

9 Relationship Marketing

We come now to one of the most demanding aspects of Airline Marketing today – the attempt to apply relationship management concepts. Theoretically, the segmentation of the air travel market means that airlines should be well placed to take advantage of some of the techniques of Relationship Marketing. As they have attempted to do so, though, very substantial costs have arisen, costs which make the question of the return being obtained on their investment a controversial one.

9:1 Fundamentals of Relationship Marketing

9:1:1 Some Definitions

A common error in the airline industry is to assume that “Relationship Marketing” is just a more impressive way of describing an airline’s Frequent Flyer Programme. This is fundamentally wrong. An FFP may well be part of a sound investment in relationship building – indeed at the moment it almost always is – but Relationship Marketing approaches should encompass much more than simply a mileage programme. Let us begin with a definition:

Relationship Marketing is a marketing philosophy whereby a firm gives equal or greater emphasis to the maintenance and strengthening of its relationships with its existing customers as it does to the necessary search for new customers.

The last part of the definition should certainly not be disregarded. All firms – airlines included – will lose some of their customers every year. A small number of people will sadly die, whilst in business travel, others retire from work. Some customers will be affected by the – hopefully small – number of service failures which the firm will inevitably have. They will no longer purchase from it as a result. Finally, some people will desert the firm for no logical reason – they just decide to change. Therefore, the search for new customers will have to be an intensive and continuous one.

Despite this, it is the earlier part of the definition which is of still greater importance to airlines. As we saw in Section 2:3:4, the business air

travel market consists of a relatively small number of people who each fly a great deal. Indeed, in many countries, the average number of trips taken each year is often more than ten per person. In addition, each person will probably be part of the business travel market for many years. They may be promoted to a job requiring extensive travel in their middle or late twenties, and do that job, or similar ones, for twenty or thirty years. To use the jargon of Relationship Marketing, this means that they have an extremely high Lifetime Value. An airline gaining the passenger's loyalty when they begin business travel will gain substantial sums if it can retain such support throughout the person's career. Equally, an airline failing to gain such loyalty should regard it as a severe loss.

Besides the amount of money at stake, relationship-based approaches often bring with them the advantage that once loyalty has been established – a process which admittedly may be costly – subsequent, incremental business can be obtained quite cheaply. Once someone has decided on a particular airline, that airline only has the task of persuading them to continue to make the same choice. This should be relatively easy, because it will be a question of reinforcing in their mind the correctness of their original decision. If on the other hand, a carrier needs to persuade someone to fly with them who until now has been travelling with a competitor, they will have to convince them that their original choice was wrong. Human nature being what it is, few of us readily admit our mistakes. Attracting business away from competitors will therefore need powerful persuasion, and such business may have a much higher marketing cost associated with it.

Two remaining definitions are important – those of “Advocate” and “Destroyer” relationships. Until a few years ago, the principle concern of marketing in the airline industry was simply to divide those people who were customers of an airline from those who were not. Today, much more attention is being given to the nature and strength of the relationship between the firm and its customers.

An “Advocate” relationship is where someone not only buys from the firm in question, but they act as the firm's advocate by strongly advising other people that they should do so too. A “Destroyer” relationship is one where a potential customer does not buy from the firm, and also does all they can to persuade other people not to do so by pointing out the firm's many inadequacies. Clearly, having a high number of Advocates will be a significant advantage, whilst the existence of a large body of Destroyers will be a large – probably insuperable – handicap. The question of building Advocate relationships is thus at the core of Relationship Marketing for all firms, notably so for airlines. It is to this aspect that we now turn.

9:1:2 Building Advocate Relationships

In any industry, Advocate Relationships only result if a number of basic philosophies are followed. Of these, *straight dealing* is the most fundamental. For example, few people cheated over the purchase of a second-hand car will return to the same dealer that overcharged them. In the airline industry, people will feel angry if they subsequently find that an airline had a much lower fare was on offer than the one they actually paid – an increasingly common cause of complaint. Such overcharging could well turn out to be a mistake if the extra money obtained had to be set against the loss of the customer's loyalty because they felt they had been dealt with in an unacceptable way.

