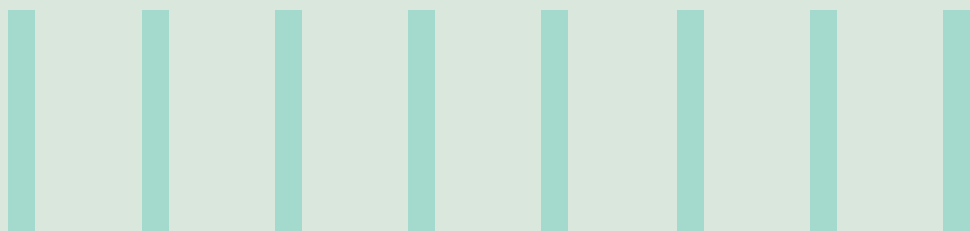




COALITION LOYALTY: LOYALTY'S NEW DEFINITION





Coalition loyalty – the next-generation loyalty that increases customer satisfaction through easy ‘earn and burn’ points across businesses is rapidly gaining traction the world over as standard loyalty programs have failed to engage customers on an ongoing basis. However, the success of coalition loyalty lies in the usage of a settlement system that helps in settlement of issuances and redemption of points between partners in addition to reducing operational costs and preventing revenue leakage – ultimately, enhancing customer satisfaction.

In this paper, we discuss one of the settlement systems – Oracle’s Revenue Management and Billing (ORMB). ORMB delivers a best-in-class solution for billing, payment, and collection operations of an enterprise. The system runs on a rules-based engine that makes it easily extendable.

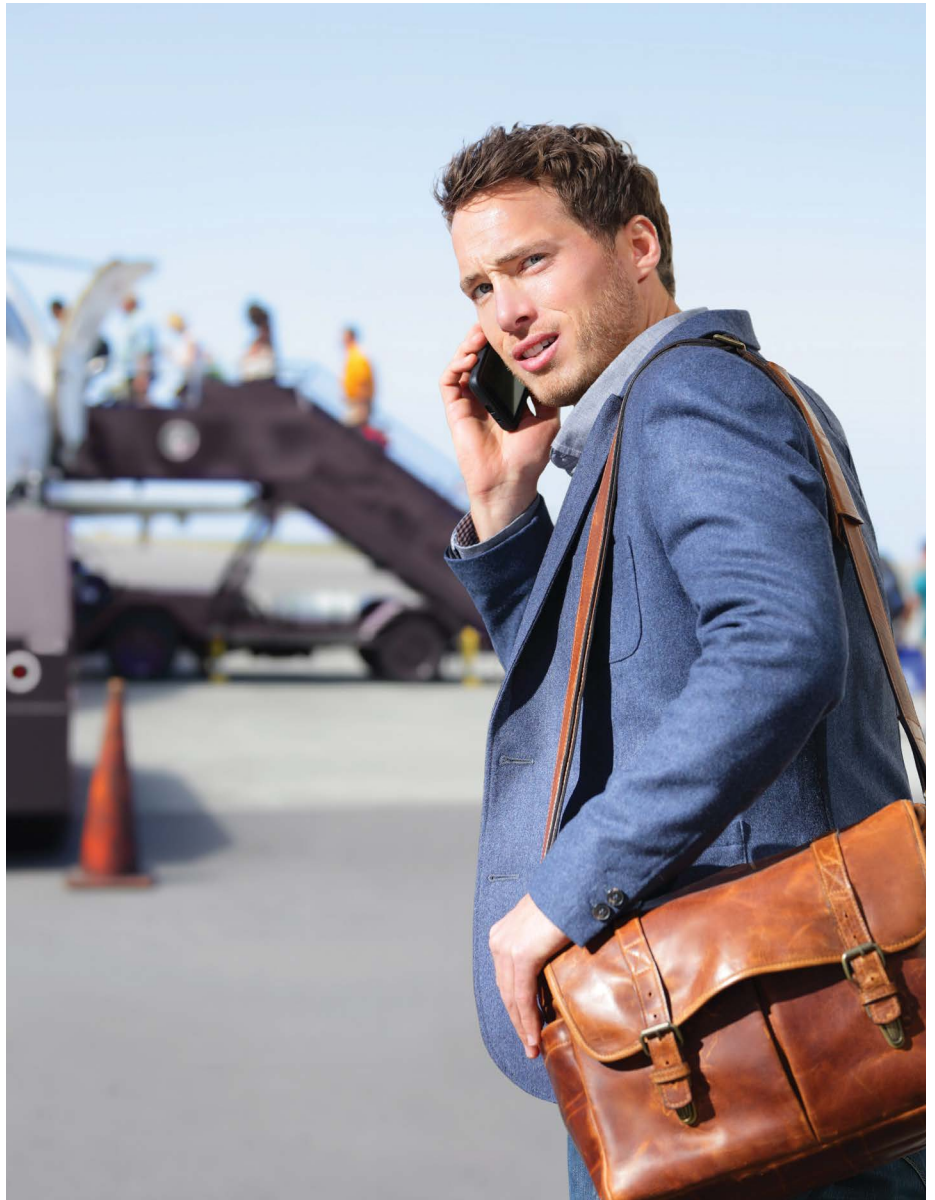
Challenges in the current loyalty program

