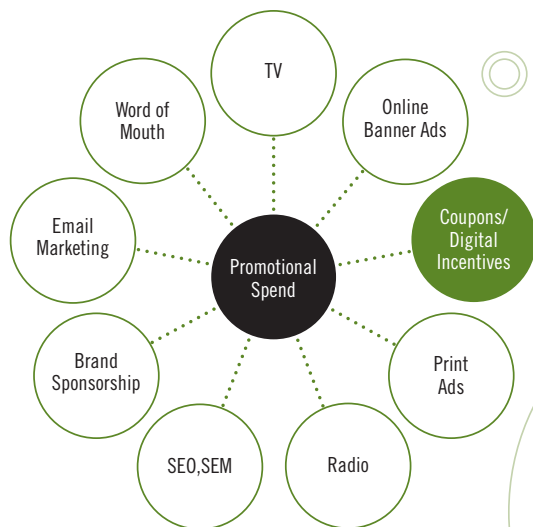


Leveraging Coupons and Incentives in a Recession: Historical Trends and New Delivery Methods

Marketers have a host of channels to deliver their message in order to drive sales. Currently marketers allocate the majority of their U.S. advertising dollars to television advertisements, followed by magazines, the Internet, and newspapers, while coupons only represent 0.2% of spending. Due to the current economic and technological condition in today's environment, however, marketers should make coupons a key part of the promotional mix and consider them alongside the other more popular types of media (Figure A).

Figure A. *Coupons Should Be Elevated Alongside Other Types of Media*



The economy is in a severe recession, so now is a time when consumers are more cost-conscious and frugal in their spending habits. Unlike a television or newspaper print ad, coupons are considered “free money” by consumers and therefore more likely to motivate purchasing behavior when money is tight. Coupons provide an immediate, tangible incentive to shop. In addition, there has been a dramatic advancement in technology as it relates to coupon delivery; coupons can now be issued and redeemed electronically without the need for costly and complex manual processes. The technology available also makes it far easier to target specific consumer profiles and better understand consumer spending habits. These two factors combined make now an optimal time for marketers to utilize coupons to drive sales.

General Coupon Usage

Three-fourths of the adult population report that they use coupons to some degree, with nearly half reporting that they use them at least occasionally. Many people might assume that only women or the elderly use coupons, but research shows that there is in fact widespread coupon use across age groups and by both men and women. While half of adults in the 35-54 age range use coupons, over one-third of those in the youngest age category do as well (Figure B). Women do use coupons more than men, but the difference is surprisingly small with nearly 40% of men using coupons as well (Figure C).

Figure B. Coupon Use By Age

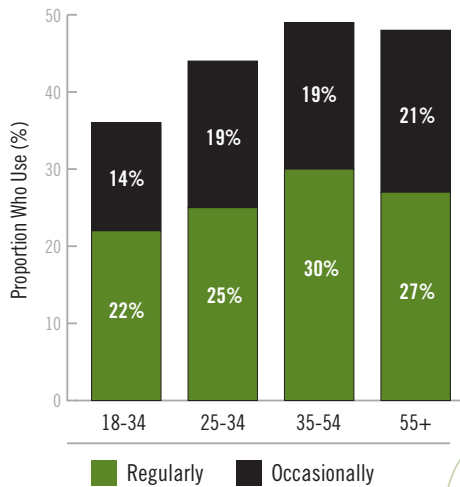
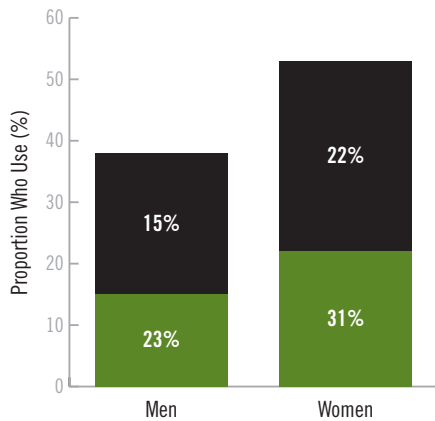
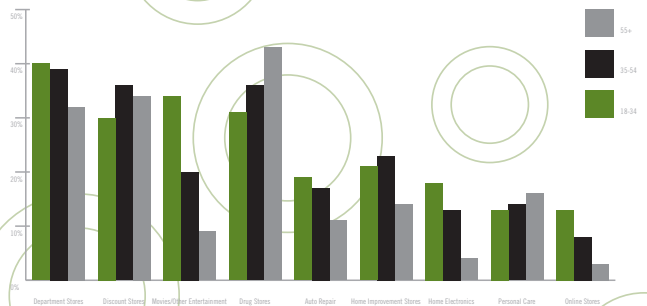


Figure C. Coupon Use By Gender



In terms of usage by store type, a majority of adults (59%) use coupons from at least one of the 10 major store categories in the previous 30 days (Figure D). Not surprisingly, the data show that entertainment, home electronics, and internet categories skew young, while drug stores skew old. Women are more likely than men to use coupons from department stores, drug stores, and discount stores, while men use more coupons than women for home improvement, auto repair, home electronics, and entertainment.

