4. Coalition Schemes

“Coalitions represent both the natural evolution and the future of loyalty marketing programs, both within the USA and abroad” (Capizzi & Ferguson 2005, p. 76).

“The efficiencies inherent in coalition loyalty models […] make coalitions the natural end-game for loyalty evolution” (Ferguson & Hlavinka 2006, p. 297).

“According to Frequency Marketing Inc., there are 3 trends to watch for in card marketing in the new millennium: […], and 3. coalition programs” (Barlow 1999, p. 1).

“The 22 major factors that will shape the future of customer loyalty; […] 3. An explosion of loyalty coalitions and networks” (Clark 2006, p. 1 f.).

Weighing the advantages that characterize coalition schemes against their disadvantages, several practitioners and academics have proclaimed that multi-partner programs are an ongoing trend, and indeed, the next evolutionary step of loyalty schemes. Loyalty coalitions are, as compared to stand-alone programs, a relatively recent development. While the latter have existed at least since 1896 with the origination of the S&H Green Stamps (S&H 2009), it is possibly the founding of Air Miles in the United Kingdom in 1988 that marked the birth of coalition schemes operating on a grand scale (Air Miles 2009). Since then, several other programs have been introduced in different parts of the world, ranging from the United States and the United Kingdom to South Africa and South Korea. Still, several countries well penetrated with stand-alone programs and other regional or otherwise differentiated schemes (e.g. the US) have yet to witness the development of a strong nation-wide coalition.

This chapter will offer an overview of the different scheme types (Chapter 4.1), advantages and disadvantages associated with coalitions (Chapter 4.2), notable success factors relating to these programs (Chapter 4.3), as well as studies on impact, spread and customer perceptions (Chapter 4.4). Finally, Chapter 4.5 will bridge the way to the empirical section of this paper, in which further questions concerning these schemes will be elaborated on.
4.1 Scheme Types

As far as a possible classification of coalition schemes is concerned, different approaches can be taken. One option would be the categorization into sector-exclusive schemes on the one hand and non-sector-exclusive programs on the other hand. Another possibility would be to differentiate by geographical spread (e.g. international vs. national vs. regional), possibly supplemented by an indicator of size to capture the “true presence” of the scheme. Furthermore, one could classify schemes by reward type offered (e.g. UK’s Air Miles focusing on flight rewards only vs. UK’s Nectar offering a whole range of rewards), by the underlying goal of the scheme (e.g. Nectar offering benefits only to consumers, while the regional SmartTown Alliance in the USA is aimed at benefiting both the consumer and a non-profit organization of choice), or by whether the scheme is internet-based or a “regular” program. Just as well, however, existing programs could be grouped by industry (e.g. retailing, airlines, etc.).

Among the numerous forms of coalition schemes, the following two sub-chapters will be centered on the most common variations: multi-partner programs focused on retailing and airline alliances. Finally, a brief overview of other special types of coalitions will be given in the third sub-chapter.

4.1.1 Retail-Oriented Coalitions

For obvious reasons, the number of national coalition programs a market can accommodate is a lot smaller than that of stand-alone programs. Possibly because of the ability of retailing partners to generate the volume required for the customer to maintain interest in the scheme, retail-oriented, typically sector-exclusive coalitions represent a good proportion of the already limited number of coalitions in existence. At least for strong, national programs, it is a plain necessity to get one of the biggest retailers of each of the most important sub-sectors on board. In particular a big grocery retailer will be necessary to guarantee these short purchase frequencies that keep the customer involved with the program.

