

LOYALTY MARKETING REPORT SERIES FOR 2012

Points, Pillows and Porsches: Hotel and Car Rewards at the Top 30 Airlines

Redemption expansion helps carriers discharge
burgeoning loyalty program liabilities.

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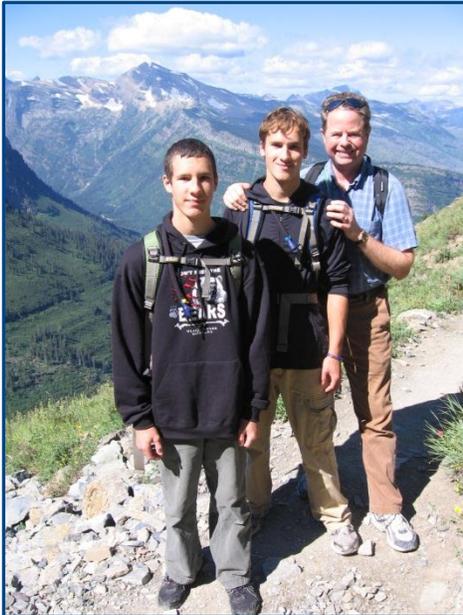
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About Jay Sorensen, Writer of the Report



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 marketing, sales, customer service, product development,

operations, planning, financial analysis and budgeting. His favorite activities are hiking, exploring and camping in US national parks with his family.

About Eric Lucas, Editor of the Report



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

Eric Lucas is an international travel, natural history and business writer and editor whose work appears in MSN.com, Michelin travel guides, *Alaska Airlines Magazine*, *Westways Magazine* and numerous other publications. Founding editor of *Midwest Airlines Magazine*, he is the author of six books, including the 2009 Michelin *British Columbia Green Guide*. Eric has followed and written about the travel industry for more than 20 years. He lives in Seattle, Washington, where he grows and sells organic garlic; visit him online at www.TrailNot4Sissies.com.

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Points, Pillows and Porsches: Car and Hotel Rewards at the Top 30 Airlines

Redemption expansion helps carriers discharge burgeoning loyalty program liabilities.

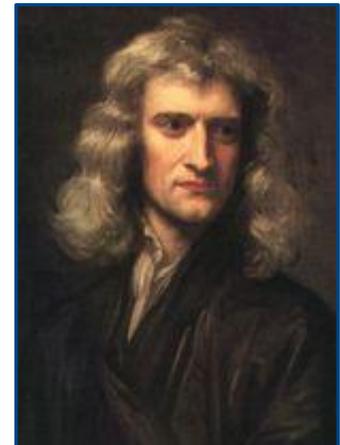
Car and hotel rewards are now offered by every major frequent flier program in North America and Europe with the exception of Turkish Airlines and US Airways. Of the 30 frequent flier programs reviewed, 20 offer hotel rewards and 17 provide car rental rewards. During 2011 these top 30 airlines flew more than 1.5 billion passengers, 70% of whom flew on an airline offering car and hotel rewards in its frequent flier program. Among the top 15 airlines, only US Airways and those based in China don't offer car and hotel rewards. Ryanair (ranked #6) is the only airline in the top 30 list that doesn't provide loyalty program benefits. The prevalence of car and hotel rewards indicates it has become a "must have" amenity for frequent flier programs wishing to compete on a global scale.

For every action there is an equal and opposite reaction

Sir Isaac Newton probably wasn't contemplating frequent flier programs and commercial flight in 1686 when he presented his three laws of motion.¹ After all, it would be 217 years later that the Wright Brothers made their first flight at Kitty Hawk. But his third law, which is provided in the title above, could help explain why many airlines now offer car and hotel rewards.

Newton's law can be explained as follows – if object A exerts a force on object B, then object B also exerts an equal and opposite force on object A. Understandably, some readers may question how a rational law can be applied to the often irrational airline industry.

The success of airline co-branded cards created substantial increases to mileage liability on the ledgers of major US-based airlines. For example, billions of miles have been accrued by consumers holding credit cards associated with United Mileage Plus, American AAdvantage and Delta SkyMiles. Not surprisingly, members wanted to redeem these miles. This redemption activity was the "force" exerted back on the airlines. Newton's law also has application to the competitiveness of airline co-branded cards.



Sir Isaac Newton, physicist, philosopher, alchemist, and early airline marketer.

