

LOYALTY PROGRAMS IN AUSTRALIA: THE AFFAIR CONTINUES

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ABSTRACT

The Australian market offers an abundance of loyalty programs that offer consumer rewards. There are different loyalty programs offered by individual businesses such as *ESPRIT*, *David Jones* and groups of businesses such as *Fly Buys* and *oneworld*.

Previous research (Stegemann, 2002) suggested with regard to Australian loyalty programs that businesses enter a particular loyalty program for the following reasons: (1) ...increase and improve customer databases, (2) enhance participating companies' image/reputation, (3) provide cost efficiencies, (4) counteract the threat of out of town shopping destinations such as stand alone superstores, retail parks and factory outlet centers, (5) aim at a positive search for community alliances such as by bringing retailers together, (6) add value to their customers with respect to their needs for other goods and services, (7) with a higher number of participating retailers customers can collect points quicker and redeem their points for rewards

This paper builds on the findings of this research study and expands on it by examining the nature of sampled Australian loyalty programs with respect to specified research questions; addressing further questions such as are there any advantages in being part of several loyalty programs by comparing costs vs. outcome; and investigating the nature and extent of overlaps within loyalty programs.

INTRODUCTION

The objective of the paper is to show why companies, Australian retailers form collaborations/alliances in form of consumer loyalty program and provide insights into the nature of popular Australian consumer loyalty programs

Loyalty programs have become a commonly used marketing tool to build consumer loyalty. Customers are recognised and rewarded. Loyalty programs offer rewards to customers showing loyalty to particular businesses or groups of businesses. Companies acknowledge the value of loyalty programs, as customer retention is more cost efficient than constant acquisition of new customers (Kivetz and Simonson 2002).

A popular Australian consumer loyalty program Flybuys is explored to build up a network map that shows the character and interconnections between participating businesses. In particular, the suggestion is that the nature and amount of 'company resources' is a determining factor for a company's participation in particular loyalty program collaborations.

The Australian loyalty programs are analysed from data sources such as websites, media reports and promotional material, initially. Informal interviews with loyalty cardholders such as friends, colleagues and formal interviews of loyalty program providers...

This paper is a continuation of ongoing research in this area. The potential contribution of the paper is to present insights into the character of popular Australian consumer loyalty programs. A network analysis framework is used to evaluate alliances' motivational reasons to join loyalty programs.

The growth in consumer loyalty programs has continuously increased over the past few years. Especially loyalty cards appear to be a must for major retailers, financial institutions and credit card programs to survive in the highly competitive market situation (Bannister 2001).

Network theories, specifically the industrial network model developed by Hakansson and Snehota (1995) are employed to understand the nature of loyalty programs and the companies' motivations for being part of specific Australian consumer loyalty programs.

The model distinguishes 3 elements namely actors, industrial activities and economic resources. The resource allocation component of the model is used to understand companies' decisions to participate in consumer loyalty programs, as access to limited resources has become increasingly critical (Lundgren 1995).

PREVIOUS RESEARCH RESULTS

Results from the first stage of the research are briefly summarised below (Stegemann 2002).

Australian loyalty programs

Types of Australian loyalty programs

Various Australian loyalty programs categorized by type of companies, degree of benefit, company resource benefit, and customer benefit have been identified.¹

Basic consumer loyalty programs where cards are distributed to anonymous consumers to collect a certain number of stamps in order to receive a free product from the available product range. Here, companies usually do not collect any customer information.

¹ Delimitation variables are only temporal, and therefore, often change over time because of technological changes (Lundgren 1995).

In more **advanced loyalty programs** customers fill in application forms providing information such as geo-demographic data, which is complemented with future purchase behaviour data.

Specific types of advanced loyalty program cards are (1) **shareholder cards** such as the former Coles Myer Shareholder card (www.colesmyer.com.au) offering discounts between 3% and 10% at the time of purchase²; (2) **credit cards** such as Westpac's Altitude program (www.westpac.com.au), where customers collect points for every dollar spent on their credit cards, which can be redeemed for various goods and services; (3) **individual retailer cards** such as Coles Myer, which makes more general promises such as interest free offers, vouchers, etc. (www.colesmyer.com.au); (4) **collaboration retailer cards** such as Fly Buys (www.flybuys.com.au), where customers collect points while making purchases at participating stores, which can be redeemed for various goods and services from a reward catalogue.

The latest technology is the so-called **Smart card** with built-in technology, e.g. American Express' Blue Card. Smart cards are able to reward customers instantly such immediate price reductions/coupons upon purchase. Smart cards provide companies with instant purchase information when customers are making purchases at the point of sale (Bond 1995 and www.americanexpress.com).