A second, crucial aspect of relationship-building is that of *delivering promises*. Airlines are generally not shy of making claims in their advertising and promotion. Indeed, if one looks at the advertising of many airlines with a poor reputation, the proposition seems to be that travelling with the carrier will be the most wonderful, faultless experience with on-time flights, comfortable seating, excellent food and, especially, the warmest of welcomes from the airline's customer service staff. Those actually choosing to do so may find in practice that there are delays, that aircraft are dirty, the food inedible and that customer contact staff are rude and unmotivated. If they do so, they will feel a sense of betrayal, because of the false claims that have been made, and are likely to form a Destroyer relationship with the airline that will be hard to shift.

Closely alongside the delivery of promises will be the question of *caring*. People tend to form Advocate relationships with firms where they feel the firm cares about them as individuals. Caring can, of course, take on many different forms in addition to the delivery of promises mentioned in the last paragraph. People may feel that the firm is showing a caring attitude if it keeps them informed about new service developments or offers which they may find attractive. They will especially do so if they feel that the firm makes a positive response if they have a cause to complain.

Service beyond reasonable expectations can be especially valuable in building Advocate relationships. People give an airline little credit for a meal being served or a cup of coffee being offered – they expect such things by right. They may feel very warm towards an airline, though, if they see a cabin staff member making a particular effort to calm an anxious or distressed passenger.

A further important point is that customers should find a firm *accessible*. No-one likes to find that it is impossible to make contact with a supplier because of clogged phone lines, or long computerised messages about which phone key to press, especially if they are being forced to use a

premium rate phone line at the time.

A final, crucial, fundamental of relationship-building is that of *gratitude*. If someone buys loyally from a particular firm, they will have a reasonable expectation that this loyalty should be recognised. Such recognition may come in the form of a reward scheme. Of equal, or greater importance, though, will be simple, unqualified expressions of thanks for the business they have given to the firm in question. Such expressions are surprisingly rare.

Given the complexity of the relationship-building task, it can only be approached strategically. An airline seeking to build strong relationships with its customer will need to move forward on a wide front. How they should do so forms the subject of the next section.

9:2 Components of a Relationship Marketing Strategy

The cornerstone of a relationship-building strategy is that the firm should know who its main customers are, and the exact nature of each customer's relationship with the firm. This will mean substantial investment in capturing and managing data.

In terms of the data that will be needed, clearly airlines will need to know demographic information about their customers. This will include obvious things about name, address, job title etc. Such information must be accurate, up-to-date and de-duplicated in order to be useful. In addition, information will be required about customer needs. Today, it should not be necessary for airline customers to spell out their particular requirements every time they make a booking. They expect airlines to know their preferences with respect to such things as special dietary requirements and preferred seating.

A second area where data will be needed is that of so-called activity information. This describes what the customer buys from the firm in question, where and when. Airlines need to know the routes that people fly, the class of service in which they travel and the fare types that they use. Only if they do can they put out marketing communication material which will be relevant to each customer's particular set of requirements.

A final, more difficult area of database management is the integration of demographic and activity data with Customer Relations information. From time to time, passengers may have cause to complain to an airline. We will consider further in Section 9:2:3 the question of an effective Customer Relations policy to handle the situation when they do. For the moment, though, it is important to emphasise that Customer Relations information must be integrated into the airline's overall customer database.

If it isn't there is a risk of severe damage to relationships occurring. For example, someone who had just complained about a delayed flight will be furious if shortly after having done so they receive a circular letter or email from the airline claiming that it has a very high standard of punctuality.

The only good news about database management in the airline industry today is that computing power to store and process data is now much cheaper than it used to be. Obtaining and entering the necessary data and ensuring proper systems integration will still be a very costly and demanding task.

In terms of demographic information about actual and potential customers, by far the best data is that which people volunteer about themselves. As we shall see shortly, the great benefit that Frequent Flyer Programmes bring to airlines is that they provide a ready source of database information which people give voluntarily. These people also help airlines to keep information up-to-date by letting carriers know when they change their address. It should also be easy to produce an integration between such demographic data and activity data by asking people to quote a reference number every time they make a booking or check-in for a flight. They will generally be very willing to do so, because they want to make sure that the appropriate credit is given to their mileage account. Of course, it will still be necessary for the carrier to work hard to capture the data, by ensuring that their own customer contact staff always enter the data when necessary, even at times when they are very busy.

