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Living the Dream or Just Dreaming:
Does your airline's loyalty program
align to your commercial strategy?

A proliferation of loyalty programs

Consumer loyalty programs have proliferated as companies compete for new customers and seek to retain customers in an increasingly competitive global environment. The airline industry has arguably the longest history in developing these programs (see chart 1 below). In the early 1980s airlines such as American Airlines, United Airlines, Delta Airlines, LAN Chile and Qantas Airways were already starting initiatives that would become the fully fledged airline loyalty programs we know today. These programs proliferated through the 1990s and particularly in the 2000s shifting from being a differentiator for airlines to being almost 'table stakes' as airlines fought for customers.

Chart 1: A proliferation of airline loyalty programs (number of programs started in each decade)

Note: 'Other' includes Middle East, South Africa and India
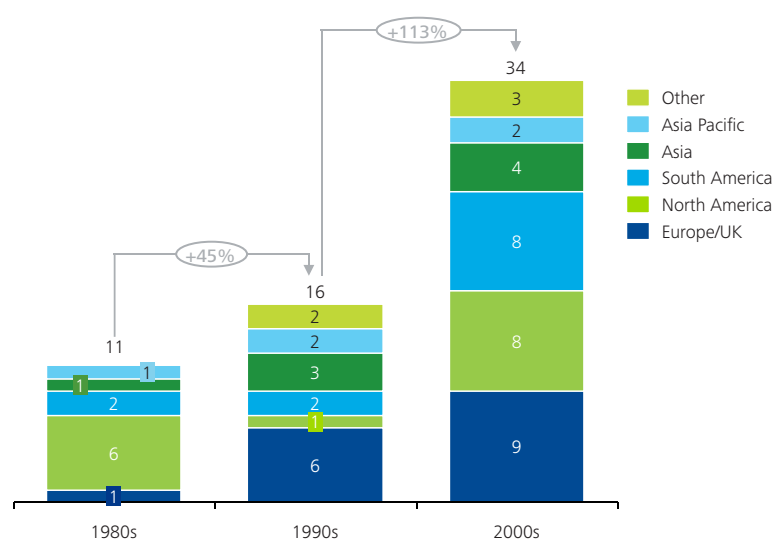
Banks, retailers, credit providers and an array of other industries have also sought to build loyalty programs (see chart 2 below) in similarly challenging and competitive environments.

Chart 2: Selected non-airline loyalty programs

Year established	Industry	Company	Loyalty program	Notes
1983	Hotels	Intercontinental Hotel Group (IHG)	Priority Club	• Selected brands include Intercontinental, Crowne Plaza and Holiday Inn
1984	Financial Services	American Express	Membership Rewards	• 2015: American Express launched new Plenti Cobrand Credit Card. Partners include AT&T, Exxon, Macy's, Rite-Aid and Direct Energy
1987	Hotels	Hilton Hotels & Resorts	Hilton HHonors	• Selected brands include Hilton, Waldorf Astoria and Double Tree
1987	Hotels	Hyatt Hotels Corporation	Gold Passport Program	
Early 1990s	Retail	David Jones	David Jones Store Card	• 2008: David Jones American Express Card introduced • 2015: David Jones announced a new, single loyalty program will be introduced

Year established	Industry	Company	Loyalty program	Notes
1992	Financial Services	Citibank	Citibank Rewards Program (Australia)	• 2005: launch of Citi ThankYou Rewards • 2015: launch of global rewards platform
1994	Retail/Financial Services	Coles Myer, Shell, NAB	Flybuys	• Selected partners also include AGL, First Choice Liquor, Kmart, Medibank, OPSM, Target, Telstra & Webjet
1997	Financial Services	Commonwealth Bank	Commbank Awards	• Loyalty program was originally known as 'True Awards'
1999	Hotels	Starwood Hotels	Starwood Preferred Guest (SPG)	• Selected brands include Sheraton, Four Points, Westin and W Hotels
2004	Retail	Myer	Myer One	
2005	Financial Services	HSBC	HSBC Rewards	
2006	Financial Services	Chase	Freedom Rewards	• Chase is a division of JPMorgan Chase & Co • 2007: next generation of Chase Freedom launched
2007	Retail	Woolworths	Everyday Rewards	• Includes Woolworths Supermarkets, Big W, BWS and Cellarmasters • Partnership with Qantas: customers earn Qantas Frequent Flyer points
2009	Retail	Priceline	Priceline Club Card	• 2009 refers to program re-launch date
2010	Financial Services	Capital One	Venture Rewards	
2011	Car Rental	Hertz	Gold Plus Rewards	

A result of this growth in non-airline loyalty programs is the airline points (or miles) currency has come under growing pressure from the points programs of banks (e.g. programs such as Chase Freedom Rewards, Citi's Thank You Rewards and Capital One's Venture Rewards) as well as from coalition loyalty programs (e.g. American Express' Plenti Rewards program).

Competition for consumers combined with the fast pace of technology development and the ability to process vast quantities of consumer data continues to result in evolutions and innovations. These are aimed at attracting, retaining and gaining share of wallet and continue to expand as demonstrated by the growth in and capabilities of store cards, digital wallets, rewards cards and other means of accessing and understanding consumers. This landscape is allowing new models such as awardwallet. com, tripit and usingmiles.com to present consumers with more options as to how they 'spend' their loyalty.

There are many papers and forums discussing the latest tactical developments and innovations in consumer loyalty as well as emerging issues such as data security. For example, the former Head of Mobile & Wearable User Experience (UX) at Ryanair recently discussed how wearable and mobile technologies could be applied in the context of how an airline delivers its in-airport and in-flight experience to customers noting that in a few years this technology will reach a 'tipping point' where it will impact billions of people as other technologies have in the past. Certainly interesting and thought provoking comments.

However, the excitement that surrounds such technologies and their application can encourage airlines to race into tactical initiatives they can embark on before thinking clearly about what they are really trying to achieve with their program and whether their program is designed to truly support the commercial strategy of the airline.

