

Secondary Currencies: “Mileage Points”

— What can Japan learn from the US business currency alliances? —

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As represented by the mileage programs offered by the airlines and the points programs of mass home electronics retailers, “business currencies” have been launched to provide a means of directly returning some of a company’s advertising and sales costs to consumers, thereby retaining the customer base and allowing companies to obtain information about their customers. The appearance of business currencies has changed consumer buying patterns, with many choosing to purchase from retailers offering points.

Nomura Research Institute (NRI) has estimated the total annual value of business currencies issued in Japan in 2005 as more than 330 billion yen. Business currencies, together with the spread of credit cards and electronic money, are likely responsible for a fall in the amount of cash in circulation.

In the past, US airlines have used mileage points to retain customers and generate profit by selling their miles. For these purposes, they restricted the use of their mileage points to purchasing reward tickets and focused on the spread of their own business currency. However, the increase in the number of mileage points in circulation has led to difficulties in ensuring that rewards can be provided. As a result, there is a move away from restrictions to enable rewards to be more readily available. One example of this move is the appearance of business currency exchange platforms.

In Japan, also, business currencies have thrived with tie-ups centered on the airlines. The direction pursued under these tie-ups is to generate the effect of driving customers to partner companies and to carefully adjust the “exchange rates” for each company’s business currency to generate profits by considering business currencies as business opportunities.

In addition to the existing alliances centered on the airlines, as we approach 2010, we propose new types of tie-ups based on product value chains, services and areas according to the customer behavioral processes and product life cycles.

I Why Mileage Points Now?

1 Less Real Currency in Circulation

According to the March monetary base announced by the Bank of Japan on April 4, 2006, there was 0.04 percent less cash (coins) in circulation than in the same month of the preceding year. This is the first time that these statistics have fallen since 1971, when these statistics were first taken. In addition, as shown in Figure 1, if we look at the overall amount of currency in circulation, we see that the total began to fall after July 2005.

Factors leading to this fall of currency in circulation, in particular cash in circulation, include the spread of credit cards and prepaid cards. In addition, the recent years have seen an explosive spread of electronic money as represented by “Edy,” offered by bitWallet, Inc., and JR East’s “Suica” (East Japan Railway Company). Furthermore, the number of companies adopting mileage and/or point programs continues to increase year by year, with the annual issue value of such schemes exceeding 330 billion yen. This issue value is said to be more than the amount tendered as electronic money and can be thought of as a “business currency.” (Examples of business currencies include the mileage and points issued by companies to users when users purchase goods or make use of a service. Users can subsequently use the mileage and/or points in the same way as money.)

This “virtual money” does away with the need to handle small change and, with the exception of credit cards, can be adopted through instant authentication. Consequently, rather than paying with small change, or paying with paper money and receiving change, more and more people are choosing to pay for goods and ser-

vices using electronic money and mileage points, especially because they are both so easy to use.

Over the last few years, more and more “business currencies” have appeared that are highly convenient to use. Good examples include the point programs introduced by large-scale home electronics retailers. Customers can use any number of their collected points to pay for basically any of the goods offered in the store. These programs are extremely easy to use, especially in comparison with programs such as airline mileage programs, where users must first save up the required number of points and where the points can only be traded for specific services. As mileage points are another form of electronic money, and given their convenience, it is expected that they will account for much higher levels of circulation in the future.

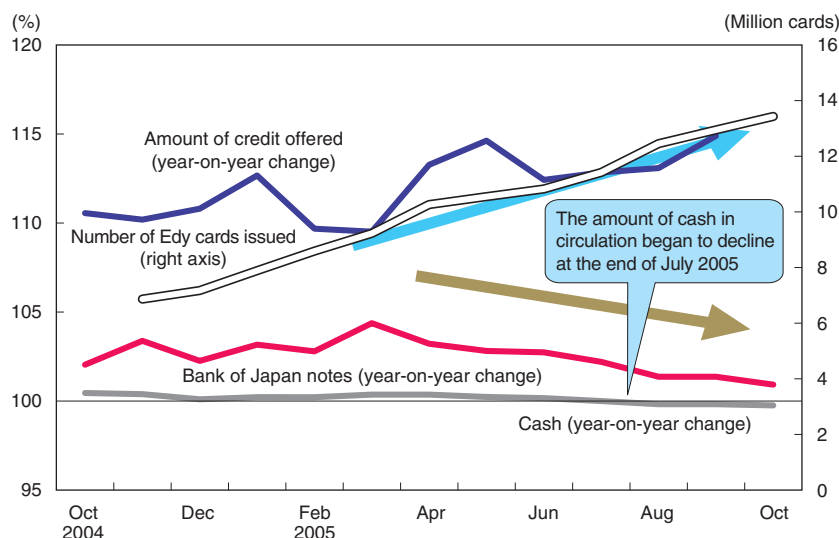
2 Business Currencies Offering an Effective Means of Retaining Customers

In the past, a company’s sales promotional activities, for the most part, consisted of advertising on TV and in the newspapers as well as rebates and commissions paid to the distribution network (sales incentives). In other words, companies used their advertising and sales promotion costs to all consumers uniformly, albeit indirectly.

Mileage points, that is, business currencies, are different from these advertising and sales promotion costs. Business currencies are a sales promotion technique that works by rewarding those customers who frequently buy a company’s products or services with a large number of points.