9:2:1 The Management of Quality

We have already seen that the keeping of promises is the cornerstone of a relationship building strategy. If airlines deliver what they promise in terms of issues such as safety, punctuality, aircraft cleanliness and baggage handling they will have achieved a great deal in terms of establishing and sustaining Advocate relationships with their most important customers. If they fail to do so, they will quickly become known as the airline to avoid.

Quality management poses especial problems in service industries generally and in the aviation industry in particular. In service industries, output is instantly perishable at the time it is produced. It is not possible to produce the product and then check it over before delivery to the customer as can be done, for example in the car or electrical appliance industries. In aviation, there is not only the problem of perishability of output. The production process itself is a complex one, where the activities of many different departments have to come together in the right way and at the right time if product quality is to be sustained. This is especially so in areas such as safety and punctuality.

There is now widespread recognition that effective quality management comes from the top of an organisation, and that it is a continuous, never-ending task. Circumstances change, and a continuous adaptation to such changes will be needed. Standards will also inevitably decline through time unless a constant effort is made to ensure that they do not do so. Generally, this will mean ensuring that things move ahead by small increments, over a broad front, steadily, though time. The grand initiative may occasionally be needed if things have slipped very badly, but short-term thinking often leads to an immediate improvement which, however, is quickly lost as standards fall back again.

9:2:2 Customer Relations

Customer Relations policies are an area where substantial progress towards more enlightened thinking has been made in recent years, with a growing recognition of the fact that a sound investment here can make a substantial contribution to a relationship-building strategy.

In the past, the tendency amongst airlines was to regard people who complained as a nuisance, to be got rid of as quickly as possible. The Complaint Handling department was often seen as a career backwater, populated by poor quality and unmotivated staff. Today, better carriers see this function as an important opportunity, where relationships can be repaired, and strengthened for the future. They also recognise it as a Marketing, rather than an Operations, function. Old attitudes based on leaving the task to the Operations department on the grounds that 'They caused the problems, they can sort them out', are no longer appropriate.

All airlines will experience service failures from time to time. Of course, if these failures are frequent, they show that there is a serious problem which needs to be addressed through a quality management programme as discussed in the last section. Such programmes if properly applied can make service failures rare events, but it is only being realistic to say that they cannot eliminate them entirely.

When a service failure occurs, the passengers who are affected are divisible into two: those who complain and those who do not. In the past the tendency was to look more favourably on those who did not complain rather than on those who did. This was quite wrong. People who are dissatisfied but who do not complain are most unlikely to buy again from the firm that has let them down. Worse still, they will probably take on a "Destroyer" role with respect to that firm, telling everyone who will listen to them how bad it is. In contrast, those who do complain, and whose complaint is dealt with properly, often do buy from the firm again and their

relationship with that firm may in fact be strengthened rather than weakened by their bad experience.

There are a number of rules which must be followed in an effective Customer Relations policy. Firstly, customers must find it easy, rather than a challenge, to make their views known. Here Freephone numbers can be valuable, assuming that their existence is given wide publicity, as can dedicated email addresses.

Secondly, once a complaint has been received, a prompt acknowledgement should be made. If the complainant leaves a phone number, they should be called on the day their call or letter is received, and an unequivocal deadline stated as to a date by which they will hear more. This date must, of course be kept to.

In terms of the exact response that should be made, the most important requirement is that the airline should, if at all legally possible, give a clear apology. This apology should include ownership of the problem. Customers are not interested in a detailed post-mortem where the airline attempts, say, to lay the blame for a delayed flight on the catering company which failed to deliver the meals to the aircraft on time. They feel that if a carrier is receiving poor service from its suppliers, it should change them for ones which are more reliable.

Once an apology has been given, attention can be directed to re-establishing the strength of the customer's relationship with the airline. Doing so might entail giving financial compensation or – a particularly attractive incentive – offering a free ticket on an off-peak flight where the airline knows it will have empty seats and where unhappy passengers can, hopefully, be shown the airline's normal, and much better, standards of service. A further possibility is that the passenger should be offered bonus miles in their Frequent Flyer Programme account.

Such a response should go a long way towards addressing the passenger's concerns. A further, follow-up letter should, though, be sent after a period of a few weeks, asking people if they are fully satisfied with the airline's response.

