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Low Cost Airlines Launch a New Batch of Frequent Flier Programs All Over the Globe

Free travel benefits are now offered by eight new entrant airlines:
Eos Airlines, Germanwings, go!, Kingfisher Airlines, MAXjet Airways, Spirit Airlines, Virgin Blue Airlines, and Virgin Express.

Low cost carriers ("LCCs") are shedding their "no frills" personalities and are adding amenities as competition increases with established airlines and even other LCCs. These airlines are reaching out to capture business travelers with services normally associated with legacy airlines. These added value services include premium cabins, seat assignments, airport lounges, meal service, and frequent flier programs.

IdeaWorks recently completed analysis of the new programs offered by the following LCCs in Europe, Asia, the South Pacific, and the United States:

Table 1: Airlines Included in this Analysis

Eos Airlines (USA)	Eos is a new single class premium service airline. Eos flies daily between New York and London. EosAirlines.com
Germanwings (Europe)	Germanwings links cities with low fares at hubs in Berlin, Cologne/Bonn, Hamburg and Stuttgart. Germanwings.com
go! (USA)	go! offers jet service and low fares on Hawaiian inter-island airline flights from its Honolulu hub. iflygo.com
Kingfisher Airlines (India)	Kingfisher offers two-cabin service at low fares and with more frills for Indian travelers. FlyKingfisher.com
MAXjet Airways (USA)	MAXjet is a low-fare all-business-class airline. MAXjet flies to London from New York and Washington DC. MAXjet.com
Spirit Airlines (USA)	Spirit offers two-cabin service in the USA and to the Caribbean from its Detroit and Fort Lauderdale hubs. SpiritAir.com
Virgin Blue Airlines (Australia)	Virgin Blue is Australia's low cost airline with a network that reaches New Zealand and the South Pacific. VirginBlue.com
Virgin Express (Europe)	Virgin Express links large cities of Europe with low fares from its hub in Brussels. VirginExpress.com

These LCCs are distinct in almost every way

The eight airlines are an eclectic group and have marketing strategies and products that are as varied as their global geography. Using a creative approach to tap what they perceive to be market opportunities appears to be one of the few things they share. The others are their ability to achieve lower operating costs and the decision to launch a frequent flier program within the last 12 months.

Four of the airlines analyzed offer a traditional LCC product providing very low fares and a single-class cabin: Germanwings and Virgin Express in Europe, Virgin Blue Airlines in Australia and go! in Hawaii. Two of the airlines offer a blended LCC product with two cabins: Kingfisher Airlines in India and Spirit Airlines in the USA.

The final two are close competitors and represent a dramatic departure from the traditional LCC model. Eos Airlines and MAXjet operate single class premium services between the United States and London. But they also compete against majors such as American Airlines and British Airways by offering distinctly different business class service at lower fares - - made possible by their lower cost structure.

Frequent flier programs are a common ground

The spurt of activity within the last 12 months suggests a trend within the LCC sector to add loyalty marketing strategies. They may share little in common in terms of product attributes, but the eight airlines share a common goal to add frequent flier benefits as an advantageous customer amenity. IdeaWorks analyzed the programs launched by the eight airlines:

Table 2: Frequent Flier Programs Included in this Analysis

LCC Airline	Program Name	Date of Launch
Eos Airlines	Club 48	January 2006
Germanwings	Boomerang Club	February 2006
go!	go! Miles	June 2006
Kingfisher Airlines	King Club	February 2006
MAXjet Airways	MAXFlier	February 2006
Spirit Airlines	Free Spirit	March 2006
Virgin Blue Airlines	Velocity	November 2005
Virgin Express	Flight Club	October 2005

The eight airlines probably independently evaluated the impact of what IdeaWorks calls the "three Cs" of loyalty marketing: Change, Competition and Cash.

- Points-earning programs **change** human behavior.
- **Competitors** already have programs, or may be considering them.
- Frequent flier programs can generate substantial **cash**.

Since these factors are core to any loyalty marketing strategy, it's appropriate to provide a brief overview of each.

