

OPINION

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Loyalty Programs Are Lucrative for Airlines. What About Consumers?

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Holiday shopping typically means getting out our credit or debit cards to buy gifts for family and friends. Most of the items we purchase are priced in U.S. dollars. Some items can now be purchased with [cryptocurrencies](#), including gift cards, although most such items remain big-ticket, high-end products. Of course, the price of such items is pegged to the dollar, so the [conversion rate between the cryptocurrency and the dollar](#) determines what you are paying.

Yet, industries have created loyalty programs that effectively manufacture their own currency, which can be used to buy items, travel and experiences. From grocery stores and pharmacies to coffee chains, clothing stores and airlines, there is an abundance of retail loyalty programs.

The most well-known such currency is [reward points earned using credit cards](#). Some cards accrue such points directly into cash, effectively treated as [rebates by the Internal Revenue Service](#), so no taxes are due on them. Others allow you to use points to purchase airplane tickets, hotel nights or consumer items. Such points effectively act as currency when making such purchases, providing a financial benefit just for using their card.

One industry has mastered the use of its [loyalty programs](#): the airline industry. Airline loyalty programs offer points accrued either by flying, making purchases with their affiliated credit cards and a [plethora of other earning opportunities](#) (like making purchases through a shopping portal, dining out or [giving your opinion](#)). Such [points can even be purchased](#), shifting one form of currency into their airline's own currency.

Airline loyalty programs have become highly lucrative to airlines. During the pandemic, airlines [borrowed billions of dollars against them](#), suggesting that the financial market recognized the value of such programs and were willing to lend the airlines money using these programs as collateral.

In 2020, the [American Airlines and United Airlines loyalty programs were valued at \\$24 billion and \\$22 billion, respectively](#). To justify such evaluations, in 2018 and 2019, the [American Airlines rewards program generated close to \\$3 billion annually](#), providing a significant financial cushion during times when air travel may slow down. United and Delta showed similar levels of profitability (although [Delta faced significant recent backlash](#) when it proposed shifting its model to reward exceptionally higher spending over frequent travel and increasing the threshold to gain “elite” status).

[Hotel chains](#) have also embraced such currency, via their frequent stay programs. Hotel points accrue from hotel stays, affiliated credit card purchases and numerous other earning opportunities, much like how the airline rewards programs are structured.

Airlines and hotel chains have also teamed up to entice each other’s most loyal customers across the entire travel spectrum. [Hyatt and American Airlines](#) have a partnership, as does [Marriott and United Airlines](#). [Car rental companies](#) have also forged relationships with airlines that benefit them and their customers.

The common theme with these currencies is that to earn them, you must spend money. [Estimates of how much such points are valued](#) is a topic of interest among frequent travelers. What is indisputable is that they have monetary value.

So, who is paying for such miles or points? For leisure travelers, they are being paid for by the people themselves. For business travelers, their companies are paying, with the traveler accruing the benefit. Some would think of this as a perk for traveling.

Yet, what would travel look like without such loyalty programs?

Would travelers consistently fly the same airline, or would they airline-hop based on schedule and convenience? Without loyalty points accrued, airlines would likely have no way to track who their most loyal customers were, and how to reward (or entice) them to continue to fly with them.

This means that travelers not only covet the benefits offered by loyalty programs, but airlines need them to keep a lasso around their most loyal customers to ensure that they continue to fly with them and use their affiliated credit card.

The same holds true with hotel chains. Many of their suites would sit empty without upgrades to their most loyal patrons. That complimentary late checkout is

coveted by many travelers, which non-elite customers must often pay a fee to obtain.

What is clear is that loyalty programs have created a financial world that everyone has access to, yet a small number of people gain the full benefit from.

The people who are paying the biggest price for such programs are those who fly or stay at hotels infrequently, and those who are not members of such programs. They subsidize the benefits being earned by the most frequent flyers and stayers.

So, the next time you choose to fly or stay at a hotel, remember that its loyalty program may be worth joining, even if your travel activities are limited. Of course, each program will have its own specific parameters that consumers should consider carefully, such as whether accrued points expire, which must be tracked to take full advantage of the consumer benefits. Individuals should also consider if a loyalty program that requires a line of credit is in line with their financial goals and well-being.

But for those who are in a position to do so but opt out, you are potentially leaving “money on the table” that the person sitting in an upgraded first-class seat or hotel suite is happy to enjoy at your expense.

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