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Loyalty Program

Annotated Product Review

(Appendix for iClarity Product Review)

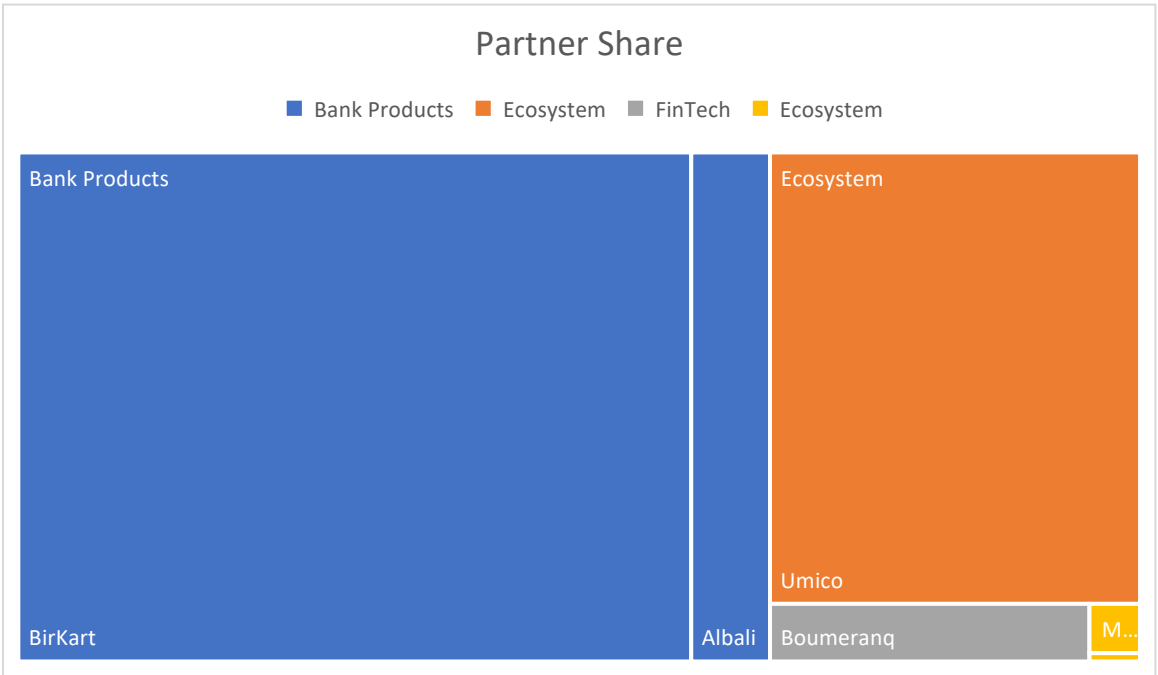
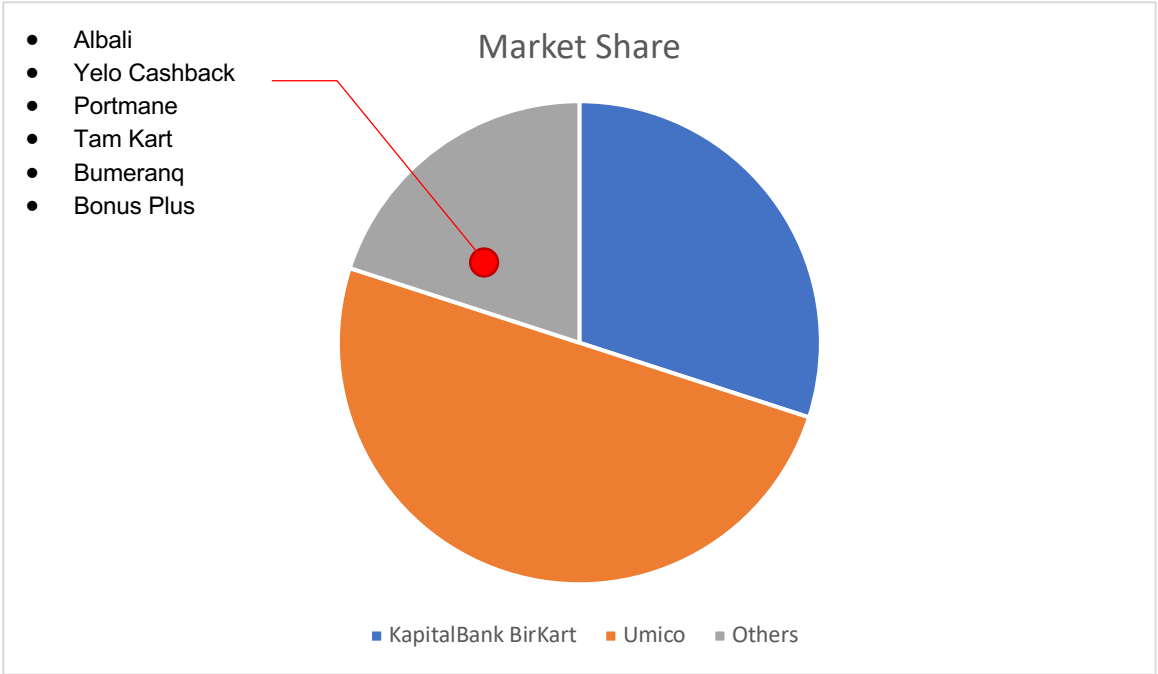
Context

