

A QUALITATIVE STUDY OF THE ASSOCIATION BETWEEN AIRLINE LOYALTY PROGRAMS AND CUSTOMER RETENTION IN THE EUROPEAN AIRLINE MARKET

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ABSTRACT

This research has inquired into the association between frequent flyer programs and customer loyalty. The contribution this study makes to scholarly literature derives from divergent findings of prior studies concerning the significance of airline loyalty programs as factors affecting customer loyalty and retention. The present qualitative study has found that frequent flyer membership status is not consistently associated with airline loyalty or customer retention.

Keyword: — *Customer Loyalty, Frequent Flyer Programs, Market Segmentation, Customer Retention.*

I. INTRODUCTION

Whereas previous studies indicate that airline loyalty is positively affected by frequent flyer programs, air flight ticket prices, national carrier status and perceived reputation, in particular consumer market segments, only some of these loyalty factors are likely to play a significant role [8]. Given the growing presence of low cost carriers in the air flight market, airline customers may increasingly switch their loyalty to these carriers, although this trend holds less for business passengers [3].

Furthermore, in particular subsectors of the air travel consumer market, such as among business travelers, frequent flyer programs are closely associated with social status, which indicates that the effect of frequent flyer benefits and rewards is likely to be influenced by their perceptions in different customer groups [10].

At the same time, the influence of frequent flyer programs on customer retention in the airline industry demands further research. Though these customer loyalty programs are in wide use in the airline industry, due to their effect on perceived service quality and airline selection, whether these programs can bestow durable competitive advantage remains debatable, due to their associated costs and uncertain added value [17]. Similarly, studies on customer loyalty programs indicate that, despite their popularity, these programs do not have an unequivocal effect on customer behavior, which is likely to limit their effectiveness. Although loyalty programs can reinforce customer preferences in the long term, their impact is likely to significantly differ across various market segments [9].

In other words, the influence of loyalty programs on customer behavior can prove to be limited in its short- and long-term effectiveness among frequent service users, even though these programs can increase brand patronage levels, especially for low frequency service users [15]. Furthermore, customer loyalty is likely to be significantly affected by switching costs, brand involvement and perceived benefits [5]. Likewise, the utility of frequent flyer programs to airlines might be limited, since their lock-in effect on airline customer behavior may be relatively weak [19].

Therefore, this study that has inquired into the impact of frequent flyer programs on customer loyalty in the European airline market makes a significant contribution to the scholarly literature, due to the lacking consensus in recent studies concerning the nature of the interrelationship between frequent flyer programs and customer loyalty and retention.

LITERATURE

AIR TRAVEL MARKET SEGMENTATION

Prior studies have shown that business travelers primarily base their airline choices on the breadth of air flight options, the total air travel time toward their destinations, and the presence of direct flight possibilities, whereas frequent flyer programs, on-time arrivals, and airfare prices play a less important role in their carrier choice decisions. In other words, despite the relative dearth of studies on airline choice within different air travel market segments, it can be hypothesized that airline customer loyalty is likely to be influenced by different factors within different customer groups. In this respect, the air travel market can be segmented not only according to travel purpose, such as business or vacation travel, but also in accord with more complex

criteria, such as socio-demographic characteristics [7].

For this reason, airline services use is likely to be closely associated with income levels, social status and social identity. However, the interrelationship between the effectiveness of frequent flyer programs and these variables is only beginning to receive research attention. Descriptive studies consistently indicate that in Western European countries, such as Sweden and France, between 3.8% and 5% of their populations respectively account, according to estimates, for between 28% and 50% of the flights made nationally or internationally [10]. Therefore, strategically targeted frequent flyer programs can provide a significant competitive advantage to legacy carriers in their effort to maintain their market share, as low cost carriers are entering the airline industry. Given that loyalty programs are routinely deployed in other industries, such as credit card, hospitality and car rental sectors, in the airline industry, carriers also make efforts to use frequent flyer programs for strengthening their market position. These frequent flyer programs are deployed not only due to their expected effect on customer choices, but also due to the opportunities they provide to retain particular customer groups, such as business class travelers. In many cases, loyalty benefits take the form not only of gratis travel miles but also of non-air travel-related rewards that can be especially attractive to particular passenger groups. In other cases, targeted conditions on the use of frequent flyer benefits can be imposed, which can increase the economic benefit that airlines are likely to derive from loyalty programs, as many customers can be expected not to redeem their frequent flyer miles [17].

