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Fliers Find That Mileage Points Go Only So Far

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IdeaWorks contributed information to this article (see italics) and provided the data displayed in the graph.

For two decades, travelers enjoyed a golden age of frequent-flier programs, hoarding miles and sometimes becoming intoxicated by them. It was a love affair at 30,000 feet: airlines enticed passengers with promises of free tickets and first-class upgrades, in return for their dollars and loyalty.

To build up their accounts, some fliers zealously boarded flights at odd hours and endured connections even when there was a direct route home, expecting their miles to be valuable currency for vacations and comfort. But passengers are facing the prospect that like free meals and pillows, the golden age for frequent fliers is going away.

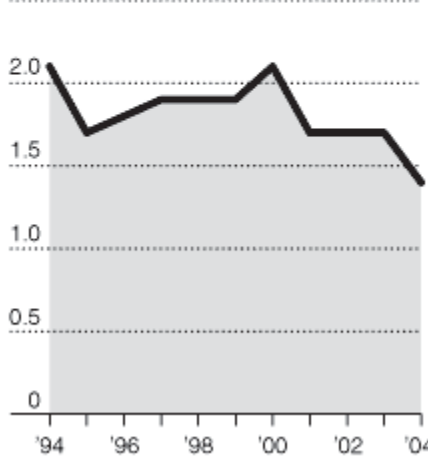
Travelers, now ready to book trips for spring and summer, are increasingly complaining that the tight supply of free tickets on crowded planes means they cannot secure their first or second or even third choice of dates and destinations at the airlines' cheapest rates. Some are spending far more miles than they anticipated in a bid to evade complicated restrictions. Others must split up family groups and fly on different days, spoiling some of their holiday fun.

Too Much of a Good Thing?

Airlines with frequent-flier programs have raised the number of miles needed to redeem a ticket, while cutting airfares. That has made the miles less valuable, according to one analyst. At the same time, the popularity of the awards programs has created significant liabilities for some airlines.

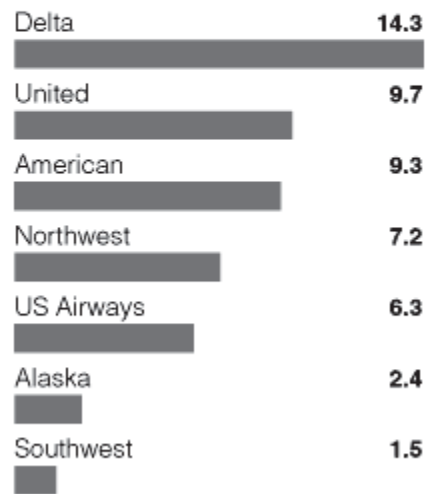
VALUE OF FREQUENT-FLIER MILES

2.5 cents a mile



Source: IdeaWorks

AWARD TICKETS OWED, IN MILLIONS*



*Based on 2003 data, the latest available for all airlines.

Passengers like Roger Nickel of Boca Raton, Fla., are abandoning their unused miles on big airlines and switching to low-fare carriers like Southwest that give free tickets based on the number of flights travelers take, not the miles they travel.

Credit card customers, once beholden to a single airline's frequent-flier program, are seeking other rewards, too. If the trend continues, it may deprive the airlines, which sell credit card issuers billions of dollars worth of miles each year, of an important revenue stream.

The big airlines are in a bind. In the past, they simply piled on the miles to calm passengers down. But today, passengers in the United States are sitting on more than nine trillion frequent-flier miles, 50 percent more than just 5 years ago, according to WebFlyer.com. That is enough for 36 million free tickets, at the basic rate of 25,000 miles - or enough to give almost everyone who flew out of Kennedy International Airport last year a free ticket.

To be sure, big airlines could revitalize the programs by making more seats available. But with planes chock-full of paying passengers, they would prefer not to give any more tickets away. And with \$8.3 billion in collective losses last year, constant fare wars and rising jet fuel prices, they can't afford to.

"It's become such a double-edged sword," said David Stempler, president of the Air Travelers Association, which represents airline passengers.

The result is a vicious cycle: more miles given, more miles unredeemed. To protect themselves in the event consumers started a run on miles, airlines would have no choice but to increase restrictions and blackout dates even more. Nobody expects them to do away with the mileage programs altogether. After all, analysts say, consumers might very well riot. In the meantime, no one seems happy. "What the airlines have done," said Max H. Bazerman, a professor at the Harvard Business School, "is devalue miles."

In 1994, airlines required only 20,000 miles for a free ticket. Coupled with higher airfares, that meant miles were worth about 2 cents apiece, according to IdeaWorks, a consulting firm in Shorewood, Wis.

