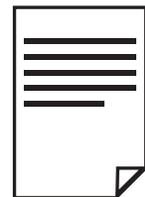




Proprietary or Coalition

What Type of Customer Engagement Program Is Right for Your Company?



Whitepaper



Unlocking Profitability.
One Customer at a Time.™

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A customer engagement program that attracts and rewards loyal customers is an effective strategy for companies that want to deepen their customers' affinity for their brand and drive profitable sales. With an average of 8 loyalty cards in Canadian consumers' wallets, these programs are popular with customers and can be a key point of differentiation for a business.

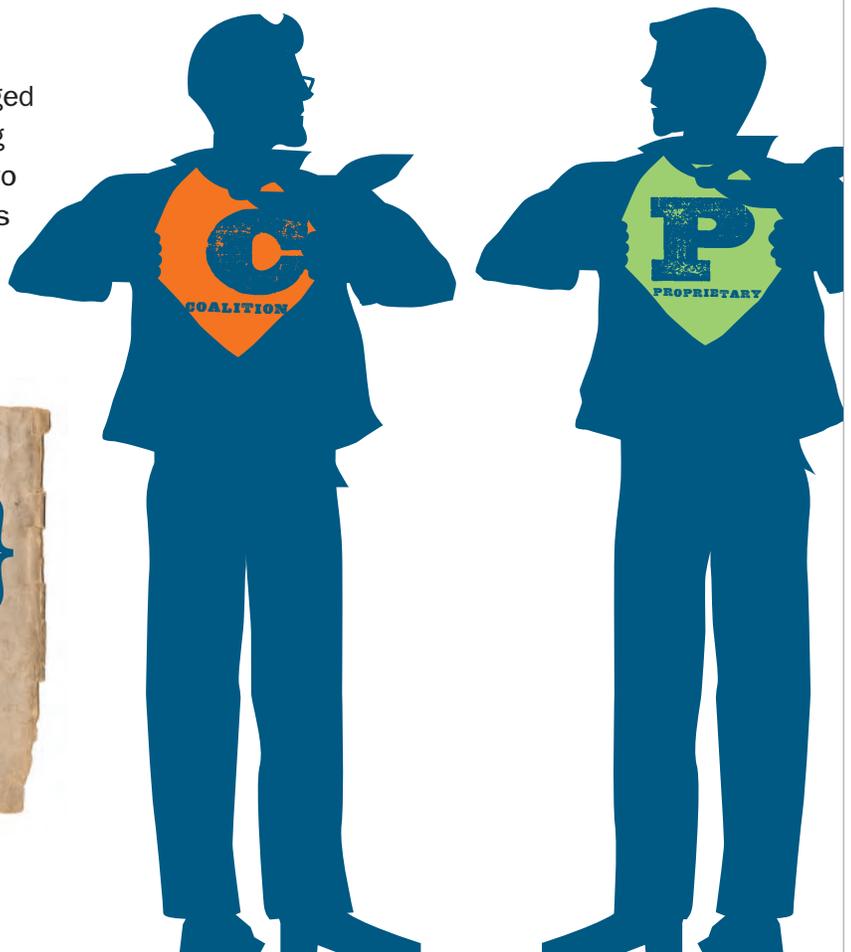
Whatever a company's objectives are – to attract new customers, access more insightful and valuable customer data, mitigate customer churn, and/or expand and deepen existing customer relationships – a successful customer engagement program will require the right mix of strategy, technology, marketing, analytics and operations expertise.

Whether launching a new program, or upgrading an existing one, getting started can be a daunting task. After all, a customer engagement program can affect all customer touch points across the breadth of the entire organization and there are a number of factors to consider in order to ensure it meets corporate goals and objectives, both short-term and long-term.

This paper will examine the differences between coalition and proprietary programs, in order to help companies decide which approach is the better fit to meet their customer engagement needs.

Coalition vs. Proprietary

Coalition programs are usually wholly managed by a single loyalty provider, with participating retailers sharing a common currency. The two most prominent Canadian coalition programs are the AIR MILES® Reward Program and Aeroplan®.



Customers can earn points or miles either shopping in-store or online or via payment products that can be redeemed for gift cards, travel rewards, or for merchandise from select retailers or brands that are part of the program. Whilst typically the points or miles are accrued and redeemed for longer-term aspirational rewards such as travel, more immediate redemptions can be made for retail products and services. The provider of the coalition program controls and executes most operational aspects of the program.



Proprietary loyalty programs are self-branded solutions owned and operated specifically by or on behalf of the organization. Proprietary programs offer a choice of executional options – build in-house, configure from an out-of-the-box solution or partner with a customer engagement solutions expert. For example, the Shoppers Optimum® program is an in-house program, whereas the Esso Extra® program was designed, built and is operated on Exchange Solutions’ managed services platform.

