



# Presentation

China: Winning in the world's largest loyalty market

中国：全球最大的积分市场内的竞争

Passenger Loyalty China Summit 旅客忠诚度中国高峰论坛 **2017**

Shanghai 上海

16 November 2017



Winning in the China Loyalty Market for airlines  
航空公司如何在中国积分市场上确立竞争优势

# Agenda

- China as a growing market
- 中国市场发展趋势
- Introduction FFP landscape
- 常客计划市场分析
- Assessment current performance
- 常客计划现状评估
- Realizing successful growth in the future
- 如何推动常客计划的质变



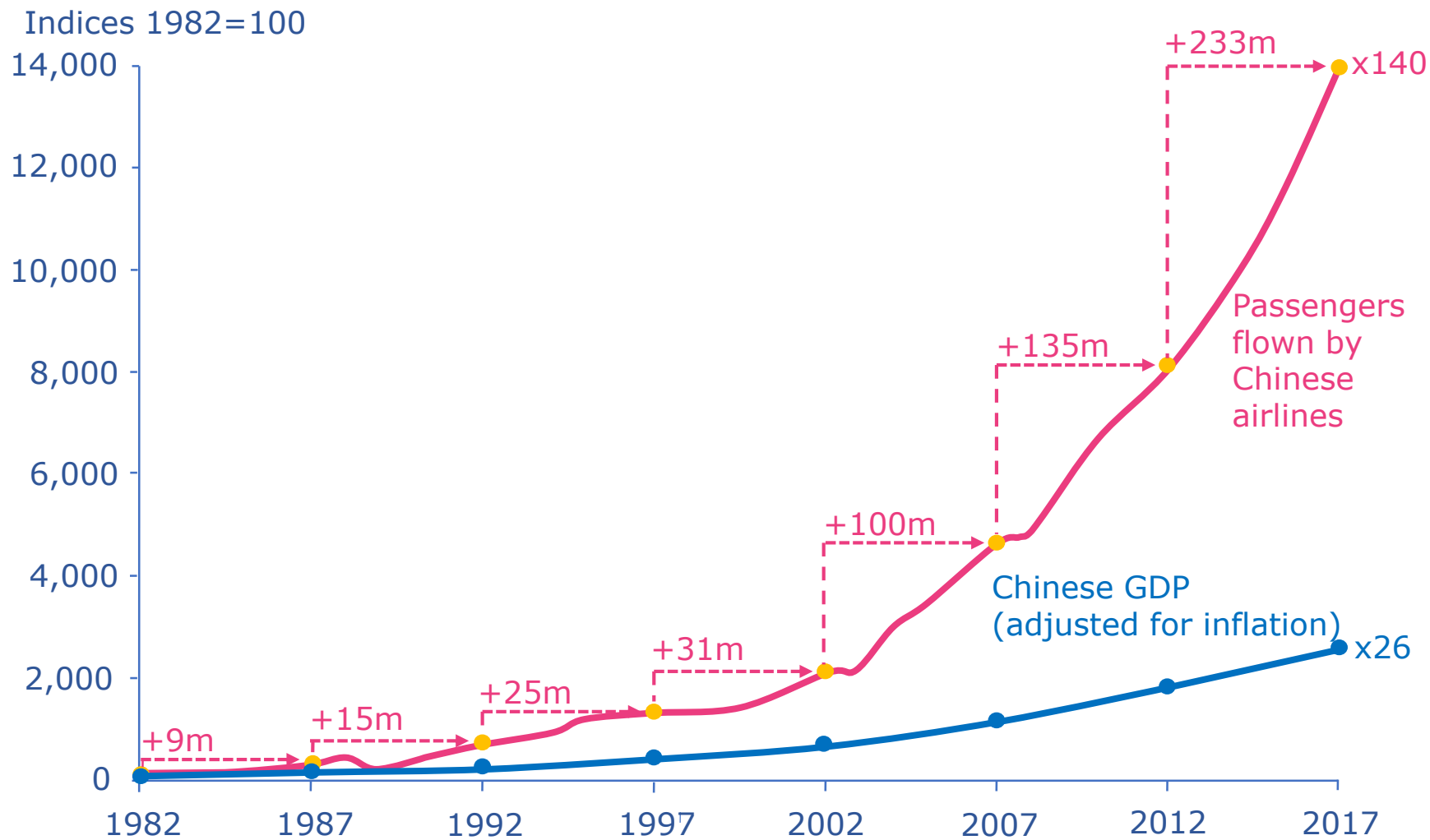
OZ	542	HAMBURG	1855	1	A	260
IB	3131	SEOUL-INCHON	1900	1	A	260
LH	118	MADRID	1900	1	C	70
JL	408	MUENCHEN	1910	2	E	90
TP	579	TOKIO-NARITA	1915	1	A	26
LY	356	LISSABON	1920	2	D	81
KK	176	TEL AVIV-BEN GURION	1925	N 1	A	26
AY	826	ANKARA	1930	1	C	79
AB	6596	HELSINKI	1930	2	D	8
LA	705	BERLIN-TEGEL	1930	2	E	9
XG	1691	SANTIAGO-MADRID	1930	2	E	9
AZ	419	ANKARA	1935	1	C	7
KE	906	MAILAND-LINATE	1935	2	D	2
		SEOUL-INCHON	1935	2	D	8