Change, Competition, and Cash

Research conducted at the Graduate School of Business at the University of Chicago (in conjunction with the China Europe International Business School) on the topic of reward motivation[1] demonstrates the power of currency-based systems to motivate and change consumer behavior. The University of Chicago research demonstrated consumer behavior could be manipulated through the introduction of a points-based currency as a mechanism to earn rewards. The study found research subjects would go through extra effort, and even make unattractive choices, to pursue greater point accumulation.

The effectiveness of frequent flier programs is evidenced by their prevalence as low fare markets mature. All large LCCs in the United States, with the exception of niche player Allegiant Air, now offer free travel benefits. In Europe, where the low fare industry is just beginning to see signs of maturing, more and more LCCs are adding programs.

European LCCs are dominated by Ryan Air in the #1 spot, followed by easyJet[2]. These two airlines have maintained the traditional LCC model by offering extremely low fares, single-cabin service, and no traditional frequent flier program. However, Ryan Air has learned how to convert into an attractive revenue stream through the addition of co-branded credit cards in versions designed for customers in Germany, Ireland, Italy, Spain, and the United Kingdom. Cardholders receive travel rewards base on overall charge activity, with premiums placed on charging Ryanair tickets. The list of large European LCCs includes ten that offer frequent flier programs: Aer Lingus, Air Berlin, Air Europa, Condor, flybe, Germanwings, Hapag-Lloyd, LTU International Airways, Monarch, Virgin Express.

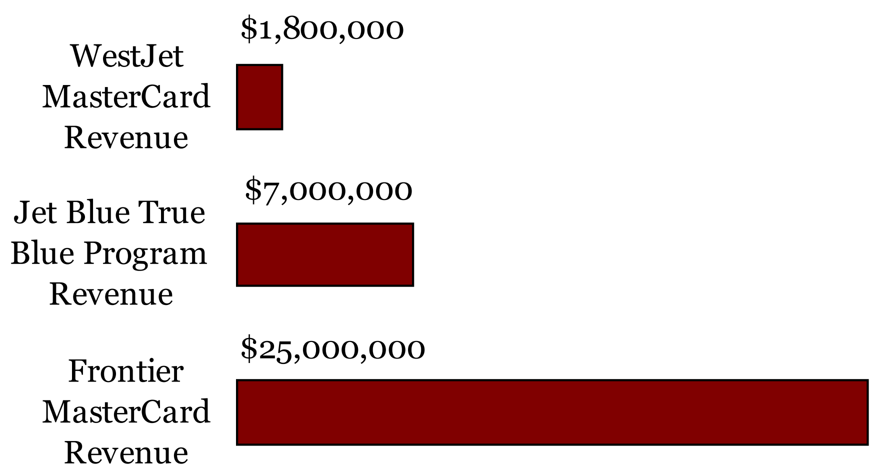
Other regions of the world, where the LCC phenomenon is in its infancy, show less loyalty marketing activity. Asia and the South Pacific offer the next highest level of activity with programs offered by the following carriers: Air Sahara, Jetstar Airways, Kingfisher Airlines, Lion Air, and Virgin Blue Airlines.

Major airlines already derive substantial cash revenues from their frequent flier programs. IdeaWorks analyzed the 2005 annual report filings of US-based airlines to determine the revenues generated by the sale of miles to program partners.

United Airlines reported its Mileage Plus program contributed revenues in excess of $800 million. US Airways benefited from a windfall of a $325 million pre-purchase of miles and a signing bonus of $130 million courtesy of its partner, Barclays Bank.

IdeaWorks estimates co-branded credit cards are responsible for 70% of program revenues at the major airlines. The graph[3] below demonstrates how some LCCs in the United States and Canada also enjoyed revenue success during 2005 courtesy of their frequent flier programs:

Graph 1: LCC Partner Revenue Examples



Most frequent flier programs begin as a cost center for the airline. The expense of developing and operating programs will initially exceed the partner revenues generated by a just-launched program. Surprises do exist in the marketplace and LCCs can sometimes negotiate attractive signing bonuses with banks wishing to secure a co-branded relationship with a growing airline.

