

# **Enterprise Currency Marketing from a Global Perspective**

**Hikomichi YASUOKA and Masahiro KAJINO**

**Nomura Research Institute**

# Enterprise Currency Marketing from a Global Perspective

Hiromichi YASUOKA and Masahiro KAJINO

- I Trends in Enterprise Currencies in the Global Market
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Nomura Research Institute (NRI) calls points, mileage and electronic money that are exchangeable “enterprise currency.” The loyalty reward programs now being operated in each country of the world include such types as (1) a loyalty points program operated by a single company, (2) alliance enterprise currency and (3) common enterprise currency. Rather than following the development phases in the order of (1), (2) and (3), a company makes a decision on which type to adopt in accordance with an ever-changing competitive environment and/or economic situation based on its own strategies.

If Google decides to offer its loyalty points program, the result would become the world’s largest loyalty points program operated by a single company. Because borderless transactions are possible in the field of electronic commerce (EC), if Japanese EC companies that are more experienced in operating loyalty points programs go ahead of others in offering such programs globally, this marketing tool will certainly contribute to the promotion of sales on a global basis.

If a Japanese company considers the global offering of its enterprise currency, it is desirable to form an alliance among companies that provide products and/or services that consumers use daily or continuously. Optimal alliances would be those centered on companies in the retail, transportation or communications fields.

The government has also begun to use points programs. The Kyoto eco points system advocated by the Ministry of the Environment is one example. This scheme could be expanded to be applied not only among individuals and companies, but also among countries.

For the global evolution of enterprise currency, there is a need for many countries to participate in activities to develop systems and standards. One of the methods would be to set up a venue for study in Japan, where adjustments would be made to develop optimal standards for all countries concerned.

## I Trends in Enterprise Currencies in the Global Market

Nomura Research Institute (NRI) collectively terms the points, mileage and electronic money that are issued by companies and are exchangeable as “enterprise currencies.” In this paper, we introduce global marketing strategies using enterprise currencies.

Enterprise currency can be used to form an economic block of points programs through partnerships with other companies. In this economic block, enterprise currency can function as the key currency. The key currency refers to the principal points that are used among many partner companies and are also accumulated and often used by consumers. In this paper, such enterprise currency is called key enterprise currency. In terms of real currency, key enterprise currency is equivalent to dollars or euros. In order for a points program to be used as the key enterprise currency, points must have a large influence on consumers in such a way as that (1) the points program has a large number of members, (2) a vast number of points are issued and (3) the program offers high usage convenience.

In this paper, we look over the world market to examine the cases of enterprise currency that have won the position of key enterprise currency. Specifically, we introduce cases of retail industries in the UK and Germany where increasingly oligopolistic trends are seen, as well as cases of airlines in the US whose mileage programs have a strong effect as enterprise currency. In Asia, we focus on Korea, which is an advanced country in terms of points programs, and China where the retail industry has been growing rapidly.

In addition, we also discuss the utilization and development of enterprise currencies in accord with business strategies of Japanese companies, and examine the possibilities when enterprise currencies are offered in the global market as well as fields where they can be utilized.

### 1 Evolutionary Process towards Enterprise Currency in the Global Market

We can broadly divide points programs into three groups in accordance with the extent of evolution from points programs towards enterprise currency.

#### (1) A points program operated by a single company

Many companies that have a point of contact with customers in physical and/or online transactions as well as in other occasions have introduced a points program as part of their strategies to increase customer loyalty. They often use a points program to prevent customers from moving away from a company’s products to the

maximum extent possible. For such purpose, they operate a points program platform on a closed basis. This is a points program operated by a single company.

#### (2) Alliance enterprise currency

There are companies that form huge economic blocks centered on their own points. They are companies that exert strong influence on the market, “front-line-type companies” (such as Google and Amazon.com) that have a large-scale point of contact with customers, own a vast amount of customer information and engage in marketing and customer relationship activities, and “core group companies” that can identify almost all consumer behavior based on customer information owned by group companies. These companies form such points economic blocks by establishing alliances with companies providing functions (known as “enabler-type companies” that provide products and services) or with small-sized front-line-type companies.

NRI calls this type of enterprise currency “alliance enterprise currency” or “partially open enterprise currency.” Examples include Star Alliance (an airline network) in the US, Tesco in the UK, the Bailian Group in China, and the Lotte Group in Korea.

#### (3) Common enterprise currency

Continued efforts to increase the value of enterprise currency as a marketing tool will contribute to a stronger tendency towards removing borders between companies and sharing information among them. These efforts will result in creating a so-called “integrated points program.” Based on an integrated points program, the number of member stores will increase, and the size of an allied company network will be maximized. At the same time, customer assets can also be increased by partially sharing customer information owned by each company. We call this type of enterprise currency “common enterprise currency” or “open enterprise currency.” Examples are Nectar in the UK, Payback in Germany, OK Cashbag and pomm in Korea.

Figure 1 lists these three types of enterprise currencies. The common enterprise currency is typically operated by a company specializing in marketing. This company offers services as a platform provider to resolve marketing-related problems facing member companies.

However, because a points program operated by a single company primarily pursues the retention of customers, a company operating this program naturally focuses on increasing customer loyalty to its products/services as well as its network. Companies adopting alliance enterprise currency are generally those that initially operated a points program on their own, but later changed to the alliance format because of a need for adapting to a competitive environment.