Figure D. Usage "in Past 30 Days" by Store Type



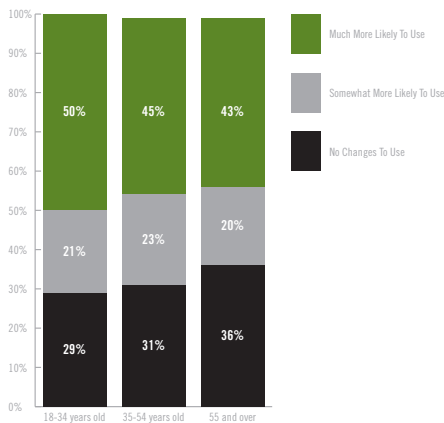
Below we will explore how technology is changing the coupon game, making it possible to micro-target consumers and monitor their purchasing behavior very precisely. As marketers think about these advanced capabilities, they ought to keep in mind the range of people already using coupons, and how it is possible to get a better understanding of who they really are and how they are interfacing with their product or brand. Key to this strategy is the ability to actually segment these data, and target, issue, track and analyze the coupon delivery by these types of demographics. Doing so will allow marketers to send the right offer to the right consumer at the right time, giving them a strong opportunity to drive a purchase.

Coupon Use and the Economy

The already high usage rates increase further during a down economy, as the availability of coupons drives purchasing behavior for many individuals. The relationship is simple: when the economy is down, coupon use is up. For example, a 2008 Harris Poll survey revealed that during a recession, 54% of adults would reduce discretionary spending and 63% would not make a purchase if a deal were not available. In 2008, 44% of adults said coupons influenced their decision to go to a specific retail location, more than any other type of advertising, a 35% increase over 2007. Furthermore, data from a recent study in which consumers were asked about their attitudes toward coupons during a recession show the large impact that coupons can have (Figure E): two-thirds of adults say they are much more likely to use or somewhat more likely to use coupons during a

recession. Perhaps surprisingly, it is the *youngest* age group, 18-34 year olds, with the highest percentage (71%). The increase in coupon usage among the younger age group is driven by the increased availability of “digital incentives,” giving them the ability to leverage technology to find a good deal. Finally, income does not seem to have an effect on attitudes toward coupons during a recession, so it is not just older, less affluent consumers who are prime coupon candidates.

Figure E. Change in Coupon Use in a Recession

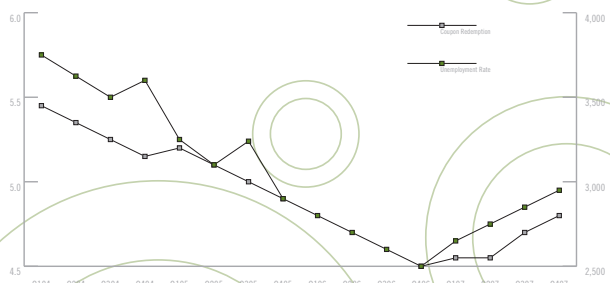


In addition, growth in unique visitors to various website categories in the fourth quarter of 2008 show that at the time the economy really started to turn, with fears of a long and drawn-out recession starting to solidify, usage of coupon websites (i.e., websites that let consumers select and print coupons that can then be redeemed offline and/or sites that provide promotional codes to be used online) dramatically increased. Figure F shows how coupon sites ranked as the website category with the highest growth in usage between October and November 2008, reaching 35.6 million visitors. This growth was higher than all types of retail websites, ranging from jewelry to department stores to home furnishings. The 32% one-month growth was as much growth as was seen in the entire previous year from October 2007 to 2008, when year-over-year growth was 33%. The number of coupon websites also doubled in the first nine months of 2008.

