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JUNE 2009

Segmenttalk



After the Meltdown

Consumer Attitudes and Perceptions About
Loyalty Programs in the Post-Recession Economy

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Summary

SegmentTalk: After the Meltdown is based on a consumer tracking study COLLOQUY commissioned in April 2009 and designed to follow up on our original *SegmentTalk* white paper published in 2007. The purpose of this paper is to discern consumer attitudes and perceptions about loyalty and rewards programs in the recession economy, and to uncover any changes in such attitudes and perceptions when the survey answers are compared to the previous study. This study explores six key consumer demographic segments and their relationship to loyalty and rewards programs in the Financial Services, Retail and Travel industries.

Our high-level findings reveal that, **despite the recession, more consumers across all demographic segments are participating in rewards programs than ever before.** While individual consumer participation in rewards programs remains flat, U.S. consumers continue to find value in rewards programs as a way to stretch household budgets by earning rewards, gift certificates, fuel rebates and cash back on their purchases. Other key findings:

- Despite the recession, overall consumer participation in loyalty programs has jumped 19 percent in the U.S. since 2007. In two key demographic segments, participation has jumped significantly higher: participation by Women has jumped 29 percent, and participation by Millennials (age 18-25) has jumped 32 percent.
- As a weighted average across the Retail, Financial Services and Travel categories, over one-quarter (26.4%) of U.S. consumers now rate loyalty and rewards programs as "more important" in the recession economy. The greatest shift in this regard has occurred in the Retail sector, with 32 percent of U.S. consumers in the General Population segment now considering rewards programs as more important to their purchase choices. Across all three of our major program categories, the recession has had a net neutral or positive effect on participation in rewards programs for nearly 75 percent of U.S. program members. Only 25 percent report lower participation as a result of the recession.
- Participation by Millennial consumers age 18-25 has increased significantly since our 2007 tracking study. Recalled participation rates by this segment stand at 58 percent, a 32 percent increase since our last study. Nearly half of this segment (46.4%) rate Retail rewards programs as "more important" during the recession. In addition, 27 percent of Young Adults are actively seeking to enroll in new loyalty programs to help stretch their budgets.
- Our study has uncovered a significant shift away from Travel programs and toward Retail programs among U.S. consumers. On an individual level, Travel programs saw the biggest decline in active participation, down 31 percent from 2007. Participation in Financial Services programs has remained flat, while increasing numbers of consumers rate Retail programs as more important to their household budgets—32 percent of the General Population, 46 percent of Young Adults, 44 percent of Women and 40 percent of Emerging Hispanics all rate Retail rewards programs as more important during the recession.

Segmenttalk

After the Meltdown CONSUMER ATTITUDES AND PERCEPTIONS ABOUT LOYALTY PROGRAMS IN THE POST-RECESSION ECONOMY

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After the Meltdown

CONSUMER ATTITUDES AND PERCEPTIONS ABOUT LOYALTY PROGRAMS IN THE POST-RECESSION ECONOMY

Introduction



In 2007, COLLOQUY published our landmark white paper *SegmentTalk: The Difference Engine*, comparing loyalty marketing perceptions among specific U.S. consumer segments. This paper reported strong self-reported loyalty program participation across six key U.S. consumer demographic segments, and offered a guidebook of best practices for marketers hoping to build customer value in a loyalty-marketing landscape saturated with lookalike programs.

Since *SegmentTalk*'s publication, two contravening trends have dramatically altered that landscape. First, the loyalty marketplace has become even more saturated. Our 2009 *CensusTalk* white paper showed that total U.S. loyalty program memberships increased from 1.341 billion to 1.807 billion from 2006 to 2008—a growth rate of nearly 25 percent after adjusting for newly added Census categories. Memberships in financial services rewards programs alone increased 77 percent during this period. U.S. households now have an average of 14.1 loyalty program memberships, but on average actively participate in only six. Loyalty program membership rolls have become so bloated that marketers may legitimately ask if programs have become too big to succeed.

Second, the global economy is now in the midst of the worst economic recession since the Great Depression. The U.S. has experienced eleven recessions in the 58 years since World War II, indicating that recessions occur once every six years or so, and are a normal, and perhaps even healthy, function of a free-market economy. But the difference between this recession and previous downturns is not simply one of degree. Because this recession was predicated by the veritable collapse of the global financial system, fear of the unknown is far greater. No one knows if the normal rules of recovery even apply.

This uncertainty naturally extends to consumer behavior. In the short term, lower consumer spending has rocked the credit card industry, forced many retailers to close stores or exit the market altogether, and decimated the travel industry. But what happens when the recovery finally begins? Will consumers revert to old habits, bust out their credit cards and start shopping again? Or are we at the beginning of a new era of consumer thrift?

Because rewards program members are typically a brand's highest-value customers, their attitudes and behaviors regarding rewards programs may provide a glimpse into the future. If consumer attitudes toward rewards program participation have changed dramatically for the worse, then we may take this change as a sign that the era of prolonged thrift is upon us. If, however, consumers still profess willingness to engage with their favorite rewards programs despite the downturn, then such willingness translates into opportunity for marketers not only to ride out the current economic storm, but also to emerge stronger once the clearing skies of recovery are upon us.

With this in mind, COLLOQUY commissioned this research study to answer a single question: In light of the current recession, how have consumer perceptions and attitudes of loyalty programs and loyalty program elements changed in our key *SegmentTalk* segments since our 2007 research study? To find out, read on.

I. Methodology

COLLOQUY conducted our consumer tracking study in April 2009, using the same established online sampling and interviewing methodologies used in our 2007 study in order to monitor shifts in self-reported behaviors, attitudes and perceptions among consumers who participate in loyalty programs. Study respondents were from the opt-in, online panel sources of Greenfield Online, a respected U.S. online panel provider.

The survey respondents are broadly representative of the U.S. population within each consumer segment. To enhance consistency, we provided respondents with a broad definition of loyalty-marketing programs. We obtained a total of 2,152 completed interviews, which enabled us to report data representing each of the six consumer segment populations at a 95 percent confidence level with a +/- 5 percent margin of error.

Where reported, participation levels by vertical market yielded a significant sub-sample of participants in the Financial, Retail and Travel sectors, which allowed us to cross-tabulate and analyze the data by these vertical industries. In addition to questions regularly monitored in COLLOQUY's tracking study, we explored a series of new questions related specifically to the current recession at the end of our research panel.

We chose segment definitions to represent specific U.S. consumer demographic segments of high interest to both our clients and to loyalty-marketing practitioners. The six segments researched:

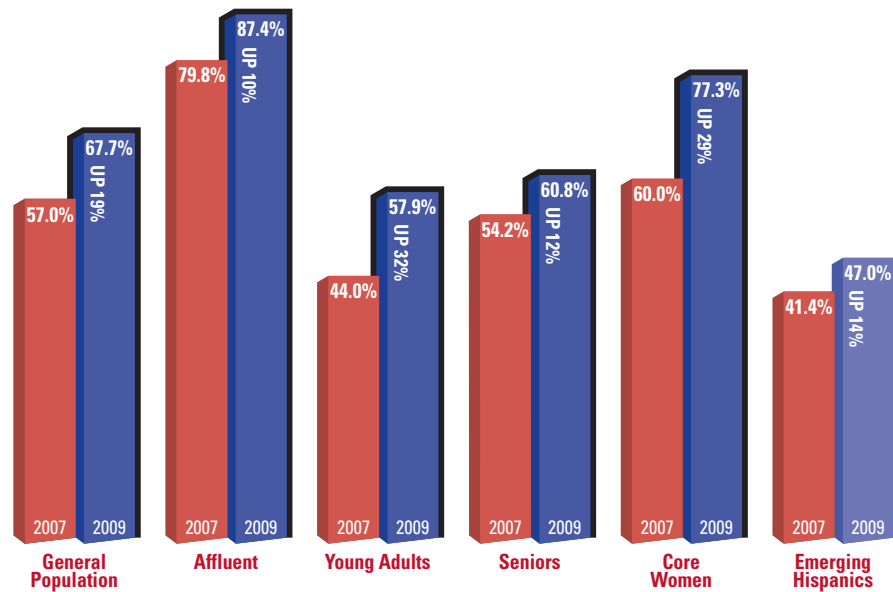
- **General Adult segment:** This segment included weighted representation of each of the studies five targeted segments listed here and other segments not covered below. The General Population segment essentially serves a control group and is representative of the entire U.S. adult population.
- **The Affluent segment:** Male and female heads of households with annual incomes of \$125,000 or greater.
- **The Young Adult segment:** Respondents age 18-25.
- **The Senior segment:** Respondents age 60 or older.
- **The Core Women segment:** Female respondents age 26-59 with an annual income of \$50,000-\$125,000.
- **The Emerging Hispanic segment:** Respondents 21 or older who proclaim to be of Hispanic origin with an annual household income of \$40,000 or less.

