



# Airline Loyalty

---

**Dr Keith Mason FRAeS**

**Istanbul Technical University**

**Air Transportation Management, M.Sc. Program**

**Airline Marketing**

**April 2016**

# Customer loyalty



Dr Keith Mason

Head, Centre for Air Transport Management

# Customer loyalty



Dr Keith Mason

Head, Centre for Air Transport Management

- “A traveller’s membership of an airline’s frequent flyer club is a clear indication of his/her loyalty to that airline. It delivers higher revenues and a preference to that airline for future purchases.”

DISCUSS

How many schemes are you in?





## Many Travelers Are Enrolled in Loyalty Programs

Percentage of Travelers Who Belong to Travel Loyalty Programs



# What is loyalty? Who is loyal?

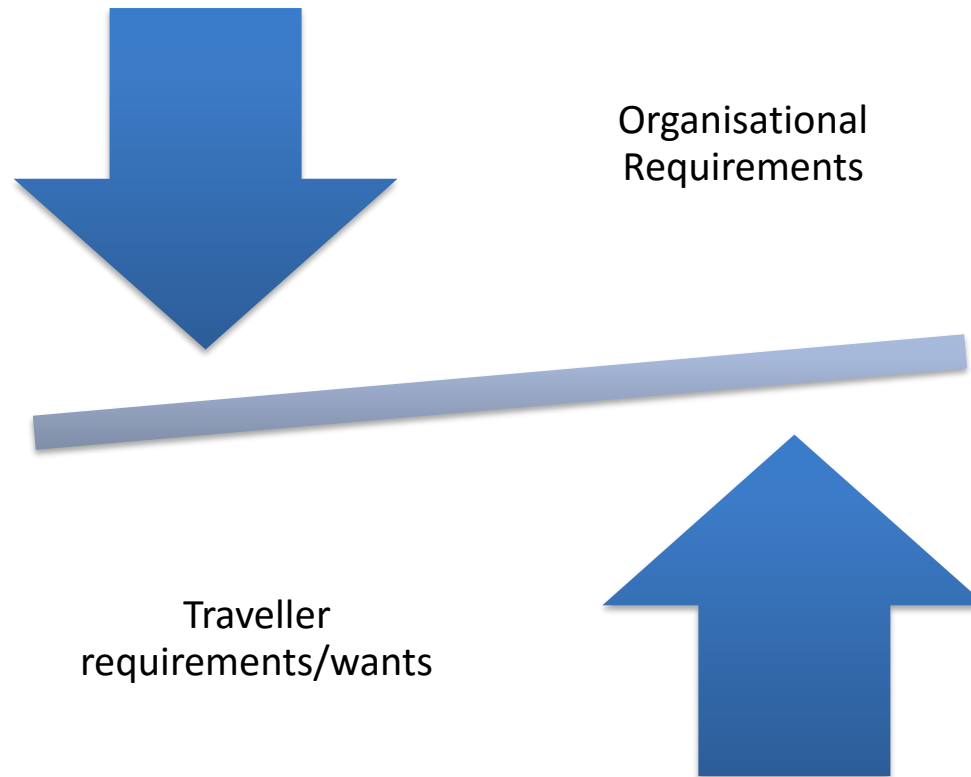
- Loyalty is lasting preference for a particular brand, one that means the customer will choose that brand in many, most or all of the purchase incidents.
- REMEMBER – WHO IS THE CUSTOMER? ARE THEY LOYAL?
- Loyalty is not delivered by a frequent flier programme
  - Although an FFP may be one way to build and retain loyalty
  - 64% of FFP members likely to retain main airline supplier, but only 48% satisfied with value of rewards (IBM, 2008)
  - Loyalty is a function of satisfaction with repeat purchases and emotional association with the brand.
  - Each service delivery customer touch-points (chances to thrill or delight) are all opportunities when loyalty may be enhanced or hindered.
  - Service recovery if handled well can also enhance loyalty

# Brand Evolution

- Brand recognition and awareness – familiarity
  - “I know your product”
- Brand acceptance – seeing products in a positive light
  - “I like your product, I’d use it”
- Brand preference – one brand is more desired
  - “I prefer your product over the others I have used”
- Brand loyalty – regular purchase
  - “I always buy your product”



# Passenger loyalty and company loyalty may not be aligned



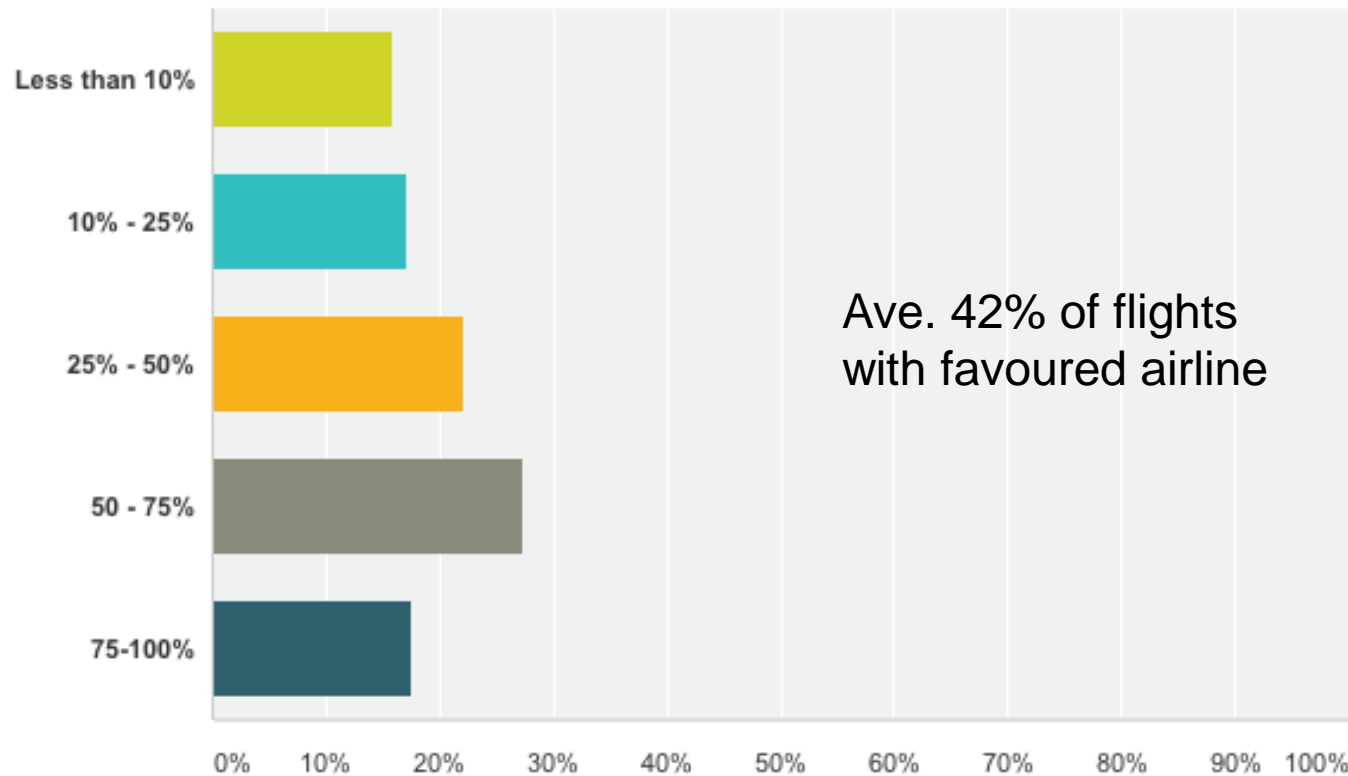
# What are the advantages of loyalty?

