

PANKAJ PANDIT
GENERAL MANAGER, OPERATIONS,
RESEARCH & ANALYTICS

REVITALIZING AIRLINE LOYALTY- FREQUENT FLYER PROGRAMS



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Airline loyalty programs, called frequent flyer programs (FFPs), have evolved since the time the first airline loyalty program was launched in USA three decades ago. Today, FFPs are increasingly run as independent profit centers by airlines. Despite the value they bring to an airline, many FFPs have become commoditized, with little differentiation.

EXECUTIVE SUMMARY

In WNS' view, prior to conceiving a loyalty program, an airline needs to conduct a thorough brand positioning exercise, blending FFPs into their 4Ps of marketing strategy — product, price, place, and promotions. FFPs add long-term value and competitive advantage to the airline only when they are in sync with the overall airline strategy. Thus, FFPs should be a part of a larger, holistically well-conceived strategic business

plan. The airline also needs to take into account regional nuances and customer preferences to fine-tune the loyalty program and explore alliance partnerships.

This paper discusses the elements for setting up a best-in-class frequent flyer program. It also explores the WNS value proposition through offshore member service center solutions, and campaign management, data

management, and research and analytics services. WNS helps airlines leverage FFPs effectively by customizing them for various customer segments. The WNS value proposition helps streamline airlines' FFP processes, reduce costs, optimize campaigns, and simplify the redemption process through automation and chat or call center support, thereby revitalizing the loyalty program.

Frequent Flyer Programs 101

Frequent flyer programs (FFPs) reward and encourage airline customer loyalty and patronage. FFPs award points, which are also called Ticketed Point Miles (TPM) or miles, when members purchase

revenue air tickets. Miles also get added when customers travel with an alliance partner airline or buy co-branded products. The points can be used for the customer's own or family's free travel on the airline or on its FFP partners, upgrades or discounts on flight, car rentals, or hotel booking.

A few airlines also offer corporate FFPs through which points get accrued to the general corporate account rather than the individual traveler. This helps corporate customers save substantially on their travel budget, since the points get used when other employees from the same organization travel.



Evolution of FFPs

1

In 1981, the world's first mileage-based FFP was launched in the US, followed by the announcement of two more FFPs the same year.

2

Airlines developed alliances with other airlines, credit cards and fuel companies.

3

Airline alliances are consolidating - today's three major alliances include Star Alliance, OneWorld, and SkyTeam.

4

FFPs have evolved from being a tool to promote loyalty for airlines to becoming independent profit centers.

5

While the number of FFP members is steadily increasing, the value of FFPs for members is increasingly perceived to reduce.

FFPs have evolved since the world's first airline mile-based loyalty program was launched in 1981. Today, most airlines tie up FFPs with their diverse alliance partners ranging from other airlines, credit card providers, mortgage, car hire and finance companies to fuel companies, hotels and even grocery supermarkets. More than half of

all miles are now earned on the ground, notably on credit cards linked to airlines' programs. In spite of this growth and reach of FFPs, the average award or upgrade success rate for all airlines is far from adequate. The reason is the high average load factor for the airline industry in recent times. As illustrated in Figure 2, this is particularly true for

North America (83 percent) and Europe (82 percent), according to international magazine Airline Business' list of Top 150 Airlines' Performance as of August 2014. Load factor is a measure of an airline's average capacity utilization. Unredeemed miles are increasing due to airlines' higher load factor, driving the need to engage more closely with loyalty program customers.

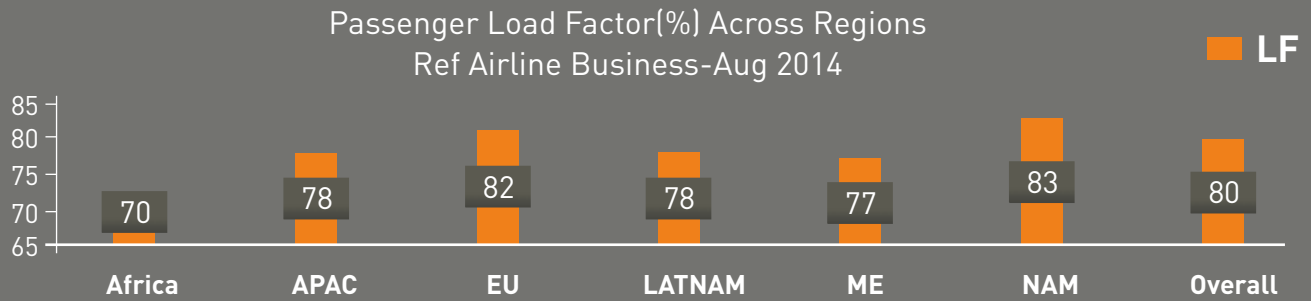


Figure 2: REF Airline Business –Aug 2015
Passenger Load Factors in various regions as follows
Africa (68.8%), Asia Pacific (77.9%), Europe(82.3%), Latin America (80.0%), ME(78.2%), NAM(83.4) –Overall 80.5%

