Travel loyalty: Loyalty's legacy

Extending personalized services to all

How IBM can help

To succeed in today's hyper-competitive world, travel and transportation companies need to solve increasingly complex problems and seize new and exciting opportunities faster than their competitors. They must continue to drive operational excellence and enable collaboration across enterprise functions and between members of emerging ecosystems. Above all, industry leaders must run the business well amidst constant change. The IBM Travel and Transportation practice understands these challenges and brings its extensive industry experience, business insight and technical prowess to bear on them.

Building a cognitive approach to travel loyalty

In this, the third and final installment of the IBM Institute for Business Value travel loyalty series, we examine how loyalty programs can create a lasting legacy of highly personalized benefits and services for all customers, ranging from the million-mile elite to the occasional traveler. To do so will require providers to change the orientation of their programs from volume-based discounts to customer-insight driven programs attuned to individual customer desires, as well as extend the reach of loyalty by working with ecosystem partners and loyalty program coalitions.

Executive summary

The first two installments in our travel loyalty series made strong arguments that loyalty programs, even the best ones, have significant room to improve. In the first report, "Discount discontents: How loyalty programs can deepen engagement, improve profits and drive brand allegiance," we concluded that travel providers should balance popular loyalty rewards with specific enhancements to engage travelers.[1] In our second report, "Cognitive connections: Enhancing loyalty programs to connect with all travelers, not just million-mile mavens," we extended our thinking by asserting that leading-edge cognitive computing tools can be used to increase intimacy with both the most frequent travelers and oft-overlooked occasional travelers.[2] In this final installment, we will examine how, with less of a focus on discounts and more emphasis on travel personalization and customer relationships, travel providers can engender a new era of genuine traveler loyalty.

Today, few loyalty programs are actually engaging travelers in meaningful ways, and even fewer are using the insights they glean from traveler/brand interactions to improve future experiences through personalized communications and offers. Overcoming these limitations should be a top priority for travel leaders and the executives that manage loyalty programs.

But companies that master the art of traveler engagement, and even those that apply leading-edge cognitive analysis tools to help unlock the secrets and insights hidden in traveler transaction data, will need a better loyalty model. They will realize that, even with better data and more meaningful insights about traveler preferences, their current systems of engagement are only capable of delivering personalization to a handful of the most elite travelers. They are not structured to deliver personalization at scale to consumers at the bottom of the loyalty pyramid. This is because only a handful of variables exist against which they can deliver customized services. To make matters worse, most of those variables require manual intervention from staff, or are limited to scarce assets, such as hotel suites or first-class seats.

75 percent of travel loyalty program advocates — but only 55 percent of antagonists — say they would switch if they found a better deal

86 percent of travelers are satisfied or very satisfied with their favorite hotel loyalty program, and 73 percent are satisfied or very satisfied with their favorite airline program
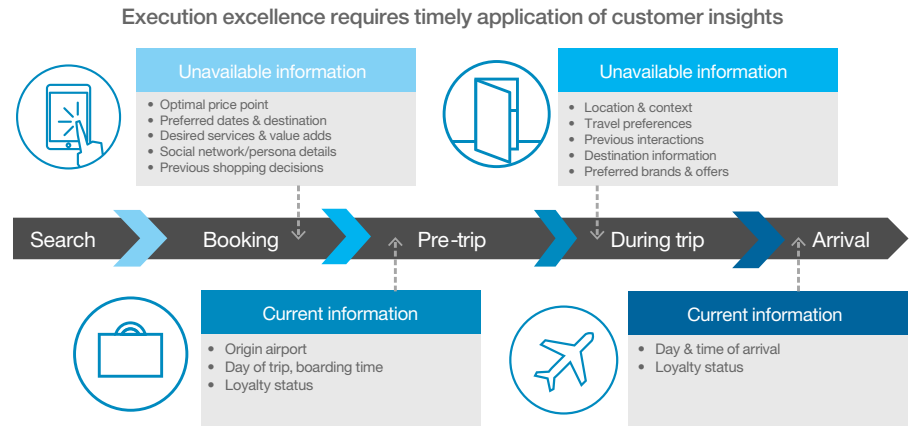
67 percent of travelers who take 15-or-more trips a year say that loyalty rewards are an important factor or their main consideration when booking travel, compared to 45 percent of travelers who take one or two trips a year

True personalization requires the fusion of both the digital and physical aspects of customer experience, which is difficult even for the most innovative travel companies. To the extent personalization is done well today, it is delivered by a well-trained front-line staff that has some insights about traveler preferences. In most cases, purely digital interactions are far more generic; most travelers use the same mobile apps, have substantially similar website experiences and are treated equally in social media. The problem is that, with most physical touchpoints, employees understand the context of the traveler's journey, but have little data about the customer's preferences. In the digital realm, data may be available, but the context is missing (see Figure 1).

