

Hotel Loyalty Programs:

Changing for the Millennial Generation

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Abstract: Points based loyalty programs have been in existence since the early 1980's, and adopted by many industries including the hospitality industry. However, many firms are seeing a shift in consumer behavior as Millennials overtake Baby Boomers as the largest contributors to the U.S. workforce. As such, the hospitality industry is seeing declines in participation and needs to adjust loyalty program mechanics to better suit the Millennial generation. This study explores the relationship between economic benefits, experience, social components, technology, and immediate rewards when compared to traditional hotel loyalty programs. Implications include how loyalty programs can be enhanced to meet consumer needs.

Keywords: Loyalty programs, reward programs, Millennials, hospitality

Introduction

Loyalty programs first appeared in the early 1960's. The first airline to track miles and offer rewards as part of a Frequent Flier Program (FFP) was Texas International Airlines in 1979 (Rowell, 2010), and American Airlines launched their FFP in 1981 (DeKay, Toh, & Raven, 2009), which is largely regarded as the first full scale loyalty program in the travel and hospitality industry. By the mid-1980's most major airlines had some sort of a FFP in place (Kearney, 1989). The basic premise of these loyalty programs is to track miles accrued over a given time period, and offer a reward for achieving certain milestones (Kearney, 1989). These rewards can be in the form of free trips, but also in the form of other perks such as status and upgrades (Uncles, 1994).

DeKay et al (2009) point out the first hotel chain to offer a Frequent Guest Program (FGP) was InterContinental Hotels in 1983. The basic model is very similar to the airline industry, where points are awarded based on stay activity in the hotel chain. These points can then be redeemed for other awards such as free nights in the family of hotels the hotel chain owns or has partnered with to provide redemption services.

There has been extensive research looking into the profitability of these FFP and FGP programs (O'Brien & Jones 1995; Weissenberg, Katz, & Narula, 2013). Kearney (1989) argues that airline loyalty programs are increasingly problematic because of the high cost to maintain the program. In the hospitality industry, the picture is very similar. Points based programs alone don't seem to have the same effect on loyal behavior (Lee, Tsang, & Pan, 2015), and other aspects are being ranked as increasingly important in the services industry (Gwinner, Gremler, & Bittner, 1998).

A study by Deloitte (Weissenberg et al, 2013) paints a grim picture for the hospitality industry. Deloitte states that the same mechanisms that are used to entice loyalty behavior are the same devices that encourage consumers to switch brands. There is a lack of differentiation, and hotels are at risk of being lost in a "sea of sameness" in regards to other hotel loyalty programs.

Review of Literature

The existing body of knowledge illustrates many similarities in frequent guest program structures (Xie Chih-Chien Chen, L., 2014; Weissenberg et al, 2013). Most offer points per night, and offer accelerated earning bonuses for tiers of customers that are deemed to be of higher value. Additionally, many studies have revealed that loyalty programs don't actually increase customer loyalty. O'Brien and Jones (1995) point out that many loyalty program structures encourages consumers to shop around to different brands, defeating the purpose. The same article also suggests that incentives can actually create a program deficit when consumers only do a minimal amount of desirable behavior, redeem, and eventually defect to another brand.

One of the biggest problems facing both the hospitality and airline industries are the high cost of maintaining the loyalty programs (O'Brien & Jones, 1995). Past research has shown marginal gains in loyalty if the market is heavily saturated (Liu & Yang, 2009), as we see in the travel & hospitality industry today. As a result, airlines have been forced to adjust their programs to more positively impact program profitability. Changes made by Delta Airlines to their SkyMiles Program in 2015 (Baskas, 2015) are an example how the airline industry is trying to change their business model to be more profitable, by moving to a demand based structure for redemption. The same trend can be seen in hotel programs, where point revaluation is common place and almost an annual occurrence. In 2014, Hilton's Hhonors program announced changes that would devalue points (Ollila, 2014), and in 2015 Marriott Rewards announced similar changes, which also devalue the points in the program (Quinones, 2015).