Benefits of loyalty card programs

Airlines introduced loyalty cards as a tool to differentiate themselves from their competitors and to provide better services to their customers in the early 80's. Today, most retailers offer loyalty programs, which made these programs lose some of their initial value. (Riera 2000)

Companies encourage consumers to join their loyalty programs to collect points. They tend to build a bond between customer and company, which then leads to repeat business customers and increase in sales (Bond 1995).

Another reason for offering and or being part of a loyalty scheme is to gain knowledge, in order to attract, retain and increase customer bases (Powaga 2002). Companies use loyalty programs to get a better understanding of their businesses, their customers and their competitors. If effectively used, then the knowledge gained through loyalty programs is more valuable than the actual customer loyalty created (Cant 2002 and Anonymous 2002b).

For instance, monitoring trends in buying habits and fashions helps companies with product development and innovation. It then allows them to tailor product ranges to individual stores to ensure that the range provided is relevant to the local area. (Anonymous 2002c)

Reasons to offer or join loyalty programs)

Actors are often part of several networks (Lundgren 1995). The benefits of loyalty programs illustrated above give some general reasons for companies offering or joining loyalty programs. How do companies choose which loyalty program(s) to join?

Loyalty programs...

(1) ...increase and improve customer databases

Companies aim to increase and improve the quantity and quality of their databases by combining their databases with loyalty program partners. Companies respond to consumers' individual needs and tailor their offers to it (Anonymous 2002a, Anonymous 2002b and Shelton 2001) via loyalty programs.

(2) ...enhance participating companies' image/reputation

Companies try to enhance their image/reputation through activities such as supporting their local communities and offering up market services and member privileges (Cant 2002, www.visaplatinum.com).

(3) ... provide cost efficiencies

Companies collaborate try to achieve cost efficiencies, which can be achieved through complementing or competing products and competencies, coordinate existing resources and mobilize new resources to reduce risk and cost, and to increase their success rate (Hakansson 1987a).

(4) ... counteract the threat of out of town shopping destinations such as stand alone superstores, retail parks and factory outlet centers

Customers prefer to shop at the newly developed shopping centres outside of the city centres, which are easy to reach, offer ample parking, childcare centres and other amenities (Worthington and

Hallsworth 1999). Smaller businesses try to compete with those shopping centres through collaboration by offering a loyalty program.

(5) ... aim at a positive search for community alliances such as by bringing retailers together

Independent businesses collaborate to attract government funding to potentially improve the quality of life in their communities such as improving physical infrastructure. (Worthington and Hallsworth 1999)

(6) ... add value to their customers with respect to their needs for other goods and services,

It is suggested that companies choose their partners keeping in mind customers' expectations of loyalty programs and reward offerings.

(7) ...with a higher number of participating retailers customers can collect points quicker and redeem their points for rewards.

Customers are more likely to join loyalty programs with a larger number of participating retailers as the point collections is quicker and can be redeemed for rewards earlier (Anonymous 2002e). Furthermore, customers prefer loyalty programs with a wide choice of products for redemption.

MODEL APPLICATION

This paper is a continuation of research ongoing in this area. Network structures have been chosen to explain the evolution of consumer loyalty programs (Lundgren 1995).

As previously mentioned especially, the industrial network model developed by Hakansson and Snehota (1995) is applied in this research. This model known as the AAR comprises of actors-activities-resources. The AAR suggests that the relationship develops between firms as the activity links, resource ties or actor bonds are formed. The development depends on how each party acts and reacts within the relationship. In this sense a relationship once established takes on a life of its' own and therefore gets its' substance from the dyad. The actions of the parties over-time cause the relationship to improve or deteriorate. It could also be argued here that the perceptions of the parties with regard to their expectations also have an impact on the outcome of the relationship. Essentially what Hakansson and Snehota (1995) are saying is that a relationship between two parties is made up of actor bonds, activity links and resource ties. These links ties and bonds exist in different combinations in different

relationships and add to the complexity of the relationship concept. It is also evident from Figures 1 and 2 that the firms have to be aligned across activities, bonds and resources. These figures attempt to illustrate the development and role of business relationships. Figure 1 shows the relationship developing as activity links, resource ties and actor bonds are formed (Hakansson & Snehota, 1995). The arrows depict the actions and reactions of the parties, which in turn impact on the relationship development. Figure 2 illustrates the impact of the relationship on the individual organisations. For example the activity links within the relationship affect the activity structure of each individual organisation as the relationship develops over time. Hakansson and Snehota (1995) refer to this as “reciprocal conditioning”, which they explain as follows:

The activity links, resource ties and actor bonds in a relationship between two companies affect the activity structures, the collection of resources and the organisational structures of the companies involved. At the same time the activity structures, the collection of resources and the organisational structures of the companies will influence what kinds of links, ties and bonds can develop in a relationship. (Hakansson & Snehota, 1995, p. 42)

In relationship evolution, a change comes about in the activities the parties perform. This change is a result of the adaptation which allows the relationship to evolve. The idea with the AAR model is that as the relationship evolves the activities previously undertaken in isolation become linked, leading to adaptation and eventually interdependence.

