Exhibit 4

DUAL LOGIN PANES

Shell Canada Login **Ouverture de session - Shell Canada**

Enter your username and password in the left column, then select Login.
If you have a Shell provided security device use the right column instead.

Saisissez votre nom d'utilisateur et votre mot de passe dans la colonne de gauche, puis cliquez sur Lancer.
Si vous avez un dispositif de sécurité fourni par Shell, utilisez plutôt la colonne de droite.

For Regular UserIds Accès normal		For Use With Security Devices Accès avec dispositif de sécurité	
User ID Code d'identification		User ID Code d'identification	
Password Mot de passe		Passcode Code d'authentification	

Login / Lancer

Source: Company files.

9-505-031
REV: DECEMBER 5, 2005

JOHN DEIGHTON

Nectar: Making Loyalty Pay

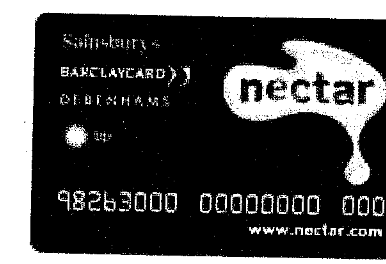
Persuading British households to do anything was not easy, yet, in the 18 months leading up to March 2004, Loyalty Management UK (LMUK) had induced over 54% of them to try collecting Nectar points and 40% to persist, making Nectar Britain's largest rewards program. Each week it added 50,000 new members (whom Nectar called collectors). Rob Gierkink, CEO of LMUK, was pleased with his team's accomplishment.

In March 2004 Justin King had just taken over as group chief executive at Sainsbury's, the supermarket chain that was Nectar's largest issuer of points. He saw that more than half of Sainsbury's 240 million pound (£) annual marketing budget went to Nectar and said: "Nectar represents a significant investment for Sainsbury's, and I can't help but feel that if we put the investment into more staff in our stores we'd see a better return. I was part of the senior management team that turned around the ASDA supermarket chain before it was sold to Wal-Mart, and the changes we made at ASDA were all about price and value for money. ASDA didn't have a loyalty program." He continued:

> But I do understand the value of knowing more about what our customers are doing day-to-day and this is part of the value we get from Nectar. We use the Nectar data on our customers to help us determine which stock to carry in which stores. The Nectar data also allows us to do much better and more targeted marketing to our customers.
>
> In six months time I'll be presenting the new strategy for Sainsbury's to City analysts [a reference to London's investment banking community] including my view on Nectar. Joining Nectar 18 months ago was one of the biggest decisions of Sainsbury's previous management team, and now I have to decide whether I'm behind it or not.

The Founding of Nectar

By the time they launched Nectar, LMUK's management team had built up a wealth of experience with multisponsor loyalty programs around the world. In 1988 Keith Mills, the man who would become Nectar's chairman, had created a loyalty program branded Air Miles in the United Kingdom. Consumers who bought products from participating companies were given banknote-like scrip that they could redeem for flights on British Airways. He took the idea to the United States and Canada in 1991. In the U.S. version of Air Miles, an impressive array of airlines (American Airlines, United Airlines, and U.S. Airways) were signed up to offer flights as rewards, and some well-known, fast-moving consumer



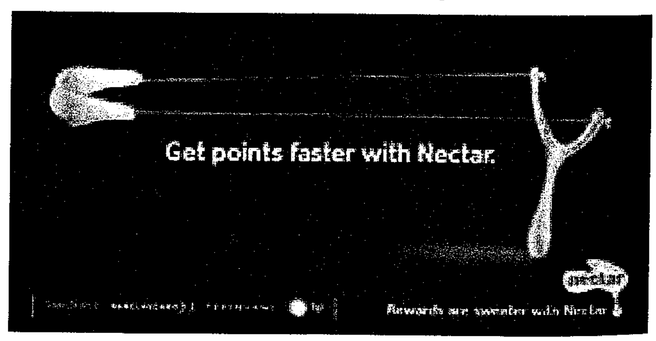
Professor John Deighton prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

goods companies (such as Coors, Clorox, and Coca-Cola) were secured as issuers of points. However, in the American program collectors were required to do the equivalent of "coupon clipping" to earn their points. To earn points from supermarkets, collectors had to remove the UPC bar codes from products and mail them in. This system proved cumbersome, and the program stumbled and was soon closed. The Canadian effort was fronted by three MBAs, Gierkink, Craig Underwood, and Sam Duboc, who took a different approach. They decided to focus on retailers as issuers of points rather than product manufacturers. This allowed for in-store customer sign-up and allowed consumers to earn their points by presenting a plastic card when making a purchase. Points were then credited via the retailer's point-of-sale equipment. This retail focus greatly reduced the effort required of the customer to earn points. They secured the participation of Sears Canada, Canada Safeway, and several other retailers, and the program flourished. In 1994 Gierkink took this retail-driven concept to the Netherlands, where he signed several large retailers. Twelve years later, in 2003, about 65% of Canadian households and over 53% of Dutch households were collecting Air Miles points.

Rather than hold a portfolio of loyalty programs, Mills, Gierkink, and other members of the team preferred to sell their stakes in the ventures once they were established. Thus, Air Miles UK was sold to British Airways. The founders' share in the Dutch business was sold to other existing shareholders. The Canadian operation was sold to Alliance Data Systems. In late 2000 Mills, Gierkink, and others began to look again at the United Kingdom. They believed that what they had learned over the past decade could be used to design another, better program, and LMUK was formed.

They decided to seek as core sponsors a group of retailers that had their own rewards programs but were not happy with their performance and that, by joining forces with other companies, could enhance their impact. They first approached Sainsbury's, the second-largest supermarket chain in the U.K. Sainsbury's had been losing ground to the U.K.'s largest chain, Tesco, and to ASDA, and Sainsbury's was persuaded that a vigorous and attention-getting new rewards program could help reverse the loss of share. With that in mind, Sainsbury's elected to fold the membership of Reward Card, its own frequent shopper program, into Nectar under a multiyear contract. With Sainsbury's on board, LMUK found three more founding sponsors: the gasoline retailer BP, the credit card issuer Barclaycard, and Debenhams, a department store retailer. BP and Barclaycard each ceased operating independent loyalty programs and shifted their membership bases into Nectar. With these large and committed sponsors, LMUK raised a total of £50 million in equity and debt financing from the private equity firm Warburg Pincus and Barclay's Bank.

