

Embracing the Social Element in the Airline Loyalty Programs

Is it time to embrace a new design?



Executive Summary



Air travel and the associated loyalty program has become a commodity in today's world. Loyalty program, also known as FFP (Frequent Flyer Program), is one area which has shown tremendous growth, since first such initiative was launched 40 years ago. The idea was to reward customers for their flight ticket purchases, and subsequently ensure customer retention. American Airlines was the first major airline to introduce this concept. Though the focus has drifted away since then; from being a CRM (customer relationship management) tool to becoming an independent profit centre, it is still in the thick of things.

It might be intriguing to note that in this case, supply of rewards is far more than their demand because of the limited options to redeem accrued points or miles earned during the travel purchase. This is also symbolic of the typical airlines' dilemma of striking balance between revenue maximization and retaining the loyalty of existing customers.

In order to stay relevant in today's context, airlines need to make some design changes in the current structure of loyalty programs. One exercise in this direction which will define the future is Social Loyalty – Effort towards rewarding not just the high value customers based on the transaction value but rewarding brand advocates as well. This change in design of existing loyalty programs will ensure that the brand evangelists are motivated enough to post good reviews and share their experiences with the brand at various social forums. In order to implement this change, there is a need of improving the technology portfolio, changing organization structure and most importantly, changing the culture. The challenge that lies ahead is that social media and loyalty initiatives at most airlines are carried out by different teams that do not work hand in hand. This is why airlines fail to recognize and suitably reward loyal customers who not only purchase their services, but spread good cheer about them on various forums as well.

Apart from adopting the concept of social loyalty, airlines also need to provide more avenues for the customer to redeem accrued points, so that they don't get wasted. Cross-over loyalty and exchange of loyalty points are few such measures which enables the customer to use accrued points for purchasing other related or unrelated items like hotel stay, car rentals, fashion accessories etc. The other avenues might be gifting the points to friends or asking the company to perform some CSR activities in lieu of the points exchanged. This will help the airlines in engaging the customer in a much better way.

Loyalty Programs so far...



Loyalty program came into existence as a mechanism for customer retention in which the airlines used to offer some rewards to the traveller in return for the purchase of travel on their aircraft. In the initial years, the FFP was designed around the concept of mileage flown i.e. the traveller earns 1 FFP mile for each mile flown and it was the same until few years ago. Another model which has emerged is revenue based model where the traveller earns points (not miles) for the money spent on tickets. These accrued points can then be used to purchase a ticket on any other flight. This revenue based model is more prevalent in low cost carriers. The legacy carriers still continue to use mileage based programs. Virgin America, with its Elevate program in 2007, was one of the first airlines to implement revenue based scheme and later on it was followed by JetBlue and Southwest as well.

Mileage based FFP vs Revenue based FFP:

For a customer, the benefit of mileage based program lies in the fact that he can earn miles on cheap and long flights and redeem those miles for expensive tickets. However, the flip side is that the numbers of these award seats available at desirable price points are very limited (may be not available at all) on popular routes during the peak demand period. Airlines offer limited seats on every flight for redemption of accrued miles and they give preference to revenue space over free tickets. The good thing about revenue based programs is that a customer can book every seat on every flight using the accrued points. No restrictions have been imposed on award seats in revenue based model.

The below statistics (by Inside Flyer) points at some of the underlying problems with the miles based design of loyalty programs:

- 80% of frequent flyer members never actually earn enough miles to redeem a flight.
- Some 9.7 trillion frequent flier miles go unredeemed every year

It should be noted that award seats on a flight are a scarce commodity and the

miles eventually remain unused because of unavailability of avenues for redeeming the miles in traditional airline programs. In case of revenue based programs, the travellers can still use these fixed-value points to find seats when fares go higher; obviously they need to spend more points than before. Only difference is that the customer would use points to buy any available seat.

Are airlines able to identify the loyal customers correctly?

