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Air Miles Canada

In the winter of 1993, Craig Underwood, president of Loyalty Management Group Canada Inc., the company owning and using the Air Miles trade mark[1] in Canada, commented on his organization's standing:

> Our introduction has been an unqualified success. 25 percent of Canadians collect Air Miles travel miles, and it's as high as 38 percent in the West.[2] Now we have to ensure the program has lasting value to our sponsors. We're not a flavor of the month promotion. We're a long term partnership and now we have to simultaneously improve the profits of our sponsors and fulfill the vacation expectations of our collectors.

As of Winter, 1993, Air Miles was a shopping loyalty program which any individual could join for free. When making purchases at sponsoring organizations (specific grocery stores, department stores, gas stations, etc.) the collector would show his or her collector card and receive a specified number of Air Miles travel miles.

"A travel mile is a mile" frequently appeared in Air Miles advertising and promotions. One Air Mile travel mile could be used to fly one mile on American Airlines, Air Canada, United Airlines and U.S. Air subject to having enough Air Miles travel miles to get from Point A to Point B and

1. In 1993 Air Miles was the registered trademark of Loyalty Management Group.
2. Air Miles defined 50% of its membership base as "active."

Research Associate Roger Hallowell prepared this case under the supervision of Professors Thomas O. Jones and Leonard A. Schlesinger as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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"buying" a ticket through Air Miles. In this way, the Air Miles program was different from the airlines' loyalty (sometimes called frequent flyer) programs. Sam Duboc, an Air Miles executive, explained:

> Airline programs are great for truly frequent travelers. They do nothing, however, for the vast majority of people who don't fly that often. Air Miles is different. Instead of making you collect tens of thousands of points to go somewhere, a travel mile is worth a mile of free airline travel. People can be traveling in a year or two collecting Air Miles travel miles, and it costs them nothing. They just make regular, everyday purchases from our sponsors.

Underwood and Duboc grouped Air Miles' sponsors into three categories: consumer, business-to-business and employee motivation. As of the winter of 1993, Duboc and Underwood had primarily focused the start-up period of their organization on the consumer segment, with very large organizations such as Sears, Canada Safeway, Goodyear, and Bank of Montreal (BOM) as sponsors (see **Exhibit 1** for a complete sponsor list).

History

Air Miles U.K.

Air Miles originated in the United Kingdom in 1988. The program was in part devised as a result of research suggesting that after cash, travel was consumers' single most sought after reward. In the U.K., the program relied on scrip (a form of paper currency) which was given to Air Miles travel miles collectors when they made purchases from sponsor organizations (see **Exhibit 2**). Collectors could then redeem their scrip for flights on British Airways, a travel mile being worth a mile of air travel.

With program sponsors indicating satisfaction and consumers continuing to collect and redeem Air Miles travel miles, the founders took the program to North America. In 1991, Loyalty Management Group U.S. and Loyalty Management Group Canada were formed.

Air Miles U.S.

Loyalty Management Group U.S. operated in a similar fashion to Air Miles U.K. Instead of scrip, however, in the United States the program was semi-automated. Some organizations (generally those selling more costly goods and services) automatically credited Air Miles travel miles to a purchaser's account. Smaller purchases, many of which were consumer package goods, tended to require consumer involvement for credit. Collectors purchasing a roll of X brand paper towels, which might entitle them to one or two Air Miles travel miles, removed the UPC code (bar code) from the item and sent it to Air Miles, which then credited their account. In the United States, Air Miles' relationship was generally with the producer of goods, rather than the distributor of the goods (or the "channel"). This was the case for all grocery items. Air Miles U.S. was launched in the Spring of 1992. The program was halted in April.

Air Miles Canada

The company was effectively started by three MBAs (from different schools and years) working out of a Toronto hotel room in the Spring of 1991. Craig Underwood, Sam Duboc and Rob Gierkink conducted research into the Canadian market prior to Loyalty Management's entrance. Their research indicated that, although the total market was smaller than either of the other Air Miles

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markets, it was characterized by concentrated market share, particularly in the banking, supermarket, department store and gasoline retailing industries.

Rob Gierkink noted another characteristic of the Canadian market:

> The vast majority of major Canadian corporate head offices are located in Toronto, within a five or ten minute taxi ride of this office. A few are in Montreal, and Canada Safeway and Shell are in Calgary, but most are right here. As a start up without much capital and in need of contacts, Toronto was not a bad place to be.

Once the decision to enter the Canadian market had been made, a quick legal review disclosed a problem. Canada's Trading Stamp Act forbade organizations from issuing scrip of any kind. Even UPC codes, as used by U.S. collectors, would have been suspect. As a result, Air Miles Canada was forced to adopt collection techniques that did not involve the customer. Most were electronic, involving the collectors' Air Miles card which had both a bar code, which could be electronically scanned, and a magnetic strip, which could be passed through a reader. In some cases, sales clerks punched the collector's number (embossed on the card) into their electronic cash registers.

Underwood and Duboc recognized that changing the Air Miles collection vehicle would have to affect their choice of sponsors. It was now essential to have the seller as part of the Air Miles relationship in order to permit data collection. Duboc, Underwood and Gierkink identified a group of large Canadian corporations they wanted as sponsors. Their primary goal was to have sponsors of products and services frequently used by Canadian consumers. In addition, they felt that relationships with these organizations would give Air Miles a first mover advantage should a competitor decide to enter the market. They also looked to these sponsors to provide much of the advertising money that would be necessary to roll out the introductory Air Miles campaign, and name recognition that would provide Air Miles with the credibility it needed to convince Canadians to join.

