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Travel Bytes: Cross-industry Expansion

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In this second post of our loyalty program mini-series, we delve into what we expect to be the most significant shift in data use and loyalty strategies. Specifically, we anticipate that sharing across industries will become ubiquitous in 2020 through increasingly tight loyalty partnerships.

Throughout the early 2000s and accelerating into the 2010s, airlines and hotel chains have expanded their access to consumer data primarily through acquisitions and mergers.

No more.

In the decade to come, we expect these sorts of M&A-driven expansions to account for less of the growth in access to consumer data. To be sure, we expect the travel industry giants to continue absorbing smaller brands, but the smart money is on expanded partnerships across the travel industry, between hotels, airlines, car rental agencies, rideshare companies, and others.

The highly-regulated airline industry is increasingly concentrated, limiting the prospects for further consolidation. As we have witnessed over the past decade, markets with high barriers to entry tend to consolidate to achieve efficiencies of scale and deliver optimal value to consumers. Depending on how you measure it, the "U.S. 3" legacy carriers (American, United, and Delta) and their regional affiliates now account for 49 percent of passengers carried in the domestic market. Southwest, which positions itself as the family-friendly midmarket carrier, accounts for another 20 percent. Independent full-service regionals like Alaska and JetBlue make up around 8 percent, and low-cost carriers like Spirit, Frontier, and (soon) Midwest Air round out the market with 5 percent. Other research suggests an even more consolidated market.

While one might reasonably conclude that legacy carriers tend to view other major players as potential acquisition targets, the more likely consolidations involve full-service regional carriers like JetBlue and Alaska. Unlike the low-cost carriers, JetBlue and Alaska Airlines aim to deliver market matching or leading service on the routes they serve. And unlike Southwest, the regional carriers tend to operate under a similar set of fare rules and operating procedures as the legacy carriers—and consequently, these airlines share roughly comparable market segments to each other and the U.S. 3. Accordingly, we would not be surprised to observe full-service regionals join forces or fold into the U.S. 3 over the course of the next decade.

Still, from a data use standpoint, the possibilities represented by such mergers pale in comparison to the potential for cross-industry data pollination. Put differently, mergers enable firms to upsell through the combined power of existing in-house programs—but to truly uncover breakthrough insights, companies need to go beyond upselling and understand their share-of-wallet for loyalty program participants. The real growth potential is not just persuading a traveler to take one extra vacation; it is consolidating a traveler's otherwise-distributed business under a single brand. And this is where cross-industry partnerships are poised for a revolution.

American Airlines and Hyatt have forged an alliance that illustrates the point well. The companies enabled elite members to earn points in both programs simultaneously for each flight or stay. More importantly, consumers linking their AAdvantage and World of Hyatt loyalty accounts facilitated each company's access to a wealth of travel data held by the other company. Among many potential use cases, consider this application: when AAdvantage determined that its elite status holder population lagged behind optimal levels, it dipped into Hyatt's loyal traveler data to identify the most prolific travelers—Hyatt's top-tier Globalists—and offered them AA's coveted Executive Platinum status, enticing travelers loyal to other airlines to make the switch to American, at least for a year.

Lyft and Delta provide another example. One can earn Delta miles with every Lyft ride taken, including double the miles for rides from airports. In short, these partnerships enable industry participants to make use of a broader set of consumer data in attracting and retaining loyal travelers.