Airline Perspective:

For the sake of clarity, let's consider two customers – Customer A & B. Customer A, flies once a year from San Francisco to Chicago in full fare premium class paying around \$ 3000. In the process, the traveller accrues 3000 miles. Customer B, flies the same route in cheap economy class, 10 times a year by paying average of \$ 300 each time and accruing 30,000 miles. In the current scenario, airlines considers customer B more valuable than customer A because of more miles flown, even though the dollar amount spent is same.

However, for the airlines, customer B may not be more profitable than customer A, because the airlines have to expose themselves to various risks ten times compared to one

time risk of carrying the customer A. Some of these risks are airlines paying extra to put the customer in a hotel because of delays, arranging for taxi vouchers & meals, delivering the baggage to the customer in case of mishandling. Airlines will have much lesser margin on flying and processing customer B. In some cases, they might have to incur losses in the whole process.

Customer Perspective:

A typical customer might believe that the loyalty level towards a particular airline will depend on their engagement level and the amount of time that they spend on those flights. Initially the customer's goal was to garner the free miles and get free occasional travel but it has changed dramatically in today's scenario. In the current landscape, it is more about the status than anything else. Getting registered in most premium flyer category with any airlines separates these travellers from the so called "Regular" travellers. Long queues at the airport check in counter, long security lines, and long wait at the gate only to see the filled overhead space in the aircraft are some of the annoyances which the occasional travellers have to go through. On the other hand, the elite customers enjoys the luxury of extra checked in bag at no additional cost, selecting the seat as per their liking, getting into the aircraft earlier etc.

What is missing in the existing structure – The "Social" Angle:

None of the current incentives have made any difference to customer's social interactions. Currently the customer receives no value in return for sharing his good experiences. At best, he might get a response from the airlines. Given the magnitude of social media activities that are happening in all the stages of travel lifecycle, it is important that it be ingrained into the airlines DNA. The airlines need to understand that any comment posted on these forums by an individual can greatly impact the purchase decision of such products by other people in the same network. Question that needs to be answered is - Why would

customer bother to share his reviews, read the airlines hosted blogs and put a comment? What's in it for him?

Social Loyalty – The way forward:

The proliferation of smart phones and high speed data networks have opened up a new avenue for customer interaction with a brand. This new avenue is social channel where customer seeks advices from their peer group and shares their experiences with a particular brand. For most of the airlines, there have been considerable efforts in making their presence felt on social media sites and it has been embraced as one of the most effective medium to connect with the customers. It gets substantiated by the fact that, on one hand it took 30 years for 179 airlines to have some form of loyalty programs but in just 4 years, 191 airlines have joined Twitter so far. Also, most of the frequent flyers have very high level of consumption of social media. Facebook and Twitter have been the forums which have been leveraged the most by travel brands and customer both. The table in Fig 1 & 2 substantiates this point. Twitter has been used as a medium for customer communication and sometimes for providing customer service as well. On the other hand, Facebook is used for creating brand awareness and some of the airlines like Delta have provided the ability to book the tickets on their FB page by embedding the booking engine.

Social loyalty is an effort towards rewarding not just the high value customers based on the transaction amount but rewarding brand advocates as well. These are the customers who talk on various forums about their good experiences with the particular brand.

Customer earns loyalty points by engaging in various activities such as sharing their experiences, "Liking" or tweeting products information and promotional deals, watching videos, commenting on articles, reviewing, posting photos on Instagram, and participating in polls. Hilton's upcoming social H Honours is one such example.



Brand	No. of Fans	Avg Posts / month	Reach	Impressions	Engagement	Average Response Time
Southwest Airlines	6.1 MN	150	175K	375K	2800	24hrs
JetBlue Airways	1.4 MN	110	70K	170K	1300	24hrs
American Airlines	2.4 MN	50	125K	300K	2500	24hrs
Delta	3.1MN	100	300K	590K	4400	24hrs
United	1.1 MN	100	160K	165K	1600	24hrs
Virgin America	691K	105	20K	15K	700	24hrs

Fig 1: Presence of various airlines on Facebook and their engagement level with the customers.

