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Stormy Weather: Frequent Flier Executives Are Concerned About Reward Availability and Other Consumer Issues

In a recent survey of frequent flier program management, 66% recognize seat availability is “too limited” at the lowest reward level.

Representatives from more than 70 frequent flier programs will gather in Vancouver Canada for the third annual FFP Conference. Airlines sending representatives range in size from major carriers such as American Airlines, Cathay Pacific Airways, Lufthansa Airlines, and United Airlines, to smaller carriers such as Air Jamaica, Bangkok Airways and Cameroon Airlines. The event is the world’s largest gathering of frequent flier program executives and provides a unique opportunity to measure the pulse of the loyalty marketing industry.

IdeaWorks, in cooperation with conference co-organizers Airline Information and Global Flight, distributed a survey during February 2007 to more than 100 registered attendees. The survey was based upon an article that appeared during December 2007 in the online edition of the Denver Post. That article asked travelers to submit questions they wished to have included in a survey of frequent flier program executives. This survey design helped ensure the questions would be based upon consumer concerns. The survey enjoyed a high response rate approaching 50%. This suggests the content of the survey resonated with the frequent flier program executives.

The survey results demonstrated an almost painful level of awareness of consumer resentment over reward availability issues. 67% of program executives recognized that consumers are frustrated by the lack of basic reward availability for the entire airline industry. This awareness seems to be having an affect on policy, as nearly 60% of survey respondents anticipate some level of increased reward availability for 2007. But the dynamics of frequent flier programs have clearly changed over the years. What began as a method to increase loyalty has now become a source of desperately-needed revenues. 42% of program executives indicate top management now rates the ancillary revenues generated by frequent flier programs as the benefit of greatest importance.

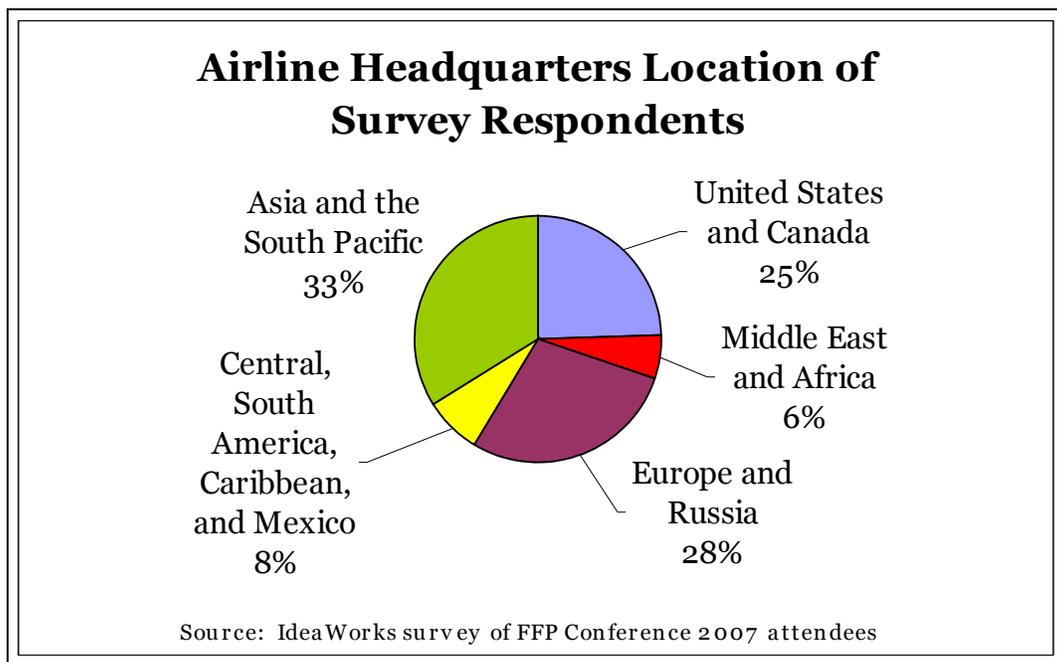
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About the FFP Conference and its Attendees

The 2007 conference will be held February 27 through 28, 2007 in Vancouver, Canada. The event has grown every year with prior conferences held in Madrid and Bangkok. Participation is open to airline executives and colleagues from other loyalty marketing programs, consultants, and industry suppliers. The 2-day agenda is unique because speaking slots are restricted to airline executives. This ensures first-rate presentations by frequent flier managers from around the globe.

