

Loyalty Programs: The Strategic Choices

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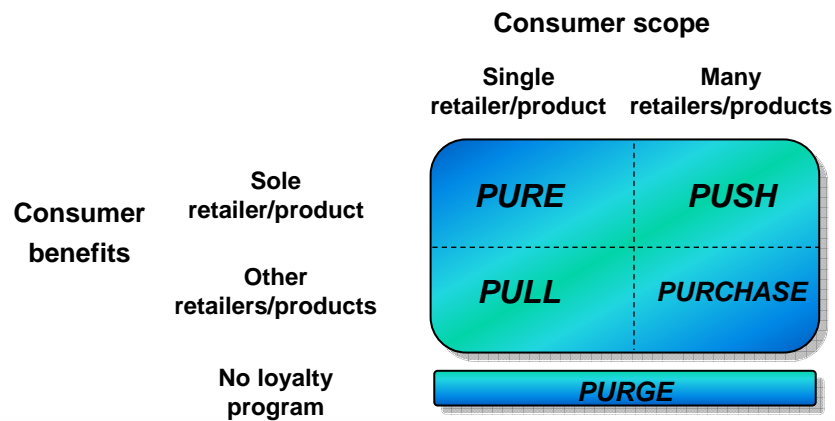
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Loyalty: the strategic choices

The Purchaser-Purveyor Loyalty Matrix



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Purge: EDLP

WALMART **BBC NEWS** UK EDITION

Last Updated: Friday, 7 October 2005, 13:42 GMT 14:42 UK

BBC NEWS UK EDITION

Last Updated: Tuesday, 15 June, 2004, 17:04

Asda to cut petrol prices

Supermarket chain Sainsbury's has seen a 2.8% rise in quarterly sales after it boosted advertising and cut prices.

BBC NEWS UK

Last Updated: Tuesday, 21 De

Tesco battling As

The UK's two biggest supermarket chains, Asda and Tesco, are battling it to stock the cheapest goods.

Advertising Standards Authority (ASA) about the claim, made in a number of Asda press adverts and a TV commercial.

After an investigation, the ASA upheld Tesco's complaints and told Asda not to repeat its low price assertion.

Asda is the UK's second largest supermarket

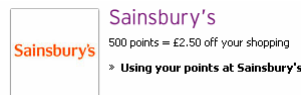
Coalition: Lower loyalty costs



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Pure: In-store rewards



Coalition: Wider choice of reward



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4

Pull: Aspirational rewards



Flights with ebookers

Flights start from 5,200 points.
 > More information on flights with Nectar



Thomson

4,000 points = £100 discount
 Minimum spend applies.
 > Book a Thomson holiday



Megabowl

2 Nectar vouchers (1,000 points) = Free game of bowling for 2 people, not including shoe hire
 > Go bowling with Nectar



Alton Towers and Thorpe Park

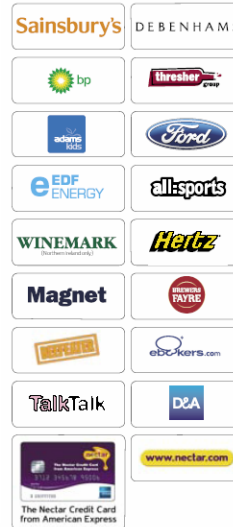
3,000 points = Free child entry
 4,000 points = Free adult entry
 Just take your card
 > Excitement and thrills at Alton Towers
 > White knuckle rides at Thorpe Park

Coalition: More relevant rewards



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Push: Partnerships



Coalition: Wider choice of partner



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Purchase: Payment



THE NECTAR CREDIT CARD FROM AMERICAN EXPRESS



Coalition: More responsive to change



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The advantage of coalition programs

The Purchaser-Purveyor Loyalty Matrix



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The Nectar Coalition Loyalty Programme

21st October

IL FUTURO DEL MICROMARKETING Creare valore con le informazioni di cliente

Jan-Pieter Lips
Head of Business to Business

Loyalty Management UK



Agenda

- 1) LMUK History/Experience
- 2) Programme Results To Date
- 3) Why do Sponsors Participate in Nectar?
- 4) Questions



Loyalty Management International

The World's Leading Developer of Multi-Company Loyalty Programmes



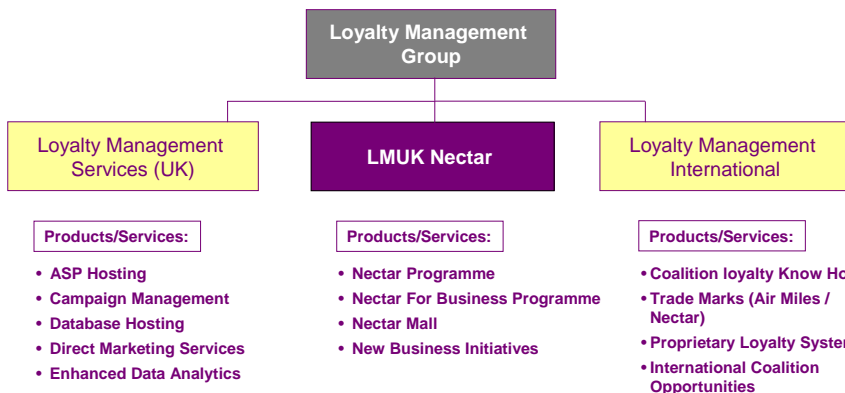
* Indicates the approximate twelve month active household penetration

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Loyalty Management UK - Structure



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The United Kingdom: 2001 - A Crowded Loyalty Market



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Nectar Consumer Proposition

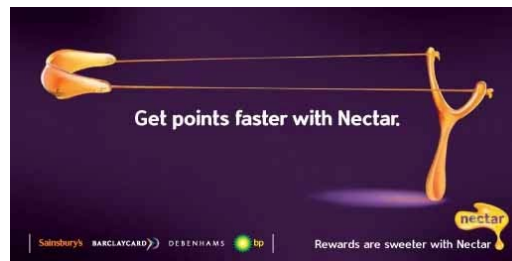
A New Program to Consolidate the Market

- One Card
- One Points Currency
- Single Household Account
- Quarterly Account Statement
- Thousands Of Retail Outlets
- Thousands Of Reward Options
- Easy Redemption Process
- Clear, independent branding



