

## Newsweek

Enterprise

**Get Me Out of This Line! It's still typically free to be a frequent flier. But 'paid loyalty programs' are now all the rage at the car-rental counter, at hotels and even in some stores.**

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When I need a rental car for a business trip, I give NEWSWEEK's travel agent a simple directive: "Whatever's cheapest." I'm not enough of a road warrior to be loyal to a particular rental brand, and I don't care whether they stick me in a Malibu or a Taurus. Which is why, a few months ago, I wound up in a line at a car-rental counter at the Phoenix airport, waiting... and then waiting some more. As the line barely crawled forward and any hope of making my lunch appointment dimmed, the clerks at the counter made periodic announcements that made my slow march even more irritating: "Anyone who's a member of our preferred club, please come right to the head of the line." It was an infuriating reminder that when it comes to car rentals, membership has its privileges.

But it does come at a price. Unlike frequent-flier programs, which are usually free, some rental-car programs like Hertz #1 Gold and National's Emerald Club typically charge a \$50 annual fee. Marketing pros call these "paid loyalty programs." I might call them an ingenious way for companies to generate income that costs them almost nothing.

Lately they've spread far beyond the travel industry. Retailers, such as Blockbuster, CompUSA, Barnes & Noble and Best Buy, are all asking customers to pay up to get VIP status. Under Best Buy's Reward Zone program, customers pay a \$9.99 annual membership fee. In return, for every \$150 they spend, they get a \$5 discount on future purchases--a proposition that's attracted 5 million members since its launch in 2003. "If you charge the small fee we charge to join, you get people who want the card versus everybody who'll take the card," says Michael Linton, Best Buy's chief marketing officer. "It helps select the people who are fundamentally important to Best Buy." The chain can then hit these primo customers with special offers by mail or at the cash register.

For customers, figuring out whether these deals make sense is just one more economic calculation in a consumer marketplace that gets more complicated by the day. Come on, admit it: you have no idea if you've chosen the right cell-phone plan or whether you're watching enough DVDs to make your unlimited-rental Netflix account a good deal. You can't figure out the break-even point when it comes to paying an annual credit-card fee in return for frequent-flier miles. Even people who create loyalty programs for a living must pause when contemplating these offers. "We're all doing the math, saying 'Do I have enough of an affinity for this brand, and do I shop here often enough?'" says Kelly Hlavinka, director of the Colloquy Group, a marketing-consulting firm that helped create Best Buy's program.

In the frustrating battleground that is American travel today, rental-car companies can charge for their clubs because, as I witnessed firsthand in Phoenix, people will do just about anything to avoid waiting in line. In surveys of rental-car customers by J.D. Power & Associates, the time it takes to pick up and drop off a car is the biggest factor in customer satisfaction, says J.D. Power partner Linda Hirneise. Hertz, which claimed the No. 2 spot in J.D. Power's 2004 ranking, says it has millions of customers in its #1 Gold program, and it defends the \$50 charge as necessary. "Hertz incurs significant costs setting up and maintaining the systems and a vast customer database," says spokeswoman Paula Stiffer.

For frequent travelers, the charges can be a no-brainer, says Hirneise, who pays \$50 annually to the frequent-guest program at Marriott, which speeds her hotel check-in. "It aggravates the heck out of me when I get the bill, but I always seem to pay it because I know I'll be staying in their properties," she says.

But even after my interminable wait in Phoenix, I'm still on the fence about opening my wallet to boost my rental-car status. The good news: after checking Web sites of rival rental firms, I learned that some--including Dollar and Avis--offer preferred-customer clubs free, although not all of the free programs let members skip the check-in counter entirely and head straight to their car. (Some of the paid clubs also

offer free memberships to employees of select corporations.) Nonetheless, I'm now a proud member of both Dollar's and Avis's clubs. And if it works out the way I hope, the next time you're waiting in line at the airport, I'll be the guy strolling past you, in plenty of time to make my lunch date.

Waiting for customers: A row of rental cars at Denver International Airport

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