

Blockchain In Boosting Hotel Loyalty Programs

Oliver Sykes, PwC Middle East Partner, Digital Trust practice talks to Forbes Middle East about on how the hospitality industry can benefit from blockchain.



Blockchain technology is unlikely to be adopted by anyone unless it delivers benefits through solving problems, improving efficiency or reducing cost. This might seem obvious but 'blockchain for blockchain sake' is becoming an increasingly common phenomena and, as a consequence, there is a flood of poorly conceived blockchain solutions being developed. This has created a risk that these ideas mislead and detract people from the exciting potential transformational impact of this nascent technology.

The Hospitality industry has had to shift considerably to adapt to the changes in consumer behavior, competitive landscape and business models brought by the advent of the internet. When the first web page went live on August 6, 1991, the concept of Airbnb, launched 17 years later, would have been completely unimaginable. Blockchain technology is still in its infancy and has an unknown potential similar to that of the internet with many believing it will be more disruptive and transformative.

It is very encouraging (or alarming depending on your perspective) that blockchain is already in use within the Hospitality sector. There are a number of use case examples, including using blockchain to improve bedroom inventory management, improve processes around travelling identity and to track and trace baggage.

In this article I explore how to identify a genuine use case for blockchain and explore one use case in more detail by looking at how blockchain is being used to solve existing challenges with loyalty programmes.

Finding a relevant use

When considering potential blockchain use cases, a good place to start is to identify current business challenges or areas requiring improvement. It is important to then understand whether blockchain could be used to help solve that use case.

There are a number of key characteristics that lend themselves to blockchain solutions.

- Multiple stakeholders – blockchain can provide solutions for value chains or transactions where multiple stakeholders are involved. If the use case you are considering concerns only one stakeholder, you may need to reconsider whether a blockchain is really necessary.
- Exchange of value – currently, exchanges of value, such as online payments, actually involves an exchange of information or instructions to intermediaries rather than the pure exchange of value. Blockchain provides a solution to transfer value between parties that does not require intermediaries and this value does not just mean monetary - value can be in data, rights or access privileges. Therefore, anywhere that there is an exchange of value, blockchain can potentially provide an improved solution.
- *Intermediaries* – blockchain provides facility to replace third-party intermediaries with technology as a means of certifying the integrity of transactions. Therefore, if there is a centralized intermediary or someone who plays the role of the trusted agent in facilitating a transaction, blockchain could provide a relevant solution.
- Process Characteristics – ongoing, repeatable and predictable processes that can benefit from being automated are more likely to be relevant for blockchain solutions than one time processes.
- Immutability – one of the key beneficial characteristics of blockchain is immutability. The technology provides a permanent, unalterable record of transactions. If your use case could benefit from these features, blockchain could provide a valuable solution.

Consideration of these relevant characteristics is one of the first basic steps on the blockchain journey. Once a potential use case has been established, the next step is to plan, setup and run an initial 'proof of concept'.

Loyalty

Loyalty programmes have been identified by organisations across all sectors as a use case that can benefit from blockchain technology. The hospitality sector relies on reliable, repeat revenue from customers and therefore retaining customer loyalty is very important.

Challenges

- Complexity - The challenge is that traditionally loyalty schemes can be difficult to setup, expensive and resource intensive to operate.
- Barriers to entry - These challenges provide

barriers for smaller operators within the hospitality sectors who wish to operate their own loyalty programmes

- Integrations - For those who have established loyalty programmes, the lack of unified systems result in the need for complex integrations to be built between multiple different systems and parties which introduces cost and security risks.
- Intermediaries - There is also the cost associated with the need to use intermediaries such as banks.
- Customer experience - From a customer experience perspective, the schemes are also often restrictive in terms of the flexibility of reward redemption which leads to low liquidity of loyalty points.

Blockchain solutions

Ecosystem

Blockchain can be used to build platforms that involve multiple different participants including loyalty program providers, customers, administrators, system managers and be used to include other stakeholders within the hospitality industry including tourism board, regulators and governments. These platforms allow participants to interact in one system without intermediaries. This can improve loyalty scheme interactions, especially in terms of points convertibility and exchange and without compromising privacy or competitiveness. It also allows small operators, who do not have a loyalty program, to provide their customers with access to a well-developed loyalty points network. While larger participants can utilize smaller partners to potentially offer their customers more personalized, unique experiences.

Security

The technology also provides the benefits of advanced transaction security and immutable ledger records. It does not need to hold information about customers but it records the transactions irreversibly. As each transaction is easily traceable and irreversible this prevents double spending and the risk of fraud. It provides the necessary data for business while reducing the risk of user data and information misuse.

User experience

It can allow loyalty scheme users to access all of their loyalty points and rewards programs from one digital wallet significantly improves customer's ease of use and reduces the risk that users quickly become inactive as we see with traditional models.

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The concept of 'tokenization' allows users to monetize or exchange their loyalty points. In simple terms, this is the conversion of loyalty points into a type of cryptocurrency and it solves the current challenge of liquidity which frustrates users. It means users are able to freely trade their rewards, for example, trade points they have earned with an airline for hotel points and vice versa or even be exchanged for fiat or other cryptocurrencies on a cryptocurrency exchange.

Cost

Finally, but perhaps the most persuasive benefit for businesses is cost-efficiency. Loyalty programs cost a fortune to develop and maintain while blockchain technology provides the potential to offer a better solution at a fraction of the cost.

Middle East vision

It is clear that blockchain has the potential to disrupt and transform the hospitality industry. We have focused on loyalty as a very powerful use case, but there are many examples of where blockchain can be used to bring more trust, efficiency, transparency to the sector. The Middle East is fast becoming one of the leading global emerging technology hubs with governments such as the UAE providing vision and leadership through pioneering projects such as the Dubai Tourism Blockchain Marketplace. I believe that it is important for leaders within the industry to follow this lead to embrace and make best use of this technology.

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