

Frequent flyer programmes (FFP) aim to increase customer loyalty to an airline. A natural extension of FFPs is customer relationship management (CRM) databases and applications. These are used to generate ancillary revenues. FFP and CRM solutions are investigated.

Airline frequent flyer and CRM solutions

Most airlines like to retain loyal customers, because they cost less in sales and marketing efforts than new ones. It is also easier to understand loyal customers, and they are more willing to pay for the value of a strong brand. This approach was pioneered in the 1980s with frequent flyer programmes (FFPs), but many airlines have since fallen behind in developments and innovation in customer relationship solutions.

A report by McKinsey in 2002, called 'CRM in the air', revealed that most major airlines had only a basic understanding of which market segments were their most valuable. Many were not taking advantage of technology tools. McKinsey estimated that airlines which implemented state-of-the-art customer relationship management (CRM) solutions could increase their revenue by almost 2% a year. This could mean an additional \$100-250 million a year for a large carrier.

Studies also show that 25% of this additional revenue is easily gained by winning passengers that have left competitors. Another slice of revenue is easily won by identifying the individuals which represent high revenue generators: either frequent flyers or premium fare travellers. The chart (see page 49) details the impact that CRM systems can have on an airline's revenue. Interestingly, only a small fraction of the additional impact is from enticing new customers through better marketing and more attractive websites. The other important aspect of the overall benefit of implementing a CRM system is its cost, which can be significant. The McKinsey study, however, indicates that most of this cost is offset by reducing the wasted marketing budget spent on chasing unprofitable and uninterested customers. CRM moves an airline from a classic 'scattergun'

marketing approach to a narrowly focused 'rifle-shot' strategy that produces real revenue increases.

Making relationships work

How do CRM and loyalty software systems help airlines make more money? The first issue faced by most airlines is the data quality of customer information. A good example is the many channels of communication an airline has with the same customer. These include telephone calls, the internet booking engine, the airport self-service kiosk, the customer service desk and, in some cases, on board the aircraft. Best practice is to collect and cleanse inconsistent data before it enters the data warehouse at the centre of the CRM system. Data can be placed into 20 separate IT systems, and even additional external databases with marketing partners. "This is one of the biggest areas in which new technology can aid an airline in maintaining a brand value and image," says Stephen Bayer, director sales and marketing solutions in the airline management solutions business division at Lufthansa Systems. "Of course one of the biggest challenges for any FFP or CRM database is to uniquely identify a person. It is easy for an FFP, since we have a unique key called the frequent flyer number. For CRM we may end up with multiple versions of the same person, with various spellings of a first or last name, incomplete addresses and so on. A clean CRM database becomes the 'single point of truth' for an airline."

Technology is not the simple answer to this major challenge. It is difficult to cleanse data and consolidate records. A new CRM database and front-end data capture system cannot force airlines to use data for decision-making. McKinsey picked out a US airline that spent \$25 million on a new database and CRM

system, but still did not fully analyse the data and act upon it, one of the reasons being that it was apparently incomplete. More crucially, however, not all departments had signed up to the project goals, so they did not feel committed to the success of the system. Implementation is the simple key to success but proves hard to execute.

Constructing a CRM strategy

The chart (see page 49) presents an initial roadmap for an airline's internal CRM and FFP system strategy. The airline must establish what it wants to achieve, so it is important first to assess its position relative to the state-of-the-art, and best, practices in several industries.

The starting point must be the customer's overall travel experience. An airline should map out the customer's experience of the air travel process and their points of contact with the airline. This will allow the airline to do three things: to validate, and re-design if necessary, the customer's experience of using their service; to determine the investment areas, and assess where the airline is positioned relative to the customer; and to take a systematic look at the technological, organisational and business process improvements that need to be made. These improvements must strike a balance between productivity and degraded customer satisfaction. It is a bad strategy to make customers unhappy just to make a cost saving of a few per cent. The exceptions are low-cost airlines, which have a clear strategy of reduced service and ultra-low prices.

