



TRAVEL, HOSPITALITY & LEISURE

# Revolutionizing Loyalty Programs in Travel and Hospitality

Four Driving Forces and Six Steps for Transformation

Loyalty programs are central to the travel and hospitality industry. American Airlines was the first travel company to offer a loyalty program, in 1981. Hoteliers followed, with Marriott and Holiday Inn introducing programs in 1983. Soon after, credit card companies joined the field with Diners Club offering the ability to link rewards to customer spending. Other hospitality sectors, including quick service restaurants (QSRs), also have large and established loyalty programs.

Historically, the driver of many loyalty programs was catering to business travelers and their price insensitive travel patterns. As business travel struggles post-pandemic, many companies have turned from travel-based programs (based on number of miles, nights, etc.) to spend-based programs, enabled by co-branded credit cards. Others have changed their loyalty program structures to adapt to changing customer behaviors, the rise of leisure travel, trips blending work and personal interests, and rising consumer expectations.



The World Travel & Tourism Council forecasts that the travel sector will grow its GDP contribution to **\$15.5 trillion by 2033**, representing **11.6 percent of the global economy**.<sup>1</sup>



Furthermore, the global loyalty market is expected to record a CAGR of **12.2 percent during 2023–2027** and is forecasted to reach **\$215.4 billion by 2027**.<sup>2</sup>

In this market, where customer behavior is changing and unpredictable, an effective loyalty scheme is invaluable. Travel companies cannot afford to give up any share of what is already an ultra-competitive marketplace.

A&M believes four forces will significantly impact how travel and hospitality loyalty programs operate in the future. Companies must understand the impact of these forces on their loyalty programs at both the customer and P&L level. Any changes to loyalty programs must be carefully and thoughtfully communicated to avoid customer pushback and negative brand impact.

Companies adept at transforming loyalty from a transactional event into a personal brand connection will drive growth and enhance the perceived customer value of their brand. This strategic shift not only improves profitability but also significantly boosts EBITDA contributions. To do so, companies must thoughtfully navigate the impact of the strategic forces discussed below.




## Four Forces Changing the Dynamics of Loyalty Programs in the Travel and Hospitality Industry

These forces will have a significant impact on both the perceived customer value and profitability of loyalty programs.

**Market Saturation** – Based on a 2022 report, on average, U.S. consumers already belong to 16.6 loyalty rewards programs, had an active subscription to 1.8 payment cards loyalty programs and 0.9 travel loyalty programs with new loyalty programs choices coming online every day.<sup>3</sup> Recently, the success of a loyalty program has been measured in new customer acquisition, primarily measured by the growth of co-branded credit card programs. In 2022, the largest US credit card issuer received \$28.1 BN in interchange income and paid out \$22.2 BN to partners, either directly or indirectly (in the form of cardholder rewards).<sup>4</sup> A recent study by Research and Markets projects a 9.6% CAGR for co-branded credit cards between 2023 and 2030.<sup>5</sup> While this growth will create more options for consumers, it will force companies to compete more to differentiate their co-branded cards from other options — be it from direct industry competitors or financial institutions which offer travel-related redemption options via non-co-branded cards or other channels. Moreover, slowing economic conditions, rising interest rates, and proposed interchange and late fee revenue caps will force tightening of credit underwriting standards (approvals and lines) and negatively impact card holder spending and overall program profitability. As such, many companies will soon reach a point of resistance where the ability and cost to acquire new co-branded card users will be prohibitive. Companies with large global footprints such as Marriott — which recently began issuing cards in India, its tenth international market — will be able to mitigate these risks, but most companies without global size and scale will encounter significant challenges to credit card-related loyalty growth.

**Capacity Limitations** – One of the clearest customer value propositions for loyalty programs is the ability to redeem points for free products — rooms, airline seats, meals, etc. Holders of mass-market general-purpose cards earned an estimated \$41.1 billion in rewards in 2022, a 58 percent increase from \$26.1 billion in 2019. Of the three primary rewards channels (cash back, miles and points), points growth drove most of the increase.<sup>6</sup> Recent widespread and fast-track status achievement has resulted in lack of redemption options, overcrowding in lounges, long lines and the feeling that if everyone is special then no one is special. Travel and Hospitality companies must delicately balance their loyalty redemptions against paid transactions to avoid diluting the premium experience while maximizing profitability and the perceived value of their loyalty programs.