We included individuals who did not meet any of the five specific segment definitions in the General Population group in accordance with their true proportions to the U.S. adult population.

II. Rewards Program Participation

Exhibit 1 below provides dramatic visual evidence of the big picture: **Despite the recession, more consumers across all demographic segments are participating in rewards programs than ever before.** This chart illustrates that increasing numbers of U.S. consumers continue to find value in rewards program participation as a way to stretch household budgets by earning rewards, gift certificates, fuel rebates and cash back on their purchases. Overall self-reported consumer participation in loyalty programs has jumped 19 percent in the U.S. since our 2007 tracking study. In two key demographic segments, participation has jumped significantly higher: participation by Women has jumped 29 percent, and participation by Millennials (age 18-25) has jumped 32 percent. These participation levels are consistent with the increase in loyalty program memberships we revealed in our recent *CensusTalk* white paper.

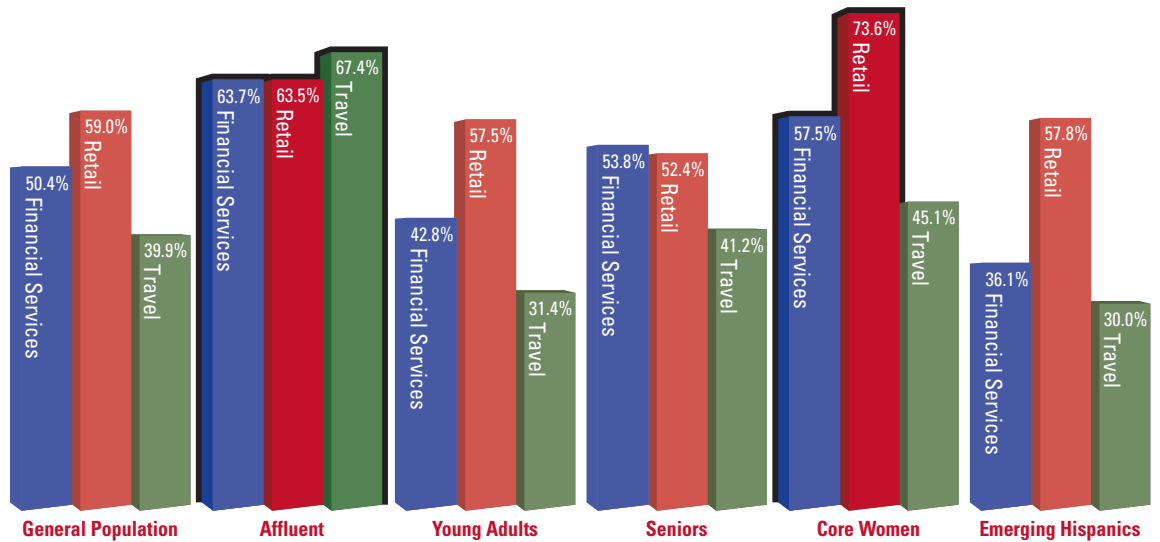
Exhibit 1
Recalled Loyalty Participation Rates by Segment, 2009 versus 2007



- 2007, 2009 COLLOQUY Loyalty Demographic Studies, U.S. Results
- Q: Do you belong to any "rewards programs" that offer points, miles, gift certificates, discounts off purchases or cash rebates or that require you to make/track purchases in order to receive special benefits? n = 3,232
- Statistically significant differences highlighted in bold colors and borders

Our tracking study showed limited deviation in recalled program participation rates when we cross-indexed our demographic segments with participation in Financial Services, Retail or Travel programs.

Exhibit 2 Recalled Loyalty Participation Rates by Industry Category



• Source: 2009 COLLOQUY Loyalty Demographic Study, U.S. Results

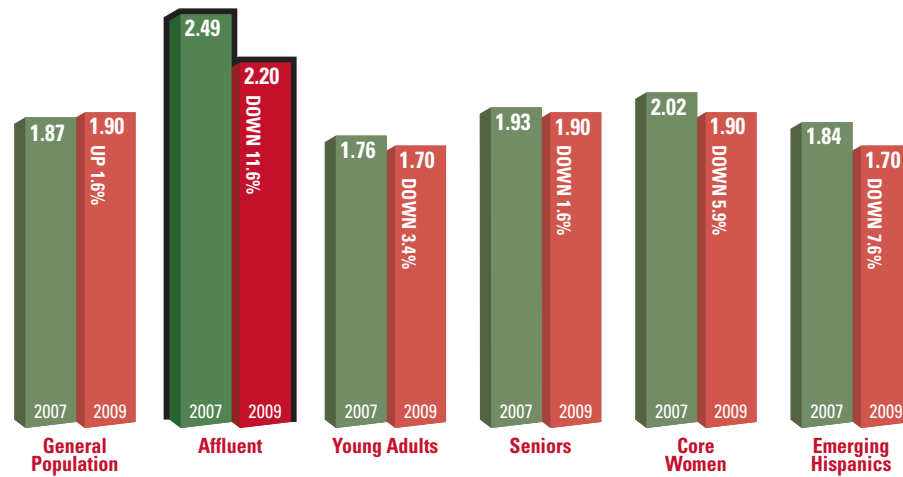
• Q: In which of these industries do you participate in "rewards programs" that offer points, miles, gift certificates, discounts off purchases or cash rebates? n = 2,152

• Statistically significant differences highlighted in bold colors and borders

- As in our 2007 research, the Affluent segment recalls higher levels of participation across all three program categories than the General Population segment, and the highest levels of Financial Services and Travel industry program participation among all segments. The Core Women segment reports the highest levels of Retail rewards program participation among all segments, and are more likely than the General Population to belong to Financial Services programs.
- Overall, recalled levels of participation by program category and demographic segment remain largely unchanged from our 2007 survey. **Despite the recession, over two-thirds of all U.S. consumers report that they still participate actively in at least one reward program.**

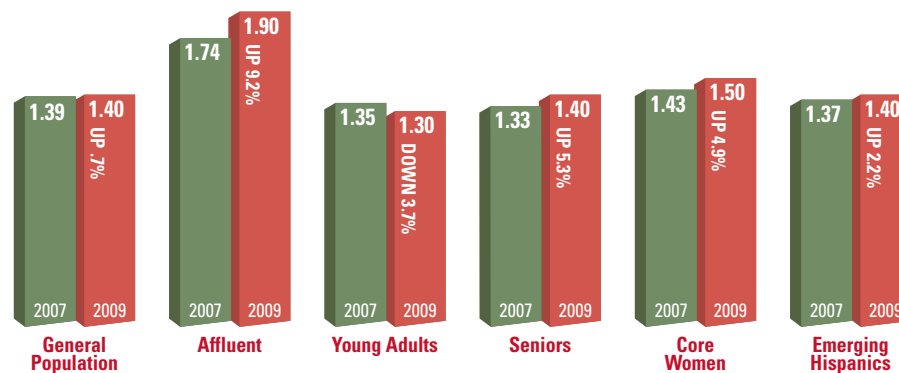
Our Exhibit 1 at the beginning of this section reveals that overall U.S. consumer participation in loyalty and rewards programs is up—in spite of the recession, more consumers than ever before are participating in programs. But what about participation at the individual level? Our findings reveal that, at the household level, the numbers of programs that consumers belong to and actively participate in remains flat. The exception is the Travel industry, where individual participation has clearly declined since 2007—a reflection of the consumer shift away from Travel programs and toward Retail programs that mirrors the broader shift in consumer spending in these categories.

Exhibit 3 Average Number of Programs Consumers Belong to: Financial Services, 2009 versus 2007



- Source: 2007, 2009 COLLOQUY Loyalty Demographic Studies, U.S. Results
- Q: How many rewards programs in the credit card/banking industry do you participate in? n = 1,131
- Only the decline in the Affluent segment is statistically significant, as indicated with bold colors and borders

Exhibit 4 Average Number of Programs Members Actively Participate in: Financial Services, 2009 versus 2007



- Source: 2007, 2009 COLLOQUY Loyalty Demographic Studies, U.S. Results
- Q: Of the X programs you belong to in the financial industry, how many do you actively participate in? n = 1,131
- No statistically significant differences exist in the data from 2007 versus 2009

- In the Financial Services sector, the Affluent segment continues to belong to and actively participate in significantly more programs than all other demographic segments. For all other segments, the change in self-reported membership and participation rates in reward programs from 2007 to 2009 is not statistically significant. Despite the financial meltdown and decreased credit card spend, consumers are still engaged with their favorite rewards credit and debit cards at roughly the same levels as they were pre-recession.

