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Frequent Flyers

- Investigating key drives of a frequent flyer program membership

Bachelor Thesis in Marketing

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Sammanfattning

Bakgrund och problem: Flygindustrin är idag fragmenterad och konkurrensutsatt, där minskade vinstmarginaler har resulterat i ett behov av att hitta andra verktyg för att attrahera kunder. Lojalitetsprogrammen kan här ses som en viktig del i att öka lönsamheten. Dock råder delade meningar om programmens effektivitet. Mycket av den tidigare forskningen anser att det finns stora fördelar med att erbjuda kunderna ett lojalitetsprogram för att öka lönsamheten. Kritik har från andra håll riktats mot att lojalitetsprogram inte har någon faktisk effekt på kundlojaliteten. De studier som genomförts har generellt haft en kvantitativ karaktär, där vår uppsats istället syftar på att med en kvalitativ ansats få en uppfattning om hur ett antal utvalda medlemmar i lojalitetsprogram inom flygindustrin värderar sitt medlemskap.

Syfte: Syftet med denna studie är att undersöka på vilket sätt frekventa resenärer tilltalas av lojalitetsprogram inom flygindustrin och hur de bäst kan behållas som medlemmar under en längre tidsperiod.

Metod: För att besvara våra forskningsfrågor har en explorativ ansats och en kvalitativ metod använts. Personliga intervjuer har genomförts med medlemmar av lojalitetsprogram inom flygbranschen samt med företrädare för olika delar av flygindustrin för ett bredare perspektiv. Studien har i avsikt att skapa en djupare förståelse för hur medlemmar av olika lojalitetsprogram inom flygindustrin värderar sitt medlemskap.

Resultat:

1. De faktorer som påverkar medlemskapet i ett lojalitetsprogram är baserade på rationella aspekter så som flexibilitet och värdemaximering, där status och belöningar är betydelsefulla. Det upplevda värdet grundar sig även andra mer personliga aspekter, däribland den ömsesidiga uppskattningen från flygbolaget samt i vilken mån medlemmarna får tillbaka vad som upplevts investerat i relationen som lojalitetsprogrammet representerar.

2. Lojalitetsprogram inom flygindustrin är strukturerade med ett strikt ekonomiskt intresse. På längre sikt krävs att förändringarna som görs i lojalitetsprogrammen motsvarar medlemmarnas intressen för att de fortsättningsvis skall upplevas som värdefulla. Om så inte är fallet, kommer kunderna att söka sig till konkurrenternas lojalitetsprogram. Följaktligen har ekonomiska intressen stor inverkan på lojalitetsprogrammets struktur.

3. Vi ser tydliga indikationer på att lojalitetsprogram inom flygindustrin antagligen utgör ett väsentligt element för att öka lönsamheten. Strategin med förändringarna som görs i lojalitetsprogrammen är att öka marknadsandelar och samtidigt få kunder att förbli lojala. Däremot har det visat sig att de förändringar som görs, inte nödvändigtvis passar samman med faktorerna som vårt urval av kunder värdesätter för att förbli lojala.

Nyckelord: Lojalitetsprogram, Flygindustrin och Kundlojalitet

Abstract

Background and problem: Our study aims to contribute with an understanding of the perceived value of a frequent flyer program membership. The airline industry today is highly fragmented and volatile, where an increased competition and diminished margins of profit have resulted in need for innovative marketing-tools to improve profitability. Some research emphasizes significance of loyalty programs for the firms' profitability, whereas other research level criticism against the effectiveness. Existing research on the area is of more of quantitative character, whereas our objective is to gain a more profound assessment on the frequent flyer programs from a restricted number of customers who portray our definition of a frequent flyer.

Purpose: The purpose of our thesis is to examine in what way frequent flyers are appealed to a frequent flyer program and how they best, can be kept as members over an extended period of time.

Method: In summary, this thesis will provide an explorative approach on the area of frequent flyer programs and their members. A qualitative method has been utilized with focused personal interviews as our method of data collection. The respondents of the study consist of a strategic sample of the FFP-members. Additionally, interviews with representatives of the airline industry were performed, contributing with a broader, yet an industry perspective to the designated problem area.

Result:

1. A membership of a frequent flyer program is based on a number of rational aspects, including factors such as flexibility and optimization of value, where status and rewards are considered meaningful. Moreover, perceived value is also based on other more personalized aspects. The level of appreciation from the airline is mutually assessed, in terms of the customer's retention of both the physical and emotional amount invested in the relationship. A long-term relationship relies on these expressed values; hence they are of absolute principal to evaluate accordingly.

2. The FFPs are structured with an economically driven purpose, which neither can be questioned or neglected. Nevertheless, it is essential that in order to maintain a long-term relationship with frequent flyers, enhancements being made, must be mutually agreed in order not to erode loyalty. Otherwise, other options perceived as more coherent to the segment's estimation of value, can quickly become a more suitable choice.

3. The authors' observe indications that FFPs are profitable and provide big business for the airline. However, in an industry reflected by its uncertain nature, our interpretation is that airlines are predominantly focusing their strategic efforts to increase of market share. Thus, this strategy is reflected in the changes currently being implemented in FFPs.

Key words: Frequent flyer programs (FFPs), Airline industry and Customer loyalty

Acknowledgments	2
Sammanfattning	3
Abstract.....	4
Chapter 1 Introduction.....	7
1.1 The Airline Industry	7
1.2 Background and Development of Frequent Flyer Programs (FFPs).....	8
1.3 Origins of the Frequent Flyers segment of customers	9
1.4 Research Area of Customer Loyalty.....	9
1.5 Purpose and Research Questions.....	9
1.6 Definitions	10
1.6.1 Frequent Flyer programs (FFPs).....	10
1.6.2 Frequent Flyers.....	10
1.6.3 Network carriers.....	11
1.6.4 Low-cost carriers.....	11
1.7 Scope and Limitations.....	11
1.8 Outline for the Study	12
1.9 Summary	13
Chapter 2 Frequent Flyer Programs- what do we know?	14
2.1 Introduction to the Problem Area.....	14
2.2 Previous Research and Studies	15
2.3 Loyalty within Airline Industry	17
2.4 Authors' Problem Discussion.....	18
2.5 Summary	19
Chapter 3 Customer Loyalty in Theory and Practice	20
3.1 Concept of Customer Loyalty in Theory and Practice	20
3.2 Customer Loyalty in Theory.....	21
3.3 Loyalty Programs in Practice (FFPs)	24
3.4 Summary	26
Chapter 4 Qualitative Interviews.....	27
4.1 Introduction Methodology.....	27
4.2 Exploratory Approach	27
4.3 Qualitative Study.....	27
4.4 Interview Guides.....	28
4.5 Sample and Respondents	28
4.6 Method of Data Collection.....	29
4.6.1 Primary data.....	29
4.6.2 Secondary data	30
4.7 Conducting the Interviews.....	30
4.7.1 Martin Björnström, Founder and Marketing Director at Businessclass.se.....	30
4.7.2 Kristina Öström, Marketing director at Lufthansa Nordics and Baltic states	30
4.7.3 Mitko Blazeski, Senior solutions architect lead EMEA at EMC ²	30
4.7.4 Hans Bunes, Private Consultant.....	31
4.7.5 David Axelsson, Program Manager Johnson Controls.....	31
4.8 Processing the Interviews.....	31
4.9 Conducting the Document Studies	32
4.9.1 Websites.....	32
4.9.2 Scientific Articles	32
4.9.3 Reports.....	32
4.9.4 Literature	32
4.10 Method of Analysis	32

4.11 Validity Analysis	33
4.12 Summary.....	34
Chapter 5 Discovery of an Anticipated Mutual Relationship	35
5.1 Business Perspective.....	35
5.1.1 Presentation of Respondents Representing a Business Perspective	35
Martin Björnström Founder of Businessclass.se.....	35
Kristina Öström Marketing manager at Lufthansa Nordic and Baltic states	35
5.1.2 Themes in Interviews.....	36
Perceptions of industry	36
Role and characteristics of FFPs.....	37
Frequent Flyers and their membership in FFPs.....	37
Customer loyalty aspect.....	38
Comprehensive strategies to target these customers.....	39
Future outlook.....	39
5.2 A Customer's Perspective.....	40
5.2.1 Presentation of Respondents representing a Customer's Perspective	40
Mitko Blazeski, Senior Solutions Architect lead EMEA at EMC ²	40
Hans Bunes, Private Consultant.....	41
David Axelsson, Program Manager at Johnson Controls.....	41
5.2.2 Themes in interviews	41
Insights to FFPs.....	41
Personal Role of FFPs.....	42
Perceived and experienced value from membership.....	43
Loyalty aspect.....	44
Room for improvement.....	45
5.3 Summary	46
Chapter 6 Analysis	47
6.1 Perceived Drives	47
6.2 Mutuality.....	49
6.3 Structure of Frequent Flyer Programs.....	50
6.4 Outcome of Analysis	51
Chapter 7 Discussion and Conclusions	52
7.1 Findings	52
7.2 Limitations.....	53
7.3 Recommendations of Further Studies	54
7.3.1 Frequent Flyer Programs.....	54
7.3.2 Relationship between customer and airline	54
7.3.3 Role of mutuality in fostering loyalty.....	54
Bibliography	55
Literature.....	55
Scientific Articles.....	55
Reports	57
Personal/Skype Interviews	57
Electronic Sources	57
Appendix	58
Intervjuguide Lufthansa Kristina Öström, Marknadschef Lufthansa	58
Intervjuguide Businessclass.se Martin Björnström, Grundare och Marknadschef.....	60
Intervjuguide Frekventa Resenärer	62
Mitko Blazeski, Hans Bunes och David Axelsson	62

Chapter 1 Introduction

This initial chapter will involve a comprehensive outline to the airline industry. It will focus on the introduction of frequent flyer programs as a marketing tool to attract customers. Moreover, it will widely explain and define the concept of frequent flyers' membership in this specific type of loyalty programs. Consequently formulated into the overall purpose of this thesis, as in what way frequent flyers are appealed to a frequent flyer program and how they best, can be kept as members over an extended period of time. Conclusively, the study aims to investigate the perceived value of a membership from a restricted sample of customers in order to improve the structure of the FFP.

1.1 The Airline Industry

The airline industry is highly volatile, going from a high degree of governmental control with regulated airfares, into a deregulated competitive landscape with cyclical tendencies (Doganis 2006 p.225). Moreover, the industry has always been volatile in terms of the economical climate. Severe economic downturn and crises have impacted airlines' financial performance questioning the profitability of the industry (Doganis 2006 p.6). Historically, the profit decline would have been even greater, if the airlines would not have been deprived of the external capital injections from governmental interest (Doganis 2006 p.8). Even though the privatization of the market is substantial, there are still guidelines stating that an airline is supposed to be coordinated by residents of the own state in order to utilize the international air traffic rights (Doganis 2006 p.99).

In general, the airline industry has a fragmented nature with low financial returns. The situation is of a downward spiral character, with pressure from shareholders to fill up capacity with low demand in order to maintain yields¹, creating a position where the airline ultimately must lower airfares and consequently reducing the already diminished margins (Doganis 2006 p.8).

All of today's' airlines have a significant problem regarding the cost structure and a major overhaul of the entire business according to these factors may assist the future economic outlook. The often so distinct but different cost structure from today's low-cost carriers, have steered the carriers into a competitive landscape, that consequently have resulted in adaptation to a fluctuating market environment, rather than being able to rule the current market place (Doganis 2006 p.24). This development has primarily occurred in the short haul segment due to deregulations and removal of fare restrictions. However, the service differentiation within the long haul traffic is still profitable from a market perspective, yet in this segment the competition is global and changing rapidly. For example, network carriers are struggling with beneficial prices and products from the gulf carriers who possess subsidized fuel and a still high degree of governmental intervention (Doganis 2006 p.290). Henceforth the economical outlook

¹ Average revenue collected per passenger kilometer

for the airline industry is critically hard to predict suggesting price wars and the intense competition will further affect the market.

1.2 Background and Development of Frequent Flyer Programs (FFPs)

Ever since American Airlines initiated the first of today's contemporary loyalty programs in 1981, the main objective has been the level of repurchase from beneficial segments, determined by the customers' perceived value from the membership (Bolton, Kannan, & Bramlett 1998). In response, the network carriers have re-directed marketing effort to segments of customers who perceive a value from a repetitive consumption of services from the airline, through an airline frequent flyer program. There are a wide spread of members taking part in the frequent flying programs, of whom one segment is the frequent flyers who originally are a wide concept of airline customers defined by their repeated use and consumption of airline services.

Low cost carriers have not pursued the strategic choice of implementing a FFP to a great extent, subsequently dedicated their respective frequent flyer programs to actual cash-back, giving credit to some of the criticism to the validity of these programs which focus solely on an exclusive economical and rational motive behind the membership (Dowling & Uncles 1997). This aspect contrasts network and legacy carriers who are focusing on a long-term relationship of perceived value from the customer with a more complex structure of award and retention.

Ultimately, FFPs were developed and enhanced as customer loyalty programs with the goal of a positive attitude towards the airline and the preferred choice of travel. Frequent flyer programs awards customers who repetitively chose to fly with their preferred airline through a wide variety of intangible retention such as status-level, potential upgrades and beneficial customer service, combined with a scheme of tangible retention via lounge-access and fast-track security. The level of potential retention is solely reliant with the level of re-purchase consequently resulting in a brand loyalty to the airline and their respective frequent flyer program (Doganis 2006 p.277).

Comprehensive consolidation of the market followed by the market wide profit decline has also impacted frequent flyer programs specifically. Alliances and collaboration partners have facilitated the customer to strategically maintain the brand loyalty through a wide variety of offers including distribution of tickets via inter-line pooling agreements (Doganis 2006, p.30). Eventually, the frequent flyers are now able to accumulate miles/points worldwide, meanwhile as they can appreciate the benefits with the same global scope in order to enrich their membership. These alliances, primarily consisting of Star Alliance, Skyteam and OneWorld, are operating worldwide with a network of flights cooperating with codeshare flights, shared revenue and cost (Doganis 2006 p.91). Consequently, these collaborations have been implemented through the entire range of the airline including the frequent flyer programs. Frequent flyer programs not only present comprehensive potential for revenue but also a great number of cost. The global alliances' have allocated revenue through codeshare agreements to boost the customer's decision-making process. However, there are also substantial costs to maintain the FFPs. Mainly connecting to operating costs for customer service and technical aspects. The actual travel awards cost also need to be calculated since the

customer has accumulated enough miles to endorse in benefits including free tickets and upgrades (Doganis 2006 p.24).

1.3 Origins of the Frequent Flyer segment of customers

Today, America's largest FFPs, American Airline's AAdvantage, United's Mileage Plus and Delta's Skymiles, have more than 20 million members respectively. Originally, the segment consisted of high-yielding premium passengers, but a number of studies suggest that this segment of customer's participate in more than one loyalty program (Deloitte 2012, Doganis 2006 p.277), hence presenting a problem for the FFPs to exclusively retain the passengers loyalty. This segment of customers' foresaw the potential of re-purchase and consequently endorsed a variety of retention. Their purchase behavior combined with the travel pattern culminated in an influential segment of customers. Today, the segment is strategically important for airlines, since it represents a group of customer's who are engaged on a regular basis with the airline via the FFP, hence they can provide vital information on how the airline can react to ideas and observations from an inserted perspective.

1.4 Research Area of Customer Loyalty

There has been extensive research in the area to which our study ultimately corresponds. Customer loyalty is regularly mentioned in connection with FFPs and therefore it is necessary to have a clear definition of what it actually means and some leading research on the subject. The concept of customer loyalty will generally function as a framework for our problem. Our research area will be limited to a specific segment of customers engaged in a membership with a frequent flyer program. Yet, in order to examine the dynamics of our study, firstly we need to see to the common conceptualizations of the term customer loyalty. Lack of a conclusive definition gives room to several explanatory models of whom a selected few will be additionally explained in our theoretical framework (chapter 3).

