

HOW RETAIL PARTNERS AND MOBILITY CAN HELP DELIVER VALUE TO BANK CUSTOMERS



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How retail partners and mobility can help deliver value to bank customers

Never before have banks been subject to such high levels of scrutiny from their customers. Positive sentiments of security and trust towards banks are on the wane. Customers are now squeezing banks. They want better products, services and value. Banks are also faced with growing competitive pressure to introduce new offerings and incentives. Simultaneously, with the slow rate of economic recovery, consumers are increasingly accepting that savings are a smarter way of life. Can banks leverage this sentiment to create value, win back lost customers, and maintain existing relationships as well as lower customer attrition levels?

Banks may do well to examine three seemingly disparate trends (see Figure 1) that can be used to shape a solution to eroding customer trust:

- A. **Need for savings:** Shoppers want to increase their savings. Retail merchants understand this and offer discounts to shoppers through printed coupons as part of their promotions strategy. Coupons are a crucial part of retail promotions. However, for a variety of reasons coupons have failed to substantially increase footfall and have delivered low ROI. Typical paper coupon redemption rates have been 1% to 2%. These figures could do with substantial improvement.
- B. **Growth in mobile usage:** The growth in mobile usage by shoppers is significant. Shoppers are increasingly using their mobiles to find products and deals, make comparisons, query their social networks, arrive at shopping decisions and make payments.
- C. **Advent of coupon aggregators:** There is a growth in online coupon aggregators like GroupOn, LivingSocial, Coupon Mom and My Coupons, amply demonstrating the keen interest shoppers have in pursuing discounts, free shipping, free samples, etc to bolster their savings. Going online makes coupon distribution a little more efficient, but their efficacy continues to be poor. Customer have to search and find the appropriate coupon before shopping – a departure from their typical shopping behavior:

Can a bank attempting to create a sticky service find a solution at the convergence of the three trends? We think it can.