Typically airlines are required to take a long-term investment approach and to place greater importance on the inherent loyalty benefits of a frequent flier program. Maintaining a competitive edge is also an early and important factor in the decision-making process used to evaluate whether to launch a program. The competitive factor is clearly evident upon reviewing the programs developed by the eight airlines.

Reviewing the New FFPs of the LCCs

IdeaWorks conducted a thorough online review during July 2006 of the eight programs. The programs were reviewed on the basis of the following categories:

- **Accrual currency** – the type of currencies used by the program and how they are earned, along with mileage and point expiration policies.
- **Rewards** – the primary reward premise and the scope of reward choices available to members.
- **Membership tiers** – how airlines choose to recognize the "most frequent" of their program members.
- **Program partners** – bonus earning opportunities through co-branded, hotel, car rental, and other partner relationships.

Within the categories are examples of unique features developed by the airlines included in this report. Cleary, these airlines have benefited from starting their programs with an "empty canvas." Their status as LCCs does not require them to share the program template used by legacy airlines. Some of these innovations will generate positive results and competitive advantages, while other features will likely fail. But as a group, the eight LCCs demonstrate a laudable creative spirit.

Program Currencies, Accrual and Expiration

One single currency type does not prevail among the eight programs. Four use points and three use miles. Germanwings receives special mention for a most unusual type of currency – "Boomerangs." In effect, these are creatively-named points. Germanwings is also the only program to charge a one-time program enrollment fee, which is set at 5 Euros.

Accrual for miles-based programs is determined by the distance flown by a member. go! acknowledges its short inter-island flight network by providing a fixed 500 miles for each trip flown – even though actual flight distance is less. Kingfisher Airlines and Spirit Airlines slightly alter the equation by reducing the miles earned for travel using their deeper discounted fares. With one exception, the points-based programs accrue on a fixed basis regardless of the distance flown or the price paid.

Virgin Blue uses a point system based upon the fare paid by the member. Their Velocity program accrues 6 points per Australian dollar spent on the total fare to include taxes, fees and surcharges. The accrual method likely generates jealousy from frequent flier program managers and airline accountants worldwide. It represents what many airline executives consider to be the "holy grail" because it defines customer value on the basis of revenue generation. Miles flown is considered by many to provide an inadequate measure of customer value.

While Southwest is often described as a model for LCCs, its method of frequent flier accrual has not been copied by these carriers. The Rapid Rewards program accrues one flight credit per one-way trip. This smaller currency value leads to awkward marketing messages for bonus relationships.

For example, Hertz car rentals accrue .5 flight credits in Rapid Rewards. The co-branded credit card relationship is also made more complicated with charge volume converted into reward dollars, which are then converted into flight credits on a 1,200 to 1 ratio. The eight programs probably anticipated the likelihood of partner relationships when designing their accrual rates to provide a larger quantity of miles or points.

Concern for reward liability is apparent among the eight airlines, as only two have policies in which account balances don't expire. The typical policy is for miles or points earned in a particular month to expire 12, 24 or 36 months later. This policy requires sophisticated account management software to manage the "first in first out" methodology. Spirit Airlines is unique in the group for a complex methodology which is waived by regular use of the Free Spirit MasterCard. The expiration policies for the eight airlines are summarized in the following table:

Table 3: Earned Miles and Points Expiration Policies	
Eos Airlines	**Points do not expire.**
Germanwings	24-month rolling expiration. Boomerangs earned during a specific month will expire 24 months later if unused.
go!	**Miles do not expire.**
Kingfisher Airlines	36-month rolling expiration. Miles earned during a specific month will expire 36 months later if unused.
MAXjet Airways	Policy was undetermined as of July 2006.
Spirit Airlines	If less than 2,000 miles are posted to an account from any source during a previous 6 month period, the miles on account prior to that 6 month period will expire. Miles don't expire with monthly use of the Free Spirit MasterCard.
Virgin Blue Airlines	Points don't expire, unless account is inactive (no accrual activity during a 36 month period).
Virgin Express	12-month rolling expiration. Miles earned during a specific month will expire 12 months later if unused.

