

LOYALTY PROGRAMMES AT FINANCIAL INSTITUTIONS

Lezánne Human

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ABSTRACT

The financial services industry is becoming increasingly competitive, resulting in higher customer churn and lower profitability. Well-structured loyalty programmes can play a key role in retaining profitable customers and driving profitable behaviour in those customers. Loyalty programmes in South African financial institutions have been launched with varying degrees of success, requiring an understanding of why a loyalty programme is needed and how it should be structured to achieve its objectives.

In-depth interviews at a case site – the eBucks programme of FirstRand – were conducted. It was found that eBucks was implemented to increase profitability through driving profitable behaviour and retaining profitable customers, as well as through cross-selling and providing differentiation.

The programme follows a ‘promotional currency’ structure and is multi-partner in nature. It reflects its unique environment and is specifically designed to ensure value to members and a competitive advantage against other loyalty programmes. Strong top leadership support adds an important dimension. The research should be of value to financial institutions debating the implementation or discontinuation of their loyalty programmes.

DECLARATION

I, Lezánne Human, declare that this research report is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the University of the Witwatersrand, Johannesburg. It has never before been submitted for any degree or examination to this or any other university.

This research report is based on inputs received from eBucks, FirstRand and MTN, but the analyses and interpretations are my own and do not necessarily reflect the views of these companies.

Lezánne Human

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1. INTRODUCTION

1.1 Purpose of study

The purpose of the research was to determine why financial institutions implement loyalty programmes as well as to analyse how such programmes can be structured by focusing on a specific case site.

1.2 Context of study

The financial services industry is changing rapidly as a result of deregulation, industry consolidation, internationalisation, tougher competition, technological advancements, enhanced product choice, increased product and market information, a largely undifferentiated market-place and product commoditisation, an over-supply of services and resultant excess capacity, as well as higher customer sophistication (Dawes & Swailes, 1999 and Beckett, Hower & Howcroft, 2000). This has led to higher customer churn and decreased customer loyalty, ultimately impacting on profitability. The retention of profitable customers and the cultivation of customer loyalty have therefore emerged as two core, intertwined themes in most financial institutions' strategies (Palmer, McMahon-Beattie & Beggs, 2000a).

Loyalty programmes are increasingly being used as powerful enablers in such strategies. It has been found that successful loyalty programmes impact directly on customer acquisition and retention as well as on profitability by influencing the desired customer behaviour (Storbacka, Strandvik & Grönroos, 1994; Gould, 1995; Hallowell, 1996; Ülengin, 1998; Colgate & Hedge, 2001; Reichheld, 2001 and Finnie & Randall, 2002). The success of a loyalty programme is influenced by the financial institution's understanding of why a loyalty programme is required and how it should be structured to achieve those objectives.

Many loyalty programmes have been launched by financial institutions in South Africa, with varying degrees of success. The eBucks programme – a loyalty programme of FirstRand launched in October 2000 – met its initial strategic objectives ahead of target and all indications are that the programme is a success (M. Jordaan, personal communication, 4 November 2002). Against the backdrop of many implementations of loyalty programmes within financial institutions in South Africa, it is important to understand why FirstRand implemented the eBucks programme and how the programme has been structured.

Owing to the nature of the research, it was conducted in the interpretive paradigm (Burrell & Morgan, 1979), using the case study method.

1.3 Problem statement

1.3.1 Main problem

The purpose of the research was to determine why and how financial institutions implement loyalty programmes.

1.3.2 Sub-problems

The first sub-problem was to identify the reasons for and potential benefits of a loyalty programme to a financial institution.

The second sub-problem was to determine how a loyalty programme at a financial institution could be structured.

1.4 Significance of study

The study fills a gap. Although much has been published on the reasons for and structure of loyalty programmes in other countries (Dick & Basu, 1994; Clayton-Smith, 1996; Palmer, 1996; Duffy, 1998; O'Malley, 1998 and Palmer *et al*, 2000a), nothing has been found in any peer review journals with regard to loyalty programmes in the South African financial services industry. Tzimas (2002) conducted a study on the critical success factors of loyalty programmes in South Africa, but this study did not focus on financial services, nor did it investigate the potential structures of such programmes. The information obtained in this research therefore fills a gap that currently exists.

The study could provide guidance to other financial institutions. Many financial institutions are currently grappling with the problem of whether either to launch, continue or discontinue their loyalty programmes. This research provides valuable information in helping such institutions address these questions. The success of the case site indicates that the learnings from the case site may promote understanding or inform practice for similar situations at other financial institutions (Leedy & Ormrod, 2001).

Access to a case site not otherwise available. This study is also of importance to academia since unusual access to a case site was obtained, providing an opportunity to investigate a problem that would otherwise have been lost to academic research. Access to the selected case site and its employees was granted formally and fully, thereby allowing for the collection of comprehensive, relevant data (Perry, 2001).

1.5 Delimitations and limitations

1.5.1 Delimitations

The delimitations applicable to this research are listed below.

- The research was not done from a customer perspective but from the perspective of the financial institution that implemented the loyalty programme. For that reason no interviews were conducted with eBucks customers.
- It being a case study, the scope of the research was limited to the loyalty programme at FirstRand, called eBucks. No attempt was made to investigate loyalty programmes at other financial institutions.
- Since FirstRand is a holdings company that follows a multi-brand strategy, a new brand (eBucks) had to be created for their loyalty programme. No branding issues are explored as part of the study.
- The report focuses on the creation of customer loyalty specifically through loyalty programmes and not on the creation of loyalty through other mechanisms such as, for example, increased customer service or pure relationship marketing.
- The report focuses on the earlier phases of the programme, namely the design phase, the introduction phase and the early growth phase of the programme. This covers the period of June 2000 to August 2003.

Note that no assumptions were made during this research which, if the circumstances associated with the assumptions had to change at any time after this research report was published, would invalidate the outcome of the research.

1.5.2 Limitations

With the nature of this research being qualitative in the form of a case study performed in the interpretive paradigm, certain limitations apply to the work contained in this research report.

Firstly, limited generalisation can be made, as the purpose of case study research is to add to theory-building and to articulate patterns rather than to generalise to a population (Amaratunga & Baldry, 2001). Rowley (2002) argues however that generalisation can be performed if the research design has been informed by theory and is therefore seen to add to theory-building.

The second limitation is that, apart from the interview schedule, no additional standardised instruments were used, since data collection occurred through observations and unstructured interviews. Therefore subjectivity may have occurred as potential bias may have slipped in from the researcher and/or the interviewees. In fact, the collected data might have been altered by the mere presence of the researcher. This might have impacted on both construct validity and reliability of the research but were guarded against where possible. This is addressed further in the discussion on validity and reliability in section 3.6.

And lastly, the research process uncovered a number of variables with regard to the loyalty programme being studied which were unknown to the researcher at the start of this research process. This implied the need for a flexible or emergent design during the research process (Leedy & Ormrod, 2001).

1.6 Definition of terms

The following definitions are relevant to this research:

- 'Financial institutions' are institutions that provide financial services to customers. These institutions include all types of banks, long-term insurance firms, short-term insurance firms, wealth management firms and health care (i.e. medical insurance) firms.
- 'Customer lifetime value' refers to the net present value of net profits made from the customer during the customer's lifetime with the company (Kotler, 2000). This is often abbreviated as CLTV.
- Customer 'loyalty' is a complex issue and can be defined in many ways. It is discussed in more detail in the literature review in section 2.1, before a formal definition is provided.
- A 'loyalty programme' is defined as a programme launched by a company with the purpose of increasing customer loyalty and the retention of profitable customers, by driving and rewarding the required customer behaviour (Wehner, 2000).
- 'Earn Partners' are those companies / businesses that form part of the eBucks programme in that their customers can earn eBucks when exhibiting certain behaviour.
- 'Earn rules' are the rules laid down by Earn Partners which define the allocation of loyalty points to customers.
- 'Earn behaviour' refers to the type of behaviour exhibited by customers and which result in these customers earning loyalty points.

- 'Spend behaviour' refers to the type of behaviour exhibited by customers when spending their loyalty points on products made available to them through the loyalty programme.

2. LITERATURE REVIEW

Leedy & Ormrod (2001) believe that a literature review is critical when doing qualitative research within the case study method. This is due to the integrated role of the researcher in the data collection process and therefore the need for the researcher to be well versed in the related literature to ensure that the researcher can separate important information for observations and discussion. This chapter provides an overview of the literature that was used as a basis for deriving the research questions and which was relied on extensively during the data collection process.

The purpose of this research was to determine why financial institutions implement loyalty programmes and how such programmes could be structured. This literature review provides a definition of customer loyalty, as well as background on the importance and benefits of a focus on customer loyalty to financial institutions. The key role that loyalty programmes can play in this regard is outlined and other benefits of loyalty programmes are also listed, leading to a discussion on the competitive advantage that a loyalty programme can provide. This is followed by a description of the evolution of loyalty programmes and the various categories of programme structures that can be used.

Throughout the literature review, research questions are indicated as and where they flow from the literature review.

2.1 Definition of loyalty

Loyalty can be defined as “being faithful” or “true to allegiance” (Palmer, McMahon-Beattie & Beggs, 2000b:2). However, customer loyalty is a radically misunderstood concept, often interpreted differently by different parties (Finnie & Randall, 2002). Dawes & Swailes (1999) list a range of conceptual definitions,

ranging from repeat purchases to lifetime relationships. Loyalty in the financial services industry is indeed multi-faceted. Various components are discussed below, after which a conceptual definition of loyalty is provided.

O'Malley (1998) reports that customer satisfaction is often used as a proxy for customer loyalty while Hallowell (1996) has proved that customer loyalty is closely correlated to customer satisfaction. However, both Gould (1995) and O'Malley (1998) believe that loyalty is more than just customer satisfaction – it is about companies exceeding expectations in select areas where it makes business sense. Customer satisfaction therefore is a prerequisite to loyalty, but by no means does it guarantee loyalty (Lenz, 2000).

Literature suggests that there are two types of definitions for loyalty.

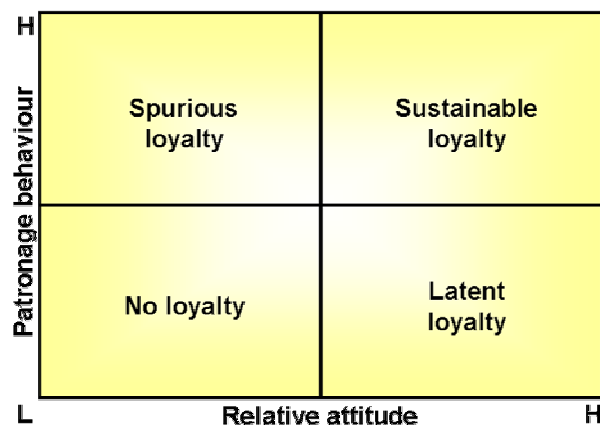
1) The first type definition is to define loyalty as behavioural (Javalgi & Moberg, 1997). It encompasses measures such as recency, frequency, tenure and monetary value (O'Malley, 1998). It includes more than just repeat purchases or repetitious behaviour (Clayton-Smith, 1996; Beckett *et al*, 2000 and Palmer *et al*, 2000a) and is also seen as increased scope of relationship (Hallowell, 1996). According to this definition, customers will remain loyal as long as they feel that they receive greater value than they would from other companies (Zeithaml and Bitner, 1996).

2) The second type definition is to define loyalty as an attitude. In this definition, loyal customers are often involved in word-of-mouth referrals (Hallowell, 1996). Clayton-Smith (1996) describes loyalty as customers having a sense of belonging, where not only their wallets but also their hearts and minds are won. Palmer *et al* (2000a) describe loyalty as customers believing that no other company could match the complexity of their needs more precisely. Reichheld in an interview with Finnie & Randall (2002:27), views loyalty as “sticking with the company in the long haul because you are proud to be associated with them...

and because they are committed to earning your long-term relationship”.

Dawes & Worthington (1996) conceptualise loyalty as the interaction of both aspects: behaviour and attitude. Dick & Basu (1994) suggest that loyalty is determined by the strength of this link between relative attitude and repeat patronage. They define relative attitude as not only customers’ attitude towards the financial institution alone, but also their attitude in relation to other financial institutions as well. Repeat patronage (or patronage behaviour) includes the traditional measures of recency, frequency, monetary value of purchases, share of wallet, etc. Based on this, they suggest a two-by-two matrix that explains the different types of loyalty:

Figure 1: The different types of loyalty



Source: Adapted from Dick and Basu (1994:101)

No loyalty refers to customers that do not patronise the financial institution and do not wish to do so. At best, management can attempt to create spurious loyalty in these customers.

Spurious loyalty refers to customers that are with the financial institution because of reasons other than attitude (e.g. convenience or location). This type of loyalty cannot be relied on in the long term but is very often incorrectly assumed to reflect loyalty to a financial institution.

Latent loyalty refers to customers who wish to patronise the financial institution, but might not be able to do so due to obstacles such as an irrelevant product offering or inappropriate delivery channels. These people can be moved to sustainable loyalty by removing the obstacles. These obstacles are however not overcome by the loyalty programme, but by the product/service provider or by the delivery channel.

Sustainable loyalty is what should be strived for by financial institutions and should be continuously encouraged.

Loyalty, as it pertains to financial institutions, is therefore defined as follows for the purpose of this research:

Loyal customers remain with a financial institution while remaining resistant to competitors. They increase their relationship both in breadth (length of relationship) and depth (scope and value of products) over time. Loyal customers believe that they are in a mutually beneficial relationship with the financial institution and therefore they actively recommend the financial institution to others.

2.2 The interrelatedness of customer retention and loyalty

2.2.1 The benefits of customer retention

Customer retention has emerged as a core theme in many strategies (Palmer *et al*, 2000a). This focus on growth through customer retention is understandable in the context of studies that suggest it is more profitable to retain existing customers than to acquire new customers constantly to replace those that leave (Reichheld & Sasser, 1990 and Hamilton & Howcroft, 1995). This is especially true in a saturated market such as financial services (Dawes & Swailes, 1999).

Kotler (2000) states a well-known fact: in most industries customer acquisition costs on average five times more than customer retention. Colgate & Hedge (2001) summarise these additional costs as the initial investment costs that are lost, the additional costs of having to acquire a new (potentially risky) customer in the place of the defector, and the loss of potential profits. Since return customers buy more from a company over time, future revenues are lost (Finnie & Randall, 2002). Added to these costs is the dilution of focus in having to look for new customers, instead of focusing on building relationships with the existing customers (Dawes & Swailes, 1999) as well as the potential costs of negative word-of-mouth from the disgruntled customer.

Gould (1995) lists three benefits of customer retention: retention costs less than acquisition; retained customers are less price-sensitive than new customers and retained customers are more amenable to cross-selling. This leads to higher profitability. Kotler (2000) agrees that customer profitability increases over the life of a retained customer, stressing the value of focusing on lifetime value rather than once-off short-term gains. Hallowell (1996) agrees with Gould (1995), stating that retained customers create increased profits, lower price-sensitivity and decreased servicing costs. Dawes & Worthington (1996) suggest that an initial investment is needed to create and cement relationships with profitable customers, but that operating costs start decreasing once this is achieved.

2.2.2 The key role of loyalty in customer retention

Although interrelated, it is important to distinguish between customer retention and customer loyalty. Companies may retain customers despite these customers not being loyal – the spurious loyalty of Dick & Basu (1994). This typically occurs in financial institutions where there are no competitors or no competitor differentiation in the industry, or where the switching costs are high (Gould, 1995).

The model of Dick & Basu (1994) suggests that, only if customer loyalty drives

customer retention are the above long-term sustainable benefits of cross-selling and price desensitisation obtained, where customers will not switch if a competitor offers a lower price. Dawes & Swailes (1999:36) suggest that “customer loyalty is central to successful retention and companies who compete on the basis of loyalty need to understand the linkages with customer retention.” A loyal customer is less likely to defect or become disgruntled.

Within financial services, the focus on customer loyalty and customer retention has intensified rapidly because of a turbulent environment, which has led to decreased customer loyalty and higher customer churn. This turbulent environment is due to tougher competition; enhanced product choice; increased product and market information; deregulation; globalisation; new technology; higher customer sophistication; an over-supply of services and resultant excess capacity; a largely undifferentiated market-place and product commoditisation (Dawes & Worthington, 1996; Dawes & Swailes, 1999; Beckett *et al*, 2000 and Palmer *et al*, 2000a). Customer retention and customer loyalty are therefore crucial to the successful growth of a financial institution.

2.3 The role of loyalty programmes

A powerful enabler that financial institutions can employ in increasing customer loyalty and retention, is a loyalty programme, since it is critical in making customers “more than just satisfied” (Gould, 1995:15). A loyalty programme can be defined as a programme launched by a company with the purpose of increasing customer loyalty and the retention of profitable customers, by driving and rewarding the required customer behaviour (Wehner, 2000).

Loyalty programmes are perceived to have been one of the most successful marketing tools of the 1990s (O'Malley, 1998), but loyalty programmes are no longer a new concept. Although there have been failures, the success stories

provide good reasons why loyalty programmes are viewed as beneficial. It is however critical to remember that a loyalty programme can only provide benefits if the financial institution's value proposition of its products and/or services are intrinsically good. Offering a loyalty programme on top of a bad product offering will not provide any benefits. The success of a loyalty programme is also influenced by an understanding of why a loyalty programme is required by the financial institution and how the loyalty programme should be structured to achieve those objectives.

Because of the central role that loyalty programmes play in increasing loyalty, the benefits of increasing customer loyalty (as described below) are also the reasons for the creation of loyalty programmes.

2.3.1 Impact on profitability

Customer loyalty has been identified by some as the most important driver of long-term profitability (Lenz, 2000). Finnie & Randall (2002:25) state that "loyalty is the fuel that drives financial success – especially in today's volatile economy."

The impact on profitability was touched on in section 2.2 and studies conducted in the financial services industry provide further substantiation for this. Reichheld (2001) has shown that, in financial services, a five percent increase in customer retention generates as much as a 90% increase in customer lifetime value. Colgate & Hedge (2001) have found that losing customers has a direct, detrimental impact on a financial institution's profit and market share. This impacts directly on the bottom line. Storbacka *et al* (1994) have shown that there is a direct link between customer loyalty and profitability. Hallowell (1996) has also found that there is a direct correlation between customer loyalty and profitability, with a 10% increase in loyalty in a financial institution translating into a 40% increase in return on assets.

A recent example of the link between loyalty and profitability is American Express, which attributed a large part of its reported doubling of 2002 fourth quarter profits to its 'Membership Rewards' loyalty programme. The company found that an increased number of customers were using their American Express credit cards for daily purchases to gain rewards points, thereby increasing revenues for American Express without increasing costs to the same extent. (Colloquy, 2003).

Closer to home (although not in the financial services industry), Clicks indicated in 1998 that its Clicks Club Card was one of only two factors mainly responsible for its 23% increase in headline earnings. Clicks views its loyalty programme as its recipe for financial success, stating that about 60% of the rand value of sales transacted, was going through the Click Club Card (Klein, 1998).

Loyalty also impacts on other aspects of financial performance. In studying the impact of loyal customers on companies across various industries, Reichheld (2001) found that, by creating and retaining loyal customers and growing relationships with them, such 'loyalty leader' companies outperformed their competitors by an average factor of 2.2 on the U.S. stock market during the 1990s.

Gould (1995) states that no company can remain in business without loyal customers. Reichheld echoes this in an interview with Finnie & Randall (2002:31): "There is no long term success without building the loyalty of customers".

It is clear that true customer loyalty translates directly into financial and thus business success. It must be reiterated though that both the loyalty programme as well as the products and client service provided by the company play a combined role in creating such loyalty.

2.3.2 Assist in customer retention

Loyalty programmes affect customer retention, as outlined earlier in section 2.2. This is confirmed by Tzimas (2002): when studying nine loyalty programmes across various industries through semi-structured interviews, she found that customer retention was most often mentioned as the main objective for these companies to implement their loyalty programmes.

2.3.3 Assist in cross-selling

Loyalty programmes can play a key role in the cross-selling of services across the various divisions of a financial institution, as outlined below.

Firstly, because of the important role that a loyalty programme plays in having an integrated view of the customer, analyses can be performed to see which services a customer should have but which are currently not sourced from the financial institution, and how these can be sold through the rewarding of the required behaviour (Dawes & Worthington, 1996).

Secondly, cross-selling is facilitated because of the important role that a loyalty programme plays in customer retention: the longer a customer is retained, the more amenable that customer is to cross-selling (Gould, 1995).

Judge (2000) describes how financial services customers in the US can have as many as 15 separate relationships with financial institutions. Cross-selling leads to increased 'stickiness' of a customer to one financial institution and therefore to increased retention, customer lifetime value and profitability.

In South Africa there are specific sensitivities around incorrectly or illegally targeting customers with financial services offerings where they did not give permission (S.A. Yates, personal communication, 3 February 2003). Examples of such sensitivities are the protection of an individual's privacy and the confiden-

tiality of personal information. These sensitivities must be kept in mind by the loyalty programme during cross-selling initiatives.

Another sensitivity arises in South Africa with regard to medical insurance and long-term insurance, where legislation prohibits the offering of any inducements to people to either take out, maintain or upgrade their policies (Koen, 2001a).

2.3.4 Assist in customer acquisition

Over and above increased cross-selling and the retention of loyal profitable customers, loyalty programmes also play a role in customer acquisition.

Ülengin (1998) used conjoint analysis to study customers' bank selection decisions, using attributes from the three categories of product offering, delivery channels and customer relations. He found that the most important attribute in bank selection was the existence of a comprehensive loyalty programme. The next top four reasons were the continuous flow of information from the bank; off-site ATMs; maximum five minutes waiting time in branches and simple application processes for all accounts.

Gould (1995) agrees that loyalty programmes play a role in customer acquisition by showing that loyal customers are involved in regular word-of-mouth referrals to similarly profitable customers, thus playing an important albeit indirect role in customer acquisition.

2.3.5 Facilitate a better understanding of customers

The highly competitive industry conditions in financial services have had a critical impact upon customer behaviour (Beckett *et al*, 2000). Information is therefore an important contributor to a financial institution's competitive advantage, since it allows for an understanding of customer behaviour at the individual rather than

aggregate level (Dick & Basu, 1994 and Buckley, 1996).

In research done by Clayton-Smith (1996) across various industries, it was found that loyalty programmes are collectors and analysers of data that might not otherwise have been collected or aggregated by companies. This information enables companies to understand their customers better. In understanding customers better, a company gets to know customers' demographics, their 'earn and spend' behaviour and their attitude towards the company and competitors (Wehner, 2000). It also obtains information that allows it to identify its most long-term profitable customers across the company as a whole.

Within financial services, loyalty programmes also enable the regular updating of crucial customer information, an activity that is otherwise quite difficult to perform (S.A.Yates, personal communication, 3 February 2003).

2.3.6 Drive the required behaviour

Financial institutions must know their customers better in an attempt not only to anticipate and understand their behaviour, but also to influence customers' buying behaviour (Grönroos, 1984; Beckett *et al*, 2000 and Palmer *et al*, 2000a). By understanding customers' behaviour, a financial institution can identify appropriate strategies conducive to driving profitable behaviour and increasing retention and thus increasing profitability.

Behaviour might include the migration of customers to more cost-effective delivery channels, the buying of more profitable products, or the retention of only profitable customers. A loyalty programme must ensure that it rewards the right behaviour for the programme to be a success (Finnie & Randall, 2002).

2.3.7 Provide tangibility

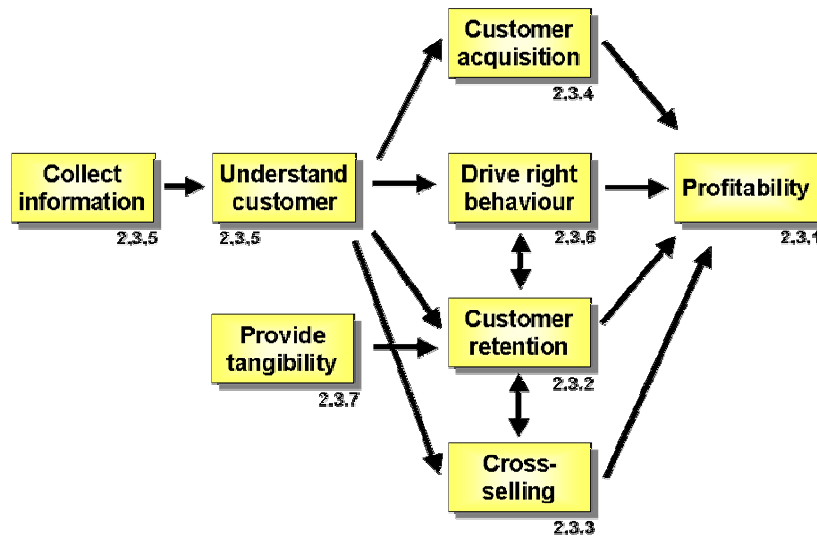
Financial institutions have one additional requirement to most other companies: they need to provide some form of positive, daily, tangible benefits via a loyalty programme to balance the perception of intangibility or 'grudge purchasing' frequently associated with financial institutions (D'Onofrio, 2001).

2.3.8 Conclusion

In summary, literature suggests that a financial institution can benefit from a loyalty programme in many ways. It assists in customer acquisition as well as the creation and retention of loyal, profitable customers. It assists in cross-selling by deepening and expanding the customer relationship. It enables the collection and analysis, as well as regular updating of information that can be used to understand and service customers better and to drive the right behaviour. It helps provide clients some tangibility in an otherwise intangible suite of services.

These benefits directly impact on profitability and the bottom line and ensure that a loyalty programme assists in differentiating one financial institution from another in a highly competitive environment. The benefits can be summarised as per the diagram below.

Figure 2: Benefits that a loyalty programme can provide



2.4 Addressing first sub-problem through research question 1

The literature reviewed in the preceding sections addresses the first sub-problem on why financial institutions implement loyalty programmes. The literature shows that a loyalty programme is implemented to directly affect profitability (Storbacka *et al* 1994; Gould, 1995; Hallowell, 1996; Colgate & Hedge, 2001; Reichheld, 2001 and Finnie & Randall, 2002) by targeting **one or more** of the following interdependent causes:

- a) To assist in the retention of loyal, profitable customers (Reichheld & Sasser, 1990; Gould, 1995; Hallowell, 1996; Dawes & Worthington, 1996; Colgate & Hedge, 2001 and Tzimas, 2002).
- b) To assist in cross-selling (Dawes & Worthington, 1996 and Finnie & Randall, 2002).
- c) To assist in customer acquisition (Ülengin, 1998).

- d) To enable the collection and regular updating of information and to subsequently drive the right behaviour in clients (Grönroos, 1984; Buckley, 1996; Clayton-Smith, 1996; Beckett *et al*, 2000; Palmer *et al*, 2000a and Finnie & Randall, 2002).
- e) To provide clients with the perception of tangibility in an otherwise intangible suite of services (D'Onofrio, 2001).

Research Question 1: Why was the eBucks loyalty programme implemented?

2.5 Loyalty programmes as a competitive advantage

If loyalty programmes provide the above benefits, they can assist in differentiating a financial institution (without price discounting) in a highly competitive environment, thereby providing a financial institution with competitive advantage. Dawes & Worthington (1996:36) argue that:

With customer retention becoming increasingly significant for [financial] institutions... strategies which provide them with competitive advantage are becoming of paramount importance.

2.5.1 How can competitive advantage be achieved?

Competitive advantage is achieved by a company through the provision of superior value to the customer relative to the company's competitors (Porter, 1985 and Barney, 1991).

Competitive advantage through loyalty programmes can be achieved by being first in an industry within a geographic area to offer a loyalty programme, but such an advantage is usually not sustainable. Mowlana & Smith (1993) found

that the company that is first to implement a loyalty programme in a specific industry usually has a period of competitive advantage where they reap the initial advantages of increased profitability. However, once the programme is launched and proved to be a success, other companies in the same industry start imitating the programme. It has been observed that, as soon as this happens and loyalty programmes become the norm in that industry and geographic area, the overall benefit of the programme to a company is low (Mowlana & Smith, 1993; Duffy, 1998 and O'Malley, 1998).

Kotler (2000) argues that some programmes might even become a financial burden to all the offering companies once they are the norm in the industry. In most cases these programmes are undifferentiated, with customers being bombarded by supposedly-unique offers featuring the same dining, retail, merchandise and travel offerings as other programmes (Council on Financial Competition, 2002).

Unfortunately a company cannot withdraw its loyalty programme if everyone else in the industry offers one, as this will lead to a competitive disadvantage (O'Malley, 1998). Furthermore, the withdrawal of a loyalty programme can destroy more customer value than was created through the initiation of the programme. Companies that fail to understand these dynamics will find themselves in a trap where a loyalty programme is expensive to run, yet does not provide the envisaged benefits.

One way to get out of this trap is to look for competitive advantage in other ways. This can be done by achieving critical mass in a limited market size while simultaneously signing exclusive contracts with business partners (D'Onofrio, 2001), resulting in other companies not being able to copy the programme or only being able to copy it at huge cost. Barlow (1997) argues that costs associated with launching and running a loyalty programme continue to be the biggest obstacle to companies wanting to launch a loyalty programme. Jackson (2001) agrees that this is also the case in South Africa.

Alternatively, Palmer *et al* (2000a) argue that true loyalty based on underlying emotional attitudes is much more difficult to reward, but also more difficult to be copied by competitors. Thus such rewards provide the desired competitive advantage. The Hallmark Loyalty Marketing Group (2002) lists five key aspects of a loyalty programme that can, as a combination, lead to competitive advantage for the loyalty programme and the company it serves. These aspects are product, money, equity, experience and energy. The first two drivers (product and money) are rational elements and can be easily replicated by competitors. The next three drivers (equity, experience and energy) are emotional drivers that can be used to create the unique emotional connection and relationship with customers. Equity refers to the degree of trust in and affinity to the loyalty programme and therefore the company; experience refers to the sum of interactions between the customer and the loyalty programme and energy refers to the time and effort required to obtain and use the loyalty programme.

Unfortunately, the proliferation of loyalty programmes has both confused and intensified debate about the meaning of true loyalty and how to reward it. It has been found that companies often erroneously define loyalty as repetitious behaviour or spurious loyalty (Dick & Basu, 1994; Palmer, 1996 and O'Malley, 1998). This has confused the purpose and structure of loyalty programmes. By not rewarding true loyalty on an emotional level, a loyalty programme will not have the desired effect and might not provide the envisaged competitive advantage.

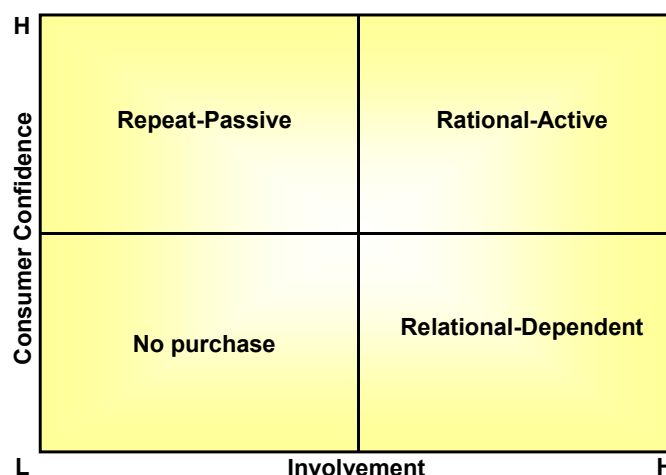
In summary, literature suggests that, if competitive advantage is expected because of being first to market, the loyalty programme must achieve critical mass in a given market while having signed exclusive contracts with business partners, resulting in other companies not being able to copy the programme. Alternatively, it must reward truly loyal behaviour on an emotional level, not for repetitious behaviour. This literature helps form the basis for the research questions discussed in section 2.10.

2.5.2 Competitive advantage in different customer behaviour modes

Most models that study customer behaviour are inappropriate for understanding financial services, since such models typically focus on once-off purchases (McKechnie, 1992). Beckett *et al* (2000) define four modes of customer behaviour within financial services, each requiring its own type of interaction to engender loyalty and to create a competitive advantage.

The two principal factors that determine these modes are 'involvement' and 'confidence' (Chase, 1978; McKechnie, 1992 and Ennew & McKechnie, 1998). The involvement factor describes the level of customer control and participation as well as the customer's level of contact with the financial institution. The confidence factor is determined by product complexity and the customer's perceptions of risk. The four modes are described below, with the discussion based on the research performed by Beckett *et al* (2000).

