

THE IMPACT OF THE MILES TRADE BUSINESS IN THE BRAZILIAN AIRLINE  
INDUSTRY

by

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This Capstone Project was prepared and approved under the direction of the  
Group's Capstone Project Chair, Dr. Leila Halawi  
It was submitted to Embry-Riddle Aeronautical  
University in partial fulfillment of the requirements  
for the Aviation Management  
Certificate Program

Capstone Project Chair:

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Date

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## Abstract

Group: Miles Trade Business

Title: The Impact of the Miles Trade Business in the Brazilian Airline Industry

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This study analyzes the impact of the Miles Trade business in the Brazilian airline industry. This is linked some factors: economy recession, cultural traces, legal flaws and new technologies that led to the creation and growth of the Miles Trade business in Brazil. The impacts over airlines are related to loyalty weakening between customers and airlines and revenue dilution due to the lower prices of air tickets sold in miles. This project analyzes the qualitative impacts using the SWOT analysis, Porter's 5 forces, Cause and Effect Diagram and the quantitative impacts comparing public available information about the Miles Trade business industry size to the public information of airlines revenue published by ABEAR. By acknowledging the significant impacts this study proposes recommendations and future research in order to mitigate, considering loyalty, legal and regulation, and technology perspectives in the analysis.

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## **Chapter I**

### **Introduction**

“If you want to be a Millionaire, start with a billion dollars and launch a new airline” is a famous quote from Richard Branson, founder of Virgin Atlantic Airways. It is well known that airline industry is a highly competitive one, where profits could be small or even none (Scotti and Volta, 2017).

Both in terms of its own operations or its impacts on related industries such as aircraft manufacturing and tourism, the airline industry is a relevant economic force all over the world. More than the amount generated by this industry, the intensity of attention given to airlines from government policy makers and the media, made this industry a popular and attractive business.

The world air travel industry growth averaged approximately 5% per year since the 1990s, with huge yearly variations due to changing economic conditions and differences in economic growth in different regions of the world (MIT, 2018).

The MIT Airline Industry Review article (2018) says that the total net profits of world airlines have shown tremendous volatility. After the world airline industry posted 4 consecutive years of losses totaling over \$22 billion from 1990 to 1993, as a result of the Gulf War and subsequent economic recession, it returned to record profitability in the late 1990s, with total net profits in excess of \$25 billion being reported by world airlines from 1995 to 1999. Even more dramatic was the industry’s plunge into record operating losses and a financial crisis between 2000 and 2005, with cumulative net losses of \$40 billion.

The volatility and competitiveness' growth in the airline industry forced companies to develop a differential that permits growing and retaining existing customers. The adopted solution by almost all airlines was to create loyalty programs in order to provide great customer service and encourage customers to continue purchasing from them instead of looking for another airline.

Burnett (2018) says that customer loyalty is paramount to any brands' success — because loyal customers can grow a business faster than sales and marketing.

Loyalty programs, in general, have become hugely popular in business practice and as a focus of marketing research, becoming a key component of customer relationship management (Kivetz and Simonson 2003, p.454). U.S. companies spend more than \$1.2 billion with their Loyalty programs each year, the program participation increased to 3.8 billion in 2017, a 15% increase over the number reported in 2015, and the average U.S. household subscribes to 21.9 different programs (Wagner et al. 2009; Berry 2013; Freund 2017).

Airline Loyalty programs in Brazil are well developed. It has been noted a two digit growth in the number of loyalty program members in the last two years (28% - 2016 vs 2017, and 19% - 2017 vs 2018), as well the volume of miles redeemed, which grew 29% (2017 vs 2016, last quarters), and 21.5% (2018 vs. 2017, first quarters) (ABEMF, 2018). The steep growth of this two figures suggests a change in the miles business standards.

In Brazil, a new business has been developed in the last years: the Miles Trade business, where companies, acting as Online Travel Agencies (OTA) or Metasearch websites, buy and sell tickets obtained by loyalty points. This practice is impacting the

airline business, as the revenue provided by a ticket from loyalty points are much smaller than the regular one. Loyalty programs in the long term are affected as well, since their value as promoting loyalty to the client becomes less relevant.

### **Project Definition**

This project intends to measure the impact of Miles Trade business in the Brazilian aviation industry, from the airline perspective. Not only Revenue Management and Sales areas are being affected, but also Marketing, Customer Experience and even Operations are forced to adapt their procedures in order to stop the growth of this new business. With revenue and margin losses, as well damages in Brand image, airlines in Brazil are facing an enormous challenge. Without any regulation, the Miles Trade business is growing quickly and the impact for the upcoming years would be relevant.

### **Project Goals and Scope**

The purpose of this project is to quantify the impact of the parallel market of loyalty Miles Trade to non-loyal customers. It is expected to conclude that this parallel market brings great financial losses to the companies, especially in the long term, in the same time impacting negatively airlines' brand image to their loyal customers.

As future steps, some ideas are placed in order to discuss alternatives to change the current scenario, weaken the Mile Trade Business processes or even ceasing it.

## Definitions of Terms

Airbnb	online marketplace for accommodation ( <a href="http://www.airnmb.com">www.airnmb.com</a> )
Breakage	is the amount of points that are rewarded that never get spent
Decolar	Brazilian OTA, part of Despegar group
Despegar	Argentinean OTA, market leader in South America
Frequent Flyer Program	loyalty program offered by an airline
Kayak	metasearch website ( <a href="http://www.kayak.com">www.kayak.com</a> )
Metasearch	A search engine that displays results from multiple search engines
Skyscanner	metasearch website ( <a href="http://www.skyscanner.com">www.skyscanner.com</a> )
TAP	TAP Air Portugal, Portuguese Airline
TudoAzul	Azul Airlines loyalty program
Uber	peer-to-peer ridesharing among others ( <a href="http://www.uber.com">www.uber.com</a> )

## List of Acronyms

ABAV	Associação Brasileira de Agências de Viagem (Brazilian Travel Agencies Association)
ABEAR	Associação Brasileira das Empresas Aéreas
ABEMF	Associação Brasileira de Empresas do Mercado de Fidelização (Brazilian Loyalty Market Association)
ASK	Available Seat Kilometers
ATR	Avions de Transport Régional company

B2C	Business to Consumer
BRL	Brazilian Real – Brazil’s currency
CED	Cause and Effect Diagram
CODACE	Comitê de Datação de Ciclos Econômicos (Economic Cycle Committee)
CPF	Cadastro de Pessoa Física (National Insurance Number)
GDP	Gross Domestic Product
MFA	Multi-Factor Authentication
MIT	Massachusetts Institute of Technology
OTA	Online Travel Agencies
OTP	One Time Password
ROI	Return on Investment
RPK	Revenue Passenger Kilometers
USD	American Dollar

## **Chapter II**

### **Review of the Relevant Literature**

The intention of this chapter is to provide a description of Loyalty programs and the benefits behind it. Following it, a deeper dive into the Brazilian Airline Market, highlighting the Loyalty programs in the country and giving context regarding the environment where the Miles Trade companies were born, exploring cultural, legal and economic factors.

#### **Loyalty Programs**

Henderson et al. (2011, p. 58) define a loyalty program as “any institutionalized incentive system that attempts to enhance consumers’ consumption behavior over time.” Aligned with Steinhoff & Palmatier (2014, p. 3), we can conclude that “Loyalty programs encompass various marketing activities, including reward cards, gifts, tiered service levels, dedicated support contacts, and other methods for enhancing customers’ attitudes and behaviors”.

When compared with other promotional tools, Loyalty Programs produce a long-time impact on consumer behavior, capture untraceable customer information and reduce promotional costs (Breugelmans and Liu-Thompkins, 2017).

American Airlines was the first airline to introduce a frequent flyer program in 1981 and, influenced by that, many other programs were born across industries, such as

in hotel industry (e.g., Starwood Preferred Guest), retailers (e.g., Macy's Star Rewards) and financial services (e.g., American Express Centurion) (Brierley, 2012)(Berry, 2013). Retail, hotels and airlines correspond for 70% of total loyalty program memberships in the United States (Berry, 2013).

Fruend (2017) census indicates, considering only Travel and Hospitality sectors, United States has 1.1 billion loyalty program memberships. Those sectors are experiencing a 20% growth, significantly higher than other categories.

