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# CRM: Going Beyond a Frequent Flyer Program

*As more airlines look to begin CRM initiatives, there are still some misconceptions about what it involves, what it takes and the benefits it provides.*

■ By Nadja Killisly | *Ascend* Contributor

Customer relationship management, sometimes called CRM, customer management, customer centricity or customer-centric management, has been a “buzz word” in the airline industry for a number of years and will become more prominent as airlines look to it as a way to help recover from the challenges of the past few years. But there’s still a lot of confusion about what CRM really is. In fact, the value of CRM and its future is still being debated. Even today, many airlines are trying to answer fundamental questions related to the topic — What is CRM, and how tangible is it? Is having a frequent flyer program the same as CRM? Can the investment in CRM be justified in a cost-cutting environment?

CRM has been described as many things ranging from data warehousing, campaign management, even contact management and calendar scheduling. While these can be aspects of a CRM program, none in itself constitutes CRM. CRM is best understood as a method of interacting with customers rather than a product. So why do many people view CRM as a set of information technology solutions to solve their business issues?

Perhaps it is because it is easier to look toward data management and technology to deal with the challenges of the market rather than to address the fundamental strategic issues. In fact, CRM represents a giant step in marketing and customer service, and it forces new skill sets, focus and resources on validating new customer strategies, analyzing trends,

and developing innovative solutions to acquire or keep the airline’s customers.

Today, many people remain confused about what CRM is or is not and what its overall strategic objectives should be.

### What is CRM?

CRM is a strategic business approach that enables airlines to effectively manage relation-

areas of the organization. It will determine which applications or services could better support particular customer segments. And CRM should highlight how each area can contribute to the bottom line. As a consequence, CRM for an airline may have different boundaries and can involve different technologies depending on its business objectives.

CRM involves building and using customer data in a smart way. Airlines need to develop and use knowledge about their customers so they can transform what has been a transaction into a relationship with travelers, particularly a relationship with those who are most valuable. The data should not only be used in relation to a particular flight event at the various interaction points with the customer, but also in a proactive manner. This includes possibilities for targeting specific customer segments individually or using the data as an input for route planning if it shows that origin and destination traffic between two cities has reached a level where a direct service rather than a transfer connection would be profitable.

CRM’s orientation toward changing the customer experience and improving revenue differentiates it from previous enterprise resource planning, sales force automation or supply chain management systems that are designed primarily to help reduce costs and improve efficiency. While CRM includes cost reduction potential, these benefits should not be isolated since this would

	Number of airlines	Number of frequent flyer programs 1998	Number of frequent flyer programs 2004
<b>Full-service providers</b>	~250	83	130
<b>Low-cost carriers</b>	31	3	13 (including subsidiaries)

**The number of frequent flyer programs has increased dramatically during the last six years as airlines have relied on them to retain customer loyalty.**

ships with their customers. CRM, like many potential business strategies, underscores the need for an airline to identify its competitive advantage.

Before starting CRM, an airline needs to decide what it wants to achieve. Does it want to reduce the time it takes to resolve customer issues? Does it want to increase the number of customers? Does it need to return to profitability? This is where the strategy plays a role. A CRM strategy determines what the final objectives are and how customer information is going to be used by the various



pose a risk of losing sight of the overall strategic orientation.

## Does a Frequent Flyer Program Constitute CRM?

During the last 10 years, airlines have focused on loyalty marketing to serve and retain customers as evidenced by the boom of frequent flyer programs. This trend has been pushed by intense competition and limited growth in the total base of potential customers. These programs hardly influenced the overall demand for travel but did affect the choice of carrier and resulted in carriers improving their market share.

Recently, loyalty has given way to a more encompassing approach to maximize customer lifetime value. Despite this shift, some airlines have not approached CRM as a holistic strategy but instead view it as synonymous with the frequent flyer program.

A common denominator between traditional loyalty programs and CRM is customer data, but successful CRM installations generate far richer data than loyalty programs can provide on their own. One reason is that CRM systems are not limited solely to loyalty

program data, but collect information from every point of contact. Up to now, airlines have segmented passengers based on frequent flyer data, and many have found that this limits the ability to have a clear view of customers. Frequent flyer members, in reality, may not be the most valuable customers. For example, one U.S.-based carrier discovered that if it measured its customer base by revenue, the top customers would not be determined by mileage. In fact, the top 1,000 customers determined by revenue generated 60 percent more income than the top 1,000 customers measured by mileage. Lufthansa German Airlines had a similar experience and demonstrated that only 4 percent of its "Miles & More" customers accounted for 50 percent of its revenue. In other words, given that not every passenger who flies on Lufthansa is a member of its frequent flyer program, 96 percent of its top mileage customers generated less than half of the airline's revenue.