Factors to Consider When Deciding on the Right Type of Program

This paper will evaluate the coalition versus proprietary approach within the context of the following considerations:

1. The company’s objectives
2. The consumers being targeted
3. Operations and costs

1. The Company’s Objectives

When deciding whether a coalition or proprietary loyalty solution is the right fit, companies need to have clear strategic goals and objectives in mind. Different programs are better suited for different business objectives, such as growing a customer base, increasing profitability with existing customers, driving specific behaviours, mitigating attrition or increasing the level of customer insights through the accumulation of valuable customer data. In order to weigh the options, organizations must first understand the strengths and limitations of the different program types and evaluate these against their objectives.

COALITION

Coalition programs create value for retailers by providing a quick to market solution with low upfront investment and planning required. Retailers joining a coalition benefit from collective marketing and administrative resources. A coalition's established customer base is a big selling point, providing new retailers an opportunity to quickly acquire customers upon joining the coalition.

On the other hand, consideration should be given to the fact that the consumer base is more closely affiliated with the coalition program than with the retailer. This typically means that while it is the retailer that finances the points, these points are often not redeemed for that retailer's products or services.

It is also noteworthy that participation in a coalition requires the relinquishing of some control over the brand and the customer relationship. Since the customer's relationship is with the coalition provider, participating retailers don't have ownership of - or direct access to - member profile and transactional data. As such, retailers in coalition programs must be resigned to a passive approach to enhancing the customer relationship and willing to forgo much of the customer insights that can be gained through proprietary programs. Additionally if the retailer were to decide to exit the program, that relationship, and its value to the business, would be lost.

Summarily, if understanding the consumer base, or building or deepening customer relationships is a key corporate objective, a coalition program may not be the best fit.

Another consideration when evaluating a coalition is whether one of the retailer's competitors is already in the program. However exclusivity is often negotiated as part of the coalition contract, thus shutting out other companies in that category or vertical.



PROPRIETARY

Proprietary programs deliver value to the brands that operate them by offering a great degree of control, allowing businesses to customize the program to meet their business objectives.

For example, companies can use their incentives to target and drive behaviours that correspond to their objectives. This can be as specific as increasing basket size or frequency of visits, driving a non-transactional behaviour like completing an online profile, or encouraging customers to leverage preferred channels in order to mitigate costs. With the data acquired through a proprietary program, retailers can further monetize their customers by partnering with suppliers in order to promote their products to targeted customers, with incentives funded by the brands.

Proprietary programs provide greater control over branding, marketing and operations and therefore may be a better fit if direct control over the marketing process is critical to the business's objectives and corporate strategy. Areas such as communication channels and cadence are entirely in the organization's domain and allow for a fully realized one-to-one marketing execution. This potentially offers even more of a strategic advantage as the company can leverage the customer intelligence and insights generated by its customers' interactions to better understand how to move customers from an Unknown entity to ultimately, a Highly Engaged "most profitable" customer. Communications and offers can be highly customized to incent such desired activities as cross-sell, upsell and purchasing higher margin products and services.



2. The Target Market

The success of a loyalty program often comes down to how its members and prospective members perceive its value proposition. It's the classic question of "What do I need to do?" and "What will I get?" with customers inclined to only undertake activities when their perception of the value of the reward is high enough versus the effort required (also known as a value exchange).

Companies must evaluate the nature of their target market and what those individuals value most. The more varied the customer base and the behaviours that you are trying to drive, the more important it will be to implement a program that allows the flexibility to create a positive value exchange between the consumer and the business.

COALITION

With rewards offered across a fairly wide network of coalition program partners, these programs can provide member value by offering an accelerated path towards aspirational rewards. Rewards redeemed through coalition programs are often of significant value to the redeemer, creating a strong sense of benefit for their participation in the program. Furthermore, while these rewards are not specific to any one brand's customers, the reward offerings of a coalition program are often well known and understood by existing customers. This familiarity can increase adoption among customers and decrease the need to educate them on the program's value.



PROPRIETARY

Businesses that operate proprietary programs benefit from the variety of rewards at their disposal and the control that they can exercise over how they apportion those rewards to provide optimal value to their customers. This flexibility can be used to offer rewards tailored to the preferences of their member base, whether that is to accrue towards aspirational rewards, receive instant savings or both. "Non-transactional" rewards such as early access to exclusive products, special member experiences or protected pricing can also be used to deepen and expand the customer relationship and incent incremental profitable customer behaviours, allowing businesses to reward customers with a value that is commensurate to the desired behaviour.



3. Operations and Costs

One of the key considerations when deciding on a coalition versus a proprietary program is the requirements in terms of time, resources and budget in order to build and operate the program on an ongoing basis. Customer engagement programs are not short-term projects but long-term investments. Therefore there are trade-offs in budget and flexibility that must be considered in order to accommodate adjustments to corporate objectives and/or changes to the nature and needs of the company's consumer base which are likely to grow and change over the years as the business and customer landscapes continue to evolve.

COALITION

From an operations perspective, coalitions offer organizations a program that can be quickly initialized by integrating with an existing platform, at a relatively low investment in time and resources. The advantage, from a technology standpoint, is that all program improvements are shared across all the partners involved in the program. Conversely, any disruptions to the web of partnerships affecting the trained member base pose a risk, even when the disruption may be to introduce program improvements.

