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Do Coalition Loyalty Programs Really Work? Analyzing the Effect of Coalition Loyalty Program

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Abstract

Background: This study is the continuation of earlier studies of analyzing the effectiveness of coalition loyalty programs for partner companies. This study includes an analysis of some effects of the Malina Coalition Program. **Method**: Popular lift and shift efficiency criteria have been chosen for the analysis. Statistical studies of turnout indexes, associated with various consumer categories, new consumers, prices, etc. were conducted. The following hypothesis of this study was developed: great share of effects achieved by the partner company, which is participated in the loyalty program could not be referred only to the shift and lift effects **Findings**: According to our analysis, the effectiveness of coalition loyalty programs could be one of the question for some companies to make a decision to participate in such programs. While applying well-known methods for efficiency analysis and evaluation, lack of criterial validity record refers expansion of product's consumption, generated by new customers, participating in the program; and increase the buying activity of the existing customers, participating in the program, to the coalition loyalty program, which has been shown in the study. **Applications/Improvements**: Additional effects of participation in coalition loyalty programs are neglected due to the limitations of popular methods for effectiveness evaluation, like lift and shift effects. Research had shown that impact of these and other factors should be taken into account in combination for every case for coalition loyalty program partners and for the operator of the program.

Keywords: Coalition Loyalty Programs, Consumer Loyalty, Consumer Loyalty Management, Loyalty Program Effect, Marketing

1. Introduction

We considered possible approaches to evaluating the effectiveness of coalition loyalty programs in previous studies. [1]In continuation of our studies, we decided to analyze methods for evaluation of coalition loyalty program efficiency, which are used by the company and the effectiveness of such methods.

The matter of effective participation of partner companies in coalition loyalty programs is crucial for the business. There is always an alternative of whether to develop own loyalty program or participate in the coalition program. It is usually believed that the coalition program is far cheaper for the partner company than a separate individual program. Certainly, participation in the coalition loyalty program should reduce partner company's costs and make use of the possibility of cross-sales[2]. On the other hand, there are jobs, when the efficiency of coalition loyalty programs for the partner companies is questionable[3,4]. Under conditions of widespread coalition loyalty programs, their value for the consumers is reduced[5], the reduced value of the coalition loyalty programs for the consumer **is observed due to** a growing number of identical programs, and, consequently, decreasing efficiency for the participating companies. Interpretation of the factor of consumption value varies by different authors[6]. At the same time, the value is not usually considered as an efficiency criterion of a coalition loyalty program in popular methods for efficiency evaluation. To some extent, the lack of value qualities in coalition loyalty

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program evaluation is confirmed by a number of studies[7], showing that provision of a benefit for the participating consumers in the form of monetary or non-monetary incentives is usually common for all loyalty programs. Nevertheless, it is believed there are consumer segments that may respond contrary to the loyalty program stimuli.

In addition to the above factors, a partner company being a customer getting a marketing service, practically regardless of a coalition loyalty program management system, is an important aspect of consideration of the coalition loyalty program efficiency. And the service that was provided must ensure a certain marketing efficiency for the partner company.

The concept of efficiency is considered to be "a payback, profitability or final characteristic of any activity as a whole or fulfillment of its individual functions" in literature sources on marketing. At the same time, the effect is considered via a degree of achievement of established targets relative to the cost of achievement. On the other hand, the efficiency may be considered as "a characteristic of effectiveness" in terms of achievement of established targets or expected outcomes, excluding evaluation of the resources employed for such achievement[8].

The matter of efficiency is usually associated with three effects, such as lift, shift and retention for coalition loyalty programs[9,10]. As we have already pointed out in our previous study[1], these three criteria are far from enough. Although, even if we look at the practice of using these lift, shift and retention criteria alone, there are certain doubts, whether any success of partner companies participating in coalition loyalty programs may be referred to the programs themselves and efforts of operators managing these programs, or whether there are other factors available contributing to this success.

