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Foreword

Frequent flyer programs began in 1981 with American Airlines' “AAdvantage” program, designed to reward the airline's most loyal members. Since then, the airline loyalty program has become a staple of the modern air carrier, and its reach has expanded far beyond an airline's day-to-day operations. With the in-house capabilities to accrue and manage the large amounts of customer data that loyalty programs rely on, airlines were able to begin forming a more complete picture of each traveler. Furthermore, with an airline's cross-country or international reach, relevant program partners such as car rental agencies and hotel companies were logical and beneficial to both the airline and the consumer.

Deregulation led to increased price competition, which in turn encouraged airlines to begin attracting customers not as one-time users, but travelers who would and could return to a brand to which they felt loyal. The advent of the low-cost carrier during the same period meant airlines were searching for more competitive marketing schemes. Though the traditional low-cost carrier is usually without a loyalty program, more and more have been adopting a limited version to incentivize their customers.

The rewards offered began simply as free travel on the loyalty program's parent airline once the member had accrued a minimum number of flown miles. This is no longer the case, as rewards have developed into a plethora of opportunities for the member, including the ability to rent a car, pay for a hotel room, shop online and purchase a variety of services with the currency of the loyalty program. Accrual and redemption opportunities can now be more or less easily divided into 'flight' and 'non-flight' opportunities, as programs provide their members with a greater and greater number of possibilities for currency accrual without ever stepping onto an aircraft.

Such third-party partners, issuing points to members on behalf of the loyalty program, are not only attractive for program members. The sale of points to third-parties has become a lucrative arm of the loyalty program, especially with respect to banks and the co-branded credit card. Miles sold to partners are valuable sources of revenue for airlines, especially when the number of miles purchased is an overestimate. Unused third-party miles are essentially profit for the airline. Following the slew of airline bankruptcies in the United States during the mid-2000s, both Delta Air Lines and United Airlines were able to renegotiate their long-term contracts with banks for their co-branded credit card partnerships. United's agreement netted the airline over $1 billion, a welcome influx of cash during a difficult time for the company.

However, the recent growth in program partners has shifted the balance of loyalty programs, usually offering members more options to accrue miles than to redeem them. Given that the 1981 AAdvantage program was designed to reward frequent travelers with free flights, and this being perceived by the consumer as the 'purpose' of an airline loyalty program, limited availability of award travel is a common frustration for members. A study by research company IdeaWorks demonstrated that a top complaint for customers worldwide was the lack of available reward seats. With members accruing more and more miles without flying, the competition for each reward seat is fierce, especially during peak travel periods. ezRez Software Senior Vice President, Sales & Marketing John Swanciger, said "[m]ore airlines are choosing to solve reward availability issues by allowing members to redeem miles [...] for hotel accommodations, car rentals, personal services, travel insurance, activities, vacation packages and merchandise." Delta Air Lines recently introduced a 72-hour blackout period for award ticket cancellations, preventing members from cancelling an award ticket 3 days prior to travel with minimal penalties. The airline stated that this was an attempt to provide greater short-term award availability, as many reward seats go unused each day due to last-minute cancellations.

Airlines have even begun the process of detaching the loyalty program from the larger umbrella of the air carrier. Though loyalty programs are capable to generating valuable revenue for a carrier, they can be hamstrung by being a small part of a larger organization firmly entrenched in the business of moving people and cargo from point A to point B. The selling of profitable branches of an airline is not innovative, with American Airlines selling their catering arm, Swissair their ground services organization, and Lufthansa their stake in the Amadeus reservation system. Spinning loyalty programs off into separate companies has proved to be a lucrative opportunity if managed correctly. Initial public offerings on stock exchanges around the world have shown the loyalty program to have demonstrated value.

Air Canada's parent ACE began the trend with a partial sell-off of their Aeroplan program in 2005, netting the group CAD287.5 million with an accompanying initial valuation of CAD2 billion. The program has since grown to include accrual and redemption partners in all aspects of a consumer's daily life, as it shifted to a growth-oriented loyalty management company in 2008 under the new name 'Groupe Aeroplan'.

On the other hand, given the volatility of the markets in the recent years following the global financial crisis of 2008, a number of airlines have backed away from setting their loyalty program free. Qantas, having shown their Frequent Flyer program to be a major revenue source even when the airline was suffering sizeable losses, decided not to spin off their program in August, 2009. Given the cyclical nature of the industry and the financial system as a whole, it can be reasonably assumed that interest in loyalty program IPOs will return in years to come.

While legacy carriers have been searching for new ways to create value for members while increasing revenues, the low-cost segment of the industry has been finding new ways to adapt the loyalty program to their unique brand of airline operations. Airlines such as Ryanair and AirAsia offer travelers a co-branded credit card which give cardholders discounts on ticket purchases. South African carrier Kulula has adopted the 'fare paid' loyalty system, with members accruing program points based on the total purchased fare; points which can be redeemed for free travel based on the price of a seat for a particular segment. Other low-cost carriers have begun to expand their programs beyond their simplest possible forms. Both Southwest Airlines and JetBlue Airways revealed revamped loyalty programs over the past four years, both switching from a point-accrual system based on segments flown to a system centered on purchased fare. This gradual shift towards complexity can be expected from other low-cost or alternative carriers as they face a greater and greater number of program members with years of accrued program points, as carriers attempt to provide their members with continued value without facing a fleet of aircraft full of travelers redeeming free tickets.