It needs to be added, however, that these coalitions do not rely exclusively on retail partners. In fact, next to being able to collect points at, say, a grocery, fuel, clothing, and book retailer, customers can often beef up their point balance by generating turnover at a bank, insurance company, travel agency, car rental company, or electricity provider – to name just a few examples. The partner mix is obviously different in every scheme, but as a general rule, it seems fair to say that despite including partners from other industries, these schemes remain retail-oriented. Table 5 shows a sample list of a number of more or less well known programs falling into that group.
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<table>
<thead>
<tr>
<th>Category</th>
<th>Program</th>
<th>Geographical Presence</th>
<th>Website</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regular Retail-Oriented Schemes</td>
<td>BonusLink</td>
<td>Malaysia</td>
<td><a href="http://www.bonuslink.com.my">www.bonuslink.com.my</a></td>
</tr>
<tr>
<td></td>
<td>DeutschlandCard</td>
<td>Germany</td>
<td><a href="http://www.deutschlandcard.de">www.deutschlandcard.de</a></td>
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<tr>
<td></td>
<td>Dotz</td>
<td>Brasil</td>
<td><a href="http://www.dotz.com.br">www.dotz.com.br</a></td>
</tr>
<tr>
<td></td>
<td>eBucks</td>
<td>South Africa</td>
<td><a href="http://www.ebucks.com">www.ebucks.com</a></td>
</tr>
<tr>
<td></td>
<td>FlyBuys/Fly Buys</td>
<td>Australia/New Zealand</td>
<td><a href="http://www.flybuys.com.au">www.flybuys.com.au</a></td>
</tr>
<tr>
<td></td>
<td>HappyPoints</td>
<td>Germany</td>
<td><a href="http://www.happypoints.net">www.happypoints.net</a></td>
</tr>
<tr>
<td></td>
<td>i-mint</td>
<td>India</td>
<td><a href="http://www.imintpoints.com">www.imintpoints.com</a></td>
</tr>
<tr>
<td></td>
<td>Malina</td>
<td>Russia</td>
<td><a href="http://www.malina.ru">www.malina.ru</a></td>
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<td></td>
<td>Nectar</td>
<td>UK</td>
<td><a href="http://www.nectar.com">www.nectar.com</a></td>
</tr>
<tr>
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<td>OKCashbag</td>
<td>South Korea</td>
<td><a href="http://www.okcashbag.com">www.okcashbag.com</a></td>
</tr>
<tr>
<td></td>
<td>Payback</td>
<td>Germany</td>
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<td>Premium Club</td>
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<td><a href="http://www.premiumclub.pl">www.premiumclub.pl</a></td>
</tr>
<tr>
<td></td>
<td>R&amp;R</td>
<td>Kenya</td>
<td><a href="http://www.rr.co.ke">www.rr.co.ke</a></td>
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<td></td>
<td>s'miles</td>
<td>France</td>
<td><a href="http://www.smiles.fr">www.smiles.fr</a></td>
</tr>
<tr>
<td></td>
<td>SuperShop</td>
<td>Hungary</td>
<td><a href="http://www.supershop.hu">www.supershop.hu</a></td>
</tr>
<tr>
<td>Retail-Oriented Schemes Focused on Travel Rewards</td>
<td>Aeroplan</td>
<td>Canada</td>
<td><a href="http://www.aeroplan.com">www.aeroplan.com</a></td>
</tr>
<tr>
<td></td>
<td>Air Miles/Travel Club</td>
<td>UK/Canada/Spain/Netherlands/UAE, Qatar, Bahrain</td>
<td><a href="http://www.airmiles.co.uk/">www.airmiles.co.uk/</a></td>
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<tr>
<td>Regional Retail-Oriented Schemes</td>
<td>Kärnten Power Card</td>
<td>Austria</td>
<td><a href="http://www.kaernten-power-card.at">www.kaernten-power-card.at</a></td>
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<td></td>
<td>Powercard</td>
<td>USA</td>
<td><a href="http://www.powercard.com">www.powercard.com</a></td>
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<td></td>
<td>S&amp;H greenpoints</td>
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<td><a href="http://www.greenpoints.com">www.greenpoints.com</a></td>
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<td></td>
<td>SelektPoints</td>
<td>Lebanon</td>
<td><a href="http://www.selektpoints.com">www.selektpoints.com</a></td>
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<td></td>
<td>SmartClub</td>
<td>China</td>
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<tr>
<td></td>
<td>Thank You</td>
<td>USA</td>
<td><a href="http://www.thankyou.com">www.thankyou.com</a></td>
</tr>
<tr>
<td></td>
<td>Wedge</td>
<td>UK</td>
<td><a href="http://www.wedgecard.co.uk">www.wedgecard.co.uk</a></td>
</tr>
<tr>
<td>Retail-Oriented Internet Schemes</td>
<td>Maximiles</td>
<td>UK</td>
<td><a href="http://www.maximiles.co.uk">www.maximiles.co.uk</a></td>
</tr>
</tbody>
</table>

Table 5: Retail-Oriented Coalition Schemes

It needs to be kept in mind that this list is by no means exhaustive. In particular the group of regional schemes is, for obvious reasons, just a brief selection. Nevertheless, this enumeration hopefully provides a good pool of examples to examine in further detail if interest has been sparked. Some of them are more dominant in terms of size, while others were created on a smaller scale. Especially the United States is an example of a loyalty card market where no truly big, national scheme managed to strike root. S&H greenpoints and the Thank You program are mentioned as two examples of regional brands, which despite boast-
ing a notable presence (in contrast to the Powercard in the US, for example), have not reached a significant nation-wide presence comparable to, say, the Nec-
tar scheme in the UK.

As far as the categorization in Table 5 is concerned, four sub-categories of retail- oriented coalitions emanated: (1) “regular” schemes, making up the majority of this coalition type, (2) programs with a focus on travel-related rewards (i.e. a slightly different form of “regular” schemes), (3) regional programs with limited geographical reach and/or only small program sponsors, and (4) internet schemes focused exclusively on points collection with online retailers. In particular the second group might require some further explanation. The idiosyncrasy of this kind of coalition is probably best explained with an example. Air Miles, a type of franchise present in various countries of the world, was wholly-owned ever since soon after its launch in the UK in 1988 by British Airways (British Airways 2008).