Actually, consumers find these business currencies very appealing. According to a survey conducted by Nomura Research Institute (NRI) in September 2005,

Figure 1. Trends in the Use of Electronic Payment and the Amount of Currency in Circulation



Notes: (1) Amounts quoted for credit cards do not include those for cash loans. (2) Edy: Electronic money system offered by bitWallet, Inc. Source: Compiled based on statistics provided by the Japan Consumer Credit Industry Association and the Bank of Japan as well as bitWallet press releases.

about 40 percent of respondents stated that they considered whether they would earn points when purchasing a product or service. About 20 percent said that, if they earned points, they would still buy a product or service even though it was slightly more expensive than that in another store (Figure 2). We can say, therefore, that business currencies are an effective means of both attracting and retaining customers.

Moreover, by managing the IDs of consumers who subscribe to point programs, we can also use business currencies as a type of marketing tool. Business currencies enable a company to identify products appealing to consumers, make general consumers into loyal customers and then retain those customers.

Nowadays, given that we take broadband connections for granted, the Internet has stepped into the role of a new point of contact between companies and customers. Because the amount of system investment is relatively low when compared to launching an original point card scheme, combining business currencies with the online

sales of products and services is also very effective. Accordingly, as broadband services spread, cases adopting business currencies are also increasing.

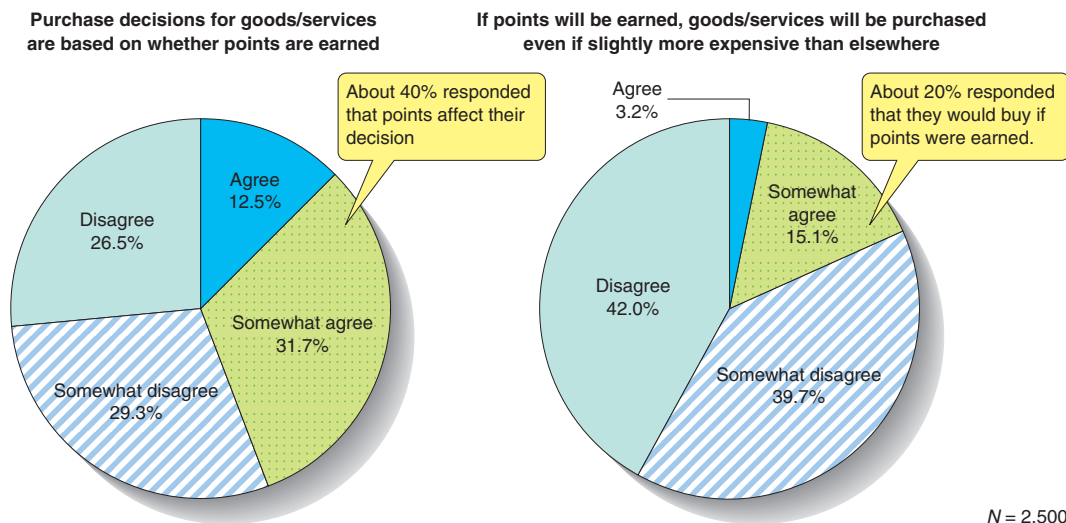
Currently, we are seeing the introduction of business currencies by the channels that consumers contact in their daily lives, such as supermarkets, department stores and convenience stores. About 80 percent of people in Japan have experience in using point programs. This high rate reflects consumers' willingness to use these programs and the efforts of many companies to take advantage of such willingness by introducing business currencies.

3 Value of Points Issued in Japan Exceeds 330 Billion Yen Annually

As a result of Japan's companies introducing business currencies as described above, it is estimated that at least 330 billion yen is issued in points every year (Table 1).

Among the many companies issuing points, three industries each issue points worth more than 70 billion

Figure 2. Consumer Buying Trends



Source: A survey on "Business Currency Usage" by Nomura Research Institute in September 2005.

Table 1. Annual Issue Value of Business Currencies (Major Industries Only, 2005)

(Unit: Million yen)

Industry	Total sales	Redemption rate	Annual issue value
Mobile phones (top 3 companies)	8,616,800	1.0%	86,168
Airlines (top 2 companies) Revenue passenger miles (1,000 person miles)	99,418,702	1.5 yen/mile	74,564
Credit cards (entire industry) Amount used for shopping	14,274,700	0.5%	71,374
Mass home electronics retailers (top 10 companies)	4,311,059	1.0%	32,333
General merchandise stores (top 5 companies)	11,966,143	0.5%	29,915
Department stores (top 10 companies)	5,774,587	1.0%	28,873
Convenience stores (top 4 companies)	3,124,000	1.0%	4,686
Drugstores (top 5 companies)	698,240	1.0%	3,491
Total			331,404

Notes: (1) For redemption rates, the lowest industry standard values are adopted based on published figures. (2) Companies not offering point programs are not included.

Source: *Korekara joho tsushin shijo de nani ga okoronoka—IT shijo nabigeeta 2006* (What will occur in the information and communications market—IT market navigator 2006), Information and Communications Consulting Departments I and II, Nomura Research Institute, 2005.

yen per year. These are mobile phones (around 86 billion yen), airlines (around 75 billion yen) and credit cards (around 71 billion yen).

For the eight industries considered in Table 1, specifically, mobile phones, airlines, credit cards, mass home electronics retailers, general merchandise stores, department stores, convenience stores and drugstores, only those companies with the highest sales and point programs in place were surveyed.

In estimating the issue amount of business currency, consideration was given to the rate at which the point program is applied to sales and revenue passenger miles of each company (point application rate) and the actual number of points that are issued (point redemption rate). The point application rate is used to exclude the value of the purchases made by persons who are not members of the points program. The point application rate was determined based on a Web-based survey performed by NRI. The point redemption rate was taken as the lowest figure published on the companies' websites.

