

“You can use miles to buy just about anything”

GARY LEFF, MILEPOINT.COM CO-FOUNDER

RETAIL PRICE
USD28,895
 REDEMPTION
1,000,000 MILES

IMAGES SUPERSTOCK

Relishing the luxe life. One mile at a time

Airlines are expanding non-air loyalty rewards catalogues to keep savvy premium customers satisfied

WORDS BY LORI RANSON IN WASHINGTON DC

A seven-night stay on Richard Branson's private Caribbean haven Necker Island seems as feasible to attain by the average person as a suborbital spaceflight. But with the proliferation of non-flying rewards offered by airlines in nearly every region of the globe, a small swath of the masses can now enjoy both of Branson's lavish creations by cashing in loyalty miles accumulated through the Virgin group of airlines.

Nearly every airline business model – from low-cost carriers growing in product sophistication to legacy full-service airlines – is on a continuous quest to ensure its loyalty programme

remains relevant to a diversified membership base. Providing everything from small rewards for personal pampering services to extravagant adventures, airlines are getting creative with non-air rewards in a bid to remain competitive and to keep their respective brands fresh for their most important clientele.

A relative newcomer to the non-flying rewards stage, US low-cost giant Southwest Airlines began offering customers the ability to cash in points for products and services outside the traditional flight redemption scheme a little over a year ago. Presently, the offerings are limited to holders of the co-branded Rapid Rewards credit card that Southwest debuted

with Chase Bank in March 2011. But company manager of co-branded marketing, Tony Roach, says that Southwest is evaluating extending the non-air reward catalogue to a wider segment of its frequent-flyer participants.

One of the major drivers behind Southwest's decision to expand its reward offerings into non-traditional outlets was the carrier's desire to ensure it remains on par with the loyalty programmes of other carriers that have a dedicated product offering for members that prefer alternative rewards. "We wanted to stay competitive," says Roach.

WILD, WEIRD AND WONDERFUL

Jay Sorensen of the IdeaWorks consultancy says Virgin Atlantic and Emirates have stepped up their non-flying rewards to better compete with their more-established network rivals. One opulent experience offered by Emirates cited in the IdeaWorks' 2012 report entitled "Airlines Woo Members with Wild, Weird and Wonderful Rewards" is a Bedouin-style desert dining experience arranged by Arabian Adventures – fortune telling and belly dancing included.

Underlying the growth of carriers offering experiences beyond traditional air travel is the mushrooming use of so-called loyalty currency as cash. Indeed, as the ability to use miles and points for more than just airline seats grows, milepoint.com co-founder Gary Leff says, "You can use miles to buy just about anything."

WHAT'S THE INCENTIVE?

The motivating factors behind carriers' decisions to either begin offering non-air rewards or grow their selection of alternative redemptions are as vast as the product catalogues themselves. Sorensen explains that hotels began expanding their reward offerings about a decade ago, while

airlines followed suit roughly five years later. He says some airlines likely moved into the non-reward space out of a desire to counteract any impression that their loyalty programmes were not as robust as those offered by hotels.

Additionally, airlines are attempting to compete with credit cards issued by banks that offer a variety of travel redemption rewards, says Sorensen. Airlines with no similar offering knew they faced a highly competitive situation with those banks in keeping their loyalty members satisfied.

Airlines also carry a significant amount of miles on their books, says Sorensen, and the non-air rewards redemption category offers somewhat of a pressure-relief valve to decrease some of the burden associated with carrying those extra miles. Also, as carriers have scaled back their capacity as a means to set themselves on a course of stabilised profitability, the number of seats available for redemption has also diminished, says Leff.

But there is also a growing population of road warriors in the frequent-flyer base that have built up a substantial volume of miles but who are seeking something beyond typical flying rewards. "People who travel all the time for work – the last thing they want to do when they're not working is travel," remarks Leff.

German flag carrier Lufthansa has been offering non-air rewards through its "Miles & More" loyalty scheme "from a relatively early point on its programme development", the carrier explains. "The aim is to offer an abundance of different opportunities to redeem collected miles as possible."

With United's MileagePlus programme boasting nearly 70 million members, Leff believes it is important to appeal to a broad segment of participants within the programme. "You don't want to look like you're behind the

