



TAMPERE POLYTECHNIC  
BUSINESS SCHOOL

FINAL THESIS REPORT

**Global Brand's Chain Marketing  
and  
Strengthening Customer Commitment**

Case: Holiday Inn and Priority Club Rewards

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Degree Programme in International Business  
December 2006  
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TAMPERE 2006

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**Degree Programme(s):** Degree Programme in International Business

**Title:** Global Brand's Chain Marketing and Strengthening Customer Commitment  
Case: Holiday Inn and Priority Club Rewards

**Month and year:** December 2006

**Supervisor:** Shaidul Kazi **Pages:** 54

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## ABSTRACT

While the world economies are developing into more global all the time, companies and brands are extending on the map as well. Fierce competition is being struggled with a global notoriety of worldwide brands, and large chains blossom. The mobility of people is developing the markets also in the accommodation sector, and in the buyer's market of today customer satisfaction is an essential matter.

This thesis deals with the cooperation of two large hotel chains, InterContinental Hotels Group and Restel Hotel Group. The aim is to examine their marketing activities as well as limitations towards each other. In addition, a customer loyalty program Priority Club Rewards and its current situation in the Finnish market are discussed. In order to improve the program's current state, research is made and thus development suggestions are proposed at the end.

A Qualitative research method was used in studying the cooperation between the two hotel chains by conducting interviews to two Holiday Inn managers in different levels at Restel. The state and improvement of Priority Club Rewards was researched by interviewing altogether six designated Priority Club Rewards Champions at the Restel-operated Holiday Inn hotels in Finland. Also, a customer survey with a questionnaire was conducted at hotels.

Based on the research, the franchising cooperation between InterContinental Hotels Group and Restel Hotel Group seems to be working well. Establishing new Holiday Inn hotels in Finland has brought challenges within, but major contradictions have been avoided, and the situation is looking up. Priority Club Rewards, on the other hand, has not made a flying start, and is suffering from a low position in the Finnish market. Customers are still unfamiliar with the program, and some find it uninviting, for the program and all the materials are entirely in English only.

While the collaboration of the two hotel chains is strengthened, Holiday Inn gains more awareness and popularity among Finnish people. With more global brands in the Finnish market, more tourists and foreign visitors are encouraged to visit Finland. Also, the importance of customers to Holiday Inns should be made more clear by enhancing the marketing of the beneficial Priority Club Rewards. More instructed personnel and promotional materials also in Finnish will make the Finnish customers feel themselves precious. After all, respect is what people strive for today, both in business and leisure.

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**Keywords:** Global Expansion   Chain Marketing   Concept Standards  
Accommodation Services   Customer Loyalty

# Table of Contents

1. Introduction.....	5
1.1 Background of the Research.....	6
1.2 Purpose of the Research .....	6
1.3 Research Problems.....	6
1.4 Research Methodology.....	7
1.5 Structure and Limitations of the Research.....	7
2. Marketing in Travel and Tourism.....	8
2.1 Demand Determinants and Product Inputs.....	8
2.2 Communication Channels.....	9
2.3 Buyer Characteristics and Decision Process.....	9
2.3.1 Elements affecting Buyer Behavior.....	10
2.3.2 Filters in the Buying Decision Process.....	10
2.4 Purchase Response and Outputs.....	10
2.5 Accommodation Marketing.....	11
2.5.1 Segmentation.....	12
2.5.2 Accommodation Product.....	12
2.5.2.1 Location.....	13
2.5.2.2 Business Peaks and Troughs.....	13
2.5.2.3 Profit linked to Room-Night Sales.....	14
2.6 Traveling to Finland.....	14
3. Two-Chain Marketing.....	15
3.1 InterContinental Hotels Group PLC.....	15
3.2 Restel Hotel Group.....	16
3.2.1 Restel Property Relations.....	16
3.2.2 Restel Brands.....	18
3.2.3 Restel and Employees.....	18
4. Franchising.....	19
4.1 History of Franchising.....	19
4.2 Franchising in Finland.....	20
4.3 Franchising in the World.....	21
4.4 Brands.....	22
4.4.1 Benchmarking Tesco.....	23
4.5 Chain Cooperation through Franchising.....	24
4.5.1 Roles of the Two Chains.....	24
4.5.2 Chain Collaboration – Unit Point of View.....	25

5. Customer Relationship Marketing.....	27
5.1 Relationship Marketing vs. Customer Relationship Marketing.....	27
5.2 Objectives of Customer Relationship Marketing.....	27
5.3 Integrated Elements.....	28
5.4 Customer Loyalty.....	28
5.4.1 How to gain Loyalty?.....	30
5.4.2 Loyalty Types.....	30
5.4.3 Loyal Customers' Expectations.....	31
5.5 Evaluating a Loyalty Program.....	31
6. Priority Club Rewards.....	32
6.1 Enrollment.....	33
6.2 Member Levels.....	33
6.2.1 Club Level.....	34
6.2.2 Gold Elite.....	34
6.2.3 Platinum Elite.....	34
6.2.4 InterContinental Ambassador.....	34
6.3 Partners.....	35
6.4 Point Redemption.....	36
6.5 Marketing Mix.....	36
6.5.1 Product.....	36
6.5.2 Price.....	37
6.5.3 Place.....	37
6.5.4 Promotion.....	37
6.5.5 People.....	38
6.5.6 Process.....	38
6.5.7 Physical Evidence.....	38
6.6 SWOT Analysis.....	39
6.7 Competitor Analysis.....	40
6.7.1 SOK Hotels.....	40
6.7.1.1 S-Etukortti.....	40
6.7.1.2 S-Card.....	40
6.7.1.3 Goldpoints Plus.....	40
6.7.2 Scandic Hotels.....	41
6.7.2.1 Plussa Card.....	41
6.7.2.2 Hilton Hhonors.....	41
6.7.3 Restel Hotels.....	41
6.7.3.1 YkkösBonus Card.....	41
6.7.3.2 Hotel Bonus Club (HBC).....	41
6.7.3.3 Priority Club Rewards.....	41
6.8 Restel Loyalty Programs.....	41
6.9 Perceptions on Priority Club Rewards.....	42
6.10 Customer Survey.....	44
6.10.1 Questions Asked.....	45
6.10.2 Survey Results.....	45
6.10.3 Evaluation of the Research.....	49

7. Summary and Conclusions.....	50
7.1 Development Suggestions.....	51
7.1.1 Incentives and Emphasizing Competitive Advantages.....	52
7.1.2 Personnel Training.....	52
7.1.3 Language Barrier.....	53
References.....	54

Appendix I: Questionnaire for the Customer Survey

Appendix II: The first interview questions for Timo Vehmas, Brand Manager, Restel Oy Ltd

Appendix III: Interview questions for Timo Haapanen, General Manager, Holiday Inn Tampere

Appendix IV: The second interview questions for Timo Vehmas, Brand Manager, Restel Oy Ltd

Appendix V: Interview questions for the Priority Club Rewards Champions

# 1. Introduction

In all fields, the economy develops on a global level. Most companies of today have suppliers and subcontractors in other countries. Companies are cooperating with longer distances than ever before, nevertheless still maintaining the same business principles in every branch. Different types of collaboration agreements are established, and business formats in use are various.

Since the 1960's, the development of mass tourism has made this service sector a key component of international trade. Between 2003 and 2004, tourism generated sales of over \$ 600 billion, that is nearly 10 per cent of the world GDP, and it accounts for over 200 million jobs around the world. (*Forum for a Responsible Globalisation, 2006*) Needless to say that all countries are willing to be engaged in this successful industry.

Also Finland is taking part in tourism, intending to expand in the sector. A bright direction was taken, when in 1997, one of the most well-known hotel chain giants in the world, InterContinental Hotels Group, started cooperating with the growing Finnish Restel Hotel Group. The collaboration now shows as a franchising agreement between these two parties. Today there are seven hotels in Finland belonging to the InterContinental Hotels Group, which are operated by Restel Hotel Group as a franchisee. In this thesis InterContinental Hotels Group will collectively be called by the abbreviation "IHG".

The idea to write my final thesis about Global Brand's Chain Marketing and Strengthening Customer Commitment developed when I was completing my work placement at Holiday Inn Tampere during the first half of the year 2006. The situation at that particular hotel was extremely intriguing, since the conversion from Ramada Hotel into Holiday Inn had just taken place at the turn of the year. The concept was new, and some matters were perceived to need some development and adjustment to fit the Finnish market. So I found the customer loyalty program, Priority Club Rewards, particularly interesting and started working on it, in addition to forming a general picture of the current Holiday Inn governance and marketing operations in Finland.

I ended up signing a contract with Holiday Inn Tampere, and got to continue working at this charming hotel. Collecting information to this thesis was facilitated by many people working for Restel/Holiday Inns in Finland. Special thanks for their cooperation I would like to address to Timo Haapanen, General Manager of Holiday Inn Tampere, Timo Vehmas, Brand Manager of Restel, all six Priority Club Rewards Champions interviewed, and the staff at all Holiday Inns contributing to my customer survey.

## 1.1 Background of the Research

The cooperation of the global InterContinental Hotels Group and the Finnish Restel Hotel Group has yielded expansion of the global brand, Holiday Inn, to different parts of Finland. New Holiday Inn units have been established in the beginning of 2006 in three new regions, Tampere, Turku and Oulu. The new concept implementation and governance style with two large chains involved creates a motivation to study how the whole cooperation works.

Priority Club Rewards is a globally awarded loyalty program, and the design of the program is good and beneficial to its members. However, for some reason the program has not yet had a great success in Finland. According to Gavin Hawthorn, the Director of Loyalty Marketing at IHG – EMEA (Europe, Middle-East and Africa), research shows that Priority Club Rewards members achieve, on average, a 25 per cent higher spend in-house, and produce 36 per cent greater incremental spend than non-members. Therefore, members are very important to the business, and getting the program delivery right from the hotel to each individual member is a vital part of the IHG business strategy – both at corporate and hotel level. (*Priority Club Rewards: Hotel Quick Reference Guide, 2005*)

## 1.2 Purpose of the Research

The purpose of the research is to map the current state and way of collaboration between the two chains, IHG and Restel. Since the cooperation has not yet been going on for very long, it is important to look into the factual matters early on, and point out possible problems before they root too deep into practice. But again, if no remarkable problems exist, being aware of it encourages both chains to carry on with the good work.

As a franchisee of IHG, Restel Hotel Group wants to comply with the IHG standards also in the customer loyalty program sector, also trying to serve its customers in a best possible way, and thus wants to do its best in making Priority Club Rewards a success in Finland. The purpose of the research is therefore also to find out problems that Priority Club Rewards suffer from in the Finnish market, and to seek solutions to make the program more successful.

## 1.3 Research Problems

The first part of the research covers problems surrounding the main question: What is the cooperation between the two chains like? In addition, how the marketing processes evolve, who decides on the promotional issues, and how much the chains interfere to each other's marketing activities, are questions studied.

Secondly, the study intention was to find out reasons why Priority Club Rewards is not very popular in the Finnish market, and how to adjust it to being more suitable for customers in Finland's IHG hotels. Thus, how to make an already good customer loyalty program more successful in Finland is the main research question in the latter part. Sub-questions involve whether the character of traveling has changed lately, people's awareness of the program and Priority Club Rewards marketing styles.

## **1.4 Research Methodology**

The research was conducted by using both primary and secondary information. Secondary information sources were books, newspaper articles, Internet, previously done final theses, and subject-related documents received from Holiday Inn Tampere. Primary information was collected with qualitative methods by interviewing managers and Priority Club Rewards Champions (designated people at hotels) at all six Restel-operated Holiday Inn hotels in Finland and also by conducting a customer survey about loyalty programs at Finland's Holiday Inn hotels. Interviews and customer survey were conducted in Finnish, and translations are made ad lib by the author.

## **1.5 Structure and Limitations of the Research**

The study is divided into two parts. The first part discusses the two chains, IHG and Restel, and their relations to each other. Main emphasis is on the Holiday Inn hotel brand in Finland. Secondary information is collected about marketing, brands, franchising and traveling in general. Primary information is gathered by conducting interviews to managers in order to receive information and managerial opinions of the collaboration.

The second part covers customer loyalty, specifically from the angle of the IHG customer loyalty program Priority Club Rewards. The current state of the program and reasons for this globally awarded program not having a noticeable success in Finland are examined. Theories about customer relationship marketing and customer loyalty are presented. Also, Priority Club Rewards as a customer loyalty program is introduced and analyzed. Researches are made in forms of personal interviews and customer survey in order to find out e.g. the problems occurring in the implementation of Priority Club Rewards in Finland. Finally, development suggestions are pursued and discussed in order to make Priority Club Rewards a more successful loyalty program in Finland as well.

Facts that limited my research were mostly time and busy point in time at hotels. Customer surveys were not able to be distributed to as many customers as was intended. Therefore, the survey results are somewhat biased, but do still give a direction about the Priority Club Rewards state in Finland. All managers and personnel I contacted were very friendly and helpful concerning my thesis.



## 2. Marketing in Travel and Tourism

“ All segments of our travel and tourism business have become more competitive. A growing number of competitors offer their products to the same customer groups ... travelers have a wider range of choices than ever before for matching a hotel to their particular travel needs. Those needs change according to the travel purpose. Unless a company can understand those changing needs and deliver a quality product and services appropriately targeted to specific customers needs, wants and expectations, that business cannot survive.”

*(Former President of Holiday Inns, TTRA: 1986)*

According to the trends of today, the world is getting smaller in the sense of mobility. Traveling is extremely common these days, regardless of people's motivations. Whether traveling is business or leisure related, a general tendency is that in almost every country there are always foreigners around. However, domestic visitors in various attractions cannot be ignored either – they also form a significant group of travelers. This means continuous growth in both demand and supply of travel-related organizations. In order to be able to exercise effective marketing in competitive conditions one must understand buyers' motivations and decision processes. Figure 2.1 presents the model of buyer behavior discussed below.

### 2.1 Demand Determinants and Product Inputs

As in all areas of business, marketing in the field of travel and tourism is very much concerned with supplying prospective buyers factual and persuasive inputs of information about specific product features. Inputs can be manipulated by marketing managers, and therefore it is vitally important for them to possess a thorough understanding of the business environment and all the factors affecting a prospective customer's buying behavior and purchase decisions.

The basic factors determining a demand for various travel and tourism units are widely common all over the world. Even though each region within any country has its own patterns and practices, the underlying factors are still the same with all the world. These external determinants of market demand affect individual operators such as hotels, tour operators and airlines. Differing responses and actions marketing managers make is largely explained by different understanding of the factors at any time. *(Middleton, 1994; p.37)*

The main determinants of demand for travel and tourism can be divided into eight broad headings (*Middleton, 1994; p. 37*). These determinants are:

- Economic
- Demographic
- Geographic
- Socio-cultural and social attitudes
- Comparative prices
- Mobility
- Government / regulatory
- Media communications.

Of course demand is also affected by the supply of products, and therefore the capacity of supply is also an important determinant of demand. Quite naturally, the demand for Holiday Inn customers in Finland, for instance, only started growing after the first Holiday Inn hotel settled in Finland and made itself known among people traveling in Finland.

