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Easier Ways to Use Airline Miles on the Ground

Redeeming Miles for Hotel Rooms and Rental Cars is Getting Easier and Cheaper

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IdeaWorksCompany contributed information to this article - - see italics.

Airlines make it tough to use frequent-flier miles for tickets, especially if you want first-class or business-class trips to popular destinations. But using airline miles for hotel rooms and rental cars is getting easier and cheaper.

Carriers are using new technology to offer hotel nights and rental cars on their own websites without going through phone calls, certificates and exchanges, and more-aggressively bundling rooms and rental cars into vacation packages.

While the value you get for the miles isn't great, it is improving and can be good if you hit on a promotion or special. Elite-level frequent fliers get offered significantly better prices. The number of miles required for hotel stays and car rentals at American Airlines, for example, is often 40% lower for a platinum-level frequent flier than for a regular member.

A Labor Day weekend room at Hawaii's Kahala Hotel&Resort was selling this week for 30,450 frequent-flier miles a night to American Airlines elite members, less than half the miles nonelite members would pay for the \$391 room.

"People are so used to using their miles for tickets, they don't think about a rental car," said mileage expert Randy Petersen, president of publisher Frequent Flyer Services. "Most people have more miles than money, and these deals actually hold great value since they replace money."

United Airlines' frequent-flier program offered economy-class car rentals for Labor Day weekend at 7,500 miles a day in several cities, including Las Vegas, Los Angeles, Seattle, Honolulu and Orlando, Fla. That isn't such a good deal in Las Vegas, where a weekend rental could be booked for about \$21 a day, according to Orbitz.com. But in Seattle, where Hertz offered economy cars at \$84 a day on Orbitz, booking with miles works out to about 1.1 cents for each frequent-flier mile before taxes. Cents per mile are calculated by dividing the dollar cost by the cost in miles.

A room at the Hyatt Regency Grand Cypress in Orlando was selling at \$139 a night on Hotels.com earlier this week, but American Airlines offered it to its platinum-level frequent fliers at 8,150 miles a night—or 1.7 cents per mile. That price in miles was nearly 50% lower than what American was offering nonelite members of its frequent-flier program. The discount for elite members for a room at the fancy Kahala Hotel & Resort on Oahu was 55%.

What Can You Buy With a Mile?

Using frequent-flier miles for business and first-class tickets to other continents offers the best value, but those tickets can be hard to get. Using miles for merchandise, hotels and car rentals has gotten easier and the value, in cents per mile*, is close to a standard frequent-flier ticket.

PRODUCT OR SERVICE	CENTS PER MILE*
Merchandise	0.7
Hotel night	0.8
Long-haul international - coach standard award	1.0
U.S. domestic - coach standard award	1.1
Car rental	1.1
U.S. domestic - coach saver	1.4
Long-haul international - coach saver	1.8
Long-haul international - business class standard	1.9
U.S. domestic - first class standard	2.5
U.S. domestic - first class saver	2.7
Long-haul international - business class saver	4.5
Long-haul international - business class upgrade	5.4

Source: IdeaWorks Co. (based on July 17 review of prices for travel between October and February)

*Cents per mile calculated by dividing the dollar cost by the cost in miles. For example, a \$500 flight costing 50,000 miles equals 1.0 cent per mile.

Note: Saver fares sell for minimum number of miles. Standard fares require more miles.

Why the huge advantage for elite-level fliers? Airlines are trying to create a new perk for their best customers. Free upgrades are harder to come by, and perks such as early boarding, better coach seating and lounge access are available through credit cards or add-on fees. "This is one way to put value back in elite programs," said Jay Sorensen, president of IdeaWorks Co., which consults with airlines on loyalty programs.

One penny per mile is about the average value for car rentals and hotels using airline miles, according to Mr. Sorensen, who recently conducted a study on the value of miles consumers get at redemption. One cent also turns out to be close to the average value people get for their frequent-flier miles when they use them for standard domestic coach trips.

Switchfly Inc., a San Francisco technology company that provides the back-office workings for airlines to offer hotels, cars and vacation packages, says it is seeing some carriers sweeten the pot for nonflight redemptions, sometimes through promotions.

As experienced frequent fliers know, the best way to maximize dollars for your mile is to use them for long-haul international business-class tickets and upgrades. But those can be hard to book, especially at reduced "saver" mileage levels. For people with plenty of miles in accounts, defraying the cost of hotels and car rentals with their miles can be prudent.

Switchfly estimates about 5% to 10% of airline miles get redeemed for things other than air tickets. Airlines set the exchange rate—they determine how much your miles are worth for different offerings, Switchfly says. Carriers typically have prearranged pricing with hotels or rental cars and also go out and search five or six different sources in real time for other deals. Through Switchfly, the airline pays cash to hotel or rental-car companies for the booking; you pay in miles to the airline.

A popular new wrinkle in the airline offerings is the chance to mix cash and points together for a booking, said Dario Ambrosini, Switchfly's chief marketing officer. That is an easy way to use up small mileage balances, especially if miles will soon expire, and reduce the cost of a vacation a bit.

And just as with travel agencies, packaging cars and hotels together can save miles. American Airlines offered an economy-class car from Dollar Rent A Car and a room at the Luxor Hotel & Casino in Las Vegas for a package price of 23,200 miles per day over Labor Day weekend. That is a 7.5% discount in the number of miles needed if bought separately.

As airline capacity has shrunk and ticket prices have risen, carriers are finding they are often better off selling seats to customers and redeeming points other ways. And consumers have proven to be sensitive to conversion rates. Airlines that have reduced the value of their miles for hotels, cars and other services have seen a 5% to 20% drop in bookings, while airlines that temporarily offered a promotion increasing the value of miles saw an increase of 15% to 30%, according to Switchfly.

Getting better at selling hotels, car rentals and packages lets airlines compete against online travel programs like Travelocity, Orbitz and Expedia and credit-card companies like Capital One, which let customers use reward points to pay for travel without worrying about blackout dates.

Hotel bookings through airline-mileage programs outnumber car rentals 3-to-1, Switchfly says. Most redeemers are business travelers using miles to book family vacations. Some are infrequent fliers using up small accounts. Transactions from consumers with average mileage balances are growing.

"The next generation of loyalty-program redemption will be an integrated solution, not piece-by-piece, where you can get flights, merchandise, hotels, cars and insurance all together for miles," said Mr. Ambrosini.