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THE ART AND SCIENCE OF BUILDING CUSTOMER VALUE

JANUARY 2010

Leadertalk



Loyalty Leaders Tell All:

The Loyalty "Killer App":

Coalition Programs From Around the Globe

Session Transcript

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Leadertalk **Loyalty Leaders Tell All:** THE LOYALTY "KILLER APP"

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Loyalty Leaders Tell All:

THE LOYALTY "KILLER APP": COALITION PROGRAMS FROM AROUND THE GLOBE

Introduction



Though the coalition loyalty model has been deployed globally for many years, it is now attracting increasing attention due to its powerful ability to facilitate customer communication, customer data aggregation, and modification of consumer spending behavior. In October 2009, coalition leaders representing programs in Australia, Brazil, Canada, Germany, Poland and the U.S. convened at the DMA 09 Annual Conference & Exhibition to discuss these and other trends in the loyalty arena, including the global future of coalition initiatives. Listen in on the conversation.

Introducing the Loyalty Leaders Panelists:

Phil Hawkins, General Manager, Loyalty Pacific. Loyalty Pacific manages and operates *FlyBuys*, Australia's largest shopping rewards program, boasting membership in 65 percent of Australian households. Launched in 1994, *FlyBuys* includes such sponsors as Coles, Shell, National Australia Bank, Best Western and Target. Hawkins has worked in the Australian loyalty market over the past 16 years, and his experience is also drawn from marketing and operational roles with Shell and National Australia Bank.

Bryan Pearson, President, LoyaltyOne and AIR MILES Reward Program. *AIR MILES*, launched in 1992, boasts more than 10 million active collector accounts with over two-thirds of Canadian households active in the program. *AIR MILES* coalition partners include Shell, Safeway, Rexall, Sobeys and Bank of Montreal. LoyaltyOne's enterprises include the *AIR MILES Reward Program*; COLLOQUY, a loyalty marketing publisher; Precima, an advanced retail analytics firm; Direct Antidote, a loyalty-marketing agency; and LoyaltyOne Consulting.

Alexander Rittweger, CEO, Loyalty Partner GmbH. Two-thirds of German households have a *PAYBACK* card; *PAYBACK* is the third most common card in German wallets after the EC payment card and the health insurance card. *PAYBACK* partners include the Metro Group stores Real and Galeria Kaufhof; and ARAL Group, the fuel retailer associated with BP. Rittweger founded Loyalty Partner in 1998 and launched *PAYBACK* in 2000.

David Rochon, President, Upromise, Inc. A U.S. program with 12 million members, *Upromise* allows members to direct cash earnings toward college savings and loan payments for themselves or loved ones. *Upromise* partners include Disney, McDonald's, Procter & Gamble, Expedia.com, and Bank of America. With more than 25 years of industry experience, Rochon's background bridges the internet, in-store marketing, retail and manufacturing arenas. Rochon joined *Upromise* in 2000.

Kelly Hlavinka, Partner, COLLOQUY. Hlavinka directs all COLLOQUY publishing, education and research projects. An acknowledged expert in the practice of loyalty marketing, Hlavinka's bylined articles have been published by *DMNews*, *The DMA Insider*, *BrandWeek* and *DIRECT*, and she is often quoted by national publications on loyalty.

I. Coalition: Differentiation in a Crowded Loyalty Marketplace

Kelly Hlavinka, Moderator: I'm proud that we've assembled executives from four of the best of loyalty coalitions from around the globe: *Upromise*, from the U.S.; *FlyBuys*, from Australia; *PAYBACK*, from Germany; and *AIR MILES Reward Program*, from Canada. Welcome, and thank you for joining us to share insight into how loyalty coalitions work and how they differ from other models in the marketplace.

My first question concerns the growing ubiquity of loyalty programs. COLLOQUY research shows that there are more than 1.8 billion loyalty program memberships in the U.S., translating to 14 memberships per household on average. Yet only 6.2 of those memberships are active. How has this additional interest affected how you engage with your members? David?

David Rochon, Upromise: The landscape was far different when *Upromise* launched in 2001. We were pioneering something that no one had successfully launched in the U.S.—a coalition loyalty program—and our competition was hotel and airline programs. While it's intuitive to assume that competing against so many other voices would dilute individual messages, *Upromise* hasn't seen a dilution. In fact, in the last two years, we've experienced record levels of membership growth.