**First Year Target
= 50% Household
Penetration**

Nectar Launch: 16 September 2002



Mass Media Advertising

10' 40' 60' TV Commercials
National Newspaper Advertising
National Outdoor Posters

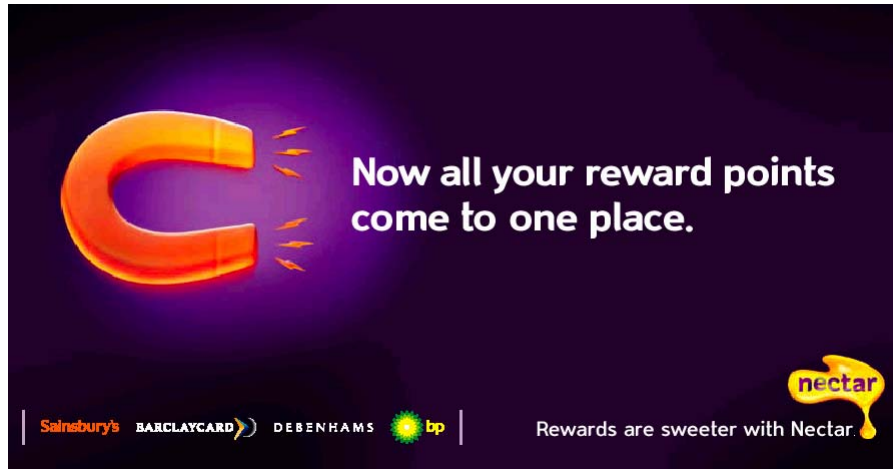
Huge In-store Promotion

Staff Training 200,000+
Dominant Retail POS
20 Million Enrolment Kits

Significant impact through coordination of activities

Nectar Outdoor Advertising

L A T A
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A large outdoor advertising billboard for Nectar. The background is dark purple. On the left, a large, glowing orange and yellow 'C' shape is shown with several small flame-like shapes trailing from its right side. To the right of the 'C', the text "Now all your reward points come to one place." is written in white. At the bottom left, there are logos for Sainsbury's, BARCLAYCARD, DEBENHAMS, and bp. At the bottom right, the Nectar logo is shown above the text "Rewards are sweeter with Nectar."

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Debenhams Department Store Nectar Point-of-Sale

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BP Retail Gasoline Nectar Point-of-Sale

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Sainsbury's Supermarket Nectar Point-of-Sale

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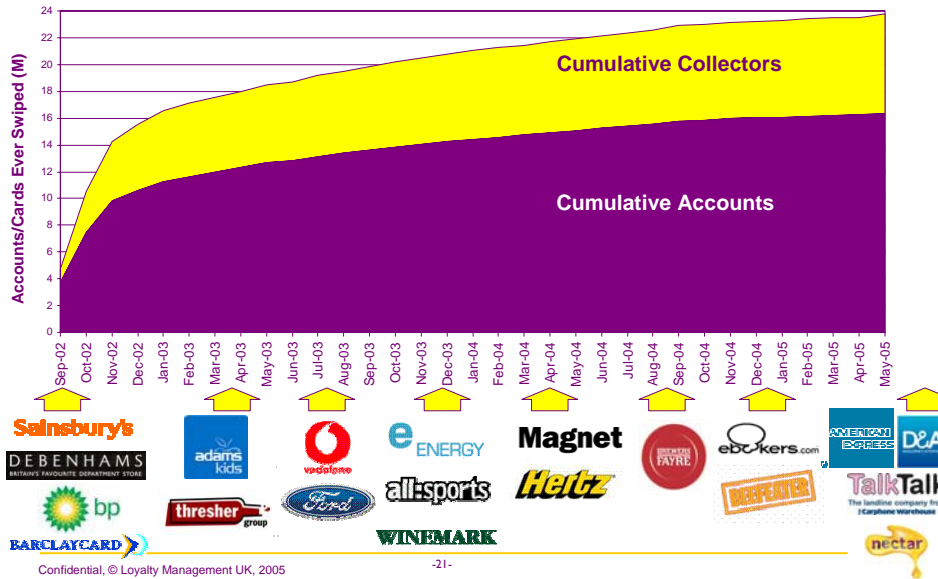


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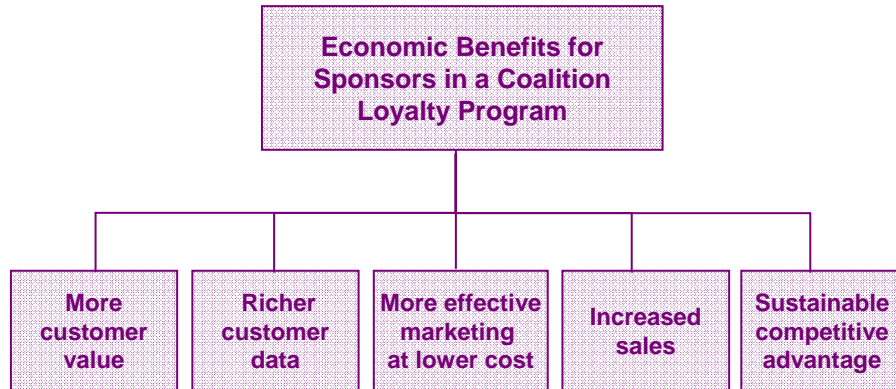
Continued Programme Growth



