

Australian Loyalty Schemes

A Loyalty & Reward Co report for the
ACCC

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Table of Contents

Executive summary.....	iii
1. Introduction	1
2. The development of loyalty schemes	3
2.1. The benefits and challenges of a loyalty scheme	3
2.2. The history of Australia’s coalition loyalty schemes.....	6
3. The design of loyalty schemes	14
3.1. Australian loyalty schemes designs	14
3.2. Loyalty scheme psychology	19
3.3. Member lifecycle management approaches.....	22
3.4. Loyalty scheme technology.....	26
3.5. Technological innovation and emerging capabilities.....	28
3.6. Loyalty scheme reward provision	33
4. Loyalty scheme monetisation	35
4.1. Partners paying for members to earn coalition scheme points	35
4.2. Earning revenue by selling discount products to members.....	38
4.3. Earning affiliate marketing revenue via member online transactions.	38
4.4. Selling and supplying scheme-branded products and services.	38
5. Data collection and usage by loyalty schemes	40
5.1. How is consumer data being directly collected by loyalty schemes?	40
5.2. How is consumer data being indirectly collected by loyalty schemes?	45
5.3. How is consumer data being used and shared?.....	47
5.4. Consumer awareness about data being collected about them and traded	50
5.5. The customer data value chain	52
6. Emerging business and data practices.....	56
7. Issues relating to customer loyalty schemes	60

7.1. The level of competition in the loyalty market.....	60
7.2. Exclusive partnerships between loyalty schemes and third-party companies	62
7.3. Competitive impacts of loyalty schemes.....	64
8. Consumer perception and value of loyalty schemes.....	69
8.1. Are consumers getting what they are promised?	69
8.2. Are loyalty schemes over-promising to members?	74
8.3. Are consumers paying higher prices for loyalty scheme participation?.....	79
Appendix.....	81
About Loyalty & Reward Co	81
Skills and Experience	81

Executive summary

The Australian Competition and Consumer Commission (ACCC) has prioritised competition and consumer issues arising from customer loyalty schemes in Australia as a focus area in 2019,¹ and has commissioned Loyalty & Reward Co to conduct research and produce a report focusing on the major customer loyalty schemes and how they operate. This is the first time a comprehensive and publicly available report on the loyalty industry in Australia has been compiled.

Loyalty schemes are structured membership programs which reward repeat purchases. Loyalty schemes have been prevalent in Australia for several decades and permeate virtually every industry, with most consumer companies offering a loyalty scheme to their customers. Research shows that almost 80 per cent of Australians are members of at least one loyalty scheme.²

This report places specific emphasis on the four major coalition loyalty schemes operating in Australia – Qantas Frequent Flyer, Woolworths Rewards, Velocity Frequent Flyer and *flybuys* – but also focuses on other customer facing loyalty schemes with a membership greater than 1 million active members. This is due to the size and scale of these loyalty schemes in terms of membership numbers and third-party partnerships, as well as the influence they have over many Australian consumers.

This report focuses on points-based loyalty scheme designs and member benefits loyalty scheme designs, and their application within the Australian market. It identifies the different ways in which consumer companies leverage their loyalty schemes to drive member engagement, customer growth and retention, and build out their marketing databases.

The loyalty business function often takes the lead role within consumer companies in capturing, harnessing and, in some cases, monetising customer data. The application of loyalty psychology and behavioural insights combined with advances in loyalty scheme technology continually improve the ability of loyalty schemes to access data, tailor personalised marketing and member lifecycle approaches, and influence members to purchase more goods and services from their parent company.

In certain instances, a loyalty scheme can generate additional revenue for a company outside of a direct increase in sales. This may be through payments by third-party partners to reward their customer with points, selling discount products to members, promoting affiliate marketing schemes to members, selling and supplying scheme-branded products and services, selling insights derived from consumer data, or selling digital marketing services to third party companies.

The report explores the levels of transparency by loyalty schemes regarding how they collect and use consumer data. It also considers whether consumers are aware of the ways in which their data may be monetised by the major loyalty schemes to directly generate incremental revenue for the parent company. Research indicates consumers expect

¹ ACCC, “Compliance & enforcement policy & priorities”, <<https://www.accc.gov.au/about-us/australian-competition-consumer-commission/compliance-enforcement-policy-priorities>>, accessed 8th May 2019.

² Mastercard, “Achieving Advocacy and Influence in a Changing Loyalty Landscape”, page 7, <<https://newsroom.mastercard.com/asia-pacific/files/2018/01/Loyalty-Solutions-Whitepaper.-AP-Region-20171.pdf>>, accessed 17th April 2019.

transparency from loyalty schemes on how data is being collected and used and are increasingly demanding greater control over their data.

Another issue covered in the report is whether loyalty schemes are generating anti-competitive dynamics. Empirical research suggests there is potential for the use of loyalty schemes to result in anti-competitive impacts in certain industries, especially in inhibiting the ability for smaller companies or new entrants without a well-established loyalty scheme to compete. This report also reviews the different promotional approaches taken by loyalty schemes, which in many instances appear to be broad statements that no reasonable consumer would likely interpret literally.

1. Introduction

The ACCC commissioned Loyalty & Reward Co to produce this report to assist in its understanding of the operation of customer facing loyalty schemes, including:

- Practices relating to the development, operation and monetisation of loyalty schemes.
- Practices relating to the collection, use and disclosure of consumer data collected by loyalty schemes, as well as affiliated merchants and data brokers.

Loyalty & Reward Co have drawn on their extensive expertise (see the Appendix) to compile this report, which includes working in senior roles managing loyalty schemes across multiple companies, providing loyalty management consulting services to over thirty-five major brands in the past six years, writing publications on advances in loyalty approaches,³ participating as an Advisory Board member of the Australian Loyalty Association, conducting university-supported and government-funded loyalty research and writing numerous opinion articles on the loyalty industry.⁴

In producing this report, Loyalty & Reward Co used publicly available documents, media reports, empirical research, financial reports and other sources. This information was combined with additional content compiled through years of experience working in the loyalty industry locally and globally. While Loyalty & Reward Co has relied on its expertise, it has not relied on materials that may be subject to confidentiality and other confidences.

The scope of the report is limited to loyalty schemes with more than 1 million active members, which primarily tend to be coalition loyalty schemes. A coalition loyalty scheme is a scheme managed by a central operator where a network of partners reward members with a common rewards currency, such as points. Other types of loyalty schemes also operate, including individual brand points-based loyalty schemes and member benefits loyalty schemes, which give members access to exclusive offers such as discounts and value-adds. Loyalty schemes can also use a combination of these models. For example, a loyalty scheme can be a points-based coalition scheme but also offer exclusive member benefits.

This report covers the industry's characteristics; the use, collection and disclosure of consumer data; competition effects, including impacts on consumer switching; and, information asymmetries, including the perceived and actual value of being a member.

The report is structured as follows:

- Chapter 2 covers the benefits and challenges of loyalty schemes for consumers, loyalty scheme operators and merchant partners, and the evolution of major coalition loyalty schemes over the past decade.
- Chapter 3 provides a summary of the different types of loyalty schemes operating in Australia, loyalty psychology, member lifecycle management and loyalty scheme technology.
- Chapter 4 details the different ways loyalty schemes are monetised.

³ Shelper, Philip, "Blockchain Loyalty: disrupting loyalty and reinventing marketing using blockchain and cryptocurrencies", 2nd Edition, Australia: Loyalty & Reward Co Pty Ltd, 2019

⁴ Loyalty & Reward Co, *Insights*, 2019, <<https://www.rewardco.com.au/>>, accessed 20th April 2019; Loyalty & Reward Co, "Blockchain Loyalty", 2019, <<https://www.blockchainloyalty.io/>>, accessed 20th April 2019.

- Chapter 5 provides insights into how loyalty schemes collect and use consumer data, as well as consumer awareness about the data being collected and traded.
- Chapter 6 covers emerging trends in the loyalty industry.
- Chapter 7 covers the level of competition in the loyalty industry and its impacts.
- Chapter 8 explores whether consumers are receiving what they are promised from loyalty schemes.

This report was finalised on 21 June 2019 and does not take into account developments beyond this point.

2. The development of loyalty schemes

Loyalty schemes are available to consumers across most industries, with new schemes being launched, or existing schemes being relaunched, on a regular basis. According to one research report, on average each Australian adult belongs to 4 loyalty schemes,⁵ while another report indicates the average Australian belongs to 6.1 loyalty schemes.⁶

Loyalty schemes are generally designed to encourage consumer repeat-purchase behaviour with a company by providing rewards. Companies may enjoy an increase in revenue as a result of members engaging with their loyalty scheme because they are incentivised and encouraged to purchase more products and services from that company.

While there are a range of studies which make a variety of claims about the effectiveness of loyalty schemes, most industry experts agree on their aim — to drive deeper engagement between members and a company in order to increase sales of products and services (including increasing the frequency of purchases and the value of each purchase), to reduce marketing costs and to transform members into advocates for the product or brand.

From a global perspective, the Australian loyalty industry is relatively sophisticated when considering the quality of personalised communications, the extent of partner networks, the ability of loyalty schemes to collect and use data to tailor the member experience and the options for members to access value across multiple channels.

Australian companies are aware of the advantages a well-designed and executed loyalty scheme can deliver, such as acquiring and retaining customers while attracting a greater share of wallet spend. As a result, many are investing heavily to improve their loyalty schemes in order to gain a competitive advantage. Within the loyalty consulting industry, much of the recent project work requested by companies is focused on redesigning existing loyalty schemes to make them more effective. This high level of competition is driving significant innovation which appears to be increasingly reflected via positive attitudes among members,⁷ but also demands from consumers for brands to work harder for their loyalty.⁸

This chapter reviews the benefits and challenges of loyalty schemes for participants and the recent history of Australia's largest coalition loyalty schemes.

2.1. The benefits and challenges of a loyalty scheme

This section examines the benefits to consumers, loyalty scheme operators, and affiliates and merchants for participating in a loyalty scheme and also the challenges faced by participants.

⁵ Posner, Adam, "For Love Or Money 2018", edition 6, page 12.

⁶ Mastercard, "Achieving Advocacy and Influence in a Changing Loyalty Landscape", page 6, <<https://newsroom.mastercard.com/asia-pacific/files/2018/01/Loyalty-Solutions-Whitepaper.-AP-Region-20171.pdf>>, accessed 2nd April 2019.

⁷ Posner, Adam, "For Love Or Money 2018", edition 6, page 17.

⁸ Accenture, "Seeing beyond the loyalty illusion: it's time you invest more wisely", 2017, <https://www.accenture.com/t00010101T000000_w_/es-es/acnmedia/PDF-43/Accenture-Strategy-GCPR-Loyalty-Infographic.pdf>, accessed 19th April 2019.

For consumers

From a consumer perspective, the benefits of a loyalty scheme include:

- **Rewards:** Members may be rewarded with points, miles, discounts, value-adds or other tangible benefits which non-members do not receive.
- **Exclusivity:** Members may be provided with exclusive benefits such as access to lounges, priority queues and VIP events.
- **Surprise gifts:** Members may be provided with unexpected gifts.
- **Relevant communications:** The communications received from the loyalty scheme may be tailored to the member's individual profile, increasing their relevance and usefulness.

Core challenges consumers face when engaging with loyalty schemes include:

- **Perceived lack of value:** The rewards provided by the loyalty scheme sometimes are not sufficiently compelling or accessible. For example, the member may earn some points but not be able to access a desirable reward with those points.
- **Market saturation:** Consumers may be overwhelmed by the number of different loyalty schemes available to them, with many consumer-facing companies offering a loyalty scheme to their customers.
- **Excessive marketing communications:** Many loyalty schemes send large volumes of marketing communications to members via email, SMS, push notifications, banner advertising and mail. For some consumers, the volume of marketing material received may be perceived as excessive, while the content may not be perceived as relevant.
- **Data capture and control:** A loyalty scheme may capture consumer data in ways the member is not aware of or does not approve of, and use it for purposes the member may not deem appropriate. The member may also feel they have a lack of control over how their data is captured and used.

For loyalty scheme operators

For a loyalty scheme operator, the potential benefits are numerous:

- **Build a marketing database:** A loyalty scheme is one of the best ways a company can build a customer database, which in the age of digital marketing is one of the most valuable assets a company can possess, as it increases their marketing effectiveness while reducing their advertising costs.
- **Customer retention and transaction growth:** A loyalty scheme can grow the recency, frequency and value of member transactions by making the engagement process more rewarding. It can also reduce member churn by developing meaningful relationships and increasing 'stickiness'.
- **Better understand members:** A loyalty scheme can play a useful role in helping companies better understanding members as individuals. The critical insights gained from data collected by the loyalty scheme can be used to tailor communications, offers, products and services to drive an increase in sales and member satisfaction. The data can also be packaged and sold to third-party partners to generate additional revenue.
- **Drive advocacy:** A loyalty scheme can successfully turn customers into promoters by rewarding them above their expectations.

- **Gain a competitive advantage:** A good quality loyalty scheme can give its parent company a competitive edge by creating a more engaging experience, connecting with customers on an emotional level, strengthening brand values and helping to differentiate from competitors especially when they cannot differentiate from a product or price level.

The challenges loyalty scheme operators face include:

- **Expense:** Designing, implementing and running a loyalty scheme can be expensive. Companies generally need to hire expertise to design and operate their loyalty scheme, plus buy or lease the required systems and solutions. Additional expenses include marketing, training, legal, accounting and customer service. There is also the cost of rewards. While a small number of large loyalty schemes directly generate revenue, most loyalty schemes rely on an increase in member spend on products and services to cover costs.
- **Lack of ability to deliver value:** The key driver of engagement with most loyalty schemes is value. Members will join a loyalty scheme because they believe they will receive value for doing so, and they will continue to engage because they perceive they are getting value. Some companies do not generate sufficient margin to be able to deliver enough value directly to the majority of the member base to ensure their engagement is maintained.
- **Disengagement:** Maintaining consistent member engagement can be incredibly challenging. Many loyalty schemes have significant numbers of members on their database who no longer engage with the loyalty scheme at all. Loyalty scheme operators need to continually innovate and evolve to ensure they remain attractive and relevant to their members, especially when compared to competitor's loyalty schemes.

For affiliates and merchants

Affiliates and merchants may participate in coalition loyalty schemes, where they reward their members with points provided by an airline, bank, supermarket or hotel loyalty scheme. The potential benefits for affiliates and merchants in participating in a loyalty coalition scheme include:

- **Marketing:** The large coalition loyalty schemes have millions of members, many of whom are subscribed to receive marketing. Promotion of a company to these marketing databases can generate significant sales and brand awareness for the coalition partner.
- **Attract new customers and grow revenue:** Major coalition loyalty schemes have developed their own reward currencies, such as points, which members can earn and spend to gain rewards. Sub-sets of their member bases may consciously change their shopping behaviour to earn more points in order to unlock the rewards they offer. Affiliates and merchants that join these loyalty schemes may gain new customers simply by promoting the ability for members to earn points by transacting with them.
- **Retain existing customers:** Affiliates and merchants can enjoy a reduction in customer churn by participating in a loyalty coalition scheme. Members of the loyalty scheme interested in earning points can remain more loyal to the company than if no points were offered.
- **Build customer database:** Some affiliates and merchants require the member to join their own loyalty scheme to earn the coalition loyalty scheme's points. This approach helps the company to build its own member database which it can use for marketing purposes. Data can also be captured for analytics to help the affiliate/merchant's loyalty

scheme better understand the purchasing habits and behaviours of their members in order to run targeted marketing efforts.

Some of the challenges for affiliates and merchants in participating in a loyalty coalition scheme include:

- **Insufficient marketing support:** Some of the coalition loyalty schemes have been successful in developing hundreds of partnerships, but they only have so much space in their advertising for promoting those partners to their member base. This means partners may not receive the level of marketing support they believe they should be entitled to.
- **Overstating of member numbers:** Some coalition loyalty schemes tend to promote the total number of members they have, which may lead the affiliate or merchant to believe they will have access to all those members as potential new customers. Coalition loyalty schemes (especially those which have been operating for decades) tend to have a significant proportion of their historic customer base who no longer engage with the loyalty scheme at all. This may be because they moved overseas, switched loyalty scheme affiliation, had a change in life circumstance (e.g. moved into retirement and no longer travel frequently for work), decided the loyalty scheme was not providing them with sufficient value or even because they passed away. A particular quirk of the loyalty scheme industry is that members who disengage generally do not tend to cancel their accounts; they simply throw their membership card in the bin and unsubscribe from marketing communications. Thus, the 'active' membership base number, being the number of members who have earned or redeemed at least once in the past 12 months, may be significantly less than the total member base.
- **Expense:** Loyalty coalition points are paid for by the affiliate or merchant when their customers earn them. This is often calculated as a percentage of the total amount paid by the member and therefore adds incremental cost to the affiliate/merchant business.
- **Lack of results:** Many different types of companies participate in coalition loyalty schemes, with mixed results. Some may perceive they have enjoyed healthy boosts in customer numbers and spend, while others may not feel the scheme has delivered the result they had anticipated.
- **Lack of exclusivity:** Partnering with a loyalty coalition scheme can enable a company to differentiate itself from its competitors. In certain instances, however, the loyalty coalition scheme will partner with most or all of the companies in an industry, which may neutralise the potential competitive advantage. Examples of industries where this is seen include banking and hotels.

2.2. The history of Australia's coalition loyalty schemes

The modern coalition loyalty scheme was born nearly forty years ago. In 1980, American Airlines launched the world's first currency-based frequent flyer scheme using a new reward currency, *miles*, which corresponded to how many miles a member had flown. Members could earn miles at a set value for flights, allowing them to easily identify what they could redeem their miles for. Brought on by increasing competition with the deregulation of the US airline industry in 1978, the American Airlines AAdvantage scheme was soon followed by similar airline loyalty schemes from United Airlines, TWA and Delta Airlines. Hotels and car rental firms started partnering with the airline loyalty schemes in an attempt to gain a competitive edge in their market by offering miles to their customers. Over time, banks, insurance companies, retailers and many other companies in different industries all started

partnering with airline loyalty schemes, which became known as frequent flyer loyalty schemes, building a coalition network.

Other airlines around the world replicated this. In 1987, Southwest Airlines launched a loyalty scheme which awarded *points* to members for trips flown, irrespective of the number of miles. Qantas Frequent Flyer launched in Australia the same year, offering points as a reward currency. The loyalty scheme design soon expanded into other industries, with hotels, banks and supermarkets launching their own coalition loyalty schemes.

The four major coalition loyalty schemes in Australia are (in no particular order) Woolworths Rewards, *flybuys*, Qantas Frequent Flyer and Velocity Frequent Flyer. Each of these coalition loyalty schemes has evolved greatly over the past decade, enjoying significant growth in membership numbers, third-party partnerships and profitability, while becoming increasingly sophisticated in product offerings, marketing, and data capture and usage.

Airlines

Qantas Frequent Flyer

In 2007, Qantas Frequent Flyer was separated out as a new division from its previous home in the Qantas Marketing department. Qantas identified that its coalition loyalty scheme was generating healthy profits for the airline, but the financial positives were relatively hidden. The creation of Qantas Loyalty as a separate division enabled better financial and strategic transparency for investors. There was also consideration within the business of spinning off the division as a separate corporate entity via a partial initial public offering (IPO),⁹ similar to Air Canada's spinning off of their loyalty scheme, Aeroplan, in 2005.¹⁰

Typically, Qantas would forecast how many seats they expected to sell on a particular flight, and provide the remainder to Qantas Frequent Flyer to offer to members in exchange for points. This was branded Classic Awards. Qantas Frequent Flyer had been successful in expanding the many ways members could earn points via flying and making purchases with third-party partners and credit cards, but the number of reward seats available to members was constrained by airline capacity. The airline would only release seats they forecast they would not sell, which they would generally try to minimise via different pricing and yield strategies in order to maximise company profits. To provide more opportunities for members to redeem points, in 2008, Qantas introduced two new redemption products; Any Seat Awards and the Qantas Store.¹¹ Any Seat Awards allowed members to redeem points on any seat which was commercially available, although the number of points required was much higher. For example, a one-way Classic Award flight from Sydney to Melbourne is 8,000 points, while an Any Seat Award can range from 24,900 points to 46,100 points.¹² For members with a high points balance who just wanted to fly, this was still a relatively

⁹ The Sydney Morning Herald, "Qantas may float Frequent Flyer program", 1st July 2008, <<https://www.smh.com.au/business/qantas-may-float-frequent-flyer-program-20080701-2ztq.html>>, accessed 2nd April 2019.

¹⁰ Leff, Gary, "Air Canada to Spin Off Aeroplan", Boarding Area, 23rd April 2005, <<https://viewfromthewing.boardingarea.com/2005/04/23/air-canada-to-spin-off-aeroplan/>>, accessed 2nd April 2019.

¹¹ Qantas Corporate Communication, "Qantas Frequent Flyer – now bigger and better", 1st July 2008, <<https://www.qantas.com/travel/airlines/media-releases/jul-2008/3777/global/en>>, accessed 2nd April 2019.

¹² Based on a one-way economy flight Sydney to Melbourne. Search conducted on qantas.com on 29th May 2019 for flight 23rd July 2019.

attractive option. Any Seat Awards also extended to Jetstar flights, and later to other airlines that partnered with Qantas. The Qantas Store allowed members to redeem points online for a wide range of consumer goods and gift cards. Starting at around 750 products and gift cards, the Qantas Store now hosts over 7,500 products and gift cards.

Qantas Frequent Flyer continued to expand its partner network during this period. A partnership with Woolworths (via Everyday Rewards, Woolworths' loyalty scheme at the time) benefitted both loyalty schemes by boosting member numbers and expanding the ways in which members could earn Qantas Points.¹³ In particular, the Qantas Frequent Flyer member base was expanded by a population of members who did not fly regularly or had never flown, a segment which may not have considered Qantas membership previously.

In 2009, Qantas Frequent Flyer made a decision to no longer allow members to exchange points earned in other reward currencies to their frequent flyer account from other loyalty schemes, such as bank loyalty schemes and American Express. This was viewed as a strategic move which encouraged more members to take up a credit card which earned points directly, rather than indirectly. According to reports, around 3 million members were required 'to decide whether to pour their points from rewards schemes into the Qantas Frequent Flyer system'.¹⁴

In 2011, Qantas Frequent Flyer moved to expand their platform and reward sourcing capabilities by purchasing Wishlist Holdings.¹⁵ The acquisition allowed the scheme to move the Qantas Store operation in-house and away from Aimia, which had run it since its launch. The benefits included lower operational costs and the ability to directly negotiate larger discounts with suppliers. Consumers benefited by being able to access a much bigger range of rewards on the Qantas Store. The acquisition also delivered a range of corporate loyalty schemes under the evoucher.com.au and Accumulate brands, which provided Qantas Frequent Flyer with their first foray into the business to business loyalty space.

In 2011, Qantas Frequent Flyer launched their food and wine club, EpiQure, which tapped into the relationships the airline had built with wine producers for flight catering.¹⁶ This created a new revenue stream via club membership fees and product sales, while providing Qantas Frequent Flyer with more member transaction data. In 2014, they followed this up with Qantas Golf Club, where members could earn frequent flyer points for booking tee times, and gain access to private golf courses normally limited to club members.¹⁷ In 2015, they expanded into the health insurance sector with Qantas Assure, a product backed by NIB.¹⁸

¹³ Qantas Corporate Communication, "Qantas and Woolworths Unveil Unique Loyalty Partnership", 1st June 2009, <<https://www.qantas.com/travel/airlines/media-releases/jun-2009/3920/global/en>>, accessed 2nd April 2019.

¹⁴ Chettle, Nicole, "Battle for the skies hits the hip pocket", ABC News, 27th March 2009, <<https://www.abc.net.au/news/2009-03-27/battle-for-the-skies-hits-the-hip-pocket/1632910>>, accessed 3rd April 2019.

¹⁵ Travel Daily, "Qantas FF ticks off the Wishlist", 10th August 2011, Issue 1834-3058, page 8, <<https://issues.traveldaily.com.au/2011/Aug11/td100811.pdf>>, accessed 3rd April 2019.

¹⁶ Warne, Dan, "Qantas launches 'members only' epiQure wine and food club", Australian Business Traveller, 8th June 2011, <<https://www.ausbt.com.au/qantas-launches-epiqure-wine-and-food-club>>, accessed 3rd April 2019.

¹⁷ Freed, Jamie, "Qantas Golf Club launches: Frequent Flyer members get golf rewards", Traveller, 2nd December 2014, <<http://www.traveller.com.au/qantas-golf-club-launches-frequent-flyer-members-get-golf-rewards-11yevy>>, accessed 3rd April 2019.

¹⁸ Qantas News Room, "Qantas and NIB to create a more rewarding health insurance experience", 23rd November 2015, <<https://www.qantasnewsroom.com.au/media-releases/qantas-and-nib-to-create-a-more-rewarding-health-insurance-experience/>>, accessed 4th April 2019.

Qantas Frequent Flyer expanded directly into financial services in 2013 with the launch of Qantas Cash, an expansion of the functionality of membership cards which turned them into prepaid multi-currency travel money cards which earned Qantas Points when used for purchases in Australia, overseas and online.¹⁹ This was followed up in 2018 with the launch of their own credit card, launched in partnership with Citibank.²⁰ Unlike co-branded cards provided by banks, which only share with Qantas the total amount the member has spent, Qantas' own cards allow them to see *where* the member has spent, delivering valuable consumer data.

