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## Card-Carrying Generosity: American Express, Barclays, Chase, Citibank and Southwest Are Most Rewarding

American, Delta, US Air and United co-branded cards offer travel perks, but have higher reward thresholds.

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*American, Delta, US Airways, and United cards offer travel perks but higher reward thresholds*

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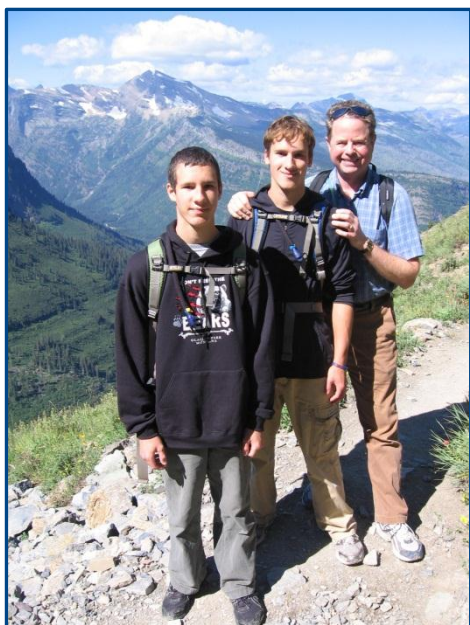
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## **About Jay Sorensen, Writer of the Report**



*Jay, with sons Anton and Aleksei, on the Highline Trail in Glacier National Park in Montana.*

Jay Sorensen's research and reports have made him a leading authority on frequent flier programs and the ancillary revenue movement. For 2012 he was a speaker at the FFP Spring Event at the Freddie Awards in New York, and at the IATA Passenger Services Symposium in the Middle East; and chaired the ancillary revenue track at the MEGA Event in San Diego. His published works are relied upon by airline executives throughout the world and include first-ever guides on the topics of ancillary revenue and loyalty marketing. He was acknowledged by his peers when he received the Airline Industry Achievement Award at the MEGA Event in 2011.

Mr. Sorensen is a veteran management professional with 28 years experience in product, partnership, and marketing development. As president of the IdeaWorksCompany consulting firm, he has enhanced the generation of airline revenue, started loyalty programs and co-branded credit cards, developed products in the service sector, and helped start airlines and other travel companies. His career includes 13 years at Midwest Airlines where he was responsible for

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## **About Eric Lucas, Editor of the Report**



*Eric, at his favorite summer retreat, Steens Mountain, Oregon.*

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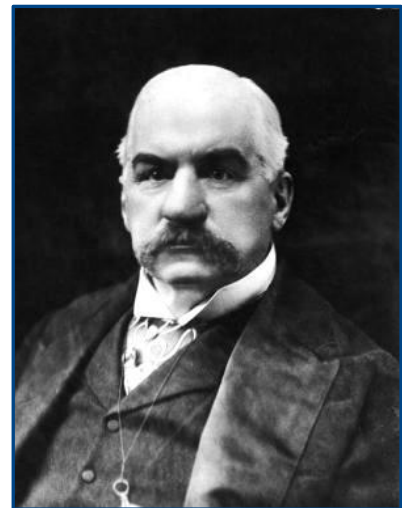


## **Card-Carrying Generosity: American Express, Barclays, Chase, Citibank and Southwest Are Most Rewarding**

*American, Delta, US Airways, and United cards offer travel perks but higher reward thresholds*

The quote, “No problem can be solved until it is reduced to some simple form” is attributed to John Pierpont Morgan, founder of a banking empire and the forebear of today’s JPMorgan Chase & Company.<sup>1</sup> More than 117 years after the founding of the bank, it can be said simplicity is not a virtue of today’s breed of bankers. Mr. Morgan would probably scoff at the bewildering array of reward cards offered by banks and airlines.

IdeaWorksCompany reviewed the credit cards offered by the five largest US airlines, such as American and United, and compared these to the travel reward cards offered by their bank partners, such as Chase and Citi. Everyday consumers have embraced the simplicity of the pay-with-miles method offered by Chase and Citi, which was found to deliver a generous 1.6% to 2.1% air travel rebate. Airlines responded to the challenge by offering perks such as free checked bags, and priority boarding. But without a big sign up bonus, airline co-branded cardholders must spend around \$20,000 before receiving a reward ticket.



*The credit card complexity wrought by today’s airlines and banks would likely not bring a smile to the face of the American financier, J. P. Morgan.*

Perhaps by design, airlines and banks have created reward cards that seemingly defy comparison. This might explain the necessity for new cardholder sign up bonuses as high as 30,000 miles or 40,000 points. But each category provides benefits that appeal to distinct consumer types, such as infrequent travelers, airline loyalists, and global jetsetters.

### **When banks compete, consumers win**

There’s hot competition occurring in the credit card marketplace. Television programs carry plenty of ads featuring Hollywood actors, marauding bands of Vikings, dreamy airport sequences, and the promise of easy air travel redemption without hindrance or hassle. Banks are competing with banks, and strangely enough . . . banks are aggressively competing with their airline partners.

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<sup>1</sup> “The Men Who Built America - J. P. Morgan” program summary at History.com.

At first, US-based banks viewed the novelty of airline co-branded cards as tools to gain new customers. Continental Airlines introduced airline travelers to the Continental Airlines Marine Midland Bank Gold MasterCard in 1986.<sup>2</sup> The idea was quickly copied by American, Delta, Eastern, and United airlines. Banks were soon busy issuing millions of credit cards. Likewise, the airlines were happily cashing checks for the bonus miles purchased by their bank partners.

The era of easy consumer credit and economic growth encouraged consumers to apply for one card, and oftentimes many more. Many banks couldn't snag an airline partner, because the relationships were largely exclusive. These banks introduced their own reward cards that offered air travel, cash back, and merchandise. Airline tickets were simply purchased for cardholders through travel agency intermediaries. The consumer credit market was soon filled with new card opportunities for consumers. The Discover Card was introduced as a cash-back credit card in 1986, American Express began offering the Membership Miles benefit in 1991, and the ThankYou Network was provided as a reward program by Citi in 2004.<sup>3</sup>

Airline co-branded card portfolios swelled during this period and members accumulated billions of miles. Strong and continuous reward demand strained the ability of airlines to provide sufficient reward seats. Frequent flier programs began to earn a reputation for being stingy with reward availability. This combined with relentless competition from new cards – often issued by their bank partners – put a dent in the portfolio activity of US airlines.