Figure 3: Four customer behaviour modes in financial services



Source: Beckett *et al* (2000:16)

A Repeat-Passive customer has a low level of involvement because of repeated interaction with the financial product/service without the need to search for alternatives. At the same time the customer is fully aware of and confident about the

features of the product/service (Beckett *et al*, 2000). Examples are transactional services such as current accounts. Beckett *et al* (2000) found that these customers were typically acquired because of a convenience factor (such as location) and were historically easy to retain. However, technological advances such as new and cheaper delivery channels are but one of many current threats to customer retention in this mode.

A customer is not necessarily loyal while in this mode and usually only remains with the financial institution because of limited differentiation among competitors and because of convenience, mostly due to high switching costs. The 'spurious loyalty' of Dick & Basu (1994) will result from customers in this mode. This is also called repetitious behaviour (Palmer *et al*, 2000a) or behavioural loyalty (Beckett *et al*, 2000), which is often erroneously confused with real, attitudinal loyalty. True loyalty will be very difficult to achieve for these customers with customer acquisition and retention usually achieved through improving the products/services continuously (Beckett *et al*, 2000).

A loyalty programme will provide differentiation in this mode, which will lead to customer acquisition and retention (as long as competitors are not providing a similar programme). However, if the loyalty programme focuses only on rewarding repetitious behaviour, additional innovations in the loyalty programme will be required to ensure that sustainable loyalty is achieved.

Loyalty programmes do not target the No-Purchase customer, although loyalty programmes have an indirect impact on customers in this mode since it aids in customer acquisition (Ülengin, 1998).

A Rational-Active customer is typically one who analyses the various offerings from competitors rationally whilst having a thorough knowledge of the product / service. This customer is often used as the basis for economic studies of supply, demand and price elasticity. A typical financial product that creates this

behaviour is health insurance or short-term insurance. Beckett *et al* (2000) have found that customer loyalty is limited in this mode, with a customer defecting easily on price. This is confirmed by Colgate & Hedge (2001), who found pricing to be one of the key triggers for defection. The 'spurious loyalty' of Dick & Basu (1994) will result from customers in this mode as well.

Customer acquisition and retention are achieved through, for example, competing on price, quality, delivery channels and other forms of differentiation. As with the repeat-passive mode, a loyalty programme could provide differentiation in this mode which will lead to customer acquisition and retention (as long as competitors are not providing a similar programme). However, if the loyalty programme focuses only on rewarding repetitious behaviour, additional innovations in the loyalty programme will once again be required to ensure that sustainable loyalty is achieved.

A Relational-Dependent customer interacts actively with complex financial products/services and has to deal with the associated risk and uncertainty. An investment product is a typical example. For that reason customers seek advice and desire a relationship with a financial institution (Beckett *et al*, 2000).

The focus on relationships is echoed by Bejou, Ennew & Palmer (1998), who have found that in industries with high levels of intangibility and/or where the perceived complexity and risk associated with the products and services are high, companies can achieve competitive advantage through the relationships they create with their customers. It is essential though that these relationships are durable, adaptable and dynamic with trust and integrity playing a central role (Dawes & Swailes, 1999).

Although such relationships do not necessarily have to be created by a loyalty programme, the latter can play a differentiating role in strengthening such relationships. By ensuring that unbreakable relationships are created and by

rewarding the associated behaviour, amongst others through a loyalty programme, the latter can provide a competitive advantage (Beckett *et al*, 2000 and Palmer *et al*, 2000a).

The Hallmark Loyalty Group (2002:1) believes that relationships are the only way in which true loyalty can be engendered. They believe that:

Points, rewards, and incentives may be critical pieces of customer retention. But they're not enough. Customers don't want to be bribed. They want to know that companies recognise and appreciate them.

If financial institutions do not connect with customers by using deeper, more emotional appeals, customers will defect to a competitor that offers more points or a better deal. Stathacopoulos (2001) found that, similar to international companies, South African companies also tend to make this mistake.

The 'sustainable loyalty' of Dick & Basu (1994) will result from such relationships with customers in this mode: Javalgi & Moberg (1997:169) confirm that financial services that have "high levels of intangibility and complexity and high dependence on service providers...often lead to [sustainable] loyalty". Reichheld, in an interview with Finnie & Randall (2002:25), agrees that "when times are tough, customers will consolidate their purchases with the people they trust."

It is important to note that a typical customer of a financial institution is not necessarily limited to one mode and typically interacts with the financial institution in each of the four modes depending on the specific product/service involved. If a loyalty programme can create relationships while customers are in the relational-dependent mode, the relationship and resultant loyalty will also spill over into other behaviours of the same customer, due to the 'stickiness'

typically created by the programme (D'Onofrio, 2001).

Therefore, once a customer becomes loyal while in the relational-dependant mode, the client will remain loyal and will not source the products/services that relate to other modes from other service providers. This will lead not only to increased loyalty and customer retention, but will also provide a competitive advantage to a financial institution as a whole. In addition, if a loyalty programme can build relationships in any of the other modes, it will also create sustainable loyalty in those modes. Relationship-building is therefore the key to the creation of sustainable loyalty.

To summarise, a loyalty programme that builds relationships and rewards true customer loyalty will provide a financial institution with sustainable competitive advantage. On the other hand, a financial institution and loyalty programme whose interactions are not focused on the building of relationships might find it difficult to engender loyalty (Dawes & Swailes, 1999). This literature helps provide a further basis for the research questions in section 2.10.

2.5.3 A basis for competitive advantage

In order to survive as a loyalty programme, it must ensure that customers perceive value in the loyalty programme. Tzimas (2002) identified the value of the rewards offered as the most important factor when structuring a loyalty programme.

O'Malley (1998) describes five elements which could influence the value of a loyalty programme to customers. These are: cash value (how much the reward represents as a proportion of spend); choice of redemption options (range of rewards offered); aspirational value (how much the customer wants the rewards); relevance (extent to which rewards are achievable) and convenience (ease of participation in the scheme).

A financial institution therefore needs to know its customers well enough to know what they value. Even more important than that, a financial institution needs to know how to action this – how the value should be provided to customers through a loyalty programme while creating value for the financial institution simultaneously (Council on Financial Competition, 2002).

It is important to note that this will not necessarily provide a competitive advantage to financial institutions. However, loyalty programmes that do not exhibit these attributes have a very good chance of failure. Therefore this is included in the research questions outlined in section 2.10.

2.5.4 Competitive advantage only possible if correctly structured

A loyalty programme will only provide competitive advantage if structured appropriately. If not, various problems are experienced, such as:

- being too expensive to maintain for the value that it provides;
- difficulty in correcting mistakes made in initial earn rules, where customers are upset if these rules are subsequently changed;
- not driving the required behaviour; and
- being too similar to other loyalty programmes and therefore not providing the required competitive advantage (Winer, 2001).

An appropriate structure could prevent the above problems. There are various dimensions to the structure of a loyalty programme. These are discussed in the following sections, thereby addressing the second sub-problem on how loyalty programmes can be structured.

2.6 The evolution of loyalty programmes and their structures

Even if loyalty within the context of a specific financial institution is understood, the structuring of a loyalty programme still needs to be considered carefully and should not be perceived as window-dressing. Reichheld, in an interview with Finnie & Randall (2002:25), argues that:

Developing the tools and resources that prove you deserve your customers' trust and fidelity takes much more than decorating the company with the most fashionable Internet software.

This section discusses the various types of structures that can be used in structuring loyalty programmes, starting off with a summary of how loyalty programmes started.

2.6.1 The evolution of loyalty programmes

Loyalty programmes have been in existence informally in one form or another for a long time, with the first formal programmes starting in the late 1970s and early 1980s (O'Malley, 1998). They were first implemented formally in the airline industry after which they spread to the retail, car rental, hospitality and then credit card industries. The wider financial services and telecommunications industries were next in embracing loyalty programmes, but most other industries have by now either considered or started implementing loyalty programmes (Duffy, 1998; O'Malley, 1998 and Palmer *et al*, 2000a). In fact, 'loyalty marketing' was the buzzword of the nineties (Wehner, 2000).

The majority of programmes were modelled on the 'AAdvantage programme' introduced by American Airlines in 1981. The initial programmes differed substantially from those in existence today, especially in terms of ease of use and sophisticated servicing of customers (O'Malley, 1998 and Palmer *et al*, 2000b).

2.6.2 The same structure cannot be used by all financial institutions

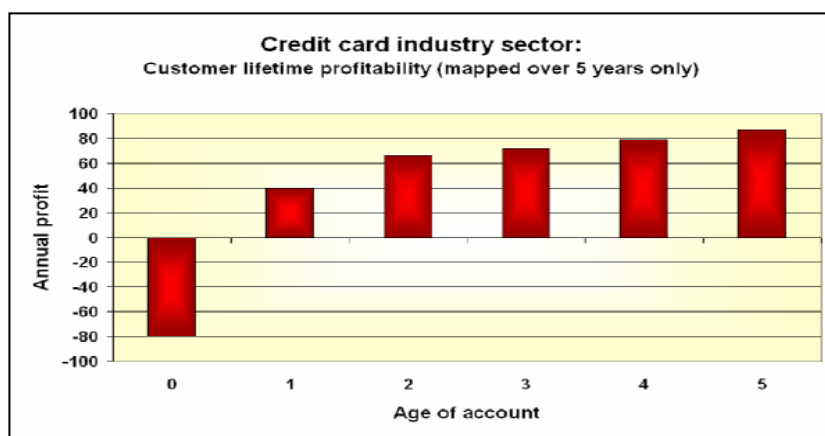
In structuring a loyalty programme, financial institutions do not always recognise the fact that one size does not fit all and therefore tend to copy existing programmes. According to Palmer *et al* (2000a) there is no single formula for the structuring of a successful loyalty programme and, in order to achieve the true benefits of a loyalty programme for a financial institution, such programmes must reflect the unique business environment in which the financial institution operates. The Hallmark Loyalty Marketing Group (2002) agrees that different companies in different industries face different challenges when it comes to retaining customers.

That a loyalty programme will differ, depending on its business environment, is not a new concept. Lovelock (1983) recognised the fact that, by classifying services according to the service or 'product' it provides (in this case a loyalty programme), a myopic approach is created. However, if services are classified according to the key effect they have on customers, services could be much more customised. Therefore, a loyalty programme strategy that might be considered novel within one industry may be quite inappropriate in another industry or even a company in the same industry if not customised to that business environment.

Profitability drivers are a key indication of how a programme should be structured. A loyalty programme should also differentiate its interaction with the various product-users of the financial institution and the programme (reflected through the different customer behaviour modes). Although the basic structure will remain the same, behaviours to be rewarded will indeed differ. Especially in financial institutions that have a range of products where people interact with these products in different modes, each mode will have a specific set of profitability drivers.

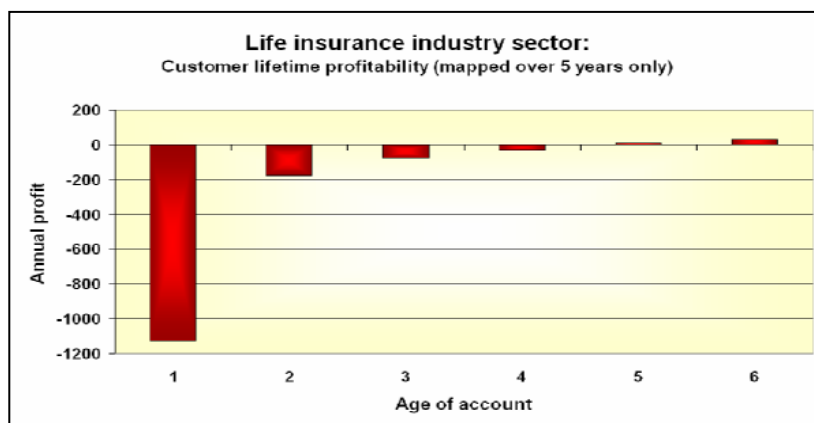
The difference in profitability drivers is reflected in the different profitability profiles. An example is the difference between credit card customers and long-term insurance customers. Reichheld (1996) provides illustrations of the typical customer lifetime value in each of the two industry sectors, clearly illustrating the difference in profitability and therefore profitability drivers. This difference will lead to different behaviours to be rewarded.

Figure 4: Customer lifetime profitability in the credit card sector



Source: Reichheld (1996:38)

Figure 5: Customer lifetime profitability in the life insurance sector



Source: Reichheld (1996:38)

Differences in profitability drivers between and within financial institutions provide the main reasons for differences in structures between loyalty programmes.

2.6.3 Financial models influence the structure

Loyalty programmes require a significant investment, since large amounts of data must be collected, stored and analysed (Clayton-Smith, 1996) and because significant marketing expenditure is required. Apart from the upfront investment, a monthly capital flow is also required.

Some loyalty programmes are viewed as cost centres only, while other loyalty programmes are required to be profit centres. The sources of funds also differ among loyalty programmes. Loyalty programmes can receive income from membership fees, or can receive a percentage of the increase in profits (as a result of the loyalty programme) from each of the business units in the financial institution, or the business units can buy points from the loyalty programme (Koen, 2001a; P. Burra, personal communication, 2 February 2002 and M. Jordaan, personal communication, 4 November 2002).

The difference between being a cost centre or a profit centre and the source of funds will directly impact on the strategy of the loyalty programme, which will in turn impact on the structure of the programme.

2.6.4 Summary

In summary, literature suggests that loyalty programmes vary in terms of their specific business environments, their sources of funds and in how they use customer information. The structure of the loyalty programme should not be perceived as window-dressing and should reflect this unique environment accurately. This literature helps provide a further basis for the research questions discussed in section 2.10.

2.7 The various structures of loyalty programmes

2.7.1 The two main categories

Although each loyalty programme structure should be unique, the structures fall into two broad categories (Duffy, 1998). Programmes in both categories are based on customers being rewarded for the 'right behaviour'. The behaviour to be rewarded will differ among and within companies and programmes and is based on the key profitability drivers. Duffy (1998) explains that the differences between the two categories are mainly in the way in which points are allocated and used, and the types of benefits available to members of the programme:

- 1) Promotional currency programmes (common in the travel and hospitality industries) make points available to members for redemption against the companies' own products or services. Kotler (2000) refers to this category as 'frequency marketing programmes'. Companies that launch such programmes usually reside in industries that have high fixed costs and where idle capacity sold at any price is profit (Duffy, 1998). An example in South Africa is the Voyager programme of South African Airways (SAA) where points are awarded for flying with SAA and where these points can be redeemed against air tickets sold by SAA.

Rewards in these programmes are typically given in direct proportion to a customer's expenditure with the company and limited information about the customer's behaviour is obtained (Ranby, 1995). These programmes are more tactical in nature and less expensive to create. They do however offer less opportunity to develop one-on-one relationships or effective dimensions of loyalty (Palmer *et al*, 2000a). This type of programme is typically used when focusing only on the 'repeat-passive' and 'rational-active' modes in the Beckett *et al* (2000) matrix.

Bartold (2002) believes that many customers view these programmes as companies' tactics to deliver deferred discounts and therefore many companies feel that these programmes could have difficulty in creating customer loyalty. The Council on Financial Competition (2002) agrees that such programmes do not necessarily earn customer loyalty. Bartold (2002) does however believe that the value of these programmes should not be negated, since they allow companies to keep track of customers' spend and therefore enable companies to measure a customer's engagement with the company and to separate the heavy-spenders from the occasional buyers. These programmes also enable the measurement of customer lifetime value and communicate to customers that the company values their transactional behaviour. In that sense, these programmes provide a platform for measuring the value of the relationship between the company and the customer. It does not however, necessarily build those relationships, since the points are only a means to an end.

- 2) Club programmes (Kotler, 2000) offer exclusive services to members and this category is usually more aspirational. Membership fees are often payable and create a further impression of exclusive membership. Points are often converted into status levels to provide an incentive where an increase in good behaviour leads to an increase in status. As a member's status increases, better benefits / services become available. These programmes offer benefits that are perceived as high value by customers but which are supplied at low cost due to aggregated buying, which adds to the perception of customer value (Wehner, 2000). Duffy (1998) refers to this category as 'soft benefit programmes'. In South Africa the Vitality wellness programme from the Discovery medical aid is an example of such a programme where points determine status and therefore access to certain benefits, but points are not redeemed when these benefits are used.

The more limited the membership to these programmes, the more powerful they are as long-term relationship and loyalty builders. Because of the aspirational nature of these programmes and the exclusive benefits and elite access provided to members, the perception of unbreakable relationships is created, which is an essential driver of customer loyalty (Bejou *et al*, 1998). The main focus of such programmes is on the 'relational-dependent' mode in the Beckett *et al* (2000) matrix. The focus does however also cover other quadrants, thereby enabling customer loyalty that leads to much higher customer retention.

Various combinations of the above two categories also exist and these two categories will possibly converge in future.

Financial institutions need to build relationships with customers (Beckett *et al*, 2000), which is not always the case with promotional currency programmes. It therefore follows that a loyalty programme that provides a competitive advantage to a financial institution could include but should not be in the form of only a promotional currency programme. This literature helps provide a further basis for the research questions discussed in section 2.10.

2.7.2 Multi-partner programme structures

Some loyalty programmes are not only focused on rewarding customers for products or services bought from a single company, but are spread across various companies. Some examples in South Africa are LeisureLink, eBucks and Infinity. The structure of such multi-partner programmes is usually one of two types:

- 1) Companies can outsource their loyalty programmes to a third party who runs it on their behalf and charges a fee for that service. LeisureLink is an example, where ABSA has outsourced the ABSARewards programme to the LeisureLink programme run by the Rewards Company (Koen, 2001a, 2001b).

- 2) Participating companies can become shareholders in a loyalty programme, where this programme then supports each of the various shareholder companies. eBucks is such an example (Yates, 2001).

Once again, hybrids of these two models also exist.

There are differing opinions on whether such multi-partner programmes are a success. Although some critics believe that they confuse customers, many experts believe that they do provide benefits. According to Grosvald (1999) the benefit to customers is increased earning opportunities, which leads to accelerated earning. This in turn enables more frequent spending of the rewards, which can be exercised over more diverse offerings. The benefits to the participating companies are the gaining of critical mass (customers use loyalty programmes more often if it can be used across more vendors) and subsequent increased 'stickiness' to the participating companies.

Although airline loyalty programmes (a.k.a. frequent flyer programmes) used to be the most popular form of loyalty programmes, recent evidence indicates that credit card loyalty programmes are overtaking the airlines' programmes (Colloquy, 2002). The reason for this is believed to be that credit cards can be used more widely across more vendors. Colloquy (2002) believes that this provides further substantiation for the benefits of multi-partner programmes, where customers can earn more widely.

Although the popular press strongly favours multi-partner programmes (Colloquy, 2002), nothing could be found on this topic in peer review journals. Therefore no research questions are based on this.

2.8 The importance of integrating the programme

If a loyalty programme is not fully integrated into the financial institution, it will not necessarily have the benefits listed earlier in section 2.3. It sometimes happens that a loyalty programme is so effective in creating strong relationships with customers, that customers become loyal to the loyalty programme and not to the financial institution and the brand (O'Malley, 1998). To ensure that this does not happen but also to ensure that the financial institution enjoys the full benefits of the programme, a loyalty programme cannot operate in isolation from the financial institution's other activities.

Dawes & Swailes (1999) list a company-wide loyalty strategy; top management commitment; the right organisational structure; streamlined processes; the right organisational culture; staff empowerment and staff development as critical aspects that should be in place and that should dovetail with the loyalty programme.

2.8.1 The role of top leadership

Wehner (2000) believes that part of top leadership's commitment is their understanding that a loyalty programme needs a minimum of two to three years to determine its role thoroughly in creating customer loyalty and in becoming profitable. Therefore top leadership's commitment not to close the programme too early is essential. What many financial institutions overlook, is the negative emotions generated by the discontinuation of a loyalty programme, which can completely wipe out any positive sentiments created at its launch. (Council on Financial Competition, 2002).

Reichheld (2001) stresses the importance of getting the financial institution's leaders to understand the vital role that loyalty plays in profits and growth and that it therefore should be part of the corporate strategy, philosophy and long-

term view of the financial institution. For some managers this is second nature, while others are more focused on short-term results and therefore cannot see the importance of loyalty. A short-term, tactical view of a loyalty programme motivated solely by shareholder interests will limit the strategic impact of the loyalty programme severely (O'Malley, 1998).

2.8.2 Integration of programme with all customer contact points

Financial institutions build upon or destroy customer loyalty with every customer interaction – not only through interactions with the loyalty programme. Since loyalty is fragile and can be compromised at any point of contact, financial institutions need to ensure a loyalty focus across the whole organisation (Council on Financial Competition, 2002). This integration across the organisation must be linked to the strategy, as discussed above.

2.8.3 Integration with financial institution's Internet initiatives

Fisher (2001) believes that South African companies that integrate the company's Internet initiative closely with its loyalty programme have been more successful. It allows customers to access their points or statements at any time; to change their personal details; to book rewards or to spend online. Depending on the type of behaviour that is rewarded, customers can also earn points online.

Not only does the Internet allow for customer convenience, the collection of more data and the customisation of the customer experience (Pitt, Berthon & Watson, 1999), but it has also been found that Internet users are typically more profitable. Mols (1998:195) found that:

Users of the [web as a channel] are more satisfied, are less price sensitive, have higher intentions to repurchase and provide more positive word-of-mouth than non-users.

Echoing this, Reichheld (2001) found that Internet users value trust higher than price – the start of a positive cycle for a financial institution that wants to offer a loyalty programme that is integrated with its Internet initiative. Lach (1999) quotes a Jupiter Communications Survey, which found that 56% of Internet users are more interested in using a website if it also offers a loyalty programme.

2.8.4 Incorporation into the marketing mix

Jackson (2001) argues that in South Africa loyalty programmes that are not viewed as part of the total marketing mix and are not closely integrated with the business objectives will become only a commodity that will cost the company more than it is worth. However, another South African, Yates (2001), warns that treating the loyalty programme as a marketing expense only and not as part of the financial model as well and as a key strategic tool in driving the right behaviour, will also lead to an unsuccessful programme.

2.8.5 The role of staff

Reichheld (2001) stresses the importance of employee loyalty in ensuring customer loyalty. Koen (2001b) has found that the same is true in South Africa and that employees and distribution channels must form part of the loyalty programme initiative. Dawes & Swailes (1999) identified the interdependence between human resource management, internal marketing and marketing operations as a major factor in ensuring that the loyalty programme is a success.

In summary, literature suggests that a loyalty programme cannot operate in isolation and must have top leadership commitment. It must also be integrated into the financial institution's corporate strategy, marketing efforts, Internet initiatives and HR initiatives. This literature helps provide a further basis for the research questions discussed in section 2.10.

2.9 Measuring the effectiveness of a loyalty programme

2.9.1 Key questions to ask when auditing a loyalty programme

Gould (1995:19) provides some pointers with regard to the effectiveness of loyalty programmes. He suggests key questions for a financial institution to ask when auditing a customer loyalty programme to determine whether it provides a competitive advantage to a financial institution. These questions are listed below:

- 1) “What features of your business have the biggest impact on your customers’ satisfaction?” This is determined through typical importance-satisfaction matrices or can be analysed through regression techniques. The results indicate which behaviours to reward to ensure that the customer is incentivised to remain with the financial institution and become loyal. This is an important question because of the link between customer satisfaction and loyalty (Storbacka *et al*, 1994 and Hallowell, 1996) and assesses the extent to which the loyalty programme assists in increasing customer satisfaction.
- 2) “What is the lifetime value of a typical customer?” Customer lifetime value focuses on long-term sustainable results, rather than short-term gains. The extent to which the financial institution and its loyalty programme are aware of this, indicates the extent to which it understands the value of a customer, the impact of loyal behaviour on this customer value and the costs of servicing and rewarding the customer.
- 3) “How do you segment your customers?” A loyalty programme is in an ideal position to assist in segmenting customers, due to the information that is typically collected on customer behaviour (Clayton-Smith, 1996 and Dawes & Worthington, 1996). Palmer *et al* (2000b) suggest that customers’ attitude towards loyalty can be used as a basis for this segmentation. This question assesses the extent to which the financial institution and its loyalty pro-

gramme understand which clients are profitable and therefore where to focus attention. The level of customisation of the loyalty programme should vary between segments, with a need to customise services for and develop relationships with customers in the more complex and profitable segments (Beckett *et al*, 2000).

- 4) “By segment, what is your retention rate and what is the trend?” Client retention is critical to profitability (Reichheld & Sasser, 1990 and Hamilton & Howcroft, 1995). This question assesses the extent to which the financial institution and its loyalty programme understand the link between customer retention and loyalty, as well as whether they are focusing the loyalty programme on the right segments.
- 5) “What percentage of new customers comes from recommendations and how has this changed over time?” Truly loyal customers act as unpaid advocates through word-of-mouth recommendation (Gould, 1995 and Hallowell, 1996). This measure is a direct indication of the increase in loyal customers.
- 6) “Whose responsibility is customer service?” This question assesses the extent to which the loyalty programme is integrated into the financial institution, as opposed to a stand-alone programme that cannot provide the required benefits. If customer service is built into every person’s role and supported by top leadership commitment, there is a much better chance for the loyalty programme to succeed (O’Malley, 1998).

Answers to these questions will provide an indication of whether the loyalty programme is in the right direction and where to make changes. These are some general indicators of success, but they are once again influenced by the company context and industry context within which the programme operates.

The focus of this study will, however, not be on answering these questions, since

the focus will be on the topic of why the loyalty programme at FirstRand was created and how it was created. The questions do, however, offer good guidelines on potential structures of loyalty programmes and further inform the literature discussion and the subsequent research questions.

Palmer *et al* (2000a) add another dimension to Gould's (1995) view on the effectiveness of loyalty programmes. They have found that, although no standard recipe for a successful loyalty programme exists across various industries, two important criteria influence the effectiveness of a loyalty programme. These two criteria are discussed below.

2.9.2 The extent to which the programme and company can be described as 'information-intensive' versus 'information-poor' businesses

Information is an important contributor to a company's competitive advantage (Buckley, 1996), especially in financial services. Information management is central to the development of many loyalty programmes and can contribute significantly to the knowledge base of the company and to the development of meaningful relationships (Hamilton & Howcroft, 1995). Customer lifetime value can only be measured and the building of relationships can only be done if the required information is available (Dawes & Swailes, 1999). It follows that the more information-intensive a loyalty programme is, the more it can contribute to the competitive advantage of a company.

Wang (1997) warns that many companies' ability to analyse and use information has fallen behind their ability to collect data. Data alone will not provide value – it must be acted upon and therefore the challenge is to use information to understand and serve customers better. Another danger is that, if customers perceive that their information is not being used to serve them better, they will become more protective of surrendering personal data (O'Malley, 1998).

Not all loyalty programmes should necessarily be information-intensive, since data collection has a cost. Loyalty programmes need to determine whether there is value in the amount of information that is collected or whether the costs do not warrant the additional information. This is especially the case in the pure 'promotional currency' type structures mentioned in section 2.7.1.

However, since financial services are strong users of information, a loyalty programme wishing to provide a competitive advantage to a financial institution must be a strong user of information in order to improve profitability and understand and serve customers better (Dawes & Worthington, 1996).

2.9.3 The extent to which the loyalty programme offers a customised rather than a standardised experience to each customer

A true marketing orientation has been defined as when companies customise products and services to the precise needs of each individual (Webster, 1992). Javalgi & Moberg (1997:172) found that "high levels of loyalty are common with high customisation".

There is a clear link between information-intensiveness and customisation (Palmer *et al*, 2000a). Once again, financial institutions must decide the extent to which they want to customise, taking into account the costs and effort involved, versus the long-term relationships that will be created. The business environment will determine this to a large extent: Palmer *et al* (2000b) found that customisation is not possible in all environments, especially when costs are prohibitive or legislation prevents customisation or where the product has become too commoditised to allow for customisation.

Customisation and customer segmentation are closely linked. The level of customisation should vary between segments, with a need to customise services for and develop relationships with customers in the more profitable segments. It

is critical not to satisfy all customers, but to satisfy only those that are profitable to the financial institution, either currently or are expected to be in future through an analysis of their customer lifetime value (Kotler, 2000). It is therefore important to create loyal customers in only those segments where it makes business sense and where a long-term commitment will be mutually beneficial, eliminating those customers who are not generating sufficient profits (Dawes & Swailes, 1999). This relates to the 'relational-dependant' quadrant of the Beckett *et al* (2000) matrix.

At the same time, services in the transactional segments might become too expensive if they are too customised. Therefore the 'repeat-passive' and 'rational-active' quadrants of the same matrix will not necessarily benefit from high levels of customisation. In these quadrants loyalty is 'bought' through direct rewards, rather than developed through relationships. Palmer *et al* (2000b) suggest that customer segmentation based on what customers seek from loyalty programmes, is effective.

Ellis & Wehner (1999) believe that the success of a loyalty programme depends on the extent to which a customised loyalty programme can be developed or enhanced per segment, as this will in turn drive the right behaviour in each of the various segments.

No hard-and-fast rules can be provided as to the exact recipe for success for a loyalty programme. However, an adequate supply of customer information and an ability and willingness to customise the service to meet the needs of select segments are indicators of success (Palmer *et al*, 2000a). This leads to the final components that form the basis for the next three research questions.

2.10 Addressing sub-problem two through research questions two – four

The literature that was reviewed in the preceding sections, addresses the second sub-problem on how loyalty programmes in financial institutions are structured.

The literature shows that a loyalty programme of a financial institution must be structured to provide value to the customer (O'Malley, 1998 and Tzimas, 2002) and must reflect its unique business environment (Lovelock, 1983 and Palmer *et al*, 2000a) in **one or more** of the following ways:

- a) It has top leadership commitment and is integrated into corporate strategy, marketing efforts, Internet initiatives and HR initiatives (Gould, 1995; O'Malley, 1998; Dawes & Swailes, 1999; Fisher, 2001 and Finnie & Randall, 2002).
- b) It is a strong user of customer information (Hamilton & Howcroft, 1995; Buckley, 1996; Dawes & Worthington, 1996; Wang, 1997; O'Malley, 1998; Dawes & Swailes, 1999 and Palmer *et al*, 2000a).
- c) It is not in the form of only a promotional currency programme (Duffy, 1998; Beckett *et al*, 2000 and Kotler, 2000).
- d) It rewards loyal behaviour on an emotional level through relationships (Gould, 1995; Beckett *et al*, 2000; Palmer *et al*, 2000a and Finnie & Randall, 2002).
- e) It has an appropriate level of customisation per segment (Gould, 1995; Javalgi & Moberg, 1997; Palmer *et al*, 2000a and Palmer *et al*, 2000b).
- f) If first-to-market competitive advantage is specifically expected, the programme has already achieved critical mass and has signed exclusive contracts with business partners (D'Onofrio, 2001).

Research Question 2: Which structural elements were used in the eBucks loyalty programme?

Research Question 3: Why were these specific structural elements chosen?

Research Question 4: Why were the other structural elements not chosen?

3. RESEARCH METHODOLOGY

This chapter describes the methodology that was followed to answer the research questions posed in the previous section. The chapter starts off with a description of the chosen method and its implications for this research. The research design, case site and sample of interviews are then discussed. This is followed by descriptions of the processes that were used in data collection, analysis and interpretation. After a discussion on validity and reliability of the chosen research method, the chapter is concluded with a summary of the main characteristics of the chosen research methodology.

3.1 Research method and its underlying characteristics

The research problem stated in section 1.3 requires the researcher to reveal the nature of and gain insight into a loyalty programme at a financial institution. According to Leedy & Ormrod (2001) this type of research problem lends itself well to qualitative research. Another reason for not doing quantitative research, is that different companies have different reasons for developing loyalty programmes, mostly due to their unique business environments and corporate strategies – therefore benchmarks are likely to differ significantly among companies and loyalty programmes.

Since a specific site had to be studied in-depth for a predefined period of time, the case study method was used (Perry, 2001). Leedy & Ormrod (2001) suggest that all forms of qualitative research have two things in common: the focus is on phenomena that occur in natural settings and the phenomena are studied in all their complexity and multiple facets. Qualitative research therefore has lent itself well to the case study method that was used.

