

TRAVEL LOYALTY: NEW PROGRAM AND CONSUMER DYNAMICS FILL THE GLOBAL AGENDA

KEVIN WHITE AND MATHIEU LOURY

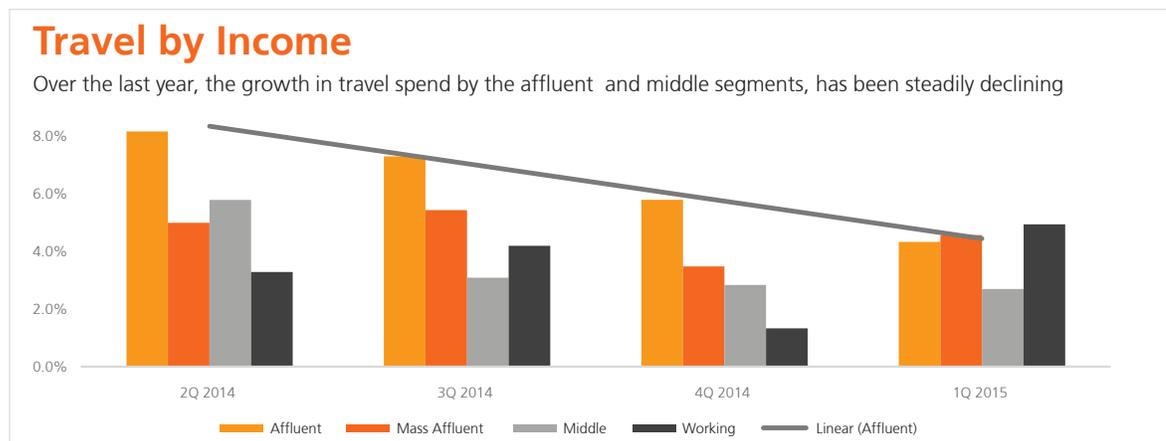
Travel loyalty programs and their members continue a romance of points and rewards for spending commitments. That basic attraction is the foundation of travel loyalty. But although travel loyalty programs are alive and well, many of them suffer from a dysfunctional relationship. Too many travel loyalty program members don't even engage in dialogue with the program they've signed up for.

That dysfunction manifests itself in unused loyalty rewards and overall programs that have lost their appeal. It also extends to consumer relationships and overall spending. There's a lot at stake. In 2014 the airline business generated more than \$600 billion in consumer spend worldwide.¹ Hotel companies logged \$457 billion.² U.S. companies alone spend nearly \$2 billion a year to secure loyalty. But according to 2015 research by Capgemini, "Almost 90% of social media sentiment on loyalty programs [is] negative." Capgemini³ found this among a whopping 85% of Millennials, who perceive a "lack of reward relevance, rigid reward structures, user experience issues with online channels, and poor customer service quality levels."



The ongoing disconnect between enrollment and participation is typified by inactive members. Some informal estimates go higher than 80 percent of the 350-plus million members in U.S. airline programs. That inactivity is not isolated to America. From Asia to Africa, lapsed members are a drain on financials in a sector whose net profit margin averages a lean 4.6%.⁴

Awakening a multitude of loyalty "sleepers" who have shown past affinity for a travel product makes a lot of sense. Program managers understand this, but often lack meaningful visibility into their own customers despite owning petabytes of data. It's become clear that native program data is insufficient to revive sleeping brand loyalists with compelling, personalized offers. More dimensionality is needed as well as smarter data that shows relevant trends. (Figure 1).



Source: MasterCard Advisors

- <http://www.statista.com/topics/1151/passenger-airlines>
- <http://www.statista.com/topics/1102/hotels>
- <https://www.uk.capgemini.com/blog/business-analytics-blog/2015/05/loyalty-is-dead-long-live-customer-engagement-by-hark-atwal>
- https://www.iata.org/pressroom/facts_figures/fact_sheets/Documents/fact-sheet-industry-facts.pdf

This document is proprietary to MasterCard and shall not be disclosed or passed on to any person or be reproduced, copied, distributed, referenced, disclosed, or published in whole or in part without the prior written consent of MasterCard. Any estimates, projections, and information contained herein have been obtained from public sources or are based upon estimates and projections and involve numerous and significant subjective determinations, and there is no assurance that such estimates and projections will be realized. No representation or warranty, express or implied, is made as to the accuracy and completeness of such information, and nothing contained herein is or shall be relied upon as a representation, whether as to the past, the present, or the future.

© 2016 MasterCard. All rights reserved.

To achieve this, organizations are turning to anonymous and aggregated data to provide a 360-degree view of customer spending behavior and preferences. (Figure 2). Predictive insights yielded from combining anonymized external data with native loyalty data can significantly improve targeting decisions. Sectors including banking and retail are having success migrating members into more highly engaged (and profitable) segments using this approach.

Create an Experience: First, understand your customer and their mission...



Obtain a
360° DEGREE VIEW
of the customer

- Who are my **most valuable customers**?
- How are they **engaging with me**?
- What **categories** are they spending in?
- What do they do **before and after** they shop with me?
- What are they **spending with my competitors**?