**Table 1: Co-Branded Cards for the Top-5 US Airlines and Their Bank Partners**

<b>Co-Branded Airline Cards</b>	<b>Bank Issuers</b>	<b>Comparable Bank Travel Reward Cards</b>
American Platinum Select Visa Signature	Citi	ThankYou Premier Visa Signature
Delta SkyMiles American Express Gold	American Express	Blue Sky Preferred American Express
Southwest Rapid Rewards Premier Visa Signature	Chase	Sapphire Preferred Visa Signature or World MasterCard
United MileagePlus Visa Signature		
US Airways Premier World MasterCard	Barclaycard	Arrival World MasterCard

Airline co-branded cards remained steadfast in their ability to charge annual fees. But this policy began to crumble when no-fee cards began to appear in 2004.<sup>4</sup> Reward activity dropped the same year. This was surprising, as the US airline industry was experiencing overall growth.<sup>5</sup> Since then, carriers have increasingly sought to lure more cardholders with better reward policies, more redemption opportunities, and additional perks. But something was changing; major bank issuers were becoming far more aggressive in the development of their own travel reward brands.

### **Comparing cards is a complex challenge**

No blackout dates, no limits on accrual, no expiration of points, and the ability to “travel anytime on any airline” are phrases now widely used by American Express, Barclaycard, Chase, and Citi in the promotion of their reward cards. Sometimes the cards mimic their frequent flier brethren in the accrual of bonus points for select purchases. For redemptions, some borrow the online methods of Expedia.com to provide hassle-free methods for booking reward travel. Let's begin the analysis by examining how the bank travel cards stack up against each other.

<sup>2</sup> Stevan Groswald presentation at the 2011 Airline Information Co-Brand Conference.

<sup>3</sup> “The Future of Credit Card Rewards Programs” by Boaz Salik and Scott Henry at FischerJordan.com.

<sup>4</sup> “No-Annual-Fee Credit Cards in the Airline Industry” IdeaWorks report issued 25 August 2004.

<sup>5</sup> “Frequent Fliers Had Their Wings Clipped During 2004” IdeaWorks report issued 20 April 2005.

The following table lists reward credit cards that IdeaWorksCompany believes are most closely aligned with the benefits and features provided by airline co-branded cards:

**Table 2: Travel Credit Cards Issued by Select Banks**

Bank Issuer	American Express	Barclaycard	Chase	Citi
Card Name	Blue Sky Preferred American Express	Arrival World MasterCard	Sapphire Preferred Visa Signature or World MasterCard	ThankYou Premier Visa Signature
Fees – Year 1 / Year 2	\$75 / \$75	Waived / \$89	No fee / \$95	Waived / \$125
Program Currency	Points	Miles	Points	ThankYou Points
Annual Accrual Cap	No limit on points.	No limit on miles.	No limit on points.	No limit on points.
Foreign Transaction Fee	2.7%	No fee	No fee	No fee
Base Accrual	1 point per \$1 spent.	2 miles per \$1 spent.	1 point per \$1 spent.	1 point per \$1 spent.
Bonus Accrual Opportunities	2 points per \$1 spent at hotel, car rental (both directly booked), and US restaurants.	None disclosed at website	1) Earn 2 points per \$1 spent on air, hotel, car rental, cruises, taxi, tolls and restaurants. 2) 3 <sup>rd</sup> bonus point per \$1 booked for air & hotel at Ultimate Rewards site.	1) 1.2 points at grocers, gas stations, drugstores, commuter transportation and parking merchants. 2) One point per mile flown for air travel purchased with card.
Sign Up Bonus at Card Website	15,000 points for \$1,000 spent - first 3 months.	20,000 miles for \$1,000 spent- first 90 days.	40,000 points for \$3,000 spent – first 3 months.	25,000 points for \$2,000 spent – first 3 months.
Air Travel Rewards	Every 7,500 points provides \$100 statement credit for airline spending.	Each mile = \$0.01 statement credit for airline spending.	Each point = \$0.0125 credit when booking at Ultimate Rewards website.	Each point = \$0.0133 credit when booking online at ThankYou Travel Center.
Other Rewards	Every 7,500 points provides \$100 statement credit for travel spending with hotels, car rentals, and online travel agencies (no Membership Rewards benefits).	1) Each mile = \$0.01 statement credit for travel agency, hotel, cruise, car rental, and train purchases. 2) Gift cards, merchandise and cash back also available.	1) Each point = \$0.0125 credit when booking hotel, car rental, and cruise at website. 2) Gift cards, merchandise, and cash back options; 2,500 points = \$25 value.	1) Wide variety of merchandise, and gift cards, and charitable and cash back options; 2,500 points typically provide \$25 value. 2) \$50 cash back for 10,000 points.
Travel Related Features and Benefits	1) Up to \$100 annual rebate of spending on airline fees such as bags and meals (statement credit upon request). 2) Blue Savings Program provides discounts, upgrades, and special offers with select hotel, car rental, and cruise partners.	1) Carry-On Miles provides 10% mileage rebate for cardholder on travel reward mileage redemptions. 2) Free Triplt Pro (mobile travel organizer) subscription for one person.	1 for 1 points transfer from Ultimate Rewards to: British Airways, United, Southwest, Korean Air, Amtrak, Hyatt, Marriott, Priority Club, and Ritz-Carlton (no transfer fees).	15% air fare discount and free annual companion (domestic US) when booked thru Spirit Incentives. Significant limitations apply to these offers.
Expiration Policy	Points do not expire.	Miles do not expire.	Points do not expire.	Points do not expire.
Anniversary Bonus After First Year and Thereafter	None disclosed at website	None disclosed at website	7% of points accrued during year provided as bonus for next year.	1% of points accrued during year provided as bonus after year one, up to 4% after year four.
Also Issues Cards for:	Delta	US Airways	Southwest and United	American

Sources: Bank websites reviewed January 2013.

The travel reward credit cards offered by American Express, Barclaycard, Chase, and Citi provide a compelling choice for everyday consumers and even frequent travelers. With the exception of the American Express Blue Sky Preferred card, none charge an annual fee for the first year. The anniversary offers listed for Chase and Citi encourage cardholders to pay the annual fee and continue the relationship. Foreign transaction fees, once a lucrative source of revenue, are gradually disappearing as international travel becomes more prevalent.

The Chase Sapphire Preferred and Citi ThankYou Premier cards provide full function websites that allow cardholders to book air travel, hotel accommodations, and car rentals. Online pay-with-points is offered and a mixture of cash and points is permitted. The American Express Blue Sky Preferred and Barclaycard Arrival cards rely on a statement credit method. Cardholders contact the issuer to request a credit to be applied to qualifying travel purchases.

