

Cross-Channel Customer Loyalty

Rewards, Promotions, and the Battle for ROI

March 2010

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Executive Summary

Customer loyalty is increasingly important for retailers as consumers continue to tighten their purse strings in a struggling economy. Customer loyalty begins with consumer insights, offer creation, and customer experience management. In the cross-channel retail environment, customer experience management, loyalty execution, and the customer shopping experience must be consistent across all channels. Between February and March 2010, Aberdeen surveyed 100 retail enterprises to determine the current state of cross-channel customer loyalty, and how Best-in-Class retailers - the top performers across several metrics - are utilizing customer data to improve communications across all retail channels.

Research Benchmark

Aberdeen's Research Benchmarks provide an in-depth and comprehensive look into process, procedure, methodologies, and technologies with best practice identification and actionable recommendations

Best-in-Class Performance

Aberdeen used the following four key performance criteria to distinguish Best-in-Class companies:

- Return on Marketing Investment (ROMI): 70%
- Increased year-over-year customer conversion rate: 34%
- Increased year-over-year customer retention rate: 20%
- Increased year-over-year customer frequency rate: 10%

Competitive Maturity Assessment

Survey results show that the firms enjoying Best-in-Class performance shared several common characteristics, including:

- Best-in-Class organizations are three times more likely than Industry Average retailers to utilize customer data to deliver personalized promotions across all channels for a higher share of customer wallet
- Sixty-two percent (62%) of Best-in-Class organizations, compared to 28% of all other organizations, utilize social media and online communities to maximize brand interaction with customers

"We realized the importance of engaging customers in ongoing dialogues before, during, after, and between transactions. In order to be effective in engaging customers, we needed to develop a capability that could deliver relevant, timely, and consistent messages across all customer touch points."

~ Matt Smith, VP Financial Services Marketing, Best Buy

Required Actions

In addition to the specific recommendations in Chapter Three of this report, to achieve Best-in-Class performance, companies must:

- Make mobile marketing a part of your cross-channel customer loyalty solution to match changing customer channel preferences
- Adopt an enterprise-wide CRM system to integrate customer data across all channels
- Utilize an offer optimization solution for creation, delivery, execution, and analysis of product promotions across all channels

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Chapter One: Benchmarking the Best-in-Class

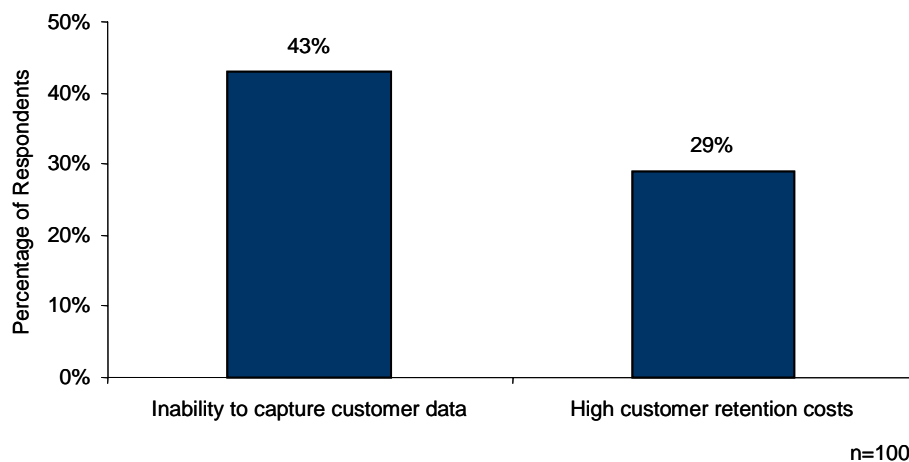
Business Context

According to the March 2009 *Cutting-Edge Customer Loyalty* benchmark report, personalized promotions across all channels were utilized by less than a quarter of all retailers. As retailers continue to evolve the sophistication of their loyalty offerings in 2010 to meet the changing needs of customers, channel integration is becoming more important than ever, and loyalty rewards and promotions must be consistent and personalized across all channels of delivery. Currently, only 24% of all retail organizations surveyed utilize a centralized cross-channel customer loyalty platform, which consists of consumer insights, offer creation, redemption, and performance metrics. What is important to note, however, is that 58% of retailers plan to implement a centralized cross-channel customer loyalty platform in the next 12 to 18 months. Adoption of a truly integrated cross-channel approach to loyalty is a necessity as customer channel preferences and affinity continue to evolve.

Customer Data is at the Center of Loyalty Pressures

Between February and March 2010, Aberdeen surveyed 100 retail enterprises to determine the current state of cross-channel customer loyalty. According to Aberdeen's March 2009 *Cutting-Edge Customer Loyalty* report, the top two pressures facing retailers were increased competition in a tough economy and the need to reduce customer acquisition costs. This year's report shows a drastic difference in the pressures that retailers are facing, as the focus in 2010 has shifted towards their current customer, from capturing customer data to customer retention costs (Figure 1).

Figure 1: Customer Pressures



Source: Aberdeen Group, March 2010

Fast Facts

- ✓ 43% of Best-in-Class organizations cite the inability to collect customer data as a driving pressure of cross-channel loyalty, versus only 16% of all others
- ✓ 50% of Best-in-Class retailers are able to deliver personalized promotions for all customers across all channels, as compared to only 14% of all others

"A return customer costs much less than gaining a new one. With our varied offerings in different locations, gaining, tracking, and rewarding loyalty can help transfer that loyalty to other channels."

~ Marketing Manager, Tier I
Hotel Group, North America

Customer data is collected in many ways, from purchase history and demographic information at the point-of-sale to opt-in email and mobile programs. Retailers have identified that gathering the appropriate data is a challenge. Aberdeen research has shown that many retailers gather a large amount of data on their customers, but do not know how to properly use it. In fact, according to Aberdeen's March 2009 [Cutting-Edge Customer Loyalty](#) report, 52% of retailers surveyed indicated that they have the capability to capture CRM data at the point-of-service, but only 37% of those retailers process this information into a loyalty offer. The inability for a retailer to capture relevant data poses two problems. First, due to a lack of customer data, customer insights are unavailable to create personalized offers based on prior purchase behavior or demographics. Second, if retailers are unable to ascertain channel preferences for communication delivery, marketing efforts are duplicated across multiple channels, making them ineffective. This is often due to disparate data collection processes across channels. This lack of coordinated data can have a negative effect on customer retention costs, as more money is spent on duplicated marketing efforts across multiple channels.

Cross-Channel Loyalty Defined

Cross-channel loyalty is the use of customer purchase and product affinity-related data to create time-bound payment card and non-payment card campaigns that support long-term customer relationships and brand advocacy across all sales channels. Loyalty campaigns include but are not limited to point perk, dollar rewards, coalition marketing, frequent buyer offers, or private label credit cards.