Nectar opened for business in September 2002 with one of the most expensive and most attention-getting new product launches in U.K. marketing history. In the U.K. market, with many stand-alone retail loyalty programs, the card was positioned to consumers based on the ease of attaining rewards by earning points into one combined account and the simplicity of carrying a single card. Nectar unleashed a six-week, £30 million awareness blitz using heavyweights of television, newspapers, and outdoor media and signed up collectors in huge in-store promotions at branches of Sainsbury's, Debenhams, and BP nationwide. For two weeks Debenhams devoted the whole of its display windows to the Nectar launch. LMUK's £15 million launch spend was matched by an equal investment by sponsors in their in-store and mass-advertising support for the launch. Nectar's launch dominated U.K. consumer



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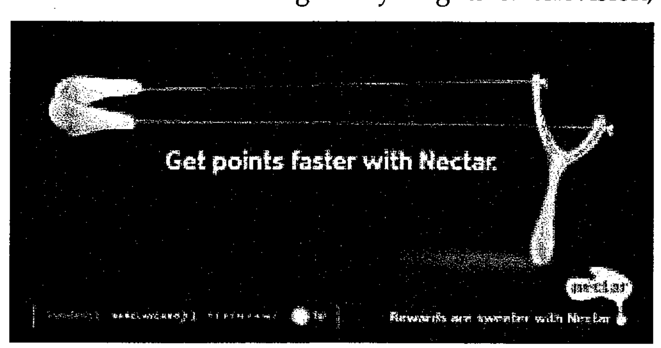

attention with slogans such as "Get points faster with Nectar" and "Now all your rewards points come to one place." The norm for spontaneous awareness of a new product three months after launch in the U.K. was 6% of households—three-month spontaneous awareness of Nectar was 46% of households.

As the year passed, Nectar added new sponsors. By the program's first anniversary in September 2003 the sponsors were:

Sainsbury's—U.K.'s second-largest supermarket chain
BP—U.K.'s largest retailer of gasoline
Debenhams—U.K.'s second-largest department store chain
Barclaycard—U.K.'s largest issuer of credit cards
Thresher—U.K.'s largest wine and spirits merchant
Adams—U.K.'s largest children's clothing retailer
Vodafone—U.K.'s largest mobile phone operator (by revenue)
Ford—leader in U.K. automotive sales
all:sports—a sporting goods and apparel retailer
e-Energy (combination of London Energy, Seeboard Energy, and SWEB Energy)—gas and electricity utilities

After one year, Nectar's collector base was already larger than the collector base of its largest competitor, Tesco, at 13.5 million active collectors from 10 million collector households. In a collector satisfaction survey, 59% rated Nectar as better than other loyalty programs, and 39% the same. Sponsors also appeared to be satisfied. The head of BP UK Retail told a business magazine that the number of BP customers using the Nectar card was double the number in the Premier Points program that BP had canceled in favor of Nectar. "We thought Premier Points was good, but by comparison Nectar is fantastic. The launch of Nectar triggered a full 1% growth in BP's market share, and we were able to increase our fuel sales volume by 4% in a generally declining market," he said. In Debenhams' half-year results announcement in April 2003, the CEO commented, "We have recently sent target mail to over 4 million potential new customers, we have doubled our customer database, and our research shows that our Nectar customers are spending significantly more than our non-Nectar customers. Nectar is one of the ways we are building our customer base from 13 million to 18 million over the next five years." Barclaycard told *The Financial Times*, "Nectar has contributed to a 9% boost in Barclaycard turnover."

Competition

Four chains dominated the U.K. grocery retailing industry. The largest supermarket chain was Tesco, with a 26% share. Nectar's partner Sainsbury's had been losing share, while ASDA, owned by the U.S. retail giant Wal-Mart, had been gaining, and each held about 17% share. Morrison's (which included the Safeway brand) was the fourth national chain. Convenience stores, trading from small downtown sites with limited parking, supplied about 20% of consumer grocery needs but had been steadily losing share to the supermarket chains. In addition, Waitrose and Marks & Spencer met the demand for premium-quality food. Tesco and ASDA occupied low-cost positions in the U.K. shopper's mind. Waitrose believed the premium it charged was justified by higher product quality. Sainsbury's occupied a middle position, higher in price than Tesco and ASDA and lower in price than Waitrose. Sainsbury's believed its product offering was of a higher quality than Tesco's and ASDA's and thus some margin of premium pricing was warranted. Recent difficulties with the rollout of a new supply chain infrastructure had left Sainsbury's with a reputation for poor product availability that it now sought to overcome.

Neither ASDA nor Morrison's offered a loyalty card in 2004. ASDA had discontinued trials in 1999 in favor of a "rollback" price-cutting strategy modeled on Wal-Mart's. Safeway terminated its five-year-old program about the same time, arguing that shoppers had become bored with collecting points and would prefer to see the money spent on price cuts. "People don't think they give value," Safeway's chief executive told the press. "They'll never get tired of great deals."[1]

Tesco, however, believed strongly in its program, the Clubcard, launched in 1995. In 2003, in the book *Scoring Points: How Tesco is Winning Customer Loyalty*, Clive Humby and Terry Hunt (with Tim Phillips) described the Tesco Clubcard as "the world's most successful loyalty scheme."

