

Loyalty programs: the vital safety feature for airlines to survive COVID-19

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Abstract

Purpose – The airline industry has been severely impacted by COVID-19 due to widespread travel restrictions. Its current response is crucial to ensure continued operations after the global pandemic is resolved. One resource the airlines are leveraging is loyalty programs. This study aims to examine the viability of leveraging loyalty programs in times of crisis.

Design/methodology/approach – This study employs a case study methodology to examine how one company, American Airlines, has used its loyalty program to survive a pandemic and alleviate the financial costs associated with limited and restricted travel.

Findings – American Airlines' AAdvantage loyalty program structure may be used as a benchmark to understand how airlines can anchor their loyalty base to reinvigorate travel interest and use these programs as safeguards in critical instances that may arise in the future.

Research limitations/implications – The case was bound by the fact that the pandemic was still a threat during the time of analysis. The findings of this case study go beyond the airline industry and may inform other hospitality and tourism organizations on the benefits of loyalty programs in times of financial distress.

Originality/value – This is the first known case study examining the strengths and opportunities of the structure of the American Airlines' AAdvantage program as a means for surviving in a time of crisis. Moreover, understanding how to mitigate the long-term effects of crises may help to inform future short-term strategies of airlines and other hospitality and tourism organizations for navigating unexpected shocks to their ecosystem.

Keywords Airline industry, Loyalty programs, Safeguards

Paper type Research paper

Introduction

Within the hospitality industry, the travel and tourism sectors are among some of the most negatively impacted by the COVID-19 pandemic, with the US airline industry alone incurring \$46bn in pre-tax losses (\$35bn net losses) in 2020 (Airlines for America, 2021). Travel restrictions and health concerns associated with spreading the virus created a stigma that many analysts/experts are concerned will long outlast the end of the pandemic. These concerns are not only associated with customers returning to airline travel with a sense of ease and comfort previously felt but also the long-term impact of job losses within the travel industry. The US Travel Association estimates that the travel industry provided employment for one in ten Americans prior to COVID-19 and further estimates that half of all travel-supported jobs have been lost from the onset of the pandemic through May of 2020

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(US Travel Association, 2020). How the industry has and continues to respond is crucial to the recovery process for airline operators.

One immediate source of relief for these US carriers is their currently established loyalty programs. From American Airlines AAdvantage, Southwest Rapid Rewards, United Airlines MileagePlus, Delta SkyMiles, JetBlue TrueBlue and myriad others, these programs not only provide reassurance from a financial standpoint in times of prosperity, but they also present airlines with a captive audience to reinvigorate travel interest that may assist in thrusting the industry out of times of uncertainty. It is important to note that the airline industry has experienced various shocks to its ecosystem in the past, such as losses due to natural disasters or civil/political unrest, but it has never dealt with a global disturbance of this scale that has affected all of their destinations across all markets.

This case study highlights the strengths and opportunities afforded by American Airlines through the structure and strategic design of their AAdvantage loyalty program. By specifically examining American Airlines AAdvantage program, one of the industry's largest leaders, one can identify best practices for the overall industry's response. Specifically, the case will highlight further implications and recommendations for unexpected financial impacts due to biological occurrences such as global pandemics. This study examines how COVID-19 has impacted airline loyalty programs and what immediate outcomes can be discerned from the industry's current response. By analyzing the industry's response, American Airlines AAdvantage's response, American Airline's marketing considerations and AAdvantage as a financial safeguard, a more holistic understanding of how to survive an economic downturn by leveraging loyalty programs is explored and explained.

The Industry's response

What is uniquely remarkable about the COVID-19 pandemic is how it does not discriminate when looking at its overarching impact within the travel and tourism sectors. Airlines, in particular, have not been exempt from the devastating effects of this global epidemic. The need for swift and effective solutions by both the world's largest and smallest airlines alike has accelerated the industry's response. With bailout funding running out worldwide, airlines have a mandate to pivot and focus on their target audience and loyalty bases for financial reprieve and development of recovery plans. Some strategies are simply designed around encouraging flyers to get back in the seats of aircraft by emphasizing protocols such as cleaning planes, distribution of disinfectant kits, highlighting existing safety practices, limiting contact with the crew, canceling routes or reducing their frequency, and offering refunds or flexible bookings (Foussianes, 2020). These are all practical safety measures that major carriers, including American Airlines, Delta, Alaska Airlines, Emirates, Southwest and JetBlue, have implemented to address overwhelming customer concerns and to soften the blow of financial losses incurred. These efforts are being guided by airlines who are working with authorities from the Centers for Disease Control and Prevention and the State Department as growing concerns arise in anticipation of peak travel season for frequent travelers (Burroni and Rizzo, 2020).

