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## **The IdeaWorks Report on Partnerships for the Top 15 U.S. Frequent Guest Programs**

*Marriott Rewards and InterContinental's Priority Club compare favorably to major frequent flier programs such as United Mileage Plus and Delta SkyMiles for total partner opportunities.*

Frequent guest programs have typically lived in the shadows of their “big brother” frequent flier programs. Many of the major hotel chains have a somewhat co-dependent relationship with the major airlines . . . which alternates from a strong reliance on the power of airline miles to an independent spirit reflected by improving the allure of their frequent guest programs.

Continuing problems in the U.S. airline industry, which has an estimated 47% of its capacity in bankruptcy<sup>1</sup>, have encouraged hotel chains to make their frequent guest programs more attractive. Rather than merely operate programs that allow guests to earn airline miles, the hotel chains now encourage customers to earn hotel points. To accomplish this, the frequent guest programs are becoming more like their airline counterparts by adding numerous points-earning opportunities and becoming stronger through a wide array of reward choices.

The largest hotel chains now offer frequent guest programs that many consider to be more robust than their airline industry counterparts. In addition to room nights, points may be exchanged for gift certificates representing major retailers, restaurant chains, car rentals, movie theatres, and theme parks. Points also may be earned through credit card relationships and from a growing number of partners in financial services, retail, and travel categories.

IdeaWorks recently completed analysis of the partner activities associated with the top 15 frequent guest programs as measured by total hotel rooms in the United States. This report describes activities in the following partner categories: air travel, car rental, other travel, financial services, communications, retail, and entertainment. Rankings are based upon the “Top 50 Hotel Companies” report from the American Hotel & Lodging Association<sup>2</sup> and from direct inquiries made by IdeaWorks to hotel companies.

## Top Frequent Guest Programs Page 2

### The Largest Frequent Guest Programs

The top 15 list excludes investor groups and hotel trusts owning multiple brands and those hotel chains lacking a frequent guest program or a significant U.S. presence.

<b>Table 1: Top 15 Frequent Guest Programs</b> (based upon total U.S. hotel rooms - largest appearing first)
TripRewards • Marriott Rewards • Hilton HHonors Worldwide InterContinental Hotels Priority Club Rewards • Choice Privileges Best Western Gold Crown Club • Starwood Preferred Guest Hyatt Gold Passport • Radisson/Carlson goldpoints plus • La Quinta Returns Red Roof RediCard • Wyndham ByRequest <sup>3</sup> • Microtel MircoPass Omni Select Guest • Drury Gold Key Club

As a group, the hotel brands associated with the top 15 frequent guest programs offer nearly 2.5 million rooms in the United States<sup>4</sup>. Total inventory in the United States is nearly 4.5 million hotel rooms<sup>5</sup>; the programs analyzed in this report represent over 56% of the country's hotel room inventory.

The list is dominated by the “big 5” brands which offer nearly 75% of the rooms represented by the frequent guest programs analyzed in this report:

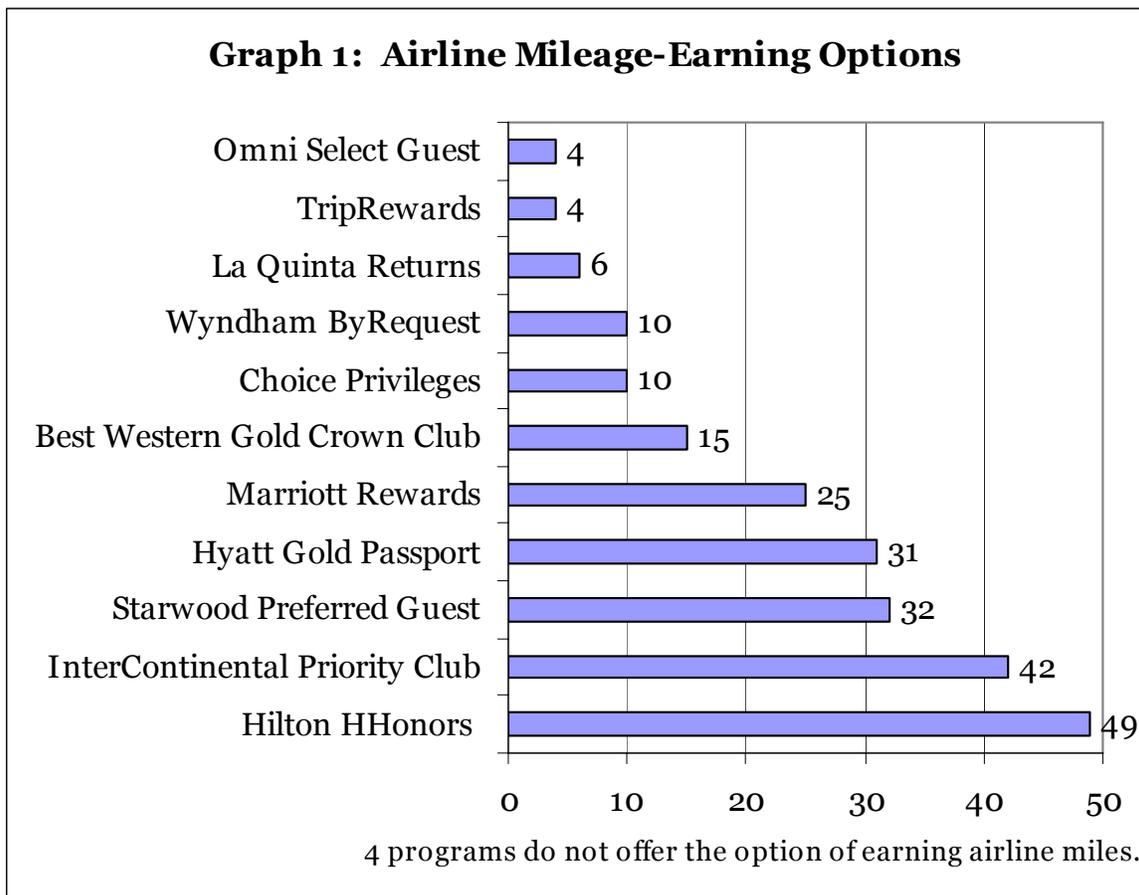
- **TripRewards:** Amerihost Inn, Days Inn, Howard Johnson, Knights Inn, Ramada Worldwide, Super 8, Travelodge & Wingate Inn (*refer to endnote #3 for information about Cendant's acquisition of Wyndham Hotels & Resorts*)
- **Marriott Rewards:** Marriott, JW Marriott, Renaissance, Courtyard, Residence Inn, SpringHill, TownePlace Suites, and Fairfield Inn.
- **Hilton HHonors Worldwide:** Hilton, Conrad Hotels, Doubletree, Embassy Suites, Hampton Inn, Hilton Garden Inn, Homewood Suites, and Scandic.
- **InterContinental Hotels Priority Club Rewards:** Candlewood, Crowne Plaza, Express by Holiday Inn, Holiday Inn, Holiday Inn Express, Holiday Inn Garden Court, Holiday Inn Select, Holiday Inn SunSpree Resort, Hotel Indigo, InterContinental, and Staybridge Suites.
- **Choice Privileges:** Clarion, Comfort Inn, Comfort Suites, Econo Lodge, MainStay Suites, Quality, Rodeway Inn, and Sleep Inn.

