

# Engineering Leadership Program

Coleman Fung Institute for Engineering Leadership

Trends in Customer Loyalty Rewards Aggregation

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Revision Date: March 25, 2012

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## Abstract

Customer loyalty rewards industry has come a long way since the loyalty programs were first launched three decades ago in US. The loyalty rewards programs have become ubiquitous encompassing reward points and frequent flyer miles programs sponsored by almost every business sector including credit card companies, airlines, hotels, retail stores, and restaurant chains. However, the proliferation of reward programs has made it very difficult for consumers to manage multiple programs and navigate complex redemption policies. The net result is that a large quantity of reward points and miles are unused reducing the efficiency and benefit of the programs for both consumers and the rewards program originators. These challenges have created the need for loyalty “reward-aggregators” to address these pain points in the rewards industry. A new batch of “reward-aggregators” have emerged to primarily help the consumers manage and track reward points and miles from multiple reward programs. In this report, we will look at the overall loyalty rewards market in US, list and analyze current players in this new rewards-aggregator industry, and try to forecast the trends in this space. We believe that the scale of the loyalty rewards market and the challenges for consumers and the reward-issuers will drive the industry to form more collaborative ecosystem where reward points can be used as a “currency” for purchases within the system. Reward-aggregators which can create this infrastructure and build the necessary array of partnerships will most likely be major winners in this space.

# 1. Problem Space: Challenges in Loyalty Program Industry

Loyalty programs memberships in US exceeded 2 billion or about 18 per household in 2010, and have more than doubled since 2000. In the hope of gaining customer loyalty virtually every company offers some sort of loyalty and/or membership points. This has created a large proliferation of programs and has created challenges for the consumer, who fails to appreciate the value of many of them [Stauss2005].

According to a statistic published by Colloquy.com [Coll2011] only 46% of the 2 billion memberships are active (an active membership is defined as one with at least one transaction within a year). The reasons for inactive memberships can be attributed to various causes, as listed below:

- Existence of too many programs to manage
- Complex redemption policies with numerous rules and constraints
- Slow reward accrual rate
- Difficulties in merging points across different systems

For companies who offer loyalty programs this has severe implication on the usefulness of these programs to attract and retain customers and to achieve brand differentiation. How can a company create or improve its loyalty program so that it is not simply another one of the inactive ones in the consumer hand? Despite pervasiveness of such loyalty programs in practice, their effectiveness is still a much debated issue in both academic and managerial literature [Dorotic2011].

We believe the problems faced by the consumers, coupled with the inability of many companies to differentiate their loyalty programs is leading to a very dynamic environment that is fostering a number of innovations and new developments in this space

## 2. Opportunities: Customer Loyalty Programs Market

To further understand the potential opportunities presented by this problem, let's look at other aspects the market size and condition, as well as the backdrop of consumer behavior and technology trends.

### 2.1 Total Addressable Market Size

While there is no standard way to estimate the value of a point due to the variety of programs, a survey of major programs puts the value of a point for a consumer around 0.5-1 ct/point for gift, merchandise and actual currency. Frequent flyer miles have actually a larger value to the consumer, reaching 1.5-2ct/miles when used for flights redemption. According to a study by Colloquy.com [Coll2011], the perceived value of points and miles issued in 2010 in the US market is estimated at around \$48B, out of which \$16B was left unused. This translates to around \$600/household out of which \$200 are left unused. These large numbers have attracted numerous companies that try to facilitate redemption and exchanges of these points. Program originators have also recognized these

issues and have understood that in order to improve customer loyalty they need to facilitate the redemption process. However, none of these programs have achieved significant adoption so far, thus leaving plenty of rooms in this untapped market.

