

# “Your Loyalty is Rewarded”: A study of hotel loyalty program in Malaysia

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## Abstract

Hotel loyalty programs had shown their importance in the global market and Malaysia is following up this trend. Yet, many of the information from the perspective of customers are still yet to be discovered by researchers. The purpose of this study is to discover the current state of satisfaction and perception of hotel loyalty program and finding out the more preferred program attributes as well as the significant factor associated with the level of satisfaction in the context of Malaysia. A total of 109 survey responses were collected. The result had shown that Malaysian consumers were overall rather satisfied with the current hotel loyalty program and their satisfaction was found highly correlated with the reward value and reward timing provided which was also ranked as most important by the respondents. This study concluded that Malaysians were mostly seeking for direct or immediate reward like monetary discount and least favored on point collection program. Lastly, the Malaysian users were found to have a positive perception on hotel loyalty program that they found the program to be useful and able to provide benefit or advantage to them.

## Keywords:

Loyalty program, hotel loyalty, customer loyalty, satisfaction

## 1 Introduction

The increased in competition within the hospitality industry have forced firms to seek ways to sustain their businesses through building customers’ loyalty. With inspiration by the success of airlines in developing Frequent Flyers’ program which first

introduced by the American Airlines through their Advantage Program in 1981 Anuar, Sumarjan, and Radzi (2013), many hotels realized that building a long-term relationship with consumers will be the ultimate way to be more competitive in the marketplace. Started with Holiday Inn and Marriott spending millions for their loyalty programs namely Priority Club and Honored Guest in the year 1983 (McCleary & Weaver, 1991), they were the first to practice loyalty programs in hotel industry worldwide (Skogland & Siguaw, 2004). Customer loyalty was then described as ‘the future of hospitality marketing’ (Shoemaker & Lewis, 1999).

Loyalty programs are now growing massively in the Asian country where countries like United States and Europe had reached the saturation state and phenomenon of ‘loyalty overload’ or ‘loyalty card fatigue’ are seen among the loyalty users (Steyn, Pitt, Strasheim, Boshoff, & Abratt, 2010). While over the last decades, Malaysia sees significant growth of loyalty programs being introduced to retain customers (Omar, Che Wel, Abd Aziz, & Syed, 2013). A research by Anuar et al. (2013), suggested that a search for Malaysian 3 to 5-star hotels had shown a list of 39 hotels over the country which adopted loyalty programs in their hotel operation. This has marked changes and continuous challenges to the hospitality industry in Malaysia.

However, a research by Weissenberg, Katz, and Narula (2013) had shown that 30% of hotel loyalty members are “at risk” of switching brand and almost 50% of the loyalty members are not spending their annual budget with their preferred hotel brand. Another report by Robinson (2013) also indicates that 71% of the loyalty program members are always willing to sign up more cards, suggesting that they pose low switching cost or high level of acceptance toward any loyalty programs available in the market. This phenomenon poses a clear challenge that hotel brands are not doing well in their hotel loyalty programs as in retaining a true loyal customer. Although this situation may only be observed when the loyalty programs in the market had gone too saturated like US and Europe, it may happen too in Malaysian hospitality industry in the near future on this potential ‘loyalty overload’ condition.

In the past, studies were mainly focus on consumers’ behavior towards loyalty (Liu, 2007; Mattila, 2006; Tanford, 2013; Tanford, Raab, & Kim, 2011), commitment towards the program (Hikkerova, 2011; Mattila, 2006; Tanford et al., 2011), switching cost (Naderian & Baharun, 2013; Tanford et al., 2011), perception (Drèze & Nunes, 2008; Hu, Huang, & Chen, 2010; Robinson, 2013), and factors influencing loyalty such as reward value or timing (Tanford, 2013; Yoo & Bai, 2013). However, understanding towards consumers’ satisfaction and preference on hotel loyalty program is still limited. This study is to provide more insight upon hotel loyalty program specifically in the context of Malaysian consumers. The objective of this study is to examine the factors affecting consumers’ satisfaction towards loyalty program as well as their preference over types of loyalty program available in Malaysia.

## **2 Literature Review**

### **2.1 Loyalty programs**

Loyalty programs are commonly used by firms to build and strengthen customer relationship by encouraging repeat purchase behavior and providing reward for such behavior by customers (Lewis, 2004; Sharp & Sharp, 1997). This includes any means of actions taken by firms to communicate with customers (Yi & Jeon, 2003). Loyalty programs are activities where business needs to form a system and invest into this marketing activity with the objectives of acquiring or retaining more customers and the ultimate goal of customer loyalty (Mattila, 2006; Xie & Chen, 2013). In this research, loyalty program is seen as all types of marketing activities that involve potential acquisition of return consumers. This includes any event of promotion with the goal to draw customer in further engagement with the brand.