- The cost of retaining a current customer is significantly lower than the cost of attracting a new customer
- The greater a company can lock in a customer the higher the lifetime value of that customer and also the potential for higher yields per purchase.
- Loyal customers become advocates for the company

# Favoured airlines win bigger “share of wallet” from loyal customers

What proportion of the flights that you take, are taken with your favourite airline?

Answered: 227 Skipped: 55



# Some customer pros and cons

- If company's preferred carrier is with biggest local supplier, travellers can maximise their benefits
- Upgrades and preferential status when things change or go wrong
- It's my local carrier so I'd use it anyway
- Unavailability of reward seats when required
- Increasingly airlines require real money *with* miles to access reward seats

# Loyalty programmes

- 1981 – AAdvantage programme introduced
- 250m US residents are members of airline rewards programmes (2007)
- In the UK, supermarket loyalty programmes are biggest
  - Why shop at a particular store (local, easy to get to, lack of option)?
  - Customer unlikely to become more loyal
  - Why then have a loyalty programme?
- Ability to derive understanding about customer behaviour through loyalty programme, influence behaviour and also make third party deals

New Yorker, 22.2.2016

# Extra flights and higher prices to maintain status.

<http://www.newyorker.com/business/currency/the-madness-of-airline-elite-status>

*Cranfield*  
UNIVERSITY

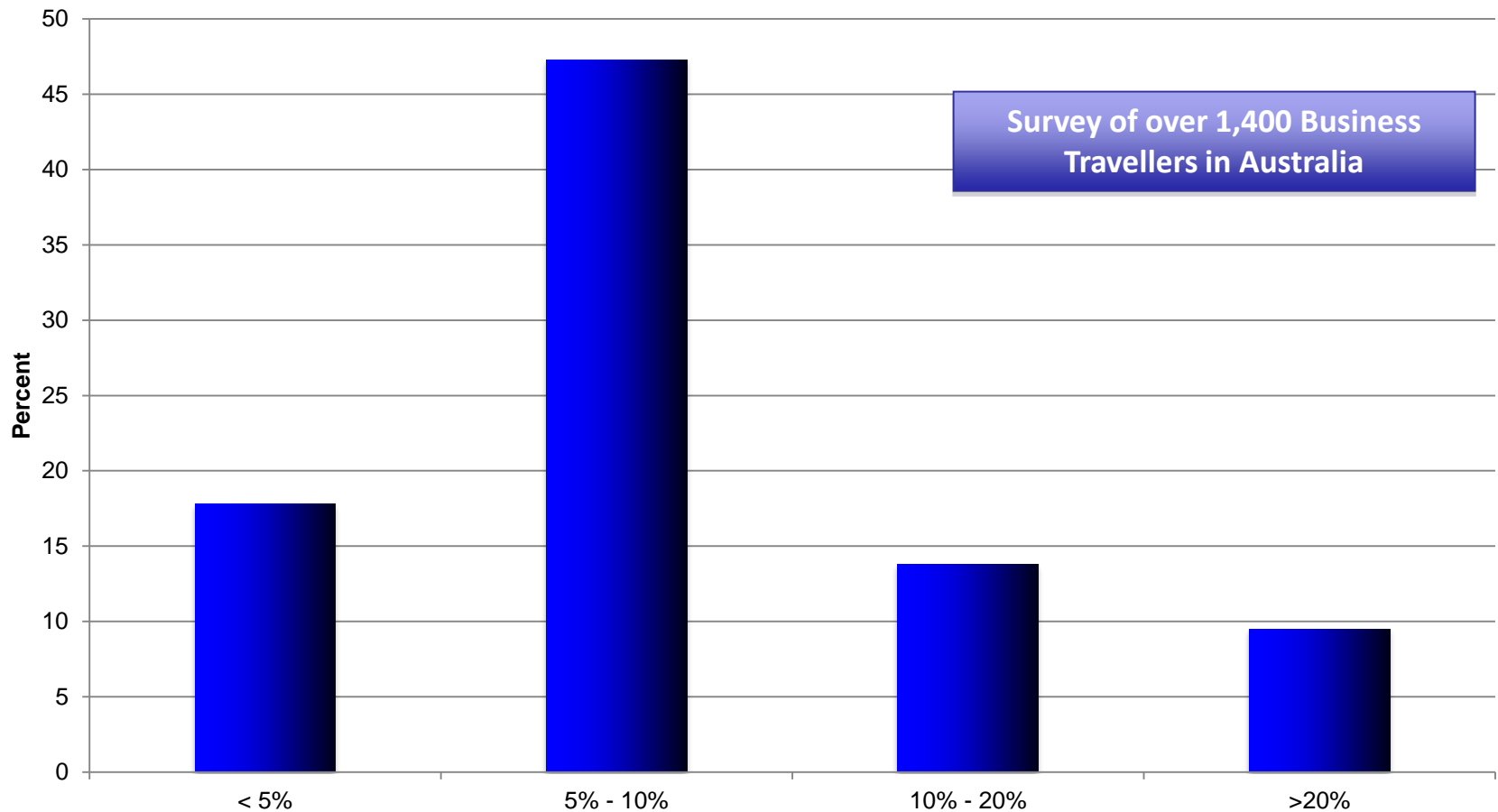
Curbside Bag Check-in

Curbside Bag Check-in



# Effect of FFP

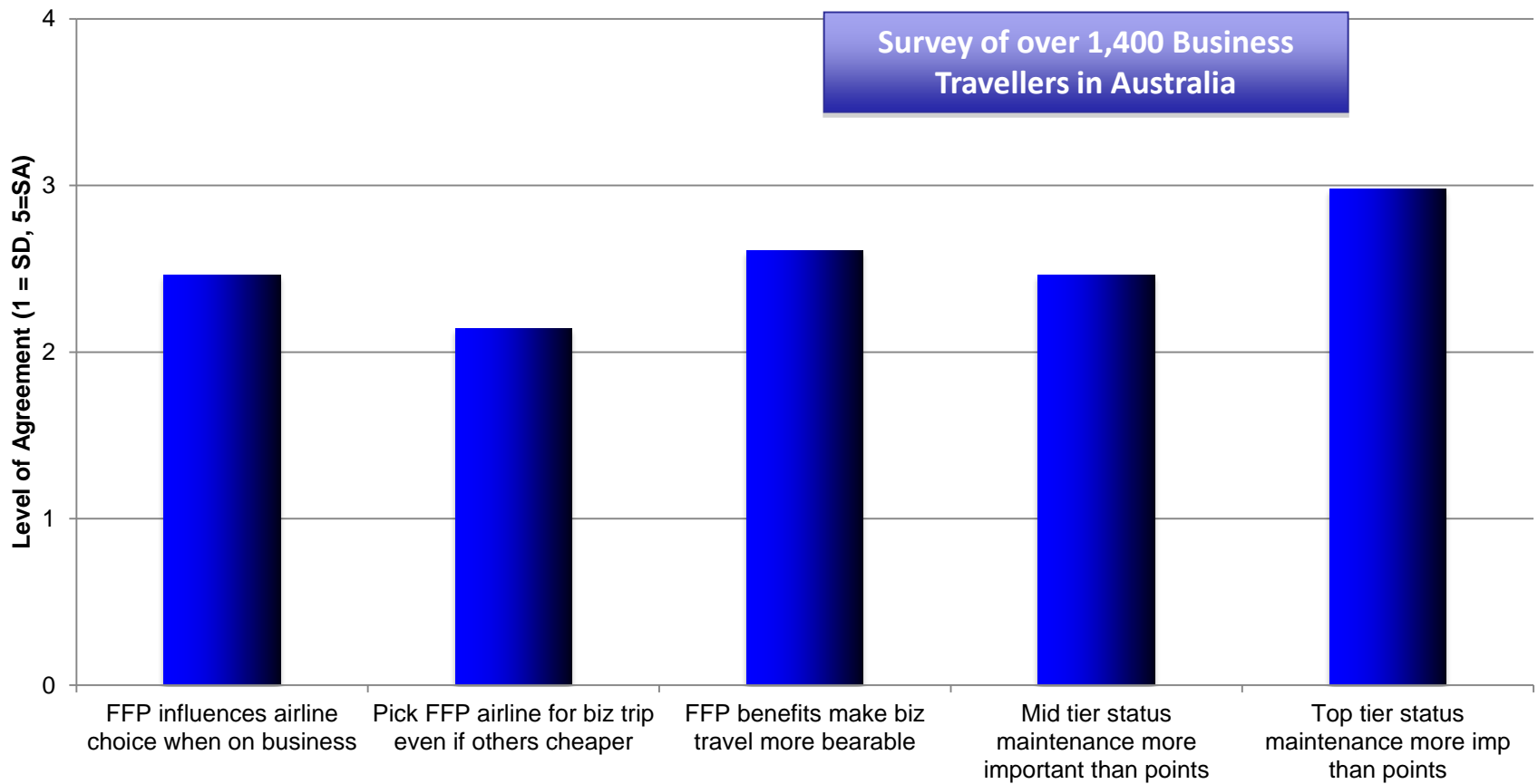
## Premium paid to use FFP carrier for business flight



Source: McCaughey, 2010

# Effect of FFP

## Influence of FFP on business travellers

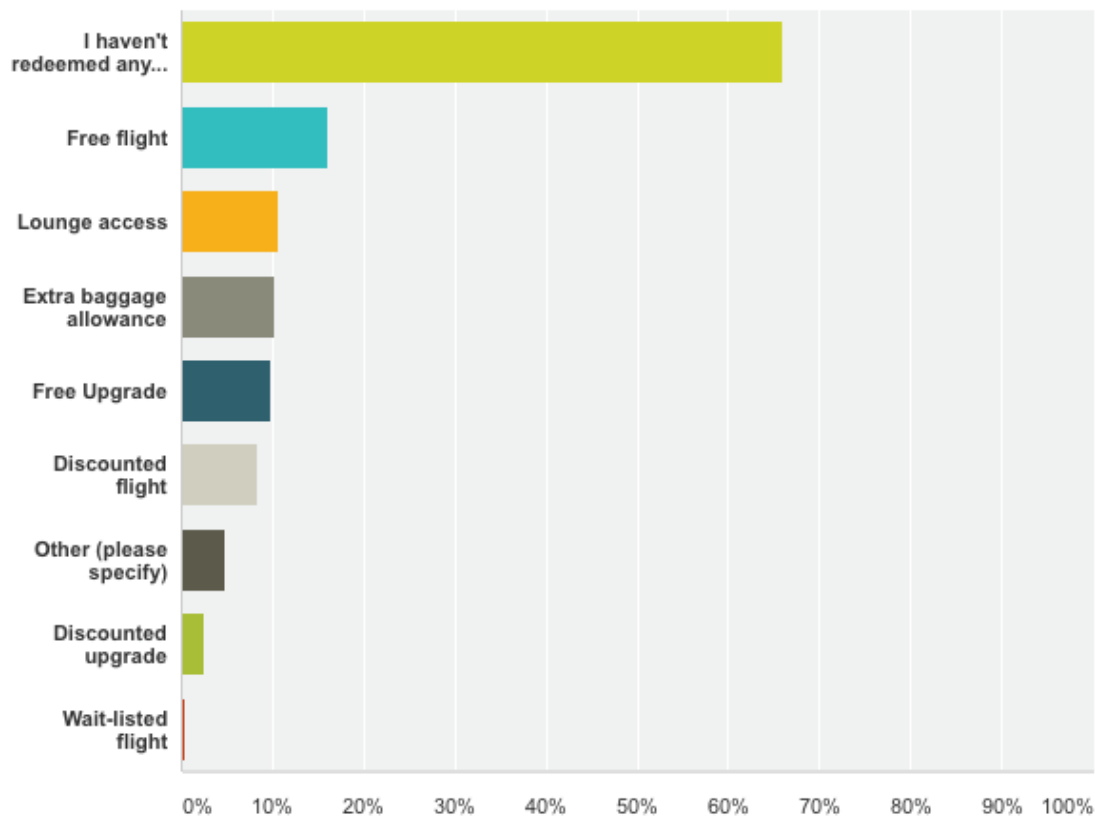




# Average number of FFP cards = 1.62

## In the past year, what rewards or benefits did you redeem/gain from your loyalty programme membership?

Answered: 206 Skipped: 77

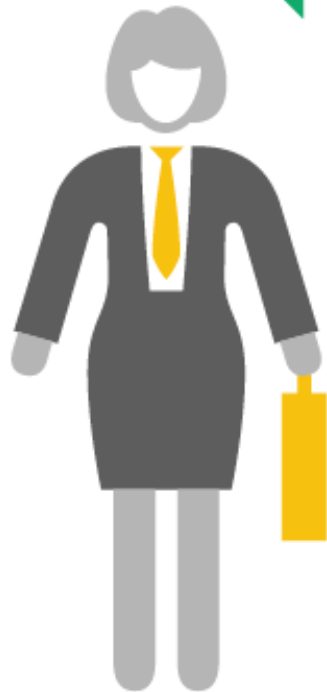


# Waning interest in FFPs

Google Research, 2014

See also "Turbulence Ahead", Airline Business, March 2016

I am less likely to plan business travel based on loyalty programs or points in [current year] than I was in [prior year]



2014 (C)



41%

2013



38%

2012



36%

2 in 3 business travelers (67%) are open to trying new loyalty programs if they provide a new, different, or unique experience

# Evidence of transactional nature of 'Loyalty' programmes

Travelers would switch to programs with **better perks** and easier path to rewards