The challenge is that travel demand, while waning somewhat, is still relatively high and therefore travel companies are still able to command premium pricing for their products. There are also several external factors which are limiting capacity not only for paying customers but also for those looking to redeem points — high interest rates slowing down the ability for lodging companies to fill the hotel development pipeline, continued supply chain issues slowing the ability for airlines to bring on new planes with added capacity and premium seating, limited space in airports restricting credit card companies and airlines to expand lounges.



**Shifting Behaviors** – Travel and hospitality consumption behaviors and patterns before the pandemic no longer apply. Over the past several years, leisure travel has been the engine that drove recovery in the travel industry. Group and small-to-medium business travel has nearly recovered to pre-pandemic levels; large corporate travel is still depressed with many travel and hospitality companies reporting that the large corporate segment has only returned to 75–80 percent of pre-pandemic levels. Traditional travel days have shifted with the rise of “bleisure” travel with extended stays but altering peak and shoulder travel days. Within the leisure space, demand in North American domestic travel shifted to international travel during the summer of 2023, causing significant revenue impacts to travel and hospitality brands that have a limited geographical footprint. Other behavior shifts, ranging from increasing expectations of sustainable/eco-friendly tourism, desire for more experiential versus transactional benefits and continued uncertainty of a potential recession will impact travel and hospitality-related spend in 2024. To stay relevant and attractive, companies must be able to quickly pivot their loyalty offerings to address, and take advantage of, constantly changing travel trends.

## **Shifting Sands**

### **Growth of leisure and “bleisure” travel**

#### **Altered peak and shoulder days**

#### **In U.S., shift from domestic to international travel**

#### **Preference for eco-friendly, sustainable tourism**

#### **Desire for more experiential benefits**

**Political and Regulatory Threats (and Opportunities)** – Travel companies and credit card issuers have enjoyed a strong, mutually beneficial relationship via both co-branded credit cards and the bulk purchase of miles/points by financial institutions or other third parties for use in their own loyalty programs. Interchange fees, the fees that issuers and networks charge merchants, have been a key funding source for these transactions and, as a result, have helped subsidize travel and hospitality loyalty programs. The banking and credit card industry, already preparing for the anticipated impacts of late fee regulations and additional caps on debit card interchange fees in 2024, faces additional challenges with the proposed Credit Card Competition Action. This could fundamentally alter the value and partnership dynamics for issuers and co-brand partners. This has already been seen across Europe, which implemented interchange fee caps in 2015 that all but eliminated funding for loyalty programs and resulted in the rise of coalition programs and annual fee-funded benefits. On the bright side, the regulations that stand to harm co-brand profitability and program effectiveness are designed to help travel and hospitality companies by reducing over-all swipe fees, a top overall driver of cost. Other political and regulatory threats include crackdowns on junk fees and the further scrutiny now facing airline loyalty programs: Senators Dick Durbin and Roger Marshall submitted a letter urging the U.S. Department of Transportation and Consumer Financial Protection Bureau to address “unfair and deceptive practices” such as devaluing points, resort fees and charging for transferring points.<sup>7</sup>

