

QUT BlueShift Business Case Competition

2018 Business Case



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Confidentiality

This case on Virgin Australia and Velocity Frequent Flyer has been prepared for BlueShift 2018. It is for the use of registered participants only, and is not to be copied or distributed beyond the requirements of the competition.

1.0 Airlines in Australia

The IBISWorld Industry Report I4902 Domestic Airlines in Australia (released in September 2017) provides an executive summary on domestic airlines in Australia:

Domestic airlines have been subject to turbulent trading conditions over the past five years. Intense price competition between Qantas and Virgin Australia, the industry's two largest players, has had a large effect on the industry's performance. Qantas and Virgin Australia slashed airfares over the two years through 2013-14, with Qantas attempting to hold off an aggressive push by Virgin to expand its market share. Virgin acquired 60% of Tiger Airways in 2013 and the remaining 40% in 2014-15, solidifying its position in the low-fare market. With the acquisition, Virgin aimed to compete with Qantas's low-fare subsidiary, Jetstar. Falling airfares caused profitability for both major players to decline in 2013-14. However, a steep fall in fuel prices in 2014-15, which are the industry's largest cost, has helped return both airlines to profitability. Industry profitability has also been assisted by substantial cost-cutting initiatives, such as Qantas's \$2 billion transformation program to restructure its domestic and international businesses.

Industry revenue is expected to fall at an annualised 2.8% over the five years through 2017-18, to \$12.4 billion. This includes a projected decline of 0.7% in 2017-18. A wind back in capacity by Qantas and Virgin has contributed to the industry's decline. However, this has improved both players' load factor, which is a measure of how many seats per flight airlines are filling. Qantas and Virgin have focused on ensuring their domestic businesses remain profitable, allowing them to focus on expanding into growing Asian markets in the International Airlines industry. Both airlines have also placed more emphasis on their loyalty programs to win market share among business and high-income customers. Business class airfares have increased over the past five years, providing a steady revenue stream for industry operators.

...Domestic airlines are expected to increase their focus on customer service through initiatives such as updating their aircraft fleet and providing additional perks, such as improving their loyalty programs for consumers. Competition is likely to remain intense among the industry's low-cost carriers, particularly Jetstar and Tiger Airways. Competition is anticipated to be prevalent on popular routes such as Melbourne to Sydney, and Sydney to Brisbane, as carriers seek to increase their market share.

The IBISWorld Industry Report I4901 International Airlines in Australia (released in July 2017) also provides useful background and insights:

Airlines from different countries operate in the International Airlines industry. While many airlines, such as Emirates and Singapore Airlines, have a significant market presence in Australia, few foreign airlines have local incorporated subsidiaries. As a result, any airline that flies passengers or freight to or from Australia is included in this industry. The number of people travelling to and from Australia has increased over the past five years. Most of this growth is due to a strong increase in the number of tourists travelling to Australia from nearby Asian countries and a similar increase in number of Australian residents travelling overseas...

The International Airlines industry is moderately concentrated, with the top four players, Qantas, Emirates, Singapore Airlines and Virgin Australia, expected to account for over half of total industry revenue in 2017-18. Qantas is the largest player, due to its established history in Australia, its fleet size and its extensive network of international destinations. Emirates and Singapore Airlines are the two largest foreign entities operating in the industry, benefiting from their strong global brand presence. Virgin Australia is Qantas's main competitor both domestically and internationally...

Singapore Airlines is also involved in a long-term alliance with Virgin Australia, which involves a codesharing arrangement and reciprocal frequent flyer benefits and lounge access... Air New Zealand has established ties with Virgin Australia and Cathay Pacific to codeshare long-haul international flights. Air New Zealand owned a 25.9% stake in major player Virgin Australia but sold 20% of its stake to Chinese conglomerate Nanshan Group in June 2016. However, the airline still intends to keep its codeshare arrangement with Virgin Australia.

