



Poised for Growth

Digital coupons represent a fraction of total coupon distribution, but they are expected to become a major promotional force as infrastructure issues are resolved

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As most paper-based communications — letters, bills, newspapers, magazines, books — continue their steady transition to digital form, can coupons be far behind?

Currently, paper is still king of the coupon kingdom, with digital a bit player. According to NCH Marketing Services' Coupon Facts Report, 2011, freestanding inserts in newspapers account for 87.7% of U.S. CPG coupon distribution. The rest consists of in-store handouts (5.2%), direct mail (2.4%), magazines (2.2%), in/on pack and cross-ruff, an on-pack coupon redeemable on a different product (1.1%) — and finally all other, which includes all digital formats, at less than 2%. Most industry sources peg the percentage of digital coupons at 1%.

When it comes to growth, however, digital is where the action is, albeit from a small base. Aided by the tough economy and rising food prices, total CPG coupon redemption grew 3.1% last year, and distribution jumped 6.8% to 332 billion, according to NCH. But the number of coupons available at major online distribution sites increased by 33.6%, and the number of manufacturers offering them (290) grew by 17%, according to Marx, Minneapolis, a division of Kantar Media.

Suzie Brown, chief marketing officer, Valassis, Livonia, Mich., saw 300% growth in digital print coupons in 2010. "Digital coupons will become part of the fabric of the promotion industry," she said. In five years, she estimated that digital coupons will represent "north of 10%" of the total — how far north depending on advances in technology development and adoption.

Digital coupons redeem at a much higher rate than FSI coupons — between 5% and 20%, according to ABI Research, compared with 0.9%. Moreover, digital coupons can reach shoppers, particularly of the younger variety, who don't bother with paper coupons. "One-third or more of the people who use digital coupons don't use print in any form, clipping or printing," said Ken Fenyo, chief executive officer of You Technology, San Francisco, which supports digital couponing programs for Kroger Co., Giant Eagle, Lowe's Food Stores, Foodtown and Shop 'n Save. Fenyo is the former vice president of loyalty for Kroger.

In addition, according to a Knowledge Networks study, 53% of shoppers redeeming a digital coupon are buying a product for the first time, compared with 32% of those redeeming paper FSI coupons.

Evolution Of Digital

The evolution of digital coupons began with print-at-home coupons available online at retail, manufacturer, coupon-dedicated sites (Coupons.com, RedPlum.com, among others) and myriad other sites. But some industry players no longer consider print-at-home coupons digital even though they originate on the Web.

The next step was to allow shoppers to download online offers from the Web to their loyalty cards, making them electronically redeemable at the POS and eliminating paper. Some non-card retailers, like Meijer, allow shoppers to key in their cell phone number at the checkout as an alternate identifier for electronic coupon redemption.

The list of retailers that have added the scan-to-card coupon option to their websites has grown to include Kroger, Safeway, Giant Eagle, Food Lion, A&P, Harris Teeter, ShopRite, Foodtown and Lowe's Food Stores, and it's expected to expand markedly this year. Bob Carter, president, Inmar Promotion Services, Winston-Salem, N.C., foresees a number of "large regional chains" will go live with scan-to-card programs this year and next.

"It's an area of high interest with most retailers," Carter said. "They see this as a way to differentiate themselves with consumers." In addition, manufacturers want to reach digitally minded consumers, especially in the younger demographic.

An alternative card program is employed by Green Hills, Syracuse, N.Y. The one-store food retailer emails 20 targeted coupons every week to loyalty shoppers, who can download them to the store loyalty card, noted Andrea Reynolds, director of marketing. The same coupons can be downloaded from an in-store kiosk.

The latest and hottest iteration of digital couponing is the mobile offer, available via smart phone apps or phones with Web access. Cell phone coupons are sometimes printed, but are more often downloaded to cards; at Target and some non-grocery outlets, bar codes on the phone are scanned with handheld image scanners. In addition to retail apps, third-party apps like GroceryIQ and Aisle411 allow shoppers to access coupons.

The mobile phone is also ushering in a new breed of retail offers disseminated via check-in, location-based services (such as Foursquare and Yelp) and aggregation services (Groupon). Green Hills' introductory Foursquare offer (\$5 off an order of at least \$10) attracted 30 shoppers who had not shopped the store in three months or more, said Reynolds. Green Hills is developing a mobile app, expected this spring, that will send coupons to customers based on their vicinity in the store.

