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# PROMO PARTNERS

Digital coupon partnerships offer convenience retailers a larger share of the \$400 billion annual coupon business. Are you on board?

By Jerry Soverinsky

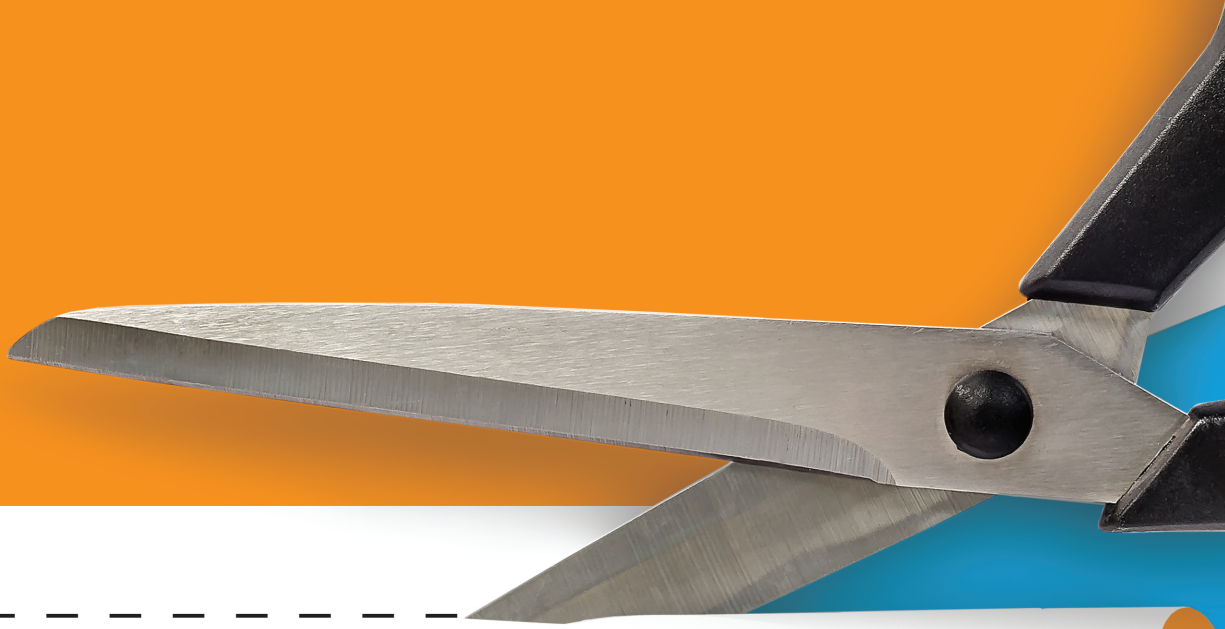


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In the nearly seven years since we first presented the retailing opportunities available with digital coupons (see “Don’t Get Cut Out,” February 2013), a lot has happened: The first Amazon convenience store, Amazon Go, opened in Seattle in January 2018, a cashier-less concept that leverages consumer data in delivering a truly frictionless retailing experience.

“I think the big news is that they really seem to have brought together many technologies to reinvent the retail store,” said Bill Bishop, architect of Brick Meets Click. “Those are changes that will significantly reduce costs of the retail operation per unit of sale, and that will increase profitability. And it’s a wake-up call for brick-and-mortar retailers who haven’t contemporized their operations.”

Seventeen months later, the Amazon Go footprint stands at 11 stores (Seattle, four; Chicago, four; San Francisco, two; New York, one) and counting. Last fall, Bloomberg reported that the online giant plans to open as many as 3,000 Amazon Go locations in the United States by 2021.

Busy contemporizing its own operations, Walmart opened its Intelligent Retail Lab in Levittown, New York, earlier this year. It’s a 50,000-square-foot store that uses artificial intelligence to drive inventory control, ensuring product availability for customers. Part of CEO Doug McMillon’s plan to build “tech-empowered stores,” the move comes on the heels of the retailer running a test at 50 stores using shelf-scanning robots to determine stock levels and pricing errors.

This spring, Dollar General announced sales growth of 3.8% over the year-ago quarter, with shopper frequency and basket spend both on

the rise, the direct result of a digital strategy that includes mobile apps, self-checkout and buy online/pickup in-store. The dollar store’s plan on contemporizing seems to be working, as it opened 240 new stores during the first quarter of 2019, with plans to open nearly another 1,000 by year’s end.