Participation in the survey was limited to a sampling of airline-employed registered attendees. The following pie chart displays the global representation of survey participants. All regions of the world are represented with 75% of respondents outside of the United States and Canada.



Reward Availability is a Major Problem

Booking reward tickets is a top-of-mind issue for frequent fliers. It seems every frequent flier has a tale of woe on the topic of reward availability. Consumers might be surprised to learn program executives are very aware of the problem. The survey measured perception of the reward availability issue by comparing it to other areas of complaint, and by seeking feedback for the airline industry as a whole. By every measure, reward availability appears to be problem number one in the airline industry.

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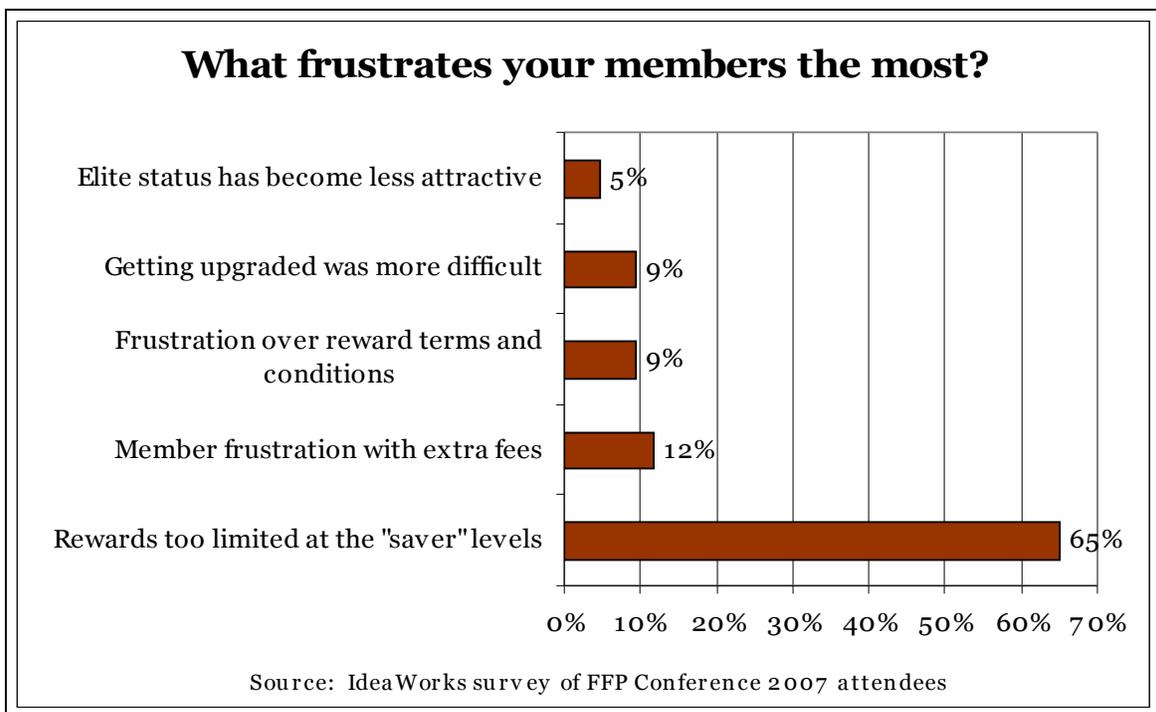
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The following responses from a Denver Post reader are representative of the feedback received from consumers:

“Some of my concerns include: Great difficulty getting tickets to domestic locations and particularly to international locations using miles. Frequently, no ticket will be available with the typical number of miles - - the “saver” rate.”

“I tried almost every date over a six-month period to get a ticket to and from Frankfurt and was not able to accomplish that goal. It defies reason to spend \$50,000 on the Mileage Plus VISA to get 50,000 miles and not be able to use these miles to schedule a convenient, direct flight, much less an inconvenient flight or none at all.”