While some loyalty programs (airline and non-airline) grow organically, often resulting in over or under investment in innovations technology or other changes enable, as the

enterprise evolves and matures there is usually a more measured consideration of how the program will bring value to its parent.

In the case of airline loyalty programs, value can be captured by airlines in a number of areas. It is useful to consider the value drivers (see chart 3 below) for the core airline when looking at how to prioritise investments in developing the airline's loyalty program. The chart below provides a simplified perspective of the relationship between the drivers of shareholder value for an airline and the relationship to a frequent flyer program. The chart is simplified in that shareholder value for an airline is also driven by factors including overall market sentiment (which can be impacted by GDP, fuel prices, market capacity, etc.) and by the balance sheet strength of the airline.

Chart 3: Airline value drivers and the relationship to the loyalty program (or Frequent Flyer Program (FFP))
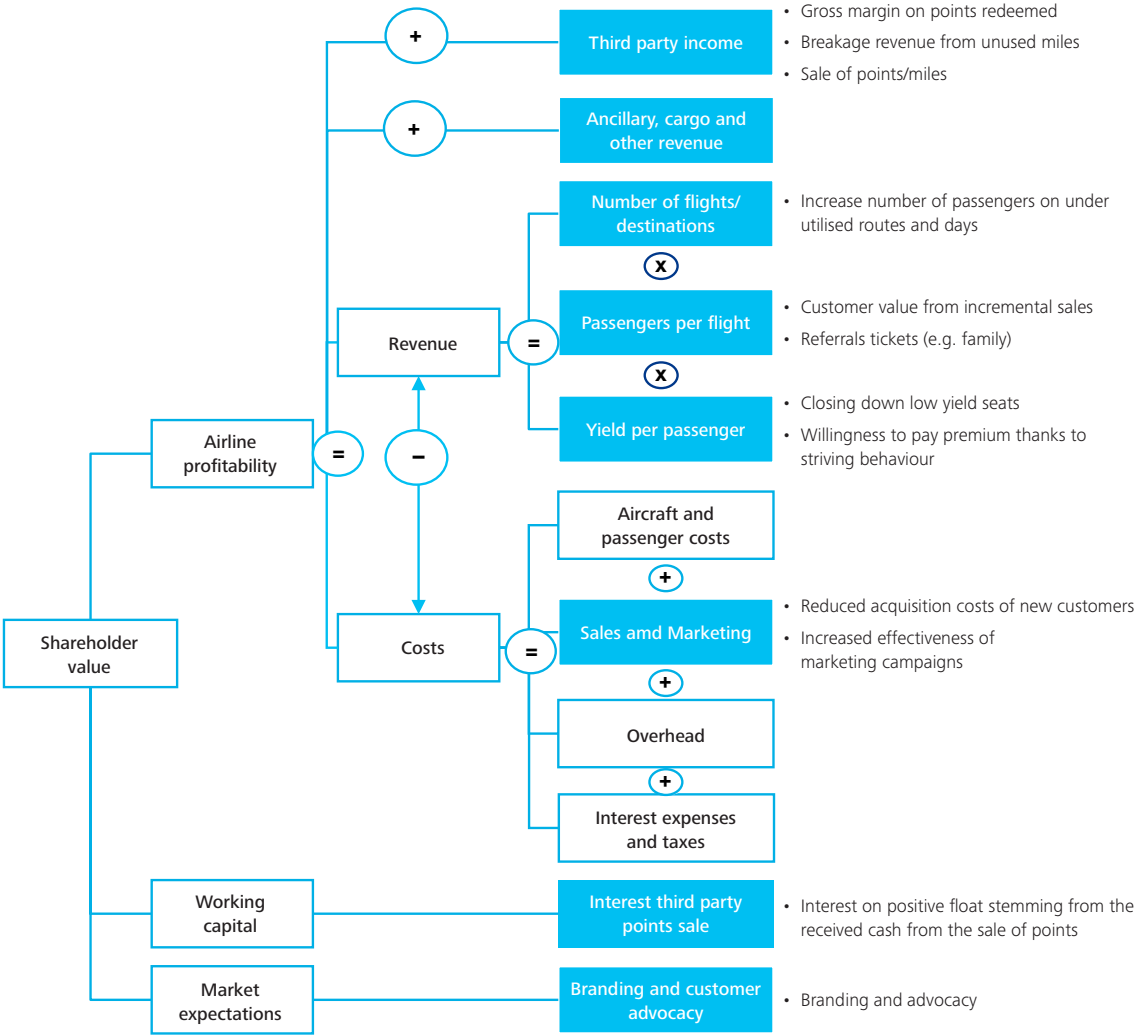
For example, while some airlines will prioritise the capture of direct and quantifiable value (e.g. through increasing third party income or incremental revenue and yields), others focus on the less quantifiable, but just as important, value their loyalty program can bring through lifting the brand proposition relative to benchmark competitors.