¹ "Newton's Third Law" reviewed online at the NASA Glenn Research Center website, December 2012.

Major banks noted the consumer appetite for travel cards and the growing frustration with reward seat availability. “No hassle rewards” became the rallying cry of one bank in its quest to attract cardholders. The “force” exerted on the airline industry was the continuing loss of very profitable customers. The advent of car and hotel rewards is one of the methods used by airlines to pull these consumers back into the fold of their loyalty programs. Car and hotel rewards represent a redemption method that supports the reward travel experience, is attractive to consumers, and effectively moves miles or points off the ledger.

San Francisco is sexier than a toaster.

Some airlines, and even a few frequent guest programs, use general merchandise to boost reward offers and encourage mileage redemption. IdeaWorksCompany is not a believer in the allure or power of “bigger and better” catalog programs as a method to boost customer loyalty. Toasters and vacuum cleaners can’t compete with travel, adventure and fun. While merchandise does move liability off the books, it doesn’t deliver brand building benefits. Airlines might be better served by a more focused approach that supports the unique attributes of a carrier’s brand.

Two examples of great brand building can be readily offered. Virgin Atlantic builds on its unique identity by featuring the goods and services of sister brands in the Virgin Group such as Virgin Balloon Flights and stays at Richard Branson’s private island retreat. Etihad Airways polishes its reputation as a purveyor of grand comfort by including grams of gold, a \$20,000 Swiss watch, and a 69-foot yacht in its Etihad Guest reward catalog. But too many airlines fail to identify their unique qualities and only offer a dreary collection of everyday consumer products that could be found in a Walmart or Tesco. Airlines are the focal point of the travel business and should celebrate the magic of travel.

Car and hotel rewards are an easy method for airlines to embed the mystique of travel into frequent flier reward charts. This inclusion allows members to redeem miles or points to build a more complete holiday experience through a carrier’s frequent flier program. Members need not be tempted by other retailers, such as Expedia or Carlson-Wagonlit, when booking a vacation to Auckland, Paris, or San Francisco. Airlines should naturally desire to provide a place for one-stop-shopping for their best customers to plan getaways.

Japan Airlines delivers this experience through its JAL Onsen Mile program. Mileage Bank members in Japan may redeem JAL Coupons for accommodations, meals, and spa baths at a network of traditional Japanese inns called ryokans.

Two hours from Tokyo is the Sansuiro ryokan, located in the natural surroundings of the hot springs town of Yugawara. Mountain views are readily available from the hot baths and the on-premise Sui Spa provides body and facial treatments. The nightly rate is 21,000 yen per person, which includes breakfast and dinner (US\$255), or 40,000 miles for members redeeming JAL Coupons.



Imagine the serenity of being in this spot at the Sansuiro ryokan courtesy of a JAL Mileage Bank redemption.

Making rewards easy or not-so-easy

Three primary methods exist for delivering car and hotel reward benefits to members. Online booking, with automatic deduction of miles or points, ensures instant gratification. This method is most favored by consumers and mimics the online style of Expedia.com by providing a wide variety of car rental brands and vehicle types and hotel properties. Some airlines choose a second “preferred supplier” style which limits the online selection to one or more select brands. The third method relies upon paper or electronic vouchers, or gift cards, exchanged for services with a car rental company or hotel. The latter delays gratification and relies upon rather antiquated methods.

American Airlines and its AAdvantage program set a standard other airlines can follow. The process is completely online and allows members to effortlessly convert miles for a car rental or hotel stay. The online booking engine delivers a wide range of car rental brands: Alamo, Avis, Dollar, Hertz, and National. Hotel queries provide a seemingly endless choice of lodging properties. For example, a booking query performed for travel to Orlando delivered 78 individual vehicle results and 204 hotel properties. That’s an amazing abundance of choices for program members.

