



# CHARTING A **NEW COURSE** FOR **AIRLINE LOYALTY.**

To create meaningful experiences for Members, airlines need to embrace new loyalty mechanics that differentiate their Programs and drive satisfaction.

# FREQUENT-FLYER PERKS CAN BE AMAZING—

a private check-in lounge and front-of-the-line security, gate-to-gate service in a luxury vehicle, complimentary bottle of in-flight bubbly to celebrate a special occasion, or access to exclusive events unavailable to the public. In reality, airline Loyalty Programs have lost some of their luster. Many of their Members, especially those who are infrequent flyers, miss out on those picture-perfect moments, and are frustrated with their experience.

When frequent flyer Programs (FFPs) were launched about 40 years ago, their initial structures focused almost exclusively on the Program's best Customers. The inclusion of hotel and car rental Programs in the early 1980s increased opportunities for a greater number of Members to earn miles, but it was the wide-scale adoption of miles as a currency by credit cards that pushed these Programs into "all flyer" Programs. Airline Loyalty has since morphed into a complicated business, with a greater number of status tiers and benefits, partnerships that let Members earn and redeem miles in more ways, and ever-evolving travel rules and restrictions.

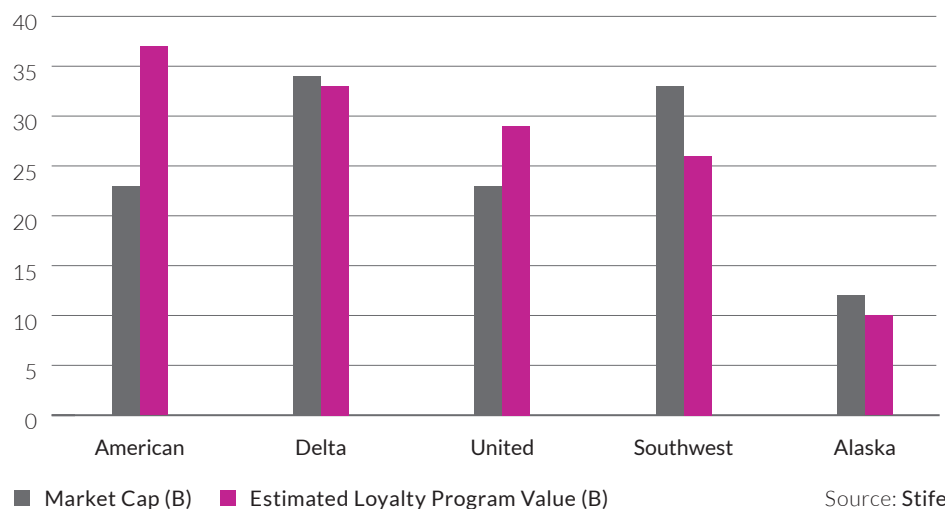
## THE SHIFTING CURRENTS OF AIRLINE LOYALTY

Perhaps the biggest change in recent years is the shift to revenue-based models that calculate points and status based on money spent rather than distance flown, or a combination of both. In the U.S., low-cost carriers Southwest, JetBlue, and Virgin America were among the early players to launch FFP models based on money spent. Legacy carriers such as American, Delta, and United have quickly followed, and there are few carriers today who continue to utilize full mileage-based strategies.

Today, Loyalty Programs are extremely profitable for airlines. Recent research from financial services company Stifel found that airlines are earning upwards of 50% of [their income] from selling miles to credit card companies.

