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Hear the Competition Running, See the Opportunities Ahead, and Run Faster: How Aeroplan Canada Turned a Threat into a Winning Proposition

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ABSTRACT

Competition never sleeps in the loyalty industry as coalition, frequent flyer, and frequent guest programs are all fighting for their share of customer loyalty. Anticipating the launch of a competitive loyalty program, Aeroplan Canada turned what many thought to be a threat to their leadership into an opportunity to reinforce their position in their market. Leveraging analytics on member behavior and attitudes, Aeroplan Canada market initiatives reassert the leadership position as a key partner in the process.

INTRODUCTION

After many delays, the most serious competitor to Aeroplan's largest airline partner launched its proprietary frequent flyer program in March 2010. Many observers of the loyalty industry believed at the time that this launch would significantly change the competitive landscape for frequent flyer programs in Canada. Coincidental to the launch, the global airline industry began to recover from the worse recession in decades setting hope that business travelers would soon be filling planes and fly in more expensive classes.

Aeroplan Canada, strong of more than 25 years of experience as Air Canada frequent flyer program and as the premier loyalty program in Canada, was certainly aware of the potential impact on the loyalty landscape created by the launch of a competitive frequent flyer program, a first in over a decade in Canada.

Very limited information was available on the content of the competitive frequent flyer program. Only speculations circulated online or in newspapers in the months leading to the launch of the program. Aeroplan leveraged the vast amount of historical information on its members and its unique knowledge of the Canadian loyalty and airline industries to propose targeting strategies designed to drive revenues for Canada's largest airline. The following paper outlines how Aeroplan delivered on this objective.

BUILDING BLOCKS TO A TARGETED APPROACH

In a traditional predictive model problem, the analyst has a well-defined behavior to predict. Classic applications are found in the telecommunications, banking or retail industries where customer acquisition, churn or up-sell are detectable behaviors that an organization either promote (acquisition, up-sell) or try to prevent (churn).

The present situation is different. Aeroplan has a wealth of information on its member's activities with its partners, but obviously none with their competitors. Therefore, it is difficult to identify members who are likely to be 'attracted' by the competitive frequent flyer program as no competitive transactions are present in Aeroplan's transactional data warehouse.

However, there is a solution to this problem if one is able to build a multi-layer member-centric view in its data warehouse. Let's pause for a moment and examine how Aeroplan achieved this task.

Aeroplan built its data warehouse around a detailed member-centric view of three layers of data with the contribution from many stakeholders in the organization, including marketing research, planning, analytics, product development and IT (Figure 1. Aeroplan Member-Centric View). The development and testing of this member-centric view of the member is performed with SAS® by the Analytics organization and upon completion, the view is migrated into the production environment by the IT team.

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The first layer of data is transactional and available for all members. It contains four key elements:

1. The historical behavior on accumulation and redemption for each individual member.
2. The member's demographics.
3. The evaluation of the member's value for Aeroplan and/or its partners.
4. The contact history, a huge dataset with the response to each communication sent by Aeroplan on behalf of its partners through all its proprietary channels and vehicles.

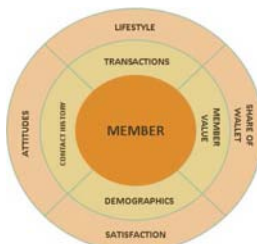


Figure 1. Aeroplan Member-Centric View

The second layer of data is based on Aeroplan's proprietary panel of thousands of active members. Detailed information is collected through the panel on member's attitudes and lifestyle, share of wallet with Aeroplan partners, satisfaction towards the program and its various elements. The panel enriches the behavioral dataset in providing such invaluable business information as current usage of the competitors, the likelihood to increase usage of competitors or the level of program satisfaction.

The third layer, not shown here, regroups third-party information, such as Census, socio-demographic segmentation or syndicated survey data. This type of information is generally available at some level of aggregation, such as the member's neighborhood or socio-demographic segment.

It is worth noting that the third layer is not limited to third-party information and also includes aggregated information derived from the first layer. For instance, the analysts calculate partners' or program penetrations for a specific geographical area, such as postal codes or dissemination areas. This type of information could then be used for neighborhood profiling or predictive modeling.