**Your Search:** Chicago, IL (ORD) to Las Vegas, NV (LAS)  
Saturday, June 1, 2013 - Saturday, June 8, 2013  
1 Adult(s) | Round Trip, Service Class Economy

**Your Results** List View

The rates displayed are starting from prices based on your search parameters. These rates are inclusive of all required taxes and ticket fees. The air carrier may impose additional fees for baggage, meals, beverages and other services. Restrictions may apply. A small number of air carriers may require up to 12 hours to confirm flight availability. If there is any issue with flight availability, a travel representative will contact you within 24 hours to make alternate arrangements at no additional cost. Click to filter your results by air carrier.

Matrix	Spirit Airlines	American Airlines	United Airlines	Delta Air Lines	US Airways	Virgin America
<b>Non-stop</b>	19,824 Points or \$247.80	27,504 Points or \$343.80	33,024 Points or \$412.80	-	36,073 Points or \$450.91	-
<b>1 Stop</b>	22,536 Points or \$281.70	34,696 Points or \$433.70	33,776 Points or \$422.20	33,968 Points or \$424.60	34,065 Points or \$425.81	34,368 Points or \$429.60
<b>2+ Stops</b>	-	-	-	-	-	-

Chase Sapphire Preferred cardholders use the Ultimate Rewards website to display fares and book airline travel using methods comparable to online travel agents, such as Expedia.com and Travelocity.com.

Consumers should not be fooled by higher accrual rates, as the four travel reward cards deliver surprisingly similar overall value. Chase Sapphire Preferred and Citi ThankYou Premier provide the usual one point per dollar charged, while Barclaycard Arrival and American Express Blue Sky Preferred provide a higher accrual rate. Barclaycard mitigates this generosity by not offering bonus accruals for select purchase categories. American Express uses lower redemption values to deliver a similar result. Consumers can benefit from bonus accrual because it delivers additional points for targeted spending. For example, Chase Sapphire Preferred offers double points for travel-related charges such as air travel, hotel accommodations, car rentals, and restaurant dining.

All the cards listed in the table provide a variety of rewards in addition to air travel. Typical choices include gift cards, merchandise, and statement credits for hotel, car rental, and travel agency bookings. Consumers should closely examine the travel related features and benefits associated with each card. Choices include annual limited rebate of airline fees charged to cardholders, discounts on select point redemptions, and the ability to transfer points to participating frequent flier programs. These features are designed to place these cards above their airline co-branded brethren. The following table lists the co-branded cards marketed by American, Delta, Southwest, United, and US Airways:



**Table 3: Co-Branded Credit Cards Sponsored by Largest US Airlines**

Airline Bank Issuer	American Airlines Citi	Delta Air Lines American Express	Southwest Airlines Chase	United Airlines Chase	US Airways Barclaycard
Card Name	Platinum Select Visa Signature	SkyMiles Gold American Express	Rapid Rewards Visa Signature	Explorer Visa Signature	Premier World MasterCard
Fees – Year 1 / Year 2	Waived / \$95	No Fee / \$95	\$99 / \$99	No Fee / \$95	\$89 / \$89
Program Currency	AAAdvantage miles	SkyMiles	Points	Mileage Plus Miles	Dividend miles
Annual Accrual Cap	No limit on miles.	No limit on miles.	No limit on points.	No limit on miles.	No limit on miles.
Foreign Trans. Fee	3%	2.7%	No fee	3%	3%
Base Accrual	1 mile per \$1 spent.	1 mile per \$1 spent.	1 point per \$1 spent.	1 mile per \$1 spent.	1 mile per \$1 spent.
Bonus Accrual Opportunities	2 miles per \$1 spent with American, onboard flights, lounge membership, and upgrades. Excludes buying miles.	2 miles per \$1 spent at Delta.com, onboard flights, buying miles, and Delta Vacations.	2 points per \$1 spent at Southwest and AirTran. 2 points per \$1 spent with Rapid Rewards hotel and car rental partners.	2 miles per \$1 spent directly on United tickets (but excludes onboard purchases).	2 miles per \$1 spent directly with US Airways and US Airways Vacations.
Sign Up Bonus at Card Website	30,000 miles for \$1,000 spent – first 3 months.	30,000 miles for \$500 spent – first 3 months.	25,000 points for \$1,000 spent – first 3 months.	30,000 miles for \$1,000 spent – first 3 months.	30,000 miles after first purchase with card.
Air Travel Rewards	Miles may be redeemed for travel on American and partner airlines.	Miles may be redeemed for travel on Delta and partner airlines. Pay-with-Miles allows booking with miles, money, or a combination.	Redeem for Wanna Get Away? Fares at a rate of 60 points for each \$1 of fare price. Cardholders may redeem for international flights on other airlines.	Miles may be redeemed for travel on United and partner airlines. Cardholders have last seat availability for standard rewards.	Miles may be redeemed for travel on US Airways and partner airlines. Cardholders receive 5,000 mile savings for r/t US Airways rewards.
Other Rewards	Redeem for hotels, car rentals, events, merchandise, auctions, dining, subscriptions, vacation packages, and charity.	Cardholders may redeem at SkyMiles MarketPlace for hotel, car rentals, and merchandise.	Cardholders may redeem for hotel, car rentals, gift cards, cruises, activities, and merchandise.	Redeem for hotels, car rentals, events, merchandise, auctions, dining, subscriptions, vacation packages, and charity.	Magazine and newspaper subscriptions.
Travel Related Features and Benefits	1) First bag checked free on American (up to 5 persons). 2) Priority group 1 boarding benefit. 3) 25% savings on inflight food and entertainment. 4) 10% rebate of miles redeemed each month (maximum of 100,000 miles per year).	1) First bag checked free on Delta flight (up to 9 persons). 2) Priority zone 1 boarding (up to 9 persons). 3) 20% savings on inflight food and entertainment. 4) Cardholder and 2 guests may visit Sky Club for \$25.	Earn 1,500 Tier Qualifying Points for every \$10,000 in purchases. Get up to 15,000 Tier Qualifying Points annually. Please note, first 2 checked bags are free on Southwest.	1) First bag checked free on a United flight (plus one person). 2) Priority boarding after elite members (and others in same booking). 3) Two United Club passes per year.	1) First class check-in and zone 2 boarding. 2) Single voucher for two \$99 US / Canada companions with paid fare per year (plus tax/fees). 3) One airport club day pass every year. 4) \$75 US Airways Club membership savings per year.
Expiration Policy	Accrual during an 18-month period prevents expiration.	Miles do not expire.	Accrual during a 24-month period prevents expiration.	Accrual during an 18-month period prevents expiration.	Accrual during an 18-month period prevents expiration.
Anniversary Bonus After First Year and Thereafter	\$100 discount at AA.com after spending \$30,000.	None disclosed at website.	6,000 points awarded after each anniversary.	10,000 miles for spending \$25,000 every calendar year.	See features and benefits above.

