Are coalition loyalty programmes a trap?

The strategic case for operating your own loyalty programme. Why Australian and New Zealand retail and hospitality groups need to consider the options carefully.

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Executive Summary

Multi-merchant coalition loyalty programmes have long been marketed as an efficient path to customer engagement, offering instant scale and shared infrastructure. However, our experience and analysis reveals that for most retail groups operating in Australia and New Zealand, coalition models have created more strategic problems than they solved.

The fundamental issue is that coalition programmes commoditise customer relationships, drain profitability, and transfer strategic control from retailers to programme operators whose interests fundamentally misalign with participant needs. In concentrated markets like Australia and New Zealand, where retailers compete for a relatively limited customer base, these disadvantages are particularly acute.

This white paper examines the critical disadvantages of coalition programmes and makes the case for why proprietary loyalty strategies deliver superior long-term value in Trans-Tasman markets.

The question every retail executive should ask is not whether coalition programmes are convenient, but whether they serve your organisation's long-term competitive interests.

The coalition promise versus reality

Coalition loyalty programmes emerged in the ANZ markets in the 1990s with a compelling value proposition: established network, access to millions of members, shared programme costs, and benefit from economies of scale. Flybuys, launched in Australia in 1994, quickly became the country's largest loyalty programme. Everyday Rewards followed, and New Zealand saw the introduction of Smart Fuel and Fly Buys – both now defunct.

The scale was impressive: Flybuys Australia reports over 9 million active members, representing roughly one-third of the Australian population. Everyday Rewards claims similar penetration amongst Australian households. For retailers hesitant to build proprietary programmes, coalitions offered a seemingly low-risk entry into customer loyalty.

Today. digital technology has democratised loyalty programme creation, customer expectations have evolved toward personalisation, and data has become the most valuable currency in retail. Yet many retail groups remain locked into coalition models designed for a different era.

The Australian and New Zealand markets present unique characteristics that make coalition programmes particularly problematic. Both are relatively small, concentrated markets dominated by a handful of major retail players. In grocery, Woolworths and Coles control approximately 65% of the Australian market, while in New Zealand, Woolworths NZ and Foodstuffs together command over 85% of the market.

In such concentrated environments, the strategic disadvantages of sharing customer data and subsidising competitor sales are amplified.

Do you really want to lose your brand identity?

The most fundamental problem with coalition loyalty programmes is their commoditising effect on customer relationships. When shoppers earn identical points whether they visit your stores or your competitors', the programme becomes the brand, not you.

In the Australian market, this dynamic is particularly evident in grocery retail. Both Coles and Woolworths operate their own programmes (Flybuys and Everyday Rewards respectively), but the customer experience is remarkably similar: scan a card, earn points, redeem for discounts or partner rewards. Shoppers develop primary loyalty to the points currency rather than to either retailer specifically.

Research from Roy Morgan consistently shows that while coalition programme membership rates are high, actual brand loyalty in Australian grocery retail remains surprisingly low. Customers routinely shop at multiple retailers, making decisions based primarily on convenience and price rather than loyalty programme benefits. The programmes fail to create the switching barriers their economics would require to justify the costs.

This commoditisation makes differentiation extraordinarily difficult. If customers perceive all coalition partners as interchangeable point-earning vehicles, your unique brand attributes - service quality, product selection, store environment, values - become secondary considerations. The result is a gradual erosion of authentic brand loyalty. Customers become programme mercenaries, shopping wherever points can be accumulated most efficiently rather than where they feel genuine affinity.

Can you afford to share your most valuable asset?

In today's retail environment, customer data represents competitive advantage. Understanding purchase patterns, preferences, channel behaviours, and lifetime value enables retailers to optimise everything from merchandising to marketing to store operations. Coalition programmes require participants to surrender this advantage.

Customer transaction data gets pooled into a shared database accessible to all partners, including direct competitors. While coalition operators typically provide aggregate insights and protect individual transaction details through contractual arrangements, the strategic damage is already done.

Your competitors gain visibility into overall shopping behaviours and preferences that should represent your exclusive competitive intelligence.

The Trans-Tasman markets' relatively small size amplifies this problem. With Australia's population of approximately 26 million and New Zealand's 5 million, customer bases are limited compared to larger markets.