Loyalty program now is “sine qua non” part of customer acquisition and retention process, which develops two important assets “Customer” and “Data”. The first one, brings you money and takes part in “word of mouth” acquisition, the second one, allows you to draw customer behavior, predict demand on various products and churn rate within your product portfolio and increase operational efficiency related to Bank-to-Customer service, like cash loan underwriting process and etc.

Loyalty programs especially **Coalitional** ones is rapidly growing business which for some organizations are source of income, but for others is part of ecosystem (even with low profitability) for creating additional value to the client and become enabler for the following purposes:

1. Acquiring the data (non-banking data, cash transactions and etc)
2. Additional marketing communication channel

In Azerbaijan, there are several loyalty programs. The most used and active products on the market provided below (with respective figures)



Opportunity

Total loyalty market in Azerbaijan estimated by 30 million AZN yearly and it's increasing. From non-monetary point of view, this market develops "Data" as an asset, which value

cannot be estimated using standard valuation mechanisms. However, Unibank can estimate cost per data acquisition based on average cashback provided to customer. This can be done only in case if cashback provision follows the process of client data acquisition, what doesn't happen at the moment. This is the biggest difference between Cashback products on the market (including BirKart, Albali and etc) and Coalitional Loyalty programs like Umico and Boumerang.

The biggest player Umico is ecosystem building solution fully developed in-house and operated by one of SA of Pasha Holding. Operating Model of the company evolved during last year and after successfully closed financial year, received additional funding from HQ. One of success factors which led Umico to the positions they have now (besides the fact that they are SA of Pasha Holding) is that this company fully dedicated on this product and this controlled "freedom" allowed them to build the product in very short time and gain popularity.

Boumerang is fintech startup with low penetration (in comparison with Umico) with only 10% of partner network of Umico (220 partners vs 2000 partners), however Boumerang has its own platform, operating model and flexibility to develop partner network.

Based on company size information and total cost of ownership for such platform, market valuation of Boumerang estimated between 120000 – 150000 AZN. The biggest part of valuation takes their technology, application, awareness in AppStore/PlayStore (with corresponding ranking) as well as negotiated contracts with partners.

Conclusion

There are three possible options to invest in Loyalty Program development as the part of bigger ecosystem, but only for one of these options you don't need dedicated team and operational model, other implementation demand both technical and operational involvement, which will increase possible costs

1. In-house development of new loyalty program (demands operational model and dedicated team for its execution)
2. Purchase the loyalty program platform from vendor, e.g. iClarity (demands operational model and dedicated team for its execution + risks in time-to-market with additional costs of development)
3. Acquire the startup which have already developed the platform and model and can be focused on this particular product.

Overall, iClarity Coalitional Loyalty Platform **could be considered for further technical and capabilities assessment** (including building Proof of Concept), however, **it's strongly recommended** either **focus on development of in-house Coalitional Loyalty Platform with Target Operating Model** or **assess potential for acquisition of existing Coalitional Loyalty Solutions** (e.g. Bumeranq) from the local market together with their technical capabilities, team and already created network/connection with partners.