2024 CARTRAWLER REPORT SERIES

Airline Loyalty Becomes a Multi-Billion Dollar Club

IdeaWorksCompany explores big frequent flyer programs, the economics of their co-branded credit cards, and the challenges facing loyalty.

RESEARCHED AND WRITTEN BY JAY SORENSEN
EDITED BY ERIC LUCAS

IdeaWorks COMPANY.COM

Sponsored by CarTrawler

Issued 16 April 2024

Airline Loyalty Becomes a Multi-Billion Dollar Club

IdeaWorksCompany explores big frequent flyer programs, the economics of their co-branded credit cards, and the challenges facing loyalty.

Contents

The distribution of this report is made possible through the sponsorship of CarTrawler.

CarTrawler is the leading global B2B provider of car rental and mobility solutions to the travel industry. Recognised for its innovative technology solutions, CarTrawler is the partner of choice for the world's leading travel brands, enabling them to offer car rental, airport transfer and ride-hailing services to their customers. CarTrawler's purpose is to drive successful partnerships, by creating substantial ancillary revenue opportunities for the travel and airline industry.

Founded in 2004 in Dublin, Ireland, CarTrawler's proprietary technology platform connects customers to more car rental options than anyone else in the world. Their team of in-house experts designs, builds and powers tailored software solutions which are easily integrated into partners' websites and intuitive to use. Developed over 20 years, CarTrawler's innovative, bespoke and data-led solutions have proven conversion rates and measurable returns.

CarTrawler's global network connects more than 50,000 car rental locations worldwide, working with the biggest industry players including United Airlines, American Express Travel, easyJet, Uber, Hotels.com and Emirates. Find out more at cartrawler.com.

Issued by IdeaWorksCompany.com LLC
Shorewood, Wisconsin, USA
www.IdeaWorksCompany.com

CarTrawler

Driving Successful Partnerships

CarTrawler is the leading global B2B provider of car rental and mobility solutions to the travel industry.

We are the partner of choice for the world's leading travel brands, enabling them to offer car rental, airport transfer and ride-hailing services to their customers.

Our purpose is Driving Successful Partnerships, by creating substantial ancillary revenue opportunities for travel and airline partners.

As a B2B company, we focus solely on helping our airline and travel partners build their brands, not our own.

Want to explore the car rental opportunity for your business?

Talk to CarTrawler today.

Visit **CarTrawler.com**

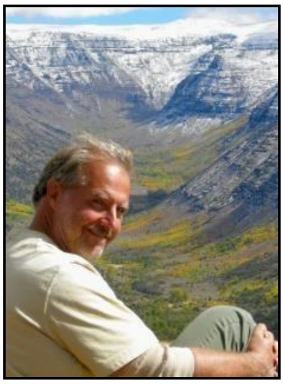
About Jay Sorensen, Writer of the Report

Jay Sorensen's research and reports have made him a leading authority on frequent flyer programs and the ancillary revenue movement. He is a regular keynote speaker at ancillary revenue and airline retail conferences and has testified to the US Congress on ancillary revenue issues. 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.

Jay with sons Anton and Aleksei at Artist Point in Yellowstone National Park.

Mr. Sorensen has 40 years experience in product, partnership, and marketing development. As president of the IdeaWorksCompany consulting firm, he has helped boost airline revenue, started loyalty programs and co-branded credit cards, developed products in the service sector, and helped start an airline 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 Lucas is an international journalist whose work has appeared in Michelin travel guides, Alaska Airlines *Beyond* Magazine*, Epoch Times, Westways* and many other publications. Founding editor of *Midwest Airlines Magazine,* he is the author of eight books. Eric has followed and written about the travel industry for more than 30 years. He lives on San Juan Island, Washington, where he grows organic garlic, apples, beans and hay; visit him online at TrailNot4Sissies.com.

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

Disclosure to Readers of this Report

IdeaWorksCompany makes every effort to ensure the quality of the information in this report. Before relying on the information, you should obtain appropriate professional advice relevant to your particular circumstances. IdeaWorksCompany cannot guarantee, and assumes no legal liability or responsibility for, the accuracy, currency or completeness of the information. The views expressed in the report are the views of the author, and do not represent the official view of CarTrawler.

LOVE, LOYALTY, AND LOTS OF CASH

Co-branded credit cards deliver wheelbarrows of money for some airlines. This report explores how this has transformed frequent flyer programs (FFPs) and contemplates the effect upon customer loyalty. The history of these programs can be traced to 1981 when American, United, and other airlines introduced mileage-accrual and travel rewards. My airline career began in 1984 and I was fortunate to witness the whirlwind of change that was occurring, and continues through today.

Within 5 years of FFPs appearing, the US airline industry introduced the feature of accruing more miles by using a credit card. Continental Airlines led with a MasterCard linked to its frequent flyer program. Other airlines followed and even American Express altered its business model by introducing the Membership Miles program in 1991. Millions of dollars, and a tidal wave of miles, began to wash onto the income statements and balance sheets of US airlines. FFPs all over the world were remade by this newfound cash stream.

