

Rising above the Clouds
Charting a course for renewed
airline consumer loyalty



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Foreword



Often I find myself engaged in discussions with airline executives about customer loyalty. Many executives tell me how important loyalty is to their businesses, but few say they have cracked the code on building long-term loyalty.

Deloitte understands that it can be hard to secure organization-wide commitment to invest in brand loyalty. During challenging times, airlines are focused on cost management, and when demand is strong, investing in down-the-road loyalty initiatives is hard to justify.

Still, there is an abundance of evidence to show that—in times both good and bad—investment in customer loyalty can benefit the long-term financial performance of the organization that pursues such a course. Genuine loyalty drives share of wallet, migrates customer behavior, and, ultimately, enhances shareholder value. Based on our survey findings, we believe that now is the right time for airlines to consider further investment in customer loyalty.

In October 2012, Deloitte's Travel, Hospitality, and Leisure practice performed extensive consumer loyalty research, surveying 4,000 travelers.¹ As part of this consumer loyalty research, we also conducted two in-depth focus groups with frequent business and leisure travelers. This survey and focus group research has given us deep insights into travelers' behaviors, attitudes, and engagement preferences. In performing this research, our ultimate objective was to gauge the current state of loyalty in the hotel and airline sectors. In January 2013, we published *A Restoration in Hotel Loyalty: Developing a blueprint for loyalty programs*, in which we discuss our findings on the current state of loyalty in the hotel industry.

In *Rising above the Clouds: Charting a course for renewed airline consumer loyalty*, we now report on the current state of loyalty in the airline sector. Our findings strongly suggest that the state of airline loyalty is less than what carriers would like it to be. More sobering is our finding that airline loyalty programs are far from effective in

engendering that loyalty. We conclude that airlines should approach any effort to improve loyalty programs as a *customized* exercise. Or, put differently, when it comes to airline loyalty programs, one size most certainly does not fit all.

In the pages that follow, we explore opportunities to increase the effectiveness of loyalty programs, in particular, and strengthen airline loyalty, in general—in ways that emphasize the *personalized* needs of *individual* passengers. Within this report, we provide strategies for airlines to consider as they endeavor to strengthen their state of loyalty and the effectiveness of their loyalty programs. Such strategies include:

- Encourage specific behaviors with unexpected rewards
- Make rewards personally meaningful
- Provide in-the-moment accessible rewards
- Be forgiving; don't penalize behavior that loyalty programs encourage
- Reshape the customer experience

We are available to assist clients in implementing these strategies. Our experience in data analytics can be applied to support airlines' efforts to unleash the power of their loyalty membership data. We can help carriers in establishing priority customer segments and methods for measuring loyalty. Further, our customer experience transformation services can benefit airlines as they work to provide differentiated experiences that entice competitors' "at-risk" customers. Finally, our human capital practice can provide assistance in evaluating and building front-line employee commitment to the delivery of passenger experiences that build brand affinity.

We would welcome the opportunity to discuss how Deloitte can assist you in enhancing your customer loyalty.

Adam Weissenberg
Vice Chairman
U.S. Travel, Hospitality, and Leisure Leader
Deloitte & Touche LLP

Introduction

Delicious meals served on fine china. Passengers dressed to the nines. Hassle-free check-ins. Courteous treatment. Leg room that seemed to go on forever.

Whether real or imagined, these wistful memories harken of a time when air travel was celebrated as a special occasion. The world has changed. Today, air travel evokes thoughts of long lines, cramped spaces, flight cancellations, baggage fees, \$8 sandwiches, and any other in an array of inconveniences and small annoyances. Consumers now view air travel as something to be endured more than enjoyed. Planes are buses with wings; a commodity, more than a brand.

While the *genuine* difference between then and now may not be quite as stark as this imagery suggests, there can be little doubt that the consumer perception of the air travel experience has changed—largely for the worse. And, sadly for the airlines, this decline in consumer perception is only the tip of the iceberg.

From fuel cost to labor issues to an ever changing regulatory framework, today's airline industry faces daunting challenges that players in the sector could not even have imagined in the era when flying was considered a more genteel pastime. In a time when airlines face a panoply of challenges without precedent, they can ill afford to damage—or lose altogether—a success factor over which they have considerable control: the cultivation of brand loyalty. And, perhaps at no time in recent memory is brand loyalty under such duress.

Toward that end, our proprietary research on the state of brand loyalty within the airline sector uncovered a number of findings that should give airlines pause:

Airline loyalty programs fail to engage. Loyalty program members are far from loyal and airline loyalty programs fall far short in achieving their objectives—particularly among high-margin business² and high-frequency³ travelers. Some 44 percent of business travelers—and a remarkable 72 percent of high-frequency business travelers—actually participate in two or more airline loyalty programs. More than one third of high-frequency business travelers



participate in four or more programs. And, some two thirds of overall respondents were at least open toward switching to a competing loyalty program *even after achieving highest status level*.

Share of wallet of preferred airline brand is

dangerously low. Only 44 percent of all travelers and 40 percent of business travelers fly at least three quarters of their air miles on their self-identified preferred⁴ airline—another sign that airlines have failed to fully engage. Indeed, nearly one third of business travelers fly fewer than half of their air miles on their preferred airline.

Loyalty programs matter more to some travelers than

to others. Both travelers overall—and business travelers specifically—nominally ranked loyalty programs as only the 19th and 18th most important airline attribute (out of 26), respectively. For both groups, the “table stakes” attributes—such as safety and punctuality—ranked near the top. However, *high-frequency* business travelers nominally ranked loyalty programs as their second most important attribute—even higher than safety! And while loyalty programs did not rank very high for business

travelers overall in nominal terms, they ranked as the third most important airline attribute when measuring the importance that business travelers place on loyalty relative to overall travelers.

And, when it comes to airline loyalty program attributes, one size most certainly does not fit all. Our research finds that the characteristics that one type of traveler views as important in a loyalty program, another may view as somewhat less important. For example, 76 percent of high-frequency business travelers viewed gaining more opportunities to earn points as important or very important, as opposed to 64 percent of all survey respondents. And, although access to airport lounges did not rank high as a loyalty program improvement opportunity overall, 68 percent of high-frequency business travelers viewed access to airport lounges as important or very important compared to only 40 percent of all survey respondents. However subtle, these differences, whether referring to the attributes that make up loyalty programs—or to the importance that travelers place on loyalty programs altogether—are particularly important when considering the nuanced preferences of higher margin customers, such as those who travel frequently for business.

Passengers plan and book in different ways. Airlines would be wrong to assume that all travelers plan and book their air travel the same way. Our research reveals significant differences in travelers' booking/planning behaviors and engagement preferences. These differences underscore the need for *differentiated*, targeted approaches to building loyalty and customer engagement.

Airlines need champions. Put simply, the flying passenger has the potential to serve as an airline's most effective marketing tool. Yet, our research shows that only 38 percent of survey respondents answered positively when asked whether they would serve as a brand ambassador.

These—and a host of other findings in the pages that follow—suggest that the state of customer loyalty within the airline sector is far from what carriers would like. Yet, despite this outlook of concern—or perhaps because of it—airlines have a unique opportunity to distinguish their brands in an effort to build a truly loyal consumer base.

In plain terms, a recurring theme of our analysis is this: Airlines should approach any effort to improve loyalty programs—as well as the consumer perception of the entire air travel experience—as a *customized* exercise. An *undifferentiated* one-size-fits-all approach to loyalty improvement will seldom be fully successful because no two travel cohorts—and no two individual travelers—are identical in what matters to them in the air travel experience, airline loyalty programs, and the manner in which they prefer to engage and be engaged. Airlines need to embrace this fundamental premise.

The good news is that airlines *can* set out to leverage their vast troves of customer data to fashion a four-step blueprint for genuine loyalty restoration. These steps can serve as the foundation upon which airline loyalty becomes *individually* meaningful based on preferences of *individual* customers.



Survey methodology and characteristics of our traveler segments

This report is based on an extensive web-based consumer survey, The Hotel and Airline Customer Loyalty Survey (referred to as “Deloitte proprietary survey research” throughout the study), focus groups, executive interviews, case studies, and secondary research.

We conducted this survey in October 2012 among travelers in the United States who took a flight in the prior twelve months. The survey focused on traveler behavior and attitudes, including customer engagement preferences, travel-booking behavior, and the effectiveness of loyalty programs. From an overall sample size of 4,000 respondents, we focused our analysis on the 2,572 respondents who took at least one flight in the twelve months leading up to October 2012.

We looked at the responses in aggregate and by key consumer segments to understand the differences in preferences and loyalty drivers of travelers by demographics, income, purpose of travel, and frequency of travel. To provide actionable insights, we focused our report on four distinct traveler groups from among overall travelers:

Business: Business travelers are career minded; they want to get from Point A to Point B on a certain date and time and are willing to pay for the privilege. (Sample: 608)

Leisure: Leisure travelers travel less often, are less affluent, and skew older than business and overall travelers. This cohort travels flexibly, looks for deals, etc. (Sample: 1509)

Business High Frequency (HF): The most coveted cohort, the high-frequency business traveler gives airlines the two things they want likely more than anything else—willingness to pay a premium and frequency of travel. (Sample: 107)

Leisure High Frequency (HF): The Leisure HF cohort is sharply younger and more affluent than the larger leisure cohort. This type of traveler is likely in an early career, pre-family/kids stage. (Sample: 86)

Note: See Appendix III for a more detailed description of the four traveler segments.

The state of brand loyalty in the airline sector

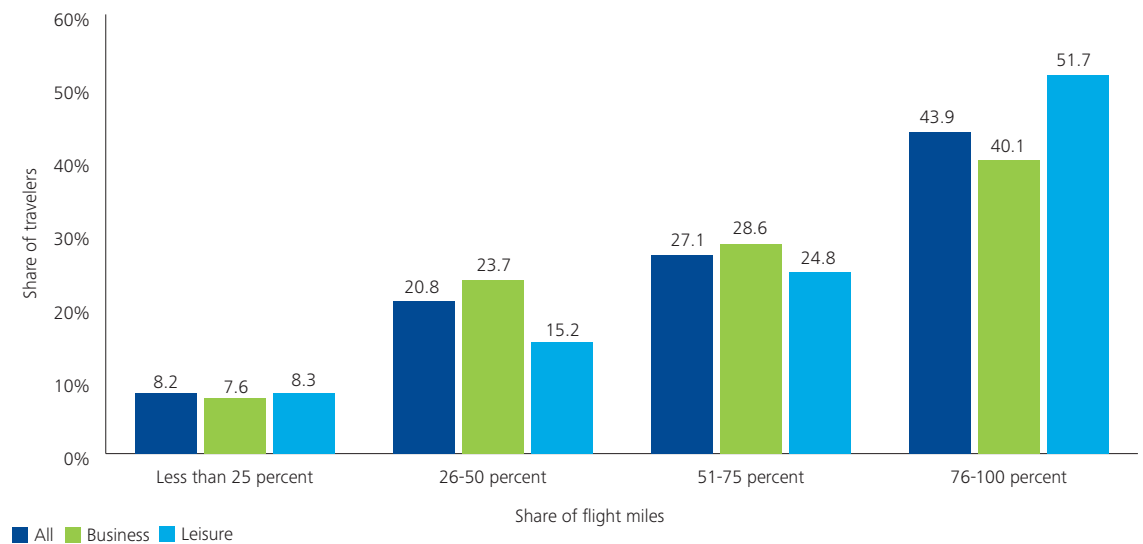
Brands derive power, in part, from a base of loyal consumers. This power may assume the form of less price elasticity, reduced brand switching behavior, or a core of brand advocates. Brand loyalty affords staying power in challenging economic times and drives growth during an up market.

