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THE CARTRAWLER REPORT SERIES FOR 2022

Advice to Airline Managers – Don't be Paralyzed by the 2022 Consumer Challenge

CarTrawler-sponsored analysis describes how the airline industry must move past being a “deer in the headlights” and accept that the business of travel has changed.

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Contents

The industry is behaving like a “deer in the headlights”	4
“We believe the worst is behind us . . .”	4
Five ways to overcome the 2022 consumer challenge	6
1. Protect consumers from today’s travel uncertainty	6
2. Improve clarity of fare restrictions	8
3. Allow friends and families to pool frequent flyer points.....	10
4. Promote flexible holiday packages	11
5. Be more generous and kind to your consumers	13
How you treat consumers defines your brand more than anything else	14

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About Jay Sorensen, Writer of the Report

Jay Sorensen's research and reports have made him a leading authority on frequent flyer programs and the ancillary revenue movement. He is a regular keynote speaker at ancillary revenue and airline retail conferences, spoke at IATA Passenger Services Symposiums in Abu Dhabi and Singapore, and has testified to the US Congress on ancillary revenue issues. His published works are relied upon by airline executives throughout the world and include



Jay and sons Aleksei and Anton hiking on the Pacific Crest Trail in the Angeles National Forest in California.

first-ever guides on the topics of ancillary revenue and loyalty marketing. He was acknowledged by his peers when he received the Airline Industry Achievement Award at the MEGA Event in 2011.

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Eric, at his favorite summer retreat, Steens Mountain, Oregon.

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Advice to Airline Managers – Don't be Paralyzed by the 2022 Consumer Challenge

The industry is behaving like a “deer in the headlights”

Anyone driving in forested areas may have first-hand knowledge of this cliché. Few experiences inspire more panic than the sight of a deer motionless on a highway at night . . . paralyzed by the headlights of your vehicle. A similar kind of paralysis is also present among airline management teams. Those afflicted hope for a return to the good-old-days of 2019 or are hoping (and hoping) for conditions to improve. This report is written as a call for action to help savvy airlines navigate a path to better serve consumers during this period and improve financial sustainability.



Deer eyes actually reflect light and appear to glow at night which increases the terror of the moment. Image credit: Oregon State DOT

The eyes of a deer are great for night vision, unless they encounter the bright glare of headlights. Then a deer will often “freeze” in place as it attempts to focus on an approaching vehicle. If you add snow-covered roads and high speed, the outcome is almost always tragic for the deer and the occupants of the car. Deer populations are not dented by these encounters because they are a prolific species in terms of reproduction. Their large numbers allow them to roam without risk of extinction by automobiles. The same logic does not apply to airlines; becoming frozen in the glare of the pandemic might lead to the eventual loss of an airline empire. Competitors advance, revenues decline, employees depart, and investors eventually flee. The secret to survival in the wilderness of Covid is to position your business on firm footing by creating confidence among consumers so they want to fly your airline.

“We believe the worst is behind us . . .”

That’s a quote from Ed Bastian, CEO of Delta Air Lines during a CNBC interview by Phil LeBeau in January 2022. Mr. Bastian’s comments refer to how the omicron variant has affected his airline. The same comment might have been made during the various lulls and fleeting moments of triumph of the pandemic in the US: summer 2020 drop in deaths, winter 2021 start of vaccinations, summer 2021 drop in deaths, and the delta variant receding in fall 2021. It’s human nature to hope for the best, and one can hardly fault a CEO for declaring brighter skies are ahead. However, the pandemic has been a painful episode of advances and withdrawals. The only consistency has been its inconsistency.

It might be helpful to provide a summary of recent history to understand how we arrived here. The initial shock of Covid in the spring of 2020 prompted big action from the world's airlines. Capacity was slashed and provisions were made to "batten down the hatches" in preparation for the severe traffic drop that very quickly arrived. Even while this occurred, a former leading politician told America on 10 March 2020, "Just stay calm. It will go away." Misinformation and false hope has formed the narrative of this event from the beginning.