Sources: Bank websites reviewed January 2013.

American Express offers its Membership Rewards program for many of its credit cards, but the list does not include its Blue Sky Preferred card. Membership Rewards allows cardholders to transfer



*Chase Sapphire Preferred cardholders may transfer points to leading airline and hotel loyalty programs and Amtrak Guest Rewards.*

points to loyalty programs operated by Air France/KLM, Best Western, British Airways, Delta, Hilton Hotels, and JetBlue. The program does not include American, Southwest, United, and US Airways. These carriers undoubtedly don't participate due to the conflict it presents with their own co-branded credit cards.

In a similar manner, Chase Sapphire Preferred allows cardholders to transfer points to loyalty programs largely associated with its co-branded portfolio (US Bank issues the Korean Air SKYPASS Visa card). This is a

very powerful feature because it provides attractive flexibility for frequent travelers. By comparison, United MileagePlus members may transfer miles via Points.com after paying hefty fees.

Airline co-branded credit cards compete with bank travel reward cards where carriers have a natural advantage. Airlines can waive fees for checked bags, grant airport lounge access, and provide early boarding. American, Delta, and United waive fees for the first checked bag for cardholders. Surprisingly, US Airways does not offer this perk, and of course the feature is moot for Southwest which doesn't have bag fees. US Airways counters the absence of bag fee waivers with annual offers which include \$99 companion travel, one US Airways Club day pass, and a \$75 discount off annual Club membership. Among the airlines, Southwest's package of added perks is the weakest. But in reality, its Rapid Rewards Visa Signature card has more in common with the bank travel reward cards than co-branded cards of its airline competitors.

Southwest Rapid Rewards allows members to buy travel using point levels tied to published fares. American, United, and US Airways rely on the traditional reward level method that uses capacity controls to limit reward availability. It's this feature that creates the greatest difficulty in making comparisons between bank travel reward and airline co-branded cards. Airline cardholders must accumulate 20,000 or 25,000 miles before making air travel reward redemptions. By comparison, Barclaycard Arrival cardholders may request a statement credit starting at a scant \$25. Southwest Airlines advises redemption occurs at a rate of 60 Rapid Rewards points for each \$1 spent on its "Wanna Get Away?" discount reward level.

Airlines reflect their ancillary revenue motivations in the bonus accrual offers associated with their co-branded cards. All five airlines offer double miles or points when consumers buy tickets at carrier websites. It's a sensible promotion that encourages cardholders to book with the airline. American provides double miles for onboard spending, cabin upgrades, and lounge memberships. Delta specifically references the purchase of SkyMiles as qualifying for bonus accrual. Surprisingly, United excludes onboard purchases, which suggests a technological hurdle rather than a marketing decision. Southwest wisely promotes booking hotels and car rentals at its website by offering double points. Bonus offers are a classic loyalty marketing method to encourage consumer behavior to boost ancillary revenue opportunities.

### **Reward value is determined by cardholder behavior**

Individual spending and reward behavior determines how each credit card delivers value for cardholders. Consumers who plan to use their card primarily for travel expenditures should favor offers that provide bonus accrual for airline tickets, hotel stays, and car rentals. This provides an earnings boost to deliver bigger rewards faster. But another type of behavior is just as important but not as obvious . . . and this is “how” the consumer plans to spend their points or miles.

If the traveler usually buys \$200 roundtrip tickets, then a bank travel reward card or the Southwest Premier card probably provide the best value. But for travelers who typically spend more for a ticket, and can find reward seats for their itinerary, an airline co-branded card may provide better value. For example, the Delta SkyMiles Gold card can deliver enough miles for a saver level reward ticket after a cardholder spends \$23,600. That same level of spending would deliver air travel savings of \$378 to \$519 for consumers holding a bank travel reward card. Let’s examine how these results were calculated.

The spending profile for every cardholder is as unique as their fingerprints. But when considered as a portfolio, spending trends begin to emerge. Airline co-branded card portfolios achieve very high levels of cardholder spending. MasterCard discloses average spending of \$16,884 as a statistic from its global program data.<sup>6</sup> Among US airline portfolios, spending jumps above \$23,000 per year. The annual spending assumed for this analysis was \$18,000, which reflects a modest \$1,500 per month. Assumptions for cardholder spending in specific categories were also made. These are based upon consumer spending statistics from the US government and were tested for reasonableness with representatives in the consumer credit business. Please refer to the following table for a list of the categories and assumptions used for this report:

<b>Table 4: Assumptions Used to Calculate Base and Bonus Accrual</b>		
<b>Accrual Statistics</b>	<b>Annual Spend</b>	<b>Detail of the Assumption and/or Data Source</b>
Total Cardholder Spending	\$18,000	Airline co-branded credit cards average \$24,000. This was reduced to reflect spending habits for more moderate account activity. Assume average spending of \$1,500 per month.
Bonus accrual spending categories		
Air Travel	\$1,400	Assumes 4 roundtrips and 100% at airline/bank website. Average domestic air fare was \$367 for the 3 <sup>rd</sup> quarter of 2012 per 24 January 2013 DOT press release.
Restaurants	\$2,500	Based upon \$2,740 consumer spending (for 2 person unit) per 2011 Consumer Expenditures statistics, US Bureau of Labor Statistics.
Grocery and Drugstore	\$4,500	Based upon \$3,691 (food at home) + \$844 (drugs, medical supplies) consumer spending (for 2 person unit) per 2011 Consumer Expenditures statistics, US Bureau of Labor Statistics.
Gasoline	\$2,500	Based upon \$2,708 (gasoline and motor oil) consumer spending (for 2 person unit) per 2011 Consumer Expenditures statistics, US Bureau of Labor Statistics.
Hotel and Car Rental	\$1,500	Based upon \$1,260 (hotel) + \$248 (car rental) consumer spending (for 2 person unit) per 2011 Consumer Expenditures statistics, US Bureau of Labor Statistics.

<sup>6</sup> “How are co-brand programs evolving globally?” MasterCard presentation, October 2011 Co-Brand Conference in Toronto.

The assumptions were applied to the point and mileage offers associated with each of the credit cards listed in Tables 1 and 2. Cardholders were always assumed to direct spending behavior to maximize their point and mileage accrual. For example, Southwest Premier cardholders would spend \$1,500 for hotel accommodations and car rentals by booking at the Southwest website.