In 2014, Qantas Frequent Flyer launched Red Planet, a digital marketing agency designed to sell promotional services to other businesses, using data from the Qantas Frequent Flyer loyalty scheme to deliver targeted digital advertising campaigns to members.²¹ The same year they launched their business scheme Qantas Acquire (later renamed to Qantas Business Rewards),²² which provided businesses with the ability to earn bonus points by transacting with third-party partner companies. The points earned can be transferred to any individual account to be redeemed, meaning business owners can enjoy the points themselves or share them with their staff as incentives and bonuses.

In 2015, Qantas Loyalty acquired a 51 per cent controlling interest in analytics and actuarial consulting business Taylor Fry.²³ The investment delivered two benefits; additional analytics capability to support their own marketing operations and the newly formed Red Planet, but also to manage their points liability and points expiry rates.

Virgin Australia's Velocity Frequent Flyer

Qantas' main competitor in Australia since 2001 has been Virgin Blue (now Virgin Australia), which has offered their customers the option to join the Velocity Frequent Flyer (Velocity) loyalty scheme since 2005.²⁴ In 2011, the airline was rebranded to Virgin Australia as a first step in the airline's strategic ambition to increase the share of corporate spend.²⁵ The airline closed loss-making routes, refitted aircraft for a more premium feel and built executive-level lounges, such as the invite only 'The Club' at Sydney airport, to compete with Qantas' exclusive Chairman's Lounge.

¹⁹ Flynn, David, "New 'Qantas Cash' combines travel money & frequent flyer card", Australian Business Traveller, 20th February, 2013, <<https://www.ausbt.com.au/new-qantas-cash-combines-travel-money-frequent-flyer-card>>, accessed 4th April 2019.

²⁰ Graham, Matt, "Qantas launches its Own Credit Card", The Australian Frequent Flyer, 10th June 2017, <<https://www.australianfrequentflyer.com.au/qantas-launches-its-own-credit-card/>>, accessed 4th April 2019.

²¹ Ward, Miranda, "Qantas launches data marketing business Red Planet, takes digital media buying in-house", Mumbrella, 10th September 2014, <<https://mumbrella.com.au/qantas-loyalty-launches-marketing-services-business-red-planet-250624>>, accessed 4th April 2019.

²² Qantas News Room, "Qantas announces 'Aquire' – a new business loyalty program", 18th November 2013, <<https://www.qantasnewsroom.com.au/media-releases/qantas-announces-aquire-a-new-business-loyalty-program/>>, accessed 5th April 2019.

²³ Qantas News Room, "Qantas Loyalty builds analytics capability through Taylor Fry acquisition", 26th February 2015, <<https://www.qantasnewsroom.com.au/media-releases/qantas-loyalty-builds-analytics-capability-through-taylor-fry-acquisition/>>, accessed 5th April 2019.

²⁴ Velocity Frequent Flyer, "Velocity celebrates 3 million members", 2 April 2012, <<https://www.velocityfrequentflyer.com/content/ProgramBenefits/LatestNews/velocity-frequent-flyer-celebrates-three-million-members/>>, accessed 21st May 2019.

²⁵ Walton, John, "First Pics: First Virgin Australia plane lands at Sydney Airport", Australian Business Traveller, 4th May 2011, <<https://www.ausbt.com.au/first-pics-first-virgin-australia-plane-lands-at-sydney-airport>>, accessed 15th May 2019.

Virgin Australia recognised the significant value Velocity could generate for the airline.²⁶ It was aware of the genuine loyalty that the Qantas Frequent Flyer loyalty scheme generated from frequent travellers who attained tier status (particularly Gold and Platinum), especially among business travellers. They perceived the perks of belonging to a higher tier, such as free Qantas Lounge access, priority boarding, potential upgrades and bonus points earned, generated sufficient stickiness with higher value members such that the likelihood of switching their business to Virgin Australia was reduced.

To counter this, Virgin Australia redesigned Velocity in 2011.²⁷ Velocity had already launched 'Any Seat, Any Time' in 2005,²⁸ prior to Qantas' launch of Any Seat Awards in 2008, indicating a willingness to compete via innovation. The new Velocity loyalty scheme built on this to better recognise higher value members of Velocity and attract more earn partners.²⁹ They enhanced flight rewards, added more options to redeem points for seats, improved points earned rates and status earning methods, transformed status privileges and unique benefits for travellers and their families, added a new Platinum level of membership with exclusive benefits and expanded their coalition to over 380 loyalty scheme partners, including credit cards and retail partners.

In an aggressive move as part of the relaunch, Velocity ran a status-matching campaign, allowing Qantas Frequent Flyer members to claim the same status with Velocity, a strategy which aimed to neutralise the stickiness a status tier can create.

Velocity also introduced a range of benefits targeted at families, who could automatically pool their points and status credits, pause their membership for six months for parental leave without losing their status and earn free companion membership for their partners and complimentary lounge passes.³⁰

Virgin Australia sold 35 per cent of Velocity to Affinity Equity Partners in 2014 for \$336m.³¹ The deal boosted Virgin Australia's cash balance during a period when the airline was in the process of taking full control of Tigerair Australia.

In 2013, a few months after Qantas Frequent Flyer launched Qantas Cash, Velocity followed with Global Wallet, an expansion of the membership card into a prepaid Visa card which supported nine international currencies and the Australian dollar.

²⁶ Ferguson, Adele, "Flying high with John Borghetti", The Sydney Morning Herald, 13th November 2014, <<https://www.smh.com.au/lifestyle/flying-high-with-john-borghetti-20141031-11evix.html>>, accessed 5th April 2019.

²⁷ Velocity Frequent Flyer, "Virgin Australia's New Frequent Flyer Program", 25th August 2011, <<https://www.velocityfrequentflyer.com/content/ProgramBenefits/LatestNews/VirginAustraliasnewfrequentflyerprogram/>>, accessed 5th April 2019.

²⁸ Velocity Frequent Flyer media release, <https://www.virginaustralia.com/au/en/about-us/media/2008/VB_WINS_GLOBAL_GONG_AGAIN/>, 29th April 2008.

²⁹ CAPA Centre For Aviation, "In conversation with Virgin Blue CEO John Borghetti", 27th December 2010, <<https://centreforaviation.com/analysis/reports/in-conversation-with-virgin-blue-ceo-john-borghetti-42721>>, accessed 5th April 2019.

³⁰ Flynn, David, "Virgin reveals new family friendly Velocity frequent flyer scheme", Australian Business Traveller, 25th August 2011, <<https://www.ausbt.com.au/virgin-launches-family-friendly-new-velocity-frequent-flyer-scheme>>, accessed 5th April 2019.

³¹ Freed, Jamie, "Virgin wraps up \$336m sale of Velocity stake", The Sydney Morning Herald, 22nd October 2014, <<https://www.smh.com.au/business/companies/virgin-wraps-up-336m-sale-of-velocity-stake-20141022-119xiw.html>>, accessed 5th April 2019.

In 2014, Velocity was successful in landing a major partnership with BP.³² Members could earn points for their petrol, while non-members could join for free and earn 500 bonus points. The partnership was successful for Velocity by playing a key role in their growth from 4.4m members in 2014 to 8m members three years later. By comparison, during that same period, Qantas Frequent Flyer grew from 10.1m to 11.8m members.³³

In 2015, Virgin Australia acquired Australian data analytics firm Torque Data.³⁴ The acquisition was driven by the strategic ambition to expand the business' data analytics and campaign automation capabilities.

In 2016, Velocity and *flybuys* formed a partnership which allowed *flybuys* members to convert their *flybuys* points into Velocity Points, a counter to the Qantas-Woolworths partnership.³⁵ This was typical of the duopolistic competitive tension between the two schemes, where they signed partnerships with several major brands in the same industry, such as car rental firms and hotels, discussed in detail in section 7.2.

Supermarkets

flybuys and Woolworths Rewards

Within the supermarket loyalty schemes, a similar competitive struggle took place. In 2009, the Woolworths and Qantas Frequent Flyer partnership allowed Woolworths to differentiate themselves from Coles and grow the Woolworths member base of their Everyday Rewards loyalty scheme.³⁶ Importantly, the majority of the member base swiped their card at each shop, which delivered reams of valuable customer data previously unavailable to them.

Launched in 1994, *flybuys* was jointly owned by Coles and NAB.³⁷ In 2011, Coles bought the remaining 50 per cent from NAB to gain full control over the loyalty scheme.³⁸ *flybuys* executed a relaunch the same year which involved restructuring the loyalty scheme to improve its value proposition, mailing out 16m membership cards to Australian households and ramping up their member analytics capability.³⁹

³² Virgin Australia Newsroom, "Velocity Frequent Flyer and BP announce Australian first partnership", 16th November 2014, <<https://newsroom.virginaustralia.com/release/velocity-frequent-flyer-and-bp-announce-australian-first-partnership>>, accessed 6th April 2019.

³³ Venture Insights, "Australian airline loyalty programs reaching new heights", 31st August 2017, <<https://www.ventureinsights.com.au/product/australian-airline-loyalty-programs-reaching-new-heights/>>, accessed 6th April 2019.

³⁴ Gardiner, Bonnie, "Virgin Australian acquires analytics firm Torque Data", CIO, 3rd July 2015, <<https://www.cio.com.au/article/578960/virgin-australian-acquires-analytics-firm-torque-data/>>, accessed 6th April 2019.

³⁵ Hatch, Patrick, "Virgin and Coles strike deal to exchange flybuys for Velocity Points", The Sydney Morning Herald, 19th October 2016, <<https://www.smh.com.au/business/companies/virgin-and-coles-strike-deal-to-exchange-flybuys-for-velocity-points-20161019-gs5r9h.html>>, accessed 6th April 2019.

³⁶ Qantas Corporate Communication, "Qantas and Woolworths Unveil Unique Loyalty Partnership", 1st June 2009, <<https://www.qantas.com/travel/airlines/media-releases/jun-2009/3920/global/en>>, accessed 15th May 2019.

³⁷ Lee, Julia, "Supermarket sleuth says data is everything", The Sydney Morning Herald, 10th September 2009, <<https://www.smh.com.au/business/supermarket-sleuth-says-data-is-everything-20090909-fhow.html>>, accessed 14th May 2019.

³⁸ Eckersley, Nicole, "Coles buys out NAB's share of Flybuys", Australian Food News, 17th February 2011, <<http://www.ausfoodnews.com.au/2011/02/17/coles-buys-out-nabs-share-of-flybuys.html>>, accessed 7th April 2019.

³⁹ Kermond, Clare, "Millions targeted in Coles relaunch of Flybuys scheme", The Sydney Morning Herald, 20th April 2012, <<https://www.smh.com.au/business/millions-targeted-in-coles-relaunch-of-flybuys-scheme-20120419-1xa58.html>>, accessed 7th April 2019.

The relaunch was designed to increase their competitiveness against the Woolworths-Qantas Frequent Flyer partnership. *flybuys* identified and played to several competitive advantages. Firstly, they were able to expand their coalition of earn partners, something Woolworths Everyday Rewards could not replicate because of their partnership with Qantas Frequent Flyer. While *flybuys* was a coalition loyalty scheme which could allow third-party partners to buy points to give to members, Woolworths Everyday Rewards was a third-party partner for Qantas' coalition loyalty scheme – this had the effect that *flybuys* could earn incremental revenue from their program, while Everyday Rewards were denied this opportunity, providing *flybuys* with a financial advantage.

Secondly, *flybuys* points were cheaper for Coles to issue compared with Qantas Points for Woolworths. The cost of a *flybuys* point to Coles was 0.5c, compared to an estimated more than 1c for Qantas Points,⁴⁰ which allowed *flybuys* to promote double and triple points offers, which Woolworths could not match.

Thirdly, *flybuys* points were mostly redeemed on discounts at Coles, meaning the value of the points was being reinvested back into the business, making it more cost-effective than the Woolworths Everyday Rewards loyalty scheme, which required payment to Qantas Frequent Flyer for Qantas Points.

In 2013, Woolworths purchased a 50 per cent non-controlling interest in Sydney-based customer data analytics firm Quantum. The equity stake in Quantum was part of a strategy to put in place growth enablers by using customer insights to tailor its product range and come up with more effective promotions and marketing schemes. As part of the deal, Quantum was provided with access to 'Woolworths de-identified customer data, gleaned from its 8 million Everyday Rewards customer loyalty cards and credit and debit cards, to improve services to a wide range of clients including eBay, IAG, Telstra, Suncorp and Qantas'.⁴¹

Realising the competitive challenges, and inspired by their new data analytics capability from Quantum, Woolworths decided in 2014 to design a new approach to its loyalty scheme. One element of the strategy was dissolving the partnership with Qantas, which appeared to be too expensive to be sustainable if they were to compete with *flybuys*.⁴²

This led to the relaunch of Woolworths Everyday Rewards as Woolworths Rewards in October 2015.⁴³ The strategic intention was to deliver superior value to members by having the supermarkets reinvest the money previously spent on Qantas Points into a new currency, Woolworths Dollars, which members could earn by buying specific products. In addition, suppliers were persuaded to offer bonus Woolworths Dollars as a promotional tool

⁴⁰ The Checkout, ABC1 'GRIM TALES: JACK AND THE FREQUENT FLYER POINTS' <<https://www.youtube.com/watch?v=OEcZih6qUT0>>, 20th March 2014.

⁴¹ Admin, "Woolworths Limited acquired a non-controlling 50% interest in Sydney customer data analytics firm Quantum for A\$20m", Technology Transactions, 1st May 2013, <<http://tmt-transactions.com/woolworths-limited-acquires-a-non-controlling-50-interest-in-sydney-customer-data-analytics-firm-quantium-for-a20m/>>, accessed 7th April 2019.

⁴² Silmalis, Linda, "Woolworths ditches Qantas rewards tie-up as shoppers complain of 'points fatigue'", The Sunday Telegraph, 25th October 2015, <<https://www.news.com.au/finance/business/retail/woolworths-ditches-qantas-rewards-tieup-as-shoppers-complain-of-points-fatigue/news-story/154e5f5e3a36f9894d43ea670e2abf03>>, accessed 7th April 2019.

⁴³ Woolway, Madeline, "Woolworths launches new rewards program to mixed reaction", C & I, 28th October 2015, <<https://www.c-store.com.au/2015/10/28/woolworths-launches-new-rewards-program-to-mixed-reaction/>>, accessed 8th April 2019.

and as an alternative to straight price discounts. Members no longer earned by purchasing any item in the store. Instead they only earned on products identified by orange tickets.

Within days of launch, Woolworths received sustained negative feedback via social media and press.⁴⁴ Members and industry observers reported few products displaying orange tickets, meaning the potential to earn Woolworths Dollars was limited. Media reports included images of member's supermarket receipts showing several hundred dollars of spend with just a few cents of Woolworths Dollars earned. There was also negative feedback from members about the removal of Qantas Points earn, which had been widely popular.⁴⁵

flybuys during the same period managed to successfully negotiate hundreds of supplier-funded bonus points offers, meaning *flybuys* members could earn points on all items in Coles supermarkets and were provided with the opportunity to earn bonus points across a large range of products.

Woolworths responded in August 2016 with further loyalty scheme changes which included the introduction of a new currency, Woolworths Points, which could be earned on all products, and the ability to either redeem the points for discounts on groceries or transfer them into Qantas Points. This move helped Woolworths regain many of the members who had disengaged from the loyalty scheme. Their partnership with Quantum was also harnessed to deliver individualised marketing promotions to their millions of members *flybuys* responded in October 2016 with a new partnership with Velocity.

As a result, the Australian loyalty scheme industry has the four biggest loyalty schemes locked in competing partnerships; *flybuys*-Velocity Frequent Flyer on one side and Woolworths Rewards-Qantas Frequent Flyer on the other.

⁴⁴ Mitchell, Sue, "Woolworths loyalty program comes up short", The Sydney Morning Herald, 13th April 2016, <<https://www.smh.com.au/business/companies/woolworths-loyalty-program-comes-up-short-20160413-go5axt.html>>, accessed 8th April 2019.

⁴⁵ Mitchell, Sue, "Woolworths loyalty program comes up short", The Sydney Morning Herald, 13th April 2016, <<https://www.smh.com.au/business/companies/woolworths-loyalty-program-comes-up-short-20160413-go5axt.html>>, accessed 8th April 2019.

3. The design of loyalty schemes

This chapter details different loyalty scheme designs used by major companies within Australia and specifically focuses on:

- Common loyalty scheme design elements
- Loyalty scheme psychology
- Member lifecycle management approaches
- Loyalty scheme technology.

This chapter also provides additional insight into points and non-points based loyalty scheme designs and the different ways they can be implemented within the Australian loyalty scheme landscape to drive member engagement, customer growth and retention, and build their valuable marketing databases.

3.1. Australian loyalty schemes designs

The breadth of loyalty scheme designs in Australia is significant. Major designs include points-based loyalty schemes and member benefits loyalty schemes.

Points-based loyalty schemes reward members with points (or other reward currencies) which they earn by spending with the business and/or its participating partners. Points can be accumulated by members and be redeemed for rewards or discounts on products from within the business or its network of participating partners and reward suppliers. Points are generally earned on each dollar spent and are allocated a specific value when earning and redeeming. Having points earned tied directly to a dollar value makes this loyalty scheme design simple for consumers to understand and engage with. Points-based loyalty schemes are very popular in Australia, being adopted by many industries including airlines, supermarkets, retail, hotels and cinema loyalty schemes.

Member benefits loyalty schemes give members access to a range of different benefits which may include:

- **Member benefits online portal:** Host a range of different discount offers on categories like gift cards, accommodation, experiences and restaurants.
- **Exclusive invitations:** Access to VIP events, ability to skip the queue, competitions and gifts.
- **Additional savings:** By providing proof of membership, the member can access additional savings not available to non-members.
- **'Money can't buy' experiences:** Access to meet-and-greets, exclusive tickets and events.
- **Allocation of status tiers:** By allocating customers a status tier based on spend, this may unlock additional value for higher tier members such as priority boarding within the airline industry, a higher value birthday voucher in the retail industry or a bonus night accommodation in the hotel industry.

Some member benefits loyalty schemes give all members access to their range of benefits, some require members to pay for access to benefits, others are based on spend or status

tiers where status level is determined by the length of time the member has been a customer and/or how much they spend.

To understand the breadth and depth of major loyalty scheme designs, it is useful to review the various designs at an industry level. This is because loyalty schemes tend to be homogenous within different industries. This appears to be partly a result of certain designs suiting specific industries, but also a result of competitors within each industry observing and replicating each other to neutralise their rivals advantage.

Some industries, such as financial services, support multiple loyalty scheme approaches, while most other industries tend to focus on one or two dominant designs.

Table 1, below, outlines the major industries within Australia, the dominant brands within each industry and the type of loyalty scheme design typically used by these brands to drive member engagement.

Table 1: Common loyalty scheme design elements across industries in Australia

Industry	Company name(s)	Scheme name(s)	Dominant scheme design element(s)
Airlines	Qantas Virgin Airlines	Qantas Frequent Flyer Velocity Frequent Flyer	Customers are rewarded for their loyalty with points and status credits which they earn through flights, spending with participating retail partners and using (co-)branded credit cards. Members can redeem their points for flights, flight upgrades, or non-flight rewards like hotels, car hire, gift cards and rewards products from the scheme operator's online rewards store. Increasingly, members are also able to spend their points directly with participating retailers. Status credits unlock status tiers which provide members with exclusive benefits when they fly, such as lounge access, priority boarding and bonus points.
Supermarkets	Woolworths Coles	Woolworths Rewards <i>Flybuys</i>	Members accumulate points when they spend on grocery items or with retailers within their coalition partner network. Points can be redeemed for shopping discounts, discounted gift cards or consumer goods. Woolworths Rewards members can earn Qantas Points and <i>flybuys</i> members can transfer their points into Velocity Points.
Hotels	Hilton Marriott Intercontinental Hotels group	Hilton Honours Marriott Bonvoy IHG Rewards Club	Schemes use a combination of member benefits, points and status tiers. The member benefits include members-only rates, free internet access and keyless mobile check-in via the app. As members spend, they are allocated a status tier which unlocks additional value such as free nights and complimentary breakfasts. Points are also earned for every dollar spent within the hotel and its network of partners and can be redeemed within the partner network or donated to charity.
Retail	Priceline Myer Spotlight IKEA Dan Murphy's Sephora	Priceline Sister Club Myer One VIP Club IKEA Family My Dan Murphy's Beauty Pass	The variety of loyalty schemes within retail is particularly broad. At a high level, two types of reward mechanism are used; points or member discounts. Members of these schemes generally have access to additional exclusive savings, VIP events, competitions and gifts. Some schemes incorporate status tiers, which are achieved based on annual spend.

Industry	Company name(s)	Scheme name(s)	Dominant scheme design element(s)
	Mecca	Beauty Loop	
	Adairs	Linen Lovers	
	Amcal	Amcal Rewards	
	Country Road	Country Road Cardholder	
	Dymocks	Dymocks Booklover	
	EB Games	EB World	
Telecommunications	Telstra	Telstra Thanks, Telstra Plus	Members are provided with access to member benefits portals which host a wide selection of exclusive rewards such as pre-sale sporting or music events and discounts on experiences and products. In May 2019 Telstra launched a new points and status tiers model.
	Optus	Optus Perks	
Financial Services	Westpac	Westpac Altitude	This industry has long been using credit card loyalty schemes where members earn points for everyday purchases, which can be redeemed online for consumer goods and gift cards. Some schemes also provide the opportunity for members to redeem with third-party partners. Card-linked offers enable operators to link a special offer or discount directly to a consumer. The discount is applied automatically at the point of sale when the linked debit or credit payment card is swiped. These loyalty schemes also provide exclusive early bird or discount offers to members for events and experiences.
	CBA	CommBank Awards	
	ANZ	ANZ Rewards	
	NAB	NAB Rewards	
	American Express	Membership Rewards	
Insurance	NRMA	NRMA Blue	Members have access to special offers and benefits from hundreds of partners. Some require members to pay for access to all the offers listed on the platform. Others are based on status tiers where status level, and therefore the types of benefits available to the member, is determined by the length of time the member has taken out a policy.
	BUPA	BUPA Plus	
	HCF	HCF Thank You	

Industry	Company name(s)	Scheme name(s)	Dominant scheme design element(s)
	NIB	Be Rewarded	
	Medibank	Medibank Offers	
	Youi	YouiRewards	
Utility	AGL	AGL Rewards	AGL Rewards is a member benefits loyalty scheme offering access to special offers and benefits from hundreds of partners. Members can access gift cards, movie tickets, accommodation, experiences and restaurants. AGL also offer members <i>flybuys</i> points, while Red Energy offer Qantas Points and Energy Australia Velocity Points.
	Red Energy		
	Energy Australia		
Cinemas	Event Cinemas/Village Cinemas	Cinebuzz Rewards	These loyalty schemes issue their own reward currencies which are accumulated based on spend and other desired actions like purchasing tickets online, using the app or reviewing a movie. The reward currencies can be used to access free tickets and Candy Bar items. Members of the loyalty scheme have access to additional benefits such as advanced screenings and member only promotions and pricing.
	HOYTS	HOYTS Rewards	
			Hoyts Rewards have an optional paid membership tier which unlocks additional benefits for the premium consumer. They have also partnered with Qantas as both an earn and redemption partner.
Quick service restaurants (QSR) and cafes	McDonalds	mymacca's	Rewards are issued in the form of discount coupons or points. Members are often encouraged to download a branded app to access member exclusive discounts, skip the queue or partake in competitions. Some of these loyalty schemes also have their own reward currencies which can be tracked and managed from within the brands' respective apps. Members can generally redeem points on free food and drinks.
	Domino's	Domino's Rewards	
	Starbucks	Starbucks Rewards	

3.2. Loyalty scheme psychology

There is a significant amount of consumer psychology incorporated into loyalty scheme design, which is applied by loyalty scheme operators in an ambition to drive deeper engagement between members and the company operating the scheme and its participating merchants.

This section details some of the main psychological research and insights applied to loyalty scheme design and operation.

Operant conditioning

Operant conditioning is a method of learning that occurs through rewards and punishments for behaviour. Through operant conditioning, an individual makes an association between a particular behaviour and a consequence.⁴⁶ The central tenet of this theory is 'reinforcement'. Behaviour which is reinforced tends to be repeated, while behaviour which is not reinforced tends to fade away.

Promoting a reward to members in return for specified behaviours and then rewarding them for those behaviours is aimed at encouraging members to keep engaging in the desired way. For example, if a member is offered bonus points for spending with a certain retailer, and they earn those bonus points when they transact, they are likely to repeat the behaviour, especially if they value the accumulation of points.

A key insight here is that not all points are equal. While many loyalty schemes reward members with points, some are more desirable than others. In particular, the large airline, bank, supermarket and hotel schemes have been successful in developing highly-desirable loyalty currencies which are attractive enough to influence members to adjust where they shop in order to accumulate more. This makes them very effective as a marketing device.

Social identity theory

Psychology has demonstrated that consumers do not just feel emotional connections to preferred brands, but they adopt them as part of their identity. In 1978, Henry Tajfel proposed social identity theory;⁴⁷ a person's sense of who they are is based on their membership of different groups. Tajfel theorised that groups which people belonged to as social classes (such as sporting teams, families, groups of friends, workplaces etc) were an important source of pride and self-esteem. He determined that groups give individuals a sense of social identity and a sense of belonging to the social world.

