
THE VALUE ADD OF AIRLINE LOYALTY PROGRAMS

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Airline loyalty programs (or “frequent flyer programs” or “FFPs”) have grown beyond their original purpose as marketing tools and have become powerful financial instruments that contribute billions of dollars to airlines’ coffers annually. There are 220 airline loyalty programs globally¹, with revenues of about US\$40 billion.² This insight explores the different ways in which a well-designed loyalty program can add significant value to an airline, strategically and financially.

At their core, “loyalty” programs aim to promote customer loyalty and retention by rewarding passengers for their business. They have evolved from rewarding frequent flyers who traveled the most in the past to attracting and retaining high-value customers who spend proportionally more on a per-ticket basis and fly frequently. The majority of programs today are spend-based, while some major carriers use hybrid programs, which may earn loyalty currency through spend but require a certain number of flight segments to qualify for loyalty status tiers. Recently, the subscription model, where passengers pay a monthly or annual fee to receive consistent travel-related benefits such as free checked bags, priority boarding, flight discounts, or bonus points without having to earn elite status, has been gaining popularity amongst low-cost as well as legacy carriers. These programs provide a steady revenue stream and help reach infrequent and non-elite passengers.

Loyalty Programs by Earn Type

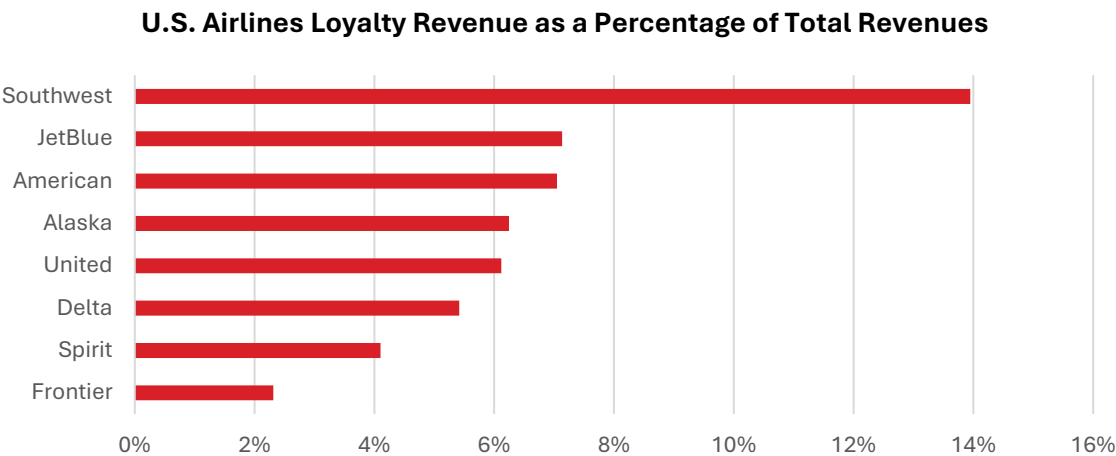
	SPEND-BASED (EARN ON OWN FLIGHTS IS TIED TO MONEY SPENT)	MILEAGE-BASED (EARN ON OWN FLIGHTS IS TIED TO DISTANCE & FARE CLASS)
North America	American AAdvantage; Delta SkyMiles; United MileagePlus; JetBlue TrueBlue; Southwest Rapid Rewards; WestJet Rewards; Air Canada Aeroplan.	Alaska Mileage Plan.
Europe	British Airways Executive Club; Iberia Plus; Finnair Plus; Aer Lingus AerClub; Vueling Club; Air Europa SUMA; ITA Airways Volare. Flying Blue (Air France/KLM); Miles & More (Lufthansa Group).	SAS EuroBonus; TAP Miles&Go; Aegean Miles+Bonus; Turkish Miles&Smiles.
Latin America	LATAM Pass; Aeroméxico Rewards; Azul TudoAzul.	Avianca LifeMiles; Copa ConnectMiles.
Middle East / Africa	EL AL Matmid.	Emirates Skywards; Etihad Guest; Qatar Privilege Club. Ethiopian ShebaMiles; South African Voyager; EgyptAir Plus; Royal Air Maroc Safar Flyer.
Asia / Oceania	Virgin Australia Velocity; Air New Zealand Airpoints.	Singapore KrisFlyer; ANA Mileage Club; JAL Mileage Bank; Cathay; Korean Air SKYPASS; EVA Air Infinity MileageLands; China Airlines Dynasty Flyer; Air China PhoenixMiles; China Eastern Eastern Miles; China Southern Sky Pearl Club; GarudaMiles.

Source: mba Analysis, non-exhaustive list.

