# Point Card Programs—Their Evolution and Prospects

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*More businesses are awarding points to customers who purchase qualifying merchandise or services. While point cards are intended to reward loyalty, consumers have complained about the difficulty of accruing points. In response, partner programs and point-card alliances have emerged that issue common points or allow point conversions across programs. Ironically, these programs interfere with the original aim of building customer loyalty. We predict that point systems will undergo consolidation as businesses seek more cost-effective ways to promote sales.*

## 1. Rapid Growth of Point Cards

Point card programs have proliferated at a dynamic pace. Besides conventional point card programs that issue points at the point of sale, new programs have emerged that offer points for activities as diverse as viewing Internet ads or owning shares of a company.

The total value of points issued has also mushroomed. In fiscal 2005, Yamada Denki, the leading electronics discount chain, posted ¥75.7 billion in point-card related expenses, or 5.9% of annual sales of ¥1.284 trillion. Bic Camera's point issuance ratio was even higher at 7.9% of annual sales. In total, the top five electronics retail chains issued an estimated ¥161.6 billion in points (Exhibit 1).

**Exhibit 1 Point Cards of Major Electronics Retailers**

(¥ billion)

| Company | Revenue | Points issued |
|---|---|---|
| Yamada Denki | 1,284 | 76 |
| Edion | 715 | 7 |
| Yodobashi Camera | 581 | 40 |
| Kojima | 498 | 5 |
| Bic Camera | 428 | 34 |
| Total | 3,506 | 162 |

Notes: Point data for Yamada Denki and Bic Camera (unconsolidated) are from *Yuka Shoken* financial statements. Point data for Edion and Kojima is estimated at 1 point per ¥100 sales revenue. For Yodobashi Camera, estimate is based on a comparison with Yamada Denki and Bic Camera.

Credit card companies, cell phone companies, airlines, department stores, supermarkets, drugstores, banks, and securities firms also issue points in profusion. In addition, many hair salons, barber shops, and restaurants continue to offer traditional stamp cards. According to one study, in fiscal 2005 the leading companies in nine industry classifications issued an estimated ¥450 billion in points. If smaller businesses are also included, the total points issued would undoubtedly reach much higher.

We analyze not only traditional point card programs that use physical cards, but the recent proliferation of Internet-based point cards.

## 2. History of Point Cards

Point programs originated in the U.S. The first program is believed to have started around 1850, when a retailer mistakenly overstocked on laundry soap. The retailer placed coupons on package wrappers which could be collected and redeemed for a gift painting. This led to stamps that could be redeemed for merchandise. Trading stamps were commercialized in 1896 when Sperry & Hutchinson began distributing Green

Stamps to retailers. Stamps were offered at gasoline stands in the early 1910s, supermarkets in the 1920s, and thrived through the 1960s. But they began to decline in the 1970s as businesses slashed costs under the severe inflation. Later, due in part to technological advances, stamps were replaced by rewards programs offered by credit card companies and other businesses.

In Japan, the first known point program began in 1916 at Kuga Gofukuten, a clothier in Kita Kyushu City. In 1928, Ezaki Glico Co. launched an advertising campaign by packing coupons inside candy boxes, and redeemed 20 coupons for a gift. However, U.S.-style trading stamps arrived much later—Green Stamps entered Japan in 1958, and Blue Chip stamps in 1962. Their late start is attributed to the slow modernization of the distribution system; supermarkets appeared only in the late 1950s.

Later, as cash cards and credit cards became widespread, card issuers introduced rewards programs. In 1984, ANA launched a mileage card, and in 1985, Yodobashi Camera became the first electronics discount chain to introduce a point card program. The apparent aim was to reduce price haggling with customers.

By 1991, almost all credit card companies had introduced point programs. At first, points could be redeemed only for merchandise, and the unappealing merchandise lineup was a problem. Nippon Shinpan made headlines by offering the first cash rebate. Large department stores were already issuing cards by the late 1980s, but the advertising law prevented them from offering gifts for purchases, and points were considered to be a gift. Instead, they resorted to offering price discounts to cardholders. They took the same tactic when the consumption tax was introduced. Department stores were barred from offering point programs until the advertising law was revised in 1996.

