Airline Loyalty

Dr Keith Mason FRAeS

Istanbul Technical University

Air Transportation Management, M.Sc. Program

Airline Marketing

Module 17

31st January 2014

Customer loyalty

Dr Keith Mason

K.Mason@cranfield.ac.uk

- “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?

What is loyalty?

- 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.
- 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”

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

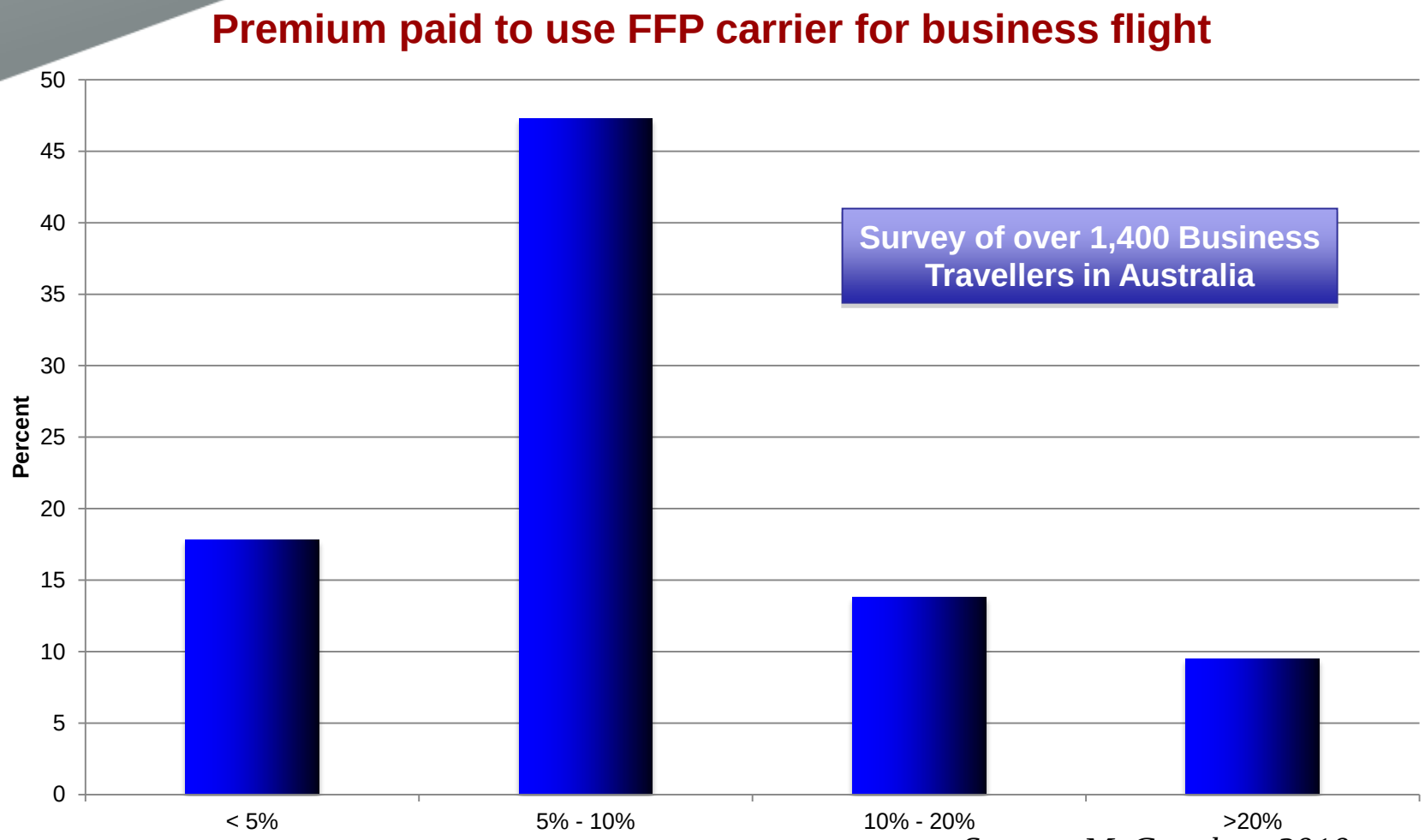
Some customer pros and cons

