Driving Co-Brand Innovation

Kyle Armstrong, CEO, Kaligo Solutions
3 strategies that are making a difference.

- Benefit Differentiation
- Opening Exclusivity
- Pre-Paid Co-Brand Cards
But first things first.

So what about Blockchain?

Relevant to co-brands? Possibly a threat?
“Travel Loyalty Programs are Prime Targets for Blockchain”
September 2017

“Blockchain Will Transform Travel Loyalty Programs”
March 2017
What is a blockchain?

It’s an immutable ledger of events.

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017-12-01</td>
<td>1,200 points issued to Account A</td>
</tr>
<tr>
<td>2017-12-03</td>
<td>900 points issued to Account B</td>
</tr>
<tr>
<td>2017-12-04</td>
<td>2600 points issued to Account C</td>
</tr>
<tr>
<td>2017-12-07</td>
<td>100 points moved from A to B</td>
</tr>
</tbody>
</table>

• **Events are recorded** (rewards example shown)

• **Information entered cannot be altered**

• **Ledger is public**, i.e. shared among many parties
The “events” recorded can be anything.

- Digital “coins”
- Loyalty points
- Lots of others things!
- Contracts.
- Shareholding.
- Rights.
- Insurance.
- Identities.
The key: shared vs. centralized ownership.

**Typical record keeping**

**Central ledger**, maintained by a trusted authority.

**Blockchain**

**Shared ledger**, peer-reviewed, each party keeps a copy.
An easy way to think about it.

How to record the knowledge of the world?

Central trusted authority.
Costly & hard to maintain.

Decentralized, peer-reviewed.
Free & always up-to-date.
## The blockchain reality for loyalty programs:

<table>
<thead>
<tr>
<th>Secure &amp; cheap way to run a points bank</th>
<th>Great!</th>
</tr>
</thead>
<tbody>
<tr>
<td>Easier exchange of points</td>
<td>Nice, but needs to be carefully managed.</td>
</tr>
<tr>
<td>Several parties must share a points bank</td>
<td>Yikes! I need to share data and control?</td>
</tr>
</tbody>
</table>
A realistic use case:

Several small/mid size companies join forces to launch a blockchain-based loyalty coalition.
So - innovation or threat for travel co-brands?

- **Blockchain is more than a fad.** It’s a highly functional tool to manage digital assets.

- To create a powerful loyalty effect, points need to be **aspirational** in addition to **functional**.

- Creating aspiration requires **some amount of control**, which is more difficult in a decentralized coalition.

**Blockchain will not make its way quickly into large loyalty programs**
Benefit Differentiation

Opening Exclusivity

Pre-Paid Co-Brand Cards
Unlock that special asset nobody else has!

How can you meaningfully differentiate your co-brand when all card issuers face roughly similar economics?

All cards offer points & miles. **BUT** You have something nobody else has!

The airline / hotel chain assets!
Some benefits have become more common...

- Free domestic baggage.
- Accelerated accrual on partner spend.
- Priority boarding and/or check-in.
- Free nights on lodging co-brands.
... some are still fairly rare ...

Companion tickets.

Award companion ticket, any class, any route

Award companion ticket, economy, short-haul

Revenue companion ticket, any class, any route

“The companion ticket alone makes the BA Amex card a gem”

Leading Travel Blog
... or even very rare ....

Accelerated tier status.

Immediate Silver status for 1 year
Card spend earns tier status miles
Immediate Platinum status for 1 year
A good benefit can generate its own revenue.

**Case study:** companion ticket – major international airline.

<table>
<thead>
<tr>
<th>Miles cost</th>
<th>Fees</th>
<th>Ancillaries</th>
<th>Addl. paid tickets (same trip)</th>
<th>Addl. spend from companion over 1 year</th>
</tr>
</thead>
<tbody>
<tr>
<td>($320)</td>
<td>$40</td>
<td>$30</td>
<td>$150</td>
<td>$120</td>
</tr>
</tbody>
</table>

**Source:** Kaligo partner airline
And actual usage costs need not be significant.

**Case study:** 10kg extra bag allowance – major intl. airline.

\[
24\% \times 3.9kg = 0.9kg
\]

- **benefit usage rate**
- **average excess taken**
- **Extra weight per co-brand ticket**

*Source: Kaligo partner airline*
Powerful benefits need not be expensive.

It’s all about perceived value.
Benefit Differentiation

Opening Exclusivity

Pre-Paid Co-Brand Cards

Mega Event WorldWide Co-Brand Track
29th November – 1st December 2017
The co-brand exclusivity spectrum (home market).

<table>
<thead>
<tr>
<th>100% exclusive</th>
<th>Nearly exclusive</th>
<th>Completely non-exclusive</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1 issuer)</td>
<td>(~2 issuers)</td>
<td>(many issuers)</td>
</tr>
</tbody>
</table>

- United
- Delta
- American Airlines
- Flying Blue
- Lufthansa
- British Airways
- Singapore Airlines
- Cathay Pacific
- Aeroplan
- Malaysia Airlines
- Qantas
- Jet Airways
- ANA
- Korean Air
- Emirates

Mega Event WorldWide Co-Brand Track
29th November – 1st December 2017
There’s good rationale for each side.

<table>
<thead>
<tr>
<th>100% exclusive (1 issuer)</th>
<th>Nearly exclusive (~2 issuers)</th>
<th>Completely non-exclusive (many issuers)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Why be here?</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Extract <em>more value</em> from issuer (exclusivity fees)</td>
<td>• <strong>Capture more</strong> of market’s total credit card spend</td>
<td></td>
</tr>
<tr>
<td>• Deepest issuer channel access</td>
<td>• Gain access to more &amp; <strong>new customer groups</strong></td>
<td></td>
</tr>
</tbody>
</table>
All eyes on Qantas!

Qantas Operating Margin
(Jul – Dec 2016)

- Issues co-brands with all 4 major banks in Australia
- 33% of market card spend is on Qantas co-brands
- Loyalty program estimated to be twice as valuable as the airline’s entire international business

Source: Qantas Quarterly Financial Report

Mega Event WorldWide Co-Brand Track
29th November – 1st December 2017
Gradual opening through new products & branding.

Launched new partner for debit cards & deposit.

New card branded only with loyalty program, not airline.
Gradual opening through new products & branding.

Launched new partner for debit cards & deposit.
What you can do next.

• **Identify issuers** of interest in your home market (right customer base, right channels, branch presence, etc.)

• Request **separate RFP proposals** for both exclusive and non-exclusive scenarios when your co-brand expires

• **Evaluate total revenue** and **customer access** opportunity to decide whether to take the plunge!
Benefit Differentiation
Opening Exclusivity
Pre-Paid Co-Brand Cards
Pre-paid co-brand cards continue to gain ground

British Airways Cash Passport
Launched 2013

Air Canada Conversion Card
Launched 2016

Velocity Global Wallet
Launched 2013

United GO Visa
Launched 2017

Qantas Cash Card
Launched 2013
Re-launched 2016
But do they deliver?

Split of miles issued
(airline launched pre-paid co-brand in 2013)

Still unknown:
- Impact on ticket sales
- Impact on retention and engagement
When does a pre-paid co-brand make sense?

• To **edge up miles issuance** if you’ve tapped out on traditional co-brand potential

• To drive **overseas spend** if interchange is under pressure in your home market

• If you are looking to acquire members from a **younger, more mass-market** customer audience

• If you have **sufficient scale** (business case is more challenging for smaller airlines or hotel chains)
3 strategies that are making a difference.

- Benefit Differentiation
- Opening Exclusivity
- Pre-Paid Co-Brand Cards