## **2.2 Communication Channels**

Information about a product, a Holiday Inn hotel for instance, can be expressed to a prospective customer through various channels. A consumer may receive information from formal or informal references. The formal communication channels or media aims at persuading prospective customers through advertising, brochures, sales promotion techniques and public relations (PR) activity. (*Middleton, 1994; p.54*)

Individuals may also be informed about a particular product by their reference groups, like family, friends and the groups of people with whom they interact at work or during their free time. This kind of informal information, also known as “word of mouth” communication, is said to be at least as influential on purchase decisions as the formal channels.

## **2.3 Buyer Characteristics and Decision Process**

A central motivation of a human being for doing things is usually a combination of needs, wants and goals. Abraham Maslow’s hierarchy of needs explains all the needs a human being may have, and also the fact that a higher-level need can be satisfied only after the lower and more basic-level needs are fulfilled. That is to say, after basic physical needs for food, warmth, shelter and sleep, plus safety and social needs for affection and love, and also self-esteem and status needs are satisfied, a person strives for self-actualization. Individuals who travel much are the ones most likely to be in a position to focus on their own self-development and -actualization. They may be broadening their awareness to other cultures and human circumstances around the world, and thereby building a wider picture of the

whole human society and placing themselves in it. Also, the increasingly frequent links between travel and personal hobbies, business, relationships, and simple relaxing holidays abroad are common reasons why people travel and aim at self-actualization. (*Middleton, 1994; p.54-55*)

### **2.3.1 Elements affecting Buyer Behavior**

A person's needs, wants and goals can be influenced and affected by different elements. They can either act as constraints upon purchase decisions or encourage and reinforce the decision. These elements are some of the previously mentioned decision determinants. For instance, characteristics like age, sex, occupation, region of residence, household size and social class usually play a rather significant role in the needs, wants and goals sector.

Naturally, also a buyer's own personality has a strong effect on the purchase decision. Whether a person is confident or insecure, profound or spontaneous, adventurous or unadventurous, affects greatly on the pace and type of decision-making.

In addition, attitudes are a remarkable element influencing a prospective buyer's behavior. Attitudes may be conscious or unconscious, and a person adopts them from all the people around them as well as from their own experiences. Attitudes also cover feelings, e.g. likes and dislikes, and preparedness to act or not because of such beliefs and feelings. (*Middleton, 1994; p.55*)

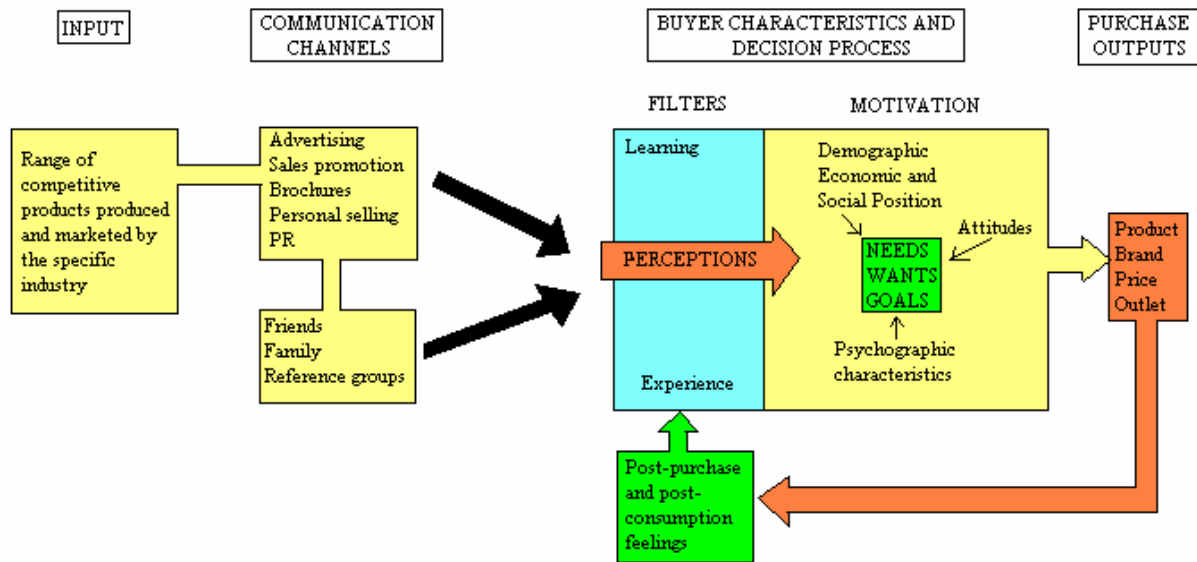
### **2.3.2 Filters in the Buying Decision Process**

It is vitally important to bear in mind that all the information and inputs marketing managers direct to prospective customers may not necessarily be received exactly the same as the original message was intended. All inputs pass through "filters", affected most of all by attitudes and influences from peers and marketers, as well as knowledge and own experiences. It is unknown how much each person consciously or unconsciously filters from the given message. This is a real challenge for marketing people to act suitably and effectively on prospective buyers' perceptions. Through marketing research some of the perceptions can be discovered and a direction for the product's marketing can be enlightened. By enhancing the product's positively experienced aspects and at the same time reducing the negatively appeared aspects a more effective marketing on the product should result. (*Middleton, 1994; p.57*)

## **2.4 Purchase Response and Outputs**

If a consumer has finally found a specific product likely to please and satisfy his/her needs, wants or goals, and is sufficiently motivated to buy it,

both marketer and customer may be happy about the whole process of selling and buying. Especially, if the post-purchase feelings for the customer are pleasant, he/she might even act as a promoter of the product further on. Word of mouth –communication takes place in many successful post-purchase actions and all future attitudes towards the product have become more positive for the buyer self as well as other prospective buyers, and thus it may result in an increase in sales. On the other hand, if a buying process and the output with post-purchase feelings are unsatisfactory, it is highly unlikely to have the customer buy that certain product again. Also, a negative reference from a peer buyer might result in a strong rejection towards the product by other prospective customers as well. Therefore, a positive result in buyer behavior process is significantly important for the marketers and the product providers.



**Figure 2.1 A buyer Behavior Model.** (Middleton, 1994: p. 54)

## 2.5 Accommodation Marketing

When considering marketing in the field of accommodation, a basic distinction should be noted. According to Middleton (1994), the accommodation sector is divided into two categories; serviced and non-serviced types. Serviced means that there is always staff available on the premises to provide some services. Non-serviced means that the sleeping accommodation is provided on a rental basis, but no extra services, like room service, are provided. The difference between these two types of accommodations can most clearly be seen in the price charged. In this final thesis concentration is on serviced accommodation, Holiday Inn hotels.

### **2.5.1 Segmentation**

In general, hotel visitors can be divided into five different categories. (*Middleton, 1994; p. 72*) These categories are:

1. Corporate / Business clients
2. Group tours
3. Independent vacationers
4. Weekend / Midweek package breaks
5. Conference delegates

However, a more clear and simple distinction between travelers can be made by regarding the visitors as either leisure or business travelers. These are the segments mainly targeted.

Accommodation plays a very different role in the leisure and business travel sectors. For leisure travelers and tourists, accommodation may be an extremely relevant criterion for choosing a particular destination. Leisure visitors are likely to spend many hours of their stay in the hotel, for instance, especially if the weather conditions are not favorable.

Whereas for business travelers accommodation is not normally a very significant part of the trip motivation. They have higher priorities on the work, and they only need a necessary facility that makes it possible and convenient to engage in the primary reason for travel. Business travelers appreciate good location, high standards of comfort as well as convenience and efficiency in services. This is the direction accommodation services have taken in the last two decades. The world is becoming more and more business oriented, the life style hectic and people busy. In order to stay along with this kind of life style development, also hotel businesses must act to be able to serve its ever busier customers well.

### **2.5.2 Accommodation Product**

In the accommodation sector Middleton has drawn attention to the fact that after a customer purchases a product, he/she will receive the product not so much as a physical object but as an experience. The experience is organized by suppliers to meet the identified needs and benefits sought by a customer. There are many departments and areas, which influence the experience, for example reservation procedures, reception and checkout services, housekeeping services, restaurant and other facilities and services. Irrelevant of how well all of these sectors are handled, each visitor may still experience them differently. People have different tastes in interior design, sounds, smells and psychological benefits, like comfort and convenience. Also, external factors may influence the accommodation experience. For instance, holiday visitors may associate the accommodation very closely with the attractions of the destination. If they have experienced something thrilling and special during their stay, it might provide a “halo” effect for their accommodation, too. However, a reverse effect may also be possible.

Regarding the marketing of accommodation as a product, as Middleton has indicated, some aspects, as follows, are of particular relevance and should be carefully considered by the marketing people.

### **2.5.2.1 Location**

A very dominating feature for all accommodation operations is location. In the long run it defines the customers mainly using the particular unit and the target segments. Therefore, also marketing strategy and tactics should be made carefully considering the location. As an example, Holiday Inn Tampere benefits greatly of its location right opposite to the Tampere Conference Hall. The mere location makes this particular hotel the first choice for most conference participants.

Location also largely determines the profitability of an operation. Naturally, once an accommodation unit is established, location of operations becomes fixed for the lifetime. If, for example, a beach resort experiences a decline in the number of tourists, or a natural crisis hits the spot, there is not much to be done even by marketers. Many hotels suffering from large vacancies are forced to operate at a loss for as long as their resources allow or until the market expands. The only alternative is to sell properties, which usually means a massive capital loss, as Middleton (1994; p. 277) concludes.

Location and architectural style can at its best attract visitors for the mere physical appearance. The looks may help the accommodation site build an attractive image and act as a vital part of marketing. A good example of this kind of famous location is the Palm Islands in Dubai. Also, a stereotypical Austrian ski-resort accommodation provides cozy, wooden mountain chalets, which already themselves invite prospective customers to stay.

### **2.5.2.2 Business Peaks and Troughs**

Nearly all forms of accommodation are forced to suffer from demand fluctuations. Especially for hotels in northern Europe, like Finland, it is normal to expect high occupancy from business travelers from Mondays to Thursdays during the fall and springtime. The summertime is clearly quieter from the business visitors' side and more vacancies are available. On the other hand, many seaside attraction units elsewhere in the world have their peak seasons only for a few months during the summertime, and many of them might even close for the rest of the year.

These peaks and troughs are especially important for marketing managers to consider. No marketing efforts can reverse these natural rhythms of demand, but for example campaigns can be targeted around a low season to decrease the impact and to generate increased business at a quiet time as well. (Middleton, 1994; p. 278)

### 2.5.2.3 Profit linked to Room-Night Sales

Although sales of room-nights, especially in the serviced hotels sector, seldom contribute more than around 50 per cent of total sales revenue, as Middleton (1994; p. 278) argues, the average contribution of room sales to profitability is much higher. Once a customer has been accommodated to a hotel, in-house sales are an effective and an “easy” type of merchandising the hotel services to the customer. Providing the customer with wine and dine in the hotel’s restaurant, having the customer use the provided Internet connection services, watch in-room movies etc. all accumulate to total turnover. It is well worth selling the customer all the little extras in order to provide them with a fully satisfactory experience and at the same time increase hotel’s own revenue.

## 2.6 Traveling to Finland

Tourism and traveling in Finland is increasing. The Finnish Statistics Center Tilastokeskus has made a research together with the Finnish Tourist Board MEK concerning the traveling to Finland from abroad. They have interviewed about 13 300 foreign travelers in the busiest borders of Finland.

During the last winter season 4 per cent more foreigners visited Finland than the year before. Between November 2005 and April 2006 over 2 million foreign travelers arrived to Finland. In the last winter season foreign travelers spent approximately € 589 million in Finland, whereas the previous year’s number was € 518 million. Of all nationalities, Russians spent the most money, which was a third of the whole foreigners’ spending on Finland. Besides Russians, most travelers arrived from Sweden and Estonia. Especially the number of Estonian travelers had increased from the previous season (by a third).

The most common purpose for traveling to Finland in 2005 was leisure (41,8 %) and the second common reason was business (28,2 %). Visiting relatives (10,8 %) and other reasons (19,2 %) filled the remaining percentages. It is positive to see that business traveling takes up such a significant percentage of the whole of traveling, since Holiday Inn Tampere, for instance, is specifically oriented for business travelers. Also, business travelers spent more money (€91 on average) during their stay in Finland, than leisure travelers (€76 on average).

When examining the areas in Finland, where InterContinental Hotels Group has settled, it is clear that the Helsinki region is the liveliest with approximately 1,8 million foreign travelers in 2005. Of all the seven Restel-operated IHG hotels in Finland, there are four hotels in this area; three Holiday Inns (City Centre, City West and Garden Court) and one Crown Plaza. After Lapland and Åland the next frequently visited area was Southwest Finland (Varsinais-Suomi) with a little under 250 000 foreign travelers. In this area IHG is represented by one hotel – Holiday Inn Turku. The Tampere region (Pirkanmaa) was the fifth popular place in Finland for

tourists to visit. Over 200 000 travelers brought customers also to Holiday Inn Tampere. Lastly, Holiday Inn Oulu received a part of its customers from nearly 190 000 foreign travelers visiting the Oulu region.  
(*Kauppalehti Vip-liite, 2006*)

### 3. Two-Chain Marketing

The marketing of Holiday Inn hotels in Finland is rather interesting because six out of seven hotels are owned by two chains; the global InterContinental Hotels Group and the Finnish Restel Hotel Group. The background and basic information about these two chains as well as their relations and co-ownership with each other will be discussed now further in this thesis.

#### 3.1 InterContinental Hotels Group PLC

InterContinental Hotel Group (IHG) is the world's largest hotel group by number of rooms. There are over 3 600 IHG hotels in the world with altogether 537 500 hotel rooms. IHG operates in almost 100 countries and territories around the world. There are seven brands owned by the InterContinental Hotels Group: InterContinental, Crowne Plaza, Hotel Indigo, Holiday Inn, Holiday Inn Express, Staybridge Suites and Candlewood Suites, of which only Crowne Plaza and Holiday Inn have taken place in Finland. IHG operates these brands through three different business models – franchising, managing and owning the hotels. In Finland, Restel Hotel Group is the franchisee of IHG hotels. By being the largest hotel group in the world it is no surprise that IHG is listed on the London and New York stock exchanges. IHG also manages the world's largest hotel loyalty programme, Priority Club Rewards. This loyalty programme will be analyzed and discussed more in depth later on.  
(*IHG, 2006*)

Being such a large enterprise, InterContinental Hotels Group's operations are divided into three main division areas; Americas with 2 849 hotels and 387 824 rooms, EMEA (Europe, Middle East and Africa) with 606 hotels and 104 546 rooms, and Asia Pacific with 160 hotels and 45 174 rooms. It is clear to see that this United Kingdom based corporation is at its most powerful and intense in the Americas. This is largely explained by the American-based successful hotel brands, like Holiday Inn, for instance.  
(*IHG, statistics as of 31th March 2006*)

The formation of InterContinental Hotels Group took place on 15<sup>th</sup> April 2003 when Six Continents PLC separated into two; the lodging part became IHG and the restaurants and pubs sector turned into Mitchells & Butlers PLC. However, most of the IHG hotel brands trace back to much further in history. For example one of the world's most recognized brands, Holiday Inn, was created in the 1950's by Kemmons Wilson in the United States. Even an older brand is InterContinental, which traces back to the 1940's. Therefore, much history and experience is gathered in this enterprise.