A recent study by Capgemini found that the average household in the U.S. has over 21 loyalty program memberships, but actively uses only 44% of these. In addition, more than half of consumers in a 2013 survey admitted they had abandoned at least one loyalty program in the past year.

A 2014 study by Colloquy found that while the number of loyalty programs in the US is on the rise, only 9.5 percent of all memberships are currently active. Another study by Colloquy on loyalty programs in 2015 found that of the total membership in loyalty programs, 58% don't actively participate in those memberships. The top two reasons consumers stop participating in a loyalty program are:

- Did not provide rewards / offers that were of interest (56%)
- Too hard to earn points for rewards (54%)

Let us take an example of an airline that offers points for every journey you make. How many journeys does an average traveler make in a year? Most travelers may just be traveling twice a year on this particular airline. The points they earn are not sufficient for them to get anything substantive. Even if they accumulated points and reached a certain position, they need continuous travel activity year-on-year to maintain their position across years. Such programs definitely help frequent fliers, which is a miniscule percentage, compared to the total number of travelers.



Next-gen loyalty

Now let us take the case of a traveler who travels once a year and earns some points which are not of any significance to the airline. How would it be if this traveler could use these points to purchase monthly grocery or buy movie tickets? That's the power of coalition loyalty!

Coalition loyalty offers incentives / rewards to customers of two or more businesses. Although not a new concept, it is gaining

traction quickly, the world over. A coalition loyalty requires an anchor who brings partners from various services or product domains onto a single platform and allows the points issued by one vendor to be interchangeably used with another vendor on the same platform. It essentially works as a loyalty-sharing group between the participating partners. Next-generation loyalty offerings are fast moving in this

direction with customers reopening some of their inactive loyalty accounts, with the prospect of being able to use points beyond just one brand. This increases customer experience as they are getting regular and frequent opportunities to earn points easily, at the same time, they get equal satisfaction in redeeming their hard-earned rewards just as regularly as they earn them.

Who gains what?

The coalition anchor

The coalition anchor needs to invest in the technology platform to enable the loyalty / settlement program. However, once the program is up and running, they can charge the partners to provide the services and have a revenue stream. In addition, since they will not own points, there is no liability on them to run the program. An initial investment can provide sustainable revenue for the future.

Partners

Smaller players may not be able to compete with the bigger players when it comes to scale. However, a coalition loyalty program would provide them access to a

large set of possible customers as they may be the only players with specific offerings in the area. For example, a regional grocery store will be able to compete with a giant airline as the customers of the region will be able to purchase on this regional store in exchange for points they earned while traveling on the holiday. Further, a partner may be able to run some focused promotions on the platform to attract the customers. A partner can have various modes of engagement in a program based on the business model. A partner having large volumes of sales through a network of stores could do both issuance and redemption of points while a partner who doesn't have high sales volume may just issue points.

Customers

The variety of incentives / rewards available across partners attracts customers to enroll for such programs. Customers would also reopen their dormant loyalty accounts as the points that were earned once did not mean anything at that point in time, would suddenly start to have value associated. There is a prospect of being able to use the points beyond just one business. Paying timely phone bills could give customers points to be redeemed for the favorite movie they wanted to watch or the meal they wanted to enjoy with family.

How does it work?

All the participating partners in a coalition loyalty program will issue points for any purchase done with them or redeem points in case a customer wants to redeem existing points. These transactions will be processed and statements generated on a periodic basis for each partner. The statements may show the position of the partner for the specific period with details of how many points they issued or redeemed. At the end of the defined period, the partner may be in a payable or receivable position. Based on the value, the coalition anchor initiates the settlement. In case the partner needs to be paid, the coalition anchor needs to pay to the partner and in case the anchor needs to receive money, the anchor applies payments once received.