However, points can be awarded regardless of the value of a purchase, such as when sales campaigns are being run. In addition, the point redemption rate can vary. As examples, "premium" members earn double points, and certain products earn triple points. Currently, with far more than 100 companies that have a points program in place, the total amount of business currency issued in Japan per year is highly likely to substantially exceed 330 billion yen.

II Business Currency Differentiation in the United States

Mileage programs were started by American Airlines in 1981. As of 2005, the total number of people enrolled in mileage programs around the world has reached 160 million, with the total number of miles issued amounting to 10 trillion miles. A major proportion of these programs is represented by the American market, where the aviation industry is huge. In fact, it has been estimated that around 70 percent of the world's mileage program members are in the United States.

In addition, in terms of the number of members of each carrier's program, US airlines also rank high (Figure 3). The largest of these schemes is American Airlines "AAdvantage" program, with 52 million members (as of March 2006). In Japan, the largest such scheme is run by Japan Airlines (JAL). Its "JAL Mileage Bank" has 17 million members (as of February 2006).

1 Airlines in the US Adopting Strategy of Expanding "Entry" into Programs

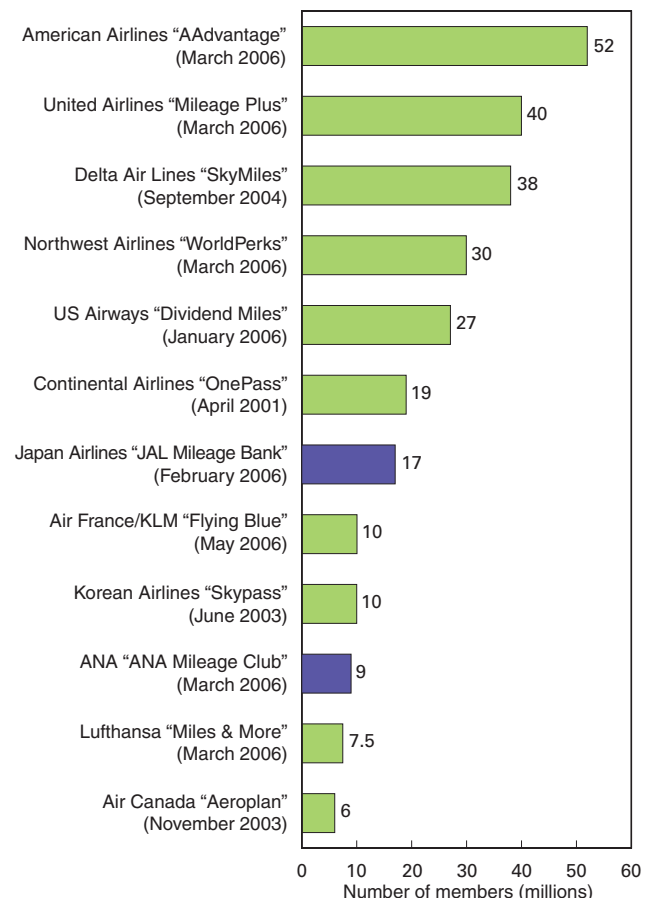
Up until now, airlines in the United States have adopted a strategy of expanding the "entry" aspect of their

mileage plans. In other words, by telling users just how easy it is to accumulate mileage, the airlines have made their programs more attractive. A typical example of this strategy is the "alliances" (tie-ups) that the different airlines have formed with each other. Currently, All Nippon Airways (ANA) belongs to the 16-airline "Star Alliance," while JAL is one of the airlines forming the "oneworld" alliance. These alliances allow the mileage earned on one airline to be used for another in the same group.

In addition to alliances, three "entry" promotions that airlines have recently been featuring are:

- (1) Allowing passengers to purchase the extra miles they need to obtain a reward ticket, as well as allowing friends and family to use a member's miles.
- (2) Offering a reward ticket after a passenger has flown with the airline a given number of times. (For example, Southwest Airlines has a scheme whereby passengers earn a credit for each one-way trip. After collecting 16 credits, they can exchange them for a reward ticket. Therefore, passengers can earn one free round-trip ticket for every eight round trips they make with the airline.

Figure 3. Number of Members in the Major Airline Mileage Programs



Source: Compiled based on the "Inside Flyer" web site (<http://www.insideflyer.com/>)

- (3) Tie-ups with companies providing day-to-day products and services such as utilities

Approach (1) aims to prevent passengers from collecting unused hoards of miles, (2) rewards passengers for the number of times they use the airline, rather than the number of miles they have accumulated and making it relatively easy for users to acquire free tickets, and (3) gives passengers more opportunities to acquire miles. Especially because of approach (3), rather than simply offering a high redemption rate, which leads to discount competition, the airlines are appealing to passengers by making it easier to collect miles.

In the US, the ongoing promotion of this “entry” strategy has led to large amounts of mileage points being earned from other than airline tickets. “Inside Flyer” magazine, which provides information on mileage programs, has reported that more than 40 percent of mileage is earned from other than airline tickets. Tie-ups between the airlines and other companies are expected to increase in the future, with no end to this trend in sight.

2 Using Mileage Schemes as Employee Incentives

Recently, in addition to offering miles as a reward for buying products or services (B to B to C: business to business to consumers), employee incentive schemes selling miles have also appeared (B to B to E: business to business to employees).

For example, Delta is selling miles to companies at a rate of 0.022 dollars per mile, with a minimum purchase of 60,000 miles (Table 2). This type of scheme is growing in popularity as it offers benefits to both the participating companies and the airlines. A company can offer their employees a highly regarded mileage incentive (perceived as being of high value), which the company can actually provide at low cost. The advantage for the airline is that the scheme helps to retain

business travelers that make up the majority of its passengers.