2.0 Loyalty Programs

The textbook Marketing by Grewal, Levy, Mathews, Harrigan & Bucic (the textbook used in a core undergraduate unit in QUT Business School, BSB126 Marketing) includes a snapshot feature on loyalty and rewards programs:

In a bid to lure customers back into their stores, major retailers are turning to new or revamped rewards programs. In a rewards point economy, customers are spending to receive rewards, incentives and product updates. In a retail industry where there may appear to be little differentiation in product offerings, a good loyalty program may influence store choice. And it is not only the customers that large retailers want back but also the tremendous amount of personal information that loyalty programs capture. Retailers are able to find out where their customers shop, what they buy and who they are...

Loyalty cards provide companies with valuable information about customer spending habits, the success of stores and departments, most popular brands and aspects of the marketing mix such as product offering, product placement and service. Retail stores can also use customer data to evaluate their effectiveness of marketing and event programs. Encouraging people to swipe their cards more often through offering incentives and rewards provides a current database linking personal information to purchase behaviour.... The perks and benefits of a loyalty program need to be more than just accumulating points for the customer. It needs to be personalised and the data captured translated into superior customer service.

A [study on customer loyalty programs by Mastercard](#) released in November 2017, reports that 9 in 10 Australians are members of loyalty programs, with the average Australian belonging to 6.1 programs. 79% of Australians belong to retail loyalty programs, 50% to airline frequent flyer programs, and 43% to schemes with financial institutions.

3.0 Virgin Australia Group

The IBISWorld Company Report on Virgin Australia Holdings Limited (released in June 2017) provides the following overview:

Virgin Australia Holdings Limited is a publicly listed Australian airline. The firm began operations in Australia under the Virgin Blue Airlines brand in 2000, offering low-cost domestic air travel between capital cities. The company had support from federal, state and local governments, which provides incentives for Virgin to service routes that would otherwise be subject to high airfares. In 2011, the company combined the operations of its Australian-based carriers Virgin Blue, Pacific Blue, Polynesian Blue and V Australia into Virgin Australia.

After listing on the ASX in December 2003, Virgin's immediate focus was winning a greater share of the lucrative corporate market. The company introduced a new frequent flyer program, online and self-service check-in, and flexible airfares to lure business travellers. Virgin also unveiled radically transformed airport lounges in 2006. The new lounges offered an enhanced range of business facilities and services. Virgin Australia's focus on the high-value business travel market was designed to compensate for increasing competition for leisure travellers from Qantas's low-cost subsidiary, Jetstar. The firm is also involved in codeshare alliances with several major international airlines, including Etihad Airways, Singapore Airlines and Air New Zealand. The alliances are part of Virgin Australia's strategy to build an international network that complements its domestic business.

You can learn more about the Virgin Family, Virgin Australia History, and other key information on the [Company Overview section](#) of the Virgin Australia website. You can access annual reports, presentations and other investor information on the [Shareholder Information section](#) of the Virgin Australia website.

4.0 Velocity Frequent Flyer



Great rewards are on the horizon

Fly globally
Earn Velocity Frequent Flyer Points and Status Credits when you fly with Virgin Australia and our world-class airline partners to over 600 destinations around the globe.

Great rewards
Velocity Frequent Flyer offers great choice and flexibility when it comes to redeeming your Velocity Points. Choose to redeem for flights, flight upgrades, accommodation or products via the Velocity Rewards Store.

Earn faster
Family Pooling allows you to pool your family members' Velocity Points and Status Credits into one account. This means you can earn faster, redeem for greater rewards including flights and enjoy the next level of Velocity membership and Status benefits sooner.

Join today at velocityfrequentflyer.com/join
Velocity Frequent Flyer membership is free and only takes a few minutes

velocity frequent flyer loyalty program of virgin australia

Velocity Frequent Flyer is the frequent flyer loyalty program of Virgin Australia. Velocity Frequent Flyer is an award-winning program, recognised over a number of years for Program of the Year, Best Customer Service and Best Redemption Ability at the [Freddie Awards](#), the most prestigious member-generated awards in the travel loyalty industry.

The Virgin Australia Group Annual Report 2017 reports there are more than 8 million Velocity members, with the CEO John Borghetti AO highlighting this membership base was the equivalent of 1 in 3 Australians, with further growth planned for Velocity, including expansion and diversification of its portfolio of redemption partners.

