Success criteria for Customer Loyalty Programmes –
The PAYBACK case study

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Il Futuro del Micromarketing
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A | **Loyalty Partner – The company behind PAYBACK**

Loyalty Partner – facts and figures

Founded	1998
Shareholders	Palamon Capital Partners Alexander Rittweger Metro AG Roland Berger
Offices	Munich, Oberhausen, London, Paris
Employees	260
Management	Alexander Rittweger (CEO) Uwe Heddendorp (COO) Joachim Bellinghoven (CIO) Tilman Krebs (CFO)
Supervisory Board	Dr. Jürgen Weber – Lufthansa AG, Chairman of Supervisory Board Dr. Hans-Joachim Körber – Metro AG, Chairman of Management Board Prof. Dr. Roland Berger – Roland Berger Strategy Consultants, Founder Bernd Michael – Grey Global Group, Strategy Advisor

Leading companies rely on Loyalty Partner

With its three business units Loyalty Partner is the one-stop service provider for innovative customer management

LOYALTY PARTNER

	PAYBACK	**emnos**	**LOYALTY PARTNER SERVICES**
Offering	Operation and enhancement of PAYBACK	CRM Consulting and Customer Insight; Design of customer-oriented offerings	Design, implementation and operation of customised customer management solutions
Role	Programme operator	Consultancy	Service provider
Number of employees / skills	90 Employees: Experts in Retail, Marketing, Sales and Distribution, Relationship Marketing	30 Employees: Experts in Data Analysis, Database Management, Customer Insight	140 Employees: Experts in IT, Process Management, Quality Management, Call Centre Management etc.

Solutions for innovative customer management

B PAYBACK – Germany's most successful loyalty programme

PAYBACK – facts and figures

One out of three families in Germany collect PAYBACK points

PAYBACK Visa is the **fastest growing Visa program** in Germany

Revenue of approx. 15 billion Euros with PAYBACK cards at partner stores (2005)

90 percent of all PAYBACK points are redeemed

PAYBACK card is **the third most important card** in German wallets (after health insurance card and debit card)

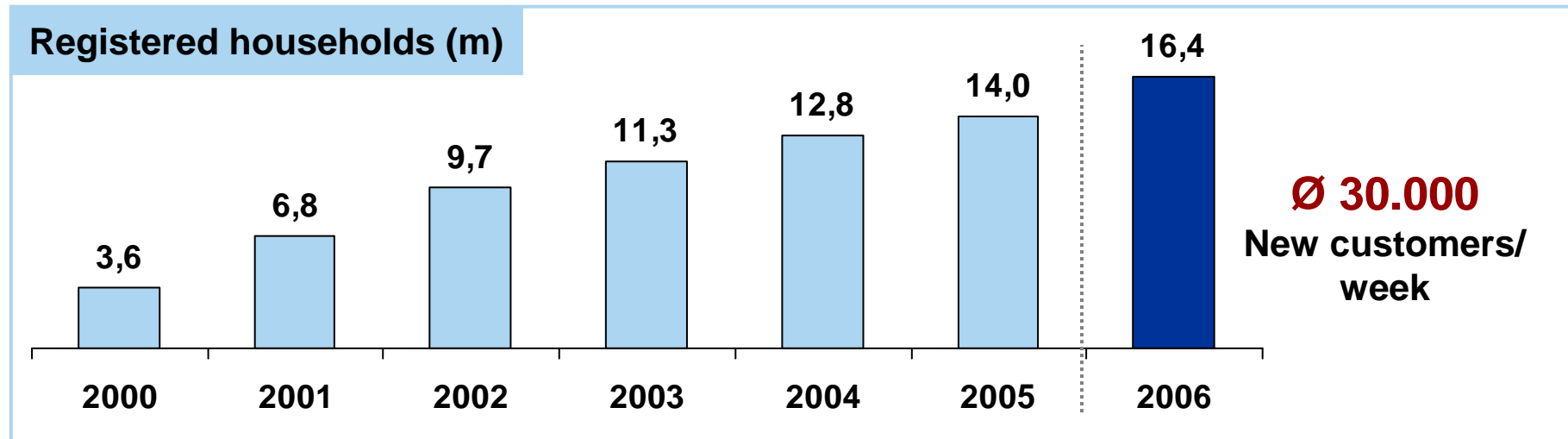The term **PAYBACK** was included 2004 in the **German dictionary**

The average PAYBACK customer uses the card **four times a month**

Every third point collected is a **promotion point**

Active participation: Every third household already collects points with PAYBACK

Registered households (m)

2000	2001	2002	2003	2004	2005	2006
3,6	6,8	9,7	11,3	12,8	14,0	16,4

Ø 30.000
New customers/ week

Customer activity

On average
100.000 customers
use their PAYBACK card every hour

Brand awareness

PAYBACK is the most familiar brand of
loyalty programmes in Germany
77% prompted brand awareness

Source: PAYBACK DWH

PAYBACK members receive points for shopping and also benefit from exclusive offerings and services

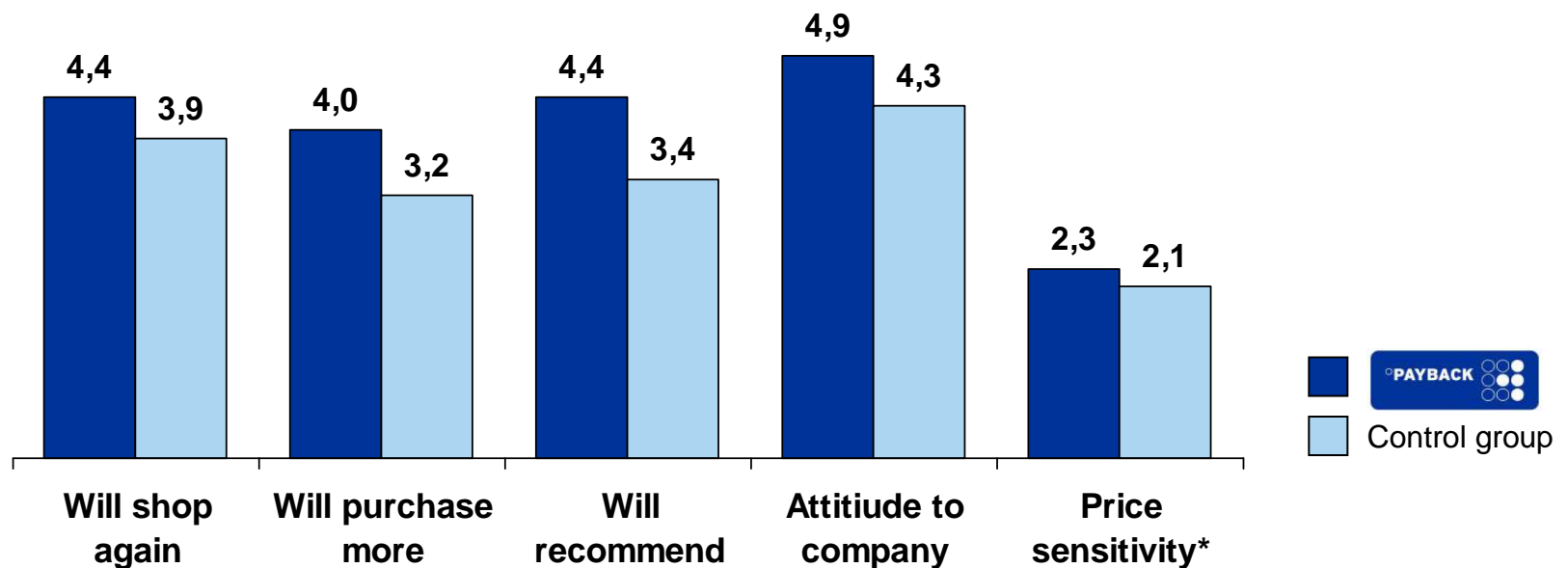| Discounts in the form of points	Exclusive offerings	Exclusive services
• Points for daily shopping (in retail and online) • Points with special PAYBACK promotions (e.g. 5-fold-points promotion) • Points with special partner promotions • Points with PAYBACK Visa card	• Coupons offering extra points • Discount coupons • PAYBACK promotions 	• Personal invitations • Customer magazines

PAYBACK helps the partner companies to increase customer loyalty and sales

PAYBACK customers reveal far better figures for all components of customer loyalty than the control group [scale from 1 to 6]


Will shop again | **Will purchase more** | **Will recommend** | **Attitiude to company** | **Price sensitivity***

PAYBACK: 4,4 / 4,0 / 4,4 / 4,9 / 2,3
Control group: 3,9 / 3,2 / 3,4 / 4,3 / 2,1

* Scale explanation:
high value = low price sensitivity

Partners benefit from the "customer intensification effect": PAYBACK households spend more

Development of household spendings at partner A (in € p.a.) [1]
Base: PAYBACK members who joined the programme in 2003

PAYBACK households

+ 29 %

"Customer intensification effect"

Control group

-37%

2001 2002 2003 2004 2005
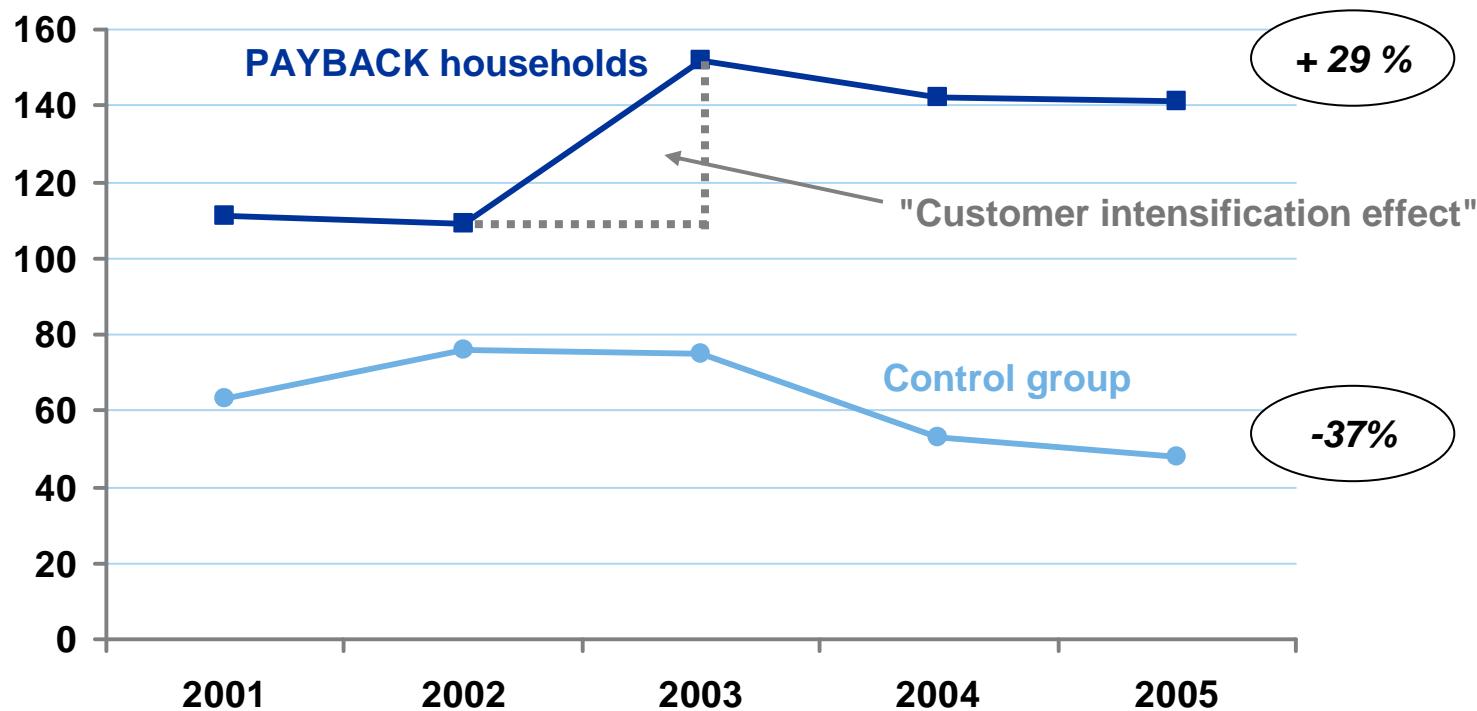
1) Source: GfK Group, PAYBACK Efficiency Recording, May 2006

C Success criteria for customer loyalty programmes

1. Material advantage
2. Active dialog with the customer
3. High relevance for the customer
4. Establish identity
5. Generate trust