Airlines have had to come to terms with the fact that they will be required to rely heavily on their loyalty programs in order to survive the wave of uncertainty that has hit the industry with full force. Elite status extensions, waiving points expiration dates and lowering award thresholds are all recurring themes across the industry adopted by Air Canada, American Airlines, Avianca, British Airways, Delta, JetBlue, LATAM, Qantas, Qatar Airways, Southwest Airlines, Turkish Airlines, United Airlines and Virgin Atlantic (Adams, 2020). Additionally, airlines are leaning on their partnerships with credit cards, hotels and rental car companies.

With regard to credit cards, travelers are incentivized by offers of lower point thresholds for redemptions and higher points awards for dollars spent. This is especially true of the larger carriers, including American Airlines credit cards issued by Barclays, American Airlines credit cards issued by Citi and Delta credit cards issued by American Express (Young, 2020). Another attempt to garner frequent traveler trust has come directly from airline CEOs who have taken a more active role in customer outreach. Delta's CEO Ed Bastian, for example, "is emailing customers weekly with updates of what the airline is doing in reaction to COVID-19," driving home the importance of keeping customers engaged and informed during these unprecedented times (Gazdik, 2020, np).

Even with these additional measures, airlines are faced with an uphill battle when attempting to activate their customer base in conjunction with mitigating global fears associated with flying. Consequently, airlines have come to understand the importance of their loyal customers and, in their desire to retain them, have adapted current industry standards to allow for the easing of status requirements, extending the validity of status and easing restrictions through the duration of the pandemic (Perkins, 2020). Loyalty programs have increasingly become a key fiscal and marketing asset for airlines across all markets and a crucial part of the industry's response to COVID-19.

Theory of loyalty program dynamics

Marketing scholars have recently proposed a theory of loyalty program dynamics to empirically explain the operational, psychological and design characteristics that support the relational stages the customer experiences through a company's loyalty program over time (Kim *et al.*, 2021). The foundational support for this theory asserts that loyalty program relationships evolve across stages. First, there are cognitive value appraisals where the customer identifies the financial benefits of the rewards program. Next, an emotional value is formed in which an exclusive bond is formed between the customer and the organization (Kim *et al.*, 2021; Zhang *et al.*, 2016). The cognitive and emotional evaluations of the relationship are fluid and occur across the four stages (acquisition, onboarding, expansion and retention) that a customer experiences in their relationship with a loyalty program (Kim *et al.*, 2021). These relationship stages go beyond the way in which the customer uses the program and reflect the "nuanced, time-dependent spectra of customer engagement" (Kim *et al.*, 2021, p. 80). Additionally, companies can mine data to identify where a specific customer exists across the four relationship stages, and they may use this information to simultaneously engage new customers and even revitalize the relationship with dormant customers.

As the way in which customers engage is time-bound, it stands to reason that considering the environmental context is also important. For example, in times of a pandemic, using this theory of loyalty program dynamics, one can reason that focusing on revitalizing dormant relationships may be the most effective tactic for an organization. This may be attributed to the fact that emotional and cognitive value appraisals have already transpired. An emphasis may be placed on expansion or bringing individuals up through the tiers and surprising customers with bonus points to keep them engaged (Kim *et al.*, 2021). As airline carriers leverage loyalty programs to attract and retain loyal customers, this theory of loyalty program dynamics helps to support and explain the expansion strategies that may be employed during times of health crisis or other uncertainties.

American Airlines AAdvantage's response

While the pandemic may be affecting all carriers, American Airlines has a singular advantage when it comes to sheer size, enrolled loyalty participants, and general market

share and scope. This has led to a more powerful response overall compared to its competitors when it comes to the access to resources and mobilizing their customer reach. American Airlines reported revenues of \$11,960m for Q219, which was an increase over the previous quarter, after a steady period of growth where the company's revenues ended 2018 with a total of \$44,541m, an increase of 4.5% over 2017 (Marketline, 2020, p. 3). As one of the largest multinational flight operators, American Airlines' success can be attributed to its AAdvantage program, and the company is able to clearly cite its robust frequent flyer program as one of its strengths that has led to an increase in customer loyalty (Marketline, 2020).

One of the challenges that American Airlines has faced, despite its leading position within the industry, is its already well-established loyalty point foundation. While the airline has enjoyed continued recent growth, the pandemic requires the carrier to respond to this unprecedented moment and the requisites of its loyal client base. This is mitigating the amount of loss of this customer segment, which is crucial to the company's strength and international presence. As of 2015, it is estimated that there are approximately 100 million members enrolled in the AAdvantage program, with almost 60,000 of those being Executive Platinum members, the highest tier offered (Leff, 2015). This has required American Airlines to tackle the enormous task of reinvigorating this base to secure their continued loyalty and engagement with the brand despite the challenges posed by COVID-19. As a result, the operator has been able to mobilize their customer base by addressing concerns such as cleanliness, regulating staff/customer contact, policy adjustments including the waiving of certain fees and the consolidation of routes by leveraging their existing partners via the Oneworld Alliance. Keeping in mind that the Oneworld Alliance is one of the world's leading airline alliances with over 1,000 destinations across 150 countries, this is an invaluable asset that American Airlines has at its disposal (Kelly, 2020). While American Airlines has lowered tier thresholds for existing loyalty members, reduced or completely removed certain fees, offered status extensions and offered other partner benefits via hotels and credit cards, the company has focused its messaging on its loyalty base, making this the nucleus of current COVID-19 response marketing. American Airlines is developing very specific ways to incentivize their customer base, such as offering additional value on travel credits (as opposed to refunds), credits toward special status tiers like Million Miler through credit card spending, which has resulted in high marks from industry experts for ticketing, cleaning, on the ground performance, onboard experience and overall loyalty (Ewen, 2020). This demonstrates a consistent and active commitment to their customer base by addressing all areas of concern and removing as many barriers for their flyers as possible.