The Maturity Class Framework

Aberdeen used four key performance criteria to distinguish the Best-in-Class from Industry Average and Laggard organizations:

- Return on Marketing Investment (ROMI): the incremental margin and revenue contribution from marketing campaigns
- Year-over-year change in customer conversion rate: the percentage of actual customer transactions in comparison with total store or channel visits
- Year-over-year change in customer retention rate: the percentage of the total number of customers who have repeatedly made a transaction or placed an order during the current 12 month period, compared to the total number of customers in the same period last year
- Year-over-year change in customer frequency rate: the percentage change in the number of purchases made by loyalty members over the last 12 months versus the prior 12 months, across channels

When looked at as a unified set of performance metrics, these key performance indicators are a basis from which to understand how top performers - the Best-in-Class - are improving or enhancing overall cross-channel customer loyalty.

Table 1: Top Performers Earn Best-in-Class Status

Definition of Maturity Class	Mean Class Performance
Best-in-Class: Top 20% of aggregate performance scorers	<ul style="list-style-type: none"> ▪ Return on Marketing Investment (ROMI): 70% ▪ Increased year-over-year customer conversion rate: 34% ▪ Increased year-over-year customer retention rate: 20% ▪ Increased year-over-year customer frequency rate: 10%
Industry Average: Middle 50% of aggregate performance scorers	<ul style="list-style-type: none"> ▪ Return on Marketing Investment (ROMI): 33% ▪ Increased year-over-year customer conversion rate: 19% ▪ Increased year-over-year customer retention rate: 9% ▪ Increased year-over-year customer frequency rate: 1%
Laggard: Bottom 30% of aggregate performance scorers	<ul style="list-style-type: none"> ▪ Return on Marketing Investment (ROMI): 13% ▪ Increased year-over-year customer conversion rate: 7% ▪ No change in year-over-year customer retention rate: 0% ▪ Decreased year-over-year customer frequency rate: (6%)

Source: Aberdeen Group, March 2010

The Best-in-Class PACE Model

Table 2 shows a roadmap to the key Pressures, Actions, Capabilities, and Enablers (PACE) prioritized by Best-in-Class companies for cross-channel customer loyalty success. This will help identify the key capabilities and enablers that are being considered as part of their cross-channel loyalty initiatives.

Table 2: The Best-in-Class PACE Framework

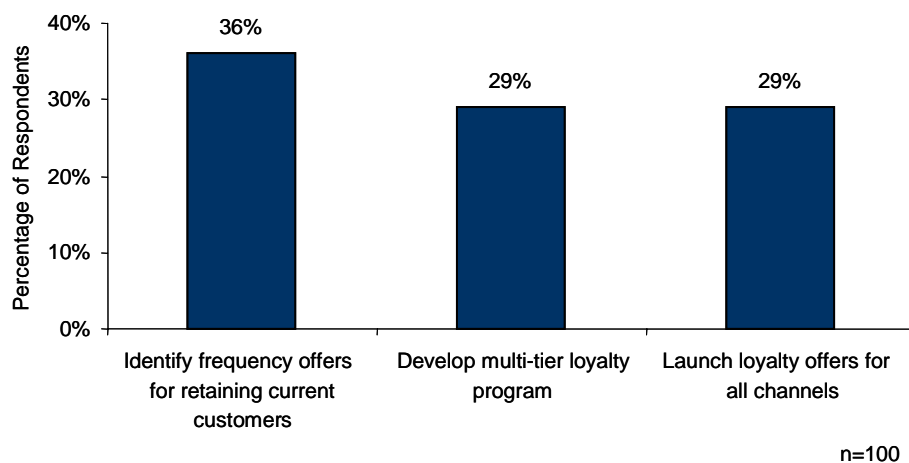
Pressures	Actions	Capabilities	Enablers
<ul style="list-style-type: none"> ▪ Inability to capture customer data 	<ul style="list-style-type: none"> ▪ Identify frequency offers for retaining current customers ▪ Launch coordinated loyalty offers for all channels 	<ul style="list-style-type: none"> ▪ Delivery of periodic (daily, weekly, monthly, etc.) job-role based customer loyalty RFM metrics ▪ Tracking of loyalty program redemption rates ▪ Tracking of loyalty program sign-up rates ▪ Alignment of loyalty offers with seasonal merchandising, pricing, and promotions in all channels (e.g. 1000 bonus points for back to school purchases) ▪ Delivery of personalized promotions for all customers across all channels 	<ul style="list-style-type: none"> ▪ Enterprise-wide CRM application ▪ Loyalty processing application at point-of-service ▪ Social media / online communities ▪ Loyalty mailing application ▪ Mobile marketing (coupons, SMS, MMS) ▪ Database marketing solution

Source: Aberdeen Group, March 2010

Best-in-Class Strategies

The top strategic action identified by retailers is to identify frequency offers for retaining current customers (Figure 2). Retailers use a variety of loyalty components to retain their customers, such as rewards, trade promotions, membership discount cards, and merchandise-centric promotions, amongst others. By turning towards frequency offers, retailers are making a dedicated effort to not simply cut prices in order to make a sale. Instead, they are offering rewards to their loyal customers based on how often they shop. By increasing the frequency of customer visits, the retail organization will gain more up-sell and cross-sell opportunities. Jet Airways, one of India's largest airlines, is an example of a company that has made a dedicated effort towards increasing customer frequency offers, and has seen year-over-year passenger volume increase over each of the last three years. Additional revenue and margin from redeemed frequency offers help to make up for some of the promotions that are used to acquire new customers, or re-activate lapsed customers.

Figure 2: Top Strategic Actions



Source: Aberdeen Group, March 2010

The second strategic action identified by retailers is to develop a multi-tier loyalty program. A multi-tier loyalty program is designed to reward a retail organization's most profitable customers, and allows a retailer to offer incentives based on customer purchase patterns. By promoting exclusive offers, discounts, priority access to products with limited inventory, and pre-sales on select items to their most profitable customers, a retailer can ensure that each customer feels a high level of personalization in the purchasing experience. Best Buy, for example, recently offered an exclusive sale for its highest tier loyalty members during the recent holiday season, based on a spending threshold. The members had access to in-store discounts and received cash back rewards for referrals. Aberdeen data has shown that this high level of personalization has a direct correlation to improved customer loyalty.

The third strategic action identified by retailers is to launch loyalty offers for all channels. Customer loyalty is no longer confined to the brick and mortar store. According to findings from Aberdeen Group's January 2010 benchmark report, *Fast-Track Cross-Channel Gains*, the top strategic action identified by Best-in-Class retailers is to develop channel integration plans for creating a unified customer experience. Today, consumers want to reap the rewards of their loyalty plan through the channel of their choice. Whether it is in-store, online, mobile, or call-center, the loyalty plan must remain consistent across all these channels. However, the advancement of the online and mobile channels allows for more targeted and cost effective loyalty campaigns to be implemented, but they must be redeemable through the channel of choice. The growing need for a fully integrated cross-channel loyalty program will be a core theme at Aberdeen Group's upcoming *Retail Summit*.

