



## Good Question: Vanishing Miles

### With Airlines Finances So Precarious, What'll Become of the Airline Miles I've Earned?

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*IdeaWorks contributed information to this article - - see italics.*

Sept. 16, 2005 — Question: The big airlines just can't catch a break financially. What happens with my frequent flier miles if that company goes bankrupt or, even worse, quits flying?

Answer: With Delta Air Lines Inc. and Northwest Airlines Corp. on the precipice of Chapter 11 — plus United and US Airways still in bankruptcy — it's reasonable to consider what could happen to all those miles. Airlines typically fly through a bankruptcy, hoping to use the process as a means to cut labor costs and restructure leases and other commitments under the court's auspices.

Yet their precarious financial state means you have an asset in which you've invested — with the expectation of a future return — that is now at risk. The best route? Sell — cash in — as much of that asset as you can unload now and keep enough miles for just a few trips or upgrades.

***"If you hold miles with an airline you're essentially a creditor, and this is a terrible environment to be a creditor to an airline — especially an unsecured creditor," notes Jay Sorensen, president of IdeaWorks, a Shorewood, Wis.-based brand consulting company that researches airline and other loyalty programs.***

Delta has 40 million people in its SkyMiles program, which would operate under the same rules as it now does if the company declares bankruptcy, spokeswoman Chris Kelly said, declining to discuss the issue further. Northwest also has said it would not alter its WorldPerks program if it files for bankruptcy court protection.

In the most recent cases — UAL Corp.'s December 2002 filing and the two Chapter 11 petitions US Airways Group Inc. has filed since 2002 — members of those programs were not harmed.

But for consumers these miles are all about marketing — they have little to zero value outside the airlines — and it's wise to think of them as a quick perk and not a long-term possession. Use as many miles as you can right now. Having hundreds of thousands (or more) makes little sense with such a degraded, perishable commodity.

When an airline files for court protection, it's reasonable to expect a rush to snag award seats, as people with miles scramble to cash them in. That would make landing an award seat to many destinations even dicier than it already is, and the airline could also respond by tightening the inventory it allots for such rewards. (No airline would ever publicly admit doing this.)

No major airline has liquidated in recent years, taking one of the gargantuan mileage programs into history. AMR Corp. bought TWA's assets four years ago and absorbed that carrier's Aviators program into its own AAdvantage plan, which has some 45 million members. The same will happen in the pending combination of US Airways Group Inc. with America West, with no mileage losses expected.

However, it's conceivable with the current financial risks that a carrier could go away, selling some or all of itself to a rival. In that scenario, mileage holders would face a murky path, and possibly end up out of luck. The larger your mileage balance the more likely another airline would come to court you and would possibly convert some of your old miles into their own.

Keep in mind, amid all the headlines of financial gloom, that the mileage operation of any big airline is immensely valuable, and likely to be the healthiest piece of its business.

Because of the lucrative returns from selling miles and the marketing partnerships built around them, competitors would love to buy access to a fallen rival's most valuable customers.

***As an example, UAL moved its Mileage Plus operation to a subsidiary three years ago and that unit now accounts for 5 percent of the whole company's revenue — \$822 million last year, more than twice the sales from United's Central and South American operations. The subsidiary, United Loyalty Services, is the only part of UAL to turn a profit each year since 2001, according to IdeaWorks.***