통합 로열티프로그램의 성공요인 :
오케이캐쉬백 사례

Success Factors for IT-based Coalition Loyalty Programs :
The Case of OKCashbag

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초 록

오늘날 로열티프로그램은 매우 보편적으로 사용되고 있다. 그 중에서도 통합 로열티프로그램이 증가하고 있다. 통합 로열티프로그램은 하나의 허브(hub) 회사가 참여회사들의 네트워크를 만들어 사용자들이 수많은 참여회사에서 점수를 모으고 사용할 수 있게 하는 프로그램이다. 이 논문은 한국에서 최초로 만들어지고, 가장 큰 통합 프로그램인 오케이캐쉬백의 성공요인을 조사한다. 이 연구는 프로그램 수의 증가, 사용자 수의 증가 및 소비자 행동에 미치는 영향력에도 불구하고 충분한 연구가 이루어지지 않은 통합 로열티프로그램에 대한 지속적인 연구 필요성을 제기하는 데 첫 번째 의의가 있다. 단일 로열티프로그램과 통합 로열티프로그램의 성공요인을 고찰함으로써, 본 연구는 점점 더 정교해지는 정보기술 및 데이터 수집/분석 기법을 통해 혁신적인 로열티프로그램을 개발하는 데 기여할 수 있다.

ABSTRACT

Loyalty programs are everywhere these days, and among them, coalition programs, where a hub company makes a network of participating companies and users can collect and use points in a large number of participating shops, are in increase. There is little research on the coalition loyalty program. Using the case of OKCashbag, the first and biggest coalition loyalty program in Korea, this study examines whether success factors of single operator program are relevant to coalition programs. This paper contributes first by turning attention to an unexplored area of coalition loyalty programs. By offering an opportunity to reflect on success factors of both single operator and coalition programs, it will help practitioners in loyalty programs to develop innovative loyalty programs using increasingly sophisticated data collection capabilities of IT.

1. Introduction

Loyalty programs are virtually universal. Since the introduction of Advantage by American Airlines in 1980s, loyalty programs have become popular [12]. Loyalty programs usually involve customers being issued a plastic card, which they use to accrue points when they make purchases. A common sense is that loyalty programs help firms or shops to acquire new customers and retain existing customers by attracting them for rewards.

With its popularity, loyalty programs grabbed much attention in recent years [12, 20, 30]. Loyalty programs are designed to make customers more loyal [14]. There are two types of loyalty programs : single operator programs and coalition programs. In the former, a supermarket chain awards customers points for the purchase they make in the supermarket, and the customers can use the points only in the supermarket. It is the original form of loyalty programs such as airline frequent flyer programs where customers get mileage points which they can use only for the airline's flight tickets. Single operator programs include loyalty schemes in retailers and service providers.

In coalition programs, customers can collect points in a variety of partner shops and they can also use the points in those shops. For the coalition program, there is a hub company which initiates all the partnerships with participating companies. As customers want more places to collect and use points, coalition programs become more important. For the companies running loyalty programs, they need more places for their customers to use the points at a faster rate because unused points mean in a sense liabilities on their financial statements. Between these two types of programs, there is a spectrum of different programs. For example, airlines these days make alliances with travel-related companies (i.e. hotels, car rentals, etc.) in which their customers can collect and use points.

There are many studies for single operator programs [1, 6, 7, 8, 13, 14, 15, 16, 26]. They evaluate the effectiveness of loyalty programs and try to identify success factors. Coalition programs are relatively a new form of loyalty programs. In recent years, there has been a growth of coalition programs such as Nectar (www.nectar.com)and Air Miles (www.airmiles.ca), which operate under an independent operating company with a breadth of partners. However, there is little research on coalition loyalty programs. Although the way the program is managed, business goals, business model, quantity of partners and benefits seem different [4], scholars in the field of loyalty schemes generally do not make distinctions between single operator programs and coalition programs with an exception of a few scholars [3, 4].

This study addresses the question of suc-

cess factors for coalition programs by examining the case of OKCashbag, which is the most widely accepted coalition loyalty programs in Korea. The study aims to determine whether success factors identified under existing single operator programs can be applied to coalition loyalty program. OKCashbag is a coalition loyalty program similar to Air Miles and Nectar. Its business model is typical of any other coalition programs; members collect points from participating partners for making purchases and OKCashbag rewards its members by allowing them to use the points like cash when purchasing at partner shops.