Source: Airlines Social Media, 2017-18, Unmetric

Brand Name	Total Followers	Number of Tweets	Mentions	Average Sentiment of Query
@jetBlue	1.96MN	555K	60K	Positive
@SouthwestAir	2.12MN	787K	85K	Neutral
@AmericanAir	1.54MN	2.06MN	170K	Neutral
@Delta	1.49MN	907K	180K	Positive
@virginAmerica	809K	134K	25K	Positive
@united	1.01MN	1.06MN	190K	Positive

Fig 2: Presence of various airlines on Twitter and their engagement level with the customers.

Source: Airlines Social Media, 2017-18, Unmetric

However, for a brand its presence & listening ability merely on Facebook and Twitter is not enough, they also need to be responsive about the voice of customers which are being echoed on other touch points like blogs, online discussion forums, review sites etc. This way, they can have a holistic view about who are the brand evangelists and who are the brand detractors.

Social Loyalty Conceptual Framework:

The basic premise of this framework is to reward the customers who turn into social advocates by creating and spreading positive energy about a particular brand. Traditionally, airlines have been rewarding only those customers who purchase the services from them or other partners in their network. Though such programs ensure customer satisfaction to some extent but they fail to effectively engage a customer during the whole travel life cycle. Airlines need to understand the fact that the positive reviews from a person of well repute or person in the customer's own network has a lot of influence on travel purchase of other customers as explained in Fig 3 below. However, currently there is no incentive for such brand advocates to keep endorsing the brand of their choice.

