LOYAL FOLLOWING

Airline frequent flyer programmes are the envy of other sectors because of their size and scope, yet engage with only a small portion of their members. Global Flight's Ravindra Bhagwanani looks at how re-engaging the remainder could yield big gains

Airline frequent flyer programmes (FFP) are traditionally the largest loyalty schemes in their respective markets, which has resulted in huge customer databases that are the envy of marketing managers from other sectors.

But it takes some familiarity with the situation to understand why a FFP manager starts to smile if the scheme records an inactivity rate of 50% of its members. While this might seem a shocking figure to the company's chief executive, this is indeed pretty good value in an industry where typically only between 30% and 50% of all members record any activity in the programme over a 12-month period. In the largest programmes with tens of millions of members, this figure can be as low as 10%.

INACTIVE CUSTOMERS

There are several reasons for customers becoming inactive, ranging from job changes to health issues that are outside of customers' control. However, other inactive customers might continue to travel as much as before, but have switched their business to a competitor. Or they may even still travel on the same airline, but have become invisible because they have changed their preferred FFP to one of the partner schemes.

This is something that can often become evident when airlines partner with a bigger FFP, which might be perceived as a better option by customers.

For instance, Qatar Airways could see increased inactivity among its UK customer base after partnering with British Airways as these clients are likely to try to pool their miles into one single account. But they actually risk flying even more on Qatar Airways as these flights also allow them to reach a higher status in the British Airways programme, with both airlines belonging to Oneworld.

In both cases inactivity equals some financial loss, either in the form of lost revenue or the need to purchase miles from partner FFPs. Reducing inactivity rates in FFPs should be a top priority for any loyalty manager and be monitored by top management, but this is not the case with all airlines today. Most FFPs still focus more on recruiting new members, rather than engaging those they have already recruited. In the case of a 5 million-strong FFP programme where 60% of members are inactive, if an airline manages to re-engage just 10% of those members and each one buys an annual ticket for $700, this translates into $210 million of additional revenue for the airline. Most airlines would not want to miss out on the opportunity for relatively easy revenue gains.

To seize this opportunity, airlines need to understand the reasons behind customers disconnecting from a programme. As mentioned, some customers disengage for external factors beyond an airline's control. But the majority of disengaged customers entered the FFP programme at one point and subsequently lost interest. Typical reasons for such behaviour include:

- Changes to the FFP, including partnerships, which make the programme less attractive
- Repeated problems with proper mileage credit, leading to frustration
- Expiration of miles before achieving redemption thresholds
- Inability to redeem miles due to capacity restrictions
- Deteriorating service levels at the airline, including the introduction of paid ancillary services
- Bad customer experience, which was not addressed correctly

In each of these scenarios, the FFP has lost its appeal to individual customers. Instead of pointing out that the customer's initial expectations were perhaps unrealistic, a more productive approach would be to try to address their disappointment in an honest attempt to win them back. Examples show that taking such measures could become secondary once the customer feels that the airline cares about him or her. With limited data available on customers with little activity, it is also often difficult to understand the real reason for their disengagement. Some general assumptions might be made based on historic transaction and social demographic data. For instance, a customer who formerly flew abroad on a regular basis and then becomes inactive is more likely to still be a regular traveller on other airlines than a person in the airline's home market, whose inactivity coincides with reaching retirement age.

Rex Features

> **"It is important to customise the offers in accordance with the airline's own strategy"**

As a result, and in the absence of the ability to handle millions of individual questionnaires appropriately, many programmes are left to trial and error in what could be described as very basic customer relationship management (CRM) campaigns. Given the huge databases, a successful approach is clustering and designing different actions for customer groups before comparing the results.

NO LIMIT TO CREATIVITY

Programmes can play with content, including flight discounts, service offers and FFP-related mileage offers, and with communication channels, from old-fashioned offline mailings to social media communication. There is no limit to creativity in this area, but it is important to customise the offers in accordance with the airline's own strategy.

Typical mistakes include the assumption that all disengaged customers are purely price driven and can only be won back through price initiatives. While there are definitely price-focused customers who are difficult to turn into loyal customers without being offered the lowest price, various studies show that a big share of today's regular travellers are value-driven, meaning they are willing to pay a reasonable surcharge in exchange for better service, schedule or a superior FFP offering.

The focus of any re-engagement strategy – as with any loyalty programme in general – should be on this customer group, where there is a realistic potential to turn them into loyal followers, at least to a certain degree, independent of the ticket price.

Certain first-mover airlines are testing the ground with such personalised CRM-orientated measures and are recording promising results. It is all about finding the balance between keeping things simple to control the financial effort and giving customers the individual impression that you honestly care about their business. But expectations should be realistic as the majority of inactive customers will still not immediately return as a result of such initiatives, and there is no easy explanation for that. Nevertheless, airlines realising some modest quick wins to re-engage customers will also have a stronger business case when it comes to investing more in second-stage re-engagement strategies.

Recruiting new members is an ongoing and sometimes costly necessity for all FFP operators. But airline revenues could be improved if management teams more closely monitored the revenue contributions of existing members and pushed FFP managers to deliver at that level. ■

Ravindra Bhagwanani is managing director at specialised FFP consultancy Global Flight
Email: info@globalflight.net

LOYALTY 2014 CONFERENCE

Airline Business and *Global Flight* are again jointly organising the annual Loyalty conference, which will take place on 17-19 February 2014 in Amsterdam. It will once again bring together key industry decision makers, attracted by the combination of an educational agenda with presentations covering a wide range of current loyalty issues, dedicated master classes run by loyalty experts, the recognition of best practice loyalty programmes through the Loyalty Awards and unparalleled networking and socialising opportunities. Confirmed keynote speakers at the conference include, among others: Bram Graber, executive vice-president passenger strategy at Air France-KLM Group; Isabelle Birem, senior vice-president customer relations at Accor Hotels; Mauro Oretti, vice-president, sales and marketing at SkyTeam; Alice Goh, chief executive at Think Big Digital (AirAsia); and Gabi Kool, chief executive at Coalition Rewards Group (Air Baltic). For more information on the upcoming event visit: **loyalty-conference.com**