



iLoyal

iLoyal

THE NEW GENERATION LOYALTY MANAGEMENT SYSTEM FROM IBS

WHITEPAPER



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1. Introduction

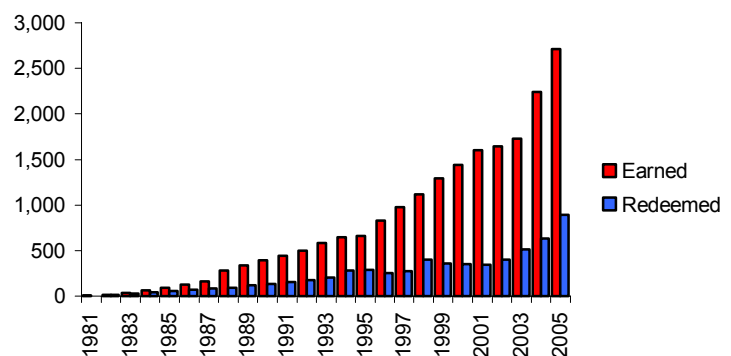
IBS has commenced development of a new generation airline loyalty system, iLoyal. We believe the industry badly needs a modern, fully functional yet low-cost solution to address the many challenges in loyalty, and to fully integrate loyalty management, customer feedback and campaign management into a comprehensive CRM framework.

The airline loyalty industry is always changing, and, now more than ever, under intense competitive pressure. This paper explains our view of the industry and the issues facing loyalty managers in airlines (and their affiliated loyalty organisations). We comment on the shortcomings in existing systems, whether they are systems already installed as “legacy”, or applications that are on the market. Finally, we describe the key characteristics of iLoyal which differentiate it, and outline the solution rollout plan.

2. The Role of Loyalty and CRM

Airline loyalty schemes are at a turning point. Much has been written about the ubiquity of schemes and their failure to truly influence customer behaviour. The balance of outstanding points continues to grow, with travellers frustrated at the lack of redemption opportunities and airlines struggling with the financial liability. With falling fares and reduced margins, many are questioning whether loyalty schemes are still affordable, or whether they still hold appeal to customers when off-peak, leisure fares are so cheap.

They do. The number of airlines offering loyalty schemes continues to climb (there are now over 60). The number of customers participating in schemes still grows – an astonishing 347 million memberships, according to WebFlyer. The number of partners joining these schemes is expanding – in some markets, airlines are earning revenue on real estate deals, dry cleaning, and life insurance. Even new, low-cost carriers with innovative business models are frequently introducing loyalty programmes, albeit with a few twists to the traditional approach. As shown in the chart on the right, points activity is showing no signs of slowing down.



Number of Airline Miles Earned and Redeemed Worldwide, 1981-2005 (Source: WebFlyer.com)

Loyalty schemes continue to play a vital role in enabling airlines to attract, develop and retain high-value, repeat customers. They are the foundation for collecting customer profiles and contact information, thereby providing the foundation on which a deeper relationship can be

built. They provide the incentive, whether through rewards or recognition, for customers to deepen their loyalty to the host airline and its ecosystem of partners. They provide an attractive revenue source.

As the marketing firm Colloquy stated in a July 2003 paper, "Loyalty Trends for the 21st Century", *Loyalty works. It's as simple as that. The tactics of customer reward and recognition have proven their value across all industries and around the globe, and marketers faced with shrinking market share and the commoditization of their core products and services have turned to the practice time and again.*

The loyalty landscape today comprises a wide variety of schemes, varying in age from 25 years to 25 days. All of them, though, face a common set of challenges.

