THREE WAYS TO UPGRADE LOYALTY FOR TOMORROW'S TRAVELERS

AN ACXIOM POINT OF VIEW

When American Airlines launched its AAdvantage program in 1981, few could have predicted just how valuable and powerful travel loyalty would become.

Loyalty programs are credited with rescuing the U.S. airline industry. Twice. The first time was during the 2008 financial crisis, when the likes of Amex and Chase bulk-bought billions of air miles. The second was during the COVID-19 pandemic, when major airlines such as United and Delta pledged their programs as collateral for financing.

During the pandemic, American Airlines actually set a record for the biggest financing transaction in aviation history, with a staggering $10 billion backed by that very same AAdvantage program it launched 40 years earlier. With the larger loyalty programs now worth more than their associated carriers, industry observer Mark Ross-Smith is even predicting a loyalty program will buy or start an airline in 2022.

The current value of travel loyalty programs is clear—they are profit centers for their sponsoring brands, driving base revenue in the form of flights and room nights, as well as ancillary revenue from extras and upgrades. They encourage members to interact with program partners for both accrual and redemption. But the potential of these programs is still yet to be fully realized. With loyalty programs also motivating people to self-identify and give permission to collect, analyze, and act on their data, there is still plenty more value to be driven from travel loyalty.

A WORLD LESS TRAVELED

Change seems to be the one constant in the world today, and the travel industry is far from an exception. As travel patterns and travelers' needs evolve, loyalty programs will need to change and develop with them to maintain and ultimately increase value. And we're already seeing examples of evolution.

Spend vs. mileage: Returning to the AAdvantage program, American Airlines recently changed the qualifying criteria for elite status to include loyalty points earned through partner transactions. With actual miles traveled previously the only way to achieve elite status, this move is revolutionary for the sector. It means members who spend enough on a co-branded credit card can qualify for the airline's top-tier status without ever setting foot on a plane.

Climate-conscious loyalty: We're also seeing a move toward green loyalty programs in response to climate change and the issue of flight shaming. Etihad, for instance, is launching a Conscious Choices program that allows members to use points to offset carbon emissions, not just from flights but also from everyday living. Qantas is also introducing a green-tier status in its loyalty program that is earned by taking a variety of eco-friendly actions.

While these are interesting developments in travel loyalty, they're only the first steps in evolving loyalty programs. Let's take a look at three broader areas where more value can be driven from these programs, ensuring they remain profit (rather than cost) centers.

1. PREDICTING WHAT MEMBERS NEED

Travel loyalty programs deliver a wealth of information about the places members have visited, the flights they have taken, and the hotels where they have stayed. But this view is retrospective and doesn't necessarily indicate what that member is likely to do in the future, as individual travel patterns can transform rapidly due to changes in employment, relationships, or life stage. Historical travel data has become even less useful in recent years, with the pandemic disrupting travel patterns—possibly forever. Business travel has decreased significantly, although there is a growing hybrid of "bleisure" travel.

Travel loyalty programs will inevitably need to pivot toward leisure, which means finding new ways to connect with people at all points of the more complex and drawn-out leisure purchase decision. Programs must also be adapted to engage less frequent travelers, ensuring the few business or leisure trips they do make drive maximum revenue for the airline or hotel. This includes finding new ways to gain ancillary revenue through extras and upgrades, as well as maintaining member interest between trips.

Overall, travel loyalty programs need to become more predictive. By augmenting the information they have with propensity data, they can increase their understanding of both members and non-members to deliver forward-looking, personalized interactions and offers. For example, a hotel brand might discover a particular member is more receptive to upgrades and extras when traveling with family during the holidays than when booking a room for business travel and can tailor its offers or interactions accordingly.

Using data, loyalty programs can identify indicators that signal whether someone is likely to be a valuable traveler in the future, rather than relying on the information about the past.

2. UNDERSTANDING THE BRAND'S SHARE OF WALLET

One aspect of getting to know loyalty program members better is gaining a clearer understanding of share of wallet. Loyalty programs only know what is spent with their brand, or potentially with their partners. They don't know what percentage of total travel spend they are getting from any single member.

This situation often leads to under-investment in incentives for low-frequency, low-share customers who are actually spending a lot elsewhere and therefore have untapped potential. It also means over-investment in high-frequency, high-share customers who are already giving the company most or all of their business, and only need enough incentives to retain their loyalty.