Such a generous approach to dealing with complaints does, of course, lead to the possibility of abuse. There is a clear risk that people will complain without a worthwhile reason, hoping for compensation. This may be an especial risk once an initial complaint has been made which has been treated favourably.

Dealing with this problem will be a question of emphasis. Fraudulent claims may become a significant issue if a Customer Relations policy is over-generous. Equally, though, there is a likelihood that valuable customers will be alienated if it isn't generous enough. Of these risks, the second should be regarded as much the more serious, and some losses

through fraud should be accepted as inevitable. However, in order to minimise them, database information needs to be collected on each person who complains. It should soon become evident who is doing so on a systematic basis.

9:2:3 Marketing Communication

The question of marketing communication forms the subject of the next chapter, when substantial attention will be given to the question of using databases for targeted messages. For now, though, it is most unlikely that anyone will form a positive relationship with a firm unless that firm takes the trouble to communicate with them.

As we shall discuss in section 10:3:2, the question of using databases in a marketing communications strategy is now a controversial one, with consumer resistance to what they see as “junk mail” and “spam” seeming to increase inexorably. Proper use of a database in this way can, though, significantly strengthen a relationship. It can be used to provide customers with useful information. It can allow firms to make attractive offers to present and possible future customers. Finally, it can be used – though it very rarely is – so that firms have an opportunity to express their gratitude to their customers for their continuing support.

9:2:4 Loyalty Schemes

This chapter began with the correct statement that “Relationship Marketing” is about much more than a Frequent Flyer Programme. It has to be acknowledged, though, that probably no relationship-building strategy in air transport can achieve its full potential without involving a loyalty scheme of some sort. Such schemes have proliferated in many areas of retailing in recent years, with loyalty marketing now, for example, a major aspect of petrol, grocery and credit card marketing. It is, though, airlines through their Frequent Flyer Programmes who were amongst the pioneers of this form of marketing and who have, arguably, developed it to its fullest extent. The whole of the next section is therefore devoted to FFPs.

9:3 Frequent Flyer Programmes

9:3:1 History and Current Status

Frequent Flyer Programmes now have a long history in the airline industry. As was mentioned in Section 5:2:1, the first programme was introduced by

American Airlines as long ago as 1981. It was an immediate success, and American's lead was soon followed by all the other major airlines in the USA.

In the rest of the world, the take-up was rather slower. At that time, competition was still muted in many markets as a result of government regulation, whilst many airlines were fearful of the costs which FFPs might bring with them – fears which to a considerable extent have turned out to be justified. There was a turning point, though, in 1991 when Pan American (soon to disappear into bankruptcy) and TWA lost their positions as the leading US carriers on the North Atlantic. They were instead replaced by American, United and Delta, three airlines with well-established and powerful Frequent Flyer Programmes. Recognising the intensity of the competitive threat that these airlines would pose, European carriers, led by British Airways and Lufthansa, quickly launched their own programmes. They were in turn followed by many airlines in the Far East. At the time of writing the situation is that, outside of the Low Cost Carrier sector, almost all significant airlines have their own FFP, or are partners in a joint-venture programme. Furthermore, Frequent Flyer Programmes are now very much bound up with the trend for the airline industry to consolidate into alliances, with the alliances offering FFP members so-called “Earn and Burn” rights. These allow passengers to be awarded miles in ‘their’ programme, even if they are travelling on a service of another alliance member. Similar opportunities exist to use the services of other alliance carriers when they are redeeming miles to obtain free tickets.

Today, Frequent Flyer Programmes are at the heart of marketing in the airline industry. Indeed, it is much easier to isolate the airlines which do not have a programme rather than those that do.

Given their all-prevailing presence in the industry, it might be imagined that FFPs have become a non-controversial element in Airline Marketing. Nothing could be further from the truth. Carriers are faced with the challenges of keeping their programmes competitive in an increasingly mature and saturated marketplace. There are also a number of new controversies which are now appearing, and which will decide the future role to be played by FFPs.

In order to investigate these issues further it is necessary first to look at the difficult balancing act which constitutes the cornerstone of running a successful FFP today. In order to be competitive, airlines must make their programmes sufficiently appealing to attract and retain members. The problem is that, if they do so, they run the risk that the programme will become excessively costly to administer. We will now assess how this balance should be struck.