Nowadays IHG focuses on franchising and managing hotels rather than actually owning and investing on them. This focus has shown in heavy sales of property. Since 2003 IHG has sold nearly \$ 4,4 billion worth of property. (*currency as of 21<sup>st</sup> Aug 2006*) However, many of the hotels sold have still remained under IHG brands with management or franchise contracts. Examples of these kinds of hotels are six Holiday Inn hotels in Finland.

## **3.2 Restel Hotel Group**

Restel Oy Ltd is Finland's largest hotel and restaurant company with around 280 establishments around the country. It has a turnover of €230 million (in 2005) and it employs approximately 3300 people in its locations. Restel Hotel Group's turnover in 2005 was €144,4 million, which had increased by 14 per cent from the previous year. From the statistics, as well as the continuous acquisitions it is perceivable, that in the Finnish markets Restel is growing all the time. (*Restel Annual Report, 2005*)

### **3.2.1 Restel Property Relations**

Restel Oy Ltd is a subsidiary of Osuuskunta Tradeka (Cooperative Tradeka Corporation), a large Finnish incorporation, which owns Tradeka Ltd, a centrally organized retailing company with retail outlets like Siwa, Euromarket and Valintatalo. Restel Oy Ltd is the administrative and parent company of the whole Restel Concern, under which all the Restel subsidiaries operate their businesses. These subsidiaries are divided into seven categories: Restel Ravintolat Oy (Restel Restaurants Ltd), Cumulus Oy, Rantasipi Oy, Helsingin Restel Ravintolat Oy (Helsinki Restel Restaurants Ltd), Restel Kylpylähotellit Oy (Restel Spa Hotels Ltd), Kansainväliset Restel Hotellit Oy (International Restel Hotels Ltd) and Rax Ravintolat Oy (Rax Restaurants Ltd). See the figure below for these relations. (*Tradeka Ltd., 2006*), (*Restel Annual Report, 2005*)

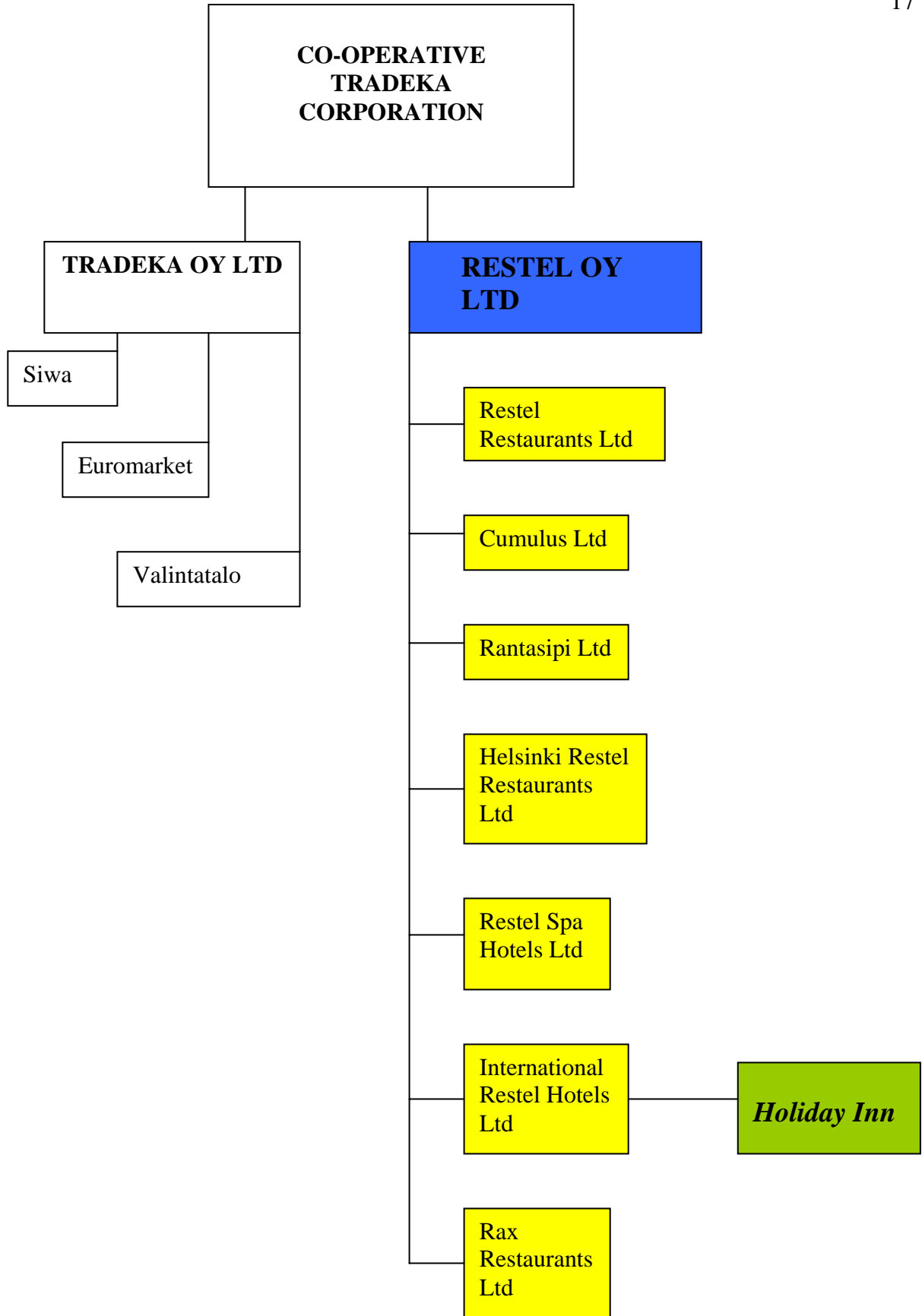


Figure 3.1 Property Relations

### 3.2.2 Restel Brands

The Restel Hotel Group operates five brands; Cumulus, Rantasipi, Ramada, Holiday Inn and Crowne Plaza. The two last mentioned are the newcomers to the chain. Holiday Inn Helsinki City Centre joined Restel in 2003, followed by Crowne Plaza and Holiday Inn Helsinki City West in 2005 and the latest opened Holiday Inn hotels in Tampere, Turku and Oulu in 2006. Through franchise from the InterContinental Hotels Group Restel has started to increase the familiarity of these globally acknowledged hotel brands also in Finland.

The marketing of the five Restel brands is largely centralized in order to provide customers with a wide variety of different options. Restel Hotel Group has its own central reservation office, which co-operates with different kinds of event organizers. That is to say, it is possible for a customer at the same time to book accommodation, organize a meeting space, order theatre tickets and reserve a table from a restaurant, for instance.

However, even though Restel owns all the five hotel brands, the look of the hotels can vary significantly. There is no actual “Restel-style” for example in interior design. In the Holiday Inn –case, InterContinental Hotels Group, as the franchiser, defines most of the hotel’s equipment and design. IHG has certain standards set for each area, and in Finland the EMEA (Europe, Middle-East and Africa) standards apply.

Besides the wide variety of hotels and restaurants, Restel also operates as a restaurant proprietor in many of Finland’s significant arenas and multipurpose halls. Arenas, like Hartwall Arena, Helsinki ice hall arena, Tampere ice hall arena, Turku exhibition center, Länsi-Auto Arena in Espoo and Finnair Stadium in Helsinki belong to the group, whose catering services are operated by Restel. Also, a newcomer, Rantasipi Aulanko Spa Hotel (also known as Aulanko Arena) has joined the multipurpose halls’ team in April 2006 with a refurbished hotel, restaurants, a new spa, bowling hall as well as a beauty clinic.

### 3.2.3 Restel and Employees

As a large chain in Finland, Restel has understood the importance and well-being of its employees. It arranges courses for employees to take care of their health and to improve their physical condition. Also, Restel supports its employees’ hobbies on physical exercise. Besides the physical side, Restel operates its own Restel Business School, where the company offers employees a possibility to educate themselves further in doing business, as well as emphasizes Restel’s own principles and business concepts to the business school students. This is an approach, of which both parties benefit; students receive valuable knowledge and a possibility to rise in their career at Restel, and Restel itself obtains more educated staff trained for the specific values and practices of Restel Oy Ltd. This way also the customer service emphasis, that Restel prefers, can better be carried out.

## 4. Franchising

“Franchising involves a contractual arrangement between a franchiser (a manufacturer, a wholesaler, or a service sponsor) and a retail franchisee, which allows the franchisee to conduct a given form of business under an established name and according to a given pattern of business.” (*Prentice-Hall, Inc., 2000*)

For companies franchising is a convenient way of expanding or creating business without having to expend great amounts of capital. Taking up franchising creates a win-win situation to start from. It benefits the franchisor, since the franchisees use their own money to set up the new outlets, and still the franchisor’s business is being expanded. It also benefits the franchisees because they are able to operate under a proven system, which is more reliable than starting their own company from scratch. Figures show that 80 per cent of new start-up companies close down within five years, whereas 80 per cent of franchisees are still trading after five years. (*Franchise Development Services Ltd., 2006*)

Usually, there are many franchisees inside a franchise chain. For example, InterContinental Hotels Group is a franchiser and it has franchisees all over the world. In Finland six out of seven Holiday Inn hotels are operated by Restel Hotel Group, which is a franchisee of InterContinental Hotels Group.

### 4.1 History of Franchising

As an organized business model franchising has only been used since the 1950’s, but it actually traces back to the 18<sup>th</sup> century in history. Back then, the first signs of franchising format could be seen in England, where leasing contracts were made between breweries and pubs. A pub would agree to sell only a specific brewery’s products, whereby these cooperation agreements included rights for distribution, brand usage and locally exclusive selling.

A little later came along license agreements, where producers “leased” their right of production to their partners. This enabled production to happen closer to the end customers and serve them better. A good example of this kind of licensor nowadays is Coca-Cola, spreading their brand to every corner of the world. This model was already very close to modern franchising format, and according to a broader conception of franchising it is called *Product Distribution Franchising*.

Even closer to today’s franchising activities were oil companies in the USA. In the 20<sup>th</sup> century they started renting their gas stations to entrepreneurs, who agreed to run the stations according to the oil company’s own operational format.

Finally, the actual business format franchising of today started in the 1950's by a consequence of the new life style and business possibilities created by the youth culture. A new kind of consumer society was born, where more and more services were produced and purchased. Consequently, the variety of products widened fast, as consumers were able to afford more and the demand grew higher. This set a challenge to producers, because in order to answer to the demand by greater supply, more production, distribution and selling needed to be done in the same time limit as before. First successful adopters of this new franchising format were particularly businesses from the restaurant field. Today's mega-enterprises like McDonald's (1955), Burger King (1955), Kentucky Fried Chicken (1952) and Pizza Hut (1959) started doing business by being the first ones to actually take advantage of the new franchising format.

Besides the restaurant field, also other areas of business, like retailing, services and even industrial production took up franchising. Many branches, like car rental and hotel industries as well as certain retailing fields are nearly completely operated by franchising chains. Below a table is presented to show the 10 largest franchising chains in the world (as of 2005). The chains are ranked according to the number of units a particular chain operates. The four largest chains each have over 20 000 units around the world. All chains on the list come from the USA, except Kumon, which originated in Japan. (*Laakso, 2005; p.13-15*)

- |   |
|---|
| <ol style="list-style-type: none"> <li>1. McDonald's</li> <li>2. Kumon Math and Reading Centres</li> <li>3. 7-eleven</li> <li>4. Subway</li> <li>5. KFC</li> <li>6. Pizza Hut</li> <li>7. Burger King</li> <li>8. H&amp;R Block</li> <li>9. Jani-King</li> <li>10. Blockbuster</li> </ol> |
|---|

**Table 4.1 The Largest Franchising Chains in the World – TOP 10**  
(Franchise Times, 10/2003)

## 4.2 Franchising in Finland

Franchising was brought to Finland in the 1970's by international chains. First chains were fast food chains (Carrols, Wimpy), hotels (InterContinental) and car rental chains (e.g. Avis). However, franchising in Finland did not experience a great success in the beginning at all. The foreign policy of Finland in the seventies was not all that receptive, especially towards the western countries. This raised skepticism among the Finnish people about the possibilities of a new foreign system and its

success. Especially when media presented and considered this American business model very critically, there was not much of a chance for success in Finland back then.

However, in the late 1980's as the economy developed, people's interest towards new business organization formats, including franchising, began to increase. The first growth stage of franchising in Finland was developed, which was supported by the establishment of the Finnish Franchising Association in 1988. Grounds for founding this association were in contributing to the positive quantitative and qualitative development of this specific business format.

The Finnish Franchising Association (FFA) carried off its assignment well, since in the early 1990's franchising had already achieved enough credibility to give Finnish companies the courage to exploit this format. As a conclusion it can be said that franchising in Finland has properly commenced only in the mid-1990's. The recent development has been extremely strong, and it is backed up by the fact that in 2000-2003 the number of entrepreneurs in Finland nearly doubled and at the same time the number of jobs in chains increased by 50 per cent. In 2003 the Finnish franchising sector had already nearly 180 chains with over 4 000 franchisees providing employment for approximately 50 000 people.

Around 25 per cent of franchising chains operating in Finland are of foreign origin, whereas ca. 20 per cent of Finnish chains are internationalizing or already operating in the global market. The proportion of foreign chains in Finland is slightly higher compared to other European countries, but the domestic internationalized chains' relative number is of a good average.

*(Laakso, 2005; p. 19-23)*

### **4.3 Franchising in the World**

As mentioned earlier, the business format franchising originated in the USA. It has spread from North America to Europe in the 1960's. The first country in Europe to introduce this format was England. However, other European countries adapted the new format quite fast and started developing their own businesses according to the new business principles. Along with England, France was a pioneer in franchising, especially in the retail sector (e.g. Yves Rocher).

In the global franchising sector there are on average 15 000 chains and over 500 000 franchising units in the world. And the growth continues as we speak – somewhere in the world a new franchisee starts up every 8th minute.

Franchising is clearly most developed in the USA both quantitatively and qualitatively. Already over 10 per cent of the country's GDP and about half of the retail value come from the franchising companies' turnover. There are approximately 1 500 chains and 350 000 franchising units (out of which

one third operates abroad). Franchising units employ about 10 million people. With this said, the significance of franchising in the USA is evident.