In summary, the wide spread of research within the area provides a tough benchmark position in order to determine the dynamics of customer loyalty in general. Consequently, our study belongs to the research area of customer loyalty, but it offer's recognition from a specific segment's perspective. Furthermore, we need to take into account the previous research of customer loyalty in order to fully understand our distinct problem.

1.5 Purpose and Research Questions

Dynamics described in the industry combined with widespread use of a FFP, results in a potential lack of research in regard to how this specific segment of customers contribute and are valued as customers through this type of loyalty scheme. Therefore the study aims to further investigate the dynamics from a customer's perspective.

The overall purpose of this thesis will be to examine in what way Frequent Flyers are appealed to a frequent flyer program and how they best, can be kept as members over an extended period of time.

Arguments motivating such a purpose is that an enhanced understanding of this membership dynamics and the expected perceived value combined with the potential reward, would help airlines to capitalize on the momentum in a competitive and fragmented market. Consequently, offering recognition to factors that determine a customer's decision to remain with a frequent flyer program and value of such a study. Moreover the study will add a deeper understanding on the proposed aspect by discussing how a strategic sample of highly experienced customers, are interacting with their main provider of a service or product. The study's dimensions regarding the in-depth drive of the relationship will provide an experienced customer's perspective, for the airlines to apply in their business accordingly.

This study will principally try to examine how this segment of customers is appealed to a frequent flyer program to correspond to the purpose of this study. Consequently, it will also try to analyze the dynamics of membership and expected return from being a member. Thus, the study seeks to address perceived value from customer and why they decide to remain with a certain FFP. Empirical findings may also reveal, if the FFP is structured and enhanced according to the dimensions recognized by frequent flyers. Hence, the discussion is further developed in the following chapter regarding the problem area of the study results in two principal research questions subsequent to one another.

- Which dynamics and expected perceived value, determines a frequent flyer's membership in a frequent flyer program?
- Subsequently, are frequent flyer programs structured and enhanced according to these factors?

1.6 Definitions

This section will offer an enhanced understanding to the concepts and definitions widely utilized in this study. They are defined based on previous research to avoid miss-conceptualizations and wrongful conclusions.

1.6.1 Frequent Flyer programs (FFPs)

A frequent flyer program is basically the customer loyalty program of the airline industry. They are structured to promote brand loyalty through a variety of rewards available for the customer. Basically, they function as a marketing tool to attract and retain customer with a high level of re-purchase. The FFP gives the airline an opportunity to measure a customer's contribution and award them accordingly. They were first introduced in the 1980s to improve profit from high-yielding premium passengers. Since then, the importance and structure of these programs have been enhanced in order to meet the harsh airline industry. Nowadays, they contain a vital base for information about the customers' re-purchase behavior, travel pattern and economic potential conclusively surrounding their entire relationship to the airline.

1.6.2 Frequent Flyers

In order to examine our proposed respondents consisting of frequent flyers, we need to define the criteria to this concept. A repetitive re-purchase process to a specific or several airlines for business or leisure travel defines frequent flyers. More commonly they are outlined as the premium passengers of the airline. Frequent flyers include primarily business travellers who are of less strategic importance to low cost carriers,

due to their structure of cost effective timetables, turn-around times and routes which don't attract this segment. Instead they are of interest from network carriers that corresponds to their consumption patterns. A universal interpretation of frequent flyers only include the number of flights flown on a yearly basis, which is more than average and disregard the conscious aspect of frequent flyers. This is accomplished with the assistance of the FFP, thus improving the relationship between the involved parties. Our sample and definition of frequent flyers will embrace the entire dynamics of the membership and are not only defined by their respective number of flights with an airline, but also on how they interact consciously with the entire process involving the travel procedure. Nevertheless, frequent flyers that constitute our sample have all accumulated more than 50 flights in total on a yearly basis independent of the airline and FFP chosen, thus they are an illustrative sample to portray our problem.

1.6.3 Network carriers

Network carriers or more commonly known as legacy carriers are ultimately a result of the former state-owned airlines. These airlines' endorsed continuous capital injections to survive in a competitive landscape before a pervading privatization of the business changed the ownership. Nonetheless the overall strategy of network carriers remained. They have a complex cost structure with regard to external influencing factor, labor issues and intense competition affecting both the long-haul segment with overcapacity and low-cost carriers competing in short-haul operations (Doganis 2006 p.263). The network model's profitability is under review and the industry is pushing these carriers to further alternate their strategies. Historically, network carriers controlled a vast market-share, but since the liberalization of the industry, the choice has grown resulting in a steady decrease of airfares. Examples of network carriers are Air France-KLM, Lufthansa, Singapore airlines and SAS.

1.6.4 Low-cost carriers

Low-cost carriers emerged in the early 2000s, fundamentally jolted the industry from its foundation. They carriers are defined by an optimized down-scaled cost structure, cost leadership, efficient time-tables and a dynamic and attacking strategy against network carriers to increase market share (Doganis 2006 p.17). They are adapting instantly to market fluctuations and are not locally and nationally attached to the same level as network carriers representing an apparent threat. Their operations have proved to be efficient even though they are primarily focused on the short to medium-haul segment. Examples of low-cost carriers are Southwest airlines, Jetblue, Easyjet and Ryanair.

1.7 Scope and Limitations

With background of the industry and the relevance of our chosen segment of customers, we aim to have their own perspective to the dynamics behind the membership to a FFP. However, the market is global by nature we need to take into account a perspective with respondents who originated from Sweden. Initially, we have an unbiased and objective side to the problem area since we understand the global relevance to the market.

The study will not take into account frequent flyer programs as a tool for branding and communication. Previous research has intensely examined the quantitative factors of the research area and provided immense guidelines to the structure of a FFP. Since we intend to treat the problem slightly different, this thesis will be limited to an to a qualitative method in order to determine dynamics of the membership and potential

consequences this may have on the structure of the FFP. Even though this is a global market by nature, the thesis will have a local Swedish perspective from a customer, airline and objective source representing a specific set of values. The interviewees representing a customer sample will be determined by a criteria consisting of a behavior equivalent to our definition of a frequent flyer. This limitation will provide us with data from a specific sample of customers who are of significance to the market. They interact with the product on a regular basis, hence a great opportunity to contribute to our empirical findings. This selection process is made on the basis that perceived values diverge from different experiential, geographical and cultural areas, consequently affecting our empirical findings. The sample consisting of frequent flyers will narrow down the customer's scope of demand in terms of what they want to get out of their membership. This limitation will assist the interpretation and benchmarking process of our data since our empirical research will have a comparable relationship with the FFP even though their travel pattern and expected perceived value alter among them.

Airlines attract two different types of customers, business and leisure travellers (Dolnicar 2004). However, introduction of frequent flyer programs provided an opportunity to accumulate a degree of membership during business travel, but utilize the retention and reward with a personal and leisurely purpose. Our study aims to examine both parts of the membership, hence we can't neglect our chosen sample operating as business or leisure travellers since they deploy their membership in both parts of their travel procedures. Consequently, our sample of frequent flyers will operate both as business and leisure travellers adjacent to one another in order to explain the entire dynamics of their frequent flyer program membership.

Given the structure of the frequent flyer programs, we restrict our study to the frequent flyer's membership of network carriers, since the dimensions from a membership with a low-cost airline most likely will unveil alternate dimensions. Hence, our study will be limited to the dimensions constituting the membership to a network carrier's FFP.

We do not intend to define the type of customer loyalty proven in our study according to previous research. Instead, it is our ambition to use previous research as a framework to more straightforwardly analyze the dimensions behind these customers' perceived value from the membership in a FFP.

1.8 Outline for the Study

All chapters in this study are enhanced in accordance with the research questions in order to accomplish the purpose of our thesis. Chapter 2 presents a more exhaustive discussion of the problem area. Thereafter, research most valuable and coherent to our study will be developed in Chapter 3. The chapter consists of research within the areas of customer loyalty in theory and loyalty programs in practice. Moreover, our chosen method is declared in Chapter 4. Our choice has been to perform a number of qualitative interviews with three members of frequent flyer programs and two representatives of the industry.

Chapter 5 summarizes the most significant empirical material provided by the qualitative interviews performed. The information gathered in Chapter 5, is examined and thoroughly analysed in Chapter 6. Ultimately a comprehensive result is amplified in

Chapter 7. The study is finalized with a bibliography and the appendices, consisting of the interview guides.

1.9 Summary

This chapter has provided a brief insight to the complex airline industry and the structure of competition inside. It has also commented on our main arguments and contribution to conduct this study supported by a current perspective and reasonable restrictions to highlight the main concept of our study. We discussed briefly the wider area of customer loyalty where this study belongs as well the definitions commonly used in the thesis.

Chapter 2 Frequent Flyer Programs- what do we know?

This chapter will clarify our problem area, declaring who is affected and why it is of high importance to illuminate it with regard to the current market conditions. The problem statement will be connected to the purpose of this thesis in a final summary of the chapter.

2.1 Introduction to the Problem Area

There is a great deal of research about the quantitative aspects of frequent flyer programs, where statistics and percentages to chose different airlines are portrayed. However, there is an absence of qualitative information about how members of the frequent flyers programs perceive their membership in a FFP. An intense competitive climate in the airline industry with a product/service, that is difficult to differentiate, resulted in an apparent attention towards the FFP as an essential tool for competing offered by almost every airline (Palmer & Beggs, 1997). These events resulted in the frequent flyers started to emerge as high-yielding premium passengers with a respective set of demands in order to be loyal.

Research approve that loyalty programs are of significance and affect the behavior of the members in a momentous way, whereas other research contributes with a more critical perspective. More specifically that FFPs fail to engage and create loyalty among the members. 72 % of high frequency travellers and 44 % of business travellers participate in more than two airline loyalty programs and around two thirds of the respondents would be willing to switch to a challenging programs even though achieving highest status level (Deloitte 2012). The study illuminates our aim to investigate; the factors determining perceived value of membership and whether the frequent flyer programs are structured accordingly.

2.2 Previous Research and Studies

The research and studies presented will contribute to a greater understanding of the problem. It concludes the research found most significant for our purpose.

Authors	Title	Purpose	Contribution of the research
<i>The Airline Industry</i>			
Doganis, R. 2006	<i>The airline business, 4th ed</i>	Essential knowledge of the airline industry.	Doganis research contributes with a deeper insight to the airline industry, in order to fully understand the FFP.

Table 1. Previous research and studies within the area of the airline industry

Authors	Title	Purpose	Contribution of the research
<i>Loyalty Programs</i>			
Dowling, Grahame R. & Mark Uncles 1997	<i>Do Customer Loyalty Programs Really Work?</i>	Understanding of the structure of the loyalty programs and the effect of the chosen structure.	Dowling, Grahame and Uncle add a critical perspective to the discussion of the efficiency in terms of loyalty programs.
O'Brien & Jones 1995	<i>"Do Rewards Really Create Loyalty?"</i>	The function and role of a loyalty program.	A critical perspective on the effectiveness of loyalty programs.
Yi & Jeon 2003	<i>Effects of Loyalty Programs on Value Perception, Program Loyalty, and Brand Loyalty</i>	The effects of loyalty programs in terms of perceived value.	Yi & Jeon will mainly contribute with an apprehension of the effects of loyalty programs.

Table 2: Previous research and studies in the area of loyalty programs

Authors	Title	Purpose	Contribution of the research
<i>Customer Loyalty</i>			
Dick, A.S., Basu, K. 1994	<i>Customer loyalty: toward an integrated conceptual framework</i>	Fundamental research in the area of customer loyalty.	Dick & Basu are highly acknowledged in the area of customer loyalty.
Fournier, S 1998	<i>Consumers and their brands: developing relationship theory in consumer research"</i>	Fundamental research in the area of customer loyalty.	One of the leading scientists in the area of customer loyalty, which contributes with an understanding of the relationship between the consumers and their brands.
Jones & Sasser 1995	<i>Why customers do defect</i>	Fundamental research in the area of customer loyalty.	Their model of loyalty connected to satisfaction contributes with a perspective on what loyalty consists of.

Table 3: Previous research and studies in the area of customer loyalty

Previous research and studies have been classified into three sections consisting of the airline industry, customer loyalty and loyalty programs (table 1-3). This division will be profoundly utilized in order to understand the frequent flyer programs in terms of their relevance in the above-mentioned categories. The research offers a conclusive outlook. Moreover, our specific perspective has been accomplished through this research as foundation for our problem statement. In this chapter the concept of loyalty within the airline industry and our problem discussion is clarified in order to understand the problematic dimensions of FFPs.

2.3 Loyalty within Airline Industry

First of all, we need to understand how the airline industry works and Doganis contributes with fundamental perspectives on this matter. Customer loyalty is a factor of significance in the airline industry. A FFP is a useful tool when it comes to competitiveness, yet the programs must obtain a perceived value from customers in order to serve this purpose. Behavioural drivers of loyalty within the airline industry are different across customer segments, consequently frequent flyer programs must be customized primarily based on the motives of purchase (Dolnicar 2004). He argues that a frequent flyer program is a useful tool in order to compete in an industry with an increasing competition. With an accurate purchase motive, customers are able to easily select their best-suited option in between both low-cost carriers and network carriers. Airlines need to ensure an accepted motive of purchase in order to accumulate loyal customers, not only from frequent flyers but also through the entire spectra of customer segments.

Other research directs criticism against the effectiveness of the programs. Stating that loyalty programs are expensive investments but if they serve their purpose, they can also contribute to the firm becoming more profitable. Yet, if the program is proven ineffective the effect is the opposite, and the cost of the programs lower the profitability. (Partch 1994) With the criticism directed from both researchers and other sources such as in the Deloitte report makes the authors to raise questions regarding the perseverance of FFPs.

Reasons why customer loyalty is directed attention to, is because loyal customers are more willing to pay a premium price, and less likely to switch to competitors meanwhile as they are less expensive to communicate with (Gomez, Arranz & Cillian 2006). Henceforth, loyal airline customers can increase profitability if motives to remain can be determined. Stimulus from a premium price paying customers is difficult to accomplish in a troubled industry, thus customer loyalty has received attention re-directing focus from price wars and decreased margins.

In the airline industry a FFP can also provide as a solution to the problem caused by lower demand. In seasons of low demand rewards such as free tickets or discounted flights could be provided to the loyal customers without increasing marginal administrative cost of the programs (Kim, Shi, & Srinivasan 1997). Consequently, the airline is able to utilize the FFP in order to uphold yields at the same time as they can award the loyalty obtained from previous engagements. Seasonality affect the industry on a yearly basis with less travel, yet this situation can be used to the airline's advantage benefitting members of their respective FFP with restricted campaigns or deals only available to their proven loyal customers. Thus, performing marketing actions to further increase their purchase behavior and remain in constant interaction with the members of the FFP.

Loyalty within the airline industry can either be a result of satisfaction, but likewise it can be a consequence of a lack of alternatives in terms of the schedule of the flights, frequency, timing or stop-overs (Zinz 2001). In this aspect, customers in the airline business are able to choose among a significant amount of options. Moreover, the choice of airline is a two-step process where customers first choose airlines with standards they find acceptable and then decide which airline to fly with based on what factors they

find most important (Suzuki 2007). Thus, demands and perceptions from customers are of utmost interest to the airline in order to preserve an acceptable position within the market.

Higher competition and more options together with a greater simplicity in switching to other airlines and FFPs, have impacted airlines and forced them to put more resources towards strategies to keep customers loyal. Loyal customers are less price sensitive, thus more likely to oversee mistakes from the company. Moreover loyal customers possess more information from their prior experience of the company. On the other hand, there is research questioning whether loyalty programs are effective for the airlines to run, in terms of making the customers more loyal. (Dowling & Uncles 1997)

2.4 Authors' Problem Discussion

A cyclical and consolidated airline industry provides an interesting initial position within the research area. Stated research questions will provide an insight to a market, where this proposed concept of frequent flyer's membership really could be enlightened and clarified. This thesis also contributes to research within customer loyalty from a current and specific benchmark position. A high level of interaction from our segment of customers, may result in proposed research area to be more accurately examined. Frequent flyers and their membership in FFPs were historically, in many ways innovators, for the entire concept of loyalty programs. However, current market conditions make the situation of the FFPs more questionable. It is evident that our segment of customers takes part in a FFP, yet it is unclear if the FFPs really correspond to beliefs and perceptions from this perspective that we intend to examine.