Yes, members are being bombarded by options, and they have multiple ways of engaging with our sponsors outside of *Upromise*. But important to our success is that we fulfill a specific deep-seated need within our customer base. Our brand image in the education niche has helped us maintain appeal. The economy has fueled that appeal, as well. People are more worried than ever before. Even in this environment of so many program options, for consumers truly interested in their children's future, *Upromise* is the choice they make.

Hlavinka: Phil, how does Australia's status as a mature loyalty market affect how you engage the *FlyBuys* collector base?

Phil Hawkins, FlyBuys: It's been an interesting journey for *FlyBuys*. When we launched it 15 years ago, loyalty programs were very new to Australia. The few frequent-flyer programs had a quite narrow membership base. *FlyBuys* made a splash back then, which led to a number of changes in the industry. For instance, several credit card companies launched programs of varying types. And over the last five years, Australia has seen a lot more activity in retail loyalty programs. Reflecting that activity is the recent launch of Perkler.com, a web site that attempts to serve as one-stop shop describing all Australian loyalty programs.

FlyBuys enjoys very high awareness levels amongst Australian households. In fact, I've tried to estimate the number of times the words "Have you got *FlyBuys*?" has been asked by retailers at point of sale, and it's billions and billions. The challenge that *FlyBuys* faces is that on the one hand, we're certainly part of the Australian psyche, but on the other hand, we must keep the brand fresh, coming up with new angles, while remaining relevant for our membership.

Varying the reward mix is definitely an important part of retaining relevance. When we started as *FlyBuys*, flights were obviously the only rewards. These days, flights constitute a very small proportion of the program. Still, air travel retains its appeal for a certain part of our membership—they tell us that if we try to take flights away, they'll walk away. Today, we feature 800 reward choices, essentially creating an internal marketplace. We feature gift cards, hotel accommodations, restaurant visits, and a lot of different merchandise. Instead of pushing one reward versus another, we carefully watch what our members want and keep varying that mix to keep in tune with what Australian households desire. For example, we're now seeing that many of our members are turning to utilitarian rewards like gift cards that, for instance, they can use straightaway at the supermarket as a benefit in tough economic times.

"Important to our success is that we fulfill a specific deep-seated need within our customer base. Our brand image in the education niche has helped us maintain appeal. The economy has fueled that appeal, as well. People are more worried than ever before."

DAVID ROCHON
UPROMISE

The good news is that high proportions of the membership have been very loyal to the program, and are very active. Standalone programs can struggle to retain such activity because they don't have as rich a rewards mix or as many ways to earn points.

Hlavinka: In Germany, the *PAYBACK* program likely faces the same issues of remaining effective while also facing considerable activity in the everyday-low-price category—for example, Metro Group participating in *PAYBACK* versus going up against Aldi and the like. Alexander, how do you keep your program effective for sponsors in such a crowded marketplace?

Alexander Rittweger, *PAYBACK*: Hard-discount food retailers command about 50 percent of German market share, leaving us about half of the market that we can address. For our sponsor retailers, we utilized SKU data to segment customers. Based on those segmentations, we developed a direct-marketing strategy in which we increased the frequency of physical mailings from the two-and-a-half times a year we mailed when the program launched to 12 physical mailings this year. Now every month we send member account statements with personalized coupons—we're almost like a magazine. This strategy has helped to increase points distribution. People use these coupons and in doing so get more points, see that the program is working for them, and redeem. Email is obviously working, but not as well as the physical distribution, even considering the cost differential.

Two factions lose out to hard discount—not only the retailers, but also the branded FMCG [fast-moving consumer goods] companies—which in the U.S. are known as CPGs [consumer packaged goods companies]. The FMCGs have huge marketing budgets, and using targeted direct mail enables us to tap into those budgets. The retailer doesn't have to pay anything and doesn't have to absorb the discount, consumers get something they want, and the FMCG is happy to devote budget to paying the retailers for the discount. The typical FMCG has a marketing budget of 50 percent of its operating cost and the typical retailer has marketing budget of 3-4 percent of its operating cost, so the math is very simple.

