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Deploying next-generation airline loyalty programs

Leveraging cloud-native technologies for new traveler engagement and growth acceleration

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Redefining loyalty among modern air travelers

The COVID-19 pandemic not only dramatically limited travel but also caused permanent shifts in traveler behavior, forever changing "business as usual" for airlines. No touchpoints with travelers have changed more profoundly than loyalty programs.

In 2020, airline industry revenues totaled $328 billion, about 40% of revenue from the previous year, McKinsey reports. Benefits designed for frequent flyers continue to lose their efficacy as uncertainty around the return of business travel remains.

There are predictions that anywhere from 36% to 50% of business travel may never return, according to Forbes, especially as remote conferencing grows in its acceptance.

COVID-19 will subside, but airlines may need to come to terms with a fundamental change in how they approach loyalty. Loyalty programs themselves are a business-critical source of revenue, after all, with complex partner ecosystems that depend on frequent traveler activity. But as Forbes describes, "Loyalty programs will change because people will likely be traveling less, and the old rules about what was rewarded and what rewards are desired may also change."

With legacy loyalty technology, airlines have backed themselves into a corner.

Simply put, loyalty programs need to evolve. Airlines must make programs more agile, increase their diversity of offerings, and reconsider the various tiers and categories that define their loyal travelers.

Unfortunately, many airline business leaders don't realize their existing loyalty technology platforms—often longstanding, monolithic systems—severely limit their success in adapting to market changes. Too many airlines have invested in framework systems that offer loyalty functionalities but do not accommodate the complex needs of individual airlines and their customers.

Loyalty projects fail because airlines attempt to custom-fit new technologies to these existing legacy solutions. Too often, innovation in loyalty programs is capped, or scrapped, because underlying systems do not support it or are too expensive and time-consuming to adapt.

Business leaders need to start taking seriously new opportunities to transform the foundational digital technologies that support their loyalty programs. Fortunately, modern cloud-native platforms can support:

- More dependable business benefits
- A wider variety of customer benefits
- New currencies and "wallets"
- More versatile partner and business integrations

More agility and flexibility airlines need to meet current and future industry challenges.

In this report, we consider the new opportunities these cloud- native digital tools provide when adapting loyalty programs to today's market realities. We also illustrate how these tools can carry airlines to future success - even in the event of future crises.

Unlocking potential with a new approach to airline loyalty

Loyalty programs are already complex, with several economic elements providing revenue for airlines and their partners.

Existing loyalty technologies allow airlines to set up rules to reward customers for certain behaviors, carrying them to new tiers of benefits based on the growing frequency of those actions.

But today's loyalty programs don't fit all airline customers, where many travelers fall short of any rewards at all. Airlines treat their best customers well, but their loyalty programs often aren't relevant to customers who make up their "long tail"—that is, less frequent travelers who nonetheless constitute a large sum of total revenue based on their numbers.

Historically, overlooking the long tail has presented lost opportunities for airlines but not with the urgency required to adapt their foundational loyalty technologies. Today, that urgency is palpable. As many of their most "loyal" business travelers are reducing their travel—or, in some cases, eliminating travel altogether, as Business Travel News describes— airlines must consider loyalty programs that are relevant to all their members so that loyalty makes sense for every passenger, no matter the frequency with which they travel.

Now, commercial aviation leaders are seeking to determine what airline loyalty really means in a post-pandemic environment, whether they are ready for digital transformation or not.

It is the forward-thinking business leaders who will realize they must proactively transform the fundamental nature of their loyalty programs to ensure they are effective in this new environment.

