

Notes prepared by Mr. Andreas Souvaliotis, for his presentation on AIRMILES for Social Change, given at Ryerson University's Institute for the Study of Corporate Social Responsibility, on Friday, September 21, 2012, in Toronto, Canada.

Good afternoon ladies and gentlemen.

Let me begin with the bad news. Corporate social responsibility, our society's most common and popular method of trying to make our world a better place, has actually been a spectacular failure. It has spawned the creation of entire new professional fields; it has made many CEOs and many more brand managers feel uniquely proud; it has driven enormous sums into media buyers' pockets and filled countless newspaper pages with beautiful advertisements about "giving back"; but it hasn't made our world any better at all.

You invited me here this afternoon to tell you my story and, instead, I opened with this kind of disheartening and frustrating remark. Let me explain how it all ties in together...

About half a century ago, as the western world was enjoying the incredible post-war economic boom and as people everywhere had started to worry about the effects of unchecked capitalism on the health of humans and the health of our planet, there was a sudden proliferation of concerned movements and NGOs with a distinct mission to undo some of the damage. Environmental, health promotion, anti-poverty, social justice and all sorts of other organizations sprouted up and gradually assumed the role of the "antidote" to the bad & ugly corporations that only seemed to have a single mission. And with time those nice organizations and the entire human movement they represented grew stronger, richer, more prominent and - one would argue - more relevant for the masses. It would be difficult to find an average Canadian today who doesn't have positive feelings about some of the best known environmental or health charities in our country. "Good" became totally mainstream - and, correspondingly, "bad" became associated in people's minds with unchecked capitalism and the hunger for profit. In a few short decades we morphed into a society that functions on a fundamental assumption that profit and the generation of wealth needs to be balanced with sacrifices and deductions from the bottom line; that money can't be made without doing harm to ourselves and to our environment; and that there are two kinds of workers among us - the greedy ones whose job is to generate wealth and the nice ones whose job is to mop up the mess that the greedy ones create each day.

And what did all this passion and polarization achieve for us? Try moving up a few hundred thousand feet, take a good look at our world from that far away and you'll get a pretty grim picture across each one of those key indicators that drove the CSR boom of the past half century: our environmental scorecard is horrific, particularly in terms of our complete lack of progress on tackling climate change (which is rapidly becoming the largest existential threat humanity has ever

faced); on the human health front we have done so poorly, especially in the area of obesity, that we are now likely experiencing the first-ever life expectancy peak in the history of humanity; and the scorecard doesn't get much better when you look across other key focus areas like income disparity, global wealth distribution, third world labour exploitation etc. In other words - as depressing as it sounds - the world may in fact have been a nicer, fairer, cleaner, safer place before we came up with this idea of "giving back". Collectively we probably gave trillions of dollars and billions of volunteer hours over the past half century ... and got a lot less than nothing in return.

Our big mistake was to allow our society to be polarized. By creating and accepting such a simplistic distinction between profit and good in our world, we actually made it easier and more acceptable to do plenty of damage! It became generally accepted among the masses that corporations will do harm by default (because we now think that's the easiest and fastest way for them to make a buck) and that seemed to be OK for most people, because there are plenty of good NGOs out there that will do whatever it takes to undo all that damage. And in fact, the more damage corporations do, the more guilty they feel and the more compelled they are to build larger CSR practices and write larger cheques in support of all those wonderful good causes. What a fantastic closed loop of good and bad, guilt and greed. We polarized our society and ended up achieving a lot less than nothing.

In recent years, as the evidence of our spectacular failure multiplied, some thought leaders from around the world started to speak up and explore new ways of doing things. Among them was Michael Porter from Harvard, whose "shared value" theory has now become one of the most popular topics of debate among social change advocates. The model is elegantly simple and, in fact, very reminiscent of how human society used to function until not that long ago: It does away with the polarization between bad (profit) and good (social responsibility) and, instead, intertwines the two completely as necessary companions to one another. In other words, under Porter's model you really aren't able to generate financial returns unless you're generating social returns; your rate of profitability is fully tied to your rate of "goodness" - the more good you do for the world, the more money you're making; essentially every unit of output from your enterprise should be good for humankind and good for your bottom line at the same time.