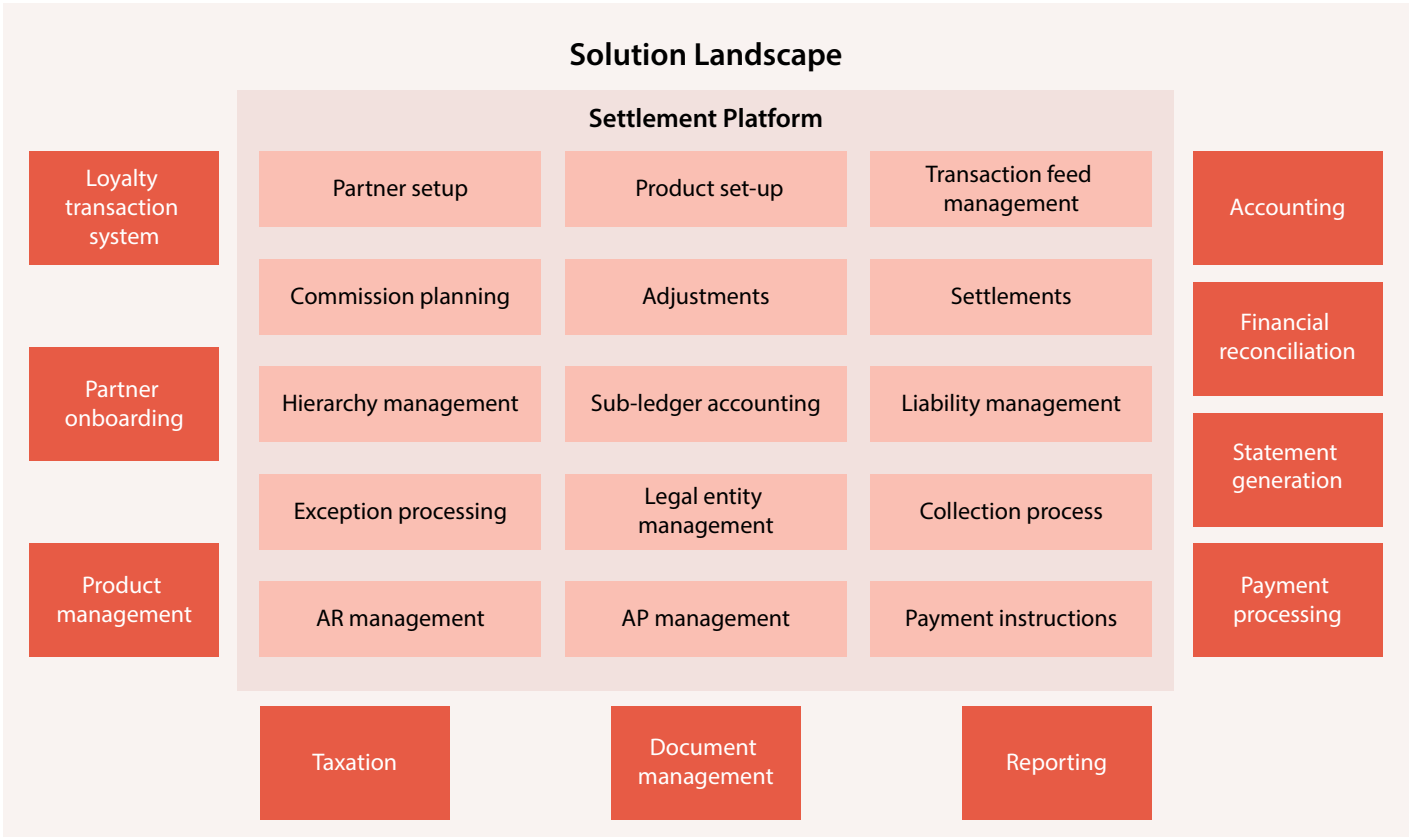


Technology footprint needed

The typical IT landscape for a loyalty solution has CRM and points management capabilities. While the CRM capability definitely manages the demography and other relationship functions of the partners, the point's management capability is used to manage point's information including issuances and redemption, dates of occurrence and expiry, if any.

For a coalition loyalty program, besides adding new functionalities to the point's management capability, a robust settlement system is the key that integrates with upstream systems such as the CRM, transactions systems, and payment systems and with downstream systems such as the general ledger to post accounting and reporting systems.

