



MARKETING SOCIETY AWARDS | MOBILE MARKETING 2012

CLIENT: Telefonica O2 UK
AGENCY: Cherry London
ENTRY FOR: Priority Moments, O2 Telefonica

EXECUTIVE SUMMARY

Telefonica O2 UK (O2) has changed the way mobile operators approach loyalty with the success of Priority Moments. Priority Moments is a mobile loyalty program that uses real time insight and targeting to offer O2 customers unique experiences and exclusive rewards from brands they love via their mobile phones (app, mobile web, online and MMS/ SMS), based on their interests, behaviour and geo-location.

Every minute of every day, 5 Priority Moments are being redeemed by O2 customers from over 150 leading UK brands including Odeon, M&S, Debenhams, New Look, Caffè Nero, WHSmith to name a few.

As Ronan Dunne, Chief Executive Officer of O2 said, Priority Moments was about "changing things" and "harnessing the power of ideas and technology to create new possibilities." And we did just that. By the end of 2012, just 18 months from launch, Priority Moments had acquired millions of customers, up 100% in 2012, making it one of the UK's best and fastest growing loyalty programs, acquiring more customers year on year than the Boots Advantage Card, and delivered a multi-million pound churn reduction benefit.

OVERVIEW, OBJECTIVES, AND APPROACH

Overview

Telefonica O2 UK operates in arguably the most fiercely competitive mobile market in the world, with numerous operators and MVNOs all trying to win out. The market suffers from high churn, increasing subscriber acquisition costs (SRC), limited differentiation and low customer engagement and loyalty, driven by consumer demand for heavily subsidised and increasingly costly handsets in the intense battle waged to win new customers.

Telefonica O2 UK is winning this fierce battle by making customers their priority through the innovative new location based mobile loyalty programme, Priority Moments, which complements its acclaimed Priority Ticketing service. Priority Moments, which launched in July 2011, provides O2 customers with unique experiences and exclusive, targeted rewards from brands they love via their mobile phones (app, mobile web, online and MMS/ SMS), based on their interests, behaviour, and most importantly where they are. Rewards can be redeemed in-store and online.

Telefonica O2 UK as a business thinks differently, and the brief for Priority Moments was no different. Create a loyalty programme that customers would engage with every day, offering outstanding value in a tough economic climate, yet dramatically different from the multitude of daily deals sites that had saturated the market. O2 wanted to dramatically stand out and offer its customers something they couldn't get anywhere else.

Objectives

- Make Priority Moments the **best and most-used mobile** loyalty programme in the UK
- **Reach** and **reward** more O2 customers
 - 2011- acquire 1.5 million customers
 - 2012 - acquire 4 million customers
- Drive more **frequent engagement**
 - 25% using it every week
 - 30% using every week
- Drive customer **advocacy (Customer Service Impact – CSI)** of O2 and **reduce churn**
- **Drive positive brand perceptions** - consideration, attractiveness and value for money

Our approach

Insight and proposition development

The Priority Moments journey began by talking to O2 customers to understand **what really mattered to them**. This insight informed the structure and content of the Priority Moments programme and continues to do so with on-going bespoke research, social media tracking and behavioural analysis.

In order to best target and influence customers positively, we used both qualitative focus research and quantitative research into customer preferences, behaviour and identified all the things that mattered to them:

- Their favourite brands
- Moments when they needed a boost e.g. Monday mornings, or the last few weeks of the school holidays
- Celebratory moments e.g. birthdays (personal or anniversary of being with O2)

We also identified the moments in their relationship with O2 when **their attitude shifted** (dip in NPS), and the **risk of churn increased**. And **segmented customers based on value** (tenure and spend). Based on this understanding, we created a tiered reward structure, and a targeted approach based on value, using real time location based insight:

1. Extraordinary Moments
2. Extraordinary Offers
3. Headline Moments
4. Thank-Yous

Each type of reward performed a special function, whether to drive everyday engagement, acquire or re-activate a lapsed user, or to reward customers based on their spend and tenure, and to increase overall satisfaction with O2.

