KEVIN CURRY

CRM in the air

Urs Binggeli, Sanjay Gupta, and Carlos de Pommes

Airlines can capture more value and hang on to more of their customers by focusing, once again, on their CRM programs.

In the 1980s, airlines introduced frequent-flyer programs to increase the loyalty of their customers, thereby pioneering a new approach to marketing that has come to be known, more broadly, as customer relationship management. Today, CRM programs are used in a wide variety of industries to identify and retain valuable customers, to encourage fickle ones to spend more, and to cut the cost of serving those who are less valuable. But the pioneers have failed to keep pace with CRM innovation—to their detriment.

A survey of 17 major airlines around the world reveals that even the most sophisticated among them have only a rudimentary understanding of who their most valuable customers are or could be, which factors affect the behavior of these customers, and which CRM levers are most effective in ensuring loyalty.[1] Airlines fell behind best practice in CRM because they were complacent, attached little importance to nonoperational and noncritical systems, or didn't grasp the financial implications of getting things right. The result: today, airlines know only marginally more about the people who fly on their planes than they did ten years ago.

Given the troubled condition of many airlines,[2] they urgently need to make better use of CRM. Effective implementation of such a program can increase an airline's revenue by as much as 2.4 percent a year, representing a bottom-line annual impact of $100 million to $250 million for a large carrier (Exhibit 1).[3] Industry experience suggests that up to a quarter of this amount represents low-hanging fruit and can be harvested within a year through campaigns to win back customers who have gone over to

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[1] Nine European, five North American, and three Asia-Pacific airlines responded to the survey, conducted in 2001.

[2] For more on the state of the airline industry, *see* Peter R. Costa, Doug S. Harned, and Jerrold T. Lundquist, "Rethinking the aviation industry," *The McKinsey Quarterly*, 2002 special edition: Risk and resilience, pp. 88–100.

[3] The underlying analysis is based on pilot CRM campaigns by airlines. These estimates were extrapolated to an airline's total passenger base.

competitors, for example, or to target occasional passengers who have been identified as high-potential ones (Exhibit 2).

Most airlines lack the systems and processes to implement a CRM program and thus don't have complete or consistent data on customers. For instance, although airlines come into contact with them across a range of channels—not only telephones and the Internet but also airports, customer service desks, and airplanes—data aren't collected consistently or accurately at any of these interaction points. Best practitioners do keep records of times when customers had poor flying experiences and analyze whether they affect the frequency of flying. A special-handling service (access to a lounge that would normally be off-limits, for instance) the next time such a customer checked in could work wonders.

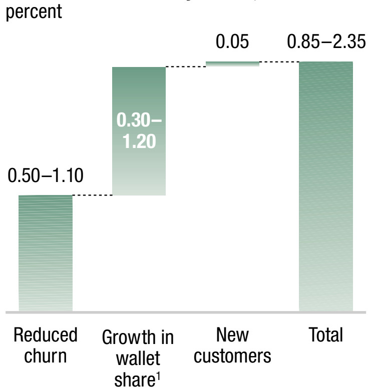
At some airlines, data of this sort are stored in up to 20 different internal systems and 10 external ones (which might include the databases of the airlines' marketing partners). The process of consolidating fragmented data is difficult and prone to error. Fixing technological-infrastructure problems is a long-term challenge, but such an investment alone would not guarantee results. One US airline spent $25 million on a new data warehouse and associated tools but failed to use the resulting

EXHIBIT 1

Good for the bottom line

Impact of customer relationship management (CRM)

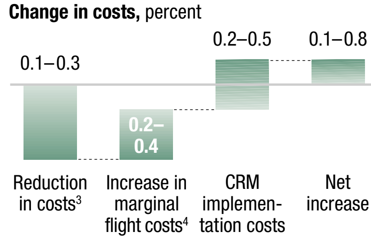
Increase in revenues by source, percent



Potential improvement in operating profit, $ million per year

Large airline[2]	100–250
Midsize airline[2]	25–60
Small airline[2]	15–50

Change in costs, percent



[1]Proportion of consumer's disposable income allotted to single company.
[2]Based on revenue-passenger-kilometers (RPKs), that is, number of passengers multiplied by number of kilometers they fly; large airline = 76 million to 200 million RPKs; midsize = 21 million to 75 million; small = 5 million to 20 million.
[3]Through elimination of waste associated with targeting unprofitable customers.
[4]Due to increased business.