After the initial identification of opportunities, the airline needs to develop priorities for its CRM strategy in alignment with its business strategy, and define a CRM solution. The result is an action plan to achieve the objectives,

Airline executives need to have a structured approach to designing a customer relationship management (CRM) strategy that is effective. They need to see what the industry is doing and adopt best practice wherever possible.

including the selection of a vendor and the acquisition of a system.

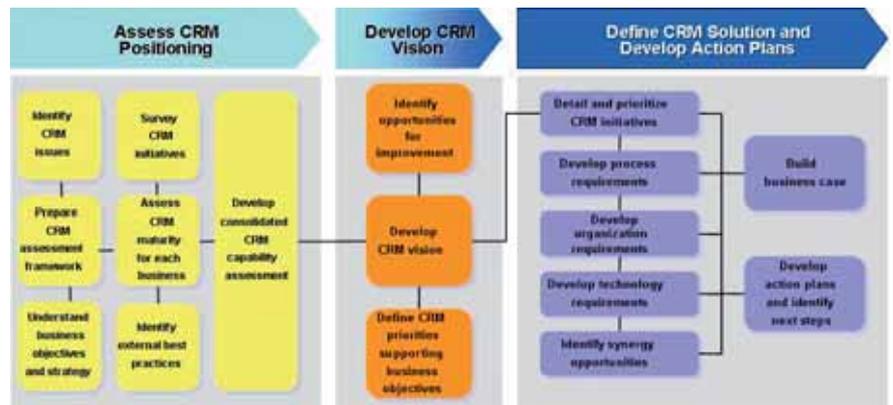
Biggest returns

The next question is what kind of return can be gained from the investment. This is difficult to answer, since most successful airlines will not reveal this information. McKinsey identifies some success stories, and draws a matrix of actions that are on a scale of ease of implementation against value potential. There are two main groups of actions that airlines should consider. The first comprises those opportunities that require simple systems and processes to be implemented. McKinsey cites creating a hotline for high value customers, campaigns to win back former customers, pushing less profitable customers to cheaper channels such as the internet, and targeting new, potentially high value, frequent flyers. A superb CRM database is necessary for this, since the individuals to be targeted must be identified.

McKinsey also indicates that some of the biggest payoffs come from a more sophisticated approach to customers. This group of actions includes offering an individualised service for each customer at all interaction points, such as on the web, at self-service kiosks and on the plane, and refocusing the FFP on its really high value members. It also suggests that the best airlines know their customer segments well and tailor service improvements for their most valuable customers. Fewer than 10% of passengers generate more than 60% of most airlines' revenue. This imbalance in contribution per passenger drives the need for state-of-the-art IT systems.

Many airlines find it impossible to identify these vital passengers. McKinsey claims this is because their FFPs are little more than general ledger systems that track accrued and spent miles. There may be only a loose relationship between the tier that an FFP member attains and their value.

Customers in the same tier can have widely differing values, and some lower-tier frequent flyers who pay full fares may be of greater value than some upper-tier ones. Another challenge in the analysis of customers is the lack of information on how much they spend with competitors. A customer that flies frequently on a competitor airline, and infrequently on another, would be a more fruitful target



for the latter than some existing frequent flyers. One airline used its CRM system to pinpoint passengers flying single segments, and discovered they were flying the other segment with a competitor.

Integrated CRM was used by one airline to analyse hotel and restaurant expenditure abroad on its co-branded credit card, where there was no coincidental flight purchased to that destination. This analysis enabled airlines to identify people who travelled on competing airlines, which represented lost revenue.

Clever IT systems are needed for this type of detailed analysis, and it is worth airlines' time to secure them. The best CRM systems demonstrate that it is possible to capture the lost value in such customers.

