



Air Canada

Loyalty and eCommerce team

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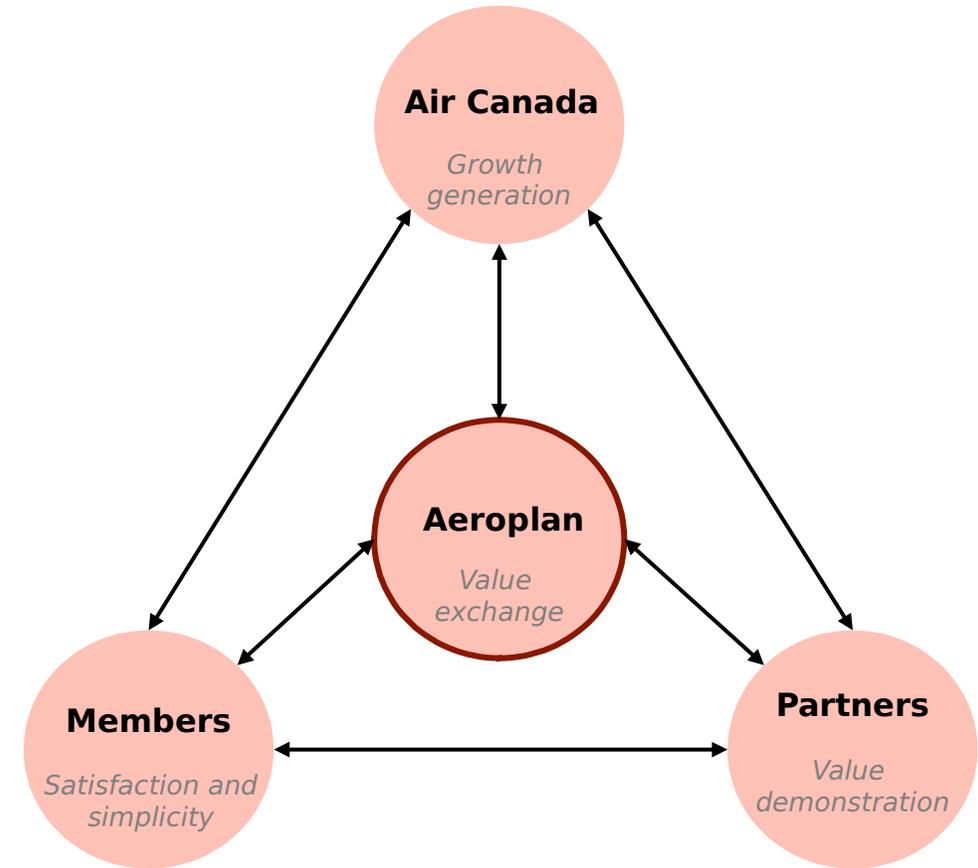
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Workshop problem statement

A great loyalty program must **align members and organizational incentives** in its design to ensure member engagement and in turn, secure partner engagement.

Our goal is to develop a **methodology for optimizing** the design elements of the loyalty program in order to **maximize** both the **airline profitability** and its **attractiveness and value** for its members over the long term.

The workshop will aim at building a conceptual model that will integrate key program dynamics using a game theory framework

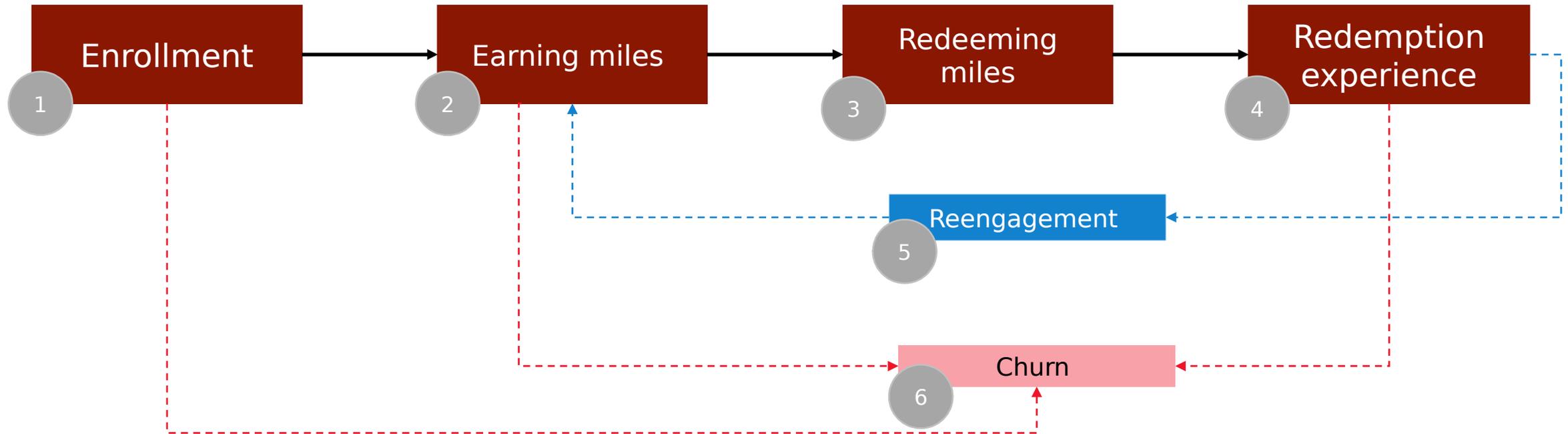


Success here is not defined so much a complete and implementable solution, but rather as strong options for further exploration within Aeroplan



Members typical lifecycle - In a nutshell

Getting through the Aeroplan members lifecycle is a great way to understand the **different dimensions and dynamics** that happen in the program.