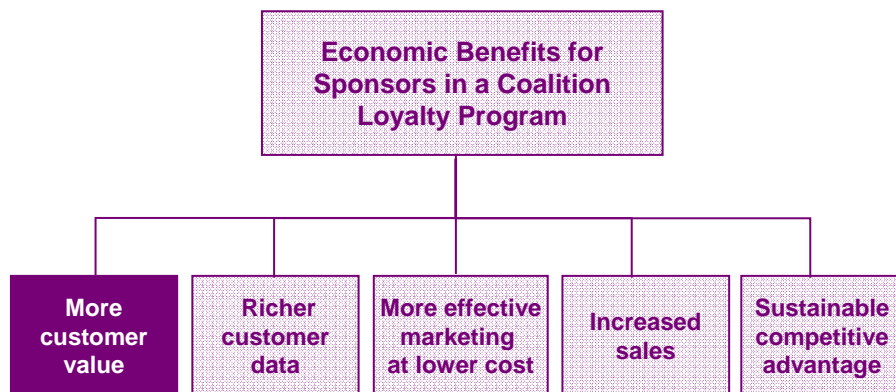
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Coalition Loyalty Programs - Sponsor Benefits



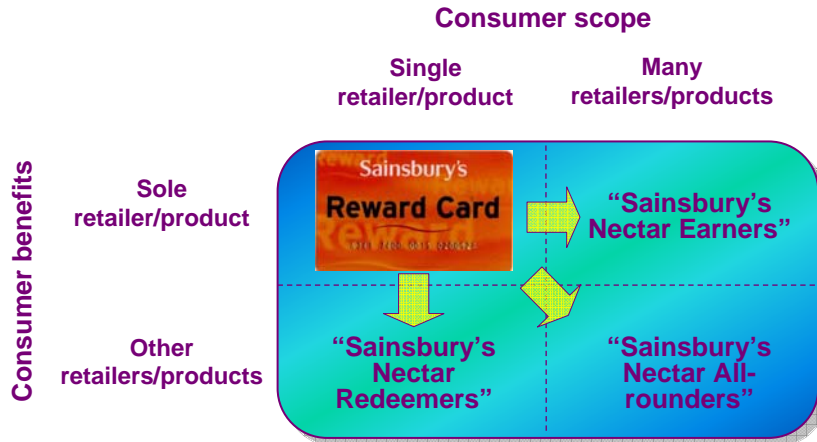
Coalition Loyalty Programs - Sponsor Benefits



Nectar Allows Sainsbury's Customers To Get Both Earning And Redemption Benefits From Being Part Of A Coalition Programme



84% Of Sainsbury's Customers Are Now Earning Nectar Points From Other Sponsors – At No Cost To Sainsbury's

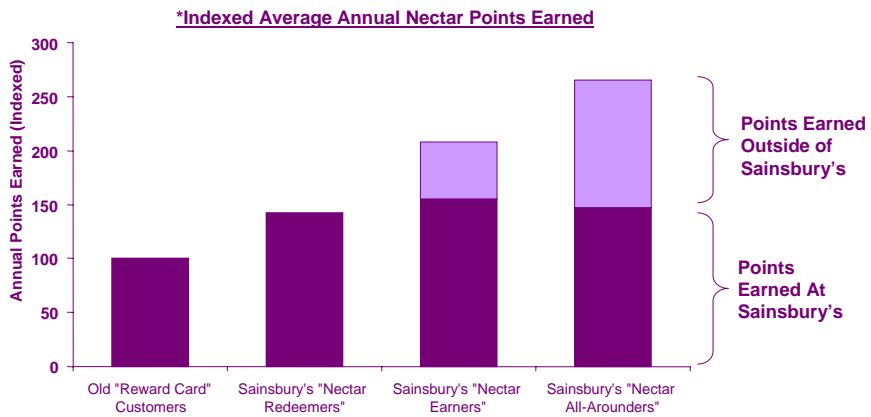


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"Nectar All-Arounders" Are Earning 80% More Points Than They Would Have In Sainsbury's Old Reward Card Programme



*= Based On Twelve Week Active Nectar Accounts

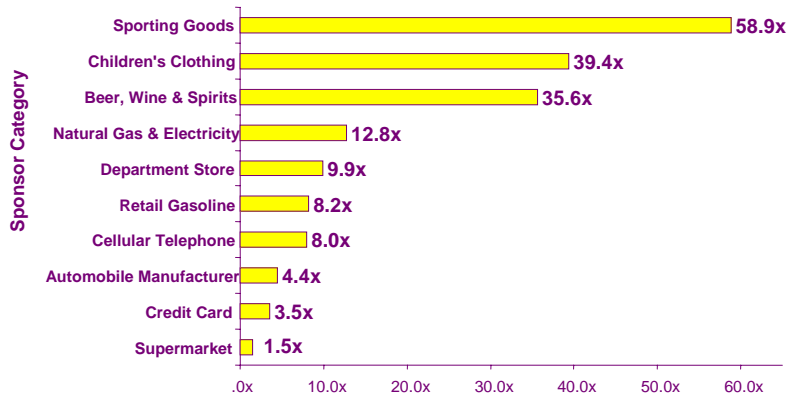
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The "Coalition Collector Benefit Multiplier"

The Coalition "Collector Benefit Multiplier" Compares The Number Of Nectar Points Earned By An Average Collector At A Specific Sponsor To The Total Points Earned By That Average Collector



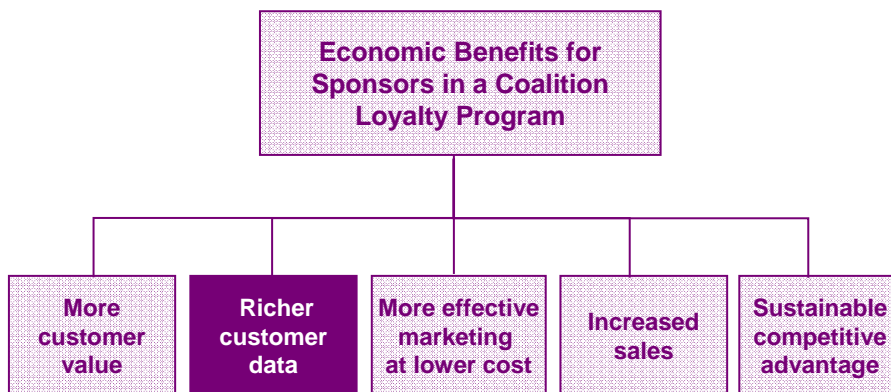
* As of June 2004

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Coalition Loyalty Programs - Sponsor Benefits