The following are examples of major chains that would qualify on the basis of size, but lack frequent guest programs: Extended Stay Hotels, Historic Hotels of America, and Preferred Hotels & Resorts.

**Partnering with the Airlines**

Hotel chains have traditionally relied upon the airline industry to provide reward benefits for their guests. This is a natural phenomenon; arranging air travel usually represents the first step of the travel planning process - - making frequent flier programs a traveler’s first point of contact. Larger frequent guest programs typically allow new members to select airline miles “or” hotel points upon enrollment. Hilton HHonors is unique in the industry for its popular “double dipping” benefit, which allows members to earn 1) airline miles, or 2) hotel points, or 3) a mix of miles and points.

Under the mileage-earning scenario, the frequent guest programs merely provide a conduit for guests to receive airline miles from their favorite airline. Graph 1 lists the number of airlines<sup>6</sup> featured by the ten programs providing mileage-earning options:



Some hotel chains have chosen to make the quantity of available airline options a significant distinction in their advertising. For example, InterContinental Priority Club and Hilton HHonors each offer more than 40 airlines. The airline category also includes the Amtrak Guest Rewards program, which is featured in three of the top 15 programs.

## Top Frequent Guest Programs

### Page 4

Major airlines are well represented in the list of mileage-earning participants. They are attractive to the hotel chains because they have extensive databases that reach millions of travel-oriented consumers. Table 2 lists the **mileage-earning** airlines that occur with the most frequency in the top 15 group:

<b>Table 2: Mileage-Earning Airlines With the Highest Occurrence</b>
<b>Participates in 11 programs:</b> Delta Air Lines
<b>Participates in 10 programs:</b> Air Canada • American Airlines • Continental Airlines
<b>Participates in 8 programs:</b> Alaska Airlines • America West Airlines • Northwest • United Airlines
<b>Participates in 7 programs:</b> US Airways
<b>Participates in 6 programs:</b> LAN
<b>Participates in 5 programs:</b> Air France/KLM • Asiana Airlines • British Airways • Emirates • Lufthansa Mexicana • Qantas • Singapore Airlines • Swiss International • Thai Airways

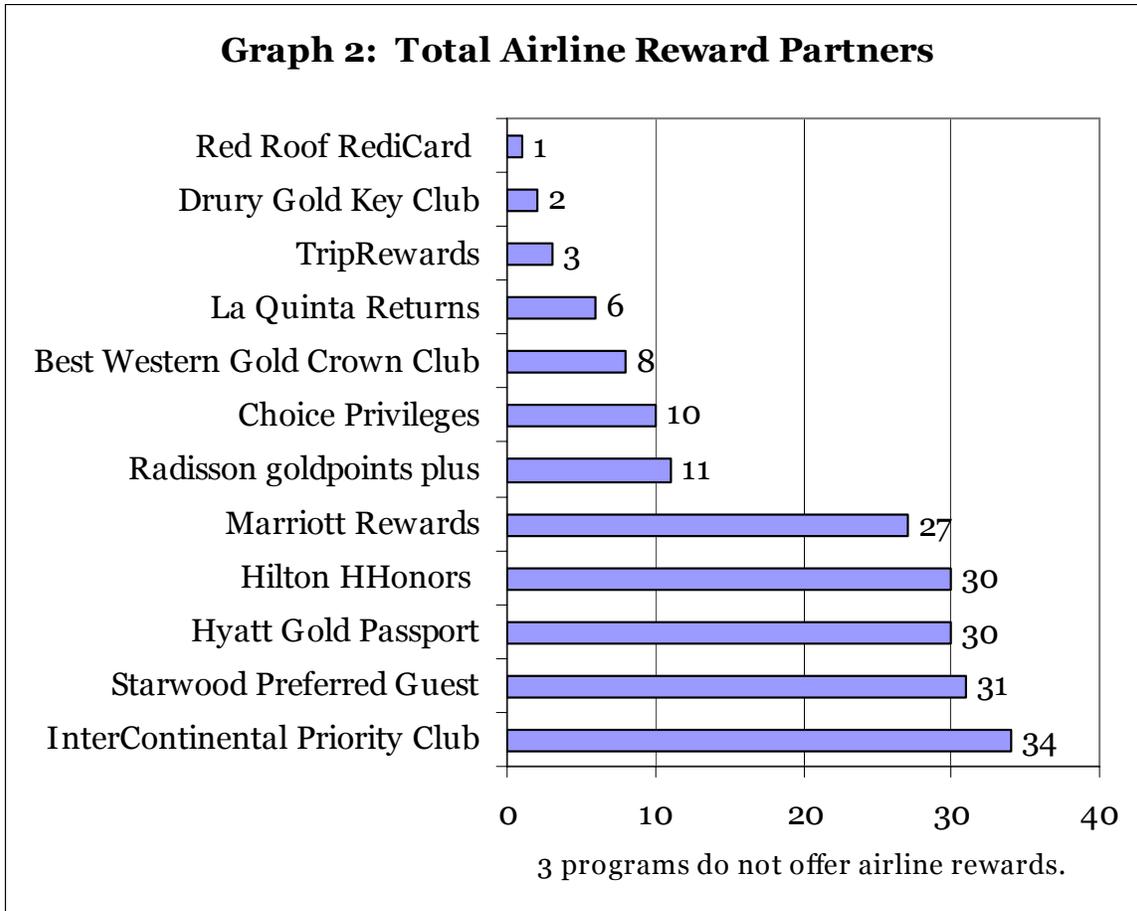
Two of the frequent guest programs rely completely on their airline partnerships to provide rewards for their guests: Wyndham ByRequest and Omni Select Guest. While omitting basic room night rewards, they compensate by offering other benefits.