By late summer 1991, Bank of Montreal indicated its willingness to become Air Miles' first sponsor with some conditions. BOM required that by November 15, 1991, Underwood, Duboc and Gierkink have seven sponsors in five specific categories. Four BOM executives also traveled to London to examine the Air Miles U.K. operation, making a number of improvements in the development plans for Air Miles Canada. The result was a 22 page single spaced agreement. According to Craig Underwood:

> This enabled Bank of Montreal to be involved in the design of the program's specifics. It included hurdles for us, and protected the bank. Although the specifics were confidential, the level of the bank's involvement with us was known, and it may have given other sponsors confidence in the program.

On March 30, 1992, Air Miles Canada launched itself to the public. The launch, which had been planned since November, 1991, involved national television, radio and newspaper campaigns as well as "take-one" enrollment forms at sponsors and a BOM direct mail drop offering a new BOM/Air Miles Mastercard.

Nature of a Sponsor Relationship

Sponsors had an exclusive relationship with Air Miles defined in terms of the nature of their product or service and their ability to serve customers geographically. For example, Canada Safeway, a chain of supermarkets in Western Canada, had the exclusive right to offer Air Miles travel miles through supermarkets in Western Canada. This exclusivity was generally fairly obvious in the case of large organizations, although negotiating effective geographic boundaries could occasionally

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become difficult. The exclusivity concept was also applied in the small business and business-to-business markets. Only one type of restaurant in a specific neighborhood would have the ability to offer Air Miles travel miles; only one firm selling dental equipment to dentists in Saskatchewan and Ontario could participate in those provinces, and so on.

Sponsors, however, gained more than the customer loyalty obtained from giving away Air Miles travel miles. They also gained information about their customers, some of which, according to both Duboc and Underwood, "may never before have been available." The first source of data was Air Miles collector enrollment information. Although name and address were the only data required for enrollment, numerous other questions were asked including age, family size and composition, income and shopping habits. While this data was self reported,[3] it was more data than many consumer product and service firms had ever had on their individual customers.

The second source of data on customers was the Air Miles database of every transaction every collector had made.[4] Analysis of this database on a customer by customer basis made it possible to understand an individual consumer's shopping patterns. Air Miles could determine habits such as a consumer's attraction to specials and sales. For the most part, Air Miles was unable to record data on what a collector purchased, whether milk and eggs, or blue jeans and polo shirts. Air Miles did, however, have data on where individuals shopped. This was referred to as location, recency, frequency and dollar volume.

Air Miles did collect some data on individual items purchased. If an item was offered in a special Air Miles promotion, that information was forwarded from the retailer to Air Miles. Examples might include a special one additional Air Mile travel mile bonus for buying a six-pack of Coke at Safeway, or an additional 200 bonus travel miles for buying a washer and dryer at Sears. In addition, some retailers had detailed transmission codes enabling transmission of complete (or almost complete) purchase data.

Both Underwood and Duboc noted that the ramifications of understanding shopping patterns were significant for marketers as they searched for ways to identify potential customers more effectively than traditional advertising and demographically based data base searches provided. According to Sam Duboc:

> It's this cross category potential that Air Miles offers which has been the real selling point for those sponsors who have "gotten it," the ones who understand the potential power of the program. This cross category information can be thought of as horizontal information on the customer, in contrast to vertical information, which consists of a customer's shopping history at a single sponsor.

As of Winter, 1993, there were too few transactions on record in the Air Miles data base to initiate effective cross category collector analysis. Duboc and Underwood, however, hoped to begin such searches before the end of the year.

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3. Self reported data, particularly on income, was generally less reliable than data obtained in other manners.

4. Air Miles had subcontracted their data base management to a specialist capable of building and managing relational data bases. This made searching the data base faster and less expensive, but did leave Air Miles dependent on a third party. A manager stated, "We could leave, but it would be a hellish six to nine month period of transition."

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Sponsors

Several of Air Miles' sponsors were particularly important to the program because of their early commitment and high visibility. Information on three of those, Bank of Montreal, Canada Safeway, and Sears follows.

Bank of Montreal

Air Miles first sponsor, BOM, had the benefit of being able to observe what Air Miles executives described as "live" data from Air Miles U.K.'s relationship with National Westminster Bank in the U.K. In addition, BOM had specific reasons for joining the program. BOM was the third largest bank in Canada. It had been the lone bank in Canada to offer an annual-fee-free Mastercard. Air Miles managers believed that this was, at least in part, the cause of many of the bank's over 4 million Mastercard cardholders tending to use their BOM Mastercards as a second or third charge card. Given the economics of the charge card industry (profitability is driven by, among other things, frequency of customer use, particularly for large purchases), according to an Air Miles manager, "BOM's situation was not optimal."

Bank of Montreal described its credit card competitors as other bank credit cards and major airline affiliated credit cards. Air Miles executives believed that Bank of Montreal was interested in the program for several reasons. First, it was a way to improve (or change) cardholder usage patterns. BOM offered a separate BOM/Air Miles Mastercard. The card had a CAN$35 annual fee and offered one Air Mile travel mile for every CAN$20 spent by the cardholder. It was made available via advertising to the general public and was marketed by direct mail several times in 1992 to BOM's active cardholder base. A BOM representative commented that "response rates were significantly higher than on normal solicitation."

Air Miles managers believed that BOM/Air Miles cardholders were more loyal to the bank than other BOM cardholders and that they tended to be more affluent, saying they were "strong middle income." They pointed to their willingness to spend CAN$35 per year for the card, an average card "spend" of twice the non Air Miles cards and a 60% higher balance (borrowings) maintained on the cards as additional evidence of the Air Miles cardholders' desirability as customers. As with its other credit cards, BOM received the standard processing fee from merchants for transactions.