Nevertheless, even companies adopting alliance enterprise currency cannot completely shed the format of a

**Figure 1. Types of Enterprise Currencies Operated by Global Companies**

	Points program operated by a single company	Alliance enterprise currency (partially open type)	Common enterprise currency (open type)
<b>Type of company</b>	Companies that give high priority to retaining their customers	Front-line-type companies, core group companies that have many affiliated companies, etc.	Front-line-type companies, companies specializing in marketing, etc.
<b>Representative companies</b>	Most companies operating their own points programs	Star Alliance (US), Bailian Group (China), Lotte Group (Korea), Tesco (UK)	Nectar (UK), Payback (Germany), OK Cashbag and pomm (Korea)
<b>Features</b>	Emphasis given to retaining members	High priority placed on strengthening own brand and leading in controlling information	Emphasis given to value of customer assets among affiliated companies (e.g., number of customers, member-store network)

single-company points program, and tend to emphasize strengthening their own brands and leading in controlling information such as customer data.

As the next topic, how will points programs evolve in the future? Which type of enterprise currency should a company pursue?

Based on the explanations made to this point, it might appear that enterprise currency evolves from a points program operated by a single company to alliance enterprise currency and finally to common enterprise currency. However, this is not necessarily true. Even if a points program has adequate functions to increase the effects of marketing, it is not necessarily capable of playing a role as key enterprise currency.

In the future, beyond competition among companies, competition will unavoidably take place among organically changing company groups and/or industry groups. A points program that was merely a marketing tool in the past now assumes an important role in connecting companies, company groups and/or industry groups. In other words, companies use enterprise currency to secure a competitive edge after fully analyzing the mutual interests and benefits that enterprise currency can bring about.

To maintain a competitive edge, companies must also consider the economic situation. To survive and win in a rapidly changing competitive environment and economic situation, it is an important part of management strategy to decide on which type of enterprise currency to adopt, i.e., a points program operated by a single company, alliance enterprise currency or common enterprise currency. Specifically, by foreseeing future changes in the market environment and in light of its market position and the strategies it intends to pursue, a company must correctly decide on whether it will make efforts to expand enterprise currency with a focus on only its own brand, to build a good relationship with a more influential enterprise currency in an attempt to successfully compete with rival companies or to broaden its point of

contact with customers by becoming a member company of a huge network.

## 2 Cases in Europe and the US

In this section, we introduce cases in the UK and Germany in which points programs have been used as traditional marketing techniques, and enterprise currencies in the US, which is the birthplace of the concept of mileage points.

### (1) Cases in the UK

In the UK, points programs were introduced in the early 1990s. Currently, two major contrasting programs are being offered. One is operated by Tesco among its group companies, and the other is operated by Nectar jointly with companies in diverse fields. These two companies have taken different approaches in competing for winning the leadership in key enterprise currency.

#### 1) Tesco

Tesco, which is the leading retail company in the UK, uses the Tesco Clubcard points program as enterprise currency. In establishing partnerships with other companies, Tesco has been offering a scheme that enables customers to use points earned from partner companies to exchange for a variety of products and/or services provided by its group companies, thereby increasing customer loyalty to the company.

Tesco, which has been operating retail businesses in various formats at about 2,000 stores in the UK, has also been operating in the European and Asian markets. Tesco is the biggest retailer in the UK, and the fifth largest retail chain in the world. In addition to its principal business of supermarkets, Tesco is also engaged in a variety of business fields such as mass retailers of consumer electronics, a bank, a credit card company and gas stations. Through its points program offered in these fields, Tesco has been accumulating information on customer behavior.

Actually, the Tesco Clubcard, which is a points program in the retail business, has been functioning as a tool for increasing customer loyalty and promoting sales. In addition, in tie-ups with more than 20 kinds of other businesses such as financial services, airline mileage and leisure facilities and fitness clubs, Tesco has been increasing customer convenience as well as customer satisfaction.

Tesco has successfully developed its enterprise currency into “quasi-currency” that has been used not only for products and/or services provided by its group companies but also those provided by partner companies. As such, its enterprise currency is now becoming one of the key enterprise currencies in the UK. Furthermore, in accordance with each customer’s purchases, Tesco sends customized coupons to each customer four times a year together with a notice of points earned and used. What is noteworthy is that 70 percent of the coupons have different messages, giving the impression that “you are a special customer to us.”

What underlies the success of Tesco’s points program is the establishment of the principle that “customers that Tesco should appreciate are ‘very good customers’ for Tesco,” and daily efforts based on this principle were made to discover good customers and identify customer needs.

## 2) Nectar

Tesco’s major competitor in taking the leadership of the key enterprise currency is Nectar. Nectar is operating a neutral common points program.

In the Nectar alliance, Sainsbury, the second largest retailer in the UK with a huge customer base, and British Petroleum (BP), the biggest chain of gas stations in the UK, play principal roles. Other partners of the Nectar alliance include those in a wide variety of fields such as retail, financial and leisure services.

In 2002, Nectar proposed the formal adoption of Nectar points as common points to Sainsbury and BP, each of which each have a huge customer base. At that time, both Sainsbury and BP had their own loyalty programs. Nevertheless, assuming that a coalition with partners in fields other their own would increase the number of opportunities of contact with customers and raise customer loyalty to the company, both companies replaced their own programs with Nectar points. As a result, Nectar could have many cooperative companies as partners, achieving the establishment of a customer base exceeding that of Tesco.

Background factors behind the success of Nectar include: (1) top-ranking companies in a range of fields such as retail and petroleum have joined the scheme; (2) highly general-purpose common points are offered; (3) joint efforts are being made to acquire new members; and (4) a sort of platform is offered for customer management, data management, media provision and marketing expertise at low cost.

In other words, Nectar could achieve success because it has fully understood how consumers use points in their daily lives and it has functioned simply as a flexible supporter by taking a neutral position without being inclined toward any particular partner company. What symbolizes Nectar’s approach is that all household members collect Nectar points. This has made it possible to increase the number of Nectar card members and has contributed to successful approaches in household-based marketing.