The interpretive paradigm was chosen because the case study method and the specific research conducted in this case suited the underlying assumptions (nominalism, anti-positivism, voluntarism and ideographic methodology) of this paradigm better than the functional paradigm. More detail on the reasons for this choice is provided in section 3.1.3.

The research method chosen for the proposed research was therefore qualitative research conducted in the interpretive paradigm, using the case study method. This approach and its implications on the research process that followed, are discussed below.

3.1.1 Qualitative research

According to Leedy & Ormrod (2001:101), qualitative research often starts off with general research questions rather than specific hypotheses and is followed by the collection of an “extensive amount of verbal data from a small number of participants”. The subsequent organisation of data into a coherent format and the portrayal of the situation through the use of verbal descriptions are then used to state tentative answers to the research questions. The same process was followed in this research.

The research performed during this study has many of the typical characteristics of qualitative research identified by Leedy & Ormrod (2001). The characteristics specific to the research discussed in this report are listed below.

- Theory-building. The purpose of the research was to explore, interpret, describe and explain why and how a loyalty programme was launched, rather than to confirm or validate the success of loyalty programmes (which would be the case in quantitative research). In that sense the purpose of this research was to add to theory-building, rather than to test existing theory.

- Emergent design. The research process uncovered a number of variables with regard to the loyalty programme being studied, which were unknown to the researcher at the start of this research process. This implied the need for a flexible (or emergent) design. The research was conducted with an open mind to allow for the emergent nature of this research. As the variables emerged from the data, interpretations were made within the context of the case study. Multiple, differing perspectives about the loyalty programme were revealed and were included where relevant.
- Role of the researcher. Rigid, standardised instruments for data collection were not used, since data collection occurred through unstructured interviews and observations. (However, an interview roster and an interview schedule were used.) Therefore the research process might have been influenced by the researcher's personal view. The role of the researcher as an instrument in qualitative research cannot be ignored, in that the researcher's ability to interpret the collected data was critical to the understanding of the case study.

Rowley (2002) argues that successful execution of the research depends critically upon the competence of the researcher, while Benbasat, Goldstein & Mead (1987) state that research results depend heavily on the integrative powers of the researcher. The potential subjectivity was mitigated by not leading the interviewee, regularly confirming with the interviewee what was meant by specific statements, and through various techniques to ensure validity and reliability, discussed in section 3.6.

3.1.2 Case study method

One of the main reasons for choosing the case study method for this research was that it allowed for the study of a loyalty programme in its natural setting. In

defining what the case study method entails, Benbasat *et al* (1987:370) summarises the viewpoints of various authors as follows:

A case study examines a phenomenon in its natural setting, employing multiple methods of data collection to gather information from one or a few entities.... No experimental control or manipulation is used.

Yin (1994) suggests that case research is especially appropriate to a practical situation of a current business phenomenon within its real-life, dynamic context, especially when the boundaries between the phenomenon and its context are not clear-cut and various sources of data are used.

Another reason for choosing the case study method was that it enabled the answering of the 'why and how' of loyalty programmes (Perry, 2001). According to Benbasat *et al* (1987) the case study method lends itself well to developing an understanding of how context and innovations interact as part of managerial and organisational issues and is therefore well-suited to the capturing of knowledge from individuals and then developing theories from that.

Furthermore, from the literature review it is clear that the real purpose and structure of loyalty programmes are not well understood. Leedy & Ormrod (2001) argue that a case study is especially appropriate for learning about such situations that are poorly understood. This is echoed by Benbasat *et al* (1987), who state that a fundamental difference between case study research and 'scientific research' is that the researcher in a case study may have less prior knowledge of the variables of interest and how they will be measured. (This relates to the emergent design process discussed earlier.)

3.1.3 Interpretive paradigm

It is important to note that interpretive research is not synonymous with qualitative research, since qualitative research can also be conducted in the functional paradigm (Klein & Myers, 1999). The research method that was followed, adhered to the underlying principles of the interpretive paradigm; the applicability of each to the research process as discussed below:

- Ideographic methodology: When choosing a methodology, most social research is concerned with the nomothetic (i.e. general case) instead of the ideographic (i.e. individual case), with the latter studied only to allow for generalisation. Benbasat et al (1987) suggest the use of ideographic methodology in case studies because it allows for the understanding of a specific phenomenon in its context and the examination of a single situation. In this case a specific case site was studied with a view to understanding it better and to add to theory-building, therefore following the ideographic methodology.
- Anti-positivism: Within the epistemology assumption, the positivist believes that experiment, observation and measurement are the core of research. In this research no formal hypothesis testing, measuring of variables or drawing of inferences from a representative sample of a stated population was done. Therefore the anti-positivism principle was more applicable to the conducted research (Klein & Myers, 1999).
- Voluntarism: Assumptions about human nature fall on a spectrum where the one end of the scale states that people's reactions can be pre-determined and the other end of the scale states that one will never know how people will react (Burrell & Morgan, 1979). The conducted research adopted an intermediate standpoint, but with an inclination towards the school of thought that people's reactions cannot be pre-determined.

- **Nominalism**: Within the ontological debate, nominalism (as opposed to realism) assumes that the world is not made up of hard, tangible, immutable structures and that the world does not exist independently of the observer (Burrell & Morgan, 1979). This is specifically relevant to this research, since the role of the researcher in the interviews, observations and interpretations was intertwined with these activities themselves.

In summary, the interpretive paradigm was chosen because it allowed for the development of an understanding that emerged as the specific situation was studied in-depth, within its specific context, acknowledging the role of the researcher in the process.

3.2 Case site and interview sample

Since the case study method was used, the next section describes the case site and lists the name of the people that were interviewed.

3.2.1 Case site

eBucks, a loyalty programme for the FirstRand financial services group, was launched in October 2000. Although FirstRand initially created the eBucks programme, eBucks follows a multi-partner strategy in that it also acts as the loyalty programme for other partners outside the FirstRand group. For that reason the eBucks programme was created as a separate company, with shareholders FirstRand, MTN and Johnnic eVentures. More detail on FirstRand and the eBucks programme is provided in section 4.2.

Many loyalty programmes have been launched by financial institutions in South Africa, with varying degrees of success. The eBucks programme met initial strategic objectives ahead of target and all indications are that the programme is a

success. Against the backdrop of many diverse implementations of loyalty programmes within financial institutions in South Africa, it is valuable to understand why the eBucks programme was created and how the programme has been structured.

The FirstRand loyalty programme, eBucks, was therefore used as the case site. Formal approval was granted (during research proposal stage) to conduct case research at the site. Only one case site, instead of multiple sites, was used. As mentioned in section 1.4, the fact that this specific site provided an opportunity to investigate a problem through unusual access that might otherwise be lost to academic research, made it a valuable research topic (Perry, 2001).

3.2.2 Interview sample

The people that were interviewed at the case site are the various role-players within FirstRand that have been involved in the design and implementation of the eBucks programme and/or are currently involved in the operation of the eBucks programme, or are business partners of the eBucks programme.

The people that were interviewed (and their representative positions) are indicated on the next page. These names were not selected randomly, but were specifically chosen to provide a comprehensive view of the situation at the eBucks programme.

A total of 16 interviews were conducted. Although more interviews could have been conducted, there was a substantial amount of reiteration that occurred after the first few interviews. Additional interviews would not have added additional value.

Table 1: Interview roster

Current or previous leaders or advisors of eBucks		
1	Sandy Yates	Previous CEO of eBucks
2	Angus Brown	CEO of eBucks
3	Tracey Rossini	Involved in initial design of eBucks programme and currently at RMB Special Projects
The managers of the four business areas in eBucks		
4	Deon Olivier	Earn
5	Cobus Verster	Spend
6	Geoff Axten	
7	Sean Mulcahy	Sales
8	Roland le Sueur	Internet Banking
The managers of certain support functions in eBucks		
9	Jolande Duvenhage	New Business Development
10	Jeanine Hills	Marketing
11	Catherine Gibbon	
Representatives from the largest Earn Partners of the eBucks Rewards Programme		
12	Jan Kleynhans	FNB Card
13	Galia Durbach, with inputs from Carol Gravette	Core Banking Services
14	Kiki Ravenscroft	Home Loans
15	Sifiso Dabwenga	MTN SA
16	Carli Labuschagne	

In addition to these interviews, various conversations with stakeholders formed the basis for many of the additional observations. These stakeholders included Paul Harris, Chief Executive Officer (CEO) of FirstRand Bank, Michael Jordaan

(ex-CEO of eBucks and current CEO of FNB Customer Solutions), Nic Weaver (eBucks CFO), Debby Scott (eBucks Legal and Compliance), Solly Bellingan (eBucks Operations), Lisel Engelbrecht (eBucks management Information Services), Andrew Wolhuter (eBucks Risk and Fraud), Allanah Lavelle (eBucks Marketing), Judy Ebel (eBucks Programme Delivery) and Adie Swift (eBucks Relationship Manager).

3.3 Research design

Rowley (2002:18) defines research design as the “logic that links data to be collected and the conclusions to be drawn to the initial questions of a study”. The main thrust of the research design was the formulation of research questions. A consistency matrix ensured that the data collection and analysis were linked to the initial research problem.

3.3.1 Building the initial model by formulating research questions

The focus of the initial model was on understanding the benefits of and reasons for implementing loyalty programmes in financial institutions, as well as the ways in which a loyalty programme could be structured. This led to the formulation of research questions that formed the initial model. The initial model therefore explored various reasons for implementing loyalty programmes in financial institutions, as well as various ways in which loyalty programmes could be structured.

3.3.2 Developing an interview schedule

The next step was to develop a semi-structured interview schedule, which was used during interviews to assist in the reliability of data collection and to ensure

that the questions were answered as comprehensively as possible to ensure a thorough analysis. The interview schedule is attached in Appendix A.

Note that the interview schedule did not contain any structured, closed questions, since the interviews needed to remain flexible to allow for any relevant information to emerge. The type of questions were therefore open-ended and were focused on the 'why and how' of loyalty programmes in financial institutions. There were only four questions, aligned with the original research questions. Various prompting questions were kept at hand in case they were needed towards the end of the interview to ensure that the open-ended questions were answered as comprehensively as possible. These prompting questions were almost never used.

No other standardised instruments for data collection were used. Although open-ended prompting questions could be used, the interview was mainly directed into any areas of interest that came up during the interview. Although this assisted greatly in exploring the research topic, the lack of a fully structured interview schedule did have some drawbacks as predicted by Leedy & Ormrod (2001).

Firstly, It was difficult to analyse some interview data when synthesising across interviewees, since all interviewees did not discuss the exact same structural aspects of the loyalty programme. Secondly, the research process was potentially influenced by the researcher's personal view. The role of the researcher in this interview process is critical and was discussed earlier in this report.

Despite these drawbacks, unstructured interviews are always powerful data collection tools that often yield very useful information (Silverman, 1993). Questions were asked not only about interviewees' perceptions on why and how the loyalty programme was launched, but the researcher also explored their beliefs, feelings and motives about and their present and past behaviours within the programme.

3.4 Data collection

The research design was followed by unstructured interviews to aid in discovering potentially new aspects not uncovered during the literature review.

Three sources of data were used: interviews, observations by the researcher and appropriate, relevant documentation (Yin, 1994). These three sources allowed for triangulation; a process that is described later.

3.4.1 Interviews as the main data source

The interview roster and the interview schedule were used as a basis from which comprehensive, in-depth interviews were conducted. The interviews were conducted at the interviewees' respective offices to ensure that any documentation required by the interviewee during the interview, was on-hand. Each interview took between one and two hours.

At the start of the interview, the interviewee was told that the objective of the research was to determine why and how the loyalty programme was launched. To avoid any responses that could have been based on what is viewed by the interviewee as appropriate or desirable rather than what the interviewee truly believes to be the case, the interviewee was assured that anonymity would be ensured. For that reason no names of individuals or businesses are mentioned in this report, except where the information is already available in the public domain.

3.4.2 Other data sources

The data obtained from interviews was complemented by observations made by the researcher during the interviews and while spending time on-site. Care was taken not to confuse observations with the interpretation of data.

Related documentation provided by the interviewees was included in the data collection process. Other documentation such as newspaper articles on the loyalty programme, brochures, memoranda and formal reports were also used as a source of data. Note that the documentation referred to here is not the documentation used in the literature review.

3.4.3 Data storage

A case study database (Yin, 1994 and Rowley, 2002) was created with data from the above three sources.

The context within which the case was found was also noted. According to Leedy & Ormrod (2001) the context can not only assist in interpretation, but also enables others who read the research to draw conclusions on the extent to which the findings might be generalisable to other situations.

The case study database has the following components:

- 1) interview notes;
- 2) observations;
- 3) related documentation; and
- 4) notes on the context of the case.

3.4.4 Triangulation

Triangulation arose from the need to confirm the validity of the research process (Stake, 1995). It allowed for the use of data from multiple sources, each of which possessed different types of errors or weaknesses, to ensure that a more objective understanding of the data could be obtained across the different

sources and therefore to assist in data convergence (Yin, 1994). Rowley (2002) argues that one of the great strengths of case studies (when compared to other research methods) is that it allows for evidence to be collected from multiple sources.

Data source triangulation – a phrase used by Denzin (1984) – was employed in this case, where data that conflicted across and within the various data sources was further examined before forming part of the data analysis phase. The interview process was followed by a process where additional information was gathered from company documents and relevant newspaper articles about the loyalty programme, which enabled triangulation.

3.5 Data analysis and interpretation

Data analysis and interpretation formed a crucial part of the research process (Eisenhardt, 1989). Since qualitative data was collected, considerable use was made of inductive reasoning during data analysis and interpretation.

3.5.1 Data analysis

The nature of the data did not enable easy, simple analysis (Rowley, 2002) and relied heavily on the integrative power of the researcher (Benbasat *et al*, 1987). In addition, data analysis in this research method did not follow the typically linear phases where analysis only started once data collection had been completed: because of the nature of the research (case study in the interpretive paradigm) data analysis and interpretation already took place to a certain extent during data collection (Miles & Huberman, 1994 and Leedy & Ormrod, 2001), although care was taken not to confuse observations with interpretations.

The four research questions that shaped the data collection process were also used as the framework for data analysis. Answers to the research questions were sought through relevant evidence from the case study database. (See section 3.5.3 on data interpretation.)

Rowley (2002) suggests that, although there are no recipes for the analysis of case study results, good case study analyses adhere to certain principles. These principles were adhered to in this research, in that the data analysis:

- used all relevant data;
- considered all major rival interpretations (as obtained through literature, as well as during interviews and the reading of additional documents);
- addressed the most significant aspect of the case study (the ‘why and how’ of loyalty programmes); and
- drew on the researcher’s prior knowledge of the subject obtained during the literature review, but in an objective manner.

The collected data, stored in the case study database, was subjected to a selection of various analyses (Miles & Huberman, 1994; Stake, 1995 and Creswell, 1998). Facts were organised into a logical order, adding notes where appropriate. The ordering involved both a chronological ordering as well as the grouping of facts into functional groupings. The majority of the data analysis work involved the identification of clear patterns and themes that emerged from the data during ordering and categorisation.

Some content analysis was performed to distinguish among data elements that related to the various aspects of the theoretical model. Note that content analysis in the true sense of the word (i.e. counting the number of mentions) was not

performed: the focus was on identifying those issues raised repeatedly across different interviews.

A “chain of evidence” (Rowley, 2002:23) was maintained during data analysis to ensure that the appropriate sections of the case study database were referenced when referring to specific interviews or documents during the various analyses.

Miles & Huberman (1994) view data reduction as an important component of data analysis. Although data analysis initially took all collected data into account, part of the analysis phase was to extract, simplify and condense relevant parts of the data. Data reduction also played an integral part in data display.

3.5.2 Data display

According to Miles & Huberman (1994:11), data display is an “organized, compressed assembly of information that permits conclusion drawing” and forms part of the data analysis phase.

The data displays were mostly done in network format, depicting the relationships between various elements and issues that were uncovered during data collection. According to Bliss, Monk & Ogborn (1983) networks can hold a great deal of information that is readily analysable. The networks mainly consisted of cognitive mappings, mindmaps and logical chains of evidence. Cognitive mappings showed people’s representation of concepts about a specific issue, indicating the relationships among the concepts and using descriptive text to explain the various concepts (Miles & Huberman, 1994).

Some of these networks are displayed and discussed in this research report, as per the data interpretation that was conducted.

3.5.3 Data interpretation

Leedy & Ormrod (2001:290) state that “to display data is certainly important, but ... the interpretation of the data is the essence of research”. During interpretation, new aspects of loyalty programmes were indeed uncovered.

Since the research was conducted in the interpretive paradigm, some of the interpretations occurred during the data collection phase, while most of the interpretations occurred during the data analysis phase. Lofland & Lofland (1984:142) state that:

You do not truly begin to think until you attempt to lay out your ideas and information into successive sentenceswhen you actually start writing you begin to get new ideas.

The various phases were therefore very much interlinked, but as a rule, the various data analyses formed the foundation for interpretation based on the collected facts, identified patterns in the data, individual reflections of the researcher and identified connections to the ‘bigger picture’.

3.6 Consistency matrix

The consistency matrix shown on the next two pages was a powerful tool used in assisting with the research design. It ensured alignment of the sub-problems, research questions, the sources of theory that gave rise to the research questions, the sources of data that were used to answer the research questions and the subsequent data analysis. It ensured that the stated problem was addressed comprehensively.

Table 2: Consistency matrix

(Spread across two pages)

<i>The purpose of the research was to determine why and how financial institutions implement loyalty programmes</i>					
<i>Sub-problem</i>	<i>Research questions</i>	<i>Source of theory</i>	<i>Source of data</i>	<i>Type of data</i>	<i>Analysis</i>
Identify the reasons for and potential benefits of a loyalty programme to a financial institution.	Literature has shown that a loyalty programme is implemented to directly affect profitability (Section 2.3.1) by targeting one or more of the following interdependent causes: - To assist in the retention of loyal, profitable customers (Sections 2.2 and 2.3.2) - To assist in cross-selling (Section 2.3.3) - To assist in customer acquisition (Section 2.3.4) - To enable the collection and regular updating of information and to subsequently drive the right behaviour in clients (Sections 2.3.5 and 2.3.6) - To provide clients with the perception of tangibility in an otherwise intangible suite of services (Section 2.3.7) <u>Research Question 1:</u> Why was the eBucks loyalty programme implemented?	Grönroos, 1984 Reichheld & Sasser, 1990 Storbacka <i>et al</i> 1994 Gould, 1995 Clayton-Smith, 1996 Dawes & Worthington, 1996 Hallowell, 1996 Ülengin, 1998 Palmer <i>et al</i>, 2000 Colgate & Hedge, 2001 D'Onofrio, 2001 Reichheld, 2001 Finnie & Randall, 2002 Tzimas, 2002	Case site eBucks Interviews, using interview schedule with open questions. Observations made by researcher during interviews. Other sources of data (documents, newspaper articles, brochures). Ensured triangulation.	Qualitative. (Standardised instruments were not used other than an interview schedule, since data collection occurred mainly through interviews and observations.)	Organisation of the facts into logical order Classification and clustering of the facts Pattern identification and content analysis Cognitive maps and matrices

The purpose of the research was to determine why and how financial institutions implement loyalty programmes					
Sub-problem	Research questions	Source of theory	Source of data	Type of data	Analysis
Determine how a loyalty programme at a financial institution has been structured.	A loyalty programme of a financial institution must be structured to provide value to the customer (Section 2.5.3) and must reflect its unique business environment (Section 2.6) in one or more of the following ways: • Top leadership commitment, and integrated into corporate strategy, marketing efforts, Internet initiatives and HR initiatives (Section 2.8). • A strong user of customer information (Section 2.9). • Not in the form of only a promotional currency programme (Section 2.7.1). • Rewards truly loyal behaviour on an emotional level through relationships (Sections 2.5.1 and 2.5.2). • Has an appropriate level of customisation per segment (Section 2.9). • If first-to-market competitive advantage is specifically expected, the programme has already achieved critical mass and has signed exclusive contracts with business partners (Section 2.5.1). Research Question 2: Which structural elements were used in the eBucks loyalty programme? Research Question 3: Why were these specific structural elements chosen? Research Question 4: Why were the other structural elements not chosen?	Buckley, 1996 Lovelock, 1983 Gould, 1995 Hamilton & Howcroft, 1995 Dawes & Worthington, 1996 Javalgi & Moberg, 1997 Wang, 1997 Duffy, 1998 O'Malley, 1998 Dawes & Swailes, 1999 Palmer <i>et al</i>, 1999 Beckett <i>et al</i>, 2000 Kotler, 2000 Palmer <i>et al</i>, 2000 D'Onofrio, 2001 Fisher, 2001 Finnie & Randall, 2002 Tzimas, 2002	Case site eBucks Interviews, using interview schedule with open questions. Observations made by researcher during interviews. Other sources of data (documents, newspaper articles, brochures). Ensured triangulation.	Qualitative. (Standardised instruments were not used other than an interview schedule, since data collection occurred mainly through interviews and observations.)	Organisation of the facts into logical order Classification and clustering of the facts Pattern identification and content analysis Cognitive maps and matrices

3.7 Validity and reliability

Validity is concerned with whether the instrument (interviews) “measures what it is supposed to measure” (Leedy & Ormrod, 2001:31) and whether it will lead to valid conclusions about loyalty programmes. Since qualitative research in the interpretative paradigm was conducted, there were some well-known validity concerns. These concerns are discussed below.

3.7.1 External validity

External validity refers to generalisability, i.e. the implications of this research for other companies in other settings and at other times. Only limited generalisations could be made in this research, as the purpose of case study research is to add to theory-building rather than to generalise to a population.

There are two views (not totally dissimilar) with regard to case studies, which could have been followed in this regard. Yin (1994) suggests that external validity might be established for even only a small domain to which the findings can be generalised. Rowley (2002) suggests that generalisation can be performed if the case study design has been informed by theory and is therefore seen to add to theory-building, and if case study protocol is followed in ensuring external validity.

Rowley’s (2002) suggestion was followed. It entailed ensuring free access to and the use of multiple sources of data (as delineated in section 3.4) and the explicit statement of research questions which were heavily informed by theory.

3.7.2 Internal validity

Internal validity refers to the extent to which the instrument allows inferences about the causal relationships between data elements (Leedy & Ormrod, 2001). Therefore, internal validity is more relevant in studies that try to establish a causal relationship and not as relevant in most observational or descriptive studies, such as the case research method (Rowley, 2002).

There are various types of internal validity: construct validity, content validity, face validity and criterion-related validity (Leedy & Ormrod, 2001). Only construct validity is applicable to this research method and is therefore discussed here.

3.7.3 Construct validity

Rowley (2002) explains construct validity as reducing subjectivity by linking the questions posed during data collection (section 3.4) to the original research questions (Sections 0 and 2.10).

Yin (1994) suggests a design test for construct validity as the establishment of correct operational measures. Examples of such measures would be the establishment of chains of evidence and by using multiple sources of data during data collection (i.e. triangulation). These issues were adhered to in the research process and for that reason construct validity was achieved as far as is possible within this research approach.

3.7.4 Reliability

Reliability is defined as the extent to which similar research conducted in future would result in similar outcomes. (Leedy & Ormrod, 2001). Since a semi-structured interview guide was used and a comprehensive database (section 3.4.3) was compiled, reliability was ensured where possible. However, given that

the research was conducted in the interpretive paradigm, the role and interpretations of the researcher played a significant part in the final interpretations and even the initial observations. Similar research by another researcher might not lead to the exact same results. Although this might be seen as a drawback, it can also be seen as adding to the richness of the theory-building exercise.

3.8 Conclusion

This chapter described the chosen research methodology and the research process that was followed.

A semi-structured interview schedule was developed, based on the general research questions (rather than specific hypotheses) that flowed from the literature review. The interview schedule did not contain any structured, closed questions, thereby enabling the subsequent interviews to remain flexible to allow for any relevant information to emerge. The interviews allowed for the collection of verbal data to aid in discovering potentially new aspects not uncovered during the literature review. Two other sources of data (researcher observations and relevant documentation) were also used and allowed for data source triangulation.

The four research questions that shaped the data collection process were also used as the framework for data analysis. Data analysis was mostly performed through a process of identifying patterns and themes. The subsequent portrayal of the situation at eBucks through the use of verbal descriptions was then used to state tentative answers to the research questions. This portrayal is contained in the following chapters.

Note that, due to working in the interpretive paradigm, the results from the research and the interpretation of these results were entwined. These two aspects are therefore not presented separately in this report.

4. CONTEXT OF THE CASE

The outcome of the data gathering is provided in the following chapters, and poses answers to each of the research questions, as they specifically relate to the eBucks programme.

4.1 Discussion style

To provide context to the discussion style that has been used (qualitative research conducted in the interpretive paradigm using the case study method), some of the unique characteristics of the chosen method are listed below.

- The purpose of the research was to explore, interpret, describe and explain why and how the eBucks programme was launched, rather than to confirm or validate the success of the eBucks programme.
- The focus was on a specific single loyalty programme, eBucks, in its unique context, with a view to understanding it better and without generalising to other loyalty programmes.
- The research focused on the studying and gathering of information from the eBucks programme in its natural setting and real-life, dynamic context, without experimental control or manipulation.
- No formal hypothesis testing, measuring of variables or drawing of inferences from a representative sample of a stated population of loyalty programmes was done.
- The results from the research and the interpretation of these results are entwined and are not presented separately.

- A flexible / emergent design was used. The research process was expected to (and indeed did) uncover a number of variables with regard to the eBucks programme which were unknown to the researcher at the start of this research process.
- The role of the researcher in the interviews, observations and interpretations was intertwined with the activities themselves. Potential subjectivity was mitigated by the researcher not leading interviews and regularly confirming what specific statements meant.
- Although prompting questions were developed for potential use during an interview, the discussion was mainly directed into any areas of interest that came up during the interview. This assisted greatly in exploring the topic but led to some synthesising problems since the same aspects were not discussed with all interviewees.

These characteristics must be kept in mind in the discussion that follows.

4.2 The FirstRand group

The FirstRand group is a holdings company. The companies within the FirstRand group are involved in financial services activities including retail, corporate, investment and merchant banking; short-term insurance; life insurance; employee benefits; health insurance and asset management (FirstRand, 2003a). The operations of the Group are consolidated under two entities: the Momentum Group Limited, which includes asset management, life insurance and health insurance; and FirstRand Bank Holdings Limited (FirstRand Bank) which includes retail, merchant and corporate banking.

The FirstRand group is listed on the Johannesburg Securities Exchange as well as on the Namibian Stock Exchange but is mainly South African based. There

are banking subsidiaries on the African continent (Botswana, Namibia, and Swaziland) and internationally (London, Dublin and Sydney). International asset management activities exist in London and Guernsey.

The group was created in April 1998 through the merger of the financial service interests of Anglo American Corporation of South Africa Limited (AAC) and Rand Merchant Bank Holdings Limited (RMB). The major companies involved at the time were the listed entities First National Bank Holdings of Southern Africa Limited (FNB) and the Southern Life Association Limited (Southern Life), which were controlled by AAC; Momentum Life Assurers Limited (Momentum), the holding company of Discovery Health Limited; and Rand Merchant Bank Limited which was controlled by RMBH.

The vision was to create a new group of companies structured with critical mass to take advantage of the convergence of banking and insurance products/ services (FirstRand, 2003a). At the launch of the FirstRand group, the top leadership envisaged that it would take from three to five years to achieve their vision of an integrated bancassurance group.

Following pressure from shareholders to concentrate their efforts on mining and resource-related activities AAC (and associate De Beers) subsequently reduced their shareholding in the FirstRand group by selling a large portion of their share to Remgro Limited (Remgro). There is an intention to reduce this further in future. A management agreement exists between Remgro and certain directors and leadership regarding the management of the FirstRand group.

Appendix B indicates the FirstRand group structure. There are just over 34 000 employees in the FirstRand group with the group having a market cap of R45 billion.

The results for the 2003 financial year ending June 2003 were released in

September 2003 (FirstRand, 2003b). The FirstRand group reported a 30% increase to R5.4 billion in core headline earnings and, after translation of losses, a 3% increase to R4.9 billion in headline earnings. Of this, FirstRand Bank contributed R3.8 billion. The 30% increase was partly due to the introduction of AC133, a new concept of 'fair value accounting' according to General Accepted Accounting Practices that was introduced in 2003 and which 'marks to market' the value of all financial instruments. Ignoring AC133, the growth in core headline earnings was 23%.

Total assets under management amounted to R490 billion. The return on equity based on core headline earnings was 27.8% for the financial year. According to the annual financial report (FirstRand, 2003b:7):

It is now five years since the formation of FirstRand in 1998. During this period the merged group has undergone fundamental change as the FirstRand Business Philosophy was implemented. The aim of creating an integrated financial services group structured with critical mass to take advantage of the blurring of boundaries in financial services and the convergence of products and services between banking, insurance and asset management has been achieved. The success of this philosophy is now manifest in a group recognised for the excellence of its people and its distinctively branded products and services.

The FirstRand group believes in a flat hierarchical structure. This is heavily influenced by the founding culture of the group's merchant banking interests (RMB), where entrepreneurial flair is valued above conforming to convention. The group's strategy is to leverage the benefits of size (larger balance sheet, greater market-place credibility, synergies across various customer bases) without losing the competitive edge achieved through small, focused, accountable businesses (FirstRand, 2003c). The FirstRand group is therefore a

network of largely autonomous but interdependent profit centres, while the role of the holding company is to facilitate and not to control. An entrepreneurial owner-manager mindset is encouraged and rewarded.

The main strategies contributing to the group's success are viewed by the FirstRand group as:

- the creation of autonomous businesses to ensure a product and customer focus and to enable an entrepreneurial culture, while providing well-performing business all the necessary support to grow;
- simultaneously merging similar operational activities to ensure cost efficiencies, especially in the back office;
- believing that FirstRand group employees provide the group with a competitive advantage through intellectual and emotional capital – therefore a strong focus on people;
- the continuous introduction of new management and lateral thinking in businesses resulting in innovation and remarkable turnarounds; ensuring cost-effectiveness when building revenue streams; as well as adhering to world-class standards;
- the highest standards of business ethics and an instinct for basic fairness underpinning all activities and decision-making, as well as strong corporate governance; and
- focusing on long-term growth with profit as the principal driver, by balancing the demands of all stakeholders.

This shared system of beliefs is continuously applied and ensures cohesion and continued success of the FirstRand group (FirstRand, 2003a, 2003c).

4.3 History of the eBucks programme

It was after the merger of the FirstRand group and within this context of the FirstRand group philosophy that the eBucks programme was created.

4.3.1 A leader with a dream

The history of eBucks started in late 1999 at the height of the dot.com bubble. Paul Harris, CEO of FirstRand Bank, announced to investment analysts in November 1999 that the FirstRand group would “leapfrog the competition and capture the imagination of customers” with a new eCommerce initiative (Harris, 1999). Subsequent to that, in February 2000, he announced to the investment community that FirstRand group launch this eCommerce initiative in 100 days.

Paul Harris's vision was to create a unifying electronic platform for the FirstRand group, using two innovative concepts: a new, universally accepted electronic currency backed by the FirstRand group and accompanied by an eCommerce portal.

The electronic currency would be awarded to customers when doing business across the FirstRand group and would then be used by customers when shopping online through the secure eCommerce portal. The envisaged website was to act as a portal where customers could do their financial services business or buy any FirstRand product or other online products from trusted suppliers and could simultaneously earn and spend their electronic currency (loyalty points) through this process – all in one place. The vision therefore entailed the combination of a loyalty programme and an eCommerce portal, tied together through an electronic currency.

The fact that the electronic currency would be backed by a balance sheet of the calibre of the FirstRand group and associated with a secure and trustworthy

reputation, was seen as an important value proposition. The vision was that the electronic currency would become one of only a few globally accepted electronic currencies in the world. It was important for the electronic currency to have Reserve Bank approval and have all the characteristics of a typical currency, thereby firmly positioning it as another form of real currency. The typical characteristics of a currency were identified as non-expiring, transferable and fungible (the ability to replace or convert from one currency into another).

This was not only an innovative take on loyalty programmes, but also addressed the need for the FirstRand group to start moving towards a bancassurance model. The latter was expected after the creation of the FirstRand group in 1998 as described earlier. Although the 1998 merger led to the creation of a financial services institution that top leadership envisaged would result in an integrated bancassurance group, the various companies in the group still tended to operate in isolation in 1999/2000 and there were questions about the ability of the FirstRand group to make bancassurance work. The new programme, later to be called eBucks.com, was viewed as “bringing to life a different dimension of bancassurance”, as one interviewee explained.

