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## Loyalty 2.0

### Three trends that may alter the loyalty landscape

by Rick Ferguson and Kelly Hlavinka

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2008 was an active year for the loyalty-marketing industry. If you've been following the news, you know that some well-known loyalty companies have expanded their scope and reach through acquisition and the launch of new lines of business. Canadian companies Groupe Aeroplan and LoyaltyOne, France's LaSer and Germany's Loyalty Partner—each of which own or operate successful coalition loyalty programs—are poised to leverage their loyalty services on a global scale, building new coalition and partner programs, designing proprietary programs for clients around the world, and exporting their expertise in retail data analysis. These loyalty providers are just a few of the examples of a new generation of "Loyalty 2.0" companies around the globe that may significantly alter the loyalty landscape—if they can overcome a daunting array of economic and marketplace

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challenges. Here's a look at three trends that will influence—and be influenced by—this next generation of loyalty leaders.

#### **Trend #1 – Consolidation and expansion**

In December, 2007, Montreal, Canada-based *Aeroplan* announced that the Aeroplan Income Fund had agreed to acquire London, U.K.-based Loyalty Management Group (LMG), the owner/operator of *Nectar*, the United Kingdom's leading coalition loyalty program, for £368 million (\$761 million USD). In June, 2008, Aeroplan Income Fund completed its transformation by converting into a public corporation named Groupe Aeroplan Inc. For Brian Sinclair, Managing Director of *Nectar*, the synergies between *Nectar* and *Aeroplan* were immediately apparent. Though the two companies were separated by an ocean, both felt they were ready to become global players.

"We shared similar mindsets," says Sinclair. "*Aeroplan* is a big, successful loyalty program that dominates the frequent-flyer space, whereas we're a big, successful program that dominates grocery, petrol and retail. When we sat across the table looking at each other, we realized quickly that the desire to become the global leader in the loyalty space was something both companies shared. That realization helped the acquisition discussions proceed quickly."

That move was followed in July, 2008, when COLLOQUY's parent company, Alliance Data, re-launched their Loyalty Services division under a new brand, LoyaltyOne, which operates the *AIR MILES Reward Program* in Canada. Like *Nectar*'s Brian Sinclair, Bruce Kerr, President of LoyaltyOne U.S., is a big believer in the coalition model of loyalty—and LoyaltyOne plans to export its coalition expertise, developed through 16 years of operating the *AIR MILES Reward Program*, beyond the Canadian border. Both LoyaltyOne and Groupe Aeroplan envision themselves as integrated global loyalty companies with deep expertise in multiple models and customer analytics. Tomorrow's loyalty providers will harness the power of customer data at the enterprise level.

"The global loyalty players provide clients with specific applications of loyalty based on their needs," says Kerr. "They add value to existing client programs through developing partnerships or through multi-year strategic engagements with coalition sponsors. Clients can take advantage of a flexible set of services and applications that provide real customer loyalty solutions."

In August 2008, Munich, Germany-based Loyalty Partner GmbH, which operates the *Payback* loyalty coalition in Germany, announced the launch of a loyalty-marketing IT consultancy and provider called Loyalty Partner Solutions GmbH. Like Groupe Aeroplan and LoyaltyOne, Loyalty Partner Solutions has built off its experience operating a coalition loyalty program to evolve itself into a full-service loyalty and data analytics firm with global aspirations. Andreas Berninger, Managing Director of Loyalty Partner Solutions, says that launching a proprietary loyalty practice was a natural evolution for a loyalty company that, like LoyaltyOne, earned its stripes operating a successful loyalty coalition.

"We've seen a large interest from companies in Germany and across Europe who look to Loyalty Partner for solutions because they know that we have ten years' worth of experience running the *Payback* program." Says Berninger, "The market for loyalty services is growing, and Loyalty Partner Solutions allows us to provide these services for different kinds of clients."

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Each of these international loyalty companies appears poised for greater success. But given the global economic climate, as well as the saturation of loyalty programs in most developed markets, that success is by no means guaranteed. Their ability to create and manage successful loyalty coalitions is well-documented, and through acquisition and expansion, each company has positioned itself to control key points of the globe—Groupe Aeroplan in the U.K., LoyaltyOne in the U.S., LaSer in France and Loyalty Solutions in Germany. But competition looms as well: Groupe Aeroplan, for example, already competes fiercely with LoyaltyOne in Canada, and will soon butt heads against LaSer and Loyalty Partner in Europe. Each of these companies may soon be eyeing the emerging markets in Asia-Pacific and Latin America, and several of them may also compete in the U.S. as well. The battle is just beginning .

### **Trend #2 – The coalitions are coming**

The common vision that binds the fates of these three companies is their belief in the power of the coalition model of loyalty. *AIR MILES*, *Nectar* and *Payback* are all success stories, and each company hopes to build on that success. Coalitions are notoriously difficult to orchestrate, but once they launch and achieve critical mass with consumers, they demonstrate formidable longevity and are difficult for competitors to replicate. And with coalitions now operating from Brazil to Malaysia and points between, the case studies suggest that most markets eventually evolve toward coalition loyalty. What makes the coalition model so strong, says Kerr, is its ability to leverage consumers' everyday spend in high-frequency categories to offer them attainable rewards and benefits they can't earn as easily in a proprietary program.