Let's start by taking a closer look at some of our typical members journey

The engaged member



Russell joins Aeroplan and wants to be able to redeem for his dream vacation to Hawaii which is 40,000 miles from YUL



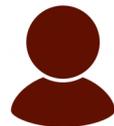
Russell starts shopping at Home Hardware for his HI needs and also buys other merchandise through the Aeroplan eStore



After 2 years of earning, Russell has 10,000 miles so decides he will get an Aeroplan co-branded credit card to earn faster



After another 3 years, Russell now has 60,000 miles in his account and he redeems for his dream vacation to Hawaii. After he burns the 40,000 miles he is left with 20,000 miles



Russell continues to earn through multiple methods in order to accumulate enough miles needed for his next travel goal



Let's start by taking a closer look at some of our typical members journey

The disengaged one



Julie joins Aeroplan to be rewarded for her daily buying habits. She hopes that she will be able to redeem for the iPhone she is dreaming of which is 97,500 miles



Julie flies once every two years and prefers international destinations. She mainly deals with offline travel agencies



To earn miles faster, Julie decides to convert her miles from the BonVoy program into her Aeroplan account

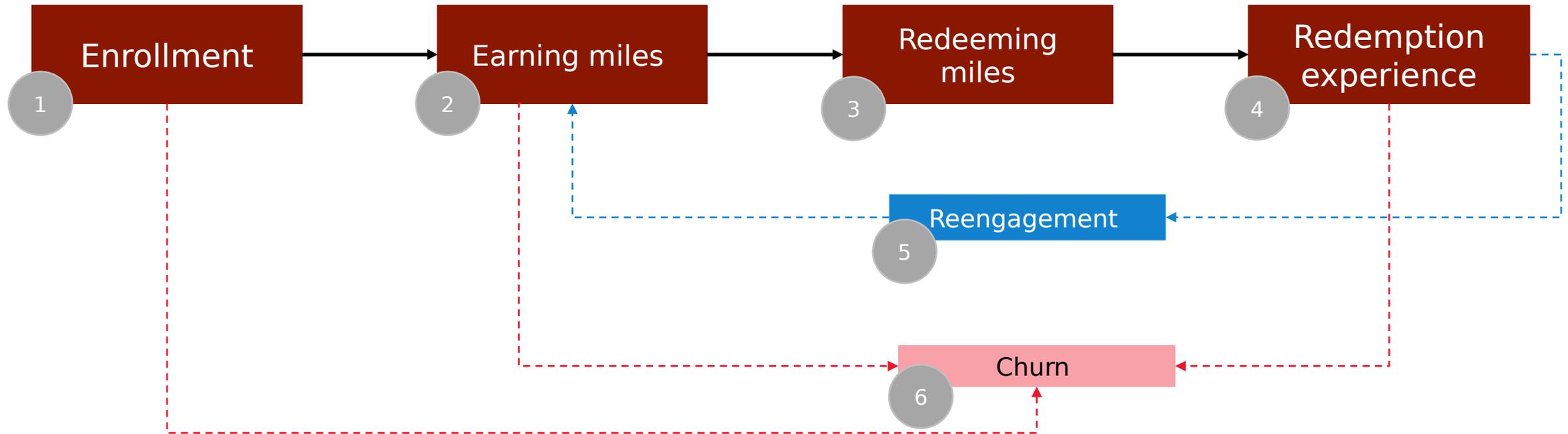


Even though Julie converts her miles, she does not have enough miles to reach her merchandise goal



Julie gets disengaged and decides to quit the Aeroplan program. After a year of inactivity, her miles balance expires

To get a better understanding of the typical member's lifecycle and its dynamics, let's get through each of the different steps



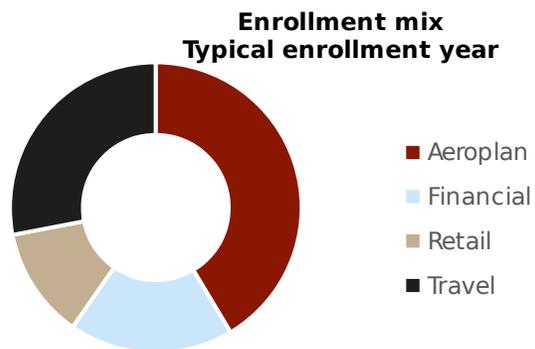
1. Members' enrollment

Decision for enrolling in Aeroplan is based on a person's **aspirations**:

- As a member I aspire to travel for leisure
- As a traveler I aspire to enjoy perks
- Etc.

Members can join Aeroplan by **four (4) main channels** :

- The Aeroplan website;
- The Air Canada website;
- One of our Financial partner;
- One of our Retail partner.



Example of the Aeroplan enrolment form

[Home](#) ▶ Enrollment

Becoming an Aeroplan member means earning miles every day with over 150 partner brands and at 170+ online retailers via the Aeroplan eStore. With so many ways to earn, our members are able to reach their travel plans sooner.

Your personal info

Email address

Email is Aeroplan's primary means of communication to keep you in the loop about our news and offers. As the operator of Air Canada's frequent flyer program, we may share your email address with Air Canada for them to deliver offers, as well as important information including your Altitude status/benefits. Aeroplan Member [Privacy Policy](#) can tell you more.

Password Password confirmation

Please ensure your password contains 6-10 characters, Only letters and numbers are allowed.

Preferred language

First name Middle name

Last name

<https://www.aeroplan.com/language.do?lang=E>



2. Earning miles

Aeroplan members benefit from plenty of ways to earn miles in **four (4) main sectors** :

- Financial
- Air
- Non-air
- Retail
 - Both from retailers as well as through the Aeroplan eStore¹

Earning miles is a great way for members to be **rewarded for their purchases** and to be exempted from Aeroplan's expiry policy.

Conversion programs (both Hotels and American Express) happened to be an effective lever to attract US and International members in the program.

Overview of the different ways to earn with Aeroplan

	Direct Earn	Affiliate Earn	Conversion
FI	  		
Airlines	 		
Non-air Travel	 		 
Retail		 	 

Examples of partners that members can earn with on the Aeroplan eStore



¹The Aeroplan eStore is a transactional website where members can earn with more than 170 online retailers.

Miles Earned through Co-branded credit cards earned on purchases *anywhere*



AIR CANADA

1.5 miles/\$1 spent on AC.com purchases



1.5 miles/\$1 spent on Gas, Grocery and Drugstore purchases



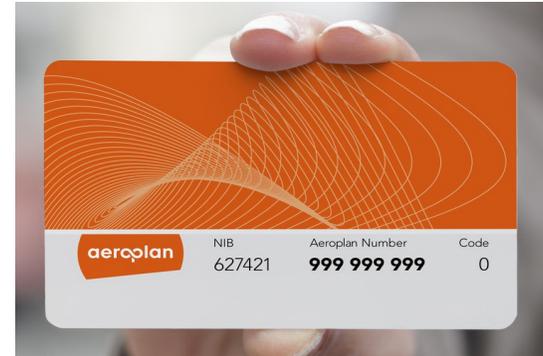
1 mile/\$1 spent on all other purchases



Miles Earned at Partners with Aeroplan number



Purchases at Partners with Co-branded Credit Card result in *double-dipping* and extra miles



When consumers shop at partners and pay with their Aeroplan co-branded credit card and provide their Aeroplan number they earn miles through *both* their credit card and partner offer.