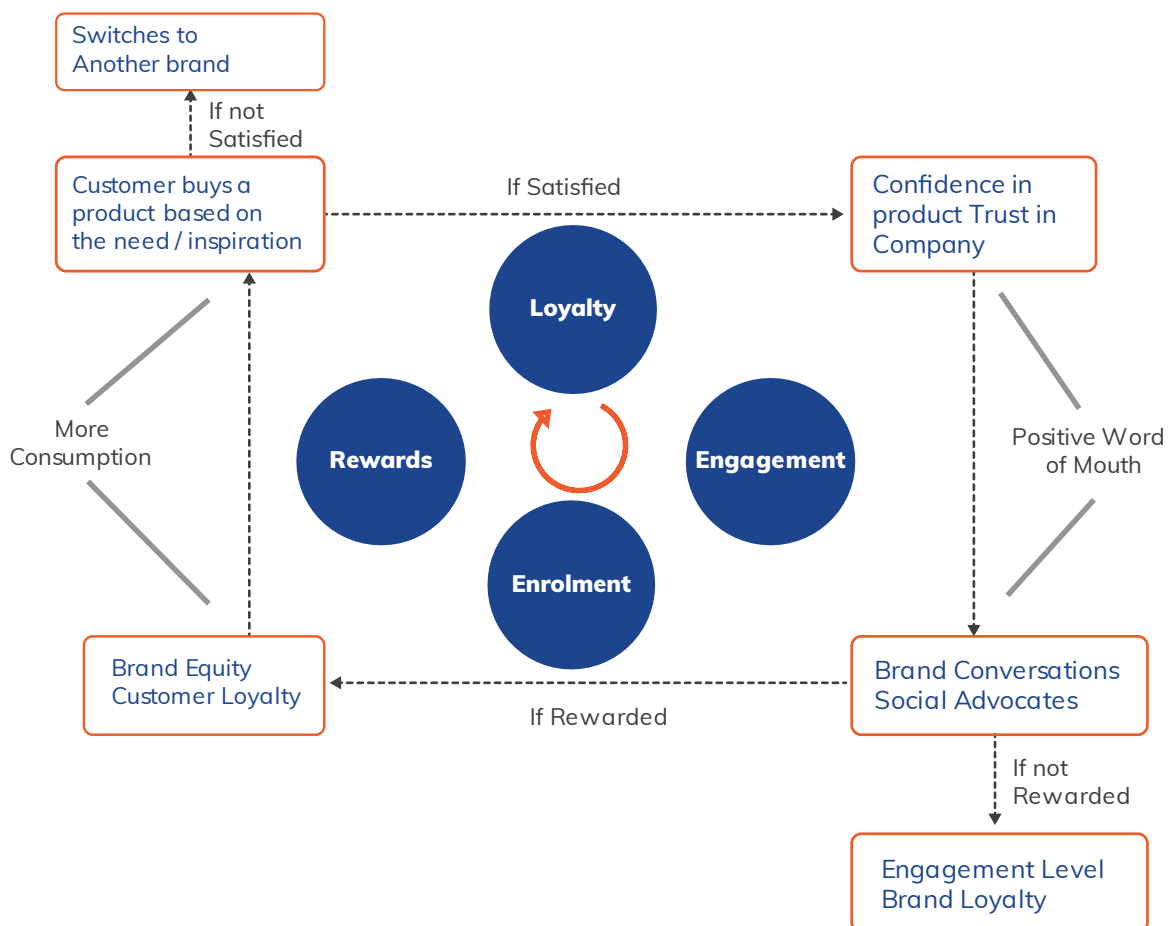


Fig 3: Social Loyalty conceptual framework

The first step in generating loyalty is to get the customer buy your product / services. Once the customer is satisfied, his confidence in the product/ services as well as trust in the company increases. This leads to positive word of mouth (WoM) about the particular brand on various social channels. These satisfied customers start becoming the brand ambassador which helps in creating lot of positive buzz. If these advocates are rewarded for their social behaviour then it will further strengthen their loyalty and it ultimately results in increased brand equity and further consumption of services offered by that brand.



What it takes to implement social loyalty?

Long term vision: The focus should be on converting the loyal customers into brand advocates. The airlines should not focus much on one time transactions; rather they should spend their time & energy towards increasing the interaction & engagement level with the customers. This will ensure constant revenue streams for their services.

Technology infrastructure: In order to monitor their brand mentions and the sentiments being echoed in those conversations, airlines needs to invest in procuring listening tools and analytics tools. There are many such social media analytics tools like Attensity, Visible, Converseon etc. These tools take the input as the raw conversation happening on various social forums like FB, Twitter, Youtube, LinkedIn, Flickr etc and filter out the irrelevant information and find the sentiments hidden in the relevant comments. These tools help an organization listen to those conversations, analyze it and then decide their brand advocates.