9:3:2 FFPs – Programme Member Requirements

For a programme to attract members, it must clearly be one where credits can be built quickly, so that rewards become available at an early stage. For this to happen, generous credits must be available when someone travels on the airline's own flights, especially if they use an expensive First or Business Class ticket. At the same time, the airline will have to sign extensive partnership agreements with other airlines which serve routes that the first carrier does not. This will allow credits to be collected on any flight that the person takes. They will also expect opportunities to collect miles when staying in hotels, renting cars, or using their credit cards. In some programmes now, points can be obtained when shopping for such things as clothes, petrol and groceries.

Once the points have been collected, the programme member's requirement is that there should be no time limit on their validity. This allows them to be used either for a small, but more immediate reward, or for a major project for which many years' collection may be needed.

Clearly, a generous reward structure will also be attractive. Free flights have always been and remain, the principal reward on offer from an FFP. Here, the programme member's expectation is that there will be ready availability of seats, even at peak holiday periods when it is most likely that they will want to fly. They also expect to be able to use points to obtain up-grades to Business or First Class when they are travelling. In both cases, they will require the airline to have agreements with other airlines so that miles can be used on other carriers, giving a wide choice of destinations. As we have seen, through alliances, such agreements generally are in place.

Besides free travel rewards, today FFP members expect reward opportunities which are not necessarily travel-related. If someone flies, say, thirty times a year it may not be a very attractive temptation for them to take a tedious thirty-first flight. The offer of such a flight is often referred to as the "Walking Holiday for the Postman" effect. Instead, non-travel rewards such as golf lessons or a balloon flight may be much more appealing and a modern FFP must have a wide variety of rewards on offer if it is to be fully competitive.

Besides the rewards available when people are redeeming miles, today FFP members expect extensive benefits to be available to them when they are travelling on business. They will be attracted by a separate phone line when they are making bookings, by a separate check-in desk and especially by airport lounge facilities which will allow them a suitable ambience whilst they are waiting for their flights. They will also expect a tiered

membership structure which will allow them access to more and more privileges as the amount of flying they do increases.

These points make up the major ones which will attract members to join and support a Frequent Flyer Programme. There are, though, some less important, but still significant issues which should also be taken into account. For example, programme members expect the right to give away or sell credits to other people – most FFPs forbid this, because of airline fears that it will result in a loss of revenue. They also require airlines to keep records accurately, and object strongly if they find that they are continually having to contact the carrier because their flights are not being recorded properly. Finally, they expect regular statements of their mileage balance to be sent to them, or – better still – for such information to be available on-line. The process of redeeming miles should, of course be easy and straightforward rather than a battle.

9:3:3 FFPs – Airline Requirements

Given the competitive nature of the FFP marketplace, airlines need to keep an especial close control of their programmes. If they fail to do so, the costs associated with them will quickly become excessive.

Fundamental to a cost-effective programme is the question of the control of capacity. The airline's Frequent Flyer Programme must be fully integrated with its revenue and capacity management systems so that, as far as possible, people redeeming miles for free tickets use seats on off-peak flights which would otherwise be flown empty. Ideally, a target should be set for this. A typical target would be that on 95% of occasions the FFP redeemer should occupy an otherwise empty seat.

Alongside the control of capacity, the greatest possible emphasis should be given to the acquisition of database material. When joining the programme, new members should be asked to provide extensive, useful database information. If they refuse to give it, then they should not be allowed to join, because effective use of the database for database marketing is now the key to airlines obtaining value-for-money from FFP investment.

At the same time as database information is collected, every opportunity should be taken to build the Frequent Flyer Programme into a profit rather than a cost centre. This can now be done because Loyalty Marketing is in vogue in many industries, and firms in these industries are always looking of innovative ways in which to reward their best customers. Beyond any question, free travel is a very attractive incentive, especially for people who do not travel for their work. An increasing number of airlines now sell mileage credits to other businesses, and are earning

worthwhile revenue from doing so. Of course, if they do so it puts strong pressure on them to have credible redemption offers to provide their trade customers with a value-for-money incentive programme.

In terms of airline requirements, time limits on the validity of FFP credits remains controversial. They may certainly make a programme less attractive for someone to join and support, but they mean that the programme is far more likely to produce genuine loyalty as those people who do join will know that they will have to take all their flights with one airline if they are to obtain a good reward within the three years' validity that the credits have typically had in the past. However, most programmes now have no time limits, because of competitive pressures. Others state that miles will continue to be valid as long as the person concerned takes at least one flight each year with the airline in question.

