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# The Surprising Airline That's Now Leading in Customer Loyalty

**Move over, Air Canada: There's a new airline leading the pack when it comes to customer loyalty and engagement.**

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Everybody loves taking a vacation, but the grim reality is that not everyone likes flying with today's airlines.

From the prospect of long lines at the check-in counter to cramped and uncomfortable seats on an airplane, the prospect of flying isn't exactly viewed as a joy. Yet for airlines capable of exceeding consumers' arguably low expectations, the rewards can be enormous. If an airline can deliver in enough areas that are important to customers, they're more liable to stay loyal to that brand.

## **The importance of brand loyalty**

Keeping customers loyal is important to all businesses, including the airline industry, for two key reasons. First, consumers who are happy with their experience are likely to recommend an airline to their friends and family. The industry can bombard consumers with advertisements all they'd like, but nothing hits home with consumers more than a recommendation from someone they know.

Second, there's the idea that loyal customers are often higher-margin customers. This isn't to say that loyal customers aren't cost-conscious; I think everyone would like to save money if offered the chance. However, loyal customers tend to be less reliant on sales and specials when booking with an airline, meaning they're far more likely to generate better profits.

But figuring out which airline flies the highest in terms of customer loyalty and engagement isn't easy. For that we'll turn to Brand Keys' 21st annual [Customer Loyalty Engagement Index](#) to get our answer. Using its proprietary formula, this New York-based research firm surveyed more than 42,000 people to decipher which airlines are flying high in terms of loyalty and engagement, and which are stuck at the gate.

## **Big surprises abound**

Before we continue, I should note that Brand Keys' rankings include only seven airlines. The reason this figure is so low is that Brand Keys requires a certain number of survey responses on a company before including it in its analysis. This year only seven airlines qualified.

Now for the nitty-gritty: namely, that this year's rankings held a number of surprises relative to last year's results.

You could say that in the [previous year](#), the rankings went according to expectations. The major airlines ranked toward the bottom of the list, and regional or national airlines that have a smaller feel stood out for their efforts to engage consumers and build brand loyalty. However, an abrupt shift occurred in this year's rankings. The major airlines moved up, and one popular national airline dove.

### **A major change?**

Two notable leapers in this year's results were **Delta Air Lines** ([NYSE:DAL](#)) in the No. 3 spot, and United Airlines, part of **United Continental Holdings** ([NYSE:UAL](#)), in the No. 4 spot. In 2015 these two airlines ranked fifth and eighth (which was dead last), respectively.

One possible reason for the improvement in customer loyalty could be an adjustment to their respective loyalty reward programs. Following a trend that some regional and national airlines enacted, Delta SkyMiles and United MileagePlus both announced in 2014 that they would begin rewarding their cardholders based on the amount they spend rather than the number of miles flown. What we could be seeing is satisfaction improving among elite-level passengers at these airlines who are receiving the top perks, although the irony is that most passengers overall will receive fewer points under the new system compared to the previous rewards program.

Additionally, I'd contend that lower fuel prices could wind up playing a key role moving forward, especially for United. Because jet fuel costs have plummeted year over year, airlines like United are rolling in the dough. Although fares aren't being cut, United has been reinvesting in a newer fleet of planes, and it's planning to bring back free snacks to its passengers in economy class for the first time since 2008. Neither the new planes nor the snacks weighed into Brand Keys' 2016 survey, as the planes aren't due for delivery until 2017, and free snacks only began on flights in February, but these small gestures could go a long way to improving consumers' in-flight experience.

### **A surprising fall**

On the other end of the spectrum, **Southwest Airlines** ([NYSE:LUV](#)), which tied with WestJet for third in last year's rankings, surprisingly dropped into a tie for fifth with WestJet this year. (**American Airlines Group** brought up the tail in this year's rankings.)

The reason for Southwest's plunge isn't cut-and-dried, but I suspect it's tied to two factors. First, the aforementioned drop in jet fuel prices could allow the majors to be more cost-competitive with national airlines like Southwest. With deeper pockets than Southwest, the majors have an opportunity to wow their larger customer base (remember, majors hit more hubs and routes) with price cuts. This isn't to say Southwest isn't benefiting as well from lower fuel costs, but the wow factor would likely come from the majors cutting prices.

Fares, in general, only dropped by 1% in the first half of 2015 compared to the first half of 2014, but considering that airline profits are surging near record highs, the majors have the cash on hand to consider being more price- and reward-competitive with airlines like Southwest.

The other possible issue here is that Southwest announced an adjustment to its loyalty rewards program last year. Southwest's loyalty program had rewarded points based on fare price since 2011, the last time it changed its rewards program. Last year, though, it announced that varying factors, which included destination, time, day of travel, and demand, could influence how many loyalty points consumers earned on a flight. Doing this makes it impossible for loyal Southwest customers to know in advance both what their accumulated points are worth as well as what a booked flight might be worth in terms of points earned.

### **Flying high**

The final shift for readers in this year's airline loyalty rankings involved a flip-flop for the top spot between Air Canada and **JetBlue** ([NASDAQ:JBLU](#)). After taking the runner-up spot last year, JetBlue ascends to America's top airline in terms of loyalty and engagement in 2016, with Air Canada descending to a respectable second-place finish.

Why is JetBlue king of the skies? According to [U.S. News & World Report](#), it's because the company has one of the best rewards program in the airline industry.

First, points earned don't have an expiration date under the TrueBlue Rewards program. This allows the company to more effectively reward its customers, and serves as a broadly attractive lure to increase TrueBlue membership. Secondly, consumers can rack up TrueBlue points very quickly. Add-ons, such as booking seats with more legroom or bringing a pet along, can earn consumers bonus points on top of just those earned when booking a flight. Finally, JetBlue allows your points to be donated to a charity of your choice, which is a nice personal touch. The rewards system isn't perfect, but compared to its peers, JetBlue has done an excellent job of attracting and retaining loyal customers.

JetBlue also got aggressive with its loyalty program in 2014, which may have translated into high-quality member additions. JetBlue appealed to fliers in six competing loyalty programs and attempted to lure them into a TrueBlue membership with the Mosaic challenge, a 90-day contest that packed on the rewards for elite customers willing to jump ship for JetBlue.

Finally, I'd credit JetBlue's comparatively young fleet as a reason for its success in attracting loyal consumers. According to [AirFleets.net](#), the average age of an airplane in JetBlue's fleet is 8.5 years. In comparison, the average age of United's and Delta's fleets is 13.6 years and 17.1 years, respectively. Newer planes are not only more fuel efficient and likely to be in the sky as opposed to in the garage needing maintenance, but they also are more likely to feature innovative technologies that can improve the in-flight experience, such as seat-back television screens.

Over the next three years, based on Wall Street's estimates, JetBlue's sales are projected to expand by a total of 27% to \$8.1 billion, while its full-year EPS is forecast to grow by 55% to \$3.07. With strong customer loyalty driving this growth, it could be time for long-term-minded value investors to give JetBlue some serious consideration.

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\*Stock Advisor returns as of December 12, 2016

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