Personal travelers



Business travelers



Affluent travelers

## Reasons for switching to a different loyalty/rewards program

88%	93%	92%	Would switch for any reason (net)
54%	55%	65%	<b>Better perks</b>
52%	54%	65%	<b>Faster/easier to earn free flights, hotels rooms, rental cars, etc.</b>
31%	40%	33%	Exclusive benefits
27%	34%	36%	Larger network/multiple routes or locations
26%	34%	34%	Ability to leverage points with other specific companies/partner hotels
13%	21%	10%	Personalized recommendations either pre-trip or during trip
4%	4%	3%	Other

# Why have a loyalty programme?

- To reward our best customers
  - (possibly)
- To spur interest in our products by occasional purchasers
- To win market share from competitors
  - (why do foreign airlines offer higher mileage rewards than local ones?)
- To learn more about your customers and drive incremental business
  - Although customers may dislike bids by airlines to drive incremental business to retain reward programme status
- Leverage the database opportunities
- Sell rewards to third party partners to use as rewards in their schemes – network leverage

# Three strategic positions for loyalty programmes

## 1. Product focused

- To be best product in given niche and maximise customer experiences
- To drive deep connection with customer
- Loyalty is a cash centre

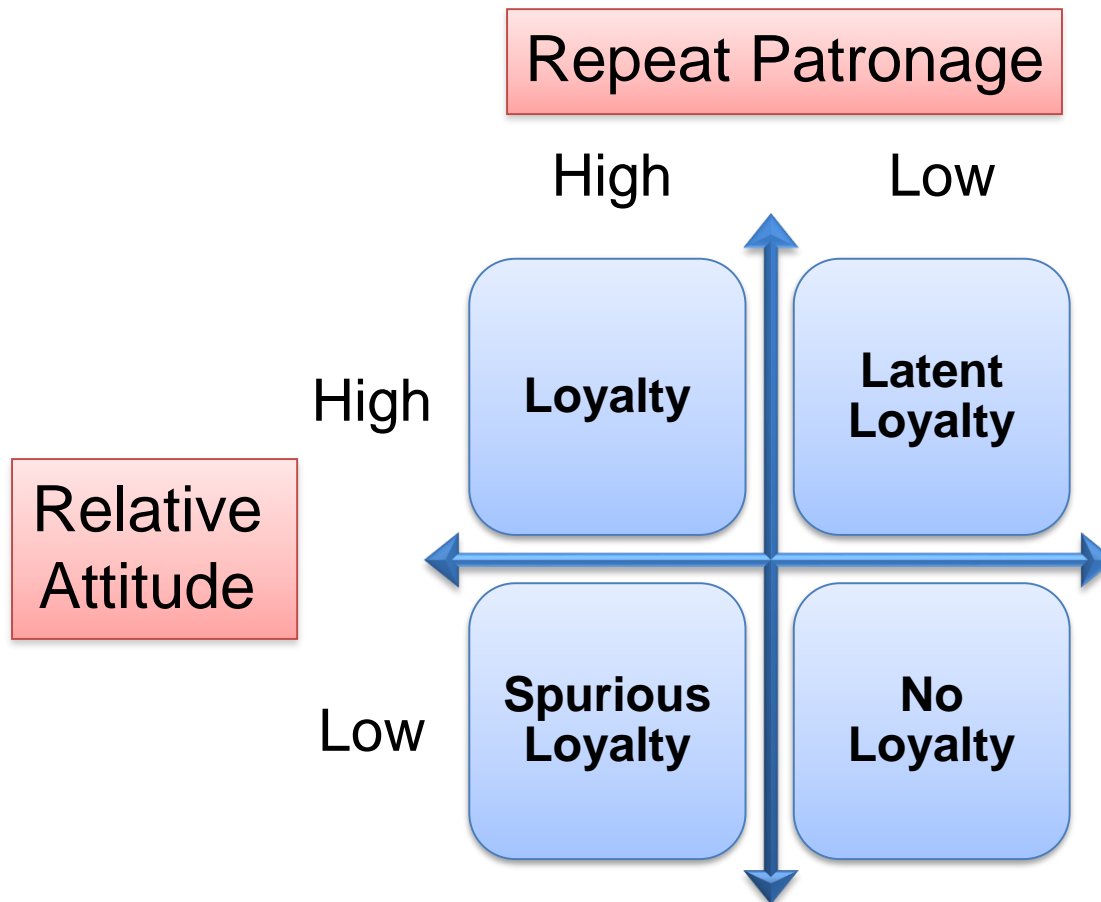
## 2. Partner coalition

- Links multiple loyalty programmes with obvious connection (e.g. travel)
- Multiple strategic partners focus on producing a common customer experience
- Optimise the value of “end to end” experience
- Customers build rewards within the strategic partners’ programmes
- Loyalty is a breakeven/cash flow positive proposition

# Three strategic positions for loyalty programmes

3. Comprehensive rewards platform
  - Integrates many disparate providers (usually in common region)
    - Reduces confusion caused by too many loyalty programmes
    - E.g. Nectar, Asia Miles
  - Airline can sell mile rewards to other partners which, in turn, offer their loyal customers with airline rewards
  - Network leverage effect
  - Loyalty is a cash engine, but it may be less to do with actually understanding customers and building “real” loyalty to your product.

# Loyalty and patronage – not the same thing



Source: Dick and Basu, 1994

# Loyalty Segmentation

## Airline Repeat Patronage Measurement

$\sum \geq 3 = \text{High}$   
 $\sum < 3 = \text{Low}$

With the network/low-cost carrier you fly most in mind, how many return flights did you take in the past 12 months (with that carrier)?

- |                  |                                 |                                   |                                   |                                    |                                     |                                |
|------------------|---------------------------------|-----------------------------------|-----------------------------------|------------------------------------|-------------------------------------|--------------------------------|
| Business reasons | <input type="checkbox"/> 0 None | <input type="checkbox"/> 1 1 to 3 | <input type="checkbox"/> 2 4 to 8 | <input type="checkbox"/> 3 9 to 14 | <input type="checkbox"/> 4 15 to 19 | <input type="checkbox"/> 5 20+ |
| Leisure reasons  | <input type="checkbox"/> 0 None | <input type="checkbox"/> 1 1 to 3 | <input type="checkbox"/> 2 4 to 8 | <input type="checkbox"/> 3 9 to 14 | <input type="checkbox"/> 4 15 to 19 | <input type="checkbox"/> 5 20+ |

