



Presentation

Loyalty at the Forefront of the Transformation Curve

Open Innovations 2017

Moscow, Russia

17 October 2017

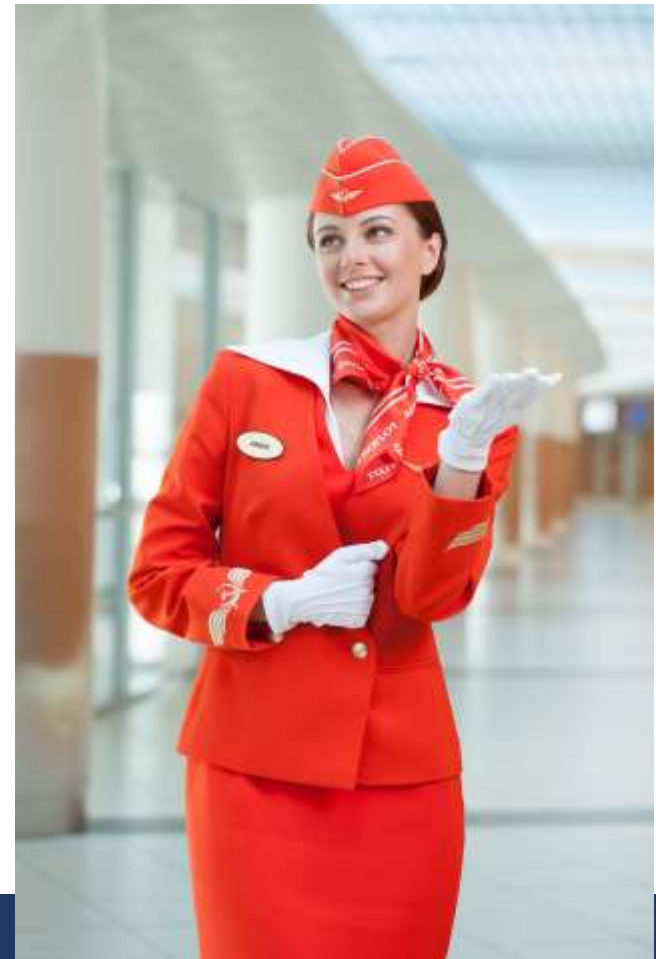
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KK	176	TEL AVIV-BEN GURION	19 2 5	N 1	A	26
AY	826	ANKARA	19 3 0	1	C	79
AB	6596	HELSINKI	19 3 0	2	D	8
LA	705	BERLIN-TEGEL	19 3 0	2	E	9
XG	1691	SANTIAGO-MADRID	19 3 0	2	E	9
AZ	419	ANKARA	19 3 5	1	C	7
KE	906	MAILAND-LINATE	19 3 5	2	D	2
		SEOUL-INCHEON	19 3 5	2	D	8

Loyalty at the forefront of the innovation curve

Introduction to Frequent Flyer Programs



image: Aeroflot



Three core themes today

- The airline loyalty landscape
- The frequent flyer program as a digital intermediary
- Future growth



