

# Issues in Emerging Electronic Couponing

A White Paper from David Diamond Associates

After a number of years in the marketing dog house, couponing is once again having its moment. In these challenging economic times, consumers are looking for a deal, retailers are looking to solidify their relationships with consumers, and manufacturers are looking to stem the flow of purchases towards lower-tier and private label brands. Couponing has been on the increase among the major players, and consumers have reacted to both the increase in coupons and the downturn in the economy by increasing redemption rates for the first time in a number of years.

Now that couponing is back, it is time to look at the future of couponing, especially how couponing will work in the information age. As far back as 1998, coupons were available on the Internet, and electronic clearing was undergoing early testing. At the time, it seemed that electronic paperless couponing was just around the corner. But that has not happened. In fact, the combination of technological and consumer issues surrounding couponing has left us in a place where precious little has changed since 1998. Internet coupons are still less than 1% of all coupons distributed, and virtually all clearing still involves shipping bags full of scraps of paper to Mexico.

Internet couponing has faltered to date for a variety of reasons. Manufacturers are worried about fraud, retailers are worried about cashier training and, most importantly, consumers have been given a couponing experience which is not fundamentally superior to the couponing available to them through traditional channels. I am reminded here of the very wise words of Ted Leonsis, one of the founders of AOL. Ted said that understanding the Internet was simple. The Internet developed a new "version" of pretty much every activity. If the Internet version is better, it is adopted very quickly by a large percentage of consumers. Examples of this behavior include checking stock quotes and buying airplane tickets. The Internet version is simply better and, as a result, has come to dominate the traditional version.

If the Internet version is less good than the traditional version, however, the result is that

consumers try it once and never go back. Examples of this can be seen at the tombs of companies like Webvan, and Pets.com. No matter how convenient Internet ordering may be, the cost of shipping a 50 pound sack of dog food makes this business a bad idea.

And, finally, if the Internet version is just like the traditional version, then some, younger, more tech-oriented consumers will migrate to it, and it will continue to grow as the population ages. Examples of this situation are movie ticketing, clothes buying (except shoes) and, back to our subject, couponing. In recent years, Internet couponing has not disappeared, but rather it has bumped along at a low level, appealing only to those consumers who are either technologically oriented or are willing to go to great lengths to find coupons. There is nothing wrong with the current state of Internet couponing, but it is not positioned to dominate the field.

Over the past few months, however, things seem to be changing significantly. A consensus has emerged among leading manufacturers, retailers and coupon suppliers regarding electronic couponing, and this consensus promises to deliver an Internet couponing approach which provides consumers with a truly superior couponing experience.

The emerging consensus revolves around the now-standard ability of POS systems to manage multiple streams of offers on a single personal identifier, such as a frequent shopper card. This allows a single card (or other personal identifier, such as a phone number) to be used as the delivery vehicle not only for the scan-downs made available to all card holders but also for delivering offers selected by a specific consumer via the Internet.

The consensus vision for Internet couponing begins with a simple sign-up process which allows consumers to go online and link together their individual identifier (card, phone number, check, whatever) and the ways in which they would like to hear about offers (email address, PDA address, cell phone number). The sign-up process is simple, easy and results in a clear pathway from the store to the consumer and back to the store.

Periodically the retailer communicates with the consumer through the selected path – email, cell phone, etc – and the consumer reviews the specific offers for the period. These offers could be made to everyone who has signed up, or they could be highly-targeted by the retailer and the retailer's manufacturer partners. The consumer then selects the offers which appeal, and by selecting those offers, the offers are loaded onto the POS system.

When the identifier is seen by the POS system, it looks for the participating UPCs and PLUs and provides the offers to the consumer on an instant, paperless basis. Consumers

look at their register tape and see that the specific discounts have been taken on the specific products purchased. The discounts are delivered to the consumer easily, cleanly and effortlessly. And no paper is needed for the process.

Finally, the POS system tracks all of the discounts which have been delivered as part of the system's transaction logs. These Tlogs are then reviewed electronically to identify all of the participating discounts. A summary of the discounts is delivered to one of the existing coupon clearing houses, which process the Tlog records, verifies the discounts and invoices the manufacturers as appropriate.

While the outline reviewed above represents the consensus process for electronic couponing, there are significant details to be developed and significant room for creativity. One of the interesting elements about this consensus is that while retailers and manufacturers all need to agree to proceed using the approach described above, the process is sufficiently flexible that it fosters creativity rather than limiting it. The electronic discount format provides a platform from which manufacturers and retailers can get creative in maximizing the results of their individual electronic couponing efforts.

Over the next few weeks and months retailers will be making some key decisions about electronic couponing and its implementation. It will be important for retailers to make the right set of decisions in order to set the stage for the best possible electronic couponing implementation. While creativity is key, and each retailer needs to develop the specific implementation which he or she thinks provides the best marketing implementation, there are a few guidelines to retail implementation of electronic couponing which I think are crucial. Specifically:

- 1) **Do it** Manufacturers are gearing up to participate; consumers are becoming aware of the concept and are wanting to get good content. The time to watch and see what develops is past, and the time to act is now. Retailers need to be proactive about building the basic systems needed to support and execute this next generation of electronic couponing.
- 2) **Limited Exclusivity** Retailers will be approached by a variety of marketing services suppliers who wish to provide content for this new medium. You need to meet with all of them, find out what they offer, and discuss the terms they are offering. But the one thing you should not do is provide burdensome, long-term exclusivity to any marketing services vendor. What consumers want is content – more offers, and more precisely targeted offers – and in order to meet their needs, retailers

need to work with all of the content providers and develop an approach with integrates various content streams into one integrated communication approach for your consumers.

- 3) Go electronic** Electronic couponing is happening, and is well on the way to acceptance by retailers, manufacturers and consumers. Retailers need to resist the temptation to continue to rely on home-printed paper Internet coupons, and need to embrace the electronic future. There is enough change here that it is important to provide clarity that the “new way” for couponing is paperless and instant. This change is key to providing consumers with a new model for couponing which is clearly superior to the traditional approach.
  
- 4) Address all aspects of the process** Each retailer needs a complete solution. Almost is not good enough in this case. Each retailer needs to qualify and hire quality providers of content, content delivery, consumer communication, POS integration and clearing. In some cases, vendors might be able to meet more than one of these requirements, and using one vendor for multiple applications can provide better integration and less need for hands-on management – but retailers need to be sure that each vendor really knows how to execute each of the processes they sign up to manage. Retailers need to balance the desire for a one-stop, integrated system and the need to be sure that all aspects of the system are properly covered.
  
- 5) Use experienced vendors** This process is too important to fail. Because of that, it is not a time to select companies with a “bright new idea”. Those companies are great when it comes to enhancing the base infrastructure with new and creative ideas, but when you are selecting vendors for the core elements of electronic couponing, you need to make sure that these vendors know the market, have experience in the field, and can be relied upon to deliver infrastructure reliably. Specifically, the couponing process is a complex one, and specific experience in the distribution of coupons through the system is important. Make sure your vendors have experience in the field and are focused on this specific activity.

In conclusion, paperless Internet couponing is happening, and it is happening now. All smart retailers need to participate and they need to make sure that as they begin the journey towards the implementation of the digital future that they are taking the critical steps needed to assure success.