Exclusive customer data becomes even more valuable when there are fewer customers to compete for. Sharing this precious asset with competitors operating in the same limited market is strategically counterproductive.

Modern personalisation requires detailed individual-level understanding: not just what customers buy, but when, why, and in what context. Coalition programmes limit your ability to link loyalty data with other critical datasets you own - customer service interactions, online browsing behaviour, social media engagement, in-store traffic patterns.

The result is fragmented customer understanding when competitors with proprietary programmes enjoy a unified view.

Are you paying too much for too little return?

Coalition loyalty programmes impose substantial costs that directly impact retail profitability. Participation fees, transaction charges, and point redemption expenses typically consume 2-5% of sales - a devastating burden for retailers operating on single-digit net margins.

In Australian grocery retail, where net profit margins typically range from 2-3% according to IBISWorld industry reports, coalition programme costs represent a significant proportion of total profitability. For every $100 in sales, a retailer might generate $2-3 in net profit but pay $2-5 in coalition costs. This leaves minimal margin for error and makes the programme ROI equation extremely challenging.

The New Zealand market faces similar pressures. The Commerce Commission's market study into the grocery sector (released in 2022) highlighted profitability concerns and competitive dynamics that make expensive coalition programme participation harder to justify economically.

Unlike proprietary programmes where retailers control the economics and can optimise costs based on customer lifetime value calculations, coalition costs are largely non-negotiable and non-discriminating. High-value customers who would have remained loyal without incentives cost the same as marginal customers who might switch to competitors tomorrow.

The economic problem compounds when examining redemption dynamics. Points earned at your stores create a liability, but that liability can be settled by redemption anywhere in the coalition.

Your most engaged customers might redeem points at competitor locations, meaning you funded their acquisition but a rival captured the redemption revenue. You're subsidising competitor sales while generating costs that may never return value to your business.

Who really controls your loyalty strategy?

Retail success requires strategic agility: the ability to test, learn, and rapidly pivot based on market feedback. Coalition programmes fundamentally constrain this agility by imposing standardised structures designed to serve the collective, not individual participants.

Every aspect of programme design becomes subject to coalition rules and approval processes. Earning rates must conform to network standards. Redemption options are limited to the coalition catalogue. Promotional mechanics need coalition approval. Customer communications must follow programme guidelines. Technology integrations face coalition platform constraints.

This rigidity prevents retailers from tailoring loyalty strategies to their specific business models and customer segments. A premium retailer targeting affluent customers needs different programme mechanics than a value retailer serving price-sensitive shoppers, but coalition standardisation forces both into the same framework.

The inability to rapidly test and iterate creates additional strategic disadvantage. Proprietary programmes allow retailers to implement A/B tests on earning structures, experiment with surprise-and-delight tactics, trial new redemption options, and optimise based on results - all within days or weeks. Coalition participants face approval processes, technical limitations, and coordination requirements that can delay innovations for months or prevent them entirely.

Furthermore, coalition operators are incentivised to maximise point circulation across the network, which may conflict with individual retailer profitability. Operators profit from transaction volumes and point issuance across all partners. They have little interest in whether your specific participation generates positive ROI. In fact, adding more partners - including your direct competitors - benefits the operator while diluting your market position.

What happens when you want to leave?

Perhaps the most insidious aspect of coalition programmes is the difficulty of exit. Contractual commitments, technical integrations, customer expectations, and liability obligations create substantial barriers that trap retailers in underperforming programmes for years or even decades.

Exit costs are considerable. Migrating customers to a new programme requires extensive communication, systems integration, and change management. Unredeemed point liabilities must be settled, which can represent substantial financial obligations given the large member bases of programmes like Flybuys and Everyday Rewards. Technical infrastructure must be replaced. Contractual penalties may apply. Customer service must manage the transition while maintaining satisfaction.

The customer perception challenge is equally significant. Long-tenured coalition participants have trained customers to associate their brand with the coalition points. In Australia, where Flybuys has operated for over 30 years, multiple generations of shoppers have grown accustomed to earning and redeeming points. Exiting risks alienating these customers who value the coalition currency.

