



## **Frequent Flyer Programs: An Overriding Trend Of Airlines Marketing.**

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## Introduction

Thanks to the booming global economy and growing demand, the airlines industry is overhauling at an impressive pace after facing severe downturn in view of the 11<sup>th</sup> September terrorist attacks in 2001 at USA and the global economic slowdown. SARS is the most recent calamity to hit the industry, following the wars on Iraq and Afghanistan. In order to sustain this and retain advantage in the chaotic, highly competitive marketplace, it is essential for the airlines industry to offer greater value to the customer than ever before and retain the existing customers. Consequently, the Airlines industry is abound with loyalty programs. Frequent Flyer Program (FFP) is a model much in vogue in the context of offering greater incentives to the customers.

## Frequent Flyer Program: An Overview

Deregulations in the United States that date back to the late 1970s led to the inception of the Frequent Flyer Programs. The American Airlines followed by United Airlines, Delta and TWA launched the first Frequent Flyer Program in 1981. European airlines were relatively late to embrace this paradigm, as the program was inconsistent with their premium-service and premium-price strategy. However, some of them now operate the most innovative and competitive programs with the following objectives:

- Repeat business among customers
- Product differentiation
- Gathering new information regarding the customers
- Creating additional channels of revenue through sale of points

With more than 70 FFPs across the globe at the moment, the program boasts over 100 million members and offers 10 million awards per year.

## Loyalty Management

With levels of competition ever increasing and margins reducing, an airline needs to maximize customer retention, especially high value customers, to increase revenues. Loyalty program could be beneficial to both the airline and the customer, provided it is managed well. There are many factors that influence loyalty management. It is important for any loyalty management program to be customer driven. This means that the customer feedback should be evaluated and incorporated into necessary changes in the business process/system. Identifying the potential of growth in a customer account and grouping customers in similar growth baskets, helps in approaching them with appropriate service offerings. This is more apparent in the airline industry than in the loyalty/frequent flyer programs and partnerships.

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## Strategic Issues in Loyalty Management

### 1. Frequent Flyer Program

- **Membership Strategy**

Any customer can enroll into a program and this can be used to collect information about the customer. This means that the only way to identify our most valuable customers is by their 'number of flights taken in a period of time'. With this, customers cannot identify themselves uniquely within the program e.g. if there were different tiers/levels to identify or rate our customers, then a customer with maximum number of flights flown for a period of say 1 year could be identified uniquely as 'Platinum' or 'Gold'. With the tier approach a customer-program relation is built. Identify segments of customers and their drivers. A clear difference between our customers, valued customers and most valued customer allows the program to make the right offers to the right customer.

- **Limited Redemption Options**

Reward is one of the drivers for customers to be loyal. Customers should have an option to redeem their earned points in different ways. Hence it is important that the program offers variety of redemption options to all its customers.

Customer behavior patterns can be changed using spare capacity for redemption as a motivating factor. Encourage travel during the off-peak season or on new routes. This results in greater market penetration, more travel by customers and locks them into the airline's FFP.

### 2. Customer Service

Customer Service is an essential part of any service-oriented industry. Customers play an important role in the success of such business. To ensure that the customers are loyal to the business, a high level of service and hospitality at every customer contact stage to enhance the customer's experience is essential. A dissatisfied customer will be difficult to retain and will play an important role in eroding the customer base eventually by influencing the perception about the airlines among other customers, contributing to an eventual decline in the business. It is important to identify the areas where the customer is displeased and take necessary measures to improve. Therefore, it is crucial to keep records of all customer complaints/compliments. Integrating loyalty with customer feedback can enhance customer satisfaction and hence repeat business.

### 3. Communication to Members

A single voice to the customer i.e. the same view from the company/organization to the customer is important. Categorize communication to high and low value customers separately and carefully send out the communications. Communication should be appropriately targeted. For example, do not send messages for enrolling into the FFP program to customers who are already members. Any communication made to the customer should be based on his preferences i.e. as mentioned in his profile.

