

A First Data White Paper

Improving the Value and Performance of Online Offers

Welcome to the age of Universal Commerce — commerce that is integrated, personalized, secure, open, and smart.

The lines between in-store commerce, eCommerce, and mobile commerce are blurring. Consumers expect a more integrated buying experience that is quick, consistent, secure, and available wherever they happen to be, at anytime, and through any type of device.

In First Data's continuing series on Universal Commerce, this paper discusses how offer providers, merchants, and consumers can improve the effectiveness of ecoupons, daily deals, and loyalty programs.

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Consumers continue to demand anytime-anywhere access to information and payment functionality. The result is that in-store commerce, eCommerce, and mobile commerce are blending to become Universal Commerce. This influence of online activity on “offline” or in-store behavior is especially evident with consumers’ use of ecoupons and daily deals. Accordingly, merchants are examining their strategies around offers.

“Will \$10 off \$20 entice new shoppers to the store? Will those new shoppers come back? Will existing shoppers buy more, or simply subsidize their current purchases? Was my investment worth it?”

A panel of experts from RetailWire, an industry discussion forum, recently posed these questions when examining merchants’ concerns with offers.¹ This white paper explores these gaps in information and introduces a new concept to address them: the offers transaction platform.

Offers They Can’t Refuse

Offers, which include ecoupons, daily deals, loyalty, and group deals, have proven popular with consumers, merchants, and offer providers alike. There are several factors driving their popularity.

Consumers Love Them

Everyone loves a good deal. Whether it’s a coupon for 50 percent off a pizza, or a free night’s stay awarded for every ten paid nights at a hotel chain, consumers seek bargains. A sampling of statistics shows the trend.

- The average American household participates in 18 consumer reward programs.²
- According to the 2011 Coupon Facts Report from NCH Marketing, 78 percent of all consumers in the U.S. redeemed coupons in 2010.³
- In 2011, eMarketer estimated that nearly one half of the adult U.S. population would redeem an electronic coupon.⁴

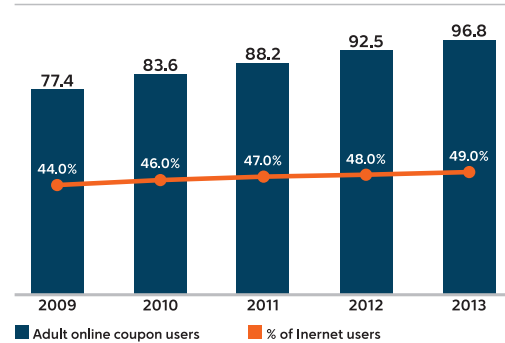
While offers typically provide moderate to steep discounts for products and services, this is not their only appeal for consumers. Today’s deals and offers programs also enable consumers to seek and track the products and services they want.

Merchants Meet New Customers

Offers and rewards programs are great ways for merchants to attract new customers, promote new products and services, and encourage increased visits and more spending. In addition, using online deals and coupons, merchants can generate high exposure with little or no up-front investment—unlike the conventional approach to advertising, which includes buying direct mail, radio, and print ads.

Another aspect of daily deals that appeals to merchants is immediate revenue. The merchant receives a portion of the consumer revenue immediately after the consumer buys the deal. And, the offer provider pays the balance due to the merchant after a short period to allow for any returns. Thus, group offers accelerate cash flow for the merchant.

US Adult Online Coupon Users, 2009-2013
millions and % of adult internet users



Note: Internet users ages 18+ who redeemed an online coupon/code for online or offline shopping in the past year; includes group buying coupons and coupons/codes accessed via mobile browser or email.
Source: eMarketer, May 2011

Offer Providers Earn Revenue for Providing Reach

Offers have proven to be highly effective at influencing consumer behavior, and they are changing the way merchants think about marketing. According to Steven Boal, CEO of coupons.com, it is a trend that is likely to continue.