Loyalty has been at the center of this activity from the start. But what is loyalty? I can personally answer this by considering the companies to which I have been the most loyal. When measuring loyalty by tenure, my answer is not a company, but an institution. My earliest memories as a child had me visiting US national parks with my parents in every type of camping vehicle. These travels continued into adulthood, first with my wife, and later with my kids. All told, I've been a "customer" of the National Park Service for more than 55 years.

Involving others is the sincerest form of loyalty. Here I'm with sons Aleksei and Anton in 2012.

I think loyalty is most easily defined as this: "We return as customers when we believe the experience is consistent and enjoyable, even when tempted by competing offers." It's a universal definition that applies to services, products, and experiences. There are plenty of alternatives to roaming the wilderness in a tent with twin boys, such as theme parks and cruise lines. But for me, my loyalty lies in places named Glacier, Pictured Rocks, and Yosemite.

Let's explore the topic of loyalty by further defining it. I believe there are two types of loyalty: behavioral and transactional.

- **Behavioral loyalty is the love-based type.** We return again and again to a company, organization, and even people, because they help define us. The relationship as a customer, supporter, or friend is strengthened by the good vibes created through interaction. Service and quality are the strongest components. We inherently believe the relationship is based upon fairness and knowing that we are protected if things go wrong. This is the strongest type of relationship because it's forgiving of mistakes and based upon love. Humans will fight to maintain these bonds.
- **Transactional loyalty is the cash-based type.** These are exchange relationships in which something is given and something is received. With a co-branded credit card, we use the card for purchases and receive miles or points as a reward. The consumer makes a calculation with each purchase to assess whether the effort produces acceptable short- and long-term benefits. These relationships can be long lasting if the consumer does not seek better value from a competitor. But loyalty can end when the member approaches an account balance of zero points which eliminates the cost of switching allegiance to a new brand.

Frequent flyer programs are strongest when both types of loyalty are engaged. However, no loyalty program can overcome the problem of a failed product or service. Even a pile of points can't deter a customer from exiting a failed relationship.

Warm feelings of loyalty for Wigwam socks, amazingly woven in the US at their Sheboygan, Wisconsin factory.

But programs have their limits and some of the most successful organizations don't offer accrual and reward benefits. These are often local operators such as your car mechanic, physician, barber, hair stylist, baker, and supper club. They wholly survive on the power of behavioral loyalty. There are also large organizations that accomplish the same. For me, these are Doctors Without Borders, Honda, Lands' End clothing, and the Wigwam sock company.

Airlines have moved from a sole reliance on behavioral loyalty. Today, US airlines generate ancillary revenue of approximately $25 billion from co-branded credit cards.[1] Clearly, customer retention for these airlines is based upon an overwhelming reliance on transactional loyalty.

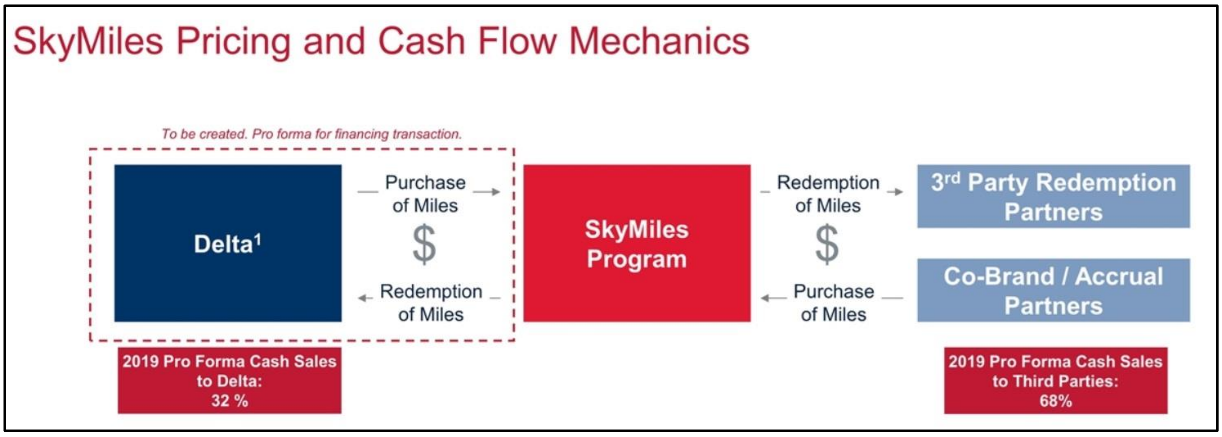
---

[1] CarTrawler Worldwide Estimate of Ancillary Revenue by IdeaWorksCompany 23 January 2023 press release.

CO-BRANDS TURN CHARGES INTO CASH

The big 3 airlines of the US simultaneously deployed their frequent flyer programs as collateral to receive $19 billion in financing in 2020 and 2021.[2] The money was desperately needed to cover losses wrought by the pandemic. Specifically, it was the co-branded credit card programs of American, Delta, and United that provided the collateral for the billions received. The pandemic had effectively erased the viability of the airline business. Fortunately, the credit card portfolios shared with their bank partners continued to churn out profits. The financial disclosures associated with the loans provided a unique inside peek into the inner workings of the economics of frequent flyer programs.