Introduction to airline loyalty

Quick history of FFPs



1980-1984

1985-1989

1990-1994

1995-1999

2000-2004

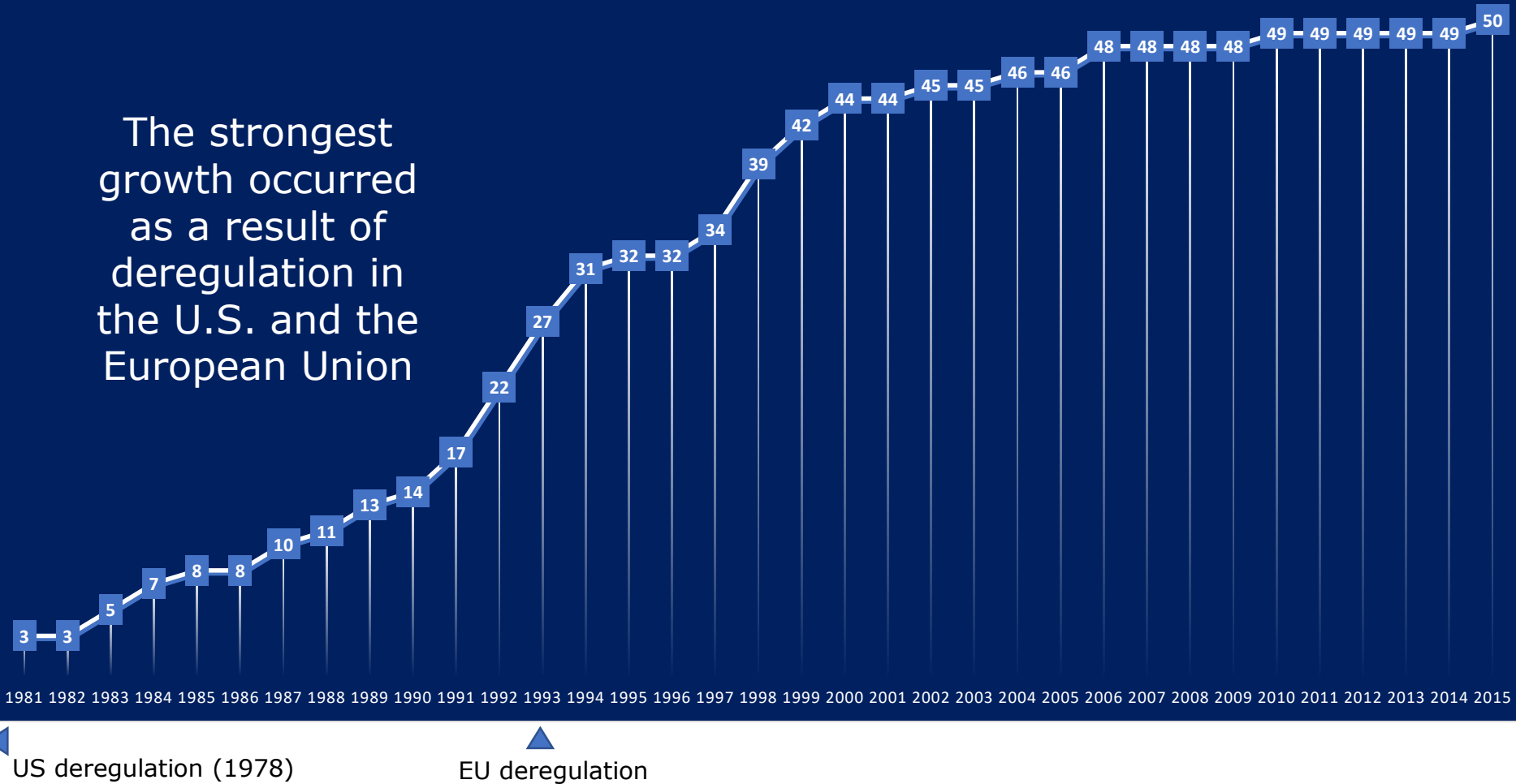
2005-2009



HISTORICAL DEVELOPMENT FOR FFPS (50 LARGEST CARRIERS)

(CUMULATIVE NUMBER OF FFPS LAUNCHED AS OF A PARTICULAR YEAR)

The strongest growth occurred as a result of deregulation in the U.S. and the European Union



source: de Boer E.R. (2018) Introduction. In: Strategy in Airline Loyalty. Palgrave Macmillan, Cham

Major changes in the model over time

Increasing importance
of non-air rewards

**almost 1 out
of every 3
miles**

Miles & More
 **Lufthansa**

Revenues earned for
non-air activity
dominate

**> 90%
revenues
non-air**


multiplus

Alignment between
customer value and
rewards

**spend SGD
50,000
minimum**

SINGAPORE AIRLINES
KRISFLYER 




More precise rules for
accrual eligibility

**earn 5 – 11
miles per \$
spend**

American Airlines
AAdvantage 

source: company reports

Relevancy of FFPs today

FFP is the largest consumer of seats	FFP represents the single largest customer set	FFP provides largest consistent cash flow
<ul style="list-style-type: none">▪ Share of RPMs for award travel▪ Maintains pricing integrity▪ No distribution fees for this channel▪ Significant monetization opportunities	<ul style="list-style-type: none">▪ Single largest repository of customers▪ Offering the highest level of data quality from multiple sources▪ Strong levels of engagement and multiple touch points	<ul style="list-style-type: none">▪ Long-term agreements with financial services providers▪ Provides steady cash flow into the airline which tends to be less cyclical
 12.7% share of award travel of 2016 RPM	 40% share of revenues generated by members	 USD 4 bn projected 2012 contribution

source: de Boer E.R. (2018) Introduction. In: Strategy in Airline Loyalty. Palgrave Macmillan, Cham