¹ Global Flight

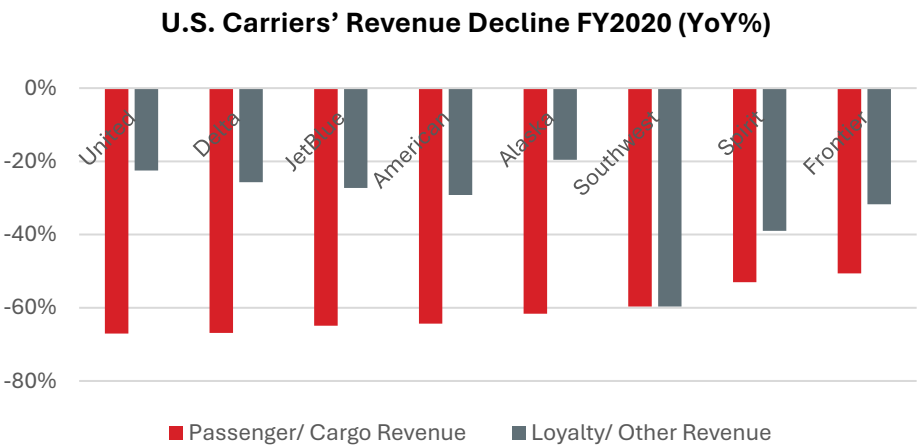
² CarTrawler, 2024 Yearbook of Ancillary Revenue.

Beyond preserving the customer base, frequent flyer programs have become **important contributors to airline revenues**. Loyalty program revenues come primarily from air billings, sales of miles to credit card partners and other banking, retail and service partners, and breakage. The sale of miles to banks and other partners represents a significant time value of money benefit to airlines, as they receive payment for seats up front, long in advance of actually having to deliver a product to a flying passenger.



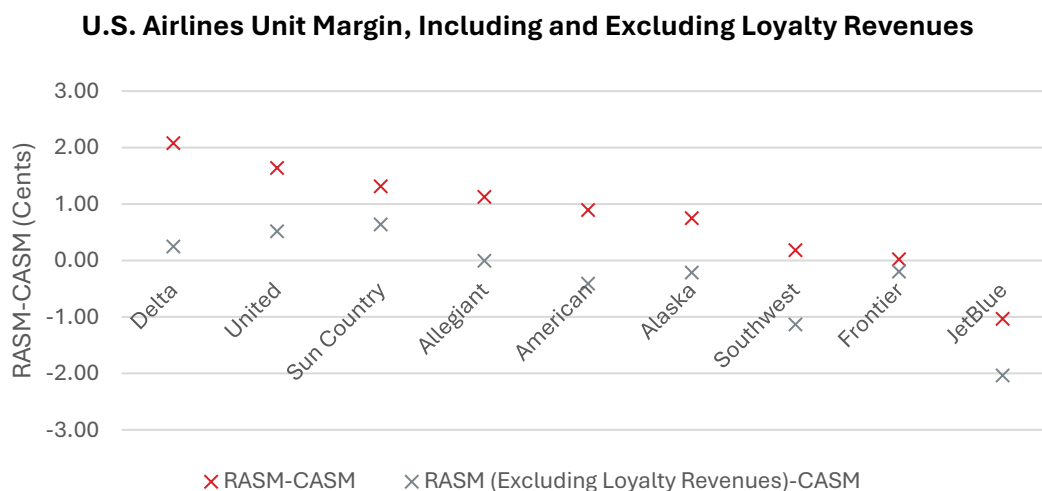
Source: Airline 2024 10Ks / Annual Reports, mba Analysis. Note: “Other” revenues have been assumed to equal loyalty revenues in instances where they have not been broken out separately and loyalty has been noted as being the primary component of other revenues.

The income from the sale of miles represents a **revenue stream that is not sensitive to the factors that threaten airlines’ traditional business** activities, such as the price of oil, severe weather, and world events that impact discretionary spending. For instance, while U.S. airline passenger revenues declined by 66% year-over-year (YoY) in 2020 as a result of COVID-19, loyalty revenues declined by about 25%.



Source: 2020 Airline 10Ks / Annual Reports, mba Analysis. Note: “Other” revenues have been assumed to equal loyalty revenues in instances where they have not been broken out separately and loyalty has been noted as being the primary component of other revenues.

Loyalty programs have **low costs and high margins**. While unredeemed miles and points represent a liability on a carrier's balance sheet, the cost of flying a passenger traveling on the award miles purchased by other companies is almost incidental. FFP costs include flight and product redemption costs when customers redeem miles for flights or upgrades or purchase products from partners. FFPs also incur personnel and systems costs, as well as fees for managing the program, partnerships, providing customer support, and ensuring data security. Besides, many of the miles purchased by banks and other businesses go unused or expire (breakage). Breakage represents pure profit for the selling airline since they are intangible assets that cost next to nothing to produce. For many carriers, the loyalty program is more profitable than the actual airline operations.



Source: Airline 2024 10Ks / Annual Reports, mba Analysis. Note: "Other" revenues have been assumed to equal loyalty revenues in instances where they have not been broken out separately and loyalty has been noted as being the primary component of other revenues.