In the 1990s, developments were largely dictated by advances in computer technology. By integrating POS (point of sale) and point card systems, businesses learned how to quickly grasp sales patterns. Many businesses switched from stamp cards to magnetic point cards. In addition, point card programs spread from large companies to smaller enterprises including neighborhood shops, shopping centers, and

**Exhibit 2 History of Point Cards in Japan**

| Year | Event |
|---|---|
| 1916 | Kugago Fukuten starts Japan's first point card |
| 1928 | Ezaki Glico redeems 20 candy box coupons for Emperor Meiji poem anthology |
| * Stamp-type and seal-type point cards are introduced--such programs still exist today * | |
| | H&S Green Stamps start in Japan |
| 1962 | Blue Chip stamps start in Japan |
| 1984 | ANA starts mileage program |
| | Washington Hotel starts Japan's first card-type point card |
| 1985 | Yodobashi Camera issues point card; point cards become widespread |
| Early 1990s | Credit card point progrrams proliferate; merchandise prizes become more substantial |
| First half 1990s | Local shopping districts, shopping centers, specialty stores offer point cards |
| 1996 | Department stores start point cards after advertising law is revised |
| | Miyako Hotel starts point card |
| | Dai-ichi Kangyo Bank starts point card for salary deposit, utility bill payment, and home loans |
| 1999 | Daiei supermarket starts point card; other supermarkets follow suite |
| Since 2000 | Point programs proliferate on the Internet and cell phone platforms |
| | Point conversion programs expand |

Source: Compiled from media reports

specialty shops.

In the late 1990s, point cards spread to department stores and service providers such as hotels and banks. Daiei was the first supermarket chain to offer a point program in 1999, and the rest of the industry soon followed suite.

Since 2000, amid the growth of electronic commerce and electronic money, point systems have proliferated on the Internet as well as on cell phone platforms. Moreover points are being issued not only for purchases, but even for viewing advertisements.

## 3. Objective of Point Cards

In marketing terms, point cards are a form of sales promotion. Unlike advertising, sales promotion methods directly impact customer behavior. Other types of sales promotions include coupons, rebates, and discount cards (Exhibit 3).

The aim of any sales promotion method is to attract customers. Point cards go one step further by seeking to retain customers. When customers acquire points at the first purchase, the possibility of redeeming points for a reward encourages them to accumulate more points. Thus they are more likely to make repeat purchases at the same business. As points accumulate, the consumer's cost of switching rises, encouraging s loyalty.

## 4. Status of Card Use

To see how consumers use and evaluate point cards, we turn to the *Survey of Point Cards* (April 2006) by Net Research. According to this survey of 7,555 persons over the Internet, 96.3% have point cards, indicating the widespread acceptance of point cards. The leading point card issuers are electronics retailers with a 73.4% ratio, followed by drugstores and supermarkets (Exhibit 4).

Regarding the number of cards that are normally carried, 32.7% carry four to six cards, 25.1% carry two to three cards, 23.8% carry at least ten cards, 12.6% carry seven to nine cards, 4.6% carry one card, and 1.2% carry no card. Thus people carry about five cards on average.

Regarding complaints with point cards, only 4.2% have no complaints. The leading complaints are: having many point cards from different stores is cumbersome (67.5%), points are slow to accrue (60.3%), the payout ratio is low (51.9%), and points expire too soon (Exhibit 5). The last two complaints, which imply that points cannot be used effectively, are similar in nature to the complaint that points are slow to accrue

These results indicate that while point cards

**Exhibit 3 Types of Sales Promotion**

| Type | Description | Purpose & effect |
|---|---|---|
| Point card | Customer collects points which can be exchanged for prizes or cash | Switching cost encourages loyalty. Price discounts also attract customers. Also tracks customer's purchase history. |
| Coupon | Customer presents coupon to receive price discount. | Attracts price-sensitive consumers while maintaining prices toward other customers. |
| Discount card | Customer presents member's card to receive price discount. | Attracts price-sensitive consumers while maintaining prices toward other consumers. Also tracks customer's purchase history. |
| Rebate | Customer receives cash rebate on purchases of software or durable goods. Common in the U.S. | Attracts customers through price discounts. |