## 2.2 Loyalty Program Value by Industry Categories

There are 3 broad industry categories that represent the major share of volume and value of loyalty rewards programs:

- Travel & Hospitality
- Financial Services
- Retail

The following table provides the loyalty program size for each industry category based on the total membership and perceived value of reward points:

Table 2.1: Loyalty Program Value in 2011 by Industry Categories, US

Industry Category	% of Loyalty Program Memberships	% of Perceived Value of Reward Points	Total Perceived Value of Reward Points
Travel & Hospitality	32%	36%	\$17 billion
Financial Services	20%	37%	\$18 billion
Retail	40%	40%	\$12 billion
Other	8%	2%	\$1 billion
Sources:			
2011 Forecast of US Consumer Loyalty Program Points Value [Coll2011]			

## 2.3 Consumer Behavior & Technology Trends

Consumer behavior has undergone dramatic changes since Internet commerce started a little over a decade ago. Online shopping has grown 10-20% annually depending on the regions. More and more people used alternative payment systems other than the traditional cash, credit or check, for example, PayPal, instant Coupon. At the same time, people are moving online to manage their finance, such as banking, tax service, and investment management.

These consumer behavior trends are only going to grow at a faster pace with the recent explosion of smart phones and tablet devices and ubiquitous WiFi & 3G networks, making more and more people connected online virtually 24x7. Consumers can buy books and music on their phone while waiting for flights in the airport. They will demand that loyalty points can just as easily be managed and spent as other form of currency. As we shall see in the next section, most existing players in this space have not yet provided the easy of use that is comparable to other aspects of online commerce

and finance. The conditions are ripe for new players to utilize new technologies and approaches to simplify consumers' experience dealing with the loyalty programs.

In the remaining portion of this report we will analyze the current players in the emerging space of loyalty program rewards management as well as what the loyalty reward issuers are doing to address consumer frustration. Based on our findings we will try to forecast some trends in this market space.

### 3. Rewards Aggregation: Existing and New Players

Linked to the opportunities highlighted above, we observed a few trends in this industry.

To address consumer frustration of having to manage an average on 18 memberships/household, each one with its own set of rules, expiration dates, login passwords, redemption policies, and so on, several companies have appeared in the market places as early as the year 2000. These companies, called as a group "rewards aggregators", provide a service to the consumers and help them manage the various loyalty points [Swift2012].

Some of them like Points.com (founded in 2000) and AwardWallet (founded in 2004) have been around for quite some time, while others were created very recently. Common goals of these companies are to work with as many programs as possible and enable consumers to track all their points in a single location. By allowing them to track balance, track expiration dates, provide tips, program comparisons and even exchange points, the objective of these companies is to sign-up as many consumers as possible, so that they can negotiate better deals with the program originator and sell additional services like travels or booking services. More recent companies, such as UsingMiles.com, actually allow customers to make searches and booking using either cash or points.

The table below lists and compares the major loyalty point aggregator companies.

Table 3.1: Comparison of Rewards Aggregator Capabilities

	N. of programs covered	Search	Book Travel	Track Balances	Track Expiry	Extra Tips	Differentiator(s)
Points.com	100	No	No	Yes	No	Yes	- "Which is best for you: trade or exchange" feature - Can post trade requests - Redeem to Paypal
Award Wallet	485	No	No	Yes	Yes	No	- Greatest number of programs - air, hotel, credit cards, shopping cards, rentals, dining cards award wallet - OneCard - keeps track of up to 30 air lines programs for a quick checkin at the airport - Business interface for tracking hundreds of users

MileWise	400+	Yes	Yes	Yes	Yes	Yes	- Search results ranked according to user- price, travel preferences and rewards earned - Can transfer points to Airline miles - Book Travel
SuperFly	65	Yes	Yes	Yes	No	No	- Combines the search capabilities of Kayak.com and Fly.com with mile management features
GoMiles	75	Yes	No	Yes	Yes	No	None
Traxo.com	100+	No	No	Yes	Yes	No	- Consolidated travel info from over 100 websites (expedia, travelocity, hotels.com, etc...) - Tracks travel history - access to travel loyalty, miles and point info - Gives travel advice
MileageManager	80+	Yes	No	Yes	Yes	No	None
mileBlaster	70	No	No	Yes	Yes	Yes	- Optimized for mobile phones
MilePort	100+	No	No	Yes	Yes	No	- Travel news and deals from USA TODAY - Includes airport links, currency converter, flight delays, flight tracker, map/directions, mileage calculator, weather
UsingMiles	85+	Yes	Yes	Yes	Yes	Yes	- Mile/point management -Expiration alerts - Search engine using cash or points - this is unique

