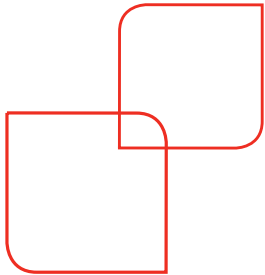


Building Stronger Relationships with Frequent Flyers

The Secret to Loyalty Program Success

A Research Report by Carlson Marketing
and Peppers & Rogers Group



By: **Luc Bondar**, *Vice President of Loyalty,
Carlson Marketing*

Thomas Lacki, Ph.D., *Senior Advisor,
1to1 Faculty, Peppers & Rogers Group*

Will Wittkopf, *Senior Global Director,
Loyalty Marketing, Carlson Marketing*



Peppers & Rogers Group

Building Stronger Relationships with Frequent Flyers

The Secret to Loyalty Program Success

Contents

Executive Overview	2
Carlson Relationship Builder:	3
• Relationship Strength	
• Questionnaire	
• Respondents	
• Statistical Significance	
Stronger Relationships	5
• Relationship Strength Among Airlines Varies Widely	
• Airlines Have Different Mixes Of “Champions” And “Critics”	
• Airlines Have An Opportunity To Learn From Other Industries	
Better Results	8
• Recommending The Airline Increases	
• Flying More On The Airline Increases	
• Number Of Airlines Flown Decreases	
• Airline’s Share-of-Wallet Increases	
• Keep An Eye On The Competition	
Building Stronger Relationships for Better Results	12
• Frequent Flyer Programs Impact The Purchase Decision	
• Elite Members Are Committed	
• Quality of The Frequent Flyer Program Impacts Relationship Strength	
• Three Dimensions Impact Quality	
Understanding Airline Relationships	18
Conclusion	22

Executive Overview

With more than 70 frequent flyer programs worldwide¹, travelers have no lack of opportunity to be rewarded for their patronage. In the United States alone there are 235 million members in the top six programs² and over 10 million awards are issued per year¹. Enrollments and redemption, however, are not the measure of success for a frequent flyer program—it is the building of profitable, long-term customer relationships. Unfortunately, while this goal is judged as being very important by 85 percent of airlines around the globe, only 15 percent agree that it has been fully achieved³.

Peppers & Rogers Group has partnered with Carlson Marketing for a groundbreaking research study designed to understand the strength of customer relationships with airlines and to address the three most critical questions on the minds of marketers in the industry:

- 1. Which airlines are most adept at building strong customer relationships?*
- 2. What impact do strong customer relationships have upon business outcomes, such as the likelihood to recommend the airline and to fly it more?*
- 3. How can strong customer relationships be developed—especially through the use of a frequent flyer program?*

As a research partnership between renowned customer strategy authority Peppers & Rogers Group and loyalty marketing expert Carlson Marketing, *Carlson Relationship Builder* uncovers the most compelling trends in loyalty marketing. The results from this edition of the ongoing *Carlson Relationship Builder* research series are based upon an examination of data from over 1,500 individuals, and show the state of customer relationships among airlines, the consequences that arise from those relationships, and which 1to1[®] marketing principles and practices work well in enhancing them.

Carlson Relationship Builder

This edition of *Carlson Relationship Builder* is part of a research series conducted by Peppers & Rogers Group and Carlson Marketing across numerous vertical industries and global regions, each of which is designed to explore the role of customer relationships in driving results—and, importantly, in understanding the antecedents that serve to enhance those relationships.

Relationship Strength. At the core of the research approach is a model of relationship strength developed by Carlson Marketing and founded upon the seminal investigations of Dr. Robert Morgan at the University of Alabama⁴. This model places customer relationships in a mediating role, residing between the marketing activities or antecedents that influence (positively or negatively) those relationships and the outcomes or consequents that occur as an end result of the changes in relationship strength. This conceptualization has been shown to exhibit a higher degree of explanatory power than the traditional viewpoint in which marketing stimuli directly impact customer responses.

Carlson Marketing defines relationship strength as the ability of the ongoing exchange between a company and a customer to grow and endure, and to resist any damaging forces that might destroy it. Strong relationships are characterized by:

- **Trust:** a belief that the company has the best interest of the customer at heart, and can be depended upon for respect, openness, tolerance and honesty
- **Alignment:** a two-way affiliation resulting in a rewarding experience which meets the mutual expectations of the company and the customer
- **Commitment:** an enduring emotional attachment to the relationship

Relationships in the context of commerce share attributes of interpersonal relationships (e.g., an enduring emotional bond), but are nonetheless distinct. To be clear, the term relationship strength as used in this white paper does not encompass romantic intimacy, formalized associations (e.g., a marriage by law or by ceremony) or an alliance by ethnicity or kinship. The term relationship strength denotes a considerably more practical construct, one that reflects the very core of a commercial connection: namely, the ability of the exchange between the airline and its customer to prosper.

Relationship strength is measured by RSxSM, a proprietary research instrument developed, tested, deployed and refined by Carlson Marketing over the past decade. Consisting of 12 core questions using a seven-point anchored Likert scale (“strongly disagree” to “strongly agree”), the tool allows a robust and practical quantification of the construct of relationship strength. As used in the context of this white paper, the phrase “relationship strength” is synonymous with the RSx measure itself.

Questionnaire. Many questions in the study were in reference to the respondent’s “primary” (or “secondary”) airline, defined as the airline flown most (or second most) often in the past 12 months. The strength of the relationship to both the primary and secondary airlines was measured, and—unless specifically indicated otherwise—the relationship discussed is in reference to the primary airline. Participants in this research also provided information on a broad range of topics, including: flying activity, both for business and for leisure; perception of the airline’s brand, its product/service features, and the customer experience; communications from the airline; and frequent flyer program membership status, usage and characteristics. All responses were anonymous.

Relationship strength is defined as the ability of the ongoing exchange between a company and a customer to grow and endure, and to resist any damaging forces that might destroy it.

The major outcome variables of interest in the research consist of respondent ratings of the statements:

- **Recommend.** “How likely are you to recommend your primary airline to a friend or a colleague?” (0=not at all likely, 10=very likely)
- **Fly More.** “As compared to the past 12 months, the total number of all airline roundtrips I will take in the next 12 months on my primary airline will...” (1=decrease considerably, 4=remain the same, 7=increase considerably)

Airlines. Twelve airlines were examined in this research, representing a broad cross-section of the industry and including: legacy and the smaller, younger carriers; low-cost carriers and the more traditional; and national and regional airlines. Specifically, the airlines studied were:

- AirTran Airways
- Alaska Airlines
- American Airlines
- Continental Airlines
- Delta Airlines
- Frontier Airlines
- JetBlue Airways
- Midwest Airlines
- Northwest Airlines
- Southwest Airlines
- United Airlines
- US Airways

For reasons of confidentiality, these airlines were randomly assigned the labels “A” through “L” and are referred to in the body of this white paper simply as “Airline A,” “Airline B,” etc.

Respondents. The study was conducted using a consumer panel that consists of over two million opt-in participants in the United States. Data were gathered on January 15, 2008; and a total of 1,515 individuals met the following conditions in order to be included in the analyses:

- Taken two or more paid round trips on any combination of airlines in the past twelve months
- Having no member of the household employed by an advertising agency, marketing research/consulting firm, or airline
- Passing quality control checks (e.g., designating a primary airline which in turn must be different from the secondary airline)

In total, the set of respondents was 32 percent male, and 68 percent female; 69 percent married, 15 percent single, and 16 percent divorced/separated/other; 56 percent reported an annual household income at or above \$75,000; and the median respondent age was 56 years old. Almost one-in-five (24 percent) respondents was not a member of a frequent flyer program, with the remainder belonging to the base (63 percent) or elite (13 percent) tier of a program.

Statistical Significance. The designation “ $p < 0.01$ ” appears throughout in this document in conjunction with research findings that are statistically significant. This notation means that the probability (“p”) of the observed difference occurring purely by chance is less than (“<”) one in a hundred (“0.01”). The implication is that the finding is not due to random variation in the sample of respondents studied, but represents a true or actual difference in the population of frequent flyers.

Correspondingly, “ $p < 0.05$ ” is used to designate findings where the level of chance is less than five in a hundred.

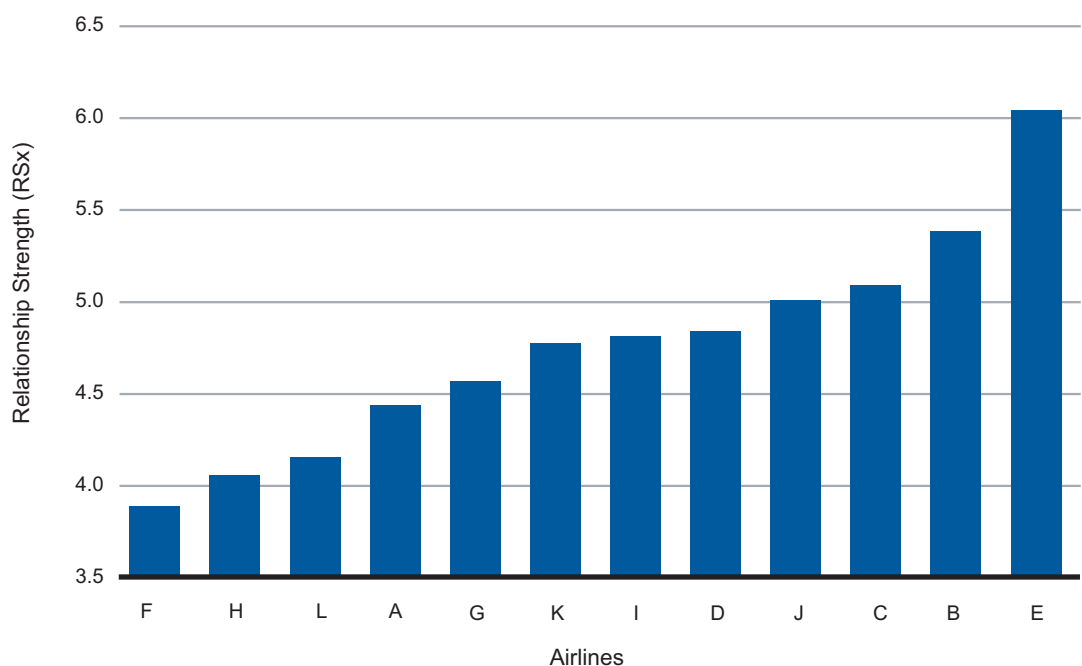
Stronger Relationships

Building customer relationships with airlines can be challenging. Today's environment is characterized by high jet fuel prices⁵, forcing increases in ticket prices; by the disappearance of passenger amenities⁶ as cost-cutting continues; by record levels of flight delays⁷; and by airline bankruptcies⁸, mergers⁹ and the spinning off of frequent flyer programs as separate businesses^{10,11}, all serving to raise the level of angst among program members¹². Is it any surprise, therefore, that customer satisfaction with airlines now ranks *below* that of the Internal Revenue Service?¹³

In light of these realities of the marketplace, the most fundamental question that *Carlson Relationship Builder* sought to answer was simply whether or not customers have relationships with their primary airline and, if so, whether the strength of these relationships varies among the brands.

