

**LOYALTY PROGRAMS IN AUSTRALIA:
WHO IS IN BED WITH WHOM?**

by

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Abstract

Researchers have increasingly been interested in business relationships such as collaborations and alliances.

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*.

The focus of this paper is on businesses that collaborate to offer loyalty programs such as *Fly Buys*. The concept of industrial networks will be used to investigate the nature of the relationship that a business has with other business participants in a particular loyalty program. Given that many businesses join multiple programs, this paper also addresses the question: Why do businesses join one program but not another?

Popular loyalty programs are examined to develop a network map that illustrates who is involved with whom and why?

It is suggested that businesses enter a particular loyalty program for the following reasons: Loyalty programs (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.

1. Introduction

The objective of the paper is to show why companies, here retailers, join other companies to form loyalty program collaborations/alliances. It is discussed that business collaborations emerge due to the need for technological innovations (Lundgren 1995), and due to limitations of resources accessible by companies (Hakansson 1987a)

The business collaborations of interest are Australian consumer loyalty programs offered by retailers. Loyalty programs have increased over the years, and are commonly used marketing

tools to build consumer loyalty. Customers showing loyalty to particular businesses or groups of businesses are recognised and rewarded. Loyalty programs offer rewards to customers making a purchase commitment with respect to the amount spent and time as a member to certain businesses. Companies are building loyalty programs, as customer retention is more cost efficient than constant acquisition of new customers (Kivetz and Simonson 2002).

A choice of Australian consumer loyalty programs are examined to develop a network map that illustrates who is in bed with whom and why? In particular, the paper suggests that the nature and amount of 'company resources' is a determining factor for a company's participation in particular loyalty program collaborations. For instance, companies may benefit from merging their resources such as databases and marketing skills.

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 will be conducted subsequently.

The potential contribution of the paper is to provide insights into the nature of popular Australian consumer loyalty programs. A network analysis framework is used to evaluate alliances' motivational reasons to join loyalty programs.

2. Background

With developments such as an increase in competition and product saturation for most industries such as the food industry (Martorin 2002, Duffy 1998), increase and fragmentation of media options, busier and more sophisticated customers (Duffy 1998), customer relationship programs seem to be a solution to survive in this market situation. Considering the number of businesses offering loyalty programs, loyalty cards seem to have become a must for major retailers, financial institutions and credit card programs (Bannister 2001).

Loyalty programs can be examined by network theories, which have become a widely used tool to analyse the nature of business collaborations and alliances (Lundgren 1995, Wassermann and Faust 1994). Specifically, network theory can be used to explain a company's behaviour influenced by its relationship with other companies. Also, it can be

used to look at industrial networks, and the interplay between technological systems and networks of interrelated companies, in particular. (Lundgren 1995)

Network studies have been investigated in two main research streams. Most research has been done in the first research stream, which deals with the nature and evolution of organised action found in networks (Mattsson 1987, Johanson and Mattsson 1988). Little research has been done in the second research stream that investigates the nature and evolution of whole industrial networks (Hakansson 1987b).

The industrial network model by Hakansson is used to understand the companies' motivations for being part of specific Australian consumer loyalty programs (Hakansson 1987a). The model identifies 3 elements: actors, industrial activities and economic resources. Specifically, 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).

The following **specific research questions** are addressed:

- What types of Australian loyalty programs are available to final consumers?
- What are the motivations for companies to participate in specific Australian loyalty programs?
- What is the nature of Australian loyalty program collaborations?

3. Model Application

Network structures can be used to explain the evolution of industrial networks such as consumer loyalty programs. They can be seen as an interconnection of industrial activities, which can be explained by the transaction and transformation of resources (Lundgren 1995).

The industrial network model by Hakansson is applied in this paper. It consists of *actors* linked together by their performance of complementary or competitive *industrial activities*, employing or consuming *economic resources* to process other resources (Hakansson 1989).