TARGETING MEMBERS

With these data assets in place, it is much easier to present the resolution of our targeting problem. Our objective is the identification of Aeroplan members that are more likely to consider switching all, or at least a significant portion of their business, to the competitor following the launch of its frequent flyer program.

To identify these members, Aeroplan first proposed a 'vulnerability' score. In the absence of any competitive information at the member level (first layer), analysts suggested to reach out to the Aeroplan panel (second layer) and combine answers to 8 questions to derive the vulnerability score. These questions included

- The level of satisfaction with Aeroplan airline partners
- The level of satisfaction with the Aeroplan program
- The likelihood to switch to another loyalty program within the next year
- The usage of a co-branded competitive financial card

A panel member with a score of five or more on the vulnerability scale is deemed likely to consider switching a significant portion of their loyalty from Aeroplan to the competitive program.

At this point in the process, members from the panel receive a value of 1 (zero) if their vulnerability score is 5 or more (less than 5). This becomes our target variable.

Using the transactional history and the target variable defined above, analysts developed with SAS® a predictive model that allows scoring all Aeroplan members and assessing their level of vulnerability. Members with the highest scores ('targeted members') would be presented with an offer from Aeroplan largest airline partner.

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Targeted members are segmented further to reflect their strategic value for Aeroplan and the airline partner and their responsiveness to an eventual offer. At the conclusion of the targeting process, targeted members are broken down into three segments for marketing execution purposes.

A comparison of the vulnerability and value of customers within each targeted segment (Figure 2. Vulnerability and Value per Customer for Each Targeted Segment) shows that as the vulnerability of a segment decreases its value per customer increases. This suggests that members in Segment 1, our most vulnerable, may already have moved a portion of their business to a competitor and/or to a competitive loyalty program.

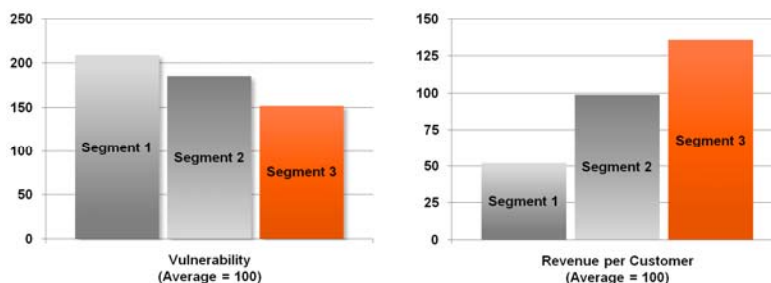


Figure 2. Vulnerability and Value per Customer for Each Targeted Segment

MARKETING EXECUTION AND TRACKING

The approach described in the previous section supported the targeting design in support to the launch of a promotion at the end of the second quarter of 2010. The promotion invited Aeroplan members to register with Aeroplan’s largest airline partner and earn bonus Aeroplan miles when reaching various flight segment thresholds during a specific time-window (Figure 3. Flight Thresholds and Bonus Miles).

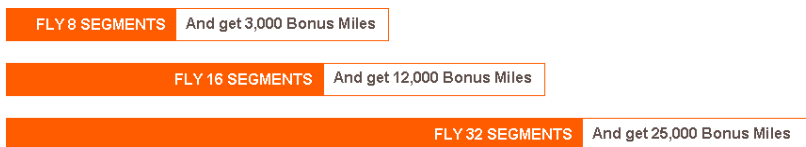


Figure 3. Flight Thresholds and Bonus Miles

As many external factors besides the promotion may influence the flight behavior of Aeroplan members - economic situation, seasonality, and marketing response from competitors – a control group for each targeted segment is desirable to isolate the impact of the promotion on member’s behavior. It is therefore possible to measure the success of the promotion from the incremental airline revenues that it generated.

To track the impact of the promotion on member’s behavior, analysts used SAS® to create a weekly report to measure the progress of targeted members against the various flight thresholds as compared to the control groups. This weekly tracking provides marketers enough flexibility to efficiently support the promotion through timely and relevant communications.

