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The Road to Redemption

Which Airlines Are Generous With Frequent-Flier Award Seats and Which Aren't

By Scott McCartney

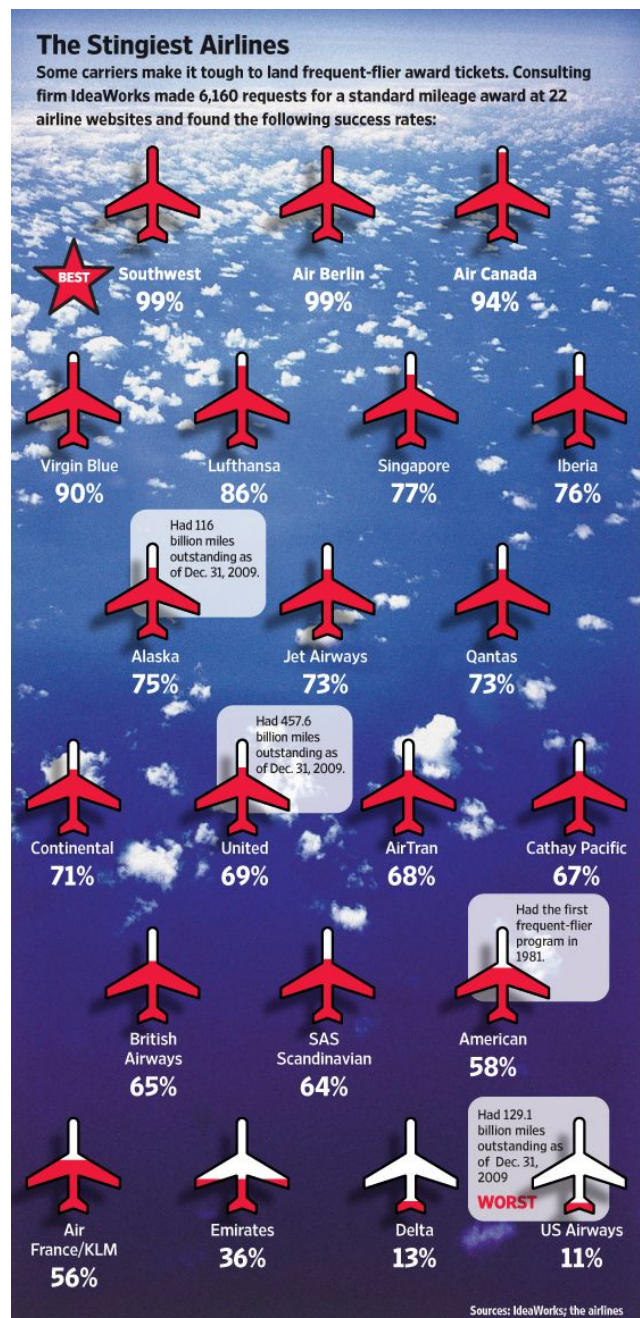
This article is based upon a report issued by IdeaWorks.

If you're hoping to snare a free ticket using your frequent-flier points, you're much better off being a member of the program at Southwest or Alaska airlines than that of almost any other airline—especially US Airways and Delta.

A study testing the availability of free seats showed that Southwest Airlines Co. could fulfill 99.3% of requests for award seats requiring standard mileage levels, and Alaska Air Group Inc.'s Alaska Airlines offered choices on 75% of requests. US Airways Group Inc. could fulfill just 10.7%. Delta Air Lines Inc. was among the stingiest, too, with awards requiring the lowest mileage available for only 12.9% of requests made by IdeaWorks Co., a consulting firm.

Some frequent-flier programs are far more generous in granting awards than others, and the gap right now is large. WSJ's Scott McCartney tells us which airlines make it easier -- and which make it harder -- to use miles, and why.

The numbers codify what a lot of fliers have suspected for some time, that some airlines are making it almost impossible to score a free trip using miles—at least without having to pay a significantly higher price in miles than the standard award. The problem is, in part, that there are just too many miles chasing too few seats.



Worldwide, there are an estimated 10 trillion frequent-flier miles outstanding. And the problem of scarce seats is getting worse: The number of awards redeemed fell significantly at several big carriers—including Continental Airlines Inc. and AMR Corp.'s American Airlines—between 2008 and 2009. So did the percentage of passengers flying on awards.

"They're killing these programs by not allowing more reward availability," said IdeaWorks President Jay Sorensen, who specializes in loyalty program, marketing and revenue-boosting strategies for airlines. "When you look in February for travel in October and see major markets shut out, that's disturbing. That's wrong."

IdeaWorks made 6,160 queries at 22 airline websites—280 seat requests at each airline. The firm tested long routes and shorter trips under 2,500 miles in big markets. At most airlines, it had greater success with shorter routes. The requests were made in February and March for travel in June through October. Among carriers outside the U.S., Air Canada, Deutsche Lufthansa AG and Singapore Airlines were among the most generous.

The world is awash in frequent-flier miles partly because airlines have built a lucrative business selling them to credit card companies, hotels and others who use miles as incentives and rewards. Last year, two-thirds of the 175 billion (yes, billion) miles American issued went to the 1,000 partners who pay for miles, according to the company's filings with the Securities and Exchange Commission.

Award availability has also been affected by schedule cuts and fuller airplanes during the last year. Mergers, economic weakness and perhaps airline tight-fistedness with seat inventory made an impact, too. In general, airlines would rather sell a seat to you for cash than "give it away" as a frequent-flier award.