Systems for CRM

One of the large suppliers of IT systems for airline revenue and customer management is Lufthansa Systems. "We manage more than 13,000,000 members of the Lufthansa Airlines Miles & More FFP," says Bayer. "There are 130,000 members joining each month. This provides an insight into the scale of the systems and challenges for these types of systems. Miles & More FFP is a system we developed on behalf of Lufthansa and other airlines. We also manage a separate CRM system. We hold over 17,000,000 members, since not everyone who flies with Lufthansa is a member of Lufthansa Systems' Miles and More FFP.

"We have taken our long experience from Miles & More and built on this solid foundation," continues Bayer. "We wanted to develop a state-of-the-art system that combines FFP or loyalty and CRM functionality. We wanted a web-based solution for flexibility. It needed to deal with CRM and loyalty business requirements. It also had to deal with three distinct customer types: private individuals, corporate business customers and travel agents. It took us 15 months to develop a system called FrequentLine in Java, in a joint venture between Lufthansa Systems Indonesia and Garuda

Indonesia. The system went into service with Garuda Indonesia in March 2007. It is a modern system which provides database independence. We can offer it as a fully hosted system, or as a locally installed and managed solution.

Integrating loyalty management should provide service improvement with the goal of a stable customer relationship. One of the overall goals of FrequentLine is to increase revenues and yields by promotions and target offers. A side benefit is the direct revenue from business partnerships, such as hotels and car hire."

This is all achieved through modular functionality within FrequentLine. The functions are split into customer self-service and back-office (see chart, this page). For a passenger, these are based around logging in, enrolling into the FFP, updating customer profiles, feedback on issues and problems encountered when flying, general airline information, viewing account statements, and querying and accessing promotional information and special offers. For back-office staff, the two main tasks are loyalty programme management and customer care. For FFP loyalty FrequentLine provides earn-and-spend functions, billing management, partner programme interfaces, and data management and communications functions, such as email and SMS. Utilising the rich central database also provides smarter, targeted promotions to FFP members to enhance goodwill and provide more perceived value to the airline itself. With regard to customer care, FrequentLine is focused on making communication with customers easier and quicker.

"The user-friendliness and reliability of FrequentLine makes Lufthansa Systems the right IT partner for us," says Nicodemus Lampe, vice president customer relationship management at Garuda Indonesia. "The adaptability and flexibility of FrequentLine to our specific structures and systems and the support from Lufthansa Systems' specialists are outstanding. With FrequentLine we can implement state-of-the-art loyalty services for our valuable customers. We receive professional support from this product, a

The screenshot displays the SITA Frequent Flyer system interface. At the top, it shows the user's name as JAMES, enrol date as 24-AUG-2006, and F.F. No. as 777770200000148. The account is identified as 'AIR SITA POINTS ACCOUNT'. Below this, there are sections for 'Accruals' and 'Redemptions'. The 'Accruals' section shows a table with columns for Account, Type, Accrual Date, Accrual concept, IB, and Points. The 'Redemptions' section shows a similar table with columns for Account, Type, Redemp. Date, Redemption concept, IB, and Points. At the bottom, there are buttons for 'Flights', 'Regions', 'Partners', 'Promotion', 'Transfer', 'Notification', and 'Activatva'. The interface also shows 'Completed flights: 7', 'Used points: 1288', and 'Current balance: 13438'.

The SITA Frequent Flyer system is flexible enough to handle many touch-points in the overall travel process. Managing the collection and redemption of points needs careful handling in areas such as call-centres.

key factor that determines our success in measuring our programmes and winning valuable customers. We need to make quick decisions in a competitive and agile environment every day. We also need speed in all our IT processes. That is what FrequentLine allows us to do."

Measuring the value of systems like FrequentLine is difficult, but they can be financially beneficial for major carriers. For smaller carriers it becomes more strategic, and is more focused on brand management and protecting image.

What next for technology?