Trends that Banks can leverage to create a new service

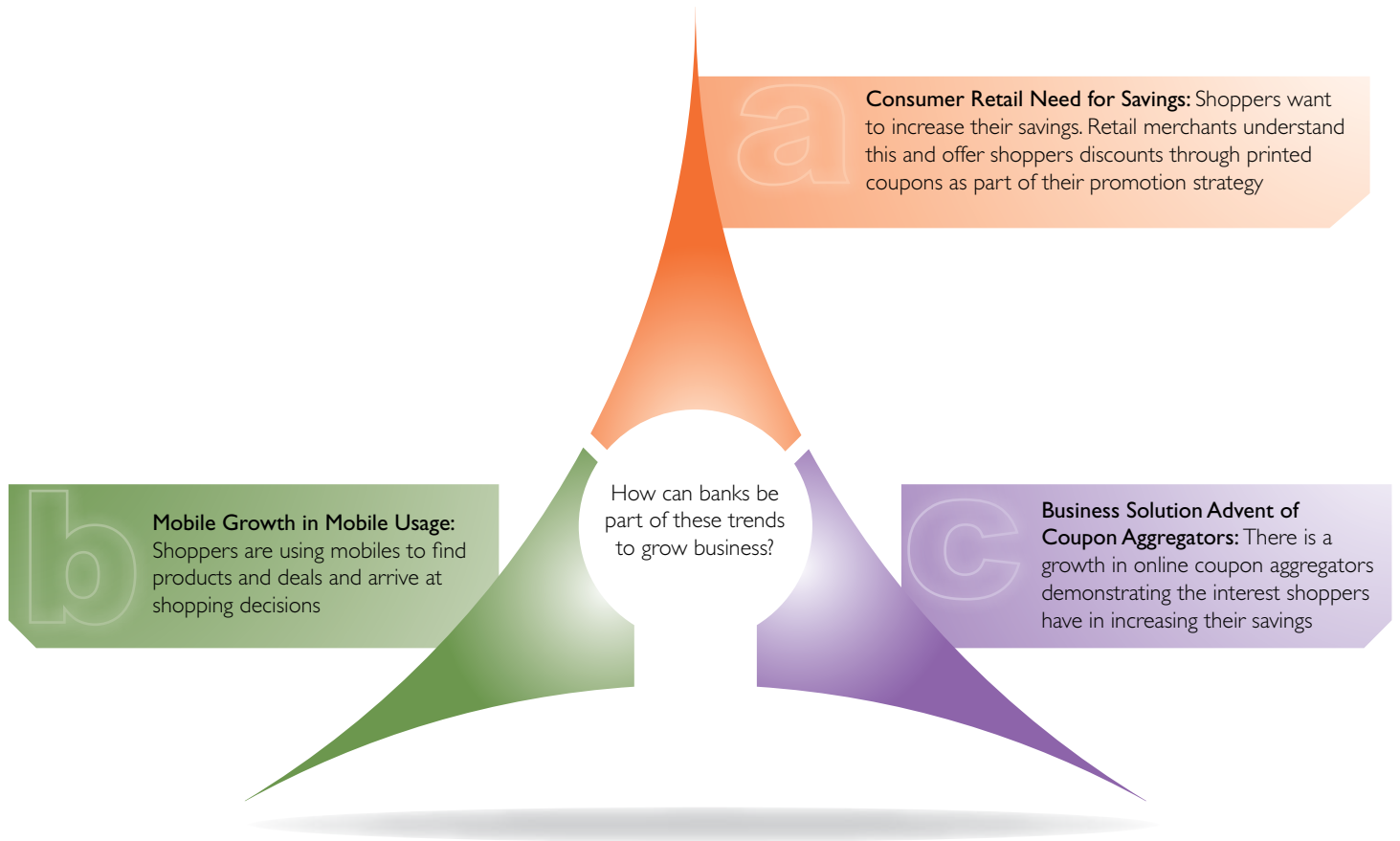


Figure 1

The solution lies in banks becoming a part of the value chain in coupon-based retail promotions. Banks also need to go further by ensuring that coupon usage grows, providing retailers the exciting prospect of increased footfall and improved ROI on coupons.

Increase coupon conversions to excite retail

The frustrating aspect of paper coupon promotions for retailers is the fact that millions of coupons are printed and distributed, but customers forget to clip them and bring them along on their shopping spree. Customers don't seem to forget their wallets or their car keys or their mobile phones, so why do they forget the coupon? And as any user of coupons knows, Murphy's Law applies to coupons: the coupons that are in the wallet have expired!

For the retailer, coupons pose three impossible-to-answer questions that can lead to increased conversions:

1. The retailer wants to know, "Which coupon (brand nonspecific, national brand, private label) was the most attractive to a customer and how

did it affect customer behavior? Did the customer also buy higher value items, lower value items or was there no change in behavior?"

2. The second question that retailers are unable to answer on the basis of redeemed coupons is, "Who redeemed the coupon?" The lack of a reliable answer makes it difficult to target profitable groups.
3. The question that truly confounds retailers is, "What did the customer buy elsewhere?"

These are crucial questions. The answers help build relevant and effective coupon campaigns through better targeting.

Retailers will willingly partner with anyone who has a solution to these problems.

The good news is that banks can easily solve the problem by sending customers the coupon on their mobile phones. When customers walk into a store, all they need to do is whip out their mobiles, view and review all the coupons at their disposal and redeem them. No more clipping of coupons from newspapers and flyers; no more stashing them away carefully so that they can be brought along for shopping. And even better, no need to go to a website, search for the right coupon, download and print it (and then, perhaps, even forget to take it along to the store!).

With mobile coupons, straightaway, the conversions will see dramatic improvement. Retail will be excited. And banks will become part of an immense retail promotional tactic. Last year, says a NCH Marketing Services study, coupon CPG marketers alone offered US consumers \$470 billion of coupon value. The size of the opportunity is large. And the solution is highly effective.

Why does a bank have to be involved?

But wait a moment, why can't the retailer or the online coupon aggregator send the coupon directly to the consumer's mobile? Why does a bank have to do it? These are precisely the questions that lead to effective solutions for a retailer, improving conversion – which is what the retailer wants.

The pitfalls and shortcomings of the retailer and the online coupon aggregator sending mobile coupons to the consumer are varied and dissuasive. A quick examination of the three scenarios helps understand why a bank is best positioned to offer a logical solution to the retailer and the consumer:

Retailer sends mobile coupon to consumer: Imagine the consumer's plight when s/he is inundated with coupons on the mobile from thousands of retailers. Customers consider most non-personal text messages to be irrelevant and intrusive. Clearly, retailers who choose to send an SMS will be blocked by consumers. Retailers have the option to ask consumers to opt-in to the mobile coupons. The solution will still be ineffective because the coupons will be based on the retailer's promotional activities and perceptions of customer demand and not on customer needs. As a consequence, retailers with little understanding of the customer will send coupons that may never be redeemed.

Online coupon aggregator sends coupon to consumer: The aggregator can only provide coupons that the store provides. This means the coupons will not be any more relevant to consumers than those distributed through other channels. Conversion rates will continue to be low. Besides, there is a hidden side to coupons on aggregator sites: retailers are forced to offer deep discounts for coupons on aggregator sites. When the offer is truly attractive, it results in demand spikes that are difficult to manage. If the retailer does not meet the demands of the aggregator, the coupons are not even showcased on the site.