3 Limited Mileage Point Uses

When it comes to redeeming mileage points, or the “exit” aspect, it has traditionally only been possible to obtain tickets with the same or a partner airline. Alternatively, points could possibly be used for services such as cruises offered by an affiliated company. In all cases, the rewards have been limited to those for which marginal costs can be kept low.

For the airlines, this offers the double advantage of being able to retain customers as well as making a profit through the sale of miles (thanks to the difference between the value of the business currency and the actual cost). Under a worsening business environment of the US aviation industry, the latter scheme, in particular, is important as it generates cash flow for the airlines even though the contribution to overall sales is low.

There has also been a move towards offering digital content as a new mileage reward. One example of this is “Mileage Plus Music” offered by United Airlines in cooperation with Sony USA. Such digital content has recently become very popular, as typified by Apple Computer’s “iTunes Music Store.” Every day, more than one million tracks of music are downloaded from this service (as of January 2005).

Because the marginal costs of digital content can be kept low and there is much untapped demand, the demand for digital content services that can be purchased by using miles is expected to increase.

Although currently only a few, there are some airlines that have set up partnerships with companies whereby both companies honor each other’s loyalty program points. One example of this is Midwest Airlines, which honors the points from the Hilton and Hyatt hotel chain loyalty programs, as well as those of the Hertz and Avis car rental companies.

Table 2. Mileage Sales by US Airlines (2006)

Airline	Price per mile (dollars)	Minimum purchase (miles)	Notes
Delta Air Lines	0.022	60,000	Excluding consumption tax (7.5%) A joining fee of \$75 is charged
American Airlines	0.022	250,000	Excluding consumption tax (7.5%) Fee: \$0.001/mile
Midwest Airlines	0.025	100,000	Excluding consumption tax (7.5%) A joining fee of \$50 is charged
US Airways	0.02	200,000	Excluding consumption tax (7.5%) Fee: \$0.001/mile Annual account limit: 100,000 miles
United Airlines	0.02	200,000	Excluding consumption tax (7.5%) Fee: \$0.001/mile Annual account limit: 100,000 miles

Source: Compiled based on the corresponding airlines’ websites.

4 Large Amount of Miles in Circulation Made Securing the “Exit” an Issue

As explained above, the airlines have expanded the “entry” aspects of their loyalty programs while controlling the “exits.” However, there have been concerns recently about whether they will be able to secure all of their “exit” options. As the number of miles in circulation increases and given that miles are usually exchanged for airline tickets that tend to be for popular destinations and at certain times of the year, the number of people who cannot exchange their miles for the tickets they want has been increasing. There is also the problem of very frequent flyers accumulating very large numbers of miles and then being unable to use those miles.

Of their total revenue passenger miles, airlines keep an average of 7 percent of that number as reward tickets. However, with the problems facing the airline industry since the 9/11 terrorist attacks, some airlines have started to reduce this figure (Table 3). Other airlines are reducing the value of each mileage point. For example, if the normal charge for a reward seat is 15,000 miles, the company would give its customers the option of purchasing seats for 50,000 miles once all the designated reward seats on a flight have been filled.

In addition, among the seven top airlines in the US aviation industry, four are currently under protection based on the Bankruptcy Law, raising the danger of passengers not being able to use their miles. In response to this, American Express recently launched a product called “Air Miles Protection,” an insurance service for protecting mileage points. This recognizes the sense of impending crisis on the part of mileage program members with large numbers of accumulated miles.

Thus, we can see that US mileage programs, which have symbolized US airline service, are in an undesirable situation as their attractiveness is beginning to diminish.

To address this issue, some US airlines, including American Airlines and Delta Air Lines, are starting to provide members with other means of “exit.” One such “exit” means is the “Points.com” points exchange platform offered by Points International. Users of this site

can trade points earned at a total of 50 different companies, including airlines, Amazon.com and Starbucks.

This not only provides users with a wider range of opportunities to use their mileage points but, symbolically, also marks the point where mileage points leave the control of their issuing companies and become a negotiable currency. Then again, of course, this kind of circulation platform has a negative effect on the above-mentioned benefits of retaining customers and increasing profits by generating sales for the company. So, why would airlines even consider being a part of this platform? The key point is how miles are exchanged and at what rate.

5 Exchange Rate Is the Key to Exchanging Points

Let’s consider what would happen if we were to use Points.com to change our US Airways mileage into American Airlines miles, and then compare it to changing such mileage via Diners Club “Club Rewards” and Starwood Hotels & Resorts Worldwide “Starwood Preferred Guest.”

Both cases of such an exchange greatly reduce the value of the miles. In the former case, the number of miles after exchange is reduced to slightly more than 15 percent of that before exchange. However, in the latter case, the reduction is limited to around 30 percent of the number of miles before exchange.

From the user perspective, the use of a point exchange platform eliminates the time and labor required of a user to select a party with which points are exchanged and a method of exchange. On the other hand, the exchange rate is not necessarily good. This means that this type of service does not necessarily pursue user convenience alone.

In fact, a point exchange platform is used as a means of preventing users from accumulating large numbers of unused miles such as by consolidating miles that are about to expire and miles that are lacking conditions for reward exchanges in a particular point program, rather than as a means of regularly exchanging points.

