

Frequent flyer programs' revenue streams

A study of their sources, optimization potential and new ones



UNIVERSITY OF GOTHENBURG
SCHOOL OF BUSINESS, ECONOMICS AND LAW

Ludvig Truong
Malin Karlsson

Bachelor of Science Thesis

Department of Business Administration,
Industrial and Financial Management
Supervisor: Prof. Kevin Cullinane

Gothenburg 2024

Abstract

Frequent flyer programs (FFPs) have been a crucial part of most airlines' businesses for many years. They have evolved beyond their initial goal of customer loyalty and have now become a complex entity that generates revenue which supports airlines' core business. During the pandemic, billions of dollars were raised through using FFPs as collateral. This shed light on the U.S.-based FFPs' valuation and ability to generate revenue, prompting the interest behind this thesis. Most of previous reports on this topic have been done from purely a marketing perspective. However, this thesis provides a new angle beyond the traditional marketing viewpoint to gain insight into FFPs' revenues. Further, this study was conducted using a qualitative method with a focus on literature review but also a complementing perspective from a respondent that works at Lufthansa Miles & More. This thesis aims to clarify where the revenue streams for FFPs come from, how revenue streams can be optimized and where new ones can be identified. It was concluded that the largest revenue stream comes from sale of miles connected to co-branded credit cards. Selling miles to partners and directly to customers are additional revenue streams for FFPs. Regarding optimization, data monetization, expiry of miles and breakage management are a few examples. Lastly, prepaid flights and flight subscription can be new potential revenue streams for FFPs.

Acknowledgements

Initially, we would like to acknowledge and thank our supervisor Professor Kevin Cullinane, for your guidance and advice that supported us throughout the thesis work. We also want to thank our opponents for your responses and discussions that contributed to the enhancement of the thesis. Finally, we would like to thank our respondent from Miles & More for your time and the valuable insights you contributed to the thesis.

Ludvig Truong & Malin Karlsson

Table of contents

1. Introduction	1
1.1 Background	1
1.2 Purpose and research questions	3
1.3 Structure of the report	3
2. Theoretical framework	4
2.1 Revenue management	4
2.2 IFRIC 13 - Technical aspects of accounting for miles	5
2.3 Co-branded credit cards	6
2.4 Dynamic pricing	6
2.5 Block pricing	7
2.6 Subscription business model	8
3. Method	10
3.1 Choice of interview method	10
3.1.1 Ethical aspects	12
3.2 Choice of airlines	12
3.3 Choice of respondents	13
3.4 Choice of sources	13
3.4.1 Reliability & Validity	14
4. Results	15
4.1 Miles	15
4.1.1 Expiration of miles & Breakage management	15
4.1.1.1 Lufthansa Miles & More	16
4.1.2 Mileage-based vs revenue-based accrual method of miles	16
4.1.3 Tiered memberships & types of miles	17
4.1.3.1 Lufthansa Miles & More	18
4.1.4 Sale of miles directly to customers	18
4.2 Co-branded credit cards	19
4.2.1 Lufthansa Miles & More	19
4.2.2 Multi-branded credit cards	20
4.3 Partnerships & alliances	21
4.3.1 Lufthansa Miles & More	21
4.3.2 Airline alliances' impact on FFPs	22
4.4 Dynamic pricing of awarded tickets	22
4.5 Data monetization	23
4.5.1 Lufthansa Miles & More	24
4.6 Prepaid flights model	25
4.6.1 American Airlines	26
4.6.2 Braathens Regional Airlines (BRA)	26

4.6.3 Air Canada	27
4.6.4 Singapore Airlines	27
4.6.5 Lufthansa Miles & More	27
4.7 Flight subscription	28
4.7.1 Alaska Airlines Flight Pass	29
4.7.2 Wizz Air Discount Club	29
4.7.3 Frontier Airlines GoWild! Pass	30
5. Discussion	30
5.1 FFPs current revenue streams	31
5.2 Optimization of revenue streams	32
5.3 New potential revenue streams	34
6. Conclusions	36
References	38
Appendix	45
Interview questions for Miles & More	45

1. Introduction

1.1 Background

The first prominent frequent flyer program (FFP) was launched by American Airlines on the 1st of May 1981. Frequent flyer program is a term that is used for airlines' loyalty programs. The initial concept of the program was to reward high-frequency customers who have reached a certain threshold and are eligible for loyalty fares and free flights. This concept was a strategy to build brand loyalty and increase revenue for the airlines by giving customers incentives to only choose their airline for flying. In the early days, there were different metrics for customers to reach the threshold for earning rewards. Miles, based on miles flown, is one metric. Another metric was the number of one-way flights flown which was introduced by Southwest Airlines, where the customers earned a free round trip after 16 one-way flights within 24 months. In the 1980s and early 1990s, frequent flyer programs were viewed as a marketing cost or in the best case, an equal trade between revenue streams and cost of operating the programs. (de Boer & Gudmundsson, 2012)

Subsequently, loyalty programs became gradually more complex. In 1982, American Airlines launched their elite program AAdvantage gold. The elite program offered exclusive offerings and services for their very frequent flyers and high value customers, making sure there were no incentives for them to fly with other airlines. Participants in such programs were, for example, customers who frequently travel in their work. In the same year, American Airlines offered a joint marketing program with Hertz and Holland America Cruises. During this period airlines realized that external revenue could be made from selling miles to its partners. The partners chosen during that time were associated with travel, such as car rental companies, cruises, and hotels. On average, airlines were earning revenue of between US\$ 0.01 and US\$ 0.03 per mile sold in the 2000s. (de Boer & Gudmundsson, 2012)

In the latter part of the 1980s, American Airlines launched the first ever co-branded credit card, Citibank AAdvantage. Co-branded credit cards create a significant contribution to airlines' revenue streams. For example, Air Canada's Aeroplan, was generating roughly one billion dollars in revenue in 2010 from selling miles to its partners. American Airlines had a

revenue stream of one billion dollars in 2009 by selling miles in advance to Citibank. (de Boer & Gudmundsson)

Going forward, accumulated miles from passengers were increasing more than capacity, resulting in fewer seats available for redemption. To cope with this issue, airlines introduced policies where miles expired after a period of time. United Airlines was first to introduce miles expiry in the late 1980s. Moving to the 1990s, in 1997 the first airlines alliance, Star Alliance, was established by five major airlines - Air Canada, Lufthansa, SAS, Thai Airways and United Airlines. The alliance linked the five major airlines and through codeshare agreements enabled them to extend their network (Star Alliance, 2022). The benefits for airlines was that it contributed to cost savings through sharing ground handling of aircraft, check-in personnel, catering and lounges at different airports. The benefit for the loyalty programs was that the alliance enables passengers to earn miles while flying on other airlines that are members of Star Alliance, without needing to be a member of multiple loyalty programs (Finlay, 2023).

During the pandemic, FFPs played an even more important role than before. Thanks to the FFPs, airlines could take loans using the future cash flows from the FFPs as collateral (Yeon Chun & de Boer, 2021). American Airlines, for example, raised \$10 billion in loans in March 2021 (Yeon Chun & de Boer, 2021). Although the FFPs started out as an initiative to gain loyalty from customers, the overall focus is now often on the co-branded credit cards and the revenue it generates. Airlines from the U.S. have in recent years received criticism for devaluing miles and engaging in unfair and misleading practices connected to co-branded credit cards and FFPs. The Department of Transportation said that they will take a closer look at the matter. There is a possibility for future regulation of mileage programs in the U.S (Goldstein, 2024).

The systems and models of FFPs not only impact their own revenue streams but also other corporations and banks. As there are many stakeholders involved in these FFPs and with the ever changing environment, it is important to analyze FFPs from several perspectives. Previous research has mainly looked into this topic from a marketing viewpoint. However, to the extent that it proves possible, this work aspires to incorporate several perspectives, including a financial perspective. Having multiple perspectives will contribute to new angles on this matter and is relevant to the field of industrial and financial management.

1.2 Purpose and research questions

The purpose of this thesis is to examine and enhance the knowledge of the revenue streams from airlines' FFPs. In addition, the thesis aims to come up with suggestions on the optimizations of FFPs and identify new potential revenue streams. To conduct the study and fulfill its objectives, the following research questions have been formulated.

The research questions are:

- Where do the current revenue streams of FFPs come from?
- How can airlines optimize the revenue streams from their FFPs?
- What potential new revenue streams can be identified?

1.3 Structure of the report

In Section 2, a theoretical framework is developed. The third section is dedicated to describing the methodology, outlining our approach to conducting the study. Section 4 presents the result of the study. Section 5 contains the discussion of the result and insights from the respondent. Conclusions are drawn in Section 6.

2. Theoretical framework

2.1 Revenue management

Van-Ryzin & Talluri (2005) defines revenue management as the collection of tactics and strategies that are used to scientifically manage the demand for a company's services or products. Revenue management is used in industries characterized by fixed capacity and costs, where services are perishable, such as in the airline industry. It is a way to structurally manage revenue through input from competitor research, forecasting, data- and market analysis. There are a few KPIs that are central for revenue management, which are customer lifetime value (CLV), monthly or annually recurring revenue, average cost per acquisition of customer, and customer churn rate (Paddle, n.d.).

Revenue management has a major impact on loyalty programs. It affects the pricing of tickets which in turn can affect dynamic pricing of awards. Another effect is that the revenue management department is determining and allocating available seats for redemption (De Boer & Gudmundsson, 2012). Data monetization from the programs can in turn be viewed as an asset of information that could enhance revenue management. According to Garcia-Saavedra (2017) there is a lack of knowledge among airlines about how the impacts of award redemptions affect revenue management, which can lead to suboptimal decisions affecting the financial result. The author examined the impact on optimization of current revenue management when including award passengers. The result showed that when award valuations are higher than the lowest fare, airlines increased their total revenue due to lower opportunity cost and higher award revenue.

Ofulue & Benyoucef (2022) describes data monetization as an organization's ability to create additional revenue based on existing internal or external data sources, in order to create insights, observations and useful information. According to Mark Ross-Smith (2024-a), an experienced leader in the travel loyalty industry, there are different approaches for valuing and measuring the data. He outlined three concepts for determining the value of the data. By understanding the data and finding patterns there is a possibility to increase revenue.

1. *The revenue that is explicitly generated from data-related activities.*

It refers to revenue that is generated by analyzing, processing the data and by taking appropriate measures.

2. *How much it would cost to replace the data.*

Meaning data that are hard to obtain is classified as high value and vice versa. A hypothetical scenario is if the data vanished, how costly would it be for the company to reacquire the same data?

3. *The enterprise value loss by not having the data.*

The value of data from loyalty programs is the difference in enterprise value by having the data versus not having the data. Enterprise value is defined as market capitalization plus total debt less cash equivalents.

Further, Ross-Smith (2024-b) mentioned that there are three types of data that exist. The three types are first-party data, passively collected data and inferred data. The first-party data are transactional data such as member data, accrual data and partnership transactions. Passive data refers to cookies, timestamps, IP-addresses and phone call/customer emails data. Inferred data describes how likely a customer will do or buy X based on factor Y. Inferred data includes behavioral data such as purchase intent. Passively collected data and first party data are classified as low value and easy to collect. Inferred data is hard to collect and brings high value.

