

Data Driven Customer Marketing

Program Q&As

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1. Introduction and Background

1.1. Background

Over the past twelve months we have been working to develop a world-class data-driven customer engagement program for Independent Retailers. This work has been in response to a number of retailers asking us to develop an IGA customer engagement program.

To develop this proposal we've been working with Aimia, a global leader in data-driven marketing which has best in class experience, skills, systems and technology, essential in delivering a program of this nature. Aimia owns and/or manages some of the most successful programs around the world including the Nectar program with Sainsbury's in the U.K.

Discussions with Aimia to date have centred around the establishment of an independent jointly owned operating company, led by Aimia, which will own and operate the Program.

1.2. Conditions required to launch the new program

There are a number of pre-conditions that will need to be satisfied before the new program can be launched, including:

- a sufficient number of IGA Retailers agreeing to participate in the program to create a robust customer offer (**participating IGA retailers**);
- a sufficient number of third party companies agreeing to participate in the program to create a robust customer offer (**participating partner companies**);
- all of the participating partner companies and the participating IGA retailers entering into final the program participation agreements; and
- setting a program launch date and completing all the implementation integration required by that date.

There may of course be others that arise as the program is further developed and we receive more feedback from retailers.

Based on the matters described above and on our current planning, we have set out some of the more likely questions retailers may have in relation to the program.

2. Commercials

2.1. Would this change my current agreements with Metcash?

The planned program should not change anything in your existing agreements. However, participating IGA retailers will need to enter into a program participation agreement which will include various rights, obligations and restrictions with regard to the program. In order to offer points, create the insights which will enable you to make better decisions and deliver more effective marketing, you would also need to participate in the scan data program if not already. More details about retailer rights, obligations and restrictions will be provided as part of the detailed commercial design phase.

2.2. How much will it cost me?

The intended minimum commitment by participating IGA retailers is be a base offer of 1 point for every dollar (including GST) a member spends instore (excluding Tobacco, Gift Cards, Phone top-ups, Lottery and other specific exclusions). These points would cost participating IGA retailers 0.5c each. We expect members to account for between 50% to 60% of sales so the total cost of points in these circumstances would be between 0.25% and 0.3% of eligible sales.

In addition, when points are redeemed in your store (at 0.5c per point redeemed) you will receive a credit for that amount less a small percentage which is withheld by the operating company (exact amount to be confirmed in detailed design phase).

A small program support fee will also be charged for each participating each store (exact amount to be confirmed in detailed design phase).

Please note, this cost structure as described in the current modelled proposal, this structure may change during the detailed design phase – this could either increase or decrease the commitment and expected costs for IGA retailers.

2.3. How does the payment mechanism work?

When a member earns points in a participating IGA retailer store, the data will be picked up with Scan Data overnight. All points issued will be recorded and the IGA store will accrue a debit for the cost of these points.

When a member redeems (spends) points in a participating IGA retailer store, the data will be picked up with Scan Data overnight. All points redeemed in this way will be recorded and the IGA store will accrue a credit for these points at face value less a small percentage which is withheld by the operating company.

The exact charging structure will be confirmed in the detailed design phase.

2.4. How do points accrue, do they expire? If so after how long?

Members will earn points at participating partner companies and participating IGA retailers into one central balance. If members choose to, they will be able to build this balance over time for the opportunity to redeem them for higher-value rewards. Therefore we do not want these points to expire whilst a customer remains as an active member, for example if there is earn or redemption activity by the member over a given length of time (to be determined).

2.5. Who holds the liability for the points?

The Operating Company holds the liability for the points. The retailer will not hold any liability.

2.6. Will there be promotional bonus point offers?

The Operating Company and Metcash plan to work closely with suppliers to build a bonus points promotional program which would be Metcash and/or supplier funded.

2.7. Can I run my own points offers?

Participating IGA retailers will be able to run their own bonus point promotions if desired (at the retailer's cost). The price of these additional bonus points would be added to amounts invoiced to the retailer. This provides flexibility to run offers which could have higher perceived value for members than the true cost, potentially reducing the cost of discounting clearance lines, or to incentivise the purchase of high margin products.

3. Benefits

3.1. Why are we proposing this program – what's the point?

The possibility of a program has been explored because a number of IGA retailers have been asking for a group program for some time, an offer which is consistent across the IGA network helping to strengthen the brand and our competitive proposition and value perception.