- 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

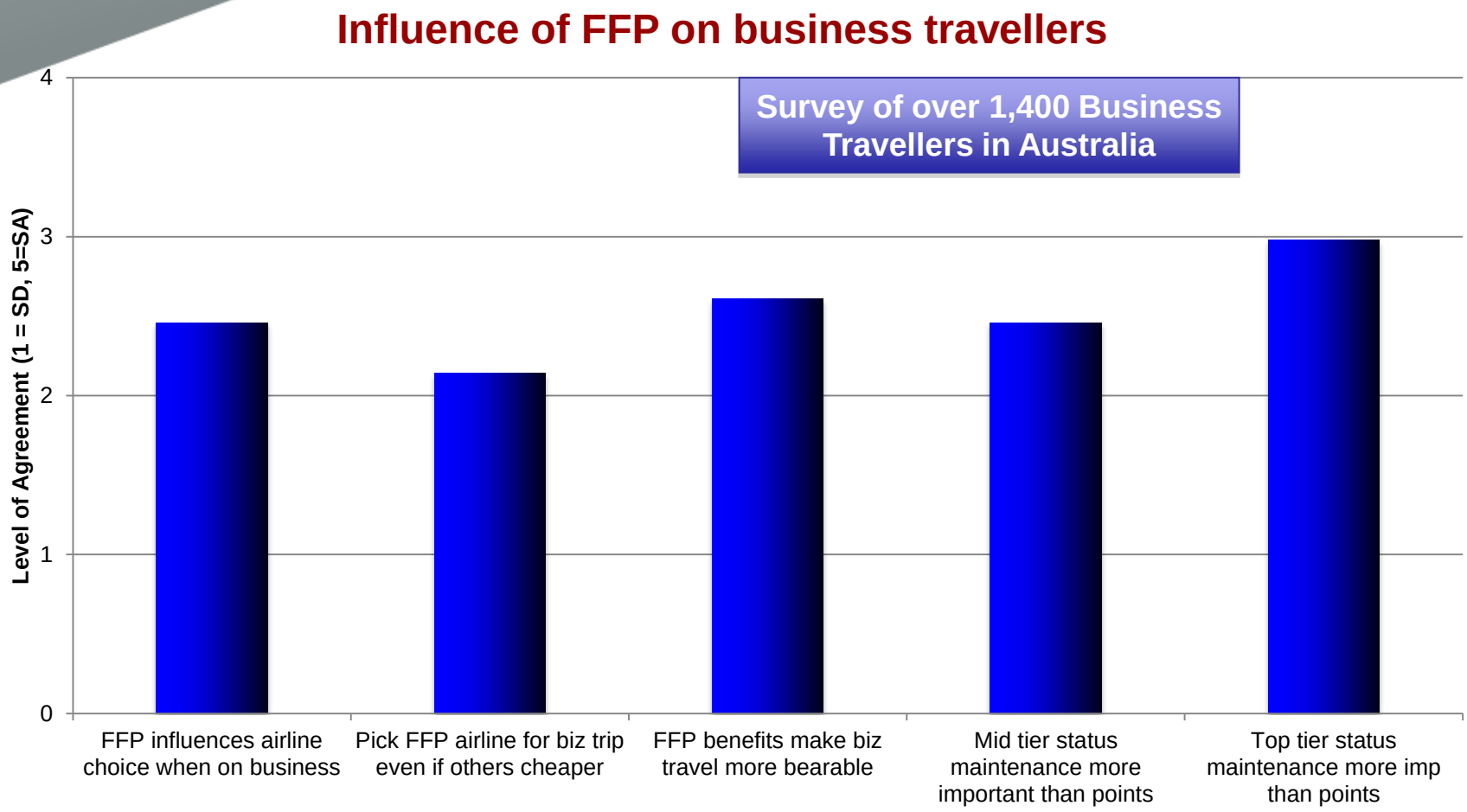
- 1981 – AAdvantage programme introduced
- 250m US residents are members of airline rewards programmes (2007)
- In the UK, supermarket loyalty programmes are biggest
  - Why shop at a particular store (local, easy to get to, lack of option)?
  - Customer unlikely to become more loyal
  - Why then have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

Effect of FFP



Source: McCaughey, 2010

Effect of FFP



Source: McCaughey, 2010

Why have a loyalty programme?