For the purpose of finding an answer to this question, we decided to analyze the Malina coalition program. We will focus our attention on two indexes, these being lift and shift, in our study. For this study, we define the concept of lift (the effect of lift) as an increasing money flow for a partner company from participation in a collective (coalition) loyalty program and as an income from volume growth for purchases by consumers participating in loyalty programs. For this study, we define the concept of shift (the effect of shift) as an expansion of consumers participating loyalty program and consider as an extra income of a partner company from purchases made by new consumers participating in the loyalty program.

The hypothesis of this study is an assumption that a great share of effects achieved by the partner company participating in the loyalty program could not be referred to the shift and lift effects.

2. Results and Discussion

We opted for analysis of a Russian multi-brand coalition loyalty program named Malina (hereinafter - Malina, Malina Program) and analyzed certain outcomes, which allow us to evaluate an economic effect of such program for the period from April 2006 through December 2012 for the VR Company (hereinafter – the Company) that is a partner of the Malina Program and operates in car fuel sales area.

The Malina Operator Company – Loyalty Partners Vostok (hereinafter – LPV) uses a coalition loyalty management program, which was atfered within the CRM (*Customer Relationship Management)* system, developed by the Manzana Group[11] for its customers (including the LVP, an operator of the Malina Program), in the Malina coalition loyalty program. These systems are well known and actively applied by a vast number of companies operating in various areas and they are not unique, as long as they are based on the concept of modern marketing, which offers establishment and development of long-term relations with consumers. This method, used by the LPV for evaluating the effect achieved from the participation of the Malina Program, based on tracking changes according to the lift, shift, and retention criteria, distinguishes just between two types of effects, which differs from our method[1]:

- an economic effect of the Company's participation in coalition with other companies participating in the Malina Program (the shift effect); and
- an economic effect, expressed in enhanced purchaser activity of the Company's consumers participating in the Malina Program (the lift effect).

Let us consider, in a consistent matter, the methodical basis for evaluation of such effects.

2.1 Analyzing Method for Evaluation of the SHIFT effect.

The nature of the SHIFT effect involves attraction of an additional number of new customers to the companies

participating in the Malina program on the part of partners and generating a certain sales volume of the company's product by these customers. A calculation of such effect that arises, according to the LPV, in the Malina program for the partner company of the Malina program selling car oil has been presented in Annex, Table 1. (From this point onward and for the purpose of confidentiality, anonymized data that were obtained by the authors within their research RK No 01201461707 *Developing a methodology and conducting an expertise of Malina loyalty program efficiency for the Petrol Complex Equipment Company (PCEC) Closed Joint-Stock Company)* are used.)

Based upon Table 1 (column 2), the number of new customers that were attracted from other partners of the Malina Program tends to decline steadily by ca. 11.5% p.a. This trend is obvious and it can be explained by a reduction of overall number of personal participants of the Malina Program that have not used the Company's services yet. This is the so called *effect of cutting the initial base*. For the purpose of detailed analysis, based on data presented in Table 1, the following evaluation was done:

- index of calculated price for oil sold to new customers;
- index of number of liters of oil filled by new customers
- turnover per new customer
- per annum.

Evaluation results have been provided in Annex, Table 2.

According to the analysis (Table 2, column 3), an active growth of the number of oil liters filled per annum by a new customer of the Company is observed.

The average rate of growth of oil filled at the filling stations of the company for 2007-2012 is 34.4% per annum (Figure 1).