The problem is compounded by generational changes in the workforce. When frequent flier and frequent guest programs were widely adopted in their respective industries in the mid-1980s (DeKay et al, 2009), the largest portion of the workforce were the Baby Boomer generation. The Pew Research Center (2013) defines Baby Boomers as those born between 1946 and 1964. In 1990 most hotel chains,

airlines, and rental car companies had some sort of loyalty programs. At this time, the Baby Boomer generation were between the ages of 25 and 44 years of age, and according to the Bureau of Labor Statistics (Fullerton, 1999), Baby Boomers made up 40% of the workforce in 1990. This data points to the fact that the prime demographic target of traditional points based programs were Baby Boomers.

In contrast, The Pew Research Center predicts that in 2015 Millennials, who were born between 1980 and 2005 will overtake Baby Boomers as the largest percentage of the U.S. workforce (Fry, 2015). This new generation spent 20% more on travel in 2014 than other generations and is predicted to continue this trend (Hoisington, 2014). According to Forbes, Millennials are more connected, more social, and are passionate about values of companies they do business with (Solomon, 2014).

Clearly a change is needed to the traditional points based programs to maintain a high level of guest loyalty in the hospitality industry, by balancing economic benefits with other social benefits (Lee, Tsang, & Pan, 2015), and layering in marketing tactics such as Customer Relationship Management (Uncles, Dowling, & Hammond, 2003).

Problem Statement

Literature to date points out the fundamental flaws in economic loyalty programs. 1) They do not necessarily drive loyal behaviors and may be actually encourage brand switching (Weissenberg et al, 2013; O'Brien & Jones, 1995). 2) Programs in many cases are cost prohibitive and unsustainable over a long duration (O'Brien & Jones, 1995). Much of the research also suggests ways in which hospitality programs can differentiate themselves (Weissenberg et al, 2013; Lee, Tsang, & Pan, 2015) through increasing focus on the guest experience and social benefits such as recognition and personalization. Generational shifts in the workforce and the emergence of Millennials as the dominate source of labor in the workforce underscore the need for change in these programs (Fry, 2015), however clear direction on how to change is not readily apparent.

Current research lacks an understanding in what specific drivers and motivators are essential to building and creating loyalty in the hospitality industry, specifically as it pertains to the Millennial generation. The aim of this study is to understand how points based programs are perceived by Millennials, and what other types of social, technological, or experiential benefits might resonate with this group. This research will contribute the existing body of knowledge by more deeply probing at this particular age group and lay the foundation for future loyalty programs changes in the hospitality industry.

This study will explore the relationship between economic, social, experiential, and technological benefits in Millennials. Additionally, the research will look at how immediate rewards vs. long term rewards affect attitudes towards loyalty programs.

Theoretical Framework

Millennial Attitudes Towards Money

A survey conducted by Bank of America/USA Today (2015) indicates that while Millennial's parents have the most influence on their attitudes towards money, The Great Recession also had a profound impact on how Millennials think about money. In fact, according to the research, 49 percent say the downturn in the economy altered the way they think about saving and spending.

Millennials have also shown a general distrust in the traditional banking system and investments. According to a survey conducted by Harvard University's Institute of Politics (2015), only 14 percent of Millennials say they trust big banks and Wall Street to do the right thing all or most of the time. In the same survey, issues surrounding the economy are of top concerns both currently and when placed within the context of what Millennials think will be the biggest issues facing their children.

Transaction utility theory states that the perceived value of the financial terms of the deal are also important factors, not just the value of goods and services (Thaler, 1983; Lichtenstein, Netemeyer,

& Burton, 1990). Previous studies also indicate the psychological construct of “value consciousness” is an important driver of discount seeking or couponing behavior (Lichtenstein et al., 1990).

Knowing the Millennial generation is highly aware of saving and spending, and generally distrustful of large institutions, the research hypothesizes economic benefit will be the most important benefit when compared to the other benefits in a loyalty program.

H1: Economic benefits will be more important than experiential, social, or technological benefits, and will be rated higher than a traditional points based program.

Importance of the Experience

There is a variety of literature and research that points to the hotel experience as one of the most crucial aspects in driving consumer loyalty (Weissenberg, Katz, & Narula, 2013; Tierney, 2015). Other literature has suggested that loyalty to a brand is grounded in attachment theory (Correia Loureiro, Ruediger, & Demetris, 2012), indicating a high emotional connection. The research by Correia Loureiro et al. (2012) explores the aspect of “brand love” as it relates to car brands. This same type of connection could be applied to other industries as well. The research therefore hypothesizes that the experiences within the hotel will carry more weight with consumers than some other aspects of a loyalty program, however the economic benefits will still be the most important.

