



How to Take Advantage of the Explosive Growth in Digital Coupons

Executive Summary

Smartphone adoption is rapidly changing the retail shopping experience. Shoppers armed with smartphones want instant access to pricing information and special offers via their devices. A growing part of this mega-trend is the use of digital coupons – driven by group-buying, acceptance among the young (and affluent), and ease of redemption. Recessionary economics plays a role but the use of electronic coupons appears to be here to stay, regardless of the economic climate.

Retailers that don't develop a digital-coupon strategy are risking lost business. Yet there's confusion in the marketplace about emerging hardware and software solutions. Most major retailers plan investments in multi-channel strategies, including digital coupons. But the vast majority have yet to commit. Most are unsure of the best solution and concerned about the impact on their business.

Given these trends, we have created an automated coupon redemption solution that is delivered as a cloud-enabled service that requires minimal upfront investment.

CouponSERV links retailers and manufacturers with customers through coupon aggregation, validation, redemption, and analytics. It is part of our Cognizant IntelliSTORESM solution to improve the future of in-store retail.

Our solution is discussed in greater detail at the conclusion of this paper.

Digital Coupons Soar

Paperless digital coupons are taking off. In 2010, their use in the United States grew by 41% compared with 2009, according to Coupons.com Inc., the largest digital coupon network on the Internet.¹ The savings issued were worth approximately \$1.2 billion.

The online saving industry is growing rapidly, and the digital coupons space is no exception, according to Steven Boal, CEO of Coupons.com. He says that not only are more consumers making digital coupons part of their shopping routine, but they are accessing them across the entire digital domain – including the Web, in social media, with consumer electronics, via their mobile phones, etc.²

The key driver is smartphone adoption. By the end of 2011, says market research firm Nielsen, there will be more smartphones in the U.S. market than feature phones.³

Ongoing recession and high unemployment are still driving coupon use. In a mid-2010 survey conducted by Harris Interactive, 41% of adults surveyed were spending more time shopping for the best deals and 40% reported increased use of coupons.⁴ Coupons in general grew during 2010 by 6.8% to approximately 332 billion, the largest single-year distribution quantity ever recorded in the U.S.⁵

Two questions must always be asked: Does the coupon improve the shopping experience (or complicate it)? Will it improve customer loyalty?

But the use of coupons is no longer restricted to lower income groups. In fact, the average user of printed digital coupons has a household income of \$105,000, 26% higher than the U.S. average. And 36% of those who use digital coupons have a college degree.⁶ It appears as if conspicuous consumption is being replaced to some extent in the United States by a shop wisely mindset that is working well for purveyors of digital coupons.

Several less-reactionary trends are also at play.

Young people with mobile lifestyles have embraced digital coupons. According to Coupon Sherpa, a popular coupon-related website, what began slowly with printable online coupons has rapidly gained momentum in 2011 and become a multi-platform phenomenon, mainly due to the popularity of smartphone-compatible coupons. A younger, hipper crowd is using barcodes, in-store access, and social media rewards.⁷

For the first time in 2010, according to Coupons.com, digital coupon growth outpaced newspaper coupon growth. The ratio was a lopsided 6 to 1.⁸

Digital Coupons: Convenient & Inevitable

Digital coupons are likely to continue their rapid growth for two other seminal reasons:

They are part of the updraft in cross-channel marketing, especially mobile. Between the growing acceptance of smartphones and consumers' need for instant access to information, mobile is becoming a major channel for retailers, according to Boston Retail Partners.⁹ The digital marketing firm Unica estimates that over 40% of European and American marketers (based on the company's 2010 survey) already use mobile marketing, mostly through mobile apps, mobile sites and mobile messaging. And most marketers intend to get onboard eventually.¹⁰

Of equal importance, digital coupons are extraordinarily convenient for both shoppers and retailers.

In the traditional coupon redemption process, customers have to watch for deals, remember

to carry the coupon, check if it's accepted in the store, make sure it hasn't expired, and adhere to all other conditions in the fine print when arriving at POS.