We see potential to examine if the relationship between frequent flyer and FFP is prosperous and to what degree. If the relationship can be improved, retention to the customers and profitability of the airline has a potential to increase. Dynamics behind this relationship will most likely vary according to a diverse set of passengers. Conversely, our thesis will limit the scope to frequent travellers and the dynamics behind their specific beliefs and principles. This thesis' empirical findings may enlighten perceptions that are principally overseen, therefore it is of interest to investigate the degree, to which the airline is determined to interact and potentially change according to findings of this study. Even though loyalty can fluctuate among different FFPs, these customers' are of significance to the airline in terms of how much money they spend, hence also improving the yield. The complexity is extensive in this matter since the value and rewards that are enlightened in the FFP also stipulates cost for the airline. Airlines do not only need to maneuver the customers' perceptions, they also have responsibility for the financial liabilities of the company, ultimately resulting in a volatile balance to respond to both perspectives at the same time. Still, the study was desired to take into account both potential benefits of FFPs and criticism surrounding fluctuating loyalty and high financial investments.

Different perspectives on FFPs and loyalty programs in general makes the subject of high attentiveness, for us personally, due to a great passion of travelling, as well as on a larger scale in the global society today. Antagonism of the result in previous research and deficiency of qualitative data arouse our curiosity of how members of frequent flyer programs perceive their membership and whether programs are structured accordingly.

2.5 Summary

This chapter has given an extensive insight to our problem statement with reference to current research of customer loyalty in the airline industry. More specifically in terms of a fluctuating loyalty explained by several researchers such as the motives of purchase (Dolnicar 2004), lack of alternatives (Zinz 2001) and acceptable choices (Suzuki 2007). The chapter has also involved the effectiveness of FFPs and criticism directed towards them. Lastly, our reflections of the problem were enhanced where we addressed the market conditions' impact on the relationship between customer and airline. Moreover, how many of these perceptions that are principally overseen and potential room for improvement. A more extensive clarification to the concept of customer loyalty in theory and in loyalty programs in practice will be evolved in subsequent chapter 3.

Chapter 3 Customer Loyalty in Theory and Practice

This chapter will give a deeper insight into the research of significance for our thesis. Research connected customer loyalty in theory and research practically implemented, will be described in order for us to understand key drives of frequent flyer's membership in a frequent flyer program.

3.1 Concept of Customer Loyalty in Theory and Practice

The theoretical structure of the thesis consist of different scientific research from mainly articles published in scientific journals for instance Harvard Business Review, Journal of Consumer Marketing, Journal of Consumer Research, Journal of Marketing, Journal of Travel Research and Marketing Science. The researchers chosen represent different areas and perspectives connected to FFPs. More specifically, an increased understanding of the airline industry combined with a deeper appreciation of loyalty programs in general have been important in order to comprehend the frequent flyer programs. Customer loyalty is of significance when it comes to the comprehension of the relationship that frequent flyer programs symbolize. Additionally, motives of purchase must be understood for the company to be able to fulfil the needs of the customers.

Theoretical research connected to our chosen area consists of different perspectives on the practical effectiveness of loyalty programs. Some research find that the loyalty programs are effective tools necessary to offer their customers in order to compete, whereas other researchers argue that FFPs only serve as expensive investments which does not contribute to higher degree of customer loyalty and increased profitability in the long run. In practice, some research have positive assessments of FFPs which will be helpful in terms of comprehend the benefits of the programs and why they are a natural part of all airlines today (Gomez, Arranz & Cillian 2006, Kim, Shi & Srinivasan 1997, Bolton, Kannan & Bramlett 1998).

3.2 Customer Loyalty in Theory

This part will focus on theories behind the concept of customer loyalty in general, since our specific problem area still corresponds to the overall conceptualization of customer loyalty, reviewed not only in the airline industry but in various markets. Initially, loyal customers are of significance to most firms in different markets, since the level of profitability of customers tends to get higher the longer they stay within the firm. They are more likely to buy more products and less sensitive in terms of changes in price or offers from competitors. (Reichheld 1996)

Customer loyalty can in many ways be connected to customer satisfaction. Customers are divided into four different groups based on their level of satisfaction and loyalty. However in this aspect, loyalty is only limited to behavioural terms, which is a clear restriction, compared to other extensive research of loyalty, which also involves other dimensions. Loyalists show a high level of satisfaction to remain loyal to the company and can even work as apostles contributing to positive word of mouth marketing. A second group consist of defectors who show an average satisfaction and loyalty. Unsatisfactory experiences often result in a switch to another brand for this type of customers and the consequence can even be that the customer turn into customer terrorists that spreads negative word of mouth. A mercenary is a person with high satisfaction, but a low level of loyalty. Main focus is the maximization of the personal winning and this type of customer tends to change brands very frequently in order to make the most out of every company. Lastly, a fourth group show a low level of satisfaction, but a very high loyalty, often as a consequence of the inability of switching firms due to for instance monopoly markets and are often referred to as an hostage of the company. This theory defines how loyalty and satisfaction are connected in order to categorize customers accordingly. Henceforth, it is also applicable in our study to further be able to analyse the frequent flyers in terms of their shown satisfaction and loyalty. (Jones & Sasser 1995)

More specifically, this model can be applied to the FFPs and the frequent flyers categorized accordingly. Customers selected for this thesis does not necessarily belong to a specific box of customer loyalty, yet their entire relationship and interaction with the airline can be evaluated, more in terms of how the segment have tendencies to fluctuate among the respective boxes of indications. Especially, how the frequent flyers are able to enlighten which personalized factors that trigger this fluctuation.

<i>High</i>	Mercenary	Loyalist
Satisfaction	Defector	Hostage
<i>Low</i>	<i>Low</i>	<i>High</i>
	Loyalty	

Source: A model of loyalty based on satisfaction (Jones and Sasser 1995)

In contrast to researchers arguing for a correlation between satisfaction and loyalty, others show that even though customers are satisfied, it is not necessarily a guarantee for repeated purchases and loyal customers, since factors other than satisfaction affect the outcome. A repurchase process can be made out of loyalty, yet it could also be made by routine or because of the existence of barriers for leaving the company. (Reichheld 1988) This concept has to be fundamentally attended to in the airline business, since a lot of frequent flyers proceed with their travel on a strictly routine basis. However, research from Reichheld summarizes that customers tend to get more profitable the longer they stay within the company.

Moreover, there are eight reasons why customers might switch to other brands; inability to deliver core services or dissatisfaction with the service delivered, the company not being able to handle problems or mistakes in a satisfying way, unsatisfying prices or lack of availability, better offers from competitive brands, ethical reasons or an involuntary switch. The model is applicable to the airline industry and the perception of FFP. Frequent flyers are most likely experienced travellers and are well aware in what way they want to be treated in order to maintain their respective loyalty. What causes disloyal customers and what obstacles there are in the process of achieving a high customer loyalty is highly interesting in terms of frequent flyers' membership. (Keaveney 1995).

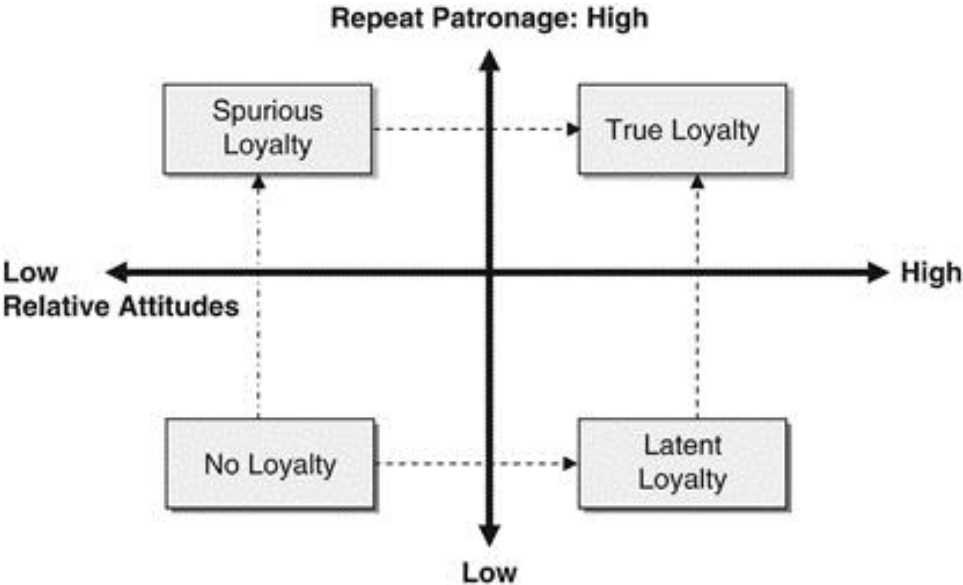
Loyalty should be seen as more than a repetition of purchases from customers (Jacoby & Chestnut 1978). Many researchers emphasize the importance of loyalty programs and how it results in loyalty among the members when it comes to purchasing frequency and the relationship with the company. Susan Fournier (1998) has studied consumer loyalty and the relationship it creates with the company. Loyalty is more than just a repurchase from the customer and a response from the organization; loyalty is a well-established relationship between the two of them. She argues that a brand serves as a relationship partner and the relationship between brand and consumer is a living experience where engagement and emotions play an important role. Involved partners have an active and interdependent role where the relationship gives meaning to the parts engaged in it, and can be defined as a process and multiplex phenomena. Loyalty programs are a long-term relationship between the customer and the brand. This research is of fundamental interest in this study, since the frequent flyers address engagement and emotions felt as predominant factor determining loyalty.

In order to achieve a successful relationship, benefits for both parts involved must be mutually beneficial (Hinde 1979). There are similarities between a marriage and the relationship between customer and organization where loyalty and engagement are the main foundations in which the relationship relays on (Lewitt 1983). A number of factors were found of importance for the relationship between brand and customer. Six factors were addressed; emotions, connection to the perceived self, interdependence, involvement, closeness, partnership and a historical connection described as nostalgia (Lewitt 1983). However, this support does not take into account the marriage as a monogenic metaphor, which Lewitt suggests. Instead loyalty can be directed towards several brands according to Fournier.

In conclusion, Fournier describes customer loyalty as a relationship between the customer and firm. Research of Lewitt draw a near conclusion as well as Jacoby and Chestnut arguing that loyalty must be seen as more than just a repurchases process. In many cases, the loyalty of customers is polygamous and divided between several companies. This is of significance, since a frequent flyer can divide the membership between several frequent flyer programs and still utilize all benefits unrestricted. Hence, the customers are able to accumulate and endorse in several FFPs simultaneously. A possibility for frequent flyers to take part in several programs to maximize retention, result in a dispute to the actual loyalty issue addressed.

Customers can also be divided into four different categories (cognitive, affective, conative and action), each category representing one step on a ladder of increasing loyalty (Olivier 1999). The first steps concern a preferred product (cognitive) and satisfaction of several repurchases (affective). The remaining steps conclude a more active loyalty with an explicit repurchase intention. Conclusively the last step is actual action when a customer is deeply committed to the company and involved with the repurchase of products. Ultimately, the level of increased loyalty can determine how to categorize customers in FFPs with a strict loyalty aspect.

There are several models explaining loyalty as a combination of behaviour and attitudes. Attitude can be strong or weak and the customers can show true loyalty, latent loyalty, spurious (artificial) loyalty or no loyalty at all (Dick & Basu 1994). In order to get a full understanding of loyalty programs, frequent flyers can be defined according to the factors linked to customer loyalty This way, we are able to appraise frequent flying customer’s engagement according to a respective behaviour and attitude. Consequently, the FFP is capable to evaluate certain behaviour and reward it appropriately. It takes into account the attitudes, which are not predominantly attended to in the FFPs. In this way frequent flyers’ attitudes have potential to be evaluated in terms of deciding an appropriate scheme of awards in terms of loyalty, instead of the predominant economical spending factors linked to changes currently being made in FFPs.



Source: The brand loyalty map from Dick and Basu's (1994) model of loyalty.

Research of customer loyalty belongs to the designated problem area. Moreover, the research enlighten in what way the customer loyalty corresponds to the FFPs. Hereinafter, research related directly to practical conceptualization of loyalty programs is enhanced.

3.3 Loyalty Programs in Practice (FFPs)

This part will focus on the practical aspect of loyalty programs as a tool utilized to attract customers. Primarily, loyalty programs were initiated to provide value to profitable segments of customers (Bolton, Kannan & Bramlett 1998).

Ambitions of loyalty programs and FFPs are mainly to create loyalty by rewarding customers for their purchases in hope of increasing level of sales or in order to sell them other products or services. Customers can be kept by offering a high value and a high level of satisfaction for example by giving the customers different types of rewards. Rewards can be indirect or direct and immediate or delayed. Indirect rewards do not support the value proposition of a given product whereas direct rewards do. Immediate rewards can be seen as a customer receiving rewards after every visit in contrast to the delayed, where rewards are given after n visits. Immediate rewards are more appreciated than delayed rewards and if the loyalty program is effective it can help reinforce the loyalty of the customers. This concept is currently implemented in FFPs with a wide variety of awards able for collection when a predetermined amount of purchases is accomplished. (Yi & Jeon 2003, Dowling & Uncles 1997)

In situations with high-involvement direct rewards are preferred before indirect rewards meanwhile, as the effect on customer loyalty is both direct and indirect. Low-involvement situations on the other hand have a higher perceived value of the customers if immediate rewards are used (Yi & Jeon 2003). Buying flight tickets can be considered a high- involvement situation with a positive motivation (Rossiter & Percy 1998). However, even frequent flyer usually by tickets on a routine basis, yet the complete interaction and interest with the process can contribute to the assessment as a high-involvement activity. In situations with high-involvement products, customers participate more in search for information and therefore value rewards higher than in situations with low involvement meanwhile as rewards induce a perception of value that result in customer loyalty.

When companies intend to increase customer loyalty, it is mainly done through economic benefits and discounts. Normally decreases in price fail to bring about a greater loyalty among the customers, on account that if the competitors lower their prices, customers will change to the competitor. Loyalty is best established based on a relationship between customer and company (Butscher 2000 p.9). A successful relationship of loyalty can be compared to the relationship between a sports-team and the supporters, where loyalty is based on other aspects than economical factors (Butscher 2000 p.10). Consistently, there must be more factors addressed than price, hence it is important for loyalty programs to create a deeper and more long-lasting relationship based on more than economic aspects. A relationship and loyalty just based on price is easy to switch and becomes of a temporary character. If this aspect is taken into consideration when adapting and developing FFPs, thus actual profit of the airline has potential to increase due to acceptance from customers. The concept corresponds to

the more theoretical based expressions by Fournier, ultimately providing validity to the relationship evaluated according to more than economical factors. (Butcher 2000)

Another benefit of loyalty programs remain that loyalty can be created due to increased cost of switching to another brand, consequently resulting in a higher profit through possibility of avoidance of price competition (Kim, Shi & Srinivasan 1997). Loyalty programs have an ability to create incentives for customers to stay loyal to a company and make them less price sensitive, overlook experiences that are not satisfying meanwhile as they will be more resistant to offers from competitors. Loyalty programs are not made to benefit one single purchase, the purpose is to induce a higher purchase frequency leading up to a higher loyalty among the members (Bolton, Kannan & Bramlett 1998).