In the aviation industry, loyalty programs are common and relevant as a strategy to strengthen the brand and attract customers. The main idea of an airline loyalty program is to reward through miles (or points), depending on the price of the ticket, each time a customer flies with the airline. Customers, when they accumulate certain quantity of miles, would reach a "status", which allows them to be able to use some benefits such as priority check-in or access to the airport V.I.P. Lounge. The special rewards give customers a sense of superior status when compared to the "ordinary" customers (Tajfel and Turner, 1986) and superior social comparisons (Festinger, 1954), which reinforce the high perceived status (Steinhoff and Palmatier, 2014).

On the top of it, the main benefit of an airline loyalty program is the possibility to redeem the miles earned into a new ticket or product, which is perceived as "free" to the customer. Even if, from a revenue management perspective, the ticket redeemed does not generate revenue, it is important from the airline point of view to retain clients, and keep them trying the product, which stimulate even more loyalty, feeding the program cycle.

A loyalty program could be owned by the airline, as an inside department, or be an independent company, which buys tickets and sells miles to the airline. In both

scenarios there is an extreme dependence between the businesses. Airlines needs the loyalty program to offer to their clients a product differential, since their product is practically a commodity (a seat on an airplane), to encourage the customer to choose one airline instead of another. On the other hand, the loyalty program has only one supplier for airline tickets, which should be its best partner.

### **Loyalty Programs in Brazil**

The Brazilian Loyalty Market Association - ABEMF - represents eight of the most important loyalty companies in Brazil. ABEMF has estimated, according to the data from 2018's first quarter, that there are more than 115 million members in Brazilian's loyalty programs, which is approximately a 19% increase when compared with the same previous year period. In 2017 ABEMF published that 251.6 billion miles were rewarded, 27.7% more than in 2016. Almost 90% of the rewarded miles were accrued from retail partners or credit cards transfers.

The volume of miles redeemed increased 28.6% in the last quarter of 2017, comparing with the same period of 2016. In the first quarter of 2018, ABEMF estimated that 59.8 billion of miles were redeemed, 21.5% more than the same period of 2017.

Miles which expire before being used are called "breakage". The expired miles generate revenue when accrued, as they have no cost in rewards expenses. In an accounting point of view, it means profit. However, breakage does not contribute to customer engagement. High breakage rates could indicate that customers has poor knowledge about the loyalty program or are not engaged with it. Burnett (2018) says that

this may be caused by a variety of reasons, such as points expiring too fast or members who are not perceiving value on it. It could leave members to quit the program or even frustrate them since they never earned enough points to redeem. Therefore, a healthy loyalty program needs to balance program costs, customer engagement and breakage.

Only in 2016, more than 50 billion miles rewarded by credit cards in the country expired, valued in more than 1 billion Brazilian Real (BRL), which represents a profit for the loyalty companies (Cavalcanti and Nogueira, 2018). In 2017, the breakage tax in Brazil represented 19% of the total miles available (ABEMF, 2018).

Expenditure on rewards programs by credit card issuers in the country - not including those directly accumulated in airlines - totaled 137.6 billion points at the end of 2016, against 253.9 billion a year earlier, according to data from the Central Bank of Brazil (Cavalcanti and Nogueira, 2018).

The Brazilian Loyalty Market Association – ABEMF – estimated that almost 75% of the Brazilian redeems are used in airline tickets (2018).

## **Brazilian Market Characteristics**

### **Brazilian recession**

Recession waves are common in developing countries and affect directly people's consumption power, which pushes them to re-adjust to the new scenario.

According to Alves (2018), "A recession is defined when a national economy stays two consecutive quarters with negative performance of the Gross Domestic Product (GDP) and ends when the economy returns to perform positively."

The three largest recessions in Brazilian's history occurred in the last thirty-five years. The first occurred in 1981, during former president João Figueiredo and lasted until 1983, with gross GDP falling by more than 8%. The second major recession was during the government of former presidents José Sarney and Fernando Collor, between 1989 and 1992, when the cumulative drop in GDP was 7.7%. Finally, the most recent recession happened during the government of former President Dilma Rousseff and current President Michel Temer, which reached the peak between the years 2014 and 2016, with a cumulative drop in GDP of 8.6% (CODACE, 2018).

According to Quelch and Jocz (2011), in order to have a greater survival to the retraction and to achieve better results after the negative cycle, companies must understand the change in the habits of the consumers, as well as in the psychological factors that direct this change.

Re-adjustment, therefore, is also necessary on the part of companies, since it is important to observe new market niches that arise and consequently there are opportunities to capture this new more sensitive price demand. Kotler and Armstrong (2010) commented that the consumer's decision to buy is based on two principles. Initially, the first principal is driven by internal stimuli that are characterized by basic or physiological needs, following by external stimuli, for example through marketing promotions. Further on, the characteristics of consumer buying decisions are observed from traditional impulse buying, which often leads consumers to exceed budget limits to

purchase some service or product; the partially planned purchase, when the consumer has previously established a need, but is more susceptible to a greater variety among brands and models; and the fully planned purchase, where the consumer already enters the store with a pre-established objective by a need (Engel, Black and Miniard, 1993).

### **Brazilian cultural traces**

Brazil is a unique country. One of its main cultural traces is called “The Brazilian way”, or in Portuguese, “Jeitinho Brasileiro”. It is relevant to understand this behavior characteristic in order to comprehend how Brazilian deals with opportunities.

According to Wachelke and Prado (2017) using references from Barbosa (1992), "the fundamental analyzes of the" Jeitinho "started from cultural anthropology, focused on the customs and institutions of Brazilian daily life." Barbosa (1992) used historical testimony to identify the emergence of the expression "Brazilian way" during the 1950s, a period in which the country was undergoing a change due to a period of greater internal industrialization and less imported products, "initiating a broader period of Westernization" of Brazilian society and the consequent impact of more traditional cultures with what they call "modern individuals".

According to DaMatta (1986), the definition of the “Brazilian way” can be understood as a way of social resilience with the objective of adapting to the complex public bureaucracies that exist. Such processes can be used in different political, social and cultural spheres and become marked in people's daily lives as a way of minimizing distance, as a shortcut to solving problems.

According to Barbosa (1992), "Jeitinho" is defined as a special way of solving some more difficult situations or one that is not allowed, as well as a creative solution to solve some emergency through acts or forms that do not follow the rules "either as a form of conciliation, cleverness or skill" (Barbosa, 1992, p. 41).

Still, according to Wachelke and Prado (2017), using Almeida's references (2012), "the way is a specific type of corruption, distinguished by the use of socially friendly procedures and smaller size or seriousness of practice."

With this understanding, we can relate the reason for the creation of new means to the traditional method applied in the trade of miles: using information and procedures, even considered classified and against the rules established in the existing loyalty programs contract, to obtain an advantage: purchase a cheaper airline ticket. It is the "Jeitinho Brasileiro" finding a way to readjust in the current scenario.

### **New peer-to-peer marketplace technologies**

In recent years we have seen the expansion of new business as Uber and AirBnB, based on a new peer to peer technologies.

Accordingly to Archer (2016) a basic aspect that makes this kind of company possible is existence of assets that are underutilized. Also, as Isaacson (2017) states: "what companies such as Airbnb and Uber have done in the past decade is take the peer-to-peer sharing of digital content that flourished online, through sites like Napster, YouTube and Facebook, and apply it to our physical world, including cars, rooms and scores of other goods, tasks and services."

Geissinger, Laurell and Sandstrom (2018) say the peer-to-peer sharing technology invalidates the economic assumption of scarcity in the applied industry. The scarcity assumption takes limited resources as basis and, with it, there is a need to optimize the resource allocation in order to maximize returns. However, connecting peer-to-peer with abundance of resources take place with increasing returns, such as Uber and Airbnb cases.

Analyzing the impacts of these technologies, it's possible to note that these aspects, which made these new businesses a success, are also applicable to the Miles Trade business.

Airline miles or point are an asset that are underutilized if customers do not use them before they expire. Also, what Miles Trade companies do is to connect customers who own the asset with customers who want to buy it, which could be seen as a peer-to-peer marketplace sharing economy. In this sense, this business model is invalidating the scarcity assumption and exchanging it for abundance with rising returns, as the examples cited before.

### **Legal Uncertainty in Brazil.**

According to De Pietro (2014) using concepts drawn from Wambier (2005), a contract defines the basis of the market economy. It is through this model that the circulation of goods and wealth is made possible, a fundamental element of the economic constitution of a society. And, in this way, it is not of restricted interest to contracting individuals, but of to all collectivity.