Some airlines use their loyalty programs effectively to influence the core airline's value drivers. For example, loyal flyers will often refer their family, friends and acquaintances to the airline driving up the number of passengers and revenues. By ensuring there is a dialogue between the revenue management teams, sales teams and loyalty program, the loyalty program can be harnessed as a
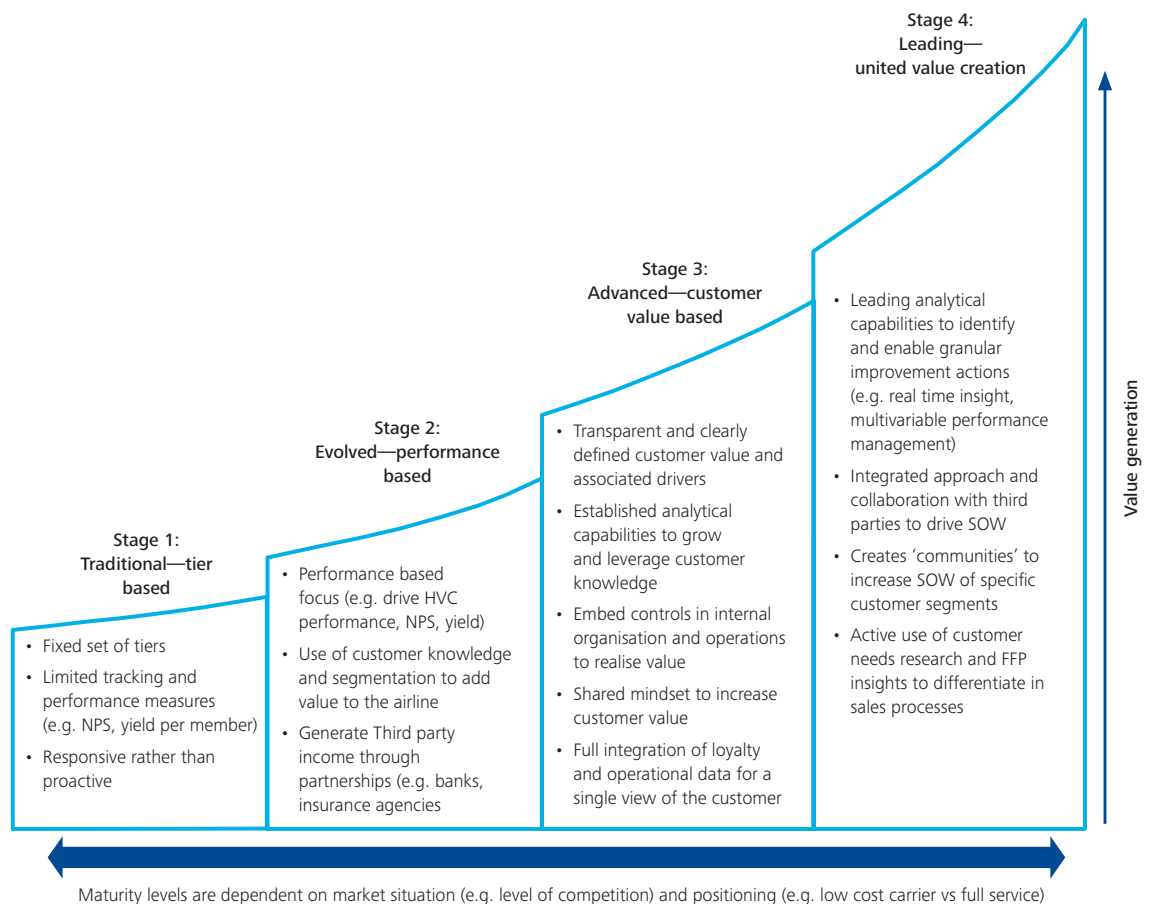
channel to specific customer segments to drive demand on weak sectors or routes.

Framing investments in loyalty innovations and tactical initiatives in the context of how the loyalty program supports the airline and the airline's commercial strategy can yield substantive benefits.

Chart 4: A loyalty program maturity continuum

Maturity of the loyalty program

From our work with a number of airlines, we consider loyalty programs can be viewed along a maturity continuum. Airlines need to decide where they should be on this continuum based on both their overall business strategy and the competitive environment in which they operate. This may change over time as the airline's strategy evolves or as the competitive environment changes. This continuum is outlined in the chart (chart 4) below:

Stage 4:
Leading—
united value creation

Stage 3:
Advanced—customer
value based

- Leading analytical capabilities to identify and enable granular improvement actions (e.g. real time insight, multivariable performance management)
- Integrated approach and collaboration with third parties to drive SOW
- Creates 'communities' to increase SOW of specific customer segments
- Active use of customer needs research and FFP insights to differentiate in sales processes

Stage 2:
Evolved—performance
based

- Transparent and clearly defined customer value and associated drivers
- Established analytical capabilities to grow and leverage customer knowledge
- Embed controls in internal organisation and operations to realise value
- Shared mindset to increase customer value
- Full integration of loyalty and operational data for a single view of the customer

Stage 1:
Traditional—tier
based

- Performance based focus (e.g. drive HVC performance, NPS, yield)
- Use of customer knowledge and segmentation to add value to the airline
- Generate Third party income through partnerships (e.g. banks, insurance agencies

- Fixed set of tiers
- Limited tracking and performance measures (e.g. NPS, yield per member)
- Responsive rather than proactive

Value generation →

Maturity levels are dependent on market situation (e.g. level of competition) and positioning (e.g. low cost carrier vs full service)

Notes:
1. SOW—share of wallet
2. NPS—net promoter score

At the least mature end of the spectrum (stage 1) are programs that provide a basic set of features that allow carriers to meet the prerequisites to compete for higher yield customers in its chosen market.

As these programs evolve due to competitive pressure, customer or regulatory expectation or market opportunity, they start to generate income streams through coalition activities (e.g. selling points to credit companies or retailers).