Furthermore, Nectar sends direct mail (DM) to Nectar card members four times a year. The direct mail contains coupons and announces different campaigns to further promote consumption with needs identified based on the past purchasing behaviors of each customer and/or to steer customers to partner companies. As such, DM functions as a communication tool to connect partner companies and member customers.

What is more important is that the coupons and campaigns included in DM are coded, which enables Nectar to analyze the response rate of member customers based on the use of such coupons. This scheme enables Nectar and its partner companies to not only apply a marketing PDCA (plan, do, check, act) cycle, but also accumulate a vast amount of marketing knowledge (intelligence) that cannot be purchased with money.

## (2) Cases in Germany

Germany is one of the countries where common loyalty points programs are relatively popular. In terms of the rate of points cards owned by consumers in Germany, Payback ranks first at about 61 percent and Happy Digits ranks second at 42 percent, followed by Shell Club Smart (Shell Oil) and Miles & More. While many major retailers such as IKEA have launched their own loyalty cards, the high-ranking common points programs indicated above have gradually become the cards most frequently used by consumers in Germany.

### 1) Payback

Payback was launched in the 1990s by Kaufhof, the biggest retailer in Germany. With the number of issued cards being 35 million, Payback is the largest multi-partner loyalty points program in Germany. Its members include the METRO Group, Vodafone, Marriott and Lufthansa. Payback users mostly use collected points to purchase products and/or services.

### 2) Happy Digits

Happy Digits is the loyalty program launched by Deutsche Telekom in 2002. The number of cards issued to date amounts to 29 million. Major partners include Karlstadt, a large retailer, and Tengelmann, a nationwide chain of German supermarkets.

Happy Digits points are mostly exchanged for premiums provided by Happy Digits and participating companies, which constitutes a difference from Payback. Actually, in many cases, consumers collect points from

either Payback or Happy Digits, not both. This is because a clear separation is made among the companies and on the side of the consumers.

### (3) Cases in the US

The representative loyalty points programs in the US are mileage programs offered by airlines. Major airlines launched mileage programs for the purpose of differentiating their services from others when competition had intensified with the participation of many new airlines because of deregulation.

Subsequently, mileage programs have been adopted by airlines throughout the world. As of 2005, about 160 million people use these programs, with the number of mileage points issued exceeding 10 trillion. The fact that the US accounts for about 70 percent of mileage program members suggests that the US is a domain of airline mileage. In the US, mileage programs operate in partnership with many companies in different industries, and have assumed the position of the de facto key enterprise currency.

Among them, the largest is the AAdvantage program operated by American Airlines, with 52 million members (as of March 2006).

American Airlines is the pioneer of mileage programs. A significant feature of its mileage program is that it was able to generate a favorable cycle in which a large number of members could be secured at the initial stage because it was the pioneer of such programs, and new members are attracted based on that member base.

At the same time, by increasing the mileage rate and the number of opportunities to issue mileage points for frequent flyers, the company strengthened the opportunities of issuing points. In addition, it also strengthened the “entry to points (ease of accumulating points)” by forming partnerships with many other companies. As a result, the company was successful in fully appealing to the ease of points accumulation as well as in generating the effect of customer lock-in (retention).

While this issue is facing the whole industry, the total number of mileage points in circulation has been increasing and amounts to a vast volume. This situation requires focused efforts for creating opportunities to redeem the issued mileage points to attain a balance between earned and redeemed points and from the perspective of improving customer satisfaction.

To address this issue, we see a recent trend of offering numerous “exit (items points are exchanged for)” options to members. For example, in a tie-up with mileage exchange websites as represented by Points.com (<http://www.points.com/>), airlines enable members to exchange mileage points earned for products from companies such as Amazon.com and Starbucks, thereby increasing the attractiveness of exit options.

In this way, an infrastructure facilitating the circulation of mileage points is being developed, and a new phase of enterprise currency is emerging.

## 3 Cases in Asia

In Asia, we introduce the trends of enterprise currency in Korea, an advanced country in the field of the Internet, and in China that has been growing rapidly in all markets.

### (1) Cases in Korea

While this fact is not so well known in other countries, Korea is an advanced country in terms of loyalty points programs. Any company that has a point of contact with its customers operates such a program in one way or another. Consumers in Korea are highly conscious of incentive points as assets as are Japanese consumers. In Korea as well, the number of point cards held by each person has been increasing year by year. It was reported that the per-capita average number of cards held by people in their 20s and 30s exceeded ten. As such, next to Japan, Korea is a very advanced country in terms of loyalty points programs.

#### 1) OK Cashbag

Among the large number of loyalty points programs offered in Korea, OK Cashbag, which was launched in June 1999, is the most representative service. With 26 million members and 45,000 participating stores, OK Cashbag points have become the enterprise currency that exerts an extremely strong influence on consumers.

OK Cashbag traces its history to a points program of gas stations owned by SK Energy of SK Group, a major conglomerate in Korea. Subsequently, SK Energy formed an alliance of its points program consisting of top-ranking companies in a variety of industries. OK Cashbag was successful in achieving its current status by enhancing the attractiveness of its points and increasing the number of repeat customers through such an alliance.

Companies that have established tie-ups with OK Cashbag include not only major companies that have a point of contact with consumers such as SK Group’s mobile communications carrier, large-scale mass retail stores, restaurant franchises, EC (electronic commerce) companies, credit card companies and food manufacturers, but also a large number of small retailers (Table 1).

The participating stores indicated above constitute the “entry” to points issued by OK Cashbag. Consumers can earn about 3 to 5 percent of the purchased amount as points. When consumers purchase products with OK Cashbag coupons, they can earn the monetary amount indicated on the coupon by using KIOSK terminals. Specifically, the following four methods are available.