Cranfield UNIVERSITY

- 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

Cranfield UNIVERSITY

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

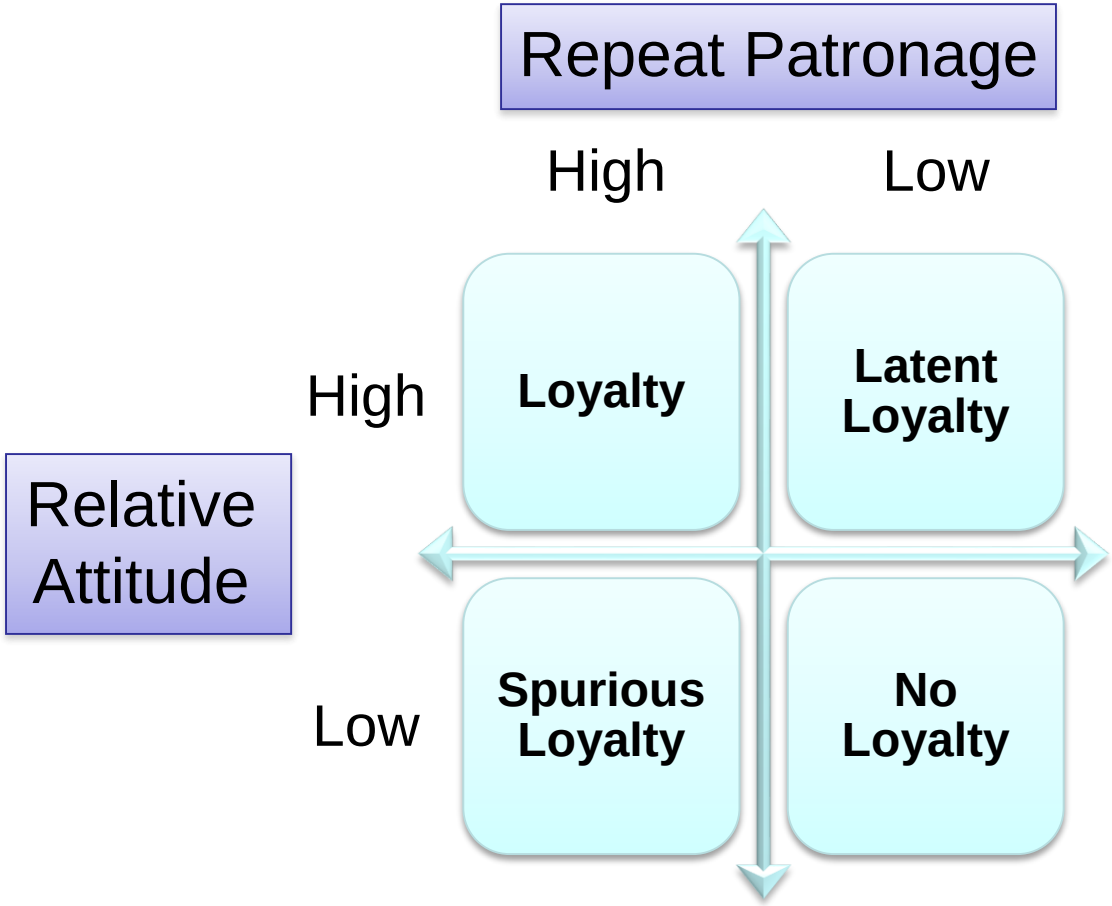
Goehring and Boyce, 2009

Three strategic positions for loyalty programmes

Cranfield UNIVERSITY

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

Cranfield UNIVERSITY

Airline Repeat Patronage Measurement

$\sum \geq 3$ = High
$\sum < 3$ = 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	☐ 0 None	☐ 1 1 to 3	☐ 2 4 to 8	☐ 3 9 to 14	☐ 4 15 to 19	☐ 5 20+
Leisure reasons	☐ 0 None	☐ 1 1 to 3	☐ 2 4 to 8	☐ 3 9 to 14	☐ 4 15 to 19	☐ 5 20+