So what is the state of brand loyalty within the airline sector? In order to answer that question, Deloitte conducted a proprietary survey of 2,572 air travelers⁵ — people who took a minimum of one flight over a twelve month period. What the survey revealed was far from encouraging. As Exhibit 1 shows, only 44 percent of airline travelers fly more than 75 percent of air miles on their self-identified preferred airline. Nearly 30 percent of airline travelers fly a minority of air miles on their preferred airline. Among the highly coveted business traveler—with typically larger travel budgets and more exacting schedules—only 40 percent fly more than 75 percent of air miles on their preferred airline while nearly one third fly fewer than half of air miles on their preferred airline. Leisure travelers—those

who may have more time and flexibility to choose from a variety of flight options—reveal only somewhat greater loyalty. Slightly over half of leisure travelers fly more than 75 percent of their air miles on their preferred brand while nearly one quarter chose their preferred airline for a minority of their flight miles.

The result that a somewhat greater share of leisure travelers than business travelers flies more than 75 percent of their air miles on their preferred airline is a bit surprising given the common assumption that business travelers want to build status on one airline. While this assumption sounds reasonable, business travelers also have less flexibility in their schedules than leisure travelers and will likely choose whatever airline gets them from Point A to Point B by a certain time—even if the only option is an airline that the business traveler does not ordinarily fly. Regardless of the reasons for this disparity between the two cohorts' share of wallet loyalty to a most preferred airline, the overall results of Exhibit 1 should cause some concern to airlines.

Exhibit 1. Share of business given to most preferred airline



Source: Deloitte proprietary survey research, Deloitte analysis

The survey also asked respondents to evaluate a series of statements in an effort to measure the degree of affinity that they feel about their preferred airline, as seen in Exhibit 2. Only 40 percent of all respondents agreed or strongly agreed with each statement on average. In the case of only one statement—"I will recommend this airline to my friends and relatives."—did an outright majority (53 percent) agree or strongly agree—a result that should provide airlines with at least a small measure of hope given the role of the consumer as a marketing tool. On the other hand, a much smaller percentage of travelers (38 percent) agreed or strongly agreed with the corollary statement: "I will be a brand ambassador for this airline, if asked." And only one third of all travelers affirmed that they would not switch to a competing loyalty program *even after achieving highest status level*—which means that some two thirds would be at least open to the idea. The survey revealed similar results in the cases of both the business and leisure traveler cohorts.

Exhibit 2. Degree of agreement with attitudinal statements

Attitudinal statements relating to preferred airline	% of Respondents who agree or strongly agree				
	Total	Business	Leisure	Business HF	Leisure HF
It is distinct from other airlines	42%	38%	40%	48%	71%
It has the best loyalty program in the industry	34%	32%	29%	54%	71%
The brand's image resonates with my personality	41%	37%	39%	50%	76%
I have built a personal relationship with the brand and its people	34%	35%	30%	59%	70%
I provide constructive criticism and feedback to help the airline improve its services	37%	38%	33%	53%	70%
I will recommend this airline to my friends and relatives	53%	50%	54%	60%	77%
I will not shift to a competing airline brand to benefit from a limited period discount	31%	33%	27%	49%	65%
I will be a brand ambassador for this airline, if asked	38%	37%	35%	49%	74%
I will always fly this airline in the future, if the route is available	46%	44%	45%	60%	76%
I will give first priority to this airline brand, even when I visit a foreign country	43%	44%	40%	59%	70%
I travel by the same airline for both business and leisure, if the route is available	48%	52%	44%	66%	73%
I will not switch to a competing loyalty program even after achieving highest status level	33%	34%	29%	50%	67%
Average	40%	40%	37%	55%	72%
Sample Size	n=2572	n=608	n=1509	n=107 ⁶	n=86

Source: Deloitte proprietary survey research, Deloitte analysis

Note: HF=High Frequency, which refers to those travelers who have flown at least 50,000 miles over a twelve month period. HF travelers are also included in larger business and leisure cohorts. The total of 2572 includes 455 survey respondents not represented by the business and leisure cohorts listed above.⁷



agreed or strongly agreed with the statements in Exhibit 2—compared to 40 percent of all survey respondents. This represents good news for the airlines given the importance that carriers place on the high-frequency customer.⁹

To be sure, airlines have an opportunity to apply whatever it is that drives the heightened level of agreement with these statements among the high-frequency cohorts to a wider group of travelers.¹⁰ Still, the overall results seen in Exhibits 1 and 2 imply that the state of brand loyalty in the airline sector is less than optimal. But what can airlines do to improve brand loyalty? Loyalty programs—one of the most prominent ways that airlines engage travelers in an effort to improve brand loyalty—merits greater scrutiny. And just how much importance do travelers place on loyalty programs and other airline attributes? In the next sections, we seek answers to these questions.

We also looked at the responses of high-frequency (HF) business and leisure travelers—those who have traveled at least 50,000 miles over a twelve month period, at least three quarters of which traveled primarily or exclusively for business or leisure purposes. Although only a relatively small share of our survey respondents (8 percent), high-frequency business and leisure travelers represent an important customer base to airlines as they offer carriers the benefit of recurring revenue that stems from their higher frequency of travel. High-frequency business travelers offer airlines the best of both worlds—a business traveler’s greater willingness to pay a premium to be somewhere by a certain date and time as well as frequency of travel. Both business and leisure high-frequency travelers are also more affluent than their larger business and leisure cohort counterparts, another basis for their appeal to airlines.⁸

Interestingly, these coveted high-frequency cohorts showed substantially greater agreement with the attitudinal statements in Exhibit 2 than their larger business and leisure cohort counterparts—and survey respondents overall. On average, 55 percent of high-frequency business travelers and 72 percent of high-frequency leisure travelers

Recent travel activity in the U.S.

Cesare Pavese called traveling a “brutality [that] forces you to trust strangers and to lose sight of all that familiar comfort of home and friends.” Some view traveling as a desirable way of life. Others simply view it as a means to an end. But however people view it, one thing seems certain: Americans travel a lot. According to the U.S. Travel Association (USTA), in 2012, alone, U.S. residents spent \$727 billion on business and leisure travel, up 4.3 percent from 2011. Americans took slightly more than 2 billion trips of which about 77 percent were leisure trips and 23 percent business trips. The USTA estimates that trip volume will grow by 1.1 percent in 2013 and 1.5 percent CAGR through 2016.

Loyalty programs and other airline attributes: A nominal and relative assessment

In our survey, we assessed consumer attitudes about airlines on the basis of an array of attributes that are commonly understood to engender brand loyalty. As seen in Exhibit 3, loyalty programs nominally ranked only 19th out of 26 attributes in terms of importance. Among business travelers and leisure travelers, it ranked 18th and 19th, respectively.

Exhibit 3. Nominal ranking of importance of airline experience attributes by cohort

Attribute	Total	Business	Leisure	Business HF	Leisure HF
Safety	1	1	2	3	2
Value for money	2	3	1	7	1
On-time arrivals/departures	3	2	3	4	8
Check-in convenience	4	4	5	5	13
Baggage handling (ease and cost)	5	6	4	10	12
Service	6	5	6	6	3
Staff attitude	7	8	7	11	10
Recent flying experience	8	10	9	14	9
Consistency of service	9	9	8	8	18
Deliver on promise	10	12	10	16	14
Network of routes serviced	11	7	12	1	4
Comfort	12	11	11	9	17
Reputation of the airline	13	13	13	12	5
Fleet quality	14	14	14	13	15
Ability to address problems in a fair manner	15	15	15	15	6
Strive to enhance my experience	16	17	16	19	16
Ability to understand my needs	17	19	17	17	11
Ability to value me	18	16	18	18	7
Loyalty program	19	18	19	2	19
Promotions with other travel companies (International airline partners/hotels/car rentals)	20	20	20	22	23
In-flight technology	21	21	21	23	22
Free meals	22	22	23	25	25
Free parking	23	26	22	26	26
Distinct from other airlines	24	24	24	24	21
Availability of business or first class	25	23	25	20	24
Access to executive lounges and VIP privileges	26	25	26	21	20
Average Score (scale 1 (lowest) to 5 (highest))	3.75	3.72	3.72	4.04	3.76
Low-High Score Range (scale 1 (lowest) to 5 (highest))	2.9-4.3	3.1-4.2	2.6-4.3	3.3-4.4	3.3-4.2
Sample Size	n=2572	n=608	n=1509	n=107	n=86

Source: Deloitte proprietary survey research, Deloitte analysis

Note: The above nominal rankings measure the importance of each attribute within each cohort. The nominal rankings of the attributes are based on each attribute's average importance score within each cohort, using a scale from 1 (lowest) to 5 (highest). For example, business travelers gave "safety" an average importance score of 4.17 and "comfort" an average importance score of 3.92. The "Average Score" listed in Exhibit 3 represents the average of the individual attribute importance scores within a cohort, e.g., 3.72 for business travelers. Low-high score range is the range of the individual scores that each cohort gave to the importance of each listed attribute on a scale of 1 (lowest) to 5 (highest) rounded to the nearest 0.1.

HF=High Frequency, which refers to those business or leisure travelers who have flown at least 50,000 miles over a twelve month period. HF travelers are also included in larger business and leisure cohorts. The total of 2572 includes 455 survey respondents not represented by the business and leisure cohorts listed above.



Perhaps unsurprisingly, the high-frequency business traveler cohort stands apart in ranking loyalty programs as the second most valued attribute, *even above safety*. That exception aside, attributes such as safety, value, networks served, among others, ranked nominally higher than loyalty programs in importance.

Beyond the issue of loyalty programs, business and leisure traveler rankings were largely consistent. Still, there were slight, yet notable, differences. Business travelers in general placed somewhat greater emphasis on matters related to convenience, such as network of routes serviced. High-frequency business travelers value network of routes serviced as the single most important attribute, compared to seventh for business travelers overall and eleventh for all travelers. Business travelers—and particularly high-frequency business travelers—put somewhat greater

emphasis on matters related to status such as availability of business/first class and access to executive lounges and VIP privileges. Leisure travelers—who tend to travel less often and skew less affluent than business travelers¹¹—put a slightly greater emphasis on value-related attributes such as value for money and free parking.

At first blush, the comparatively low nominal ranking of loyalty programs for most types of travelers may appear somewhat counterintuitive—yet it is not an unreasonable outcome. By its very nature, air travel uniquely requires the consumer to place his or her personal safety in the hands of others. It also requires the consumer to go through an array of experiences—security checks, weather and mechanically-related cancellations, limited options, among others—that simply don't occur to the same extent—or at all—in most other consumer experiences. Thus, it is understandable that something as seemingly mundane as loyalty programs does not make or break the decision to choose one airline over the other.