The shift to stage 3 is characterised by more aggressive and granular use of the data sets to which the carrier has access internally and through its coalition partners. Another key feature at this stage is the level of strategic and operational integration and cooperation between the core airline and the loyalty program.
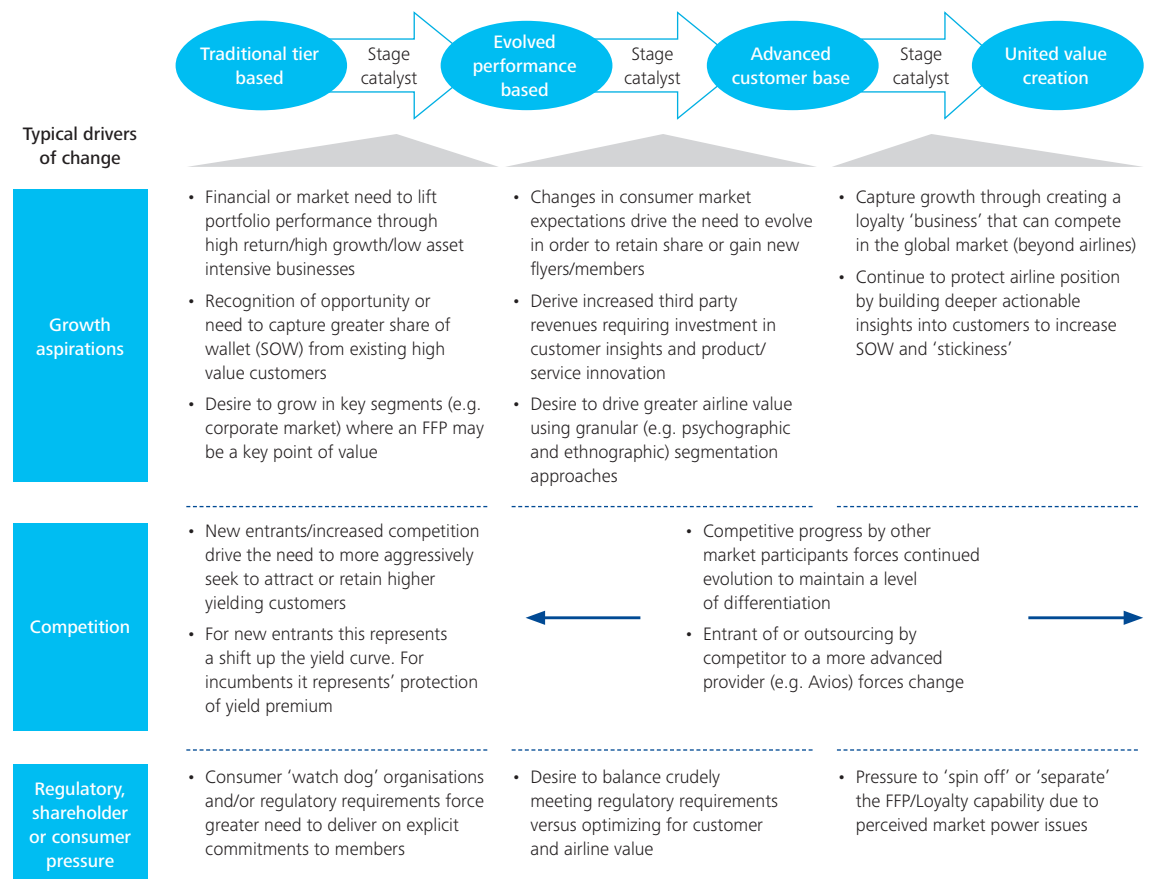
Stage 4 is where the loyalty program has evolved to a degree it is able to work with its airline and coalition partners to generate deep insights and create new value creation opportunities across the coalition.

This evolution is frequently accompanied by structural and sometimes ownership changes as the loyalty program grows in impact and importance to the airline. In Australia, both Qantas Loyalty and Virgin's Velocity program have explored opportunities for full or partial IPO, trade sale or sale to private equity. While the Qantas Group elected not to proceed with any form of full or partial sale or listing, the Velocity program has sold some equity to a private equity company. Similarly, LATAM Airline Group's Multiplus program is listed in Brazil with a minority share on the stock market and the majority ultimately owned by the airline group. Shareholder activists have also been seen to apply pressure for changes such as in the case of FL group and American Airlines in 2007.

The drivers of evolution for loyalty programs as they move through this continuum are remarkably similar across airline programs globally (see chart 5 below):

Chart 5: Evolution triggers

	Traditional tier based	Stage catalyst	Evolved performance based	Stage catalyst	Advanced customer base	Stage catalyst	United value creation

Typical drivers of change

Growth aspirations	• Financial or market need to lift portfolio performance through high return/high growth/low asset intensive businesses • Recognition of opportunity or need to capture greater share of wallet (SOW) from existing high value customers • Desire to grow in key segments (e.g. corporate market) where an FFP may be a key point of value	• Changes in consumer market expectations drive the need to evolve in order to retain share or gain new flyers/members • Derive increased third party revenues requiring investment in customer insights and product/ service innovation • Desire to drive greater airline value using granular (e.g. psychographic and ethnographic) segmentation approaches	• Capture growth through creating a loyalty 'business' that can compete in the global market (beyond airlines) • Continue to protect airline position by building deeper actionable insights into customers to increase SOW and 'stickiness'
Competition	• New entrants/increased competition drive the need to more aggressively seek to attract or retain higher yielding customers • For new entrants this represents a shift up the yield curve. For incumbents it represents' protection of yield premium	• Competitive progress by other market participants forces continued evolution to maintain a level of differentiation • Entrant of or outsourcing by competitor to a more advanced provider (e.g. Avios) forces change	
Regulatory, shareholder or consumer pressure	• Consumer 'watch dog' organisations and/or regulatory requirements force greater need to deliver on explicit commitments to members	• Desire to balance crudely meeting regulatory requirements versus optimizing for customer and airline value	• Pressure to 'spin off' or 'separate' the FFP/Loyalty capability due to perceived market power issues

What is the optimal design of a loyalty program?

So ….. what should airline executives be considering with regard to their loyalty program design? Is the strategy pursued being translated into the operational design and monitoring of the program?

Deloitte considers airline executives should consider four questions as they design and develop their loyalty programs:

1. Is the program designed as an integrated part of the broader strategy of the airline?

2. Is the program being designed with as deep an understanding of the target customer segments as possible and differentiated from the competition?

3. Is the program maximising the value it delivers to the core airline and to its members? Is this being appropriately monitored and communicated?

4. Is the airline and program leadership enabling the program to be successful?

Is our loyalty program truly integrated in delivering —and supportive of—the broader strategy of our airline?

A loyalty (or frequent flyer) program needs to be considered and used as just one competitive tool an airline brings to compete in its chosen markets. Such programs should be developed and deployed as part of an integrated suite of capabilities that generate— in their entirety— a compelling proposition for the customers being targeted by the airline.

