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Travel Brands Revamp Loyalty Programs to Keep Customers Engaged

By Marlene Goldman

IdeaWorksCompany contributed information to this article - - see italics.

One of the many fallouts from the turbulent past 1.5 years of pandemic-related travel restrictions and lockdowns has been the rethinking and imminent restructuring of loyalty programs throughout the travel industry, from airline and hotel brands to cruise and rental car companies. Loyalty programs are more than a perk for customers; they can be worth more than the brand itself for the program owners and operators. For example, the world's largest airline, American Airlines, is valued at roughly \$6 billion, whereas its passenger loyalty program, AAdvantage, boasts an estimated worth of \$24 billion according to a recent analysis by Financial Times.

The value loyalty programs bring is one reason brands all across the industry restructured their programs to keep loyal customers enrolled and engaged amid all the COVID-sparked uncertainty. But the nature of loyalty programs has traditionally targeted business travelers, a sector still far from recovery.

“Most frequent-flyer programs or loyalty programs are geared toward high-repeat travelers, which are usually business travelers,” said Ben Baldanza, an economist and former CEO of Spirit Airlines (2005–2016). “If business travel reduces, changes, and people work at home or meet using video, not earning miles on room nights, it’s harder to earn a free flight or hotel room. If consumers have to wait years to get their rewards, loyalty reduces.”

Jay Sorensen, president, IdeaWorksCompany, concurred: “At the present, business travel is largely missing. I would guess business travel is off 80 percent. That’s a huge number, so that is an uncertainty. Frequent-flyer programs are for business travelers, primarily.” IdeaWorksCompany specializes in brand development and developed frequent-flyer programs for international airlines.

“When the airline is uncertain what’s going on, it’s really hard to reengineer the program to perform for whatever the new environment is you end up with,” Sorensen continued. “What’s been happening with frequent-flyer programs is they want to keep you engaged, so they’re not allowing your miles to expire or your status to expire.”

Steve Saxon, partner and lead of McKinsey's Travel practice in Asia, and Thorsten Spickenreuther, loyalty expert with McKinsey, explained airlines, hotels and other travel companies are extending status tiers or in some cases temporarily removing expiry of miles and lowering requirements for requalification.

American Airlines' AAdvantage extended all elite status expiring Jan. 31, 2021, until Jan. 31, 2022. The company also made it easier to earn elite status using special promotions. And according to its website, "AAdvantage members who currently hold lifetime elite status will continue to hold their lifetime elite status."

Delta Air Lines also extended elite status on its SkyMiles frequent-flyer program. Delta SkyMiles Medallion members can maintain status through Jan. 31, 2023. Delta and American Express also extended SkyMiles partnership benefits through the same 2023 date. In addition, all Delta 360 members will keep their exclusive membership in Delta's annual, invite-only program for an additional year.

For United MileagePlus members, those with 2020 Premier status were extended to Jan. 31, 2022. For the 2021 status year, United reduced thresholds for Premier qualification by 50 percent for each status level. In addition, 1K and Platinum members gained the ability to upgrade when the program extended PlusPoints expiration dates by six months.

Across the board, major hotel brands also did everything to keep customer loyalty, from extending elite status expiration dates to making it easier to earn points.

Hilton Hotels was one of the leaders in extending members' statuses. "We were one of the first loyalty programs to offer reassurance to our members by making several modifications to let them know we were on their side," said Jenn Chick, vice president and global head, Hilton Honors & Customer Engagement. "We did this by implementing a number of extensions to support our members, including status and points expiration, as well as allowing all members to automatically roll over 2020 nights to count toward their future tier status qualification. We also extended benefits for our co-brand credit card members."

As the pandemic continued, Hilton announced additional adjustments, including cutting 2021 status qualification in half, lowering milestone bonus night thresholds and, again, extending status to 2022 and Free Weekend Night Reward certificate expiration dates for co-brand credit card members.

Radisson Hotel Group Americas launched Radisson Rewards Americas. The Radisson Rewards Americas program offers a variety of new features, including a simplified Award Chart and a discounted redemption rate for members called RewardSaver. The new RewardSaver rate makes redeeming a hotel stay more affordable — 30 percent less than a standard award night at select hotels.