It took a very different approach from Nectar to coalitions, allowing companies to partner with Tesco only on Tesco's terms. The consultants associated with the Tesco Clubcard acknowledged that what they termed "outsourced" programs like Nectar's would appeal to customers who liked to accumulate points because there would be many outlets to earn points from, and they allowed retailers to share fixed costs such as customer acquisition, communication, data management, and processing. However, they disputed the ability of the programs to generate loyalty: "[T]here is the question of 'loyalty to what?'. . . The risk is, for example, that by subsuming a retailer's loyalty marketing effort under an independently branded, multi-partner programme, the link between store and customer is not strengthened at all." They asked rhetorically:

> "Who owns the relationship with the customer?" There is no doubt today. "Clubcard is a loyalty scheme designed by Tesco for Tesco customers for use within Tesco. It is a Tesco brand-building device and relationship tool. It is an extremely valuable part of Tesco," says marketing director Tim Mason. "Clubcard concentrates on Tesco customers," says Tesco chief executive Sir Terry Leahy. "There may be customers of these other businesses involved, but it is for Tesco customers." This didn't mean that Tesco would not cooperate with other partners. It just meant that Tesco would always be the boss of its own Clubcard medium.[2]

How Nectar Members Earned and Redeemed Points

To **earn** points, shoppers who belonged to Nectar identified themselves to a sponsoring retailer with a magnetic striped plastic card whenever they made a purchase and were credited with program points. The majority of points were earned at Sainsbury's supermarkets, at the rate of two points for every £1 spent, which was the same rate that most of the other partners offered.

While Sainsbury's was the dominant sponsor, there had been a steady decrease in its relative importance as the year had unfolded. In the launch month, four out of five collectors earned points

[1] Ester Addley, "Card tricks," *The Guardian*, May 11, 2000.

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from Sainsbury's alone. Within six months half had earned points from a second sponsor, and at the anniversary 30% earned from only one, 60% from two, and 10% from three sponsors.

There were two ways to **redeem** Nectar points. First, collectors could redeem while checking out at the end of a visit to a Sainsbury's supermarket. Each point earned a credit of £0.005 on the grocery bill, so someone who earned and redeemed at Sainsbury's received a 1% discount.

Second, they could redeem directly from Nectar either by phoning its call center or by visiting its website, in response to offers enclosed in points update mailings (PUMs) that Nectar mailed four times a year to all active collectors. PUMs listed the collector's accumulated points balance (**Exhibit 1**). The offers came from sponsors and reward suppliers such as airlines, sellers of vacation packages, family restaurants, theme parks, and cinemas. By far the largest of these rewards suppliers was Argos, a catalog retailer from which collectors could redeem a vast array of household products and electronics.

The PUMs also contained laser-printed incentive coupons, either 20 coupons for collectors whose data profiles were very attractive to marketers or 10 coupons for the others (**Exhibit 2**). Coupons allowed collectors to earn bonus points when they bought particular products in particular quantities or at particular times. They were targeted to collectors based on the collector's past purchase patterns, demographics, and proximity to a sponsor's store, and the coupons any particular household received were a subset of 1.7 million possible offer combinations designed by LMUK and sponsors. For example, a collector whose purchases of BP gasoline were less than anticipated for someone traveling the amount that collector had reported in the Nectar application form might receive an offer to earn bonus points by visiting a BP station four times in a month. (**Exhibit 3** illustrates how coupons were customized to household purchase behavior.) Over the year the response rate of collectors to these targeted offers had risen from an average of 2% redeeming any one of the coupons to 8%, and the PUMs had become an attractive promotional tool for sponsors and rewards suppliers as well as part of the value to collectors of belonging to Nectar.

Sponsors and suppliers liked PUMs not only because the response rates were high, but also because the cost of putting the offer in customers' hands was shared with LMUK and other sponsors. Where a solo mailing might cost a marketer £0.45, enclosing an insert in a Nectar PUM mailing would cost a sponsor £0.05 per piece, and the cost to be included in the sheet of 20 laser-printed PUM coupons was no more than £0.01 per targeted coupon.

Nectar's Business Model and Operating Results

LMUK earned income from four sources. First it sold points to sponsors so that they could issue them to their customers and then, after consumers had redeemed the points, it bought them back at a lower price, the difference being known as the *spread*. Second it earned interest on the *float* (the outstanding balance of points sold but not yet redeemed.) Third it made money on *breakage*, or points bought and issued but never redeemed. Finally it charged sponsors a fixed fee, known as a *program support fee*, for administering the program.

The spread between selling and buy-back prices varied by sponsor.[3] Smaller sponsors faced a larger spread. In the case of Sainsbury's, given the importance of the supermarket to the program, it

[3] For calculations in preparing this case for discussion, assume a selling price of £0.005 per point for all sponsors. This is not the true price. Nectar does not disclose the selling prices of points. Assume that the spread for Sainsbury's is zero and Nectar pays other sponsors £0.004 for each point it buys back. Again, these are not the true prices.

contributed to LMUK's earnings mainly through the fixed program support fee, interest on the float, and breakage.

In the 12th month of operation LMUK had reached a monthly revenue rate of £20 million from the sale of points to sponsors and a gross margin of 23%, and it had broken even in operating income. The cost to manage the customer data was steady at •13 million. Revenue was forecast to grow, gross margin to hold steady, and fixed costs to decline as a proportion of revenue, so that the company was expected to become profitable over the coming year.

The Nectar Customer Database

By September 2003, Nectar had accumulated a 400-gigabyte database of demographic and behavioral data on 21 million active and lapsed collectors, covering 800 million transactions. It was Nectar's policy not to store product-level information, so a collector's transaction record contained only the specific sponsor, transaction date, and number of points earned. Each sponsor was sent their own detailed product-level information.

Each of the 13.5 million active collectors had a value to Nectar based on the number of points issued to them by sponsors. The distribution of this value across the base of collectors active in the past 12 weeks was as follows:

Table A

Collector Quintile	Percent of All Points Collected	Revenue per Month to Nectar (£millions)	Cost to Manage Customer Data (£ millions)	Contribution[a] (£millions)	Percent of Contribution
Top 20%	61%	£12.1	£2.6	£9.5	136%
Second 20%	20%	£4.0	£2.6	£1.4	21%
Third 20%	9%	£1.8	£2.6	-£0.8	-11%
Fourth 20%	8%	£1.7	£2.6	-£0.9	-13%
Last 20%	2%	£0.3	£2.6	-£2.3	-32%

Source: Company records.