Imagine two members who each fly 100,000 miles a year. One flies solely with Airline A, while the other splits those miles fairly equally between Airline A and Airline B. Rewarding the first customer for loyalty is important, and Airline A might drive some ancillary revenue, but it won't get additional base revenue. Incentivizing the second customer to fly with Airline A more frequently, on the other hand, could literally double the spend.

A better understanding of share of wallet allows travel loyalty programs to grow revenue in a cost-effective way. They could achieve this by layering data with partners in the sector to identify travelers with potential to spend more. By sharing data with a hotel brand, for example, an airline could discover when a member took a vacation but didn't take one of its flights to get to the destination.

3. WORKING WITH THE RIGHT PROGRAM PARTNERS

Partnerships and alliances are nothing new in the travel loyalty industry. Star Alliance, which has 26 member airlines, was founded as the first global aviation alliance in 1997. The oneworld alliance is another great example. These set-ups undoubtedly bring revenue benefits, as members of one carrier's loyalty program are more likely to fly with a carrier in the same alliance to boost their air miles. But that doesn't mean airlines get much insight into the people flying with them.

Star Alliance reports fewer than 5% of its members belong to two or more frequent flier programs, meaning the airline people fly with is often the partner rather than the program of record. Alliances don't share much data as each airline wants to own the relationship with the customer, so the insights carriers get into non-members who fly with them are limited. To rectify this situation, alliances need to facilitate insight sharing between partners without giving away valuable, first-party loyalty data.

Of course partnerships often expand to include other parts of the travel industry—from hotels to rental cars and ride-share companies—and even other sectors such as insurance, fitness, groceries and home improvement. And these partnerships are vital to maintain members' engagement with the loyalty program between trips, drive additional revenue streams, and provide valuable customer insights, including share of wallet.

But travel loyalty programs often struggle to identify partners that are a good fit for their brand. Some collaborations are relatively intuitive. For instance, it makes more sense for an international luxury hotel brand to partner with a major long-haul carrier than with a local budget airline. But outside the travel industry, customer overlap is not always so obvious. This means travel loyalty programs often end up with an unwieldy network of partners that aren't adding value.

One key issue is that members often don't know these partnerships exist, nevermind how to take advantage of them. Customers who might fly 50,000 miles a year may still not realize they can accrue or redeem points through their energy or insurance provider.

Travel loyalty programs need better insights to understand not only who to partner with, but also how and when to introduce those partners to their members. They need to know, for example, when their members buy a house so they can talk to them about their home improvement partners, or when they reach particular life stages that might require a change in insurance coverage. A better understanding of members allows loyalty programs to identify those most likely to accept partner offers and to make sure those offers are delivered at the right time, tailored to the individual.

TRAVEL LOYALTY MUST BECOME MORE DATA-DRIVEN

The overall message is that travel loyalty programs must be more data-driven as they evolve for the modern traveler. This could mean doing more with the first-party data travel brands already collect about their loyalty customers. It could mean taking advantage of second-party data by layering one brand's customer information with that of a partner. Or it could mean making use of insightful third-party data to discover more about members' behaviors, interests, and buying patterns.

Loyalty programs need the right technology to support this evolution. Some still rely on older, home-grown solutions that were primarily designed as points-bank engines and aren't suited to a data-driven approach. Other programs are already using state-of-the-art loyalty platforms a variety of vendors offer. But even these newer solutions aren't necessarily optimized for access to member data and can lack capabilities where data management, insights, orchestration, and activation across the brand journey are concerned.

Regardless of the underlying platform, Acxiom's data-driven solutions can help travel brands identify, understand, and engage loyalty members—enabling better experiences throughout the customer lifecycle.

Brands can use customer data platforms (CDPs) and clean room technologies to make better use of first- and second-party data and really get to know their members. They can leverage privacy-compliant identity solutions that allow them to identify members at every touchpoint and connect with them throughout their journey. And they can use high-quality third-party insights to fill knowledge gaps and find lookalike audiences. They can even use partner marketplaces to identify suitable brands to work with and the members to target with partner offers. These data-driven solutions can be used alongside existing loyalty platforms so travel brands don't need to completely overhaul their tech stack.

By deploying the right solutions to complement their existing tech, travel brands can be more data-driven and ensure loyalty programs retain and increase their incredible value. By being more predictive, understanding share of wallet, and identifying the right partners, loyalty programs can evolve for the travelers of tomorrow and continue to be profit centers for their brands.

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To find how Acxiom can help, contact us at info@acxiom.com.

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