Committed customers or captives?

Making travel loyalty programs more valuable, relevant and differentiating

IBM Institute for Business Value

IBM Global Business Services, through the IBM Institute for Business Value, develops fact-based strategic insights for senior executives around critical public and private sector issues. This executive brief is based on an in-depth study by the Institute's research team. It is part of an ongoing commitment by IBM Global Business Services to provide analysis and viewpoints that help companies realize business value. You may contact the authors or send an e-mail to iibv@us.ibm.com for more information.

IBM

Committed customers or captives?

Making travel loyalty programs more valuable, relevant and differentiating

By Brian Goehring, Anand Janardhan and Maureen Stancik Boyce

Customer loyalty programs have suffered as travel providers have been hit with multiple challenges over the past few years – bankruptcies, skyrocketing fuel prices, new imperatives from private equity owners, an increasing number of competitors and deteriorating customer satisfaction. As a result, the industry risks further commoditization, while other industries continue to innovate. Many travel customers feel "trapped," remaining loyal primarily to avoid losing status and accumulated rewards.[1] How can travel companies replace reluctant allegiance with genuine loyalty? The answers lie in executing strategies that combine a superior customer experience, an innovative rewards program that reinforces that experience, and a supporting information engine that enables greater personalization.

In 2007, airline rewards programs had over 250 million members in the U.S., more than any other industry.[2] Adding in hotel, gaming, car rental and cruise programs pushes the travel industry total past an estimated 500 million members.[3]

Across all industries, U.S. reward program membership in 2007 reached 1.3 billion – including financial services (over 238 million members), specialty retail (over 137 million) and grocery (over 124 million).[4] Every U.S. household belongs to approximately 12

programs. Clearly, today's loyalty landscape appears saturated, leaving customers overwhelmed by solicitations and unable to participate fully.

IBM found that the current state of loyalty programs in the travel industry is decidedly gloomy, particularly the typically narrow definition of customer loyalty as a rewards scheme and the lack of differentiation across companies. Although travel pioneered loyalty programs in the early 1980s, many airlines and other travel providers have allowed them

to become commoditized, while programs have proliferated in other industries and now compete for consumer mindshare.

One of the biggest hurdles to attaining real customer loyalty is dissatisfied customers. The ultimate goal of any customer experience initiative should be to engender greater customer loyalty, even *advocacy* – defined as consumers who recommend their primary provider to others, buy from their primary provider when they have choices and stay with their primary provider even when a competitor has equivalent offerings.[5]

Instead, there is a clear consumer mentality of being "trapped" by their miles or points, with 64 percent of travelers likely to keep their travel provider due to rewards, but only 48 percent satisfied with the value from rewards.[6]

Travel companies may want to consider recent loyalty successes in other industries. For example, 53 percent of Wegmans and 45 percent of Publix customers are Advocates, largely driven by sophisticated data mining that provides deep consumer insights, thus allowing the retailers to tailor their offerings to meet localized consumers' needs and empower front-line employees to take actions that matter to customers.[7]

Also, some airlines have discovered recently that loyalty programs can turn out to be worth more than the parent company itself. Travel providers may want to continue assessing such value-creating options as divesting the program to another player or to the public.

As travel providers seek to improve their loyalty programs, they need to consider the impact of multiple trends: continuously evolving consumer expectations, rising industry consolidation and increasing competitors from adjacent market segments and geographies. While emerging technologies offer new opportunities for improving customer loyalty, providers also will need to address the associated challenges of investing in new skills, integrating systems and improving collaboration methods.

The lack of differentiation in the current environment poses significant risks to retaining current customers and barriers to attracting new ones. Travel companies cannot afford a customer exodus to competitors with a more compelling experience or more innovative rewards programs. IBM recommends that they assess the current status of their loyalty programs and take the following actions:

- *Look "beyond miles":* Broaden the definition of customer loyalty.

- *Choose a strategic position:* Articulate the role of customer loyalty.

- *Commit to invest:* Target the right level of investment in loyalty program innovation.

- *Strive to improve continuously*: Progress along a "value continuum" to strengthen capabilities and improve customer loyalty over time.

Committed customers or captives?

Making travel loyalty programs more valuable, relevant and differentiating

Why today's travel loyalty capabilities need to adapt

More members but less loyalty

In today's saturated loyalty market, only 40 percent of memberships are considered active.[8] And yet, loyalty membership is expected to continue growing across all industries, perhaps to exceed 100 million per year, matching the high growth of the late 1990s.[9] As total program membership grows, the degree of active member participation is likely to experience off-setting declines as customers find themselves "spread too thin" to participate fully in so many programs.

Airline loyalty programs, for example, are dominated by a follower mentality, leaving carriers struggling to stand out in the crowd. Traditional frequent flier programs are similar in look and structure, and have become undifferentiated within the key segments of the market (see Figure 1) – in contrast to the gaming industry, which historically has been considered an innovation leader. Hotels, car rental companies, and cruise lines also suffer from a similar lack of differentiation, although some have begun to rejuvenate their programs recently.

In the airline industry, many low-cost carriers continue to evolve their rewards programs, which traditionally have been simpler and less sophisticated.[10] In November 2007, Southwest Airlines introduced its "Rapid Rewards A-List," which offers preferred boarding privileges for top customers.[11] Business travelers who preferred flying mainline carriers because of their loyalty programs now have a choice to fly with a low-cost carrier that has an increasingly similar rewards program.

FIGURE 1.

Airline programs are largely undifferentiated, especially when comparing those of legacy carriers.