"More and more consumers are making digital coupons a part of their shopping routine, accessing them across the entire digital domain," said Mr. Boal. "With the continuing weakened economy, growing online and mobile access by consumers, an increasingly deals-oriented society and rising food prices, we expect consumers will increasingly look to digital coupons as an effective means to cut costs and save money."⁵

In the daily deal space with few barriers to market entry, the number of providers has exploded. While the top two providers, Groupon and Living Social, account for roughly 70% of the market, there are estimated to be 700 more deal providers operating in the U.S., and 3,000 operating worldwide."⁶

Yet for all of their apparent advantages, online offer campaigns have some drawbacks. These shortcomings affect both the consumer and merchant experiences, and in some cases hinder the growth of the offer provider's business model.

Opportunities for Improvement

No promotional program is perfect, and daily deals are no exception. Merchants have to absorb deal discounts while questioning whether newly attracted customers will actually become repeat customers. Consumers often feel inundated by offers and have to remember to redeem them before they expire. Offer providers need to continue to provide a more valuable service so they can grow their merchant base, encourage more offers from merchants, and increase purchases from consumers.

Many of these challenges aren't unique to offers. In fact, they are similar to the traditional challenges of marketing campaigns.

Marketing Without Measurement

Merchants face a dilemma for offer campaigns. Merchants applaud the ability of offer providers to reach large, ready-to-buy audiences quickly and efficiently, but criticize them for their inability to show that the results outweigh the costs of participating in the offers campaign.

“We expect consumers will increasingly look to digital coupons as an effective means to cut costs and save money”

Steven Boal, CEO of coupons.com

Since key pieces of data are missing, most merchants cannot objectively track a promotion's effectiveness. Did coupon redeemers buy more than just the offer value on their visits? How many became regular customers? How often did net new customers return and how much did they spend relative to established customers? These and other questions go unanswered.

In addition, the lack of redemption tracking leaves a hole in the offer provider's value proposition to merchants. Erick Schonfeld, editor of TechCrunch, pointed out in a recent blog, "For the vast majority of their deals, [publishers] do not track whether or not they are ever redeemed, much less the amount each consumer actually spends at the store or restaurant once they show up."⁷

Paper Pushing for Consumers and Merchants

While mobile presentation of offers exists, most redemptions are paper-based, which presents several drawbacks for consumers who want to take advantage of an offer:

- The consumer must print and store a deal's voucher.
- The consumer must remember to carry the voucher on a shopping trip to present during checkout at the merchant's location—if they forget, the offer can't be redeemed.
- Retrieving and presenting coupons increases the consumer's checkout time.
- Consumers may be reluctant to publicly use a coupon in certain business or social situations.

Paper-based coupons also present challenges for merchants. Redemption of group offers and other forms of online couponing typically requires cumbersome procedures at the point of sale, slowing down the speed of service at check out.

Extensive cashier training may also be necessary. Although Whole Foods and a handful of other large retailers have experimented with offers, the prospect of training thousands of employees on a new process for redeeming vouchers has largely limited the daily deal space to small merchants.

Another headache for merchants is accounting for redemptions. Redeemed offer vouchers often stack up in the back office, awaiting manual processing, which can be error-prone. Sucharita Mulpuru, a Principal Analyst at Forrester Research, recently noted in a blog posting that the merchants she has interviewed "are keeping track of redemptions in rudimentary Excel spreadsheets."⁸

The challenge of redemption accounting magnifies the inability to measure success. Most merchants lack the tools to effectively track the acceptance and redemption of offers, so they have little visibility into whether a campaign has succeeded or failed. Automated redemption support among offer providers is highly variable; only the larger offer providers give merchants tools or portals for tracking redemptions—and even those require manual input.

Missing Data Undermines the Value Proposition

One reason merchants find the offers campaign appealing is that it is performance based, which guarantees that no money will be spent unless the promotion brings in real customers. It only costs merchants something if consumers buy the deal. Although the business model is performance based, in practice, it doesn't capture information needed to truly measure performance.

The way offers typically work today leaves a data gap. No one has full visibility into the redemption of each offer purchased or the ability to generate actionable data based on a particular promotion's redemptions. Ultimately, the inability for both merchants and offer providers to "close the data loop" between offer purchase and offer redemption is the greatest weakness of most online offers models. With daily deals, there is usually no direct, electronic link between the online deal purchase and the deal's offline redemption. With other types of online offers, the absence of a pre-purchase requirement doesn't change this inherent flaw: The consumer still walks in with a piece of paper that is not easily tracked back to specific marketing objectives.

