# Classic Airlines Documents

# Table of Contents

[Classic Airlines Documents 1](#_Toc126401197)

[Table of Contents 2](#_Toc126401198)

[Classic Rewards Frequent Flier Program Overview 3](#_Toc126401199)

[Press Release Outlining Classic’s Position with Labor Unions 4](#_Toc126401200)

[Kevin Boyle - Notes From Customer Conversations 5](#_Toc126401201)

[Business Traveler – 5](#_Toc126401202)

[Leisure Traveler – 5](#_Toc126401203)

[John Hartman’s Informal Summary of Classic’s Top Three Competitors 6](#_Toc126401204)

[Competitor A – *derived from Datamonitor assessment of British Airways* 6](#_Toc126401205)

[Weaknesses 6](#_Toc126401206)

[Opportunities 6](#_Toc126401207)

[Threats 6](#_Toc126401208)

[Competitor B – *derived from Datamonitor assessment of Northwest Airlines* 6](#_Toc126401209)

[Weaknesses 6](#_Toc126401210)

[Opportunities 6](#_Toc126401211)

[Threats 6](#_Toc126401212)

[John Hartman’s Informal Summary of Classic’s Top Three Competitors (continued) 7](#_Toc126401213)

[Competitor C – *derived from Datamonitor assessment of United Airlines* 7](#_Toc126401214)

[Weaknesses 7](#_Toc126401215)

[Opportunities 7](#_Toc126401216)

[Threats 7](#_Toc126401217)

[Summary of Renee Epson’s Customer Interviews 8](#_Toc126401218)

[Wymann’s Presentation Slides 9](#_Toc126401219)

[GlobalAir Finally Implements Changes To Frequent Flier Program 12](#_Toc126401220)

[[December 4, 2004] 12](#_Toc126401221)

[Byline: Eric Rodgers 12](#_Toc126401222)

# Classic Rewards Frequent Flier Program Overview

(*Taken from Classic’s New Employee Training and Orientation Manual – Confidential Internal Information*)

Classic Rewards members earn miles when they purchase eligible tickets on qualifying domestic or international Classic Airline’s flights. At present, over 95% of Classic’s routes are classified as qualifying. Members earn one point per flight-mile, with a minimum of 500 miles per roundtrip, and a maximum of 2500 miles per roundtrip. Members can earn miles for staying with one of Classic’s six hotel partners or renting cars from one of their three car rental partner companies. Members can also earn miles by using their Classic Rewards co-branded credit card.

Classic Rewards is a tiered program, with customer’s achieving Silver and Gold level status based on their annual mileage accumulation. Tier-status has a one-year expiration period. Gold members receive a monthly statement, monthly newsletter, and special promotions from Classic Rewards’ partners.

Current program membership by tiers is consistent with historic averages for the program:

* Basic Rewards 60%
* Silver Rewards 25%
* Gold Rewards 15%

Membership tier overview:

* Basic member up to 40,000 miles in one calendar year
* Silver member 40,001 to 100,000 miles in one calendar year
* Gold member over 100,000 miles in one calendar year

Current program membership is 80% business travelers, 20% leisure travelers. Members “move” between these segments (i.e., a business traveler may accumulate miles traveling on business and redeem miles for leisure travel), but historically follow the 80/20 split.

Miles earned in Classic Rewards will not expire as long as members travel once in a two-year period. Classic Rewards non-qualifying flights include ten direct flights from the US to Europe and ten direct flights from Europe to the US.

Classic Airlines allocates ten seats per flight for frequent flier redemption, and has blackout periods surrounding all major US and European holidays. Frequent flier redemption tickets are non-transferable, and members may only redeem one ticket per flight. Members are allowed to redeem for one companion ticket every two years.

Classic Rewards members may redeem miles for stays at one of Classic’s six partner hotel chains, or for car rentals at one of Classic’s three car rental partner companies. Members may also redeem miles for upgrades to first-class, and may redeem miles for an annual “pre-board” pass which allows them to board flights prior to normal boarding.

The following is a summary of Classic Rewards’ redemption options:

Round-trip domestic flight 40,000 miles

Round-trip international flight 80,000 miles

One night stay at partner hotels:

Partner A: 40,000 miles

Partner B: 60,000 miles

Partner C: 80,000 miles

One-day car rental at partner companies 40,000 miles

# Press Release Outlining Classic’s Position with Labor Unions

Alexandria VA (UP)

Today, unions representing employees of Classic Airlines awarded Classic the Wright Stuff® Trophy for this year. Present from Classic Airlines for the ceremony were Amanda Miller, CEO and Ben Sutcliffe, General Counsel. Employees unions represented included the Aircraft Mechanics Fraternal Association (AMFA), the Air Line Pilots Association (APLA), and the Association of Professional Flight Attendants (APFA).