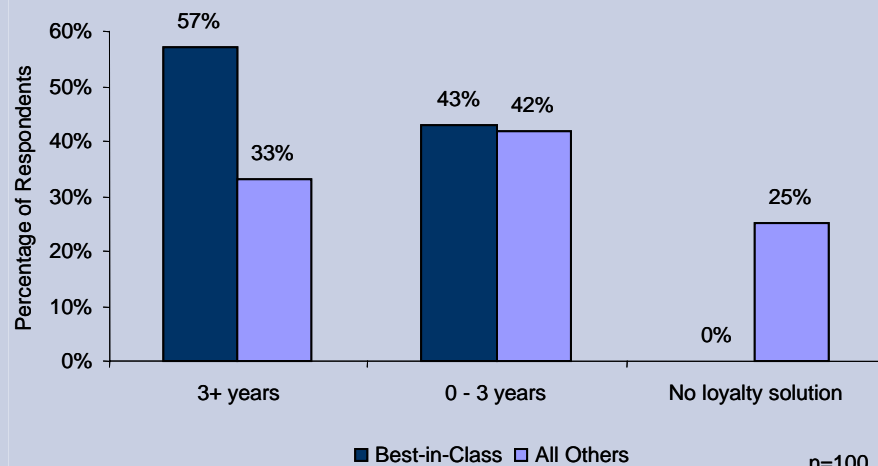
"Our loyalty application enabled analysis of our customer database and supported the development of new marketing programs geared around personalization."

~ Marketing Manager, Large Resort Casino, Singapore

Aberdeen Insights — Loyalty Maturity

Aberdeen analyzed the nature of loyalty application adoption in the retail industry based on three distinct groups: those companies that have used loyalty campaigns for three or more years, less than three years, and those currently without a loyalty application. The data in Figure 3 shows that Best-in-Class companies have adopted, and have been using loyalty initiatives far longer than all other companies.

Figure 3: Best-in-Class Maturity



Source: Aberdeen Group, March 2010

continued

Aberdeen Insights — Loyalty Maturity

Loyalty maturity has an impact on the marketing strategy of every retailer. Since Best-in-Class retailers have had loyalty initiatives in place for a longer period of time, they have had time to experiment with different campaigns, and make adjustments to their loyalty offerings. They have also been able to spend more time building out their loyalty community, allowing them to identify their most profitable customers and Lifetime Customer Value (LCV) metrics. LCV is defined as the present value of future cash flows through long term customer relationships. The lack of a loyalty program as identified by a quarter of Industry Average and Laggard respondents shows a divide in the loyalty landscape. Organizations that do not have formal loyalty initiatives in place are unable to track true LCV and RFM metrics of their customers in an effective manner, thereby reducing their ability to drive incremental revenue and margin. Chapter Two of this report will detail the capabilities and enablers that are crucial for the implementation of a formal loyalty program.

Chapter Two: Benchmarking Requirements for Success

The business case for improving a loyalty strategy involves factors such as customer channel preferences and multi-tier loyalty offers. The following case study is an example of a retailer that made the decision to evolve their loyalty offerings by watching their customers evolve.

Case Study – Best Buy Embraces Digital Loyalty

Best Buy Co., Inc., a multinational retailer of technology and entertainment products and services, constantly strives to upgrade its customer loyalty program. After re-launching its Reward Zone, complete with a new premier tier level, Best Buy's loyalty membership grew to more than 30 million members. Now, Best Buy is again making moves, this time with advances in their use of social media for customer loyalty. According to a Best Buy press release, loyalty members must now provide a valid e-mail address to remain active, which decreased their loyalty membership to 19.9 million members. According to Matt Smith, Vice President of Financial Services Marketing, "loyalty programs must evolve as customers reach saturation point in participation."

The evolution of Reward Zone has been based around the customer. According to Smith, "Customers find much more value in access to unique benefits, better levels of service, and tiered offers." To that end, Best Buy has made some enhancements, such as personalized offers based on personal preferences, electronic reward certificates for quicker delivery, and access to exclusive online communities, forums special product tips, and access to personal account information, including checking recent points and purchases, and issuing of certificates. These changes have been uniform across all channels of the business.

Two recent examples of Best Buy's unique loyalty offerings came about during the recent holiday season. In one example, Best Buy utilized a pre-determined yearly spending threshold program. Best Buy presented these customers with unique items and product promotions. The second example involved Best Buy's use of Twitter. During this promotion, 2,500 Best Buy "twelp force" store associates helped customers with sales inquiries, product information, and helpdesk issues during holiday shopping season. According to Smith, "Customers seamlessly turned towards twitter, and the 'twelp force' helped them on a real-time basis by responding to 30,000 inquiries in one month."

continued

Fast Facts

- √ 67% of Best-in-Class retailers track loyalty program redemption rates, compared to only 34% of all others
- √ 54% of Best-in-Class retailers align loyalty offers with seasonal merchandising, pricing, and promotions in all channels, compared to only 26% of all others

Case Study – Best Buy Embraces Digital Loyalty

As customer sales channel preferences have evolved, Best Buy has evolved as well. Smith noted that, “Best Buy tries to map its loyalty program with aggregated benefits of cross-channel loyalty as a whole. Customers do not want to follow associates all the time; they want simple and elegant tools to help them in their shopping experience. We need to balance customer expectations with customer engagement and expense levels as well.”

Competitive Assessment

Aberdeen Group analyzed the aggregated metrics of surveyed companies to determine whether their performance ranked as Best-in-Class, Industry Average, or Laggard. In addition to having common performance levels, each class also shared characteristics in five key categories: (1) **process** (the approaches they take to execute daily operations); (2) **organization** (corporate focus and collaboration among stakeholders); (3) **knowledge management** (contextualizing data and exposing it to key stakeholders); (4) **technology** (the selection of the appropriate tools and the effective deployment of those tools); and (5) **performance management** (the ability of the organization to measure its results to improve its business). These characteristics (identified in Table 3) serve as a guideline for best practices, and correlate directly with Best-in-Class performance across the key metrics.

Table 3: The Competitive Framework

	Best-in-Class	Average	Laggards
Process	Alignment of loyalty offers with seasonal merchandising, pricing, and promotions in all channels (e.g. 1000 bonus points for back to school purchases)		
	54%	33%	20%
	Delivery of personalized promotions for all customers across all channels		
	50%	16%	11%
Organization	Cross-departmental collaboration for customer retention, re-activation, and engagement		
	42%	33%	25%
Knowledge	Tracking of loyalty program redemption rates		
	67%	36%	31%
	Tracking of loyalty program sign-up rates		
	57%	38%	31%

	Best-in-Class	Average	Laggards
Technology	Applications or platforms that support current retail loyalty initiatives:		
	<ul style="list-style-type: none"> ▪ 62% Social media / online communities ▪ 58% Loyalty mailing application ▪ 54% Mobile marketing ▪ 46% Database marketing solution ▪ 43% Enterprise-wide CRM ▪ 38% Loyalty processing application at POS 	<ul style="list-style-type: none"> ▪ 32% Social media / online communities ▪ 29% Loyalty mailing application ▪ 16% Mobile marketing ▪ 31% Database marketing solution ▪ 16% Enterprise-wide CRM ▪ 12% Loyalty processing application at POS 	<ul style="list-style-type: none"> ▪ 22% Social media / online communities ▪ 28% Loyalty mailing application ▪ 6% Mobile marketing ▪ 22% Database marketing solution ▪ 11% Enterprise-wide CRM ▪ 11% Loyalty processing application at POS
Performance	Incentivization of customer loyalty registration		
	46%	28%	25%

Source: Aberdeen Group, March 2010

Capabilities and Enablers

Based on the findings of the Competitive Framework and interviews with end users, Aberdeen’s analysis of the Best-in-Class respondents reveals that these companies are finding ways to better connect with their customers, and create a personal relationship across all channels. This is achieved through the capture and use of customer purchase data and buying behavior analysis to create personalized offers and promotions across traditional and emerging channels. The proliferation of new customer channels and touch-points, such as online and mobile, are aiding the Best-in-Class in the retention of their most profitable customers.