Geo-location has also come to CPG coupons; last month, Cellfire, San Jose, Calif., announced a partnership with Location Labs, to send real-time mobile alerts about available coupons when users are near one of Cellfire's 5,000 participating grocery locations. "It helps people remember coupons on the phone," said Paul Stanley, vice president of marketing and product management of Cellfire.

Mobile couponing, of course, is being fed by the soaring rate of smart phone adoption, now at 31% of the U.S. population, according to Borrell Associates. Total mobile marketing reached \$2.7 billion last year and is expected to increase 84% annually, hitting \$57 billion by 2014, said Borrell.

Social media sites are also becoming a venue for the distribution of CPG coupons that can be downloaded to cards. Steven Boal, CEO of Coupons.com, pointed out that brands with millions of "likes" on Facebook — Oreo cookies has 17.4 million likes — have the potential to "move millions of coupons without the cost and time delays of FSIs."

An additional electronic venue for coupons is the in-store kiosk, which a small but growing number of retailers are employing for coupon distribution.

Kroger's Progress

An example of a retailer that has spanned the evolution of digital couponing from print-at-home to card download to mobile — and thrown in Facebook coupons for good measure — is Cincinnati-based Kroger.

Beginning with printable offers from disparate sources in 2007, Kroger in late 2009 created a scan-to-card-only "digital coupon center." Last week, 125 coupons worth up to \$207 were available on the site for downloading to a loyalty card, which can hold up to 150 CPG and private-label coupons. Upon entering Kroger's website, shoppers are invited to view exclusive local offers by entering their ZIP code.

Last month, Kroger made a software change in its POS system to prevent shoppers from "coupon stacking" — presenting a digital coupon with a paper coupon for the same item, according to wmctv.com. The company does not allow digital coupons to be doubled, as paper coupons sometimes are. (Kroger declined to answer additional questions from SN about its digital coupon program "due to the competitive nature of the questions," said Lynn Marmer, a Kroger spokeswoman, in an email response.)

Large retailers like Kroger "are creating their own programs, sites and apps and integrating coupons into their stores to have more impact on their business," said You Technology's Fenyo.

For retailers that are actively promoting their digital coupon programs, added Fenyo, digital offers represent 3% to 5% of total redemptions. “That’s a big percentage considering they only started aggressively promoting it last year.”

Kroger recently launched a mobile app for iPhones and Android devices, managed by Cellfire, that allows shoppers to download coupons to their card. As on the website, coupons can be sorted by popularity, expiration date, value and most recently added (digital coupons are updated every other Tuesday). The phone can also be used as a reminder of which coupons have been downloaded online. Fenyo cited Borrell Research reporting that redemption rates for mobile coupons are 10 times that of newspaper-distributed or mailed coupons.

Kroger has also started adding digital coupon offers on its Facebook pages. For example, in its deal-of-the-day Cart Buster program, which ran from Feb. 27 to March 12, the first 1,000 shoppers who responded could download a coupon for a free CPG product.

Remaining Obstacles

Despite its fast growth, digital couponing still faces obstacles. Perhaps the biggest is the need for a national digital infrastructure down to the store level that would rival that of the decades-old paper coupon distribution networks. “Brands are looking for a bigger network across the U.S.,” said Inmar’s Carter.

Currently, observed Cellfire’s Stanley, only about 6,000 U.S. stores process completely digital coupons (generally via loyalty cards). That’s too limiting for CPGs, he said. “They’re not used to geo-targeting. They may target regions but not ZIP codes.” He expects an additional 2,000 to 4,000 stores to accept digital coupons this year.

A national digital infrastructure would start at the POS, where all retailers need to be able to process coupons digitally — including coupons with extended data — whether via loyalty cards or other identifiers. When mobile phones become equipped with NFC (near field communication) chips that can transmit payment and coupon information, retailers will need the appropriate POS readers.

Another complication for CPG firms is that unlike paper coupons, the way digital coupons are presented and processed varies from retailer to retailer, noted Cellfire’s Stanley. “For CPGs, there’s a large cost to track that.”

On the other hand, the digital format offers flexibility to CPGs in terms of what can be offered on a coupon that paper coupons — even with the new GS1 DataBar — can’t provide, Stanley said. Whereas paper coupons are constrained by the “family code,” which covers groups of products the coupon applies to, digital coupons can apply to any number of specific UPCs. In addition, while paper coupons are fairly static, CPG manufacturers and retailers can create and modify digital coupons readily. “The minute you have a coupon idea, you can have it up in the system in a couple of days,” said Stanley.



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