## Airline Relative Attitude Measurement

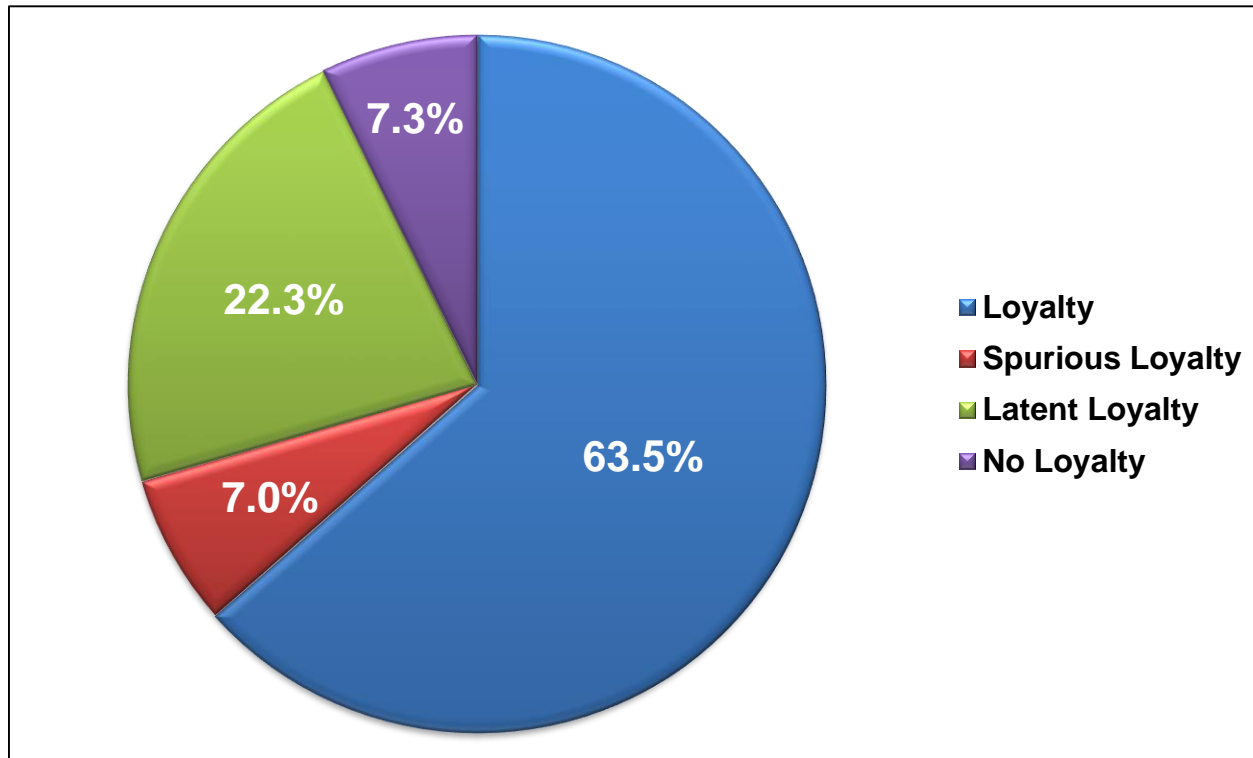
Code  $\geq 4 = \text{High}$   
 Code  $< 4 = \text{Low}$

How satisfied are you in terms of the overall experience of flying with this network/low-cost carrier?

- |   |                                      |  |  |  |
|---|--------------------------------------|--|--|--|
| <input type="checkbox"/> 5 Very satisfied | <input type="checkbox"/> 4 Satisfied | <input type="checkbox"/> 3 Indifferent | <input type="checkbox"/> 2 Slightly disappointed | <input type="checkbox"/> 1 Very disappointed |
|---|--------------------------------------|--|--|--|