Becoming the largest market  
中国即将成为全球最大的积分市场



# China witnessed phenomenal growth in the past

## 中国航空市场的发展速度史无前例



Source: IATA Economics, IMF, World Bank

# Today, three carriers from China are in global top 20

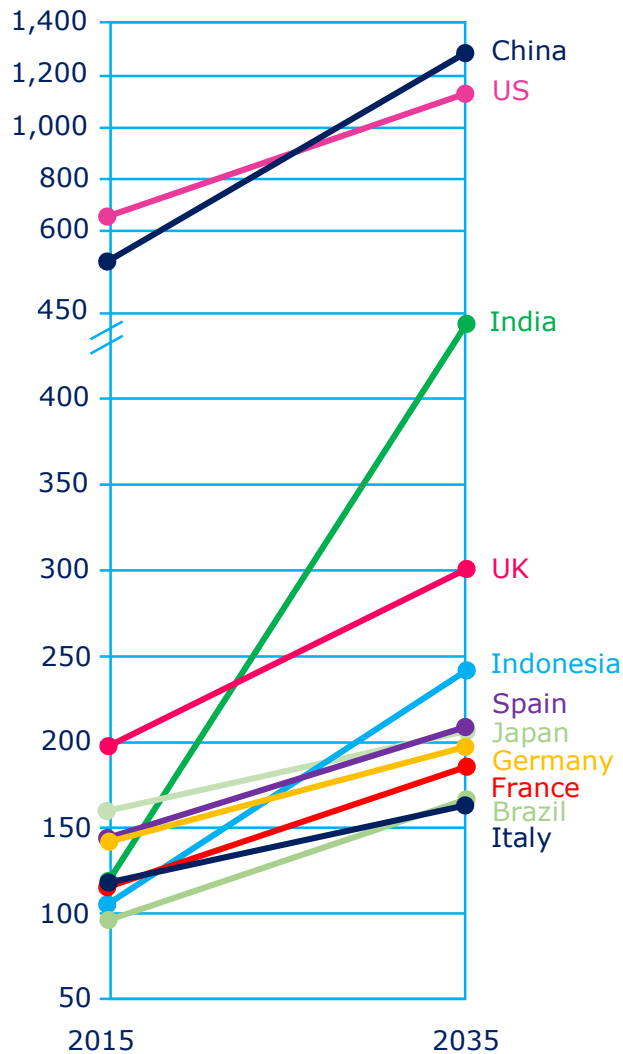
## 三大航空公司都跻身全球20强

2016 Rank	Airline	Revenues (USD million)
1	American Airlines	40,180
2	Delta Air Lines	39,639
3	United Continental	36,556
4	Lufthansa Group	34,912
5	Air France-KLM	27,398
6	FedEx	27,358
7	Emirates Group	25,779
8	IAG	24,885
9	Southwest Airlines	20,425
10	Air China	17,297
11	China Southern Airlines	17,272
12	ANA Holdings	16,298
13	China Eastern Airlines	15,679
14	Cathay Pacific Group	11,950
15	Japan Airlines	11,900
16	Qantas Group	11,777
17	Air Canada Group	11,094
18	Qatar Airways Group	10,816
19	Singapore Airlines	10,737
20	Korean Air	9,901

Source: FlightGlobal 2017 Airline Rankings

# Future: China is set to outgrow other markets

## 中国即将超越美国成为全球最大的航空市场



### Top 10 passenger markets

Million O&D journeys (to, from, and within)



