



## Business Travel News

### Card Use Energizes Reward Accrual

By Jay Boehmer

*IdeaWorks contributed information and quotes to this article*

SEPTEMBER 25, 2006 -- Travelers last year redeemed more than 15 million tickets through airline frequent flyer programs, likely the largest redemption level in the 25-year history of such programs and a 6.5 percent increase over 2004, according to an analysis of the top nine U.S. airline reward programs by marketing consultancy IdeaWorks.

At the same time, unused miles continue to increase airline liability, or the dollar amount airlines attach to unused rewards points, at a higher rate—13.9 percent—than redemptions last year. The total balance attached to unused miles grew to \$3.821 billion among the carriers represented in the study, from \$3.356 billion in 2004.

Growing reward-redemption and liability levels come as the ways consumers can accrue miles proliferate. "Mileage accrual contributes to increased reward liability," IdeaWorks said in the study. "During the early history of frequent flyer programs, miles earned through flight activity represented the only source of accrual. The addition of bonus partners, such as hotel chains and car rental companies, only represented a small piece of the mileage accrual pie. The big change occurred when credit cards became frequent flyer partners; the mileage accrual linked to charge volume forever changed airline economics."

In fact, IdeaWorks estimated more than 60 percent of total miles accrued come from credit card use. "Analysis of the information does suggest frequent flyer program members are earning a stunning amount of miles through credit card charge activity. These miles have cascaded onto airline balance sheets and have swelled member account balances."

In recent years, customer satisfaction with rewards programs has waned, paralleling the value of reward miles relative to fares. "Frequent flyer program members have seen the value of their miles decline since 1994 through multiple pricing and program changes," IdeaWorks said. That year, the standard redemption level for an economy ticket was 20,000 miles, yet the value per mile declined in 1995 when most major airlines adopted a 25,000 mile redemption level, causing the value of each frequent flyer mile to drop by 20 percent to 1.8 cents. "Since 2001, falling domestic airfares have brought the value of a frequent flyer mile down to 1.4 cents in 2004—its lowest level since 1994."

IdeaWorks said 2004—a year that the consulting firm said may be "the low point for frequent flyer program members"—witnessed a 2.4 percent annual dip in reward redemption levels. "The need for cash was never greater and the airlines can hardly be faulted for selling every available seat—even at the expense of keeping an adequate number available for reward travelers," the study said.

However, 2005 witnessed a turnaround and higher buying power of frequent flyer miles—which rose to 1.6 cents per mile, largely on the heels of fares that jumped by 12.7 percent.

"The storm clouds may have cleared a little during 2005, with reward redemptions becoming more prevalent. Members were able to claim 6.5 percent more reward tickets during 2005 and IdeaWorks calculated a 12.7 percent jump in the value of a frequent flyer mile. Increased reward travel suggests it may have been easier for frequent flyers to redeem miles for free tickets during 2005. This may provide evidence the airlines are reacting to the consumer perception that reward availability has been too constrained."

While the report said most of the top nine airlines showed increases last year, American Airlines stayed flat and US Airways was the only carrier to post a decrease in reward activity.

"This is surprising because the combined system of US Airways and US Airways Express actually grew during 2005 and 2004," IdeaWorks said. "For example, the number of seats available to consumers increased by 5.6 percent from 2003 to 2005 in terms of available seat mile growth and the combined airlines flew 4.9 percent more passengers from 2003 to 2005." While the carrier merged with America West last year and the carriers separately recorded financial data, IdeaWorks suspects American West's influence was a factor. "Perhaps the decreased reward activity was due to the growing influence of America West's extremely effective control of free seat allocation, otherwise known as revenue management. America West reported 1.7 percent of its capacity was occupied by reward travelers during 2005." Other airlines represented in the study reported reward travel occupancies ranging from 7 percent to 9.1 percent of revenue seat miles.