The FFP as the hidden gem

Successful digital disruptors in transportation

UBER



- The business does not own the physical assets
- The business is highly scalable – based in the cloud
- The business matches consumers and producers
- The business does not hold any stock
- The business sells mainly through digital channels
- The business makes extensive use of data analytics and predictive modeling

Product convergence: Zodiac Cirrus III seat



American Airlines 

AIRFRANCE 

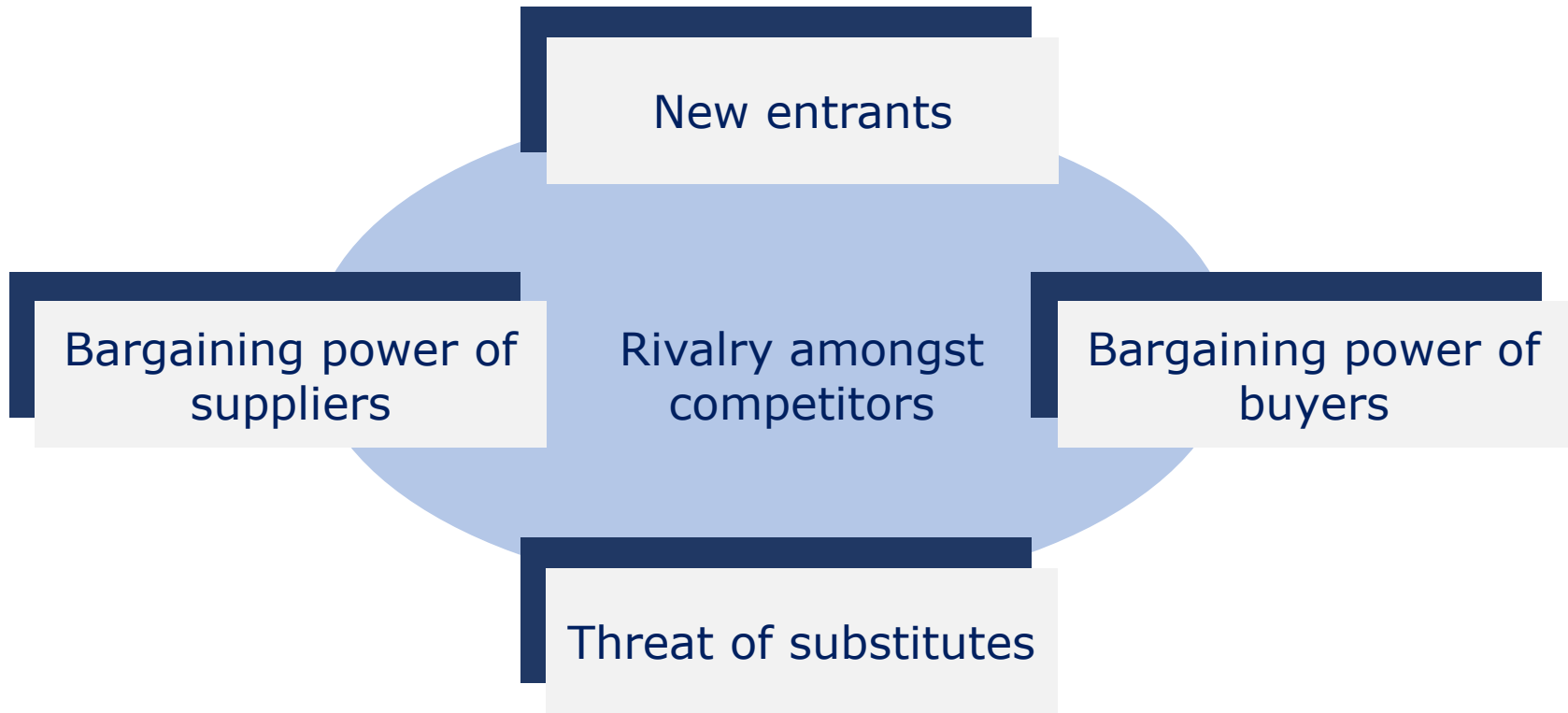

CATHAY PACIFIC

 **中國東方航空**
CHINA EASTERN

EVA AIR 

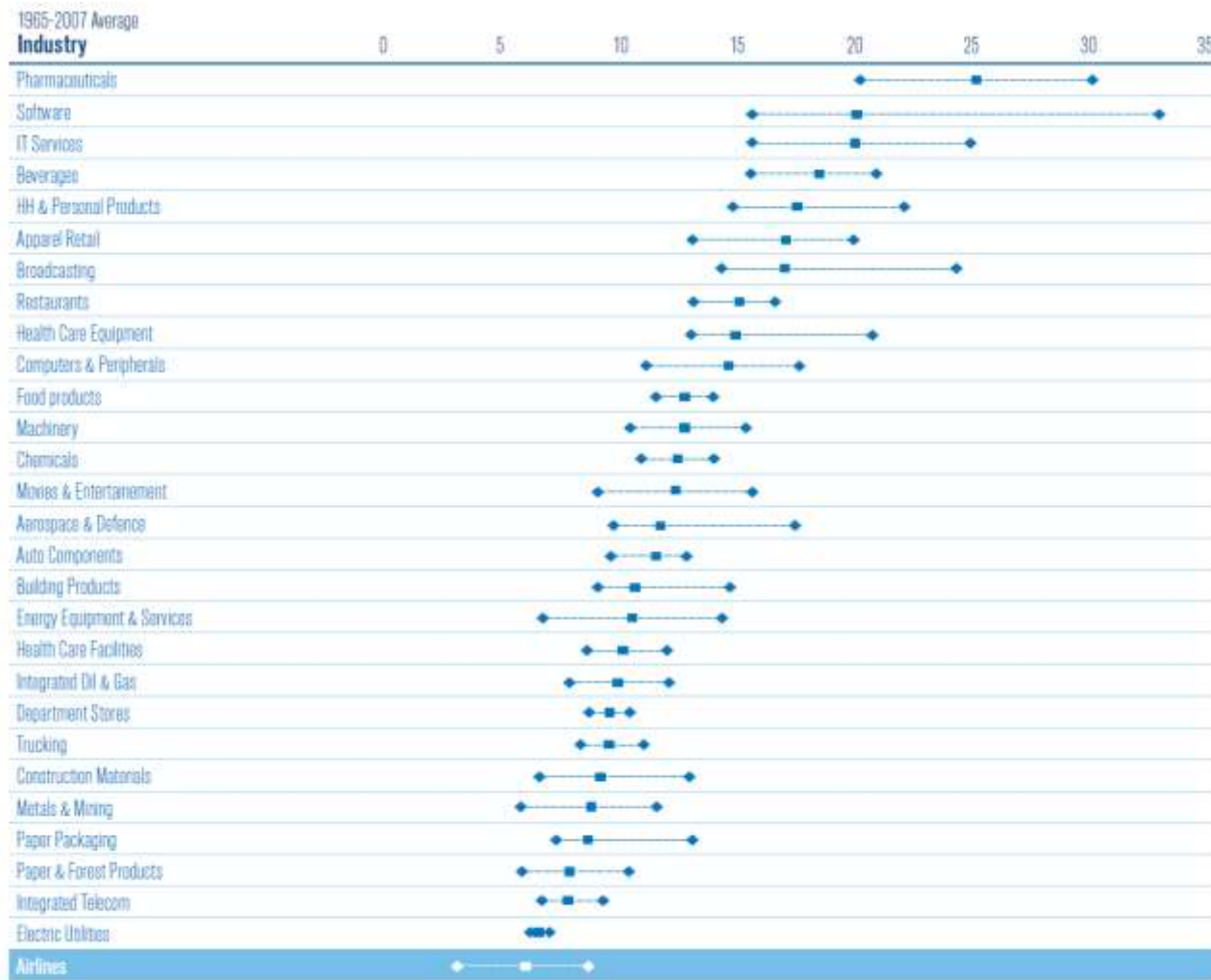
FINNAIR

A quick characterization of the airline industry



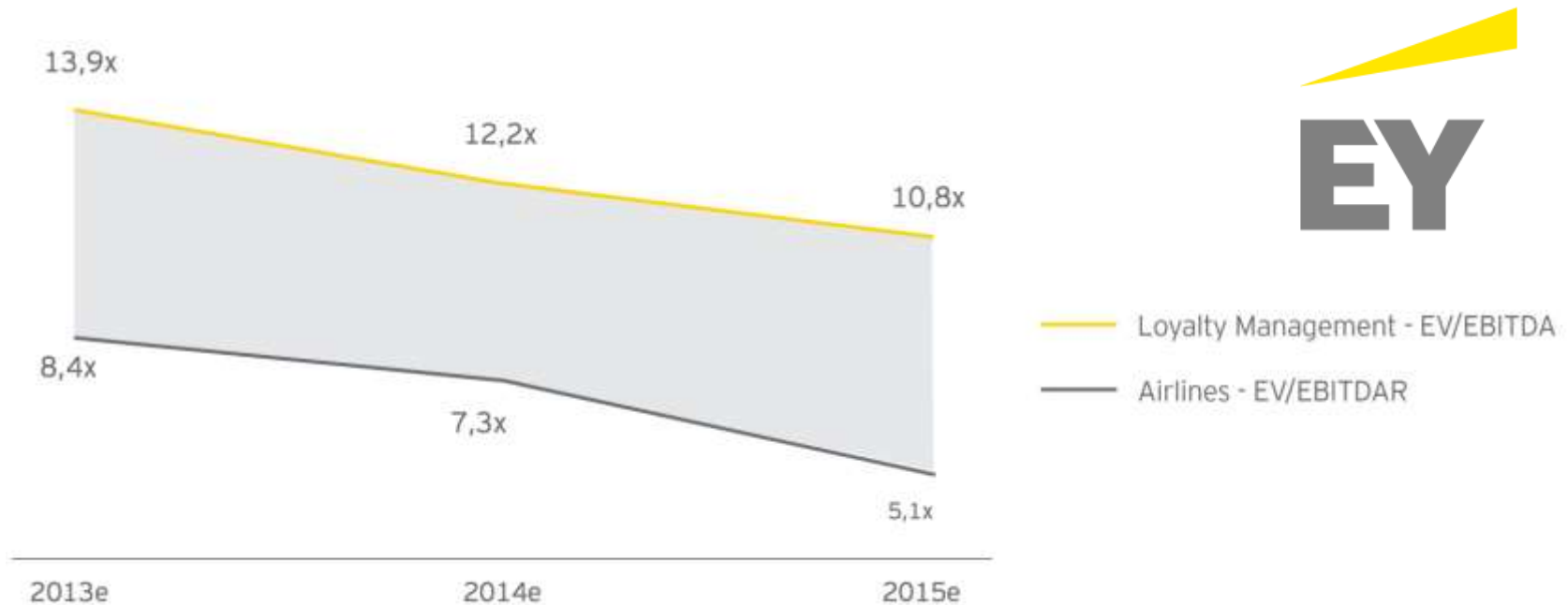
source: IATA. (2011). Vision 2050.

Return on Invested Capital performance



source: IATA Profitability and the air transport value chain / McKinsey analysis

Higher valuation perception of FFPs compared to listed legacy carriers



source: EY - Frequent Flyer Program: Ready for take-off

Different business models

Airline

- Unpredictable earnings
- Substantial operating complexity
- Capital intensive
- Business sentiment and fuel price key macro economic factors

vs.

Loyalty program

- Strong and consistent cash flow generation
- Straightforward, lightly regulated business but increasingly competitive
- Asset light, highly scalable
- Consumer spending key macro economic factor