Bravo to the world's airline industry for rapidly assembling an armada of protocols in hopes of restoring traveler confidence. Airplane interiors have never been cleaner and HEPA filtration saved the day. It's true, refunds were handled badly for consumers, but most airlines delivered effective relief from change fees. And yet, during the latter part of 2020, the industry's employees still contemplated the ruination of their airlines. It was a terrible year in every regard.

The confirmation that vaccines would soon arrive heralded the beginning of 2021. Progress during the year looked promising. Large domestic markets encountered significant demand. Cross border travel began to reopen. But the arrival of variants did something to the psyche of airline executives. They viewed a variant as a singular event . . . a single curve temporarily slowing progress on a highway. But with Covid, the road ahead continues to have seemingly endless curves.



We just can't escape the curves and find a stretch of straight highway in this pandemic.

The outcome is similar to the "light switch" approach governments used to open and close international borders. Airline executives began to turn on flexibility protections for consumers for short periods of time. These methods

acknowledge individual hills, but completely ignore the topography of the entire highway. Opening and closing borders, and doing the same with travel flexibility, degrades consumer confidence in travel.



Switching flexibility benefits off and on for consumers does not create traveler confidence.

Let's assume the road will continue to offer curves for 2022 and even 2023. Airline CEOs can continue to tell the media, "I remain quite optimistic for the summer of 2022," as Anko van der Werff, the CEO and president of SAS recently said during an interview.¹ It's a quote you will likely hear from dozens of airline CEOs this winter. But off camera, these CEOs should be pushing their teams to improve traveler confidence. Airlines have been tremendously challenged by high fuel prices, border closures, workforce problems, and flight cancellations. Through all of this, they have remained dutifully vigilant on Covid safety and cleaning protocols. However, more effort is required to help customers regain confidence in travel.

¹ Anko van Der Werff interview with John Strickland, 15 December 2021 at CentreForAviation.com.

Five ways to overcome the 2022 consumer challenge

It's nearly impossible to make someone do something they don't want to do (*the writer of this report, as a father, knows this well*). Fortunately, people remain primed to travel. During the depths of the pandemic in October 2020, Expedia asked 11,000 travelers across 11 countries about their travel plans.² Fifty percent felt optimistic about taking a trip in the upcoming 12 months. That's a robust reflection of how resilient the urge to travel has remained. Tellingly, the other 50 percent expressed the need for reassurance, and represents a cause for concern. The reason for this nervousness becomes clear, as another question revealed 60 percent of travelers had a planned trip cancelled due to Covid. This report describes how airlines can create more confidence among consumers and boost revenue during the pandemic and beyond:

1. Protect consumers from today's travel uncertainty.
2. Improve clarity of fare restrictions.
3. Allow friends and families to pool frequent flyer points.
4. Promote flexible holiday packages.
5. Be more generous and kind to your consumers.

Airlines should absolutely continue to ensure safety and reliability during the pandemic and beyond; travelers remain very conscious and concerned about Covid hygiene. Airline industry efforts have addressed these concerns and consumers expect airlines will continue to do a good job. However, it's a natural evolution of the pandemic for consumers to change their focus to financial issues. Consumers now seek assurance for the financial safety of their travel investments . . . otherwise known to airlines as "revenue."

I. Protect consumers from today's travel uncertainty

Abraham Maslow (1908-1970) was an American psychologist who is best known for his "hierarchy of needs" theory which is depicted as a pyramid. The human necessities of life, forming the base of the pyramid, represent those most crucial to survival. This bottom layer consists of physiological needs such as water, food, sleep, clothes, and shelter. When these are fulfilled, the next layer of personal, emotional, and financial safety is sought. Maslow believed humans seek to move through all five layers to eventually reach the top level of self-actualization, which represents reaching your full potential.

Maslow's theory has application to consumer behavior during the pandemic. Covid health protocols address a consumer's personal safety needs. The other important part is the need for financial security. After this is met, a human will seek greater fulfillment, which includes feeding curiosity, attaining knowledge, and enjoying aesthetically pleasing experiences. That sounds like the benefits consumers derive from a vacation. This makes logical sense, as concerns regarding safety and finances likely represent barriers to travel.