Wyndham ByRequest provides a customized travel experience. Members may choose a complimentary welcome snack and drink, preferred pillow type, choice of newspaper, and other special amenities, all placed in the room prior to arrival. Wyndham is unique for allowing its guests to earn American Express Membership Rewards points - - other frequent guest programs only allow one way transfers from American Express Membership Rewards to frequent guest accounts.

Omni Select Guest promises “pleasant surprises such as occasional certificates for complimentary room upgrades, 50% off weekend nights, and complimentary weekend nights.” Omni also provides a customized room experience similar to Wyndham with a choice of pillow, newspaper, and two complimentary morning beverages, all delivered to the guest’s room. Amtrak Guest Rewards is included as one of the accrual partners.

Airlines also participate as traditional reward partners; accumulated frequent guest points may be redeemed for airline tickets or miles. Graph 2 lists the 12 frequent guest programs providing airline rewards and the total number of partners in each program.

**Top Frequent Guest Programs**  
**Page 5**



Members of the 12 programs may simply exchange hotel points for airline miles. Some of the programs expand the offering by including airline tickets as actual rewards.

Hilton HHonors offers its members many alternatives in the airline category. Its “Reward Exchange” allows a member to exchange points for airline miles with 28 frequent flier programs and Amtrak Guest Rewards. The program also provides a unique “reverse” exchange option - - airline miles may be exchanged for HHonors points with eight frequent flier programs plus Amtrak Guest Rewards. Not to miss any alternative, Hilton HHonors even offers airline reward tickets with ten airlines.

TripRewards provides air travel rewards that are not linked to any particular airline. Members may redeem points for reward travel within defined zones and must meet certain conditions such as 21-day advance purchase and a Saturday night stay. TripRewards relies upon one of its sister companies under the Cendant corporate umbrella for fulfillment of member travel requests.

**Top Frequent Guest Programs**  
**Page 6**

Table 3 provides more details by listing the airlines that have the greatest frequency of participation as **reward** partners in the frequent guest programs.

<b>Table 3: Airline Reward Partners With the Highest Occurrence</b>
<b>Participates in 12 Programs:</b> Delta Air Lines
<b>Participates in 10 programs:</b> American Airlines • Continental Airlines
<b>Participates in 9 programs:</b> Air Canada • Northwest Airlines
<b>Participates in 7 programs:</b> Alaska Airlines • America West Airlines • United Airlines • US Airways
<b>Participates in 6 programs:</b> British Airways • Southwest Airlines

The list is dominated by major U.S. airlines with Delta on top for having the most relationships in the mileage-earning and reward categories. Smaller low fare carriers, such as Frontier Airlines and AirTran Airways, are not among the participating airlines. Germany’s Air Berlin is the only low fare carrier included outside of the United States.

Frequent guest programs may be reluctant to add frequent flier relationships with major airlines. This would make hotel chains more reliant upon the economically depressed airline industry. Furthermore, frequent flier programs are experiencing increased media and consumer scrutiny for reward travel redemption problems. IdeaWorks issued reports<sup>7</sup> earlier during 2005 that described an unfriendly environment for consumers: declining reward redemption levels, increasing reward liabilities, and a flood of mileage accrual created by airline credit cards.

These challenges represent the declining fortunes faced by the major U.S. airlines and their frequent flier programs. However, these difficult times are creating pockets of opportunity for the hotel industry. Current conditions may be ideal for switching consumer loyalties from the troubles associated with the airlines to the financial stability and attractive value offered by frequent guest programs.

**Point-Earning Partner Opportunities**

Hotel chains can enhance their programs through a variety of methods. One proven path is to add opportunities for members to earn more points beyond those normally obtainable through hotel networks. As with frequent flier programs, these include credit cards, travel-related services, personal finance, communications, and merchandise.