Example program attribute	Legacy/Mainline carriers								New entrants/Low-cost carriers				
	Air Canada	Alaska	American	Continental	Delta	Northwest	United	US Airways	AirTran	Frontier	JetBlue	Southwest	Spirit
Award fees	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
Miles expiration policy	✓		✓		✓		✓	✓	✓	✓	✓	✓	✓
Black out dates	✓	✓	✓	✓	✓	✓		✓	✓	✓		✓	
Number of partners > 20	✓	✓	✓	✓	✓	✓	✓	✓					
Number of tiers >= 3	✓		✓	✓	✓	✓	✓	✓					✓
Coverage >= 200 Destinations	✓		✓	✓	✓	✓	✓	✓					
Gifting/transferring of points	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Online mileage credit requests	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓

Current focus area for low-cost carriers as they look to penetrate the business travel segment

Source: 2008 IBM Travel Industry Loyalty Study.

> *"Travel providers need to shift from incenting loyalty to deserving loyalty."*
>
> *– Strategy practice partner, leading U.S. brand strategy firm*

Loyalty program spin-offs are one potential path to unlocking value. Exploring the underlying economic value of loyalty programs, United is reported to have earned approximately US$800 million from selling miles to partners in 2007, and American's revenues from selling miles are estimated at somewhere between US$1 billion and US$2 billion.[12]

Yet, despite the potential financial value derived from selling points and miles to partners, travel providers need to realize this approach would entail a strategy that places a significant amount of emphasis on their ability to *extract* value from customers – by leveraging relationships with other partners – relative to their ability to *deliver* value through their loyalty program.

Four significant changes underway

Travel providers need to improve their customer loyalty programs before they can hope to gain more customer Advocates and ultimately, higher financial returns. To achieve these goals, the challenges and impacts of four widespread trends must be considered: changing consumer expectations, intensifying competition, increasing consolidation and emerging technologies.

Consumer expectations are changing

Travel providers, once leaders in customer loyalty, have failed to match the recent innovation found in the rewards programs of other industries. The travel industry lags all other industries in customer satisfaction with loyalty program value (48 percent), compared to retail customers (54 percent) and financial services customers (51 percent).[13]

About the 2008 IBM Travel Loyalty study

To better understand current industry trends and their impact, as well as how to win in the changing loyalty landscape, IBM talked with over a dozen executives in the airline, hospitality, cruise, car rental and gaming industries in late 2007 and early 2008 – including CEOs, CIOs, and other senior managers. We also spoke with travelers and evaluated best practices in companies across many consumer-facing industries. We then reviewed our findings with dozens of experts in and outside the travel industry, including retail, financial services and brand strategy.

The questions this study aimed to address include:

- What is the current state of loyalty programs in the travel industry?

- What best practices help drive sustainable customer loyalty?

- How can travel providers evolve their loyalty programs to improve customer advocacy, enable growth and unlock shareholder value?

Recent reports reinforce the dismal state of affairs, especially for airlines. The University of Michigan's 2008 American Customer Satisfaction Index study of over 80,000 consumers placed the airline industry as the very worst among consumer sectors, its lowest level since 2001.[14] In contrast, 80 percent of retail customers are generally satisfied with their primary retailer.[15]

Similarly, a J.D. Power and Associates report found that airline customer satisfaction had reached a three-year low.[16] Some might ascribe the root cause of dissatisfaction to be the higher fees imposed to cover fuel costs, but the research firm noted, "It was surprising to learn that customers are less concerned about paying higher fees than about what they see as a decline in the quality of customer service."[17]

Many travel companies myopically equate customer loyalty with their rewards program, thus neglecting other important drivers of customer loyalty and advocacy. For example, travelers expect, but often do not receive, a seamless travel experience. How well providers are able to meet that expectation – during critical customer touchpoints or "moments of truth" – can either engender or hinder customer loyalty.

Instead, many customer loyalty initiatives focus on traditional marketing objectives like expanding membership or driving additional promotions. This has resulted in a customer base often overwhelmed by program memberships and promotions, remaining with preferred providers mainly because they are averse to losing status and accumulated miles, not because they are true Advocates (see Figure 2).

Competition is intensifying

While travel providers are struggling to differentiate their customer experience and their rewards programs, new entrants and programs in other industries are intensifying the competition for consumer mindshare.

In general, rewards redemption in the airline industry has lost some appeal as capacity decreases, fares rise, carriers charge new fees and customer satisfaction deteriorates.[18,19] The value of rewards programs becomes less meaningful when customers earn more miles, but encounter fewer options for redeeming them. Moreover, some airlines have begun to impose stricter expiration policies, and redemption costs that maintain optimum flexibility have increased from 25,000 to 40,000 or 50,000 miles for a domestic coach class

FIGURE 2.
Customer survey responses show that satisfaction with reward programs is low.

Likelihood to keep travel provider due to rewards	64.4%
Disappointment level if rewards stopped	61.0%
Satisfaction with travel provider	57.6%
Satisfaction with value from rewards	48.0%

Satisfaction levels are *low* and are *not* driving loyalty participation

Source: "The Difference Engine: A Comparison of Loyalty Marketing Perceptions Among Specific U.S. Consumer Segments," August 2007, http://www.colloquy.com

award ticket on many U.S. airlines – which has resulted in a devaluation of frequent-flier miles.[20]

With the U.S.-EU "Open Skies" and other agreements slowly deregulating the global market, European, Asian and Near Eastern carriers – typically with a far superior passenger experience – should compete even more aggressively for the international routes that remain among U.S. carriers' few sources of profitability.[21]

Airlines continue to employ "umbrella structure" alliances – such as Star, oneworld and SkyTeam, incorporating an extensive global network of partners to broaden their appeal to customers. Similarly, most individual carriers maintain a set of "satellite" providers to capture value from the full travel experience: air, hotel, car and credit card. For example, the top five major carriers each have at least five airline partners, at least one credit card partner, ten or more hotel partners, multiple car rental partners, and dozens of retail and restaurant partners for their rewards programs.[22]

Although such features can expand reward breadth, varying "exchange rates" between programs can add to consumer confusion. Moreover, when transferring points or miles across partners, integration challenges can lead to delays and disruptions, which often disappoint rather than enhance customers' expectations of a seamless experience.