"There is no direct link between the CRM system and yield management," says Bayer. "This is possible technologically, but an airline must decide whether this makes business sense. Pricing a seat based on an individual's history would be possible and would be a logical evolution of today's business processes. FrequentLine offers endless possibilities for functional modification and enhancements. Communications technology already includes SMS and email delivery, but some airlines need to rely on the mail. Speed of communications is one of the areas of advancement in future, however. The trick with complaints, for example, is speed of resolution. We already have the ability on board Lufthansa to transmit data about problems experienced by our Senator FFP members, and have a resolution when they arrive at their hotel after the flight. This satisfies customers and turns a problem into a marketing success. This matters because a small percentage of an airline's customers generate most of its revenue. We must retain them and please them every time they fly. We trend their behaviour and

preferences. Other areas of advance in the future probably surround the use of voice recognition technology to provide a richer interaction experience for customers with our CRM and loyalty systems."

Lufthansa Systems charges per FFP member or per unique member in the CRM. The price per member falls as volume increases. Some smaller airlines opt for a fixed monthly fee. "In addition to our launch customer Garuda, we already have some new clients for FrequentLine in the pipeline," claims Bayer. "FrequentLine is a state-of-the-art loyalty and CRM solution and we believe it leads the market today."

A new approach

Other large airline IT vendors are seeing the emerging market for CRM systems. SITA is evolving its systems for FFPs. "The FFP system market is large," says Liz Morgan, project manager of business functions, passenger and travel solutions at SITA. "About 80% of airlines have either a home-grown system or something that is too rudimentary to serve their long-term strategy, which has to be replaced. We have added more than 10 customers over the past five years to our FFP programme. They are mainly airlines with fleets of 10 to 50 aircraft, based in Europe, the Middle East and Africa. We have a number of Russian carriers. They are now looking for more flexibility and want to increase the CRM capabilities within the product. Most are also seeking to reduce their costs by steering more customers to direct sales channels, such as the internet. We are evolving our product portfolio, and this includes looking at our FFP solution. We are defining a new product and assessing

our development options, and we will be adding significant CRM functionality. SITA will either re-engineer our existing product or select another vendor system to partner with us. Our current product is written using Oracle forms. In the future we will aim for an open architecture, using Java or .NET. We also offer commercial flexibility. Our customers operate on an application service provider (ASP) basis, with SITA hosting the entire system and charging the customer on a per-use basis.

"The key benefit of using a SITA FFP solution is the rich customer information," claims Morgan. "First this enables our clients to target their frequent flyers and key passengers with tightly focused promotions and offers. Second, our systems aim to provide customer closeness, allowing airlines to offer unique rewards to their most loyal customers. Third, our systems have a lot of capability designed into them, which directs customers to lower-cost on-line booking channels. This lowers the administration costs for the airline. Redemption of frequent-flyer miles or points is done in real time and promotions are easy to set up. We are considering a new product with strong FFP and CRM capabilities. Two other key elements in our decision are the new partner company's reputation and its technology base. We want a modern system which reduces the system maintenance costs for our end users."

Specialist CRM systems

A specialist software company, Hitit, has emerged from the IT group in THY Turkish Airlines. Hitit offers its Crane FF for airline loyalty management solutions. "Crane FF brings together a rich set of functions and ease of use," claims Aytun Demiral, marketing and sales manager at Hitit, "and allows easy integration with the airline's other systems, programme partners, and service providers. As a complete IT solution, Crane FF has a complete and easily configurable website, a powerful 'rules engine' which allows marketing strategies to be easily implemented, and an advanced interfacing module that allows integration with different systems on different IT platforms. Crane's CRM capabilities are fine tuned for successful airline loyalty management and turn an FFP into a powerful marketing tool that

Amadeus uses web-based technology to provide enhanced frequent flyer programme management on top of the reservations process. The easy-to-use interface makes the customers life easier and simpler.

can improve brand value and revenues. Hitit's in-depth knowledge of FFPs and its interaction with other airline systems result in seamless implementation and integration of Crane FF. Our second product, Crane Customer Contact Centre (Crane 4C) is an enterprise-wide customer affairs solution and provides a single touch-point in any organisation, where all customer-related issues are monitored and managed. Customers can use various channels like the web, e-mail, telephone, or mail to contact the airline's customer care department. With Crane 4C, all these requests are distributed within the organisation and third-party service suppliers, and service levels are kept under control, ensuring a timely response to customers. Crane 4C also gives information about problem areas within the organisation. Making and measuring improvements is important for continuous customer satisfaction.