Figure 1

Travel personalization must be based on a wide array of information, not just the limited data that is available at travel touchpoints

Execution excellence requires timely application of customer insights

Unavailable information
• Optimal price point
• Preferred dates & destination
• Desired services & value adds
• Social network/persona details
• Previous shopping decisions

Unavailable information
• Location & context
• Travel preferences
• Previous interactions
• Destination information
• Preferred brands & offers

Search Booking Pre-trip During trip Arrival

Current information
• Origin airport
• Day of trip, boarding time
• Loyalty status

Current information
• Day & time of arrival
• Loyalty status

Source: IBM Institute for Business Value

Fortunately, travel loyalty programs that are more engaging and cognitively enabled can begin the process of bridging these insight gaps. The resulting interactions between travel brands and their customers may result in step-change improvements to the level of travel-experience personalization. This will, in turn, usher in a new era of travel loyalty, which will put travel providers in a position to benefit from broader ecosystem and coalition-driven loyalty opportunities.

Loyalty 2.0 — delivering unique travel experiences using loyalty-derived insights

Despite the many contemplated opportunities to tailor the travel experience to the specific needs of each customer and the potential of emerging technologies to realize the personalization vision, the chasm between personalization in theory and in practice is significant. For most travelers, personalization amounts to finding their favorite newspapers hanging on their hotel room doors, receiving marketing communications relevant to their interests, or having their home cities populated in travel searches. These most basic forms of personalization are a small step in the right direction, but fall far short of what will be needed to truly capture the hearts of travelers.

True personalization is about using segment-specific processes to do for every customer the sorts of things done for the most frequent travelers. If an airline has six meaningfully unique customer segments, for example, it should consider having six equally differentiated mobile apps, baggage check-in procedures and onboard experiences. Developing segment-specific processes in a cost-effective manner requires automation that can apply traveler-specific insights to each interaction. Travel providers that use loyalty-derived insights to transform the entire travel experience can leave a lasting legacy of personalization characterized by a new generation of loyalty programs.

**Most travel processes are the same for almost all travelers**
For better or worse, the travel industry has become expert at containing costs. Both customer-facing processes and internal processes have been subjected to repeated cycles of standardization and efficiency optimization. This has resulted in an industry that is very good at processing people in basically the same way, irrespective of their unique preferences.

The travelers sitting in economy class on a plane, for example, are all given the same service experiences onboard, have almost identical interactions with the airline and airport staff in the check-in and security processes, and are treated similarly by the airline after their trip is complete. Likewise, hotel guests and rental-car customers who have not earned elite status in the respective programs are likely to be treated as "the average consumer." But while the concept of the average customer has been a useful theoretical construct against which to design cost-optimized processes, it is not an effective way to personalize travel experiences. For this reason, most travel services provided today lack both intimacy with the customer and differentiation in the overall service experience. Figure 2 is a matrix that represents both current and possible future states of loyalty program personalization and differentiation. Unfortunately, today the vast majority of traveler interactions fall within the bottom category of impersonal and undifferentiated service, as indicated by circle 1 of the figure.

There are exceptions to the standard processes that define travel, of course, but those apply to mostly high-loyalty travelers — and even then offer only minor personalization. Elite travelers, for example, get to board aircraft early or stand in a special line before checking into their hotels. The overall experience for this segment is made unique by the physical aspects of travel, such as better seats or larger rooms. But except for these relatively minor exceptions, most travelers are subjected to the same travel processes and, therefore, have fundamentally similar experiences. Travel providers with differentiated offerings have moved to the second level of the loyalty matrix, shown by circle 2 in Figure 2. The "emerging premium" program model extends the benefits of personalization to a small subset of the most frequent users.