Hakansson states that innovation is a *product* of companies interacting with each other. Here, the *product* is a consumer loyalty program offering consumers incentives to show loyalty towards loyalty program partners. (Hakansson 1987a)

Companies collaborating in Australian loyalty programs represent the *actors*. The *activities* are comprised of the acts of transformation and transaction of resources contributed to the loyalty program. Here, *resources* include both tangible and intangible elements such as capital, land, knowledge, competence and skills.

The primary unit of analysis is Australian consumer loyalty programs¹ offered by various companies only, here, 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 within a loyalty program.

The universe consists of all members participating in consumer loyalty programs in the sample drawn from Australian loyalty programs.² All together, 15 loyalty programs have been chosen from the Australian market.

4. Australian loyalty programs

4.1 *Types of Australian loyalty programs*

There are different types of consumer loyalty programs. The following types are categorized with respect to type of companies, degree of benefit, company resource benefit, and customer benefit.³

There are *basic consumer loyalty programs*, e.g. Gloria Jean's, where the card is punched/stamped every time a customer makes a purchase at a participating store. Once a certain number of stamps has been collected, a free product, often to be chosen from the available product range, is awarded. This is a basic form of loyalty program, where companies often do not collect any customer information. Mainly smaller retailers opt for this type of loyalty program.

¹ Technological systems are depicted differently in different local networks due to variations in historical development within local networks (Lundgren 1995).

² 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.

³ Delimitation variables are only temporal, and therefore, often change over time because of technological changes (Lundgren 1995).

Another growing alternative is more advanced loyalty *programs* offered to registered customers. Here, customers fill in application forms providing information such as geo-demographic data, which is complemented with future purchase behaviour data. This type of loyalty program requires a specific computer/software support in order to be able to analyse collected customer information, and to use it to develop a customised marketing mix. Mainly large companies with the required technology in place opt for this type of loyalty program, e.g. retailers such as ESPRIT and David Jones (www.esprit.com.au and www.davidjones.com.au); conglomerate of airlines namely oneworld opted for loyalty cards in the early 1980's (www.oneworld.com).

Specific types of advanced loyalty program cards are (1) *shareholder cards* such as the former Coles Myer Shareholder card (www.colesmyer.com) offering discounts between 3% and 10% at the time of purchase⁴; (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 does not offer any defined customers rewards, but makes general promises such as interest free offers, vouchers, etc. (www.colesmyer.com); (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 next generation is the so-called *smart card* with built-in technology, e.g. American Express' Blue Card. Smart cards are able to reward customers instantly. For example, Blue card owners using their cards with clothing retailers such as Marcs, entertainment retailers such as Central Station can receive instant price reductions/coupons upon purchase. Smart cards provide companies with instant purchase information when customers make purchases at the point of sale (Bond 1995 and www.americanexpress.com).

4.2 Benefits of loyalty card programs

4.2.1 Differentiation from competitors vs. survival tool

In the first place, loyalty cards were designed as a tool for a company to differentiate itself from competitors, however, as most retailers are now offering them, the cards have

⁴ Article on coles myer regarding shareholder value card

lost some of their initial value (Riera 2000). Therefore, is it just another tool for survival or a tool for profit maximization?

Lundgren (1995) suggests that due to specialisation and division of labour, actors control individual sets of resources, and perform specialised activities; hence, in order to survive companies have to collaborate. Furthermore, a company's interest in collaborations may be seen due to innovations in technologies and changes in internal and external environments (Thompson 1967). The rate of innovation is determined by the evolution of technology, and therefore, can provide opportunities and threats to companies (Hakansson 1989).

The effective delivery of loyalty cards and the use of the gained knowledge provides benefits and opportunities to companies, in that, they could better meet the future needs of customers by providing tailored marketing offers. Often these offers are provided by groups of companies in collaboration with each other. For example, the smart card technology used by groups of companies such as American Express and Marcs can be used as an advanced knowledge creation tool. The usage of this technology can be seen as a point of differentiation to date. However, with an increased adoption rate of this technology by other companies, smart cards are expected to convert into a pure and simple survival tool.