Execution

1. Extraordinary Moments

Totally unique, un-missable experiences, content and rewards that can't be found anywhere else, which create extraordinary moments for hundreds and thousands of customers, rather than just a lucky few:

- To celebrate the Jubilee, a free pair of Union Jack flip flops from BHS (50,000 redemptions over a weekend)
- An upgrade on the Heathrow Express and airport lounge pass
- A totally free lunch with Priority Moments, at Upper Crust (90,000 redemptions in 4 weeks)
- The chance to get a new game, or DVD release before anyone else at HMV

2. Extraordinary Offers

Exclusive offers giving O2 customers real value and savings on everyday items and more occasional treats:

- £1 for a pizza and unlimited salad at Pizza Hut
- 4 free Millie's Cookies (nearly half a million cookies redeemed in 4 weeks)
- M&S 'Dine in' for £8 (25,000 redemptions in a weekend)
- 50% off movie tickets at Odeon
- 20% off at TONI&GUY hair salons – the first time in 40 years they'd run a national discount
- Buy one pair of shoes at Office for the party season, get another pair for free

So far Priority Moments has saved O2 customers on average £35-40 per month and increased customers' perceptions of the 'value for money' they receive from O2 plus 27 points. *Source: Millward Brown Tracking Q4 2011 to Q3 2011*



3. Thank-Yous

Targeted rewards based on value segment to thank O2 customers for their loyalty – on their two year anniversary with O2 when NPS typically dips, or just to surprise them. Customers are targeted via SMS/ MMS and collect their personal 'Thank-You' via the Priority Moments app, or mobile web site:

- A Caffè Nero Iced Coffee on a hot day just to say thank-you
- £5-£20 mobile gift card to spend at Debenhams
- A handpicked gift box from Hotel Chocolat

4. Headline Moments

A package of unmissable rewards, to create excitement and a sense of urgency at a key moment such as Christmas, where O2 can help customers make the most of the festive season. For Christmas 2012 we created an Advent Calendar of 24 extraordinary rewards, exclusive content and outstanding offers:

- Christmas master class with renowned chef Jean-Christophe Novelli giving customers tips on how to create the perfect Christmas dinner and £25 off all the ingredients with Ocado (over 400k YouTube views and 10,000 redemptions at Ocado over 2 weeks)
- A free de-icer and scraper from Halfords executed in a super timely manner - when it snowed
- 30% off at New Look
- £10 to spend on Christmas presents at The Fragrance Shop
- Exclusive shopping events and grotto at Bluewater

Extraordinary Partners

To fuel Priority Moments, partnerships were developed with some of the UK's leading brands (Odeon, M&S, Debenhams, New Look, Caffè Nero, WHSmith to name a few); the ones O2 customer's love, the ones that do things differently, and the ones that don't promote themselves to death.

To secure these high profile strategic partnerships for 12 months and secure significant investment in kind, many before we had even launched, we developed a win-win partner proposition:

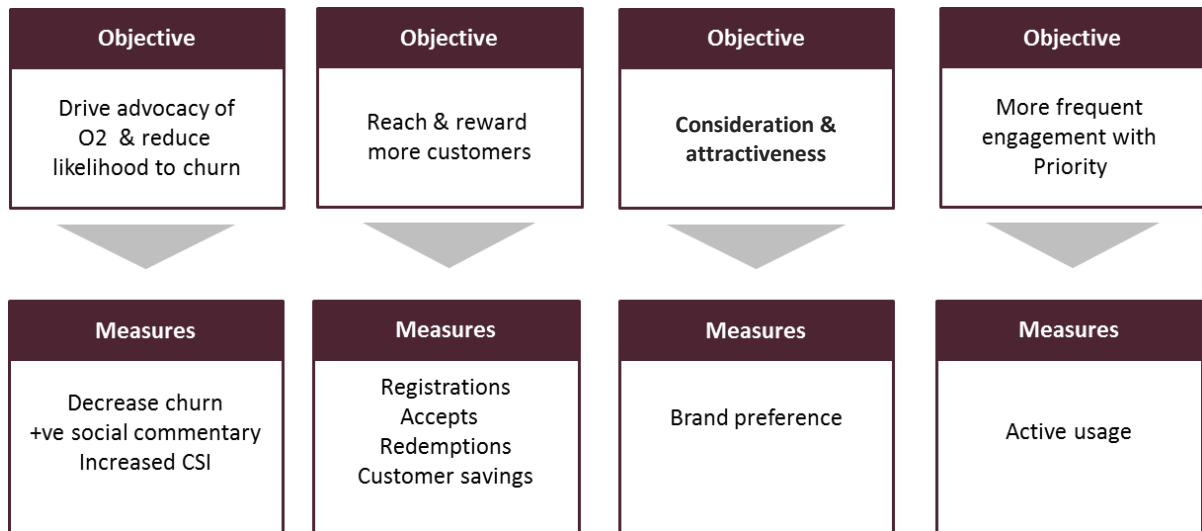
- Tiered investment and media packages with guaranteed outcomes
- Measurable and defined benefits from their investment – with in-depth tracking, analysis of respondents, and, most importantly, sales tracking
- A flexible and controllable management platform, built by RGA, which allows for a range of experiences and offers to be promoted with a range of different redemption mechanics and controls (i.e. unique codes, 'redeem once' functionality, limits per customer etc.) and daily reporting
- We ensured a closed-loop evaluation system to track the success of each offer for O2 and partners, as well as popularity with customers

We launched Priority Moments in July 2011 with 20 strategic partners, and now have over 150 partners on board.

