



The evolution of loyalty programs

Charting the future of customer engagement and retention through the travel, leisure, and hospitality industry



What have you done for me lately?

Brand loyalty is being tested. Customers are less satisfied with their brand experiences than they were just one year ago.¹ Expectations are not being met in great part, they say, because technology, if not implemented correctly, can be an unwelcome intermediary to reduce expenses instead of to improve service. Customers complain about being funneled into low-cost channels stripped of human interaction and personal touch.

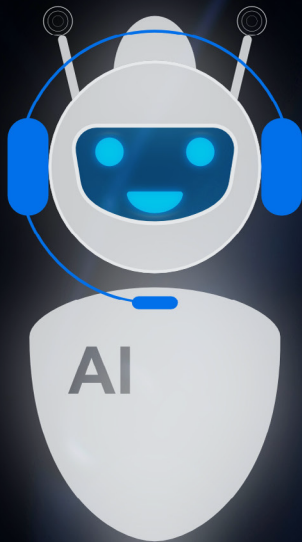
Furthermore, even brand evangelists who continue to patronize their go-to companies are quite discouraged with how much their favorite experiences now cost. Consumers are resilient, and economic sentiment has improved heading into 2024, but living standards lost ground to inflation since the pandemic, and excess savings will soon dry up, resulting in a challenging spending environment that will hurt for some time.²

In this swirl of dissatisfaction, loyalty programs can offer the personalized experience and savings customers want.

They also offer potentially high return on investment for brands across industries such as travel, leisure, and hospitality (TLH), including hotels, casinos, and cruise lines.

However, the same strategies used in the past are not as enticing for customers who want and expect more. Loyalty programs must evolve to continue to drive value for both customer and organization.

Based on conversations with business leaders and KPMG customer survey results, this paper examines how the consumer mindset has adapted to recent changes and how companies can use loyalty programs to address (and even take advantage of) such change. While this is a cross-sector phenomenon, we take a more detailed look at TLH to help understand the need to adapt and the potential payoff of an industry-leading loyalty program, with plans to examine loyalty programs in other sectors going forward.



How can I help you?

¹ Source: "Artificial Intelligence and the orchestrated customer experience," Global Customer Experience Excellence Study 2023-24, KPMG LLP

² Source: "Consumers tapped savings to buoy spending," KPMG Economics, January 26, 2024

Trends impacting loyalty programs

Best-in-class loyalty programs continue to benefit their sponsors in multiple ways, starting with improved customer engagement, acquisition, and retention.

Satisfied customers are more likely to recommend companies to friends and family, raising brand awareness and increasing potential share of wallet. Loyalty programs help drive direct contact, such as more profitable direct bookings rather than through a third party that takes

commissions. And a loyalty program can widen access to valuable customer data and insights as well as lead to additional revenue from symbiotic partnerships.

However, companies must evolve their strategies to continue enjoying all of those program benefits and their impact on the bottom line. They must respond to changing consumer demands and business conditions, including these key developments:

Increased competition from new business models.

Every industry is being disrupted by digital challengers that siphon customers from more traditional companies. Personalized, highly rewarding, relationship-based interactions can help make those customers sticky.

The ability to meet customer desire for personalized offers.

Most consumers want to save money and seek enhanced experiences from their loyalty programs. Now loyalty programs can customize rewards that are even more tailored and refined to individual preferences.

Preference for contactless options.

Low- and no-touch commerce is here to stay since COVID-19. Consumers do not want to give up the convenience and simplicity. However, this needs to be balanced with the challenges and customer dissatisfaction that come with the loss of human hospitality-centric businesses.

Expectations for a consistent brand experience and simplified processes across channels.

Customers expect easy access to brands, especially through apps, but their expectations for ease, personalization, and delight extend across all brand interactions, whether they are in the building or on their phones.

More extensive and frequent touchpoints between business and consumer through digitalization.

With additional electronic access points, consumers can interact with companies when and where they want instead of simply at the point of purchase.

Demand for sustainable and socially responsible brands.

Customers want to feel good about their buying choices and will seek companies that demonstrate the values they share.

Getting started

Companies can begin the process of evolving their loyalty programs and introducing new strategies with a review of their existing offerings through these four lenses.

01 Customer perception.

Understand how customers view the company's loyalty program value propositions. Are members active, or would the program benefit from a redesign and/or reboot? Identify needs that are met by loyalty programs, and review prioritization of various value propositions by customer segment. Compare customer perceptions of loyalty programs by brands.

02 Compelling offer.

Analyze how loyalty program offers are structured across the company and its competitors, including how sign-up rewards, base benefits, and elite-status perks compare. Compare features of program offers across similar products or services. Another component of this is making sure the offers/benefits align to the strategy that we touch on in the first point. Each customer segment will value loyalty offerings differently, so the loyalty program should not spend money on things that do not motivate their target customer, but rather invest in the most important benefits to the people they have decided to target. In simple terms, the benefit offerings need to align to the strategy, and the strategy begins by understanding each customer segment and the factors that drive their purchasing behavior.