The capabilities an airline brings together in delivering this compelling proposition (refer chart 6 below) include such things as its network (both own operated and those of alliance partners), the schedule, hard product (e.g. aircraft, seat pitch, etc.) soft product (e.g. inflight entertainment, catering, service specification, etc.) a range of associated services that may be delivered at every point of the customer's planning and travelling experience and of course the brand proposition as it is delivered and crystallised through this experience.

Chart 6: Typical airline features

Typical airline group "features"	
• Safety	• Check in
• OTP	• Food
• Network	• Seat pitch
• Schedule (network & frequency)	• IFE
	• FFP
• Alliances/bilateral agreements	• Wifi
• Price	• In-seat power
• Lounges	• Other customer experience elements (book to disembark)

The nature and design of the loyalty program should be founded in a clear understanding of the airline's overall commercial strategy while recognising the commercial strategy will change and evolve over time with the competitive environment and as the overall airline's (or airline group's) strategy may change.

Global 'end-of-line' carriers

For example, end-of-line carriers often seek to lead in a particular market or point of sale. The view being by 'owning' a particular market they can be the preferred carrier for passengers wishing to travel to, from or within that market and become the preferred alliance partner in that market for airlines that want to access passengers originating in, or to serve passenger wishing to travel to, that market. Leadership in the end-of-line market also plays a key role in supporting these carriers' international networks as they are well placed to feed traffic across their short, medium and long haul networks.

Qantas Airways in Australia is only one example of an airline that has adopted such a strategy and until recently had a stated objective of retaining 67% of the domestic market. While there are many reasons for this directional target and its merits and implications have been openly debated in the Australian press, there is no doubt the leadership position held by the Qantas Group in the Australian point of sale has been fundamental to sustaining its performance and supporting its long haul network in a highly competitive long haul environment.

Others include carriers such as Air New Zealand, Hawaiian Airlines, Finnair and others located in markets at 'the end' of global traffic flows.

These carriers typically seek to build hubs over certain key cities within their core market to serve and create leadership in a broader local catchment. They create a set of flights connecting over these hubs to optimise the traffic flows and efficiencies over the hub through their scheduling and sizing of aircraft.

Global hub carriers

Global hub carriers will typically have strength (but not necessarily leadership) in a specific point of sale or market. They develop hubs at which they build outstanding connectivity and flexibility for the traveller. They generally sit at the centre of global traffic flows along a north-south or east-west axis.

Examples of hub carriers would include British Airways (over Heathrow), Emirates Airways (over Dubai) and American Airlines (over Dallas Fort Worth). These carriers have extensive global networks with schedules over their hubs that allow passengers to transit their networks across a broad array of cities. They may not lead within a specific market (e.g. North America) in terms of market share, but will generally hold a strong position that enables them to capture key traffic flows.

Low cost carriers

Low cost carriers (LCCs) have been a disruptive development for traditional full service carriers in the industry. In simple terms, the LCC model has historically been one of maximising asset utilisation, minimising the cost per ASK (or ASM) and using price stimulation to attract customers. This has been done using a point to point offering rather than a more costly network offering and by being agile in moving aircraft assets from routes that are not performing to alternate routes.

Successful examples of this model include Southwest Airlines in the USA, Jetstar (the Qantas Airways LCC subsidiary) in Australia, Scoot (in Asia), Wizz Air, Easy Jet and RyanAir (in Europe). These carriers have been vigilant in containing costs, keeping the business model as simple as possible and in securing payment from passengers for any incremental product or service that is provided over and above the base offer of transporting the customer safely from point A to point B.

But what does this mean for their loyalty programs?

At the highest level, end-of-line carriers need their loyalty programs to create a significant switching barrier for the higher yielding market segments (e.g. corporate accounts, high value individual flyers, etc.) in their 'home' markets. The aim is to incentivise these passengers to remain on the carrier's metal for short, medium and long haul. Where a program is not competitive, this is often reflected in a decline in sales of tickets that have multiple combined sectors (e.g. DOM + REG + INTL sectors) across the carrier's network. The decline can be seen in the ticket mix and can be reflective of high value customers buying only the domestic sector and then switching to a competing long haul carrier to secure what they feel is a better service experience or some other compelling feature.

Global hub carriers use their programs to defend markets in which they are strong but, to some extent, accept in some markets (such as North America) passengers may be members of multiple airline programs. However, their programs are frequently used as a weapon in their arsenal to attack end-of-line markets. They do this by providing highly attractive opportunities to earn and redeem points (or miles or kilometres) for air travel or other services through their coalition partners in the market they are seeking to penetrate. This can be particularly effective if the end-of-line carrier's program has lost relevance or perceived value in its target market segments.

With continued intense competition, even LCCs are considering whether and how to introduce loyalty programs that are relevant to their targeted market segment. Sometimes an LCC may introduce a loyalty program as part of a planned evolution from being a true LCC to progressing to being more of a full service carrier. The evolution of Virgin Australia is a case study of this nature as the airline has evolved from its original LCC roots to growing into a portfolio of airline units capable of competing in the LCC market and the full service corporate and business markets. The growth of the Velocity loyalty program has been an instrumental part of this journey.

In other cases, an LCC may introduce a loyalty program where the LCC is part of a broader portfolio (e.g. US domestic carrier Allegiant) or may introduce a simple and low cost program to establish some basic differentiation from other LCCs. However, as programs are introduced, they tend to bring incremental cost and complexity in the business which is counter to the purist LCC philosophy.

At the simplest level, airlines need to decide whether to have a loyalty program or not. Many low cost carriers have elected not to have such programs. However increasingly this is changing as some low cost carriers seek to capture

higher yielding traffic. Scoot and Tiger Air recently announced they will join the Singapore Airlines' Kris Flyer program and Allegiant Airlines has recently issued a request for a proposal to develop an affinity card which will need to be underpinned by a loyalty program.