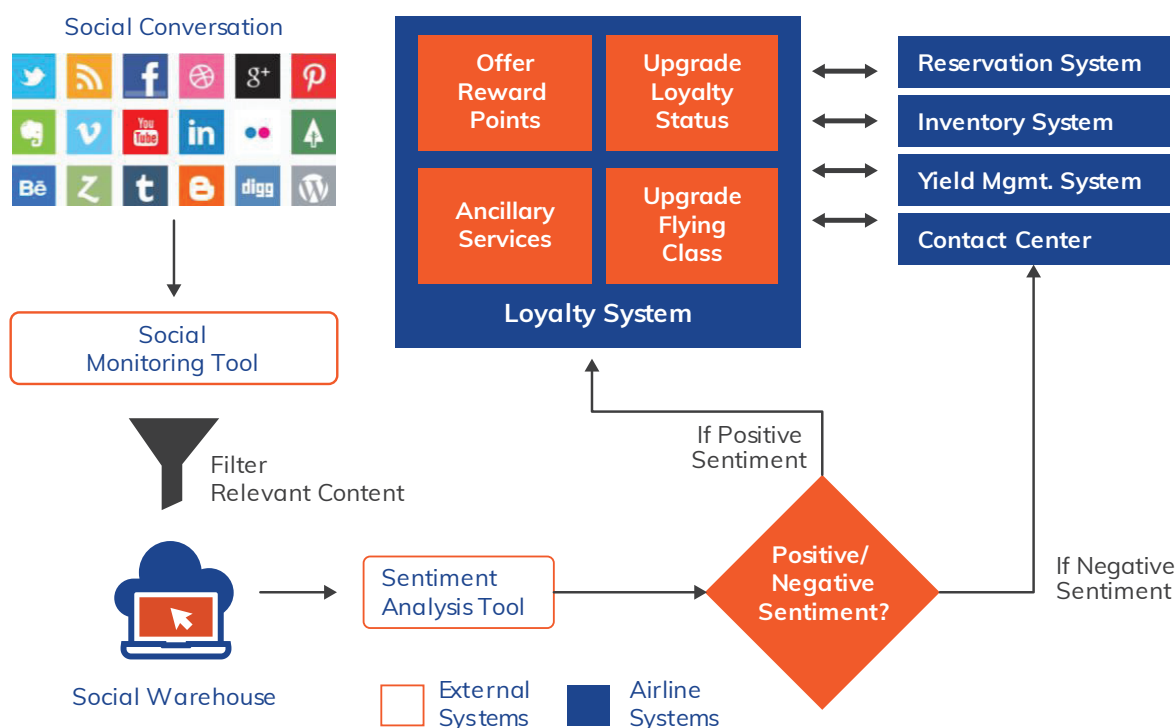


Fig 4: Social Loyalty - Behind the scenes

The new technology infrastructure will have to co-exist with existing airlines systems like Loyalty system, Reservation System, Inventory system etc. as explained in Fig 4. It is important to note that it is not sufficient to only invest in social analytics tools; what is needed is to understand and relate the information provided by these tools with products / customer / locations as explained in fig 5. Airlines would need to figure out whether these advocates are already enrolled in existing loyalty programs or not. Also, they need to clearly identify the entire experience lifecycle for those brand advocates. This is where a lot of integration is involved within the existing airlines ecosystem.

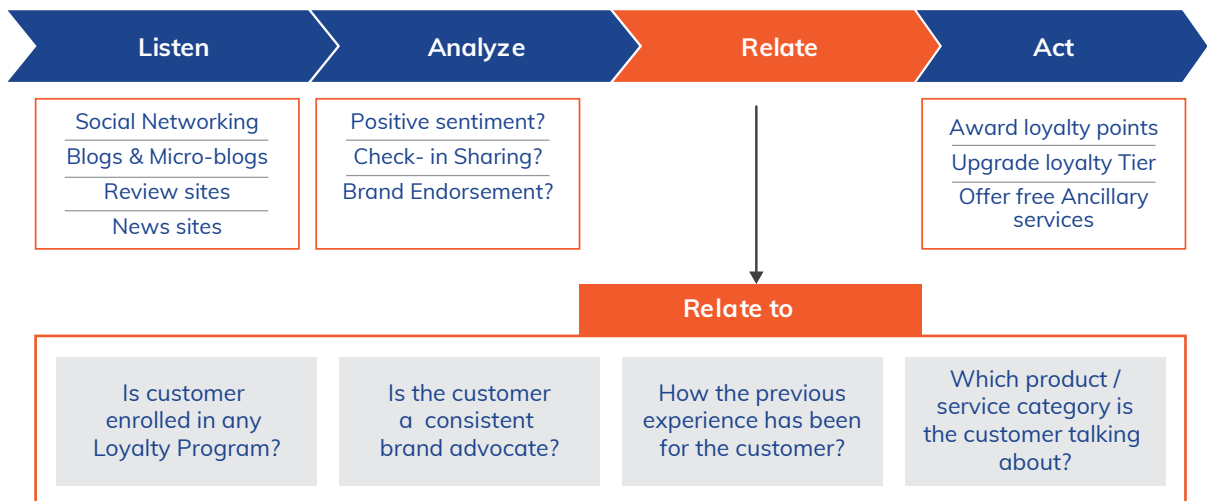


Fig 3: Social Loyalty conceptual framework

Organization structure change: Social media efforts and loyalty programs are run by two separate departments of airlines which may have differing business goals. There is a need to unify these two departments in order to provide superior customer satisfaction. A collaborative culture needs to be developed where multiple groups work together to achieve a common goal of maximizing the customer satisfaction.