The screenshot displays the American Airlines car rental rewards booking interface. At the top, a progress bar indicates six steps: 1. Search, 2. Select (highlighted), 3. Review, 4. Traveler Info, 5. Payment, and 6. Confirmation. Below the progress bar, a 'Car Results' section shows 'Displaying 1 - 10 of 78 results'. A filter bar includes 'Car Company', 'Car Type', 'Capacity', and 'Total Price'. The main result is for Budget, labeled as a 'Preferred Partner'. The car is an 'Economy' model, specifically a 'Group A - HYUNDAI ACCENT 4DR/5PSGR or similar'. The pickup location is 'Orlando International - (MCO)'. The rate includes 'UNLIMITED MILES, Economy, 2/4 Door, Automatic Transmission, Air Conditioning'. A callout box shows '4,500 AAdvantage Miles per day' and a 'Total' of '9,000 AAdvantage Miles'. A red 'Add Car' button is at the bottom right. On the left, a sidebar promotes logging in for elite status members to receive exclusive rates and includes a 'Thank You For Your Loyalty.' banner with an image of a hotel.

This is a screenshot of American’s car rental rewards booking page. Note the banner to encourage members to log-in; elite members receive special rate discounts. Budget is listed as a preferred partner to provide more exposure for the partner.

The airline is a sophisticated marketer and builds loyalty by offering rate discounts for its elite members. Unverified consumer postings at FlyerTalk.com refer to savings of 30% and 50% granted to members with elite status such as Executive Platinum. American strategically moves more miles by holding sales for its car and hotel rewards site, such as 30% off regular rates. The airline likely derives additional benefit, such as better rates, by listing Avis and Budget as “Preferred Partners.” It’s a simple online retailing ploy that drives more traffic to the highlighted brands.

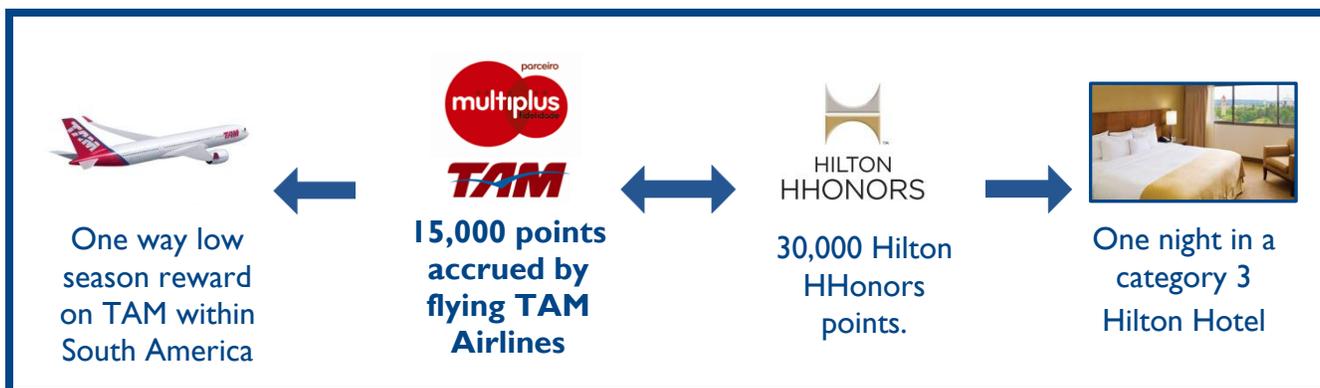
On the other not-so-easy end of the spectrum is All Nippon Airways. The carrier takes a very complicated approach to its reward structure. The “Using Miles” section of the ANA Mileage Club web page for the Japan website displays an “Other Awards” section that is complex beyond comprehension. Other rewards for ANA feature a bewildering array of ANA Value Vouchers, ANA Skycoins, ANA Miles, ANA Shopping Point Awards, Selection Awards, Coupon Awards, and Partner Awards.

The structure may have been understandable in an earlier time, but at present it's virtually impossible to sort through. Almost all of the sub-categories touch upon travel-related rewards:

- ANA Value Vouchers may be exchanged for hotel stays at ANA Hotels and a handful of InterContinental locations in Japan.
- ANA Skycoins can be redeemed for domestic Japan package travel.
- ANA Miles are valid for ANA Sky Holidays.
- Coupon Awards provide vouchers for Marriott, New Otani Hotels, Shangri-La Hotels and Resorts, Peninsula Hotels, Prince Hotels and Resorts, and Tokyu Hotels.

The US version of the ANA website is simpler, but unfortunately very limited in the car and hotel categories and only offers the ANA Value Vouchers for a limited number of hotel properties.

