



Two years after hotel commission cuts, hotel and travel agency groups are still dependent on each other for success. Read more in the Hotel Groups feature on pages 18 and 19.

The responsible tourism trend is increasingly influencing clients' travel choices. Find out how you can capitalise on this trend in the new Consultant's Corner column on page 6.



The Indian Ocean Islands remain one of the biggest sellers for the South African market. Turn to this month's bumper feature on pages 10 to 17 to get all the latest island news.

Travel Industry Review

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Frequent flyers head for loyalty programme shock

By MELANY BENDIX

AIRLINES may have to take drastic steps to scale down frequent flyer awards or even drop loyalty programmes altogether when a new international accounting regulation comes into effect on July 1.

The complex new accounting system will have a major impact on the costs of running airline loyalty programmes, which in turn is expected to have a knock-on effect on passengers if airlines react by scrapping or cutting back on frequent flyer benefits.

The International Financial Reporting Interpretations Committee's (IFRIC) new interpretation (or regula-

tion) on customer loyalty programmes will completely change the way companies account for the free or discounted goods and services (awards) they offer customers.

IFRIC is a division of the International Accounting Standards Board, which dictates international accounting standards. Companies need to adhere to these standards in order to comply with International Financial Reporting Standards.

IFRIC's new regulation will therefore apply to all major international companies that offer customer loyalty schemes, including credit card companies, hotels and car rental companies.

However, Kim Bromfield, technical partner at accounting firm

KPMG and a member of the Accounting Practices Committee of the SA Institute of Chartered Accountants, says the airline industry is likely to be hardest hit by the change.

This, she says, is because the airline industry's current practice is to measure air miles as an incremental cost, which is often insignificant. This incremental cost would, arguably, only be the cost of providing an in-flight meal and drinks for an additional passenger travelling in a free seat (that otherwise would not have been sold).

IFRIC's new regulation, ... cont. on page 7



▲ **HITTING THE JACKPOT:** Beachcomber Tours' reservations and sales team celebrate winning the "room lotto" after being awarded a major increase in allocations for 2008 by Beachcomber Hotels Mauritius (see page 11 for more details). From left: Gitta Joubert, Sonia Teweer, Karen Botes and (front) Tracy-Ann Prinsloo.

Irate pax swoop in on cruise company

PASSENGERS owed refunds by Razzmatazz Ocean Cruises have lodged an application to have the cruise company liquidated.

Lawyers acting for birding group Zest for Birds issued Razzmatazz Cruises Director, Ian Powell, with a final letter of demand late last year after he failed to refund the group over R1-million for a charter cruise to Europa island, which was cancelled days before its scheduled departure (TIR, December 2007).

Trevor Hardaker of Zest for Birds confirmed that the group's legal representatives have now filed an application to liquidate Razzmatazz Cruises after Mr. Powell failed to respond to the letter of demand.

Mr. Hardaker said he would consider filing fraud charges against Mr. Powell if the group's money cannot be recouped through the liquidation of the non-starter cruise company.

"I paid him a deposit months in advance and the balance less than a week before being told the cruise was cancelled, so if this money cannot be accounted for then I believe we have a good case for fraud," he said.

Mr. Powell has not been contactable since his third attempt to launch Razzmatazz Cruises failed

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WIN BIG WITH TIR!
HAVE YOU BEEN SPOTTED WITH TIR?
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No light at the end of Eskom's tunnel

By MELANY BENDIX

WITH no end to Eskom's power cuts in sight, the message to tour operators and retail agencies is clear: the electricity supply crisis will get much worse before it gets better, so cough up for reliable back-up power systems now or face the risk of sitting in the dark and losing business.

The overall cost to business as a result of the recent blackouts is already estimated at

over R2-billion. This cost is expected to increase in the coming weeks as businesses face the harsh reality of having to fork out hundreds of thousands of rands for generators and battery-powered back-up systems.

The only somewhat good news is that the South African Chamber of Commerce and Industry (SACCI) has appealed to the Minister of Finance to grant a tax deductible allowance to

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▲ **FLOWERY FUN:** Naiade Holidays treated a group of South African retailers to an extravagant party in Mauritius to celebrate the opening of Naiade Resorts new Tamassa resort (see page 10). Pictured enjoying the launch party were: (from left) Luana Bravetti, Club Travel; Michelle Bullmore, travel counsellors; Lisa von Moricz, GSTA Von Moricz Bon Voyage Travel; and Inge Beadle, GSTA Corporate Travel Services.

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Frequent flyers head for loyalty...

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however, will require airlines to measure air miles at their value to the customer (or as if the free seat had been sold to a fare-paying passenger), taking into account the fact that not all air miles are redeemed.

"The airlines will now have to calculate the monetary value of miles awarded and account for this in the sales transaction," explains Ms. Bromfield.