Is the program designed with a deep understanding of the target customers and does it differentiate the program from competitors?

Having a basic program provides a carrier with what is fast becoming a prerequisite to compete for higher value customers. (Note: Keep in mind that 'value' needs to be defined in the context of the airline's commercial strategy and the market segments it is seeking to serve). Deeply understanding these segments allows the loyalty program to better understand which 'features' (see examples in chart 7 below) matter to customers in the target segments and to better focus how the loyalty program is designed and where investment priorities in the program may lie.

Chart 7: Sample features of a frequent flyer program

Sample FFP 'features'	
• Accrual points or miles • Redemption pricing • Redemption availability • Accrual opportunities • Accrual process • Priority access to promotions • Status (tiering and recognition)	• Personalised, relevant offerings • Priority seating • Priority check-in/ boarding • Transfer points to others • Access to coalition communities

As with any competitive feature for an airline, loyalty programs are not static and require constant review and refinement. Features that provide competitive superiority when first introduced (even if the delivery performance is relatively low) can generate a significant competitive premium. However, these can often be copied and fall from providing leadership in the market to simply providing competitive parity. Over time, these can erode further to be simply a competitive prerequisite – effectively 'table stakes' to even be in the game (see chart 8 below).

Chart 8: Premium vs Performance
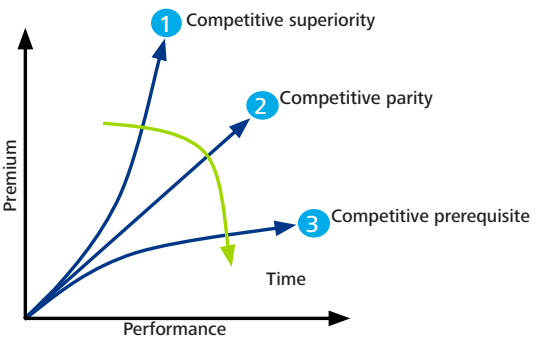
Developing granular insights into target customer segments and competing airlines and their programs must form a core capability for a loyalty program. Discussions with a range of loyalty programs that would be at stage 3 or stage 4 in their development journey highlight just how important they see capturing, and using customer data (their own, third party data and that which they can capture through their partnerships with credit card providers and other coalition partners) to enhance and develop offerings. Some programs – such as the Qantas Loyalty business and Avios – have made strategic investments and acquisitions to strengthen their capabilities in this domain as well as to acquire additional data sets.

Advanced analytics and artificial intelligence are being used across a number of industries to develop a deep understanding of consumers at a granular level. Self-organising maps are one of a number of visual toolsets being used to help companies visualise customer segments and groupings and to help inform the development of solutions for each of these groupings. These views can be enhanced as companies bring additional relevant data sets into play.

While gathering and analysing quantitative data is a critical step to forming insights, so too is the capture of insightful qualitative information. Industrial design approaches (often referred to as Design Thinking - the design-specific cognitive activities that designers apply) are increasingly being integrated into how organisations are 'designing' customer solutions with a deeper understanding of the underlying needs of their customers. These approaches include research techniques such as ethnographic research to explore the manner in which customers undertake certain activities and to explore how a new and creative solution could fundamentally and beneficially impact a customer's experience.

Is the value the program delivers to the core airline and to its members maximised and monitored effectively?

As with any business, a loyalty program needs to be able to convey the value it creates to its stakeholders. Chief amongst these are typically the core airline from which it may have been spawned and that has invested capital and effort in establishing the program, the customers it serves and the partners it works with (e.g. credit card issuers, retailers, etc.) Each stakeholder will see 'value' through a different lens so understanding their respective views and then measuring and reporting with these in mind is critical.

For an airline, value may be seen predominantly as the incremental revenue or yield the program can drive or the brand impact that allows them entry into the elite group of 'top tier' airlines. For a customer it may be the ease with which they can redeem points or the recognition they receive as a valued and loyal customer through their interactions with the airline's staff or events they are invited to in recognition of their loyalty. For partners, value may be seen as the level of impact of joint marketing campaigns.

Our work to date has surfaced no single set of measures that are used to quantify and communicate the value created. Rather, each program appears to be selecting measures that are relevant to its unique situation. A number of the KPIs in use are highlighted later in this document. However, it is clear that those programs that are at stage 3 or stage 4 in their maturity are selecting a set of measures that reflect the interests of the three core groups of stakeholders, whereas less mature programs are typically looking only through the lens of the airline or the program itself.

As touched on earlier in this paper, value can be captured for the airline in different ways and with different relevance depending on the strategy being pursued by the airline and its program. Four key features have been shared across leading programs:

1. Creating behaviour where members strive to retain memberships and/or increase their status to capture additional benefits associated with the program

2. Utilising targeted campaigns based on a deep understanding of program members to drive incremental revenues and share of wallet or to prevent loss

3. Crafting the approach to revenue management so that the airline, the program and the program's members can benefit from greater access to redemption opportunities

4. Establishing KPIs for the program and for key areas of the airline with which the program must interact to ensure there is alignment between the strategies being pursued and the operational delivery

Creating striving behaviour in the membership
Experience shows share of wallet plateaus at certain times and only climbs when something new members are willing to strive for is offered. Loyalty programs can drive incremental revenues by crafting the program with this 'striving behaviour' in mind.

Striving behaviour refers to a situation where a member's desire to strive to reach a higher status within the program, or to maintain their current status, results in increased flying or buying with the airline and the loyalty program partners.

To capture these benefits Frequent Flyer programs should be structured in a way that promotes striving behaviour. Tiering is one of the most common mechanisms used to recognise the status of members and to create 'clubs within a club'. Some airlines create events that allow members of high tier status to mix and meet to share their interests, establish connections or simply to convey to the member they are special. This goes above simple things such as lounge access, preferred seating or other program features that may be available to all members.