2.2 IFRIC 13 - Technical aspects of accounting for miles

Before 2007, the way of reporting the issuance of miles in financial statements differed from company to company. IFRIC 13 *Customer Loyalty Programmes*, issued in 2007 by the International Financial Reporting Interpretations Committee (IFRIC), provides guidance for IFRS (International Financial Reporting Standards) when it comes to how miles that have not yet been redeemed or will expire should be reported. These standards are used and recognized globally. IFRIC 13 states that payment received for goods or services should be allocated either to the delivered goods or services or to future award credits. Award credits that can be redeemed in the future should be called *deferred revenue* in the balance sheet.

Deferred revenue is a periodization of revenue received for products or services that have not yet been delivered and is reported as a liability until they get delivered or expire. This means that unredeemed miles are reported as deferred revenue and that the miles are realized and reported as revenue when they have been redeemed or expired. (PWC, 2007)

2.3 Co-branded credit cards

Leuthesser, Kohli, & Suri (2002) describes co-branding as “the combination of two brands to create a single, unique product.” Co-branding can be viewed as an alternative to develop a new brand. The usage of co-branding increases brand awareness and synergy between the companies. The authors mention co-branded credit cards as an ample example of a product that has successfully embraced the concept of co-branding. It is estimated that 40-50% of all credit cards issued worldwide are co-branded. PRV (2023) states that the term is relatively new and the interest in it has grown alongside globalization, when brands are concerned of decreasing brand awareness in a competitive environment. Co-branding can enable cost savings through joint-marketing between participating companies.

Airlines were the first ones to offer co-branded credit cards over 35 years ago. A co-branded credit card is issued by a three-party collaboration between an airline, a bank and a card scheme. When spending money using a co-branded credit card, the customer gets miles that can be redeemed for rewards. Airlines gain revenue from selling miles to the card-issuing bank. They can also gain revenue from receiving a portion of the fees that the customer has to pay for the card. An example of a typical fee could be an annual fee (Nada Reales & O’Connell, 2017).

2.4 Dynamic pricing

Pettinger (2019) describes dynamic pricing as a method for firms to constantly adjust the price of product or services depending on the demand. An increase in demand will therefore result in a price increase. New technologies have enabled an increase in the usage of dynamic pricing. Airlines, taxi companies and hotels are three examples of companies using dynamic pricing for maximizing total revenue. For airlines, the outstanding quantity of supply for available tickets can be described as Q in figure 1. In the case of static pricing, there will only

be one price regardless of the outstanding quantity of tickets (P_1). So if there is an excess supply of tickets for a particular flight (quantity Q_3), airlines are unable to change the price (P_1) and hence there is an opportunity cost with static pricing where companies are missing out on potential revenue. To minimize this opportunity cost, dynamic pricing will adapt and reduce the price (P_3) to reflect the demand when there is an excess supply of tickets which can contribute to extra revenue. If there is a shortage or if tickets are selling faster than normal such as (quantity Q_2), to adjust to the higher demand, a higher price (P_2) will result in extra revenue for the airline (Pettinger, 2019).

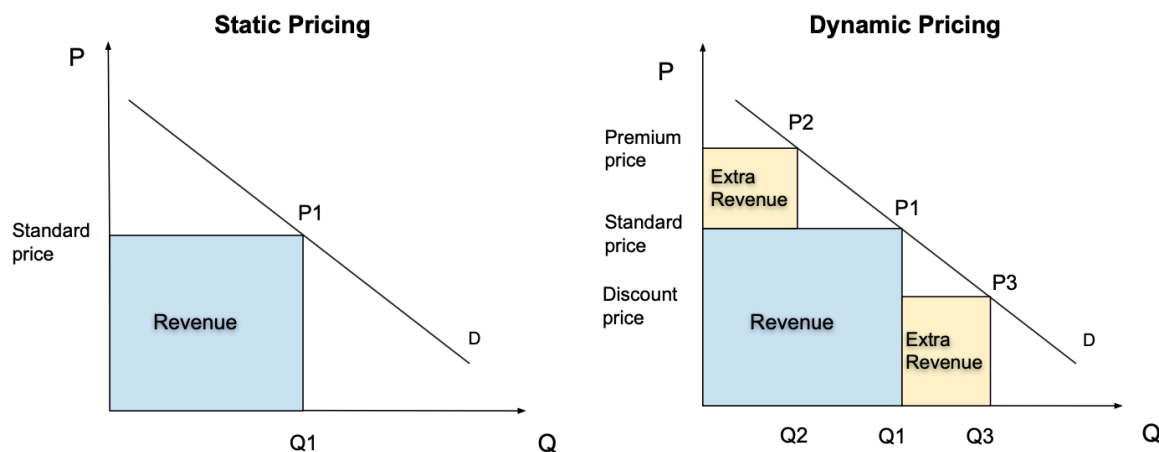


Figure (1). A comparative illustration between static pricing and dynamic pricing. D stands for demand, Q for quantity and P for Price.

The benefits of dynamic pricing are that companies can reduce the impact of seasonality and peak travel times as well as smoothing out the consumption during fluctuations in demand. The lower prices during unpopular times can attract customers with smaller budgets. The disadvantages of dynamic pricing are the cost of the firm evaluating and monitoring data, customers who pay high prices may feel ripped off, and it can impact the company's reputation (Pettinger, 2019).

2.5 Block pricing

Block pricing is a tactic where predetermined quantities of an identical product or service are sold as a package. The larger quantities a package consists of, the lower is the price per unit. From a firm's perspective, it is profitable to use block pricing as long as the price for the package exceeds the marginal cost of providing the package (Baye, 2010). Cao (2012)

mentions that in microeconomic and industrial organization literature, block pricing is an example of a second degree price discrimination. Price discrimination, in turn, is when a company charges different customers different prices for the same service or product. Dynamic pricing is an example of first degree price discrimination. Opposed to dynamic pricing, block pricing is extracting consumer surplus through intervals of quantity, instead of tailoring it to each customer. Figure 2 shows one block with a quantity of Q_1 that is sold to the price P_1 . Area a and b shows the consumer surplus. The other block with a quantity of Q_2 , is suitable for anyone willing to buy any quantity between Q_1 up to and including Q_2 . The price for this block is P_2 and the consumer surplus is represented by areas b and c. Examples of block pricing are prepaid flights, transportation of natural gas, and multiple classes of seats on an airplane.

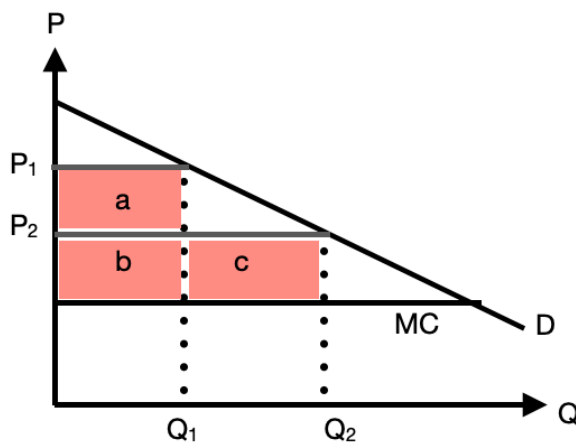


Figure (2). Illustration of block pricing. D stands for demand, Q for quantity, MC for marginal cost, and P for Price.

2.6 Subscription business model

Lindström, Vishkaei & De Giovanni (2023) describes the subscription model as the use of recurring payment for acquiring products, services and content. The recurring payments are normally monthly or yearly. Today's economy is trending towards this model instead of ownership, for software, entertainment and cars. Technology is a contributing factor to this shift and it improves customer retention from a marketing perspective (Tarver, 2024).

From a financial perspective, the recurring subscription fee is contributing to a more consistent revenue stream for the company. It enables easier revenue forecasting, business

planning and sales. Another benefit is lower customer acquisition cost. The company can impose cost savings on marketing efforts to bring in new customers. It is 5 to 25 times more expensive to acquire a new customer rather than retaining an existing one (Johnson, 2022). According to Eyal (2022), the predictable cash flow from subscriptions could likely contribute to increased cash flow in perpetuity, which will increase the company's share price. The subscription economy grew more than 300% between 2012 and 2019. However, Eyal (2022) identifies three pitfalls for the model which can be summarized as: cumbersome subscriptions, not offering enough novelty, and lack of stored value. The author suggests that companies need to avoid cumbersome and lack of novelty subscriptions. Humans prefer convenience and to be stimulated through novelty. Stored value refers to when the subscription gets better and more adaptable to customers, increasing the threshold for customers to cease the subscription. For example, the software industry customizes its offerings. Another example is that a traveler gains miles or a higher status in the airline's frequent flyer program.

3. Method

The research question focuses on how airlines generate revenue from their frequent flyer program, how they can optimize it and where new potential revenue streams can be found. The overall most suitable method of analysis is qualitative. Even though revenue and savings are measurable, the lack of reporting and transparency of revenue stemming from frequent flyer programs complicates or even negates the possibility of utilizing a quantitative method. To the extent which is possible, this thesis will analyze the quantitative findings but will mostly approach the research questions on a more conceptual level, which prompts the use of qualitative methods. To be specific, an inductive approach is suitable because loyalty programs in the airline industry are complex, with only 52 percent of travelers fully understanding how they work (Josephs, 2017). Yet the FFPs contribute to a significant amount of revenue, for example, American Airlines' top performing FFP generating \$5.8 billion in frequent flyer revenue in 2022 (Garcia, 2023). By using an inductive method, the research will be conducted by having interviews, literature reviews, analyzing data and reports. The literature review is fundamental in order to answer the research question and primarily consists of articles and scientific papers. Some elements of quantitative empirical findings are necessary such as financial reports, whenever accessible. Based on the findings, a theoretical framework is established. By working with a qualitative method, open-ended research questions are formulated and will evolve throughout the progress of the thesis. Based on the findings, a theoretical framework that applies to the context of revenue from FFPs can be elaborated. According to Patel & Davidsson (2021) the risk with an inductive approach is the elaborated theories' generality because of the limitation to the specific context and time of the empirical findings. It is also unavoidable for the person who conducts the research to incorporate his or her ideas and perceptions that will interfere with the theories produced. This insight is useful when conducting the thesis.

3.1 Choice of interview method

The advantages of conducting an interview rather than, for example, conducting surveys are that there is a possibility to explain unclear questions and ask follow-up questions when needed. The disadvantage of conducting an interview is the subjectivity from the researcher interpreting or affecting the respondents' answers (Patel & Davidsson, 2021). An interview

complements the literature review and the analysis of data and reports. It is an opportunity to get up-to-date insights and knowledge on the specific topics investigated from professionals in the field. The respondents' answers can also contradict or confirm the information that has been found elsewhere, such as in the literature, and this enhances the discussion with nuances and adds depth to the thesis.

A semi-structured interview method has been selected as the preferred approach. The method is carried out by compiling a list of specific themes that will be covered. The interview questions can be ordered, open-ended and where the respondent can answer them freely (Patel & Davidsson, 2021). The selected questions are characterized by having a low degree of standardization, but a moderate degree of structure. The reason is because each airline has differences in how their FFP works, each research question covers a specific topic, and the respondents have slightly different job roles. When sending the questions to the respondents, only the essential questions were selected. However, follow-up and additional questions have been prepared in advance that can both broaden or narrow down the interview on certain themes.