C | Success criteria for customer loyalty programmes

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PAYBACK customers can save between 50 € and 150 € per year– example: the Mitze family from Wuppertal

Regular usage of the PAYBACK card at real,-, Galeria Kaufhof, dm-drogerie markt, OBI, Sportarena

Sales at: **Saving:**

dm	1.200 EUR = 1.200 points	12 EUR
GALERIA	1.250 EUR = 1.250 points	13 EUR
WMF	200 EUR = 200 points	2 EUR
SPORTARENA	210 EUR = 210 points	2 EUR
OBI	150 EUR = 130 points	1,30 EUR

Of these:

- 100 € sales with 2 direct discounts (5%) at dm   +   10 EUR
- 280 € sales with 20% discount coupon at Kaufhof   +   56 EUR
- 120 € sales with 10% discount coupons at Kaufhof   +   12 EUR
- 1.200 € sales with PAYBACK Visa card (300 points)   +   3 EUR

Total Savings: 111,30 EUR

The Mitze family has redeemed their points twice:
- Philips DVD Player for 6.900 points
- AEG Blender for 3.500 points

LOYALTY PARTNER

PAYBACK customers use a single card to collect points at various attractive partner companies they encounter in everyday life

Bonus programme wish list [1]

Category	Value
Use in many different stores	72
Redemption in cash	59
Special promotions	56
Points/discounts for services	53
Discount after a short time	50
Points/discount for online shopping	48
Credit card function	37
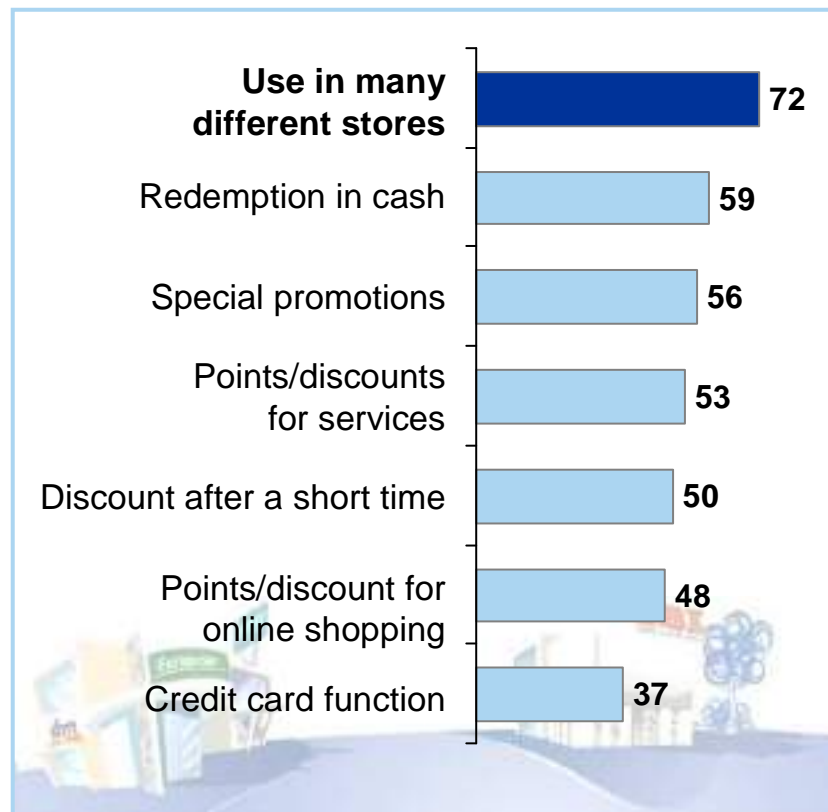
PAYBACK partner companies

dm · APOLLO OPTIK · real

LINDA · nH HOTELES · GALERIA

ARAL · OBI · Alice

SPORTARENA · DÄNISCHES BETTENLAGER · WMF

HDI VERSICHERUNGEN · Europcar · ticket online

1) EMNID Survey 2002

LOYALTY PARTNER

PAYBACK is by far Germany's most popular bonus programme and offers the greatest benefits for holders of customer cards

Benefits [%]		Empathy [%]
34	PAYBACK	33
7	Happy Digits	8
6	IKEA Family	8
6	Miles & More	5
6	Bahn Comfort	4
5	Rewe Card	6
5	Douglas Card	5
3	Edecard	3
1	Webmiles	1
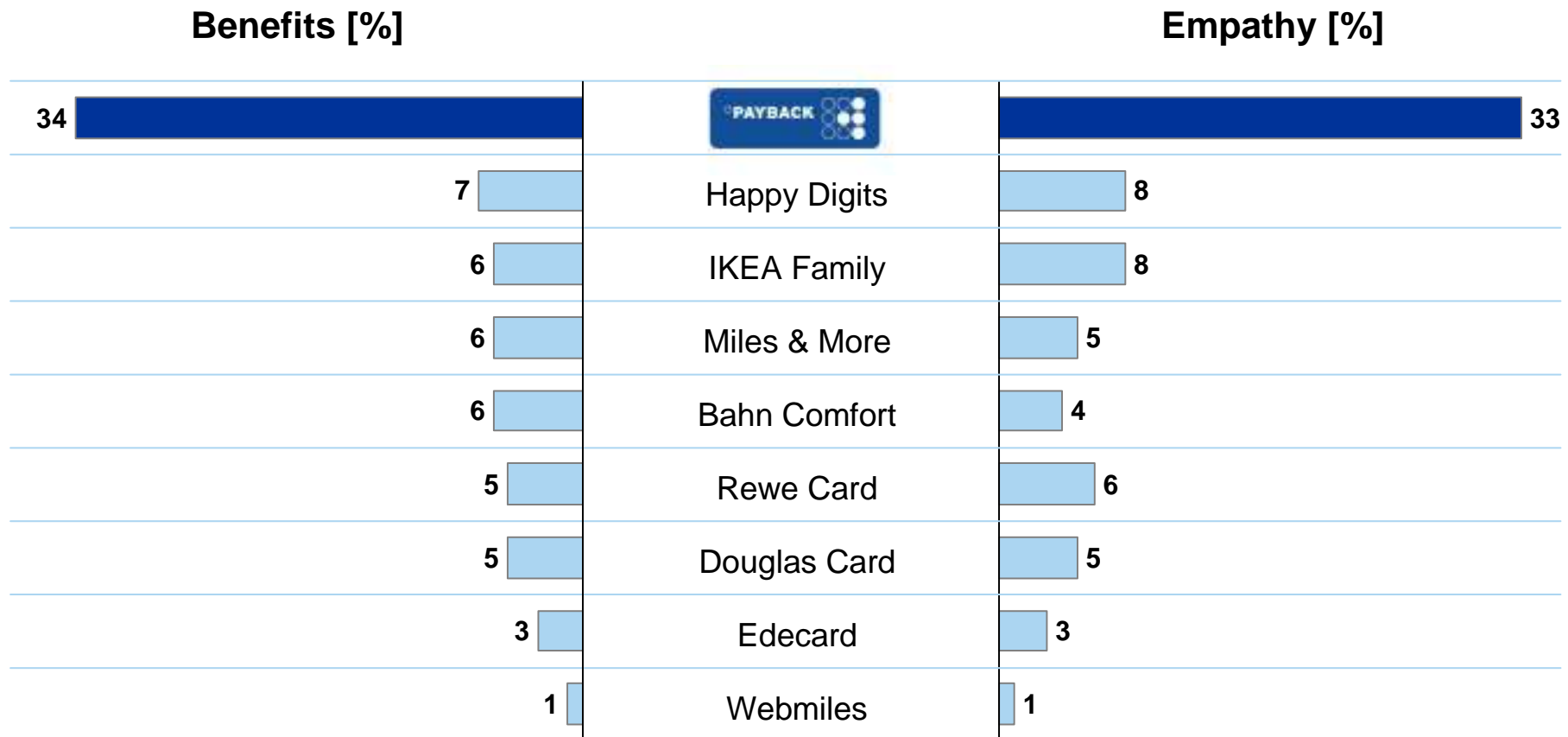
Source: TNS EMNID 2006 (multiple answers allowed)

LOYALTY PARTNER

With the large number of PAYBACK partners, customers can redeem the points they have collected more quickly

▶ With the number of partners, the average **total points** collected by PAYBACK customers has **increased by 50%** from 2003 to 2006

Ø **Avg. no. of points per account/ no. of partners**

	2003	2004	2005	2006
Points	876	1046	1121	1309
Partners	2,3	2,5	2,7	3,5
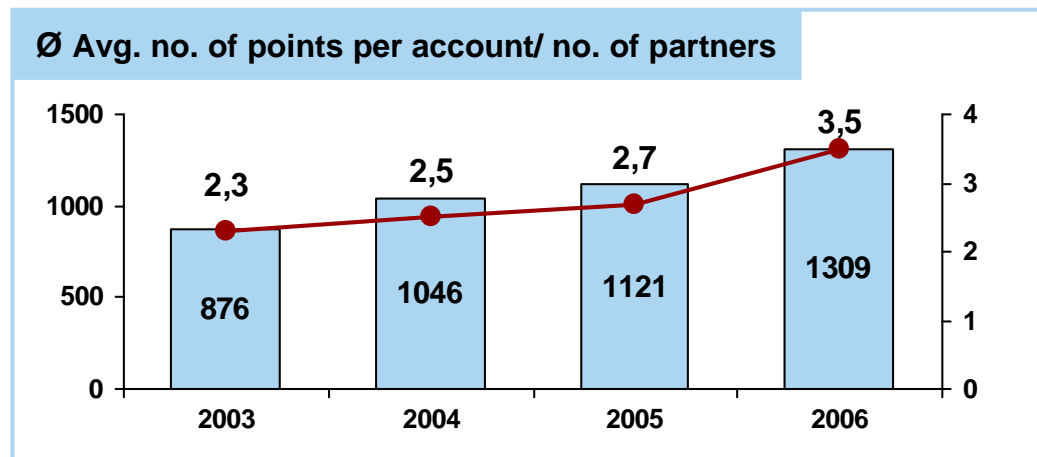
▶ In 2006 the average PAYBACK customer will collect **over 1,300 points**

▶ With a redemption threshold of 200 points, this means that they can redeem **every other month**

PAYBACK customers can choose from many different ways to redeem their points – which is a critical factor for their loyalty

Rewards
- A wide range of attractive rewards from the PAYBACK shop
- Cash-and-carry rewards from Aral

Vouchers
- Discount vouchers at terminals in partner stores
- In-store redemption

Donations
- Donating points to UNICEF, more than 1 million Euros have been spent so far

Miles
- Crediting points to Lufthansa Miles & More accounts

Cash
- Transferring counter-value in bank account

90% of all points collected are redeemed – more than half of these are returned to the partners via redemption at the POS

Value of PAYBACK points collected and redeemed in 2005 [in millions of €]

118 Mio € — Points collected

105 Mio € — Points redeemed

PAYBACK points 2005
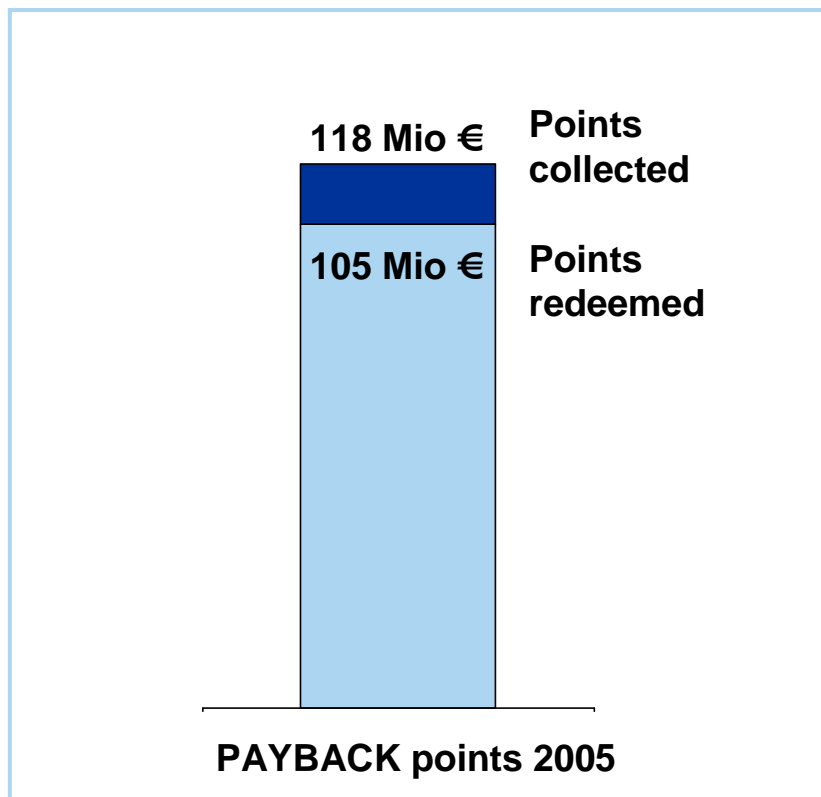
Points redeemed in 2005 by redemption channels [in millions of €]

