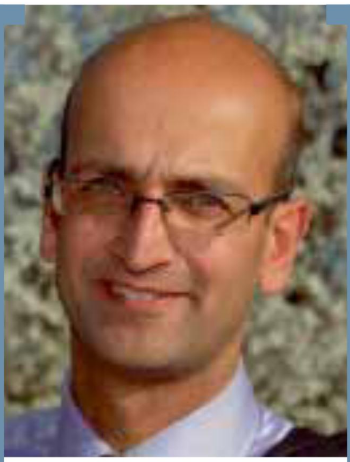
TURBULENCE AHEAD

As airlines gear up for the arrival of new-generation aircraft, they must ensure their loyalty schemes are also ready for an advanced type of traveller, says Ravindra Bhagwanani, managing director of Global Flight

Lufthansa's decision in December to cut by half the mileage earning rate of its main co-branded credit card in Germany was probably just a first sign of things to come. Resulting from the capping of interchange bank fees in the European Union, the economics of many frequent flyer programmes (FFPs) in the region will need to be revisited. British Airways has even decided on a more drastic step in foreign markets by stopping its co-branded credit card in Germany altogether and cutting in half the earning rate of its offering in Sweden.

While this issue is, at least for the time being, regionally confined, other changes can be observed at a global level. These changes are not necessarily good or bad per se, but they do have the potential to become a disruptive element for all airlines sticking to the traditional loyalty model, which has, after all, certainly evolved over decades, but not necessarily developed so much.



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RAVINDRA BHAGWANANI
Managing director, Global Flight

GLOBAL IMPACT

For instance, no international carrier has reacted visibly to the shift to a revenue basis in the three major US programmes by Delta Air Lines, United Airlines and American Airlines. However, if three out of the three largest FFPs in the world implement such dramatic changes, it does have a global impact. New threats and opportunities arise like those for any programme competing in specific market segments with any of these programmes. The competitive reply does not need to be to copy US programmes but to understand how customer preferences are affected by such a change, and reply accordingly.

Secondly, low-cost carriers are focusing increasingly on loyalty programmes as part of their marketing strategy. Recent new programme introductions or developments at carriers such as Norwegian, Gol and Cebu Pacific are no longer a purely regional issue for their local mainline competitors – their increasing presence in long-haul markets shows a wider impact. The traditional statement from mainline carriers that these airlines target different customers and are therefore not of major concern is probably a bit short-sighted. Although in the early days of LCCs this statement was true to a certain degree, the focus of LCCs has definitely evolved – as their ability to create new markets is limited as well – and their new focus on loyalty programmes is a clear indication they are poised to make more inroads into the typical customer basis of legacy carriers. The more ignorance they get from legacy carriers with their own loyalty strategies – in the form of lack of action – the more successful they will be.

As a final example, customer profiles are developing. While the traditional frequent-flyer profile still exists (and definitely has a decent life expectation in certain regions), a new generation of frequent flyers is emerging. This new wave might not yet be really profitable to many airlines but, like it or not, they represent the future type of customer. Whereas some airlines, such as Lufthansa with the "Jetfriends" sub-programme of its Miles & More scheme, do an excellent job to attract children (here the creation of emotional loyalty works fine!), most airlines struggle to understand how to address the generation between children and young business travellers.

In many demographics, this age group is already the most important one and having a mobile app or a Facebook page are not sufficient to win its loyalty. Some airlines have implemented successful social media strategies but most consider this is all they need. However, this would only be one small element of an holistic next-generation strategy. While the industry is spending billions of dollars on new-generation airliners, it is yet to address how to fill them with loyal new-generation customers.

So if airlines haven't undertaken a strategic health check of their FFP recently, it is probably high time they did. The market is in turmoil on all fronts. Not only do critical strategic questions need to be asked, but also the courage to do things differently than from the traditional model will be required to have a sustainable loyalty strategy in an ever evolving marketplace. ■

Ravindra Bhagwanani is managing director of FFP consultancy Global Flight (globalflight.net), which in partnership with *Airline Business* and Flightglobal organises our annual loyalty conference programme. **Loyalty@Freddie Awards 2016** takes place on 27-28 April in Las Vegas, showcasing best-practice examples of previous and potential winners of the Freddie Awards: **flightglobal.com/Freddies16**