For example, McKinsey calls on airlines to "aim higher when it comes to IT and digital investment": "Becoming better can necessitate investment," say the authors. "Even though many airlines find themselves in financial straits, we recommend investing more in IT and digitalization, not less."
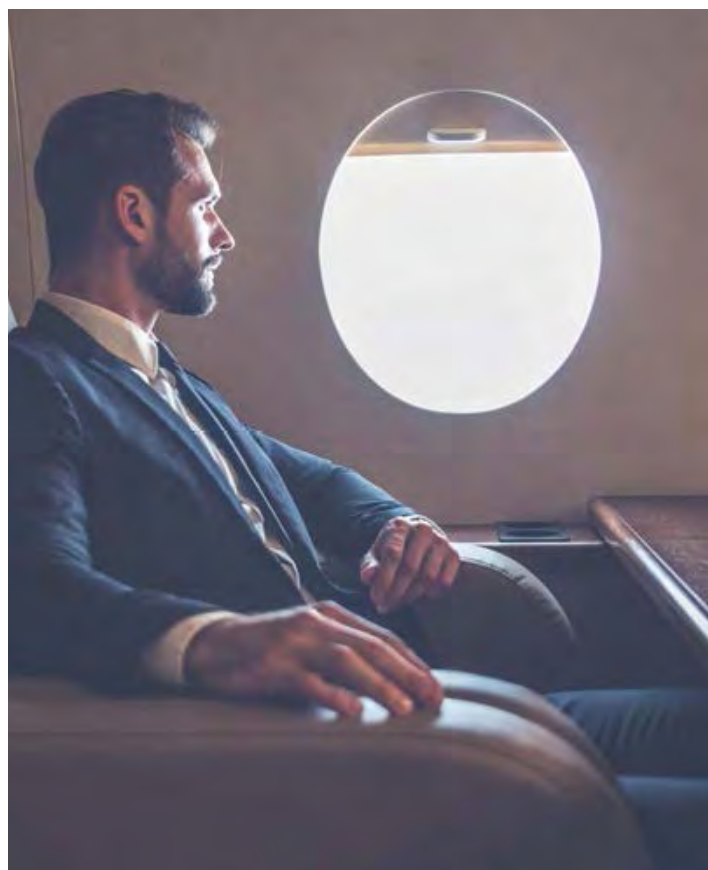
Challenges to transformation

Although some business leaders are committed to transforming their loyalty programs, they face common internal challenges to new loyalty program adoption and innovation. This is especially true among the world's most established carriers, whose monolithic legacy loyalty platforms are ingrained in their existing company culture.

Consider if any of the following challenges apply or have applied to your organization:

- Legacy technologies that are cumbersome and difficult to modernize
- In-house teams reluctant to transition away from legacy systems
- A poor history of technology migrations, company-wide adoption, and change management
- Past failures choosing the right technologies for unique business needs

But these established airlines, whose brands are often household names, cannot ignore the changing dynamics of the industry. "The definition of airline loyalty itself is changing, and the programs will have to change by re-pricing the programs' currency and more," says Forbes, describing the long-tail economics of airlines. "Winning a smaller base of business traffic will become especially important to the three largest airlines in the U.S., so they will want to reward those customers through the loyalty program but recognize that the customer may not be able to generate as much business."

Fortunately, airline business and loyalty leaders can change their programs to do more for customers who are "infrequent flyers" but equally valuable to their business. And while some level of digital transformation is required, the barriers to transformation are lower than ever before thanks to cloud-native loyalty platforms.

Configuration over customization

Like the advent of touchscreen phones, airlines are facing their own inflection point in terms of how they can transform foundational technologies to deliver value to customers.

Also similar to touchscreen phones—and specifically, the mobile apps that constitute nearly all interactions we have with mobile devices today—that transformation will depend on successful configuration of loyalty capabilities using agile enterprise technologies, rather than customization of enterprise technologies themselves.

"Configuration over customization" means airlines invest in more modern, cloud-native digital platforms that are built on microservices, or digital capabilities that can be added, removed, adapted, and more importantly, scaled within the context of the cloud-native platforms themselves. This stands in contrast to monolith technologies that are built to deliver specific loyalty capabilities but prevent airlines from adapting those capabilities because of their innate commitment to those monolithic tools.

To visualize this, consider how the hardware of traditional mobile "flip phones" made the development and downloading of today's mobile apps impossible—the foundational technology itself limits the device from hosting apps (nor could they take on any other capability besides those for which they were specifically designed). Meanwhile, modern touchscreen phones are fundamentally agnostic to any app its user desires—now and in the future—no matter the app's purpose or its developer.