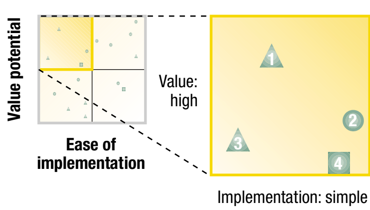
information profitably, in part because after it had been collected the airline realized that it wasn't complete and in part because not all divisions of the airline's organization had signed on to the project's goals.

Many airlines can't identify their most valuable customers, because their frequent-flyer programs are little more than general-ledger systems that track accrued and spent miles. Although a general correlation does exist between the tiers of a frequent-flyer program and the value of the customers enrolled in them (meaning that in most cases a frequent flyer in the elite category is the most profitable kind of customer), further analysis can prove illuminating. Customers within the same tier often represent widely different levels of value to airlines, and a small but signifi-

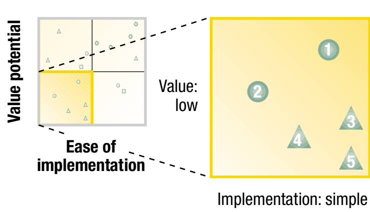
EXHIBIT 2

What's an airline to do?

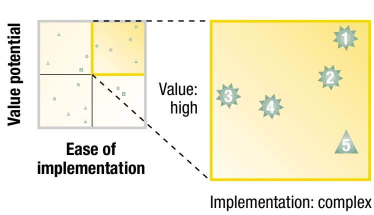
Retention · Wallet share[1] · Cost reduction · Multiple value levers



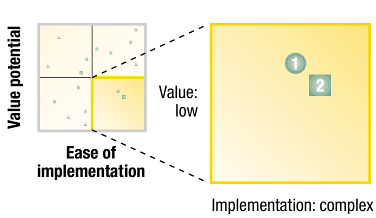
1. Campaign to win back former customers.
2. Entice low-wallet-share[1] customers with special offers.
3. Create hot line for high-value customers.
4. Shift less profitable customers to more cost-effective channels.



1. Target new frequent-flyer-program members whose potential value is high.
2. Target customers who fly one-segment[2] journeys.
3. Create relationship teams for high-value customers.
4. Offer high-priority travel passes to frequent-flyer-program members frustrated by travel-embargo dates.
5. Apologize for bad service experiences.



1. Offer individualized service at multiple interaction points—for instance, aircraft, telephone, ticket counter.
2. Manage revenues at individual customer level.
3. Campaign proactively on trigger events, such as times when traffic on given route declines by certain percentage over designated period.
4. Refocus frequent-flyer program on most valuable customers.
5. Focus operational improvements on issues important to high-value customers, such as advanced billing/invoicing for corporate clients.