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At the highest level, the design of the weekly tracking report is simple, yet provides measures on the key metrics that one wishes to influence: number of segments flown and airline revenues generated (Figure 4. Promotion Weekly Tracking Report).

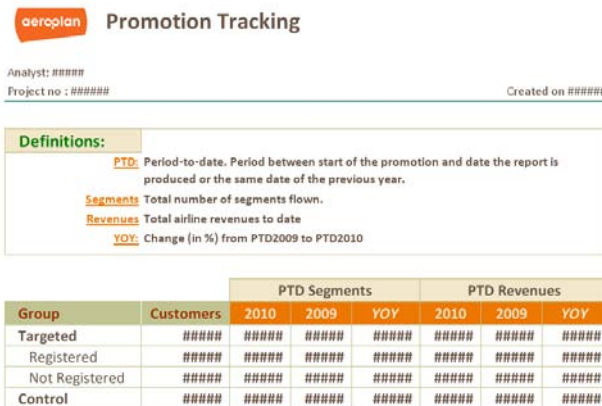


Figure 4. Promotion Weekly Tracking Report

RESULTS

The post-promotion analysis shows that the impact of airline revenues was significant, covering multiple times the costs of the promotion. Analysts noted that the increase of revenues resulted from the combination of an increase in the number of segments flown and a shift from lower to higher fare classes.

Further analysis on the number of segments flown by customers during the promotion also detected an interesting pattern around the thresholds set for the promotion, 8, 16 and 32 segments. Figure 5 illustrates the behavior of targeted members versus members in the control group around the various segments thresholds. An index of 100 indicates that targeted members are as likely to fly the specific number of segments as members in the control group.

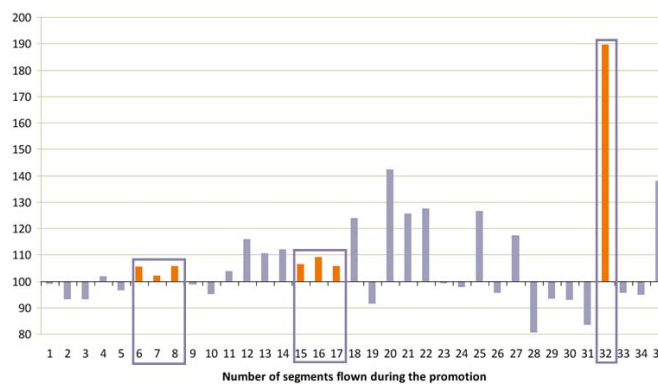


Figure 5. Ratio of the Distributions of the Number of Segments Flown During the Promotion, Targeted Members Vs Control

Results suggest that targeted members tend to be more likely to fly the number of segments leading to the 8-segment and 16-segment thresholds (6 to 8 and 12 to 16 segments). There is also a very significant jump at 32 segments, the threshold at which the member is rewarded by 25,000 bonus Aeroplan miles.

To support the observations above, a research completed with Aeroplan’s panel following the promotion concludes that targeted members mentioned that the promotion influenced their decision to fly with the partner airline. Finally, as the promotion closed at the end of 2010, Aeroplan will track throughout 2011 member’s flight behavior to determine if the promotion impacts retention. Unfortunately, it is too early to assess the impact on retention!

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CONCLUSION

The targeted approach, the ability for Aeroplan to leverage both transactional and attitudinal data and the rigorous measure of impact through control groups all demonstrate the business value of a disciplined and planned approach to data, analytics, execution and measurement. To perform this process efficiently from end to end, the organization requires the collaborative efforts of all stakeholders, in this case, Marketing Research, Planning, Analytics, IT and Partnership. Even in the presence of a limited amount of information, as show in this paper, Aeroplan is able to propose to its airline partner a targeted, measurable and more importantly impactful approach to generate incremental revenues in a context of increasing competition. To summarize

- Build a customer-centric view that includes transactional, attitudinal and satisfaction data
- Leverage business knowledge from across as many business areas as required
- Implement a promotion design that enables the calculation of incremental revenues
- Track, communicate results, track, communicate results, track ... And adjust the communications if required
- Confirm results by asking your customers
- Track post-campaign behavior to assess retention

CONTACT INFORMATION

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