Why Every Mainline Airline Needs FFPs



There are several strategic reasons for a mainline airline to develop and nurture loyalty programs. These are illustrated in Figure 3.

FFPs are a profitable business:

Airline sell top-up miles, with an estimated value of USD 14 billion, to their own FFP members as well as partners.

A substantial portion of the miles that accrue on airline FFP accounts currently come from non-travel partners.

FFPs offer the best ROI:

FFPs have been found to offer a higher return on investment (ROI) as compared to several other customer relationship management initiatives. Bain & Company's findings indicate that increased customer retention significantly improves a company's profitability. Even a five percent increase in customer retention results in a 25-100 percent increase in profitability. In WNS' view, by engaging high frequency business travelers and facilitating their retention, FFPs serve as a powerful tool in the airlines' corporate strategy.

FFPs generate multifold revenues: FFPs drive the following revenue benefits for airlines:

- Promote premium class travel, which makes up a significant share of airlines' revenues
- Save airline distribution costs and resources such as travel agents' commissions, global distribution system fees, and reservation agents' effort and time, by building business-to-consumer (B2C) interface with FFP members
- Build brand image of airline through branding in airport lounges, regular mail campaigns, point of purchase displays at airport check in, etc.
- Serve as a foundation for airline CRM initiatives by leveraging the FFP database
- Drive revenue from sale of the FFP database to marketing companies
- Unlock FFP brand value when listed independently. FFPs become more valuable than the airline itself when airlines resort to independent listing or outright sale of FFPs.