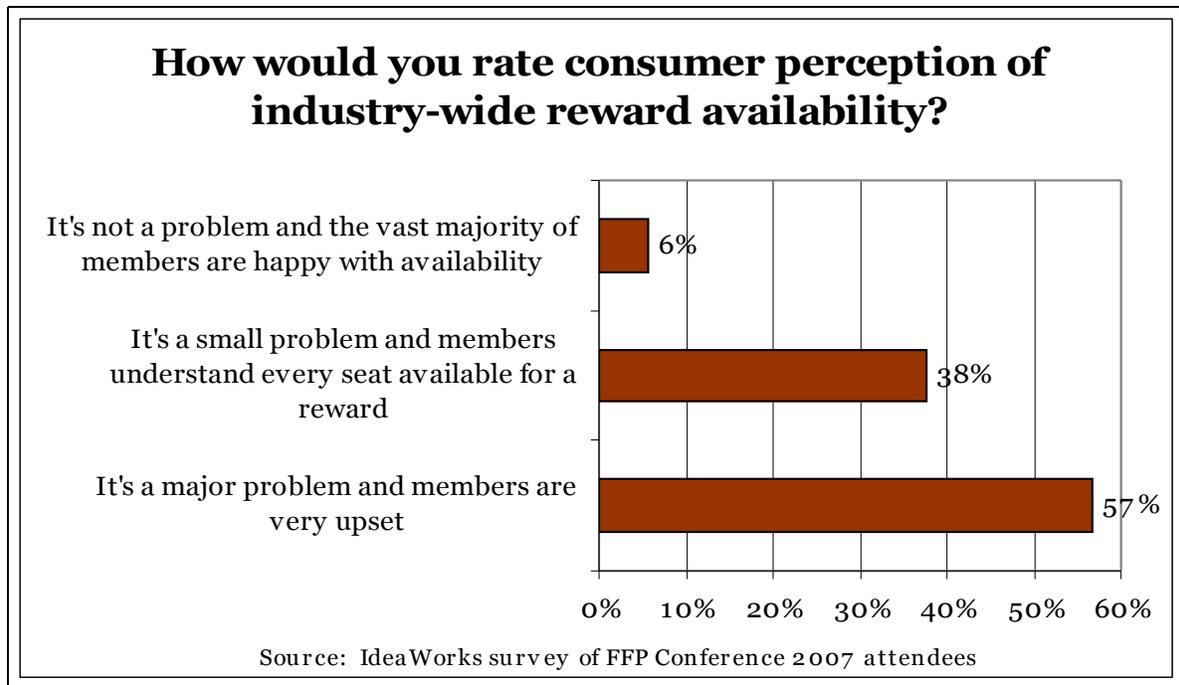
The following survey question addressed the issue directly by asking program executives about the perceptions held by the members of their frequent flier program. Program executives expressed concern over issues such as extra fees and upgrades. But, the greatest source of member frustration is the trouble associated with booking reward seats.



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The issue of reward availability was also measured in a broader sense by asking about consumer perceptions for the entire airline industry. Here again, program executives acknowledged the scope of the problem; 57% agreed “it’s a major problem and members are very upset.” Only 6% of program executives indicated reward availability is not a problem and that members are happy with the ability to secure reward seats.



Program executives use a variety of methods to gather impressions of their frequent flier programs and to measure consumer satisfaction. The impressions they provide as survey responses become more valid if they are based upon actual measurements.

The majority of program executives indicate the use of structured systems to measure member satisfaction with reward availability. 68% report they use surveys and/or track consumer complaints. The remaining 32% indicate a lack of a structured methodology. The following methods are used by the 68% that use some type of methodology:

- 46% use regular surveys **and** tracking of member complaints.
- 29% only track consumer complaints.
- 14% use regular surveys to measure satisfaction.
- 11% use surveys, but not on a regular basis.