Hlavinka: Bryan, when COLLOQUY conducted a census of Canadian loyalty program memberships, we were astounded to see how much more active Canadians are than Americans. As I noted before, the average U.S. household actively participates in only 6.2 programs, while the average Canadian household actively participates in 9.2. Is this a general Canadian characteristic, or is it in part due to the *AIR MILES* Reward Program?

Bryan Pearson, *AIR MILES* Reward Program: It sounds a bit self-serving to begin by saying the activity is because of *AIR MILES*, but it is. When the program launched 17 years ago, the only other programs on the landscape were frequent-flyer programs, which were relatively new, and the odd credit card program. Since that time, *AIR MILES* has established a significant foothold in the country, and our penetration rates—which are now around 70 percent of Canadian households—caused the market to respond with similar currency programs.

In *AIR MILES*, just as in *PAYBACK* and in *FlyBuys*, members collect the program currency over time, and then redeem for something—whether an airline flight, a gift card or merchandise—that's of more value than just getting dollars off items they're taking to the till. That structure forced competitive response from the other programs because they couldn't come out with discount programs.

"Every month we send member account statements with personalized coupons—we're almost like a magazine. This strategy has helped to increase points distribution. People use these coupons and in doing so get more points."

ALEXANDER RITTWEGER
PAYBACK

"What's interesting is that for years, the U.K. loyalty market was probably the most-developed loyalty market in the world, but I would say that the Canadian market today rivals the U.K."

BRYAN PEARSON
AIR MILES

Loyalty-program development in the U.S., on the other hand, was profoundly different. American loyalty programs had no accumulation models to compete against, so when loyalty programs arose in the U.S., they typically featured a two-tier structure, particularly in the grocery category. In other words, nonmember customers are charged one price, while member customers showing their loyalty cards receive a discount.

Now in Canada, you find that many retail and credit card programs operate using the coalition model of meaningful point accumulation in order to compete in consumers' minds. They've been forced to step up and not just offer pure discount programs, which could wane over time. The net result is that these programs are generally well run, using well-aligned and well-structured communications.

Hlavinka: You might say that Canadians were trained to see that they can get real cumulative value out of a program, and as a result pay attention to other opportunities in the marketplace.

Pearson: That's a fair comment. What's interesting is that for years, the U.K. loyalty market was probably the most-developed loyalty market in the world, but I would say that the Canadian market today rivals the U.K. After the economic crisis struck, it seems the U.K. started to leap back into discounting. Companies like Boots the Chemist have launched very good loyalty programs, but they've started to put those programs back on the shelf.

Rittweger: There is the interesting case of Tesco, which—as it often does—is doing something counterintuitive with re-launching its loyalty program in the middle of the economic crisis in May and then doubling the points per pound issued to *Clubcard* members in August—and capturing additional market share in doing so. Loyalty, as in anything in life, always depends on how well it's executed.

II: Coalitions, Data, and Sponsor Value

Audience Question: In making the programs more relevant to customers, are you providing additional value to your sponsor retail companies?

Pearson: The ability to continually demonstrate results to sponsors is mission critical. We create insights for our sponsors from the coalition data set, which is very powerful because you're looking not only at customer behavior within individual markets but also at their spending across multiple categories. Therefore, we can create a snapshot and a much more robust segmentation structure. The secret lies in leveraging those analytics to create relevant communications.

Today's consumer demands more and more. If you don't create relevance, you don't get the kind of response rates you seek. This is a critical focus.

We're finding at the secondary level that we can operate across the entire coalition on the basis of relevance, but we're also working with individual clients now. We're getting expanded data-sets from our clients, allowing us to work with them on a much deeper and more robust analytical engine to mine the kinds of insights that the dunnhumbys of the world have been doing with retailers like Tesco. That ability is far more common these days than it might have been ten years ago.

Hawkins: Our discussions with existing and prospective participating retailers is all around the data. Retailers who aren't interested in the data shouldn't be in a coalition. This is not about running a series of short-term promotions, nor is it something you dabble in for six months. Getting retailers to understand the data question is a challenge, though probably less of one than it was 15 years ago when the core retail culture was quite different from what it is now. Interacting with data was quite a foreign concept at the time. Now more retailers do understand that leveraging data is absolutely mission critical.