The airline industry recognized this at the beginning of the pandemic and implemented policies to protect consumers from financial uncertainty through fee waivers for changes and cancellations. The following table summarizes the current policies of 25 leading global network and low cost carriers to make travelers feel more financially secure in their travel investments.

² Expedia Group "2020-2021 Traveler & Influences" report reviewed at Expedia.com.

Covid Era Change and Cancellation Policy Survey

25 Leading Global Network and Low Cost Carriers

Based upon review of airline websites February 2022

Carrier Based In:	Leading 25 Carriers	Change Policies for <u>All</u> Fares		Cancellation Policies for <u>All</u> Fares	
		Fee Waiver	Notes (Single or unlimited changes)	Fee Waiver	Notes (Cash refund or travel voucher)
Asia / Pacific	AirAsia				
	Air China				
	Cathay Pacific	■	Ticket by 31 March 2022 Travel by 31 March 2023		
	Korean Air	■	Travel by 30 June 2022	G	Travel by 30 June 2022
	Qantas	■	Travel by 30 April 2022 (dom) Travel by 31 Dec. 2022 (intl)*	■	Travel by 30 April 2022 (dom) Travel by 31 Dec. 2022 (intl)*
	Singapore		Expires 31 March 2022	C,G	Ongoing
Europe	Air France/KLM	■	Ongoing	■	Ongoing
	British Airways	■	Travel by 30 September 2022	■	Travel by 30 September 2022
	easyJet	■ G	Expires 31 March 2022 Travel by 31 December 2022	G	Travel by 31 December 2022
	Lufthansa				
	Ryanair				
	Turkish	■	Ticket by 31 March 2022 and travel by 31 May 2022		
Middle East	Emirates	C,G	Travel by 31 August 2022 (24-month extension available)	C,G	Ongoing
	Qatar Airways	■	Travel by 30 September 2022 (24-month extension available)	■+	Travel by 30 September 2022
Latin America	Avianca	C	Ongoing, must tvl. w/i 90 days		
	LATAM Airlines	C	Ongoing		
North America	Air Canada	■	Ongoing	■+++	Ongoing
	Alaska Group				
	American				
	Delta				
	Frontier	■	Request 60 days before travel	■	Request 60 days before travel
	JetBlue				
	Southwest	■	Ongoing	■	Ongoing
	Spirit	■	Request 60 days before travel	■	Request 60 days before travel
	United				

“Ongoing” indicates no announced expiration date. * Ticketing deadline occurs before travel deadline.

C = Waiver provided if infected with Covid or positive test result. G = Waiver provided if due to border closures.

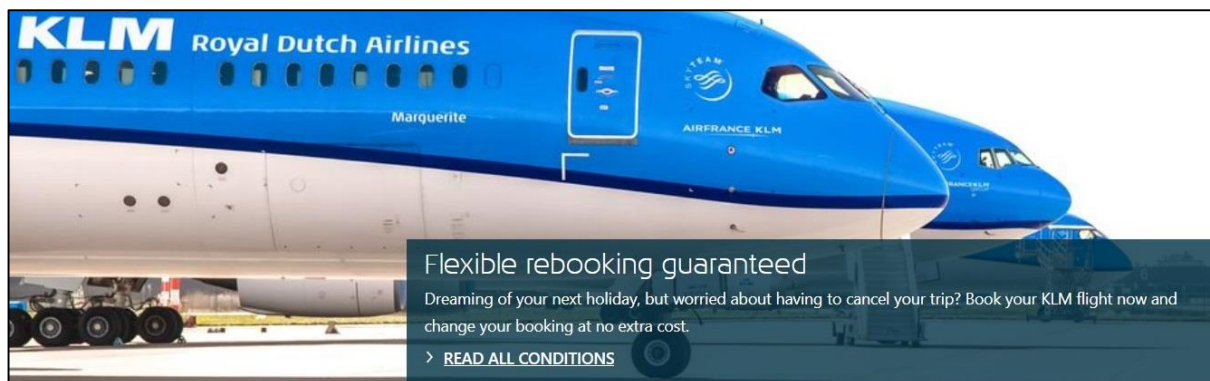
+ = Qatar Airways adds 10% bonus if consumer chooses travel voucher.