Figure 2

Travel loyalty programs transition from anonymous, undifferentiated interactions to those that are personalized and differentiated for each traveler
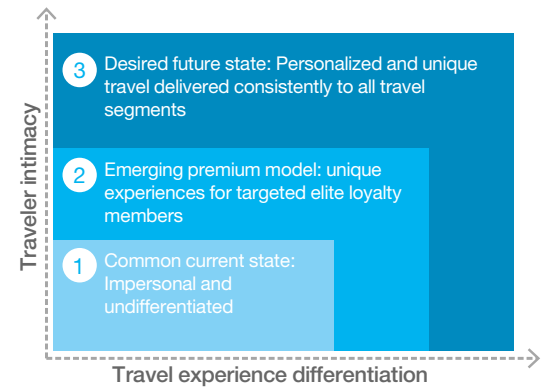
Source: IBM Institute for Business Value

> ### Delta offers elite travelers high-end convenience[3]
>
> Delta Air Lines has programs available that cater to its best customers in a highly personalized way. Delta provides a private-jet program that allows those travelers willing to pay the price — usually those who have occasional private-jet needs, but who do not want to bear the price of a personal jet — to use a private jet on an as-needed basis. The airline also has a program in which elite travelers with tight connections are picked up right outside the plane by the gate in a Porsche and driven to the next departing aircraft.

Segment-specific versions of each travel process are needed for a much wider range of procedures and people. Instead of striving to deploy a common process for online check-in, for example, hotels should seek to differentiate the check-in experience so that passengers in different segments have different experiences. Travelers who value person-to-person interactions, for example, may fit into multiple segments, so several person-to-person versions of the check-in process should be developed, instead of just one or two. Once this line of thinking is applied to a large number of travel processes, providers will have many more levers to pull to personalize individual travel experiences.

Loyalty programs are starting to personalize processes, but only for elite travelers
The future of personalization is one in which loyalty insights derived from cognitive systems are used to determine the unique offers that will resonate with travelers. Personalization will then be delivered considering the segment to which the traveler is most closely affiliated, as well as the context travel providers can learn about the segment's current preferences and needs. In this way, personalization will bridge ever-smaller gaps between what is desired by a given traveler and what is available via the set of segment-specific standard processes. For most providers, this evolution to more personalized interactions should result in more loyal travelers.

Elite travelers have recently been experiencing unique process treatment by airlines. Though still relatively uncommon, some passengers have been given access to plane-to-plane transfer services when they have a tight connection. Airport and airlines have worked together to provide private security processing for premium passengers and, even, private-jet services (see sidebar, "Delta offers elite travelers high-end convenience"). All of these new processes

are not available to non-elite passengers, and all are delivering more personalized travel experiences. These nascent examples embody the future of loyalty-driven travel personalization and will move providers to the desired future state of the loyalty matrix shown by circle 3 in Figure 2.

Loyalty can deliver personalization by serving traveler insights to each touchpoint
To foster traveler engagement, providers must first gain insight into what each individual traveler wants and expects. Gathering data through various means is critical, but is alone insufficient to create truly personalized relationships. To accomplish this, providers must:

- Encourage interaction with their brands along the channels each customer prefers

- Reward customer contribution and involvement

- Develop stronger incentives that encourage travelers to make the most profitable decisions for the brand.

Travel providers that implement these personalization mechanisms successfully should realize the necessity of active experimentation and testing of loyalty-program enhancements across all customer segments. Even the best loyalty enhancements will require continual redefinition and periodic redesign to remain relevant to customers.

Insights become the new currency for travel loyalty programs

Personalization thrives on insights — why customers behave in certain ways and how they react when something special is delivered — and is focused on those customers the company wants to nurture. To create personalized services, the company must have data from which to derive insights and context about when and how insights should be applied. Travel providers must assess what happens when these personalization efforts are delivered so that they can begin the process of continuous improvement.

Insights must be delivered to all traveler touchpoints
It is essential for loyalty programs to collect and/or be provided with as much customer data as possible of all types and from multiple sources, including partners. This information must be systematically analyzed to develop insights about each individual customer and the analysis delivered to every customer touchpoint.

But insights must be practical. Programs that don't deliver targeted suggestions about what to offer and how to engage will add no value and might actually increase the burden placed on front-line staff.

Digital touchpoints are also surprisingly devoid of meaningful traveler insights. While basic profile information is available to websites, mobile apps and, even, social-media platforms, none of these channels benefits from specific and unique suggestions for travelers. A mobile app that pinpoints travelers' specific locations in an airport, for example, could combine that data with specific insight — such as identifying those customers who typically value overhead bin space (perhaps because they complained about lack of space on a prior flight) — and then remind those customers to get to gates promptly for early boarding. To further delight the customer, the early boarding notification could be combined with an upsell package that gives the customer early boarding and an onboard snack. A host of intermediaries are working to provide these sorts of services. They use travel-specific mobile apps that integrate

with front- and back-office transaction processing systems of travel providers to deliver personalized messages directly to travelers throughout the travel process (see sidebar, "Boxever's online platform helps travel providers personalize with better targeting.").