[a]Contribution is revenue less redemption cost less cost to manage customer data.

Enrolling Customers

Nectar distributed enrollment kits, consisting of a card and a mail-in registration form, to the stores of its sponsors. Cashiers would enroll a customer by scanning a card, thus earning the first points credit, and then handing it to the customer with the registration form. Points would accumulate to the card's account number whenever it was scanned but could not be redeemed until the registration form was received back from the collector. The first 8.9 million collector households were enrolled at a cost of £10.72 million, or £1.20 each.

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Managing Customer Retention

Part of the challenge of building momentum for the Nectar program was to keep collectors active. The proportion of inactive collectors had held steady at about 12% of the collector base as it grew from zero to 13.5 million. Most of these inactive collectors were people who had never become active, perhaps receiving a card in a BP gas station, using it once, and then abandoning it.

Evidence that collectors were active was of two kinds: collection activity, measured by the rate at which collectors earned points, and redemption activity. While collection was unquestionably the lifeblood of Nectar, redemption was more controversial. If collectors did not redeem, Nectar earned float and breakage income. Nevertheless, LMUK management actively promoted both collection and redemption.

Collection, for the active collector, occurred at a rate of 300 points per month. In the early months of the program, bonuses given on sign-up had inflated this number by about 100 points, but by March 2004 bonuses had ceased to be a significant factor for most of the collector base.

More than 50% of all points were earned at Sainsbury's. LMUK sought to encourage collection from multiple sponsors, not only because it pleased sponsors, but because its data showed that the likelihood of a collector becoming dormant declined significantly as the number of sponsors patronized increased. The average number of sponsors at which a collector earned points had grown steadily from 1.3 two months after launch to 2.6 18 months after launch.

Points redemption within Nectar's first 18 months had proven to be extremely high when compared with that of other loyalty programs, with more than 67% of all points issued being redeemed. LMUK expected that most of the remaining 33% would be redeemed sometime in the future. The points balance held by an active collector account averaged 3,800, representing a minimum cash value of £19.00.[4] This number had been 2,600 in the first month of Nectar's operation, when a significant number of collectors had transferred points from Sainsbury's program to Nectar, and had risen slowly until April 2003, when it began to stabilize.

About 80% of all points redeemed were redeemed at Sainsbury's, irrespective of where they were earned. About 12% of Sainsbury's Nectar cardholders redeemed points on any specific checkout occasion. In an experiment to see whether this act was open to influence, it was found that if checkout operators asked, "Do you want to save your points?" the proportion redeeming rose to 15%, and if the question was, "Would you like to spend your points?" the proportion was 27%.

A collector's first redemption had several effects. Around the time of first redemption, collectors began to collect from more sponsors than before. They increased the number of points earned by about 10% in the month of redemption and earned more points after redemption than before. This redemption effect was even more pronounced when collectors redeemed for more aspirational rewards like theme park admissions or flights. As a result, both Sainsbury's and LMUK were keen to encourage redemption for rewards other than money off shopping at Sainsbury's.

Sponsor Benefits

Nectar claimed that sponsors benefited in four ways from participating in the program.

[4] Points had different redemption values depending on the reward the collector chose. The minimum per point value was £0.005, but some rewards were worth £0.01 per point, and a few were worth more.

1. **Lift:** Nectar collectors would spend more with the sponsor because (a) they would spend more per transaction, and (b) they would use the sponsor more frequently.

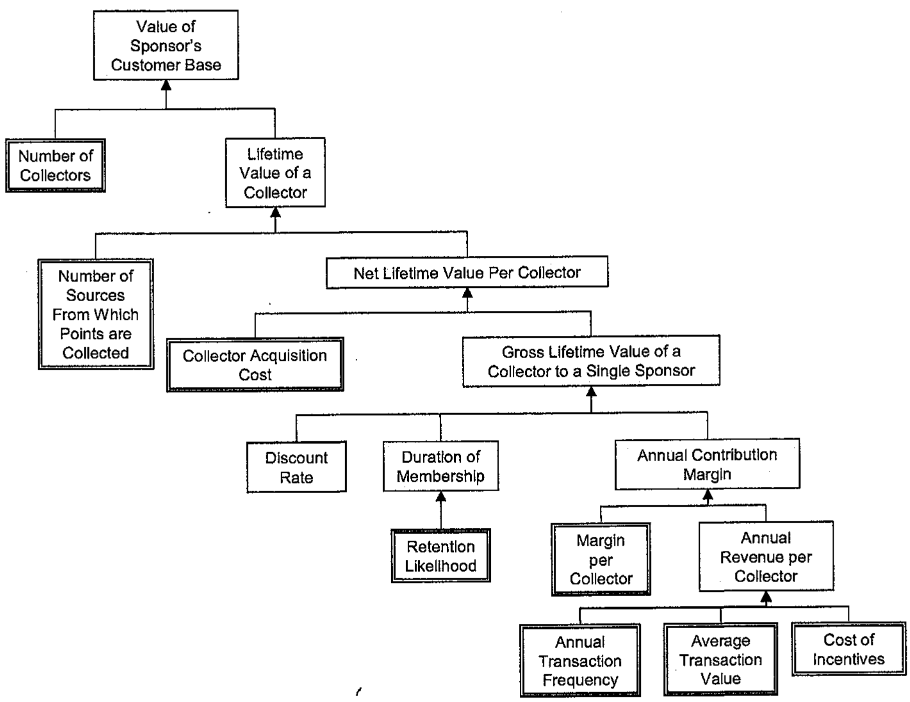
2. **Acquisition:** The sponsor could identify Nectar collectors who were not customers of the sponsor and offer points incentives for these collectors to become customers.

3. **Retention:** Customers of the sponsor who were Nectar collectors would churn at lower rates than non-collectors.

