



## Hotel Loyalty Reward Points The Hotel Owner's (Franchisee) Perspective

### **Introduction:**

This perspective paper discusses hospitality franchisor loyalty rewards programs, specifically focusing on the rewards points scheme and highlighting areas that warrant further scrutiny from local, state, and federal agencies. Historically, rewards points have been a useful perk for those travelers that spend frequent nights away from their homes throughout the calendar year. Whether they travel for leisure, business, or a mix of both, hotel brand loyalty programs, entice guests by reimbursing them with points for every dollar spent on hotel stays. These points are redeemable for future stays at a generally large swath of hotel brands under the parent company umbrella. There is no question that the rewards points system spurs further guest travel spend and breeds brand loyalty amongst travelers. When most hotel owners and franchisees dig into their property metrics, they will find that loyalty program members make up a sizable chunk of their transient guests. The front-end economics of earning points and redeeming them for future stays makes sense. It certainly supports the brands and the consumers, but how much do hotel franchise owners really benefit from these points? Does the points program in reality hurt hotel franchise owners? Do the points give hotel brands an unfair advantage, over the franchise owner whose hotel properties are responsible for the service delivery, and ultimate transaction that takes place? What happens with expired or unused points?

### **Challenge:**

Loyalty points programs have not received their due scrutiny for several key reasons; namely the complexity of their overall structures, the cleverly cloaked façade of these programs and associated fringe benefits for end-users, the time dilemma hotel owners face with their multitude of operational and ownership related issues, and generally a feeling that this area is less critical versus other more pressing topics. Owners need to understand that loyalty points programs deserve a prominent position as an example of how hotel franchisors exhibit one-sided behavior to benefit themselves from the backs of their franchisees. Loyalty points are earned and redeemed by *the guests* from stays that take place at *local franchised properties*. The overall objective of rewards programs is to recognize and acknowledge loyalty, which happens when a guest has consistently satisfactory quality of stays at *franchised hotels*. They are not loyal to the C-suite or upper-level management of major hotel brands; guests generally would not know who is presiding over these companies nor would that factor into their decision making. However, guests in many instances develop relationships with hotel managers and owners who have made themselves available to them, in the spirit of providing service excellence. For road warriors and frequent travelers, franchised hotels become their home away from home. Hotel employees and team members become their extended family. The description of front-line workers applies to hotel and lodging employees, who even through a global pandemic, have worked tirelessly to ensure that guests are taken care of. It is *this* dedication and hospitality spirit that serves as the litmus test for breeding genuine loyalty.

This begs the question then, if reward points are *earned & redeemed* at franchised hotels through transactions which physically occur on the franchisees' premises, are the hotel owners entitled to receive greater reimbursement from point redemptions? When a guest for example redeems a full night's stay solely on points, 16,000 to 20,000+ points typically change hands. Is it fair then, for a hotel to receive the customary \$30 in compensation from their hotel franchisor, for a stay that is worth \$100+ (*See Exhibit 1 and 2*)? What happened to the difference? Who incurred the costs associated with this guest's stay? What kind of business environment is the hotel collectively tolerating where reimbursements for their efforts lead to a net loss after expenses? When a guest's points go unused and expire, what happens to those points? Who "owns" those points if the transaction



occurred on the franchisee owner’s premises? Doesn’t it make sense that maybe the hotel should have more skin in the game and be the rightful recipient of points that go unused?

Thinking further, if the hotel franchisors are responsible for remitting rewards night compensation and hotel owners have no control over these monies, are they making local municipalities whole by taking responsibility for remitting the right amount of local taxes? Not only are small business hoteliers hurting by the significantly reduced points compensation, but local municipalities are also taking a loss by not being reimbursed their fair share. A closer study into this existing structure would be worthwhile to validate that what seems on the surface as a fair and just program, might not be. Hotel franchisors may have more liability than previously thought.

Hotel franchisors have additionally started offering points + cash packages to guests, where they can pay a portion of their hotel stay with points that they have accrued allowing them to pay the balance via cash (*See Exhibit 3*). With this system, hotel franchise owners are again left shortchanged and get reimbursed for these reservations as if the entire reservation was booked via points; a nominal, \$30 or less. These programs, under the guise of being advantageous to guests give all other stakeholders namely the owners, local municipalities, and state coffers a less than desirable deal.

The example below shows a very conservative overview of potential losses to the state of New Jersey due to hotel franchisors not remitting appropriate sales taxes, occupancy taxes, and potential municipal taxes from their reimbursements to hotel franchisee properties. Over \$2.4mm in annual losses to the state of New Jersey, due to reimbursements being well below market rate and the lack of remittance on part of franchisors.