### **2.2 Types of loyalty program**

Loyalty program have been marketed by firms into different forms and types, creating various combination of loyalty program to attract their selected segment of target customers. While all hotels believed that their loyalty programs are providing the best valued and best benefit than other, the type of benefits that customer really value still yet to be identified (Shanshan, Wilco, & Eric, 2011). A research by Anuar et al. (2013) among Malaysian hotels that offered loyalty program has found that all hotel loyalty programs had offered to their guest over 13 similar core benefits such as guaranteed room availability, priority check in and out, conversion of points to airline mileage and so on. However, each program still offered some unique benefits to their guest as a competitive advantage for their loyalty program members. In this study, five types of loyalty program were identified which are the point collection, monetary discount, vouchers & coupons, complimentary product and credit card related program.

### **2.3 Satisfaction towards loyalty program**

Efforts are done to achieve satisfaction because satisfaction was proved to lead to customer loyalty (Hu et al., 2010) and satisfied customers are proved to demonstrate positive word-of-mouth, reduce of price sensitivity and increase in likelihood of return business (Anderson, Fornell, & Lehmann, 1994). Cheng, Mansori, and Huei (2014) has examined that satisfaction and dissatisfaction of experience by customer can greater leads to the level of loyalty to a brand. This later led to studies conducted by various academic researchers in testing of different attributes in loyalty program that contributes to satisfaction (Park, Chung, & Woo, 2013; Yi & Jeon, 2003). In this study, satisfaction towards loyalty program is defined as the feeling of pleasure upon the post-experiences of loyalty program attributes that meet or exceed the customers' expectations. The determination of satisfaction was based on few loyalty program attributes shortlisted from some similar reports of loyalty program done in the previous study.

### 2.3.1 *Reward value*

O'Brien and Jones (1995) emphasized that loyalty program must be able to be recognized as valuable by their customer and suggested that the reward value or cash value is the element observed by customers to visualize the worthiness of a loyalty program. Reward value is explained as the perceived monetary value of a reward that can be obtained by customer through their loyalty program (Dowling & Uncles, 1997) (Shoemaker & Lewis, 1999).

Hikkerova (2011) suggested that the reward value is an important attribute in any loyalty program and was proved to be positively related to the commitment and effectiveness of a loyalty program. Park et al. (2013) also discovered that reward value was especially significant for customers with short-term orientation that sufficient reward value offered can easily satisfy these short-term customers and gradually acquire them to be loyal to the brand. Hence, the study hypothesizes that:

H<sub>1</sub>: Reward value could affect consumers' satisfaction towards a hotel loyalty program.

### 2.3.2 *Reward timing*

Dowling and Uncles (1997) suggested that reward timing is one of the crucial elements that determine the value of loyalty program by the customer. It refers to the period before customer can redeem or obtain their rewards (Park et al., 2013). For example, point or mileage accumulation will be considered as long reward timing as consumer will need to collect their points over a period of time before they can redeem for the reward desired. Park et al. (2013) argued that reward timing is important for those customers of short-term orientation. Yi and Jeon (2003) supported that immediate reward is more effective in building a program's value than a delayed reward. Therefore, it can be hypothesized that:

H<sub>2</sub>: Reward timing could affect consumers' satisfaction towards a hotel loyalty program.

### 2.3.3 *Status and recognition*

Status and recognition are commonly known as the person's position in the society that often drive the different treatment among society for different perceived tiers of group (Drèze & Nunes, 2008). This feeling of status was often obtained from different tiers and members of elite tier usually feel superior compared to the lower tier (Drèze & Nunes, 2008). This different of status and recognition are seen to be important especially the member of elite tier that it alters their behavioral loyalty of being more loyal to the firm (Tanford, 2013).

Status shows its significant in satisfaction of loyalty program as referred to a statement by focus group in Weissenberg et al. (2013) that, status had become a baseline when everyone receive status and no longer showing its special benefit, which

turns it meaningless and nothing special. It is further supported by Baloglu (2002) that a true loyal customer can exhibit higher commitment and trust towards a brand when they felt they were treated better and recognized compare to another firm. Hence, this hypothesizes that:

H<sub>3</sub>: Status and recognition could affect consumers' satisfaction towards a hotel loyalty program.

#### 2.3.4 *Communication*

Hikkerova (2011) validated that communication is positively linked to the commitment of loyalty program and able to strengthen commitment and trust of consumer towards loyalty program. Communication is customer engagement tool that firms used to connect themselves with the customers (Starvish, 2011). It is important for firms to maintain connection with their customers and offer rewards to customer's needs and wants through communication tools like email or special tools of communication. Robinson (2013) discovered that 94% of program members wanted to receive more communication from their respective program, proving that communication relevancy is members' satisfaction. Hence, these suggest that:

H<sub>4</sub>: Communication could affect consumers' satisfaction towards a hotel loyalty program.

#### 2.3.5 *Ease of program system*

Ease of program system is explained as the convenience use of a program feature such as the process of redemption, point collection or eliminating of complicated process like annual renewal. Ease of program system or scheme's ease of use is often highlighted as one of the important criteria of a good loyalty program (Dowling & Uncles, 1997; O'Brien & Jones, 1995). O'Malley (1998) suggested that the removal of sophisticated process in loyalty program scheme would eventually enhance members' satisfaction. Thus, these assume that:

H<sub>5</sub>: Ease of program could affect consumers' satisfaction towards a hotel loyalty program.