Figure 1: Airlines by Relationship Strength (RSx)

Relationship strength varies considerably among airlines ($p < 0.01$).



Source: Carlson Marketing and Peppers & Rogers Group

Relationship Strength Among Airlines Varies Widely. As displayed in Figure 1, some airlines have a relationship strength score near the midpoint (4.0) of the scale, while others have succeeded in building a higher level of relationship strength with their customers. The ratio of the highest to the lowest reported score demonstrates that a large (55 percent) amount of variation in relationship strength exists across airlines. The same pattern also appears when the individual components of relationship strength—trust, alignment, commitment—are examined by airline, indicating a high degree of consistency in the perception of the relationship. The pattern is independent of the demographic characteristics of the customers of each airline, meaning that the observed results hold across a wide spectrum of income, marital status, gender and age differences.

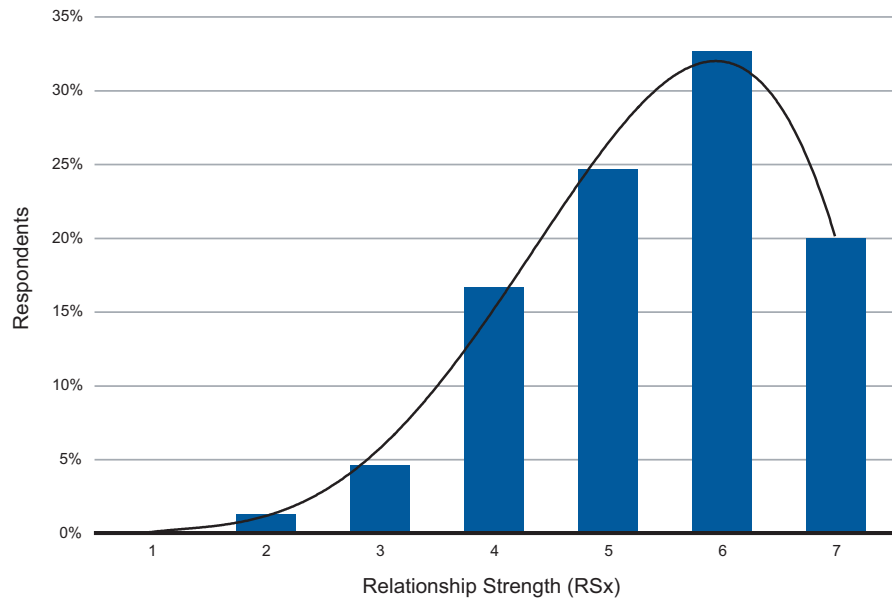
“Dedication to the highest quality of Customer Service delivered with a sense of warmth, friendliness, individual pride, and Company Spirit”¹⁴

— Mission of Southwest Airlines

Even among those brands with the strongest levels of relationship strength, there is still room for improvement. Figure 2 displays the distribution of relationship strength scores for Southwest Airlines, for example, and suggests that the airline may benefit by crafting differentiated marketing strategies that leverage the affinity of those customers with strong relationships, on the one hand; and, separately address the obstacles that are hindering the development of productive relationships of the remainder, on the other hand.

Figure 2: Distribution of Relationship Strength (RSx) for Airline B

Depicted is the distribution of relationship strength scores for Airline B. Note the set of customers scoring low-to-moderate on the continuum, which may represent an opportunity for the airline to grow the relationship with these individuals using 1to1 tactics.



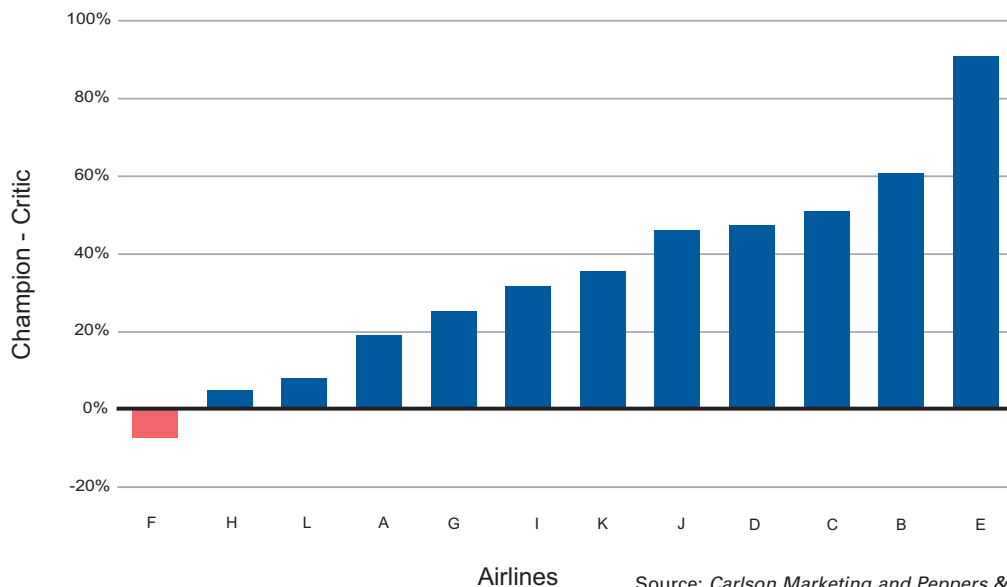
Source: Carlson Marketing and Peppers & Rogers Group

Airlines Have Different Mixes of “Champions” and “Critics.” Examining the distribution of relationship strength by airlines is insightful. Figure 3 lists airlines by the difference between the percent of customers with high (i.e., greater than 5.0) versus low (i.e., less than 3.0) levels of relationship strength. As that “high minus low” difference approaches +100 percent, the number of “champions” exceeds the number of “critics”; and as it moves toward -100 percent, the critics outnumber the champions. For Airlines C, B and E, the percent of champions exceed the percent of critics by substantial margins (51, 61 and 91 percent, respectively); indicating that these airlines are well positioned to enhance the brand through word-of-mouth. These airlines stand in contrast to Airlines H and F, each of which has nearly the same number of critics as champions.

Even for Airlines I and D—both with the same level of relationship strength (4.8)—the champions exceed the critics more for Airline D (48 percent) than Airline I (32 percent). Thus, despite the similarity in overall relationship strength, Airline D has a better standing with its customers.

Figure 3: Airlines by Relationship “Champions” Versus “Critics”

This figure displays the extent to which the percent of champions (customers whose relationship strength to the airline is greater than 5.0), exceeds the percent of critics (those with relationship strength less than 3.0). This continuum ranges broadly from a minimum of -7 percent to a maximum of +91 percent across the airlines examined.



Source: Carlson Marketing and Peppers & Rogers Group

Airlines Have an Opportunity to Learn from Other Industries. Among the industries recently examined by prior editions in the *Carlson Relationship Builder* research series¹⁵, airlines have the lowest overall level of relationship strength (4.6), just slightly below that of retail (4.7) and significantly ($p < 0.05$) less than financial services (5.3) and automotive (5.4). That comparatively low performance is driven by the low levels of trust for airlines (4.7), which is significantly ($p < 0.05$) below that of financial services (5.7), retail (5.0) or automotive (5.6). Commitment to airlines (4.5) is no different than that to retail (4.5), and is at a level significantly ($p < 0.05$) below that of financial services (5.1) and automotive (5.1). The same pattern also holds when considering alignment, with airlines (4.7) the same as retail (4.6) and significantly ($p < 0.05$) below that of financial services (4.9) and automotive (5.3). Consequently, the airline industry may do well to review and selectively adapt and adopt the 1to1 tactics that have been successfully utilized by other industries to build stronger customer relationships.

“Customer focus is going to define the winners in the years ahead”¹⁶

— Douglas M. Steenland,
President and
Chief Executive Officer,
Northwest Airlines

Better Results

It is apparent that customers *do* have relationships with their primary airline. But, should it matter from the perspective of the airline? Could it impact the business results of an airline? Specifically, do stronger relationships enhance a customer’s likelihood to recommend the airline to friends and colleagues, to fly that airline more, and to consolidate her or his air travel purchases to deliver a higher “share-of-wallet?”

Carlson Relationship Builder addressed these themes by classifying respondents into low, medium and high categories based upon the strength of their relationship to their primary airline. The low category consisted of the bottom quartile of the distribution of relationship strength scores; medium, the middle two quartiles; and high, the top quartile¹⁷. The research hypotheses are that as relationship strength increases from low to high, so too will the likelihood of occurrence of each of the business outcomes.