To generate striving behaviour tiering needs to be based on meaningful differences between tiers that are valued by members and can be easily understood by and communicated to members. For a member, these tiering differences can mean gaining extra benefits such as a greater baggage allowance, more upgrades, more frequent redemption opportunities, access to more unique events or special lounge facilities.

Tiering needs to be based on an understanding of the program members and what is important to them. The tendency in many loyalty programs is, over time, the difference between tiers becomes blurred and difficult to communicate. Small tactical changes that may seem important at a point in time when they are introduced blur the differences between tiers and in fact reduce the ability of the tier model to drive striving behaviour. Ensuring there is periodic review and 'maintenance'of tier differences should be part of the operations of any healthy loyalty program.

Targeted campaigns
Many airline loyalty programs have access to an extensive array of data regarding members. They will know the member's travel history through the airline's corporate data warehouse. Where they have flown, what sectors, what booking class, what times of day and days of the year, whether the travel was booked directly (e.g. personal travel) or via a corporate travel manager (e.g. business related travel). The program may have information on the member's immediate family captured at the time the member joined the program. This can then be supplemented with third party data sets that can be purchased providing insight on household wealth, consumption, etc.

This rich data allows loyalty programs to generate insights into their member bases that can be used to generate highly targeted marketing campaigns relevant to the members. Properly executed, it can move a program from generic email spamming to providing highly relevant offers to members. Not surprisingly, these targeted offers have a far higher take up rate with consumers than broad based generic offers.

Mature programs see the value in this for all their stakeholders and are investing hard in capturing data and building the analytic capacities and culture to be able to manipulate this data. They are moving from 'spamming' to targeted campaigns to customer intimacy and progressively to having a true dialogue with their customers.

For airline programs still at the start of the journey and committed to developing their loyalty program, there are some simple ways to start to capture and extend data assets. These can include:

- Launching a campaign to secure more information on program members and use this information (subject to relevant privacy laws and approvals) to develop targeted offerings that will generate high uptake and ROI

- Extending initiatives such as a 'two for one' offer to members to capture additional information on travel companions

- Providing bonus tier credits or accruals for members who 'introduce and/or refer members' who are 'active' with the airline for an agreed period.

Many initiatives can be taken to capture data, but the key is to ensure, before embarking on any initiative, the program has set a clear strategy and is collecting data within the context of the strategy it is seeking to implement.
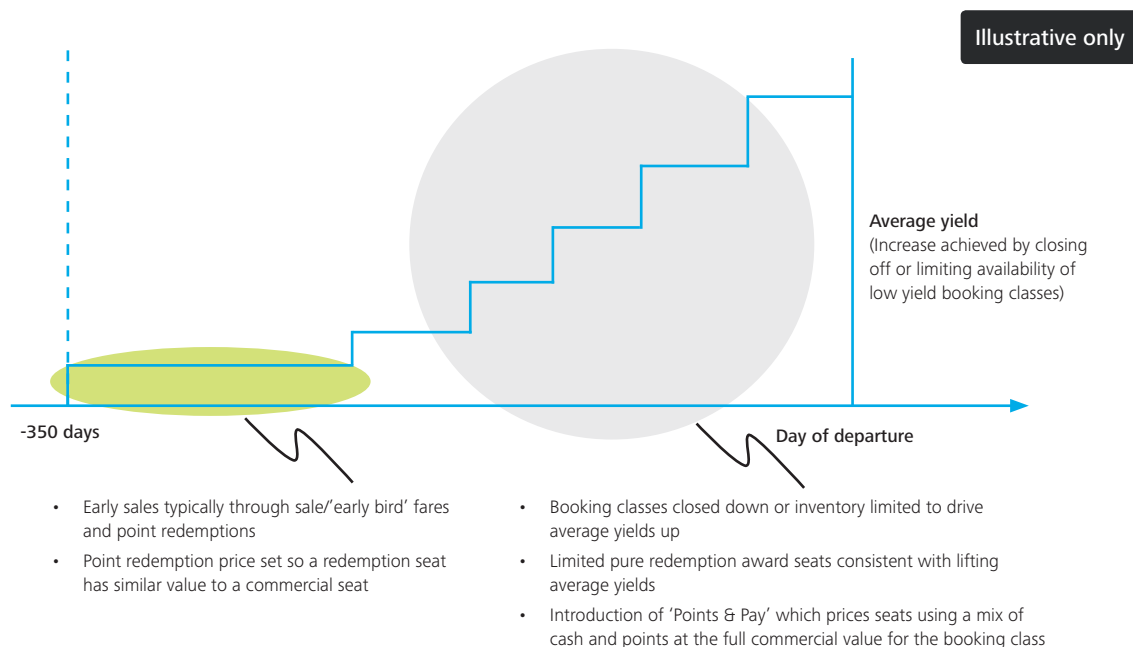
Revenue management

The connection between an airline's revenue management capability and the loyalty program is critical. Airline loyalty programs prosper on the implicit promise members have the opportunity and ability to redeem their points, miles or other currency for flights. This redemption model has been extended significantly as programs have built coalition communities that allow points or miles to be redeemed for other goods and services. The emotional heart of airline loyalty programs still remains the implicit promise to be able to take a 'free' flight to somewhere desirable. Loyalty programs have the potential to play a material role in the revenue management of the airline. Where loyalty programs' teams and operations are closely integrated with the airline, there is an opportunity to use available levers to increase yields and generate demand for soft flights.

Airlines manage yields through variable pricing where ticket prices are set and varied based on the flight capacity (number of available seats) and demand (level of bookings). As the departure date draws closer, demand tends to increase and available flight capacity declines (as seats are sold). This enables the airline to increase ticket prices and drive up the average yield per passenger and maximise the revenue per flight at the time of departure. (This is illustrated in the simplified chart – chart 9 - below which does not fully address the issues to be considered regarding liquidity and the incremental fees that can apply in some markets to a fare close to departure date).