Source: MasterCard Advisors

By putting a new lens on some basic issues around data and analytics, this paper will show travel companies how they can use data, advanced analytics and spending trends to get more activity and value from their loyalty programs.

1. THE 2016 TRAVEL LOYALTY LANDSCAPE

In many ways, 2015 was a transformative year for travel loyalty. American Airlines announced it would follow Delta, JetBlue, Southwest and United, making the AAdvantage program fare-based. AA's new rules award between five and eleven miles for each dollar spent based on the member's status. Redemption was also revised. AA lowered requirements for the Caribbean, The Americas, Mexico, and some domestic routes. Asia and Europe now have higher redemption rates.

Elite status changed too. AAdvantage Executive Platinum members earning a minimum of 100,000 qualifying miles annually will receive four system-wide upgrades, compared to the previous eight. AA also did away with Elite Qualifying Points, and doubled down on Elite Qualifying Miles. This may end up increasing the number of elite members, while providing a revenue bump from premium tickets.

It's too early to measure impacts. The changes appeal mostly to business travelers; infrequent leisure travelers won't gain much in the way of points or status under the new model. For them, co-branded points cards will be the primary mechanism.

In the hotel sector, rewarding spend rather than room nights is also the de facto standard. It makes just as much sense in terms of boosting RevPAR and TRevPAR, and besides, people tend to be more loyal to hotels than to airlines.

According to a 2015 CardHub.com analysis, "Roughly 18% of frequent travelers become loyal to a given hotel brand primarily because of its rewards program [Deloitte] and the average Millennial business traveler is actually willing to pay an extra \$41 per night to stay at a hotel that belongs to his or her loyalty program."

The report adds that, "...hotel chains reap an average of 50% more revenue from customers who belong to their loyalty programs than those who do not, according to a study from the Center for Hospitality Research at Cornell University."

How mergers like the Marriott-Starwood-InterContinental-Kimpton-Accor-FRHI may touch on sacrosanct areas like points conversion, expiration, and elite status is still unclear. But hotel chains understand that loyalty is moneyball; they penalize indirect bookings, and are ahead of the curve in terms of offer/deal design.

2. DEFINING OBJECTIVES TO ENGAGE LAPSED LOYALISTS

In a shifting loyalty landscape, managers need to reevaluate KPIs, define new objectives and, above all, improve offer targeting to lower defections, and nurture interaction. Program data is useful, but often lacks genuine insights. In the case of inactive loyalty members, it comes down to this: what are members spending money on when they are not engaging with your program?

External anonymous and aggregated data is being effectively used to add dimensionality and visibility to loyalty data, with an eye on offer design. MasterCard Advisors recently did this with JetBlue. JetBlue saw an opportunity to increase business on Caribbean routes. But not everyone in the JetBlue database is interested in Caribbean travel. The carrier needed to engage certain customers with relevant messages at a proper frequency. Finding a more strategic way of identifying the right customer segments with a high propensity to respond was essential.

Taking MasterCard's anonymized transaction data of behavioral-based spend and JetBlue's customer file, new travel propensity scores were appended directly to the JetBlue customer file. The new insights enabled the airline to target the offer to customers with the highest propensity to book the Caribbean travel.

The resulting campaign was measured against a "business as usual" (BAU) control group—the customer segment typically targeted for these offers, based on historical spend on Caribbean travel, and previous interest in Caribbean offers.

The campaign that used anonymized transaction data achieved more than a 40% lift in email conversion rate, and a double-digit increase in ticket size versus the control group. The results set in motion more propensity-based offer design for JetBlue.

Clearly, customer data becomes more powerful when analyzed with a specific objective in mind. When this happens, analytics can match customers segments with targeted marketing and offers to achieve specific goals. It is a win-win-win scenario:

- The right offer is more precious to the travel consumer
- Added sales provide extra lift in airline revenue
- The campaign effectively leverages the loyalty relationship
- Visibility into broader behavior to influence messaging, segmentation, and connection with the brand helps in differentiating from competitors

