

2 Benston, G., Gerald, J., Hanweck A., Humphrey, David B. Scale Economies in Banking: A Restructuring and Reassessment // Journal of Money, Credit and Banking. – 1982. – №14. – pp. 435-456.

3 Berger, Allen N., Humphrey, David B. Measurement and Efficiency Issues in Commercial Banking / Griliches, Zvi (ed.) Output Measurement in the Service Sector, NBER Studies in Income and Wealth. – 1992. – Volume 56. – p. 67

4 Berger, Allen N., John, Leusner, H., John, J. The Efficiency of Bank Branches // Board of Governors of the Federal Reserve System Working Paper. – 1994.

5 Berger, Allen N., Loretta, J. Inside the Black Box: What Explains Differences in the Efficiencies of Financial Institutions ? Wharton Financial Institutions Center, Working Paper. – 1997. – №1. – p. 97

6 Colwell, R.J., Davis, E.P. Output and Productivity in Banking // Scandinavian Journal of Economics. – 1992. - № 94. - pp. 111-129

7 Delery, John E., Harold, D. Modes of Theorizing in Strategic Human Resource Management: Tests of Universalistic, Contingency, and Configurational Performance Predictions // Academy of Management Journal. – 1996. – № 39. – pp. 802-835

IRSTI 82.33.17

A. Gassanova¹, A. Nabyeva¹
¹Suleyman Demirel University
Almaty, Kazakhstan

EFFECTIVE MANAGEMENT OF THE FREQUENT FLYER PROGRAM AS A TOOL OF INCREASING COMPETITIVENESS

Abstract. The article deals with the problem of increasing the efficiency of managing the Frequent Flyer Programs for Kazakhstan airlines in the market. The main effectiveness indicators of Frequent Flyer Programs are determined, a comparative analysis of these indicators is presented in comparison with the leading airlines of the world, an analysis of the main groups of costs and benefits obtained by the airline from the introduction and use of Frequent Flyer Programs with the purpose of developing appropriate control actions is carried out.

The particular relevance of the research objective arises from the intensification of competition in the airline industry and the extensive consolidation that is expected to accompany it. These market challenges make the retention of valuable customers an essential prerequisite for the achievement of a sustainable competitive advantage and, hence, the airline's overall success.

Key words: Frequent Flyer Program, airline loyalty, loyalty programs, Kazakhstan airlines, membership cards, customer relations, loyalty program management, Air Astana, Nomad Club.

Аңдатпа. Мақалада нарық жағдайындағы Қазақстан әуе компанияларының жиі ұшатын жолаушылар бағдарламасын нәтижелі басқару мәселесі қарастырылады. Сондай-ақ, компания үшін тиімділік пен әсерліктің маңызды көрсеткіштері анықталып, әлемдегі жетекші әуе компанияларымен салыстырмалы анализ жасалынған. Жиі ұшатын жолаушылар бағдарламасын енгізудегі артықшылықтар мен негізгі шығындар топтарын анықтау мақсатында зерттеу жүргізілген. Бұл зерттеудің өзектілігі авиация саласының Қазақстан нарығындағы қарқынды дамуы мен соған орай бәсекелестіктің де күшеюі болып табылады.

Кілт сөздер: марапаттау бағдарламалары, жиі ұшатын жолаушылар, Қазақстан әуе компаниялары, әуе компанияның сенімділік бағдарламалары, Эйр Астана, Номад Клуб.

Аннотация. В статье рассматривается проблема повышения эффективности управления Программ для часто летающих пассажиров Казахстанскими авиакомпаниями в условиях рынка. Определены основные показатели эффективности программ для часто летающих пассажиров. Представлен сравнительный анализ данных показателей в сравнении с ведущими авиакомпаниями мира, проведен анализ основных групп расходов и преимуществ, получаемых авиакомпанией от внедрения и использования программ для часто летающих пассажиров с целью разработки соответствующих управляющих воздействий.

Особая значимость исследовательской цели связана с усилением конкуренции в авиационной отрасли и широкой консолидацией, которая, как ожидается, будет сопровождать ее. Эти проблемы рынка делают сохранение ценных клиентов важным условием для достижения устойчивого конкурентного преимущества и, следовательно, общего успеха авиакомпании.