Process

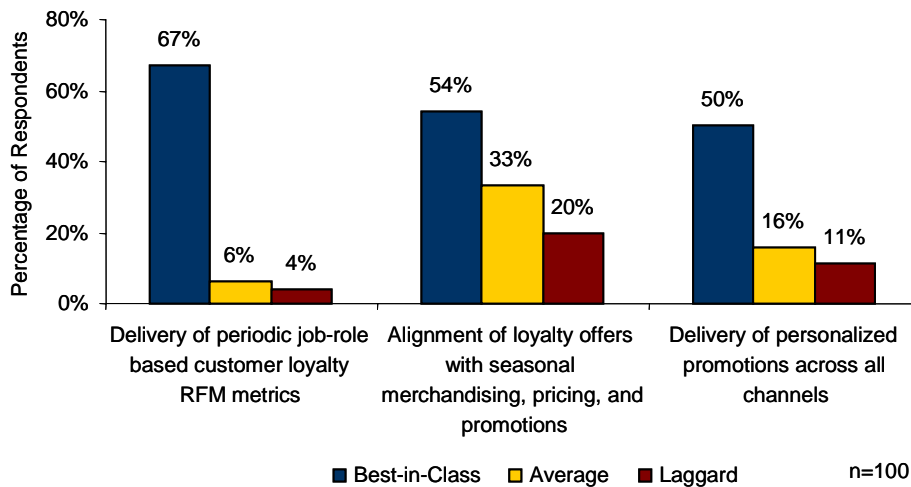
Recency, frequency, and monetary metrics are incredibly important when looking at the overall effectiveness of a customer loyalty program, as they allow retailers to measure how often and how much customers spend over a specific period of time. Best-in-Class organizations are more than 10 times as likely as all other organizations to deliver periodic job-role based loyalty RFM metrics (Figure 4). The delivery of these metrics allows the retail organization to track the effectiveness of the loyalty program, and drill down to specific job roles to measure performance, identify gaps in the loyalty process, and determine how best to fill these gaps. These loyalty RFM metrics must be measured and delivered at regular intervals (whether

"We have a very narrow range of products that have even more narrow uses. Mass media marketing is non sustainable - we have to know what vehicle a customer wants and how they use it so we can market the appropriate products."

~ Paul Dolan, General Manager,
Small Automotive Parts
Retailer

that is weekly, monthly, or quarterly) to set benchmarks and appropriately measure their evolving performance. Sony Electronics Corporation, for example, is facing challenges around integrating disparate channels strategies for their loyalty program, and connecting that with RFM metrics. If a retail organization does not measure the effectiveness of their loyalty program, the program is essentially useless.

Figure 4: Delivery of Loyalty Metrics and Promotions



Source: Aberdeen Group, March 2010

Best-in-Class retail organizations are 1.6 times more likely than Industry Average retailers, and 2.7 times more likely than Laggards, to align loyalty offers with seasonal merchandising, pricing, and promotions. Loyalty offers must coincide with sales and promotions for the beginning of a season, when new merchandise is available, as well as for end-of-season sales. Channel-specific pre-season offers can be made available to loyalty members, giving customers access to merchandise before the general public. This tactic is typically utilized by Best-in-Class retailers during the holiday season, with loyalty promotions on big-ticket items. During this past holiday season, Best Buy utilized Twitter to promote special offers and create an online chat portal for their customers. This is a great example of a retailer using the online and mobile social media channels to drive in-store traffic.

Additionally, Best-in-Class organizations are three times more likely than all others to deliver personalized promotions across all channels. These personalized promotions are essential to turning the occasional customer into a loyal customer, and eventually into a brand advocate. In today's struggling economy, consumers are seeking a personal touch from retailers. The ability to use customer data and analytics to develop personal promotions cuts down on the marketing clutter a typical consumer has to decipher when considering a purchase, and can be used to up-sell similar items at the point-of-sale. This capability is exemplified by Borders (a national chain of booksellers), as they are able to make recommendations

based on previous customer purchases combined with products purchased by other customers with similar tastes. The customer receives a list of products that they may also be interested in when making a purchase. Coordinated promotions across all channels are necessary for a truly successful cross-channel loyalty strategy.

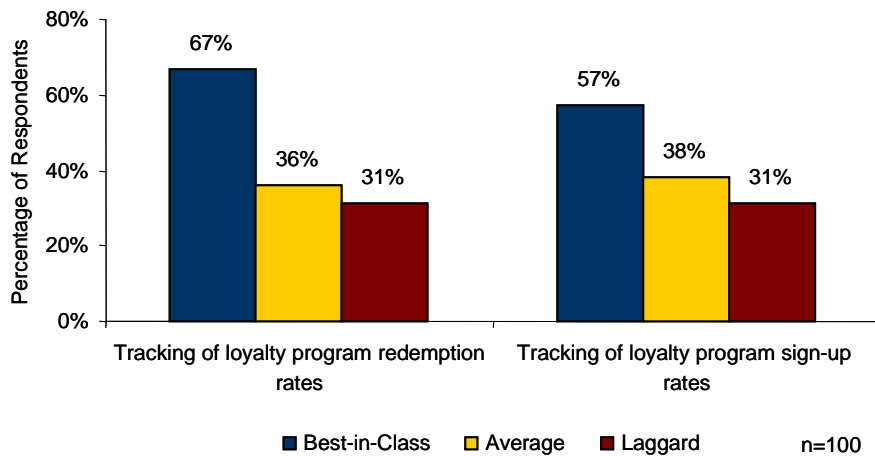
Organization

Forty-two percent (42%) of Best-in-Class organizations, compared to 28% of all others, utilize cross-departmental collaboration (marketing, IT, operations, and business development) for customer retention, re-activation, and engagement. While the focus of most retail organizations has been on customer retention, re-activation and engagement are also important. Cross-departmental collaboration allows for multiple departments within the retail enterprise to share best practices in each of these areas to develop a cohesive and unified loyalty plan. As marketing, IT, and other departments work together, limitations and expectations can be discussed to better prepare a plan of attack. Open communication between the departments helps to ensure that gaps do not arise in the implementation of a loyalty marketing program, due to unrealistic expectations, from a timing or technological standpoint. This is achieved through a combination of periodic strategy meetings and an online portal where team members can share ideas and experiences. The designation of a chief customer officer for loyalty and customer-centric programs to oversee the cross-departmental collaboration will help to set guidelines for the team moving forward. Those retailers that do not utilize cross-departmental collaboration are setting themselves up for delays in implementation, miscommunication, and an unhappy customer base.