Figure 3: Airlines need FFPs for several strategic reasons

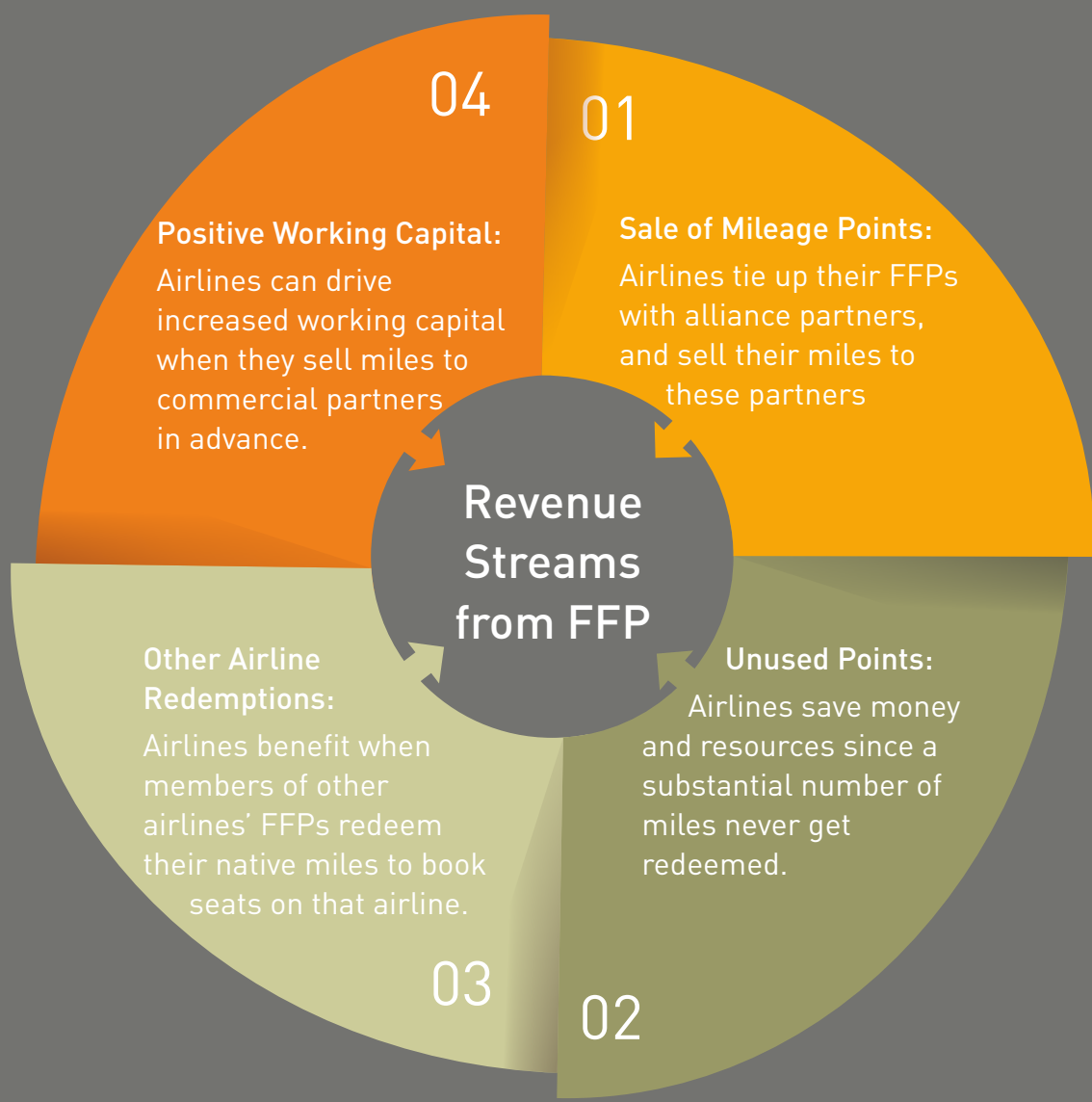


Figure 4: Leveraging four types of revenue streams from FFPs

Why Some FFPs are Unable to Deliver Greater Value

In some cases, airline frequent flyer programs are unable to deliver their expected value of retaining or increasing customer loyalty. The chief reason is the

trade-off between the conflicting objectives of ensuring a profit for the airline's FFP and providing value for money for the customer through upgrades or seats. Members also face challenges in redemption if the airline does not have adequate number of relevant redemption partners.

In addition, the flight-centric systems of airlines' IT infrastructure hamper data mining capabilities to process members' data at a granular level. Through robust data mining and innovative micro customer segmentation of members, airlines can effectively engage members and give their FFPs a boost.

In-house FFPs vs. Commercial Off-The-Shelf

In some cases, airlines find it difficult to manage in-house loyalty programs. The challenges they face include:

- Lack of flexibility and B2B interfaces with partners
- High maintenance costs over a period of time
- Little access to customer data for analysis
- Lack of access to customer information at customer touch points
- Slow introduction of new features
- Poor integration with the revenue management function
- Inability to run digital campaigns and push actionable customer information

