THINKING GLOBALLY : APPLYING LOCALLY

Are single-city, multi-sector, multi-partner coalition programmes the answer in developing countries? Kolapo Ademola, founder and CEO of Lagos-based Loyalty Solutions Ltd. has used his sound knowledge of the Nigerian market to provide this 'from the ground' perspective...

Loyalty marketers in African countries are in a unique position that enables them to leapfrog over several of the developmental stages that earlier loyalty programme developers had to overcome. Not least, they can use the latest technology to overcome many of the earlier problems. This is already evident in a number of sectors, most notably telecommunications. However, the new technology needs infrastructure, and providing this can prove burdensome for developing economies. The investment required can be considerable and in most countries of Africa, the adoption and utilization of technology is carried out in a phased manner, with technology initially reaching only the most urban and commercial areas, then gradually spreading as costs and infrastructure allow.

This 'viral' spread of technology has created an urban population that is attaining levels of sophistication, expectations and needs faster than the deployment of the technology is able to satisfy. The A, B and C economic segments of the population are as educated and aware as their counterparts in Europe – for example the internet, payment cards, mobile telecoms and so on are all available, but they are yet to reach ubiquitous levels. Looking down from the heavens, it can be said that pockets of concentration exist.

In these pockets, retail commerce thrives, the market is sophisticated and merchants compete fiercely for customers. For example, in the commercial center of Nigeria - Lagos - there is probably a higher ratio of retail firms per capita than anywhere else in sub-Saharan Africa. The competition to acquire and retain customers is intense. The predominant marketing tools are discounting and time-based promotions. However, these are carried out in a untargeted manner, probably improving short-term revenue, but not impacting on the long-term profitability and survival of the retailers.

The exception, not the rule

As a loyalty consultant promoting the practice of loyalty marketing in Africa, it is evident to me that loyalty marketing is still in its infancy (excluding South Africa – which, in any event, is a developed nation simply geographically located on the African continent). While the benefits of loyalty marketing are beginning to be recognized, loyalty programmes are the exception rather than the rule. The historical reasons are:

1. Market Structure: there are no clearly defined structures in the retail environment, no formal groupings or lobbies, and invariably the organisations themselves are mostly single-store locations with limited financial muscle.
2. Finance: loyalty programmes cost money - there is both capital expenditure and operational expenditure - and because the technology is usually imported from abroad and paid for with a weaker local currency it is hard for a single firm to afford it.
3. Infrastructure: telecommunications infrastructure has historically been less than optimal. Recently however this has improved vastly.
4. Traditional coalition loyalty models usually have a national focus.

While loyalty experts around the world expound the benefits of multi-sector, multi-partner, national coalition programmes (the benefits are real), in Africa such national programmes are not yet feasible. However, I constantly hear complaints from clients: '…these seasonal promotions are draining our resources with no appreciable profit year on year…', or '…we would love to launch a loyalty programme, but the cost makes it unaffordable..', or 'why isn't there an Air Miles or Nectar-like programme here, I would join in a flash…'? The fact is, the reasons above make such programmes impracticable to execute and, based on existing models, unattractive. Does that mean African countries cannot have their own multi-sector multi-partner coalition programmes?

Modifications are needed

Traditionally, coalition programmes have either been 'micro' - as modeled by the Wafi City Shopping Complex programme in Dubai - or 'national' - as modeled by Air Miles or Nectar. I believe that for African countries, a rethink of these models is necessary. You may call it ‘an African application to a global solution’ or ‘Coalition Programme: Africa Version 1.1’. The environmental restrictions of these markets make certain modifications necessary:

1. Coalition programme models usually depend for success on including 'key' partners - often retailers with national coverage operating in high purchase frequency sectors. In Africa, there may be no (or at best only a few) partners who could fulfill this requirement.
2. Telecommunications and EPOS technology are unevenly spread.
3. The market consists mainly of retailers whose operations are confined to one city (however such retailers may be extremely popular in their catchment areas).

Such retailers are found in the urban areas, and it is in these urban ‘pockets of concentration’, that I believe there is scope for a single city based multi-sector multi-partner coalition.

Why Should it Work?

Coalition programmes are attractive, because they offer clear benefits to both the programme partners and the consumer. For the partners they offer reduced capital outlay, reduced operational expenses, and a larger reachable database of customers. For the customers they offer faster points accumulation and redemption as well as a wider variety of rewards.
These same benefits would apply for a city based coalition – the main differences being geographical coverage and scheme set-up and running costs.

Smart cards - a model

The advent of smart card technology should also make it possible to overcome some of the infrastructural requirements of an online real-time scheme. It would be possible to set-up a hybrid scheme with a mixture of online and offline points accumulation and redemption.

In fact, it would be possible to design a scheme as an offline real-time solution. The cards would store the participants’ transaction and points history, and the terminals would record transaction data and upload it to the host at the end of each day (midnight rollover) via modem or transport card. With a city-based scheme, even the transport card solution should still make it possible to have the host updated daily; the data would only need to be collected from POS locations within a single city. Redemption would be catalogue based, and would be offline and online.

The programme would still have main sponsors - these could be found in traditional sectors such as fuel retail, financial services and telecommunications. However there would be a need to modify the partner selection and recruitment process; it may be difficult to find some sector partners (for example a supermarket) with branches city-wide. Would it not be feasible to appoint market sector partners and grant them exclusivity in the coalition by city district?

Thus the scheme would have probably two main sponsors, and retail partnerships would join based on a “many retail partners per sector with exclusivity by city district or local council area basis”. This will necessarily make the master partnership agreement more complex, but I believe that it would work and still provide the advantages for each partner, whilst ensuring a large base of earning locations for the consumer.

From a partner perspective, the traditional concern that its individual brand may be consumed by the coalition brand would be reduced because the retailers' catchment areas would be so local that the additional 'push' that should come from the coalition would more than compensate.

Ultimately, the coalition programme model is focused on its profitability to each of the programme partners. In a city like Lagos with a population in excess of seven million people, (with a targeted A, B and C socio-economic group population of some two million people) it would be quite feasible to have a programme enrolling at least thirty percent of the targeted population. This volume of participants should ensure the programme's survival and yield the benefits to the partners.

My argument is that it should be possible to scale down the traditional coalition programme model and implement it successfully in our very different market conditions. Clearly, there would be problems to be solved and modifications to be made but then, marketers the world over tend to produce their best results when they are challenged!

Comments would be most welcome.

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