The three programs operate as wholly-owned, semi-autonomous entities. In the below graphic from the 14 September 2020 Delta SkyMiles Investor presentation, SkyMiles is placed at the center of this mileage universe. Program members fly Delta and accrue miles for the purchase of travel. The airline pays the program a discounted price for these miles. Among the Big 3 programs this activity typically represents 30 percent of program revenue; the remaining 70 percent is generated from partners, such as the banks that issue co-branded credit cards. Described another way, less than half the miles are generated by consumers buying tickets.



The FFP generates internal sales with the airline through the purchase of reward travel. SkyMiles members redeemed 97 percent of rewards on Delta in 2019, while for United it was 78 percent. The reward revenue realized by the airline easily exceeds the expense of purchasing miles from the FFP. That’s because so many more miles are accrued through credit card activity.

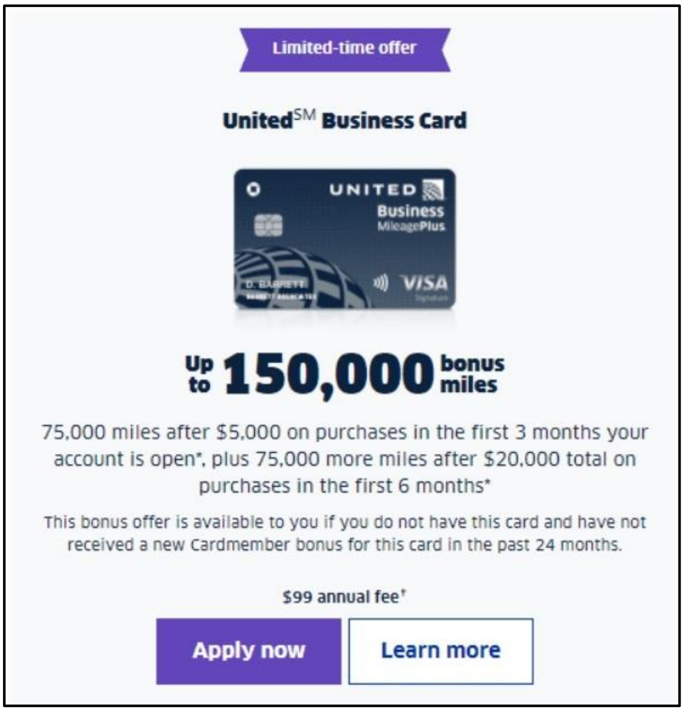
Continuing our SkyMiles example, the program receives revenue from the bank that issues the credit card. Every dollar of charge activity has the bank buying miles to deposit to the cardholder’s account. A small amount of miles is redeemed by members for other rewards, such as travel on partner airlines, car rentals, hotel accommodations, and merchandise.

[2] American, Delta, and United frequent flyer program financing presentations 2020/2021.

Banks also pay airlines for other services associated with co-branded credit cards. Most US-issued cards include no-charge checked baggage and early boarding benefits. Some toss in single-visit airport lounge passes, while high-fee cards include annual lounge access. All of these generate revenue for airlines under complex and closely guarded agreements between FFPs and issuing banks.

Frequent flyer programs have been said to sell airline travel “one mile at a time.” Unrestricted first class travel was the only reward offered when programs first appeared. Over time, the choices expanded, as did the terms and conditions. Capacity controls were added to preserve the hope that rewards did not represent a major cost for airlines. Under this practice, reward travel was believed to not displace regular fare-paying customers. The arrival of co-branded credit cards overwhelmed this capacity limitation and member resentment was very high from approximately 1990 through 2010. Airlines were eager to take cash from the banks, but were scolded for their stinginess with rewards.

Better accounting practices eventually improved the experience for members and made airline CFOs happier. Going forward, the relationship between the airline and its FFP would become transactional and defined by contract. The program would buy rewards and this allowed airlines to boost seat availability. Reward tickets would no longer be treated as unwanted zero-fare obligations, but would be considered revenue-producing tickets. Likewise, airlines would now incur an income statement expense to acknowledge the powerful loyalty-inducing amenity of mileage accrual. Airlines would buy miles from their FFP at a very advantageous price.



Wow, that's a lot of miles! Chase, as the MileagePlus card issuer, pays United for the bonus miles. It’s United’s responsibility to make the rewards available. Image: United Airlines website

The conversion of reward pricing from fixed values to floating values was another policy addition. Mileage levels would fluctuate like airline fares. Members would spend more miles to buy seats on higher-demand flights. Yes, the result of this was a devaluation of miles from the perspective of consumers. The outcome was similar to the reality of a central bank printing too much currency . . . the value of that currency always declines.

THE GLOBAL MULTI-BILLION DOLLAR CLUB

Some areas of the world offer better opportunities for creating big revenue from co-branded portfolios. The US is the world's most productive market because it features favorable conditions in three areas:

- **Credit-oriented culture.** This has many consumers preferring to pay by credit card across many levels of income. In addition, buying on credit is accepted by consumers. Retailers tend to prefer card transactions rather than cash and personal checks.
- **No interchange caps.** Merchant fees are paid by retailers, along with other fees, as the cost of accepting credit cards. The interchange fee is received by the card-issuing bank, such as Chase or Citi. The fees in some countries are capped through regulation; no such cap yet exists in the US for credit cards. However, MasterCard and Visa recently reached an antitrust agreement in the US which included modest fee reductions. Legislation has also been proposed to encourage lower interchange fees.
- **Strong bank support for co-branding.** Banks must be willing to share a good portion of their revenue stream with their airline partner. The US market has a tradition for this, whereas this support is lacking in other countries.