## Top Frequent Guest Programs

### Page 7

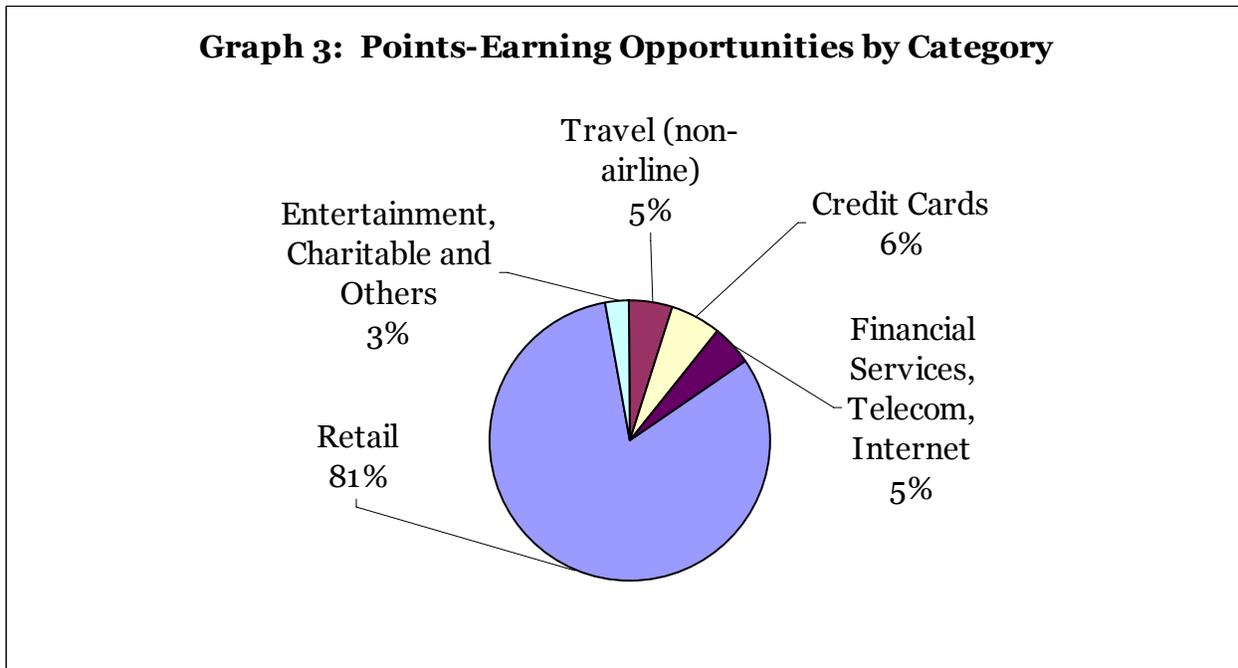
Airlines now generate millions of dollars annually from these mileage-earning partner relationships. The most recent financial report from Frontier Airlines provides very specific details on the relationship between the EarlyReturns frequent flier program and its co-branded credit card bank partner.

Frontier received an advance payment of US\$10 million from Juniper Bank for its new credit card program during fiscal year 2003. During the 2004 fiscal year, the credit card program generated US\$2.4 million; revenues increased to US\$12.2 million for the most recent fiscal year. Membership in EarlyReturns was estimated at 900,000 for 2004, yielding average co-branded revenues of \$US13.50 per member (not per cardholder).

On the larger end of the scale, United Loyalty Services (ULS) is the subsidiary of United Airlines that operates the Mileage Plus frequent flier program. During 2004 it generated revenues of US\$822 million largely through the sale of miles to partners of Mileage Plus. ULS is United's only profitable division.

Frequent guest programs can also generate attractive revenue and derive benefits from partner relationships. These revenues can be used to fund the purchase of rewards and reduce the operating cost of the program. Adding point-earning opportunities also makes a program more meaningful by giving members new opportunities to build account balances and obtain rewards.

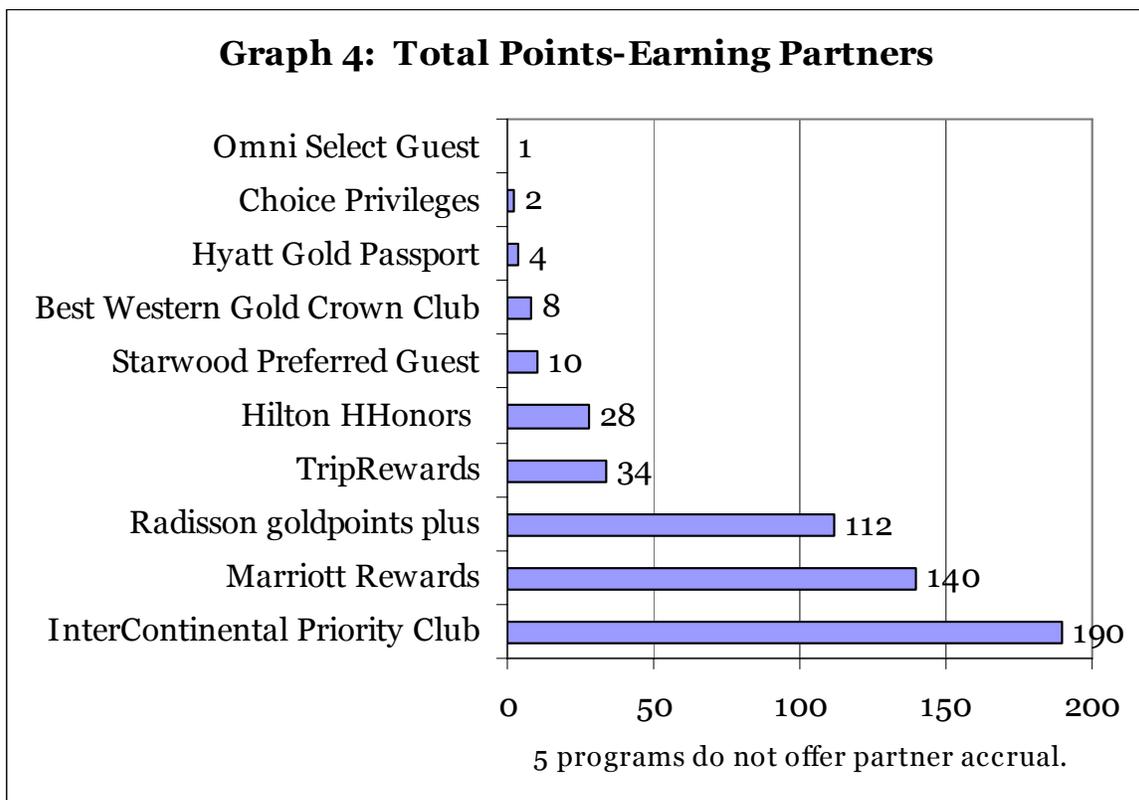
IdeaWorks evaluated all of the points-earning opportunities offered by the top 15 frequent guest programs; these are summarized by the categories shown in Graph 3.