Airline Relative Attitude Measurement

Code ≥ 4 = High
Code < 4 = Low

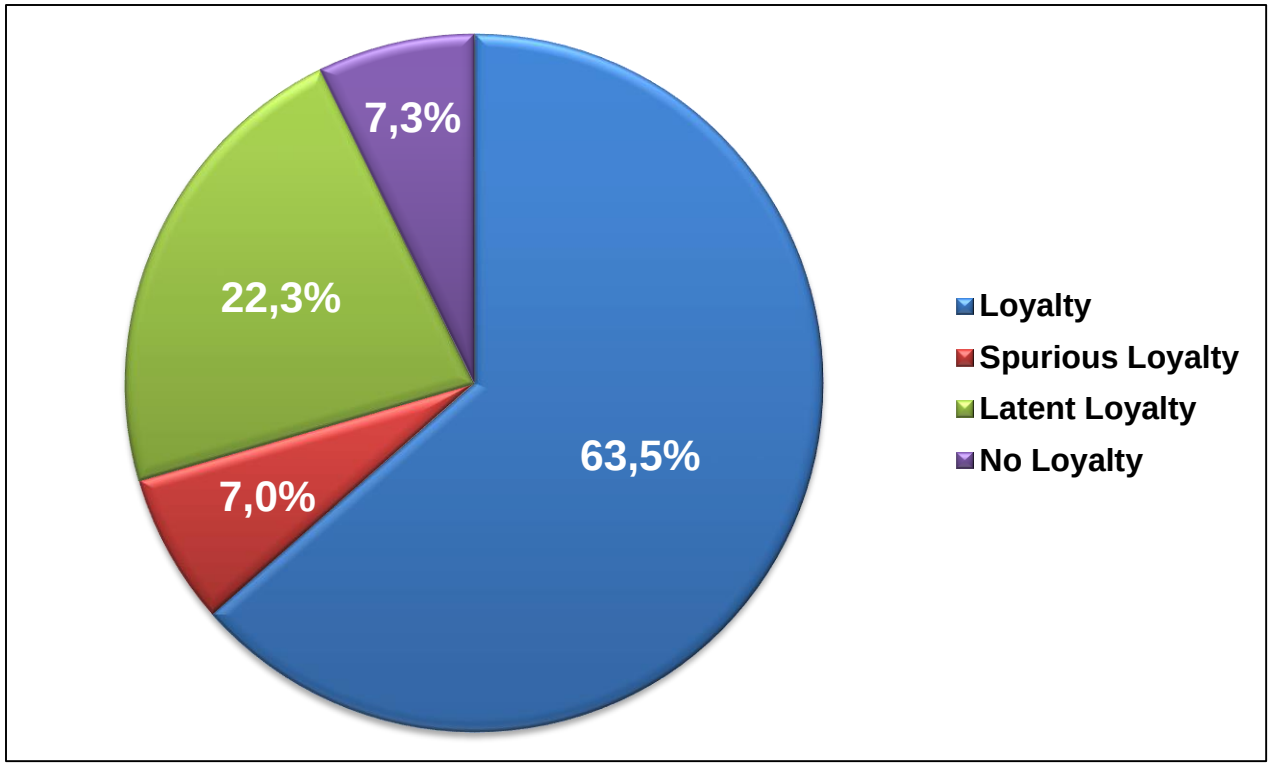
How satisfied are you in terms of the overall experience of flying with this network/low-cost carrier?

☐ 5 Very satisfied	☐ 4 Satisfied	☐ 3 Indifferent	☐ 2 Slightly disappointed	☐ 1 Very disappointed

