Shortly after announcing bankruptcy, United's MileagePlus and Caesars' TotalRewards programs were valued by creditors more highly than their parent companies.[3]

Additionally, from the way both travel and non-travel executives describe the objectives of their loyalty programs, they clearly intend for the programs to serve many roles. Some leaders see their programs as a means to drive revenue, whereas others think their programs are about retention. Still others believe loyalty programs can help differentiate the company from its competitors (see Figure 4).

Figure 4

Executives have a wide range of objectives for their loyalty programs

Loyalty programs

Revenue

"We can see that when we sign a customer up for [a loyalty program], they give us more of their share, which is the whole point of a loyalty program."
Stephen Joyce, CEO, Choice Hotels International

Differentiation

"One of the most important things we can do for our customers is to show that we appreciate them."
David Christopher, CMO, AT&T

Insights

"Loyalty programs are, in fact, a way for us to know more about how we can better serve our guests and have a relationship, have a communication."
Kirk Kinsell, President of the Americas, IHG

Retention

"Consumers today are busy and smart. They know good value, and they want to be rewarded."
Martine Reardon, CMO, Macy's

Sources: "American Express, AT&T, ExxonMobil, Macy's, Nationwide, Rite Aid, Direct Energy and Hulu Launch Plenti – First Coalition Loyalty Program in US." Reuters. 2015; Trejos, Nancy. "Hotel CEOs talk free Wi-Fi, Twitter, room service." USA Today. February 28, 2014.

Interestingly, executives rarely see loyalty programs as a service to the rest of the company. Despite the fact that loyalty programs are often the company's richest source of data about customer preferences and patterns, many travel executives see this benefit to other departments as a secondary or tertiary program objective.

Corporate users of travel loyalty data yearn for deeper insights

From marketing to human resources to operations, the departments that run airlines, hotels and rental car companies have a real need for insights about customers. Unfortunately, not all travel loyalty programs enable these insights today. Instead, data-hungry corporate departments are often left to derive and apply insights from the limited subset of customer data they are able to access.

To confirm whether travel loyalty data is adequately meeting the needs of internal corporate departments for customer insights and preferences, travel providers should first query department leaders. They can then assess those needs and address them by providing each department with relevant customer data.

Loyalty programs can do even more than they do today

Overemphasis on discounts is a function of both the structure of most travel loyalty programs and the marketing messages that support them. Fortunately, there is ample evidence that customers are open to more frequent and meaningful engagement on the subject of travel in general, and with loyalty programs and brands in particular. The findings in this section provide a foundation upon which travel providers can reinvent travel loyalty.

Time to move beyond discounts into engagement
How can a travel executive tell when she has come across a loyal customer? In the view of Frederick F. Reichheld, business strategist and author of *The Loyalty Effect*, loyal customers tend to exhibit four key traits. Not only do they spend more money than others, but they are more willing to pay price premiums for the goods and services they purchase. Importantly, they are also advocates for, and tend to be willing to spend time with, the brand (see Figure 5).[4]

Travel loyalty programs have historically focused on the first two of these levels. By tracking and rewarding customer spending – and by showering discounts on the behaviors and decisions the company wants to promote – travel loyalty programs do a relatively good job of encouraging spending on seats, rooms and cars, as well as on a variety of upgrades, related products and additional services. Unfortunately, they do very little to create true brand advocates, and even less to ensure that travelers are willing to spend additional time with the brand. To achieve greater returns from their travel loyalty programs, travel providers need to develop a more balanced approach that focuses on all four levels of customer loyalty.

Figure 5

Travel loyalty programs should focus on all four levels of customer loyalty

Loyal customers

| Current focus | **Consistently** spend more than others |
| | **Willingly** pay a premium price |

Travel loyalty programs track and reward spend, with some upsell incentives

| Emerging priority | **Actively** advocate for your brand |
| | **Eagerly** spend time with your brand |

Little attention is paid to advocacy in social media, or time spent with the brand

A more balanced approach is needed

Source: Frederick F. Reichheld, business strategist and author of The Loyalty Effect.