FFPs have built rich data sets



image: Deutsche Lufthansa

FFPs have become network players

REFINE YOUR SEARCH

Clear Filters

Card Use

☐ Personal Cards

☐ Business Cards

Card Partner

☐ Qantas Money

☐ Citibank

☐ ANZ

☐ Macquarie Bank

☐ Woolworths

☐ David Jones

Card Level

☐ Classic

☐ Gold

☐ Platinum

☐ Black

☐ Silver Platinum

☐ Signature

Annual Fees

☐ 0 - \$250

☐ \$250 - \$500

☐ \$500 - \$999

Card Type

☐ Visa

☐ MasterCard

☐ American Express

☐ Silver Club

	Westpac Altitude Black Credit Card		1.25% 0.525%	\$395	20.24% p.a. (excl. GST)
Personal	80,000 bonus Qantas Points plus an additional 20,000 points upon approval. \$195 first annual fee.				
	NAB Qantas Rewards Signature Card		1.0%	\$395	19.99% p.a. (excl. GST)
Personal	90,000 bonus Qantas Points. Min spend & conditions apply.				
	Qantas Premier credit card		1.0% 0.5%	\$299	19.99% p.a. (excl. GST)
Personal	60,000 bonus Qantas Points and \$148 annual fee for the first year. Min spend and T&Cs apply.				
	ANZ Frequent Flyer Black credit card		1.0% 0.5%	\$425	19.99% p.a. (excl. GST)
Personal	75,000 bonus Qantas Points. \$0 annual fee first year. 75 bonus Status Credits. Min spend and T&Cs apply.				
	Citi Rewards Credit Card - Signature with Citi Qantas Rewards		1.0%	\$199 (incl. GST)	20.99% p.a. (excl. GST)
Personal	60,000 bonus Qantas Points and a reduced first year annual fee of \$199. Spend criteria applies.				

	Westpac BusinessChoice Rewards Credit Card - Qantas Business Rewards		0.57%	\$150	18.99% p.a. (excl. GST)
Business	40,000 bonus Qantas Points				
	Macquarie Platinum Card		1.0%	\$249	20.70% p.a. (excl. GST)
Personal	40,000 bonus Qantas Points and \$89 annual fee for first year.				
	Bank of Melbourne Amplify Signature Card with Amplify Qantas		0.75%	\$279	19.49% p.a. (excl. GST)
Personal	Up to 90,000 bonus Qantas Points. Min spend & conditions apply.				
	Woolworths Qantas Platinum Credit Card		1.0%	\$169	20.49% p.a. (excl. GST)
Personal	16,000 bonus Qantas Points and reduced first year annual fee of \$69. Conditions apply.				
	Macquarie Black Card		1.0%	\$299	20.70% p.a. (excl. GST)
Personal	40,000 bonus Qantas Points and \$89 annual fee for first year.				
	David Jones American Express Card		0.75%	\$99	20.74% p.a. (excl. GST)
Personal	Up to 22,500 bonus Qantas Points				

35% percent of all credit card spending in Australia (AUD 100 billion per year) earns Qantas Frequent Flyer Points

source: de Boer E.R. (2018) Introduction. In: Strategy in Airline Loyalty. Palgrave Macmillan, Cham