TAM Airlines and its Fidelidade frequent flier program participate in the Multiplus collation program. Multiplus is a publicly-owned company which links loyalty programs and retailers in Brazil. While TAM Fidelidade directly provides airline travel rewards and cabin upgrades, Multiplus provides rewards by linking to loyalty programs such as Hilton HHonors and Accor Le Club, as well as retailers, and Smartbox activity reward packages. The following demonstrates how 15,000 points accrued in TAM Fidelidade might be spent by a member:



It's an extremely simple proposition for consumers with Multiplus points acting as a universal currency among the participating retail brands and loyalty programs.

The top 30 list represents the world's largest airlines

IdeaWorksCompany reviewed the car and hotel reward offerings provided by the world's largest airlines. The top 30 list is based upon 2011 passenger traffic statistics compiled from the July 2012 issue of *Air Transport World* and airline alliance websites. The following pages display the results for all airlines; 6th ranked Ryanair is included even though it does not provide frequent flier program benefits. Other airlines, notably those based in China, are listed as having a loyalty program, but not providing car and hotel rewards. Results for some include owned subsidiaries; in the case of Lufthansa Group this includes SWISS, Austrian, and Lufthansa.

Car Rental Rewards – Review of Top 30 Airlines

	Airline – FFP (Coalition Program Member) Alphabetical listing	Instant Online Booking		Paper, E- Vouchers, or Other	Notes
		Online Travel Agent Style	Limited Selection		
1	Air Berlin - topbonus	No rewards			
2	Air Canada - Aeroplan		●		Avis and Hertz only.
3	Air China – PhoenixMiles	No rewards			
4	Air France KLM – Flying Blue			●	Avis, Hertz, and Sixt only.
5	AirAsia – BIG Free Version	No rewards			
6	Alitalia - MilleMiglia	No rewards			FFP will be redesigned in 2013.
7	American Airlines - AAdvantage	●			Avis and Budget designated as preferred partners.
8	ANA – ANA Mileage Club			●	Nippon Car Rental through Coupon Awards at Japan website.
9	British Airways – Executive Club		●		Avis is only accrual and reward partner.
10	Cathay Pacific – Asia Miles			●	Hertz only.
11	China Eastern – Eastern Miles	No rewards			
12	China Southern – Sky Pearl Club	No rewards			
13	Delta Air Lines - SkyMiles	● cc+elite			cc+elite: Only for SkyMiles credit cardholders and elite status members.
14	easyJet – (Nectar)	See note			Redeem Nectar points at Expedia.co.uk
15	Emirates Airline - Skywards			●	Budget only within the UAE.
16	Gol - Smiles	No rewards			
17	Japan Airlines – JAL Mileage Bank			See note	Coupon Awards can be redeemed for JALPAK packages (only Japan website).
18	JetBlue - TrueBlue			See note	JetBlue Getaways packages may be purchased with points and cash.
19	Korean Air - SKYPASS	No rewards			
20	LAN Airlines – LANPASS	No rewards			
21	Lion Air – Passport Club	No rewards			
22	Lufthansa Group – Miles & More	●			
23	Qantas Group – Frequent Flyer			●	Car rental gift card rewards.
24	Ryanair	No frequent flier program			
25	SAS Scandinavian - EuroBonus			●	Avis and Hertz only.
26	Southwest Airlines – Rapid Rewards	● cc			cc: only for Rapid Rewards credit cardholders. Global destinations too.
27	TAM - Fidelidade (Multiplus)			●	Redeem through Multiplus program.
28	Turkish Airlines – Miles&Smiles	No rewards			
29	United – Mileage Plus	●			US and Canada only.
30	US Airways – Dividend Miles	No rewards			

Data collected from airline websites December 2012.