Knowledge Management

Best-in-Class organizations are nearly twice as likely to track loyalty program redemption rates as all other companies (Figure 5). When a retailer is able to track the success of a loyalty program, they can identify what is working and what is not. When a retailer is able to determine which promotions are not working, they can take a deeper look into why a particular program is not working, whether it has been implemented through the wrong channel or if it is targeting the wrong audience. The retail organization can then make a decision on whether adjustments need to be made to the program, or whether they should abandon it altogether. These processes allow the retailer to maximize their loyalty programs by utilizing the ones that have shown success and continue to drive business.

Figure 5: The Importance of Tracking Cross-Channel Loyalty



Source: Aberdeen Group, March 2010

Best-in-Class organizations are also much more likely to track loyalty program sign up rates. Tracking sign-up rates is important because as customers drop out of loyalty programs, retailers need to have visibility into the size of their loyalty community and how it is changing over time. If attrition rates are rising more rapidly than sign-up rates, the retailer must re-think its loyalty offerings, and make the program more appealing, especially to its most profitable customers.

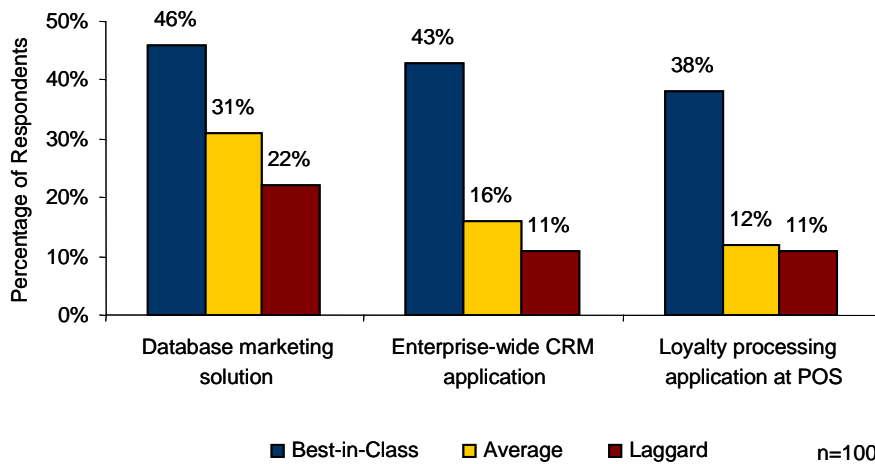
Technology

An enterprise-wide Customer Relationship Management (CRM) application, loyalty card or reward program processing applications, and a database marketing solution work hand-in-hand to deliver personalized offers, loyalty programs, and promotions across all channels. According to findings from Aberdeen Group's October 2009 [Online Customer Loyalty](#) benchmark report, 63% of Best-in-Class retailers utilize cross-channel content aggregation, where data collected online is merged together with information collected in other channels (such as in-store and call center) for personalized promotions. This approach is further validated by the latest findings shown in Figure 6.

"Enriching the overall customer experience by creating and integrating multiple touch points is enabling the capture of a greater share of wallet, as well as lifting our brand to the top of the customer's mind."

~ Justin Bentley, Marketing Manager, Large Entertainment and Gaming Retailer

Figure 6: Data Driven Personalization Technology



Source: Aberdeen Group, March 2010

Best-in-Class organizations are more than 2.5 times as likely as Industry Average organizations to possess an enterprise-wide CRM system. An enterprise-wide CRM system allows associates and managers across the organization to gain visibility into the customer database. This visibility helps to promote loyalty campaigns at the store level by aggregating data from multiple sources. With an enterprise-wide CRM system, retailers are able to gather vast amounts of data about a customer, from purchase history to demographic data. The customer data can then be analyzed for offer creation and customer communications. Retailers can segment customers by specific geographic or demographic data in the CRM system to build a custom campaign for a specific store or channel, drill down deeper into the purchase behavior of a group of customers to develop personalized offers, and track the success of loyalty campaigns. The enterprise-wide CRM system is a vital component to cross-channel loyalty success.

A loyalty processing application at the point-of-sale is also an area where Best-in-Class retailers are outperforming their competition. In fact, Best-in-Class organizations are three times as likely as all others to possess this application. The loyalty processing application allows the retailer to process a loyalty card, redeem loyalty rewards, and generate receipt-based coupons for the customer. It works in conjunction with the CRM system by feeding customer purchase data into it, which can then be used for frequency, merchandise-centric, or spending threshold based offers. Retailers that are unable to process loyalty rewards at the point-of-sale will have a difficult time keeping up with their competitors.

The third part of the loyalty puzzle is a database marketing solution. Best-in-Class retailers are 1.5 times more likely to utilize database marketing. Database marketing uses customer information collected at the POS or through the CRM, and generates personalized communications, utilizing direct mail and email campaigns. The database marketing application utilizes customer analytics to devise the appropriate offers, based on customer

"We realized the importance of engaging customers in ongoing dialogues before, during, after, and between transactions. In order to be effective in engaging customers, we needed to develop a capability that could deliver relevant, timely, and consistent messages across all customer touch points."

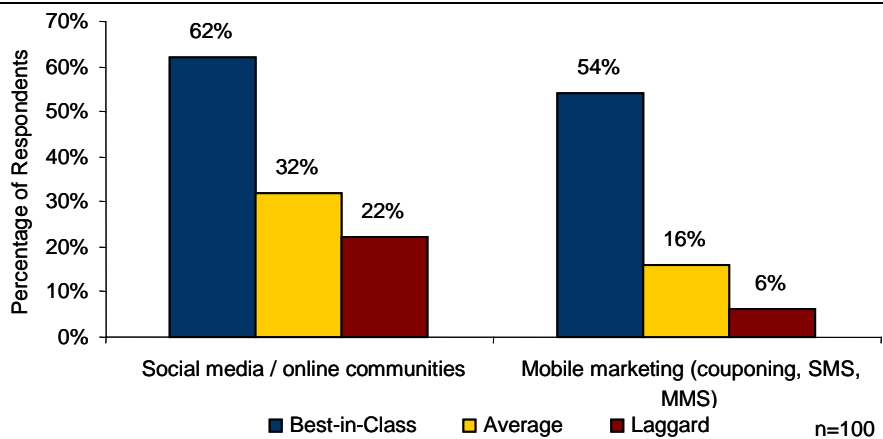
~ Matt Smith, VP Financial Services Marketing, Best Buy

purchase patterns. This application allows retailers to develop that personal relationship customers are seeking, and deliver the promotions through the customer's channel of choice. This is one distinct area where even Best-in-Class adoption rates are low. All retailers, regardless of maturity class, must make more of a dedicated effort to bolster their database marketing applications if they are to succeed in a cross-channel retail environment.