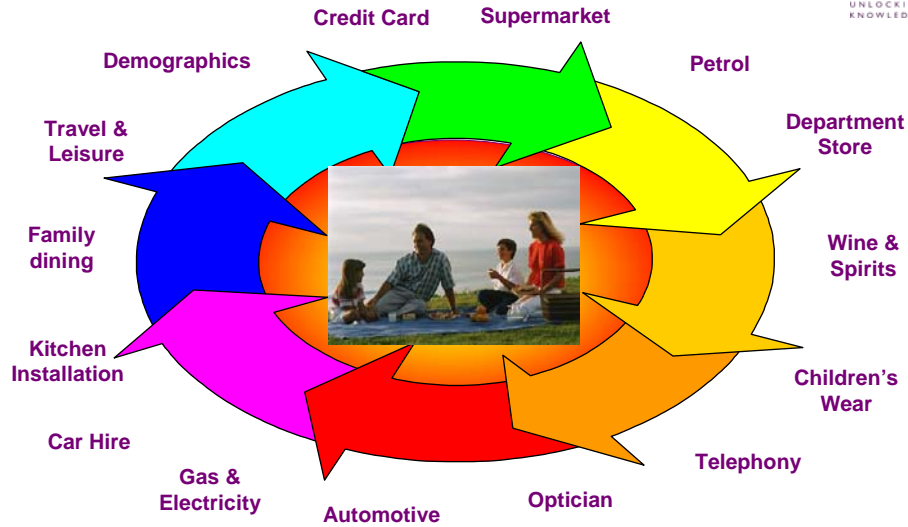
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The Nectar Database - A 360° View Of The Customer

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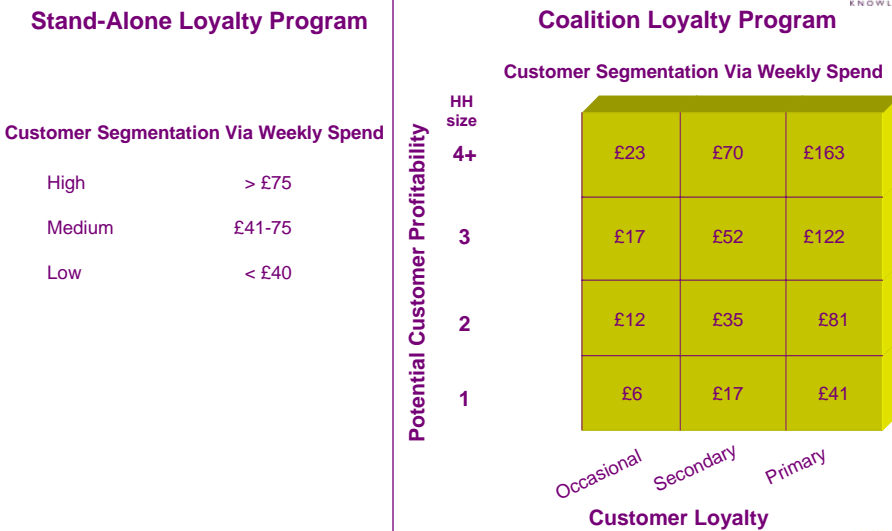
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*Marketing Opportunity Matrix: Supermarket

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KNOWLEDGE



*Marketing Opportunity Matrix Developed By Professor Len Schlesinger, Harvard Business School

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***Marketing Opportunity Matrix: Supermarket**



Stand-Alone Loyalty Program

Customer Segmentation Via Weekly Spend

| | | |
|--------|--------|--|
| High | > £75 | |
| Medium | £41-75 | |
| Low | < £40 | |

Coalition Loyalty Program

Customer Segmentation Via Weekly Spend

| | | | | |
|----------------------------------|------------|------------|-----------|---------|
| Potential Customer Profitability | HH size 4+ | £23 | £70 | £163 |
| | 3 | £17 | £52 | £122 |
| | 2 | £12 | £35 | £81 |
| | 1 | £6 | £17 | £41 |
| | | Occasional | Secondary | Primary |

Customer Loyalty

*Marketing Opportunity Matrix Developed By Professor Len Schlesinger, Harvard Business School
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***Marketing Opportunity Matrix: Supermarket**



Stand-Alone Loyalty Program

Customer Segmentation Via Weekly Spend

| | | |
|--------|--------|--|
| High | > £75 | |
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Coalition Loyalty Program

Customer Segmentation Via Weekly Spend

| | | | | | |
|----------------------------------|------------|-------------|------------|-----------|---------|
| Potential Customer Profitability | HH size 4+ | £0 | £23 | £70 | £163 |
| | 3 | £0 | £17 | £52 | £122 |
| | 2 | £0 | £12 | £35 | £81 |
| | 1 | £0 | £6 | £17 | £41 |
| | | Non-shopper | Occasional | Secondary | Primary |

Customer Loyalty

*Marketing Opportunity Matrix Developed By Professor Len Schlesinger, Harvard Business School
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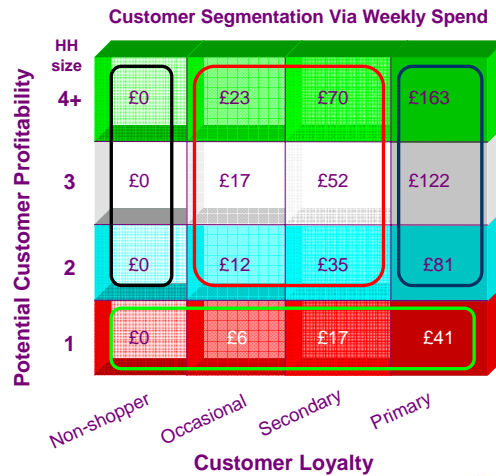


***Marketing Opportunity Matrix: Supermarket**



Coalition Loyalty Program

- Monitor for Growth in Potential
- Target for Acquisition
- Target for Increased Spending
- Best Customer Retention Strategies



*Marketing Opportunity Matrix Developed By Professor Len Schlesinger, Harvard Business School
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Sainsbury's Direct Marketing Results Have Improved Due To Data Available As A Result Of Nectar



"Responses to Nectar's targeted mailings, both paper and e-mail, have increased 300% over the more general mailings it sent out in 2000 ... Sainsbury's estimates that it has a 50% efficiency improvement in understanding and segmenting its customers."