Figure F. Top 10 Website Categories Among U.S. Internet Users Ranked by Growth in Unique Visitors from October to November 2008

| | | | |
|-----------------------------------|---------|---------|-----|
| Coupons | 27,101 | 35,649 | 32% |
| Retail - Toys | 25,195 | 31,296 | 24% |
| Retail - Department Stores | 66,441 | 79,933 | 20% |
| Retail - Home Furnishings | 39,852 | 44,965 | 13% |
| Online gambling | 14,588 | 16,132 | 11% |
| TOTAL US INTERNET AUDIENCE | 190,616 | 190,775 | 0% |

Finally, from a more macro level, coupon redemption and economic indicators such as the unemployment rate are almost perfectly correlated: as unemployment rises, coupon use also rises (Figure G).



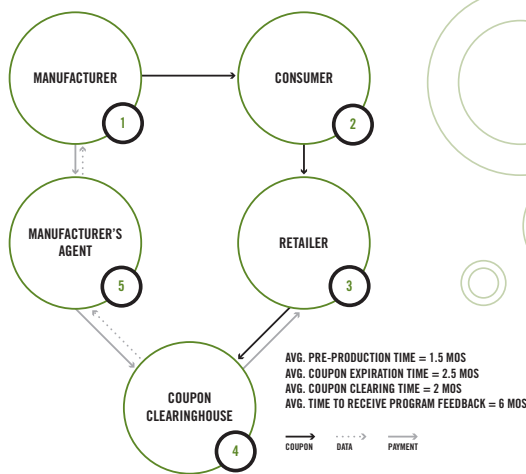
All of these data support the notion that marketers have an enormous opportunity to leverage the current high receptivity to coupons, across a wide range of age groups and income levels.

The Evolution of Coupons

One explanation for why some marketers may have de-emphasized coupons in their promotional mix is the complicated, costly and inefficient way coupons are

traditionally distributed and redeemed. Figure H shows the traditional flow of coupon processing with its complex exchange of money, data, and actual coupons among stakeholders. This process involves gross weighting of millions of nonstandard-sized manufacturers' coupons, normally by agents that ship the coupons to clearinghouses. Paper coupons are counted at least twice, sometimes more, and can be extremely time-consuming and expensive due to the adjustments and negotiations among retailers, manufacturers and redemption agents. While it may take six months to get any sort of feedback from a typical campaign, in many cases it may take up to one year.

Figure H. Coupon Processing Flow



In addition to cost and timing pain points, from a manufacturer's perspective, there is also the issue of not being a "green" business practice in today's eco-friendly environment. Just considering grocery coupons, for example, manufacturers issued 302 billion coupons in 2007, thus using an astronomical amount of paper to do so. Moreover, there is a great amount of fraud potentially committed by both the retailer and the consumer. The limited control also translates into limited data available on the consumers and their purchasing behavior.

From a retailer's perspective, pain points include the handling and labor time of store employees, delayed

payment to the store as coupons are considered "cash", the perception of brand erosion, the limited ability to understand redeemers' characteristics and purchasing behavior, and of course the slowing down of in-store queues. Retailers and manufacturers endure all of these limitations only for extremely low redemption rates of less than 1%!

Finally from a consumer's perspective, it is time-consuming to search and clip coupons, they are cumbersome to carry, there is an embarrassment factor (i.e., looking "cheap,") expiration date hassle, and for online coupons, the need-to-print problem of not being "green".

Changing the Delivery of Coupons with Technology

Coupons have come a long way from the first on record in 1894, when Asa Candler, the druggist who bought the formula for Coca-Cola for \$2,300, gave out handwritten tickets for a free glass of his new fountain drink. His coupon and those that followed throughout the majority of the 20th century are considered *1st Generation* coupons, paper coupons that are manually clipped and processed. Then, with the proliferation of barcodes in the 1980s and then the Internet and the e-commerce industry in the 1990s, merchants naturally started creating online coupons. The burgeoning technology brought the basic idea of the original coupon to the new medium of online shopping, and *2nd Generation* coupons were born.

Online coupons go by a variety of names, but they basically fall into two different categories: 1) printable coupons and 2) coupon codes. Printable coupons are those coupons that are available on the Internet but which can be printed from a home computer and used in local stores. Coupon codes are just code numbers that are entered into a portion of the form that the consumer fills out when ordering online so that the coupon can be applied to the total purchase before making the payment.

The *3rd Generation* coupons do rise to a new level. Coupon aggregator sites allow consumers to enter their preferences and be notified of particular deals that may be of interest to them. Also in this category are mobile phone coupons, services that download and store coupon codes on cell phones. In addition there are club

membership closed-loop loyalty cards, offered by grocery stores primarily, which eliminate the need to manually clip coupons before going grocery shopping.