You can learn more about Velocity Frequent Flyer on the [Velocity Frequent Flyer website](#).

These articles from the Velocity team will also provide some facts and background:

[4 Convincing Reasons to Join Velocity Frequent Flyer](#);



VIEW™ velocity

→ 4 CONVINCING REASONS TO JOIN VELOCITY FREQUENT FLYER

07 Dec 2017 - VELOCITY TEAM

And [We're Setting the Record Straight on 4 Velocity Myths](#)



VIEW™ velocity

→ WE'RE SETTING THE RECORD STRAIGHT ON 4 VELOCITY MYTHS

04 Dec 2017 - VELOCITY TEAM

The Day of a Velocity Frequent Flyer Member provides some of the partners and how members earn points on Velocity:

THE DAY OF A VELOCITY FREQUENT FLYER MEMBER

- 6:00am** Time to head to a **Virgin Active** gym & get active.
- 7:30am** Drive to work via **BP** where you earn Points on fuel or instore products.
- 8:30am** Park your car at a **Wilson Parking** & earn Points per dollar spent.
- 12:00pm** Errands time! Book your car in for a service at **Midas**.
- 12:15pm** Errand two - upgrade your health cover with **Bupa Health Insurance**.
- 12:30pm** Don't forget your friends birthday present using a co-branded **credit card**.
- 3:00pm** Send your friends birthday present using **Sendle**.

THE DAY OF A VELOCITY FREQUENT FLYER MEMBER

- 5:00pm** Grab dinner & earn **flybuis** Points at Coles then transfer them into Velocity.
- 5:30pm** Arrive home to your beautifully heated home by **EnergyAustralia**.
- 6:00pm** Enjoy dinner & sit down with a bottle of wine from **Virgin Wines**.
- 7:30pm** Call your family & friends using your phone plan from **Virgin Mobile**.
- 8:00pm** Book a flight with **Virgin Australia** for a weekend getaway to New Zealand.
- 8:15pm** Load up your **Global Wallet** card in prep of your upcoming trip.
- 8:30pm** Do some online shopping through the **eStore** for new winter clothes.

Velocity Frequent Flyer has used clever messaging to attract and retain members:

CHANCES ARE THE PERSON SITTING NEXT TO YOU IS EARNING POINTS ON THIS FLIGHT, DON'T LOOK

Join Velocity now and claim your Points for your flight. And, if you join by 31 August 2017, you could win 1 of 20 \$2,000 Virgin Australia flight vouchers. Enter at velocityfrequentflyer.com/JOINCENTER

IT'S TIME TO JOIN

velocity frequent flyer loyalty program of australia

View full T&Cs at <https://www.velocityfrequentflyer.com/content/velocity/velocity-terms/>. Promotion commences on 20/08/17 and ends on 31/08/17 (promotion period). To enter, eligible members must use Velocity during the Promotion Period via an eligible join method as detailed in the full T&Cs. Limited to one entry per person. The draw will be conducted on 20/09/17 at 3:00 pm AEST (AEST). Prizes are Velocity Frequent Flyer Miles (VFFM) 400,000 (400,000 VFFM) of approved address in Administrative Area, Greater Brisbane, Queensland 4000. Authorised under ACT. Permit number: TP 18/00481, NSW Permit Number: LTPS/18/12005, SA Permit number: T01462.

YOU MUST BE TIRED OF HEARING ABOUT THAT HOLIDAY YOUR FRIEND WENT ON USING POINTS

Join Velocity now and claim your Points for the flight you're about to get on. And, if you join by 31 August 2017, you could win 1 of 20 \$2,000 Virgin Australia flight vouchers! Join at velocityfrequentflyer.com/JOINCENTER

IT'S TIME TO JOIN

velocity frequent flyer loyalty program of australia

View full T&Cs at <https://www.velocityfrequentflyer.com/content/velocity/velocity-terms/>. Promotion commences on 20/08/17 and ends on 31/08/17 (promotion period). To enter, eligible members must use Velocity during the Promotion Period via an eligible join method as detailed in the full T&Cs. Limited to one entry per person. The draw will be conducted on 20/09/17 at 3:00 pm AEST (AEST). Prizes are Velocity Frequent Flyer Miles (VFFM) 400,000 (400,000 VFFM) of approved address in Administrative Area, Greater Brisbane, Queensland 4000. Authorised under ACT. Permit number: TP 18/00481, NSW Permit Number: LTPS/18/12005, SA Permit number: T01462.