Source: Compiled from media reports

**Exhibit 4 Use Status of Point Cards**

| Retail category | Cardholder ratio (%) |
|---|---|
| Electronics discount store | 73.4 |
| Drugstore | 65.8 |
| Supermarket | 61.9 |
| Restaurant | 54.5 |
| CD･DVD･video shop | 45.4 |
| Apparel | 42.7 |
| Barber / hair salon | 35.3 |
| Gasoline stand | 25.6 |
| Department store | 25.3 |
| Airline | 20.1 |
| Bookshop | 18.3 |
| Sports gym | 2.6 |
| Other | 9.9 |

Source: Net Research, *Questionnaire Survey of Point Cards*, April 2004.

have proliferated to the extent that most consumers carry several cards, consumers are dissatisfied that rewards are out of reach, and feel that point cards are cumbersome to carry.

Clearly, the effectiveness of point cards depends on how attractive consumers find them as a purchasing incentive, and whether point cards heighten the desire to make future purchases. Unless point cards motivate consumers to purchase more than they would otherwise, the marketing benefits of analyzing purchase patterns will be offset by higher costs, and profits will be squeezed.

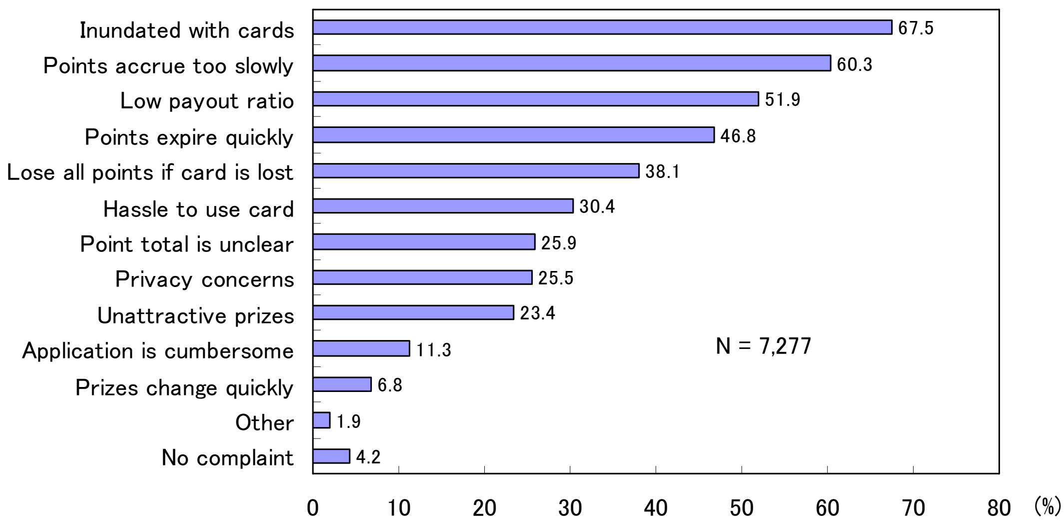
## 5. Effectiveness and Other Issues

Point cards face a number of challenges. First, as the above survey shows, consumers complain of the difficulty of accumulating enough points to earn cash or merchandise prizes.

Clearly, if the purchase amount is small and the payout ratio is low, points will accumulate quite slowly over time. This type of point card offers little appeal to consumers. On the other hand, if the purchase amount is large and the payout ratio is high, the consumer will be strongly drawn to the point card and will value its usefulness.

As an example of the latter case, consider a large electronics retail outlet where the payout ratio often exceeds 10% and purchase amounts tend to be large. Buying a personal computer with a ¥200,000 price tag will earn ¥20,000 in points. Consumers tend to be quite conscious of such large point values. By comparison, an example of the former case is a convenience store. The standard payout ratio is 1 point per ¥100. Since the average purchase is about ¥600, making purchases at the store every day for a month will

**Exhibit 5 Consumer Complaints Regarding Point Cards**




Source: Net Research, *Questionnaire Survey of Point Cards*, April 2004.

accumulate only ¥180 in points. Though helpful to the household budget, ¥180 is not enough of an incentive to attract customers to a particular store. In September 2003, Seven-Eleven initiated a point card limited to the Hokkaido area. But after more than three years, the program has yet to be expanded elsewhere, which suggests that it has been less effective than hoped.