## How Travel and Hospitality Companies Are Starting to Address these Forces

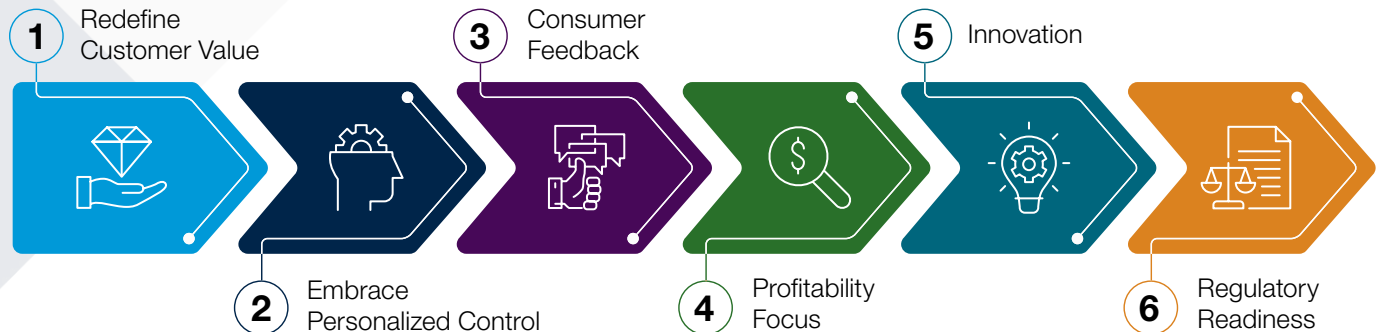
A competitive and differentiated loyalty program is multifaceted and features a compelling customer value proposition, differentiated offerings and experiences, and sound program governance, all enabled by technology. The table below shows how some companies in the travel industry are adjusting their loyalty offerings to incorporate these elements.

	Recent Changes	Consumer Benefits	Business Benefits
Intercontinental Hotel Group (NYSE: IHG)	<ul style="list-style-type: none"> <li>The IHG One Rewards mobile app delivers digital, customized and integrated experience to guests.<sup>a</sup></li> <li>IHG partners with major sport competitions to provide unique experiences.</li> <li>IHG offered VIP packages to a highly anticipated ML Soccer match for 10 reward points.<sup>b</sup></li> <li>Such offers of outsized value increase loyalty and engagement.</li> </ul>	<ul style="list-style-type: none"> <li>The mobile app makes it easier to book and manage reservations, with the ability to personalize stays by selecting room features.</li> <li>The app's features enable a more seamless travel experience.</li> <li>The Wi-Fi Auto Connect feature has more than 1 million users globally.<sup>a</sup></li> </ul>	<ul style="list-style-type: none"> <li>The mobile app encourages direct bookings.</li> <li>It is IHG's fastest-growing booking channel, driving more than half of all digital bookings in 2023.<sup>a</sup></li> <li>The app connects directly with members, delivering relevant and targeted promotions to increase engagement and loyalty awareness.</li> </ul>
Marriott International (NASDAQ: MAR)	<ul style="list-style-type: none"> <li>Marriott changed its loyalty program, Marriott Bonvoy, from category-based award to dynamic pricing in 2022.<sup>c</sup></li> </ul>	<ul style="list-style-type: none"> <li>Dynamic pricing gives members a more stable value of reward points, better pricing during off-peak seasons and potentially more available rooms.</li> </ul>	<ul style="list-style-type: none"> <li>Dynamic pricing gives flexibility and control on redemption rates based on cash rates, seasonality and availability.</li> </ul>
American Airlines (NASDAQ: AAL)	<ul style="list-style-type: none"> <li>American Airlines revamped its AAdvantage loyalty program, simplifying various status-qualifying metrics to a new currency, Loyalty Points.<sup>d</sup></li> <li>American launched AAdvantage Business, a loyalty program for businesses and business travelers.<sup>e</sup></li> </ul>	<ul style="list-style-type: none"> <li>Travel partner offers, shopping portal, and dining program provide both discounts and extended ways to earn miles.</li> <li>New reward levels make it easier to start enjoying benefits. Loyalty Point Rewards provides flexibility as customers can choose the rewards they value the most.</li> <li>The business loyalty program has benefits for both the businesses and their travelers, making business travels more rewarding and enjoyable.</li> </ul>	<ul style="list-style-type: none"> <li>By providing more ways to earn rewards, including flights, credit card use and activities with partners, the loyalty program encourages spending connected to American Airlines, leading to shared revenue.</li> <li>Its newly added reward levels and Loyalty Point Rewards engage with and attract more customers, including casual travelers.</li> <li>The business loyalty program incentivizes both business travelers and companies to fly American</li> </ul>
Frontier Airlines (NASDAQ: ULCC)	<ul style="list-style-type: none"> <li>Frontier Airlines revamped its loyalty program, FRONTIER Miles, with higher earn rates and enhanced benefits such as free pet-in-cabin and free ski and golf bags.<sup>f</sup></li> </ul>	<ul style="list-style-type: none"> <li>The new program rewards every dollar spent on Frontier, and members can earn miles and status faster.</li> <li>New benefits make traveling more enjoyable and the loyalty program statuses more valuable to its members.</li> </ul>	<ul style="list-style-type: none"> <li>By rewarding all dollars spent on Frontier, the airline encourages add-on purchases such as seat selection and additional bags.</li> <li>Its Mastercard promotions increase co-branded credit card usage.</li> </ul>
Cracker Barrel (NASDAQ: CBRL)	<ul style="list-style-type: none"> <li>Cracker Barrel launched its new rewards program, Cracker Barrel Rewards, inspired by its peg game. Members can earn points (Pegs) and redeem them across different Peg levels.<sup>g</sup></li> <li>Cracker Barrel teamed up with Dolly Parton to promote its loyalty program, rolling out sweepstakes and limited-edition merchandise.<sup>h</sup></li> </ul>	<ul style="list-style-type: none"> <li>Members can earn points through purchases and redeem for menu or retail items.</li> <li>On birthdays and anniversaries, members also enjoy surprise rewards.</li> </ul>	<ul style="list-style-type: none"> <li>The loyalty program and Dolly Parton campaign generate excitement and bring traffic to Cracker Barrel's restaurant.</li> <li>By connecting with customers through the loyalty program, Cracker Barrel can provide relevant promotions to encourage more frequent visits.</li> </ul>