American Airlines marketing considerations

American Airlines has focused its marketing efforts on its current loyal audience, further illustrating the company's nimble response to the current market environment. The brutal reality is that the airline industry is not the only industry suffering from the effects of the pandemic. Likewise, the US advertising industry has been negatively impacted with an anticipated decline in revenues of approximately 18% in 2020, as the travel industry historically is one of the largest spenders on advertisements (Schmidt, 2020). What this translates to is redirected efforts regarding new customer acquisition as the conversion cycle may take longer and cost more for the airlines during these taxing times, where advertising dollars may be substituted for more pressing liquidity needs, such as fuel, cleaning, labor or other equipment expenses to keep the airlines functioning. While the new customer acquisition prioritization has shifted, American Airlines understands the necessity to seize this new customer base and "gradually

move them into higher loyalty tiers” (Silk, 2020, np). Thus, an emphasis on rapid expansion once a customer has been acquired has become a key strategy for American Airlines (Kim *et al.*, 2021). The key continues to be a focus on their loyalty base as the market changes and American Airlines monopolizes on a fresh set of travelers to add to its existing network.

AAdvantage as a financial safeguard

Ultimately, the AAdvantage program is a crucial financial safeguard embedded within American Airlines’ overall financial strategy. Airlines use their loyalty programs as debt collateral, and they are an intrinsic part of the valuation process. What is most significant is that in the case of American Airlines, the valuation of their loyalty program is more than four times the actual value of the airline itself (Bailey, 2020). Within the current pandemic circumstances, this can be cited as a key factor for why the airline has not filed for bankruptcy. Using this as an example, it is apparent that this access to liquidity creates solvency for the company. As many other airlines have done the same to survive the uncharted territory of COVID-19, American Airlines has leveraged the value of its loyalty program to unlock \$4.75bn from the US government (Bailey, 2020). Had American Airlines not included this safeguard in its financial strategy, it would have been faced with an even greater increase of layoffs, reductions of routes and negative public relations in response to the effects of the current volatility of the travel marketplace. The ability to secure these types of loans using the financial leverage of loyalty programs is a prime example for other airlines, and possible other hospitality and tourism organizations, to focus on their loyalty audience not only from a day-to-day cash flow perspective but also as a long-standing investment that contributes to the company’s overall liquidity ratio.

With a value of approximately \$30bn, which was used as a part of collateral while negotiating with the US Treasury Department for a multibillion-dollar loan, American Airlines AAdvantage program truly understands the value of prioritizing their loyal customers and how important it is for them to mobilize this audience (Kotoky, 2020). American Airlines recognizes that by incentivizing their loyal base and monopolizing on the assets already generated by this base, they will be able to take strategic steps to reignite travel interest while aiming to minimize overall shareholder impact. This is at the very center of their approach as they continue to navigate uncertainty and work toward a more sustainable recovery.

Conclusion

Loyalty programs create a safeguard that airlines can count on for providing liquidity by using their captive target audience base who can aid in creating a sense of stability during unexpected shocks. COVID-19 has challenged airlines by forcing them to focus their efforts on their loyal client base since it has been determined that it is best that resources not be allocated to the greater audience that may or may not be interested in flying with a particular airline or flying at all during times of crisis. The acquisition costs associated with obtaining a new customer versus a loyal customer simply do not make sense when the existing audience can be leveraged in a rapid and nimble manner. Airlines and other hospitality and tourism organizations that do not currently have loyalty programs in place, or do not have a similar capital structure, can learn from the American Airlines AAdvantage program, which has quickly and succinctly redirected their efforts to revolve around messaging that reassures their loyal customer base that they are truly the reason why the airlines fly and exist. This is also highly motivated by the fact that American Airlines realizes that the AAdvantage program is “the biggest asset we have in the company” (Kotoky, 2020, np). The valuation of

loyalty programs that are rooted in credit card, hotel, vacation and rental car partnerships can assist in navigating through tumultuous and uncertain times that the travel industry will most certainly experience in the future on varying scales. These programs are at the heart of the airline's infrastructure, and all airlines and hospitality organizations should examine how they are leveraging current programs and creating new ones going forward, as their very survival may depend on it, whether it is a response to a pandemic or other unforeseen circumstances.

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Appendix

The teaching note is available online for this article.

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