The companies participating in this scheme see it as a way of preventing a drop in the level of customer satisfaction by giving them a choice in the way that they can use their miles and, at the same time, promoting this

Table 3. Reward Redemptions for the Major Loyalty Programs (2004)

Program	Members	Reward tickets issued	Ratio to RPMS ^{Note}	Year-on-year change
American Airlines “AAdvantage”	48 million	2.6 million	7.5%	4.0%
Southwest Airlines “Rapid Rewards”	–	2.5 million	7.1%	No change
United Airlines “Mileage Plus”	46 million	1.7 million	7.4%	– 15.0%
Delta Air Lines “SkyMiles”	35 million	2.9 million	8.0%	– 3.6%
Continental Airlines “One Pass”	26 million	1.2 million	5.6%	– 20.0%
Northwest Airlines “World Perks”	26 million	1.38 million	7.1%	1.9%
US Airways “Dividend Miles”	23 million	1.5 million	8.0%	25.0%

Notes: Indicates the ratio of seats purchased with rewards (2004). RPMS (Revenue Passenger Miles) = Number of fare-paying passengers x length of flight.

option as adding value to their programs. Companies can achieve these goals because the right to set the point exchange rate is vested in the point issuing company. By exercising such a right, the participating companies can essentially control how many of their miles flow out of their systems, and can handle points in circulation in a business model that closely approximates that of their original mileage programs. The participating companies tend to hold down the overall rate of redemption, so that there is not a surge in the number of their miles that are being redeemed.

While Points International, the company offering this service, only generated 10 million dollars in 2005, the participation of more and more companies led to an enormous increase in the number of points being exchanged. Specifically, in the third quarter of 2005, 13.3 billion points were exchanged, twice as many as in the same period of the preceding year. With the increased participation of companies such as major airlines, other companies are expressing an interest in joining the program. As the platform grows, therefore, we can expect the exchange of more and more points.

III The Spread of Business Currency in Japan

In September 2005, NRI conducted a questionnaire survey to analyze the current usage status of business currencies. We found that the rate of consumers who were actively making use of points issued in Japan was around 60 percent. For those companies that regard the issuing of points as part of their cost of sales promotion, any points that are not used constitute a reduction in their costs. However, when we consider the original aim

of point schemes, a company should try to maximize the use of its points.

One way of achieving this goal is tie-ups between companies to honor each other's points, as is common in the United States. In Japan, business currencies would become even more valuable if companies form complex interrelationships in every aspect of their business activities that take into account consumer behavioral processes, rather than just forming simple alliances for exchanging points.

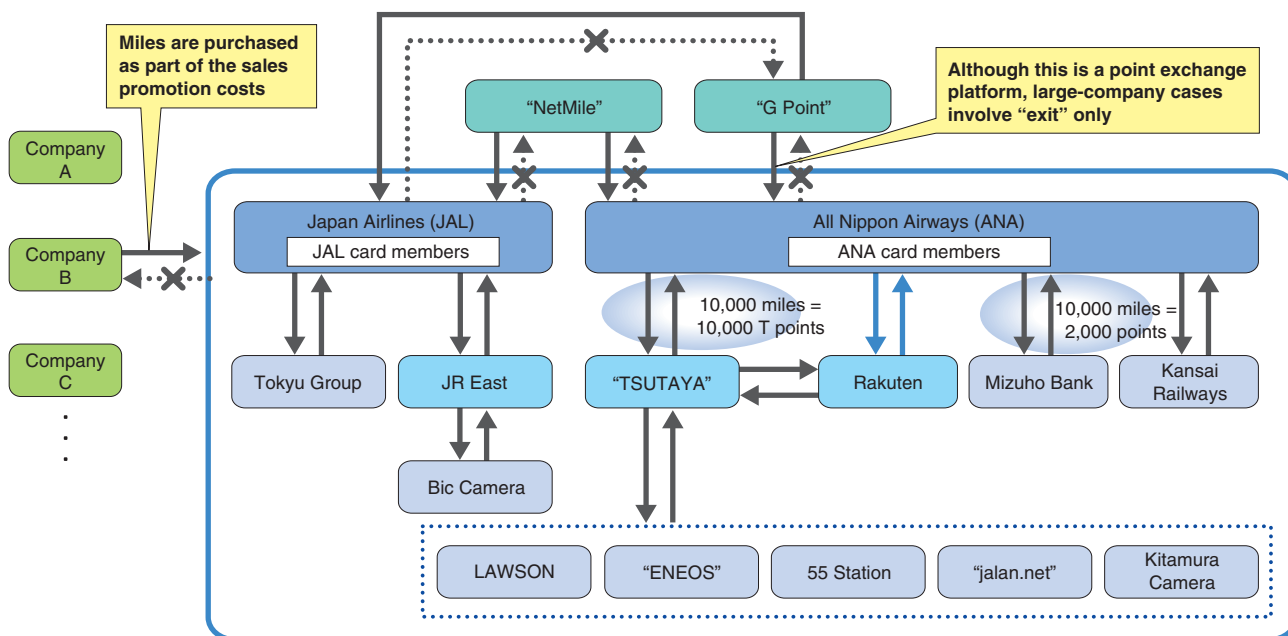
1 Alliances Centered on Airlines

Recently, Japan has seen a rapid increase in the number of companies that are willing to accept the business currencies of their partners. This trend has centered on two airlines, namely, JAL and ANA (Figure 4). Neither JAL nor ANA promote the conversion of their currencies into others; they simply accept those of their partners. In other words, they change other companies' points into airline miles, thus supporting their own mileage programs.

This model can work effectively only because airline mileage is one of the "key currencies" that has value as a sales promotion tool. ("Key currencies" are used more than any others are, and possessing them generates more value than others do. In terms of real money, the US dollar would be one of the key currencies.)

