

MKTG 612 Marketing Analytics

Case #1

Northern

Aerospace

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Northern Aerospace

01.



One of the oldest airline companies in Europe

02.



Profitable after several tough years, increasing demand

03.



In 1997 , opened its first online reservation services. In 2002, started with electronic check-ins. Company now uses Cell Phone messages

04.



Frequent Flyer Program – Flagship element of company's marketing strategy



Image source: 24slides

Key Facts and Players



FACTS

- › **Frequent Flyer Loyalty Program**
- › **Main Segments**
 - **Platinum**
(> 100,000 miles per year)
 - **Gold**
(between 25,000 and 100,000 miles per year).
 - **Silver**
(more than zero but less than 25,000 miles per year)



PLAYERS

- › Customers
- › Northern Aerospace Company (CMO)
- › Zenith Consultants

SWOT ANALYSIS



STRENGTHS

- Profitable and growing
- Loyal customer base.
- Embracing new technologies compared with others.
- Membership in OneWorld alliance.



WEAKNESSES

- Limited number of carrier planes.
- Reliance on differentiation and loyalty program as primary strategy.



OPPORTUNITIES

- Increase in air travel
- Growth potential.
- Frequent flyer program expansion.



THREATS

- Getting costlier in keeping customers loyal.
- Competitive and price-sensitive industry.
- Fuel prices.
- New and evolving technologies.



TOWS

SO Strategies (Maximize strengths to take advantage of opportunities):

- Use the profitable and growing business to invest in expanding into new markets.
- Leverage the established brand and loyal customer base to develop and promote the Frequent Flyer Program.
- Take advantage of the increasing demand for air travel by adding more planes to the fleet.

ST Strategies (Use strengths to minimize threats):

- Use the well-established brand and loyal customer base to counter the threat of competitors with more attractive offers.
- Focus on efficient operations and cost rationalization to compete with other airlines with lower costs.
- Embrace new technologies to stay ahead of potential industry disruptions.



WO Strategies (Minimize weaknesses by taking advantage of opportunities):

- Use the potential to expand the Frequent Flyer Program to attract new customers and offset the high cost of the current loyalty program.
- Invest in expanding the number of carrier planes to meet the growth potential in new and existing markets.
- Use the well-established brand and loyal customer base to counter the threat of new and emerging technologies that could disrupt the industry.

WT Strategies (Minimize weaknesses to avoid threats):

- Diversify the differentiation and loyalty strategy to avoid over-reliance on it as a primary strategy.
- Focus on cost rationalization and efficient operations to avoid losing customers to airlines with lower costs and more attractive offers.
- Stay informed and adapt quickly to economic and geopolitical factors that could negatively impact air travel demand and fuel prices.

Decision Maker's Problem

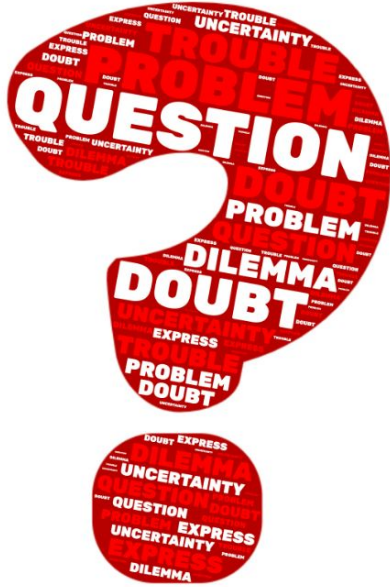


Image source: presentermedia

- To determine the ROI of the program and how it impacts the lifetime value of the company's customers.

Marketing Analytics Solution



Image source: QuestionPro

The lifetime value of a customer generally equals the total profit a firm can expect to earn from that customer during the time the firm continues to maintain an ongoing relationship with the customer

$$\text{CLV} = \left[\frac{(R - C)}{(1 - p + r)} \right] - A$$

R : Gross Revenue
C : Marketing Cost
p : Retention Rate
r : Discount Rate
A : Acquisition cost

Zenith's Recommendations of Customer Segmentation

Gold → Gold- Top 20%
→ Gold- low 80%

Platinum → Platinum - Top 20%
→ Platinum - low 80%

Silver → Silver- Top 20%
→ Silver - low 80%

Segment Data

Number of Customers
Gross Margin
Marketing Costs
Avg Miles Per Year
Passenger Yield Per Mile
Passenger Yield Per year
Loyalty Program Cost