4. **Up-Sell:** Customers of the sponsors who were Nectar collectors could be offered incentives to buy higher-margin products and services.

Koos Berkhout, Nectar's database marketing manager, who had joined LMUK from the Netherlands program, integrated these potential benefits into the chain calculation depicted in **Figure A**:

Figure A Calculation of Value of Customer base



Source: Company records.

Each of the factors shown in double-lined boxes could change the value of a sponsor's customer base. For example, if the offering of Nectar points increased the average transaction value or annual transaction frequency or both of a collector, then this change, after deducting the cost of the points, would increase the sponsor's annual contribution margin from that collector. Up-selling might improve margin per collector. Collecting might improve retention likelihood and the total number of collectors doing business with the sponsor, which, net of the cost of acquiring the collector, would increase the value of the sponsor's customer base. The number of sources from which a collector

1. **Lift:** Nectar collectors would spend more with the sponsor because (a) they would spend more per transaction, and (b) they would use the sponsor more frequently.
2. **Acquisition:** The sponsor could identify Nectar collectors who were not customers of the sponsor and offer points incentives for these collectors to become customers.
3. **Retention:** Customers of the sponsor who were Nectar collectors would churn at lower rates than non-collectors.
4. **Up-Sell:** Customers of the sponsors who were Nectar collectors could be offered incentives to buy higher-margin products and services.

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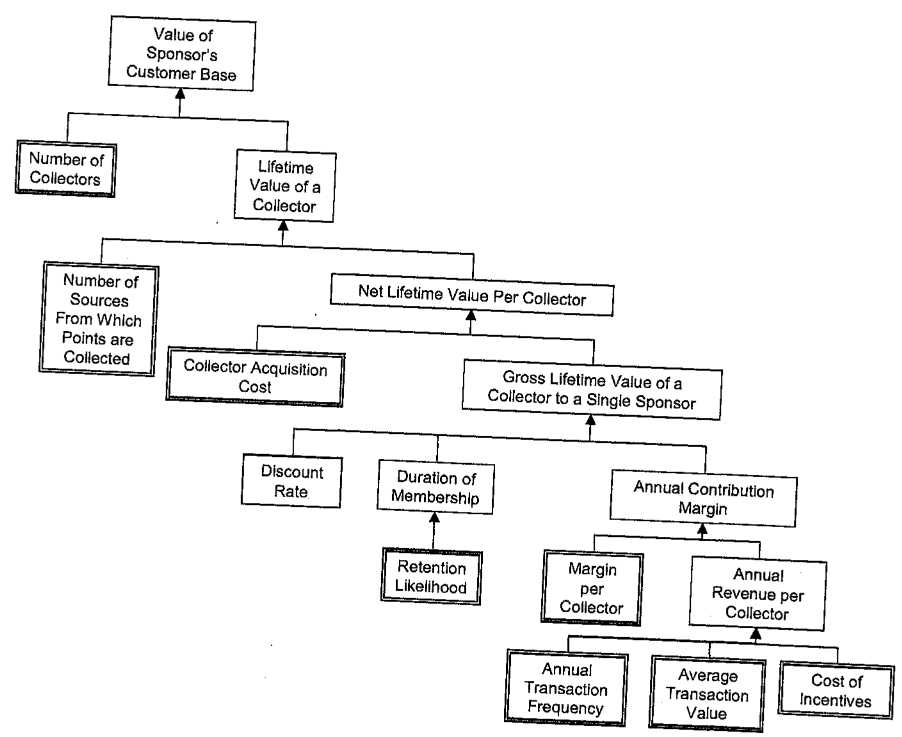

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Robert Morris University – Illinois, ...

earned points entered the calculation because Nectar had found that collectors spending at any one sponsor increased with the number of sponsors the collector patronized.

Berkhout estimated all the effects in this model by a process of testing against control samples comprising small but statistically informative samples of the collector base that did not receive a promotion. For example, he tested the effect of a promotion that offered one bonus point (in addition to the usual two points) for every £1.00 spent, to a segment of light shoppers. A random subset of the segment was isolated as a control group. They did not receive the bonus offer, and were monitored for the 4 weeks of the promotion and for 9 weeks thereafter. The promotion did not affect the average basket size of a shopper over the 13 weeks, but it increased the proportion of the sample that shopped. During the 4 weeks of the promotion, revenue from light shoppers receiving the promotion was 10% higher than the control, and after the promotion it stayed higher, at 5% above the control. He concluded that the promotion had produced a revenue increase of 6.5% over 13 weeks for a cost of 0.5% of sales during the 4 weeks of the promotion.

Do Coalitions Work?

Nectar had inherited a legacy of members of sponsors' discontinued programs. But would collectors continue to behave as they had as members of the sponsors' solo programs? If so, the argument for combining the programs would be weak, and the coalition would be at risk of falling apart once the first rush of excitement abated. It was Gierkink's hope, supported by experience in the Canadian and Dutch Air Miles programs, that people would want to collect from multiple sources, and as significant rewards became attainable, spending at each of those sources would increase.

It was soon apparent that spending at Sainsbury's was greater among collectors earning points from multiple sources than from collectors earning points at Sainsbury's alone. The weekly spending at Sainsbury's was 40% greater among people collecting from Sainsbury's and two other sponsors than if they earned points from Sainsbury's alone. And with each new sponsor, the amount spent at Sainsbury's increased, so that for someone who earned points from five sponsors, their Sainsbury's weekly basket was 100% greater (see **Exhibit 4**). Nectar estimated the effect of the lift due to multiple sponsors at 2.9% of Sainsbury's collector sales.

It also became apparent that collectors who earned points from multiple sponsors were less likely to defect than single-sponsor collectors.

A study by BP and Sainsbury's, both of which sold gasoline, suggested that while the launch of Nectar had intensified competition between the two for gasoline sales among Nectar collectors, it had increased the share of each by taking share from gasoline retailers who did not offer Nectar points.