For example, if a consumer spends \$50 at Home Hardware with an Aeroplan credit card, they earn 50 miles through their credit card and another 25 miles through the Home Hardware offer.



In addition to base miles, partners also have bonus offers that allow members to earn more



Executive Membership

\$120 PER YEAR
(plus applicable taxes)
includes a **FREE**
Spouse[†] card.

**Earn 3,000 Bonus
Aeroplan Miles**



Business Membership

\$60 PER YEAR
(plus applicable taxes)
includes a **FREE**
Spouse[†] card.

**Earn 2,000 Bonus
Aeroplan Miles**



Gold Star Membership

\$60 PER YEAR
(plus applicable taxes)
includes a **FREE**
Spouse[†] card.

**Earn 2,000 Bonus
Aeroplan Miles**



Members can also get more miles by converting miles from other programs into Aeroplan miles

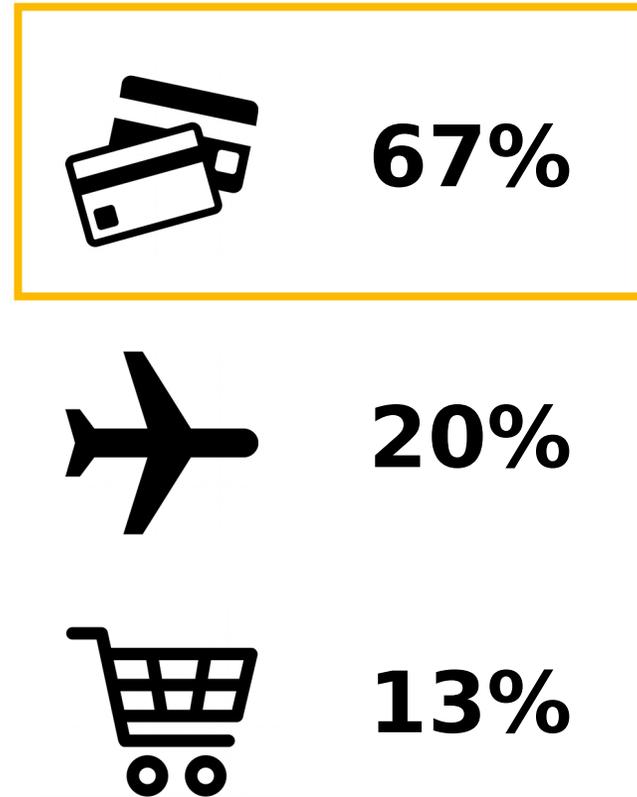
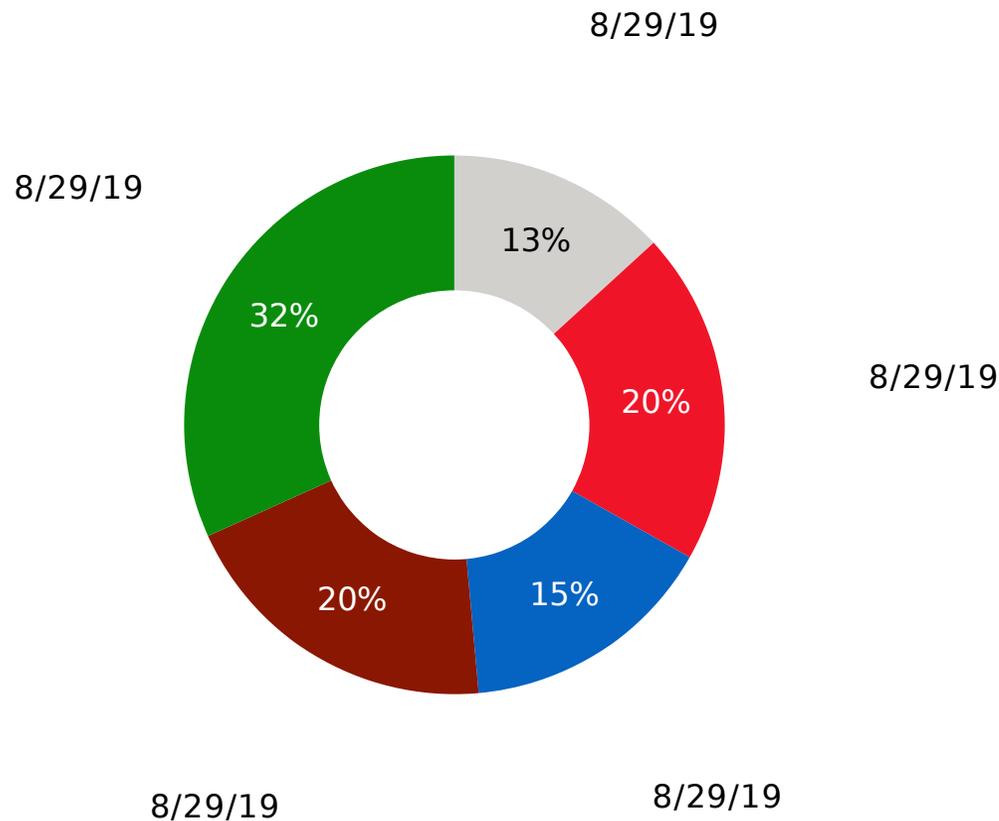
Get **30%** more miles

Convert as many hotel loyalty program points as you like, as often as you like. Offer ends Dec. 11, 2017.



Financial Cards are the biggest share of Gross Billings and key to driving program performance

FY2017 Gross Billings from Loyalty Units



3. Redeeming miles

After earning miles for a while, members are thinking about how they can **benefit from Aeroplan at its very fullest** - Redemption is the ultimate members' goal when joining the program!

Members might have joined to reach their travel goal or to redeem their miles to buy new home furniture. In multiple cases, **redemptions act as a real engagement lever** for our members.

Aeroplan members can redeem for three (3) main redemption categories:

- Flight;
- Hotel and car;
- Gift card and merchandise.



3. Redeeming miles

Here are some examples of questions that members might have when thinking about their future redemption.