BOM also used Air Miles travel miles to attract existing and new customers to other banking products. Air Miles travel miles were awarded for opening new demand deposit (checking) accounts and savings accounts, making term deposits, purchasing investment vehicles, and signing mortgages and personal loans. One Air Miles executive stated, "BOM is using Air Miles travel miles as the modern equivalent of toasters."

While the initiation of the BOM/Air Miles Mastercard was acknowledged as a success by both BOM and Air Miles, there was some concern about the rest of the BOM program. BOM had 1250 branches, many of which displayed Air Miles materials. In the winter of 1993, there were still small branches which had not issued a single Air Mile travel mile. BOM managers believed that this was due, in part, to the challenge of communicating to over 30,000 employees distributed across a wide geographic area. In addition, BOM refused to post Air Miles promotional materials mentioning any other sponsor(s) anywhere on BOM premises because of possible conflicts with the banks other commercial relationships.

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Safeway

Canada Safeway Ltd. (Safeway) was another of Air Miles' early sponsors. A CAN$4 billion company, Safeway had the highest market share of any supermarket chain in Western Canada, 30 to 32 percent.[5] Safeway, however, was under attack. According to an Air Miles manager:

> Safeway has great market share, and the West tends to have slightly firmer margins than the rest of the country, but Price Club and Costco[6] have entered the market and are doing well. This has created purely price-based competition.

The manager continued, discussing supermarket economics:

> Supermarkets run on thin margins, so volume is really important—it's a market share game. Many shoppers use two or three markets. He or she might spend 70 to 100 percent at a primary market, and the rest at secondary or tertiary stores. Safeway wants to be the primary market and reduce the secondary and tertiary spend.

Underwood, Duboc and Safeway executives considered the Safeway program a success. An Air Miles executive commented:

> Safeway has seen a turnaround from declining market share to growth in some markets and flattening out in others. 40 percent of their sales are Air Miles transactions and the average Air Miles transaction is about twice as large as an average non Air Miles transaction [CAN$60 vs. CAN$28][7]. In addition, Safeway has enrolled close to, if not more than, half of the collectors in the West. They have exceeded their objectives.

The success of the Safeway program was believed to have been due, at least in part, to its excellent execution. Descriptions of the execution frequently included the phrases, "great communication," "high excitement," "discipline," and "superior training." While the roll out was being planned, fewer than ten people in the Safeway organization knew about it.

A meeting was planned to inform store managers about the roll out. Just prior to that meeting, every store manager was sent an airplane ticket and told to attend. Details of the meeting's purpose, however, were not disclosed. After the tickets were delivered, rumors that the company was being sold to a Japanese concern surfaced in several Canadian newspapers.

At the meeting, managers were told about the program and given detailed training manuals to help them teach their employees about it. These included simple, but effective video tapes answering questions about Air Miles and showing how a check-out clerk could enroll a customer. Every manager and employee was automatically enrolled in Air Miles; at enrollment Safeway gave each 33 travel miles while Air Miles gave 25 travel miles for answering five questions about Air Miles correctly after the training. There were also contests with prizes for enrolling the greatest number of new collectors per 1000 transactions, the results of which were posted at each store.

Customers received one Air Mile travel mile for the first CAN$20 in goods they purchased and one Air Mile travel mile per CAN$15 in purchases thereafter. Safeway also became the first

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5. Western Canada was defined as Winnipeg and west. Safeway had stores throughout this area and in Northern Ontario.
6. Two "warehouse" style discount retailers.
7. These were historical figures in contrast to the pro forma figures provided in **Exhibit 4**.

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supermarket chain in Canada to allow customers to pay with credit cards. In this way, collectors could receive travel miles for their purchase both from Safeway and BOM. As a result, Bank of Montreal was invited to be processing agent for all Safeway credit card transactions. Each of the three organizations (Air Miles, BOM and Safeway) commented positively on these developments.

Winter, 1993 saw another innovation in the program at Safeway. As of that date, manufacturers were permitted to become involved, offering special bonuses for the purchase of their products (generally one or two Air Miles travel miles, credited at check out). Air Miles executives intentionally allowed Safeway to manage the relationship with the manufacturers, stating that this was the best way not to endanger their relationship with the grocery chain. The program worked similarly to a cooperative advertising campaign, with manufacturers contributing both a fixed and a per-unit-sold amount. The bonus program was viewed by Safeway as an important feature as it allowed customers to greatly increase the number of travel miles they could collect per shopping trip.

Early results from the bonus program varied from store to store providing increased sales of the items promoted of between five and 20 percent.

A Safeway manager spoke about how his organization would assess its experience with Air Miles:

> The Air Miles program gives us one more way to add value to the shopping experience, creating one more reason to shop at Safeway. In a marketplace where we are facing new competition, it should help us hold our customers. In a stable marketplace, it should help us to attract new customers.

He continued:

> We are at the end of stage one of a three stage program. The first stage was the launch, getting people signed up and collecting Air Miles travel miles. The second stage is collecting information, transaction and item information [Safeway's computers were capable of storing information on items scanned at the register]. This will help us to keep the program attractive to and of value to our customers. The third stage will be combining that data with the identity of the shopper, which we will get from Air Miles, as well as other information from them, to target existing and new customers to make us their primary grocery store. We are starting stage two now. We also see unique opportunities for cross marketing.