- Consumers earn points by presenting an OK Cashbag card when they purchase products and/or services at OK Cashbag’s partner companies and/or member stores.
- Consumers purchase products to which OK Cashbag coupons are attached.

**Table 1. Partner Companies of OK Cashbag in Korea**

Classification	Name of company
SK Group companies	SK gas stations, SK Telecom (mobile communications carrier)
Off-line partner companies	About 200 companies including E-mart (GMS), T.G.I. Friday's, KFC, Burger King (restaurant franchises)
On-line partner companies	About 300 companies including Cyworld (SNS), GMart (EC), YES24 (bookstores), and Hangame (online game)
Manufacturers	About 60 companies including Seoul Milk, Dong Suh Food, CJ Group, and ChungJungWon
Credit card companies	About 13 companies including Kookmin Bank, Industrial Bank of Korea, and Shinhan Bank
Others	About 30,000 small retail stores

Notes: EC = electronic commerce, GMS = general merchandise store, SNS = social networking service

- Consumers use credit cards imprinted with the OK Cashbag logo.
- Consumers participate in events conducted by OK Cashbag such as questionnaire surveys.

In order to facilitate circulation of OK Cashbag points and coupons, many “exits” (opportunities) must be provided to enable consumers to freely use collected points, which is the need from the consumers’ perspective. However, from the companies’ perspective, in anticipation of the effect of attracting new customers that is brought about by OK Cashbag, a support system must be established to enable consumers to use points easily. What is noteworthy in the strategy adopted by OK Cashbag is that it opened its points program and encouraged the participation of many companies. This strategy has consequently expanded the options that consumers have to use points, thereby increasing convenience.

In addition, OK Cashbag supports partner companies participating in its points program to retain their member stores by conducting joint marketing activities based on customers’ consumption behaviors.

## 2) Pomm

Daum Communications, which is the leading operator of an Internet portal site in Korea, started the “Pomm” points program in January 2007.

Pomm enabled consumers to use a single points card for services that are provided by about 30 companies offering their respective points services at 15,000 stores. In only about ten months, from January 2007 to October 2007, Pomm raised about 500,000 members.

Users can select points programs in which they want to participate at the initial screen when they sign up for the Pomm program so that users need not use the points programs of the partner companies indicated above that do not interest them.

Daum’s integrated points program business can function as a highly influential marketing tool by providing a platform to many companies and enabling consolidated

management of customer information. The current Pomm service, however, does not enable the exchange of points among partner companies. This means that the relationship between the entry and exit of points is on a “1 to 1” basis. Pomm has a plan to enable the exchange of points in the future at an exchange rate determined among partner companies by entering into points exchange agreements.

Pomm’s service has certainly contributed to the reduction of operating costs of points programs from the perspective of operating companies, and to the elimination of the troublesome enrollment process for a points program for each company from the perspective of consumers. As such, Pomm’s service has shown new possibilities for future points programs. Further expansion of the base of participating stores and members in the future will enable more efficient business operation and will facilitate more effective joint marketing activities with participating stores. This will enable Pomm points to have a major impact as an enterprise currency.

## (2) Cases in China

In China, where the pace of development is very fast, priority is often given to the strategy of expansion such as opening new stores rather than the retention of customers. Nevertheless, the number of companies offering loyalty points programs has been increasing.

### 1) Bailian Group

The Bailian Group, China’s largest retailer, operates some 7,000 supermarkets and convenience stores throughout China, of which about 5,000 offer a loyalty points program. The Bailian Group, which currently has a member base of about 12 million customers, is fully aware of the importance of such a program. Actually, sales per customer have grown substantially after the introduction of the loyalty points program, with sales to members becoming three times larger than to non-members. In addition, because the funds for operating the loyalty points program are often borne by suppliers as sales

promotion expenses, the Bailian Group has been successful in establishing a considerably attractive loyalty points program.

With usage growing year by year and through trial sales promotional activities based on customers' purchase histories and a new tie-up with a mobile communications carrier, the loyalty points program of the Bailian Group is now nearing, step by step, the position of the key enterprise currency in China.

## 2) SmartClub

Unlike the loyalty points offered by the Bailian Group, SmartClub, which is a loyalty program platform operator, is engaged in a tough struggle. Although SmartClub once aimed at becoming a coalition loyalty points program by establishing partnerships with McDonalds and a variety of other companies, it was difficult for SmartClub to provide products that were attractive to members by keeping marginal costs low because the company does not have its own products. To overcome this situation, it was necessary for SmartClub to enter into alliances with companies providing attractive products. For this purpose, SmartClub had to have a large number of members that would appeal to these companies, or 20 ~ 30 million customers. Because there is also a need to install reader/writer terminals within the stores, such cost is considerably difficult for a company that does not have its own stores.

Currently, SmartClub has been caught in this difficult situation and so adopted the strategy of operating as advertisement media, rather than as a loyalty points operator. Based on this strategy, SmartClub is attempting to expand its member base. Currently, in order for any loyalty cards to function as key enterprise currency, the sponsoring company must have a huge customer ID (identification) base, i.e., an extremely large number of customers.

In the above sections, we introduced several cases of enterprise currencies in other countries. While these currencies are chiefly based on partnerships established within their respective domestic markets, there are possibilities of entering into alliances beyond national boundaries. In the next chapter, we will discuss the use of enterprise currencies in the global market.

## II Global Use of Enterprise Currencies

In this chapter, we suggest how enterprise currency (or a loyalty points program if a program is offered only by a single company) could be made effective use of in the global market based on the operation types introduced in Chapter I.