Bhattacharya and Sen took this further by exploring social identity theory as it related to brands.⁴⁸ They proposed that 'strong consumer-company relationships often result from consumers identification with those companies, which helps them satisfy one or more important self-definitional needs'. In other words, consumers connect with brands in much the same way they connect with their social class, sporting teams and friendship groups, and

⁴⁶ Skinner, B.F, "Classics in the History of Psychology", Journal of Experimental Psychology, 1948, Vol 38, page 168-172.

⁴⁷ Tajfel, H. & Turner, J. C., "An Integrative Theory of Intergroup Conflict", The social psychology of intergroup relations, 1978, page 33-47.

⁴⁸ Bhattacharya, C.B. and Sen, S., "Consumer-Company Identification: A Framework for Understanding Consumers' Relationships with Companies", 2003, Vol 67, page 76-88.

the brand plays a critical role in making them feel better about themselves by increasing their self-esteem.

For loyalty scheme design, a loyalty scheme which serves to make the member feel a sense of exclusivity and belonging can play a central role in the member adopting the brand (sub-consciously or otherwise) as an element of their own self-definition.

An example of the application of this theory within loyalty schemes is status tiers. A Platinum Frequent Flyer member is provided with free lounge access, is invited to board the plane first, is rewarded with bonus points and can even be rewarded with free upgrades. By recognising and rewarding the member, while making them feel they belong to something meaningful, the loyalty scheme may help the member enjoy a boost in their self-esteem which can lead to the establishment of an emotional connection with the company or brand.

Similar design elements are common among hotel and bank loyalty schemes, although they are not yet a feature of supermarket schemes. Many other loyalty schemes also incorporate tier-based elements in an attempt to tap into the power of social identity theory.

Status tiers can also act to engender 'stickiness' between the member and the loyalty scheme. A member who has achieved a status tier for a specific company is much more likely to continue spending with that company, as the switching costs include losing access to those desired benefits. This may even occur when the company is charging a higher price for a similar, or the same, product as a competitor, a phenomenon which will be explored in more detail later in this report.

Endowed progress effect

Certain loyalty schemes tap into a psychological phenomenon known as the Endowed Progress Effect. This was demonstrated by Nunes & Dreze in a research study in 2006 using a rewards framework.⁴⁹ The study involved setting up a 'coffee card' type loyalty scheme at a car wash where members could earn a free wash by collecting stamps on their loyalty card. Nunes & Dreze divided participants into two groups; for the first group, members needed to collect ten stamps, but the card already had two 'free' stamps on it. The second group were only required to collect eight stamps but did not receive any free stamps. Thus, both groups required eight stamps to claim their free wash.

The first group with two 'free' stamps recorded a reward redemption rate of 34 per cent and came back more often. The second group saw a redemption rate of just 19 per cent. The conclusion — members provided with artificial advancement toward a goal exhibit greater persistence toward reaching the goal. In other words, when consumers feel like they have started on the journey towards a reward, they feel compelled to complete the journey to claim the reward.

Points and stamps serve to drive repeat purchase because the member is accumulating with each transaction, giving them a sense they are progressing towards a goal. Loyalty scheme operators take advantage of this drive in a variety of ways: by providing bonus points to new members to get them started on the journey, by communicating to members their progress towards their goal and by promoting the desirable reward they will earn if they complete the journey.

⁴⁹ Nunes, J. & Drèze, X., "The Endowed Progress Effect: How Artificial Advancement increases Effort", Journal of Consumer Research, 2006, Vol 32, Issue 4, page 504-512.

Goal gradient effect

First reported by Hull in 1934,⁵⁰ this effect states that the tendency to approach a goal increases with proximity to the goal. Hull found that rats in a straight alley ran progressively faster as they proceeded from the starting box to food.

In 2006, Kivetz, Urminsky and Zheng utilised a coffee card reward scheme experiment to demonstrate this effect on consumers.⁵¹ They reported that members of a café reward scheme were prone to purchase coffee more frequently the closer they were to earning a free coffee.

The same phenomenon can be observed in loyalty scheme status points earn, where members have been seen to increase their consumption (more flights, more stays, more rentals) as they approach the next status tier in order to achieve it sooner.⁵² Loyalty schemes have the opportunity to capitalise on this insight by promoting bonus status points offers to members as they approach a tier threshold in order to stimulate a boost in purchase behaviour.

Size heuristics

Size heuristics relates to the theory that consumers do not have the capacity, time or motivation to recognise and evaluate all the available information in our complex environment.⁵³ Instead, people use heuristics (mental short cuts) to efficiently deal with this complexity. When consumers are deciding on the 'size' of a thing, they will typically look for something to tell them how big that thing is. In doing this, they will typically mistake 'lots' for 'big'. The quantity of things can seem like a lot. For example, a pile of two hundred 5c coins can somehow seem more than a ten dollar note.

This is a psychological effect exploited by points-based loyalty schemes, which use it to make the reward provided to the member appear bigger than it really is. If a member spends \$100 with a retailer and that retailer rewards them with 1 per cent of the total spend, then the member will receive \$1 of value back, which may not sound very rewarding. But if it is part of a loyalty scheme, the member can earn one hundred points (at 1c per point equal to \$1). From a member perspective, one hundred points can be perceived as a significantly greater reward than \$1, making them feel that the value of the reward they have received is more beneficial.

Loyalty schemes often run competitions where members can win, for example, one million points. The loyalty scheme is utilising size heuristics. The actual value for one million points of an airline loyalty scheme may be less than \$10,000. Thus, using points is an effective way for loyalty schemes to promote lots of value without it costing them excessively.

⁵⁰ Hull, C.I., "The rats' speed of locomotion gradient in approach to food", Journal of comparative psychology, 1934, Vol 17, page 393-422.

⁵¹ Kivetz, R., Urminsky, O., & Zheng, Y., "The Goal-Gradient Hypothesis Resurrected: Purchase Acceleration, Illusionary Goal Progress, and Customer Retention", Journal of Marketing Research, 2006, Vol 43, page 39-58.

⁵² Graham, Matt, "Five Qantas Status Runs", The Australian Frequent Flyer, 14th May 2018, <<https://www.australianfrequentflyer.com.au/qantas-status-runs/>>, accessed 9th April 2019.

⁵³ Changing Minds, The Size Heuristic, <http://changingminds.org/explanations/decision/size_heuristic.htm>, accessed 29th May 2019

Surprise and delight

As a technique for driving deeper member engagement, surprise and delight is powerful from a consumer psychology perspective. Several psychological studies suggest that when a customer's expectations are met, they will be satisfied and when a customer's expectations are exceeded, they will be slightly more satisfied, but when a customer is surprised and delighted their satisfaction levels will be substantial.

Loyalty schemes can apply surprise and delight to help generate an emotional connection with a company or brand. As the research shows, if executed well, these can be powerful in generating genuine member loyalty.

There is evidence to suggest surprise and delight activity can also positively improve a customer's perception of a brand. Regan from Cornell University ran a study where a participant provided an unexpected bottle of Coca-Cola to the subject.⁵⁴ Subjects reported liking the person giving the free Coke more than when no Coke was provided. Furthermore, subjects felt more obliged to return a favour to the participant when they had accepted the drink. This highlights another benefit of surprise and delight approaches — if a member receives an unexpected benefit from a company, they may feel an obligation to transact with the company to reciprocate.

Most importantly, delighted customers have been shown to demonstrate higher loyalty to a company. Berman reported significantly higher levels of loyalty from delighted versus satisfied customers, stating that: 'potential positive consequences of delight include lower costs due to increased word-of-mouth promotion, lower selling and advertising costs, lower customer acquisition costs, higher revenues due to higher initial and repeat sales, and long-term strategic advantages due to increased brand equity and increased ability to withstand new entrants.'⁵⁵ Berman cites one study where 'Mercedes-Benz USA found that the likelihood that a client who is dissatisfied with the service at a retailer will buy or lease from the same retailer is only 10 per cent. Mere satisfaction produces a 29 per cent likelihood of rebuy or re-lease. However, the likelihood of a delighted client rebuying or re-leasing is 86 per cent.'

Applications of surprise and delight campaigns within Australian loyalty schemes include premium airline and banking scheme members receiving periodic gifts, telecommunications customers being invited to select from a range of rewards and supermarket scheme members being positively surprised at the check-out with a \$10 discount off their bill because they have accumulated enough points.

3.3. Member lifecycle management approaches

A significant advantage loyalty schemes provide to the companies who operate them is the ability to track the lifecycle engagement of an individual. If a repeat customer transacts with a company but does not belong to their loyalty scheme, the company's data and analytics will likely perceive their transactions as being made by several customers, rather than a single individual. If the same customer is a member of the loyalty scheme, the company can track each individual's engagement, build a comprehensive profile of the member, and use that profile to develop a personalised management strategy, thereby increasing the

⁵⁴ Regan, R., "Effects of a favor and liking on compliance", Journal of experimental social psychology, 1971, Vol 7, page 627-639.

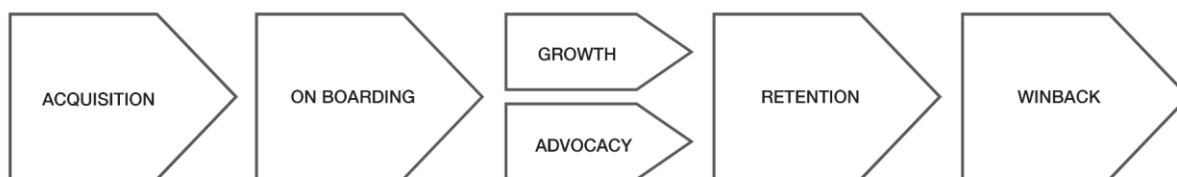
⁵⁵ Berman, B., "How to delight your customers", California Management Review, 2005, Vol 61, Issue 1, page 129-151.

likelihood they will feel recognised, rewarded, valued and appreciated, and continue to transact with the company.

A common member lifecycle management approach uses data and analytics to develop a segmentation model. Different segments can be managed in a way which recognises their current lifecycle position, while attempting to transition them to a more ideal lifecycle segment which is more profitable for the company. For example, a member in the Retention phase may be targeted with specific offers to reduce the likelihood they will churn, and by doing so transition them to the Growth phase.

A standard member lifecycle management approach focuses on six key areas,⁵⁶ as demonstrated in Figure 1. The presented member lifecycle management model is relatively simple. More complex models are also used by Australian loyalty schemes. In these more complex models, the member segments are more granular, allowing for better insight and communication approaches. Such a model may have standard acquisition and on-boarding segments as well, but members are segmented into whether they have made a single purchase or multiple purchases. Multiple purchase members can be further divided in to segments based on spend within a specified time period. However, broadly, even these more complex models follow the standard member lifecycle management approach. Each stage in the lifecycle is described below.

Figure 1: Standard member lifecycle management approach



Source: Loyalty & Reward Co

Acquisition

Well-designed loyalty schemes are simple to join, understand and engage with. Most loyalty schemes in Australia require members to register by providing at a minimum their first name, surname, email address and a password, and to agree to standard terms and conditions and a privacy policy. Some loyalty schemes may ask for more information in order to build a better profile of the member (for example, date of birth, postcode, gender, etc).

Some loyalty schemes provide only a single option for members to join, while others will present prospective members with a range of different channels and options to join in an attempt to increase the loyalty scheme's effectiveness in acquiring new members. Common ways in which members can join loyalty schemes in Australia include the following:

- **In-store registration:** Often with these processes the member is provided with a plastic membership card, although **digital** cards which can be stored in digital wallets are becoming more prevalent. The member may be asked to fill in a paper form, with the details entered into a database at a later date. The member may be provided with a

⁵⁶ Shelper, Philip, "Blockchain Loyalty: disrupting loyalty and reinventing marketing using blockchain and cryptocurrencies", 2nd Edition, Australia: Loyalty & Reward Co Pty Ltd, 2019.

registration pack and directed to complete their registration online. The cashier may ask the member for their registration details and enter them directly into the loyalty system to complete the registration in-store. The cashier may ask the member for their mobile number or email address to enter into the loyalty system, then an email or text message can be sent to the member with a link to click to access a web page where they can complete their registration.

- **Online registration:** The new member accesses a web page to register for the loyalty scheme. This may be as a separate action or as part of an online shopping journey. The loyalty scheme may send the member a join pack in the mail containing a membership card and educational/promotional material.
- **App download:** The new member downloads an app and completes the registration process within the app. This will likely include them being asked to provide approval to receive notifications and track their location, among other permissions.
- **Credit or debit card linking:** As part of the online or app registration process, the new member is required to link their account to their credit or debit card. When paying with the card at participating retailers, the transaction is automatically captured, meaning there is no need for another member card or app download. Alternatively, the member may process a payment directly through the app.

On-boarding

Loyalty schemes attempt to help new members secure their first reward as early as possible in their lifecycle via effective educational and offer-based communications.

Early meaningful interactions can have a profound impact on the longevity of a loyalty scheme member.⁵⁷ Many Australian schemes have implemented on-boarding processes to welcome and educate new members about the loyalty scheme in an attempt to stimulate engagement soon after the registration process.

The core strategic aim of an on-boarding process is to lead a new member towards their first reward. For example, if a new member successfully registers, earns points for transacting, then redeems those points for a reward, they have worked through the earn and redeem cycle once, are likely to understand how it works, and consequently there is an increased likelihood of further engagement with the loyalty scheme by the member.

Growth

The opportunities to stimulate incremental spend by members via well-designed loyalty schemes are numerous. Specific to points loyalty schemes, engaged members desire to earn more points, so many campaigns promote bonus points offers to stimulate member spend. Within member benefits loyalty schemes, members are motivated by discounts, therefore the focus to grow engagement often revolves around highlighting the savings which members can access from third-party partners.

A well-operated loyalty scheme will deliver personalised communications to ensure members primarily receive offers which are relevant to them. The use of data in loyalty

⁵⁷ Murphy, Lincoln, "The Seeds of Churn are Planted Early", Sixteen Ventures, 16th March 2013, <<https://sixteenventures.com/seeds-of-churn>>, accessed 9th April 2019.

schemes to deliver more relevant messaging and offers is increasing in Australia, and covered later in this report.

Advocacy

Loyalty schemes often attempt to harness member advocacy to grow their scheme's database. Loyalty schemes engage in a variety of activities in this area, including incentivising members to follow and share on social media, and rewarding them for inviting family and friends to join the loyalty scheme.

Retention

Loyalty schemes may monitor member engagement and identify members who are showing signs of disengagement (i.e. lapse in transactions, or lapse in engagement with marketing collateral). These signs can often be a precursor to the member ceasing any involvement with the loyalty scheme altogether, so loyalty scheme operators will look to respond as early as possible with retention campaign activity.

Data analytics are used to allow the loyalty scheme operator to determine warning signs. One such sign may be where the member spends their entire points balance on a reward and does not quickly follow this with more earn activity. Another might be a gradual reduction in their points-earn activity. A further sign may be an increase in calls to the loyalty scheme's call centre which require some form of issue resolution.

To offset the loss of a valuable member, the loyalty scheme operator will attempt to understand why the member is behaving in that way and try to reengage them by: running a new campaign, rectifying an issue, providing better service, matching a competitor's offer, or boosting value by providing bonuses. Loyalty scheme operators may also try to tease out potential irritants which may trigger a disengagement event, implement analytics to track and identify affected members and develop solid strategies to address the irritants. Examples of irritants may include missing points, delayed flights, a poor service experience, a lack of available reward seats or other issues where the member's experience falls short of their expectations.

Winback

Members sometimes choose to cease interaction with a loyalty scheme. One major reason is they do not perceive they are accessing meaningful value. Another is they may not feel an emotional connection with the brand. They may find interacting with the loyalty scheme to be too complicated and onerous. Or they may have changed their career path (different role or retirement) or life path and no longer need to consume the product or service offered.

Inevitably, a loyalty scheme will end up with a percentage of their member base who are completely inactive, but the opportunity still exists for the loyalty scheme to attempt to win them back.

The winback process generally starts with experimentation. Loyalty schemes may try a variety of different campaign approaches to determine which is most effective, with a strategy to stimulate a simple engagement from the member, then build on the successful response.

3.4. Loyalty scheme technology

Loyalty IT platforms have traditionally been expensive and lacking in flexibility, but in recent years a variety of high-quality, cost-effective platforms have entered the market, delivering companies the ability to better realise their innovative visions, while making the loyalty technology industry very competitive.

Some of the best platforms available are less than five years old and have been designed for easy Application Programming Interface (API) integration with other systems and provide highly complex campaign capability, app and digital wallet support, automated machine-learning marketing capabilities and extensive analytics functionality.

The purpose of the technology

A loyalty platform is ultimately a rules engine and the better platforms can support complex rules supporting all manner of campaigns, earn promotions and tier schemes. The loyalty scheme operator can feed in different transaction data (such as the date and time, product Stock Keeping Unit (SKU), cost and retailer), personal data (such as a member identifier, demographic data and status tier) and offers, and the platform can apply a range of rules in real time to deliver a variety of specified outcomes designed to generate member engagement. This may be bonus points, cashback, new status tiers, product discounts or many other outcomes.

Platforms can support multi step campaigns, whereby the member must complete a series of transactions and tasks to unlock a benefit, with each step tracked and recorded as they progress. This type of platform allows for advanced gamification campaigns and is useful for supporting automated member lifecycle marketing approaches.

Types of loyalty solutions

Loyalty platform solution providers can be categorised into three main groups; full-service loyalty solutions, partial-service loyalty solutions, and off-the-shelf loyalty solutions.

Full service loyalty solutions are provided by specialised loyalty agencies who deliver everything required to run the loyalty scheme as part of an outsourced approach. Services include delivery of a loyalty scheme website with the client's branding, the back-end platform holding member accounts and points balances, status tier and profile data, customer service support, analytics processing, supply of reward products, account management, consulting services for the future evolution of the loyalty scheme and full lifecycle marketing management with trigger emails at key points of the member journey. With this type of model, the client rarely has direct access to the platform itself, as it is limited to agency personnel.

Partial service solutions are typically part of a smaller agency that is focused more on the technology rather than a full service offering, but with the option to provide additional support if required. This solution usually allows the clients to have direct access to their platform, because the partial-service model means that these platforms do not run the entire loyalty scheme.

Off-the-shelf platforms come with an extensive array of features and functions that will deliver to most needs of a client looking to launch a loyalty scheme or replace the legacy platform of their existing loyalty scheme. The front-ends are designed to be easily configured

to match the look and feel of the client's website, and the back-ends have interfaces to set-up the loyalty scheme with earn and redemption rules as required. Some of these platforms have rich marketing capabilities, including automated multi-step campaigns which adjust dynamically based on how members respond, and machine-learning communications modules for multi-channel marketing. They also include data dashboards allowing for tracking of member engagement.

Key current technology capabilities

Broadly, the key current technological capabilities of loyalty platforms may include the capabilities detailed in Table 2, below, depending on the aims and structure of the scheme.

Table 2: Key current technological capabilities of loyalty scheme IT platforms

Capability	Description
Loyalty Interfaces	Applications which facilitate setting earn rates for a variety of member actions, calculating points conversion, awarding points, processing redemptions and managing balances.
Data Access	Transaction and real-time data to support the generation of member insights, either within the platform or via the client's own analytics engine, which can be applied to stimulate member engagement.
Omnichannel Support	Allows the member to engage with the loyalty scheme via different channels such as in-store, website, app and call centre and provides the loyalty scheme operator with a single view of their engagement.
Campaign Rules Programming	Ability to code business rules to automatically calculate outcomes based on different actions or series of actions.
Development Functionality	Ability to configure or build a website, app or web app in the client's branding. This provides member access to their account to view their profile and account balance, browse and redeem rewards, access additional earn options and other features.
Rewards	An e-commerce store which allows for rewards to be featured with images, descriptions and pricing, and the ability for members to add to their shopping cart and check-out using their reward currency. Often rewards are delivered to the member by third-party suppliers, meaning the platform can automatically send an order to the supplier, and reconcile when the supplier confirms the order has been delivered.
Segmentation	The ability to segment members based on available data profiles for analytics and targeted marketing purposes.
Liability Management	A set of tools that summarise the key financial metrics of a scheme, such as how the redemption rate compares to what has been forecast. These tools provide the ability to tweak earn and redemption rates from a cost per point perspective, meaning that some redemption options can be increased or decreased in value to shift member behaviour in a certain way.
Points Exchange	Ability to exchange points between other loyalty schemes.
Gamification	Ability to configure elements which are designed to stimulate certain desired behaviours from members, such as providing more personal details, transacting with new earn partners or following on social media. Members are rewarded with

Capability	Description
	additional benefits such as points, discounts, prizes, value-adds or the ability to play games such as spin the wheel or digital 'scratchies'.
Digital Marketing	From triggered events to multi-step campaigns, the platform incorporates a full suite of marketing communications, with the ability to set-up and trigger electronic direct mail (e.g. "We miss you" for a member who has not earned any points in the past 3 months) and much broader communication capabilities. Newer platforms incorporate some level of machine-learning capability which can automatically generate individualised marketing communications across multiple channels based on a member's specific profile. This can also extend to membership lifecycle marketing communications which automates on-boarding, growth, retention and winback activities.
Customer Service	A front-end interface which provides customer service staff with access to the member's account details, profile, past correspondence and other interactions to help guide them in supporting as required. Generally, the system allows multiple access tiers to increase the security around member data, with customer service staff only being provided with essential information, while more senior management can access a full profile.
Reporting	A data dashboard which allows the user to select from a set of pre-established reports (e.g. total points earned over x period), through to any custom report that a user can design, based on any available data within the platform.
Predictive Modelling	A tool which allows the import of past consumer data into the platform, which is then analysed to establish trends. Based on those trends, an algorithm predicts what type of offer and/or messaging the member is most likely to engage with. In some platforms, this could also be supported by AI and machine-learning capabilities, which require less input from a user of the platform and continually learn and evolve over time.

3.5. Technological innovation and emerging capabilities

Extensive innovation within the loyalty scheme industry has led to the development of a wide range of other types of platforms and solutions, which are explored below. These can be used to enhance existing platforms or implement different types of schemes altogether. All of the technology covered in this section is currently in market in Australia.

Artificial Intelligence (AI) and machine-learning communications

Advances in personal data collection techniques, data science and computing are allowing specialised data agencies working on behalf of loyalty schemes to develop, analyse and monetise datasets, generate insights, create decision support tools and embed automated decision engines into loyalty platforms.

These agencies employ teams of actuaries, statisticians, data scientists, product leaders, strategy consultants, software engineers, delivery managers, industry experts, designers, and futurists to capture, process and apply data on behalf of large loyalty schemes seeking deeper member engagement, optimisation of marketing spend and a competitive edge.

Some of the services provided include in-depth analysis of brand and product performance, advertising performance analysis, identifying high-priority shoppers and profiling their

behaviour, developing unique member profiles and delivering individualised marketing communications to millions of members.

Woolworths Rewards, which utilises this technology, reported their AI platform is designed to provide members with 'what they want, when they want it, where they want it – and at a price they're willing to pay for it.'⁵⁸ Their platform incorporates advanced algorithms which are used to send members a weekly email of hyper-personalised offers based on what they have bought in the past and what they are likely to buy in the future. As an example of the type of insight they have learned and applied to grow member spend, Woolworths Rewards identified that 'new products sandwiched between familiar products or brands are more likely to be bought and tried by consumers'.⁵⁹

Real-time personalised activations

Data technology agencies provide support to loyalty schemes using platforms which can identify individual members at the time they are engaging with a range of digital channels (such as e-commerce websites), access their profile information (encompassing hundreds of datasets) and automatically trigger an individualised promotion to stimulate a desired behaviour from the member.

The platforms use cookies,⁶⁰ member logins and other methods to track browsing and shopping behaviour. The platforms then harness AI and machine-learning to determine the right offer to provide to the member at the right time to maximise the chances of generating a specific outcome, which in most cases will be the purchase of a specific product or the completion of an online check-out. The approach is designed to optimise advertising spend by ensuring budgets are invested in activities which have the maximum impact.

Digital wallets and payments

Loyalty schemes can introduce payments and digital wallet capabilities via a white label app solution which allows members to hold everything in a single place. This feature allows members to use their loyalty account as an all-in-one wallet, which can support any established currency such as Australian Dollars, loyalty points and even a range of cryptocurrencies. The member can connect a bank account, a credit card, or store a cryptocurrency such as Bitcoin. The payments capability lets the member pay via their smartphone app, after selecting the funding source.

Many payments apps in the Quick Service Restaurants (QSR) industry allow members to register a credit card in the app. The member then selects the desired participating restaurant by opening the app and browsing the names by geolocation. Once the member orders at the restaurant, they open the app and select to pay via their registered credit card. The member informs the cashier that they would like to pay via the app and the transaction is completed without any physical exchange of cash or handing over a card. The process

⁵⁸ Maes, I., cited in Croft, L., *"We must treat data as a precious gift", says Woolies Exec*, 1st March 2018, <<http://www.bandt.com.au/marketing/must-treat-data-precious-gift-says-woolies-exec>>, accessed 10th April 2019.

⁵⁹ Maes, I., cited in Croft, L., *"We must treat data as a precious gift", says Woolies Exec*, 1st March 2018, <<http://www.bandt.com.au/marketing/must-treat-data-precious-gift-says-woolies-exec>>, accessed 10th April 2019.

⁶⁰ Cookies are small files which are stored on a user's computer which are designed to hold a modest amount of data specific to a particular user and website, and can be accessed either by the web server or the client computer. This allows the server to deliver a page tailored to a particular user and track how that users engages with the website, which may provide valuable data to loyalty schemes.

also allows for personalisation because the app provides the retailer with the member's name which can be attached to the order without the need to request it.