Rochon: One painful lesson we learned and have fixed is that you must do what's needed to communicate to consumers on a relevant basis in order to deliver additional customers and value to the sponsors. For example, we began with a one-size-fits all web site. Consumers came to the web site just to join the service.

Creating a personalized web site is complicated and expensive. We started with what we call onboarding. We worked to engage new members as early as possible—certainly within the first 90 days. Those who engage early typically stay engaged. And then we took care to personalize how we communicate our value to the end user—for example, offers for baby formula are good for young families but not for college students or recent graduates. We learned to change communications depending on how consumers come to us, whether via a natural search or a paid search, through Bank of America, or from the grocery store or any of our other partners, including our parent Sallie Mae. The ability to target, personalize and deliver value is critical to getting the most out of this type of initiative.

"Our discussions with existing and prospective participating retailers is all around the data. Retailers who aren't interested in the data shouldn't be in a coalition. This is not about running a series of short-term promotions, nor is it something you dabble in for six months."

PHIL HAWKINS
FLYBUYS

“Free membership is a critical tenet of coalition programs, emphasizing the concept of something for nothing, or a little bit extra for you every day as a result of shopping activities.”

PHIL HAWKINS
FLYBUYS

Hlavinka: In coalitions, credit card sponsors can significantly increase consumers’ earn velocity. Yet in Australia, regulation on interchange fees—the charge for a transfer between the acquiring bank and the merchant’s bank—has affected banks’ loyalty-program value propositions. Phil, how does that regulation affect *FlyBuys* and its value to credit card sponsors?

Hawkins: About six years ago, the regulator dropped the interchange rate by about 40 percent. The interchange rate helps banks finance their credit card loyalty programs, so taking away 40 percent of the funding in one fell swoop upset program economics. Banks responded in a couple of ways, including reducing, capping or otherwise tweaking the issuance rate. Points earned per dollar spent dropped in some cases, which made the value propositions less attractive. Some banks responded by increasing the card fee—very interesting, in that it introduced the concept of consumers paying to be rewarded. Australian consumers, after getting used to and enjoying the return on credit card programs, suddenly felt a bit disaffected.

Adjusting to the change was easier in our case because *FlyBuys* doesn’t focus heavily on credit card sponsorship. Certainly the involvement of credit cards is fantastic in that points collected when members use partner cards supplement the points they collect from sponsors in other categories. But because of our coalition nature and the number of retail earning opportunities alongside credit cards, the changes in interchange fees didn’t affect us as much as it did others.

At the same time, the strength of our relationship with our credit card partners meant that the issuing banks didn’t have to begin charging fees. In *FlyBuys*, our sponsor National Australia Bank, for instance, benefits from not having to fund the whole value proposition by themselves. They share expenses with other program sponsors, whereas other banks without that benefit are left to other strategies to keep the loyalty strategy alive. This is important in the context of a coalition because free membership is a critical tenet of coalition programs, emphasizing the concept of something for nothing, or a little bit extra for you every day as a result of shopping activities.

III: The Soft Side of Coalition

Audience Question: It seems that coalition-program sponsors are very retail-focused and very reward-focused. Does the model work for big-ticket, low-frequency sellers, where rewards would be focused more on recognition than redemptions?

Hawkins: The coalition model certainly provides a basis for individual retailers to employ soft benefits—recognition benefits as opposed to cash or merchandise rewards. We can point to examples in our program where retailers work to recognize their very best customers specific to spend. For instance, in conjunction with us some of our partners work through the data to identify interesting customer groups and reward them in a different way. They can recognize their collectors by inviting them to openings and offering other soft benefits that add to the ultimate recognition experience.

Rittweger: Coalitions have considerable flexibility. In our case, we didn't have a banking sponsor for a long time. We'd looked at the market and just didn't find what we needed. So we launched two products on our own—a credit card product and a debit card product. And we just launched a debit card that awards points and doesn't cost the consumer anything. Essentially, coalition programs are communication platforms, meaning that the ultimate question is, how good is the content and how well can you tune into what people want?