OKCashbag has been selected for this case analysis for two reasons. First, OKCashbag boasts over 25 million customer base being the largest coalition program in South Korea. Second, OKCashbag sufficiently qualifies for a model coalition program with over 45,000 offline partners and by being independently operated.

The rest of the paper is organized as follows. Section two reviews existing studies on the loyalty program focusing on its success factors. Then the case under study, OK Cashbag, a coalition loyalty program, is described. Section four discusses how success factors of single operator loyalty programs fit in the OKCashbag program. The last section concludes with implications and limitations of the paper.

2. Literature Review

2.1 What is the Loyalty Program?

Although American Airline's AAdvange is considered to be the origin of modern IT-based loyalty programs [12], such programs as S&H Green Stamps [20] to induce repeated purchases in the form of coupons and stamps existed as early as in 1896. However, those programs based on coupons or stamps were very limited. There was no way of knowing customers' information such as matching individual identification and their purchase patterns. The only piece of information was the number of coupons that customers held. Thus, the identification of unique members and analysis of their purchase patterns were infeasible in the early stages of loyalty programs. Although such stamp-based loyalty programs still remain in small shops, we in this paper refer to loyalty programs as those IT-based and using cards through which data on customers' behavior is stored and identified. During the technology boom of 1990s, IT-based loyalty programs started to become very popular in the retailing industry such as supermarkets [10].

Loyalty program is also known as reward or point card program, and is regarded as mileage or frequent flyer program in the airline industry [1, 2, 8, 15]. Currently, there is no universally accepted definition of loyalty

program. In an earlier research, Rayer [24] defines loyalty program as a *mechanism for identifying and rewarding loyal customers*. While Rayer's [24] definition spotlights the rewarding procedure of loyalty program, Yi and Jeon's [34] definition aims attention at the consequential objective, *to induce repeat buying behavior*. Sharp and Sharp [28] takes it even further in the causal link and provide a meaning that seems to be the ultimate goal of a loyalty program. They define it as a marketer's effort to achieve financial pay-off or enhancement of their long-term competitive position. Sharp and Sharp [28] describes the strategic purpose of the loyalty program from a business standpoint.

Liu [16] and Leenheer et al. [14] each provides a more comprehensive definition of loyalty program. Liu [16] uses both *reward* and *repeat purchase behavior* as keywords to define loyalty program. According to Liu [16], loyalty program is a program that allows customers to earn or accumulate rewards as they make repeated purchases. Leenheer et al. [14] introduces a simple but comprehensive explanation of loyalty program. They regard loyalty program as an integrated system of marketing actions that aims to make member customers more loyal. In line with Leenheer et al. [14], we define a loyalty program as an integrated system of marketing activities that enhance customer loyalty by rewarding loyal behavior, and consequently strengthen long-term competitiveness of the loyalty program

operator. Such loyalty programs consist of gathering and using customer information and behavior patterns to ultimately use it to aid a firm's marketing effort. This can be user's age, sex, past purchase behavior, purchase location and so on. The more information that the firm can gain about the customer, the better it is to conduct an accurate and effective marketing scheme.

2.2 Success Factors of Single Operator Programs

Overall, a success factor should contribute to achieving one of these goals. Several factors are identified; use of multiple channels [31], high brand association accessibility [25], reduction in time for reward in delayed reward program [5, 11], reward types like hard or soft [2, 8, 11], promotional inducement [18], gathering more customer information [29, 32], enhancement of service experience [11] and first mover advantage [33].

• *Use of Multiple Channels*
Studies find that using more channels such as letters, internet and offline shops will result in higher customer retailer loyalty [27, 31]. Wallace et al. [31] described the use of multiple channels as sending mails, having a website and a brick and mortar shop simultaneously in order to increase the members' exposure to the program. Rowley [27] discovered that Tesco, one of the largest supermarket

chains in the UK, built customer relationships effectively by using loyalty program accessible not only through internet, but also through offline media (e.g. sending newsletters with vouchers).

- *Reduction in time for reward in delayed reward program*

Reward timing is divided into two types : immediate reward and delayed reward [11]. Immediate reward is given upon purchase and there is no waiting involved in order to redeem rewards; delayed rewards can be redeemed only after the purchase. For example, a loyalty card provides a form of delayed reward by accumulation of points for later redemption. Reward timing is a determinant of how effective loyalty program may be. According to Keh and Lee [11], delayed rewards are better for increasing loyalty for those who have a satisfied service experience. Delayed rewards give customers an incentive to make future purchase to redeem their rewards.