Shoppers now have very high expectations that communications and offers sent to them by retailers will be personal and relevant. At the same time, traditional marketing channels have become increasingly fragmented and less effective, with a lower return on investment. The purpose of the new program is to enable intelligent, targeted, data driven marketing. By understanding customers better we will be able to market to them more efficiently and effectively.

3.2. Can I expect to see greater sales from being part of the program?

The global experience of Aimia and the retailers it has worked with on similar programs is an improvement in sales of around 5%. This typically comes from a lift in spend from current customers who perceive more value from their shopping; a shift in spend from competitors (greater share of shopper wallet); and acquisition of new customers who shop as a result of joining the program through participating partner companies.

3.3. How will this drive extra shoppers to my store?

Multi-partner programs drive customer acquisition for participating retailers and brands through the extra reach they provide. Members are encouraged to earn more value in the program by consolidating spend across participating partner companies.

4. Marketing

4.1. How will it be promoted / how much marketing support will it have at launch?

The launch plan for the new program is intended to include significant promotional activity in mass media, targeted digital media and across the participating IGA retailer store network. This investment will come from IGA, the Operating Company and the other participating member companies

4.2. What will it be called?

More work will take place to finalise the program name and brand identity once the Operating Company is established. This will include thorough market research to find a name that resonates with the Australian consumer.

4.3. Who will the other participating retailers/brands be?

The plan is to have partners across the key sectors of everyday household spend e.g. Banking/Credit Card, Telecommunications, Fuel, Utilities, Travel and to create an opportunity for other small independent local partners to join the new program.

4.4. Why is this program any better for customers than other major retailer programs?

The intention is for the program to uniquely embrace the independent nature of the IGA brand and IGA retailers, to deliver a proposition which is relevant at both the local and national level. It will be simple and easy for customers to understand and engage with as well as providing great value through a wide range of participating partner companies. The greater breadth of a multi-partner program ensures relevance to a wide audience and the potential to earn far more value than in other major retail programs.

5. Campaign management / shopper offers

5.1. How do we ensure that a customer signing up in Store X will get offers from Store X?

There will be multiple factors that influence which offers an individual customer receives but they will always be personalised and targeted to make sure they are relevant and appealing. Customers shopping in IGA who have provided their permission to receive communications will always receive IGA offers through the standard promotional program, based on the store they shop at the most.

We intend to provide participating IGA retailers with the ability to control and supplement offers sent on behalf of their store. For example, retailers may choose to limit certain offers based on GP margin, exclude certain products, or create their own offers such as store manager specials or exclusive member pricing offers. The detail on the full business rules is to be finalized and it is intended that retailers will participate directly with the operating company to help achieve this.

5.2. Can I make my own offers to my customers?

See 2.7 and 5.1

5.3. Will there be a Smartphone App?

Yes. There will be a program app which will provide customers with all their offers as well as allow them to control their account / see their points balance / update their details and find out information about the program.

6. Earning points

6.1. How do customers earn points?

Members will earn points by swiping their loyalty card / app at POS with participating IGA retailers and with most other retail program partner companies, or by registering their details with other program partners, as applicable.

6.2. How many points will customers earn?

The intention is for members to earn 1 point for every full \$1 spent (including GST) on eligible products (see 2.2) as the base proposition at participating IGA retailer stores, plus any bonus points / promotional points - which could be funded by the retailer, Metcash or suppliers.

The rate of points earned through other participating partner companies may vary.

6.3. What products are points earned on?

See 2.2

6.4. Where else will customers be able to earn points besides IGA?

See 4.3

7. Points redemption

7.1. What is a point worth?

1 point redeemed at participating IGA retailers will be worth 0.5c to the member. As part of participating in the program each participating IGA retailer will be required to agree to provide a credit of 0.5c per point redeemed at its stores.

7.2. What will members be able to spend their points on?

Members will be able to redeem their balance within participating IGA retailer stores and within some of the other participating partner companies. A range of other reward options (travel, restaurants, gifts) are also planned to provide members with a choice about what they redeem their points for. Different rules may apply to different redemption options.