Sainsbury's Looks at Nectar

The agreement to participate in the Nectar program had been one of the largest outsourcing partnerships Sainsbury's had ever undertaken. With an annual points cost of over £100 million, King wanted to know if this was a wise use of this investment versus other potential uses. He said:

> It's not obvious that loyalty programs pay. You take 1% off revenue and give it back to your customers. If you have a gross margin of 25%, that means the customer has to spend 4% more with you for you just to break even. Many chains don't have them. Safeway dropped its program several years ago, ASDA here in the U.K. and its parent Wal-Mart in the U.S. don't

> have one. But Tesco and Sainsbury's do. Some of our managers feel that the ability to use this consumer-level data is a strategic edge. That's why the decision to go with Nectar got so much attention from senior members of Sainsbury's previous management team. We are paying a price of 1% of turnover to generate customer data, and now the challenge is to learn how to plug that data into every aspect of our decision making.

Sainsbury's had formed a joint venture with Taylor Nelson Sofres, the world's largest survey research firm, to track the product-level purchase behavior of a panel of a million Nectar collectors in Sainsbury's. Launched in October 2003, the panel claimed to be 100 times larger than the previously largest commercial consumer panel. The intention was to respond to requests from brand managers regarding the performance of their and competitors' products and to generate regular reports. Sainsbury's made some use of these data itself to analyze the performance of its store brands. Store brands accounted for almost 50% of Sainsbury's revenue. King said:

> If we decide we want to retain a loyalty program, the question still remains, should we go solo like Tesco, or are we better off as part of Nectar? I don't like the fact that I don't have complete control over what Nectar does. Our buyers regularly get very hot about the fact that Nectar helps competitors sell lots of products like wine and petrol and credit cards, all of which we sell. On the other hand, I like the size of a collector's points balance compared to the balances we saw in our old stand-alone program. I like that LMUK covers the cost of the program's administration and manages the day-to-day details, as these are things we had to cover with our own program. I like that I can promote to Nectar collectors who live in the catchment area of one of my stores but aren't shopping with us. I just need to develop a view as to whether it's a proper allocation of available resources for our business.

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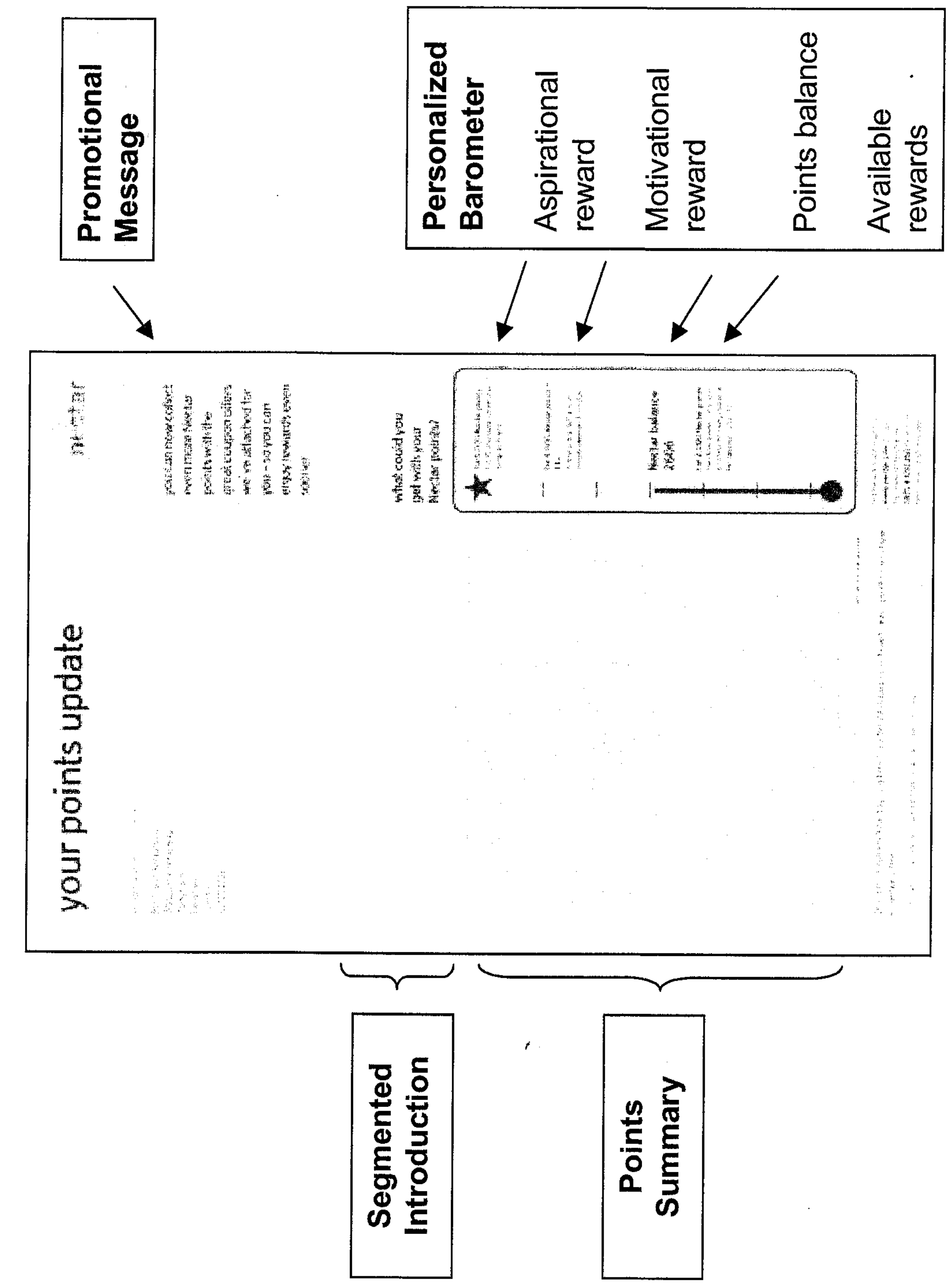
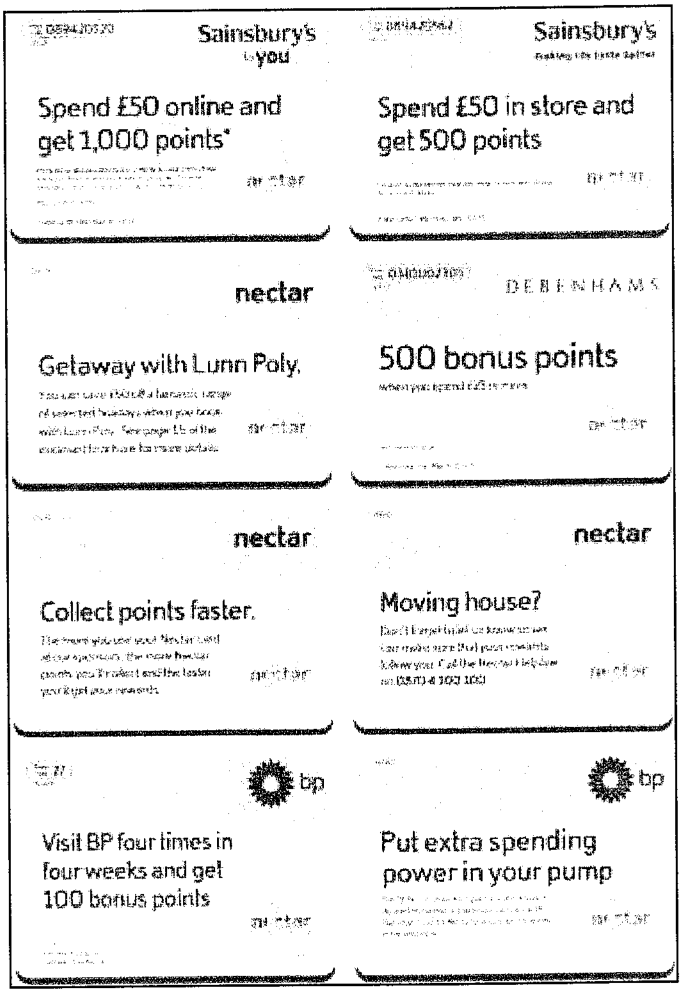