## Top Frequent Guest Programs Page 8

The pie graph demonstrates the distribution of partner relationships across different categories but it doesn't depict the wide variation in the total quantity of partnerships. For example, five frequent guest programs do not have points-earning partnerships.

InterContinental Priority Club and Marriott Rewards easily match the partner networks of Lufthansa Miles & More, United Mileage Plus and Delta SkyMiles - - airlines which have networks ranging from 146 to 151 total partners<sup>8</sup>. Graph 4 lists the programs offering the points-earning benefit and the total number of partners in each program.



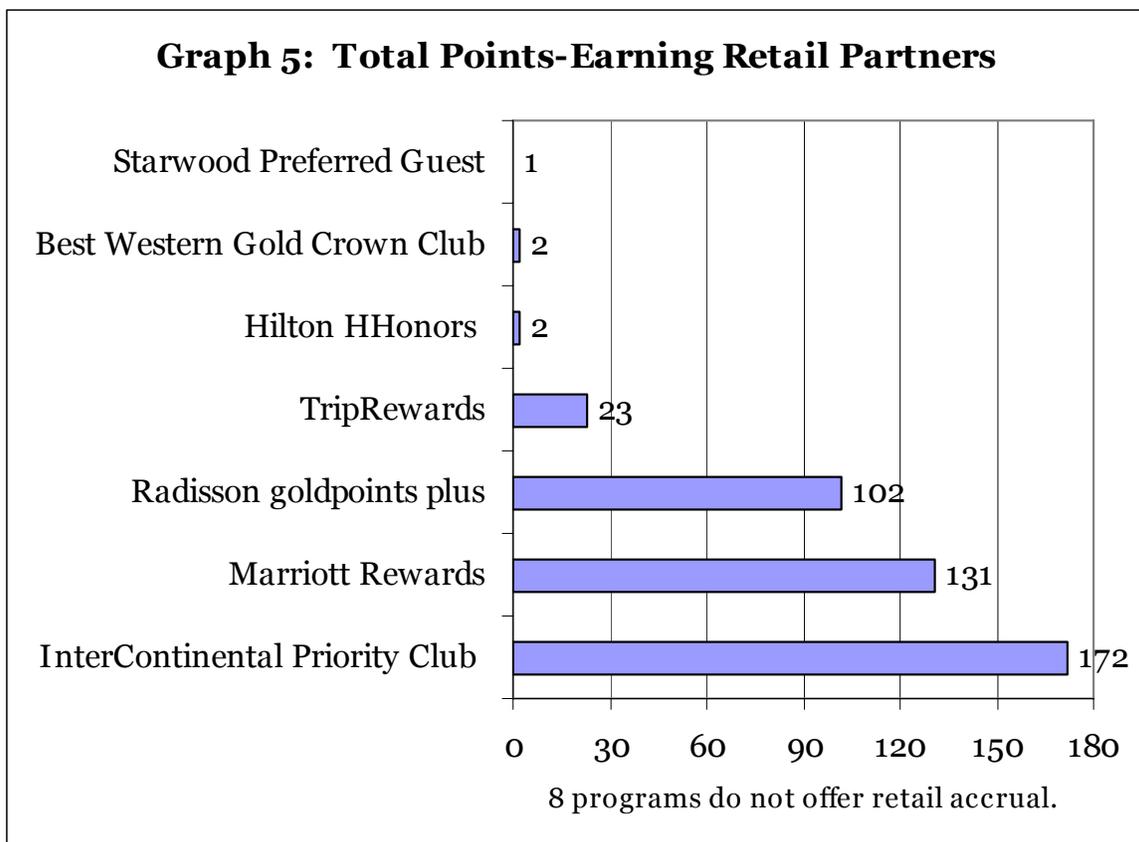
Online retailers dominate the partner networks offered by the larger frequent guest programs. These programs have accomplished this by adding online malls that allow members to earn points for every dollar spent on merchandise. The same has already occurred with many of the largest frequent flier programs.

Shoppers can choose a wide variety of major online brands such as Barnes & Noble, Best Buy, Gap, Kohls, Lands' End, and JCPenny - - and boutique sites such as Kodak EasyShare, Peet's Coffee & Tea, and the Vermont Teddy Bear Company. Standard offerings among the larger programs include SkyMall and flower delivery services such as FTD.com and Teleflora.

## Top Frequent Guest Programs Page 9

Online retail is a popular partner choice because of the increased presence of web-based shopping and the ease of automating the tracking process for earning points. Retail web sites establish a member's account identity and use subsequent purchase activity to determine the number of points awarded. In return, the frequent guest programs earn revenues from the points sold to retailers and can often negotiate discounts for the purchase of online gift certificates used as program rewards.

Graph 5 lists the frequent guest programs offering the points-earning benefit for retail purchases and the total number of partners in each program.



Credit cards are another major category, not in terms of the absolute number of choices, but in terms of financial impact. The top nine frequent guest programs offer co-branded Visa, MasterCard or American Express credit cards. Points can also be earned through relationships with American Express Membership Rewards and Diners Club – Club Rewards. The number of credit card offers will likely grow as the smaller programs seek to add this important member benefit.

## **Top Frequent Guest Programs**

### **Page 10**

Frequent guest programs largely lag their airline counterparts for partner activity in these four categories: car rental, other travel, financial services, and communication. Car rental partnerships among the top 15 programs are limited; only four programs offer two or more choices. This is surprising, as car rentals are usually arranged after air travel and hotel accommodations. This sequence provides frequent guest programs with an advantage; they could become a greater factor in brand choice for rental cars.

Frequent flier promotions provide motivation for consumers to choose targeted brands in the following categories: online banking, mobile phone, internet access, and long distance telephone service. Companies such as Sprint, Nextel, and NetBank purchase large quantities of airline miles to provide incentives that attract new customers. While some frequent guest programs generate attractive partner revenues in these categories, the full potential of these areas has not been reached by any of the programs analyzed.