Hotel Rewards – Review of Top 30 Airlines

	Airline – FFP (Coalition Program Member) Alphabetical listing	Instant Online Booking		Paper, E- Vouchers, or Other	Notes
		Online Travel Agent Style	Limited Selection		
1	Air Berlin - topbonus	No rewards			
2	Air Canada - Aeroplan		●		Limited to large list of accrual partners.
3	Air China – PhoenixMiles	No rewards			
4	Air France KLM – Flying Blue		●	●	Online booking provided for Hilton. Others use paper or email vouchers.
5	AirAsia – BIG Free Version			●	Tune Hotels only.
6	Alitalia - MilleMiglia	No rewards			FFP will be redesigned in 2013.
7	American Airlines - AAdvantage	●			
8	ANA – ANA Mileage Club			●	Voucher offers, such as ANA Hotels, Marriott, vary by country websites.
9	British Airways – Executive Club	●			
10	Cathay Pacific – Asia Miles			●	Many hotel brands plus e-voucher for the hotel booking site Ctrip.com.
11	China Eastern – Eastern Miles	No rewards			
12	China Southern – Sky Pearl Club	No rewards			
13	Delta Air Lines - SkyMiles	● cc+elite			cc+elite: Only for SkyMiles credit cardholders and elite status members.
14	easyJet – (Nectar)	See note			Redeem Nectar points at Expedia.co.uk
15	Emirates Airline - Skywards			●	Marriott (Middle East), Emirates Resort.
16	Gol - Smiles	No rewards			
17	Japan Airlines – JAL Mileage Bank			●	JAL Hotels, JAL Ryokan Inns program, JALPAK packages (Japanese only site).
18	JetBlue - TrueBlue			See note	JetBlue Getaways packages may be purchased with points and cash.
19	Korean Air - SKYPASS			●	Limited to 3 hotel locations.
20	LAN Airlines – LANPASS			●	Small list of hotels in LANPASS Catalog.
21	Lion Air – Passport Club	No rewards			
22	Lufthansa Group – Miles & More	●			
23	Qantas Group – Frequent Flyer			●	Hotel branded gift card rewards.
24	Ryanair	No frequent flier program			
25	SAS Scandinavian - EuroBonus		●		Limited locations and brands in Europe.
26	Southwest Airlines – Rapid Rewards	● cc			cc: only for Rapid Rewards credit cardholders. Global destinations too.
27	TAM - Fidelidade (Multiplus)			●	Redeem points through Multiplus for Accor, Hilton and TAM Viagens.
28	Turkish Airlines – Miles&Smiles	No rewards			
29	United – Mileage Plus	●			
30	US Airways – Dividend Miles	No rewards			

Data collected from airline websites December 2012.

Data collection posed some challenges for websites offering limited English language access. This was especially true in Asia where frequent flier programs tend to offer more benefits through their native-language and home market websites. When provided, research was conducted through English language versions of home market websites of airlines. Google Translate was also used as a tool to understand local market distinctions.

The listings associated with three airlines warrant additional information. easyJet is a very large airline (ranked 9th largest in the top 30 list) and does not have an in-house frequent flier program. Instead, it relies upon a coalition program to provide a loyalty benefit. Consumers accrue points in Nectar for purchases at its easyJet eshops webpage; these may be redeemed for merchandise using a methodology similar to Multiplus. Expedia.co.uk is a participant and points could be redeemed for car rentals and hotel accommodations through the website. JetBlue and LAN Airlines have in-house vacation package companies associated with their frequent flier programs. JetBlue offers air-inclusive packages through JetBlue Getaways and LAN provides hotel accommodations through its LAN Tours division.

Online methods are more rewarding for members

When delivering any benefit to members, airline management should make the process as effortless as possible. Paper and email vouchers and gift cards are easy to implement, but today's consumers have scant patience for offline methods. Six of the airlines (American, British Airways, Delta, Lufthansa, Southwest, and United) use online methods that mimic the ease of booking a car or hotel at an online travel agency website such as Expedia. Program members simply log-in and conduct a search and pay with miles or points upon check-out. Capacity controls and date restrictions are missing from the process; this removes the hassles associated with many flight rewards. The secret is the procurement method. Airlines are the clients for these transactions and buy rewards with cash, and everyone knows cash is king in the travel business.

Online booking requires software platforms provided by either the airlines or third party vendors that allow consumers to book car rentals and hotel accommodations and pay with miles, points, or cash; or in some cases a combination of those.

The process for developing online booking requires an airline to establish contracts for hotel rates. This may include agreements with hotel chains, online travel agencies, third party distributors, and even individual hotel locations. Most airlines enjoy existing contacts with hotel chains through their partner relationships. Surprisingly, because car rentals and hotel accommodations are purchased, there are often commissions payable to the carrier for bookings. These can be accepted as ancillary revenue or used to reduce the reward expense for members. The Switchfly platform makes queries with multiple supplier sources and displays one set of rates to the consumer using search parameters established by the airline.