We must note that enterprise currency is nothing more than a tool to promote the operation and alliance of companies. Therefore, because the frequency of international

use of enterprise currency would naturally be lower than the frequency of daily use, the percentage that this tool can contribute to sales might not be large. Nevertheless, globalization of enterprise currency will not only facilitate seamless economic activities in the global market, but will also enable a company to show global partnerships throughout the world.

In studying the global utilization of enterprise currency, companies must first identify their customers who are engaged in activities beyond national borders. In addition to offering benefits suitable for such customers, it is important to endeavor to increase the loyalty of such customers to a company's products and/or services.

Partnerships among companies based on an enterprise currency can start at any time and can stop at any time (with some prior notice). Such partnerships are more efficient and flexible than those established through the injection of capital. Accordingly, it would be worthwhile for Japanese companies to look for ways of making use of enterprise currency as part of their new global strategies.

### 1 Global Operation of a Points Program Offered by a Single Company

In the Asian markets, consumers have high interest in loyalty points programs. In February 2007, Amazon Japan (Amazon.co.jp) started a loyalty points program. However, such a program is not available in other countries. Because the resale price maintenance system is applied to books in Japan, book prices can neither be increased nor discounted. While this loyalty program can be regarded as de facto discounts, such a move can also be seen as symbolizing the high interest that Japanese consumers have in loyalty points programs. If the loyalty points offered by Amazon Japan were to be offered by other Amazon companies in other countries, this is exactly the global evolution of a loyalty points program.

As such, if Internet-based companies such as electronic commerce (EC) companies start transactions in various countries, and if they offer loyalty points for such businesses, loyalty programs can be used to promote sales on a global basis.

For example, if Google starts a loyalty points program, its program would become the world's largest loyalty program that could be used anywhere throughout the world because of an extremely large number of users. However, in the US where companies tend to pursue short-term goals, the culture of using coupons for sales promotion has taken root, and loyalty points are not so widely used at present. Linden Dollars, the virtual currency used in Second Life operated by Linden Research, Inc. (Linden Lab), are one type of electronic money or points. With progress in localization such as the development of the Japanese version, Linden Dollars will rapidly expand in terms of both the amount issued and the amount in circulation.

When we consider the globalization of loyalty points programs, expectations are naturally being given to Internet-based companies. Therefore, what about Japanese Internet-based companies?

While EC can be operated in a borderless manner, only a limited number of Japanese EC companies are globally successful. This is because a number of issues must be dealt with such as languages, commercial practices, customs clearance and distribution in other countries, just to name a few. It is assumed that many companies hesitate to enter into the global market for these reasons. However, it is fully possible to overcome these issues and to encourage consumers to purchase more by using loyalty points programs.

In the Asian markets as well as in the European and US markets, loyalty points programs have begun to catch on as marketing tools, although they are not yet as popular as they are in Japan. Accordingly, if Japanese companies that are more experienced in utilizing such programs were able to offer services that are suitable for consumers in the relevant countries through EC, loyalty points programs would contribute to the promotion of sales on a global basis.

## 2 Use of “Common Enterprise Currency” through Global Partnerships

Companies offering enterprise currencies through global partnerships involving multiple companies already exist.

As shown in Figure 1, airlines that provide international transportation have been using global partnerships.

Cathay Pacific Loyalty Programmes Ltd., a subsidiary of Cathay Pacific Airways in Hong Kong, manages and operates Asia Miles, the leading travel reward program in Asia. By establishing pan-Asian and global partnerships centered on Hong Kong, Asia Miles functions as the common enterprise currency.

Asia Miles has a wide variety of partners both for earning and redeeming mileage points in terms of business fields (airlines, finance, hotels, telecoms, transport, retail, etc.) and areas (Hong Kong, all of China, Asia, the world) (Figure 2).

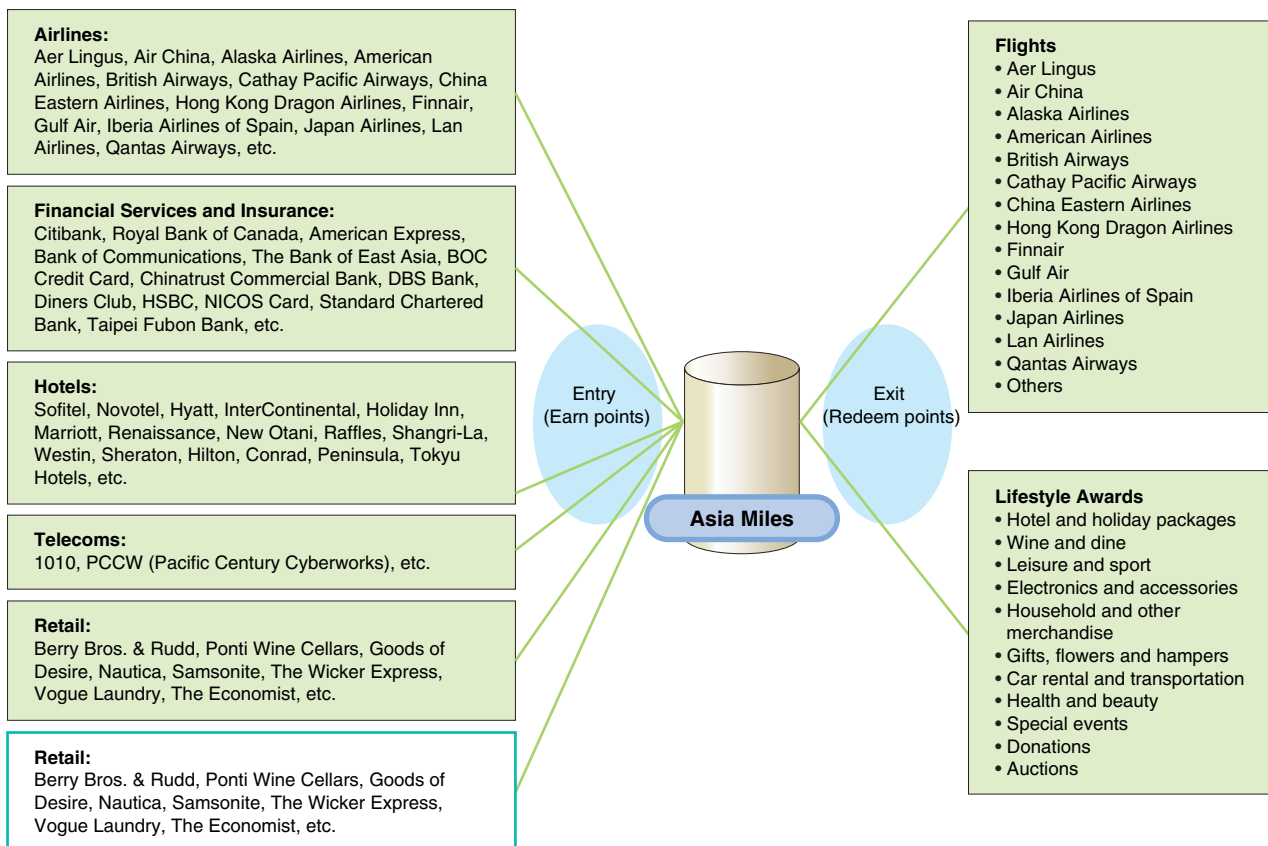
The next topic is how Japanese companies other than airlines should offer loyalty points programs or enterprise currency through global partnerships in the future.