Does it sound too idealistic and fantasy-like? Not if you consider how many real, very visible examples of this exist all around us already ... think of Philips having invested heavily in becoming a leader in the (very high margin) CFL light bulb space ... or Nissan having pushed itself to the top of the mass produced, high margin, true electric car industry ... or, closer to home, Bullfrog Power dominating the clean electricity space here in Canada. None of these enterprises are charities; they don't fit our outdated and unfortunately polarized good vs. bad models; they're designed to make money, lots of it in fact, but they can only make that money for their shareholders by making our world a better place. The more of their better light bulbs, better cars and better electricity we buy, the more

money they make - and the bigger their impact on our world. Porter advocates that the only way we can quickly achieve the necessary scale in fixing our world's overwhelming problems is by harnessing humanity's natural, instinctive hunger for profit, instead of trying to fight it - and I wholeheartedly agree with him, particularly because of my own experience.

Five and a half years ago, when I started this thing called "Green Rewards", there was no talk of a "shared value model" yet. I just happened to be a very unconventional social entrepreneur - I had spotted a business opportunity, a problem and a potential solution to it that could generate solid returns. It just so happened that the problem (climate change) was also one of the leading social challenges of our times but, I promise you, I wasn't some sort of tree-hugger with sacrificial tendencies around my own wealth and career! I was just another business guy who spotted a niche and wanted to take advantage of it. I was a perfect example of Michael Porter's model, but neither he nor I knew it at the time...

The niche I had found was very simple. I had grown up in the incentives and rewards corner of the marketing industry and I knew all about how human beings respond to incentives and how most of us are such remarkable chasers of loyalty points - perhaps even more so here in Canada than almost anywhere else in the world. And I simply thought - what if we harnessed that incredible power of incentives, what if we put that popularity of loyalty points to work, to motivate millions of our fellow citizens to live greener lives? what if we gave them extra points every time they shopped more responsibly? every time they took the bus instead of driving a car? every time they conserved electricity or recycled a bit more or insulated their home? I took a quick look around the world and discovered - to my astonishment - that nobody else had thought (or at least tried) this, anywhere else! So much money was being spent in so many countries, including our own, trying to get all of us to be a little more eco-responsible, but none of it was going to smart incentives - our governments and other agencies were simply filling up billboards and newspapers with lovely little messages about good behaviour or conservation or they were randomly handing out rebates and coupons to anyone who brought back their inefficient Christmas lights. And a few, way too few citizens were noticing and responding.

It really felt like an irresistible opportunity. With the help of a sharp and uniquely aggressive investor, I started building the world's first eco-points program. Just a simple, straightforward idea - give people extra points when they do the right thing. And make it even more authentic by enabling them to also redeem their points for the right stuff. Instead of redeeming points for a flight to Cuba, why not encourage them to redeem for transit passes, bikes, gym memberships, music downloads and so many other rewards that don't harm the planet? The idea captured everyone's imagination. We started attracting (and hiring) some of the best loyalty talent in the country. The media started noticing - and because the media is really drawn to David vs. Goliath scenarios, great stories began to

appear everywhere about us. We were the little, pure, authentic and daring start-up in an industry dominated by giants – how could you not love reading that story? And the whole thing kept snowballing; more investor money; more talent; more interested potential clients and partners; and more media attention. It was an incredible year and a half.

And that's all it was! A year and a half later we had already sold the business! There were all sorts of interesting nibbles on us, almost right from the start. Banks were looking at us as an interesting opportunity to add some "green" to their loyalty offerings; institutional investors were looking at us as a quick way to enter the lucrative consumer loyalty space; but other loyalty providers were looking at us too. While some of them would have loved the opportunity to eliminate an edgy and perhaps irritating new entrant in their space, one in particular (LoyaltyOne, the company that operates the incredibly popular AIR MILES program in this country) had a different, much more authentic agenda: They understood the "green shift" of the consumer, they knew it was a permanent and fundamental shift and they saw us as a perfect infectious agent that could help accelerate their own shift in the same direction, so they could actually get ahead of this coming train. In a very short time, after a remarkably genuine and open dialogue, we agreed to a deal – and the process of absorbing Green Rewards into AIR MILES began.