- What are the different redemption options that are offered on the Aeroplan website?
- What product gives me the best value for my miles?
- Can I afford this reward? Is it available (inventory availability)?
- What are the RFM parameters?
 - Instant vs delayed gratification?
- Which currency will I use?
 - Miles, dollars, mix?
- Where do I want to go?
- I can't change my travel date, what can I do?



Members can redeem for air through either the fixed grid or Market Fare Flight Rewards (MFFR)

Get the most out of your miles.

FIXED MILEAGE FLIGHT REWARDS

Fixed industry-leading¹ mileage levels.

Exclusive seats

A limited number of seats exclusively offered to Aeroplan Members on Air Canada flights and over 25 Star Alliance member airlines.

MARKET FARE FLIGHT REWARDS

Mileage levels that vary based on market fares at time of booking.

Any seat, any time

Access to all available seats on all Air Canada operated flights. (Air Canada, Air Canada express and Air Canada Rouge)²

fixed mileage flight rewards[®]

Seats on Air Canada[®] and Star Alliance member airlines, offered to Aeroplan members at fixed mileage levels.

Round-trips from : **60,000 miles**

→
Or
←

market fare flight rewards[®]

Access to any seat on Air Canada flights, at mileage levels that vary based on market fares.

Round-trips from : **29,650 miles**



Members can also redeem for non-air rewards such as hotels, car rentals, and merchandise



When shopping for a Car rental or a Hotel room, members have the option to pay with the currency of their choice : cash or miles.

Log in to shop for your next reward

Please log into your Aeroplan account to browse and redeem your miles for your favourite gift cards, merchandise and activities.



4/5. Redemption experience and Reengagement

Getting back from their trip that was fully paid by their Aeroplan miles, members might have some questions that will determine if **they will reengage** with the program or if **they will quit**.

- What is the **perceived value** of the redemption inventory (flight or other)? After first redemption, was it worth it?
 - Perceived value of miles: free earn (through business spend) vs person earn
- Was it easy to redeem?
 - Effort expended leading to redemption
 - Did I easily find the reward that I was looking for?
 - Did a lot of options in terms of destinations and dates were available?
 - How many tentative did I make before being able to redeem? Failure to redeem
- Is the program easy enough to reengage?

As a loyalty program, our ultimate goal is that members see the **real value of their miles** and decide to **reengage with us**, meaning that they will start to **earn miles again** in order to **reach their next travel goal**.



6. Churn

For different reasons and at **any stage of their lifecycle**, members can simply **disengage** from the program. After **a year without any activity**, their miles balance will **expire**. This is what we call the « Breakage ». The breakage refers to the proportion of miles earned by members that will ultimately never be redeemed. There is an **inverse relationship between Members Engagement and Breakage rate**. Program factors that affect breakage, such as **ease and time to redeem**, have **opposing impact on member engagement**.

Breakage Objective:

Given the inverse relationship between member engagement and breakage, goal is to find a balance between both *short* and *long-term* objectives to maximize profitability.

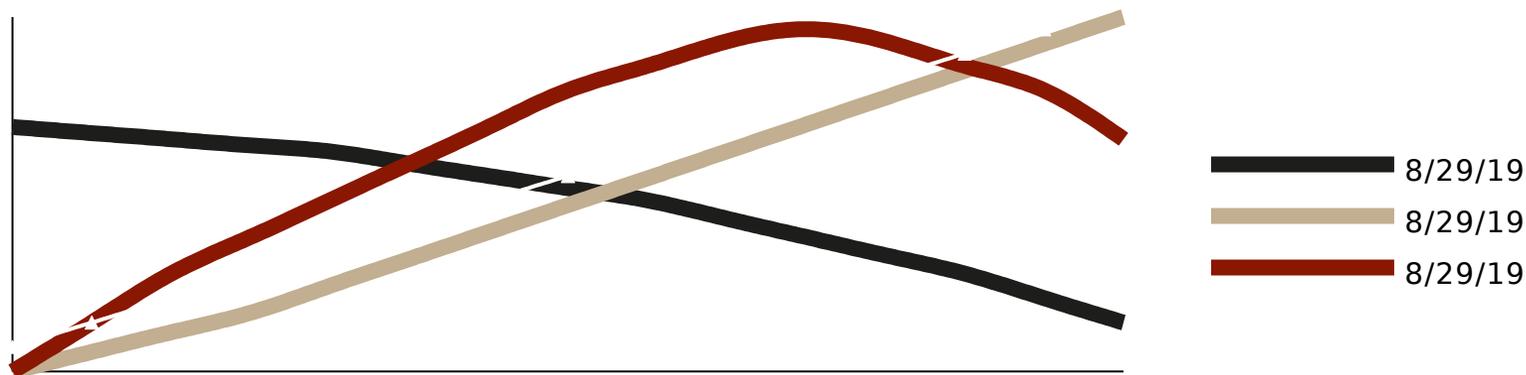


Short-term:

Improvements to breakage improve recognized revenue and profitability due to a larger proportion of miles with no associated redemption cost

Long-term:

Maximize profitability by balancing breakage against member engagement.