Exhibit 1 Example of Points Update Mailing (points summary page)

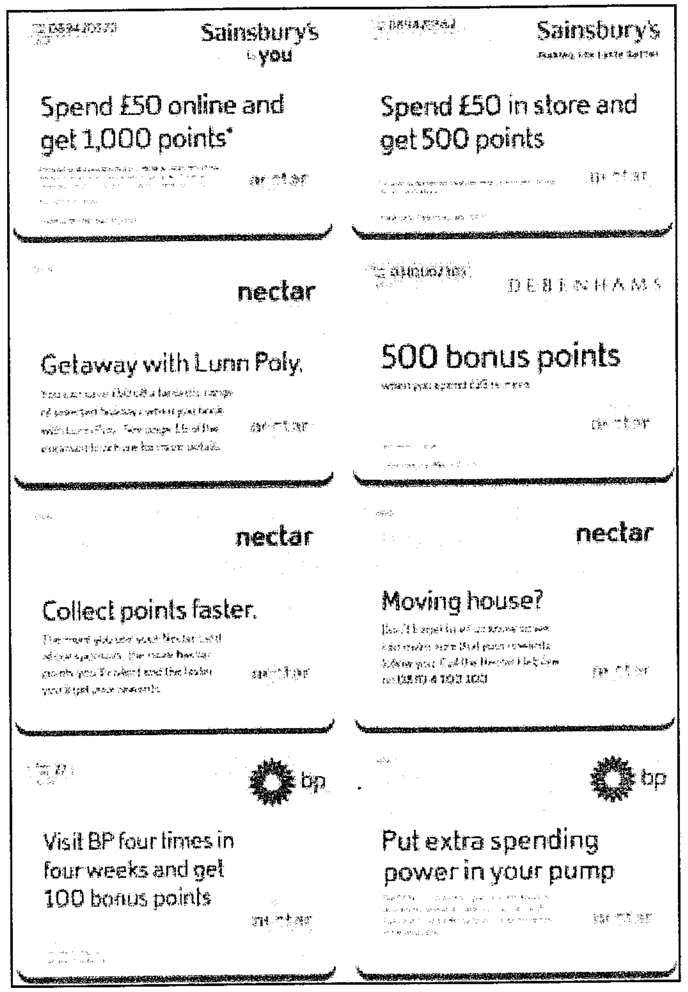
Source: Loyalty Management UK.

it 2 Example of Points Update Mailing (coupon sheet)