Linking the activities is a reflection of the need for coordination in relationships and in turn affects how the activities are carried out. This coordination will also have consequences for both the costs and effectiveness of the activities (Hakansson & Snehota, 1995). This concept of activity links will impact on the atmosphere of the relationship, whose impact may be tied to the strength of the link.

Companies are often involved in relationships with others where a substantial portion of the activities (in terms of volumes, frequencies, etc.) is performed and thus hold the key to the total costs and performance of the company. The flexibility of the pattern is very much dependent on the way the company has linked up with different counterparts. Even though the activity links are intangible, their effect on the business relationships is often clearly manifest (Hakansson & Snehota, 1995, p.30).

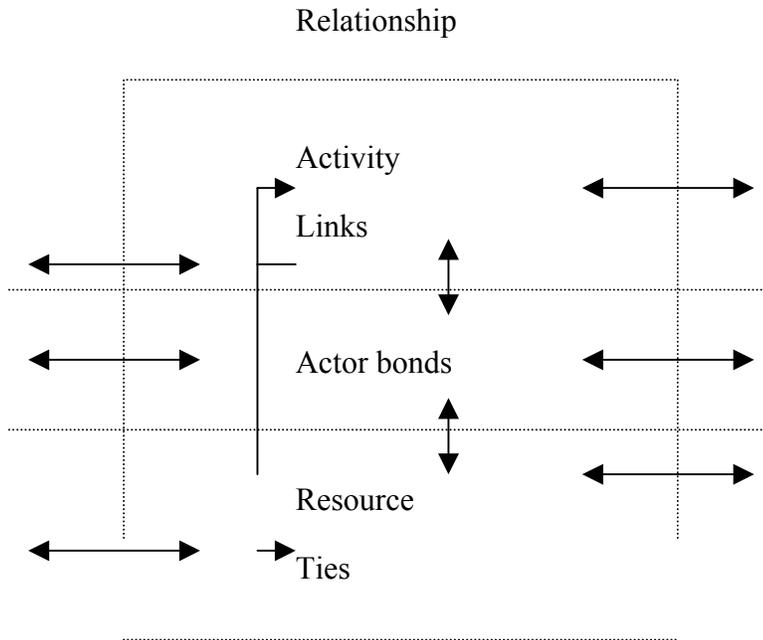


Figure 1: Relationships as a dyad. (Hakansson & Snehota, 1995)

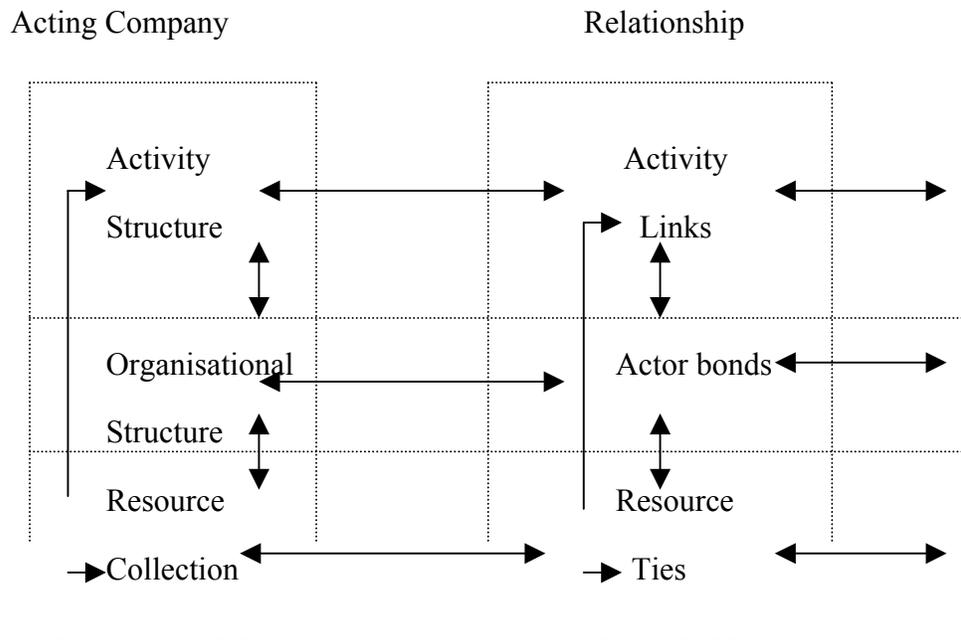


Figure 2: Relationships and the company. (Hakansson & Snehota, 1995)

In essence the attempt here is to apply the concept of the AAR model to loyalty programs, whereby companies collaborating in Australian loyalty programs represent the *actors*. The *activities* consist of the acts of transformation and transaction of resources added to loyalty programs. *Resources* take account of both intangible and tangible elements such as knowledge, competence, skills, and financial resources. The primary unit of analysis is Australian consumer loyalty programs offered by various Australian retailers.