Yet, loyalty programs' low nominal ranking in importance to the overwhelming majority of travelers is deceiving. The central purpose of airline loyalty programs—perhaps more than any other attribute—is to engender customer loyalty. And, unlike many other attributes, including many of those ranked higher in terms of importance, loyalty programs are solely controlled by carriers, rather than mandated by security-related regulations or shaped by competitive pricing¹² conditions or subject to the vagaries of weather conditions.

Certainly, a nominal ranking of airline attribute importance as seen in Exhibit 3 provides useful insight into what matters to members of a cohort when comparing one attribute to the others *within* that cohort. But it says little about what matters to members of a cohort relative to all survey respondents. To help answer this question, an alternative ranking is found in the *relative* importance of the airline attributes—that is, the importance that members of a cohort place on an airline attribute *relative* to all survey respondents.

Exhibit 4 lists the five most important airline attributes for each cohort on a relative basis.

Exhibit 4. Relative ranking of importance of top 5 airline experience attributes by cohort

Attribute relative importance rank	All survey respondents	Business	Leisure	Business HF	Leisure HF
First	Safety	Availability of business/first class (23)	Value for money (1)	Access to executive lounges/VIP privileges (21)	Access to executive lounges/VIP privileges (20)
Second	Value for money	Access to executive lounges/VIP privileges (25)	Safety (2)	Availability of business/first class (20)	Availability of business/first class (24)
Third	On-time arrivals/departures	Loyalty programs (18)	Service (6)	Loyalty programs (2)	Distinct from other airlines (21)
Fourth	Check-in convenience	Distinct from other airlines (24)	Baggage handling (4)	Distinct from other airlines (24)	Free meals (25)
Fifth	Baggage handling (ease and cost)	Promotion with other travel companies (20)	Staff attitude (7)	Promotion with other travel companies (22)	In-flight technology (22)

Source: Deloitte proprietary survey research, Deloitte analysis

Note: The relative importance of an airline attribute is based on the calculation of the ratio of that attribute’s importance within a cohort to its importance to all survey respondents—the higher the ratio, the higher that attribute’s relative importance within that cohort. The importance scores that make up this ratio are based on a scale of 1 (lowest) to 5 (highest). Numbers in parentheses refer to that attribute’s nominal ranking within that cohort. The ranking of attributes for all survey respondents is shown for reference purposes.

HF=High Frequency, which refers to those business or leisure travelers who have flown at least 50,000 miles over a twelve month period. HF travelers are also included in larger business and leisure cohorts.

What Exhibit 4 reveals is that while a given attribute may not be as important as other attributes within a cohort, members of that cohort may place greater importance on that attribute than all survey respondents. For example, loyalty programs rank only as the 18th most important airline attribute to business travelers in nominal terms. However, loyalty programs represent the third most important airline attribute to business travelers in relative terms. That is, business travelers place considerably greater importance on loyalty programs than travelers overall. Even more dramatic, availability of business/first class ranks 23rd for business travelers in nominal terms, but first in relative terms—indicating significant underlying relative importance.

For the high-frequency travelers—both business and leisure—there are three attributes that show substantial divergence between nominal and relative rankings: access to executive lounges/VIP privileges, availability of business/first class, and distinct from other airlines.



Since leisure travelers account for a majority of overall survey respondents, the divergence between nominal and relative rankings is less dramatic for the leisure cohort than it is for the business cohort. However, service and staff attitude reveal themselves in relative terms as slightly more important to overall leisure travelers than a nominal ranking suggests.

Whether one views airline attributes in nominal or relative terms, the bottom line is this: As a general matter, certain kinds of attributes—the “soft” attributes such as loyalty programs, access to airport lounges, etc.—are

not as important to travelers in nominal terms as other attributes—the “hard” attributes such as safety and punctuality. However, the soft attributes matter more to the highly coveted business and high-frequency travelers than to travelers overall. Indeed, the hard attributes are rightly considered the “table stakes” of what it takes to run an airline. Airlines have to perform those attributes well as industry table stakes. It is, in fact, the soft attributes that give airlines the levers to differentiate themselves in a highly commoditized industry. Most prominent and widespread among these soft attributes stands the airline loyalty program.



Defining customer loyalty

Customer loyalty is defined as a feeling of attachment or affection for a company's products, services, and people. These feelings manifest themselves in many forms of customer behavior. The ultimate measure of loyalty, of course, is share of purchases in the category.

Jones & Sasser 1995

Loyalty is a long-term commitment to repurchase involving both repeated patronage and favorable attitude.

Dick & Basu 1994; Stank et al. 1999

In a business context, loyalty can be defined as a customer's commitment to do business with a particular organization, purchasing their goods and services repeatedly, and recommending the services and products to other people.

Mallory & Barnett 2000

Loyalty truly exists when the customer resists pressures to switch to another brand.

Ngugen & Leblanc 2001

Service providers desire customer loyalty, because a customer that has an “attitudinal and behavioral commitment” to a service business may repurchase even if they are dissatisfied with the last experience.

Weiner 2000



Loyalty programs fail to engage

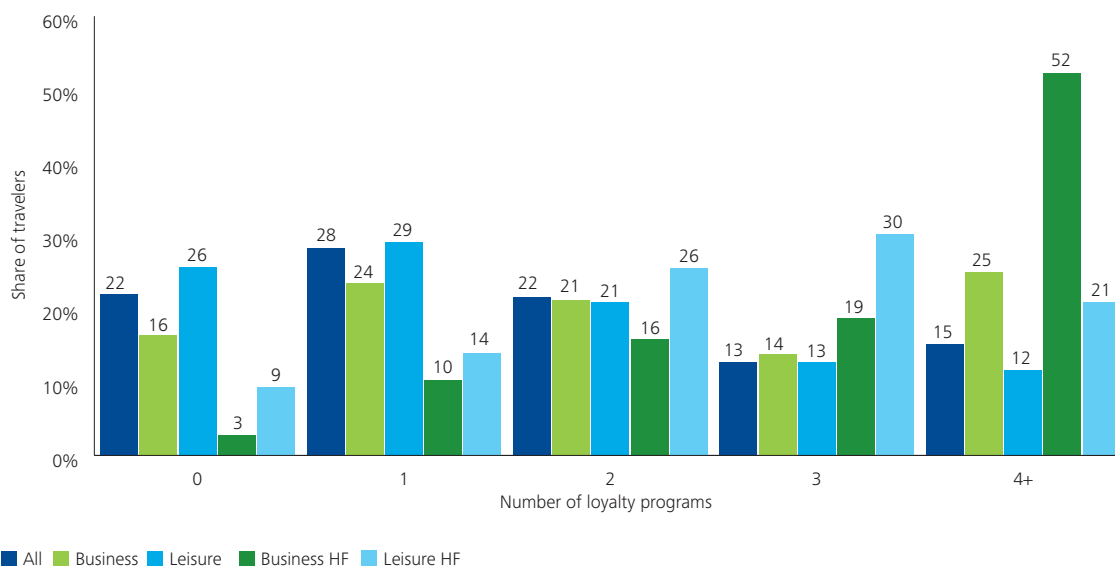
The roots of the modern airline loyalty program go back more than three decades.¹³ Since that time, loyalty programs have become as much a part of the flying experience as airports and planes. But, in a largely commoditized—and consolidating—industry, do loyalty programs achieve what they are designed to achieve—namely, the strengthening of brand loyalty? And, if not, why not?

One answer to that question is found in Exhibit 2 where we measure the degree of agreement with the statement “[My preferred airline] has the best loyalty program in the industry.” Only 34 percent of all respondents agreed or strongly agreed with that statement. At 32 percent and 29 percent, respectively, business and leisure travelers show even less agreement.¹⁴ Similarly, only 33 percent of all respondents agreed or strongly agreed with the statement “I will not switch to a competing loyalty program even after achieving highest status level.” At 34 percent and 29 percent, respectively, business and leisure travelers showed comparable levels of agreement.¹⁵

Moreover, we found that travelers are not particularly satisfied with airline loyalty programs. Among the attributes measured for importance in Exhibit 3, loyalty programs nominally ranked 17th in terms of overall satisfaction.¹⁶ Business and leisure travelers similarly ranked their satisfaction of loyalty programs at 14th and 19th, respectively. Even high-frequency business travelers, who nominally ranked loyalty programs second in terms of importance, ranked them a lagging fourth in terms of satisfaction.¹⁷

A further measure of loyalty program effectiveness resides in enrollment and participation exclusivity. According to our overall survey respondents, 78 percent are loyalty program members, while nearly 50 percent of overall survey respondents are enrolled in two or more loyalty programs. This unfaithful behavior is even more pronounced with the nearly one quarter of overall survey respondents who are business travelers. Of these, some 60 percent are members of two or more programs. Among high-frequency business travelers, slightly more than half are members of *four* or more programs (see Exhibit 5).

Exhibit 5. Loyalty program membership among air travelers



Source: Deloitte proprietary survey research, Deloitte analysis

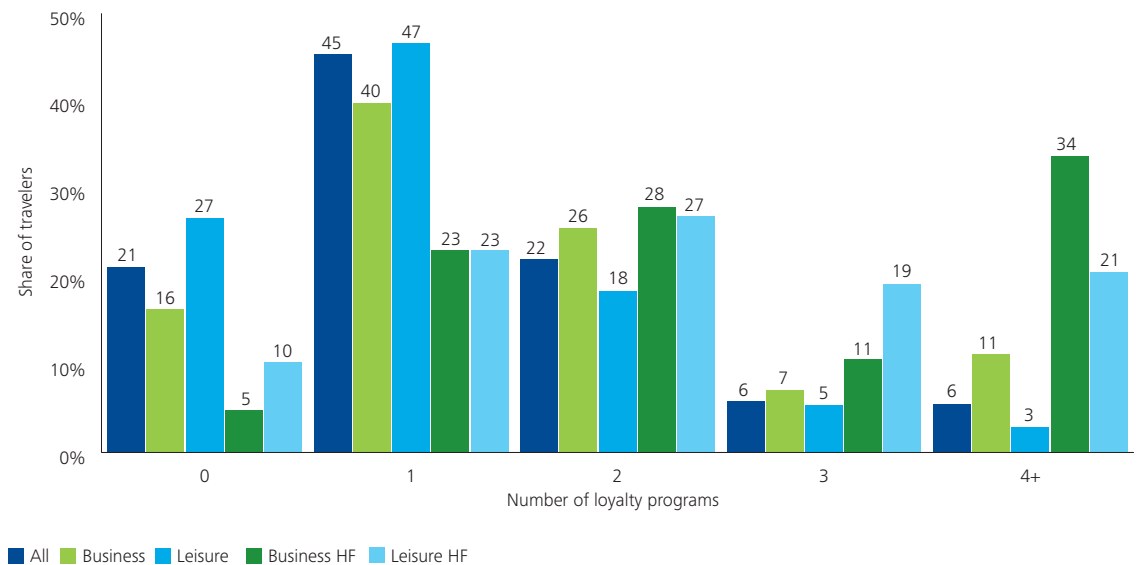
Note: HF=High Frequency, which refers to those business or leisure travelers who have flown at least 50,000 miles over a twelve month period. HF travelers are also included in larger business and leisure cohorts.

