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Buried Treasure

The 2011 Forecast of U.S. Consumer Loyalty Program Points Value

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Introduction

To borrow a wry observation from Mark Twain, reports of the stagnation of the U.S. rewards industry have been greatly exaggerated. As a matter of fact, such reports overlook a remarkable windfall for consumers, issuers, merchants and manufacturers lurking below the surface of multiple, sometimes conflicting views of the rewards industry. In other words, buried treasure.

The total perceived value of points and miles issued in 2010 in the U.S. for consumer-oriented rewards programs is estimated at $48 billion. This finding comes from a new study, the *2011 Forecast of U.S. Consumer Loyalty Program Points Value*, the outcome of a collaboration between COLLOQUY and SWIFT EXCHANGE. To understand the potential scale of this treasure, it's worth noting that this $48 billion in perceived rewards value is issued annually by a formidable array of industries participating in the approximately $3.9 trillion that made up retail spend by U.S. households last year. These extraordinary numbers not only underscore the breadth and depth of consumer spending in the Travel & Hospitality, Financial Services and Retail categories, but also cast a critically valuable light on the penetration of rewards currency, which has become woven into our social and economic fabric in ways unimagined three decades ago when the first rewards programs were launched.

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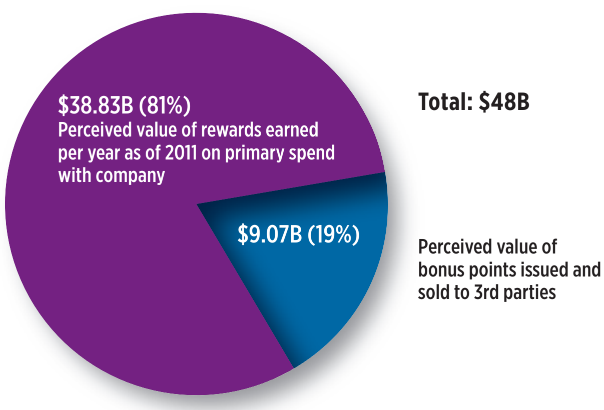

Exhibit 1
Total Ratio, Perceived Value of Rewards and Bonus Points, U.S.

- **Source:** 2011 Forecast of U.S. Consumer Loyalty Program Points Value, which is the outcome of a collaboration between COLLOQUY and SWIFT EXCHANGE
- Numbers expressed in billions

Perceived Value of Points and Rewards by Market Category (as of 2011), U.S.

Industry Category	Perceived value of rewards earned per year as of 2011 (on primary spend w/company)	Perceived value of bonus points issued and sold to 3rd parties	Total perceived value of points earned & sold per year (as of 2011)	% of value of points sold out of total value issued
Travel & Hospitality	$9.74B	$7.30B	$17.04B	43%
Financial Services	$16.38B	$1.60B	$17.99B	9%
Retail	$11.86B	$0.16B	$12.02B	1%
Other	$0.85B	–	$0.85B	0%
Total	$38.83B	$9.07B	$47.90B	

- **Source:** 2011 Forecast of U.S. Consumer Loyalty Program Points Value, which is the outcome of a collaboration between COLLOQUY and SWIFT EXCHANGE
- Numbers Expressed in Billions