Some of the large loyalty point issuers have also started to address consumer frustration and capture their interest. For example, several programs have simplified the process of redeeming points. American express, for example has created an extremely flexible program where, in addition to the being able to redeem gifts, it is possible to use points in exchange of American express gift cards (0.5ct/point, 1 point=1\$ spent) or even use points during the checkout at Amazon.com (0.7ct/point). Similar programs have been developed by competitors. United Airlines has made it simpler to transfer points to other people or to transfer points to and from different programs by referring customers to the aggregator Points.com.

Other developments in the industry revolve around the old concept of partnerships between two or more companies. The classical example of partnership is the common frequent flyer program (United Airline's MileagePlus program members can earn miles from more than 100 MileagePlus partners, including Chase and Hertz). Another example is the when two proprietary programs agree to allow customers to transfer or convert rewards from one proprietary program into another proprietary program (American Express Membership Rewards allows consumers to transfer their rewards into a variety of frequent-flyer programs). The last case is the partnership between

merchants and program originators, where a proprietary program allows merchants to offer and fund bonus points to consumers who shop at their location through a designated channel. (Citi ThankYou Rewards Bonus Center features point offers from hundreds of merchants for shopping with them on-line).

Given the existence of a consumer problem, the interest of the program originators to capture consumer loyalty and the large quantity of point aggregators in the marketplace, we think that this space will go under substantial changes in the future. While it is difficult to predict what will actually happen, it is clear that the solution will have to achieve the objective of both reducing consumer pains while maintaining the loyalty program incentive for the program originators.

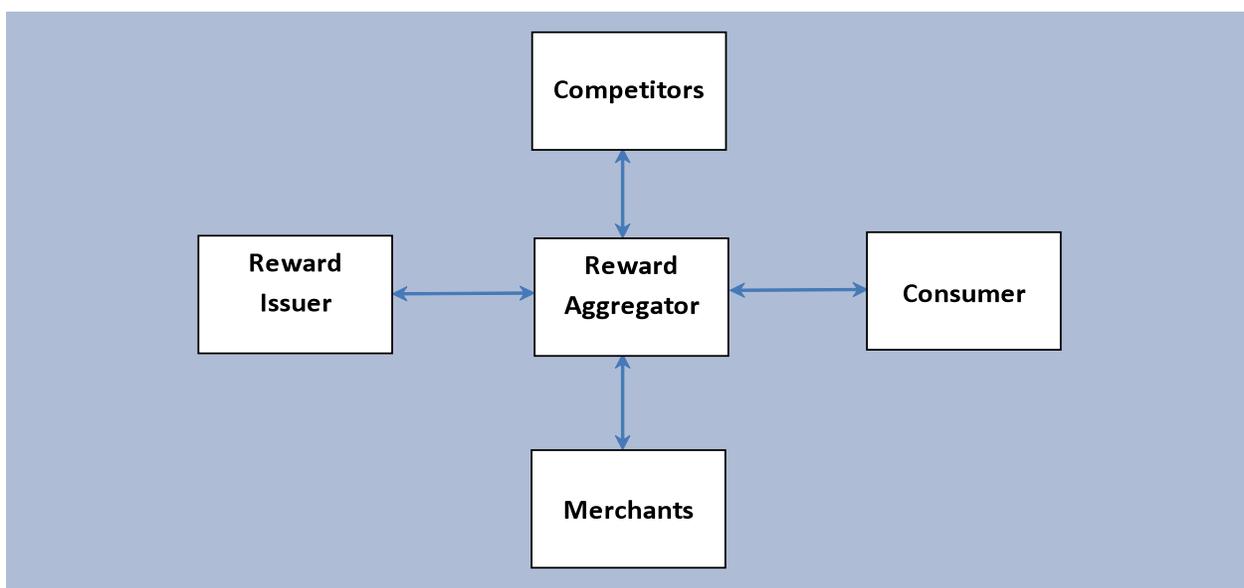
## 4. Trends in Rewards Program Aggregation in US

As discussed in the previous sections, the total perceived value of points and miles issued in 2010 in the U.S. for consumer-oriented rewards programs is estimated at \$48 billion. This rewards value is based on approximately \$3.9 trillion of consumer spending in Travel & Hospitality, Financial Services and Retail categories. The estimated \$48 billion figure shows that the rewards-program currency has become a significant economic force.