03 Consistent delivery.

Determine how the loyalty program is delivered across the entire customer journey and map it with key touchpoints. Match touchpoint with programs (e.g., via digital, in-person) and identify greater opportunities to drive engagement.

04 Financial impact.

Review how the loyalty program affects key performance metrics given the delivery model. Reflect the current-state metrics and capture other key performance indicators in the business.

Snapshot: Loyalty programs in travel, leisure, and hospitality

The ability of a well-executed loyalty program to increase customer acquisition, retention, and engagement is proven. Because of factors including a post-pandemic shift toward experiences over products, the loss of loyalty status, and a lack of loyalty among new customers, effective loyalty programs are even more important for lodging, cruise, gaming, and travel services companies.

As long as growth through traditional mergers and acquisitions remains limited by the high cost of capital, TLH companies will still need to generate organic growth through customer acquisition and engagement. The demand is still there, albeit travel volume has normalized since the pandemic rebound.³

Consumers are also placing greater emphasis on experiences over material things, including many younger travelers who choose unique, localized and personalized adventures. Loyalty programs are meeting their desires.

Meanwhile, the TLH industry, like many others, is challenged to provide outstanding customer service given ongoing staffing shortages, which is not expected to improve in the short term. Among hoteliers, nearly 68 percent say they do not have enough employees.⁴

Customers buy into loyalty programs

A recent survey of loyalty members in the hotel and lodging space highlights the tangible benefits of maintaining an effective program.

88% of satisfied premium loyalty program members prefer that business over a competitor offering a lower price.

83% say joining a loyalty program will lead them to continue purchasing from that business.

70% recommend brands to others if they believe the brands' loyalty programs add value.

66% modify spending to maximize loyalty benefits.

Source: KPMG consumer survey data and analysis

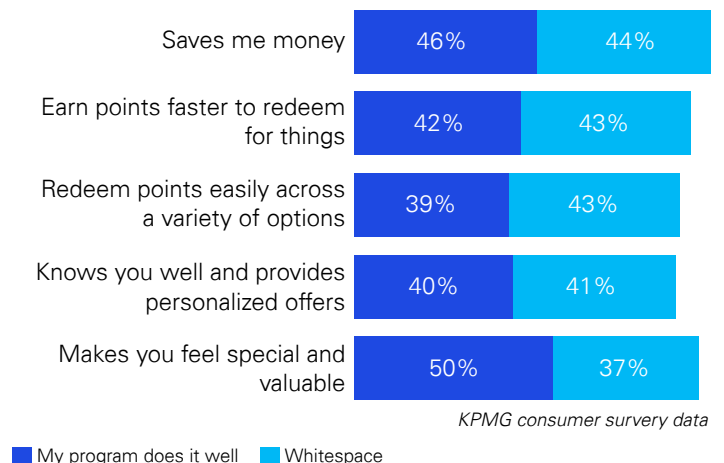
³ Source: "The new normal: travel companies temper expectations for 2024," Reuters, February 13, 2024

⁴ Source: "2024 State of the industry Report," The American Hotel & Lodging Association, 2024

⁵ Source: "KPMG Value Creation Analysis," May 2023

To help make up for staffing shortages and to provide an enhanced customer experience, companies will lean into technology and innovation, including artificial intelligence (AI) to personalize customer interactions, improve efficiency, and introduce greater sustainability into operations—an increasing attraction to customers in and of itself. This is particularly the case at the front and back end of the customer journey.

Share of respondents feeling that their current loyalty program does it well or there is room to improve



Loyalty programs can help please customers and fuel business despite challenges. Our own survey of hotel loyalty program customers found that nearly nine out of ten satisfied program members would choose their preferred hotel chain even if a competitor offered a lower price. Most also said that the loyalty program makes them likely to return and to recommend the brand to others.

For loyalty programs to remain effective or increase their impact, companies must adjust their program strategies to address industry trends. A recent survey of hotel customers, for example, indicates there is plenty of whitespace to introduce new additions to loyalty programs.⁵

Technology and innovation in TLH loyalty programs

Evolving technology, which is currently dominated by generative AI, is having an outsized impact on loyalty program transformation.

As GenAI capabilities mature, it will be easier for hotels, casinos, cruise lines, and others in the sector to collect and use real-time information about their customers' behavior. In turn, this information and analysis could immediately be used to personalize rewards and experiences based on location, preferences, demographics, and more. Meanwhile, data gathered has wider use throughout an organization as well, including optimizing revenue management, making loyalty programs both a collection point and a feeder of valuable information. Interestingly, one of the most significant challenges organizations face is figuring out how to fully maximize all of this data.

GenAI also is being applied to improve automation for follow-on positive impacts on efficiency and accuracy, in addition to optimizing pricing strategies and streamlining promotional campaigns. Overall, GenAI can be integrated with AI, machine learning, and other technologies to boost speed and effectiveness.

For the customer experience, GenAI integrated into mobile apps and digital platforms will make loyalty programs and other features more accessible and easier to use.