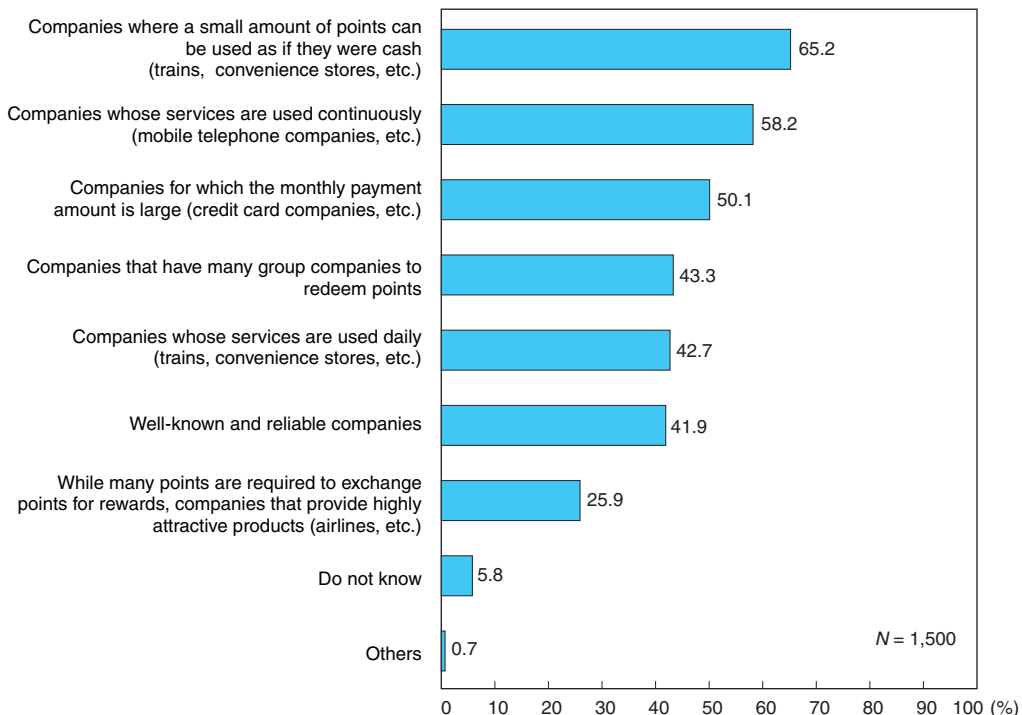
The first important step in forming partnerships is to identify the physical and psychological lines of flow of the target customers. While this is not necessarily limited to global partnerships, companies that provide products and/or services that are used by consumers daily and continuously should play central roles (Figure 3). Specifically, the principal operators of loyalty programs should be companies in the retail, transport and communications fields.

### (1) Alliances in the retail field

Many convenience stores operating in Asia have some sorts of relationships with Japanese companies. Even if

Figure 2. Asia Miles Partners



**Figure 3. Desired Core Companies in Points Program Alliance (Multiple Choices)**

Note: Based on an online survey targeting owners of multiple loyalty points programs.  
 Source: "Survey on Points and Mileage" conducted by Nomura Research Institute in August 2007.

the funds are provided by a different source, in some cases, the same brand as that of one of the convenience store chains in Japan is used. Japanese consumers often use the same brand stores overseas as those used daily in Japan. If a loyalty points program were jointly offered or if loyalty points issued in convenience stores in Japan could be used overseas or such loyalty points could also be earned overseas, the overseas use of the same brand by Japanese consumers could be ensured. Furthermore, this marketing tool would support in mutually driving customers among different countries. This approach could also be applied to the use of overseas points in Japan.

In addition to the alliances using the same brand as indicated above, alliances focusing on highly loyal customers are also possible. For example, the Bailian Group, the leading retailer in China, offers the "OK Card" loyalty program. Customer information accumulated under this program enables the identification of highly loyal customers. The number of Chinese people traveling to Japan has been increasing year by year. If Japanese department stores could treat them in Japan in the same way as they are treated in China based on such information available under the loyalty program, Japanese retailers would be able to acquire a major portion of purchases made by Chinese visitors in Japan. As for the Bailian Group, it would be able to improve customer satisfaction.