Broken brand promises may be accelerating customers' dissatisfaction with loyalty programs: accelerated security lines that do not move faster, pre-boarding commitments

that are set aside during quick airplane turn-arounds, room gifts that do not arrive and car class upgrades that are not available. Better execution in the financial services industry may be a key part of what drives greater customer satisfaction with those programs, while the travel industry suffers from a changeable set of marketing promises that can be discounted or discarded when front-line employees interact with the customer.

Inter-industry competition is heating up as non-travel companies now offer similar rewards with greater ease of use. American Express, for example, introduced "Pay With Points," allowing members to redeem Membership Rewards points for any airline flight on its travel site, simplifying redemption and avoiding airline reward restrictions.[23]
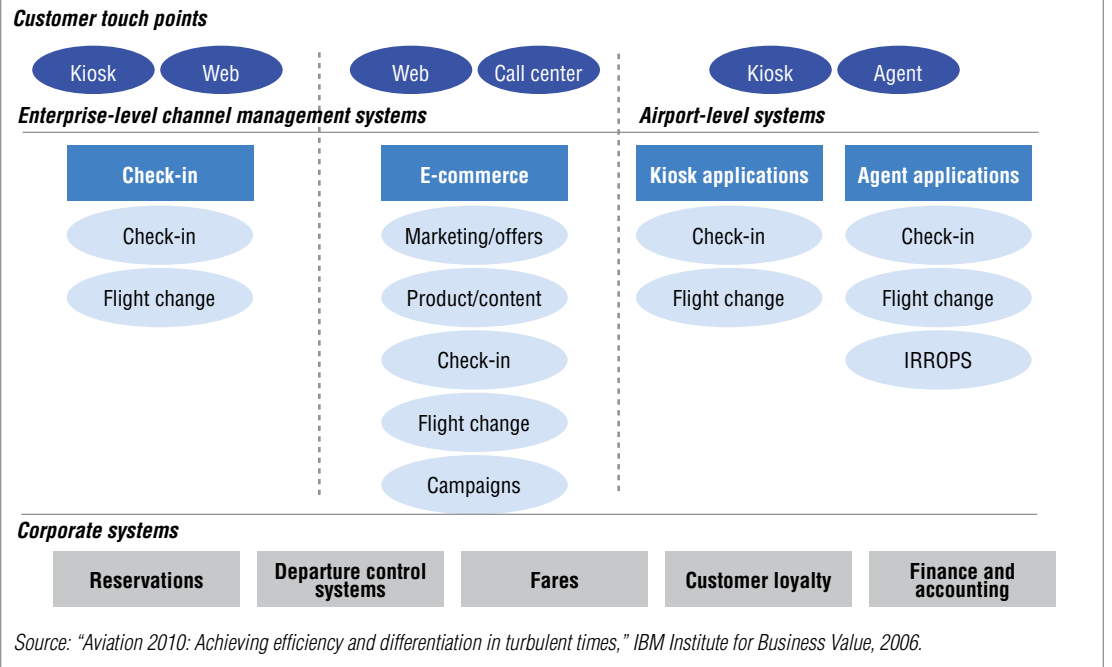
New technologies are emerging
The customer experience across key touch points typically lacks consistency since many travel providers' operational processes still rely on multiple, disconnected systems throughout the enterprise (see airline example, Figure 3). Moreover, fragmented *organizational* responsibility for resources, metrics and investments that impact the customer experience – for example, across marketing, operations, finance, IT and, of course, customer service – further inhibits a cohesive direction for improving consistency.

"From an electronic perspective, [our] primary challenge is a lack of standards, both internally and externally within the industry."
– CIO, major U.S. airline

Despite growth in key channels, many airlines operate multiple, disconnected systems across their enterprise.

Customer touch points

| Kiosk | Web | | Web | Call center | | Kiosk | Agent |

Enterprise-level channel management systems | *Airport-level systems*

Check-in		**E-commerce**		**Kiosk applications**	**Agent applications**
Check-in		Marketing/offers		Check-in	Check-in
Flight change		Product/content		Flight change	Flight change
		Check-in			IRROPS
		Flight change			
		Campaigns			

Corporate systems

Reservations	Departure control systems	Fares	Customer loyalty	Finance and accounting

Source: "Aviation 2010: Achieving efficiency and differentiation in turbulent times," IBM Institute for Business Value, 2006.

Industry consolidation is increasing

In a distressed environment, 2008 has been rife with rumors of airline industry bankruptcies, alliance defections and mergers, including the announced tie-up between Delta and Northwest, which will affect millions of loyalty program members.[24] Despite the potential magnitude of the associated challenges, industry consolidation provides opportunities to re-evaluate member accruals and awards. A combined loyalty program faces the need to rationalize its partnership portfolio and address potentially conflicting or redundant existing partnerships.

Mergers could be a catalyst to improving program features and will require more sophisticated integration capabilities than many providers currently have. As a result, the integration of different cultures, processes and systems can be very challenging, with substantial risk to the customer experience that providers considering mergers and acquisitions must address carefully.

The effects on the rewards themselves must also be considered. Most merger scenarios will likely result in capacity reductions, which would likely reduce the total number of available award and upgrade seats. However, the benefit of redeeming a common currency on an expanded network with a common set of partners may offset the reduced value from capacity "right-sizing" in the eyes of some travelers. If a merger occurs between carriers of two different alliances, the challenges become even greater.

Driving genuine customer loyalty and advocacy

Travel providers will need to evaluate their organizations on several dimensions before they can enhance their loyalty programs in ways that pay off for customers and travel providers alike. Each of the following actions can help travel providers embark on improving both the financial return on their customer loyalty programs and the customer experience.

- *Look "beyond miles":* Broaden the definition of customer loyalty to include a holistic view of the end-to-end customer experience, leveraging the information engine to refocus investment and management attention to address and provide customers' prioritized needs and wants.

