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## Frequent-Flyer Programs: What Really Matters?

*IdeaWorks wrote the report that is the basis for this article.*

There's a lot of dissatisfaction with airline loyalty programs, as the recent Congressionally mandated DOT report showed. But how aware are the executives that manage those programs? A survey of more than 100 registrants for the third annual FFP Conference showed that while they are all too aware of consumer resentment, other issues may be driving the train. Essentially, the programs aren't about loyalty any more.

Those surveyed — executives from large, medium and small airlines around the globe — say they try to measure their customers' satisfaction, but almost one in three only track complaints; the rest attempt to ask their customers about their experiences, at least occasionally. They readily identify reward availability as the biggest problem; 57 percent say that "it's a major problem and members are very upset." Only 6 percent say they think their program members are happy.

The biggest frustration among their members, executives say, is a lack of available awards at the lowest "saver" levels. This was named as the primary frustration by 65 percent of respondents. Despite this, more than half said that availability of reward seats was not increased in 2006, and more than 40 percent will not increase availability in 2007. The biggest surprise of the study, according to conference co-organizers IdeaWorks and Airline Information & Global Flight, is that the primary mission of frequent-flyer programs is no longer to create loyalty among passengers; now, it's the bottom line.

The rise of co-branded credit cards has become a big generator of cash flow for the airlines; more than 40 percent of program execs say that revenue is the primary interest of their management, while keeping customers loyal now only counts for 15 percent. Miles sold to the credit-card banks now account for almost half of all mileage accrual. So while individual frequent flyers are less important to the airlines, management is beginning to see that dissatisfaction with availability could negatively impact the bottom line if credit-card participation begins to drop.

The study also provided an interesting insight into airline revenue management — what IdeaWorks calls "the dark art." So far, revenue management is conducted at a higher level of airline management than frequent flyer programs. Priority is given to cash-paying customers, so mile-redemption seats are those most likely to go empty. Only a few loyalty programs control their own availability by increasing or decreasing mileage award levels.