Retailers must jump through just as many hoops: ensuring employees can identify fraudulent coupons, sending accepted coupons (or data) to manufacturers, and then completing and tracking settlement. Two questions must always be asked: Does the coupon improve the shopping experience (or complicate it)? Will it improve customer loyalty?

Paperless digital coupons have none of the downsides and many upsides.

- As long as the shopper has a smartphone, there are no inconvenient usage barriers.
- Digital coupons are instantly redeemable.
- They can be provided on short notice to drive sales.
- Retailers or manufacturers can distribute them to a wide audience or just top customers to reward loyalty.
- Manual handling is a thing of the past.

Also, manufacturers avoid the considerable expenses of printing, advertising and distribution.

Why Get In the Game Now

For retailers, digital coupons are both a defensive tactic and a competitive advantage.

Many consumers these days are time-pressed and online-savvy – which means they have high expectations about speed and convenience of service. Couple that with a low tolerance for long checkout lines and store associates who often don't have the information they need (frustrations often cited in shopper studies).¹¹ It all adds up to the need for retailers to provide the speediest, most convenient, most informative service technology can provide. That includes streamlined POS, which opens the door to digital coupons.

Of course, networked POS has many other benefits.

Paperless digital coupons are part of a wider connection to shoppers and all the knowledge to be gained about their wants, needs, desires and patterns. That information can lead to targeted

promotions, employee-suggested selling, and up-selling opportunities. (Amazon.com does this brilliantly.)

The other obvious reason to enter into the networked in-store experience now is that others are already doing it and customers expect it. As Boston Retail Partners pointed out in its 2011 Annual POS Benchmarking Survey, there are many smartphone applications (apps) not associated with a specific retailer that are helping customers become more price-savvy. These apps are forcing all retailers to make decisions on how to present their pricing strategies and price-matching policies across channels. And unpleasant as the prospect may be, customers are already scanning the barcode on items in retail stores. The app they use is searching for the best deal locally and online, and some customers are leaving the store to make the purchase elsewhere. That's what you call a retailer's nightmare.

Automated Coupon Redemption: High>Returns, Low-Risk

Our couponSERV solution enables retailers to address many of the aforementioned challenges. It provides a low-risk way to embrace paperless digital coupons because it requires no upfront investment in hardware or software. It simplifies the coupon process for customers and retailers with a single real-time POS connection to a central database.

Reward customers on the spot. With Cognizant couponSERV, coupons can be applied automatically to the purchases of selected customers – driving added sales or reinforcing customer loyalty.

Purchased as a service with minimal upfront cost, Cognizant couponSERV aggregates all coupons in one database. Business rules are tracked and applied for every SKU. Loyal customers can be rewarded at checkout via digital wallet. Coupon handling costs are drastically reduced. Front-end and back-end fraud are virtually eliminated.

CouponSERV is part of Cognizant intelliSTORESM, a networked "intelligent store" concept that leverages customers' mobile devices so retailers can integrate online and mobile channels with in-store shopping. In a networked store, the shopping experience is enhanced through:

- Customer recognition.

Faster and More Convenient, Please

Our recently completed 2011 Customer Shopping Survey sought to understand how shopper preferences have changed in the last year. Conducted in April of 2011 and involving more than 2,400 shoppers across the U.S. and Canada, the survey confirmed that speed and convenience are priorities for time-pressed shoppers. Regarding coupons, these three facts rose to the top of the survey:

- 52% of surveyed shoppers identified mail-in manufacturer rebate coupons as the second-most irritating part of the checkout process (after uninformed sales associates).
- Automatic coupon redemption was the second-most-popular store service offering (after free home delivery).
- Top choice for new mobile apps from retailers: paperless digital coupons.

- Information "pushed" to customers based on preferences.
- Special offers made in real-time.
- Aggregation and redemption of digital coupons.
- Greatly expedited "dynamic checkout."

