

GRAHAM DUNN FORT WORTH

Loyalty set for new frontiers

Thirty years on from the birth of airline frequent flyer programmes, the landscape for reward schemes continues to evolve, and the immediacy of social media opens up a previously uncharted world

Airline loyalty programme experts met in Fort Worth for the annual *Airline Business* and Global Flight-organised Loyalty conference with nostalgia in the air. But while this year's 30th anniversary of host airline American Airlines' AAdvantage programme – the birth of frequent-flyer schemes – gives an excuse to look back at the journey, it is clear the evolution continues.

"Every year, about ten new programmes join the 200 plus existing these days. Obviously, you have to be ahead of the game if you still want to be successful in this area," says Ravindra Bhagwanani, managing director at FFP specialists Global Flight.

Iain Webster, senior loyalty consultant at reward marketing agency ICLP, believes this year's conference coincided with many airlines reaching a plateau. While many loyalty programmes are tiding over as a sales tool, the question is what are they going to do next? "Our view is what airlines have to realise is their greatest asset is not the aircraft, but the

customer database. So what are you going to do with it?"

Speaking during Loyalty 2011, Ryan Green, senior development of customer loyalty at Southwest Airlines, said he believes the industry needs to evolve its programmes to give customers more. "They expect something in return, not just a mileage base that doesn't mean anything. There's a great deal of pent-up frustration out there and we have to deal with that as an industry. I think it's something that will be a catalyst for a lot of change," he says.

In March, Southwest itself transitioned its own long-standing frequent flyer scheme to a revamped All-New Rapid Rewards programme. Points are earned on a purchased fare and product basis, while there is more flexibility on redeeming miles.

It better positions the Southwest programme to cater for higher yielding business traffic, with the airline believing it has the potential to contribute hundreds of millions of dollars of incremental revenue annually – even after associated programme costs.

Meanwhile in February Delta Air Lines moved to differentiate its SkyMiles programme from its rivals by eliminating mileage expiration altogether. Previously miles accrued in Delta's SkyMiles programme expired 24 months after a member's last qualifying mileage activity.

TO SPIN OR NOT TO SPIN?

While many loyalty programmes focus on the classic model of rewarding passengers to fly their own product, the other end of the spectrum sees others looking to secure more partners to build the value of the programme. This has seen some separate out their frequent flyer programmes to provide the autonomy to grow.

Qantas has evolved its loyalty



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President,
AAdvantage

programme into its own profit centre, which posted record underlying operating profits of A\$328 million (\$330 million) last year. "To make the change, you do need to separate. You need to own your own destiny," says Rob Colwell, Qantas executive manager commercial and marketing.

Part of the strategy at Qantas was to find more partners for the scheme, and its tie-up with Australian retailer Woolworths has been a central plank in expanding its non-airline partners. Indeed, Colwell says the growth opportunities at Qantas for the loyalty programme are based around expanding the coalition of partners. "The growth is far more about how many of our 8 million members I can get earning with different partners, because there is an overall lift for all the partners [when this happens]," he says.

These sentiments are echoed by Rick Ferguson, Groupe Aeroplan's vice-president of knowledge development. "As members shop at additional partners, that individual becomes more valuable to

each partner. This coalition effect is very powerful." Groupe Aeroplan has itself gone even further than Qantas. The scheme, originally part of Air Canada, is one of a few that have been spun out completely from the airline.

So far, not too many more airlines have followed this path. "About two years ago there was a real buzz [about more following]," notes Webster. "But I'm not sure that's happened as quickly as people thought it was going to." Global Flight's Bhagwanani adds: "I think airlines really wonder what the benefit is in there for them. If you don't need the cash (as Air Canada did to survive), why should you give away control and excellent future revenue opportunities?"

ANCILLARY MEASURES

For Webster at ICLP, which is part of the group which also owns ancillaries specialist Collinson Latitude, one of the challenges for airlines is to use loyalty programmes to expand ancillary revenue opportunities. He cites the example of banks, which group together a range of unrelated products and sell these as a perk of bank membership. "There are a lot of things airlines could wrap up together," he notes.

Webster also points to the need to find imaginative ways to deal with the issue of redeeming miles, in light of the ever more limited space to redeem them. Passengers are likely to want to spend their miles on the most popular routes at the most popular times, while the higher load factors being flown today compound availability issues further.

