A First Data White Paper

Going Beyond Redemption: Closing the Loop with Card-Linked Offers

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Introduction

David Ogilvy, commonly referred to as the Father of Advertising, once said, "Advertising people who ignore research are as dangerous as generals who ignore decodes of enemy signals." He was referring to marketers who relied on "gut feel" or personal experiences to make strategic decisions about creative execution, positioning and budget allocation. His criticism seems particularly relevant to the challenges merchants face regarding the management of today's online offers.
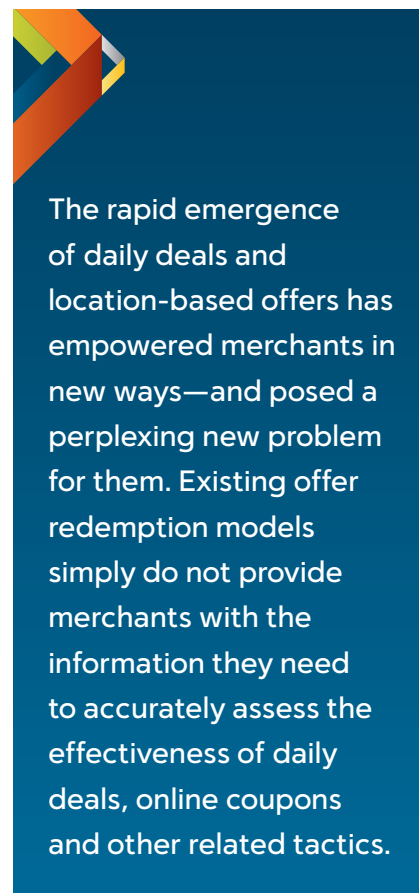
There is no questioning consumer appetite for location-based, real-time offers or the momentum of publishers who have created the space. Industry experts have projected annual sales to eclipse $4 billion in 2015, up from about $2 billion in 2011 and just $873 million in 2010—a 35 percent annual growth rate.[i]

Yet for all of this incredible popularity and growth, most merchants and marketers struggle with measuring the impact of online promotions, including daily deals, coupons and location based offers. *Which new customers made purchases specifically because of an offer or campaign? Was the offer overly generous? Would they have responded to a lesser offer? Did they make ancillary purchases? Did they come back? How often? Was the promotion profitable?*

The ability to answer these questions is at the core of *Going Beyond Redemption: Closing the Loop with Card-Linked Offers*—in short, it's the ability to create and deploy customer acquisition or loyalty-driven offers, and then apply precise and insightful analytics to measure the effectiveness of each offer or campaign. Measurement is clearly only half of the equation, however. Leveraging the data collected to make budgeting and pricing decisions—as well as tactical marketing choices—is critical for success.

The inability to close this loop is a common pain point for merchants and marketers of all sizes. A March 2012 survey by CMO.com shows that fewer than 20 percent of marketers have full confidence in their fundamental ability to measure campaign effectiveness and, subsequently, even less confidence in their ability to allocate budget and communicate campaign ROI to senior leaders. A similar survey conducted by Forrester Research reveals that 86 percent of marketing leaders rate measurement and accountability as their top challenges when it comes to planning and budgeting.

The CMO.com survey reported that the complexity of channels—along with an overwhelming flood of unstructured data—left marketers using "guesstimates" to determine the effectiveness of online promotions and reverting to "gut feel" when deciding where to place their bets when it was time to allocate marketing budgets.

> The rapid emergence of daily deals and location-based offers has empowered merchants in new ways—and posed a perplexing new problem for them. Existing offer redemption models simply do not provide merchants with the information they need to accurately assess the effectiveness of daily deals, online coupons and other related tactics.

Sales Lift and Lifetime Value

The emergence of online promotions, including daily deals, provides merchants and marketers with additional tactical choices when planning the allocation of marketing resources. Which tactics offer the best short-term value? Which ones are best at building customers for life? Which ones erode profitability and put unwanted strain on IT, training and POS infrastructure? Answering these questions, at some level, is critical for almost every merchant and marketer—and it can only be done with accurate, relevant, timely and complete data.