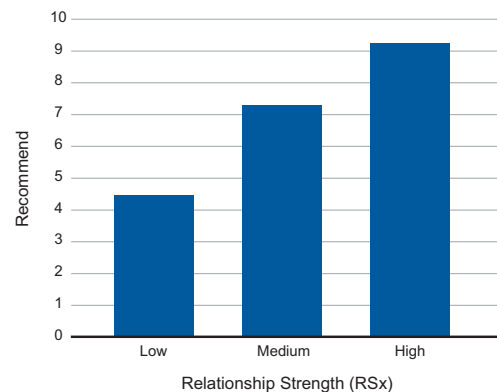
Recommending the Airline Increases. When customers are asked to rate how likely they are to recommend their primary airline to a friend or a colleague on a scale ranging from “not at all likely” (0) to “very likely” (10), the rating is over twice as large for those with high (9.2) as compared to low (4.5) levels of relationship strength (see Figure 4 below). Even when considering their secondary airline, the same pattern of results appears: the likelihood to recommend that airline increases from 3.8 to 6.6 to 8.7 as relationship strength moves from low to medium to high ($p < 0.01$).

Word-of-mouth has always been important in a customer’s purchase decision, but today these recommendations are valued 1½ times more than they were in the 1970’s and twice as much as information obtained through traditional media¹⁸. According to recent GfK Roper research, personal recommendations are now more important to customers than at any time since 1975 in making purchase decisions¹⁹. When appropriately cultivated and leveraged, customer referral value can yield dramatic and positive business consequences²⁰.

“Airlines concerned with enhancing their marketing effectiveness through word-of-mouth recommendations would do well to focus upon growing and developing relationships with their current customers,” comments Evert de Boer, Director of Loyalty at Carlson Marketing for Asia Pacific. “In today’s socially networked world, recommendations from friends carry considerable weight in a purchase decision. Paying close attention to the critical factor of connected customers can pay handsome dividends for the airline.”

Figure 4: Recommend Airline to Friend or Colleague

There are dramatic increases in the likelihood to recommend an airline to a friend or colleague as the level of relationship strength improves from low to high ($p < 0.01$).



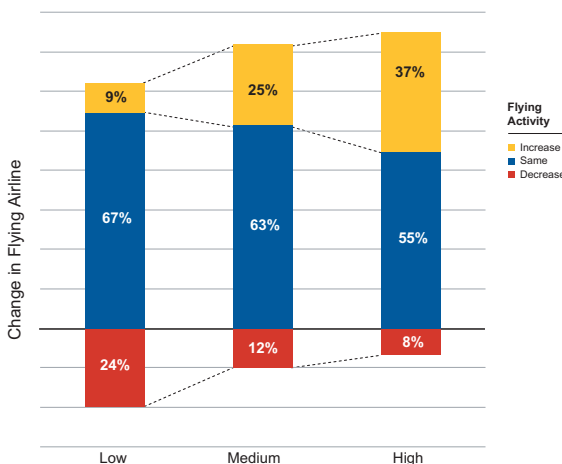
Source: Carlson Marketing and Peppers & Rogers Group

Flying More on the Airline Increases. In addition to word-of-mouth recommendations, enhancements in relationship strength are associated with the customer’s intention to fly her or his primary airline more in the next 12 months (see Figure 5). Only 9 percent of respondents with a low level of relationship strength indicated that the total number of trips in the next 12 months on their primary airline will increase as compared to the past 12 months. This statistic increases to 25 percent for those with a medium level of relationship strength, and grows even further to 37 percent for those with a high level of relationship strength—more than a 4.1-fold enhancement in total ($p < 0.01$).

“This result is especially noteworthy,” explains de Boer, “since it directly links changes in the relationship strength between a customer and an airline to the stated intention to fly that airline more. At a time when airlines can’t afford to lose a customer’s business to a competitor, this insight becomes highly strategic and suggests that investments in improving the strength of its customer relationships would be well advised, indeed.”

Figure 5: Relationship Strength (RSx) by Intent to Fly More

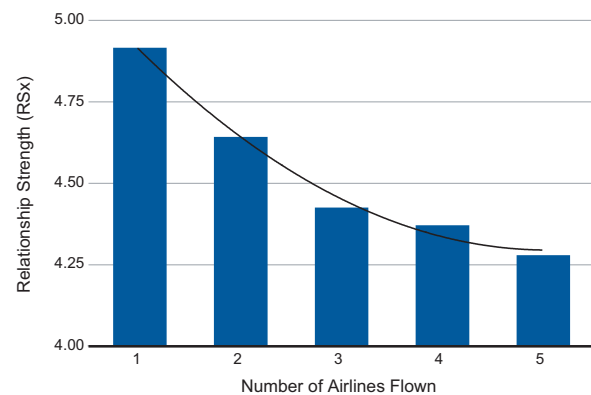
As the strength of the relationship between customers and their primary airline increases, there are shifts in the proportion that intend to fly more, the same or less on that airline in the next 12 months as compared to the past 12 months.



Source: Carlson Marketing and Peppers & Rogers Group

Figure 6: Number of Airlines Flown

The number of airlines flown by a customer in the past 12 months decreases as relationship strength increases ($p < 0.01$).



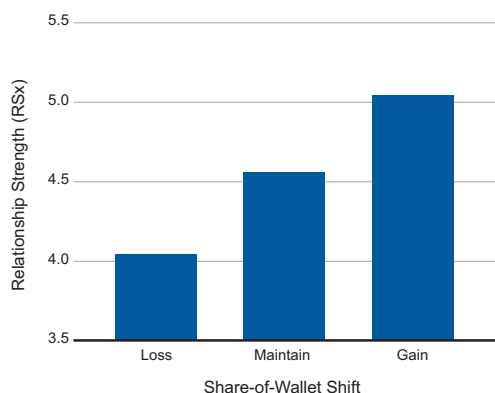
Source: Carlson Marketing and Peppers & Rogers Group

Number of Airlines Flown Decreases. Yet another observed benefit in enhancing the strength of customer relationships to an airline is a decrease or consolidation in the total number of airlines flown for business and leisure over the past 12 months (see Figure 6). Even modest improvements in relationship strength (e.g., from 4.4 to 4.6) are associated with a large (50 percent) reduction in the total number of airlines flown (from 4 to 2).

“A customer’s consideration set for choosing an airline appears to be narrowed considerably as relationship strength increases,” notes de Boer. “The focus of the customer upon her or his primary airline is sharpened, thereby potentially reducing the migration of business to a competitor.”

Figure 7: Share-of-Wallet

Based upon their pattern of intended flight activity overall and upon intended flight activity with their primary airline, customers were classified into patterns that represent “losses,” “maintenance” or “gains” in securing a greater share-of-wallet for the primary airline. Note especially that higher levels of relationship strength are associated with better share-of-wallet performance.



Source: Carlson Marketing and Peppers & Rogers Group

Airline’s Share-of-Wallet Increases. Respondents were asked to indicate whether the total number of trips on *any* airline will decrease, remain the same, or increase in the next 12 months as compared to the past 12 months. The same question was repeated with respect to their *primary* airline as well. In looking at the nine combinations of changes (i.e., decrease, same, increase) in flight activity overall by changes (i.e., decrease, same, increase) for the primary airline specifically, it is possible to identify shifts in “share-of-wallet.” For example, an overall decrease combined with an increase for the primary airline represents a gain for that airline; while an overall increase combined with a decrease indicates a loss; and remaining the same overall and for the primary airline represents a maintenance or continuation of the existing distribution of flight activity.

The interesting question is whether the combinations of flight activity representing gains are associated with higher levels of relationship strength than are those representing losses. The answer may be found in Figure 7. Customers with a “loss” pattern of flight activity have a significantly lower level of relationship strength than those with a “maintain” pattern, and the latter are still yet significantly lower than those with a “gain” in flight activity ($p < 0.01$). Anticipated shifts in share-of-wallet for the primary airline are therefore clearly linked to changes in relationship strength.

“As a customer’s relationship strength to an airline increases, so too does her or his business shift in the same direction,” says de Boer. “Even under challenging marketplace conditions where the ‘size of the pie’ is staying the same or decreasing, an airline with strong customer relationships may still be able to grow its business by garnering a bigger ‘slice.’”

In Their Own Words

What is the single most important thing that airlines should do in order to improve relationships with their customers? In their own words, listen to what participants in this research had to say.

Price

- “Simplify pricing and rules.”
- “Not nickel and dime us to death. Every time you turn around, it’s additional fees, additional costs to fly in old uncomfortable seats.”
- “Establish a consistent and fair means of pricing tickets. I find currently that ticket prices on the same route and schedule for me change dramatically (and) constantly.”

Communication

- “Better communication.”
- “LIBK—Let It Be Known—when there are delays and problems.”
- “Giving customers consistent, reliable information.”

Timeliness

- “Be more on time, respect my time.”
- “Be on time and be honest when you aren’t.”
- “Prepare for delays in embarking and disembarking from the plane.”

Attitude

- “Smile.”
- “Be flexible, friendly, fun, and make flying feel like a special event again.”
- “Treat customers respectfully and helpfully.”

Honesty

- “Be honest and up front about everything. Ticket prices, bankruptcy claims, cancellations, everything.”
- “When problems arise, tell the truth.”
- “Do not lie.”

Experience

- “Make traveling easier, hassle free.”
- “Offer excellent customer service.”
- “Resolve problems and be nice.”

Frequent Flyer Program

- “Make it easier to earn and redeem miles”
- “Make reward programs understandable”
- “Increase opportunities to earn miles”

What should airlines do to build stronger relationships with their customers? One research participant seemed to summarize it best by explaining that airlines should...

“Treat customers like they would treat their own mother”

Source: Carlson Marketing and Peppers & Rogers Group

Not only does an airline need strong relationships with its customers, but it also needs stronger relationships than those of its competition with the same individuals. Otherwise, customer loyalty may be at risk.