Since members can collect points and accumulate them, in purpose of later receiving rewards there is an anticipation of a positive future event that increases the possibility of a long-lasting relationship between customer and company (Lemon, White & Winer 1999). Conclusively, an expectation of a positive future event can result in a long-term relationship between company and customer, which ultimately can help the airline to endure in a competitive market. Research of Lemon, White and Winer brings up the aspect of perceived value of the membership in loyalty programs. This aspect has to be taken into account. A part from an increased cost of changing to another airline, the longer a customer has been a member of the program, more investments have been made and the more points have been collected that may be disregarded. Switching to another firm would be a loss of all that have been invested leading towards a forced loyalty that makes frequent flyer programs work as a “lock-in” of customers. Since repeated purchases are rewarded, it will consequently lead to the customer preferring purchase from one airline (Sharp & Sharp 1997).

“Most loyalty programs are designed to encourage increased usage of a firms’ products or services. In general, if a consumer buys more, the rewards he or she is likely to earn will rise. Thus, loyalty programs create an expectancy of positive outcomes associated with making a purchase” (Vroom 1964). Henceforth, the FFP have the characteristics to promote repetitive purchase behaviour.

Many companies only run a loyalty program in fear of not offering something that their competitors in the industry are. Yet, the programs also offer a sense of affinity to members and a possibility of close connection with the airline. Loyalty programs that respond to perceived value of customers and are more often successful than more standardized programs (Dowling & Uncles 1997). A high perception of value from the loyalty program does not necessarily create a loyalty towards the brand. Sometimes, it is only a result of a loyalty towards a product. A loyalty program might be moderated by involvement and in the long run it is either an increase in profitability of the company or a decrease, since loyalty programs are an expensive investment (Dowling & Uncles 1997). Research is instead concentrated on aspects of rewards and what type of rewards that are most effective. In order for programs to be successful they have to be perceived as valuable, afterwards types of rewards and timing can be defined.

In contrast, research of Partch works as a counterargument, since its perspective is more critical to the described effectiveness of FFPs. Loyalty programs causes increasing

operating cost because of higher administrative expenses without leading to a better competitive position for the company. Moreover, there is criticism on the impact of the loyalty programs that consider them to be a me-too or hype tool that few airlines dare to leave out of their company based on fear of being behind their competitors. (Partch 1994) Customer loyalty can be of a polygenic character and divided among several companies. Loyalty can be directed towards the brand or simply directed towards the program. (Ehrenberg 1988) Even though the FFPs are an expensive affair, and criticism is explicitly addressed, they are still presented and utilized to a high degree from airlines. In summary, FFPs fulfil a contemporary purpose or it is an unscripted imperative to have one in order to align with the rest.

Furthermore, there are loyalty programs that are used with a short-term promotional purpose implemented with sales promotion and giveaways. Effective loyalty programs on the other hand, can accelerate the customer purchase lifecycle by making the customers buy more at a higher price. Successful programs should target customers that are of most value to the company but also encourage less profitable members of the programs to increase their purchases and become more profitable. In order for the programs to be seen as successful from the perspective of members they ought to have a high perceived value. Henceforth, the distinction of high-yielding premium passengers is paramount in order for the FFP to be successful. (O'Brien & Jones 1995)

Consequences of perceptions are that they are personalized, thus creating a difficult position for the FFP to adapt to every single aspect at the same time, as the program needs to conserve its financial liabilities. The process of adaptation must instead be entitled to the most profitable customers staying loyal to the company, hence also generating revenue. There is a distinction between light, moderate and heavy buyers that states that moderate buyers are the most attractive target group. The reason for that is that heavy buyers already possess the benefits of the programs and does not have the same incentives to behavioural changes and light buyers are less motivated to be loyal to the programs because of a lower level of attraction. Light and moderate buyers are able to increase their claim on rewards much faster than the heavy buyers. With an increase in purchases and spending, light buyers perceive programs as more valuable and the interest and investment in the programs will rise, therefore increasing the profitability of the programs. (Yuping 2007)

3.4 Summary

Customer loyalty in theory consists of several factors in order for loyalty to be considered valued such as the behaviour and attitude explained by Dick & Basu, the connection to customer satisfaction by Jones and Sasser and other emotional aspects influencing the relationship by Fournier and Levitt. Moreover, in the great variety of studies performed on the concept of loyalty programs, two main arguments are clear. Some argue that the loyalty programs are essential in order to be competitive in a fragmented market while others are more critical to the effectiveness of the programs and whether the final result is a greater actual loyalty among the customers. Also, preferred benefits and awards were discussed in the practical part in regard to how the most beneficial FFP is supposed to be structured. Moreover, theories suggesting the most effective strategies to target these travellers were amplified and put into context.

Chapter 4 Qualitative Interviews

Chapter 4 will describe the chosen methodology and design for this thesis. An exploratory approach and apprehension of our qualitative interviews will be developed. We will also argue for our selected sample of respondents and the realization of the data collection, moreover the validity of our data is finally discussed.

4.1 Introduction Methodology

Our chosen methodology seeks to encounter the purpose of this thesis, principally appeal to a FFP and in what way frequent flying customers can be kept over time. With respect to our research questions, the methodological orientation of this thesis will be to analyze the connection between the customer, defined more specifically as the frequent flyer, and the frequent flyer program. It will be accomplished through a relevant theoretical framework of literature and research defined in chapter 3 that will be utilized as construction for this thesis. To reach our main objective we used an exploratory approach with a qualitative method consisting of personal focus interviews (Malhotra & Birks 2007 p.70, Trost 1997 p.43).

4.2 Exploratory Approach

In order to examine our research questions, we will have an exploratory approach to the problem regarding to relevant dynamics and perceptions of the membership between the customer and the frequent flyer program (Malhotra & Birks, 2007 p.70). It will draw attention to the causes to a certain perceived value from the customer, in comparison to, how the program is trying to adapt to these perceptions concerning especially value and rewards being enlightened. Even though there is extensive research on customer loyalty, as well as clarifications on the airline industry in general, which would criticize an exploratory approach; our specific point of concentration from a frequent flyer's perspective with a qualitative method has not yet been amplified. Our specific problem area is distinctive, yet exclusive in its appearance with limited qualitative studies performed in the area, henceforth an exploratory approach is preferred (Eriksson & Wiedersheim-Paul 1991).

4.3 Qualitative Study

Recent studies have concentrated on the quantitative aspects of the problem (Youjae 2003 & Yuping 2007) using frequencies and percentages to measure reputation, satisfaction and perceptions based prices, time schedule, carrier, and availability. However, this thesis will primarily focus on, in depth qualitative aspects of the problem. We chose a qualitative study through individual focus interviews, since we want our respondents to elaborate our distinct questions into complex and comprehensive outlines for us to interpret and analyze (Trost 1997 p.25). Our choice of method emphasizes our aim to understand empirical material with a comprehending view (Trost 1997 p.32). Our ambition is to maintain focus the frequent flyer's drives, beliefs

and perceptions of membership (Troost 1997 p.44) Henceforth, a qualitative study evolved to be a superior fit.

4.4 Interview Guides

Our interview guides were established with a business wide strategic perspective to stimulate accurate answers (see appendix 1). These guides were consistent in the overall aim to address the problem, but with distinctive angles depending on the actual respondent in order to promote an accessible and open interview (Troost 1997 p.71). This way, we stimulated the respondents' responses, especially the frequent flyers that clearly elaborated perceptions and provided personalized opinions. In order to accomplish this, we have shaped our guidelines to the interview with broad questions to stimulate a leisure discussion with subsequent subheads within respective area, more commonly defined as semi-structured. The interview guides were comparable in between respondents, yet adapted throughout the interview to stimulate discussion (Troost 1997 p.71). Moreover, we distinguished some especially interesting focuses from the first frequent flyer respondent, which we chose to direct more attention to during succeeding interviews (Troost 1997 p.72). The purpose and research questions of the thesis were clarified to all respondents and also attached to the interview guides.

Themes regarding perceived value especially directed to the frequent flyer respondents were addressed with open questions to promote respondent's outlines (Bell 1993 p.104). Content of questions directed to the frequent flyer respondents was regulated to initially experiences with FFP, preferred choices of awards, perceptions on the actual membership and finally guided to possible lacks and potential room for improvement. An actual questionnaire and interview-guide utilized can be found in the appendix.

4.5 Sample and Respondents

Our research design was implemented via a qualitative study primarily consisting of five personal focus interviews representing different features of the problem, more specifically a sample of respondents consisting of a spokesperson running a company and community that involves the issue at hand, an airline representative and finally a small strategic sample of frequent flyers. The first interview and respondent from the spokesperson of a website, provided an in depth expertise of the dynamics of frequent flyers, which the involved parties may neglect or oversee. The subsequent interview was performed with a respondent from an airline to seek the structure of the FFPs in regard to how they manage loyalty in regard to financial aspects. Moreover, how an airline strives to keep and sustain these frequent flyers. Conversely, it is still problematic to conduct an interview with a representative from a firm with market interest, due to aspect of sensitive and strategic information in which the airline do not find suitable for the general public (Troost 1997 p. 61). However, we still found the respondent viable in terms of uncovering plans practically implemented from the industry's side. Our respondents of frequent flyers provided a customer perspective to the problem, where we aimed to, in depth seek and identify key drives from a customer standpoint. The respondents all agreed to allow a follow-up session and respond to questions that did evolve during the process. Data collected and transcribed was evaluated combined with previous research in response to our chosen research questions.

The sample size of respondents was determined to be rather limited. We chose this strategy in order to maintain focus on the dynamics constituting the membership, instead of receiving brief descriptions from a wider scope-sample consisting primarily flight patterns and preferred airline choice (Trost 1997 p.53). Consequently, empirical findings provided from respondents would have been much harder to interpret. Now, we were able to enlighten personalized key drivers that might have been mixed with other empirical findings if the sample size would have been larger, consequently affecting the result of the study.

In order to gain an extended perspective on frequent flyer programs, two additional interviews representing the business wide perspectives were performed. Questions might be raised regarding the choice of Lufthansa as the airline interviewed instead of for example SAS. The choice of Lufthansa was made due to the fact that their frequent flyer program, Miles and More, is a leading loyalty program within the airline industry and with SAS holding a leading position in Sweden, we sought not to interview the market leader. An additional interview with SAS would have been of interest in a more extended study, but due to the limitation in time, one airline was found sufficient. The purpose of the interview with the airline was to gain a broader perspective of FFP and obtain information on how an airline assess and manage their FFPs and frequent flyers more specifically.

4.6 Method of Data Collection

Firstly, we determined focused personal interviews as the preeminent method to evolve our research questions. Personal interviews were supplemented with Skype-interviews that provide practically same level of interaction, since we needed an isolated environment in order for the respondent to unambiguously express their opinions (Trost 1997 p.65). This collection of data was supplemented by extensive research within the airline industry, concept of customer loyalty and FFPs. Literature utilized was predominantly connected to our problem and evaluated together with the empiric material found through interviews. Related to the topic of this thesis our sample of respondents has extraordinary lifestyles, since we could not interact with them on a daily basis to evaluate their behavior. Thus, an ethnographical method suggests a continuous presence along side our respondents to fully interact with a certain behavior (Etnografiskt fältarbete 1999 p.113), instead we were able to implement ethnographical elements into our qualitative interviews. The personal focus interviews evolved is our primary method of data collection.

4.6.1 Primary data

Since our primary data, connected directly to our thesis and realized during the study (Bell 1993 p.94), will be based on interviews, we must take into account that they are expressed from a personal perspective and experiences (Bell 1993 p.101), hence a need to be critical to assembled data. Nevertheless, we argue that personal interviews provided us with advantageous data since we could ask follow-up questions and relate to respondents in a well-ordered environment. Even though respondents from our frequent flyer sample were interviewed via Skype, ambience was vibrant from the interesting lifestyle personalized, contributing to the entire dynamics of the data collection. Furthermore, we needed to take into account the airline representative's biased position, yet in order for the thesis to reach the highest level of objectivity, we

found it vital to also investigate the possible strategies already implemented by a real FFP today.

4.6.2 Secondary data

Our additional research, the secondary data, consists of studies, articles and extensive research within the area of customer loyalty (Bell 1993 p.94). Still, we need to have a critical angle to the broad scope of loyalty since our study seeks to examine a restricted perspective from a limited segment of customers.

4.7 Conducting the Interviews

4.7.1 Martin Björnström, Founder and Marketing Director at Businessclass.se

The interview was realized through an initial e-mail correspondence in which a meeting was determined to take place in Businessclass.se office in Stockholm. This was done fairly early in the process and Martin was all along the very interested in accommodating us with our broad spectrum of inquires and problem presented to him at this stage. Martin was also very helpful assisting us with the contact to some of his acquaintances that would come to represent fitted our sample of the frequent flyer archetype. The interview was set to take place as the first of 5 interviews, hence we were eager to get the data collection process going. However, this also meant that we had to be particularly prepared and read up on the company since we did not know how our questions were going to unfold. Initially, we agreed with Martin to record the interview and use his name and company as reference throughout the process of the thesis (Trost 1997 p.75). To avoid any miscalculations performing the interview, one of us primarily conducted the interview and the other person was taking notes (Trost 1997 p.66, 76). The interview proceeded in a gently manner where the respondent provided their view of the frequent users of their website and community. During the process we had to elaborate some inquires with examples to re-direct the discussion towards Businessclass.se as the main emphasis.

4.7.2 Kristina Öström, Marketing director at Lufthansa Nordics and Baltic states

An initial contact with Kristina was made through a family member of Jessica's, one of the authors of this thesis. Upon a first e-mail was sent, she firmly replied and offered her help to gesture a different point of view from the airline industry. We sent over our purpose, research questions and some intended inquires for Kristina to get an overall idea of the topic in order for her be fully prepared. Henceforth, Kristina was able to direct focus to certain areas from Lufthansa's perspective to shape the interview into a discussion of experiences and mindset (Trost 1997 p.43). Due to unfortunate circumstances, only one of the authors participated during the scheduled interview session, yet the interview was fully recorded and transcribed for an extensive evaluation of the data collected. Intended basis for the interview was thoroughly achieved and Kristina also offered her assistance to complement the interview with some specific details about their FFP that was not resolved completely during the active session. Finally, the intended quotes that we seemed fitting in the study were also sent over for confirmation.

4.7.3 Mitko Blazeski, Senior solutions architect lead EMEA at EMC²

The first contact with Mitko was achieved via Martin at Businessclass.se who provided the connection to Mitko, since he knew on beforehand. Martin explicitly only validated

his travel pattern to prevent us from interviewing a respondent that would function as a gate-keeper for Businessclass.se (Trost 1997 p.140). Mitko quickly responded and subsequently a Skype- interview was scheduled. The interview was planned to take shape as more of a discussion surrounding Mitko's travel pattern in general and his relationship with his specific set of FFP. This plan evolved according to plan and Mitko provided an in-depth narrative of his experiences, perceptions and suggestions to the FFPs during an approximation of 1 hour and 20 minutes. The ambience of Skype also allowed us to interpret some body language and gestures, which improved the perception process of the respondent (Trost 1997 p.77). Mitko also approved to use his name and profession throughout the study.

4.7.4 Hans Bunes, Private Consultant

Hans was initially contacted via e-mail and after some minor calendar and timing issues, a time for a Skype-interview was determined to take place. The interview was recorded which allowed us to take notes in order to evade misinterpretations as well as being prepared if technical difficulties would occur (Trost 1997 p.20). Hans' commitment to the problem gave the interview a very pleasant and dynamic setting, where Hans repetitively offered incisive explanations and provided examples when needed. Furthermore, he allowed follow-up questions and approval of his name and profession throughout our study. The interview lasted for approximately one hour and comprised all our major questions with in-depth clarifications. Conclusively, Hans' interest in the designated problem area improved quality of his responses and enriched the empirical material offered.