H2: Experiential benefits will be more important than social or technological benefits, but less important than economic benefits, and will be rated higher than a traditional points based program.

The Need to be Social

According to a survey conducted by The American Press Institute (2015), 88% of Millennials use Facebook to get the news at least occasionally, and over 40% use Facebook to share content. In addition, comScore (2015) published data that suggests the number of minutes Millennials spend on social networks through their smartphone has increased by 40%-50% between 2014 and 2015.

Uses and gratifications theory assumes that people have power over the media they interact with, rather than simply consume media (Severin and Tankard, 2001). Previous research has shown that many uses and gratifications are met through these social media platforms (Raacke and Bonds-Raacke, 2008). The same research by Raacke and Bonds-Raacke (2008) indicated that users of these platforms tended to be much younger than non-users, thus reinforcing the belief that the social sharing experience is an important factor in the Millennial generation.

The research hypothesis states that social aspects of a loyalty program will be more important than technological benefits, but less important than economic and experiential benefits. Additionally, this will be more highly rated than a traditional points based program.

H3: Social benefits will be more important than technological benefits, but less important than both economic and experiential benefits, and will be rated higher than a traditional points based program.

The Importance of Technology

The Diffusion of Innovations theory explains how new ideas spread through channels and culture over time (Rogers, 2003). The theory outlines four main components where the idea is diffused through culture: The innovation itself, communication channels, time, and the social system. In a similar vein, Tapscott (1997) states the Millennial generation is actually the “Net Generation” and implies that technology is at the forefront of how the Millennial generation will work, shop, play, and communicate. Tapscott (2008) further goes on to state that “technology is like air, necessary but invisible. They can't imagine living without it.” These statements echo common components stated in Diffusion of Innovations theory.

Knowing the Millennial generation is the most technologically adept (Pew Research, 2014), the research hypothesizes that technological benefits will be an important aspect of the hospitality experience, but may not be as heavily weighted as some other aspects like the economic and social benefits.

H4: Technology benefits will be the least important when compared to economic, social, and experiential benefits, but will be rated higher than a traditional points based program.

Immediate Rewards vs. Long Term Rewards

While the Millennial generation is the most connected generation to date, there are drawbacks to the constant demand for instant results. In regards to Millennials and the dangers of hyper-connectivity, The Pew Research Center (2014) stated: "Negative effects include a need for instant gratification and loss of patience." Other research has suggested that people have the ability to manage expectations of delayed gratification through different parts of their brain, and increased dopamine levels are associated with immediate gratification (McClure, Laibson, Loewenstein, & Cohen, 2004). Laboratory testing with rats have also shown similar results, with the test subjects managing dopamine levels in accordance to when they perceive a reward is emanate (Flagel et al., 2011).

Knowing the Millennial generation expects instant results, the current research hypothesizes that immediate rewards will be more important than a delayed reward.

H5: Immediate rewards will be more important than banking rewards.

Methodology

Consideration has been given to operationally defining the term "loyalty" Unfortunately, according to many researchers (Jacoby and Chestnut, 1978; Dick and Basu, 1994, Oliver, 1999; Uncles et al., 2003) there is no universally agreed upon definition of customer loyalty. The research conducted by Uncles et al. (2003) lays out 3 common models:

Loyalty defined as an attitude that sometimes leads to a relationship with a brand.

Loyalty defined as behavior (i.e.: the pattern of past or repeat purchases).

Buying patterns driven by a person's characteristics or individual circumstances.

For the purposes of this research, "loyalty" has been defined using the second model which focuses on the behavior or intent to repeatedly purchase a product or service (Mason, D., Tideswell, C., Roberts, E., 2006). Focusing specifically on the hospitality industry, the loyalty construct will relate to the propensity or intent to stay at the same property on future visits.