Ineffective delivery of loyalty cards and/or non-use of any knowledge collected may pose a threat to companies that could potentially alienate their customers. In order to survive, companies must utilize this knowledge. Often companies don't have sufficient resources to offer loyalty cards, and therefore, they are forced to interact with other companies that do in order to keep up with technological developments. Companies collaborating with each other achieve this through accumulation of resources (Hakansson 1989).

4.2.2 Loyalty programs as a knowledge source for consumer purchase behaviour

Companies use loyalty programs to get a better understanding of their businesses, their customers and their fellow traders. The effective use of data collected through loyalty programs is more beneficial than the actual customer loyalty created (Cant 2002, Anonymous 2002b). Therefore, one of the main reasons for offering/being part of a

loyalty scheme is to gain knowledge, which companies need to attract, retain and increase business with customers (Powaga 2002).

Additionally, loyalty programs allow companies to monitor customer purchase behaviour through their usage of loyalty cards. The long-term aim is to develop a ‘one to one’ marketing program, with data gained to target customers with specific promotional information matched to their preferences. These developed communication programs between the store and customer lay the foundation for true customer loyalty as opposed to a particular reward offered upon accumulation of a certain number of points (Riera 2000).

For instance, monitoring trends in buying habits and fashions and 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. Retailers such as ESPRIT offers varied product ranges in different countries (Anonymous 2002c, www.esprit.com.au).

4.2.3 Consumer loyalty programs as a means to achieve customer-company bonding and to increase sales

In encouraging the collection of “points”, organisations are attempting to secure repeat business from customers (Bond 1995). The repeat business facilitates and represents the bond between customer and company. The resultant and continuing relationship has a potentially positive impact on sales. For example, loyalty programs such as those operated by Dymocks (a major book retailer operating in Australia) indicated that customers part of their loyalty program spent 50% more on each transaction than customers who were not (Anonymous 2001b).

In 1993, the Coles Myer group introduced a shareholder loyalty card to increase the retailer’s share register in order to create customer bonding and to increase sales. The number of shareholders indeed rose from 62,000 to more than half a million shareholders. Some customers bought Coles Myer shares in order to get a 3 to 10% instant discount at point of sale (Leung 2002).⁵

⁵ However, the Coles Myer Shareholder card discounts were dropped because it did not really represent loyalty, as shareholders not necessarily shopped with the participating stores. Another aspect was a cost

4.3 Problems

Despite their advantages, loyalty programs are not without their share of problems.

Loyalty programs often come with a sheer volume of data, which is difficult to deal with as experienced by Safeway in the US, for instance (Anonymous 2000).

Furthermore, the results are often hard to quantify and they are expensive to run. The costs can be anything between 0.5% plus in independent stores (Anonymous 1999, Sanderson 2001). As a result, retailers find it difficult to design reward programs with respect to points to be awarded and value of rewards (Bannister 2001).

Various authors question the ability of loyalty programs to enable an organisation to increase sales by bonding with its customers. Instead, they suggest that it is not the customer's repeat purchase behaviour per se which is derived from loyalty programs, but the fact that loyalty cards allow companies to identify loyal customers, determine the extent of their loyalty, and then effectively target them with promotional activities. (Anonymous 2002b). Furthermore, loyalty cards do not guarantee more loyal customers in the first place but should be rather seen as a knowledge creation tool as outlined before (Riera 2000, Anonymous 2002d).

Others confirmed that loyalty programs generate repeat visits, and claimed that it is an inexpensive method for customer bonding. However, it largely depends on its set up with respect to the IT support/equipment (Anonymous 1999). This suggests that it is also about whether or not the organisation is resourced in this manner, hence, able to better capitalise on the benefits available from effective loyalty program management.

Also, as the actors depend on each other, the economic performance and success depends on each actor and their interaction with each other. A careful choice of actors for individual loyalty programs is crucial (Hankansson 1989).

4.4 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. However, how do companies choose which loyalty program(s) to join?

factor as margins are already very low (Brown 2002). Leung forecasted a share sell off with the abandoning of the program (Leung 2002).

Loyalty programs...

