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## **Troubled Airline Industry Returns to Innovative Marketing Programs during 2004 Industry Analysis from IdeaWorks**

*Airlines embrace innovation by adding programs to attract more customers, gain market share and boost revenues.*

After exhausting the benefits of deep discounts on airfares and squeezing the cost side of the income statement for more savings, airlines began to pay attention to more novel methods of improving their financial results. Marketing initiatives occurred all over the world during 2004, reflecting an increased emphasis on using new and innovative marketing solutions. Here is a sampling of the industry analysis:

- Ryanair launched the first co-branded credit card that operates as a stand-alone frequent flier program by offering free tickets - - saving the ultra-low cost airline the expense of running an in-house frequent flier program.
- United Airlines increased the appeal of Mileage Plus by launching a cruise web site allowing members to earn miles on cruise purchases or redeem miles for free travel on 20 cruise lines.
- Air New Zealand jettisoned the traditional reward chart - - and the curse of blackout dates and inventory controls - - when it introduced Airpoints Dollars that members spend like cash to buy tickets online.
- jetBlue put its money where its mouth is with its “CompanyBlue Service Commitment” for corporate travelers – if the airline fails to perform, it compensates the traveler.

If necessity is the mother of invention, then 2004 appears to have been a very needy year. The travel industry continued to experience severe financial stress, with the survival of many airlines being uncertain. The industry has traditionally relied on deep discounts and severe cost cutting to prop up the bottom line.

But blooms are beginning to appear in this bleak landscape through the addition of new perks and promotions for frequent travelers. This industry analysis reviews innovative products and promotions offered by Air New Zealand, AirTran Airways, American Airlines, jetBlue, Ryanair, United Airlines and Virgin Blue. These companies have realized discounting and cost cutting has limitations; they have opted for innovative solutions to attract more customers, gain market share and boost revenues.

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Distinctive marketing can break through the clutter of a market place that has been too reliant on using ever-increasing discounts to sell tickets. The airlines in this industry analysis share two traits. First, they've developed something that is meaningful and new for the consumer. Secondly, they've created a distinctive competitive advantage that doesn't rely upon deep discounting or cost cutting.

### **Air New Zealand Airpoints Dollars – Buy your reward online**

Air New Zealand addressed the issue of too many miles chasing too few reward seats when it introduced Airpoints Dollars in November 2004. Members now earn and redeem via the new Airpoints Dollars loyalty currency. Accrual is largely based upon the fare paid - - higher fares earn more Airpoints Dollars. However, the beauty of the program is the simplicity of the redemption process.

Members of the Airpoints program may now buy reward tickets at the best fares available online. They need not worry about blackout dates or inventory controls - - their only concern is the balance of their Airpoints account. Members can save by purchasing the lowest web fares, splurge on a business class ticket, or pay higher fares for travel during the holidays. Residents of New Zealand and Australia may even conduct the entire transaction online.

Air New Zealand offers special Airpoints Dollars fares for long-haul routes such as those between the United States and Australia, New Zealand and the South Pacific. Families truly appreciate the revised program due to the savings associated with children's fares; frequent flier programs traditionally require the same amount of miles for adult and child tickets. Airpoints allows families to realize the big savings offered by child fares in international markets.

### **AirTran Airways – Reward travel on any airline**

The A+ frequent flier program from AirTran Airways was an early innovator with reward choices that included travel on other airlines. These choices were expanded in June 2004 through the enhanced "Go Anywhere" reward structure. The changes represent an efficient and attractive response to the worldwide rewards offered by its major competitor Delta Airlines.

Roundtrip travel to anywhere in the world - - via other airlines - - is now available in exchange for 100 A+ credits. Roundtrip coach travel within the 48 U.S. states requires 32 credits, and travel to Alaska, Hawaii, Canada and Mexico is available for 50 credits. However, members are encouraged through reward chart incentives to choose AirTran flights and destinations for reward travel; one-way travel on AirTran requires only 8 credits in coach or 16 credits for business class.

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AirTran removed the need to participate in the reward plans of global airline alliances by opting to purchase tickets at prevailing fares. Redemption is simple and features personal service; members are referred to a travel agency authorized by AirTran to book reward travel on other airlines.