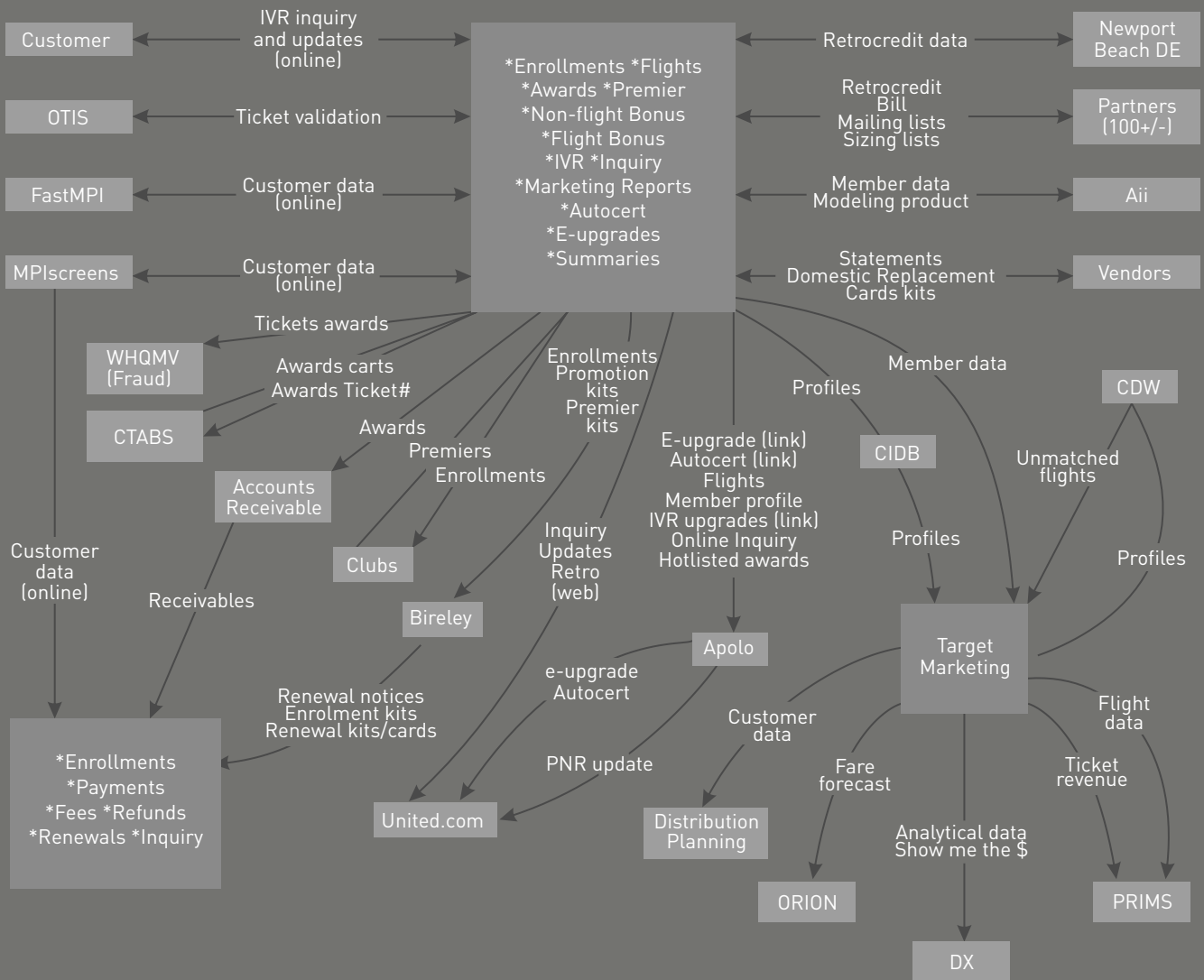


Figure 5: Deep embedding of FFP systems within airlines' IT systems

The FFP system is deeply embedded within the airlines' legacy IT systems, as shown in Figure 5. The FFP system integrates with airlines' computerized reservation system (CRS), which has two permeable sections — the departure control system (DCS) and the reservations (RES) system. The DCS mainly deals with flight operations. The RES records a history of bookings, ticket details, special requests such as upgrades in the PNRs, etc. The FFP application gets updates in a batch processing mode on crediting miles when a passenger checks in, unlike the real time operations of the CRS.

In the past, large legacy airlines developed their own in-house FFP IT applications. However, many

mid-sized airlines are now opting for plug and play commercial off-the-shelf (COTS) service oriented architecture (SOA) packages by integrating with partners for quicker deployment and integration with their CRS.

Airline Alliances and FFPs

In WNS' view, close integration of FFPs with dominant airlines helps overcome seat awarding and upgrading challenges on airlines that operate in a different geography. This offers a win-win for both the customer as well as the airline. Customers benefit from the wider network, seamless connections, easy baggage transfers, and the convenience of reserving itineraries across several

cities or countries through a single, consolidated network. Similarly, airlines are able to offer lower fares, increase flight options, and offer promotions to a wider customer group.

As per the September 2014 issue of international airline magazine Airline Business, the latest market shares of the airline alliances are illustrated in Figure 6. Star Alliance is the biggest and oldest airline alliance with a 23.7 percent market share, followed by Sky Team at 19.2 percent, and OneWorld at 17.9 percent. The non-aligned airlines have a 39.2 percent market share, pointing to multiple partner opportunities that can cut across the three alliances.

