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RESEARCH ARTICLE

CUSTOMER RELATIONSHIP MANAGEMENT TECHNIQUE: A STUDY ON FREQUENT FLIER PROGRAM.

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Abstract

Loyalty programs are strategy so as to attract customers and retain them to be with the brand for the longer period of time. The strategy basically aims to retain the customers which would help in increased revenue. Now-a-days loyalty programs are being taken up by many sectors like that of airline, hospitality, retail sectors. The paper concentrates on the loyalty programs in the airline sector. The term used for the loyalty programs in the airline sector is frequent flier program. The paper has talked about the frequent flier program which includes the evolution and has further talked about the frequent flier programs in India. The frequent flier programs are considered as a customer relationship management technique so as to develop long term relationship with the customers. The paper has developed a model which will be helpful in designing frequent flier program

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Introduction:-

Loyalty could be termed as the repeat purchase quality in person. Loyalty is studied in almost all the sectors around. Loyalty programs in tourism industry especially airlines have a lot of research being done. There are many customer relationship metrics that firms use. Loyalty programs or the frequent flier programs are the key marketing activities for many airline companies (Reichheld, 1996; Morgan and Hunt, 1994; Gronroos, 1995). The main reason for structuring of loyalty programs has been in attracting the customers to perform a repurchase. The travellers are even rewarded with free flights if the travel miles are accumulated sufficiently. Such loyalty programs are also with businesses like hotels and services. The reward programme gives intangible benefits to the frequent buyers or travelers. Another aim of the reward programs is to increase repetitive purchases. This profiling of corporate flier as frequent flier has been changing to an individual (Warden, 2006). The trend of high carrier airline FFP has been changing too by the low carrier airlines by following similar FFP.

Definition of Loyalty:

The word loyalty has its origin dating back in the year 1400 which has been derived from the French word loialté. The synonym of loyalty is given as 'a feeling of allegiance'. Loyalty programs have helped in creating the relationship with the customers. According to Harvard Business School, increasing the customer retention by 5% helps in increasing the profits 25% to 95%. Loyalty programs have been introduced by retail sectors, hospitality sector, airline sector. Customer loyalty cannot be defined in few words. Loyalty can be explained in different context (Uncles, Dowling, Hammond, 2003):

1. Loyalty can be an attitude which may sometimes lead to a relationship with a particular brand
2. Loyalty can be explained based on past purchase patterns

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3. Loyalty based on individual's characteristics, circumstances and/or purchase situation.

Loyalty can be behavioural loyalty where loyalty is historic and deterministic and there are no set reasons for this kind of loyalty. It can be attitudinal loyalty which is attitude and the beliefs towards a brand.

Rationale of the Study

The paper talks about the loyalty programs and has been concentrated on the airline sector. The Loyalty programs initially were not started with the view of earning profits or in price point of view. The experimentation also includes loyalty programs initially providing variations in quality. Then later was the time when the airlines provided mileage bonus as part of creating loyalty (Kearney, 1989). Now this loyalty programs has been into co-creation. Here co-creation would mean various sectors coming together to provide loyalty programs to the customers. The paper in brief has studied the various programs provided by the airline sector in India.