The airline has established a few parameters to minimize the expense of buying tickets from other airlines. Members must plan an itinerary with a minimum stay of one Saturday night and a maximum stay of 30 days, with no stopovers allowed. AirTran may specify the final itinerary by requiring changes to the departure and return dates. However, dates are usually not changed if the member avoids the blackout dates published for travel using AirTran reward tickets. The request must be made at least 30 days prior to departure. This fulfillment process is similar to that used by travel-oriented credit cards now issued by most major banks.

Because these are regular tickets, reward travelers may participate in the frequent flier programs offered by the airline on which they are ticketed - - the ultimate double dipping benefit! Tickets are delivered to the member via express delivery, and the member is responsible for paying taxes and fees.

### **American and United Airlines – Short haul rewards at 15,000 miles**

Major airlines have steadily and actively increased the frequent flier activity required to earn free travel. So, it's a remarkable event when 2 major airlines concurrently introduce a lower 15,000 mile reward level for shorter trips.

Reward inflation has gradually occurred through transparent increases to the base reward level from 20,000 miles to the current 25,000 miles required for a domestic ticket. However, the biggest increases may have occurred through the more opaque method of revenue management. Members often complain about the availability of reward seats and many now consider the base 25,000 mile rewards to offer little value. Here too, the airlines have contributed to reward inflation by offering rewards requiring 40,000 to 50,000 miles for freedom from blackout dates and seat limitations.

Inflated reward prices have encouraged frequent fliers to accumulate their miles and to instead spend cash to purchase tickets for vacation travel. This allows members to avoid the hassles of blackout dates and inventory restrictions and take advantage of deeply discounted fares. American and United reacted by introducing a new 15,000 mile reward for nonstop trips of 750 miles or less. No doubt, the existence of a 15,000 mile domestic reward from Frontier Airlines contributed to United's decision.

American and United have positioned their 15,000 mile short-haul rewards as a temporary promotion. Both were effective for travel September 1, 2004; United's reward expires on December 31, 2004 and American's reward expires on February 28, 2005. However, frequent fliers should not be surprised to see the 15,000 mile short-haul reward become a permanent fixture for US-based programs as the airlines try to clean up the looming reward liability carried on their balance statements.

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#### **jetBlue – Guarantees service to its corporate travelers**

JetBlue is well known for its free 36-channel satellite television offered at every seat. It is less known for its CorporateBlue program launched in June 2004. It's a handy online corporate travel booking site complete with tracking reports that an accountant would truly love. Included within the corporate program is a unique service guarantee for its enrolled travelers.

The CompanyBlue Service Commitment is a manifesto of sorts for the frequent traveler. While trueBlue provides frequent fliers with free travel - - the Service Commitment helps ensure ease of travel. jetBlue provides tangible compensation if a flight is canceled, delayed more than two hours, or experiences an interruption of the DIRECTV live satellite television service. The following describes the coverage and compensation provided:

- Canceled flight\* - Free one-way voucher equal to the value of the affected trip.
- Maintenance delay between 2 and 4 hours - \$50 travel voucher.
- Maintenance delay between 4 and 6 hours - Free one-way voucher up to the value of the purchased one-way trip.
- Maintenance delay more than 6 hours - Free round-trip voucher up to the value of the purchased round-trip travel.
- Missed connection due to mechanical delay - Free one-way voucher equal to the value of the affected trip (up to \$299).
- Weather\* delay more than 3 hours - \$25 travel voucher.
- Unscheduled en route stop - \$25 travel voucher.
- DIRECTV out of service less than 1.5 hour - \$5 travel voucher.
- DIRECTV out of service between 1.5 and 3 hours - \$10 travel voucher.
- DIRECTV out of service more than 3 hours - \$15 travel voucher.

Notes: \*Cancellations due to weather conditions are excluded. JetBlue will, however, respond to weather-related delays and cancellations on a case-by-case basis.

The program is highly automated and delivers pre-printed vouchers to the affected boarding gate. Imagine . . . a program that anticipates a service interruption and delivers compensation before the passenger experiences the problem.