4.7.5 David Axelsson, Program Manager Johnson Controls

David was contacted and agreed to represent one of our frequent flyer respondents. He also responded to the scheduled time and date for an interview. David's interesting background being located in China with a high degree of interaction with Air China's FFP "Phoenix Miles" combined with a current situation without the same level of travel, provided an noteworthy perspective to our problem. Moreover, the interview was granted of being recorded and David agreed to use his name and profession during the study. In order to increase the variation in our sample David's current reduced number of flights stipulated another customer's perspective, yet being defined as a frequent flyer.

4.8 Processing the Interviews

The two initial and personal interviews performed with Businessclass.se and Lufthansa were conducted the same way and transcribed comprehensively in separate documents just subsequent to the interviews to keep information actual and interpret absences of information. The interviews had a similar outline to the interview guide, but with some modifications according to the intended purpose of the interview.

The interviews with our sample of frequent flyers were all recorded with a plug-in through Skype and transcribed. Moreover, all interviews evolved according to plan as discussion surrounding different aspects of our problem. Thus, responses evolved with more contemplation and interactive patterns when we adjusted questions ongoing instead of following the initial guideline (Trost 1997 p.72). This was accomplished primarily due to the design of the interview-guides with broader topics with a respective set of sub-heads. All respondents made themselves available to follow-up

questions of interest after information had been thoroughly analysed. Conclusively, we can say that our data collection proceeded without major difficulties and developed into an excellent basis for the analysis of our findings.

4.9 Conducting the Document Studies

4.9.1 Websites

In the initial process of the thesis we started of scanning different websites for relevant information. The purpose was to gain a deeper understanding of frequent flyer programs, which required a comprehension of related subjects such as the airline industry, customer loyalty, and loyalty programs in general. Information found was originated from websites of the airlines, online newspapers, different discussion room for people interest in frequent flyer programs and websites with more general information on customer loyalty. Our objective was to get several perspectives since different sources have different motives and opinions, which we needed to remain critical to (Patel & Davidson 1994, p. 55).

4.9.2 Scientific Articles

Immediately from the start we found it of high importance to look at previous research and studies on frequent flyer programs and subjects connected to this area. Our conclusion was that there was a great deal written. We used the database on the Economic Library's website that was presented to us during the week of introduction to the bachelor thesis and found many pieces of interest. In addition we searched on several search engines where we also found articles of significant interest. With the objective of gaining a broad picture and numerous perspectives, we read through the articles connected to the purpose of the thesis and immersed ourselves into the most significant ones. We looked at both research in favour of the loyalty programs as well as researchers more critical to the phenomena to avoid misunderstandings and misinterpretations (Patel & Davidson 1994, p. 56).

4.9.3 Reports

In our search for information we found a number of interesting reports on the subject. One of the most recognized reports was "*Rising above the Clouds Charting a course for renewed airline consumer loyalty*" made by Deloitte. This report is referred to in several contexts.

4.9.4 Literature

Bell, Malhotra & Birks, Patel & Davidson and Trost worked as keystones of how to perform a qualitative interview and contributed with different perspectives on the matter. The choice of using several methodology books was a conscious decision from our point of view in order to avoid a too strong emphasis in favour of one perspective. Additionally, we chose "*The Airline Industry of the 21st Century*" by Doganis to gain a fundamental understanding of the airline industry and "*Kundklubbar och lojalitetsprogram*" by Butscher as an insight to the functionality of the loyalty programs.

4.10 Method of Analysis

The analysis has been performed in a multi-step processes. Initially, information from the interviews were transcribed based on information that we found relevant to the

research questions, combined with data that was applicable with the theoretical research. Transcribed material was later on elaborated and parts connected to the purpose of the thesis were highlighted. We analyzed the highlighted material and discovered numerous areas of interest in regard of our research questions.

Our areas of interest evolved into distinctive categories and within those categories quotes essential to the purpose were tied together with significant theoretical research. This formed a foundation for a further analysis. We made a deliberate decision to await all interviews until we began analyzing collected data since we sought to avoid misinterpretations due to overhasty conclusions. Since we performed initial interviews with representatives of the industry and thereafter we interviewed the frequent flyers, thus an instantly performed analysis could have resulted in hasty conclusions.

4.11 Validity Analysis

All of our envisioned respondents accepted our humble inquiry to be interviewed. Henceforth we could proceed with the study according to plan and evaluate the validity of these interviews. In order for our study to be valid, it is of utmost significance that we evaluated relevance of the data collected according to our problem recognition (Troost 1997 p.134). If the validity and seriousness in data can be mistrusted, the result and analysis is of less weight for future research. However, we contemplate that our theoretical framework designed our personal focus interviews, thus increased validity of data collected. Our study has intentionally been to conduct a study of a representative sample of respondents in order to fulfill the purpose of this thesis (Bell 1999 p. 90). Comprehensively, we managed to connect with the respondents and evaluated their expressions in order for them to be reliable, thus they had not been influenced in any way to re-direct focus with predetermined tactic (Bell 1993 p.100).

Furthermore, in order to perform an accurate qualitative study, a sample need to be varied but within the same scope, representing different aspects from a specific section (Troost 1997 p.137). We evaluated the risk early on to prevent our respondents of frequent flyers to consist of gatekeepers that would have steered the information towards a homogenous direction (Troost 1997 p.140). Instead, we aimed for a diverse sample of respondents to receive an extensive description of different aspects. Henceforth we utilized a strategic sample choice where we picked respondents that could contribute to a varied data collection, but still are representative of the intended segment (Troost 1997 p.139, Bell 1993 p.111). This was done due the specific characteristics of our problem, where we needed a systematic way to determine our sample since they were desired to match our predetermined classifications of a frequent flyer.

Additionally, we are aware of that our respondents provided their perceptions from a personal perspective that may have impacted the validity of the study (Bell 1993 p.101). Nevertheless, particularly our frequent flyer respondents provided in-depth responses that were interpreted, thus the study has a qualitative character. We believed our personal interview with Lufthansa was the riskiest one to be performed, but due to our acquaintance with Kristina, this interview also became feasible. However, we still found it obligatory to have a precarious examination of data collected via this interview in regard to the predominant and most explicable position where Kristina works for a

company distributing the actual product and service. Henceforth, reactions and explanations provided still had a biased perspective.

Furthermore, we deem it required for our study to have been able to perform personal focus interviews. Without explanations and clarifications provided, the depth in our study would not have been sufficient enough to contribute to the designated problem area. Henceforth, shorter questionnaires distributed to our respondents were not an option. Interest from our frequent flyers in the industry and function of the FFP as a tool that assists their travel procedure, may also have contributed to empirics, since the sample are the ones firstly affected by enhancements and changes in the FFPs. All interviews had a high level of distinctiveness, thus it assisted the progression of evaluating vital parts that could contribute to our study. Ultimately, empirical material gathered corresponded well to our selected research questions. An outline over respective interview conducted can be found in the appendix.

An analysis of this study will be thoroughly established on the theoretical framework and empirical material assembled. It has subsequently been interpreted in order to concentrate our analysis with distinctive themes. We have evaluated the impact of our previous knowledge on the empirical material and concluded that this has not resulted in a biased data collection. Moreover, we consider to have avoided major fallacies of misjudgments through quick conclusions based on details in the material. Instead, an open mindset has enabled us to reflect with our specific scope transpiring through the analysis.

4.12 Summary

This chapter has principally outlined the exploratory approach and qualitative method selected for this study. It has extensively presented the method of data collection, the actual sample and respondent's characteristics. Moreover, chapter 4 concludes with a analysis of the respondents and validity to the study.

Chapter 5 Discovery of an Anticipated Mutual Relationship

Chapter 5 will review the information assembled during the interviews primarily consisting of two essential parts. The first part involves the business perspective to the problem with an initial presentation of the respondents. The secondary part involves the customer's perspective amplified through the eyes of frequent flyers. Both parts include perceptions portrayed through a distinct set of themes pronounced accordingly.

5.1 Business Perspective

This section will primarily focus on the business side of our problem. Firstly, perceptions of the industry will be featured with the coherent role of FFPs in this business. Secondly, observations of perceived value and distinctive drives are elaborated by the business in correlation to actual loyalty shown towards airlines. Strategies and future outlook of frequent flyers and their membership in FFPs are evaluated with a current perspective.

5.1.1 Presentation of Respondents Representing a Business Perspective

Martin Björnström Founder of Businessclass.se

Businessclass.se was originally designed and conceptualized as a more enhanced version of the more famous community called “Flyertalk”. This community targets people globally with the interest in flying and FFPs as a common denominator. For our study, Businessclass.se symbolizes a partially biased perspective since they are deeply involved in business with airlines, nevertheless stand for a significant insight to the concept of frequent travellers in terms of their interest and appreciation of their users respective memberships in FFPs. Members of businessclass.se represent a suitable sample from our segment, thus their point of view is of high resemblance with our problem. However, since there are 70 000 monthly users² of the website we need to take into account that not all users experience the same level of interaction with a FFP. Instead many users widely utilize the website for inspiration and are consequently able to endorse in specific deals or awards recommended by some of the more active members on the site. The complete reason to perform this interview was an extensive opinion about the tendencies of membership in FFPs, in which Businessclass.se has been able to perceive through their entire business process and more specifically from members of the website.

Kristina Öström Marketing manager at Lufthansa Nordic and Baltic states

Lufthansa is one of the leading airlines operating more than 300 airplanes to more than 200 destinations worldwide. The airline originates from Germany, but has extensive operations in Sweden serving both Stockholm and Gothenburg targeting both leisure and business travellers to a wide range of destinations. Lufthansa symbolizes the

² Number of exclusive visits on website.

characteristics for an industry wide perspective in this thesis providing the essential information to which type of strategy that actually is being implemented to correspond to a frequent flyer's prerequisites.

5.1.2 Themes in Interviews

Perceptions of industry

Our respondent Martin Björnström was one of the founders of the website Businessclass.se. The firm foresaw a local potential from a segment of travellers highly involved in the industry and particularly the FFPs. Today, our respondent runs a website that incorporates both editorial content in combination with a comprehensive community including everything from rumors, ticket-deals, trip reports, lounge-reviews to advices on how to increase the level of retention. Businessclass.se defines their intended users as *"conscious travellers"* determined not only by number of flights, but also on how they interact with the entire flying experience. Yet, they concur of the widespread terminology of frequent travellers, who according to their definition is to *"accomplish more than 10 flights on a yearly basis"*. The users are *"primarily men between 35 to 59 years old working as consultants, within sales or/and as managers, performing approximately 30 flights on yearly basis"*. Martin expressed the role of Businessclass.se as: *"We have a traveller's perspective"*. Henceforth, the website represents a sort of intermediary who could in some way interpret the how customer's dimensions corresponds with the airline. Either way, influence from this segment of customers should not be neglected since the frequent travellers are *"8 % of the customers, yet they represent 50 % of the profits and 40 % of the total revenue"*. Although, we need to be critical to figures not stated from actual airlines themselves, the address still gives credit to an imperative position of frequent travellers. In conclusion, the interview provided an insightful view of our problem from a business perspective. It was also a great advantage to conduct the interview in person since Martin's entire appearance was deeply interested in the topic as well as he represented a company that interact both with customers on a daily basis, combined with airlines that basically funds the company through advertising and collaborations.

Lufthansa's vast experience provided an insightful perspective specifically on how a specific airline chooses to manage frequent travellers and their extensive needs. Kristina is responsible for all the marketing activities performed within her designated geographical area, hence one of their primary marketing tools is Lufthansa's FFP, Miles & More. The FFP is one of the airline's best tools to target frequent travellers. Lufthansa transport a great number of high-yielding premium passengers and their loyalty is respected and measured, consequently our study is of principal interest in this aspect. Nevertheless, we were gratefully accepted to perform an interview with an airline ultimately in charge of maintaining these customers. Kristina, marketing manager of Lufthansa initially expressed her view of the industry as *"volatile in times of economical crisis"* and that Lufthansa *"does not fly on routes without potential profit"*. This information gave acknowledgment to our indices whereas the competition to Lufthansa for instance from the Gulf also was confirmed as *"harsh competition, but players with different rules of the game and without a domestic market"*. This serves to our advantage". Lufthansa is still one of the leading airlines and are still extensively adapting in terms of strategic decisions for instance Germanwings, which has been a *"calculated move with a different base of cost"*. The Nordics were addressed as a primer market with a substantial

variation of both leisure and business travellers with both a *“point to point”* and an *“intercontinental”* travel pattern.

Role and characteristics of FFPs

In Sweden, SAS has a *“substantial position”* according to *Businessclass.se* regarding members in their FFP Eurobonus, which can be explained by their extensive operations and route network running well with the travellers, combined with the possibility to *“connect credit-cards to boost mileage”*. Fundamentally, Sweden is the home-market of SAS together with Denmark and Norway, thus they also have the most FFP members. Today measured at over 1 million members exclusively in Sweden (Flysas.com 2014).

Lufthansa’s FFP Miles & More has currently 20 million members worldwide according to Kristina whereas in Sweden they are not the stated *“home-carrier, with the gentleman agreement, not to target respective customers within Star Alliance”*. However, the basic rule applied in the combined industry, is that the customer *“should use the FFP belonging to the airline most used”*.

Frequent Flyers and their membership in FFPs

Basically, a comprehensive starting line for frequent flyers is *“firstly to reach gold status within respective program”* according to *Businessclass.se*, since this *“stimulates the entire travel procedure including businessclass check-in, fast-track and lounge access”*. When this goal is accomplished through extensive travel, a metaphoric door opens with benefits and perks defined as *“hygiene factors”*. Specifically, they consist of advantages that a regular traveller doesn’t even know exist and exemplified above. Even though these factors may not increase motivation of frequent flyers, yet they facilitate the travel procedure and are appreciated accordingly. The perception of the hygiene factors as a valid drive to proceed and maintain the membership will most likely reflect on numerous frequent flyers. However, Martin also confirms that the average person less interested in the FFP travelling from Sweden *“focuses on Eurobonus and uses the points with SAS”*. This is probably the general utility mode for most frequent flyers. They comprehensively appreciate hygiene factors since they facilitate the travel procedure, yet involvement in the membership is still limited. Moreover, as well as there are travellers who according to Martin at *businessclass.se* have *“more than 1 million Eurobonus points, with no idea what it means or what they can do with them”*. Systematically, they are not interested or involved in the travel procedure, but see the flight exclusively as a routine measure of transportation. Yet, it is crucial to illuminate that these customers do not belong to the sample of this study. Instead, the frequent flyers appearing and embracing the process of travel are consequently also the ones thoroughly able to contribute with improvements to the FFPs, as well as they are the designated sample for this study. Thus, corresponding to the theories regarding the dynamics of the relationship in order for it to be prosperous (Hinde 1979).

Mainly, accomplishment of a gold status within a respective FFP results in a position where *“the person has been given these benefits and adapted the travel pattern to the extent where it is tough to go back”*. Irreversibly, this perception corresponds to the theory of a strategic lock-in of the customers to promote a repetitive purchase process in order for the awards supposed to remain (Sharp & Sharp 1997).

Perceived value originated from these customers are valued and Kristina at Lufthansa chose to focus on indirect rewards (Yi & Jeon 2003) obtained from the airline

corresponding to an example that *“most important for us is that Frequent flyer is seen”*. Thus, we interpret this opinion in terms of that the frequent flyer already knows that hygiene factors are working perfectly fine as Martin at Businessclass.se expressed it. Instead it is *“little things and blameless service”* which according to Kristina are the factors that can improve the overall experience and increase loyalty. Here we understand the first part of an ongoing theme reflecting the empirical material. Frequent flyers are known to value their respective set of tangible or hygienic benefits of lounges, fast-track and business check-in. However, the relationship is now observed from another point of interest. Since all these factors are obvious for both parties, the business perspective instead chooses to direct focus to the attentiveness and added value that can have positive impact on the dynamics of the relationship. Especially mentioning the technological abilities such as *“push-notifications”* for instance to inform of delays in order for travellers to optimize and schedule the travel procedure accordingly.