The dataset consists of actors' attributes of the nodes in the depicted network of this paper. The nodes are the individual companies offering loyalty programs (actors) and the relations are the individual loyalty programs. The type of relation analysed is interconnections of companies with respect to resources within a loyalty program.

The universe consists of all members participating in consumer loyalty programs in the sample drawn from Australian loyalty programs. However for the purpose of this work-in-progress paper 1 program will be analysed in detail,

NATURE OF AUSTRALIAN LOYALTY PROGRAMS

For the purpose of this work-in-progress paper Fly Buys a popular Australian loyalty program is analysed regarding the nature of the relationship between business participants. This loyalty program is examined with regard to the card partners and reward partners but the emphasis is on card partners.

Additionally particular emphasis is placed on the network, which appears to evolve from the alliances that exist in this program.

Fly Buys

Fly Buys with 5 million members⁴ is one of the most popular loyalty programs in Australia. The Fly Buys program was established in 1994 by various major players in the Australian market such as Coles Myer stores, Shell, National Bank and Budget. Coles Myer is the major player in terms of the participating card partners (Figure 3).

³ The sample of loyalty programs was based on (a) loyalty programs that were familiar to the reference group interviewed (informal chats to friends, students, people being shopping), (b) those that were found through Internet search directly and indirectly via a snowball effect where one program led me into another.

⁴ www.flybuys.com.au

The program comprises of a variety of retailers such as department stores, supermarkets, and specialty shops who offer products ranging from food, petrol, banking, tyre and auto service, computer technology, clothing, real estate, hotel rooms and car rental.

Customers collect points every time they shop with one of the participating stores. The points can be redeemed for rewards from categories such as shopping vouchers for Coles supermarkets, domestic flights, accommodation and entertainment such as theatre tickets.

Fly Buys is run by Loyalty Pacific, which is a joint venture formed by National Australia Bank, Shell Australia and the Coles Myer Group. The joint venture was created for the following reasons:

Benefits sought through Fly Buys are the creation of long-term relationship with customers in order to ensure a competitive position in the market and to increase sales eventually. The development of relationships is sought through the use of sophisticated data bases allowing companies to target customers with promotion programs such as special offers.

The joint venture Loyalty Pacific was established to bring **resources** together. The initiators of Pacific Loyalty recognised the need to increase and improve their individual customer databases. The development, maintenance and usage of a data system that size, requires special skills and a large financial commitment. The collaboration allows achieving cost efficiencies for the life and ensures the continuation of the program, which manages a large amount of data. The reasons for establishing the joint venture and the related outcomes are consistent with previous research findings on the establishment of loyalty programs (Stegemann, 2002).

A sophisticated hardware and software solution is essential in order to track and manage the growing amount of data, transactions and services offered such as statements, service call centre and point collections. As the computer system plays a vital and ongoing role in the survival of this consumer loyalty scheme, a strategic alliance with Compaq services was formed. Compaq was chosen on the basis of *knowledge, competency* and level of commitment as well as price and costs considerations, which is vital for a continuing business relationship.

The data collected comprises membership details, members' shopping activities per store, spending profiles, number of visits per store, points built up and other trend related information. Individual membership details are matched with their shopping behaviour to create customer profiles and identify market segments.

The results are used for strategic marketing decisions such as design of distribution networks, choice of store locations, tailored marketing programs. The members aim for a long-term benefit - building relationships with their customers.

Conclusion

The interesting issue here is that while the loyalty program has obvious benefits both to consumers and partners as evidenced by the research, the evolving network provides additional value not previously discussed in the literature on loyalty programs.

This gap in the area of research opens up the way for future studies to examine not just the nature of the network which evolves but the benefits which the partners perceive exist. Additionally it calls for research using the AAR model to examine more closely the actors and activities involved. Once they are identified they can be related back to the resource implications already discussed.

Finally the authors believe there may also be merit in addressing further questions such as are there any advantages in being part of several loyalty program by comparing costs vs. outcome; and investigating the nature and extent of overlaps within loyalty programs.

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Figure 3 Evolving network of the Fly Buys loyalty program