"This creates a new situation that did not exist five years ago. You have to try and get people thinking of different ways of burning your miles," he says, citing innovations such as auctions



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BEST IN SHOW

Emirates won the popular vote at Loyalty 2011 in Fort Worth for its Skywards Miles Accelerator initiative. The Middle East giant picked up the Gold Award for its Miles Accelerator initiative, moving away from the traditional pattern of awarding bonus miles over a given period of time to allocate bonus miles on specific flights and cabins only, closely aligned to yield management.

It was one of the three winners recognised by the awards' judging panel, alongside SAS and Intercontinental Hotels Group. The Scandinavian Star Alliance carrier was recognised for its Time to Forecast promotion, engaging



Emirates' Kashmira Motiwala (second right), Thomas Bruhn of SAS (centre) and IHG's Amy Ceriani-Nelson (second left) picked up awards

members to predict their own flight activity with the SAS Group.

Intercontinental Hotels won the

non-air category for a highly publicised campaign aiming at members of a competitor's programme.

or prize draws to encourage customers to redeem miles.

Airlines are also of course embracing social media across different areas of the business, and perhaps it is in the loyalty sector – and the ability to communicate in real time with frequent flyers – where the potential is most evi-

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dent. Much of the attention focuses on developing an airline's flyers into brand advocates or to create a buzz or community around the airline. Here, the world of loyalty programmes and social media initiatives merge in increasingly imaginative ways.

For example, Uruguayan carrier Pluna is working with US technology firm Flip.to on a concept already in development with hotels,

to incentivise people to share their travel plans when booking. “It gives you miles if you share where you are travelling [with the airline]. It's sort of a viral, but you are doing it in the booking process,” explains Ron Callari, vice-president of business development at Flip.to. “It connects them into engaged advocates.”

US carrier JetBlue is seeking to tap into a similar feel with its new GoPlaces Facebook application – where passengers can earn miles by checking in at its airport locations via Facebook. “It is an opportunity to see where our customers are going and what they are doing,” says David Canty, JetBlue's director of loyalty marketing. “It's a bit like TripAdvisor, with the different opinions.”

JetBlue's app is part of the wave of new initiatives tapping social media. At the time of Loyalty, for example, American's AAdvantage's Mystery Miles promotion – under which visitors clicking “like” on its Facebook page collected free miles – drove more than 160,000 new Facebook

likes and over 4,000 new Twitter followers within 24h.

“The dramatic increase in followers shows how much customers value AAdvantage miles and also provides a new community and platform to continue the dialogue,” says AAdvantage president Maya Leibman.

THE LEARNING GOES ON

Thomas Bruhn, SAS's manager of customer relationship management strategies, EuroBonus, points to the opportunities to communicate with passengers in real time, evidenced by recent periods of disruption. “We had a very successful communications with passengers via Facebook through the ash cloud and the snow crisis.” But this also raises expectations of how much an airline will or can communicate with passengers as a norm. “You have to learn as you go along. It has been a learning process.”

But social media gains remain relatively intangible in bottom-line terms, with the focus largely on the benefits of increased en-

gagement with the customers. “We don't try to monetise it. From our point of view the value is from listening to the customer. It is much more of an opportunity to listen and share experiences,” says JetBlue's Canty.

“Our caution is its easy to throw a lot of resources into social media to no great effect,” adds Webster, pointing to some airline social media efforts which push rather than communicate. “The difficulty is in trying to see how you can monetise it or add value to the brand. I think we are all foundering in the dark a bit.”

Global Flight's Bhagwanani also questions the measurable return of social media activities. “It definitely makes sense for carriers like JetBlue to engage in this field, given their average customer profile. But the majority of more traditional airlines would probably be disappointed if they had too high hopes towards a return in this area. It is useful for a specific segment of the market only - and unfortunately hardly the most lucrative one.”

He believes the overall challenge in the industry remains the lack of holistic view of things. “Loyalty is not about social media, ancillary revenues, new redemption models or CRM – but about all of that and much more at the same time,” he says.

But the aim remains the same, whether it be evolving programmes to add new platforms, partners or members; it is to attract and retain customers. As AAdvantage's Leibman observes: “Through the evolution over three decades of loyalty, things have changed a lot. But they have also stayed the same.” ■

 Read more about the 2011 Loyalty Award winners and this year's event:
www.loyalty-conference.com