### LOYALTY IS BIG BUSINESS

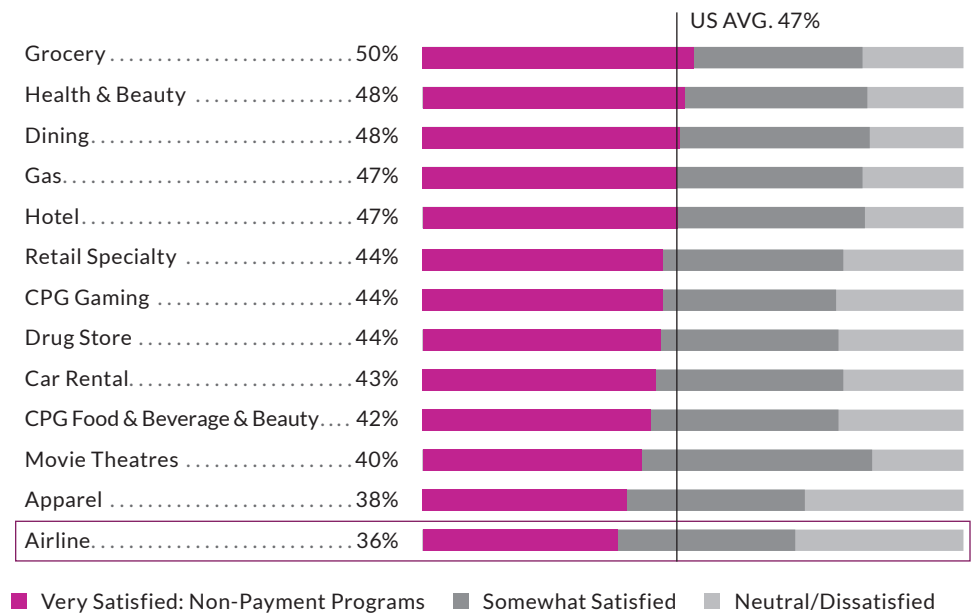
The value of some airline mileage programs may surpass the core operation.



# YET, SOMETHING HAS BEEN LOST ALONG THE PATH TO PROFITS—

a true focus on the Customer. While airlines have done a great job at optimizing their Loyalty Programs, in many cases, it's been to the detriment of their Program Members. In fact, the [\*Loyalty Report 2018\*](#) found that when it comes to Program satisfaction, airlines rank last on a list of key sectors with only 36% of U.S. consumers saying they are very satisfied.

## LOYALTY PROGRAM SATISFACTION



Here are some key reasons for Loyalty Members' growing discontent:

- **Free travel is no longer free.** Program rules and pricing changes have driven significant costs into award travel. With airport surcharge fees, taxes, baggage fees, and flight-change fees, those "free" trips can end up costing Members hundreds of dollars.
- **Load factors remain high, pressuring award travel.** Capacity-cutting by major airlines has led to fewer seats available for award travel—a major FFP perk. In 2017, U.S. load factors were in the 80% range, which remains close to all-time highs. This has led to a shortage of the most desired tickets and to escalating award-ticket prices.
- **Continued devaluation of currencies.** With earning structures and award redemption values now changing constantly, frequent flyers find it difficult to maintain their knowledge of how to best use the Program and protect the value they have earned. Carriers have changed their award pricing numerous times, making seats and upgrades more expensive—especially for desirable flights and times. These changes are often driven by economic decisions, with little regard for Customer needs or understanding of its impact.

# THE NEW POSSIBILITIES FOR AIRLINE LOYALTY

Brands in many other sectors have embraced next-generation Loyalty mechanics to provide more experience-driven rewards, but many airlines have lagged behind. In today's competitive environment and with changing Customer expectations, they can't stall any longer. To differentiate their Programs and drive Member satisfaction, airlines need to focus less on earn-and-burn currencies and more on the digital and human Customer experience opportunities. Here are six ways to break out of using traditional mechanics and shift the Loyalty paradigm:

## 1 DELIVER DIFFERENTIATED EXPERIENCES THROUGH CREDIT CARD CO-BRAND RELATIONSHIPS

Airlines' relationships with co-brands are more important than ever. Financial companies provide a significant revenue stream for airlines by buying billions of miles each year. In addition, credit-card companies do the heavy lifting for Member satisfaction in airline Loyalty Programs by adding greater earning utility. In the *Loyalty Report 2018*, 50% of Consumers said they are very satisfied with co-branded airline Programs, a significant increase compared to 36% for non-payment Program Members.