Instore redemption

53,2

Rewards

32,4

Cash

17,3

Other

2,1
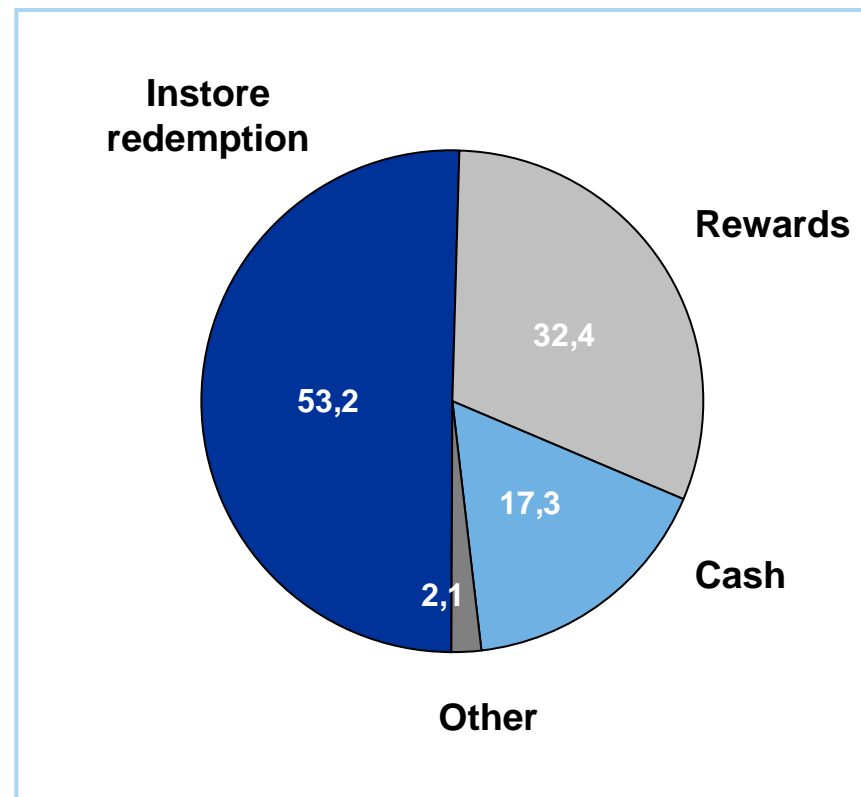
C | Success criteria for customer loyalty programmes

1. Material advantage
2. Active dialog: important for customers and partner companies alike
3. High relevance for the customer
4. Establish identity
5. Generate trust

PAYBACK partners use the programme as an innovative communication platform

PAYBACK communication channels (circulation 2005)

| Channel	
Mailing: > 70 m. Mailings	✉
SMS: 10 m. SMS	📱······📱
Email: 90 m. Newsletter	@
Internet: 28 m. Visits	🧑‍💻
POS: 2.200 Terminals	🛒

Account statement

- Contents: Account status, coupons, special offers
- Million fold circulation
- Frequency: 5 times per year

Theme mailings

- Contents: Coupons und special partner offerings
- Themes: City centre, mobility, Christmas, birthday

Partner mailings

- Contents: Customised offerings and coupons from the partner

LOYALTY PARTNER

The highly personalized account statement generated additional sales of € 238m for PAYBACK partners in 2005

PAYBACK account statement

Additional sales and profits via the PAYBACK account statement in 2005

238 m

52 m €

Additional sales

Additional profit

(across all partners)
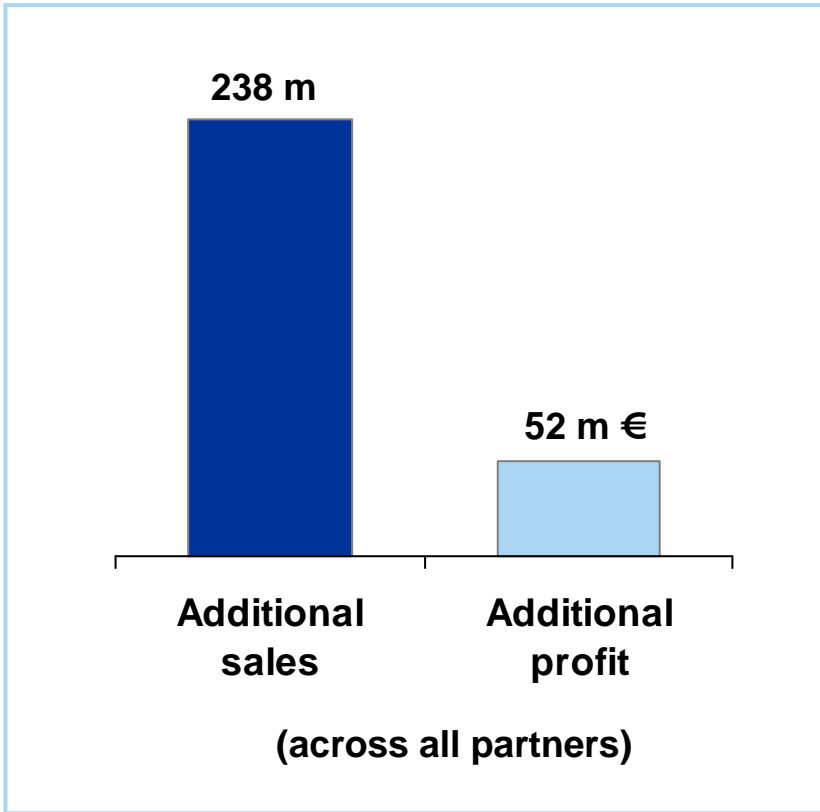
One to one communication at special occasions meets positive response with the PAYBACK customers – Example: "birthday mailing"

PAYBACK birthday mailing

Effect for customers and partners
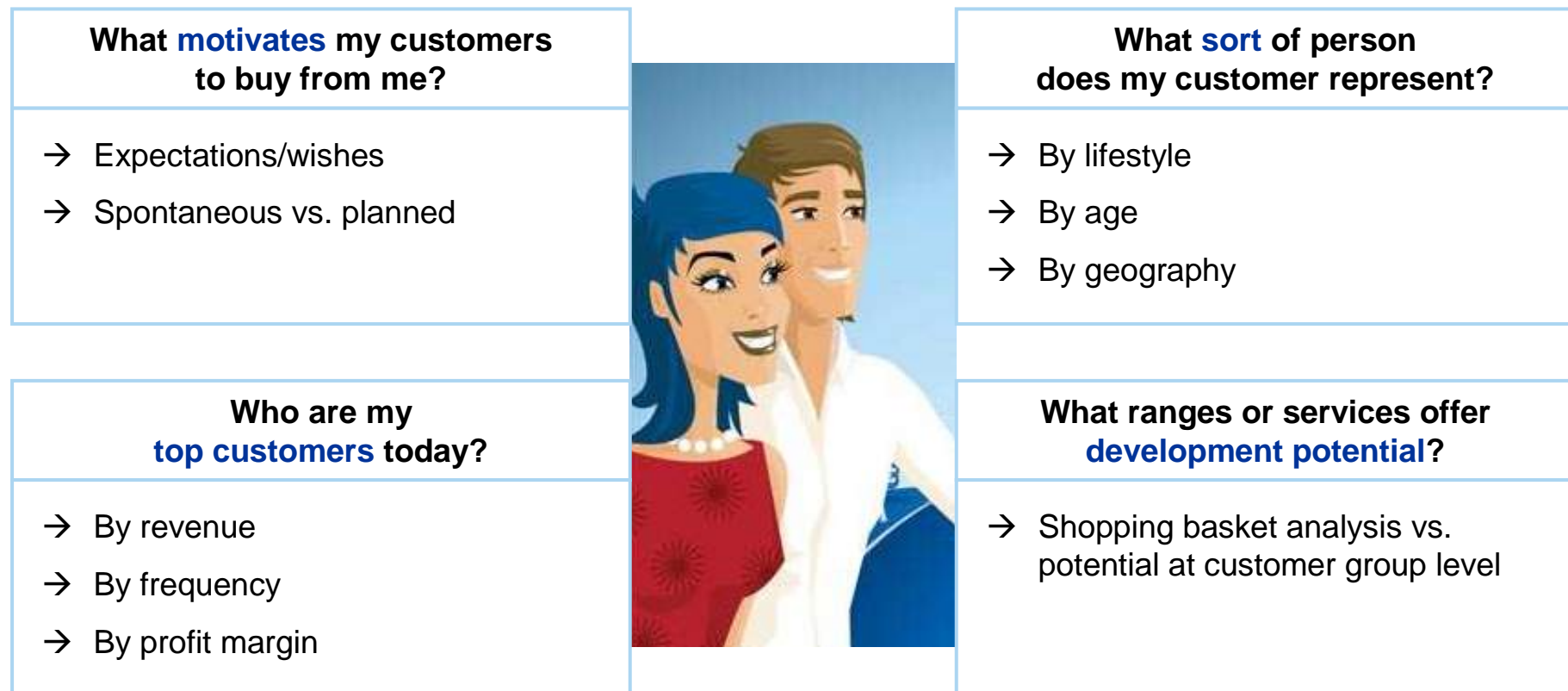
- Positive surprise
- Increase emotional perspective
- Increase programme awareness

➜ Mailing recipients use the PAYBACK card more frequently, generating higher turnover

C | **Success criteria for customer loyalty programmes**

1. Material advantage
2. Active dialog with the customers
3. High relevance: preselect for the customer
4. Establish identity
5. Generate trust

The basis for offering relevant products and services is a deep understanding of the customers' behaviour and needs

What motivates my customers to buy from me?

→ Expectations/wishes

→ Spontaneous vs. planned

What sort of person does my customer represent?

→ By lifestyle

→ By age

→ By geography

Who are my top customers today?

→ By revenue

→ By frequency

→ By profit margin

What ranges or services offer development potential?

→ Shopping basket analysis vs. potential at customer group level

The relevant data from various sources is merged in the PAYBACK customer database

