

Whitepaper

How to build a next-generation airline loyalty program

by Aarti Saxenaa

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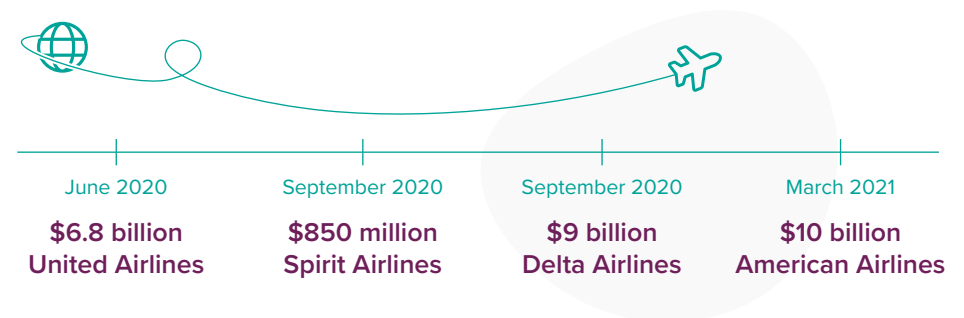
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Introduction

In the evolving world of travel, passengers demand loyalty programs that offer memorable experiences - which means dynamic personalization, seamless capabilities, and valuable rewards. This whitepaper delves into seven cutting-edge technologies that airlines can use to build next-generation loyalty programs to onboard, engage, and retain happy customers.

Loyalty becomes a lifeline

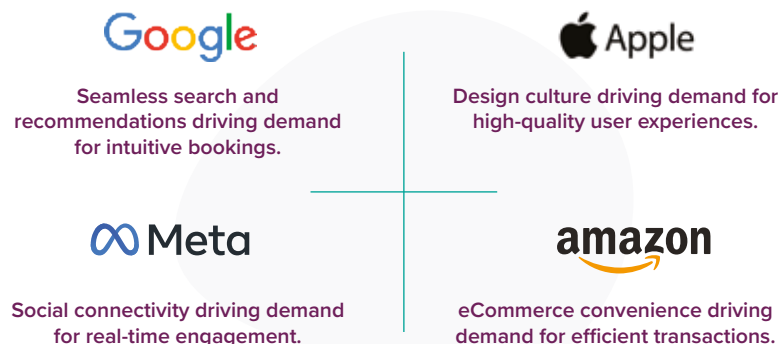
During the financial challenges caused by the pandemic, many airlines saw that their loyalty programs held greater value than their overall market capitalizations. In 2020, a historic shift occurred as U.S. carriers collateralized the future cash flows of their loyalty programs to raise billions in loans. United Airlines led the way, obtaining a \$6.8 billion loan in June 2020. Following suit, Spirit and Delta secured \$850 million and \$9 billion respectively. Remarkably, in March 2021, American Airlines established a new record by orchestrating the largest financing transaction in aviation history, amassing a total of \$10 billion, supported by the intellectual property and cash flows affiliated with their AAdvantage program.



This dramatic shift proved that customer loyalty can significantly contribute to an airline's financial performance. Customer loyalty drives share of wallet and eventually maximizes shareholder value. Therefore, airlines must treat their loyalty programs as a competitive advantage. Like any market-leading digital product, loyalty programs must offer unique capabilities that exceed customer demand.

Crafting loyalty programs for today's customer expectations

In the airline sector, fast-changing market dynamics shape customer expectations. These expectations are not only influenced by the industry – but from outside players. Technology giants like Google, Apple, Facebook, and Amazon [GAFA] impact all industries with a relentless flow of innovation that influences customer expectations. With Google's smooth search experience, travel customers now expect an intuitive booking experience. Apple's design culture has set high standards for user-friendly interactions – users expect a seamless digital interface. Facebook's social connectivity has cultivated a demand for personalized, real-time engagement between airlines and customers. Amazon's convenience has created a demographic of digital natives that expect efficient, hassle-free transactions. These innovations influence how a next-gen loyalty program should behave, as they are the new standard that all digital experiences must strive toward.



Shifting societal values are also influencing customer behaviour, with real-time interactions and instant gratification becoming the norm. Long gone are the times when a customer would wait patiently for a company to resolve an issue or offer a service. Today's customers seek richer engagement in return for their loyalty. This expectation is driven by the instant, gamified, and hyper-personalised digital experiences provided by the most popular social media platforms, websites, and apps. Most demographics share this expectation in some way, so airlines need to meet or exceed it.