- However, the number of card and banking programs to which Affluent consumers claim to belong is down from our 2007 study. This drop in Affluent membership may simply be due to the inevitable backlash of this segment being the most inundated with reward card offers. As the recession hit, some of these affluent consumers may have canceled one or more cards in order to consolidate spending on a single favorite card. In addition, the issuers themselves have been paring membership roles by "buying out" cardholders similar to the American Express model, by reducing available credit limits or simply by canceling accounts.

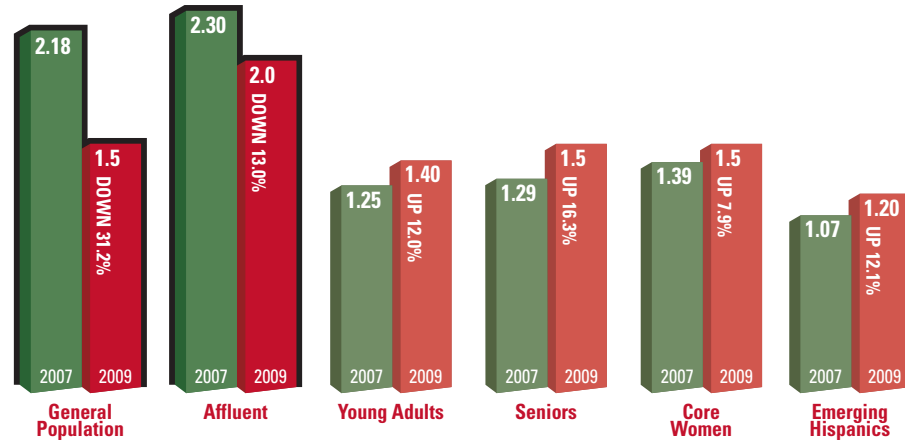
In the Travel sector, our study finds that consumers have not walked away from their rewards program memberships to any significant degree. This is true in each of our highlighted demographic segments, as illustrated in the exhibits below.

Exhibit 5 Average Number of Programs Consumers Belong to: Travel, 2009 versus 2007



- Source: 2007, 2009 COLLOQUY Loyalty Demographic Studies, U.S. Results
- Q: How many rewards programs in the airline, hotel and car rental industry do you belong to?
n = 2,301
- The differences shown by segment are not statistically significant. The general population is down significantly due to middle-income men not covered in the key segments shown

Exhibit 6
Average Number of Programs Members Actively Participate in: Travel, 2009 versus 2007



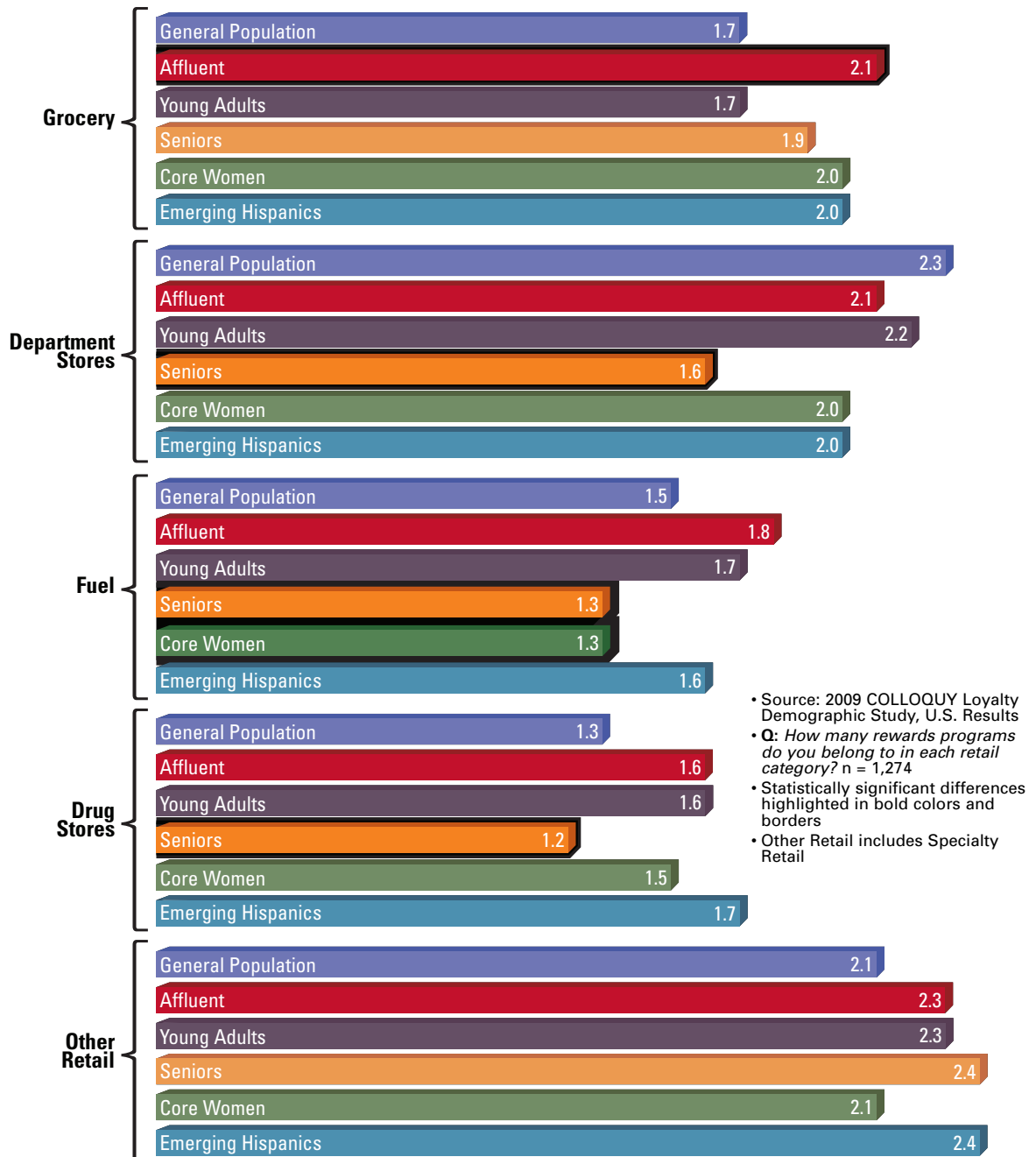
For many business road warriors, the heady days of earning elite status on multiple airlines, multiple hotels and multiple car rental companies is over—at least temporarily.

- Source: 2007, 2009 COLLOQUY Loyalty Demographic Studies, U.S. Results
- Q: Of the X programs in the airline, hotel and car rental industry you belong to, how many do you actively participate in? n = 2,301
- The differences for the General Population and the Affluent are statistically significant, as indicated with bold colors and borders

- Within the General Population segment, however, we see a significant drop in membership from an average of 2.8 programs to 2.0 programs in the post-recession environment. This decline is likely due to a decrease in membership among middle- and lower-income males, who have been hit by layoffs to a greater degree than other demographic groups.
- In the category of active Travel program participation, we also see notable drops in activity in both the General Population and the Affluent segment. The most likely culprit for this decline is the corresponding decline in Travel and Entertainment (T&E) expenses by many companies in response to the recession. For many business road warriors, the heady days of earning elite status on multiple airlines, multiple hotels and multiple car rental companies is over—at least temporarily. In that environment, it's logical for travelers to consolidate their travel with one airline, hotel and car rental company to maximize their ability to earn elite status. Likewise, a decline in leisure travel in the General Population segment may be reflected in these active participation numbers.