For example, JAL has tie-ups with JR East and the Tokyu Group. JAL and JR East jointly offer the "JAL 'View Suica' Card" which provides a well thought-out way of directing one company's customers to the partner, and then retaining those customers. JAL's passengers tend to travel to the airport using one of the JR companies with which the airline has a tie-up. Passengers can redeem their mileage points for JR East's

Figure 4. Major Business Currency Tie-Ups



Secondary Currencies: "Mileage Points"

“Suica” electronic money. This enhances the effectiveness of mileage points for retaining JAL customers and increasing their number, even including customers who are not saving points to make trips. JR East enjoys the same benefits.

2 Trend of Alliances Between Multiple Companies

The above-mentioned questionnaire survey also revealed that, in addition to airline miles, consumers have been collecting points mostly from the purchase of products and services used on a daily basis, such as those offered by supermarkets and mobile phone companies. Furthermore, they want to redeem their points for the same kinds of products and services. Accordingly, when considering a tie-up with another company, a company should not only consider the provision of rewards in the form of “dream” products/services such as travel, but also look at how points can be applied in day-to-day life.

If we look at the above findings by gender and age group, mobile telephone points tend to be collected by young people in their twenties and thirties, while women constitute the greatest number of savers of supermarket points. By profession, we find that an overwhelming majority of airline miles are collected by male businessmen in their thirties to fifties.

One mid-class US airline has a tie-up with national hotel and resort chains to mutually exchange mileage points. Through alliances with hotels, the airlines can provide business travelers with accommodations at their destinations. The tie-ups with resort facilities are aimed at providing services to travelers during their free time. In addition, the sharing of customer databases between airlines and hotels enables them to see customers’ travel habits. They can then target their customers with effective direct mailings.

This pattern can also be found among Japanese companies, where business currency is used to introduce one company’s customers to another company. Moves to attract and retain customers from partner companies by providing benefits (CRM: Customer Relationship Management) have been spreading, not just among airline companies. Companies such as TSUTAYA and Rakuten are also adopting this model.

This model of alliances that transcend the existing framework of a group made up of capital ties is a new method of retaining customers and gathering customers from one company in the alliance to the others. We can think of this process as CRM by multiple companies. It seems that we are moving away from individual points programs and the limits that they impose on CRM, and are instead moving toward an era in which we can draw on the combined strengths of multiple companies.

With the enforcement of the Personal Information Protection Law in Japan, the handling of information has become extremely important to every company. It is no

longer possible to simply collect information. Instead, to collect the minimum required amount of information, companies must state why the information is needed and take the consumer’s point of view when promoting services to be offered by multiple companies.

3 Adjusting the Exchange Rate for Business Currencies

For a business currency to become a “key currency,” it is important for companies to provide as many opportunities as possible to increase the amount of currency in circulation and to enable a business currency to be used for a variety of products and services. One way of achieving this is by increasing the number of tie-ups similar to those described above. However, simply increasing the number of places where mileage points can be used will only lead to accumulated points being used here and there, and the issuing company will have to bear the cost. Accordingly, when mileage points are exchanged for products or services, it is important that their perceived value be high. Otherwise, when mileage points are changed into other types of points or electronic money, the exchange rate must be adjusted.

As shown below, if we don’t want to use our JAL mileage points to purchase JAL services, but instead want to exchange them for Suica electronic money, then the exchange rate will obviously be set somewhat lower.

15,000 JAL miles
 = 15,000 “Suica” yen
 = 22,500-yen JAL coupons
 = One domestic reward round-trip flight (worth about 30,000 yen such as for a round trip from Tokyo to Okinawa)

The ANA plan is very similar except that, instead of Suica, it has a tie-up with the Edy electronic money system. This avenue gives those persons who have collected large numbers of miles, but who are too busy to use them, the opportunity to spend their points. This contributes to eliminating the dissatisfaction that some users have with their “immovable miles.” Through careful adjustment of the exchange rates, mileage points can still be used to make a financial contribution to the business.

While there are many instances where the issuers of points exchanges those points directly, it is also possible to exchange points via websites such as “NetMile” and “G point.” (If we again think in terms of real money, these would correspond to a “foreign currency exchange office.”) These sites perform basically the same function as the above-described Points International site in the United States. This service raises the possibility of a need arising for a means of changing the rate on a market value basis so that the rate is advantageous to a given business currency that is strong at the time, in much the same way as with exchange rates.

IV How Can We Make the Best Use of Business Currencies?

As we have seen in the examples from the US described above, business currencies can be made more attractive by increasing the number of “entry” options, while similarly increasing the number of goods and services having a high perceived value that constitute the “exit.” It is important to remember that the “entry” is the “points that we collect,” while the “exit” is the “goods and services we want to purchase with points.”

When points program tie-ups are considered in the future, a company’s own target markets for its points program should be clarified first. By also considering the possibility of sharing mutual customer databases, a partnership should be established with a company that has customers that can contribute to strengthening and supplementing the establishing company’s own points program.

By establishing tie-ups based on customer behavioral processes and life cycles, we can establish new alliances that are rarely seen even in the United States. NRI is proposing the establishment of the following new alliances as we move towards 2010.

- Tie-ups based on product value chains
- Tie-ups based on services used
- Tie-ups based on areas

We describe some of the concepts related to these new types of alliances in the following sections.

1 Tie-Ups Based on Product Value Chains

First, we will consider an alliance between multiple companies covering the entire process up to providing maintenance support by a manufacturer. Here, as an example of a consumption value chain from manufacturing to retail sales, we consider the sales of automobiles (Figure 5).