Receipt scanning apps

Receipt scanning capabilities allow a member of a loyalty scheme to take a photo of the entire receipt via their smart phone. In the back end, the information is broken down and translated into a digital record, all of which is stored against a member profile, thus providing insightful product purchase information. The loyalty scheme not only verifies that the member purchased their product, but also captures details of all the products the member bought in the same transaction.

Loyalty schemes can use this to personalise communications and offers to a product level, rather than just a transaction level. The member can be provided with rewards for their entire spend, or for buying specific products.

Loyalty card storage apps

A range of apps now allow consumers to store all their loyalty cards digitally, removing the need to carry plastic versions in their wallet. This allows quick access to any membership card that the member requires when transacting with a particular loyalty scheme.

Some of these apps have API connections to certain loyalty schemes, allowing them to access their points balances within the same app. As they hold the membership card for millions of members of different loyalty schemes, the app companies may provide marketing services to the loyalty schemes by sending offers directly through the app to members.

Blockchain

A blockchain platform can be integrated with a loyalty platform and retail partner platforms to facilitate secure, real-time, auto-reconciled transactions. This approach can provide advantages for major loyalty schemes which have large, expensive legacy systems. While the legacy systems can process enormous volumes of transactions with high stability, they are often inflexible, limiting the ability of the loyalty scheme operators to innovate. Back-end blockchain platforms can be connected to the system and allow campaign rules to be exported, allowing the operator to execute complex campaigns without having to develop or replace their legacy platform.

Blockchain enterprise solutions can also allow for easier on-boarding of third-party partners, and more efficient processing of transactions, which can reduce administrative overheads.

Many of the coalition loyalty schemes run on batch processing where the retailer sends a data file of the member transactions once a month, the loyalty scheme operator loads it into their platform, the points are deposited into the member's account and the loyalty scheme operator sends the retailer an invoice to cover the cost of the points. This means a delay for the member to receive their points, plus additional administration for the loyalty scheme operator to process invalid files, raise invoices and chase for payment. A blockchain platform can deliver real-time earn with auto-reconciliation, thereby reducing the costs of loyalty scheme operation while improving the member experience.

Blockchain can also be used to support a cryptocurrency loyalty scheme. This involves the member being rewarded with a cryptocurrency or cryptotoken instead of points. Several cryptocurrency loyalty schemes have launched in Australia in the past few years. While

they are still small compared to the major coalition loyalty schemes, the largest has over 200,000 members.

Net promoter score (NPS) platforms

These platforms leverage survey modules that are used to measure the Net Promoter Score of members. NPS is used in loyalty schemes to measure how favourably a member views the brand and how likely they are to recommend it to family and friends.

NPS usually involves sending the member a post-purchase communication inviting them to rate their satisfaction with the interaction they have just had by providing a score between one and ten.

Third-party aggregators

Some loyalty schemes provide third-party offers to their members such as discount movie tickets, gift cards, accommodation, experiences and more. To support this type of loyalty scheme, third-party aggregators have evolved to provide both a platform and the relationships with the offer providers such as gift card providers, cinemas, travel companies and experience companies. This can save a company years of work as the establishment of the relationships in particular can be time-consuming and expensive.

Members can transact online or present a membership card at a participating retailer to access the offer.

Card-linked platforms

Card-linked platforms have direct relationships with the major card payment providers (such as Visa and MasterCard) and allow retailers to set-up offers which can be linked to a consumer's credit card. When a consumer spends in-store or online using their credit card, the offer (generally cashback or points earn) is automatically triggered and applied without them having to also scan their membership card.

Some financial services companies have provided the option for their merchants to access a portal to configure their own offers. The offers are sent to customers, who can click to activate them. This ties the offer to their card, ready to be unlocked when they transact with the merchant. American Express has utilised a blockchain solution to support this feature, with a smart contract created when the merchant submits the offer.

Next best action platforms

By creating rich member profiles, loyalty schemes provide a foundation for the installation of a Next Best Action (NBA) platform. These are primarily used in call centres and prompt the call centre agent or sales agent to recommend a specific product to the member at the end of the call. For example, a member may call their bank to address an issue with their account, and at the end of the call the NBA system will prompt the call centre agent to recommend the member consider applying for a credit card which enables them to earn loyalty points. The recommendation provided by the NBA platform is based on all the data held against the member's profile, including their propensity for loyalty scheme engagement, their credit card usage history and current cards, their credit score, their preferred loyalty points (bank or airline) and many other datasets.

Stock keeping unit (SKU) capture platforms

New hardware solutions allow loyalty scheme operators to capture SKU data (i.e. a line by line summary of what items the member has purchased). Traditionally, this capability has been available primarily to supermarket schemes and other retail schemes which capture all the transaction data of individual members. Coalition loyalty schemes not run by supermarkets, such as frequent flyer schemes and bank schemes, generally do not have access to this data as the supermarkets and retailers do not share it with them.

The advantage SKU data provides is the loyalty scheme not only knows where a member is spending and how much they are spending, but also what they are spending on. They can use this information to build a more comprehensive profile of the member, as well as promote offers tied to the products they like in order to stimulate increased visits and spend. The loyalty scheme can also provide data services to third-party suppliers who are interested to understand the profile of their customers.

One hardware provider, PiCo, has created a black-box solution which plugs into any Point of Sale (POS) system to capture the SKU data. The data is sent to the cloud, where it can be fed into the loyalty scheme's platform for processing. The solution can also input personalised member discounts directly into the POS, and support earn and redemption activity, all without any direct POS integration.

Wi-Fi tracking platforms

Wi-Fi platforms allow a consumer to connect to the internet with their smart phone to avoid the costs of using their own mobile data. Common applications are in shopping centres, airports and sports stadiums, where loyalty schemes are creating new channels to engage their members.

Wi-Fi tracking platforms deliver some interesting capabilities:

- The ability for the consumer to login using social media sign-on (thus collecting their personal data).
- The ability to subsequently use that data to better profile the member at both a demographic and sociographic level.
- The ability to send targeted and real-time offers and promotions to an individual when they are at a specific location (via geolocation tracking).
- The ability to contextually analyse Wi-Fi usage to identify consumer areas of interest, brand affinity and purchase intent.
- The ability to track the location of not only consumers connected to Wi-Fi, but also any smart phones and tablets which automatically connect to the Wi-Fi platform.
- These platforms can be connected to a loyalty platform, which enriches the existing member data set by providing an additional layer of individual profile data.

Qantas Frequent Flyer disclose that they collect data about members when they use free Wi-Fi in the Qantas Lounge and on the aircraft. This includes information about the member

(the information they enter when accessing the service), their device and how they use the Wi-Fi service (such as the sites they browse).⁶¹

Beacons

Beacons (or iBeacons) work in a similar way to Wi-Fi tracking platforms but allow for more localised engagement. Essentially, a beacon is a small Bluetooth radio transmitter. A Bluetooth-equipped device like a smartphone can 'see' a beacon once it is in range. The key capability of this type of platform is to send coupons and offers to consumers via an app.

The beacon sends out its ID number about ten times every second (sometimes more, sometimes less, depending on its settings). A nearby Bluetooth-enabled device picks up that signal. When a dedicated app recognises it, it links it to an action or piece of content stored in the cloud and displays it to the consumer. Platforms can 'teach' the app how to react to a beacon signal.

Affiliate marketing platforms

These platforms allow advertisers to reward promoters (or 'affiliates') with a set amount of commission for each customer that they refer. This may be for a visit, but more commonly it is for a transaction. The affiliate marketing platform is responsible for acting as a middleman which tracks transactions and attributes the correct affiliate to the sale.

Affiliate platforms can be used in cashback type schemes, which have become quite popular in the Australian market. Some of the large coalition schemes also use this model to reward members with points when they transact via their online mall. The member logs in to their loyalty scheme account, selects the third-party retailer they wish to transact with and clicks on their logo. They are directed to the third-party retailers' site to transact. The affiliate marketing platform tracks their progress using cookies and organises the transfer of the affiliate marketing revenue from the third-party retail to the loyalty scheme.

Some loyalty schemes providing this option have launched browser extensions to make it easier for members to access opportunities to earn. By installing the extension into an internet browser, such as Chrome or Edge, the member will be reminded with a pop-up each time they visit a participating third-party retailers' website. They can click to activate the offer and cookies, then shop to earn.

As can be seen, the technology innovation in the loyalty industry is extensive and provides loyalty schemes with a wide range of options to deliver on any manner of scheme designs and member engagement approaches.

3.6. Loyalty scheme reward provision

The loyalty scheme industry in Australia supports billions of points earned each year,⁶² and these points in turn are redeemed on flights, hotel rooms, cash discounts on supermarket shopping, experiences, consumer goods, gift cards, movie tickets and more.

⁶¹ Qantas Privacy Policy, 'Information We Collect' <https://www.qantas.com/au/en/support/privacy-and-security.html>, accessed 30th May 2019.

⁶² Clarke, Carrington, "Frequent flyer points reward airlines more than customers, analysts say", ABC News, 11th July 2018, <<https://www.abc.net.au/news/2018-07-11/frequent-flyer-program-helping-airlines-more-than-customers/9977272>>, accessed 14th May 2019.

As the loyalty industry has evolved and loyalty schemes have expanded their offerings to allow members to redeem for products and services provided by third party suppliers, a parallel industry has developed to service the demand.

Loyalty scheme operators generally avoid directly sourcing thousands of consumer goods and hundreds of gift cards for their members as this is not their core capability and would involve significant incremental cost to the business, both from a logistics perspective, but also from a warehousing and stock management standpoint. *flybuys* Reward Store, for example, offers over 1,000 consumer goods and gift cards which members can access by redeeming points. For *flybuys* to purchase and warehouse all those products would not be feasible, particularly when some of the products will see little or no redemption activity.

Instead, many schemes have developed relationships with large product and gift card aggregators who are prepared to source and warehouse stock which they can deliver on demand via a drop-ship model, or provide digital goods such as gift cards to order. For example, if a member redeems points for a case of wine on an online store hosted by the loyalty scheme, an order will be sent to a third-party wine supplier, who will pick, pack and dispatch the wine to the member. On completion of the order, the wine supplier will invoice the loyalty scheme for the wholesale cost of the wine. One additional advantage of this partnership is the loyalty scheme does not need to hold a liquor license, as this is covered by the wine supplier.

There are several reward product suppliers operating in the Australian market that have grown their businesses to specifically support loyalty schemes by offering large consumer product or gift card ranges, while other businesses have developed new divisions within their existing company to support the reward demand.

In rare instances, a larger loyalty scheme may request exclusivity for a particular product in order to attempt to gain a competitive advantage. In other instances, the brand or product supplier may insist they only want to have their product ranged with a specific loyalty scheme or a small selection of loyalty schemes who they feel are aligned to their brand's positioning in the market.

These aggregators serve to support competition in the loyalty scheme industry. A new entrant to the market can very quickly develop a large and attractive range of consumer goods and gift cards to offer to their member base as rewards.

4. Loyalty scheme monetisation

This chapter explores how loyalty schemes have the potential to directly generate additional revenue for a company. This may be through:

- Partners paying for members to earn coalition scheme points
- Earning interest on deferred revenue from points
- Earning revenue by selling discount products to members
- Earning affiliate marketing revenue via member online transactions
- Selling and supplying scheme-branded products and services.

Loyalty scheme operators may also earn revenue by selling insights derived from consumer data to suppliers and other partners. They may also earn revenue via the provision of digital marketing services, which is covered in section 5.5.

4.1. Partners paying for members to earn coalition scheme points

A small number of coalition loyalty schemes in Australia are highly profitable, with their annual revenue in the billions and profits in the hundreds of millions. For example, in 2018, Qantas declared revenue of \$1,546 million and EBIT of \$372 million for Qantas Loyalty.⁶³

Coalition loyalty schemes generate revenue when a partner pays for a member to earn points, having points expire, and earning interest on deferred revenue when points are issued.⁶⁴ To illustrate the standard monetisation model, consider this hypothetical example:

- A member of a coalition loyalty scheme spends \$1,000 with a participating retailer.
- They swipe their membership card and earn 1,000 points at the rate of one point per dollar spent.
- The coalition loyalty scheme invoices the retailer for the cost of the points at a rate of 1.5 cents per point, costing the retailer \$15.
- When the member chooses to redeem those points in the future, the coalition loyalty scheme assigns a lower value of 1c per point, or \$10 for the 1,000 points.

For each point bought by the retailer and then redeemed by the member, the coalition loyalty scheme earns profit of 0.5 cents per point (1.5 cents per point in revenue from the retailer minus 1 cent per point cost at redemption). A big coalition loyalty scheme can sell hundreds of billions of points each year, making those half cent transactions add up. In the case of our example, the coalition loyalty scheme has sold the points for \$15 but it has cost them \$10 when they are redeemed, earning them \$5 profit (or a 33 per cent profit margin) on a single \$1,000 transaction.

Coalition loyalty scheme operators may price discriminate by offering volume discounts to third-party partners. Smaller retailers buying fewer points each year can expect to pay more

⁶³ Qantas, "Qantas Annual Report 2018", page 20, <<https://investor.qantas.com/FormBuilder/Resource/module/doLLG5ufYkCyEPiF1tpgyw/file/annual-reports/2018-Annual-Report-ASX.pdf>>, accessed 14th May 2019.

⁶⁴ Catchit Loyalty, "How Frequent Flyer Programs Make Money", Youtube, 2016, <<https://www.youtube.com/watch?v=i50YVaD-tk>>, accessed 13th May 2019.

per point than larger retailers buying more points. Some retailers may agree to provide multiple points for each dollar spent by the member, so they end up investing a larger percentage of the member's spend on points.

Loyalty scheme operators may also negotiate with the third-party partner to commit to buying a minimum amount of points each year to ensure they are fully committed to promoting the partnership within their marketing channels. In return, loyalty scheme operators may agree to provide a minimum amount of marketing promotion for the third-party partner to their member base to help them grow their business. Loyalty scheme operators may also negotiate for the partner to commit to running a number of bonus points campaigns each year. In some instances, the bonus points can cost the third-party partner more than standard points in order to cover the campaign marketing costs of the loyalty scheme.

If the member does not use the points, they may expire (which is known as 'breakage' in the loyalty industry). This may be because the member has had no account activity for a specified period, meaning they have not earned or redeemed at least one point in the required time frame, for example, 18 months of inactivity for Qantas Frequent Flyer,⁶⁵ 24 months of inactivity for Velocity,⁶⁶ and 12 months of inactivity for *flybuys*.⁶⁷ Alternatively, it may be because a specified period of time has passed from when the points were earned, for example 2 years from earn for MyerOne points.⁶⁸ In relation to the example provided above, the coalition loyalty scheme will collect in profit the full 1.5 cents if the 1000 points expire (or \$15 in our example), as they have not had to cover the cost of a reward.

The expiry of points is an important factor in the financial management of a coalition loyalty scheme's profitability, as higher expiry directly translates into higher profitability.⁶⁹ Due to this, some coalition loyalty schemes engage teams of actuaries to manage their strategies around expiry to ensure they are maintained within a specific range. A Qantas Frequent Flyer presentation to the Actuaries Institute stated that within the loyalty scheme, 'modelling future points expiry (breakage) helps inform the setting of assumptions by management,' and that 'breakage is modelled with a multi-state transition model based on the level of customer activity.'⁷⁰

Loyalty scheme operators aim to maximise the profit they make on each point which is sold and redeemed. They may do this by adjusting the price and value of points. Depending on what reward a member redeems their points on, the value they receive for their points can vary. For example, points redeemed on a flight may deliver a value of 1 cent per point but if redeemed on a gift card they may deliver a value of 0.5 cents, while a toaster may give just

⁶⁵ Qantas Frequent Flyer terms & conditions, clause 9.2 Qantas Points validity, < <https://www.qantas.com/au/en/frequent-flyer/discover-and-join/terms-and-conditions.html>> accessed 16th May 2019.

⁶⁶ Velocity Frequent Flyer terms & conditions, clause, 10.9 Expiry of Points due to Inactivity <https://experience.velocityfrequentflyer.com/member-support/terms-conditions>> accessed 16th May 2019.

⁶⁷ *flybuys* terms & conditions, clause 3.6, <<https://www.flybuys.com.au/about/#/flybuys-terms-and-conditions>> accessed 16th May 2019.

⁶⁸ MyerOne terms & conditions, clause 4.6 <<https://www.myerone.com.au/resource/1406299965000/TermsAndConditions>> accessed 16th May 2019.

⁶⁹ Feldman, David, 'LOYALTY MYTHS: IS BREAKAGE GOOD?' <<https://medium.com/@dfcatch/loyalty-myths-is-breakage-good-873950da26dc>> March 15th 2017, accessed 16th May 2019.

⁷⁰ Chandler and Tubman, 'The Analytics of Loyalty – Qantas Frequent Flyer', <<https://www.actuaries.asn.au/Library/Events/FSF/2012/AnalyticsOfLoyalty3BChandlerTubman.pdf>> 1st May 2012, accessed 15th May 2019.

0.25 cents value. This pricing strategy is designed to both guide the member to redeem their loyalty currency on a reward which keeps the cash flow within the business and take advantage of wholesale margins on third party products to boost profits. To further boost profits, some airline schemes have also been observed to apply surcharges on flights using points which are not applied on flights paid for with cash.⁷¹

The coalition loyalty scheme operator also earns interest on deferred revenue. When the points are sold to third-party partners, the loyalty scheme operator must defer enough revenue to a holding account to cover the cost of the future reward (or liability).⁷² For example, if a member earns points which have a redemption value of \$50, the loyalty scheme operator must set aside \$50 in a separate account, ensuring they have enough revenue allocated to cover the value of the reward when the member processes a redemption. The loyalty scheme operator can earn interest on this deferred revenue balance, providing additional profits, and may even use it as working capital. A deferred revenue holding of several billion dollars is not unusual for a large loyalty coalition scheme operating in Australia.

Impact of changes to interchange fees on loyalty schemes

In 2016, the Reserve Bank of Australia released a review of payment card regulations.⁷³ One of the key rulings was to cap credit card interchange fees at a maximum of 0.80 per cent from 1 July 2017. As the main source of funding for loyalty points earned by spending with a credit card, the changes led to members earning less points on credit cards and/or annual fee increases.⁷⁴ This has impacted major loyalty schemes by slowing the rate of increase in revenue and profits from credit card spend.

For example, the ANZ Rewards card used to offer 1.5 points per dollar on AMEX and 0.75 points per dollar on Visa, uncapped. In 2017, AMEX was removed and the earn on Visa was reduced to 1 point per dollar up to \$1,000 per month, and 0.5 points per dollar thereafter. Citi reduced the earn rate on five cards, while Commonwealth Bank, NAB and Westpac reduced the earn rate on AMEX companion cards by up to 2.5 points per dollar spent.⁷⁵

To understand the magnitude of the impact on Qantas Points earn, a 2019 press release by Qantas revealed 'thirty-five per cent of all credit card spend in Australia is on a Qantas or Qantas Frequent Flyer co-branded credit card.'⁷⁶

⁷¹ Moffitt, Matt, "Lock in your Velocity redemptions before the end of the year to avoid new charges", Point Hacks, 2018, <<https://www.pointhacks.com.au/reduce-surcharges-frequent-flyer-programs-guide/>>, accessed 13th May 2019.

⁷² Customer Loyalty Programmes, Compiled Interpretation, Interpretation 13, Australian Accounting Standards Board, <https://www.aasb.gov.au/admin/file/content105/c9/INT13_08-07_COMPjun10_01-11.pdf>, 26th November 2010.

⁷³ Reserve Bank of Australia, "Review of Card Payments Regulation Conclusions Paper", May 2016, <<https://www.rba.gov.au/payments-and-infrastructure/review-of-card-payments-regulation/conclusions-paper-may2016/interchange-fees-and-transparency-of-card-payments.html>>, accessed 7th April 2019.

⁷⁴ K. Emmerton, Mozo, Credit card rewards schemes devalued as interchange fee changes come into effect, <<https://mozo.com.au/credit-cards/articles/credit-card-rewards-schemes-devalued-as-interchange-fee-changes-come-into-effect>>, 20th June 2017, accessed 29th May 2019.

⁷⁵ K. Emmerton, Mozo, Credit card rewards schemes devalued as interchange fee changes come into effect, <<https://mozo.com.au/credit-cards/articles/credit-card-rewards-schemes-devalued-as-interchange-fee-changes-come-into-effect>>, 20th June 2017, accessed 29th May 2019.

⁷⁶ Qantas News Room, "Exclusive New Qantas Card Targets Frequent Buyers", 12th February 2019, <<https://media.qantasnewsroom.com.au/media-releases/exclusive-new-qantas-card-targets-frequent-buyers/>>, accessed 7th April 2019.

4.2. Earning revenue by selling discount products to members

A popular non-points loyalty scheme model which is gaining traction in the Australian market is the 'member benefits' model. Under this model, members of the scheme can gain access to a range of discount products and services provided by third-party suppliers. This generally involves an online portal which grants access to a range of gift cards, movie tickets, accommodation, experiences, restaurants, travel and more. In some instances, the offers provided may be exclusive to that particular scheme as a way to generate a competitive advantage.

Loyalty scheme operators tend to follow one of two approaches for the member benefits model. They may provide members with the full discount that has been negotiated with the third-party supplier, or they may retain part of the discount and pass on the remainder to the member.

This second approach allows for the monetisation of the scheme. For example, if a scheme has negotiated access to a 10 per cent discount on a particular gift card, the operator may choose to provide their members with an 8 per cent discount, such that each time a gift card is sold, the loyalty scheme operator has an incremental margin of 2 per cent of the member's total spend.

While the big points-based loyalty schemes can earn hundreds of millions of dollars profit each year, the member benefits schemes are not nearly as lucrative, primarily because the margin they earn on each transaction is much less, and the size of their member bases are generally smaller.

4.3. Earning affiliate marketing revenue via member online transactions.

Affiliate marketing in the loyalty industry occurs when a scheme earns a commission for marketing another company's products or services. The loyalty scheme promotes a third-party website or product to their member base and earns a percentage of the total amount spent if the member makes a purchase. The sales are tracked via affiliate links from the partner website to the loyalty scheme's website. The loyalty scheme then rewards the member for their purchase, which may be via cashback, bonus points earned or other forms of credit.

This model is becoming increasingly common, either within major coalition loyalty schemes, or standalone such as cashback loyalty schemes. The loyalty scheme monetises the model by retaining some of the commission paid to them by the partner website. For example, if a member clicks through from their loyalty website to a partner website and spends \$100, the loyalty scheme may earn commission of \$8. They may choose to reward the member with \$5 of points or cashback and retain the remaining \$3 as incremental margin.

4.4. Selling and supplying scheme-branded products and services.

Major loyalty schemes generate additional revenue by developing branded products and services to market to their members. As examples, *flybuys* promotes Coles credit cards, insurance and personal loans, plus *flybuys* Travel, while Qantas have developed epiQure Food & Wine Club, Qantas Golf Club, branded credit cards, Qantas Cash and Qantas Assure health insurance. The approach delivers several benefits; additional revenue from the products or services sold, additional points earned for the member (which generates

additional revenue for the loyalty scheme when the points are redeemed) and deeper engagement from the member who is actively choosing to consume scheme-branded and affiliated products.

Branded financial services products, such as Qantas Cash and Qantas branded credit cards, provide members with the opportunity to earn more points when travelling and on every day spend. For Qantas Cash, the foreign exchange fees and commissions paid by members when converting cash into foreign currencies provides an additional revenue stream which is used to fund points earned.⁷⁷ For their own branded credit cards, issued in partnership with Citibank, Qantas offer a competitive earn rate starting at 1 point per dollar spent within Australia, up to 10,000 points per month. After spending \$10,000 in a month, the earn rate halves to 0.5 points per dollar.⁷⁸ The card serves to boost points earned for participating members, plus may also provide Qantas with full transaction data (including time and date, retailer and amount spent), something which they may not receive when members use co-branded credit cards issued by banks.

⁷⁷ B. Howarth, The Australian, 'Why airline loyalty programs are so valuable,' <<https://www.theaustralian.com.au/business/business-spectator/news-story/why-airline-loyalty-programs-are-so-valuable/668a3a7581f9838efa5f532e5b91d565>>, 29th September 2014, accessed 30th May 2019.

⁷⁸ Qantas.com, Compare credit cards, <<https://www.qantas.com/au/en/frequent-flyer/earning-points/cards-banking/compare-credit-cards.html#/uses=Personal&sortby=1uqkck7PzqggK0Yqiw8CwI>>, accessed 29th May 2019.

5. Data collection and usage by loyalty schemes

Loyalty program operators are often responsible for collecting, managing and in some cases directly or indirectly monetising member data collected by their loyalty scheme.

This chapter examines the ways in which consumer data can be harnessed both directly by the loyalty scheme, and indirectly via third parties, to build a rich data profile of the member's demographic, geographic and psychographic state.⁷⁹

It then details how these datasets are being used to drive incremental revenue across varying business functions and whether consumers are aware of the data practices of loyalty schemes.

5.1. How is consumer data being directly collected by loyalty schemes?

A member's data can be collected directly by the loyalty scheme via many touchpoints, which are discussed below.

Join process

When a member registers to join a loyalty scheme they will be asked to provide personal details (for example, their name, date of birth, email address and mobile phone number) which forms the basis of their member profile.