For this 2009 study, COLLOQUY enhanced our data collection efforts for the Retail sector. Rather than asking customers about their memberships and participation across all Retail categories, we parsed retail into five sub-categories: Grocery, Department Store, Fuel Retail, Drug Store, and Other Retail, which includes the Specialty Retail sector. These sub-categories will enhance the usability of the data for the diverse U.S. Retail sector. Note that because of this introduction of new Retail sub-categories to the survey, we cannot make an accurate comparison to the Retail program participation numbers from our 2007 survey. Our findings:

Exhibit 7
Average Number of Programs Consumers Belong to: By Retail Category, 2009



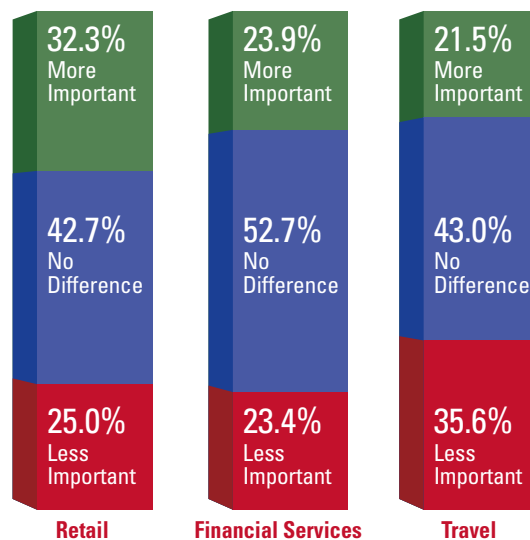
That most individual demographic segments do not show significantly higher or lower participation in rewards programs by Retail sub-category shows that U.S. consumers are more aligned in their behavior than marketers might suspect.

- As a result of this additional detail, a slightly different picture of post-recession Retail program participation comes into focus. For example, where Core Women and Emerging Hispanics said their Retail program participation was higher than most segments in our 2007 study, the refined Retail category data shows that program membership is more evenly distributed among demographic groups. There are a few exceptions: the Affluent segment belongs to significantly more Grocery programs than the General Population and other segments. Also, the Senior segment is the least likely to belong to programs in the Department Store, Fuel Retail and Drug Store categories. Customers report participation in nearly 2.1 programs in the Other Retail category, but there is still no significant difference in the self-reported membership and participation levels among demographic groups.
- That most individual demographic segments do not show significantly higher or lower participation in rewards programs by Retail sub-category shows that U.S. consumers are more aligned in their behavior than marketers might suspect. After all, Affluent, Senior, Core Woman and our other segments all spend much of their retail purchasing power on “everyday spend” categories such as Grocery, Fuel and Pharmacy. The biggest missed opportunity seems to be in the Pharmacy category, however—why aren’t Seniors more engaged with programs in the Drug Store category? Loyalty marketers in this Retail category must renew their efforts to break through with this heavy user segment.

III. Rewards Program Engagement in the Recession Economy

Now that we know that more consumers are participating in loyalty programs overall while individual participation remains flat, our next step is to look at attitudes among program members to determine whether or how the recession has affected perception of these programs and their importance to the household budget. Does belt-tightening by consumers across all spending categories mean that program participation is less important to them? Or does the ability to earn rewards for which consumers might otherwise have to pay out of pocket mean that program participation has become more important during the recession? And what, if any, role does demographic differences play in these consumer perceptions? The exhibits below illustrate our high-level findings.

Exhibit 8 Recession Impact: Importance of Rewards in Three Primary Verticals

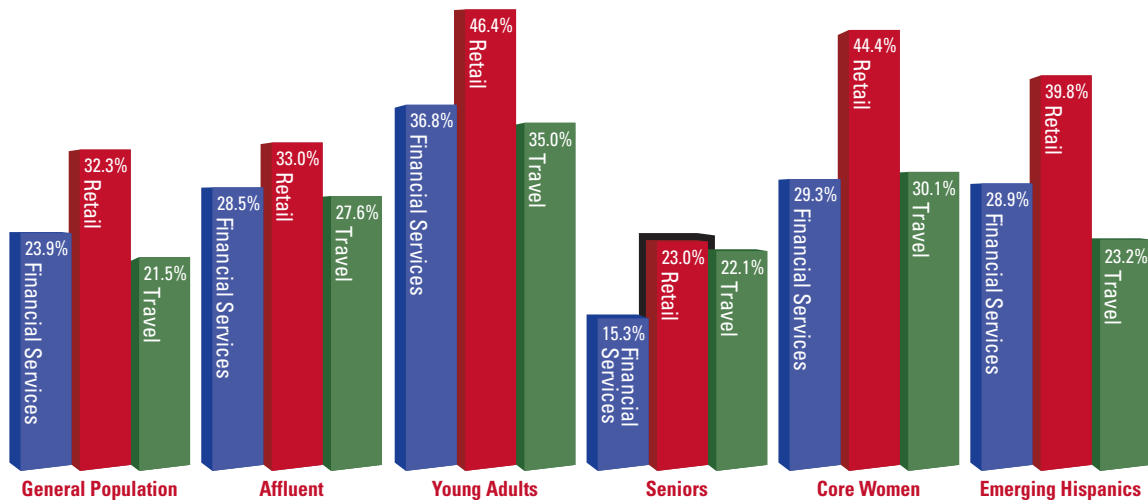


- Source: 2009 COLLOQUY Loyalty Demographic Study, U.S. Results
- Q: Thinking of each type of rewards program that you participate in, how has the recession impacted your participation rate in each program?
- n = 1,323 (Retail); 1,131 (Financial Services); 963 (Travel)

- Note that across all three program categories, the recession has had a net neutral or positive effect on nearly 75 percent of all U.S. rewards program members. And for nearly one-third of program members in Retail, the recession has made program participation more important as they seek to stretch their household budgets farther by earning rewards for their purchases. Similarly, nearly one-quarter of program members in Financial Services and Travel programs say that the recession has made program participation more important. Only about 25 percent of consumers say that rewards programs are less critical to them since they've had to cut back their spending.
- The Retail category demonstrates the highest positive impact in rewards program attitudes at 32.3 percent, while the Travel category demonstrates the highest negative impact on attitudes at 35.6 percent. This disparity between these program categories mirrors the shift in consumer spending away from the Travel sector, in which both business and leisure travel have seen cutbacks, and toward Retail, particularly in the everyday spend categories of Grocery and Fuel. In those categories, the opportunity to earn gift certificates and cash-back rewards that allow consumers to stretch their budgets is having a positive impact on program participation.

The exhibit below further breaks down post-recession rewards program attitudes by our key demographic segments. For purposes of brevity, we're limiting our demographic cut to look at those consumers who indicated that rewards programs are *more* important post-recession.

Exhibit 9
Recession Impact: Importance of Rewards Program by Demographic Segment—
Percentage of Those Indicating That Programs Are "More Important"



• Source: 2009 COLLOQUY Loyalty Demographic Study, U.S. Results

• Q: Thinking of each type of rewards program that you participate in, how has the recession impacted your participation rate in each program?—More important

• n = 1,131 (Financial Services); 1,323 (Retail); 963 (Travel)

- Note the significantly higher level of importance that our Millennial demographic segment of 18- to 25-year-olds place on rewards programs in the post-recession environment—even in the Travel segment, where Young Adults typically have the weakest purchasing power, they view Travel rewards programs more favorably than any other demographic segment. In the Retail category, nearly half of this segment views programs favorably. **This finding reveals that loyalty marketers have a once-in-a-lifetime opportunity to demonstrate program value to the next generation of U.S. consumers.**
- Similarly, the high importance that the Core Women segment places on Retail sector programs in the post-recession environment provides a teaching moment for loyalty marketers. Program operators who are best able to leverage shopper data to deliver communications and offer relevance will be best equipped to steal valuable market share from discounters within this key segment.

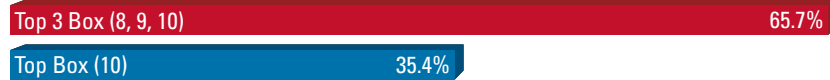
A key element in any measure of rewards program engagement lies in member perceptions of rewards program communications streams, which are often the primary or sole form of customer interaction with the program outside of redemption opportunities. Many marketers have assumed that consumers will be less engaged with marketing messages overall given their reduced spending, and these assumptions often lead to proactive reductions in the marketing communications budget. At least within the context of rewards programs, our study reveals that wholesale communications cuts might backfire.

