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Big-Ticket Fliers Poised to Gain Still More Miles

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IdeaWorksCompany contributed information to this article - - see italics.

With 1,275 aircraft and flights to 369 destinations, Delta Air Lines is considerably larger than Swiss International Air Lines, which operates 90 aircraft and flies to 84 destinations. But it is neither Delta's size nor its route map that is challenging the Swiss flagship carrier on flights between America and Europe.

Luring premium flyers from Swiss and other international airlines could be one of the consequences of a big change in how the Atlanta-based Delta and Chicago-based United treat their loyalty club members, according to several industry executives.

In 2015, Delta and United will start linking the price that people pay for a ticket to the number of award miles they receive. Enhancing the rich-get-richer approach, passengers with elite status will earn double or even triple the number of miles actually flown, while economy-fare customers will see their mileage awards dwindle 28 to 43 percent, according to analysts' projections.

"In an industry where everything is plain vanilla, Delta and United have tossed a bunch of strawberry into the pile," said Jay Sorensen, founder of the airline marketing company IdeaWorks, based in Wisconsin. Keeping with the ice cream analogy, Mr. Sorensen called the move a "delicious lab experiment" because so much of what will happen is unknown.

Airlines around the world, Mr. Sorensen said, are "about to see the power of loyalty on the top and the bottom end."

Without actually denying that part of Delta's strategy was to poach customers from other international carriers, a company spokesman, Anthony Black, said the changes were made with American travelers in mind, since they are the majority of Delta's customers — though, he added, "non-U.S. premium customers can benefit as well."

Regardless of nationality, Mr. Black said, "the 2015 SkyMiles program will more fairly reward customers who spend more on Delta."

Unlike other businesses, airlines had long ignored the relationship between price and benefits, granting the same number of miles regardless of ticket price, which can vary considerably.

But over the past decade, airlines around the world started changing their practices, from Qantas in Australia to WestJet in Canada. Economy-class passengers may not have liked the change, but airline economics are such that premium-class customers are disproportionately larger contributors to revenue, so airlines are eager to secure them.

But with the American carriers offering so many bonus miles to their most valuable customers, Mr. Sorensen predicts, companies such as Singapore, Cathay Pacific and British Airways, which are known for superior customer service, still could lose those passengers on lucrative international flights.

Delta and United “have relied upon the payoff associated with frequent flier programs to entice passengers to stay with them,” Mr. Sorensen said. “They have been unable to compete on the basis of service. If you really wanted service, you would never fly a U.S. airline.”

At Swiss, the push is on to present the airline not just as a way to get from A to B, but as a cultural experience that begins at the airport — or what Patrick Heymann, its senior director for the Americas, calls the airline’s “Swissness.” Swiss competes with Delta on many routes and, like other airlines in the same situation, it is assessing just how much of a threat the loyalty program changes at Delta and United will be. “What we are viewing internally at the moment is how can we compete as an alliance, as a joint venture,” he said.

Swiss and United are members of the 27-airline Star Alliance, where squabbles have already erupted over differences in how individual airlines calculate elite passenger status — a perk based on the number of flights rather than miles flown. Within the alliance, airlines agree to honor partners’ status programs by giving their members access to airport lounges and upgrades, among other benefits.

“In the end, it is basically you provide an add-on and it makes people rebuy your product. That’s the basic equation,” said Harald Deprosse, managing director of Miles & More, Lufthansa’s frequent flier program.

But when the Star Alliance members Lufthansa and Turkish Airlines had a falling out last year over Lufthansa’s accusation that Turkish was saturating the German market, the German company made it harder for its Miles & More members to accrue miles for flights taken on Turkish. The alliance promises passengers flying on member airlines a seamless experience, but the tussle was just one of the most recent examples of how the struggle to work with competitors can expose the stitches holding alliance members together.

Frequent flier programs and status awards “have always been and will continue to be a marketing tool with which carriers will try to differentiate themselves from others, even if they are in the same alliance” said Markus Rüdiger, a Star Alliance spokesman. To further entice loyalty, “a lot of them are adding a tier above gold, which you can only achieve if you fly on that airline’s metal.”

Stephen Nicols, an Australian businessman, has seen the policy differentiation first-hand.

On his travels around Asia, he will sometimes fly Asiana Airlines, which is in the Star Alliance, and sometimes Cathay Pacific or Qantas, both members of Oneworld. He recalled comparing the prices from Sydney to Seoul and finding that an economy ticket on Qantas was \$1,500 more than a business-class ticket on Asiana.

“From a personal point of view, I don’t see any value in having something cost twice the amount of money for the same service,” he said. “I am flying enough that I just accumulate points and I’m not looking at them in terms of ‘I need to maximize the points I get.’”

Mr. Nicols and a colleague, Klaasjan Tukker, spoke from Singapore, where they were attending a training session held by their employer, Adobe Systems. (Only in rare circumstances does the company policy allow them to purchase premium tickets.)

Mr. Tukker, who lives in the Netherlands, flies within Europe about 80 percent of the time, on short flights of 1,000 miles or less. When he buys discount-fare tickets, he reckons that his mileage accumulation is reduced by 25 to 75 percent.

“From an airline perspective, I think it is reasonable,” said Mr. Tukker, who mostly flies on KLM, a member, like Delta, of the SkyTeam Alliance. He says he likes KLM for its convenience and because, making 70 to 80 flights a year, he has premier status, since this is based on number of trips, not miles flown. “My main hub is Amsterdam, and the majority of service is out of Amsterdam,” he said. “If I would move to the U.S. for business, I would have to re-evaluate my whole loyalty to see if it is more beneficial to start flying with a different group.”

With so many moving parts in the airline programs worldwide and so many categories of traveler, predicting how and when the latest changes in loyalty programs will ripple through the industry is difficult.

Rewarding the best customers means penalizing others, and that could have unintended consequences. An airline such as Lufthansa, which flies large-capacity airplanes like the Airbus A380 and the Boeing 747-800, cannot afford to forget the passengers in the cheap seats.

“Whether this turns out to be successful, I don’t know,” Mr. Deprosse said. “We have to take care of our status customers, but if you take care only of this segment you will not be able fill a 400-seat aircraft.”