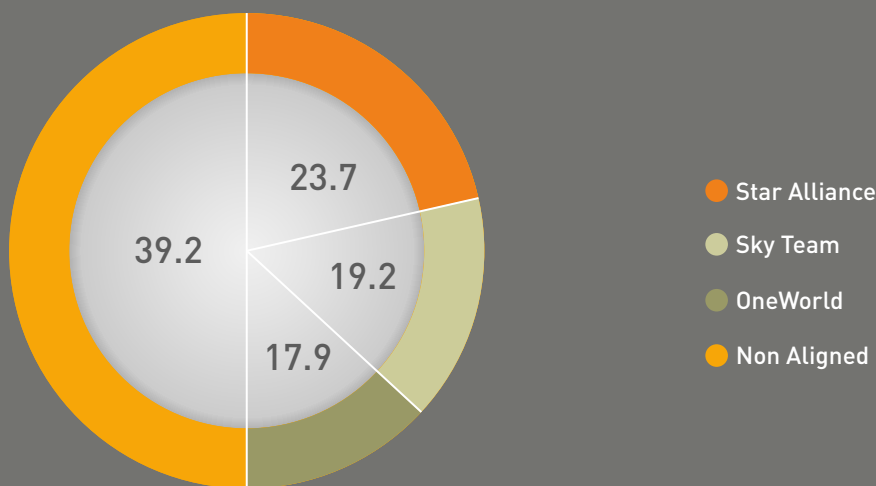


Figure 6: as per Airline Business-Sept 2015

The latest alliance market share(based on Top 200 airlines Revenue Passenger Kilometres(RPK) as follows Star Alliance (24.0%); Sky Team (20.8%), OneWorld (19.0%), Non Aligned (36.2%)

The FFP systems of the airline alliance member airlines need to be streamlined for seamless processing of upgrade and award requests. According to WNS, alliance partners must ensure the following for seamless integration with the common alliance FFP:

- Enable travelers with FFP belonging to any of the member airlines to get award ticket, redeem miles, or request for an upgrade across member airlines
- Allow travelers to cancel the upgrade, and return miles to the traveler's FFP account on involuntary cancellation
- Ensure that centralized process controllers handle all the mileage upgrade award (MUA) requests and route them to the appropriate airline host systems
- Have in place centralized message transformation solutions for messages sent across airline systems, thereby minimizing the impact on airline host systems
- Ensure transparency in communication between airline host systems
- Leverage a generic solution to help member airlines provide diverse functionalities to their customers

The business integration capabilities necessary for the

effective functioning of web and mobile enabling alliance FFPs include:

- Common framework to maximize airlines' ability to reuse the infrastructure, business processes, and content elsewhere in the enterprise
- Streamlined automated processes that interact with people
- Modular, component-based approach that assists in using the same capabilities when the business grows
- Improved application connectivity for easier distribution of essential business events around the network to the systems that need to be synchronized
- Tools to design, test, and implement complex business processes
- Application that uses relational database management systems (RDBMS) such as ORACLE 10G or equivalent as the database server to store the upgrade request related data and reference data

Customizing FFP for Each Customer Segment

Customer segmentation is an integral part of running an effective loyalty program. Every customer segment has different needs. For

example, high frequency business travelers need recognition at various customer touch points, while couples traveling for leisure may want excess baggage waiver, and mid-level executives may want an upgrade or at least more leg room on a 'red-eye' flight.

A successful airline FFP leverages customer segmentation and glean accurate insights into customer preferences to cater to customer needs better, increase customer satisfaction, and boost short-term profitability. Understanding the key needs of each customer segment helps create targeted offers, thus improving the likelihood of customer engagement.

Customer segmentation also helps address the common problem of dormant FFP members. It enables airlines to move the passive members to active membership. According to WNS, by leveraging analytics and technology, airlines can segment customers effectively and identify the needs and motivating factors for each segment.

Once a clear segmentation is done based on preferences and motivating factors, airlines can create digital campaigns targeted for each segment. Specialists in statistical analysis can retrieve and use past history to find the likelihood of each segment responding to specific campaigns.

Airlines can also leverage call centers that have systems for identifying high value FFP members.

Creating Best-in-class Loyalty Programs

FFPs primarily aim to retain and acquire active, contributing members, and improve

incremental profits for the airline. In order to meet these goals, the FFP application must achieve key functional and technical objectives and requirements as illustrated in Figure 7.