The first thing we did was contemplate whether we should still keep the Green Rewards program alive, essentially running it as a separate consumer loyalty currency in parallel with AIR MILES. Under that scenario Canadians would be earning AIR MILES when they shopped, as they always have, but then they would earn Green Rewards points when they bought the right stuff – or when they did the right stuff, like conserve energy, take public transit or reduce their waste. The distinction between the two kinds of points would have made things very clear for consumers (Green Rewards points would have really stood out as the 'good behaviour' points) but the downside was that we would be trying to introduce a brand new loyalty currency to Canadians, when so many of them were already so familiar and so comfortable with AIR MILES.

So we decided to roll everything into AIR MILES. With over 70% of households in this country collecting these points, it would be a shame not to be able to ride on the back of this gigantic elephant. Imagine what you could do, if someone suddenly offered you such superb, easy, positive access to more than two thirds of the population of an entire country? It felt like somebody had handed me a giant steering wheel so I could point millions and millions of our fellow citizens in the right environmental direction. It was such a powerful combination.

We started this national "steering" project in stages. Our first and easiest step was to simply "green" airmiles.ca, the massive portal that gets all this incredible point-collector traffic every day. We transformed a corner of airmiles.ca into a great soapbox for environmental guidance for the average consumer. We

gathered information from many relevant and authentic sources – governments, NGOs, retailers, vendors – and we offered it to all Canadians as a free, public service. It was so simple and yet so innovative - - - just imagine, you could now go to your favourite loyalty program site to learn how to renovate your home responsibly or what government rebates might be available for your green reno!

Then we moved up a notch and started to influence how Canadians redeemed their AIR MILES. We brought in one of the most respected and well known eco-accreditation agencies in the country and, with their help, created a superb “green screen” for our hundreds of reward options. Those that passed successfully through the screen were placed in a special category and then we promoted them to our millions of Collectors as true environmental options. Examples: bus passes, electric scooters, bikes, organic products for your home, train tickets etc. I remember the day the City of Edmonton became the first city in the world to offer its transit passes as a reward option on the AIR MILES program – they were so proud (and so were we) that we actually staged a joint press conference about it! Since that time the transit providers in almost all the major cities across Canada have joined the program.

And then came the ultimate step: We worked hard to build a “coalition of the eco-willing” among our big retail partners across the country and we started to offer Canadians extra miles when they shopped responsibly; extra miles for buying organic products at the hardware store; extra miles for buying local or organic groceries; extra miles for ripping up their paper credit card bill and switching to electronic billing! Simple stuff – but on a massive scale. And truly unprecedented in the global loyalty industry. We were proud and our retailers and partners were very proud too.

And just as we thought we were done and there was nothing else to invent, we got a huge surprise. We got a call from a government agency – a power conservation agency. The call went sort of like this: “So, you guys run the country’s most popular reward program and you have also transformed it into the most authentically green points program. Why can’t we, the government, take advantage of all that, as we try to promote energy conservation or more environmental awareness among our citizens? Why can’t we buy some AIR MILES from you and try using them as incentives to influence behaviour on a mass scale?”.

Quite frankly, we all felt a bit embarrassed that we didn’t actually think of this first! What an unbelievably simple and beautiful idea – use popular loyalty points as incentives to encourage behaviour shifts on a mass scale, instead of just relying on un-targetted advertising or on cash incentives (coupons, rebates etc). We quickly got to work, designed our first-ever government incentive program and launched it in the summer of 2010. And what an unbelievable success it turned out to be! An annual power conservation campaign that had drawn about 20,000 participants the previous year, suddenly blossomed to almost 140,000 –

while the cost of running the campaign actually plummeted by two thirds! In other words, for every dollar that the government used to spend to attract a citizen to this conservation campaign, now it only had to spend five cents! It was truly incredible – and, admittedly, even we were rubbing our eyes.