Likewise, a Delta SkyMiles Gold cardholder would spend \$1,400 on air travel at Delta.com. The very unique bonus offer made by the Citi ThankYou Premier card is worth noting. The air travel bonus is not based upon spending, but rather one point per mile flown for air travel purchased with the card. Banks know the origin and destination from the charge record and Citi calculates the miles flown based upon this information.

**Table 5: Projected Annual Accrual Based Upon Spending Assumptions**

Bank Issuer	American Express		Barclaycard		Chase			Citi	
Card Name	Blue Sky Preferred	Delta SkyMiles Gold	Arrival	US Airways Premier	Sapphire Preferred	Southwest Premier	United Explorer	ThankYou Premier	American Platinum Select
Currency	Points	SkyMiles	Miles	Miles	Points	Points	Miles	Points	Miles
Base Accrual	18,000	18,000	36,000	18,000	18,000	18,000	18,000	18,000	18,000
Accrual provided by bonus for specific spending categories									
Air Travel	-	1,400	-	1,400	1,400	1,400	1,400	8,000 (a)	1,400
Dining	2,500	-	-	-	2,500	-	-	500	-
Grocery and Drugstores	-	-	-	-	-	-	-	900	-
Gasoline	-	-	-	-	-	-	-	500	-
Hotel and Car Rental	1,500	-	-	-	1,500	1,500	-	-	-
Annual accrual before and after sign up bonus									
Accrual from all Spending	22,000	19,400	36,000	19,400	23,400	20,900	19,400	27,900	19,400
After Adding Sign Up Bonus	37,000	49,400	56,000	49,400	63,400	45,900	49,400	52,900	49,400
Source: Calculations based upon assumptions presented in Table 4 and January 2013 review of card offers at websites. (a) ThankYou Premier accrues points per mile flown on ticket purchases; assumes 8 trips of 1,000 miles each.									

The last two lines of Table 5 summarize the point and mileage accrual associated with the spending assumptions. The sign up bonus among the cards ranged from 15,000 to 40,000 points and 25,000 to 30,000 miles. The bonus has a significant effect on the value provided by the cards, and is the offer component most likely to fluctuate. The raw number of points or miles delivered by each card is one element to consider. The other is how points and miles are exchanged for travel credit or reward seats.

When airline miles are exchanged for air travel, the value to the cardholder is the cash replacement cost of the reward seat, and this varies for every redemption. Fortunately, there is a method for evaluating bank travel reward cards and the pay-with-points methods used by Southwest Rapid Rewards and the option offered by the Delta SkyMiles Gold card.



Bank travel reward cards allow cardholders to convert points (the Barclaycard Arrival card calls these “miles”) into cash buying power at travel booking websites or as cash credit applied to qualifying travel purchases. Please refer to Graph I for a comparison of reward value among the credit cards using this method. The graph lists the calculated reward result based upon the spending assumptions (Table 5) and the air travel reward redemption schedule for each card.



The Delta SkyMiles Gold card is a bit of a chameleon by offering two redemption methods. In this graph, the pay-with-miles feature is compared with bank travel reward cards and the Southwest Premier card. Delta pay-with-miles is a benefit limited to its American Express cardholders, who may also redeem miles using the carrier’s traditional mileage based reward chart. This method does allow cardholders to bypass the carrier’s stingy reputation for saver reward availability. Analysis conducted by IdeaWorksCompany during 2012 revealed the saver reward level of 25,000 miles was only available for 38.6% of the test queries on US domestic routes (251-2,500 mile routes).<sup>7</sup> Southwest’s frequent flier program allows travelers to spend points for booking rewards in the same manner as cash and does not use traditional mileage based reward charts. Among the four bank travel reward cards, the average return per dollar spent is approximately \$0.02.

This issue does involve one of the major distinctions between bank travel reward cards and co-branded cards associated with American, Delta, United, and US Airways. The value of airline rewards are diminished by capacity controls. That’s why bank travel reward cards boast their cardholders can “travel anytime on any airline.” Delta isn’t alone in this regard. Saver-level reward seats were found available on US Airways 62.9% of the time, 74.3% for American, and 95.7% for United on the US domestic routes queried in the IdeaWorksCompany report. While the banks disparage airlines on the issue of reward availability . . . the airlines can reply with a very effective defense.

<sup>7</sup>Worldwide Report of Reward Availability by IdeaWorksCompany, June 2012.

Airline co-branded cards offer perks that are expensive or impossible to match. American, Delta, and United waive checked bag fees for cardholders. These three airlines, along with US Airways, also offer priority boarding privileges and certainly have the capability to add more frequent flier perks in the future. Using the assumption that a cardholder will buy 4 roundtrip tickets can add very meaningful \$200 savings per year if the cardholder opts to check a bag on American, Delta, and United. These are features that consumers should consider when choosing a credit card.

Rewards are the most important element for consumers shopping for a bank travel reward or airline co-branded credit card. Graph 2 displays the payout delivered by bank travel reward, Delta SkyMiles Gold, and Southwest Premier cards as a cash travel credit. Before and after sign up bonus scenarios are offered to present the power of the bonus for each card. It's amazing that a card could deliver nearly an \$800 benefit within the first year with charge activity of \$18,000.