As discussed in the fourth sub-section of Chapter 3.3.8, airlines have a clear cost advantage over regular retail-oriented schemes, as they can simply fill their otherwise empty seats with passengers travelling on redeemed miles. The additional variable cost incurred by such a passenger is likely to stand in no relation to the value of the reward as perceived by the customer. Naturally, this constellation only works if the airline owns the program, because otherwise the frequent flyer miles need to be purchased from the airlines – eating up at least part of the cost savings. On the downside, the target group of potential customers will be smaller with such travel-reward-oriented schemes, as not everyone is attracted by this type of reward. In addition to that, a wider choice of rewards is preferred by all customers – even by those who like to travel.

4.1.2 Airline Coalitions

Airline coalitions are, as opposed to most retail-oriented programs, not sector exclusive. While several small alliances exist as well, three coalitions dominate the airline industry (see Table 6). Of course, these alliances comprise much more than just loyalty programs which allow customers to collect and redeem miles with all the different member airlines. An extended network through code sharing agreements or cost advantages through common booking systems or sales offices are a few notable examples.

Still, the loyalty scheme is a significant part of these alliances, with the distinctive feature of these coalitions being that most of these alliance members operate their own, branded loyalty scheme. At the same time, the alliance is advertised to certain degree. This naturally makes for a few differences in terms of the advantages and disadvantages commonly associated with retail-oriented
loyalty coalitions. The airlines Austrian and Lufthansa are two of the rare exceptions in the industry which use the same loyalty scheme brand (i.e. Miles & More). Since September 2009, Austrian has also been owned by the German Lufthansa, but the decision to adopt the same loyalty scheme in addition to being in the same alliance was implemented long before. It can thus be seen that different alliance governance structures are thinkable (see e.g. Gudmundsson et al. 2002 for further information on this topic).

<table>
<thead>
<tr>
<th>Category</th>
<th>Program</th>
<th>Member Airlines</th>
<th>Website</th>
</tr>
</thead>
<tbody>
<tr>
<td>Airline Schemes</td>
<td>Oneworld</td>
<td>American Airlines, British Airways, Cathay Pacific, Finnair, Iberia, Japan Airlines (JAL), LAN, Malév, Mexicana, Quantas, Royal Jordanian, S7 Airlines</td>
<td><a href="http://www.oneworld.com">www.oneworld.com</a></td>
</tr>
<tr>
<td></td>
<td>Star Alliance</td>
<td>Adria Airways, Aegean, Air Canada, Air China, Air New Zealand, ANA, Asiana Airlines, Austrian, Blue1, bmi, Brussels Airlines, Continental Airlines, Croatia Airlines, Egyptair, LOT Polish Airlines, Lufthansa, Scandinavian Airlines, Singapore Airlines, South African Airways, Spanair, Swiss, TAM, TAP Portugal, Thai, Turkish Airlines, United, US Airways</td>
<td><a href="http://www.staralliance.com">www.staralliance.com</a></td>
</tr>
</tbody>
</table>

1 As of February 2011

Table 6: Airline Coalitions

Source: Company Websites

4.1.3 Other Variations

While no large retail-based scheme has gained a foothold in the US to date, other smaller, creative programs managed to do so. Generally, these schemes are characterized by a set up similar to that of their larger archetypes. Customers receive a discount on their turnover or collect some form of points at a range of retailers, restaurants, financial service providers, and other partner companies. What is
special about these programs is, however, what these savings are used for. In case of college saving schemes, any discount or accumulated points will be used to pay for college tuition. BabyMint, for instance, offers members one dollar off tuition expenses for every reward dollar earned at around 175 colleges and universities across the US. Similar to BabyMint, Upromise also allows for a transfer of accumulated rewards to a college saving plan of the customer’s choice (these so-called “529 college savings plans” are tax-free in the US and can be opened at a range of financial service providers).

Another interesting variation is that of schemes supporting non-profit organizations. In case of the SmartTown Alliance, for example, customers can choose a non-profit organization they want to support from a list provided. Any savings made with participating program sponsors are then split between the customer and the selected non-profit organization. Lastly, Stockback is an example of a program putting these rewards savings into an investment plan, while the Canadian Futura Rewards scheme represents a coalition allowing the customer to choose between several of these options. In this case, program members can use the rewards for education savings, retirement savings, charity, or cash payouts.

Somehow one is tempted to ask whether these programs are not simply regular retail-oriented schemes with a different range of reward options. In a way they are, but at the same time their different range of rewards goes hand in hand with such a fundamentally different positioning of the program, that it seems justified to set them apart in a special category.