To answer the research questions and test the stated hypotheses a survey was conducted. The survey had 21 questions designed to test five constructs outlined in the research hypotheses. The five constructs are: economic benefits, experiential benefits, social benefits, technological benefits, and immediate rewards.

A pilot survey was sent to 5 participants, resulting in rephrasing of some questions as well as adding a qualifying question regarding the primary purpose of the individual's travel. Initial feedback indicated that behavior may differ if individuals travel for business versus leisure, resulting in a question asking participants to categorize the primary purpose of travel.

Three questions were designed to categorize participants into age groups, gender, and identify the primary purpose of travelling. The remaining questions were used to understand attitudes towards the five main constructs, as well as a question dedicated towards the structure of a traditional loyalty program.

Participants were recruited from social media channels that included LinkedIn, Facebook, and Twitter. In addition, college students were also recruited via email. In total 73 participants responded. Table 1 shows the population distribution amongst the age groups, gender, and purpose of travel.

TABLE 1
Population Distribution

| Age Group | | 18-34 | 35-50 | Over 50 |
|------------|--------------|-------|-------|---------|
| n | | 15 | 51 | 7 |
| Gender | Female | 11 | 34 | 6 |
| | Male | 4 | 17 | 1 |
| Travel for | Leisure | 13 | 29 | 5 |
| | Business | 0 | 10 | 0 |
| | Both Equally | 2 | 12 | 2 |

Statistical Analysis

Since the survey questions relied heavily on a five point Likert scale, the mean was used to evaluate how likely or important a specific construct is to the given group of participants. The mean score of the different constructs was also used to compare constructs to one another, as well as understand differences between age groups. In order to understand the significance of the variability in means, a two sample t-test was used to compare the means of two independent constructs, as well as the same construct against different age groups.

Findings

Table 2 shows the overall results of the survey. The questions have been grouped into one of the five constructs mentioned in the research: Economic, Experience, Social, Technology, and Immediate Rewards. An addition question was dedicated to a more traditional hotel loyalty program structure of earning free nights based on stay behavior, displayed as “Pts” in Table 2.

There are two columns for each age group, with one representing the mean of the results, and the second representing the overall percentage of respondents who were in the top two scores (a score of 4 or 5) for that particular question.

Table 3 is a matrix of the two sample t-test, showing both T-value and the P-value of the two population means, with a 95% confidence interval. While not a requirement of the research, Table 4 shows the two sample t-test results for the Millennial age group compared to the Generation X age group (18-35 vs. age group (18-35 vs. 5-50). As noted in both tables, results with an asterisk (*) were not significant at the 95% confidence interval as the P-value is less than 0.05.