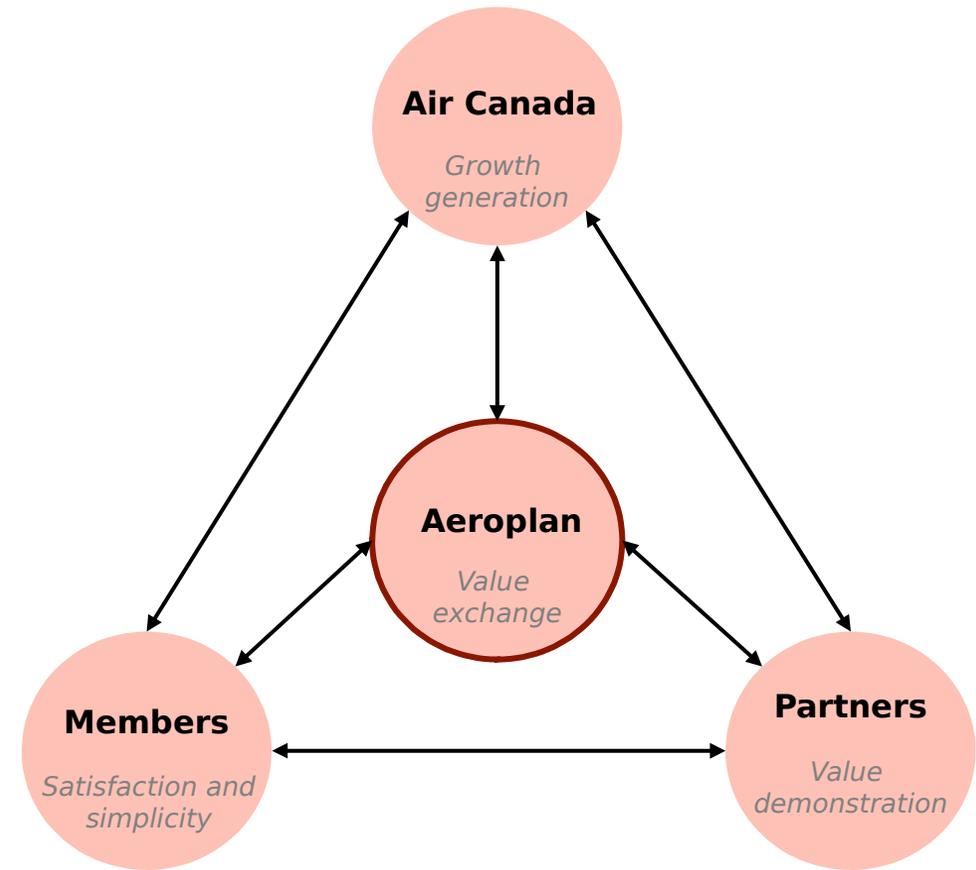


To Conclude

Our goal is to develop a **methodology for optimizing** the design elements of the loyalty program in order to **maximize** both the **airline profitability** and its **attractiveness and value** for its members over the long term.

The loyalty ecosystem is **complex**, with series of **decisions**, for which there is **information asymmetry** between key stakeholders.

Given the long term nature of a member's affiliation with the program, we are looking at shaping a model helping us **understanding and influencing** the **key engagement drivers**.

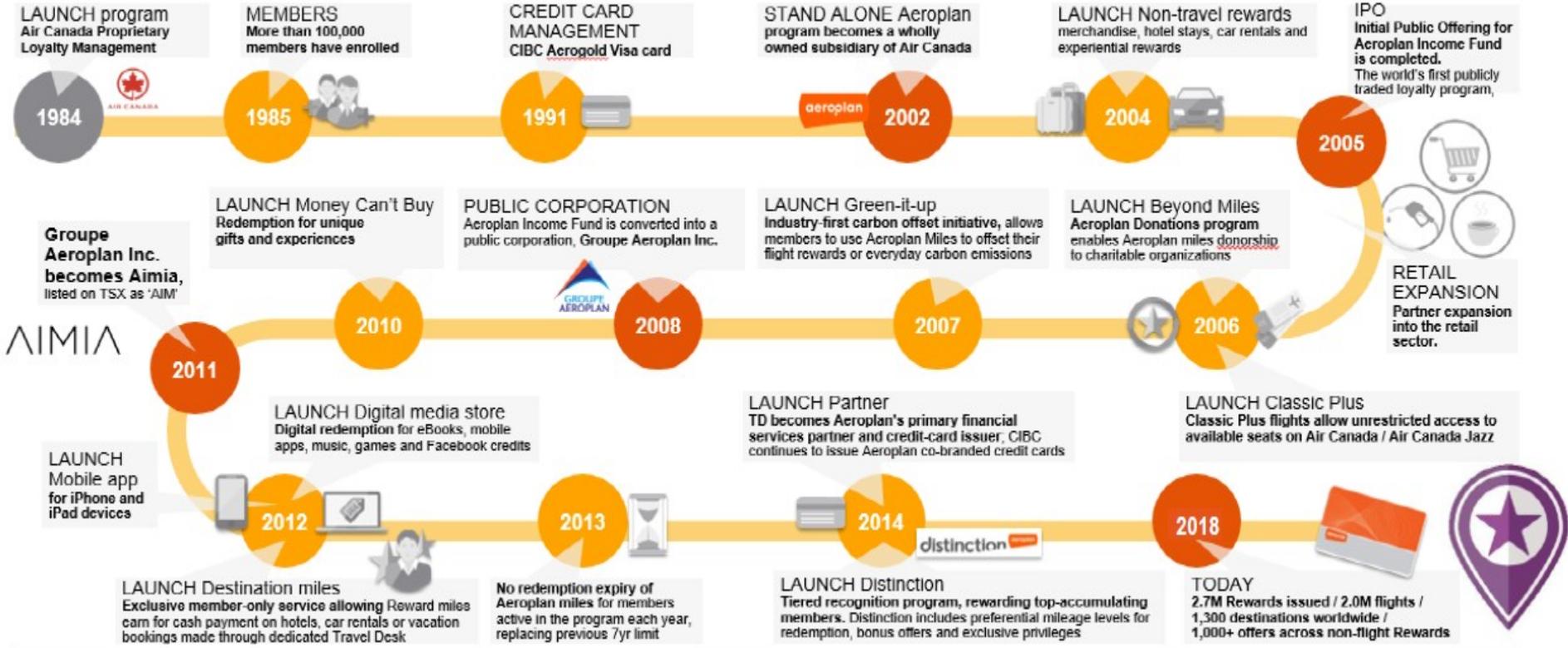




Appendix 1

Aeroplan 101 and additional information on the program

History of the Aeroplan Program



In Jan 2019, Air Canada officially acquired Aeroplan



There are two main actions a member has with Aeroplan which are *earn* and *burn*

Earn

A member earns miles through purchases with partners, who buy miles from Aeroplan to drive consumers to buy from them.



Burn

A member redeems miles with partners as a reward to lower their purchase, and Aeroplan pays for the value of the reward.