Email communication to members highlights destinations:

Pretty much anywhere. If anywhere is these places. View online

velocity
frequent flyer

SILVER

VELOCITY POINTS: 0 (as at 29 Jul 2016)

MEMBERSHIP NO.: 123456789

MY ACCOUNT REDEEM

POINTS CAN TAKE YOU TO THE BELOW DESTINATIONS AND 600 OTHER DESTINATIONS THAT COULDN'T FIT ON THIS EMAIL.

SYDNEY TO MELBOURNE
Economy return from 15,600 Velocity Points plus \$46.78 taxes and fees*

BRISBANE TO AUCKLAND
Economy return from 35,600 Velocity Points plus \$250.18 taxes and fees*

MELBOURNE TO HONG KONG
Economy return from 55,600 Velocity Points plus \$159.25 taxes and fees*

See where else Velocity Points could take you with Virgin Australia and our international airline partners.

[VIEW OUR MOST POPULAR DESTINATIONS](#)

5.0 Business challenge for BlueShift consulting teams

For the BlueShift case competition in 2018, your team is challenged to provide analysis and recommendations to Virgin Australia and its loyalty program, Velocity Frequent Flyer, with a focus on attracting and retaining young professionals to the program. Your analysis and recommendations should consider Velocity Frequent Flyer in the context of customer loyalty programs and airline industry in Australia, while drawing on the best ideas and initiatives from around the world.

Your team must submit a written report. The report must include:

1. Cover page (one A4 page)
2. Table of contents (one A4 page)
3. Executive Summary (one A4 page)
4. Research and analysis (maximum three A4 pages), including:
 - a. Overview of Virgin Australia and Velocity Frequent Flyer;
 - b. Analysis of customer loyalty programs in Australia;
 - c. Analysis of the airline industry in Australia;
 - d. Best practice and benchmarks in customer loyalty programs around the world.
5. Recommendations (maximum three A4 pages), including:
 - a. The criteria your team has used to describe and identify the young professionals market;
 - b. Strategy and tactics to attract and retain young professionals to Velocity Frequent Flyer over the next two years. Your team's suite of tactics must include an innovation or initiative to enhance the inflight experience on Virgin Australia domestic routes for young professionals; and an innovation or initiative to make young professionals committed fans of the Virgin Australia lounge experience.
 - c. Marketing and communication tactics to let young professionals know about Virgin Australia, Velocity Frequent Flyer, and the new innovations and initiatives; leading to membership and retention;
 - d. Identify the major income and expenditure items for your team's recommendations. Your team does not need to include figures in this section, rather demonstrate that your team has considered the budget, including whether the recommendations will generate income or some other value;
 - e. Timeline for implementation over next two years (June 2018 to June 2020);
 - f. Evaluation approach to track and measure the success of your team's recommended strategy and tactics.
6. Overview of your consulting team (one A4 page)
7. List of references and sources (no page limit)

6.0 Research Starters

There are hyperlinks to online resources throughout this briefing document. These should be your research starters. To provide a compelling and well justified report, your team will be expected to undertake additional research.

7.0 References

Grewal, D., Levy, M., Mathews, S., Harrigan, P., & Bucic, T. (2017). *Marketing*. North Ryde, NSW: McGraw-Hill.

IBISWorld. (2017, June). *Virgin Australia Holdings Limited: IBISWorld Company Report*. Retrieved from QUT Library databases.

Tarrant, N. (2017, September) *IBISWorld Industry Report I4902: Domestic Airlines in Australia*. Retrieved from QUT Library databases.

Tarrant, N. (2017, July) *IBISWorld Industry Report I4901: International Airlines in Australia*. Retrieved from QUT Library databases.

There are also sources hyperlinked in this document.

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- Community borrowing; and
- Schools' Program.