<table>
<thead>
<tr>
<th>Category</th>
<th>Program</th>
<th>Geographical Presence</th>
<th>Website</th>
</tr>
</thead>
<tbody>
<tr>
<td>College Saving Schemes</td>
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<td>Upromise</td>
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<td><a href="http://www.upromise.com">www.upromise.com</a></td>
</tr>
<tr>
<td>Schemes Benefiting Non-profits</td>
<td>Rainbow Rewards</td>
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<td></td>
<td>SmartTown Alliance</td>
<td>USA</td>
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<tr>
<td>Variable Schemes and Others</td>
<td>Futura Rewards</td>
<td>Canada</td>
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<tr>
<td></td>
<td>Stockback</td>
<td>USA</td>
<td><a href="http://www.stockback.com">www.stockback.com</a></td>
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</tbody>
</table>

*Table 7: Other Coalition Types*
4.2 Differences to Stand-Alone Programs

4.2.1 Advantages

Coalition schemes offer several distinct advantages over their single-sponsor counterpart to both companies and consumers. Given the lack of literature on this topic, Clark & Clark (2009) have provided a useful basis, which has been restructured and further supplemented:

- **Lower cost:**
  - Instead of having to bear the cost of constructing and maintaining a program by themselves, the partner companies can share the development, promotion, communication, and other administrative costs. As far as development costs are concerned, Clark & Clark added that these are in practice sometimes covered by the third-party operator of the program (possibly with the support of a venture capitalist, as it was the case with Nectar in the UK), increasing the operator’s freedom from the partner companies, but decreasing the degree of commitment by coalition members. With regard to the lower individual promotional costs it can be added that this constellation allows for more frequent and coherent promotional activities.
  - In addition to that, having a third party develop the scheme will prevent the capacity of existing partner company staff from being consumed.
  - Finally, these generally larger programs are often able to exploit economies of scale when purchasing the rewards that are to be distributed to consumers. Passing this benefit on to the customer can naturally help to increase the perceived value of the rewards.

- **Card more likely to be carried:**
  - As only one card needs to be carried for use at several different companies, the often-cited problem of limited wallet space becomes less of an issue.
  - This is even more important as cards carried in the wallet are more likely (if not a precondition) to be used. In this regard, In-Store (2008) reported results from a study finding that over a third of customers felt they had too many cards to carry, with another 27% plagued by regularly carrying the wrong card when making a purchase. In Germany, for example, TNS Emnid (2006) found that the Payback coalition card was carried by 32% of Germans in their wallet at all times, coming only behind a bank card and the health insurance card (and thus, together with a credit card at tied third place). By comparison, the stand-alone card carried by the highest percentage of respondents was that of a major food retailer, the REWE Haushaltskarte with 9%.
Better and faster rewards for the customer:
- Due to the possibility of collecting points at different companies, coalition schemes allow for faster points accrual. Consequently, it becomes easier for customers to earn enough points for a bigger, more aspirational reward. While the regular purchase behavior would, for instance, amount to a total of four small rewards at the patronized grocery, fuel, sporting goods, and drug retail chains if they each operate a separate scheme, pooling these expenses with a single multi-partner program could add up to one big reward for the customer.
- Furthermore, as compared to a single stand-alone program, the time it takes until the reward can be redeemed will be significantly lower when several partners of a coalition scheme are patronized.
- Since coalitions are usually much bigger in size than stand-alone programs, they can offer a greater choice of rewards to the consumer. When selected according to the product assortment of the program partners, a broader selection of rewards might even satisfy both the customer’s desire for variety and at the same time exploit the often-mentioned positive effects of offering firm-related rewards (in this case at least within the circle of partners). Dowling & Uncles (1997), for example, argued that handing out rewards unrelated to the firm could become a problem for low involvement products, as the reward might turn into the primary incentive to buy the product. Once the reward was copied by a competitor or simply taken away, the main purchase reason would disappear. In the case of coalition schemes, however, companies could offer rewards related to any of the coalition members’ products or services, with the program offering protection to the firms from competitive moves.

Improved pool of data:
- Limited by national data protection legislation as well as data protection agreements among program sponsors, the operating company of a coalition has access to a much broader and richer data set than that of a stand-alone program, due to the availability of a purchase history which covers different retail sectors. Consequently, it might, for instance, be possible to segment customers not only by what they bought at the grocery store, but by their purchase behavior displayed in a whole range of retail sectors.
- Moreover, the database is more likely to be run by dedicated professionals, as data management and analysis is a core element of the coalition operator’s business. While that, of course, does not mean that the same level of professional standards could not be found in a firm running a stand-alone scheme, it is simply less likely to be the case.
- **Ability to increase the customer base of every program sponsor:**
  - As loyalty coalitions are usually made up of a range of prominent representatives from different retailing sub-sectors, customers might be persuaded to redirect their share-of-wallet to the chain of a program member, after previously having collected points at some of the other sponsors.
  - This effect could be supported by special coalition marketing campaigns. Dowling & Uncles (1997), for example, argued that handing several partners of a coalition scheme are patronized.

- **Higher penetration rate:**
  Coalitions can often boast a quick achievement of a high customer penetration rate through broad appeal, a generally higher media presence, as well as the other advantages benefiting customers. For example, Clark & Clark highlighted that UK’s Nectar had signed up more than 11 million members within 12 months and 13 million within 18 months following its launch (which corresponds to a penetration rate of around 21%, given a total population of roughly 61 million people). By comparison, Germany’s Payback (2001) reported 10 million active cards 16 months after launch (equating to a 12% penetration rate based on a total population of around 82 million). Apart from coalitions, such high numbers can really only be achieved by very large and long-standing stand-alone programs.