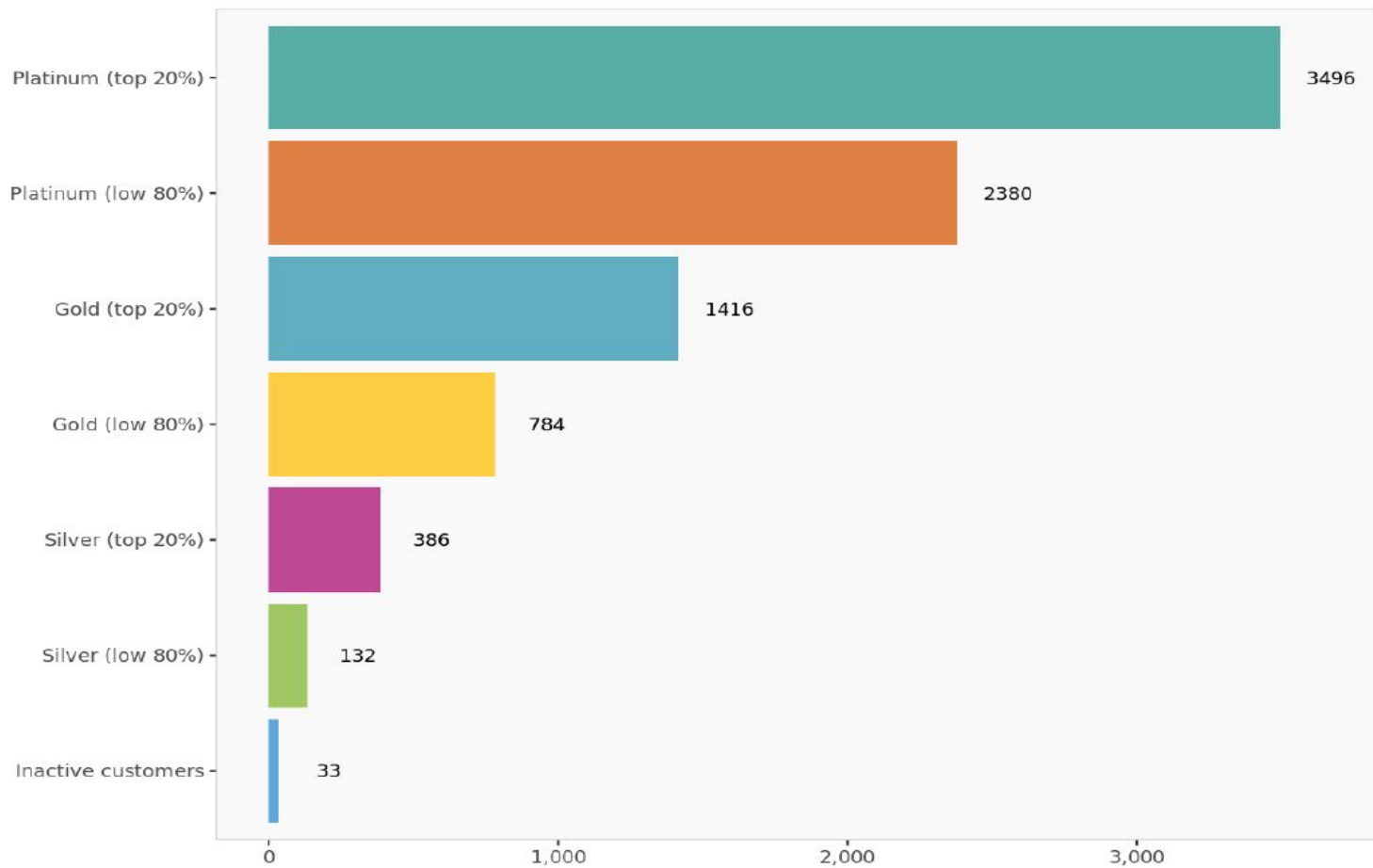


Customer Lifetime Value at 15% discount rate

Customer lifetime value per segment

	Customer lifetime value (\$)
Platinum (top 20%)	\$ 3 495.92
Platinum (low 80%)	\$ 2 379.75
Gold (top 20%)	\$ 1 415.70
Gold (low 80%)	\$ 783.88
Silver (top 20%)	\$ 385.60
Silver (low 80%)	\$ 132.41
Inactive customers	\$ 33.21

Customer lifetime value per segment.