On the other hand, leisure travelers show somewhat greater membership faithfulness in that only 12 percent of that traveler group is enrolled in four or more programs. This seeming improvement in membership exclusivity among the leisure travelers stems, in part, from the fact that leisure travelers fly fewer miles¹⁸ annually than business travelers and, as such, are less concerned with the accrual of points than business travelers. That slightly more than one quarter of leisure travelers do not belong to any membership program—compared to roughly one sixth of business travelers—further underscores this difference. As one might expect, high-frequency leisure travelers show somewhat greater unfaithfulness as slightly more than one fifth of that small cohort are members of four or more programs, nearly twice the rate of the larger leisure cohort.

Mere enrollment in a given airline’s loyalty program is not tantamount to participation in that program—much less an expression of loyalty to that brand. Actual participation

is more important to track. Our survey of respondents showed that about 21 percent of those who say that they are members of at least one program did not participate (redeemed or accumulated points) in any program over a six month period (see Exhibit 6). On the other hand, approximately one third of all airline customers who say they are members in loyalty programs actually participated in two or more loyalty programs over a six month period. Among business travelers, this share increased to nearly 44 percent; among high-frequency business travelers, a remarkable 72 percent. Leisure travelers showed somewhat greater faithfulness in that only 27 percent of those who are program members participated in two or more loyalty programs over a six month period—results that parallel the comparative exclusivity found in the leisure travelers’ loyalty program membership rates.¹⁹ Here again, high-frequency leisure travelers showed higher rates of program participation than their larger leisure cohort counterparts.

Exhibit 6. Loyalty customers’ activity rate over six month period



Source: Deloitte proprietary survey research, Deloitte analysis

Note: HF=High Frequency, which refers to those business or leisure travelers who have flown at least 50,000 miles over a twelve month period. HF travelers are also included in larger business and leisure cohorts.

How airline loyalty is different

Every business in every industry seeks that often elusive trait called customer loyalty. It is, after all, the loyal relationship that is the enduring relationship. In the purest sense, loyalty is not measured in a vacuum. Rather, it is measured as the byproduct of free choice when the customer has alternatives.

In almost all consumer services, the customer has alternatives and the concept of customer loyalty takes on real meaning. For air travel, however, the picture is muddled. On the one hand, in most U.S. markets, airports afford the flying consumer substantial choice in getting from Point A to Point B. On the other hand, in a number of markets, one airline dominates traffic such that the consumer has few practical alternatives beyond that one dominant carrier. The following table offers a sampling of such airports in larger markets:

Airport/Region	Dominant airline share of passenger traffic
Miami International	71.4%
Dallas (DFW and Love Field)	71.1%
Atlanta Hartsfield	66.0%
Charlotte Douglass	57.9%
Minneapolis St. Paul	49.3%
Detroit Metro	43.8%

Source: www.transtats.bts.gov Accessed May 29, 2013

Note: Passenger percentage shares reflect March 2012 through February 2013.

Because air traffic (and pricing) in these and many smaller markets is dominated by one or two carriers, consumer choice in such markets may not always reflect a genuine expression of loyalty—especially where the dominant carrier is the only option.

To be sure, the issue of how airline loyalty differs from other kinds of consumer loyalty is important and serves as a backdrop to our study. Further analysis—beyond the scope of this study—would explore this issue more deeply. That said, we believe that our analysis offers an overall reflection of the state of airline loyalty in the United States.

Certainly, loyalty program participation rates—and the degree of exclusivity that they measure—are not a perfect proxy for brand loyalty. Still, these data findings suggest that airline loyalty programs fail to inspire brand loyalty with a large number of travelers, particularly within the highly coveted business traveler and high-frequency groups. And, the results of our focus groups supported these findings. Overwhelmingly, session participants reflected the sentiment that airline loyalty programs were too commoditized. As one focus group participant succinctly said: “I don’t want something everyone else is getting, give me something for me.” It is additionally not surprising that the restrictiveness of loyalty programs also surfaced as a common theme given the airlines’ penchant for tightening redemption rules in recent years: “Stop increasing the requirements for getting a free flight!”



Airline loyalty programs: One size most certainly does not fit all

Despite the relative ineffectiveness of loyalty programs to inspire brand loyalty, all hope is not lost. Airlines can make proactive choices to design loyalty programs that reflect consumer preference. To identify opportunities for improving airline loyalty programs, we asked survey respondents to rate specific attributes based on importance and satisfaction. Exhibit 7 provides a rank-ordered list of attributes for all travelers and select customer segments. We created these priorities by employing a modeling technique which prioritizes customer importance over customer satisfaction, as explained in Exhibit 7. The basic premise is that an airline should first fix areas that are important to travelers and lead to relative dissatisfaction.

Exhibit 7. Airline loyalty program improvement opportunity prioritization (based on reported importance and satisfaction by attribute)

Attribute	All	Business	Leisure	Business HF	Leisure HF
Ease of redeeming points	1	1	1	3	2
Redemption value per point	2	2	2	2	3
Ease of earning points	3	3	3	4	4
More opportunities to earn points	4	5	4	1	5
More opportunities to redeem points	5	4	5	5	1
Exchange points for taxi miles, free nights at hotels	6	6	6	8	9
Rewards focus on providing experiences	7	8	7	7	8
Access to airport lounges	8	7	10	6	6
Distinct from other loyalty programs	9	10	8	9	7
Redeem points for merchandise	10	9	9	10	10
Sample Size	n=2572	n=608	n=1509	n=107	n=86

Source: Deloitte proprietary survey research, Deloitte analysis

Note: The above rankings are based on an “importance/satisfaction” index that measures the extent to which the importance level that survey respondents within a cohort assigned each attribute exceeded that attribute’s corresponding satisfaction level. The levels of importance and satisfaction that are used in calculating the “importance/satisfaction” index for a given attribute within a given cohort are themselves based on average scores using a scale from 1 (lowest) to 5 (highest) for importance and satisfaction, respectively. The equation used to calculate the index is as follows: “Importance/Satisfaction” index value = 2 x (attribute importance score) - (attribute satisfaction score). The higher the index value, the higher the ranking of a given attribute within that cohort.

As we expected, there was general consistency across the travel cohorts. The commodity-like nature of airline loyalty programs revealed that travelers have “points on the brain.” As detailed in Exhibit 7, highest ranked opportunities are largely related to points: redemption value, ease of earning and redeeming, and more ways to earn and redeem points (e.g., taxis, hotels, merchandise etc.).

The rankings of airline loyalty program improvement opportunities were generally consistent between the high-margin business traveler cohort and overall survey

respondents. However, generally consistent rankings of improvement opportunities across the cohorts do not tell the whole story.

The ranking of a given attribute’s improvement opportunity within each travel cohort is based on the relationship between the importance and satisfaction of that program attribute—in broad terms, the higher the gap between importance and satisfaction, the higher the ranking of that attribute’s improvement opportunity. However, the importance that members of a specific travel cohort place on that loyalty program attribute may be

higher than the average for all travelers—and that may present an opportunity for airlines—even if that attribute’s improvement opportunity does not rank highly within that cohort. In this sense, the analysis reveals subtle differences.

For example, 47 percent of business travelers and 53 percent of high-frequency business travelers considered the option to exchange points for free hotel nights and taxi fares as important (rating of “4” on a scale of 1 (lowest) to 5 (highest)) or very important (rating of “5”), compared to 45 percent of all survey respondents. Similarly, 66 percent of business travelers and 76 percent of high-frequency business travelers viewed gaining more opportunities to earn points as important or very important, as opposed to 64 percent of all survey respondents.

And, although access to airport lounges did not rank high as a loyalty program improvement opportunity overall, 47 percent of business travelers and 68 percent of high-frequency business travelers viewed access to airport lounges as important or very important compared to only 40 percent of all survey respondents.

On the other hand, business travelers placed slightly less importance—and leisure travelers slightly more importance—than overall survey respondents on a number of attributes including ease of redeeming points as well as redemption value per point.²⁰

The larger idea is that airlines should approach any effort to improve loyalty programs as a customized exercise. Or, put differently, when it comes to airline loyalty programs, one size most certainly does not fit all. What one traveler cohort views as important in a loyalty program, another may view as somewhat less important. These differences, however subtle, are especially important when considering the nuanced preferences of higher-margin customers, such as those who travel primarily for business. As one focus group member succinctly said: “Individual needs make a big difference for how you select your loyalty program.”

Another look at the data: “Stage of life” segmentation demographics and preferences

There are many ways to look at a given set of survey data. In our analysis, we assessed airline loyalty in terms of travel purpose and, secondarily, travel frequency. An interesting alternative approach is to look at our survey data through the prism of age cohort.

As a general matter, in each phase of adulthood, the profile of individual preferences is unique in terms of lifestyle, family demands, career, spending habits, etc. Age cohorts provide a way to examine the habits and preferences in a generalized “stage of life” fashion. No method of generalized grouping is perfect and can characterize the precise behaviors of any specific member of any particular age group. Nor is such an approach static. The behaviors and preferences of today’s 50 year old may not be the same as today’s 30 year old will be in twenty years. Still, such an analysis of our survey data reveals interesting insights:

- **Millennials are in early career stage with disproportionately low household income (HI):** The share of Millennials with HI below \$50,000 is three times that of all survey respondents. Only slightly more than one eighth of Millennials travel more than 50,000 miles, but the vast majority (two thirds) of those who do, travel for leisure—likely the so-called “backpackers” in a pre-career/pre-family stage of life. Seniors, on the other hand, overwhelmingly fly for leisure. They skew towards a low HI, although they may have substantial savings.
- **Gen Xers and some Baby Boomers are in the full bloom of their careers:** Both groups enjoy relative affluence. Gen Xers travel more than other groups with a bias for business. Two purpose-driven groups define the Baby Boomer cohort: those who fly mostly for business and those who fly mostly for leisure—likely reflecting the fact that some Baby Boomers are still in the midst of their careers while others are entering or in retirement.
- **Share of wallet loyalty appears to increase with age:** About 30 percent of Millennials fly at least three quarters of their air miles on their preferred airline compared to nearly 60 percent of Seniors. Seniors are 1.5x as likely to *join* two or more airline loyalty programs as Millennials, but only three quarters as likely to *participate* in two or more programs. These data points clearly show that airline loyalty—as measured in share of wallet and loyalty program participation rates—increases with age. It is not clear whether this increased loyalty is driven by age-inherent characteristics (e.g., set in ways) or travel habits (e.g., frequency and purpose of travel). What is clear is that this apparent relationship between age and loyalty provides airlines with key marketing opportunities.

See the table on page 17 for additional insights.