The strategy of reaching out to potential respondents was by contacting them on the platform LinkedIn. The advantage of using the platform is the possibility of seeing people's job position and company they work for, maximizing the chances of contacting a person that can best answer the questions, compared to emailing companies with low chances of reply. On the other hand, there are limitations on LinkedIn regarding who you can contact depending on your current network of people. Someone who has few connections with professionals in the airline industry on LinkedIn will therefore have a disadvantage by using this platform. Another limitation is the number of messages that can be sent. After a positive response on LinkedIn, a document that briefly states the purpose of the interview, integrity aspects, and the main interview questions was prepared and sent. The interview was conducted through a video call using the Microsoft Teams software. The respondent from Miles & More let us take the time needed for the interview. However, an effective and yet substantial interview was the aim, therefore a duration of between 30 to 60 minutes was targeted.

3.1.1 Ethical aspects

The respondents are offered the possibility to remain anonymous where their name and company are not mentioned in the thesis. Integrity is a viable aspect that can increase potential respondents' willingness to participate. Also, the extent the respondents can answer the questions are constrained by their non-disclosure agreement (NDA). Detailed financial information and revenue streams from FFPs are information covered by NDA. In this regard, we have emphasized our satisfaction of understanding the revenue streams and the impact of FFPs on a conceptual level without getting into specific numbers.

3.2 Choice of airlines

In order to answer the research questions, every airline is unique and can contribute to different perspectives. Therefore, the intention is to include many airlines located on different geographical locations around the globe to create nuances that can lead to an engaging discussion. Larger and well established airlines may have more history and experience that can be valuable for the thesis. However, newer or smaller airlines may have FFPs that might be innovative in finding models for retaining, engaging customers and generating either direct or indirect revenue for the airline.

Regarding the interviews, an attempt was made to reach out to different airlines. Due to limitations in the number of messages that can be sent on LinkedIn, only a limited number of airlines could be approached. Among these were Scandinavian Airlines (SAS), Lufthansa, Singapore Airlines and American Airlines. Both Lufthansa and American Airlines had the top five most valuable FFPs in the world in 2023 (Statista, 2023). SAS was chosen due the airline being well-established in Sweden as well as in the Nordic countries. Even though Singapore Airlines' loyalty program is not among the largest, the airline was named the world's best airline in 2023 (Skytrax, 2023). Hence, having representatives from the world's best airline sharing insights into their FFP will not only contribute to an interesting insight, but also complement the geographical coverage of our potential respondents.

3.3 Choice of respondents

When reaching out to potential respondents, employees at an airline's FFP and preferably having a role that has an overall overview of how the program worked was our target. If the airline's FFP was a subsidiary, employees from the subsidiary were contacted. For example, employees from Miles & More were contacted rather than anyone from Lufthansa Group. This is because insights from the experts within their area were sought. In this thesis, given the existing time frame, the goal was to conduct 2-4 interviews. Less than two interviews would lead to a great dependency on the only conducted interview. More than four interviews could be challenging from the time perspective. The contacted respondents worked at the FFP and had roles on a managerial level.

3.4 Choice of sources

Patel & Davidsson (2021) describes a primary source as the original source of information or first hand observations. Other sources are seen as secondary sources. Primary sources are preferred because no other person has interpreted or processed the original material. In the case of this thesis, primary sources could be statistics, announcements and statements directly from airlines. However, it is inevitable to use secondary sources because the topic of revenue streams of FFPs is somewhat niched and the available material is limited. The most common type of sources in this thesis are academic papers, reports, material directly from airlines and news websites with a specialization within their respective area.

When conducting this thesis, one challenge is that some sources have paywalls which complicates the access to potential useful materials. It is problematic if a secondary source refers to a primary source with a paywall, this makes it difficult to get more information and better understanding. It is also problematic when many sources cover the customer's perspective on FFPs since the report focuses on the companies' perspective. In order to solve the aforementioned challenges, it has required us to review a significant number of sources and sometimes try to have a macro perspective and screen for the essentials for answering the research questions.

3.4.1 Reliability & Validity

Reliability and validity in the context of qualitative studies are concerning the study's transparency and trustworthiness (Patel & Davidsson, 2021). In this regard, for an accurate analysis of the answers from the interview with the respondent, the interview was screen recorded and a voice-over transcription was activated. This enabled precise citations and reduced the risk of mixing one's thoughts and interpretations with what the respondent actually said. The interview with the respondent can be seen as a strong source of information that provides evidence and validation, it is also an effort to collect primary data. When dealing with information from unfamiliar sources, we check the "about page" of the website to get a clear understanding about who is narrating this, why, for who it is for and the purpose of this text. If possible it is desirable to check for primary sources or other sources confirming the information from the unfamiliar source.

4. Results

4.1 Miles

The airline's miles are fundamental to its loyalty program. Customers can accrue miles in several different ways. Flying, purchasing products and services from the airline's partners and spending money with the airline's co-branded credit card are some of the ways. With the miles, the customer can redeem rewards that are associated with travel, such as flight tickets (Nada Reales & O'Connell, 2017). Miles have become a sort of currency where the airline has control over the number of miles in circulation, the amount that can be accumulated by a customer, the value of them at redemption and when the miles expire (Goldfine, 2024).

According to Goldstein (2024), two U.S. senators have sent a letter to relevant US agencies demanding to know the actions to "protect consumers against unfair and deceptive practices in airlines' frequent flyer and loyalty programs.". The author mentioned the risk of miles being constantly devalued and the increasing difficulties of redeeming awards.

The way FFPs generate revenue from issuing miles is mainly from selling miles to banks, who in turn distribute them to their co-branded credit card customers for each transaction. They also generate revenue through selling the miles to other partners, such as hotels and car rental services (Nada Reales & O'Connell, 2017). Another way FFPs are generating revenue is through selling miles directly to the customers (Genter & Nickel-D'Andrea, 2024). These revenue streams will be explained in more detail in upcoming sections. It is also important to mention that issuing miles also generates an indirect revenue stream. The miles system creates customer loyalty (Goldfine, 2024). According to Statista (2017) ancillary revenue from the sale of frequent flyer program miles accounted for 12% of the ancillary revenues generated by airlines outside the U.S. in 2017.

4.1.1 Expiration of miles & Breakage management

In the beginning of FFPs, airlines were generous with awards and miles. One could say, it was a time of inflation for miles. From 1995 to 2002, the amount of miles in circulation rose 20% per year on average (Goldfine, 2024). After a while, it became difficult for the airlines to manage the increasing demand of redeeming the miles for awards and a devaluation started. More miles were required to receive awards and a higher frequent flyer status (Knorr, 2017).

The accounting standard IFRIC 13 impacts the miles expiry policy for FFP and makes breakage management crucial for profitability. Breakage management is a term that refers to the management of revenue when miles are expiring or redeemed. It affects an airline's outstanding miles in circulation. For example, miles that have a short expiry policy could increase the value of the miles and miles that have long expiry policy can lead to miles losing value and devaluation. Redemption costs can be a factor impacting breakage management. Short term expiry policy encourages short term profitability such as revenue without any redemption cost. Extensive expiry policy is on the other hand, beneficial for customer engagement and might bring profitability in a long term perspective (De Boer & Gudmundsson, 2012). Airlines' expiry policy can vary a lot. SAS Eurobonus, for example, has an expiry time of 4-5 years. United Airlines' miles never expire. American Airlines' miles expire if you have been inactive for two years. If you earn or redeem miles, it prolongs the validity of the miles for another two years. Qatar Airways has a similar system, except, you need to be inactive for three years for the miles to expire (SAS, n.d.-a; United, n.d.-a; American, n.d.; Qatar Airways, n.d.-a).

4.1.1.1 Lufthansa Miles & More

Only one interview was conducted. The respondent works at Miles & More GmbH with the job title of Product Manager Payment Cards International. The respondent's responsibility is to develop long-term product strategy for international credit cards and payment methods.

The expiration date for Miles & More award miles is three years, which is normal compared to other airlines' expiry policies (Miles & More, n.d.-a). The respondent claims that the reasoning behind the specific time span is because they notice that if the customer does not interact with the program within three years time, it is likely that the customer does not want to be part of it anymore. Even though expired miles means revenue without any redemption costs, the respondent states that they want to minimize miles expiring. This is because loyalty comes before short-term revenue.

4.1.2 Mileage-based vs revenue-based accrual method of miles

In the beginning of FFPs, the accrual method of miles was mileage-based and not influenced by the ticket price at all (Sorensen, 2017). In recent years, more and more airlines have switched to a revenue-based accrual method for miles. The first FFP to make the switch was

Air New Zealand in 2004. A mileage-based accrual method means that the amount of miles that you accrue on a flight is based on the distance flown while a revenue-based accrual method is based on the price of the flight ticket. A mileage-based accrual method incentivizes customers to take cheap and unnecessarily long flights which rewards the price-sensitive customers. The revenue-based rewards the more profitable customers for the airline and incentivizes more spending (Nada Reales & O'Connell, 2017). As of 2017, most airlines still used a mileage-based accrual method, although in the U.S., the majority had adopted a revenue-based accrual method. It is important to mention that those who use a mileage-based accrual method also factor in the fare type when determining the amount of miles accrued. Therefore, the amount of miles accrued is not strictly determined by the distance flown for any of the biggest airlines, even if the accrual method is mileage-based (Sorensen, 2017).

4.1.3 Tiered memberships & types of miles

The way that airlines choose to set up their miles system varies. However, most FFPs have different membership levels or statuses where members with a higher membership status receive better rewards and benefits such as priority boarding, lounge access and bonus miles. The FFPs often have different types of miles that can be earned in different ways. Some miles can only be accrued through flying, while others can be accrued through transactions with partners or using a co-branded credit card. Some types of miles can be used to redeem rewards, while others are used to attain a higher membership status. (Delta, n.d.; Miles & More, n.d.-b; Qatar Airways, n.d.-b; SAS, n.d.-b; United, n.d.-b)

Lufthansa Miles & More for example, has three different types of *points*: Points, Qualifying points and HON Circle points. You can only earn these points when flying with certain airlines. They also have *miles*, which can be earned through flights, their credit card and partners (Lufthansa, n.d.). Points and qualifying points are used for achieving *Frequent Traveller* status or *Senator* status. If you accumulate enough Qualifying points you will achieve *Frequent Traveller lifetime* or *Senator lifetime*. Gathering enough HON Circle points gives you *HON Circle* status. You can only earn HON Circle points if you fly in business or first-class. The amount of points received from a flight is determined by the flying class and if it is a continental or a intercontinental flight (Miles & More, 2024). While points help you receive a higher membership status, miles are the ones that can be redeemed for rewards (Miles & More, n.d.-b).

