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By Conor Shine

## **Are all frequent-flier programs the same? We asked a rewards expert**

*This article is based upon a report issued by IdeaWorksCompany.*

For decades, airline frequent-flier programs were based on a simple premise — the farther you flew, the more rewards you earned.

But those days have largely come to an end, at least in the United States. American Airlines last year became the latest major carrier to change their frequent flier program to be based on the price of the ticket rather than the distance flown, mirroring steps taken by United, Delta and Southwest.

Frequent-flier expert Jay Sorensen chronicled these changes in a recent report, comparing the different ways airlines around the world reward their most loyal customers.

The Dallas Morning News spoke with Sorensen, president of IdeaWorks Company, about what these changes mean for passengers, why miles don't make sense as a currency for frequent fliers and what travelers should consider when choosing a loyalty program. His comments have been edited for brevity and clarity.

### **How did we end up with miles as the most common currency for frequent-flier programs?**

When they started these programs, they said 'Okay we want to reward these customers; what do we know about them?' They knew where they got on the airplane and knew where they got off.

So they said 'Okay, let's make them based upon miles.'

In my opinion, at this point, it's a ludicrous method of measuring the value of a customer and even in terms of its branding.

I have a brother who is older and not very travel savvy, and he's never been able to figure out why a reward ticket costs 25,000 miles. He always tells me, 'But Jay I'm not flying 25,000 miles.'

As consumers, whenever we have a program we interact with that's a loyalty program in some other industry, it's always based upon spending.

**What's driven the shift toward frequent-flier programs based on the amount spent on the ticket rather than distance flown?**

Whenever you have a loyalty program, you should measure what you want to motivate, and just by definition, measuring miles doesn't make any sense. You want to motivate people to fly farther? That's not always the case.

From a profit perspective, an airline may be very happy selling a ticket to a business traveler from Atlanta to New York than a discount ticket from Miami to Sao Paolo.

I think it was that combination of all the new programs being based on revenue spent and the established airlines in the U.S. beginning to realize this mileage thing is not what we want to motivate. We want to motivate people to spend more with us.

**These revenue-based programs seem to favor high-spenders while making it harder for infrequent travelers to earn rewards. Is that the case?**

The way American, United and Delta have created their systems, you are correct. It doesn't have to be that way though. You can bias an accrual system to generate whatever benefit you're seeking.

But when you look at the mechanism being used by the Big Three, it's clear they obviously want to bias it towards people that have elite status because they get a bonus.

Someone who is buying a cheap transcon ticket is going to do very poorly in this new world, whereas someone who spends money on expensive tickets will do very well.

**Alaska Airlines stands out for sticking with its distance-flown method. Does that give it an edge versus other carriers?**

My first reaction has always been that revenue-based accrual is clearly the answer. Having said that, when I did the analysis regarding Alaska Airlines, they clearly have created a program that is very rewarding for lots of people. Not just long-distance travelers, but also for people who are buying more expensive tickets.

What they have done is they've said, 'We've made our program better and you're going to continue to get good value from us.' That's a very compelling message.

I really give Alaska kudos for innovation, but it's weird to say that. It's almost as if they're being innovative by staying the same.

### **How has the popularity of credit cards as a way to earn frequent-flier miles impacted the way programs are designed?**

The credit card began to creep into the picture in the 1990s, and it forever changed the dynamics of these programs.

For U.S.-based programs, it is the most important factor that an airline management team considers when thinking about their frequent-flier program. It's huge.

When I am talking to airline clients, I encourage them to look at a frequent-flier program as a three legged stool in terms of benefits.

The legs are the loyalty effect of having people earn points or miles. Number two is that this enhances communication with the member going both ways. The third and final leg is the cash generation, the revenue side of it.

If you create a program that's mercenary in its approach to members as only a source of cash from the sale of miles, those programs will fail.

### **What should a passenger think about when deciding which frequent-flier program to join?**

The ability to accrue frequently is probably the most important element. Then after that, these programs are so much the same, unfortunately.

Clearly, if you live in Dallas you have two choices: Southwest or American Airlines. Those are two very different styles of airlines, and so I can't imagine anyone choosing either based on the reward program alone.

You have these odd markets like Chicago where United and American share the market, so maybe the frequent-flier program in that case is a significant factor in choosing between those two carriers.