No one has full visibility into the redemption of each offer purchased or the ability to generate actionable data based on a particular promotion's redemptions.

Additionally, most merchants don't know how many respondents are new customers or returning existing customers. They don't know sales uplift, average transaction volume of new customers, customer life cycle profitability, and other metrics that merchants

use to fine tune their marketing efforts. And, they lack a mechanism for comparing demographic profiles of offer-attracted customers against existing customers.

Poor trackability hurts offer providers, too. Even though they influence customer behavior, offer providers can't provide information to show how well it works in the context of a marketing and sales strategy. Mr. Schonfeld of *TechCrunch* also highlighted the failure of offer providers to close the redemption loop:

"...the ultimate prize everyone is going after right now is how to close the redemption loop. The redemption loop starts when a consumer sees an ad or an offer for a local merchant, and is completed when the consumer makes a purchase that can be tracked back to the offer. If you know who is actually redeeming offers and how much they are spending, you can be much smarter about tweaking and targeting those offers."⁹

Merchants of all sizes will ultimately weigh deals based on a simple value proposition: What are they actually getting for their participation in offers-based promotions? If ROI can't be proven, management is unlikely to rely heavily on offers-based marketing over the long term.

There are solutions on the horizon to help consumers, merchants, and offer providers close the redemption loop. The implementation of an offers transaction platform is one of the most promising approaches.

Closing the Loop with an Offers Transaction Platform

The first step in closing the redemption loop is to view offer redemption as a transaction.

When a customer redeems an offer to pay for a product at the point of sale, it is a transaction—just another form of a non-cash payment. As such, it can and should be processed using a payment processing system.

An offers transaction platform is a payment processing system that is tailored to support online offers. In conjunction with the offer provider's systems, it tracks offers from the moment they are purchased to the moment they are redeemed. It not only automates the redemption process, it ties each offer to an individual consumer's payment account.

Here's how it works.

Inside the Offers Transaction Platform

An offers transaction platform provides offer transaction authorization based on these key stakeholders:

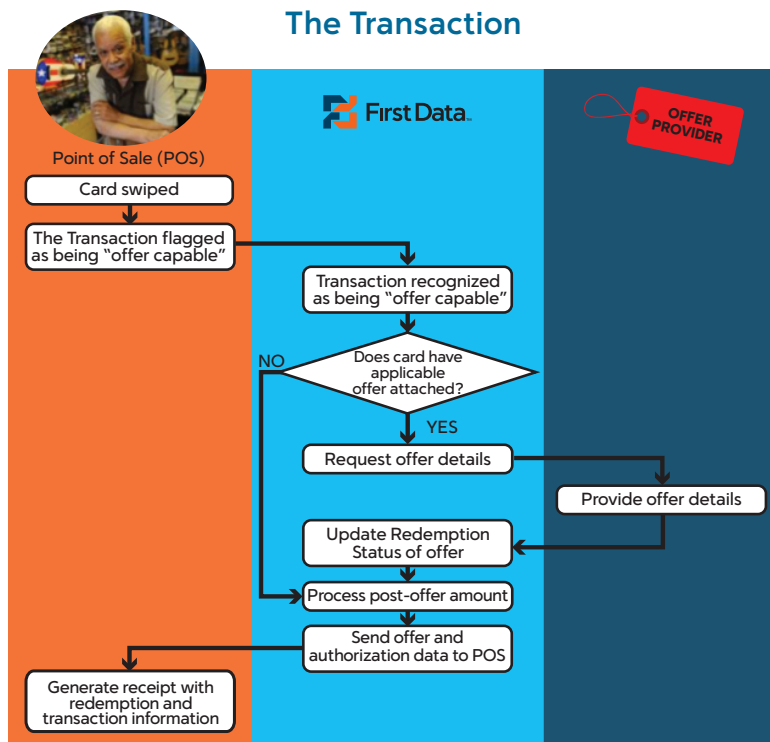
- Enabled offer providers – These are providers who publish offers that are linked to the offers transaction platform.
- Enabled merchants – These merchants agree to run an offer using the platform through enabled offer providers.
- Enabled consumers – Consumers who purchase the offer and choose to link it to their card.