This, in effect, means that the airline will be selling two items when it sells a ticket in conjunction with award miles, although these two items are delivered at different times.

Ms. Bromfield uses the following example to illustrate the differences between the two accounting systems and the negative effect the new regulation will have on airlines.

Current accounting procedure:

■ A passenger buys an air ticket from Cape Town to Johannesburg for R2,000 and accrues 50 award miles from the purchase.

■ The airline processes the transaction as a single sale and accounts for the R2,000 as instant sales revenue.

■ The airline categorises the 50 air miles awarded as an incidental cost of providing a meal and drinks

totalling, for example, R100. This R100 is carried over in the airline's books as a liability (or the obligation to provide the awards at a later stage) until the passenger redeems the miles or the miles expire.

■ From this transaction, the airline would record an immediate sales revenue of R2,000 (from the air ticket) and a R100 liability (for the cost of awarding 50 miles).

New accounting procedure (as of July 1):

■ The passenger buys the JNB/CPT air ticket for R2,000, but the airline now has to process the transaction as two items: the sale of the JNB/CPT ticket and the "pre-sale" of the 50 miles valued at, for example, R10 each to equal R500 in total.

■ Unlike before, the airline cannot count the full R2,000 paid by the passenger as immediate sales revenue, as it will only be able to "cash in" the R500 for the award miles when the passenger redeems the miles. Until then, the R500 is carried in the airline's books as a lia-

bility.

■ This means that, whereas before the airline received an immediate sales revenue of R2,000 for this transaction, it will only receive an immediate sales revenue of R1,500 for the ticket and it will have to carry a R500 liability for the rewards portion of the sale until the passenger redeems the 50 miles or the miles expire.

While the new accounting

every year, and it doesn't take a mathematician to see that the airline industry will be bogged down by liabilities amounting to hundreds of millions of rands.

The complexities of accounting for miles accrued on code-share flights or on alliance partner flights will place an additional burden and, potentially, extra costs on airlines.

This, plus the significant

tions have previously required companies to put (monetary) values to the incentives or benefits they provide, it has often resulted in a change of business practice because the company finds they can no longer afford it."

"I suspect airlines may re-evaluate their entire loyalty programmes as a result," says Ms. Bromfield. "Or they may just make some changes. For example, airlines that offer miles that are valid for a long time or miles that have no expiry date may choose to shorten the validity period in order to reduce the amount of time they carry the additional liability."

On the other hand, she adds, airlines may find the competitive advantage and long-term revenue generated by loyalty programmes outweigh the burdens created by the new accounting system.

"They may also be hesitant to do away with or reduce the value offered to customers, especially if their competitors retain loyalty programmes," she explains.

The airlines themselves are still evaluating the implications and processes they will have to comply with and none contacted were able to clarify their positions.

"...airlines may re-evaluate their entire loyalty programmes."

Kim Bromfield, KPMG

system is complex, it is clear that airlines will be negatively affected.

"Their (immediate) revenue will be reduced and they will be carrying far more liability than they currently are," says Ms. Bromfield.

To put the extent of this increased liability into perspective—using the above example: if the airline used to carry a R100 liability for every 50 air miles awarded, the new system will see the airline carrying a liability of R500 for every 50 miles awarded.

Multiply this by the millions of miles awarded to frequent flyers worldwide

reduction in immediate sales revenue for every ticket sold in conjunction with award miles, is likely to make airlines evaluate whether they can afford to continue offering frequent flyers as many award miles or, in the worst case scenario, whether running a loyalty programme is worth it at all.

Ms. Bromfield says that, while all airlines are aware of the new accounting regulation, it is not yet known whether they intend changing their loyalty programmes as a result of the impending changes.

However, she notes that "when accounting regula-

BRIEFLY

■ **SAA** has opened a new business class departures lounge for passengers travelling on the airline's direct route from Lusaka to Johannesburg. The **Baobab Premium Class Lounge** is open to all SAA's Business Class passengers, including Voyager Platinum Gold members and Star Alliance Gold cardholders. A similar lounge is planned for Lagos, Nigeria in the near future.

■ **Ethiad Airways** will launch a new four times weekly service between Abu Dhabi and Beijing on March 30. The Chinese capital is Ethiad's first destination in China and the eighth new destination added to the airline's route network over the past year.

■ **Air France** has concluded an agreement to acquire **VLM Airlines**, the European regional carrier catering mostly for business travellers. VLM Airlines operates a fleet of 18 Fokker 50 and one BAE 146 aircraft, using London City Airport as its main hub. Air France will operate VLM Airlines in unison with CityJet, its wholly-owned regional carrier operating out of London City Airport.

■ **Air France** has signed a code-share agreement with **Alaska Airlines and Horizon Air**, giving the airline's passengers the option of travelling to 18 additional destinations in the western US and Alaska.

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