Functional Requirements

The FFP application must provide these key functional capabilities:

- Capture accurate and timely uplift/booking travel information
- Send a request for pricing upgrade to host CRS
- Check and reply with a message for eligibility of validation, such as availability of miles in account and seat availability. Calculate the displacement of revenue v/s loss of loyalty, prior to such a decision
- Determine whether the request is within the rules window
- Retrieve PNR, Check for eligibility and inventory availability from host CRS
- Request deduction of mileage and certification
- Request upgrade class in the ticketed airline
- Provide upgrade confirmation to the FFP airline
- Communicate with web portals
- Register information through FFP mask for registration
- Combine or Request cancellation and credit miles not used, deducting charges
- Protect seats in RBD, such as E, reserved for redeemed tickets

Technical Requirements

The FFP application must provide these key technical capabilities:

- Resolve all business processes with minimum down time of application
- Minimize online transaction times
- Address security considerations with effective authentication and authorization
- Provide web-enabled, voice responsive automated processes with high performance, and optimize them for common operations with alliance partners
- Tune system parameters and configuration to reduce or eliminate bottlenecks
- Provide high availability of the application with the host CRS
- Be easily manageable
- Ensure efficient resource management
- Be scalable to grow vertically (new members) and horizontally (new partners)
- Support synchronous and asynchronous processes
- Integrate the FFP with airlines' host CRS and CRS of member airlines

Figure 7: Functional and technical requirements of an FFP application

Airlines must also implement the following to realize greater value from their FFP:

- Simplify the redemption process through automation or call center support
- Send SMS and call alerts to members on miles expiring in the next two months
- Web/Mobile-enabled key internal business processes and regular functions for customer interaction
- Ensure customer segmentation for data mining and campaign management
- Integrate with alliance (partner) airlines and other partners for easy online accrual, redemption, and upgrades
- Re-engineer legacy systems with an open source system to ensure more flexibility and rules-based operations
- Outsource application, design, and maintenance of IT systems

as well as the running of the FFP to cost effective locations to reduce costs

Steps to create a high-impact FFP

To create best-in-class FFPs, airlines must chart out a clear-cut strategy, design an effective structure, and create a long-lasting system. Figure 8 illustrates the key steps involved in the process.

Strategy

- Identify the traveler segment and geography for whom the loyalty program is targeted
- Integrate the loyalty program management with the airlines' product
- Customize offerings for each geography and passenger segment

Structure

- Create a program structure that differentiates the FFP
- Calibrate more sub-classes for campaign success
- Benchmark the program with the industry's best/close competitors

System

- Keep it simple — especially for redemption/upgrades
- Leverage a scalable, open architecture system
- Ensure it is open for integration with other merchants and airlines' FFPs
- Create a business rules managed system
- Offer human support-voice, chat

Figure 8: Steps to create a robust FFP strategy, structure, and system

Driving Robust Brand Positioning of FFPs: The WNS Advantage

Well thought-out brand positioning activities are imperative to ensure the success of FFPs. These need to be combined with effective campaign and data management, and reporting and analytics (R&A). Promotional campaigns for loyalty programs usually involve giving

more choices for redemptions and accruals. WNS can help airlines in these activities. WNS also simplifies the miles redemption process through automation, member service centers, and chat or call center support.

Before embarking on a promotional campaign, it is important to study the target audience and customize the campaign based on the key

needs of different segments within the customer base. Segmentation can be based on the demographic, geographic, psychographic, or behavioral profile of customers, as shown in Figure 9. Under demographic segmentation, campaigns are customized and targeted based on customers' age, gender, marital status, etc. For example, airlines can offer vacation packages to couples.

Demographic Segmentation	<ul style="list-style-type: none"> Age Gender 	<ul style="list-style-type: none"> Family size Income 	<ul style="list-style-type: none"> Occupation 	<ul style="list-style-type: none"> For example - Segmentation on income could be used for targeting customers for corporate partner credit card.
Psychographic Segmentation	<ul style="list-style-type: none"> Activities, interests, and opinions(AIOs) Usage style of airline services and leisure activities External influences 		<ul style="list-style-type: none"> Psychological profiles are often used as a supplement to geographic and demographics when the latter two do not provide a sufficient view of the customer behavior. 	
Geographic Segmentation	<ul style="list-style-type: none"> Nation 	<ul style="list-style-type: none"> State 	<ul style="list-style-type: none"> Regions 	<ul style="list-style-type: none"> Purchasing behavior and needs of customers are influenced by where customers live or work.
Behavior Segmentation	<ul style="list-style-type: none"> Attitude toward, use of, or response to a campaign 		<ul style="list-style-type: none"> Behavioral variables such as occasions, benefits, user status, usage rate, buyer-readiness stage and loyalty status 	<ul style="list-style-type: none"> These are the best starting points for constructing market segments.

