

## Outsite Networks Loyalty System Update

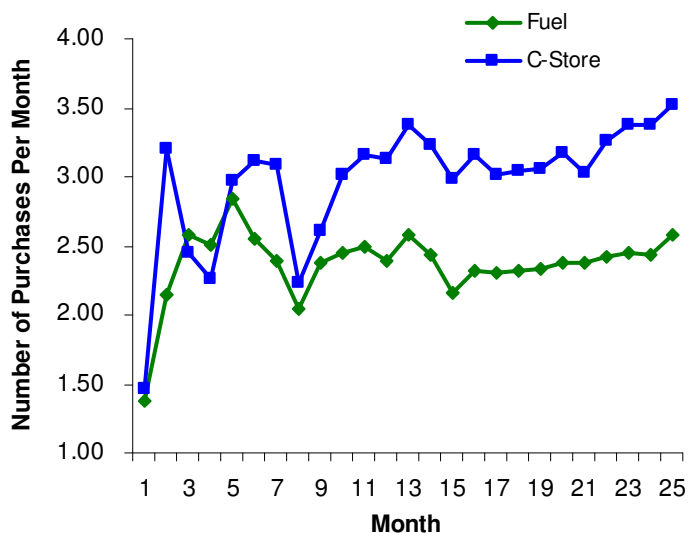
Since installing its first loyalty system in 2002, Outsite Networks has been growing quickly in the convenience store and retail petroleum market. From August 2003, when the last research report on loyalty programs was issued, over 200,000 more consumers have joined the loyalty programs run by Outsite's systems, increasing the total number of enrolled loyalty program members to over 250,000. The number of convenience stores that have adopted Outsite Networks' systems has exceeded 350.

With rapid growth of customers and loyalty program members, Outsite Networks' database of consumer transactions is expanding fast. It now contains over 30 million consumer transactions, including several million transactions conducted by identifiable loyalty program members. This update is based on an analysis of these consumer transactions conducted between March 2002 and March 2004. It reports updated statistics on the system status and on consumer behavior under the loyalty program.

### Purchase Frequency Doubles

Consistent with the last research report, the updated analysis again shows loyal consumers to purchase more frequently after they joined the loyalty programs. At the end of the analysis period, loyal consumers are patronizing a store nearly 4 times a month. When looking at fuel and c-store purchase separately, loyal consumers are making 2.58 fuel transactions and 3.52 c-store transactions per month. Both of these doubled or nearly doubled the initial frequency of 1.38 times for fuel and 1.46 times for c-store. Exhibit 1 shows the increase in fuel and c-store purchase frequency over the course of two years. The increases in purchase frequency are strong indications of increased consumer loyalty, as loyal consumers are likely to be concentrating their purchases on one store instead of shopping at multiple stores.

**Exhibit 1. Loyalty Consumers' Purchase Frequency Change Over Time**

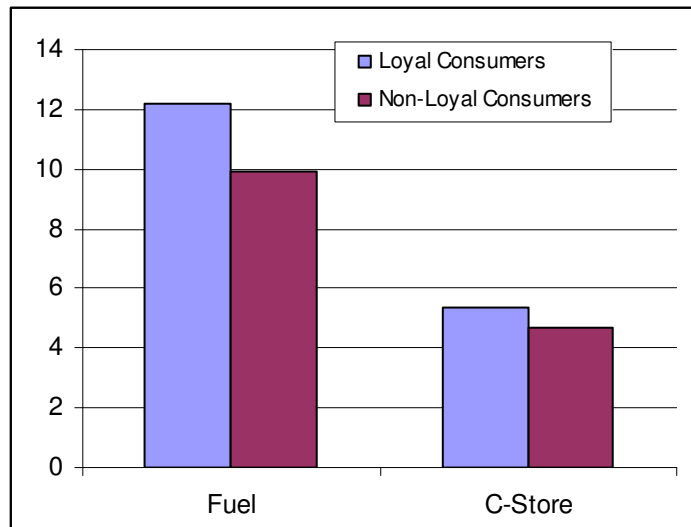


Note: The dip in purchase frequencies near month 7 and 8 is due to the sniper shootings that occurred in the DC-Virginia region.

## Transaction Size of Loyal vs. Non-Loyal Consumers

Not only did loyal consumers buy more frequently, they also spent more in a transaction than non-loyal consumers. By March 2004, loyal consumers are buying an average of 12.18 gallons of fuel per transaction, 23% more than the 9.94 gallons non-loyal consumers are buying in a transaction. In store, loyal consumers are also buying more, spending an average of \$5.33 per purchase, compared with \$4.66 for non-loyal consumers (see Exhibit 2).

**Exhibit 2. Transaction Size for Loyal vs. Non-Loyal Consumers**



## Basket Diversification of Loyal Consumers

The loyalty system continues to bring consumers into the store. Loyal consumers paid 40% of their fuel purchases in store. Of these fuel purchases, 39% included c-store merchandises. Non-loyal consumers, in contrast, only paid less than 30% of their fuel purchases in store and only 20% of those purchases included c-store items. At the end of the analysis period, 60% of loyal consumers have become double-category buyers, meaning they buy both fuel and c-store merchandise from a store. This is a dramatic increase from only 20% double-category buyers when the consumers first joined the program. Overall, 10% of all loyal consumers' purchases included both fuel and c-store items in one transaction, compared with less than 3% for non-loyal consumers.

## Top Consumers – The Most Profitable Group

The last report found significantly higher purchase frequency and transaction size for the top 10% loyal consumers. This finding is confirmed in the current analysis. These top consumers frequented the stores 7.43 times a month, nearly twice the purchase frequency of an average loyal consumer. Breaking down into fuel and c-store merchandise, consumers in the top 10% group made an average of 4.52 fuel purchases and 6.02 c-store purchases per month. They also spent more in a transaction. Their average fuel transaction size was 16.08 gallons, 32% more

than an average loyal consumer and 62% more than a non-loyal consumer. Their average c-store transaction size was \$7.48, 40% more than an average loyal consumer and 61% more than a non-loyal consumer. 81% of these top consumers are both fuel and c-store item buyers. Together, each of these consumers contributed an average gross *profit* of \$14.70 per month to the stores' profits.

## **Summary**

This update confirms the powerful influence of loyalty programs on consumers' purchase behavior as illustrated in the last research report. 250,000 loyal consumers and 30 million transactions later, Outsite Networks' loyalty system still proves to be a powerful profit generator. Most stores enroll 1,000-2,000 loyal consumers per store. Combining the above changes in purchase behavior, an average retailer can expect \$1,000 to \$3,000 of additional gross profit per month to the store<sup>1</sup>.

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<sup>1</sup> The gross profit margin is assumed to be 30% for c-store merchandise and 8 cents per gallon for fuel.