**Rewards Nights Losses Per Annum in New Jersey**

Total Franchised Hotels	Avg Monthly Point Redemptions Per Property	Monthly Total Point Redemptions	State Average Daily Rate	Monthly Loss of State Sales Tax (6.625%)	Monthly Loss of State Occupancy Tax (5%)	Monthly Loss of Municipal Tax (3%)	Total Monthly Loss	Potential Annual Loss
~987	20	19,740	~\$140	\$183,089	\$138,180	\$82,908	\$404,176	\$4,850,118

Source: Reform Lodging

Applying this math to franchised hotels in states across the country it is obvious then that the real deficit is in the hundreds of millions of dollars; funds that could be used for local and state infrastructure improvements, increasing employment and other job creation endeavors, and enhanced state tourism marketing spend among other budget items.

**Possible Solution(s) & Conclusion:**

Hotel franchisors, like hotel owners, faced liquidity headwinds in the Spring and Summer season of 2020. However, the similarities ended very quickly. One of the methodologies that hotel franchisors employed was to pre-sell points to shore up their liquidity positions. Major hotel chains started pre-selling points to raise their capital reserves. One, in particular, was able to raise nearly \$1 billion through this process! What were these funds used for in reality? Franchised hotels certainly did not see any substantive benefits from this. Hoteliers need to understand this topic and raise more questions about the entire loyalty rewards scheme. Our operating expenses continue to increase year over year, but this is not taken into consideration when points are redeemed at our hotels. There is no plausible explanation for being reimbursed 30 cents or less on the dollar after being responsible for the guest’s well-being, service delivery, quality of stay, and ongoing operational costs. Did any “*asset-light*” franchisors think that perhaps their franchise owners needed more relief during the onslaught of



the pandemic, and beyond? How much of the billions of dollars raised by franchisors who touted liquidity positions which would keep them afloat in a “zero occupancy” environment is profit for corporate shareholders if 30 cents or less on the dollar is given to hotels for rewards points transactions?

***Potential solutions and benefits include:***

- *Reward points redemptions being made to franchise hotels at or near full market average daily rate (ADR) amounts including those for points + cash or other loyalty program related guest incentives.*
- *Dedicating a portion of redemption amounts to localized tourism marketing efforts and causes to include county destination marketing organizations (DMOs) or visitors’ bureaus where the hotel(s) are located for meaningful and substantive franchise marketing which will truly benefit their franchisees.*
- *Ensuring local, municipal, and state taxes are being appropriately remitted by franchisors to enhance funding for state-level programs and initiatives.*
- *Bridging the hospitality employee wage gap, by offering more competitive wages to our front-line team members through greater reimbursement from hotel point redemptions.*
- *Some portion of expired and unused points should be sent to destination marketing organizations (DMOs) for localized tourism marketing efforts to further enhance “brand marketing” efforts. This would be more advantageous to hotels, especially those in secondary and tertiary markets, rather than the larger national campaigns that franchise hoteliers ultimately contribute to.*
- *Since reward points are earned by guests at the property level and hotels in turn end up realistically “paying” for these points to be reimbursed to guests, once points expire, they should be remitted back to the hotel where the points transaction initially originated.*
- *End the practice of charging brand related fees on rewards points transactions.*
- *End penalizing franchisee hotels for not being able to sign up enough new members, which really is hurting the franchisee bottom-line. These are hidden expenses not identified in the FDDs*

**About Reform Lodging Inc.** Reform Lodging is a nonprofit hospitality industry think tank and owner advocacy organization fueled by the youthful exuberance of millennial hoteliers, backed by the wisdom of industry luminaries. The organization was formed in April 2020 by hoteliers, Rich Gandhi, Sagar V. Shah, and Dharam Goragandhi. The Old Bridge, New Jersey based group has over 1,900 members from across the United States and overseas. Reform Lodging’s website is [www.reformlodging.org](http://www.reformlodging.org)

**Exhibits**

**Exhibit 1:** Example of a Rewards Points Guest Folio Showing \$30 Reimbursement to Hotel

Date	Description	Charges	Credits
11-26-20	Room Accommodation	30.00	
11-26-20	State Tax - Room	1.80	
11-26-20	Occupancy Tax	1.50	
11-27-20	Room Accommodation	30.00	
11-27-20	State Tax - Room	1.80	
11-27-20	Occupancy Tax	1.50	
11-28-20	Room Accommodation	30.00	
11-28-20	State Tax - Room	1.80	
11-28-20	Occupancy Tax	1.50	

**Exhibit 2:** Example of a Rewards Night Reimbursement of \$30 from Franchisor to Hotel



**Process Hotel Reimbursement for Reward/Free Nights Stays**

- \* Review Occupancy and ADR
- \* Type Occupancy % and ADR (if needed) in the applicable fields.
- \* Submit requests for reimbursement.
- \* Upload supporting documentation if required using an accepted file format: pdf.
- \* Check status of previous requests.
- \* Review paid reimbursements.
- Click the "expand" icon on the left on each row to expand and show details.