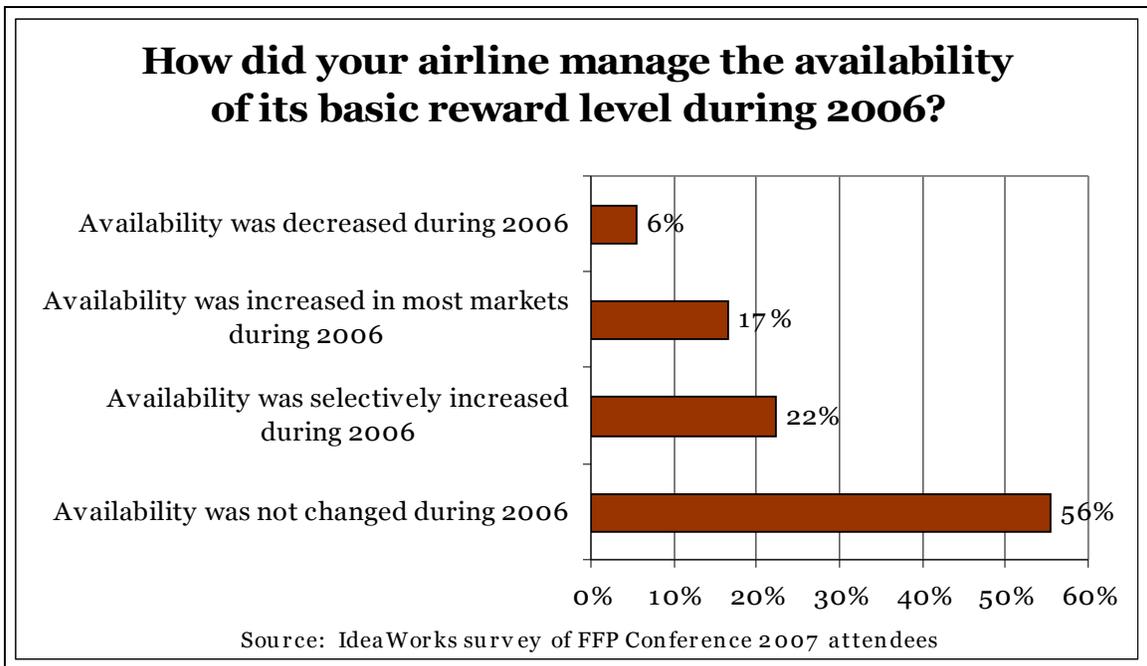
The above results suggest the majority of program executives are largely aware of member needs and wants.

Has Reward Availability Been Influenced?

Program executives have three key levers to address the issue of reward availability. First, they can control the flow of miles by reducing overall accrual levels. Mature frequent flier programs generate about 60% of their mileage through flight activity. The remaining 40% (and oftentimes more) is generated through partner activity which is dominated by co-branded credit card accrual. Tightening this lever might impair the sale of airline tickets or decrease the vital revenues produced from the sale of miles to credit card banks.

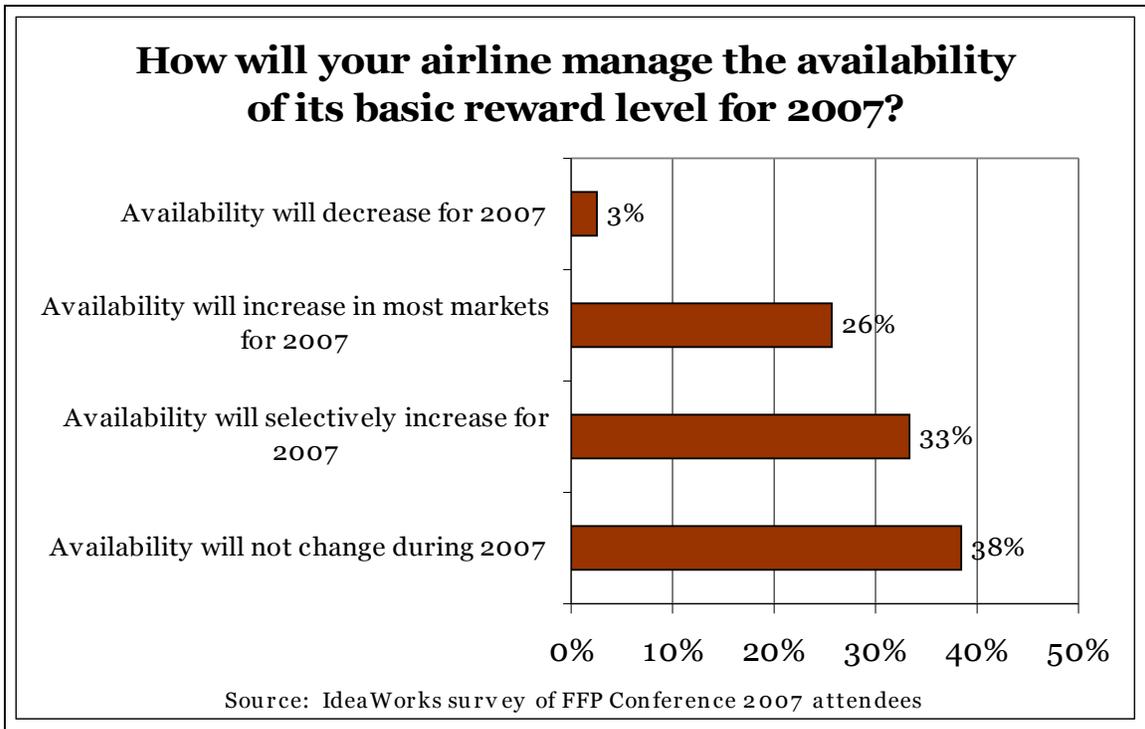
Program executives could also increase or decrease the quantity of miles required for basic reward travel. In the United States, Alaska Airlines and Frontier Airlines break from their competitive ranks by requiring fewer miles or points for reward tickets. However, a far more prevalent method of control is through the opaque process known as revenue management.