The general travel category (excluding airlines and car rental firms) is another under-utilized area. Ample partner opportunities exist because frequent guest programs provide the perfect platform for travel-related companies to reach potential consumers.

Travel-oriented conglomerates, such as the Carlson Companies and Cendant, are using points as methods to cross-market their subsidiary travel brands. Carlson has linked Seven Seas Cruises and Carlson Wagonlit Travel to the Radisson goldpoints plus program. Cendant includes TripFinder, which packages Cendant's hotel and car rental brands. It also includes the TripRewards Vacation Network, which sells vacation home rentals through Cendant's RCI subsidiary.

InterContinental Priority Club has an association with a cruise-booking site that has been branded Priority Club Rewards Cruises. Members may earn thousands of points for cruises purchased at the site. This direct-to-consumer site purchases the points using a portion of the commission revenue received from the cruise companies. Priority Club is joined by six major airlines that offer similar cruise partnerships: Alaska, American, America West, Delta, Northwest, and United.

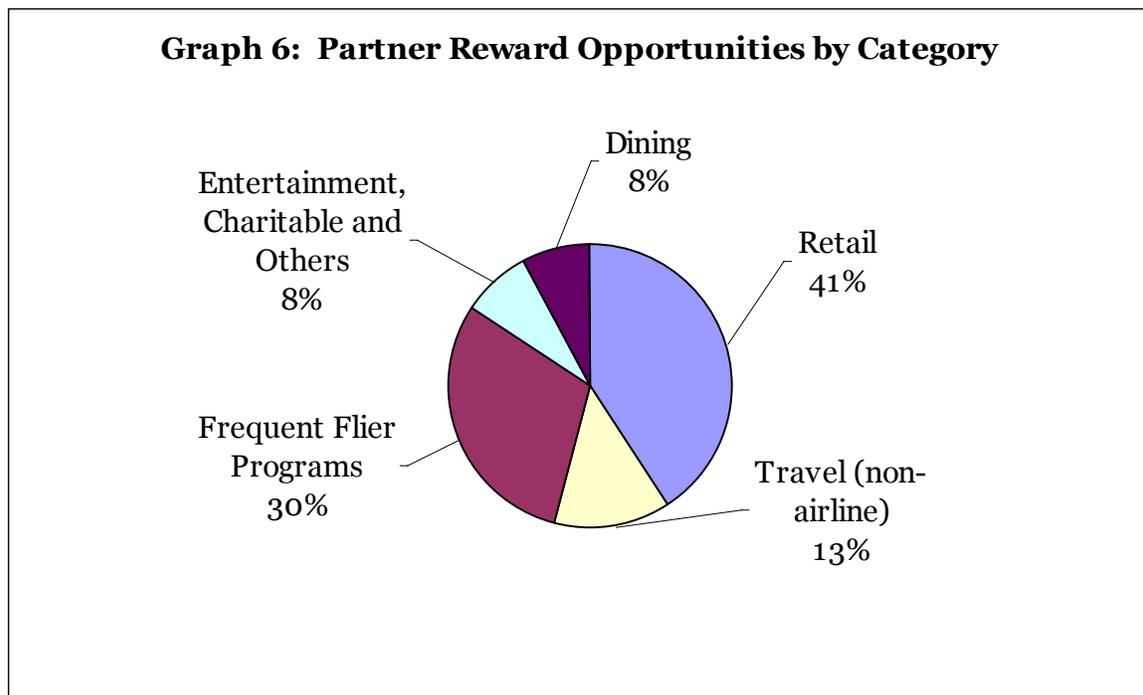
Additional travel opportunities abound and may include unusual categories such as non-competing hotel chains. The Outrigger and Ohana Hotel chain of Hawaii participates in the TripRewards program as a mileage-earning partner; Cendant lacks a hotel brand presence in Hawaii. This follows the same practice in the airline industry where linkups with non-competing carriers are sought to expand network coverage.

### **Reward Partnerships**

Frequent guest programs have long excelled in delivering rewards beyond the core benefit of free room nights. Unlike their airline industry counterparts, hotel chains routinely spend cash to purchase rewards for their members.

## Top Frequent Guest Programs Page 11

Graph 6 displays the total number of reward partnerships offered by the top 15 frequent guest programs. By definition, the results do not include the on-premise rewards provided by individual hotel properties such as room nights, dining, and golf.



Reward opportunities include the frequent flier/airline category described earlier in this report. But that is where any comparison to the reward benefits provided by frequent flier programs end. Frequent guest programs offer reward opportunities that greatly exceed the primary benefit of airline tickets provided by frequent flier programs.

Early in the development of their programs, hotel brands realized the importance of incentives that go beyond a free room night. Hotel-oriented rewards frequently require the added expense of air travel - - a limiting factor for many members. Plus the airlines traditionally charged high prices for the miles sold to the frequent guest programs. These factors encouraged hotel brands to adopt restaurant and retail gift certificates as alternative reward strategies.