An Air Miles manager discussed how Safeway thought about and used the Air Miles program:

> We are their single largest promotion ever. For at least year one of the program, we are in addition to their traditional promotions. They see us as an offensive device and have really pushed the Air Miles program, as well as their connection to it, as a result. The only tension in our relationship right now is that Safeway wants us to push the other sponsors harder because they feel they are doing more than their share to get the total program up and running.

Sears Canada

Sears Canada Inc. was a 109 retail store and 1,600 catalogue location publicly traded Canadian corporation with approximately 20% market share. Sears Canada was distinct from, although controlled by, Sears, Roebuck & Co (the U.S. Sears). Sears Canada ("Sears") had been more fashion oriented and had not experienced operating and financial difficulties to the same degree that its U.S. parent had. Still, Sears was under attack on a variety of competitive fronts. Unlike Safeway,

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Sears viewed Air Miles as a defensive vehicle, wanting to prevent competitors from having it more than seeing it as a tool. A senior Sears executive was paraphrased by Air Miles managers as having commented:

> I wish you had never started this program [Air Miles]. If I go with you and it doesn't succeed I'm damned. If I don't go with you and it succeeds I'm damned. I might as well be part of it.

Sears already had a customer loyalty program, Sears Club. Purchases were rewarded with "points" (one point for every dollar spent) which could be exchanged for items at Sears. The Air Miles promotion was added to Sears Club, enabling members to exchange their Sears Club points for Air Miles travel miles at specified ratios. This gave Air Miles access to a bank of 4 million Sears Club members. Sears Club members with high point balances were automatically enrolled in Air Miles by Sears.

Air Miles managers noted that employees were not as involved in the process at Sears as they had been at Safeway. Evidence included the fact that employees were not automatically enrolled in Air Miles (nor Sears Club),[8] and the exclusion of other elements behind the success of the Safeway program.

Early results from the Sears program, however, were promising. Sears held a large sale across Canada in the fall of 1992 during which prices were lowered, financing terms were eased and bonus Air Miles travel miles were offered for the purchase of specified items. Factoring out price and favorable conditions of sale, Sears management attributed a percent increase in sales they described as "double digit" to the Air Miles promotion (for example, "Get 50 bonus Air Miles travel miles when you purchase this Kenmore washer...") in its retail stores. Catalog sales rose "even more." During the week of that sale, 26,000 new Air Miles members were enrolled and 2,650 new Sears credit card accounts were established.

As of the Winter of 1993, Sears had not analyzed the effect of the day-to-day Air Miles promotion on its routine business. There had, however, already been an effect on Sears Club, the membership of which had grown to 4.6 million. Sears Club had earlier peaked at 4 million members.[9] Sears management described Sears Club after the introduction of Air Miles as "revitalized."

Sears management had specific goals that they hoped to achieve from the Air Miles program. First, they wanted to be able to look at return on investment by customer. Second, they hoped to tie into other companies' consumer offers and develop cross-corporate promotions to attract what they called, "the best customers." For example, Sears might identify consumers with disposable income by searching the Air Miles data base for Bank of Montreal Gold MasterCard holders. Those consumers could be offered an incentive to purchase top-of-the-line Kenmore appliances. Third, Sears management wanted to protect the integrity of their pricing with Air Miles by, as they put it, giving away something else in lieu of cutting price. Finally, the company hoped to initiate more Sears charge accounts through the Air Miles program.

Like Bank of Montreal and Safeway, Sears was concerned about what it called, "attainability." In short, this was the ability of an Air Miles collector to attain enough Air Miles travel miles to get a ticket. Attainability was complex as it was effected by the quantity of money a collector spent at sponsors, the items for which a collector could get bonus travel miles, and a collector's ability and willingness to shop across sponsors (at multiple sponsors). The question remained as to whether the

8. To receive Sears Club points a member had to charge his or her purchases on a Sears charge which many Sears employees did not have.

9. Canada's 1990 census reported 28 million residents in 10.6 million households.

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opportunity to collect Air Miles travel miles would affect consumers' shopping behavior to the degree that individuals would change merchant, product or service affiliations.

Attainability also touched on the issue of the value of airplane travel as perceived by collectors. The Winter of 1993 saw discount airfares from Toronto to Florida as low as $200 round trip. With consumers' perceptions of the value of travel affected by these types of fares, would free travel continue to be valued to the same degree? What effect would this have on Air Miles' ability to influence consumer behavior? Sears challenged Air Miles to offer half price (half travel miles) tickets to collectors for certain heavily discounted routes.

Future Opportunities

Underwood and Duboc wanted to continue developing the three markets they had identified. While they would continue to look for appropriate new, major sponsors, they believed that the large organization consumer market was moving into a more mature phase. The small business consumer market, however, was just starting to develop. This market included numerous small businesses which could increase their consumer loyalty and attract new customers by offering Air Miles travel miles. Examples might include neighborhood restaurants, local drug stores and dry cleaners. Air Miles travel miles were sold to this market at a price higher than what the charter sponsors paid.

Air Miles had only begun to penetrate this market, doing so by designating an outside sales agency to hire and manage a sales force which would enroll small businesses as sponsors. By the Winter of 1993, three outside sales representatives were assigned to Air Miles. The agency was paid based on the number of Air Miles travel miles issued by the sponsors it developed.

Duboc and Underwood had not determined the exact role small businesses would play in the total program. Duboc commented:

> Small businesses are useful in helping us achieve two of our goals. First, the more companies offering Air Miles travel miles, the more the program becomes habitual for our collectors. This makes shopping at non-sponsors less attractive. Second, by enabling collectors to collect travel miles in new, different types of places, collectors can collect more travel miles, which enhances attainability.
>
> We're still not sure, however, about the role small businesses will play in our data base. How will shopping data from a dry cleaner in Vancouver be helpful to Sears? We have to either discount, or understand this side of the equation before we determine what resources we will, or won't pour into the development of this market.