3. The Pressure is Rising

Airlines face increasing competitive pressure from new entrants and falling protectionist barriers, and substantially rising costs, particularly fuel. Loyalty managers, and their IT staff, are being forced to do more with less:

- **Be Responsive:** A constant requirement is for greater flexibility. Loyalty schemes need to be responsive to market forces: the ability to make changes to programme structure and rules, to add new partners, and to rapidly launch targeted promotions is vital. Yet many airlines are too dependent on their IT staff to make such changes. With limited IT skills and resources, many such changes are just too expensive or take too long.
- **Increase Redemption:** The lack of redemption availability is a thorn in the side of customers and the airlines alike. With load factors at historic highs in many regions of the world, seats are simply not available when customers want to travel. Airlines are seeking much greater flexibility in pricing rewards, as well as a substantial increase the range of rewards offered. Again, current systems are a limitation in this regard.
- **Increase Partnerships:** The number of partners is increasing everywhere. While this drives revenue to the scheme, it also creates an administrative burden. Setting up a new partner, and accommodating new data feeds, must be made simpler. More flexible pricing schemes must be catered for, and partner communications must be streamlined and automated. It should be easier to conduct joint and multi-party promotions.
- **Support Seamless CRM:** Loyalty schemes are no longer viewed as a standalone offering: they are increasingly seen as a key part of a larger Customer Relationship Management strategy. The operation of the loyalty programme must be closely tied with customer segmentation, analytics and target marketing, enabling greater personalisation of communications and

dialogue with loyalty members. Many customer-facing business processes, including complaints handling, departure control and cabin service, are explicitly differentiated for loyalty members, but airlines seek to differentiate their customer relationships, and service, based on a truer measure of customer value than tier status. To meet rising customer expectations of seamless, personalised service, customer information must be easily accessed at all touch points. Loyalty systems can no longer function as silos.

- **Scale:** With the growth in membership, many existing systems have exceeded their design limits. Loyalty systems must support intensive on-line and batch processing, simultaneously supporting high volumes, high performance and high availability. For some airlines, these systems are such a key platform for both customer service and revenue generation that they are identified as 'critical', requiring resilient back-up and disaster recovery.
- **Provide Insight:** Increasingly, decision making must be supported by hard facts and timely insights. Partner negotiations, rewards pricing, targeting of promotions, and programme rule changes are all processes which can benefit greatly from quality management information. Standard daily and monthly reports are no longer sufficient: loyalty managers must be able to dissect the data, perform what-if analysis, discover new trends and patterns, and combine loyalty data with other customer information to truly understand the behaviour of different customer segments.
- **Contain Costs:** Costs must be attacked in all areas. Most programmes already enable, and encourage, customer self-service over the web, but more can be done to expand the range of services provided and to increase the number of customers using this channel. Partners, too, could do more online, given appropriate portals into the host's systems. Efficiencies can be gained in loyalty service centres through improved integration with telephony, email and other channels, and streamlined applications, which reduce both processing time and training time. Back-office costs can be rolled back through greater automation of retro-claims and disputes processing. Marketing costs can be reduced through better targeting of incentives, and optimal selection of channels. Leakage due to fraud must be eliminated. System and support costs must be kept to a minimum through use of modern technologies in hardware, such as blade servers, and software, such as web-based Service Oriented Architectures.

Loyalty managers will naturally look to technology to address many of these issues. Yet the majority of loyalty systems installed today were designed and built decades ago. Even some of the more popular commercially available packages have their origins in the 1980s. As a loyalty manager today, you are almost certainly frustrated by a range of systems limitations:

- **Lack of Flexibility:** Far too many changes require the involvement of IT. Changes to program rules; setting up new partners; defining promotions; introducing new redemption products; adjusting staff authorisation levels;

requesting a new report... does every change have to be performed by a programmer?

- **Poor Productivity:** Is your system limiting your staff's productivity? Most loyalty systems provide little or no integration with other key service-centre applications such as reservations, email, and case management. If your staff are frequently switching between applications and re-entering customer details, your system is impacting both staff productivity and customer service, and you are probably spending more time training your staff than you need to. Many systems fail to automate even basic tasks such as validating retro-claims because they don't provide the necessary access to other systems.
- **High Costs:** Many airlines still operate legacy loyalty systems on expensive mainframe platforms with teams of highly specialised IT staffs trained in the cryptic programming languages of the 1980s – or earlier. With cost pressures and skills shortages as they are today, this is simply not sustainable. Unfortunately, today's vendors of off-the-shelf applications offer little relief – expensive license fees are compounded by annual support charges and high costs for implementation and customisation.
- **Poor CRM Support:** Current systems are difficult to link to customer touch points. They provide little insight into customer value, beyond the simple frequency/tier measures. They do not support, or easily share information with, key customer management processes such as complaints handling, or database marketing. If your CRM strategy calls for seamless access to customer information across all key touch points and processes, and treatment of customers in a more personalised, differentiated way, it is likely that your current loyalty system falls a long way short.
- **Poor Analytical Capability:** Beyond standard daily and monthly reports, current loyalty systems provide almost no support for management information and analytics. Loyalty operators who have required even a basic level of analysis and marketing segmentation have had to design and build their own data marts, or link their loyalty systems to enterprise data warehouses. Combining loyalty data with other types of customer data, such as reservations, tickets and customer service, is immensely valuable, but extracting the data from today's loyalty systems can be painful.