- *Choose a strategic position:* Articulate the role of customer loyalty from among 1) Product-orientation, 2) Partner coalition or 3) Comprehensive rewards platform.

- *Commit to invest:* Target the right level of investment in loyalty program innovation most consistent with the company's strategic direction, brand values and culture.

- *Strive to improve continuously:* Progress along a "value continuum" to continuously strengthen capabilities and improve customer loyalty over time.

Look "beyond miles": Broaden the definition of customer loyalty

Travel providers need to emphasize customer loyalty more broadly across the enterprise through a strategy that extends beyond reward programs. The definition of loyalty should include a holistic view of the end-

to-end customer experience – especially those critical "moments of truth" opportunities to delight travelers or recover from service failures. It should also include the role played by front-line employees, customer-facing technology, tailored processes, customer rewards, employee incentives and a supporting information engine (see sidebar – "Driving a superior 'guest' experience at WestJet").

Companies that excel at doing this need clear C-level sponsorship and management attention. For example, United and JetBlue in 2008 appointed new chief executives in charge of the Customer Experience, while Hyatt combined the roles of Chief Marketing Officer and Chief Information Officer.[25,26]

"Customer loyalty is a Venn diagram at the intersection of the customer experience, CRM, our rewards program and the supporting technology that should provide an interactive view of the customer."
– CEO, global hotel company

Choose a strategic position: Articulate the role of customer loyalty

Depending on the perceptions and goals associated with its loyalty program, each travel provider will need to select a strategic position, or a program type (see Figure 4). The degrees of *program scale* (largely defined by the number of partners) and *operational intimacy* (primarily how directly connected the program is to the company's product or service) are

Driving a superior "guest" experience at WestJet

WestJet, a leading Canadian low-cost carrier, has grown rapidly over the past few years: 22 percent revenue growth and 68 percent earnings growth in 2007, remaining solidly profitable in a very challenging environment, and its customer experience is a key differentiator.[27] WestJet refers to its passengers as "guests" – an approach adopted from the hospitality industry that is meant to be more than just semantics. WestJet's culture emphasizes that every employee "owns" the guest experience.

It seeks continuous improvement along many dimensions – especially regarding how to create a world-class guest experience. In 2008, over 40 top managers across functions (reservations, airport operations, onboard service, marketing, IT and others) gathered to brainstorm about new opportunities to improve the experience, and to identify challenges. Senior management shared insights from guest and employee surveys. The group generated an extensive inventory of ideas, then used its own expertise about WestJet's operating environment and customer base to apply and prioritize these ideas.

Because the participants had responsibility for hundreds of front-line employees, they could begin to drive top priority changes into the company's operations almost immediately after the session.

the two main dimensions to be considered regarding this particular choice. The third – the level of *investment* in innovation – is closely linked to the level of differentiation a company seeks through its loyalty program, including how to sustain that differentiation relative to traditional and non-traditional competitors over time.

While other critical capabilities will vary according to the chosen industry position, success for all three – whether product-focused, partner coalition or a comprehensive rewards platform – is dependent on strengthening the ability to gain customer insights via deep data mining. Figure 5 provides additional detail about each of these program types.

FIGURE 4.
Customer loyalty programs: Key strategic positions.
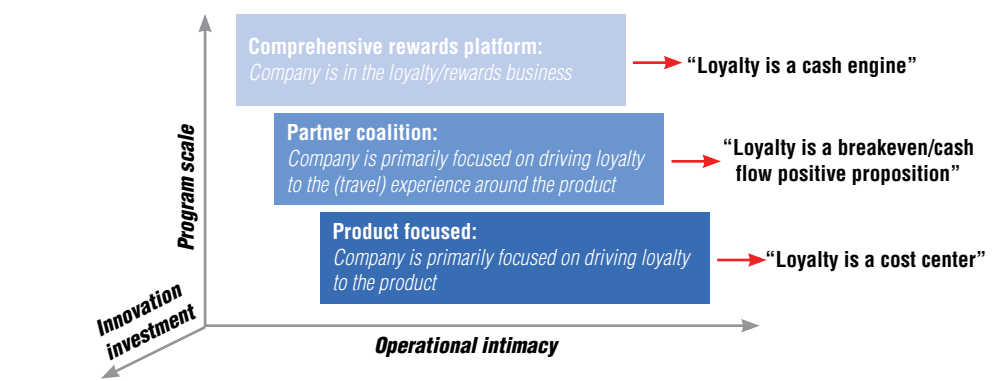
Source: 2008 IBM Travel Industry Loyalty Study.

FIGURE 5.

Each program type requires distinct processes, metrics, organizations and systems.

	Product focused	Partner coalition	Comprehensive rewards platform
Strategy	• Product focused • Be the very best in a given niche • Loyalty initiatives focused on company • Organic growth	• Build strategic relationships with a wide variety of partners within the travel industry • Loyalty initiatives focused on company and partners • Growth by vertical integration	• Build strategic relationships with multiple partners in multiple industries • Loyalty initiatives focused on company and partners • Growth by horizontal integration
Process	• Flexible and consistent to accommodate various customer needs	• Processes must be consistent internally and within partnership • Processes with partnership institutions must be monitored to ensure that promises are kept	• Processes must be consistent internally and across platform • Processes with partnership institutions must be rigorously monitored to ensure that promises are kept
Organizations	• Driven by customer focused and operationally focused metrics • Structured around maximizing customer experience from product	• Ability to track ROI from partnerships, in addition to customer and operations • Structured around maximizing customer experience from travel experience	• Ability to track ROI across platform, in addition to customer and operations • Structured around maximizing customer rewards • Culture supports innovative ideas from internal as well as external sources
Systems	• Highly integrated systems within organization	• High level of integration within organization as well as with partner systems • Data definitions and Key Performance Indices (KPIs) standardized across all partners	• Expanded integration to cover partners from other industries • Data definitions and KPIs standardized across platform

Source: 2008 IBM Travel Industry Loyalty Study.