++ = Air Canada adds 65% mileage bonus if consumer chooses refund as Aeroplan miles.

Airlines appearing without notation may only charge change fees for their lowest priced fares (basic economy).

Is the industry making continuing good effort here? In a word – no. The columns describing the existence of fee waivers should universally display an affirmative response. The columns describing policy expiration dates should display dates well beyond the Northern Hemisphere’s summer season – such as 31 December 2022. Rather, the industry’s promise of flexibility during the pandemic is now a hodgepodge of short windows of protection. Consumers are not blind to this and thus don’t feel assured and confident. The airline industry, and the travel industry overall, have largely failed to meet a basic human need for financial security. Only easyJet and the airlines listed as “ongoing” have policies providing the assurance sought by consumers. The bonus offers by Qatar and Air Canada for converting cancellations into vouchers or miles provide benefits for consumers and airlines.

KLM provides an exceptional example of delivering the right message. The carrier’s home page proactively promotes flexibility with banners and links to the rebooking and cancellation page. It was surprising in a review of more than 25 airline websites how Covid policies have gradually disappeared or been moved to less prominent position. Websites are active marketplaces and web designers seek to keep these looking fresh. But when a refresh removes timely and necessary information, that’s a disservice to the consumer. KLM’s policy remains in force until discontinued. That’s much better than an expiration date a few weeks away, but lacks the confidence of this statement: “You’ll enjoy flexibility throughout all of 2022.” Expiration dates don’t merely define your policy . . . these also define your brand.



Nothing gives consumers more confidence in today’s uncertain environment than the words “flexible” and “guaranteed.” But be certain your policy actually provides both, or risk the anger of consumers when they are most vulnerable.

2. Improve clarity of fare restrictions

It is stunning how complex the airline industry has made the purchase of airline tickets. The purchase of a \$78 ticket for travel between Los Angeles and Las Vegas is ultimately governed by a 12,000-word contract, whereas buying a \$1 million home requires a scant 2,000 words. Airline contracts are beyond the understanding of any sentient being.

Comparison of Typical Contracts			
Purchase	Airline Ticket	Automobile	House
Agreement	Contract of Carriage	Purchase Agreement	Purchase Agreement
Word Count	12,000	1,500	2,000
<i>Source: IdeaWorksCompany review of various documents used in the US.</i>			

The techno-babble displayed in the fare rules displayed above should be ceremonially exorcised from airline websites as a demonic being. While using the contract of carriage and fare rules to loft every bit of legalese at consumers might excite company lawyers . . . the inevitable result is a dazed and confused consumer.

Take the advice of Ben Baldanza (board director, professor, and former airline CEO)³ who recently urged airlines to embark on a “weight loss plan” for 2022.⁴ One of his suggestions included an audit of consumer-facing policies to reduce complexity, “Like regulations, corporate policies are continually added but rarely removed . . . by cleaning your policies up and only having policies that you really need, you will make things easier for employees and customers. While doing this, you likely can re-write many policies to add clarity.”

3. Allow friends and families to pool frequent flyer points

Airlines have jealously protected their once-elite frequent flyer program members with loss-of-benefit date extensions, lower tier thresholds, new methods to qualify for status, and bonuses to encourage the return of business travel. The loyalty world’s traditional focus on the most frequent of flyers has yielded a heretofore unforeseen problem – the disappearance of business travelers during 2020. The numbers are now better, but the situation remains unstable. It’s anyone’s guess how many will eventually return and if those who had elite status will actually qualify in the future. This suggests it’s time to refocus frequent flyer programs to probe the opportunities presented by other member categories.