On the other hand, a high payout ratio by itself does not necessarily lead to success. This became clear several years ago when Uniqlo, Skylark, First Kitchen and other retailers ended their point systems after struggling with cost-effectiveness problems.

Uniqlo issued 1 point per ¥2,000 in purchases, and redeemed 30 points for a ¥5,000 gift certificate. At Skylark, 1 point was issued per ¥500 in purchases, with 100 points redeemable for a ¥5,000 gift certificate. Thus the payout ratio was over 8% at Uniqlo, and 10% at Skylark. By comparison, supermarkets were offering a 1% payout ratio.

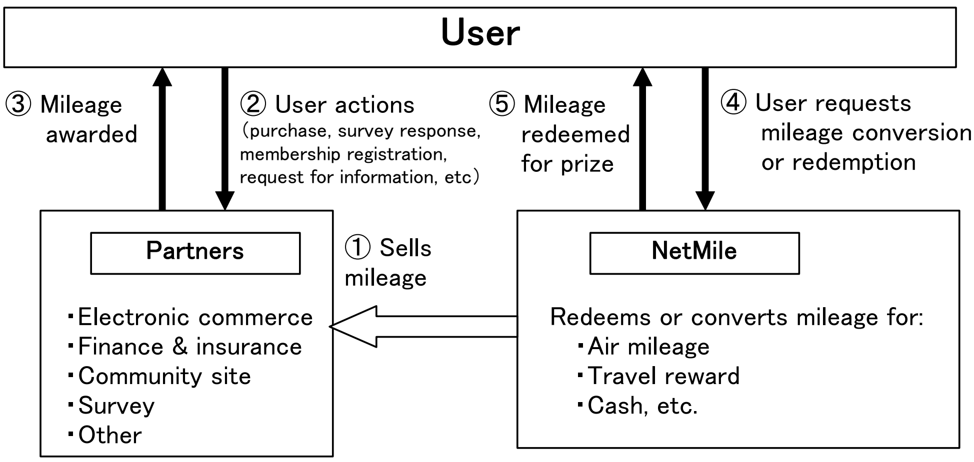
Nonetheless, the point systems fell short of expectations. Apparently, the problem was the high minimum purchase amount necessary for point redemption, which was ¥60,000 at Uniqlo, and ¥50,000 at Skylark. Thus despite the high payout ratio, rewards were still out of reach for many consumers. The long wait until points could be redeemed reduced the incentive to make additional purchases. These failures highlight the importance of confirming a point system's cost-effectiveness before implementation.

Another consideration was the comparison with cash discounts at the time of purchase. Unlike cash discounts, point cards are intended to encourage repeat purchases. Without repeat purchases, there is no compelling reason to issue point cards. At Uniqlo and Skylark, the long wait until point redemption apparently reduced the incentive for repeat purchases. Perhaps a cash rebate or price discount would have appealed more to consumers.

Moreover, point cards are not the only way to collect data and analyze purchase patterns. Membership cards that offer price discounts when presented at the cash register are just as effective.

In fact, point cards and cash discounts can exist side by side in the same industry. Department stores such as Takashimaya and Daimaru issue point cards, while Mitsukoshi and Isetan offer cash discounts to cardholders. While many electronics discount outlets issue point cards, Gigas K's Denki continues to offer cash discounts. Financial statements indicate no significant

**Exhibit 6 NetMile's Business Model**




Source: Compiled using materials from NetMile.

differences in the business performance of the two camps. Thus it would be premature to conclude that either point cards or cash rebates offer the better sales promotion method.

## 6. Partner Programs & Alliances

In response to consumer complaints about the difficulty of accruing points, businesses have been aggressively participating in partner programs since 2000. NetMile, a leading partner program, began issuing mileage points on the Internet in April 2001. Its business model is shown in Exhibit 6.

NetMile sells mileage points (1 mile = 1 yen) to participating businesses. NetMile's registered members, who access participating sites via the NetMile site, earn miles when they perform certain actions such as purchasing merchandise or requesting information. Members can then redeem or convert accrued miles for air mileage, cash, or prizes from NetMile.