PAYBACK data warehouse

Transaction data from various sectors

PAYBACK data from registrations and additional information

Geo-data from PAYBACK database or external sources

Promotion and response data from direct marketing campaigns

PAYBACK contact data from customer service (CSC) and reward orders
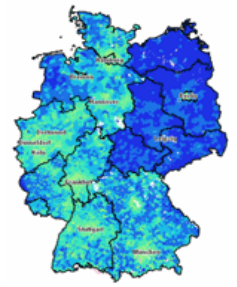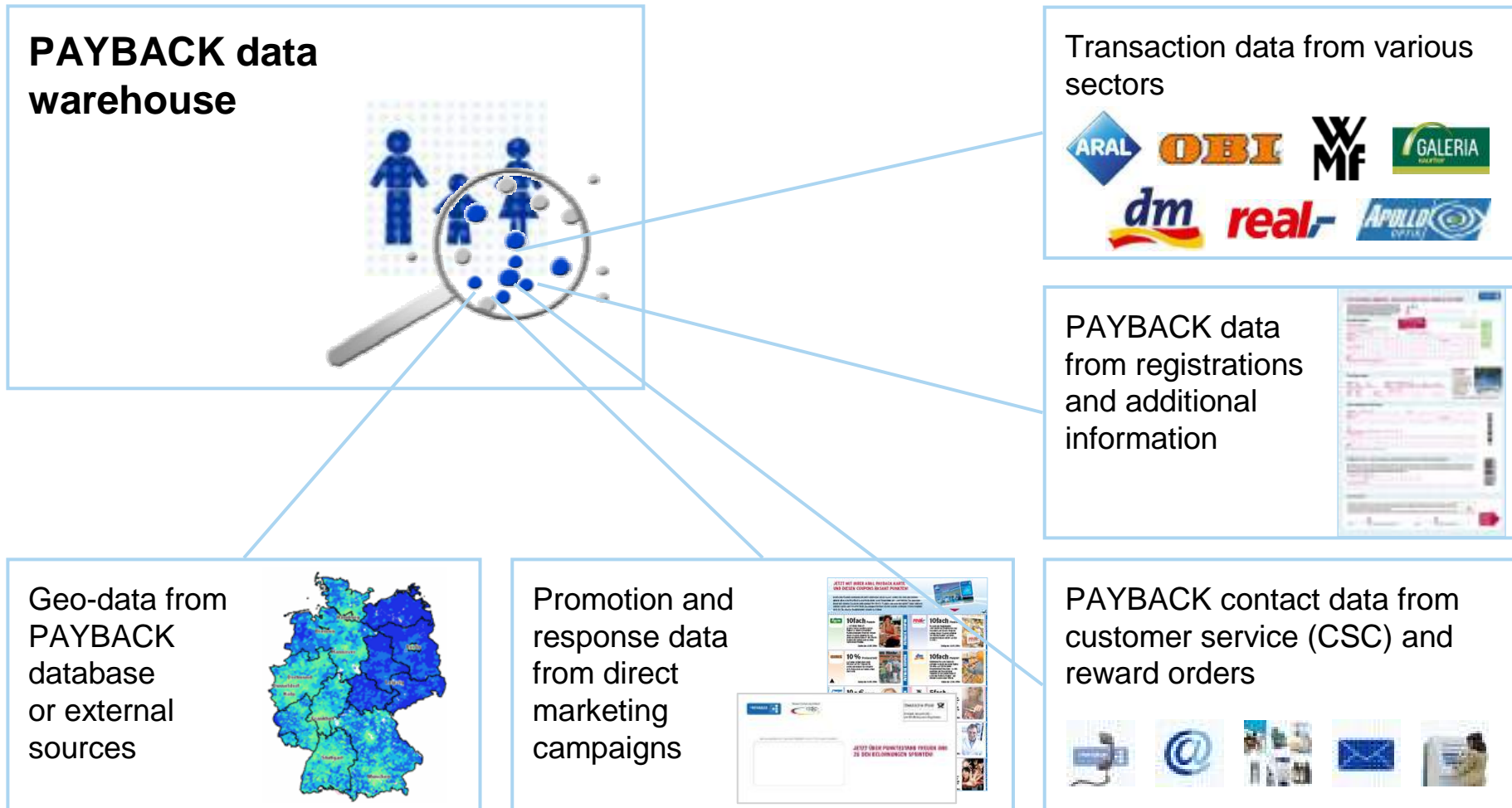
With a three dimensional segmentation approach different customer groups can be identified

Customer value

Customer potential

Customer needs

1. **Current customer value**
Analysis of the customer value with the RFM method (Recency, Frequency, Monetary Value)

2. **Customer potencial/-risk**
Recognise the potential and risks based on stabilitiy of behaviour

3. **Customer needs**
Information about needs, motivations and lifestyle based on buying patterns

Differentiated picture of the customer

The generated customer insight is the basis for developing superior products and services

Subscriber base

Step 1	Structured data warehouse
Step 2	Data mining → understanding customer behaviour
Step 3	Forecasting customer behaviour
Step 4	Developing new product ranges
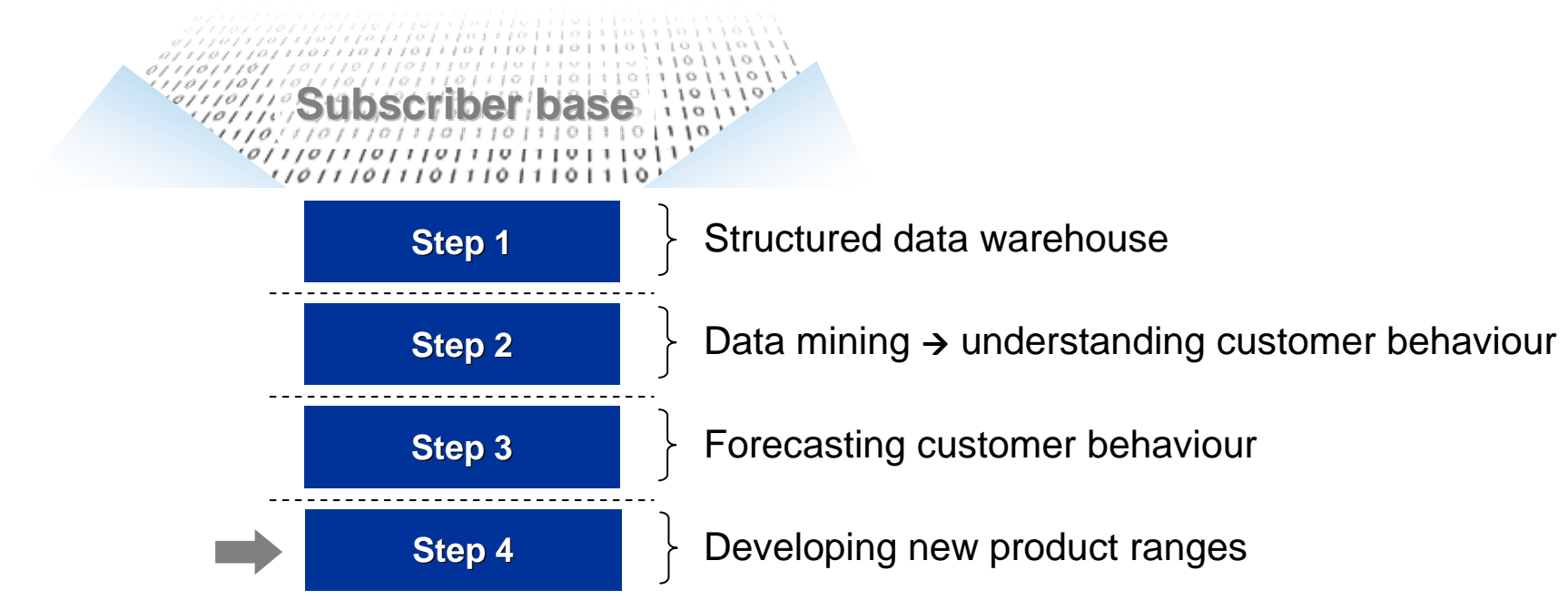
Identification of demand gaps and motivators

Tailor-made offerings that are relevant for the customer

Based on the generated customer insight the partners' offerings and PAYBACK itself are permanently being enhanced

PAYBACK programme

Partner portfolio

Direct Marketing

Range of rewards

Products and Services

Improvement of the **programme design** and **comm-unication**

Deep understanding of customers and their needs

Improvement of the **offers** and **comm-unication**

Partner offering

Pricing

Promotion

Direct Marketing

Assortment and Shop design

1.) Advancement of PAYBACK

PAYBACK programme

Partner offering

| Partner portfolio |
| Direct Marketing |
| Range of rewards |
| Products and services |

Improvement of the **programme design** and **comm-unication**

Deep understanding of customers and their needs

Improvement of the **offers** and **comm-unication**

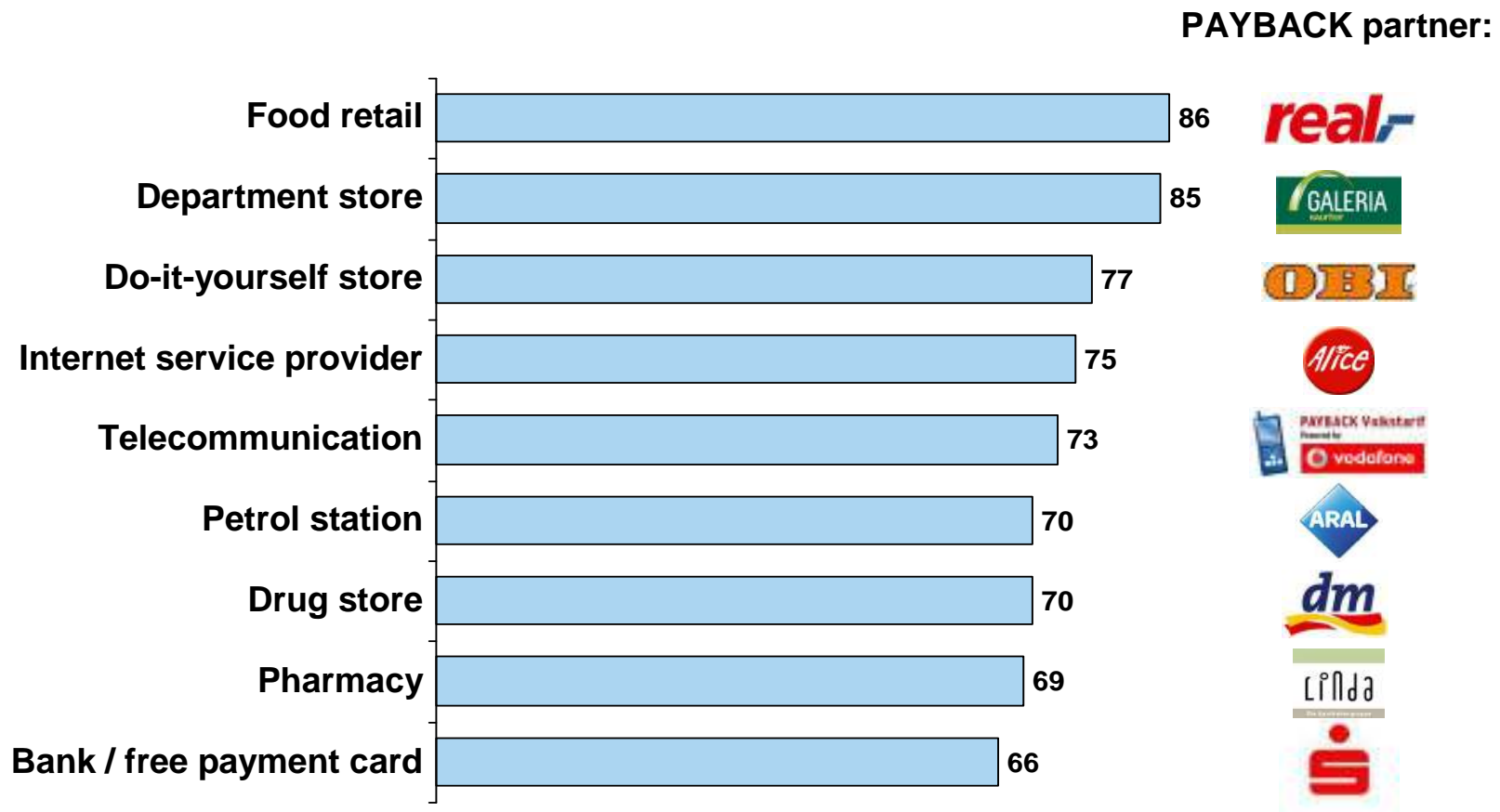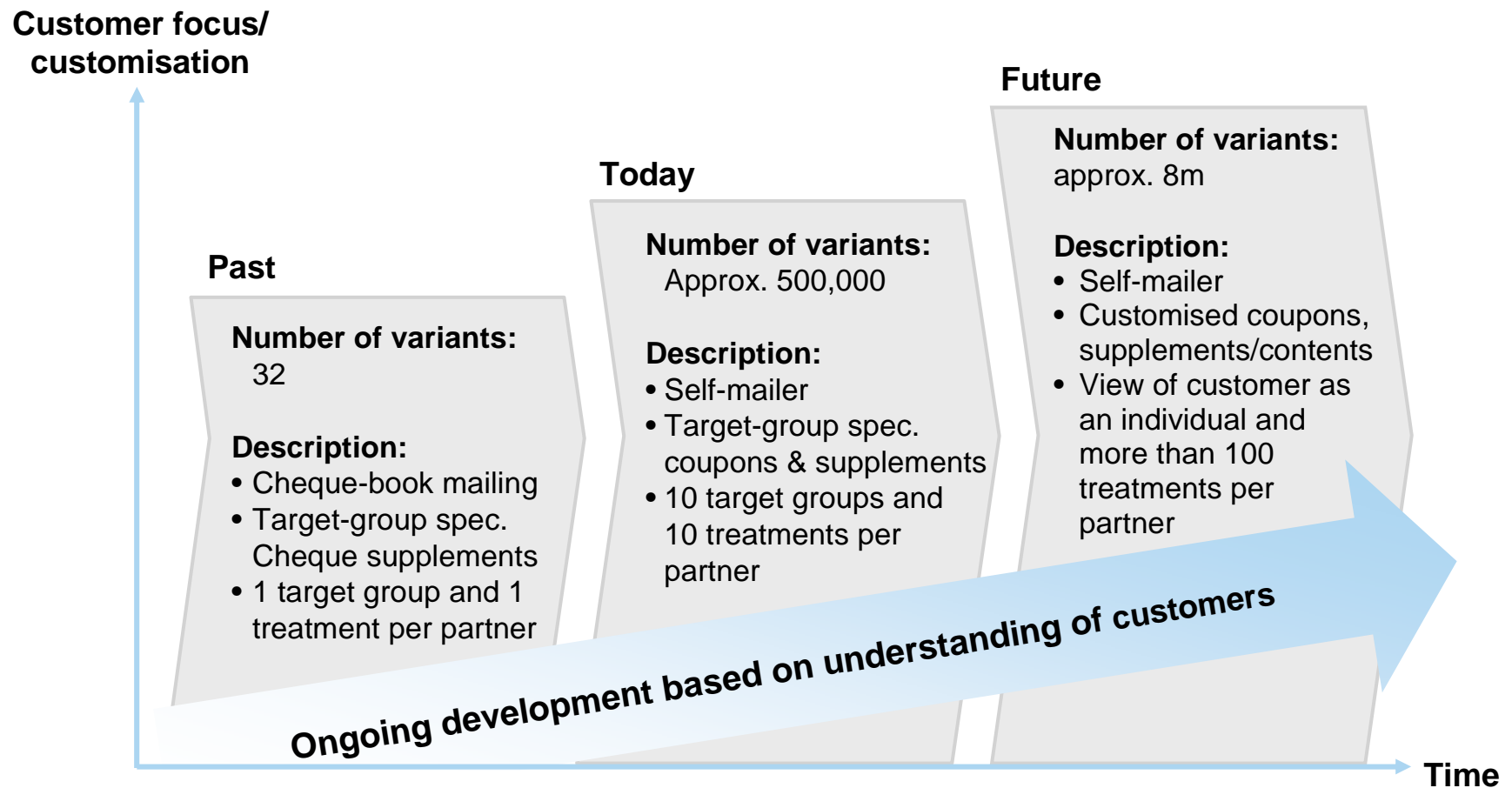| Pricing |
| Promotion |
| Direct Marketing |
| Assortment and Shop design |