Product-focused

A product-focused program is typically tailored to one provider, with the aim of building a deep connection to the customer with the greatest product- or service-specific customization possible. Fairmont Presidents Club, Wyndham by Request and even the Four Seasons (which does not have a traditional rewards program at all) are examples of this strategic choice. The loyalty program is highly aligned with the product, with limited or no partners. The main intent is to optimize the value of the service or product, for example, through customized amenity preferences.

Providers opting for this program type seek a larger share of customer wallet and gain value through higher customer satisfaction with the *product* or *service* experience. Key capabilities associated with being product-focused are customer trust – for example, through minimal partner solicitation – and deep integration with operations.

Partner coalition

A partner coalition connects the loyalty programs of multiple providers across a logically connected customer experience, such as travel. Examples include most mature

programs like American's AAdvantage and Marriott Rewards. This type of loyalty program engages multiple strategic partners focused on a common customer experience, such as travel.

The primary intent is to optimize the value of the total end-to-end experience, enabling customers to consolidate awards from a single travel experience by "bundling" partners from each stage: for example, air, hotel, car and credit card. In addition, many mature programs have continued to expand their programs to include partners that reward travelers with points or miles for buying non-travel products such as flower delivery, mortgages, dining and other offerings less related to the travel experience.

These providers seek a larger share of customer wallet *and* revenue from partners. They also gain value through higher customer satisfaction with the *travel* or *other* experiences, but may risk traveler confusion depending on how often they change their roster of partners and how far they extend beyond the core travel experience. A partner coalition needs capabilities such as a scalable platform, partner integration and relationship management, and innovative new offering development.

Comprehensive rewards platform
Arguably the newest program type in the market, a comprehensive rewards platform integrates many providers, typically within a given country or region, to simplify rewards management for consumers overwhelmed by membership in multiple programs (for example, Nectar in the UK, Aeroplan in Canada and AsiaMiles in Asia). This type of program involves multiple partners across industries and product types with a primary goal of optimizing the value of customer rewards.

This set of providers seeks revenue from partners and value through higher customer satisfaction with the *rewards* experience. The "network effect" of growth across industries can create greater customer demand and therefore pricing power. The capabilities associated with a comprehensive rewards program include a highly scalable and sophisticated platform, partner acquisition, integration and relationship management, highly innovative new product development and robust analytics to drive deep consumer insights.

A key question for this program type is whether a company will emerge that can create a "common currency" by crossing geographical boundaries. For example, Aeroplan in 2008 acquired the company that owned the Nectar program in the UK.[28]

Commit to invest: Target the right level of investment in innovation
For any of these three program types, there are also decisions to be made about the level of investment, with three primary options:

"Bare Basics"
A minimal level of investment aims to meet basic traveler expectations at the lowest possible cost to free up cash flow to invest in other more differentiating parts of the business, including the core product or experience.

A range of approaches can help providers accomplish this Bare Basics objective:

- *Exit*: Eliminate the rewards program.

- *Keep in-house*: Simple program with minimal features, although some operations may be outsourced.

- *Outsource*: Partner with a rewards leader.

- *Spin off*: Sell or spin off into a revenue-generating business unit that keeps costs as low as possible for the travel provider.

"Fast Follower"
A moderate level of investment is intended to achieve competitive parity and limit risk – with a primary focus on quickly imitating the successful program features of more leading-edge competitors. To accomplish this objective, Fast Followers will need to monitor competitive programs and invest in a flexible loyalty platform that allows them to make desired changes in their own programs at a rapid pace.

"Innovation Incubator"
The highest investment level is geared toward achieving sustainable differentiation through the loyalty program by introducing compelling program features that exist nowhere else in the industry or even other parts of the rewards market (see sidebar – "Accelerating Innovation at Caesars Entertainment").

Accelerating innovation at Caesars Entertainment

Caesars Entertainment Corporation is a leading gaming company with over 50 casinos worldwide and more than US$10 billion in annual revenue.[29] Their Total Rewards program has been a critical growth and profitability engine, as well as a clear source of innovation.[30]

Senior leadership led the implementation of sophisticated loyalty strategy that provides detailed, valuable customer insights in an automated fashion. The company has improved its analytical capability to perform dynamic customer segmentation across the enterprise.[31] Using sophisticated business intelligence systems and processes, Caesars tests nearly every customer-facing initiative in advance. In fact, it has developed the ability to predict the future performance of many marketing campaigns.[32]

In addition to analytics delivered through a robust information engine, Caesars also aims to marry the insights gained to impact the guest experience, sometimes immediately. "[The company] began tracking gamblers' losing streaks in real-time….A 'luck ambassador' was then dispatched to perk them up with friendliness and a token gift….A little sympathy, it turned out with mathematical precision, kept people gambling longer."[33]

As a result of these and other innovations, Caesars' relative share of customers' discretionary gaming spend jumped from 30 percent several years ago to more than 50 percent in 2006.[34] With significant expansion on the horizon – Caesars is targeting US$13 billion in development over the next decade with ten new hotel towers, including casinos geared toward Gen-Xers and Gen-Yers, an under-penetrated customer segment for Caesars – their innovation engine appears poised to continue accelerating business results.[35]