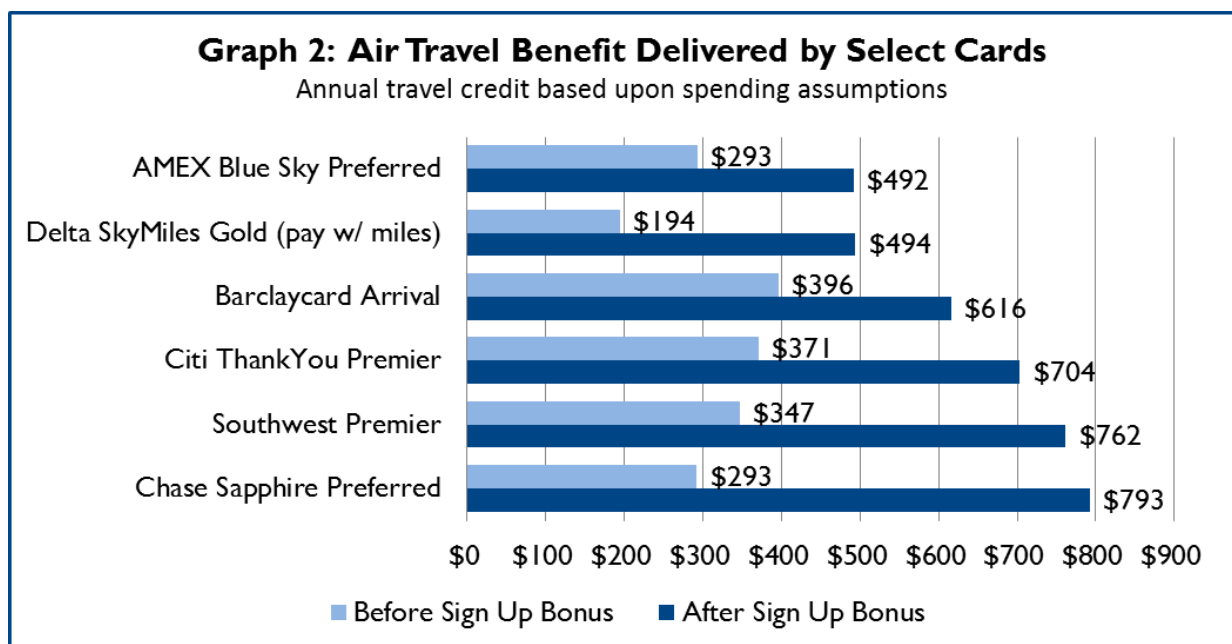
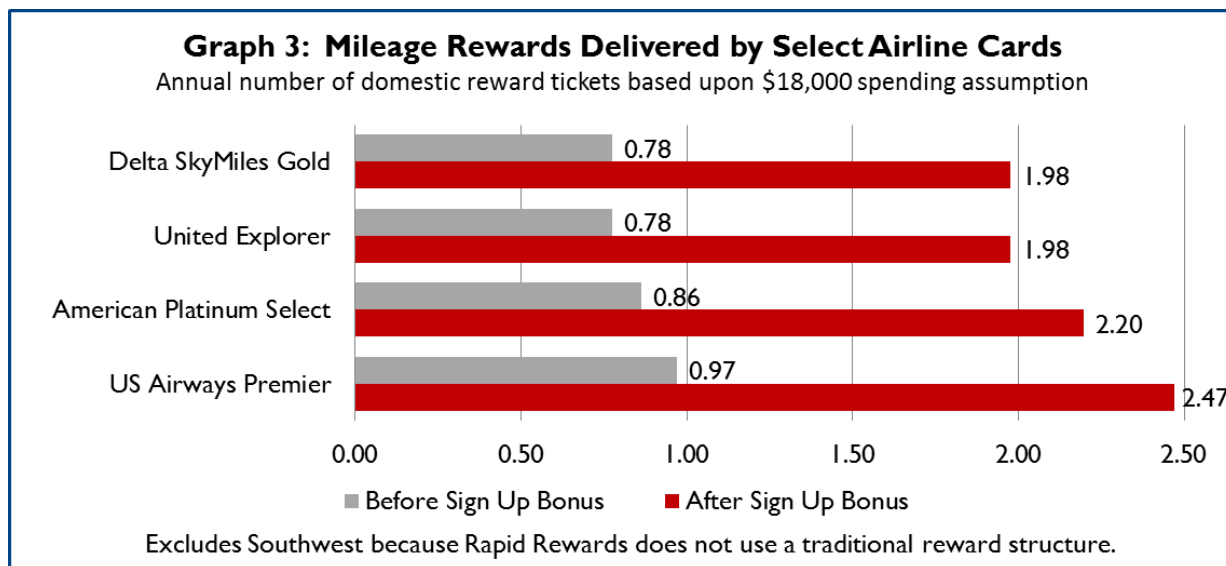


Table 6 compares the cards using the spending required to generate reward value of \$367. The amount represents the average domestic air fare in the US from the most recent quarter reported. This method of presentation might be easier to understand because it describes the charge activity required to generate the same reward result.

Table 6: Spending Required to Reach Average Ticket Value by Select Cards					
Assumes \$367 Average Ticket Price					
Barclaycard Arrival	Citi ThankYou Premier	Southwest Premier	AMEX Blue Sky Preferred	Chase Sapphire Preferred	Delta SkyMiles Gold (pay w/ miles)
\$16,700	\$17,700	\$19,200	\$23,600	\$23,950	\$35,300
Note: US DOT average ticket value is \$367 roundtrip (3 <sup>rd</sup> quarter 2012), accrual does not include sign up bonus.					

Dollars can't describe the benefits associated with airline co-branded cards that rely on mileage based reward charts. Graph 3 presents the reward results delivered by American, Delta, United, and US Airways in units of roundtrip reward tickets. Annual spending of \$18,000 nearly delivers a free ticket (97% of required miles) on US Airways to anywhere within the US (including Alaska) and between the US and Canada. The carrier scores highly in the chart largely because it grants cardholders an exclusive 5,000 mile discount on reward redemptions. All four cards essentially deliver two roundtrip tickets when a generous sign-up bonus is considered.



The above graphs simplify the task of determining which card among a particular type provides a more generous reward payout. These results can also be presented in a different format to more directly compare card types. IdeaWorksCompany calculated the card spending required to accrue sufficient miles for a domestic reward ticket for the American, Delta, United, and US Airways frequent flier programs. For example, spending \$21,100 (base and bonus accrual) delivers a domestic economy MileSAAer reward for American's Platinum cardholders. The same level of spending on a bank travel reward card would provide an average travel credit of \$422. Readers are advised to recall the information presented in Graph 1 which shows bank travel reward cards provided reward credit ranging from 1.6% to 2.2% (as a percent of spending). The average among bank travel reward cards was 2%.

**Table 7: Which Cards Deliver Better Air Travel Reward Value?**

Card Name	Airline Co-Brand Spending Required to Earn Domestic Reward Ticket (Before Sign Up Bonus)	Bank Travel Reward Cards 2% Rebate on Spending +
US Airways Premier	\$18,600	\$372
American Platinum Select	\$21,100	\$422
Delta SkyMiles Gold	\$23,600	\$472
United Explorer	\$23,600	\$472

Source: Calculations based upon assumptions presented in Table 4 and January 2013 review of card offers at websites.  
+ These amounts would be reduced by \$50 if the cardholder paid roundtrip bags which were waived by an airline card.

Which would a consumer prefer? If consumers spend \$21,100 with the American Platinum Select card they can expect a free capacity controlled domestic reward. Instead, they could opt for the typical travel rebate of \$422 provided by a bank travel reward card, or the similar value provided by the Southwest Premier card. If they plan to spend more than that – and can score a reward seat – then the American Platinum Select card is a better choice. The bank travel reward card becomes a little less attractive when cardholders pay checked bag fees, which are waived for American Platinum Select cardholders. Of course, the caveats described earlier in this report – such as capacity controls – must be considered when comparing cards.