Example PAYBACK partner portfolio: The portfolio is completed with companies from industry segments that are relevant for consumers
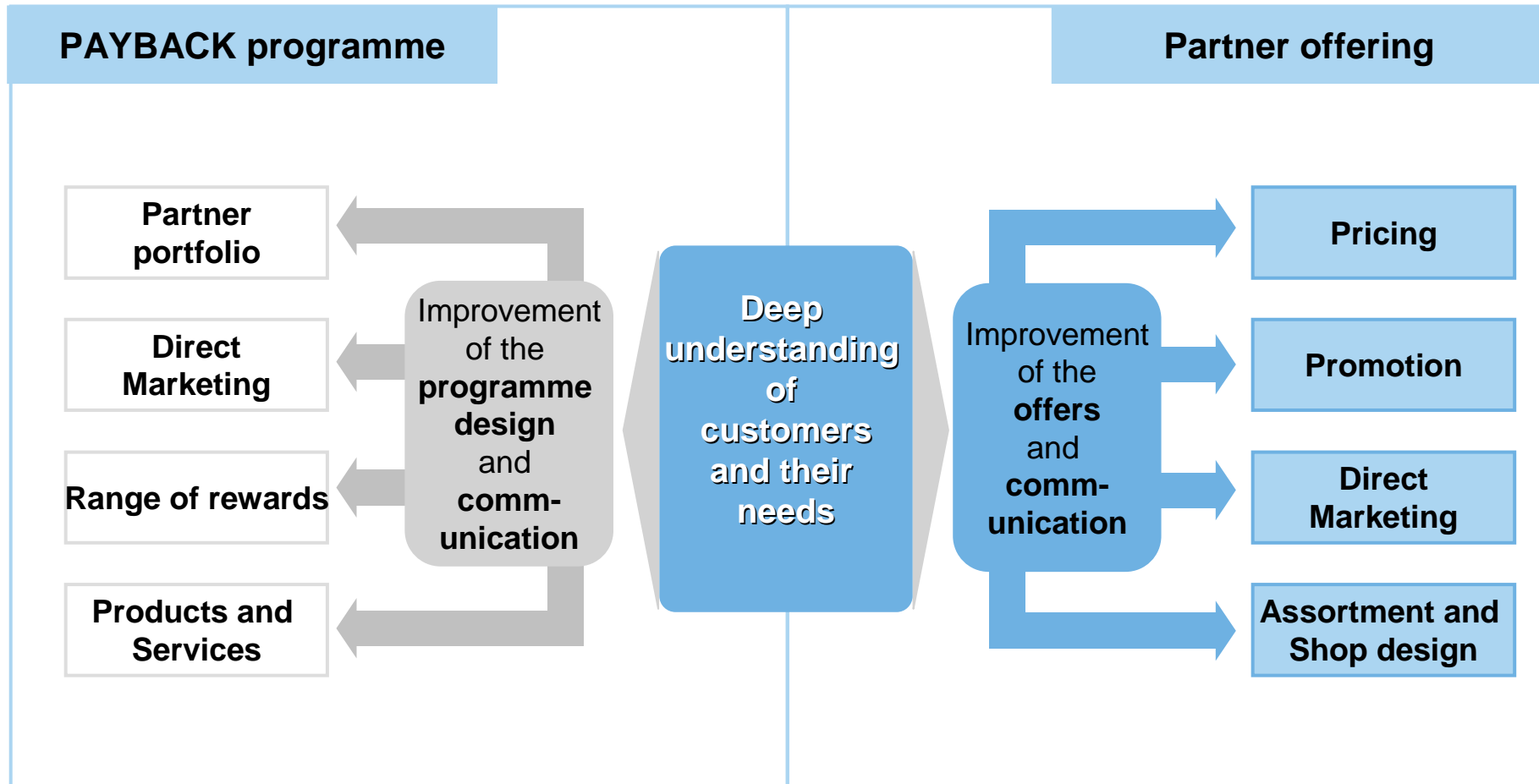
Interesting segments for PAYBACK customers[1] [in %]

PAYBACK partner:

Segment	%	Partner
Food retail	86	real,-
Department store	85	GALERIA
Do-it-yourself store	77	OBI
Internet service provider	75	Alice
Telecommunication	73	PAYBACK Volkstarif Powered by vodafone
Petrol station	70	ARAL
Drug store	70	dm
Pharmacy	69	LINDA
Bank / free payment card	66	s

1) Source: Infratest 2004, nhi[2] 2006

LOYALTY PARTNER

Example Direct Marketing: the account statement is being increasingly customised

Customer focus/ customisation

Future

Past

Today

Number of variants:
approx. 8m

Number of variants:
Approx. 500,000

Description:
- Self-mailer
- Customised coupons, supplements/contents
- View of customer as an individual and more than 100 treatments per partner

Number of variants:
32

Description:
- Self-mailer
- Target-group spec. coupons & supplements
- 10 target groups and 10 treatments per partner

Description:
- Cheque-book mailing
- Target-group spec. Cheque supplements
- 1 target group and 1 treatment per partner

Ongoing development based on understanding of customers

Time

1.) Advancement of partners' offerings

PAYBACK programme

Partner portfolio			
Direct Marketing	Improvement of the **programme design** and **comm-unication**	**Deep understanding of customers and their needs**	
Range of rewards			
Products and Services			

Partner offering

Improvement of the **offers** and **comm-unication**

- Pricing
- Promotion
- Direct Marketing
- Assortment and Shop design

Example Promotions: The PAYBACK database marketing team advises the partners on the use of data for tailor-made promotions

Example:
Manfred Podgorski

- 37 years old, high income
- Wife's birthday approaching
- Large tank volume → large car
- Apollo-Optik customer, near Kaufhof
- PAYBACK Visa user

Offer with high sales threshold, high incentive
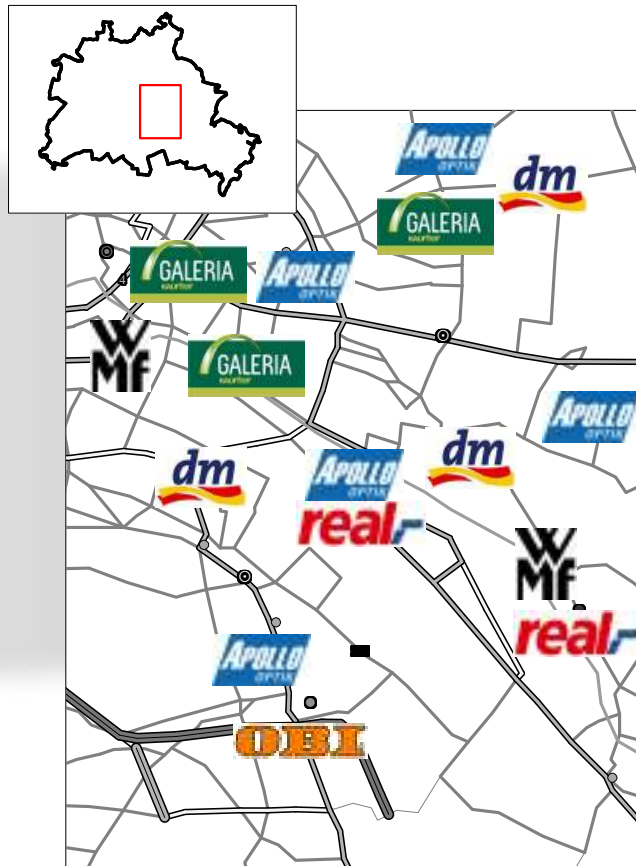
Example:
Steffi Stresenhagen

- 28 years old, single
- good real,- customer (mainly cosmetics) and Galeria Kaufhof customer (prefers fashionable/ value-for-money)
- Promotion-oriented (shops mainly in partner promotion weeks)

Bargain offer, low sales threshold

Case study 1: Targeted price investment for price sensitive customers

Identify price sensitive customers based on needs segmentation and market research

Quality focused segments

Price focused segments

Highest price sensitivity

-1.00 -0.80 -0.60 -0.40 -0.20 0.00 0.20 0.40 0.60 0.80 1.00
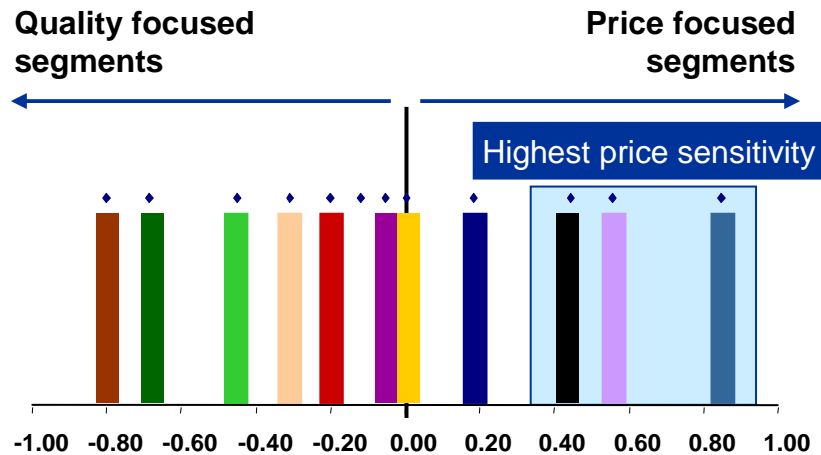
Focus price reduction on products important to price sensitive customers

Product list of price sensitive clients

Product	Score	SPAR PRICE	RIMI PRICE	REEMA PRICE	COOP PRICE
COCA COLA: 1,5L FL	25.62	15.9	16	15	14.9
GRILLPØLSE 600G ENH:	25.19	39.9	29.5	37	29.9
COCA COLA: 1,5LX4FL	24.87	49.9	62	0	59.6
COCA COLA: 0,5L FL	23.20	10.9	10	10	9.9
KJØTTDEIG 400GR: ATMOS	21.69	29.9	0	30	28.9
PØLSEBRØD: 12STK INDIANER	19.92	10	0	0	11.9
PITABRØD FINE: 6STK HATTING	16.37	19.9	18.9	18	18.9
GRANDIOSA PIZZA: 585G STABBURET	16.29	28.9	26.5	26	26.3
KETCHUP: 540G IDUN	16.02	10.9	10	10	10.5
STRATOS: 150G	15.51	18.9	18	18	18.4
GRANDIOSA PIZZA: PEPPERONI 531G	15.50	32.9	0	0	0
TACO DINNER: 275G OLD EL PASO	15.25	26.9	27	25	0
NUGATTI: 500G	15.22	16.9	17	16	15.9
TACO TORTILLAS: 8PK 326G	14.23	21.5	22	20	0
MAISKORN: 3X198G ELDORADO	14.17	15.9	0	0	0
PEPSI MAX: 1,5L FL	14.01	9.9	14.5	13	13
POTETGULL SALT: 300G CLASSIC	13.86	15.9	16.5	15	15.3
TORTILLAS BURRITO: 6STK OLD EL PASO	13.58	26.9	0	25	0
POTETGULL: SALT&PEPPER 300G	13.23	15.9	16.5	15	15.9