Given the scale of rewards program market space, we have already discussed the emergence of a number of web-sites which provide rewards-tracking service to consumers. These reward aggregators are trying to provide solutions for some of the key challenges in the loyalty rewards program space. In this section, we will look at the trends in this new reward-aggregation industry

### 4.1 Towards More Collaboration and Partnerships

It will be useful to look at the ecosystem of the reward aggregators in Figure 4.1.1.



**Figure 4-1-1:** Ecosystem for the reward aggregators

The emerging rewards aggregator entrants have mostly focused on the consumer side of the ecosystem. The available solutions are geared towards addressing consumer pain by helping with managing multiple programs, and guiding complex redemption requirements.

However, successful aggregator in this space will need to address the challenges of reward issuers, one of the key constituents of the ecosystem. The reward issuers certainly benefit from aggregators as they provide a useful platform for consumers to be active loyalty program participants. However, without the direct connection between the reward issuers and aggregators, the reward issuers have less control over their value proposition, branding, and messaging. Reward aggregators who move in the direction of closer partnership with the reward issuers will help strengthen the relationship between the issuers and consumers as well as attract merchants who can provide consumers wider variety of earn and burn options.

A deeper collaboration between the constituents will not only help address consumer needs but also provide a level of independence and control to address reward issuer needs. There is some level of partnerships in the existing proprietary programs such as American Express Rewards (tied with various frequent flier programs), Citi ThankYou Bonus Center (tie up with number of merchants) and tie-in of frequent flier programs with other partners. In the aggregator space, Points.com has already moved in this direction by partnering with a number of industry players to provide consumers the ability to exchange between the reward programs (“Points.com establishes a currency exchange for loyalty programs”, September 23, 2010 –[www.pcmag.com](http://www.pcmag.com)).

The next wave of reward aggregators will differentiate themselves by offering a much higher level of partnerships with the issuers and merchants to provide the consumers a broader platform to trade and redeem their points and miles from various reward programs.

## 4.2 Towards a Common Rewards Currency

The wave of collaboration between reward issuers, merchants and reward aggregators will lead to improved liquidity of rewards. In this scenario, the reward issuer distributes its own currency through its reward programs. Reward aggregators help consumers aggregate the currencies across the cluster for redemption. Merchants offer goods and services for redemption within this framework. This creates value for all constituents in the rewards industry ecosystem.

This trend is seen in some of the recent developments in this space. We have already mentioned the currency exchange feature provided by Points.com. A more recent player, SwiftExchange, has announced the development of the technology and ecosystem that blends points and miles from different reward programs to make them as easy to spend as cash. SwiftExchange’s first deployment includes a payment widget that easily embeds into e-commerce sites and at point-of-sale. On March 22, 2012, SwiftExchange announced a milestone with the opening of its Atlanta Payment Technology Center which “has been created to facilitate the high degree of interdependent communication and collaboration required among merchants and reward program providers” (March 22, 2012 - [finance.yahoo.com](http://finance.yahoo.com)). Along similar lines, on Jan 27, 2012, OSL Holdings Inc. announced the formation of OSL Rewards Corporation which “will bring a “reward currency” to the marketplace that will allow business and customers to use a virtual currency that shoppers can then redeem when

shopping in retail stores, online, on their mobile devices and through other electronic platforms” (January 27 2012 - [www.prnewswire.com](http://www.prnewswire.com)).

## 5. Conclusions

There is tremendous untapped value in aggregated accumulated value of loyalty rewards programs. The trends point to greater collaboration and development of platforms to facilitate much easier use of reward points and miles. In a few years, it will be quite common to see a “Rewards Currency” as one of the payment options at on-line retailers as well as point-of-sales terminals.

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