Furthermore, Lufthansa has a continuous dialog with a sample of Miles & More member called *“advisory boards”* consisting mostly out of Lufthansa’s more seasoned frequent flyers of Senators (Star Alliance Gold) and HON Circle (top tier level) providing information regarding everything from catering to treatment with room for improvement. The discussion involves top management in order for the response to be implemented on a firm wide platform. The supposition taken is that the airline deems the frequent flyers vital to the business, henceforth the airline values information given, however a huge organization with subsidiaries presents complications for instant changes, as well as presence of unfortunate but isolated service issues or complains.

In conclusion, frequent flyers are actually of great interest not only in terms of profitability, but also their perceived value is taken into consideration through a variety of measures. Moreover, the airline concludes their position in this mutual relationship; hence also give approval to the validity of this study.

Customer loyalty aspect

Businessclass.se conclude *“Eurobonus is an effective measure in order to maintain loyalty in SAS”*. Moreover from a personal standpoint Martin states *“consequently I am pretty blind, I regularly fly with star alliance because of my Star alliance gold card, hence I don’t chose to fly with Norwegian for instance”*. The described process is almost certainly far from exclusive and the authors draw the apparent conclusion that these affections are common among many travellers, thus increasing the effectiveness of the FFP. Yet, there are still a lot of dimensions involved in the *“gold status”* ultimately affecting the consumer decision-making process.

However, the outward characteristics and transparency of the FFPs have improved the frequent flyer’s ability to influence their membership, where the customer through different facilitators such as the *“mileage calculator”* with Lufthansa, where members accurately are able to calculate the number of miles acquired with a specific routing, booking-class and the operating airline. Ultimately, as Kristina also confirms that *“today, the frequent flyers at Lufthansa know exactly how to receive the maximum amount of miles with a specific routing etc.”*. Although the frequent flyer capabilities to maximize their membership have been facilitated via technical solutions such as KVS availability

tool³, it is of concern that partnership availabilities might undermine the actual customer loyalty, since customers now are up-to-date on how to amplify their membership and distribute loyalty accordingly. However, Kristina has the impression that *“all members of Star Alliance have their own earn and burn policies, but hopefully it culminates in an interest for Lufthansa. For instance we have seen a lot of interest from other Star Alliance FFP members in our first class product, which we take much pride into”*. Conclusively, the impression is that exclusive customer loyalty towards Lufthansa isn't the prime objective. Instead synergy effects taking part in alliances and partnerships have eventually been positive for Lufthansa as well as the transparent structure has improved dialog with customers, since they now know that frequent flyers for instance strive to fly their distinguished first class product.

Comprehensive strategies to target these customers

Basically, the frequent flyers represent the *“moneymakers for the entire industry”* according to Martin at Businessclass.se. SAS has also launched a new version of their FFP named Eurobonus 2.0 with at strategic aim to reach *“5 million members from 3,5 million, as well as they are putting in an enormous amount of money in the re-launch”*. The re-launch is not only an evidence of the significance of the FFP, but also an important approach to attract new customers and evidently make them to fly more and consistently. Consequently, they decided to *“lower the status limit for silver to 5 round-trips in order to target the Scandinavian travel class of 2,5 million people”*, explicitly travellers who do travel to some extent, although not at the same level as frequent flyers. Accordingly, these people will get awarded quicker (silver), but in order to reach the exponential effects addressed in the gold level, they need to further increase the purchase behavior which is difficult to accomplish with a private travel pattern.

Our chosen frequent flyer respondents have principally acquired their status position in respective FFP through their profession, where the travel procedure, depending on position and company, usually relies on a current travel policy. Regarding which type of tickets (cabin class, routings) allowed for the employee to purchase. As a strategic measure Lufthansa is offering a *“partner benefit solutions especially for the SME-segment⁴”*. This way, Lufthansa are able to target the firms directly with an optimized product, meanwhile the actual employee doing the travel can be a member of Miles & More. Thus, collecting miles temporarily as Lufthansa has facilitated the entire process and improved relationship with the customer.

Future outlook

FFPs are in a continuous process of adaptation. Businessclass.se believe in an increased development towards actual earnings to airline and not mileage-accrual collected through a variety of measures not necessarily connected to money spent with respective airline. More specifically, *“the more you spend, the higher status is achieved”*. This perception emphasizes a pretty rationale motive with a business perspective, since all other options may result in travellers taking advantage of the FFPs, hence deflating the original purpose to protect customer loyalty.

³ Internet facilitator to look for upgrade/award availability among a pronounced number of airlines

⁴ Small to medium enterprises.

This perception is shared with Kristina at Lufthansa suggesting the purpose of FFP still is to improve profits. Even though Lufthansa is not operating in their home market they are establishing strategies to welcome more members, explicitly with a business perspective.

5.2 A Customer's Perspective

This section will have a unbiased customer's perspective represented by an inserted sample of frequent flyers that all are in possession of have a clear variety of opinions needed to take into account. The section is organized according to the insight of the FFPs with their personal perception followed by a detailed clarification of drives determining their loyalty. In addition desired perquisites of change are determined.

Firstly, we once again wish to address that this sample of frequent flyers doesn't necessarily represent the general conceptualization of frequent flyers that we described in chapter 1 (10 flights in a calendar year). Nevertheless, it is a strategic sample representing personalized and customized opinions addressed with a background of comprehensive interaction with a respective set FFPs. Hence, respondents' impressions and experiences are of great interest to correspond and enlighten key drives behind their frequent flyer program membership. Other quantitative and rational measures of indications in the loyalty process don't exist in this study, yet it is these general perceptions that usually are emphasized. Such as prerequisites for advantageous prices and time-tables. For instance, our respondent Mitko, with 186 legs a year, thus basically spending more time in the air and than on the ground, was directed and engaged in the concept of FFP early on through his profession. Initially, his goal was primarily to *"go to the airport with the minimum amount of time in order just to proceed through security and directly on to the plane"*. This perception was combined with: *"at that time, the other things didn't matter"*. The authors draw a definite distinction between this type of frequent flyer and the interaction later evolved between Mitko and his membership in different FFPs in which we are aiming to investigate.

5.2.1 Presentation of Respondents representing a Customer's Perspective

Mitko Blazeski, Senior Solutions Architect lead EMEA at EMC²

Mitko Blazeski is a 37-year-old solutions architect who works at one of the leading IT solutions' companies worldwide providing a wide range of B2B products including storage, data protection, big data and content management. The company is based in Seattle, but have extensive operations with a global scope. He symbolizes the general perception of a frequent flyer performing 186 legs⁵ in total during 2013. Yet, many of his long-haul travels include layovers, thus increasing the number of legs to reach a specific destination. His workplace is almost global with a constant travel pattern ranging from Seattle, Washington D.C and Doha to different European destinations such as London and Munich. He is currently an Executive Club Gold member with British Airways' FFP BAEC as well as a Eurobonus Diamond member with SAS.

⁵ One leg is defined by a specific one-way flight.

Hans Bunes, Private Consultant

Hans is a 42-year old private consultant who has been a Lufthansa Miles & More Senator (gold level) member for over 13 years. He flies more than 100 legs during a normal year of travel including a wide range of destinations, primarily within Europe. He is currently also a BAEC Gold member. A great number of his professional engagements have involved extensive travel, this has resulted in a permanent interaction with different FFPs. Henceforth, he also represents a frequent flyer respondent that could contribute to our empirics from a customer's perspective. Hans has followed the FFPs in their process of change, significantly due to market conditions and external factors. Moreover, Hans is running his own company, subsequently he also provides other dimensions to the problem avoiding apparent company restrictions in his choice of travel.

David Axelsson, Program Manager at Johnson Controls

David is an experienced traveller with a distinguished profile that separates him from our other respondents. He was previously based in China where his awareness of FFPs emerged. Currently, David estimates his current number of flights to approximately 60 legs per year including both for business and private trips. Today, he holds a gold status on Turkish airlines FFP Miles & Smiles (Star Alliance) and a status-matched⁶ gold card on Air Berlin's FFP TopBonus (One World). However, his current strategy is determined to exchange his credit of miles to SAS and Eurobonus, thus this program suits his travel pattern better nowadays with a reduced level of travel.

5.2.2 Themes in interviews

Insights to FFPs

Currently, our first respondent Mitko has two principal memberships in FFPs. *"I would say 80-85 % of my travel goes with OneWorld primarily British Airways and the rest with SAS"*. With an extensive amount of travel Mitko is well aware of things that could eventually help his travel procedure and his pick among FFPs. *"The entire experience, from availability in booking classes, calling their support, how helpful they are and not only looking at the actual mileage retention. Also, "looking at lounges and the number of upgrades"*. Mitko's extensive knowledge in the area provides him with an excellent position to choose what he prefers and is able to evaluate the options according to his perceptions. *"With BA I can often upgrade with short notice to other booking classes if there is availability, SAS has improved on this matter, but the comparison between these companies is harsh"*. Moreover, Mitko expressed his enthusiasm being able to interact with BA directly during more leisurely occasions. *"Actually it is very funny, because they profoundly wants to know what I think, how I have been treated and the feedback eventually may help them"*. This interaction gives the airline a direct access to the mindset of a frequent flyer and a loyal customer without intermediaries. Feedback provided could more easily be implemented, ultimately affecting other customers who most likely are not in the same position as Mitko, but still notice a change in a the distinct feature. Furthermore Mitko accentuates a feature named the *"golden ticket"*, available to frequent flyers to distribute when they have encountered exceptionally good service. This way, the airline provides customers an opportunity to reward a behavior that corresponds to their own perceptions of outstanding service. Although, the conclusion from Mitko is still that the attitude and treatment from the customer side

⁶ The leverage process of an FFP-card into another FFP-card.

will have tremendous effect on the entire experience, thus providing fundamentals to be treated accordingly. Mitko is still strictly speaking picking his travel according to his personalized perceptions. *“Actually SAS would fit me just fine, but since it feels like a hot-dog stand, I often chose detours to avoid it”*. Moreover the distinction is not made on the preference of miles to the optimal FFP; instead Mitko wants to be treated in correspondence to the amount of money he spends. *“If I feel valued from the airline, they would eventually earn more money from me”*. In summary a distinction is clear, a comprehensive positive treatment of the frequent flyers can effectively enhance their perceived membership.

Hans Bunes, our second respondent, has historically been a loyal Star Alliance and Miles & More frequent flyer but expressed, *“a combination of the value reduction and a number of parameters which are economically instead of loyalty driven”* has resulted in his decision to shift focus to OneWorld and more specifically BAEC. Hans explicitly determines that *“for me as a user of a FFP, I don’t longer see the value in the same way”*. Although this type of customers have been loyal during a long time, changes that are perceived as an effect of eroding the program, will simply make them put their money elsewhere. This shift is done promptly, yet changes have been determined by a number of factors altered over extensive period of time. Hans explained thoroughly his accrual of miles has diminished, booking a businessclass ticket with an expensive booking class only receiving half of the miles he used to. Basically Hans concludes *“they don’t deserve my loyalty, since I feel that they have been disloyal to me”*. In summary, perceived value relies on a mutual experienced relationship that corresponds to standards from these customers.

According to Hans, changes implemented by SAS into their new FFP, have a well-thought strategy: *“SAS is aggressively building its base of loyal customers”*. As concluded in the interview with Businessclass.se they are adapting the program to travellers going on approximately on 5 trips a year, providing them with a silver-card in order to make them to pay a premium price for a differentiated product in comparison to their biggest competitor, Norwegian. Hans’s insight also reveals *“I believe that Lufthansa will do some positive changes in Miles & More since they know that they have lost a lot of key-customers”*. Hans expresses this from a strictly personal standpoint, yet enlightens his dissatisfaction and the consequences to his relationship with Lufthansa.

Our last frequent flyer respondent, David Axelsson has a rather different approach to our problem area, since his current travel portfolio is rather limited in comparison to the other frequent flyers creating our sample. David was stationed in China where the interest in FFPs emerged, but is now back in Sweden explaining his reduced number of flights. He is today a member of approximately 10 programs utilized based on his preference spreading his loyalty over a numerous amounts of FFPs, mostly based on campaigns or deals since he also funds tickets primarily on his own.

Personal Role of FFPs

The role of an FFP is personal and can be explained in a number of ways. However, our sample of respondents is accurately able to highlight factors that predominantly also have potential to improve their experience of respective FFP. Today, for instance in the case of Mitko’s, he perceive miles as *“it is a nice bonus, and if I can optimize my routing to collect some more miles I’ll do it, but often it’s all about getting there as fast as possible, do*

my job, and then go home". Conclusively, the respondent is well aware of how to elevate his membership and doesn't need to direct focus to it. The membership is evaluated as an added value to the travel procedure, thus it is optimized if you're read up on the subject at hand. Mitko also concludes *"for me it is all about the flexibility, I do my bookings with short notice, which often result in booking classes with a good retention of miles"*. Still, we have to address that Mitko's profession is of highest priority when his travel pattern is discussed, moreover Mitko states that not all employees can do their bookings with the same level of flexibility and that the company travel policy must be attended to.

The role of the FFP for Hans is both private and business drive where he adds: *"the benefit of being your own boss is that you can extend your stay"*. His perspective extends over the concept of accumulating miles with a profession and endorsing in the rewards on a private basis. Instead, Hans interact with the FFP on both levels providing in interesting standpoint where he can really determine his own outcome of the membership.

The role of FFPs for David is the added value and principally the retention. However, the authors conclude a distinct optimization from David where he states, *"I usually chose the FFP that fits my current travel pattern the best"*. His current Star Alliance gold status with Turkish Airlines doesn't restrict David to credit his miles elsewhere.

Perceived and experienced value from membership

Experiences provided from our for 1st frequent flyer Mitko is vital for our study, since the respondent's answer has evolved and emerged during a high level of interaction, which not even the airline is able to comprehend. Mitko suggests his membership with BAEC⁷, *"I feel that I have been treated well, they appreciate that I spend money with them, which of course is nice"*. We can hereby determine that an improved customer service and basic appreciation should not be neglected in terms of frequent flyers. Their travel patterns accumulate enough miles as it is. Instead, service interaction with the company is also valued and mutually evaluated according to the customer's experiences. Moreover, Mitko believes that he mostly uses his miles for *"upgrades and to buy first class tickets to the Caribbean or destinations in the US"*. Yet, the impression is that utilization of miles isn't paramount for Mitko, instead he emphasizes positive experiences of indirect award character (Yi & Jeon 2003), *"last time when I flew from Seattle I was upgraded without notice, the flight was completely full and when I got there, my phone buzzed and I was assigned 3A as a new seat"*. The authors conclude that these types of surprising encounters of positive character are least as triggering for the frequent flyer and contribute to their perception of the FFP. Moreover, Mitko is basically not interested in material partnership rewards, but once again enlighten aspect of surprise, *"If I'll get a ticket to the cinema, I rather prefer if they would have invited me to the cinema from surprise"*.

Hans, in dependable from Mitko's' emphasis, also enlightens awards of informal character being allowed to influence not strictly through surveys, instead via a direct interaction with the airline. He addresses tangible benefits or material awards such as fast-track, lounges to improve his trip. Moreover, Hans also appreciates awards of being

⁷ FFP of British Airways

a Senator member of Miles & More where he can demand the airline to open up space on a full flight without inventory. Even though criticism against Lufthansa is apparent, Hans emphasizes *“I have complained a lot on Lufthansa, but there are few airlines out there, where I feel as desired as I do on Lufthansa Group, especially Swiss”*⁸. Subsequently satisfaction and appreciation of the treatment provided is crucial for our respondent, even though some of the changes in the FFP have eroded his conviction towards the program.