7.3. Do points expire?

See 2.4

7.4. Will customers be able to redeem their points in my store?

Members will be able to redeem their points in participating IGA retailers. Points are deducted from a member's account in real time and the retailer receives a payment of the face value of points minus a small percentage which is withheld by the operating company in place of payment.

7.5. Will customers be able to redeem points earned in my store in other places?

Members will have the ability to redeem elsewhere, including in other participating IGA retailers and with some of the other participating partner companies. Aimia's global experience is that members who redeem their points outside of grocery end up spending more within grocery following that redemption.

Additionally, members who have earned their points with other participating partner companies will be able to redeem them in participating IGA retailer stores.

7.6. Will customers be able to donate their points to charity/community groups?

One of the options for points redemption being proposed is to donate the value of points to community and/or charity groups.

8. I have an existing loyalty/member program:

8.1. Does this have to replace my existing loyalty program?

This program will create a core, consistent base offer to members with the flexibility to operate in parallel with the other complementary offers IGA retailers already have in place, like member pricing, showcases, community donation programs and others. This allows participating IGA retailers to either replace current programs completely or offer their customers a combination of benefits.

There will be restrictions on participating IGA retailers participating in similar multi-partner programs while participating in the new program.

8.2. How will my existing customers transfer on to this program?

We're keen to ensure that all customers have access to the program and so will work with participating IGA retailers help in the transition process. The exact details will be finalized in the detailed design phase. Our program partner (Aimia) has extensive experience of successfully migrating customers from existing programs, with results typically showing increased customer engagement and participation post migration.

8.3. Can existing members keep their points?

We suggest that customers are communicated with prior to the new program launch advising them of an end date for their existing scheme and encouraging them to redeem their points (if applicable).

8.4. I've invested heavily in my program, what's the benefit for me changing now?

The two main benefits are greater customer understanding with more efficient, effective marketing, and a stronger member proposition.

The data, analytics and insights which will be delivered by this proposed program should enable more effective decision making for participating IGA retailers. The ability to communicate directly with members and make relevant, targeted offers can result in much more efficient and effective use of marketing investment. There are numerous global examples of retailers who have improved sales, reduced costs and improved margins as a result of the insights and targeted marketing capability which can be created from these types of programs.

We believe the new program will provide a more compelling proposition for members who will be able to earn points with the many participating partner companies. Aimia's experience with similar schemes is that this results in members spending more money with each participating partner company.

8.5. Why would this program be any better than the program I already have?

See 8.4

8.6. Do my customers have to get new cards?

Customers will be provided with a new member card for the new program. Customers will need to register for the new program, providing personal data and preferences. It is intended that this registration will be online or via the program App. Neither retailers nor members will be charged for these cards.

9. Data & POS

9.1. Who owns the data?

There are no changes expected to your current POS or BOS systems and transactional scan data collection. It will be necessary for transactional data to be collected by the program operating company, that will be used in running the program, for example for points accrual and redemption and marketing. Program data will be owned by the operating company. This collected data will be aggregated and used to provide reporting, analysis and insights to participating IGA retailers and participating partner companies.

Any personal information unique to each member will be collected and managed by the operating company in compliance with Australian law and the Australian Privacy Principles.

9.2. What reporting will we receive?

Participating stores will receive a reporting suite, delivered via an online reporting platform. The reporting will provide:

- Member shopping behavioural reporting and key member metrics.
- Program KPIs: to allow retailers to track and manage their program performance.
- Campaign performance: Response to offers / promotions / campaigns

9.3. How will the program integrate with my POS?

The program solution will be designed to ensure a consistent customer experience across the multiple POS systems that reside in all of our retail stores. It will utilise existing hardware, and POS vendors will be required to be able to support the program platform as part of their accreditation going forward.

9.4. My POS Vendor charges me for my current program, what's this one going to cost me?

We do not expect any additional charges from any POS vendor, as a result of the program, over and above those presented for all retailers.

10. AIMIA / Operating Company

10.1. Who will be running the program and how do we make sure it is run to benefit IGA retailers?

The program will be run by an independent operating company set up as a joint venture between Metcash and Aimia. Aimia will be the primary investor in this company and will be providing systems, platforms, people and expertise to create a best in class program.

During the establishment of the operating company and the detailed design phase for the program, retailers will be asked to contribute to the design of the proposition, the rule governing member communications and the future operating and governance structure.