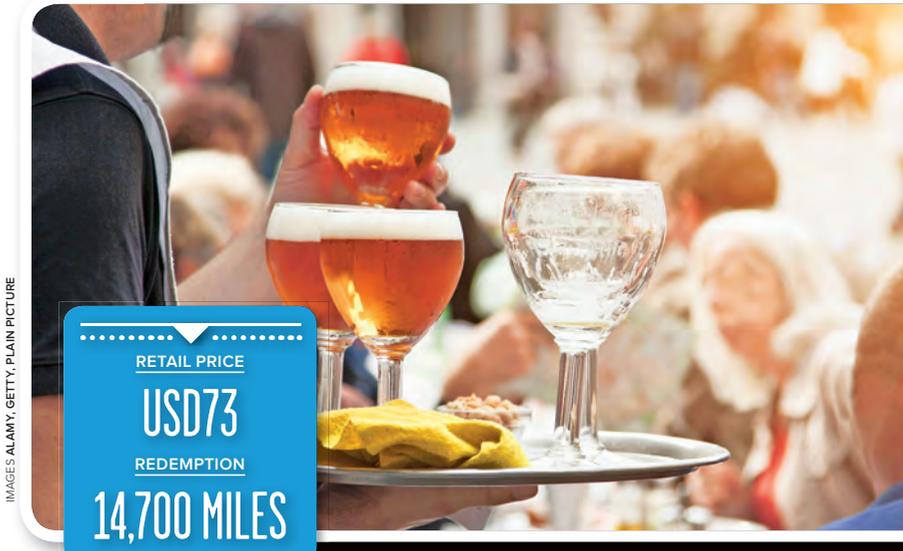
"One opulent experience offered by Emirates is a Bedouin-style desert dining experience arranged by Arabian Adventures – fortune telling and belly dancing included"



REDEMPTION
2,500 MILES



REDEMPTION
400 POINTS



RETAIL PRICE
USD73
REDEMPTION
14,700 MILES

IMAGES ALAMY, GETTY, PLAIN PICTURE



RETAIL PRICE

USD3,150

REDEMPTION

1,000,000
PLUS MILES

competition,” he states. And, more importantly, “You don’t want disgruntled people.”

FROM SOCKS AND A SHAVE TO A MILLIONAIRE’S YACHT

The vast range of non-flying rewards offered by airlines spans from amenities such as the sock delivery “Sockscription” offered by Lufthansa and Avianca-Taca’s hot lather shave in New York City to Virgin Atlantic’s island stay, which carries a USD28,895 retail price and a 1,000,000-mile redemption. But a 68-foot yacht available from Etihad Airways for 385,806,128 miles that carries a whopping USD3.5 million retail price surely takes the prize for highest form of grandeur among the luxurious perks on offer.

In its report, IdeaWorks examined 40 alternative rewards offered by carriers ranging from everyday comforts to high-end

weakest reward style “because these rewards often lack the sexy allure of the other styles”. However, the company did commend Brazilian carrier TAM for its language lessons offering, noting the study fosters the allure of foreign travel.

A particular favourite cited by IdeaWorks was rewards created specifically by various airlines, which the company concludes inspires innovation. In some cases carriers are introducing “pay with points” options for some of their à-la-carte services, including excess baggage rewards. Other alternative redemption options geared toward traveller convenience include a one-hour wireless Lufthansa FlyNet internet session for 3,500 miles that retails for USD15 and a reward available from Pegasus Airlines that allows for pre-ordering of



RETAIL PRICE

USD1,395

REDEMPTION

213,750 POINTS

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extravagance. The miles/points required also vary greatly as reflected in the 400-point price tag for the health check-up offered by Bangkok Airways to Etihad’s yacht. In between, there are mid-point redemptions that include the 2,500 miles that members can use for one raffle ticket to win a pair of Emirates business-class tickets, the 8,000-point redemption for a €20 voucher at the BowlCircus bowling alleys offered by Finnair; and a Brussels beer-tasting tour available from American Airlines for 14,700 miles that carries a monetary value of USD73.

The report identified seven major groupings of non-air rewards – adventure and outdoor fun, member auctions and raffles, fun treats and little luxuries, personal growth, rewards from the airline, special events and rare items and unique travel experiences. Of those seven, IdeaWorks concludes that personal growth is perhaps the

onboard Pegasus Café Meals for 20 FlightPoints that normally carries a price of USD11.

Creating non-air reward experiences and luxuries entails much work by airlines to ensure they are offering the products that are relevant, and that reflect their respective brand distinctions. Roach of Southwest explains the airline conducts in-depth research to determine the types of experiences that appeal to customers opting for non-flying rewards. Some of the carrier’s offerings include hard-to-obtain US football game tickets and a Sonoma/Napa Valley wine experience. “We know what resonates well,” concludes Roach. Another focus by the carrier in ensuring its alternative rewards generate a positive reception is to offer products tied to seasonal events or holidays. “We try to focus on what the customer might be buying,” he says.

IMAGINATIVE NON-AIR REWARDS TAKE OFF



IMAGES: GETTY, SUPERSTOCK



RETAIL PRICE
USD15
 REDEMPTION
3,500 MILES

But Southwest also offers its share of attention-grabbing non-air rewards including a Madonna concert ticket at Yankee Stadium for over one million points, which carries a USD3,150 retail price for a particular seating zone, and a fighter pilot experience offered through Air Combat USA that covers basic manoeuvres during a roughly three-hour flight. The redemption is set at 213,750 points, while the regular price to don a fighter suit, parachute and helmet is USD1,395.