Underwood added that the situations were even less obvious in the cases of the business to business and employee motivation markets Air Miles was entering.

Underwood and Duboc also questioned where to focus their immediate energy and resources. Should time and effort be placed into improving service levels to sponsors and collectors, or into sales efforts to lock up additional channels to preempt competition? The two recognized that although there was no direct competition in the Winter of 1993, establishing a competitive organization would not be difficult. They had more trouble assessing whether or not that competitor could be successful. Duboc and Underwood also recognized that sponsor and customer satisfaction was critical to the success of their program. While service levels (defined as periodic statements being sent to collectors correctly, successful customer service interactions over the telephone, and tickets issued without problems) had been adequate to date, this was the result of both good planning

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and good luck. With the number of collectors increasing dramatically, the potential for problems, and the potential cost of those problems, was increasing equally fast. An industry expert commented:

> The problem with a telephone based customer service operation like Air Miles' is that if you lose the trust of customers by treating them poorly or sending one incorrect statement, they will start to call regularly, to insure that their account balance is correct. This can increase the cost to service a customer by several times and may wipe out any profit in the program.

Finally, Underwood and Duboc had questions about the use of the data Air Miles was collecting. How could intra- and cross-category information best be used by Air Miles and its sponsors? Another industry expert explained how he thought about data bases:

> I see data bases providing three levels of information on an organization's existing or potential customers. The first level is "who you are" data, basic demographics. Using this data, one can predict, to some degree, what the subject will either need or want.
>
> The second level is "what you do, and when you do it" data. This includes what the subject buys, where he or she buys it, and when it's bought. The when is both absolute, and relative to life events of the subject. With this data, one can predict much more accurately what the subject will want or need to buy.
>
> Using the first and second levels of data, an individual (or an intelligent system) can predict level three, which is "why you do what you do." This is a psychological understanding of what motivates a person to do something, in this case purchase. By understanding this, an organization can target potential customers incredibly well.

Underwood and Duboc agreed with this model, but knew that implementation, defined as getting the sponsors to change their strategic thinking about their customers, would be difficult. They recognized that all of their sponsors would have to begin using consumer information differently if the full benefits of the program were to be realized. They considered this in light of the privacy issues Air Miles faced as it existed, and as it might exist if the company and its sponsors were to fully exercise the data base's potential. No legislation limiting the use of consumer data had been passed in Canada, but there were several bills in the U.S. Congress that would require organizations acquiring consumer data to receive the permission of the consumer before adding that data to their files.

The two executives believed that their early successes proved that a loyalty program like Air Miles could help sponsors to attract new customers and retain old ones, at least in the short term. They wrestled with the issue of what, if any, changes were necessary to make the program successful over the long term.

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Exhibit 1 Charter Sponsors and Their Offers

Bank of Montreal

Air Miles MasterCard

1 Air Miles travel mile per CAN$20 spent, 100 Air Miles travel mile bonus at sign-up.

Retail Banking, Savings and Checking

100 Air Miles travel miles for opening an account with CAN$1,000 minimum balance for three months, 1 Air Miles travel mile for every CAN$1,000 maintained per month (savings), 2 Air Miles travel miles for every CAN$200 maintained per month (checking).

Mortgages

Up to 500 Air Miles travel miles (note that Canadians initiated mortgages just under every three years on average).

Other offers existed for investment products and there were Air Miles incentives for the use of multiple BOM products.

Bell Mobility Cellular

Either 1 Air Miles travel mile per CAN$15 spent and 50 Air Miles travel miles bonus each year, or 1 Air Miles travel mile per CAN$10 spent and 100 Air Miles travel miles bonus each year depending on which Cellular plan the consumer bought.

Canadian Pacific Hotels and Resorts

25 Air Miles travel miles per stay.

Century 21 Real Estate Canada Ltd.

3 Air Miles travel miles per $1,000 of property value (sales and purchases only).

Oshawa Food Group (supermarkets)

1 Air Miles travel mile for the first CAN$20 spent and 1 Air Miles travel mile for every subsequent CAN$15 spent.

Goodyear

1 Air Miles travel mile for every CAN$4 spent on tires and service. 100 Air Miles travel miles bonus for first Goodyear service.

Holt Renfrew (upscale department store chain)

Conversion of store points (spend CAN$1, get 1 point) at rates varying from 1 Air Miles travel mile for 30 points to 1 Air Miles travel mile for 10 points based on the volume of points to be converted.

La Goupe RO-NA Dismat (hardware store chain in Quebec)

1 Air Miles travel mile for the first CAN$15 spent and 1 Air Miles travel mile for every subsequent CAN$10 spent.

Lenscrafters

15 Air Miles travel mile for frames, lenses or nonprescription sunglasses. 50 Air Miles travel miles for full glasses, 150 Air Miles travel miles for 2 pair.

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Maclean Hunter Publishing

Between 20 and 70 Air Miles travel miles for subscribing to specific magazines.

Canada Safeway

1 Air Miles travel mile for the first CAN$20 spent and 1 Air Miles travel mile for every subsequent CAN$15 spent.

Sears

Conversion of store points (spend CAN$1, get 1 point) at rates varying from 1 Air Miles travel mile for 20 points to 1 Air Miles travel mile for 10 points based on volume of points to be converted.

Shell

1 Air Miles travel mile for the first CAN$15 spent and 1 Air Miles travel mile for every subsequent CAN$10 spent.

Tilden Interent

25 Air Miles travel miles per rental, either daily or weekly.

United Van Lines

20 Air Miles travel miles for a quote (estimate), between 50 and 200 Air Miles travel miles for a move based on its size and distance.