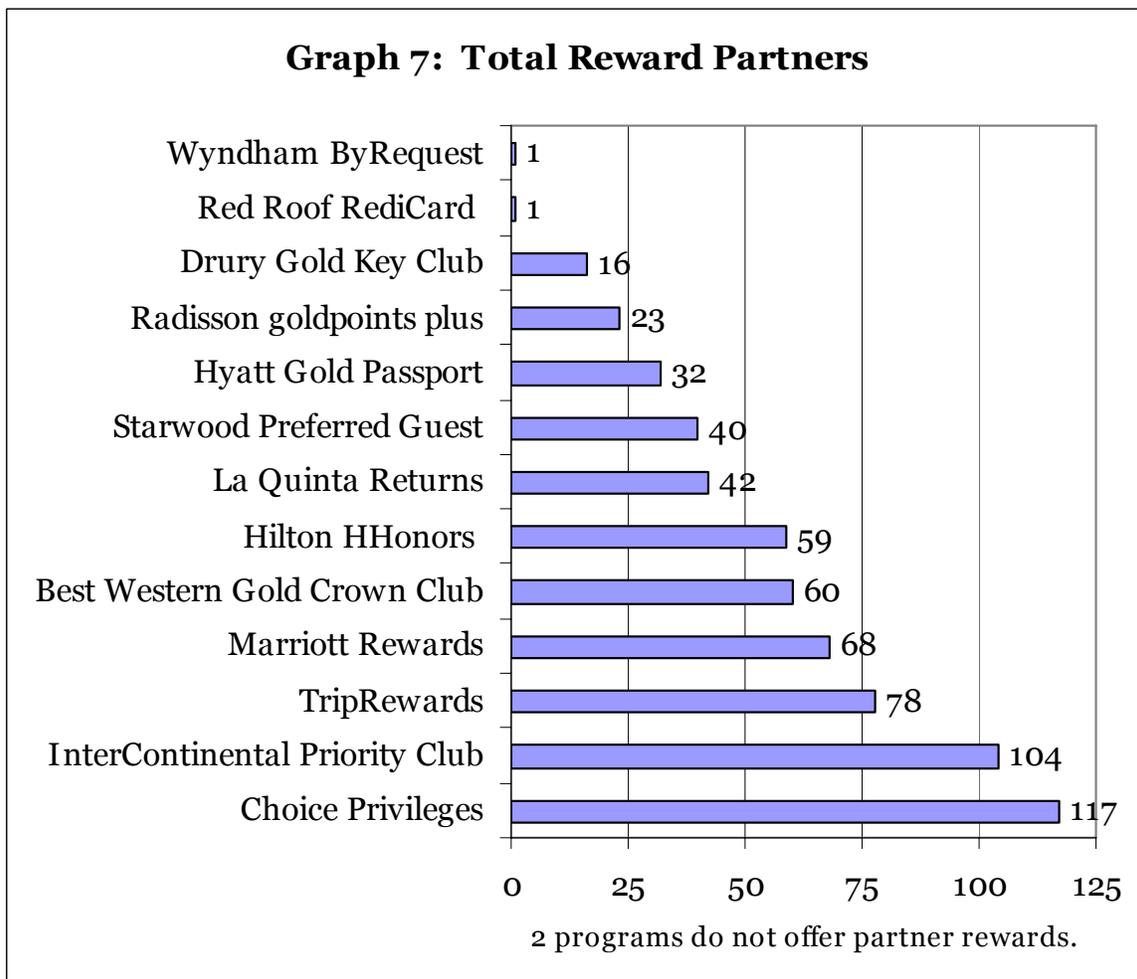
The larger frequent guest programs now offer an ever-increasing array of reward opportunities in a growing number of categories. Marriott Rewards is perhaps representative of the many travel-oriented choices made available by the larger frequent guest programs.

**Top Frequent Guest Programs**  
**Page 12**

Among its more adventuresome choices, Marriott Rewards offers accommodations in Ireland at the centuries old Ashford and Dromoland Castles, travel on five cruise lines, admission to Disneyland Paris and Walt Disney World, and excursions on the famed Venice Simplon-Orient Express train.

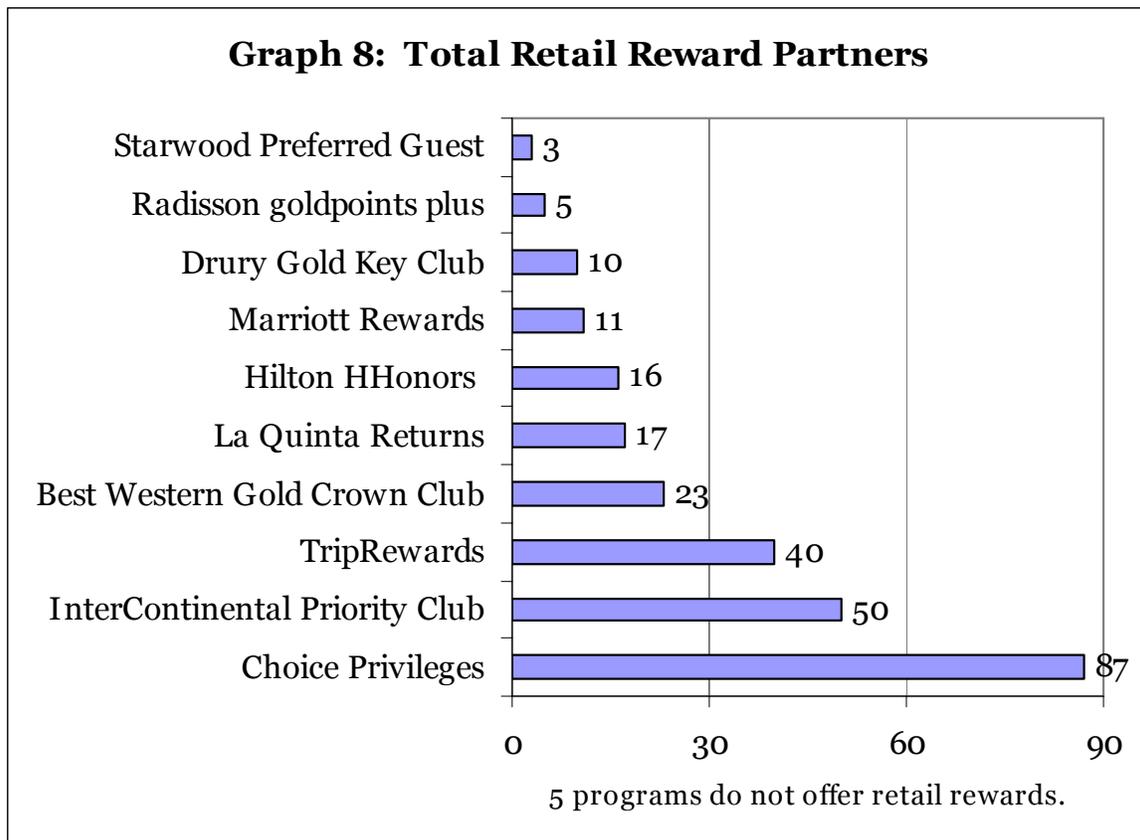
Other programs appear to have areas of specialty too. TripRewards seeks to entertain its members through free movie tickets at more than eight movie theatre circuits and admission tickets to five theme park brands. Best Western Gold Crown, Choice Privileges and InterContinental Priority Club believe the path to a member’s heart is through their stomach. Each program offers a minimum of ten national restaurant choices. Gift certificate options for dining include: Applebee’s, Bennigan’s, Hard Rock Cafe, Olive Garden and Red Lobster.