The table below lists the airlines disclosing frequent flyer program revenue in excess of a billion dollars. The revenue generally represents the sale of miles or points to program partners, and traditionally 95 percent of this is linked to the co-branded card portfolio. The billion-dollar list is dominated by North American airlines because co-branding conditions are ideal in the US and Canada.

Multi-Billion Dollar Club of FFPs - 2023
Results may include sales of miles to partners and service fees charged to members

Airline	Program Name	FFP Revenue	As a % of Airline Revenue
Delta	SkyMiles	$6,555,000,000	12.0%
American	AAdvantage	$6,527,000,000	12.4%
Southwest	Rapid Rewards	$5,839,000,000	22.4%
United	MileagePlus	$5,529,000,000	10.3%
Alaska Air Group	Mileage Plan	$1,682,000,000	16.1%
Qantas Group	Frequent Flyer	$1,459,000,000	14.1%
Air Canada	Aeroplan	$1,267,000,000	7.7%
Int'l Airlines Group	Avios	$1,126,000,000	3.5%
JetBlue	TrueBlue	$1,027,000,000	10.7%

Source: Financial disclosures made by airlines in annual reports. Qantas fiscal year ends 30 June. Currency conversion using 01 July 2023 rate at XE.com.

Europe's airlines are largely missing from the list because MasterCard and Visa interchange fees in the EU are capped by regulation. Interchange rates in the US have an approximate range of 1 to 3 percent.[3] That's the amount charged to merchants for purchases, and the revenue from this is used to fund a bank's purchase of miles from the partner airline.

Within the EU the fee is capped at 0.3 percent.[4] The UK government also implemented its Interchange Fee Regulation in 2015 to apply the 0.3 percent cap to domestic UK charge activity. Commercial cards (issued to companies for business expenses) and American Express cards are exempt from the caps (this applies for the EU too).

You can imagine the challenge of offering an attractive reward card with a fraction of the revenue available to airlines in the US. Charging $1,000 on a US card might generate interchange revenue of $25 to help fund the mileage benefit. That same charge would only generate $3 of MasterCard/Visa interchange revenue in Europe. That regulatory framework constrains Europe's airlines from joining the billion-dollar club.

That's why some of Europe's airlines favor American Express cards, which are not subject to a merchant fee cap. This exemption also occurs elsewhere in the world because American Express operates as a bank (called a 3-party scheme), whereas MasterCard and Visa are payment networks. Regulatory caps have traditionally targeted the payment networks.

The British Airways AMEX standard card accrues one Avios per £1 charged. The card has no annual fee. BA AMEX Premium Plus and business cards charge a £250 annual fee and accrue 1.5 Avios per £1 charged. Image: BA website.

MasterCard and Visa have a stronger EU merchant network due to much lower interchange fees. For example, MasterCard boasts of enabling more than 25 million small merchants across Europe. American Express cards in Europe can be attractive for a tightly defined market of high-spending travel-oriented executives. I believe this is what powers the big results for the BA co-brand credit card portfolio in the UK and for Qantas in Australia.

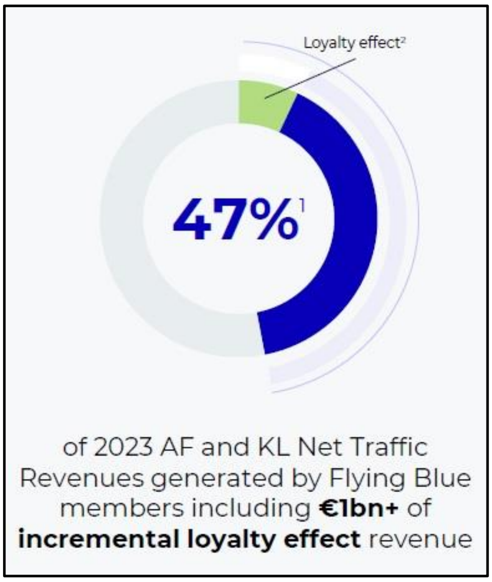
[3] Review of interchange/merchant fees at American Express, MasterCard, and Visa websites reviewed January 2024.
[4] "Fees for card-based payments" at the EUR-LEX website of the European Union reviewed January 2024.

UNIQUE STORIES: AIR FRANCE/KLM, JAL, AND QANTAS

Every year I review the financial filings of hundreds of airlines in preparation of the *CarTrawler Yearbook of Ancillary Revenue by IdeaWorksCompany*. Three airlines caught my attention in the last year. Air France/KLM Group announced it was making its Flying Blue frequent flyer program into a "dedicated operating affiliate." Japan Airlines continues to refine its "Mileage and Lifestyle" category (introduced in 2021), which pursues a wide array of consumer spending. And finally, the Qantas Frequent Flyer program is always intriguing because it offers a vast array of co-branded cards in its home market of Australia.