All charter sponsors were Canadian corporations

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Exhibit 2 An Air Miles U.K. Scrip, 50 Air Miles Travel Miles

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Exhibit 3 Loyalty management Group Canada Inc. Pro Forma Income Statement FY 1992-FY 1995 in CAN$000,000

	Projected			
	FY 1992	FY 1993	FY 1994	FY 1995
Sales	CAN$2.1	CAN$20.0	CAN$42.0	CAN$55.0
Cost of goods sold	.6	7.0	14.7	20.0
Gross margin	1.5	13.0	27.3	35.0
Operating expenses				
Enrollment fulfillment[a]	1.6	5.0	1.8	1.5
Marketing[b]	1.7	1.9	3.5	5.0
Statements[c]	0	5.7	7.3	10.0
Operations and information systems[d]	1.3	9.4	7.5	7.5
SG&A	2.9	7.0	6.6	7.0
EBIT	(6.0)	(14.0)	.6	4.0
Interest expense	.1	.4	.9	.5
EBT	(6.1)	(14.4)	(0.3)	3.5
Taxes	0	0	0	0
Net income	(6.1)	(14.4)	(0.3)	3.5

[a]The cost of setting up a new collector (includes package of promotional material sent to him or her).
[b]The cost of marketing for the program as a whole, primarily to attract new collectors, as opposed to sponsors' marketing which generally tempted collectors into the sponsors' store. Shown net of co-op marketing rebates of CAN$1 million in FY 1992, 4.5 million in FY 1993, and 1 million in each of FYs 1994 and 1995.
[c]The cost of spending periodic statements to collectors between 4 and 6 times per year based on usage.
[d]Other customer service costs and database management costs.

Other Notes to the Income Statement

The disguised price of an Air Mile travel mile was CAN$.30.

The disguised anticipated redemption rate of Air Miles travel miles issued was 75%.

Costs to fulfill enrollment were estimated to be CAN$3.50 per individual.

Interest expense reflected both Loyalty Management's debt cost and the income on cash held. Management noted that there were a significant spread between the rates of the two.

All figures are disguised.

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Exhibit 3 Loyalty management Group Canada Inc. Pro Forma Balance Sheets FY 1992-FY 1995 in CAN$000,000

	Projections			
	FY 1992	FY 1993	FY 1994	FY 1995
Assets				
Cash	CAN$1.5	CAN$.5	CAN$.5	CAN$.5
Accounts receivable	3.9	.8	2.5	4
Other current assets	1.1	.8	.8	1
Restricted cash reserve[a]	1	16.5	53.1	78
Net fixed assets	.1	.9	.8	1
Total assets	7.6	19.5	57.7	84.5
Liabilities				
Payables	4.5	12.4	10.6	11.3
Other current liabilities	.3	.7	.5	.8
Deferred cash	0	2.9	7.8	8.7
Redemption reserve[b]	1	16.5	53.1	78
Other liabilities	6.6	6.2	5.2	1.7
Total liabilities	12.4	38.7	77.2	100.5
Total equity	(4.8)	(19.2)	(19.5)	(16.0)
Total liabilities and equity	7.6	19.5	57.7	84.5

[a]The restricted cash reserve was cash set aside from sponsor reserve to cover anticipated costs associated with ticket issuance.
[b]Redemption reserve was the reserve for future airline ticket issuance costs associated with all revenues.

All figures are disguised.

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Exhibit 4 Pro Forma Safeway Customer Retention Economics (all sales figures in CAN$000,000)

Total Safeway Sales:	CAN$4,100
Safeway Market Share:	32%
Effective cost per Air Mile travel mile:[a]	Confidential
Award level:	1 Air Mile travel mile for first CAN$20 and each subsequent CAN$15 spent
Weighted average spend:	CAN$35.50

	Shopper Type			
	Primary	Secondary	Occasional	NonShopper
Sales by category	CAN$1,435	CAN$1,640	CAN$1,025	0
% shoppers participating	25	20	20	0
Sales awarded Air Miles travel miles	CAN$359	CAN$328	CAN$205	0
Average spend per transaction	CAN$60	CAN$30	CAN$10	0
Average Air Miles travel miles slippage per transaction[b]	.5	.5	.5	0
Average Air Miles travel miles awarded per transaction (post slippage)	3.2	1.2	0	0
Assumed behavioral changes within A.M. travel miles collectors[c]	Secondary to primary, 5% Occasional to primary, 5% Nonshopper to primary, 2.5%	Occasional to secondary, 5% Nonshopper to secondary, 2.5%		
Net incremental sales due to behavioral changes: CAN$175.5[d]				
Lift (increased transaction size): % of collectors who increase their transaction size	15	15	10	0
Average lift (%)	10	10	10	0
Total incremental sales due to lift: CAN$12.4				
Defection (lost customers) avoided: % collectors not defecting	2	2	1	0
Total sales retained: CAN$15.8				
Program benefits: **Total increased sales, CAN$203.7**				
Program costs: **Estimated Air Miles travel miles issued, 43,349,000** **Co-op advertising costs, CAN$500,000**				

Source: Air Miles internal document

Important Note: This is adapted from an actual Air Miles document. Figures are based on total sales rather than anticipated individual baskets of groceries, thus slippage and Air Miles travel miles awarded per transaction may be under or over stated.

[a]Includes redemption level (75%) assumptions.

[b]Slippage was the number of Air Miles travel miles not given due to rounding down (a person spending CAN$25 received 1 Air Mile travel mile, no fractions of travel miles were awarded).