Ключевые слова: программа премирования, программа лояльности, Казахстанские авиакомпании, программа часто-летающих пассажиров, часто-летающие пассажиры, авиакомпания, Эйр Астана, Номад Клуб.

The concept of loyalty is quite multifaceted. F.F.Reichheld defines loyalty as quality, which is inherent to the user value (goods, services), from time to time returning to its source and transmitting the given source by inheritance; loyalty is devotion to its source of values [1]. A.V.Tsyasare explains

loyalty as the degree of insensitivity of behavior buyers of goods or services to the actions of competitors - such as price changes, goods, and services, accompanied by an emotional commitment to a product or service [2].

On the one hand, loyalty is seen as a certain type of consumer behavior, characterized by repeated and cross purchases, increased purchases and long-term relationships with the company. On the other hand, loyalty is seen as a consumer preference, based on his/her emotions, feelings, satisfaction with the goods. Consequently, the concept of loyalty is needed considered in a complex of economic and emotional factors: from the side rational use of the brand, its functionality and attractiveness and side of emotional attachment, brand preferences to competitors. Loyalty programs are tool for forming loyalty.

Loyalty programs in fact are a marketing tool aimed at optimizing relationship of organizations, providing services, with customers. Purpose of application loyalty systems are not only attracting new customers (although that is also important), but also the establishment of long-term relationships with customers [3].

In airline industry widely used concept of Frequent Flyer Programs (here and after referred to as the FFP). These programs offer passengers scheme to purchase additional points (miles, kilometers) when using services of the airline or its partners. In this case, partners can act not only airlines, but also companies engaged in activities that are not directly related to aviation. These may include a network of hotels, shops, travel agencies, which have a system obtaining discounts through the customer's available redemption points on the program of the FFP. FFP programs have become widely used by North American airlines, since the 80's of the XX century and have spread throughout the world since the middle 90's. The issues of the effectiveness of using the FFP by the Kazakhstan airlines are extremely topical, because these programs are the main marketing instrument of the airline, aimed at attracting new customers, extending the term consumer loyalty and avoidance of outflow of existing customers to competitors. The procedures for monitoring the current number of points supported by information technologies ensure the maintenance of personal information about participants and the accumulation of points on their individual accounts, depending on the frequency flights and class of service. As soon as passenger types in his/her account a certain number of points, s/he gets the right to purchase a free ticket or other benefits from the airlines [4].

Discussion

The developments of FFP's are one of the important competitiveness of Kazakhstan airlines. Truth to be told, there is only one airline which have FFP – Nomad Club that is Air Astana. In order to develop FFP in a formed Kazakhstan air transport market, we identified key indicators of effectiveness of FFP's, as well as comparative analysis of these indicators in comparison with the leading airlines of the world (Table 1).

The results of the analysis presented in Fig. 1, give grounds for the conclusion about necessity for a general improvement in FFP used by the Kazakhstan airline. In this case, we are talking about a comprehensive improvement, and not about improving individual components. Proceeding from this, let us consider the most general aspects of the FFP, characterizing their advantages and costs for their use by the airline [5].

Table 1. Analysis of the main indicators of the effectiveness of FFP for Kazakhstan airline in comparison with the best world practice.

Indicator	Air Astana – Nomad Club	World leading air companies
Tiers of membership	3-4	Several (>3), focused on specific segment of the competitive market
Temporary cards of members	+	+
Partnership system	-Limited number of partners -Not included in world alliances -Scoring (km) by standard scheme	Several large companies - partners within the alliance, and outside the main activity (Hotels, shops, banks, etc.)
Redeeming & benefits system	-Benefits are realized on board (usually) -Scoring by standard scheme	Diverse and flexible schemes obtaining benefits incl. not only on board
Stimulating packages of services	Very limited	Mass information from existing databases customer data
Information about participants programs	Very limited	Extensive information containing preferences of participants in food, additional services, hobbies, etc.
The communication system with participants in the program	Relatively limited	Intensive communication, aimed at increasing number of participants

Number of participants	Relatively small	Very large (the best indicators - up to 40% of the total transported passengers)
Organizational Support	Relatively limited	Strong. Assumes use of data in majority production units

It is very important for the airline that makes the decisions matter of profitability and cost of the FFP. These programs involve usage of significant resources of marketing subunits allocated for communication with passengers. The implementation of programs requires organization of a modern communication center (call center) and expenses of acquiring and using corresponding software. These cost groups are generally known to managers who have work experience with FFP. Though, the point in a measurement of profits received as a result of using programs still remains open. In this regard, we conducted an analysis of the main groups of costs and benefits received by the airline from the implementation and usage of programs.