Finally, there is an emerging *4th Generation*, which uses an open-loop incentive card, a universally accepted payment method such as a MasterCard, whereby the incentive is loaded onto the payment card and redemption and payment are combined in one single swipe. The four generations are summarized below.

| | |
|---------------------|--|
| 1 ST GEN | Paper Coupons: manually clipped, manually processed |
| 2 ND GEN | Coupons with barcodes: manually clipped, digitally processed Online printable coupons: manually printed, digitally processed Promotional codes: manually input, digitally processed |
| 3 RD GEN | Aggregator sites: manually customizable/printed/input, digitally processed Mobile phone coupons: digitally accessed and processed Closed-loop loyalty cards: digitally accessed and processed |
| 4 TH GEN | Open-loop Incentive Card: universally accepted, incentive and payment method combined; digitally customized, automatically redeemed |

It is important for marketers to understand the benefits and limitations of each delivery method in order to assess which option is best for their needs. *2nd Generation* coupons improve upon the limitations of *1st Generation* coupons that require manual clipping since there is the added benefit of improved timing and ease of redemption, but the persistent challenges include consumer need to search for deals, plus retailers often lose control of their offer through fraud and viral activity. Furthermore in the future, as social media websites with worldwide reach such as Twitter enter the coupon world, eventually the coupon will no longer be a coupon (i.e., a special offer that a segment of the population gets); instead, that base price will just be driven down. For example, if everyone has access to a 10%-off coupon, then the price is effectively 10% lower. The lack of control that retailers have will become a serious problem, and the market will be conditioned to always expect a deal. That challenge leaves a huge opportunity for other delivery methods to have targeted, trackable, “private” coupons that enable one-to-one marketing.

For coupon aggregator sites, statistics show their proliferation and the increased usage among consumers. Some of the benefits include being able to receive coupons from thousands of retailers, and being able to customize which types of coupons consumers receive. For example, a consumer could select particular retailers or particular store categories that they would like to be notified about. The downsides, however, are that the process still requires consumer effort to initially search for, and then either download and print coupons, or enter the codes. From a retailer’s perspective, this method is still very limited in its ability to target specific consumer profiles.

For mobile coupons, a retailer in theory could send a group of teenagers who are at a shopping mall various electronic coupons on their phones to promote special discounts. The benefits of this method are that millions of people already own and use cell phones on a daily basis. Since the coupon is automatically sent to users’ phones, there is no consumer effort required to get the coupon in hand. On the flipside, however, there are significant downsides in that store clerks need to be trained and software needs to be installed to digitally redeem, and consumers may be annoyed to receive unwanted messages on their phones and/or have to pay extra fees to their carrier for such messages. Finally, these offerings are primarily limited to grocery coupons at this time.

For closed-loop loyalty cards in the *3rd Generation*, the coupon can be automatically sent to a user’s card, so no consumer effort is required. In addition, the digital redemption allows for easier targeting and tracking of consumer behavior. However, by their nature, these cards are closed-loop, so consumers need to carry a separate card for each store. Moreover, and similar to cell phone coupons, consumers also need to carry a separate payment mechanism in addition to the loyalty card, such as a credit card or cash. Figure I summarizes the benefits and limitations of each delivery method.

Figure 1. Benefits and Limitations of Coupon Delivery Methods

| | | |
|----------------------------------|---|---|
| Paper Coupons | <ul style="list-style-type: none"> Customers are most accustomed to using paper coupons | <ul style="list-style-type: none"> Consumers need to proactively search for, clip, and carry coupons Retailers have lengthy and expensive processing, limited ability to target consumers <1% redemption and high potential for fraud |
| Online Promo/Codes | <ul style="list-style-type: none"> Manufacturers/retailers avoid printing and distribution time and costs Relatively easy for consumers to enter codes at point of sale | <ul style="list-style-type: none"> Consumers need to proactively search for, download, and print coupons High potential for fraud and viral spread Retailers have limited targeting capabilities |
| Aggregate Sites | <ul style="list-style-type: none"> Consumers can receive coupons from thousands of retailers Consumers can customize which coupon types they receive | <ul style="list-style-type: none"> Consumers need to proactively search for, download, and print coupons Participating retailers cannot target specific consumer profiles |
| Mobile Phones | <ul style="list-style-type: none"> Millions of people already own and use cell phones on a daily basis Coupon is automatically sent to user's phone, so limited consumer effort is required to get coupon in hand Geo-targeting capabilities | <ul style="list-style-type: none"> Store clerks need to be trained and software needs to be installed Consumers may be annoyed to receive unwanted messages Offerings primarily limited to grocery coupons at this time |
| Closed-loop Loyalty Cards | <ul style="list-style-type: none"> Coupon can be automatically sent to user's card, so no consumer effort required Digital redemption allows for easier targeting/tracking | <ul style="list-style-type: none"> Closed-loop so consumers need to carry a separate card for each store Consumers also need to carry a separate payment mechanism |