On the other hand, Dowling and Uncles [5] argues that the longer the delay is before rewards are redeemed, the less powerful the loyalty program becomes. That means consumers generally desire to be rewarded sooner and more frequently than later and less often. Once the program adopts a delayed method for rewarding its customers, the duration of a wait before a reward is redeemed influences the effectiveness, and thereby the success, of the loyalty program.

- *Reward Types : Hard or Soft*

Loyalty programs offer two types of rewards : hard and soft. Hard rewards are tangible such as discounts or gifts; soft rewards are superior service that customers can experience including special communication and preferential treatment [2].

There is a conflict of opinions about which type of reward is better for the loyalty program. Although Bridson et al. [2] support that both hard and soft rewards increase store loyalty, several authors are one-sided to either favoring soft or hard benefits. Hoffman and Lowitt [8] argue that service is what really earns continued faithfulness, not hard benefits. He believes that hard benefits are temporary and not a true determinant of customer loyalty. In this aspect, he interprets hard reward as short-term and soft reward as long-term determinant of loyal behavior.

On the other hand, Keh and Lee [11] favor hard benefits. According to his research, hard benefits such as discounts and cash-convertible points account for 70% of customers' intention to join a loyalty program [11].

- *Promotional Inducement*

A promotional inducement such as a promotional campaign is also a factor that drives an increase in customer loyalty. Mauri [18] asserts that consumers generally want to follow retailer's suggestions about how to spend their money. Thus, retailers should guide these 'lazy' customers to receive benefits regarding

buying specific product types, choosing certain brands, or even visiting the store at a certain time of the day. Such promotional inducements tied to a loyalty program give power to the loyalty program and create more loyalty program members [18]. It permits the creation of new loyalty card members as well as the boost in sales due to promotion.

• *Gathering more customer information*

Gathering customer data is an important factor in turning loyalty program into a success. One of the objectives of the loyalty program is to yield insights into customer behavior preferences as Nunes and Dreze [20] have pointed out. Thus, loyalty programs need to concentrate on collecting as much information about the customers as possible. Collection of customer data has been most easily achieved in the retailer industry where the frequency of purchases and visits are relatively higher than other industries [32]. Some loyalty programs may not collect enough data about the customers due to poor employee training [29]. Employees are usually concerned only about operational everyday issues and neglect the collection of additional customer information. The loyalty programs that successfully acquire sufficient customer data can utilize it well to carry out effective marketing actions to make customers more loyal.

• *Enhancement of Service Experience*

Quality of service experience is also an important factor in inducing high levels of customer loyalty [11]. Keh and Lee [11] find out that a high quality service experience influences customers' expectation and attitudes toward the store. On the grounds that customers are satisfied with the service experience, loyalty programs work much better at increasing customer loyalty. Thus, it is vital to maintain good service in order to make loyalty programs more effective.

• *First Mover Advantage*

First mover advantage is another critical factor for success of a loyalty program. Wright and Sparks [33] argue that Tesco Clubcard and M&S Charge-card dominate in terms of card holdings due to first mover advantage. It factors in the forces of competition among multiple loyalty programs in a market. Loyalty programs have become very popular to the point of reaching saturation [35]. First mover advantage becomes important since consumers decide early on which loyalty program they want to participate in.

3. Case Description : OKCashbag

For this study, data were collected through interviews with three (a general manager, two managers) employees from SK Marketing and Company to identify major characteristics

and to gain insights of the OKCashbag program. Along with interviews we collected information from various sources including company documentation, media sources and literature review. For media sources, we retrieved news articles from the Korea Press Foundation's web site, www.kinds.or.kr. It has the Internet service called KINDS (Korean Integrated Newspaper Database System).

3.1 Overview

OKCashbag is a coalition loyalty program similar to Air Miles and Nectar. Being a coalition program, it is currently run by a dedicated loyalty management company, SK Marketing and Company. It is the largest loyalty program in South Korea, reaching partnerships with over 50 alliances, 45,000 off-line affiliates, and 100 online partners by 2008 [21].

OKCashbag issues loyalty cards called OK Cashbag cards for user identification. Whenever a customer uses the card for making purchases at participating partners such as a restaurant or a retailer, a certain percentage of the purchased value is collected as points to the customer's account. Using the collected points, a member can redeem rewards.