Direct Magazine, 1st April 2003

- Greater than 99% of Nectar "White Mail" reaches Collectors
- The Nectar Programme has generated one of the largest and "freshest" consumer e-mail databases in the United Kingdom

Sainsbury set to stay sweet on Nectar

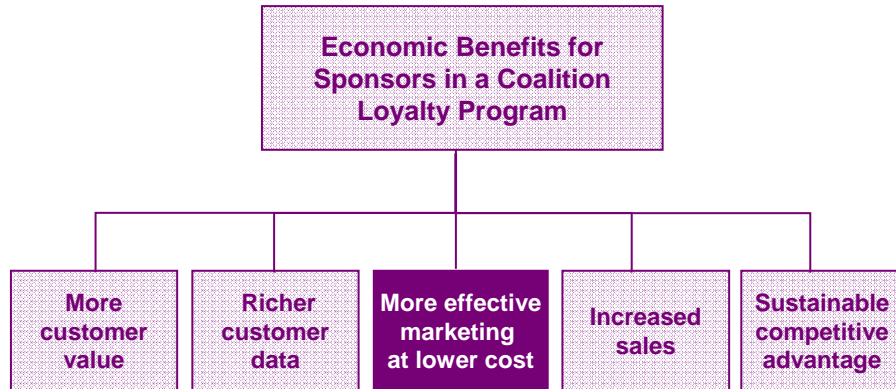
"More efficient use of data in Sainsbury's campaigns has meant a greater return on investment, equating to a rise in direct marketing-driven sales from £35m to more than £400m."

The Grocer, 30th July 2005

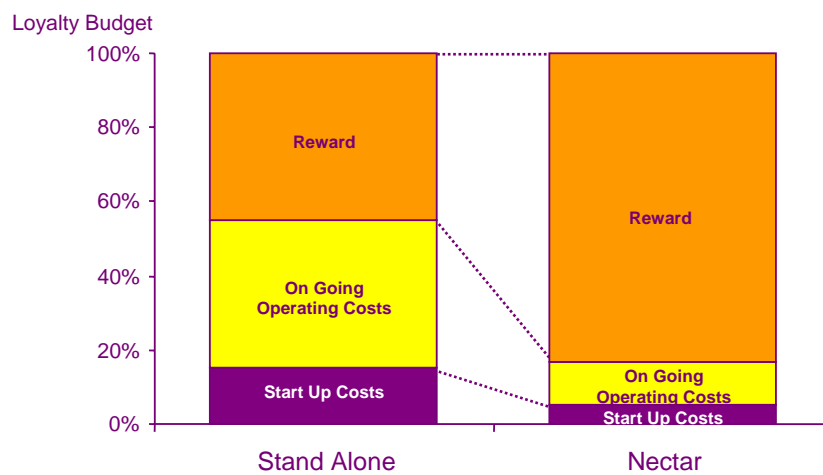


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Coalition Loyalty Programs - Sponsor Benefits



Loyalty Programs - Economies of Scale



Low cost communication channels

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E-mail
Sainsbury's
Bank holiday weekend offer
Double points on fuel

www.nectar.com

Simple PUM*
Your points update

Home Movers Pack

Rewards Catalogue
High Street Savings
Treats & Gifts
Travel & Leisure

Regular PUM*
Reward yourself
Treats for a seriously shopping mummy!

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* PUM = Points Update Mailing 37

Points Update Mailing: Segmentation Coupon Offer Sheet Based Upon 360° View Of The Customer

L A T A
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| | Mrs Jones | Mr Paul |
|-----------------------------------|--|--|
| Demographics | 32 years old Two person household | 43 years old Family of three One child |
| General Programme Activity | Enrolled in March 2003 Earned points at 4 Sponsors Belongs to top 20% Collectors | Enrolled in September 2002 Earned points at 6 Sponsors Belongs to top 20% Collectors |
| Grocery Shopping | Spends £10 to £20 per week, high opportunity to increase spend. Last transaction 30/10. | Spends between £60 and £70 per week, low opportunity to increase spend. |
| Credit Card Spend | Signed up by shop card. PUM insert. Relatively high spend volume on two cards. | Does not collect points using a Credit Card |
| Fuel consumption | Occasionally tops up. Has not bought in shop yet. Favourite petrol station has car wash. | Consistent BP shopper, belongs to top 15%. Buys in shop regularly. Last transaction date 23/10 |
| Department Store Shopping | Lives within Debenhams catchment but has not shopped there yet | Belongs to top 20% of shoppers, uses store card, shops at Christmas, and responds to Debenhams bonus points offers |
| Children's wear | Does not leave near an Adams location | Shopped 5 times during the last 12 months, spends £18 on average. Last transaction date September 23rd |
| Sporting Goods | Spent £57 on average during 2 visits 4 months ago | Shopped once, responding to PUM Offers |