Air France/KLM announced 30 November 2023 a successful monetization of the asset value of its Flying Blue loyalty program through the issuance of bonds.[5] Flying Blue would gain more independence to make the deal attractive to bond investors. The group secured funding of €1.5 billion, and similar to earlier deals in the US, the transaction revealed details about Flying Blue:

- With 13 co-branded cards, it's the European loyalty program with the largest number of card offers.
- 22 million members worldwide, of which 13 million (59 percent) are active. This is liberally defined as activity within the last 36 months.
- 72 percent of members reside in Europe.
- 41 percent of tickets accrue Flying Blue miles.
- 51 percent of miles were accrued through non-airline partners in 2023, which is dominated by co-branded credit cards.

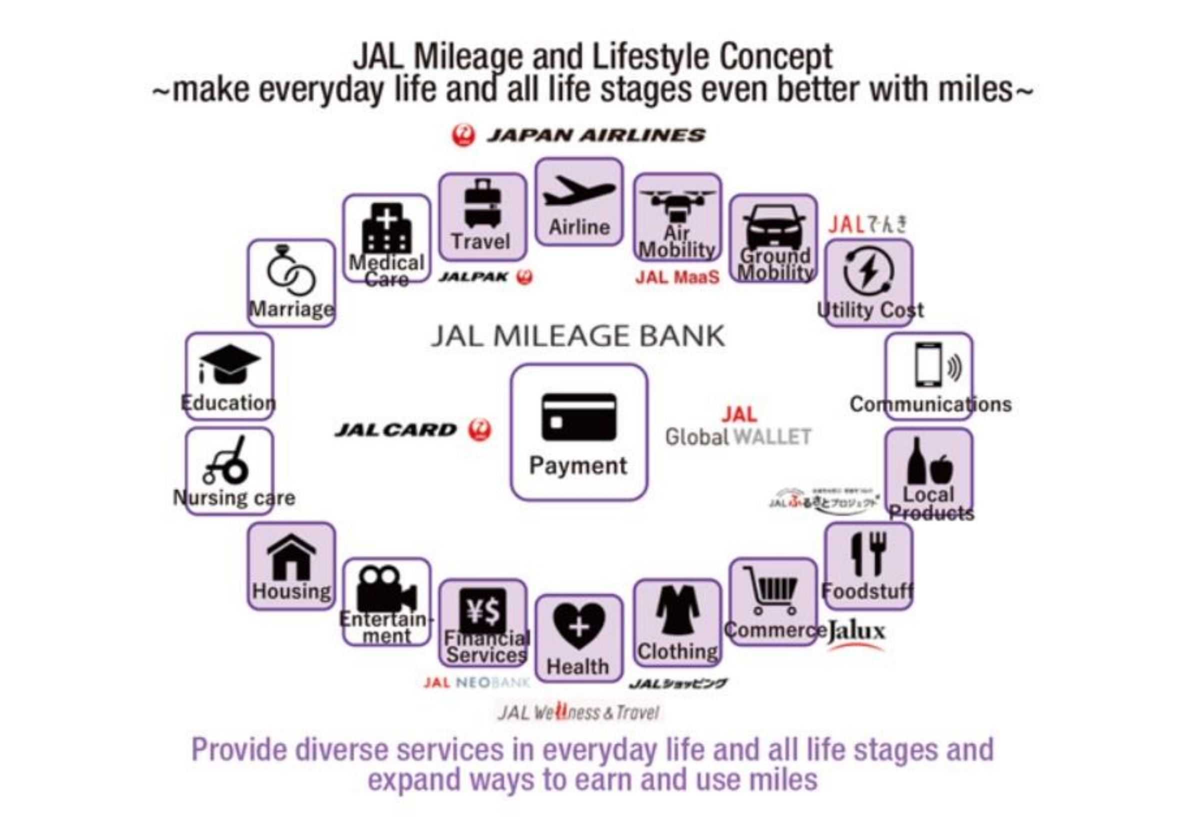


The Flying Blue program has been found to contribute an additional €1 billion of revenue through the enhanced loyalty of its members. Source: 2023 Investor Day Presentation.

The group disclosed 2022 "direct revenue from partners" of €371 million, which is equivalent to approximately €17 per member, or €29 per active member. By comparison, the Avios program with its external billed partner revenue of £1 billion, and approximately 40 million active members, generates £25 per active member.[6] The revenue sources described by both programs are mostly comprised of miles or points sold to card-issuing banks, hotels and car rental companies, retailers, and airlines outside the operating group. Air France/KLM Group anticipates annual revenue growth of 8 percent with total revenue of €600 million by 2028.

[5] Investor Day presentation, 14 December 2023, Air France/KLM Group.
[6] Capital Markets Day presentation, 21 November 2023, International Airlines Group IAG.

Japan Airlines (JAL) presents a fascinating business case in the management plan presentations found at its investor website.[7] Mileage, Lifestyle, and Infrastructure is one of the carrier's four business domains. Infrastructure refers to ground handling services at airports, drone delivery, and electric-powered air taxi flights. Mileage and Lifestyle includes the loyalty program, credit cards, travel retail, and tourism development in Japan. The airline is building a ring of accrual and reward activities around the JAL Mileage Bank program, which is defined in the below graphic.