Now, the process is set. When the consumer visits the merchant, selects the service, and swipes the linked card, the value of the offer is automatically applied to the transaction. A closer look at how the platform handles an offer transaction reveals these process steps:

1. When the consumer purchases a deal or virtually clips a coupon, the existence of the offer is electronically stored and associated with the consumer's registered cards. The consumer can register multiple cards and can therefore have the offer associated with multiple payment cards.
2. When the consumer visits the merchant to redeem an offer, they present their card for payment of the goods or services: their normal purchase routine.

3. When the transaction is sent to the processor for approval, the existence of an offer is recognized, tracked as "redeemed," and the value of the offer is determined.
4. The transaction processor updates the transaction with the value of the offer and sends the new information with the adjusted total for authorization—if there is any remaining balance to be charged to the consumer. This happens in real-time using the same infrastructure used for payment authorization today.
5. The point of sale terminal automatically receives offer-related discount information applied to the transaction. It then generates a printed receipt that includes all transaction and offer redemption information.

An offers transaction platform overcomes the challenges of online offers by enabling seamless tracking of offline redemptions. Redemptions can occur in real time, happening automatically at the point of sale with no special effort by the customer or the cashier.



Benefits of Offers Transaction Processing

A Learning Campaign Cycle

With the key players enabled for offers transaction processing, the entire offers value proposition changes for merchants. Now it becomes possible to track campaign performance in detail and in real time. With this capability, a merchant’s offers-based campaign cycle looks very different:

Launch – A merchant initiates an offer through a deal provider.

Promotion and Sale – Offers are promoted to targeted market segments through publishing sites or the merchant’s own website (self-published). Consumers buy the offer and choose to link it to their payment card.

Redemption – When consumers present their linked payment cards at the point of sale, qualified offers are automatically processed as redemptions during the transaction.

Redemptions can occur in real time, happening automatically at the point of sale with no special effort by the customer or the cashier.

Reporting – The merchant and offer provider receive detailed reporting on offers, redemptions, related transactions, and other relevant data specified by the merchant. The data is used to modify offers in progress and design new campaigns, and the process is repeated with improved results.

For Consumers: Hassle-free Redemption

With card-linked offers driven through an offers transaction platform, the consumer enjoys a better in-store experience.

Inundated with increasing numbers of offers, they will find card-linked offers easier to manage and redeem—no more paper vouchers at the merchant point of sale. Consumers also get immediate gratification—and receipt confirmation—from knowing the discount was applied correctly, with no hassles. Lastly, leaving a coupon at home or losing it is no longer a problem with the card-linked method.

For Merchants: Less Paperwork and More Insight

Processing online offers as an integral part of the transaction completely alters the value of offers for merchants:

- **The offers transaction platform closes the redemption loop with streamlined offer accounting.** The redemption process is fully integrated at the point of sale. No special training of employees is needed, nor are there any extra steps required, for card-linked offer redemption. No paper coupon or voucher is needed. No particular payment card brand is required. No spreadsheets or portal log-ins are required to validate and track offers. Card-linked offer redemption does not slow down a normal transaction. Discounts or adjustments can be applied in real-time during the checkout process, or during a batch settlement processing for display on the customer's account.
- **The offers transaction platform provides greater visibility for better campaign performance.** All promotions are traceable from consumer acceptance through redemption. This enables merchants to analyze data to determine how coupons are purchased and redeemed as well as what effect the campaign has on other kinds of consumer behavior and buying patterns.

With automatic tracking of offer performance, the merchant and the offer provider both gain the insight they need to improve targeting and performance of future offers. Merchants have better tools to attract and identify customers who return regularly. Offer providers can now show merchants how their latest campaigns compare to prior campaigns and multi-merchant performance benchmarks.
- **There is no up-front investment or ongoing cost.** Merchants do not have to purchase new equipment to participate. There are no added transaction costs for merchants.

An offers transaction platform provides a level of manageability and transparency that makes card-linked offers a powerful marketing tool for even the largest retailers. They can now build offers-based national campaigns with varying degrees of complexity and segmentation. They can do this without incurring large ramp-up costs like special staff training and redemption procedures.