As noted earlier, the US DOT reported the average fare in the US was \$367 for the 3<sup>rd</sup> quarter of 2012. This is an industry-wide average which includes higher priced business travel itineraries. Most tickets purchased by leisure travelers are undoubtedly priced lower than that. For a more practical comparison, check the fares displayed in the below matrix from Orbitz.com for roundtrip travel between New York and San Francisco. It's among the longest distance markets in America and is highly competitive. Consumers considering these low fares would be better served by spending points from a bank travel reward card rather than cashing 25,000 or so miles for a domestic reward seat . . . if the seat would be available on the flight of a cardholder's choosing.

Hide Matrix	 <a href="#">Delta Air Lines</a>	 <a href="#">United Airlines</a>	 <a href="#">American Airlines</a>	 <a href="#">Multiple Airlines</a>	 <a href="#">US Airways</a>	 <a href="#">Virgin America</a>	 <a href="#">JetBlue Airways</a>
<a href="#">Non-stop</a>	<a href="#">\$297.80</a>	<a href="#">\$297.80</a>	<a href="#">\$297.80</a>	<a href="#">\$304.79</a>	<a href="#">\$345.80</a>	<a href="#">\$321.80</a>	<a href="#">\$331.80</a>
<a href="#">1+ stops</a>	<a href="#">\$332.70</a>	<a href="#">\$332.70</a>	<a href="#">\$308.70</a>	<a href="#">\$314.19</a>	<a href="#">\$316.60</a>		<a href="#">\$344.70</a>

*Fares for a Friday to Monday trip in early March for a query made 4 weeks before departure at Orbitz.com.*

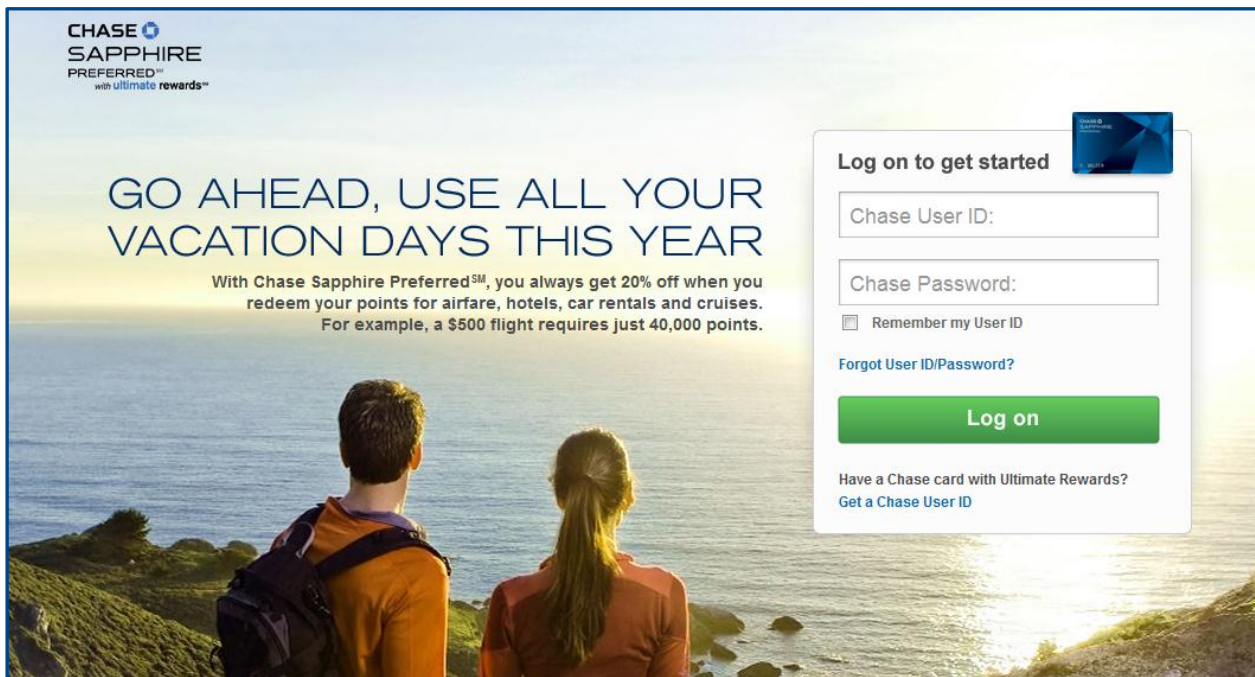
### **Card competition adds complexity and confusion for consumers**

The cash back and travel reward cards endlessly promoted by Capital One on American television rely upon an easily understood message for consumers. And that might be a lesson for some airlines and banks as they promote their own wares. An exhaustive review of bank and airline websites renders researchers dazed and often confused by asterisks and small print. But clearly there are points of distinction that bank travel reward cards and airline co-branded cards should strive to maximize. Here are some observations banks and airlines might consider when competing for consumers.

- **Consumers expect online booking for reward travel.** Airlines already know this and most are wisely adding more partner reward seat availability to their websites. Statement credits used by banks are a poor substitute and handicap the loyalty effect provided when points are spent to book reward trips. Reward-oriented consumers enjoy the alchemy of converting points into a free travel experience.
- **Foreign exchange fees are so yesterday.** There is irony here. The card most associated with global travel – American Express – still charges fees for foreign exchange. And the airline without an international network – Southwest – is the only airline that has eliminated this fee. Revenue, or a lack thereof, obviously plays a role in these decisions. More travelers simply leave fee-based cards home when leaving the US . . . and that's a habit that will eventually lead to card replacement.



- **Travel is sexier than a toaster.** It's a phrase that has appeared in these reports before and is worth repeating. And travel is something much more than an image of a beach or the promise of a baggage fee waiver. Travel oriented cards should promote the allure of visiting new places or flying somewhere to connect with friends and family. Yes, cash back, gift cards, and retail trinkets are nice to have . . . but other cards can focus on these.



*The perfect image to make a point: Chase's Ultimate Rewards website encourages a sense of wanderlust.*

- **Exploit the power of your network.** There is no better example of this than the points transfer benefit offered by Chase. Cardholders may transfer points to the following loyalty programs with no transfer fees: British Airways, United, Southwest, Korean Air, Amtrak, Hyatt, Marriott, Priority Club, and Ritz-Carlton. The bank leverages its client relationships to the advantage of its cardholders. Airline co-branded cards would be well served by engaging more partners in the perks delivered by a card.
- **And sometimes your network is your own family.** Chase Sapphire Preferred cardholders may combine the points of household members. It's an easy method to add valuable flexibility to a program. Frequent flier program members face big fees to transfer miles from a spouse's account.
- **Anniversary offers keep cardholders loyal.** Chase, Citi, Southwest, and United know the value of loyalty by offering bonus points or miles to members who renew for a second year. American adds a \$100 discount at AA.com when cardholders spend \$30,000 or more . . . perhaps this would appear more enticing if it were 10,000 miles.
- **Encourage ancillary revenue spending with a bonus.** Southwest understands the delicious effect of partner synergies. Southwest Premier cardholders accrue double points when they book hotel accommodations and car rentals at Southwest.com. And by doing so, Southwest earns a commission on the sale of these services and undoubtedly will sell partner points when Rapid Rewards members check-in or drive.

