

Death by 1000 Discounts: Why Marketers Are Turning to Personalized Digital Coupons Instead of Brand-Dampening, Profit-Killing Price Cuts

With Black Friday behind us and the rest of the holiday season - and beyond - ahead, many marketers are beginning to think long and hard about their discount strategies. Consumers have become accustomed to steep discounts - expecting 40%, 50%, or even 60% off before they'll make a purchase. But many brands are starting to wonder: how low can we go? The steep discount is taking a toll on bottom-line profits and cheapening some brand images. Brands need a better way to drive sales than the deep discount.

One new concept in retail marketing is the personalized digital coupon. These highly targeted "personal incentive dollars" are loaded by brand marketers instantaneously onto selected consumer payments cards as consumers swipe them through regular debit/credit card readers, or use them to make purchases online. Consumers can then redeem their personal coupons automatically at the point of sale simply by making a purchase. Unlike mass-scale coupon codes and discounts that created margin erosion for retailers, these pre-loaded, personalized incentive dollars are relevant to each individual and are *non-transferable* - useable only once by each consumer.

The personalized digital incentive takes into account an individual's recent and past purchases (as based on recent card transactions), delivering relevant discounts for brands they're extremely likely to buy. Consumers find out about the current incentives loaded onto their card via emails, text messages, or a personal website. For example, a sporting goods retailer could target all people who have bought sports equipment in the past 60 days with a 20% off incentive on their next purchase. A shopper receives a text message that the "coupon" is on his card and heads back to the store to make an additional purchase.

Certainly, consumers are clamoring for these type of relevant offers targeted to their specific preferences. Some 74% of consumers value customer loyalty schemes that offer discounts based on their personal shopping habits, according to a November 2009 survey commissioned by web content management firm SDL Tridion.

Clearly, the days of the deep discount are numbered; this Black Friday, retailers offered fewer and smaller discounts than last year, faced with pressure from shareholders to boost margins after last year's firesale prices took a chunk out of profits. But how can a retail brand marketer get started with personalized digital incentives? The following tips should get you on your way.

Define your goals. Offering customers incentives to purchase is a great way to drive sales, but there are other reasons to launch an incentive campaign. Do you want to connect with a hard-to-reach target audience? Increase average order value or transaction amounts? Maybe instead you want to focus on new customer acquisition, or build loyalty with existing customers, getting them to return sooner and purchase more frequently. All of these goals are valid, but the type of incentives you offer will vary depending on which goal is more important to your brand today.

Offer your first incentives. The first step is to find a personalized incentive marketing platform. The right technology will enable you to analyze customer purchase trends to come up with the right incentives for each target group, as well as ensure your incentives are automatically loaded onto the debit and credit cards people use every day. The system should also allow you, of course, to track redemption and analyze purchase patterns so you can fine-tune future incentive offers, as well as compare bottom-line ROI results of your incentive offers against your other marketing programs.

Gather data and optimize campaigns. Another added benefit of personalized incentive programs are the data you can collect on individual shopping patterns and preferences as people redeem the incentives - both in-store and online. By mining and analyzing this cross-channel data, you'll get a clear picture of which promotions are working and how different segments and demographics reach to specific offers. You can then create more effective incentives, targeting key customer segments based on demographics, preferences, geography, and purchase data.

The time has come for retailers to move away from the massive discount. Brands can no longer afford to continue "cheapening" their image, nor can they drive long-term profits when consumers expect 50% off every day. The personalized digital incentive is here to stay - and may just signal the end of the public sale.