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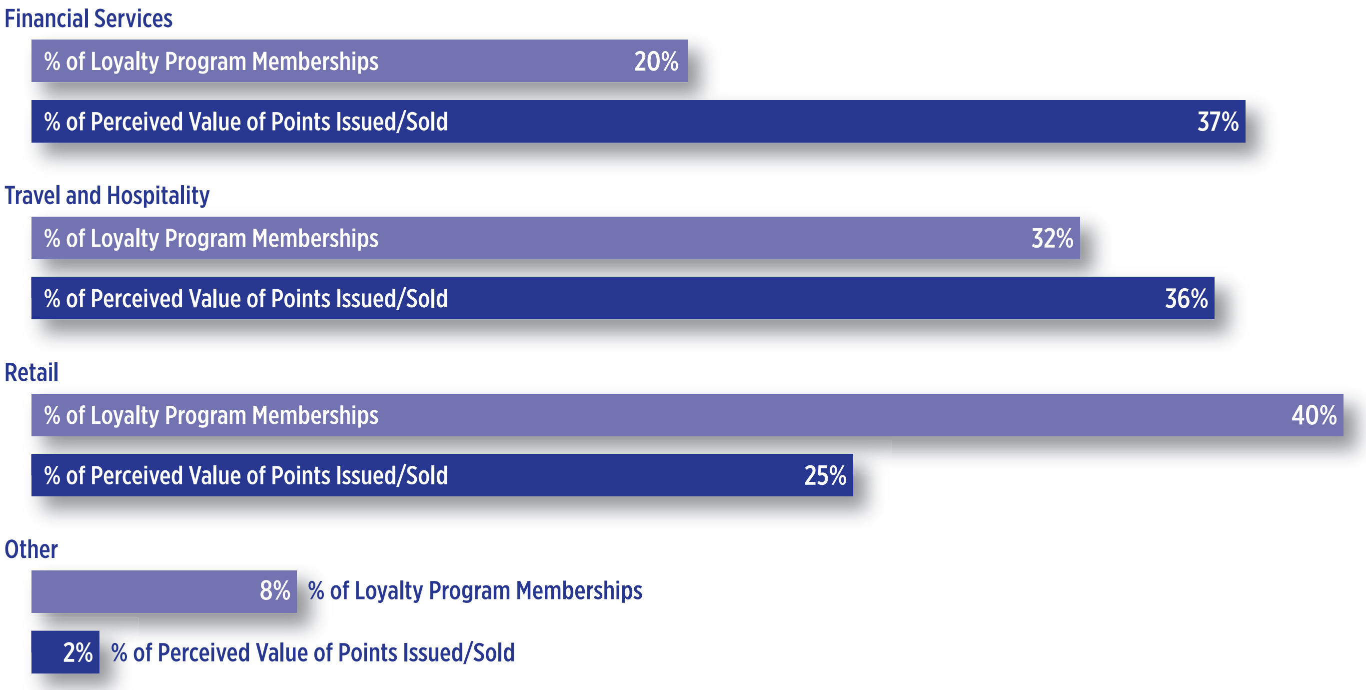
The Forecast also reveals that of the $48 billion in perceived value issued every year, nearly one-third (or $16 billion) will go unredeemed. Where the average active U.S. household earns $622 in rewards per year, they fail to "cash in" on one-third of it, or roughly $205. Unleashing this unused currency would not only expand consumer buying power, but also significantly improve the health and viability of every seller of goods and services in America.

Real Economic Power: A New Currency

The $48 billion — a conservative figure, because it reflects only the value we can capture at this time — is a transformational number that reflects how rewards-program currency has grown to become an economic force in its own right. Identifying this number comes at an auspicious time, considering the upcoming milestone birthdays of several modern-day rewards programs. In 2011, American Airlines celebrates the 30th anniversary of its *AAdvantage* frequent-flyer program, while American Express's *Membership Rewards* turns 20. Next year will see the 25th anniversary of Hilton Worldwide's *HHonors* frequent-guest program.

In the decades since these programs were launched, the rewards industry has matured into a multi-faceted powerhouse almost entirely fueled by three industry categories. Travel & Hospitality, Financial Services and Retail collectively account for more than 95% of all rewards programs currency. The Financial Services category is the largest provider of rewards, at $18 billion of perceived value a year, with Travel & Hospitality a close second at $17 billion a year. The Retail category makes up 40% of all loyalty memberships as reported by the 2011 COLLOQUY Loyalty Census, yet issues the smallest perceived value in rewards at $12 billion a year, owing to the fact that a large portion of the segment focuses on rebate programs that are not recorded in this study. If these were accounted for, the industry would be even larger. These industry categories span four pillars of the rewards commerce value chain: consumers, issuers, merchants and manufacturers.

Exhibit 2
Perceived Value of Points Issued/Sold Versus Category Memberships, by Category, U.S.