Literature Review

The loyalty programs started in the during the period of 1980s by the AAdvantage program for the American airlines. When loyalty programs in airlines came into existence, the main aim was to attract customers (DeBoer, V.Gudmundsson,2012). Another objective is to keep the new entrants away from entering the market (Whyte, 2003). The frequent flier program history is divided into different phases: The Legacy programs, advanced programs and next generation program. The first phase talks about the beginning of loyalty programs where it mentions the AAdvantage program as one such program which had started the trend of the loyalty programs in American airlines which was called the frequent flier programs. At the beginning free tickets were given to high frequency travelers after they complete a certain threshold levels. The allocation of seat was based on the revenue department selection. Then came the tie up with various credit card companies where a person can redeem a certain points based on the distance which is flown. Then in the second phase there were some restriction evolved like based on dollar value, points were added. Others were dynamic award seat pricing. At this time accounting principles changed which affected FFP as the revenue modelling was changing. The next phase talks about the Next Generation Program which is based on high revenue and low costs. It also has talked about the horizontal and vertical integrating. It could lead to third party investment which could mean a win-win situation (DeBoer, V.Gudmundsson, 2012). The loyalty program inspiration has come from the hotel industry which was adopted by the airline industry (Mason & Barker, 2006). The loyalty schemes have been practiced for a long period of time. A comparison between transactional marketing and relationship marketing has been an important aspect. The very first attempt to start with the loyalty schemes is by western airlines in 1980 by providing coupons. USA has been one such country who started the frequent flier program and reached successes. Other countries could not develop it so fast due to lack of technology. So it could be inferred that technology plays a key role in loyalty programs. The author says these programs are usually undertaken for acquisition of new customer and also retention of older ones (C Gilbert, 1996). The main loyalty programs in the airline industry is the frequent flier program which many a times is used synonymous to loyalty programs. For the FFP to be successful it is essential to understand the customers' needs. Frequent flier program is usually considered for corporate travelers but it should be considered for individual travelers. Now- a- days the trend is that customers expect personalized reward programs which should be considered. There should be behavioural and lifetime value analysis. Cross selling and real time customer analysis should be done in present scenario (ITC Infotech data sheet). There have a lot of FFP in Australia also. Australian airlines have changed since its deregulation. The frequent flier program for the Australian airlines has grown and managing the frequent flier program is a bigger task. They have a joining fee which means to join the FFP they need to pay an amount. Since the concept of FFP has been adopted from the American airlines, Australian airlines have learnt a lot many lessons one them being more restrictive in comparison to FFP in American airlines. They have targeted high income business traveller who travels alone. It has been evident from the study that one of the reasons to choose a particular airline is due to the frequent flier program (G. Browne, S. Toh, Y. Hu). Like Australian airline, a differentiating airline is the Southwest airlines. There have an insider view of the Southwest airlines which shows how southwest airlines give importance to customers and their needs. In Southwest airlines, from the training onwards it is taken care whether the candidate is showing care for the customers. For this they put the trainees in the appropriate situations. They even have VP for customers. Employees are treated as internal customers. The main message given to the employees is "Put oneself in other shoes" (Parature report). Another aspect to be looked into is the loyalty factor and share of wallet and their relation. There has been discussion about the perceived attractiveness and the perceived switching costs. Loyalty programs are helpful in building long term relationships and thus helpful in retention of customers. There is a positive relation between the attractiveness of the loyalty programs and the perception of rewards gained. Loyalty program contributes to the customer relationship. From the findings it is

found that the wallet share is driven when there is low attitudinal loyalty (Wirtz, Mattila and Lwin, 2007). There has been a lot of research over is loyalty customers showing in an airline industry is a true loyalty. Loyalty always doesn't mean complete satisfaction amongst the members.

Loyalty could be no loyalty, spurious loyalty, latent loyalty and sustainable loyalty (Dick and Basu Framework). There has been research conducted on the spurious loyalty in Airline sector where Qantas airlines of Australia had been consider. According to the result only half of the tested result showed they are loyal to a particular airline. Though switching cost is not high as members are not willing to give away the points earned on the card. The author has concluded that there is possibility of spurious loyalty (Whyte, 2003). As discussed loyalty programs can help the companies to go through the monetary benefits by creating it as a standalone business (CFO publishing, 2007) like the same concept of Next Gen programs (DeBoer, V.Gudmundsson, 2012). From Morgan Stanley perspective, separating the business could help in share increase to 20 to 27%. United, Northwest, Delta, and US Air has been thinking about the same. With this separation, American is facing the problem to split up with the AAdvantage program though it has faced bankruptcy. But a Loyalty program has been a valuable part of business. With the risk of separating, the author speaks about the benefits of split of according to Robbert Van batenburg, head of research at Louis Capital market (CFO publishing, 2007).

Loyalty Programs and Principles

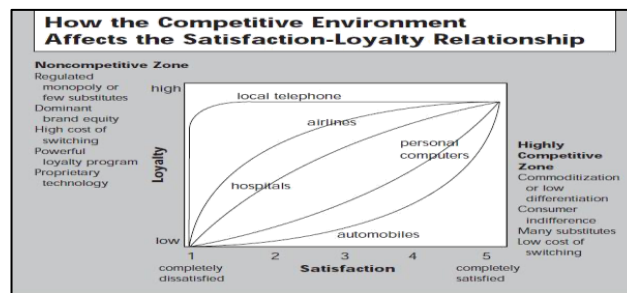


Figure 1¹:-Why Satisfied

Customer Defect

From the literature review it is evident that the loyalty programs in airlines have the following main objectives:

1. Attracting the new customers and Retention of existing customers
2. To restrict the new and small players to enter the market.
3. Earning profits.

Loyalty programs in airline industry are a frequent flier program, which usually targets corporates or businessmen, earning high income and who travel frequently. But there is another segment of individuals who travel by airline as frequently as the businessmen but is ignored. This set of people could also be profitable as they do contribute to the revenue stream. There could be some loyalty programs for such group of people so that they do not defect easily.

As discussed earlier, the airline sector does depend upon the frequent flier program and such loyalty programs but in case of highly competitive scenario and pricing can change the loyalty among the customers and they tend to defect.

Frequent Flier Program in India:

In India not all the airlines have fully functional loyalty programs. The reason for low loyalty programs is due to lack of awareness regarding the benefits of loyalty programs. The table 1 shows various benefits offered by airlines in India.

