

FINDING THE SWEET SPOT

SETTING THE RIGHT EXPIRY POLICY



CASE STUDY



ABOUT US

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 tailor-made 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

A global top-20 airline was looking to revise its miles expiry policy to move from a date-stamping to an activity-based policy. Setting the right expiry policy is an arduous task and requires careful consideration, given the potential repercussions on program financials and member engagement if done incorrectly.

On Point Loyalty was engaged to evaluate the current and future expiry policy.

On Point Loyalty provided a qualitative and quantitative review of industry trends, benchmarking the current and future expiry policy to align with the program business objectives.

The analysis enabled management to make an informed decision on the revision of its miles expiry policy and understand the roles of other interconnected program levers in building an engaging program for the members.

BACKGROUND

Traditionally, airline loyalty programs have adopted date-stamping policies for the expiry of miles. The policy is straightforward: each mile is stamped with an expiry date that is fixed. With a typical horizon of 3 years, this means program members will have to use their miles within 3 years from the time when the miles are accrued to avoid their miles from expiring.

However, the industry has seen an increasing adoption of activity-based expiry policies by airline loyalty programs in the recent years. Under this regime, miles will remain valid as long as the member satisfies a certain activity requirement, such as having at least one earn or redemption transaction in any 24-month period. In comparison to the date-stamping policy, the activity-based policy is more generous as members can generally easily satisfy the requirement for the miles to remain valid.

Although historically programs have put expiry rules in place to provide for some form of limitation in regard to the outstanding miles liability, the latest trend shows that a number of programs have completely abolished their miles expiry policy. Having no expiry policy does not mean that each and every mile is ultimately redeemed as there will always be members who do not fully use the miles accrued for a variety of reasons. A non-expiry policy can be a positive marketing move with minimal financial risks for programs that have reached certain maturity.

Setting the right expiry policy is an arduous task that will depend on a variety of factors including the makeup of the base, the earn and burn velocity, and the competitive landscape. No particular policy can be generically labelled as 'the best' as the fit with the membership behavior and program objectives will vary from program to program. Identifying the right mechanism to determine expiry terms is critical, as the wrong expiry policy can adversely impact member engagement or the liability of the program. Although a punitive policy can create short-term profits, it is likely to harm the long-term prospects of the program. At the end of the day, program operators need to ask themselves the question what the purpose is of the expiry policy to identify the right expiry policy.

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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 airline loyalty program 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.

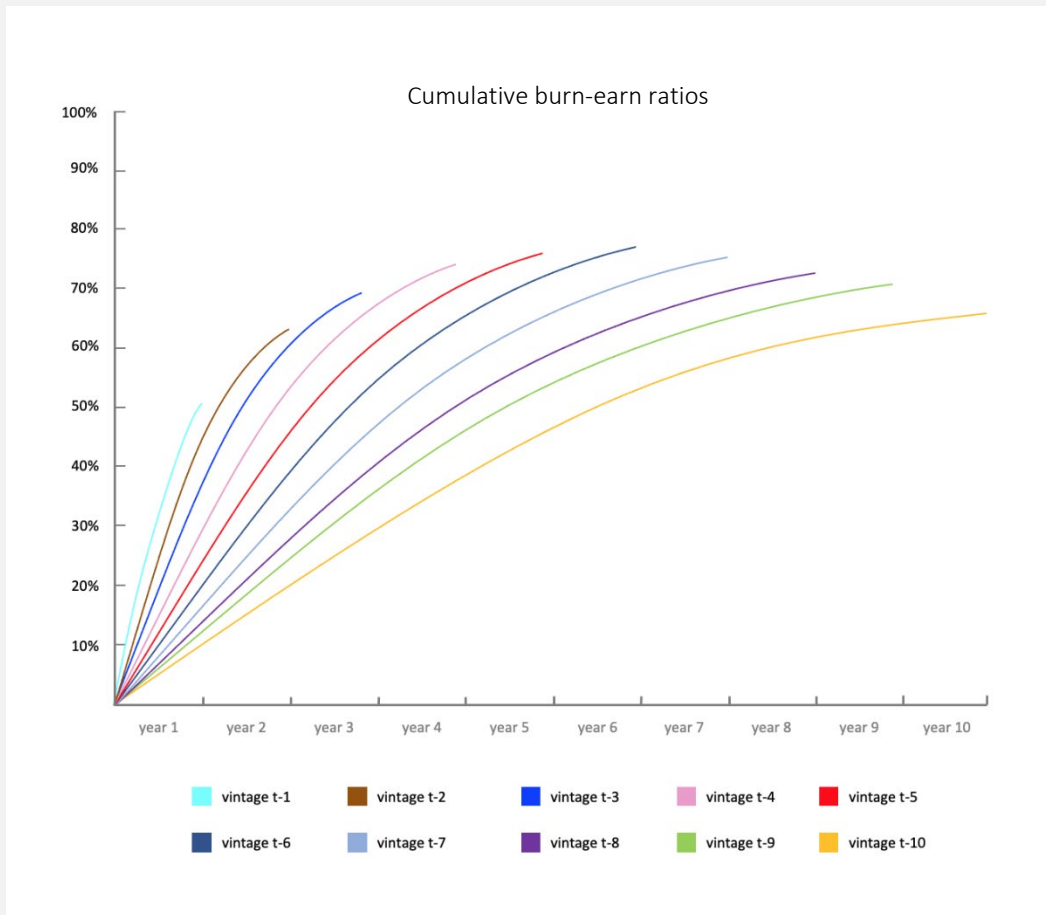
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In this case, On Point Loyalty was brought on board to help a leading international airline to evaluate the move to an activity-based policy from a date-stamping policy. Through both qualitative and quantitative lenses, we developed an analysis of the current and future expiry policy.

Initially, On Point Loyalty gathered the required data to understand the redemption trends over the years and the performance of the program. We then validated the business objectives against the program diagnostic and industry benchmarking. We also affirmed the current breakage metric and performed macro-level projection of the future breakage rate under different activity-based scenarios. We then further quantified the impacts of different scenarios to the program liability.

Based on the study and data modelling, we provided our recommendations and put forth a business case to support the adoption of a new expiry policy.

Understanding breakage patterns over time by reviewing historical consumption patterns



By reviewing cumulative burn-earn ratios over time, it is possible to detect major shifts in member behavior. The ratios reflect how the members' interaction has evolved over time and can be used to predict future breakage levels.

RESULTS

Closing the gaps The qualitative and quantitative review of the program performance and industry benchmarking provided a clear understanding of the program health and gaps. With a set of clear performance metrics based on industry standards serving as guidelines, the program can steer its business to unlock its full potential.

Implement with confidence Our client obtained a validated view on current breakage and the degree of impacts to program breakage and liability under the regime of activity-based policy. Our assignment showed that the revised policy will bring the breakage more in line with acceptable industry standards and improve the long-term prospects of the program.

Understand the profitability drivers A program's profitability is driven by interrelated components of member behavior that can be influenced by program levers. The balancing of breakage against member engagement is crucial to optimize profitability. We helped our client to understand how the miles expiry policy, along with a more holistic view of other program levers, are in play to affect program breakage and profitability.

The revised policy will bring the breakage more in line with acceptable industry standards and improve the long-term prospects of the program.

About the authors

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