The 4th Generation is emerging and is a form of couponing that offers additional potential benefits on top of the 3rd Generation. These benefits include single swipe

transaction capabilities, advanced analytics, and increased redemption rates. To date, however, these digital incentives have been limited only by the lack of availability of this kind of card and technology.

4th Generation Coupons and the edo Marketing Platform

The 4th Generation coupon is defined as an open-loop incentive card, and it is the foundation of the edo Interactive Marketing Platform. By leveraging the pre-existing global payments network, edo Interactive connects buyers and brands by delivering innovative, card-based financial services to consumers and enabling retailers to target the right message, to the right audience, at the right time, to drive a purchase.

Marketers can target edo's Prewards™, which are digital incentives loaded onto a MasterCard, to consumers based on demographics, behavioral information, geography, and preferences, or for events such as a user's birthday. These capabilities offer a more accountable way to deliver coupons; every campaign can be finely tracked and analyzed so that marketers can truly understand who is responding to their offers and under what conditions. The Preward™ is real money, redeemed at the point of sale, and is powerful enough to motivate a purchase. Preward™ offers take a variety of forms such as, "Get \$5 off next purchase of \$20 or more" or "Buy 10 family meals and receive the 11th free". H&R Block launched a recent campaign, for example, with a \$10 Preward™ redeemable toward online tax preparation. Outdoor apparel manufacturer Cloudveil has conducted several campaigns with edo, testing the different response rates to \$5, \$10 and \$15 Preward™ offers.

Many of the limitations of the 1st, 2nd, and 3rd Generation coupons are addressed with edo's unique combination of a single swipe transaction, digital technology, and online and email/sms consumer notification of offers. The single swipe transaction translates into higher redemption rates and lower costs as there are no separate coupons to search for, clip, or process. Redemption rates for edo campaigns range from 5-17%. In addition, since the incentive is not visible at the point of sale, consumers experience no "shame" in using the coupon. Edo campaigns are very easy to launch as there is no software to install or

training at the point of sale. The advantages of the digital technology component include being able to profile and target customer segments and monitor their purchasing behavior, track ROI in real-time, perform repeat and low-cost test campaigns, and strengthen customer loyalty with repeat Prewards™. The digital delivery also ensures a controlled process which eliminates the threat of fraud or uncontrollable viral spread.

In addition to the single swipe transaction and digital technology, the email/sms and online components of edo's platform provide further advantages. These features allow for brand and product awareness tracking during the Preward™ acceptance and redemption process. Consumers are also notified when incentives will expire and they can view all incentives via an online dashboard, mitigating the consumer hassle associated with incentive expiration.

Let's consider two real-life examples of coupon campaigns, one that used an online coupon approach and one that used the edo Marketing Platform. In February 2009, a large national sandwich chain launched a free sub promotion via open registration of an online coupon, combined with promotional emails to customers. There was heavy viral sharing of the code right away and the promotion had to be stopped early (within three days) as the maximum number of coupons had been reached. Many of the chain's franchises refused to accept the coupons, and many consumers were outraged and publicly declared so on websites. Due to the high levels of negative buzz, the overall brand image of the sandwich maker suffered as a result.

In contrast, a Preward™ campaign was launched in November 2008 for Which Wich, a sandwich shop located in Nashville, Tennessee. Which Wich offered a \$1 Preward™ to select cardholders, to use toward a food purchase. Unlike in the previous case, Which Wich had complete control over who received the incentive and when, so there was no possibility of uncontrollable proliferation or repeat use by the same customer. Furthermore, Which Wich was able to track and analyze who exactly accepted and redeemed the Preward™ and when. In addition, arguably the best part of the campaign was its 5% redemption rate, a rate significantly higher than other forms of coupon delivery. Colt Holthorn, owner of Which Wich, sees plenty of profit

potential from such campaigns. "From my perspective," he says, "the strategy is seamless."

