

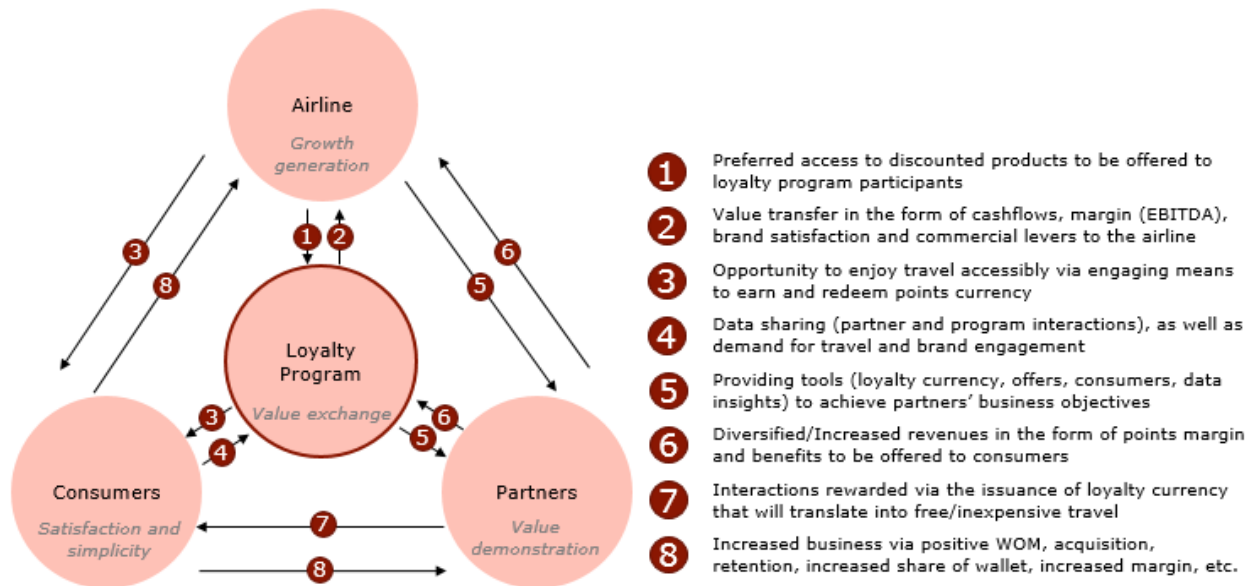
Optimizing the design of a loyalty program submitted by Aeroplan (Air Canada)

Context

Aeroplan is Canada's leading loyalty program, with 5M Canadian members. Like any typical loyalty program, Aeroplan offers its members miles in exchange for program participation. That participation manifests itself in customers' spending shift towards participating partners (retailers, banks, airlines, etc.).

While program fundamentals remain unchanged, Aeroplan is going through a thorough transformation, following its acquisition by Air Canada, formalized in January 2019. As a result of this acquisition, the value chain in which the program evolves will drastically change as its integration in Air Canada's business will create new value generation opportunities and new constraints, illustrated in the following diagram.

Value Stream Mapping, Aeroplan Ecosystem



Problem

The objective of the loyalty program is to create long-term sustainable value for the brand (Aeroplan and Air Canada). The incremental revenues driven by the program through members' preference for Air Canada as carrier of choice (resulting in greater share of wallet and stimulation of travel demand) and through their consumption of partner offerings (generating revenues to the program for the issuance of points or miles) must outweigh the cost of the rewards offered. A great program must therefore align

members and organizational incentives in its design to ensure member engagement. Rewards need to be of sufficiently high perceived value and availability to entice members to take advantage of the loyalty program by focusing their spending. On the other hand, rewards must be managed at a cost that does not exceed the incremental revenue generated. The ability to do so creates the opportunity to reinvest in the program for further stimulation of member engagement, thereby creating sustainable and profitable growth over time.

One of the key features of loyalty marketing systems is the perpetual feedback loop between the earning behavior and the reward scheme, or more specifically the feedback loop between accumulation and redemption. Just as the loyalty program is seeking to maximize value creation for its brand or brands, the consumer seeks to maximize the value derived from the program. The consumer must feel that the amount of purchasing power dedicated to the program's partners (and generating points) is warranted by the desired redemption. Once achieved, the experience of that redemption should motivate the consumer to keep up or increase the accumulation rate, thus bringing more value to the program. If not the loyalty program is at risk of losing members to its competitors: the members could also forgo loyalty programs altogether. Loyalty programs typically depend upon investing loyalty value from their less valuable consumers into their most valuable customers to ensure retention of these high-value members. Therefore not all members are considered or treated in the same fashion.

While the feedback loop concept makes conceptual sense to maximize long-term profitability, there are typically tensions observed in its application. In addition to the competing objectives of the consumer and the program, there is an important feature of airline loyalty programs: the time horizons of the earning cycle to achieve the desired redemption can be quite lengthy. The airline may be focused on short-term revenue generation targets aligned to financial reporting periods: this may create pressure on the availability of seat rewards. To what extent does this feature have an impact on the future revenue stream of the member who cannot obtain the desired flight reward? Will the member, who may have been building a points balance for years and/or have had many years of interaction with the program, be prepared to accept delayed gratification and/or maintain participation in the program until value can be derived from the program? And to what extent is this dependent on the history of redemption experience versus a unique occurrence? Conversely, if the member satisfactorily achieves the desired redemption, will the consequence be an increase in value for the airline? Will the redemption result in increased consumption or simply an extension of the expected churn from the program? Thus the understanding of the "earn-burn-earn cycle," and the ability to quantify it, are critical for designing the elements of the program so as to achieve its objectives.

Our goal is to develop a methodology for optimizing the design elements of the loyalty program (e.g. rewards costs, rewards availability, rewards assortment, and reward pricing), in order to maximize both the airline profitability and its attractiveness and value for its members over the long term.