One reward specifically tailored to Southwest customers is an ability to redeem points for international travel since presently the airline only offers flights within the continental US. Last year, Southwest acquired AirTran Airways, which offers flights to the Caribbean and Mexico; but the two carriers are now involved in a years-long integration process. Therefore, in the short term, the international travel redemption will be an attractive option to Rapid Rewards credit card holders.

Tailoring the rewards to the specific airline brand is key, concludes IdeaWorks. The company warns against the concept of an “endless buffet” of rewards, noting, “the abundance of styles and selections merely overwhelms the consumer – and doesn’t provide a clear brand direction”.

REMAINING A NICHE OFFERING

Despite the rapid growth of non-air rewards offered by various airlines during the last few years, the reality is that flight redemption will almost always dwarf the cashing in of points and miles for alternative rewards. Leff explains that frequent flyer programmes buy air travel at a deep discount compared to retail, so they are able to offer consumers a better value when they redeem for air rather than for retail products. He does not foresee the alternative rewards segment

growing dramatically outside a niche offering. “You can fly first class to Asia, or you can buy a few LED toasters,” he says.

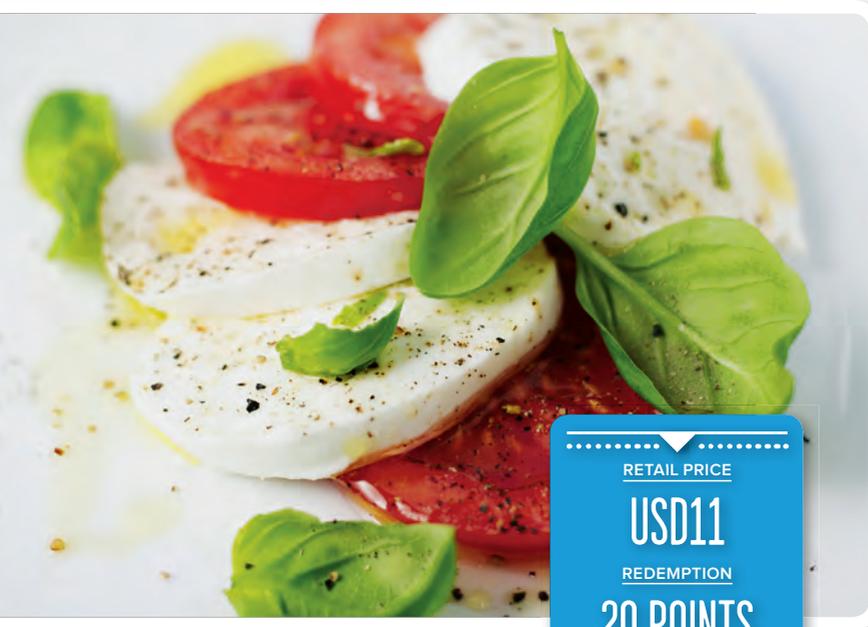
Sorensen has reached similar conclusions. He states that the vast majority of rewards redemption still resides in airline travel. To a certain extent, the non-air rewards serve as window dressing to a carrier’s loyalty programme, Sorensen concludes. However, he does believe over time having a robust offering of non-air rewards will be a competitive necessity.

The IdeaWorks report suggests that these new rewards “encourage members to interact more with the programme and support the brand of the airline by creating a personality for the frequent flier programme”.

Milepoint.com co-founder Leff says it is necessary for airlines to offer products that span broader interest “even if the margin is smaller”. He has also seen a shift in the overall philosophy airlines hold regarding redemption. Through redemption, loyalty members become more engaged in the programme, he states, which runs counter to the old conclusions drawn by airlines that participants would cash out their miles and walk away.

“What they’ve [airlines] have learned is at the point of redemption the programme becomes more real to you,” says Leff. IdeaWorks believes alternative rewards can only make members more engaged, “and change how they feel about their relationship with a frequent flier programme”.

Even as they represent a small segment of frequent-flyer loyalty rewards, non-air offerings are quickly becoming ingrained in consumer expectations, which is intensifying competition in the rewards market-place. For now, IdeaWorks believes “airlines seem to be stepping up to the challenge”.



RETAIL PRICE
USD11
 REDEMPTION
20 POINTS

FREQUENT FLYERS EXPECT THE UNEXPECTED



IMAGES CORBIS, PLAIN PICTURE, EYELINE/NEW YORK TIMES/REDDUX

“As carriers have scaled back their capacity as a means to set themselves on a course of stabilised profitability, the number of seats available for redemption has also diminished”