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By Darren Everson
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Mileage Plans Add to Flier Ire

IdeaWorks contributed information to this article - - see italics.

Robert Pickels would love to go skiing or shopping with his American Airlines miles. He has 63,000, enough for a first-class domestic ticket. But he also has a problem: He can't figure out how to use them.

It's not just that he struggles to find free frequent-flier seats. He also has realized that although he can earn miles by shopping online -- AAdvantage gives rewards for joining Netflix, signing up for Sirius satellite radio or shopping at more than 1,000 other partners -- he can't use his miles for shopping. "I always thought I could purchase something with them," says Mr. Pickels, an equity analyst in Fairport, N.Y. With all the hassles, he says, "what's the point of having this?"

Frequent-flier programs may be getting too elaborate for their own good. Long frustrated by the difficulty of redeeming their miles for free flights, consumers also say they are confused by the endless, complicated offers from program partners, like retailers and credit-card companies. Some frequent fliers are even throwing their hands up in frustration and not using their miles -- putting their hoards at risk, since several airlines in recent months have shortened the expiration time frames for inactive accounts.

For his part, Mr. Pickels has already stopped using his AAdvantage credit card and has nearly stopped trying to use the miles.

Airline frequent-flier programs continue to add partners, which represent new revenue streams. The frequent-flier programs sell miles to the partners, who award them to customers for shopping and signing up for services. Northwest Airlines Corp.'s WorldPerks program, which has 510 partners, added 41 this year, including Payless ShoeSource Inc. In the past year, American's AAdvantage added Netflix, Office Depot and LendingTree, where participants can earn 3,000 miles per \$10,000 of their home sale or purchase price. US Airways Group's Dividend Miles program has added nine in the past year, including ShareBuilder Corp., a brokerage firm, and the Charlotte Observer and Philadelphia Inquirer, two newspapers in US Airways hub cities.

Airlines are selling so many miles -- particularly through credit-card partners -- that industry observers wonder if they are giving out too many. "What's going to happen is people are going to be disenfranchised. They'll stop playing the game," says Jay Sorensen, president of IdeaWorks Co., an airline-marketing consulting firm in Shorewood, Wis. He says there is evidence of that already, as credit-card companies have resorted to sweetening their airline-card offers with no annual fees for the first year.

At first glance, the proliferation of mileage-plan partners looks like a plus for consumers, who get more ways to earn miles. But with more miles being doled out, there is more competition for free seats on flights. "There aren't enough awards to meet the demand of people trying to redeem their miles," says Tim Winship, publisher of FrequentFlier.com, a Web site that offers frequent-flier program information and advice. "If things get any worse with people's inability to redeem those miles, there's going to be a wholesale exodus of people from these programs."

Currently, some investors regard airline mileage plans as potentially big stand-alone moneymakers, and that could benefit frequent fliers. Hannes Smarason of FL Group, an Icelandic investment fund that has a 9.14% stake in AMR Corp., according to data from FactSet Research Systems Inc., suggested in a letter to the AMR board that the company consider spinning off AAdvantage. Air Canada's parent, ACE Aviation Holdings Inc., spun off a portion of Aeroplan, Air Canada's frequent-flier program, in 2005; Aeroplan boosted its net income by 41% in the first half of this year. **Consumers are likely to have more frequent-flier seats available for them as the dynamic between the airlines and the mileage plans changes, Mr. Sorensen says. Airlines would be selling seats to the mileage plans instead of providing a few per flight.**

For now, though, consumers are just trying to make sense of the mileage-based offers flooding their mailboxes and in-boxes. For instance, most mileage plans allow members to earn miles for shopping online, but some don't permit buying merchandise directly or entirely with miles. AAdvantage doesn't allow such purchases -- although an American spokesman points out customers like Mr. Pickels could get Amazon.com gift certificates through Points.com, a point-exchange site operated by Points International Ltd. Delta Air Lines Inc. does allow purchases from its partners, but only for its platinum SkyMiles program members. All of United's Mileage Plus members can, but only through Dec. 31. United says it will consider extending the offer, which previously was available only to elite members.

Another issue for fliers is the tightening of expiration standards in many mileage plans. Delta Air Lines cut its expiration time frame last December; miles in its SkyMiles program now expire after two years of account inactivity, down from three. Aeroplan, the Air Canada program, also instituted changes: Starting July 1, all mileage in an account expires if the member hasn't earned or redeemed miles for 12 months. Previously, mileage could expire after 36 months of inactivity.

This summer, Joe Franco of Hope Mills, N.C., was shocked to discover he had lost his 56,000 US Airways miles, particularly since he says he has a 1993 letter stating that his miles would never expire. US Airways recently shortened its expiration policy to 18 months; the old policy of 36 months wasn't really enforced, the company says. Mr. Franco says that only after he contacted a local TV station, ABC-owned WTVD, did US Airways give the miles back. US Airways says that it notified all miles-club members of the policy change and that Mr. Franco's account was purged in August 2006 after 18 years of inactivity. It adds that his miles were reinstated as a one-time exception.

Many fliers feel the offers they get could be clearer. Wilbur Matthews, who runs a hedge fund in San Antonio, got a credit card for his business that earns miles on Alaska Airlines. Mr. Matthews doesn't fly Alaska, so he figured he would use his Alaska miles on American, one of Alaska's airline partners. But he has had difficulty doing so. "They suggest it's a lot easier than it is," he says. American says its agreements with AAdvantage partner airlines give members of either frequent-flier program the same access to its inventory.

More broadly, American says, the perception of declining availability is untrue. American spokesman Tim Wagner points out that American had a greater percentage of frequent-flier travelers in 2006 (7.5% of passengers boarded) than it did in 2005 (7.2%). As for whether too many miles are being awarded, he says a lot of people with miles don't fly frequently or use miles toward vacations and other things.

Still, the value of a frequent-flier mile has sunk in the past five years. Two cents a mile was once considered the good-value standard, based on what a ticket would have cost if the customer paid cash for it; now it is 1.2 cents per mile, in Mr. Winship's estimation, because of declining fares and the difficulty of redeeming miles.

But Mr. Pickels, the former AAdvantage customer, is done chasing miles. He says he has switched to a Chase rebate credit card that gives him 1% cash back on purchases -- "which I can use to buy a plane ticket," he says.