



Closed Loop Loyalty Marketing For Airlines

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Summary

loyalty marketing

n. Phrase. The business process of identifying, maintaining and increasing the yield from best customers through interactive, value-added relationships.

Airline loyalty programs or frequent flyer programs have been around for a long time and their membership bases are amongst the largest in the world. According to Web Flyer, there are 89million members of airline frequent-flyer programs in the world, 74 million of them in the U.S.alone. Many of this population hold multiple airline loyalty cards. Every airline of repute offers one.

As a result of this worldwide glut of loyalty programs, it is today more difficult than ever to run a successful and profitable loyalty program.

On one side, consumers today are more benefits-aware than ever and indifferent to those brands that offer only a me-too approach to loyalty, actively seeking only those that offer 'real' benefits through a differentiated and personalized rewards program. Putting together a vanilla program with rewards against miles flown is just not good enough any more. On the other side, competition is ever proliferating and industry margins are at a vicious low. Measurably demonstrating ROI on loyalty programs is more important now, than ever before.

At the same time, consider this: While airline programs are amongst the oldest loyalty programs in the world, they continue to have a direct impact on which airlines the customers choose, according to a recent Maritz (www.maritz.com) survey. Some 58% of the respondents of this survey said that a rewards program does influence their decision, when choosing which airline to fly.

Overall, it has today become absolutely critical for airlines businesses worldwide to ensure that their loyalty program is differentiated enough to stand apart from the rest and delivers 'real' value to the 'right' set of customers for the business, thus, in turn retaining and expanding their patronage and maximizing their value for the business.

A big step towards achieving this can be taken when we start looking at loyalty programs with amore holistic and wide-angle perspective than is traditional. Typically loyalty programs focus at creating a 'rewards' proposition linked directly or indirectly to patronage, with greater value associated with longer association and larger spends. While this still remains the core of any loyalty program, we must realize today that the foundations of true loyalty are built through active and personalized value interactions between the customer and the airline, not just by passive reward offers. In other words, the successful loyalty program of the day must look beyond rewards and focus at driving meaningful customer dialogs based on analysis and understanding of customer profiles.

It is this emergent area that this white paper explores: How today loyalty program boundaries are stretching to envelope analytics (in order to understand the customer better) and marketing (in order to engage her in a value exchange) principles and technologies.

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Loyalty

An axiom worth revisiting when broaching the topic of loyalty from a business perspective is that loyalty programs exist to drive corporate profitability. This re-emphasis is well justified, considering how many instances exist of companies not being able to squeeze financial value from their loyalty initiatives.

At the most fundamental level, customer loyalty is a relation between a targeted customer and an airline, which the customer flies with. Loyal customers add value to the airline by providing a consistent revenue flow over time. In turn, the loyal customers enjoy certain reward and recognition benefits that the airline extends to them.

Viewed from this basic perspective, the program limits itself to the reward proposition - the tacit expectation of the airline is that by rewarding customers for their current business, their purchasing behavior shall be influenced towards providing repeat business in the future. The entire focus of the program is on the reward and return business transactions.

However, with the proliferation of many such air-miles reward programs, such transaction-focused propositions quickly lose value. To be truly effective, an airline's loyalty program must swivel its focus from transactions on to its customers, the individual and corporate travelers. It is only when the focus is firmly on the customer that the airline can estimate the value potential of these customer accounts, group them in similar growth baskets and approach them with appropriate value propositions. And it is only then that a win-win value cycle can be started: the airline understanding key customers' preferences and customizing the value offered to them as a reward for maintaining and strengthening the business relationship and ultimately increasing profits.

Viewed from this angle, the primary role of the loyalty program changes from offering rewards to frequent fliers; it now aims at studying their travel behavior and establishing a dialog with them in order to better understand what reward proposition will make sense for whom.