1. Tailor bundled offerings to targeted customers.
2. Influence customers' frequent-flyer-point redemption behavior.

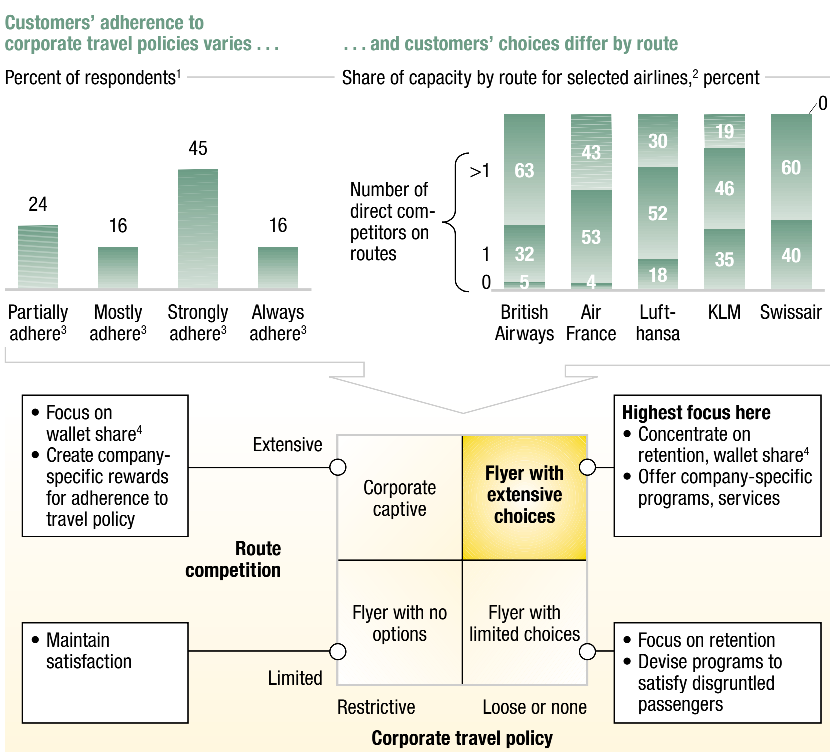
[1]Proportion of consumer's disposable income allotted to single company.
[2]For example, one-way flight by customer who flies remaining leg of journey on competing airline.

cant number of passengers in the lower tiers—regular travelers who pay full fare, for example—could be of greater value than passengers in the upper ones.

Another big problem for airlines is the fact that they rarely know how much their customers spend with competitors. A passenger who traveled infrequently on a given airline, for example, might travel extensively on one of its competitors and would thus be a more fruitful target for marketing than its own frequent travelers. One airline analyzed one-segment (one-way) flights taken by its passengers and discovered that they were flying the other segment on competing carriers. A different airline used records from its co-branded credit card to determine where its customers collected their frequent-flyer points. It then targeted passengers collecting points in hotels and restaurants in countries where no corresponding flights had been taken.

EXHIBIT **3**

What influences travel decisions?

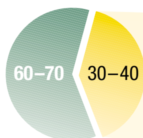


[1]2001 McKinsey survey of one company's 44 frequent flyers, averaging 42 flights per year; does not total 100% because of rounding.
[2]For all routes flown by airline out of its home airport.
[3]Partially adhere = <50% of travel occasions; mostly adhere = 50–79%; strongly adhere = 80–99%; always adhere = 100%.
[4]Proportion of consumer's disposable income allotted to single company.
Source: OAG flight schedules database, 2001; McKinsey analysis

EXHIBIT **4**

Keeping passengers happy

Reasons for customers' downward migration,[1] percent



Structural factors such as change in

- Job
- Location
- Personal circumstances

Nonstructural factors

Related to	**Possible issues**	**CRM[2] actions**
• Service	• Delays, lost luggage	• Identify and proactively apologize to high-value customers
• Frequent-flyer program	• Failure to redeem frequent-flyer points	• Provide high-priority frequent-flyer redemption certificates
• Product	• Dissatisfaction with seat design	• Initiate changes in future product design
• Competitors' offers	• Sales promotion in specific market	• Predict which customers may defect; offer appropriate discount
• Flight	• Availability of high-demand routes	• Ensure sufficient timing, frequency of scheduled flights preferred by high-value customers

[1]Choosing fewer or less expensive products or discontinuing use of products.
[2]Customer relationship management.
Source: 2001 McKinsey survey of 9 European, 5 North American, and 3 Asia-Pacific airlines

Several factors influence the behavior of passengers (Exhibit 3). The challenge for airlines is to understand the actual and potential value of each customer and to pinpoint the actions and incentives needed to maximize it (Exhibit 4). Best-practice CRM demonstrates that it is indeed possible to capture the lost value of these customers. Q

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