OKCashbag points can be like currency in many occasions to pay or even exchange for cash. When the total points in an account accumulate over 5,000 points, the customers can use it in the similar fashion as currency at any of OKCashbag affiliates nationwide. One point is equivalent to 1 won [23]. For online redemption, points are used as currency without a minimum requirement of 5000 points.

The partners are found across several different industries such as gasoline, banking, credit cards, distribution, restaurants, cinemas, online shopping and manufacturing as shown in <Figure 1>. Since many partners are connected to OKCashbag, cross selling can be facilitated and customer databases of various partners can be used as a marketing tool for the partners [21].

As of 2008, OKCashbag has over 30 million OKCashbag memberships. Considering that the population of Korea is 48 million, more than half of South Koreans have an OKCa-
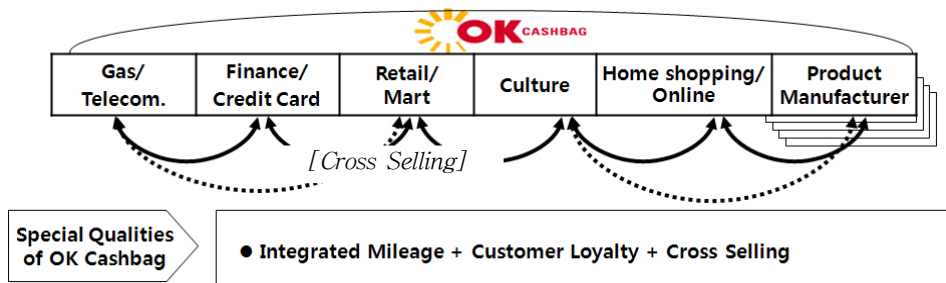
〈Figure 1〉 OKCashbag Service 〔21〕

shbag membership. As shown in <Figure 2>, out of 30 million memberships, 27 million members have a track record of at least one transaction made using the loyalty card and 19 million members have used the service in the past 6 months [21].
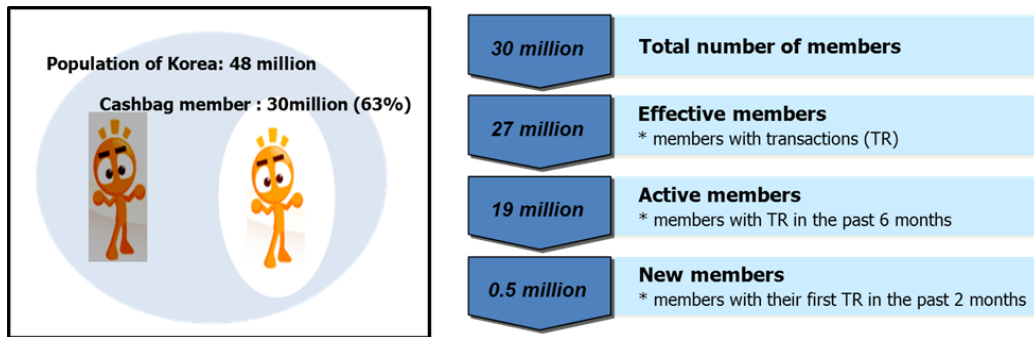
3.2 The Growth of OKCashbag

OKCashbag's has been growing over the past 10 years very quickly and became the largest coalition program in Korea with approximately 30 million members. Major events occurred during its growth are shown in <Table 1>. OKCashbag is a case where a single operator program expanded into becoming a coalition program as it will be explained below.

3.2.1 A Single Operator Program : Enclean Bonus Cards

OKCashbag service first started in 1996 as

〈Figure 2〉 OKCashbag Service 〔21〕

〈Table 1〉 OKCashbag Timeline, 1996~2008 〔21〕

1996	Enclean bonus card launch
1999. 6.	OKCashbag service launch in SK Energy Partnership : SK Gas Station
2000~2001	Increased to 30,000 affiliates First partnership with credit cards and banks : eg. Samsung Card, LG Card, Citi Card and Foreign Exchange Bank
2002~2003	Increased to 40,000 affiliates Expand to online partners : e.g. Cyworld
2004~2005	Public/Government partners : cash receipt, T-money Partnership : Gmarket.com, Tommy Hilfiger, Mr. Pizza, MEGABOX
2007~2007	Partnership with large corporations : Korean Air, VISA Int.
2008	30 Million OKCashbag Membership OKCashbag service migrates SK Marketing and Company

Enclean bonus card program. It was a loyalty program of a gas station chain owned and operated by SK Energy. In the then very competitive oil industry in Korea, SK Energy made efforts for creative marketing activities in order to strengthen its status in the market. As a result, SK Energy came up with Enclean bonus card program as their marketing strategy in 1996. The Enclean bonus card accrues points when customers fill gasoline at a SK Energy gas station. Customers can accumulate 5 points for every one thousand won spent on gas. Initially, there were only a limited number of ways that customers could spend reward points. For instance, they could use points to obtain credits toward auto insurance and replacement of engine oil. The rewards were mostly automobile-related. In addition, the points were occasionally be used to enter the company's sweepstakes with general merchandise as prizes.