Pearson: Though *AIR MILES* uses a common currency, we have 65 different sponsors representing more than 100 different brands in the marketplace—everything from B2B, large items, small item, services, retail. Ultimately, you must think about working with each partner as if they're running their own program. Maintaining that philosophy becomes a matter of communicating to the collectors in the specific context of the individual sponsor's section of the program. The sponsors are providing a full loyalty experience, and if soft benefits are part of that experience, then you must structure the program to include soft benefits. Nothing about coalitions stops you from doing that. It's not a barrier.

"The coalition model certainly provides a basis for individual retailers to employ soft benefits—recognition benefits as opposed to cash or merchandise rewards. We can point to examples in our program where retailers work to recognize their very best customers specific to spend."

PHIL HAWKINS
FLYBUYS

IV. Coalition's Social Conscience

Hlavinka: Beyond changing purchasing behavior, some coalitions are also working to affect socially desirable behaviors. Can you elaborate on that? David?

Rochon: What *Upromise* ultimately does is coach from the sidelines, trying to help Americans save toward something very important. I joined *Upromise* in 2000 because I passionately believe in its value proposition. Education is paramount to a greater future, and yet only 28 percent of Americans graduate from a four-year school, which hurts our global competitiveness. In an environment that requires so much more, we're moving backwards in terms of accessibility of college because the price of college has gone up so significantly—up to two to three times the rate of inflation. Your paycheck isn't catching up to the ultimate need. Our parent company, Sallie Mae, delivers student loans, and their business is booming because they want to bridge that gap.

"We've learned that we're growing our membership virally. We still market on the web and we conduct all sorts of other activity, but ultimately we grow because of word-of-mouth. Members who talk to other people about joining the service are our very best customers."

DAVID ROCHON
UPROMISE

In 2000, my best friend—a former executive of the Marriott *Honored Guest* program and now president of Fairmont—gave us no shot of this working. He told me flat-out, "Love you, David, but you'll find something else in two years." From his hotel background, he spoke of perceived value versus cost. Let's say that the consumers' perceived value of a hotel-room redemption is about \$300, but the actual cost, including administration, housekeeping and so on, is, let's say, \$50. So the delta becomes the perceived value in the trading currency that hotels sold their program on at the time—and still sell it on to this day, even with expanded burn options.

Upromise's currency, my friend pointed out, is cash. Pure and simple, a dollar is a dollar, except in this case, a dollar might be, for the sake of example, a dollar and quarter of cost to the sponsor after our administrative costs on the back end. The delta is actually negative, in the view of my friend. What's interesting, however, is that the perceived value lies in the currency of emotion. Let me read you a letter appropriate to what *Upromise* has been able to build. "My reason for loving *Upromise* is simple. She's 33 inches tall and 30 pounds. Before I know, it she will be a young woman preparing to go to college because her dad is going to give her one of the best opportunities that this world can offer."

When we converted our credit card to Bank of America earlier this year, we worried about conversion rates in light of everything happening in the marketplace and of the uncertainty of credit card conversions. Yet, 95 percent of members active with the previous card have migrated to a *Upromise* Bank of America card, and spend is up, demonstrating that our core value proposition is fundamental to those members.

Also, we've learned that we're growing our membership virally. We still market on the web and we conduct all sorts of other activity, but ultimately we grow because of word-of-mouth. Members who talk to other people about joining the service are our very best customers.

In 2006, *Upromise* was bought by Sallie Mae, the largest student loan company in the country, allowing us to expand the *Upromise* brand from only those people interested in saving for college to people currently going to college and accumulating debt. Suddenly the *Upromise* brand could speak to a lot more people. At the time, we had seven or eight million members, and now we have 12 million. Now members can use *Upromise* to pay down their debt, making the program equally relevant to young families with kids and to teenagers and recent grads who are going to be carrying college debt for years.

Hlavinka: Alexander, how do *PAYBACK* collectors respond to your charitable alliances?

Rittweger: In 2000, we began allowing collectors to donate points to charity—specifically, UNICEF at the time. Over the years, customers began telling us that although they love UNICEF, they'd also like to do something for kids in Germany. We considered local charitable partners and recently began working with a large German organization, "Ein Herz für Kinder"—"A Heart for Children." We now have several options that our consumers can choose to donate to.

