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By Jeremy Simon

IdeaWorks Takes a Look at Airline Miles

Is your airline credit card providing all the frequent flier miles it could?

Consulting firm IdeaWorks, in its May 2006 evaluation of frequent flier airline miles, found that the buying power of frequent flier miles may have reached a low point during 2004. IdeaWorks, which measured the number of miles needed to purchase a typical reward ticket for travel within the U.S., found that frequent flier miles saw their value rise in 2005 based entirely on the airline industry's ability to hike the average ticket price. In other words, the jump in mileage value for 2005 was not the result of a cutback in the number of miles needed for a free ticket.

IdeaWorks showed that airline credit card holders are getting more bang for their buck amid the greater buying power of frequent flier miles. The buying power of frequent flier miles jumped to 1.6 cents in 2005, spurred by the 12.7% increase in average fares IdeaWorks used to define a typical reward ticket.

According to the firm, major carriers American Airlines, Continental Airlines, Delta Air Lines, Northwest Airlines, and United Airlines have a major influence on frequent flier programs in the travel industry due to those airlines' size and presence. The "Big Five Airlines" highlighted by IdeaWorks have effectively set the 25,000 mile reward as the standard domestic reward level -- with domestic travel rewards far outpacing all other reward choices as measured by member popularity.

IdeaWorks revealed a steep fall between 1994 and 1995 in the Mileage Value Index (calculated by dividing the weighted air fare by the standard reward level for each year of the analysis period from 1994 to 2005), which it attributed to the rise in the standard domestic reward level to the previously mentioned 25,000 miles.

And, although the value of air travel has fallen significantly, those five major airlines have held the price of reward travel at 25,000 miles, causing a weakening in the value and buying power of the frequent flier miles program members earn. IdeaWorks notes that in order to equal the 2.2 cent mileage value members were offered in 1994, the Big Five Airlines would need to cut their standard reward level to 18,000 miles.

IdeaWorks also suggested that airline credit cards have had to work harder to woo consumers, who have become less attracted to the benefits offered with traditional frequent flier programs.

IdeaWorks noted that in the past, airline credit cards had annual fees that ranged between \$65 and \$95. However, it would seem that as they struggle to draw consumer applications, airline credit card programs have decided to eliminate fees for a year or two, as well as offering thousand of bonus miles.

Among the credit cards cited by IdeaWorks, the Delta Airlines SkyMiles credit card charges users no fee for the first year and rewards them with 15,000 bonus miles following their first purchase with the credit card.

The report explains that competing travel reward credit cards issued by major banks have also made it tougher for airlines to hold onto cardmembers and to maintain their annual fee structures. These travel reward credit cards may charge no annual fee, in addition to offering the chance to redeem reward points for flights on a wide variety of airlines, with no blackout dates or travel restrictions. The combination of no annual fees and such benefits have spurred many consumers to switch from earning airline miles to bank points with their credit cards.

IdeaWorks acknowledges that it seems major airlines are gradually becoming aware of the limits of the traditional 25,000 mile domestic reward.

The problem of redeeming airline miles likely hit bottom in 2004, which suggests that airlines recognized how serious the problem of availability had become and set aside more seats for reward travel. Then again, IdeaWorks states, 2005 could simply represent a departure from the trend, with reward redemption potentially having once again fallen in 2006.

With research demonstrating that frequent flier programs are able to successfully change consumer behavior, and airline earnings statements reflecting their strong profitability, the major carriers have numerous reasons to commit to their frequent flier programs.

IdeaWorks expressed its belief that the major airlines are reacting to market forces that require greater focus on the needs of frequent flier program members, as the competitive issues facing their frequent flier programs have grown. Currently, all of the biggest low fare U.S. airlines offer frequent flier benefits and usually offer a greater reward payout.

Additionally, hotel chains' frequent guest programs have become a major force and frequently offer reward credit cards as well as an appealing variety of program partners.

Amid this tough environment, IdeaWorks calculated that the value of a frequent flier mile amounts to 1.6 cents. But regardless of trying to assign a value to frequent flier miles, IdeaWorks confirms the popular attitude that there are too many miles chasing too few airline seats.