Representatives from ALPA were most vocal in their praise for Classic, noting that Classic had withstood the challenges of a more competitive industry that is faced with rising fuel costs. ALPA cited several examples of Classic’s integrity, including the airline’s insistence on paying top salaries to pilots and other employees, even while competitors are cutting pay in those professions. The Flight Attendants (APFA) explained how Classic had expanded the choices of routes available to flight attendants by implementing new route-bidding practices advocated by APFA. “Classic has set a new standard for route bidding that will enable a flight attendant to balance the needs of home and work more easily, and it will become the gold standard of the industry” one unidentified APFA officer noted.

The aircraft mechanics union (AMFA) described Classic’s union-management relationship as “professional and mutually-supportive”, and shared some examples of fruit borne by that relationship. “With our ‘Thirty and Out’ retirement program, a mechanic can start at age 20 and be retired by age 50’”, noted one AMFA spokesperson. “Both the company and the union benefit when employees can know that thirty years of work pays off for everyone.”

The only somber note of the festive occasion was sounded by Ben Sutcliffe, Classic’s General Counsel. Noting that Classic has one of the highest labor costs per seat-mile, Sutcliffe observed that customers are price-sensitive, and that if Classic continues to carry the highest labor cost of any airline in the industry, it will jeopardize Classic’s future.

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# Kevin Boyle - Notes From Customer Conversations

Key Customer Comments:

* “I don’t need the perks, just get me there on time.”
* “I know you may need to automate customer service to control costs, but there should always be the option to talk to a real person.”
* “I’ve heard you only allow two seats per flight for me to redeem my frequent flier miles. If that’s true, you need to let me reserve them at least six months in advance.”
* “Stick to the schedules.”
* “Whatever you do, don’t lose my bags. And if you do, don’t treat me like a criminal – you lost them, not me”.
* “My friend can use frequent flier miles to make her mortgage payment or save for retirement.”
* “One of your competitors just got rid of pillows on board to save almost a half-million dollars a year. Please tell me you’re not going to do that.”
* “Treat me like a person, a paying customer, which is what I am.”
* “You should have your executives listen in on customer service calls sometime.”
* “I don’t care if it costs a couple of bucks more, if you can assure me I’ll arrive on time and be treated like a human being, I’m with you.”
* “You know, your competition just put in leather seats with DirectTV in the back of every one.”
* “In the unlikely event that you overbook a flight (which has happened to me) please do not infer that it is something I have done to cause (which has also happened to me).”
* “Let top-level frequent fliers board early.”
* “I remember the good old days, when I flew in and out of New York and you still had a Classic Club at Newark Airport. Those ladies would call my cell phone and let me know if my flight was late, book hotel rooms for me when my flight was cancelled, and always gave me little trinkets to take home to my kids. I would never have dreamed of flying on anything but Classic.”

**My Picture of the Customer:**

## Business Traveler –

* Wants to get from point A to point B as quickly, easily and effectively as possible
* Doesn’t like connections, delays
* Wants frequent flights to a variety of destinations
* Wants quality service
* Will pay a premium for these benefits, within reason
* Considers his frequent flier points to be the airlines’ investment in him

## Leisure Traveler –

* Much more price sensitive – will schedule trips around discount fares
* More tolerable of connections if it saves them money
* Doesn’t care as much about the frequency of flights or the variety of destinations
* Doesn’t care as much about the quality of service if they save money
* Doesn’t make as many trips as the business traveler, but outnumbers the business traveler in sheer volume
* One trip decision involves multiple tickets (i.e, a family of four or more, etc.)

# John Hartman’s Informal Summary of Classic’s Top Three Competitors

# Competitor A – *derived from Datamonitor assessment of British Airways*

|  |  |
| --- | --- |
| Strengths   * Large company – economies of scale * Existing global network * Brand recognized worldwide * Cost reduction has been effective * Customers are loyal, frequent flier programs are strong | Weaknesses  * Reputation may have been slightly tarnished by recent strikes * Heavily leveraged * Ineffective negotiations with unions * Relies on narrow revenue streams for much cash flow |
| Opportunities  * Expansion at existing hubs * Customer’s needs are changing * Additional alliances * Industry is on the rebound | Threats  * Competition is fierce and strong * Financial – interest rates, currency exchange rates * Fuel and equipment costs * Concerns from environmental organizations |

# Competitor B – *derived from Datamonitor assessment of Northwest Airlines*

|  |  |
| --- | --- |
| Strengths   * Dominant, long-time player in industry * Multiple successful loyalty programs * Established network, fed by regional carriers * Available cash balance | Weaknesses  * Pension plans not adequately funded * Workforce is over 90% union * High-risk receivables * Operating at a loss for three years in a row |
| Opportunities  * Industry recovery * Re-structuring at major competitor * Customer’s needs are changing * Additional alliances | Threats  * Competition is fierce and strong * Fuel and equipment costs * Government regulations and taxes * Seasonality – Q2/3 outperform Q1/4 |