Most airlines have co-branded partnerships, but they need to differentiate to stand out. Any airline can provide lounge access and priority boarding. The opportunity lies within providing Members with experiential rewards through leveraging assets across the airline, credit-card company or affiliated bank. For example, if a bank has a sports or entertainment sponsorship, the airline could offer free tickets to an event to delight its high-value Cardholders.

The left side of the table below highlights the Top 10 drivers of Program satisfaction across all sectors. The drivers are different when it comes to airlines, and what's important to note is that access to Members-only experiences and events is the fifth most important satisfaction driver for Members. Surprising, this driver doesn't rank in the top 20 drivers when it comes to retail, dining, and hotel Loyalty Programs.

### TOP 10 DRIVERS OF PROGRAM SATISFACTION

ALL SECTORS	AIRLINE SECTOR
1. Program meets needs	1. Program website into usefulness/relevance
2. Enjoy participating in program	2. Program website ease of navigation
3. Program rewards/benefits appealing	3. Customer support
4. Program consistent with brand expectations	4. Ways rewards/benefits can be earned
5. Program makes brand experience better	5. Access to member-only experiences/events
6. Ease of redemption process	6. Enjoy participating in program
7. Level of effort to earn a redemption	7. Have a good understanding of how program works
8. Program website info usefulness/relevance	8. Ease of redemption process
9. Ways rewards/benefits can be earned	9. Level of effort to earn a redemption
10. Amount accumulated per \$1 spent	10. Program interactions on mobile device

■ Consistent driver for both Overall and Airline.

■ Unique/distinct driver for Overall or Airline.

## 2 EXPAND STRATEGIC PARTNERSHIPS

Airlines have a vast network of partnerships with car rental companies, hotels, vacation companies, and more. In most cases, the partnerships are transactional in nature: Members collect miles and redeem them towards these services. To distinguish themselves, Programs must create strategic partnerships, such as Rewards Plus from Marriott and United Airlines which transcends transactional relationships and creates meaningful experiences for Members through experiential benefits and rewards.

When it comes to transportation partners, many leading airlines such as; Delta, British Airways, American and United offer chauffeur Programs in partnership with luxury automotive brands to shuttle their top-tier Members between gates, and between home/office and the airport. Since 2012, Delta and Porsche have partnered to transport Delta's most valuable Members from gate to gate, and British Airways has partnered with Jaguar to offer exclusive airport transfers to Silver or Gold Executive Club Members who are at risk of missing their connection.

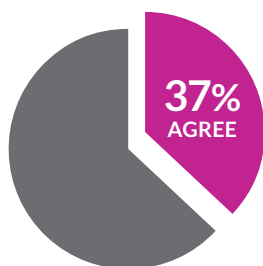
Now, imagine if airlines extended their partnerships to other unique businesses such as a ride-sharing service, who could know when a Member's flight lands, when their bags come off the carousel, as well as their next destination—and be there waiting.

Technologies such as context as a service (CAAS) exist today to enable and support this type of experience. CAAS allows companies to know where a passenger is along their travel journey in real time. Innovations like this can greatly improve the Member experience, and we know that Customers are open to such technology. In fact, 87% of Loyalty Members reported that they're interested in having various details of their activity watched, monitored, and tracked to receive access to personalized rewards and experiences.