This mathematical science (what many call a dark art) holds seats for the highest anticipated bidder. The process gives priority to cash-paying consumers, while frequent travelers are often treated as “freeloaders” and are given the seats that are most likely to go empty. Revenue management largely operates outside of the frequent flier realm in most airlines. The lowly status of a frequent flier reward ticket is reflected by the reward availability issue. This explains why 56% of survey respondents indicated no change (see the graph below) was made to overall reward availability during 2006 - - even while the issue continued to generate a significant amount of “bad press.”



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The above graph does indicate almost 40% of the respondents said their airline did selectively or broadly increase reward availability during 2006. The fortunes of frequent flier members might take a turn for the better during 2007 - - as 59% of the respondents report they will selectively or broadly increase reward seats during 2007. Correspondingly, the “no change” in reward availability portion drops to 38% for 2007 from a far higher 56% for 2006.



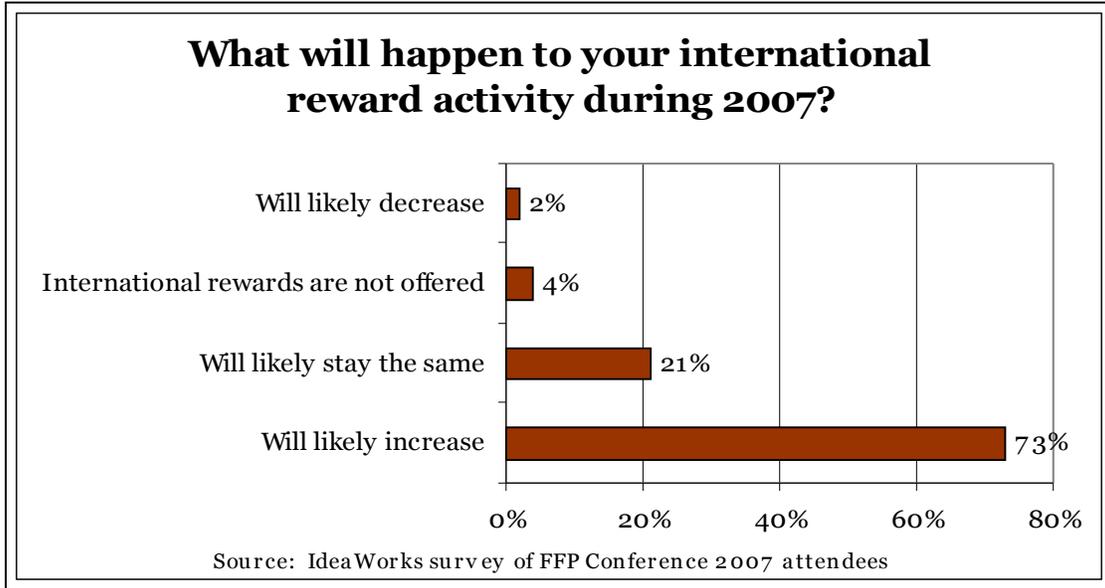
International Opportunities May Provide Further Relief

International expansion through route expansion or alliance relationships has occurred at a torrid pace during 2006. This is especially true of legacy airlines that seek to avoid low cost carriers that have encroached on shorter-haul markets. The legacy airlines are seeking the higher revenues generated by long-haul markets and the greater prevalence of premium class customers.