While it can be tempting for the loyalty scheme to ask for large amounts of data as part of the join process, this can significantly reduce registration completion rates. As a result, many loyalty schemes initially focus on capturing essential data, knowing the establishment of the member account is the first step on a pathway to collecting additional data.

Once the join process is complete, there will generally be a section within the new account where the member is invited to share their likes and interests.

For example, Velocity requests name, date of birth, address, phone number, email address, other airline loyalty schemes the member belongs to, the member's Qantas Frequent Flyer status tier, seat preference on flights, lifestyle interests, sport interests, the number of flights taken recently, and whether they were for leisure or business and the member's favourite destination.⁸⁰

flybuys requests home and work phone, residential and postage address, number of people living in the household, including number under 18 years old and any pets, number of cars, whether the member owns their own business, the month of the year when they intend to review their home insurance, car insurance and mobile phone contract, how often they take flights for personal travel, which loyalty schemes they are a member of, mobile phone, pay TV and internet products they use, internet shopping habits, and alcohol purchase behaviour.⁸¹

⁷⁹ Collecting and analysing characteristics to classify groups of people based on less tangible audience factors such as interests, habits, attitudes and preferences.

⁸⁰ Velocity Frequent Flyer, <<https://join.velocityfrequentflyer.com/?channelname=inet#/join/account>>, accessed 14th May 2019.

⁸¹ Flybuys, <<https://www.flybuys.com.au/registration/verify-registration-code>>, accessed 14th May 2019.

Interactions

When and how an individual member interacts with a brand and their marketing material is tracked at a micro level. This includes click maps across websites and electronic direct mail and heat maps for in-store visits.

Digital assets are a particularly rich source of customer insights. This may include where a member's cursor gravitates to on a website, where in the sales funnel they take an action, what products they leave in their basket, which colour buttons they are more likely to click, and which banner ad messaging resonates most. Red Planet, Qantas Loyalty's digital marketing agency, use their suite of insight tools including *Connected Intelligence* and *Digital visitor insights* to 'take you inside the hearts and minds of your customers' and 'uncover the insights behind the clicks'.⁸²

Using cookies, loyalty schemes can track different websites which a member visits to better understand what brands and products they are interested in. Interactions with a brand's customer service team may be tracked and stored against the member's profile, including the nature of the call.

Browser extension installations are becoming increasingly popular among loyalty scheme members. Members install these free toolbars because they can be helpful in notifying them when loyalty points, cashback or coupons are available, and offer price comparisons. They are valuable sources of member data, providing information about the user's device, IP address, geolocation, browsing history, mouse movements and logins. Qantas Frequent Flyer offers a browser extension available on both Chrome and Firefox called the '*Points-Prompter*' which creates and uses cookies in order to identify and alert a member when they are browsing an online store of their eligibility to earn Qantas Points.⁸³ Cash Rewards, an affiliate marketing scheme which rewards members with cash back for online shopping via partner sites, has the 'CASH REWARDS Notifier' which runs across Chrome, Firefox and Safari.⁸⁴

Members connecting to free Wi-Fi can be tracked, even without them needing to sign-in to an account. If the member accesses Wi-Fi once and signs-in, each time they visit the same location, the Wi-Fi may automatically connect and track their activity. This provides loyalty schemes with important data on how different segments of members utilise store locations in different ways; how they move, where they reside and how long they stay, which can all be mapped and processed to gain better member insights. Companies like *skyfii* 'scale and customize the guest Wi-Fi user experience across multiple locations,' and 'consolidate data from Wi-Fi, people counters, and other sources in a single view.'⁸⁵ This type of technology is used extensively in shopping centre loyalty schemes.

⁸² Red Planet Group, <<https://www.redplanetgroup.com.au/media.html>>, accessed 8th May 2019.

⁸³ Qantas, <<https://shopping.qantas.com/points-prompter>>, accessed 8th May 2019.

⁸⁴ Cashrewards, <<https://join.cashrewards.com.au/>>, accessed 14th May 2019.

⁸⁵ Skyfii, <<https://skyfii.io/>>, accessed 15th May 2019.

Transactions

When, where and how often a member transacts and how much they spend provides valuable data into the member's lifestyle, habits, interests, motivations and goals. This data is collected by loyalty schemes in a variety of ways.

The most common way is the member purposefully identifying when they transact by scanning their membership card or app in-store, signing into their account online or via an app, or providing verification to a call centre agent.

For loyalty schemes that offer credit cards which earn points, when the member spends with the credit card, the loyalty scheme may receive the transaction data, such as time and date, retailer and amount spent. For example, a bank loyalty scheme which provides members with a credit card will receive all the members transaction data. Other loyalty schemes, such as frequent flyer programs, may not receive this data if the bank chooses not to pass it on to them. Instead, they may just receive the total amount the member spent for the month to facilitate the points earn calculations. The new Qantas own-brand credit cards may be a strategic move by Qantas Frequent Flyer to start accessing the transaction data denied them by banks.

Woolworths Rewards and *flybuys*, plus some other retailer loyalty schemes, have implemented a process where they automatically link any payment card used by the member to their profile, enabling them to track any transaction made by the member, even when the member does not scan their membership card, and even when they spend at other related companies of the loyalty scheme operator.⁸⁶ To illustrate, a member of a supermarket loyalty scheme scans their membership card at the checkout, then pays using a specific Mastercard. The loyalty scheme platform automatically matches the Mastercard against the member's profile. If the member spends with that card at the supermarket in the future, or any other companies contained within the parent company of that supermarket, the loyalty scheme will also collect the transaction data, even in instances where the member does not scan their membership card. This approach is very cost-effective for the loyalty scheme operator because they collect valuable member data without having to provide the member with loyalty points.

In the case of Woolworths Rewards, their Privacy Policy states, 'We also collect Members' transaction history from the use of their payment card, which is matched to their Woolworths Rewards account. Our systems render payment card numbers unreadable (through the use of cryptographic hashing or encryption algorithm) and replace it with a randomised token number, which protects such details from unauthorised access or disclosure. Linking this token number with a Member's account enables us to collect the Member's transaction history even when they do not scan their Woolworths Rewards card at the point of sale.'⁸⁷

flybuys' Privacy Policy is less explicit, simply stating, 'We may collect your personal information, and that of additional members, from your interactions and transactions with us, Participants, Coles and Westfarmers group companies. This includes using your flybuys card or number or associated identifiers such as payment cards.'⁸⁸

⁸⁶ Woolworths Rewards, < <https://www.woolworthsrewards.com.au/privacy.html>>, accessed 8th May 2019.

⁸⁷ Woolworths Rewards, < <https://www.woolworthsrewards.com.au/privacy.html>>, accessed 14th May 2019.

⁸⁸ Flybuys, <<https://www.flybuys.com.au/about/#/privacy-policy>>, accessed 14th May 2019.

Surveys

Loyalty schemes often invite members to participate in surveys. These can be used for two purposes: to capture attitudes and opinions about the loyalty scheme, and, to collect additional data about the member.

By way of example, a Qantas Frequent Flyer survey released in March 2019 asked participating members a wide range of questions including:

- Whether the member would recommend the Qantas Frequent Flyer loyalty scheme to family and friends
- Which competitor loyalty schemes they belong to (from a list of 17 local and international schemes) and the NPS rating and ranking for each
- How the member generally redeems points with the competitor schemes
- A comparison of aspects of the Qantas Frequent Flyer scheme and the member's favourite competitor scheme across customer service, ease of use of scheme benefits, value accessed by the member, the credibility of the scheme, ease of accessing information and ease of accessing flight reward bookings; perceptions of the scheme's website
- Household income figures including how much the member spends on groceries each week; how much is spent on credit cards; how many dependent children live in the household and their ages; work status and number of employees in the member's company; and whether the member flies mainly for work or business.

The final question involved Qantas Frequent Flyer requesting permission to store the survey answers against the member's profile 'to be used for program development (including delivering program benefits to our members)'. If permission was granted, such data would provide the scheme with rich insights about that member, including attitudinal views, which can often be hard to obtain.

Apps

When a member downloads a loyalty scheme app, they are generally requested to provide permission for the loyalty scheme to gain access to certain features and data, plus the ability to track location. This approval can provide extensive access including precise user location, access to the member's contacts, access to phone call logs, access to camera and microphone, ability to read contents of storage, and ability to read phone status and identity.⁸⁹

For example, *flybuys*' privacy policy indicates their systems record information including 'software versions used, device types, device identifiers (like IP address), location data (where available and not disabled by the user), dates, times, file metadata, referring website, data entered, and user activity such as links clicked.'⁹⁰

⁸⁹ Cleary, Gillian, "Mobile Privacy: What Do Your Apps Know About You?", Symantec Corporation, 16th August 2018, <<https://www.symantec.com/blogs/threat-intelligence/mobile-privacy-apps>>, accessed 11th April 2019.

⁹⁰ flybuys Privacy Policy, <<https://www.flybuys.com.au/about/#/privacy-policy>>, accessed 29th May 2019.

As a result of these permissions, smart phones have grown to become a major source of member data for loyalty scheme operators by allowing the loyalty scheme to extensively track member activity even when they are not engaging with the loyalty scheme or parent company.

Virtual home assistants and voice-controlled personal assistants

Some major companies, such as Woolworths, are experimenting with the use of virtual home assistants (such as Google Assistant) to support new ways for customer to interact. Woolworths' ambition is for these to be developed into full AI conversational platforms which can be run at enterprise scale.⁹¹

While there is some nervousness among members of the public about the potentially invasive nature and eaves-dropping potential of these devices, their household penetration is forecast to grow exponentially over the next five years.⁹² As they evolve to become better at maintaining reasonable levels of conversation, they have the potential to become an valuable personal data source for loyalty schemes.

Social media

Tools like Facebook Connect can be used by loyalty schemes to let members login with their Facebook credentials, with the primary benefit to the consumer being the convenience of not having to create a separate login each time they want to interact with a different loyalty scheme. Using Facebook Connect allows sharing of data between the website and Facebook where detailed member data (the member's relationships, the female/male make up and size of the member's friends list, education history, work history, friend's interests, how the member interacts with their friends, member comment and wall post frequency) is tracked and shared.

Of the major coalition loyalty schemes in Australia, Woolworths Rewards allows members to join using Facebook Connect. They indicate in their Privacy Policy that, 'We collect personal information about Woolworths Rewards Members from other persons or entities. Such entities include . . . digital services used by Woolworths Rewards Members (including social media platforms).'⁹³

Facebook also allows loyalty schemes to build and target 'look-a-like audiences' based on this data to run targeted advertising.

Households

Loyalty schemes may link multiple members to a specific mailing address, allowing them to build out their data profile by matching members living in the same household. This may be spouses, children, parents or housemates.

⁹¹ Crozier, Ry, "Woolworths looks to large-scale conversational AI", IT News, 21st Jan 2019, <<https://www.itnews.com.au/news/woolworths-looks-to-large-scale-conversational-ai-518016>>, accessed 11th April 2019.

⁹² Hargreaves, Imogen, "Voice Assistant use to grow 1000% to reach 275 million by 2023, Juniper says", PC World, <<https://www.pcworld.idg.com.au/article/642969/voice-assistants-use-grow-1000-reach-275-million-by-2023-juniper-says/>>, accessed 11th April, 2019.

⁹³ Woolworths Rewards, < <https://www.woolworthsrewards.com.au/privacy.html>>, accessed 14th May 2019.

Some loyalty schemes, such as supermarket loyalty schemes, allow members to apply for companion cards, where the member can nominate another individual to receive a secondary card of the same account to enable both card-carriers to earn points.

This household profile approach allows for the loyalty scheme to view a much broader consumption profile than for an individual member, providing new and relevant insights.

5.2. How is consumer data being indirectly collected by loyalty schemes?

Member personal data can also be indirectly sourced by multiple third parties, with the data fed into the loyalty scheme's systems and matched against individual member profiles. Some of these avenues are discussed below.

Data brokers

In the digital age, individual consumers are sharing unprecedented amounts of personal data — sometimes overtly and sometimes without being aware. There are numerous articles detailing what Google,⁹⁴ Facebook,⁹⁵ Apple,⁹⁶ Amazon,⁹⁷ and many other companies know about individuals, including who they are, where they go, who their friends are, what they like and dislike, their future plans, their online life and much more.

Often member personal data is publicly accessible, such as social media posts. Additional data can come from tracking software in website and apps,⁹⁸ plus Wi-Fi. More data to understand the consumer can be sourced from consumer surveys, census data and more.

Data brokers, such as Quantum, Axciom, Experian and Lexar, accumulate masses of information about consumers. They may provide database tools for loyalty schemes to help them improve their member profiling, or even provide the data directly to the loyalty scheme to be matched against existing member profiles. Globally, data brokers 'have highly detailed profiles on billions of individuals, comprising age, race, sex, weight, height, marital status, education level, politics, shopping habits, health issues, holiday plans, social media posts, income and more'.⁹⁹

Data brokers can match the individual member's data against the loyalty schemes' existing databases using common denominators such as name, email address and mobile number. Such a service can build a profile for an individual member from tens of datasets to

⁹⁴ Desjardins, Jeff, "What Does Google Know About You", Visual Capitalist, 10th August 2018, <<https://www.visualcapitalist.com/what-does-google-know-about-you/>>, accessed 15th April 2019.

⁹⁵ Fried, Ina, "What Facebook knows about you", Axios, 2nd Jan 2019, <<https://www.axios.com/facebook-personal-data-scope-suer-privacy-de15c860-9153-45b6-95e8-ddac8cd47c34.html>>, accessed 15th April 2019.

⁹⁶ Murphy, David, "I Asked Apple For Everything It Knows About Me, And Here's What I Found", Life Hacker, 15th December 2018 <<https://www.lifehacker.com.au/2018/12/i-asked-apple-for-everything-it-knows-about-me-and-heres-what-i-found/>>, accessed 15th April 2019.

⁹⁷ Haselton, Todd, "Here's how to find what Amazon knows about you", CNBC, 5th April 2018, <<https://www.cnbc.com/2018/04/05/what-does-amazon-know-about-me.html>>, accessed 15th April 2019.

⁹⁸ Coutts, Andrew, "Top 100 websites: How they track your every move online", Digital Trends, 30th August 2019, <<https://www.digitaltrends.com/web/top-100-websites-how-are-they-tracking-you/>>, accessed 16th April 2019.

⁹⁹ Molitorisz, Sacha, "It's time for data brokers to emerge from the shadows", IT News, 6th April 2018, <<https://www.itnews.com.au/news/its-time-for-data-brokers-to-emerge-from-the-shadows-488450>>, accessed 16th April 2019.

hundreds overnight, making this a valuable service for loyalty schemes which use machine-learning analytics to generate member insights and power hyper-personalised marketing campaigns.

Data brokers match data to members in three basic ways:

- **User account integration:** A personal identifier in a member's profile (primarily an email, or name and email combination) is matched to the same identifier in the database of the data broker.
- **Mobile ID tracking:** Identifiers such as email addresses can be matched to a specific mobile device ID such as Apple's IDFA (Identifier for advertisers),¹⁰⁰ or Google's AAID (Google advertising Identifier),¹⁰¹ which are shared by partners who also collect this information. Third party data platform companies also plant code within their client's apps to track the mobile phone usage of the user, further building out their unified customer data pools.
- **Cookie syncing:** Data brokers rely on partners freely sharing their individual member's cookie data which they tag and match with cookies from other independent company data to create matches within their ecosystem of individual devices (people).

Experian's website states, 'Consumers are creating large amounts of data every day, and you're capturing it at every moment through your brand, product and service touch points. While this information can be leveraged and used to your advantage, often it doesn't provide you with some of the most important insights you need – going beyond the customer journey to actually get to know the customer.'¹⁰² They inform potential clients that their platform, 'layers comprehensive information about every household on top of your existing data, giving you unprecedented insights into who your customers are, how they operate, and how best to reach them. Next-level segmentation brings your customers to life with pen portraits, word clouds, infographics, animations, interactive maps, bar charts and crosstabs.'

One challenge many loyalty schemes struggle with is utilising the data available to them. Data brokers deliver additional value by not only providing extensive additional data but formatting it in ways that are accessible and user-friendly for schemes, enabling them to be better positioned to extract value from their investment.

Data exchanges

A data exchange is similar to a data broker but operates in a slightly different way. Data exchanges allow companies to share data collected from their customers with other companies. This practice can provide loyalty schemes with access to many data points, which they can use to build out their member profiles. Contributors have full control of what gets exchanged, oversight of its use, and legal rights to protect against misuse. The platform ensures that the use of the data is reasonable and legal and provides a full audit trail for this to be monitored.

¹⁰⁰ Nichols, Jim, "Mobile Tutorial Series – What is an IDFA or Apple Identifier for Advertisers?", Singular, 1st Jan 2017, <<https://www.singular.net/mobile-tutorial-series-idfa-apple-identifier-advertisers/>>, accessed 9th April 2019.

¹⁰¹ Google Support, "Target mobile apps with IDFA or AAID", Authorized Buyers Help, <<https://support.google.com/authorizedbuyers/answer/3221407?hl=en>>, accessed 9th April 2019.

¹⁰² Experian, "Mosaic", <<http://www.experian.com.au/mosaic>>, accessed 9th April 2019.

Data Republic is a data exchange platform backed by Westpac's Reinventure, Qantas Loyalty, NAB Ventures, Qualgro and ANZ. According to their website, 'Data Republic has seen rapid adoption of their technology from major brands and service providers across Australia and the Asia Pacific, including banks, retailers, state governments and airlines. Data Republic's technology now underpins a fast-growing ecosystem and network of over 200 organisations who leverage the governance framework and technology as an emerging standard for secure data sharing, globally.'¹⁰³

Database generators

A member database is very valuable to any company; therefore, some loyalty schemes engage third-party data brokers to grow their databases by partnering with other companies who offer online transactions.

For example, a member of a loyalty scheme may choose to purchase some tickets from the company which runs the scheme. At the end of the purchase journey, they are presented with offers from other companies. This may be a discount off a hotel stay, a flight, a pizza, a food delivery service or any manner of products or services. They may also be invited to enter a competition.

The personal data which the member enters is collected by the data broker and provided to the sponsoring company to build their database. The member's personal data may be auto-populated if the member is signed into their online account. The member will later begin to receive marketing communications from the company who purchased the data from the data broker.

The data broker uses powerful machine learning capability to deliver highly-personalised messaging to target members as a way to boost their conversion rate. One data broker, Rokt, states on their website that they use, 'more than 2B user records during the Transaction Moment creating the ability to personalize the creative & user journey using data such as past purchases, event type and demographic.'¹⁰⁴ They also communicate that their algorithms, 'consider 1B pieces of data every 40 milliseconds — getting smarter and more predictive with each user action—surfacing the most relevant message for each individual user.'

According to Rokt statistics, consumers making a purchase are two times more likely to engage with marketing offers, making their approach relatively powerful in building marketing databases.

5.3. How is consumer data being used and shared?

Loyalty scheme operators have collected large amounts of member data from a multitude of different channels and sources across the digital and physical world. This section will explore how this data is used by loyalty schemes.

The primary ambition of a loyalty scheme is to generate more revenue for their parent company by stimulating members to purchase more goods and services. Once member data sets are expanded and standardised, a detailed view of individuals becomes a very valuable asset which can be used to drive revenue growth across multiple business functions.

¹⁰³ Data Republic, "About Us", <<https://www.datapublic.com/company/about-us>>, accessed 16th April 2019.

¹⁰⁴ Rokt, <<https://rokt.com/>>, accessed 16th April 2019.

Marketing

Data enables the development of more sophisticated communications efforts, such as hyper-personalised digital marketing campaigns. This may include the use of machine-learning marketing engines delivering individualised messages, prices and product offers. It may also involve delivering messages via a variety of communications channels at specific times of the day which are more likely to generate a desired response from the member. According to Salesforce, 7 per cent of site visitors click on personalised product recommendations, however personalised recommendations account for 26 per cent of revenue.¹⁰⁵

One industry commentator reported that airline schemes know how much members are willing to pay (i.e. what they have historically paid), what they are not willing to pay (abandoned cart statistics), whether the member is committed to flying that day (based on friends/colleagues already booked on the flight or whether a hotel is booked) and whether they are travelling for work or pleasure (path to purchase).¹⁰⁶ He theorised that the data is fed into direct booking channels in real time and may customise pricing for the individual's situation.

Re-targeting

With the increasing power of computers and the rise of artificial intelligence, loyalty scheme data can be overlaid with predictive analytics to dynamically retarget and adjust offers based on individual behaviour patterns across multiple channels. For example, airlines may use this technology to retarget a member with a promotion providing the opportunity to pay for an upgrade on their existing flight with points. In another example, a supermarket may use it to tailor promotions for items which are gluten free, organic or cruelty free, using data which indicates the offer will appeal to a specific member's desires and tastes.

Customer service

By knowing more about the member and their history with the loyalty scheme and the parent company (for example, that they are a premium tier member showing a higher than desired churn risk score), the company can tailor customer service support and responses to ensure an optimal outcome. This may also include using automated software programs which prompt the customer service agent to recommend a new product to the member. Data broker companies can provide this data to their clients so that even when an individual may be phoning a company for the first time, specific details about the individual (such as age, salary bracket and location) can be presented to the agent, helping them influence the outcome of the call. As an example, Red Planet's call centre API can help a company 'immediately interact with customers when they contact you. Our sophisticated tool gives your business the information you need, in real time, to deliver a truly personalised customer experience'.¹⁰⁷

¹⁰⁵ Young, Heike, "Personalized product recommendations drive just 7% of Visits but 26% of Revenue", Salesforce, 2nd November 2017, < <https://www.salesforce.com/blog/2017/11/personalized-product-recommendations-drive-just-7-visits-26-revenue.html>>, accessed 13th May 2019.

¹⁰⁶ Ross-Smith, Mark, "How big data is changing the way you fly", 25th September 2015, <<https://www.linkedin.com/pulse/how-big-data-changing-way-you-fly-mark-ross-smith/>>, accessed 4th April 2019.

¹⁰⁷ Red Planet Group, < <https://www.redplanetgroup.com.au/research.html>>, accessed 8th May 2019.

Segmentation

A standard segmentation approach involves dividing the member base into cohorts with similar characteristics, with the expectation they will be attracted to similar marketing campaigns, offers, products and services. Segmentation approaches are becoming increasingly sophisticated.

Examples include:

- **Psychographic:** based on the activities, interests, and opinions of customers.
- **Demographic:** based on age, gender, occupation, income, marital status, life stage, education, ethnicity, religion and more.
- **Geographic:** based on location.
- **Generational:** based on birth date. Assumes that people's values and attitudes are shaped by the key events that occurred during their lives and that these attitudes translate into product and brand preferences.
- **Cultural:** based on cultural origin and their engagement with products, brands and channels as well as measures of recency, frequency and monetary value.

Analytics

Data provides the ability for loyalty scheme operators and parent companies to generate extensive insights into who members are, how they behave, how they respond to different marketing campaigns and offers, what their consumption patterns are over time, life-stages and more. Some loyalty schemes employ large teams of analysts (numbering in the tens or even hundreds) to code the complex queries required to unearth new and relevant insights. One popular approach is propensity modelling, which tries to predict how a member will respond to a campaign or offer based on how similar members responded.

Inventory management and product development

Data helps companies understand how customers are using their products and services, the reasons why, what they like and dislike, and any new features they might enjoy (and ideally pay more for). Data collected via loyalty schemes plays an important role in inventory management, particularly for companies which have large product offerings (such as supermarkets and liquor retailers) or who need to forecast sales levels up to twelve months out to optimise yields (such as airlines and hotels). Data also plays a critical role in the development of new products, as it allows for complex modelling to forecast the operational and profit impacts such innovations might deliver.

Lifecycle and life-stage journey

For members who engage with the loyalty scheme or company over a longer period of time, data will allow the loyalty scheme to determine the evolution of their lifecycle journey (how they change the way they interact with the company and its products over time) and life-stage journey (how their life situation changes over time). These valuable insights can be utilised to maintain loyalty by leading the member along a consumption pathway by predicting which products will suit them at any time and introducing those products with suitable messaging and offers.

Sharing and reselling insights to third parties

Major loyalty schemes sell and share insights from their data, and data powered marketing services, to generate additional revenue streams. This topic is covered comprehensively in examining the customer data value chain, below.

Major loyalty schemes continue to make significant investments into predictive analytics and data mining as a way to optimise business functions, personalise the member experience and ultimately drive revenue growth for the parent company.

5.4. Consumer awareness about data being collected about them and traded

The previous sections have illustrated how consumer data is collected by loyalty schemes (and other connected parties) and how it is used to drive member engagement. This section assesses consumer awareness of the data being collected about them and consumer attitudes about data collection and usage.

