Loyalty 2025
Delta, et al. v. Loyalty
CBM2014-00096

The Loyalty Hammer

A Solid Foundation for Building Loyalty

Proprietary Programs vs. Coalition Loyalty

Overview

There are two types of loyalty membership programs today: proprietary programs, the most common, where customers generate points by doing business only with the company that owns the program; and coalition (aggregate) programs in which customers generate points by doing business with any number of companies participating in the program.

Modern consumer loyalty programs have been around for 30 years and are ubiquitous. B-to-B programs started later. According to Warrillow and Associates, 45 percent of all U.S. and Canadian small business owners belong to a loyalty program sponsored by one of their suppliers. Of these, 60 percent belong to more than one program, with the average participation exceeding 2.3 programs.

Both coalition and proprietary models do well in increasing customer retention with excellent ROI. And because they both use non-cash rewards (points,) they do not dilute the value of a company's brand.

The Coalition Model

The advantages of coalition programs:

• New Customer Acquisition — Coalition sponsor partners share their customers. This model is tremendously effective in acquiring new customers, often for a fourth to a third of the cost of traditional promotions. *Proprietary programs do not attract new customers.*

• Significant Cost Savings — Because set-up and operating costs are also shared by coalition sponsors, these fixed costs are a fraction of proprietary programs. For example, set up and operating costs for the BI Contractor Rewards program – $25,000 annually.

Set up in proprietary programs can exceed $300,000 or more based on complexity with operating costs ranging from $50,000-$200,000 per year.

• Higher Return on Investment — The lift in business associated with coalition programs is higher; in addition to decreasing customer churn, and cross sell/up sell, additional profit is driven from the **new customers acquired** – not available from single sponsor programs. BI research indicates in the first years of a coalition program, 37%-79% of new customers come directly from the program member file.

• Greater Earning Potential for Members — Earning velocity for members in coalition programs is very high. With potentially 20-30 manufacturers, 50-120 brands and hundreds of different products eligible for point earnings, contractors, remodelers and builders stand to earn tens of thousands of dollars in rewards per year.

benefits they can't earn as easily in a proprietary program.

• Easy to Keep Dynamic & Vital — Unlike single-sponsor programs that start out strong, get stale and drop off, coalition programs continue to grow in effectiveness. New sponsors come on, new customer bases are added, new promotions launch continually keeping a coalition program vibrant and maintaining its momentum year-in and year-out.

• Share Best Practices — Coalition partner marketers share best practices and promotional ideas, often participating in co-branded promotions. Contractor Rewards hosts regular sponsor meetings to facilitate this idea exchange.

• Difficult for Competitors to Replicate — Coalitions are difficult to orchestrate, but once they launch and achieve critical mass with customers, they demonstrate formidable longevity and are difficult for competitors to respond.

The Proprietary Model

The advantages of proprietary programs:

• Program & Company Branding — Typically, program branding is intertwined with the company's brand (Honeywell *Contractor Pro*, Cooper *Connection*, etc.) Members know immediately who is offering the promotion.

• Complete Control of Structure — Program design, rules, database schemas, etc. are at the sole discretion of the single-sponsor. This includes the look and feel of the platform, communications and using the company's own products or discounts in the program awards offering.

• Addition Revenue Opportunity — Many proprietary programs allow non-competing partners to join their program. Opportunity for additional revenue stream exists in selling program points to these partners. But as stated before, this structure is difficult to orchestrate.

• Risk in Exiting a Program — If the company decides to terminate a proprietary program, clear planning must be taken to minimize the "ill-will" that can result with members. Pull-out of a coalition program is easier but presents another risk; the potential of losing customers when a competitor sponsor replaces them in their category.

• Cash Outlay for Points — Single-sponsor programs are typically *bill on redemption*; meaning point earnings are paid for at the time points are redeemed for merchandise or services. Float and non-redeemed points are retained by the company.

It is a common practice however to accrue the liability of points issued. While carried as non-cash expenditures, this accrual is often a marketing budget or cost of goods line item.

Summary

The compelling value of gathering end-user knowledge, increasing the frequency and impact of communications and creating a token-economy of points to reinforce those behaviors you wish to drive, make either initiative a wise decision in today's economic environment.

The model that's right for you will depend on your goals. **"Companies should make this decision with the customer in mind,"** says Daren Cotter, CEO of CotterWeb Enterprises, which manages a coalition loyalty program with more than seven million members. "Will the customer be satisfied earning rewards that are redeemable with just your brand? If not, a coalition program may be a better choice." Similarly, how much to invest in your program's infrastructure is also dependent on the type of customer experience you want to offer, Cotter says.

One Response to "Proprietary Programs vs. Coalition Loyalty"

1. *Toni* says:
   June 10, 2013 at 4:56 am

   Thanks for this piece. Please, what is the name of the BI research report where you have sourced the data that 37%-79% of new customers come directly from the program member file in the first years of a coalition program?

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