

Market Power and Redeemable Loyalty Token Design

by He, Rogoff, and You

Discussion by Martin Rinaldi

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The paper in a nutshell

Motivation

Will firms have incentives to make loyalty tokens tradable as technology evolves?

Firms have strong incentives for non-tradability
(despite consumers' willingness to pay more for tradability)

Surprising!

Contributions

- ▶ Loyalty tokens as a mechanism to raise K
- ▶ Theory and empirics: Non-tradable tokens constitute larger revenue share for firms with greater market power

Summary of key results

Proposition 2: Non-tradability dominates

$$\left(U_{M_{NT}^*}^{NT} \geq U_{M_T^*}^T, \forall c \geq 0 \right)$$

Time-series bundling creates cash flow swap: Consumers overpay early on, underpay later on $\Rightarrow$ Front-loaded payments benefit issuer by assumption $\beta^* < \beta$. Secondary market breaks accumulation—i.e., no swap.

Proposition 3: More market power, more token dependence

$$(M_x^*(c) \leq M_x^*(c'), \forall c < c')$$

Implication: Only firms with substantial market power can effectively monetize customer bases through loyalty programs.

Summary of empirical findings

Finding 1: Firms block tradability

All sample airlines/hotels restrict token transfers via high fees (Alaska: 73% of transfer value), quantity limits, annual caps $\Rightarrow$ transfers rarely used.

Finding 2: Greater consumer base (market power) sustains higher token dependence

Airlines: 1 SD more passengers $\Rightarrow$ 0.94pp higher Θ .

Hotels: 1 SD more guests $\Rightarrow$ 7.82pp higher relative loyalty liabilities.

My comments

1. Theory & empirics in same paper is always hard

- ▶ Need to show that the test environment you draw conclusions from the model fits its assumptions. The paper does a great job here!
- ▶ Capital-intensive airlines/hotels fits key assumption well – more impatient than consumers or $\beta^* < \beta$.

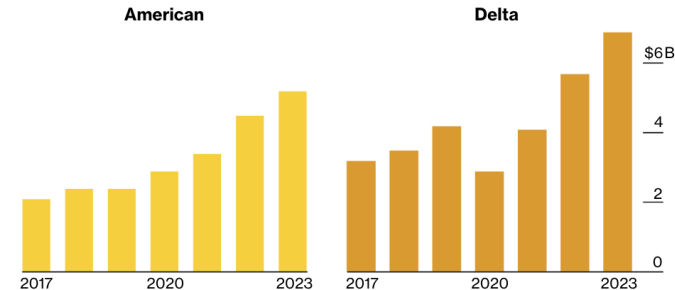
2. Alternative stories: 1) Airlines selling miles in bulk to credit card companies. Non-tradability protects lucrative B2B revenue stream? 2) Flyers enjoy elevated status that came with sticking to one airline and may not want tradability.

3. Minor comment: Check out Cong & Xiao (2021, RFS) *Categories and Functions of Crypto-Tokens* for broader tokenomics taxonomy and regulatory discussion.

Evidence on alternative stories

Revenue From Loyalty Programs Has Soared

Total revenue from points sales to co-branded credit cards and other partners



Sources: 10-K filings for Delta and American

Source: **Bloomberg**