Keep an Eye on the Competition. The measurement of customers’ relationship strength in this research was done not only for their primary airline (i.e., the one flown most often in the past 12 months), but also for their secondary airline (i.e., the one flown next most often). As a consequence, it is possible to assess which airlines have the most relationship strength ‘distance’ from the competition used by their own customers. Those primary airlines with a large degree of separation from their secondary competition may experience less of a marketplace threat than those with little or no separation from encroaching competition. The latter may need to “watch their six”²¹ (i.e., their “six o’clock” or “rear” position) for an approaching potential peril.

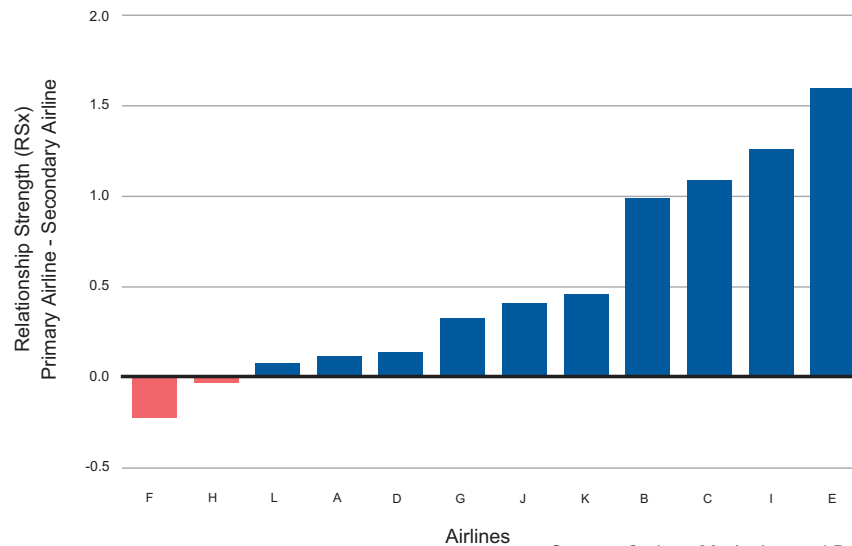
As shown in Figure 8, many airlines are positioned precariously on this continuum, with little differentiation from the secondary airlines used by their own customers in terms of relationship strength. In such circumstances, customers may possibly be prone to shift their business to a competitor with which they have an almost equally strong relationship.

This view of relationship strength also provides insight into cases where two airlines have similar levels of relationship strength, but between which the competitive threat can nonetheless be different. For example, among customers for whom Airline J is their primary airline, the relationship strength is the same as for those customers for whom Airline I is their primary airline (4.9). Even so, among those same Airline I customers, the relationship strength to their secondary airlines is considerably less than among Airline J customers, resulting in primary versus secondary relationship strength differences of 1.3 and 0.4, respectively. Therefore, Airline I appears better positioned than Airline J, since it maintains over three times more ‘distance’ (1.3) from its competition.

“Watching your six”²¹ is a requirement in today’s highly competitive airline market,” explains de Boer, “and using relationship strength as a means of doing so provides a unique perspective on the problem. Not only does an airline need strong relationships with its customers, but it also needs stronger relationships than those of its competition with the same individuals. Otherwise, customer loyalty may be at risk.”

Figure 8: Relationship Strength (RSx) Compared to the Competition

The difference between the relationship strength to a primary airline as compared to the secondary airlines used by its own customers is depicted. As that ‘distance’ increases, the primary airline is positioned more securely in terms relationship strength.



Source: Carlson Marketing and Peppers & Rogers Group

Building Stronger Relationships for Better Results

When an airline builds stronger customer relationships, several important business outcomes follow:

- The likelihood to recommend the airline to friends and colleagues increases
- The intention to fly the airline more often increases
- The total number of airlines flown (i.e., the customer’s consideration set) decreases
- The airline’s “share-of-wallet” increases

Do frequent flyer programs themselves also directly engender business benefits? *Carlson Relationship Builder* investigated a key influence of the frequent flyer program: namely, its impact when deciding to purchase a ticket from one airline rather than another.

Frequent Flyer Programs Impact the Purchase Decision. Respondents were asked to allocate ten points among factors that influence the decision to purchase a ticket from one airline versus another for business travel (Figure 9). The top three factors were (1) ticket price, (2) flight schedule and (3) privileges available as a result of membership in the frequent flyer program. The importance of these factors, as measured by the number of the points allocated to each, varied significantly as a function of the frequent flyer program membership status. As expected, price and schedule were important in all cases. However, the influence of the frequent flyer program in the purchase decision grows dramatically when comparing non-members to members in the base tier, and when comparing base-tier members to those in the elite tier. Among elite members, the influence of the frequent flyer program (2.4) in the purchase decision increases to nearly the same level as schedule (2.8) and price (2.9).

“Now that we know the direct impact of stronger relationships upon business outcomes and the direct impact of the frequent flyer program upon purchase decision,” says Bernadette Kirby, subject matter expert on airlines for Carlson Marketing, EMEA, “the question becomes whether and how frequent flyer programs can enhance business outcomes indirectly through stronger relationships.”

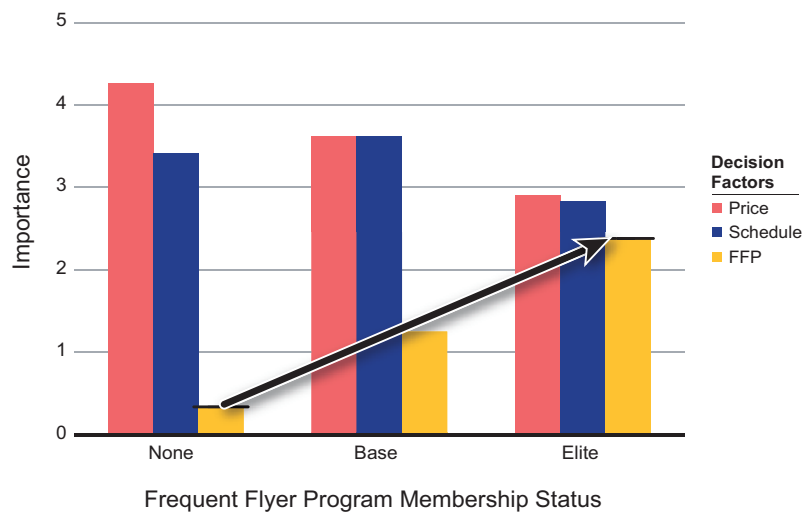
Among elite members, the influence of the frequent flyer program in the purchase decision increases to nearly the same level as schedule and price.

“The Company puts its customers at the heart of everything it does”²²

— British Airways

Figure 9: Purchase Decision

Price, schedule and the frequent flyer program are important factors in choosing an airline when flying for business. However, the impact of the frequent flyer program grows dramatically as membership status increases.



Source: Carlson Marketing and Peppers & Rogers Group

Enhancing levels of commitment, trust and alignment to the airline through the program strengthens both the emotive and economic dimensions of the relationship.

Elite Members Are Committed. Members in an elite tier of a frequent flyer program do exhibit significantly ($p < 0.05$) higher levels of commitment to their primary airline than either members in the base tier or than non-members, although there is no significant difference between the latter two (Figure 10). This finding is consistent with independent research documenting that "...loyalty does increase at the highest tier level, which suggests that once a certain standing has been acquired—especially club level {elite}—loyalty is strongest."²³

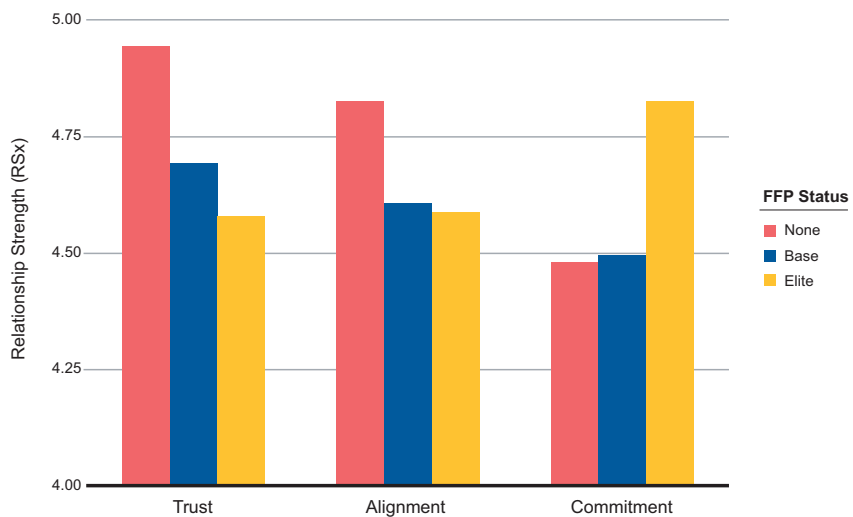
In contrast, the pattern does not hold when considering the trust or alignment components of relationship strength. In both cases, (a) there is no significant difference between base and elite members, and (b) non-members actually have superior relationship levels as compared to base members ($p < 0.05$). This problem has been independently recognized by researchers who observed that "airline loyalty programmes...often do not build an underlying affective attitude of loyalty from customers."²⁴

While most airlines exhibit the pattern illustrated in Figure 10, there are exceptions—airlines that are using their frequent flyer program to deepen engagement on *all three* components of a relationship. Airline K, for example, demonstrates increasingly strong levels of trust, alignment and commitment when comparing non-members to base-tier members, and the latter to the elite members of the frequent flyer program.

"While frequent flyer programs can succeed in building holistic relationships, they too often fall short of this goal," explains Kirby. "Enhancing levels of commitment to the airline through the program is undoubtedly good, but better still is additionally enhancing the levels of trust toward and alignment with the airline. When this occurs, both the emotive and economic dimensions of the relationship are strengthened."