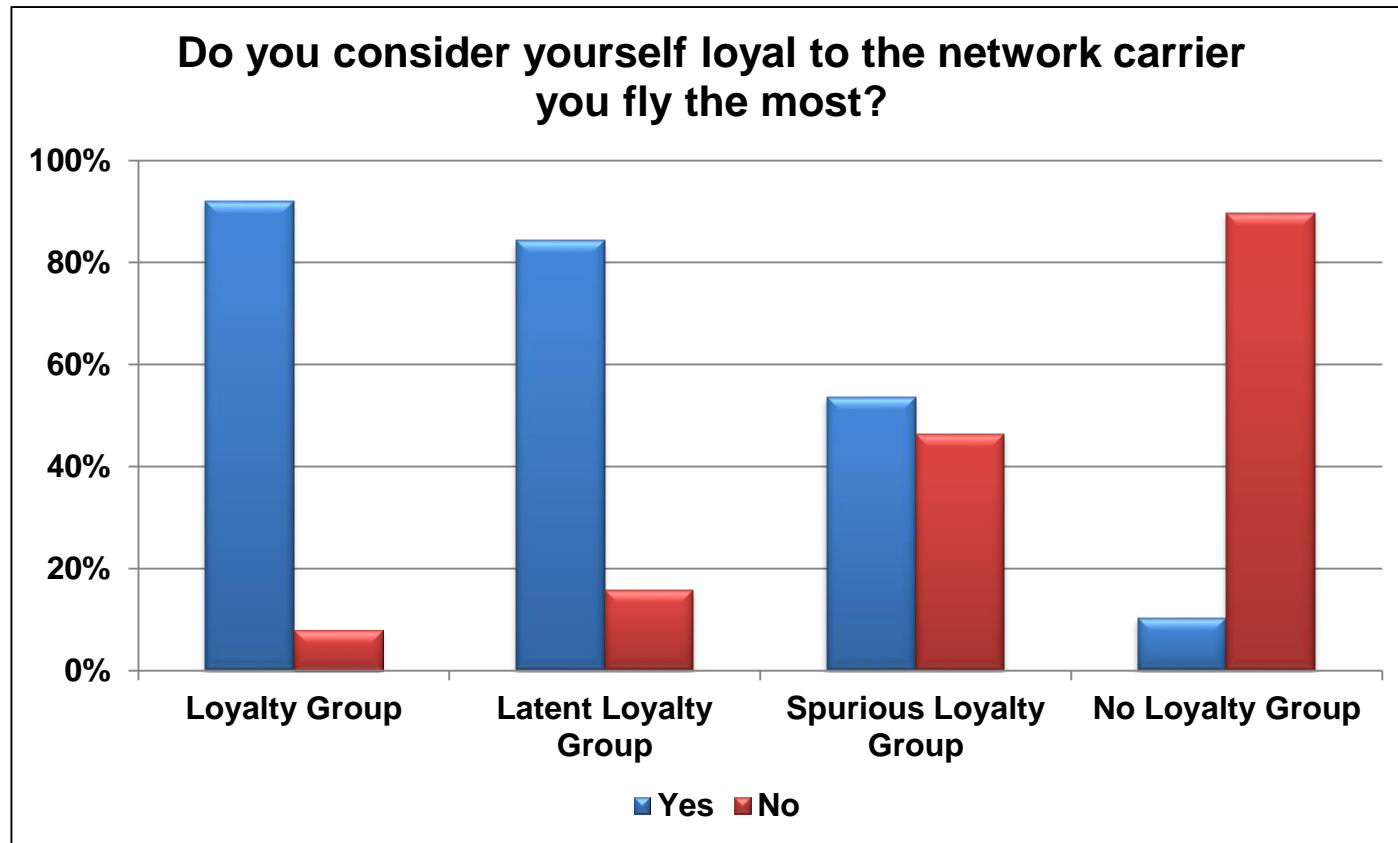


# Network Carriers Loyalty segmentation

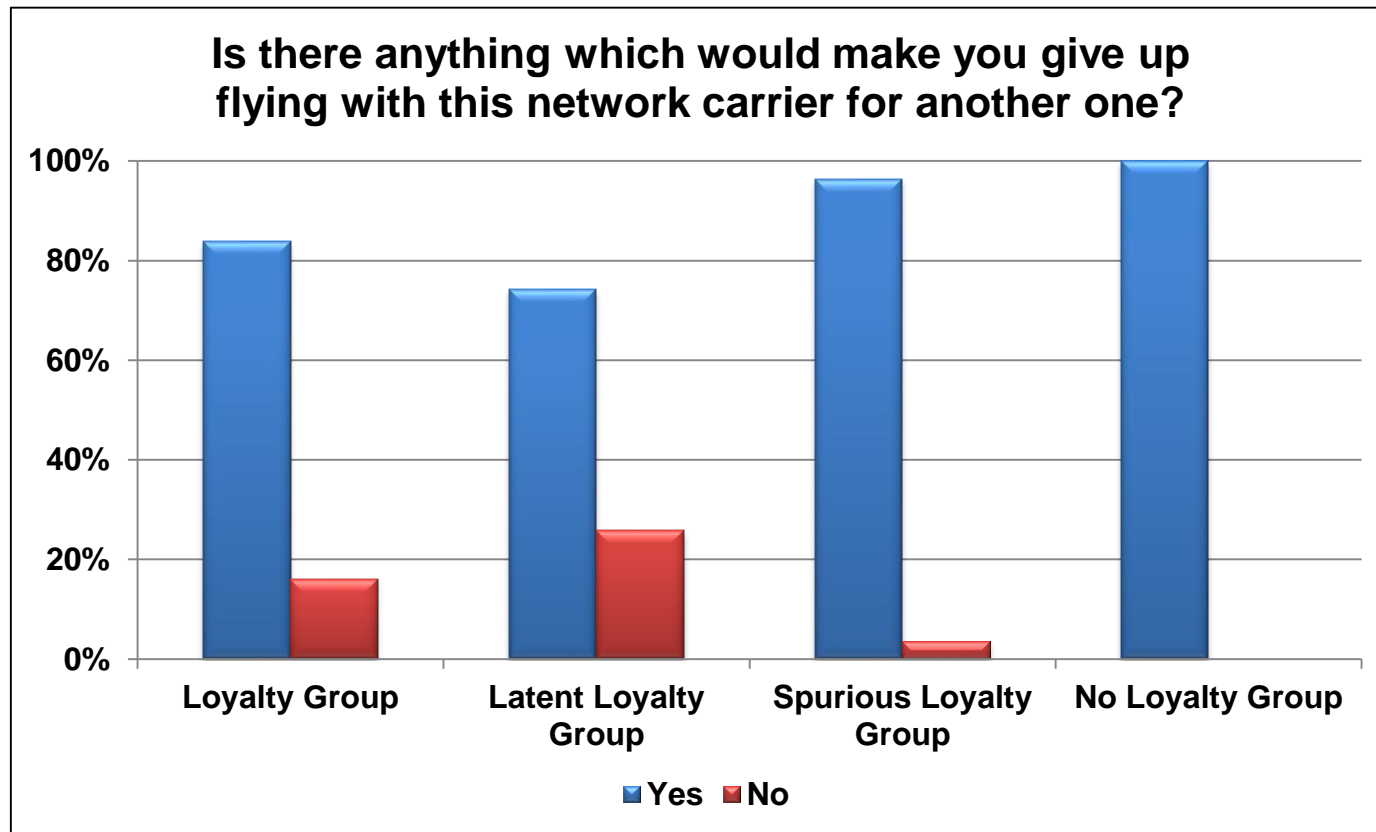


Total of 400 respondents,  
(Chacon and Mason, 2009)

# Loyalty to Network Carriers



# Loyalty to Network Carriers



# Key purchase variables - Network Carriers

Loyalty	Latent Loyalty	Spurious Loyalty	No Loyalty
<b>1<sup>st</sup> FFP</b>	<b>1<sup>st</sup> Service</b>	<b>1<sup>st</sup> Range of Destinations</b>	<b>1<sup>st</sup> Range of Destinations</b>
<b>2<sup>nd</sup> Range of Destinations</b>	<b>2<sup>nd</sup> Schedule</b>	<b>2<sup>nd</sup> FFP</b>	<b>2<sup>nd</sup> Schedule</b>
<b>3<sup>rd</sup> Service</b>	<b>3<sup>rd</sup> Add ons</b>	<b>3<sup>rd</sup> Schedule</b>	<b>3<sup>rd</sup> Price</b>

# Main Findings – Network Carriers

## Gender

Group	Male	Female
Loyalty	62.9%	71.0%
Latent Loyalty	22.0%	25.8%
Spurious Loyalty	7.6%	0.0%
No Loyalty	7.6%	3.2%
Total	100.0%	100.0%

## Age

Group	Younger	Older
Loyalty	62.1%	64.6%
Latent Loyalty	24.3%	20.6%
Spurious Loyalty	6.8%	7.2%
No Loyalty	6.8%	7.6%
Total	100.0%	100.0%

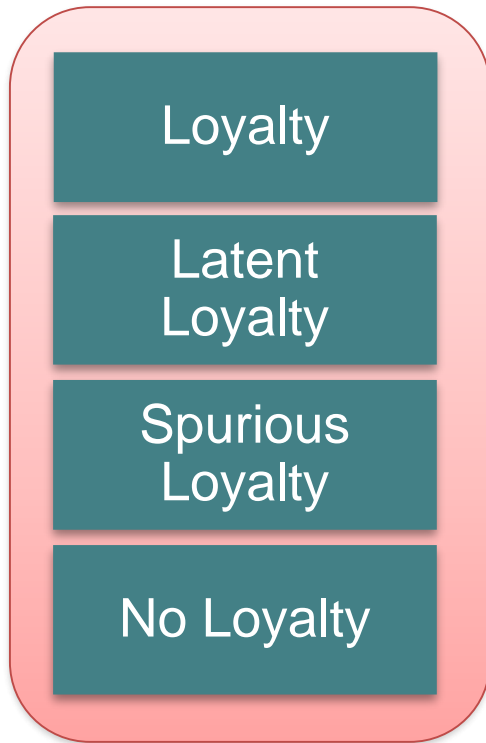
## Income

Group	Lower Income	Higher Income
Loyalty	50.8%	73.0%
Latent Loyalty	37.7%	14.8%
Spurious Loyalty	3.3%	8.0%
No Loyalty	8.2%	4.2%
Total	100.0%	100.0%

## Trip Purpose

Group	Business	Leisure
Loyalty	77.4%	42.9%
Latent Loyalty	9.2%	41.6%
Spurious Loyalty	8.4%	5.0%
No Loyalty	5.0%	10.6%
Total	100.0%	100.0%