24% Antagonists

Travel loyalty programs sometimes motivate me to purchase higher-priced products

78% Advocates

Current structures work well for some sub-segments

Our analysis has led us to conclude that loyalty programs are working well for a segment of the current customer base. In fact, we observed a wide gap between the extent to which these programs motivate the most active program participants to purchase higher priced products versus their less engaged peers.

But an effective travel loyalty program should deliver these types of results across a wider array of traveler sub-segments. To successfully reach more travelers, travel providers should make focused experimentation a priority for most travel loyalty programs.

To understand more about what travel loyalty program members might want from their loyalty programs, we asked respondents to rate their levels of interest in a few simple concepts (see Figure 6). We found that while the levels of interest between loyalty program advocates and antagonists differed – with advocates being very interested in all types of new programs – both groups expressed at least some interest in two of the three program modifications we suggested.

Figure 6

Travelers express strong interest in a variety of loyalty program enhancements

Level of interest among respondents in learning more about…

...shared travel awards and redemption options	...theme-based loyalty incentives	...socially-driven loyalty enhancements
90% Advocates 44% Antagonists	88% Advocates 37% Antagonists	80% Advocates 24% Antagonists
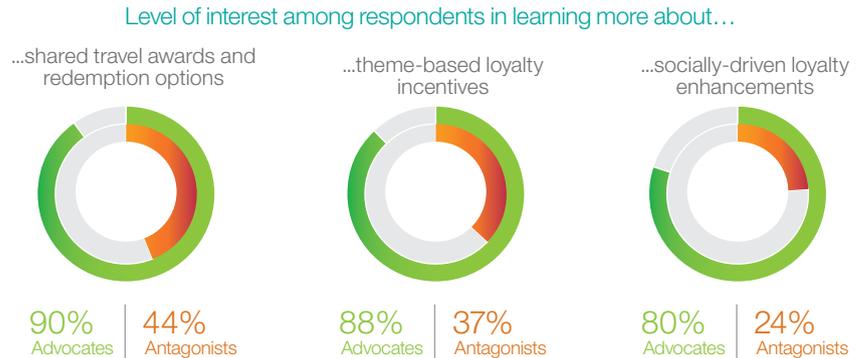
Source: 2015 IBM Travel Loyalty Program Survey, n=3,833
Question: "Please indicate your level of interest in each of the following travel loyalty program enhancements"

Travelers said they would like to experiment with programs that let them share awards and redemption with other travelers. This type of program might result in even higher net discounts, but it would also create an opportunity for existing members to advocate on behalf of the program and brand to nonmembers. More importantly, it would lead to increased engagement with both new and existing members.

Travelers are also interested in theme-based incentives that allow members to earn and save toward a specific goal – like attending a favorite sporting event or contributing earned rewards to a favorite charity. Finally, enhancements that enable travelers to integrate loyalty activities with popular social media platforms pique the interest of loyalty program advocates, but are less interesting to program antagonists.

Travelers are ready to engage with brands
Not only have travel loyalty program members given us direct evidence of their interest in more engaging program features, but they also offer ample indirect evidence of their interests. A disproportionate amount of online time is dedicated to the subject of travel, which suggests that some people are ready and willing to engage further on this topic (see Figure 7).