At the stage when eBucks.com was designed in 2000, the FirstRand group had more than five million customers with the average number of core products held across the whole base of FirstRand customers at approximately 1.3. This signalled the need for a strong bancassurance model with increased cross-holding, since even a small increase of 0.1 in cross-holding would add approximately R100 million to the group’s bottom line. Cross-selling was not being done successfully by most financial institutions in the world, and eBucks.com was seen as a way to make this work – this was often referred to in FirstRand as the ‘glue-theory’, where eBucks.com was viewed as the glue of the FirstRand group. Many interviewees therefore viewed the creation of eBucks.com as “a platform to strategically launch cross-sell initiatives...with retail as the logical starting point”.

4.3.2 The eBucks brand

The FirstRand group as a holdings company follows a multi-brand strategy and houses brands such as Rand Merchant Bank, OUTsurance (short-term insurance), Momentum (long-term insurance and wealth management), Discovery (health and long-term insurance), FNB (retail and corporate bank) and others. A deliberate decision was taken by FirstRand leadership when the holdings company was created in 1998, to use the FirstRand name only with investment analysts and not as a popular brand in the market. Instead, each product house uses its own individual brand, where each brand represents a unique, strong, home-grown, South African offering. The FirstRand brand vision is:

To passionately build and nurture the most compelling and innovative range of financial service brands in the business (FirstRand, 2003d).

As one interviewee explained, it is strongly felt by the FirstRand group that “This is not about confusing the customer, it is about allowing different businesses to benefit from the same economies of scale”.

For that reason, as well as because it was envisaged that other external partners might join the programme at a later stage, eBucks.com had to have a new name that did not reflect any of the existing brands. Therefore the brand eBucks was chosen. The eBucks brand was envisaged to follow a co-branding strategy with their Earn Partners, where the Earn Partners’ marketing and advertising would also display the eBucks logo.

The logo and typeface chosen for eBucks was strategically designed not to overpower any of the Earn Partners’ brands. When the programme initially started, the eBucks brand was positioned in the market as a stand-alone brand to ensure market awareness was established, before starting to link it strongly to

the brands of the various Earn Partners. As one interviewee explained: “If you are building a new brand, you can’t just link it to a lot of other brands”. After approximately two years, the co-branding was addressed more strongly and by April 2003 the eBucks brand was carried in approximately 70% of all FNB Earn Partners’ ads, but not yet in many MTN or RMB ads.

Registering the domain name www.eBucks.com created some unforeseen difficulties, in that the name had already been registered by someone from Bucks County in Pennsylvania. It cost a substantial amount of money to obtain the domain name.

4.3.3 A leap of faith

When Paul Harris made his 100-day announcement to analysts in February 2000, a team of about five people had already developed the basic concept and had started working on the design of a generic new delivery architecture and a bank-backed electronic currency. At the end of March 2000 a line of credit to the newly formed company (eBucks.com) was approved by the FirstRand Board with the mandate to start an eCommerce business to provide the group with an electronic currency, supported by a financial services portal and a loyalty programme.

The formal team that had to implement the programme was then not yet fully staffed. Some members were recruited from within the FirstRand group, but most joined from external companies. The additional team members did not know what they were recruited to do (because of confidentiality concerns) and were only told that they had to help launch an eCommerce company within the FirstRand group, called ‘NewGame’. The team indicated during interviews that, despite this limited lack of information, they still joined because of the importance of and support provided to this initiative within the bigger group.

Once the team was on board in April/May and the reality of the 100-day deadline hit, a quick calculation indicated that a launch date of August 2000 had to be achieved. In typical start-up dot.com fashion, they shared a few makeshift desks and started working very long hours. In June 2000 the team had grown to 20 and by the time that eBucks.com was launched, the team had 45 members.

4.3.4 A complex communication process

The team had the task of planning the launch of a concept still in the process of being refined and without corporate identity, and which required a totally different approach to any other launches ever done within the FirstRand group.

The team also had to ensure buy-in from all the other businesses in the FirstRand group – not an easy task due to their highly autonomous nature.

Group-wide information sessions were held during June 2000, followed by nation-wide communications to and training of FNB branches. This was not an easy process, due to the need for a certain level of confidentiality and also because of the eBucks concept being quite foreign to many. The restructuring of branches during this time made the communication process difficult, while continuous enhancements of and amendments to the eBucks offering further complicated matters. Approximately 16 000 staff were trained before launch.

4.3.5 Harsh realities

The first formal external communications from eBucks to the public was a press statement and advertisement in June 2000, informing the market about FirstRand's new eCommerce initiative.

The advertisement created concern at the Reserve Bank, due to the words used in the advertisement, namely "Introducing a new form of foreign exchange – the

world's first bank-backed electronic currency" (Appendix C). The Reserve Bank was concerned that eBucks was being positioned as a competitor currency to the Rand. After in-depth discussions between the Reserve Bank and FirstRand Bank, the eBucks team committed to not pursuing the electronic currency concept any further. For three years thereafter all Rewards Programme advertisements had to carry a 'health warning' that eBucks was not a currency and that it could not be exchanged for cash. (The 'health warning' was lifted by the Reserve Bank in August 2003.)

This was a disappointment to the eBucks team – not being allowed to implement their dream of an electronic currency. The team had to revisit their strategy and all development work done to date. Despite having had such a significant setback so close to launch, this instilled in the eBucks team a valuable skill that helped them survive in subsequent years: the setback made them realise that they had to build a programme and a brand that could remain flexible and open to change. As one member of the eBucks team explained:

The strategy evolved ... it's not a case of you don't know where you're going to ... but you adapt your strategy based on the day-to-day impulses of the business ... we were clear about the vision ... but adapting to events in the market and ... operational constraints and challenges ... was important.

After the halting of the electronic currency concept by the Reserve Bank, the eBucks programme kept the same strategy but adapted it slightly to the creation of an online portal, which included both an internet banking component and a loyalty programme component. Instead of using the term 'currency' to refer to the rewards given to eBucks members, the term was changed to 'points'.

The second harsh reality that hit eBucks.com was the bursting of the dot.com bubble. Many eCommerce companies dissolved in 2000/2001 and many share-

holders became sceptical of companies offering eCommerce initiatives. This scepticism also extended to customers. To ensure that customer scepticism did not impact too much on the take-up of the eBucks offering, the strategy was changed from being mainly an online portal to focusing more prominently on the two distinct areas of the business: the eBucks Rewards Programme (changed to also include an offline component) and the internet banking initiative. To ensure that the power of the portal concept was not lost, a separate area focused on online product applications was later created within the eBucks programme.

Unfortunately these changes to the eBucks strategy did create some confusion in the market and significant time and effort have subsequently been spent on creating awareness of the actual value proposition of the eBucks programme.

The creation of the Rewards Programme within the eBucks programme also had its challenges, specifically a widespread cynicism against the proliferation of traditional loyalty programmes. This made it difficult for the team to explain to customers the value proposition that the eBucks Rewards Programme offered.

4.3.6 eBucks exceeds expectations despite harsh realities

Although the programme was supposed to launch in August 2000, the launch had to be moved out due to delays in development. That was a difficult decision to make because of the promised launch date to shareholders and investors. After long hours of work, numerous debates and various harsh realities creeping in, the eBucks programme was finally launched in October 2000, only seven months after the team was created.

The website itself did not launch without problems, including taking the site into the live environment for the first time without any testing performed in that environment; a new firewall unexpectedly installed by FNB which kept crashing the eBucks site and numerous bugs that were only sorted out post launch. The

website initially also had only about 10% of desired functionality, but the team could not wait for all functionality to be in place before launching – they had to get their feet wet, learn from mistakes and get customer feedback.

Despite setbacks, the eBucks programme was even more successful than was initially envisaged. When eBucks was launched in October 2000, expectations were that it would become month-on-month profitable in three years. However, this occurred nine months earlier in February 2003, only 27 months after launch. In addition, it used only R94 million at peak funding as opposed to the originally envisaged R300 million. By June 2003 the website enjoyed 1.9 million page impressions a month with 30 000 daily unique visitors. The compound monthly growth rate in online sales was 19%.

The ability of the eBucks team to remain flexible and open to change in response to, or sometimes in anticipation of, external influences is one of the reasons why the eBucks programme survived. As Paul Harris pronounced: “We did a few things others didn’t and got things right – it’s a survivor” (Stovin-Bradford, 2003).

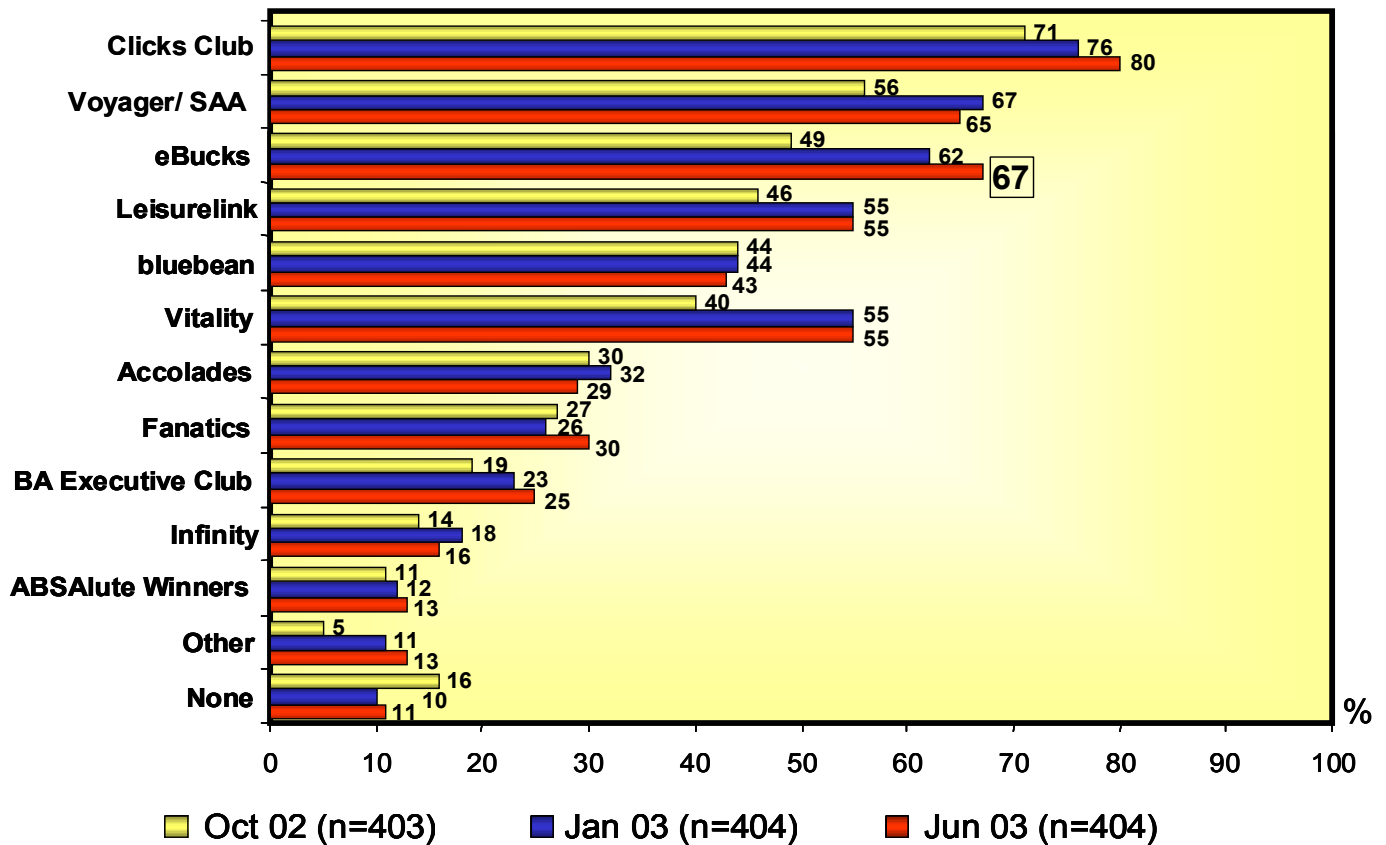
The eBucks Rewards Programme (the loyalty programme component) is successful in its own right. One eBucks team member explained that their vision is to become “the most attractive multi-partner rewards programme in the country” – both to customers and Earn Partners.

Many loyalty programmes were launched by financial institutions in South Africa, with varying degrees of success and within an increasingly cynical market place. However, the eBucks Rewards Programme was rated as the best financial services loyalty programme in South Africa in a ‘Value in Loyalty Programmes’ survey released by Bruce Conradie & Arthur Goldstuck in July 2003.

The brand awareness of the eBucks Rewards Programme was at 67% by June 2003, second only to Clicks Club and above programmes such as Voyager,

Vitality, LeisureLink and bluebean.

Figure 6: Brand awareness in the market



Source: Research Surveys (2003:6)

The member base has grown to just over 610 000 earning members (August 2003) with approximately R8 million worth of eBucks allocated monthly and more than R145 million worth of eBucks in float.

The eBucks members are also spending their eBucks: eBucks spending increased by 122% in the financial year July 2002 to June 2003. December 2002 saw more than R4 million worth of eBucks being spent. eBucks constitute more than 70% of all online sales for the eBucks-linked online merchants.

The success was summarised by one interviewee as the building of “a strong,

stable, secure, structurally sound business with strong market awareness in a relatively short space of time”.

4.3.7 The eBucks structure

The two distinct elements – the loyalty programme and the internet banking initiative – are housed in two separate legal entities:

- NewBucks (Pty) Ltd administers the eBucks Rewards Programme on behalf of its various Earn Partners. Income is received from the Earn Partners based on their eBucks allocations to members. Although the legal entity is called NewBucks, the brand name is eBucks.
- eBucks.com (SA) (Pty) Ltd was initially created to house the internet banking initiative, but has subsequently grown into acting as a transactional delivery channel for the FNB product houses as well as for eBucks, WesBank, RMB Private Bank, Discovery Doctor's Club and Momentum Wealth. It also acts as the mobile channel for FirstRand Bank.

This company also houses all the support areas (technology development and maintenance, programme management, legal and risk services, finance and accounting, marketing and PR, management information, back office and customer service), with these services provided to NewBucks at agreed service levels and costs, charged monthly in arrears.

Also housed in eBucks.com is a sales division, focused on increasing the number of FirstRand group (and other eBucks Earn Partners) products held by eBucks members. It achieves this through product applications on the eBucks website, as well as targeted direct campaigns to eBucks members.

Both companies were initially wholly-owned subsidiaries of the FirstRand group. However, although the FirstRand group initially created the eBucks Rewards

Programme, the intention has always been to follow a multi-partner strategy, with eBucks acting as the loyalty programme for other partners outside the FirstRand group as well. At launch the eBucks Rewards Programme had only a few Earn Partners from within the FirstRand group: FNB HomeLoans, FNB Card, WesBank and one investment product from Momentum. A number of other businesses within FirstRand Bank subsequently signed up as Earn Partners.

4.3.8 Expansion of the eBucks Rewards Programme

In October 2000 the eBucks team started discussing a potential joint venture (JV) with MTN and Johnnic eVentures to share one loyalty programme and one loyalty currency – eBucks. (MTN is a large wireless telecommunications network operator, while Johnnic eVentures was the eCommerce arm of the Johnnic entertainment group.) In January 2001 a deal was signed where 30% shareholding in NewBucks was bought by MTN and 10% by Johnnic eVentures. Part of the shareholder agreement was the migration of MTN's 133 000-strong CallAwards programme and Johnnic's Nu Metro and Exclusive Books 150 000-strong loyalty programmes to the eBucks Rewards Programme. The MTN migration was completed in October 2001, while the migration of the Nu Metro and Exclusive Books loyalty programmes were not yet done by August 2003.

In November 2002, the eBucks programme started extending its reach into retail by adding 'real world' merchants, the first of these being Arthur Kaplan Jewellers. Further such partner discussions are in progress.

4.4 The emergent nature of research: some changes in focus

The research process uncovered a number of variables with regard to the eBucks programme, which were unknown to the researcher at the start of this research process. Some of these issues added a slightly different context to the

research, and need to be highlighted upfront.

4.4.1 Financial services versus multi-partner

Although eBucks was initially chosen because of it being mainly a loyalty programme for a financial services institution (FirstRand group), it also has other external Earn Partners, most notably MTN. In that sense there are references to MTN and its role in eBucks throughout the document. The main focus will however be on the role of the eBucks programme within a financial institution. Although the eBucks programme was created by the FirstRand group, the main focus of the eBucks programme to date has been on Earn Partners within FirstRand Bank rather than the wider group. The focus of the research will therefore be on the role that eBucks played within FirstRand Bank. All subsequent references to FirstRand can be used interchangeably for either FirstRand group or FirstRand Bank, unless otherwise specifically indicated.

4.4.2 Implementation can mean either creating or joining

Initially the first research question was focused on why eBucks was implemented. eBucks was created by FirstRand while the various Earn Partners had a choice of if and when and how they wanted to join eBucks. In that sense some interviewees answered the question from the perspective of why eBucks was created, while others answered it from the perspective of why they joined the eBucks programme as an Earn Partner. These answers, when combined, still provide reasons as to why the eBucks programme was implemented.

4.4.3 Earn behaviour versus Spend behaviour

In the literature review the focus on customer behaviour was very much on behaviour driven by a desire to earn loyalty points and not much was researched in

terms of behaviour driven by a desire to spend loyalty points. During the research it was found that the desire to earn loyalty points will only be increased if members started exhibiting a higher desire to spend these loyalty points. The spending of loyalty points sets a process in motion which ultimately drives the need to exhibit the right behaviour at Earn Partners in order to earn and then spend eBucks. This process is however only successful if the spending experience is a positive one.

Although not a departure from what was found in the literature review, it did add an additional dimension to the research.

4.4.4 From creating loyalty to rewarding loyal behaviour

The literature review focused on how to create loyalty in customers, where loyalty was defined as including both behaviour and attitude.

The focus within the eBucks programme was more on the rewarding of loyal behaviour, than on the creation of loyalty. This is also the reason why eBucks called it a 'Rewards Programme' and not a loyalty programme: customers are rewarded for specific, identified behaviour.

4.4.5 Terminology

Over and above the definitions provided in chapter 1, the following two aspects are worth noting at this point in the research report:

- Although the eBucks team refers to their programme as a 'Rewards Programme', it is referred to as a loyalty programme in this report.
- For ease of reading, any further references to 'the eBucks programme', refer specifically to the loyalty programme of eBucks.

5. REASONS FOR CREATION OF eBUCKS PROGRAMME

A significant amount of time was spent on observations of the case site and in unstructured interviews. This chapter deals with the outcome of this work, as it relates to the first research question: 'Why was the eBucks loyalty programme implemented?'. By addressing this research question, it addresses the first sub-problem 'To identify the reasons for and potential benefits of a loyalty programme to a financial institution'.

Interviews were kept unstructured and explored new aspects as raised. It was interesting to observe similar reasons being provided by various interviewees, although not always mentioned in the same order and with the same emphasis.

5.1 Improving profitability

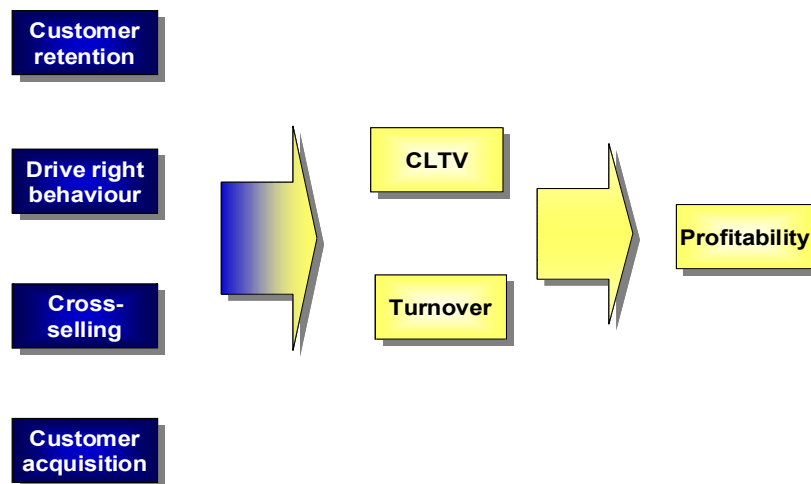
Although profitability was never explicitly mentioned by interviewees as the reason why eBucks was created by FirstRand or why an Earn Partner chose to join eBucks, it is very much viewed as an implicit reason for the implementation of eBucks.

Earn Partners feel that the eBucks programme drives profitable behaviour; retains profitable customers; aids with cross-selling and helps differentiate their products enough to assist with both acquisition and retention. The FirstRand top leadership sees the eBucks programme as assisting with cross-selling. The eBucks team views their main contribution as cross-selling, providing differentiation and "ultimately making our Earn Partners more profitable". These various reasons are described in more detail in the rest of this chapter.

Higher customer retention, stronger cross-selling and increased profitable behaviour improve customer lifetime value; while increased acquisition and

cross-selling as well as increased profitable behaviour improve turnover. Both an increase in turnover and the improvement of customer lifetime value impact on improving profitability.

Figure 7: Main reason for creating eBucks: improving profitability



Once all the interview inputs were consolidated, an improvement in profitability was then also the ultimate reason for either creating or joining the eBucks programme. This is in line with what was found during the literature review (Storbacka et al 1994; Gould, 1995; Hallowell, 1996; Colgate & Hedge, 2001; Reichheld, 2001 and Finnie & Randall, 2002).

The various Earn Partners of the eBucks programme allowed the programme to build critical mass amongst their own customer base first (both through penetration and through slowly changing behaviour) before they started measuring the impact on profitability. In most cases the results could be seen approximately 18 – 24 months after launch, although some partners even experienced results within 12 months after joining the eBucks programme. The various reasons provided during interviews and the way in which they impact on profitability, are discussed below.

5.2 Encouraging profitable behaviour

The driving of profitable behaviour is one of the key reasons for Earn Partners to join the eBucks programme. Most interviewees indicated that an increase in the right/profitable behaviour of customers is important in driving both customer lifetime value and turnover and therefore driving profitability. By creating earn rules that incentivise customers to exhibit more profitable behaviour, and then ensuring that the incentivisation in eBucks rewarded is sufficient for customers to consciously change their behaviour accordingly, the eBucks programme impacts on profitability.

An example of an earn rule impacting on profitable behaviour is the rewarding of eBucks only when a customer has more than 10 debit transactions on a cheque account, which represents the point where a customer starts becoming profitable to the bank. Another example is incentivising the use of a debit order when paying the monthly instalment against a home loan.

When comparing the behaviour of customers who are not on the eBucks programme with those on the eBucks programme, the impact of rewarding profitable behaviour with eBucks becomes clear, as indicated by statistics provided by Earn Partners. (In order not to reveal sensitive information no partner names are provided, nor are actual values provided. Instead relative values are provided where non-eBucks members' statistics are shown at 100% and eBucks members' statistics are the deviation from 100%.)

The *number* of activities on an eBucks members' accounts is between 10% and 75% more than those on the accounts of non-eBucks members, depending on the type of product and the segment of the market. Two of the Earn Partners' statistics are shown below.

Figure 8: Impact of eBucks on *number* of transactions – Earn Partner A

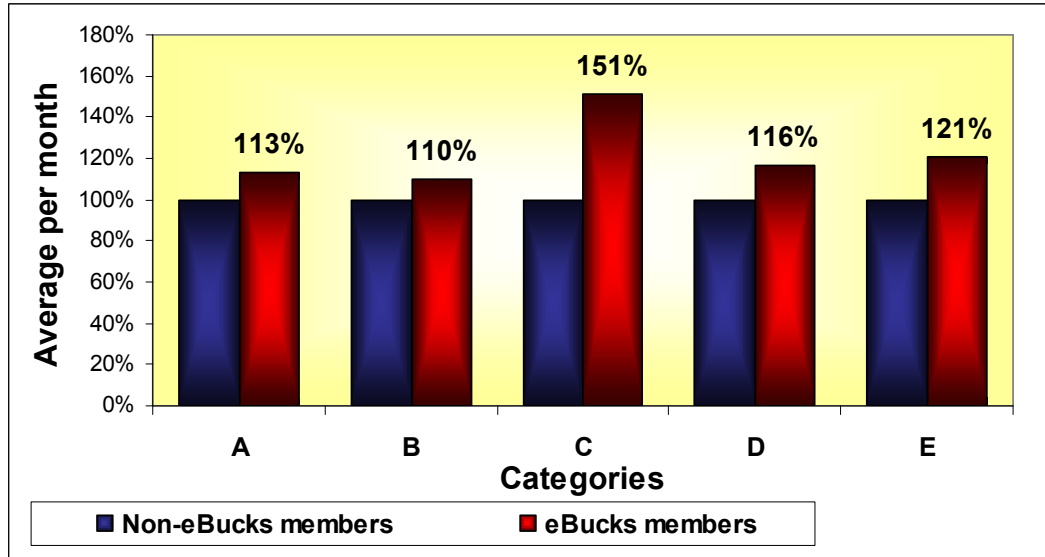
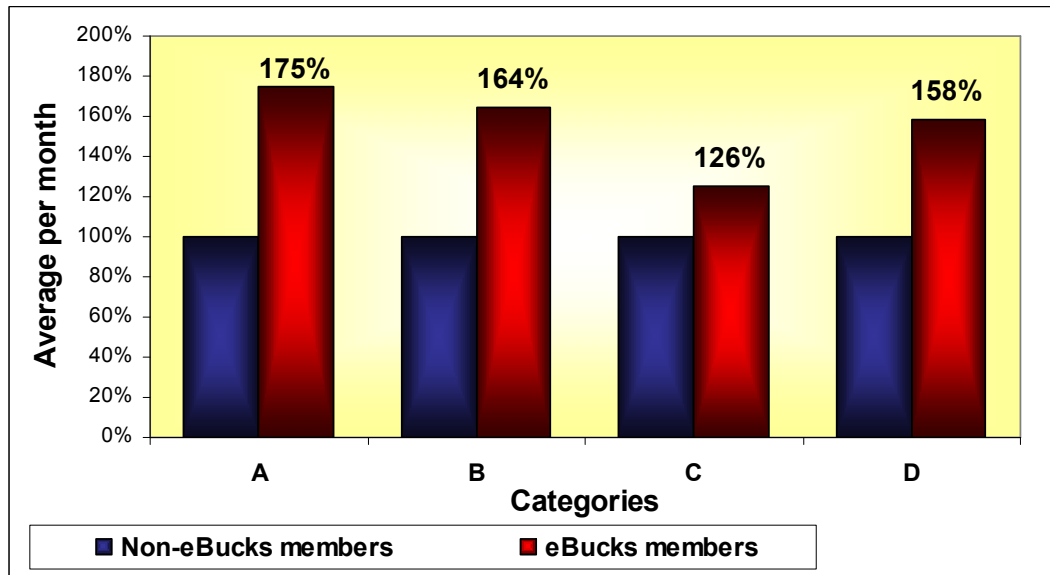
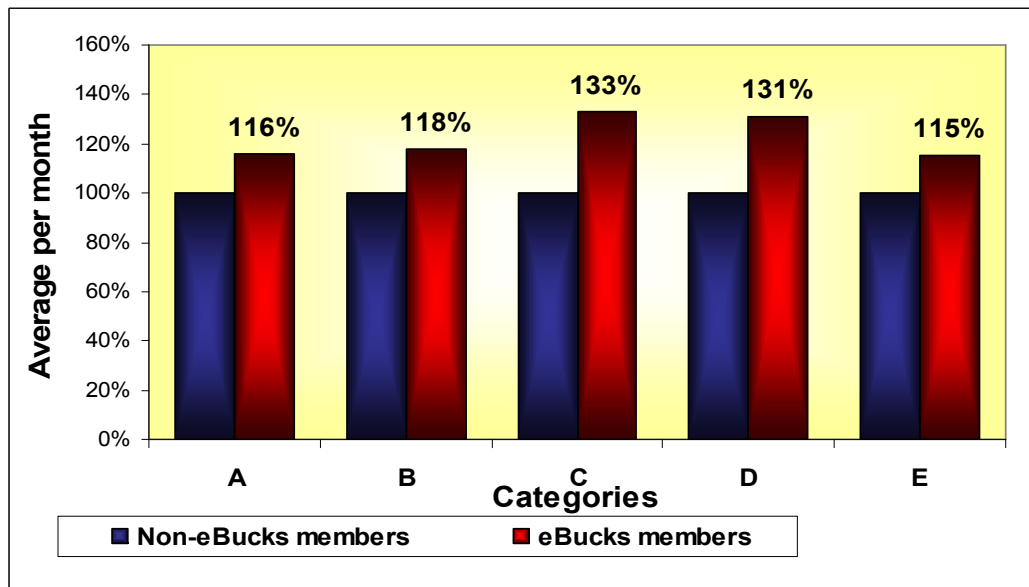


Figure 9: Impact of eBucks on *number* of transactions – Earn Partner B



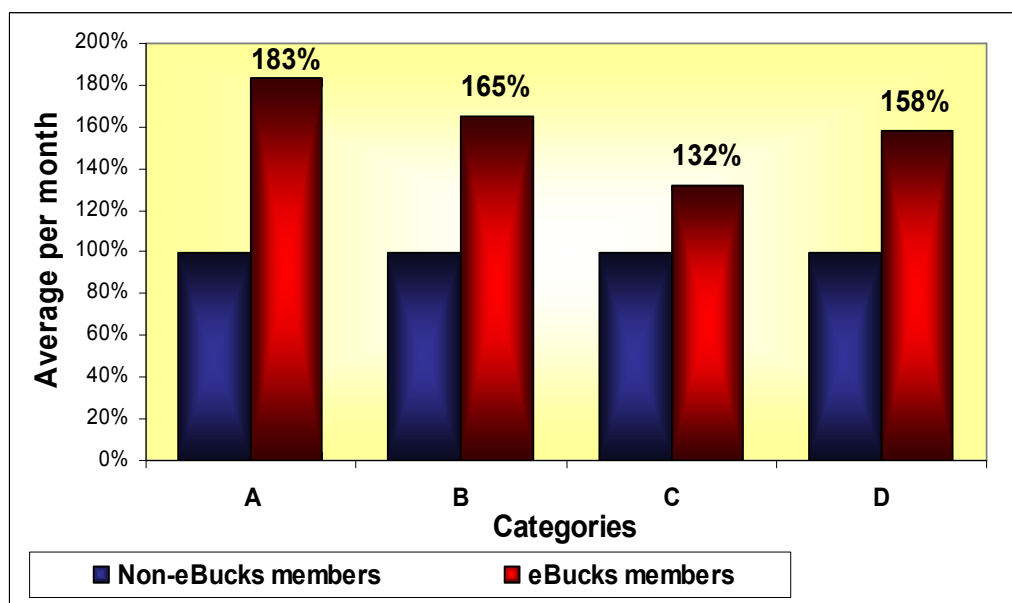
Another Earn Partner has found that the *value* of activities on eBucks members' accounts is on average 19% higher than non-eBucks members, with certain segments showing up to a 33% difference.

Figure 10: Impact of eBucks on value of transactions – Earn Partner C



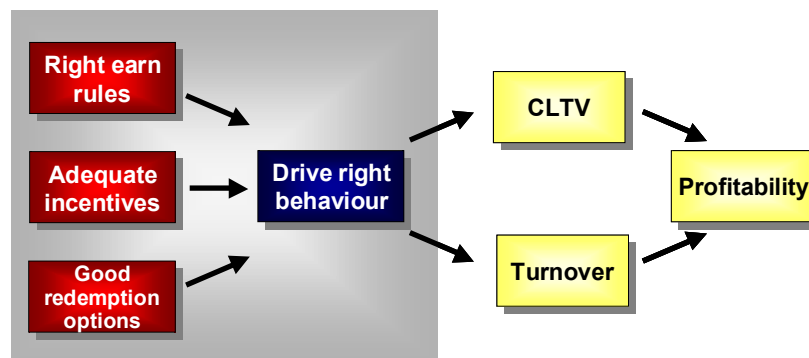
Another Earn Partner has found that the *value* of activities on eBucks members' accounts is between 32% and 83% higher than non-eBucks members, depending on the type of product and the segment of the market.

