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Contact: Jay Sorensen
For inquiries: 414-961-1939

Hotel Loyalty Programs and No-Annual-Fee Credit Cards Industry Analysis from IdeaWorks

Co-branded card offers from major hotel chains offer points that can be exchanged for free room nights and even airline miles.

The IdeaWorks Company has reviewed the no-annual-fee credit cards associated with the frequent guest programs of the 16 largest U.S. based hotel companies.

The loyalty programs in the survey are: Baymont Guest Ovations, Best Western Gold Crown Club, Choice Privileges, Hilton HHonors Worldwide, Hyatt Gold Passport, InterContinental Hotels Priority Club Rewards, LaQuinta Returns, Marriott Rewards, Microtel MicroPass, Omni Hotels Select Guest, Prime Hotel Rewards, Radisson Gold Rewards, Red Lion/WestCoast GuestAwards, Red Roof RediCard, Starwood Preferred Guest and TripRewards. As a group, these programs represent over 52% of U.S. hotel rooms.

No-annual-fee credit cards are offered by the following 6 frequent guest programs: Best Western Gold Crown Club, Choice Privileges, Hilton HHonors Worldwide, InterContinental Hotels Priority Club Rewards, LaQuinta Returns and Radisson Gold Rewards. The credit cards are compared on page 3 of this industry analysis.

The Rise of Frequent Guest Programs

Members of frequent guest programs may redeem points for free hotel stays; many programs offer additional awards such as frequent flyer miles, airline tickets and merchandise. In this regard, frequent guest programs differ greatly from their airline industry counterparts. Frequent flyer programs have traditionally limited awards to airline travel and loathe using cash to purchase other awards. Instead, airlines have relied upon the allure of air travel to vacation areas such as Hawaii, Orlando and Las Vegas, and international destinations such as London, Paris and the Caribbean.

Hotel chains once largely relied upon the airlines to attract guests through partner affiliations with frequent flyer programs. However, as the airlines began to boost the cost of hotel participation and add multiple hotel chains as partners, the hotel chains became wary of the frequent flyer programs. Hastening the trend to independence was the increased leverage employed by the airlines as their programs grew in size.

Even today, frequent flyer programs loom over their hotel-industry counterparts in terms of overall membership. For example, American's AAdvantage program has passed the 45 million-member milestone. The largest programs among the hotel chains have less than half as many members; the 3 largest are estimated to have approximately 20 million members each.

Hotel chains began to promote their own loyalty programs to woo and wean travelers from the airline programs. Part of this strategy included the use of cash to purchase awards - - rather relying on free hotel nights as a primary award benefit. To compete, many frequent guest programs now offer awards such as airline tickets, airline miles, retail merchandise, and gift certificates from national restaurant chains. For example, the 6 frequent guest programs offering no-annual-fee credit cards also allow cardholders to exchange hotel points for airline miles.

The development of co-branded credit cards was a natural evolution for the larger frequent guest programs. The addition of a point-earning credit card allows a cardholder to accrue points more quickly and increases the value of a frequent guest program to the member.

Overview of Co-Branded Hotel Credit Cards

Co-branded credit cards accrue frequent guest points for charge activity. Fee-based and no-annual-fee credit cards are currently offered by 9 of the frequent guest programs included in the survey. Hyatt Gold Passport and TripRewards are among the larger hotel companies that don't offer a credit card. TripRewards is the loyalty program associated with these hotel brands: Amerihost Inn, Days Inn, Howard Johnson, Knights Inn, Ramada, Super 8 Motel, Travelodge, Villager and Wingate Inn.

Unlike the airline industry, the majority of hotel co-branded credit cards do not assess an annual fee. This is part of the strategy to attract cardholders from the same pool of travelers that are candidates for the mileage-earning cards offered by the airlines.

"The most frequent of flyers, often called "mileage junkies," are likely to remain loyal to the airline credit cards," said IdeaWorks president Jay Sorensen. "But the lure of no-annual-fees and a diverse choice of awards will likely steal fee-adverse consumers from the airline programs. At a certain level, all of these programs are competing for the same consumer."

The 7 no-annual-fee credit cards available to program members are compared on Table 1. Among the 6 frequent guest programs, Hilton HHonors is unique because it offers 2 no-annual-fee credit card choices: American Express and Visa. The amount of charge activity required to earn 1,000 airline miles or a free hotel award night has been calculated for each program to allow easy comparison. Table 1 also lists the airlines participating in mileage exchange offers associated with each of the frequent guest programs.

