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American AAdvantage frequent flier changes reward buying over flying

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IdeaWorksCompany contributed information to this article - - see italics.

Budget-conscious members of programs like American Airlines' AAdvantage or United Airlines' Mileage Plus somehow thought frequent flier programs were to reward frequent fliers.

By now they should realize they may have a tough time getting anywhere thinking that.

American announced this week that it will follow major U.S. competitors in rewarding enrolled customers more for the dollars they spend than the distance they travel.

Money will get them farther than miles. Ironically, free travel and other perks will cost.

What started out as a way to reward top airline customers 30-some years ago is morphing into something else. Exactly what, it's not entirely clear.

For one thing, what constitutes a top customer isn't as simple as it used to be.

"It's dangerous to say any passenger doesn't matter," said Jay Sorensen, president of IdeaWorksCompany, an airline consulting firm headquartered in Wisconsin. "I'm just not certain the programs necessarily know who they're built for anymore because, just as cash has corrupted Washington, it perhaps has corrupted the purity of frequent flier programs' original intent."

Sorensen said American awarded 287.1 billion miles last year. Most of those miles — 61 percent — were not flown but sold, with 90 percent purchased by credit card companies dangling travel rewards.

Much is made of how airlines keep fares low by relying on ancillary revenue from itinerary changes and checked baggage and sale of a la carte services and meals and the like.

An IdeaWorks analysis of 2014 results found sales of frequent flier program miles (or points, if you like) accounted for 55 percent of ancillary revenue of a typical U.S. airline. Major U.S. carriers pulled in more than \$18 billion in ancillary revenue last year. With a B.

Which is why the airlines increasingly see the dollars and not the passengers.

"When the credit cards arrived, it really changed everything about these programs," Sorensen said. "These programs have become big generators of cash.

"If you recall, when these major airlines entered bankruptcy, oftentimes the only asset that was credible as collateral for a loan was the frequent flier database."

The latest changes at American are seen as hurting the frequent business traveler whose employer pushes for the most economical fare, presumably a bread-and-butter customer.

But essentially these programs are being yanked in multiple directions.

There are those people, perhaps infrequent travelers, who might rack up most of their miles with credit cards or other business partners of the airlines who subsidize the "free" travel rewards.

Free-spending business travelers or well-to-do vacationers will benefit greatly from changes like American's. The airlines are eager to encourage and reward spending big money on last-minute tickets or booking pricey business-class tickets for international trips.

But the airlines themselves have complicated matters too. In their effort to squeeze as much money as possible out of each flight, they have taken what had been perks given to top customers — like early boarding, better seats, upgrades — and sold them.

That means there are less distinctive benefits to offer as rewards.

And let's not even get started on how difficult it is for those who somehow amass enough miles for a free trip to collect their prize, especially in a premium class on an international flight.

"We're viewing a period of transition in which I'm not sure what the outcome will be," Sorensen said.

American customers had 809 billion miles banked in their accounts at the end of last year. That's a lot of people with a lot invested in the airline, and they all think they're as important as they ever were. They expect the extra mile. That's the point.