



Americas Duty Free & Travel Retailing

Duty-Free incentives: deferred reward?

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IdeaWorks contributed information and quotes to this article

August 10, 2006 - - A new airline industry study says that low-cost carriers (LCCs) are shedding their “no-frills” image by adding new services and amenities to their frequent-flier programs as they compete for passengers. Titled “Low Cost Airlines Launch a New Batch of Frequent Flier Programs All Over the Globe,” the study was conducted by U.S.-based IdeaWorks and examines new frequent flier programs rolled out by eight LCCs from around the world.

New incentives included offering passengers the option to earn rewards by pooling air miles from as many as nine individual accounts (Eos Airlines, U.S.), naming an aircraft after the year’s top flier (Spirit Airlines, also U.S.) and extending early boarding privileges to elite club members who apply for the airline’s co-branded credit card (Germanwings, Europe).

But conspicuously missing is an attempt to use duty-free sales add-ons to attract passengers. It’s an idea that seems like a logical step, says Jay Sorensen, IdeaWorks president – product, partnership and marketing practice. In beefing up their frequent flier programs LCCs are adopting many of the other approaches normally associated with traditional airlines, but the duty-free bulb doesn’t seem to have lit up yet. “Duty-free has typically been a model applied to more traditional airlines,” Sorensen told Americas Duty Free. “Low-cost carriers begin their lives as short-haul airlines: I think we may see more experimentation with duty-free as their flight lengths increase.”

The LCC category itself is a mixed bag, Sorensen points out. While the means by which the airlines trim their cost profile are pretty much the same anywhere you look, what the airlines do with those efficiencies is a different story. Most turn around and slash the cost of a ticket, but a significant number have leveraged their savings to woo a decidedly upscale clientele. So, for example, Eos Airlines operates a transatlantic all-business-class, three-plane fleet offering fares below those charged for business class by traditional carriers. MAXjet, another U.S.-based LCC featured in the IdeaWorks study, operates along similar lines.

Other LCCs are now looking increasingly to the long-haul market. Sorensen says that Virgin Blue Airlines, an Australia-based LCC also covered in the study, is probably the most likely to combine duty-free offerings with frequent flier programs for longer routes.

For their part, the major carriers have a spotty record on duty-free incentives. An IdeaWorks study earlier this year looked at reward programs at the world's largest airlines, including onboard duty-free sales. Of the ten top internationals studied, only Air France/KLM, Japan Air Lines (JAL) and All Nippon Airways (ANA) allow frequent fliers to exchange air miles for certificates they could redeem for onboard duty-free purchases. Lufthansa, JAL and ANA also offer program members specialty merchandise through gift catalogs.

"U.S. carriers are beginning to look at this," Sorensen told Americas Duty Free. "Traditionally they've avoided anything where they have to go and purchase the rewards that they give their passengers – they've preferred just to give miles – but all the majors are beginning to buy things to use as incentives." So far this approach is confined to elite members, however.

Airports also seem to be slow off the mark, despite what Sorensen sees as a decidedly high-margin opportunity. He recalls visiting one major airport that he expected to be particularly innovative and forward-thinking, yet when he suggested to management that they set up a program to allow shoppers to earn frequent flier points through purchases in duty-free shops, he found that they had tried a single experiment that had soured them on the idea.