Liability for unredeemed flight rewards has become an important consideration for frequent flier programs. The volume of miles and points generated from co-branded credit card activity can be significant. Accrual linked to partner activity has created looming liability issues for legacy airlines. The wish by airline accountants to remove liabilities from airline ledgers must be tempered by the desire to ensure the continued goodwill of the members.

Air Travel and Alternative Rewards

Free airline travel is the primary reward benefit for the eight LCC airlines. All of the airlines (except Kingfisher Airlines, Spirit Airlines and Virgin Blue) assign a fixed number of miles or points to the redemption of a systemwide reward ticket.

Kingfisher and Spirit use a reward chart method to define reward tickets by zone; these require specific mile and point levels for redemption. Spirit adds an advance purchase benefit by lowering the number of miles for its Early Bird Rewards when bookings are made more than 21 days before departure. Bookings made 21 days or less prior to departure require more miles.

Virgin Blue takes a unique approach by allowing members to "purchase" reward tickets with accumulated points. This method allows members to save points by choosing off-peak flights, or spend the maximum quantity of points to purchase the last seat on an almost fully-booked departure.

Eos Airlines offers alternative rewards to its members through the innovation of converting accrued points into travel dollars. These can be used to purchase tickets on any major airline and selected hotels and resorts at the rate of 1 penny per point earned; the 7,500 points earned on a one way flight represent a travel credit equal to $75. This program is very similar to the travel programs offered by bank credit cards, where cardholders simply call the program's travel agent to book a ticket. Eos also offers experience and merchandise rewards at the same exchange ratio of 1 penny per point earned. Merchandise credits may be redeemed through the merchants participating in its Club 48 reward catalog:

Table 4: Eos Airlines - Partner Reward Choices
Experience Rewards
Grove Spa Experience • Inside Sports & Entertainment Group
Quintessentially • Tour GCX Partner Club Network
Retail Rewards
Barneys New York • Crutchfield Electronics • Fortunoff • Harrods • Harvey Nichols
House of Fraser • John Lewis • Red Envelope • Sony Awards • Tumi luggage

For example, a full-day spa experience at The Grove in London for two persons (with plenty of extra amenities) is available for 118,000 points. Members may also experience Wimbledon with reserved tickets for two persons at the women's and men's finals, and 4-night double occupancy accommodations at the Ritz Hotel for 1.1 million points. Merchandise rewards include a $50 gift certificate from Barneys of New York for 5,000 points and a 255 English Pound gift certificate from Harrods for 45,000 points.

The pooling policy of Club 48 really distinguishes it from the other LCC carriers and practically all major airlines. Members earn points individually, but are allowed to pool points from up to nine other accounts for redemption purposes. The only requirement is that each member must contact Club 48 directly to request the transfer of points from their account. This is a significant benefit for families; a family of four traveling roundtrip between New York and London could pool their 15,000 individual points into a 60,000 point reward, such as a $600 travel credit on any airline.

Virgin Blue Airlines offers the largest network of airline reward partners with Virgin Atlantic Airways, Emirates, and its corporate affiliates Polynesian Blue and Pacific Blue. The Velocity program allows point redemptions for Europcar rentals in Australia and New Zealand. Its Velocity Online Shop provides an online catalog of 90 items that can be purchased using a combination of points and cash.

The rewards offered by the eight LCCs reflect an airline industry trend for adding alternative rewards and opening up ticket availability. However, legacy airlines and LCCs share a reluctance to spend cash to offer alternative rewards such as merchandise and services. Virgin Blue's reward structure represents an attempt to give accumulated points true value by allowing them to be used as currency to purchase reward travel. Eos Airlines takes a further step by assigning cash value of a penny per point for air travel and catalog reward purchases.