De Pietro (2014) also describes a passage by Martins-Costa (2000) that, unlike what was used in the past, the contract, as an instrument par excellence of the obligatory relation and legal vehicle of the economic movements of wealth circulation, is no longer seen within an optics informed only by the dogma of the autonomy of the will. Precisely because it is a binding relationship - a cooperative relationship between the parties, which is procedurally polarized by its purpose - and because it is characterized as the main legal instrument of economic relations, it is considered that the contract, be it public or private, is informed by the social function assigned to it by the legal system. This means that the social relation of the contract must be considered, even if there is an opposite effect to the clauses present in the contract.

Eros Roberto Grau (1990) discusses that "the change of perspective on the understanding of the autonomy of the will is therefore profound: it ceases to regard the individual as absolute master of his will, to understand him as a subject authorized by the practice certain acts, within the exact limits of the authorization granted".

"The law has as its primary purpose to establish order and security, thus becoming the main instrument of sociability" (Cavalcanti Filho, 1964). Hence, "the certainty of law is therefore fundamental to man, because it allows him to know what qualification he can expect for his action or action from others. And life in the plane of coexistence is, essentially, action, activity, behavior and exteriorization" (Cavalcanti Filho, 1964).

De Pietro (2014) comments that the validity of a right inhibits its negotiation when there is uncertainty, which can create impacts in the economic development and that the lack of legal security raises the costs for the affected party. Patriot (2016)

comments that the principle of legal certainty is a basic principle of the rule of law which is part of the constitutional system, which is one of the general principles of law.

According to Filho (2015), the concept of Legal Insecurity represents the uncertainty of the performance of justice "using all the forms allowed by the legal system". Laws can be interpreted in different spheres as a result of their subjectivity.

Citing a case recently heard by the Court of Justice of São Paulo, referring to the denied embarkation of a client on the American Airlines flight, Judge Jose Marcos Marrone, whose opinion was not aligned with the majority of his colleagues, considered it is "legal to prohibit the marketing of miles by any means or form" and that "the regulation has clear simple language and does not raise doubts as to the rule prohibiting the sale of miles" (Acórdão American Airlines, 2018).

However, for most adjudicators, since it is an onerous legal transaction, it is not permissible to impose inalienability clauses.

It is important to remember that the trade of miles is still an activity without legal regulation and that has caused much legal insecurity for the sector. Contracts governing the rights and obligations of the parties in relation to loyalty programs stipulate a prohibition on trading miles.

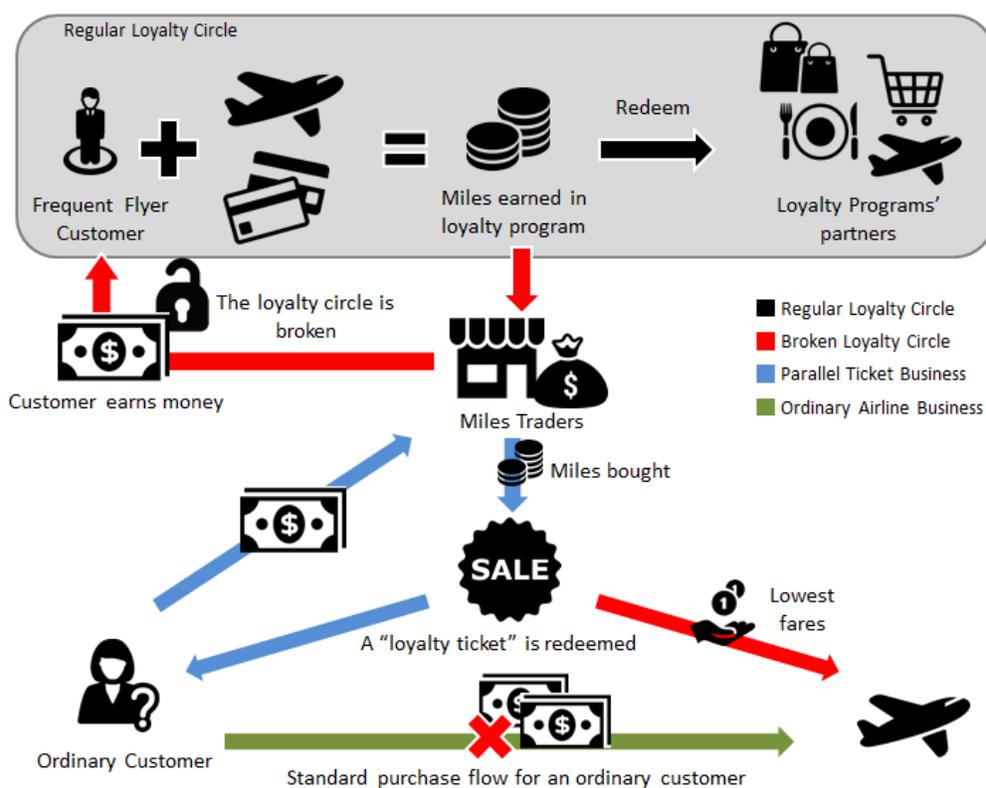
### **The Miles Trade Business**

A disruptive business model was created by startups in recent years: the Miles Trade business. The trade mile companies use online platforms, similar to the OTA's or

metasearch's, where they buy miles from frequent flyer customers and redeem tickets to a new customer, interrupting the regular loyalty circle.

There is no official association or group of Miles Trade that estimates the size of this new market. However, some information were displayed by the main players through newspaper articles, which would help to understand its dimension.

The Miles Trade business moves more than 500 million BRL per year, with an average cost of miles around 200 BRL for every ten thousand miles (Cavalcanti and Nogueira, 2018). *Figure 1* illustrates how this business operates in Brazil.



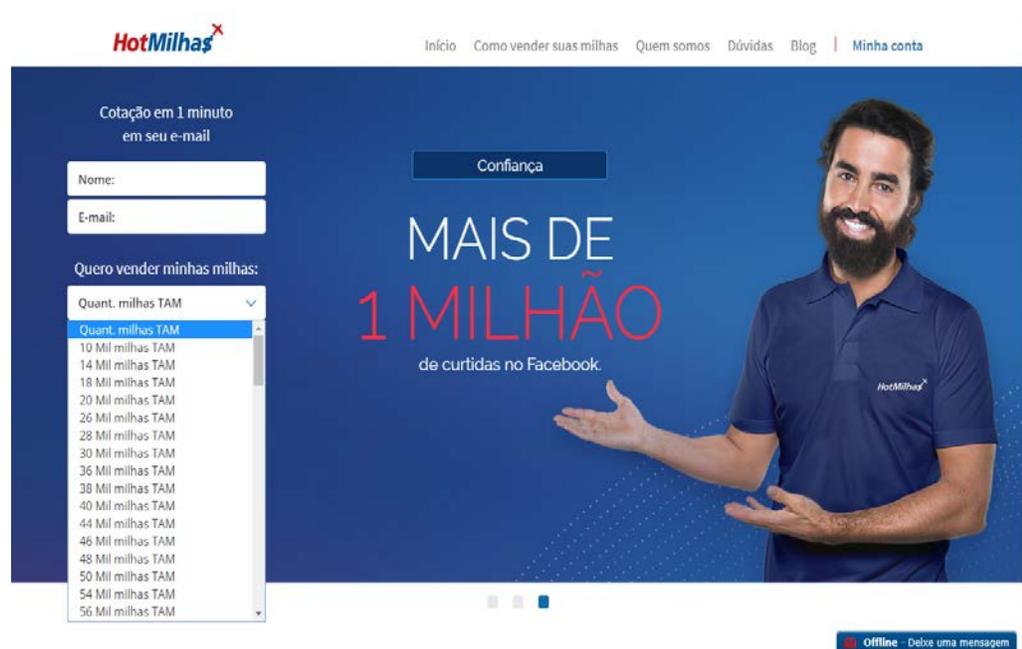
*Figure 1* Miles Trade Business operation flow.

The Miles Trade Business operation model brings impact to the loyalty program business and to airline companies, since it takes value out from the first, as the buyer is

not the loyal customer who is using the product, and reduces the income for the second, as the regular customer is buying a lower ticket fare instead of full price one.