Because "Ein Herz für Kinder" is run by the largest tabloid newspaper in Germany, we didn't do much advertising for it ourselves—so we didn't employ a classic TV campaign, for instance. The newspaper did some promotion, and we advertised the campaign in our own media. In our latest promotion, collectors get four times the *PAYBACK* points they usually earn—twice the points for the collector and twice the points for "Ein Herz für Kinder" or other charities we sponsor. So far I'm hearing that spend is up 20 percent on a weekly basis—which is pretty much the peak of what we've ever done.

What this shows me is that if you get people involved in something close to their heart, much like what *Upromise* does, they're ready to walk the extra mile and do much more to earn the points than they'll usually do.

For these initiatives, we've integrated interactive components into our web site. For instance, members can vote for where they want their points directed. Collectors can also suggest other charities that other collectors can donate to. People love that element. We have a meter that counts contributions, and the new site "PAYBACK donation world" has a number of other features that make it almost like a Facebook site that allows people to get more involved, which is what customers tell us that they want.

Our rewards aren't true necessities in your daily life—they're nice to have—but we can also reward you by making you feel good. Giving back makes you feel good, so enabling people to give back is a great thing to do.

Hlavinka: *AIR MILES* launched a green program this year in two stages. Bryan, tell us about My Planet.

Pearson: Our My Planet program recognizes that climate change and the environment have become significantly more important in the minds of Canadians. When we considered this interest, we asked ourselves three questions as a business, "Is this a mega trend? Will sustainability in corporate activities come under greater scrutiny? And can we play a role in helping Canadians make better choices in terms of spending and leveraging our partnership network?" The answer to all three was, "Yes."

We designed My Planet to incorporate what we affectionately call "Learn, Earn and Burn." In April 2009, we launched the "Learn" component, our informational web portal, because there wasn't a one-stop place in Canada to get information about how to lead a more sustainable life as an individual, or about the options and government programs available for Canadians—for example, incentives to insulate people's homes because, you know, it's cold in the winter.

At the same time, we launched the second piece, the "Burn" component that allows consumers a choice for sustainability in rewards selection, by introducing environmentally friendly products certified by a third-party vendor, Terrachoice. The sustainable rewards in the "Burn" component range from solar-powered cell-phone chargers to electric scooters.

"If you get people involved in something close to their heart, much like what Upromise does, they're ready to walk the extra mile and do much more to earn the points than they'll usually do."

ALEXANDER RITTWEGER
PAYBACK

"Our programs' reach gives us remarkable opportunity to serve as a change agent. The emotional engagement around social concerns can impact segments that we may not have accessed before, in addition to driving additional engagement with our existing customers."

BRYAN PEARSON
AIR MILES

The final piece is the "Earn" component, which we launched in September. Now our collectors can earn the same *AIR MILES* currency on more eco-friendly and greener products. We worked with our retail partners, using the My Planet logo to identify products as better choices and greener alternatives—for example, eco paint or eco cleaning solutions. The retailers reward you for making those choices.

The "watch out" with such programs is that consumers are very savvy—especially in the age of social media. When engaging in eco-marketing, you must be authentic or risk being called out for "greenwashing." From a company perspective, we ensured that we're managing ourselves appropriately. We've instituted companywide green policies, to the point of integrating green energy in our brand-new call center building, which features the largest roof-top solar-power installation on any building in Canada.

Because we affect considerable retail spend, our programs' reach gives us remarkable opportunity to serve as a change agent. The emotional engagement around social concerns can impact segments that we may not have accessed before, in addition to driving additional engagement with our existing customers.

For example, at a recent meeting, a senior executive from another company told me, "I haven't been an *AIR MILES* collector for 17 years, but after you launched the green program, my daughter she handed me an *AIR MILES* card when she came back from university, and said, 'You're going to collect for me, because it's important that we make better decisions.'"

V. The Coalition Frontier

Hlavinka: Given the reach and impact of coalitions, certainly other countries are looking at embracing this model. Where will the next coalition frontier be?

Rittweger: We expanded into Poland in September. Poland is totally different from Germany—it's a much younger country in terms of retail development, without the historical burden that Germany has had to bear. Poland has experienced strong retail development since 1989, and in those 20 years they accomplished what German retail hasn't done in 50 years. All our main partners that we work with in Polish *PAYBACK* had their own credit card and their own loyalty program, so getting established there was much more difficult than it was in Germany. On the other hand, just three weeks into the market, we have close to a million active members, and the new Polish web site has 60 percent of the number of unique visitors that our German site enjoys. Considering how massive our German program is, that proves that what we're doing in Poland is working.