Sainsbury's
Earn 450 points
When you spend £30

Sainsbury's
Earn 700 points
when you spend £70

bp
Double points
On your next visit

Debenhams
Triple points
on your next visit

Debenhams
Earn 1,000 points
When you shop

Debenhams
Earn 1,000 points
when you spend £30

all:Sports
Earn 700 points
When you spend £40

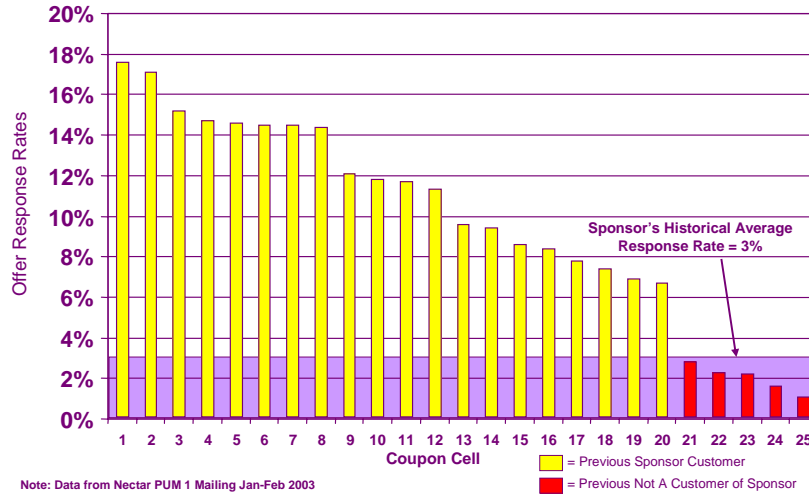
adamo
Earn 900 points
When you spend £20

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Targeting Customers with Relevant PUM Offers

Example: Response Rates for a Sponsor's Nectar PUM Coupons

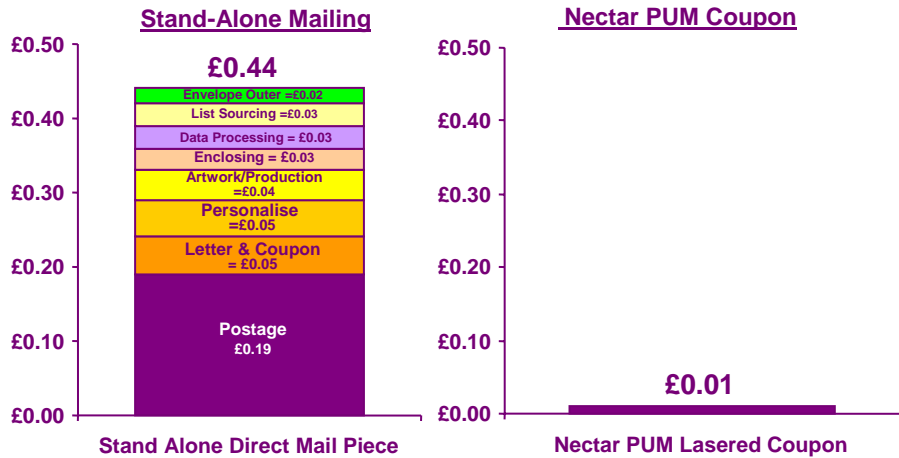


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Cost Effective Database Marketing - Offer Delivery



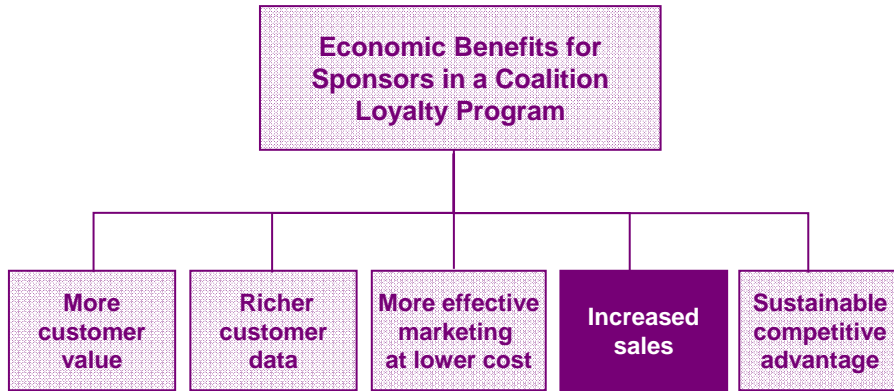
Note: Cost estimates are based on 8,000,000 Direct Mail pieces for UK distribution. Stand-alone is based on an A4 letter and perf. coupon in a C5 outer envelope with 2nd class mailing. Nectar insert is a 4pp A5 leaflet inserted in one of Nectar's Quarterly Points Update Mailings (PUM); Nectar Custom Lasered Coupon is the estimated cost per custom lasered coupon in a Nectar PUM.

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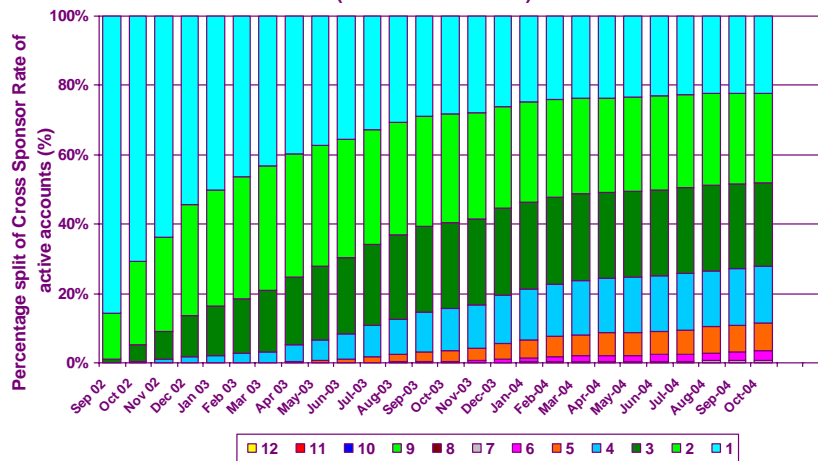