"Stage of life" segmentation demographics and preferences

	Millennials (20-32)	Gen Xers (32-48)	Baby Boomers (48-65)	Seniors (65+)
Demographics	<ul style="list-style-type: none"> Mixed purpose traveler with bias for leisure 13.6 percent of cohort travel >50,000 miles (vs. 10.7 percent overall); two thirds of Millennial high-frequency travel is for leisure At early career stage with share of HI <\$50k at 3x rate of all survey respondents 	<ul style="list-style-type: none"> Mixed purpose traveler with bias for business Mid- to high-frequency traveler Relatively affluent, as 46.2 percent of cohort has HI >\$100K vs. 40.8 percent overall. And, 11.9 percent has HI >\$200K vs. 8.2 percent overall 	<ul style="list-style-type: none"> Two groups define cohort—those who travel mostly for business and mostly for leisure Only 7.7 percent of cohort travel >50,000 miles, but two thirds of those travel for leisure Relatively affluent, as 45.3 percent of Boomers have HI >\$100K, compared to 40.8 percent overall 	<ul style="list-style-type: none"> Overwhelmingly fly for leisure (82.7 percent) Low- to mid-frequency traveler Disproportionately Seniors have HI <\$50K, (32.1 percent vs. 19.8 percent overall); may have substantial savings, however
% flown on "preferred" airline 75% of time	30.3 percent	38.1 percent	48.8 percent	59.9 percent
Most important air travel experience attributes (nominal ranking)	<ul style="list-style-type: none"> Value for money Safety On-time arrivals/departures 	<ul style="list-style-type: none"> Value for money Safety Baggage handling (ease and cost) 	<ul style="list-style-type: none"> Safety Value for money On-time arrivals/departures 	<ul style="list-style-type: none"> Safety Value for money Check-in convenience
Most important air travel experience attributes relative to all travelers^a	<ul style="list-style-type: none"> Access to executive lounges and VIP privileges Free meals Availability of business or first class 	<ul style="list-style-type: none"> Access to executive lounges and VIP privileges Availability of business or first class Free parking 	<ul style="list-style-type: none"> Network of routes serviced Safety On-time arrivals/departures 	<ul style="list-style-type: none"> Safety Check-in convenience Staff attitude
% members in 2 or more airline loyalty programs	36.0 percent	44.7 percent	56.6 percent	54.9 percent
% participate in 2 or more airline loyalty programs	39.4 percent	35.4 percent	31.2 percent	29.8 percent
Planning/booking behaviors	<ul style="list-style-type: none"> Uses social media to research/plan/review air travel Airline apps Consults family members 	<ul style="list-style-type: none"> Uses social media to review air travel experiences Airline apps 	<ul style="list-style-type: none"> Price comparison sites Airline websites Online booking 	<ul style="list-style-type: none"> Price comparison sites Airline websites Online booking
Engagement preferred	<ul style="list-style-type: none"> Destination suggestions Social networks/media Email 	<ul style="list-style-type: none"> Email Personalized messages 	<ul style="list-style-type: none"> Email Personalized messages 	<ul style="list-style-type: none"> Email Strongly disfavors social media
Greatest loyalty program improvement opportunities	<ul style="list-style-type: none"> Ease of earning points Ease of redeeming points Redemption value per point 	<ul style="list-style-type: none"> Ease of redeeming points Ease of earning points Redemption value per point 	<ul style="list-style-type: none"> Redemption value per point Ease of redeeming points Ease of earning points 	<ul style="list-style-type: none"> Redemption value per point Ease of redeeming points Ease of earning points
Most important loyalty program attributes relative to all travelers^b	<ul style="list-style-type: none"> Options to redeem points for merchandise Access to airport lounges Option to exchange points for taxi miles, free nights at hotels, etc. 	<ul style="list-style-type: none"> Options to redeem points for merchandise Access to airport lounges Rewards focus on providing experiences 	<ul style="list-style-type: none"> Redemption value per point Ease of redeeming points More opportunities to earn points 	<ul style="list-style-type: none"> Ease of redeeming points Redemption value per point Ease of earning points
Observations	<ul style="list-style-type: none"> Tech savvy, heavy users of social media Early career stage, but enjoys early affluence, and will travel a lot for leisure much more than for business Has a taste for comfort, status, and "free stuff" Loyalty is elusive, as Millennials are most inclined cohort to participate in multiple programs This cohort is entering its career-focused years. As it does, will it keep those traits that define it today? Are airlines marketing to this cohort as it exists today? Or as it may exist in the near future? 	<ul style="list-style-type: none"> Career driven, affluent Travels more for business than leisure Values comfort, status Uses social media less intensely than Millennials and uses it to exert opinion/influence The Gen Xers represent the current version of the "career-building" cohort—perhaps the most desirable to the airline sector. Will the next version of the "career-building" cohort be markedly different? 	<ul style="list-style-type: none"> Cohort is in state of transition—some in full bloom of career and others in early retirement—and data so reflect. In a sense, "Millennials in reverse" Fewer high-frequency travelers, but of those who do, most fly for leisure More practical in what they value than younger cohorts—flight options, safety, punctuality, price More loyal than younger cohorts in terms of preferred airline and loyalty program participation. However, cohort seeks out best loyalty program deals/point values and is less loyal in terms of membership 	<ul style="list-style-type: none"> Data show that loyalty increases with age and Seniors are most loyal of all with highest dedication to preferred airline and lowest participation in 2+ loyalty membership programs Cohort travels overwhelmingly for leisure and does not use social media Practical values such as price, safety, check-in convenience, and—more than other cohorts—staff attitude Travels less than other cohorts, with lower HI. But airlines should not overlook Seniors and what they value. They are the most loyal and many have substantial savings

a) These are attributes of air travel that are particularly important to each cohort relative to all travelers. They are based on the ratio of an attribute's importance within a travel cohort to its importance to the overall survey population. An attribute's importance is, itself, based on an average score on a scale of 1 (lowest) to 5 (highest). The higher the ratio, the higher the relative importance that members of the cohort place on the attribute.

b) These are loyalty program attributes that are particularly important to each cohort relative to all travelers. They are based on the ratio of an attribute's importance within a travel cohort to its importance to the overall survey population. An attribute's importance is, itself, based on an average score on a scale of 1 (lowest) to 5 (highest). The higher the ratio, the higher the relative importance that members of the cohort place on the attribute. The nominally most important loyalty program attributes for each cohort are not shown in above table.

Source: Deloitte proprietary survey research, Deloitte analysis

Customer engagement and technology

Clearly, loyalty membership programs afford airlines an important way to engage customers and offer them a differentiated service offering.²¹ Mobile and digital technology platforms represent another. Increasingly, technology in all forms facilitates travel in remarkable ways. However, some customers are less proficient with technology and still require higher-touch interactions. With a well-defined understanding of a brand's target customer behaviors and preferences, an airline is poised to create a differentiated offering, based on a compelling mix of high-touch and technology-enabled elements.

With this in mind, we share the following travel planning/booking behaviors and engagement preferences to provide some understanding of the customer service and technological infrastructure required to serve traveler segments identified in this report.

Exhibit 8, based on our survey results, reveals significant differences in travelers' booking/planning behaviors and engagement preferences. These differences underscore the need for differentiated, targeted approaches to building loyalty and customer engagement.

Online use/activity: Airline apps favored by high-frequency travelers

The majority of all travelers and traveler cohorts report at least some online booking and airline research activity over a twelve month period. Business travelers tend to book and research online somewhat less than leisure and all travelers, perhaps owing to their busier schedules and the availability of corporate travel services. The usage of social media sites to research and/or plan travel is practiced by a relative minority of travelers, with higher amounts by high-frequency leisure travelers—a small cohort that skews much younger than leisure travelers overall and, thus, may show greater comfort with the social media platform. Only slightly more than one quarter of all survey respondents registered any use of airline apps over a twelve month period, with slightly more common use among business travelers than all respondents and markedly more than leisure travelers. High-frequency business and leisure traveler cohorts showed a much greater willingness to use airline apps than their more general counterparts. As



today's tech-savvy younger fliers age, we would expect the usage of social media and airline apps to become more prominent among both business and leisure travelers.

Travel booking behavior: Everyone likes price comparison sites; less so, social networks

The vast majority of all survey respondents report consulting their family members and visiting price comparison websites over a twelve month period. Business travelers (including high-frequency business travelers) tend to consult family members and use price comparison sites somewhat less than the respondents from other cohorts—unsurprising, given this cohort's general willingness to pay a premium in order to be somewhere at a certain time. Leisure travelers—who skew older and maintain low- to middle-class household incomes—visit price comparison sites and consult with family members somewhat more than their business counterparts. High-frequency leisure travelers, however, with a younger demographic, show a much greater willingness than other cohorts to use social media in making booking decisions. The result that the leisure cohort (including high-frequency travelers) visits price comparison sites more than their business counterparts reflects the discretionary nature of leisure travel in general.

Preferred mode of engagement: Social media out of favor—for now

Email, by far, represents the preferred means of engagement for all survey respondents, particularly for high-frequency travelers, whether for business or leisure. Social media stood as a particularly disfavored means of engagement, with the exception of the tech-savvy leisure high-frequency cohort. Again, we would expect the role of social media as a means of engagement to increase as the currently young fliers become a more prominent part of the business and leisure cohorts. Both business and leisure high-frequency travelers also showed a preference for personalized messages and destination suggestions relative to the larger cohorts.

Exhibit 8. Customer segment planning/booking behavior and preferred modes of engagement

		All	Business	Leisure	Business HF	Leisure HF
Online use/ activity ¹	Book online	65%	60%	70%	61%	59%
	Researched information about flights	67%	64%	72%	67%	76%
	Used a social media site to research and/or plan travel	13%	14%	11%	18%	35%
	Use airline app	27%	35%	19%	62%	72%
Travel booking behavior ²	Consults family members	72%	64%	74%	59%	85%
	Visits social media and review sites	40%	39%	34%	43%	77%
	Visit price comparison sites	83%	79%	84%	74%	90%
	Use social networking sites to share opinion of airlines	33%	36%	26%	45%	72%
Preferred mode of engagement ³	Social networks	32%	34%	25%	38%	67%
	Social media	26%	27%	19%	38%	65%
	Telephone	39%	40%	33%	47%	76%
	Email	80%	82%	78%	86%	91%
	Send destination suggestions	52%	52%	48%	62%	81%
	Send personalized messages that meet my travel needs	64%	64%	61%	75%	84%
Sample size		n=2572	n=608	n=1509	n=107	n=86

1. During the past 12 months, which of the following online activities have you done either on a computer or on a web-enabled smartphone for business or leisure travel? (Yes or No)
2. Please indicate how frequently you act in the following ways before/while/after reserving airline tickets/hotel rooms? (Respondents selecting always, often, and sometimes)
3. Please indicate how frequently you would like hotels/airlines to engage you or interact with you in the following ways? (Respondents selecting always, often, and sometimes)

Source: Deloitte proprietary survey research, Deloitte analysis

Note: HF=High Frequency, which refers to those business or leisure travelers who have flown at least 50,000 miles over a twelve month period. HF travelers are also included in larger business and leisure cohorts. The total of 2572 includes 455 survey respondents not represented by the business and leisure cohorts listed above.

Building your blueprint

Restoration in loyalty considerations

A four-step blueprint for loyalty restoration for airlines will combine company assets—data, technologies, and skillsets—into a powerful differentiator. Just as a blueprint details the type of home to be built, companies can build their blueprint for the type of loyalty they want to foster. Executing the blueprint, in each case, requires a well-defined process: a series of steps in which each step adds a critical component to the structure. And when effectively followed, the process yields a result—a house or a feeling of loyalty—that matches the original blueprint and can endure as long as it is maintained over time.

We believe that airlines that choose to strengthen loyalty among their consumers should consider following these four steps:



STEP 1: Redefine loyalty

Generally speaking, customer loyalty is a quality that is defined and measured in many ways. Therefore, any airline that endeavors to strengthen customer loyalty should secure organization-wide understanding and agreement as to the specific customer behaviors and attitudes that will be considered characteristic of a loyal customer. To achieve such an outcome, airlines should consider the tradeoffs inherent between different forms of loyalty.