Let's consider the basic groups of expenses for operation of the program. Operational costs of using the program are based on the creation of structure that allows you to charge and accumulate points for individual accounts of passengers. The main groups of expenses may include:

- management and development of the program;
- communication with passengers through their provision with FFP participant cards;
- maintaining personal information about the participants of the program and accumulating points on their individual accounts;
- service and information of passengers through the current call center airlines;
- territorial centers for the calculation of points (through the representation of the airline);
- maintenance and correction of data in electronic databases;
- purchasing and using of necessary software.

All these groups of costs are usually included in airline's budget lines for maintaining FFP. The value of one point is calculated in monetary form (tenges or dollars).

Expenses for providing participants of the program with free tickets (or tickets with discounts), on the contrary, in most cases are not reflected in the budget airlines. At the same time, every passenger using an award ticket makes direct costs for the airlines in following main groups:

- all types of fees;
- insurance;
- board meals and drinks.

These groups can be counted which affords opportunity to determine the value of point in monetary terms, as the ratio of cost for providing a free ticket and the number of points available to the passenger (1):

$$A = \frac{\sum B}{\sum C} \quad (1)$$

Where **A** - the cost of one point for the airline in cash, KZT/USD;

$\sum C$ - the sum of points necessary to obtain an award ticket or other benefits, units;

$\sum B$ - the total amount of the airline's expenses for transportation of a passenger by award ticket or for the provision of other benefits (discounts, upgrades in class, etc., KZT/USD).

So, with a total cost of spending of five hundred tenges and 10000 kilometers in the account of passenger, the cost of one point will be five tenge. After a certain period of time, there appears a responsibility for passengers caused by the existing total debt fund, requiring expenses for providing privileged conditions and award tickets to the participants of FFP. At the same time, there are terms that limit use of points in time, which makes it possible to restrain the growth of the responsibility of the airline.

At the same time, there are hidden costs or, more precisely, a decrease in incomes that arise in the case of using an award ticket for the purpose of a business trip instead of an additional trip to rest or when a seat on the board of a fairplane is booked for a passenger with award ticket, when it could be sold at a commercial rate. Special elements of FFP should encourage the passengers to use the points they have accumulated for the purpose of additional travel for rest, reservations for seats on award tickets are usually not made, but otherwise the scheme of ticket sales is in many respects similar to the usual sales.

The increase in the load factor of the passenger seats of the aircraft is a factor limiting the availability of seats for the transport of passengers on award ticket, which is the main source of complaints from passengers - participants of the programs. Another source of hidden costs is various types of fraud, the main type of which is the accrual of points illegally [6].

Advantages of FFP.

The main advantage of using FFP is expressed in increasing the consumer fidelity of passengers to the brand of the airline. This factor has a lot of evidence, while other reasons for increasing passenger turnover are extremely difficult to measure. The main advantages received by the airline from FFP's are:

- FFP is one of the most important factors determining the preferences of passengers when choosing an airline;
- modern methods of marketing communications with the use of additional points for the most important clients (for example, the calculation of points for

passengers of high classes of service with a factor exceeding the economy class, one and a half or two times for the same flight) are generally recognized factors for increasing passenger turnover and reuse of airline services;

- the number of passengers of the airline significantly increases as a result of merging the existing FFP with the partner airlines and significantly decreases when the programs are divided [7].

Many FFP's cover operating costs for their maintenance as a result of receiving revenues from cooperation with partner companies, for example, with a network of hotels, shops, and companies that lease cars, credit and phone card manufacturers, etc. Partner companies provide discounts to FFP members when customers use their services. Besides, an additional source of revenue is the fees from passengers for the provision of additional services, such as the registration and retrieval of formalities without queue (Fast Track), etc. (Figure 2).