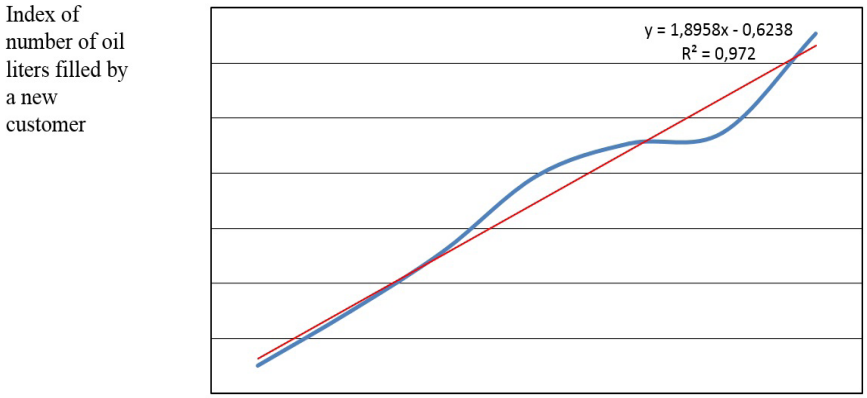

Figure 1. Dynamics of a number of oil liters filled by a new customer; 2006 index is 1.00.

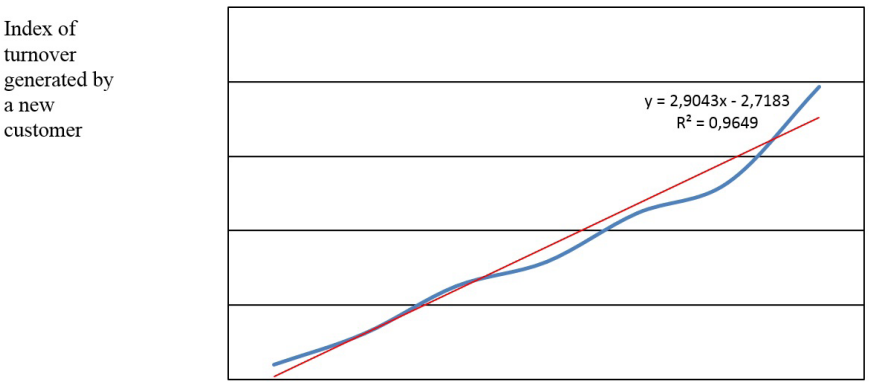

Figure 2. Index dynamics for turnover generated by a new customer; 2006 index is 1.00.

Consequently, there is a growth of turnover (Table 2, column 4), generated by a new customer (Figure 2), with the average rate being 33.7% per annum.

Such rates of oil consumption growth at the filling stations by new participants of the Malina program cannot be explained by their participation in the loyalty program alone. It is obvious that the volume of oil consumed is not determined by customer's participation in any program, but by other factors that are not accounted for within the LPV's method.

These factors, showing a significant impact on annual oil consumption by a car owner, refer to the actual annual mileage that is defined by a customer's need, effective oil consumption by the car and specifics of use.

- According to the Autostat[12], a credit boom was observed at the car market for 2007-2008, i.e. car sales for cash and on credit were 50/50.

A financial crisis was observed in 2009, and the credit-cash correlation was 20/80. Close to 2013, a sales share of new motor cars against a credit approached 50%, which corresponds to the first half of 2008[12]. An easy-term car loan program played a significant role. About 277 thous. easy-term car loans were granted over the time of this program. Young people of 23-35 years mostly used this consumer loan and national easy-term car loan support program. These were mostly managers and specialists, who are active drivers and spend more time on the road, as compared to older drivers.

According to the Autostat, approximately 323 cars per thousand of citizens were registered as at January 1, 2013 in Russia. Speaking of automobilization in Russia and development expectations, a growth in the number of cars per thousands of citizens up to 360-370 cars is expected. For comparison, there are about 800 cars per 1,000 citizens in the US and 540 with Germany[13].

