

# THE SECRET TO SUCCESS

## DESIGNING AN FFP-AIRLINE AGREEMENT



CASE STUDY



## ABOUT US

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On Point Loyalty is a global consulting and investment firm focused exclusively on the airline loyalty space.

We partner with leading airlines, technology providers, financial institutions and investors to shape and realize their airline loyalty vision.

With tailormade solutions, ranging from strategy consultancy to outsourced operating models, we help our clients to define the future – and create a competitive edge.

Our suite of Financial Planning & Analysis tools puts insights at the fingertips of program managers.

## AT A GLANCE

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A leading airline in Europe was on the brink of unlocking tremendous value through new partnerships.

At the same time, management realized there was a need to formalize the commercial agreement between the FFP and the airline.

The airline brought in On Point Loyalty to design a comprehensive agreement to govern the relationship between the airline and its FFP.

On Point Loyalty suggested a process and a framework to ensure a complete and robust agreement.

A comprehensive agreement was delivered by On Point Loyalty providing a solid framework for the frequent flyer program to realize its full potential for the airline.

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## BACKGROUND

Airlines are increasingly looking to formalize the intra-company agreements that govern the allocation of award seats by Revenue Management (RM). Similarly, appropriate cross-charging for miles earned on the airline has become a standard process. A number of factors help to explain this evolution.

Firstly, FFPs traditionally relied on distressed inventory for award seats. However, with growing programs and rising load-factors, program operators were faced with a challenge to find new solutions. Distressed inventory was simply insufficient to satiate the demand for award seats.

At the same time, the increased share of non-airline miles accruals meant an ever-greater demand for award seats. More recently, the introduction of cash and miles products, and other products increased the fungibility of the loyalty currency.

Lastly, the operating structure of FFPs has changed. Moving the program out of the traditional marketing environment into a standalone business unit (SBU), or even a standalone company, requires fair allocation of costs and revenues through at arm's length agreements.

The combination of these factors acted as a catalyst for strong and robust intra-company agreements.

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Airlines are increasingly looking to formalize the intra-company agreements that govern the allocation of award seats by Revenue Management and the flow of mile to the airline

## THE APPROACH

Generally speaking, On Point Loyalty deploys project teams that are assembled specifically around the requirements of a client mandate. With our global roster of FFP experts, representing a wide range of disciplines, we are in a position to deliver the right mix of know-how and experience to our clients for each assignment. Delivery usually takes place through a combination of on-site meetings and presentations, complemented with offsite research work. Occasionally, we are in a position to link existing clients, enabling them to exchange ideas and approaches, ensuring the maximum possible knowledge transfer.

In this case, the airline brought in On Point Loyalty to help in the design and execution of the airline-FFP agreement.

The mandate started with a review of the existing practices, including the allocation of award seats in the RM system, the FFP's existing commercials and a general review of the FFP's performance metrics.

Beyond the initial review, we started laying the foundation for what would be the ultimate agreement. A key component of the airline-FFP agreement was the treatment of loyalty currency earned on the airline. As the airline and the FFP entered into a formal agreement, the airline effectively became like a large partner in the program.

Similarly, we worked with all stakeholders to develop sustainable and competitive terms that governed the access to, and price of, award seats.

Although the accrual of the loyalty currency played an important part, there was a host of other factors taken into account (see figure 1).

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The process of constructing the airline-FFP agreement provides a great level of transparency around the underlying commercials

## TYPICAL ELEMENTS OF THE AIRLINE-FFP AGREEMENT

Accrual of miles commercials	Data ownership	Minimum commitments
Award seat commercials	Dispute resolution	Reporting
Brand and marketing	Elite tier design and management	Staffing solutions
Change processes and authorities	Exclusivities	Technology solutions
Customer care solution	Liability management	Term and termination

**Figure 1** - Overview of typical elements of the airline-FFP agreement

## RESULTS

**A comprehensive agreement** As the FFP is intrinsically linked to the airline, there were many interdependencies across the airline's functions and operations. The process required multiple iterations with stakeholders, ensuring the buy-in from all parties involved, ultimately delivering a comprehensive agreement.

**An agreement which can pass the test of time** An optimal airline-FFP agreement provides for a long-term solution. In this case, we worked with the client to deliver an agreement which can cater for changes in the future. Together we performed extensive scenario-modelling, and addressed each eventuality in the agreement.

**An agreement which is fit for purpose** Not every airline is looking for an investor-grade agreement which would be critical in case of an equity carve-out of the FFP. In this case, the airline was looking to keep all options open. With the possibility of external shareholders coming on-board, there was increased scrutiny around the robustness of the agreement, ensuring that it could pass the test of potential, future investors.

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With the possibility of external shareholders coming on-board, there will be increased scrutiny around the robustness of the agreement

## About the authors

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