To build this competitive advantage over time, Innovation Incubators should consider the following success factors:
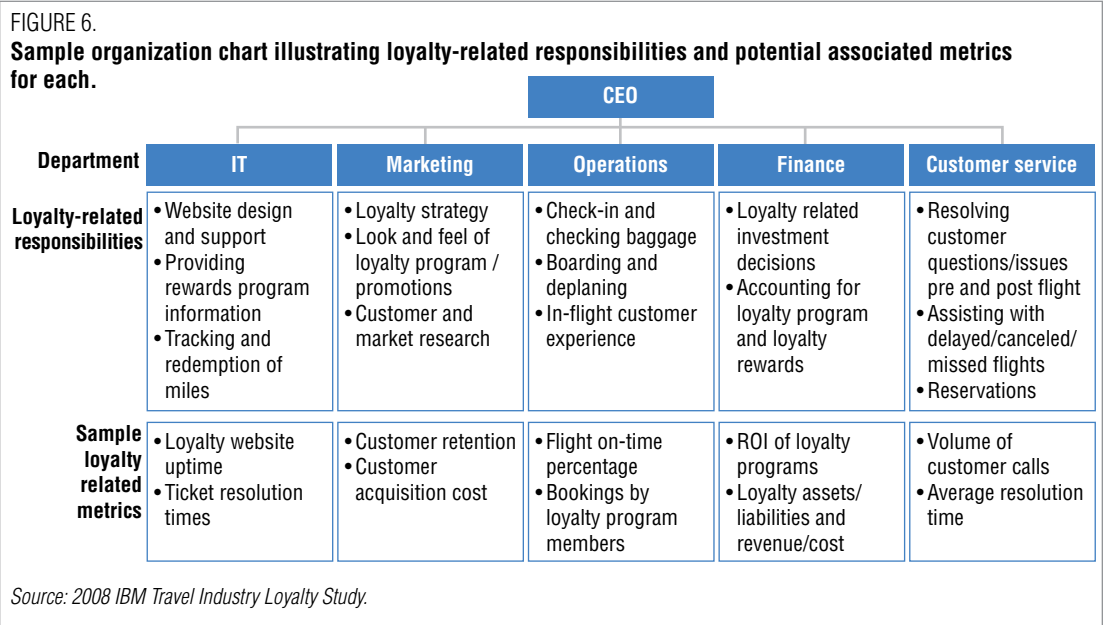
- Cultivate and launch innovative program features rapidly by testing and piloting multiple innovations with customers to determine what is most compelling and valuable.

- Chart a balanced investment strategy that focuses appropriately on both the technology platform and other innovation-related capabilities.

- Integrate promotions with product by leveraging customer data mining, consumer surveys and consumer input when developing critical enhancements to the customer experience.

Regardless of the chosen investment level, an optimal return on investment (ROI) hinges on coordinating loyalty investments across functional areas, including IT, marketing, operations, finance and customer service. C-level executives and others need the ability to measure total program effectiveness by linking together potentially disparate loyalty-related metrics (see Figure 6).

No matter how roles and responsibilities are assigned, and no matter what the level of loyalty investment, travel providers need a holistic view of the customer experience, enablers and metrics. Technology trends are offering more opportunities to improve the customer experience – often by removing silos across key channels – and thus enhance customer loyalty.

Providers will need to incorporate emerging technology advances into travel loyalty programs to use customer insights to differentiate loyalty programs, as other consumer-facing industries have done. Investing in selected technologies can make it possible to establish virtual networking,

FIGURE 6.
Sample organization chart illustrating loyalty-related responsibilities and potential associated metrics for each.

	CEO				
Department	**IT**	**Marketing**	**Operations**	**Finance**	**Customer service**
Loyalty-related responsibilities	• Website design and support • Providing rewards program information • Tracking and redemption of miles	• Loyalty strategy • Look and feel of loyalty program / promotions • Customer and market research	• Check-in and checking baggage • Boarding and deplaning • In-flight customer experience	• Loyalty related investment decisions • Accounting for loyalty program and loyalty rewards	• Resolving customer questions/issues pre and post flight • Assisting with delayed/canceled/ missed flights • Reservations
Sample loyalty related metrics	• Loyalty website uptime • Ticket resolution times	• Customer retention • Customer acquisition cost	• Flight on-time percentage • Bookings by loyalty program members	• ROI of loyalty programs • Loyalty assets/ liabilities and revenue/cost	• Volume of customer calls • Average resolution time

Source: 2008 IBM Travel Industry Loyalty Study.

leverage loyalty data, predict and manage unused capacity, offer interactive online forums and otherwise enlist customers to provide direct help via electronically-enabled "crowdsourcing."[36]

Strive to improve continuously: Progress along a "value continuum"

Five key steps are critical to progress along a continuum that can improve real customer loyalty. In practice, they should be viewed as iterative and not rigidly sequential (see Figure 7).

Step 1 – Achieve strategic clarity and alignment

Before anything else, travel providers will need to evaluate strategic positions and options collaboratively across functions and help ensure executive-level alignment. Implementing the strategy then hinges on developing a roadmap and timing, as well as creating and enacting a risk management plan.

Step 2 – Build capabilities

Central to this step is "operationalizing" the new or enhanced loyalty strategy into the business. This task encompasses defining the desired customer experience, identifying the supporting business capabilities and requirements, integrating common services across applications and functional areas – for example, via a Service-Oriented Architecture (SOA) – and designing, piloting, testing and deploying the new capabilities.

Step 3 – Attain a more unified view of the customer

The systems that support the customer experience need to work together to share information across channels and business processes. Travel providers will need to integrate applications and information silos *where it drives the most business value.* In addition, the focus should be on "continuous unification," as opposed to the daunting challenge of creating a truly *single* view of the customer.

FIGURE 7.

Setting a vision for their loyalty programs, successful travel providers will enter the transformation pathway at different points and follow an overlapping sequence of steps.

