THE LOW-COST CARRIER AND DIGITAL THREAT TO LOYALTY AND POINTS PROGRAMS

News / Airlines

Are loyalty and milage programs stale, and representative of the needs of an older generation?

That was the suggestion of Ryanair's CMO, Kenny Jacobs, during a panel session at the World **Low Cost** Airlines Congress in London.

"**Loyalty** is still important, but loyalty schemes are a lot less important in the age of digital," he said. "That's borne out in retail and I think it is being borne out in the airline business."

Jacobs believes there are better ways to give incentives to passengers for repeat business: low fares being the greatest incentive, but the airline is also considering creative rewards, in exchange for reviews of destinations, for example, and similar schemes that, he suggests, relate better to buyers in a digital age.

Plastic and Golf Clubs

"In terms of a piece of plastic that says 'Kenny Jacobs Miles and More' with a little with points

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attached to it, and a catalogue for me to browse new barbecues and golf clubs, I don't think that's modern anymore, and it's not something we would be looking at. We'd be looking at much more targeted and personalized offers, where a customer says, 'Wow, that's actually going to save me some money.'

More Miles and Starbucks

Jay Sorensen, President of IdeaWorksCompany, consultants to airlines on marketing programs, including loyalty programs and ancillary revenue, tells us that Jacob's point of view is nothing new, and has previously been disproven.

"I recall similar comments by the CEO of Lufthansa many years ago who called frequent flier programs uniquely American disease that won't spread to Europe. Oh how very wrong he was in every way," says Sorensen.

Lufthansa's loyalty program became popular and profitable enough to spin off its Miles and More program from the airline as a standalone business in 2014.

"If loyalty **programs** are not popular among younger consumers, someone should alert Starbucks to this revelation," Sorenson tells us. "It's a brand that certainly is known for its youthful demographic. Starbucks Rewards had 9 million members as of the 1st quarter of 2015, that's up 23% from the prior year. It's fascinating to note, Starbucks' customers only indicate 17% of the reason for repeat visits is due to 'satisfaction with your experience.' While 83% of the reason for coming back are 'other factors' which includes the rewards program."

The Business of Relationships

Alex Cruz, CEO of Vueling, also in the panel, disagreed with Jacobs, arguing that rewards for loyalty are an integral part of any relationship.

"If you have a partner, you're loyal to a person and you're constantly looking for points of engagement with that person in which you feel that loyalty back," he said.

Cruz argued that loyalty programs have worked the past, and will still be relevant in future. He said the transactional value of such programs also serve to measure the strength of the relationship.

"Points or miles can be just the exchange mechanism, the currency. Ultimately, what you want to ensure is that the customer feels that you're giving something back," said Cruz.

"Giving something back is to actually take risk looking at the lifetime value of that customer," Cruz added. "Trading with some kind of currency, to give back to those that are loyal back to you is essential, it's expected, and there are a lot of people out there making a business out of it."

Because loyalty is big business in aviation, Cruz believes those participating will get creative with the structure of programs to appeal to evolving passenger demographics.

The Business of Business

The question over loyalty programs centers on Ryanair's stated aim to attract more business flyers, accustomed to frequent flyer programs.

"There will be a portion of the business market that won't consider Ryanair because the carrier does not have a program," said Sorensen. "Rather than saying loyalty is not an important factor,

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Ryanair should figure out the inherent weaknesses of these programs and strike the competition in those areas."

But asked about this during the Congress, Jacobs suggested that the strategies for targeting business clients have changed.

"You can target them," said Jacobs, "but it still comes down to price for us. That is our market. I don't agree with anything said about loyalty. You can take retailers, and you can take airlines who have loyalty schemes for years, and their traffic has been going in the other direction while they've been investing in their loyalty schemes. Loyalty schemes don't increase load factors or traffic."

Jacobs believes airlines can be much more precise by targeting customers on digital platforms, with tailor-made incentives fitting the individual's needs.

"You can be very, very targeted. That's when digital does come in. It tells you what's the right incentive for the right customer at the right time," he said.

Further, Jacobs believes that by focusing on loyalty programs airlines are losing sight of the end-goal of their customers.

"I think a loyalty schemes are the cherries on the icing on the cake," he said. "The cake is still to have the lowest fares. The icing is to fly more places than anybody else. It's not about having more points. There's a certain type of business traveller who has the TUMI bag and who only likes to go to primary airports, who likes to be in the lounge and loves their points…That is a certain generation. That's certainly not our model and we think as time goes on that [passenger demographic] becomes less and less important."

Fare Deals

Jacobs also said that those who pay for their own travels look to fares first and, and that institutional travel policies are now more conservative on spending.

"All of those things mean Low-Cost airlines will go from 35% market share to 50% market share in Europe in the next five years," Jacobs said. "The corporate, government and public institutions are kind of moving away from what I would call 'old style' flying in Europe, which is only primary airports lounges, loyalty schemes—paying high fares, because someone else is paying, be that a shareholder or a tax payer."

Also participating in the panel was Jozsef Varadi, CEO, Wizz Air. Varadi said he understood the points of view of the other two panelists, but agreed that customers value low-fares above all else.

"The best way to ensure loyalty is that however people buy they get the best fares every day. As opposed to owing prizes, you ensure that there is value any time you transact with the company," he said.

Varadi pointed out that customers will go out of their way to save money.

"When we asked consumers on what basis they decide to buy or engage with different parties in the sector 95% would take pricing," he said. "They won't care. They can easily go to Luton instead of Heathrow if they can get 30 Euros or 50 Euros out of that deal."

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