As *Figure 1* illustrates, to operate this business the Miles Trade companies need to ask the login and password for the frequent flyer customer, in order to manage his or her account to redeem the ticket, which have been bought by the ordinary customer. This procedure represents a risk to the frequent flyer customer since somebody else has the full access to his or her account and could change, for instance, the personal data and the password.

Transactions, such as on a stock exchange, are made based on daily quotes calculated considering the supply and demand for lots of miles accrued in Brazilian or foreigners loyalty programs. *Figure 2* shows a website used by loyalty customers to sell their miles.



*Figure 2* Advertising example from HotMilhas.

The website has friendly interfaces, which facilitates frequent flyer customer to navigate. He or she needs to input name, e-mail and miles quantity he/she wishes to sell. After few minutes, the owner receives an e-mail with the offer. If the owner accepts it, the Miles Trade company transfers the amount agreed to the owner's bank account. In the next step, the owner should send his or her loyalty program's login and password to the company, which will redeem the miles bought as soon they find a buyer.

Despite that the loyalty programs' rules specify this practice is not allowed, it still happens in Brazil. The tickets that should be destined to frequent flyer customers are being redeemed by third parties, weakening the relationship between frequent flyers and loyalty programs and generating losses to the airlines since potential clients are not buying full fare tickets.

Third parties' customers, named in Figure 1 as ordinary customers, are those who wants to travel, but do not have any relationship with the airline or do not have enough miles to redeem a ticket. The customer access "loyalty ticket" through a website similar to an OTA one, which provides a similar customer experience. Figure 3 shows an example from 123 Milhas.

The screenshot displays the 123 milhas search engine interface. On the left, a sidebar contains search filters: 'Passagens Aéreas', 'Só ida', 'Ida e volta', 'Vários destinos', 'Informe sua origem' (São Paulo, Congonhas, Brasil (CGH)), 'Informe seu destino' (Rio de Janeiro, Santos Dumont, Brasil), 'Data de ida' (17/10/2018) and 'Data de volta' (18/10/2018), 'Adultos' (1), 'Crianças' (0), 'Bebês' (0), 'Opções de busca' (Horário ida: Qualquer, Horário volta: Qualquer, Classe: Econômic), and 'Somente voos diretos'. The main content area is titled '271 voos encontrados de São Paulo para Rio de Janeiro'. It features a 'Melhores tarifas' section with a table of prices for LATAM, Avianca, Azul, and GOL. Below this, a list of flight options is shown for 'Quarta-feira, 17 outubro 2018' from São Paulo, CGH to Rio de Janeiro, SDU. The first flight is a direct flight from LATAM at 09:00, arriving at 10:05, with a price of R\$ 218. Other flights are also listed with their respective times and prices. On the right, a summary box shows a '25% de economia' offer for R\$ 147, 'CANCELAMENTO GRÁTIS', '1 Pessoa' for R\$ 147, 'Taxas e encargos' for R\$ 71, and a 'Preço total' of R\$ 218. A 'Comprar' button is visible.

Figure 3 123 Milhas search engine interface.

Some of the Miles Trade' search engine shows two ticket fares, the airline and the loyalty one, intending to be transparent to the consumer. Sometimes, the airline ticket is cheaper than the loyalty one, but the average is 38% discount (Fonseca, 2018).

Some of these websites also include a link that directs the customer to the airline's website, making them metasearch engines as Kayak or Skyscanner.

## Main Players

The two biggest players claim they transacted 12 billion miles in 2017 (MaxMilhas, 2018 and HotMilhas, 2018).

HotMilhas and 123 Milhas, websites where the owner can sell miles and the third part customers can buy the tickets, respectively, are part of the same group, founded in

2008 by Ramiro Madureira. The company announces more than 1 million likes and followers in Facebook and 7 billion miles bought in 2017 (HotMilhas, 2018).

MaxMilhas, a company based in Belo Horizonte, Minas Gerais, was founded in 2013 by Max Oliveira and transacted more than 5 billion miles in 2017, issuing more than 500 thousand tickets. Their page in Facebook has approximately 670,000 followers. At the website, the company informs that 78% of flights purchased via MaxMilhas are leisure travel and that they won awards in Customer Experience and Customer Complaints (MAXMILHAS, 2018).

In an article from O Globo, an important Brazilian newspaper, Cavalcanti and Nogueira, (2018) comment MaxMilhas, which emits 50,000 tickets a month, had revenues of R\$100 million in 2016 and wants to triple these figures in 2018. To achieve this amount of revenue, the company started, in July, to sell tickets with TAP Air Portugal (TAP) loyalty miles.

Both companies, HotMilhas and MaxMilhas, invested in advertising campaigns in paid TV and social media. Usually the main claim is that, when buying tickets through their websites, customers could save up to 50%, when compared with the major airline companies. To endorse the media campaigns and raise brand awareness, famous actors and influencers were casted. *Figure 4* illustrates one of these advertising campaigns.

Figure 4. Home of a trade website advertising “flights with up to 50% discount” by two Brazilian famous actors.

Aiming to develop even more their brand, the two biggest players acted as online travel agencies (OTA), searching for prices in all the biggest 4 airline companies and their respective loyalty programs, and showing the comparison to the customer. With this feature, they are increasing the volume of visits to their website month by month.

Another relevant strategy used by the Miles Trade companies to develop branding is to act like blogs, generating relevant content to their customers, not only in the travel segment but also in how to manage miles. *Figure 5 and Figure 6* show examples of how HotMilhas and MaxMilhas educated users to use loyalty programs in order to maximize the miles accrued.

Figure 5 HotMilhas's blog explaining about the best 9 loyalty programs to increase the customer miles.

Figure 6 MaxMilhas's website explaining why selling miles can be considered legal.

## **Airlines Reaction**

Loyalty companies and airlines, aware that loyalty program regulations do not allow to sell the miles or points to third parties, are already acting behind the scenes to minimize the losses triggered by the Miles Trade businesses.

American Airlines, following the rules established in the contract signed between the customer and the loyalty program, started to apply a procedure to cancel the customer account which was identified in non-compliance with the rules, as well not allowing the customer who bought the miles ticket to board. In 2006, American Airlines was involved in a procedure against its action. Despite being supported by the program rules, these actions were not legitimated by the Court of Justice, which has ordered the American Airlines company to release the passengers identified as beneficiaries of Miles Trade business (Acórdão American Airlines, 2018).

From that procedure, a jurisprudence is being build, which means the loyalty program rules regarding this issue does not have to be followed (Neto, 2018).

To minimize the effects of it, LATAM Airlines, through its loyalty program company, Multiplus, included in the program rules that customers could issue tickets for up to 25 people previously registered and controlled through the customers' CPF (National Insurance Number). This method would increase the operational Miles Trade companies' procedures, limiting the business reach (Multiplus rules, 2018).

## Summary

Loyalty programs are proliferated all over the world by airlines, aiming to produce a long-time impact on consumer behavior, strengthen relationship and stimulate new purchases. In Brazil, all airlines already have a loyalty program. The Brazilian Loyalty Market Association (ABEMF) represents this market and publishes relevant data. It is observed that in the recent years the number of program's members increased by 19%, number of miles rewarded and redeemed had a significant growth of 28.6% and 21.5%, respectively. All numbers suggest a recent change in the industry dynamic.

Aiming to give context of Brazilian current scenario, the Literature Review mention three relevant themes: recession, cultural traces and legal uncertainty.

Brazil faced a significant recession during the years 2014, 2015 and 2016, when GDP had a cumulative decrease of 8.6%. Re-adjustment, therefore, was mandatory for a relevant part of consumers, which became much more price sensitive. During a recession, usually price is the main attribute for the consumer when choosing the product.

The second theme explains a unique trace of Brazilian culture, called "The Brazilian Way" or "Jeitinho Brasileiro" in Portuguese. "Jeitinho" could be defined as "a special way of solving some more difficult situation or one that is not allowed, as well as a creative solution to solve some emergency through acts or forms that do not follow the rules as a form of conciliation, cleverness or skill" (Barbosa, 1992).

The last theme comments about the legal uncertainty, explaining how the change of perspective on the understanding is frequent. Legal Courts could differ in their legal

advice in many occasions. System is complex and bureaucratic, and decisions could take years to be made.

