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Delta Leads Big 3 Airlines, Moves Jan.1 to Price-Based Frequent Flier Awards

By Ted Reed

IdeaWorksCompany contributed information to this article - - see italics.

A major change in airline frequent flier programs will begin to take effect Jan. 1, when Delta will transition its frequent flyer program from one based on distance travel to one based on ticket price. United will follow on March 1.

American is taking a more cautious approach, largely retaining mileage based awards while it merges its frequent flier program with the US Airways Dividend Miles program following the carriers' merger in Dec. 2013.

Delta announced change to its SkyMiles program in February 2014: United followed in June. *For leading the transition, Delta was honored Friday as the only U.S. carrier included on the list of the world's top five revenue innovation champs compiled by IdeaWorks, the Shorewood, Wisc.-based tracker of ancillary revenue and frequent flier programs.*

In a field "where there's a lot of motivation to keep things the way they are, give kudos to Delta because awarding miles on the basis of distance flown is a horribly imprecise way for an airline to motivate people to spend more and to align the finances of the frequent flier program with the finances of the airline," said Jay Sorensen, president of IdeaWorks.

"There are two parts to this," Sorensen said. "People who pay premium fares will get a lot more miles, and because they will have to take miles from another group, lower-yield passengers will get fewer miles."

For the highest-yield passengers, the rewards can be striking. "You will have some premium itineraries on Delta and United that will earn 75,000 miles for a trip to Europe or Asia, given the combination of high elite status and high yield fares," he said. "It's incredibly rich for some people."

In announcing the change in February, Delta said passengers will earn between five and 11 miles per dollar spent based on their SkyMiles status.

“The travel industry, including nearly all hotel and credit card programs, has already moved to a spend-based model,” said Jeff Robertson, Delta vice president for SkyMiles, in a prepared statement. “Delta will become the first U.S. global carrier to make this transition to better reward our most loyal customers.”

Delta softened the blow to lower-fare passengers by saying its new redemption policy will improve seat availability for the lowest mileage redemptions, offer one-way awards, and provide miles plus cash options. The lowest level award requirement will remain at 25,000 miles for travel within the U.S. and Canada.

In 2013, frequent fliers redeemed more than 271 billion miles for more than 11 million award redemptions, Delta said.

United will make similar changes in its MileagePlus program in March. ***The carrier noted that Mileage Plus “is ranked #1 in award seat availability among U.S. global carriers,” quoting an IdeaWorks survey. Sorensen said IdeaWorks compiles its availability rankings “the old-fashioned way – we make thousands of queries to airlines.”***

Despite full airplanes in recent years, he said, seat availability has generally improved in frequent flier programs around the world.

One reason, he said, is that accounting rules now stipulate that “when airlines sell a mile to a bank (to be offered to a credit card holder), cash flow is generated, but for that to be posted on the books as revenue, the mileage has to be redeemed – that is an incentive to make sure these miles are redeemed.”

American, meanwhile, moved Dec. 15 to match at least some of the premium flyer benefits on of its rivals, announcing that it would offer AAdvantage and Dividend Miles members more miles based on the distance flown, the fare purchased and the member’s elite status level.

For all travel that occurs in 2015, American will provide bonus miles for first or business class tickets on its flights as well as partners’ flights. ***“American has come out with a band-aid approach,” Sorensen said. “They have thrown some miles to higher fare passengers, but they did not match Delta and United on the richness of that offer. And they are keeping things the same for people who pay the lowest fares.”***

Looking ahead, Sorensen anticipates American may seek to ensure its program remains relatively more advantageous for lower fare passengers, in an effort to retain those passengers and “maybe to poach a few” from competitors.

Many U.S. airlines began years ago to offer mileage based on ticket price, Sorensen noted. Virgin America started in 2007, JetBlue started in 2009 and Southwest started in 2011.