Coalition Loyalty Programs - Sponsor Benefits



Cross Sponsor Rate – Cross Sponsor Activity

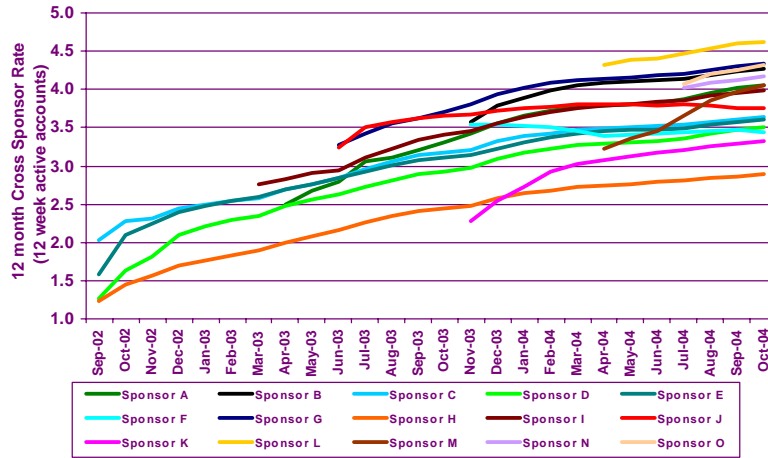
Number of Sponsors Shopped at in last 12 months
(12 week active base)



Cross Sponsor Rate – Cross Sponsor Activity



Cross Sponsor Rate by Sponsor and Overall
(12 week active accounts)



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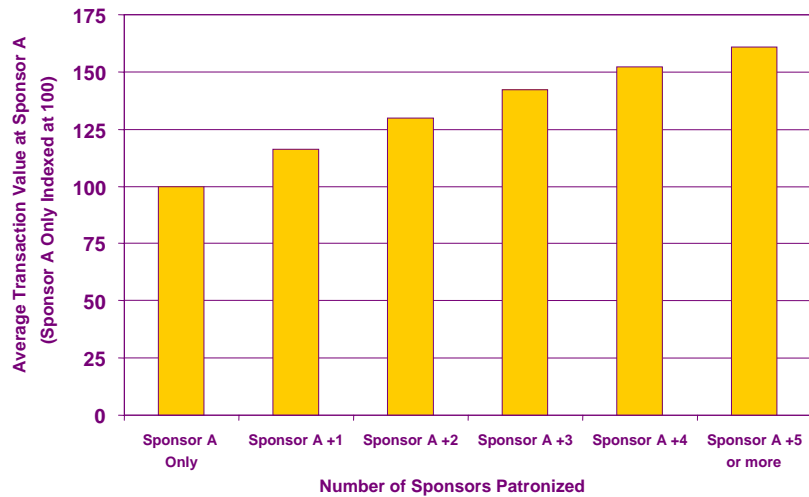
-43-



Higher Cross-Sponsor Rate Customers Spend More at Sponsor A



Cross Sponsor Rate and Collector Behaviour



Note: Average Transaction Value Data from April 2004

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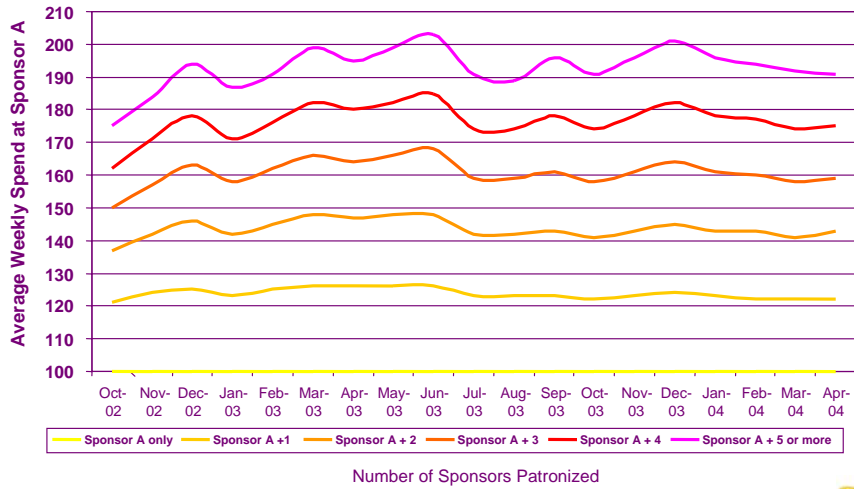
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Higher Cross-Sponsor Rate Customers Consistently Spend More At Sponsor A



Average Weekly Spend By CSR Segment (Sponsor A Only Collectors Indexed at 100)



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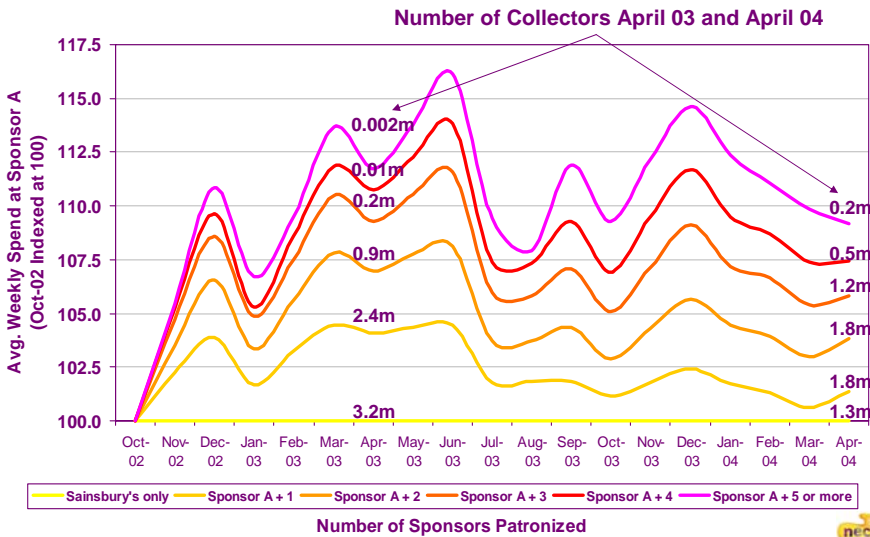
-45-



Higher Cross-Sponsor Rate Customers Perform Better At Sponsor A Over Time And Are Increasing In Numbers...