JAL disclosed profits of JPY 40 billion ($277 million) from its Mileage and Lifestyle activities for 2023. "Other" revenue from non-airline operations for FY 2022 (year ended 31 March 2023) was $754 million, which derives primarily from the loyalty program. The program's array of accrual and reward activities operate under the JAL Mileage Park branding umbrella.[8]

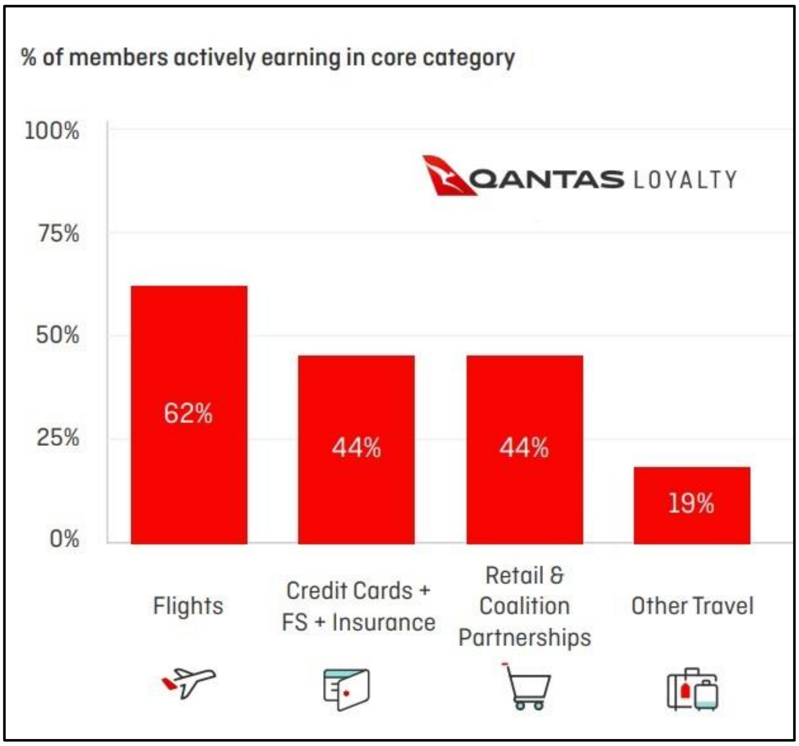
- **JAL Mileage Mall** offers more than 300 online stores.
- **Mile Partner** businesses offer miles for shopping at physical stores and online.
- **JAL Card Agent Stores** provides bonus miles for purchases made with JAL's co-branded cards.

There is even a website called the World Marketplace which offers mileage accrual and rewards for hotel accommodations, car rentals, and merchandise. There is abundant complexity and consumers would likely appreciate a simpler approach.

[7] FY2021-2025 JAL Group Medium Term Management Plan Rolling Plan 2023.
[8] Details are available at this Japanese language website: partner.jal.co.jp.

Qantas has made billions by not following tradition. The usual strategy has an airline sending out a request for proposal (RFP) to a number of key card-issuing banks. Typically, the top three are asked to make an in-person pitch for an exclusive co-branding relationship for a specific territory. Qantas clearly does not follow this path. Opening up the web page at the carrier's Australia site reveals nearly 40 American Express, MasterCard, and Visa aligned co-branded credit card options. Rather than exclusivity, the airline adheres to the "more is better" approach to card marketing.

This approach has clearly generated exceptional results. Revenue produced by the Qantas Loyalty subsidiary was AUD 2.19 billion ($1.46 billion) for FY 2023 (year ended 31 June 2023).[9] With approximately 15.2 million total members, the program produces an outstanding result of AUD144 ($96) per member. Interchange fees for MasterCard and Visa are capped and American Express voluntarily offers lower merchant fees in Australia. The Reserve Bank of Australia disclosed the overall average for MasterCard and Visa is 0.9 percent which includes a mixture of domestic (capped) and international (un-capped) charge activity, and under 1.5 percent for American Express.



This chart shows where members have accrued points in a 12-month period ending April 2023. Source: 2023 Investor Day.

Qantas claims total portfolio spending by cardholders accruing Qantas points is approximately 35 percent of all card spending activity in Australia. That's an amazing statistic which reveals the widespread popularity of the Qantas Frequent Flyer brand.

My evaluation of the statistics provided in the 2023 Investor Day presentation indicates more than 66 percent of miles accrued in FY 2023 were linked to co-branded credit cards, financial services, and more than 700 retail partners. The chart on this page portrays a program which has gone far beyond traditional airline and credit card categories to deliver abundant loyalty and revenue benefits. That this occurs in a regulatory environment which features lower interchange and merchant fees is a real accomplishment.

[9] Qantas Annual Report FY 2023 and Qantas Investor Day presentation 30 May 2023.

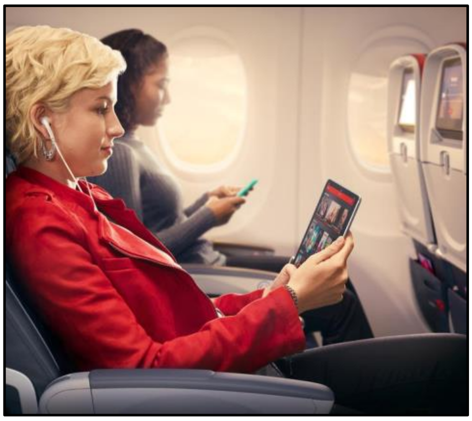
CONJURING THE ECONOMICS OF DELTA'S CARD

Delta has proven itself to be an exceptionally well-managed airline, and the results from its SkyMiles program align with this truth. I've reviewed the carrier's annual report, the data-filled treasure chest of its 2023 Investor Day presentation and transcript, and the financial filings of its co-brand partner American Express.