In 2005 there were over 5 500 franchising chains in Europe and ca. 250 000 franchisee-owned units. The chains employ over 2 million people in Europe and bring a turnover of over €100 billion. The greatest numbers come from England, Germany, Spain, Italy and France. In England and France the impact of franchising to the countries' internal economies is remarkable, since 10-20 per cent of the retail value come from the turnovers of franchising chains. Of these leading countries France has the most chains (over 750), but Italy has the most franchisees (ca. 40 000 in 2004). When considering the extent of franchising sector with relation to population, also Belgium and the Netherlands rise up to the leading countries of European franchising. Below a table showing the extent of franchising in Europe (as of 2004). (*Laakso, 2005; p. 16-18*)

Country	Chains	Units	Turnover (€billion)	Jobs
Austria*	330	4 700	3,6	60 000
Belgium	170	3 500	2,8	30 000
Denmark	128	5 400	N/A	N/A
Finland*	177	6 600	4,9	46 000
France	765	35 000	42,0	400 000
Germany	760	41 000	28,8	362 000
Great Britain	695	33 800	119,0	380 000
Italy	650	40 000	N/A	N/A
Netherlands	475	18 500	15,0	N/A
Portugal	489	8 500	3,4	53 000
Spain	650	33 000	11,6	186 000
Sweden	300	18 000	8,8	100 000

\*) figures from 2003

**Table 4.2 Franchising extent in Europe** (*Laakso, 2005; p. 19*)

## 4.4 Brands

A brand can be said to be a symbol of a certain product. It can also be more than just a symbol. A brand can be compared to warranty (*Beckwith, 2001; p. 153*). Especially in the service sector brands are remarkably important, since it is nearly impossible for a company to give a warranty to some of its products. For example, a company cannot warrant a waitress's good service or a lawyer's advice being good. Still, a customer has something to rely on – the brand. As Joe Marconi (2000) argues, there is a measurable relationship between a brand's level of public awareness and its market share. Therefore, it is well worth making your brand known and appreciated. It will be rewarded by frequent and loyal customers.

“A service is a promise, and building a brand builds your promise”, states Harry Beckwith in his book *Selling the invisible* (2001; p. 154). A prospective customer can expect promises from a company, which, in turn, does its best in fulfilling them and thereby making the customer satisfied. It might not always be easy to assure potential customers of the company’s effectiveness and good service. However, brands are the key elements to show customers the company’s integrity and win customers’ confidence. Still, this confidence must be taken very good care of; even one small hazard or failure in service might end up being a fatal mistake in turning the customer away for good. And what we all know, bad news spread the fastest.

It is essential to continuously strive in adding value to one’s existing brand. After all, value is the main outcome customers look for when making a purchase. There are several ways to add value to a brand, and the most useful way is often determined by conducting a marketing research among customers. InterContinental Hotels Group (incl. Holiday Inn) has decided to operate a customer loyalty program Priority Club Rewards as one of their value-adding attributes. As traveling by an airplane and accommodation are often combined, even more value for Holiday Inn customers brings the fact that Priority Club Rewards members can earn points –not only from IHG hotels- but also from several partner airlines. This provides customers with a feeling of belonging to a larger community of travel and accommodation around the world. Besides the value of belonging, Priority Club Rewards members also gain value in form of actual tangible point rewards, like free hotel nights and gift vouchers, for instance. What customers regard as value can, however, change with time as tastes change. Therefore, it is worth researching and updating a brand’s valued concepts every now and then.

#### **4.4.1 Benchmarking Tesco**

A great example of a successful, global brand is the British retail chain Tesco. It has spread its business widely in Europe and Asia, and is now starting up in the USA. Tesco truly is a gigantic brand with its own products, customer loyalty cards, 24/7 shops and an online store. Tesco dominates the British retail market, while being the fourth largest retail chain in Europe, and the sixth largest in the whole world.

What makes Tesco so successful? The number one reason is that even though it is a globally spread brand, it still seems local. It complies with the surrounding culture and needs, and it truly is a customer-oriented brand. Complying with the customer needs in different regions is shown, for instance, in Tesco stores around the London area: The Brixton area’s citizens are mainly of Caribbean origin, and so they have a very different variety of products in their Tesco stores than for example in the Covent Garden stores, where majority of customers drop in to buy a sandwich for lunch. Also, the Tesco product selection in Thailand differs remarkably of Tescos in, say, Turkey or Poland.



Tesco is very cautious in its internationalization. It carefully observes and researches the market in question before rushing into establishing stores. The fact that it is so localized and customized in each of its market regions, explains why people find the brand Tesco so attractive and satisfying. (*Myllylahti, Kauppalehti, 2006*)

## 4.5 Chain Cooperation through Franchising

In order to study the cooperation of the two chains, InterContinental Hotels Group and Restel Hotel Group, and especially their mutual interest, Holiday Inn brand, two interviews were made. Mr. Timo Vehmas, Brand Manager of Restel, and Mr. Timo Haapanen, General Manager of Holiday Inn Tampere were the chosen targets.

### 4.5.1 Roles of the Two Chains

As Timo Vehmas confirms, Restel and IHG have a franchising contract. IHG is the franchiser and Restel is the franchisee. The liaison initiated from negotiations between Restel Directors and IHG in 1997. Today, Vehmas finds the cooperation working well without any major contradictions or disputes. IHG and Restel communicate with each other on a regular basis. Mainly the communications relate to franchising activities, like reporting. Additionally, there are quite a lot of regular contacts concerning the sales and marketing areas.

One of the main things that has changed at Restel, since IHG came along, is the increased international orientation. According to Vehmas, Restel has gained more market share in Finland, since the cooperation with IHG started. Also, the internal organization of Restel has received many incentives and stimulation along with the collaboration. An example of this is the renewed Revenue Department, as Vehmas points out.

When it comes to the roles of the both chains in the Holiday Inn hotels in Finland, Restel takes care of its own businesses and especially all the operations inside Finland, plus of course exporting. The rest belongs to IHG and has more to do with worldwide brand operations.

Marketing decisions for Holiday Inns in Finland are made by Restel. IHG sets certain standards and guides the marketing, but it does not limit the content any further. Different campaigns are invented by Restel for the Finnish market, and IHG on a global scale. Thus, both take part in the marketing actions, but in their own areas, though. However, many campaigns are in use all over the world, including Finland. Still, some campaigns only concern the main market areas, and do not fit to all corners of the world. Decisions in these matters in the case of Finland's Holiday Inns is made by Restel Brand Management/Timo Vehmas.

As Vehmas points out, IHG controls the adherence to the global Holiday Inn standards very strictly. The concept regulations and rules are clearly set, and they are expected to be complied with. This is the way a global brand will maintain its reputation and reliability in the eyes of an international customer. IHG also surveys customer behavior and marketing needs efficiently by the tools it provides to all its hotels. Vehmas gives examples, like customer satisfaction surveillance, Priority Club Rewards member acquiring, distribution channel monitoring; GDS (Global Distribution System), Internet, direct and indirect distribution channels as well as search engine marketing.

Finally, Vehmas is asked to describe Holiday Inn as a brand. He points out that Holiday Inn is one of the most well-known hotel brands in the world, and according to many researches it actually is the most known. Hotels offer domestic as well as international customers a safe, high quality and friendly mid-level (3-4 stars) and full-service hotel experience. Vehmas also highlights the Holiday Inn's offer for strong and familiar brand's products, like the Pillow Menu, great breakfast, Priority Club Rewards and the Can-Do promise. Hotel guests feel themselves comfortable and cozy, because Holiday Inn provides customers with all the necessary services and products belonging to this hotel level. Holiday Inns can also be found very widely in the world, so the network is covering large areas, as Vehmas reminds.

#### **4.5.2 Chain Collaboration – Unit Point of View**

The second interviewee, Timo Haapanen, is working as General Manager at the Holiday Inn Tampere. His own unit, Holiday Inn Tampere, has only recently experienced a conversion from one hotel brand to another.

Timo Haapanen finds the beginning of the IHG-Restel cooperation good in the case of Holiday Inn Tampere. Naturally, though, some issues cause some troubles and require extra care. Haapanen observes that after converting from Ramada to Holiday Inn at the beginning of the year 2006, personnel training to the new strong concept has left out to be quite insufficient. There has been some confusions whether the training should be done by Restel or IHG. However, according to Haapanen, IHG is the one in charge of the concept and standards, so in that sense the training should be conducted by them. Also, the hotel renovation has taken longer than originally planned, but that has not depended on IHG.

Timo Haapanen does not really long for the past Ramada time, although some things in the new concept are somewhat questionable, in his opinion. He gives an example of the standard equipment in rooms. Not all of the items are necessary in a Finnish hotel in his opinion. Also, the need for more personnel has increased with the conversion. The new concept requires more human resources to take care of all the concept rules. And in order to increase the number of staff, more revenue should be gained. Room prices should be raised, but the prices should still be kept competitive. Haapanen points out that Holiday Inn Tampere is still living the transition

phase, and many issues are still to be adjusted, but little by little a more stable state will be achieved.

As one of the most remarkable matters that has changed since the conversion, Haapanen names the increase in the share of international trade. He states that the reservation channels are more viable than before. Holiday Inn, as a name, is better-known among people than Ramada used to be. Haapanen finds the IHG standards clearer and the Holiday Inn concept features more distinct than Ramada's. However, operation costs are higher in running the Holiday Inn concept.

According to Haapanen, the cooperation of Restel and IHG in general is now taking a good direction. The contradictions that always occur in the beginning of a new collaboration have settled down and a common ground is now clearer. Although the regional differences of the hotels are significant. The composition of the Holiday Inn hotels in Finland is now Helsinki area vs. the rest of Finland. The structure of clientele in the Helsinki area and other regions in Finland is very different compared to each other, Helsinki being much more international. Therefore, common decisions cannot be made from only the Helsinki point of view. This creates a contradiction.

Concerning the Holiday Inn marketing limitations from the IHG side, Haapanen indicates that IHG has given certain graphical standards for advertising. Advertising agencies have been given these standards and they are acting accordingly. Otherwise, IHG does not interfere in the local marketing. He notes that local marketing ideas and campaign suggestions should be sent to the Restel Brand Manager, Timo Vehmas, for approval and then be applied to the local markets. Country-specific campaigns to Finland are mainly invented by Mr. Vehmas. However, if any employee of Restel comes up with a good marketing idea, it can be proposed to Vehmas, and feasible suggestions may be taken into use. Global campaigns invented by IHG can sometimes be a bit far-off to be implemented on the Finnish market, for they might be emphasizing a beach resort target group, for instance.

At Holiday Inn customer behavior and marketing needs are being studied every day by sensing and perceiving customers. At checkout customers are asked for possible feedback. Current general customer needs and wants may be found in newspapers, and also observing competitors might bring something new. Haapanen emphasizes the fact that electronic marketing and customer feedback play an extremely important role. From time to time the chain (Restel) purchases a customer survey from a market research company Taloustutkimus Oy. Self-made researches and surveys are not conducted because of the lack of resources. There is also a possibility to utilize external researches, but so far this has not yet been done.

## **5. Customer Relationship Marketing**

There are many vitally important factors affecting the success of a company. However, the most valuable asset is long-term, profitable relationships with customers. Customers tend to vote with their feet, and if they are not satisfied with the service they get, it is for sure that they will start purchasing someplace else.

Not all dissatisfied customers complain, though. A survey made in the 1990's (*Lahtinen & Isoviita, 1994*) shows that 26 out of 27 dissatisfied customers do not complain, but as many as 90 per cent of those that have complained start purchasing at a different place. In this situation lies the real challenge for marketers – how to find out if a customer is dissatisfied if they are not complaining? And above all, marketers as well as service providers should be able to execute their work in a way that makes the customer satisfied and gives them a feeling of a good purchase decision. This makes them want to return in the future and obtain that good feeling again.

### **5.1 Relationship Marketing vs. Customer Relationship Marketing**

The difference between Relationship Marketing and Customer Relationship Marketing are the interest groups. Relationship Marketing is the creation and development of long-term relationships with all of the company's most important interest groups, like internal customers, potential employees, suppliers, referees and other influential people. Whereas Customer Relationship Marketing aims only at present and potential customers. Therefore, Customer Relationship Marketing is included as an important part in the wider Relationship marketing.

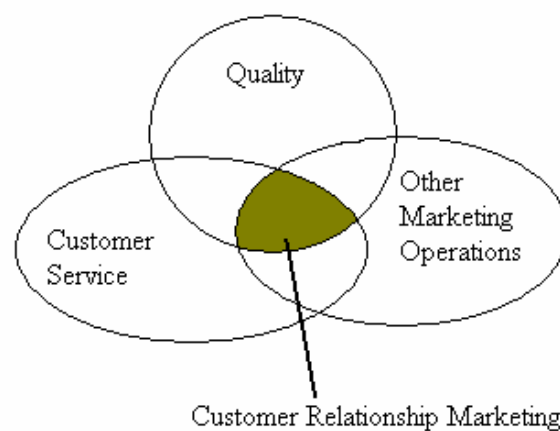
### **5.2 Objectives of Customer Relationship Marketing**

The basic objective of Customer Relationship Marketing is to deal with every customer on an individual basis at a very high standard. The long-term objective is gaining loyalty and finally profitability from customers that are actively engaged in the customer relationship. In order to reach these targets all employees in the company need to adopt a marketing-oriented approach to everything they do.

Regular customers, in particular, expect some extra benefits and special treatment in return for their loyalty. Careless behavior towards a regular customer will quickly backfire. It is important to continuously monitor the satisfaction and feelings of a customer so that possible disappointments can be discovered immediately without delay. Company must react to customer feedback without hesitation. If customers feel that their feedback has not had any effect, the company may soon be on the verge of losing customers.

### 5.3 Integrated Elements

Commonly, different departments of a company are responsible each for their own sector, for instance product department manufactures the products, sales department sells them and service department takes care of maintenance. However, Customer Relationship Marketing combines three different elements under the same category (see figure below). Integrated are customer service, quality and the market knowledge acquired from other marketing operations. By combining these three elements a customer can more easily be promised to receive the expected service and quality and help them commit to a long-term relationship. (*Lahtinen & Isoviita, 1994*)



**Figure 5.1 Integrated Customer Relationship Marketing**  
(*Lahtinen & Isoviita, 1994*)

### 5.4 Customer Loyalty

Loyalty is an essential concept in Customer Relationship Management (CRM), and it can be defined in two ways:

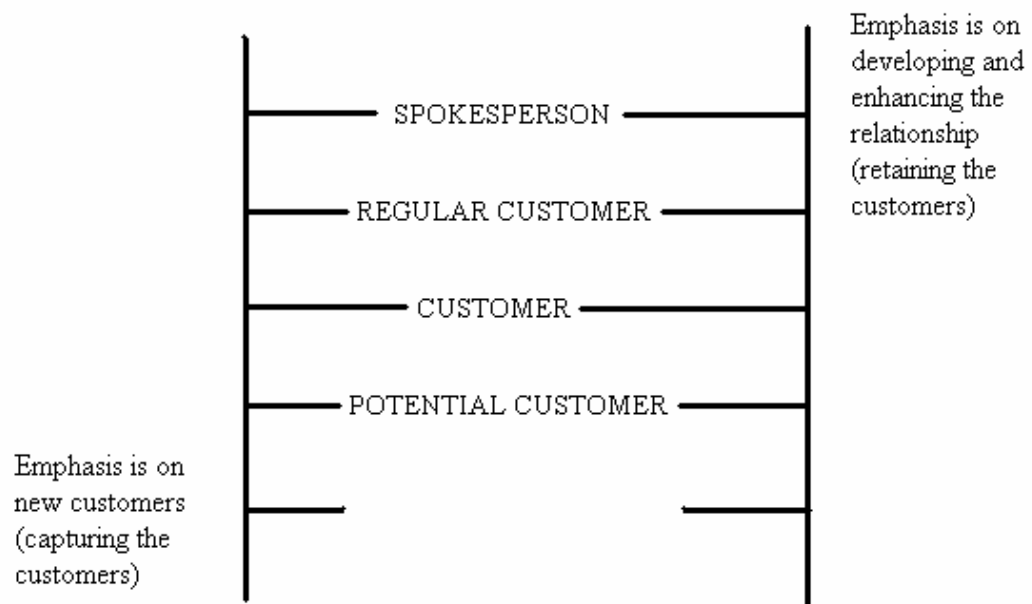
(*Gamble, Tapp, Marsella & Stone, 2005; p. 283*)

“A state of mind, a set of attitudes, beliefs and desires. We could call this ‘emotional’ loyalty. Companies benefit from customers’ loyal behavior consequent upon these attitudes and beliefs. The focus of the resulting loyalty approach will be on maintaining a special place in the mind of the customer. It will try to make the customer feel that their loyalty is being rewarded by a stronger or better relationship, visible perhaps in a higher level of recognition or service. An emotional loyal may buy from a supplier because of the relationship, even when the purchase does not meet all objective criteria.”