Customer loyalty that endures over time and is characterized by an emotional bond with the brand is widely considered the most valuable and most difficult to build. Apple, for example, enjoys this kind of loyalty where its customers repeat purchase with little or no consideration of competitive offers, will refer others and advocate on behalf of the brand, and forgive minor service issues without a loss of loyalty. Apple has cultivated this loyalty by, among other things, delivering excellent products and services. It also helps that customer involvement is typically high when purchasing computers and smartphones, which are high-priced items where customer satisfaction is important.

Similarly, an airline ticket is also a high customer involvement purchase, particularly when booking online or when taking a leap of faith and booking on an airline for the first time. Therefore, airlines with well-run operations and consistency of service are better positioned to strengthen their loyalty programs in a way that engenders emotional loyalty and avoids the deal-seeking transaction-based loyalty typical in the industry today.

Clearly defined loyalty can be measured. When emotional loyalty exists, possible metrics could include customer referrals, social media reviews, constructive customer feedback forms, etc. In contrast, a transactional relationship could be measured by repeat purchase without any consideration for frequency or share of wallet.



STEP 2: Refocus on individual customer preferences

Loyalty membership databases are overflowing with information about customer demographics, travel preferences, and profitability. Airlines should consider whether there is value in taking a data-driven view of the experience attributes and engagement preferences most important to each customer segment, and then evaluate the resources and infrastructure required to deliver. For the cohorts outlined in our proprietary research, for instance, the segment preference analysis in Exhibit 9 could be considered.



Exhibit 9. Customer preferences by traveler segment

	Business	Leisure	Business HF	Leisure HF
Most important air travel experience attributes (nominal ranking)	Safety, on-time arrivals/ departures, value for money	Value for money, safety, on-time arrivals/departures	Network of routes serviced, loyalty programs, safety	Value for money, safety, service
Most important air travel experience attributes <u>relative</u> to all travelers^a	Availability business/first class, access to executive lounges/VIP privileges, loyalty programs	Value for money, safety, service, baggage handling	Access to executive lounges/VIP privileges, availability business/first class, loyalty programs	Access to executive lounges/VIP privileges, availability business/first class, distinct from other airlines
Planning/booking behaviors	Airline apps, uses social media to share opinions and research/plan	Researches airline/flight, consults family, books online, price comparison sites	Airline apps, reads/shares opinions online	Researches airline/flight, consults family, price comparison sites, heavy social media user
Engagement preferred	Email, personalized message	Email	Email, personalized message	All/any
Greatest loyalty program improvement opportunities	Ease of earning and redeeming points, redemption value per point	Ease of earning and redeeming points, redemption value per point	More opportunities to earn points, redemption value per point, ease of redeeming points	More opportunities to redeem points, ease of redeeming points, redemption value per point
Most important loyalty program attributes <u>relative</u> to all travelers^b	Access to airport lounges, options to exchange points for taxis/hotels, etc.	Redemption value per point, ease of redeeming points	Access to airport lounges, options to redeem points for merchandise	Access to airport lounges, distinct from other loyalty programs
Key takeaways	Emphasizes comfort and status, less concerned about price, wants to be respected as premium customer, will exercise influence	Practical in terms of price and safety, takes more time researching and consulting with family before booking	Most coveted traveler, status/privilege paramount, values loyalty programs more than any other cohort	Cross of business and leisure traveler, wants status/comfort and is price conscious, desires distinct airline experience and loyalty program offerings

a) These are attributes of air travel that our analysis identifies as particularly important to each cohort relative to all travelers. They are based on the ratio of an attribute’s importance within a travel cohort to its importance to the overall survey population. An attribute’s importance is, itself, based on an average score on a scale of 1 (lowest) to 5 (highest). The higher the ratio, the higher the relative importance that members of the cohort place on the attribute

b) These are loyalty program attributes that our analysis identifies as particularly important to each cohort relative to all travelers. They are based on the ratio of an attribute’s importance within a travel cohort to its importance to the overall survey population. An attribute’s importance is, itself, based on an average score on a scale of 1 (lowest) to 5 (highest). The higher the ratio, the higher the relative importance that members of the cohort place on the attribute. The nominally most important loyalty program attributes for each cohort are not shown in above table.

Source: Deloitte proprietary survey research, Deloitte analysis

Note: HF=High Frequency, which refers to those business or leisure travelers who have flown at least 50,000 miles over a twelve month period. HF travelers are also included in larger business and leisure cohorts.



STEP 3: Reinvent programs and experiences

Given the unique nature of their industry, airlines may not have as much discretion in what they can do in engendering customer loyalty as players in other service sectors. But they still can do a lot. Armed with an analytic blueprint, airlines can add meaningful differentiation into loyalty programs and recreate the entire customer experience to include personalized touch points for high-value customers. Yet building an enduring relationship-based loyalty that can be measured by share of wallet will likely require a comprehensive approach and coordinated process. A comprehensive approach will likely include both loyalty programs and customer experiences based on differentiated, meaningful rewards and interactions informed by customers' travel preferences and behaviors. Coordination throughout the organization is necessary to successful execution—customer service, marketing, operations, and information technology must work from the same blueprint and contribute essential elements.

Airlines should endeavor to replace programmatic approaches to building loyalty with personalized rewards to encourage high-value behaviors and develop customer experience initiatives that appeal to discrete priority customer segments. By replacing one-size-fits-all loyalty programs with empowered front-line employees, loyalty can be built throughout the entire air travel experience in ways that are unexpected and individually meaningful.

Toward that end, here are five specific strategies that airlines may consider in reimagining the entire customer experience:

1 Encourage specific behaviors with unexpected rewards

Leverage your insight into the behaviors of high value customer segments by offering loyalty rewards to elicit these behaviors and increase their occurrence. For example, an airline can analyze booking data to determine which destinations high-frequency loyalty members (business or leisure) travel most often. Why not offer those travelers special discounts on hotels or restaurants

located in their highly traveled destination cities? Or as one focus group participant said, "My rewards program tailors promotions to places I frequent often which is good. They used to send me promotions for places I have never gone or want to go."

2 Make rewards personally meaningful

Airlines, for example, can develop strategies to stimulate more frequent purchases of onboard meals during a traveler's flight. By analyzing frequent traveler history, an airline can determine those loyalty members who typically order a glass of wine or spirits along with their purchased meals during the flight. Use this information to encourage additional meal purchases with a next-flight offer of a complimentary glass of wine or spirits.

3 Provide in-the-moment, accessible rewards

Do you remember when fast food restaurants used instant-win coupons? The customer used a nickel to scratch off the coupon's varnish to see whether he or she had won a free burger or milkshake, on the spot. People had fun playing the game, even if they did not win. Think how long it could take for someone who travels twice a year to earn a free flight or upgrade. What do these frequency-only designed loyalty programs say to these travelers? You do not matter, you are not a priority. Yet, en masse, they certainly *do* matter and *should* be a priority. Based on our survey, the majority (54 percent) of those who flew at all over a twelve month period flew fewer than 10,000 miles over that time period. So why not reward them during their flight? Even something small, such as a complimentary meal or beverage, can make an impact on these travelers, particularly if the reward is unexpected. One focus group member summed it up: "The extras are important – it doesn't take a lot to make people happy, adding a personal touch or additional amenity will make people feel more loyal."

4 Be forgiving; don't penalize behavior that loyalty programs encourage

Airlines should show a greater willingness to forgive lapses in loyalty program membership participation. As one focus group participant who lost status said: "When [my airline] took away my status, I thought if there was just another option I would leave." Airlines should think twice before a high priority customer has to start "all over again" to regain status.

5 Reshape the customer experience

The airline customer experience can and should be informed by customers' travel preferences and behaviors. Each touch point with a customer is an opportunity to build loyalty—from the moment he or she books the flight until the time he or she returns home, and beyond. The technology exists to coordinate among all customer-facing departments to deliver personalized experiences before, during, and after the flight—a customer experience so powerful that the connection a customer feels for his or her preferred brand would be difficult to sever.

Here are just a few of many common sense examples of what an airline can do to achieve that kind of customer experience:

Dazzle the customer: Offer the occasional free upgrade—even to the customer without status. Don't charge for that extra checked bag once in a while. During check-in, ask the customer what kind of reading material he or she would like—and then have it ready in that passenger's seat pocket. Better yet, know that answer in advance.

Show the customer that you care: Connect with the customer after each flight and ask about the flying experience—what went right and what went wrong. All the better if you connect in the way that the customer prefers. And if a flight is cancelled—even if it is not the airline's fault—offer free or heavily discounted overnight lodging and immediate help in rebooking. As one focus group participant remarked, "Sometimes they overbook their flights and they should put me up overnight." Take care of the customer when he or she is most vulnerable—and the customer will likely remember.

Stop nickel and diming: Certainly, there are consumers for whom bottom-line ticket price matters more than anything else. They make flight decisions primarily on the basis of total out-of-pocket fare level and airlines that cater to the particularly cost-conscious consumers often thrive. These consumers may have a higher tolerance for the charges and fees on items (e.g., baggage, food, blankets, headphones, etc.) that, until recently, passengers expected for gratis as part of the flight experience. After all, the budget-minded passenger reasons, passengers don't have to incur those extra charges if they do not want to. Our survey research reveals that, indeed, passengers place a high level of importance on "value for money", ranking it second among airline experience attributes as shown in Exhibit 3. Yet, our focus group research reveals that the concept of "value" refers to something more than simply price. A number of focus group members expressed irritation at airlines that seemed to "enjoy charging for every little thing." One of our focus group members went so far as to say: "There are some airlines I just don't fly because the nickel and diming is too annoying." How representative such a statement is of the larger flying public is less than clear. What our focus group research strongly suggests, however, is that a good many passengers view airlines' "nickel and diming" as excessive and even gratuitous—ultimately harming a perception of value and customer loyalty in the process. It need not be this way. Imagine the good will that would result should an airline choose to eliminate all baggage fees or offer an extra pillow at no cost. Airlines need not view every passenger need as a potential revenue stream. They *should* view every passenger need as an opportunity to cultivate loyalty that endures.

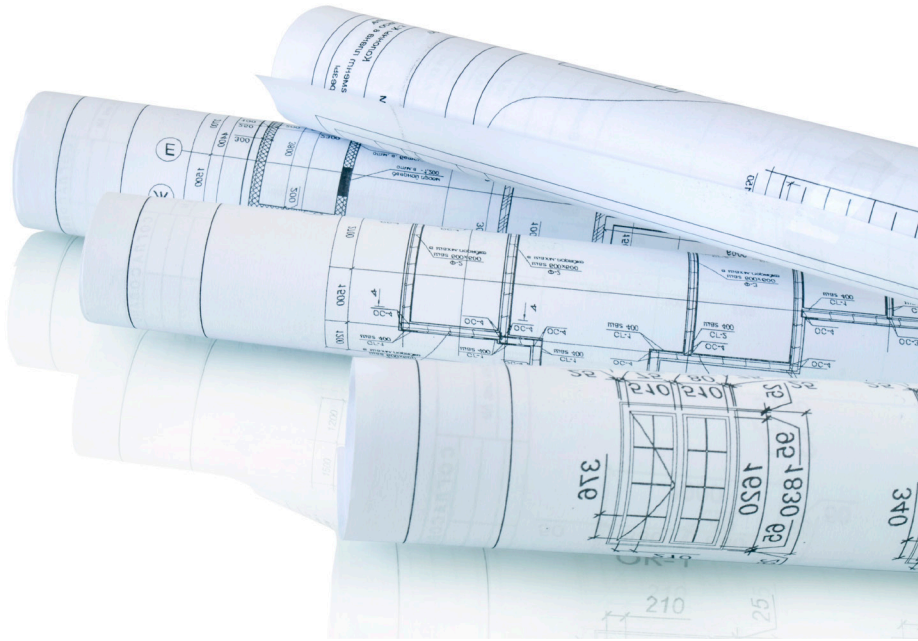


STEP 4: Reinvest in foundational capabilities and infrastructure

Build the technology, talent, training, and infrastructure necessary to deliver differentiated customer experiences that extend beyond the on-premise experience. Training is very important. Front-line staff members, such as flight staff, who always greet customers with a warm hello or help fliers with their overhead luggage, can make such a difference. The role of customer-facing technology is increasingly important to enable customer engagement during travel planning, check in, and post-flight feedback. Particularly as airlines experience a generational shift to a younger customer base, IT skills and technology infrastructure will be critical to meet consumer needs throughout the entire travel process.

