With continuous developments in information technology, leading to increasingly sophisticated and mobile customers, the hotel industry is under pressure to invest in e-commerce capabilities. But is it a worthwhile investment or are loyalty programs enough to drive profitable repeat visits? Dr. Nan Hua, Dr. Wei Wei, and Dr. Ahmet Ozturk from the Rosen College of Hospitality Management, University of Central Florida, investigate the synergy between e-commerce, customer loyalty programs, and hotel operating performance.

Over the last few decades, there have been momentous shifts in the way the hotel industry conducts its business, largely because of developments in information technology (IT). The industry saw the advent of computerised network systems and digital distribution channels in the 1960s, which led to a heavy reliance upon travel agencies. Today, it must embrace a digital landscape of branded websites, booking engines, online travel agents, social media, and multiple device use.

Customers today are better informed and more sophisticated in their needs than ever before, and they may expect and demand more sophisticated and fickle customers, the hotel industry is under pressure to invest in e-commerce activities. E-commerce is widely considered to be a key of e-commerce—where transactions and other activities take place entirely via the internet—is becoming an online engagement with customers, communicate product offerings, and provide a customer service platform.

**LOYAL CUSTOMERS ARE PROFITABLE CUSTOMERS**

But whilst IT capability can enhance customer engagement, it can also make it easier for clientele to switch to an alternative hospitality supplier. Additionally, there are significant costs associated with attracting new customers, including commission paid to online travel agencies; this means breaking even for each individual customer takes longer as a result. Loyal customers are therefore more profitable customers, and this profitability grows alongside the longevity of the customer’s relationship with the company.

Accordingly, many hotels offer loyalty programs in order to encourage the patronage of their existing customers. E-commerce activities can exploit these databases not only to target specific customers with bespoke product and service offers, but also more strategically to help hotels understand potential trends, and refine target markets. Therefore, Dr. Hua and Dr. Wei, together with colleague Dr. Ahmet Ozturk, have now turned their attention to the synergy between e-commerce and loyalty schemes, and whether investing in the former enhances the impact of the latter on hotel operating performance.

**ALLOCATING RESOURCES EFFECTIVELY**

Although e-commerce and loyalty programs are separate entities, they are interdependent and mutually supportive, given that loyalty programs generate valuable information about customers that is embedded in IT resources such as databases and various systems. E-commerce activities can exploit these databases not only to target specific customers with bespoke product and service offers, but also more strategically to help hotels understand potential trends, and refine target markets. Therefore, Dr. Hua and Dr. Wei, together with colleague Dr. Ahmet Ozturk, have now turned their attention to the synergy between e-commerce and loyalty schemes, and whether investing in the former.

**IN A COMPETITIVE ENVIRONMENT, THE NEED FOR HOTELS TO UNDERSTAND HOW E-COMMERCE AND CUSTOMER LOYALTY PROGRAMS INTERACT HAS BECOME VITAL.**

**THE POWER OF E-COMMERCE**

In the hotel industry

Many hotels are therefore integrating more IT capability into their core business offerings, aiming not only to enhance customer satisfaction, but also to increase operational efficiency through streamlining processes. As well as establishing a transactional medium, e-commerce can reinforce online engagement with customers, communicate product offerings, and provide a customer service platform.

**Rosen Research Focus | Dr. Hua, Dr. Wei & Dr. Ozturk**
IMPLICATIONS FOR DECISION MAKING

The team’s findings illustrate that there is a significant value-added synergy between e-commerce investment and the impact of loyalty programs. More investment in e-commerce leads to more impactful loyalty programs and hence more revenue generated from rooms. The team surmised that the customer database resulting from loyalty programs is a likely key to this synergy. Together with its use in targeting customers with rewards and offers, it can also reduce overall marketing costs by providing insight into marketing strategies, as well as providing insight into areas that could be targeted for specialized advertising campaigns.

The findings have important implications for strategic decision making in the hotel industry. By demonstrating that increased investment in e-commerce capabilities impacts positively on revenue, owners and managers can plan their annual budget accordingly. This applies especially to hotels located close to airports or in suburban areas, for whom the results were notably pronounced, showing that taking advantage of e-commerce could improve the performance of these hotels in particular. As the results of the study were found to be robust across property types, they are pronounced, showing that taking advantage of e-commerce positively moderated the relationship between hotel loyalty programs and operating performance by increasing the revenue from hotel rooms. This was found to be true even after hotel types were controlled for. For even further insight, the model was also tested by property type, and results showed that the impact of e-commerce is most prominent for hotels in suburban and airport locations.

RESEARCH OBJECTIVES

Dr. Nan Hua, Dr. Wei Wei, and Dr. Ahmet Ozturk investigate whether the impact of customer loyalty on financial performance depends on e-commerce investment in the hospitality industry.

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PERSONAL RESPONSE

How important is it to consider the changing nature of the hotel market, as well as developments in IT, when interpreting the results of this study?

Loyalty programs have been proven effective and efficient in attracting and retaining repeat business, which is considered critical to hotel financial performance. This study not only echoes and confirms the positive financial impact of expenditures on loyalty programs but also shows that IT investments can improve financial impacts of loyalty programs despite the evolving nature of hotel businesses and quick advancements of IT over time.