The result of my analysis describes a highly effective frequent flyer program and attempts to outline the economics of its co-branded credit card portfolio. Let's begin with the direct disclosures provided by Delta during its June 2023 presentation:

- SkyMiles has 130 million members, with 25 million being active (those accruing or redeeming in a 12-month period). With actives slightly lower than 20 percent of total membership, that's a little lower than I would expect.
- 7.5 million members hold a Delta co-branded card, which represents 30 percent of active members.
- 500,000 members accrued miles from commission-based activities during a 12-month period. They booked vacations, hotel accommodations, car rentals, and purchased travel insurance. That's 2 percent of active members, which indicates yet-untapped opportunity for Delta to become a better travel retailer.
- Among the 500,000 members, 60 percent were premium travelers who booked travel in Delta One, domestic first class, Premium Select, or Comfort Plus.
- SkyMiles members spend 5X more on Delta than non-members.
- 9 million members in 2022 had activity beyond flight accrual, by earning miles from co-branded cards, commission-based travel bookings, and purchases made with non-air partners.

Airlines share lots of details when management is especially proud of their accomplishments. It's also true that Delta has received abundant criticism from elite tier members as the carrier announced reduced perks during 2023. The airline appears to be reorienting the program to focus more on everyday members, known in the industry as the "blue tier," and placing more emphasis on credit card spending.



In addition to domestic availability, Delta announced plans to bring free Wifi to international flights by the end of 2024. Image: Delta Air Lines.

In January of 2023 Delta began offering free inflight Wifi to all SkyMiles members.[10] The paid-Wifi take rate was in the single digits, and as of mid-2023 about 40 percent of passengers use Wifi. During the initial 6-month period, one million members enrolled because of the Wifi offer.

[10] 2023 Delta Investor Day transcript, 27 June 2023.

Delta's 2023 Investor Day presentation reveals the portion of the iceberg that can be viewed above the waterline; the more compelling picture is what lies below the surface. Combining the 2023 Delta Investor Day presentation, 2023 financials, with disclosures from American Express financial filings and my personal experience as an airline consultant, an approximate picture can be formed of the SkyMiles American Express portfolio. The table below describes how I calculated key portfolio attributes and how the portfolio delivers billions in revenue for Delta.

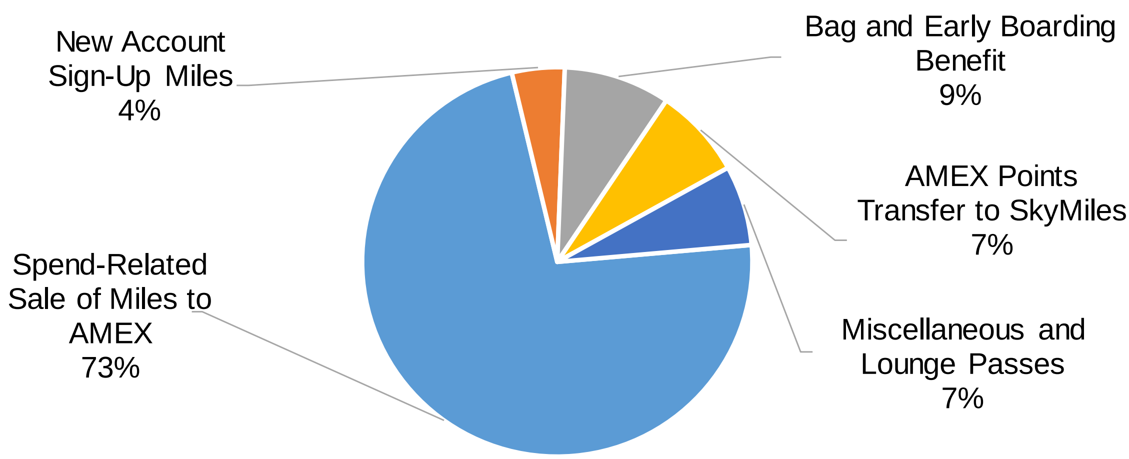
SkyMiles American Express Co-Brand Portfolio Calculations 2023 Financial Disclosures and IdeaWorksCompany Estimates		
Portfolio Attributes		**Basis of Statistic**
Portfolio charge volume	$168 billion	AMEX disclosure: SkyMiles portfolio approximates 10% of "worldwide network volumes" of $1.68 trillion.
Card accounts	7.5 million	Delta disclosure: Cards held by 30% of 25 million active FFP members.
Cash paid to Delta by AMEX	$6.8 billion	Delta disclosure from 2023 results (up 24% year-over-year).
Assumed spending per account	$22,400	Total charge volume divided by card accounts. Average for AMEX proprietary cards is $24,059.
Price per mile paid by AMEX	$0.021 per mile	Based upon airline industry sources.
Assumed average sign-up miles	60,000 miles	Assume discount price of $0.011 per sign-up mile.
Estimated Portfolio Revenue Sources (Paid by AMEX to Delta)		
Spend-related mileage sales	$4.94 billion	Portfolio volume x 1.4 miles per dollar (factors in bonus-spend categories) x $0.021
New account sign-up mileage sales	$297 million	450,000 new accounts (6% of current accounts) x 60,000 miles x $0.011 per mile.
Checked bag and early boarding revenue	$600 million	Assume AMEX pays for an average of 4 bags per account at $20 per event.
Membership Rewards transfer to SkyMiles	$511 million	Assume 5% of 80.2 million AMEX proprietary accounts transfer average of 7,500 miles (cost of $0.017 per mile) to SkyMiles.
Miscellaneous and lounge passes	$452 million	This represents a residual result after deducting the above from $6.8 billion total.
Total portfolio revenue	**$6.8 billion**	Total of the above sources and equal to Delta disclosure.
Sources: 2023 Delta Investor Day presentation and transcript, 2023 financials, with disclosures from American Express financial filings, and IdeaWorksCompany assumptions.		