By offering different tiers of memberships, airlines incentivize members to spend more to attain a higher status (Saxon, 2018). In a situation where a member is close to dropping to a lower status level, they will most likely make sure to maintain their tier by spending more. It is the same way if a member is close to reaching a higher tier, it is likely that the member spends more just to reach that tier (Ross-Smith, n.d.). According to United MileagePlus (2020) it is their long-standing and higher tiered members that generate the most revenue. They stated that, during the period of 2015 to 2020, their premium members generated 14 times more revenue on average per member than the members who only had attained the basic level membership tier. They also explained that those who have been members for over 5 years yielded 4 times more revenue on average per member than those who have been members for less than 5 years. FFPs and airlines are typically characterized by the Pareto principle, which means that a small proportion of customers account for a large proportion of revenue. For example, 1,64% of American Airlines' passengers accounted for 26,4% of the total revenue in 2009 (Knorr, A. 2017).

4.1.3.1 Lufthansa Miles & More

The respondent mentioned the possibility of creating a “conversion multiverse” in the future. You accrue miles from Miles & More by default and then you have the possibility to convert them to whichever FFP mile you want. The possibility of converting Miles and More miles into United MileagePlus miles was brought up as an example. This could be a potential improvement to increase revenue from the loyalty program according to the respondent. Many customers are members in other loyalty programs and converting miles between different programs creates flexibility and can improve retention rate.

4.1.4 Sale of miles directly to customers

Airlines also sell miles directly to customers. Examples of airlines who are doing so are Turkish Airlines, British Airways and United Airlines. The customers acquire the miles by paying with real money, for example Turkish Airlines offers 1000 miles for \$30 which equals 3 cents per mile (Turkish Airlines, n.d.). The miles in turn can be used to redeem flights. According to Genter & NickelD'Andrea (2024), it does not make sense for customers to purchase miles directly from the FFP in many cases. Purchasing miles at full price is one example of a case where it most of the time is not beneficial for the customer. Scenarios when it would be beneficial for customers to purchase miles are when there are appealing deals on

miles, possibility to easier upgrade to a more premium cabin, when it is cheaper to pay by miles rather than by cash and when a customer is almost reaching the threshold for a redemption. From an airline's perspective the sale of miles is financially beneficial when the price per mile sold is higher than the redemption rate. However, airlines can have motives beyond the financial aspects, such as loyalty. Therefore airlines might offer last minute flights to a discounted price if you pay through miles compared to cash (Genter & Nickel-D'Andrea, 2024). Further, British Airways has applied the subscription business model to the sale of miles. Members of the airline's loyalty program can receive miles for a recurring fee, either monthly or annually. There are 4 subscription plans where the package with the most miles has the lowest price per mile (British Airways, n.d.)

4.2 Co-branded credit cards

One of the biggest revenue streams for FFPs is co-branded credit cards (Reales & O'Connell, 2017). The co-branded credit cards are also important for involved banks. As a way to preserve credit card relationships, banks have provided capital to bankrupt airlines (De Boer Gudmundsson, 2012). According to a survey done by Reales & O'Connell (2017), between 50% and 60% of U.S. airlines' ancillary revenue comes from co-branded credit cards, while it is only 20% of European airlines' ancillary revenue. The reason behind why the proportion for European airlines is significantly smaller than for U.S. airlines is because the interchange fees¹ were, as of 2015, capped for European debit and credit cards. While in the U.S., it is limitless. This regulation in Europe made European airlines' struggle to keep the credit cards profitable. The airlines had to adjust by offering less generous rewards, resulting in customers receiving fewer miles for the same amount of money spent as before (Reales & O'Connell, 2017).

DeNardi (2017) estimates that the price that the airlines sell their miles for, to the banks, is three times higher than the cost the airlines are facing when the miles are redeemed. It is also important to note that there are miles that never get redeemed, and thereby do not impose any redemption costs, which are not included in the calculation (Goldfine, 2024). According to de Boer & Gudmundsson (2012), Citibank pre-purchased American Airlines AAdvantage miles

¹ An interchange fee is an amount of money that the credit card issuer receives every time the customer uses the credit card (Egan, 2024).

for \$1 billion in 2009 and American Express paid the same amount to pre-purchase miles from Delta Air Lines SkyMiles in 2008.

4.2.1 Lufthansa Miles & More

The respondent from Miles & More claimed that co-branded credit cards is the largest revenue stream within the frequent flyer program. With this said, the respondent also explained that the ancillaries with the largest revenues are those connected to seat reservation, luggage and upgrades. These ancillaries are also reported in Miles & Mores' financial statements.

According to the respondent, the price of a mile can vary depending on the contract with the bank. Miles & More offers many different co-branded credit cards which are connected to local banks around the world. This means that the price of a mile differs from country to country, and that the amount of money spent using a co-branded card and the corresponding number of miles received varies for each card. The respondent also mentioned welcome bonuses. A welcome bonus, in this context, is an amount of miles that the customer receives when they first sign up for the card. The price of welcome bonus miles and turnover miles, miles received when spending money with the card, is sometimes different. For example, if the bank wants to issue more cards, Miles & More is able to set a higher price on the welcome bonus miles.

The respondent also described the process of choosing a partner bank. Miles and More initiates RFPs (Request for Proposals) which means that they request offerings from several banks, and the banks, in turn, propose deals. The deals include, for example, information about prices for miles, contract timelines and how much cash the banks are willing to pay upfront. Miles & More can then choose among the proposed deals.

As mentioned before, the capped interchange fees in Europe has made co-branded credit cards less profitable in Europe compared to the U.S., which the respondent also expressed. The respondent explained that they have made an effort to combat this through offering an option where the customer can choose if they want to earn miles with their regular digital card for an additional fee. So far this has only been launched in Poland.

4.2.2 Multi-branded credit cards

The respondent from Lufthansa Miles & More mentioned multi-branded credit cards as a possibility to increase revenue. They used Qatar Airways and British Airways' collaboration as an example. In 2023, the first multi-branded credit card was launched by IndusInd Bank in collaboration with British Airways and Qatar Airways (IndusInd Bank, 2023). When using the card, you earn Avios, which is their equivalent of miles. The Avios can be earned and redeemed within both airlines. They can also be transferred from British Airways' FFP, British Airways Executive Club, to Qatar Airways' FFP, Qatar Airways Privilege Club, and vice versa (British Airways, n.d.).

4.3 Partnerships & alliances

In 2016, the airline ancillary revenue from partnerships such as hotels and car rentals accounted for 15% of the airline's ancillary revenue, for traditional airlines outside the U.S. (Newhouse, 2017). Genter & Nickel-D'Andrea (2024) mention that customers can earn miles or even cashback when purchasing products and services on airlines' dedicated shopping portals. United Airlines, Delta Air Lines and American Airlines are examples of airlines offering this. For customers, they will earn miles through purchase via the shopping portal and in addition earn miles if they pay with their co-branded credit card, meaning it is possible to earn miles through two sources for one purchase. From the airlines' perspective, this means that they have a vast amount of partners to sell miles to which generates revenue. For United MileagePlus, 71% of the cash flow from its sales of miles or 3,76 billion dollars came from miles purchased by third parties partners in 2019 (United MileagePlus, 2020). United MileagePlus shopping portal for example have partnerships with 1100 different stores such as clothing, food & dining, entertainment & events, and electronics. It is possible to shop online or in-store by just linking the offers to your preferred card (MileagePlus, n.d.-a). Customers can earn different amounts of miles for each dollar spent depending on the store, for example you can earn 1 mile per dollar at Apple Inc. but 3 miles per dollar at Dior Beauty (MileagePlus, n.d.-b).

4.3.1 Lufthansa Miles & More

The respondent explained that Miles & More has several partners. The choice of partners, according to the respondent, is based on what their typical customer is like. Their typical

customer is a 55+ year old businessman who travels a lot. The respondent expressed that partners like hotels and car rental companies make the most sense for that kind of customer. Uber was brought up as an example of a partner. The customer can connect the Miles & More account to their Uber account and in that way receive miles when ordering an Uber. Uber purchases the miles from Miles & More and the price is determined by their contract. The miles are not purchased in bulk. Uber purchases the miles as they go, based on demand. The respondent emphasized that it is only a one-way exchange. The miles can not be redeemed through the partner, only through Miles & More.

4.3.2 Airline alliances' impact on FFPs

Star Alliance was the first airline alliance established in 1997. The role of an airline alliance is to open up a huge number of destinations through partner airlines (Rosen, 2021). Even though these alliances do not necessarily directly contribute to FFP revenue, they do enable airlines to retain their customers and enable customers to earn miles on partner airlines within the alliance. It is also estimated that 10-15% of miles that are redeemed at an airline were accrued from flying with a partner airline (Nada Reales & F. Connell, 2017).

According to Saxon (2018), when a customer with miles from airline A redeems a ticket at airline B, it results in airline A paying the other airline real money for the redemption. Historically, there have been restrictions on redemptions from partner airlines, such as customers needing to contact the call center for bookings with partner airlines. Saxon (2018) states that more relaxed restrictions for redemptions at partner airlines would boost loyalty, increasing the interaction with airline A's loyalty program and hence increasing the customer lifetime value, which in turn secures revenue in the long-term. A proposed improvement and compromise for airlines willingness to promote their own flights, is to show redemptions availability at partner airlines when airline A are sold out. Our respondent from Miles & More said that airline alliances do not directly affect revenue, but rather increases brand awareness. It is possible to use miles from Miles & More to upgrade at an alliance airline. From 10 000 miles one can get an upgrade on Singapore Airlines by calling the local Miles & More service team. In addition, for each Euro spent on flight tickets with Singapore Airlines, the Miles & More customer earns at least 4 miles if they register their loyalty program card number when booking (Miles & More, 2024).

4.4 Dynamic pricing of awarded tickets

Smithson (2023-a) states that some airlines argue that because cash fares fluctuate throughout the year, it is not reasonable to offer redemptions at fixed rates. Therefore, dynamic pricing which adjusts the award pricing depending on the demand is justified. The implementation of dynamic pricing can lead to extra revenue. Historically, the redemption has been calculated according to distance or zone-based awards charts. By using blackout dates, the arbitrage opportunities for passengers paying by fixed rate miles rather than cash get prevented.

The allocation of awarded seats is determined by the revenue management department (De Boer & Gudmundsson, 2012). The two factors for determining the number of available awarded seats are the type of aircraft and black-out periods. There is a fixed number of awarded seats in each type of aircraft. Regarding the cost, there are three types of costs for seat redemption - dilution, displacement and marginal cost. Dilution refers to when a customer receives an awarded seat and therefore does not pay for a regular ticket. Displacement, on the other hand, occurs when a customer is awarded a ticket and thereby occupies a seat that someone else might have paid for. Marginal cost refers to the variable cost of transporting an additional passenger. By implementing dynamic pricing of awards it should be indifferent for the airlines regarding the cost aspect (De Boer & Gudmundsson, 2012).

American Airlines AAdvantage, Air-France Flying Blue and Alaska Airlines are three FFPs that are using dynamic pricing for awarded tickets. Turkish Airlines Miles & Smiles, Emirates Skywards and Singapore Airlines Skywards are three FFPs still using award charts. The trend is that airlines are switching towards dynamic pricing (Smithson, 2023-b). However, there are no statistics on how much more revenue the dynamic pricing of award seats is actually generating.

