



Issued: July 25, 2007
Contact: Jay Sorensen, 414-961-1939
IdeaWorksCompany.com

AirTran A+ Rewards Members Earn Free Tickets More Quickly than Members of the Midwest Miles Frequent Flier Program

But Midwest Miles elite members enjoy greater benefits than elite flyers at AirTran.

The 2.3 million members ¹ of the Midwest Miles frequent flier program are likely to be very interested observers in the takeover battle between AirTran Holdings and Midwest Air Group. The outcome of the hostile takeover will determine whether they remain members of Midwest Miles or have their accounts and mileage balances converted to the A+ Rewards program offered by AirTran Airways.

There are many factors to consider when comparing frequent flier programs, such as partner networks, elite tier programs, reward destinations, and customer service. This report reviews what most frequent fliers consider to be the most crucial factor - - how quickly a free reward ticket is earned by regular members of the programs.

Comparing Earning Power of the Programs

From an earning power perspective, members of the Midwest Miles program would likely benefit from a takeover of the airline by AirTran Airways. This assessment is based upon a comparison of the accrual value offered by the Midwest Miles and A+ Plus Rewards programs. Members of A+ Rewards earn a roundtrip reward ticket after completing 16 one-way flights, while the typical Midwest Miles member must take 27 one-ways to earn a free roundtrip ticket. The difference represents a very significant 11 additional one-way trips, or 68% more flying than required by AirTran's frequent flier program. ²

Calculating the earning power of the A+ Rewards program is made easy by the simple accrual and reward method used by AirTran. The airline promotes the program at its web site with the following slogan:

“The fastest free ticket on earth (and maybe the easiest).”

Each one-way trip earns a “credit” and 8 credits are required for a capacity controlled one-way reward ticket or 16 credits for a roundtrip.

A+ Rewards and Midwest Miles

Page 2

AirTran also offers a business class reward for 16 credits one way. The two by two seating is comparable to the Signature Service offered by Midwest Airlines, but AirTran adds free drinks and early boarding for its premium cabin. According to information at SeatGuru.com, AirTran's business class offers 4 to 5 additional inches of space between seat rows when compared to Midwest's Signature Service.

The Midwest Miles program relies upon the flight distance flown by a customer to determine the amount of mileage accrual. This presents a challenge when calculating the earning power of the program. In reality, the value realized by every member is unique, as mileage accrual is determined by a traveler's individual itinerary. Midwest Air Group does publish statistics that reveals the average trip length flown by its passengers was 953 miles³ for the 3 months ended March 31, 2007. This statistic was used to calculate the number of one-way trips required to earn a reward ticket.

The allure of A+ Rewards does diminish when the elite tier benefits of the programs are compared. AirTran offers elite status after 20 one-way trips are flown in any 90-day period or 50 or more one-way trips in any 365-day period. Remarkable as it may seem, once the elite status is earned, the benefit continues regardless of future flight activity. Elite status on AirTran provides benefits such as business class upgrades, priority security lines, and the unlimited ability to transfer credits to other accounts. However, the elite status does not increase the earning power of the program by offering bonus credits.

By comparison, the Midwest Miles program provides numerous mileage benefits. Midwest offers elite status after 20,000 flight miles or 25 one-way trips are accrued during a calendar year. The program delivers a generous 50% mileage bonus, and more miles are deposited when defined thresholds are reached. For example, accruing 30,000 flight miles earns a bonus of 5,000 miles, with another 5,000 miles added when the 40,000 and 50,000 flight mile thresholds are reached. The program also offers reward discounts that effectively increase the value of miles accrued.

Credit Cards Boost the Earning Power of the Programs

AirTran A+ Rewards and Midwest Miles have similar co-branded credit cards issued by Barclays Bank Delaware. It is ironic that Midwest Miles members would not experience a change in their banking relationship if AirTran's takeover were successful.

In a world where first year fee waivers are commonplace among major airlines, the AirTran and Midwest cards still charge annual fees. The annual fee for the Midwest Airlines MasterCard is \$49, while the AirTran Airways Visa is priced slightly lower at \$39 per year. Both airlines offer no-annual-fee versions that accrue miles at half the rate of the annual fee cards.

A+ Rewards and Midwest Miles

Page 3

Many of the features of the cards are similar. The Midwest Airlines MasterCard offers double miles for the purchase of Midwest Airlines tickets; the AirTran Airways Visa card offers double points for the purchase of AirTran tickets. The cards offer a sign up bonus that is earned after a cardholder's first purchase. The slightly higher Midwest Airlines MasterCard fee is mitigated by a bonus of 12,500 miles, which is equal to 50% of the miles required for a roundtrip reward ticket. The AirTran Airways Visa card offers a bonus of 8 credits, or 100% of the credits required for a one way reward ticket. Bonus offers are based upon current web site offers, and offers may vary by location.