The research indicates consumers are increasingly aware their personal data has a tangible value and are willing to share their data with preferred brands and companies. This is with the expectation they will be rewarded for it or it will be used to personalise and enhance their experience engaging with that brand or company. That being said, consumers are generally not aware about what type of information is being collected about them, and they want more control and transparency over what data is collected and used. A report from the Consumer Policy Research Centre (CPRC) indicates consumers do not appear to read privacy policies which are designed to inform them of the ways in which their data is collected, used and shared.¹⁰⁸

Members of loyalty schemes are mostly aware that the loyalty scheme is collecting data about them directly. A 2017 global research report by Deloitte showed a marked increase in recent years in consumer willingness to share browsing history and social media activity data with 'companies whose products or services (they) purchase' although it was still a relatively low 15 per cent.¹⁰⁹

In Australia, a 2018 survey by Mastercard reported 64 per cent of respondents would be willing to share personal information with their loyalty schemes in order to receive a more relevant experience or benefits.¹¹⁰

A 2018 report by US firm Adlucent titled 'Data Wars' determined that 'seven out of ten consumers prefer content and advertising that is tailored to their personal interests and shopping habits', and most importantly, consumers are willing to provide 'a wide array of

¹⁰⁸ Nguyen, P., & Solomon, L., "Consumer data and the digital economy – Emerging issues in data collection, use and sharing", Consumer Policy Research Centre, 2017, <http://cprc.org.au/wp-content/uploads/Full_Data_Report_A4_FIN.pdf>, accessed 17th April 2019.

¹⁰⁹ Pingitore, G., Rao, V., Cavallaro, K., & Dwivedi, K., "To share or not to share", Deloitte, 5th September 2017, <<https://www2.deloitte.com/insights/us/en/industry/retail-distribution/sharing-personal-information-consumer-privacy-concerns.html>>, accessed 16th April 2019.

¹¹⁰ Mastercard, "Achieving Advocacy and Influence in a Changing Loyalty Landscape", page 22, <<https://newsroom.mastercard.com/asia-pacific/files/2018/01/Loyalty-Solutions-Whitepaper.-AP-Region-20171.pdf>>, accessed 16th April 2019.

information ranging from name and email address to product preferences and updates on major life updates in order to get the personalized experiences they want'.¹¹¹ The challenge for loyalty schemes is one of transparency. While consumers are increasingly willing to share personal data with preferred brands and schemes, it was reported that '96 per cent want brands to be more transparent about the collection and use of their personal data'.

A 2016 global report by loyalty agency Aimia indicated Australian consumers are 'increasingly aware of the value of their personal data and would put a \$50 price tag on their contact details and online behavioural intelligence if they could'.¹¹² The report also found 71 per cent of global respondents believed their preferred brands are good at using their data to make online shopping experiences better, yet 77 per cent would like more control over what data companies hold on them. Transparency can also work to the loyalty scheme's advantage. For example, while 52 per cent said they would provide their mobile phone number without any context, the figure increased to 69 per cent when companies provided an explanation as to why they were asking for it.

In 2018, the CPRC surveyed 1,004 Australians.¹¹³ They found participants 'did not fully understand specifically what types of information were being collected and shared about them, experience barriers to reading Privacy Policies and/or lacked genuine consent over the terms upon which they provide their information'. Furthermore, 'the majority of those surveyed also indicated that they did not want companies to use their data in ways that could disadvantage them or other customers, and that they wanted more options over what data is collected and how it is used'.

Regarding Privacy Policies, the CPRC report indicated 95 per cent of participants stated that they do not read all privacy policies that apply to them. The report cited four reasons why participants who do care about their privacy do not read all privacy policies. These include:

- not enough time
- difficulty of comprehension
- no ability to negotiate with the company about how much personal data the company will collect, and how the company will use and disclose it
- no alternative service.

Specific to this last point, the report indicated over two thirds of Australians say they have agreed to privacy terms with which they are not comfortable, most often because it is the only way to access the product or service in question. This appears to be supported by a clause in the privacy policy of Woolworths Rewards, which states, 'If Program members do not permit us to collect the personal information needed by us to send them service-based

¹¹¹ McFarling, Andrea, "Data Wars: Information's Role in the New Era of Advertising", Adlucent, 9th May 2018, <<https://www.adlucent.com/blog/2018/data-wars-informations-role-in-the-new-era-of-advertising>>, accessed 17th April 2019.

¹¹² Cameron, Nadia, "Report: Aussie consumers value their online behavioural data at \$50", CMO, 16th December 2016, <<https://www.cmo.com.au/article/611697/report-aussie-consumers-value-their-online-behavioural-data-50>>, accessed 17th April 2019.

¹¹³ Nguyen, P., & Solomon, L., "Consumer data and the digital economy – Emerging issues in data collection, use and sharing", Consumer Policy Research Centre, 2017, <http://cprc.org.au/wp-content/uploads/Full_Data_Report_A4_FIN.pdf>, accessed 17th April 2019.

communications (such as their email address) under the Program, their Program Membership may be terminated'.¹¹⁴

Applicable privacy information may not be easily accessible to members registering for some loyalty schemes. In order to access the Privacy Policy of Woolworths Rewards, registering members need to first click on a link to the Terms and Conditions, then scroll down to a section towards the bottom of the page titled, 'How will Woolworths be collecting, using and disclosing my personal information?'. Within that clause the member must click on a link titled 'Collection Notice' which then directs them through to the Woolworths Reward Privacy policy. In 2016, the Office of the Australian Information Commissioner (OAIC) undertook a privacy review of Woolworths Rewards,¹¹⁵ and, among other things, recommended the scheme could consider 'separating the privacy related information from the broader terms and conditions and providing as a separate document *at the point of registration.*' Woolworths Rewards does not appear to have implemented the recommendation at the time of writing.

The CPRC report also stated, 'research on Australians' knowledge and attitudes about how their data is collected, used and shared is limited', indicating this area may require further exploration.

5.5. The customer data value chain

In addition to loyalty schemes using data extensively within their parent companies to drive desired outcomes, some bigger schemes have also evolved business units who are responsible for using the data to generate incremental revenue for the loyalty scheme or parent company. As previously mentioned, other companies specialise in generating marketing databases on behalf of loyalty schemes, while data brokers collect data from publicly available digital sources (such as social media and apps) which they sell to loyalty schemes:

There are five main models utilised to generate revenue from member data:

- Consumer insight reports created by loyalty schemes to sell to third parties
- Digital marketing services provided by loyalty schemes using their own database of members
- Loyalty campaign services provided by credit card schemes
- Data brokers collecting data from publicly available digital sources to sell to loyalty schemes
- Data brokers creating new databases to sell to loyalty schemes.

The report will consider each of these models in turn.

¹¹⁴ Woolworths Rewards, < <https://www.woolworthsrewards.com.au/privacy.html>>, accessed 14th May 2019.

¹¹⁵ Office of the Australian Information Commissioner, "Loyalty program assessment: Woolworths Rewards", July 2016, <<https://www.oaic.gov.au/resources/privacy-law/assessments/loyalty-program-assessment-woolworths-rewards.pdf>>, accessed 18th April 2019.

Consumer insight reports created by loyalty schemes to sell to third parties

One of the more common ways loyalty scheme data is monetised is via the creation of bespoke reports which are sold to third party companies seeking additional consumer insights which they are generally unable to generate themselves.

One approach is 'database matching'. This is where the third-party company provides a list containing basic customer identifiers (such as email address or mobile phone number) of their entire database to the loyalty scheme (or an independent broker). The data is then matched against the loyalty schemes' database to determine the third-party company's customers who are also members of the loyalty scheme.

The loyalty scheme is then able to create a detailed insights report about the third-party company's customers using the data it possesses about them. In most instances the report is depersonalised, meaning it does not contain any specific details about individual members, but instead provides more segmentation style data summaries, such as demographic, behavioural, psychographic and other cohort clusters.

Other loyalty schemes create analytical insight reports (in print or via website) to sell to their product or service supplier base.¹¹⁶ Because the loyalty scheme builds up complex data profiles about their member base, including the products they buy (and do not buy), they are well positioned to sell reports to companies that supply products or services to them. The loyalty schemes can provide extensive insights into what customers who buy their products look like and even compare them to customers who buy competitor products. Despite this, Woolworths Rewards announced plans to discontinue this practice of profiling competitor-consuming members by July 2019. They said the change 'will offer suppliers the freedom and confidence to bring new products to market without a competing supplier having visibility of their performance. This will protect supplier IP and innovation at Woolworths, which will help foster greater differentiation in our range.'¹¹⁷

This is valuable information for a wholesale product supplier that does not have any direct consumer interaction as part of the sales process. Through these reports, they can gain a deep understanding of what their typical customers look like and even how they think, allowing them to tailor marketing campaigns and new product development. Accessing a profile of their competitor's customers can help them grow their customer base by developing campaigns and product lines designed to persuade the customer to switch.

According to one report, less than 2 per cent of supermarket suppliers subscribe to such reports, although it notes, 'the users are likely to be the bigger suppliers in the market'.¹¹⁸ This type of report may provide larger, wealthier companies with a competitive advantage by arming them with insights data which smaller companies may not be able to afford.

¹¹⁶ AFN Staff Writers, *Woolworths gives suppliers unprecedented access to consumer data*, Australian Food News, 9th January 2017, <<http://www.ausfoodnews.com.au/2017/01/09/woolworths-gives-suppliers-unprecedented-access-to-consumer-data.html>>, accessed 18th April 2019.

¹¹⁷ Thompson, James, "Woolworths stirs a data debate with suppliers", Australian Association Of Convenience Stores, 17th July 2018, <<https://www.aacs.org.au/media/woolworths-stirs-a-data-debate-with-suppliers/>>, accessed 18th April 2019.

¹¹⁸ Thompson, James, "Woolworths stirs a data debate with suppliers", Australian Association Of Convenience Stores, 17th July 2018, <<https://www.aacs.org.au/media/woolworths-stirs-a-data-debate-with-suppliers/>>, accessed 18th April 2019.

Digital marketing services provided by loyalty schemes using their own database of members

Some loyalty schemes have established separate digital marketing agencies to generate incremental revenue from their large and highly-engaged marketing databases. The agencies use their extensive data insights to implement hyper-targeted digital marketing campaigns (such as banner advertising) on behalf of third-party clients.

Red Planet, which has access to the entire Qantas Frequent Flyer database, promotes the ability to 'connect with millions of Australians, as we have hundreds of data fields about their interests, values, lifestyle and so much more. By tapping into the rich emotional connections we have with Australians, you'll know who to target, with what messaging, and which media channels to use. This personalised approach creates more meaningful, relevant and rewarding experiences – resulting in happier, more loyal and more engaged customers.'¹¹⁹

An example of this type of campaign approach provided by Red Planet is a loyalty scheme member booking a flight to Perth. Accessing their profile, Red Planet can determine they are likely to seek premium accommodation in the city area and can serve up website advertising to match.¹²⁰

The effectiveness of the digital advertising campaign can be more easily measured with the support of the digital agencies. Members who interacted with an ad, or even just had the ad appear on a website they visited, can be surveyed to understand the awareness of the advertising brand or the promotional message, the ability to recall the brand of message and other measurable elements.

Another service provided involves database matching of website visitors. This delivers a detailed visitor profile report of the loyalty scheme members who have visited the third-party company's website, helping them to tailor the site experience and better understand what transacting customers look like compared to those who do not transact.

Companies can also utilise the service of the digital agencies to run panel research across large numbers of loyalty scheme members. The members will answer surveys, and their responses will be combined with their full data profile to generate very comprehensive insights reports, far beyond what a standard market research agency will be able to deliver.

As detailed in section 5.3, call centre applications can be installed into a company's phone system to provide loyalty scheme member profile data in real-time when a member contacts a call centre, enabling the personalisation of the sales experience or customer service support, even if the customer has never had any interaction with them, providing a competitive advantage over other companies which do not have access to this data.

Loyalty campaign services provided by credit card loyalty schemes

A growing industry in Australia is credit and debit card linked loyalty campaigns. Major credit card loyalty schemes have developed dedicated divisions to monetise the extensive consumer data they hold, while offering members cashback or bonus loyalty points to

¹¹⁹ Red Planet Group, <<https://www.redplanetgroup.com.au/>>, accessed 10th April 2019.

¹²⁰ Ward, Miranda, "Qantas launches data marketing business Red Planet, takes digital media buying in-house", Mumbrella, 10th September 2014, <<https://mumbrella.com.au/qantas-loyalty-launches-marketing-services-business-red-planet-250624>>, accessed 18th April 2019.

stimulate additional payments through their credit cards, thereby generating incremental transaction fees.

Mastercard Loyalty states on their website that, 'you can take advantage of our extensive data analytics to understand your cardholders' needs, as well as our robust loyalty processing platform and a full range of offerings and reward fulfillment expertise. We know how to combine what you need with what your customers want to create a successful loyalty solution'.¹²¹

A third-party company wishing to access new marketing channels can employ the services of a credit card loyalty scheme to run a short-term campaign offering members cash back, loyalty points, merchandise, gift cards and other rewards. The credit card loyalty scheme will organise promotion of the campaign via existing loyalty scheme marketing channels, such as a bank or frequent flyer scheme.

To engage with the campaign, the member of the loyalty scheme is generally invited to click an 'Activate' button on the digital promotion to opt-in to the campaign. When they transact with the third-party company using their registered card, the reward earned is processed automatically. At the end of the campaign, the third-party company may be provided with a report detailing the campaign metrics and depersonalised segmentation-based insights about the members who engaged with the loyalty scheme.

Data brokers and data sharing platforms for collecting and sharing data from publicly available digital sources

As detailed above, data brokers collect extensive personal data about billions of individuals from all around the world, which they package up and sell to loyalty schemes to help build out and standardise their member profiles. Loyalty schemes may also join data exchanges to share data with other companies.

Data brokers creating new databases to sell to loyalty schemes

As detailed above, some data brokers specialise in partnering with other companies to generate marketing databases which they on-sell to loyalty schemes.

The monetisation of the data occurs in two ways; firstly, the company who the member transacted with (in this example, to buy the product online) receives a payment from the data broker for the data, and secondly, the data broker receives a payment from the sponsoring loyalty scheme for providing them with their new marketing database.

¹²¹ Mastercard, *Mastercard Reward Solutions*, <<https://www.mastercard.com.au/en-au/issuers/products-and-solutions/grow-manage-your-business/loyalty-solutions/reward-solutions.html>>, accessed 19th April 2019.

6. Emerging business and data practices

Many trends are emerging in the Australian loyalty industry. Analysis of these trends provides some indication of how the market is evolving in an increasingly competitive environment.

AI-powered marketing

This is a trend which is primarily the domain of larger loyalty schemes due to the cost involved in developing and running the required platforms and the enormous amount of data required to optimise the algorithms. The potential of AI (and machine-learning) is the ability to serve up individualised communications to members across a variety of channels, thereby delivering relevance at the ideal time to boost sales of products and services.

Due to the cost and level of expertise required to run full-AI marketing platforms, some major loyalty schemes outsource their operations, such as Woolworths Reward who utilise Quantum's AI platform. As detailed above, several of the newer loyalty platforms now include machine-learning marketing modules, meaning this approach is on the cusp of becoming more mainstream as legacy platforms are replaced by loyalty schemes looking to modernise their member management approach.

Real-time personalised activation (web-browsing)

Real-time personalised activation platforms provide marketers with the ability to deliver personalised offers and messages to consumers in real-time while engaging with digital assets to stimulate higher spend.

While this AI powered technology is relatively expensive, it will inevitably become more mainstream and cost-effective, meaning a new trend of real-time personalisation of website browsing and e-commerce will become mainstream.

Single view of customer

A single view of customer refers to one source of truth for all elements of member data being held by an organisation.

Companies such as Wesfarmers and Woolworths Group in Australia own multiple brands with different member databases and different loyalty schemes. It is in that company's interest for the loyalty schemes to develop a single view of customers by sharing and matching the member data across the loyalty schemes they operate to generate a more complete profile of the member. This can be further supplemented by third-party sourced data.

Convenience

Innovations which save consumers time have been shown to be consistently successful. Text messages, tap and pay card payments and direct debit are all innovations which were rapidly adopted in Australia due to the convenience they delivered.

In the Australian market, the trend of delivering convenience to loyalty scheme members has been prevalent for some time and is set to continue. This includes priority boarding of flights for tier members, linking credit cards to member accounts so they do not need to carry a

member card, apps which deliver a variety of conveniences and AI marketing platforms which accurately remind members they need to purchase a product before they know it themselves.

Small to medium business loyalty scheme participation

Traditionally, major coalition loyalty schemes have partnered with bigger retailers which can attract large volumes of members to their retail outlets to earn points for transacting.

As the market has become saturated, with most large companies either already part of or not interested in joining a coalition loyalty scheme, the coalition loyalty schemes have invested in efforts to engage with small to medium businesses (SMEs). This is complex due to the need for a different approach to partnership management, including a requirement for new technology and accounting processes.

With many of the challenges solved by new technology, the coalition loyalty schemes have begun expanding their SME partnership networks, meaning members of these coalition loyalty schemes can expect to be provided with many new ways to earn points and redeem rewards.

In-store personalisation

Members of loyalty schemes increasingly expect retailers to know that they want to make the shopping experience as hassle-free and convenient as possible. Most companies are executing online and electronic direct mail personalisation well, however when a member enters a retail store, they are generally not identified until the check-out process.

In-store personalisation is a major trend which is starting to evolve in Australia, where members can choose to be identified, or self-identify, when they enter a store in order to be provided with a customised experience. Some of the technology available to facilitate this includes RFID (radio frequency identification), Wi-Fi tracking, beacons, facial recognition software and even having the member quote their mobile number to be entered into an iPad. The sales staff can then access their details from a tablet to see what they have purchased in the past, any special offers available to them, recommended products and more.

Premium loyalty

Some companies charge members to join their loyalty schemes. This is a growing trend overseas,¹²² which has already begun to extend to Australia. Subscription fees are typically non-refundable, and as the member is expecting to access value from their subscription over a set period, this is likely to stimulate brand loyalty for this time as consumers aim to generate a return on their investment.

According to one industry commentator, 'Loyalty simply means you've managed to put a card in the customer's wallet. Paid membership means you've secured a place in the customer's heart. Membership — even for a small fee — forms a sense of exclusivity and

¹²² Pearson, Bryan, "Is 2019 The Year Of Paid Loyalty? Lululemon, CVS And Loblaws Are Game To Find Out", Forbes, Jan 4th 2019, <<https://www.forbes.com/sites/bryanpearson/2019/01/04/is-2019-the-year-of-paid-loyalty-lululemon-cvs-and-loblaw-are-game-to-find-out/#33c99ec94276>>, accessed 13th May 2019.

transforms the customer experience in a way that traditional loyalty programmes simply cannot. Getting a customer to lay down a membership fee forms an entirely new degree of mutual commitment. Even a small sunk cost will make a customer implicitly more engaged with a brand.¹²³

Jason Nathan, dunnhumby's global managing director, views this trend as a full convergence of loyalty schemes and subscription services. 'Amazon and Tesco amongst others have very much blurred those lines between the notion of subscription - whether it's to receive an optimum delivery service, whether it's to receive commodity items on a regular basis,' Mr Nathan said.¹²⁴

In late 2018, *flybuys* conducted a trial amongst staff and their family and friends for a new paid membership tier, *flybuys* Max, which cost \$10/month (or \$99/year) and provided the following benefits:¹²⁵

- 5 per cent discount on fresh produce, including meats, fruits and veggies, or 10 points per dollar spent
- Free delivery on online orders over \$50 (usually you would have to spend over \$100)
- Free movie streaming from a service called MuviNow.

At the time of writing this report, *flybuys* were yet to officially launch *flybuys* Max.

HOYTS Rewards is a paid scheme with an annual fee of \$13 which launched in 2010. Members receive a free movie ticket when they pay their annual fee, plus earn Qantas Points at a higher rate than the free tier members.

In 2019, Deliveroo launched a paid subscription scheme, Deliveroo Plus, offering members unlimited free delivery on orders for \$18.99 per month.¹²⁶

eBay also launched a program in 2019, eBay Plus, which for \$49 per annum provides members with 'free delivery and free returns on Plus items, double *flybuys* points, free delivery over \$49 from Coles, premium customer service and exclusive deals.'¹²⁷

¹²³ Doug Stephens, 'Why Paid Memberships Are the New Loyalty', <<https://www.businessoffashion.com/articles/opinion/the-loyalty-lie>>, 19th February 2018, accessed 29th May 2019

¹²⁴ P. Hatch, Sydney Morning Herald, 'Winning your loyalty: Australia's retail data war is heating up', <<https://www.smh.com.au/business/companies/winning-your-loyalty-australia-s-retail-data-war-is-heating-up-20181221-p50npy.html>>, 3rd January 2019, accessed 30th May 2019.

¹²⁵ Savransky, Max, "flybuys launches its new paid membership program flybuys max", Loyalty & Reward Co, <<https://www.rewardco.com.au/flybuys-launches-its-new-paid-membership-program-flybuys-max/>>, accessed 19th April 2019.

¹²⁶ Ross, David, "Deliveroo launches subscription delivery in Australia – but will it save you money?", Business Insider Australia, 9th April 2019, <<https://www.businessinsider.com.au/deliveroo-launches-subscription-delivery-in-australia-but-will-it-save-you-money-2019-4>>, accessed 13th April 2019.

¹²⁷ eBay website, <<https://pages2.ebay.com.au/plus/>>, accessed 15th May 2019.

Gamification

Gamification utilises game mechanics in non-game settings to drive deeper member engagement.

One example is Boost Juice who have launched two games in two years for Vibe Club (their loyalty scheme) members to play within their app. Many of these games allow the member to win prizes, which are typically discounts off their next purchase.

Boost Juice said in a statement that their first 'Free the Fruit' app saw over 329,889 downloads and 225,970 prizes given away while reaching number one on the Apple App Store and remaining in this position for four weeks.¹²⁸ During this time, Boost customers spent close to 56 million minutes of gameplay at an average 173 minutes per user. This level of app engagement which rewarded customers with vouchers that drive high traffic into their bricks and mortar stores, resulted in significant sales uplifts, hence the launch of their follow up game 'Find the Fruit'.

Bots

Chatbots have permeated the online customer service environment as an alternative option to calling a call centre to seek help or information. Machine-learning chatbot platforms are now available to support members with basic queries which do not require human intervention. Loyalty schemes will play an increasingly important role in their evolution as the machine-learning elements become more dependent on using members' personal data to tailor the service and information they provide.

Other applications of bots include upselling and cross selling based on several different considerations. Bots are used within Facebook Messenger, via SMS, within mobile apps and websites.

Two years ago, Qantas Frequent Flyer launched a Facebook Messenger bot that was designed to give members personalised travel inspiration.¹²⁹ Through this concierge-type service, customers could access sale information and destination inspiration in line with their interests using a channel they associate with communication with friends. Learning from customer interactions and conversations, Qantas' machine-learning service will become more user friendly and effective over time, making it an increasingly powerful customer service tool for the airline.

¹²⁸ McGilloway, Christian, cited in "Boost Juice launches new 'Find the Fruit' game app", Inside FMCG Magazine, 19th April 2018, <<https://insidefmcmag.com.au/2018/04/19/boost-juice-launches-new-find-the-fruit-game-app/>>, accessed 16th May 2019.

¹²⁹ Qantas News Room, "Qantas launches chat bot concierge to give customers travel inspiration", 9th February 2017, <<https://www.qantasnewsroom.com.au/media-releases/qantas-launches-chat-bot-concierge-to-give-customers-travel-inspiration/>>, accessed 19th April 2019.

7. Issues relating to customer loyalty schemes

This chapter provides an outline of issues relating to customer loyalty schemes in Australia, including in relation to competitive and anti-competitive dynamics

This chapter also examines the role of recent exclusive partnerships between loyalty schemes and partners, and provides a review of the literature in relation to the competitive impacts in those industries where loyalty schemes are prevalent.

7.1. The level of competition in the loyalty market

Loyalty schemes are designed and implemented by companies to encourage members to purchase more of the products and services of their parent company and of their partners, and by default, spend less with their competitors. This section explores a range of information available on the competitive impacts of loyalty schemes across different industries.

A 2017 Accenture survey found 58 per cent of Australian consumers spend more with the brands they love, and 49 per cent will recommend brands or organisations to which they are loyal to family and friends.¹³⁰ As a result, 26 per cent of respondents said brands should do everything possible to earn their loyalty.

33 per cent of Australian respondents to a 2018 survey by Mastercard reported their favourite loyalty scheme has a strong influence on their payment, shopping or travel behaviour.¹³¹

A 2017 Nielsen survey found 57 per cent of Australians are more likely to return to a retailer if they have a loyalty scheme in place, and 48 per cent will spend more if they know they are going to be rewarded.¹³²

Another study of Australian consumers indicated the proportion of members who think 'loyalty programs have improved a lot in recent years and tend to offer good rewards and benefits to members' has increased from 51 per cent in 2017 to 59 per cent in 2018.¹³³

That being said, true loyalty appears to be a hard thing to achieve. A 2015 Roy Morgan survey found little exclusive loyalty to supermarket brands.¹³⁴ When asked how many major supermarkets they shopped at over the previous four weeks, 37 per cent of grocery-buyers reported shopping at two, 28 per cent said three and 7 per cent said they shopped at all four. Of the respondents who reported shopping mainly at Woolworths, just 25 per cent shopped exclusively there. For Coles, the comparative number was 24 per cent.

¹³⁰ Accenture, "Seeing beyond the loyalty illusion: it's time you invest more wisely", 2017, <https://www.accenture.com/t00010101T000000_w/es-es/acnmedia/PDF-43/Accenture-Strategy-GCPR-Loyalty-Infographic.pdf>, accessed 19th April 2019.

¹³¹ Mastercard, "Achieving Advocacy and Influence in a Changing Loyalty Landscape", 2018, <<https://newsroom.mastercard.com/asia-pacific/files/2018/01/Loyalty-Solutions-Whitepaper.-AP-Region-20171.pdf>>, accessed 6th April 2019.