10.2. Who are AIMIA and why are they the best to do this?

Aimia is a global leader in building and managing customer engagement programs. They own and/or operate several of the world's largest multi partner programs and have extensive experience helping grocery retailers improve the effectiveness of their marketing such as Sainsbury's and Sobeys.

10.3. What guarantees do we have that Aimia won't pull out of this and leave us without any program at all?

Aimia will be making a significant investment and is committed to building a long term successful program in the Australian market which is stronger than the competition, giving partners a differentiator versus their competitors.

Aimia's business model is in building value by running schemes of this type over a long term. One of Aimia's flagship programs, Nectar in the UK has been in place for over 13 years.

11. Other

11.1. Some other major retailers have invested millions in loyalty programs and their businesses are in a mess. Why aren't they doing better if these programs are so good?

Loyalty programs are not a silver bullet – they will not fix other poor pricing, lack of convenience and bad service. The issues some large grocers are facing today are completely separate to their loyalty programs. There are almost no full-service grocers globally who do not now have engagement programs in place in order to understand the shoppers and deliver more effective and efficient marketing.

11.2. Why can't we launch this as a trial in one State first?

As part of the new program, Metcash/IGA will be one of a number of participating partner companies where members can earn points in order to be rewarded for their patronage. The launch plans are also being developed in line with negotiations with external partners, many of whom will not want involvement at a state-only level.

11.3. Do these programs really work?

There are many global examples of companies which have transformed their businesses through the effective execution of shopper engagement programs. Businesses which use these types of programs and the data from them to improve the efficiency and effectiveness of their marketing, and to put customer data at the centre of their decision making process typically outperform their peers.

There are undeniably successful programs Australia; e.g. Qantas, Virgin and Coles Flybuys. We believe this program, with IGA at its core, can be just as successful.

11.4. I don't believe that "loyalty cards" make customers loyal, why is this different?

Loyalty cards aren't a silver bullet and don't automatically make customers loyal. Loyalty comes from building a relationship with customers over time by consistently delivering an offer which customers value. This requires minimum standards for things like product availability, price, convenience, service, but it also means creating a differentiated offer to stand out from the crowd. This new program is aimed at enabling retailers to understand their customers better, create a stronger offer and market this to customers more effectively, making their shopping experience easier, more personal, more local and more rewarding.

11.5. What is the exit strategy for IGA if the program doesn't work/isn't working?

Shopper engagement and data driven customer marketing is a fundamental pillar of IGA's future strategy. It is intended that this will become a permanent program, however if the program does not bring value to independent retailers and the IGA brand it is intended there will be options to exit. These options will be defined in the detailed commercial design phase.

12. Things you need to know

- The materials relating to the proposed program (**the Materials**) including these Q&As have been prepared as at 4th March 2016 (**Effective Date**) and made available to you by Metcash Trading Limited, ABN 61 000 031 569, 1 Thomas Holt Drive, Macquarie Park NSW 2113 (**Metcash**) and Aimia, 525 Viger Avenue West, Suite 1000, Montreal, Quebec H2Z 0B2, Canada (**Aimia**)
- Metcash and Aimia have used their best endeavours to ensure that the Materials are accurate as at the Effective Date but neither party will be liable if any of the information in them is not correct.
- The Materials are based on Metcash's and Aimia's intentions as at the Effective Date for development and delivery of the Program. However the design, benefits and costs of the Program have not been finalised at the Effective Date and could be different when/if the Program is launched. If so the content of the Materials may differ from or may not apply to the revised Program. Neither Metcash nor Aimia will be liable for any such changes to the Program. Metcash and Aimia reserve the right to change any matter referred to in the Materials and/or the Program, and to not proceed with the Program, at their discretion.
- In particular: (1) these Q&As and the other Materials provided to you outline how a customer engagement program might work for IGA retailers based on current planning - the final Program may differ; and (2) the financial benefits and costs/investment estimates and other estimates contained in or produced by the Materials are calculated outputs only, which are made based on certain stated assumptions. Those estimates are not a guide to future performance and will change if the stated assumptions change, and the actual benefits may be different to the estimated benefits.
- The Materials are confidential and may only be reviewed and/or used by the retailer to whom they were provided by Metcash. If you are not entitled to review this document please destroy it or return it to Metcash at the address above.