The FFP meets the criteria to be successful

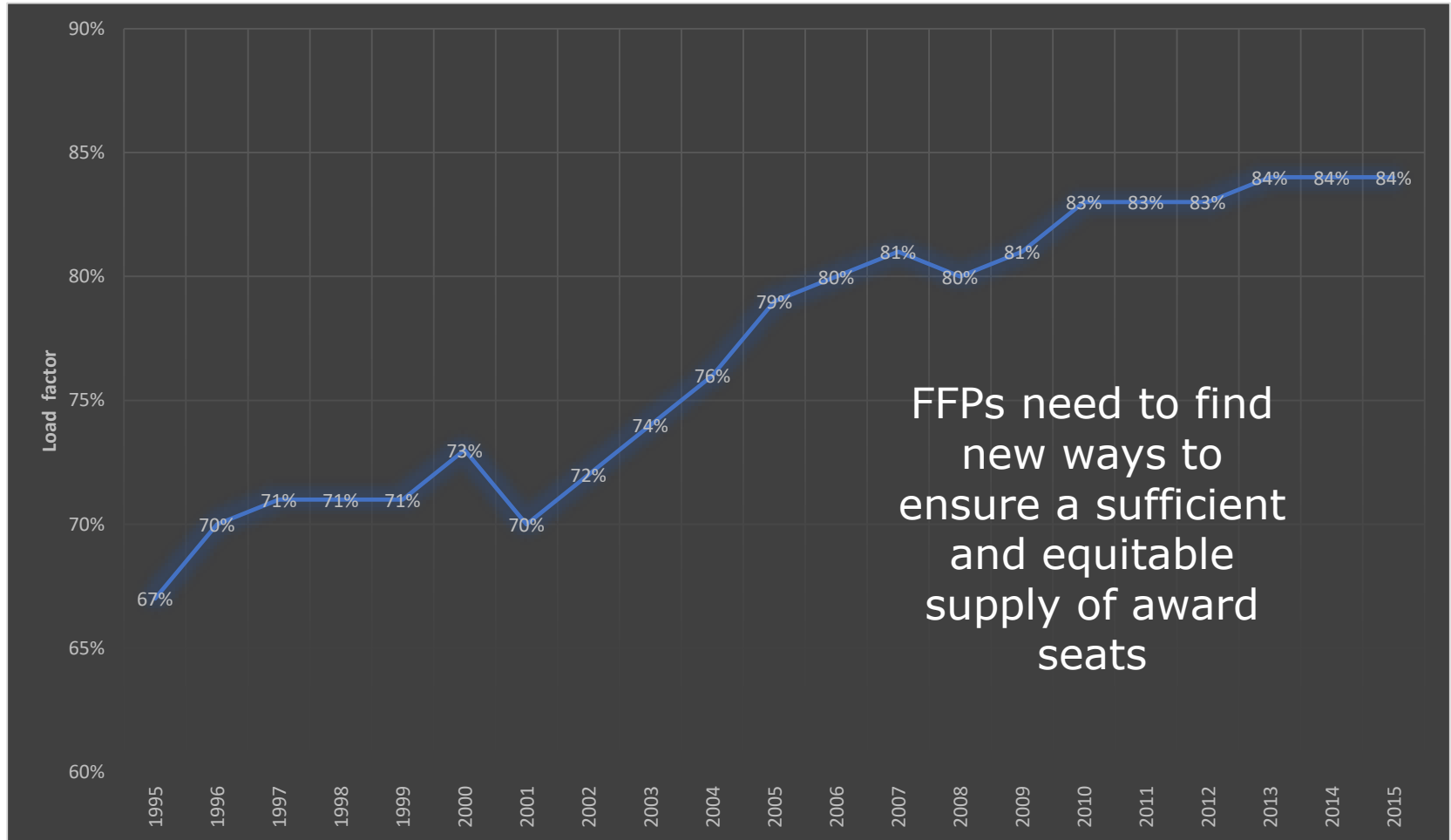
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Optimizing the FFP

Scenario 1: the end of distressed inventory



source: de Boer E.R. (2018) Introduction. In: Strategy in Airline Loyalty. Palgrave Macmillan, Cham




Scenario 2: the super-informed consumer



Members are actively exploiting
arbitrage opportunities to get the
most advantageous access to
awards

image: Emirates

Scenario 3: fungibility of loyalty currencies

MEMBER DIRECT	FINANCIAL SERVICES CONVERSION	TRAVEL CONVERSION
 25% gross billings (2014) from member direct miles purchases	 conversion to major FFPs giving member choices	 conversion of frequent guest program to FFP

The increasing fungibility of frequent flyer currencies will require program operators to reconsider the attractiveness of the core value proposition



Conclusion

Conclusions

1. Unique position of the FFP
2. A catalyst for growth
3. Right structure & support required

THANK YOU



Notes



This presentation is an excerpt of a thought leadership article by Evert de Boer that first appeared in “21st Century Airlines – Connecting the Dots” by Nawal Taneja. Routledge, 2017.

<https://www.routledge.com/21st-Century-Airlines-Connecting-the-Dots/Taneja/p/book/9781138093133>

About the presenter



Evert R. de Boer has researched and worked in airline loyalty strategy since 2000. He has collaborated with more than 15 airlines globally on frequent flyer programs in management and advisory roles, and has published numerous articles and white papers on the subject. His latest publication, *Strategy in Airline Loyalty*, offers a comprehensive overview of the airline loyalty landscape.

Following his Master of Science degree in Business Administration at the University of Maastricht, Evert de Boer has completed executive education programs at a number of institutions including the London Business School, the Walter A. Haas School of Business at University of California, Berkeley, and the Desautels Faculty of Management at McGill University.

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