- **Generation of appeal for a wider range of companies:**
  Particularly firms offering products characterized by a low purchase frequency might be more successful participating in a coalition program than operating a stand-alone scheme. While it might become a problem that customers will not maintain interest in a stand-alone scheme, this issue would likely be mitigated in the case of a coalition. In addition to that, Clark & Clark (2009) noted, customers used to collecting low point volumes often look forward to scoring a big chunk of points at once.

- **Firm-related benefits through industry exclusivity:**
  Another point that makes coalitions appealing to organizations is the possibility of keeping the program sector-exclusive. This practice is employed by most retailing coalition schemes, giving the first firm to enter exclusivity within its sub-sector. Once the program reaches a high level of penetration, this could even act as a source of competitive advantage.

- **Greater simplicity for the customer:**
  Due the fact that only one account needs to be tracked and taken care of, complexity for the customer is reduced to some extent.
4.2.2 Disadvantages

Coalition schemes boast several advantages, but this does not mean that they are free from disadvantages. Naturally, there are downsides associated with these schemes as well. The following list aims to cover the most important ones (Humby et al. 2008, Clark & Clark 2009):

- **Issues regarding ownership of data:**
  Similar to consumers, partner companies of coalition schemes might also be concerned by privacy issues. In this case, the concern revolves around company-related data being handled by a third party. Adding up to this is the fact that each company’s data is pooled together with that of other companies. Within every loyalty coalition, there will be contracts dealing with the topic of data ownership. Clark & Clark reported that for retailers, article-level basket data is typically both held and owned by the partner companies. Therefore, coalition operators would only hold customer information and data on the number of points collected by location and date. In practice, however, it differs from case to case whether coalitions really do not have access to detailed purchase histories, particularly to undertake valuable inter-industry customer segmentations based upon buying behavior. At any rate, the issue of data ownership is definitely a significant one. For instance, Nicolai (2003) reported that the negotiations between Shell Germany and the coalition scheme Payback failed because the fuel retailer did not want to leave control over customer data to a third party. It needs to be added, however, that Shell was at that time operating its own loyalty scheme and that negotiations only took place because Shell took over the German DEA chain, which was then part of the Payback coalition. Given this scenario, it might be argued that the outcome was predetermined to a certain extent. In addition to that, Nicolai wrote, Shell was unwilling to give up the flexibility that only its own scheme could provide.

- **Target of customers’ loyalty unclear:**
  In case of coalition schemes, the question remains whether customers are actually becoming loyal to the partner company or to the program instead. In other words, it is unclear whether the link between customer and program sponsor is strengthened at all. An interesting report on this problem comes from Humby et al. (2008), who described the switch of the UK’s grocery retailer Sainsbury’s from the long-established Air Miles coalition to the then new Nectar coalition in 2002. Upon this change, Tesco decided to take Sainsbury’s space in Air Miles and allowed for a conversion of its own Clubcard points to Air Miles. A week into the new partnership, Tesco claimed to have experienced a 450% increase in the use of its online store finder and a 300% increase in enquiries about home shopping. Furthermore, Tesco de-
declared that one million new Clubcards were distributed. Ultimately, Humby et al. (2008) pointed out, Sainsbury’s attributed a loss of 1% of sales volume to the decision to leave Air Miles – equal to what the authors calculated to be around 60,000 valuable customers lost to Tesco. On the one hand, this shows that coalition schemes really do work in creating lock-in with a range of customers, but on the other hand it also shows that for some consumers this lock-in relates to the program and not the company. What is particular about this situation is that the change was not from one existing to another existing coalition, but one from an existing to a new one. In such a constellation, there is no opportunity to immediately replace the lost customers with members from the new coalition. Still, since its launch, Nectar has long overtaken Air Miles in terms of the number of collectors and it can very well be argued, that Sainsbury’s has meanwhile had a chance to compensate for this loss (Johnson 2002 reported that Air Miles had 6.5 million members in 2002; by contrast, Clark & Clark 2009 stated that Nectar had signed up 11 million members within a year from its launch). In fact, Loyalty Management UK, the company administrating the Nectar scheme, reported that it overtook Air Miles in terms of active cardholders within four weeks from its launch (Voyle 2002).

- **Loss of control for program sponsors:**

  Naturally, every company joining a coalition scheme as a partner will have to give up some control. Humby et al. (2008) highlighted that this will reduce the chance to quickly introduce tactical marketing initiatives and limit innovation, because all decisions have to be agreed on by the program sponsors. While this might be of particular concern for program-wide changes or marketing campaigns, this will be less significant for individual, company-specific promotions. Still, as far as program-specific activities are concerned, the different sponsors will have to cooperate even when their agendas and priorities differ. In addition to that, involvement in the general program design will also be limited and the ability to “bind the program in to the business,” which Humby et al. considered to be such an important feature for Tesco, constrained.