The Enclean program was then an unprecedented and unique marketing effort. It was a marketing success case. It signaled many other competitors such as LG and Hyundai Oil Bank who jumped on the same bandwagon by launching their own loyalty program. Enclean however was by far the most successful case. Just one year after the launch its membership surpassed two million. By 2000, it became a huge success by having more than 7.3 million members [17]. In 2001, it increased to 9.2 million membership while its rivals LG Caltex's Sigma 6 and Hyundai

Oil Bank held 7 million and 3 million members respectively.
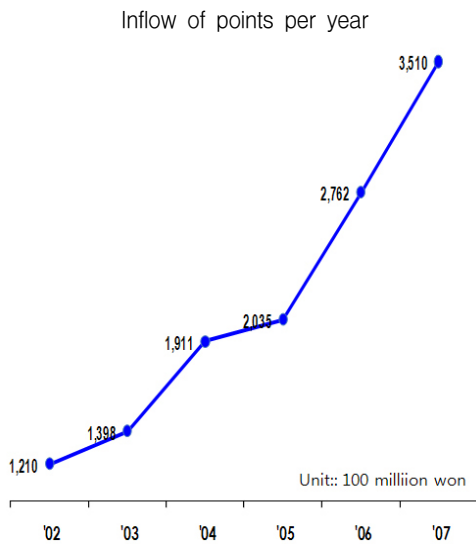
3.2.2 The Launch of OKCashbag

In the midst of its loyalty program success, SK Energy set up a new strategy by launching a coalition program, named OKCashbag in mid 1999. Initially Enclean still operated to serve as the loyalty program for SK Energy gas stations while OKCashbag was a coalition program in its shape and form. It was no longer bound to SK Energy gas stations. The company gathered a set of partner companies. It allowed customers to collect and redeem points from a breadth of business partners. While the Enclean bonus card targeted at only SK Energy customers, that is drivers, OKCashbag was designed for members of the general public who buy any ordinary item, both goods and service, in a wider spectrum of businesses. This type of loyalty program was also an unprecedented marketing effort previously unseen in Korea.

3.2.3 The Growth of Partnerships

Since its launch, OKCashbag continued to grow by creating new partnerships with various businesses. By 2003, it achieved a total of 40,000 offline affiliates nationwide and started to expand into partnering with online businesses and banks [22]. Notable online partners first include Cyworld.com and later Gmarket.com. In addition to partnering with online companies, OKCashbag made ties with
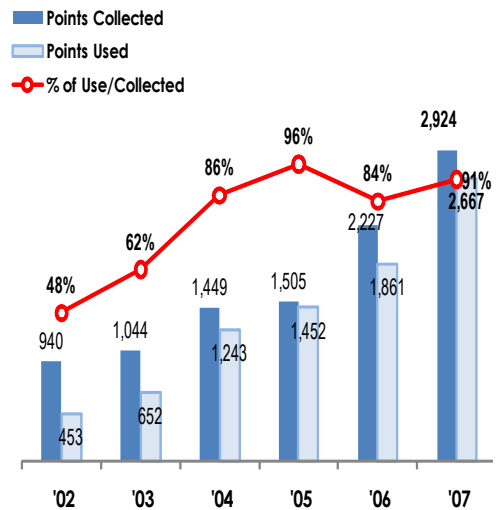
financial institutions such as credit card companies and banks. In 2004, OKCashbag card also became partners with government organizations such as T-money cards used for public transportation. With various businesses including restaurants franchises, hair salons, and cinemas participating as partners of OK Cashbag, OKCashbag grew fast and became almost ubiquitous. From 2006 to 2007, OKCashbag also partnered with large corporations such as Korean Air and VISA international. Overall, OKCashbag was expanding by creating new partnerships in multiple industries.

The total inflow of points per year for OK Cashbag increased significantly from 2002 to 2007. In 2002 it was valued at 121 billion won and then tripled in its value for year 2007 at 351 billion won as in <Figure 3>.