# Introduction China airline landscape

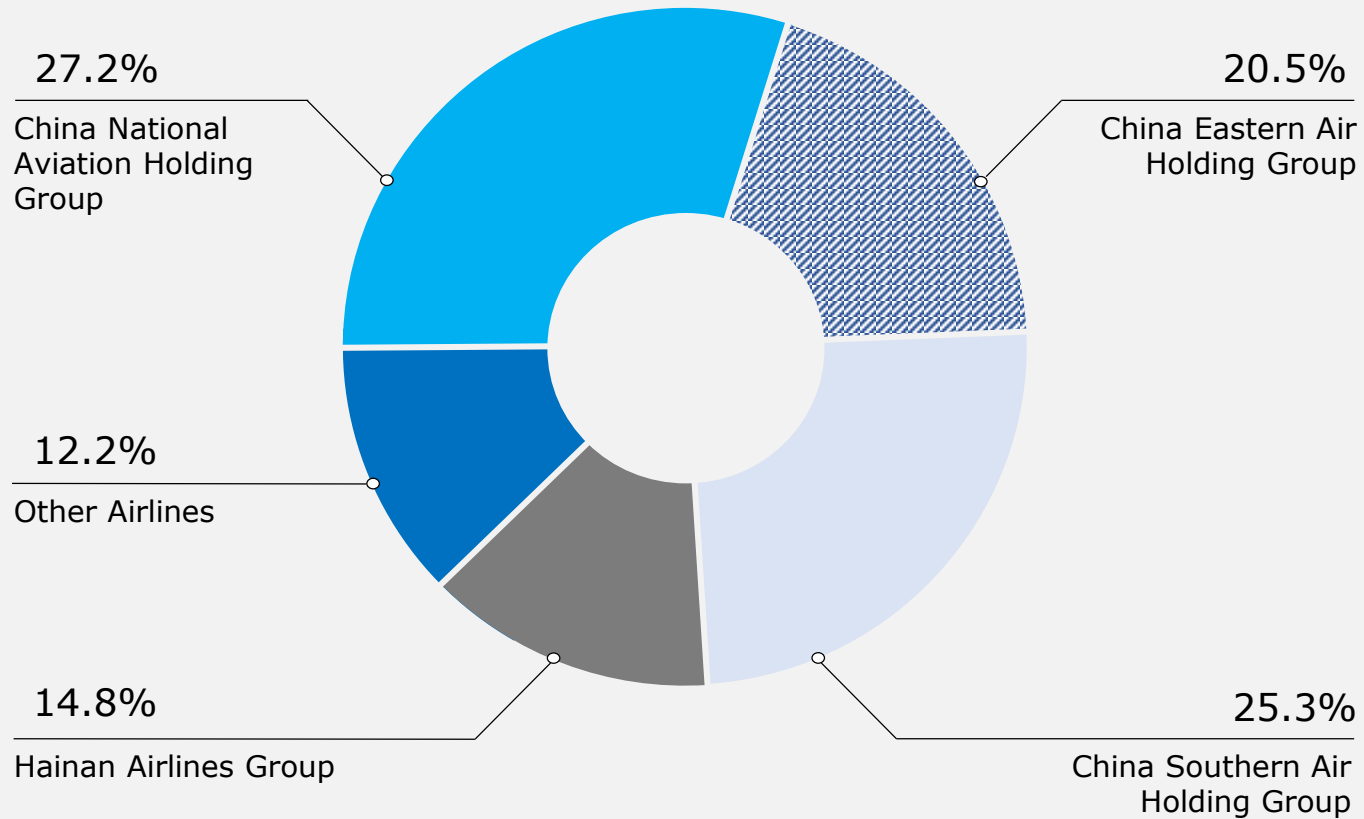
## 中国航空业市场现状



# Market landscape: the main players

## 主要竞争对手

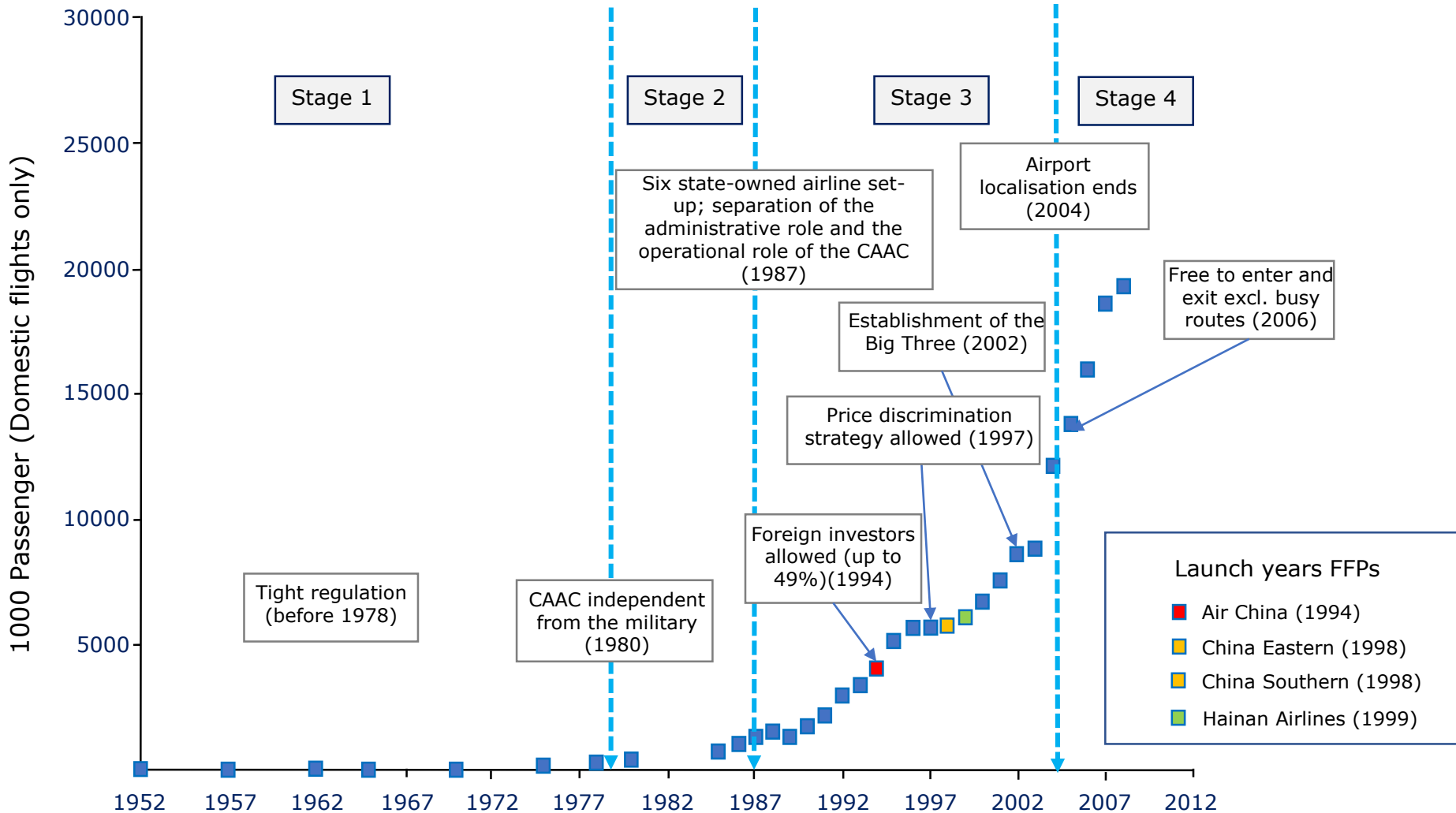
Proportions of Total Transport Turnover by Airlines (Groups) in 2016