Status: All Statuses | From: 01Dec20 | To: 18Jan21 | Type: Select | Search

Stay Date	Reward/Free Nights Count	System OCC %	System ADR	Adjusted OCC %	Adjusted ADR	Override OCC %	Override ADR	Status	Total Reimbursement (*estimate)	Hotel Currency	Days Left to Accept																												
06Dec20	2	36.30	57.41					PAID	66.60	USD																													
<p>Confirmation Number: [redacted]   Certificate Number: 151442512   Reimbursement Amount: 33.30</p> <p>Member ID: [redacted]   Suffix: 11   Reimbursement Method: INVOICE</p> <p>Last Name: [redacted]   Status: PAID   Reimbursement Date: 26Dec20</p> <p>Certificate Type: Reward Night   Offer Name: n/a</p> <table border="1"> <thead> <tr> <th>Check In Date</th> <th>OCC %</th> <th>Base</th> <th>Tax</th> <th>Fee</th> <th>Total</th> <th>Currency</th> </tr> </thead> <tbody> <tr> <td>26Nov20</td> <td>36.30</td> <td>30.00</td> <td>3.30</td> <td>n/a</td> <td>33.30</td> <td>USD</td> </tr> </tbody> </table> <p>Confirmation Number: [redacted]   Certificate Number: 151532484   Reimbursement Amount: 33.30</p> <p>Member ID: [redacted]   Suffix: 1   Reimbursement Method: INVOICE</p> <p>Last Name: [redacted]   Status: PAID   Reimbursement Date: 26Dec20</p> <p>Certificate Type: Reward Night   Offer Name: n/a</p> <table border="1"> <thead> <tr> <th>Check In Date</th> <th>OCC %</th> <th>Base</th> <th>Tax</th> <th>Fee</th> <th>Total</th> <th>Currency</th> </tr> </thead> <tbody> <tr> <td>06Dec20</td> <td>36.30</td> <td>30.00</td> <td>3.30</td> <td>n/a</td> <td>33.30</td> <td>USD</td> </tr> </tbody> </table>												Check In Date	OCC %	Base	Tax	Fee	Total	Currency	26Nov20	36.30	30.00	3.30	n/a	33.30	USD	Check In Date	OCC %	Base	Tax	Fee	Total	Currency	06Dec20	36.30	30.00	3.30	n/a	33.30	USD
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05Dec20	1	44.44	61.97					PAID	33.30	USD																													
04Dec20	1	51.85	65.10					PAID	33.30	USD																													
03Dec20	2	50.37	64.47					PAID	66.60	USD																													
02Dec20	2	54.07	65.23					PAID	66.60	USD																													
01Dec20	2	48.89	62.08					PAID	66.60	USD																													

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**Exhibit 3 : Example of Points + Cash Offers**

<b>One Bed</b> <small>FROM</small> <b>98.80</b> USD <small>OR</small> <b>7,500 points + 40.00</b> USD	<b>Two Beds</b> <small>FROM</small> <b>98.80</b> USD <small>OR</small> <b>7,500 points + 40.00</b> USD	<b>Standard</b> <small>FROM</small> <b>98.80</b> USD <small>OR</small> <b>7,500 points + 40.00</b> USD
	<p><b>1 King Bed Nonsmoking</b>            ROOM WITH ONE KING BED INCLUDES WORKSTATION FOR BUSINESS FREE WIFI ACCESS 32 INCH FLAT SCREEN HD CABLE TV MINI REFRIGERATOR AND SEVEN LAYERS OF COMFORT BEDDING WITH TEMPLE SPA SLEEP KIT.</p> <p> 3 </p>	<p><small>FROM</small>  <b>98.80</b> USD  <small>OR</small>  <b>7,500 points + 40.00</b> USD</p> <p><b>SELECT ROOM</b></p>
	<p><b>1 King Bd W Overlooking View Nonsmoking</b>            ONE KING BED ROOM WITH A LOVELY VIEW OF THE COOPER RIVER AND PHILADELPHIA SKYLINE CREATE THE BACKDROP FOR YOUR STAY WHILE CONVENIENCES LIKE FREE WI FI ACCESS AND 32 INCH FLAT SCREEN HD CABLE TV MINI REFRIGERATOR ENSURE THAT YOU FEEL AT HOME BEDDING WITH SEVEN LAYERS OF COMFORT PROMISES GREAT SLEEP.</p> <p> 3 </p>	<p><small>FROM</small>  <b>98.80</b> USD</p> <p><b>SELECT ROOM</b></p>