First, the manufacturer awards points directly to a vehicle buyer, handling it as an advertising and sales promotion cost, while the dealers spend the sales promotion costs every time they sell to a repeat customer. When the customer buys insurance, he or she is again awarded points. (While the use of points to pay for insurance premiums is normally not allowed in Japan, the provision of points is possible in the case of direct sales at the time a contract is signed if such provision is within a generally acceptable range.) The points accumulated in this way can be used to pay for low-cost parts and accessories for vehicles.

Because the cost for oil is high, points are awarded every time the owner brings the vehicle in for an oil change, rather than allowing the owner to use points. He or she can then use those points to pay for regular servicing. Because regular servicing and maintenance are not as expensive as we expect, it is possible to establish this kind of point flow. Furthermore, this point system in product value chains does not have to be limited to sales outlets.

By extending the scheme to used-car buyers, the scheme can cover not only the life cycle of a vehicle, but also the customer’s entire vehicle-use process. Accordingly, the participation of used-car buyers in business currency alliances is considered appropriate. In this way, new alliances will be better able to take on competition even for individual companies that are not large.

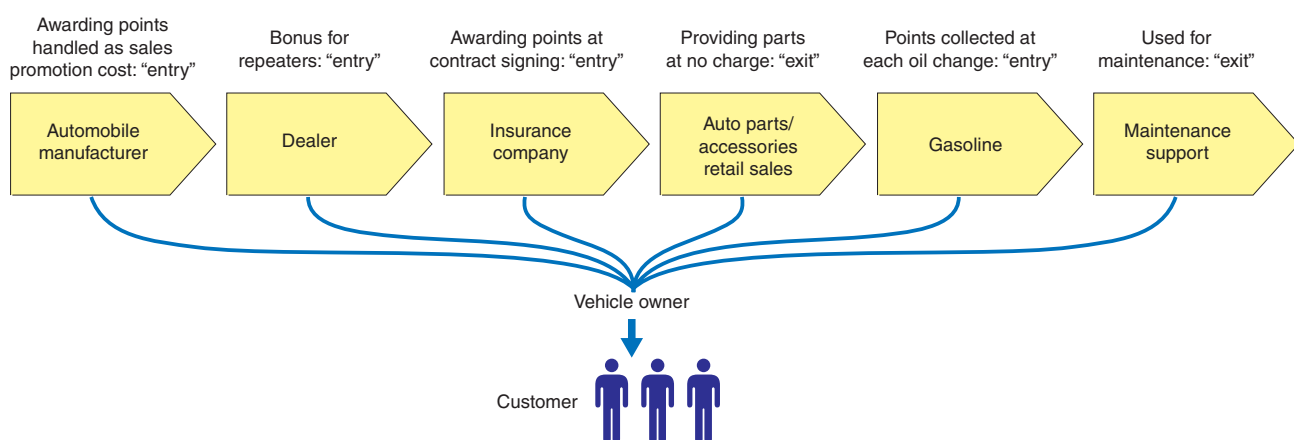
2 Tie-Ups Based on Services Used

(1) Tie-ups based on the integration of services used such as the Internet

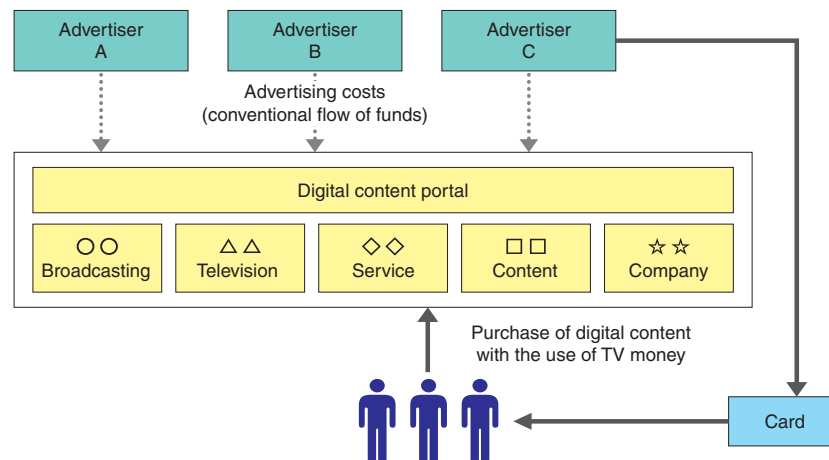
Alliances can also be set up based on those services that are used at the same time the Internet is accessed.

Because the user first needs broadband infrastructure, the user must have a contract with an Internet service provider. When the user actually surfs the Internet, he or she will go through a portal site or a content provider site. Accordingly, if the providers of these services form an alliance by taking the customer’s point of view, a

Figure 5. Business Currency Alliances Covering Up to Provision of Maintenance Support in Sales of Automobiles



Secondary Currencies: "Mileage Points"

Figure 6. Alliance Built on a Common Platform for Providing Digital Content

business currency under such alliance would be very effective and offer excellent value.

This approach not only applies to Internet access, but also to electronic commerce, with Rakuten's "Super Point" being a good example. This scheme is not limited to group companies such as Rakuten Ichiba and Rakuten Travel, but is also linked with the above-mentioned ANA (by anticipating the sales of airline tickets via a website), NTT Communications, TSUTAYA, etc. Each of these companies honors the points issued by the others. This alliance is not just a tie-up between group companies, but can be said to be a service alliance for the IT (information technology) era.

