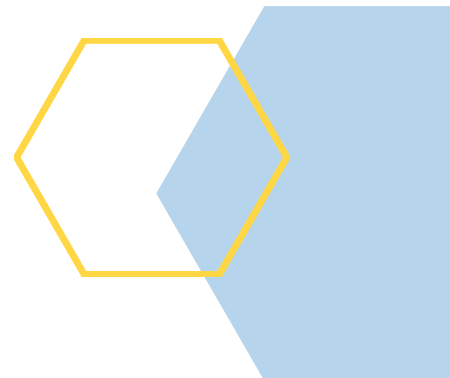




**FIRST VIEW**  
April 2020



# **FLEXIBILITY WILL BE THE KEY TO RECOVERY FOR LOYALTY VENDORS**





## THE FACTS

Along with the rest of the industry, airline loyalty programs are struggling to deal with the impact of the COVID-19 crisis.

## THE ANALYSIS

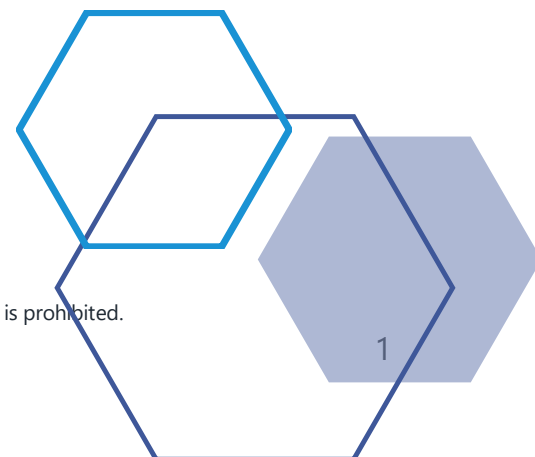
The global impact of COVID-19 has been felt in all parts of the economy but airlines have certainly been one of the worst affected sectors. T2RL estimates global traffic fell by 49% in March 2020 and estimates a fall of over 90% for April given the majority of the commercial fleet is now parked. Airlines have either laid off or furloughed huge numbers of staff. Forward bookings have been cancelled and many airlines are struggling to refund customers despite legal requirements to do so in some jurisdictions. In the face of the most serious crisis in the entire history of the industry it might appear that frequent flier programs are not of the highest priority.

T2RL's view is that to believe this would be a mistake. When the industry is ready to emerge from lockdown it will be faced with a world unlike any it has known before. Loyalty programs will be one of the key tools available to drive the recovery, whatever form it may take.

Airline loyalty programs serve two main purposes. They enable airlines to accumulate data on their customers which support planning and marketing activities, and they provide a set of tools to stimulate demand and hence revenue generation. If we take a long view, both of these aspects will continue to be important but in the short term of the crisis and its immediate aftermath we believe that the revenue generation functions will be of utmost importance.

At the time of writing the most important thing that airlines can do is to communicate with their members and provide reassurance that they will seek to minimise the impact of the crisis. Most large airlines are doing this, as indeed are the hotel companies that operate similar programs. Programs which apply expiry dates to benefits have extended their validity and most providers have stated that elite status will be extended since it is currently impossible to accumulate qualifying flights or expenditure.

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Where programs include cancellation charges they are being waived. If these things have not yet happened it is unlikely to be a deliberate policy choice of the airlines. More probably it is because a depleted staff is fighting fires on many fronts and has simply not yet got around to taking action. In some cases it will be because the functionality of the loyalty system does not allow sufficient flexibility. Now is a difficult time for businesses to be looking for software changes.

When the world starts to emerge from lockdown airlines will be looking to kick-start revenue generation as fast as possible. This may require commercial innovation unlike any we have seen before. Perhaps airlines will take a cue from British Airways all the way back in 1991. Its “World’s Biggest Offer” saw all seats on a specified day given away for free in an attempt to get people flying again after the Gulf War. Airlines may turn to similarly radical plans towards the end of 2020 and their loyalty programs would be the obvious vehicles to put them in place.

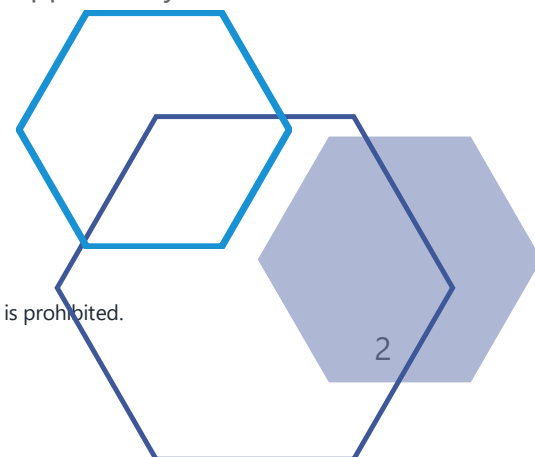
Another possible effect of the crisis may be consolidation across all levels of the industry. Even where airlines themselves remain independent there may be pressure for smaller carriers to join forces to improve the reach of their loyalty programs. Federated schemes such as Miles and More offer advantages in a world where individual airlines see their networks reduced. Software products that facilitate such federated programs, with common earn and burn but retaining individual carrier identity may be at a premium.

The critical factor to keep in mind is that the industry is moving into uncharted territory. The plans that will be put in place will build on existing capabilities but will require the implementation of processes that haven’t yet been designed. They will test the abilities of both management and technology to the limit and flexibility will be the most valuable attribute in both.

## THE SPECULATION

In the light of all this how will the providers of loyalty systems react? T2RL published its [first annual survey](#) of the market for airline loyalty systems only three months ago. We identified the characteristics of the major players and calculated their market shares. Based on that analysis we can identify some potential future paths and areas of opportunity for the different types of provider:

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- Airlines using loyalty systems developed in-house represent the largest part of the market. The IT departments of these airlines will be faced with many competing demands on their resources as the industry emerges. They will scramble to implement changes to the best of their ability but when the dust eventually settles they may decide that the time has come to outsource to a specialist systems vendor.
- Large vendors such as Oracle that operate across multiple industries are able to spread their exposure and so should not come under existential pressure if revenue from the airline industry falls significantly in the medium term. If they decide to invest in improved functionality for airline loyalty systems now it will drive up costs in the short term but could well create opportunities if a wave of outsourcing does emerge. The decision about whether to follow this path will be one for each company's management in the light of competing demands on investment capital.
- Large vendors that operate primarily in the airline industry such as Amadeus and Accelya will be hard hit by the current crisis as most of their revenue streams are severely impacted. It will be the strength of their balance sheets and the willingness of their investors to support them that determines the extent to which they are able to sustain losses, maintain their position and continue to develop their solutions.
- The smallest specialist providers will have a very tough time. Their main advantage will be flexibility and their entrepreneurial nature. Where the owners of the company are also its management they may choose, and have the ability, to dig in, take the pain and continue developing and offering their solutions. Some of them will survive, others may be vulnerable to acquisition or even liquidation. Either of these eventualities opens up the possibility of consolidation based on the bigger players in the market. In this at least the fortunes of the systems provider market may reflect the destiny of the airline industry itself in the coming months and years.

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