Car and hotel rewards have proven to be popular with members. Full feature car and hotel reward programs, which offer multiple brands online, usually represent 5% to 10% of a carrier's overall mileage or point redemption activity. Hotel rewards are more prevalent and typically represent 75% of the total car/hotel reward category, with car rentals at 25%. The points plus cash function allows members to use a mixture of cash and points or miles for reward redemptions.

Airline executives seem worried about how this feature affects redemption activity and mileage liability. Some airlines limit how accounts with small balances participate by requiring minimum redemption of 5,000 miles. This helps preserve traditional levels of breakage in which miles move off the balance largely due to expiration policies. Program managers have used the lower redemption prices associated with car and hotel rewards to re-engage less active members. Frequent flier programs should be rewarding . . . and the ability to redeem 8,500 miles for a 2-day car rental in Orlando can be promoted as an attractive benefit. And of course, it might even motivate a member to choose one airline over another for their next trip.

Car and hotel rewards deliver about a penny per mile value

IdeaWorksCompany performed queries for all airlines offering online booking capabilities, which are presented in the following two tables. Whenever possible, US and Europe destinations were queried for car and hotel rewards. This was not permitted for some airlines. Delta does not provide car rental rewards outside the US and Canada; surprisingly Southwest does (the carrier only operates US domestic flights). SAS Scandinavian limits hotel rewards to Europe.

Car Rental Rewards – Online Value Comparison for Regular Members						
Rental dates of February 1 – 3, 2013						
	Airline – FFP	Location	Brand and Car	Retail Price at Car Rental Website	FFP Miles or Points	Value per Mile or Point
1	Air Canada Aeroplan	Paris	Avis – Standard	\$479	18,000	\$0.027
		Orlando	Hertz – Full Size	\$204	8,500	\$0.024
2	American Airlines AAdvantage	Paris	Avis - Standard	\$479	37,100	\$0.013
		Orlando	Hertz – Full Size	\$204	18,500	\$0.011
3	British Airways Executive Club	Paris	Avis - Standard	\$479	51,150	\$0.009
		Orlando	Avis – Full Size	\$193	22,200	\$0.009
4	Delta Air Lines SkyMiles	Boston	Hertz - Standard	\$153	18,087	\$0.008
		Orlando	Avis – Full Size	\$193	16,694	\$0.012
5	Lufthansa Group Miles & More	Paris	Avis - Standard	\$479	41,679	\$0.011
		Orlando	Hertz – Full Size	\$204	33,666	\$0.006
6	Southwest Airlines Rapid Rewards	Paris	Budget - Standard	\$361	46,328	\$0.008
		Orlando	Avis – Full Size	\$193	27,685	\$0.007
7	United Mileage Plus	Boston	Hertz – Standard	\$153	15,050	\$0.010
		Orlando	Avis – Full Size	\$193	15,000	\$0.013
Average value per mile or point (arithmetic mean):						\$0.012
<i>Data collected from airline websites December 2012. Noon pick up and drop off. For retail prices, “pay now” was chosen when offered, no discount codes entered, and US version of car rental website was used. Results are not intended to represent a statistical average for any individual loyalty program.</i>						

Hotel Rewards – Online Value Comparison for Regular Members

Travel dates of February 1 – 3, 2013

	Airline – FFP	Location	Hotel	Retail Price at Hotel Website	FFP Miles or Points	Value per Mile or Point
1	Air Canada Aeroplan	London	Sheraton Heathrow	\$151	28,000	\$0.005
		Orlando	Best Western Gateway	\$192	14,500	\$0.013
2	Air France KLM Flying Blue	London	Hilton Heathrow	\$280	135,000	\$0.002
		Orlando	Hampton Inn Gateway	\$247	67,600	\$0.004
3	American Airlines AAdvantage	London	Sheraton Heathrow	\$151	32,100	\$0.005
		Orlando	Best Western Gateway	\$192	23,500	\$0.008
4	British Airways Executive Club	London	Sheraton Heathrow	\$151	25,000	\$0.006
		Orlando	Best Western Gateway	\$192	18,100	\$0.011
5	Delta Air Lines SkyMiles	London	Sheraton Heathrow	\$151	16,322	\$0.009
		Orlando	Best Western Gateway	\$192	26,439	\$0.007
6	Lufthansa Group Miles & More	London	Sheraton Heathrow	\$151	51,566	\$0.003
		Orlando	Best Western Gateway	\$192	41,765	\$0.005
7	SAS Scandinavian EuroBonus	Stockholm	Radisson Blu Arlanda	\$338	40,000	\$0.008
		Copenhagen	Radisson Blu Scandinavia	\$301	40,000	\$0.008
8	Southwest Airlines Rapid Rewards	London	Sheraton Heathrow	\$151	25,200	\$0.006
		Orlando	Sheraton Vistana Resort	\$380	40,200	\$0.009
9	United Mileage Plus	London	Sheraton Heathrow	\$151	25,950	\$0.006
		Orlando	Best Western Gateway	\$192	21,300	\$0.009
Average value per mile or point (arithmetic mean):						\$0.007
<i>Data collected from airline websites December 2012. 2 persons in a room. When offered, “pay now” was chosen. Results are not intended to represent a statistical average for any individual loyalty program.</i>						