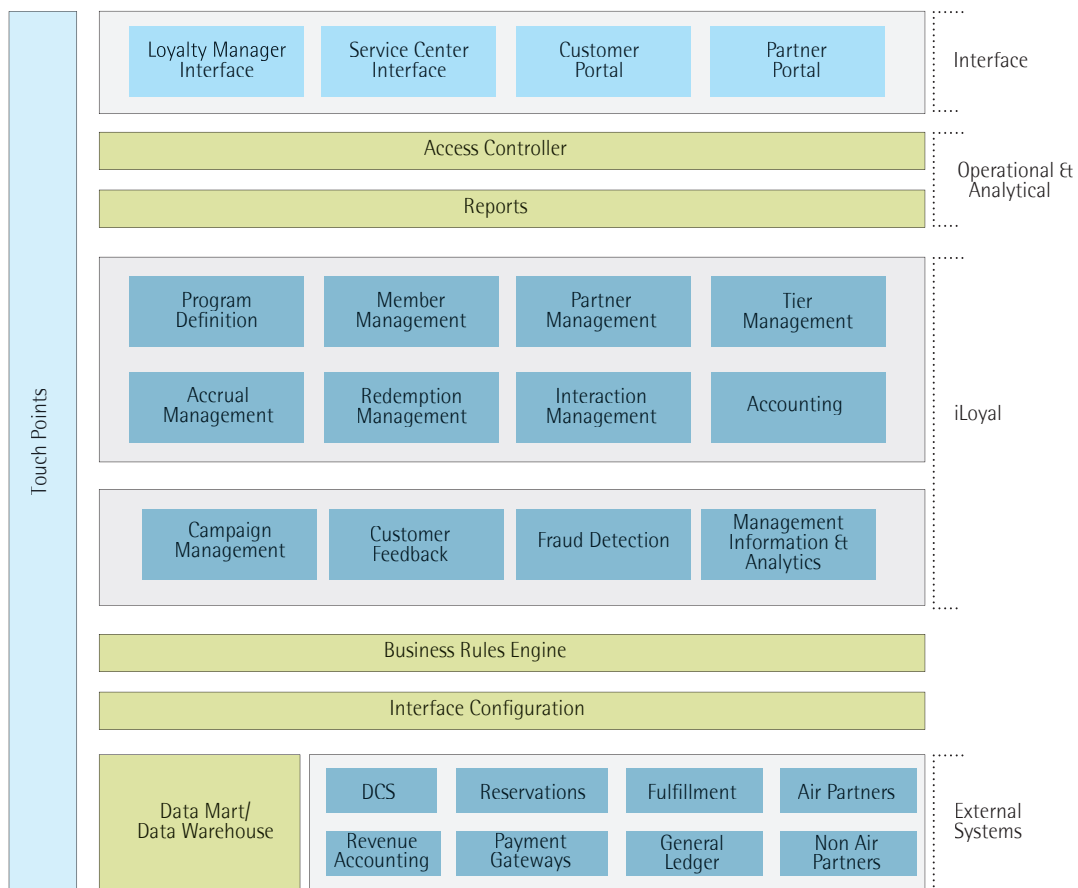
4. iLoyal

Enter iLoyal, from IBS Software Services.

iLoyal has been designed from the ground up to address the challenges of airline loyalty and CRM in the 21st century. iLoyal will support loyalty schemes which are dynamic, responsive, high-volume, and cost-efficient. iLoyal is designed to support all types of airlines and loyalty programs, from the largest and most-established to the newest and most innovative. iLoyal not only covers loyalty administration, but also fully integrates customer feedback management, campaign management, and management information and analytics. It is specifically designed for the airline industry, using familiar terminology and supporting airline-specific business processes.