Figure 11: Impact of eBucks on value of transactions – Earn Partner D



Three aspects have been found to be important in ensuring that the eBucks programme drive the desired behaviour and therefore impact on profitability:

Figure 12: Three critical aspects for driving profitable behaviour



- 1) The earn rules must be tied directly to profitable behaviour for that specific Earn Partner without blindly copying the earn rules of other Earn Partners in the programme or even other programmes. The earn rules therefore have to reflect each one's unique environment and profitability drivers. In developing the earn rules, the Earn Partners found it difficult to balance this uniqueness with certain market expectations where customers might already have been familiar with receiving rewards according to certain rules.
- 2) The eBucks rewarded have to be sufficient to encourage a change in behaviour. If only provided as a token gesture and therefore not influencing the correct behaviour sufficiently, no eBucks should be awarded, as it only results in the paying out of rewards without effecting the right outcome and impacting on profitability. This is a critical concept for Earn Partners to understand. There are concerns about the size of rewards offered by some eBucks Earn Partners. However, in some of these cases the margins are just too low to provide higher rewards.
- 3) The range of redemption options on which the eBucks rewarded to members

can be spent by these members must be wide enough whilst being aspirational and achievable, to convince members to spend their eBucks, thereby creating the desire to earn more eBucks.

It is interesting that, in some cases, eBucks Earn Partners ended up rewarding more eBucks than they originally budgeted for: comments indicate that the actual eBucks rewarded by some Earn Partners exceeded the budgeted payout by between 11% and 45%. However, most of these partners view this as positive. Extra eBucks rewarded to customers mean that more customers are exhibiting more profitable behaviour than before (since earn rules are directly tied to profitable behaviour) and therefore the increase in eBucks allocations has a direct, immediate benefit in profitability. However, some Earn Partners do not view the paying out of eBucks as an investment in increasing profitable behaviour, but rather as an expense.

In cases where Earn Partners have thresholds in place, some Earn Partners have found that a portion of customers who are close to the threshold level will change behaviour in order to cross the threshold level and thereby earn eBucks. This is not always due to customers becoming more financially active, but rather switching from also using competitors' products to only using products from the specific Earn Partner (e.g. from using more than one credit card to only using an FNB credit card, or from using both Telkom and MTN to only using MTN).

Some Earn Partners (specifically those not offering transactional products) have found that customers will not take out their product just to earn eBucks – they will take out the product because they need it and because a better interest rate is offered. However, if products offered by competitors are similar, the eBucks offering does impact on the customer decision: one interviewee explained that “the fact that they can get something for nothing definitely plays a role.” This again emphasises the point that the intrinsic product offering has to be competitive before eBucks can make a difference to the profitability of that Earn Partner.

With some of the financial products within FirstRand competing with one another, Earn Partners can also see the impact as new product houses within FirstRand come on board as eBucks Earn Partners. An example is customers switching between using their FNB credit card and their FNB debit card, depending on where they are better rewarded for their behaviour. This example is in line with the FirstRand philosophy of creating a free market of competing businesses within the group.

A further example of the impact that the eBucks programme has on profitable behaviour, is one Earn Partner who did not have an exclusive relationship with the eBucks programme and provided their customers with a choice from which loyalty programme to earn points. This Earn Partner has however found that the eBucks programme directly changed the behaviour of its clients to such an extent that it has now switched to an exclusive relationship with the eBucks programme. Currently all Earn Partners have an exclusive relationship with the eBucks programme.

Earn Partners have therefore seen a direct correlation between the rewarding of sufficient eBucks for specific activities and customers changing their behaviour accordingly, to earn those eBucks.

5.3 Retaining profitable customers

Most interviewees have indicated that customer retention is an important reason for joining the eBucks programme because of the indirect impact on profitability. As one interviewee put it: “It is all very well if we acquire new customers, but we have to put a plug in the [bath]... we have to look after and value our customers”.

Most partners started analysing the impact of the eBucks programme on customer retention after being on the eBucks programme approximately 18-24

months. It was found that those customers that are also eBucks members will not close their accounts as easily as those customers who do not belong to the eBucks programme. Most partners have found that the attrition rate on eBucks members' accounts is on average half that of non-eBucks members' accounts.

Figure 13: Impact of eBucks on account closures (number of non-eBucks members' closures taken at 100%) – Earn Partner E

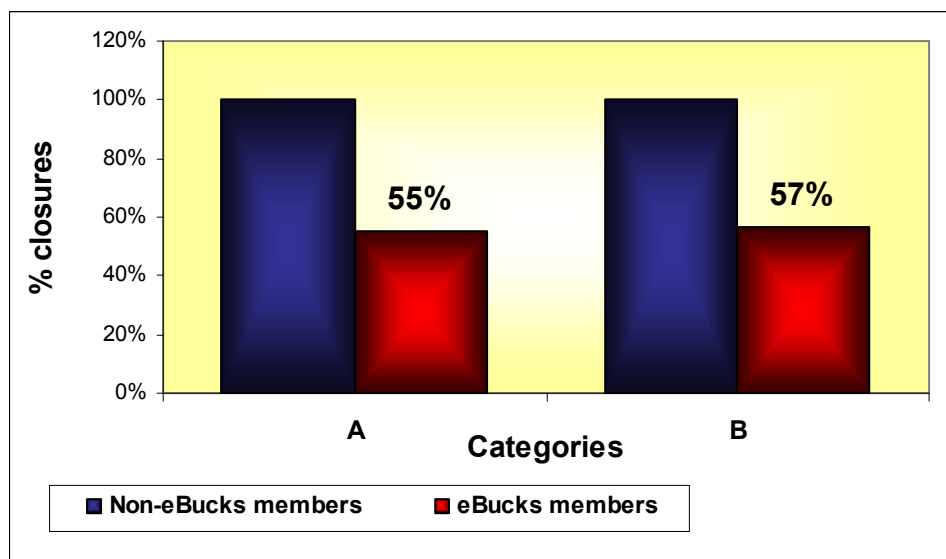
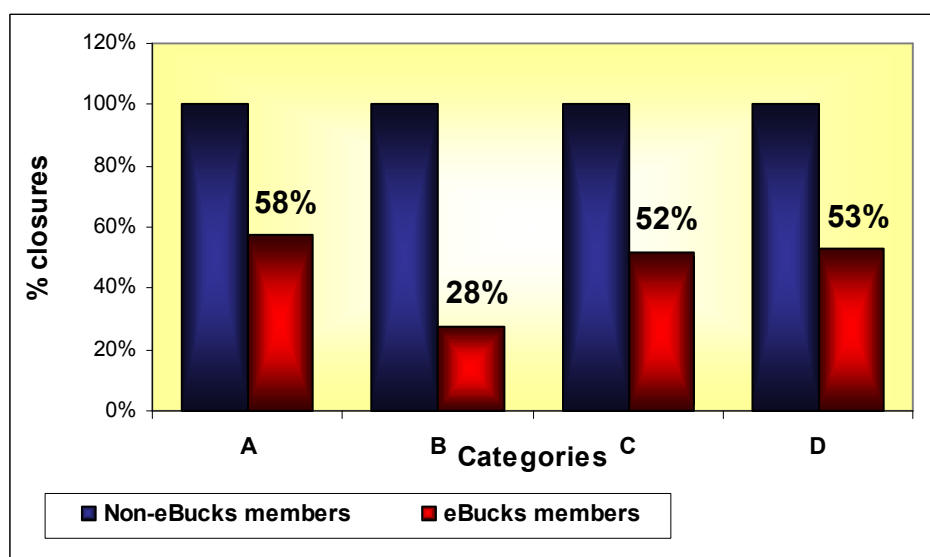
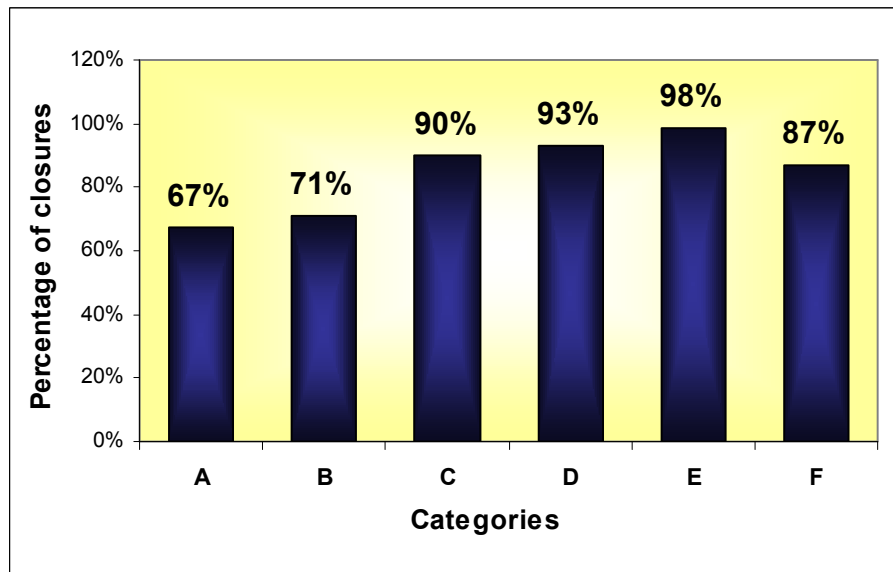


Figure 14: Impact of eBucks on account closures (number of non-eBucks members' closures taken at 100%) – Earn Partner F



One Earn Partner has found that almost all closures are from non-eBucks members' accounts with eBucks members representing between 2% and 33% of all account closures.

Figure 15: Percentage of closures from non-eBucks members – Earn Partner G



Interviewees also indicated that customer retention directly impacts on customer lifetime value in that the longer a customer is retained, the more products will typically be sold to that customer and the less price-sensitive the customer becomes.

Retention of profitable customers links closely to an improvement in profitable behaviour, in that the more customers are rewarded for their profitable behaviour, the more inclined they will be to remain with the Earn Partner. This ensures that profitable customers are retained, therefore leading to increased profitability. This confirms what was found during the literature research (Reichheld & Sasser, 1990; Gould, 1995; Hallowell, 1996; Dawes & Worthington, 1996; Colgate & Hedge, 2001 and Tzimas, 2002).

5.4 Acquiring profitable customers

Although partners have indicated that they view the eBucks programme more as a tool for retention than acquisition and although FirstRand did not create the programme with the acquisition of new customers specifically in mind, it has been found that the eBucks programme assists with acquisition as well. One Earn Partner found that customer growth increased with three percent after the introduction of eBucks on selected accounts.

Another Earn Partner has found that the eBucks programme plays a direct role in acquiring valuable customers. The first graph below shows the growth in accounts of non-eBucks affiliated customers for a certain Earn Partner, while the second graph shows the growth in accounts of eBucks affiliated customers for the same Earn Partner over the same period.

(Note: In the graphs below values are not provided, to ensure confidentiality. Each x-axis category indicates a different spending band, with the different columns indicating the number of accounts per six-month period, with each colour representing a different period.)

The eBucks-affiliated customer numbers in each category are increasing substantially over the five periods (indicated by the positive growth in the differently coloured columns within each category), while the non-eBucks-affiliated customer numbers are remaining constant.

Figure 16: Growth in accounts of non-eBucks members for Earn Partner H

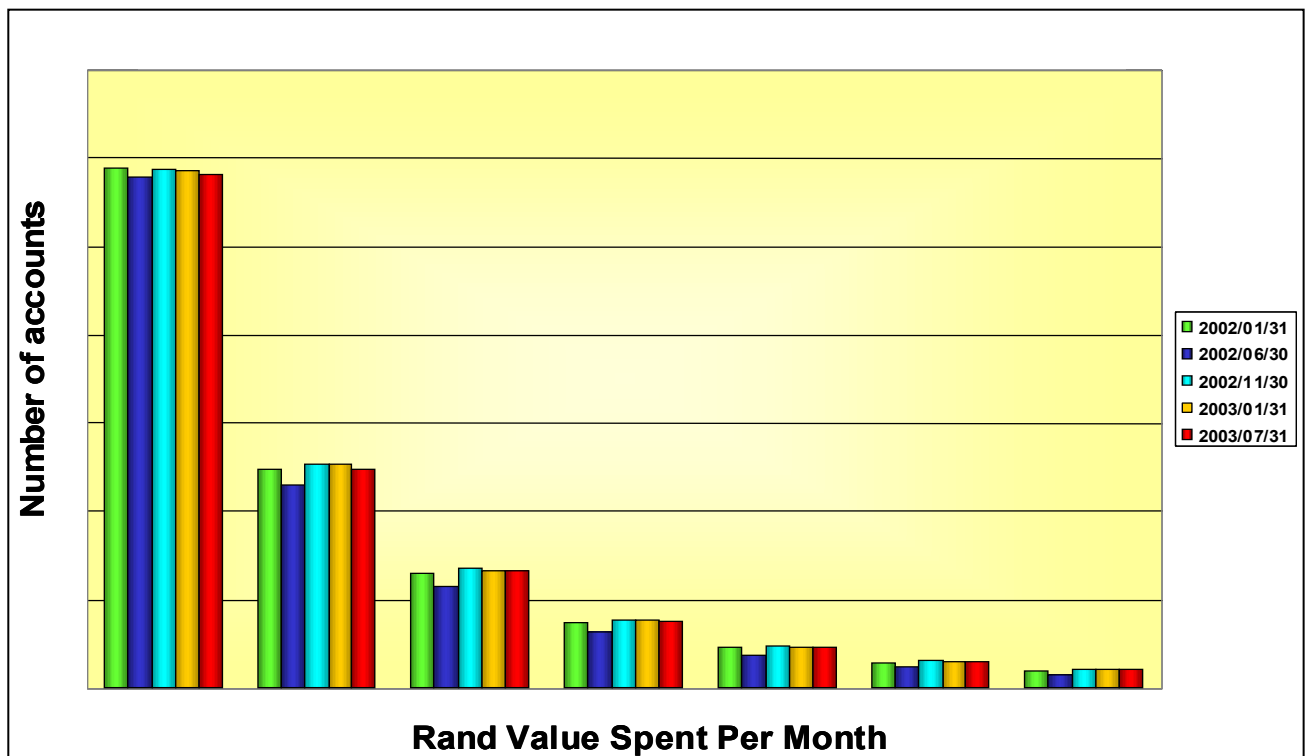
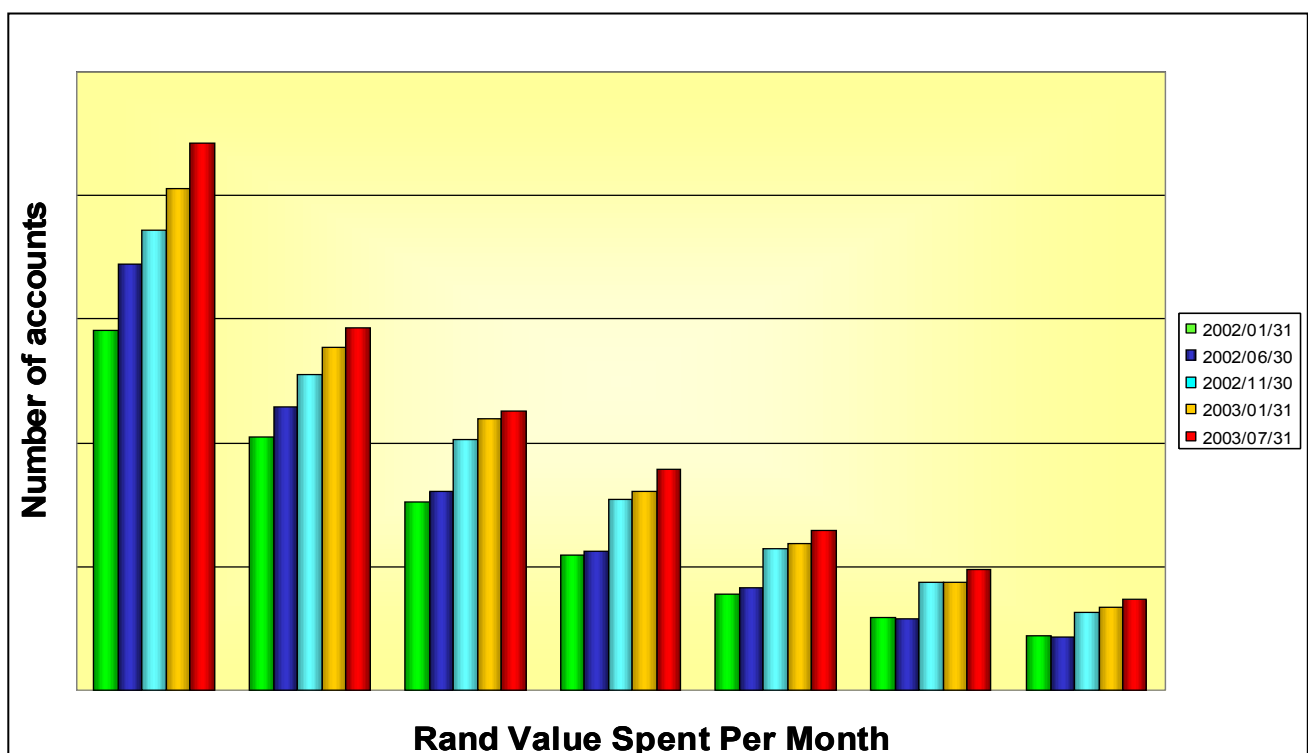


Figure 17: Growth in accounts of eBucks members for same Earn Partner H



Because those customers that buy the product – due to the possibility that they can earn eBucks – will only do so if their behaviour will allow them to receive sufficient eBucks, the eBucks programme therefore impacts specifically on the acquisition of **profitable** customers. Acquiring profitable customers in turn directly impacts on an increase in turnover.

During interviews, three reasons were identified for the eBucks programme driving customer acquisition:

- being first to reward eBucks in that specific industry segment;
- customers perceiving the eBucks rewarded on an otherwise undifferentiated product as a value-add; and
- the eBucks base providing the Earn Partners with improved cross-selling opportunities to a 'warm base'.

These points are discussed further in the next three sections.

5.5 Being first to market

One partner that has seen a major impact on acquisition levels, was the first in South Africa to reward customers for their loyalty on that specific product. If this partner launched a stand-alone loyalty programme, it would not have been sustainable once competitors started offering similar rewards. For that reason the partner joined the eBucks programme as a multi-partner loyalty programme with critical mass, which has subsequently had a significant impact on the Earn Partner's profitability.

Another partner who was also first in South Africa to reward customers for loyalty to their product, has subsequently found that the eBucks programme has had a

direct impact on customer retention, with churn on accounts of eBucks members' half that of non-eBucks members.

Although being first in a specific industry segment to offer a loyalty programme has assisted with customer acquisition for these two Earn Partners, the rewarding of eBucks as a product differentiator has played a more important role in customer acquisition for Earn Partners.

5.6 Providing differentiation

Differentiating one financial institution from another in a highly competitive environment is difficult, as explained earlier. A number of interviewees indicated that they view the eBucks programme as differentiating their product, therefore assisting with both customer acquisition and customer retention.

The benefit of eBucks to FirstRand was summarised by one interviewee as:

Rewards programmes can do a lot ... those that have been pushed out into the South African market-place have not done as much as they could have done ... we have used and can use this as a strategic differentiator for the group.

An interviewee from FirstRand top leadership explained that:

It is clear that the eBucks programme is no longer our hidden advantage ... it is providing us with enormous benefits. It is a major differentiator.

Two partners indicated that they joined the eBucks programme not so much to ensure differentiation, but to ensure that their competitors cannot differentiate themselves, i.e. to ensure that they themselves would not be at a competitive

disadvantage. By joining the eBucks programme, they were able to continue acquiring customers that might otherwise have been acquired by competitors, as well as to retain those customers who might have switched in order to get loyalty points from competitors.

An interesting trend picked up during the interviews was that many of the Earn Partners saw 'differentiation' to be one of the key reasons for joining the eBucks programme, whilst FirstRand (from a group perspective) saw this as an important reason, but not as important as cross-selling.

5.7 Enabling cross-selling

One interviewee from within the eBucks programme summarised the purpose of eBucks as "one of the key strategic reasons why eBucks was put together was to facilitate cross-sell". Because of the multi-partner structure of the eBucks programme, Earn Partners joining the eBucks programme have the opportunity to cross-sell to eBucks members in the bigger eBucks base.

One of the interviewees from FirstRand top leadership explained that "you can't create cross-sell just like that...you have to create a warm base first". Customers that are already on the eBucks base are more amenable to buying products that allow them to earn more eBucks. Customers generally appreciate such offers, since it provides them not only with access to more eBucks earning sources, but usually also access to a more attractive deal. Therefore the opportunities for cross-selling to these members are good. There are also potential opportunities to sell into the non-eBucks customer bases of the other Earn Partners.

The eBucks programme uses data mining (and is starting to use propensity models) to determine which members to target with offers. The eBucks team follows very strict permission marketing rules to ensure that members' wishes

are not violated and that their privacy is never compromised. One of the team members explained:

We are incredibly permission-driven ... we never chat to customers without their permission. After all, we are part of a bank and we will never do anything irresponsible.

The eBucks programme adheres very strictly to all applicable legislation and regularly participates in external audits to ensure their continued compliance.

Cross-selling to the eBucks base and therefore rewarding eBucks members with more eBucks on more products, assists in deepening and expanding the customer relationship. In the period July 2002 to June 2003, the average number of products held by eBucks members increased by 12% while the average eBucks earned by members increased by 38%. One of the main reasons for this increase is more Earn Partners joining the programme and their products then being sold to other eBucks members.

Cross-selling has a direct impact on a customer's lifetime value to the group as well as on the turnover of other Earn Partners.

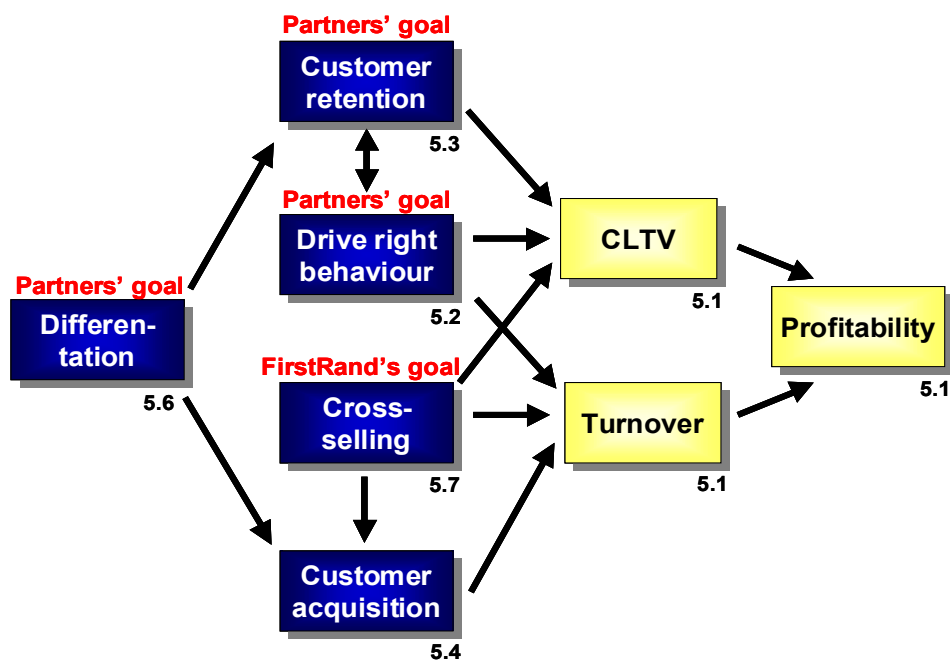
Some people being interviewed (specifically those within the eBucks programme and representing the bigger FirstRand group rather than an Earn Partner) have indicated that the major reason for the creation of the eBucks programme was to act as a vehicle for the cross-selling of various partners' products into the eBucks base and into their respective customers bases. Some Earn Partners agreed with this view.

5.8 The interrelatedness of the various reasons

The various reasons for the creation or joining of the eBucks programme are all

interrelated and cannot be viewed in isolation. The emphasis placed by various parties on the various reasons, differs.

Figure 18: Interrelatedness of reasons



The benefits of the eBucks programme to its existing partners can be encapsulated in the term 'increased profitability'. This is due to improvements in customer lifetime value and turnover at the Earn Partner. Improvements in customer lifetime value and turnover can result from many activities but four that were identified in the research as a direct result of the eBucks programme are:

- an increase in the retention of profitable customers;
- an increase in the profitable behaviour of these customers;
- cross-selling of additional products to these customers; and
- growth in the customer base by offering a differentiated product.

These aspects are interrelated. For example, if the main reason for the existence of the eBucks programme to FirstRand is to improve cross-selling opportunities, it leads to customer acquisition within certain Earn Partners; an increase in turnover for those Earn Partners and FirstRand; a higher customer lifetime value and ultimately increased profitability for the Earn Partner and FirstRand. If the main reason for an Earn Partner is to drive the right behaviour, it leads to an increase in customer lifetime value and turnover and ultimately higher profitability, and it also improves customer retention.

Of the four activities listed above, the first three activities (retention, profitable behaviour and cross-selling) directly impact on customer lifetime value, while turnover is impacted upon by the last three activities, namely acquisition, profitable behaviour and cross-selling.

These first three activities (retention, profitable behaviour and cross-selling) are driven by a better understanding of the eBucks member base, which allows for the targeting, servicing and appropriate incentivisation of customers. Although these activities are driven by extensive customer information, the eBucks programme was not created for the purpose of collecting customer information – substantial information was already available at most of the various Earn Partners (this is currently the case for all but two current Earn Partners). This was therefore not quoted as a reason for the creation of the eBucks programme. This does not mean that the eBucks programme is not using significant amounts of data to run the programme and to ensure customised offerings to members. The need to collect this data separately from the Earn Partners is not necessary, due to a closely integrated customer information database that is shared between the eBucks programme and most of the Earn Partners. A further discussion on this topic follows in section 7.2.

Studying each of the above listed activities in turn, the first activity – the retention of profitable customers – was found to be as a result of:

- the existence of the eBucks programme as a value-add on relatively commoditised products and therefore adding to differentiation; and
- the rewarding of profitable behaviour through eBucks and therefore encouraging profitable customers to remain with the eBucks programme.

The second and third activities – an increase in profitable behaviour and increased cross-selling – were found to result directly from the existence of eBucks programme.

The last, acquisition of profitable customers, has been found to be as a result of:

- differentiation, as discussed above, therefore leading to the acquisition of new customers into the group; and
- increased cross-selling opportunities provided to eBucks Earn Partners and therefore the deepening and expanding of the customer relationship across the various Earn Partners in the eBucks programme.

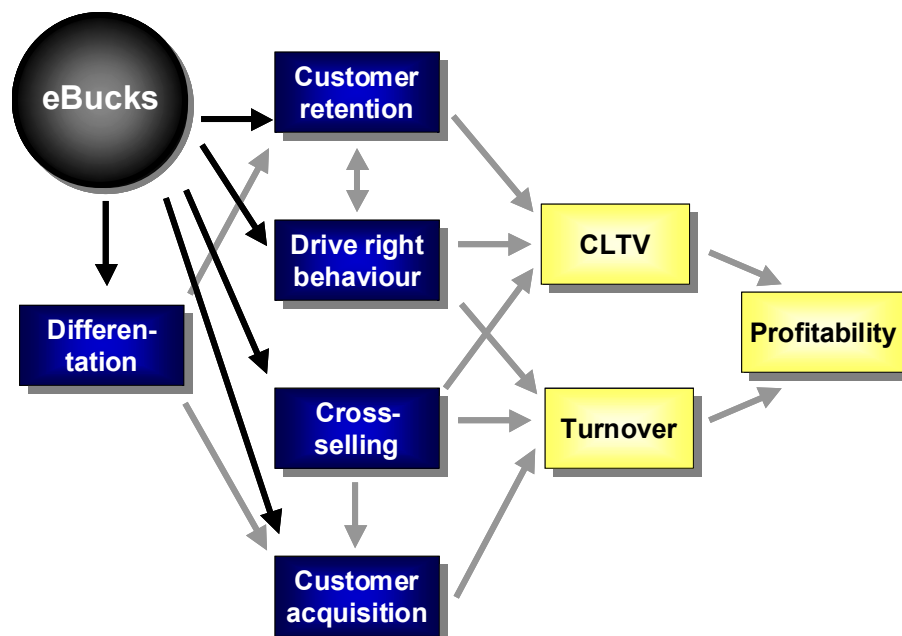
Note that, although being first within an industry sub-sector to have a loyalty programme was a reason for acquiring new customers for two Earn Partners, it was not the main reason why these Earn Partners joined the eBucks programme, nor was it a reason with which the other eBucks Earn Partners agreed. Therefore this is not reflected on the diagram as a programme-wide reason.

5.9 Answer that emerges for the first research question

Based on the above discussion, the network diagram below shows the reasons for implementing (through either creating or joining) the eBucks programme and the subsequent benefits that accrue to the Earn Partners. In that sense it addresses the first sub-problem (to identify the reasons for and potential benefits of a loyalty programme to a financial institution) and the first research question (why was the eBucks loyalty programme implemented).

Note that the blocks indicated in blue are the benefits that can be more directly ascribed to the eBucks programme. The blocks indicated in yellow flow from the blue blocks, but measuring these blocks will seldom give an indication of the direct impact of only the eBucks programme on the participating Earn Partners.

Figure 19: Reasons why the eBucks programme was implemented



5.10 Conclusion

This chapter answered the first research question: 'Why was the eBucks loyalty programme implemented?', by providing an in-depth discussion with relevant substantiating information. The outcome from the research is in line with the literature that led to research question one, except for three specific differences:

Differentiation was alluded to in the literature research and was acknowledged as providing a competitive advantage to a loyalty programme. It was however not clearly articulated as a reason for implementing a loyalty programme and was not nearly as prominently mentioned in literature as observed in this case.

Providing tangibility to an otherwise intangible suite of services, was found in literature to be a potential reason for implementing a loyalty programme in a financial institution. This was however not viewed by any of the interviewees as a major reason why eBucks was implemented.

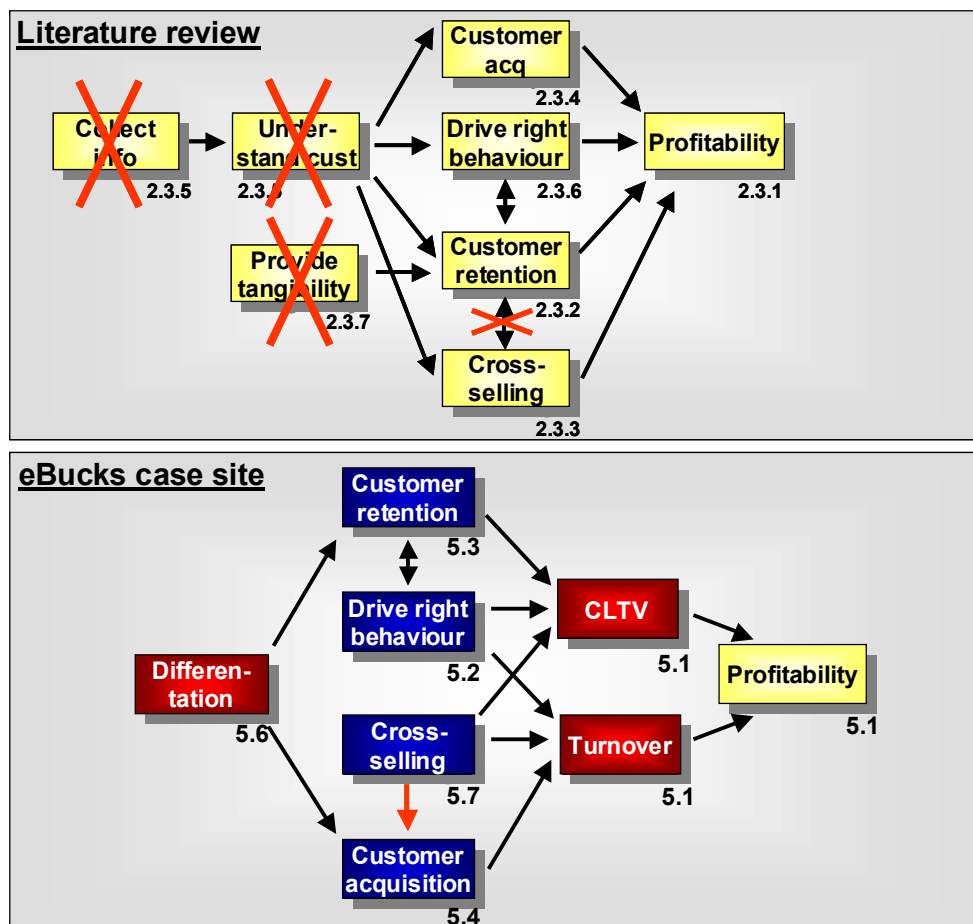
Collection of customer information was identified in the literature review to be a key reason for implementing a loyalty programme. The eBucks programme was however not created for this purpose, since most of this information was already available within most of the various Earn Partners. This is discussed in more detail in section 7.2.