The first step in this direction involves customer analytics:

Analytics

With the rapid advance of data collection technologies, gathering customer information has become a breeze. Increasing volumes of data are being collected through various channels (POS systems, websites, emails, telephones, wireless messages) by the airline businesses today, capturing everything from their customers' transaction details to their travel related preferences, from their contact details to their anniversary dates. In the imminent future, when RFID-tagged loyalty cards become viable in mass scale, this rate of customer data accumulation is going to further increase and exponentially.

Unfortunately, this volume of data does not directly translate into customer insight, since behavioral patterns are often buried deep within such massive databases, or split among different departmental or functional data stores. Critical to the success of every customer analytics program is the ability to first unify all customer information and achieve a singular customer view and to then be able to slice, dice and drill into such data to unearth insights about customer behavior.

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For the airline business, such analysis is essential for generating actionable customer insights: Behavioral analysis helps group customers as per their travel preferences, Redemption analysis allows the airline to continually refine the rewards offered, so that each customer is presented with rewards that mirror their preferences, Lifetime Value analysis helps create approximate estimates of how much potential business is likely to come from which customer group, etc.

The insights born out of such analysis (e.g. key customer segments, their profile characteristics and their Lifetime Value, etc.) is the feed into marketing.

Marketing

Based on the analytics insights and targeted towards the identified customer segments, the airline now needs to drive appropriate innovatively designed campaigns – to offer personalized rewards and offers to win back key customers, to recognize loyal ones and to offer new services and options relevant to each customer group behavioral preferences. As the sophistication of loyalty data and analytics increase over time, customers come to expect to receive cross-selling offers. They are warmer, more responsive customers. Consequently they spend more. That’s the logic that drives companies to offer loyalty schemes in the first place.

Conclusion: Closed Loop Loyalty

This implies that an airline business must first be able to analyze customer-wise spend patterns through its loyalty program and then able to systematically reward and recognize its most valuable customers and offer them enough reason to keep coming back. In other words, this implies that every airline must not only have a well-crafted and differentiated rewards program in place, but also close the loop, by focused analysis of customer spend and behavior data, followed by personalized one: one marketing dialogs with such customers.



Fig A: Closed Loop Loyalty

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For enlightened airline businesses, the process of 'closing the loop' goes beyond the inclusion of Analytics and Marketing techniques and technology – a mature best-in-class loyalty marketing program utilizes every customer interaction opportunity to drive customized offers and services based on customer preferences, resulting in marketing consistency and campaign optimization across every channel and customer touch point.



Fig B: Closed Loop Loyalty across Customer Touch-Points

A successful loyalty initiative depends upon a marriage of clear objectives from the outset, buy-in from board level to front-line staff and appropriate investment in expert personnel, CRM Loyalty, Analytics and Marketing technology and disciplined process – both qualitative in order to pin point the desirable components and quantitative in order to prioritize and cluster them.

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In 2006 and beyond, the loyalty marketing will take on increased significance as the fuel to power the CRM engine of your enterprise. Marketers will take advantage of a new subset of business data analysis, loyalty analytics, using advanced, outsourced analytical capabilities and new database marketing tools to perform mission-critical 21st Century loyalty marketing tasks such as:

- Measuring customer value in a dynamic, ever-changing model
- Determining the appropriate marketing value proposition and the optimization of the funding rate to yield the greatest behavioral change
- Increasing incremental revenue, one customer at a time
- Comparing ROI results to forecasts, determining the sensitivity associated with specific variables and recalibrating
- Defining specific marketing strategies for increasingly finite customer segments
- Modeling customer attrition and intervening prior to their departure
- Modeling cross-sell/up-sell potential, enabling the marketer to put their money where the impact is likely to be greatest
- Determining the Net Present Value of major marketing campaigns and initiatives

Unless we move towards such sophisticated closed loop initiatives, the loyalty program remains limited to a punch card or a stamp program — anonymous versions of reward and recognition that our grandparents may have liked, but which simply won't work in the wired world.