"The everyday spending component is key," says Kerr. "Proprietary programs tend to focus on a subset of consumers, like road warriors or the affluent. But the high-frequency categories really open your reach into middle-class consumers, which allows a coalition to naturally build a much bigger customer database from which to generate results for sponsors."

That broad reach, Kerr believes, could work just as easily in the U.S. Coalition loyalty has been tried in the U.S. before, of course. LoyaltyOne's predecessors tried unsuccessfully to launch the *Jaz Rewards* coalition in 2001—the attempt ended when the potential grocery sponsor backed away and left an important gap in the everyday spend category. Even today, there are formidable obstacles to overcome before launching a U.S. coalition: the go-it-alone nature of U.S. marketers, their reluctance to surrender control, and the difficulty in assembling a workable mosaic of partners within the geographically fragmented U.S. economy.

But as grim as it appears, the current recession may ironically open a launch window that finally allows a U.S. coalition program to take flight. Lack of liquidity and low consumer confidence may lead to a short-term weakening in company investment in proprietary loyalty strategies. Conversely, the same environment will fuel a need for U.S. companies to share marketing costs and control program liability, which will drive demand for partner and coalition loyalty models. Recent news of their breakup aside, Citi and their *ThankYou* rewards program have already demonstrated the value of strategic partnerships by signing such blue-chip brands as Expedia and Amazon.com as *ThankYou* partners . Other brands, both in the U.S. and around the world, will ride this global wave, says Kerr.

"I spoke at the Loyalty World conference in London, and everyone was talking about coalitions," says Kerr. "The current economic pressure only highlights the need for a partner who can deliver incrementally quantifiable and measurable results—and coalitions have a successful history and a deep library of successful case studies."

Both Groupe Aeroplan and Loyalty Partner are likewise bullish on the coalition model. Loyalty Partner has announced plans to enter the Polish market with a satellite version of *Payback* that could launch as soon as the second quarter of 2009. Groupe Aeroplan's purchase of *Nectar*, meanwhile, demonstrated faith in that coalition's long-term prospects—and despite the economic meltdown, *Nectar's* member earning rate is up.

"I am passionate about coalition marketing," says Sinclair. "I do think it's a huge opportunity for all three of these businesses. This is a growing pie, and there are opportunities for all of us to get a bigger slice of this interest in intelligent, data-driven marketing."

### **Trend #3 – Enterprise Loyalty**

At least one other similarity between these companies should not be overlooked: All have acquired or developed company divisions that help clients leverage loyalty program and shopper purchase data on the enterprise level. COLLOQUY first articulated the concept of Enterprise Loyalty in our 2006 TrendTalk white paper, in which we defined it as "the process by which a company leverages the customer database to transform itself from a product- and channel-focused enterprise to a customer-centric enterprise in order to deliver long-term organic growth to stakeholders."

All of these companies hope to make this definition a reality. With its purchase of Loyalty Management Group, Groupe Aeroplan also acquired LMG's Insight & Communications (I&C) division, which gives the company a beachhead into retail basket analysis, an area currently dominated by Dunnhumby in the U.K. LoyaltyOne is likewise expanding the operations of its Precima division, which develops and executes customer-centric retail strategies in the high-frequency retail space in North America. LaSer prominently featured the "Shopper Centric" analytical services of their subsidiary 5One at January's NRF convention. And as we mentioned in our profile of the German loyalty market in our previous issue, Loyalty Partner also operates Emnos GmbH, its full-service retail analytics firm with offices in Munich, London, Paris and Madrid. For Steve Gray, CEO of Emnos, there's never been a better time to be a loyalty provider.

"*Payback* is strong and successful," says Gray. "In the U.K., *Nectar* is a successful business, but so is Tesco's *ClubCard* and Boots's *Advantage* program. Whether via coalition or single-brand scheme, the market for customer loyalty services is absolutely growing. Retailers are looking to exploit the insight contained within their loyalty programs."

So despite the challenges that face marketers of every stripe in what may shape up to be a brutal 2009, Loyalty 2.0 providers will continue to launch coalition, multi-partner and proprietary programs as well as build and exploit customer databases at the enterprise level. Is loyalty marketing a recession-proof industry? Certainly not—but there's no doubt that companies around the world are focused on marketing investments that provide a clear return. For loyalty service providers,

the current downturn represents business-development challenges, but also unprecedented opportunity for those global players with experience and boldness of vision. Brian Sinclair wouldn't want to be anywhere else.

"There's no question that every marketing budget in the world right now is under increased scrutiny," says Sinclair. "But then again, I'm happy to be in a data-led business in this environment. I'll go up against any television campaign in the world for proving return on investment. It's a challenge, but we have the data to back up the return that we provide to our partners."



***Rick Ferguson is Editorial Director, COLLOQUY; Kelly Hlavinka is Partner, COLLOQUY. (Full disclosure: COLLOQUY is owned by LoyaltyOne, an Alliance Data company.)***

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