

COME FLY WITH ME

AIRLINE LOYALTY PROGRAMS AREN'T JUST ABOUT MARKETING TO MEMBERS – THEY ARE BIG BUSINESS IN A WORLD OF LOW MARGINS AND HIGH COSTS.

STORY CHRISTOPHER NIESCHE

IT'S A TOUGH call – are frequent flyer schemes more valuable to the passengers who collect the points, or to the airlines that hand them out?

Just about every airline has a frequent flyer scheme. As well as driving customer loyalty, they provide valuable insights about their customers and a captive audience for marketing opportunities.

The schemes have grown exponentially since they began in the 1970s. Members of United Airlines' MileagePlus number in "the tens of millions" and Singapore Airlines' KrisFlyer has more than two million members. After beginning with 50,000 members in 1987, Qantas now has more than nine million in its Frequent Flyer program – not a bad result for an airline based in a country of just 23 million.

The schemes have grown, but so, too, have the pressures on airlines. Globally, airlines made a loss in seven of the past 12 years to 2011. Just about every year one crisis or

another seems to beset the industry – fear of terrorism or pandemics such as SARS keep travellers away; soaring fuel costs eat at already thin profit margins, or holidaymakers and business people cut back on travel in the face of a soft economy.

Add to this the squeeze that the rise of discount airlines over the past few decades has put on airlines' margins, and they need any advantage they can find.

Qantas Loyalty chief executive Lesley Grant refers to the airline's Frequent Flyer program as the glue that holds the airline together. "It's very integrated because we provide valuable insight to the airline and we create reward and recognition for members of the program, who are obviously frequent flyers," Grant says.

The vast amount of data that can be gathered from an airline's millions of members creates a competitive advantage and can inform the airline's business decisions, she says. The airline knows which >

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Team United: from left, Matt Miller, managing director, Japan and Pacific sales; Alison Espley, director, Australia and New Zealand; Jim Mueller, vice-president sales; and Dave Hilfman, senior vice-president.

TIPS TO GIVE YOU A WIN ON POINTS

US internet entrepreneur Brad Wilson found a novel way of boosting his frequent flyer points – buying money.

Wilson noticed the US Treasury was trying to encourage the use of \$1 coins by offering free shipping and no fees for the purchaser. So he bought nearly US\$3 million worth on his credit card linked to a frequent flyer scheme and lugged each shipment to the bank to pay off his bill. He earned about a million air miles on American Airlines before Treasury cottoned on and discontinued the scheme.

Then there's "Pudding Guy", as he's become known – US civil engineer David Phillips. He noticed a food company was offering 1000 air miles for every purchase, so he bought 12,150 servings of pudding at US25 cents each. Including a few other purchases, Phillips earned 1,253,000 miles – enough for 21 round trips to Australia – then got a tax deduction of more than US\$800 from his total outlay of US\$3140 by donating the puddings to the Salvation Army, in return for some help peeling off barcode stickers and filling out coupons.

Some people will go to great lengths to earn frequent flyer points.

The best-known strategies are to fly with airlines whose schemes you belong to, or with their partners, and stay in hotels and use rental cars that are linked to the scheme. Watch out for special deals on flights or offers increasing frequent flyer points for booking particular routes or at particular times.

But there are also some lesser-known strategies. Clifford Reichlin, owner of the website australianfrequentflyer.com.au, outlines three ways to get the most out of frequent flyer schemes.

1 The status run – taking a flight specifically to earn status credits. Status credits are distinct from frequent flyer points, but they're important because they earn you a higher status in your frequent flyer scheme (for instance, Gold or Platinum), which in turn means you get access to better lounges, better seat choices, more upgrades and, importantly, extra frequent flyer points each time you fly. Reichlin recommends keeping an eye out for long-distance discounted fares that will earn you status points, but you have to be prepared to spend your free time in airports and on aircraft.

2 Cash sales of points – sometimes held by foreign frequent flyer schemes. The canny



Opportunity:
The head
of Qantas
Loyalty,
Lesley
Grant.

In the past financial year, Qantas Frequent Flyer earned A\$1.2 billion in revenue from the sales of points and membership fees.

scheme member snaps these up and converts them to flights. For instance, using points to buy a flight on Qantas codeshare partner American Airlines could see you end up flying Qantas anyway. A return business class fare to Europe could cost as little as A\$3000 using this method, says Reichlin.

3 Qantas Anyseat Awards scheme – airlines usually limit the number of seats they make available for redemption using frequent flyer points. However, with Anyseat Awards you can use points for any seat, but it costs a lot more. What's interesting about tickets bought this way is they also earn rewards and status points. "Some people look for specials or anomalies whereby they buy a seat using points, then earn points and status credits: the cost of points for them would be almost the same as if they'd taken the less-tactical approach," Reichlin says.

passengers flew which segments and when and why, and how much they paid. "The important thing is to understand how they're behaving and being able to target offers that are relevant to those segments," Grant says.