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## 4. Branding & Co-branding

Introducing alternative ways of earning and spending frequent flyer program currency is an excellent way to increase customer retention and incremental revenue. Co-branded cards are beneficial to all parties involved. For example, credit card companies gain customers with a great potential to spend and airlines make money for each mile earned by customers. Most importantly customers gain mileage for every dollar they spend.

If used properly, a co-branded credit card, in relation with FFP, can be used as a profit-making tool. Some banks may also offer value added features such as travel insurance. A co-branded card will be attractive to both high frequency and low-frequency customers for different reasons. Understanding the needs and trends among customer profiles will allow you to formulate an effective co-branded credit card acquisition strategy. This will also be the basis to have your credit card contribute to the overall profitability of your FFP operation.

Deciding to opt for a co-branded card is the first decision. The second decision is whether you want to partner with a credit card company or with one specific bank in particular. To obtain the best possible agreement with a credit card issuer, determining the exact monetary value that you will be paid for each mile is extremely important. The valuation of your currency must be attractive for the Frequent Flyer Members, while at the same time ensuring that both your airline and the credit card company gain out of this arrangement. You do have the option to choose from among the many different credit card companies and banks competing in your local market to achieve the most favorable deal.

## 5. Partnerships

A detailed understanding of customer behavior is required to tie up with partners. With partnerships, an FFP program can generate revenues. Partnering can be done with airline and non-airline companies. Under the non-airline companies, reward benefits could be provided in the Entertainment, Dining, Retail, Non-airline travel and many other sectors.

Reconciling partner billings – from comprehensive Partnership Management functionalities- can maximize revenue recovery. Partners share any financial risk associated with the program.

## 6. Customer Relationship Management

Customers build loyalty in one or more of the four loyalty drivers: price, product quality, brand image and service quality. Determining the one or more loyalty drivers they value most and continually providing that value in a manner that exceeds their expectations, is Customer Relationship Management (CRM).

Figuring out the most profitable customer is very tricky. Many times the selling, marketing and customer support costs are not tracked or accounted properly - as a result, companies often end up chasing the customer who brings the most revenues for better service offerings. The most profitable customers may not bring in the highest revenue but the potential that they have in generating revenues over a period of time may be significant. More often, the most profitable customers are those who are in the average/middle volume segment.

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## 7. Managing liability

To reduce an airline's mileage liability, one may consider introducing a different mile age credit and a different mileage expiry rule for the miles earned.

The future financial liability of unredeemed miles cannot cause an airline to go bust, because there are no rules/restrictions on frequent-flyer programs to allow airlines to increase the number of miles required for a free flight, or to restrict seat availability. Both are a form of devaluation. Availability of seats is less compared to the unredeemed miles. This helps airline to market their seats for more miles (e.g. double the redeemable miles). The same applies to upgrades. Lack of seat availability leads to unredeemed miles being used on partner rewards, which for the airline is a revenue generator. Most airlines assume that a percentage of the total miles liable would never be redeemed because most of them would not have the minimum miles required to claim free tickets. Also miles are sold to partners that can reduce the liability significantly.

### Functions of a Loyalty/Frequent Flyer program

The core functions of a frequent flyer program would be:

- **Enrolment**

Customers could enroll themselves into the program via the web or by getting in touch with the service centre or by filling up physical enrolment forms at different locations at the airport. There could be other ways of enrollment that depends on the airline e.g. via the IVR (Interactive Voice Recording), other sales data, co-branded cards, promotions/campaigns etc.

- **Earn – Accruals**

Member could earn on their airline or non-airline activities. For airline activities there could be two types of points earned by members i.e. redemption and tier. Redemption points would be used by members for rewards and tier points would be used by the system to maintain the tier status e.g. to retain tier status "Gold" member needs to retain 50,000 points for a period as defined by the program. Additionally there could be bonus points accrued from promotions/campaigns/other rules set by the program. Accruals could happen automatically or manually.