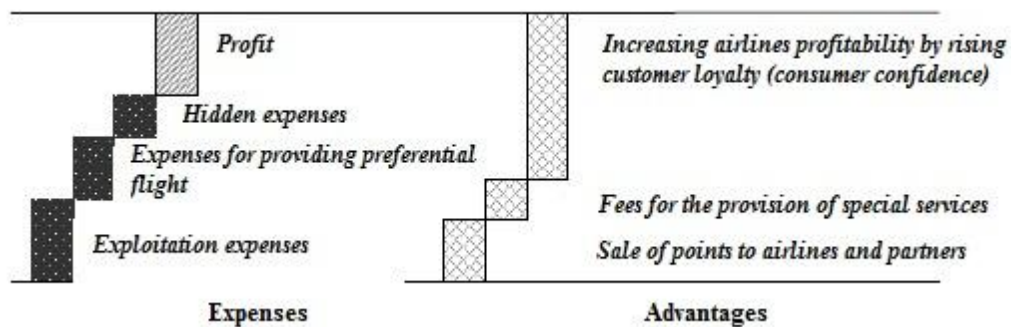


Fig.2. General Structure of costs and benefits of frequent flyer programs

In today's market, which determines the importance of managing the airline based on inter-functional processes, FFP databases are used by an increasing number of structural divisions:

- the processes of booking and registration are significantly accelerated, with the use of data available in the airline database about FFP participants;
- increased comfort and additional services are offered to the most profitable and often flying customers;
- FFP members are given priority service in case of any faulty situations that caused delay of departure, flight transfer, etc.;
- greeting, accommodation and customer service on board of the aircraft is built individually and depending on the available data on the preferences of the passenger;
- modern methods of data analysis allow to determine the groups of the most profitable clients, to study their requirements and preferences as much as possible;

- the airline's relationship with customers is personalized and lined up according to the preferences of the passenger and his importance for the airline [8].

Conclusion

Thus, FFP allows the airline to achieve a sustainable competitive advantage in the field of individual service and building long-term mutually beneficial relationships with passengers. Laid end to end, the programs for calculating and awarding points, as well as the system of benefits granted to FFP participants, personalized communications with customers and individual service. As a result, it is possible to create a qualitatively new level of relations between the airline and passengers, to significantly increase the level of customer loyalty. One of the important aspects in FFP management is alignment in airline industry of a single process of customer relationship management (CRM), widely used by the leading airlines of the world and allowing to achieve a sustainable competitive advantage. Considering the great importance of this process, we are planning its separate consideration in a subsequent article.

References:

- 1 Reichheld, F.F. The effect of loyalty: the driving forces of economic growth, profit and imperishable value: Trans. from English. / F.F. Reichheld, T. Teal. – M.: Williams, 2005.
- 2 Tsyasar, A.V. Customer loyalty: basic definitions, methods, measurements, Management methods / A.V. Tsyasar // Marketing and marketing research. – 2002.
- 3 Vasin, U.V. Effective loyalty programs. How to attract and retain clients. / U.V. Vasin, L.G. Lavrentyev, A.V. Samsonov. – 4th ed. – Moscow: Alpina Business Books, 2007.
- 4 Andreev A.V. Differentiation of the parameters of the airline products depending on the air transportation market situation // Scientific Bulletin of the Moscow State Technical University, series Society, Economics, Education. – No. 78. – 2003.
- 5 About Nomad Club [internet resource]. – 2012. – URL: <https://airastana.com/global/en-us/Nomad-Club/About-Nomad-Club/Nomad-Club-Terms-and-Conditions>
- 6 Aviation strategy. – 2002. – № 8.
- 7 Frequent Flyer Program (FFP) [internet resource]. – 2017. – URL: <http://aviationknowledge.wikidot.com/aviation:frequent-flyer-program-ffp>
- 8 Drawbacks of travel reward programs [internet resource]. – 2017. – URL: <http://www.investopedia.com/articles/pf/08/frequent-flyer.asp>