### **3 Methodology**

#### **3.1 Research design**

Questionnaire method was used to facilitate the hypothesis testing. The survey questions were developed based on the 2 research objectives: 1) Examining the 5 factors affecting consumers' satisfaction towards loyalty program and 2) to identify the most preferred types of loyalty program available in Malaysia. Questions pertaining to satisfaction and perception over the program attributes were measured by five points Likert scales [1 – Strongly disagree, 2 – Disagree, 3 – Neutral, 4 – Agree & 5 – Strongly

agree]. While questions concerning preference were measured by five points Likert scales indicating level of preference.

### 3.2 Sampling plan

A snowball sampling method was used to collect the data. This method was chosen due to the high complexity of the respondent’s criteria where snowball sampling is considered as the best tool to reach out to the pool of sample (Kurant, Markopoulou, & Thiran, 2011). A valid respondent must fulfil all the criteria of being ‘Malaysian’, ‘Decision Maker of hotel selection’ and ‘frequent traveler’. The criteria of ‘decision maker’ was defined as the respondents himself possess the ability to make selection and decides on which hotel product or services to use. While, the criteria of ‘frequent traveler’ was examined as one who travelled and stayed more than 6 times a year in hotels around Malaysia. All the response for this research was collected through both the channel of online distribution and face to face distribution.

### 3.3 Data analysis

Hypotheses were tested by using multiple regression analysis with consumers’ satisfaction as the dependent variable. While descriptive analysis was used to identify the ranking order of consumers’ preference over the types of loyalty programs. Other than that, the measurement validity and reliability for variable (consumers’ satisfaction) was analyzed based on Cronbach Alpha test and factor analysis.

## 4 Result

### 4.1 Hypotheses testing

Table 1 indicates the summary of the hypotheses testing, direct relationship between the predictors (Reward value, Reward timing, Status and recognition, Communication and Ease of program) and dependent variable (Satisfaction).

Table 1: Summary of tested hypotheses

Hypotheses	Standardized coefficient	Results
H1 Reward Value → Satisfaction	0.33**	Accepted
H2 Reward Timing → Satisfaction	0.18*	Accepted
H3 Status & Recognition → Satisfaction	0.12	Rejected
H4 Communication → Satisfaction	0.16	Rejected
H5 Ease of program → Satisfaction	0.17*	Accepted
R2	0.40	
Adj. R2	0.38	
R2 Change	0.40	
F-Change	14.26	

Note: N = 109; \*p < .05, \*\*p < .01

The results showed that reward value was significantly and positively predicted satisfaction ( $\beta = 0.33, p < .01$ ). Similarly, the effect of reward timing and ease of program on satisfaction was found to be positive however with lower significance ( $\beta = 0.18, p < .05$ ) and ( $\beta = 0.17, p < .05$ ) respectively. In contrast, both status and ease of program were found insignificant ( $\beta = 0.12, p > .05$ ;  $\beta = 0.16, p > .05$ ) in predicting satisfaction.

#### 4.2 Descriptive Analysis

Table 2 shows the ranking order of the preferred types of hotel loyalty program measured by average mean score. Monetary discount was found to be the most preferred ( $\bar{x}=4.27, S.D = 0.96$ ) loyalty program followed by vouchers & coupon ( $\bar{x}=3.79, S.D = 0.88$ ), complimentary products ( $\bar{x} = 3.64, S.D = 1.17$ ), point collection ( $\bar{x}=3.30, S.D = 1.11$ ) and credit cards linked was established as the least preferred ( $\bar{x}=3.28, S.D = 1.06$ ).

Table 2: Ranking order of preferred hotel loyalty program

	Types of Loyalty program	Mean	Std. D
1	Monetary Discount	4.27	0.96
2	Vouchers & Coupons	3.79	0.88
3	Complimentary Products	3.64	1.17
4	Point Collection	3.30	1.11
5	Credit Cards Linked	3.28	1.06

## 5 Conclusion

The results from this study suggest that Malaysian satisfaction towards hotel loyalty program was primarily affected by their perceived reward value and reward timing. This finding is supported by Hikkerova (2011) that reward value was often seen as the most important attributes in any loyalty program and is evidenced of positively associated to commitment and effectiveness of a loyalty program. In contrary, status and communication showed no significant impact on satisfaction. This result differs from Baloglu (2002) who suggested that a loyal customer will only show their commitment and trust toward a brand when they felt the recognition from the firm and awarded status different from others. In terms of preference, Malaysian consumers were found to favor direct reward system such as monetary discount more than other indirect/delayed- reward system. Evidently, delayed-reward system like point collection and credit card linked were the least preferred loyalty program by the respondents.

These results allow the Malaysian hoteliers to understand their consumers' anticipation better towards future hotel loyalty program. Thus, it enables them to develop or enhance their loyalty program attributes accordingly. For example, hotels can introduce instant redeem of reward either in cash or product form to possibly gain higher satisfaction among members. Future studies should continue to examine the effectiveness of loyalty program in a broader aspect of the hospitality industry. Other

than that, the differences between leisure travelers and business travelers' receptions and expectations towards loyalty program should be determined.

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