Therefore, recession stimulated people to find opportunities to earn money and to be more price driven when purchasing goods or services. Miles Trade companies start to be relevant in this context since they buy miles and sell cheaper tickets. Does not matter for some people, the ones that need an extra income, share their login and passwords (which could be explained by the Brazilian cultural trace, “Jeitinho Brasileiro”).

Customers who want to buy cheaper tickets looked for opportunities and found the Trade Mile Companies.

In few years, the Miles Trade business grew exponentially, which gave them opportunities to reinvest the revenue in advertising, increasing their awareness and bringing more business. On the other hand, when airlines tried to fight against the model, Brazilian Justice ruled in favor of the Miles Trade Business.

## **Chapter III**

### **Methodology**

This chapter describes the methodology that was applied to understand the qualitative and quantitative impacts of airline loyalty miles reselling to the airline business.

#### **Experimental Design**

In order to develop the impact of the Miles Trade business, the analysis was split into qualitative and quantitative analysis. The qualitative part was assessed using business strategy and process frameworks: SWOT analysis, Porter's five forces and Cause and Effect Diagram (CED). The quantitative one was evaluated using assumptions from secondary data available.

The SWOT analysis aimed to have an overview impact of miles reselling considering the airline industry. Porter's five forces was used in the ticket selling business perspective to have a more focused view of the miles reselling competitive environment. Cause and Effect diagram was the final framework used to have a direct approach to point the reasons for the existence of the Miles Trade business.

For the purpose of this project, the analysis frameworks: SWOT analysis, Porter's Five Forces and Cause and Effect Diagram (CED) were performed in the airline

perspective. It was executed based on the researchers' experience as managers in the Brazilian Airline Industry as source of data.

### **SWOT analysis**

The SWOT analysis is a business strategy tool that classify the company or industry characteristics into four quadrants: Strengths, Weaknesses, Opportunities and Threats. The first two are related to internal aspects of the business under analysis while the remainder two aspects refer to outside ones.

According to Helms and Nixon (2010), SWOT analysis is a strategy tool to work with complex scenarios as it reduces the number of information which eases the decision-making process. Helms and Nixon (2010) also state that SWOT analysis can be used along with other business tools such as action plans and Porter's fiver forces to direct core problems and competences to business solutions.

### **Porter's five forces**

The Porter's Five Forces is one of the main strategy frameworks in business management. The five forces are: supplier power, buyer power, threat of new entry, threat of substitution, competitive rivalry.

In the Brazilian airline industry context, competitive rivalry is high mainly due to capacity excess. The average Load Factor in domestic flights in Brazil is around 82% (Panorama ABEAR, 2017)

Supplier power is medium as there are few aircraft manufactures that are used by the companies: Boeing, Airbus, ATR and Embraer. This could mean a high level in supplier power, but the Aircraft manufacturing industry is also very competitive and has low margins. Therefore, aircraft manufacturers also have a medium dependency level of their buyers, airlines, so this force was classified as medium.

Threat of new entry is also medium as there's no legal restriction from any company from other country to start operations in Brazil, for example, Norwegian will start flights between Brazil and Europe this year (Casey, 2018). But, considering the capacity excess, high competition and low margins, at this moment this would not be the most attractive industry as any entry would represent high investment level for years to have a positive Return on Investment (ROI).

Buyer's power and threat of substitution are low since customers are fragmented and their bargaining power comparing to airlines is low, even considering channels as tour operators or corporate agencies. Regarding substitution, Brazil's rail infrastructure is not representative and highways, besides having a good structure in central and south regions, have a poor quality in the North and Northeast regions of the country. However, considering that Brazil has continental dimensions, roads are a completely different product with a considerable poorer variable in quality and time length.

For this project purpose, Porter's Five Forces was used in the airline ticket selling industry in which miles resellers are a threat of new entry.

As Goett (1999) stated, it's a long-term industry profitability model that can be used to assess the threat of the impact of miles reselling business in the airline industry. This strategy analysis goes beyond looking only at direct competitors (Eskildson, 2010),

it sets factors from outside the industry that can impact the way it works, as the miles business.

### **Cause and Effect Diagram (CED) diagram**

The Cause and Effect Diagram (CED) is mostly used to investigate processes. It's also known as Ishikawa Diagram or fishbone due to its format.

CED is an analysis framework used to investigate connecting relationships between problems and possible causes. Originally it was mostly used to identify causes of industry quality related problems, but later was expanded to other areas. According to Dogget (2010), the CED sets potential causes to a problem using creativity and data collection.

### **Market and Impact Estimative**

Distribution channel data is not easily available in Brazil. Agencies don't share their numbers in detail and even ABAV (Associação Brasileira de Agências de Viagens), the Brazilian Travel Agencies Association, have difficulties to obtain the information, depending on the distribution segment. Online Travel Agencies are one of them and do not share their data.

In order to understand the size of the Miles Trade market, information displayed by articles were used. Articles from Newspapers, exploring this trending business, are considered as well. Some of the information found was disposed by only one player. In

order to measure the market, one player information would be considered as the industry average.

Following the market size, the analysis explores the impact in ticket fare. From articles, such as Cavalcanti and Nogueira (2018) and Fonseca (2018), an average redeemed ticket fare is considered and compared with regular ticket fare, which results in deriving the potential airline loss.

All the numbers found were projected considering the average growth of Brazilian airlines versus Miles Trade companies' growth, which in previous years was shown to be very aggressive.

## Chapter IV

### Outcomes

In this project, the SWOT analysis aimed to show an overview impact of miles reselling considering the airline industry. Porter's five forces was performed in the ticket selling business perspective to demonstrate a more focused view of the miles reselling competitive environment. The Cause and Effect diagram was the final framework used in order to point the reasons for the existence of the Miles Trade business.

However, due to the economic, cultural, technologic and legal factors, the Miles Trade business increases the risk level of the industry, first because it weakens the loyalty bond between customers and airlines and second because it reduces air ticket revenue due to the parallel competition with miles reselling business.

Besides the actual risks, the threat of new entry is high due to the low entry barriers in this market.

### SWOT analysis

In this project, the SWOT analysis is shown presenting the airline perspective of Strengths, Weaknesses, Opportunities and Threats in the context of the increasing miles reselling business.

*Figure 7* shows the SWOT analysis in the airline's perspective considering the Miles Trade business as a risk.

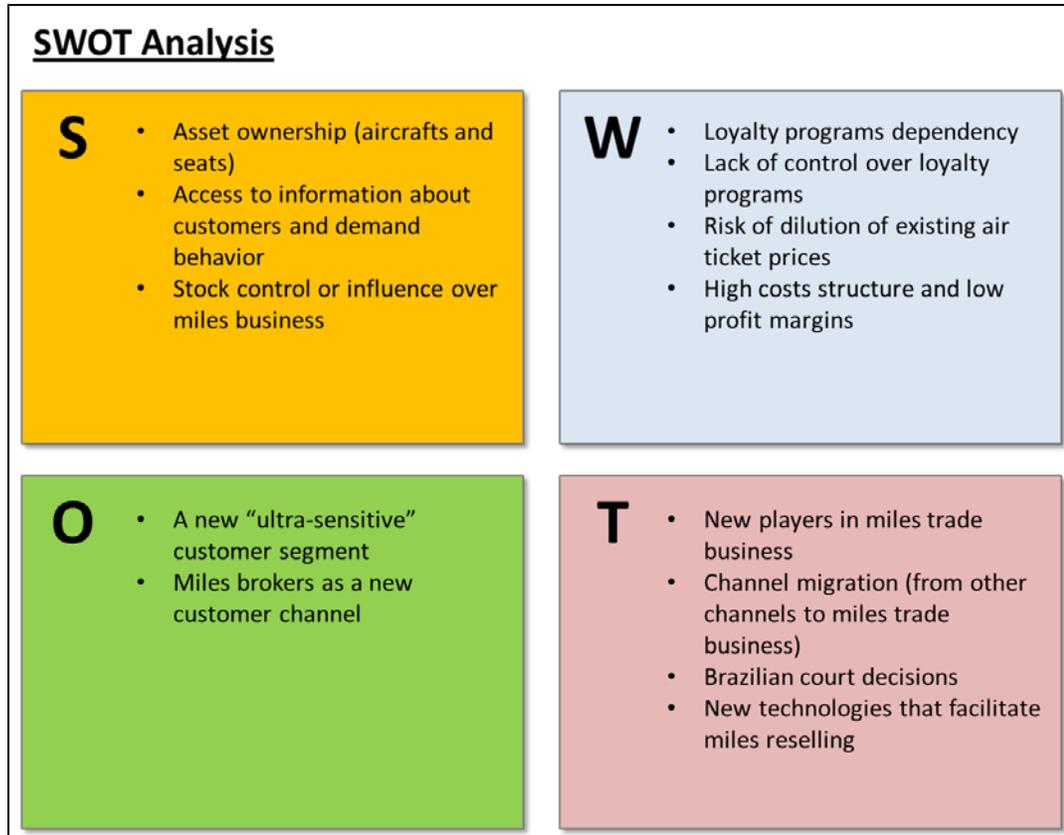


Figure 7 SWOT analysis

Strengths:

- Asset ownership: to have the ownership of aircrafts and decision power over seats selling decisions represents a strength in mid to long term. Even if, in short term, selling terms are not easily changeable.
- Access to information about customers and demand behavior: due to the large database of customers it's possible to monitor the increase in miles usage to buy tickets, trends and the characteristics of customers.
- Stock control or influence over miles business: some loyalty companies are subsidiaries of airlines and others are part of the same business holding, so

companies can work together to minimize the impacts that miles trading companies make on the market by using more effective control rules.