Boxever's online platform helps travel providers personalize with better targeting[4]

Using a mix of cloud-based technologies and systems integration, Boxever works with travel providers to collect and analyze traveler transaction data to personalize future interactions across multiple channels. This unique start-up was created to bridge the gap between travel companies and their customers by generating customer-specific insights that can be systematically applied to subsequent traveler-brand interactions. With Boxever, for example, a travel company can:

- Assemble a real-time comprehensive view of travelers and their preferences, even when a portion of the travelers' interactions with the company are anonymous
- Suggest specific personalizations, such as more targeted offers to specific destinations
- Recommend customer-service interventions to prevent customers from abandoning nearly completed shopping carts
- Automatically trigger upsell communications delivered at the location and time customers are more likely to pay for an improved product.

In these ways, Boxever is making personalization a more tangible and achievable goal for many travel providers.

Loyalty must assess, apply and repeat

Applying insights to enhance loyalty programs is not enough, however. Incentives developed as a result are not all likely to work exactly as intended. Benefits must be tested and customer reactions assessed. Traveler interactions, combined with fully automated and augmented powerful computing tools, can foster loyalty-program benefits that are iteratively installed, tested and adjusted, leading to continuous improvement and heightened personalization for individual travelers.

For example, a hotel might have in its loyalty program a well-traveled customer who fits into its "road-warrior" segment, which typically exhibits a preference for high-end dining, self-service, high floors and fine wine. The hotel might target the customer with specific marketing tactics that emphasize these elements and provide offers that allow him to enjoy some of these features at a reduced rate. But without an automated feedback loop in place, the hotel might never realize that, while this customer takes advantage of these offers some of the time, he actually prefers low floors, craft beers and casual dining. By feeding the customer's actual behavior, along with other data, into its loyalty learning algorithm, the hotel could adjust its offers to more accurately reflect the customer's actual desires and, in the process, create a more loyal and satisfied patron.

Loyalty as the center of a newer, broader ecosystem

A loyalty program that includes extensive mechanisms to engage customers, a robust system of data collection, insight development and automated learning will have the opportunity to make a profound, transformative impact on the relationship between the travel brand and its customers. A company that enjoys such relationships will be better positioned to play a more central and expanded role in the broader travel ecosystem and could potentially benefit by extending participation to companies in other industries through a loyalty coalition.

Within the travel ecosystem, companies with leading-edge loyalty programs would be well advised to explore ways to improve the travel experience by sharing data about the customer's entire journey. Airlines, for example, know a bit about the traveler on their own, but, by sharing insights they have derived with hoteliers, they might both reach more accurate conclusions about the purpose of a given customer's trip. More tactically, they could also share details about how the traveler's journey has changed and/or is progressing. This type of insight sharing could be a positive step in creating ecosystem-wide assessment and management of travel journeys (see Figure 3).

Figure 3

Insights gleaned about travelers could benefit all parties in the ecosystem

A well-functioning coalition loyalty program initiates a virtuous cycle

Travel providers
- Insight into all customer preferences & purchase habits
- Spending patterns
- Quick-to-value reward programs
- Non-frequent travelers see benefit in participation
- Expanded customer base in terms of demographics & interests

Coalition partners
- Lower costs of customer acquisition and retention
- Joint marketing & promotional activities
- Global reach & new publicity for brands
- Access to high spenders & new customer segments

Customers
- Improved earn & redeem options
- Better & more personalized offers
- Access to unique services/benefits
- Faster accumulation of points
- Improved point control and management

Source: IBM Institute for Business Value

Extending the reach of loyalty programs beyond the travel industry is an interesting option for well-positioned travel providers. Coalition loyalty programs have emerged in most geographic regions and offer participants the opportunity to provide insights, rewards and incentives that cross multiple areas of a customer's life. A coalition could enable travelers to redeem accumulated points in a wider variety of products and services and motivate them to allocate a larger share of their travel spend to alliance members. While a coalition is not a viable option for all travel providers, it could prove to be a highly desirable endpoint for those with reliable mechanisms to translate accumulated insights into customer purchases and/or satisfying experiences.

Multiplus shows effectiveness of coalition loyalty programs[5]

Before creating Multiplus, Brazil's TAM Airlines was responsible for issuing points and redemptions for its flights. However, TAM wanted to explore how it could tap into growth in other segments of the Brazilian economy.