Figure 7

Some people spend a huge amount of time online talking about travel

Estimated hours spent posting and reading per year by the top hundred most active contributors to each site

Flyertalk
1.5M unique monthly visitors and 20M posts

Tripadvisor
280M unique monthly visitors

Virtual Tourist
1.7M reviews and 3.6M photos

● Reading
● Posting
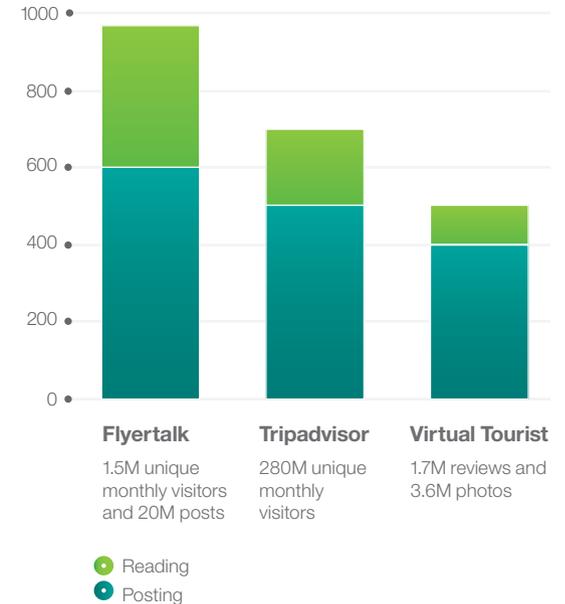
Source: IBM Institute for Business Value analysis based on data from company websites: flyertalk.com, tripadvisor.com, virtualtourist.com

Recommendations: Key enhancements to radically improve outcomes

Although our study finds that travel loyalty programs are myopically focused on using discounts to build loyalty, it also reveals reasons for optimism. Travelers are eager to engage more deeply with travel brands. Loyalty programs that manage to attract their attention, time and interest create the potential of being rewarded with higher engagement and may also be positioned to extract more data and attain a deeper understanding of customer needs and preferences. This last set of benefits will pay dividends for the entire company and for every department that has a stake in traveler satisfaction.

The following recommendations will help bring travel loyalty programs closer to this ambitious and profitable future state.

Continue to reward the most profitable traveler decisions
Even a cursory glance at recent frequent flyer blogs will reveal that efforts to infuse travel loyalty programs with profit considerations have engendered discontent among some travelers and outright rebuke from others. Despite some traveler resistance, these efforts are ultimately good for the company and will result in increased levels of true loyalty among the target customer base. In our view, travel providers should continue to pursue loyalty program enhancements that more directly reward travelers for making decisions that bring more profit to the company, even at the risk of frustrating or repelling extreme discount seekers. Several large airlines and hotel chains have augmented their loyalty programs with spending targets that are required to achieve each program status tier.

Experiment with new models and reward all types of traveler engagement
Travel executives should support focused experiments with new, more engaging loyalty program features, such as shared redemption options, theme-based loyalty initiatives and social media engagement opportunities. Travel loyalty program providers should not just create these programs and hope for results, but they should recognize that without the right customer incentives and rewards, even the best ideas may falter.

For this reason, they should support these program changes by rewarding the customers who choose to use them. Travelers who donate accumulated award points to their favorite charity, for example, might be rewarded with a discounted travel package to visit the village whose children have been enriched by their largess. Travel providers should then invest more heavily in those changes that result in increased spending, higher margins, more vigorous customer advocacy and more customer time spent with the travel brand.

Use loyalty insights to personalize the program and the travel experience
Greater traveler engagement with the loyalty program will generate volumes of new data on traveler preferences and usage patterns. Travel loyalty program leaders should give their best data scientists the best available data analytic tools to turn this data, some of which travelers already contribute to online travel forums today, into meaningful traveler insights. Leaders can use these insights to personalize subsequent interactions between travelers and loyalty programs. These insights can also form the basis of a loyalty-led transformation of the entire travel experience.

For more information

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Are you ready to take your travel loyalty program to the next level?

- Why does your loyalty program exist, and how effectively is it currently meeting its objectives?
- How do your customers perceive your loyalty program? Are their perceptions aligned with your program objectives?
- What loyalty program enhancements has your company implemented, and what might you try in the future?
- What changes can you make in your loyalty program to engage travelers as deeply and as often as possible?
- How well is your loyalty program delivering customer insights to other departments?

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Notes and sources

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