Network Carriers Loyalty segmentation

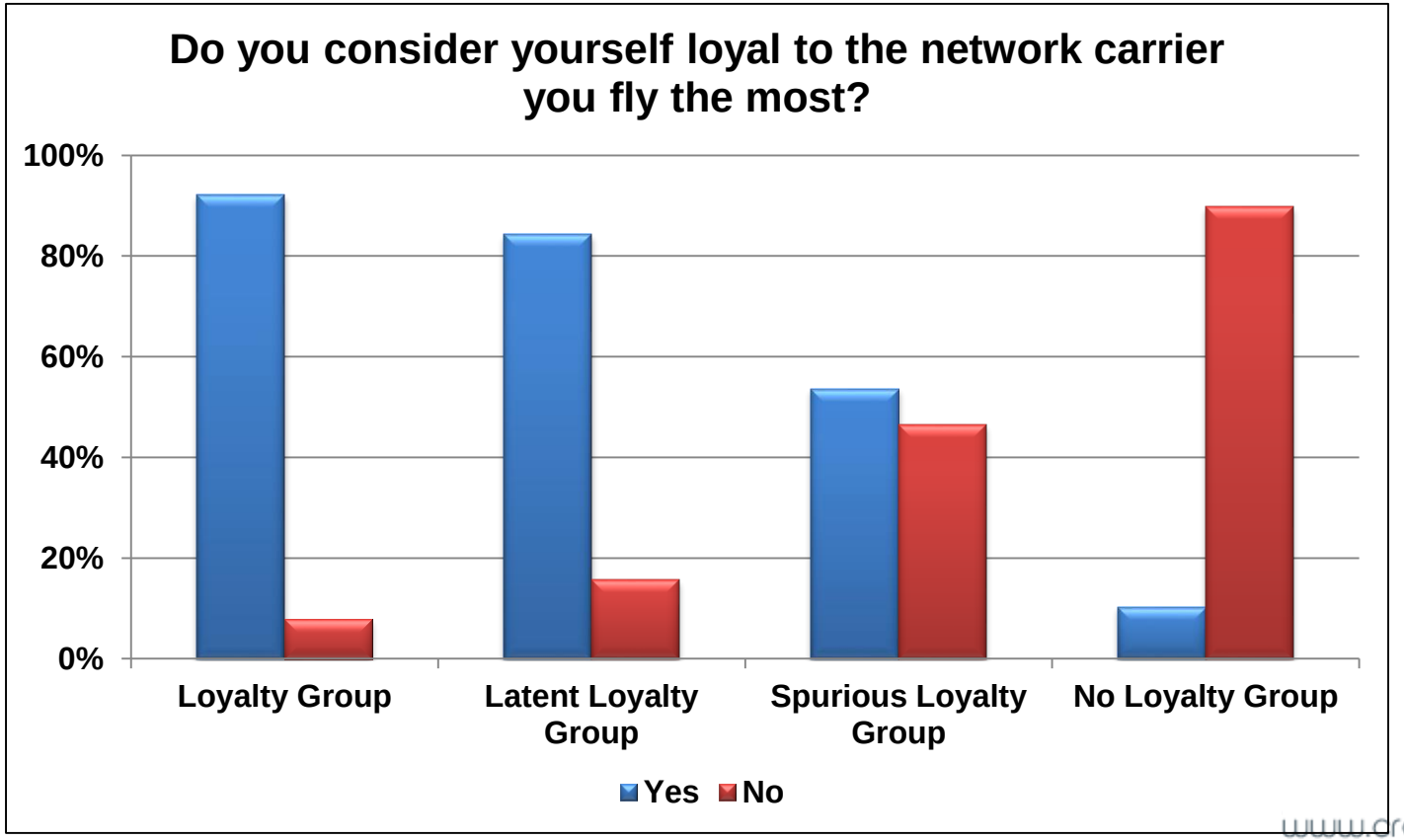
Objective 1

Segmentation

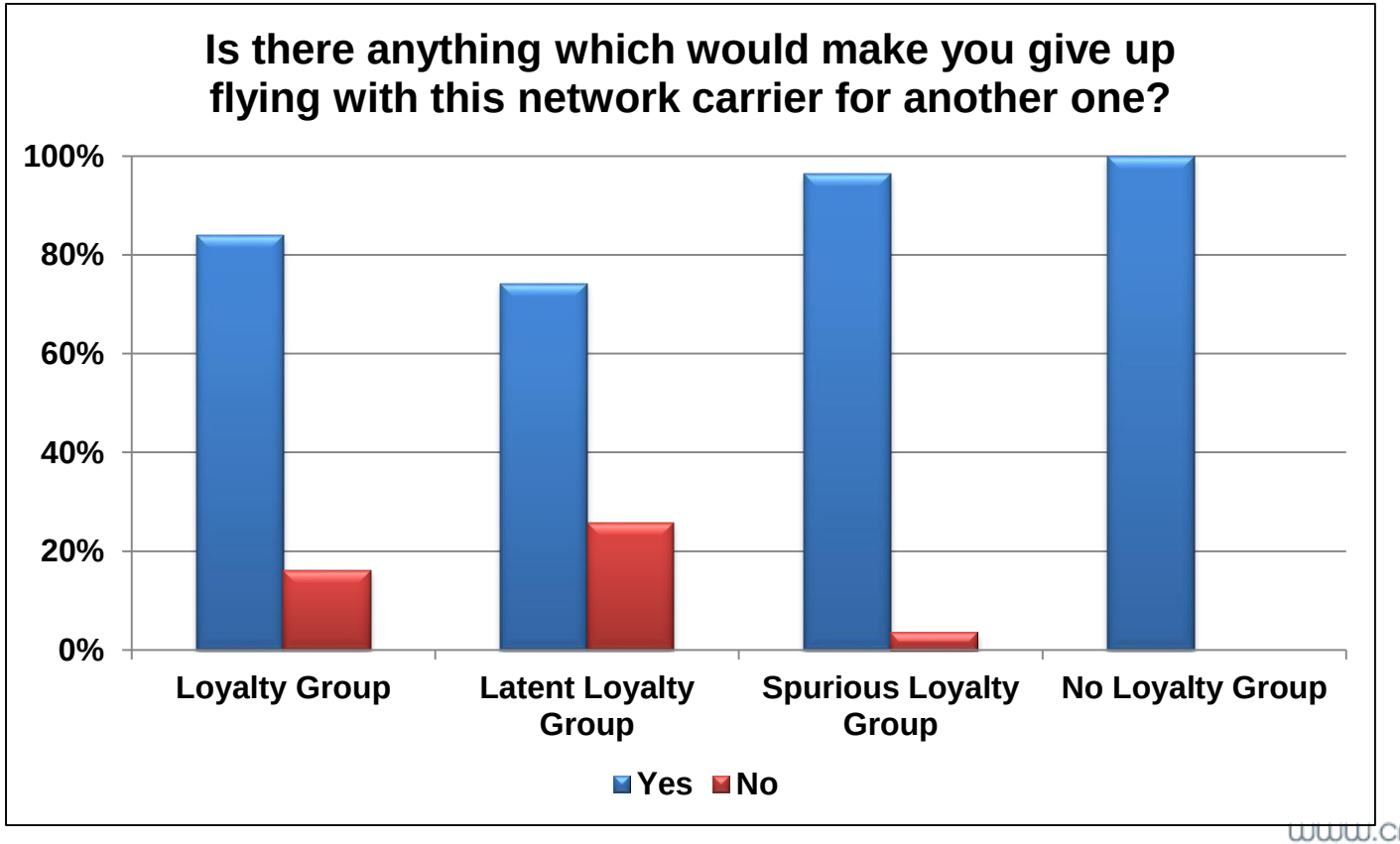


Total of 400 respondents,
(Chacon and Mason, 2009)

Loyalty to Network Carriers



Loyalty to Network Carriers



Conditional loyalty to Network Carriers

Cranfield UNIVERSITY

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

Key purchase variables - Network Carriers

Cranfield UNIVERSITY

Loyalty	Latent Loyalty	Spurious Loyalty	No Loyalty
1st FFP	1st Service	1st Range of Destinations	1st Range of Destinations
2nd Range of Destinations	2nd Schedule	2nd FFP	2nd Schedule
3rd Service	3rd Add ons	3rd Schedule	3rd Price