## 3 LEARN FROM OTHER SECTORS PRACTICING PAY-TO-PLAY LOYALTY

The trend toward paid Loyalty Programs is steadily underway. Amazon Prime is the most notable, but others like Restoration Hardware and Leading Hotels have also embraced a paid model. Online retailer Wayfair is the latest to embrace the pay-to-play model. "Myway," a paid Program that offers Members a heightened level of services (i.e., free shipping, discounts on in home services and exclusive perks) for \$29.99 annually. In our report, 37% of Consumers (47% of millennials) said they are willing to pay a fee for enhanced benefits in a Loyalty Program. These Customers see it as a small cost to pay for status, access, ease, and a better Program experience. Brands see the potential for a substantial revenue stream that affords them the opportunity to provide richer, more tailored, and highly relevant content and experiences.

#PAY2PLAY



"willing to pay a fee for enhanced benefits"

Pay-to-Play Loyalty also engenders a strong level of commitment to the brand because paying Members want to extract value from the brand. With just a handful of airlines offering paid Loyalty Programs (e.g., Air New Zealand's Koru and Caribbean Airlines' Club Caribbean), the industry is ripe for this emerging Loyalty mechanic as an extension of their ancillary revenue strategy. It's a big opportunity, and airlines can take note of learnings from other industries that are diving into pay-to-play Loyalty.



## 4

## OWN THE ENTIRE TRAVEL RIBBON EXPERIENCE

Through their Loyalty Programs, airlines can create a deeper relationship with Members across every single touch point along the travel ribbon—pre-flight, pre-boarding, in flight, at the destination, and post-flight. Here's how:



**Preflight:** Airlines can kick off a positive travel experience through personalized, relevant, and highly effective preflight communications to get Members informed and excited about their upcoming flight.

**Pre-boarding:** Airlines are in a unique position to engage Members with experiences and opportunities at the airport—just as United Airlines and food and beverage operator OTG have done. United's Mileage Plus Members can use their miles to pay for purchases at select restaurants and bars at Newark's and at Houston's Intercontinental airports. By establishing partnerships with participating locations in terminal, airlines can enhance a Member's experience during the pre-boarding stage of the travel ribbon.

**In-flight:** Most airlines are investing in handheld technology and apps that allow attendants to personalize the in-flight Member experience. Delta has gone one step further with their updated Guest Service Tool, which goes beyond meal preferences and identifying passengers with tight connections. Their new recognition list feature allows attendants to identify, personally recognize and thank their most important and valuable elite Members. This type of small gesture is an important step that leverages big data to build Loyalty and Customer engagement.

**At Destination:** The experience that a Member has with the airline brand should not end when they step off the flight. There are ways in which the airline can continue to enhance the Member's experience when they are at their destination. Whether through their car rental/ride share, hotel, excursion, or event/dinner plans, keeping a cadence of connection with the Member can have a significant halo effect for the airline brand. Imagine a surprise and delight moment upon arrival at the hotel; a complimentary upgrade due to the Member's status in the airline program, or a bottle of champagne to mark a Member's anniversary or birthday. How about complimentary tickets to an entertainment event, as the Program has learned the Member's personal preferences? Insights can be used to create unique and memorable experiences for Members.

**Post-flight:** The Member experience extends beyond the destination. Savvy operators should be using Member preference and behavioral data to predict future travel needs and desires of their Members. The Program should be used as a tool to inspire and ignite these desires and provide sufficient motivation to reach these travel goals through the brand. If the brand knows that every Christmas the Member travels to Florida with his/her family, the Program may wish to provide incentives/motivation for the Member to keep doing so with the airline brand and find ways to introduce other engaging and adjacent options with the brand.

The challenge is, many airlines are only active in a few areas of the travel ribbon. They risk losing Customers to competitors that excel at other touch points along the way. When an airline owns the whole travel ribbon, they have access to the entire Members' travel journey. Airlines become better positioned to incent Members towards their next experience. And along the way, leveraging data and technology will equip airlines with creative ways to recognize, reward, surprise, and delight Members.