► We identified price sensitive customers for whom 6% of product lines accounted for 40% of their sales

► Price reductions were focused on these products and cost only 20% of "normal" price reduction

► The client saved € 50m whilst maintaining the sales performance

Example of customer-based range optimisation

The customer structure in a particular store determines the relative importance of particular products

	Small	EOT	High Street	Concessions	Local	Convenience
Neutrogena Healty Scalp (175 ml)	1.85	-2.06	-0.99	-0.37	-1.55	-3.98
Trevor Sorbie Professional Curl Cond	-5.94	3.92	7.09	-22.08	0.44	-2.41
Pantene Perfect Color Cond (150 ml)	1.49	-4.21	0.06	-8.30	-4.43	-3.66
OL Kids Novelty Conditioner	-5.18	-0.76	6.98	3.64	-0.25	6.56
OL Shampoo (500 ml)	-4.22	-0.26	0.54	21.95	-0.46	2.08
Elvive Nutiant Cond (200 ml)	3.71	-6.47	-0.72	-4.92	-5.34	-3.87
V05 Freeze Gel (150 ml)	-3.36	-0.50	3.12	-9.40	-2.54	-1.14
Shockwaves Hel Wax (75 ml)	-2.03	1.10	3.84	-14.83	-0.40	-1.78
Fructis Fresh Cond (250 ml)	-4.61	-0.22	4.07	-11.05	-2.35	-0.30
Charles Worthington Hairspray (75 ml)	-7.92	4.38	6.65	-21.03	-0.10	-2.14
OL Shampoo (250 ml)	5.85	-5.30	-11.10	58.62	-1.03	-5.36
Dove Greasy Hair Shampoo (250 ml)	-0.80	-3.47	-1.49	7.07	-3.63	-1.05
John Freda Blonde Funky Gel (25 ml)	-11.65	4.72	7.94	-19.57	-1.12	1.10

Designer products and products for men are most important for high street stores

The buying behaviour shows which new products could be introduced or which products could be abandoned from a customer's point of view
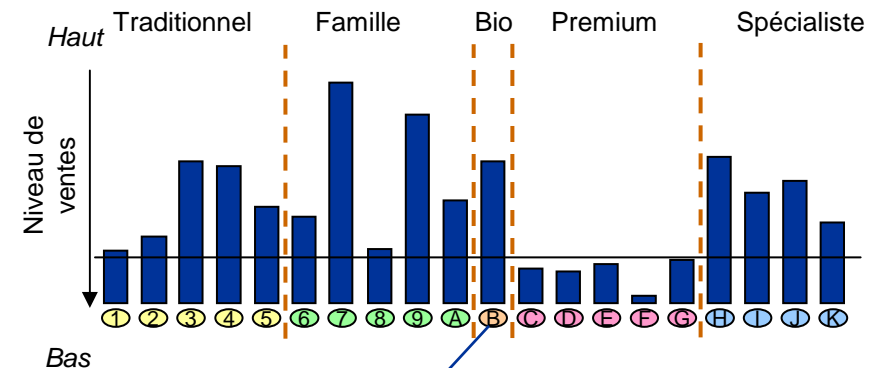
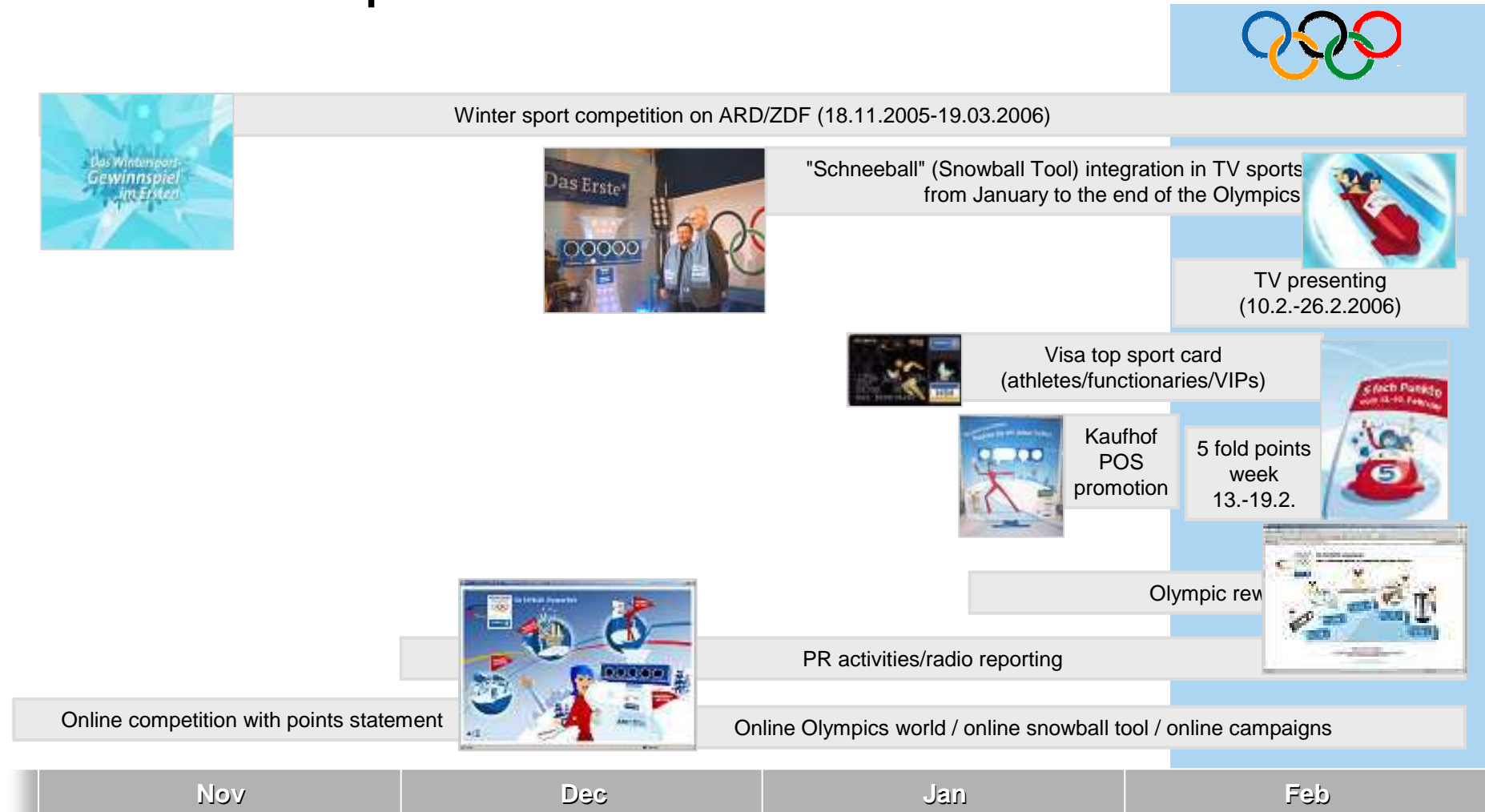**From a customer's point of view this product category should be enlarged**

► The range optimisation was applied in order to enhance the high street assortment in a drugstore chain in the UK

► The classic drugstore assortment was reduced while the sections with snacks and men´s body care products were enlarged

► The optimised high street stores were able to gain 4 % of market share within 12 months

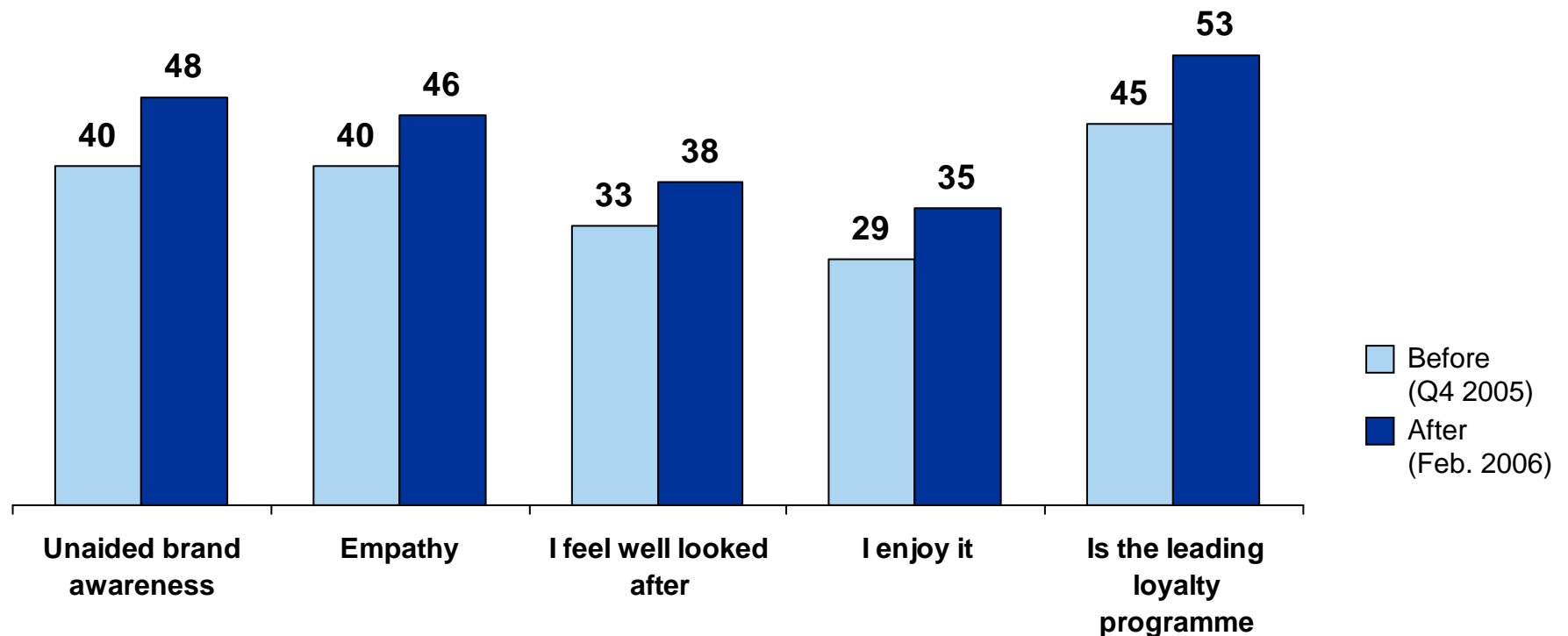# C | Success criteria for customer loyalty programmes

1. Material advantage
2. Active dialog with the customers
3. High relevance for the customer
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PAYBACK has made extensive use of the Olympic partnership as a communication platform

Winter sport competition on ARD/ZDF (18.11.2005-19.03.2006)

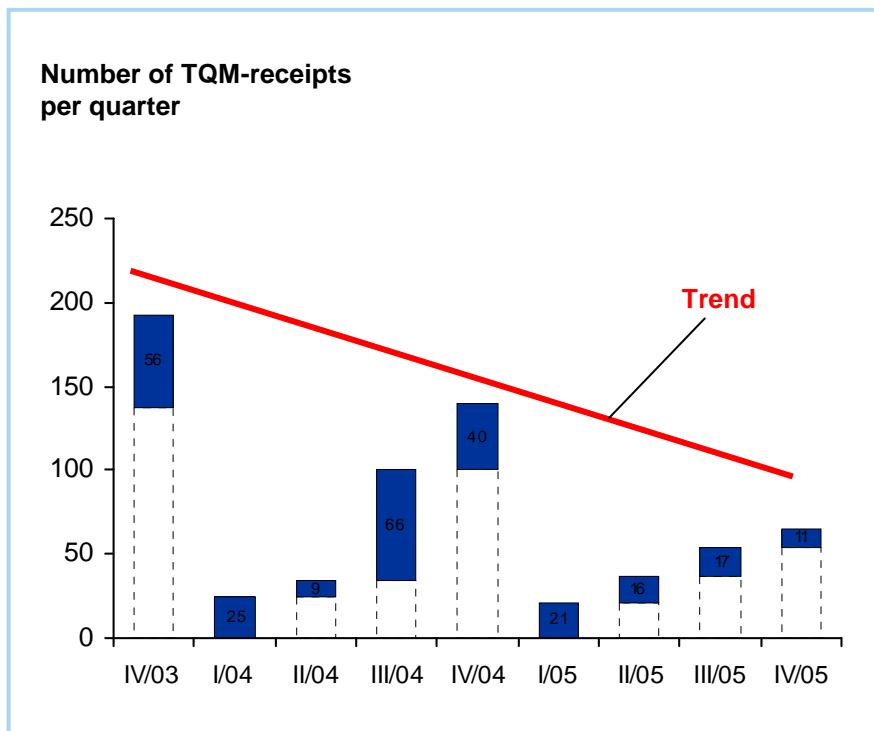"Schneeball" (Snowball Tool) integration in TV sports from January to the end of the Olympics

TV presenting (10.2.-26.2.2006)

Visa top sport card (athletes/functionaries/VIPs)

Kaufhof POS promotion

5 fold points week 13.-19.2.