¹³² Nielsen, "Get with the program: card-carrying consumer perspectives on retail loyalty-program participation and perks", November 2016, <<https://www.nielsen.com/content/dam/nielsen/global/de/docs/Nielsen%20Global%20Retail%20Loyalty-Sentiment%20Report%20FINAL.pdf>>, accessed 20th April 2019.

¹³³ Posner, Adam, "For Love Or Money 2018", edition 6, page 17.

¹³⁴ Roy Morgan, "Supermarket loyalty: what's that?", 8th September 2015, <<http://www.roymorgan.com/findings/6442-supermarket-loyalty-whats-that-201509072312>>, accessed 20th April 2019.

Section 2, which detailed the evolution of coalition loyalty schemes over the past ten years, provides insight into the efforts by the major loyalty schemes and their parent companies to continually strive for a competitive advantage. This shows little sign of slowing. Qantas Frequent Flyer and Velocity have begun partnering with smaller retailers as earn and redemption partners, *flybuys* has launched a paid membership option, Woolworths has expanded into fuel, and all the coalition loyalty schemes are investing in technology and data scientists to improve their propensity to influence members to spend incrementally more with them (and generally less with their competitors).

Extensive innovation generated by competitive pressure is evident in the financial services industry. Major banks are competing across a variety of loyalty scheme models, including cashback offers (e.g. Westpac Extras),¹³⁵ points schemes (most banks), and exclusive member special offers on partner products (e.g. AMEX Offers).¹³⁶

Telecommunications provides an example of industry homogenisation generating competitive tensions which led to the creation of an entirely new loyalty scheme approach. In 2013, Telstra launched a new member benefits scheme, Telstra Thanks, which allowed members to access discount movie tickets, sporting and music event tickets and more.¹³⁷ In 2015, Optus replied with Optus Perks,¹³⁸ a scheme very similar in design which effectively neutralised any competitive advantage Telstra may have gained from their scheme. In 2019, Telstra announced a new loyalty scheme approach, Telstra Plus, which rewards members with points and status tiers, something very different in design to their previous model and to their competitor's scheme.¹³⁹

Further evidence of loyalty scheme competition can be found in the car rental industry. Up until late 2010, Qantas Points could be earned at Hertz, Avis and Budget. In November 2010, an exclusive deal was negotiated between Avis, Budget and Qantas Frequent Flyer, which meant Hertz could no longer offer their customers Qantas Points.¹⁴⁰ This had a significant negative impact on Hertz' revenue, which declined year-on-year in 2012 by 2.9 per cent, with a further decline in 2013 of 4.3 per cent. For the same period, Avis' revenue grew in 2012 by 4.6 per cent and in 2013 by a further 8.7 per cent. IbisWorld reported 'Avis (and Budget Rent A Car) have benefited from strategic partnerships with tourism service operators over the past five years, such as the partnership between Avis and the Qantas Frequent Flyer Program. These partnerships have provided the brands with a competitive edge over other passenger car rental companies, particularly in highly competitive positions

¹³⁵ Westpac, "Westpac Extras", <<https://www.westpac.com.au/personal-banking/credit-cards/westpac-extras/>>, accessed 13th May 2019.

¹³⁶ American Express, "Access and Offers", <<https://www.americanexpress.com/au/credit-cards/membership-benefits/access-and-offers/index.html>>, accessed 13th May 2019.

¹³⁷ Christensen, Nic, "Telstra launches 'Thanks' loyalty program", Mumbrella, 25th February 2013, <<https://mumbrella.com.au/telstra-launches-thanks-loyalty-program-141818>>, accessed 13th May 2019.

¹³⁸ Homewood, Sarah, "Optus launches revamped loyalty program; reveals Perks, AdNews, 9th December 2015, <<http://www.adnews.com.au/news/optus-launches-revamped-loyalty-program-reveals-perks>>, accessed 13th May 2019.

¹³⁹ B&T Magazine, "Telstra Announces Telstra Plus, A New Rewards Program For Customers", 2nd April 2019, <<https://www.bandt.com.au/technology/telstra-announces-telstra-plus-new-rewards-program-customers>>, accessed 14th April 2019.

¹⁴⁰ Qantas, "News", August 2010, <<https://www.qantas.com/fflyer/dyn/program/news/2010/aug/changes-to-car-hire>>, accessed 15th May 2019.

within airports.¹⁴¹ To offset the competitive strategy of Avis, Hertz negotiated a partnership with Velocity in August 2011.¹⁴²

Loyalty schemes are extensive in the liquor industry with all major brands offering members some form of loyalty scheme, either through a partnership with *flybuys* (Liquorland and First Choice Liquor) or Woolworths Rewards (BWS), or via their own branded schemes (My Dan Murphy's, Cellarmasters Rewards and Vintage Cellars Wine Club). The loyalty schemes are an important channel for building marketing databases used to promote products to repeat customers in a battle to secure a greater share of wallet spend.

The health insurance industry is seeing growth in competition via loyalty schemes, with several providers such as Bupa, HCF and Medibank launching member benefits schemes as a way to retain customers and differentiate their offerings. It is expected this will continue as new regulation forces the providers to make their policy offering more structured and easier to compare. Many companies in the health insurance industry have also partnered with coalition loyalty schemes.

Within the cinema industry, HOYTS has attempted to gain a competitive advantage with the redesign of their loyalty scheme in 2016 which led to a partnership with Qantas Frequent Flyer. The agreement allowed members to not only earn Qantas Points at HOYTS, but also redeem them.

The fuel industry continues to compete using loyalty schemes as a tool, with BP partnering with Velocity, Caltex partnering with Woolworths Rewards and *flybuys* partnering with Shell in an attempt to gain an advantage.

The energy sector shows signs of competition using loyalty schemes, with AGL partnered with *flybuys*, Red Energy partnered with Qantas Frequent Flyer, Energy Australia partnered with Velocity and Simply Energy partnered with NRMA.

Many further examples could be provided across most industries in Australia.

7.2. Exclusive partnerships between loyalty schemes and third-party companies

One of the main ways loyalty schemes and their partners compete is via exclusive partnerships. As detailed earlier, for the loyalty scheme operators the advantages include a partnership which can be secured via contract for a period of years which will deliver a committed minimum amount of revenue (with plenty of upside potential), a major brand which will promote the loyalty scheme to their customers via their own marketing channels and a new opportunity for members to earn more points. For the partner, the advantages include a tangible way to differentiate themselves from their competition and a way to access the loyalty scheme's highly-engaged marketing database to grow revenues.

¹⁴¹ David Whytcross, 'IBISWorld Industry Report: L6611 Passenger Car Rental and Hiring in Australia,' October 2014, page 23-25.

¹⁴² Velocity Frequent Flyer, Program Updates, August 2011, <<https://www.velocityfrequentflyer.com/content/ProgramBenefits/LatestNews/OurnewPartnersHertzThrifty/>> accessed 15th May.

Within the Australian loyalty industry, exclusive partnership arrangements tend to manifest in two ways. Firstly, major coalition loyalty schemes negotiate exclusive partnership with earn partners within an industry. Secondly, member benefits schemes negotiate exclusive partnership with benefit suppliers.

Major coalition loyalty scheme exclusive partnerships within an industry

The large coalition loyalty schemes tend to attempt to establish exclusive partnerships with either the biggest or second biggest company in each industry. Requests for exclusivity may come from either party. The loyalty scheme's ambition is to build a network of partners which supports the strategy of 'everyday earn'. This is where a member has the option to earn their preferred loyalty points no matter what they are purchasing by choosing to transact with a scheme earn partner.

All the major coalition loyalty schemes have negotiated exclusive partnerships across several industries:

- **Qantas Frequent Flyer:** Exclusive partnerships have been established across travel, accommodation, insurance, grocery, car rental, cinema, telecommunications, energy, real estate, printing, parking, bedding, food delivery services and many other industries.
- **Velocity:** Exclusive partnerships have been established across travel, accommodation, insurance, fuel, car rental, telecommunications, health, parking, auto parts, liquor and more.
- **flybuys:** Exclusive partnerships have been established across Wesfarmers brands such as Coles, Liquorland, First Choice, Kmart and Target, but also across car rental, e-commerce, energy, health insurance and travel.
- **Woolworths Rewards:** Exclusive partnerships have primarily been established across Woolworths Group companies including Woolworths supermarkets, Big W, BWS and Caltex Woolworths.

Member benefits scheme exclusive partnerships with benefit suppliers

As detailed earlier, member benefits schemes provide members with access to tens or hundreds or even thousands of special offers and benefits from third-party partners. They are prevalent across telecommunications, insurance, energy and other industries.

The larger member benefits schemes have demonstrated a tendency to negotiate exclusive partnerships as a direct competitive strategy. The best example of this is in the telecommunications industry, where Telstra and Optus have negotiated agreements with third party partners to provide discount offers:

- **Telstra:** Exclusive agreements with Event Cinemas, AFL, NRL, A-League, Super Netball and a range of art and music partnerships.
- **Optus:** HOYTS, Ticketmaster, Experience Oz, Manchester United, National Geographic and Live Nation.

7.3. Competitive impacts of loyalty schemes

The examples detailed in this chapter indicate that loyalty schemes generate competitive impacts in a number of industries in Australia. Consumer behaviour partly explains the driver of this. A 2018 Canstar Blue survey identified that 21 per cent of Australian shoppers who reported switching supermarkets did so to earn reward points, while 54 per cent of those who did all their shopping at the one supermarket did so because of reward points. Further, international research illustrates the extent of potential competitive impacts loyalty schemes may have on different industries, with most research focused on the airline industry.

Lederman (2003) reported significant effects of frequent flyer schemes on market share in the US.¹⁴³ Her study showed that enhancements to an airline's frequent flyer scheme in the form of improved partner earning and redemption opportunities could be directly associated with an increase in the airline's market share. The effects were demonstrated to be larger on routes that departed from airports at which the airline was more dominant (hubs), which led her to draw the conclusion that frequent flyer schemes can serve to reinforce an airlines' market power.

Cairns and Galbraith (1990) argued that there may be at least two anti-competitive aspects to frequent flyer schemes.¹⁴⁴ Firstly, 'that frequent flyer schemes may generate switching costs for travellers' through the awarding of status tiers which confer benefits on the member which they would lose if they moved their business to another airline. Secondly, 'the main strategic barriers to entry in air transport markets are the dominant airport presence by an airline, which might limit access to airport facilities, and the frequent-flyer schemes, which are sunk costs that an entrant has to pay to compete with an incumbent. From the point of view of a potential entrant, frequent flyer schemes reduce the expected demand on a certain route and therefore may impede a profitable service on that route'.

Duque (2017) also focused on switching costs,¹⁴⁵ arguing loyalty schemes lure consumers with different types of rewards, some of which can make exit costly. He stated, 'delayed rewards, such as points or miles, can trigger a lock-in problem. Once a consumer has started accumulating points with a provider, switching to a different one implies losing the endowed progress to redeem the first provider's reward. He also argued that 'loyalty rewards can impose distributional costs on low-income consumers. This is patent in the credit card market, where loyalty rewards cause a general increase in prices but only a handful of high-income consumers benefit from loyalty rewards'. The Reserve Bank of Australia used a similar argument to support their ruling for the capping of interchange fees for credit card transactions,¹⁴⁶ meaning this may now be less of an issue for the Australian market.

The Norwegian government perceived frequent flyer schemes to be significantly anti-competitive enough that they banned the earning of loyalty points on domestic routes for a

¹⁴³ Lederman, M., "Do Enhancements to Loyalty Programs Affect Demand? The Impact of International Frequent Flyer Partnerships on Domestic Airline Demand", mimeo MIT, 2003.

¹⁴⁴ Cairns, R. & Galbraith, J., "Artificial Compatibility, Barriers to Entry, and Frequent-Flyer Programs", Canadian Journal of Economics, 1990, Vol 23, page 807-816.

¹⁴⁵ Duque, O. V., "The Costs of Loyalty. On Loyalty Rewards and Consumer Welfare," Economic Analysis of Law Review, 2017, Vol 8, no. 2, p. 411-450.

¹⁴⁶ Reserve Bank of Australia, *Review of Card Payments Regulation*, Conclusions paper, May 2016, <<https://www.rba.gov.au/payments-and-infrastructure/review-of-card-payments-regulation/conclusions-paper-may2016/interchange-fees-and-transparency-of-card-payments.html>>, accessed 13th May 2019.

period. In 1994, the government fully-deregulated the airline market to stimulate market competition against the incumbent SAS. The first new entrant, Colour Air, launched in 1998 but failed after just 13 months. According to a note provided by the competition authorities in Norway to the OECD on airline competition, 'An important reason for this was a lack of an attractive frequent flyer program that could compete with SAS' EuroBonus program.'¹⁴⁷ When a new competitor entered the market in 2002, the Norwegian competition authority banned earning points on the frequent flyer scheme of SAS, Braathens' and Widerøe on all domestic routes for a five year period. This was extended indefinitely after the competition authority found it reasonable to assume that a reintroduction of loyalty schemes in the Norwegian domestic airline sector would lead to business travellers choosing the airline with the most attractive loyalty scheme, arguing that as business travellers constitute the majority of those paying full price tickets, this could have significant consequences for an airline with the least attractive loyalty scheme. The ban was formally lifted in 2013 after it was considered that competition on domestic routes was significantly robust to justify this.

Nako (1992) ran a study which attempted to quantify the effects of frequent flyer schemes on business traveller's choice of airline and found that frequent flyer schemes had a significant impact upon airline choice.¹⁴⁸ Meyer-Warden (2007) later argued that that in a competitive market, good schemes get imitated, which means that the result will be a return to the initial competitive situation but with increased marketing costs.¹⁴⁹ This potentially reflects the competitive tension between Qantas Frequent Flyer and Velocity over the past decade, where Qantas dominated the business travel space until Virgin Australia improved their product offering and frequent flyer scheme to successfully win the business travel spend of several firms. Despite this, however, there is still a significant difference in the respective market shares of Australia's major airlines.

Further research by Meyer-Warden and Benavent (2006) found that when all companies in an industry have loyalty schemes,¹⁵⁰ the market is characterised by an absence of change of the competitive situation. This is potentially an issue for the Australian market which tends to support dominant duopolies. In an environment where the duopolistic players have large, healthy loyalty schemes with high member engagement, the competitive tension between them may be somewhat neutralised, but the ability for smaller companies or new entrants without a well-established loyalty scheme to compete may be inhibited.

Reichheld (1996) found that loyalty schemes can decrease the degree of sensitivity members have towards competing offers or prices,¹⁵¹ which can prompt them to pay higher average prices for goods they usually purchase, buy them in higher quantity, or choose better quality products and more expensive brands. Nako (1997),¹⁵² and Bolton et al.

¹⁴⁷ OECD, Directorate For Financial And Enterprise Affairs - Competition Committee, 'Airline Competition - Note by Norway,' 2014.

¹⁴⁸ Nako, Steven, "Frequent Flyer Programs and Business Travellers: An Empirical Investigation", Logistics and Transportation Review Vancouver, 1992, Vol 28, Issue 4, page 395.

¹⁴⁹ Meyer-Warden, Lars, "The effects of loyalty programs on customer lifetime duration and share of wallet", Journal of Retailing, 2007, Vol 83, page 223-236.

¹⁵⁰ Meyer-Warden, L., & Benavent, C., "The Impact of Loyalty Programmes on Repeat Purchase Behaviour", Journal of Marketing Management, 2006, Vol 22, page 61-88.

¹⁵¹ Reichheld, Frederick, "The Loyalty Effect: The Hidden Force Behind Growth, Profits and Lasting Value", Harvard Business School Press, 1996.

¹⁵² Nako, Steven, "Frequent flyer programs and business travellers: an empirical investigation", Logistics and Transportation Review, 1997, Vol 28, page 395-410.

(2000),¹⁵³ argued that a loyalty scheme can serve to distract members' minds away from price and other negative evaluations of the company. By spending with a specific retailer more often and more frequently, the member may be confronted with competitors' prices less often. Because they are deprived of a comparison, loyalty scheme members may become less sensitive to higher prices.

This was supported by McCaughey and Behrens (2011) who studied actual frequent flyer member flight behaviour in The Netherlands and found that members were willing to pay a price premium of up to six percent, which could be directly attributable to their frequent flyer scheme participation.¹⁵⁴ This is potentially an issue for competition in Australia where a duopolistic industry structure may reduce the ability of smaller companies and new entrants to effectively compete on price against larger companies, who may already have access to lower priced goods and services as a result of their superior buying power created by their dominant market share.

Basso, Clement and Ross (2009) also supported the idea that loyalty schemes may reduce price competition, however, this was in the context of employers paying for employee's flights. Basso et al. presented a model which portrayed frequent flyer schemes as efforts to exploit the agency relationship between employers (who pay for tickets) and employees (who book travel).¹⁵⁵ They argued that frequent flyer schemes 'bribe' employees to book flights at higher prices in exchange for points (and other perks), with the airline scheme taking advantage of the fact that employees selecting an airline (or hotel, or car rental agency) will not necessarily have the right incentives to find the lowest possible price when the employer is paying the bill. Their model also indicated that, in a competitive environment, frequent flyer schemes can lead to higher prices incurred by employers and lower profits for airlines, with the employees enjoying the benefits of increased value from the scheme. This insight may be relevant for the Australian market, with Qantas and Virgin Australia both using their loyalty schemes to compete for corporate travellers. The effects of this are likely ameliorated where Governments and corporate clients require employees to purchase the 'lowest practical fare of the day'.

Caminal and Claiici (2006), however, argue that rather than reinforcing firms' market power and negatively affecting consumer welfare, loyalty schemes are 'business stealing' devices that tend to enhance competition by generating lower average transaction prices and higher consumer surplus.¹⁵⁶ They further argue against Ledermann's position that the introduction or an enhancement of a frequent flyer scheme raises its market share because the scheme enhances the airline's market power. Their counter-argument is that the use of frequent flyer schemes may actually signal fiercer competition among airlines.

An Australian study examined the determinants of airline pricing and price wars in Australia from January 2013 to August 2017, indicating aggressive pricing strategies despite the

¹⁵³ Bolton, R., Kannan, P.K., Bramlett, M., "Implications of loyalty program membership and service experiences for customer retention and value", 2000, Journal of the Academy of Marketing Science, 2000, Vol 20, page 95-108.

¹⁵⁴ McCaughey, N., & Behrens, C., "Paying for Status? - The effect of frequent flyer program member status on airfare choice", Monash University Department of Economics, 2011.

¹⁵⁵ Leonardo J. Basso, Matthew T. Clements, and Thomas W. Ross, "Moral Hazard and Customer Loyalty Programs," 2009, American Economic Journal: Microeconomics, page 101-123.

¹⁵⁶ Caminal, R., & Claiici, A., "Are loyalty-rewarding pricing schemes anti-competitive?", International Journal of Industrial Organization, 2007, Vol 25, page 657-674.

success of the two airlines' frequent flyer schemes.¹⁵⁷ Within the supermarket industry, recent reports indicate that prices have been falling, with prices for products at Woolworths reducing by 2.1 per cent for the FY16 financial year and prices for products at Coles reducing by 2 per cent in the first quarter of 2017.¹⁵⁸ This may be partly attributable to the competitors battling for market share among themselves and with Aldi, while preparing for the entry of Amazon to the market, as well as broader economy-wide issues. Another contributor may be that the major supermarkets have a higher level of bargaining power and may be able to negotiate for any price reductions to be borne by suppliers rather than themselves, meaning they may not have suffered any margin reduction during this period.¹⁵⁹

As a counterpoint to loyalty schemes in the Australian supermarket industry, Aldi, a discount supermarket chain, has commenced an advertising campaign against the points-based schemes of *flybuys* and Woolworths Rewards. Aldi calculated the amount of time and money customers need to spend shopping with competitor supermarkets before they are rewarded with a selection of rewards. Aldi's 'anti-loyalty scheme' stance stated that customers in loyalty schemes routinely spend more, "We think points are pointless. We think loyalty schemes are a waste of time. And we think the only 'reward' that matters is everyday low prices."¹⁶⁰ In addition to the time and money, Aldi focused on data monetisation in loyalty schemes. "How do you like the idea of your data being shared with or sold to third parties?" This campaign may be perceived as evidence that the loyalty schemes of Aldi's competitors are effective enough for Aldi to invest marketing budget in an attempt to change consumer perceptions of them.

Jason Nathan, *dunnhumby's* global managing director, directly referred to using member data to personalise communications and offers as a way for retailers to fight disruptive challengers like Aldi in the supermarket space. 'If you're up against somebody selling 2000 products at 10 per cent cheaper then clearly you have to do something different, and that something different is going to be able to stay in a personalised conversation with your customers.'¹⁶¹

A May 2019 Credit Suisse report indicated that 'Woolworths and Coles are almost uniquely positioned to leverage their growing digital capabilities to establish competitive advantage in the promotional expenditure component of the food retail value chain. With material efficiency benefits feasible, it is likely that growing digitally-led efficiency will support market share gain and outperformance by Woolworths and Coles.'¹⁶²

¹⁵⁷ Yang, Hangjun, "An analysis of price competition and price wars in Australia's domestic airline market", University of International Business and Economics, 2018.

¹⁵⁸ Pash, Chris, "Hot competition is back in Australian supermarkets", 19th October 2017, <<https://www.businessinsider.com.au/hot-competition-is-back-in-australian-supermarkets-2017-10>>, accessed 20th April 2019.

¹⁵⁹ Robertson, Andrew, "Giant global brands ban supermarket deliveries in price war", ABC News, 18th April 2019, <<https://www.abc.net.au/news/2019-04-18/supermarket-giants-feel-the-heat-from-suppliers-over-low-prices/11027212>>, accessed 21st April 2019.

¹⁶⁰ Ice, Ben, "Aldi attacks 'pointless' loyalty schemes in latest campaign", Marketing Mag, 16th October 2018, <<https://www.marketingmag.com.au/news-c/news-aldi-loyalty-schemes/>>, accessed 12th May 2019.

¹⁶¹ P. Hatch, Sydney Morning Herald, 'Winning your loyalty: Australia's retail data war is heating up', <<https://www.smh.com.au/business/companies/winning-your-loyalty-australia-s-retail-data-war-is-heating-up-20181221-p50npy.html>> 3rd January 2019, accessed 30th May 2019

¹⁶² Credit Suisse, "Asia Pacific/Australia Equity Research Food & Drug Retailing", 28th May 2019, accessed 30th May 2019.

The Credit Suisse report states the growth will be at the expense of Metcash (IGA), who they see as relatively weak in digital marketing, and Aldi, who already run a lean operating model and are therefore less able to take advantage of the potential cost savings that modern data-powered marketing approaches can deliver. Coles and Woolworths capability includes the potential to offer discounts on products to members who are price sensitive, while charging full price to customers who regularly buy the product, with AI tracking campaign success and adjusting accordingly. The report states 'promotional expenditure comprises 20% of the food retail value chain,' therefore even a small reduction in promotional costs would be significant. 'The respective Woolworths Rewards and *flybuys* programmes of Woolworths and Coles provide an unmatched capability to engage with customers on a unique basis,' Mr Saligari, the author of the report, was quoted as saying in a media article. 'Which when linked to the vast transaction volume through their stores and digital properties... provide an almost unprecedented amount of transactional data to leverage through a growing AI analytical capability.'¹⁶³

¹⁶³ P. Hatch, Sydney Morning Herald, '*Coles and Woolies' secret weapon in war with Aldi is data*' <<https://www.smh.com.au/business/companies/coles-and-woolies-secret-weapon-in-war-with-aldi-is-data-20190529-p51sej.html>>, 30th May 2019, accessed 30th May 2019.

8. Consumer perception and value of loyalty schemes

This chapter addresses the ways in which loyalty schemes provide value to members, examines the devaluation of points over time by certain schemes, highlights whether there is any potentially concerning messaging about the value members can access from a loyalty scheme and investigates whether consumers are paying higher prices to participate in a scheme.

8.1. Are consumers getting what they are promised?

Determining the true value provided by loyalty schemes is not always straight-forward, particularly for the large coalition loyalty schemes, which tend to be complex by nature. This is because the member can earn different volumes of points from various earn partners (which may also be supplemented with bonus points), and the value ascribed to them by the loyalty scheme operator when those points are redeemed will vary dependent on the rewards selected. The frequent flyer schemes also specialise in status tier benefits, which at the higher end can provide lounge access, priority boarding, free upgrades, guaranteed bonus points and other perks.

Companies which tend to earn large margins on their products have a natural advantage when running a loyalty scheme. For example, when a member redeems points on a flight which is valued at \$2,000, the member may perceive they have received that amount of value, even though the actual cost to the airline of providing that seat (which otherwise would have remained unsold) may have been around 5 per cent of the total retail price. Other industries which enjoy this dynamic are cinemas (which can provide points to members for redemption on Candy Bar products that cost them very little in raw materials), quick service restaurants (which can provide free food at a cost well below the retail price), and hotels (which can provide unsold rooms at a low cost).