〈Figure 3〉 Inflow of Points Per Year in Won Value 〔21〕

The percentage of the points redeemed out ofthe points collected was increasing over the years as shown in <Figure 4>. Out of the points collected, 48% were redeemed in 2002. In 2007, it was at 91%, displaying a very high redemption to collection rate. This is an indication that customers are not only collecting points but have begun to utilize the redemption more.

〈Figure 4〉 Percentage of Point Redemption over Point Collection 〔21〕

3.2.4 Into an Independent Marketing Company

In 2008, SK Energy's OKCashbag division was split into an independent company, SK Marketing and Company. SK group had a strategy plan to create a company that specializes in marketing [19]. The company still runs OKCashbag in the same way as it did

before. Though, it has a strategic vision in which the company develop new business models that utilizes customer database accumulated by the running of OKCashbag for more than a decade.
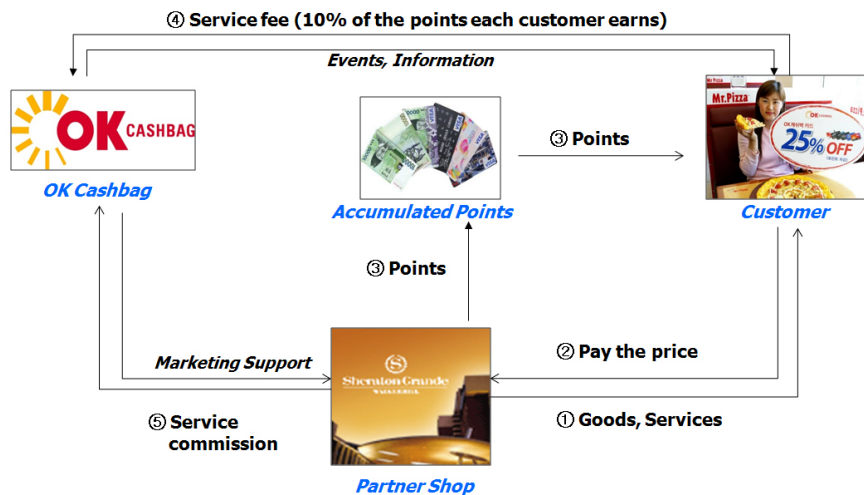
3.3 How it operates

OKCashbag services involve three parties : customers, partners and OKCashbag. The interactions among the three parties are shown in <Figure 5>. First, a customer makes a payment to buy goods or services from a partner shop. Then the partner gives the customer OKCashbag points at the rate predetermined by an agreement between the partner and OKCashbag. Both customers and partners pay OKCashbag in the form of service fee and service commission for using the OKCashbag service because both benefit from OKCashbag. While OKCashbag gives marketing support to the partner, it provides promotions and shopping information to its customers.

In detail, customers and partners benefit from using the OKCashbag loyalty program in a number of ways as shown in <Figure 6>. First of all, customers benefit mostly from the collected points that they can use to redeem rewards or receive discounts. During a promotional campaign, customers can receive extra points by purchasing the goods/services on promotion. In addition, customers also receive personalized purchase recommendations from OKCashbag. Such guidance gives customers useful information for purchase decisions. Moreover, OKCashbag also offers prizes and coupons to customers.

For partners, a major benefit of using the OKCashbag loyalty program is the acquis-

〈Figure 5〉 How OKCashbag Operate 〔21〕

ition of additional customers and the retention of existing customers. These are the primary goals of loyalty programs in general. However, there are other benefits of choosing OKCashbag over developing their own in-house loyalty program. First, OKCashbag already has a brand value that customers are familiar with. Second, many customers might already have an OKCashbag card and the company can save costs for issuing new cards. Thirdly, partners can initiate co-marketing campaigns with OKCashbag to lower marketing costs and also receive marketing consultation from OKCashbag based on OKCashbag's accumulated knowledge and techniques in database marketing (DBM) and customer relationship management (CRM).
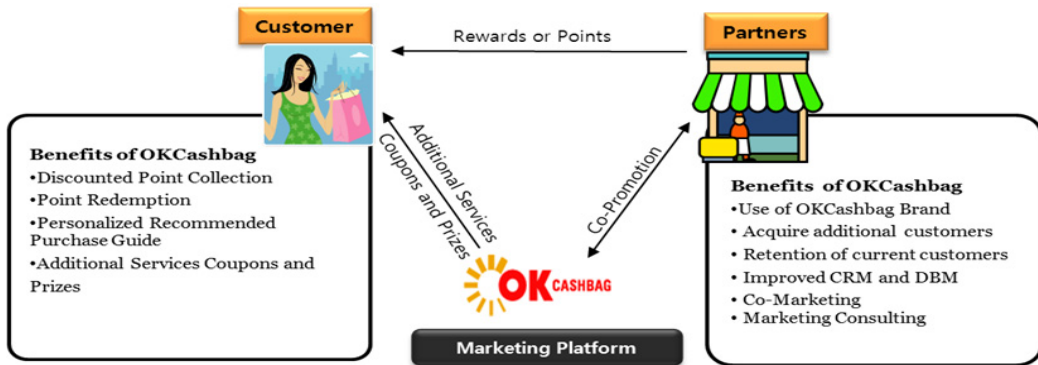
4. Discussion