Coalition operators understand these exit barriers and structure contracts accordingly. Multi-year commitments, auto-renewal clauses, and termination penalties ensure that participants remain locked in regardless of performance or strategic fit. Retailers who recognise the programme isn't delivering value find themselves trapped, watching competitors with proprietary programmes gain advantage while they remain contractually bound.

The strategic implications extend beyond immediate costs. Lock-in prevents retailers from pivoting to emerging loyalty models, adopting new technologies, or responding to market shifts. In rapidly evolving Trans-Tasman retail markets, where e-commerce growth, changing consumer preferences, and new competitive entrants create constant disruption, this inflexibility can become an existential threat.

The hidden costs you haven't considered
Beyond the obvious financial and strategic disadvantages, coalition programmes create several hidden costs that compound over time:

Brand contamination through association. Your brand becomes inextricably linked with every other merchant in the coalition, creating reputation risks you cannot control. If a coalition partner experiences reputational damage - product recalls, service failures, ethical controversies - your brand suffers by association. Quality perception represents another challenge: premium retailers in coalitions find their brands linked with discount merchants, potentially diluting their positioning.

Customer confusion and attribution impossibility.

Multi-merchant programmes create cognitive burden for customers who must track different earning rates, redemption options, and rules across numerous coalition partners. Roy Morgan's consumer research in the Australian market consistently shows that while coalition programme membership penetration is high, active engagement and redemption rates lag significantly behind membership numbers. Many Australians carry coalition cards but don't actively optimise their shopping behaviour around programme benefits.

When customers do engage with the programme, it becomes impossible to determine whether their loyalty stems from your specific brand or the broader coalition benefits. This attribution ambiguity makes it nearly impossible to measure true programme ROI or make informed strategic decisions.

Communication overload and message dilution.

Coalition programmes generate constant communication from multiple merchants to shared customers. Your carefully crafted promotional campaigns get lost in this noise. The segment you've identified as high-value targets receives your offer alongside multiple other coalition partner promotions. Attention gets divided, attribution becomes impossible, and response rates suffer.

Tranxactor's platform can deliver superior value while securing brand value

For most retail and hospitality groups operating in this region, the solution is clear: your own proprietary loyalty programmes offers complete control over customer relationships, data, economics, and strategy.

Tranxactor's platform and infrastructure has dramatically reduced the barriers to building your own loyalty programme. Our cloud-based platform, incorporating advanced CRM, campaign and digital engagement tools, and real time processing of earning and burning rewards offers sophisticated capabilities at a fraction of historical costs.

What once required multi-million dollar investments can now be launched with modest budgets and scaled as value is demonstrated.

Tranxactor helps deliver advantages coalitions cannot match:

1. Complete ownership of customer relationships, building genuine brand affinity rather than shared programme loyalty

2. You will own your customer data ensuring unfettered access providing competitive intelligence your competitors cannot access.

3. Full control over your programme economics, optimising incentives based on customer lifetime value rather than paying standardised coalition fees

4. Strategic flexibility allowing rapid testing and iteration without approval processes or coalition constraints.

5. Authentic differentiation that strengthens brand positioning and justifies premium pricing

6. Controlled communications that reinforce your brand voice without competing with coalition partner messages

7. Integrated segmentation, tiering and marketing tools incorporating flexible rewards management and digital vouchers.

8. The investment case for running your own programme has become increasingly compelling in Trans-Tasman markets.

More importantly, your own programme will generate returns that coalitions never can: differentiated customer experiences, exclusive data insights, and authentic brand loyalty.

Conclusion: The coalition loyalty programme era is ending

Coalition loyalty programmes made sense when scale mattered and technology was costly. That era is over. Today's retail environment in Australia and New Zealand demands differentiation, personalisation, and agility—qualities coalitions restrict.

Retailers must ask: Can you afford to dilute brand identity? Share valuable data with competitors? Justify coalition costs and leakage? Or remain locked into an underperforming model?

Tranxactor's platform will deliver something that many other platforms and coalitions cannot: exclusive customer relationships; full control of data and economics; and flexibility to innovate. These advantages drive genuine loyalty and sustainable profitability.

The time to act is now. Call us.

tranxactor

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