That the research findings are not directly in line with literature is an excellent illustration of the principle of dialogical reasoning within the interpretive paradigm. As described by Klein & Myers (1999:15):

The dialogical principle ... requires the researcher to confront his or her preconceptions ... which guided the original research design ... with the data that emerge through the research process.

Differences between what was found in literature and what was subsequently discovered during the case research, are shown below, indicated in red.

Figure 20: Literature versus case findings



The reasons why the eBucks programme was implemented, indirectly influenced the structural elements that were used in creating the programme. These structural elements are discussed in the next chapter.

6. STRUCTURAL ELEMENTS USED – AND REASONS WHY

This chapter deals with the outcome of research as it relates to two research questions: the second research question: 'Which structural elements were used in the eBucks loyalty programme?' and the third research question 'Why were these specific structural elements chosen?'. By addressing these two research questions, the second sub-problem 'To determine how a loyalty programme at a financial institution has been structured' gets addressed.

It was interesting to observe the difference in opinion among various interviewees, mainly attributable to their different understanding of loyalty as a concept, as well as their functional and business backgrounds as well as the stage at which they became involved in the eBucks programme. Data source triangulation was used in these instances to ensure that a consistent, accurate view was obtained.

Earn Partners that joined the programme after launch and therefore did not have much to do with the creation of the programme, could not provide many inputs on the reasons for choosing certain structural elements. These answers were mostly provided by the eBucks team. Those that joined afterwards did however provide reasons why the structural elements were of value to them.

6.1 Multi-partner structure

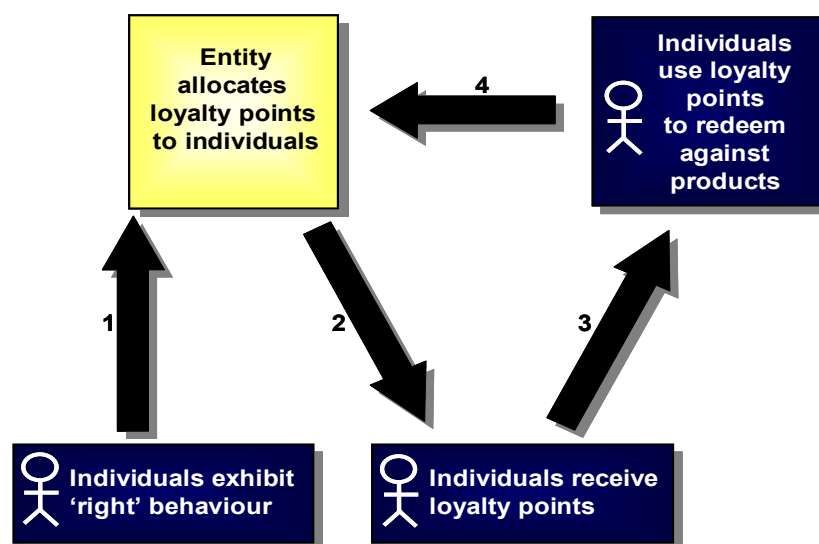
One of the key eBucks design features uncovered during the research process and its most distinguishing characteristic, is its multi-partner structure. In fact, the vision of the eBucks Rewards Programme is to be South Africa's biggest, most desirable multi-partner programme.

Despite this being such a key characteristic, nothing was found on this specific topic during the earlier literature search of peer review articles, although some articles were had been published on multi-partner structures in the popular press. Therefore this did not form a major part of the literature review that led to the research questions. This clearly illustrates the emergent nature of the research process, where new aspects of the structure of loyalty programmes have been uncovered but which were not known to the researcher at the start of the process.

6.1.1 Description

A single-partner structure (also referred to as a proprietary programme) rewards customers for products or services bought from or used at that single entity only.

Figure 21: The earn and spend processes in a single-partner structure

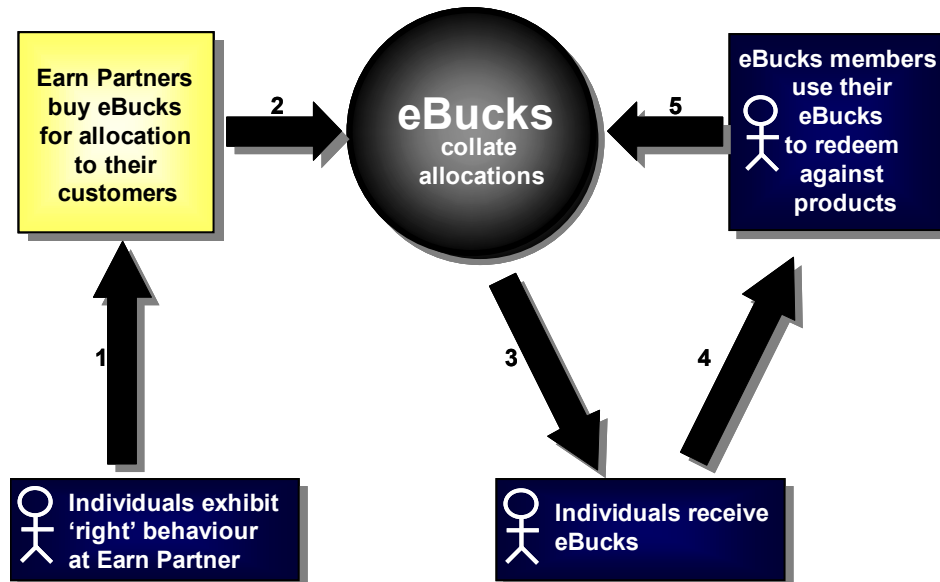


Such a loyalty programme does not necessarily have to be run by that entity – it can be outsourced – but the rewards are based on activity only within that single

entity. This structure is most often used and was the only structure used when loyalty programmes started off in the 1980s.

A multi-partner structure (also sometimes referred to as a coalition programme) rewards customers not only for products or services bought from or used in a single entity, but from a multitude of entities. These entities are referred to as 'Earn Partners' in this research report. Because various Earn Partners are involved in the structure, a single intermediating entity is required to collate the points from the various Earn Partners and to allocate these consolidated points to the members of the multi-partner programme. This is illustrated below as it applies to the eBucks programme, clearly showing the intermediating role of the eBucks programme.

Figure 22: The intermediary role of a multi-partner structure



This multi-partner process requires an additional step, but there are numerous benefits to this structure – both to Earn Partners and to eBucks members. These benefits are also the reasons why a multi-partner structure was finally chosen.

6.1.2 Reason for choosing this structure – benefit to customers

One of the major reasons why a multi-partner structure was chosen, is that customers can be provided with increased earning opportunities – viewed by many as a much better value proposition than when only earning from one company. Increased earning opportunities lead to accelerated earning for customers. This makes the eBucks programme more valuable to customers since, although customers may only earn a small amount of eBucks from one Earn Partner, they may also be earning similar amounts from other Earn Partners. These eBucks allocations add up, resulting in a large total allocation to an eBucks member. Accelerated earning, in turn, enables more frequent spending of eBucks. In short, a better value proposition.

The second reason relates to a drive towards simplicity. If a customer is faced with the choice of either earning from various entities, each with its own point-types and where these point-types cannot be combined, or alternatively being provided with the ability to collate the points from these various entities into a single ‘normalised’ points structure, the eBucks team has discovered in their research that customers will typically choose the latter. Customers experience a less cluttered offering, compared to having to deal with a variety of loyalty programmes, each with its own redemption methods, contact centres and monthly communications. In a market-place over-run by various loyalty programmes, eBucks felt that a multi-partner structure removed some of the clutter.

The higher the cross-holding of products from participating Earn Partners that an eBucks member has, the more valuable the eBucks programme is to that specific member due to a higher earning capacity. Statistics on the various Earn Partners’ eBucks members indicate that up to 80% of some Earn Partners’ eBucks member bases also earn from other Earn Partners, which implies that those Earn Partners’ customers receive substantial value from being an eBucks member.

However, a few Earn Partners with small, niche customer bases that differ from the typical eBucks member profile, have only 25% of their eBucks-member customers also earning from other Earn Partners. Although the programme does not necessarily provide much value to the other 75%, this has potential benefits to other Earn Partners as explained in the next section.

6.1.3 Reason for choosing this structure – benefit to Earn Partners

Over and above the benefits of a multi-partner structure to customers, there are also benefits to Earn Partners for belonging to a multi-partner programme rather than a proprietary programme. These benefits are summarised by one interviewee as “the key to owning customers is sharing them”.

Critical mass. A multi-partner programme allows for the fast gaining of critical mass, since customers use a loyalty programme more often if it can be used across more companies. Once a loyalty programme has critical mass, it provides economies of scale and it is also more difficult for it to be copied by competitors.

Access to customer bases. A multi-partner structure provides Earn Partners with access to customer bases from other Earn Partners. This allows for better cross-selling because customers typically appreciate additional opportunities to earn more eBucks. The Earn Partner that has eBucks-member customers with a very low average cross-holding of 19%, provides excellent cross-selling opportunities to the other Earn Partners – one of the benefits mentioned by Earn Partners. Since cross-selling was a key reason for creating the eBucks programme, this multi-partner structure was a natural choice.

Increased stickiness. The above two benefits result in an additional benefit – increased stickiness to the Earn Partners, since an eBucks member would rather not leave one Earn Partner if he was planning to remain with the other Earn Partners where he would still earn eBucks. Also, in the financial services industry

(and telecommunications) where products are commoditised, customers will not switch if there is a value-add such as eBucks on offer.

Lower cost. Most Earn Partners have found that, even though they would sometimes prefer to have their own proprietary programme that has their unique branding, and even if they are willing not to have the benefits listed above, the costs of running such a proprietary programme are prohibitive. Owing to critical mass and economies of scale, the costs of participating in a multi-partner programme are much lower than to build and run a proprietary programme. One of the ways in which this is demonstrated, is that 80% of what Earn Partners pay to eBucks, is paid straight through to the eBucks member, with only 20% used to cover the costs of administration and customer service. The eBucks team is continuously managing these costs down even further.

Not only are the costs lower, but Earn Partners who cannot typically afford to give substantial amounts away in loyalty points due to low margins, can form part of the eBucks programme since their eBucks allocations are added to the allocations of other Earn Partners.

6.1.4 The Earn Partners of the eBucks programme

The most significant contributors of eBucks to customers are from FNB (specifically credit cards, cheque accounts and home loans) and from MTN. The specific Earn Partners of the eBucks programme are listed below.

- FNB Retail, with numerous product houses acting as Earn Partners:
 - FNB Card for consumers, which provides different status credit cards to individuals and rewards customers a percentage of transaction value if the monthly value is above a threshold, although an annual linkage fee is required (dependent on status of card);

- FNB Card for selected corporates, which operates in a similar way;
 - FNB Core Banking Services (CBS), which provides various status cheque accounts to individuals and sole proprietors and rewards them for both credit and debit transactions, with a threshold required on debit transactions and a capping of rewards on credit transactions; it also provides debit cards and rewards customers for a percentage of debit card spend;
 - FNB Investment Product House (IPH), which provides fixed, notice and call deposits as well as money market accounts to investors and rewards them a percentage of the value invested;
 - FNB HomeLoans for consumers, which awards eBucks based on outstanding amounts, with rewards increasing with tenure;
 - FNB HomeLoans for estate agents, where estate agents are rewarded for channelling consumer business to FNB HomeLoans;
 - FirstTrust, which focuses on the provision of estate planning services and rewards customers for applying for these services;
 - FirstLink, which provides short-term insurance brokering services; and
 - FNB Forex, which rewards customers a percentage of the value spent on traveller's cheques.
- MTN, the network operator, which rewards customers for both incoming and outgoing calls as well as for SMS's, but only if above a threshold.
 - MTN SP, one of the service providers to MTN, which incentivises customers for taking out contracts.

- RMB Private Bank, which rewards their customers for spend on their RMB card, at a percentage of the value of transactions (no threshold).
- WesBank, which includes three programmes:
 - rewards to consumers when taking out asset finance;
 - an incentive programme for car dealers who channel business to WesBank; and
 - a loyalty programme for consumers who take out 'cashpower' loans: loans between R4 000 and R20 000, which fall under the microlending category and are often taken up by entrepreneurs and others for short periods of time when searching for bridging finance.
- Arthur Kaplan Jewellers, which rewards customers for jewellery purchases.

Although these Earn Partners technically outsource their loyalty programmes to the eBucks programme, the eBucks programme is structured such that it works closely with each Earn Partner and in fact many of the above Earn Partners have a shareholding in the eBucks programme. This shareholding relationship (FirstRand, MTN and Johnnic) only extends to original Earn Partners and new Earn Partners are not able to obtain shareholding in NewBucks. This is to reward the risk taken by the initial Earn Partners in joining the eBucks programme.

A negative aspect of the eBucks programme is that it has not yet signed up enough Earn Partners outside FirstRand. Although MTN is a large non-FirstRand partner, it is the only external Earn Partner of that magnitude.

6.1.5 Summarising the reasons for a multi-partner structure

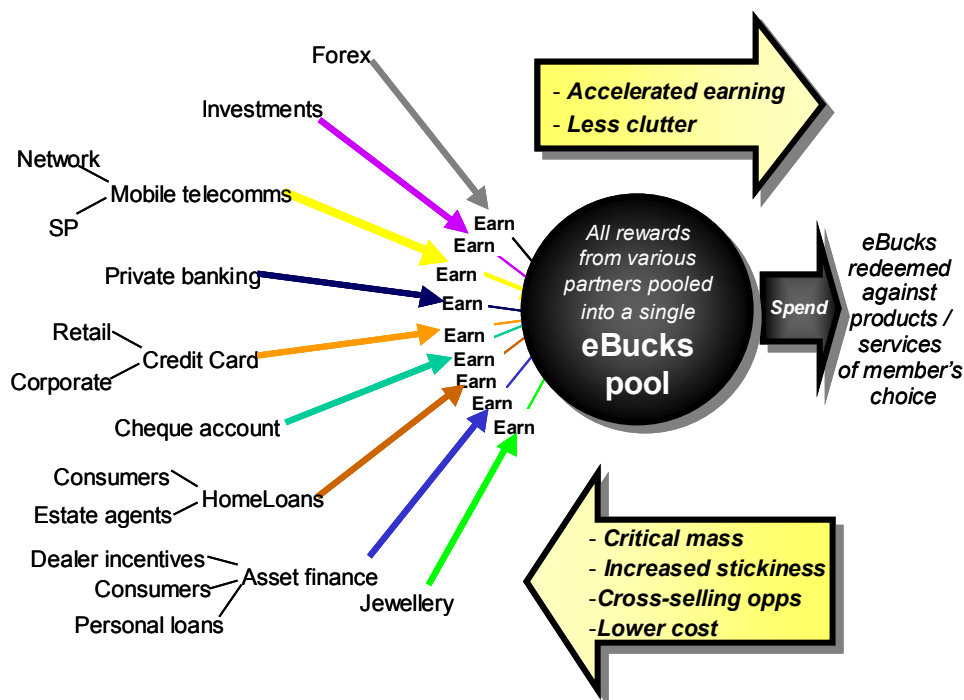
There are disadvantages to a multi-partner structure: eBucks members interact

with another entity (eBucks) over and above the company itself (the Earn Partner) which can lead to potential interference in the customer experience. Furthermore, multi-partner programmes (and also eBucks) take longer to add value-added features to the programme as requested by specific Earn Partners. This is mainly due to having to support numerous, diverse Earn Partners.

The advantages however outweigh the disadvantages on the eBucks programme. The multi-partner programme was chosen because of (1) the value proposition to customers being accelerated earning through multiple earn opportunities, and (2) the value proposition to Earn Partners being the fast achievement of critical mass on the loyalty programme, access to a potential base of loyal members, increased stickiness and lower costs.

The structure and subsequent benefits of this structure are illustrated below.

Figure 23: The multi-partner structure of the eBucks programme



The eBucks team believes that multi-partner programmes are a future trend, as explained by one team member:

Rewards programmes of the future will offer more of a multi-partner service. Within the next five years rewards programmes in South Africa will seek strategic partnerships to increase offerings to customers and business benefits. Rewards programmes will no longer operate in isolation.

6.2 Structured as a profit centre

6.2.1 Description

The structure of the eBucks programme is influenced by its financial model in various ways. Most notably, the eBucks programme is not structured to be a cost centre. It is run as a profit centre and turned month-on-month profitable 27 months after launch – nine months ahead of target.

However, the aim in future is rather to be a self-funding entity that operates on a breakeven basis. The focus is on improving profitability at the Earn Partners rather than within the eBucks programme itself. As profits are made, these profits are ploughed back into the customer base, as well as used to reduce costs to the Earn Partners. The eBucks team is very proud of the fact that 80% of what the Earn Partners pay is directly channelled to the customer. This compares well with other top South African multi-partner programmes, which only channel about 40% back to the customer.

6.2.2 Reasons for not being structured as a cost centre

There are various reasons why the eBucks programme is not a cost centre.

FirstRand philosophy. A philosophy is followed within FirstRand that views the group as a federation of businesses. Each business has an owner-manager culture where the overall strategy of the group has to be adhered to and annual budgets have to be submitted, but where the business then has the freedom to make any decisions within that framework. In that sense a free market is allowed within the FirstRand group where businesses are allowed to compete with one another and where they are not forced to use one another's services if not representing a competitive offer.

Each business within FirstRand has to be able to survive on its own (without undue support required from the group or other businesses in the group) and has to be profitable in its own right. On interviewee explained:

My business has to show a return on investment...if you can't help me improve my bottom line I'm not interested...why should I help ... if it will not help my business.

The eBucks programme can therefore not be run as a cost centre, but has to ensure that it can survive financially without unnatural support from other businesses in the group.

Multiple partners. A cost centre will have to be subsidised by the individual Earn Partners of the eBucks programme. Since multiple partners use the eBucks programme as their loyalty programme, equity must be ensured among the Earn Partners, where each Earn Partner pays for the services received from the eBucks programme. By ensuring that the eBucks programme is structured such that all costs are recovered from Earn Partners, no Earn Partner or holdings company is unduly supporting the eBucks programme more than any of the other Earn Partners. The eBucks programme's main source of funds is the eBucks points bought by the Earn Partners for allocation to their customers. No other main sources of funds (other than interest on the eBucks float) are used.

For these reasons the eBucks programme is being run as a profit centre, instead of a cost centre.

6.3 Promotional currency structure

Another key feature of the eBucks programme is that it is similar in style to the promotional currency structure explained in section 2.7.1 – loyalty points are redeemed against rewards. There are however some very distinct differences from a typical promotional currency structure. The reason why this structure was chosen, as well as the distinct differences from this structure and the reasons for these differences, follow.

6.3.1 Reasons why a promotional currency structure was used

A key reason for using a promotional currency structure, is that eBucks wanted to enforce the perception of eBucks as a currency where people can be rewarded for their loyalty and then be allowed to spend the currency received for loyal behaviour. Even when the electronic currency concept was stopped by the Reserve Bank, the promotional currency structure of the programme was continued because the team wanted to reinforce the concept of a currency, even though it could not longer be an actual electronic currency.

Another key reason is that a club structure (which is on the opposite side of the structure spectrum and typically the alternative to a promotional currency structure) contains certain elements that the eBucks team did not want to implement. A club structure typically has between three and five tiers, where the tier structure acts as an incentive with an increase in good behaviour leading to an increase in status. This was typically done by awarding points for the right behaviour, with each tier having a certain point threshold.

In the eBucks programme, multiple partners are involved, each with its own unique tiering within its product offering. For example both FNB Card and FNB CBS offer different product levels based on customers' monthly income, while MTN offers different products based on customers' monthly cellphone usage. Since eBucks is closely integrated with each partner and acts as the loyalty programme for that partner, it would be confusing for members to be at a certain tier within the eBucks programme and at another tier (with a different name and status association) with the Earn Partner.

Over and above this confusion, there is also the complexity of having to establish tiers within the eBucks programme that accurately reflect the value of the members to each of the Earn Partners. As an example, an Earn Partner might want a specific customer to be reflected as a top tier member within the eBucks programme but the amount of eBucks that this Earn Partner allocates to that member may not be sufficient for him to reach that tier's threshold. Another Earn Partner may only want to reflect a member at a much lower tier due to his not being a valuable customer to that Earn Partner, yet the amount of eBucks allocated to that member may move him into a top tier.

The multi-partner structure therefore played a major role in the decision not to use tiers to drive the desire to earn points through the right behaviour, but rather to use the provision of redemption opportunities to drive the desire to earn points through the right behaviour. This requires a promotional currency structure.

The need to do away with tiers and to enforce a currency concept therefore led to the decision to implement a promotional currency structure. There are some distinct differences though between the typical promotional currency structure and the eBucks programme. These differences have been designed into the programme because of certain frustrations that customers typically experience with conventional loyalty programmes, but also to enforce the typical characteristics of a real-world currency. These differences are highlighted below,

while simultaneously providing reasons why these specific differences have been implemented.

6.3.2 Difference: Rewards not redeemed at issuing companies

The promotional currency structure is typically employed in industries with high fixed costs where idle capacity is then sold as rewards (e.g. the typical frequent flyer programmes). Rewards are therefore in the form of the products or services of that same company. The taking up of rewards is limited to when such idle capacity is available.

eBucks points are made available to members for redemption against a variety of products and services, but not against FirstRand's own products. Nor are the rewards limited to the availability of 'cheap' capacity, but can be taken up at any time. Therefore the eBucks programme does not follow the classical model of a promotional currency structure. There are two main reasons for this.

Firstly, a very specific decision was taken by FirstRand that people have to get enjoyment out of their rewards. They cannot use eBucks to pay off their home loan or credit card – they have to spend it on a luxury item since the team believes that “customers must feel that we make their life a rewarding experience”. From there comes the eBucks pay-off line ‘Life just got more rewarding’.

In the second place, it was felt that by limiting rewards to idle capacity only, it may create disgruntled customers. Idle capacity in financial services can be viewed as the provision of products at severely discounted rates towards month-end to ensure the meeting of targets, or the provision of a significantly discounted product where uptake was capped within each month. By limiting the number of customers that can take up such discounted products as a reward, it

will happen that some people that want to redeem their eBucks in such a way, may not be able to do so in a certain month, leading to disgruntled customers.

By providing customers with products that are not based on idle capacity, these customers can redeem their eBucks at any time and will always be assured of receiving the requested product.

For these reasons, the change was made to the typical promotional currency structure by not allowing redemption at the issuing company.

A reason not provided by the interviewees but which crystallised out of on-site observations is that using own products may lead to bargain loyalty. One of the challenges of creating loyalty with customers is that they can become bargain loyal rather than brand loyal, with bargain loyalty resulting in always shopping around for and switching to the cheapest deal. Bargain loyalty is enforced if rewards are redeemed at the issuing company against the same products on which the rewards were initially earned, therefore providing customers in effect with deferred discounts. Because eBucks were not redeemed against the companies' own products, the eBucks programme is not viewed as delivering deferred discounts, and is therefore not structured to drive bargain loyalty, but rather to drive sustainable loyalty.

6.3.3 Difference: No points expiry

Typical characteristics of a real currency include non-expiry, fungibility and transferability to other people (even if after death). Because the eBucks team wants to enforce the concept of a 'currency', eBucks never expire. By doing this, the eBucks programme sends out the message that they are rewarding customers for their loyalty to the Earn Partners in real, tangible ways, without removing the reward if not used immediately.

Another reason relates to differentiation. A typical characteristic of a promotional currency programme (and in fact, almost all loyalty programmes) is that points expire after a pre-determined period of time. (This concept of point expiry is typically referred to as 'breakage'.) Most customers are frustrated with their points expiring on loyalty programmes. Non-expiry of points on the eBucks programme therefore provides a strong differentiator from other loyalty programmes.

And lastly, non-expiry increases stickiness. Customers may consider leaving the programme (and therefore the Earn Partners) once their points start expiring. By not letting the points expire, it therefore creates additional stickiness to the programme and to the Earn Partners.

6.3.4 Difference: Transferability

Linked to the concept of breakage, is the concept of members being able to pool their points by transferring points from one member to another. Most promotional currency programmes do not allow members to combine their points, since that will lead to lower breakage: if members that will never earn enough to redeem their points against a product can pool their points with other similar low-earning members they will be able to redeem their combined points against a low-cost product. By not being able to combine points, these points are typically ageing at a rate where they expire before they can be used, therefore leading to further breakage. This leads to further customer disillusionment, which the eBucks team wants to prevent.

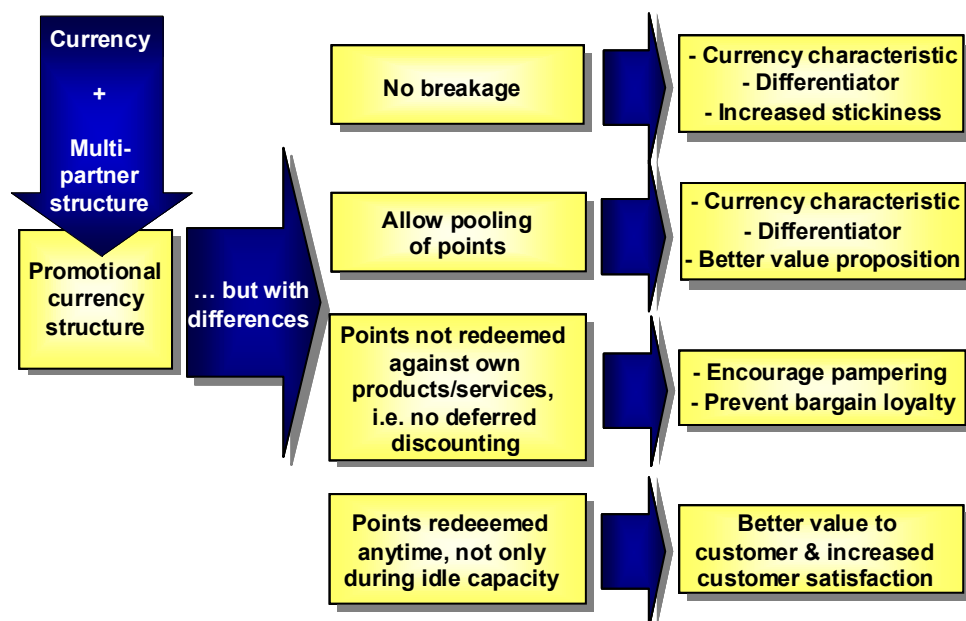
The eBucks programme allows for the transferring and pooling of points without any service charges levied on this activity. The reason why transfers are allowed is that it adds to the value proposition to members and provides a strong differentiator against other loyalty programmes. It also triggers members to encourage friends and family to join.

6.3.5 Summarising the reasons for and differences from a promotional currency structure

In conclusion, a promotional currency structure was chosen to enforce the concept of a currency and to ensure that redemption opportunities drive the desire to earn which in turn drives the right behaviour at Earn Partners. The multi-partner structure which makes it difficult to use tiers, also drove the decision to use a promotional currency structure.

Some distinct differences were implemented to ensure that the eBucks programme enforced the concept of a currency and that it is differentiated from other loyalty programmes, as well as to ensure that it leads to increased stickiness and customer satisfaction. This is illustrated below.

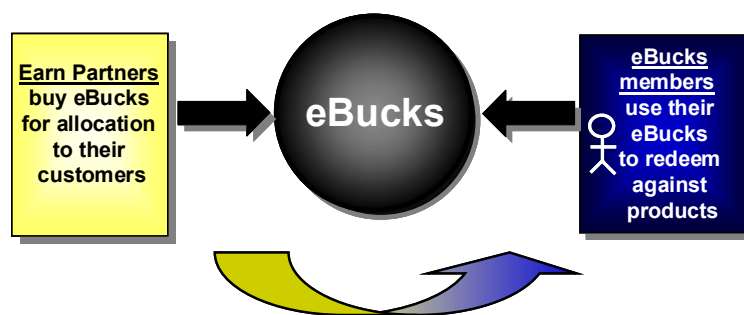
Figure 24: Differences between the eBucks programme and a promotional currency programme, and the reasons for such differences



6.4 Value of the programme to participants

There are various participants in the eBucks programme – members (individuals that earn eBucks for certain activities at Earn Partners where they are customers) and Earn Partners (businesses that award eBucks to their customers).

Figure 25: The two groups of eBucks participants



The eBucks programme is designed to ensure that both groups receive value from belonging to the programme. As an analyst from JP Morgan, Jacques Badenhorst, put it: “eBucks is one of the few [programmes] ...that offer potential to add value to customers as well as shareholders” (Kast, 2002:2). The value to Earn Partners was discussed in chapter 5. The value to members is described in this section.

Previously a framework developed by O’Malley (1998) that defines the value of a loyalty programme to customers, was described. Although this framework was not specifically used as the basis for structuring the eBucks programme, the eBucks team uses similar objectives to define the value that the eBucks programme provides to members. The eBucks objectives are: the eBucks programme has to be aspirational; it has to offer substantial rewards; it has to provide a great customer experience and it has to offer a wide range of rewards. These four objectives are used to structure this discussion on the way in which the eBucks programme is designed to ensure value to members.

6.4.1 Substance of rewards

The substance of rewards relates to the cash value and relevance of rewards (both in terms of earn and spend opportunities), as well as the range of opportunities available to earn rewards on.

For example, it includes how much the eBucks allocated to the member represent as a proportion of what was spent by the member to receive the eBucks, as well as the amount of these eBucks then needed to redeem against a redemption offering. The eBucks programme follows a principle of allowing each Earn Partner to design its own earn rules that best reflect the unique environment of the Earn Partner. This has led to some significant differences in earn rules between the various Earn Partners, making it difficult for the eBucks programme to ensure that there is a consistent percentage of spend given back in rewards.

An example of the value provided to members comes from a quick calculation of the eBucks rewarded for using an FNB credit card and then the spending of those eBucks on a representative sample of goods in the eBucks Shop. The reward will be worth between one and two percent of expenditure on the credit card, which is better than most other credit card rewards in South Africa.

However some of the eBucks Earn Partners do not provide competitive rewards. Some of these Earn Partners are revisiting their current earn rules – in fact, the revisiting of earn rules remains a continuous process within the eBucks programme to ensure that the programme remains relevant to members.

The 'substance of rewards' measure also includes the variety of opportunities available for members to earn on. A single-partner structure where members can only earn from one company, provides much less opportunities for earning than a multi-partner structure. In the case of eBucks, members can earn from most of their financial transactions, which typically represent a large share of wallet for

the member. Once members have used their credit cards and cheque accounts and have paid their home loans and asset finance, a large proportion of the monthly expenses have been covered and they would have received eBucks on all of these activities. As one interviewee explained:

The typical customer in our target market ... is going to have vehicle finance, is going to have a cellphone, will live in a house that is potentially mortgaged, is going to have one or more [credit cards] and is going to have a cheque account, so how does one get compensated for what one has to do anyway? ... Whether you like it or not, very few people are not reliant on these types of financial services and if we can do something for them in return, why not? And if it helps differentiate us from our competitors, even better. ... But the offering must be all encompassing.

Since most of these activities do not require members to do so much different from what would have been done anyway (except choosing which company's product to use), it makes the earning process easy and effortless. The eBucks programme therefore provides a substantial ability for a member to earn eBucks. An independent survey of South African loyalty programmes (Conradie & Goldstuck, 2003) rated the eBucks programme the highest in terms of the range of earn opportunities.

This 'substance of rewards' measure also includes the extent to which rewards are achievable by members, i.e. whether it is possible for a member that is viewed as valuable or profitable by Earn Partners to achieve certain levels of redemption. It must be noted that the programme will never be relevant to the total population, since the focus is specifically on rewarding profitable (and therefore behaviourally loyal) customers. Most Earn Partners have found that the penetration of eBucks membership into their customer bases is at its highest in their higher value customer segments.

