Declaration of independence?

Marketing practitioners understand that the extent to which they can control their customer relationships is a significant driver of long-term stability and profitability for their companies. A loyalty programme is an obvious way to achieve this but which type of programme should a marketer choose - a traditional proprietary programme or a coalition programme?

Independent loyalty vs. a coalition programme

The former is the most frequently implemented loyalty programme; initiated and fully controlled by the brand owner. The second, a coalition programme is different. It allows customers of various participating partners to become members of a single programme and accumulate a single reward currency through transacting with these partners which can be redeemed for a variety of rewards.

Usually the programme is managed by an Independent Programme Operator (IPO) whereby participating partners are contracted with the IPO to gain the ability to issue and redeem the reward currency with its members.

Coalition programmes have cropped up all over the world. i-mint is India's largest coalition loyalty programme, with approximately 5 million members. Australia and South Africa have well-established programmes in Fly Buys and eBucks respectively. Yet perhaps the most famous one is Nectar in the UK which has almost half of the 22 million households in the UK. Following the success of this model, Groupe Aeroplan has recently announced that it is to launch a similar programme in Italy. However, not all countries have accepted and adopted coalition programmes with the US and China not having any significant programmes of note.

Advantages and disadvantages

There are clearly some notable advantages of a coalition programme, the most significant being the increased ability to collect points through a wider network of partners - this is good news for members as they can start to redeem and enjoy the rewards more rapidly. The IPO benefits hugely from controlling the initiative and charging business partners to participate.

However, the benefits for the business partners and their brands are not always as obvious particularly as it is not clear whether the customer's loyalty is to the programme or to the partner. And so brand owners need to fully understand their objectives for joining a coalition, the implications it would have for their brand and their ability to build a direct relationship with the customer.

A significant disadvantage is that insight into consumer behaviour, fundamental to the success of any loyalty programme, is compromised for partners. As the coalition programme database is owned by the IPO, access to customer data and the use of this data by partners can be limited.

Another major disadvantage is the ability of partners to fully control the direction of the programme and the speed it can react to changing marketing and economic forces and customer needs.

Choosing the right approach

That said for some brands, coalition programmes can give them access to a loyalty scheme very cost effectively. It can provide them access to a greater customer base which was previously unavailable whilst also allowing them the ability to tap into the experience of seasoned loyalty marketers.

Brand marketers need to decide very carefully in which direction to go. There are clear advantages and disadvantages that any company will need to evaluate in line with their commercial objectives. However the ultimate goal should be the possession and ownership of a unique and direct relationship with customers as part of a customer-centric loyalty approach.

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