Source: CAAC Statistical Bulletin of Civil Aviation Industry Development in 2016

# Milestones in Chinese civil aviation

## 中国航空业大事件

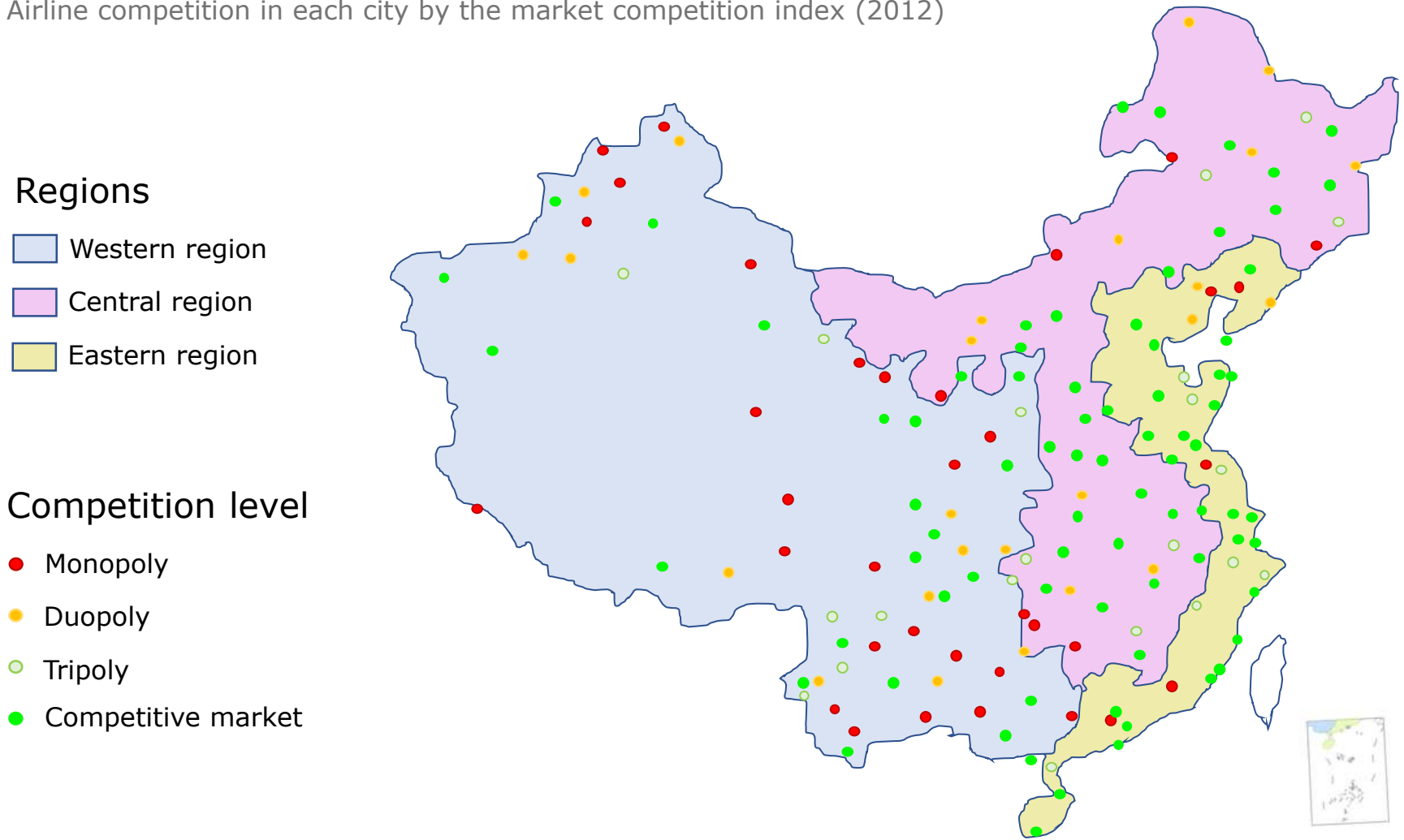


Source: Wang, J., Bonilla, D., & Banister, D. (2016). Air deregulation in China and its impact on airline competition 1994–2012. *Journal of Transport Geography*, 50, 12-23.