This limited sampling of results is intended to convey the overall level of value provided by these types of rewards. The determination of value is dependent upon retail price comparisons and these can vary widely. Prices presented to US consumers can differ from those presented to consumers in other regions of the world. Air Canada, British Airways, SAS Scandinavian, and Southwest use points for their programs instead of miles, which makes direct comparisons more challenging. Among the mileage-based programs, the results suggest Air France/KLM and Lufthansa provide rather stingy value for their hotel rewards with the lowest values on the table. Generally airlines budget around \$0.005 to \$0.006 (5/10 to 6/10 of a penny) per mile for reward expenses. Delta Air Lines disclosed in its 2011 Annual Report it sold mileage credits to other airlines at a price of \$0.0054 per mile. IdeaWorksCompany believe this represents the cost threshold the carrier is willing to absorb for buying alternative rewards such as cars and hotels.

Frequent flier program managers can manipulate reward prices to influence member reward redemptions. American’s reward sales were referenced earlier in this report, with one example providing a 30% discount off regular reward prices to elite members. This can occur if an airline has excess funds in its reward budget at year end. Special offers can be directed to inactive members or limited to those with elite status. Queries performed at United reveal the 25,950-mile price for the 2-night Sheraton Heathrow stay can drop by more than 26% to 19,100 miles for members with Premier Silver or Premier 1K status. These airlines are testing reward prices on a continuous basis.

Car and hotel rewards also allow members to tap into a rate structure that might offer savings above regular retail prices. The table below demonstrates the options available to an American AAdvantage member considering a Hertz rental in Orlando:

	OR		OR	
Pay \$204 cash for 2 day full size car in Orlando at Hertz.com.		Redeem 18,500 AAdvantage miles for a 2 day full size car in Orlando.		Use 1,300 miles and pay \$86 for 2 day full size car in Orlando.

Clearly this example suggests the consumer would be advised to mix miles and cash. A mere 1,300 miles can save \$118, which values the miles at more than 9 cents each. The mile and point prices assigned to car and hotel rewards can be managed in a manner similar to airline fares. Prices are ultimately linked to the rates airlines negotiate with car and hotel suppliers. The airline is free to adjust the premium assigned. Undoubtedly, some airlines may opt to invest much more for the rewards provided to elite members. The online booking feature allows airlines to test different offers to determine which results best align with a program's brand, revenue, liability, and member engagement objectives.

The laws of attraction help explain loyalty

It's wholly appropriate to close this report with more wisdom from Sir Isaac Newton. "Mass attracts mass" is a law of physics that is synonymous with the physicist and philosopher. Simply said, smaller items are attracted to larger items. This is why humans tend to stay firmly attached to the earth . . . unless they are flying about in an airplane. Airlines apply this law of attraction by seeking to increase the mass of their frequent flier programs. This is accomplished by broadening what a program offers to its members.

The most important feature for the majority of members is the allure of air travel rewards; this is what exerts the greatest gravitational force. Competing forces always exist . . . other airlines will happily poach customers and banks seek to lure away cardholders. The most effective method to maintain the loyalty of members is to improve the appeal of your program. This can be accomplished by adding reward seat inventory, improving access to upgrades, providing better personalized services, and of course by boosting reward choices through car and hotel rewards.

One carrier's recent advertising campaign said it best, "Loyalty programs should be loyal . . . After all, it's called a loyalty program. Rewarding you is the whole point."



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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