A loyalty points program can also be effective in attracting visitors to rural areas. In Japan, there are hot springs and places designated as world heritage sites. It

would be interesting if a loyalty program, together with image strategy, could be utilized for regional development.

For example, visitors to Japan who went to Shiretoko, Hokkaido, this year might visit Kyoto on their next visit. To help target these visitors, one idea would be that respective tourist resorts form some type of alliance and offer a common enterprise currency.

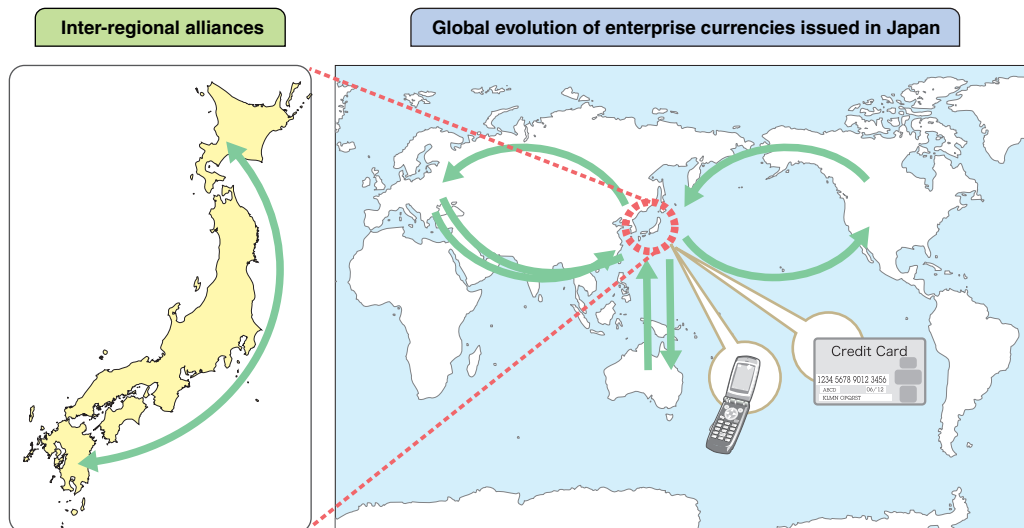
Recent data indicate that many Australian visitors have been visiting ski resorts in Hokkaido. For any tourist resort alliance to attract visitors not only from Asian countries such as China, Taiwan and Korea, but also from the Pacific Rim and throughout the world, the utilization of enterprise currency is certainly conceivable (Figure 4).

In relation to the above, the Ministry of Land, Infrastructure, Transport and Tourism has been implementing the Visit Japan Campaign (the headquarters was launched on March 26, 2003) as part of its strategy to promote visits by foreigners to Japan under the Global Strategy to Promote Tourism.

This campaign aims to narrow the gap as quickly as possible between the number of Japanese people traveling overseas (about 16 million yearly) and the number of foreign visitors to Japan (about 5 million, which is less than one-third the former figure).

The goal of the Visit Japan Campaign is to attract 10 million visitors annually from other countries to Japan by 2010. As one tool of these activities, enterprise currency that would function to encourage repeat visitors and drive customers among various regions would be

Figure 4. Global Evolution of Enterprise Currency



able to contribute to achieving this goal. For this purpose, all regions concerned should apply “enterprise currency marketing.” Specific measures would include securing many attractive “entry” and “exit” partners and introducing “behavioral points” to evaluate the frequency of visits to specific areas.

As explained above, enterprise currency could be effectively utilized in all retail fields. Efforts to promote such utilization would include cross-border partnerships beyond national boundaries as well as beyond business categories.

One example is to enable the use of loyalty points issued by Japanese retailers for transportation and hotels overseas. Travel agencies, media and Internet mall companies such as Rakuten could act as intermediaries between Japanese retailers and overseas companies. The development of a network to mutually drive customers beyond country borders and business categories would enable the analyses of consumer behaviors and contribute to the creation of new businesses.

## (2) Alliances in the transportation field

In Japan, electronic money can now be used for not only train tickets but also at most stores in cities. Loyalty points programs largely contribute to such wide use of electronic money. Accordingly, in the same way as in the retail field, a network of mutually driving customers should also be developed in the transportation field.

On June 26, 2007, a meeting was held among the tourism ministers of Japan, China and Korea in Qingdao, China. They adopted the Qingdao Declaration, in which they agreed to study the development of a common public transportation IC card and to cooperate with each other in attracting tourists from other countries. The development of the common public transportation IC card aims to improve tourist convenience by providing a scheme that enables tourists to use IC-card type public transportation tickets used in each country, such as Suica

(issued by East Japan Railway) and PASMO (used as train and bus tickets in the Greater Tokyo Metropolitan Area) in Japan, in any of the three countries. Japan proposed the scheme, and both Korea and China agreed to study specific measures for this purpose.

There are moves to address and overcome the differences in IC card standards adopted by each country by adopting the NFC (near field communication) system between IC card media and a reader/writer. This technology is expected to contribute to the realization of the mutual use of the respective IC cards. To promote mutual use and mutually drive customers, loyalty points programs could also be made use of as was used in facilitating the use of electronic money in Japan. As noted previously, while contribution to sales through the achievement of this idea might not be substantial, it could be a symbol of the East Asia alliance towards the rest of the world.