- For 2006-2012, a great number of residential spaces were built in Moscow adjacent areas;[14] however, their residents still use personal cars for commuting, which impacts a change in the annual *house-work-house* mileage.
- Modern cars are more power-hungry due to a great number of additional features (consumer-oriented characteristics), such as: mirror and front and rear windshield heat-up, an automatic gearbox, an integrated air conditioner or climate control, a 4-wheel drive and enhanced engine capacity[15]. Manual transmission cars usually consume less fuel, and the difference is a liter per 100 km[16]. Long entrapment in traffic jams increases fuel consumption abruptly, as long as the engine is on, while the car is practically not moving at all. According to Gazeta.ru, the average overload of typical Moscow streets was 66% before 2013 and 63% with highways (based on a study

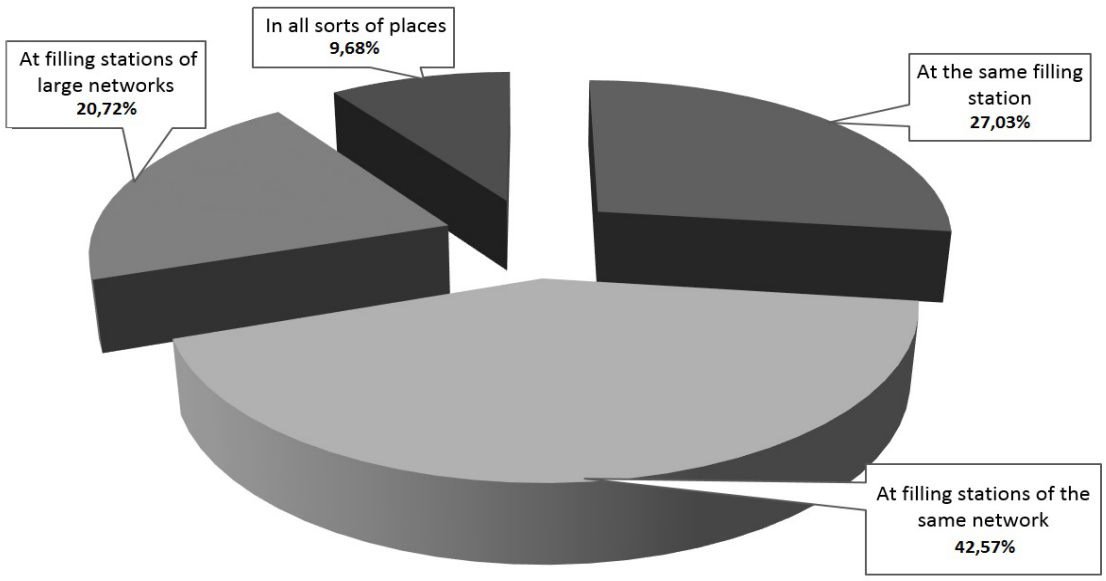

Figure 3. Survey data for car owners regarding their filling place.

conducted by the TomTom, a GPS-navigator manufacturer from the Netherlands). A traffic jam delay is 74 minutes per hour of a drive route in peak hours[17].

As evaluated by the manager of the Moscow City Transport Agency[18], the acceptable number of cars on Moscow roads is exceeded by almost 500 thous. Tuesday mornings and evenings became the hardest day for driving around Moscow. The transport network of the capital is overloaded by 120-160% on this day. Citizens of Moscow spend 127 hours per year in traffic jams[19]. According to drivers' experiments, an hour traffic jam delay equals to an extra liter of oil[20].

- Filling stations of the studied Company appeared in Moscow in 1996, and the network of filling stations of the Company was awarded a prize of the *Best network of filling stations in Russia* in 2003[20]. This is the network of filling stations that operates the Wild Bean Cafes, first opened at filling stations, and then appearing in Moscow without any ties to filling stations. Sales of the Ultimate branded oil commenced in 2006, with the value of such oil involving maintaining the engine clean, as claimed by the manufacturer, increasing engine power, and increasing mileage between fillings, which satisfies requests of Company's customers. The share of sales of the branded oil is 40-50% of the turnover for the filling stations. These important facts that define the initial high power of the Company's brand, European customer service quality and excellent image are not accounted for within this method.
- According to independent surveys on the Kommersant-Dengi journal web-site and Finam.ru[21], 60% of respondents answered that they prefer the same filling station or filling stations of the same network as their usual filling place (Figure 3).