Figure 10: Frequent Flyer Program Membership Status

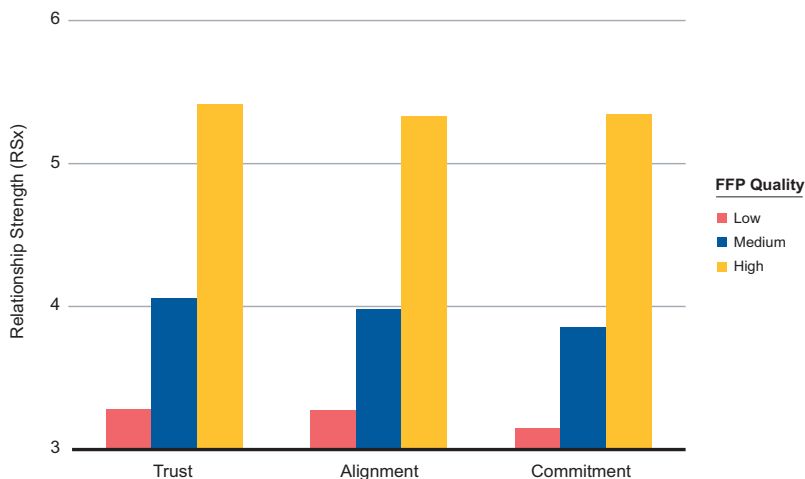
The level of trust toward, alignment with, and commitment to the airline varies by the frequent flyer program membership status. Only for the relationship component of commitment do elite members display a heightened level as compared to both non-members as well as to members in the base tier of the program.



Source: Carlson Marketing and Peppers & Rogers Group

Figure 11: Quality of the Frequent Flyer Program

Frequent flyer program quality ratings (low, medium, high) strongly impacts the degree of trust toward, alignment with, and commitment to the airline ($p < 0.01$) among individuals enrolled in one (N=1,145).



Source: Carlson Marketing and Peppers & Rogers Group

Quality of the Frequent Flyer Program Impacts Relationship Strength. How can airlines build customer engagement and relationship strength through high levels of commitment, trust and alignment? Figure 11 suggests an answer based upon whether the quality of the frequent flyer program is rated (on a 1 to 7 scale) as poor (1), satisfactory (4), or excellent (7). Customers who perceive the quality of their program highly (5, 6 or 7) have a relationship to the airline characterized by stronger levels of trust, alignment and commitment than those with a medium (4) or low (1, 2 or 3) level ($p < 0.01$).

“What this implies,” says Kirby, “is that airlines can enhance the role of their frequent flyer programs in building productive relationships by enhancing their quality. How is quality enhanced? By customizing the facets and usage of the program on a 1to1 basis to match the needs of each valued customer.”

Beyond Satisfaction

It would be understandable to think that a customer’s satisfaction with the airline and her or his relationship to the airline are two ways of saying essentially the same thing. But it would be incorrect: “...loyalty—meaning an attachment, a bond, an affection or emotional tie, a commitment—is wrongly assumed to be proxy for customer satisfaction”²³. Satisfying a customer is good, but building a strong relationship is better. Here’s why.

A customer’s intention to fly more on an airline is an outcome about which all airlines care deeply. Relationship strength and satisfaction together explain 8.5 percent of the variance in the outcome ($p < .01$)—but, using relationship strength alone delivers 96 percent of the predictive power of both combined. Additionally, when satisfaction or relationship strength individually is used as a single predictor of flying more, relationship strength explains 46 percent more variability than satisfaction. The impact of adding satisfaction into the prediction already based upon relationship strength is insignificant from both a statistical and practical perspective.

What’s the consequence of understanding that relationship strength and satisfaction are not the same? A lot. It is a distinction with a difference. If an airline marketing executive believes that satisfaction is the primary problem that needs to be solved, then the likely actions will concentrate upon service delivery and problem resolution. No doubt airlines generally need considerable improvement in these areas¹³, but success will only position the airline at parity with the competition.

If instead the critical problem is known to be building stronger relationships, then the likely actions will focus upon understanding the value and needs of each customer individually and tailoring communications and services accordingly in order to build trust toward, alignment with, and commitment to the airline. Solving *this* problem will create a customer bond that is resilient to competitive forces and one which will pay numerous business benefits, including enhancing the likelihood to fly the airline more, recommending the airline, and increasing share-of-wallet.

Three Dimensions Impact Quality *Carlson Relationship Builder* examined three dimensions that impact the perceived quality of the frequent flyer program:

1. **Program:** The attributes of the frequent flyer program itself, especially how well the program performs in delivering those that are most important
2. **Engagement:** The extent to which members are involved in the frequent flyer program
3. **Communications:** The degree to which messages are customized, relevant and sent with the right frequency

Knowing the overall importance placed upon frequent flyer program attributes is useful but from a 1to1 perspective, it is more useful to understand differences between customers rather than similarities among customers.

1. Program Attributes Impact Quality. Customers enrolled in a frequent flyer program perceive the *importance* of its attributes quite differently (Figure 12). Not surprisingly, the ability to easily earn and redeem for award travel on the primary airline is generally of most significance, followed closely by the ability to do the same with program partners. “Knowing the *overall* importance placed upon frequent flyer program attributes is useful,” notes Kirby, “but from a 1to1 perspective, it is more useful to understand *differences* between customers rather than *similarities* among customers.” For example, there is a cluster consisting of 30 percent of respondents who place an above average level of importance on the ability to redeem for merchandise. Individuals in this cluster are distinguished in part by a lower frequency of business travel, but are characteristically average in terms of tenure in the frequent flyer program and in the proportion of elite tier members.

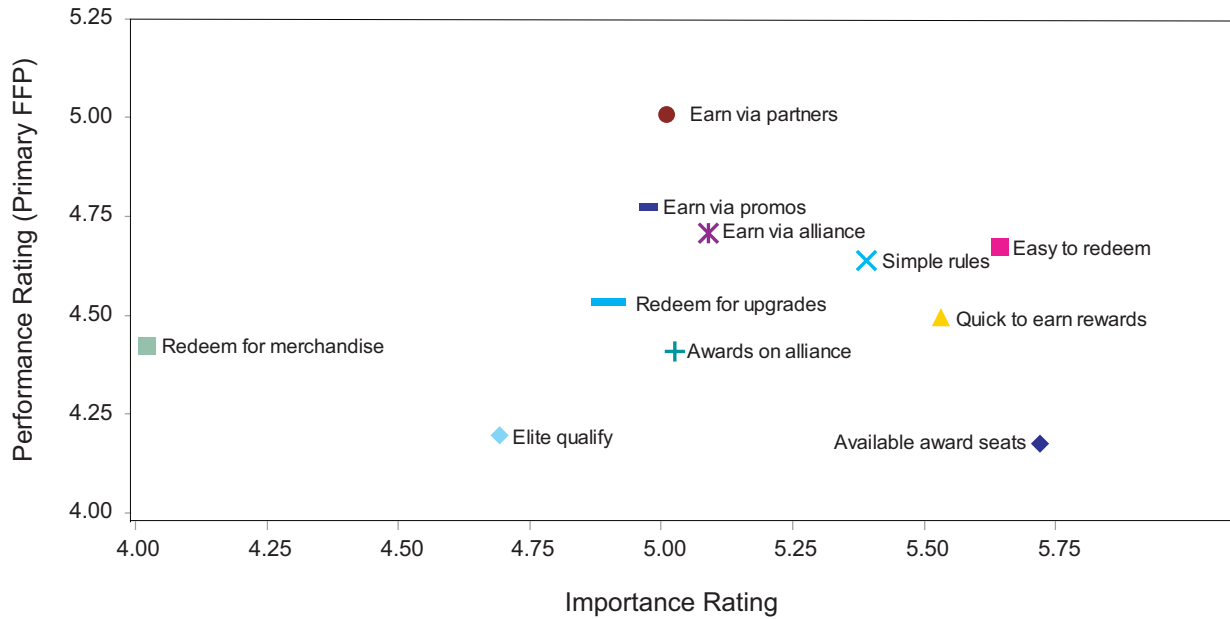
The *performance*—or how well a frequent flyer program executes these same attributes—also varies considerably. For each program attribute, Figure 12 displays both its importance and performance score on a two-dimensional map. If the emphasis placed upon delivering the attribute by the airline matched the importance placed upon it by customers, then the points would be expected to reside on a diagonal from lower-left (low importance, low performance) to upper-right (high importance, high performance). The absence of this pattern suggests that airlines would be well advised to reassess the program priorities. For example, the ability to earn points through promotions is much more important to customers than the ability to redeem points for merchandise, yet the perceived ability of the airline to deliver against each is about the same. In particular, note that the availability of seats for award travel is problematical, given that it was rated both *highest* on importance and *lowest* in performance among all of the attributes.

So which frequent flyer program attributes matter most? The contribution of the performance of each of these attributes was identified by using them to predict the quality rating of the frequent flyer program. The ability of members to *easily redeem* and to *easily earn* combined with *simple rules* are the facets that are most influential in distinguishing those who rate the program highly from the remainder.

“These insights are fundamental,” says Kirby, “because they can guide the marketer toward changes that will lead to improvements in the perceived quality of the frequent flyer program. And that’s important, because as the program quality increases, the trust toward, alignment with, and commitment to the primary airline increases as well. And that’s even more important, because as all three of these components of relationship strength increase, so too do the likelihood to recommend the airline and the intention to fly it more often.”

Figure 12: Importance and Performance of Frequent Flyer Program Attributes

Frequent flyer program attributes were rated in terms of importance (1="not at all important," 7="very important") and performance (1="poor," 4="satisfactory," 7="excellent") among respondents enrolled in a program (N=1,145).