Exhibit 10 Customer Appreciation of Loyalty Communications: General Population

Receiving program information via email



Receiving information about special offers via email



Visiting rewards program web sites



Receiving information about special offers via regular mail



Receiving program information via regular mail



Learning about program info via social networking sites



Receiving program information via cell phone/text message



• Source: 2009 COLLOQUY Loyalty Demographic Study, U.S. Results

• Q: How much do you like/dislike the following attributes of the programs you belong to?
n = 667

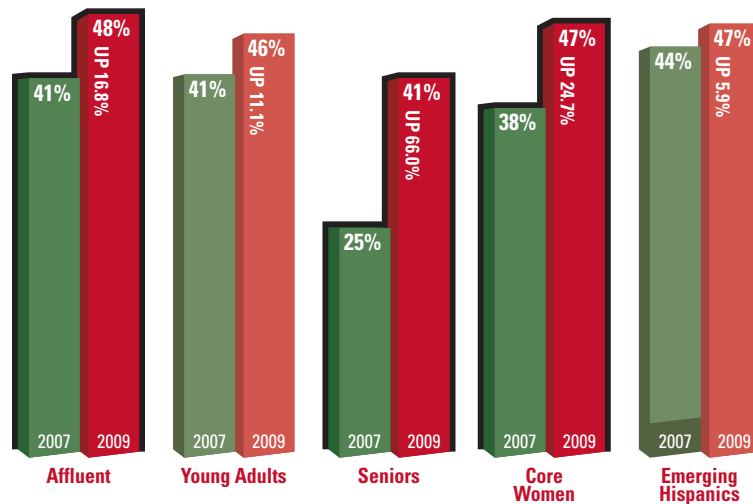
• Responses are top box (10) and top 3 box (8,9,10) on a scale of 1-10

- Across traditional program communications channels such as direct mail, email and program web sites, two-thirds of rewards program members in the U.S. General Population segment consider program information and special offers very desirable (top 3 box on a 1-10 scale) in the post-recession economy. An average of 25 percent considers such communications extremely desirable (top box).
- These numbers are not significantly changed from the 2007 survey, which means that overall, rewards program members find these communications just as important post-recession as they did pre-recession.

When we looked at differences in communications engagement between our 2007 and 2009 surveys, we noted very little difference in attitudes about communications—members find program information and special offers just as important in the post-recession economy as they did during good times. The chart below is typical of member responses to these questions:

Other demographic differences we noted:

Exhibit 11 **Engagement With Loyalty Communications: Reading Special Offers via Mail**

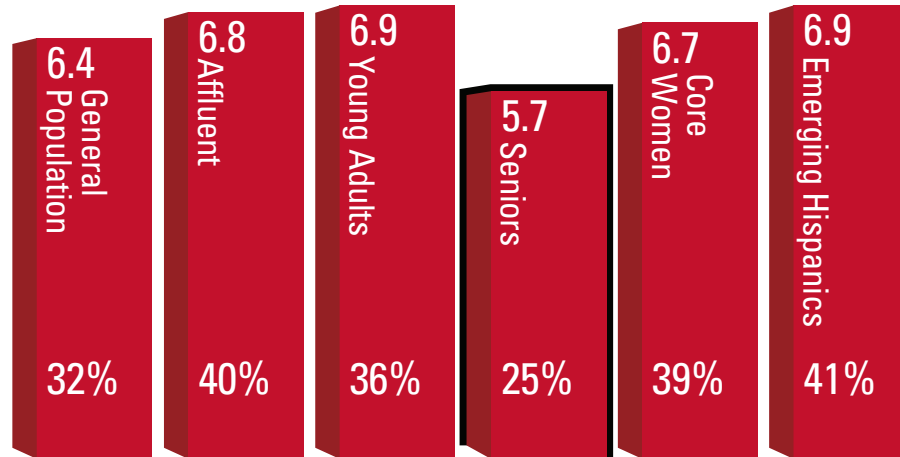


- Source: 2009 COLLOQUY Loyalty Demographic Study, U.S. Results
- Q: How active are you in each of the following?—Reading special offers via mail; n = 2,157
- Top 3 box (8,9,10) on a scale of 1-10
- Differences for Affluent, Seniors and Core Women are statistically significantly higher, as indicated by bold colors and borders

- Seniors overall are now paying much more attention to rewards program communications. Seniors, particularly those whose retirement investments may have taken a hit, are looking for value to make ends meet, and marketers who are able to provide such value to these older consumers may build stronger, more profitable relationships with them.
- Affluent members are more engaged with direct-mail offers in the post-recession economy, and they're also logging onto program web sites at higher rates than before. Similarly, our Core Women segment is also more engaged with direct mail. The lesson for marketers: Broad communications cuts, particularly in the direct mail channel, may backfire.

Finally, we must note that in the arena of communications relevance, loyalty marketers still have a lot of work to do. Despite the high percentages of program members who enjoy receiving program information and offers via their preferred channels, far fewer members find these messages especially relevant:

Exhibit 12
Relevance of Loyalty Communications: General Population

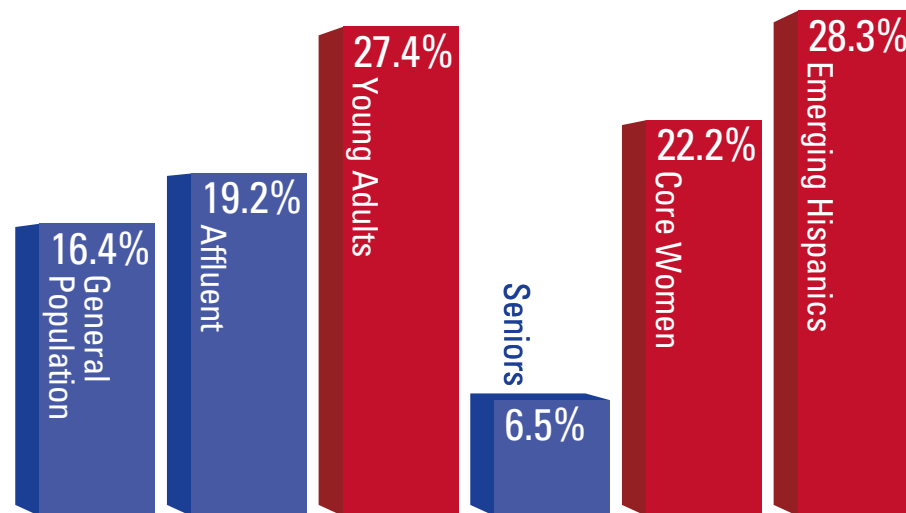


- Source: 2009 COLLOQUY Loyalty Demographic Study, U.S. Results
- Q: Thinking about the communications you receive from rewards programs, how relevant are they to your needs? n = 2,157
- Mean score shown at top of bar; percentage of top 3 box (8,9,10) on a scale of 1-10 noted at bottom of bar

Overall, our findings show that significant percentages of rewards program members, across all categories and demographic segments, find rewards programs even more valuable in the post-recession economy. If the flip-side of crisis is opportunity, then the current downturn, as severe as it is, provides loyalty marketers the opportunity to prove their worth.

We also wondered, if, given the current saturated environment for loyalty and rewards programs, these programs still offer any acquisition benefit in the post-recession economy. Does the quest for additional value from rewards program translate to customer acquisition? The news is mixed:

Exhibit 13
Recession Impact: Percentage of Consumers Actively Looking to Enroll in a Loyalty Program



- Source: 2009 COLLOQUY Loyalty Demographic Study, U.S. Results
- Q: Considering the effect of the economy specifically on your participation in rewards programs, please indicate how much you agree or disagree with the following: I am actively looking to enroll in new loyalty programs to help stretch my budget further; n = 2,152
- Top box shown on a scale of 1-5

Within key demographic segments, nearly one in four consumers are looking for additional value by joining new rewards programs.