- **Imbalance concerning partner contribution:**

  One problem that might arise is that some of the program partners will become net contributors to the program, while others become net beneficiaries. In other words, some companies might distribute more point value than customers spend at their outlets, while the opposite situation might be given for other program sponsors. While this is a fairly natural situation, it can be expected that coalition operators have measures in place to adjust for this imbalance.
**Coalitions virtually impossible to pilot:**
Due to specificities inherent to program structure, coalitions are pretty much impossible to pilot on a small scale. In order to work properly, multi-partner schemes require a certain size and, in case of retailing programs, sector coverage.

**Bad experiences with program attributed to sponsors:**
When a customer encounters a problem with the coalition scheme that is located within the scope of the operator (e.g. points were not accredited, long waiting time in the customer service hotline, etc.), these negative experiences might be attributed to the program sponsors.

**Expanding grocers limit space for new partners:**
A final point brought forward by Clark & Clark (2009) is that grocers in many countries have started to expand their activities not just into the retailing of other non-food items, but also into other non-retailing sectors such as financial services. Since, however, a food retailer is essential to any retailing coalition as it brings the necessary purchase frequencies with it, this might (together with the usually present exclusivity agreement) restrict the coalition in terms of the other partners it can select.

### 4.3 Success Factors

As with all other aspects of coalition schemes, research is scarce on this subject. Despite lacking empirical proof, Clark & Clark’s (2009) list of four success factors associated particularly with coalition schemes shall nevertheless be reproduced here as it still represents a valuable contribution (see also Furinto et al. 2009 for a different approach to the subject). Certainly, there are other variables contributing to success as well, but the ones mentioned here might serve as a basic guideline.

Firstly, operators of a coalition scheme need to make sure that a high rate of penetration is reached fairly quickly. Most of the big programs have adhered to this principle and made sure that a major player from each key sector in retailing and possibly also financial services was on board to build up turnover right from the beginning. Furthermore, details were usually kept secret during the planning phase, possibly with a few bits of information leaking out towards launch date to build momentum. The launch itself, then, was accompanied by a massive media campaign to create awareness and immediately sign up a large number of new members.

Secondly, particularly in the case of coalition schemes, being first is a significant advantage. Not only will the second player in the market have lost his chance to sign up the most suitable partners (i.e. generally each sector’s market leader), but in addition to that, customers will already have started to patronize one
scheme and might have become locked in or be unwilling to join a second scheme. For instance, Payback was launched as Germany’s first coalition in March 2000. The second biggest player on the market today is HappyPoints, which was introduced as the loyalty program of the telecom provider Deutsche Telekom in October 2001 and expanded into a comparable, classic retail-oriented coalition in the years thereafter. Possibly the lack of first mover advantage combined with the lack of a big launch with many partners right from the beginning were what has kept the program in second place ever since. According to a study by GfK (2007) covering 8,000 households, in September 2007 60.8% of German households held a Payback card, while only 41.8% possessed a HappyPoints card.

Thirdly, coalitions need to make sure that they offer aspirational rewards that can be earned in a reasonable amount of time. As was mentioned before, this factor is one of the big advantages of multi-partner programs and its operators should make sure not to give that edge away.

Finally, coalitions need to emphasize the right choice and a suitable standard of communication channels. Pooling all program-related communication at the operator creates cost advantages, but at the same time, any negative experiences at the operator’s customer touch points might fall back on the partner companies.

### 4.4 Impact, Spread, and Customer Perception

The number of academic papers on this subject is fairly limited. Out of the 23 studies on the success impact of loyalty schemes that were reviewed in Chapter 2.3, only one dealt with a coalition scheme. In their evaluation of the Australian FlyBuys coalition, Sharp & Sharp (1997) observed a trend towards a weak level of excess loyalty, although the expected deviation was not consistently observed for all program sponsors under review. In fact, only two of the six participant brands showed substantial excess loyalty deviations and even this variance in repeat-purchase loyalty was observed for both members and non-members of the coalition. The authors explained these findings at least partly as the result of other loyalty efforts. In the end, then, Sharp & Sharp’s study can be categorized as one supporting those who claim that it is very difficult for loyalty schemes to alter customers’ purchase patterns. The overall majority of evidence points in the opposite direction, however. As was previously discussed, it is clearly possible for loyalty programs to alter purchase behavior, at least to a small degree. Ultimately, it probably boils down to the same problem observed with other studies on the effectiveness of loyalty schemes: the definition of success. Sharp & Sharp themselves noted that “… the results are mixed” and that “the markets […] remain close to ‘normal’ repeat purchase markets after the introduction of the
loyalty program” (p. 483). Things did not look the same before and after program launch, but were observed to be “close to” normal. Without changing the content of this statement, one could easily rephrase this to resemble the conclusion drawn in Chapter 2.3: the loyalty programs caused change, but on average only to a small extent.

