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Flying far and wide on the back of airline loyalty

By Ian Wylie

IdeaWorks contributed information to this article - see italics.

Another day, another flight. As sales director for Rearden Commerce, a start-up in Foster City, California, Mike Lawrence flies 100,000 miles a year but admits that since the recession, his travel is under greater scrutiny. “Not so much on whether I need to go to a different city for a meeting, but making sure I opt for the lowest cost in all areas of travel – air, car, hotel, dining, parking. All of it matters now,” he says.

Yet Mr Lawrence still makes sure he chooses the same airline when possible. “Frequent flyer programmes have always been very important in influencing my choice. With Alaska Airlines, my Gold status means I get automatic upgrade to first class in most cases, better seats if not, pre-boarding, double miles – even a complimentary cocktail even if I’m in the back.”

If you are lucky enough to still be in a job with an employer willing to pay your airfare, there has never been a better time to be a frequent flyer as under-pressure airlines slash the miles required by their loyalty programmes for redeeming free flights or doubling the miles that count towards “elite” status.

But there is also another reason: frequent flyer miles sit heavily on an airline’s balance sheet as liabilities, until they are redeemed. So, it is little wonder that carriers are giving away more frequent flyer seats than ever. At Delta, the world’s biggest airline, the number of miles earned by customers annually over the past three years has grown 25 per cent, says Jeff Robertson, the company’s vice-president of loyalty programmes.

Mr Robertson is behind perhaps this summer’s biggest promotion. Until the end of this year, passengers can earn double frequent flyer miles for all Delta and Northwest flights and in all classes of service. Flyers must hold a Delta SkyMiles credit card to earn the bonus miles, but the tickets do not have to be charged to the card.

Other airlines, including American, United, Qantas and Jet Airways have been offering a raft of new deals to members of their loyalty programmes.

Is the tactic working? There is some evidence that travellers are using miles now because they are cash strapped – or because they expect troubled airlines to increase reward levels in the coming months.

But in this recession, the real value to airlines of loyalty programmes lies in their ability to generate cash rather than loyalty. "Frequent flyer programmes no longer serve to drive brand loyalty alone, but rather to deliver extra cash, mostly through the sale of miles to card-issuing banks," says Jay Sorensen, a former Midwest Airlines executive and now president of IdeaWorks, a consulting firm.

At Delta alone, Mr Robertson says the SkyMiles and WorldPerks programmes are expected to generate more than \$2bn (€1.4bn, £1.2bn) in revenue in 2009. United and Continental each raised cash last year from the advance sales of miles to their card partner, JPMorgan Chase.

"Tough economic times have encouraged airlines to rely upon this kind of short-term gratification," says Mr Sorensen, who reckons that when investor confidence returns some of the biggest airlines will try selling off their programmes.

Until then, some carriers are trying to generate extra income from loyal customers through charges for priority treatment, such as faster security screening, upgrades and even the processing of miles award tickets.

"The most enduring effect of the recession will be the nuisance fees now associated with the loyalty programmes" says Tim Winship, publisher of the FrequentFlier website. "The airlines are imposing them in a desperate attempt to shore up sagging revenues, and they won't be rescinded in the foreseeable future."

"Frankly, with all the new fees and less capacity and fewer first class upgrades available every day, I'd just be happy to keep things where they are," says Mike Lawrence, as he prepares for his next flight. "It's a bit of a lame wish, but with everything happening in travel these days, I'd consider that to be a big step forward."