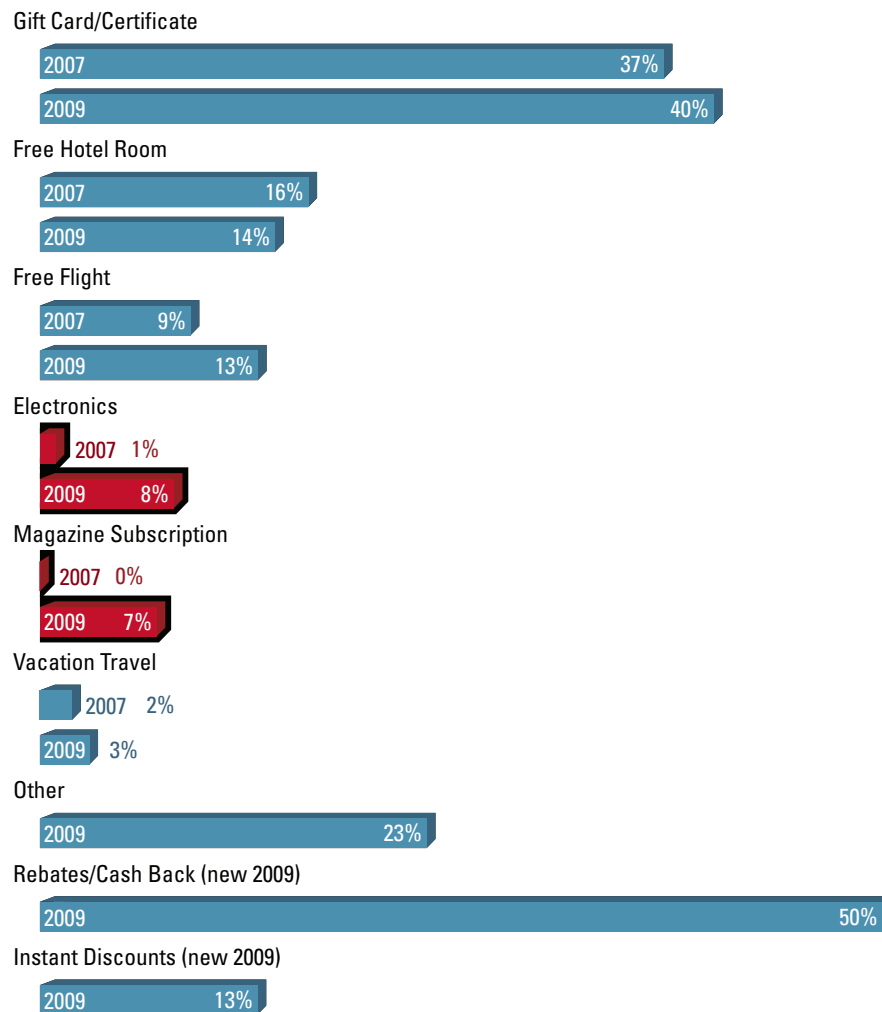
While only 16 percent of our General Population segment say that they're actively seeking to enroll in new rewards programs, nearly double that percentage of Emerging Hispanics and Young Adults said they were looking to enroll in new programs to get more value. The Core Women segment also responded at a significantly higher rate. Within these key demographic segments, nearly one in four consumers are looking for additional value by joining new rewards programs. Given the current saturated environment, those are encouraging numbers.

IV. Redemption Patterns in the Post-Recession World

Finally, we wanted to take a close look at redemption patterns among rewards program members, on the grounds that looking closely at the degree, if any, to which consumers have shifted redemption behavior might tell us something about their attitudes toward consumer spending in general in the post-recession economy. Have rewards program members changed the way they redeem for rewards?

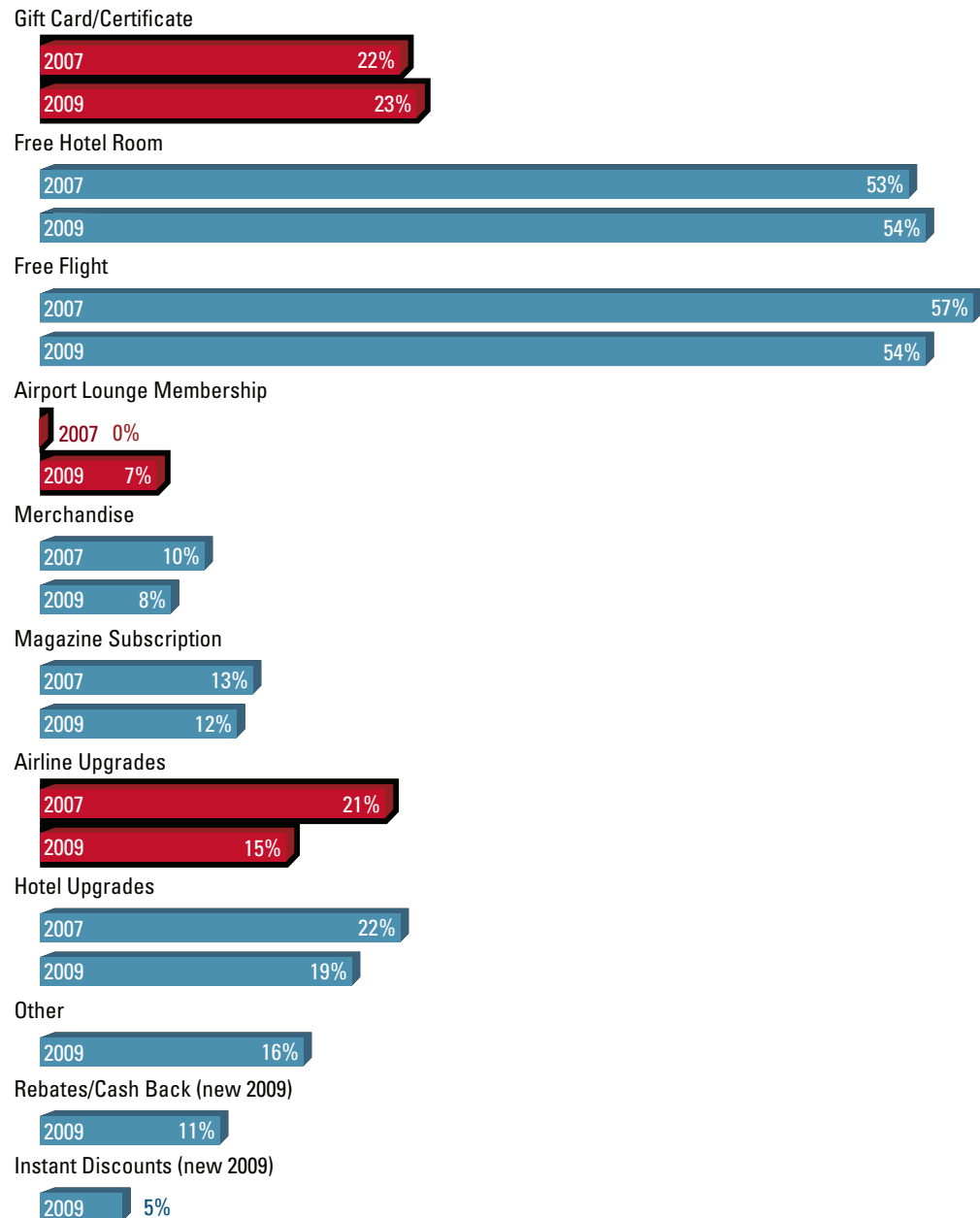
If no news is good news, then take heart: While marketers might expect that consumers would place less importance on loyalty programs while trying to make ends meet, rewards program members say that their redemption levels have stayed largely the same. The average number of redemptions made by members is likewise largely unchanged from our previous study, as is the categories of reward redemptions—for example, retail gift certificates, hotel rooms and airline travel—are still the preferred rewards for members of Financial Services rewards programs. Here are the high-level findings on redemption-pattern changes between 2007 and 2009:

Exhibit 14
Redemption Categories Among Redeemers in the Last 12 Months: Financial Services, 2009 versus 2007



- Source: 2007, 2009 COLLOQUY Loyalty Demographic Studies, U.S. Results
- Q: In the financial services programs in which you redeemed points or rewards, what rewards did you redeem for? n = 774
- Results are for General Population
- Statistically significant differences highlighted in bold colors and borders

Exhibit 15 Redemption Categories Among Redeemers in the Last 12 Months: Travel, 2009 versus 2007

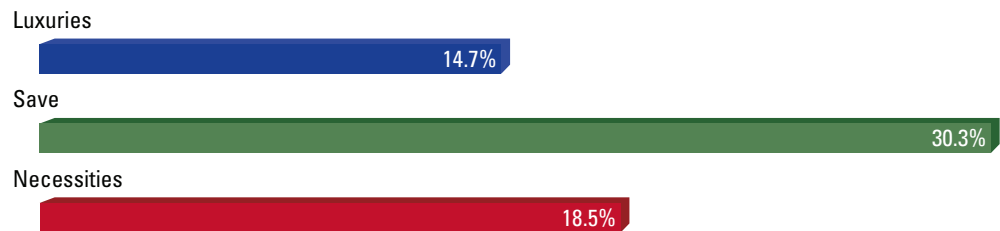


- Source: 2007, 2009 COLLOQUY Loyalty Demographic Studies, U.S. Results
- Q: In the travel programs in which you redeemed points or rewards, what rewards did you redeem for? n = 500
- Results are for General Population
- Statistically significant differences highlighted in bold colors and borders

- The big news revealed here is really the lack of news—overall, we see very small shifts in behavior among the General Population segment between the two surveys. In the Financial Services category, we see a shift toward electronic merchandise redemptions. In the Travel category, we see a drop in airline upgrade redemptions. We also see, in a redemption category new to our 2009 survey, that a full 50 percent of our General Population segment has redeemed for cash-back rebates in the Financial Services sector—which no doubt reflects the popularity of co-branded fuel rebate cards and grocery fuel rewards programs in the current economic climate.
- Among our demographic segments, we aren't breaking out the charts for the sub-segments in order to save space, but we can comment on a couple of notable behavior shifts. In the Affluent segment, redemption levels for free flights are down. In our Core Women segment, gift certificate and free hotel room redemptions are down, while merchandise redemptions are up.