Digital Media and Loyalty

The use of digital media is gaining in prominence for extending cross-channel loyalty programs beyond traditional channels. Best-in-Class organizations are nearly twice as likely as all others to utilize social media and online communities (Figure 7). Many retailers have entered the social media world simply based on the fact that their competitors have as well. These retailers that have not thought out a strategic plan for social media's role are not seeing results. Social media and online communities need to connect with the target audience in order to be of use as part of a loyalty program. By delivering loyalty offers through an online community, and measuring the response rate, retailers are able to track sales that are generated through a specific social media campaign. Starbucks provides a great example of social media success. Starbucks has introduced an online community micro-site, where customers are able to interact with the brand. Customers can make suggestions around recipes and in-store operations, and those suggestions that Starbucks deems to be beneficial to both the brand and customer, actually get implemented. This gives the customer a sense of belonging to a special community, and of taking partial ownership of the customer experience. According to findings from Aberdeen Group's November 2009 *The Automated and Connected Store: Next Generation Shopping Experience* benchmark report, evolving sales channel preferences are the top driver for upgrading the customer experience.

Figure 7: Loyalty Programs Take Advantage of Digital Media Age



Source: Aberdeen Group, March 2010

"We are looking at mobile/text based loyalty and so believe the future lies in building an integrated campaign that does not bombard customers, but offers value and improves brand appreciation."

~ Stephen Minall, Owner, Wrapid Ltd, UK

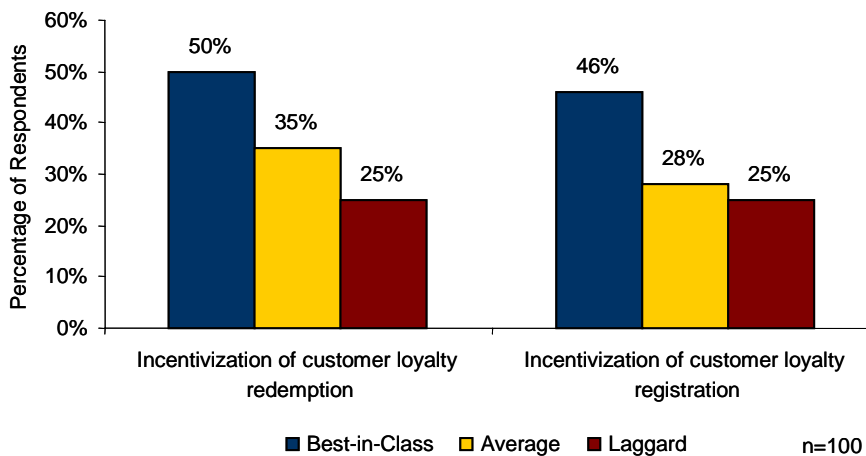
Best-in-Class retailers are three times more likely than Industry Average organizations, and nine times more likely than Laggards, to implement a

mobile strategy, whether it is mobile couponing through Short Message Service (SMS) or Multimedia Messaging Service (MMS), mobile apps, or mobile web marketing, where retailers are utilizing dynamic content geared specifically towards the mobile device, rather than shrunken down versions of their regular websites to fit the mobile device. Mobile (digital) couponing enables the retailer to reach a highly targeted customer segment and interact with their customers in real-time in nearly any location, while saving costs associated with direct mail strategies. Mobile coupons can be delivered in-store using location-based messaging, smart posters, Quick-Response (QR) codes or 2-D bar code scanning. These coupons can then be scanned at the point-of-sale, or applied to a web or mobile order. Additionally, these coupons are considered to be more sustainable than paper coupons in the long run. Retailers such as New York & Company have recently introduced in-store mobile marketing initiatives.

Performance Management

Best-in-Class organizations are much more likely to provide employee incentives based on loyalty redemption and registration (Figure 8).

Figure 8: Performance Incentives for Loyalty Success



Source: Aberdeen Group, March 2010

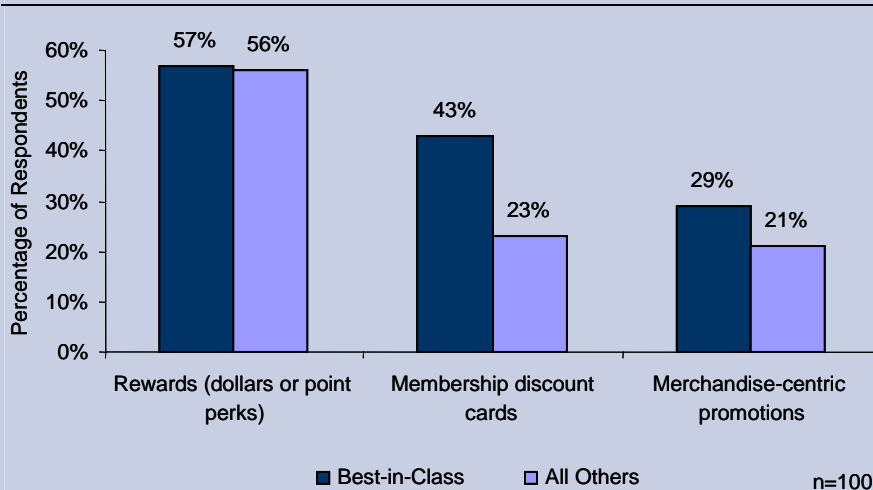
While a lot more needs to be done for motivating and influencing store managers and associates, Best-in-Class organizations are leading the way. Incentivizing employees, whether through a bonus plan or rewards structure, puts an added effort into a company's loyalty plan. Employees are able to tie their individual success to the success of the company loyalty initiatives, giving each employee a greater stake in the overall success of the company. An initiative such as this leads to higher levels of employee initiated training on the loyalty program, improved customer service, and increased customer satisfaction with the loyalty program. It also gives retailers more confidence in their employee knowledge of the rewards program, which can help to justify their IT spend on loyalty initiatives and

improve the return on their loyalty investment. An example of this practice is at Al Tayer Group, the largest luxury retailer in the Middle East, where store managers are rewarded for both customer loyalty redemption and sign-up rates.

Aberdeen Insights — Components of Loyalty

While customer loyalty components come in many shapes and forms, Best-in-Class retailers have demonstrated that a proper mix of rewards, discounts, and merchandise-centric promotions across all channels is necessary for loyalty success (Figure 9). Approximately 57% of all retailers have identified rewards (dollars or point perks) as their top loyalty component. These rewards consist of dollar or point perks accrued when customers cross specific spending or frequency thresholds. Reward programs must be utilized across all sales channels in order to maintain a fully integrated cross-channel loyalty program.

Figure 9: Top Loyalty Components



Source: Aberdeen Group, March 2010

continued

Aberdeen Insights — Components of Loyalty

Best-in-Class retailers are nearly twice as likely to implement membership discount cards as a core feature of their loyalty program. These discount cards are often found in membership warehouse, grocery and supermarket chains, as well as in wholesale distribution centers. The discount cards are paid membership programs that offer price-specific promotions to loyalty members, as well as access to exclusive sales and promotions around seasonal items. Best-in-Class retailers are also nearly 1.5 times more likely to include merchandise-centric promotions as the third pillar of their loyalty program. These promotions are geared around bundling merchandise packages together in up-sell and cross-sell opportunities.