CouponSERV links manufacturers, retailers, and customers through work flows and service level agreements (SLAs).

Four key components include:

- **Coupon Aggregation:** A coupon database built in partnership with manufacturers and media partners stores both manufacturer and retailer coupons. Retailers are also able to define their own coupons/offers online.
- **Coupon Validation:** couponSERV maintains a current copy of every client's master data (SKU/ category/manufacturer, etc.) to instantly tie manufacturer coupons to retailer SKUs. Customers are always assured of getting the best deal through automatic sorting and analysis of multiple or complementary deals.

Furthermore, centralized validation of paper coupons greatly reduces exposure to “mis-redeemed” coupons.

Our solution (via our partnership with ICN) also validates and redeems paper coupons – virtually eliminating fraud, simplifying reconciliation and reducing the amount of time and money tied up before a retailer is reimbursed.

While use of digital coupons is growing, paper coupons will still be the dominant channel, co-existing with digital coupons for the foreseeable future. CouponSERV helps retailers manage both with equal convenience at POS.

- **Coupon Redemption:** At checkout, a retailer’s POS connects automatically to the Cognizant couponSERV database to find valid coupons, which are applied instantly for identified customer segments. The customer is able to view the coupon details and savings. The details are recorded on the sales receipt. Redeemed coupon data is shared with manufacturers and applied to the settlement process.

- **Reporting & Analytics:** couponSERV clients have the added benefit of a customized dashboard showing various parameters such as coupon analysis by store, coupon category analysis, coupons that are active, most popular coupons, etc. These analytics also help manufacturers analyze the effectiveness of coupon campaigns.

With Cognizant couponSERV, the right coupons are waiting for the right customer at checkout. The benefits are many:

- Enrich customer shopping experience.
- Increase customer loyalty.
- Improve labor efficiency.
- Reduce coupon fraud.
- Settle manufacturer/retailer accounts faster.
- Understand customer coupon patterns.

Learn More

To learn more about the Cognizant IntelliSTORESM couponSERV solution and other elements of Cognizant IntelliSTORESM, please contact inquiry@Cognizant.com.

Footnotes

- ¹ “Digital Coupons Trends Report for 2010,” Coupons.com Inc.
- ² “Digital Coupons Represent Fastest Growing Coupon Segment in 2010,” www.couponsinc.com 2011 press release
- ³ nielsenwire blog, March, 26, 2010
- ⁴ <http://www.harrisinteractive.com>, from a press release summarizing findings in a Harris Interactive survey conducted for PerkStreet Financial, July 2010
- ⁵ “National Coupon Facts,” 2010, NCH Marketing Services, Inc.
- ⁶ Simmons Market Research, Summer 2010, quoted in “Digital Coupons Trends Report for 2010,” Coupons.com
- ⁷ Coupon Sherpa, website posting, December 27, 2010
- ⁸ Kantar Media, Press Release, January 5, 2011
- ⁹ “Mobilizing POS,” 12th Annual POS Benchmarking Survey, Boston Retail Partners, January 2011
- ¹⁰ “The State of Marketing 2011: Unica’s Annual Survey of Marketing”
- ¹¹ “Taking the Store to the Shopper,” *RIS News/Cognizant 2011 Shopper Experience Study*, June 2011

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About Cognizant

Cognizant (NASDAQ: CTSI) is a leading provider of information technology, consulting, and business process outsourcing services, dedicated to helping the world's leading companies build stronger businesses. Headquartered in Teaneck, New Jersey (U.S.), Cognizant combines a passion for client satisfaction, technology innovation, deep industry and business process expertise, and a global, collaborative workforce that embodies the future of work. With over 50 delivery centers worldwide and approximately 137,700 employees as of December 31, 2011, Cognizant is a member of the NASDAQ-100, the S&P 500, the Forbes Global 2000, and the Fortune 500 and is ranked among the top performing and fastest growing companies in the world. Visit us online at www.cognizant.com or follow us on Twitter: Cognizant.



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