Figure 26: eBucks members as a percentage of total base for Earn Partner J

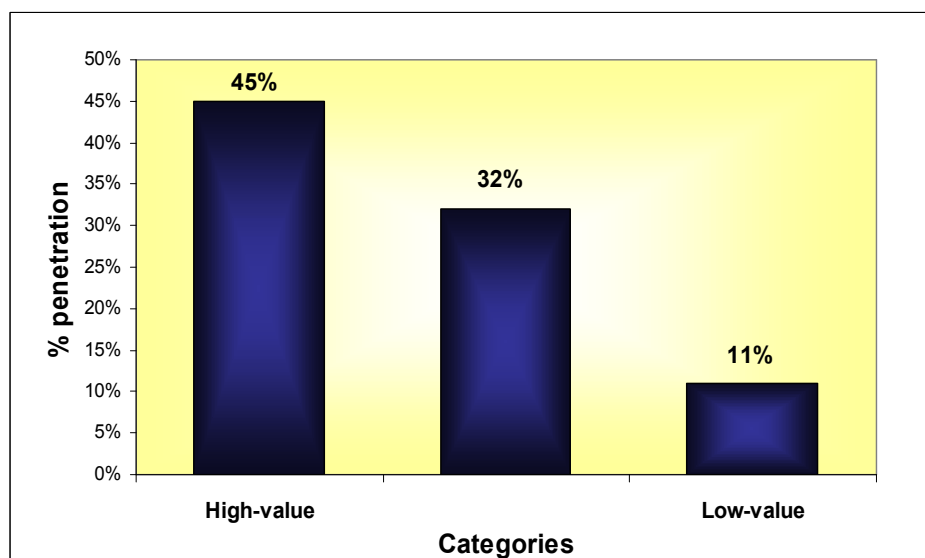
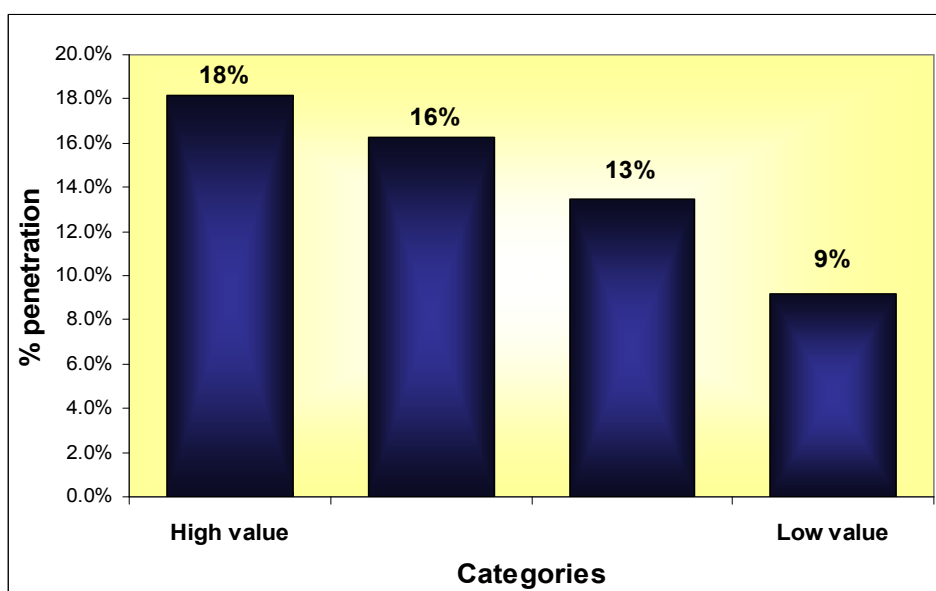


Figure 27: eBucks members as a percentage of total base for Earn Partner K



These penetration levels might appear low, but benchmarks indicate that typically a loyalty programme will have about 40% penetration into the total customer base. One interviewee explained:

To some customers rewards are everything, but some are cynical ... perhaps because they have been burnt by some of the other programmes. ... You will never get all customers excited about a rewards programme.

Although certain thresholds are in place, such as a minimum of R1 750 spend on an FNB credit card or a minimum of 100 minutes/SMS on an MTN contract or a minimum of 10 debit transactions on your FNB cheque account, these thresholds are achievable for the customer base that the eBucks programme is specifically aimed at.

Another aspect of 'substance of rewards', is the transparency and simplicity of earn rules. A way in which the eBucks programmes strives to simplify the eBucks rewarded to members is to remove the complexity typically associated with understanding the value of a point. In most frequent flyer programmes it is almost impossible for a member to tie the original spend at the airline back to the actual value received once the reward is redeemed. The eBucks programme simplifies this by pegging the value of an eBuck to the Rand, with eB10 = R1 (i.e. eB1 = 10c). This makes it easier for members to understand the value of rewards that they receive for their custom and thereby are able to value the substance of the eBucks programme. On team member explained: "We cut to the chase and eliminate the smoke screens ... in the end openness drives trust".

6.4.2 Wide range of redemption options

eBucks is unique in that it wants members to spend their eBucks, as opposed to most other programmes that would prefer points not to be used so that they can expire. This 'spend' drive by the eBucks programme is partly because there is no breakage, but also because the eBucks team strongly believes that it is only when people start spending their eBucks that it starts driving the desire to earn more eBucks, which in turn leads to increased profitable behaviour at the Earn

Partners. In addition, spending of eBucks is seen as the only way in which members will start experiencing the real benefits of the eBucks programme. When the eBucks programme started, the focus was more on launching and refining the earn side of the business. However, as that became more bedded down and members started accruing more eBucks in their accounts, the focus has shifted to focus on spend as well.

The team explained that the spend experience is defined in terms of variety, price and availability:

We took the customers into consideration and said 'how best can we satisfy the customer' – with too many loyalty programmes you are confined to spending your points in only one place.

The redemption opportunities range from high value to low value items, allowing all eBucks members to spend their eBucks as determined by their eBucks account balances.

There are various ways in which members can spend their eBucks. There are over 750 products on offer in the eBucks Shop, which members can choose to redeem their eBucks against. These products can be accessed either online or via the contact centre. If members cannot find the required product in the eBucks Shop, a simple click-through to the eBucks Internet Payment Solution allows them to buy directly at any one of the thirteen online merchants. Members can use their eBucks to shop at these online merchants.

If members are interested in redeeming their eBucks against travel (air travel, car rental, accommodation, etc.) they can call the eBucks travel desk for a booking that is paid for in eBucks. The eBucks programme negotiates discounts with certain airlines, car rental companies and hotel chains, but can also make

bookings for clients at any hotel/airline of the member's choice, although not necessarily at a discount.

There is therefore a wide variety of products against which eBucks members can redeem their eBucks. There is a significant focus on ensuring this wide variety of redemption options, since the structure of the eBucks programme is such that redemption options determine members' earn behaviour, which drives profitability at the Earn Partners.

The same independent survey of South African loyalty programmes (Conradie & Goldstuck, 2003) rated the eBucks programme among the highest in terms of the range of spend opportunities.

Unfortunately there are not many real-world spend opportunities; for example members cannot spend their eBucks in 'bricks and mortar' stores without first buying a voucher through the web site or the contact centre – an aspect that is starting to receive significant attention. Note also that the eBucks programme does not offer discounted memberships to gyms, etc. There are specific reasons for this, such as not wanting to position the eBucks programme as a 'discount programme' but rather as a rewards programme. Further reasons are discussed in the next chapter.

6.4.3 Aspirational value

This aspect of value refers to how much the customer wants membership to the programme and wants the subsequent rewards. The eBucks programme aims to ensure that the redemption opportunities are as aspirational as possible (while still affordable). The ability to appeal to members, to differentiate the eBucks programme, to provide a good customer experience and to offer monthly specially selected limited 'spendsations' at huge discounts are seen as critical.

Value-added offerings on top of the ordered product, superior service in delivery and attention to detail are also seen as critical to ensure aspirational value. The team feels that “it is our job to make eBucks as aspirational as we can, so that we can convince those that sit on the fence to swing towards the programme”. The aspirational value of eBucks will however only be realised once members redeem eBucks and will unfortunately not be visible to those members never redeeming their eBucks.

The independent survey of South African loyalty programmes (Conradie & Goldstuck, 2003) rated the eBucks programme among the highest in terms of the ‘pamper appeal’ of the redemption options on the eBucks programme. In support of this, one interviewee from within the eBucks team stated: “At the end of the day we are here to listen to and give our customers what they want” while another said that “passion, perseverance, and listening to customer needs” are one of their current focus points.

However, the same survey rated the eBucks programme amongst the lowest in terms of other (non-redemption-related) value-added options that are available to members and the subsequent prestige and status of the programme. These aspects are typically more associated with club-type programmes, which are discussed in section 7.1.

The programme also strives to be aspirational in terms of the brand. There were initial concerns when eBucks launched, to be so closely associated with the FNB brand at that stage in the FNB brand’s lifecycle. The FNB brand has however been substantially revamped and is therefore not of concern any more. The role of PR in making the programme more aspirational to customers was never underestimated and has always played a central role in this regard. The art of being able to spot trends in different segments and then targeting communications accordingly was viewed as essential. One team member

explained: “It was not just a science ... it was a lot about intuition, understanding of the customer and building the brand”.

The aspirational value of the programme is therefore a major focus area. The programme also has to be aspirational in terms of the customer experience.

6.4.4 Great customer experience

This refers to the ease of participation in the programme as well as customer satisfaction when redeeming a reward or having a query. The eBucks team believes:

Customer experience is key – the initial experience of the customer is key in determining repeat purchases or visits to the website.

The channels and forms of communication currently available to the customer are:

- the eBucks website (www.eBucks.com);
- the contact centre that handles calls, emails and faxes, where a member can choose either to speak to a consultant or use the interactive voice response (IVR), with the IVR also having a fax-back facility; and
- a comprehensive ‘welcome-aboard’ pack sent out when joining the programme as well as regular eZines (electronic magazines) and offline newsletters.

Unfortunately the quality of the customer experience across the various channels varies.

Good website. The web site is viewed by most as easy-to-navigate, user-friendly and secure. Security is done through proprietary encryption and secure socket layer (SSL) protocol, with site authentication by VeriSign. There are certain groups of members that find the website difficult to use, but these members are almost unfailingly in those segments that are not computer-literate and often do not even have email addresses.

Good delivery experience. The eBucks team felt that “fulfilment is part of our business ... without which we will fall flat ... it should be a superior experience”. When eBucks are redeemed against a product, the order is delivered without any additional charges for delivery and insurance, and within a maximum of 36 hours for small items and within five working days for large items. The packaging of items also receives special attention to ensure that the eBucks brand is consistently displayed. The eBucks team feels that the experiences before, during and after the redemption of a reward are critical elements to ensure a great customer experience. Value-added services are used to differentiate from other offerings, but are kept simple and practical. However, this is balanced with the costs involved. As with any delivery offering, some problems are also experienced at times, which means that the eBucks team is constantly looking for the best service provider and enforces stringent service level agreements.

Less than optimal contact centre experience. The customer service at the eBucks contact centre is not one of the programme’s strongest features and is in the process of being improved. Part of the reason for the inconsistent service levels, is the fast growth of the member base. Another reason is the diverse needs of members, which require the eBucks programme to cater for a range of service requirements. Yet another reason for the less-than-optimal service, is that the eBucks team initially underestimated the amount of telephonic support that their members would need. The contact centre uses an 083-number,

charged at normal cellular rates, which also impacts negatively on the customer experience (but which is currently in the process of being revisited).

Good customer communications. When members join the eBucks programme, they receive a well-laid out and comprehensive welcome-aboard pack. Monthly communications to members are succinct, interesting and value-adding.

Although the team views customer experience to be of high importance and generally adheres to that, the contact centre is one of the areas not yet providing the right value to members.

The same independent survey of South African loyalty programmes (Conradie & Goldstuck, 2003) rated the eBucks programme in line with other loyalty programmes in terms of programme simplicity, documentation clarity and quality, range and type of interaction channels, ease of making a redemption purchase and members' time and effort required. Given the context that most loyalty programmes focus their effort on ensuring that these aspects are adhered to, this is not disturbing at all, although the team will still prefer to stand out from the pack on this.

6.4.5 Summarising the value of the programme to members

The eBucks programme has specifically been structured to ensure that it adheres to their four principles of value to the member: substance of rewards, range of redemption options, aspirational nature and great customer experience.

The substance of rewards and the range of redemption options are very strong characteristics of the programme. The customer experience (specifically related to the contact centre) and the aspirational nature of the programme (specifically in terms of value-added offerings) are sub-optimal. The customer experience is in the process of being revamped, while the aspirational nature of the

programme has to be viewed within the context of the specific customer base targeted by the eBucks programme and the specific structure chosen (not a club). This is further complicated by having widely-differing customer bases belonging to the various Earn Partners on the eBucks programme.

The value of the programme to members is a critical aspect of any loyalty programme and is a strong characteristic of the eBucks programme. Another key characteristic of the eBucks programme is the extent to which it is integrated into its Earn Partners. This is addressed in the next section.

6.5 Integration into businesses of Earn Partners

6.5.1 Top leadership commitment

The support of top leadership, and specifically the support of Paul Harris (CEO of FirstRand Bank), has played a key role in implementing the eBucks programme. The idea for the programme originated with Paul Harris and he was a major driver in putting the team together, assisting the team with getting buy-in from the other areas of the business, and assisting in explaining the value proposition to other shareholders, stakeholders and potential Earn Partners. One interviewee indicated that “we have been very fortunate ... [Paul] has been one of the single most important contributors to our success” while another said that “...without Paul’s unwavering support, it would have been so easy for this to fail”.

Paul Harris, Laurie Dippenaar (CEO of FirstRand group), Wendy Lucas-Bull (CEO of FirstRand Retail), Viv Bartlett (Deputy CEO of FirstRand Bank), Adrian Arnott (FirstRand Company Secretary) and the rest of the top leadership team at FirstRand understood that the eBucks programme needed at least three years to become profitable and they did not expect profitable results earlier than that. In addition, no immediate changes in customer behaviour were expected until 18

months after the programme was launched. This meant that the eBucks team was given the breathing space to build the programme and to implement strategies that could lead to longer-term results, rather than immediate (but not sustainable) results. Despite this understanding, FirstRand still had hoped to achieve results faster, but nobody anticipated the amount of work that was needed to build the programme.

6.5.2 Support from Earn Partners

There was initial scepticism from many of the Earn Partners. One team member explained: “On a scale of zero to ten, we probably started at two, people didn’t buy into this concept”. Owing to the tight deadlines the eBucks team was working to, the eBucks team could not spend much time with the Earn Partners initially, which made it difficult to explain the concept in detail and gain support. It was therefore decreed by Paul Harris during the initial stages, that the eBucks programme was the only allowable loyalty programme in the group apart from Vitality (the already-established loyalty programme for Discovery, the medical aid company within the FirstRand group), unless very good reasons could be provided.

Despite this decree, the top leadership of these Earn Partners soon understood that they had to give the eBucks programme enough time to start impacting on customer behaviour and Earn Partners’ own profitability. These Earn Partners also started understanding the real value of having a loyalty programme. This was evident from the comments that were made and formed the basis for the discussion in chapter 5. As one interviewee said:

It was a slow process, it was one thing them saying that they understand it and another for them to actually understand it ... it has taken us two years to effectively integrate into the organisation and for them to see the wows.

The top leadership of the various Earn Partners specifically started understanding the role that loyalty played in profitability and that, although the eBucks programme initially required an investment, that the results would be significant in the long-term.

When the eBucks programme turned into a successful business with substantial impact on the profitability of most Earn Partners, the support from most of the Earn Partners started increasing substantially. The situation now is such that most Earn Partners support the eBucks programme very strongly, with comments from the eBucks team indicating that:

Earn Partners are critical to the success of the eBucks programme ... this programme would not exist if it weren't for the Earn Partners and their support.

Having said that, it was felt by some interviewees that:

One of the biggest tasks that we had was to prove to our partners the existing and future value we were adding ... there is lots of support but there are also still sceptics out there.

Support from Earn Partners was mentioned as critical to the subsequent success of the eBucks programme by almost all eBucks team members. Top leadership support – both from FirstRand group level and from the Earn Partners – added an important dimension to the structure of the eBucks programme.

6.5.3 Integration into corporate strategy

Because of Paul Harris's support, as well as the later support from the top leadership of the Earn Partners, the eBucks programme is integrated into various aspects of corporate strategy and the strategies of the various Earn Partners.

Right from inception of the eBucks programme, it has formed part of the corporate strategy of the FirstRand group. Analyst presentations in the period from before the launch of the eBucks programme to about two years after launch, prominently featured the eBucks programme and its strategic role in the bigger group. The latest financial results of FirstRand released in September 2003 once again mentioned the eBucks programme:

Companies such as ... eBucks ... which are all entrepreneurial, new ventures started in the last ten years, are expected to continue to grow strongly and provide a meaningful enhancement to the Group's overall earnings growth rate (FirstRand, 2003b:11).

The eBucks programme is a separate business within FirstRand Bank and is not hidden away in a marketing area, as is often the case with loyalty programmes in most companies. Paul Harris said that: "It was quite controversial when launched but we always considered it central to our strategy", while another interviewee stated that "we had to ensure that all understood [eBucks was] a serious player".

6.5.4 Integration into marketing initiatives

To ensure that members do not become more loyal to the eBucks programme instead of to the Earn Partners allocating the eBucks and originally owning the customer, there is close integration between the eBucks programme and the respective Earn Partners. As the eBucks team explained to Earn Partners:

It is your rewards programme ... we are here to help with economies of scale and to help manage the process but in the end you have to help drive this.

Someone else phrased it as "we are merely a tool in our Earn Partners' hands". This integration includes marketing, advertising and PR initiatives, as well as

nation-wide road shows and staff initiatives. This integration ensures that the eBucks programme does not operate in isolation from the Earn Partners.

Although some Earn Partners still view the allocation of eBucks as a straightforward expense, most Earn Partners do not view the eBucks programme as such, but typically include the impact of the eBucks programme in their financial models. This is because of the impact that the eBucks programme has on profitability by driving the right behaviour and increasing customer retention.

6.5.5 Integration into internet banking initiative

The eBucks programme was formed at the height of the dot.com bubble, with the initial purpose of the eBucks programme being FirstRand's eCommerce strategy. As outlined earlier in section 4.2, the eBucks loyalty programme and the FirstRand eCommerce initiative were therefore combined into a single initiative.

Integration into online initiatives has the advantage that the eBucks loyalty programme allows members to access their eBucks statements whenever they want to; to change their personal details; to link their existing accounts on which they want to earn eBucks; to order rewards or to spend online. This provides convenience to members and provides eBucks with the opportunity to collect member data that allows for customisation of the experience. It also allows for more regular communications.

Although the eBucks programme was started as an eCommerce initiative, the member base of the loyalty programme is almost equally split between online and offline users. The eBucks programme has discovered that their online users typically spend more of their eBucks than the offline members and are also in the more profitable band of FirstRand customers. There is therefore a strong drive towards acquiring more online members as well as towards switching more members from offline to online.

In line with what was found in literature (Fisher, 2001), the fact that the eBucks loyalty programme is integrated with the internet initiative, provides the eBucks programme with some excellent opportunities for success.

6.5.6 Summarising the integration of eBucks into the business

In summary, the eBucks programme does not operate in isolation and has significant top leadership commitment – both from FirstRand and each of the Earn Partners. It is also integrated into the corporate strategy, marketing efforts and Internet initiative of FirstRand and the Earn Partners.

Reasons for integrating the programme in this way are that eBucks members have to remain loyal to the Earn Partners of which they are the original customer, instead of switching loyalty to the eBucks programme; that the eBucks programme impacts on profitability and therefore has to be incorporated into the various strategies; and that top leadership support was initially required to ensure the successful launch of the eBucks programme in a group that was not initially convinced of the future success of the eBucks programme and the impact on their respective bottom lines.

6.6 Structured for competitive advantage

It is essential for a loyalty programme to be structured in such a way as to have competitive advantage against other loyalty programmes. This ensures that the loyalty programme, in this case eBucks, will continue to provide benefits to its Earn Partners. There are various ways in which competitive advantage can be achieved – the value provided to members is one way and was discussed in section 0. The other ways in which competitive advantage has been achieved by the eBucks programme are highlighted below.

6.6.1 First-to-market?

The eBucks programme could not gain competitive advantage by being first in the market to launch a loyalty programme in the financial services industry. The Standard Bank Accolades programme was launched and failed, after which clients were migrated to the Voyager loyalty programme; ABSA launched a rewards programme on their credit card; FNB Card launched two previous programmes; American Express had their Membership Rewards programme in place; both Standard Bank and Nedcor rewarded customers with Voyager (and later also BA) miles for credit card spend; Standard Bank also had their Bluebean initiative; Investec launched their Dividends programme and so the list continues.

The eBucks programme could therefore not gain competitive advantage by being first-to-market in the loyalty space, even though that would have been an unsustainable advantage due to other competitors soon following suit. It was however first-to-market in providing a multi-partner loyalty programme tied in with an online portal and offering an 'electronic currency'.

Some of the Earn Partners within the eBucks programme were first to market though in their specific industry sectors – most notably MTN within the South African environment and FNB Cheque accounts who are the only in South Africa to reward for cheque account usage.

First-to-market in itself does not provide a sustainable competitive advantage. It does however allow the front-runner time to gain competitive advantage in other ways, such as the building of critical mass.

6.6.2 Critical mass

The eBucks team has focused its main competitive advantage on reaching critical mass as soon as possible. With the migration of FNB Card's AirMiles programme in October 2000 and MTN's CallAwards programme in October 2001, the eBucks programme took the first steps towards critical mass and therefore did not have to start from a zero base. The eBucks programme currently has 610 000 members (August 2003), which will be difficult for any other company starting from scratch to copy, unless at huge cost.

The eBucks team believes that it is inevitable that other financial services competitors will also launch such programmes. Most interviewees agreed with the view from FirstRand top leadership that "critical mass and being the dominant player ... with not enough space left in the market" prevents any competing programme from achieving the same success in the same target market.

6.6.3 Complexity of design of multi-partner programmes

The eBucks programme was one of the first multi-partner loyalty programmes in the financial services sector. It is very hard to build a multi-partner programme and any company planning to do that will have to spend significant time and money in designing and building such a programme. The eBucks team feels that "multi-partner programmes are hard to build ... never underestimate that". This provides further competitive advantage and a barrier to any other financial services competitors that want to launch a similar programme.

6.6.4 Integration with internet banking initiative

As discussed earlier, an additional differentiation is that the loyalty programme is integrated with FirstRand's internet initiative. It will be very difficult for compe-

titors to copy and add another dimension to what can otherwise just be a straight-forward loyalty programme.

6.6.5 A team of strong people

The people selected to create and subsequently run the eBucks programme are of exceptionally high calibre, described by one interviewee as “passionate, knowledgeable, flexible, committed” and by another as “young, dynamic, vibrant, entrepreneurial”. It is generally felt that “it is about the people... they made this work” – both top leadership within FirstRand but also the people that they employed. A great deal of emphasis has been placed on finding the right people to form the eBucks team, both at the start and afterwards.

The team consists of entrepreneurs who are then given the necessary space and autonomy to run with the programme. The freedom given to the team by top leadership is highly appreciated by the team, as described by one team member:

We will always be indebted to Paul [Harris] and Michael [Jordaan], they are incredibly good to us ... they give us the opportunity to prove our worth and to do what we really want to do.

The team learn a lot from one another as well and feel that “we have done an incredible job in a very short space of time and we are proud of it ... we drive ourselves incredibly hard”. This strong people aspect is viewed by many as one of the key reasons (along with top leadership commitment) why the programme succeeded and why it would be difficult for any competitor to launch a similar programme with such success: “The passion in this team is unrivalled ... the intrinsic bond... is something I have never seen before ... it is very powerful”, said one team member.

6.6.6 Summarising the competitive advantage of the eBucks programme

The eBucks programme could not gain competitive advantage by being first in the market to launch a loyalty programme in the financial services industry, even though that would have been an unsustainable advantage due to other competitors soon following suit. Competitive advantage has been achieved through building significant critical mass (610 000 members by August 2003). The building of critical mass was partly due to the multi-partner structure. In addition, the complexity and time and costs involved in building a multi-partner programme makes it incredibly difficult to copy. The integration into the internet banking initiative adds further competitive advantage.

The support of top leadership and the quality of the team are seen as critical to the success of the programme and factors that are almost impossible to copy in any other financial institution in South Africa, therefore providing further competitive advantage.

One aspect that makes it difficult to compare different loyalty programmes and therefore determine competitive advantage among loyalty programmes, is that every loyalty programme resides in a unique business environment.

6.7 Reflecting its unique environment

Palmer *et al* (2000a) found that, for a loyalty programme to achieve true benefits, it must reflect its unique environment. The eBucks programme very much reflects its unique environment. Firstly, this is reflected in the way the earn rules are structured. Various issues have been discussed in the report around the designing of the eBucks earn rules to reflect the unique business environment of each Earn Partner. This is mostly centred around the unique profitability drivers of each business.

The second way in which the eBucks programme reflects its unique environment, is the embracing of the FirstRand philosophy that views the group as a federation of businesses. This calls for a multi-partner structure, since a single-partner structure will only work if the same brand is used across the group – which is typical of some of the other current big banking groups in South Africa. The FirstRand philosophy also means that a profit centre (instead of cost centre) structure has been used.

6.8 Tying the various structural elements together

The two most prominent structural elements of the eBucks rewards programme are the multiple partners and the promotional currency structure. These decisions were not lightly taken by the eBucks team as there are very specific reasons for this: benefits to customers include accelerated earning as well as a strong value proposition, while benefits to Earn Partners include quick building of critical mass with subsequent stickiness, as well as lower costs. The promotional currency structure enforces the characteristics of a real-world currency and provides some specific distinctions from competitors.

Additional characteristics of the structure are that the eBucks programme:

- is structured as a profit centre instead of a cost centre, based on the FirstRand philosophy but also because of the multi-partner structure;
- follows four distinctly articulated principles to ensure value to members (substance of rewards; wide range of redemption options; aspirational value and great customer experience), although not all four principles are currently as strongly adhered to;
- has extremely strong top leadership and Earn Partner commitment, cited as one of the main reasons why the programme succeeded;

- is structured to be integrated into the corporate strategy and marketing efforts of FirstRand and each of the Earn Partners, specifically to impact on the bottom line of the various Earn Partners and to ensure that customers do not shift their loyalty from the Earn Partner to the eBucks programme;
- is very specifically integrated into the online initiative of FirstRand to ensure better communications and customer convenience;
- is structured for competitive advantage through the fast gaining of critical mass and complexity of developing the programme, as well as by staffing the team with high calibre people; and
- reflects the unique environment of the eBucks programme and of FirstRand.

6.9 Answers that emerge for research questions two and three

This chapter provided answers to research questions two and three, describing the structural elements that were used in the eBucks programme and the reasons why these structural elements were chosen. The answers for the second research question, 'Which structural elements were used in the eBucks loyalty programme?' and third research question, 'Why were these specific structural elements chosen?' that have emerged, are summarised below.

Table 3: Summary of answers to research questions two and three

Structural element	Reasons why chosen
Multi-partner structure (Section 6.1)	Customer value proposition: ▪ Accelerated earning through multiple earn opportunities Benefits to Earn Partners: ▪ Quick building of critical mass ▪ Access to a potential base of loyal members ▪ Subsequent stickiness of members ▪ Lower costs
Structured as a profit centre (Section 6.2)	▪ FirstRand philosophy ▪ Multi-partner structure requiring equitable costs
Promotional currency structure (Section 6.3)	▪ Enforcing the perception of a currency ▪ Redemption opportunities driving the desire to earn and therefore exhibiting the right behaviour at Earn Partners ▪ Potential customer confusion when club tiers do not match with product tiers ▪ Complexity of establishing tiers among all Earn Partners
...but with some differences: ▪ Redemption opportunities not at own companies ▪ Points redeemed any time, not only during idle capacity ▪ No breakage ▪ Pooling of points	... reasons for differences: ▪ Increasing the pamper value ▪ Driving brand loyalty , rather than bargain loyalty ▪ Better value proposition ▪ Better customer experience ▪ Differentiator (countering customer frustrations) ▪ Currency characteristic ▪ Increased stickiness ▪ Differentiator ▪ Currency characteristic ▪ Better value proposition
Four principles ensure value to members (substance of rewards, range of redemption options, aspirational value, customer experience) (Section 0)	▪ Literature (O'Malley, 1998 and Tzimas, 2002) and common sense requiring that a loyalty programme must be structured to provide value to the customer ▪ Four factors chosen were those which the eBucks team felt were most important

Structural element	Reasons why chosen
Integration into businesses of Earn Partners (Section 6.5)	
Type of integration	Reason for integration
Extremely strong top leadership commitment	- Overcoming initial scepticism - Allowing for an initial profit holiday
Strong Earn Partner support	Critical to the success of the eBucks programme
Integrated into corporate strategy and marketing efforts of various Earn Partners and FirstRand	- Directly impacting on bottom line of Earn Partners - Not enticing customers to transfer loyalty from Earn Partners to the eBucks programme
Integrated into online initiatives	Better communications and customer convenience
Competitive advantage (fast gaining of critical mass, complexity in development, strong people on team) (Section 6.6)	- Prevents copying and overtaking by competitors - Will become a financial drain on Earn Partners if no competitive advantage achieved – critical to ensure sustainable impact on Earn Partners
Reflect unique environment (earn rules tied to profit drivers, servicing a federation of businesses, profit centre) (Section 6.7)	Literature (Lovelock, 1983 and Palmer <i>et al</i>, 2000a) stating that a loyalty programme must reflect its unique business environment

These various structural elements form the framework within which the eBucks programme has been created and which Earn Partners have found attractive enough to join.

6.10 Conclusion

Both the multi-partner structural element and the promotional currency structural element are not in line with what was found in literature. Duffy (1998), Beckett *et al* (2000) and Kotler (2000) explained why a pure promotional currency structure would not create desired loyalty, while nothing could be found in peer review

journals on multi-partner structures. Yet there are very compelling and specific reasons why these two structural elements were chosen by the eBucks team.

This illustrates what was mentioned in literature (Dick & Basu, 1994; Palmer, 1996 and O'Malley, 1998) – that there is so much confusion around the different interpretations of loyalty and how it can be engendered that it is almost impossible to find a definitive answer. It also again provides an example of the principle of dialogical reasoning and illustrates the emergent nature of this type of research. The differences from the literature review has forced the researcher to abandon some of the initial ideas around the structural elements needed to create a successful loyalty programme.

Note though that not all initial ideas had to be abandoned, only a few select elements. Some of the other structural elements are very much in line with literature. Structuring the eBucks programme in such a way that it provides value to members (O'Malley, 1998 and Tzimas, 2002) and the structuring of the eBucks programme to reflect its unique business environment (Lovelock, 1983 and Palmer *et al*, 2000a) are examples of structural elements uncovered during the research process at eBucks that are in line with literature. The integration of the eBucks programme into the corporate strategy and other initiatives of the Earn Partners also echoes what literature suggests (Gould, 1995; O'Malley, 1998; Dawes & Swailes, 1999; Fisher, 2001 and Finnie & Randall, 2002).

The next chapter specifically discusses those structural elements that were not chosen, yet were indicated in literature as important elements of a loyalty programme.

7. REASONS FOR NOT CHOOSING OTHER STRUCTURAL ELEMENTS

This chapter deals with the outcome of the research as it relates to the fourth research question: 'Why were the other structural elements not chosen?'. This completes the addressing of the second sub-problem 'To determine how a loyalty programme at a financial institution has been structured'.

As was found with the previous two research questions, since discussions were mainly directed into any areas of interest, the same aspects were not discussed by all interviewees. As per the previous chapter, Earn Partners that joined the programme after launch and therefore did not have much to do with the creation of the programme, could not provide much input on the reasons for not choosing certain structural elements. These answers were mostly provided by people from within the eBucks team. Those that joined afterwards did however provide reasons why they thought these structural elements were not of value to them. Once again data source triangulation was used in certain instances to ensure that a consistent, accurate view was obtained.