Just as touchscreen users can download new purpose-built apps as their personal needs change, airlines that adopt these cloud- native tools can respond to changing market conditions faster than competitors. They can be proactive, embracing new capabilities quickly so that they are not "matchable" by competitors for a long period of time. They can redefine the behaviors by which travelers earn specific benefits without enormous, time-consuming, internally disruptive technology investments. They can also maintain employees' familiarity with their cloud-native platforms even as they reconfigure those platforms.
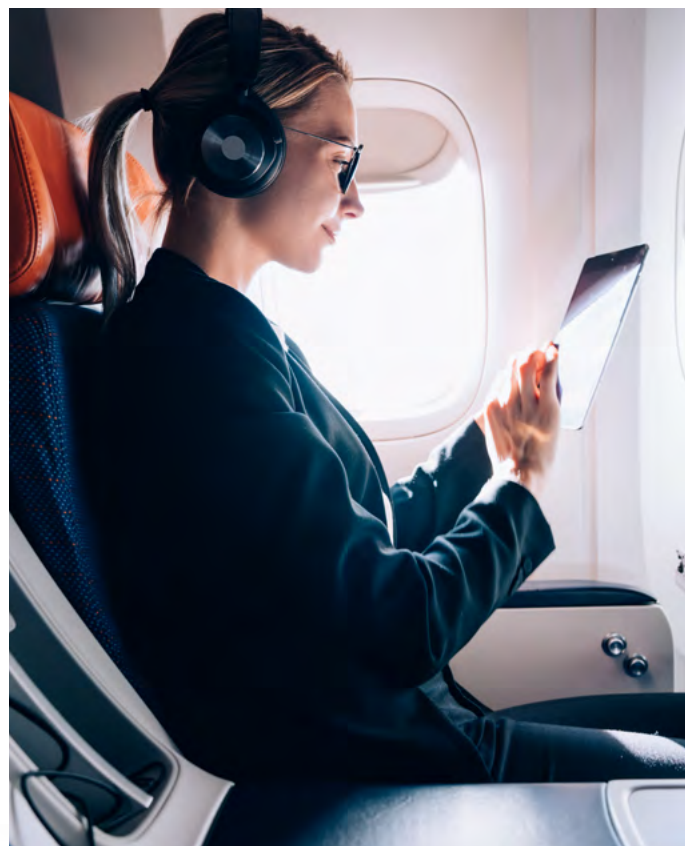
Overcoming common barriers to loyalty innovation

Airline business stakeholders can no longer afford to ignore the technology limitations of their loyalty programs. But as they familiarize themselves with their own loyalty technologies, they may be shocked by the shortcomings that have come to pass as normal aspects of business. Consider whether or not any of the following challenges have emerged in your own organization:

- Your loyalty system requires an "army" of IT professionals, whether they are internal teams or a large team at a third- party service provider

- New program designs lack uniqueness and lack sophistication, despite taking several months to put into production

- You are unable to launch new products and services for your members; or, you must launch severely watered down versions of them because your underlying tech stack doesn´t support innovation

- Rewiring any changes in the loyalty technology stack with the rest of the airline ecosystem is overly complicated

- Internal teams are resistant to new technology adoption because it requires additional manual labor and dramatic changes to everyday employee activities

The final point about internal teams is especially problematic at the world's largest airlines. These enterprises will invariably encounter internal resistance to technology changes, especially among established stakeholders who are adjusted to "business as usual" and legacy systems. Some internal stakeholders may even see change as threatening to their personal positions in the company.

Whether for cultural reasons or fear of failure, they do not have to be locked into their legacy technologies, and they no longer need to withhold innovation because their technology holds them back. Cloud-native technologies make this possible.

The benefits of cloud-native technologies

Cloud-native loyalty platforms provide a foundation for a combination of technologies, which constitute a more robust and sophisticated loyalty strategy for airlines. These platforms use containerization and microservices to break individual loyalty initiatives into individual pieces— each with its own scalability, rules, targeting, and features—within the same environment.