- **Don't tempt consumers with difficult to understand offers.** Two offers were found to be perplexing. Citi offers "an annual domestic companion ticket and a 15% discount when booking air travel through our travel benefits provider." Querying Citi's independent travel center revealed the offers were governed by "using the lowest fare in the reservation system and applying that price to determine the applicable discount." This explanation and lack of online reference left us baffled. Likewise, the \$99 companion tickets promoted as a perk for US Airways Premier cardholders required multiple reservation center inquiries to clarify the offer. There may be valid reasons why the airline doesn't post more details online, but the lack of clarity might cause customers to doubt the value of the offer.

### **Bank travel reward cards are often a better choice**

John Pierpont Morgan would be pleased by this headline and the dominant role played by his namesake bank. Like other major banks, JP Morgan Chase & Company not only issues its own successful travel reward card, it also issues cards for two of the world's largest airlines – Southwest and United. Over time US airlines have relinquished their dominance among reward cards as more competitors have entered the market. Very compelling reward cards are now offered by hotel brands, cruise lines, retailers, and even US-government owned Amtrak.

Citi ThankYou Premier cardholders earn around \$500 in travel credit by the time a Delta SkyMiles Gold cardholder has enough miles for a domestic low mileage reward. It's true, the ThankYou Premier cardholder might need to pay \$25 to check a bag . . . but that's a smaller hurdle than finding a SkyMiles reward seat on the exact day and flight of the cardholder's choice. Airline co-branded cardholders do have more opportunities to accrue miles for their frequent flier accounts. Flying on the airline can generate thousands more miles, but it's also an option available to bank travel reward cardholders. They can join a frequent flier program and accrue miles for travel on an airline while using a bank travel reward card for their purchases. Airlines might be losing the competitive battle because they've neglected their natural advantage.

An airline can be a very effective "reward factory" because it "manufactures" air travel, whereas a bank is merely a reseller of travel. The incremental cost of a reward seat might be as low as \$20 roundtrip. Hotels and cruise lines have the same retail to cost advantage; the cost of "turning" a hotel room might have the same \$20 cost. This advantage is strongest when reward charts favor premium class travel with relatively lower mileage levels. Frequent flier programs have a reputation for delivering unbeatable value for international premium class travel.

The price of a business class ticket on American Airlines between New York and London is \$3,521 (fees and taxes included) for a query made on 01 February 2013 for a March 1st departure and a March 7th return. The very same flights can be booked using 200,000 AAdvantage miles (Business AAnytime reward) and paying taxes and fees of \$342. This places a value of \$3,228 (\$3,521 less \$342) on the 200,000 miles. An airline co-branded cardholder would spend about \$200,000 to accrue that many miles (not including any sign up bonus). That same \$200,000 charged by a Citi ThankYou Premier cardholder could generate travel reward value of about \$2,800. This example relies upon approximate mileage and point accrual for both cards. But it does significantly favor the reward value provided by the airline co-branded card.

The value equation dramatically improves if American's 100,000 roundtrip Business MileSAver reward is available for the same itinerary, as it places the \$3,228 value on 100,000 miles. This would require about \$100,000 of charge activity by an airline co-branded cardholder (again, without considering a sign up bonus). This level of spending would provide a reward travel benefit of \$1,500 from the Citi ThankYou Premier card. Under this scenario, the airline co-branded card delivers more than twice the value of the bank travel reward card. Banks are limited by the simple economics of the credit card business. They can only spend a finite amount of portfolio revenue to buy rewards. Airlines can always win at this game because air travel can be provided at low incremental expense.

The program with the lowest reward cost can always win. Airline co-branded cards deliver more value when mileage levels are low in relation to the retail price of a ticket. Airline co-branded cards currently have an advantage with consumers seeking longer haul premium class rewards. But US domestic travel represents the bulk of reward activity. In this category, airlines have permitted the banks to gain an advantage. Bank travel reward cards enjoy widespread appeal because of the simple and effective promise made to consumers – “travel anytime on any airline.”

Airlines are in a position to retrieve their dominance by reinventing their programs to provide better value for more travelers. But competing with banks is not a simple task. While airlines own their frequent flier programs . . . every card portfolio is actually owned by the bank. Even those associated with airline co-branded cards.

As they say in Vegas, “It’s never safe to bet against the house.”



# Pegasus Airlines soars with 42% more ancillary revenue

The results tell a compelling tale of ancillary revenue bliss and a productive relationship. IdeaWorksCompany started working with Pegasus Airlines in 2010.

IdeaWorksCompany helped Pegasus boost a la carte activity in core ancillary revenue areas such as onboard café, baggage fees, and seat selection.

For its latest full year, the airline disclosed per passenger ancillary revenue jumped by 42% in the three core areas since 2009. The total ancillary revenue increase was in excess of €36 million. That's the type of return that delights CFOs, CEOs, and airline investors.

The advice and expertise offered by IdeaWorks Company, when combined with the carrier's entrepreneurial spirit and outstanding people, has established a firm flight path to better profits.

## How IdeaWorksCompany builds ancillary revenue bliss...

- Series of on-site workshops on the topics of ancillary revenue, a la carte pricing, and loyalty marketing.
- Extensive background research through interviews of Pegasus frontline employees, program managers, and company executives.
- 90-page strategy document providing a ranking of opportunities, service design, revenue projections with 75 individual revenue benchmarks.
- Ongoing support to ensure revenue-producing results.

## 2009 to 2011 Ancillary Revenue Results



**Onboard Café**  
Increase of 17%  
per passenger



**Baggage**  
Increase of 60%  
per passenger



**Seat Selection**  
Increase of 109%  
per passenger

## Turkish Delight...

“We worked with Jay Sorensen and IdeaWorksCompany in the areas of ancillary revenue, frequent flier programs and international marketing opportunities, and I have observed he is one of the best experts in the industry in these areas. He uses his deep knowledge and experience to bring together customized analysis and solutions based upon the customer's needs, marketplace, customer profile, and the best practices in the world. His analysis and recommendations have always been solid and executable and therefore generate incremental revenue opportunities. Pegasus highly recommends IdeaWorksCompany.”

— Onur Dedekoylu, Vice President of Marketing

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