Weaknesses:

- Loyalty programs dependency: as loyalty programs are a strategic advantage to airlines as they represent an important part of the demand. In the context of miles reselling to have a high concentration of customers on loyalty programs means a weakness.
- Lack of control over loyalty programs: even if some miles companies are part of or linked to airlines, in short term, there's a lack of control to restrict usage of miles by the miles reselling companies which have allowed the grow of this business.
- Risk of dilution of air existing ticket prices: when there is a predisposition to buy an air ticket for a higher price and a lower price on another channel is detected, as the miles reselling business, this is understood as a dilution of value, generating losses. The demand does not become incremental, especially on routes where there is no competition.
- High costs structure and low profit margins: this aspect worsen the risk of dilution of existing ticket prices

Opportunities:

- A new "ultra-sensitive" customer segment: the growth of the Miles Trade business represents an opportunity to work on targeting the most price sensitive customers and offer deals to increase demand on flights without affecting regular demand.

- Miles brokers as a new customer channel: airlines can use miles reseller as a formal channel to reach highly price sensitive customers controlling the rules to allow this kind of purchase.

Threats:

- New players in Miles Trade business: the increase of this market leads to the emergence of new players, especially from similar business such as OTAs which are also exposed to profitability risks due to the miles reselling business.
- Channel migration (from other channels to Miles Trade business): as miles represent the lowest possible fare ticket available to customers corporate, potentially any channel could be impacted to customer migration to the miles reselling marketing, generating losses both to the airline and the channel.
- Brazilian court decisions – even though the agreements between customers and loyalty programs in Brazil forbid the sales of miles to third parties, recent decision in Brazilian courts didn't penalize customers and companies with such practices.
- New technologies that facilitate miles reselling – the miles reselling business was only possible due to the recent technologies that have eased the contact among customers in real time. The Miles Trade business can be compared to Uber or Airbnb because it's basically a platform that connects owners to potential clients charging a fee per successful transaction. The difference in the airline case is that the owner of the miles was not supposed to use it to third parties.

## Porter's five forces

Figure 8 demonstrates the Porter's five forces diagram in the airlines perspective of the air ticket selling business and the miles reselling as a Threat of new entry. The option of focusing was done to have a more profound analysis of the context of emergence of this new business and its trends.

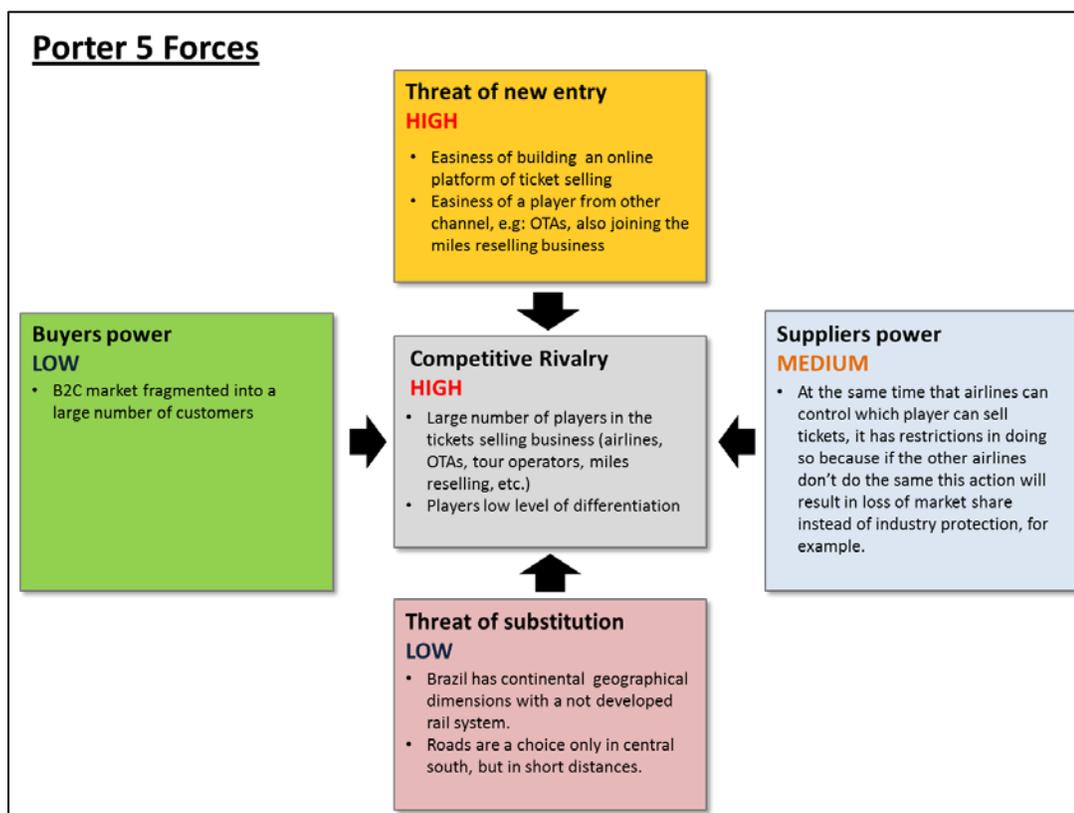


Figure 8 Porter's Five Forces

- Supplier power – medium level - at the same time that airlines can control which player can sell tickets, it has restrictions in doing so because if the other airlines don't do the same, this action will result in loss of market share instead of industry protection, for example.

- Buyer power – low level – it's a B2C market fragmented into a large number of customers.
- Threat of new entry – high level - this is due to the easiness of building an online platform of ticket selling and the easiness of a player from other channels, e.g.: OTAs, also joining the miles reselling business.
- Threat of substitution – low level - Brazil has continental geographical dimensions and no well-developed rail system. Besides the existence of a large highway system, its conditions are not proper for long drives.
- Competitive rivalry – high level large number of distribution channel (airlines, OTAs, tour operators, Miles Trade, etc.) and players have a low level of differentiation.

Therefore, the Miles Trade business is a highly competitive business with high risk of new players' entry.

## Cause and Effect Diagram (CED) diagram

Figure 9 shows the loyalty cycle breakage related to miles reselling as the CED problem and the potential causes are the branches in the airline perspective.

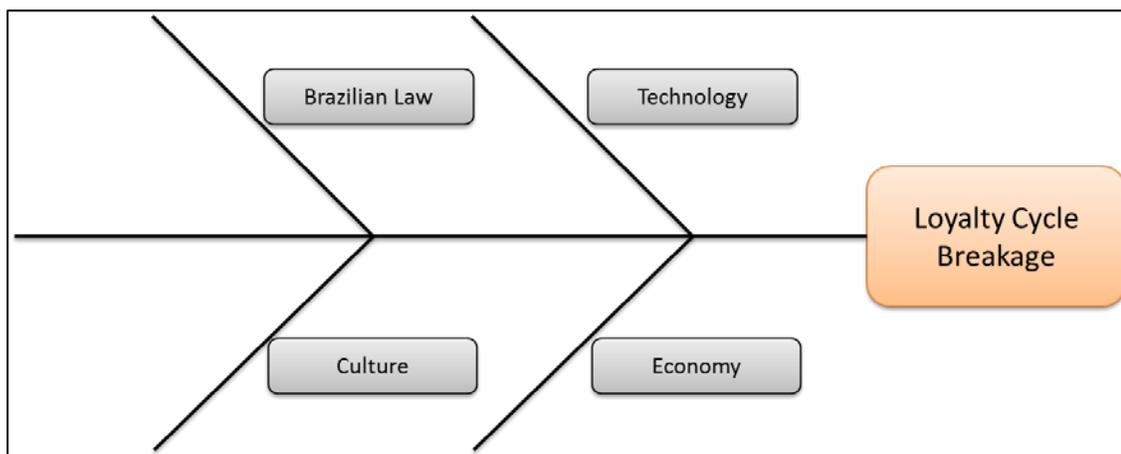


Figure 9 CED Diagram

The first branch, technology, represents the platform that made possible to connect customers to customers in the miles reselling business.