A balanced loyalty program, as implemented by Best-in-Class retailers, must incorporate rewards, discounts, and merchandise promotions. The backbone of these components comes from customer data. Retailers must implement the use of CRM and customer analytics to drive the proper promotions and rewards through these loyalty vehicles. Best-in-Class retailers have shown the highest adoption rates of these key enablers, and this allows them to run a fully integrated cross-channel loyalty program.

Chapter Three: Required Actions

Whether a company is trying to move its performance in cross-channel customer loyalty from Laggard to Industry Average, or Industry Average to Best-in-Class, the following actions will help spur the necessary performance improvements:

Laggard Steps to Success

- **Implement mobile marketing into your cross-channel loyalty program.** Currently, 94% of Laggard retailers do not have mobile marketing as part of their loyalty program. By not implementing this technology, retailers are unable to take advantage of location-based promotions, smart posters, 2D barcode promotions, or social media applications within the mobile environment. Laggard retailers should look to adopt a two-pronged mobile strategy in a few test markets as a first step: SMS based couponing and mobile web marketing. Changing customer needs for marketing deliverables must be addressed; as these changes are met, retailers can expect to remain top-of-mind, and increase their wallet-share. Full scale implementation can begin based on the success of the trials.
- **Adopt an enterprise-wide CRM system.** Ninety percent (90%) of Laggard retailers currently do not have an enterprise-wide CRM system in place. The lack of an enterprise-wide CRM system results in the inability to collect and analyze customer data for personalized promotions. With a CRM solution in place, these retailers can evaluate customer purchase history, and develop plans to improve RFM performance across the entire enterprise. A CRM strategy must be incorporated where data is integrated from all sales channels into a centralized data warehouse for offer creation.
- **Utilize a self-service loyalty kiosk or loyalty membership web portal.** Ninety-four percent (94%) of Laggard organizations do not currently have self-service loyalty kiosks or portals in place. The in-store kiosk will allow customers to check their loyalty accrual status, shopping list preferences, and pending loyalty offers. These offers can then be used for in-store purchases, or applied to web orders. The web portal allows the customer to access the same information through the convenience of their home or office using an online or mobile web channel. Laggards can implement the web portal as a first step, with in-store self-service kiosks implemented based on the success of web portal traffic.

Industry Average Steps to Success

- **Implement social media campaigns.** Only one-third of Industry Average retailers are currently taking advantage of the emergence of social media. Retailers that have fully embraced social media marketing are utilizing fan pages (which allow customers to follow and interact with them online), user generated content, and promotional offers within exclusive online communities. Social media

Fast Facts

- √ Currently, only 11% of Laggard organizations have implemented an enterprise-wide CRM application, compared to 43% of the Best-in-Class
- √ Only 32% of Industry Average organizations utilize social media as part of their cross-channel loyalty program, compared to 62% of the Best-in-Class
- √ 58% of Best-in-Class organizations utilize a loyalty mailing application, compared to only 29% of all others

cannot stand alone, and must be combined with the loyalty program to truly involve the customer in the brand experience. Industry Average retailers can start their venture into social marketing by setting up an online community as part of an opt-in micro-site, with product information, promotional offers, and web events exclusively for their loyalty members. After initial testing, social media campaigns can expand to include online contests and games, mobile device interaction, and in-store events for loyalty members.

- **Designate a chief customer officer for loyalty and customer-centric programs.** Ninety-two percent (92%) of Industry Average retailers currently do not have this mandate in place. A designated customer officer will oversee and manage all customer programs, including all loyalty campaigns, promotions, and events. A first step for an Industry Average retailer would be to develop a cross-departmental team dedicated to loyalty and customer-centric programs. Once this team has established a clear set of guidelines for tracking and measuring loyalty success, a permanent position can be created, either from the initial team or from outside the organization. The position should be measured on the RFM performance of the retail organization.
- **Implement a database marketing solution.** Sixty-nine percent (69%) of Industry Average retailers currently do not utilize database marketing. Database marketing uses customer information to generate personalized communications, utilizing direct mail and email campaigns. A first step for Industry Average retailers would be to invest in email marketing capabilities, and utilize customer information from the CRM to develop personalized promotions. Over time, these retailers can clean the data collected, and introduce direct mail campaigns for highly targeted promotions.

"Detailed knowledge of how customers perceive our products, our services, our promotions, and our brands in all channels give us the most important facts to decide how to be closely personal with our customer base."

~ Luis Ibarra, IT Manager,
Piagui Grupo – NINE WEST
MEXICO

Best-in-Class Steps to Success

- **Utilize an end-to-end mobile loyalty platform.** Best-in-Class retailers have demonstrated success in the use of mobile marketing. However, 92% of Best-in-Class retailers have not yet implemented an end-to-end mobile loyalty platform. These retailers need to take mobility to the next level to match evolving customer preferences, and stay ahead of the curve in terms of customer experience management. To implement this technology, retailers must allow customers to enroll in a loyalty program, store their loyalty card, check reward accrual, receive promotions and offers, and redeem loyalty offers on the mobile device.
- **Utilize an offer optimization solution.** Seventy-seven percent (77%) of Best-in-Class organizations do not currently have an offer optimization solution in place. Offer optimization encompasses the creation, delivery, execution, and analysis of product promotions based on customer purchase data pulled from a data warehouse that is present in a segmented format, based on product affinity and the preferences of customers. While the majority of Best-in-Class

retailers have some pieces of the offer optimization puzzle in place, they are not utilizing all components. These retailers should implement a solution in a small group of stores or a store/channel and measure the impact before full-scale adoption.

- **Create cross-channel data management guidelines.** Effective cross-channel loyalty success hinges on an investment in technology change and business process change. If retailers are unwilling to invest in technology change and business process change, they will be unable to get a single view of the customer. Currently 85% of Best-in-Class retailers do not have a centralized marketing database in place to store customer data. These retailers must utilize a centralized database for a unified customer view, unified messaging, and unified channel strategy.

Aberdeen Insights — Summary

Customer loyalty in retail can no longer be confined to the brick and mortar environment. As customer sales channel preferences and affinity behaviors continue to evolve, retailers must evolve as well. Customer loyalty needs to become a key component of the cross-channel retail enterprise. Retailers must pay close attention to their cross-channel loyalty offerings, and maintain a consistent message. Too often, marketing communications send messages via varied channels of delivery. Best-in-Class retailers have shown that dedication to the integrated nature of cross-channel retail enterprise can have a positive effect on customer loyalty.

Best-in-Class retailers have demonstrated that the collection and analysis of customer data is a key component of a loyalty solution. The collective use of CRM and database marketing are two areas where Best-in-Class respondents have shown the importance of accurate customer data management, analysis, and program execution. Traditional models of loyalty marketing are only one piece of the puzzle, however, as top retailers are making a charge into the digital world.

Mobile marketing, via SMS/MMS and mobile web, and social media/online communities are a second area where customer loyalty is being won for the Best-in-Class. Recent Aberdeen data has shown that personalized promotions across all channels are utilized by less than a quarter of all retailers. Until retailers make the decision to utilize all sales channels for an integrated loyalty program, customer retention, engagement, and re-activation programs will continue to struggle.