Today, with airfares way down but the mileage requirement way up, miles are worth about 1.4 cents apiece, IdeaWorks says. And they could really be worth half that, said Tim Winship, the publisher of Frequentflier.com. The reason is what he calls "the hassle factor," the inconvenience many travelers encounter when booking their tickets.

For their part, the big airlines say they are fulfilling their basic promise of a free plane ticket, even if it requires that passengers be flexible. The airlines also argue there are multiple ways for travelers to redeem miles beyond simply plane tickets.

"I don't know if it's as good as the good old days," said Dan Garton, senior vice president at American Airlines, "but it sure isn't bad."

At least for the airlines, that is. They have total control over every aspect of their frequent-flier plans, from the number of tickets available, which they do not disclose, to the dates when customers can redeem their miles and the levels required to earn rewards.

Faced with a glut of demand, they could tighten the restrictions as they did in 2002, when the basic amount needed to redeem a ticket went up by 5,000 miles at the major airlines.

And the adjustments haven't stopped. At the end of last year, US Airways, which is operating under bankruptcy court protection, said that frequent fliers were entitled to the equivalent of four million free trips, 37 percent fewer than in 2003. While travelers cashed in more miles, the airline added new programs that offered more flexibility but doubled the mileage requirements. US Airways also said that more fliers have been trading in miles for tickets on its partner airlines, most likely because of worries that US Airways might not be around to honor their miles.

The difficulty in redeeming his miles was a reason that Mr. Nickel, the Boca Raton resident and an insurance company manager, has all but given up flying on US Airways and American.

Instead, Mr. Nickel, 46, now primarily takes Southwest, where eight flights earn him a free trip. "On all these other airlines, there are restrictions," he said. "I have tens of thousands of miles I can't redeem."

While Southwest has 16 blackout days a year, most around Thanksgiving and Christmas, it does not limit the number of free seats on each flight. "As long as the seat is available and the customer can get on the flight, they can have the ticket," said Debra Benton, Southwest's director for loyalty marketing.

That is easier for Southwest to do, because its planes typically make more trips each day than those at the big airlines. And its flights average only about 65 percent full, versus as much as 80 percent for its rivals.

But Southwest customers have to act fast: once earned, their flight credits are good only for a year, versus the three-year life of frequent-flier miles at the big airlines. That shelf life is the same at JetBlue, which awards a free ticket once passengers have accumulated 100 points, which are given out based on the distance traveled.

Some travelers on the major carriers are now getting help. American, whose AAdvantage program kicked off the industry's rush toward miles in 1981, touts its Hot Spots page on its Web site as one answer.

On a color-coded grid, where green means free seats are plentiful, and white means none are available, customers from New York were told this winter that free weekend tickets to Aruba and Orlando, Fla., were gone in April, but they had a good chance of flying to Cancún, Mexico, if they were willing to go on a weekday.

Even then, passengers were not guaranteed a seat: the site cautioned that free tickets "may not be available on all flights."

With planes so full, "I presume there are cases when a free seat is harder to find," Mr. Garton acknowledged.

Inke Bauder found that out this winter. She had more than 400,000 miles in her Northwest Airlines account by taking annual trips home to Finland from Detroit. So she tried to use some of those miles for a business trip to Las Vegas.

Assuming the journey would cost a basic 25,000 miles, Ms. Bauder was shocked to learn she would have to redeem 90,000 miles, much more than she had used in the past to fly overseas.

The reason, Northwest said, was that all the 25,000-mile tickets on the day she wanted to travel were gone. The only seat she could have was a first-class ticket available under the "mileage buster" program. Like those at other airlines, the plan lets passengers get past the restrictions, but at a big cost.

"They're making it too difficult," said Mrs. Bauder, 59, who owns a skin-care salon in Ann Arbor, Mich. Though she decided to cash in her miles for the trip, she said, "it has gotten to the point where it isn't even worth trying."

Behind recent developments are the airlines' shifting economics, which were built in part on cooperation with the credit card industry.

For the first time last year, the majority of credit card offers were not for airline rewards programs but for those that offered a range of rewards, from plasma-screen televisions to books from Amazon.com. And the number of consumers who signed up online for airline-sponsored cards plummeted almost 40 percent, to 250,000, in the second half of last year, according to data from comScore Networks. Indeed, credit card issuers are finding that airline miles no longer are the only way to stimulate purchasing. High spenders have collected too many; low spenders cannot earn enough for a free trip; and those in the middle have other needs.

For his part, Professor Bazerman of the Harvard Business School is using up his miles as fast as he can. "Miles today are worth half of what they were five years ago. And they will be worth half again someday," he said.

"I'm telling all my friends: Use your miles."