Local Partners (SMBs)

In July 2012, O2 extended Priority Moments to small and medium sizes businesses to make the proposition more local and more relevant to customers. This was supported by the development of a self-service platform, again developed by RGA, that enables local businesses to upload and target O2 customers with relevant offers. There is now over 1,000 SMBs promoting local offers on Priority Moments.

EVIDENCE OF COMMERCIAL SUCCESS



Priority Moments sits within a competitive environment within the O2 business. Significant on-going investment mixed with a progressive business that is continually looking to enhance their customer offering meant that Priority Moments needed to prove its value quickly and show considerable growth in 2012.

Drive advocacy of O2 and reduce churn

- Generated incremental churn benefit of 2.5% saving £14m across all Priority Moments registered customers
- 'Heavily active users' have an annualised churn of 4.7% , which is 6.2% better than base
- Positive CSI up to 10+ points for customers aware vs. not aware (16% higher than base) *Source: Millward Brown*
- Earned 15k re-tweets on Twitter for 'Millie's Cookie offer', 23% positive vs. 4% negative *Source: RTO2 O2 Benchmark Search*
- 62k social network shares since launch *Source: RTO2 O2 Benchmark Search*
- Post O2's network outage in July 2012, qualitative research showed that Priority Moments was a positive influence on customers' perception of O2, and there was no negative impact on CSI *Source: Q4 vs. Q3 report CSI Millward Brown*

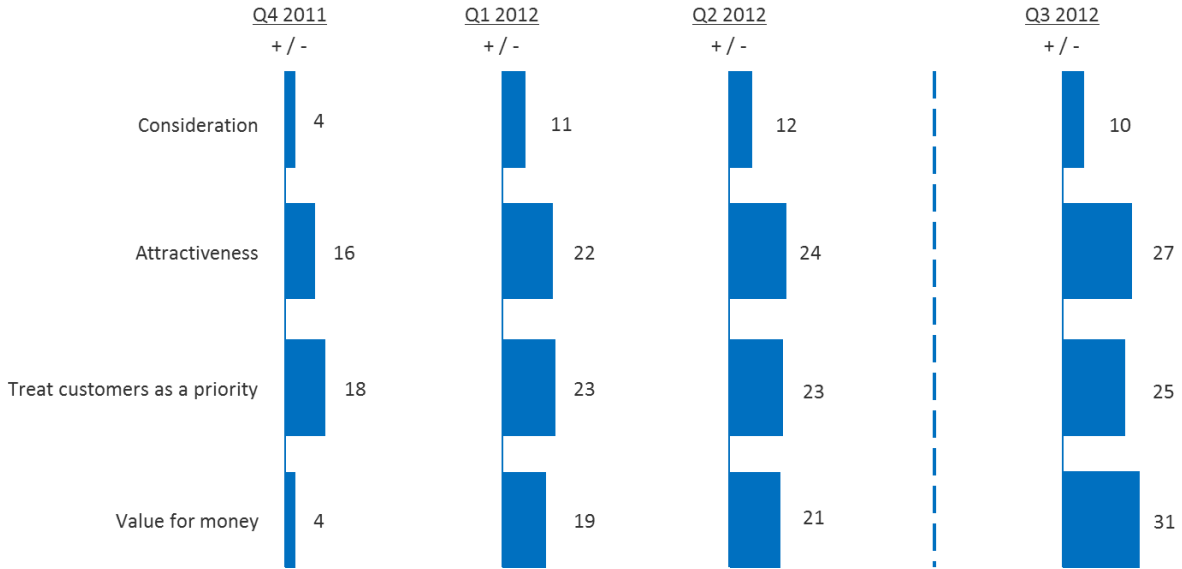
Reach & reward more customers

- Doubling registrations in 2012 to 4m to become the UK's fastest growing loyalty programme
- Over 1 billion offers have been viewed to date
- 75 offers are viewed every second of the day
- Every minute of every day O2 customers redeem 5 Priority Moments
- Over 6m offers accepted, 4m offers redeemed
- Saving customers on average of £35-£40 per month (based on the Top 5 performing Priority Moments offers each month and the average saving)
- Highest number of rewards and exclusive 'free gifts' versus the competition and not linked to spend
- Customers could redeem up to £218 worth of free gifts across the year
- Have saved our customers well over £25m heading towards £30m
- Customers could have saved well over £1,000 from Priority Moments in 2012 alone – more than twice the average phone bill!