There is evidence that some loyalty schemes have devalued points over time by increasing the cost in points of reward products. For example, in 2009, a \$100 Barbeques Galore physical gift card cost 13,500 points on the Velocity Rewards Store, while today it costs 18,000 points (a 33 per cent increase). In 2008, a \$100 Myer physical gift card cost 13,500 points on the Qantas Store, while today it costs 17,770 points,¹⁶⁴ a points price increase of 31 per cent for a product which has not changed in value. The price increases have been gradual over several years and the loyalty schemes have not been required to announce any changes in price to their member bases. In these cases, the points increases have outstripped inflation, with the cumulative average increase in inflation over the past five years being about 9.5 per cent (or an average of 1.9 per cent).¹⁶⁵

Reward flights have also increased slightly. In 2012, a one-way economy flight Sydney to Melbourne required 6,900 Velocity Points plus \$34. Today, the same flight requires 7,800 points plus \$27.24. Qantas Frequent Flight has maintained their points cost for the same route at 8,000 points, however as an alternative to increasing the points required they have introduced a Carrier Charge to Classic Award bookings. This adds \$14 in fees to a Sydney

¹⁶⁴ Qantas, "Qantas Store", <<https://www.qantasstore.com.au/p/myer-gift-card/146658>>, accessed 13th May 2019.

¹⁶⁵ Australian Bureau of Statistics (ABS), 6401.0—Consumer Price Index, Australia, Jun 2018, Tables 1 and 2 - CPI: All Groups, Index Numbers and Percentage Changes and Tables 3 and 4 - CPI: Groups, Weighted Average of Eight Capital Cities, Index Numbers and Percentage Changes.

to Melbourne trip which is not applicable for bookings paid in cash. Section 8.2 covers Carrier Charges in more detail.

Table 3 details the value members may be able to access from loyalty schemes in different industries. It is a summary only and is not exhaustive, with many loyalty schemes providing value to members in other ways which have not been detailed.

Table 3: Summary of potential value available to Australian loyalty scheme members

Industry	Scheme name(s)	Value
Airlines	Qantas Frequent Flyer Velocity Frequent Flyer	<p>Earn rates:</p> <p>Flights: Base earn starts at one point for every mile flown (Qantas Frequent Flyer) or five points for every dollar spent (Velocity Frequent Flyer). Percentage bonuses are provided for tier members for both schemes of 50 per cent for Silver, 75 per cent for Gold and 100 per cent for Platinum. This earn rate also extends to flights on most partner airlines. Members also earn status credits for flights, which contribute towards earning or maintaining their status.</p> <p>Partners: Earn rates generally start at half a point per dollar spent (for a credit card) and one point per dollar spent for most retailers. Some retailers offer as much as seven points per dollar spent. Partners may also run periodic bonus points campaigns.</p> <p>Redeem:</p> <p>Flights: The best value for points is provided for flight redemptions. It is relatively simple for a member to calculate the value they will receive for a redemption by comparing the points price against the listed fare for the same journey. For example, a one-way journey Sydney to Melbourne on Qantas is 8,000 points (plus \$71.66 in surcharges, fees and taxes), providing a value of 1.2c per point. A one-way flight Sydney to London is 60,000 points (plus \$281.77 in surcharges, fees and taxes), with the comparative fare of \$1,486 delivering a value of 2c per point.</p> <p>Consumer Goods: Points value tends to decrease significantly when members redeem on non-flight products such as gift cards and kitchen accessories. Gift cards can deliver as little value as 0.5c per point, and a toaster may deliver just 0.35c per point. Gift cards provide an effective way to track the changes in points value over time.</p>
Supermarkets	Woolworths Rewards Flybuys	<p>The base earn rate for supermarket schemes is one point per dollar spent, with a point worth 0.5c when redeemed. Supermarket schemes tend to provide large amounts of bonus points offers allowing members to boost their earn rate by anything from two times up to ten times. Most redemptions are for discounts on supermarket shopping, although other options include a range of consumer products via an online store.</p>
Hotels	Hilton Honours Marriott Bonvoy IHG Rewards Club	<p>Base earn starts at ten points for every dollar spent, with percentage bonuses from 10 per cent up to 100 per cent for status tiers. When redeemed on a hotel stay, the value appears to be in a range of 0.25c to 0.5c per point. When redeemed on experiences, such as concert tickets, the value is around 0.35c per point.</p>

Industry	Scheme name(s)	Value
Retail	<p>Priceline Sister Club</p> <p>Myer One</p> <p>VIP Club</p> <p>IKEA Family</p> <p>My Dan Murphy's</p> <p>Beauty Pass</p> <p>Beauty Loop</p> <p>Linen Lovers</p> <p>Amcal Rewards</p> <p>Country Road Cardholder</p> <p>Dymocks Booklover</p> <p>EB World</p>	<p>Schemes in the retail industry tend to support a combination of points and member special offers, and often include status tiers. The return to members in points can be anything from 1 per cent up to 10 per cent, with redemption options generally limited to in-store spend.</p>
Telecommunications	<p>Telstra Thanks, Telstra Plus</p> <p>Optus Perks</p>	<p>Similar to insurance, telecommunications companies provide member benefits schemes which offer relatively generous discounts from a range of third-party partners. Telstra Plus, their new points-based scheme, rewards members with 10 points for every dollar spent, although the value these points carry is still to be determined.</p>
Financial Services	<p>Westpac Altitude</p> <p>CommBank Awards</p> <p>ANZ Rewards</p> <p>NAB Rewards</p> <p>American Express Membership Rewards</p>	<p>Card schemes: Earn rates can vary between one point and two and three points per dollar spent. The value at redemption is around 0.4c to 0.5c per point for a gift card.</p> <p>Cashback: Members can activate offers from third-party retailers which are linked to their payment card. When they transact with the retailer, they automatically receive cashback.</p> <p>Member Benefits: Members can access exclusive discounts from third-party partners. As an example, one scheme has recently offered members a range of exclusive benefit from third-party partners, including 'spend \$300 or more,</p>

Industry	Scheme name(s)	Value
		get \$40 back' at Qantas, 'spend \$150, get \$30 back at Ikea', 'Spend AU\$400 or more at Hilton, get AU\$80 back up to 3 times', '12% off hotels with Expedia,' and exclusive access to the card-schemes Lounge at Vivid Sydney.
Insurance	NRMA Blue BUPA Plus HCF Thank You Be Rewarded Medibank Offers YouiRewards	Following a member benefits design, the value available to members can be relatively attractive. This includes discount movie tickets (up to 40 per cent), retail offers (no limit), gift cards (up to 10 per cent), experiences (up to 10 per cent), accommodation (no limit) and more.
Utility	AGL Rewards	Like insurance and telecommunications, utilities favour member benefits design, however they also partner with coalition loyalty schemes to offer points at the rate of one point for every dollar spent.
Cinemas	Cinebuzz Rewards HOYTS Rewards	Members can earn up to 10 per cent of their spend in points or branded dollars, which can be redeemed on free movie tickets and Candy Bar items. Members can also access discount movies and discount promotions on Candy Bar. HOYTS members can also earn Qantas Points (starting at a base rate of half a point for every dollar spent) and redeem Qantas Points (at a rate of 0.5c per point).
Quick service restaurants (QSR) and cafes	mymacca's Domino's Rewards Starbucks Rewards	Members can earn from 5 per cent to 15 per cent back across different schemes, which can be redeemed on free or discount food. Members are also provided with the opportunity to access exclusive member special offers.

As can be seen, the actual value provided by loyalty schemes varies greatly, with members of some loyalty schemes receiving as little as 0.5c of value for every dollar they spend, while via other loyalty schemes they can receive 10 per cent of their spend back and more.

8.2. Are loyalty schemes over-promising to members?

With some loyalty schemes providing a relatively small return on each dollar spent, it is important to investigate whether there are loyalty schemes operating in Australia which, through their advertising approaches, are at risk of over-promising to members by indicating value is more accessible than it may actually be.

An exploration of loyalty scheme advertising campaigns indicates that some advertising appears to make broad statements that no reasonable consumer would likely interpret literally. For instance, one recent campaign by Qantas for credit cards promoted buying cups of coffee as a pathway to an international flight (using the promotional line 'Latte, Latte, Latte, London'). Taken literally (which may not be the intention), the member would need to purchase 20,000 to 40,000 cups of coffee with a Qantas-branded credit card to earn enough points. Assuming the ordinary person buys 1-2 cups per day, this may take up to 55 years. It is unlikely this would be taken literally by a consumer.

Figure 2: Qantas promotional material



Source: Loyalty & Reward Co

A summary of the types of promotional messaging used across different industries is provided in Table 4, below.

Table 4: Scheme promotional messaging examples

Industry	Scheme name(s)	Promotional messaging examples
Airlines	Qantas Frequent Flyer	'Turn Food into Flights. Turn everyday food shopping into your next holiday.' ¹⁶⁶
	Velocity Frequent Flyer	'Earn points on this trip, to pay for your next one.' ¹⁶⁷
Supermarkets	Woolworths Rewards	'Watch your Qantas Points balance take off with Woolworths.' ¹⁶⁸
	Flybuys	'Fly faster. Receive 100 bonus Velocity Points for every 2000 flybuys points transferred' ¹⁶⁹
Hotels	Hilton Honours	'Your fast track to a free night' ¹⁷⁰
	Marriott Bonvoy	'Get a Free Night' ¹⁷¹
	IHG Rewards Club	'Free Nights. Faster. It's that simple' ¹⁷²

¹⁶⁶ Qantas, <<https://www.qantas.com/fflyer/dyn/partners/woolworths-rewards>>, accessed 16th May 2019.

¹⁶⁷ Velocity, member email communication received 3rd September 2018.

¹⁶⁸ Points Hacks, "The Woolworths & Qantas points deal saves Woolworths' bacon, but Qantas is the real winner", 8th January 2016, <<https://www.pointhacks.com.au/woolworths-qantas-points-deal-saves-woolworths-bacon-qantas-real-winner/>>, accessed 16th May 2019.

¹⁶⁹ Trivoso, "11% bonus for transfers from flybuys to Velocity", 7th March 2019, <<https://www.trivoso.com/2019/03/07/11-bonus-for-transfers-from-flybuys-to-velocity-targeted/>>, accessed 16th May 2019.

¹⁷⁰ Hilton Honors, member email communication received 27th February 2019.

¹⁷¹ Marriott, Marriott Bonvoy, Google Adwords advertisement displayed 16th May 2019.

¹⁷² Leff, Gary, "New IHG Rewards Club Promotion for First Quarter: Free Nights Faster", 2nd January 2018, <<https://viewfromthewing.boardingarea.com/2019/01/02/new-ihg-rewards-club-promotion-for-first-quarter-free-nights-faster/>>, accessed 16th May 2019.

Industry	Scheme name(s)	Promotional messaging examples
Retail	Priceline Sister Club My Dan Murphy's	'Sisters enjoy perks, privileges and paybacks' ¹⁷³ , 'Paying less is a beautiful thing' ¹⁷⁴ , 'Exclusive offers on our exclusive brands' ¹⁷⁵ 'Unbeatable offers on your favourite drinks' ¹⁷⁶
Telecommunications	Telstra Thanks, Telstra Plus Optus Perks	'Telstra takes you there with pre-sale tickets just to say thanks' ¹⁷⁷ 'Be first in line', 'Experience something new' ¹⁷⁸
Financial Services	Westpac Altitude CommBank Awards	'Help upgrades your holiday' ¹⁷⁹ 'Turn your CommBank Awards Points into your dream holiday' ¹⁸⁰
Insurance	NRMA Blue BUPA Plus	'A new way to get more everyday' ¹⁸¹ 'Take to the skies on Bupa Health Cover with Velocity' ¹⁸²

¹⁷³ Priceline, "Think Girl", <<http://www.thinkgirl.com.au/our-work-priceline>> accessed 16th May 2019.

¹⁷⁴ Paola, Sheshtyn, "The Point Of Difference", AJP, 3rd Match 2018, <<https://ajp.com.au/news/business/a-point-of-difference/>>, accessed 16th May 2019.

¹⁷⁵ Myer, Facebook, 18th January 2018, <<https://www.facebook.com/myer/posts/1582821258421759>>, accessed 16th May 2019.

¹⁷⁶ My | Dan Murphy's, member email communication received 11th April 2019.

¹⁷⁷ Newstead, AI, "Telstra Spamming Customers About Concerts., The New Face Of Promoting", Tone Deaf, 19th August 2013, <<https://tonedeaf.thebrag.com/telstra-spamming-customers-about-concerts-the-new-face-of-promoting/>>, accessed 16th May 2019.

¹⁷⁸ Optus Perks, <<https://www.optusperks.com.au/>>, accessed 16th May 2019.

¹⁷⁹ Altitude Rewards, <<https://altituderewards.com.au/default.aspx>>, accessed 16th May 2019.

¹⁸⁰ Flight Centre, "CommBank Awards", <<https://www.flightcentre.com.au/travel-extras/commonwealth-awards>> accessed 16th May 2019.

¹⁸¹ NRMA, <https://www.mynrma.com.au/membership/nrma-blue?qclid=EA1aIQobChMI3vOugaKf4qIVyq0rCh3Wpww6EAAAYASAAEgLyH_D_BwE&qclsrc=aw.ds>, accessed 16th May 2019.

¹⁸² Bupa, <<https://www.bupa.com.au/campaigns/health-insurance/velocity-mar-jun>>, accessed 16th May 2019.

Industry	Scheme name(s)	Promotional messaging examples
Utility	AGL Rewards	'It's our way of saying thanks. No cost. No catch' ¹⁸³
Cinemas	Cinebuzz Rewards	'Big movies at small prices' ¹⁸⁴
	HOYTS Rewards	'Flights, camera, action' ¹⁸⁵
Quick service restaurants (QSR) and cafes	mymacca's	'30 days, 30 deals, only on the mymaccas app'
	Starbucks Rewards	'Free drink? Right this way'

¹⁸³ AGL, <<https://www.agl.com.au/get-connected/loyalty/rewards>>, accessed 16th May 2019.

¹⁸⁴ Event Cinemas, <<https://www.eventcinemas.com.au/Cinema/Chermside/Promotions/Chermside12dollartickets#cinemas=82>>, accessed 16th May 2019.

¹⁸⁵ Qantas, <<https://www.qantaspoints.com/use-points/hoyts>>, accessed 16th May 2019.

As mentioned in section 8.1, Qantas has introduced Carrier Charges for Classic Flight Reward bookings, which avoids increasing the points required to purchase a flight over time. These are separate from government imposed taxes or fees levied by airports, and are imposed by the airline on its customers. There has been some media attention towards Qantas charging additional fees for redemption flights. One article identified the Carrier Charge could add anything from \$14 to \$1,080 in fees for a Classic Flight Reward booking,¹⁸⁶ despite those fees not being applied to a flight paid for in Australian dollars. A Qantas spokesperson stated that carrier charges ‘reflect amounts determined by the airline that form part of the fare, adjusted and monitored to reflect market conditions and varying demand, and mean the number of points required for Classic Reward seats can remain consistent.’¹⁸⁷

One risk to this approach is that members of the loyalty scheme may be led to believe the points quoted for a trip are directly comparable to the cash price of the base fare. In fact, the article argues, the member is required to pay additional fees to supplement the cost of the base fare, as it has only been partially covered by the points spend. Members can ascertain the Carrier Charge being applied to a Qantas booking using points by commencing the booking process and selecting the flight they wish to book, which then reveals in the fine print the breakdown of the Australian dollar amount the member is required to pay. For example, a one-way trip from Sydney to Melbourne is quoted as ‘8,000 points + \$36 (\$14~+\$22†). ~Carrier charges payable to Qantas, †Taxes and third-party fees (excludes any taxes or fees that may be payable at the airport)’.

Qantas responded to criticism of their Carrier Charges as part of a wider range of program changes announced 20th June 2019. Qantas stated that they would be ‘slashing carrier charges – the additional costs associated with flights booked with Points – by up to 50 per cent on international bookings, saving members on average \$200 per return journey’.¹⁸⁸ This program update announcement also incorporated a change in the number of points required for some reward seats including an up to 10 per cent reduction in the number of points required for international economy Classic Reward seats. In contrast, Business and First Class seats would see an increase in points required.¹⁸⁹ These changes are reflected in Table 5 and Table 6 below.

Table 5 details Carrier Charges payable for one-way Classic Award economy Qantas flights on other popular routes as at May 2019. Carrier Charges for Business Class and First Class flights are not included as part of this table.

¹⁸⁶ See Section 2.2 for an outline of what Classic Flight Rewards are, as compared with Any Seat Rewards.

¹⁸⁷ Graham, Matt, “*The Great Qantas Frequent Flyer Rip-Off*”, The Australian Frequent Flyer, 29th March 2018, <<https://www.australianfrequentflyer.com.au/qantas-frequent-flyer-rip-off/>>, accessed 21st April 2019.

¹⁸⁸ Qantas, “*Qantas Rewards Frequent Flyers In Program Overhaul*”, News Room, 20th June 2019, <<https://www.qantasnewsroom.com.au/media-releases/qantas-rewards-frequent-flyers-in-program-overhaul/>> accessed 20th June 2019.

¹⁸⁹ Qantas, “*Qantas Rewards Frequent Flyers In Program Overhaul*”, News Room, 20th June 2019, <<https://www.qantasnewsroom.com.au/media-releases/qantas-rewards-frequent-flyers-in-program-overhaul/>> accessed 20th June 2019.

Table 5: Carrier Charges payable for one-way Classic Award economy Qantas flights as at May 2019

Route	Qantas Points required	Carrier charge
Sydney to Perth	18,000	\$14
Sydney to Auckland	18,000	\$14
Sydney to Bali	22,500	\$60
Sydney to Singapore	28,000	\$75
Sydney to Honolulu	35,000	\$90
Sydney to Tokyo	35,000	\$104
Sydney to Los Angeles	45,000	\$134
Sydney to London	60,000	\$180

Table 6 details Carrier Charges payable for one-way Classic Award economy Qantas flights on other popular routes as at June 21st 2019, post the announcement of Carrier Charge reductions. Carrier Charges for Business Class and First Class flights are not included as part of this table.

Table 6: Carrier Charges payable for one-way Classic Award economy Qantas flights as at 21 June 2019

Route	Qantas Points required	Carrier charge
Sydney to Perth	18,000	\$14
Sydney to Auckland	18,000	\$14
Sydney to Bali	20,300	\$49
Sydney to Singapore	25,200	\$45
Sydney to Honolulu	31,500	\$45
Sydney to Tokyo	31,500	\$69
Sydney to Los Angeles	41,900	\$60
Sydney to London	55,200	\$180

8.3. Are consumers paying higher prices for loyalty scheme participation?

Across a review of the Australian loyalty industry there does not appear to be any conclusive evidence that members are paying higher prices than non-members for goods and services by participating in a loyalty scheme. In most instances, and by the purpose of their design, the contrary applies, with loyalty scheme members receiving access to discounts and exclusive pricing not provided to non-members. Loyalty schemes do involve an inherent cost to operators to provide the benefits and discounts to members, however, and that cost must be covered in some way, either by price increases or a reduction in retailer profit margins. How this is achieved for individual loyalty schemes is generally not disclosed.

One potential exception is industries which have third party agents promoting and reselling goods or services provided or organised by others. The best known of these is the travel industry which is dominated by Online Travel Agencies (OTA). OTAs provide travel websites that specialise in the sale of travel products to consumers (such as flights, hotels, car rentals, cruises, activities and packages).

While hotels are dependent on OTAs for large percentages of their bookings, OTAs tend to charge quite high commissions for their services.¹⁹⁰ As a result, hotels work hard to try to persuade guests to book with them directly. This saves the hotel from paying commission, but also provides them with the opportunity to cross-sell and up-sell other services to the guest.

One key strategy many hotels use in their efforts to stimulate direct bookings is loyalty schemes. If the guest is a member of the hotel's loyalty scheme, or even a member of a third-party scheme such as a frequent flyer scheme, they can access additional benefits for booking directly with the hotel. If they book via an OTA, they will not access those benefits. To clarify, if a member books direct, they will earn the hotel scheme's points, but if they book via an OTA, they will not earn points.

There is limited evidence of instances where the prices for rooms at certain hotels can be more expensive if booked directly than if booked via OTAs. This would appear to indicate that for those specific instances members are paying higher prices by participating in the hotels' loyalty scheme, because in order to participate in the loyalty scheme they need to book direct, and are therefore being charged higher rates than other booking options where they will be excluded from loyalty scheme benefits.

It is important to note this practice may not be deliberate but does not appear to be pervasive. It may simply be a result of pricing and yield strategy mismanagement, whereby the company has released inventory to an OTA while mistakenly failing to release the same inventory within their own systems. Most hotels or hotel providers have a 'best price guarantee' or 'price promise' whereby they agree to match any advertised price on an identical, available room in the event that the customer does find a cheaper price elsewhere.¹⁹¹ Further investigation is required to determine the prevalence across operators within the industry, as well as similar industries, such as rental cars.

¹⁹⁰ Clampet, Jason, "Everything you wanted to know about the hotel industry's gripes against OTA's", Skift, 25th April 2016, <<https://skift.com/2016/04/25/everything-you-ever-wanted-to-know-about-hotel-industrys-complaints-against-otas/>>, accessed 21st April 2019.

¹⁹¹ Qantas, *Price Promise*, <<https://www.qantas.com/travel/airlines/price-promise/global/en#hotels>>, accessed 29th May 2019.

Appendix

About Loyalty & Reward Co

Loyalty & Reward Co have vast experience in working and consulting in the Australian loyalty industry. Our consultants have worked on loyalty schemes across most industries, including financial services, insurance, liquor, gaming, retirement and aged care, health, telecommunications, technology, entertainment, investment services, hospitality, property, general retail, tourism, cinema, aviation, real estate, food delivery, B2B and blockchain.

In total, we have consulted for more than thirty-five loyalty schemes in the past 6 years. Our consulting services include scheme design, commercial modelling, marketing strategy development, legal & regulatory insight, training, reporting & analytics development, loyalty technical solution design, platform sourcing to meet design requirements, tender process management, contractual negotiations and post-launch operations.

When we secure a new client for a consulting role, our team join and engage with every loyalty scheme in the client's industry in order to research different approaches to loyalty scheme design, marketing, data collection and usage, and other elements. This extensive exposure to hundreds of loyalty schemes across multiple industries has uniquely equipped us to provide comprehensive insight into every aspect of the loyalty market in Australia.

Skills and Experience

Our experience has been developed over many years in several ways, as outlined below.

Working in senior roles in loyalty scheme operations

Schemes our staff have worked for include:

- Qantas (Qantas Frequent Flyer)
- Vodafone (loyalty & retention campaigns)
- HOYTS (HOYTS Rewards)
- Pinpoint Marketing (Citibank Rewards, American Express Membership Rewards, Macquarie Rewards, Heritage Credits, Ovation Incentives, Westpac Altitude Rewards, NRMA Member Benefits, AGL Rewards, AGB Nielsen)
- Pureprofile
- SilverNeedle Hospitality (SilverNeedle Select)
- MyHouse (Advantage Club)

Loyalty management consulting to major brands

We have consulted for the following major brands, including:

- Commonwealth Bank
- Officeworks (via Rapp)
- Macquarie Insurance
- Lendlease

- West HQ
- Optus
- Sportsbet
- HOYTS
- Sumo Salad
- JUCY
- Resimax
- My House
- Dan Murphy's
- Langtons
- Cellarmasters
- Endeavour Drinks Group
- Urban Adventures
- Vintage Cellars
- First Choice Liquor
- Liquorland
- Coles Liquor
- Snooze
- EZToken Rewards
- Reffind
- Amdocs (Israel)
- Shaldor Consulting (Israel)
- HCF
- Credit Swisse
- Demand Film
- Procter & Gamble
- BOC
- Menulog
- UbiCar
- 99 Wuxian
- PetO

Studying loyalty schemes

When we secure a new client for a consulting role, our team attempts to join every loyalty scheme in the client's industry to study and research the competitive landscape. As part of this approach, our team has joined hundreds of loyalty schemes over many years, and

studied many more without joining them, in order to research different approaches to loyalty scheme design, marketing, data collection and usage and other elements.

In addition, prior to starting Loyalty & Reward Co, Philip Shelper was Loyalty Product Manager at Qantas Frequent Flyer, where one of his roles was competitor monitoring. This involved detailed analysis and monitoring of all major loyalty schemes in Australia, and many overseas schemes, to provide a monthly report to senior management.

Studying loyalty scheme psychology

Our team have researched large numbers of different consumer psychology studies pertaining to loyalty approaches to both understand what underpins successful member engagement, as well as to explain to clients the rationale for particular design elements. Loyalty psychology is applied extensively in loyalty scheme designs in Australia.

Writing and presenting about loyalty

Books about blockchain loyalty: In June 2018, Philip Shelper (CEO) released 'Blockchain Loyalty; Disrupting loyalty and reinventing marketing using cryptocurrencies. 1st Edition.' The 2nd Edition was released in April 2019.

Resource centre with extensive articles about the global loyalty industry. Visit www.rewardco.com.au

Resource centre with extensive articles and videos about the blockchain loyalty industry. Visit www.blockchainloyalty.io

Presenting on loyalty: Our team is regularly invited to present on loyalty at conferences and meet-ups in Australia and overseas.

Published articles:

- 'Why most blockchain loyalty programs will fail,' Huffington Post, October 2017.
- 'Australia's Loyalty War', Loyalty Magazine, December 2016.

Participating in advisory boards

Philip Shelper is an Advisory Board member of the Australian Loyalty Association, the peak body for the loyalty industry in Australia.

Conducting university-supported loyalty research

We conducted the world's first blockchain loyalty research project (Unify Rewards) at UNSW in conjunction with the School of Computer Science and Engineering and PiCo. The project ran during Sept-Oct 2017 and resulted in a highly-regarded research paper. Philip Shelper was invited to present the paper at the University of Southern California in Mar 2018.

Studying loyalty history

We have extensively studied the history of the development of loyalty schemes and have written articles and created videos on our findings.