In compliance with the procedure, used by the program Operator, the above factors are not accounted for. They believe any growth in oil consumption and all increase in consumption generated by new customers to be referred to the Malina program and to be included into the SHIFT economic effect (see column 3, Table 1), which is wrong.

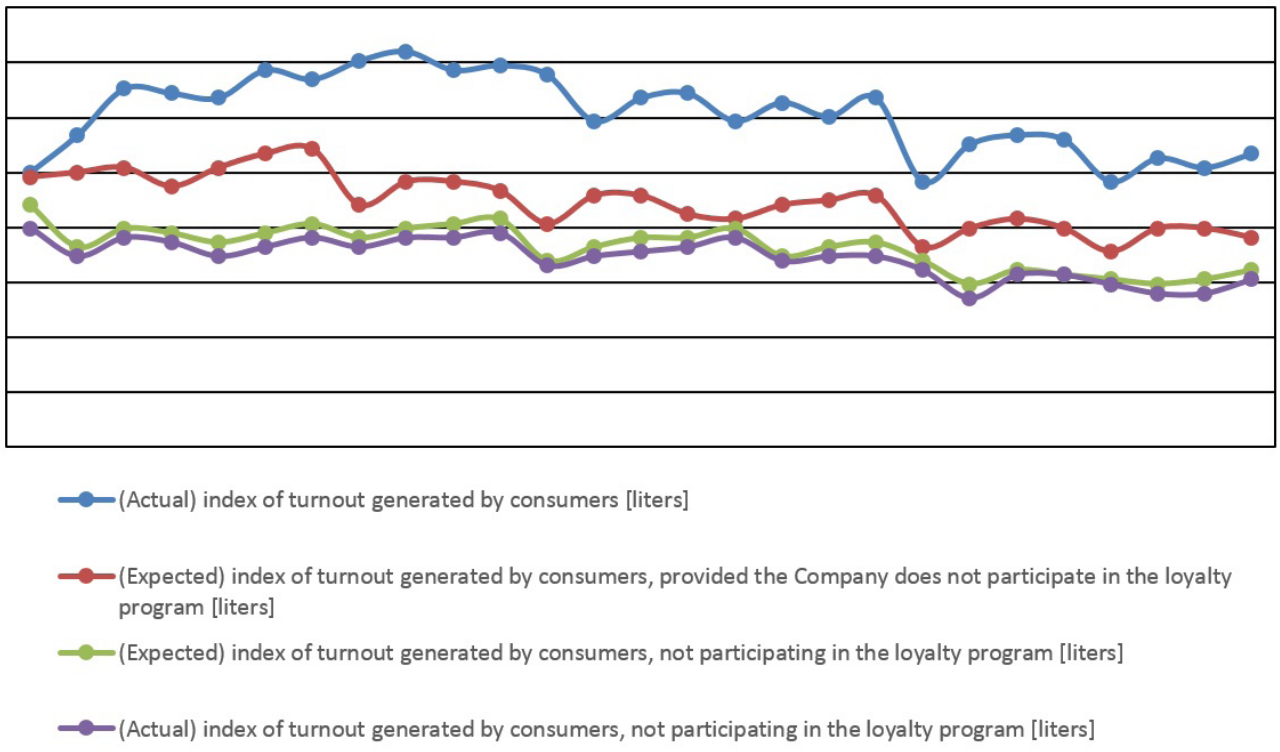

Figure 4. Index of actual and expected turnover of oil generated by customers of filling stations [liters] (Index of actual turnover for April 2006 is taken to be 1.00).

2.2 Analyzing Method for Evaluation of the LIFT Effect

This method used by the LPV refers the arising LIFT economic effect, named by the company, to a change in purchaser's activity and retaining of the Company's customers, following launch of the Malina program and duration of such program (excluding the SHIFT effect). 45 filling stations that were established as at January 2005 and running as at December 2012 were selected by the LPV for calculating the LIFT economic effect. An oil sales forecast (trend) was made in liters for the period up to 2012, based on the data fixed about transactions at such filling stations 15 months prior to the start of the Malina program, as if the Company did not participate in the Malina program (see Figure 4; Annex: Table 3). A difference between the forecast and actual turnout index as an extra turnout index was determined to be the LIFT effect generated due to the Company's participation in the Malina program.