## Six Steps Travel and Hospitality Companies Can Take to Begin Their Loyalty Reinvention

Now is the time to initiate the journey of reinventing loyalty, positioning yourself better to maintain and enhance the strength of your loyalty program.



- 1. Redefine Customer Value:** The loyalty program structure of today will not work tomorrow. Heavy reliance on co-branded credit card spend as a revenue generator is threatened by the four forces we've outlined. Also, companies must build loyalty to the brand, not just to discounts. Leading organizations focus on experiential rewards, which invoke emotional loyalty and create memorable brand experiences. These rewards can range from personalized greetings to exclusive behind-the-scenes access, enhancing the perceived value of the loyalty program and the brand. To execute experiential rewards, companies must require the entire enterprise to establish customer loyalty as an operational philosophy with a unique and attractive brand proposition, enabled by their employees and partners across channels and reinforced by the loyalty program.
- 2. Embrace Personalized Control:** A customer's affinity and loyalty toward a travel brand is far from a uniform concept, underscoring the need for more personalized loyalty programs. The success of future loyalty initiatives will largely hinge on their ability to offer rewards that align with the unique values and preferences of individual consumers, thereby transforming loyalty from a mere transaction into a deep, relationship-driven connection. This approach contrasts sharply with many existing loyalty solutions, which often are rigid, predetermined, and only reward specific behaviors. Such standardized programs fail to encapsulate a brand's unique identity or provide distinctive offerings to customers, limiting the company's ability to adapt their program mechanics to reward diverse customer activities. In response, forward-thinking organizations are crafting personalized choice programs that empower customers to dictate their rewards. They are tailoring benefits to meet specific customer needs and desires, thereby fostering a more meaningful and engaging loyalty experience.
- 3. Consumer Feedback:** Understanding the ever-changing drivers of customer affinity is crucial for improving loyalty programs. This necessitates regular consumer testing and the use of data, analytics and AI to understand consumption and spending patterns, including through co-branded cards. Innovative methods like gamified feedback platforms engage customers in a fun and interactive way to gather insights, while AR/VR experiences offer a novel approach to simulate and receive feedback on different travel aspects. AI-powered chatbots can provide continuous, real-time feedback by asking tailored questions based on travel history and preferences. Interactive customer journey mapping workshops involve customers directly in designing their ideal loyalty program experience, ensuring their evolving needs are met. Additionally, social media listening tools coupled with engaging campaigns allow for monitoring and analyzing customer opinions in real time. All these approaches enable organizations to refine their loyalty program structures, develop diversified reward offerings, communicate relevant and curated redemption choices, and identify valuable partnerships, thus catering to unique and changing customer demands in a dynamic market.