“A behavioral inclination. It precludes loyalty to some other suppliers but not to all of them. A customer can be loyal to more than one competing supplier. We could call this ‘rational’ loyalty since it makes sense for some types of situations. Here the focus of the loyalty approach will be on incentives that reinforce behavior patterns.”

As Gamble, Tapp, Marsella and Stone claim, not all customers are equally loyal or always show the same degree of loyalty. It is not even necessary for a company to make all their customers loyal. However, customers who show interest and natural preference towards the company/brand are the ones that a company should aim at having as their loyal customers.

One might question why loyalty is such an important asset. Indeniably it truly is essential, after all, researches reported on IHG www-pages show that it is 10 times more expensive to attract new customers than to retain existing ones. When conducted successfully, Relationship Marketing can bring up the company’s customers into spokespersons from their own will. Figure 5.2 below shows the ideal development of customer loyalty through the loyalty ladder.



**Figure 5.2 The Relationship Marketing Ladder of Customer Loyalty**  
(Lahtinen & Isoviita, 1994)

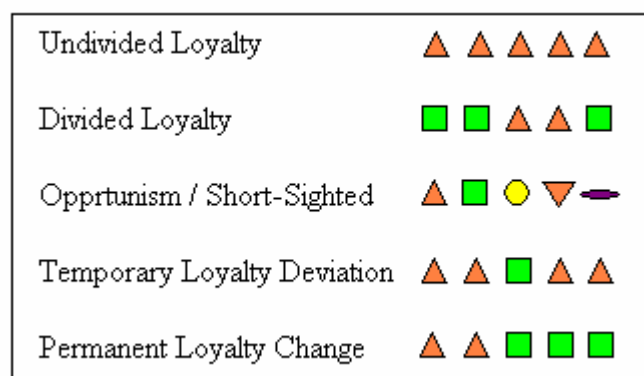
### 5.4.1 How to gain loyalty?

There is no one simple answer to the question of what is required in order to gain loyalty. Different people value different benefits. Some respond to incentives, some to differentiated and personal marketing, some to high general standards of service, some to product excellence and some to strong branding. However, after choosing a certain brand, for a reason or another, the decision to remain loyal to the brand over time is usually based on considering some attributes, like value, image, convenience, availability, satisfaction, service and guarantee or warranty. (Marconi, 2000)

### 5.4.2 Loyalty Types

However, it is not always guaranteed that loyalty and purchase behavior go hand-in-hand. Some customers buy whatever is available regardless of the brand, some buy a specific brand if it is available but might change brand for a different one for a good reason, and some refuse to buy at all if the one particular brand is not available. Extremely loyal and committed customers do exist, but one should not expect a complete denial of other brands, especially when the competition in today's "brand pool" is so fierce.

According to Ylikoski (1999) there are five types of loyalty (see figure 5.3 below). *Undivided loyalty* consists of customers who use only a certain organization, for instance centralize their grocery shopping in only one particular supermarket. *Divided loyalty* means that a customer uses services of a couple of specific stores or brands, but sticks to only a few brands. *Opportunists and short-sighted* customers take only the best benefits out of many different service organizations without being especially loyal to any of them. Nevertheless, even the most loyal customers may temporarily deviate from their usual patterns for a reason or another. This kind of deviation can either happen only once, or contrarily start a new pattern and make the customers want to change their object of loyalty.



**Figure 5.3 Loyalty Types** (Ylikoski, 1999)

### 5.4.3 Loyal Customers' Expectations

Customers have also become more self-aware and know their value to companies. Hence, many customers have expectations from the company's side on how they should be treated and valued. A few examples are presented by Gamble, Tapp, Marsella and Stone (2005; p. 284):

- When customers require service, they expect details of their relationship to be available to whoever is delivering the service and to be used if relevant.
- If customers are ordering a product or requesting technical service, they expect information they have given about their needs, not just recently but over the years, to be used to identify which product or service is best for them.
- If they are in contact with several different members of an enterprise, they expect the actions of these staff to be coordinated.
- They expect the company to consider their needs for a long-term relationship, not just for individual transactions within the relationship. They want to feel cared for.
- If there are problems on the customer's side, such as meeting payments or service problems which are the customer's fault, they expect their past relationships to be taken into consideration in resolving them.
- Loyal customers expect to have better relationships than if they were not loyal.

It must therefore be recognized that a large customer base is always a good and a useful tool in making loyal customers feel valued. However, using the database effectively can also be quite a challenge, especially if the database contains millions and millions of customer records. If, for example, a company is considering on sending a personal e-mail promotion for all its loyal customers, it must be carefully considered how it should appear. In large databases and customer mailings the message cannot be too customized since the recipients may vary from teenagers through household mothers with three children to retired widowers.

## 5.5 Evaluating a Loyalty Program

Since several types of loyal customers exist, a company should therefore critically examine its loyalty program to see if it really serves customers in an intended way and rewards them for their loyalty. Concerning their loyalty program, a company should ask themselves a few questions. Also in the case of Priority Club Rewards, and the potential improvement of its success in Finland, at least these questions should be revised (Gamble, Tapp, Marsella & Stone, 2005; p. 286):



- How unique is the program, is it distinctive, can the customer recognize the important differences between this program and others?
- Does it actually improve loyalty? What are the easily perceived benefits of being a member? Are different member levels worth achieving?
- What is the strategy for using your loyalty program to attract and keep customers and create continuous competitive advantage for your company?

The characteristics and benefits of a loyalty program should always be considered from the customer's point of view. Also, a customer's loyalty and value should not only be noted on the point of purchase, but it should be seen as a whole journey. Especially Priority Club Rewards is a wide program used in flying operations and accommodation. A customer may receive points or miles from both a flight and a hotel stay. Therefore, a loyal customer should be treated with extra care during the whole trip from the moment of booking through hotel accommodation until he/she is back at home and receives the points/miles from the journey.

A customer loyalty program must also be able to change according to time and place. It must evolve in response to customer needs and competitive changes. Therefore, in order it to maintain a continuous advantage over competitors, a loyalty program must be flexible, and changing must be low-cost and relatively easy. At its best, like in the case of Finnair's recent improvement in their frequent-flyer program, a successful loyalty program may bring the company significant benefits in terms of revenue gains and customer satisfaction with significant cost reductions. (*Gamble, Tapp, Marsella & Stone, 2005; p. 287*)

## 6. Priority Club Rewards

Priority Club Rewards is a worldwide customer loyalty program operated by Six Continents Hotels, Inc. and administered by InterContinental Hotels Group PLC. It is the first hotel loyalty program including almost 3 600 hotels in nearly 100 countries. To the Priority Club Rewards programme belong all seven famous IHG hotel brands (InterContinental, Crowne Plaza, Hotel Indigo, Holiday Inn, Holiday Inn Express, Staybridge Suites and Candlewood Suites) in every pricing class, from upscale to extended stay.

Priority Club Rewards has been recognized as the "Best Hotel Rewards Program in the World" as voted by the readers of Global Traveler magazine and "Program of the Year" at the 18<sup>th</sup> Annual Freddie Awards. Needless to say that it truly is a well-designed and functional loyalty program. And what for many people counts the most – it does not cost anything to be a member. The program benefits include:

- No point expiration
- Extended check-out
- Points purchase and points transfer
- Fastest way to Elite status
- Complimentary weekday newspaper
- Guaranteed room availability
- Complimentary upgrades for Platinum Elite members
- No blackout dates on Reward Nights
- Extensive reward options
- Online Reward Night redemptions

Members can collect Priority Club points toward hotel nights or merchandise, or alternatively earn airline miles with several domestic and international partners. During a hotel stay, a Priority Club Rewards member may earn points or miles for hotel purchases charged to their room folio. These items include room rate, food, beverage, phone, in-room movies and laundry. (*Priority Club Rewards: Hotel Quick Reference Guide, 2005*)

## 6.1 Enrollment

There are more than just one way of joining the Priority Club Rewards program. A hotel customer may fill in an enrollment form during their stay at the hotel and return it to the reception. The front desk personnel will then take care of enrolling this new customer to the Priority Club Rewards database. Alternatively, this form may be posted by a customer to the Priority Club Service Centre in the UK<sup>1</sup> or fax it to them<sup>2</sup>.

Another option is to enroll in the Internet. On the website [www.priorityclub.com](http://www.priorityclub.com) one can join the program by filling in an electronic form. A personal identification number (PIN) should also be created to be able to sign onto secure areas of the Priority Club website to retrieve a member's personal information.

Enrollment to the program can also be made by calling the Priority Club Service Centre in the UK<sup>3</sup>.

## 6.2 Member levels

In the Priority Club Rewards program there are three member levels depending on the number of nights or points earned during a calendar year. Benefits during accommodation vary according to the member level.

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<sup>1</sup> Priority Club Service Centre, PO Box 3711, BRIERLEY HILL DY5 1XT, UK

<sup>2</sup> +44 870 400 9103

<sup>3</sup> +44 870 607 2582

### 6.2.1 Club Level

(stay up to 14 nights / year)

- Points that never expire
- No blackout dates for Reward Nights
- Collect points, miles or other partner credits
- Extended check-out until 2 p.m. based upon availability
- Weekday newspaper
- Transfer points between member accounts
- Possibility to purchase Gold Status for \$ 50 USD / year

### 6.2.2 Gold Elite

(stay 15-49 nights or earn 20 000 points / year)

Receive all Club benefits, plus:

- Priority check-in on guaranteed reservations
- 10 per cent bonus on base points earned
- Exclusive Gold Customer service phone number

### 6.2.3 Platinum Elite

(stay 50 or more nights or earn 60 000 points / year)

Receive all Club benefits, plus:

- Priority check-in on guaranteed reservations
- Complimentary room upgrades (when available)
- Guaranteed room availability (72 hours in advance)
- 50 per cent bonus on base points earned
- Access to exclusive Platinum Elite phone number

### 6.2.4 InterContinental Ambassador

InterContinental Ambassador is also a status/privileges package within the Priority Club Rewards program. For an initial fee of \$ 150 USD, InterContinental Ambassadors enjoy increased recognition and privileges when staying at *InterContinental* hotels and resorts worldwide. Special privileges include:

- Guaranteed room upgrades
- Separate check-in area
- Fresh fruit and mineral water in the room upon arrival
- Priority waitlist reservations
- VIP Greeting

While staying at IHG hotels other than InterContinental hotels and resorts, like Holiday Inn hotels, for instance, InterContinental Ambassadors enjoy either Gold or Platinum Elite level Priority Club Rewards benefits. In the

Holiday Inn hotels of Finland Platinum Elite member benefits are applied to Ambassador members.

*(Priority Club Rewards: Hotel Quick Reference Guide, 2005)*

## 6.3 Partners

Priority Club Rewards members, who are also members of a partner airline frequent-flyer program, may choose to earn miles instead of points for every qualifying stay. Mileage earning rates may vary per airline. Priority Club members can collect Priority Club points or miles on hotel stays but not both simultaneously. Members can change their collection preference at any time from points to miles or vice versa. They also have the possibility to change from one preferred alliance program to another for future stays. Priority Club Rewards airline partners are (as of 29<sup>th</sup> Nov 2006):

Aeromexico	British Airways
Air Canada Aeroplan	China Airlines
Air China	China Southern
Air France	Continental Airlines
Air New Zealand	Delta Air Lines
Alaska Airlines	EL AL Israel Airlines
Alitalia	Emirates
All Nippon Airways	EVA Airways
American Airlines	Finnair
Asia Miles	GlobalPass
Asiana Airlines	Gulf Air
Hainan Airlines	Saudi Arabian Airlines
Iberia	Shanghai Airlines
Japan Airlines	Singapore Airlines
KLM	SN Brussels Airlines
Korean Air	South African Airways
LAN Airlines	Southwest Airlines
Malaysia Airlines	TAP Portugal
Mexicana	Thai Airways International
Miles & More	United Airlines
Northwest Airlines	US Airways
Qantas Airlines	VARIG

In addition to hotel stays, Priority Club Rewards members can collect Priority Club points in a variety of different ways by purchasing from the partners of Priority Club Rewards. Here are some of the partners:

- Hertz – car rental
- Visa
- American Express
- Diners Club
- FTD.COM (send flowers)

## 6.4 Point redemption

Priority Club points can be redeemed for a variety of rewards. As in nearly all sections of IHG operations, also Priority Club Rewards program is divided into geographical categories. The following point redemption opportunities concern the EMEA area (Europe, Middle-East and Africa).

- Priority Club Reward Nights (a night at Holiday Inn: 15 000 points)
- Any Hotel, Anywhere prepaid lodging card
- Airmiles/Partner Credits – with selected partners  
(most Priority Club Rewards airline partners redeem 10 000 points for 2 000 miles)
- Donations to charitable organizations (10 000 points)
- In-hotel awards  
(free in-house movie 3 000 points,  
free breakfast 4 000 points,  
dinner voucher 8 500 points for a three course buffet dinner and a glass of house wine)
- Store voucher
- Wine

*(Priority Club Rewards: Hotel Quick Reference Guide, 2005)*

## 6.5. Marketing Mix

In order to create a competitive advantage to a company or a product, some essential marketing decisions need to be made by managers. According to a generally known concept of Marketing Mix there are four elements which to control; Product, Price, Place and Promotion. From these words the concept “four P’s” is formed. However, in the service sector there is often talk about “seven P’s”. The additional three P’s include People, Process and Physical evidence. Next, the seven P’s will be discussed from the Priority Club Rewards’ angle.

### 6.5.1 Product

As a product, Priority Club Rewards is at the absolute top of its kind. Different awards and recognitions speak for themselves. A long list of benefits as well as the worldwide spreading of the program show that this loyalty program is well-designed and useful for both hotel and flight customers around the world. Priority Club Rewards is continuously being updated and improved in ways that are beneficial for customers. For instance, partners and point redemption alternatives are increasing all the time.

### **6.5.2 Price**

Price does not play a very significant role in Priority Club Rewards, since membership is free of charge. Customers may reach even high levels of membership without paying anything for the actual Priority Club Rewards membership. However, it is possible to “purchase” yourself onto higher levels. For example, a Club Level member can reach to Gold Level by paying \$ 50 / year. Also, point redemption can be performed by combining the use of points and money together, and thus more valuable prizes can be attained.

