FYI THE MARKETING POWER OF FREQUENT-FLIER MILES

Frequent fliers are finding some new ways to earn additional miles even when they are not in the air. Airlines are selling frequent-flier miles to just about any organization from banks and retailers to charities that are willing to buy them. Purchases can be made for about two cents per mile. The airlines gain added revenue and the purchasing organizations obtain attractive promotional incentives.

Source: In terminal decline. (2005, January 8). *Economist*, 374(8708), 14.

pioneered a frequent-flier marketing program in 1981. This program was soon copied by other major carriers as well as regional and low-cost carriers. Research into why consumers participate in frequent-flyer benefit programs found three perceived dimensions: recognition, convenience, and exploration. These benefits relate to multiple consumer motivations: utilitarian (convenience benefits), hedonic (exploration benefits), and symbolic (acknowledgment/recognition benefits).[23]

These programs have increased customer loyalty, with passengers often going out of their way or taking inconvenient flights to obtain frequent-flier miles, yet few actually cash in their mileage for awards.[24] Airlines are also partnering with a multitude of other organizations both inside and outside the tourism industry by offering miles for purchase to generate additional revenues, increase brand awareness, and heighten customer loyalty.

"Airlines have always had a love–hate relationship with their programs—they love the loyalty they instill in passengers, but they hate the fact that people collect so many miles. According to an estimate by *Inside Flyer* magazine, there's a backlog of about eight trillion unredeemed frequent-flyer miles" (p. 18).[25] This accumulated mileage could be a financial liability for some airlines, where revenue-paying passengers could be displaced by non-revenue-paying frequent-flier awardees. Recognizing this potential liability, airlines have increased the number of miles required to obtain frequent-flier awards and restricted the number of seats available for these awards, especially on popular routes.

Airlines, like most other service providers in the tourism industry, operate on very thin profit margins. In fact, since the inception of commercial air service, airlines have collectively lost more money than they have ever made. Therefore, controlling costs and maximizing revenues are major concerns and absolute necessities for survival and profitability. As can be seen in Figure 6.3, the most significant expenses as a percentage of sales in the airline industry are operating costs and equipment. Because costs other than labor are difficult to control, airline companies attempt to maximize revenues. This can be accomplished by obtaining the highest possible load factor per revenue passenger mile on each flight.

In the United States, the leader in low-cost airlines, Southwest, has achieved what seems to be an amazing operational cost per seat mile flown of six cents. However, Air Asia has eclipsed this efficiency benchmark by flying its planes at a cost per seat mile of three cents.[26] Combining low cost with maximizing available seat miles (ASMs) has led to profitability for these select few carriers in an industry filled with competition that struggles even to achieve break-even.

Operating in a Deregulated Environment

The Airline Deregulation Act of 1978 is still shaping the landscape for airlines in the United States. Prior to the passage of the Act:

1. Airlines did not compete on price.
2. Airlines wanting to begin services to new cities had to apply to the Civil Aeronautics Board (CAB).