More serious societal considerations are also affecting the new standard for loyalty programs. Data privacy is an increasing concern. Due to high-profile and recent data privacy breaches, customers seek assurance that digital travel transactions pose no risk to their identity or their money. This means airlines must strike a fine balance between personalisation and privacy by developing tailored experiences that leverage customer data in a safe and transparent manner.

As travel becomes more accessible to more demographics, airlines must offer experiences that meet the needs of diverse customer groups. For example, loyalty apps need to be user-friendly by design for customers with a broad, complex range of needs. This extends into the capabilities and offers included in loyalty apps. Furthermore, the offers and rewards provided within loyalty programs should factor in the needs of the individual customer; irrelevancy exposes a lack of care which can drive customers away.

Sustainability is the most critical issue in today's world. Airline customers are now eco-conscious when making travel choices, driving expectations for loyalty programs to integrate eco-friendly initiatives. Without embedding these considerations into the loyalty experience, airlines will fall behind their competitors.



Traditional Loyalty Programs vs. Next-Generation Loyalty Platforms

Traditional programs are often based on generic rewards driven by purchase frequency, without considering the wider array of customer behaviours that drive loyalty. Next-gen loyalty programs use advanced data analytics and AI to create hyper-personalized experiences crafted to individual customer preferences. Traditional loyalty programs centre narrowly on miles, points, and tiers – a system that’s hard to differentiate between each airline. The new landscape of loyalty enhances rewards with social interactions, gamified experiences and immersive technologies like AR and VR to deliver truly unique experiences. Evolving customer expectations demand more than transactional benefits – customers now seek emotional connections, eco-conscious initiatives, and seamless digital engagements at every step of the journey. The ultimate contrast between traditional loyalty programs and next-gen loyalty programs is the level of focus on each individual customer experience.

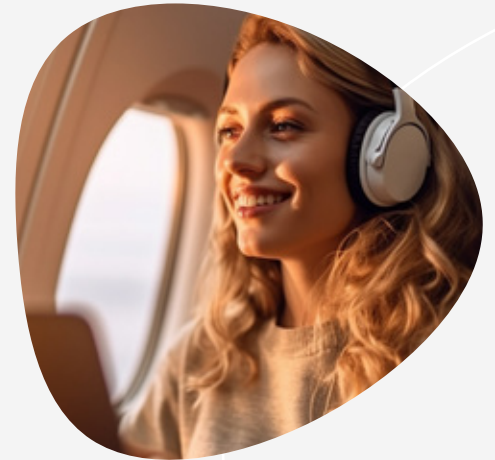
Conventional	Next-gen
Based on generic rewards that are driven by purchase frequency	Hyper-personalised experiences
Programs focused on miles, points, and tiers	Enhanced reward systems with gamified experiences and social interactions
Lack of focus on rewards that address social issues	Rewards and offers based on social issues like sustainability
Rewards are earned over time, requiring certain thresholds to be met before redemption	Instant rewards offered based on user behaviour and relevancy
Customer support managed via traditional channels such as email	AI-powered chatbots and virtual assistants that offer real-time and high-quality support
Members have limited insights into their travel activity and data	Rich analytics and insights offered in-platform to help members improve their travel experiences
Redemption options limited to flights and certain upgrades	Flexible redemption offers that go beyond flights into broader experiences
Consistent, unchanging rewards offered over time	Innovative, fresh and market-relevant rewards constantly being offered
Difficult to combine and transfer rewards to other members	Digital wallet capabilities let members combine and transfer to others easily

Seven technology factors shaping next-gen loyalty programs

Experiential loyalty: offer something to remember

A study conducted by Gartner in 2019 has revealed a substantial increase in loyalty programs featuring experiential rewards – escalating from 61% to 78% within a span of just one year. It's a reflection of our earlier analysis: customers want more than just transactional benefits from their chosen airlines. Being in the travel sector, airlines are uniquely positioned to offer one-of-a-kind experiences. Experiential rewards go beyond traditional points systems – they can include unique events, personalized travel packages, and immersive activities that resonate with customers' individual interests.