Furthermore, due to the association between frequent flyer programs and social status, the behavioral effect of higher customer loyalty levels they are aimed to have, as marketing programs, is likely to be restricted to business travelers, since they are less price-sensitive than other airline passenger groups and have relatively inelastic demand for airline services [12]. Additionally, business travelers can be expected to be particularly influenced in their airline choice by flight schedules, in-flight comfort, and carrier reliability as opposed to airfare costs and service quality as variables that are likely to affect airline preferences in the general population of airline customers. Since in some cases airline passengers are not covering the costs of air travel at their own expense, it is likely that socio-demographic characteristics, such as education level, will either mediate or moderate the interrelationship between frequent flyer program membership and airline preference. This may lead airlines to target these customer loyalty programs to market sectors that are most likely to generate revenues that can compensate for the extra costs that premium services offered to program members involve [17].

This is supported by previous studies that indicate that heavy service users or product buyers are more likely to enroll into loyalty programs due to their pre-existing preference for and commitment to their providers and membership in similar programs of other companies. Furthermore, heavy service users are likely to be strongly motivated to join loyalty programs, since taking advantage of their benefits will not demand making significant changes to their purchase behavior [6]. Moreover, despite their relatively low share of approximately 10% among all company consumers, heavy users of loyalty programs are highly likely to contribute to their popularity through their word-of-mouth impact during social interactions [1]. At the same time, whereas demographic characteristics of consumers, such as gender and age, have not been found to influence the likelihood of enrollment into loyalty programs, income levels cannot be necessarily expected to be closely associated with the adoption of these programs. The greater propensity of high-income individuals to join loyalty programs may be counterbalanced by their multiple memberships in different customer loyalty programs as well as higher levels of concern for personal data privacy and selectiveness in their loyalty program choice [14].

Furthermore, for frequent flyers the economic switching costs of loyalty programs are not likely to play a significant role, since their ticket purchase volumes allow them to meet reward criteria with relatively little effort. Likewise, for infrequent flyers customer loyalty programs can be expected to be relatively unimportant as factors influencing airline choice, since they rarely accumulate sufficient frequent flyer points to qualify for program rewards. This also makes this customer group insensitive to switching costs [11]. Thus, loyalty programs are most likely to be effective among moderate and light buyers of airline services, both in the short and the long term, especially since frequent flyers tend to already reach their maximum purchasing capacity, which limits their ability to increase their usage levels of air travel services [2]. This consumer market segmentation has important implications for airline profitability, since frequent flyers with high loyalty levels are more likely not only to respond to ticket price promotions but also to redeem their card membership rewards than other customer groups. By contrast, airline customers with light to moderate service purchase frequency are most likely to respond to loyalty program incentives with higher sales volumes. However, these market segments are oftentimes underestimated as potential sources of company profitability [4].

These findings indicate the importance that tailoring frequent flyer programs to different consumer market sector has for airline profitability, especially since in saturated markets the overall impact of loyalty programs on aggregate consumer behavior can be limited [13]. In terms of empirical research, studies inquiring into the effectiveness of frequent flyer programs may need to control the influence of the self-selection bias on consumer behavior by sampling both loyalty program members and customers that are not enrolled into airline card programs, in an effort to ascertain whether significant differences in purchase frequencies and volumes between various customer groups exist [16]. Thus, across different airline customer groups, the positive effect of loyalty program membership can be expected to be relatively limited. However, since previous studies have used a wide range of consumer behavior indicators, such as retention rates, behavioral intentions and customer expenditures, there is a need for additional research into the effectiveness of loyalty programs in view of divergent empirical findings [21].

This is closely related to the opportunities for personalized marketing that loyalty programs offer, since their member profiles based on purchasing behavior enable a narrow targeting of promotional offers and communication strategies to specific customer groups. Furthermore, directing preferential customer treatment to particular market segments can increase the effectiveness of loyalty programs as long-term relationship building mechanisms that can be expected to reinforce behavioral loyalty [20]. At the same time, personalized marketing strategies might entail economic costs if they become perceived as discriminatory or unduly favorable to particular customer groups, such as new program members. Therefore, loyalty program design may significantly affect both the attractiveness of these programs and their influence on customer behavior [18].

RESEARCH METHODOLOGY

In the framework of this study semi-structured interviews with representatives of different frequent flyer membership categories have been carried out. In total, five semi-structured interviews have been conducted. Research participants have been recruited through a convenience sampling technique. These interviews have been collected in-person, over the phone and via e-mail, due to the difficulty of recruiting research participants enrolled in frequent flyer programs (FFPs) of different levels. On confidentiality grounds, names or any other identifying information of neither research participants nor airlines to which FFPs refer are mentioned.

QUALITATIVE ANALYSIS

The following comparative qualitative analysis is based on semi-structured interviews with representatives of different FFP membership categories. The age of the interviewees ranges from 36 to 50. 80% of the interviewees are male, and 20% are female.