<u>Reward Value: Availability and Earn - Burn Ratios</u>

The value of an airline travel reward is reflected by its availability and how much flying is required to earn it. Reward availability remains a very contentious issue among frequent fliers. Programs operated by legacy airlines, such as United Airlines and American Airlines, are often portrayed in the media as having "too many miles chasing too few seats." The removal of capacity controls, commonly called "revenue management," greatly increases the value of a reward.

Four of the eight airlines use traditional capacity controls to determine reward seat availability: Germanwings, Kingfisher Airlines, go!, and Virgin Express. Eos Airlines and MAXjet Airways have decided to lift all controls for their upscale consumers and will allow the last seat on a flight to be filled by a reward traveler.

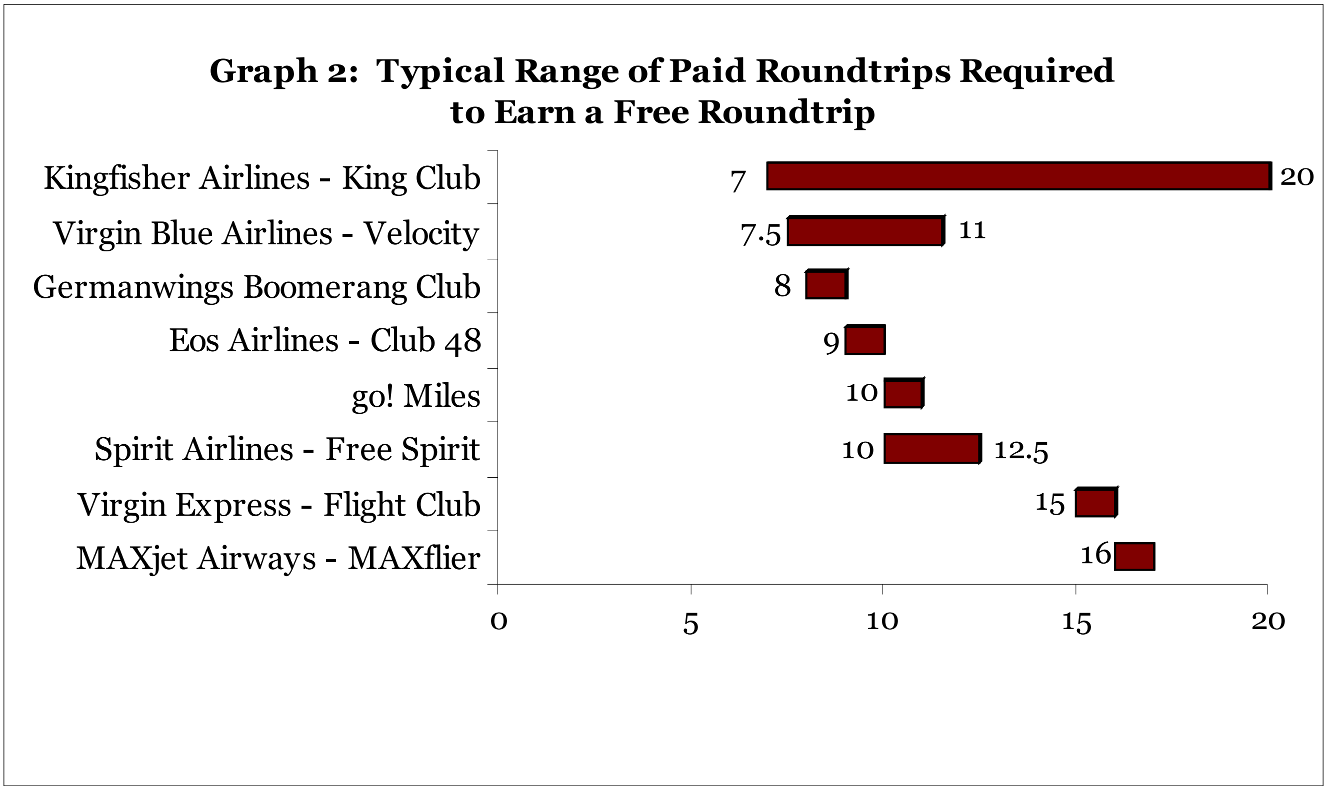
Spirit Airlines and Virgin Blue Airlines, by virtue of their unique reward methods, offer a variation on the capacity control theme. Some degree of capacity control is practiced because the number of points required for a reward ticket does vary. However, these airlines have addressed the availability issue by providing options to secure the last seat on a high-demand departure. The following table summarizes the reward availability policies of the eight airlines:

Table 5: Reward Availability Restrictions	
Eos Airlines	**No capacity controls on base reward** – last seat availability.
Germanwings	Capacity controls – seats are limited.
go!	Capacity controls – seats are limited.
Kingfisher Airlines	Capacity controls – seats are limited.
MAXjet Airways	**No capacity controls on base reward** – last seat availability.
Spirit Airlines	Variable reward levels - last seat is available for reward travel.
Virgin Blue Airlines	Variable reward levels - last seat is available for reward travel.
Virgin Express	Capacity controls – seats are limited.

Reward value is also determined by the earn-burn ratio, or the number of paid trips required to receive a free trip. The ratio is determined by the method of accrual and the reward chart used by each airline. The ratio can be pinpointed for airlines having fixed accruals and systemwide rewards. For example, Virgin Express offers a single accrual level of 5 points per one-way flight and a single reward choice of 75 points for a one way reward ticket. This yields an earn to burn ratio of 15:1 (15 to 1).

Earn-burn ratios are more difficult to describe for airlines having accrual rates that vary by the distance flown and those using reward zones. For example, members in the King Club operated by Kingfisher Airlines earn miles for the distance flown on paid tickets and choose reward levels ranging from 5,000 to 16,000 miles. IdeaWorks calculated the ratios representing the probable low and high end of the spectrum for three airlines: Virgin Blue Airlines, Kingfisher Airlines, and Spirit Airlines.

The ratios are not intended to allow direct comparison between the LCCs, or even between the eight airlines and their legacy airline competitors. Rather, the ratios are presented to demonstrate the value premise of each brand. Graph #2 (on the following page) shows the typical ratios that apply for each of the frequent flier programs offered by the eight LCCs.



It is interesting to note that an average one-way accrual of 1,000 miles and a 25,000 mile reward level on American Airlines would generate a ratio of 12.5, which is at the high end of Sprit's range of 10 to 12.5. Roundtrip travel on American between New York and London would yield 8,630 AAdvantage miles including a 25% bonus for business class. Choosing a business class MileSAAver 90,000-mile reward would require 10.5 paid roundtrips, and an AAnytime 180,000 mile reward (similar to the capacity-free rewards from Eos and MAXjet) would require 21 paid roundtrips.

The simplicity of some programs may be short lived as the programs are still maturing. Airlines such as Germanwings and Virgin Express may add complexity to their reward charts in the future by requiring more points for longer distance reward flights. MAXjet and Eos Airlines may change their existing accrual levels to better reward members paying higher fares.

Membership Tiers and Extra Recognition

Membership tiers recognize very frequent travelers and are usually added as a program matures. However Kingfisher Airlines and Spirit Airlines chose to add this as a launch feature for their programs.

Kingfisher Airlines takes a very traditional approach in the tier program developed for its King Club. Members qualify for participation in the frequent flier program at the King Red level by taking 3 flights within 12 months. The King Silver and King Gold tiers are offered for more frequent travelers. King Silver provides a 10% bonus on miles earned and King Gold provides a 20% bonus. Silver and Gold members also receive an additional checked baggage weight allowance and may visit the King First restaurants and lounges regardless of the fare paid.

Spirit Airlines offers a very complex program which is perhaps the most generous of any airline in terms of the tier bonuses provided to members. Its top Celebrity tier delivers triple miles on full-fares in coach and business class. Annually, the airline will designate a "#1" member on which it will lavish a quadruple bonus on full-fare business tickets.