If experiential rewards are not part of an airline's loyalty program, they risk lagging behind this prevailing industry trend. While market predictions vary, at least one source predicts that the global loyalty management industry will grow from \$8.2 billion in 2021 to \$18.2 billion by 2026. It's clear that experiential rewards are a significant slice of this growing market segment. To take advantage, airlines can integrate with third-party experiential providers to offer real-time rewards like events, tours, and tickets which align with passenger journeys to provide truly unique experiences.



Self-service capabilities: give control to the passenger

Today's airline customers want full control of their journeys (mostly – the pilot should always fly the plane). From a loyalty perspective, self-service capabilities let customers shape rewards to their preferences by tracking and redeeming on their terms, booking flights and ancillaries in-app, and accessing personalized offers. It's imperative that all these capabilities are wrapped in a seamless digital ecosystem, letting the customer take advantage of their rewards whenever and however they like.

Artificial intelligence has huge potential in enhancing self-service capabilities. For example, if a customer is planning their city break and has some personalized in-location rewards to redeem, generative AI can add value by suggesting a trip that incorporates the reward. This adds another layer of service without demanding any effort from the travelling customer.

Gamification UX: the new standard for digital experiences

Digital loyalty platforms are now all about capturing engagement. Today, with the power of advanced data analytics and insights, airlines can build loyalty platforms that offer genuinely enriching experiences. Gamified challenges, contests, and progress trackers entice members to participate actively, fostering a sense of achievement. Airlines can reward members for completing tasks, reaching milestones, or engaging with the program's features to enhance member satisfaction and commitment.

The common success factor of gamified digital experiences is giving real satisfaction upon reaching a milestone. Airlines can be endlessly creative here. From offering a path to rewards like a coffee-shop stamp system, to rewarding "streaks" of repeat travel bookings like a social media app, airlines can take inspiration from many sources.

Sustainability and loyalty: points for progress

Air travel produces about 3% of global carbon dioxide emissions, and it is one of the fastest-growing sources of greenhouse gases, according to the International Council on Clean Transportation (ICCT) 2. Every airline is obliged to achieve sustainability; the industry is striving to reach net-zero by 2050. Highlighting the urgency, many airlines have unveiled even more ambitious timelines for reaching net-zero. For instance, Delta Air Lines has allocated \$1 billion to attain carbon neutrality by 2030, and JetBlue has a commitment to reach the goal by 2040.

Airline loyalty programs must align with these urgent sustainability efforts. Green initiatives, such as allowing members to redeem points for carbon offsets or supporting environmental causes, are just as important as experiential or transactional rewards. Moreover, loyalty apps that use data to visualize passengers' carbon footprints can help them understand the environmental impact of their travel, which might otherwise go unnoticed. With sustainability incorporated into their loyalty platforms, airlines can take another step toward sustainability by involve their customers in tackling this global issue.

Dynamic tiering: a flexible customer experience

Dynamic tier structures introduce a new level of flexibility to loyalty programs. Conventionally, loyalty programs are structured in specific tiers that are driven by rigid transactional behaviours. For example, customers can only earn points by making a purchase. This doesn't do much to encourage loyalty in today's experience-driven customer demographic.

Adding dynamic flexibility to membership tiers can exponentially scale the possibilities within a loyalty program. Airlines can do this by analysing relevant passenger data points – recent digital engagements, travel patterns, and personal preferences. From this, dynamic tier structures can prioritize active engagement and participation to reward overall loyalty, instead of blindly rewarding transactional relationships. Dynamic tiers encourage sustained engagement, as members continuously experience meaningful rewards and privileges based on their evolving interactions with the airline.

Generative AI: endless possibilities

In recent months, Generative AI has become a leading player in loyalty technology, opening a wealth of new AI use cases that were not possible until a short while ago. Its current leading use case is to enhance customer experiences, so every airline should consider how to apply generative AI to their loyalty platforms. The potential is nearly endless. Generative AI can create personalized rewards, offers, and interactions that differ for each member, fostering a strong emotional connection.

Since generative AI inherently evolves, learning from real-time events to refine its algorithms, it can deliver new experiences that improve with every interaction. From instant, tailor-made rewards to AR-powered travel previews, this is now essential for airlines that want to drive unparalleled brand loyalty. What's more - generative AI can help airline teams to build differentiated loyalty strategies by developing insights and creative ideas from the customer insights it collects in real time.