Airline consulting projects for IdeaWorksCompany have focused on the category of non-elites. They represent an overwhelming 90+ percent of program membership. This group always poses a challenge because they have not generated sufficient airline revenue to justify expenditures for more marketing attention and program perks. Within this giant category are leisure travelers, families, and groups of friends. Flight activity for everyone has slumped during the pandemic, but vacationers and those visiting friends and relatives (VFR) have certainly returned in larger numbers than those traveling for business purposes.



KrisFlyer for Families allows pooled redemption in Singapore, Scoot, and partner airlines.

Singapore Airlines in August 2021 introduced KrisFlyer for Families. This family pooling plan allows parents to transfer the KrisFlyer miles of their children to their own account. This provides better access to reward benefits and increases program attractiveness even when flight activity is lower. Children can enroll in KrisFlyer at age 2 and participate in family pooling through age 15. The maximum annual transfer per child is capped at 50,000 miles, and up to 5 children can be linked to a parent’s account. The airline generates a little ancillary revenue with a mileage transfer fee of US\$5 (or 500 miles) for every 5,000 miles transferred. That’s a modest amount and well below the value of the miles transferred.

³ Ben Baldanza is also a consultant with IdeaWorksCompany.

⁴ “The U.S. Airline Industry’s Five-Point Weight Loss Plan for 2022” dated 06 January 2022, Forbes.com.

Other pooling examples don't limit the benefit to families. JetBlue permits up to 7 members to pool miles and doesn't charge fees for participation. Frontier Airlines allows up to 8 persons to participate and requires the head of the pool to have elite status or a Frontier credit card. Aegean Air allows silver and gold tier members to invite up to 5 members (with or without status) to participate in the "Together" program.

The pandemic has encouraged loyalty marketers to redesign programs and make changes to attract specific member categories. InterContinental Hotels Group recently announced it will redesign the IHG Rewards program during winter 2022. American has introduced "loyalty points" as the criteria for achieving elite status. As of 01 January 2022, a \$75,000 charge to your AAdvantage credit card will accrue 75,000 loyalty points, which qualifies the member for platinum status. This expands the ability to reach elite status to less frequent flyers. In a similar style, Emirates introduced Skywards+ in August 2021 as a subscription program to "buy" perks similar to those provided through elite status. Skywards+ offers three packages, with the top Premium package priced at \$999 for an annual subscription. Premium includes these perks: 20 percent mileage bonus, 20 percent discount on flight upgrades and Classic rewards, access to airport lounges ten times a year, and 10 kgs of extra baggage allowance or one additional piece of checked baggage.

Regardless of the outcomes resulting from the pandemic, frequent flyer programs will remain important tools in a carrier's toolbox. But their effectiveness at generating more traffic and ancillary revenue for a core of business travelers has been dented. Savvy airlines will seek to expand program attractiveness to new audiences. This may even replace business travelers and elite members as the focus of a program.

4. Promote flexible holiday packages

Airline executives might have missed a significant development during the fall of 2021.⁵ Hyatt Hotels acquired Apple Leisure Group, which includes an array of all-inclusive resort brands with locations throughout the Americas with a focus on beach and spa resorts. The purchase included ALG Vacations, which operates these holiday package programs: Apple Vacations, Funjet Vacations, Southwest Vacations, and United Vacations.

Hyatt has gradually moved from a focus on corporate travel hotels in big cities to having one of the largest all-inclusive luxury resort collections in the world. The company anticipates leisure sales will surpass 50 percent of 2023 chainwide revenue.⁶ The Apple acquisition, and the company's hotel strategy, clearly place leisure travel at the forefront. It's a development that should prompt airline executives to assess how leisure travel will play a larger role for their airlines.



These vacation package brands are now operated by Hyatt Hotels Corporation.

⁵ Hyatt Hotels Corporation, press release dated 02 November 2021.

⁶ Hyatt Hotels Corporation, Transaction Announcement presentation dated 16 August 2021.