Members enroll in the Free Spirit program at the "Somebody" tier. The next tier is called "Elite" and is earned by spending $1,200 on base fares during a preceding 6-month period or by simply making a single monthly purchase using the Free Spirit MasterCard. The next tier is "VIP" and is gained by 1) earning 24,000 miles from any source (including the credit card) or 2) spending $2,400 on base fares during a preceding 6-month period. But wait, there's even more!

The top 500 mileage-earning members in the Free Spirit program each month are placed on the "A List" and above that, the top 10 are placed on the "Celebrity" list. Qualification for these tiers is based upon miles earned from all sources, to include partner activities such as the Free Sprit MasterCard. Generosity always has a cost, and Sprit compensates for these bonuses by reducing the accrual rate of its general members by 50% for discounted coach fares. The following table lists the bonus accrual levels for the five primary tiers in the Free Spirit program:

Table 6: Spirit Airlines – Elite Tiers and Bonus Accrual

	Somebody	**Elite**	**VIP**	**A-List**	**Celebrity**
Business Class C Fares	125 %	150 %	200 %	250 %	300 %
Business Class A Fares	100 %	125 %	150 %	200 %	250 %
Coach Y Fares	100 %	150 %	200 %	250 %	300 %
Coach Non-Refundable	**50 %**	100 %	100 %	100 %	100 %

Spirit Airlines plans to throw a Free Spirit Awards Party each year to recognize members in its A-List and Celebrity groups. The airline offers even more tiers with its "Celebrities of the Year" and "Number One" category. Celebrities of the Year are designated annually and are the top 10 mileage earners in the Celebrity category. Celebrities of the Year designations are made at the end of Free Spirit's program year on October 31. The airline will provide airline tickets and hotel accommodations for the Celebrities of the Year choosing to attend the annual Free Spirit Awards party.

The airline plans to provide its Number One member a level of recognition worthy of a rock star. This member is the top annual mileage earner in the Free Spirit program. Spirit will name an aircraft in its fleet in honor of the Number One member. The member also enjoys the following perks: 1) Member may designate a companion for unlimited free travel for the year, 2) complimentary Spirit Vacations for two, 3) limousine service to and from the airport while traveling on Spirit, and 4) airline tickets and hotel accommodations to attend the annual Free Spirit Awards party.

This overview provides highlights of the Free Spirit program and is not intended to fully describe the tier components. The program demonstrates a level of complexity rarely found even in mature frequent flier programs. Kingfisher Airlines provides a more typical example of an airline starting with a simplified structure to recognize its higher revenue producing customers. Elite programs always face the challenge of meeting member expectations for recognition and extra service within the constraints of an airline's ability to recognize individual customers. Spirit's program represents the desire of the airline to reach high to recognize its best customers.

Co-Branded Credit Cards and other Partners

Similar to membership tiers, the addition of a co-branded credit card is a move usually made by a well-established frequent flier program. Card-issuing banks are readily attracted to the large frequent flier member databases of mature programs. However, competition among issuing banks has sometimes prompted an airline to launch a card prior to the full development of its frequent flier program. Banks have learned that locking in relationships at an early stage can keep an airline opportunity from being acquired by a competing bank.

Issuing banks, especially those in the United States, have been known to lure an airline with a substantial signing bonus. This can represent a long term mistake for the airline, as a few percentage points given up during these negotiations can negatively impact the bottom line by millions of dollars in the future. However, airlines can hardly be blamed in today's cash strapped environment for eagerly greeting any infusion of funds. The addition of a co-branded credit card also meets the expectations of consumers who now consider these cards as a required amenity. Many credit-worthy travelers appreciate the ability to earn thousands of additional miles or points from their charge activity.