Customer behavior is changing dramatically with the advent of the mobile device, especially with the ability to browse web pages on the move. As customers begin to increase their use of smart-phones to receive information, to send information, and to shop online, the role of the frequent flyer program of an airline is becoming increasingly more important in that it is one of the main arms through which an airline can maintain a personal relationship with its customers, respond to its customers' needs, and deliver on their expectations. With the advent of new technologies, airlines are racing to keep pace, to match the technological developments with technological innovations of their own. By being at the forefront of technological advances airlines and their loyalty programs can gain an edge over their competition, therefore it is imperative that airlines can adapt and develop in tune with the advances and developments of technology, for example Jet Blue have integrated their Facebook page and "check-in" with Google Maps into their frequent flyer program, in order to adapt to the new wave of tech-savvy customers. It appears that a new direction for loyalty program innovation will be in the direction of how airlines can develop their loyalty program to suit the new needs of customers, and innovate around them.

Our analysis has analyzed the partnerships currently held by just under 200 airlines, and we are confident that forward-thinking and innovative airlines will find it very useful when considering how best to develop their loyalty plan to develop their business.

What's more, we expect that the data we have collected, refined, and analyzed, will be of great benefit also to many of the partner companies researched in this report. Credit-Card companies, Hotels, Car-Rental companies, Communication and Internet service providers, Energy companies, the list is endless – will all be able to utilize the information in this report in order to analyze in what direction their market is headed, the changing needs and wants of their customers, and how their competitors are innovating to face the challenging trends of today's world.

The analysis in this report shows the status of Frequent Flyer programs as on 1 January 2012. It will represent a benchmark against which to measure and note the changes that are taking place in loyalty programs amongst airlines and other businesses around the world.

We start off with a global overview of the number and content of existing Frequent Flyer programs. Each of the following chapters includes an overview of the programs across the region of the world that that chapter addresses followed by a further, in depth description of every individual program; including names, numbers of miles or points for each tier, details of code-share accrual/redemption procedures, interline agreements, and listing of all partners of the loyalty programs and a description of how they interact with the loyalty program in question.

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Africa - Regional Summary

- There are 14 airlines with loyalty programs in the Africa region
- The total reported passengers carried per annum by airlines with loyalty programs is 11,971,000
- 64.29% of airlines offer baggage interline partnerships with other carriers
- 35.71% of airlines offer loyalty program members the ability to accrue and redeem miles on code-share flights operated by another carrier
    - One airline only offers members the ability to accrue miles
- 92.86% of airlines feature loyalty programs with elite tiers
    - Two airlines (14.29% of airlines in the region) offer more than 3 elite tiers
- 21.43% of loyalty programs feature a co-branded credit card. One of those programs offer 2 or more credit card partnerships
- The most common credit card provider is VISA, with 100% of programs offering a VISA co-branded card
- 14.29% of airlines offer program members the ability to purchase miles
- 35.71% of loyalty programs feature some form of mileage partnerships with other companies
- 60% of loyalty programs with mileage partnerships are partnered with hotels
- 40% of loyalty programs with mileage partnerships are partnered with car-rental agencies
- One loyalty program with mileage partnerships (20%) is partnered with supermarkets

Air India – Flying Returns

Region: Asia
Country: Republic of India
Passengers (p.a.): 2,834,000
Member of IATA: YES
Interline Agreements: YES Alliance: NO
Code-share Accrual: YES
Code-share Redemption: YES

Tiers
Silver Edge Club: 25,000 miles
Golden Edge Club: 50,000 miles
Maharajah Club: 75,000 miles

Co-Branded Credit Card
American Express

Program Partners

Hotel	DCNT	Security	
Car Rental		Auction	
Retail		Charity	
On-Board Retail		Golf	
Taxi / Travel Services	DCNT	Market Research	
Airport Services		VIP Services	
Vacation Package		Fuel	
Entertainment / Dining	DCNT	Supermarket	
Communication / Internet	EARN / DCNT	Media Subscriptions	
Financial Services	EARN	Digital Rewards	NO
Business Services		Purchase	YES
Periodical		Discount Partners	YES
Education		Points Exchange	YES
Insurance / Healthcare		E-Mall	NO
Spa / Gym / Fitness		Experiential	NO
Real Estate			
Energy			
Auto Services / Purchase			

Website: http://www.flyingreturns.co.in/

Air Macau – Privileges

Region: Asia
Country: Macao Special Administrative Region of the People's Republic of China
Passengers (p.a.): 1,447,000
Member of IATA: YES
Interline Agreements: YES Alliance: YES
Code-share Accrual: YES
Code-share Redemption: YES

Tiers
Blue: entry level
Gold: 20,000 miles / 35 sectors
Platinum: 40,000 miles / 70 sectors

Co-Branded Credit Card
MasterCard VISA

Program Partners

Hotel	EARN / DCNT	Digital Rewards	NO
On-Board Retail	DCNT	Purchase	NO
Entertainment / Dining	DCNT	Discount Partners	YES
Spa / Gym / Fitness	DCNT	Points Exchange	NO
		E-Mall	NO
		Experiential	NO

Website: http://en.airmacau.com.mo/

airblue – BlueMiles

Region: Asia
Country: Islamic Republic of Pakistan
Passengers (p.a.): --
Member of IATA: NO
Interline Agreements: NO
Alliance: NO
Code-share Accrual: NO
Code-share Redemption: NO

Tiers
Basic: entry level
Blue: 2,000 miles
Platinum: 20,000 miles

Co-Branded Credit Card
MasterCard

Program Partners
NO

Website: http://www.airblue.com/rewards/