7.1 Reason for not being closer to a typical club structure

One of the deductions from the literature research was that a successful loyalty programme cannot be in the form of only a promotional currency programme, for various reasons as provided in the literature review (Duffy, 1998; Beckett *et al*, 2000 and Kotler, 2000). The eBucks structure is relatively close to a promotional currency structure, with a few distinct differences as outlined in section 6.3.

There are specific reasons though for not choosing a club structure. These reasons manifested in certain structural design elements of the eBucks

programme. These design elements and the reasons for implementing them as opposed to the typical club elements, are discussed below.

7.1.1 Tier structure

In the typical club structure, tiers act as an incentive where an increase in good behaviour leads to a subsequent progression through the tiers and therefore to an increase in status. This is typically done by awarding points for the right behaviour, with each tier having a certain point threshold. As a member's tier status increases, better benefits become available. In the eBucks programme no pre-determined tiers are provided to indicate status levels. However, the very nature of the programme does lend itself to an infinitely tiered status, as outlined below.

The number of eBucks in a member's account determines access to products that can be bought in the eBucks Shop, through the eBucks Internet Payment Solution or can be booked through the eBucks Travel Desk. If the customer does not have enough eBucks, a ZAR top-up facility from the member's FNB cheque account is available to top-up the existing eBucks balance to the amount required to purchase the product or service (with a 2% commission being charged). Since the initial eBucks in the member's account are not paid for by the client but are received 'free', this in fact represents a discount to the client that he does not have to pay to obtain the product. This implies that people with high eBucks balances have access to more expensive products or to normal products at a much better 'discount'. In that sense it provides relatively similar benefits to a club, but within an infinite number of tiers, although the eBucks programme does not appear on the surface to have a club structure.

The reason therefore that the eBucks programme does not use a pre-determined tier structure, is that it was felt that the redemption of eBucks as well as the concomitant availability of top-up in ZAR provides a much better tiered structure

– unique to each individual – than a club can do. This design does not, however, create the perception of value-added offerings that clubs typically project.

7.1.2 Limitation of membership

The more membership to a loyalty programme is limited, the stronger the perception that the programme is aspirational and the more powerful it is as a long-term relationship and loyalty builder. The membership limitation to the eBucks programme is through the capacity that a member has to earn eBucks. Since members only earn if they are customers of one of the Earn Partners, and even then in some instances only if they are valuable enough to that Earn Partner (i.e. above a certain threshold of activity), some form of exclusivity is built into the programme.

Therefore membership is – similar to the club structure – also limited to only those members who elect to exhibit certain behaviour. A different mechanism is however used to determine the membership criteria, in that the Earn Partners of eBucks provide the membership limitation.

7.1.3 Membership fees

Clubs typically charge a membership fee, whereas the eBucks programme has chosen not to charge any membership fees. This decision was taken for various reasons, some practical and others because of the value proposition to the customer. These reasons are discussed below.

No ability to 'hide' the membership fee. A club is often sold in conjunction with other products sold by the same company. Therefore the monthly membership fee for the club can often be buried in the large monthly premiums charged for the main product. An example of this is some of the medical aids and life insurance companies in South Africa that offer club programmes to their

members where the club fee is included in the same debit order that deducts the monthly premium.

In a variety of focus groups where the sensitivity of customers towards membership fees were tested, it became clear that many customers are often not even aware that these debit orders consist of two components – the actual product premium and the club membership fee. In those cases where the customer is aware of this, they are not always sure what the membership fee is. eBucks does not sell any financial products and hence has no such monthly premiums where the fee can be 'hidden'. Nor do the Earn Partners of eBucks have products with high monthly fees where they can include an eBucks membership fee in these monthly fees.

Time constraints. New processes would have had to be put in place to ensure that monthly debit orders were run to collect the club membership fees, while various business rules would have had to be implemented to determine the use of benefits if debit orders were referred to drawer, etc. This would have added a level of complexity to the programme that eBucks did not want to incur at launch, partly because of time constraints. This would not have been a major constraint if eBucks felt that the additional revenue from customers and the value proposition to customers justified this. This was however not the case, and provided three further reasons why no membership fee was charged.

eBucks was not a product sold by FirstRand. Club offerings are often not viewed as rewarding loyalty to customers, but as actually another product offered by a company to its customers in conjunction with the main product line. Although loyalty enters into the equation because of the levels at which the customer supports the company, the customer still has to pay an additional fee before his loyalty can be rewarded. eBucks wanted to avoid this perception.

eBucks acted as a currency. Not only was eBucks not to be viewed as a product, but the perception of a currency had to be enforced initially. No membership fees should be charged for access to a currency.

Limitation of membership. eBucks wanted to ensure that the exclusive / aspirational nature of the eBucks programme was not tied to membership that can be bought, but rather tied to the fact that the eBucks member has to be a valued customer of at least one of the eBucks Earn Partners. This was discussed in more detail earlier.

There were therefore both practical reasons and reasons related to the value proposition to customers, that led to eBucks deciding not to charge a membership fee, where the latter was typical of club programmes.

7.1.4 Type of products

The type of products offered by club programmes are usually a combination of products that can be bought ad hoc as and when required (such as air tickets) and discounted 'annuity' deals for the regular using of specific services (such as gym membership or roadside assistance). The discounts achieved on the annuity deals are as a result of aggregated buying, which leads to bulk discounts.

The eBucks programme only offers once-off product purchases and not annuity deals. Annuity deals require the loyalty programme to charge a membership fee due to the heavy cross-subsidisation required, where those members that do not make use of the annuity deals subsidise those members that do use these deals.

The eBucks team felt that they did not want to do that. Being faced with the option of charging a membership fee and then providing such annuity deals versus not charging a membership fee and then rather providing a wide range of

once-off products, the eBucks team felt that the latter option was fairer on customers and also in line with a non-fee programme. Therefore, the reason why the eBucks programme does not make use of the annuity deals that are typically offered by clubs, is that they view this practice as disadvantaging the people that do not often use the benefits in favour of those that do often use the benefits, despite their intrinsic value to the Earn Partners. The fact that they do not want to charge a membership fee, also plays a role.

7.1.5 Summarising the reasons why a club structure was not chosen

One of the deductions from the literature review was that for a loyalty programme to provide a competitive advantage to a financial institution, it could include but should not be in the form of only a promotional currency programme.

The eBucks programme to some extent combines the two programme structures (promotional currency and club). It leans more towards the promotional currency structure, yet includes certain other novel aspects that incorporate 'club' thinking without creating a club. The reasons for not choosing a full-blown club model, can be summarised in three points.

Firstly, since a membership fee is essential to the success of a club while the eBucks team wanted to ensure a strong value proposition to members by not charging a membership fee for members' loyalty and also because the eBucks team wants to offer products not requiring cross-subsidisation from members (typical of a club structure).

In the second place, owing to practical concerns, such as not being able to 'hide' membership fees in large monthly premiums and time constraints in building certain required supporting processes.

And lastly, because they could innovatively build some aspects of a club into the promotional currency structure, namely: replacing pre-determined tiers with infinite tiering through the top-up facility, and replacing membership limitation through membership fees with membership limitation through thresholds.

7.2 User of information, but not collector of data

Another deduction from the literature research is that a successful loyalty programme has to be a strong collector of customer information (Hamilton & Howcroft, 1995; Buckley, 1996; Dawes & Worthington, 1996; Wang, 1997; O'Malley, 1998; Dawes & Swailes, 1999 and Palmer *et al*, 2000a). Although the eBucks programme does not collect large amounts of data directly from their members, it is still a strong user of member information, as outlined below.

There is a limited need for the eBucks programme to collect data. Being in financial services, most Earn Partners already have data on customers' behaviour as a direct result of their products requiring accurate audit trails to be kept of all transactions by customers, which are stored in a central database. Earn Partners therefore already have large amounts of information and subsequently already know a lot about their customers and their customer profitability profiles. The data that eBucks collects is limited to two main focus areas: online behaviour (such as for example products that eBucks members buy online) and customer profiles of typical customers that are drawn to and that benefit from the programme. This data enables the eBucks team to offer more appropriate products and services to their members.

The role that the eBucks programme plays in data collection is in stark contrast to the typical role of loyalty programmes in the retail industry and often written about in literature, where data gathered through a loyalty programme is essential in allowing Earn Partners to keep track of customers' behaviour. Retail

customers' data is not available without a loyalty programme and therefore a loyalty programme enables retailers to measure a customer's engagement with them and to separate the heavy-spenders from the occasional buyers.

Although the eBucks programme collects some data directly from eBucks members, it mostly uses information as already collected by various Earn Partners. The information used by the eBucks programme assists with targeted communications to eBucks members within a framework of a bigger customer relationship management (CRM) exercise. This information is also used to identify appropriate segments for cross-selling. The eBucks programme was not information-intensive initially, due to time and cost constraints, but this has changed and their future strategies include substantial CRM activities.

Some Earn Partners do not have as much data on their customers as the others, mostly due to their specific products not providing such data. In these instances, the eBucks programme plays an additional role of providing these Earn Partners with information about relevant eBucks members, obviously within very strict privacy parameters.

7.3 Reason for not initially customising per segment

Another deduction from the literature research is that a successful loyalty programme has to have an appropriate level of customisation per segment (Gould, 1995; Javalgi & Moberg, 1997; Palmer *et al*, 2000b and Palmer *et al*, 2000a). eBucks did not do this initially. Although partly owing to time constraints, four issues led to the eBucks programme not investing heavily in customer segmentation and subsequent customisation per segment at the start of the programme.

The first reason relates to not knowing enough about future members when the eBucks programme was initially created, which could therefore have resulted in very artificial segmentation and customisation that would not have added real value. As more information became available on members' behaviour within the programme, segmentation could be addressed.

Not only has more information become available about existing members, but new members with different profiles are also joining the eBucks programme. The member base has grown substantially and has changed in profile as new Earn Partners have been added, adding further complexity to any segmentation and customisation exercises. One interviewee commented that "new members were added that moved in different phases and times of their lives", which means that segments are continuously being refined. Although the typical profile of an eBucks member started off as computer-savvy 25-45 year-old, some of the Earn Partners' bases are much older and/or much less computer-literate.

Not only has the member base evolved, but the brand has also evolved, as was discussed in section 4.3.5. As the brand evolved, the value proposition to members has become more refined. One interviewee mentioned that "we had to continuously fine-tune it to become more customer-centric and market-centric". Although these changes are necessary to ensure the survival of the programme, it does mean that the eBucks programme has held off on premature segmentation exercises as long as possible.

The fourth reason why segmentation was not done initially, stems from the concern that the segments used by the eBucks programme can interfere with the segmentation done by the Earn Partners. One of the reasons for not using pre-determined tiers (as per a typical club structure) is exactly for this reason. Segmentation exercises have to be addressed very sensitively, as explained by one interviewee:

We are not in the business of loyalty programmes. We are in the business to show appreciation to the valuable customers of our Earn Partners.

However, as more information has become available and as the brand has started finding its longer-term identity, it has allowed for segmentation and customisation. The eBucks programme has therefore started segmentation and subsequent customisation and targeted campaigns. These exercises have proved to be successful in increasing activity of the base and improving brand awareness. This is a major future focus, as explained by one of the team members: “New information and new technology will start setting us apart through mass customisation rather than mass marketing” .

7.4 Reason for creating behavioural loyalty, rather than emotional loyalty

Literature indicates that loyalty programmes should reward truly loyal behaviour on an emotional level through relationships, rather than only focusing on behavioural loyalty, if lasting relationships are to be created (Gould, 1995; Beckett *et al*, 2000; Palmer *et al*, 2000a and Finnie & Randall, 2002).

Promotional currency programmes typically create behavioural loyalty, by focusing on rewarding behaviour in the repeat-passive and rational-active modes described by Beckett *et al* (2000). This is also mostly the case with the eBucks programme. The eBucks programme is called a Rewards Programme, not a loyalty programme, since the eBucks team believes that one “can’t create loyalty, but one can reward for different types of loyal behaviour”.

Although not ideal to focus mainly on rewarding behavioural loyalty, there are specific reasons for this decision. The FirstRand strategy requires relationships

with customers to be built at the delivery channel level. The outlets of Earn Partners are responsible for building their own emotional loyalty with customers while the eBucks programme acts as one of the ways in which an Earn Partner can demonstrate its appreciation to its customers. Despite this structure, many interviewees felt that the eBucks programme does want to play a role in building relationships with customers. One team member explained: “We firmly believe ... customer relationships built through trust enables embedding of loyalty ... that’s where we want to be”.

Having said that, the eBucks programme creates more than just the spurious loyalty of Dick and Basu (1994), which is defined as loyalty only because the switching costs are too high. eBucks members remain on the programme and remain customers of the Earn Partners because of certain benefits to them, such as the eBucks that they receive and the wide range of opportunities where they can spend their eBucks.

There are specific ways in which the eBucks programme attempts to create emotional loyalty. Firstly, it tries to create emotional loyalty by not letting eBucks points expire, leading to a potentially longer relationship.

In the second place, the eBucks programme’s communications to clients are customised in that the electronic newsletter (eZine) to each customer is based on the eBucks balance that that customer has, reflecting a selection of products affordable to that specific customer. The eBucks programme also caters for both online and offline customers, depending on how the customer prefers to be communicated with. The regular sending of eZines and other forms of communication, strives towards creating a relationship with the customer, attempting to change the image from a tactical programme to a more relationship-orientated programme. Targeted campaigns within a bigger CRM initiative further strive to build lasting relationships and create a sense of emotional loyalty.

The tight integration of the Rewards Programme and the internet banking initiative also plays a role in creating emotional loyalty. Reichheld (2001) found that Internet users usually form part of a positive cycle for a financial institution that wants to offer a loyalty programme that is integrated with its Internet initiative. In that sense the regular communications to these users and the customisation of their online experience help move online members towards emotional loyalty, away from behavioural loyalty.

The creation of a specific community based on common interests and the offering of specific redemption opportunities and eBucks rewards to the community, are further attempts at creating emotional loyalty. As one interviewee said: "The important thing to know is that eBucks is ... about looking after and appreciating [customers]. It's all about adding value to the lives of customers." Special community activities such as 'Why are you proudly South African?' are staged to allow members within the community to share their thoughts. Exclusive deals are also offered, such as first and exclusive access to special sales at real-world earn or spend partners (such as Arthur Kaplan Jewellers).

The Hallmark Loyalty Marketing Group (2002) identified the sum of the interactions that the member has with the loyalty programme, the ease of using the loyalty programme, and the degree of trust and affinity with the loyalty programme, as three key ingredients that drive emotional loyalty. The first two factors are major focus areas of the eBucks programme, as was discussed in section 0 and assist in creating emotional loyalty in eBucks members. The last aspect is addressed more by the Earn Partners themselves.

Therefore, although the main focus is not on creating emotional loyalty, it does form a major component of the focus of the eBucks programme.

7.5 Answer that emerges to the fourth research question

In conclusion, the structural elements that were specifically not built into the eBucks programme were discussed in this chapter, with reasons provided for these decisions. The main decision with regard to what not to include, was the decision not to use a club structure. Some of the characteristics of a club structure were however used.

Certain practical decisions based on the environment of eBucks as well as time constraints were also taken: the decisions not to segment and customise immediately and not to focus too much on data collection but rather to focus on using information as provided by Earn Partners.

This chapter therefore provided an answer to the fourth research question, describing the reasons why certain structural elements were specifically not chosen. The answer is summarised in the matrix below.

Table 4: Summary of answer to research question four

<i>Structural element</i>	<i>Reasons why not chosen</i>
▪ Not in the form of a club	▪ Strong value proposition to members by not charging a membership fee (essential to the success of a club structure) and offering products not requiring cross-subsidisation from members (typical of a club structure) ▪ Practical concerns, such as not being able to 'hide' membership fees in large monthly premiums and time constraints in building certain required supporting processes ▪ Innovatively building some aspects of a club into the promotional currency structure, namely: replacing pre-determined tiers with infinite tiering through the top-up facility, and replacing membership limitation through membership fees with membership limitation through thresholds

Structural element	Reasons why not chosen
Not a collector of large amounts of data, yet information-intensive	Most Earn Partners already collect large amounts of data, with eBucks using this information – in contrast to typical retail programmes where Earn Partners collect no data and the loyalty programme is therefore responsible for data collection
Limited segmentation and customisation when eBucks started	- Limited information available initially resulting in artificial exercise - Constantly evolving brand and value proposition would have led to premature segmentation results - Time constraints in launching the programme - Constantly changing profile of member base due to new Earn Partners - Concern that eBucks segments might clash with Earn Partners' segments
Rewards behavioural loyalty, rather than emotional loyalty	FirstRand strategy of creating customer relationships at delivery channel level, with eBucks acting as a way in which Earn Partners can demonstrate customer appreciation – with eBucks taking certain steps to indeed create emotional loyalty with members (no breakage, value of programme, online communications, targeted communications to identified segments)

7.6 Conclusion

All the elements contained in the above table were identified during the literature research as important to include in the structure of a loyalty programme, yet none of them were included in the eBucks programme, which is a very successful loyalty programme. The relevant literature used as a basis from which it was deducted that these structural elements should be present, is:

- Club programmes are more effective, according to Duffy (1998), Beckett *et al* (2000) and Kotler (2000). There are however compelling reasons why the club structure was not chosen by the eBucks team and why certain aspects of the club structure have been used in innovative ways in the eBucks programme.
- Loyalty programmes are typically strong collectors of customer information, according to Hamilton & Howcroft (1995), Buckley (1996), Dawes &

Worthington (1996), Wang (1997), O'Malley (1998), Dawes & Swailes (1999) and Palmer *et al* (2000a). Because of the information collected by most Earn Partners, this was not as necessary at eBucks.

- Loyalty programmes should reward truly loyal behaviour on an emotional level through relationships, according to Gould (1995), Beckett *et al* (2000), Palmer *et al* (2000a) and Finnie & Randall (2002). The way in which the eBucks programme addressed this was different in that it focused on a combination of emotional and behavioural loyalty.
- Loyalty programmes should have an appropriate level of customisation per segment according to Gould (1995), Javalgi & Moberg (1997), Palmer *et al*, (2000a) and Palmer *et al* (2000b). This was not initially done at eBucks, due to various reasons that would have led to a premature, artificial exercise. It is however now being done and forms an important part of the relationship between the programme, its partners and its members .

The differences from the literature review have forced the researcher to confront initial, preconceived ideas around the structural elements needed to create a successful loyalty programme, and subsequently to abandon these ideas – a substantially daunting action given the effort spent on literature research. Note though that not all aspects of the literature research had to be abandoned – only a few select elements. This process has led to a substantially improved understanding of loyalty programmes at financial institutions, since it did not slavishly prove the various deductions made during the literature review, but challenged it and provided alternatives and therefore a better understanding.

This concludes the answering of the four research questions as initially posed in chapter 2.

8. CONCLUSION

This chapter concludes the research report and is based on the discussion in preceding chapters. Recommendations are provided to managers who want to apply the knowledge gained from this research report in their own organisations. Some ideas on further research on this topic are also provided.

8.1 Value of the research

This research report has provided unusual access to information and previously unpublished insights on the eBucks programme, which would otherwise have been lost to academic research.

Not only does the research report provide information on eBucks, but no case studies have yet been published on any loyalty programmes within the South African financial services industry. Since research has been published on the reasons for and potential structures of loyalty programmes in other countries, this research therefore fills a gap that currently exists.

Many financial institutions in South Africa are currently grappling with the problem of whether either to launch, continue or discontinue their loyalty programmes. This research provides information in helping such institutions address these questions.

8.2 Implications for other loyalty programmes

The 'why and how' are not questions that are often answered by financial institutions when implementing loyalty programmes. A number of implementations in South Africa (and abroad) are examples of loyalty programmes that were

implemented in response to competition or based on an international example, and where competitors were blatantly copied without taking into account many of the characteristics unique to that loyalty programme, the company within which it resides and the business environment of the company.

The unique environment of each financial institution plays a strong role and therefore each financial institution should discover its own unique reasons for and which structure to be used in implementing a loyalty programme. To generalise this too much is to ignore the uniqueness of these financial institutions.

Having said that, even though a particular instance was studied in this research, the reasoning employed at eBucks provides some generalisability to the logic that will also be found in other financial institutions. Rowley (2002) suggests that generalisations from these results can be made ***if*** the case study design has been informed by theory and is therefore seen to add to theory-building.

This research relied heavily on an extensive literature review while designing the research questions and the interview schedule, as well as while structuring the data collection and data analysis phases. It therefore provides a strong basis from which certain theoretic (although not statistical) generalisations can be made.

In addition, the success of the eBucks programme indicates that the learnings from this case site can be studied to promote understanding and inform practice for similar situations at other financial institutions.

Over and above being structured to reflect its unique environment, the success of a loyalty programme appears to be influenced substantially by top leadership support and the tight integration of the loyalty programme into the wider

business. These are valid lessons to apply to all loyalty programmes within other financial institutions and even wider than that within other industries.

What was also clear not only from interviews but also from observations, is that the flexible strategy followed by the team ensured the quick response to and sometimes pro-active anticipation of external changes. This has made the eBucks programme navigate a few potential crises with great success. It is a pity that the concept of an electronic currency could not be pursued any further, as it would have added an additional dimension to the loyalty programme.

There are two important questions that any financial institution that is in the process of structuring its loyalty programme, should answer. Firstly, whether a multi-partner structure or a proprietary structure should be used. The various benefits of a multi-partner structure were discussed in this report and can be used to inform this decision. A multi-partner structure has provided the eBucks programme with accelerated earning opportunities to members, and lower costs and critical mass to the Earn Partners. It does however have certain drawbacks, such as not being able to customise the programme fully for each Earn Partner. Secondly, a decision must be made on whether a promotional currency structure or a club structure should be used, or whether a hybrid structure should be created. This report provided reasons for the choices made by the eBucks team. The extent to which the objectives and environment of a financial institution differ from or agree with that of the eBucks programme will determine the extent to which a specific structure should be chosen.

The extent to which points expiry and pooling of points will be allowed, has a significant impact on both the value proposition and the financial model and should be carefully considered. Whether the loyalty programme will be operated as a cost centre or a profit centre will depend on the purpose of the loyalty programme and the structure of the financial institution.

The value of the loyalty programme to customers is one of the most essential aspects of the value proposition and care must be taken to articulate and then design this carefully and comprehensively. This, as well as the extent to which competitive advantage is ensured, must be carefully considered.

Although the research process was heavily informed by literature, some aspects suggested by literature was not found at the case site, while some aspects were in direct opposition to what literature suggested. Examples are the level of customisation that a successful loyalty programme should ideally have, and the supposed requirement for a club structure to ensure the success of a loyalty programme. This once again indicates the importance of ensuring that the structure of the loyalty programme must reflect its unique environment, to ensure that it remains relevant and in touch with the rest of the financial institution and with its customers.

This research therefore challenged some conventional beliefs around loyalty programmes and proved that contrary views can be relevant within specific environments. This added dimension was mainly made possible through conducting the research in the interpretive paradigm.

8.3 The value of the interpretive paradigm

The interpretive paradigm is not so often used in research, with most research being conducted in the functional paradigm.

The value of using the interpretive paradigm in this specific case was illustrated towards the end of the research process, when the answers emerging from the research were compared with the answers suggested by literature. The principle of dialogical reasoning meant that there was not a 100% matching of these two

sets of answers, thereby providing alternatives to what was suggested by literature.

There is a number of subtle but unique differences that were not articulated in the literature and which would not have come to light if a different approach had been used. For example, the fact that bankers and technologists rather than marketers have designed and built the programme meant that a different framework of risk, profitability and customer interaction was followed. Although the end result was still a loyalty programme, some of the processes and philosophies are different from other loyalty programmes, following the form of a business model rather than a marketing model. These differences are not obvious and only came to light once the unstructured interviews had been conducted.

The research has thereby led to a substantially improved understanding by the researcher of loyalty programmes, since it has challenged literature and has provided alternatives to what literature suggested. It has therefore provided a much deeper understanding of loyalty programmes at financial institutions.

8.4 Suggestions for further research

This research focused on a specific case site within the financial services industry. It will be interesting to conduct a case study (again using qualitative research within the interpretive paradigm) on another loyalty programme in the financial services industry and then to compare the findings from the two case studies. This will further inform the extent to which theoretical (not statistical) generalisations can be made and will further add to theory-building.

The same process can also be followed for a loyalty programme in another industry. A comparison of the findings from the two cases could add an

additional understanding of why loyalty programmes exist and how they can be structured.

There is substantial debate around the benefits of a multi-partner programme versus a proprietary programme. Additional research on this can inform future decisions made by financial institutions.

Various structural elements of the eBucks programme were discussed, without specifically determining the direct impact of each of these structural elements on the subsequent success of the eBucks programme. Research into the correlation between a specific structural element and the success of a loyalty programme, could provide interesting insights into the structure of a loyalty programme. The extent to which this might differ among industries, would also be of interest.

The structural elements identified in this research could provide a framework against which other loyalty programmes could be evaluated. The extent to which this framework can provide an 'off-the-shelf' structure that can be re-used by other financial institutions, could be the basis for another research topic. The extent to which a deviation from this framework provide additional insights into the structuring of loyalty programmes, could be the basis of an additional research topic.

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APPENDIX A

Interview schedule

Note that the interview schedule did not contain any structured, closed questions, since the interview needed to remain flexible to allow for any relevant information to emerge. The type of questions were open-ended and focused on the 'why and how' of loyalty programmes in financial institutions

Interview schedule used

- 1) (a) If within the eBucks programme: Why did FirstRand implement the eBucks programme?
(b) If one of the Earn Partners: Why did you join the eBucks programme?
- 2) How was the eBucks programme structured?
- 3) Why was this structure chosen?
- 4) Why were the other potential structures that you are aware of, not chosen?

If the interviewee could not answer these questions, various prompting could be done towards the end of the interview to ensure that the research questions were answered as comprehensively as possible. These prompts were also open-ended and are shown on the next page.

***Open-ended questions that could be used but only for prompting.
Only done towards the end of the interview, if no relevant answers received.***

Would one of the reasons for FirstRand to have implemented the eBucks programme, perhaps have been, [substitute any of the bullet points below] ...? Have you seen any proof of the impact that the eBucks programme has had on[substitute the same bullet point again]?

- To directly affect profitability
- To assist in the retention of loyal, profitable customers
- To assist in cross-selling
- To assist in customer acquisition
- To enable the collection and regular updating of information
- To drive the right, profitable behaviour in clients
- To provide clients with the perception of tangibility in an otherwise intangible suite of services

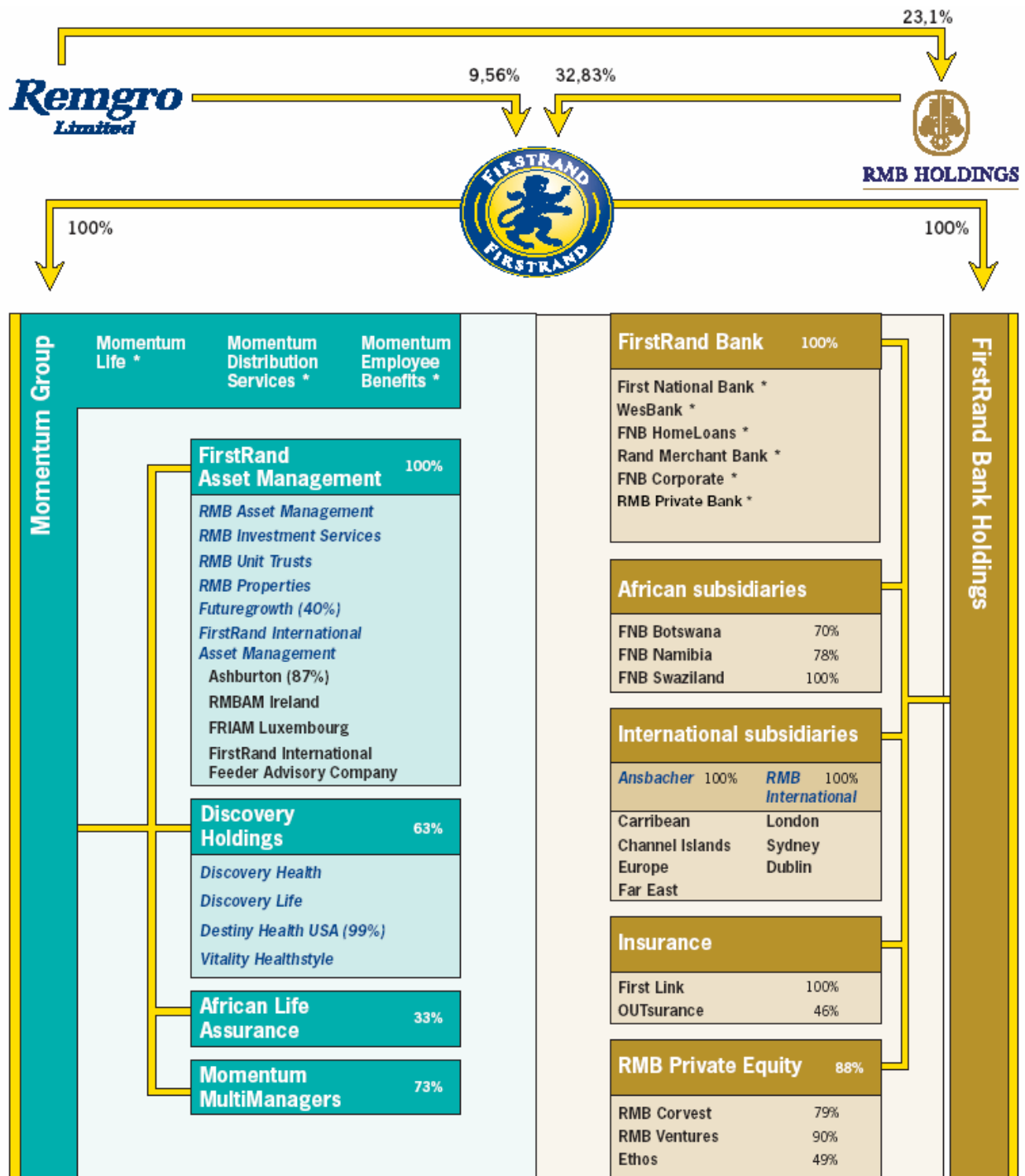
Does the structure of the eBucks programme reflect the following aspect....

[substitute any of the bullet points below] ...? Why / why not?

- What customer value did you build into the eBucks programme? (E.g. rewards as proportion of spend, range of rewards, aspirational value of rewards, achievability of rewards, convenience of programme)
- In what way does the programme reflect the unique business environment of FirstRand?
- What is the level of top leadership commitment? To what extent is the programme integrated into the rest of FirstRand (specifically its corporate strategy, marketing efforts, Internet initiatives and HR initiatives).
- What is the information-intensity of the programme?
- Is the structure more than just a promotional currency programme? In what sense?
- Do you know if the programme rewards truly loyal behaviour (not repetitious behaviour) and how do you know that?
- Does the programme identify different segments and is there any difference in customisation at the segment or individual level?
- Competitive advantage may be expected because of being first to market. If so, is the loyalty programme intended to achieve critical mass in a given market and has any exclusive contracts with business partners been signed, resulting in other companies not being able to copy the programme?

APPENDIX B

FirstRand group structure – showing major subsidiaries and operating divisions by legal entity



* Divisions of Momentum Group Limited

* Division of FirstRand Bank

Source: FirstRand (2003e)

APPENDIX C

First advertisement published by eBucks

Introducing a new form of

"foreign exchange"

the world's first bank-backed electronic currency

Paying for goods and services without putting your hand in your wallet may sound like a "foreign" form of exchange to you. However, **eBucks**, the new electronic currency launching later this year, enables you to do just that!

With **eBucks**, you'll be able to shop online - even if you don't own a debit or credit card. And, if you don't have access to the Internet, you'll still be able to experience the "foreign" world of using an electronic currency through your phone or cellphone, by calling us at **eBucks.com**, or visiting our website at **www.ebucks.com**

Backed by The FirstRand Group, **eBucks**, the world's first bank-backed electronic currency, is on its way, so get ready to experience a "foreign" form of exchange soon!


eBucks.com
A FirstRand Initiative

FirstRand Limited includes the following companies: Rand Merchant Bank, RMB Investment Services, FRB Corporate, FRB HomeLoans, FRB Card, Momentum Life, Momentum Wealth, Momentum Advisory Services, Origin, Henry Ambath, Outsource and MedBank.

Visit our website at **www.ebucks.com**

FOR DASH INC 000000

Source: eBucks (2000:1)