That moment represented the actual birth of AIR MILES for Social Change – the world's first-ever social venture built inside a loyalty rewards program. When we saw those incredible results we realized we had discovered something – an entirely new method of harnessing the incredible power of loyalty rewards! We quickly set up AIR MILES for Social Change as a separate, stand-alone social venture within LoyaltyOne and we got to work, looking for other government partners that could use our help. And before long we had blanketed the country with all sorts of innovative environmental incentives – from electricity and gas conservation campaigns, to transit adoption and waste diversion programs. In every single case the results were truly spectacular. We had situations where Canadians would respond so quickly and in such large numbers to an email from us inviting them to participate in a particular campaign that they would actually crash our government clients' websites!

And then, less than a year into this amazing new journey we got an even bigger surprise: A call from a government health department! They had heard about our success in the environmental conservation area and they were wondering what was stopping us from also using AIR MILES as incentives to encourage Canadians to live healthier lives – to eat healthy, exercise, quit smoking, participate in health surveys, build awareness around health issues and so on. Once again, we felt a bit embarrassed that we didn't think of it first - - - but we certainly jumped into it and that project turned out to be the tiny tip of another incredible iceberg for us. In a very short time our health incentives practice became even larger than our environmental practice and the results were once again unbelievable.

On both sides of the social venture, on our environmental and our health practices, it was extremely important for us to be authentic and not to try and do things beyond our real area of expertise. After all, we were just the loyalty and rewards people – we cared about health and about the environment, but we certainly didn't have the credibility or the expertise to guide our millions of Collectors on our own. So, right from the start we partnered with the leading experts in each of these spaces (with the World Wildlife Fund on the environmental side and with the Heart and Stroke Foundation on the health promotion side) and let them take on the real guiding role. When we rewarded a Canadian for participating in an energy conservation campaign or for buying fresh produce at the grocery store, our NGO partner's brand was very visible next to ours – and that certainly boosted the credibility of our offers and, naturally, the participation rates among consumers.

So that brings us to today. AIR MILES for Social Change is now a thriving, stable, national and fast growing venture. It is run by a terrific and uniquely passionate team, it has a beautiful home and a very solid support infrastructure inside LoyaltyOne and it has certainly gone mainstream. With that whole mission now accomplished, is there anything left to do for a social entrepreneur and restless inventor like me? It really depends on the scope of that question. If we're just talking about Canada, then my job is now complete. But if we're thinking about how this powerful idea could be exported to the rest of the world (and we sure have had many foreign organizations asking why we're not in their countries yet!), then the new challenge for me is only just starting...

In the last couple of months I transitioned the leadership of my Canadian social venture to my wonderful successor at LoyaltyOne and I wrapped up the last few pieces of the purchase agreement for my original business. Now, as a free agent again, I have teamed up with our former Deputy Premier (George Smitherman, the man who was in charge of both the Health and Energy portfolios in this province and had become very familiar with our work) and the two of us have now started to explore the option of transplanting our success into other countries. Not surprisingly, one of our early areas of focus is the United States, where there is a great deal of appetite for innovative ideas that would promote healthier and greener lifestyles among Americans; but we're also looking overseas because our entire Canadian social rewards concept continues to be unique in the world – nothing like this has been done in any other country, yet!

Ladies and gentlemen, let me conclude by going back to what I said at the start: We face enormous environmental and health challenges as a species – and our conventional approaches of the past several decades have not made a dent. As Albert Einstein once famously said, we can't solve problems by using the same kind of thinking we used when we created them. Our traditional and miserably failed CSR strategies were exactly that – they were just extensions of the same thinking that created our problems in the first place. To have a fighting chance at fixing our world, we need to start thinking differently and we need to start harnessing the immense power of our human instincts – instead of fighting it.

I hope my story serves as an inspiring example for you.

Thank you.