Aeroplan Membership Overview

OVER
5.0 MILLION
MEMBERS

MEMBERS ACCUMULATE
18,000 MILES
PER YEAR, ON AVERAGE

MEMBERS SPEND MORE THAN
\$17B
ON TRAVEL ANNUALLY



- **Membership coast to coast across Canada**
- **Over-indexed compared to the Canadian population in household income >\$100k**
- **Average membership length >10 years**
- **75% of members fly each year, compared to 60% for the average Canadian**
- **Members are engaged with 5+ loyalty programs**

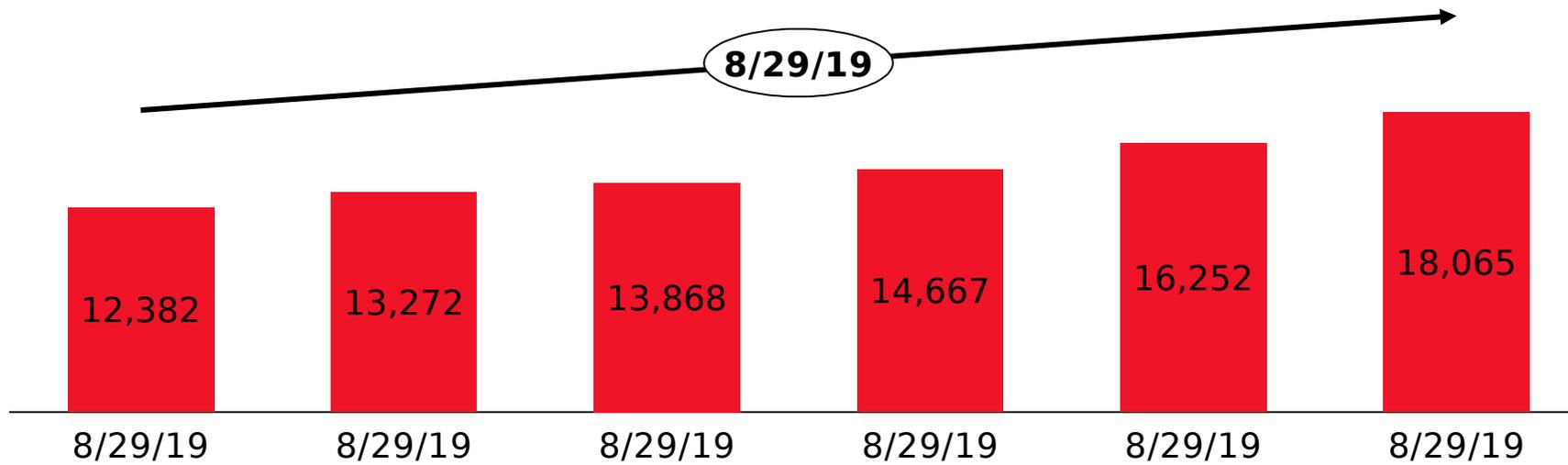


Over **200 Billion Miles** held by our members

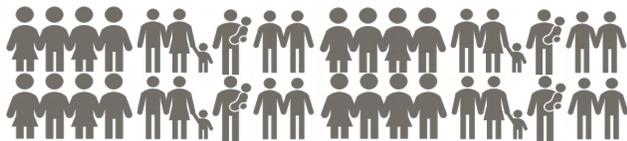


Air Canada Overview

Annual Revenue (in \$ millions)



50.9M passengers/year



1 of 4 Canadians travel with Air Canada at least once per year

12M

monthly web visits

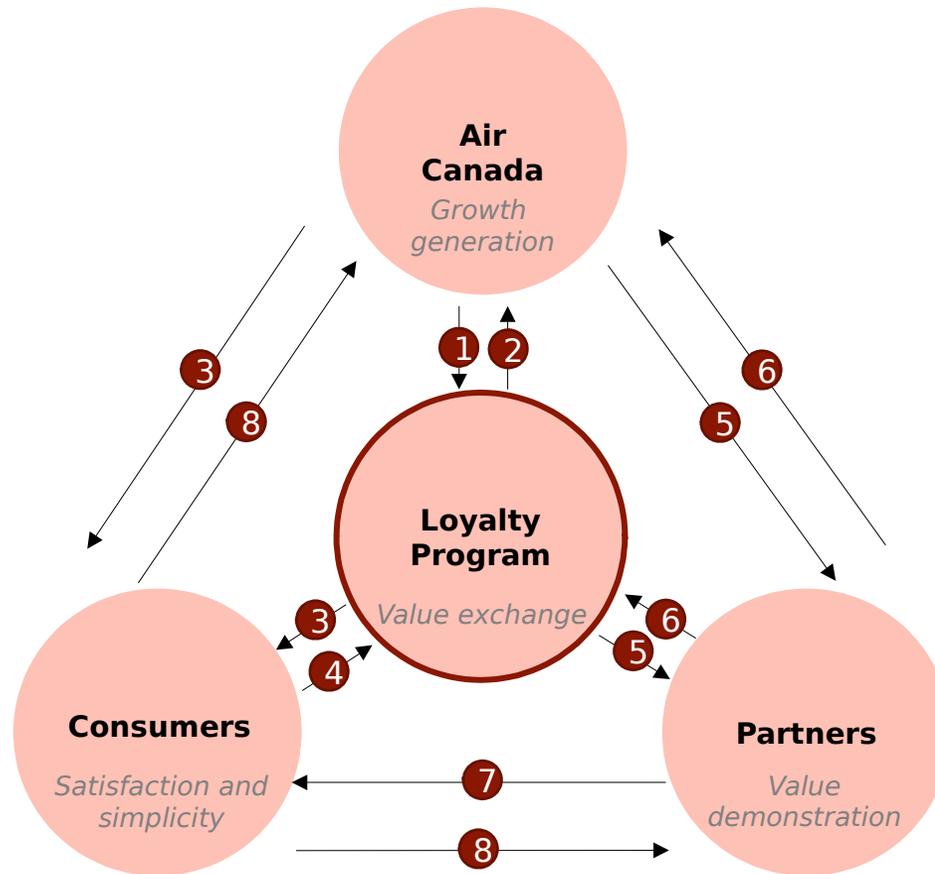


2nd largest
e-commerce site in
Canada (est.)



Value Stream Mapping

In order to drive significant long term economic benefits to Air Canada and its partners, the loyalty program must balance numerous stakeholder interests despite inherent natural tensions



- 1** Preferred access to discounted products for loyalty program participants
- 2** Value transfer in the form of cashflows, margin (EBITDA), brand satisfaction and commercial levers to the airline
- 3** Opportunity to enjoy travel accessibly via engaging means of earning and redeeming points
- 4** Data sharing (partner and program interactions), as well as demand for travel and brand engagement
- 5** Tools (loyalty currency, offers, consumers, data insights) to achieve partners' business objectives
- 6** Diversified/increased revenues in the form of points margin and benefits to be offered to consumers
- 7** Interactions rewarded via the issuance of loyalty currency that will translate into free/inexpensive travel
- 8** Increased business via positive WOM, acquisition, retention, increased share of wallet, increased margin, etc.





