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Here's Why Alaska Airlines Is Keeping Its Generous Frequent Flyer Program

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IdeaWorksCompany contributed information to this article - - see end of article.

It's easy to be skeptical when an airline says it is making passenger-friendly decisions, but this appears to be the real deal. Many travelers will be much closer to a free ticket now that Alaska is retaining its miles-earning policies for the foreseeable future.

Just after closing its acquisition of Virgin America, Alaska Airlines surprised travelers — and some loyalty experts — by making a simple announcement about its frequent flyer program: Passengers will continue to earn one mile for every mile they fly.

Not long ago, that was normal for all U.S. airlines. Travelers on most airlines who flew one-way from Seattle to Chicago, earned roughly 1,720 miles in the carrier's loyalty program, regardless of whether they bought a cheap ticket or an expensive one.

But that's no longer the case. In the past two years, American, Delta and United have joined Southwest, JetBlue and Virgin America in adopting a revenue-based system, awarding miles not for distance flown, but for money spent. That's good news for business travelers who buy four or five figure fares — on United, a high-level elite frequent flyer on a \$6,000 business class ticket from Frankfurt to Newark earns 66,000 miles, roughly three times more miles than in the old paradigm — but it's not so helpful for everyone else. Still, airlines argue it makes sense to reward lucrative customers over those who fly long distances on deeply discounted fares.

Alaska had been the lone hold out, rewarding travelers based on how far they fly. But when it acquired Virgin America, no one was sure how the airline would handle its combined frequent flyer program. Since Virgin America awards points by tracking customer spending, Alaska would have had an excuse to follow other airlines. But on Dec. 19, it chose a different path, not only retaining the old system, but also slashing the number of miles many passengers need to redeem free flights.

“We think it’s the fairest thing to do,” Ryan Butz, Alaska’s managing director of loyalty marketing, said in an interview. “Frankly, it is something our competitors have moved away from and it hasn’t been something that people have liked, other than the small percentage of customers flying on really expensive fares.”

Airlines are publicly traded corporations with investors, and they rarely make decisions only because of altruism.

In sticking with the status quo, Alaska is betting its program can be a differentiator that keeps customers loyal. It’s a similar strategy to Southwest, which still allows all passengers to check two bags for free, going so far as to trademark the phrase, “Bags Fly Free.” Every other airline charges for checked bags.

By sticking with its system, Alaska may award more miles than its competitors, and the airline will have to keep them on its books as a liability. But Butz called it a worthwhile investment.

“I think it may cost us more to have a mileage-based program than a revenue-based program, but the lost revenue from alienating loyal customers is more than we wanted to take on,” Butz said.

Undoubtedly, Alaska’s customers will appreciate the decision, since most will earn enough miles for free trips much sooner than on Delta, United or American.

But whether they will be more loyal to Alaska is less clear. Infrequent airline passengers like generous loyalty programs, but they often prefer discounts even more, and might defect to Delta, or even Spirit, to save \$5 or \$10 per ticket.

Ryanair founder Michael O’Leary once said that a major percentage of travelers would crawl over broken glass, naked, to get the lowest fare.

“There is a component of the marketplace that is very sizable — perhaps 50 percent — that will only consider price, even with the inconvenience of a connection versus a nonstop,” said Jay Sorensen, an expert on loyalty at IdeaWorksCompany who has consulted for several airlines, including Alaska. “But frequent flyer programs have never been designed to win everyone. They have been designed to win at the margins.”

Sorensen, who did not consult with Alaska on this decision, called Alaska’s ploy smart, comparing it to Donald Trump’s campaign strategy of “targeting the forgotten voters who live in impoverished rural areas.” Other airlines, he said, no longer reward loyalty from occasional travelers, preferring to focus on high-value customers in first class, business class and premium economy. (Alaska is also rewarding those customers, announcing plans to give more bonus miles to premium customers on its partner airlines, including Cathay Pacific and Emirates.)

But in the aggregate, occasional travelers can be valuable to an airline. At United and American, executives have said infrequent flyers account for about 85 percent of all customers, and roughly half of all revenues. (Butz declined to share figures for Alaska.)

“They want to send a message that if you are a less frequent traveler, this program can mean a lot to you,” Sorensen said. “They certainly are picking on a part of the market that has been neglected by the moves made by Delta, American and United. There’s always value in doing that.”

Alaska also must earn trust from Virgin America’s customers. Virgin America does not have the most rewarding frequent flyer program, but it developed a loyal following through other means, like cultivating a fun, friendly environment on its aircraft. While Virgin America will remain a stand-alone entity for the foreseeable future, Alaska wants to focus on retaining those customers over long term, and a generous frequent flyer program is one part of the strategy.

“We have got to earn the loyalty of the Virgin America flyers,” Butz said. “The intent is to keep our MileagePlan as generous and aggressive as it is. We were going to do that independent of the Virgin America deal. But the trick now is to make sure Virgin America flyers understand [the value proposition.]”

In a recent post, airline blogger Gary Leff, an expert on points programs, commended Alaska for its decision, calling it a strong move to build loyalty as the company merges two airlines into one. But he noted Alaska could always reverse course.

“It’s notable ... that the airline says they aren’t planning to go revenue-based with its frequent flyer program,” Leff wrote. “I’m always skeptical of such claims, but there’s a good chance that this merger will forestall any move to go revenue-based that would otherwise have been on the table. It’s unlikely we’d see a major upending of the program before 2019.”