



REPORT
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 GLOBAL FLIGHT

MAKING LOYALTY PAY

Some frequent flyer programmes are profitable, but most are not. Ravindra Bhagwanani explores whether there is a roadmap to loyalty scheme profitability

Airlines may manage their loyalty schemes differently, but few disagree that they are even more important in the current climate than in the good times. This is borne out by worldwide activity, ranging from smaller operators launching their first schemes to Citibank advance purchasing \$1 billion of miles from American Airlines.

Real customer engagement is essential if a loyalty scheme is to have the right impact. This can be won via innovative approaches both behind the scenes and, perhaps more importantly, initiatives visible to customers.

With the number of frequent flyer programmes approaching 200, innovative differentiation is needed to stand out from the mass, or get noticed at all. This is also true for

latecomers to the FFP scene. Launching a simple “me too” programme these days risks not delivering the desired results, although many carriers unfortunately still do exactly that.

At the same time many large programmes have shifted away from the attitude that size alone is enough to ensure long-term success. They have started to look at FFPs as not only a profit centre, but primarily as a tool to engage

customers. Innovation has become as important to them in defending their market share as it is to newcomers who are trying to grab it.

Barry Green, head of CRM & loyalty at Etihad Airways, represents the innovative camp with his still fairly young programme. "We are constantly striving to maintain the elements of innovation in our plans to develop Etihad Guest," he explains. And Etihad seems to be impressing its competitors, since they "are snapping at our heels and are quick to follow in our footsteps", according to Green. With competitor schemes taking on new forms, differentiation becomes even more important. United Mileage Plus vice-president Robert Sahadevan says: "Mileage Plus faces increased competition with the proliferation of different loyalty programmes."

Johannes Ganser, who heads loyalty & partnerships at Air Berlin, also stresses the importance of internal buy-in. "With the relaunch of topbonus in April 2009, the programme has gained additional awareness among Air Berlin customers and employees," he says. The importance of customer buy-in cannot be underestimated, making delivery crucial. In fact, lack of FFP success is often driven by delivery issues, rather than a failure of the FFP department's programme conception. Even the most innovative scheme is at risk of failure when appropriate delivery is not ensured.

Once successful customer engagement has been achieved, the ultimate question is how can it be translated into profit, and what is profit in the context of an FFP? The sale of miles to partners is a nice revenue generation tool and airlines worldwide are looking to increase these revenues. But best practice airlines would hardly stop here.



"[Our competitors] are snapping at our heels and are quick to follow in our footsteps"

BARRY GREEN

Head of CRM & loyalty, Etihad Airways

Etihad's Green looks at the FFP's overall role, rather than as profit centre in its own right, although he admits this is ultimately a parallel goal. "For us, the loyalty programme is 'profitable' as long as it contributes significantly to the profit of the airline as a whole."

Ganser distinguishes between direct and indirect profit. Direct profit stems from the sale of miles to partners, but there are also indirect benefits which are immeasurable such as increased loyalty and image transfer from attractive partners. He says: "This does not generate a defined cash flow on the FFP account at the end of the year, but it contributes to a better performance of the airline and

therefore to monetary profit in the long run."

Based on these definitions, there are different approaches to achieving profitability. While Air Berlin would rather focus on FFP-related activities adapted to its customer base, Green sees success in close co-operation with sales and marketing "to ensure that the features of the programme, and any special promotions that we run, always support the objectives of the airline, whether it is to encourage traffic on particular routes, or for specific segments of travellers". Over at United the sale of miles is a major revenue stream, so Sahadevan says the airline strives to make its mileage currency stronger via new redemption opportunities, such as the recent roll-out of car rental and hotel awards to all members. Previously this was limited to elite members and co-branded credit card holders.

There are a variety of approaches, but all suggest that FFPs should not be reduced to an ancillary revenue tool. Generating revenue through the sale of miles is certainly a worthy objective, but reducing FFPs to that one aspect risks isolating it from the airline. And it ignores a huge amount of wider potential, for instance at a CRM level.

However you define profitability, getting there is not a question of coincidence, but of careful strategic planning. Consider innovation, engagement and profitability as a pyramid: If you get the basics - innovation and engagement - right, profitability at the top is almost automatic. But if the basics are not in place and continually cultivated, there will never be sustainable profitability. ■

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LOYALTY 2010 MALAYSIA

The Loyalty 2010 conference will take place on 23-24 February 2010 in Kuala Lumpur. The event is jointly organised by Airline Business and Global Flight, with Sabre Airline Solutions taking up the role as lead sponsor.

It builds on the successful formula of the previous event, combining a strong agenda featuring industry-leading executives and hands-on workshops with pre-arranged one-to-one meetings and the best networking possibilities in the travel loyalty industry.

Agenda highlights include an opening keynote by Malaysia Airlines chief executive Tengku Azmil, directly followed by a vision of the future of loyalty programmes given by United Airlines Mileage Plus vice-president Robert Sahadevan. Industry veteran Patrick Bianquis, who is alliances vice-president at Air France, shows what frequent flyer programmes can really do for global alliances.

The impact of IFRIC 13, the evolution of loyalty concepts at hybrid carriers and the question whether loyalty programmes should really be reduced to a source of ancillary revenues complete the agenda with its overall

theme "Innovate. Engage. Profit."

Speakers such as from Global Hotel Alliance and Payback ensure that people also get insights into other sectors, within and outside of the travel industry.

Finally, the prestigious Loyalty Awards recognising the best innovations in the industry in the past year will be celebrated at the event. Nominations can be submitted over the conference website.

Current early bird rates for airlines are only 449 US\$, plus a free seat for any two seats purchased. For more details, see:

www.loyalty-conference.com