PNC MERCHANT SERVICES EDUCATIONAL SERIES

Electronic Loyalty Programs

Hugely Popular, **But Obstacles Impede Further Growth**

Customer loyalty programs are nothing new — they have been around in one form or another for as long as commerce itself. In the 21st century, a new type of loyalty program is emerging that takes advantage of the blending of in-store commerce, e-Commerce and mobile commerce into what has been referred to as Universal Commerce.

We're talking about the explosion in the popularity of e-coupons and daily deals among American consumers. Statistics indicate just how popular these electronic loyalty programs have become:

- There are currently 96.6 million adult online coupon users in the U.S., up from 88.1 million in 2011. This represents 49 percent of all adult Internet users, up from 47 percent in 2011.1
- The average U.S. household participates in 18 different consumer reward programs.2
- Seventy-nine percent of all consumers in the U.S. redeemed coupons in 2012.3
- It's estimated that nearly half of the adult U.S. population would redeem an electronic coupon.4

Daily Deal Service Providers

The top two providers of online daily deals are Groupon® and LivingSocialSM, and they comprise about 70 percent of the daily deal market. However, there are very few barriers to market entry, so an estimated 500 other daily deal providers in the U.S. split the remaining 30 percent of the market, and approximately 3,000 providers operate worldwide.5

Why Consumers and Merchants Love Them

It's no big mystery why e-coupons and daily deals have become so popular: everybody likes a bargain, and electronic loyalty programs like these make it easy for consumers to enjoy steep discounts on products and services — some they might buy anyway, and some they are willing to try due to the offer. Electronic loyalty programs also enable consumers to more easily seek out and keep track of the products and services they want to buy.

Merchants can reap big benefits as well: e-coupons and daily deals can help them attract new customers, promote new products and services, and boost customer traffic and spending. In addition, they provide a revenue and cash flow boost, since merchants usually receive a portion of the customer's deal payment immediately. And unlike traditional advertising vehicles like radio and TV spots, print ads and direct mail, they enable merchants to generate high exposure with a minimal (if any) upfront investment.

Electronic loyalty programs enable merchants to target customers more precisely, and customers to self-select the promotions they want to receive. And they take physical geography out of the delivery equation — offers can reach customers no matter where they are via their laptops or mobile devices.

Given their proven ability to influence consumer behavior, electronic loyalty programs are changing the way merchants think about marketing. The CEO of coupons.com, Steven Boal, put it this way:

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

See page 3 for additional details. >



For more information

- > Stop by any branch
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Demonstrating Return on Investment

Despite the many benefits of electronic loyalty programs, there are some drawbacks that are keeping them from reaching their full potential. Probably the biggest drawback is the inability of most program providers to demonstrate a return on investment by showing that the results outweigh the cost of providing the offers. For example:

- Are deal respondents new customers or existing customers?
- If new customers, how many return to the business after redeeming the initial offer and become full-paying repeat customers?
- Did respondents spend more than the offer value on their visit?
- How many deals that were purchased were actually redeemed?
- What kind of sales uplift resulted from the offer?
- How does the demographic profile of redeeming customers differ from the profile of existing customers?

Despite their electronic delivery, most e-coupons and daily deal programs still rely on the customer printing out a piece of paper in order to redeem the deal. This results in a data gap and inability to close the data loop, and thus provide the kind of actionable marketing intelligence that would help merchants track and measure specific marketing objectives.

This paper-based system also presents challenges for consumers, who have to print and store vouchers and remember to bring the vouchers with them when they go shopping. Retrieving and presenting paper coupons and vouchers at the point-of-sale can be cumbersome and time-consuming, and sometimes consumers are hesitant to present them in certain situations.

Paper coupons and vouchers are no picnic for merchants, either. They usually require additional cashier training and they tend to increase checkout time at the point of sale. Accounting for the redemptions can also be a hassle: redeemed paper vouchers often pile up awaiting error-prone manual processing by staff that may or may not be trained in redemption processes.