(1) ...increase and improve customer databases

Companies try to increase and improve the quantity and quality of their databases by combining their databases with loyalty program partners. Their objective is to increase their success rate and reduce the risk and cost of failure by combining complementary competencies, coordinating existing resources and mobilizing new resources (Hakansson 1987a).

The need to collaborate with loyalty program partners also stems from (1) the high level of specialisation and separation of information in modern societies (Lundvall and Laage-Hellman 1989); and (2) the increase in research and development costs due to an increase in production volumes (Laage-Hellman 1989). Furthermore, companies recognise and value consumers' individual needs and tailor their offers to them (Anonymous 2002a, Anonymous 2002b and Shelton 2001) via loyalty programs. For instance, Ford opted for cooperation with Barclaycard to benefit from the ready-made customer base (Bond 1995).

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

The Australian Retailers Association is hoping to improve the reputation of smaller local businesses by getting them on the Internet through a loyalty card system. In the eyes of consumers, these businesses might appear more credible. By offering customers with the opportunity to donate their points to community services such as local schools and hospitals (Cant 2002), these businesses can potentially enhance their image from being purely profit oriented to socially responsible.

The Visa Platinum Card loyalty program also focuses on image creation. The program offers their customers upmarket services and benefits such as the Bon Appetit Club offering exclusive dining privileges to Visa Platinum Club offering room benefits such as room upgrades (www.visaplatinum.com).

(3) ... provide cost efficiencies

A basic reason why companies collaborate is that they are not able to realise economies of scale on their own. Choosing the right partner can provide cost efficiencies, however, the performance of the firm is subject to the performance of adjacent partners (Lundgren 1995). Companies may choose their partners because of product similarity expressed through complementing or competing products (Hakansson 1989). The participating companies combine complementary competencies, coordinate existing resources and mobilize new resources to reduce risk and cost, and to increase their success rate (Hakansson 1987a).

Loyalty programs can be seen as a tool to retain customers and to stimulate product usage. Retaining customers can be more cost efficient since it is more expensive to acquire them (Lundgren 1995). This has often been achieved by increasing the switching cost for customers.

Partnering with others provides companies with consumer information at reduced costs; information that is used by them to develop their own tailored promotional campaigns. Participating loyalty program partners often share the running costs of those campaigns (Anonymous 2002b). For instance, some programs communicate with their customers via direct mail and provide them with added value such as vouchers, special offers, etc (Anonymous 2002c, www.flybuys.com.au)

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

The development of stand alone superstores, retail parks and factory outlet centres draws customers away from the CBD shopping centres. It is more convenient for customers 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 retain customers through collaboration by offering a loyalty program.

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

As community alliances tend to attract government funding, independent businesses would benefit from collaborating with others. This could potentially improve the quality of life in their communities such as improving physical infrastructure. (Worthington and Hallsworth 1999)

Smart card technology can integrate various community products into an integrated computer chip, and thereby increase customers' affiliation with their communities (Worthington and Hallsworth 1999). This may lead to increased customer bonding and potentially increased sales.

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

Customers choose loyalty cards with respect to the rewards they can choose from, amongst other reasons (Lundgren 1995). It is suggested that companies choose their partners keeping in mind customers' expectations of loyalty programs and reward offerings.

For instance, Westpac Altitude their loyalty program customers a variety of rewards ranging from movie tickets to accommodation (www.westpac.com.au).

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

It is suggested that customers are more likely to keep shopping with participating retailers as they can collect points quicker and redeem their points for rewards earlier (Anonymous 2002e). It is more attractive to customers as it reduces the redemption period for a wide variety of products are offered by Fly buys for e.g. a variety of entertainment, household and hardware products (www.flybuys.com.au). This repeat business strengthens the customer retailer relationship.

6. Next research step

The next steps will include the following: (1) Identification of the nature of sampled Australian loyalty programs with respect to specified research questions; (2) addressing further questions such as are there any advantages in being part of several loyalty programs

by comparing costs vs. outcome; and (3) investigating the nature and extent of overlaps within loyalty programs.

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