

IS LOYALTY A LUXURY?

Even in times of harsh cost pressure, airlines are well advised to continue to invest in gaining the loyalty of their best customers, argues Ravindra Bhagwanani, managing director at Global Flight

“ In any business, non-essential expenses come under special scrutiny when companies are forced to reduce their costs for whatever reasons. There is nothing wrong with that and this exercise often helps to make companies stronger. The whole challenge is to decide what kind of expenses can go without doing too much harm to the business as a whole.

The recurring types of expenses for airlines in this category include salaries, airport fees, distribution, air traffic control, catering and handling costs. In private talks, some airlines would, however, also add typical marketing costs such as advertisements or loyalty programmes, suggesting that customer loyalty is a luxury you are not to afford in difficult times.

LIMITED PERSPECTIVE

A corresponding behaviour is not only dangerous if competitors apply a different view at the same time, therefore increasing the gap between best practices and others, but it is also a sign of a limited perspective. While there are indeed short-term benefits of loyalty programmes that can be realised without investing further in the programmes – like the sale of miles to partners or an influence on the next



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purchase decision – the real benefit is in the ability to build a lasting customer relationship over the long run.

And that is where most airlines have not yet started to scratch surface of the potential of their programmes. Probably at least 95% of the most loyal flyers at any airline would not be able to tell which airline would be their preferred one in two years from now since their preference would strongly depend on the efforts of their current airline.

Newcomers like the Gulf or Indian carriers, or low-cost carriers grabbing market share from established carriers, should not even exist in an ideal loyalty world.

It is therefore time to recall the basic strategic character of customer loyalty. There are things in life that only pay off tomorrow, but they might be essential nevertheless. Customer loyalty is not an area where short-term cost savings should be the main focus, sending out the message to customers that we don't care about your long-term business since we are not sure whether we will still be in business by then anyway. Nobody should blame customers from shifting their loyalty elsewhere in such a situation.

The airlines that went out of business in the past few months applied a range of different business models, from the upscale model of Eos to the budget model of the likes of Zoom. The point they all had in common, however, was that they didn't have any, or only had a very basic, frequent flyer scheme. Since this might be more than a pure coincidence, it should be a warning signal to all other airlines to set their priorities right when it comes to the question of loyalty. ■

LOYALTY 2009 CONFERENCE: ENSURING TOMORROW'S LOYALTY TODAY



Vienna, 10-11 February 2009

Airline Business has teamed up with industry leading frequent flyer consultancy Global Flight to launch Loyalty 2009, an event designed to be the main meeting place next year for loyalty executives.

■ **High-level conference programme** – hear from the loyalty industry's leading air and non-air companies and featuring a keynote presentation from Andreas Bierwirth, the chief commercial officer of Austrian Airlines.

■ **Loyalty Awards** – a new feature at an FFP event, these are designed to recognise the most outstanding innovations in the frequent flyer industry over the past year. Nominate your programme via the Loyalty 2009 website.

■ **Loyalty Link** – organise formal network meetings with delegates.

For more information, visit:

loyalty2009.com



Is it a good idea for airlines to follow Air Canada's lead and spin-off their loyalty programmes?

flightglobal.com/spin-offs