TIMESONLINE

From Times Online

June 13, 2008

US Airways makes drastic changes to Dividend Miles to cut costs

Frequent flyer programme members will have to pay to redeem awards and will lose elite mileage bonuses

US Airways to charge passengers to redeem frequent flyer miles

Mark Frary

US Airways is to make unprecedented changes to its frequent flyer programme to help it cope with the current crisis brought about by fast rising oil prices and slackening of demand in its core domestic market.

The airline said yesterday it would make drastic changes to Dividend Miles as it tried to cope with the rapidly rising cost of aviation fuel and a slowdown in demand in the US domestic market.

The carrier said that from 6 August, it would start charging passengers using Dividend Miles a fee of $25 for issuing tickets within North America, $35 for tickets to Mexico and the Caribbean and $50 for international services and those to Hawaii. On the same day, the airline will end the practice of awarding members with Preferred status bonus miles.

It is this latter change which is expected to cause most concern among frequent travellers on the airline.

Ravindra Bhagwanani of frequent flyer consultancy firm Global Flight told Times Online Business Travel: “Scrapping the elite bonus is a sacred cow no other US carrier would ever have dared to think about. Although not relevant to all customers, next to complimentary upgrades the elite bonus is the most popular benefit for members of US frequent flyer programmes (FFPs). Usually, airlines would rather try to downgrade the programme for base members, but enhance it at the same time for elite members, given their revenue potential. But there is obviously no sign of balancing off whatsoever for elite members.”

Defending the changes, the airline said: “The airline's frequent flyer programme continues to be one of the best in the industry and presents the most generous upgrade opportunities. Dividend Miles Preferred members are eligible for unlimited complimentary upgrades up to seven days prior to departure versus five days, often accompanied by a fee, in other airlines' frequent flyer programmes.”

Bhagwanani said it is the first time that an airline has justified changes to its programme because of high fuel prices.

He said: “While US Airways is not the only one to look for additional revenue streams among their frequent flyers in the form of fees, the whole approach is very questionable since we are talking about an airline's best customers."

"US Airways seems to forget that customers do not only have a choice of airline, but also a choice of FFPs. US Airways currently participates in 20 different programmes and more than ever, several of them are certainly more lucrative for US Airways passengers than Dividend Miles."

He believes that the move will backfire on the airline. "If customers fly on US Airways and credit their miles to partner programmes, the associated cash-out costs are much higher than when they're accounted internally as a liability," he said.

The changes to Dividend Miles were announced yesterday as part of wide-ranging cost-cutting measures at the airline.

It said it would ground ten aircraft and cut the number of seats it will offer in the last three months of the year by between 6 and 8%, including almost halving the number of flights it offers to Las Vegas from 141 to 74. The carrier also announced 1,700 redundancies.

A 90% rise in the cost of aviation fuel in the past year has meant that the airline's costs have rocketed. It says that fuel now accounts for 39% of its costs, compared with just 14% eight years ago. Its fuel bill this year will amount to $1.9 billion more than last year, when it made net profits of $427 million.

It hopes to raise between $300 and $400 million with the introduction of the new fees for FFP members and also with a new $15 charge for the first bag checked into the hold – a move it has copied from American Airlines, which said it would do the same last week.

US Airways chairman and CEO, Doug Parker, said of the announcements: "Our industry is profoundly challenged by the dramatic increase in fuel prices, and we must write a new playbook for running a profitable airline in this new and challenging environment. We are taking every action to operate a strong and competitive airline, while ensuring that our customers have continued access to competitively priced air travel."

However, Global Flight's Bhagwanani says things look bleak for the carrier, which recently announced that it would not pursue a merger with rival United.

He said: "I see US Airways engaged in a dangerous downwards spiral. It must be in a very desperate situation - much more desperate than the official statements would suggest. Either it will get quickly get its act together and merge with somebody else (although the chances of this happening seem to be rather slim) or it risks going out of business. The US market probably needs the capacity reduction of a major carrier [going out of business] to be in better overall shape."