Nevertheless, Hans possesses a different point of view since he is operating from his own business and is currently not governed by a strict company travel policy, except from his own. However, he expressed himself as being privileged being able to travel a lot in this favorable way. His expectation is set to a minimum and concludes *“I have never an awful flight, and as a rule it starts with my own mindset”*. In summary, this value also corresponds to mutuality of the relationship. For instance the level of demand in service from this strategic sample of frequent flyers is pretty low, since they are in possession of all the guidelines on how FFP function and how airline operates. Henceforth, they also know in what way they are supposed to be treated and how to optimize the travel procedure from a customer standpoint. Yet, both parts are involved and incorporated in the relationship; hence also have responsibility for the perceived value to be mutual (Fournier 1998).

On the other hand, we observe David who currently has less travel in his profession, hence he have a different perspective to the membership. In order to maintain his accumulated status from the years in China he status-matched his FFP-card and combines it with the interaction of credit cards to eventually being able to reach his intended status/award-level. He is rationale in his way of thinking *“Since I am Star Gold with Turkish Airlines until 2016 I chose to go back to SAS Eurobonus and credit my miles there since I can combine it with a MasterCard, as well as it suits my current travel pattern”*. He states, *“I try to adapt which airline I choose in regard to which FFP strategy currently implemented”*. Conclusively our respondent evaluates his current plans and schemes, thus implementing the most adapted strategy to optimize mileage accrual and status accordingly. Perceived value is principally focused on actual optimization of the program in correspondence to his schedule, without any clear experiential perceptions engraved.

Loyalty aspect

Comprehensive knowledge of the features in the FFP provides Mitko with a pretty rational principle. *“Firstly, I would say that the travel pattern determines the choice of airline, but if the treatment is inferior I would rather choose the preferred airline even though this flight was not direct and more tediously”*. We draw the conclusion that his experiences eventually influence his purchase behavior. Mitko addresses it as: *“If something would go wrong, I know that help is on its way and the airline can issue new tickets so that I wouldn’t get stranded somewhere”*. One can say, that it can be observed as a strategic lock-in position (Sharp & Sharp 1997), yet the choice of a specific airline and indirectly also the FFP have evolved through a variety of interactions, ultimately resulting in a well-defined image, hence also a result of his satisfaction (Zins 2001). The

⁸ Swiss International Airlines is a part of Lufthansa Group, hence they share the same FFP.

respondent indicates he is also open to pay a premium price to being able to fly with the preferred product that the respondent's perceived value corresponds to (Dowling & Uncles 1997, Lemon, White & Winer 1999, Reicheld 1996). Moreover Mitko's perceptions indicate him as a loyalist showing satisfaction with the product and service while spreading positive narratives of his experiences (Jones & Sasser 1995), meanwhile as he exemplifies the final step (action), and is deeply committed to the company and involved with the repurchase process of the product (Oliver 1999).

Hans defines himself as a *"traveller of value, where I consider the choice to get the most out of the travel procedure, with a combination of price and possibilities for mileage accrual. Moreover, my current destination also affects the choice"*. The wording makes the authors believe that our respondent puts a high degree of thought into his choice and prefers a rational and optimized pick. Although he has his preferred set of airlines acceptable on a base of factors (Suzuki 2007), he still has an interest of maximization, thus connected to the mercenary box (Jones & Sasser 1995). Nevertheless, Hans explains in detail why he perceives the problem this way, *"It is no correlation between my definition of value and theirs"*. Conclusively, perception of less accumulated mutual value also influences the decision making process, caused by changes implemented in especially Miles & More.

The authors' interpretation is that David has a high level of adaptation in his choice of travel, thus representing a mercenary box of loyal customers (Jones & Sasser 1995). Our respondent David states, *"simultaneously, I if get to chose myself I rather stay with my alliance airlines which I use to travel with. It usually works better"*. Even though David has a preferred set of airlines or FFPs, he isn't stuck with a repetitive purchase process. In its place, the respondent chooses to thoroughly investigate contemporary best-suited option and move his loyalty accordingly. In summary, David's knowledge of FFPs has facilitated his membership in terms of applicable awards and status. His current travel pattern has forced him to implement a more dynamic and fluctuating loyalty to enhance his membership.

Room for improvement

Mitko chose to focus his attention towards 3 different aspects of the FFP where he has observed room for improvement. Lack of upgrades in terms of always being able to upgrade when there is availability was expressed as the first issue. This possibility would be appreciated since according to Mitko, *"it doesn't cost the airlines much and the enormous amount of miles people have accumulated can be reduced significantly"*. Moreover, the access to enhanced facilities as showers etc. are of high importance combined with a more adapted customer-service of treating frequent flyers expressed as: *"I would appreciate to be profiled, so that when you call they say welcome back, we appreciate your call and already know my concern"*.

Hans also directs focus on the availability for award-seats on both of his principal FFPs, BAEC and Miles & More, yet he concludes that *"there is not an optimal FFP"*. Ultimately, availability of awards, improvement of tangible benefits and enough perceived mutual value accumulated, are all influencing factors that determine Hans's membership.

David directs attention his prerequisite to confirm his seat upon booking a flight, which has been removed on some of his preferred airlines. He is also addressing the issue with

availability of awards on primarily British Airways, thus also spending his miles the best way.

5.3 Summary

Chapter 5 has comprehensively evolved empirics found during data collection. The first interviews provided a business perspective highlighting their perceptions and strategies to incorporate the frequent flyers in development of FFPs. Successively, frequent flyers representing a customer's perspective highlighted their beliefs and perceptions such as mutuality of the relationship combined with some optimization in order for the membership to be successful.

Chapter 6 Analysis

*This following chapter will provide the analytical approach to this thesis. It will mainly focus on perceived drives of the FFP membership. A comprehensive assessment is that key drives of a FFP membership (**highlighted**) consist of a variety of factors including both actual optimization of membership, but also anticipation of mutual relationship in terms of experienced value. Successively, the authors will outline the current structure according to a principal economically driven purpose and impact on the prosperity of the relationship.*

6.1 Perceived Drives

Escalated competition and struggle for market-share in the airline industry has fundamentally affected airline's strategies to attract and maintain customers. Now more than ever broad aspect of customer loyalty appears in play. Lufthansa declared the significance of frequent flyers as high-yielding premium passengers who are principally attended to and treasured. Accordingly, the conclusion is that from a business perspective, airlines are striving to develop FFPs that are customized to this segment of customer's motives of purchase (Dolnicar 2004). However in a competitive market, FFPs also become a strategic weapon for airlines demonstrated by the launch of new SAS Eurobonus. Henceforth, when airlines are not able to fight in price wars of diminished margins, instead attention is directed to customers with a higher level of repurchase and who are less expensive to communicate with (Gomez, Arranz & Cillian 2006). In summary FFPs have now evolved into a primary tool of generating business, and is more or less a natural part of the airline industry. However, perceptions of a FFP from this sample can ultimately result in a switch of loyalty. Correlation between experienced value and current membership is not applicable to all loyal customers. Our empirical material reveal, with numerous suggestions of vast amount of travellers with explicitly no interest in awards presented to them. It is a definite distinction between these travellers and frequent flyers constituting our sample, since apparent disinterest also fits FFPs perfectly in terms of a strategic lock-in (Sharp & Sharp 1997). The customers don't have any interest, hence their repetitive purchase process becomes of a tunnel vision character maintaining a process that they perceive to work just fine. Henceforth, these customers' don't question their perceived drives of their membership.

Although our respondents have a customer's perspective, they firmly value the **benefits and opportunity to optimize** the membership provided to extent where they don't value options. Our reflection is that conversely, our sample of respondents questions their membership on a continuous basis not only to optimize it, but also to experience a perceived value. Yet, they are intrigued with level of attention and retention directed to them which may affect them from being objective and rational in the decision making process of buying airline tickets. Instead directing attention to their preferred choice of travel both in terms of optimization and benefits offered to them.

Respondents also emphasized **possibility to influence** through a wide variety preferably through a personal interaction with the airline. In a sense this is an

acceptance from the airline that customers are able to provide useful information to improve standards of a FFP, meanwhile as customers appreciate that their feedback is valued. Moreover Lufthansa confirmed this aspect with use of advisory boards to improve service or products. Even though the concept is primarily of significance to airlines and FFPs, it is apparent that possibility to influence also gives credit to frequent flyers, yet providing vital information on how to make customers purchase more from respective airline (Vroom 1964).

Choice of airline of frequent flyers corresponds to the theory of Suzuki, where a set of airlines are considered, and then the best airline measured up to needs and demands is chosen. **Travel pattern** was mainly a determining factor for all the frequent flyer respondents, yet **level of service and attentiveness** also affected the choice where airline and FFP, which was assessed as the most suitable option, subsequently was also the one most likely chosen by frequent flyers. All frequent flyers interviewed were in possession of several memberships in different frequent flyer program and alliances. Whereas some parts of the programs have a higher perceived value for members. Comprehensively, frequent flyers perceived it as a combination of factors including **flexibility of bookings, availability of preferred awards** combined with **mileage accrual**.

Choice of frequent flyer programs is according to David based on travel pattern and structure of program. Henceforth he confirms stated analysis. Quotes show that David bases his decision of FFP on other aspects than purely loyalty. He makes conscious decisions and chooses the program from which he benefits most. Jacoby and Chestnut see loyalty as more than a repetition of purchases. In the case of David, the theory of Jacoby and Chestnut is of extra significance since the travel pattern of David varies in greater measure, due to his work in China that intensified his travels more than today. Different programs have different validity periods for their higher level of status and this affects perceived value of membership. Henceforth, David has evaluated his current travel pattern in correspondence to the FFP that suits him best, eventually facilitating his process to optimize his membership.

Moreover, level of **satisfaction** is addressed as a vital factor according to frequent flyers. David remains loyal to his choice of airline since he finds experience gratifying. In Mitko's case, for instance negative experiences have caused him to have a negative perception of SAS, which was the airline he initially started his travels with back in the days. Hans have been loyal to Miles & More for a long time, but changes in the frequent flyer program has consequently lead to a shift towards OneWorld. He utterly concluded that correlation of defined value isn't coherent between airline and him. Furthermore, perceptions of changes in FFP are done with economically driven purpose and not a loyalty driven purpose. Opinions expressed correspond well to the theory of Jones and Sasser where there is a correlation between loyalty and satisfaction. Unsatisfactory experience of the airline can consequently lead to a reduced loyalty. Moreover, inability to deliver an actual core service can eventually be a reason to switch brand, to which one of our frequent flyers feels (Keaveney 1995). Looking at these statements from a relationship perspective, it is described as a successful relationship as beneficial for both parts involved (Hinde 1979), which isn't the case with Hans and Miles and More. He feels like he invests more into the program than what he receives, therefore the relationship is unsatisfactory and not highly prospective to be long lasting.

The role of the FFP from our sample of respondents focuses on an initial set of rational dimensions, yet it is influenced by other imperative factors. An initial reflection is that the respondents are not customers with an unjustified set of expectations. Henceforth, they are also well aware of what treatment they can expect from a variety of airlines, consequently also locates anomalies that protrude from the anticipated product. This way, their perceived value becomes useful insights that should not be neglected.

6.2 Mutuality

Empirical findings revealed mutuality as on constant conceptualization of a drive constituting a FFP membership. Moreover, mutuality transcends not only as a key drive, but involves the entire relationship with the airline. With these opinions in mind, the programs must take into consideration the motive of purchase in accordance with the theory of Dolnicar. He argues that the programs must be perceived as valuable to the customers in order to be successful and correspond to what the members consider as valuable factors. In this case, the principal factors are mainly expressed by rational benefits, yet respondents added conceptualizations such as **mutual value** of the relationship. Experienced mutual value doesn't necessarily originate from availability in a booking class, but rather from the complete interaction with the FFP. Furthermore, the relationship in this aspect is much more complex than initially theorized. Eventually, if FFPs are structured to enable both imperative rational needs in combination with the expected mutual value; hence a FFP can be accepted into the considered set of airlines (Suzuki 2007) with an accepted motive to purchase (Dolnicar 2004).

A personal relationship that ultimately determines perceived mutual value with the airline can be divided into two simultaneous and continuous categories. The first is assessed in regard to the complete interaction with people representing the airline, which eventually influences treatment and consequently the entire perception of the airline in correspondence to their expressed key drives. In this case our frequent flyers, evaluate their interaction on a regular basis with representatives of airlines and assesses them accordingly. Frequent flyer respondents' perceptions are principally catalyzed into the dynamics of relationship. Even though perceptions were of a personal character they all expressed fundamental value of treatment and service interaction with the airline, conclusively also a part of FFPs' dimensions. A positive interaction asserting that customer actually is valued, can potentially outweigh other negative aspects in order for the relationship to have an experienced mutuality. The second personal relationship involves the customized service aspect, which doesn't demand a personal interaction. Instead a FFP can provide selected offers to this segment of customers to boost and engage interaction and eventually improve perception of a mutual value in the relationship. These categories of personal relationships have to be separated in order to fully evaluate which encounters that are of principal importance to frequent flyers and affect the relationship.

Consequently, the relationship is evaluated with an anticipated mutual character. In conclusion, for frequent flyers it is of significance to be cared and favored for from the airline in terms of the personal relationship. Yet they evaluate their perception with a mutual expectation, this way frequent flyers are able to fully engage in their membership of a respective FFP.

Moreover, Fournier has immersed her research into the relationship between customer and company, which corresponds well to anticipation of a mutual relationship relevant for our frequent flyers. The relationship is characterized by feelings and emotions, more than a rational behavior from the customer. A rational behavior would have been to choose the frequent flyer program with highest utility maximization for the member, in which we observe indications to, in the case of David's. In contrast emotional aspects seem to be as important. Factors such as how the member is assessed by the airline and whether opinions of members are mutually taken into account, also determines status of the relationship that the FFP still manages between member and airline. Hans who earlier expressed his unsatisfactory feeling with Miles and More still value their service highly. The way the airline acts when things go wrong additionally defines the relationship and is specifically addressed as a key drive. Mitko explains why he chooses some airlines over others as a result from a trust the airline show towards their members. Ultimately facilitating the entire experience and perception of the mutual FFP. Conclusively, a confirming sentiment of a membership culminating into a reliance of mutuality can be considered as a key drive to remain with FFP.

6.3 Structure of Frequent Flyer Programs

Appreciation and estimated value from the membership influenced our empirical material assembled through the focus interviews with mainly Mitko and Hans. Although, their interaction with FFPs, can be interpreted as a bit extreme, yet they constitute a strategic sample that interact with respective products and consequently also represent an ultimate point of feedback to the airline. Our reflection also reveals, that the respondents are not intransigent asking the FFPs to be fundamentally re-structured. Perceptions of expected mutuality actually corresponds well with the business perspective in terms of that the frequent flyer is seen. Basically, both parties agree on the potential of a prosperous relationship, and that current dynamics can be affected with only slight measures of change (Hinde 1979). The mutual agreement also has a potential to influence the structure of the FFPs. An open-minded dialog with both parts engaged could improve the FFPs with a mutual responsibility. Consequently constituting it as a long-term relationship where engagement and emotions play an important role rather than just a being repetitive purchase process (Fournier 1998).

However, it is a slippery slope for the FFP. Even though changes in respective FFP is done with purpose to achieve a specific status based on the amount of money you actually spend, which in most aspects is a reasonable and rational base, perceived deterioration of a FFP has to be weighed against economical aspects. Here we observe a distinct contradiction. Initially we conclude that a market wide approach is to target profitable loyal customers. Yet, changes (Miles & More) and re-launches (Eurobonus) that are being implemented, are still done with economically driven purpose and not a loyalty driven purpose. Henceforth it encapsulates the airline industry profoundly. Instead of customizing and differentiating a current product portfolio as a response to aggressive expansion from competitors to increase respective customer to purchase more, thus increasing yield. They chose the prompt strategy to boost market-share and improve sales, yet with risk of eroding the FFP and loyalty. Long-term effects of these strategic decisions are to be determined, although the authors also acknowledge our limited insight to the motives of these strategic directions, hence our reflections are

purely made on empirical material assembled in correspondence to research utilized. Nevertheless, our conclusive impression remains that this strategy will have a reluctant impact on yield, especially from this segment of customers. Still, respondents observe potential for a long-lasting relationship (Lemon, White & Winer 1999), thus positive future effects can outweigh short-term volatile changes, and motivate feedback internally provided by this segment of customers.