The narrative about billions in co-branded revenue is often reduced to the simple tale of an airline selling miles to the issuing bank. For many FFPs that largely defines the limits of the relationship. This is how programs associated with American, Delta, and United began in the 1990s. But these airline-bank relationships have become increasingly complex and intertwined during the passage of time and the ascendance to billion-dollar status.

Airlines love generating revenue from their bank partners. Chances are that every perk provided by a co-branded credit card has a contractual agreement behind it. 60,000 bonus miles for a new card approval? The bank pays for that. No-charge checked baggage and early boarding benefits? The bank pays for that. American Express, Chase, and Citi have become the largest single customers for their airline partners. The agreements may have caps for certain benefits that limit the bank’s cost exposure. In actual practice, the average number of bags checked by cardholders is lower than you might expect; my Delta portfolio estimate assumes an average of 4 bags per account, per year.

Defining these relationships is a challenge because most details are not publicly disclosed. I’ve shared these numbers with a number of airline industry professionals while researching this report. Two US airline co-brand marketing executives commented the estimates are likely close to reality.

Estimated Sources of Payments by AMEX to Delta - 2023



Source: IdeaWorksCompany "Airline Loyalty Becomes a Multi-Billion Dollar Club" sponsored by CarTrawler.

The pie chart above reflects the Estimated Portfolio Revenue Sources from the table on the prior page. My intent is to not exactly define exact revenue shares provided by each activity, but rather to convey the array of revenue flows in a co-branding program. Undoubtedly, there are additional elements within the $6.8 billion relationship between Delta and American Express. These are amazing programs which have redefined how airlines make money, and how travelers and airlines interact.

THE COURSE OF TRUE LOVE NEVER DID RUN SMOOTH

That's a line from Act 1 of *A Midsummer Night's Dream* by Shakespeare. Quoting the Bard about the mysteries of love seems appropriate when writing about loyalty. After all, it's the stuff that defines the source of behavioral loyalty. But the world of commerce demands a mercenary influence, and that's why we also include transactional loyalty. This is the domain of mileage and point accrual, travel rewards, elite tiers, and co-branded credit cards. As I stated at the beginning of this report, frequent flyer programs are strongest when both types of loyalty are engaged.

IATA estimates the global airline business will generate a $23.3 billion profit for 2023.[11] That's a delightful leap from the $41 billion loss from 2021. Adding up the revenue from the Multi-Billion Dollar Club of FFPs table on page 8 generates a result of nearly $30 billion. In effect, the revenue from these programs likely tilts the global airline business into the plus column. It's a stunning but scary outcome.

I advise caution to airlines in the billion-dollar club. My wife has a phrase to check the impulsiveness of her husband, "If it's too good to be true, it is." Co-branding is a very lucrative business for airlines. American listed the operating margins for the Big 3 programs in its 2019 AAdvantage Investor Presentation: American; 53 percent, Delta; 39 percent, and United; 44 percent. CFOs and investors love these highflying results. But big margins invite competition and suggest a lack of investment in the product experience for customers. The following trends hint at future troubles for co-branding in the US:

- The regulatory environment all over the world is trending towards reducing merchant fees due to retailer and consumer activist pressure. Legislation is currently pending in the US Congress.
- The largest issuing banks for airlines are also major competitors. American Express, Chase, and Citi vigorously promote their own travel reward cards.
- Capital One looms as a competitor and major travel retailer. With nearly 107 million cards in circulation, it's the second largest US issuer behind Chase.[12] The bank is also independent of any airline co-brand relationship.

But the largest threat is the addictive reliance on the billions produced by co-branded credit cards. These mammoth portfolios saved US airlines during the 2008 fuel crisis and during the pandemic. An argument can certainly be made that co-branded credit cards are an effective hedge against the uncertainty of the airline business. It's true, these portfolios are not disappearing anytime soon. But I propose these airlines also consider the old-fashioned attribute of moderation. Focus more on the product experience and become less reliant on the bounty of co-branding. Love – and loyalty – are complicated.

---

[11] Industry Statistics - Fact Sheet, December 2023, IATA.
[12] "Major Credit Card Companies: Largest Issuers Analysis 2023," MerchantMaverick.com.