Analytics: The Key to Success with Online Offers

How did my offer perform? That's the bottom line that every merchant wants to know. This knowledge requires tracking redemptions, comparing them to non-coupon transactions, and tracking customer behaviors over time.

The more promotions an offer provider and a merchant manage together, the greater the body of data they will have for analysis, and the more accurately they can target campaigns for specific marketing and sales outcomes. Having rich data lets campaign planners evaluate and fine tune their offers. This is a value proposition they can't achieve with any other type of promotion. They will know what percentage of offers have been redeemed, where and when they were redeemed, what the average ticket size was for new and existing customers, frequency of customer purchases, and more.

Campaign planners will also be able to evaluate offer history by location, seasonal influences, and special hours. They will gain insight on how to enhance an offer's appeal with creative cross-selling, bundling, or special promotions to increase business during slack periods.

The offers platform also provides a complete, detailed, and immediate picture of a campaign's effectiveness. This enables merchants to monitor and modify campaigns in real time.

For Offer Providers: More Knowledge Means Better Service

By linking offers to consumer payment accounts through an offers transaction platform, offer providers become more engaged with their merchant customers and deliver a deeper level of service that promises better campaign results. With more reporting options and better performance data, merchants are more receptive to adjusting on-going campaigns and launching follow-on campaigns.

For example, the publisher can use analytical information to prove its value to merchants. (e.g. "Our average visitor accepts 3.5 coupons per visit with an average spend of \$45.") This information allows for more targeted campaigns designed to build loyalty among new customers, increase ticket size, adjust in store product offerings, and pursue other strategic marketing objectives.

Getting Started With an Offers Transaction Platform

To take full advantage of an offers transaction platform, merchants and offer providers need to begin at the same place: a payment processing partner with a robust platform that supports offers transaction processing.

When looking for an offers transaction processing partner, it makes sense for both merchants and offer providers to start with their existing payment processor. Of course, not all payment processors are able to provide an offers transaction platform service. When considering offers transaction platform solution providers, merchants and offer providers should look for these key capabilities:

- **Large vendor with an extensive payment processing network.** The payment processor needs to have a payment processing network that includes highly secure transaction processing on a massive scale, global transaction authorization capabilities, far-reaching banking and merchant relationships, an extensive in-store presence, and extensive experience processing online and mobile transactions. The larger a solution provider's merchant network, the greater opportunity for offer providers to extend card-linked offers services to a vast universe of merchants.
- **Robust offers transaction platform technology.** The payment processor needs to have an offers transaction platform that fully integrates with its payment processing solution. The platform should be agnostic to payment type, and it should be flexible enough to support practically any kind of offers business model as well as merchant self published offers, social networking based offers, offer partnerships, and other kinds of emerging online offers.
- **Advanced reporting.** The offers transaction solution needs to support advanced offer transaction reporting, including full integration into transaction receipts printed at the point of sale, detailed campaign reporting for merchants and offer providers, and consumer statements that include offers activity.
- **Advanced analytics.** The payment processor should be able to offer detailed analytical querying and reporting in relation to standard transactions, offers redemption, consumer spending patterns, campaign performance, and other metrics. The payment provider's analytical solution should be highly customizable.
- **Simplified technical solution.** For merchants, the offers transaction platform solution should be a simple upgrade that does not involve point-of-sale hardware replacement. For offer providers, the solution should involve a comparatively low impact integration of payment processing and consumer profile data.

Offers and Universal Commerce

Consumers are forcing the convergence of online and offline commerce into an integrated Universal Commerce experience. In this world of more mobile, better informed shoppers, traditional marketing campaigns are undergoing a major transformation. Special offers and promotions are playing an increasingly important role in this change.

Today's generation of offers is more precisely targeting consumers and enabling consumers to self-select their promotions. Offers are also reaching consumers no matter where they are. Linking offers to individuals' payment cards and tracking offers performance through an offers transaction platform provides merchants with an end-to-end view of how consumers actually respond to campaigns. In fact, the offers transaction platform does something more.

By increasing data quality, eliminating paper handling, and automating the redemption process, an offers transaction platform lowers promotion campaign costs for large merchants. It now becomes possible to publish large scale promotions, narrowly targeted campaigns, specialty campaigns, and even run multiple campaigns at once, with no special training for check-out personnel and no additional overhead spent on handling vouchers.