### **6.5.3 Place**

Distribution channels in Priority Club Rewards are quite fixed. A customer wishing to join the program can do it easily during his/her stay at the hotel by filling in an enrollment form and returning it to the front desk. A customer may also join the Priority Club Rewards in the Internet. These are the two most convenient channels. The enrollment form can, however, also be faxed to the Priority Club Service Centre, or the registration can be handled over the phone as well. A hotel’s communication and distribution channel to the Priority Club Rewards is the Holidex reservation system, where, for instance, all the Priority Club Rewards members’ information can be found.

### **6.5.4 Promotion**

Promoting the Priority Club Rewards is one of the key elements in this thesis. Promotional activities take place around the world, and a large portion of them are created and controlled by the InterContinental Hotels Group. In the case of Holiday Inn hotels and Priority Club Rewards in Finland the Restel Brand Manager Mr. Timo Vehmas is the link deciding which global promotions end up being used in the Finnish markets and which not. Managers at IHG hotels in Finland consider what kind of promotions would be needed in their areas and together with Mr. Vehmas a feasible act of promotion (a campaign, for instance) is designed. However, since in Finland there are only seven Restel-operated IHG hotels (6 Holiday Inns and 1 Crowne Plaza), i.e. only seven hotels possible for customers to benefit from the advantages of Priority Club Rewards, the promotion of this loyalty program is quite identical within the whole of Finland. The narrowness of the Priority Club Rewards market in Finland is one remarkable reason why the program has not experienced a large success in Finland yet. But at the same time, that is an extremely relevant reason why promotion of Priority Club Rewards must be improved and increased in order to make customers more aware of the benefits of the program.

At the moment, Priority Club Rewards is being advertised quite strongly in the Internet. When making a hotel reservation or browsing through the IHG/Holiday Inn website, a customer will surely notice ads of the program. Hence, Internet is probably the most efficient place to promote Priority

Club Rewards at the moment. Another place of promotion are the hotels. At the front desk area there are stands and brochures informing customers about the program. Further promotional responsibility lies on the shoulders of front desk personnel. Occasionally at check-in there are campaign flyers distributed, and during a reservation taking on the phone Priority Club Rewards should be brought up. In the latter case there lies a contradiction, though. At the Restel-operated IHG hotels there are loyalty programs from both chains used – Priority Club Rewards and YkkösBonus / Hotel Bonus Club. These programs are each other's worst competitors in the Finnish market, and for the front desk personnel to bring up either one on the phone automatically disregards the other program. In order to make the reservation making easy, pleasant and uncomplicated to the customer, too much information and questions should be eliminated. Therefore, this is a point in the promotional activity that should be further considered by the managers.

### **6.5.5 People**

As in all service organizations, also in Priority Club Rewards people play a very significant role. Members themselves as well as other customers affect on the success and development of the program. On the other hand, delivering services to members is depending on the hotel personnel. If they are trained well and instructed about all the relevant details about the Priority Club Rewards, they will be able to serve customers well and make customers satisfied. In some units of Finland's IHG hotels training is found to be somewhat incomplete. By improving and increasing the program knowledge of hotel personnel, more satisfied and appreciated Priority Club Rewards members will be gained.

### **6.5.6 Process**

Procedures and flow of activities are essential parts of the marketing strategy. A Priority Club Rewards member can, for instance, make a hotel reservation in the Internet and provide his/her Priority Club number to the reservation details. Hereby, the hotel will receive the information about this customer being a Priority Club Rewards member. Depending on the member level, the front desk personnel will prepare for welcoming the member with an entitled procedure. For example, an appropriate room is prepared for the arriving member, complimentary newspaper is at hand, and to a Gold and Platinum members a priority check-in is provided. Being helpful and service-oriented during the member's whole stay is important and required to the Priority Club Rewards process.

### **6.5.7 Physical Evidence**

Everything a customer may perceive belongs to the category of physical evidence. The way personnel is dressed, body language, quality of service, atmosphere, furnishing, room comfortability, the building itself and web pages, for instance, are attributes that a customer senses, and forms an

opinion about the brand based on them. Priority Club Rewards has both unifying and differentiating attributes everywhere in the world. The clearest unifying element is the Internet. The web pages are international and alike wherever from the world you are browsing the net. Differentiating elements, on the other hand, are the physical attributes of hotels. Even though IHG sets certain standards, which should be the same in all hotels, there are always room for some distinctions. Cultural differences affect the diversity of personnel and use of colors in interior design, for instance. Whether a Priority Club Rewards member finds the attributes pleasant or less appealing depends a whole lot on the personal taste of a customer. However, members know what they are entitled to as a Priority Club Rewards member, and the least they can expect from the hotel, is to fulfil these requirements.

## 6.6 SWOT analysis

In the process of finding ways to improve the state of Priority Club Rewards in Finland it is useful to have an analysis of the programs Strengths, Weaknesses, Opportunities and Threats. SWOT analysis is all about monitoring the marketing environment both internal and external to the program. (*Wikipedia, 2006*)

<p><b><u>STRENGTHS</u></b></p> <ul style="list-style-type: none"> <li>◆ Free membership</li> <li>◆ Possibility to choose points or miles</li> <li>◆ Complimentary items</li> <li>◆ Rewards and redemptions</li> <li>◆ Beneficial customer status</li> <li>◆ Other member benefits</li> </ul>	<p><b><u>WEAKNESSES</u></b></p> <ul style="list-style-type: none"> <li>◆ Only in English</li> <li>◆ Not many hotels to collect points from in Finland</li> <li>◆ Personnel not well-enough instructed</li> </ul>
<p><b><u>OPPORTUNITIES</u></b></p> <ul style="list-style-type: none"> <li>◆ Increased traveling</li> <li>◆ Media's interest towards the awarded program</li> </ul>	<p><b><u>THREATS</u></b></p> <ul style="list-style-type: none"> <li>◆ Terrorism – makes traveling more difficult</li> <li>◆ Increased competition</li> <li>◆ Too many loyalty programs in the market for customers to choose from</li> </ul>

**Table 6.1 Priority Club Rewards – SWOT analysis**



## 6.7 Competitor analysis

When choosing a hotel to stay at, customer loyalty programs play a significant role in influencing an individual's choice. If they happen to have chosen a certain program, they will most likely choose a hotel cooperating with the program. Most hotels in Finland are owned by large chains, like Tradeka, SOK and K-group, which all operate their own bonus programs through which customers may earn points in grocery shopping, restaurants, online stores, hotels, etc. These kinds of bonus cards are Ykkösbonus, S-etukortti and Plussa cards. Besides these large chain-wide programs, hotels also have their own hotel chain loyalty programs, many of which are mainly intended for business travelers.

Being a global loyalty program, Priority Club Rewards has competitors all over the world. There are hundreds of frequent-flyer and hotel customer loyalty programs, some of which have even integrated both airtravel and accommodation, just like Priority Club Rewards has done. For example Air Canada operates an online travel agency Destina.ca from where a customer can book flights, hotels, car rentals etc. and earn Air Canada's Aeroplan frequent-flyer points for each purchase. In the international market also SAS' EuroBonus, Hyatt's Gold Passport and especially Hilton Hhonor can be named some of the strongest competitors for Priority Club Rewards. It is worth mentioning that Priority Club Rewards has been chosen the best hotel rewards program in the world, and thus it stands strong among competition.

Irrespective of the significance of all the international competitors, more attention in this thesis is put on the Finnish competitors because of the improvement-demanding state of Priority Club Rewards in Finland in particular. Below you will see a listing of Finland's three largest hotel chains and their loyalty programs.

### 6.7.1 SOK Hotels

Sokos Hotels, Radisson SAS hotels, Holiday Club Spahotels

#### 6.7.1.1 S-Etukortti

"Deposit" of 100 € upon acquiring. Bonus points earned. 9 € discount from normal priced hotel rooms.

#### 6.7.1.2 S-Card

Cost 5 € / year. For business travelers a 12 € restaurant coupon in connection with a hotel night. Complimentary daily newspaper. One family member sharing the same room free of charge. S-points of financial value.

#### 6.7.1.3 Goldpoints Plus

Free of charge. International. 5 per cent discount from a restaurant bill in connection with a hotel stay. Bonus points (ca. 20 pts / € e.g. free movie channel with 6000 points)

## 6.7.2 Scandic Hotels

### 6.7.2.1 Plussa Card

Free of charge. Plussa –points. 9 € discount from normal priced hotel rooms.

### 6.7.2.2 Hilton Hhonors

Free of charge. 6-17 € restaurant coupon depending on the card level. 20 per cent discount for 6 restaurant visitors at weekends. Complimentary weekday newspaper. Spouse sharing the same room on weekdays free of charge. Accommodation provides hotel points and airmiles.

## 6.7.3 Restel Hotels

Crowne Plaza, Cumulus, Holiday Inn, Ramada, Hotel Seurahuone Helsinki, Rantasipi

### 6.7.3.1 YkkösBonus

Free of charge. Bonus points. 9 € discount from normal priced hotel rooms.

### 6.7.3.2 Hotel Bonus Club (HBC)

Cost 25 € / year. For business travelers. 12-15 € restaurant coupon in connection with a hotel night. Complimentary weekday newspaper. 5 per cent bonus on over 680 € purchases. One family member sharing the same room on weekdays free of charge. Ykkösbonus points.

### 6.7.3.3 Priority Club Rewards

Free of charge. International. Bonus points from purchases and accommodation (ca. 10 pts / 8 €) or airmiles.

*(Pöyhönen, 2006)*

## 6.8 Restel Loyalty Programs

More specific information about Restel customer loyalty programs, with the emphasis on Priority Club Rewards, was collected from Restel Brand Manager, Timo Vehmas.

The most popular loyalty program of the Restel programs by far is YkkösBonus card. Second popular is Hotel Bonus Club, and third comes Priority Club Rewards. The main reason for YkkösBonus card's strong popularity is that it is a very large loyalty program. Members can benefit from it in so many places also outside traveling, like daily grocery shopping. In addition, a great benefit is that the membership is free.

Priority Club Rewards is the least successful of Restel's customer loyalty programs at the moment. Vehmas was asked to describe the situation from this global program's view. As he confirms, Priority Club Rewards is one of the most widely spread loyalty programs in the world. It has over 28 million members. Vehmas agrees that in Finland / at Restel the program launch is not at its best quite yet. Partly it is because the clientele at Finland's IHG hotels is mainly Finnish (apart from the Helsinki area). It might be that these people do not have the need to travel abroad even on business, and therefore they do not feel acquiring the card necessary. On the other hand, in Finland the marketing of Priority Club Rewards is running on quite a small budget. However, hotels still have the best potential for gaining new members, and that will be preferred and invested on from the marketing side in the future as well, as Vehmas promises. Vehmas also agrees, that the selling arguments of the front desk personnel have to be refined to the level that customers can easily grasp the benefits of the program.

In Finland there are approximately 40 000 Priority Club members at the moment. However, active members (at least one overnight hotel stay) are only around 10 000. The competitor, Hotel Bonus Club, has around 28 000 members. Vehmas notes that current campaigns have attracted somewhat more enrollments, in some regions more than others, but because of any massive campaigns so far have not been organized, no massive enrollment rushes have taken place either.

Of possible enrollment channels, people use a lot of "on the spot" enrollment. They like to join loyalty programs at hotels, where there is always someone of the personnel who to turn to in case they encounter problems or questions. Especially Hotel Bonus Club members join almost exclusively at hotels. However, Priority Club Rewards members join both at the hotels and in the Internet. Joining in the Internet is easy, because Priority Club Membership is free, unlike HBC, which costs €25 / year.

## **6.9 Perceptions on Priority Club Rewards**

Priority Club Rewards representatives of all six Restel-operated Holiday Inn hotels in Finland were interviewed in order to find out the perceptions of both Priority Club Rewards Champions (representatives) and hotel customers about the program.

In general, personnel impressions on Priority Club Rewards were solely positive. No one could argue the functionality of this well-designed program. Especially the simplicity of the program and good benefits for customers were emphasized in the answers. General opinion within the Champions was that at the moment Priority Club Rewards works better abroad and on foreigners, than in Finland and on Finnish people. In Finland the program is still quite unknown and feels distant for domestic travelers. One reason for this unfamiliarity is the language of the program. All material is in English, and thereby the program may seem distant for many Finns.

The customer reception of Priority Club Rewards at Holiday Inns in the Helsinki area has been good. Whereas in other regions (Tampere, Turku, Oulu) the reception of the program has been less enthusiastic and has had a slower start than in the Helsinki region. The main reason for this distinction is the clientele's citizenship. In the Helsinki region there are much more foreigners staying at hotels, whereas in other areas domestic visitors constitute the majority of guests.

The average number of enrollments each unit receives per month is not exactly too positive. Nearly all Holiday Inn hotels have had less than 15 enrollments on average per month. Exceptions are Holiday Inn Helsinki City West with 40-70 enrollments and Holiday Inn Helsinki City Centre with 30-50 enrollments per month. Also here the difference between the Helsinki Holiday Inn hotels and other Holiday Inns is clear. Still, comparing the figures to the top enrolling properties makes the distinction between a flourishing and a less-successful area quite clear. In Europe, the most enrollments in October received the Holiday Inn Munich City Centre with 614 qualifying enrollments.

The interviewees say that campaigns have had some influence on the number of enrollments received; in some hotels more, some hotels less. Generally, campaigns have given the enrollments an extra "kick" to boost the joining. However, no remarkable difference has been seen at the units.

The Priority Club Rewards Champions expressed that connections between Holiday Inn hotels in Finland are very few. Contacts relate mainly to customer reservations and possible problems occurring in the availability of rooms, for instance. No contacts is actually made concerning the Priority Club Rewards in Finland, not to mention foreign hotels. Holidex reservation system is the one thing that links all Priority Club hotels together. The newcomers (Holiday Inn Tampere, Turku and Oulu) had more contacts with each other when everything was new and more problems occurred. But today, contacts are irregular and quite rare. Neither the Priority Club Rewards headquarters in the UK are often contacted. Occasionally the service center might be contacted, but usually the communication is done through Holidex. Related issues are missing customer profiles, point transfers, missing points, etc.

Problematic issues in Priority Club Rewards in general were enrollment issues, like missing customer profiles, for instance. On a unit level, problems like insufficient personnel training to the program arose. If every staff member were trained for the Priority Club Rewards more carefully, the Priority Club members would be addressed more special attention and be served better. When the Champions were asked to indicate problems that come up particularly in Finland, many of them mentioned the language problems. Finnish people may find the program distant, because material is available only in English. Having Priority Club Rewards material in Finnish would be of great assistance. In addition, by increasing preciseness, activeness and knowledge of personnel, many small problems could be avoided. Many of the interviewees found that marketing resources of

Priority Club Rewards need to be increased. Otherwise, no clear development is likely to happen.

The ways in which Priority Club Rewards is being marketed are quite standard in all units. Campaigns and marketing actions common to all IHG hotels in Finland were applied with stands and brochures at the reception area, information in rooms, flyers handed out at the front desk, and personnel-derived marketing on the phone and at the reception desk are exercised. Some of the interviewees found that a larger emphasis on marketing the Priority Club Rewards is still on the Helsinki area hotels. There the marketing has been perceived to work well. More emphasis and resources is required to the new hotels (in Tampere, Turku and Oulu) where customers are still unfamiliar with the program. Some interviewees also argued that Restel still seems to emphasize more its own loyalty programs, like Hotel Bonus Club, for instance. This creates contradictions between them and Priority Club Rewards, since not everything can always be promoted at the same place and at the same time. However, the Brand Manager considers the type and places of marketing in Finland, and makes the decisions. Not to forget is also Internet, which plays a significant role in the marketing of Priority Club Rewards.

