

Loyalty Marketing Solutions

WHITE PAPER

Making Digital Coupons an Effective Part of Your Loyalty Program

Digital coupons are an important element of a comprehensive loyalty program. Digital coupons are not loyalty platforms in and of themselves, but an effective means of presenting offers to shoppers that are redeemed at the point of sale. Loyalty programs encompass a wider range of benefits including fuel rewards, continuity programs and other complex promotions

This white paper explains the similarities and differences between digital coupons and loyalty programs, and suggests a model by which loyalty principles can be applied to digital coupons, targeting them to specific shoppers and thereby improving their redemption rates and resulting impact on sales growth.

The Digital Coupon Process

Digital coupons are a popular and effective means of delivering offers to shoppers. Retailers offer digital coupons to shoppers via their website, email, mobile and social media channels. Digital coupons are a modern alternative to traditional paper coupons, with the benefits of easier targeting, faster settlement and lower risk of counterfeiting and fraud.

In the digital coupon process, retailers partner with a content aggregator (such as YOU Technology) which provides consumer

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packaged goods (CPG) offers from content providers including Coupons.com, Cellfire/ Catalina and SmartSource. Retailers may also add their own content such as offers for private label products or specific CPG discounts.

Shoppers enroll in the retailer's digital coupon program and are assigned a unique identifier which corresponds to their digital

coupon account. Shoppers select (or “activate”) digital coupons that they view on the retailer’s website, email, mobile or social channels. Shoppers can also select coupons on a variety of third-party sites such as cellfire.com or coupons.com.

As the shopper selects the digital coupons, they are automatically loaded into the shopper’s digital coupon account. When the shopper purchases the item that satisfies the offer criteria, the shopper automatically receives the discount at checkout.

Retailers can collect data from the activation and redemption of digital coupons and can analyze this data to segment shoppers and personalize digital coupon offers for individual shoppers.

The Loyalty Platform Process

Loyalty platforms are more comprehensive, flexible platforms in which shopper benefits can be manifested in a wide range of rewards including points, fuel rewards, credits toward continuity awards, contest entries, digital coupons, and other third-party benefits. Loyalty programs are a strategic part of a retailer’s marketing

“Loyalty programs are a strategic part of a retailer’s marketing strategy, while digital coupons are a tactic of that strategy.”

strategy, while digital coupons are a tactical element of that strategy.

With a loyalty platform, the retailer works with the platform provider to design a loyalty program customized to the retailer’s needs along with a program implementation plan and a marketing calendar. Similar to the enrollment process with digital coupons, shoppers enroll in the retailer’s loyalty program and are assigned a unique identifier which corresponds to their loyalty account.

The loyalty account stores accumulated shopper benefits in whatever currency is desired by the retailers (points, digital coupons, fuel rewards, credits toward

a continuity award, etc.) The retailer communicates loyalty program information to shoppers both directly (via printed receipt) and via its website, mobile app, email newsletters, social media, etc.

With the shopper data captured and organized in a data warehouse, retailers can analyze the data to classify shoppers into meaningful segments such as highest volume shoppers, most profitable shoppers, occasional shoppers, new shoppers and category affinity shoppers (baby, pet, coffee, etc.) Retailers can also analyze each shopper's purchase history to design personalized targeted offers that are particularly relevant to that shopper.

Comparing Digital Coupon Programs and Loyalty Programs

Shopper self-identification

Loyalty platforms and digital coupon programs both enable retailers to capture data by shopper, to the extent that shoppers self-identify during the checkout process. In the best loyalty programs, 60% of all shopper trips are shopper-identified, and 80% of all sales result from shopper-identified transactions. Retailers with stand-alone digital coupon programs usually see a much lower level of shopper identification.

This metric is critical to the success of any loyalty or digital coupon program because a primary goal of these programs is accumulating data by shopper. If the percentage of shopper-identified transactions is low, the retailer is not

capturing enough data by shopper for their program to deliver meaningful results. Without a high percentage of shopper-identified transactions, the retailer does not have enough data to accurately segment shoppers or to develop effective personalized offers.