# Main Findings – Network Carriers



Gender

**Rejected**

Age

**Rejected**

Income

**Accepted**

Trip Purpose

**Accepted**

# Conditional loyalty to Network Carriers

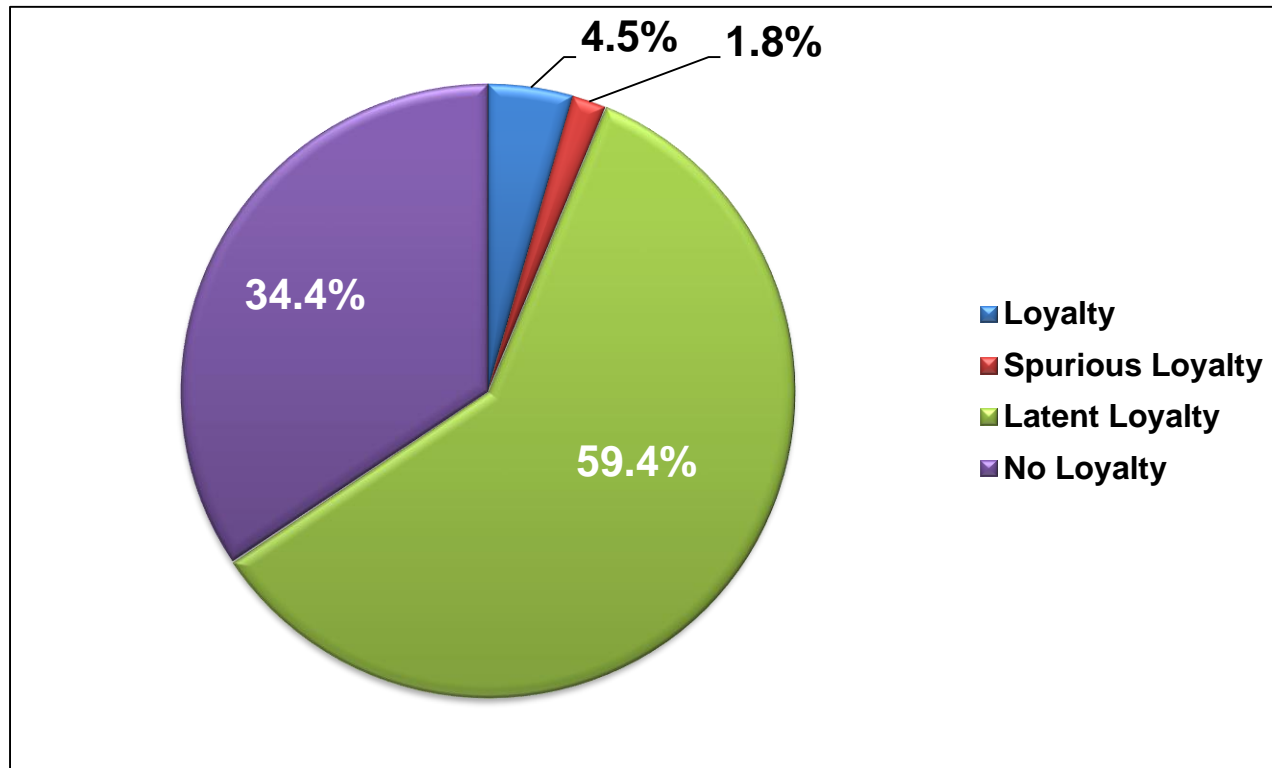
Dick and Basu's (1994) loyalty model can be applied to PAX from network carriers

However, there are conditions which must be met to sustain airline passengers' loyalty