As noted in eMarketer's recent study, *Top Digital Trends for 2012*, however, the data and subsequent analytics which are required to make profitable decisions remain highly elusive: "To date, marketers have been content to dabble in digital and social marketing out of curiosity or peer pressure. In 2012, they will need to focus more sharply on hard metrics to gauge digital and social marketing ROI. They will be pushed in this direction by economic and competitive forces and by rising expectations from internal stakeholders who are more interested in the bottom line than in creative experimentation. As the stakes get higher, these media will have to provide concrete business benefits."

The two most illuminating metrics, for most merchants and marketers, are "sales lift" and "customer lifetime value."

Sales lift measures immediate increases in revenue. When consumers redeem offers, they may bring other buyers with them—or they may purchase other products or services not included in the offer. This immediate sales lift, which is not a typical benefit when dealing with serial bargain hunters, is considered a true incremental increase in revenue and a key contributor to positive ROI. Subtracting campaign costs from the incremental increase in profit provides an immediate or short-term ROI for a particular offer or campaign. If the merchant or marketer is able to identify the consumers who are truly driving "sales lift," ongoing marketing activity is much more likely to have an increasingly positive ROI.

Customer lifetime value is a slightly more subjective calculation, but it is probably more telling. If an offer or campaign results in repeat purchases over time by new customers, the incremental revenue and profit from that particular customer can be viewed as "customer lifetime value." Developing an accurate calculation of customer lifetime value requires access to data for both particular campaigns and for the spending habits of individual customers over a significant period of time.

Developing a clear understanding of sales lift and lifetime value related to a promotion provides merchants and marketers with a wealth of insight that is essential for the marketing process. *What percentage of a marketing budget should be allocated for promotions? How should promotions be structured? What levels of discounting or give-aways are compelling? What types of customers and prospects should be targeted for promotions?* Having this knowledge leads to more efficient marketing spending and improved profitability, both in the near-term and over the life of customer relationships.

The Rise of the Serial Bargain Hunter

While some merchants and marketers like to simply measure "net new customers" for their offers and campaigns, that particular metric has some built-in flaws.

The significant discounts and offers presented by various online promotions make it worthwhile to some consumers to continually hunt for and redeem offers for everything from breakfast cereal to truck tires. While merchants and marketers are publishing offers with a "try it and see if you like it" philosophy, serial bargain hunters have no intention of establishing new relationships with retailers, restaurants or brands.

If the goal of daily deals or other online offers is to increase profitability, then transactions with serial bargain hunters need to be viewed as a loss—or at least collateral damage in the battle to win new customers. The purchases they make are likely to generate little or no sales lift or long-term profit.

Measuring the net increase in new or first-time customers is clearly a metric that determines how compelling an offer is. This measurement, however, will include a mix of serial bargain hunters who generate little profit or longer term value—and earnest new buyers who offer the potential of both immediate sales lift and customer lifetime value. In short, measuring the broader metric of "net new customers" does provide some insight into how compelling your offers are, but it does not provide a detailed understanding of incremental increases in sales or long-term customer value.

Card-Linked Programs Emerge

Regardless of which metrics merchants and marketers seek from their offers and campaigns, most current systems simply do not provide an efficient way to capture the necessary data. The simple fact that many daily deal promotions and online offers require consumers to print coupons introduces the elements of manual labor, human error and "guesstimating" to the data collection process. Merchants could ask those who redeem offers if they are new or existing customers, make note of their ancillary purchases, record the data and analyze it. However, few consumers relish the idea of being interviewed at the point of sale. Also, any manual data collection process in a merchant setting is almost certain to be incomplete to the point of being inconclusive.