The below diagram shows the solution landscape required to build a coalition loyalty solution. The individual technology components or applications can be chosen based on the business's existing IT landscape. The IT landscape including the settlement system will have to be owned and managed by the coalition anchor.



While there are many off-the-shelf products available in the market today which position themselves as settlement systems, **Oracle's Revenue Management and Billing (ORMB)** is the leader in this space.

ORMB focuses on billing, payment, settlement, and collection capabilities for enterprises in the financial services segment and can easily integrate into the existing IT landscape. This product has been successfully implemented as a settlement platform for relationship

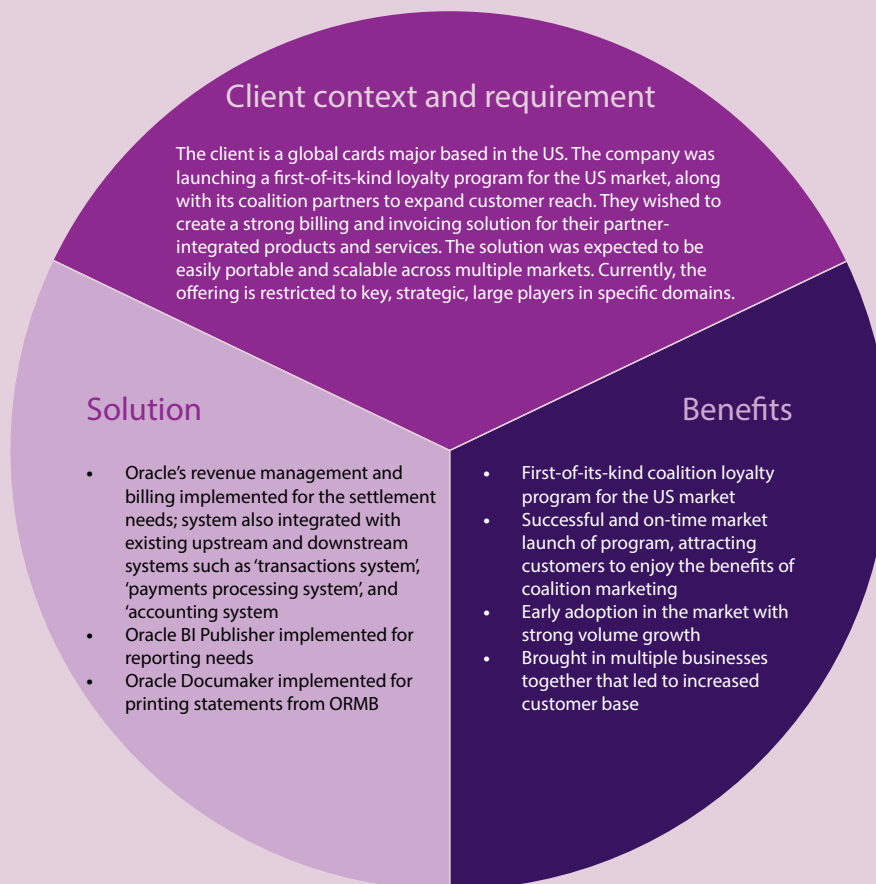
pricing, funds settlement, and loyalty segments. Its rich features with enhanced flexibility enable it to be tailored easily for any implementation. In addition, its highly scalable and extendible framework makes ORMB the most appropriate offering available as a settlement system.

ORMB capabilities

- Ability to support multiple lines of business, products, and services
- Faster time-to-market for new products / functionality, thus, reducing onboarding cycle time
- Reduced settlement time, operational costs, and revenue leakage
- Fully automated, scalable solutions in a rapidly changing market
- Seamless integration – leverage acquisition benefits faster
- Flexible architecture and rule-based technology
- Configurable regulatory requirements
- Lower maintenance costs



Below is an illustrative example that shows ORMB implementation at one of the leading financial institutions in the US, as part of their new product launch in the market.



In conclusion

Coalition loyalty is ideal for companies looking to adopt a loyalty model that provides enhanced value to its customers. It is a sustainable model for small and medium enterprises that may not be able to compete with resources of large conglomerates.

Use of a robust, modern billing and settlement system like ORMB brings success to the coalition loyalty program. With the release of Oracle's RMB system into the technology landscape along with other enterprise management systems such as Siebel, EBS, and OBIEE, businesses are geared to take care of their billing and payment requirements.

Citation

<http://www.oracle.com/us/products/applications/financial-services/insurance/revenue-management-billing/index.html>

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