# China domestic market: increasing competition

## 国内市场竞争激烈

Airline competition in each city by the market competition index (2012)



Source: Wang, J., Bonilla, D., & Banister, D. (2016). Air deregulation in China and its impact on airline competition 1994–2012. *Journal of Transport Geography*, 50, 12-23.



Assessing the current performance  
常客计划现状

# Measuring FFP performance – macro level

## 常客计划评估指标-宏观指标

basic	advanced	comprehensive
<input type="checkbox"/> Membership total	<input type="checkbox"/> Revenue penetration	<input type="checkbox"/> Segment performance
<input type="checkbox"/> Membership growth	<input type="checkbox"/> Total Gross Billings	<input type="checkbox"/> Net contribution to airline (cash flow)
<input type="checkbox"/> Award availability	<input type="checkbox"/> Breakage rate	<input type="checkbox"/> A-EBITDA performance
<input type="checkbox"/> Awards as % of RPK	<input type="checkbox"/> Share of non-air accrual	<input type="checkbox"/> Valuation multiple
<input type="checkbox"/> Partner range	<input type="checkbox"/> Total deferred revenue	<input type="checkbox"/> Share price of FFP and airline
<input type="checkbox"/> ...	<input type="checkbox"/> ...	<input type="checkbox"/> ...

# Measuring FFP performance – micro level

## 常客计划评估指标-微观指标

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Share of wallet

Yield

Propensity for promotions

Tiering

Ancillaries

Co-branded credit card use

Partner usage

Individual breakage

Lifetime value

Dilution

Displacement

Cost avoidance

As the information is not publicly available, we will focus on the available macro indicators



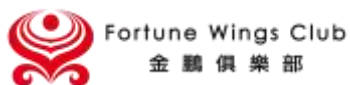
# What macro indicators are available?

## 现有的宏观指标

basic	advanced	comprehensive
<input type="checkbox"/> Membership total	<input type="checkbox"/> Revenue penetration	<input type="checkbox"/> Segment performance
<input type="checkbox"/> Membership growth	<input type="checkbox"/> Total Gross Billings	<input type="checkbox"/> Net contribution to airline (cash flow)
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<input type="checkbox"/> Partner range	<input type="checkbox"/> Total deferred revenue	<input type="checkbox"/> Share price of FFP and airline
<input type="checkbox"/> ...	<input type="checkbox"/> ...	<input type="checkbox"/> ...

# # 1: Total membership size of select FFPs in China

## 常客会员数量



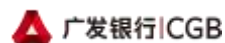
Source: Company 2016 Annual Reports for Air China, China Eastern and China Southern – Hainan Airlines as per 2011 press release.

<sup>1</sup> As of 2011

<sup>2</sup> As of 2016

# # 2: Co-branded credit card landscape

## 银行联名卡



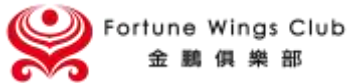
## #3: Award availability ranking

### 里程兑换简易度评估

Rank	% Total Availability	Airline	Program Name
<b>1</b>	100%	Southwest	Rapid Rewards
<b>2</b>	94.3%	JetBlue	TrueBlue
<b>3</b>	90.7%	airberlin	topbonus
	90.7%	Lufthansa/SWISS/Austrian	Miles & More
<b>4</b>	90.0%	Air Canada	Aeroplan
<b>5</b>	85.0%	China Southern Airlines	Sky Pearl Club
<b>6</b>	82.9%	Hainan Airlines	Fortune Wings Club
<b>7</b>	81.4%	Alaska Group	Mileage Plan
	81.4%	Qantas Group	Frequent Flyer
<b>8</b>	79.3%	Turkish Airlines	Miles&Smiles
<b>9</b>	75.7%	AirAsia Group	BIG
<b>10</b>	74.3%	Air China	PhoenixMiles
	74.3%	British Airways	Executive Club
	74.3%	Delta Air Lines	SkyMiles
<b>11</b>	71.4%	Korean Air	SkyPass
<b>12</b>	66.4%	Qatar Airways	Privilege Club
<b>13</b>	65.0%	United Airlines	MileagePlus
<b>14</b>	64.3%	Emirates	Skywards
<b>15</b>	62.9%	Air France-KLM	Flying Blue

## #4: Breakage: expiry policies

里程报销率：里程过期规则



Activity-based:  
24 months

Date-stamp:  
36 months

Date-stamp:  
36 months<sup>1</sup>


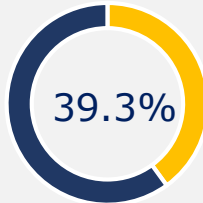


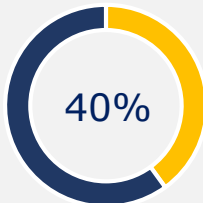
Date-stamp:  
36 months

Airlines in China do not publish breakage rates, but based on current restrictive expiry policies, breakage is expected to be high. This has an impact on the customer value proposition

<sup>1</sup>The Redeemable Points accumulated after August 1st, 2006 will be valid till December 1st of the third calendar year.

