

May 5, 2005

Miles multiplying

Frequent fliers rack up rewards, but find them hard to use

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

Gary Pendleton earned a whopping half-million frequent-flier miles jetting around for his Raleigh insurance and financial consulting firm, but being a regular airline customer didn't matter when he tried to redeem his miles for a Caribbean vacation.

"I got the biggest runaround I've ever seen in my life," said Pendleton, who cashed in Delta SkyMiles to book his trip to Aruba 11 months in advance. "I finally had to fly a day early, come back a day early and, instead of using 35,000 points, I had to go first class for 60,000 points."

For years, airlines have lured travelers to their frequent-flier clubs with this simple promise: rack up miles and earn free trips.

But now passengers are sitting on more miles than ever -- thanks to corporate partnerships that allow travelers to earn miles when they rent a car, stay in a hotel or use a credit card -- and finding it increasingly hard to use them. That's because the cash-strapped airlines are crowding planes with paying passengers, leaving fewer seats available for frequent-flier club members.

"The planes are fuller, people are traveling and because of the profit squeeze, airlines are allowing fewer seats on every flight to award travelers because they're hoping right up to the last minute, someone will come up and actually purchase a ticket," said Tim Winship, publisher of Frequentflier.com, a Los Angeles Web site that tracks frequent flier programs and trends.

THEN AND NOW

** In 1994, frequent-flier miles were worth about 2 cents a piece.*

** Today, miles are worth about 1.4 cents apiece.*

** Ten years ago, passengers earned a free ticket by flying 20,000 miles.*

** Today, most airlines require 25,000 miles for a free ticket.*

** Most major airlines' miles have a shelf life of three years.*

** Southwest awards are good for one year. Also, the airline awards free tickets based on flights rather than miles.*

At United, the nation's second-largest airline, which is in Chapter 11 bankruptcy, only 1.7 million award flights were provided in 2004, down from 2 million a year earlier, according to reports filed with the U.S. Securities Exchange Commission. At the same time, passengers were earning more flights. At the end of 2004, passengers had accumulated 10.2 million unused frequent-flier flights, up from 9.7 million a year before.

United spokeswoman Robin Urbanski said frequent fliers are holding onto their United Mileage Plus mile awards until fares go up, or passengers are using them for other benefits, such as hotel rooms, rental cars and international flights on code-share partners. But she also admitted that frequent fliers had fewer chances to get the flights they wanted.

"When more people are buying seats on an airplane, fewer seats are available for award travel," Urbanski said.

Other airlines are apparently shaving seats available for frequent travelers. IdeaWorks, a Shorewood, Wis., aviation consulting firm, studied 14 major and large airlines and found that 314,000 fewer reward tickets were issued in 2004 versus a year earlier. Over the same period, the carriers' liability for unused reward tickets increased 10.8 percent to \$3.87 billion. The 14 airlines included majors such as American, United, Delta, Southwest, Northwest, Continental and US Airways.

Eight of the biggest airlines had a total of 48.9 million unused frequent flier flights at the end of 2004, according to IdeaWorks.

"In 2004, the airline industry operated at record activity" with record numbers of passengers, said IdeaWorks president Jay Sorensen. "One would imagine frequent fliers would move up in a corresponding manner in reward activity but ... it dropped and liability increased. The plain meaning is the airline industry is probably doing what it should be doing -- they've lost a record amount of money and they're ... saying, 'We can't afford to give away seats.' "

The airlines' losses totaled \$32 billion the past four years, according to IdeaWorks, and the industry is beset with record fuel prices and fare wars that keep ticket prices low.

As a result, the hugely-lucrative frequent-flier programs have never been more vital to an industry that suffered record losses after the terrorist attacks on Sept. 11, 2001.

At United, 5 percent of the airline's operating revenue, or \$819 million, came from its United Loyalty Services division, which includes the frequent-flier program. In October, American Express Co. agreed to prepay \$500 million to Delta for frequent-flier miles and also provide a \$100 million loan.

American Airlines started the first frequent-flier program in 1981 to breed loyalty by rewarding regular passengers with free travel. Today there are numerous ways to earn award miles. American frequent fliers, for example, now can earn AAdvantage miles through 1,500 corporate partnerships. Opportunities include taking out a Wells Fargo mortgage, buying Kelloggs cereal or using a HeavenSpa salon, said spokesman Ned Reynolds.

Bob Jones, an independent travel adviser in Grand Rapids, Mich., said selling miles benefits airlines because about half of them are never redeemed.

"If anyone tells you frequent-flier miles are anything other than marketing tools, they're kidding," Jones.

But airlines' financial troubles also have spurred worried passengers to try to redeem them -- while they still can.

Jalil Isa, a freelance journalist based in Raleigh, cashed in 50,000 Delta SkyMiles last month for a November trip to Cairo, because he feared the airline might be grounded. But it wasn't easy.

"I got my reservation seven months in advance and I still didn't get the exact dates I wanted," Isa said.

At bankrupt US Airways, which has threatened liquidation, frequent fliers took 1.5 million flights in 2004, up 25 percent from a year before. US Airways spokeswoman Amy Kudwa said redemptions were up because US Airways last year joined the Star Alliance, which allows passengers from overseas carriers to redeem their award miles on US Airways flights.

Sorensen, the Wisconsin consultant, had a different explanation. "Clearly, people were scared the airline might not last very long," Sorensen said.

No major carrier has ever been liquidated without having its frequent travelers transferred to a surviving airline, Winship said. But there's no guarantee that would happen now.

"The question is whether today a surviving airline would step up and embrace the liability of all the unused miles of a failed airline," Winship said. "Realistically, the chances of that happening today are between slim and none," he said. His advice: Cash in your freebies now.

"I make the analogy of holding a stock you know is losing value and you have a high degree of confidence will continue to lose value -- the rational actor sells that stock before it loses that value," Winship said.

"Every day you hold onto frequent-flier miles they are losing value and increased jeopardy of disappearing as the airlines' financial situation worsens."