- **Burn – Redemption**

Redemption points could be used to redeem against any airline/non-airline product/service offered through the program. Redemption in the airline business could be tickets and upgrades on host airline and partner airlines. In the non-airline industry there could be hotels, car rentals, super markets etc. Redemption could be done via the web or service center or other channels as available.

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- **Tier Changes**

Members move between tiers based on their tier points i.e. upgrade or downgrade. Generally upgrade would be a daily process and downgrade would be based on a calendar year (again it depends on the program). Criteria for upgrade and downgrade would be part of the program definition. Members could get new cards as per their tier status.

- **Campaigns**

Members are targeted for different campaigns to encourage them to use the products/services offered by an airline. Different member groups could be formed based on their tier, geographical location, preference etc. Communications would be sent to potential target members. Generally members would benefit as they register to a campaign and earn points in the program.

- **Administration (Fulfillment, Statements)**

Frequency of sending out statements to members would depend on the program. Statements could be sent at regular intervals of time or could be based on the member transactions for a time period. Fulfillment consists of the complete joining pack that includes the membership card, baggage tags, literature about the program, its product & services etc. Members would have to satisfy a defined program criterion to qualify for receiving the fulfillment pack. Other admin related activities could be program setup, security set up, partner management etc.

- **Interface with the airline reservation system i.e. the PNR repository**

Passenger Name Record (PNR) repository is the base for accruals. Any loyalty system would either be interfaced with such a repository or the PNR data would be available within the loyalty system. This data is primarily used to verify member's flight (generally host airline).

- **Other interfaces**

The loyalty system could be interfaced with many other systems like the Interactive Voice Response (IVR), Crew briefing system etc.

### Industry's best contemporary Frequent Flyer Programs

Although the programs started with U.S. airlines, they are across the globe today. Some of the examples in the context of the American and Canadian airlines re Air Canada' Aero plan, Alaska Airlines' Mileage Plan, Continental's One Pass, Frontier's Early Returns, Hawaiian Airlines' Hawaiian Miles, Jet Blue's True-Blue and many more. In Europe, some of the frequent flyer programs are Aer Lingus' Travel Award Bonus Program, Air France's Frequency Plus, Austrian Airlines' Miles & More, British Airways' Executive Club, Finn air's Plus Bonus Program, Lufthansa's Miles & More, Virgin Atlantic's Flying Club and many more. Given below is a brief description of the major Frequent Flyer Programs.

Alaska Airlines and their alliances have a total of more than a dozen airlines to choose from their mileage earning packages. Customers can earn as much as one mile for every dollar charged with an Alaska Airlines/ Bank of America Visa Card. Points can be earned from 30 worldwide hotel and car rental partners.

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United Airlines' United Mileage Plus® frequent flyer program has been voted as number 1 by the readers of Business Traveler magazine for eight years in a row. This loyalty program is also linked to several non-travel purchases like phones, retail shopping, grocery, renting videos et cetera. Swiss Travel Club offers a similar loyalty program. Through their global Miles & More frequent flyer program, passengers can earn miles whenever they fly with one of their numerous partner airlines. Customers can also add miles to their mileage account by renting cars, staying at hotels or using the products and services of other program partners.

Some new generation carriers have redefined the Frequent Flyer Program. Jet Blue and Southwest started an innovative loyalty package, which not only is limited to frequent flyers but also has stringent expiry dates. It also minimizes the probability of multiple awards. The major highlight of this program is that it increases the likelihood that award travel will be accompanied by take-along traffic, in turn leading to an increase in revenue. Carriers like Ryan Air have co-branded cards. This is an economically feasible solution as the bank sponsors the program and the company receives money for the sale of the tickets. Air Tran started a low cost paper based award system, which facilitates free flights after the collection of coupons. However, since there are certain hiccups associated with this program, like late identification of customer, this process has been recently automated. Some carries like West Jet have joined existing multi-merchant programs like Air Miles. The principal highlight of this program is that the non-travel rewards will be very low; even the infrequent traveler will also be entitled with some benefits.