## #5: Other metrics

### 其他评估指标

	YOY FFP growth	Revenue penetration	Deferred Revenue
	14.9%		RMB 2,240 million
	10.7%	n/a	RMB 1,750 million
	19.9%		RMB 1,622 million





Realizing growth in the future  
如何推动常客计划的质变

# China will be the largest airline loyalty market

## 中国即将成为全球最大的积分市场

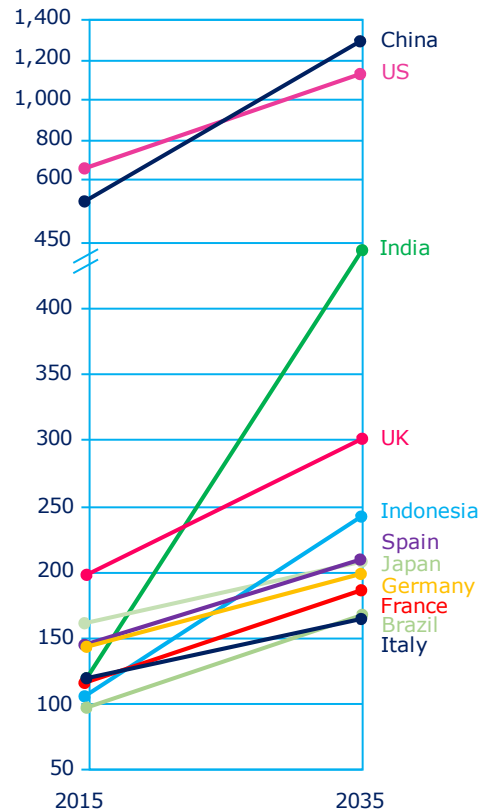
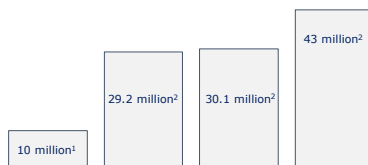
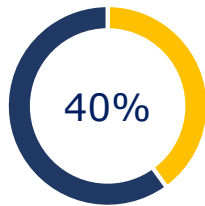
Growing FFPs

+

the world's largest market

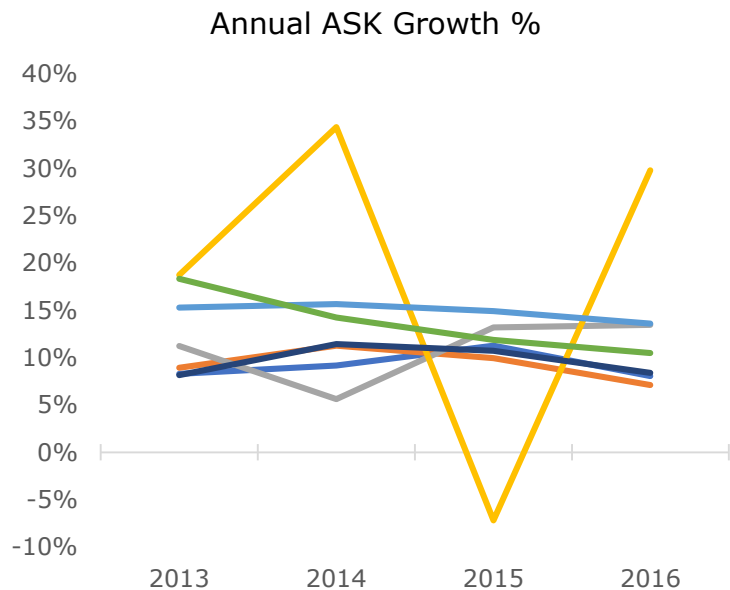
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Largest FFP market in the world