At Southwest, fuller planes meant there were fewer award seats available for last-minute bookings, a spokesman said. The number of awards redeemed fell by more than 14% last year, according to Southwest's latest 10-K filing with the SEC. The number of awards redeemed at Continental fell 18.8% in 2009 compared to 2008; American saw the number of awards drop 16.1%, according to 10-K annual reports filed by the companies. JetBlue Airways Corp. saw a slight increase in the number of awards redeemed; Alaska had a 48% jump in redemptions.

Some of the decline clearly relates to the economy: The recession caused fewer people to take trips. Cheaper ticket prices in 2009 may have enticed travelers to hold on to their miles as well. "Especially during the first half of 2009, when the recession and consumer confidence were arguably at their worst, we simply saw fewer AAdvantage members redeeming their miles for award travel," said Tim Smith, a spokesman for American.

But in 2008, when the economy was also weak, award redemption increased. And last year, the percentage of passengers flying on frequent-flier awards fell sharply at several airlines, indicating that even those who did want to travel found award inventory tight.

Awards totaled 8.3% of revenue passenger miles (a revenue passenger mile is one passenger flown one mile) at UAL Corp.'s United Airlines, down from 9.1% in 2008, for example. Continental fell to 6% from 8.5% in 2008. One factor unique to Continental, a spokeswoman said, is that the carrier's entry into the Star Alliance last year prompted more of its customers to book awards on partner airlines, which may have enlarged the drop-off in traffic on Continental flights.

Last year, 15% of the passenger traffic on Alaska Airlines was using frequent-flier awards, according to parent company Alaska Air Group's 10-K filing. That was highest among major airlines. By comparison, only 4% of US Airways' passenger traffic was from frequent-flier awards—the lowest total reported in SEC filings.

Most airlines offer two award redemption prices for seats—a standard with restrictions and an unrestricted typically costing twice as many miles. But, some carriers, including Delta and US Airways, have added a third award level—a standard, a mid-level and an unrestricted tier. That likely further shrank the availability of awards at the standard level, and may be one reason why Delta and US Airways did so poorly in the IdeaWorks study. Indeed, IdeaWork's Mr. Sorensen said that often when he couldn't find a domestic award at Delta at the standard 25,000-mile level, he was able to find seats at the 40,000 mile mid-tier level.

US Airways blamed its poor score in the study, in part, because it typically makes award seats available closer to when flights depart instead of the many months ahead of time at other airlines. When IdeaWorks researchers looked three- to six-months in advance, US Airways hadn't opened up a lot of its seats to awards, said Fern Fernandez, US Airways director of marketing programs and loyalty. In addition, the airline's three-tier system would reduce the availability at the lowest mileage level, he said.

"We are making inventory available, it's just available at different price points," Mr. Fernandez said.

The introduction in January of the third mileage level—completely unrestricted "Go" awards—has added flexibility and enabled customers to redeem more awards, he said. So far this year, the number of awards redeemed is up 32%, Mr. Fernandez said.

Delta, which doesn't disclose in its SEC filings how many awards were redeemed each year, how many miles or awards are outstanding, or the percentage of passengers flying on awards, says its low standing in the IdeaWorks survey resulted from problems the airline had combining reservation platforms between Delta and Northwest Airlines in the months the survey was conducted.

But Delta says that award inventory has been too skimpy. Some of that may have resulted from its merger with Northwest, where more customers in a combined program are chasing after awards and upgrades, and inventory had to be recalibrated in many markets, the airline said.

"We have listened very closely to our customer feedback with respect to award availability," said spokesman Paul Skrbec. "In order to have an effective loyalty program, we need to have an adequate number of award seats available to make it attractive."

Starting later this month and through 2011, Delta will be rolling out tools on its website to make it easier for customers to find travel awards, he said.

The best advice for putting your miles to good use? Use them for upgrades when you can since those are usually a better value. (It makes more sense to spend miles on an upgrade worth \$1,000 or more, rather than using miles on a cheap domestic ticket.) Also, use miles for last-minute trips, when airline fares are often higher. To get seats to vacation destinations, you typically need to book 11 months in advance, when airlines open up flights for reservations. But if you do try to book award tickets early and find no seats, keep trying. Airlines do make more award seats available if sales are slow and flights have lots of empty seats.

If you do decide to look for an upgrade, be prepared to open your wallet. Four of the five U.S. airlines flying long-haul international trips—American, United, Continental and US Airways—have added "co-payments" to international upgrades, requiring customers to pay in miles and cash if an upgrade is available. Delta, which doesn't charge a cash fee for an upgrade, restricts the coach fare classes eligible for upgrades, forcing passengers interested in an upgrade to purchase a coach ticket often several hundred dollars more expensive than the cheapest fare available.

United began imposing co-payments in January for both international and domestic flights. A domestic upgrade at United now costs 15,000 miles plus \$50-\$100 on discounted coach tickets.

Katherine Calvert, a "premier executive" elite-level flier on United who tallied 40,000 miles in the first four months of this year, has seen her loyalty to that airline wane now that she often has to pay for upgrades. She is still entitled to free space-available upgrades as a member of one of United's top tiers, but not on the "Premium Service" flights between New York and California she typically flies.

"It infuriates me every time," she says. She recently tried JetBlue, and is considering a switch. The imposition of upgrade fees, she says, "flies in the face of basic loyalty program principles."