Bank sends coupon to the consumer: Banks know the transaction history of their customers through the credit or debit cards used to complete transactions. By analyzing these transactions across retail establishments favored by the customer, banks can create deep insight into the behavior of individual customers. Banks can now deliver relevant coupons to their

customers on behalf of retail partners. Coupon aggregators do not have any of this information. Retailers themselves have access to only a fraction of this information (that which is generated by their own transactions). Banks hold a position of supreme advantage when it comes to understanding the customer, ensuring relevance of coupons and offering retail partners more qualified customers that lead to increased conversions.

Banking on customer intimacy and other factors

From a retailer's perspective, a partnership with a bank would be the perfect fit. It would help drive coupon campaign success in unprecedented ways.

Intimacy: When a bank offers mobile coupons, customers are more likely to adopt usage. This is true for a variety of reasons, starting with the fact that coupons are not distributed using a new app but through an extension of the bank's existing mobile app. The other reason for easier adoption is that customers see banks as being more interested in offering them increased value than a retailer. When the offers distributed on the bank's app promise to be from pre-qualified, trusted and relevant retail merchants, customers will become regular users of the app. This could become one of the fastest ways for a retailer to be before the customer at the right place at the right time (in the store, at the point of the purchase).

Context: A coupon/ shopping app from a bank has the additional advantage of being able to add context to the offers sent to customers. Using the customer's current location provided by GPS coordinates of the mobile device the bank can send coupons adjacent to the user's current location. Surveys have shown that 80% of mobile users are willing to share their location as long as the data is not shared with a third party and the data is used to provide value. In fact, 26% of consumers in the study said they wanted location based coupons.

Relevance: Algorithms can be used to analyze consumer behavior from a combination of coupon searches (on the app), consumer's clickstream (on the mobile device or the bank's online system) and purchase data (card usage) that the bank has access to. Studies have demonstrated to us that machine learning and analytics deliver a 15% to 20% improvement in coupon targeting and outcomes.

Benefits for a bank

For a bank that is attempting to improve its customer relationship as well as leverage the depth of detail it has about its customers, partnering with retail establishments offers exciting possibilities. To begin with, banks urgently need better ways to connect with customers. What better way to do this than by enhancing the value of the banking relationship by enabling savings?

There are a number of benefits for the bank that should be considered:

- **Better way to engage with customer:** Customer appreciates the relevance and value of the coupons given the propensity and need to focus on savings. Banks can also ensure that small local merchants become part of the mobile coupon offering. This is the long-tail of the retail business, one that holds immense attraction for customers and can add volume to transactions.
- **Bind customer to bank:** Value provided ensures lowered customer attrition.
- **Increased usage of bank-centric payment options:** Banks can shape offers and coupons to ensure that the customer uses only their card to make payment for purchases. Banks can influence card usage behavior by providing offers such as additional discounts against card usage.
- **Impact ticket size:** Banks know the funds a customer has in the account and also the average spends of the customer. Using this knowledge, banks can make offers that leverage the customer's ability to pay, rather than blindly make offers that the customer will ignore or may be well below the customer's spending capacity.

Benefits for a partner merchant

Retail merchants have spent decades trying to improve the ROI on their coupon campaigns. They have tried increasing the frequency of the coupons, the spread and reach of the coupons, the offers and so on. They have found limited success.

Using a bank as the distribution channel for coupons, retailers are assured of several goals:

- **Gain from bank's relationship with customer:** The bank has a deeper and closer relationship with the customer. Retailers can immediately leverage the trust factor.

- **Low cost of customer acquisition:** Accurate targeting of customers based on profiles, purchase patterns and location improves conversions, ROI and lowers cost of customer acquisition.
- **Lower campaign investments:** Retailers don't have to pay for coupons upfront. It is only when a mobile coupon is accessed or redeemed that the retailer pays the bank. Outcome based pricing makes the partnership with the bank hugely more tenable than traditional coupon management processes.
- **Freedom from expensive aggregators:** Retailers will no longer be at the mercy of aggregators who demand very deep discounts before they showcase a merchant.
- **Green campaign footprint:** Elimination of paper and distribution of coupons lowers the carbon footprint of the retailer.

Inside the solution

It is essential that the solution be able to access/ create and distribute coupons in real time to customers. Ideally, the solution should be a central bank portal to which participating merchants can upload coupons and offers. The solution should be accessible on a mobile phone in order to adequately service the long tail of small local merchants. Inclusion of the long tail is attractive as it influences customers to download and use the app. Ultimately it is the usefulness of the apps that will decide if the strategy works.



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