Vacation packages and in-path bundling are exceptional methods to sell airline travel and capture ancillary revenue from the sale of bundled elements such as hotels, car rental, and activities. It's difficult work to integrate package offers within the full scope of a carrier's retail activities. But the effort is worthwhile because it creates a broader consumer presence and allows fare discounting to be less transparent to competitors. During the pandemic, the one-stop-shopping method can dramatically improve consumer confidence. That's because the package company can define a single flexibility policy for all package elements.

EasyJet holidays provides a good example of a thorough and well-conceived policy for consumers. Bookings can be changed online without fees 28 days before departure. Likewise, deposits are returned as credit for cancellations made 28 days before departure. Within 28 days, if a holiday itinerary is prevented by a border closure, or a government implements a quarantine policy, the consumer may seek a refund or change without penalty. However, for protection from changes or cancellations caused by illness just before, or during a vacation, easyJet holidays urges insurance coverage.

The graphic is titled "easyJet holidays Protection Promise" and features the ABTA logo. It lists five key benefits of the protection promise:

- REFUND GUARANTEE**: If our customers change their mind, we will give them a full refund, including their deposit in credit, up to 28 days before departure and free of fees.
- TAKE YOUR TIME**: Our customers can pay for their holiday in instalments with no fees and only have to pay in full 28 days before they travel, giving them flexibility if plans change.
- BEST PRICE GUARANTEE**: We're so confident in our great value holidays that if our customers find the same holiday cheaper elsewhere, we'll beat the price.
- FREEDOM TO CHANGE**: Our customers have the flexibility to change their holiday if things change and there are no fees for changes made online until 28 days before departure.
- KEEP YOUR DEPOSIT**: Our customers can plan ahead with confidence, knowing that if plans change, up to 28 days from departure they won't lose their deposit.

Jet2.com, a UK-based LCC and package leader, offers an even more generous policy for Jet2Holidays. Vacation packages can be changed or cancelled without fee if the UK government (7 days or less before departure) advises against leisure travel to a destination, or a government implements a mandatory hotel quarantine (without exceptions for negative tests or vaccinations). Additionally, the booking can be changed without fee if a package traveler (or a non-traveler residing in the same home) receives a positive Covid test 10 days before departure. The descriptions offered above represent a summary of terms and conditions; full details should be reviewed at the easyJet Holidays or Jet2Holidays web sites.

The crucial element for promoting flexibility policies is simplicity. One airline was observed to be rather misleading by promising “no change or cancel fees” just on the airline portion of the package. No similar promise was made regarding hotel properties, and unhelpfully the site does not allow searches to focus only on hotels with flexible policies. More fine print detracts from the impression you are trying to convey – that the airline wants to encourage package purchases by protecting the consumer from Covid risks.

5. Be more generous and kind to your consumers

The most effective manner to entice timid travelers is to be extra nice. Most of us are able to “turn on the charm” when something extra is desired from another person. This certainly defines the situation in which the travel business finds itself today. The prior four strategies described in this report can almost be considered as “must do” items. Being more generous, as the fifth strategy, is something the very best airlines will consider. That is after all what makes a company distinctive – the desire to go over and above.

Icelandair is by necessity one of the most leisure savvy airlines on the planet. The airline knows that travelers need not cross the Atlantic Ocean via Keflavik – so they have created a scenario in which travelers “want” to transit via Keflavik. It’s not a surprise the airline has implemented “extra nice” policies during the pandemic.

For all international flights, Icelandair offers no-fee changes as an ongoing policy. But the airline goes beyond that with its “Simply return home” protection. If a passenger becomes ill with Covid during a trip (with a documented positive test result) and is delayed by mandatory self-isolation, the airline will fly the passenger home at no additional expense. Only passengers ticketed roundtrip on Icelandair qualify. Other passengers in the same booking may accompany the recovered traveler at no additional expense. It’s a small benefit, but it helpfully addresses a real concern of travelers today.



Icelandair’s Simply Travel. One of the few images we’ve seen created for promoting travel flexibility by an airline.