The question to answer in this paper is whether success factors found from single operator programs also fit to coalition programs. Literature analysis led to identifying seven factors : (1) use of multiple channels, (2) delayed rewards, (3) reward types : hard or soft, (4) promotional inducement, (5) gathering more customer information, (6) enhancement of service experience, and (7) first mover advantage. By applying these factors to OKCashbag, and analyzing their fit, we can gain insights into how those increasingly popular coalition loyalty programs can lead to viable businesses. In the following, we attempt to determine whether there is compatibility between OKCashbag and each of the seven factors of single operator programs.

● *Use of Multiple Channels*

Studies [27, 31] suggest that the more channels a loyalty program has, the more successfully it builds good relationship with customers. This factor is certainly present in the OKCashbag program. First, OKCashbag has over 45,000 bricks and mortar partners such as

〈Figure 6〉 Benefits for Customers and Partners 〔22〕

restaurants and grocery retailers [23]. The abundance of offline partners allows members to be easily exposed to the program more frequently. OKCashbag uses its own website as well as over 100 partners' websites for members to either collect or redeem points. For example, there are several internet shopping malls such as 11st street and E-mart where members can shop using the OKCashbag points [23]. Recently, OKCashbag related apps for smart phones have been released in order to expand into additional channels [9].

●*Reduction in time for reward in delayed reward program*

OKCashbag's members collect points before they redeem rewards. That means, OK Cashbag mostly offers delayed rewards as defined by Keh and Lee [11]. According to Dowling and Uncles [5], the longer the delay is, the less powerful the loyalty program becomes. Although OKCashbag offers delayed rewards, it reduces the impact of delayed rewards by allowing customers to use points in a wide range of places, which is related to the first factor. There are so many locations such as offline affiliates or online websites where rewards can be redeemed. Members can redeem rewards sooner and more frequently, whenever and wherever.

●*Reward Types : Hard*

For OKCashbag, the success factor seems to be the hard reward type rather than the soft one. Soft rewards such as customer rewards are difficult to find since OKCashbag do not deal with customers directly. OKCashbag on the other hand do offer a diverse assortment of hard rewards, which seems to be the major driver of the loyalty incentive for members. OKCashbag program allows members to exchange points for cash, discounts, merchandise and etc. Since soft reward is missing in action, it is the hard reward in this coalition program that is responsible for increasing customer loyalty. Coalition programs like Nectar or Air Miles also rely on hard rewards to customer since they do not directly deal with customers.

●*Promotional Inducement*

Promotional inducements have been used by OKCashbag since its early stages. OKCashbag launches periodic promotional campaigns like Wang-Dae-Bak that gives away prizes and discounted items. It gives customers incentives to increase their frequency of visit to participating partners during the promotional campaigns. Free gifts and discounts can also become incentives for new members to join or migrate from a competitor. Promotional campaigns and coupon events with various participating partners were initiated regularly as a marketing effort. OKCashbag rewarded members who collected coupons for making specific purchases by rewarding them with extra points.

• *Gathering more customer information*

OKCashbag as a coalition program can build a large scale database of customer behavior because it has a huge number of members who do shopping in the widest range of businesses from grocery, restaurants and fashion to beauty salons. There is a large pool of data about past purchase behavior of members. Normally members, when they first register, do not opt to provide such information as interests and preferences. Without full array of information about customers, it would be difficult to carry out an accurate marketing analysis. However, once they become members and use the card, all the purchase behavior leaves track in the OKCashbag's systems. Such track record of purchase patterns is very reliable. OKCashbag has generated over 10 years of track record with 30 million members. With an immense volume of data, OKCashbag is empowered to venture into database marketing as well as marketing consulting. For OKCashbag, its database has been a huge asset.