It is our goal to establish iLoyal as the leading software platform for airline loyalty schemes. Some of the key features that differentiate iLoyal are described below.

Functional Architecture



- **Flexible and Rule-based:** All key business processes are defined in iLoyal using a simple, intuitive yet highly powerful rules engine. A wide variety of programme and membership types can be set up, including tiered or non-tiered frequency programmes and subscription-based programmes (such as lounge membership) supporting individual, family and corporate memberships. Users – not programmers – define the customer attributes (demographics, preferences, interests etc.) to be captured. An unlimited range of currencies and point types (such as Miles, Qualifying/Non-Qualifying Points, Status Credits, Lifetime Miles, etc.) can be established. Tier qualification rules can be based on any combination of currencies and are completely flexible with regard to membership period, balance resets and other variables. Accrual rules, bonusing rules and promotions are established using a rule-definition “wizard” which presents the rules in plain English, thereby avoiding expensive mistakes. All membership fees service charges and applicable taxes are configurable.
- **Powerful Redemption Pricing:** The rule-based approach is also applied to pricing of redemption products, enabling prices to be established based on any relevant attribute. For example, in addition to conventional flight reward pricing based on cabin and zone, the airline could also price the reward based on the actual cost or the best-available fare. Furthermore, pricing could be differentiated based on tier of membership, country of residence or other customer variables. Redemption promotions can be easily established and targeted to specific products and customer groups, thereby avoiding dilution.
- **Designed for Productivity:** Any set of services, including enrolments, statements, profile updates, retro requests and redemptions, can be exposed for customer self-service on your web site, or through a range of mobile devices. Similarly, partners can directly access the system over the web to view reports, purchase point blocks and track their usage, and handle disputes. The service centre agent’s interface is designed for high throughput and maximum usability, with telephony integration, keyboard shortcuts, typeahead, and other features to keep handling times to a minimum.
- **Integrated Customer Feedback Management:** Airlines must accept feedback from all customers, whether loyalty members or not, but the business process is closely tied to loyalty as:
 - Complaints handling is differentiated based on loyalty membership and tier
 - Loyalty programme credits are often used as a compensation tool, and
 - Loyalty service centre staff often deal with customer complaints, and must switch seamlessly between loyalty and customer feedback applications.

Off-the-shelf complaints handling tools, such as those from major CRM vendors, fail to address some of the key requirements of the airline industry - for example, a single complaint often involves multiple passengers and multiple issues. The Customer Feedback module of iLoyal is specifically designed for the airline industry and shares a common user interface, application platform and database with the loyalty system.

- **Integrated Campaign Management:** Again, airlines have different requirements for marketing campaigns than other industries and off-the-shelf campaign management tools are often a poor fit. iLoyal includes a fully-integrated campaign management engine which builds highly targeted selection lists based on all available data; enables the use of analytical models for customer valuation, segmentation and propensity; supports recurring and event-triggered campaigns with full automation; identifies “implied responses” by analysing customer activities, and reports on response rates and ROI; and, of course, integrates with the loyalty engine for seamless crediting of bonuses (airlines with existing campaign management tools may also take advantage of this interface).
- **Management Information and Analytics:** In addition to comprehensive operational reports, iLoyal offers a pre-built analytical datamart, which forms the basis for management reporting and analysis. Multi-dimensional data structures enable managers and analysts to slice and dice key performance indicators such as acquisition and activity rates; flight and non-flight accrual; redemptions; retro-claims and breakage. The data mart can be extended to include additional sources of data, such as revenue accounting; alternatively, those airlines wishing to populate loyalty and CRM data into existing enterprise data warehouses can take advantage of pre-built data extracts from iLoyal.
- **Built with new generation technology:** iLoyal is based on a scalable n-tier architecture; uses a services-oriented architecture (SOA); interfaces with other systems using a wide choice of middleware options; offers a choice of zero-footprint thin client deployment or full-function desktop for intensive users; and is open to different databases and web application servers to fit into the airline’s computing environment. It is fully internationalised and multi-lingual.
- **Low Cost:** iLoyal is developed and maintained at IBS’ head office in Trivandrum’s TechnoPark, one of India’s software development centres. Our low cost base allows us to charge significantly lower license and support fees than competing products, without compromising functionality or quality (IBS has achieved CMM Level 5 accreditation, the highest global standard for quality management in software engineering). In addition, iLoyal runs on commodity hardware and requires no additional licenses for development tools or languages; it offers a choice of underlying platforms (database and web application software), allowing you to take advantage of existing enterprise licence agreements or competitive bidding. As the iLoyal suite is designed exclusively