Co-branded credit card activity among the eight airlines focuses on three of the more established LCCs: Germanwings, Spirit Airlines, and Virgin Blue Airlines. The following table provides an overview of the cards associated with their frequent flier programs:

Table 7: Co-Branded Credit Cards
Germanwings – Germanwingscard
Accrual: 1 Euro = 1 Boomerang. Annual fee: 48 Euros 1,000 Boomerangs for signup and cardholders enjoy an early flight boarding benefit. MasterCard issued by Bayerische Landesbank
Spirit Airlines – Free Spirit MasterCard
Accrual: \$1 = 1 mile. Annual fee: \$39 5,000 bonus miles after first purchase Cardholders earn automatic Elite status with monthly use. Issued by Juniper Bank
Virgin Blue Airlines – Velocity Visa and Velocity Gold American Express
Visa card accrual: 2 A\$ = 3 points. Annual fee: A\$65 American Express accrual: 1A\$ = 3 points. Annual fee A\$150 The first year fee is currently waived for both cards. Both issued by NAB – National Australia Bank

Earlier in this report, partner relationships were described as providing reward opportunities for some of the LCC programs. Partners can also provide opportunities for members to earn bonus miles. These relationships are similar to co-branded credit card relationships, in which the partner bank purchases from the airline the miles or points earned by its cardholders.

These relationships usually begin in the travel and communication services categories. They are typically added as a program matures and usually generate far less cash than a co-branded credit card relationship. Only two of the eight airlines offer these type of partnerships: Germanwings and Virgin Blue Airlines. Germanwings offers its members the ability to earn points at Germany-based Lindner Hotels & Resorts and from Sixt Rent A Car.

Virgin Blue Airlines and its Velocity program has a broader array of points-earning opportunities. InterContinental Hotel Group participates with its worldwide collection of lodging brands: InterContinental Hotels & Resorts, Crowne Plaza Hotels & Resorts, Hotel Indigo, Holiday Inn Hotels and Resorts, Holiday Inn Express, Staybridge Suites, and Candlewood Suites. Members may also earn points for flights taken on Emirates, Virgin Atlantic Airways, and car rentals from Europcar.

IdeaWorks believes co-branded credit cards and other partner relationships will be an area of significant growth for the eight LCC airlines. The revenue potential of these relationships, plus the expectations of consumers, will likely stimulate future activity in this area.

Observations and Conclusions

The growing number of frequent flier programs at LCCs could be seen as conflicting with the common wisdom of the industry. The old beliefs, as summarized in the table below, would have LCC executives believe frequent flier programs offer few benefits for an LCC and - - even worse - - are a cost center. Yet, the facts seem to tell a different story.

Old Beliefs	New Realities
Low fares are sufficient to motivate consumer behavior.	FFPs help increase loyalty and direct specific buying decisions.
Only legacy carriers have FFPs.	All of the large LCCs in the USA now have FFPs.
FFPs are a cost center.	Partnerships generate cash.

Southwest Airlines, largely regarded as the mother of all LCCs, has operated a frequent flier program for many years. Even low cost extremist Ryan Air provides loyalty benefits through its co-branded credit card products. Virtually all of the LCC airlines in the United States now offer frequent flier programs. The spurt of program launches within the last 12 months by the airlines listed in this report provides additional evidence that a shift in LCC marketing strategies is occurring.

What is most revealing in this report is the diversity of program designs launched by the LCCs. Clearly these airlines are innovating and adapting to their competitive environments. The themes are expressed succinctly naturalist Charles Darwin:

> *"In the struggle for survival, the fittest win out at the expense of their rivals because they succeed in adapting themselves best to their environment."*

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, learning from the wisdom of the client organization and applying innovative ideas to create solutions for clients and consumers. Learn more by visiting: IdeaWorksCompany.com.

Sources used in this Industry Analysis: Unless otherwise noted, frequent flier program information presented in this report is based upon an online review conducted during July 2006 of airline web sites, and communication with airline management.

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[1] Hsee, C. K., Yu, F., Zhang, J. & Zhang Y. (2003) Medium Maximization. Journal of Consumer Research. 30, 1-14.
[2] Passenger results from 2005 reported in Air Transport World, July 2006 (page 30).
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