Figure 9: Segmentation is based on demographic, geographic, psychographic, or behavioral profile of customers



In geographic segmentation, customers are targeted based on different regions. The campaign can target the region with low conversion rate for better campaign results. In psychographic segmentation, customers are targeted based on their lifestyle or personality profile. Accordingly, the airline can choose to encourage ticket booking either through the airline website or through a third party agency. Behavioral segmentation offers airlines the opportunity to provide special benefits to a customer after assessing the customer's attitude to various product or service options.

Leveraging WNS' Campaign Management and R&A Expertise

WNS has extensive experience in assisting airlines with targeted campaigns, and supporting these campaigns with data management and analytics solutions. Here is a look at its track record:

- CRM experience in retail, consumer goods, insurance, utilities, banking, and travel
- Proprietary application to drive multi-channel engagement
- Over 250 analysts and developers with advanced qualifications and extensive experience

- Experience in database and business intelligence technologies such as Oracle, WX2, MSSQL, Cognos, and Tableau
- Use of digital marketing applications such as UNICA, SAS, SPSS, Omniture, Strongmail, and Alterian
- Support for multiple channels such as direct messaging, email, point of sale, smartphone, and web
- Experience in managing multiple client databases with an overall base of over 60 million customers
- Experience in managing over 18,000 campaigns and campaign analysis, and over 3000 digital content campaigns
- Over 150 statistical models and 200 analytics and automation projects
- More than 99percent accuracy and on-time delivery performance

WNS' campaign management services leverage a comprehensive data framework, as shown in Figure 10. Existing data sources are first integrated. This data is then enriched, cleansed, and used as a marketing database. Analytics run on this data help launch the campaign successfully.