Source: 2008 IBM Travel Industry Loyalty Study.
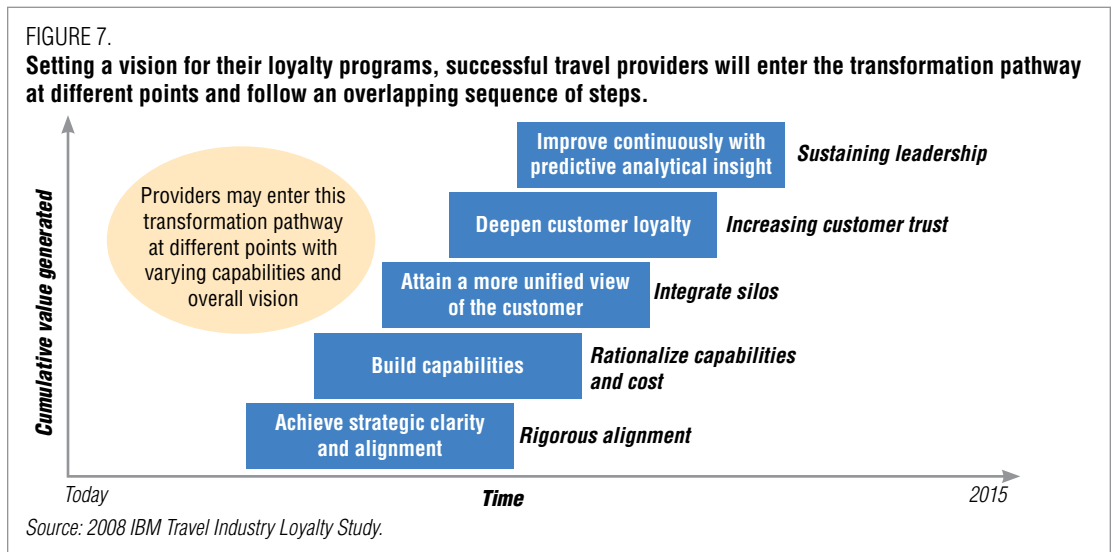
Step 4 – Deepen customer loyalty

Creating a culture of customer respect and recognition is vital. Several important aspects of accomplishing this goal include: using information about each customer to make customers and the company more valuable to each other, while decreasing servicing costs; earning customer trust enterprise-wide by empowering every employee to act in customers' best interests and applying more resources to more valuable customers.

It also includes recognizing a customer through any channel, at any time; offering a compelling and consistent experience that aims to deliver on marketing promises and recover from service failures rapidly; creating innovative ways to listen to, interact with and respond to customers; and treating different customers differently.

Step 5 – Improve continuously with predictive analytical insight

Reaching the ultimate goal of predictive loyalty starts with input from three main sources: customer data from business interactions and touch points, operational data from within the enterprise and external partners, and competitive data from the broader marketplace.

Using these inputs, advanced analytics can help identify which cross-sell and up-sell offers are relevant and effective for *individual* customers, as well as assessing the operational impact of promotional campaigns and identifying market trends and competitive actions – using methods that are more automated and sophisticated than are typical today.

As a result, customer insight is honed by analyzing changes in customer behavior over time – including when and how the competition appears to be more attractive to customers. The final step ultimately results in predictive loyalty, which enables the evaluation of multiple scenarios and helps predict changes in customer behavior with advanced algorithms.

Strategic decisions to choose the right approach

How well is your company responding to changes in the loyalty environment? The following list of questions can help with this self-assessment.

1. What kinds of changes could make both the travel experience and your rewards program sufficiently attractive that your company becomes and remains a top choice to fulfill the range of customers' travel-related needs? How will your company eliminate functional and informational silos to offer a seamless travel experience?

2. What is your plan to take advantage of customer interactions to differentiate your company and enhance loyalty? In what ways have you empowered front-line employees and others to make "on the spot" decisions to address customer issues in a way that improves trust, loyalty and the overall customer experience?

3. Based on the strategic position and level of innovation investment that makes sense for your company, which technologies are best suited to helping you gain a better understanding of your customers?

Travel providers face many challenges today – among them is how to inspire true customer loyalty and advocacy. Successful travel providers will need to stand out in a saturated loyalty landscape. The starting point of the journey requires companies to look beyond miles, choose a strategic position, commit to invest, and strive to improve continuously.

To learn more about this IBM Institute for Business Value study, please contact us at *iibv@us.ibm.com*. For a full catalog of our research, visit:

ibm.com/iibv

Related publications

Badgett, Melody, Maureen Stancik Boyce, Laura VanTine and Yolanda Wang. "Why advocacy matters to retailers: Insights from five retail segments." IBM Institute for Business Value. January 2008. 2008. http://www-935.ibm.com/services/us/index.wss/ibvstudy/gbs/a1029104?cntxt=a1000063

Vincent, Charles and Maureen Stancik Boyce. "Aviation 2010: Achieving differentiation and efficiency in turbulent times." IBM Institute for Business Value. May 2007. http://www-935.ibm.com/services/us/index.wss/ibvstudy/gbs/a1028108?cntxt=a1000404

Authors

Brian Goehring is an Associate Partner with the Strategy & Change practice in IBM Global Business Services. He has over 10 years of experience in business strategy consulting in travel and other industries. He can be reached at *goehring@us.ibm.com*.

Anand Janardhan is a Managing Consultant with IBM Global Business Services. He has over 15 years of experience in the Distribution Sector, five of those years in business strategy consulting for Fortune 500 corporations. His primary focus area within the Distribution Sector is Travel and Transportation. He can be reached at *anand.janardhan@in.ibm.com*.

Maureen Stancik Boyce, PhD, is an Associate Partner and the Distribution Sector Team Leader for the IBM Institute for Business Value. She has 14 years' experience in business strategy in retail, consumer goods, travel and transport and other consumer-related industries. She can be reached at *staboyce@us.ibm.com*.

About IBM Global Business Services

With business experts in more than 160 countries, IBM Global Business Services provides clients with deep business process and industry expertise across 17 industries, using innovation to identify, create and deliver value faster. We draw on the full breadth of IBM capabilities, standing behind our advice to help clients innovate and implement solutions designed to deliver business outcomes with far-reaching impact and sustainable results.