Financial Drivers

The difference between AEBITDA and EBITDA

Two profitability calculations are used in the Aeroplan program: one based on earn (non-GAAP) and one based on burn (GAAP)

Member earn based:



Member burn based:



Key Performance Indicators for Aeroplan/Air Canada Loyalty



**Maintain/improve
program
engagement**

**Active
Aeroplan
members**

Gross billings



**Improve value
generated
to PAX (Passenger)
Revenue**

**Digital direct
passenger
revenue**

**Redemption
revenue
contribution**



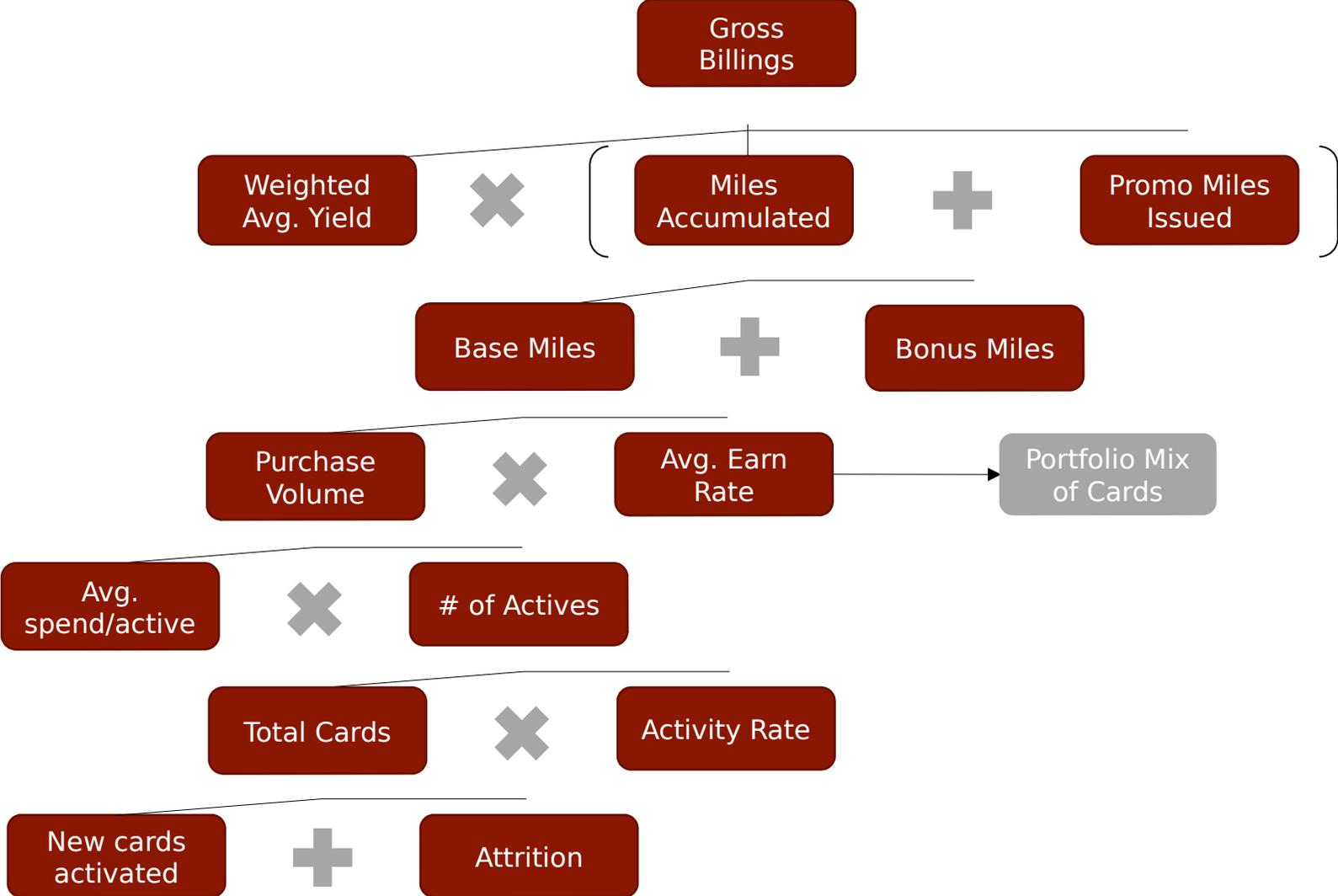
**Increase
penetration
of co-brand cards**