Consideration and attractiveness

Impact of Awareness of Priority Moments

Difference vs. Not Aware



Source: Millward Brown, October 2012

- Priority Moments is driving a consideration differential of 10+ amongst those aware
- 'Attractiveness' up 69%
- 'Value for money' up 675% (Q4 2011 vs. Q3 2012)
- Awareness of Priority Moments increased for both PAYM and PAYG customers; up 5% for pay monthly to 74% and up 11% for pay as you go to 62% Source: CSI, Communications report

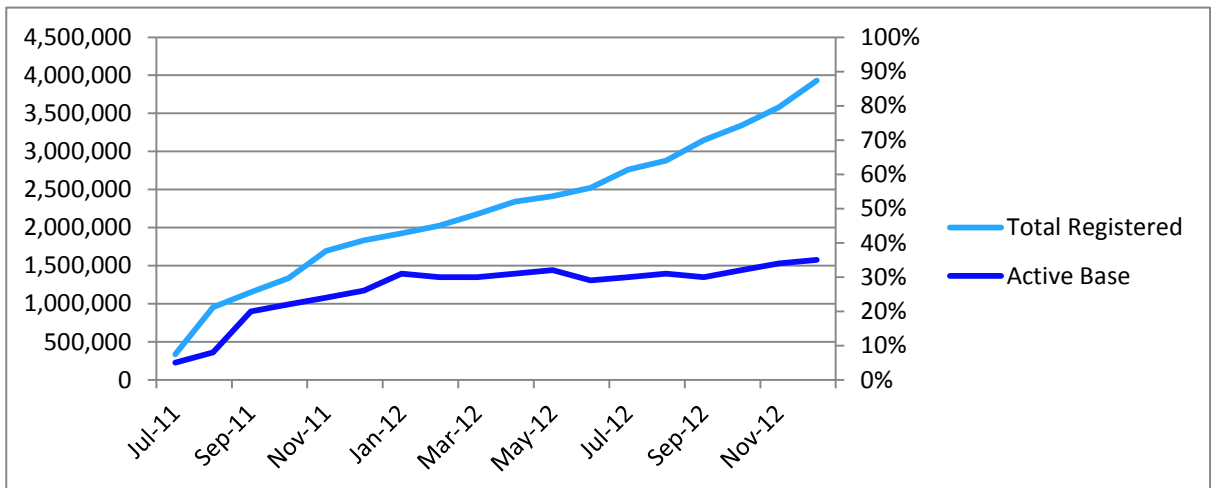
Registrants with Priority Moments

- In 2012, registrants of Priority Moments increased over 100% to 4 million

Frequent engagement with Priority Moments

- In 2012, Priority Moments' active base (those customers that used Priority Moments at least once in the last 30 days) doubled from 600k to 1.3m
- On average 30% of customers have used Priority Moments in the last 30 days

Acquisition and usage since launch



RETURN ON MARKETING EXPENDITURE

Return on Marketing Expenditure

Priority Moments has required significant marketing investment to develop the mobile platform and launch a loyalty programme of this scale. O2's foresight has paid off, and the programme has exceeded expectations against key brand metrics over time including consideration, 'value for money' and CSI (Customer Service Impact) and delivered a multi-million pound churn benefit and incremental revenue that delivers clear return on the investment.

Key facts

Additional contribution*

- On average, Priority Moments customers have a higher ARPU (Average Revenue per User)
- Customers registered on Priority Moments generate an additional £2.20 per month contribution to the pay monthly base monthly (80% of Priority Moments base = 3.2 million)
 - Total incremental contribution £7m per month (*3.2 million x £2.20 per month*)
- Pay monthly customers registered on Priority Moments stay with O2 for 7 months longer
 - Total incremental contribution £571.2m (*3.2 million x ARPU of £25.50 x 7 months*)

*Source: O2 CRM report October 2012

Churn benefit

- 2.5% churn benefit on customers that are registered to Priority Moments

Satisfaction (CSI)

- Satisfaction is highest amongst those customers registered with Priority Moments with an 8 point benefit

ROI

- For every £1 that O2 has spent on Priority Moments, the programme has generated a £9.60 return

Throughout 2013, Priority Moments will continue to innovate and change the market with more sophisticated targeting and integration of content with the introduction of 4G later in the year, and continue to enhance and offer customers, a better, richer and more rewarding experience with O2.

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