References

1 Ferguson, Rick and Kelly Hlavinka. "The Difference Engine: A Comparison of Loyalty Marketing Perceptions Among Specific U.S. Consumer Segments." *COLLOQUYtalk*. August 2007.

2 Ferguson, Rick and Kelly Hlavinka. "Quo Vadis: Sizing Up the U.S. Loyalty Marketing Industry." *COLLOQUYtalk*. April 2007.

3 Analysis for 2008 IBM Travel Industry Loyalty Study; Ferguson, Rick and Kelly Hlavinka. "Quo Vadis: Sizing Up the U.S. Loyalty Marketing Industry." *COLLOQUYtalk*. April 2007.

4 Ferguson, Rick and Kelly Hlavinka. "Quo Vadis: Sizing Up the U.S. Loyalty Marketing Industry." *COLLOQUYtalk*. April 2007.

5 Heffernan, Robert and Steve LaValle. "Advocacy in the Customer Focused Enterprise: The next generation of CRM done right." IBM Institute for Business Value. April 2006.

6 Ferguson, Rick and Kelly Hlavinka. "Quo Vadis: Sizing Up the U.S. Loyalty Marketing Industry." *COLLOQUYtalk*. April 2007.

7 Badgett, Melody and Herb Kleinberger. "Why advocacy matters to grocers: Surveyed consumers giver retailers food for thought". IBM Institute for Business Value. September 2007.

8 Ferguson, Rick and Kelly Hlavinka. "Quo Vadis: Sizing Up the U.S. Loyalty Marketing Industry." *COLLOQUYtalk*. April 2007.

9 Analysis for 2008 IBM Travel Industry Loyalty Study; Ferguson, Rick and Kelly Hlavinka. "Quo Vadis: Sizing Up the U.S. Loyalty Marketing Industry." *COLLOQUYtalk*. April 2007.

10 "Low-cost Carriers Add Lounges, Leather Seats To Woo High Fliers," Lagorce, Aude. Fox News. September 25, 2007. http://www.foxnews.com/story/0,2933,297960,00.html

11 "Rapid Rewards A-List Membership." Southwest Airlines press release. November 8, 2007.

12 Stellin, Susan. "Award Plans Earn Cash for Airlines." *New York Times*. April 1, 2008.

13 Ferguson, Rick and Kelly Hlavinka. "The Difference Engine: A Comparison of Loyalty Marketing Perceptions Among Specific U.S. Consumer Segments." *COLLOQUYtalk*. August 2007. Note: Percentages represent how many general population respondents reported a top 3 rating on a 1 to 10 scale (indicating relative agreement) for satisfaction with the value from rewards within each industry.

14 University of Michigan report cited by Johnsson, Julie. "Airline industry the worst in customer ratings." *Chicago Tribune*. May 20, 2008. http://www.chicagotribune.com/travel/chi-airline-consumer-satisfaction-story,0,73026.story

15 Badgett, Melody, Maureen Stancik Boyce, Laura VanTine and Yolanda Wang. "Why Advocacy Matters to Retailers: Insights from five retail segments." IBM Institute for Business Value. January 2008.

[16] J.D. Power and Associates report cited by Keeton, Ann. "Airline Satisfaction at 3-Year Low." *The Wall Street Journal*. June 18, 2008.

[17] Ibid.

[18] Prada, Paolo. "Higher Fares, Fees Help Stem Airline Losses." *The Wall Street Journal*. July 17, 2008.

[19] Keeton, Ann. "Airline Satisfaction at 3-Year Low." *The Wall Street Journal*. June 18, 2008.

[20] Analysis for 2008 IBM Travel Industry Loyalty Study; airline company Web sites.

[21] For more information about the "Open Skies" agreement, see Associated Press. "'Open Skies' pact signed; allows more U.S.-Europe flights." *USA Today*. April 30, 2007. http://www.usatoday.com/travel/flights/2007-04-30-open-skies-signed_N.htm

[22] Analysis for 2008 IBM Travel Industry Loyalty Study; airline company Web sites.

[23] Andretta, Ralph. "The Right Stuff – How marketing innovation and business acumen drives loyalty-marketing success." *Colloquy.* Volume 15, Issue 3. Fall 2007.

[24] Grantham, Russell and Jim Tharpe. "Northwest Merger Agreement Keeps Delta in Atlanta." *The Atlanta-Journal Constitution*. April 14, 2008.

[25] United Airlines press release. Reuters. May 8, 2008. http://www.reuters.com/article/pressRelease/idUS152520+08-May-2008+PRN20080508; JetBlue press release. May 1, 2008. http://investor.jetblue.com/phoenix.zhtml?c=131045&p=irol-newsArticle&ID=1138586&highlight=

[26] "Q&A with Tom O'Toole." MarketingNVP.com.

[27] WestJet 2007 Annual Report.

[28] The Canadian Press. "Aeroplan pays $755M to acquire Nectar U.K. loyalty program operator LMG." *Investor's Business Daily*. December 3, 2007.

[29] Harrah's Entertainment, Inc. 2007 Annual Report. Note: As of July 2008, Harrah's Entertainment, Inc. is in the process of changing its name to Caesars Entertainment, Inc.

[30] Ibid.

[31] Norton, David. "The Joys of Pointillism." *Colloquoy*. Volume 16, Issue 1, 2008.

[32] Stanley, Tim. "High Stakes Analytics." *Optimize*. February 2006.

[33] Binkley, Christina. *Winner Takes All.* Hyperion, 2008.

[34] Stanley, Tim. "High Stakes Analytics." *Optimize*. February 2006.

[35] Binkley, Christina. *Winner Takes All.* Hyperion, 2008.

[36] Blitz, Amy, Lisa Buckley, Brian House and Matt Porta. "Value 2.0: Eight new rules for creating and capturing value from innovative technologies." IBM Institute for Business Value. January 2008.

IBM.