¹ Jones T.O. and Sassar, Jr W.E., "Why satisfied customers defect", Harvard Business Review, November-1995

Table1:-Loyalty Programs by various Airlines in India

Airline	Loyalty program	Benefit
Air India	Flying Returns	<ul style="list-style-type: none"> • Can accrue miles on tickets purchased for self in any currency • Earn bonus on miles • Code sharing on all fare-paying tickets and earn miles • Tele check in facility • additional free luggage
Jet Airways	Jet Privilege	<ul style="list-style-type: none"> • Web and Tele check in • guaranteed reservations upto 24 hours prior to departure on full fare economy ticket • Cancellations fees waived (within India) • Priority Stand by at airport • Priority Baggage tagging • Additional baggage allowance • Lounge access
Vistara	Club Vistara	<ul style="list-style-type: none"> • Value based privileges • Loyalty based on money spent and not miles travelled
Go air	Goclub (Temporarily discontinued)	<ul style="list-style-type: none"> • Discount vouchers

airline is having loyalty programs which are co- branded, where airlines combine with the credit card like that with American Express, Diners club. Similarly, co-branding with the hotels/ restaurants. Such loyalty programs are seen more in abroad countries but can be easily replicated in Indian condition. In India the example of Jet airways co-branding activities. Their co- branded partners are-HDFC Bank, ICICI Bank, IndusInd Bank, American Express Card.

The growth of passenger’s traffic in airport is shown in figure 2 below:

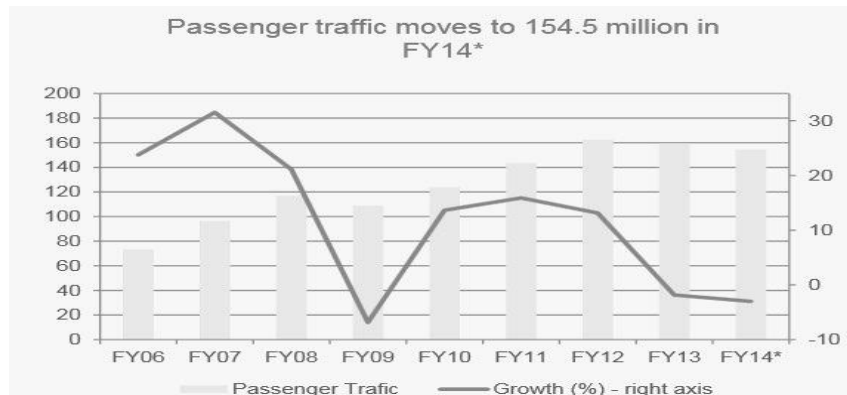


Figure 2:-Growth of Passenger traffic in airport in India

Based on above clear it is clear the growth of passenger traffic in India is decreasing over a period of time. In this case there are strategies to be adopted by airlines to retain the customers.

Conceptual Model:

Frequent flyer program is more of an attitudinal loyalty than behavioural. The perceived benefit of the loyalty program is also the perceived value the loyalty program is providing to the customers. The two factors plays an important role in that- the exposure which is the knowledge of the program and the usage which is the actual redemption of the benefit earned (Holbrook, 1996; Keller, 1993). Only when the above two are present, customer loyalty is lead.

The loyalty is based on the following Figure 3:

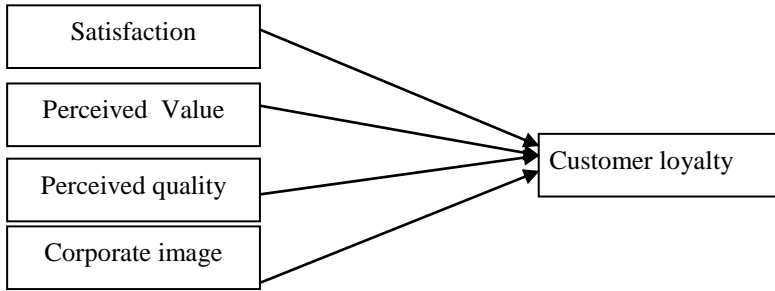


Figure 3:-Theoretical model of customer loyalty

The model of theory of planned behaviour is as follows in Figure 4:

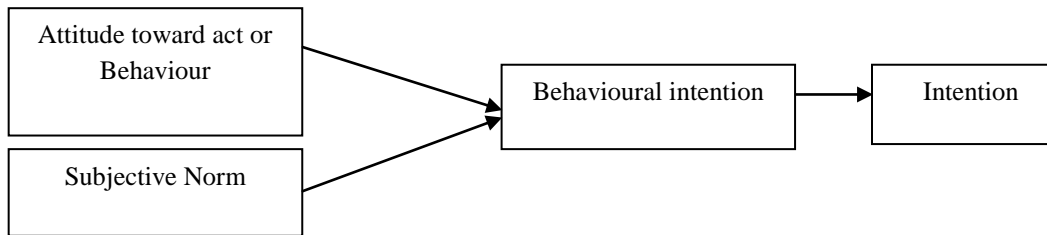


Figure 4:-Theory of planned behaviour

The variables from the study by Nadiri, Hussain, Ekiz and Erdogan(2008) are airline tangibles, terminal tangibles, empathy, Image, Customer satisfaction, Repurchase intention, Word of mouth.