Moore & Sekhon (2005) conducted a more recent study of coalition schemes by administering a survey of 153 members of the UK’s Nectar program. The authors posed a range of general questions relating to a wide range of topics such as customers’ scheme-related knowledge or use of the card, and attempted to draw conclusions on the program’s success in influencing behavior. Due to the similarity of this study’s goals at least to the general questionnaire part of the present work, findings will be reviewed in greater detail. The following points were discovered by the authors:

- Customers were generally satisfied, found the scheme easy to understand, convenient and easy to use, reliable, and trustworthy (although the level of trust remained at a basic level), and were happy with the service.
- Respondents preferred financial rewards when asked directly, though particularly aspirational rewards created high levels of involvement, resulting in customers taking on what the authors described as “a role of planners,” saving 2-3 times more points than people with low involvement.
- Program members valued the fact that they were able to collect more points at a quicker rate.
- Contact between the program and its members was found to be limited, with communication being confusing, complicated, and thereby discouraging attention.
- Despite a high level of targeted communication, respondents still felt that their expectations were not met in that regard.
- Customers found no differentiation between Nectar and its competitors.
- Except for the major retailer (i.e. most likely the grocery chain Sainsbury’s), consumers exhibited a clear lack of awareness as far as other program sponsors are concerned. This resulted in many customers perceiving the scheme to be that of the lead retailer.
- 97% have never had problems with the program.
- No special treatment as a result of being a program member was experienced by customers.
- The card was used with the majority of transactions with the two biggest retailers, while usage figures were clearly lower with the other coalition sponsors.
The rate of redemption for acquired points was described as low by the authors (and not further defined).

Customers usually carried competitive cards as well and appeared to be using the scheme out of habit and not so much because of a preference for the program.

Apart from a few exceptions such as that of poor communication, use out of habit, or a lack of knowledge of program sponsors, it seems fair to say that the outcome is generally what can be expected from coalition schemes. A good part of this study’s abstract nevertheless leaves the reader with a rather grim feeling about coalitions. At the same time, however, the authors titled their article “Multi-Brand Loyalty Cards: A Good Idea” and closed their summary stating that “…there is evidence to suggest consumers perceive real benefits in coalition schemes and that there is a willingness to alter their behavior if the motivation is sufficient” (p. 625).

The importance of rewards as a motivator has already been discussed in previous sections of this paper, with its last point of mention in Chapter 4.3 on success factors associated with coalition schemes. Lara & De Madariaga (2007) dealt with this topic in a study focused exclusively on multi-sponsor programs. In their telephone survey of 521 members and 540 non-members of Spanish coalition schemes, the authors attempted to shed some new light on the research subject of loyalty rewards. Among a range of different elements associated with coalition schemes (e.g. number of participating companies, effort, exclusiveness, etc.), rewards were singled out as the most important factor by both members and non-members. As far as the type of reward is concerned, an association of satisfaction with intangible amusement rewards (e.g. games, raffles, etc.) and services was noticed for non-members and one with discounts and intangible amusement rewards for members. Particularly ecology and charitable rewards were found to be a very attractive element of the reward structure, which has long been disregarded in practice. Furthermore, the authors highlighted the importance of tailoring reward types to consumers and the goal the company tries to achieve. For instance, Lara & De Madariaga found that intangible amusement rewards would be particularly useful to acquire new participants, while rewards relating to benefits such as exclusiveness or special preference could help to strengthen the present member base.

Next to academic papers, studies by market research specialists serve as another source of information on coalition schemes. A notable contribution in this category comes from TNS Emnid (2006), which posed a range of general questions to a sample of 1,000 consumers. Despite having been commissioned by the German Payback coalition and therefore calling for a healthy bit of caution (particularly
in relation to what questions were asked and how the outcome is presented), the findings might nevertheless be useful:

- When respondents were asked about the type of cards carried in their wallet at all times, the bank card finished first with a penetration rate of 82%, followed by the health insurance card with 77%, and the Payback card together with a credit card tied at third place with 32%. The card of the second largest German coalition HappyPoints was carried by 15% of people, with cards of stand-alone programs failing to surpass the 10% mark.

- Consumers were further confronted with a list of loyalty program names and asked which ones they know by name. 80% answered that they had heard of Payback, 50% were familiar with HappyPoints, 41% with the Family card of the Swedish furniture retailer Ikea, and 39% with the Lufthansa Miles & More frequent flyer program. With the exception of Ikea’s Family card, no stand-alone program managed to surpass the 35% mark.

- Requested to judge the importance of a range of loyalty scheme features, 76% found the ability to use the card at different shops to be either very or rather important. That it offers services, special offers, or advantages the customer does not have access to without the card followed with 63% and that it offers coupons which provide savings and advantages upon purchase as well as access to a wide range of reward types followed with a tied 51%. Having access to a reward within a short amount of time was judged very or rather important by 46% of survey respondents, the card being usable for online shopping by 43%, that rewards exclusive to the program are available by 38%, that the card offers a payment function by 22%, and that it offers a credit card function by 12%.

