

## The Wall Street Journal

Now Hoarding

By NANCY KEATES  
Staff Reporter of THE WALL STREET JOURNAL  
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*IdeaWorks contributed information to this article - - see italics.*

Airlines are giving frequent fliers more ways to cash in miles for goods -- offering flat-screen TVs and hot tubs, even auctioning off cars. Our reporter asks: Are these smart buys?

Last year, Peter Sznip did his Christmas shopping the time-honored way -- hitting REI and Ann Taylor stores and paying with real old-fashioned money. But this year he's discovered a newer way to bankroll his gifts: frequent-flier miles.

On Frontier Airlines' Web site, the Denver consultant recently bought a five-piece Tumi luggage set (cost: 32,000 miles) and a pair of diamond earrings (37,000 miles) for his wife. "I'm a value shopper," he says.

After years of trying to get frequent fliers to sign up for hotel stays or magazine subscriptions, now carriers are upping the offerings -- letting travelers trade miles for flat-screen TVs, jewelry, even cars. Frontier recently auctioned a Mercedes SUV. In November, Continental Airlines tripled the offerings in its Miles for Merchandise store to 3,000, including 405 golf-related items. Also last month, United Airlines began a trial online store where fliers can cash in miles for Nautilus treadmills and portable hot tubs, and launched an auction area where travelers have bid on Chrysler Crossfire cars and heli-skiing trips. (One catch: Air fare's often not included.)

But are these good deals? To find out, we logged in to the sites of major domestic carriers and sorted through everything from stuffed animals and windbreakers to Montblanc pens. Then we found the lowest retail prices for these items from online and traditional stores and calculated whether we would be better off buying them with cash or with miles. (More on our calculations in a bit.) When it was all over, we'd turned up some decent deals, like Maxim magazine -- ours, for an entire year, for just 400 Delta miles. But we found other reasons to keep hoarding our miles. One reward offered by American Airlines for flying 5,889 miles, roughly the distance between Los Angeles and Moscow? A Starbucks certificate worth \$25.

Airlines have never had a greater incentive to offer merchandise for miles. In part, carriers are eager to get rid of miles because they represent a liability on their balance sheets. *They also know fliers are frustrated when they can't redeem miles for trips: Last year, there was an 11.4% drop in the miles flown by reward travelers*

***among 14 domestic airlines from the previous year, according to a study by IdeaWorks, a Wisconsin airline consulting firm.***

## Mounting Miles

At the same time, the number of unredeemed flier miles in the U.S. market has kept mounting, hitting an estimated nine trillion this year, up 50% in the past five years, according to Frequent Flyer Services, publisher of FlyerTalk magazine and the online site WebFlyer. The glut can be credited primarily to frequent-flier credit cards. Banks benefit from rewards cards, of course, because they cash in on the big spending associated with them. Airlines, meanwhile, get a cut each time the cards are used -- as much as 1.5 cents per mile that card-users earn, according to analysts. Because the banks that issue these cards are often major airline creditors, carriers and banks alike have an interest in keeping these credit cards on the market, and the awards miles flowing. The result: Airlines have a lot of miles they'd like to soak up, and they want members to feel like their miles are worth something.

"It used to be people earned miles from buying presents," says Frequent Flyer Services' Randy Petersen. "This is the first Christmas people will be earning presents using their miles."

***Determining the value of airlines' latest offerings requires a bit of basic math. Not so long ago, frequent travelers valued each mile at roughly two cents apiece -- the price of a typical airline ticket (\$500) divided by the number of miles commonly used to get one (25,000). But lately, many airlines have made some seats available at 25,000 and more at 50,000 miles, while increased competition means many flights are available for \$200 or \$300. That has lowered the effective value of a mile, pegging it now at closer to one cent. (Indeed, for their own bookkeeping, airlines generally value each mile at about a penny, according to IdeaWorks.)***

The rule of thumb: If you can make a mile buy at least a cent or two worth of goods, go for it. "The gap is closing," says Joe Brancatelli, publisher of a Web site for business travelers called Joe Sent Me. "Not because the merchandise is getting better, but because the value of tickets is plummeting."

Our survey revealed a wide range of buying power: Customers who pick American's Starbucks coffee gift certificate, for example, are getting less than one-half of a cent for each of their miles, and customers signing up for a Norelco shaver on United are cashing miles in at a rate of a penny apiece. Compare that with the Mercedes sport-utility vehicle one Frontier flier snagged for 1.1 million miles last summer: The ML350 SUV retails for more than \$40,000, so the new owner managed to stretch each mile to buy 3.5 cents worth of car. (The airline declined to identify the buyer, and says it isn't planning to auction another car.)

Doug Hershey got a new set of wheels on United's auction site, and figures he got a deal as well. "I was getting so many miles I was getting concerned about my ability to use them," says the physician from Sacramento, Calif. So when Dr. Hershey spotted a 2005 Chrysler Crossfire there, he researched the car, pegged its value at \$28,000 and decided his maximum bid would be two cents a mile, or 1.4 million miles. He won -- and now he figures his other car, a BMW 7-Series, will spend many days in the garage. "I had a feeling it would be good cocktail-party conversation," he says.

Frequent-flier Alan Grayson, though, has decided it's better to fly. The lawyer in Orlando, Fla., has eight million miles on various carriers, and he often uses them to buy his family of seven first-class tickets to spots around the world. His family just flew to Japan on tickets that would have cost \$16,000 apiece; he got them for 120,000 miles each, or about 13 cents a mile. But with domestic trips so cheap and the hassle of redeeming miles so high, he says, it's not worth spending the miles. "You might as well get a toaster," he says.

The idea of redeeming points for merchandise isn't new, of course: Credit cards, rental-car companies and hotels have long had similar programs. Airlines have sporadically offered various goods, though magazine subscriptions have been one of the few constant products. Carriers' offerings expanded after Sept. 11: With some travelers reluctant to fly, many airlines began trading miles for discounted hotel rooms, car rentals and cruises. American began allowing its members to convert miles to Diner's Club points, while Continental introduced its Miles for Merchandise program. Points.com, a Web site that started as a place to swap miles between airlines, began letting members use miles to buy gift certificates for stores.

But even when the price is right, would-be Santas should proceed with caution. Cashing in miles for presents can reek of re-gifting -- especially if the miles were earned on business travel. Patricia Sznip of Denver, for one, loved the diamond earrings her road-warrior husband bought with Frontier miles. But in the end, she'd have preferred having him pay in cash. "I'd rather have him home," she says.

***The article continued with a look at five carriers and their miles-for-goods programs.***