Another factor in the imposition of time limits are the requirements sometimes placed on airlines by their auditors. Mileage credits which have been issued by an airline but not yet redeemed represent a liability which, arguably, should be included on an airline's balance sheet. This is especially so in the case of a carrier which is on the edge of bankruptcy, because the holders of the credits are likely to try to redeem them quickly, and all at once, in such a situation. They will know that if the airline goes into receivership and its assets are liquidated, they will be no more than unsecured creditors, with few rights, of the bankrupt company. This was exactly the situation that arose with Pan American in the early 1990s, and may be the case with Delta Air Lines at the time of writing.

Today, airlines have mostly successfully resisted auditors' demands for the inclusion of unredeemed FFP credits as a liability on their balance sheets, though most do now include an estimate of the liability as a note to the accounts in their annual reports. They have done so by sometimes introducing time limits on the validity of credits to limit the build-up of the liability, but more so by arguing that the advent of modern revenue and capacity management systems allows them to control the use of capacity very closely. They can prevent a rush of FFP redemptions even in circumstances that might otherwise give rise to one.

Tiers of membership are now an essential component of a state-of-the-art Frequent Flyer Programme. Typically, programmes have at least three generally-available tiers, with each one granting progressively higher levels of privilege to those who fly more. Proportionately greater recognition is given to those who use First or Business Class tickets. Many programmes also have a fourth, and highest tier, which can only be awarded by the airline's CEO or other senior managers to those whose favour the carrier is especially anxious to court.

Tiered memberships in many ways improve the attractiveness of the

programme, and it is always a pleasant experience for a member of the airline's sales team to inform someone that they have been promoted to a higher tier of membership. It is essential, though, that people are demoted as well as promoted, with demotion occurring if they do not travel sufficiently, even though this will often cause a reaction of outrage. The reason is that if this is not done, the higher tiers become a devalued currency. Also, people may remain loyal to one airline until they have obtained that carrier's Gold Card, but then change to another to see if they can collect further cards.

A final, interesting, airline requirement from a Frequent Flyer Programme is that it must be made quite clear to people when they join that the airline reserves the right to change the programme's rules through time. Market conditions in the airline industry change markedly according to the state of the Trade Cycle. In buoyant times, airlines can grow with the market. During more difficult periods, they can only increase their business at the expense of others by raising their share of a stagnant market. Because of these factors, the terms of a Frequent Flyer Programme may have to be more generous during downswing periods, but can be correspondingly less attractive, and less costly, around the peak of the Cycle.

9:3:4 The Future

We have now discussed a range of issues affecting the attractiveness and costs of a Frequent Flyer Programme today. Marketing is, though, a dynamic and changing subject, and this is especially the case with Frequent Flyer schemes. We must now turn to the question of their future.

A first point of debate is whether they have one at all. We have already seen (Section 2:2:4) that the recent years have seen a marked change in the ways in which business travellers bought their seats. Previously, the "Customer" was usually the person who travelled, who had an absolute right to choose the airline with which they flew. Progressively, though, many firms changed their policy, in order to be able to use their bargaining power to gain discounts. More and more business travel is now bought corporately, with the people who fly required to choose airlines on a list of those giving attractive, low, corporate rates to the firm in question.

This change has made executives such as the firm's V-P of Finance or V-P of Purchasing very important, because these are the people who are often given the task of negotiating corporate deals with airlines. As we have seen, as general rule, such people oppose the existence of Frequent Flyer Programmes, because they make the task of enforcing changes in corporate travel policy a more difficult one. It is one thing for a Vice-

President of Purchasing to negotiate a deal with a new airline which has the potential to save their firm a great deal of money. It may be quite another to police the change once it has been made, and ensure that the firm's business travellers book on the new rather than the old, preferred airline. They may be reluctant to do so. They will have built up large mileage balances with the first airline and will wish to continue to fly with it in order to reach the levels of mileage necessary to obtain awards of free tickets. They will also already have elite status in the carrier's FFP, and will want to protect this.