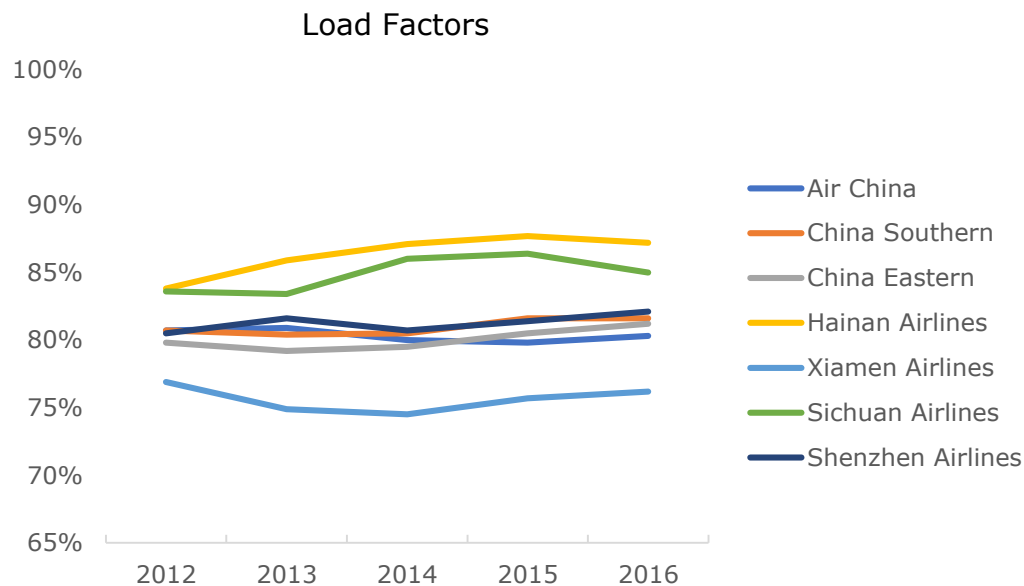


# FFP growth will pose some challenges

## 常客计划发展面临的挑战



Average ASK growth: 12.4%



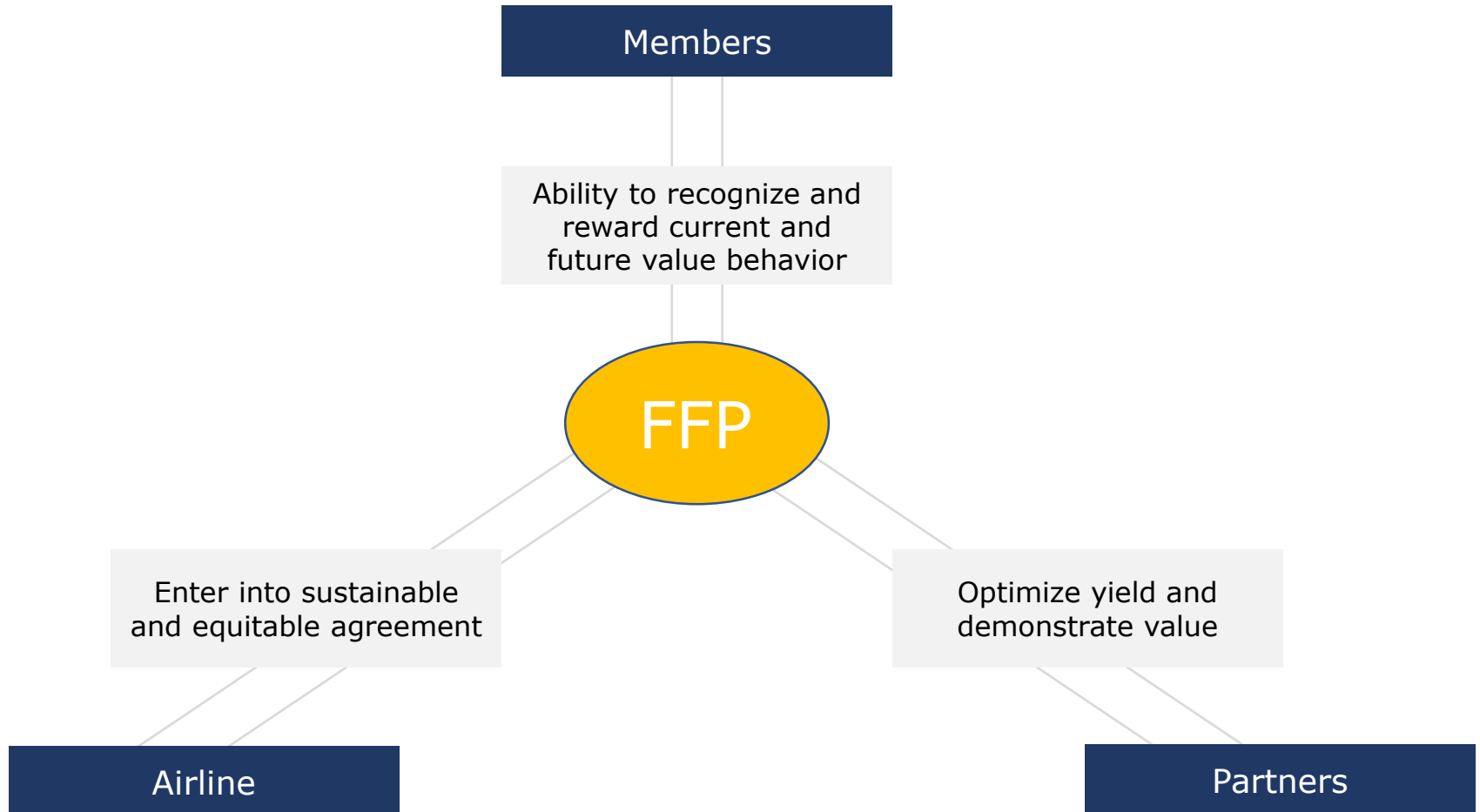
Average load factor: 81.3%

## FFPs growth rate outpaces ASK growth in China

### 常客发展速度超过ASK发展速度

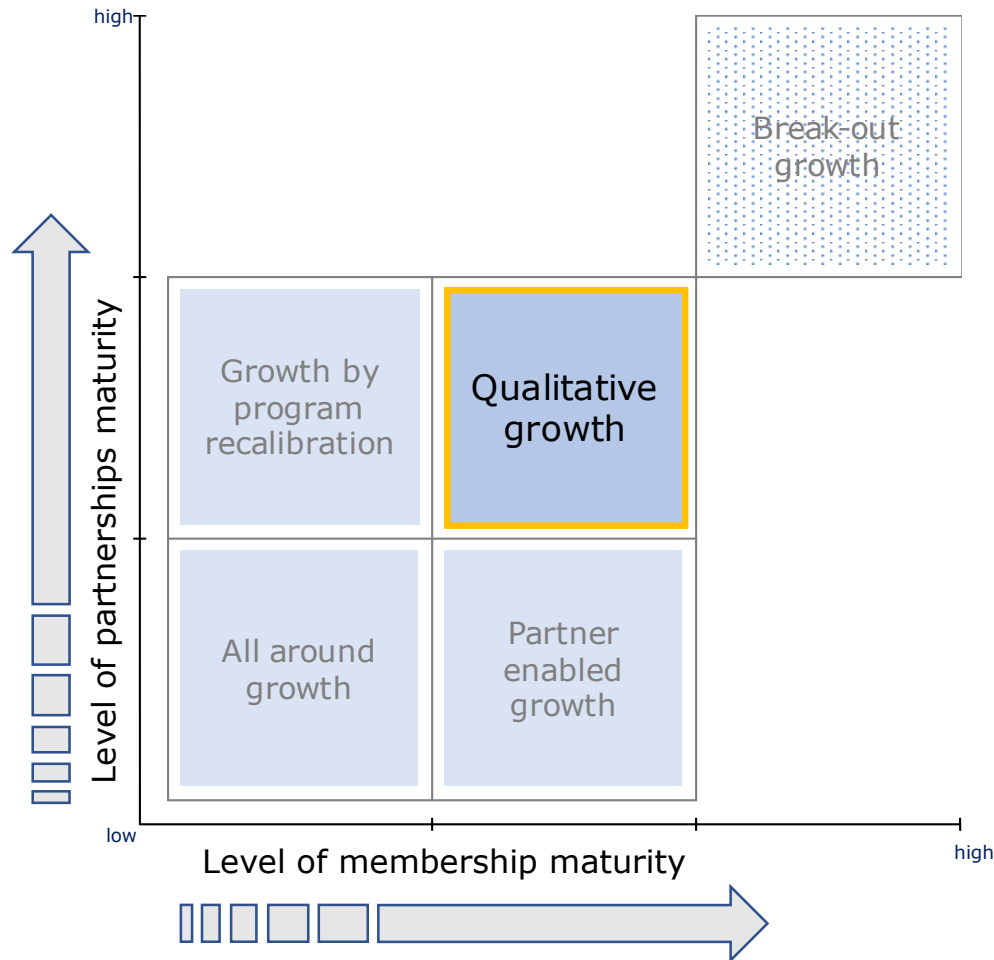
# Successful FFPs will solve for three challenges: 成功的常客计划能解决三个问题

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# Key to success: realizing qualitative growth

发展关键：针对会员的质量上的发展



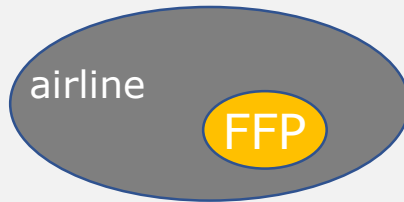
Programs can grow by focusing on attracting new members, more partners or both. Once the growth potential has been fully utilized, incremental growth can be generated from distilling more value from existing members and partners through enhanced marketing.

Some FFPs have crossed the boundaries of the traditional model and started to explore offering services and products to non-members ("break out growth").

# Finding the right structure will be key

## 合适的组织架构是成功的关键

### EMBEDDED IN AIRLINE



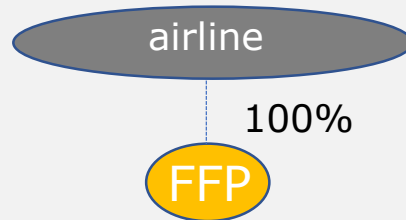
American Airlines  
**AAdvantage**



**FLYINGBLUE**

SINGAPORE AIRLINES **KRISFLYER**

### SEPARATE SEGMENT



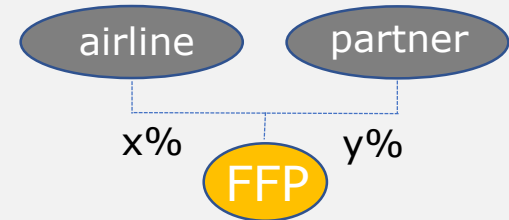
**ANA MILEAGE CLUB**  
ANA



F R E Q U E N T  
F L Y E R

**Miles & More**  
Lufthansa

### CARVE-OUT



**CLUB PREMIER**

**LifeMiles**

**multiplus**

**velocity**  
frequent flyer





Conclusion  
总结

# Concluding remarks

## 总结

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- China is set on a path to become the world's largest loyalty market 中国即将成为全球最大的积分市场
- The current model will face increasing pressure as FFP growth outpaces growth of the airline 由于常客计划发展速度快于航空公司发展速度，目前的常客模式会受到限制
- To be successful in the future, FFPs in China need to solve for three challenges: 现有的常客计划需要克服三大挑战
  1. Build equitable and sustainable FFP-airline agreements 建立常客计划和航空公司之间平衡发展的合作模式
  2. Increase ability to demonstrate effectiveness to partners 大力发展合作伙伴共利体系
  3. Develop capabilities to recognize and reward current and future high-value members – and stand out in a cluttered market place 大力发展高端会员的识别和奖励

THANK YOU  
谢谢



Notes

# About the presenter 作者简介



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.

For more information 详情请参阅: [ffpinvestmentandadvisory.com](http://ffpinvestmentandadvisory.com)

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