(2) Tie-ups based on a common brand

An example of this approach is the "WiLL" project that was launched as a common brand of several different companies in 2000.

The "WiLL" project set out to create a new brand targeted at the "new generation" market. (According to a press release issued by the participating companies, this market consists of people who actively seek out the information available in an information network society, and who attach great importance to their own preferences (http://www.knt.co.jp/kouhou/news/99_will.htm.) While "WiLL" was jointly adopted as a new marketing technique by different businesses including foodstuffs, autos, cosmetics, appliances and the travel industry, it failed to become popular with consumers.

However, it was highly likely that WiLL would have been accepted by customers if a common business currency had been issued as a means of providing practical advantages based on a common loyalty program, which might have led to establishing a closer relationship.

Consumers probably viewed this relationship between participating companies only in terms of brand name. Accordingly, it would not have been very likely that a consumer who bought WiLL cosmetics from Kao would then go out and buy a WiLL car from Toyota. However, if business currencies were used to link the partici-

pating companies, this project would have led to new alliances.

(3) Tie-ups based on a common platform

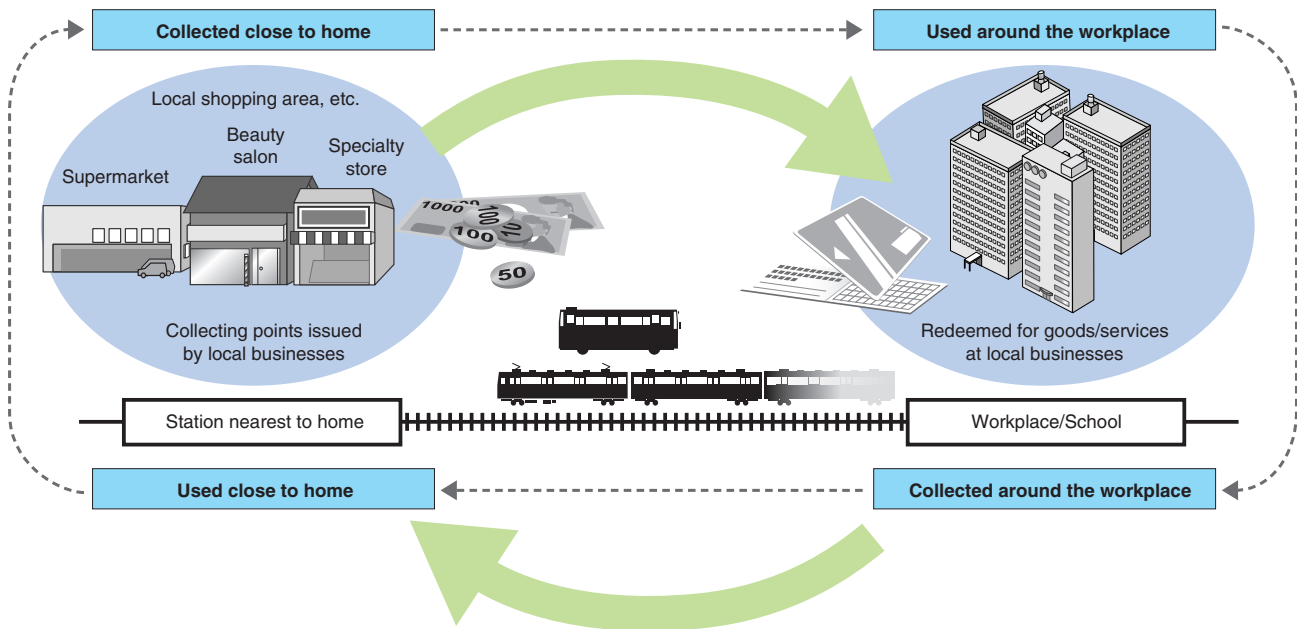
By considering a common platform for providing digital content, it is likely that the media industry, such as TV, would participate in a business currency program as a means of paying for digital content. The structure of the media industry is similar to that of airline industry in that, although the initial costs are very high, profits can be expected and marginal costs are very low.

If customers can use a common points scheme to pay for desired content, points (the advertising and sales costs of advertising companies) will eventually flow to those providers offering popular content. It would also be possible to use a common business currency as such a common platform. In this case, from the standpoint of companies that implement advertising and sales, they can effectively assign their costs (Figure 6).

3 Tie-Ups Based on Areas

Here, we consider "area currencies" that are business currencies based on areas. An excellent example of this is the "earthday money" that is issued by a tie-up between the geographically distant Shibuya district in Tokyo and Ito district in Shizuoka prefecture. This area-based currency is issued by a non-profit organization (NPO) called the "Earthday Money Association," and can be used in a wide range of stores in either area.

However, because the purpose of an area currency is environmental protection, etc. (which is the feature of an area currency), in many cases earthday money can only be received when activities are conducted for NPO projects. Participating stores treat earthday money as a sales cost, and allow it to be used for payment. However, earthday money is not given out when a purchase is made at a store. If we consider the circulation and spread of an area currency, however, it would seem desirable to also issue the currency for purchases.

Figure 7. Alliance Involving Area Currency and Local Businesses along a Rail Line

An ideal approach would be to provide a mechanism enabling an area currency to be used more widely and to establish an environment supporting and vitalizing local businesses in the area. In turn, this would also promote the volunteer work of the host NPO and lead to further spread of the area currency. By expanding the coverage of a railway company's group points, a tie-up could be established with the area currency in the area along the railway line (Figure 7). This kind of tie-up is based on the area in which the consumers make purchases and might lead to a new evolution of area currencies. Currently, there are over 500 schemes around the country, although none of them is very active.

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