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Alternative Rewards Help Airlines Cope With Boom in Miles and Plunge in Trips

The 110-page ezRez Guide to Loyalty Marketing by IdeaWorks unveils the secrets of frequent flier program activity worldwide.

September 20, 2010, Shorewood, Wisconsin - - Driven by consumer demand and a corporate need to shed billions of unused miles, alternative rewards are spreading among the world's frequent flier programs. Some major airlines, such as British Airways and Singapore, are holdouts. But the overall trend is for more reward options as frequent flier program managers are compelled by competitive pressures to add hotel, car rental, and merchandise options in addition to the traditional air travel and upgrades. The topic of alternative rewards is one of many covered by the new **ezRez Guide to Loyalty Marketing by IdeaWorks**.

A growing number of airline managers and investment analysts now openly fret over the problem of too many miles chasing too few reward seats. It's difficult to fault carriers for favoring short term solutions during difficult economic times. Seats that should be held aside to fulfill reward obligations are instead sold to the highest bidder. For example, reward trips in the US for seven top carriers plunged from 24.2 million for 2008 to 21.7 million in 2009. As a result, reward redemptions are deferred to future periods . . . and program members become frustrated. Economics have distracted airlines from the basic mantra of customer relations, "a happy consumer is a loyal and good customer."

The easiest method to prevent a mileage meltdown is to boost the supply of standard reward seats. But frequent flier program managers must heed revenue management's mission to deliver every last dollar, euro, and ruble of passenger revenue. Carriers are increasingly turning to alternative rewards to boost member satisfaction, burn off mileage liability, and allow revenue management to maintain its focus on fare-paying customers. The new rewards consist of hotel accommodations, car rentals, merchandise, and services.

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Unlike the reward seats provided on host airlines, these items are purchased from partner companies. Hotel accommodations and car rentals are popular choices because the business relationships already exist through frequent flier partnerships. It's only natural for airlines to broaden marketing tie-ins by highlighting "full partners" - - those that participate on the "earn and burn" sides of frequent flier programs.

The websites of 22 top frequent flier programs were reviewed to determine alternative reward offers. Of these 22 programs, only Air Berlin, British Airways, Jet Airways, Singapore, Southwest, and Turkish do not offer rewards within the hotel, car rental, online catalog, and retail gift card categories. The table below lists the 16 programs that provide alternative rewards. Redemption processes do vary greatly. For example, American, Delta, and United allow members to book any hotel and car directly at the program website.

Review of Alternative Rewards				
Airline	Hotel	Car Rental	Online Catalog*	Retail Gift Cards
Air Canada	■	■	■	■
Air France/KLM	■	■	■	■
AirTran Airways	■	■	■	■
Alaska Airlines	■	■	■	□
American	■	■	■	□
Cathay Pacific	■	■	■	□
Continental Airlines	Credit cardholders only			
Delta Air Lines	■	■	■	Elites & credit cardholders
Emirates	■	■	■	■
Iberia	■	■		
Lufthansa/SWISS/Austrian	■	■	■	■
Qantas Airways	■	■	■	■
SAS Scandinavian	■	■	■	
United Airlines	■	■	■	
US Airways				□
Virgin Blue	■	■	■	■

* The online catalog category does not include discounted merchandise offers or auctions.
 ■ This item fulfilled by a 3rd party which charges a transaction fee in addition to the miles redeemed.
 Sources: Airline websites reviewed July 2010.

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Reward travel on the airline almost always offers the best financial return for both airline and program member--subject to the caveat of availability. Alternative rewards are attractive to consumers because availability is not controlled by the airline. However, retail value per mile or point varies significantly among frequent flier programs.

The table below lists examples of reward items and the value per mile of each. On the low end, the Emirates example delivers a value of €0.0019 (\$0.0024) per mile associated with a shopping mall gift card; Delta is at the high value end with a Waldorf Astoria room night that delivers a value of €0.0076 (\$0.0093) per mile. In most cases, alternative rewards are worth less than simply taking reward travel on the airline.

Alternative Reward Examples – Mileage Values				
Airline	Reward Item	Reward Value	Miles Required	Value per Mile
Delta	Waldorf Astoria room night	€322 (\$395)	42,532	€0.0076 (\$0.0093)
United	\$50 Lettuce Entertain You restaurant gift card	€41 (\$50)	6,000	€0.0068 (\$0.0083)
Air Canada	US\$50 Macy's gift card	€41 (\$50)	7,500	€0.0054 (\$0.0067)
American	Waldorf Astoria room night	€322 (\$395)	59,794	€0.0054 (\$0.0066)
Virgin Blue	AUD\$50 Target Australia gift card	€35 (\$43)	7,200	€0.0048 (\$0.0059)
Qantas	AUD\$50 Woolworths gift card	€35 (\$43)	7,250	€0.0048 (\$0.0059)
Scandinavian SAS	Radisson Blu Frankfurt room night	€90 (\$111)	20,000	€0.0045 (\$0.0056)
Air France/KLM	Disney Paris annual pass Fantasy tier	€139 (\$170)	35,000	€0.0040 (\$0.0049)
Cathay Pacific	US\$50 Starbucks gift card	€41 (\$50)	13,000	€0.0031 (\$0.0038)
Lufthansa	Airport shopping at Travel Value and Duty Free	€100 (\$123)	33,300	€0.0030 (\$0.0037)
Emirates	AUD\$50 Westfield Malls gift card	€35 (\$43)	18,000	€0.0019 (\$0.0024)
<i>Hotel prices shopped at airline website for same 01 October 2010 travel date. Sources: Airline websites reviewed July 2010.</i>				

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The **ezRez Guide to Loyalty Marketing by IdeaWorks** is the first publication dedicated to frequent flier programs. The handbook follows the success established by three editions of the *Guide for Ancillary Revenue and a la Carte Pricing*. The new 110-page Guide features research and analysis related to reward alternatives, program IPO spinoffs, and elite level strategies:

- Going Beyond Air Travel with Alternative Rewards.
- Cashing In Your Miles – FFPs and IPOs.
- Worldwide Review of Reward Availability.
- Understanding the Power of American's Elite Program.
- Stories from the Field – FFP Executive Interviews.

The **ezRez Guide to Loyalty Marketing by IdeaWorks** will be available September 24, 2010 for purchase and immediate download as a PDF at: **AirlinInformation.org/guide**. The price per Guide is US\$399 and is payable by credit card.

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About IdeaWorks: IdeaWorks was founded in 1996 as a consulting organization building brands through innovation in product, partnership and marketing, and building profits through financial improvement and restructuring. Its international client list includes airlines and other travel industry firms in Asia, Europe, the Middle East, and the Americas. IdeaWorks specializes in ancillary revenue improvement, brand development, customer research, competitive analysis, frequent flier programs and on-site executive workshops. Learn more at IdeaWorksCompany.com.

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