From a marketing perspective, coalition programs can be less intensive in terms of resources required to promote the program, as the coalition provider's centralized marketing team will manage the umbrella brand's marketing strategy and communications.

On the other hand, from an expediency standpoint, as many members of a coalition program typically redeem for more aspirational rewards rather than those of immediate benefit, members expect the rules of the program to be very similar today as it will be 5 to 10 years from now. This means any new features or modifications to the program rules can be slow to be tested, refined and implemented.



PROPRIETARY

Proprietary programs require more time and effort from the retailer in terms of design, development and operation of the program. These investments in people and infrastructure to support the program should be carefully considered and calculated from the outset.

Proprietary programs can be delivered 3 different ways, each with varying cost structures and upfront investments:

- 1.** In-house programs can be a large undertaking and require expertise in customer engagement and dedicated resources to design, build, market, optimize and manage the program.
- 2.** Out-of-the-box solutions can offer a lower risk and potentially a lower cost alternative. However, there may be a number of limitations – the program may not be fully scalable, customized or optimized to meet the needs of the company just a few short years into the future.
- 3.** Another option is leveraging a solutions partner with expertise in program management. A truly agile technology partner will allow you to build solutions that meet your customers' and business' needs today while retaining the ability to change with the landscape tomorrow.

In any case, proprietary programs must be fully supported with marketing campaigns to inform and educate customers about the benefits of participation as well as to acquire and on-board new members.



COALITION

{ CONS }

-  Customer relationship is with coalition brand with limited emphasis on deepening the relationship with the retail brand
-  Less flexibility to customize the program to the company's or customers' unique needs
-  Do not own the customer profile/data in order to perform customer analysis and optimization
-  Retailer funds points - points that can be earned at their store but spent on merchandise, gift cards or travel rewards (none of which are necessarily the retailer's products or services)
-  Upon exiting the program, any consumer relationship is potentially transferred to competitors who take over category - participation

{ PROS }

-  Quick to market
-  Opportunity to acquire new customers who are existing coalition members
-  Lower investment in technology and resources to build and manage as development and operations costs are spread over a large network
-  Power of a big brand with a marketing machine behind it to support the overall program
-  Customers can accelerate their accumulation of points by buying at multiple retailers
-  Established audience with an existing awareness of program value, rules and available rewards

PROPRIETARY

{ CONS }

-  Requires expertise in loyalty program design and operations (in-house or out-of-the-box solutions)
-  Relatively longer development and/or implementation time required
-  Requires upfront marketing spend in order to promote and educate customers about the program value/rules/rewards and convince them to sign-up and use the program
-  Relatively higher investment required in terms of time, resources and budget to build, operate and manage

{ PROS }

-  Flexibility to design a program to meet the unique needs of the customer base
-  Own the customer intelligence which allows for a deep dive into analytics in order to generate useful insights and add a strategic asset to the business
-  Increased flexibility and control in modifying the program to meet the changing needs of the market
-  Customers are engaged in a more intimate and direct relationship with the company's brand
-  Ability to monetize membership with suppliers and other retailers to create incremental program value

A Third Option – The Blended Approach

As an additional consideration, retailers also have the option to leverage both a coalition and a proprietary program, and have both coexist harmoniously. Esso, a leading national retailer in fuels, is a prime example of how a company can operate a robust and successful proprietary loyalty program, Esso Extra®, while at the same time effectively participating within Aeroplan's coalition program.

This strategy can help a retailer appeal to different target markets that value different types of rewards, while maintaining the relationships it has established through a coalition program.

This type of approach must be managed carefully to avoid confusion amongst the consumer base, but it can be an ideal strategy when the emphasis is on acquiring new members or providing existing members with additional ways to accumulate rewards faster in order to redeem for valued products or services.

The Next Step

When evaluating which type of solution is best, companies need to consider their overall corporate goals and the objectives of the program, the consumer base that they are targeting and how the program can be serviced, given their capabilities. There are a number of other nuances to the decision process, including whether the program's currency is funded as an operational expense or liability, what happens with the "breakage" dollars (which can be significant), and how accumulated currency could affect the balance sheet.

Exchange Solutions, a leader in delivering customer engagement solutions, is ready to help guide you through this decision making process, to ensure the type of program selected will be the right one for your customers and for your business. With the experience we have accumulated in 20 years of managing some of Canada's leading loyalty programs, we are your trusted partner in customer engagement.

About Exchange Solutions

Exchange Solutions offers innovative customer engagement and loyalty products that maximize customer lifetime value, customer satisfaction, and profitability.

ES Engage is our cloud-based, individualized offers customer engagement product focused on driving incremental customer behavior and optimizing promotional spend, using 1:1, real-time technology, machine learning analytics and compelling customer experience.

ES Loyalty is our comprehensive, cloud-based loyalty solution that delivers robust functionality and services to operate a loyalty program.

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