**Conditional Loyalty**

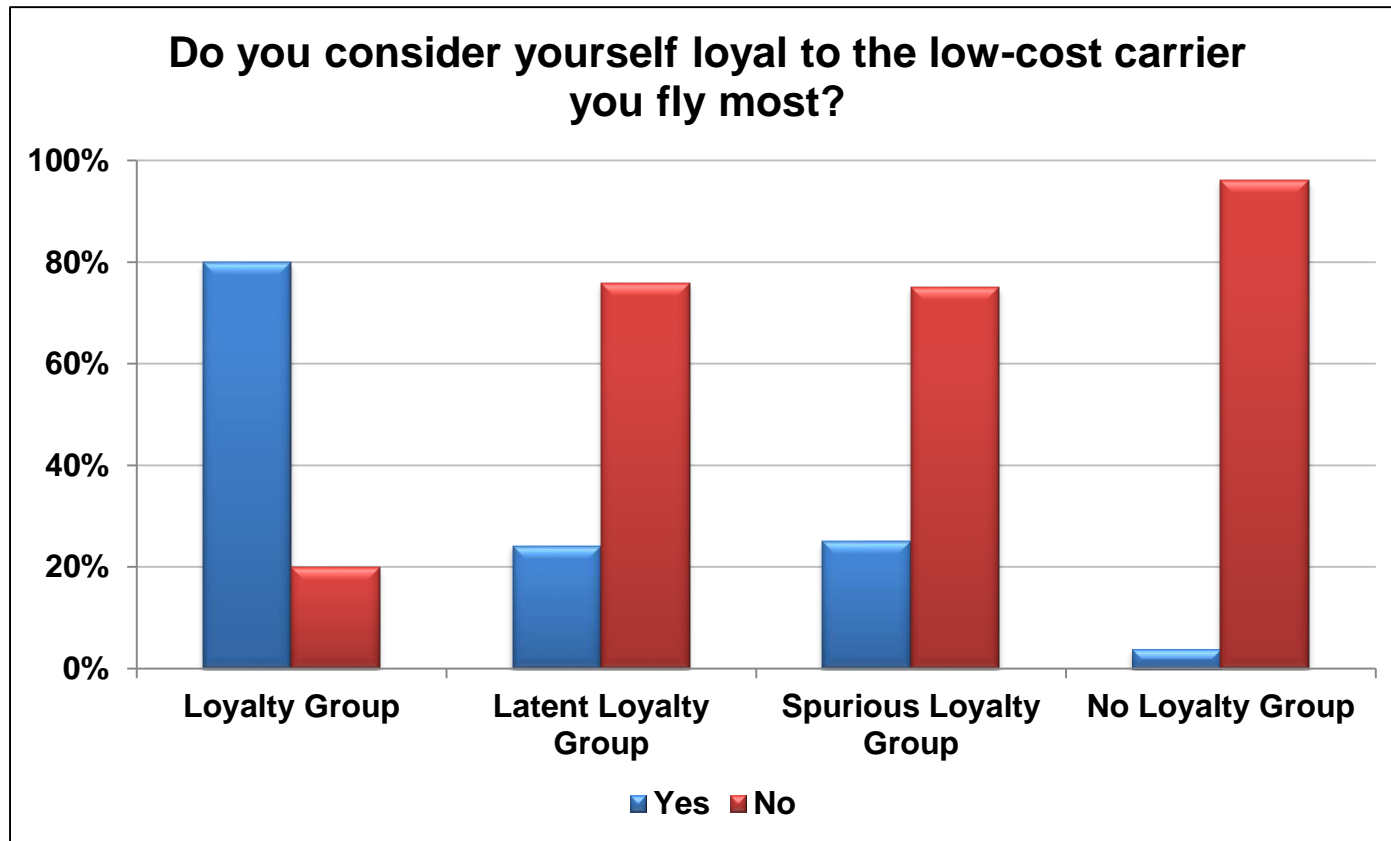
# Low-Cost Carriers



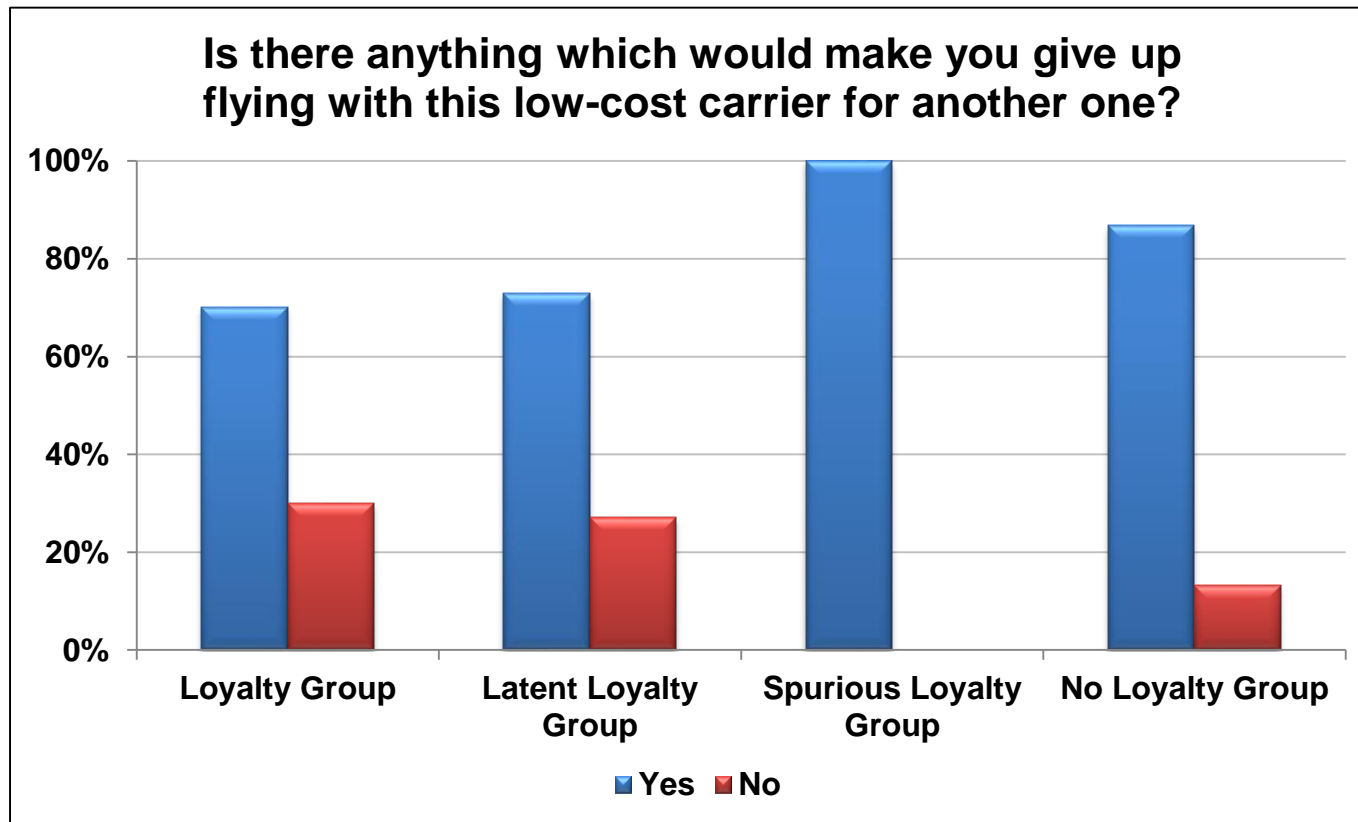
Total of 224 respondents



# Loyalty to Low-Cost Carriers



# Loyalty to Low-Cost Carriers



# Low-Cost Carriers – Purchase variables

Loyalty	Latent Loyalty	Spurious Loyalty	No Loyalty
1 <sup>st</sup> Flexibility	1 <sup>st</sup> Price	1 <sup>st</sup> Price	1 <sup>st</sup> Price
2 <sup>nd</sup> Punctuality	2 <sup>nd</sup> Schedule	2 <sup>nd</sup> Schedule	2 <sup>nd</sup> Schedule
3 <sup>rd</sup> Schedule	3 <sup>rd</sup> Airport Location	3 <sup>rd</sup> Airport Location	3 <sup>rd</sup> Airport Location

# Main Findings – Low-Cost Carriers

## Gender

Group	Male	Female
Loyalty	4.7%	0.0%
Latent Loyalty	58.7%	72.7%
Spurious Loyalty	1.9%	0.0%
No Loyalty	34.7%	27.3%
Total	100.0%	100.0%

## Age

Group	Younger	Older
Loyalty	2.8%	6.0%
Latent Loyalty	71.0%	48.7%
Spurious Loyalty	0.9%	2.6%
No Loyalty	25.2%	42.7%
Total	100.0%	100.0%

## Income

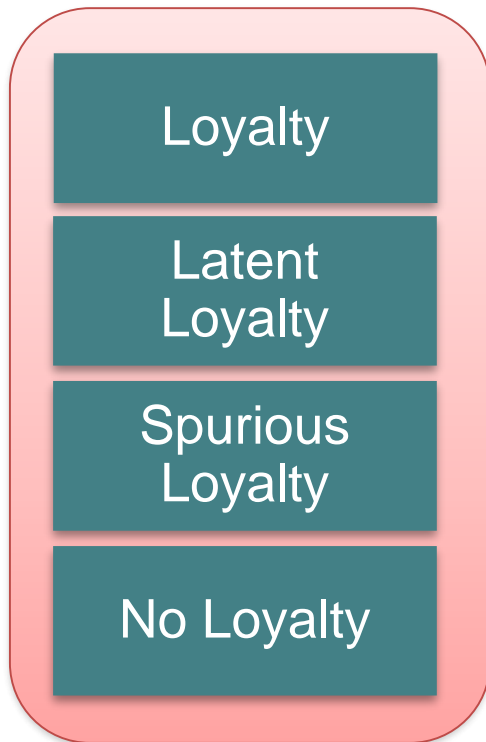
Group	Lower Income	Higher Income
Loyalty	2.9%	5.4%
Latent Loyalty	74.3%	53.5%
Spurious Loyalty	2.9%	0.8%
No Loyalty	20.0%	40.3%
Total	100.0%	100.0%

## Trip Purpose

Group	Business	Leisure
Loyalty	7.2%	2.8%
Latent Loyalty	60.2%	58.9%
Spurious Loyalty	2.4%	1.4%
No Loyalty	30.1%	36.9%
Total	100.0%	100.0%

# Main Findings – Low-Cost Carriers

## Relationships



Gender **Rejected**

Age **Accepted**

Income **Rejected**

Trip Purpose **Rejected**

# Low-Cost Carriers – limited loyalty

## Segmentation

Dick and Basu's (1994) loyalty model cannot be applied to PAX from low-cost carriers

It can be suggested that the simplicity of the low-cost product gives little chance for this type of airline to develop any form of customer loyalty

# Recommendations for Airlines

## Network Carriers

**Improve customer relationships through enhancement of FFPs**

**Develop strategies to increase repeat patronage of passengers with high relative attitude (“Latent Loyalty Group”)**

## Low-Cost Carriers

**Increase marketing efforts within the catchment area of base airports**

Thank you

TURKISH AIRLINES  
Miles & Smiles

[Terms and Conditions](#) • [Turkish](#)

# You May Be The Greatest Traveller

25 Million Miles In Total Will Be Given Away!  
1 Million Miles For The Greatest Traveller!



[JOIN NOW!](#)