Chart 9: Simplified revenue management

Illustrative only

Average yield
(Increase achieved by closing off or limiting availability of low yield booking classes)

-350 days

Day of departure

- Early sales typically through sale/'early bird' fares and point redemptions
- Point redemption price set so a redemption seat has similar value to a commercial seat

- Booking classes closed down or inventory limited to drive average yields up
- Limited pure redemption award seats consistent with lifting average yields
- Introduction of 'Points & Pay' which prices seats using a mix of cash and points at the full commercial value for the booking class

To do this, airlines use sophisticated forecasting tools overlaid with the judgement of revenue management personnel to maximise average yields and flown revenue. Inherent in the execution of this is revenue management personnel need to be able to attach a dollar (pound, yen or other currency) value to any ticket sold (See the Author's prior paper on revenue management: **'Have you flown off course with our approach to revenue management? Opportunities for the airline and transport sectors').** Some airlines do not attach a value to a loyalty redemption seat in their yield management systems. This then shows the seat as having zero value for the revenue management team and is dilutive in terms of how the revenue management team will see a redemption seat. Mature airline programs have established clear transfer pricing between the airline and the loyalty program and attach a value to a redemption seat in the yield management systems. If the transfer price is appropriately set, then the revenue management systems and the revenue management team will treat redemption seat availability as they would any commercial ticket.

The loyalty program can impact this equation by providing its members with redemption access early in the booking cycle. Loyalty program members who redeem early in the cycle effectively drive up system-wide yields by limiting the availability of low yielding, commercial sale fares.

The loyalty program can also help to increase demand for soft flights. First and foremost, loyalty programs have direct access to large membership bases. They can stimulate demand from their membership base through direct marketing and incentives. For example, the loyalty program may offer 'bonus' accruals or tier status credits on selected commercial fares in an attempt to increase demand. This can be applied to soft, developmental or highly competed routes and sectors. As loyalty programs develop their analytical capabilities and gain greater insights into their members, the targeted nature of their campaigns can become more sophisticated.

The loyalty program is one of many levers an airline has to stimulate flight demand. Close integration and planning between key personnel is required to ensure optimal action is taken and coordinated. This requires regular alignment between personnel in network scheduling, sales, revenue management and the loyalty program.

Typical KPIs used

In Deloitte's experience, a range of key performance indicators are used by airlines and loyalty programs to measure the performance and impact of their programs. Some commonly used measures are shown in chart 10 below:

Chart 10

KPI	Measure	Description
Customer Satisfaction	Net Promoter Score (NPS)	NPS is derived through a survey. A sample of loyalty program members is asked whether they would recommend the program to a friend. Survey respondents are required to score the program on a scale of 1 to 10. Customers who score the program: 0–6 are detractors 7–8 are neutral 9–10 are promoters NPS is calculated as the % of promoters minus the % of detractors
Membership base 'health'	Total number of members	The total number of registered members in the program. This is often broken down by tier and separated between 'high value' customers
	% of active members	The number of members who actively fly with the airline as a proportion of the total membership base. Active members may be defined as those that have taken at least one flight with the airline in the past 12 months (regardless of whether the flight was 'paid' for or 'redeemed' with points)
	Gross billings	The total sale of miles/points to both third parties and affiliated airlines
Spend of members	Share of wallet	The total revenue generated from loyalty program members divided by their total airline spend (including spend with competitors)
	Average revenue per member	The total revenue generated from loyalty program members divided by the number of active loyalty program members over a 12 month period
	Redemption revenue	The total amount of revenue generated from redeeming frequent flyer points
Contribution of the loyalty program	Incremental airline flown revenue	Flown revenue that would be foregone if the airline group did not have a loyalty program
	EBITDA contribution	The EBITDA contribution of the loyalty program to the overall entity as a measure of the value of the program to the entity
	Purchase price per unit of currency	The price at which third parties will purchase a point/mile/unit of currency from the airline

Is airline leadership committed to enable five success factors?

To ensure success, leadership needs to enable a number of factors:

1. **Operational alignment**
   The KPIs for key areas of the loyalty program and the airline need to be aligned. This alignment should aim to create the right incentives for airline staff to deliver on the promise that is made to the program member by the loyalty program

2. **Operational integration**
   Key processes and toolsets deployed in the airline need to be integrated with the loyalty program to enable the airline to deliver on the promise of the loyalty program

3. **Customer insights**
   The power of data and analytics needs to be realised. The rich data sets that are held in the airline and within the program need to be combined, enhanced where possible with additional relevant data sets and used to generate true customer insights that can be used to enhance the consumers' experience of the airline and the loyalty program

4. **Business model flexibility**
   Many airlines establish loyalty programs organically and default to a 'build it ourselves' approach. While in some cases this might be successful, making a clear strategic decision regarding whether or not to have a program and how it is designed is crucial

5. **A customer centric mindset**

   Above all a customer centric mindset is required at all levels of the loyalty and airline business to be able to truly deliver a superior loyalty program. This requires the alignment of KPIs and incentives across functions and key executives and staff, processes to be integrated to enable coordination across the airline and its loyalty program and an appropriate investment in building the capability to utilise the data available to the airline on its customers in more than an operational context.

In closing…

The airline industry has done much to advance loyalty programs over the decades since they were first introduced and continue to be at the forefront of much of the thinking and innovation today. With the rapidly changing competitive landscape and changing technology, it is more important today than ever before to ensure the strategic decisions and investments in loyalty are aligned with the overall commercial strategy of the airline. Failure to get this right can mean at best wasted investment
and at worst significant loss in customer loyalty and long term value.

About the authors

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Simon Cook is a Partner at Deloitte Touche Tohmatsu (Australia). Simon has held a number of leadership roles with the firm and is a core member of Deloitte's Global Aviation practice. He serves clients in the areas of organic and acquisitive growth with a particular focus on strategy and pricing. Prior to joining Deloitte, he spent several years as a senior executive at Qantas Airways where he was initially responsible for Group Strategy and subsequently for all Pricing, Revenue Management and Distribution Strategy activities across the Qantas Airline's brand.

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