Appendix A: Research Methodology

Between February and March 2010, Aberdeen examined the use, the experiences, and the intentions of 101 enterprises using cross-channel loyalty programs in a diverse set of retail enterprises.

Aberdeen supplemented this online survey effort with interviews with select survey respondents, gathering additional information on cross-channel loyalty strategies, experiences, and results. For the purposes of this report, a cross-channel customer loyalty program is defined as the use of customer purchase and product affinity-related data to create time-bound payment card and non-payment card campaigns that support long-term customer relationships and brand advocacy across all sales channels. Loyalty campaigns include but are not limited to point perk, dollar rewards, coalition marketing, frequent buyer offers, or private label credit cards.

Responding enterprises included the following:

- **Job title:** The research sample included respondents with the following job titles: Senior Management (20%); EVP / SVP / VP (16%); Director (19%); Manager (25%); Consultant (14%); and Other (6%).
- **Department / function:** The research sample included respondents from the following departments or functions: sales and marketing staff (43%); operations (7%); IT manager or staff (11%); corporate management (13%); customer service (6%); Finance (3%); and Other (17%).
- **Industry:** The research sample included respondents exclusively from retail industries, with the following segments: Specialty (15%); Supermarket / Grocery (10%); Apparel / Fashion (10%); Consumer Electronics (7%); Consumer Products (9%); Sporting Goods (9%); Retail Banking (9%).
- **Geography:** The majority of respondents (50%) were from North America. Remaining respondents were from the EMEA region (36%) and Asia-Pacific region (14%).
- **Company size:** Twenty-nine percent (29%) of respondents were from large enterprises (annual revenues above US \$1 billion); 25% were from midsize enterprises (annual revenues between \$50 million and \$1 billion); and 46% of respondents were from small businesses (annual revenues of \$50 million or less).
- **Headcount:** Forty-two percent (42%) of respondents were from large enterprises (headcount greater than 1,000 employees); 28% were from midsize enterprises (headcount between 100 and 999 employees); and 30% of respondents were from small businesses (headcount between 1 and 99 employees).

Study Focus

Responding retail executives completed an online survey that included questions designed to determine the following:

- √ The degree to which cross-channel customer loyalty is deployed in their retail operations and the financial implications of the technology
- √ The structure and effectiveness of existing cross-channel loyalty implementations
- √ Current and planned use of cross-channel loyalty to aid operational and promotional activities
- √ The benefits, if any, that have been derived from cross-channel loyalty initiatives

The study aimed to identify emerging best practices for cross-channel loyalty usage in retail, and to provide a framework by which readers could assess their own management capabilities.

Lifetime Customer Value (LCV)

LCV is defined as the present value of future cash flows through long term customer relationships.

Table 4: The PACE Framework Key

Overview
<p>Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows:</p> <p>Pressures — external forces that impact an organization’s market position, competitiveness, or business operations (e.g., economic, political and regulatory, technology, changing customer preferences, competitive)</p> <p>Actions — the strategic approaches that an organization takes in response to industry pressures (e.g., align the corporate business model to leverage industry opportunities, such as product / service strategy, target markets, financial strategy, go-to-market, and sales strategy)</p> <p>Capabilities — the business process competencies required to execute corporate strategy (e.g., skilled people, brand, market positioning, viable products / services, ecosystem partners, financing)</p> <p>Enablers — the key functionality of technology solutions required to support the organization’s enabling business practices (e.g., development platform, applications, network connectivity, user interface, training and support, partner interfaces, data cleansing, and management)</p>

Source: Aberdeen Group, March 2010

Table 5: The Competitive Framework Key

Overview	
<p>The Aberdeen Competitive Framework defines enterprises as falling into one of the following three levels of practices and performance:</p> <p>Best-in-Class (20%) — Practices that are the best currently being employed and are significantly superior to the Industry Average, and result in the top industry performance.</p> <p>Industry Average (50%) — Practices that represent the average or norm, and result in average industry performance.</p> <p>Laggards (30%) — Practices that are significantly behind the average of the industry, and result in below average performance.</p>	<p>In the following categories:</p> <p>Process — What is the scope of process standardization? What is the efficiency and effectiveness of this process?</p> <p>Organization — How is your company currently organized to manage and optimize this particular process?</p> <p>Knowledge — What visibility do you have into key data and intelligence required to manage this process?</p> <p>Technology — What level of automation have you used to support this process? How is this automation integrated and aligned?</p> <p>Performance — What do you measure? How frequently? What’s your actual performance?</p>

Source: Aberdeen Group, March 2010

Table 6: The Relationship Between PACE and the Competitive Framework

PACE and the Competitive Framework – How They Interact
<p>Aberdeen research indicates that companies that identify the most influential pressures and take the most transformational and effective actions are most likely to achieve superior performance. The level of competitive performance that a company achieves is strongly determined by the PACE choices that they make and how well they execute those decisions.</p>

Source: Aberdeen Group, March 2010

Appendix B: Related Aberdeen Research

Related Aberdeen research that forms a companion or reference to this report includes:

- [*Retail eCommerce Analytics: Cornerstone of the Complete Customer Profile*](#); February 2010
- [*Fast-Track Cross-Channel Gains: The Final Frontier for Customer Share of Wallet*](#); January 2010
- [*Building Lifetime Customer Value and Brand Advocacy in the Hospitality Industry*](#); December 2009
- [*The Food Retail Technology Guide: Key Success Factors for 2010 And Beyond*](#); December 2009
- [*The Automated and Connected Store: Next Generation Shopping Experience*](#); November 2009
- [*Online Customer Loyalty: Converting Occasional Shoppers into a Loyal Consumer Base*](#); October 2009
- [*Winning Strategies for Upgrading the Hospitality Guest Experience*](#); September 2009
- [*POS to Profits: Reviving Best-in-Class Sales & Service in Retail*](#); June 2009
- [*Inventory Optimization: Retail Strategies to Eliminate Retail Stock-Out and Over-Stock*](#); May 2009
- [*Cutting Edge Customer Loyalty: Retail Best Practices for Acquiring, Retaining, and Re-engaging Customers*](#); March 2009
- [*New Age Multi-Channel Retailing: Prospects for Digital Retail Revolution and Avenues for Better Integration*](#); January 2009
- [*Responsive Customer Loyalty: Creating Customer Commitment in Retail*](#); June 2008
- [*Technology Strategies for Multi-Channel Integration*](#); April 2008

Information on these and any other Aberdeen publications can be found at www.aberdeen.com.

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HCL's ability in offering solutions to Retailers for running rewards program in today's competitive landscape stems from its domain strength in Retail coupled with agile & deep functionality offerings in Retail Customer centricity from Microsoft Dynamics practice. A unified understanding of customer interactions across stores, kiosks, web, social networks & attaining increased advocacy of brands and rewards programs is one of the outcomes which HCL focuses on through its solutions. The core value delivered lies in its ease to configure and real-time integration with legacy systems. That coupled with modular functionality architecture driven by solution drivers covering loyalty and segmentation engine, embedded predictive analytics and campaign management.

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