

Loyalty must get back to its roots

Airlines will need to look to the past and improve the value proposition if they are to keep customers in future



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Right now, we all hope that business will return to normal as quickly as possible, so aircraft return to flying again and hotels can reopen. It is then that the tough work for loyalty professionals will begin in earnest.

Business worldwide is down for almost everybody in the travel chain. This is most obvious for airlines and hotels. But it has much wider implications, spreading through to suppliers, hotel investors and aircraft manufacturers.

The driver over the past decade for loyalty programme strategies has been to maximise profits. Alongside exploiting the currency game, this was largely achieved by finding the right balance between programme devaluations that were still accepted by members, together with the deployment of new technologies. While the latter usually came in the guise of enhancing the customer experience, it nevertheless primarily served the purpose of reducing costs by enabling members to conduct certain services themselves.

HAPPIER TIMES

In spite of some disruptors, over this period the market was quite stable. Fleet planning was a long-term exercise and the rest of business adjusted accordingly to absorb additional capacity. Besides, the cake was large enough for everybody.

But this means there is limited experience with the most fundamental task of a loyalty programme – to create loyalty in a highly competitive environment, where the offer largely outpaces demand.

The market we are going to find ourselves facing in the very near future is likely to look much more

like the US market after deregulation. Overcapacity will be the name of the game.

While some larger network airlines may still have the opportunity to retire older aircraft to right size fleets for lower demand, many of the low-cost carriers and emerging network carriers have much younger fleets. Withdrawing aircraft from such fleets would cost much more than keeping them airborne, even if yields suffer as a result.

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This is compounded by the likely additional capacity coming in during the same period in the shape of a recertificated Boeing 737 Max.

As a result, it will not matter whether you are as an airline reducing your own capacity or

not – everybody will be confronted with the excess capacity.

In order to succeed – or at least to stay relevant – loyalty programmes will need to move back to their initial role – to win market share.

STRUCTURAL CHANGE

While the current moves being implemented by many airlines, such as extending elite statuses, are certainly necessary, they will be insufficient on their own to achieve this goal.

More fundamentally, the value proposition of loyalty programmes will need to be enhanced considerably since members will expect that. If the perceived value is too low, passengers will be lost to more price-aggressive competitors.

So there is a fair chance that those airlines that have devalued their loyalty programmes over the past decade will have to act to reverse that trend. And the more successful will be those that do this at a structural level of the programme, rather than on a promotional basis, since members will well understand the longev-

ity – and underlying honesty – of both approaches.

The starting point for airlines should be to check two aspects of their loyalty programmes, which used to be common market standards 10 years ago:

■ Do base members accrue sufficient points/miles with one long-haul round trip in business class to redeem a regional round-trip flight in economy class?

■ Do you deviate by less than 10% for all of the following benchmark parameters for transatlantic redemption flights (on your own or on a partner airline); round trip in economy class; 50,000 miles and round trip in business class; 80,000 miles and taxes/surcharges on redemption tickets in all cabins: \$50/€50 one way.

If the answer to either of these questions is no, this is a clear indication this programme is not ready for the time to come. Those airlines should take the time now to work on a fundamental redesign of the programme. ■

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With so much excess capacity, frequent flyer schemes will need to concentrate on winning market share