Third-party marketing programs

Loyalty programs serve as a platform onto which third-party enhancements can be added, including fuel rewards programs, receipt-scanning rebate programs and beacon apps. The open architecture of loyalty programs enables retailers to quickly take advantage of innovative marketing programs without a complex POS integration. Examples of third-party programs that integrate with loyalty platforms are:

- Fuel programs (Excentus, Speedway, Fueland)
- Receipt-scanning rebates (ibotta, SavingStar, Checkout 51)
- Beacon apps (Birdzi, ShopperRadar)

Real-time integration with the POS system

The leading loyalty platforms offer real-time integration with the POS system, which is generally not a characteristic of digital coupon programs. Real-time integration enables a shopper to receive a benefit during the same transaction in which it is earned. For example, a shopper could qualify for a free item in a continuity promotion and actually receive a credit for that item in the same checkout process. There is no delay between the time when a benefit is earned and when it is delivered.



“Retailers can improve the performance of their digital coupon programs by applying loyalty principles and targeting shoppers with the most relevant digital coupons.”

Personalizing and Targeting Digital Coupons

Digital coupons can play an important role in a loyalty program and can be made even more effective with the application of loyalty marketing principles. Rather than presenting the same generic set of digital coupons to all shoppers, the digital coupons can be targeted to those most likely to use them. This process of “scoring” digital coupons and targeting them to specific shoppers can enhance a retailer’s loyalty program and has demonstrated positive results.

In the targeting process, the retailer scores and ranks its digital coupons against its shopper database to match the coupons to the most likely users. Each digital coupon is scored against the shopper database using shoppers’ past purchase behavior and other key criteria. For example, a scoring hierarchy might look like:

1. Shopper purchased promoted item
2. Shopper purchased from promoted category
3. Other shoppers in the same store purchased the item
4. Other shoppers in the same store purchased from promoted category

For each shopper, the digital coupon is scored and ranked against other coupons by its relevance to the shopper. The most relevant digital coupons are then presented to each shopper via the retailer’s website, email, mobile and social channels. The targeted digital coupons are more attractive to each shopper and therefore drive higher redemption and purchases.

“The results of this digital coupon scoring program confirm that shoppers respond better to relevant offers and that retailers can improve the performance of digital coupons by targeting them to individual shoppers.”

ProLogic recently implemented a digital coupon targeting program with a mid-sized retailer. Digital coupon offers were targeted to shoppers during an 8-week period. Each shopper’s activity was compared to the same 8-week period in the prior year when untargeted digital coupons were used. The digital coupon targeting program generated the following results compared the prior-year period:

- Digital coupon redemptions increased 56%
- Digital coupon redeemers increased their trips by 37%
- Total sales for digital coupon redeemers increased by 14%

The results of this digital coupon targeting program confirm that shoppers respond better to relevant offers and that retailers can improve the performance of digital coupons by targeting them to individual shoppers.

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A woman with brown hair tied back, wearing a white tank top and a light-colored cardigan, is smiling and looking down at a red tomato she is holding in her right hand. She is standing in a grocery store, with various produce and shelves visible in the background. A semi-transparent purple box is overlaid on the image, containing the quote.

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Conclusion

Loyalty programs and digital coupon programs have some overlaps in features and functionality, so it's important to distinguish the differences between them. Loyalty programs are comprehensive, flexible platforms that encompass a range of promotions including fuel rewards, continuity programs and points programs. While digital coupons are a highly effective means of delivering offers to shoppers, they offer only a subset of the functionality provided by loyalty programs.

Retailers with digital coupon programs can improve their performance by targeting shoppers with the most relevant digital coupons. Using this approach, retailers can maximize the redemptions and purchase impact of digital coupons as part of their larger loyalty marketing strategy.

For more information about loyalty marketing programs and digital coupon programs, contact ProLogic at info@prologicretail.com.

