

First Data Market Insight

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# Solving Fraudulent Redemption: A Simple Solution for Coupons, Daily Deals and Other Promotions

The stories of unexpected losses related to discounts and promotions seem to pervade every retail category and affect merchants of all sizes. A regional retailer issues a \$10 coupon and budgets \$450,000 for the campaign. The coupon—which was intended for specific customers—goes viral and the merchant is flooded with people redeeming the offer. The volume of redemption consumes the initial budget in four hours and wipes out the marketing budget for the remainder of the year.

Quick serve restaurants (QSRs) have decided to curtail or close down loyalty programs because employees were recycling rewards points that were previously redeemed by customers. Casual dining restaurants experienced similar problems when issuing free birthday dinner coupons to frequent customers. The coupons were being redeemed multiple times by multiple people—sometimes well after the expiration dates. Big box retailers abandoned promotions because they could not find affordable and easy-to-add authentication for their POS systems.

Fraudulent redemption of coupons, daily deals and other offers catches merchants by surprise and turn promising promotions into painful, costly experiences. While specifics vary from one merchant to another, the essential problem is an inability to authenticate these discounts and promotions at the point of sale. Complex authentication solutions that require extensive programming, integration or training would defeat the purpose of running promotions: driving incremental profits. A new approach to redemption, however, offers a simple solution for ensuring that each offer is redeemed according to plan.

## Building on existing POS assets

Most merchants already possess POS functionality for accepting gift cards and managing a variety of traditional discounts. Now, merchants can quickly modify that existing infrastructure to authenticate coupons, daily deals, loyalty rewards and other promotions—if they use a transaction processor that can support this functionality. (First Data, for instance, now offers this through its PromoProtect feature).

In this new scenario, each promotional offer is assigned an authenticated coupon code. The code can be assigned specific parameters, such as one-time use, an expiration date and future activation. When a coupon or other promotion is redeemed, the POS system sends a unique 16-digit identifier to the processor's host system. That authenticates the offer and sends a coupon code to the POS system, which automatically applies the SKU, dollar value or percentage discount to the transaction.

## Two key attributes: transparency and accountability

Employee misuse of redeemed offers is a widespread problem for merchants in a variety of markets. This new authentication solution mitigates this risk by obscuring the redemption data from POS users: coupon codes and other information travel between the POS system and the host without being displayed.

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Furthermore, data related to specific promotions can be captured, sorted and compiled in a variety of standard or customized reports. This helps marketers and senior managers track the performance of specific promotions and make future investment decisions for their marketing dollars. It also provides a real-time view of costs while the promotion is in progress, which is clearly considered critical knowledge after the troubles experienced by merchants in so many campaigns.

## How the solution works

Set-up for the authentication solutions is relatively simple. Merchants define approved coupon codes and assign them to specific promotions, with a unique identifier issued for each individual coupon. The processor receives these codes and downloads them to the host. When customers redeem coupons or other offers at the point of sale, the unique identifier is transmitted to the server for authentication. If the offer has not yet been redeemed—and it is being redeemed within an approved period of time—the host applies the discount to the transaction and returns the coupon code to the merchant’s system for use in tracking and analytics.

A retailer’s sales clerks are no longer required to make decisions regarding authenticity or expiration dates. They also have no access to promotion details and cannot “recycle” offers. Customers are limited to the intended use of the offer—one time, in most cases. They also cannot distribute the offer to other consumers for multiple redemptions. This same process is applied to both physical (paper-based) and virtual (mobile or card-based) programs.

## Mitigating risk in marketing promotions

This simple authentication solution addresses the long list of problems experienced by merchants—especially in recent years—as they have attempted to capitalize on the revenue-generating benefits and popularity of daily deals, e-rewards, electronic coupons and other emerging marketing tactics. It brings a new level of predictability and accountability to the marketing process and mitigates the risk of substantial losses caused by fraudulent use of coupons and other promotions.



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