According to the semi-structured interview results, the importance of FFP-related benefits is consistently associated with the level of frequent flyer programs (FFP) membership. Whereas the interviewee with no participation in FFPs did not perceive any advantages in FFP enrollment, due to personal data-related risks to privacy that would involve, respondents in basic to premium FFP membership levels have expressed an increasing appreciation of FFP-related advantages. Whereas for the basic-level FFP-member, FFP participation is primarily motivated by point-related awards and special services, the medium-level, high-level and premium-level FFP members have equally indicated that lounge access, membership privileges, such as free drinks and limousine service, and travel convenience, represent the key reasons for their FFP participation.

Whereas interview transcripts indicate that for the basic-level and high-level FFP members an enrollment into two FFP is maintained, for members in medium to premium FFP members, a single primary FFP can be identified as a factor influencing airline choice due to point accumulation considerations and FFP-related benefits, such as FFP status-related special treatment. Furthermore, for the premium-level FFP member, the FFP is primarily valuable since it provides advantages for booking flights with FFP-related airlines, rather than as a factor affecting the choice of a particular individual airline.

The FFP non-member, medium-level FFP member, entry-level FFP enrollee and premium-level FFP status holder have equally indicated that, in the current period, they did not terminate a FFP membership or switch between different FFPs. This is highly likely to be the outcome of the loyalty program points accumulation mechanism, as the premium-level FFP member has indicated. At the same time, in the case of a medium-level FFP member, another FFP membership is retained. Since this FFP membership has remained largely inactive due to inconvenient departure and arrival schedules of the associated airlines, additional criteria are likely to affect airline choice in addition to FFP membership. This is especially pronounced in the response of the high-level FFP member that has terminated another FFP membership not

only because of personal data security considerations, but also since work-related air travel patterns have significantly changed. In other words, other things being equal, responses of all FFP members indicate that program-related lock-in mechanisms and switching costs effectively discourage the termination of the current FFP membership.

Furthermore, the present study indicates that FFP memberships do not necessarily represent the most important factor affecting airline choice. Whereas for the FFP non-member airfare prices and airline security are the primary airline choice criteria, for the basic-level FFP member connection flight convenience is more important than airfare prices. In both cases, FFP membership *per se* is not mentioned as a customer decision-making factor. By contrast, for medium-level to premium-level FFP members, the importance of FFP membership is counterbalanced by other factors. Whereas for the medium-level FFP member departure and arrival times and overall airline quality also influence airline choice, high-level and premium-level FFP members seek to strike a balance between airline loyalty and price considerations. The point-collection pressure is particularly pronounced with the premium-level FFP member who does not perceive airfare prices as highly important, since enjoying FFP benefits demands a high level of loyalty program point accumulation.

In other words, this study indicates that FFP are primarily relevant for frequent flyers, since the FFP non-member has indicated that frequent flying, airline services and special offers are irrelevant for her decision not to enroll in a FFP. By contrast, across different status levels, for all interviewed FFP members, except for the high-level FFP member, their loyalty program membership has been found to be related to flight frequency. For the high-level FFP member, the in-flight and service treatment he receives as an airline customer represents the single most important factor affecting FFP membership. But for the entry-level FFP member, preferential treatment and special deals serve as additional factors that impact the retention of the FFP membership status. By contrast, for the medium-level FFP member, the current FFP membership status is primarily a function of the point accumulation process that leads to other status retention or a transition to a lower-level FFP status.

As this study has found, for the entry-level, medium-level and premium-level FFP members, the FFP-related factors influencing FFP participation are also likely to affect airline choice. By contrast, the airline choice of the FFP non-member has been found to be primarily dependent on airfare levels, prior airline experience and airline security. For the high-level FFP member, the overriding factor influencing airline choice is loyalty program point accumulation mechanism, since the FFP-related credit card use significantly accelerates the point accumulation process. Similarly, for the FFP non-member and basic-level FFP member, non-enrollment and participation in FFPs respectively has not been found to affect their airline-related attitudes and customer relations. At the same time, the interview results indicate that, for the medium-level to premium-level FFP members, their loyalty program membership has an effective influence on their attitude toward different airlines and corresponding customer relations.

Nevertheless, the effect of FFPs may be primarily dependent on the benefits that they provide. Thus, the FFP non-member has indicated that these loyalty programs are not relevant, since their benefits are not well understood. Additionally, as this interview respondent has indicated, non-members in FFPs are likely to fail to associate FFPs with advantages due to the importance they assign to airline choice flexibility and not being affected by lock-in mechanisms related to FFP point accumulation. In contrast, across different membership levels, FFP members have been found to perceive FFPs as both valuable and relevant. At the same time, only the entry-level FFP member has indicated a positive impact of the FFP on his customer loyalty due to the special treatment to which the FFP provides access. For the medium-level FFP member, the loyalty program is primarily relevant for his professional activity but not for private air travel. For the high-level FFP member, the importance of the loyalty program is a consequence of its key advantages, such as status-related point accumulation, pre-departure lounge access and free flights. Similarly, for the premium-level FFP member, the loyalty program is primarily valuable due to its financial advantages, such as free flights and free meals in airport lounges.