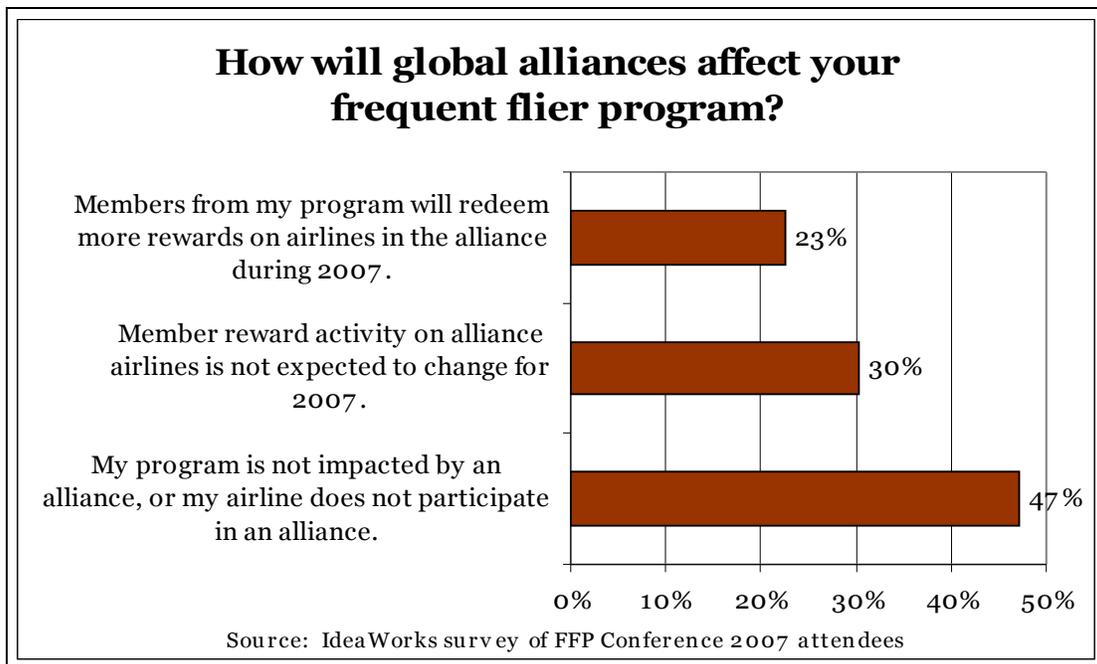
This international expansion provides more exotic reward destinations and increased seat capacity. International alliances also open up new flight networks to program members through reciprocal reward relationships. The net effect of these changes can bring welcome relief to overburdened shorter-haul flight networks through the welcome addition of new and exciting reward opportunities.

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The following question probed the issue of international reward activity. Program executives clearly believe longer-haul reward travel will increase during 2007.



The next question provides a compelling statistic on the impact of international alliances. While 23% of respondents indicate increased reward redemptions with their international partners, the vast majority of program executives surveyed are not involved in an alliance, or don't expect a shift in reward redemptions during 2007.