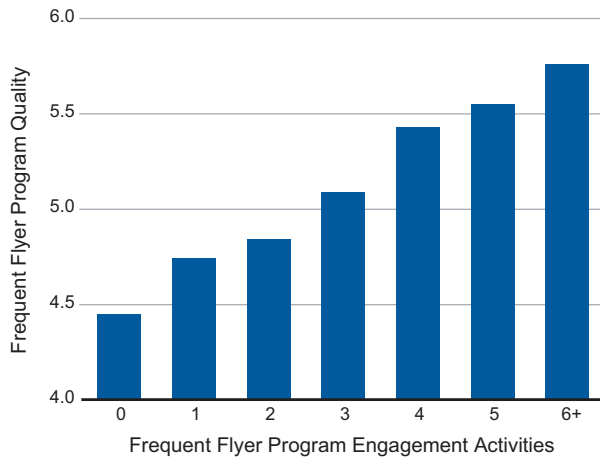


Frequency Flyer Program Attribute	Importance
◆ Availability of seats for award travel	5.73
■ Overall ease of redeeming for travel awards	5.65
▲ Ability to quickly earn travel awards	5.54
✕ Simplicity of program rules	5.40
✱ Opportunity to earn miles by flying with alliance/partner airlines	5.10
● Opportunity to earn miles by using non-airline partners (credit card, car rental, hotels)	5.04
✚ Ability to use awards on alliance/partner airlines	5.03
▬ Opportunity to earn miles through special bonus mile offers and promotions	4.99
▬ Ability to redeem miles for upgrades	4.93
◆ Overall ease of qualifying for elite or preferred status	4.70
■ Ability to redeem miles for non-airline awards (merchandise, services)	4.03

Source: Carlson Marketing and Peppers & Rogers Group

Figure 13: Engagement in Frequent Flyer Program

A higher number of engagement activities in the past 12 months leads to an improved assessment of the quality (1="poor," 4="satisfactory," 7="excellent") of the frequent flyer program (p<0.01) among respondents enrolled in a program (N=1,145).



Source: Carlson Marketing and Peppers & Rogers Group

2. Program Engagement Impacts Quality. An increased number of interactions with the frequent flyer program leads to a more favorable assessment of the frequent flyer program (Figure 13). "This suggests," notes Kirby, "that airlines should concentrate on executing 1to1 tactics that energize member activity in the program."

The specific frequent flyer program engagement activities and their associated level of occurrence are listed in Figure 14. Redeeming for travel awards in North America is the most common (31 percent) method of engagement, followed by updating a profile on the program website (26 percent) and using a program's credit or debit card to earn miles (21 percent). Surprisingly, almost two of out every five members (38 percent) report no interactions with their frequent flyer program, representing an untapped opportunity among this subset of customers. "Realizing that opportunity," explains Kirby, "requires an understanding of each individual member's needs and preferences, to enable more relevant and customized communication of the program facets."

"Kuwait Airways aims at setting the standard for customer orientation"²⁵

— Kuwait Airways Vision Statement

Figure 14: Types of Engagement in Frequent Flyer Program

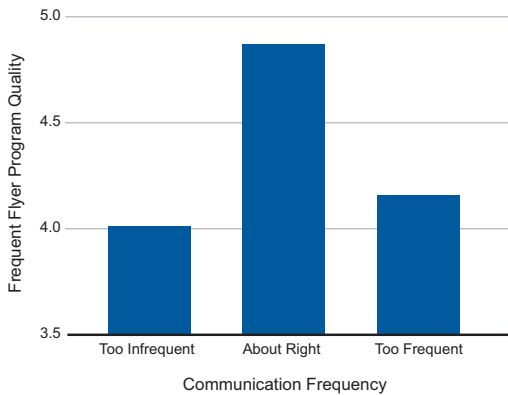
A higher number of engagement activities in the past 12 months leads to an improved assessment of the quality (1="poor," 4="satisfactory," 7="excellent") of the frequent flyer program (p<0.01) among respondents enrolled in a program (N=1,145).

Engagement Activity	Percent
Redeemed for travel awards within North America	30.9
Went to the frequent flyer program website to update my personal profile	25.9
Earned miles by using my frequent flyer program's credit or debit card	21.3
Registered for an online promotion	13.5
Responded to a partner offer (special rate on car rental or hotel)	11.4
Redeemed for upgrade to first class or business class	9.6
Redeemed for travel awards outside North America	6.9
Converted "currency" from another program into miles within my primary airline's program	2.7
Purchased miles to reach the next travel award faster	2.4
Redeemed for non-airline awards (merchandise, services)	2.3
Donated miles to charitable organizations	2.2
Purchased miles as a gift for a friend or family member	1.2
Exchanged miles for "currency" in another loyalty program	0.7
None of the above	37.8

Source: Carlson Marketing and Peppers & Rogers Group

Figure 15: Communication Frequency

Communications that are either too infrequent or too frequent result in a poorer perception of the quality of the frequent flyer program ($p < 0.01$) among respondents enrolled in a program ($N = 1,145$).



Source: Carlson Marketing and Peppers & Rogers Group

3. Communications Impact Quality. The extent to which communications are relevant and customized have a strong influence on the perceived quality of the frequent flyer program (Figure 16). Increases in both relevance (i.e., the degree to which the communication addresses the individual’s needs) and customization (i.e., the extent to which the message is tailored for the person) both lead to an improved view of program quality ($r = 0.55$ and 0.49 respectively, $p < 0.01$), with a more pronounced effect for relevance (81 percent) than customization (62 percent) as the communication improves from low to high. Members in the elite tier perceive the communications as more relevant (4.4) and customized (4.2) compared to those in the base tier (4.0 and 3.9, respectively).

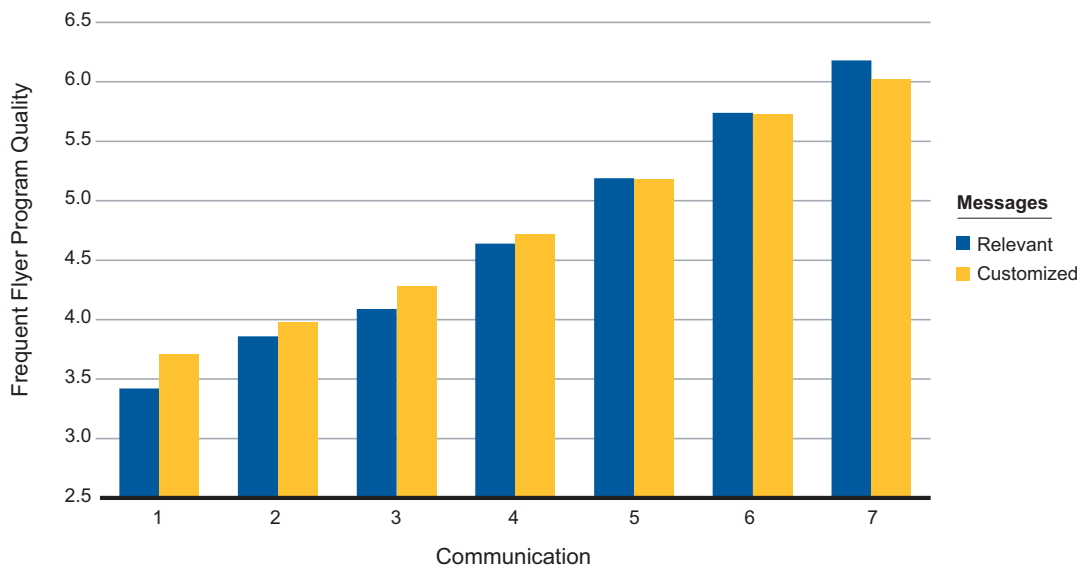
Getting the frequency of communication right is important, too (Figure 15). Increasing the incidence from “too infrequent” to “about right” improves the perception of the quality of the frequent flyer program by 21 percent, and reducing the incidence from “too frequent” to “about right” yields a 17 percent impact.

Consumers have a strong preference for tailored communications. Almost four out of five (79 percent) report having an interest in receiving personalized content, and over half are willing to disclose demographic information about themselves (52 percent) and to spend 2 to 10 minutes answering questions about their interests (51 percent) in order to enable personalization to occur.²⁶

“The role of communications should not be underestimated in creating a high quality frequent flyer program,” says Kirby. “Enhancing the relevance and customization of messages delivered at the right frequency impacts the program’s quality, which enhances the strength of the relationship to the airline.”

Figure 16: Communication Relevance and Customization

Both the extent to which messages are relevant (1=“not at all relevant,” 7=“very relevant”) and customized (1=“not at all customized,” 7=“very customized”) strongly influence the perceived quality of the frequent flyer program ($p < 0.01$) among respondents enrolled in a program ($N = 1,145$).



Source: Carlson Marketing and Peppers & Rogers Group

Understanding Airline Relationships

The strength of a customer's relationship to an airline is influenced by several factors, and that relationship in turn impacts a number of outcomes. Each of these linkages are depicted in the structural equation model²⁷ shown in Figure 17 (see page 20).

To understand the model, begin by realizing that the value of the weights²⁸ on each connection (i.e., "arrow") in the diagram represent the amount by which the "output" (e.g., 0.58 for recommend the airline) will change when the "input" (e.g., trust and alignment) is increased by one unit, and each was found to be statistically significant ($p < 0.01$).

The model seeks to identify and quantify the direct and indirect influences upon four key outcomes.

- 1. Use FFP Partners.** Using the partners of the frequent flyer program, such as an affiliated credit card, a hotel partner, a car rental partner, or an alliance partner airline
- 2. Recommend Airline.** The likelihood to recommend the airline to a friend or a colleague
- 3. Forego Other Airline Benefits.** The willingness to forego benefits that other airlines might offer because of the advantages that the frequent flyer program provides
- 4. Fly More on Airline.** The intention to fly more on the airline in the next 12 months

The model shows that changes in these outcomes are dependent upon four key antecedents or drivers of the relationship together with the strength of the relationship itself.