#### **Ryanair – Charge 5 tickets and get 1 free**

Frequent flier programs have begun to creep into the world of low-cost airlines. Joining them is the world's low cost champ – Ryanair – which launched a very rewarding “buy 5 roundtrip flights get 1 roundtrip free” offer to U.K. and Ireland residents with its Ryanair.com Visa card in 2003. In June 2004, Ryanair announced over 200,000 credit cards had been issued to its customers. Built upon this success, Ryanair introduced a similar Ryanair.com Visa card to the German market in December 2004.

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For Ryanair, with its unrelenting emphasis on low costs, the card offers the benefits of a loyalty marketing program - - with all costs likely covered by its bank partners in the U.K. and Germany. The recently launched Germany-based card offers a lower payout of 1 free roundtrip for every 10 roundtrip Ryanair tickets charged and flown.

Frequent flier programs are well entrenched among US-based low cost airlines such as Frontier, jetBlue and Southwest. Elsewhere in the world, Jetstar (Australia), LTU (Germany) and Blue 1 (Scandinavia) are largely unique among their low-cost competitors for offering frequent flier benefits.

The Ryanair.com Visa card represents an ingenious method to introduce frequent flier benefits to its credit-worthy customers. For these travelers, the card delivers extremely generous free travel benefits. The card rewards free travel on the basis of Ryanair tickets charged to the card and flown by the cardholder in a year.

The credit cards offered by Ryanair include a very attractive sign-up bonus of one free flight after first use of the card. Travel rewards are valid on more than 140 Ryanair routes across Europe. Similar to a frequent flier reward, Ryanair limits the number of free seats on each flight and travelers are responsible for payment of taxes.

### **United Cruises - Cash in miles for a free cruise**

United Airlines realized that a competitive issue was developing when American Airlines launched its vacation awards in 1999. American's AAdvantage program has pioneered the development of non-airline rewards. Its AAVacations program now allows members to redeem and earn miles for vacation packages that include land arrangements such as hotel stays, theatre tickets, rental cars, theme park passes and ski lift tickets.

United responded in July 2004 by entering the online cruise business with its United Cruises product. More than 20 different cruise lines, representing all major North American cruises, are affiliated with the site. Mileage Plus members may earn miles for cruises purchased, such as 1 mile for every dollar spent. More importantly, miles may be redeemed for free cruise travel.

No strings are attached to the reward offer with the exception of a minimum redemption requirement of 10,000 miles. To provide an example, IdeaWorks priced the February 9, 2005 departure of the Carnival Miracle for a 3 night Bahamas cruise. An inside cabin for two persons was available for \$650 including tax.

The mileage calculator on the web site indicated 107,000 miles were required to purchase the cruise package. This rate of exchange assigns a value of \$.006 per Mileage Plus mile. IdeaWorks has performed analysis that indicates this rate of exchange has been adopted by other frequent flier programs (including American's vacation rewards program) for their non-airline rewards. Cruises on the site may be purchased using cash, Mileage Plus miles, or a combination of cash and miles.

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United Cruises has created a stronger Mileage Plus program for mileage accrual and travel rewards. The lack of restrictions on the redemption process is a welcome change to the usual fine print and consumer-unfriendly policies associated with reward travel.

### **Virgin Blue – Turns exit row seating into extra revenues**

How do airlines find new revenues without adding seats or flights? Virgin Blue of Australia found the answer was already behind the noses of its aircraft. This single class low-cost airline places a price premium on its exit and first row seats. These rows are mandated by safety regulations to feature extra space.

Virgin Blue created a unique product when it branded these seats the “Blue Zone.” For an extra AUS\$30 (US\$23) each way, travelers can enjoy 40 inches of seat pitch compared to the usual 32 inches. Passengers are qualified for exit row seating prior to confirming reservations.

### **Conclusion**

2005 will likely reinforce Charles Darwin’s theory in which the fittest will survive. Aviation fuel prices will likely remain high, investors seem unwilling to grant unlimited credit and employee groups at “legacy carriers” are tiring of draconian pay cuts. Carriers relying on more of the same - - meaning cost cutting and fare discounting - - are likely to become extinct or cease to exist in their current form. The future belongs to those possessing the desire and ability to evolve and grow. Perhaps Charles Darwin would assess the situation by saying ‘innovation is the mother of evolution.’ One could easily predict 2005 will be an even more turbulent year for the airline industry.

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