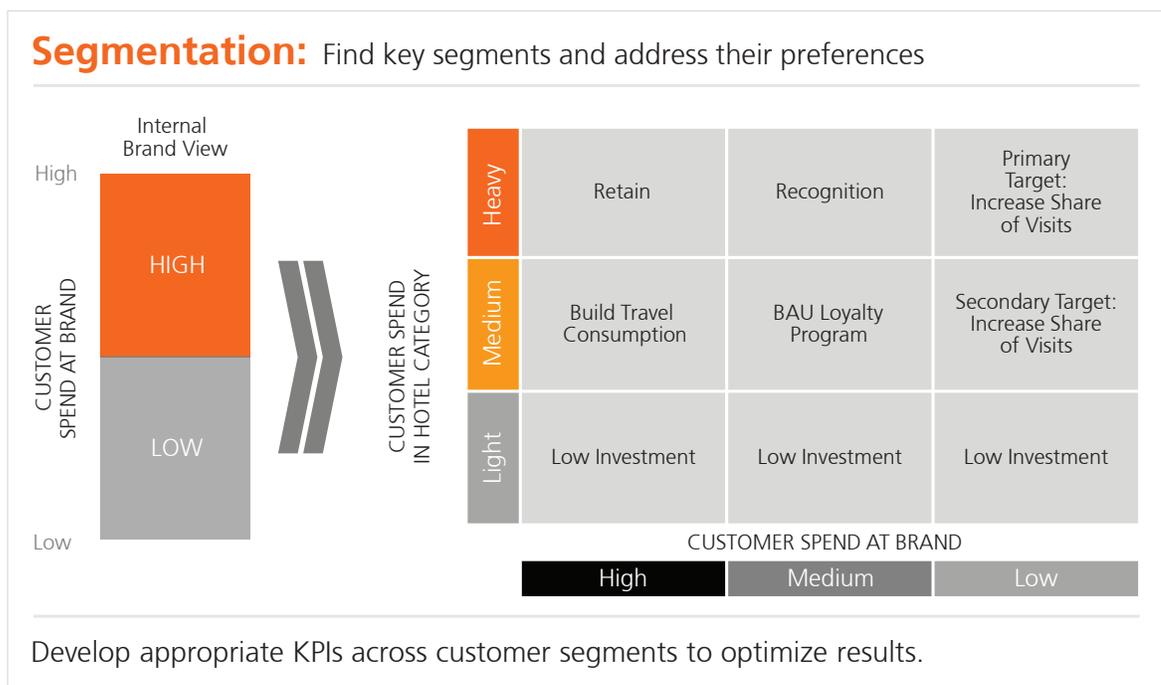
3. FINDING THE REVENUE POTENTIAL

Having a deeper view into spending behaviors can unlock both positive and negative potential. For example, anonymized transaction data may reveal that a loyalty program member a) rarely flies; or b) already does 100% of their flying with you. Either way, such personas or segments can't be leveraged further.

That reflects a larger trend of falling engagement rates with loyalty programs in general. According to the **2016 Colloquy Loyalty Census**, in the U.S. the average household now belongs to nearly 30 loyalty programs but actively participates in less than half of them. Colloquy said, "The slipping rates must be on loyalty marketers' radar, with an eye to the habits and practices that dilute them:

- Focusing on customer acquisition and ignoring customer engagement
- Thinking merely of strategies aimed at loyal behaviors and not asking what customers actually need
- Assuming that a one-size-fits-all program is sufficient, neglecting opportunities to make customers' experiences truly personal
- Lumping high-value and high-potential customers in with the overall loyalty membership, missing the chance to use analytics to recognize their significant roles. And, often, having the best customers subsidize the worst in the from of diluted benefits and generic experiences"

This is precisely the point at which anonymized transaction data can illuminate segments that are engaging frequently with other brands. That reveals loyalty program potential which can be engaged with persona building and targeted, personalized offers. (Figure 3).



Source: MasterCard Advisors

A new data approach explodes the myth of reactivating loyalty program members that can't (or won't) be reactivated. It forces travel brands to invest marketing dollars for growth potential. By reversing the trend of offering what makes sense to the brand, it rewards consumers for their needs based on their behavior.

Colloquy notes that airlines especially need data partnerships to unlock the revenue potential of static loyalty databases, and to engage members more experientially. “Through partnerships,” Colloquy said, “they can build more thorough, ultra-personalized profiles of each traveler and what he or she does beyond the airline. They can use such analytics to recognize and reward high-value customers.”

In an article for *Airline Business* magazine⁵, Global Flight Managing Director Ravindra Bhagwanani noted that most frequent flyer programs continue to focus on member acquisition, rather than the more cost-effective option of reactivating idle members.

“In the case of a 5 million-strong FFP programme where 60% of members are inactive, if an airline manages to re-engage just 10% of those members and each one buys an annual ticket for \$700, this translates into \$210 million of additional revenue for the airline,” Bhagwanani writes. “Most airlines would not want to miss out on the opportunity for relatively easy revenue gains.”

BEST PRACTICES: FOCUSING ON DATA

Regardless of whether its 80 percent of loyalty program members or eight percent, the current marketplace makes reactivation a priority. That mission depends on data that shows how current customers behavior within the program, and outside the program. To create more resonant offers, an innovative three-step process should include:

1. **Leveraging** current loyalty membership data, vs. new enrollment;
2. **Appending** anonymized aggregated behavioral spending data from external sources to internal loyalty program data, to create better segments and personas, and to inform new offer design;
3. **Creating** propensity models with appended data files to discover which segments are most likely to respond favorably to personalized offers

Travel loyalty programs, like most marketing initiatives in the current business environment, depend on data. Not the big data concepts that have dominated recent thinking. Big data is most useful when it becomes smart data. By using smart and relevant data culled from reliable and secure sources, travel companies can create relevant offers. And it is only these most relevant offers that will move the inactive customers into the active category. With the changing dynamics of the loyalty landscape, that’s the only category that matters.

For more information contact Kevin White, kevin.white@mastercard.com or please visit www.mastercardadvisors.com

5. <http://www.globalflight.net/wp-content/uploads/2015/02/1503-Airline-Business.pdf>