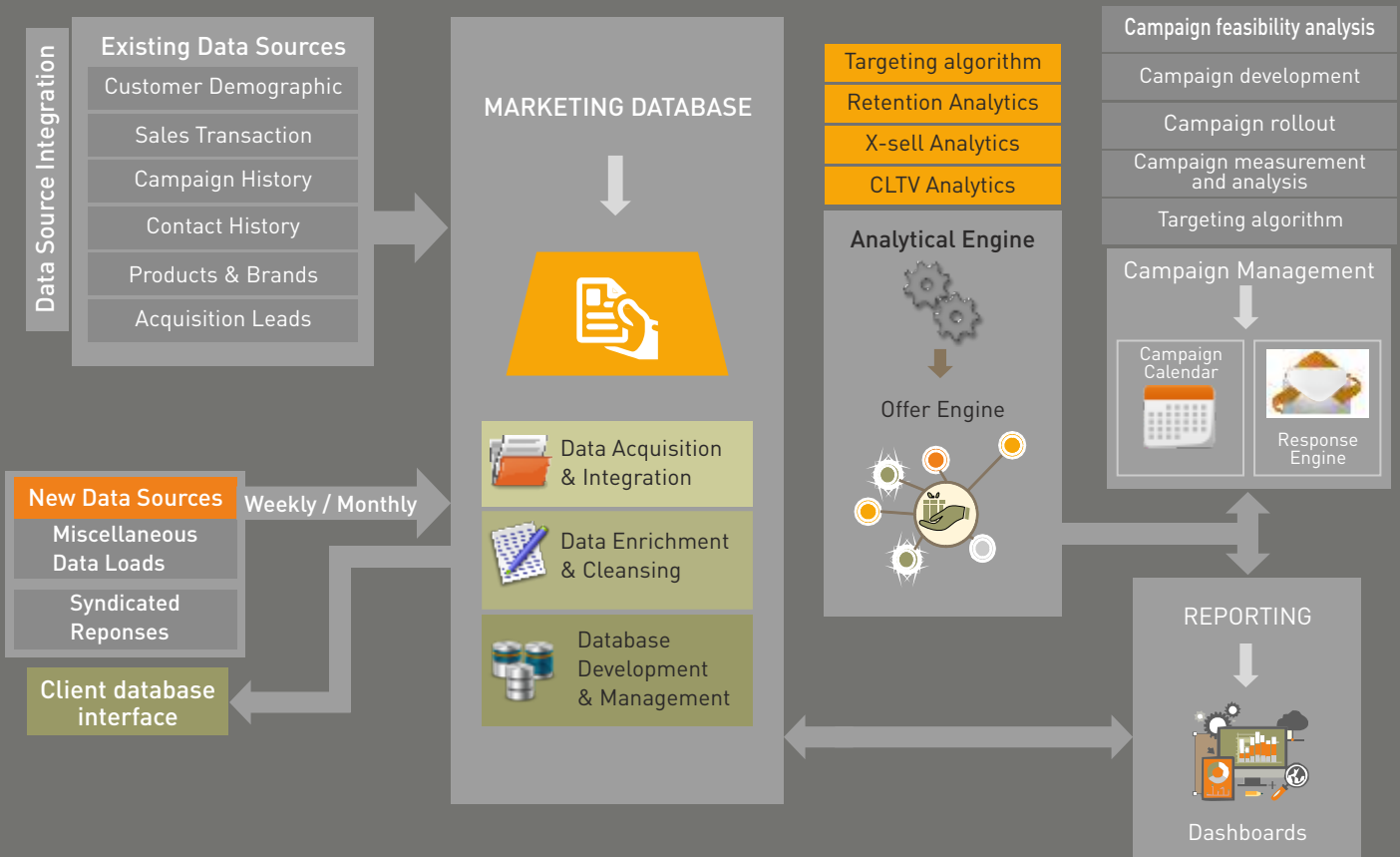


Figure 10: Comprehensive campaign and data management



WNS has strong competency in exhaustive data mining and management and analytics. The key elements of data management and analytics are illustrated in Figure 11.

Pre-work & Requirements Identification

- Create profile data
- Define data quality
- Identify security requirements
- Check data latency
- Identify ownership and responsibility for the content & its storage
- Analyze source systems

Data Discovery & Anomaly Detection

- Set up the feed file management process
- Collect & document source systems
- Ensure accurate records of data quality problems
- Include in anomaly
- Detection phase (data content analysis)
- Null values treatment
- Dates in non-date field
- Data cleaning
- Data stitching

Data Loading

- Aggregate from multiple databases
- Apply business rules
- Summarize data
- Build logic for collection, modification, optimization, & storage data
- Load data into databases/data marts

Ad-Hoc Analysis & Report Generation

- Report format creation
- Validate data
- Build automated QA checks
- Schedule job on remote platforms
- Automate manual jobs

Figure 11: Elements of data management and analytics

Operating Member Service Centers

Reliable and seamless customer service is essential for retaining customers. With WNS' partnership, airlines can operate their customer call center (or member service center) in a cost-effective manner. WNS provides the following services:

- Accounting
- Connecting with members through website, call center, or live chat
- Liaising with partners
 - Contacting merchant partners 30+ days past due date via email/phone and direct mail
 - Receiving and servicing merchant emails/calls for account related matters
 - Managing and sharing aging reports (30, 60, 90 days past due date with collection notes)
 - Coordinating with merchants
- Supporting airline promotions
 - Campaign management
 - Segmentation of loyalty members on the basis of the response received for previous campaigns
- Brand positioning of the airline in each origin and destination (O&D) region vis-a-vis competitors
- Reporting on performance
 - Analyzing program performance, overall miles, sales, transactions, and member participation per month.
 - Providing merchant enrollment statistics with locations and categories.
 - Providing a summary of merchant position in program by miles, sales, transactions, accounts, and average ticket by month, with month-over-month and year-over-year comparisons.
 - Providing quarterly business reviews outlining performance summary and opportunities for improvement in business processes.
 - Offering customer service, customer life cycle, and aging reports.
 - Sales prospecting on most popular merchants outside of program in various cities/states by sales, transactions, accounts, and category each month.
 - Analyzing sales, transactions, accounts, average ticket, frequency of visits by month for potential partners by request. Assisting in modeling potential changes in these metrics after becoming a partner.


Leveraging FFPs to Drive Competitive Advantage

Frequent flyer programs of the future can help airlines get an edge over their competitors. Currently, a few airlines are fine-tuning their loyalty programs to boost business traffic and ensure profitability. WNS' loyalty management services can help airlines revitalize their FFPs by enhancing service support and online services. By proactively leveraging technology to analyze customer behavior patterns and customizing FFP offerings, airlines can secure long-term customer loyalty and competitive advantage. WNS can help airlines benchmark their FFPs with the best programs in the industry. Thus, WNS can assist airlines in rejuvenating their legacy FFP systems, harmonize partner alliances, and derive better ROI on their marketing campaigns.

About the Author

Pankaj Pandit is General Manager - Operations [Research and Analytics] with WNS Global Services Pvt. Ltd., Mumbai. He has over two decades of experience in the international airline/IT-BPM industry.





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