All our German partners with a presence in Poland joined the new program, and certainly our experience in Germany helped the launch by educating them about pitfalls to avoid, and so on. We got a little smarter, and the initiative is just going through the roof.

Hlavinka: Bryan, what's your perspective of the international scope and reach of these programs?

Pearson: Every continent has a coalition program, except for Antarctica—I believe the issue is that penguins don't have pockets.

We just announced that we've purchased a 29 percent stake in South America's largest loyalty program, Brazil's *Dotz*. We're helping *Dotz* evolve its online-only loyalty program to include a traditional retail-based coalition loyalty structure similar to the *AIR MILES Reward Program* in Canada. With 190 million people and an economy that's been doing well over the past few years, Brazil has a great business environment to launch this type of program. We see a very different operating climate there, patronized by consumers with means. We anticipate that we'll see the same sort of ramp-up and impact on partners that *PAYBACK* has seen in Poland.

We're also considering expansion into regions in Latin America and Asia, as well as underserved areas of the U.S. The issue in the U.S. is that everyone has jumped into their own programs, as I described before, and it's important to the American psyche that companies "own it"—that is, control the program and its branding. The challenge in the U.S. will be convincing companies that they must move away from the need to own a standalone program in order to control the rewards and the economics, and recognize coalition as a critical differentiator in the marketplace.

Upromise's approach has been successful because they tap into the philanthropic collective, creating a rallying cry around education to encourage companies to participate in reaching a common goal.

The secondary challenge in the U.S. is the difficulty of assembling a mosaic of companies because the country is so big and fragmented. In countries like Poland and Brazil, it's easier to secure retailers with full national presence. But in the U.S., the footprint of a retail grocer might not cleanly match the footprint of the fuel partners who want to participate.

In the U.S. marketplace, the broad-based coalition model is as yet unproven. However, I'm confident that a national coalition will develop in the U.S. It's not a question of "if." It's a question of "when."

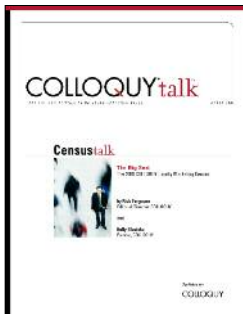
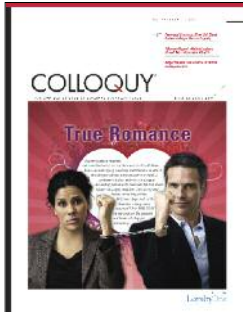
Hlavinka: And with that, we conclude our comments, and we thank our distinguished panel for sharing their stories and insights, and our audience for their good questions and their time.

"In this marketplace, the broad-based coalition model is as yet unproven. However, I'm confident that a national coalition will develop in the U.S. It's not a question of 'if.' It's a question of 'when.'"

BRYAN PEARSON
AIR MILES



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The Publisher

COLLOQUY® comprises a collection of publishing, education and research resources devoted to the global loyalty-marketing industry. COLLOQUY has served the loyalty-marketing industry since 1990 with over 30,000 global subscribers to its magazine and www.colloquy.com is the most comprehensive loyalty web site in the world. COLLOQUY's research division develops consumer and B2B research studies and white papers including industry-specific reports, sizing studies and insights into the drivers of consumer behavior. COLLOQUY also provides educational services through workshops, webinars and speeches at events throughout the world and is the official loyalty-marketing partner of both the Direct Marketing Association and the Canadian Marketing Association. COLLOQUY also operates The COLLOQUY Network, a global consortium of practitioners certified in COLLOQUY's proprietary methodology. COLLOQUY magazine subscriptions are available at no cost to qualified persons at www.colloquy.com or by calling 513.248.9184.

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Since 1990, COLLOQUY publishing, education and research have helped loyalty marketers reveal the invisible layers of the customer picture. We alert you to the artistry of trends, innovations and best practices that focus the customer portrait with actionable information and analysis.

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