Digital Incentives and Millennials

Millennials, or Generation Y, are the 82 million young adults aged 18-24 who represent a huge potential for marketers, but to date have been a somewhat elusive market. They are the optimal group for coupons and digital incentives because they use multiple technologies concurrently, and in all aspects of their daily lives. They are a generation that has no memory of a world without cell phones, email, instant messaging, mp3 players, blogs, or Internet videos; they watch TV on their computer, and read e-mails on their mobile phones. They are empowered, connected, and tech-savvy, with 97% owning a computer, 94% owning a cell phone, and 76% using instant messaging. Millennials take 2.5 trips to the mall per month, averaging 200 store visits per year. Annually they spend \$20 billion of their own money, and influence spending of over \$600 billion.

Moreover, millennials are open to trying new things and research shows that coupons are effective with this group to get them to do so. Data indicate that 77% of millennials are more likely to use coupons if they are paperless. In addition, if millennials like something, they are socially networked to immediately tell their friends about their experience. The data above, along with the advances in technology and the economic climate discussed earlier, suggest that millennials are the optimal demographic for digital incentives so long as those incentives are delivered in a safe and age-appropriate way.

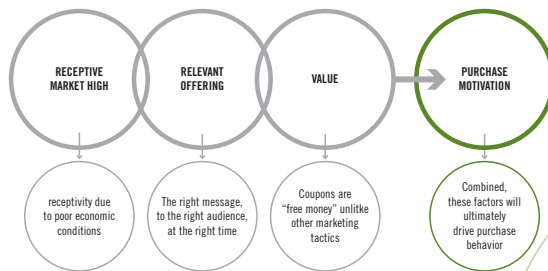
However, it is not just millennials who are primed to use digital incentives, it is their parents too. By virtue of the fact that millennials are so closely connected to their parents with technology and are in constant contact with each other, it makes sense that the parents are the next optimal target for digital incentives. Half of millennials see their parents daily, and of those who do not, 45% talk with their parents daily, with nearly all doing so at least weekly. Many also text message with their parents several times a day. Millennials have a strong tendency to share their opinions and preferences with their parents too, and they are heavily involved in each other's daily decision-making. Millennial parents are forced to adopt the technology if

they want to be in touch with their children, because their children are often intolerant of technophobes. One quote by an 18-year old college freshman sums it up: “When I left for college, my parents learned how to text message, so that they could keep in touch with me. And now, they won’t stop.” By targeting millennials, marketers actually get the side benefit of the proverbial “Trillion Dollar Mom”.

Conclusion

Due to particular conditions in today’s environment, now is the time for marketers to get in the coupon game. The poor economy makes consumers most receptive to using coupons. Advances in technology enable marketers to make coupons extremely relevant to specific consumer segments. In addition, there is already a large group of consumers that are primed to adopt new coupon technologies, i.e., millennials and their parents. The implications of all of these conditions are that now is the critical time to add coupons to the promotional mix. The opportunity can be summarized in the following simple formula (Figure J). A receptive market plus a relevant and valuable offering will ultimately drive purchasing behavior. While this equation may be true for any form of marketing or promotion, it is particularly poignant for coupons.

Figure J. Summary of the Opportunity



Since now is the time to incorporate coupons into marketing strategies, below is a seven-point checklist marketers can follow as a guide when thinking about developing a coupon program and choosing a delivery platform. Marketers should ask themselves these seven questions, and the majority of the answers should be “yes.” If not, they will not be maximizing the capabilities that are available to them – or worse – the coupon capabilities that competitors may get to first.

| | YES | NO |
|---|-----------------------|-----------------------|
| 1. Is the program extremely easy for consumers to use? | <input type="radio"/> | <input type="radio"/> |
| 2. Is the program extremely easy and low cost for manufacturers/retailers to use? | <input type="radio"/> | <input type="radio"/> |
| 3. Is the program all-digital and “green,” thus avoiding printing materials and costs? | <input type="radio"/> | <input type="radio"/> |
| 4. Does the program have a mobile component to leverage the ubiquity of cell phones? | <input type="radio"/> | <input type="radio"/> |
| 5. Does the program allow for complete control so that fraud and/or viral spreads are not possible? | <input type="radio"/> | <input type="radio"/> |
| 6. Does the program have micro-targeting capabilities with the power to issue incentives to specific consumer profiles? | <input type="radio"/> | <input type="radio"/> |
| 7. Does the program offer advanced analytics capabilities with the power to monitor and track purchasing intentions, behavior, and campaign effectiveness in real-time? | <input type="radio"/> | <input type="radio"/> |

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