Clearly, automation at one or more points of the redemption process is essential. Collecting data at the point of redemption provides relevant insights to the immediate impact of an offer, but does not address the greater question of lifetime value. Therefore, it seems clear that one criterion for an effective solution would be data collection at the point of redemption and throughout the life of the customer-merchant relationship. Other criteria include: ease of deployment, operational simplicity, system reliability, process predictability, data security, ease of integration, scalability and breadth of coverage (i.e., the ability to capture data from all or most transactions as opposed to transactions that were the result of promotions distributed by a specific publisher).

Card-linked programs allow consumers to register their credit and debit cards, then use those cards to redeem daily deals, online coupons and other offers seem to make the most sense, because it builds on behaviors and platforms that are well entrenched. The redemption process is streamlined for the consumer and the merchant. No paper is required to redeem the offer—it is automatically linked to the consumer's registered payment card, which in turn provides valuable data about incremental spend and return visits. Linking metrics to payment cards provides a clear path for collecting the

lifetime purchasing data that is so critical to meaningful metrics. As mobile wallets and other near-field communications (NFC) technologies emerge, the most effective solutions will make that transition entirely seamless.

While it's becoming clear that payment cards and eventually mobile wallets must be fundamental parts of the solution, the question turns to approach. Several are emerging, and they can generally be viewed in three categories—closed, limited and open.

Closed Card-Linked Systems

Many large merchants—such as regional, national or international chains—have made moves to close the redemption loop by publishing their own daily deals, online coupons and other offers. This typically requires the use of a proprietary credit card or a loyalty card. The strength of this approach is that merchants are creating a redemption loop that is "closed" by definition. As long as customers are redeeming just the merchant-published offers, the system works well and relevant data is easily captured. The weakness of these closed systems is equally obvious. It may exclude data generated by offers from other sources, such as daily deal publishers. It also requires that the merchant commit IT resources to rapidly alter its systems and data collection processes to align with new innovations that will continue to flood the market. The merchant and its IT staff would likely find themselves in the difficult position of trying to innovate as quickly and broadly as the rest of the world—not an easy or enviable task.

Limited Card-Linked Systems

Daily deal publishers, card issuers and other consumer marketing entities are bringing their own solutions to market to help close the redemption loop. In many cases, financial institutions and publishers are teaming up to promote co-branded offer-based programs to consumers. Typically, consumers register a specific credit or debit card (or mobile application) with a specific deal publisher. Each consumer's redemption history for that publisher is tracked—as long as they use the registered card or mobile application. The strength of this system is a truly closed loop for the offers in question. The weakness of this approach is the lack of accountability for transactions not conducted with the registered card or payment device, or through a publisher that does not participate in the system. Like the closed systems, the merchant's world simply gets too small with this kind of system. Consumers typically carry and use multiple cards, and they like to redeem offers from multiple publishers. Also, merchants and marketers should seek to avoid limiting themselves to particular cards, publishers or other marketing sources.

Merchant and marketer dissatisfaction with traditional daily deals (i.e., serial bargain hunters and displacement of loyal customers in the bargain frenzy) has given rise to a loyalty-focused variation of the limited system. Customers register credit or debit cards with the provider, then earn loyalty points with participating merchants. There are no outbound deals and no paper redemptions. Customers simply earn points, miles, discounts or free merchandise for their ongoing loyalty. Providers collect data for each customer and deliver it to merchants and marketers. Like the daily deal publishers, however, the analytics are just one subset of all of the initiatives that are in a typical merchant's portfolio.

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The Power of an Open Card-Linked Approach

Understanding customer lifetime value for offers is top of mind, because of the rapid rise and wide deployment of daily deals. Daily deals also preoccupy the market in this regard because, of all available promotional tactics, their analytics are perhaps the most elusive. It is important to remember, however, daily deals are simply one tactic in a broad portfolio of sales and marketing tools—which is sure to grow as innovative ideas are brought to market.

First Data has launched the Offerwise[SM] solution, an "open" system for closing the redemption loop that does not lock merchants or marketers into specific publishers, sites, applications or card types. This new solution provides the ability to track individual marketing campaigns, such as daily deals, that can be integrated within the context of all marketing initiatives. This means merchants and marketers can make offers or conduct campaigns with multiple participating publishers (or issue their own offers) and combine the results of card-linked related purchases within a single system. They can also compare the effectiveness of multiple tactics—such as daily deals, loyalty rewards programs, couponing or free trials—and use the data collected to make more informed planning and budgeting decisions.

OfferWise is also designed to run on existing point of sale terminals. As noted earlier, merchants typically do not like the idea of having to deploy, maintain and train for multiple terminals and multiple payment applications. The OfferWise solution is completely transparent from an operations perspective—and it is designed to remain transparent even as merchants migrate to new payment technologies, such as EMV (smart cards) and mobile wallets.

	Closed System	Limited System	Open System
Types of offers/ deals supported	Only those published by merchant	Only those from by a specific publisher	Any offer or deal published by a participating publisher
Form factors supported	Merchant-issued loyalty cards or payment devices	Specific payment card registered by consumer with particular publisher	Any payment card registered by consumer
Data/analytics available	Limited only to merchant-published offers/deals	Limited to offers/deals associated with specific payment cards and publishers	Available for any transaction conducted with a registered payment card

Identifying Tactics with the Highest ROI

OfferWise asks consumers to register selected credit cards—or mobile account numbers—with the publishers or offer sources they choose, then use any of those registered cards or mobile applications when redeeming daily deals, participating in loyalty programs, or capitalizing on other promotions. When an offer is purchased, the transaction details are tied to a particular consumer—not one particular card, publisher or loyalty program.

Merchants and marketers can integrate this data into their existing reporting to understand customer lifetime value, create campaign ROI models and make informed decisions regarding marketing spend.

This open approach also expands the type of promotions merchants and marketers can deploy. For example, a merchant could choose to conduct a loyalty rewards program for a group of existing customers and compare the ROI of that initiative with a more traditional customer acquisition campaign. The loyalty rewards campaign could be designed to allow customers to accumulate points, which can eventually be redeemed for free or discounted products. OfferWise provides the ability to administer both the loyalty rewards program and track ROI from concurrent daily deals campaigns. This provides merchants and marketers with meaningful data they can use to make decisions about what type of promotions to run.

Each time a consumer uses the registered credit card or mobile account to make purchases, OfferWise software recognizes the account number and captures data that supplements information collected in the initial transaction. Merchants and marketers are then able to develop reports that help calculate customer lifetime value of those customers who were acquired as a result of an online promotion.

Conclusion

When examining the task of closing the redemption loop, three truths become evident. The first is that technology-enabled marketing innovation will continue. Location-based, real-time offers were not part of the retail experience just a few years ago. That kind of innovation will not only continue, it will accelerate—which means that the infrastructure and processes used to close the redemption loop need to be flexible and universal. They need to be able to accommodate what's next—and what comes after that.

The second truth is that consumers will not allow themselves to be limited. They will seek, demand and ultimately acquire freedom and flexibility in the way they make purchases. So, locking into a closed or limited system will ultimately provide less and less of the data and analytics that merchant and marketers need when attempting to determine sales lift and lifetime customer value.

The third truth is that margins will always be slim for retailers, and the requirement to invest in dedicated POS infrastructure or to fund proprietary technology development will continue to be difficult to justify, regardless of the importance of closing the redemption loop. Open, flexible and scalable POS infrastructures—capable of accommodating all types of offers, pro-motions and transactions—will be a fundamental requirement.

These three truths—combined with the absolutely essential need to look beyond redemption as efficiently and completely as possible—point to the need for a universal solution like OfferWise. So, no matter what kind of offer consumers redeem and no matter which card or mobile application they use, merchants will have fast access to the data and the insights they need to make profitable marketing decisions.

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.

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

[i] BIA/Kelsey, "BIA/Kelsey Revises Deals Forecast Upward Slightly, Due to More Entrants, Rapid Market Expansion and Growing Consumer Adoption," September 2011.