4.5 Data monetization

According to Ross-Smith (2024-b), for every one million loyalty members, the loyalty program's data could generate an additional \$20 million annually for the airline.

Data monetization of FFPs has many benefits. Improved revenue management and dynamic pricing of awards are two benefits. Cost reductions is also a positive aspect of data monetization, such as lowering customer acquisition cost, reducing airline lounge upkeep costs, and reducing high value customer churn. Another opportunity is that loyalty data insights can be shared with gas stations or grocery stores in the local area, in order to understand consuming patterns and the number of loyalty members in the geographic area. This enables gas stations or grocery stores to run loyalty promotions with the airline, stimulating spending behavior for customers in exchange for earning miles and hence profit airlines through selling more miles (Ross-Smith, 2024-a).

The global consulting & advisory firm EverEdge with specialization in intangible assets, claims that between 2008 and 2019, the Australian Qantas Airways revenue from their loyalty program grew seven times the pace of the rest of the business (EverEdge, 2022). The airline's earnings before interest and taxes (EBIT) was 4,5% for flying compared to 24% for the loyalty program. The loyalty program has become more important through the years and as a way for the airline to generate revenue without flying. According to EverEdge, data monetization is the underlying reason for this. Hayes (2016) states that Qantas' subsidiary agency, Red Planet, is using data from the loyalty program to optimize the loyalty program's offers and strategy, hence data monetization is an important factor behind the loyalty program's growth in revenue. On Qantas' website, the subsidiary Red Planet is described as the heart for their loyalty program where data analytics, marketing and research service are conducted (Qantas, n.d.).

In an interview with Christian Hylander, Vice President for data & services at Mastercard, and Dianne Robillos, manager for consumer research & insights at Qatar Airways, Robillios states that data is a loyalty program's most valuable asset. The reason not more airlines are using data monetization can be the challenge of identifying all the sources of relevant data and having proper tools to process data. For airlines who want to improve revenue and cost savings through their FFP, Hylander mentioned two actions. The first one is to identify inactive users who are flying with other airlines and incentivize them with a welcome back offer. The second one is to review the spending insights for co-branded credit cards in order to stimulate spending which boosts airline's sales of miles. Robillos in turn, mentioned revising and ensuring a meaningful network of partnerships which the airline and customers will benefit from (Ross-Smith, 2022).

4.5.1 Lufthansa Miles & More

“A huge revenue stream would be to individualize the app interactions”

The respondent emphasizes that they do not sell any data to either bank or any third parties due to GDPR and regulations. However, the data from Miles & More is useful for customizing the products and offers, as well as identifying trends. The data that is gathered give insights about customer behavior and demographics such as gender and age. Another example is what geographical area the loyalty members are from and which airline within Lufthansa Group they are usually traveling with. The geographical data from the app can be used to tailor the offers. The respondent said that data is not the primary revenue for the loyalty program but it can indirectly generate revenue. When looking into the possibility of data monetization, the respondent mentioned individualizing the app interactions as a concrete example. It can be done by customers filling in their preferences and having a virtual bucket list where they get mileage bargains based on that. Another example is that Miles and More (which are also responsible for ancillary services such as seat selection & luggage) should share information with the Lufthansa app when the customer books a flight. Customers can then get a seat recommendation based on their previous seat preferences and hence boosting the airline's ancillary revenue.

4.6 Prepaid flights model

The model of prepaid flights can be named differently such as flight passes, travel passes, bundles or vouchers. Customers buy a large number of flights at a discounted price in advance. By doing so, one gets fares for a price below market average. The model has traditionally only been appealing for the most frequent flyer which regardless of discount would have bought the flights anyway. This has similarities with prepaid tickets for public transport. From a loyalty program perspective this could be viewed as a complement to FFPs. However, as subsequent sections will give examples on, prepaid flights are to different extent incorporated into FFP. For example, it may require you to be a member of a FFP, it can boost or lead to a higher tier in a FFP, as well as, offers flexibility and benefits likewise those of higher tier members.

Prepaid flights are used by airlines in mainly two instances. The first instance is when the airline wants to quickly increase their revenue stream, such as during the Covid-19 pandemic. By offering prepaid flights, airlines will instantly get cash to manage their current operations so they can avoid short-term debt or emergency loans. The two Vietnamese airlines, Vietjet and Bamboo Airways, offered unlimited flight passes for a limited period in the early 2020s as a strategy to boost air travel after the pandemic (Dunn, 2020). These flight passes are now discontinued. For customers who bought the Bamboo flight pass, they would automatically become Emerald Club members in the Bamboo Airways loyalty program, which enables free rebooking in case of irregularities (Singh, 2020). The second instance is to target niche audiences, and stimulate demand in these segments. These niche targets are, for example, high travel frequency and low competition (Caravelo, n.d.). Three major airlines have tried out this model but have all abandoned it. The complexity of the aviation industry, as well as the administrative burden on the airline, were two factors that negatively impacted the model (Caravelo, n.d.).

4.6.1 American Airlines

The idea of airlines' prepaid membership model started in the 1980s by American Airlines and was dedicated to very frequent flyers. The program allowed eligible customers to purchase discounted tickets. A few years later, American Airlines introduced a special all-you-can-fly concept, where a very limited number of frequent travelers were eligible to buy a lifetime AAirpass for \$250 000 with unlimited flights. Mr. Rothstein was one of them and for 20 years with the pass he earned a total 30 million miles for each flight flown. On 13 December 2008 American Airlines discontinued the AAirpass resulting in Mr. Rothstein no longer being able to fly with the pass. The all-you-can-fly pass was not profitable for the airline during that time and hence they were discontinued (Rothstein, 2019).

4.6.2 Braathens Regional Airlines (BRA)

The Swedish Airline, Braathens Regional Airlines (BRA), has a prepaid model as a complement to its loyalty program, BRA Vänner. It is a requirement to be a member of BRA Vänner to participate. The model has a focus on private customers who are frequently flying. The model does also include corporate partners where companies can buy one-way trips for its employees who are traveling in their job.

BRA has two variants of prepaid models. In the first variant Tidkort, customers can choose between either six months or twelve months and fly unlimited during that time period. Customers earn 60 000 points when purchasing Tidkort and 24 000 tier points. Other benefits are that customers travel for free with the airport shuttle bus, have lounge access and fast track (BRA, n.d.).

The second variant Klippkort, enables customers to choose between 10, 20, 30, 40 or 50 one-way pre-purchased trips at a fixed rate. The greater the number of one-way trips purchased, the lower the fixed rate is. For each one-way trip, the customer receives 1700 points and 850 tier points. Klippkort can be used by one or multiple customers. It has the same benefits as the Tidkort. The validity of Klippkort is one year (BRA, n.d.)

4.6.3 Air Canada

For Air Canada it is a requirement to be part of the airline's FFP Aeroplan in order to buy flight passes. The passes are adapted for four travel zones - within Canada, United States, sun destinations and international. It is valid for either 12 or 15 months. After choosing a zone, customers determine the number of one-way trips they want to purchase (unlimited is also available). Air Canada will then provide one credit for each one-way trip purchased. The last step is choosing fare (Air Canada, n.d.). In total there are 44 variants of flight passes. Most passes are sold in packages of 10 or 6 credits. Through flight passes you earn more Aeroplan miles on every flight. Members with Altitude status can earn eUpgrade credits, which can be used for upgrades, when buying a flight pass (Dunn, 2020).

4.6.4 Singapore Airlines

Singapore Airlines' flight pass enables customers to tailor the number of destinations, flight credits, number of users, fare type, validity and advance booking conditions. Customers will earn frequent flyer miles through purchase of flight passes. The pass can be pooled, but the more users, the higher the end price is going to be. Customers can choose how far in advance they want the deadlines of bookings to be. The earlier the cheaper the price is. The flight passes can be valid for 6, 12 or 18 months. The shorter validity the cheaper the end price of the pass is going to be (Singapore Airlines, n.d.). It makes the Singapore Airlines' flight pass unique compared to previously mentioned passes.

4.6.5 Lufthansa Miles & More

“If you offer prepaid flights, there is always a possibility of gambling”

Lufthansa does not offer prepaid flights. Our respondent highlighted the risks of gambling with prepaid flights. There is a risk that a passenger will cancel their flight with short notice. Miles & More is issuing miles instantly and in case of a no show, the airline will not pay the loyalty program for the miles issued. However, the respondent did add that a few credit cards, such as those in Mexico and the USA, have included travel passes where a companion will travel at a discounted fare. The offering of travel passes depends on the market.

4.7 Flight subscription

The potential benefits for airlines that offer flight subscriptions are increased market share, extended customer lifetime value and increased revenue. If subscribed customers do not take action, airlines will continue to receive revenue from the customers without needing to invest resources in re-acquiring the customers. Furthermore, customers will be immune from any offer or promotion from the airline or competitors. If customers do not use all the flights it will still generate a predictable revenue stream for the airline. If the customer chooses to fly more than actually intended as a result of the subscription, it will increase the demand and potentially increase ticket prices. This could be a way for airlines to counteract seasonality and stimulate demand and increase ticket prices for off-season flights. Airlines who may not benefit from utilizing the model are those who are benefiting from state-aid, have monopoly on their routes or operate in heavily regulated scenarios where competition is eliminated (Caravelo, n.d.). According to Ledsom (2023), one of the biggest criticisms of the subscription program is that it encourages people to fill seats and fly more than may be necessary. Which is not favorable from an environmental perspective. A counter argument could be that the program can fill empty seats which increases passenger load factor.

In the 2020s, airlines that are trying to test out subscription programs include Alaska Airlines and the low cost carriers Wizz Air & Frontier Airlines (Bondarenko, 2023). This is a strategy for airlines to develop and innovate their offerings and gain customer loyalty from passengers that are expected to travel frequently. These subscriptions are related to loyalty programs by customers earning miles when paying the recurring subscription fee. For some airlines

customers can earn one mile for each mile flown. Customers can achieve a higher level of membership of the loyalty program by subscribing to flights.

4.7.1 Alaska Airlines Flight Pass

Alaska Airlines offers two types of flight passes with three options each. The difference is that Flight Pass Pro is more flexible and allows booking up to 2 hours before departure. The regular Flight Pass allows bookings up to 14 days ahead. On a general level customers can fly freely within California, Nevada, Arizona and Utah. However, in reality, the fixed subscription fee results in monthly or bi-monthly credits which customers can use to purchase flight tickets. The subscribers need to pay taxes on the tickets and additional fares on the most popular routes. The cheapest cost is \$49 a month and offers six trips per year. (Alaska Airlines, n.d.).

	Flight Pass	Flight Pass Pro
Option 1	\$49/month 6 trips	\$199/month 6 trips
Option 2	\$99/month 12 trips	\$399/month 12 trips
Option 3	\$189/month 24 trips	\$749/month 24 trips

Table (1). A compilation over the options of flight passes as of May 2024 (Alaska Airlines, n.d.)

The plan has recently received media's attention. CNN highlighted that the subscriptions do not have any blackout periods and where Mileage Plan elite status members will receive free upgrades to premium-class and first-class seats when possible (McInnis, 2024). Mileage Plan is Alaska Airlines' loyalty program. Customers can earn one mile for every mile flown with a flight pass. Paying with Alaska Airlines' co-branded credit card on Flight Pass related purchases will yield 3 times more miles per dollar than usual (Alaska Airlines, n.d.).