NetMile's business model generates profit from the price spread between mileage sold to partners and mileage redeemed by members. NetMile's partner program has continued to expand rapidly, growing from 741 sites and 2.75 million members in December 2005 to 869 sites and 3.34 million members in December 2006. Similar Internet point issuers include G-Point and MyPoint.

Partner programs are also expanding off-line at physical stores. A leading example is the T Point card issued by Tsutaya, a video, book, and game software chain operated by Culture Convenience Club Co. (CCC). When partners enter the program, they can choose a particular mode of participation—point accrual, point redemption, both accrual and redemption, or point conversion. Thus some partners only issue points for purchases, while others redeem points for merchandise, and still others convert points from existing programs into T points (or in both directions). In terms of monetary transactions, point accrual partners buy T points from Tsutaya, and receive a refund on unused points. Point redemption partners receive a refund from Tsutaya for the amount redeemed. As for point conversion partners, no monetary transaction is involved. The main revenue source of the T Point system is the user fee, which is based on point volume. As of December 19, 2006, the overwhelming share of T Point partners only accrue points.

**Exhibit 7　T-Point Partners**

| Accrue & convert | Accrue only | | Convert only |
|---|---|---|---|
| ・Lawson | ・Eneos | ・Yofuku no Aoyama | ・Rakuten Ichiba |
| ・Camera-no-Kitamura | ・55 Station | ・The Suit Company | ・ANA |
| ・Warner Mycal Cinemas | ・Tokyu Hotels | ・Calaja | ・DC Card |
| ・Gusto | ・Karaoke Yubo | ・Sports Depo | ・Bank of Tokyo-Mitsubishi UFJ |
| ・TSUTAYA | ・Nippon Rent-A-Car | ・Hankyu-Hanshin-Daiichi Hotel Group | ・UC Card |
| | ・Pizza Hut | ・Art Hikkoshi Center | ・JCB |
| | ・Tsutaya W-Card | ・Shanghai Express | ・Resona Bank |
| | ・ Shirokiya, Gyomin, Wara-wara pubs | ・Megane Super | ・Sumitomo Mitsui Card |
| | ・Universal Home | ・T Mall | |

Source: T-Point web site (as of December 19, 2006).

Apart from such partner programs, individual businesses are also forming alliances for point convertibility. For example, Resona Bank has alliances not only with T Point but with 11 other businesses including JTB, Joshin Denki, Takashimaya Department Store, and Japan Airlines. Bic Camera is allied with East Japan Railway's Suica card. All the programs mentioned here are primarily aimed at alleviating consumer complaints about the difficulty of accruing points.

## 7. Evolution and Prospects

Starting from simple stamp cards, point cards have evolved into partner programs and business alliances. But these developments interfere with the original aim of point cards—to boost customer loyalty by raising the cost of switching to a rival business.

A key reason is that partner programs often include industry rivals. For example, NetMile partners include Toyota and Honda, Sony and NEC, and Shinsei Bank and Citibank. Similarly, the T-Point card includes Bank of Tokyo-Mitsubishi UFJ Bank and Resona Bank, and Tokyu Hotels and Hankyu Hanshin Daiichi Hotel Group. By participating in the same point program, rivals effectively eliminate the switching cost. For example, since points earned at Tokyo-Mitsubishi UFJ will disappear when converted into T-Points, Tokyo-Mitsubishi UFJ customers can switch to Resona Bank without losing points.

The same effect can occur with point-card alliances between individual businesses if either side has other alliances. For example, suppose company A has a point-card alliance only with company B. If company B happens to be allied with company C, points become convertible among all three companies (A⇔B⇔C). In fact, new web sites have emerged that specifically search for such conversion routes.

Thus ironically, in alleviating consumer complaints about the difficulty of accruing points, businesses have inadvertently diminished the switching cost originally intended with point cards. Consumers enjoy greater convenience—and with fewer strings attached. In light of this inherent problem, we predict that businesses will seek more effective inter-industry alliances, and at the same time pursue differentiation strategies other than point systems.

Businesses are now in the stage of adopting more competitive point programs. But we predict that sooner or later, cost-effectiveness concerns will arise, and as the less efficient programs are weeded out, only the best will thrive.

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