- 1. 1to1 Communications.** The relevance, customization and frequency of communications directly influences each of the other three antecedents: the perception of the customer experience (0.58), the brand (0.21), and the frequent flyer program (0.38).
- 2. Customer Experience.** The experience of the customer is largely judged by the perception of friendliness and competence of airline personnel, the check-in process, the proper handling of luggage, and the care delivered to the passengers while in-flight. This antecedent also directly influences the remaining three: the perception of the 1to1 communications (0.58), of the brand (0.79), and of the frequent flyer program (0.42).
- 3. Frequent Flyer Program.** The perception of the facets of the frequent flyer program—simplicity of the rules, ability to easily redeem, the availability of award seats for travel, the ability to quickly earn miles or points, and the ease of qualifying for elite status—are all important. The program directly impacts the commitment component of relationship strength (0.16), as well as three important outcomes: the use of the partners of the programs (0.35), the likelihood to recommend the airline (0.23), and the willingness to forego benefits that other airlines might offer because of the advantages that the program provides (0.32). The willingness to forego benefits is also influenced by commitment (0.39) as is the intention to fly more on the airline (0.13), an outcome that is also impacted by the use of program partners (0.29).

What we now know is that airlines need to put all of the pieces of the puzzle together in order to enhance their own business results. It is about the 1to1 communications and the frequent flyer program and the customer experience and the brand.

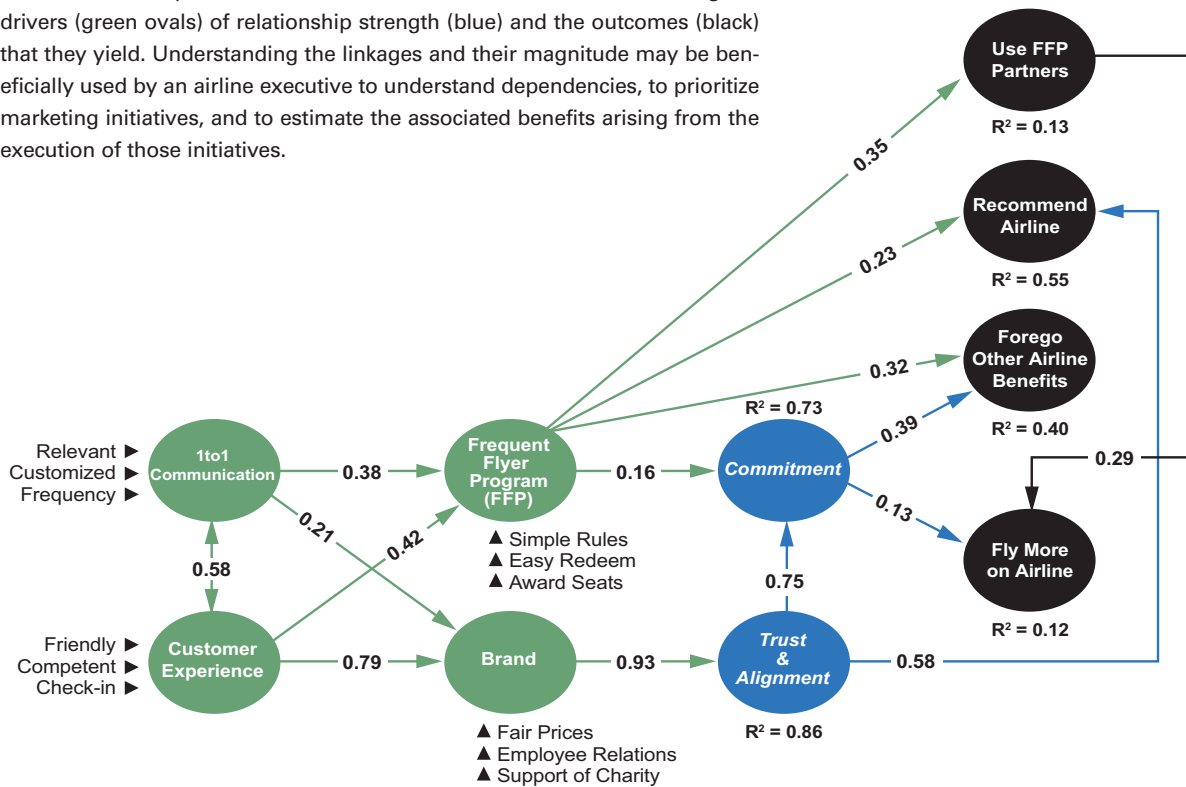
4. Brand. A customer’s perception of the airline’s brand is a composite of several factors, including the perceived financial stability of the airline, the airline’s relations with its employees, its support of charitable activities, its environmental sensitivity, its friendliness for families, and whether it meets the needs of business travelers. Brand directly impacts the trust and alignment components of relationship strength (0.93), which in turn impacts the likelihood to recommend the airline (0.58).

“What we now know,” explains de Boer, “is that airlines need to put *all* of the pieces of the puzzle together in order to enhance their own business results. It is about the 1to1 communications *and* the frequent flyer program *and* the customer experience *and* the brand, all of which are important.”

“In particular, this means the quality of the marketing—1to1 communications and the frequent flyer program—can not only influence key business outcomes, but can also influence the strength the airline’s customer relationships,” continues de Boer. “These relationships magnify the likelihood to recommend the airline and the intention to fly the airline more, reduce the total number of airlines flown, and enhance the airline’s share-of-wallet.”

Figure 17: Airline Relationships

Airline relationships are a web of interconnections between and among the drivers (green ovals) of relationship strength (blue) and the outcomes (black) that they yield. Understanding the linkages and their magnitude may be beneficially used by an airline executive to understand dependencies, to prioritize marketing initiatives, and to estimate the associated benefits arising from the execution of those initiatives.



Source: Carlson Marketing

Ten Insights About Airline Relationships

What should an airline marketing professional learn and leverage from this edition of *Carlson Relationship Builder*? The lessons include:

- 1. Relationship Strength Varies Widely Among Airlines.** The customers of the large, legacy carriers generally have lower levels of relationship strength to the airline as compared to customers of the smaller, younger carriers.
- 2. Airlines Have Different Mixes of “Champions” and “Critics.”** Customers with high relationship strength (champions) outnumber those with lower relationship strength (critics). Compared to critics, champions indicated taking a greater percentage of both business and leisure trips on their primary airline. Nearly 29 percent of champions said they would likely increase the number of trips they take on their primary airline next year, compared to just over 8 percent of critics.
- 3. Stronger Relationships Fuel Word-of-Mouth Marketing.** Customers with high levels of relationship strength are more likely (9.2) than those with low levels of relationship strength (4.5) to recommend their primary airline to a friend or colleague (on a scale ranging from 0=“not at all likely” to 10=“very likely”).
- 4. Integrity Matters—Both for Stronger Relationships and for Better Business Results.** Customers who intend to fly the same amount or more on any airline next year and who give their primary airline high marks for integrity (a key measure of the trust component of relationship strength) intend to increase travel on their primary airline at a rate 2.7 times higher than those who gave low marks for integrity.
- 5. Understanding Customers’ Needs Leads to Better Business Results.** Customers who agree that their primary airline understand their needs reported booking a significantly greater percentage of their flights with their primary airline than those who disagreed (64 percent of flights versus 57 percent). These individuals were also twice as willing to forego offers from other airlines because of the benefits and privileges they receive from their primary airline’s frequent flyer program, and showed significantly higher intentions to increase their share-of-wallet with their primary airline in the next 12 months.
- 6. Frequent Flyer Programs Impact the Purchase Decision.** The privileges of frequent flyer program membership were cited by customers as a significant factor—after price and schedule—when choosing among airlines for either leisure or business travel. The better the program, the higher the status (elite tier), and the greater the travel frequency—the more the frequent-flyer program weighs into the decision regarding which airline to fly.
- 7. Engagement in the Frequent Flyer Program Builds Stronger Relationships and Better Results.** Frequent flyer program members who engaged in their primary airline’s program in any way in the past 12 months reported significantly higher ratings of the program’s quality, higher relationship commitment, a greater willingness to forego offers from other airlines, and a higher likelihood to increase travel on their primary airline in the next 12 months. In addition, travelers redeeming miles for at least one domestic ticket in the past 12 months reported a 20 percent increase in willingness to forego offers from other airlines because of the frequent-flyer program.
- 8. People Matter in the Perception of the Frequent Flyer Program.** Strong correlations exist between customers’ opinions of the friendliness and competence of airline personnel and their ratings of not only the quality of the frequent flyer program ($r=0.45$), but also of the performance of the airline ($r=0.77$) and the intention to increase travel on the primary airline in the next 12 months ($r=0.16$).
- 9. Frequent Flyer Program Elite Status Fosters Commitment (But Not Necessarily Trust or Alignment.)** Customers having elite status within their primary airline’s frequent flyer program show significantly greater levels of commitment to those airlines than those in the base tier or simply not in the frequent-flyer program. On the contrary, non-elite and non-program members showed significantly higher levels of trust and commitment to their primary airlines than elite members.
- 10. Airlines Must Put It All Together.** No one factor alone is responsible for building the stronger customer relationships required to deliver the business results that airlines need today. Airlines must not only design and deliver a high-quality frequent flyer program, but must also ensure that the customer communications are relevant and timely; that customer interactions with airline personnel are friendly; and that the brand is seen positively by customers as having fair prices and supporting charitable and environmental causes. Some airlines are doing better than others. However, the ultimate prize of customer loyalty will go to those airlines that succeed in putting all the pieces together.