Olympic rew

PR activities/radio reporting

Online competition with points statement

Online Olympics world / online snowball tool / online campaigns

Nov	Dec	Jan	Feb

The Olympic campaigns led to a significant increase of the PAYBACK brand indices

PAYBACK awareness and brand value before and after the Olympic Games 2006 [in %]

Source: TNS Infratest 2006, PAYBACK Awarenesstracking, Based on total population

The fivefold-points week during the Olympic Games resulted in an increased turnover for all partners

Turnover and turnover forecast per partner during the campaign
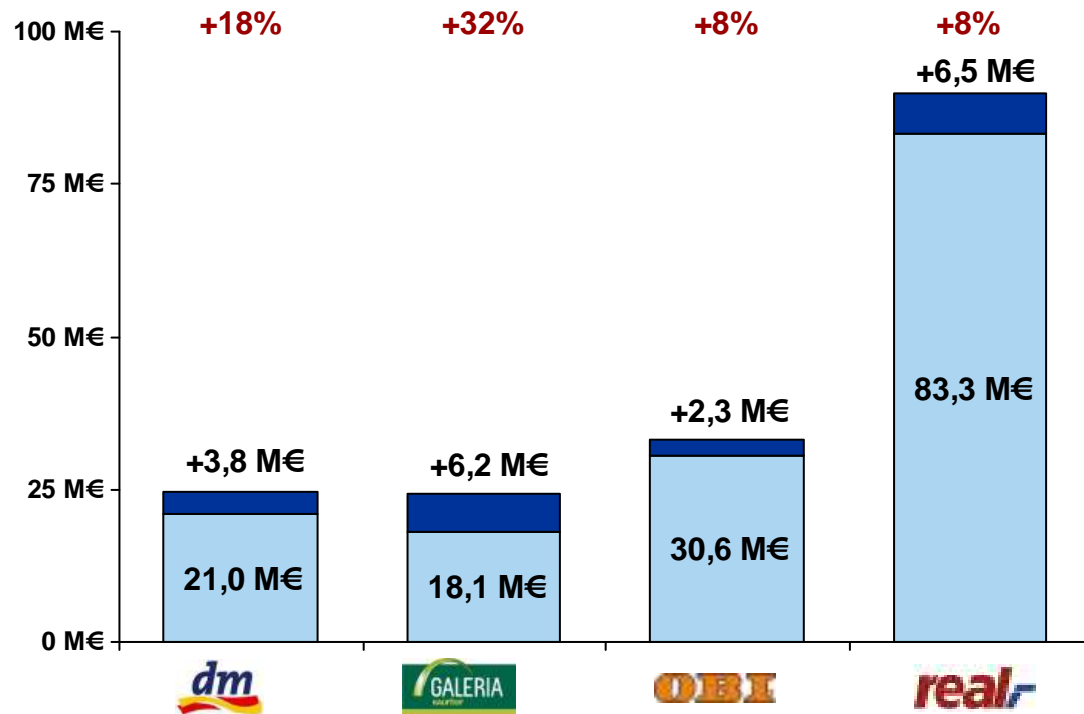
- In comparison with the turnover forecast additional turnover was realised for all partners.

- A significant increase was achieved for Kaufhof. The turnover was one third higher than without a campaign.

Forecast partner

Additional turnover versus forecast

Source: net forecasts of the partners, across the board value added tax rate, gross turnover from Payback DWH (2004)

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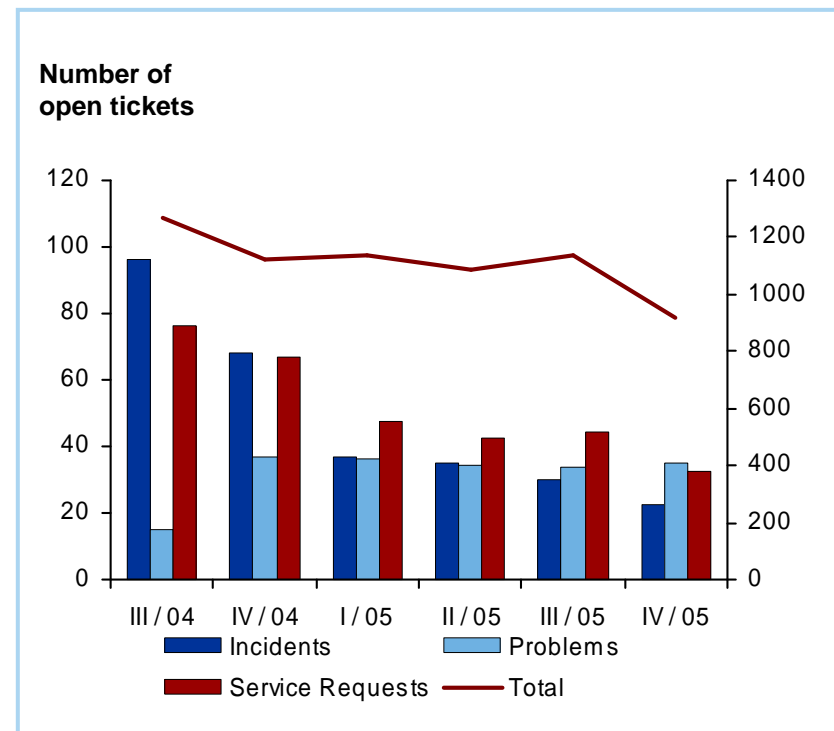# The fundamentals creating confidence between a customer and his bonus program have three basic dimensions

TRUST

1	2	3
Collecting and redeeming works at high performance levels	Quick and professional reaction to customer enquiries	Focus on data protection and spam reduction
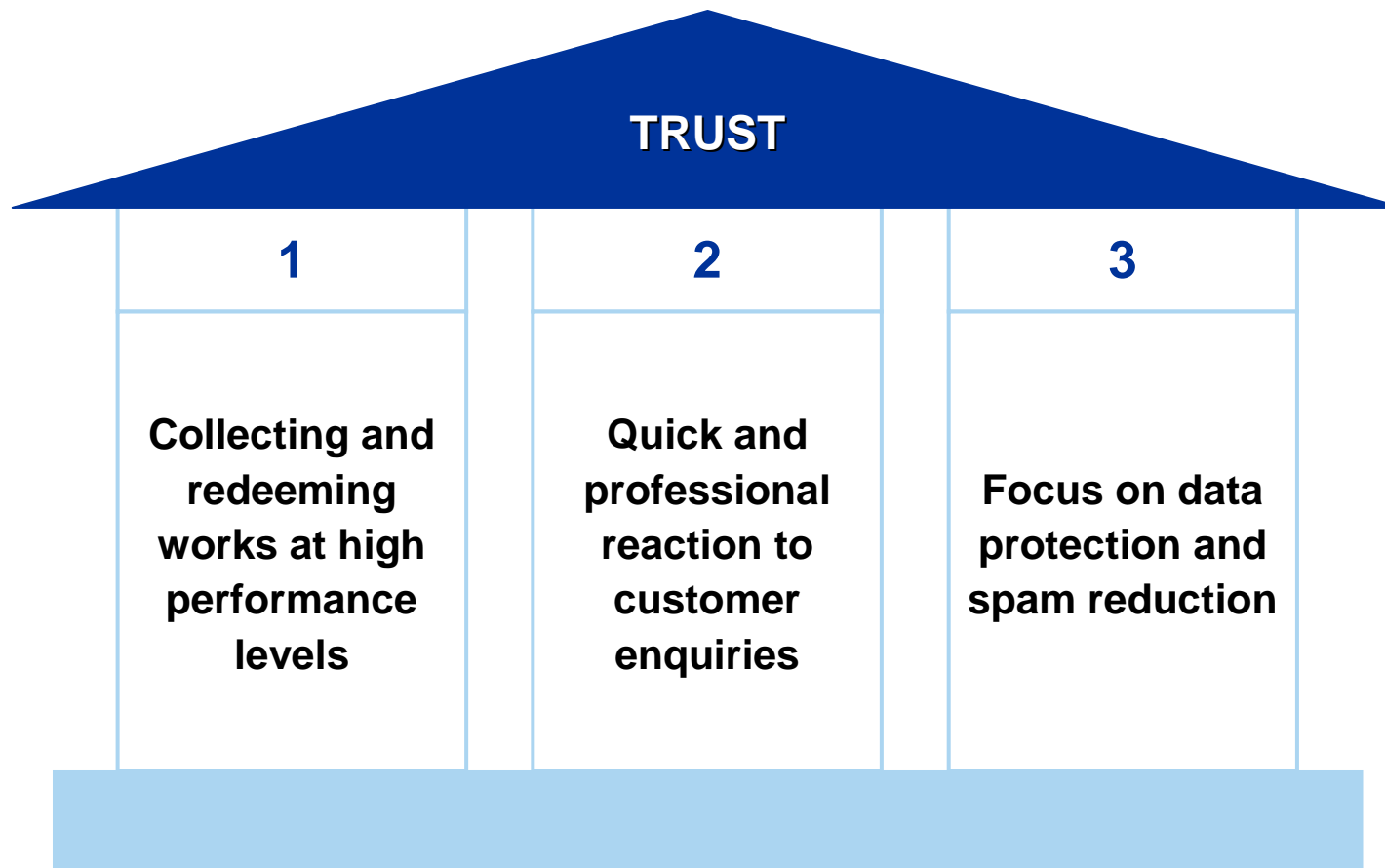
Loyalty Partner has continuously optimised the processes…

Number of tickets in the TQM-system

Number of TQM-receipts per quarter

Trend

56
40
66
9
25
21
16
17

IV/03 I/04 II/04 III/04 IV/04 I/05 II/05 III/05 IV/05

Number of tickets in the TPM sector (Technical Process Management)

Number of open tickets

III / 04   IV / 04   I / 05   II / 05   III / 05   IV / 05

Incidents   Problems   Service Requests   Total

Source: PAYBACK DWH

… and therefore increased the customer satisfaction

Complaints per registered account [in %] [1]	PAYBACK Customer satisfaction [TRI*M Customer satisfaction index] [2]
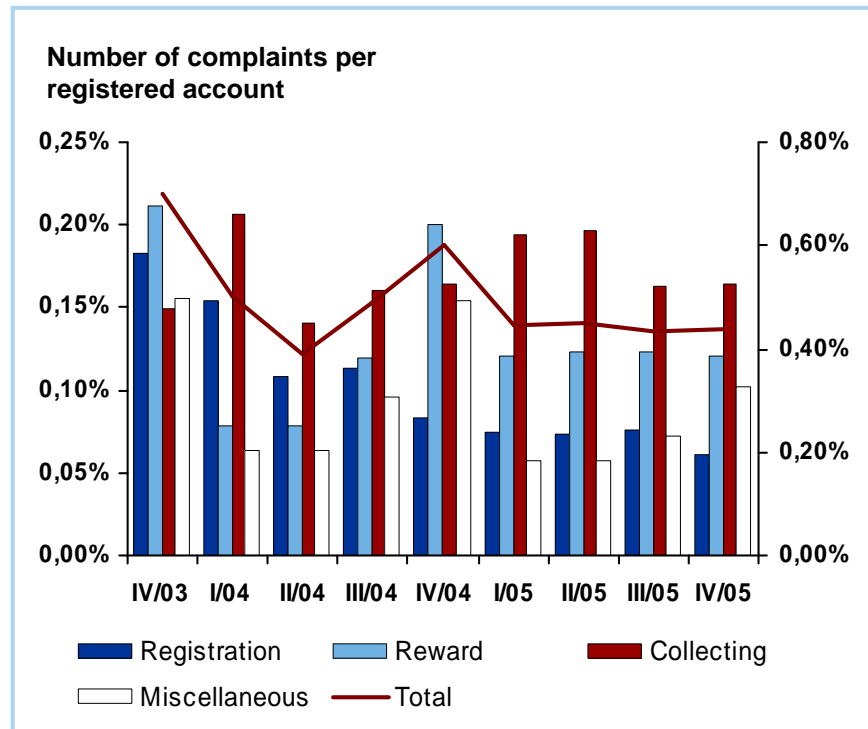
Number of complaints per registered account

