Ensuring Loyalty Programs are Commercially Fit for Purpose

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GET THE MOST OF BOTH WORLDS

MARCO POLO CLUB

CATHAY PACIFIC

Mega Event Worldwide, Long Beach, 2018
The **Challenge**

Membership

- Accruals have grown significantly
- Redemption structure has not changed in over 10 years
- Out of date online redemption solution
- Adverse NPS and CSAT impact
Load Factors
MORE MILES
MORE ACCESS
BETTER EXPERIENCES
<table>
<thead>
<tr>
<th>Pain Point</th>
<th>Key Questions To Answer</th>
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<tbody>
<tr>
<td>1 Displacement cost of redemptions</td>
<td>• How much are redemptions benefiting/costing the airline?</td>
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<td>• How much redemption availability should be offered?</td>
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<td>2 Customer value of redemptions</td>
<td>• What is a compelling net customer value for redemption after inclusion of all fees and surcharges?</td>
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<td>• What are appropriate levels of redemption accessibility?</td>
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<td>3 Managing product economics</td>
<td>• How should product economics be managed across cabins and routes given an increasing number of redemption options (upgrades, saver, standard, cash + miles, etc.)?</td>
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<td>4 Penetration/breakage</td>
<td>• Should the breakage of loyalty points be shared for a subset of members in return for increased penetration?</td>
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<td>5 Accrual model</td>
<td>• What accrual rates (and costs) make sense in order to appropriately value customers while not unduly burdening the airline?</td>
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Financial Contribution Models

Overview

- Airline and program focus on non-financial aspects
- Typically only distressed inventory is allocated
- Minimal focus on quantifying value flows or dividing value
- Underwhelming customer value proposition

“Free”/Margin-Cost

- Recognizes strategic interdependence between parties
- Maximizes value by:
  - Reducing payments
  - Increasing resources to invest in customers
  - Aligning payments and availability with economic conditions

Preferred Partner

Retail

- Airline and program pay retail market rates
- Value flows look similar to those with 3rd parties (e.g. airline customers, bank partners)
- Assurance of “fairness” from a market perspective, but also extracts margin at the expense of other partner
**Financial Contribution Model Value Flows**

**“Free”/Margin-Cost**
- Program receives inventory at marginal cost

**Preferred Partner**
- Program receives seat inventory at airline’s market-derived opportunity cost
- Airline purchases miles at program’s market-derived cost

**Retail**
- Program pays retail rates for all seat redemptions, including seats that would otherwise go empty
- Airline pays retail rate for purchase of miles

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**Cost of a reward seat**
- Program receives inventory at marginal cost

**Price of a mile**
- Airline receives miles for passengers free of charge
- Airline purchases miles at program’s market-derived cost

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New Accrual Scheme Guiding Principles

- Leverage the currency and program against regional competitors
- Be more generous
- Align with Cathay’s elite program by awarding miles based on zones
- Ensure vast majority of routes earn more miles than today
- Reward high value members
- Reward higher yielding RBDs
- Support high yield routes
Key Program Changes

1. Introducing Changes to Make Travel More Rewarding

Asia Miles is committed to providing members with unique experiences and rewards. From 22 June 2018, we are introducing changes to enable them to get the most out of the programme.

More Miles Earned from Flying

We are changing the way miles are calculated when flying with Cathay Pacific and Cathay Dragon, and members will be able to earn more miles on most flights.

Improved Redemption Seat Access and Changes to Flight Awards

We are increasing the number of available redemption seats on Cathay Pacific and Cathay Dragon, so members will have more access to flight awards.

Better Redemption Experiences

Our online flight award booking system is being redesigned to provide a more seamless experience.
Key Program Changes

2. More Miles Earned from Flying

Cathay Pacific and Cathay Dragon
Members will earn Asia Miles based on a combination of cabin class, fare class, and distance zone.

Other Airline Partners
Miles earning mechanism will remain unchanged – based on a percentage of actual miles flown, determined by cabin and fare classes.

More miles will be earned on 80% of Cathay Pacific and Cathay Dragon tickets.
Key Program Changes

3. Improved Redemption Seat Access and Changes to Flight Awards

Changes to Flight Award Redemption

Members will also see the following changes when redeeming Cathay Pacific and Cathay Dragon flight awards.

- **20%**: We are increasing the number of available redemption seats by 20% or more.
- **→**: All flight awards will be set as one-way for greater flexibility, such as being able to fly to and from a destination in different cabin classes.
- **≤**: All Economy Class flight awards can be redeemed with fewer or the same miles.
- **↑**: Flight awards on premium cabin classes, especially on longer routes, will require more miles to redeem.
Change Management

- Loyalty program and airline working from a common set of Revenue Management principles
- Build trust
- Over communicate

**Morale and Competence**

- **Denial**
  - Disbelief looking for evidence that it isn’t true

- **Shock**
  - Surprise or shock at the event

- **Frustration**
  - Recognition that things are different; sometimes angry

- **Depression**
  - Low mood; lacking in energy

- **Decision**
  - Learning how to work in the new situation; feeling more positive

- **Experiment**
  - Initial engagement with the new situation

- **Integration**
  - Changes integrated; a renewed individual

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Impact

More Miles Earned from Flying

Improved Redemption Seat Access and Changes to Flight Awards

Better Redemption Experiences

Air accruals up beyond forecast

Exceeding promised increase in redemption seats across all award types

Online vs. offline booking growth +30%
Customer Experience

NPS

May June July Aug Sept

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THANK YOU