The pressure today from corporate travel purchasers is for Frequent Flyer Programmes to be abolished, and for the resulting cost savings to be translated into still higher levels of corporate discounting. If the programmes must continue, then they would argue that the awards should be made to firms rather than to individuals so that they can be used to offset the costs of future business travel.

A further issue regarding the future of FFPs is that of taxation. Until now, in most tax jurisdictions there has been a reluctance for governments to tax Frequent Flyer awards. This is despite the fact that they are clearly a benefit-in-kind, comparable to company cars, the value of which is now generally heavily taxed.

The reasons for this reluctance are that it would be difficult to place a value on a free ticket, given the complexity of airlines' present-day pricing policies. Also, governments, particularly in the USA, have been wary of upsetting frequent travellers who make up a large and influential group of voters.

A further, but unlikely, threat to the continued existence of FFPs is that they might come to be regarded as an abuse of a dominant position by competition regulators. In principle, Frequent Flyer Programmes do constitute a significant barrier to entry in the aviation industry, in that, as we have seen, the programme of a large airline will be a much more attractive one than that of a small carrier. This has led to the argument that they should not be allowed to continue because they make life much harder for small, new entrant, airlines. Whilst there is still significant truth in this, the fact that, at a cost, small airlines can buy into the programmes of larger carriers through such expedients as franchising has reduced the strength of the argument.

Despite the possible significance of the issues discussed so far, the biggest drivers of the future development of Frequent Flyer Programmes will be the growing concern about their effectiveness in building and cementing customer loyalty, and the growth of the alliance movement between airlines.

We have already discussed Frequent Flyer Programmes in the context

of Product Life Cycle theory in Section 5:2:1. Beyond any question, FFPs worked very well in helping airlines to establish loyalty when only a few airlines had them. The situation today, though, is one of a mature and saturated marketplace where all airlines have a programme of comparable attractiveness. Now, FFPs may indeed help carriers in Loyalty Marketing in their home market where they are dominant. Unfortunately, they have made things more difficult in other markets where, in turn, another airline will have the benefit of home-market dominance. It thus becomes a contentious point as to whether or not the aggregate effect on market loyalty is positive or negative. This factor certainly explains why airlines have been so ready to sign up to the ‘Earn-and-Burn’ elements of FFPs which are such a feature of the agreements drawn up for membership of today’s alliances.

Such agreements point to the way in which airlines will view FFPs in the future. It will be acknowledged that, on their own, the marketing benefit they bring will lessen. What they *will* still do – and do to an increasing degree – is allow airlines to capture crucial database information about their customers. It will be the carriers who capture, process and use this data effectively in well-thought-out database marketing campaigns which will gain the real benefit from their investment in FFPs. The subject of database marketing therefore becomes one of crucial importance, and is considered in full in Section 10:3:2.

Airline alliances will be the other factor which will affect the future developments in FFPs. We have already discussed in Section 4:2:6 the way in which during the last ten years the world’s airlines have consolidated into three major alliance groupings. These alliances generally had a difficult birth, but it has been said with a great deal of justification that Frequent Flyer Programmes are the glue which has held them together. Progressively, there may possibly be a re-alignment which will see individual airlines abandoning their individual programmes and instead subscribing to a global FFP based on the alliance brand. At the time of writing the co-called Star Alliance led by Lufthansa and United Airlines appears to have moved furthest in this direction whereby each Star Alliance partner recognises both points and status built up on flights with other alliance members. Even this alliance, though, does not yet have a single homogenous programme. The development of such a programme would require the sharing of a great deal of commercially-confidential data, so a deep degree of trust would be an essential pre-requisite if it were ever to go ahead, and airlines would need to be absolutely confident that all the alliances members would stay in it, rather than succumbing to the temptation to leave and join another one.

In summary, the last decade has seen a remarkable change in the philosophy of marketing employed by many airlines. Today, the correct emphasis is on identifying, understanding and meeting the needs of a carrier's most important customers, in such a way that a strong, positive relationship is built and maintained. Airlines that succeed in doing so will reap a worthwhile reward in terms of added value and improved control of their distribution channels.

SUCCESSFUL AIRLINES

- Are those that accept and embrace fully the concepts of Relationship Marketing, and acknowledge that this requires a broad, strategic approach rather than merely the handing out of incentives through a Frequent Flyer Programme.