No-Annual Fee Hotel Credit Cards Comparison

Table 1 Card Name	Charge volume to earn 1,000 airline miles (a)	Charge volume to earn free hotel night (b)	Airlines participating in guest program	Issuing Bank and Application Telephone
Best Western MasterCard	\$2,000	\$4,000	Alaska, America West, American, Delta, Northwest	Juniper Bank 866-750-6024
Choice Privileges Platinum Visa	\$2,500	\$3,000	Alaska, America West, American, Continental, Delta, Northwest, Southwest, United, US Airways	Bank of America 800-341-7589
Hilton HHonors Platinum Card from American Express	\$2,222	\$2,500	American, Hawaiian, Midwest	American Express 800-467-8462
Hilton HHonors Signature Visa	\$3,333	\$3,750	American, Hawaiian, Midwest	Citi 800-252-3776
La Quinta Returns MasterCard	\$5,500	\$6,000	American, Delta, Continental, Southwest	Citi 800-328-3118
Priority Club Rewards Visa (InterContinental)	\$4,000	\$10,000	Alaska, America West, American, Continental, Delta, Northwest, United, US Airways	Bank One 888-678-2648
Radisson Hotels/Gold Points Rewards Network Visa	\$2,667	\$5,000	America West, American, Continental, Delta, Midwest, Northwest, United, US Airways	MBNA 800-932-2775

Table 1 Notes:

(a) Credit card charge volume is based upon ongoing charge activity without the benefit of bonus miles associated with first card use. 1,000 miles are equivalent to 2.0 Southwest Rapid Rewards flight credits.

(b) Uses the lowest single night award offered by the guest loyalty program.

Three of the credit cards offer the best overall value of those included in the survey. The Best Western MasterCard requires the lowest charge volume to earn 1,000 airline miles, with 5 major carriers participating. The Choice Privileges Platinum Visa has 9 participating airlines; the most of any of the frequent guest programs in the survey.

The Hilton HHonors Platinum Card from American Express may offer the best overall compromise of low point-to-reward ratios and a choice of 3 participating airlines. Hilton requires the lowest charge volume for a hotel award; \$2,500 in charges earns a free night at any hotel in the “Opportunity” award category.

“No-annual-fee cards offered by frequent guest programs represent great value and flexibility,” said IdeaWorks president Jay Sorensen. “They usually offer a very generous sign-up bonus of free points and include the flexibility of choosing hotel night awards or airline miles, and a number of programs even offer free merchandise such as retail and restaurant gift certificates.”

Amtrak Guest Rewards MasterCard Deserves Special Mention

Consumers seeking an attractive mileage-earning credit card might consider a very unlikely source. The Amtrak Guest Rewards MasterCard is a no-annual-fee credit card that provides an array of award benefits from airline miles, hotel stays, retail merchandise, and rail travel on Amtrak. This card offers a better points-to-miles ratio than any no-annual-fee credit card offered by an airline or hotel loyalty program. Points may also be exchanged for the unique award opportunity of train travel to over 500 destinations served by Amtrak.

Table 2 Card Name	Charge volume to earn 1,000 airline miles	Charge volume to earn free r/t train ticket	Airlines participating in guest program	Issuing Bank and Application Telephone
Amtrak Guest Rewards MasterCard	\$1,000	\$2,000	Continental, Midwest, United	MBNA 800-932-2775

“Amtrak is a very compelling option for frequent travelers, especially those living in the Northeast,” said IdeaWorks president Jay Sorensen. “It offers the same mileage ratio as any airline credit card charging an annual fee. Cardholders may even redeem miles for the unique experience of traveling cross-country in a sleeping car complete with dinner in the diner.”

How Co-Branded Credit Cards Work

Readers of this report may learn more about co-branded credit cards by reviewing an industry analysis recently issued by IdeaWorks. The **No-Annual-Fee Credit Cards in the Airline Industry** report issued on August 25, 2004 provides an overview of the financial and marketing aspects of co-branded credit cards. Read the entire report at the IdeaWorks web site: <http://www.ideaworkscompany.com/news>

About IdeaWorks: IdeaWorks was founded in 1996 as a consulting organization building brands through innovation in product, partnership and marketing and, building profits through financial improvement and restructuring. Its international client list includes the hotel, airline, marine, railroad, consumer products and health care sectors. IdeaWorks specializes in brand development, customer service improvement, customer research, competitive analysis, creating partner marketing strategies, cost reduction programs and business restructuring. IdeaWorks brings value as a consultant by researching the expectations of the customer, learning from the wisdom of the client organization and applying innovative ideas to create solutions for clients and consumers.

Sources for the No-Annual-Fee Hotel Credit Card Analysis: Unless indicated otherwise, all data is from a review of hotel web sites and calls placed to issuing bank call centers during August 2004. U.S. hotel industry statistical information is from a variety of sources such as the American Hotel & Lodging Association web site and information provided by individual hotel chains.

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. IdeaWorks does not have a client relationship with the companies included in this analysis. IdeaWorks cannot guarantee, and assumes no legal liability or responsibility for the accuracy, currency or completeness of the information.

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