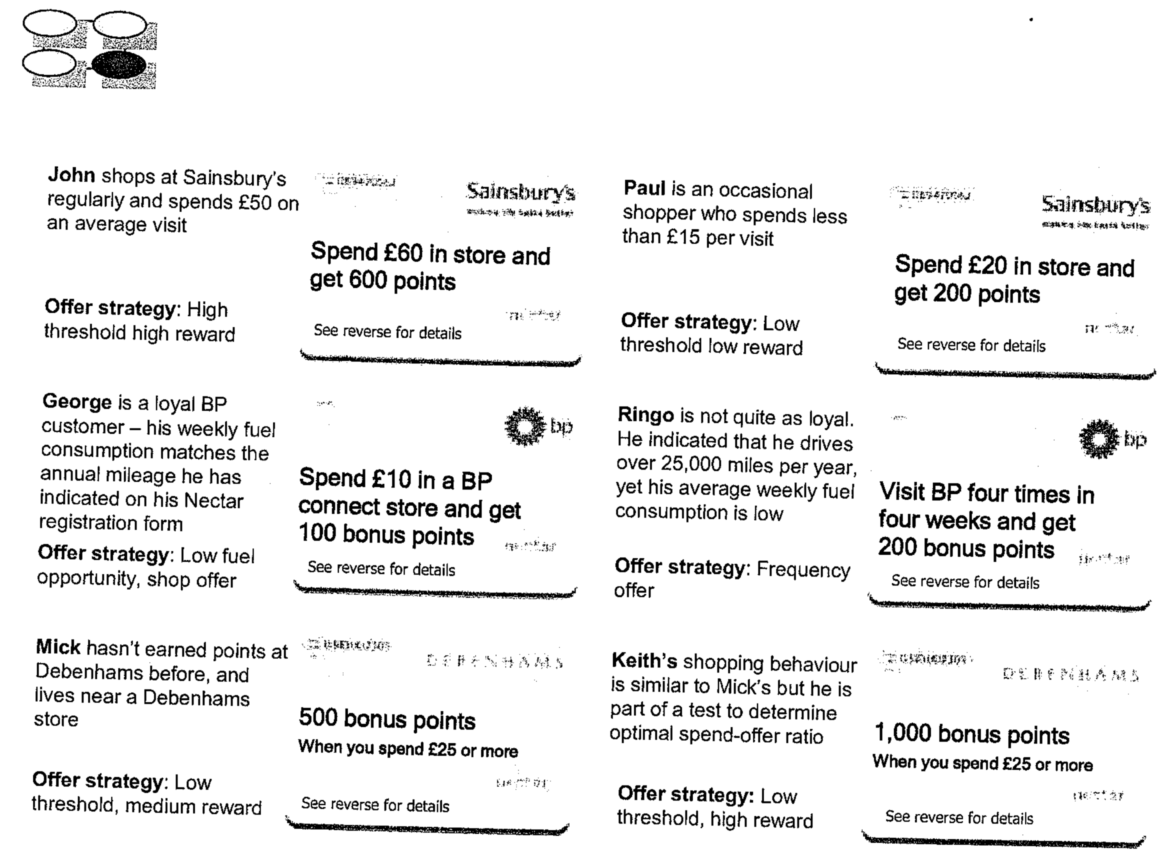
e: Loyalty Management UK.

Exhibit 2 Example of Points Update Mailing (coupon sheet)



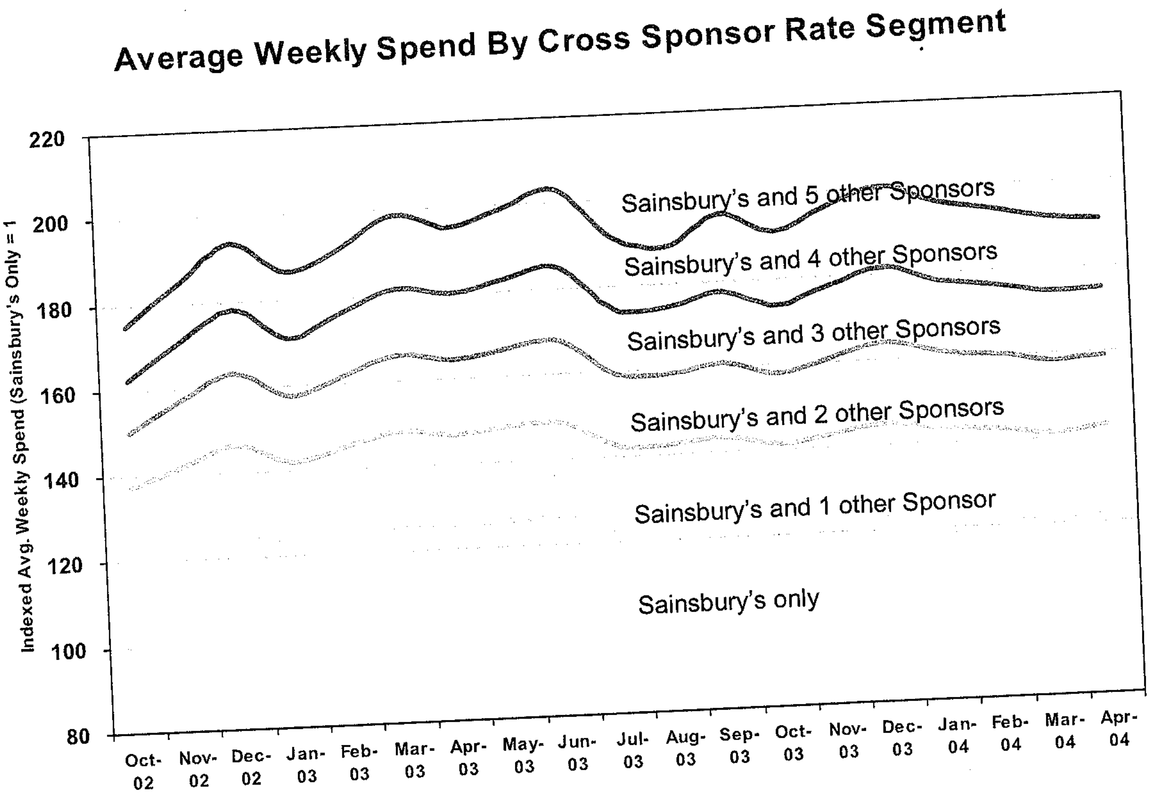
Source: Loyalty Management UK.

Exhibit 3 Example of Coupon Customization for Sainsbury's, BP and Debenham's



Source: Loyalty Management UK.

Exhibit 4 Effect of Number of Collection Sources on Size of Weekly Spend at Sainsbury's



Source: Loyalty Management UK.

Note: To be read as follows: Take the average weekly spend for Sainsbury's customers who earn Nectar points at Sainsbury's only, and index this at 100. Now take the average weekly spend for customers who earn points at Sainsbury's and other sponsors and index the spending relative to 100.

Example: Assume the average shopper who collected points from Sainsbury's alone spent £25 a week in June 2003 (a hypothetical number). Then the average shopper who collected from Sainsbury's and one other sponsor spent £30.75 at Sainsbury's in June 2003 (30.75 = 25*123/100). The average shopper who collected from Sainsbury's and two other sponsors spent £35.75 at Sainsbury's (35.75 = 25*143/100).