Such findings have led airlines to widen the boundaries of their frequent flyer programs, aligning them more with true CRM practices.

- In the past, airlines in general believed:
- Loyal customers were more profitable,
  - Miles flown should be the primary measure of loyalty,
  - Rewards should be redeemed in proportion to the miles accumulated on a customer's account and did not represent the revenue that a customer brought in.

Given this mindset, airlines discounted the willingness of a customer to pay more for a better product or service.

Today, an airline's CRM strategy should be based on new principles:

- Customers who purchase higher fares are more profitable,
- Both distance traveled and fare purchased should be factored into a customer-value measure,
- Customers who are willing to pay more for additional benefits should gain status more quickly.

CRM statistics, compiled by Sabre Airline Solutions, also show that on average only 20 percent of a carrier's passengers belong to its frequent flyer program. Not having customer information on the other 80 percent eliminates the opportunity for the airline to establish contact with these other passengers for direct marketing purposes and to attract additional valuable customers.

Another difference with frequent flyer programs is that CRM involves managing all relationships with travelers along their journey, utilizing the customer data not only to reward travelers but also influence their behavior through personalized interactions via various communication channels.

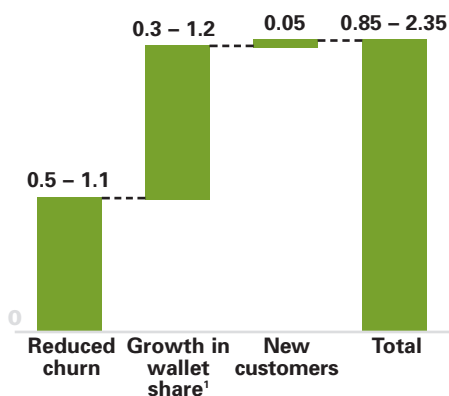
Numerous customer behavior studies confirm that the choice of airline travelers is not only driven by frequent flyer programs but also by price, schedule, product attributes, customer service and individualization. In a survey conducted by Jupiter in 2002, 79 percent of travelers said they were less likely to make a purchase on the same airline after a dissatisfying customer experience. The survey also found that proactive customer-service efforts would satisfy the 62 percent of passengers who want to be informed about delays.

In addition, the expectations of travelers are growing, and they already expect rewards such as frequent flyer points or redemptions, thus reducing their ability to differentiate an airline. And business realities such as fuller planes and better revenue management make awards more difficult to redeem, thus reducing the effectiveness of a frequent flyer program.

## Good For The Bottom Line

### Impact of customer relationship management

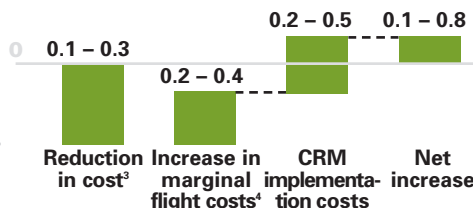
#### Increase in revenues by source (percent)



#### Potential improvement in operating profit, US\$ million per year

Large airline <sup>2</sup>	100 - 250
Medium airline <sup>2</sup>	25 - 60
Small airline <sup>2</sup>	15 - 50

#### Change in cost (percent)



<sup>1</sup> Proportion of consumer's disposable income allotted to single company.

<sup>2</sup> Based on revenue-passenger-kilometers (RPKs), that is number of passengers multiplied by number of kilometers they fly, large airline=76 million to 200 million RPKs; medium=21 million to 75 million; small=5 million to 20 million.

<sup>3</sup> Through elimination of waste associated with targeting unprofitable customers.

<sup>4</sup> Due to increased business.

According to the McKinsey Quarterly, an effective CRM program can have a significant impact on an airline's revenues by reducing churn, gaining more of a consumer's spend and attracting new customers. Depending on the airline's size, the impact on operating profit can range from US\$15 million to US\$250 million annually. A CRM program can also increase revenues by up to 2.35 percent, which more than balances the increased costs of .1 percent to .8 percent caused by implementation and increases in marginal flight costs.

Although CRM and frequent flyer programs are interrelated, CRM with its personalized and holistic approach can do much more for an airline than a loyalty program by itself.