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- 4. Profitability Focus:** In today's travel industry, optimizing the profitability of loyalty programs is critical, necessitating a balance between customer-perceived value and financial performance. The shift to spend-based programs has been beneficial for many, but assessing the profitability of different customer types remains crucial. Leading organizations keenly understand their loyalty programs' impact on the P&L and EBITDA, and they craft solutions that balance financial outcomes with customer satisfaction. This involves renegotiating co-brand and network deals for enhanced profitability, especially in markets with less established co-branded cards. However, challenges such as changes due to the pandemic, shifting program focus, declining influence on customer behavior, loyalty affiliations diversification and increasing competition from consumer banks require a comprehensive approach. Crucially, the integration of data and technology is paramount for these programs. Leveraging data analytics and advanced technologies can provide insights into customer preferences and behavior, enabling more targeted, personalized and efficient loyalty strategies. This data-driven approach not only enhances customer experience but also drives program efficiency and profitability, making it a vital component of modern loyalty program management.
  - 5. Innovation:** To thrive in this competitive sector, companies must innovate their loyalty programs to resonate with modern travelers. This involves integrating sustainability to appeal to the growing environmental consciousness. Personalization is key, through experiences tailored to individual tastes and behaviors. Experiential rewards that offer unique and memorable moments are essential, as they cater to the desire for engaging and shareable experiences. Emphasizing digital engagement through contemporary platforms and technologies, like apps and AR/VR, aligns with the tech-savviness of today's travelers. Authenticity and social responsibility are also crucial, as they reflect the preference for ethical and impactful brands. Enhancing the monetization of loyalty data by providing valuable insights to current program partners and extended networks, creates new growth engines for travel and hospitality companies. Offering exclusive or early access to novel experiences, such as innovative menu items in affiliated restaurants, further appeals to the modern traveler's pursuit of novelty. Companies leading in this space are those that not only develop but effectively execute innovative strategies, pushing the boundaries of traditional loyalty programs. Programmatic investment in loyalty program innovation ensures their offerings remain attractive and relevant to the diverse and evolving preferences of modern travelers.
  - 6. Regulatory Readiness:** Navigating the regulatory environment for travel and hospitality loyalty programs requires a strategic approach, particularly given the significant impact of credit card fee regulations on the industry. Leading organizations must actively monitor and adapt to legislative changes to minimize operational impacts and develop appropriate mitigation strategies. This effort should be part of a larger strategy that includes adhering to international data protection laws like GDPR, CCPA and the forthcoming EU AI Act, to ensure data security and transparency in data usage, and respect of customer data rights. Regular reviews and audits of loyalty programs are crucial to align with evolving regulations, including data handling and marketing practices. Establishing customer trust through clear communication about data collection and usage, and providing opt-out options, is key. The strategy also involves flexible adaptation to regulatory changes and internal training for employees to enhance understanding and compliance. A comprehensive approach helps companies navigate the complex regulatory landscape effectively, protecting both business interests and customer rights.

## Start Here: Define Your Path Forward

Travel and hospitality companies and their customers have significantly benefited from loyalty programs. Just as programs have evolved since their initial introductions over 40 years ago, they must continue to evolve today. This evolution must occur concurrent with the potential of tighter regulations and the risk that if done incorrectly, the perception of the company brand can be threatened by quick and widescale displeasure amplified across social media channels.

Leading organizations must be tightly aligned with their customers and partners to evolve and refine their loyalty programs in a way that is loved by their customers, profitable for the company and partners, and also compliant with changing regulations. Companies that can best balance these components and shift loyalty from a transactional event to one that creates a personal connection to the brand are well positioned to continue to reap the rewards of the programs. Those that fail will lose competitiveness and market share in an important, and growing, part of the global economy.

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