As competitors from all channels embrace all things digital, the question remains: Have you? One effective tactic—digital couponing—is helping retailers better examine consumer shopping patterns and use those insights to create marketing campaigns that increase shopping frequency and basket size.

## THE MARKETPLACE

“In historic retailing, convenience stores would pick the best location, offer the lowest gas prices, open their doors and hope that people would walk through,” said Gray Taylor, executive director of Conexxus. “Digital offers connect with today’s far more elusive shopper, putting together digital platforms that connect with them in their space.”

While initial industry attempts focused on establishing proprietary retailer apps, such as “closed loop coupons” to breed loyalty, the proposition was easier said than done. Although Amazon and Starbucks (and Walmart of late) have been able to shape digital shopping behaviors, the challenge has been much greater for convenience retailers that lacked the IT muscle of the larger companies and that faced increasing corporate disruptions in the way of mergers, acquisitions and dissolutions. “Every retailer has its own app now, but the average smartphone

shopper has just 2.3 retail apps on their phone, two of which are Amazon and Starbucks,” Taylor said. “So, we’ve been overestimating our relevancy in terms of loyalty.”

Enter consumer packaged goods (CPG) companies. “CPGs have been trying to increase flat sales, pushing products through distribution and hoping the retailer would sell it to consumers,” Taylor said. But the model stripped the CPGs of control, and they have been searching for other avenues to directly connect with consumers—and they’ve got a lot of cash to do so.

**“We decided to allow the CPGs to issue digital coupons directly to consumers, who can then use them in our stores.”**

“CPGs spend more than \$110 billion in marketing across grocery, mass and dollar stores,” said Brad VanOtterloo, CEO at Koupon Media, a company that connects convenience stores with CPG brands. “Convenience stores get far less than their share of that.”

#### **PARTNERING FOR SUCCESS**

Convenience retailers previously maintained that sharing customer data could risk loyalties, a protective mindset that Taylor said is now evolving. “With CPGs distributing about \$400 billion in coupons annually, we weren’t seeing a fraction of what we should have,” he said. “We decided to allow the CPGs to issue digital coupons directly to consumers, who can then use them in our stores.”

To that end, NACS announced a partnership in February 2019 with Koupon Media. The agreement focuses on the use of digital promotion

technology—mobile technology and couponing—for convenience stores, building out a broad industry initiative at adopting and distributing digital offers to shoppers.

NACS will leverage the information from the partnership for its research, benchmarking and consulting tools, valuable information that it will then share through its NACS State of the Industry Summit, NACS State of the Industry Compensation Report, NACS State of the Industry Report and Convenience Tracking Program.

“We believe our partnership with Koupon Media can be game-changing in how retailers develop mobile offers and help source additional CPG brand marketing funds for the c-store industry,” said Henry Armour, NACS president and CEO, in announcing the partnership. “Koupon Media’s reach, paired with its innovative technologies and standards-driven approach, will allow convenience retailers to learn from cutting-edge technologies to deliver convenience.”

#### **DIGITAL COUPONS IN ACTION**

How does it work? VanOtterloo provides insights with a hypothetical example:

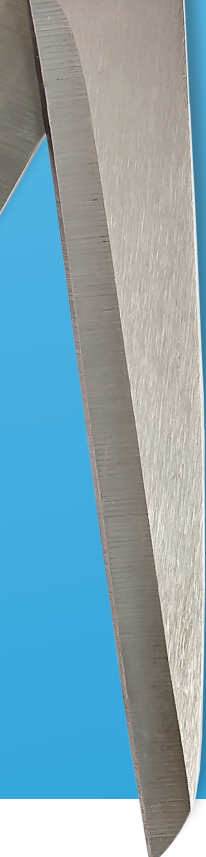
Take the case of shopper A—John—who shops at a c-store on Monday morning, purchasing an energy drink and coffee. This shopping trend occurs over four consecutive weeks. The retailer knows that John is a caffeine customer and shares the information with the energy drink company. Leveraging digital coupon technology, this information is then used to drive changes in shopping behavior.

Beginning on week five and continuing for three consecutive weeks, the energy brand sends John an offer on a Tuesday to purchase an energy drink and to receive a free coffee, an offer that expires three days later. The energy drink funds the offer (free coffee) for the retailer.

The offer stimulates additional sales from John that he normally didn’t make—an energy drink purchase outside of a Monday—generating additional sales for the retailer and CPG brand.