4.7.2 Wizz Air Discount Club

Wizz Air's discount club is the airline's loyalty program. However, the customers need to subscribe and pay a recurring fee on an annual basis, starting from €39,99. The only exception is for the Wizz Air Discount club light option that is free, this option only includes promotions and exclusive onboard coupons. The standard and group version offers beside the perks from the light option, also €10 discount on flight fares from €19,99 and €5 discount on checked-in baggage. The standard option offers one companion and the group offers 5 companions (Wizz Air, 2024-a). There is also an Italy Discount Club which is a variant limited to flights within Italy starting from €19,99 a year for the regular membership (Wizz Air, 2024-b).

Regarding subscriptions on flights, there is a product called Wizz MultiPass. It is available for flights to and from Poland, Italy and Albania. The subscription fee is paid monthly and customers enter a 12 month membership commitment. When signing up for the subscription the customer can choose either monthly one-way or round-trip tickets, there is also a possibility to add on extra services such as Wizz Priority and checked bags. Depending on the country there are blackout periods. It is not possible to change flights that are already booked (Wizz Air, 2024-c).

4.7.3 Frontier Airlines GoWild! Pass

The U.S, based Frontier Airlines offers monthly, summer, and annual all-you-can-fly GoWild! pass. The monthly pass cost \$149. The summer pass costs \$399 with a special offer and is valid from the first of May to the end of September 2024. The annual pass cost \$599. The flight pass offers an unlimited number of flights both nationally within the U.S. and internationally where bookings can be made the day before respectively 10 days before departure. Starting in 2024, customers with Elite status in their loyalty program can earn 10 000 qualifying miles for GoWild! annual pass purchases and get free bags & seat selection. There are blackout periods (Frontier, n.d.).

5. Discussion

When conducting this study, three main challenges were encountered. The first challenge was to find respondents in a limited time frame. Only one interview was conducted. The respondent worked at Miles & More GmbH. The second challenge was that the revenue streams and detailed financial data from FFPs were either limited or confidential. When contacting the respondents, one respondent from an American airline declined an interview due to the research questions dealing with a topic that is covered by their non-disclosure agreement. The information needed to answer the research question was viewed as a trade secret and proprietary information. The respondent from Miles & More said, for example, that not even investors have access to the detailed revenue streams and data due to NDA. The third challenge was the geographical limitations on publications. Most of the sources for financial data this study relies on are mainly from the USA. The FFPs originated from the USA which can be an explanation for it. However, the study would be even more nuanced if there were more sources from other continents of the world.

5.1 FFPs current revenue streams

The largest revenue stream for most FFPs is the one related to co-branded credit cards. The FFPs generate revenue from co-branded credit cards through selling miles to the banks and receiving a proportion of the fees connected to the card that the customer uses. However, this stream of revenue is substantially larger for U.S. airlines than in Europe due to interchange fees being capped for banks in Europe. European banks earn less on every transaction with the credit cards, leading to more restrictive purchases of miles from the FFPs, hence resulting in declining co-branded credit card revenues in Europe.

FFPs also generate a big part of their revenue from their partnerships. The FFPs sell miles to their partners when the customer accrues them through purchasing the partner's product or service. Some airlines also have shopping portals. If the customer uses the portal to purchase products or services they will earn miles. If the customer is using the FFP's co-branded credit card when shopping, using the portal, the customer can earn miles from two sources at the same time. The FFP, consequently, sells miles to both the bank and the partner in question, which generates even more revenue.

Another revenue stream comes from FFPs selling miles directly to customers. In many instances it is not beneficial for customers to gain miles this way. Customers are more incentivized to purchase miles, for example, when there are deals. This indicates that it is not common for customers to purchase miles and when they do, the miles are on sale, which means a lower margin for the FFP. This suggests that this is a relatively small revenue stream but due to the lack of data there is no confirmation of this.

Apart from the direct revenue streams, there are also strategies and tactics that can generate long-term indirect revenue. Customer loyalty, in particular, contributes to long-term revenue. An FFP's miles system incentivizes customers to keep buying flight tickets from that same airline. By offering tiered memberships, customers are incentivized to spend more to attain a higher status or to avoid dropping a status level. It also makes the members choose the airline in question over others. The higher tiered members who have been members for a long time typically generate the most revenue. In addition, even though the respondent said airline alliances are not generating revenue for Miles & More, airlines pay each other for redemption of awards at partner airlines within the alliance. Since 10-15% of miles redeemed are accrued from other airlines it indicates that airline alliances can have an impact on the revenue streams.

5.2 Optimization of revenue streams

In order to optimize revenue streams, data monetization is a clever way to do so. It can create significant additional revenue. With data monetization revenue management gets improved and more offers can be customized. This can for example lead to better partnerships, design of the FFP and improved dynamic pricing. Its use has been successful for Qantas Airways and is described as the heart of the loyalty program. However, not many airlines are dealing with data monetization because they lack proper tools for processing data and the challenge of identifying all the sources of data. Further, our respondent saw opportunities with data monetization to personalize the app and promote ancillary services, resulting in potential ancillary revenue.

Implementing dynamic pricing on awards is another optimization action. When airlines shift from static pricing of awards to dynamic pricing, which is the trend, it can generate more revenue. This study has not come across any data on revenue for this but it would theoretically contribute to extra revenue. Some airlines argue that it is rational to implement dynamic pricing for awards since it is already used on flight tickets paid with money. On the one hand, the result is during unpopular travel times, the price of awards will decrease, attracting small budgets and flexible customers. It would contribute to airlines being indifferent between offering a seat to a paying passenger or for redemption. Airlines can disregard the three costs that otherwise are linked to redemption of award seats. On the other hand, dynamic pricing of awards can lead to very high prices during peak times. Two reasons airlines are still using award charts could be because it is simple and predictable for customers.

Breakage management (expiration of miles & deferred revenue) and the accounting standard IFRIC 13 are affecting the revenue and valuation of FFPs. Strategies related to breakage management have an impact on current and future revenue streams. The trade-off between short term expiry policy, which means revenue without redemption cost, and long term expiry policy, encouraging customer engagement in the program, are two objectives that need to be considered. Breakage management is functioning as a valve for miles in circulation which can lead to devaluation if “too many” miles are issued and there is limited redemption possibility or the cost of redemption is high. Constantly devaluing miles is a problem if it negatively affects customers which can trigger regulations. FFPs need to find an expiry policy that balances the trade-offs between a short term and a long term expiry policy.

A conversion multiverse was brought up as a future possibility to optimize revenue by the respondent from Lufthansa Miles & More. A conversion multiverse gives you the ability to convert the miles from the FFP you are a member of to any other FFP's miles. This could improve loyalty since customers would only need to be members of one FFP. Although, it could be a drawback considering a lot of frequent flyers are members of several different FFPs and many of them would probably cancel most of their current memberships. Multi-branded credit cards is a similar idea for optimizing revenue, also explained by the respondent. The difference is that only a few airlines are collaborating and that the collaboration only covers the credit cards. Although a conversion multiverse is broader,

multi-branded credit cards are easier to implement due to there being fewer actors involved and that it is only incorporating credit cards and not entire miles systems.

The accrual method of miles is important to consider when trying to optimize revenue. Initially, FFPs calculated accrued miles purely on distance flown regardless of the ticket price. Customers were incentivized to book longer and cheaper flights to maximize accrued miles. The shift towards a revenue-based system incentivizes higher spending by rewarding those who purchase more expensive tickets. Consequently, airlines can better target and reward their most profitable customers, thereby encouraging increased expenditure on higher fare types. In addition, it satisfies customer loyalty among higher-spending passengers which aligns with optimizing long-term revenue. FFPs that have a mileage-based accrual method but also let the fare type affect the amount of miles accrued still get the benefits of a revenue-based accrual method to an extent.

5.3 New potential revenue streams

Frequent flyers are those who mainly benefit from prepaid flights. The use of prepaid flights has close connections to the FFPs. For example, it is required to be a member in their loyalty program, you can achieve a certain member status and you earn miles on prepaid flights. For Aeroplan members, they earn more miles with prepaid flights and credits for upgrades. Prepaid flights are an example of block pricing where consumer surplus is the additional revenue that can be generated, compared to the customer only purchasing the number of tickets needed during a year. The use of blackout dates can be beneficial for airlines to reduce the opportunity cost of selling the tickets regularly, which can increase revenue for airlines. On the other hand, it might decrease customers' incentives to buy them. The critics say that the prepaid flights can lead to gambling, impose administrative costs and are not profitable in practice.

Flight subscription is also a model that is suitable for frequent flyers. Customers that have a flight subscription are immune for offers or promotions from the airline or competitors. In this regard, the subscription can be viewed as a small separate loyalty program. Likewise the prepaid flights, flight subscriptions have close connection with FFPs. For example, customers earn points when paying the recurring fee, can achieve a higher level of membership and

customers with high member status get cabin upgrades. Frontier offers their Elite status members 10 000 qualifying points and free bags & seat selection. Wizz Air is an airline who has designed their loyalty program as subscription based where customers enjoy discounts on flights and get benefits. In addition, the airline offers flight subscriptions. The subscription business model provides a constant predictable flow of revenue. If customers fly more than intended as a consequence of the subscription, then it results in an increase of prices for other customers which would increase revenue. It could also mitigate seasonality which could increase demand and hence prices during off peak seasons. A potential drawback of this model is that environmentally conscious people can view this as an unsustainable initiative for flying more.

Another new potential revenue stream that our respondent mentioned is from a fee the customer can pay to enable their digital card to earn miles on each transaction. So far, this has only been implemented in Poland. This could be a solution to the capped interchange fee in Europe. If more banks are willing to implement this, then it will create revenue, as a complement to the co-branded credit cards.

6. Conclusions

The purpose of this thesis was to examine and enhance the knowledge of revenue streams generated by airlines' FFPs, suggest optimization potential, and identify new potential revenue streams. The topic of FFP's revenue streams is important since FFPs are a complex and vital part of many airlines. They are relevant for society, since they involve many stakeholders such as banks and partners. In addition, they are present in consumers' everyday life. This thesis focus on revenue streams is complementing other thesis with solely focus on the marketing perspective of FFPs. Marketing is a large part of FFPs but an additional important aspect is the understanding of the mechanics behind the actual revenue generating capabilities of FFPs. Further, this thesis is conducted with a qualitative and inductive approach. The focus has been on analyzing reports, literature review and interviews. Due to only one respondent contributing to the thesis, most of the result is based on numerous sources rather than focusing on answers from respondents. The intention was to cover many different airlines, however, the materials available have mostly covered FFPs from the U.S. and Europe, which has been reflected in the result.