TABLE 2

Survey Results

| | | 18-34 | | 35-50 | | Over 50 | |
|----------------------|--|-------|--------|-------|-------|---------|--------|
| Construct | Question | Mean | Top 2 | Mean | Top 2 | Mean | Top 2 |
| Economic Benefit | When choosing accommodations, how likely are you to use a site like Expedia or Travelocity to compare prices? | 3.67 | 60.0% | 4.41 | 92.2% | 3.86 | 71.4% |
| | When traveling for leisure, how important is price when choosing accommodations? | 4.54 | 100.0% | 4.35 | 90.2% | 4.14 | 85.7% |
| | Exclusive rates or discounts for participation in a loyalty program | 3.46 | 53.3% | 3.82 | 70.6% | 3.57 | 71.4% |
| | Cumulative Mean | 3.89 | 71.1% | 4.19 | 84.3% | 3.86 | 76.2% |
| Experiential Benefit | When in a restaurant, how important are local food and craft beverage choices? | 4.26 | 80.0% | 3.96 | 76.5% | 3.57 | 71.4% |
| | When staying at a hotel, how likely are you to use services such as massage in the spa? | 2.20 | 6.7% | 2.10 | 17.7% | 2.00 | 14.3% |
| | How likely is it that your past experience in a hotel will influence your decision to stay at the same location in the future? | 4.33 | 86.7% | 4.63 | 94.1% | 4.43 | 100.0% |
| | Spa discounts after one stay | 3.00 | 40.0% | 2.36 | 26.0% | 2.43 | 42.9% |
| | Cumulative Mean | 3.45 | 53.3% | 3.26 | 53.6% | 3.11 | 57.1% |
| Social Benefits | How likely are you to seek the opinions of friends and family when making important purchasing decisions such as buying a new car? | 3.67 | 66.7% | 3.65 | 62.8% | 4.43 | 100.0% |
| | When you travel, how likely are you to share your experience about your accommodations through social media like Instagram, Snapchat, or Facebook? | 2.80 | 33.3% | 3.12 | 39.2% | 2.43 | 28.6% |
| | How important are the opinions of friends and family when considering where to stay when you travel? | 3.00 | 46.7% | 3.33 | 49.0% | 3.71 | 85.7% |
| | When you have a poor experience at a restaurant, how likely are you to share this on a review site like Yelp or TripAdvisor? | 2.13 | 20.0% | 2.63 | 21.6% | 1.71 | 14.3% |
| | Ability to find social media friends staying in the same hotel | 1.73 | 13.3% | 1.52 | 4.0% | 2.29 | 14.3% |
| | Cumulative Mean | 2.67 | 36.0% | 2.85 | 35.3% | 2.91 | 48.6% |
| Technology Benefits | When traveling to a hotel, how important is online check-in? | 2.53 | 33.3% | 2.51 | 15.7% | 3.14 | 28.6% |
| | If the given the choice, how likely would you be to use an app on your smartphone to check in and out of a hotel room? | 3.80 | 73.3% | 3.44 | 56.0% | 3.43 | 71.4% |
| | During a hotel stay, how likely would you be to use an app on your smartphone to order room service or contact hotel staff for any in room needs? | 3.40 | 53.3% | 3.20 | 47.1% | 2.71 | 42.9% |
| | Let's say you own an Apple Watch, how likely would you be to use an Apple Watch as a room key? | 3.53 | 60.0% | 3.61 | 56.9% | 2.43 | 42.9% |
| | If the given the choice, how likely would you be to use an app on your smartphone to control room lighting and temperature? | 3.53 | 66.7% | 2.88 | 39.2% | 2.57 | 42.9% |
| | When choosing a hotel, how important are hotel amenities like high speed Wi-Fi and HD TVs that have Netflix? | 3.80 | 66.7% | 4.10 | 82.4% | 3.86 | 71.4% |
| | Phone app that unlocks your door and/or controls room temperature | 3.00 | 33.3% | 2.63 | 25.5% | 2.57 | 28.6% |
| | Cumulative Mean | 3.37 | 55.2% | 3.20 | 46.1% | 2.96 | 46.9% |

| | | | | | | | |
|------------------|--|------|-------|------|-------|------|-------|
| Immediate Reward | Free drink or appetizer after one stay | 2.93 | 26.7% | 3.02 | 39.2% | 3.57 | 71.4% |
| | As part of a hotel loyalty program, would you prefer to earn rewards during your stay (like a free drink at the bar), or earn points that can be redeemed for rewards later? | 1.60 | 53.3% | 1.43 | 45.1% | N/A | 71.4% |
| | If you were part of a hotel loyalty program, would you prefer to receive a reward immediately (free drink, free appetizer in the hotel) or would you prefer to bank points for an eventual larger free gift such as a free stay? | 1.53 | 60.0% | 1.43 | 43.1% | N/A | 71.4% |
| | Cumulative Mean | 2.02 | 46.7% | 1.96 | 42.5% | 3.57 | 71.4% |
| Pts | Free night after 5 stays | 4.06 | 66.7% | 4.22 | 90.2% | 3.86 | 71.4% |

TABLE 3
Two Sample t Test (Millennial Age Group)