• **Source:** 2011 Forecast of U.S. Consumer Loyalty Program Points Value, which is the outcome of a collaboration between COLLOQUY and SWIFT EXCHANGE

Interestingly, while the rewards programs and the miles and points they issue have grown exponentially, our popular conceptions of those programs remain encased in conventional thinking. The media and the loyalty industry itself generally focus on points and miles and valuations drawn against fractions of a cent. With this forecast of the "macroeconomics" of the industry of $48 billion in perceived reward value issued each year, we can for the first time articulate perceived rewards value specifically in terms of dollars—billions of dollars.

Clearly, the Forecast shows that we have moved to a substantially new phase within the long-term rewards-currency lifecycle. The new paradigm calls for new capabilities at the fingertips of customers, issuers, merchants and manufacturers, enabling redemption in ways designed to unlock value that has remained unused and under-leveraged during an era of significant accumulation. With the crystallization of the $48 billion figure, and the understanding that a good portion of it never gets used, the industry appears ripe for change — change where everyone in the loyalty lifecycle more fully benefits from the significant value that is being amassed. What these numbers reveal is that despite the fragmention of rewards programs and the under-utilization of issued value, the rewards currency industry is a powerful catalyst that represents a material portion of our economy.

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Origins of this Forecast

The COLLOQUY/SWIFT EXCHANGE Forecast — the first of its kind — was prepared as a companion to the 2011 COLLOQUY Loyalty Census, the latest in a series of market-sizing studies of the U.S. loyalty industry first conducted in 2000. The 2011 Census counts more than two billion memberships in loyalty programs — 18 per household on average. Tallying memberships provides only one aspect of the total market-sizing picture, and researching points-valuation to expand that picture was clearly a natural extension of our size and scoping work — especially given COLLOQUY's unique historical perspective and historical database.

Data from the 2011 COLLOQUY Loyalty Marketing Census on the number of active memberships in each industry sector forms the backbone of the *2011 Forecast of U.S. Consumer Loyalty Program Points Value* — which, it should be noted, focuses on the perceived value of rewards. We applied the percent of tangible value earned in rewards for every dollar a customer spends to an estimate of the annual qualifying spend by consumers in each industry sector.

COLLOQUY and SWIFT EXCHANGE completed this Forecast through an intensive nine-step process that required examining the perceived value of loyalty rewards across all industries. The challenge in compiling the Forecast was in the varying ways that companies account for the points and miles they issue, which represents "liability" in financial terms — an obligation that will incur cost at a later date when fulfilled. In many cases, the actual dollars that loyalty operators account for on their books reflect their effective cost of rewards. But, that is not universally the case. That is one reason we chose to focus on the perceived value of the rewards earned in points-based programs. The methods vary because no Generally Accepted Accounting Principles exist yet in the U.S. governing how companies record the perceived value or the actual cost they incur to deliver loyalty rewards. To meet this challenge, we studied a mix of publicly reported data points, including reviews of corporate public records, websites and press releases, in addition to third-party information and proprietary estimates. Forecast assumptions also were used.

The *2011 Forecast of U.S. Consumer Loyalty Program Points Value* covers 17 industry sectors in all. Only points-based rewards programs are included. Grocery "club card" and other discount programs are not covered.

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A Bright Forecast

A top-line forecast of the three broad industry categories (Travel & Hospitality, Financial Services and Retail) that represent the lion's share of volume and the perceived value in rewards currency illustrates the compelling nature of this new paradigm of "buried treasure" awaiting broader accessibility and rewards value "liquidity."

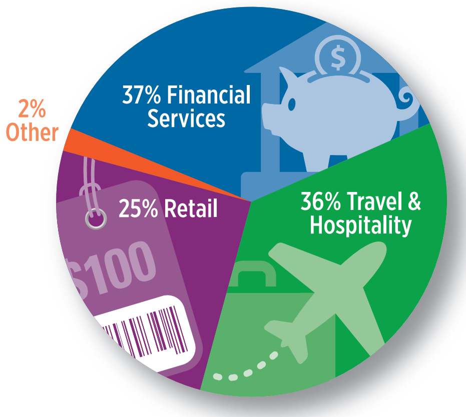

Exhibit 3
Total Perceived Value of Points Earned and Sold per Year by Category (as of 2011), U.S.