Two approaches are used within the method for evaluation of the LIFT economic effect by the Malina Program Operator. The first one involves application of the methodology of experimental marketing studies for evaluating the impact of the investigated factor (i.e. Malina program for this case) on the behavior of target clients, and the second one determines the way of measuring the economic effect.

The experiment means a controlled process of changing one or more independent (varying) variables for measuring the impact on one or more dependent (outcome) variables. Any manipulation of the independent variable (X) involves measurement of the dependent variable (Y) during the experiment. In our case, the task of this experiment was to determine any cause and effect relation between the changes in behavior of the customers (overall growth of their purchasing activity - the Y variable) and the impact of marketing tools (participation in the Malina program – the X variable). A conflict of internal and external validity parameter is the only shortcoming of such studies. The use of criterial validity in the measuring procedure allows us to evaluate the closeness of statistic relation (correlation) between measurement data and external criterion. Not only the correlation between these parameters, but also the description of experiment circumstances, i.e. the situation for criterion measurement, sample for the study etc., may be the second factor.

The following minimum conditions must be satisfied for us to claim there is any cause and effect relation between these two variables:

- the evidence of any change of the dependent Y variable being associated with a change of the X variable, i.e. an increase in oil turnover at filling stations of the Company participating in such conditional experiment, being caused by a growth of purchasing activity of the participants of the Malina program;
- compliance with the defined time sequence or order of events. The cause event (participation in the Malina program) must precede the effect event (growth of purchasing activity of the participant of the Malina program, a certain time lag must be observed between the cause and the effect;
- no other factors or causes may be available to explain the cause-effect.

Provided the above conditions are fully satisfied, one may speak of a high probability of the cause and effect relation between the variables. There are so called associated factors always present alongside the studied factor in any experiment. The associated factors mean foreign events in relation to the items of experiment (customers of filling stations) that, however, occur at the same time as the experiment (implementation of the Malina program). These events may affect the dependent outcome variable (the LIFT economic effect), and the experiment initiator is entrusted with the task to eliminate or control the impact of associated factors that distort the sought outcome.

Introduction of participants of experimental and control groups that are similar in terms of their make-up, structure and behavior and maintaining stable conditions of the experiment in these groups is a classic way to account for the associated factors. For our case of introduction of the Malina program, the LVP selected two groups - a control group as customers of filling stations before the Malina program was launched, and an experimental group - customers of filling stations participating in the Malina program.

This selection of the control and experimental group that was done within the method under consideration may not be recognized satisfactory in terms of accurate evaluation of the LIFT economic effect.

The users (participating customers) of the Malina program and non-users (non-participating customers)

of the program may be different customer segments and such groups may be characterized by different consumer's behavior. One should point out that the Malina Chart was rather a technical mark for identifying such segments. One may assume that the First segment is made up of younger active people, who use their cars more, communicate with their friends more, use their phones, visit cinemas and restaurants more. They really do consume more goods and services of the partners of the Malina program, which is not an achievement of the loyalty program itself, but an outcome of consumer's behavior.

One should not confuse cause and effect, while evaluating the economic effect of the Malina program. A large consumption volume of goods and services of the partners by the participants of the Malina program is not the effect of their participation in the loyalty program; to the contrary, the fact of them consuming relatively more is the cause of their participation in the program.