Average Weekly Spend By CSR Segment (Sponsor A Only Collectors Indexed at 100)



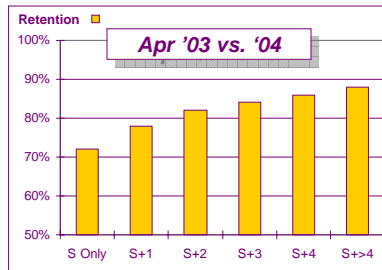
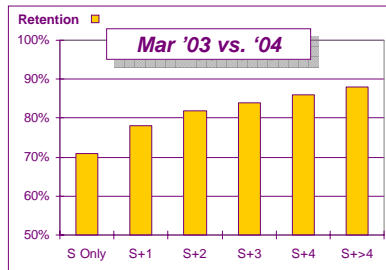
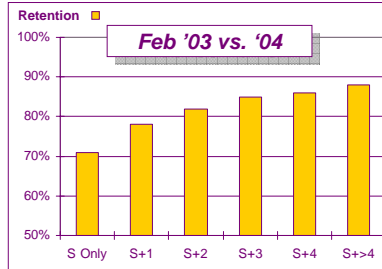
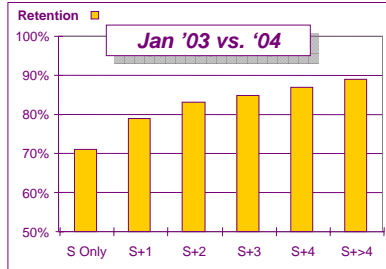
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Source: LMUK Marketing Database, May 2004



...And Have Higher Retention Rates At Sponsor A



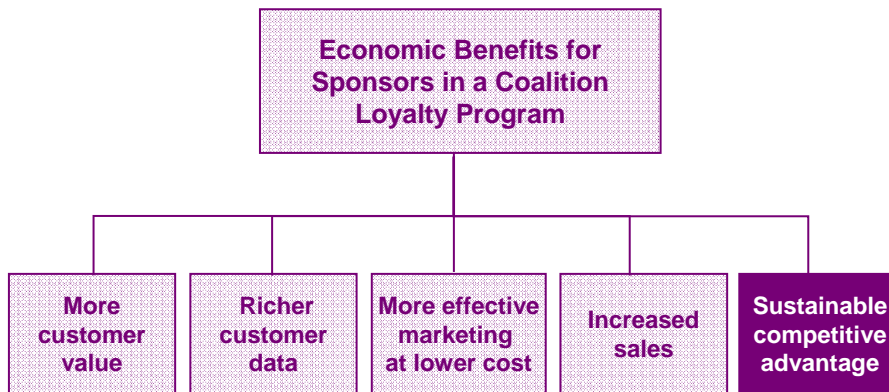
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Source: LMUK Marketing Database, May 2004



Coalition Loyalty Programs - Sponsor Benefits



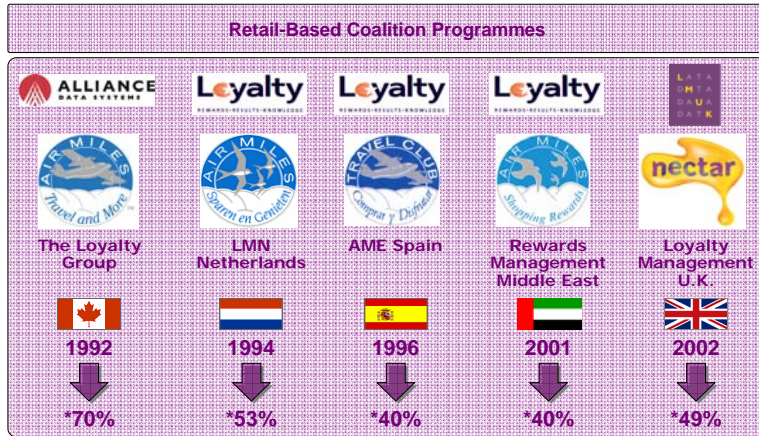
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Sustainable Competitive Advantage

The World's Leading Developer of Multi-Company Loyalty Programmes



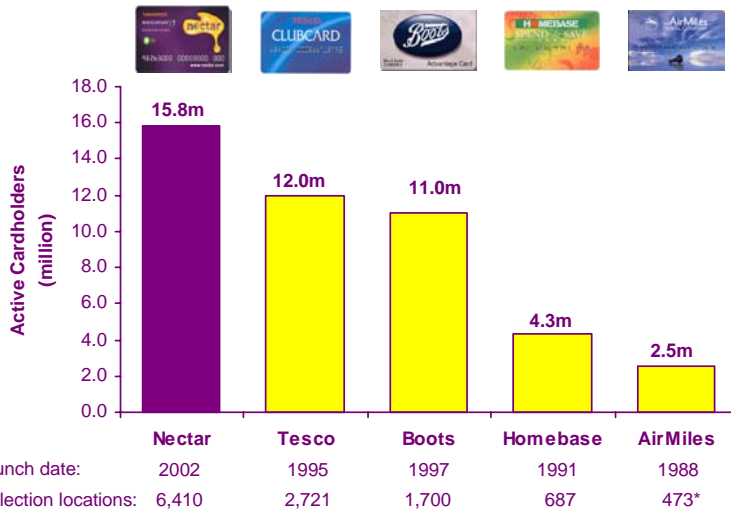
* Indicates the approximate twelve month active household penetration

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Loyalty Programmes: Active UK Cardholders



Sources: LMUK, programme websites and annual reports.
Active defined as members using their card within the last 4 months; * Direct issuing locations only

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BP Re-signs as Nectar Delivers “Double digit incremental percentage sales and gross margin”



“BP Retail has renewed its contract with UK coalition loyalty programme, Nectar, because the programme has delivered double-digit percentage increases in sales and gross margin

...According to Chris Sedgwick, BP Retail UK's Marketing Director: “Through consumer research and analysis **we know that Nectar delivers double digit incremental percentage sales and gross margin** to our business”

...BP's customer research reveals that Nectar is one of the main reasons why customers choose a BP site over other brands”

- The Wise Marketer, 14 July 2005



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The Nectar Coalition Loyalty Programme

21st October

IL FUTURO DEL MICROMARKETING Creare valore con le informazioni di cliente

Jan-Pieter Lips
Head of Business to Business
Loyalty Management UK