| | | Econ | Exp | Soc | Tech | Now | Pts |
|------|---------|-----------|-----------|----------|-----------|----------|-----------|
| Econ | T-Value | N/A | 2.036582 | 5.322472 | 2.400441 | 8.609329 | *0.614617 |
| | P-Value | N/A | 0.021984 | < .00001 | 0.008758 | < .00001 | *0.270648 |
| Exp | T-Value | 2.036582 | N/A | 3.16529 | *0.33451 | 5.812197 | 1.681747 |
| | P-Value | 0.021984 | N/A | 0.00096 | *0.369212 | < .00001 | 0.048446 |
| Soc | T-Value | 5.322472 | 3.16529 | N/A | 3.105069 | 2.516512 | 3.503984 |
| | P-Value | < .00001 | 0.00096 | N/A | 0.001107 | 0.006598 | 0.000362 |
| Tech | T-Value | 2.400441 | *0.33451 | 3.105069 | N/A | 5.414348 | 1.739332 |
| | P-Value | 0.008758 | *0.369212 | 0.001107 | N/A | < .00001 | 0.042292 |
| Now | T-Value | 8.609329 | 5.812197 | 2.516512 | 5.414348 | N/A | 2.66894 |
| | P-Value | < .00001 | < .00001 | 0.006598 | < .00001 | N/A | 0.006258 |
| Pts | T-Value | *0.614617 | 1.681747 | 3.503984 | 1.739332 | 2.66894 | N/A |
| | P-Value | *0.270648 | 0.048446 | 0.000362 | 0.042292 | 0.006258 | N/A |

*Note: The result is not significant at $p < .05$

TABLE 4
2 Sample t Test (Mil. Vs. Gen X)

| | | | | | |
|------|---------|-----------|------|---------|-----------|
| Econ | T-Value | 1.925026 | Tech | T-Value | *1.118678 |
| | P-Value | 0.027658 | | P-Value | *0.131931 |
| Exp | T-Value | *0.838143 | Now | T-Value | *0.321595 |
| | P-Value | *0.201359 | | P-Value | *0.374051 |
| Soc | T-Value | *1.035172 | Pts | T-Value | *0.486642 |
| | P-Value | *0.150677 | | P-Value | *0.314087 |

*Note: The result is not significant at $p < .05$

The findings partially support hypothesis one which stated Economic benefits would be more important than other benefits, however the assumption that this construct would be more important than a traditional loyalty program was not supported as the t test did not produce significant results. Hypothesis two was also partially supported, where experiential benefits were ranked higher than all others except for economic benefits.

Hypotheses three and four were not supported, as the results showed that technology benefits rated higher than social benefits. It should also be noted that none of the constructs tested rated higher than a traditional loyalty program, which does not support the second part of hypotheses one, two and three.

The last hypothesis that stated immediate rewards would be more important than banking rewards was supported by the fact that the majority of Millennials in the study would choose an immediate reward.

Conclusions

While not all of the hypotheses were confirmed, the findings do show the importance of some constructs that could be added to a hotel loyalty program. Clearly, the standard award of a free night is still a component that resonates with potential hotel guests. The findings also illustrate the importance of economic benefits like discounts as well as the importance of the overall experience. In addition, the findings also support the importance of certain technological aspects such as online check-in and high speed Wi-Fi. The hypothesis around the importance of social components were not supported by the research.

Managerial Implications

There are several managerial implications to the study. First, the core component of an award night as part of a loyalty program was ranked very highly amongst all age groups. Any revisions to loyalty programs should still include some aspect of an award night. Secondly the economic benefits were also ranked very highly, implying that discounts or member exclusive rates in conjunction with an award night after a certain number of stays could be effective. Future loyalty programs geared towards Millennials should also look heavily at how to incorporate technology into the offering. Features like premium Wi-Fi, Apple Watch capabilities, and using an app to check-in appear to offer high value and could help augment the overall loyalty offering.

Future Research

There were some weaknesses in the study that could be explored in future research. The recruiting method to get participants in the survey was weighted heavily on personal connections of the researcher, and could contain a certain amount of bias. The distribution of men (30%) and women (70%) was also not reflective of the general population, and could be controlled in a different recruiting scenario. The lack of statistical significance between age groups 18-34 vs. 35-50 could potentially be solved by having a larger sample size. Additionally, more questions could be asked to better define and understand how Millennials feel towards traditional programs by laying out points based scenarios.

The research also included some new findings that could be studied further. The results suggest economic benefits resonate more with people in the age group of 35-50 than Millennials, and new research could explore specific economic benefits like discounts, special rates, gift cards, and other benefits to understand if there are specific awards that would be different between the age groups. The results also suggest that immediate rewards appeal more to Baby Boomers (older than 50) than any other age group. Since the sample size was small, additional research could explore how immediate rewards would be perceived by this age group as well.

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