- **Source:** 2011 Forecast of U.S. Consumer Loyalty Program Points Value, which is the outcome of a collaboration between COLLOQUY and SWIFT EXCHANGE

Travel & Hospitality. The pioneer of modern loyalty programs, the Travel & Hospitality category issues $17 billion in perceived awards value each year, and holds a 36% share of rewards value in the three industry categories. Among the companies that sell their currencies to other businesses, Travel & Hospitality sponsors command 80% of the perceived value of miles and points sold in this way. In fact, the sector issues almost $7.30 billion in perceived value from third-party rewards, or 43% of the total perceived value issued by the sector, a greater percentage than that of any other sector. Given the high aspirational value that travel holds for consumers, the traditional sources of participation — car rental, dining and co-branded credit card segments, among others — should invigorate a fertile green-field for systems designed to unlock this captive value. In an ecosystem that allowed for unprecedented levels of reward currency liquidity for all participants, airlines as one example, could unearth new and unanticipated channels for merchant partnerships.

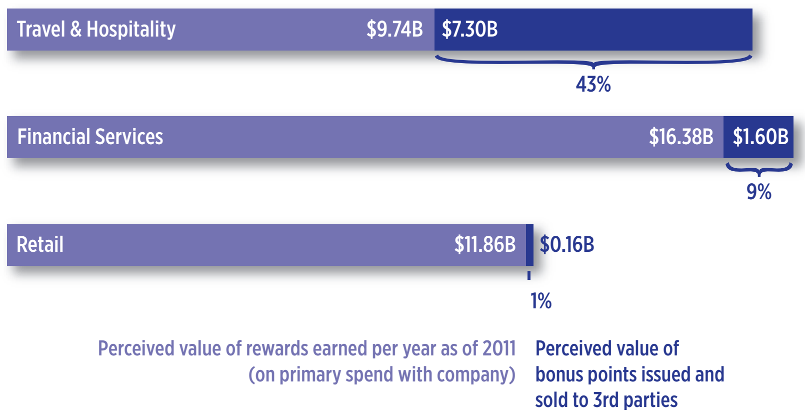

Exhibit 4
Perceived Value of Rewards Versus Bonus Points, by Category, U.S.

- **Source:** 2011 Forecast of U.S. Consumer Loyalty Program Points Value, which is the outcome of a collaboration between COLLOQUY and SWIFT EXCHANGE
- Numbers expressed in billions

Financial Services. With nearly 80% of credit cards carrying a rewards component according to some sources, Financial Services (with 37% share of perceived rewards value issued per year as of 2011) operates within a highly competitive, dynamic landscape of proprietary programs. A robust competitive environment in recent years has left this sector ripe for continuing innovation. As the industry continues to recover from the onslaught of the financial crisis, we maintain that efforts of the financial services industry to offer more choice and to make the currency that they issue easier for their customers to use will result in stronger redemption that in turn will lead to improved loyalty, card adoption, utilization, spend and ultimately profitability. Additionally, adding greater utility will improve consumer perception of their rewards programs in general and assist them with new customer acquisition.

Retail. With $12 billion in perceived value issued per year as of 2011, the retail sector accounts for 40% of total loyalty program memberships but just 25% of the perceived reward value issued. A principal reason for this is the comparatively homogenous and closed-loop environment in which most retailer rewards programs operate. Since points earned at a clothing retailer, for example, typically remain redeemable only at the same retailer, the opportunity to accumulate rewards at any one individual retailer is limited and consumer perception of their value has remained subdued. Therefore, Retail in particular has the opportunity to mine buried treasure. Migrating outside existing bounds, engaging complementary companies, manufacturers and industries would prove to be a radical and game-changing development.

The Rewards Industry at an Inflection Point

The recipe for a transition from accumulating rewards to realizing the true promise of the U.S. rewards industry will be distinguished by solutions that help consumers earn rewards — and collect on the promise of the *value* of those rewards — as easily as they make purchases in their daily lives. Marketers and issuers will need transformational tools that can translate rewards and points into new commercial relationships that consistently drive consumer spend.