VanOtterloo said that the offer can be distributed from the CPG company or retailer, though he





# “Knowing exactly what was purchased and when allows us to understand business drivers and ... insights on trips and baskets.”

favors the ability for both to freely communicate with John. “The industry is going to benefit when everyone can talk to John anytime they want to with a consistent offer that is exclusive and that expires. We shouldn’t discriminate as to how John gets the offer.”

## GETTING STARTED

Implementing the plan is straightforward, and VanOtterloo recommends a three-step, pre-plan checklist. “First, pick CPG partners that are important to you and let them know that you want to partner together to deliver value to your customers and grow sales.” The sooner you have this conversation, the better, he says, noting the widespread adoption among large retailers.

“Next, make sure that you’re dedicating internal resources to experiment and test,” he said. “Figure out what resources you can allocate and what needs to happen. If you jump in too soon, it will be a convoluted process.”

Finally, determine your sales goals and then find a partner that understands and is focused on convenience. “As a c-store, you have a lot of things you’re focused on, and you need someone who is always on the forefront and knows the system,” he advised.

## THE POWER OF DATA

The Koupon Media model is not the only one available for retailers. Chicago-based SwiftIQ offers a

software platform that brings machine learning to retailers and brands. By collecting data from point of sale (POS) transactions—as many as five million per day for large retailers—the company is able to process the information into actionable insights that guide promotion decisions.

“The process addresses companies at the store level, as each is unique,” said Jason Lobel, CEO and co-founder of SwiftIQ. “Some are morning stores, some are evening stores, and some may sell more food or beer. Having a system that can cut through [those unique attributes] and provide recommendations goes very far in terms of helping the retailer make decisions.”

SwiftIQ’s overarching goal is to leverage its smart platform to provide retailers with instant insights to take business action to grow sales and boost profitability, with an automated process that incorporates basket-level data. For promotions, that could involve price and demand forecasting delivered with a personalized touch. “For instance, if I promote an item at a certain price, the platform will predict sales, forecasting according to week,” Lobel said. “And even if there are 5,000 items available to sell in a store, it will recommend things to person A versus person B.”

The key is leveraging the vast quantities of customer data that are routinely collected and turn them into actionable insights. “We offer transactional level data for shoppers ... and we’re able to associate purchases over time with a particular customer,”



**“By connecting loyalty with digital promotions we’re able to get a better perspective of our customers, and then we can upsell in terms of what they would want.”**

said Dafna Gobel, senior vice president, insights and strategy, for SwiftIQ. “Knowing exactly what was purchased and when allows us to understand business drivers and ... insights on trips and baskets.”

SwiftIQ works with both retailers and CPGs, though it’s not a one-size-fits-all proposition. “It’s about [finding] a strategic fit,” Gobel said. “There’s a monetization component from the CPG companies .. and there’s a benefit from collaboration ... The CPG wants to sell more product, and the retailer wants to know that the CPG supports its strategy.”

#### **BUILDING ON LOYALTY**

Taylor returns to the loyalty discussion, positioning the proposition as one of missed opportunities. “We typically have used loyalty apps to reward behavior, giving a person free coffee or something similar,” Taylor said. “But that customer would have bought coffee anyway. We’re losing sales.”

A better use for loyalty is to leverage the data with digital promotions, further shaping retailers’ understanding of their customers. “We should be looking at market baskets and making assumptions about each person. We don’t do that very well.”

By connecting loyalty with digital promotions (Taylor says artificial intelligence is a critical tool), “we’re able to get a better perspective of our customers. And then we can upsell in terms of what they would want.” Predictive selling increases basket size and frequency. “There’s no trick to discounting products; the trick is getting people to pay full value. That’s the difference between where loyalty is today and where it will be tomorrow.”

#### **WHAT’S AT STAKE**

It’s an anomaly, really: While today’s digital shopper is always connected, engaging with them is proving ever-more challenging, as they now control the shopping dialogue. Meet them on their terms and in a way that personalizes their shopping experience, and you’re on your way to digital retailing success.

“Shoppers want an experience that is personalized to them and their brand or retailer experiences,” VanOtterloo said. “We’re not talking five years in the future; it’s happening right now with brands and retailers. And this is not something where you can catch up on quickly. The first mover advantage is great here.”

Taylor agrees, stressing the evolving retail channel dynamics. “Grocery stores are becoming more convenient with click and collect and delivery ... This is no longer an optional thing. We’ve still got a nice moat—gasoline—but as that moat goes away and electric vehicles and ride sharing take over, what else is left?

“We had 2,500 stores go out of business last year. It’s already started.” **C**



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