From the study of Andreassen & Lindestad (1998), it has been observed that customer satisfaction, perceived value, perceived quality and corporate image as factors leading to loyalty.

From the above two studies it can be observed that factors such as airline tangibles, terminal tangibles come under perceived quality. The perceived value are the services which is offered to the customers from which they have attained the value. Word of Mouth would come under the corporate image. Empathy would lead to customer satisfaction leading to customer loyalty.

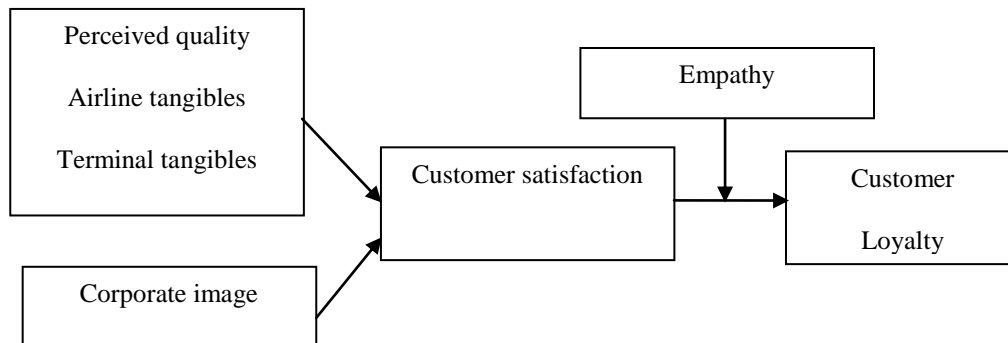


Figure 5:-Customer Loyalty in Airline Sector

The model in Figure 5 is developed for developing customer loyalty in the airline sector. This would mean the factors which would be helpful in designing the frequent flier program in airline sector in order to retain the existing customers.

Based on the above model, and the strategies mentioned in the Figure 6, the frequent flier program can be developed in order to create customer relationship for the longer period of time.

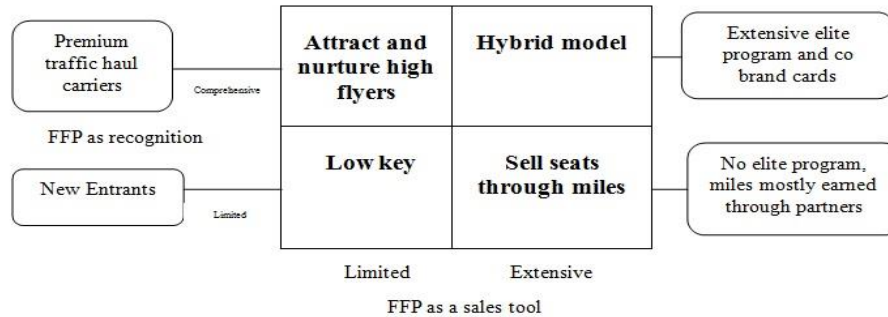


Figure 6:-FFP strategies

Implications

The model developed in the paper, has given an insight of the factors that can lead to customer loyalty. The concept of loyalty to plays an important in marketing literature, as it helps in retaining customers. As mentioned in many marketing literature, retaining customers is better than getting new customer especially in service industry. The research can be tested empirically for knowing the factors. As the study is specifically for airline industry, it could help the airline industry to understand the factors which leads to customer loyalty.

Discussion and Conclusion:-

The loyalty program in airline sector which is considered as a customer relationship management technique is a factor that can bring about change in the customer preferences. To retain the customers and building a long term relationship, the loyalty programs should be designed according to changing customer needs. For tackling the increasing competition there should be loyalty programs for various segments at various levels which would help in conversion of no loyal customer to loyal customer. Also, the level of satisfaction of the customers must be measured for avoidance of spurious loyalty and reducing the switching behaviour. When a comparison is made between the loyalty programs in abroad and India, it can be observed the lack of awareness of benefits of frequent flier program in India has caused a lot of airlines not to come up with such loyalty programs. Models of the loyalty programs in abroad countries can be adopted in India too with appropriate strategy put in place. Such loyalty programs can be even reflected in the other sectors too. The very concept of co branding can also be studied and applied in Indian scenario. The model developed in this paper has to be empirically tested so as to develop the frequent flier program for the airlines in India.

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