In 2010, Multiplus S.A. was created and took over the operational activity of point accumulation and redemption. In 2016, the company reported 12.2 million members and 472 business partners spread throughout Brazil, primarily in the south and southeast regions. Coalition members include companies in various sectors of the economy, including airlines, travel agencies, banks, telecommunications companies, pharmacies, hotels, bookstores, car rental agencies and service stations. Multiplus partners use customer data generated by transactions across the entire network of Multiplus companies, which gives them unprecedented insights into customer preferences.

The result has been continuously improving redemption options for travel and non-travel services. Non-airfare redemption reached 9.2 percent in 2013, and customer engagement continues to improve.

Recommendations: Creating a lasting legacy for travel loyalty

In the first part of the travel loyalty series, it was revealed that discounts alone ultimately result in frustrated and discontented customers.[6] In the second installment, travel providers learned that cognitive computing tools could help them both understand and anticipate customer wants and needs and assist in providing enhanced, highly personalized offerings for multiple individuals and market segments.[7] In the end, the cumulative findings of the travel series reveal that loyalty programs are doing well, but doing a lot less than they could be. They can continue in their present form, doing little to foster customer advocates and, in some cases, even create antagonists. Or they can embrace cognitive tools that allow them to gain the insights to create truly personalized and differentiated customer offerings across the travel ecosystem.

To create a legacy of customer loyalty, providers must be prepared to:

1. *Address disengaged travelers* — Balance discounts with other forms of engagement to create digital travel program experiences that are as compelling as the physical ones. This will require travel providers to find ways to tap into traveler interests long before and long after their actual trips by:

- Encouraging travelers to engage with your brand on the subject of travel in their preferred method to help shape future products, provide feedback and connect with other travelers

- Rewarding customer contributions and all forms of involvement such as social contributions, product enhancement recommendations and employee evaluations

- Actively testing program enhancements across all customer segments to help make sure that program changes bring about desired results.

2. *Leverage artificial intelligence* — Use cognitive tools to derive insights about specific customer segments and, even, specific customers. Once these insights are accumulated, travel providers must also deliver these insights about customer preferences to drive unmatched experiences by:

- Harvesting as much data as possible about customers, their preferences and patterns
- Systematically analyzing customer data to develop insights for each customer
- Delivering derived insights to all departments and customer touchpoints.

3. *Embrace economic ecosystems* — Cooperate with internal and external partners — other providers as well as organizations from other industries — to improve offerings and interactions by:

- Developing trust-based relationships with corporate partners to share data
- Relinquishing "data control" by sharing derived insights with corporate partners
- Using customer insights to reach beyond travel into the lives of customers.

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Methodology: How we conducted our research

To better understand that potential and to identify the specific ways travel loyalty programs can be improved, the IBM Institute for Business Value (IBV) and the Economist Intelligence Unit (EIU) surveyed 3,833 travelers from 13 countries between May and August of 2015. Analysis of survey responses enables us to see past the success of travel loyalty programs and to explore steps travel providers can take to bring a revolution to these critical corporate engines of customer insight and engagement. To fire up these powerful engines of insight, travel providers should harvest customer data from a wide variety of internal and external sources, analyze the accumulated data using leading edge cognitive computing tools, and apply the derived insights on each customer to the touchpoints that shape the traveler's journey.

Are you ready to leave a lasting legacy for your travel program?

Travel executives convinced their current loyalty programs are not fulfilling their full potential would do well to work with their teams to ask and answer the following probing questions.

- How are we taking full advantage of the data we have about customers and about our travel operation?
- How are we using current interactions at all travel touchpoints to learn about customer preferences and patterns?
- What data might our partners from inside and outside the travel industry have that we could use to formulate better, more meaningful traveler insights, and what can we share with them to create a more holistic travel experience?
- In which areas could travel experience be most effectively enhanced using loyalty data?

Notes and sources

1   Peterson, Steve and Raimon Christiani. "Travel loyalty — Discount discontents: How loyalty programs can deepen traveler engagement, improve profits and drive brand allegiance." IBM Institute for Business Value. October 2015. http://www-935.ibm.com/services/us/gbs/thoughtleadership/discountdiscontents/

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7   Peterson, Steve and Raimon Christiani. "Travel loyalty Part Two: Cognitive connections — Enhancing travel loyalty programs to establish meaningful connections with all travelers, not just million mile mavens." IBM Institute for Business Value. April 2015.

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