Final thoughts: A call to action

Now is a propitious time for airlines to chart a course for renewed airline consumer loyalty, even as economic growth remains uncertain and global pressures persist. There is no shortage of opportunity for those brands that choose to invest in breaking out of the frequency-based sea of “me too” loyalty programs. Airlines can approach this opportunity with small initiatives and incremental steps; start by changing a few things, maybe on a few routes in limited markets. Whether you choose to start small or go big, consider creating your four-step blueprint.



Case studies



Airline frequent flyer programs: The beginning of the end as we know them?

Airlines are increasingly competing for the business of customers with higher spending capacities, especially corporate travelers. One of the steps taken by the airline industry in this direction is the imposition of a fare-based reward system. While low cost carriers—including Southwest, Virgin America, and JetBlue—have frequent flyer programs linked to fares, Delta is the first legacy carrier to link the value of its frequent-flyer program to the amount of money spent by travelers.²² Beginning January 1, 2014, the airline's frequent flyers will earn "elite" status that allows them upgrades and other perks through a combination of miles or segments flown and an annual spending of at least \$2,500 on Delta flights. According to Jeff Robertson, Vice President, Delta SkyMiles program, "Adding a revenue component to the SkyMiles Medallion program ensures that our most valued customers receive the best program benefits and a more exclusive experience."²³

The shift to dollar-based loyalty systems should address concerns of high-paying fliers. However, frequent changes in prices and lower ticket prices owing to advance bookings make it difficult to use "dollars spent" as the sole, or even primary, criterion for rewarding customers. Hence, a hybrid model that takes into consideration the miles flown and dollars spent is more likely to be the norm in the future



Social media in the airline industry: Coming of age

Social media is an increasingly important element in airlines' marketing and communications mix. Many airlines are using social media to engage with their customers, turn their frequent customers into brand advocates, and expand the reach of their loyalty programs.²⁴ "We see these new social media platforms as an important way for us to connect with our guests on a personal level and build emotional loyalty with our customers as they become advocates and fans," James Hogan, President and CEO, Etihad Airways.²⁵

Airlines, including Southwest and American Airlines, have employees dedicated to social media—helping the companies in building their brand, responding to passenger queries and resolving issues on a real-time basis, and gathering important customer data. "We are moving toward social media changing how we operate as an airline, looking for ways to capture real-time data and business intelligence that can be applied across all departments—from food & beverage to cargo," Jonathan Pierce, Director of Social Media Communications, American Airlines.²⁶

In addition to enhancing overall traveler experiences with their brands, airlines could use social media platforms to "crowd source" ideas to improve and expand their service offerings. In March 2013, Finnair and Finavia (the operator of Finland's network of airports) launched *Quality Hunters 2013* to identify key moments that made or marred a trip and identify ways of improving the travel experience for flyers. *Quality Hunters 2013* will crowd source ideas from the 10 million strong communities centered on its social media site pages. Finnair and Finavia will select and develop a few useful and actionable suggestions that can easily be integrated into their service development process.²⁷





Airline mergers: Win some, lose some

In recent years, the U.S. airline industry has restructured and consolidated through numerous mergers and bankruptcy reorganizations. While some consumer advocates have questioned the impact on passengers, fares and competition, both the airlines and investors say this evolution created a healthier, more stable industry that allows the carriers to earn a profit and reinvest in products, services and networks for the benefit of customers, employees and communities. Still, there is no denying that mergers are difficult, especially among airlines, and the potential for integration missteps and customer confusion remain significant risks for the airlines and their stakeholders. For example, as frequent flyer programs merge, the combining airlines must find a common ground for policies and customer benefits that could rankle members of each carrier's respective loyalty program.

On the other hand, a given merger also means that travelers of either pre-existing carrier will have access to a broader choice of destinations across the world with minimal connections. Post the American and US Airways merger, for instance, US Airways passengers will gain access to American's international destinations—including Asia and Latin America—while American's passengers will be better connected to smaller U.S. cities and European destinations served by US Airways.²⁸



Appendix I: Airline attribute importance/ satisfaction by cohort

Rank	Business			Leisure			Business HF			Leisure HF		
	Attribute	Importance (I)	Satisfaction (S)	Attribute	Importance (I)	Satisfaction (S)	Attribute	Importance (I)	Satisfaction (S)	Attribute	Importance (I)	Satisfaction (S)
1	Safety	4.17	3.87	Value for money	4.34	3.83	Network of routes serviced	4.37	4.18	Value for money	4.15	3.86
2	On-time arrivals/ departures	4.09	3.68	Safety	4.34	4.03	Loyalty program	4.24	4.07	Safety	4.10	3.79
3	Value for money	4.06	3.56	On-time arrivals/ departures	4.15	3.84	Safety	4.23	4.14	Service	4.02	3.70
4	Check-in convenience	4.01	3.85	Baggage handling (ease and cost)	4.12	3.61	On-time arrivals/ departures	4.22	3.93	Network of routes serviced	3.98	3.91
5	Service	4.00	3.75	Check-in convenience	4.12	3.93	Check-in convenience	4.19	4.11	Reputation of the airline	3.95	3.76
6	Baggage handling (ease and cost)	3.99	3.61	Service	4.11	3.83	Service	4.19	4.03	Ability to address problems in a fair manner	3.94	3.73
7	Network of routes serviced	3.99	3.80	Staff attitude	4.11	3.83	Value for money	4.18	3.80	Ability to value me	3.94	3.77
8	Staff attitude	3.99	3.72	Consistency of service	4.04	3.78	Consistency of service	4.18	3.95	On-time arrivals/ departures	3.92	3.78
9	Consistency of service	3.93	3.70	Recent flying experience	4.03	3.88	Comfort	4.17	3.93	Recent flying experience	3.88	3.72
10	Recent flying experience	3.93	3.72	Deliver on promise	4.02	3.71	Baggage handling (ease and cost)	4.16	4.03	Staff attitude	3.88	3.60
11	Comfort	3.92	3.61	Comfort	3.98	3.65	Staff attitude	4.16	3.96	Ability to understand my needs	3.88	3.76
12	Deliver on promise	3.91	3.64	Network of routes serviced	3.98	3.85	Reputation of the airline	4.12	3.84	Baggage handling (ease and cost)	3.84	3.52
13	Reputation of the airline	3.86	3.68	Reputation of the airline	3.97	3.81	Fleet quality	4.11	3.90	Check-in convenience	3.84	3.60
14	Fleet quality	3.83	3.62	Fleet quality	3.91	3.72	Recent flying experience	4.10	3.90	Deliver on promise	3.70	3.44
15	Ability to address problems in a fair manner	3.76	3.53	Ability to address problems in a fair manner	3.84	3.64	Ability to address problems in a fair manner	4.08	3.85	Fleet quality	3.70	3.58

Rank	Business			Leisure			Business HF			Leisure HF		
	Attribute	Importance (I)	Satisfaction (S)	Attribute	Importance (I)	Satisfaction (S)	Attribute	Importance (I)	Satisfaction (S)	Attribute	Importance (I)	Satisfaction (S)
16	Ability to value me	3.71	3.51	Strive to enhance my experience	3.77	3.60	Deliver on promise	4.08	3.91	Strive to enhance my experience	3.70	3.53
17	Strive to enhance my experience	3.70	3.53	Ability to understand my needs	3.75	3.63	Ability to understand my needs	4.04	3.82	Comfort	3.67	3.40
18	Loyalty program	3.70	3.60	Ability to value me	3.75	3.61	Ability to value me	4.03	3.81	Consistency of service	3.67	3.42
19	Ability to understand my needs	3.68	3.53	Loyalty program	3.48	3.55	Strive to enhance my experience	4.00	3.85	Loyalty program	3.65	3.73
20	Promotions with other travel companies (International airline partners/hotels/car rentals)	3.43	3.38	Promotions with other travel companies (International airline partners/hotels/car rentals)	3.31	3.36	Availability of business or first class	3.93	3.88	Access to executive lounges and VIP privileges	3.60	3.40
21	In-flight technology	3.39	3.36	In-flight technology	3.28	3.37	Access to executive lounges and VIP privileges	3.93	3.97	Distinct from other airlines	3.59	3.67
22	Free meals	3.20	3.03	Free parking	3.08	2.79	Promotions with other travel companies (International airline partners/hotels/car rentals)	3.92	3.74	In-flight technology	3.57	3.58
23	Availability of business or first class	3.16	3.32	Free meals	3.06	2.85	In-flight technology	3.83	3.60	Promotions with other travel companies (International airline partners/hotels/car rentals)	3.53	3.38
24	Distinct from other airlines	3.14	3.42	Distinct from other airlines	2.96	3.50	Distinct from other airlines	3.64	3.69	Availability of business or first class	3.45	3.36
25	Access to executive lounges and VIP privileges	3.13	3.24	Availability of business or first class	2.58	3.07	Free meals	3.61	3.37	Free meals	3.36	3.35
26	Free parking	3.06	2.96	Access to executive lounges and VIP privileges	2.58	2.93	Free parking	3.26	3.24	Free parking	3.28	3.19

Source: Deloitte proprietary survey research, Deloitte analysis

Note: Individual attribute scores are averages based on scale from 1 (lowest) to 5 (highest). I=importance. S=satisfaction

HF=High Frequency, which refers to those business or leisure travelers who have flown at least 50,000 miles over a twelve month period. HF travelers are also included in larger business and leisure cohorts.