[c]Percent of shoppers changing category. In the case of non shoppers, percent of non-Safeway shoppers who collected Air Miles travel miles who became Safeway shoppers.

[d]From assumed behavioral changes. Can not be reconciled to assumed behavioral changes due to confidentiality of certain numbers.

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Exhibit 5 Canada Safeway Limited Income Statement Years Ended December 28, 1991 and December 29, 1990 in CAN$000,000

	1991	1990
Sales	CAN$4,338	CAN$4,318
Cost of goods sold	3,265	3,239
Gross profit	1,073	1,079
Operating & administrative expenses	915	902
Operating profit	159	177
Net interest expense	64	46
Income before taxes	95	131
Income taxes	43	57
Net income	52	74

Canada Safeway Limited Balance Sheets Years Ended December 28, 1991 and December 29, 1990 in CAN$000,000

	1991	1990
Assets		
Current assets	CAN$484	CAN$443
Other assets	630	508
Total assets	1,114	951
Liabilities		
Current liabilities	345	285
Other liabilities	651	599
Total liabilities	996	884
Equity		
Total liabilities and equity	1,114	951

Source: Canada Safeway Limited 1991 Annual Report

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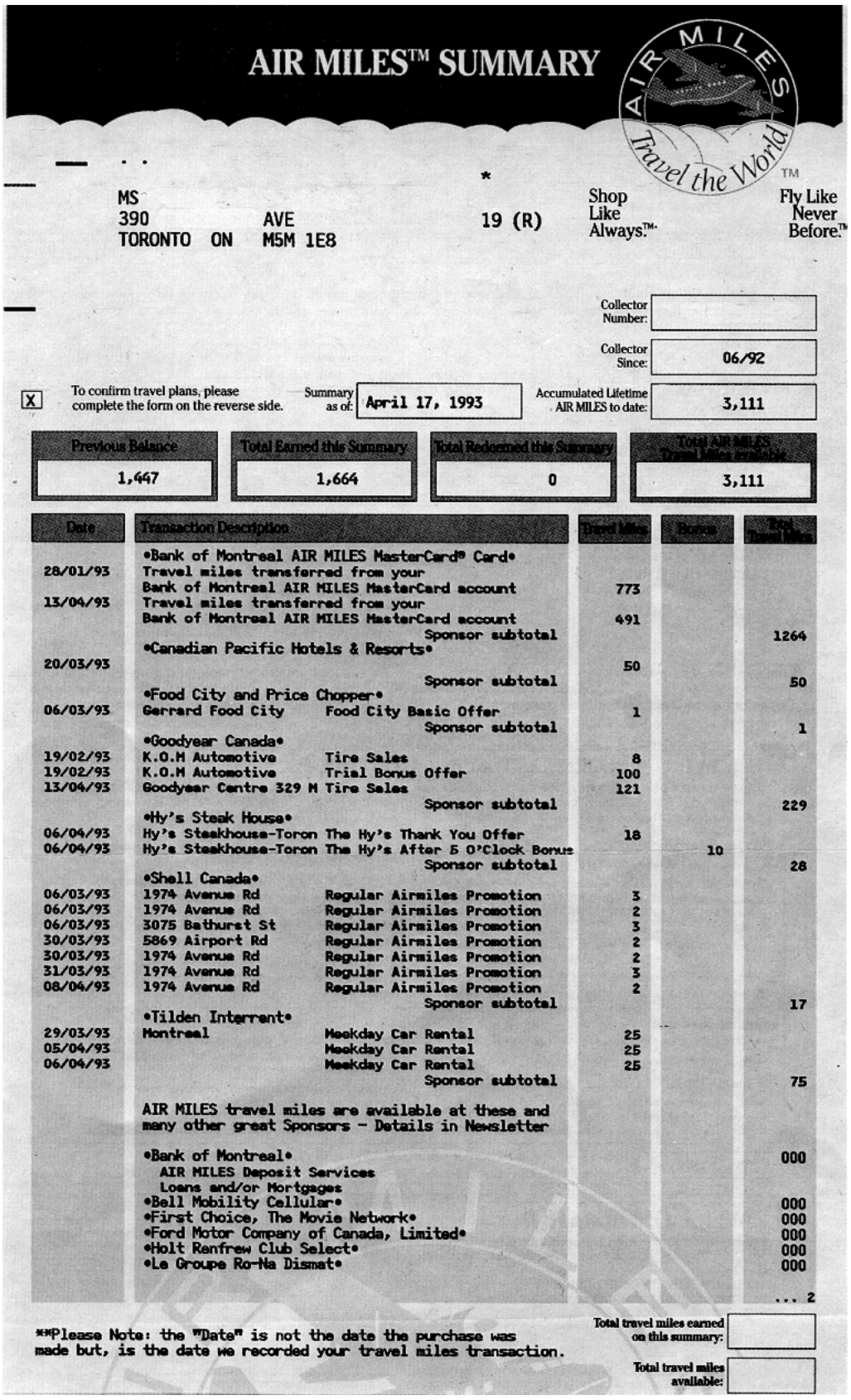
Exhibit 6 An Air Miles Collector's Statement



AIR MILES™ SUMMARY

AIR MILES Travel the World™

MS
390 AVE
TORONTO ON M5M 1E8

*
19 (R)

Shop Like Always.™ Fly Like Never Before.™

Collector Number:
Collector Since: 06/92

[X] To confirm travel plans, please complete the form on the reverse side.