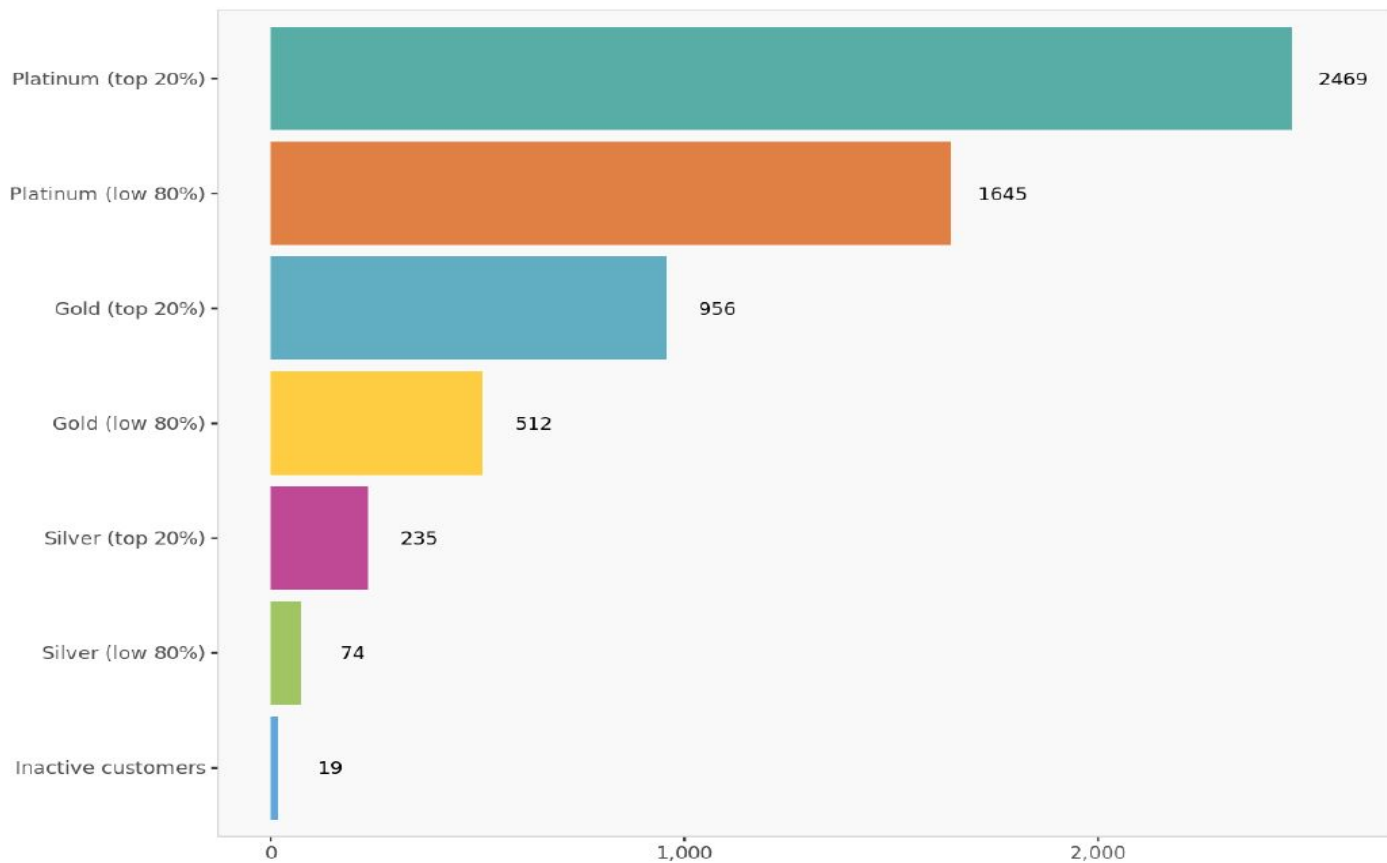


Customer Lifetime Value at 40% discount rate

Customer lifetime value per segment

	Customer lifetime value (\$)
Platinum (top 20%)	\$ 2 468.77
Platinum (low 80%)	\$ 1 644.76
Gold (top 20%)	\$ 955.55
Gold (low 80%)	\$ 511.58
Silver (top 20%)	\$ 234.94
Silver (low 80%)	\$ 74.04
Inactive customers	\$ 18.77

Customer lifetime value per segment.