Current Initiatives in social loyalty space:

Some projects identified by Simplifying include:

Estonian 'Air Score' – first airline in the world to launch a social loyalty program on Facebook in Oct 2011. In this initiative, the Customer earns scores (Air score) for sharing a review of the airline on their Facebook wall or tweeting offers & deals or sharing any generic information like airfares, information about cultural and sports events happening in Estonia. The customers or so called "Ambassadors" of the airline are rewarded with discounts for social media advocacy, without even having to fly the airline.

Jet Blue "Go Places" – JetBlue provides loyalty points to its customers when they announce on Facebook that they are at a Jet Blue terminal. This drives the end goal of engaging the customer and loyalty.

Virgin America – The passengers, who were roaming in the new San Francisco Terminal (T2) home with a Smartphone, were asked to locate the new amenities which were offered and asked to check in via foursquare. In return of announcing their location on Facebook and Twitter, participants were awarded badges which could be redeemed against prizes.



Other design changes that are needed in redemption of Loyalty points:

The below measures will ensure that the loyalty points are used to enjoy privilege services.

Ability to trade loyalty points: Airlines should allow buy, sell and exchange of loyalty miles / points through a common exchange platform which will ensure that the miles do not get wasted. For e.g. if a customer has 500 loyalty points from Airlines A and 300 loyalty points from Airlines B, he should be allowed to combine these points to purchase a ticket on Airlines C. Also, there should be a provision to trade points with friends & relatives. Currently there are very few service providers which provides such services; with www.points.com being the prominent one. However, the exchange rate is so high that customers end up losing around 60 % in the exchange process and hence the adoption is very limited.

Co-creating the Redemption avenues along with the customer: Airlines should organize online brainstorming session with their customers and try to understand the redemption avenues which customer values the most. The user adoption is bound to increase if the avenues are created as per their liking and will inculcate loyalty in its true sense. Air Baltic has already initiated efforts in this direction to improve the design of Baltic Miles – their loyalty program.

Use loyalty points for purchasing Ancillary services: One great way to push ancillary services might be by enabling the customers to use loyalty points for purchasing services like priority boarding, extra leg space, in flight Wi-Fi etc. while booking a flight ticket. This is a win-win situation ensuring that the points are utilized as well ancillary services become popular.

Cross-Over loyalty: It simply means that, the customers can leverage their top tier status in a particular airlines loyalty program to get preferential treatment from other related or unrelated service providers as well. Flying a particular airline will get rewards which can be used for consuming other services like staying in a hotel. Delta and Starwood recently rolled out a program which is no less than a defining moment in the loyalty program space: a joint loyalty program that will provide perks across brands, aptly called Crossover Rewards. By doing so, both companies will gain the new customers and ensure loyalty from their existing customers.

Points for Gifting / CSR purpose: The customers should be given the ability to gift the points to their friends or family or donate their loyalty points for the “Environmental “aspect. This will ensure that the miles don’t go unused. Few scenarios can be: when a customer donates some reward points, few tree plantations may be done by the company. Similarly, it might be used to fund a child education needs or for helping the underprivileged population. By doing so, the customers will develop a sense of pride and corporations will further strengthen their resolution to increasingly adopt “Go Green” measures and increase their participation in CSR activities.

Conclusion

The adoption of “social’ loyalty” is destined to reach the pinnacle as most of today’s travellers are in possession of devices which enable them to engage in online advocacy. It has become very critical that the airlines now embed their customers’ social behavior and interactions into their loyalty programs blueprint. There are few brands which have already taken efforts in the direction of embracing the new structure of loyalty programs. However, Airlines need to expedite the transition process from operating as a traditional flight centric entity to being a customer centric unit. Currently, there is a burning need to improve customer satisfaction; according to the 2013 Temkin Experience Ratings, the airline industry’s overall score on customer satisfaction landed it right on the border


between “OK” and “poor. The other solutions for improving the C-SAT score are giving them more options to redeem the loyalty points. Adopting a new design for loyalty program, which includes rewarding customer’s social interaction along with the existing model of giving rewards in return for consumption of service, may be just a right step in that direction.

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