Main Findings – Network Carriers

Cranfield UNIVERSITY

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%

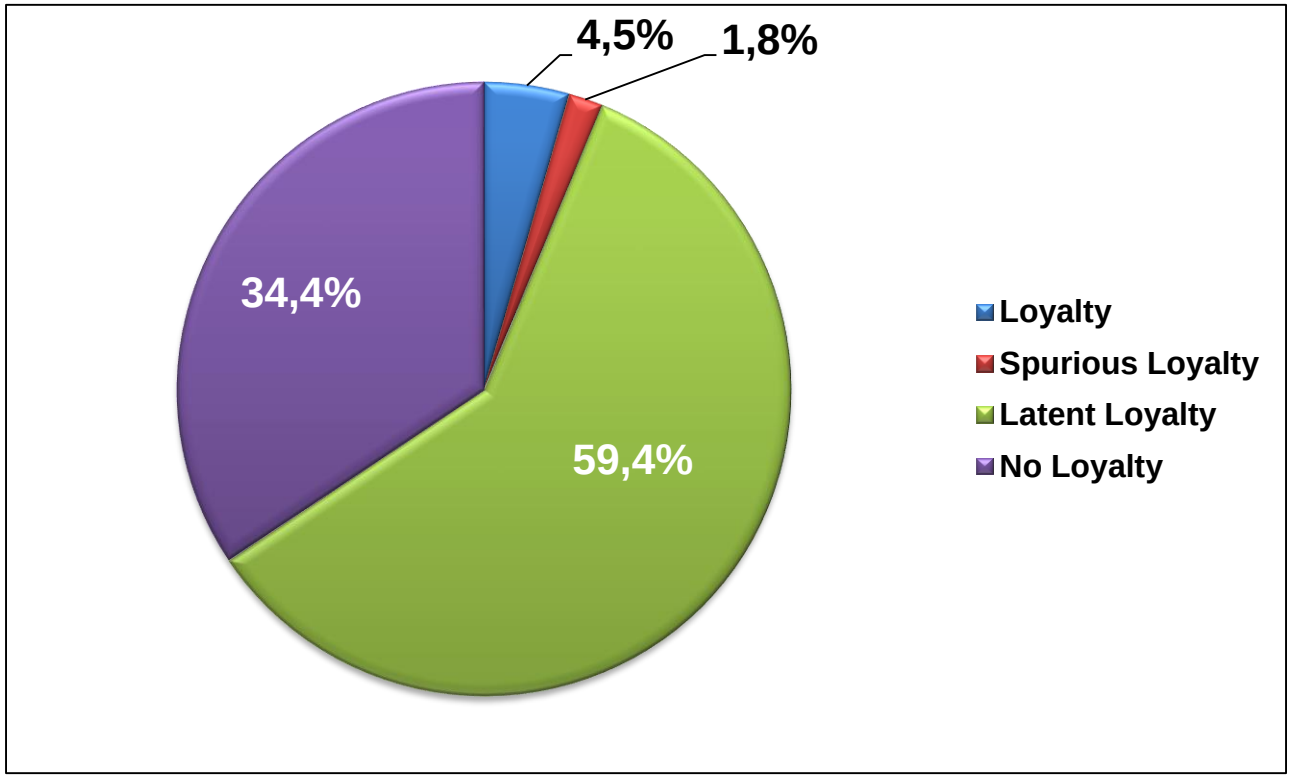
Main Findings – Network Carriers

Cranfield UNIVERSITY

- Loyalty
- Latent Loyalty
- Spurious Loyalty
- No Loyalty

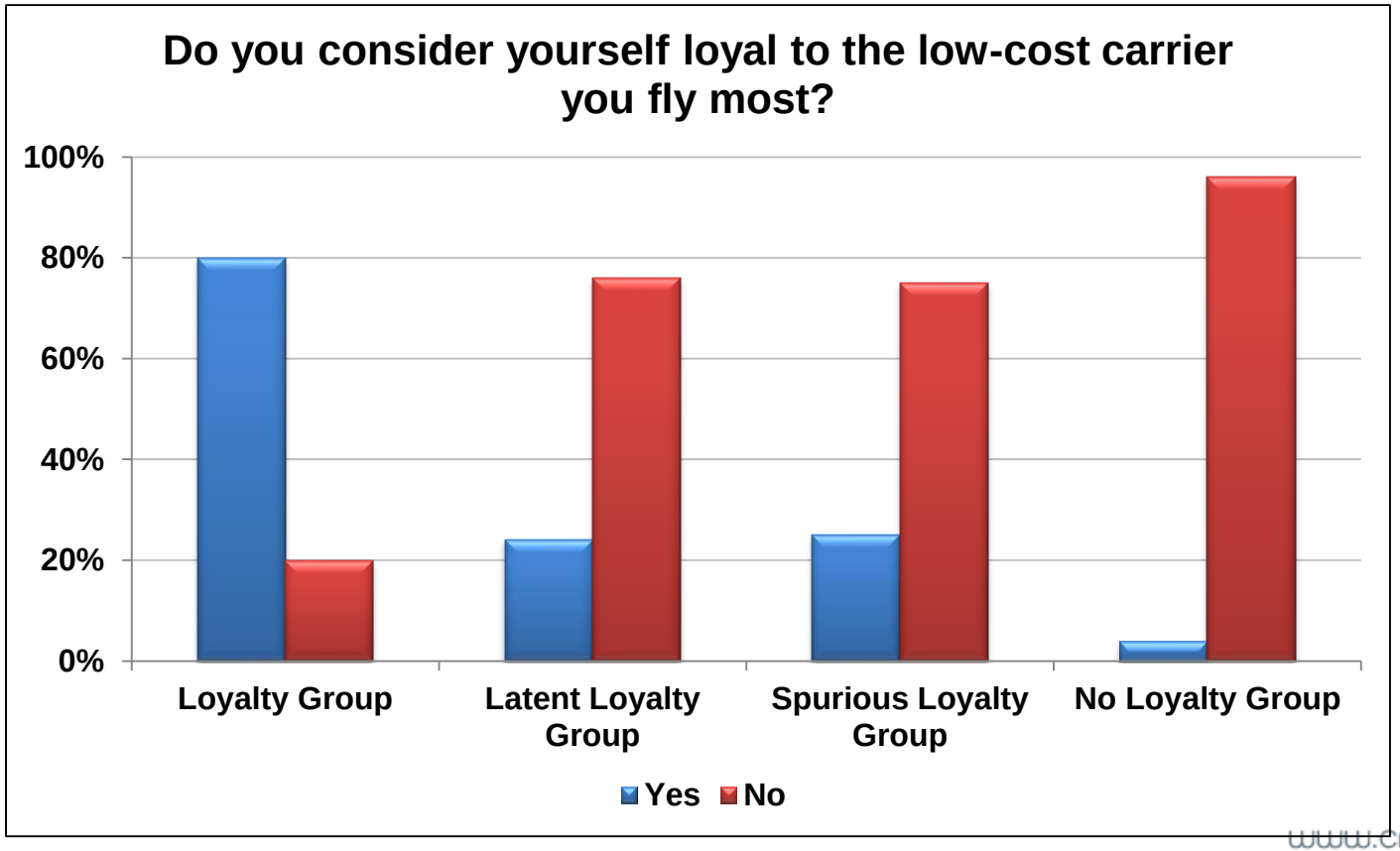
Gender	**Rejected**
Age	**Rejected**
Income	**Accepted**
Trip Purpose	**Accepted**