Graph 7 displays the total partner count (includes airlines) for the 13 frequent guest programs using partnerships to deliver reward benefits.



## Top Frequent Guest Programs Page 13

Retail is a major reward category with hundreds of choices offered by many of the programs analyzed. Members may choose from a dazzling array of stores: Amazon, Borders Books & Music, Home Depot, Sam Goody, and Starbucks. Graph 8 lists the quantity of retail reward partners offered by ten of the frequent guest programs:



Choice Privileges clearly leads all frequent guest programs with an amazing 87 participants in its National Merchant Partner List. Gift certificates represent a category that rivals the airline category in terms of the prevalence of partner choices in frequent guest programs.

One final partner area deserves special mention in this report. Members in a growing number of frequent guest programs may convert their points to benefit select charities and non-profit organizations. Seven of the programs appear to offer ongoing relationships with national charities. Additional ad-hoc relationships may also exist due to special causes such as Hurricane Katrina. InterContinental Priority Club and TripRewards are leaders among the programs analyzed; each have relationships with six charities. Priority Club and TripRewards convert the donated points into cash contributions.

## **Top Frequent Guest Programs**

### **Page 14**

### **Conclusions**

The financial condition of the airline and hotel industries couldn't be further apart. Major airlines are experiencing a "perfect storm" of high fuel prices, over-capacity, and the increased dominance of low fare carriers. This issue, more than any other, is propelling loyalty-marketing relationships towards fundamental changes.

The resulting environment of cheap tickets has driven airline traffic to record levels - - creating more hotel stays. The lodging business has found itself in a position of strength, which will likely lead to bolder frequent guest program initiatives and a decreasing reliance on frequent flier relationships.

The programs offered by major airlines will continue as a powerful presence in the travel industry. Frequent flier programs remain a viable partnership choice for many companies seeking to reach travel-oriented consumers. However, the gathering strength of frequent guest programs may also prompt some airlines to seek points-earning relationships with hotel chains. Airlines without a frequent flier program, or those lacking program membership outside of their core markets, will likely desire access to the millions of members currently enrolled in frequent guest programs - - creating a true role reversal for hotel brands and airlines.

Frequent guest programs have been steadily building their partner portfolios to make their programs more attractive to consumers and to broaden the reach of their brands. To their credit, the largest frequent guest programs now have partner networks that rival and surpass the total partner count of their airline-industry peers.

Opportunities for improvement do exist. Significant gaps occur throughout the partnership spectrum of the top 15 frequent guest programs analyzed in this report. The larger programs will likely concentrate on adding points-earning partnerships in categories such as travel, financial services, and communication. Smaller programs will probably add points-earning partners to meet core needs involving credit card and retail activity.

Frequent guest programs will continue to develop their presence in the travel industry. They will compete with frequent flier programs for the attention of the consumer by offering better value and obtainable benefits. The most nimble and creative among them will embrace the opportunity to enhance their programs and increase traveler participation. The significant partner activities described in this report provide proof that many frequent guest programs have already embarked on a road to independence.

## Top Frequent Guest Programs

### Page 15

**Sources used in this Industry Analysis:** Unless otherwise noted, frequent guest program information presented in this report is based upon an online review conducted during October 2005 of the hotel web sites and inquiries made by IdeaWorks directly with frequent guest programs.

**Disclosure:** IdeaWorks makes every effort to ensure the quality of the information available in this report. Before relying on the information, readers should obtain any appropriate professional advice relevant to their particular circumstances. This Industry Analysis was independently produced and has not been completed as work on behalf of a client company. IdeaWorks cannot guarantee and assumes no legal liability or responsibility for the accuracy, currency or completeness of the information.

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<sup>1</sup> “Three Growth Picks After Northwest, Delta Bankruptcies” (September 15, 2005). Article available at Forbes.com.

<sup>2</sup> American Hotel & Lodging Association, “Top 50 Hotel Companies” report (2004). Report available at ahla.com

<sup>3</sup> Cendant announced the completion of its acquisition of the Wyndham hotel chain on October 12, 2005. This report treats Wyndham ByRequest as a brand separate from Cendant’s TripRewards program.

<sup>4</sup> American Hotel & Lodging Association, room data from the “Top 50 Hotel Companies” report (2004) and IdeaWorks inquiries made to hotel companies. The report is available at ahla.com

<sup>5</sup> American Hotel & Lodging Association, “2004 Lodging Industry Profile”. The report is available at ahla.com

<sup>6</sup> Airline groupings are reported as a single entity. Examples include the merged Air France and KLM, which share the FlyingBlue frequent flier program.

<sup>7</sup> “U.S. Airline Frequent Flier Reward Liability Grew More Than \$378 Million in 2004 - Industry Analysis from IdeaWorks” (issued April 25, 2005) and “Frequent Fliers Had Their Wings Clipped During 2004 With 314,000 Fewer Reward Tickets - Industry Analysis from IdeaWorks” (issued April 20, 2005). Reports are available at IdeaWorksCompany.com.

<sup>8</sup> “The IdeaWorks Report on Frequent Flier Partnerships for the World’s Top 20 Low Fare Carriers” (August 22, 2005). The report is available at IdeaWorksCompany.com