There are multiple sources of revenue streams that are substantial for frequent flyer programs. The main ones are from fees related to co-branded credit cards, sales of miles to banks and directly to customers, and through partnerships. Regarding optimization of revenue streams from FFPs, data monetization, dynamic pricing of awards, expiry policy of miles & breakage management, the accrual method of miles, conversion multiversion and multi-branded credit cards, are areas that can optimize the revenue streams. New potential revenue streams for FFPs could be prepaid flights, flight subscription and the possibility to earn FFP miles with your digital card. Regarding flight subscription, there are two aspects. One aspect is that it prevents customers from flying with other airlines during the subscription period and creates a new constant flow of revenue for airlines. The other aspect is that the loyalty program itself could be subscription based such as the Wizz Air Discount club.

The result helps formulate and extend the theoretical framework. The theories are not only impacting the topic of revenue for FFPs but they are also interconnected to each other. For example revenue management is a theory that permeates this thesis. Revenue management is connected and impacted by the theories of dynamic pricing and data monetization. The result

shows that these three theories are closely related and are crucial for the thesis. Miles and co-branded credit cards are central for FFPs, hence the theory for co-branded credit cards and the accounting standard IFRIC 13 are necessary to include, in order to understand the result. Block pricing and dynamic pricing does also impact revenue management theory. These two pricing theories are central for understanding their potential contribution to new revenue streams that the result concerned.

For future research, if this study were conducted again with the same methodology, more respondents would be needed to enrich the result. Answers from respondents are first hand sources and together with material from reports and literature review, the report would be more nuanced. An alternative would be to conduct a quantitative study based on the findings in this qualitative study. It would be relevant to have empirical data quantifying the impact from for example the proposed actions for optimization of revenue streams. However, with regard to the nature of this topic where financial data of revenue streams from FFPs are considered proprietary information and trade secret, the general public may never know the exact numbers. Further, the geographical spread in this thesis is limited. Incorporating information covering more parts of the world would provide better conditions for making a generalization of FFPs revenue streams. An analysis of how different sizes of airlines influence the construction of FFPs and its impact on revenue streams could further contribute to a more accurate generalization.

References

Air Canada (n.d.). *Flight Pass*.

<https://www.aircanada.com/ca/en/aco/home/book/flight-passes.html#/?affc=162eed9e-420e-4b90-982d-fdfe3dc26ed8> (retrieved 2024-05-01)

Alaska Air Group (2023). *Annual Report*.

<https://investor.alaskaair.com/static-files/b41478eb-84a2-4a6d-abad-1ed2e12eb067> (retrieved 2024-04-14)

Alaska Airlines (n.d.). *Alaska® Flight Pass*.

<https://flightpass.alaskaair.com/asa/subscriptions> (retrieved 2024-05-01)

American (n.d.). *AAdvantage FAQ*.

<https://www.aa.com/web/i18n/aadvantage-program/answers-support/aadvantage-faq.html> (retrieved 2024-05-31)

Baye, M. (2010). *Chapter 11 Pricing Strategies for Firms with Market Power*. McGraw-Hill.

https://home.ubalt.edu/NTSBSAWH/ECON305_PPT/Chap011.pdf. (Retrieved from University of Baltimore on 2024-05-05)

Bondarenko, V. (2023). *Top Airline Rolling Out a Subscription Budget Fliers Will Love*. TheStreet.

<https://www.thestreet.com/travel/wizz-air-new-flight-subscription> (retrieved 2024-04-20)

BRA (n.d.). *Produktregler*.

<https://www.flygbra.se/foretag/produktregler> (retrieved 2024-04-14)

British Airways (n.d.). *Link your accounts and Combine your Avios balances*.

<https://exchange.shopping.ba.com/partner/qatar> (retrieved 2024-05-09)

British Airways (n.d.). *Start your Avios subscription*.

<https://pgt.shopping.ba.com/subscription> (retrieved 2024-05-15)

Cao, B. (2012). *On the Teaching of Price Discrimination in Block Pricing: A Refinement*. Journal of Industrial Organization Education.

https://www.researchgate.net/publication/270267833_On_the_Teaching_of_Price_Discrimination_in_Block_Pricing_A_Refinement (retrieved 2024-05-09)

Caravelo (n.d.). *Prepaid flights and subscriptions - what's the difference?*

<https://www.caravelo.com/articles-prepaid-vs-subscriptions/> (retrieved 2024-04-15)

- De Boer, E. & V. Gudmundsson, S. (2012). *30 years of frequent flyer programs*. Elsevier.
https://www.researchgate.net/publication/257430933_30_years_of_frequent_flyer_programs (retrieved 2024-04-15)
- Delta (n.d.). *How to earn miles*. <https://www.delta.com/us/en/skymiles/how-to-earn-miles/overview> (retrieved 2024-05-19)
- DeNardi, J. (2017). *Airline Credit Cards Huge Source of Income for Carriers*. Business Traveller.
<https://www.businesstraveller.com/businesstravel/2017/04/03/airline-credit-cards-hugesource-income-carriers/> (retrieved 2024-04-15)
- Dunn, T. J. (2020). *A Guide to Airline Flight Passes Around the World*. Prince of Travel.
<https://princeoftravel.com/uncategorized/a-guide-to-airline-flight-passes-around-the-world/> (retrieved: 2024-05-11)
- Egan, J. (2024). *What Are Interchange Fees?*. Investopedia.
<https://www.investopedia.com/terms/i/interchange-rate.asp#toc-what-are-interchange-fees> (retrieved: 2024-05-09)
- EverEdge (2022). *Data Monetization: Are You Sitting on a Pile of Money? (part one)*.
<https://www.everedgeglobal.com/news/data-monetization-are-you-sitting-on-a-pile-of-money> (retrieved: 2024-05-12)
- Eyal, N. (2022). *3 Reasons Subscription Services Fail*. Harvard Business Review.
<https://hbr.org/2022/10/3-reasons-subscription-services-fail> (retrieved 2024-04-28)
- Finlay, M. (2023). *26 Years Ago: How Was The Star Alliance Founded?* Simple Flying.
<https://simpleflying.com/star-alliance-foundation-anniversary/> (retrieved 2024-04-20)
- Frontier (n.d.). *GOWILD! ALL-YOU-CAN-FLY PASS™*.
<https://www.flyfrontier.com/deals/gowild-pass/> (retrieved 2024-04-28)
- Garcia, M. (2023). *Senators Probe How Airlines Make Money From Frequent Flyer Programs*. Forbes.
<https://www.forbes.com/sites/marisagarcia/2023/11/01/senators-probe-how-airlines-make-money-from-frequent-flyer-programs/> (retrieved 2024-04-30)
- Garcia-Saavedra, J. P. (2017). *The Impacts of Airline Loyalty Programs on Revenue Management Optimization*. Massachusetts Institute of Technology.
<https://dspace.mit.edu/handle/1721.1/113516> (retrieved 2024-05-05)

Genter, Jt. & Nickel-D'Andrea, J. (2024). *Is Buying Frequent Flyer Miles Ever A Good Deal?*. Forbes. <https://www.forbes.com/advisor/credit-cards/is-buying-frequent-flyer-miles-ever-a-good-deal/> (retrieved 2024-05-18)

Goldfine, A. (2024). *The Financialization of Frequent Flyer Miles: Calling for Consumer Protection*. Vanderbilt Law Review. <https://www.scopus.com/record/display.uri?eid=2-s2.0-85183975179&origin=resultslist&sort=plf-f&src=s&sid=4c0c82ec1c00135fbae924a081fde36a&sot=b&sdt=b&s=%28TITLE-ABS-KEY%28airline%29+AND+TITLE-ABS-KEY%28miles%29%29&sl=24&sessionSearchId=4c0c82ec1c00135fbae924a081fde36a&relpos=1>

Goldstein, M. (2024) *Will The Feds Step In To Preserve The Value Of Frequent Flyer Miles?*. Forbes. <https://www.forbes.com/sites/michaelgoldstein/2024/01/29/are-airline-frequent-flyer-programs-about-to-get-regulated/> (retrieved 2024-05-21)

Hayes, A. (2016). *Qantas' loyalty program revenues up, with airline flagging growth of Red Planet agency*. Mumbrella. <https://mumbrella.com.au/loyalty-revenues-up-amid-bumper-results-day-for-qantas-348521> (retrieved 2024-05-12)

IndusInd Bank (2023). *IndusInd Bank Launches Multi-Branded Credit Card in Partnership with Qatar Airways and British Airways*. <https://www.indusind.com/in/en/about-us/mediabrand/FY/2023-2024/August/IndusInd-Bank-Launches-Multi-Branded-Credit-Card-in-Partnership-with-Qatar-Airways-and-British-Airways.html> (retrieved 2024-05-09)

Johnson, M. (2022). *7 benefits of the subscription model*. Recharge. <https://getrecharge.com/blog/7-benefits-of-the-subscription-model/> (retrieved 2024-04-28)

Joseph, L. (2017). *Airlines' frequent flyer programs are so complicated only half of members understand them*. CNBC. <https://www.cnbc.com/2017/11/15/airlines-frequent-flier-programs-are-too-complicated-to-understand.html> (retrieved 2024-04-29)

Knorr, A. (2017). *Big Data, Customer Relationship and Revenue Management in the Airline Industry: What Future Role for Frequent Flyer Programs?*. GMP Press and Printing. https://sibresearch.org/uploads/3/4/0/9/34097180/riber_8-2_04_s18-022_38-51.pdf (Retrieved 2024-05-04)

Ledsom, A. (2023). *Will You Pay A Monthly Subscription For Your Next Flight?* Forbes. <https://www.forbes.com/sites/alexledsom/2023/02/25/will-you-pay-a-monthly-subscription-for-your-next-flight/> (retrieved 2024-04-29)

Lindström, C. V. J, Vishkaei, B. M. & De Giovanni, P. (2023). *Subscription-based business models in the context of tech firms: theory and applications*. International Journal of Industrial Engineering and Operations Management.

https://www.researchgate.net/publication/373514129_Subscription-based_business_models_in_the_context_of_tech_firms_theory_and_applications (retrieved 2024-05-05)

Leuthesser, L. Kohli, C. & Suri, R. (2002). *2+2=5? A framework for using co-branding to leverage a brand*. Journal of Brand Management.

https://www.researchgate.net/publication/233528206_225_A_framework_for_using_co-branding_to_leverage_a_brand (retrieved 2024-05-07)

Lufthansa (n.d.). *Miles & More - The Lufthansa frequent flyer and awards programme*.

<https://www.lufthansa.com/tr/en/miles-and-more> (retrieved 2024-05-13)

McInnis, K. (2024) *These 6 airlines offer 'all you can fly' flight passes and packages — here's what you need to know*. CNN.

<https://edition.cnn.com/cnn-underscored/travel/best-airlines-offering-flight-passes-packages> (retrieved 2024-04-30)

MileagePlus (n.d.-a). *Sign in for free to start earning miles today*.

<https://shopping.mileageplus.com/> (retrieved 2024-05-17)

MileagePlus (n.d.-b). *All stores*.

https://shopping.mileageplus.com/b_.htm (retrieved 2024-05-17)

Miles & More (n.d.-a). *How long are my Miles & More award miles valid?*

<https://www.miles-and-more.com/row/en/general-information/help-and-contact/help/mileage-expiry.html> (retrieved 2024-05-09)

Miles & More (n.d.-b). *Our miles and points at a glance*.