These capabilities open the door to new kinds of campaigns and services, such as:

- Increasingly targeted campaigns
- Seasonal and regional cycles of multiple campaign strategies targeting a spread of customer demographics
- New and more flexible offers partnerships based on product and service synergies
- New strategies around self-published offers and publishing offers through social networks
- New kinds of product and offer tracking services for consumers
- Greater coordination between short term offers and other promotional media
- Greater coordination between short term offers and real time locations information

When mobile, social, and other marketing channels are combined with the advanced analytics and reporting available from an offers transaction platform, the opportunities for using innovative marketing tactics to thrive in the new Universal Commerce environment grow exponentially.

For more information about the offers transaction platform and card-linked offers, contact First Data or visit our website at FirstData.com

Notes

¹ Moss, Rick. "What Whole Foods Gained From Its LivingSocial Deal." *Forbes.com*, September 15, 2011

² Andriotis, Annamaria. "6 Rewards Programs Worth Your Loyalty." *Smartmoney.com*. March 22, 2011.

³ NCH Marketing Services, Inc. "Coupon Facts Report, 2011."

⁴ Reese, Stephanie. "Quick Stat: 88.2 Million US Adults Will Redeem an Online Coupon This Year." *eMarketer Digital Intelligence*, June 6, 2011.

⁵ "Even After Recession, Shoppers Still Love Coupons." *RetailSails.com*. March 22, 2011.

⁶ "A Marketer's Guide to the Daily Deal Market Beyond Groupon and LivingSocial." *MarketingVOX*, August 29, 2011.

⁷ Schonfeld, Erick. "Closing the Redemption Loop in Local Commerce." *TechCrunch.com*, July 24, 2011.

⁸ Mulpuru, Sucharita. "Groupon: Scourge Or Phenom? Our Vote: Phenom. Here's Why." March 22, 2011.

⁹ Schonfeld, Erick. "Closing the Redemption Loop in Local Commerce." *TechCrunch.com*, July 24, 2011.



The Global Leader in Electronic Commerce

Around the world every day, First Data makes payment transactions secure, fast and easy for merchants, financial institutions and their customers. We leverage our unparalleled product portfolio and expertise to deliver processing solutions that drive customer revenue and profitability. Whether the payment is by debit or credit, gift card, check or mobile phone, online or at the point of sale, First Data helps you maximize value for your business.

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Sarah Owen oversees the strategic direction of First Data's mobile commerce and loyalty marketing solutions, including creating new solutions, enhancing existing solutions and managing the day-to-day operations. Owen has more than 10 years of experience in the payments industry with a history of managing and supporting launches and enhancements of innovative payment products. Prior to entering the payments industry, Owen launched and edited O02, a Houston lifestyle and entertainment magazine.

Owen holds a psychology degree from the University of St. Thomas in Houston. She has served as chair and vice chair of the Electronic Transactions Association's Technology committee. Owen is also an active member of Women Networking in Electronic Transactions (W.net), where she has chaired the mentoring and membership committees. In 2009, W.net recognized Owen with its DIVA Award for Spirit, honoring her energy and commitment to the organization's success.

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Kevin Knowles is responsible for product development of First Data's Merchant Loyalty solution. He has more than 15 years of experience of product development and systems consulting experience in the loyalty and relationship management industry.

Prior to First Data, Knowles previously held positions of vice president of Professional Services for SIZE Technologies, a senior development manager at Blue Martini Software responsible for development of Blue Martini's Contact Center and Relationship Marketing solutions, and multiple positions within Accenture's Communications and High-Tech practice, focusing on customer relationship management (CRM) solutions for Internet and Telecommunications clients.

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Prior to joining First Data, Amy spent 6 years with America Online Retention Marketing division developing and managing AOL-based loyalty and reward programs designed to acquire new customers, retain existing customers and drive specific consumer behavior on the AOL network. Amy began her career in credit card and database marketing where she utilized demographic, geographic & psychographic targeting as well as managed sales leads for B2B sales, telemarketing, direct mail, in-house research and competitor analysis.

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For more information, contact your First Data Representative or visit firstdata.com