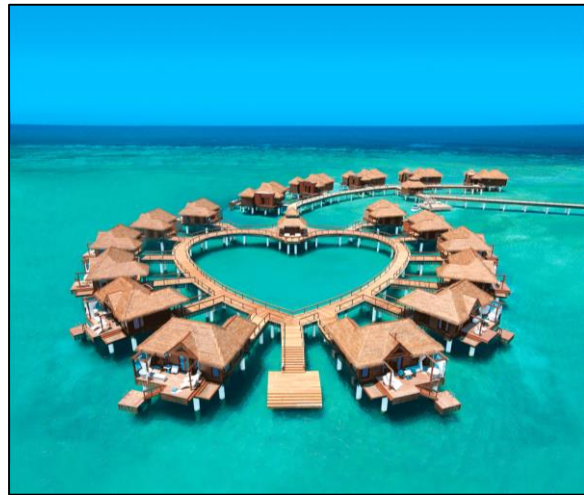
Sandals Resorts provides what it calls “the travel industry’s most comprehensive Covid policies and protocols” to lure visitors to its 16 Caribbean resorts. Sandals Vacation Assurance is included in the accommodation price and is offered on an ongoing basis. It’s an offer which really communicates – we want you to vacation here!

The following lists the seven benefits of the program:

1. **Vacation Replacement.** If your stay is interrupted, you’ll receive a credit voucher for a future vacation to be redeemed within 12 months at no cost.
2. **\$500 Air Credit Replacement.** If your stay is interrupted, you’ll receive a replacement air credit voucher valued at the amount you paid for your flights (max. 500 USD a person) to be redeemed within 12 months. Valid for U.S. bookings with flights made directly through Sandals.com (Unique Travel Corp).

3. **Travel Insurance is included.** All reservations automatically receive insurance coverage for medical expenses during your resort stay.

4. **Free On-resort Reentry Test.** All departures to the U.S. and Canada are required to take a Covid test for reentry. These tests are free and conducted on resort by approved and practiced medical professionals with minimal distraction to your overall vacation experience.



5. **On-resort Quarantine.** In the unfortunate event you incur a positive test result from the initial antigen test, a second test will be administered, which will be a PCR test. Should the PCR test incur a positive result and require quarantine, additional on-resort stay up to 14 days will be covered by Unique Vacations, Inc.

With Sandals' outstanding flexibility protection, who would say "no" to this paradise in Montego Bay, Jamaica?

6. **Cancel Anytime for Any Reason.** You have the flexibility of cancelling your resort stay up to the day of departure. This is only applicable to the land/room portion of the booking (flight is covered by the \$500 air credit).

7. **Vacation Assurance Hotline.** "We know your time is precious, which is why our Sandals Support Team is on standby to help answer any questions you may have about your vacation."

With Sandals, the "fine print" defines all the benefits the resort automatically includes at no extra charge. It begs the question, "Why would you not go?"

How you treat consumers defines your brand more than anything else

The ability to travel during the pandemic remains a luxury. And that's the challenge for airlines and the travel industry. The desire to travel is strong, but the impediments to travel have never been greater. For many, it will take a mighty push to get off the couch and into an airplane seat. That consumers are currently enticed by other entertainment (such as dining out or a spa treatment or home entertainment streaming) or buying things, provides very real competition for discretionary spending.

You encourage consumers to choose your airline and reconnect with the world by treating them as you would want to be treated. Frontline employees know very well the trauma created by restrictive terms and conditions masquerading as promises of flexibility. That consumers are too often treated like cattle in the booking path – without proper access to fare rules – removes credibility, punishes revenue, and creates expense. The pandemic has proven the airline industry can meet very stiff challenges. That same effort is now required to win back consumers to the joy and magic of airline travel.

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We build revenue through innovation in product, partnership and marketing for airlines and travel companies. We add knowledge and expertise to management teams through on-site workshops and consulting. We have served airlines and the travel industry since 1996; our international client list includes these travel industry service companies:



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Reach Jay Sorensen direct at Jay@IdeaWorksCompany.com