The second branch, economy, sets the context in which price was strengthened as the key factor in consumer choice when buying an air ticket. This aspect is so important that weakens loyalty, product and other choice characteristics.

Culture, the third branch, is also an important part because even when the agreements between airline and consumers state that it's not allowed to commercialize miles with third parties, Brazilian customers are doing so, even if it means to share personal data.

Finally, the fourth branch, Brazilian law, ends the sequence of major problems, because instead of reinforcing the respect of private agreements between companies and

customers and penalizing disagreements like miles reselling to third parties, recently it has allowed such practice.

This sequence of causes and effects shows a process approach to the miles reselling business consequences to airlines loyalty including technology, economic, cultural and judicial aspects of its causes.

### **Market and Impact Estimative**

The market size for 2017 considered to the Miles Trade business is 500 Million BRL (Cavalcanti and Nogueira, 2018). Considering an exchange rate of 4 BRL = 1 USD, it is 125 Million USD business.

Regarding the average discount which consumers could find in this channel, the reference used was the data from MaxMilhas, one of the main players of this segment. Max Oliveira, MaxMilhas founder and CEO, claims the average discount is 38% (Fonseca, 2018).

Therefore, it is possible to infer that the total value lost in 2017 for the airlines in the Brazilian market was the approximately 800 million BRL, since the market sized, 500 Million BRL, had an 38% discount applied.

It means, roughly, that airlines lost 300 million BRL. It is reasonable to infer that the Miles Trade business bring incremental sales, probably capturing customer who would not travel for the full price fare. However, this number is not available.

In order to give a perspective about the 800 million revenue, it is necessary to compare with airlines industry in Brazil. ABEAR's Panorama report (2017), shows the

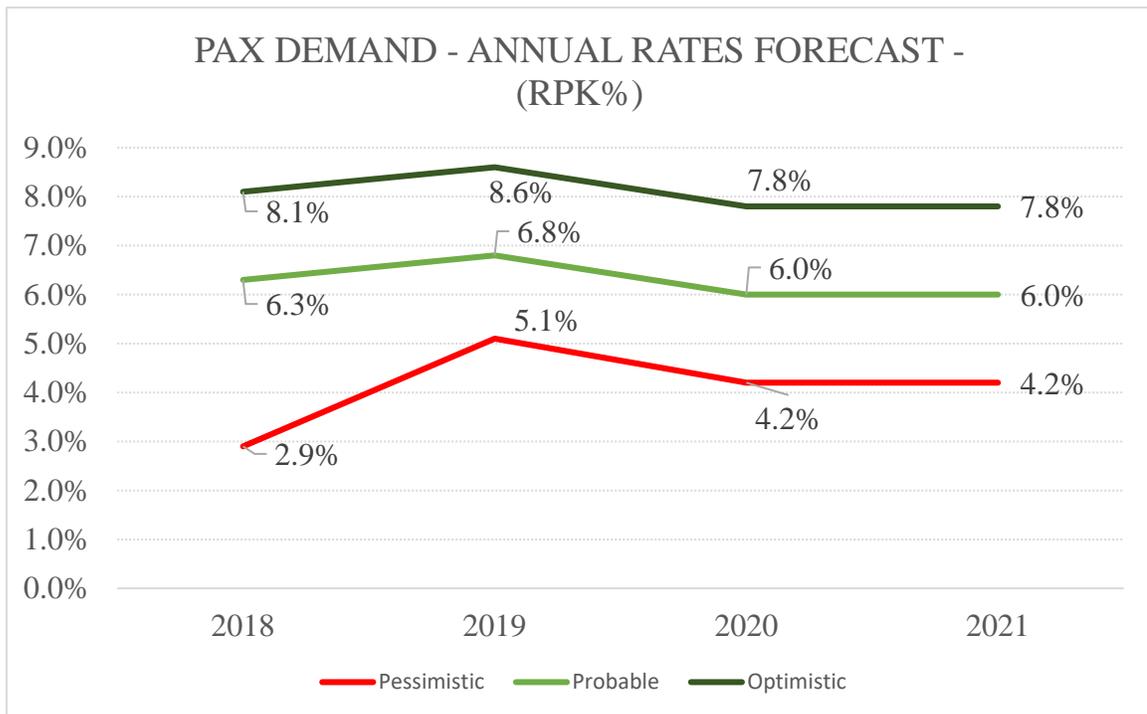
Brazilian Market industry had a revenue of 27.8 billion BRL in 2017. It means Miles Trade Business represents approximately 3% of the industry, which, in a first analysis, would be not relevant.

However, when it compared with an important player in the Brazilian market, it demonstrates how the Miles Trade Business is considerable. To make a comparison, Decolar, the most important Brazilian OTA, was chosen.

Decolar.com is part of Despegar group, an Argentinean OTA. It was founded in 1999. In 2017, group revenue was 523 million USD. Decolar represents 41% of the group sales, which brings its revenue to 214 million USD or approximately 688 million BRL (considering an average exchange rate for 2017 of 1 USD = 3.20 BRL (Receita Federal, 2018)) (Viri, 2017).

Therefore, the Miles Trade Business already have a revenue compared to one of the most important players in the airline industry, and it was achieved with only few years of existence.

The projection for the Miles Trade business for the following years requires attention. There is no official projection, but it is known the players are growing fast, aiming to double their sizes each year (Cavalcanti and Nogueira, 2018). Probably the tendency is the step growth curve will be milder, due to the end of Brazilian recession and maturation. However, when compared the demand projection for Brazilian airlines, it is probable that the Miles Trade business became even bigger. ABEAR demand projection for the following years could be seen in *Figure 10*.



*Figure 10 Demand Forecast (Panorama ABEAR, 2017)*

Even considering the Optimistic scenario, demand will not increase more than 8.6% per year until 2021. Hence, considering how the Miles Trade companies are performing in the last years, their significance in the airline industry will keep growing steeply.

## **Chapter V**

### **Conclusions and Recommendations**

#### **Conclusions**

This study states Loyalty as a key factor in enhancing customer experience and strengthening brand image.

In this context, the growth of miles reselling business represents an increasing risk of loyalty weakening and revenue dilution.

The emergence of this business is related to cultural, legal, technological and economic factors. So any attempt to mitigate the Miles Trade business should be addressed within these aspects.

#### **Recommendations**

As part of the effort of mitigating the impact of the Miles Trade business over the Brazilian airline industry, the study recommends actions in four perspectives: customer relations, legal, contract terms and technological. In addition to the airlines actions, some suggestions to enhance the benefits offered by loyalty programs as a way to discourage those customers who sell their miles online would be further investigate.

### **Customer relations: Creating a special relationship with the customer**

One of the most relevant points to consider when we discuss the increasing of the Miles Trade business is to understand why the loyalty participant sells his miles. A probable answer is because this customer can't see value in the loyalty program. Customers are more demanding than ever, they expect to be understood as a single individual and, consequently, to receive personalized offers and communications. In order to create meaningful relationships with customers, loyalty programs need to go beyond just transactions, they need to create an emotional connection with their customers.

The COLLOQUY Loyalty Census (2017), conducted with US customers, shows that the top motivator for participation in a loyalty program is I love the brand, company, retailer or service. In addition, statements like "The program makes me feel like a valued member" and "The program goes beyond my expectations" were ranked highly with the common expectations like an easy-to-understand program and great discounts.

If a customer is in the loyalty program just for a discount, true engagement will be never created. The most important trend is toward greater personalization: In the airline industry, this personalization could be translated in unique experiences such as first-class upgrades, fee-free checked bags, VIP lounges access, "skip the counter" faster service, priority boarding and security-line access and many other benefits linked to the flight chain.