Meanwhile, Marriott Bonvoy introduced The Marriott Bonvoy Moments program, offering members exclusive and VIP access to concerts, culinary experiences, premier sporting events and more. Members can redeem their points for either fixed-price experiences or auction-style experiences and can now earn points with new partners, including Uber.

Hyatt also began offering members of World of Hyatt more flexibility when it comes to boosting their tier status and providing easier ways to earn points.

“One way we’ve done this is by lowering the World of Hyatt elite status qualifications by 50 percent for the 2021 calendar year, so members can achieve or requalify for status and enjoy elite benefits in half the time,” said Amy Weinberg, senior vice president, Loyalty, Brand Marketing and Consumer Insights, Hyatt. “This means they can achieve elite status by staying half the number of nights or earning half the number of Base Points required in a calendar year.”

Saxon and Spickenreuther noted some hotels developed new products, from day-use rooms including business features like WiFi and an IT help- desk to full-fledged “work from hotel” offers for a week or a month with options such as overnight stays, full board or video conferencing equipment. “What made this interesting in particular for business travelers is that those packages also yield loyalty points and the nights count toward status qualification — something day-use rates typically don’t include.”

Hilton Hotels, for example, launched a new work-from-hotel solution, WorkSpaces by Hilton, to provide customers seeking private office space a hotel room to increase efficiency in their workday. Hyatt also introduced Bonus Journeys, World of Hyatt’s global promotion providing members the ability to earn thousands of points on future trips as well as on its programs Work from Hyatt Extended Stay, Office for the Day and Hyatt Night In.

Cruise lines are doing the same with loyalty programs, according to Baldanza. “If someone bought enough of their product to reach higher levels of status, that is the last person they want to be indifferent about; the last thing they want to do is pull away status.” Airlines, hotels and cruise companies won’t do that, especially for power users. “That won’t last forever, but it’s still too early for them to do that.”

As leisure travel continues to lead the recovery, while business travel trails behind, there are predictions 2022 will be a year of change in strategy for U.S. frequent-flyer programs attempting to tap more leisure travelers who don’t fly as often to reach platinum and gold.

“The entire industry is coming upon a reckoning over the next year,” Sorensen said. “The importance of leisure travel is paramount, as business travel will be far less important to the airline industry. There is an estimated long-term decrease in business travel, from 19 to 36 percent.

Technology has affected intercompany meetings, forever changing business travel. Companies are also looking to reduce their environmental footprint with a reduction in business travel.”

Consumers are coming to the realization that maybe it's best to start using these programs rather than hoarding points, according to Baldanza. “Travelers may start to take advantage of small conveniences that take some of the headache out of travel — like late checkout and faster Internet.”

In addition, winning a smaller base of business traffic will become especially important to the three largest airlines in the United States, according to Baldanza. “With fewer ways to generate loyalty business, brands may offer some options, like upgrades that are easier to earn. It also may mean that credit card spend is given greater weight since this is a way to show continuing loyalty even when flying is reduced.”

According to Saxon and Spickenreuther, airlines and hotels will start to offer more hyper-personalization of offers. “We expect an increase in using gamification and emotionalization elements.”

In addition, they predict that having social responsibility options will most likely develop into a must-have for programs of the future, especially for being able to appeal to the younger generation, such as earning and redemption choices around sustainable options like carbon offsetting. “Finally, the evolution of loyalty ecosystems might create broader partnership networks and bundled offers and perks, and even establish miles and points as an additional currency.”

Another prediction: more subscription programs with a monthly or annual fee. So far, those have been almost exclusively found with low-cost carriers, but even some network carriers have one-time sign-up fees or even offer a paid “light” status.

Saxon and Spickenreuther also predict emotional rewards will become more important, ranging from access to once-in-a-lifetime experiences to VIP treatment and exclusive or early product/promotion access. “This creates emotional attachment — brand engagement — and a lock-in effect because once experienced, customers don't want to miss out on that anymore.”

Baldanza notes that despite emerging trends, it is still hard to predict the future of loyalty programs. “Everyone is waiting to see what will happen. Nobody is planting a flag and saying this is where our loyalty program is going.”