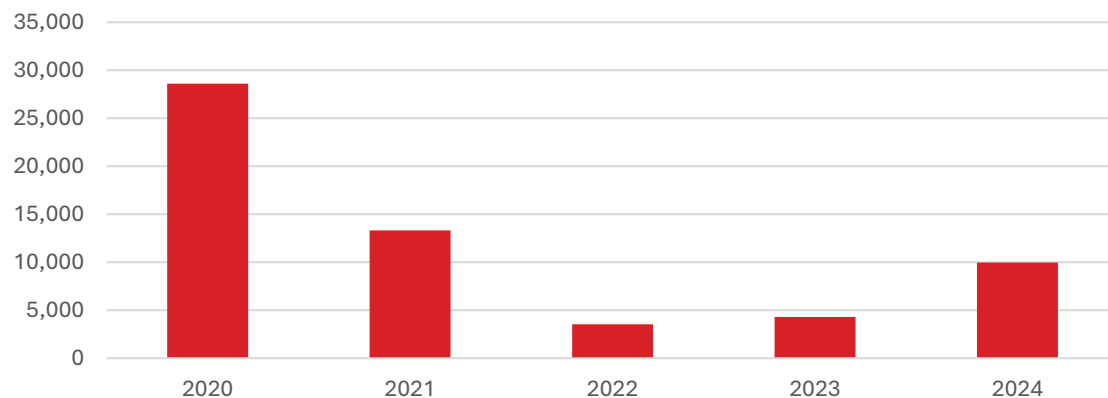
Loyalty programs can be outstanding **customer relationship management tools**. The airlines' FFP mileage/points accumulation systems have the power to change consumer behavior, outside of encouraging loyalty. Spend-based loyalty programs are an effective way to promote carriers' premium class products, flexible fares, or extras. Customers spend more to qualify for status or maintain perks. These programs tend to attract business travelers who fly many short segments, while leisure travelers who are biased towards discount tickets purchased long in advance tend not to find these programs a compelling reason to select one carrier over another. Another tool that loyalty programs can deploy is mileage redemption seats. These can encourage customers to book off-peak to get better award value and can improve airline load factors during low-demand periods.

Customer data itself is a valuable and saleable product. Loyalty programs collect data on travelers' routes flown, booking patterns, preferences, and spending. This enables targeted marketing, personalized offers, and improved customer service. Numerous airlines, such as Emirates, Air France-KLM, Lufthansa, United, Delta, and others, are using AI assistants and/or personalization engines to provide targeted offers and dynamic rewards and recommend flights. The data can also be sold to partners and third parties within the confines of privacy laws.

FFPs also provide **distribution cost savings** by helping airlines sell tickets directly to customers, avoiding expensive third-party channels. Loyalty benefits, including the ability to use cash and miles and exclusive sales or upgrade offers, are useful in encouraging frequent flyers to book directly through the airline's website or app. Moreover, partners such as co-branded credit cards and hotels act as alternate sales and engagement channels.

Loyalty programs are valuable assets that can be **used as collateral for loans or can be spun off by the airline to raise equity**. Even though FFPs are considered intangible assets, they have a quantifiable value. The value of an FFP can be used by an airline as leverage to raise additional capital to invest in growth. During COVID-19, numerous airlines, including all the U.S. majors, used their loyalty programs to raise cash.

Global Historical Debt Issuance Backed by Loyalty, US\$M



Source: Airline 10Ks / Annual Reports, mba Aviation Analysis. Notes: Some security interests in Loyalty are shared with security interests in other collateral (i.e., Intellectual Property, Business Units, etc.). More granular data on specific assets within the collateral pool is not publicly disclosed.

A strong loyalty program can contribute to the **overall customer perception of an airline's brand** and differentiate an airline from competitors. Perks like upgrades, early boarding, or lounge access improve travel experience and reinforce loyalty.

Nevertheless, there are risks associated with loyalty programs. Outstanding miles are a liability and can inflate the balance sheet. If too many points are issued or redemption becomes too easy, the value of the loyalty currency may erode. A rapid increase in redemptions (e.g., due to a promotion or economic downturn) can strain revenue management. Conversely, high breakage could indicate that the program is not attractive to customers, which may harm brand perception. Further, loyalty programs need to stay attuned to customer expectations and competition. As members gain elite status, they expect consistent high-value rewards, and failure to meet those expectations could be damaging for the airline's loyalty. Besides, even when a loyalty program innovates, competitors can mimic the advancements, eroding the differentiation. Finally, if a notable portion of airline revenues comes from loyalty partners (such as co-branded credit cards), the airline is exposed to shocks in that ecosystem.

Hence, while loyalty programs can be powerful revenue and loyalty drivers, they come with financial, operational, reputational, and regulatory risks. Successful programs require careful design, clear communication, robust technology, and disciplined management to avoid these pitfalls.

If you have any questions or would like to discuss how to optimize the value of airline loyalty programs, please contact Anne Correa at acorrea@mba.aero. mba's full Airline & Airport Services team can also be reached at forecasting@mba.aero.

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