A word of caution: generative AI is only as powerful as the data it is fed. For airlines, a robust data platform, seamless application integrations, and an agile culture are prerequisites to ensuring successful generative AI adoption.

[Read more on this topic](#)

Blockchain: eliminating delays and enhancing security

Blockchain-based loyalty is making waves in the airline industry. The power of distributed ledger technology can transform the way loyalty programs operate. With blockchain technology, every member activity - such as reward issuances, redemptions, and preference updates - is recorded on an immutable and transparent blockchain. This introduces new levels of security, traceability, and trust to loyalty initiatives.

In conventional loyalty programs, there is often excessive lag in transaction updates caused by complex systems and databases, causing errors and confusion for customers. Blockchain-based systems provide loyalty members with real-time access to their transactions, reducing the risk of discrepancies. Blockchain technology can also easily automate reward distribution based on predefined conditions. Furthermore, blockchain's decentralized nature eliminates the need for intermediary platforms, which can let airlines streamline processes to reduce administrative costs.

Using blockchain technology in loyalty programs has the potential to enhance member trust, provide better security for their rewards, and revolutionize customer engagement with loyalty experiences.

The next-generation loyalty program landscape

Aligning to the customer journey

Awareness

Create a multi-channel marketing strategy that focuses on personalised, customer-centric interactions.

Consideration

Build credibility with relevant offers, recommendations and social proof based on customer demographics.

Onboarding

Craft a seamless onboarding experience that builds a customer data profile and immediately deliver tailored rewards.

Engagement

Encourage use of the platform by delivering personalised offers, gamified features and dynamic tier progression.

In-travel

Provide experiential rewards and remind customers of their in-travel perks.

Post-travel

Drive engagement and retention with relevant upsell opportunities, feedback interactions, and further personalised rewards.

Advocacy

Deliver exceptional loyalty experiences by emotionally engaging with customers, and provide incentives for advocacy.

Enabling self-service functionalities

Profile management

Points tracking and redemption

Flexible booking and itinerary management

Instant rewards and offers

Gamified progress tracking

Data security management

Real-time assistance

Sustainable rewards and choices

Community engagement

Dynamic tier progression

Feedback and suggestions

In-flight recognition

Enhancing the platform with generative AI

Use customer insights and behaviour analytics to deliver personalised offers and rewards.

Build dynamic pricing and inventory management capabilities that deliver real-time information and a wide range of choices.

Gather customer feedback and use machine learning algorithms to run sentiment analysis, to build a real picture of platform engagement.

Generate content and information at scale, automatically, to enhance self-service capabilities and deliver faster, richer experiences.

Conclusion

Today's airlines have access to technology that can create groundbreaking loyalty experiences.

By embracing the power of personalization, gamification, sustainability, seamless digital engagement, and dynamic tier structures, airlines and their customers can form stronger relationships than ever. In our current economic climate, next-gen loyalty platforms are the necessary advantage airlines need to establish a future-resilient competitive edge.



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With over 20 years of enriching experience in the industry, Aarti is an expert in areas like Business Analysis, Product Management, Customer Engagement and Presales. Throughout her career, Aarti has contributed to the travel industry with white papers and articles on topics like RPA, Cognitive Automations, Data Lakes, Artificial Intelligence, Phygital Airports, Innovation in Airlines, Digital Journeys, and many more.

Aarti has been associated with enterprise client consulting engagements in multiple geographies. Today she is Associate Vice President – Innovation and Strategy at Xebia. Prior to Xebia, Aarti worked with eminent organizations like Interglobe and American Express. Her areas of interest span thought leadership and building modern solutions with next generation technology.

About Xebia

Xebia is an IT Consultancy and Software Development Company that has been creating digital leaders across the globe since 2001. With offices on every continent, we help the top 250 companies worldwide embrace innovation, adopt the latest technologies, and implement the most successful business models. To meet every digital demand, Xebia is organized into chapters. These are teams with tremendous knowledge and experience in Agile, DevOps, Data and AI, Cloud, Software Development, Security, Quality Assurance, Low Code, and Microsoft Solutions. In addition to high-quality consulting and state-of-the-art software, Xebia Academy offers the training that modern companies need to work better, smarter, and faster. Today, Xebia continues to expand through a buy and build strategy. We partner with leading IT companies to gain a greater foothold in the digital space.

Find more information on how Xebia is driving innovation at www.xebia.com.

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