On the other hand, if their perceptions would be taken into account completely and implemented, it would cost airlines a minor amount in comparison (Kim, Shi, and Srinivasan 1997) to exponential revenue affects it potentially could have, from an increased loyalty and higher level of purchase not only from this segment of customers, but also the now so bespoke travellers conducting 10 trips a year. Yet, an improvement of their travel procedure could also have a positive vibration of the FFP and ultimately receive positive wording from other segments of travelling customers.

6.4 Outcome of Analysis

In conclusion, meaningful parts of the empirical material have been thoroughly analyzed. We mainly aimed to analyze themes specifically in correspondence to our research questions. Our reflections are firmly based on widespread patterns in the empirics in order not to take presumptions or conclusions for granted. The outcome is predominantly biased from a frequent flyer's personalized perceptions, yet their opinions have been categorized into the overall themes. Perceived drives resemble in a number of significant factors including the rational flexibility aspects of the FFP (travel pattern, flexibility of bookings, availability of preferred awards, mileage accrual) combined with the distinct attentiveness of mutual value (satisfaction, possibility to influence, service) required from respondents, with anticipation of a mutual relationship and coherent estimation of value. Their perceptions correspond well with the industry, yet presenting a problem which improvements that practically can be implemented in such immense organizations. Moreover, the distinction between loyalty driven strategy changes, and economical driven changes are highlighted in terms of their effect on yield and market-share. The situation is done with interpretation that FFPs still are of big profitability; consequently FFPs need to be developed with a strict management of profit. Yet, with a customer's perspective they are able to prevent hasty decisions with feedback that ultimately can improve the relationship.

Chapter 7 Discussion and Conclusions

In this chapter a result and conclusion of the analysis will be presented. Our conclusion comprises a number of revealing factors representing key drives of a FFP membership. Chapter 7 will be finalized with a criticism of the study and recommendation of further studies.

7.1 Findings

Our empirics and analysis have been structured and catalyzed with objective to finally being able to answer what way frequent flyers are appealed to a frequent flyer program and how they best, can be kept as members over an extended period of time. Moreover, the major problem area of a cyclical industry with a never-ending race of making profit combined with management of a FFP in an appropriate manner was the foundation to conduct this study. This has resulted in dimensionality of investment required in order to run a FFP. Empirical material combined with an extensive theoretical framework have facilitated us in interpreting the data and resulted in 3 major findings that will be comprehensively developed hereinafter.

Conclusively, our analysis of perceived drives takes into account that the aim is to sustain and endorse in benefits provided by respective FFP, yet if travel pattern changes or enhancements being implemented effect mutual value perception of the FFP negatively, experience and knowledge from our sample of frequent flyers is realized to an extent where other options are rapidly evaluated. Moreover, sentiment of trust and confidence in the membership is weighed in correspondence to a set of expectations and demands from frequent flyers. Our reflection is still that our sample of respondents is decisive and fair in their impressions, yet subjective. However, airlines should have even more reliance in the feedback provided.

With our research questions and purpose at hand combined with empirical material and research, we have been able to conclude a number of arguments as a result and conclusion of this study.

1. The perceived drives of a FFP membership, consist of a combination of factors including several rational aspects in terms of flexibility of bookings and an optimization of the mileage accrual meanwhile as status and personalized awards of the membership also are of significance. Moreover, we conclude that appreciation experienced and consequential mutual value estimated from a customer's perspectives are determining factors. The relationship's prosperity relies on these values, thus they are crucial to clarify in terms of perceptions and feedback from frequent flyers.
2. The FFPs are structured with an economically driven purpose, which neither can be questioned or neglected. Nevertheless, it is essential that in order to maintain a long-term relationship with frequent flyers, enhancements being made, must be mutually agreed in order not to erode loyalty. Otherwise, other options perceived

as more coherent to the segment's estimation of value, can quickly become a more suitable choice.

3. The authors' observe indications in the assembled and analyzed empirical material that FFPs are profitable and provide big business for the airline. However, in an industry reflected by its uncertain nature, our interpretation is that airlines are predominantly focusing their strategic efforts to increase of market share. Thus, this strategy is reflected in the changes currently being implemented in FFPs.

Commonsensibly, it is a combination of factors that symbolizes key drives of a frequent flyer's membership. The rational base of drives is more easily interpreted in terms of improvements, where the FFP can facilitate more flexible bookings or open up availability of awards for customers with a distinct status. However, the drive consisting of the mutual experienced value is tougher to determine. In this aspect, changes that are being made must be carefully evaluated with feedback from frequent flyers. A superior strategy for the airline should most likely be to abandon all suggestions that possibly can influence this perceived value negatively, even though it can be costly in the short-term. Instead a long-term loyal relationship can be built if these perceptions are attended to.

Implementations being made in the FFPs have a direct correlation with the overall strategy of the airline. Regarding structure of FFPs, the current observed strategies only correspond to economic factors with objective of increased market share that potentially can have a consequential risk of eroding loyalty. Instead, in terms of frequent flyers it is of suggestion from the authors, to focus on differentiation or customization of products and services. This strategy corresponds better with drives of membership in FFPs, when feedback provided by this segment is mutually agreed upon. Henceforth, a better understanding of frequent flyers' perceptions will also affect possibilities to develop new and pioneering products or improved service that ultimately will result in a superior offer, additionally with reflected and accepted value from customers.

If above mentioned factors are taken into consideration, the authors observe a higher potential for an improved relationship between discussed parties. The lack of possibilities to progress in the airline industry can instead be compensated with an enhanced interchange of feedback and direct customization of products or services in direct correspondence to values expressed. In summary, this strategy is accomplished with already existing frequent flyers, suggesting them to increase their purchase behavior if these values are met, hence also improving yield of airline.

7.2 Limitations

Our limitations principally concern the sample of respondents of the thesis and whether an unbiased perspective could be FFPs would have emerged from a greater number of respondents. Nevertheless, the thesis aimed to pinpoint a restricted outlook on perceived value of membership, which makes the number of respondents of less significance for the final result. A discussion on whether additional interviews should be performed was made throughout the entire process, however information gathered were adequately extensive in order to accomplish an analysis and reach a conclusion corresponding to the purpose of the thesis. Yet, it is our conclusion that the thesis would

have been more illustrative with a larger sample of respondents. Nevertheless, due to limitation in time three respondents were found sufficient. Moreover, criticism can be levered against the travel patterns of the respondents and to what extent it represents other members of frequent flyer programs. Since, the general public can observe as to extensive. However, the study initially addressed the sample as distinctive, yet travel pattern among the respondents did contrast, consequently leading towards altering perspectives on the membership of FFPs.

7.3 Recommendations of Further Studies

Our suggestion of further studies can be divided into a number of distinctive areas, based on the result and conclusions of the study.

7.3.1 Frequent Flyer Programs

The recommendations of further studies suggest a more observational study of a practical character. Attitudinal aspects have been more fundamental than the behavioral in this thesis, which is why a deeper insight to behavior of members would be of interest in order to gain an additional understanding of FFPs. An ethnographical study of frequent flyers would be highly interesting, in order to observe the behavior of members. Moreover, a more extensive study could with a greater number of respondents will provide a broader perspective on the subject and contribute with a more differentiated outlook on the membership of FFPs.

7.3.2 Relationship between customer and airline

A re-appearing observation in the interviews concerns the program as a relationship between member and airline. Ability to influence, being listened to and the overall treatment, conclusively catalyzed as the anticipation of a mutual relationship with the airline was pinpointed as the principal factor determining the prosperity of the relationship. Our study, contributes with an understanding of members perceiving the membership as valuable to them personally in terms of regaining what they feel have been invested in the relationship. Hereby we see a potential for further studies on the mutuality of personal relationships. This recommendation has a more theoretical character than the above-mentioned recommendation, yet it would reveal the dynamics constituting the mutuality and the reasons why the mutual aspect is important, ultimately providing the airlines important clues on how to manage fruitful FFPs. These aspects and how the airlines can improve the relationship are questions more within the area of service management. Nevertheless, there is room for improvements and further studies are necessary in order to improve the overall experience of the airline.

7.3.3 Role of mutuality in fostering loyalty

We suggest that future studies elaborate more on the role of mutuality in fostering intense and prolonged loyalty between customers and companies. In our study expert customers spending a large amount of money with the airlines, yet mutuality came out as a requisite for loyalty. Further studies could focus on the mutual aspect in other settings in terms of how customers and companies perceive mutuality in other industries. More specifically, what efforts do the involved parties expect from another in order for a long-term relationship is supposed to be established. Additionally, studies may focus on, if this way of interpreting mutuality goes across industries in addition to the general idea of showing sincere interest in each other.

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Appendix

Intervjuguide Lufthansa Kristina Öström, Marknadschef Lufthansa

Syftet med vår studie är att undersöka på vilket sätt frekventa resenärer tilltalas av lojalitetsprogram, och hur dessa konsumenter på bästa sätt, kan bibehållas som medlemmar under en längre period.

- Vilka dimensioner av förväntat värde bestämmer en frekvent resenärs medlemskap i ett lojalitetsprogram?
 - Är lojalitetsprogrammen följaktligen strukturerade efter och tar hänsyn till dessa preferenser?
1. Hur anser du att flygbranschen ser ut idag?
 - a. Konkurrens, Lågprisbolag, Mellanöstern-flygbolag
 - b. Prisdumpning, Framtid, Lönsamhet
 2. Hur ser den skandinaviska marknaden ut för Lufthansa?
 - a. Samarbetspartners
 - b. Avslutat joint-venture samarbetsavtal med SAS, codeshare Star Alliance
 3. Hur ser Lufthansas övergripande strategi ut för frekventa resenärer?
 - a. Miles & More
 - b. Affärsmodellen Germanwings, lågprisalternativ
 - c. Longhaul, "hubbar"
 4. Vilken roll fyller Miles & More för Lufthansa idag?
 - a. Antal medlemmar, Skandinavien
 - b. Uppskattning av en speciell typ av belöningar: Direkta/indirekta, materiella/immateriella, Timing på belöningar, Partnerskap-belöningar, Status på flygbolagen
 - c. Attribut och dimensioner i programmen
 - d. Medlemmars påverkan på utformningen av Miles & More, frekventa resenärerna, Anpassning
 - e. Exempel på vällyckat och uppskattat lojalitetsprogram
 - f. Miles&More medlemmars inverkan på programmet, undersökningar
 5. Hur ser en typisk medlem inom Miles & Mores högre kategorier Senator och HON circle ut?
 - a. Resmönster
 - b. Medlemmar i fler program
 - c. Resor i tjänsten/privat. användning av belöningarna privat/i tjänst
 - d. Innebörd medveten/frekvent resenär för er
 6. Vad tror Lufthansa om en person som också reser mkt, men som inte värdesätter konceptet kring lojalitetsprogram, bonusar mm?

7. Hur anser man att Lufthansa arbetar med lojalitetsprogram mot denna målgrupp? Bra/dåligt?
- a. Framtid för lojalitetsprogram
 - b. Förändringar och anpassning
 - c. Lönsamhet lojalitetsprogram
 - d. Strategi nya kunder/medlemmar till Miles & More

Anmärkningar:

Intervjuguide Businessclass.se Martin Björnström, Grundare och Marknadschef

Syftet med vår studie är att undersöka på vilket sätt frekventa resenärer tilltalas av lojalitetsprogram, och hur dessa konsumenter på bästa sätt, kan bibehållas som medlemmar under en längre period.

- Vilka dimensioner av förväntat värde bestämmer en frekvent resenärs medlemskap i ett lojalitetsprogram?
 - Är lojalitetsprogrammen följaktligen strukturerade efter och tar hänsyn till dessa preferenser?
8. Hur uppkom idén till businessclass.se?
 - a. Affärsidé, medlemmar
 - b. Flygbranschen, Konkurrens, Businessclass.se roll
 9. Vad är din personliga relation till branschen?
 - a. Inverkan på ditt professionella yrkesliv
 10. Hur ser businessclass.se struktur ut?
 - a. Medlemmar, Utveckling, Potential
 - b. Businessclass.se direkt eller indirekt inverkan på flygbolagens lojalitetsprogram
 - c. Typisk medlem på businessclass.se, Resmönster, Antal lojalitetsprogram
 11. Vilken roll fyller lojalitetsprogrammen idag?
 - a. Speciell typ av belöningar från era medlemmar
 - b. Direkta/indirekta Immateriella/materiella, Status på flygbolagen, varor, produkter, Timing på belöningar, Partnerskap-belöningar.
 - c. Viktiga delar i programmen för Businessclass.se målgrupp
 - d. Exempel på lyckat program i detta avseende
 12. Hur tror du generellt sett att businessclass.se medlemmar värdesätter sin medverkan i programmen?
 - a. Resor i tjänsten/privat,
 - b. Användning av belöningarna privat/i tjänst
 13. Vad innebär termen en medveten resenär för er?
 - a. Allmänt "Frequent Flyers"
 - b. Medveten resenär (businessclass.se medlem) kontra en person som också reser mkt, men som inte värdesätter konceptet kring lojalitetsprogram, bonusar mm
 14. Hur anser ni att flygbolagen och dess lojalitetsprogram arbetar mot denna målgrupp av frekventa resenärer?
 - a. Businessclass.se roll här
 - b. Önskade förbättringar och förändringar

- c. Lönsamhet i lojalitetsprogrammen
- d. Nya medlemmar
- e. Flera medlemskap (spridd lojalitet)

15. Framtiden och utveckling av lojalitetsprogram?

- a. Strukturella förändringar
- b. Anpassning

Anmärkningar:

Intervjuguide Frekventa Resenärer

Mitko Blazeski, Hans Bunes och David Axelsson

Syftet med vår studie är att undersöka på vilket sätt frekventa resenärer tilltalas av lojalitetsprogram, och hur dessa konsumenter på bästa sätt, kan bibehållas som medlemmar under en längre period.

- Vilka dimensioner av förväntat värde bestämmer en frekvent resenärs medlemskap i ett lojalitetsprogram?
- Är lojalitetsprogrammen följaktligen strukturerade efter och tar hänsyn till dessa preferenser?

16. Hur grundlades ditt resande?

- a. Yrkesroll, privat, förändring
- b. Medlemskap i lojalitetsprogram direkt

17. Hur ser ditt resande ut idag?

- a. Antal resor per år
- b. Kabinklass
- c. Antal medlemskap
- d. Favorit lojalitetsprogram
- e. Favorit flygbolag

18. Vilken roll fyller lojalitetsprogrammen för dig?

- a. Speciell typ av belöningar
- b. Direkta/indirekta Immateriella/materiella, Status på flygbolagen, varor, produkter, Timing på belöningar, Partnerskap-belöningar.
- c. Viktiga delar i programmen för dig som resenär
- d. Mervärden
- e. Exempel på lyckat program i detta avseende

19. Hur värderar du din medverkan programmen?

- a. Hinder för att byta program
- b. Incitament för att resa med annat flygbolag
- c. Användning av belöningarna privat/i tjänst
- d. Lågpris-flygbolag
- e. Reaktion av "ned-gradering" och dålig service/bemötande

20. Vad innebär termen en frekvent resenär för dig?

- a. Kontra en person som också reser mkt, men som inte värdesätter konceptet kring lojalitetsprogram, bonusar mm
- b. "transport-medel"

21. Hur anser du att flygbolagen och dess lojalitetsprogram arbetar mot dig som en del av en viktig målgrupp?

- a. Önskade förbättringar och förändringar
- b. Nya medlemmar

c. Flera medlemskap (spridd lojalitet)

22. Framtiden och utveckling av lojalitetsprogram?

a. Strukturella förändringar och förbättringar

b. Anpassning

Anmärkningar: