

Do Customer Loyalty Programs Really Work in Airlines Business?—A Study on Air Berlin

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How to cite this paper: Hossain, M.Z., Kibria, H. and Farhana, S. (2017) Do Customer Loyalty Programs Really Work in Airlines Business?—A Study on Air Berlin. *Journal of Service Science and Management*, 10, 360-375.

<https://doi.org/10.4236/jssm.2017.104029>

Received: March 4, 2017

Accepted: July 22, 2017

Published: July 25, 2017

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Abstract

Programs to secure customer loyalty have been used by marketers for many years. However, how effective are these programs? More than 50% of marketers said that their loyalty budgets rise during the past two years, while only 10% saw a reduction in budget. This reflects the increase of loyalty programs attracting frequent buyers for everything from food to clothing to entertainment. The main aim of this paper is to identify what extends customer loyalty program work in customer retention, customer engagement, and revenue generation in airlines business taking example of Air Berlin. This paper adopts a single case study design. Relationship management and customer loyalty theory are the theoretical foundations used for evaluation of the aspects of loyalty program effectiveness. It is concluded that though Air Berlin has been successful so far to implement their customer loyalty programs, retaining the customer loyalty can only be possible by being competitive over the other players in the market because customers will look for alternatives on the basic services and that reduces the influence of the drivers that keeps the customers loyal to one single company.

Keywords

Loyalty Program, Customer Relationship Management, Relationship Marketing, Rewards Program, Loyalty in Airlines Industry, Customer Satisfaction

1. Introduction

The term “loyalty” is used in today’s business context to describe a customers’ willingness to continue patronizing a firm over the long term [1]. Customer loyalty exceeds beyond behavior only and incorporates preference, liking, and future intentions to buy products from the same company. It is a very common trend nowadays in many service sectors to develop relationships with customers

to retain them for longer period. This practice brings up the examples of customer loyalty schemes or programs. Lisa O'Malley stated in 1998 that customer loyalty schemes have blossomed in the era of customer retention, and have been enthusiastically embraced by both retailers and consumers. Today's loyalty schemes are modeled on the advantage program initiated by American Airlines in 1981 [2]. Later, it led the way to introduce the most commonly seen customer loyalty program in the airlines industry, which is generally termed as Frequent Flier Programs (FFPs).

FFPs were introduced to capture the loyalty of customers by offering free travel and upgraded services from coach to first class [3]. Chin also suggests that it is a very successful marketing strategy to sell tickets in one of the most highly priced industries by building customer loyalty. To gain high degree of brand loyalty among the business travelers by fulfilling their primary demand was the main reason behind the design of FFPs, which gave airlines efficient communication medium with the best individual customers [4] [5]. In this paper we have analyzed about Air Berlin's customer loyalty program, which mostly focused on its FFP: Topbonus program.

The paper presents some background information about "Air Berlin" and the customer loyalty programs in the airline industry in the beginning of the discussion. The theoretical framework follows this part. Then the paper continues with an empirical study on the chosen organization's "relationship marketing" and "customer loyalty" efforts in terms of thinking, strategies and practices. This empirical study is followed by an analysis based upon the theories to have an insight to their customer loyalty initiatives and tries to find areas for further improvement.

1.1. Aim

This paper aims to study and analyze the design of a customer loyalty program in real business world based on the theoretical aspects and the chosen program to analyze its "Topbonus" program offered by "Air Berlin" airlines and the effectiveness of customer loyalty program to enhance relationship between customer and service provider. The reason why specifically "Air Berlin" and its "Topbonus" program were chosen for this study is because this airline solely relies on its topbonus program in order to retain its customer loyalty and hence, they partnered with a multiple international airlines to share their topbonus program [6].

1.2. Methodology

To analyze the customer loyalty program of Air Berlin, this paper adopts a single case study design. The study is based on theories on relationship management and customer loyalty. The theoretical framework is premised mostly on Lovelock & Wirtz's book *Services Marketing-People, Technology and Strategy*.

The whole study is based on secondary information. For the empirical study and the analysis, information was collected from Air Berlin's official website and their annual report of 2015. Some online articles related to the topic were also

used throughout the discussion.

1.3. Organizational Background

With the purpose of providing flights as tour operator, Air Berlin was found in 1978 in the United States of America [7]. Kim Lundgren, a US Pilot received license for “Air Berlin Inc” on 4th May 1979 from Federal Aviation Administration. Along with his German partner Joachim Hunold, Kim Lundgren registered “Air Berlin GmbH & Co. Luftverkehrs” in Germany on 16th April 1991 [8]. Air Berlin has grown through acquisition in the recent year. In 2003, it had acquired 49.9% share of Austrian Airline Niki, and in 2007 49% share of Swiss Airline Belair and it took over Düsseldorf-based airline LTU in 2007 [9]. After conversion into Air Berlin Group, it has a registered office at England and management office in Germany [10]. Moreover, in December 2011 Etihad Airways increased its share in Air Berlin to 29.21%, making Etihad Airways Air Berlin’s biggest shareholder [6]. Berlin Group is ranked as the second largest Airline in Germany and has offered its service to 27.9 million people in the year 2015. Considering its high number of flights, Air Berlin is the 6th largest airline of the Europe [10]. They are now offering services to 134 destinations of the world with 152 aircrafts. As of 31st December 2015, a total asset of Air Berlin was 2411.5 million Euros. With the workforce of 8278 employees, Air Berlin generated 3240.3 million Euros revenue in the year 2015 [10].

Furthermore, because of several code-sharing partners, Air Berlin had increased its presence at international level. Bangkok Airways of Thailand, Hainan Airlines of China, S7 Airlines of Russia, Pegasus Airlines of Turkey are the recent partners of Air Berlin due to which it has been providing its extensive service at international and domestic routes of different countries [10]. Along with this, because of the partnership with Etihad, Air Berlin can now use Etihad’s hub in Dubai as a gateway to flights in Asia, Africa and Australia [6].

1.4. Awards

Air Berlin has been awarded “Danish Travel Award” three times in the category of best low cost airlines in the year 2007, 2008 and 2015 [11]. Likewise, “Reise Blick”, the largest Swiss travel magazine awarded “Airline of the Year” to Air Berlin in the Short-Haul Category in year 2007, 2015 and 2015 [11]. Similarly, United Kingdom based consultancy SKYTRAX has awarded Air Berlin six times in different categories [10]. SKYTRAX also awarded Air Berlin as the “Best Low-Cost Airline Europe” in the year 2015 [12].

The magazine Airline Business and Global Flight has awarded “Loyalty Award 2015” to Air Berlin because of its product innovation, which has helped to satisfy customers at large extend [13].

1.5. Customer Loyalty Programs in Airline Industry

Loyalty reward programs are important tools for driving customer retention in many industries, including airlines, credit card companies, and retail and hotel

chains [14]. The goal of such programs is to enhance customer relationships by offering high value to profitable market segments [15]. Reward programs are also effective in increasing customers' perceptions of switching costs, thus further fostering customer retention [16]. As many service firms suffer from undifferentiated offerings and low switching costs [17], loyalty reward programs might be an effective tool in building relationship.

Loyalty program was at first introduced by the American Airline in the year 1990 in the form of Frequent Flier Program [18]. In the present scenario, almost every airline company has its own customer loyalty programs. Although some organizations have been benefited by this scheme, but Dowling and Uncles (1997, p. 71) suggest that these schemes will not influence more to alter market structure [19]. Out of 180 million airline FFPs member, only less than a third are active users [20]. Pandit further stated that majority of points of Frequent Flier Programs (FFPs) are earned during transaction of other activities rather than purchasing an airplane ticket. The increasing partners of airplane like credit card companies, fuel companies, grocery stores etc. are the major places where customer earns majority of their points. Pandit also state that average rate of getting an upgrade or a free ticket under this FFPs varies from 37% to 70%, which is the main reason behind having few active users under this program. He stated that, after implementation of these entire customers oriented programs, average load factor of airline industry is approximately 74%. This indicates that 26% of the seats are always empty. In his paper Pandit also mentioned that not more than 6% of seats are separated for such loyalty program.

1.6. Frequent Flier Program

According to Airline marketing officials, FFPs helped to increase the airline business by 20 to 35 percent [5]. FFPs help airlines to provide specialized service as per value and need of customer [21]. Toh and Hu (1988) research suggested that, schedule convenience, on-time performance, low fare, and overall service by attendance plays important role while influencing the choice of airlines other than FFPs [22]. Along with this service, as per Chin (2002), frequency, network coverage, seat availability, airport access time, waiting time, boarding time and flight time are also influencing factors for customers.

Air Berlin was offering FFP through Air Berlin Cards before July 2004, but after that it offered the same service with the program "Top Bonus". Along with the Bonus Miles under Top Bonus Scheme, Air Berlin offered Status Miles. Status Miles helps customer to join exclusive customer group, which get special service benefits like- extra free baggage allowance, free rebooking of flight etc. [23]. Regular travelers of exclusive group might prefer special service like special booking and check-in procedures, which helps to generate more profit from the organizational viewpoint [23].

2. Theoretical Framework

Frederick Reichheld said, "Few companies think of customers as annuities" [1].

That is what precisely a loyal customer means to a company, and the reasoning is, loyal customers work as a consistent source of revenue over a period of many years. Achieving customer loyalty necessitates building up relationships with customers. This can be a genuine orientation to create customer value or just another tool to increase sales.

Lovelock and Wirtz (2007) mentioned about a classic study by Reichheld and Sasser who analyzed the profit per customer in various service businesses, as categorized by the numbers of years that a customer had been with the firm. The finding said that a customer became more profitable the longer they remained with a firm in each of the industries. As the competition in business industries is increasing, there are fewer new customers to attract and repeating customers seems to be more profitable in the long run. These are the two key reasons for companies to try for better customer loyalty. Reichheld and Sasser identified four key factors that work to the supplier's advantage to create incremental profits. These are:

- Profit from increased purchases
- Profit from reduced operating costs
- Profit from referrals of other
- Profit from premium prices

These four factors are further explained as- over time, mostly as the customers grow larger, their families grow and they become more affluent. If they wish to consolidate their purchase with a single supplier, it brings more profit for the company. In other ways, as customers become more experienced, they make fewer mistakes (EG. Info and assistance) and the process is less faulty which contributes to reduced operating expenses. Positive word-of-mouth from the loyal customers works for the firm's promotion as well. Moreover, new customers often benefits from promotional prices and long-term customers pay regular price; and if they are highly satisfied, they are ready to pay premium prices as well [1].

However, in general, it is a mistake to assume that loyal customers are always more profitable than the one time purchasers. Companies need to assess the value of a loyal customer. Loveock and Wirtz analyzed (2015) the value of loyal customers in following way:

On the cost side,

- All type of services does not incur heavy promotional expenditures to attract new customer, so sometimes it's more important to focus on one-time purchasers.
- Loyalty programs incur more costs sometimes, for rewards and research to plan rewards also.

On revenue side,

- Loyal customers may not spend more than one-timers, and hence, revenue does not necessarily increase always over time.

Companies also need to analyze what is current purchase behavior and how long customers remain with the firm, what will be the effect if they stay longer as

customers.

Designing the Customer Loyalty Program

The Wheel of Loyalty

The process of building customer loyalty is explained in Lovelock and Wirtz's book, which comprises of a wheel of three sequential stages-1. *Build a Foundation for Loyalty*, 2. *Create Loyalty Bonds*, 3. *Reduce Churn Drivers*.

1) Build a Foundation for Loyalty:

This includes having the right portfolio of customer segments, attracting the right customers, tiering the services and delivering high-level service [1]. They suggested that the firms need to-

- ***Have a good fit between customer needs and firm's capabilities.*** It's necessary to carefully analyze the operational elements like speed and time and the physical features. The most important part is to carefully target customers by matching the company's capabilities and strengths. Reichheld said on this issue that, "the result should be a win-win situation, where profits are earned by success and satisfaction of the customers, and not at all at their expenses."
- ***Search for values, not volume.*** Heavy users are said to be more profitable as they buy more frequently and in larger volumes, comparing to occasional users. Therefore, loyalty leaders are picky about choosing the right customers. However, the right customers are not always likely to purchase more or pay premium prices. Depending on the service, the right customers may come from a wide range of people who are ignored by the competitor suppliers [1]. In a nutshell, the value perceived by the customer is all that matters, the number of targeted customers depends upon the strategy and the nature of the competing industry.
- ***Manage the customer base via effective tiering of service.*** Service providers should adopt a strategic approach to retain, upgrade, or even terminate customers. Lovelock and Wirtz (2007) mentioned about service product categories reflecting the level of value included to level of customers from the four level pyramid illustrated by Zeithmal, Rust and Lemon:

Deliver quality services. Lovelock and Wirtz watch customer satisfaction as the base for true customer loyalty. The relationship between customer satisfaction and service quality and is a definite object and these two are explained as pre requisites for customer loyalty in Lovelock and Wirtz's argument (2007). They divide the satisfaction-loyalty relationship into three main zones, which is shown in the following illustration.

2) Create Loyalty Bonds

Three major factors work as the common drives for customer loyalty. They are Confidence Benefits, Social Benefits, and Special Treatment Benefits. The first one, which is also considered as the most important one refers to the confidence in correct performance, trust factors and more information about the service offerings by the firm. Social benefits refer to mutual recognition and the last one refers to better prices, discounts and special deals that create a feeling of be-

ing specially treated [1]. These factors should reflect upon the process of creating loyalty bonds with them. Lovelock and Wirtz suggests firms to

- Deepen the relationship by using cross selling or bundling to create as much business as possible. An example of this can be customers consolidating their various purchases from the same provider that can bring higher business volume for the firm.
- Create bonds by giving rewards. Rewards can be financial or non-financial.
- Build bonds with customers. Lovelock and Wirtz (2007) discussed about social bonds, customization bonds and structural bonds to achieve customer loyalty. Social bonds refer to social relationships and attachments with the customer as personal relationship, customization bonds refer to service customization for valued customers and structural bonds refer to creating connection by building a structure to share information, processes, and equipment [1]. For example, auto updates via email or sms, providing service through some free equipment provided by the company, etc., which reminds the customer of the connection with the supplier very often [1].

3) Reduce Churn Drivers:

The last step of loyalty wheel is about identifying and reducing the factors, which results to “churn,” which mean loss of existing customers. Susan M Keaveney’s research on customer switching behavior (1995) revealed some key drivers for service switching of customers [1]. According to Keaveney (in Lovelock and Wirtz 2007), there are three major dimensions for which customers switch the service- service failure, improper value proposition and other reasons including involuntary switching and ethical problem.

Lovelock and Wirtz discussed (2007) about the way outs with three steps-

- Addressing key churn drivers, by improving service quality continuously, minimizing inconvenience for customers or working out the sector/industry specific churn drivers.
- Effective complaint handling and service recovering, which refers to making easier ways for customers to complain and then providing adequate service recovery against the complaint.
- Increasing switching cost.

3. Empirical Study

The Air Berlin Group, as a “hybrid carrier”, is maintaining the price differentiation gap between the full fare airline and low cost carriers [10]. It has been able to perfectly match the price and service by providing high and customized service. The business model of Air Berlin mainly targets for three groups of customers-business passengers, private individuals, and organizers of package holidays [10]. Along with the strong network in Germany and Europe it has been expanding its services through the “code sharing partnership” [10]. Its major service partners are Hainan Airlines of China, S7 Airlines of Russia, Bangkok Airways of Thailand, and private airlines of Turkey. With the help of these partners, Air Berlin has been able to increase its international air traffic expanding

its services in the domestic route of Turkey and Russia [10].

With the purpose of providing effective service to the customer, Air Berlin has adopted continuous modernization while selecting Airbus and designing each aeroplane as per the specific requirements for the excellent performance. In addition, changing frequency of route and adopting flexible route system has helped Air Berlin to meet the customer demand in an effective way [10].

With the mission of “closer to customer,” Air Berlin operates the services to its customers and committed to serve more closely based on personalized basis [24]. Airberlin provides drinks and meals free of charge to its passengers [25]. According to airberlin.com (2015a), customers who book the flight in Air Berlin can immediately book for meals according to their choice through the menu available in Air Berlin homepage. Air Berlin provides different menu such as special menu and menu for children [25]. Furthermore, Air Berlin not only provides the meals but also provide the entertainment to its passengers [25]. However, the services are provided according to category of flights. In Air Berlin the flights are categorize into short-haul and medium haul flights, long-haul flights and business class [25]. For business class passengers, Air Berlin provides a wide range of services [7]. Moreover, to facilitate the customers, Air Berlin does not take any charges nor do luggages check-in within the specified weight limits [26]. Beside these, in Air Berlin the disabled passengers and families with infants can pre-select the seat without any charges [26].

To provide the best services to the customer, Air Berlin launched the optimized mobile website so the customers can have the access and get services any time they want through their mobile phones [27] [28]. Furthermore, to facilitate the customers Air Berlin has provided four types of check-in and e-services, which are described as follows:

1) Web Check-in: The most easiest and convenient way for check-in in Air Berlin is web check-in. Web check-in service is available from 30 hour until 2 hour before the departure. This service is available for every e-ticket holders [28]. Through this service, the customer can select his or her desired seat and can print the boarding pass at home [28].

2) E-Services: One of the simple ways for check-in or reserving seat is e-services. Customer can choose the e-service within the booking process. E-services are available to the customers who want to use e-service for check-in. This service is varied according to the bookers *i.e.* advance and last minutes bookers and the service is applicable from 30 hours and 3 hours before the departures respectively.

3) Quick Chick-in: The customers in this service do not need to stay in queue for the check-in through Air Berlin’s check-in machine. This service is available for every customer who has Air Berlin’s credit card or topbonus card, and is applicable from 30 hours to 30 minutes before the departure of flight [28].

4) Desk check-in: Desk check-in service is available for the customers who do not use the above services. In this service, customer should be in time for the check-in so that he or she can have the boarding pass before the check-in dead-

line. Air Berlin has separate desk check-in facility for the business class passengers [28].

Top Bonus Program

Consumers typically participate in reward programs to obtain economic benefits (discounts), emotional benefits (sense of belonging), prestige or recognition, and/or access to an exclusive treatment or service [29]. If the consumer views a particular loyalty reward program to be more attractive than competing programs, it seems reasonable to assume that s/he is more likely to participate in that program, even if that customer is a member of several loyalty reward programs. Most reward systems are based on volume (e.g., your 10th sandwich is free), thus inducing heavy users to remain loyal to the company [30]. To maintain the customer loyalty, top bonus program is a specific program adopted by Air Berlin. It is the program where the customers can collect the miles from their flights and can fly the next flight for free when the total miles travelled reaches a certain level [31]. As explained in airberlin.com (2015b) passengers can get the status and awards miles in all flights of Air Berlin and in all flights of its partner NIKI. Beside this, the customers who use the services from the top bonus partners of Air Berlin's or who use the Air Berlin's VISA card for shopping purposes will also get the award miles, which can be used for free flights worldwide [31]. The topbonus partners can be categorized into six categories, they are: Air Berlin & NIKI, Partner Airlines, Premium Partner, Hotel Partners, Car Hire Partners, and Further Partners [32]. The status and bonus miles from the flights of Air Berlin and the Partner NIKI can be received according to flight distance [33]. The example below explains how the customer can get the status and bonus miles:

A customer who collected 3000 miles can order the one-way award flight [34]. However, the redemption of award miles depends upon flight destination [35]. The bonus miles received by each customer are valid for 36 months and the status miles are only valid for 12 consecutive months [36]. Status miles means the customer can get the exclusive benefits for example they can reserve the seat with free of cost, extra baggage allowance etc. [33]. Furthermore, according to the information available in airberlin.com (2015d) if the customer flies 24 times within a 12 months (irrespective of miles) or collected 20,000 status miles, he/she will get Silver status and the customer who collected 40,000 miles will get Gold status. For the status customers the top bonus program innovate "My Route," which is implemented in the year 2015. Through this program, the status members can collect double miles from their favorite route within Europe [37]. Due to this ("My Route") attractive innovation, the topbonus program of Air Berlin won the "Loyalty Award 2015." This award is granted annually by the magazine *Airline Business* and *global Flight* for outstanding success and innovations [13]. As mentioned in airberlin.com (2015i) the view towards Air Berlin from the judges is that "the innovation ('My Route') delivers improved customer satisfaction." Further the Head of Loyalty & Partnership Air Berlin explains,

“My Route” has contributed greatly increasing the loyalty of Air Berlin customers [13].

According to the information available in Air Berlin homepage, for a person there are special conditions to get membership in topbonus program. The topbonus frequent flyer program in Air Berlin provides the bonus to its customers for their loyalty. Anyone whose age is 2 or more years of age and the resident of Germany or any country in which the topbonus program is available can apply for the membership in topbonus program [38]. The award miles or statue miles achieved by the member cannot be transferrable to another person or another member and is not possible to convert the miles into cash [38]. However, the topbonus member has the right to upgrade his or her flight ticket from economy class to business class through award miles [38].

Under the topbonus program the member can be facilitate by four types of cards: classic card, service card, silver card and gold card [38]. Services in Air Berlin vary according to the card owned by the member. Classic card will be provided to the costumer in free of cost with their membership, and currently there are 1.7 million members in the topbonus program with classic card [37].

4. Analysis

4.1. Building Foundation for Loyalty

Customer Segmentation-Proper market segmentation is the basic for the success of any customer loyalty program. Air Berlin has properly managed this issue. Focusing on the target customer, they have designed service structure. Its business model targets business customers, individuals and organizers of holiday package [10]. In this way, Air Berlin service plan reflects the principle of segmenting customers mentioned in Lovelock and Wirtz (2007). It has been successful in targeting customer based on price and comfort. Air Berlin has maintained the price gap between the full fare airlines and low cost carriers in a successful way [10]. Generating high profit from loyal customers by providing high value of service and maintaining low cost carriers with the limited service has increased its competitive strength at the international market. This has helped them to meet customer needs along with their capabilities as described by Lovelock and Wirtz (2007).

Tiering Services-Under the Frequent Flier Program (FFP), Air Berlin has categorized its customer to Classic Card, Service Card, Silver Card and Gold Card. They have been able to satisfy the need of all these categories of customer by high and customizing service. Along with this, they have designed their Aircraft as well as Airbus in customized way *i.e.* different structure for business customers, holiday package etc. [10]. After the convergence of Air Berlin card to Top Bonus Scheme, it seems that, Air Berlin became more popular choice to the customers. This approaches resembles the customer pyramid illustrated (Figure 1) by Zeithmal *et al.* (in Lovelock and Wirtz 2007) (Figure 2), which shows their success to manage the customer base through effective tiering of services.

Moreover, this segmentation of customer and targeting the high revenue-ge-

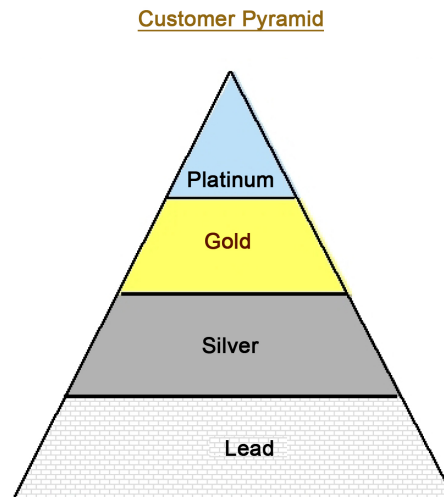


Figure 1. The customer pyramid.

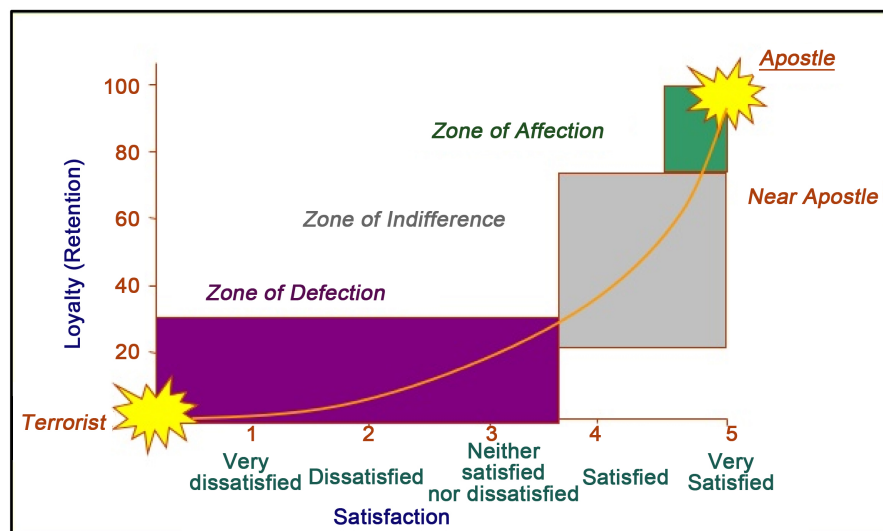


Figure 2. The customer satisfaction-loyalty relationship.

nerating customer has been the main reason behind the high increment of revenue in the year 2015. In the case of “My Route” program, double miles can easily help frequent travelling business customer to get free tickets. This in the long run can increase the personal travelling rather than only business travel. According to Lovelock and Wirtz (2007), the high frequency of repetitive service taker is always the best source of revenue for the organization, as there is no need of promotion or marketing for the repetitive customers. In case of Air Berlin, customer loyalty and providing repetitive service to them has helped to lower their operating cost. Reduced operating costs leads to higher capabilities to provide improved service and that is contributing to their competitive advantage as well.

Likewise, providing service as per the market demand is one of the features of effective tiring service. Planning of service as per the market demand, like changing frequency of routes, following flexible route system, etc. [10] has been

the major reason behind success of Air Berlin. The flexible route system not only fulfills the short term or immediate demand of customers, it also increased value to the customer, as it reflects organization capability to deal with the unfavorable situation and helps to develop the deeper foundation for loyalty as mentioned by Lovelock and Wirtz (2007).

4.2. Creation of Loyalty Bonds

Air Berlin currently has 1.7 million members with its customer loyalty program *i.e.* the topbonus program and its aim is to increase number of satisfied members [37]. Air Berlin's increasing loyal customer base over the last couple of years, prove the confidence benefits [10] to the customers who are willing to be with them. By introducing "My Route" program, Air Berlin is offering special treatment benefits to a large portion of customers. The success of providing this benefit is proved by the recognition they got in 2015 in the loyalty award [13].

Air Berlin provides financial and non-financial rewards to its members through different features of its customer loyalty program. Flying next flight free can redeem the award that customers get from the topbonus program. Apart from this, as explained in the empirical study, it provides the status cards, classic card, service card, silver card and gold card, to its member as recognition and appreciation according to the services they consumed through its topbonus partners. On board, it provides the meals according to the demand and choice of its customers, where they can select the menu immediately after they book the tickets [25]. All of these are the financial and non-financial benefits they are providing in forms of reduced price, recognition by cards and better service features.

As described by Lovelock and Wirtz (2007), structural bonds established the loyalty through structural relationship between the service provider and the service consumers. Air Berlin implies four types of structural bonds to its customers through-web check-in, e-services, quick check-in, and desk check-in. Among these, web check-in is the most easy and convenient way [28]. These services are also contributing to better convenience to the customers.

Air Berlin also provides the visa cards for shopping purposes so that whenever customers buy the things they also can collect the miles [31]. It has so many partners that are categorized into 6 categories so that wherever (topbonus facilities available area) the members go they can consume the services from topbonus partner and in return they can collect the miles [32].

4.3. Reducing Churn Drivers

High and customized quality service, flexible route approach to meet customer demand, top bonus program etc. are key quality features of Air Berlin, which has helped to increase the value to its customers. The repetitive customers might find it difficult to experience the same value from the other organizations. In case of service, switching of regular customer in this situation can result the company, high switching cost.

With the innovation of “My-Route” program, the customer value has also increased. This program has offered better pricing of customer service through double mile scheme, which has helped to decrease the possible inconvenience and increase its competitive strength.

5. Discussion

Continuous product innovation made by Air Berlin has helped to make its customers more loyal. The innovation of “My Route” following the Top Bonus scheme reflects its determination toward the high customer satisfaction. As identified by Frederick Reichheld (in Lovelock and Wirtz 2007), this type of innovation made by Air Berlin really paid them back with “Loyalty Award 2015”. Top bonus program itself is not the single reason behind this huge success of Air Berlin; continuous qualitative service is equally helping it to grow. Safety and punctuality are the key qualitative features of Air Berlin.

One example of innovation and improved customer value is expanding their range of network. This is also one of the main qualitative features of Air Berlin. Access to the domestic route of Russia and Turkey has increased its presence in international air traffic by satisfying more customer need.

Toh and Hu (1988) suggested that, scheduled convenience, on-time performance, low fare, and overall service by attendance plays important role while influencing the choice of airlines other than FFPs. Along with these, Chin (2002) added frequency, network coverage, seat availability, airport access time, waiting time, boarding time and flight time are also influencing factors for customer. With these facts, we can say that FFPs are not the only success blueprint for airlines industry now a day. Large numbers of customers are searching for cheap flight tickets. Klopheus (2005) also suggested that low cost air travel is the fastest growing segment in the case of European passenger segment. This fact is also supported by the case of Ryanair, one of the most successful airlines in the world. With a very simple business model of cheapest fare, it has provided service to 58.6 million passengers in 2015 [39]. Without any FFP it has just focused on lowest fares, safety and punctuality. In 2015, IATA ranked it as a largest international airline by passenger number [39]. This shows that current market demand is shifting towards cheaper flight with quality service rather than common FFPs, which are mainly targeted towards business travelers.

The above fact can also be supported by linking it to satisfaction-loyalty relationship described by Lovelock and Wirtz (2007). As all the airlines are having certain types of FFP and most of them are really hard to distinguish, it can be said that these FFP programs are in the zone of indifference (Lovelock and Wirtz 2007), and to get the customer satisfaction level to the zone of affection, airlines must respond to the increasing demand of cheap price and better timing. Last but not the least, the firms always need to have closer looks to the customer purchasing behavior and the moves by the competitors. Otherwise, it will not be possible to differentiate their offerings from the others.

Though Airberlin has been very successful to implement their customer loyalty program, there is no significant example of cross selling or bundling in

their customer loyalty program. Introducing this service may help them have some more business. The bonus miles the customers get from their “topbonus” cannot be transferred to another person’s name. A bundle-selling program can be designed by introducing the option of transferring the bonus miles within a specific group (e.g. within the family or within the business organization). That may open up some opportunities to do some more business with a group of customers instead of an individual one.

Lisa O’Malley discussed (1998) about another important issues that, for many organizations, loyalty programs become a necessary and costly requirement for doing business. Although loyalty schemes may have a valuable role in marketing today, they can achieve little more than spurious loyalty when they are viewed simply as “point accrual programs”. This would result in a continual game of one-upmanship, which is increasingly costly. From her argument, these schemes should be considered to be just one element of a coherent value proposition; they begin to play an integral role in developing sustainable loyalty [2].

6. Conclusion

We can conclude from the above discussion that, though Air Berlin has been successful so far to implement their customer loyalty programs, the market trend shows increasing purchasing behavior of customers on the basis of the basic services (e.g. price, timing). In this situation, retaining the customer loyalty can only be possible by being competitive over the other players in the market. Because, in a situation like this, customers will look for alternatives based on the basic services and that reduces the influence of the drivers that keeps the customers loyal to one single company. The recent trend requires the airlines to be cost worthy and all the cheap airlines are generating more profits. In a situation like this, it is hard to design some special services for the targeted customer segment. Airlines like Ryanair or Southwest in US are targeting to large customer base and not really emphasizing on the loyalty programs. This approach is proved most effective right now. The strategy of Air Berlin to become a “hybrid carrier” shows their cautious response towards the market demand and they need to always show efficient market response like this. They can effectively design the loyalty programs only in a way that best fits the current market trend and consumer’s purchasing behavior. This is necessary because, that will let them be in competition in the fierce marketplace. However, without targeting specific market segments and designing strong loyalty programs with some real distinguished values, it will be difficult to think of a sustainable customer base. As mentioned before, to survive the competition, Air Berlin must come up with other cross-selling offers to attain customers’ loyalty and satisfaction. Furthermore, Air Berlin can adopt strategies implemented by airlines like Ryanair in order to gain popularity amongst its customers.

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