Appendix II: Airline loyalty program importance/satisfaction by cohort

Rank	Business			Leisure			Business HF			Leisure HF		
	Attribute	Importance (I)	Satisfaction (S)	Attribute	Importance (I)	Satisfaction (S)	Attribute	Importance (I)	Satisfaction (S)	Attribute	Importance (I)	Satisfaction (S)
1	Ease of earning points	4.04	3.69	Ease of redeeming points	4.05	3.47	Ease of redeeming points	4.21	4.00	More opportunities to redeem points	4.08	3.83
2	Ease of redeeming points	4.02	3.57	Ease of earning points	4.04	3.57	Ease of earning points	4.20	4.07	Ease of redeeming points	4.07	3.88
3	Redemption value per point	3.95	3.49	Redemption value per point	4.02	3.40	Redemption value per point	4.16	3.90	Ease of earning points	4.06	3.92
4	More opportunities to redeem points	3.86	3.50	More opportunities to redeem points	3.84	3.43	More opportunities to redeem points	4.11	3.88	Redemption value per point	4.04	3.86
5	More opportunities to earn points	3.85	3.51	More opportunities to earn points	3.83	3.35	More opportunities to earn points	4.08	3.69	Access to airport lounges	3.75	3.67
6	Option to exchange points for taxi miles, free nights at hotels, etc.	3.48	3.28	Option to exchange points for taxi miles, free nights at hotels, etc.	3.27	3.15	Access to airport lounges	3.85	3.82	Distinct from other loyalty programs	3.70	3.64
7	Access to airport lounges	3.42	3.27	Rewards focus on providing experiences	3.22	3.20	Distinct from other loyalty programs	3.63	3.75	More opportunities to earn points	3.67	3.28
8	Rewards focus on providing experiences	3.38	3.35	Distinct from other loyalty programs	3.19	3.35	Option to exchange points for taxi miles, free nights at hotels, etc.	3.60	3.60	Option to exchange points for taxi miles, free nights at hotels, etc.	3.47	3.49
9	Distinct from other loyalty programs	3.31	3.43	Options to redeem points for merchandise	3.04	3.12	Rewards focus on providing experiences	3.59	3.54	Rewards focus on providing experiences	3.40	3.30
10	Options to redeem points for merchandise	3.26	3.27	Access to airport lounges	2.95	2.98	Options to redeem points for merchandise	3.53	3.59	Options to redeem points for merchandise	3.36	3.36

Source: Deloitte proprietary survey research, Deloitte analysis

Note: Individual attribute scores are averages based on scale from 1 (lowest) to 5 (highest). I=importance. S=satisfaction

HF=High Frequency, which refers to those business or leisure travelers who have flown at least 50,000 miles over a twelve month period. HF travelers are also included in larger business and leisure cohorts.

Appendix III: Customer segmentation demographics

	Business	Leisure	Business HF	Leisure HF
Age	<p>Middle aged 86 percent Gen Xers or Baby Boomers compared to 76 percent overall.</p>	<p>Somewhat older, with a caveat Seniors and Baby Boomers represent a larger share of leisure travelers than their share of the overall survey population, 60 percent vs. 53 percent. The skewing among Seniors alone is even more pronounced: 15 percent vs. 11 percent. However, Millennials also represents a disproportionate share of the high-frequency leisure cohort.</p>	<p>Late middle aged Baby Boomers account for 51 percent of all business high frequency fliers, compared to their share of 42 percent of all survey respondents.</p>	<p>Young The leisure HF cohort skews very young. Millennials' representation in this group is nearly triple its representation overall: 37 percent vs. 13 percent. Cohort also has slightly more than three quarters Millennials and Gen Xers compared to 47 percent of all survey respondents. This contrasts sharply with the overall leisure cohort which skews middle aged and older. Leisure HF may reflect a group comprised of singles, or younger couples without children.</p>
Frequency of travel	<p>Medium to high-frequency travelers Unsurprisingly, 59 percent of business travelers flew at least 10,000 miles over a twelve month period compared to 46 percent among overall respondents. The skewing is even more pronounced among high-frequency (>50,000 over twelve month period) travelers: 18 percent versus 11 percent overall.</p>	<p>Low-frequency travelers 65 percent of leisure travelers are also low-frequency travelers (<10,000 miles over a twelve month period), compared to 54 percent overall.</p>	<p>High-frequency travelers By definition, at least 50,000 miles over a twelve month period.</p>	<p>High-frequency travelers By definition, at least 50,000 miles over a twelve month period.</p>
Household income	<p>Affluent 50 percent of business travelers have household income >\$100K compared to 41 percent overall.</p>	<p>Low to middle class 66 percent of leisure travelers have household income under \$100K, compared to 59 percent overall.</p>	<p>Very Affluent More than two fifths (41 percent) have household income in excess of \$150,000, compared to 24 percent of all business travelers and just 17 percent of all survey respondents.</p>	<p>"Early" Affluent Reflecting early career/Millennial skewing, 62 percent have household income between \$100,000-150,000 compared to 24 percent of all survey respondents. Such skewing effect not present when looking at household incomes in excess of \$150,000—only 17.4 percent vs. 17.0 percent for all survey respondents—underscoring further the disproportionate presence of young professionals in this traveler cohort. Such contrasts with the low to middle class nature of the overall leisure cohort.</p>
Purpose of travel	<p>Mostly business By definition, at least 75 percent for business.</p>	<p>Mostly leisure By definition, at least 75 percent for leisure.</p>	<p>Mostly business By definition, at least 75 percent for business.</p>	<p>Mostly leisure By definition, at least 75 percent for leisure.</p>
Key takeaways	<p>Business travelers are career minded; they want to get from Point A to Point B on a certain date and time and are willing to pay for the privilege.</p>	<p>Leisure travelers fly less often, are less affluent, and skew older than business and overall travelers. This cohort travels flexibly, looks for deals, etc.</p>	<p>The most coveted cohort, the high-frequency business traveler gives airlines the two things they want most likely more than anything else: willingness to pay a premium and frequency.</p>	<p>The leisure HF cohort is sharply younger and more affluent than larger leisure group. Likely in an "early career, pre-family/kids" stage.</p>

Endnotes

¹ See survey methodology and characteristics of our traveler segments sidebar on page 4.

² All references to “business traveler” in this document refer to that cohort within our survey who state that they fly at least 75 percent of their air miles for business purposes. All references to “leisure traveler” in this document refer to that cohort within our survey who state that they fly at least 75 percent of their air miles for leisure purposes.

³ In this document, all references to “high-frequency” travelers refer to those travelers in our survey who said that they flew at least 50,000 miles over a twelve month period. High-frequency business travelers are those business travelers who traveled at least 50,000 miles over a twelve month period and may be designated in this document as “business HF.” High-frequency leisure travelers are those leisure travelers who traveled at least 50,000 miles over a twelve month period and may be designated in this document as “leisure HF.” High-frequency business and high-frequency leisure travelers are included in all references to the larger business and leisure travel cohorts, respectively.

⁴ The term “preferred airline” in this document refers to that airline that the survey respondent states that he or she flies most frequently.

⁵ The 2,572 survey respondents were selected from a larger sample size of 4,000 based on a screening requirement that the respondent has taken at least one air flight over a twelve month period. All allusions to “overall survey respondents” or “all survey respondents” or “total survey respondents” or similar language in this document—without any other qualifying terms—refer to these 2,572 respondents. See survey methodology and characteristics of our traveler segments sidebar on page 4.

⁶ In this report, the sample sizes for high-frequency business and leisure travelers are 107 and 86, respectively, much smaller than the corresponding sample sizes for the larger business and leisure cohorts. In including these smaller cohorts, we judged that their probative value outweighed any concerns related to statistical significance stemming from their relatively small size.

⁷ In this document, we define business and leisure travelers as those respondents who state that they travel at least 75 percent for business and leisure, respectively. The remaining 455 respondents (approximately 18 percent of all survey respondents) refer to those who state that they travel 50 percent for business and 50 percent for leisure.

⁸ More than three quarters (77.6 percent) of high-frequency business travelers have household income in excess of \$100,000, compared to half (49.7 percent) of all business travelers and just 40.8 percent for all survey respondents. Nearly four fifths (79.1 percent) of high-frequency leisure travelers have household income in excess of \$100,000, compared to one third (33.7 percent) of all leisure travelers and 40.8 percent of all survey respondents.

⁹ Yet, even this good news is somewhat tempered. For example, only about half (49 percent) of high-frequency business travelers said that they would serve as brand ambassadors if asked. Furthermore, half (50 percent) of this highly coveted business HF cohort expressed at least some openness in switching to a competing loyalty program even after achieving the highest status level.

¹⁰ Curiously, whatever it is does not significantly translate into share of wallet. Only about 49 percent of high-frequency business travelers fly at least 75 percent of their air miles on their preferred airline compared to 40 percent of business travelers overall and 44 percent of all survey respondents. Even more surprising, only 24 percent of high-frequency leisure travelers fly at least 75 percent of their air miles on their preferred airlines, less than half the rate of the larger leisure cohort.

¹¹ Nearly two thirds of leisure travelers have household incomes under \$100,000, compared to 59 percent of the overall survey population and 50 percent of business travelers. Also, just under 6 percent of the leisure cohort traveled more than 50,000 miles over a twelve month period, compared to 11 percent of all survey respondents and 18 percent of business travelers.

¹² And clearly, even when an airline dominates a given market, and has substantial pricing power, it often will not set fares at levels that serve to strengthen loyalty.

¹³ Frequent flyer 101: What you need to know about loyalty programs. August 3, 2011, USA Today, Accessed on 5/5/2013.

¹⁴ Interestingly, some 53 percent of those 455 respondents who travel 50 percent each for business and leisure agreed with that statement, driving the results for overall respondents (34 percent) to be higher than the level of agreement for both business and leisure travelers.

¹⁵ As mentioned earlier, we observed greater agreement with these and other statements expressed by the smaller high-frequency business and leisure traveler cohorts.

¹⁶ On a scale of 1 (lowest) to 5 (highest), loyalty programs scored an average satisfaction of 3.62 and ranked 17th for all survey respondents, generally consistent with the 19th place ranking of loyalty programs’ importance for all survey respondents.

¹⁷ High-frequency business travelers gave loyalty programs an average score of 4.07 in terms of satisfaction (out of a possible 5) and 4.24 in terms of importance (out of a possible 5).

¹⁸ In our survey, 65.3 percent of leisure travelers flew fewer than 10,000 miles over a twelve month period compared to 40.6 percent of business travelers and 53.7 percent of overall survey respondents.

¹⁹ Just as in the case of the greater faithfulness found in the leisure cohort’s loyalty program membership rates, so, too, the greater faithfulness found in the leisure cohort’s program participation rates may stem, in part, from the fact that they fly fewer miles annually than their business cohort counterparts.

²⁰ For further insight into the importance that individual cohort members placed on loyalty program attributes—relative to overall survey respondents—see Exhibit 9. For a breakout of the importance and satisfaction average scores that each travel cohort gives to loyalty program attributes, see Appendix II.

Endnotes (Contd.)

²¹ An understanding of cost-to-serve by segment should accompany any decisions regarding loyalty programs and customer targeting. A thorough cost-to-serve analysis is outside the scope of this report.

²² Warning! Soon Airline Loyalty will Cost You, January 30, 2013, Consumer Traveler (Accessed on 04/03/2013)

²³ Delta Updates SkyMiles Medallion Program Qualifications, January 17, 2013, Delta Airlines newsroom (Accessed on 04/03/2013)

²⁴ Airlines Look to Garner Social Loyalty From Frequent Flyers, December 2, 2012, Editor's blog, Airline Passenger Experience Association (Accessed on 04/04/2013)

²⁵ CEO Interview: Etihad - Staying Focused, October 2012, IATA website (Accessed on 04/04/2013)

²⁶ How American Airlines Gets Social Media Right, July 17, 2012, CNBC (Accessed on 04/04/2013)

²⁷ Finnair and Finavia Use Social Media to Research Customer Preference, March 26, 2013, Travel Pulse website (Accessed on 04/04/2013)

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