Yet, both the FFP non-member and entry-level member have indicated in their responses that the FFPs are not related to their airline loyalty. More specifically, for the FFP non-member, no durable connection to an airline exists, since for each flight an optimal solution is sought after in terms of airfare prices and travel schedule. In the case of the basic-level FFP member, no airline loyalty exists, since the respondent is not always directly involved in airline booking. In contrast, for the medium-level to premium-level FFP members, loyalty program participation has been found to be related to airline loyalty. However, for the medium-level FFP member, customer loyalty is significantly related to the FFP not only due to its advantages but also to the national airline status of the primary carrier associated with the loyalty program.

For the high-level FFP member, FFP participation creates a customer preference for the airline due to the effect of a wide range of factors, such as airline security, airline size, airline reputation, and national airline status. For the premium-level FFP member, the relationship between FFP participation and airline loyalty exists due to numerous loyalty program advantages.

Whereas the FFP non-member has indicated that loyalty program points are not perceived as relevant or important for airline choice, all FFP members interviewed have reported a significant interrelationship between point accumulation and airline choice. At the same time, only the entry-level and medium-level FFP members have indicated a positive influence of FFP points on their airline choice as consequence of their desire to maintain their present membership status or achieve a higher membership level. By contrast, for the high-level and premium-level FFP members, point accumulation mechanism is not seen as having a negative influence on their airline choice, since FFP points are utilized immediately after an accumulation threshold is reached due to their high flight frequency.

Likewise, the respondents have been found to exhibit dissimilar profiles in terms of their customer experiences with traditional airlines in comparison to low cost carriers. Thus, for the FFP non-member, the service differences between traditional airlines and low cost ones characterized by limited in-flight comfort do not lead to dissatisfaction with low cost carriers, since low airfare prices entail low expectations in relation to these airlines that are primarily booked for short haul flights. Similarly, for the entry-level FFP member, whether an airline is a full-service carrier or a low-cost service provider has been found not to affect airline choice for the reason that low airfare prices are expected to lead to reduced service levels. In contrast, the medium-level to premium-level FFP members have been found to have either no experience with low cost airlines or negative experiences upon flying with these carriers.

In a similar manner, each FFP membership-related customer groups can be expected to exhibit dissimilar reasons for either enrolling into or switching between airline loyalty programs. Thus, for the non-member in airline loyalty programs, FFPs have been found to be associated with financial disadvantages, such as exposure to higher travel costs and constraints on airline choice, as FFP membership is anticipated by this respondent to make the FFP-related airline selected more frequently as a service provider than otherwise. By contrast, the basic-level FFP member has indicated that his enrollment into the airline loyalty program has not been affected by either financial considerations or brand loyalty. This is highly likely to be related to the enrollment of this interviewee into the FFP by his employer. Given that his FFP membership costs are covered by his company, the medium-level FFP member has indicated that his participation in the airline loyalty program primarily follows from the FFP status-related advantages, airline brand loyalty and airline security. This indicates that high FFP membership costs may lead to switching between loyalty programs, in case these costs were to be carried by the respondent. Likewise, for the high-level FFP member, the participation in the FFP is conditional upon customer satisfaction with airline service and security levels, in the absence or low level of which the respondent is likely to switch between FFPs and associated airlines. Thus, FFP membership is not necessarily related to airline loyalty.

CONCLUSIONS

Based on the present findings, this qualitative study has not found a consistent relationship between FFP memberships and customer loyalty. Thus, this study indicates that, for different FFP-related customer groups, airline loyalty programs are likely to have distinctive positive and negative aspects. For the FFP non-member airline loyalty programs have no perceived advantage, while the sharing with the airlines of the respondent's personal information is conceived of as an FFP disadvantage. Yet, for the entry-level FFP member, the loyalty program is broadly associated with both advantages and disadvantages, such as FFP-related awards or special services and the point accumulated-related constraint on airline choice respectively. For both the medium-level and high-level FFP member, the airline loyalty program is primarily associated with the specific advantage of boarding priority.

The present findings support the conclusions of [3], according to which business passengers are less likely to switch to low cost carriers than regular air travelers. Furthermore, this research corroborates the expectations of [17] that FFP do not necessarily provide airlines with a durable competitive advantage due to their weak association with customer loyalty and retention. Likewise, this research reinforces the conclusions of [9] that customer loyalty programs do not have a consistent effect on customer behavior, due to the segmentation of the airline customers into distinct groups. Even though this study indicates that, similar to [15], airline loyalty programs can be expected to have limited effectiveness, present findings also show that brand patronage levels can significantly differ among various customer groups, such as entry-level FFP members. This study also concurs with [19] that frequent flyer programs have a relatively limited lock-in effect on airline customer retention.

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