1) Utilize partnerships: In a solo program, is a $5 certificate that customers can redeem after 12 months worth their attention? Program partnerships in which consumers can earn and redeem program currency in multiple ways from multiple partners allow consumers to accumulate and realize more value. Retailers partnering with CPGs and non-competing companies, are a good example of the power in aligning with other brands with similar values and customers. Alternative program constructs allow consumers to accumulate points and redeem on their consolidated purchases of basics such as gas, groceries, apparel, travel, credit card transactions and pharmacy items. New technologies are in development to better manage existing partner relationships and to enable new forms of collaborative relationships on both the earn and redeem sides of the equation. Remember, this is an industry that has emerged incrementally and disparately over decades. Now that loyalty is essentially a household product — although often times misunderstood — it needs to operate more seamlessly and collaboratively to benefit reward issuers, consumers and merchants.

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2) Make redemption easier: Examine how to engage your consumers so they can extract more benefit from rewards issuance. COLLOQUY research shows that redemption, as part of what we call the Relationship Chain™, leads to greater overall customer value. Consider ways of progressing members along the Relationship Chain. Question why the breadth of rewards offering is limited in your catalog. Consider how a broad range of choice can actually drive higher engagement to your brand. Might you allow redemption at check out, or employ new channels, such as mobile redemption? Can your rewards be aggregated with rewards from other programs to accelerate redemption? How can you make it easier for your customers to manage the 18 programs they are enrolled in?

3) Step up communications: Clearly and frequently communicate reward benefits, and ensure that all communications are relevant to the customer. As examples: Alert members of their rewards balances at all touch points. Tell them when they are close to attaining a reward or a new program tier. Make reward suggestions based on the kinds of rewards customers previously redeemed for. Engage customers throughout their lifecycles.

Done correctly, this transformation will inject new dimensions of customer-engagement, frequency and rewards liquidity into the loyalty-marketing industry. Nearly thirty years after the modern-day loyalty programs launched, we are on the brink of unlocking the buried treasure that constitutes a new currency. Does your program have meaningful placement on the treasure map?

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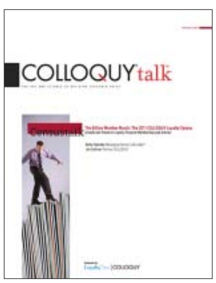
The Authors

As Chief Operating Officer of SWIFT EXCHANGE, Nancy Gordon is responsible for developing and implementing the company's partner approach, business planning and go-to-market strategy. Previously, Nancy was Executive Vice President of Consumer Loyalty at Citi, where she led core loyalty programs and customer satisfaction efforts across the franchise. Nancy was the driving force behind the 2004 launch and subsequent growth of Citi's *ThankYou Rewards Network*.

As COLLOQUY Managing Partner, Kelly Hlavinka has helped define and carry out COLLOQUY's mission as the voice of the loyalty industry since 1996. Drawing on her 20 years as a loyalty specialist, Kelly develops articles, white papers and educational initiatives that illuminate the many ways to unlock the asset of customer specific data for her clients. Kelly has shared her expertise with correspondents of *The Wall Street Journal, The New York Times, USA Today, Brandweek, BusinessWeek, Advertising Age* and *SmartMoney*. Kelly in 2003 launched and managed COLLOQUY's strategic consultancy, working with clients such as Lennar Homes, MGM Mirage, Eddie Bauer, Best Buy, HP and American Express.



About SWIFT EXCHANGE and COLLOQUY

As a pioneer in global commerce, SWIFT EXCHANGE is unleashing a powerful new source of consumer buying power utilizing its patent-protected technology that blends points and miles from different rewards programs to make them as easy to spend as cash. SWIFT EXCHANGE is owned and operated by Signature Systems LLC. For more information, visit www.swiftexchange.com.

COLLOQUY® comprises a collection of publishing, education and research resources devoted to the global loyalty-marketing industry. COLLOQUY® has served the loyalty-marketing industry since 1990 with more than 40,000 global subscribers to its magazine, and www.colloquy.com is the most comprehensive loyalty website in the world. COLLOQUY's research division develops consumer and B2B research studies and white papers including industry-specific reports, sizing studies and insights into the drivers of consumer behavior. COLLOQUY also provides educational services through workshops, webinars and speeches at events throughout the world. COLLOQUY magazine subscriptions are available at no cost to qualified persons at www.colloquy.com or by calling 513.248.9184.

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