Hitit offers Crane under license or sells it as a hosted solution. All required infrastructure is provided by Hitit Data Center, which is ideal for a fast start-up with very low cost. It is offered as a monthly fee based on customer metrics, and Hitit's support team provides round-the-clock software support for long-term periods. "The main benefit of an FFP is the customer retention, specifically for the high-yield, top-tier customers," says Demiral. "Airlines identify such passengers by looking at their travel patterns and provide additional benefits, such as lounge access, guaranteed booking and a dedicated phone line for their inquiries. These services are valuable for frequent business travellers and affect their decision-making."

"A great example of how airlines benefit is segmentation. Promoting a route is a cost source for any airline. By successfully segmenting members, promotional information, using relatively economical communication methods such as e-mail and SMS, is only directed to potentially interested customers," says Demiral. "Additionally, frequent flyer members are the passenger group that use the airline website more often than other passengers to check their account and use FFP website features. They are therefore more likely to purchase their tickets on line, thereby reducing the sales and distribution costs incurred by the airlines."

"Royal Jordanian joined the Oneworld Alliance and developed all

partner interfaces within one year. Turkish Airlines is using Crane to develop interfaces to Star Alliance systems," continues Demiral. "Another example is Qatar Airways whose Privilege Club won three awards in the 18th Annual 'Freddie Awards', including one for the Best Web Site for the Asia Pacific, Japan and Australia. Virgin Blue's FFP, using Crane FF, is fast growing and respected.

"What is next for our technology? Hitit is focusing more on analysing member behaviour and travel patterns and turning this into valuable marketing data," continues Demiral. "With an innovative multi-dimensional profile of each member, Crane makes it very easy to target marketing efforts. Self-service via the web, kiosks and even the in-flight entertainment systems is on the rise, and Hitit is helping its customers to provide best solutions. The use of mobile technology is also growing and Hitit is already providing interactive solutions for mobile devices, and plans to do more in the near future. We continue to grow."

Alternative solutions

While not offering an FFP or CRM solution, Amadeus is a large player in the airline reservations and revenue systems market. It recognises that there is a shift in focus for airlines and aims to help its customers change their business strategy. "The trend is definitely towards trying to increase customer loyalty," says Philippe Der Arslanian, Amadeus's director airlines direct channel. "We power 70 leading airlines across 250 websites, which we run and customise. This includes e-merchandising, e-retail and e-service. We started with simple internet booking engines and evolved into full merchandising. For example, we can look

at FFP members and offer them additional servicing features. This starts after the air ticket sale finishes, and includes offering re-booking at a fee or booking with FFP vouchers or points. It offers the opportunity to upsell the passenger with special offers for high-fare seats. These offers can be tied into FFP members to increase their loyalty. We are now moving into the 'user experience'. With our ability to design, develop and host this can be done in weeks. We use Web 2.0 compliant technology and offer three releases a year. It fully integrates with our Altea platform and also interfaces to the clients' FFP and CRM using open connectors."

Summing up

Airlines can significantly increase revenue, in some cases by as much as 2%, by using modern FFP and CRM systems. Many studies show that benefits can be realised quite quickly and these 'low hanging fruit' are within the reach of most airlines. The trend today is towards creating loyalty among a key group of passengers that contribute the majority of revenue. Effective segmentation and targeting of these groups with attractive offers and personalised service is paying dividends to airlines with the vision to implement these strategies. There are a number of new systems emerging, both from the traditional large airline IT companies, but also from a growing number of smaller niche specialist software developers. Like all systems, however, they are only useful if the management team acts upon the analysis they provide. **AC**

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