Among Priority Club Rewards Champions the general perception about the worst competitor is Hotel Bonus Club. It is being marketed much more and is a familiar and beneficial program to Finnish customers. And since HBC and Priority Club Rewards are each other's worst enemies, it is nearly impossible for Priority Club Rewards to win the market share from HBC as long as it does not get enough promotion space and time to make itself known to the customers. Restel is in a difficult position having to choose which program to promote more heavily, or, on the other hand, find a way to promote both of them successfully.

## **6.10 Customer Survey**

In order to map the situation of customer loyalty programs and familiarity with Priority Club Rewards among Holiday Inn customers in Finland, a customer survey was conducted. 50 questionnaires were sent out to all six Restel-operated Holiday Inn hotels, and asked the front desk personnel to hand out questionnaires to customers at check-in. Ideally, the customers would then fill in the questionnaire during their hotel stay, and return it to the reception when checking out from the hotel. The questionnaire was made in Finnish only, since the main research problem was to find out why Priority Club Rewards is not doing so well in Finland. Also, since hypothetically the closest competitor for Priority Club Rewards is Hotel Bonus Club with a Finnish clientele, the survey was conducted in Finnish to research whether HBC truly possesses such a large market share.

### 6.10.1 Questions Asked

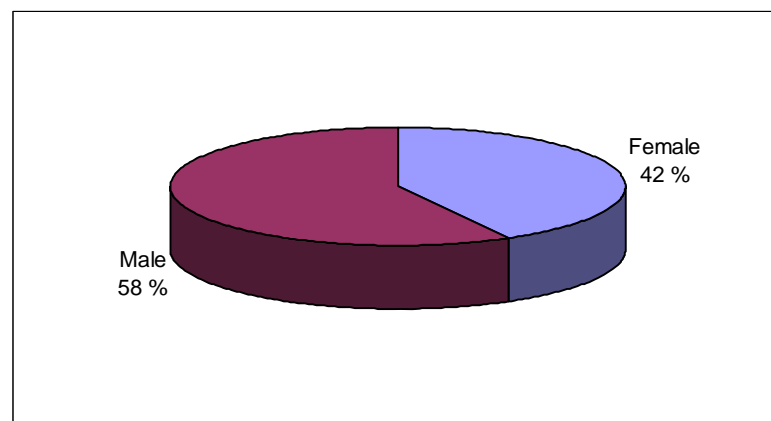
The questionnaire consisted of ten short questions. Respondents were supposed to choose their answer from the given alternatives and mark it with a cross. The questionnaire included a few elaborative questions, where a customer was supposed to indicate for example which customer loyalty program members they are, presuming they had ticked the answer of being a member of some program.

First in the questionnaire there were basic questions about the respondent's background (gender, age). Then the customers were asked about their traveling habits (motives for traveling, number of hotel nights/year). Next questions were about possible current loyalty memberships and the reasons for joining the programs in question. The four last questions concerned Priority Club Rewards; whether respondents were familiar with it, their information sources and their interest towards joining the program. In case respondents were not interested in joining Priority Club Rewards, they were asked to indicate the reason for it in their own words. At the very end of the questionnaire there were the hotel reception and the Priority Club Rewards website mentioned as additional information sources.

See the Questionnaire in its entirety in Appendix 1.

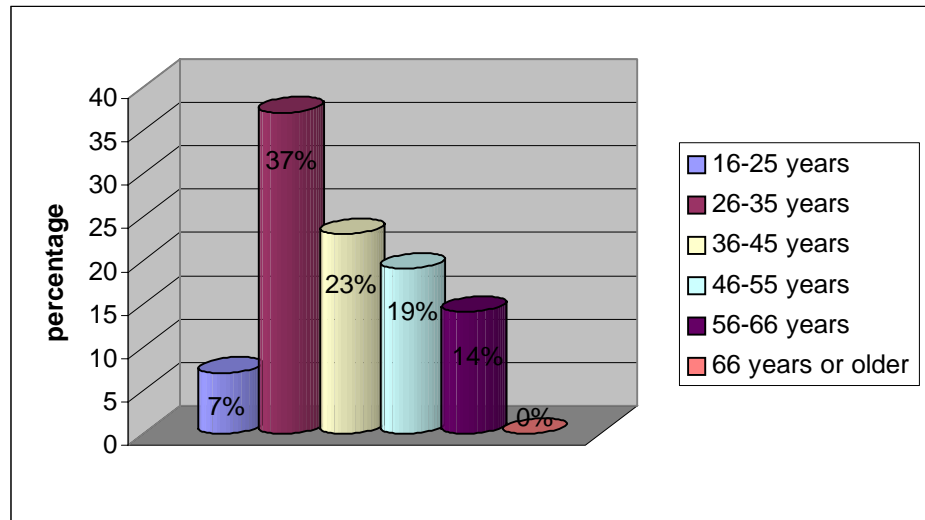
### 6.10.2 Survey Results

The customer survey results are made according to 43 respondents, whose answers are derived from the six Holiday Inn hotels in Finland. The genders were distributed quite evenly, still there were some more male than female respondents.



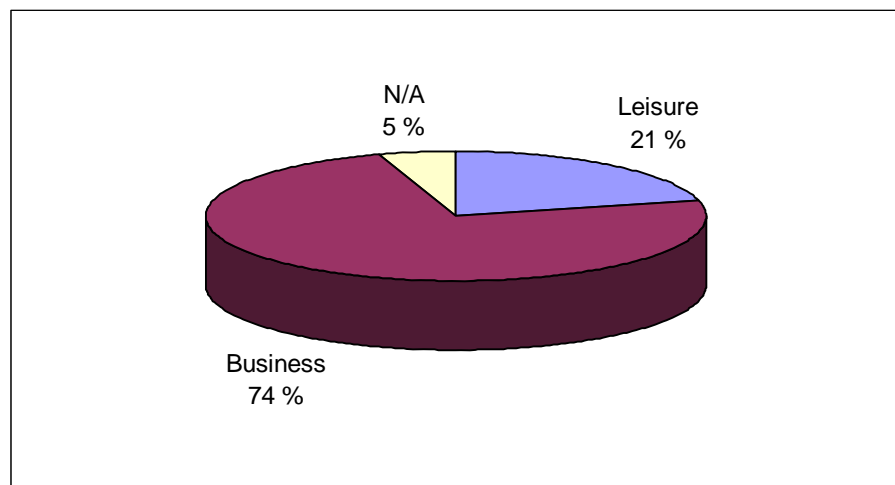
**Figure 6.1 Gender Distribution of Respondents**

Of all respondents, adults between 26 and 45 years constitute the clear majority of age groups with a 60 per cent lead to other age groups. None of the respondents were over 66 years of age.



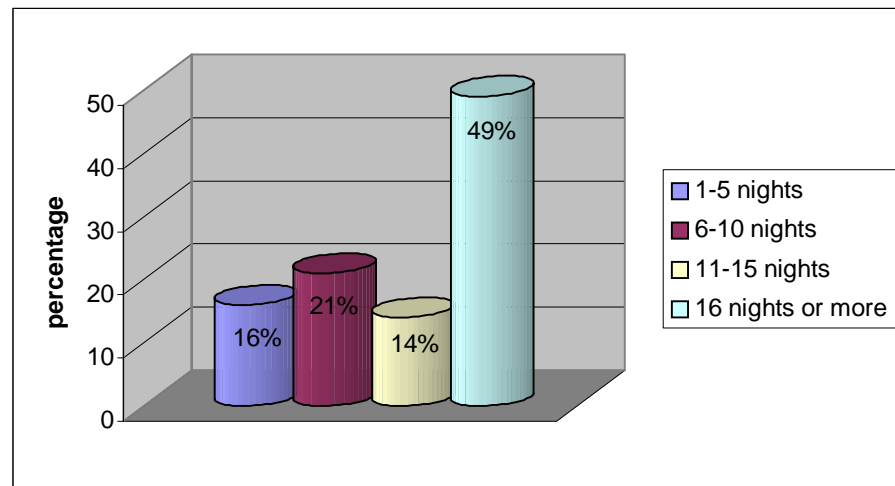
**Figure 6.2 Age Distribution**

The dominant answer to the question about the motives of traveling was business. This can partly be explained by the fact that for example Holiday Inn Tampere is especially targeting business travelers in their business strategy. Also, the point of time when the survey was conducted (fall time, during the week) was favoring more business than leisure travelers. If the survey had been done in July, for instance, the results to this question may have been very different.



**Figure 6.3 Usual Reason for Traveling**

Also, when asked the yearly average number of nights a customer stays at a hotel, the emphasis was on the larger numbers. As many as 49 per cent of the respondents stay 16 or more nights per year at hotels. Majority of these people travel on business.



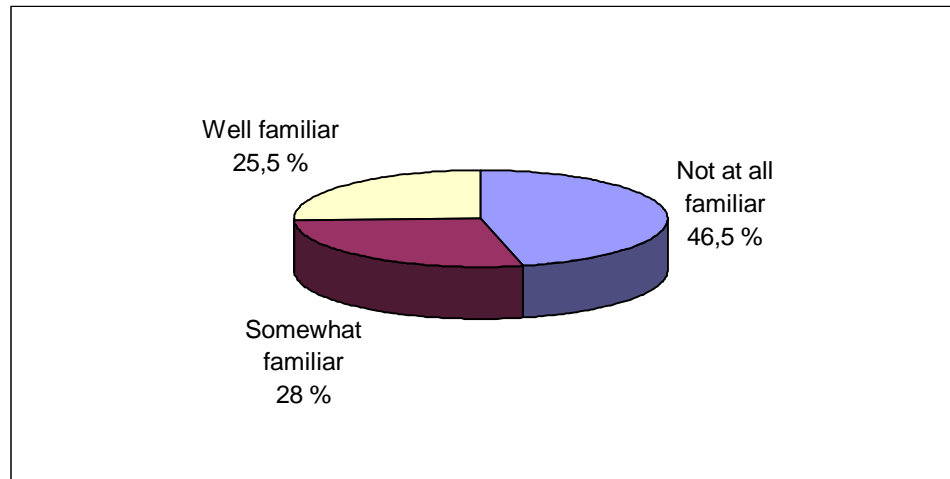
**Figure 6.4 Number of Hotel Nights per Year**

The customers were also asked whether they are members of customer loyalty programs of some kind. As hypothetically was possible to presume, loyalty programs are very popular in Finland as well, and the results show it, too: 70 per cent of the respondents had some kind of a customer loyalty membership card, leaving only 30 per cent without having any memberships. The percentage is remarkable, and it reflects the potential for also Priority Club Rewards in the Finnish market, despite the small percentage of existing Priority Club members (14 %) in the sample and nearly double the percentage of Hotel Bonus Club members (25,5 %).

As usual, people have reasons for their actions, and also joining a loyalty program requires a motive. Customers were asked about the motives why they have joined a customer loyalty program. The utmost appreciated attribute was the collection of bonus points, from which members can benefit later on (42 %). People also appreciate the special treatment, and that is often reason enough for a customer to join a program. Various loyal customer benefits and offers also tempt people to join, and sometimes current short-period campaigns work well, making the customer want to become a member. However, some people want tangible benefits right away, and are allured by fixed price reductions in the sales price.

Also the familiarity with Priority Club Rewards was inquired, and the results show that there is still a significant percentage (46,5 %) of people who have not even heard of the whole program's existence. This is quite alarming and managers should take actions to inform people better and thus decrease this number.

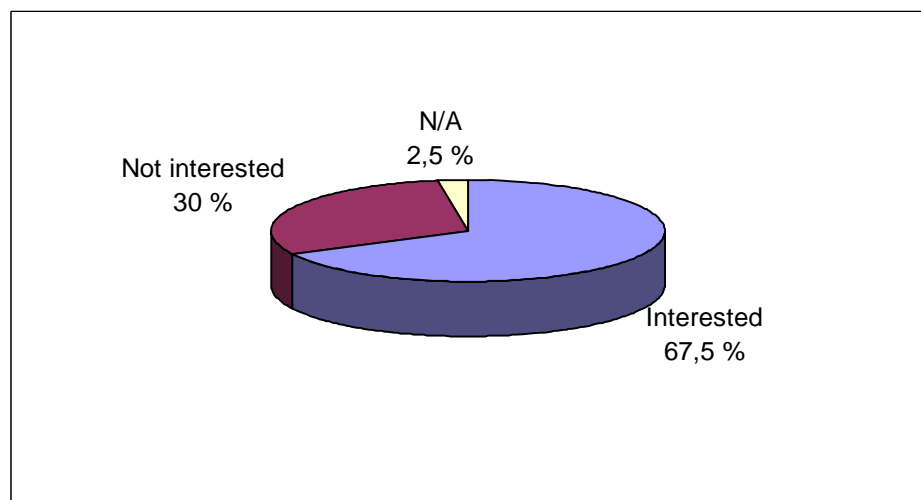




**Figure 6.5 Familiarity with Priority Club Rewards**

In order to find out which promotion distribution channels work best, customers who were at least somewhat familiar with Priority Club Rewards were asked to indicate their sources of information. Mostly, people get information on brochures and advertisements. Secondly, hotel personnel has been informative about the program. However, it is worth a note, that nearly half of the “hotel personnel” answers came from a Holiday Inn in Helsinki. It could, therefore, reflect a higher activity from the personnel side in the Helsinki area concerning Priority Club Rewards. Anyhow, also Internet was pointed out as a significant source of information and promotion.

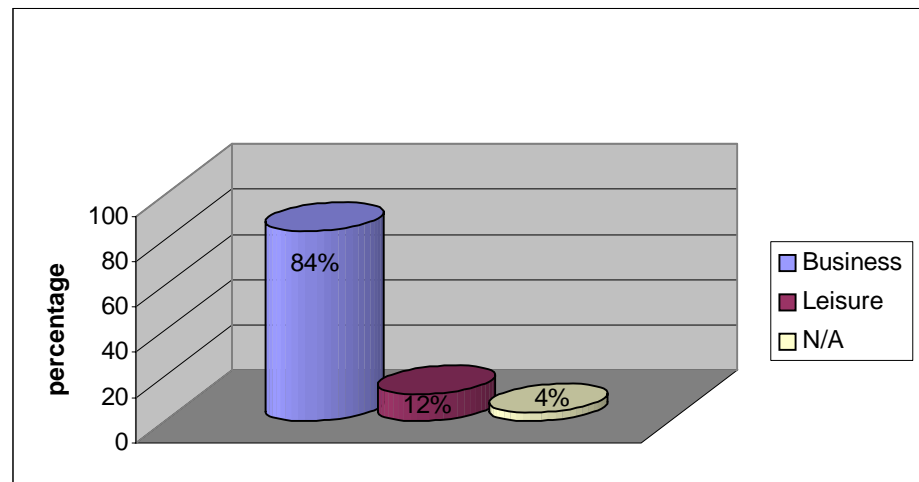
In the survey, respondents were very briefly explained the main idea of Priority Club Rewards with one sentence. After this sentence customers were asked whether they would be interested in possibly joining the program. The result was extremely encouraging: 67,5 per cent of all the respondents (excluding the ones who already are PCR members) showed their interest and willingness towards the program.