Source: *Carlson Marketing and Peppers & Rogers Group*

“At the core of our philosophy is the firm belief that people who fly with us are our guests and not mere passengers.”²⁹

— Dr. Sheikh Ahmed bin Saif
Al Nahyan, Chairman,
Etihad Airways

Conclusion

This edition of *Carlson Relationship Builder* was able to answer affirmatively three essential questions for airline marketers.

1. *Do customers have relationships with airlines?* Yes—among brands the strength of customer relationships varies considerably; and within brands, there is a set of “champion” customers with strong relationships and another set of “critics” with weak relationships.
2. *Do stronger customer relationships with airlines impact business outcomes?* Yes—the likelihood to recommend the airline, the intention to fly more, and an improved share-of-wallet are just three of the benefits documented through this research.
3. *Can frequent flyer programs be used to develop stronger relationships?* Yes—a frequent flyer program can directly influence the decision to purchase a ticket from one airline versus another. Indirectly, the quality of the program influences the strength of the relationship that in turn impacts business outcomes.

Equipped with these insights, what might a senior marketing professional do next?

1. *Evaluate.* Do I know the strength of the relationship to my airline for each member in the frequent flyer program? How does the relationship strength vary by membership tier, by tenure in the program, by business versus leisure travelers?
2. *Prioritize.* Which customer touchpoints have the greatest positive (or negative) influence upon changes in the strength of the relationship? Which touchpoints can be most easily and quickly improved?
3. *Execute and Measure.* Which customer touchpoints can be most readily tested in order to demonstrate a solid business case for focusing upon the strength of customer relationships as a source of strategic marketing differentiation?

Airline frequent flyer programs have been in existence for over a quarter of a century³⁰. Now is the time to consider how these programs may be transitioned to a new level of effectiveness. Now is the time to understand and to act upon the strength of the relationships among members in these programs. As one business author said so succinctly:

*“Of the firm’s various assets, none is more important than its present relationships, because the strength of relationships with customers as well as other stakeholders is a fundamental indicator of the business’s future success. Relationships are predictive. All else is history.”*³¹

Endnotes

- ¹ History of Loyalty Programs. Retrieved February 5, 2008 from: <http://www.frequentflyer.com/ffp-005.htm>
- ² (2007, July) Travel Loyalty Programs. Mintel International Group, Ltd.
- ³ Baumgartel, J. (2007, January) Best Practice of Customer Relationship Management (CRM) in the Airline Industry.
- ⁴ Morgan, R. M., and Hunt, S. D. (1994, July) The Commitment-Trust Theory of Relationship Marketing. *Journal of Marketing*, 58, 20-38
- ⁵ Hargreaves, S., and Lamothe, K. (2007, November 9) How \$100 oil would cost you. Retrieved February 7, 2008 from: http://money.cnn.com/2007/11/09/news/economy/oil_pay/index.htm
- ⁶ Maynard, M. (2005, June 10) For air travelers, the frill is gone. *International Herald Tribune*. Retrieved February 8, 2008 from: <http://www.iht.com/articles/2005/06/10/business/air.php>
- ⁷ (2008, February 5) Airline delays: 2007 second worst year on record. Retrieved February 6, 2008 from: http://money.cnn.com/2008/02/05/news/airlines_delays.ap?postversion=2008020516
- ⁸ Leocha, C. (2007, March 30) Airlines in bankruptcy land. Retrieved February 6, 2008 from: <http://www.msnbc.msn.com/id/17858408/>
- ⁹ Grossman, D. (2006, December 17) Airline mergers: Déjà vu all over again? *USA Today*. Retrieved February 19, 2008 from: http://www.usatoday.com/travel/columnist/grossman/2006-12-17-airline-mergers_x.htm
- ¹⁰ Sorensen, C. (2007, December 27) Ups, downs of a spinoff. Retrieved February 19, 2008 from: <http://www.thestar.com/printArticle/288832>
- ¹¹ (2007, September 27) FL Group calls on American Airlines to spin off frequent flyer program. Retrieved February 19, 2008 from: <http://www.forbes.com/markets/feeds/afx/2007/09/27/afx4161932.html>
- ¹² Perkins, E. (2007, November 5) The future for frequent flyer programs. Retrieved February 19, 2008 from: <http://www.smartertravel.com/travel-advice/the-future-for-frequent-flyer-programs.html?id=2457357>
- ¹³ Yu, R. (2007, May 15) Airlines score lower than IRS in customer satisfaction. *USA Today*. Retrieved February 5, 2008 from: http://www.usatoday.com/travel/news/2007-05-15-airline-survey-usat_N.htm
- ¹⁴ Retrieved February 5, 2008 from: http://www.southwest.com/about_swa/mission.html
- ¹⁵ The *Carlson Relationship Builder* white papers for the financial services, retail and automotive industries may be obtained from: <http://www.carlson1to1.com/loyalty>
- ¹⁶ Reed, D. (2007, October 16) Airlines may never fly right on customer service, experts warn. *USA Today*. Retrieved February 5, 2008 from: http://www.usatoday.com/money/industries/travel/2007-10-16-bad-airline-service_N.htm
- ¹⁷ The breakpoint separating the low from the middle range of relationship strength scores is 3.75 (25th percentile); and, from the middle to the high, is 5.75 (75th percentile)
- ¹⁸ Roper Reports (2005, February 24). New Insights on Word-of-Mouth. Retrieved April 27, 2007 from: www.nop-on-sight.com
- ¹⁹ GfK Roper Consulting (2007, January 11) Want Loyal Customers? Offer Consistent Quality.
- ²⁰ Kumar, V., Petersen, J. A., and Leone, R. P. (2007, October) How Valuable Is Word of Mouth? *Harvard Business Review*, 139-146
- ²¹ "Watch your six" is a contraction of "watch your six o'clock position" which is fighter pilot jargon for "watch your back," based upon the use of a clock face as a cockpit reference.
- ²² British Airways Plc (2007, March 31) Annual Report and Accounts. Retrieved February 7, 2008 from: http://media.corporate-ir.net/media_files/irol/69/69499/Annual_Report_and_Accounts.pdf
- ²³ Whyte, R. (2002) Loyalty marketing and frequent flyer programmes: Attitudes and attributes of corporate travelers. *Journal of Vacation Marketing*, 9(1), 17-34
- ²⁴ Bejou, D. and Palmer, A. (1998) Service failure and loyalty: An exploratory empirical study of airline customers. *The Journal of Services Marketing*, 12(1)
- ²⁵ Retrieved February 7, 2008 from: <http://www.kuwait-airways.com/Default.aspx?pagelD=22&>
- ²⁶ 2006 ChoiceStream Personalization Survey. Retrieved November 1, 2007 from: <http://www.choicestream.com>
- ²⁷ A structural equation model is commonly considered to be "good" if it has both low error (i.e., root mean square error of approximation [RMSEA] < 0.080) as well as high fit (i.e., comparative fit index [CFI] > 0.900). By these criteria, the model in Figure 17 is quite good (RMSEA = 0.055, CFI = 0.946; p<.01).
- ²⁸ The path coefficients in the standardized structural equation model in Figure 17 range from -1 (a very strong inverse association) to +1 (a very strong direct association). For example, a 0.79 path coefficient represents a moderate to strong, positive association between the two constructs. Stated differently, it may be interpreted as: "if you raised the score for the first (causal) factor by 100, then the second factor would be expected to increase by 79."
- ²⁹ Retrieved February 7, 2008 from: <http://www.etihadairways.com/etihadairways/us/en/aboutetihad/chairmansmessage/ChairmansMessage.htm>
- ³⁰ History of loyalty programs. Retrieved February 7, 2008 from: <http://www.frequentflyer.com/ffp-005.htm>
- ³¹ The quotation was authored by Ian Gordon, President, Convergence Management Consultants Ltd., and appeared in: (2002) *Improving Growth and Profits through Relationship Marketing*. American Productivity & Quality Center.

Research Team

This exploration of airline customer relationships involved contributions from many members of Carlson Marketing and Peppers & Rogers Group, especially: Luc Bondar (Vice President of Loyalty, Carlson Marketing), who provided the overall direction and vision; Thomas Lacki, Ph.D. (Senior Advisor, 1to1 Faculty, Peppers & Rogers Group), who provided conceptual direction and authored the white paper; Will Wittkopf (Global Director of Loyalty Marketing, Carlson Marketing), who analyzed data and delivered fact-based insight; Jack Sundstrom (Director, Research, Carlson Marketing) who managed the project; and Marji Chimes (Vice President of Media and Marketing, Peppers & Rogers Group) who improved the content of this white paper through her advice and counsel.

Carlson Marketing

Carlson Marketing helps global *Fortune* 1000 clients increase their ROI by designing and delivering sales and marketing programs that drive measurable results. Carlson provides its clients with innovative marketing concepts, coupled with rock solid delivery across its global service offerings: Brand Engagement (including Loyalty Marketing, Recognition & Rewards, Creative and Interactive, Events and Measurement) and Sales Empowerment (including Incentive & Recognition Events, Business Meetings, Training and Enterprise Travel Solutions).

Carlson Marketing employs 3,000 marketing professionals across 19 countries. For more information visit: www.carlsonmarketing.com

Peppers & Rogers Group

Peppers & Rogers Group is a management consulting firm, recognized as the world's leading authority on customer-based business strategy. Founded in 1993 by Don Peppers and Martha Rogers, Ph.D., the firm is dedicated to helping companies grow the value of their business by growing the value of their customer base. The goal is to develop and execute strategies that create immediate return on investment and long-term customer value. Peppers & Rogers Group maintains a significant voice in the marketplace with its 1to1® Media properties. Led by *1to1® Magazine*, these print, electronic and custom publications reach more than 250,000 decision-makers. Peppers & Rogers Group is headquartered in Norwalk, Conn. More information is available at: www.peppersandrogersgroup.com

Carlson Relationship Builder Series

To download research from other industries in the *Carlson Relationship Builder* series, please visit:

www.peppersandrogersgroup.com