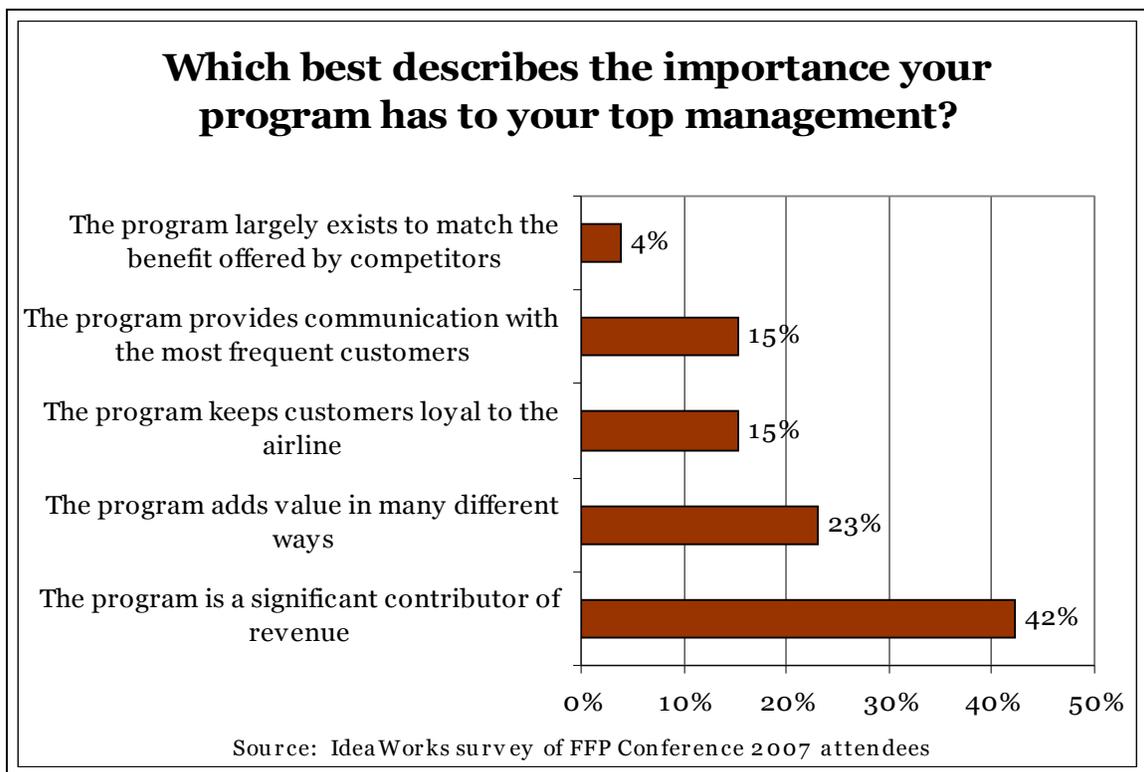
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Ancillary Revenues Have Become Job Number One

Perhaps the surprise result of the survey was the importance placed by top management on the ancillary revenues produced by frequent flier programs. Loyalty was the primary objective when frequent flier programs were introduced 26 years ago. Over time, and largely concurrent with the advent of co-branded credit cards, the primary mission of these programs has become the generation of cash flow for the parent airline. Meanwhile, the pure loyalty benefit has been reduced to a lower level of importance.

42% of survey respondents suggest their top management says “show me the money” when placing a value on their frequent flier program. Only 15% of those surveyed opted for “loyalty” as the primary benefit recognized by an airline’s top management.



Conclusion and Observations

Readers are encouraged to note the transition that occurs from the beginning to the end of this analysis. Page 1 introduces the issue of reward availability as having primary importance to frequent flier program members . . . and program executives.

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The latter portion of the analysis presents the issue of program purpose. What was launched as an initiative to further the loyalty of key customers, has become a race to generate profits from the sale of miles to partners such as co-branded credit cards. As in many things in life, the best results are likely realized through moderation. Perhaps it is time for frequent flier programs to equally serve the purpose of driving loyalty, recognition and customer service, as well as their newfound ability to produce profits. After all, these programs are designed to serve an airline's best customers. If airlines fail to maintain the value of these programs for their customers, they will be useless as revenue sources.

About IdeaWorks: IdeaWorks was founded in 1996 as a consulting firm building brands through innovation in product, partnership, and marketing, and building profits through financial improvement and restructuring. Its international client list includes the hotel, airline, marine, railroad, consumer products and health care sectors. IdeaWorks specializes in brand development, profit improvement, competitive analysis, creating partner-marketing strategies, cost reduction programs and business restructuring. IdeaWorks brings value as a consultant by researching the expectations of the customer, learning from the wisdom of the client organization and applying innovative ideas to create solutions for clients and consumers. Learn more by visiting: IdeaWorksCompany.com.

Sources used in this Industry Analysis: Unless otherwise noted, the survey results described in this analysis were collated from the 53 surveys completed by airline-employed registered attendees. The survey was conducted during February 2007. Registered attendees were permitted to complete one survey; multiple surveys from any one individual were not accepted.

Disclosure: IdeaWorks makes every effort to ensure the quality of the information in this report. Before relying on the information, readers should obtain any appropriate professional advice relevant to their particular circumstances. This Industry Analysis was sponsored in part by Airline Information and Global Flight, which are co-organizers of the FFP Conference for 2007. IdeaWorks cannot guarantee, and assumes no legal liability or responsibility for the accuracy, currency or completeness of the information.

More information about the FFP Conference for 2007 is available at this link: www.ffpconference.com