Legend:
- Registration
- Reward
- Collecting
- Miscellaneous
- Total
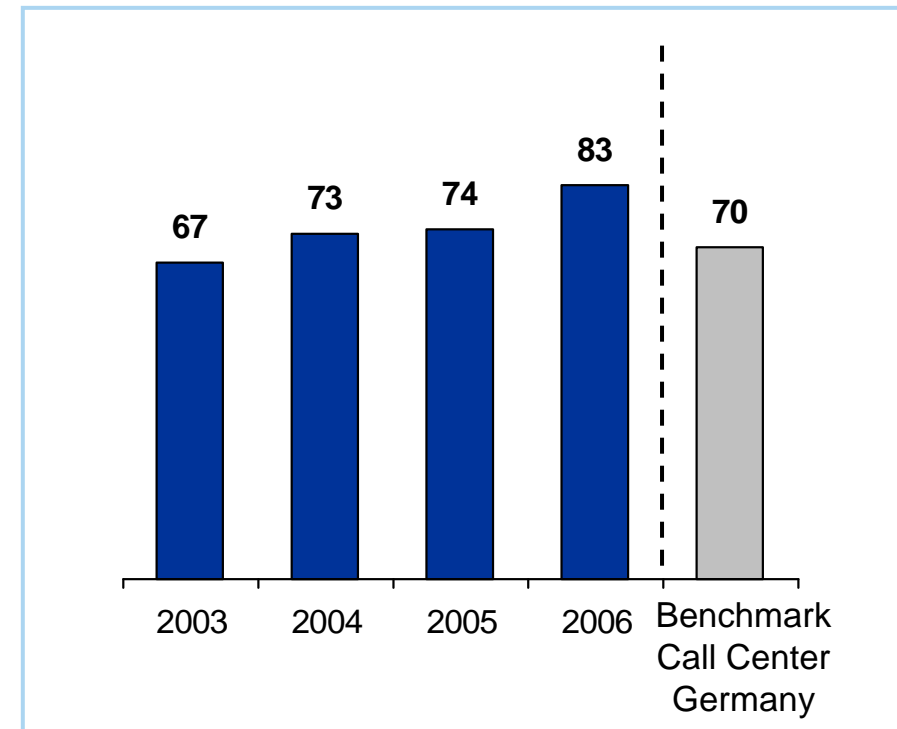
1) Source: PAYBACK DWH
2) Source: TNS Infratest, awarenesstracking, quarter 1/2006 Based on: Population in Germany 16-70 years old, familiar with bonus programme

When it comes to data protection, PAYBACK places emphasis on transparency and open dialogue

- Dedicated "Data protection information" section on PAYBACK registration form

- Brochure on data protection in the partner stores

- Data protection officer as a direct contact on www.payback.de

- Dialogue with data and consumer protection agencies

PAYBACK registration form

4. Datenschutzbeauftragter

Datenschutzbeauftragter von Loyalty Partner, und somit für das PAYBACK Programm zuständig, ist der Konzern-Datenschutzbeauftragte der Deutschen Lufthansa AG. An ihn können Sie sich bei allen Fragen, die den Datenschutz bei PAYBACK betreffen, wenden: Dr. Rolf-Dieter Zöllner, Deutsche Lufthansa AG, CGN DSB, Von- Gablenz-Str. 2-6, 50679 Köln.

Eine Antwort können Sie auch per E-Mail (datenschutz.payback@dlh.de) erhalten.

Datenschutz auf www.payback.de
Informationen zu diesem Thema finden Sie hier.

extract from www.payback.de

Punkten? Rundum sicher!

Mit PAYBACK bleiben keine Fragen offen.

flyer on data protection

The customer management strategy pays off: Customers clearly rate PAYBACK ahead of the competition in all relevant criteria

Assessment of PAYBACK brand values as compared to the competition [in %]

Reliability
- PAYBACK: 48%
- Other German multi-partner programme: 32%

Appeal
- PAYBACK: 45%
- Other German multi-partner programme: 26%

Garanteed better buy
- PAYBACK: 43%
- Other German multi-partner programme: 22%

Relevance
- PAYBACK: 38%
- Other German multi-partner programme: 22%

Legend:
- PAYBACK
- Other German multi-partner programme
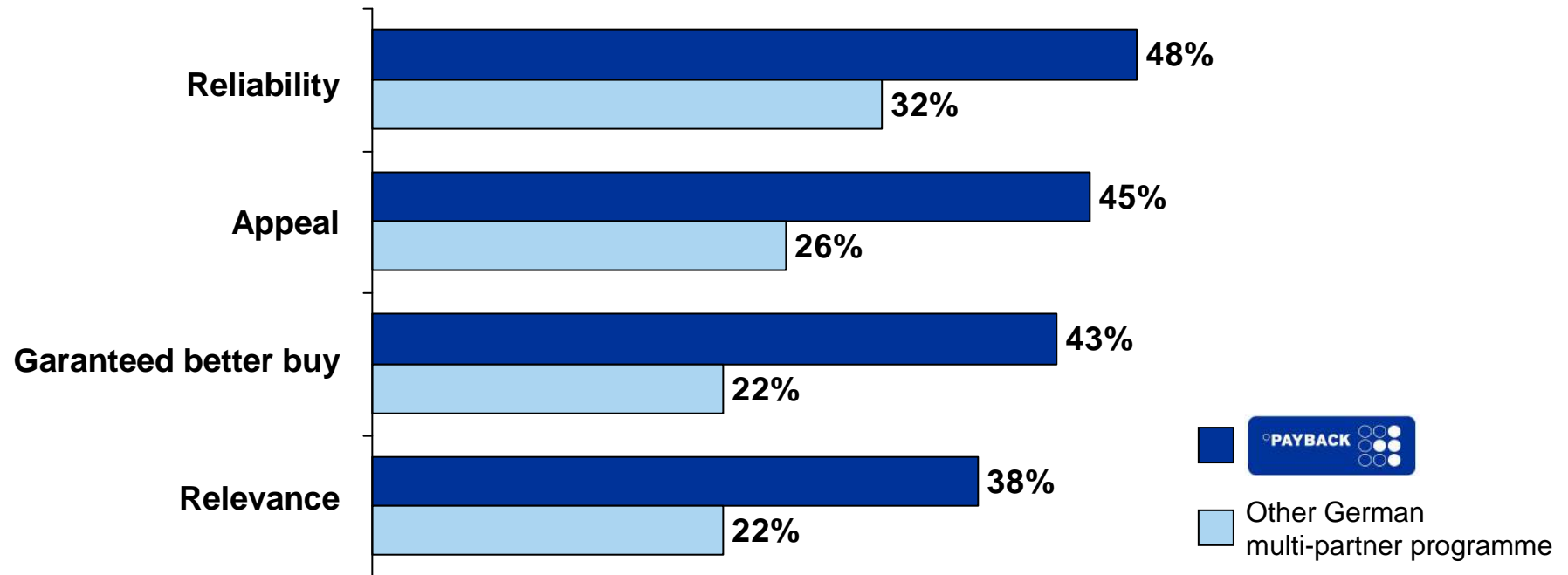
Source: TNS Infratest, awareness tracking, 1st quarter 2006
Based on: Population in Germany 16-70 years old, familiar with bonus programme
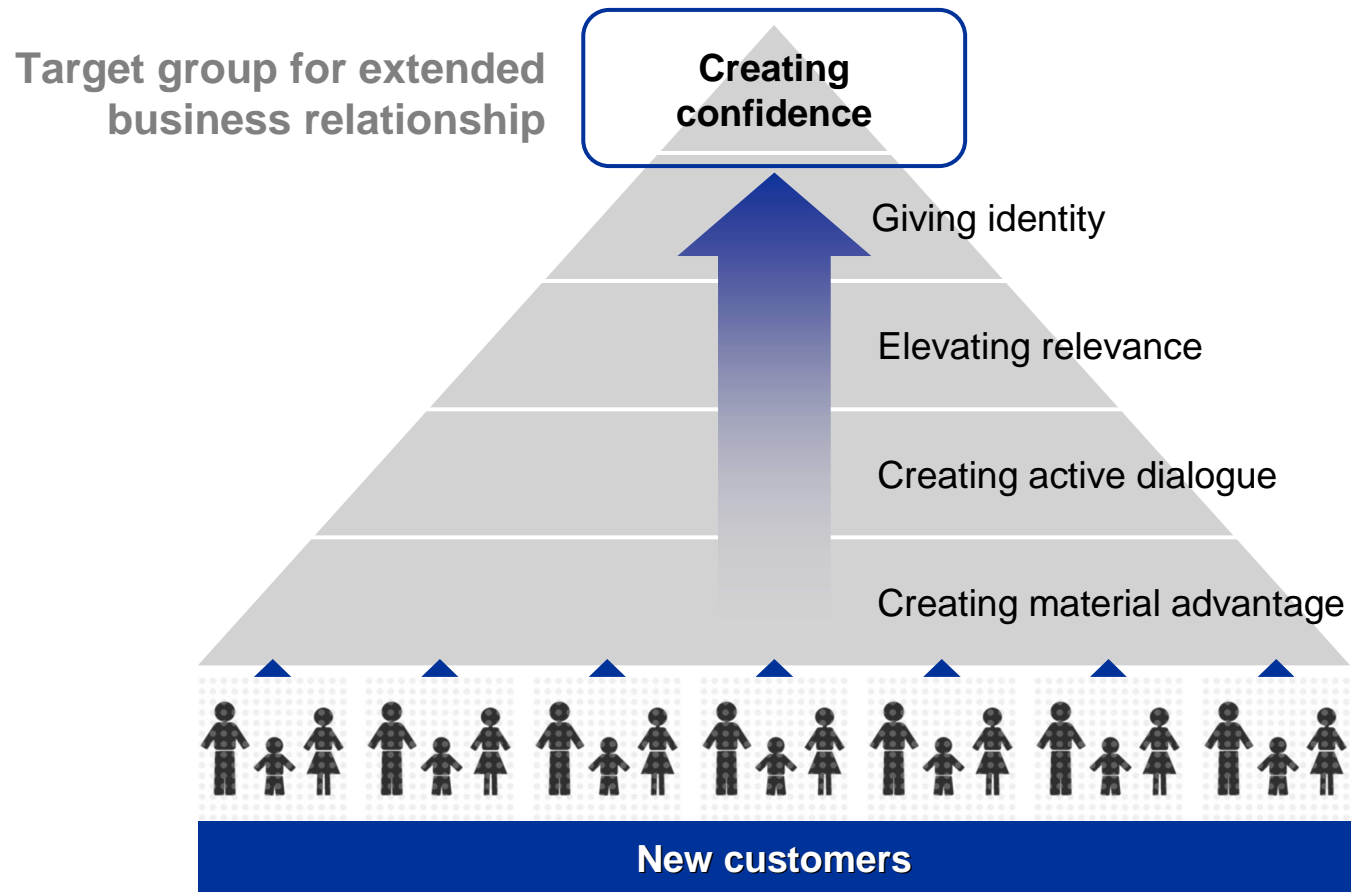
C | Success criteria for customer loyalty programmes

1. Material advantage
2. Active dialog with the customers
3. High relevance for the customer
4. Establish identity
5. Generate trust

Innovation and faultless customer management turn card owners into loyal fans – who are ready for more

Target group for extended business relationship

Creating confidence

Giving identity

Elevating relevance

Creating active dialogue

Creating material advantage

New customers

PAYBACK uses the positive market development to introduce a payment function to the loyalty card

N E W

| Present merchandise at cashpoint | Scanning of products/ coupons for registration in control system | Scanning of PAYBACK Card | Payment via PAYBACK Card / Collecting points | Completion of transaction |

Rational

- In combination with PAYBACK the payment function as well as further card based Financial Services are an ideal access

- Staff at the cashpoint is used to PAYBACK processes, more than 450 m transactions are handled in 4.700 partner stores

Target

- Great increase of PAYBACK's attractiveness due to the payment function as a consequent advancement of the PAYBACK card

- PAYBACK is a synonym for clever payment in combination with collecting points

LOYALTY PARTNER

Long-term effect for PAYBACK: The payment card remains in the customer's purse and allows special customer insight

1 ▶ The payment card is a significant innovation and ensures its position in the customer's purse

2 ▶ The acceptance of the payment card not only ensures the successful sales of Financial Services but also additional revenue for PAYBACK partners

3 ▶ This innovation strengthens PAYBACK's position as innovation and market leader and creates desired effects of the brand

°PAYBACK

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Thank you!

Olympia Partner Deutschland

LOYALTY PARTNER