• *Enhancement of Service Experience*

This success factor has low relevance to the OKCashbag program. OKCashbag has limited control over enhancement of service experience because they do not make direct interactions with their members. The participating partners of OKCashbag program are the ones that interact with its members. OKCashbag might strategically partner with firms that have previously displayed a high level of service. However, OKCashbag would not solely base its partnership requirement on the level of service experience. Even after a partnership has been made with a firm, OK Cashbag has almost no control overenhancing the company's service offering.

• *First Mover Advantage*

This success factor applies well to OKCashbag. OKCashbag was the first coalition loyalty program to enter the market emerging from the oil industry. It had its first mover advantage just like Tesco Clubcard [33]. Nowadays there are many loyalty programs in Korea; some of them have been evolving, as OKCashbag has, from a single operator program of department store, supermarket and so on to a coalition one by making a network of strategic alliances with participants from a variety of industries. However, there is no coalition program yet with the scale of members and partners that come anywhere near OKCashbag. Once a customer accumulates some points with the first mover (in this case, OKCashbag), it is difficult for the customer to switch to other programs because switching costs are generally high. For example, if he leaves OKCashbag, the points he has accumulated so far are likely to be useless, which is called sunk costs of switching. In addition he has so far familiarized himself with the partner shops where he has collected the points. However small it might be, there is learning

involved. By switching he has to learn again. For these reasons customers remain in the first mover; in other words, they are locked-in to the first mover.

• *Summary*

With the exception of enhancement of service experience, the other six success factors of single operator programs are also relevant to coalition programs as shown in <Table 2>. Enhancement of service experience had difficulty in applying to the coalition model due to the difference in the way coalition programs operate. Enhancement of service experience is a soft reward that coalition programs cannot physically take care of due to lack of direct interactions between OKCashbag and its members.

5. Conclusion

There are an abundance of loyalty programs from an around-the-corner coffee shop with using stamp-cards to airlines' frequent flyer programs and supermarkets with issuing IT-based cards. One recent trend we observe in growing loyalty programs is that they evolve from single operator programs to coalition ones such as Nectar and Air Miles where members of a program can collect and use points in many places and, with this benefit, more people find a motivation to join the program. Many big single operator programs make a network of alliances with partners from a variety of industries to develop into a collation program. While there is relatively much research on single operator programs, there is little on coalition programs.

Using the case of OKCashbag, the first and biggest coalition loyalty program in Korea, this study examines whether success factors of single operator program are relevant to coalition programs. It is found that while six factors out of the seven from single operator programs (reduction in delayed reward, offering hard reward types, promotional inducements, gathering of more customer informa-

〈Table 2〉 Relevance of Single Operator Success Factors

Single Operator Success Factor	Relevant to OKCashbag?
Use of Multiple Channels	Yes
Reduction in time for reward in delayed reward program	Yes
Reward Type : Hard	Yes
Promotional Inducement	Yes
Gathering more customer information	Yes
Enhancement of Service Experience	No, inapplicable
First Movers Advantage	Yes

tion and first mover advantage) are relevant to coalition programs, enhancement of service experience is not relevant because coalition programs like OKCashbag does not have control over their partner companies' service offering.

As mentioned above, there is little research on IT-based coalition loyalty programs compared to single operator programs. This paper contributes first by turning attention to an unexplored area of coalition loyalty programs. By offering an opportunity to reflect on success factors of both single operator and coalition programs, it will help practitioners in loyalty programs to develop innovative loyalty programs using increasingly sophisticated data collection capabilities of IT services. The utilization of coalition loyalty programs could be improved when the management is able to grasp the working mechanism and success factors of these novel approaches. For instance, the factor of 'enhancement of service experience' has low relevance to coalition loyalty programs. The management willing to employ coalition programs should bear in mind that participating partners of program are interacting directly with its members. So it is almost impossible to control over enhancing the company's service offered by a partner company.

Coalition loyalty programs offer researchers many opportunities for research. One example is to analyze patterns of point collection by different demographic groups. A coalition program, once it is established with a substantial number of members, generates a huge amount of data. By applying data mining techniques and combining data on points (where, when, frequency, amount, etc.) and demographics of users, we will be able to increase our knowledge on how people buy and what kind of networks are made between members and participating companies. Such information has a strategic value when, for example, companies make decisions on with company (or which industry) to make an alliance. We leave this analysis for future work.

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