- Asked directly whether their purchase behavior has changed since they became a member of the respective loyalty scheme, 34% said they buy/book more flights and 38% that they are more likely to buy/book flights since joining Miles & More. The values for Payback in these two categories (“buy/book more” and “buy/book more likely”) came in at 26% and 32%, these for the program of the perfumery chain Douglas at 25% and 35%, for HappyPoints at 20% and 30%, for the Haushaltskarte of the grocery retailer REWE at 20% and 26%, and for the Ikea Family card at 9% and 18%.

- Finally, respondents were questioned as to which one of the nine programs presented in a list gave them the biggest personal benefit. Payback came in a clear first with 34%, followed by HappyPoints with 7% and the Ikea Family card, Miles & More, as well as bahn.comfort (a point-based frequent traveler scheme of the German railway company Deutsche Bahn) with 6% each. Four other stand-alone programs attracted the favor of between 1% and 5% of respondents,
complemented by 12% stating that none of the programs would give them personal benefit and 18% saying that they do not know.

Within the range of findings presented by TNS Emnid, Payback scored a conspicuously high number of first and second places. Given that the study was commissioned by Payback’s operator Loyalty Partner, it seems fair to challenge the survey’s outcome in a few regards. A very obvious point is the question asking people to judge the importance of a range of loyalty scheme features. Coming even before items such as the program’s ability to provide savings and benefits, the possibility to use the card at different shops took a surprising first place (and this characteristic is, after all, a great advantage of Payback). Leaving aside the issue of whether respondents might have been confused as to whether the question really meant different companies or simply different stores from the same chain, this ranking is most likely explained by the fact that both the answer category “very important” and “rather important” were combined in generating it. In other words, it is not unlikely that, as opposed to the ability to use the card at different shops, a much bigger percentage of respondents judged the rebate function to be very important. In addition to that, it remains unclear why this specific range of programs was chosen for the list to be presented to respondents and whether the findings presented were not simply a flattering selection. Nevertheless, given an appropriate sense of caution, these findings still provide a few interesting insights, for instance, supporting the general view that multi-partner schemes are able to reach a much higher penetration rate than stand-alone programs.

This fact is also supported by further research on behalf of the Payback operator Loyalty Partner. GfK (2007) investigated the possession and use of loyalty cards in Germany by surveying 8,000 households. As mentioned in Chapter 4.3, in September 2007 60.8% of Germany’s 34.3 million households held a Payback card. By comparison, 41.8% possessed a HappyPoints card, 11.7% a Shell Clubsmart card, and 8.7% a Lufthansa Miles & More card. As far as the use of these loyalty programs is concerned, 56.5% of respondents stated that they always use their Payback card, while 32.4% did so with their HappyPoints, 44.7% with their Clubsmart, and 30.9% with their Miles & More card. In addition to that, another 38.5% used the Payback card occasionally, 54.7% did so with their HappyPoints card, 38.7% with their Clubsmart, and 49.7% with their Lufthansa Miles & More card. What remains unclear is whether these usage rates refer to category spending or simply use with the program operators or, in case of coalitions, their partners. After all, a rate of only around 31% showing their Miles & More card on every flight taken with Lufthansa seems very low. By contrast, it seems more likely that Miles & More members were using their card on virtually every flight with Lufthansa, but that they selected this airline for only 31% of
their flights. Further background information on this issue is not provided, but one thing is in any case certain: among the programs surveyed, customers of Germany’s largest coalition Payback showed the highest rates of both possession and usage.

4.5 The Next Evolutionary Step?

As was mentioned in the introduction to this Chapter 4, several academics and practitioners consider coalition schemes to be some sort of evolutionary step. Naturally, this program type has drawbacks as well, but overall, advantages were often found to outweigh.

What is so striking, then, is the blatant deficit of literature on this topic. Some ground is covered by studies from market research organizations (usually commissioned by coalition operators, however: e.g. TNS Emnid 2006 or GfK 2007) and in fact, some of the academic literature has also been written by practitioners from research organizations (e.g. Capizzi & Ferguson 2005 or Ferguson & Hlavinka 2006). Next to a few current or former practitioners (e.g. Humby et al. 2008 or Clark & Clark 2009), the truly academic view on coalition schemes remains extremely limited (and includes only a handful of publications such as those by Sharp & Sharp 1997 or Lara & De Madariaga 2007). At best, authors from an academic background have mentioned examples of coalition schemes in the course of a study on a different aspect of loyalty schemes (e.g. Stone et al. 2004 referring to UK’s Nectar coalition in a general evaluation of loyalty schemes or Rowley 2005 in a case study of Tesco’s Clubcard).

Scientific information on this topic is consequently still scarce, with unbiased, empirical evidence of the purported superiority of coalition schemes still outstanding. For that reason, this paper will attempt to contribute another, much-needed piece to this puzzle with the following empirical section.