Airlines can scale by adding more capabilities as their business and customer needs evolve, without transitioning internal teams to costly new platforms. Large programs are able to incrementally transition to new technology further reducing risks associated with complex migration and change management.

The net result is a more agile loyalty department and opportunities for a variety of superior traveler experiences when compared to other airlines. Cloud-native platforms enable business leaders to:

- Introduce sophisticated loyalty capabilities without having to change the fundamental design of their loyalty platforms

- Integrate partners more quickly and easily

- Launch and test new products and services in the market with more agility

- Easily configure rules within a simple graphical user interface (GUI) for greater flexibility in how they proactively respond to market changes

- Minimize IT costs and time required to execute on new loyalty initiatives

- Enable superior quality of engagement with members

What do these capabilities mean for travelers?

Meanwhile, travelers themselves simply enjoy a much richer retail experience when shopping with airlines and their partners that enable these benefits. As modern consumers, travelers have come to expect rewards from retailers with whom they do business, even if it's only for a short period of time. Airlines can manage multiple customer segments—that is, a wide variety of programs specifically designed for any number of categorizations of travelers, including first-time customers —using only a single instance of cloud-native software.

This technology flexibility also allows airlines to align partner and member interests in more interesting and targeted ways. That's because airlines can more easily and quickly onboard partners, with more robust proposals for partners based on key points of interest.

Airlines that embrace these capabilities are more likely to attract first-time travelers, and those who continue to reward those travelers are more likely to secure their loyalty, even if they do not meet the traditional criteria of a loyalty program member. For example, airlines may create their own "wallets" that any traveler can use to secure redeemable airline currency, even in small amounts.

Effectively, these technologies allow airlines to harness data to "up their game," bringing their engagement to an even higher level in terms of how they connect with their customers. Flexibility allows them to truly personalize traveler experiences at scale, without overbearing costs and time-to-execute in terms of their IT investments.

Building for the future

Airlines can no longer afford to simply "kick the can down the road" when it comes to loyalty transformation. Innovation in new products and services, or even collaborative models, should not be constrained due to inadequate underlying systems. Adaptation in some form is necessary at this time, but investing in substantial changes using monolithic loyalty platforms is sure to put any airline behind. This is especially true as other airlines embrace cloud-native technologies and take the next evolutionary step in traveler loyalty.

With cloud-native tools, airlines can protect themselves against future disruptions—even large-scale industry crises. They can begin by committing to digital transformation and start rewarding travelers where they did not reward them in the past. Then, they can put in place plans to respond to future disruptions in an agile way—with the confidence they can execute those plans quickly and effectively, without costly and unwieldy changes down the line.

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Leading airlines worldwide use iLoyal to power their reward schemes and drive member engagement with their loyalty programs.

Underpinned by a highly configurable SaaS platform, the solution gives airlines the freedom to innovate and quickly deploy new products and services, at scale. Thanks to its open and cloud-based platform, iLoyal facilitates partner integration, accelerating value delivery to airline loyalty program members.

Through sophisticated data and analytics capabilities, the platform provides airlines with a 360-degree customer view to personalize relevant offers to their members. Real-time transactions enabled, from search to redemption to fraud prevention, iLoyal's secure platform drives program growth and revenues for the world's top airlines.

Contact us to discover how a winning IT infrastructure can shape your successful future.

ABOUT IBS SOFTWARE

IBS Software is a leading SaaS solutions provider to the travel industry globally, managing mission critical operations for customers in the aviation, tour & cruise and hospitality industries. IBS Software's solutions for the aviation industry cover fleet & crew operations, aircraft maintenance, passenger services, loyalty programs, staff travel and air-cargo management. IBS Software also runs a real time B2B and B2C distribution platform providing hotel room inventory, rates and availability to a global network of hospitality companies and channels. For the tour and cruise industry, IBS provides a comprehensive, customer-centric, digital platform that covers onshore, online and on-board solutions. IBS Software is a Blackstone portfolio company and operates from 15 offices across the world.

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Redefining the Future of Travel through Technology Innovation