When we asked members whether the current economy has led them to spend reward currency quickly or save their points and miles for a rainy day, we see data that may reflect broader consumer attitudes about the economy and spending in general. When we asked rewards program members about their inclination to save reward points, shift redemptions toward necessities such as food and fuel rewards, or shift redemptions to earn luxuries that they would otherwise have to pay for out of pocket, the results indicated a strong preference toward saving.

Exhibit 16 Recession Impact: How Do Consumers Redeem Rewards?

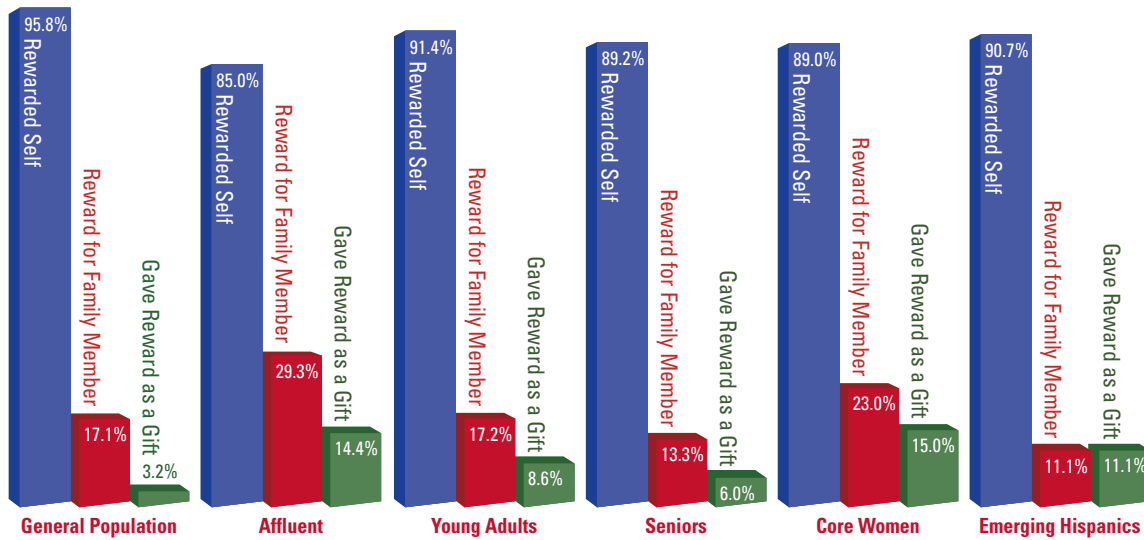


- Source: 2009 COLLOQUY Loyalty Demographic Study, U.S. Results
- Q: *Considering the effect of the economy specifically on your participation in rewards programs, please indicate how much you agree or disagree with the following: I plan to use my points/miles for the luxuries like trips that I can't afford right now (such as vacations/trips); I will redeem for everyday rewards (necessities); I will save my points until I really need them; n = 2,152*
- Top box shown on a scale of 1-5
- Results are for General Population

- Nearly one-third of members (30.3%) surveyed say they plan to save their points until they really need to cash them in. A much smaller portion (18.5%) indicated they plan to begin shifting their redemptions to fill in for everyday purchases such as gasoline or grocery gift cards. And, about the same portion (14.7%) said they plan to redeem for luxuries like vacation trips they can't currently afford. So, the broad shift in consumer behavior from mass credit-fueled consumption to more means-directed and savings-oriented behavior may also be reflected in how customers are using their rewards points.
- Among the statistically significant demographical differences we noted, Young Adults and Emerging Hispanics are the most likely groups to shift their reward redemptions toward necessities, at 28.3 percent and 27.4 percent respectively—not surprising given the more-limited purchasing power of these two groups. Conversely, and also unsurprisingly, Affluent members who may have had to cut back on luxury purchases are the most likely to shift redemptions toward luxury items for which they can no longer afford to pay out of pocket.

One of the more interesting findings from our 2007 survey was that, contrary to the trend among loyalty marketers to allow rewards program members to redeem points for charitable causes and gifts, the vast majority of members redeem rewards solely for their own benefit. Here's what our 2007 survey told us:

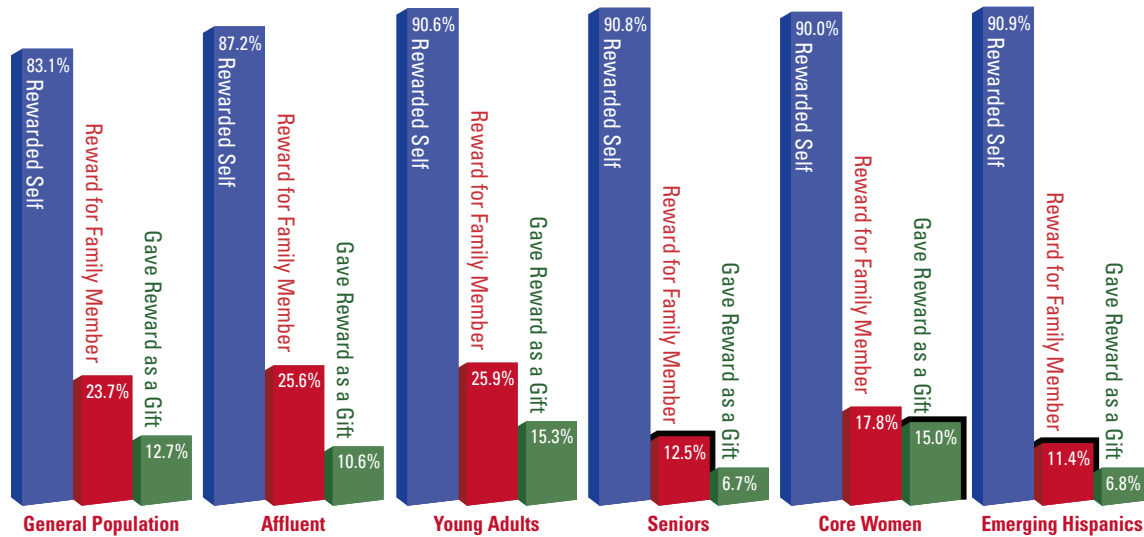
Exhibit 17
How Were Redemption Awards Used? Usage Among Redeemers in the Previous 12 Months, 2007



• Source: 2007 COLLOQUY Loyalty Demographic Study, U.S. Results

And now, for comparison purposes, here's the answer to the same question, from the same member segments, in the post-recession environment:

Exhibit 18
How Were Redemption Awards Used? Usage Among Redeemers in the Previous 12 Months, 2009



• Source: 2009 COLLOQUY Loyalty Demographic Study, U.S. Results
 • Q: In the [category] rewards programs in which you redeemed points or rewards, who used the rewards you received?
 • Answers from customers who said they redeemed a reward in the previous 12 months; n = 774
 • Statistically significant differences highlighted in bold colors and borders

To stretch limited budgets further during the recession, members are increasingly sharing the wealth from their favorite rewards programs.

- Clearly, the overall trend remains: The vast majority of rewards program members participate in those programs primarily for their own benefit. But it is notable that among our General Population segment, the percentage of rewards redeemed for personal use has dropped, while the percentage redeemed for family members and used as gifts has gone up. To stretch limited budgets further during the recession, members are increasingly sharing the wealth from their favorite rewards programs.
- The overall redemption pattern is similar among all of our highlighted demographic groups except among Core Women, who were much more likely to use their redeemed rewards as a gift. The Senior and Emerging Hispanic segments were also much less likely to use their redeemed rewards for a family member.

The bottom line: Despite an unprecedented economic downturn, reward programs play just as important a role in consumers' interactions with their favorite brands as they did during good times. Even when consumers are forced to cut back on spending, they still crave differentiated, value-added relationships.