The cards are very different on a crucial feature - - the amount of charge activity required to earn a free reward ticket. The greater generosity of the A+ Rewards program allows its credit card to be more rewarding too. The AirTran Airways Visa card delivers a free roundtrip reward ticket after \$16,000 of charge activity. The same \$16,000 charged to the Midwest Miles MasterCard delivers 64% of the miles required for a free roundtrip ticket on Midwest Airlines.

What Happens to Frequent Flier Miles in a Takeover?

The acquisition of TWA by American Airlines may provide a good example of how airlines merge their frequent flier programs. On November 30, 2001 American ended the TWA Aviators frequent flier program. Account balances were automatically transferred to a member's American AAdvantage account. The automatic conversion occurred for accounts that had an exact name and address match.

Postings at online chat boards suggest the process was difficult for some members and entire account balances were sometimes lost. The AAdvantage program provided ample opportunity for Aviators members to see whether the transfer occurred. Trouble occurred when members didn't monitor their accounts. Elite members in the TWA program received a similar designation in the AAdvantage program. Plus, the flight activity from both programs qualified toward elite status for the next year.

AirTran has already removed most of the mystery for Midwest Miles members. The merger FAQ page at the AirTran web site offers the following question and response:

What would happen to my frequent flier miles?

In terms of our frequent flier program, any miles that you have on Midwest Miles would be combined with your A+ Rewards credits and you would now be able to use your A+ Rewards credits on Midwest routes. Members in both programs will benefit from a larger network on which to earn credits. AirTran Airways and Midwest also use a common bank for our frequent traveler affinity credit cards, so combining the programs would be that much easier.

A+ Rewards and Midwest Miles

Page 4

While the answer is silent on the treatment of elite members, if past practice for other mergers and takeovers can provide guidance, elite members of the Midwest Miles program would likely receive elite status in A+ Rewards. The acquiring airline almost always lavishes attention on the highest revenue producing customers gained during a takeover.

Conclusion and Observations

AirTran's continued pursuit of the acquisition, and the June 14, 2007 election of three outside directors nominated by AirTran, suggests the takeover will eventually become a reality. For the vast majority of Midwest Miles members the news is good. AirTran's A+ Rewards program delivers free travel faster than Midwest Miles. AirTran has already promised to transfer Midwest Miles account balances to its A+ Rewards program. The most equitable conversion formula would make 1,500 Midwest Miles equal to one A+ Reward credit.

Under the current A+ Rewards program structure, the news for elite tier members of Midwest Miles is less positive. Midwest Airlines simply does a better job of piling on the miles and benefits for its elite members. Of course, AirTran members choosing business class would automatically earn a 50% bonus. AirTran has expressed the desire to learn from the best practices of Midwest Airlines, and the elite program appears to be an area where AirTran would likely make improvements to its A+ Rewards program.

If the merger does become reality, members of the Midwest Miles program should save a copy of their latest statement as protection against a computer glitch during the account transfer process.

About IdeaWorks: IdeaWorks was founded in 1996 as a consulting firm building brands through innovation in product, partnership, and marketing, and building profits through financial improvement and restructuring. Its international client list includes the hotel, airline, marine, railroad, consumer products and health care sectors. IdeaWorks specializes in brand development, profit improvement, competitive analysis, creating partner-marketing strategies, cost reduction programs and business restructuring. IdeaWorks brings value as a consultant by researching the expectations of the customer, and applying innovative ideas to create solutions for clients and consumers. Learn more by visiting: IdeaWorksCompany.com.

A+ Rewards and Midwest Miles

Page 5

Disclosure: IdeaWorks makes every effort to ensure the quality of the information available in this report. Before relying on the information, readers should obtain any appropriate professional advice relevant to their particular circumstances. This Industry Analysis was independently produced and has not been completed as work on behalf of a client company. IdeaWorks cannot guarantee, and assumes no legal liability or responsibility for the accuracy, currency or completeness of the information.

Endnotes:

- 1: Midwest Air Group, 2006 Annual Report, MidwestAirlines.com.
- 2: Information obtained during a July 2007 review of web sites at MidwestAirlines.com and AirTranAirways.com
- 3: Average trip length calculated for all Midwest Air Group passengers based upon information in the Quarterly Financial Statement for the 3 months ended March 31, 2007, MidwestAirlines.com