## In a Time of Cost Cutting, does Investment in CRM Make Sense?

The current challenging economic environment and the continued growth of low-cost carriers has put competitive pressure on the traditional network airlines, which have responded by focusing almost exclusively on cost-cutting measures in order to remain competitive. And in a challenging economy, many strategic initiatives such as CRM get pushed to the side, and some airlines question whether the time is right for a CRM initiative.

Even in the current climate, a CRM strategy is critical to recovery and future growth because it helps set an airline apart from its competition. An airline's price structure, schedule and product can be duplicated by competitors, but customer data and customer insight will allow an airline to understand its

customers' issues and to differentiate itself by implementing better services that offer a new level of personalized service, especially compared with low-cost carriers.

That's not to say that low-cost carriers don't have a need for a CRM strategy. Southwest Airlines, for example, a low-cost carrier with few extra amenities, justifiably views itself as customer-service focused. Southwest Airlines has repeatedly finished at the top of airline customer satisfaction ratings. Its strategy is based on a customer-service approach, maximizing the "people aspect" and making sure issues with travelers are solved quickly. Southwest is also working to collect more customer data and share it among touch points, creating a single view of the customer in order to offer better service.

"Customer service causes loyalty that can't be explained by low prices alone," said Donna Conover, vice president of customer service at Southwest Airlines.

Airlines have struggled with how to effectively measure the returns from their

CRM initiatives and to justify their expense. Given the scope of most CRM investments, an airline should take a holistic approach and consolidate results in various areas to determine the effectiveness of the CRM program. Rather than focusing narrowly on specific areas such as revenue optimization or pricing where there doesn't appear to be a direct benefit from CRM, but instead looking at the overall performance of the airline, the effectiveness of the program can be gauged.

Customer focus holds the key to increased profitability but also presents challenges. The promise is clear — better treatment of customers will lead to higher profitability. A McKinsey investigation of 17 airlines in 2003 indicated CRM can improve revenues by between 0.9 percent and 2.4 percent. After deducting the costs, this still leaves large airlines with an annual improvement of US\$100 million to US\$250 million or, for smaller airlines, a US\$15 million to US\$50 million annual improvement.

However, achieving those results requires more than just additional data and analysis. It requires that the information be used to change the way of selling, marketing and serving customers as well as the way the airline interacts with the customer. The primary reason some CRM efforts don't deliver the expected benefits is that the customer-facing employee is overlooked during the CRM implementation. Having more customer data by itself achieves nothing. To be successful, an airline must have an effective strategy and implement the strategy throughout the enterprise.

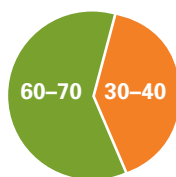
## A Comprehensive Strategy

CRM is more than IT or a frequent flyer program. It is a strategy that enables airlines to remain competitive today and in the future. Many carriers have already experienced the benefits of their CRM initiatives and have received a return, understanding that CRM should be considered an investment with short- and long-term results that follow the overall corporate strategic plan.

The CRM trend will continue to evolve. The later airlines start CRM initiatives, the bigger the gap will be with their competition. Addressing CRM issues today positions carriers to capitalize on the ongoing recovery and will help airlines manage customers effectively in the future. **E**

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## Keeping Passengers Happy



### Structural factors

#### such as change in:

- Job
- Location
- Personal circumstance

### Nonstructural factors

Related to	Possible issues	CRM <sup>2</sup> actions
• Service	• Delays, lost luggage	• Identify and proactively apologize to high-value customers
• Frequent-flyer program	• Failure to redeem frequent-flyer points	• Provide high-priority frequent-flyer redemption certificates
• Product	• Dissatisfaction with seat design	• Initiate changes in future product design
• Competitors' offers	• Sales promotion in specific market	• Predict which customers may defect; offer appropriate discount
• Flight	• Availability of high-demand routes	• Ensure sufficient timing, frequency of scheduled flights preferred by high-value customers

<sup>1</sup> Choosing fewer or less expensive products or discontinuing use of products.  
<sup>2</sup> Customer relationship management  
 Source: 2001 McKinsey survey of nine European, five North American and three Asia-pacific airlines

Several issues, according to the McKinsey Quarterly, lead customers to downgrade their use of an airline's products. Such downgrading — choosing fewer or less expensive products or discontinuing using the carrier altogether — can be addressed through an effective customer relationship management program.