# John Hartman’s Informal Summary of Classic’s Top Three Competitors (continued)

# Competitor C – *derived from Datamonitor assessment of United Airlines*

|  |  |
| --- | --- |
| Strengths   * Global presence, strong existing network * Successful loyalty program * Worldwide brand recognition | Weaknesses  * Operating at a loss for two years in a row * Current and future lawsuits * Heavily dependent on North American revenue base * Highest costs and lowest productivity in the industry |
| Opportunities  * Industry recovery * Customer’s needs are changing * Additional alliances | Threats  * Competition is fierce and strong * Fuel and equipment costs * Government regulations and taxes * Seasonality – Q2/3 outperform Q1/4 |

# Summary of Renee Epson’s Customer Interviews

(Audience – 500 Gold and Platinum level Classic Rewards members)

1. How many flights do you take per year with Classic Airlines?
   1. 1 to 3 – 22%
   2. 3 to 7 – 33%
   3. 7 to 12 – 31%
   4. More than 12 – 14%
2. How many flights do you take per year with airlines other than Classic?
   1. 1 to 3 – 29%
   2. 3 to 7 – 42%
   3. 7 to 12 – 14%
   4. More than 12 – 15%
3. How well do you feel Classic’s advertising campaigns convey an accurate and meaningful picture of the airline?
   1. Not accurate and meaningful – 14%
   2. Somewhat accurate and meaningful – 48%
   3. Very accurate and meaningful – 38%
4. How satisfied are you with the customer service you receive from Classic Airlines?
   1. Very dissatisfied – 4%
   2. Dissatisfied – 11%
   3. Satisfied – 62%
   4. Very satisfied – 23%
5. How long have you been a member of Classic Rewards?
   1. Less than one year – 23%
   2. 1 to 3 years – 42%
   3. 3 to 5 years – 27%
   4. More than 5 years – 8%
6. How satisfied are you with the umber of miles you earn for your Classic flights?
   1. Very dissatisfied – 18%
   2. Dissatisfied – 38%
   3. Satisfied – 27%
   4. Very satisfied – 17%
7. How satisfied are you with the service upgrades you receive as a Classic Rewards member?
   1. Very dissatisfied – 19%
   2. Dissatisfied – 51%
   3. Satisfied – 22%
   4. Very satisfied – 8%
8. How satisfied are you with the reward redemption options available through Classic Rewards?
   1. Very dissatisfied – 14%
   2. Dissatisfied – 56%
   3. Satisfied – 22%
   4. Very satisfied – 8%
9. Would you recommend the Classic Rewards program to a friend or colleague?
   1. Yes – 32%
   2. No – 68%

# Wymann’s Presentation Slides











# GlobalAir Finally Implements Changes To Frequent Flier Program

### [December 4, 2004]

*The Springfield Business News Journal* (Springfield, Missouri)

## Byline: Eric Rodgers

Last Friday, Springfield-based GlobalAir announced long-awaited changes to its frequent-flier customer loyalty program. These changes include the addition of value-added features, such as pre-boarding and concierge baggage handling for top-level frequent fliers, and simplifications to the program for members at all levels. GlobalAir hopes these changes will help them win back frequent flier customers who have been frustrated with the prior program for some time. The level of frustration and disappointment reached epic proportions over the past eighteen months, as a group of customers formally organized a movement against GlobalAir. The movement received significant media attention nationwide.

In the tough and uncertain times following the terrorist attacks of September 11, 2001, GlobalAir made several changes to their frequent flier program in early 2002, in an ill-fated attempt to control skyrocketing costs. These changes included reducing the number of miles awarded for domestic and global flights, raising the number of miles required for redemption tickets, reducing the number of frequent-flier seats available per flight, and eliminating a variety of perks, such as low-threshold upgrades, pre-boarding and more.

In response to these changes, a grassroots group of angry top-level frequent fliers organized a partnership, formalized as a limited-liability corporation (LLC) in the state of Missouri. The group developed a website, placed ads in local and national newspapers, and received airtime on at least ten local and regional consumer advocacy news features. The group solicited GlobalAir’s executives with an onslaught of email and postal mail communications, and promised not to let up until their “voice of the customer” was heard.

In commenting on the matter, a local University professor of marketing stated, “this is an unforeseen and commendable example of customers demanding that their position be acknowledged. GlobalAir made a critical misstep, and their customers called them on it. The only thing that is unfortunate is that it took the company over two years to respond.”