Airlines' loyalty programs could take advantage of flight information to provide other travel experiences, like VIP access to concerts and sporting events, hotels, car rental and limo companies and even restaurants and entertainment partners.

MOGL Loyalty Services, Inc., for example, offers restaurant rewards program that provides cash back for customers that eats at specific restaurants.

No matter what strategy the loyalty program uses, the most relevant question to answer is: which are the brand attributes that could be used to build an emotional connection? (Fruend, 2017).

### **Legal: using of judicial actions to mitigate Miles Trade business**

Miles Trade business have profited enormously from the airline miles trading in Brazil, encouraged by the lack of regulation of the Brazilian market and by current judicial decisions.

What should be aimed at customer loyalty has become a profitable trade for some companies. However, Loyalty program's regulations do not allow the miles' marketing by customers.

By adhering to the loyalty plans offered by airlines to their customers in order to attract them and render them loyal to their services in the usual way, users of air passenger transport agree to the rules set out in the regulation. Once the customer chooses to be part of the loyalty program, he must respects the applicable regulation.

The sale of the miles by the customer, a member of the loyalty program, to an intermediary company in order to be able to market them, is in direct violation of the

regulation and the consequence of that, provided for in that regulation, is the cancellation of the miles. However, due to lack of regulation and divergences in the understanding of Brazilian Court, punitive actions are not being allowed.

As a main recommendation, airlines and loyalty programs should regulate the sector. The first act would be the creation of laws that curb the Miles Trade, and this process must follow procedures pre-established by the Chamber of Deputies of Brazil.

A law would regulate the sector, creating limitations for the Miles Trade, on the grounds of avoiding economically damaging the activity of the airlines. Moreover, to limit any competition between the airline and the Miles Trade business, since the whole risk of the activity lies with the airlines. In the case of damage to passengers or baggage, cancellation of flight, delay, among others, only the airlines are considered responsible. Another detail is that customers are subject to risks related to the security of personal information, since the trade of miles happens through transactions that the client has to share passwords and access codes that are personal and non-transferable. Mileage companies, as a rule, have only an obligation of means and not of result.

The elaboration of laws is the result of a set of previously established procedures that serve the Parliamentarians in their function of legislating and supervising. This process of actions is called the legislative process.

The norm that guides the legislative process in the Chamber of Deputies is the Internal Regulation.

The legislative process begins with the presentation of the following proposals: draft law, draft resolution, draft legislative decree, provisional measure and proposed amendment to the Constitution.

The initiative of the laws may be the Parliamentarians, the President of the Republic, the Federal Supreme Court, the High Courts, the Attorney General and organized groups of society.

In both houses of the National Congress, the proposals go through several stages of analysis and voting. Constitutionality, admissibility and merits are analyzed in the Commissions. In the Plenary, the maximum body of decisions of the Chamber of Deputies, matters that have not been decided conclusively in the Commissions are deliberated. In that case, if the bill is discussed and voted on in the Committees, its vote shall be waived by the Plenary, except in cases where one tenth of the House members have recourse.

After the vote of the National Congress, there is also the executive resolution. That is, the President of the Republic can sanction (approve) or veto (refuse) the proposition. In the first case, the bill becomes law. In case of a veto, the reasons for it are forwarded to the National Congress, which maintains or rejects the veto. If the bill is sanctioned, the President of the Republic has 48 hours to order the publication of the law in the Official Gazette. The whole process could take years to be done.

ABEAR, which is the association responsible for the promotion and relationship of the airline sector, is the main entity that can contribute to the presentation of proposals for regulation of the sector and represent airlines to the government. The entity, which is maintained by the main airlines in Brazil, is responsible for contributing to the strengthening of the entire aviation production chain and mediating between airlines, class entities, consumers, public and private sectors.

### **Contract terms: review contract terms to disincentive Miles Trade**

All of the customer contracts between loyalty programs and customers in Brazil prohibit the use of miles for commercial terms. However, this clause is not respected.

Customer contracts review with more rigid terms could mitigate this kind of practice. Recently, Multiplus, the Latam Airline's loyalty program in Brazil, introduced a special condition in the customer contracts restricting the number of people that can redeem miles from a customer to a maximum of 24 (Multiplus rules, 2018). This action had explicitly the objective of curbing the Miles Trade practice (Cassol, 2018).

This type action contributes to reduce the number of customers that resell their miles in the reselling business. However, 24 possible indications represent a considerable number for a single customer and the practice can still happen within this limit.

Following this tendency, TudoAzul, Azul Airlines' loyalty program, has announced at the end of October 2018 an update in its program rules. From 15<sup>th</sup> of December 2018, it will be limited to up to 20 people to redeem tickets (Cassol, 2018).

Therefore, customer contracts reviews to restrict the list of possible indications to a lower number and to set legal and financial consequences to whom resell miles are a way of mitigating it.

### **Technology: use of technology to prevent miles reselling**

The use of authentication and authorization technology is commonly used along other industries such as banking, online shopping and social media. This could be adapted to prevent the misuse of miles by third parties in the airline industry as a complementary action to contract terms change.

Accordingly to Kearns (2018) and Alliance Technology Partners (2018) some of the strongest authentication methods are:

- Computer recognition software - the use of an installed software in the computer to authenticate transactions.
- Biometrics - the use of fingerprint, iris, voice or face recognition.
- E-mail or SMS One Time Password (OTP) – the use of a second password which is sent to the e-mail on the authentication process.
- One time password (OTP) token – the use of a hardware (token) to generate a password to authenticate the transaction.
- Out of band – in this method the user receives a call to successfully perform the authentication.
- Multi-Factor authentication (MFA) – this methods uses two or more independent ways to verify identity, such as computer and an installed app to generate codes on a smartphone.

These methods could be used to verify the identity of the original miles owner in the moment of redeeming a ticket.

The Blockchain technology can also be of good use in the Miles Trade context. Today, it's not possible to know if a redeemed ticket was issued by the original miles owner or if it issued by a reseller who bought the miles.

According to Crowdwiz (2018) Blockchain, it is a technology that resolves the authentication and authorization over internet due to its characteristics of cryptography and peer-to-peer network. Blockchain technology also keeps track of transactions (Mougayar and Buterin, 2016) what makes it more difficult to a third party to redeem a ticket on behalf a loyalty program client.

The use of Blockchain technology along with other authentication methods to issue miles and redeem tickets would make it possible to track if the redeemed miles were originated from the miles owner or from a reseller and it would make the authentication and authorization process reliable to both customers and loyalty programs.

### **Enhancing the perception of benefits offered by loyalty programs**

Although these project is focused in the airline perspective, loyalty programs could minimize the impact of Miles Trade companies as well. Enhancing the perception of benefits offered by loyalty programs to the consumer would help to avoid frequent flyers to commercialize their miles.

Instead of accrual points or miles after long periods to redeem a ticket, customers are expecting to face short-time rewards in the loyalty programs. Furthermore, the smarter use of data could provide one-to-one offers (Berry, 2013).

Loyalty programs should focus on experiential rewards, such as: members-only events, special access to sales and discounts, choice of special seat, rewards upgrades, fee-free checked bags, birthday gifts, and V.I.P. experiences, among others.

All these rewards or experiences would enhance the awareness of benefits to the customer, increasing the “value perception” for each mile or point and preventing the miles trading.

### **Future Research**

The overall objective of this research was to identify and make tangible the impacts caused by the companies that sell miles in Brazil. While we recognize the limitations of our analysis, we believe that the goal of presenting the risks arising from the trade in miles is evidenced and that the damage to airlines is growing exponentially.

The limitation of our study is mainly due to the lack of public data available for analysis, and the main difficulty is in identifying the volume and profitability generated by all the players in the Brazilian market. Another difficulty is in identifying the customers who use this new sales channel, since transactions are made directly between third parties and the loyalty companies and airlines can hardly analyze if this customer is incremental to the demand originally planned, if the customer would be willing to pay a higher price directly in airlines, which could generate revenue dilution for companies,

and the buying behavior of these customers so that airlines can develop direct products according to the price sensitivity observed by this demand.

Finally, to validate the project arguments and recommendations, interviews would be made in order to reinforce the framework analysis outputs and to improve the effectiveness the project proposed actions.

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