Summary as of: April 17, 1993

Accumulated Lifetime AIR MILES to date: 3,111

Previous Balance	Total Earned this Summary	Total Redeemed this Summary	Total AIR MILES Travel Miles available
1,447	1,664	0	3,111

Date	Transaction Description		Travel Miles	Bonus	Total Travel Miles
	•Bank of Montreal AIR MILES MasterCard® Card•				
28/01/93	Travel miles transferred from your Bank of Montreal AIR MILES MasterCard account		773		
13/04/93	Travel miles transferred from your Bank of Montreal AIR MILES MasterCard account		491		
		Sponsor subtotal			1264
	•Canadian Pacific Hotels & Resorts•				
20/03/93			50		
		Sponsor subtotal			50
	•Food City and Price Chopper•				
06/03/93	Gerrard Food City	Food City Basic Offer	1		
		Sponsor subtotal			1
	•Goodyear Canada•				
19/02/93	K.O.M Automotive	Tire Sales	8		
19/02/93	K.O.M Automotive	Trial Bonus Offer	100		
13/04/93	Goodyear Centre 329 M	Tire Sales	121		
		Sponsor subtotal			229
	•Hy's Steak House•				
06/04/93	Hy's Steakhouse-Toron	The Hy's Thank You Offer	18		
06/04/93	Hy's Steakhouse-Toron	The Hy's After 5 O'Clock Bonus		10	
		Sponsor subtotal			28
	•Shell Canada•				
06/03/93	1974 Avenue Rd	Regular Airmiles Promotion	3		
06/03/93	1974 Avenue Rd	Regular Airmiles Promotion	2		
06/03/93	3075 Bathurst St	Regular Airmiles Promotion	3		
30/03/93	5869 Airport Rd	Regular Airmiles Promotion	2		
30/03/93	1974 Avenue Rd	Regular Airmiles Promotion	2		
31/03/93	1974 Avenue Rd	Regular Airmiles Promotion	3		
08/04/93	1974 Avenue Rd	Regular Airmiles Promotion	2		
		Sponsor subtotal			17
	•Tilden Interrent•				
29/03/93	Montreal	Weekday Car Rental	25		
05/04/93		Weekday Car Rental	25		
06/04/93		Weekday Car Rental	25		
		Sponsor subtotal			75
	AIR MILES travel miles are available at these and many other great Sponsors - Details in Newsletter				
	•Bank of Montreal• AIR MILES Deposit Services Loans and/or Mortgages				000
	•Bell Mobility Cellular•				000
	•First Choice, The Movie Network•				000
	•Ford Motor Company of Canada, Limited•				000
	•Holt Renfrew Club Select•				000
	•Le Groupe Ro-Na Dismat•				000
					... 2

**Please Note: the "Date" is not the date the purchase was made but, is the date we recorded your travel miles transaction.

Total travel miles earned on this summary:

Total travel miles available:

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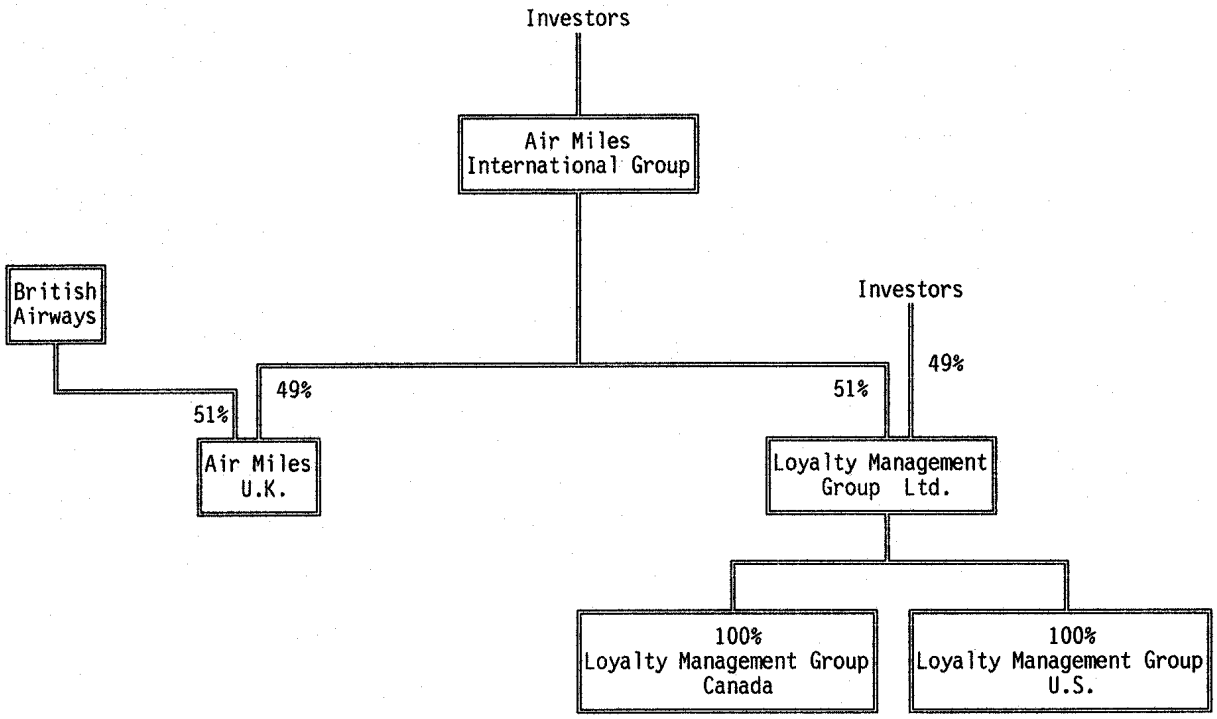
Exhibit 7



Source: Air Miles

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