As further evidence, many companies have told COLLOQUY that overall redemption volumes are up in 2009 versus 2008, in line with various industry figures. For example, a June '09 edition of our COLLOQUY *Market Alert* shared reports that United Airlines saw *Mileage Plus* redemptions rise 12 percent in 2008 over '07; that InterContinental Hotels Group saw *Priority Club* redemptions rise 15 percent year-over-year in Q1 2009; and that Best Western saw *Best Western Rewards* redemptions rise 30 percent year-to-date year-over-year in '09.

Yet, operators also report that *individual consumer* redemption activity remains steady. This is consistent with our *SegmentTalk: After the Meltdown* study findings. When we asked individual consumers how many redemptions they made, the answers translated to, in essence, "About the same." This response, contrasted with the upticks in redemption volumes across many industries, suggests that *more customers* are indeed redeeming—perhaps even enticing non-redeeming participants to cash in for a first-time reward. Again, the opportunity to cement customer relationships awaits.

V. Conclusion: Customer Loyalty After the Meltdown

In our previous study, and in complementary white papers such as our 2008 Retail Loyalty Index, we looked closely at the fundamental drivers of customer loyalty. Rewards programs alone can't build strong customer loyalty, but if the consumer finds real value in the brand's products, prices and customer service, then rewards programs excel at consolidating, lifting and retaining the spend of best customers through targeted application of recognition and rewards.

Within the context of rewards programs, then, COLLOQUY looks for signs of customer loyalty in members' likelihood to recommend the brand or the rewards program, the likelihood to switch brands because of—or in spite of the program—and their potential disappointment if the programs were to end. How has the current recession affected these attitudes and opinions among our demographic segments? Among our General Population segment, there are some clear indications that U.S. consumers value rewards programs even more than they did pre-recession. The following chart summarizes the results of our current survey:

Exhibit 19
Drivers of Loyalty Among the General Population

	Likely to Recommend	Likely to Switch	Disappointed if Program Discontinued	Overall Satisfaction With Rewards in This Category	Satisfaction With Value From Rewards Program
2009 Research Wave					
FINANCIAL n = 892					
Points/Miles	60%	14%	67%	79%	65%
Instant Discount	65%	23%	60%	75%	60%
Other Financial	59%	9%	71%	76%	59%
RETAIL n = 1,274					
Grocery Store Programs	61%	15%	64%	65%	59%
Department Store Programs	61%	27%	61%	63%	61%
Fuel Rewards Programs	75%	11%	59%	71%	63%
Pharmacy Rewards Programs	67%	14%	53%	63%	58%
Other Retail Rewards Programs	54%	4%	50%	50%	48%
TRAVEL n = 843					
Travel	58%	16%	48%	58%	49%
2007 Research Wave					
FINANCIAL	49%		57%	74%	51%
RETAIL	60%		58%	66%	53%
TRAVEL	51%		61%	58%	48%

- Source: 2009 COLLOQUY Demographic Study, U.S. Results
- **Qs:**
 - How likely are you to recommend this [category] company to a friend or family member because of the rewards program?
 - How likely are you to change/move business to another [category] company in the next 12 months?
 - How disappointed would you be if this [category] company no longer offered the rewards program?
 - Did you become a customer of this [category] company as a result of the rewards program?
 - How satisfied are you with the value you receive from the rewards offered by your [category] company?
- Scale of 1-10 for all questions. Top 3 box (8,9,10) responses shown
- Results highlighted in green are significantly higher
- Results highlighted in red are significantly lower

In spite of the dire economic news of the past year, in spite of rampant unemployment, the implosion of consumer credit and belt-tightening by both brands and customers, your rewards program members clearly find continued value in participation.

- In Financial Services, there are significant increases over the 2007 survey in how many customers say they'd be disappointed if their points-based rewards program were discontinued. Overall satisfaction levels with rewards program value are also up significantly.
- Within the Retail category, nearly all of the loyalty indicators have remained constant among the General Population. There are two exceptions: With overall consumer spend now shifting toward necessities such as gasoline and groceries, program members are now more likely to recommend fuel rewards programs to friends and family. Also, customers report lower satisfaction with the rewards in the Other Retail category, which includes Specialty Retail brands.
- Despite recessionary pressures, most loyalty indicators in the Travel sector are statistically similar to the previous wave. Customers do, however, report that they would be less disappointed if their travel rewards program were discontinued.
- The Affluent segment is more passionate about rewards programs than in our previous study. Specifically, they're much more likely (75%) to be disappointed if their Financial Services rewards programs were discontinued. Compared to our 2007 study, they're also much more likely to recommend a brand due to the rewards program in the Grocery, Fuel and Pharmacy categories.
- Young Adults express much more satisfaction with the value of rewards programs in Financial Services and Travel. They're also much more likely to recommend a company due to rewards programs in the Financial Services, Grocery, Fuel and Department Store sectors.
- Among the Core Women segment, similar patterns exist, with the exception of a positive surge in loyalty to Department Store rewards programs. Since our last survey, Macy's and Nordstrom have overhauled their loyalty value propositions. And, it would seem that has influenced how likely women are to recommend the company, how disappointed they'd be if the program were discontinued, and how satisfied they are with the value in the program.

The results of our extensive survey—and we can present only the highlights of the thousands of data points we have collected—speak clearly to the continuing importance of loyalty and rewards programs to the overall relationship between brands and their best customers. In spite of the dire economic news of the past year, in spite of rampant unemployment, the implosion of consumer credit and belt-tightening by both brands and customers, your rewards program members clearly find continued value in participation—and in some cases the data shows that rewards programs have become an even more important place for your customers to seek added value. In light of these findings, we offer the following closing best practices:

- **Focus on Best Customers.** Our recent Loyalty Census calculation of over 1.8 billion rewards program memberships in the U.S. tells us that some loyalty and rewards programs may be too big for their own good. As marketing budgets tighten, it becomes essential for loyalty marketers to identify and cultivate relationships with true best customers—those customers with either high current or high potential value. Only by focusing on the core loyalty metrics of retention and lift can you make your investment in loyalty pay out.
- **Avoid sweeping cuts.** In a down economy, the temptation to make wholesale cuts in program value or communications is strong. Our survey results indicate, however, that your program members still value their preferred program communications channels and are critical only of the value and relevance they sometimes find lacking in your messages. Broad cuts, particularly in the direct channel, may backfire as your best customers turn to lower-priced competitors due to a perceived lack of attention from you.

If the flip-side of crisis is opportunity, then the current recession may provide a powerful opening for loyalty marketers to build sustainable loyalty.

- **Find and cultivate Champion customers.** Likelihood to recommend your brand or rewards program is one of the strongest indicators of customer loyalty you can enjoy. Our recent *The New Champion Customers* white paper revealed the connection between rewards program memberships and word-of-mouth Champions, and this study reveals that those Champions are still heavily engaged with your program. Identify those Champion customers, build relationships with them, and incent them to engage in positive word-of-mouth about your brand.
- **Target the Millennials.** Among our survey's demographic segments, Young Adults in our survey display the broadest post-recession shift in favor of engagement with loyalty and rewards programs. This group is eager to join programs, eager to build relationships with their favorite brands and service providers, and eager to engage with you in new-media channels such as text-messaging and social-networking platforms. If the flip-side of crisis is opportunity, then the current recession may provide a powerful opening for loyalty marketers to build sustainable loyalty with the next generation of American consumers.



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The Authors

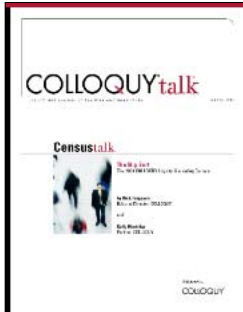


As COLLOQUY Partner, **Kelly Hlavinka** directs all publishing, education and research projects at COLLOQUY, where she draws on her broad experience as a loyalty strategy practitioner in developing articles, white papers and educational initiatives. An acknowledged expert in the theory and practice of loyalty marketing, she also regularly contributes to *DM News*, *The DMA Insider*, *DIRECT* and *BrandWeek*, and is often cited by publications such as *Newsweek*, *Advertising Age* and *Smart Money*. Kelly is a featured presenter at many industry conferences and has taught loyalty workshops and webinars around the world. She previously launched and managed COLLOQUY's strategic consultancy, working with clients such as Lennar Homes, MGM MIRAGE, Eddie Bauer, Best Buy, HP Software and Visa International. Prior to joining COLLOQUY in 1996, she held marketing positions with Buyers Choice (now The Polk Company), database marketer ACS, and Equifax Consumer Direct.



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