Return on Investment - ROI

ROI measures how much profit or value an investment has generated in relation to the cost of that investment.

$$\text{ROI} = (\text{Customer Lifetime Value} - \text{Marketing Investment}) / \text{Marketing Investment}$$



Image source: Search Engine Journal

ROI

Segment	Current Loyalty Program	No Loyalty Program	Optimized By Zenith
Platinum - Top 20%	\$ 22.31	NA	\$ 15.04
Platinum - Low 80%	\$14.87	NA	\$ 15.27
Gold - Top 20%	\$ 55.63	NA	\$ 29.64
Gold - Low 80%	\$ 30.36	NA	\$ 33.03
Silver - Top 20%	\$ 37.56	NA	\$ 32.22
Silver - Low 80%	\$ 12.24	NA	NA
Inactive Users	\$ 15.61	NA	NA-

CLV

Segment	Current Loyalty Program	No Loyalty Program	Optimized by Zenith
Platinum - Top 20%	\$3,495.92	\$1,482.23	\$5,775.24
Platinum - Low 80%	\$2,379.75	\$1,344.27	\$3,661.46
Gold - Top 20%	\$1,415.70	\$773.82	\$2,267.46
Gold - Low 80%	\$783.88	\$439.19	\$986.80
Silver - Top 20%	\$385.60	\$211.63	\$498.29
Silver - Low 80%	\$132.41	\$97.07	\$163.33
Inactive Users	\$33.21	\$24.15	\$40.19

Zenith's Recommendations

Divide each segment (Platinum, Gold, Silver) into Top (20%) and low (80%)

Target customers in Top% by spending on loyalty program for them

No longer spend on Inactive and bottom 80% of silver segments

Optimized						
# Customers		Gross Margins	Loyalty Program Costs	CLV	Cost	Changes in Allocation of Budget for Program from Current
200	Platinum (top 20%)	\$ 4,200.00	\$ 360.00	\$ 5 775.24	\$72,000.00	140%
800	Platinum (low 80%)	\$ 2,070.00	\$ 225.00	\$ 3 661.46	\$180,000.00	50%
1100	Gold (top 20%)	\$ 1,051.00	\$ 74.00	\$ 2 267.46	\$81,400.00	196%
4300	Gold (low 80%)	\$ 426.00	\$ 29.00	986.80	\$124,700.00	16%
6800	Silver (top 20%)	\$ 81.00	\$ 15.00	498.29	\$102,000.00	50%
26600	Silver (low 80%)	\$ 26.00	\$ -	163.33	\$0.00	-100%
18200	Inactive customers	\$ -	\$ -	40.19	\$0.00	
58000 customers		The customer base (optimized) is		\$19,285,994	\$560,100	



Percentage of customers becoming **inactive** in upcoming periods (years) from their respective segment

Segment	No Loyalty Program	Current loyalty program	Zenith's Recomm- Loyalty
Platinum - Top 20%	50%	31.3%	18%
Platinum - Low 80%	52%	32.7%	24%
Gold - Top 20%	54%	35.6%	27%
Gold - Low 80%	55%	38%	38%
Silver - Top 20%	57%	40%	40%
Silver - Low 80%	62%	60%	62%



Our thoughts about Zenith Analysis

Zenith's analysis captures the insights about each segments contribution to the over all revenue generation and how much each segment customers are loyal to northern aeros.

Zenith's findings help us to avoid the bad investment such as Silver Low 80% which has high non-loyal customers and less ROI.

Silver Low 80% :

Cust - 26K , ROI = 12%, Chances of becoming inactive - 60%



Our Recommendations

We suggest to apply Zenith's recommendation **except Silver Top 20%**

Zenith Recommendation of increasing the investment on Loyalty program on Silver Top 20% by 50% won't change the customer retention rate as per Zenith analysis.

Gold - Low 80%	55%	55%	55%
Silver - Top 20%	57%	40%	40%
Silver - Low 80%	62%	60%	62%



Our Recommendation Cont...

Add more dimensions to the data

- Types of customers (Business, Vacations)
- Routes (Holidays, Business)