Actually, Managing Director Wang Yong of the Beijing Municipal, Administration and Communications Card Co. Ltd. said during our interview that “even if mutual use is realized, its contribution to sales would be limited. Nevertheless, it is meaningful to evolve such a program in the Pacific area (Tokyo—Seoul—Beijing—Shanghai —Taipei, etc.) as a means of appealing to the entire world.”

As such, together with the use of IC card media, loyalty points programs could contribute to the vitalization of tourist resorts and regional areas in Japan and other countries. This would certainly be one of the policies that contribute to the realization of the “East Asia Retail Block Concept.” In the same way as in the retail field, the adoption of enterprise currency marketing in all regions concerned would facilitate the realization of this concept.

## (3) Alliances in the communications field

International use of communications, in particular, mobile phones, is enabled through global roaming

(meaning the use of facilities of a partner carrier in a destination country), in which a partner company has already been designated. Accordingly, mutually driving customers through a loyalty points program has no particular meaning.

Therefore, mutual use of *Osaifu keitai* (a mobile phone equipped with an IC card) in place of IC cards described above could be considered in the area of mobile phones. However, in the case of Japan, focused efforts to meet sophisticated consumer needs sometimes result in Galapagosization (products and/or services are independently developed into an extremely high level, thereby becoming remote from world standards). In order to prevent such a situation from occurring, support should be provided by exporting relevant technologies, and at the same time by issuing loyalty points for using *Osaifu keitai* electronic money, an expertise at which Japan excels.

In addition to EC loyalty points programs, loyalty programs in the field of communications include points exchange websites, which originated in Japan. If these exchange websites were expanded to enable exchanges of loyalty points issued in each country as well as exchanges to electronic money in each country, it would become possible to mutually drive customers through transactions on websites as well as brick and mortar transactions. This would also be effective for international advertising of companies issuing loyalty points in each country.

### 3 Government Involvement in the Use of Enterprise Currency

So far, we have discussed the utilization of enterprise currency with a focus on private companies. Finally, we introduce a case in which government has taken the initiative.

One example is the “Kyoto Eco Points System” advocated by the Ministry of the Environment. In this system, expenses for utilities saved by Kyoto citizens are converted to eco points. Citizens can then use these eco points to purchase energy-saving home appliances.

On February 1, 2008, the Ministry of the Environment designated Kyoto, where the Kyoto Protocol was adopted, as the model area for promoting the reduction of greenhouse gas emissions from households. The ministry announced that it would start a scheme in the fall of this year in cooperation with Kyoto Prefecture in which eco points are issued for reductions in electricity and gas expenses in each household. The earned eco points can be used to purchase energy-saving home appliances, etc.

Kyoto Prefecture will gather the data on the monthly electricity and gas charges of each participating household, which will earn eco points for the amount of charges reduced. While the exchange rate of the reduced amount to eco points is yet to be determined, this

scheme will become a government-level ecological points program.

If this scheme is applied, a points program could be evolved for the reduction of CO<sub>2</sub> by companies (and consumers) and for emission trading between companies and between countries. A specific method would be to enable companies in the relevant country as well as in other countries to purchase emissions allocated to each country and redeeming the emissions reduced by consumers by issuing eco points to such consumers. Consumers could use collected eco points to purchase energy-saving home appliances at mass retailers, etc. If realized, this plan would be a new approach involving the government, companies and consumers through the use of enterprise currency.

## III Development of Systems and Standards for Global Evolution of Enterprise Currency

As explained in the previous chapters, we can think of a variety of strategies to make use of enterprise currency on a global basis. At the same time, we also face the issue of systems and standards to further develop enterprise currency into a highly convenient, safe and secure tool that could be used frequently by many consumers.

The issues of systems and standards were also discussed at meetings of the Study Group on Consumer Points Programs established by the Ministry of Economy, Trade and Industry and during meetings of the Study Group on Payment and Settlement Systems organized by the Financial Research and Training Center of the Financial Services Agency. To develop systems and standards that could be applied internationally, it is important for multiple countries to participate in standardization activities. The standardized systems would serve as models for countries where enterprise currency is to be introduced in the future.

Among the required systems is, for example, an accounting standard. International accounting standards do not necessarily reflect the commercial practices of each country. A need will also arise to study comprehensive standards including the definitions of terms by involving not only companies but also the government of each country.

In addition, to ensure that Japanese companies can achieve satisfactory results through global marketing by making use of enterprise currency, the system to be developed must avoid any ambiguity or any sense of confusion. For this purpose, one method might be to set up a venue for study (study group, etc.) in Japan where draft operation standards are prepared, and to invite representative Japanese companies and other East Asian companies in each business category to participate in

this venue, where adjustments are made to develop optimal standards for all concerned.

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**Hiromichi YASUOKA** is a senior consultant at NRI's Financial Strategy Consulting Department, and a part-time lecturer at the Graduate School of Interdisciplinary Information Studies, The University of Tokyo; the Graduate School of System Design and Management, Keio University; and the Faculty of Business Administration, Komazawa University. His specialties include consulting on the establishment of CRM and marketing strategies and operation reforms principally in the field of information and communications and the financial field. Based on his experience in launching new e-businesses, he also provides suggestions for new businesses in a variety of fields.

**Masahiro KAJINO** is a senior consultant at NRI's Business Innovation Consulting Department. His specialties include consulting on the establishment of business and marketing strategies, support for new business development and alliances, the establishment of strategies for overseas business evolution and business reforms in the field of information and communications, and consumer goods, retail and service fields, in addition to overall support for loyalty points programs.

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Inquiries to: Corporate Communications Department  
Nomura Research Institute, Ltd.  
E-mail: [nri-papers@nri.co.jp](mailto:nri-papers@nri.co.jp)  
FAX: +81-3-6660-8370