3. Conclusion and Focus of Further Research

In conclusion, there is a set of requirements in the global and Russian practice to the effects and efficiency of coalition loyalty programs. These are based on a number of common concepts associated with the role of consumer loyalty for a successful company development. A competition for the consumer is getting stronger at mature markets. Additional mechanisms of consumer attraction and retention are required under such conditions. A loyalty program is among such marketing tools. Therefore, the loyalty program must always be adapted to new consumer images that correspond to value orientations of such consumers for creating a loyal consumer that is highly satisfied with the brand and follows the model of repeat buying, and for retaining further such consumer. Limited capabilities of the lift and shift criteria used are probably not enough under the circumstances. As was shown above, the use of such criteria may not always discover the impact of a coalition loyalty program on consumers. Therefore, we have come to a conclusion, while considering the matter of coalition loyalty program effectiveness for partner companies, that not only a correlation between the outcomes and costs of a coalition loyalty program, but also indirect indexes, demonstrating the effect of such program, may be used for evaluating the coalition loyalty program. And we offered this idea in our previous studies[1]. Additional studies may focus on extra empiric confirmation of the conclusions made, including exploration of the matter of quality of a coalition loyalty program as a marketing service for a partner company.

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Annex

Table 1. Economic SHIFT effect due to customer attraction through partners of the Malina Program*

SHIFT effect evaluation			
Year	**Quantum index of new customers attracted to the company by other program partners**	**Index of extra profit due to new customers**	**Index of extra profit vs. total turnover of the company**
1	**2**	**3**	**4**
2006	1	1	1
2007	1.673091	5.137117	2.5
2008	1.480847	9.222221	3.6
2009	1.109004	9.799219	4.1
2010	1.153937	12.90404	4.5
2011	1.287724	17.03236	4.7
2012	0.970281	19.09904	4.4

* 2006 index is 1.00

Table 2. Evaluating changes in indexes of calculated oil price, oil quantity and turnover per new customer per annum **

Year	**Index of calculated price for oil sold to new customers**	**Index of number of liters of oil filled by new customers**	**Index of turnover per new customer per annum**
1	**2**	**3**	**4**
2006	1	1	1
2007	1.029639763	2.9888	3.07017544
2008	1.202918377	5.1899	6.22705314
2009	1.118559052	7.9162	8.83524027
2010	1.234382125	9.0782	11.1817951
2011	1.398540812	9.4749	13.2257818
2012	1.507979936	13.078	19.6824307

** 2006 index is 1.00

Table 3. Index of actual and expected turnover of oil generated by customers of filling stations [liters]

	Index of (actual) turnover generated by customers [liters]	Index of (expected) turnover generated by customers, in case the company is not in the loyalty program [liters]	Index of (expected) turnover generated by customers that are not in the loyalty program [liters]	Index of (actual) turnover generated by customers that are not in the loyalty program [liters]
April 2006	1.00	0.98	0.88	0.80
July 2006	1.14	1.00	0.73	0.69
October 2006	1.31	1.02	0.80	0.76
January 2007	1.29	0.95	0.78	0.75
April 2007	1.27	1.02	0.75	0.69
July 2007	1.37	1.07	0.78	0.73
October 2007	1.34	1.08	0.81	0.76
January 2008	1.41	0.88	0.76	0.73
April 2008	1.44	0.97	0.80	0.76
July 2008	1.37	0.97	0.81	0.76
October 2008	1.39	0.93	0.83	0.78
January 2009	1.36	0.81	0.68	0.66
April 2009	1.19	0.92	0.73	0.69
July 2009	1.27	0.92	0.76	0.71
October 2009	1.29	0.85	0.76	0.73
January 2010	1.19	0.83	0.80	0.76
April 2010	1.25	0.88	0.69	0.68
July 2010	1.20	0.90	0.73	0.69
October 2010	1.27	0.92	0.75	0.69
January 2011	0.97	0.73	0.68	0.64
April 2011	1.10	0.80	0.59	0.54
July 2011	1.14	0.83	0.64	0.63
October 2011	1.12	0.80	0.63	0.63
January 2012	0.97	0.71	0.61	0.59
April 2012	1.05	0.80	0.59	0.56
July 2012	1.02	0.80	0.61	0.56
October 2012	1.07	0.76	0.64	0.61