## 5

## EMBRACE THE NEW CURRENCIES OF LOYALTY

**New currencies** are perks and benefits that are created by repurposing and monetizing existing assets or imagining new Customer experience treatments that can be unitized. They deliver solutions to specific needs Customers find valuable, such as time, ease, convenience, meaning, peace of mind, and confidence. They're not meant to replace traditional rewards but can be used to deliver on specific needs and create better experiences. For example, a couple traveling with small children (and all of their bags and strollers) are likely to have a stressful experience boarding. Imagine a service where an airline employee takes care of their carry-ons, making sure they're placed right above their seats—before they've even entered the plane. Other examples of new currencies include baggage fee forgiveness, complimentary seat selection, or a guaranteed empty seat next to you.

## 6

## LINK NEW AI EXPERIENCE ENHANCEMENTS WITH LOYALTY BENEFITS



Airlines are now capable of collecting vast amounts of Customer data across the entire operation, including preference data, employee information, and scheduling data. Most major carriers are looking to AI to improve operational efficiency, speed, and Customer experience. Flyer acceptance with various AI technologies is growing; 49% would prefer to self-check in, 72% would prefer to self-board, and 33% would replace the current boarding process with a biometric ID check (source: IATA).

Airlines should consider piloting some of these enhancements with Loyalty Members before rolling out to all Customers. Additionally, data collected from Loyalty interactions can also inform airlines' digital assistants, chatbots, and other in-airport robot assistants to personalize Members' experience. Imagine if Lufthansa's Josie Pepper AI assistant in Munich could recognize a frequent flyer by name and provide personalized guidance accordingly.

Technology will be the great enabler. Airlines and other businesses in the hospitality sector have a unique advantage since they know who their Customers are, unlike brick-and-mortar retail where Customer visits are largely anonymous. Airlines can use technology and Loyalty data to better know a Member's individual needs along their travel journey. Furthermore, data and technology can bring new Loyalty mechanics to life and empower frontline employees to recognize and personalize the Member experience.

For airlines that embrace new Loyalty mechanics and technologies, and put a true focus on their Loyalty Program Members, the sky is the limit.

## AUTHOR



**RICHARD SCHENKER,**  
**Senior Loyalty Consulting Director**

Richard is a visionary and highly accomplished customer engagement and loyalty solution design professional. For over two decades, his work has enriched relationships between some of North America's most iconic brands and their customers. He possesses a unique breadth and depth of client and agency experience, designing, and managing award-winning customer engagement and loyalty solutions backed by data and insights that fuel enterprise-wide sales and profitability. Richard's extensive sector experience includes high- and mid-frequency retail, travel and hospitality, financial services, quick service restaurants, consumer packaged goods, and automotive.

Prior to joining Bond, Richard held a number of senior North American loyalty marketing leadership roles at LoyaltyOne (owner and operator of the Air Miles Reward Program) in addition to managing numerous key client relationships. Other notable accomplishments include the design, launch, and management of the Shoppers Optimum Program for Shoppers Drug Mart and the management and marketing of Hudson's Bay Company's credit cards and loyalty program. Richard is also an accomplished loyalty industry author and holds an MBA from the University of Ottawa as well as a B.A. in Economics from York University.





## PUBLISHED BY BOND BRAND LOYALTY.

Bond Brand Loyalty is a global customer engagement agency that specializes in building brand loyalty for the world's most influential and valuable brands. Our mission is to make marketing more rewarding for customers, richer and more resilient for brands, and to deliver profitable business outcomes for our clients. We build measurable, authentic, and long-lasting relationships through a combination of services that includes loyalty solutions, customer experience, marketing research, customer analytics, live brand experiences, and proprietary technology platforms.

P: 1-844-277-2663 E: [info@bondbl.com](mailto:info@bondbl.com) [bondbl.com](http://bondbl.com) [@createabond](https://www.instagram.com/createabond)

Copyright ©2018 Bond Brand Loyalty Inc. All rights reserved. No part of the contents of this publication may be reproduced in any form or by any means without the written permission of Bond Brand Loyalty Inc.