As TLH companies are discovering, GenAI technology comes with a new set of requirements and implementation needs. To capture the full value of GenAI in loyalty programs, organizations should consider lessons learned from early adopters, including the following:

Start small. Select the right use cases for existing systems and data structures that can be operationalized and scaled for the loyalty program features that could impact customers most.

Understand the economics. Use cases should demonstrate both significant cost savings and loyalty program value enhancement.

Focus on trust. Ensure every aspect of GenAI implementation builds trust rather than erodes it with both employees and customers. Anticipate new risks and develop plans to mitigate them.

Use data as a strategic asset. As discussed, data is a linchpin of loyalty program success. An initial step in GenAI implementation is to determine which data is required to drive models and algorithms.

Measure acceptance. Monitor satisfaction with GenAI-driven programming to prevent customer perception that they are being pushed automated interactions for the wrong reasons.

Define the vision. Describe the end goals for advanced technologies like GenAI that incorporate a better future for the organization. Include steps to reach that vision and improve customer outcomes.

For more information, read our [2023 US Customer Experience Excellence Report, "The great balancing act: Create differentiated CX with Human and AI interactions."](#)

Building a better TLH loyalty program

Loyalty program strategies at leading companies reflect new approaches to differentiate their brands in light of shifting customer demands and competition.

Transformational loyalty program strategies

Balance transactional and emotional loyalty. Rewards programs can feel like a trap. By appealing to emotions and making buyers feel special, companies are more likely to prompt action that feels more like a choice rather than a requirement.

Provide a frictionless and personalized experience. With today's intelligent technologies, customers can have seamless personalized interactions across multiple platforms.

Gamify engagement. Customers will purchase more frequently, buy more, sell more, or use loyalty points for rewards when it is more fun.

Examples in the TLH industry

- Elite status perks and awards for achieving new ranks
- Rewards tied to personal milestones (such as birthdays, anniversaries) and interests
- Opportunities to support causes important to the loyalty program member, including charities
- A fully integrated mobile app that includes check-in/check-out services but goes beyond the expected with capabilities to choose specific rooms and features, order food and beverages, book excursions, and more
- Easy "one-touch" rebooking of stays, experiences and even the same hotel room with prefilled payment and customer information
- iPad in room through which customers can order food, arrange toiletries to be delivered, etc.
- Opt-in push notifications, often leveraging geolocation, of instantaneous offers at the property and in the local area
- Leadership rankings based on points earned, nights, locations, etc., including a map of locations that can be displayed publicly by the business or by the customer on social media
- A chance to earn collectibles, badges, NFTs, and more based on locations, brands, and total visits
- Competitions based around collecting stamps, game pieces, or other tokens per visit, purchase, etc.
- Mystery rewards that add an element of surprise and excitement

Engage outside of typical transactional relationships.

TLH companies build long-lasting customer relationships when they go beyond the basics to offer exclusive benefits such as insider tips, special access, and experiences.

- Pre-sale of hotel rooms for concerts, events, and experiences personalized to the guest
- Content partnerships to offer loyalty members exclusive access to entertainment, etc.
- Branded merchandise offered on hotel, casino, or property grounds, or online
- Personalized communications
- Complimentary amenities (welcome gifts, etc.) and exclusive access to lounges, pool clubs, and other locations on premises

Create lasting relationships with service excellence.

Help customers feel heard and rewarded for their time with a more formalized purchasing process and elevated service across the entire customer journey.

- An extension of service beyond the company's primary offering, such as help booking and organizing travel through loyalty programs
- "Live rewards" that are issued during a stay, such as free drinks at the bar, which encourage additional customer spending
- Access to a dedicated concierge, car service, or other service perks

Develop high-value brand partnerships. Customers appreciate flexibility to earn and redeem rewards across multiple appealing brands.

- Affiliate marketing platforms to get coupon codes
- Co-branded credit cards with opportunities to earn, track, and use perks and benefits
- Pre-sale access to concerts and other events and the ability to redeem loyalty program points for tickets
- Partnerships with other loyalty programs to swap and/or earn points including outside of the TLH space, such as in consumer and retail

How KPMG can help

KPMG works with organizations across all industries to help anticipate and thrive through change, from evolving technology and customer behavior to shifts in the global business environment.

The sector is undergoing transformation across a broad spectrum of issues, including labor, guest experience, sustainability, innovation, loyalty, and business growth

and development. To address these challenges and opportunities, the KPMG Travel, Leisure & Hospitality practice serves private equity and corporate clients across lodging, gaming, travel services, cruise lines, recreation, meetings and events, and more. For the latest perspectives and to connect with us, please visit [KPMG Travel, Leisure, & Hospitality](#).



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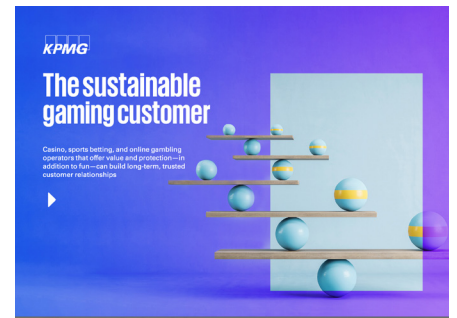
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The sustainable gaming customer

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