<https://www.miles-and-more.com/row/en/program/at-a-glance/mileage-types.html#award%20miles> (retrieved 2024-05-13)

Miles & More (2024, March 5). *Simple and transparent - the new status programme*. Youtube.

<https://www.youtube.com/watch?v=99FoazumaSs&t=17s> (retrieved 2024-05-13)

Miles & More (2024). *Use award miles for upgrades with Singapore Airlines*.

https://www.miles-and-more.com/row/en/spend/singapore-airlines/partner/airlines/singapore-airlines/spend/basic-offer/singapore-airlines-upgrade_spend_basic_01.html (retrieved 2024-05-13)

Nadal Reales, C. & F. O'Connell, J. (2017). *An examination of the revenue generating capability of co-branded cards associated with Frequent Flyer Programmes*. Elsevier.

https://www.sciencedirect.com/science/article/pii/S0969699717301977?fr=RR-2&ref=pdf_download&rr=8732bb9fccd77063 (retrieved 2024-04-17)

Newhouse, D. (2017). *2017 ancillary airline revenue reaches \$82.2bn—says report*. TrBusiness.

<https://www.trbusiness.com/regional-news/international/report-forecasts-2017-ancillary-revenue-rise-of-22-to-82-2bn/132786> (retrieved 2024-05-15)

Ofulue, J. & Benyoucef, M. (2022). *Data monetization: insights from a technology-enabled literature review and research agenda*. Management Review Quarterly. <https://doi.org/10.1007/s11301-022-00309-1> (retrieved 2024-05-01)

Paddle (n.d.). *Revenue management playbook: Definition, strategies, and software*.

<https://www.paddle.com/resources/revenue-management> (retrieved 2024-05-05)

Patel, R. & Davidsson, B. (2021). *Forskningsmetodikens grunder*. 5th edition, Studentlitteratur.

Pettinger, T. (2019). *Dynamic Pricing*. Economicshelp.

<https://www.economicshelp.org/blog/148008/economics/dynamic-pricing/> (retrieved 2024-05-01)

PRV (2023). *Co-branding*.

<https://www.prv.se/sv/kunskap-och-stod/vanliga-ord-och-begrepp/co-branding/> (retrieved 2024-04-25)

PWC (2007). *IFRIC 13 - Accounting for customer loyalty programmes*.

https://www.pwc.com/gx/en/retail-consumer/pdf/ifric_13.pdf

PYMNTS (2020). *US Airlines Use Loyalty Programs As Debt Collateral*.

<https://www.pymnts.com/news/loyalty-and-rewards-news/2020/united-states-airlines-use-loyalty-programs-as-debt-collateral/> (retrieved 2024-04-10)

Qantas (n.d.). *Subsidiary companies*.

<https://www.qantas.com/de/en/about-us/our-company/subsidiary-companies.html> (retrieved 2024-05-12)

Qatar Airways (n.d.-a). *Expiring Avios*.

https://www.qatarairways.com/en-ua/Privilege-Club/Expiring_Avios.html (retrieved 2024-05-31)

Qatar Airways (n.d.-b) *Privilege club*. <https://www.qatarairways.com/en/Privilege-Club.html> (retrieved 2024-05-19)

Respondent, Product Manager Payment Cards International, Miles & More GmbH (2024). Interview 26 April.

Rosen, E. (2021). *40 years of miles: The history of frequent flyer programs*. Thepointsguy.
<https://thepointsguy.com/guide/evolution-frequent-flyer-programs/> (retrieved 2024-04-10)

Ross-Smith, M. (2022). *Leadership Interview: Qatar Airways & Mastercard on Monetizing Data*. Traveldatadaily.
<https://www.traveldatadaily.com/leadership-interview-qatar-airways-mastercard-on-monetizing-data/> (retrieved 2024-05-15)

Ross-Smith, M. (2024a). *Monetizing Data: How Much is Airline Loyalty Data Worth?* Traveldatadaily.
<https://www.traveldatadaily.com/monetizing-data-how-much-is-airline-loyalty-data-worth/> (retrieved 2024-04-22)

Ross-Smith, M. (n.d.). *Simple Actions To Increase Loyalty Revenue*. Traveldatadaily.
<https://www.traveldatadaily.com/actions-increase-loyalty-revenue/> (retrieved 2024-05-19)

Ross-Smith, M. (2024b). *Using data intelligence to understand your customers*. Traveldatadaily.
<https://www.traveldatadaily.com/data-intelligence-understand-your-customers/>
(retrieved 2024-04-24)

Rothstein, C. (2019). *My father had a lifelong ticket to fly anywhere. Then they took it away*. The Guardian.
<https://www.theguardian.com/lifeandstyle/2019/sep/19/american-airlines-airpass-golden-ticket> (retrieved 2024-04-18)

SAS (n.d.-a). *Typer av Eurobonus-poäng*. <https://www.sas.se/eurobonus/poang/> (retrieved 2024-05-31)

SAS (n.d.-b). *Medlemsnivåer*. <https://www.sas.se/eurobonus/medlemsnivaer/> (retrieved 2024-05-19)

Saxon, S. (2018). *Miles ahead: How to improve airline customer-loyalty programs*. McKinsey & Company.
<https://www.mckinsey.com/industries/travel-logistics-and-infrastructure/our-insights/miles-ahead-how-to-improve-airline-customer-loyalty-programs> (retrieved 2024-05-04)

Singapore Airlines (n.d.). *Flight Pass*.
<https://singaporeair.optiontown.com/> (retrieved 2024-05-12)

Singh, J. (2020). *Bamboo Airways To Sell Unlimited Flight Passes*. Simple Flying.
<https://simpleflying.com/bamboo-airways-unlimited/> (retrieved 2024-05-11)

Skytrax (2023). *The World's Best Airlines of 2023*.

<https://www.worldairlineawards.com/> (retrieved 2024-04-17)

Smithson, B. (2023-a). *What is dynamic award pricing?* Thepointsguy.

<https://thepointsguy.com/guide/what-is-dynamic-award-pricing/> (retrieved 2024-05-04)

Smithson, B. (2023-b). *Dynamic airline award pricing is out of control - here are some ways to beat it*.

Thepointsguy. <https://thepointsguy.com/guide/beat-dynamic-airline-award-pricing/> (retrieved 2024-05-05)

Sorensen, J. (2017). *Cash Is King: Revenue Now Rules Frequent Flyer Program Accrual*. IdeaWorksCompany.

<https://ideaworkscompany.com/wp-content/uploads/2020/04/Revenue-Based-FFPs-Now-Rule.pdf>

Spirit Airlines (2023). *Annual report 2023*.

https://s24.q4cdn.com/507316502/files/doc_financials/2023/q4/save-2023-12-31-10k.pdf

Star Alliance (2022). *The History of Star Alliance*.

<https://www.staralliance.com/en/history> (retrieved 2024-04-16)

Statista (2017). *Projected share of ancillary revenue generated by airlines outside the U.S. * in 2017 by type*.

<https://www.statista.com/statistics/572875/airlines-ancillary-revenue-generated-outside-us/> (retrieved 2024-04-18)

Statista (2023). *Most valuable airline loyalty programs worldwide in 2023*.

<https://www.statista.com/statistics/978268/airline-loyalty-programs-valuation/> (retrieved 2024-04-17)

Tarver, E. (2024). *Subscription Business Model Defined, How It Works, Examples*. Investopedia.

<https://www.investopedia.com/ask/answers/042715/how-do-subscription-business-models-work.asp> (retrieved 2024-04-29)

Turkish Airlines (n.d.). *Purchasing Miles*.

<https://www.turkishairlines.com/en-ar/miles-and-smiles/program-content/purchasing-miles/> (retrieved 2024-05-15)

United (n.d.-a). *United MileagePlus Program*. <https://www.united.com/en/us/fly/mileageplus.html> (retrieved

2024-05-31)

United (n.d.-b). *How to earn MileagePlus miles*.

<https://www.united.com/en/us/fly/mileageplus/earn-miles.html#definitions> (retrieved 2024-05-19)

United MileagePlus (2020). *MileagePlus Investor Presentation*.

<https://ir.united.com/static-files/1c0f0c79-23ca-4fd2-80c1-cf975348bab9> (retrieved 2024-05-19)

Van-Ryzin, G. J. & Talluri, K. T. (2005). *An Introduction to Revenue Management*. Informs.

<https://business.columbia.edu/sites/default/files-efs/pubfiles/3958/Tutorials2005-chapter06.pdf> (retrieved 2024-05-05)

Wizz Air (2024a). *WIZZ DISCOUNT CLUB*.

<https://wizzair.com/en-gb/information-and-services/memberships/wizz-discount-club> (retrieved 2024-05-09)

Wizz Air (2024b). *ITALY DISCOUNT CLUB*.

<https://wizzair.com/en-gb/information-and-services/memberships/italy-discount-club> (retrieved 2024-05-09)

Wizz Air (2024c). *WIZZ MultiPass*.

<https://wizzair.com/en-gb/information-and-services/memberships/wizz-multipass> (retrieved 2024-05-09)

Yeon Chun, S. & de Boer, E. (2021). *How Loyalty Programs Are Saving Airlines*. Harvard Business Review.

<https://hbr.org/2021/04/how-loyalty-programs-are-saving-airlines> (retrieved 2024-05-21)

Appendix

Interview questions for Miles & More

The questions in bold text were sent to the respondent. The other questions are follow-up questions applicable depending on the situation.

Introduction

1. **How important is your frequent flyer program for Lufthansa Group's revenue/profitability?**
2. **What proportion of Lufthansa Group's revenue comes from your frequent flyer program?**

Core questions

3. **Where do the revenue streams for Miles & More come from? (if possible estimate the amount or proportion each area contributes to).**
4. **Do you regulate your revenue through issuance of points? How do you regulate the issuance of points in order to optimize the revenue?**
5. Why are there status miles and award miles instead of only having one type of mile for both?
6. **How do you record deferred revenue from points? How have you determined that the expiry date should be 3 years?**
7. Can you imagine offering travel passes as a way to increase revenue for Miles & More? - subscription, prepaid flights
8. What is the purpose of the Mindfulflyer? Is it to generate direct revenue?
9. **In what ways do you increase revenue through co-branded credit cards?**
10. What are some potential risks or challenges associated with relying on co-branded credit cards as a significant revenue stream for the airline loyalty program?
11. What strategies do airlines employ to encourage cardholders to spend more on co-branded credit cards, thereby increasing revenue for the loyalty program?
12. How does the acquisition of new cardholders impact the financial performance of an airline's loyalty program?
13. **How does it affect you financially by being part of Star Alliance?**

14. How important are partners e.g. hotel chains etc. for your frequent flyer program?
- 15. How do you choose partners for Miles & More and how are you earning revenue (through revenue according to a predetermined contract, revenue proportional to sales)**
16. Do Lufthansa Express rail and the cooperation with Deutsche Bahn (DB) generate direct revenue?
- 17. Why is Miles & More a separate subsidiary?**
18. Why did the new program change from long term loyalty to lifetime and why are the miles based on travel class and intercontinental/continental flights?
19. Do you use your data from the loyalty program as a way to gain revenue, how much impact does it have? (sell, or use information)

Final question

- 20. What potential improvements do you think would increase the revenue streams for Miles & More?**