**Figure 6.6 Interest in joining Priority Club Rewards**

The ones who were not interested in joining Priority Club Rewards, gave reasons, like, being already members of other programs, irregular hotel stays and employer taking care of their travel costs.

From the people interested in joining Priority Club Rewards, their usual motive for traveling was studied. A clear distinction was made between business and leisure traveling, business being a strongly dominating reason. This should also be kept in mind when considering the marketing of Priority Club Rewards.



**Figure 6.7 Usual Reason for Traveling of People who are Interested in joining Priority Club Rewards**

### 6.10.3 Evaluation of the Research

Because of the restricted time limit and a rather busy point in time at the hotels, the number of answers remained quite few. Altogether 43 answers were received, and the results were made according to them. Two of the Hotels (Holiday Inn Helsinki City West and Holiday Inn Garden Court) were not able to distribute questionnaires / return answers at all. Therefore, the results do guide the researcher to the right direction, but cannot, however, be completely relied on as absolute truths. That is to say, biased results are possible because of the sample ending up being so small.

Respondents were neither very keen on answering to the last question, why they are not interested in joining the Priority Club Rewards. It is a shame, since it would have been interesting to know their reasons for it. Fortunately, most people answered to all questions asked.

Otherwise, the research gave valuable information particularly about people's little knowledge and, on the other hand, about their great interest towards the Priority Club Rewards.

## 7. Summary and Conclusions

Marketing is one of the utmost essential fields in any business whatsoever. So is the case in the accommodation sector. Hence, marketing is the wide umbrella under which this thesis is built. Also, an important business format, franchising, has been included in the thesis, since IHG and Restel are cooperating through that particular format. The collaboration of these two large chains is working well. It is proved by the recent expanding of the IHG hotels to Tampere, Turku and Oulu. The global brand Holiday Inn is, thus, making its way to become well-known also in Finland. At the same time, foreign visitors have more familiar, globally known hotel brand alternatives to choose from when searching for accommodation in Finland. The market potential for Holiday Inns in Finland is looking up, since traveling to Finland is increasing all the time. Marketers should, therefore, stay up-to-date in the development and take advantage of the market possibilities.

Customer relationships are also an extremely important –if not the most important- asset for a company. Loyal customers act not only as revenue sources themselves, but also, when everything runs smoothly, as promoters of a brand. For loyal customers today there are many program alternatives to choose from. The state of Priority Club Rewards in Finland will hopefully start looking up in the future.

There are many reasons that contribute to the modest success of Priority Club Rewards. One of the main reasons is, however, the unfamiliarity of people with the program. Even though Priority Club Rewards is such a beneficial and practical program, it has not been marketed enough in the Finnish market yet. Also, competitors are strong, for example Hotel Bonus Club offers good benefits, plus it is a Finnish program, which is found valuable as well. Priority Club Rewards operates only in English, and this is the reason why it might seem distant and somehow too refined for modest Finnish customers.

Marketing of Priority Club Rewards at the moment is conducted with brochures and stands at hotel receptions. Some information can be found in rooms as well. Hotel personnel plays a very significant role in promoting Priority Club Rewards: On the phone the customer should be asked about the possible membership, and occasionally at check-in there are campaign flyers to be distributed to customers. Internet is also an essential marketing channel. All IHG hotels' reservation pages include a reference to Priority Club Rewards and their homepage. However, the marketing of the program in Finland is still in the early stage, and more investments are definitely needed.

Positive development has happened in the traveling to Finland; the number of foreign visitors is growing all the time. The domestic traveling inside Finland is not as positively developed, but is still increasing on a calmer pace. Especially summer holidays are times for many families to travel around Finland. The increased supply of cheap airlines has also had an influence on the moving of people inside Finland. In addition, one

important thing that cannot be ignored is Finland's EU presidency this year 2006. It has brought many significant meetings and events to many Finnish cities, and within they have brought a great deal of visitors to Finland and also made Finnish people travel more in their own country. Therefore, the traveling tendency has become more frequent, and potential for Priority Club Rewards to grow is increasing.

Answers to the research questions and improvement suggestions resulted from finding answers first to the sub-questions. By studying the background to the current situation and contacting various people a wider picture and development ideas evolved. The cooperation style of IHG and Restel became clear by the interviews, and how to improve the success of the already well-designed Priority Club Rewards in Finland got answers and development suggestions through the research. There is not only one single answer to the development question, but the main problems did arise and according to them the development suggestions are made.

The globally successful hotel brand, Holiday Inn, and the internationally awarded customer loyalty program, Priority Club Rewards, are a valuable duet for Restel to take care of. I am convinced that such an experienced hotel chain as Restel will handle them with dignity, and make its best effort to enabling them for a great success in Finland as well.

All in all, this thesis was an interesting project for me as the author, because I have been working at Holiday Inn Tampere since February 2006. By being involved in daily operations, it is often easier to see the practical problems or the need for improvements, if any exist. Truly, Priority Club Rewards is not as successful in Finland as it could be, based on its great design and benefits. Small challenges also occur, from time to time, concerning the still new concept of Holiday Inn. But none of them are too big to overcome. Little by little, things become clearer and operations run smoother. No one is a born artisan.

## **7.1 Development Suggestions**

During the last few decades there has been a switch from a seller's market to a buyer's market in almost every field of business. Companies have to be able to meet customer needs better than ever before, and furthermore, they have to operate with lower costs. A true challenge is therefore at hand.

There are a few elements worth reconsidering and improving in the case of Priority Club Rewards. First of all, the Finnish market (outside the Helsinki region) is not at all enough aware of the characteristics and benefits of Priority Club Rewards. This can partly be explained by the Tampere, Turku and Oulu units' recent conversion into Holiday Inn hotels and the Priority Club Rewards' novelty in the market. Priority Club Rewards might be suffering from under-positioning, where customers only have a very vague picture of the whole brand. The brand is merely seen as a new entry to the rather crowded market, and no special attention is therefore gained.

Also, a more clear target group could be set. Since, according to the survey, the majority of people showing interest towards Priority Club Rewards were business travelers, special attention should be given to marketing the program to them in particular. Leisure travelers are, of course, important segments as well. However, the principle, more traveling – more benefits, applies in this program, and since business travelers travel more, the program is more beneficial to them.

### **7.1.1 Incentives and Emphasizing Competitive Advantages**

As Pamela Mulder, Director of Consumer Marketing at Six Continents, brings up with her statement, the competition today is fierce.

“It used to be all about getting people in your program. Once they were in, you were done. Now everybody carried two or three frequent guest cards in their wallet, so the challenge now is much greater. You’ve got to offer them incentives to pull out your card and not someone else’s when they’re out on the road.” (*Pamela Mulder, Amphinaut Ltd., 2002*)

A brand needs to have some competitive advantage in order to stand out from the crowd and beat the competitors. Undoubtedly, the great global success of Priority Club Rewards cannot be too much emphasized. It creates an image of a well-designed and trustworthy program. Also, the fact that membership is free of charge is an attribute that should definitely be stressed to the target groups.

Mulder’s point about alluring incentives is also worth a regard. Priority Club Rewards enables individual hotels to offer members bonus points on a quarterly basis. Extra bonus points encourage existing members to prefer IHG hotels and potential members to join the program. Also, point lotteries and voucher winning campaigns for joining members are effective incentives.

### **7.1.2 Personnel Training**

Personnel is the face of a company. How the staff looks, acts and impresses the customer, is the way customer experiences the whole company/brand. Therefore, it is essential that personnel is well-trained to represent the brand. Basic Holiday Inn concept should be mastered, and details on Priority Club Rewards matters should be assured to run smoothly. These details should be learned by everyone working at the front desk, and not only one responsible person.

Also, the activeness of personnel, especially the ones working at reception, should be encouraged. In-house sales competitions have showed good example of this. As mentioned earlier in this thesis, much of the Priority Club Rewards promotion lies on the shoulders of personnel. Sometimes,

however, the operation of two large cooperative chains is concretely seen at the front desk in too many things to be done and said and distributed to customers. Not all promotion of all campaigns and programs can be added to the workload of receptionists. When too much information is provided to customers at one time, the most essential matters are lost, like instructions to find their room and the breakfast times, for instance. Managers should make decisions on how to simplify the check-in procedure with still providing the necessary information to customers. At Holiday Inn hotels, specifically, choices should be made on whether to promote more Hotel Bonus Club or Priority Club Rewards. Information time and space seems not to be enough for promoting both of them at the check-in as well as on the phone. Communicating too much is not a risk, it just needs to be distributed to different times and places in a convenient way.

### **7.1.3 Language Barrier**

From the interviews made to Priority Club Rewards Champions it became clear that many Finnish customers find the current “only-English” policy of Priority Club Rewards quite uninviting. Traditionally, Finnish people are modest, and underestimate their language skills, even if they were just fine. Many Finns only use English when it is a must, and no other options are available. Priority Club Rewards suffers a great deal from this. Finnish-speaking customers rather choose for example Hotel Bonus Club, where all information is provided in Finnish. Own language makes a program feel safe and secure, no matter how much better and successful a competitive program would be. If even a short brochure introducing Priority Club Rewards was possible to have in Finnish, it would surely add up the awareness and thus the number of enrollments quickly.

“ International brands succeed when consumers in each market believe they are being spoken to by somebody who understands them, somebody who knows their needs and who talks and feels just as they do.” (*de Mooij, 1998*)

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Appendix I: Questionnaire for the Customer Survey

Please tick your answer. Return the filled form at the reception.

- 1.) Gender  female  male
- 2.) Age  16-25  26-35  36-45  
 46-55  56-65  66 years or older
- 3.) Do you usually travel on  leisure  business?
- 4.) How many nights per year do you stay at hotels on average?  
 1-5  6-10  11-15  16 or more
- 5.) Are you a member of some loyalty program?  Yes  No  
 If you answered "yes", please indicate which one(s)? \_\_\_\_\_

6.) What was the main reason for you to join the program?

- earning bonus points and benefiting from them later on
- special loyalty customer treatment  current loyalty customer offer
- cheaper room price  other loyalty customer benefits
- other reasons, what? \_\_\_\_\_

7.) Are you familiar with the loyalty program Priority Club Rewards?

- yes, I am  I have heard of it, but not very familiar  no, I am not

8.) If you are at least somewhat familiar with the program, where from have you received information about it?

- brochures and advertisements  hotel personnel
- Internet  friends, acquaintances
- other sources, which? \_\_\_\_\_

9.) Priority Club Rewards is a free, globally rewarded loyalty program, where members can choose to collect either points or airmiles from their hotel accommodation, and benefit from their membership during every hotel stay in various ways.

**Would you be interested in joining the Priority Club Rewards?**

(answering this question does not oblige you to anything)

- Yes, possibly  No, I am not interested

10.) If you answered "No", please indicate in your own words why not?

\_\_\_\_\_

Thank you very much for your answers! More information on Priority Club Rewards is available at the reception and in the Internet at [www.priorityclub.com](http://www.priorityclub.com)

Appendix II: The first interview questions for Timo Vehmas, Brand Manager, Restel Oy Ltd

- 1. What kind of a contract do IHG and Restel have with each other? What are the official titles of IHG and Restel when it comes to Holiday Inn hotels in Finland?**
- 2. By who, when and how did the cooperation with IHG begin?**
- 3. What are the most significant things that have changed in the Restel chain since IHG came along?**
- 4. How do you perceive the cooperation of Restel and IHG? Are there any contradictions?**
- 5. Is there any regular contacts between Restel and IHG? (reporting, supervision, etc.?)**
- 6. What is the coordination of tasks like between Restel and IHG in the Holiday Inn hotels in Finland? Examples of tasks that Restel takes care of, and what IHG manages.**
- 7. Who is in charge of the Holiday Inn marketing and makes the marketing decisions in Finland?**
- 8. Does IHG significantly limit the local marketing in some way?**
- 9. Who invents campaigns?**
- 10. How large percentage, on average, of the global IHG campaigns/marketing end up being implemented in Finland as well?**
- 11. How is customer behavior and marketing needs being studied at Holiday Inns?**
- 12. How does IHG control the adherence to the global Holiday Inn standards in Finland?**
- 13. How would you describe Holiday Inn as a brand?**

Appendix III: Interview questions for Timo Haapanen, General Manager, Holiday Inn Tampere

- 1. How has the cooperation with IHG started off from the Holiday Inn Tampere point of view?**
- 2. Do you find the conversion into Holiday Inn as a positive thing, or do you long for the Ramada time?**
- 3. What are the most remarkable matters that have changed since IHG came along?**
- 4. How do you perceive the cooperation of Restel and IHG? Are there any contradictions?**
- 5. Who is in charge of the Holiday Inn marketing and makes the marketing decisions in Finland?**
- 6. Does IHG significantly limit the local marketing in some way?**
- 7. Who invents campaigns?**
- 8. What kind of chances does an individual have in the chain to develop new campaigns and get their ideas through?**
- 9. How are customer behavior and marketing needs being studied at Holiday Inns?**

Appendix IV: The second interview questions for Timo Vehmas, Brand Manager, Restel Oy Ltd

- 1. What is the most popular loyalty program among Restel Hotels' customers at the moment?**
- 2. What is the reason why it has reached such a high position? Which factors form the competitive advantage of the program?**
- 3. What is the situation with Priority Club Rewards in Finland like at the moment? What are the reasons for this?**
- 4. How many Priority Club Rewards members are there in Finland at the moment? To compare, please indicate also the number of Hotel Bonus Club members.**
- 5. Which channel have the existing members mostly used to join the program?**
- 6. Have campaigns attracted noticeably more enrollments?**

Appendix V: Interview questions for the Priority Club Rewards Champions.

Interviewed were Tomi Mönkkönen / Holiday Inn Tampere, Marja Iitti / Holiday Inn Turku, Sari Lapinoja / Holiday Inn Oulu, Jani Juntunen / Holiday Inn Garden Court, Mira Anttila / Holiday Inn Helsinki City West and Salla Toivanen / Holiday Inn Helsinki City Centre.

1. **What kind of an impression do you have on Priority Club Rewards? Do you find it good/bad, effective/defective, etc.?**
2. **Does Priority Club Rewards work better abroad or in Finland? How about foreigners or Finnish people inside Finland?**
3. **How has the reception of PCR among customers been in your unit? What about Finland?**
4. **How many PCR enrollments per month do you receive in your unit?**
5. **Have campaigns had a significant influence on the number of enrollments?**
6. **What kind of connections does your hotel have with the other Holiday Inn hotels in Finland? How about foreign PCR-operating hotels? How often?**
7. **Do you have regular connections to the “PCR headquarters” in the UK? How often? What kind of issues these connections relate to?**
8. **Which issues do you find problematic in Priority Club Rewards**
  - \* in general?
  - \* in your unit?
  - \* in Finland?
9. **How could these issues be improved?**
10. **How is Priority Club Rewards being marketed**
  - \* in your unit?
  - \* in Finland?
  - \* abroad?
11. **Does the marketing work? Why? / Why not?**
12. **PCR’s competitors in Finland? Why have the competitors gained a more powerful position than PCR? How could PCR be improved and strengthened in Finland and how to win the competitors?**