The Analytics of Loyalty – Qantas Frequent Flyer

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## Qantas Frequent Flyer

### COALITION LOYALTY PROGRAM
- 8 million+ members – 50% household penetration
- Broadest earn partnerships
- Unrivalled partner network, redemption options and Qantas assets
- Program design creates considerable strategic advantages for Qantas

### RELATED BUSINESSES
- Operates over 100 loyalty programs
- Scalable marketing and analytics platform
- Significant opportunity exists to leverage IP in adjacent industries

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Driving Growth in the Core

Innovate and Expand along the Loyalty Value Chain
The coalition engagement model

Valued member proposition

BEHAVIOURAL OUTCOMES

- Customer acquisition
- Improved retention
- Increased share of wallet
- Improved margin

World leading partner profile

- Simple
- Achievable
- Desirable

- Innovation and technology
- Communication channels
- Leverage assets
- Community

- Reach
- Breadth
- Brands
Qantas Frequent Flyer Business Model

- **Billings of over $1bn**
- **Cash / deferred revenue of over $2bn**
- **EBIT of over $340mn**

Source: 2010 Qantas investor briefing and Qantas Data Book 2011
The evolution of Qantas Frequent Flyer

**Fundamental shift of business model in 2007**
- Shift to Coalition model
- Position for growth into mass market
  - Continual Evolution of the business, for example:
    - Platinum One
    - Auto-rewards
    - epiQure by Qantas Frequent Flyer
    - New comms channels

**Customer Engagement and Financial benefits**
- Record membership satisfaction
- 60% increase in EBIT
- 50% increase in membership
- Over 3.5 million award seats redeemed and 400,000 items of merchandise

**Analytics Capabilities**
- Customer behaviour analytics
- Campaign optimisation
- Predictive and event modelling
- Loyalty design analytics
Qantas Frequent Flyer is unique

<table>
<thead>
<tr>
<th>AUD*</th>
<th>Multiplus 2010</th>
<th>AIMIA (Nectar and Aeroplan) 2010</th>
<th>Qantas Frequent Flyer 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core Markets</td>
<td>Brazil</td>
<td>UK and Canada</td>
<td>Australia</td>
</tr>
<tr>
<td>Billings per capita of core markets</td>
<td>$3.50</td>
<td>$21.50</td>
<td>$41.50</td>
</tr>
<tr>
<td>Estimated Breakage Rate</td>
<td>23%</td>
<td>18%</td>
<td>&lt;10%</td>
</tr>
<tr>
<td>Adjusted EBITDA per capita</td>
<td>$0.89</td>
<td>$2.53</td>
<td>$7.30</td>
</tr>
<tr>
<td>Market Penetration of core markets</td>
<td>4%</td>
<td>34%</td>
<td>37%</td>
</tr>
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* converted to AUD at spot rate
Source: Annual reports and QFF analysis
Systems and data are not the end goal

These elements are all required to be in balance to optimise value from data
Case Studies: QFF continues to break new ground in the loyalty sector by combining internal assets with proven analytical approaches and external data.

1. Setting liabilities through customer engagement modelling

2. Targeting customer retention efforts with predictive modelling
Case Study 1 - Customer engagement modelling

- Program liabilities and the release of revenue are dependent on the eventual use of each point
- Over the long term, all points are either redeemed or expire unused
- Modelling future points expiry (breakage) helps inform the setting of assumptions by management
- There is a balance between customer engagement and breakage, between long term customer value and shorter term revenue
Modelling techniques

Many international loyalty programs have “life of point”, where individual points expire, say, 3 years after they are earned.

Breakage is often modelled using pension fund techniques.

The QFF program is based on member engagement, so customer activity levels are the key determinant of breakage.

Breakage is modelled with a multi-state transition model based on the level of customer activity.

Source: Quantium
## Learnings for financial services

<table>
<thead>
<tr>
<th>Whole of business focus</th>
<th>Continual assessment</th>
<th>Holistic customer view</th>
</tr>
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</table>
| Coordinated executive level committee – finance, strategy, analytics, marketing, product etc | Ongoing monitoring of customer activity and touch points  
Actuarial assessment of customer engagement implications of key business decisions | Consider customers across multiple dimensions – status tier, channels, source, level of engagement, value, activity etc |
Case study 2 - Predictive retention modelling

<table>
<thead>
<tr>
<th>Objective</th>
<th>Approach</th>
<th>Outcome</th>
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<tbody>
<tr>
<td>Identify customers at risk of disloyalty to focus retention and winback investment</td>
<td>1. Market Blueprint® used to identify loyal and disloyal behaviour, and measure potential customer value</td>
<td>Targeted surprise and delight campaigns to most valuable customers before the “defect”</td>
</tr>
<tr>
<td>Build a predictive model to rank customers on their risk of “defection”</td>
<td>2. Calibrate model to QFF customer variables (both internal and external) to score loyalty for individual members</td>
<td>Ability to respond to disloyalty on an ongoing basis</td>
</tr>
</tbody>
</table>
The loyalty / value trade off

- **High Loyalty, High Customer Value**: Focus retention efforts on those with most potential value.
- **High Loyalty, Low Customer Value**: Upsell to these highly loyal customers to increase value.
- **Low Loyalty, High Customer Value**: Ideal customer.
- **Low Loyalty, Low Customer Value**: 

(Chart indicating the loyalty/value trade-off with quadrants and arrows indicating high potential for focus and upsell strategies.)
Redeeming rewards generates loyalty

Source: Quantum

Points redeemed on Classic flights
Lounge access generates loyalty

Source: Quantum
Loyalty carries across industries

Source: Quantum
Focusing retention efforts - customer value overlay

Source: Market Blueprint®
Outcome: Individual customer risk of defection

Focus retention efforts on customers with 5-10 times the risk of others.

Source: Quantum
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<tr>
<td><strong>Predictive modelling</strong></td>
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<tr>
<td>Predictive models allow retention activities to be targeted on the highest value customers at risk of churn, maximising ROI</td>
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<td><strong>Root cause analysis</strong></td>
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<td>Multivariate models help understand the drivers of churn behaviour, informing the design of potential retention initiatives</td>
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<td><strong>Ongoing monitoring</strong></td>
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<td>Implementing retention risk measurement on CRM systems allows ongoing monitoring and rapid response at an individual customer level</td>
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Conclusion: Holistic view of the customer

1. Effective use of internal data
   - Traditional customer, product and transactional data
   - CRM data – customer profiles, activity, touchpoints

2. Exploiting external data sources
   - Obtain a view of customers and their behaviours outside your organisation
   - Monitor, understand and capitalise on emerging trends

3. Extensive customer focused modelling
   - Predictive modelling at an individual customer level for acquisition, cross-sell and retention

4. Customer centric organisational focus
   - Supported by customer centric management and culture
   - Ongoing investment in knowledge, systems and processes

Maximising customer loyalty and value