Closing the Redemption Loop

This all goes back to the inability of a paper-based e-coupon or daily deal program to close the redemption loop. The editor of TechCrunch, Erick Schonfeld, summed it up as follows: "The ultimate prize everyone is going after right now is how to close the redemption loop. The redemption loop starts when a consumer sees an ad or an offer for a local merchant, and is completed when the consumer makes a purchase that can be tracked back to the offer. If you know who is actually redeeming offers and how much they are spending, you can be much smarter about tweaking and targeting those offers."

The good news is that there are solutions that can help merchants close this redemption loop. One of the best potential solutions is implementing an offers transaction platform. This is a payment processing system designed specifically to support online loyalty programs. Such a platform will seamlessly track offers from purchase through offline redemption, thus automating the redemption process and tying each offer to the purchaser's individual payment account.

An offers transaction platform uses a payment card as the redemption vehicle, instead of a piece of paper. Consumers register a payment card (or multiple cards) with the offer provider and the offer is electronically stored on the card when the consumer purchases the deal. Consumers then swipe the linked payment card at the point-of-sale, rather than handing the merchant a paper coupon or voucher, and the value of the offer is automatically applied to the transaction.

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Benefits For Merchants and Consumers Alike

An offers transaction platform offers a number of benefits to both merchants and consumers. Merchant benefits include the following:

- The loyalty campaign's performance can be tracked in detail and in real time.
- Merchants receive detailed reporting on offers, redemptions, related transactions, and any other relevant data the merchant specifies.
- This data can be used to design new loyalty campaigns, as well as modify offers currently in progress.
- The accounting and redemption processes for offers is greatly streamlined and simplified.
- By analyzing data regarding offer purchase and redemption patterns, as well as the effect of the campaign on consumer behavior and buying patterns, merchants and offer providers can improve targeting and performance of future campaigns.
- No up-front investment is required, nor are there any ongoing transaction costs or equipment purchases required to maintain an offers transaction platform. Loyalty campaign costs are also lowered.
- New and increasingly targeted kinds of loyalty campaigns and promotions are available to merchants, including seasonal and regional cycles of multiple campaign strategies targeting a spread of customer demographics.

Consumer benefits include the following:

- A better in-store experience when redeeming offers.
- Consumers don't have to remember to bring paper coupons and vouchers with them when they go shopping.
- Card-linked offers are easier for consumers to manage and redeem they no longer have to print out and keep track of paper coupons and vouchers.
- Consumers receive a receipt confirmation at the point-of-sale to assure them that the discount was applied correctly.

There's no question that electronic loyalty programs are popular among both merchants and consumers. But the limitations of paper-based fulfillment systems threaten to stunt the continued growth of these programs. Offer transaction platforms offer one possible solution to this problem by automating the redemption process and providing the data merchants need to determine a return on their program investment.

PNC Merchant Services® is a leader in the payment processing industry. We provide businesses with innovative payment acceptance capabilities and back them up with service, financial strength and stability to help keep your receivables flowing.

Supporting merchants throughout the United States, ranging in size from single-outlet merchants to super-regional enterprises with thousands of locations, you can count on PNC Merchant Services. We have the industry experience, personal attention and customer service you need to keep your payment processing systems secure and operating smoothly. Contact us at 1-800-742-5030 to discuss how PNC Merchant Services makes payment options easier for your customers, and better acceptance options for your business.

 $\textbf{1} \; \mathsf{eMarketer}, \, \texttt{``Digital Coupons'}, \, \mathsf{Mobile Give Cheapskates Staying Power''}. \, \mathsf{April 2013}.$

2 SmartMoney.com, "6 Rewards Programs Worth Your Loyalty". March 22, 2011.

3 CPG COUPONS: U.S. MARKET ANALYSIS, 2013 Annual NCH Coupon Facts.

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4 eMarketer, "Mobile Spurs Digital Coupon User Growth". January 2013.

5 Marketing VOX, "A Marketer's Guide to the Daily Deal Market Beyond Groupon and Living Social". August 2011.

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BB PDF 0613-062-147159