**Active
co-brand
accounts**

**Co-brand
purchase
volumes**



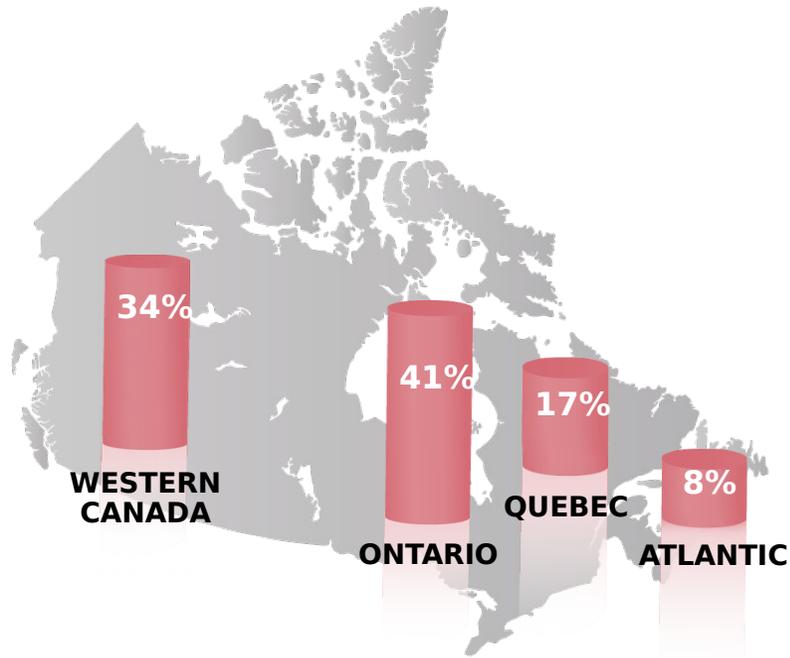
FI Gross Billings Financial Drivers





Membership Profiling

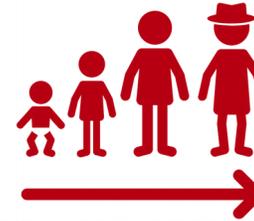
Aeroplan Canadian Membership Profile



51%



49%



Millennials (18-34) 20%

Gen X (35-54) 39%

Boomers (55-74) 37%

Seniors (75+) 4%



Avg. # of trips/year

4



Ever Been to Europe

76%



Avg. # of credit cards

2.5

Household income

<50K



14%

50-100K



34%

>100K



52%

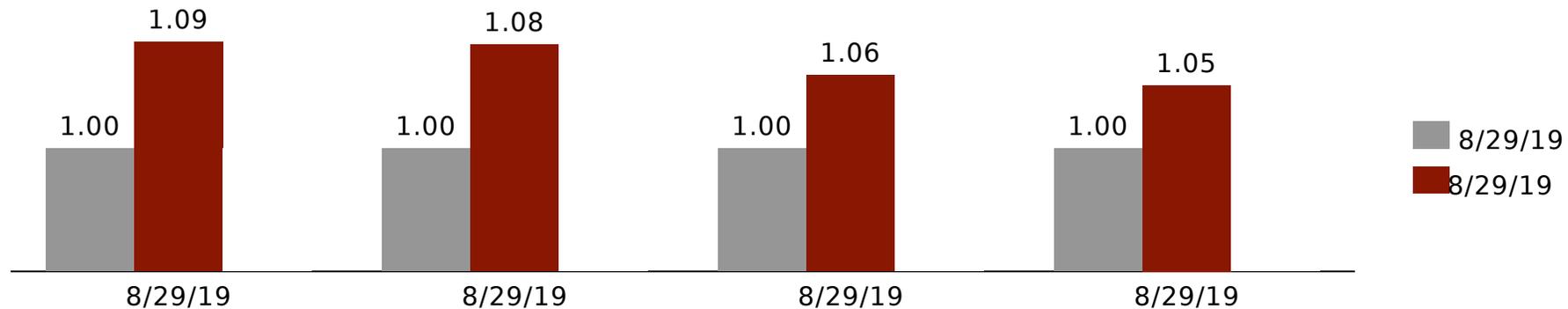


Source: Internal Research Reports (Voice of the Member 2019, Partner Tracker 2018, SocioDemo Study 2017, Air Canada Market Research 2017).

Notes: Numbers are based on stated responses.

Aeroplan status members over-index on program perception scores and value their benefits

Indexed Perception Scores by Aeroplan (AP) Non Status vs. Status



Areas of Strength and Improvement for Aeroplan by AP No Status vs. Status

Areas of Strength		Areas of Improvement	
No AP Status	AP Status	No AP Status	AP Status
1. Flight rewards	1. Earn on credit cards	1. Expiry policy	1. Miles needed to redeem
2. Earn with retailers	2. Flight rewards	2. Miles needed to redeem	2. More direct flights
3. Earn on credit card	3. Status benefits	3. Reduce taxes on flights	3. Reduce taxes on flights

Source: Internal Research Reports (Voice of the Member 2019).

Notes: Numbers are based on stated responses. Scores are indexed off of a No Status score equal to 1.00. For example, if No Status was 4.0 and Status was 5.0, No Status index would be 1.00 and Status would be 1.25.



Within Aeroplan status members, qualification and benefits vary between the multiple tiers

Aeroplan Status Benefits	Silver (25,000 Miles)	Black (50,000 Miles)	Diamond (100,000 Miles)
Fewer miles needed redeeming for MFFR	Up to 20% Off	Up to 25% Off	Up to 35% Off
Status bonus miles on travel cash bookings on aeroplan.com	Up to 2 bonus miles / \$1 spent	Up to 2 bonus miles / \$1 spent	Up to 4 bonus miles / \$1 spent
Bonus miles on stays at Marriott and Starwood Hotels & Resorts		250 bonus miles per stay	250 bonus miles per stay
Bonus miles with Aeroplan eStore	2X	2X	3X
Priority access to Aeroplan contact centre			☒
Preferential rate on flight reward fees			☒
Fairmont Hotels & Resorts \$25 credit		☒	☒
Fairmont Hotels & Resorts Welcome amenity			☒
Fairmont Hotels & Resorts room upgrade (if available) and breakfast	☒	☒	☒



In addition to *Aeroplan* status, AC has its own status with different qualifications called *Altitude*

AEROPLAN STATUS LEVELS OVERVIEW

Status Level	Silver	Black	Diamond
Aeroplan Miles Earned Annually	25,000	50,000	100,000

ALTITUDE STATUS LEVELS OVERVIEW

AND {	Status Level	Prestige 25K	Elite 50K	Elite 75K	Super Elite 100K
	Altitude Qualifying Miles OR Altitude Qualifying Segments	25k/25	50k/50	75k/75	100k/95
	Altitude Qualifying Dollars ¹	\$3,000	\$6,000	\$9,000	\$20,000

¹ Non-Canadian residents benefit from AQD requirements 50% lower than the published amounts.
Notes: Status Levels are subject to change in the future.





Aeroplan Future State

In 2020, Air Canada will launch its new loyalty program after acquiring Aeroplan



We are building a new frequent flyer program – inspired by you.

- **We've acquired the Aeroplan Loyalty Program.**
You can continue to earn and redeem Aeroplan Miles without interruption.
- **Your Aeroplan Miles will be honoured on a one-to-one basis in our new loyalty program when it launches in 2020.**
Rest assured that every one of your miles will count.
- **Our new loyalty program will launch in 2020.**
Your ideas are helping to shape it.



The appeal is centred on the aspiration and relevance of travel



Non-travellers

42%



Infrequent
travellers

54%



Frequent
travellers

4%



Future program design delivers on what consumers want



Personalization drives satisfaction	Enable the family dynamic	Balance practical with fanciful
<p>Recognize customer preference drives satisfaction</p> <p>Provide personal touches that rival leading retail experiences</p>	<p>Consider individuals in the context of their family-group</p> <p>Tailor the experience based on the trip purpose</p>	<p>Give customers the versatility to use their miles to enhance their travel experience, or lower the cost of their trip, or save for a dream vacation</p>



Our goal is to win the hearts and minds of travellers - both frequent and infrequent



“Earn our way into consumers’ lives everyday”



***Build Trust
and
Confidence***

Intuitive ecosystem
rooted in fairness and
common sense



***Make
Rewards
Rewarding***

Best in market
rewards, network
and global reach



***Recognize and
Differentiate***

Active
engagement,
attainable benefits
and recognition