Loyalty schemes are invaluable to airlines' marketing efforts because they provide access to millions of receptive flyers – although aviation analyst Chris Tarry says airlines have yet to take full advantage of the highly detailed data they have on the flying and spending habits of their loyalty club members.

"You look at airline marketing, it's all pretty general stuff," says Tarry, founder of British aviation consultancy CTAIRA. "The real opportunity is to use your particular travel behaviour to either upsell or sell better." For example, rather than cutting fares across the board, airlines can offer individuals special deals without showing the rest of the market.

Frequent flyer schemes have also become an important means of communicating with passengers, to let them know of flight delays or changes to their flight schedule.

Alongside a contribution to airlines in terms of market intelligence, marketing opportunities and driving customer loyalty, frequent flyer schemes have become profitable businesses in their own right.

The airlines make money by selling points to their partners, which the partners can then hand out to their own customers in exchange for purchases. For instance, Qantas sells points to Woolworths – one of its 450 partners – which then gives them out to its own customers as part of its Everyday Rewards program.

Qantas is one of the few airlines to reveal its frequent flyer scheme earnings, which show how valuable the schemes can be. In the past financial year Qantas Frequent Flyer earned A\$1.2 billion from the sales of points and membership fees and A\$231 million in earnings before interest and tax. Qantas (and its competitors) won't reveal the value it attributes to each point in its financial statements. At any one time the airline is carrying a A\$2 billion liability for outstanding points on its books.

"It doesn't matter whether you're flying or not," Grant says. "As long as you're earning and we create ways for you to be able to redeem, then you're very engaged in the program."

Of course, the primary reason for frequent flyer schemes always has been – and remains – a way to induce passengers to fly more often on the one airline.

United launched the first frequent flyer scheme in 1973, which rewarded regular passengers with promotional materials and plaques. It wasn't until the late 1970s that



airlines began rewarding frequent flyers according to how many miles they flew and allowed them to redeem their points for flights and upgrades.

The rewards can now go a long way beyond travel. United also lets its MileagePlus members use their points in auctions for otherwise unattainable experiences, such as a trip to Denver to use the airline's flight simulator, a private tour of *The Wall Street Journal* or a wine tasting with a master sommelier.

The rise of discount airlines and corporations squeezing their travel budgets could have been expected to break down loyalty to one carrier and hence the effectiveness of frequent flyer schemes, but the airlines say this isn't the case.

"I would say they're still extremely effective," says United Airlines senior vice-president Dave Hilfman. "If [there's] a choice between essentially low fares on both airlines but you are part of a world-class loyalty program, you're probably going to go with the carrier that's got the loyalty program. We've seen that at United and I think we've benefited from it."

Passengers choose their airline based on several factors: routes, times, flight availability, service and, of course, price.

A passenger might pay A\$20 more for a fare if it's direct rather than having to stop over, suggests Hilfman. On the other hand, "we realise a lot of people will take another airline's flight if it's A\$10 cheaper, so we always have

things such as checked baggage, which many discount flyers don't offer.

Airlines recognise that corporate travel budgets are under pressure, but argue that full-service carriers offer convenience and service that discount airlines can't.

"We believe there will always be demand for premium air travel," says Jo Ann Tan, vice-president of loyalty marketing at Singapore Airlines. "By fostering closer relationships with our corporate clients, offering competitive pricing and a superior product, we aim to cement partnerships and continue being a preferred carrier."

And, of course, there remains the lure of earning frequent flyer points.

"There are companies that require their employees to follow a cheapest fare of the day policy," says Grant.

"But what we find is that due to the strength of the Qantas Frequent Flyer program, people do find ways to include Qantas in their travel itinerary. It might not necessarily be the cheapest fare on a particular sector, but their preference is to stay with the brand."

An indication of what's next for airline loyalty schemes is the changes Qantas is planning to make to its frequent flyer member card. The card can already be used in Australia to check in and as a boarding pass.

The next-generation member card will be chip-enabled and members will be able to load it up with cash in local or foreign currency – dubbed Qantas Cash by the company – and spend at any locations where MasterCard is accepted, as well as use ATM machines overseas.

And, yes, transactions on the card will earn frequent flyer points. ■

FBT ALERT

Frequent flyer points earned through business travel or spending usually aren't subject to Fringe Benefits Tax (FBT), but there are three pitfalls to be aware of, says Frank Klasic, a partner at Deloitte's Global Employer Services.

First, the membership must be in the name of the individual, not the firm, although it doesn't matter if the firm has paid the membership fee. Second, the points must be earned from a genuine commercial

transaction. This mostly applies to spending on credit cards linked to loyalty schemes. A hotel room or a meal is fine, but putting the office phone bill or rent on the card isn't. The benchmark for when the Australian

Taxation Office starts considering FBT on frequent flyer schemes is 250,000 points, Klasic says. Finally, points must be earned by the member themselves. Any transfer of points from the company to the individual will attract FBT.