for airlines, expensive customisations are avoided. Being based on web services, iLoyal keeps integration costs low. Intuitive and consistent interfaces across all major CRM functions reduce training costs.

- **Choice of delivery models:** iLoyal may be licensed and installed on your own equipment; alternatively, it can be delivered on an ASP basis with periodic charges based on the level of membership in your program. This latter approach avoids the up-front investment and better aligns the cost of the solution with the realisation of benefits. In the event that the management of your program is outsourced, either now or in the future, IBS is ready to work with third-party service providers.

5. iLoyal Product Roadmap

iLoyal will be released to the market in two stages:

- iLoyal (July 2007): Comprehensive loyalty functionality
- iLoyal+ (early 2008): Addition of Customer Feedback Management, Campaign Management, and Management Information

6. Conclusion

To fully realise the potential of their loyalty schemes, airlines must be flexible, responsive, innovative, and cost-efficient. The loyalty scheme must be free to maximise the benefits for all key stakeholder groups: the host airline, members and partners. The current generation of loyalty systems fails to support these goals, due to limited scope, poor industry focus, obsolete technology platforms and high costs. As a new generation product, iLoyal is unique in its ability to meet airline requirements for a complete, powerful and flexible platform for loyalty and CRM.

7. About IBS

The IBS Group is a leading software solutions provider to the global Travel, Transportation and Logistics industry. IBS offers a range of software products that manage mission-critical operations of major airlines, airports, oil and gas companies, seaports, cruise lines and tour operators world-wide. In addition, IBS offers services that include software development, business & technology consulting, application maintenance, and onsite software development services.

With some of the world's leading corporations as clients, IBS has business operations in USA, Europe, Middle East and Asia Pacific, and Group companies operate out of the Alexandria (VA), Atlanta, London, Dubai and Sydney. SEI CMMI Level-5 assessed, ISO 9001:2000 and TickIT certified, IBS operates software production and competence development centres at Trivandrum



and Cochin, India. IBS has grown from an initial size of 60 staffers in 1997, to over a 1000 today.

Beginning operations in 1997, IBS has consistently provided new generation software solutions for airline operations, airport management, airline cargo management and logistics operations of oil and gas companies. Along the way, IBS acquired Avient Technologies (now Avient Solutions), from Honeywell International. Avient is currently IBS' global centre of excellence for flight operations and headquarters for IBS' operations in Europe. In March 2006, IBS acquired the assets of Discovery Travel Systems based in Virginia, USA, a provider of business-to-business travel technology systems to the cruise, tour, and vacation travel industry. This move marked IBS' entry into the leisure travel and tour industry.

The technology and business domain competence that we have acquired over the years has helped us take the initiative to develop two new generation products, aiRES and iCargo, both meant to replace the legacy systems currently in use in the air transportation industry. Now we are adding loyalty and CRM solutions to our portfolio.

For us at IBS, how we do something is as important as what we do. What makes us a cut above the rest is our excellence in IT process management and proficiency in managing multicultural sensitivities. Growing and adapting since inception, we have never veered from our mission to be the best, striving to live up to the credo of 'Inventing future' by providing transformational solutions that help clients redefine their businesses.

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