Low-Cost Carriers

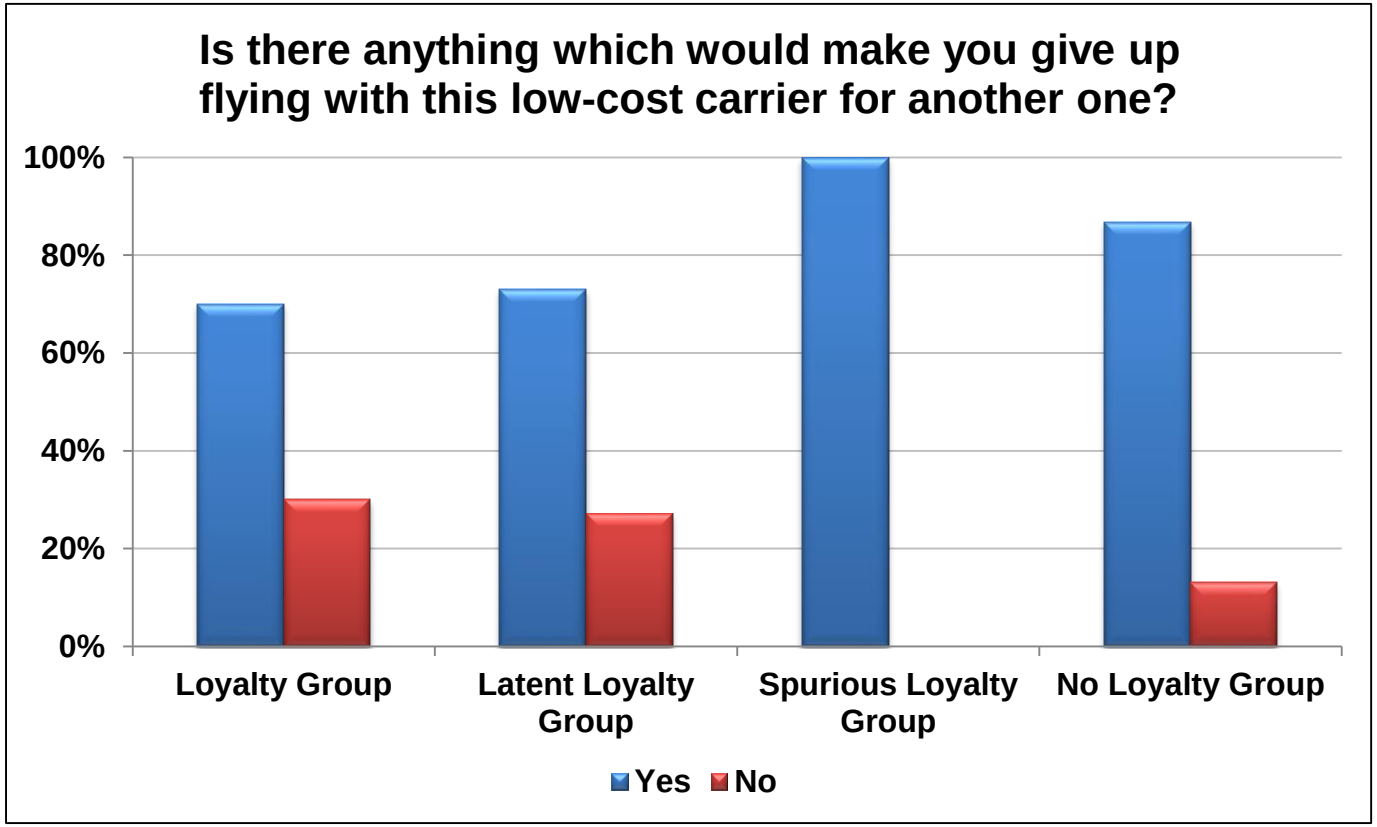


Total of 224 respondents

Loyalty to Low-Cost Carriers



Loyalty to Low-Cost Carriers



Low-Cost Carriers – limited loyalty

Cranfield UNIVERSITY

Objective 1

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

Low-Cost Carriers – Purchase variables

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

Main Findings – Low-Cost Carriers

Cranfield UNIVERSITY

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

Cranfield UNIVERSITY

Objective 3

Relationships

- Loyalty
- Latent Loyalty
- Spurious Loyalty
- No Loyalty

Gender	**Rejected**
Age	**Accepted**
Income	**Rejected**
Trip Purpose	**Rejected**

Recommendations for Airlines

Cranfield UNIVERSITY

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

Google

Many Travelers Are Enrolled in Loyalty Programs

Percentage of Travelers Who Belong to Travel Loyalty Programs

Source: *The Traveler's Road to Decision*, Google and Ipsos MediaCT, July 2012.
(C1) Which, if any, of the following travel-related loyalty/rewards program do you belong to? Base: Belong to a rewards program: Business (n = floating 194 – 1,051) and leisure (n = floating 339 – 1,518) travelers.