

Creating Loyalty With Millennials And Young Parents

How Automated Redemption And Card-Linked Offers Will Solve The Adoption Dilemma For Digital Coupons

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Executive Summary

Today's consumers are growing increasingly accustomed to having access to what they want, when and where they want it. Coupons, promotional offers, and customer loyalty programs are no exception. In March 2015, Linkable Networks commissioned Forrester Consulting to evaluate consumer preferences and pain points regarding in-store consumer packaged goods (CPG) couponing and identify target segments for card-linked offers. To further explore this topic, Forrester developed a hypothesis that direct-to-consumer loyalty, if done properly, is incredibly valuable to the consumer, brand, and retailer. Loyalty experiences must be digital, frictionless, and effortless in order to drive true loyalty.

In conducting in-depth surveys with 516 US consumers, Forrester found that coupon usage is both prevalent among consumers and valuable for retailers and brands, driving both retention and acquisition behaviors. However, pain points in both paper and digital couponing, such as forgetting to use coupons, hinder active coupon usage. Card-linked offers present an opportunity to address a number of customer pain points by enabling automatic redemption through consumers' credit and debit cards.

We define card-linked offers as coupons and promotional offers for specific products and brands that consumers can link directly to existing credit or debit cards. These incentives are redeemed automatically, no matter where a customer shops, and typically appear as a credit (in the form of cash back) on credit/debit card statements.

KEY FINDINGS

Forrester's study yielded four key findings:

› **Coupons drive customer loyalty, but digital offerings still lag traditional paper methods in usage and perceived ease.** The vast majority of consumers use coupons for in-store CPG purchases on a regular basis — 89% of survey respondents had used coupons for at least one purchase in the past three months. According to our survey, coupons drive customer acquisition and loyalty behaviors, as eight in 10 respondents stated that they are likely to be repeat customers or try new brands if coupons are available. While over half of respondents have used traditional paper coupons such as free-standing inserts (FSIs) and direct mail, 37% reported using various types of digital coupons in the past three months. Complexity

may be a barrier to digital coupon usage. Users rated digital and print-at-home coupons lower than other paper coupons on ease of use. Conversely, though few consumers reported using card-linked coupons in the past three months, these coupons were rated easiest of all digital options.

- › **The annoyances of paper couponing hinder usage and ultimately loyalty.** Forgetting is a major barrier to active coupon usage. Overall, survey respondents cited forgetting coupons as a top-of-mind pain point. This was true for both regular and infrequent coupons users, the latter segment indicating that they regularly forget to bring coupons to the store. Forgotten coupons are lost sales — 79% of consumers have decided not to buy an item because they forgot to bring a coupon to the store. Clipping, cutting, and searching also contribute to this frustrating paper coupon experience, further discouraging consumers from actively using coupons.
- › **Consumers see card-linked offers as a compelling alternative to inconvenient paper and hard-to-use digital options.** Over half of consumers surveyed indicated they would likely link coupons/offers to their credit card or link their loyalty cards to their credit/debit cards. Feedback from our survey indicates that card-linked offers are a good alternative to clipping and printing, and a reason to use more coupons. There is no need to bring paper coupons to the store, and offers conveniently redeem automatically. Therefore, card-linked offers solve the problem of needing to remember to bring paper coupons to the store and even offer an easier experience than digital coupons loaded to a smartphone.
- › **Millennials and young parents are most ready to embrace card-linked offers.** These younger segments are already embracing digital coupons at a higher rate than older generations. Our survey shows that both Millennials and young parents have perceptions around digital experiences, such as a greater sense of comfort that digital transactions are safe and secure, which make them more likely to utilize electronic- and online-based engagement tools. Card-linked offers are likely to drive customer acquisition and loyalty behaviors for these groups more than others, including trying new brands and using more coupons in general. As brands and retailers begin to participate in card-linked offer programs, they should consider both Millennials and young parents as key target markets.

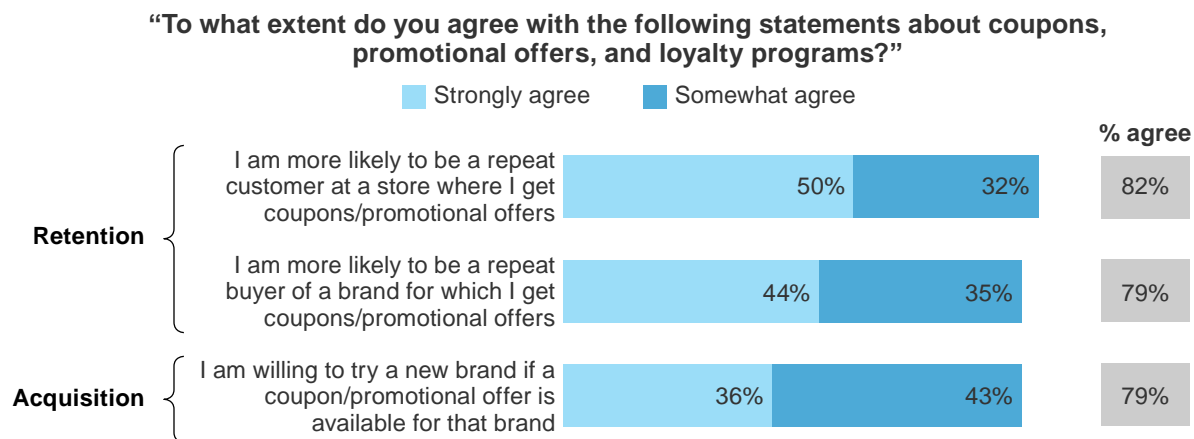
Coupons Drive Customer Loyalty, But Digital Offerings Still Lag Paper Mainstays

Coupons are a tried-and-true marketing tool for retaining customer loyalty, and they have been a part of the customer's shopping experience for decades. However, in the age of the digitally savvy customer who is always on the go, it is essential for coupons to fit into consumers' increasingly mobile lives. Even in today's digital world, consumers still use paper coupons at a surprisingly high rate, likely because most digital options do not provide a seamless customer experience. Despite the effort needed to clip, save, and remember FSI coupons, users still rated them highest in terms of ease of use. Meanwhile, "very easy" ratings for digital coupons loaded to smartphones are 19% lower than FSIs. Somehow, in the upside-down world of couponing, digital is actually more difficult than paper.

While coupons in general help drive sales, it is essential for brands to deliver easy, frictionless experiences to create long-term customer loyalty. Our study found that:

- › **Coupons continue to drive customer behavior and create sales.** In general, coupons are a great customer acquisition and retention tool. Approximately eight in 10 consumers are likely to become repeat buyers or try a new brand based on the availability of coupons/promotional offers (see Figure 1).
- › **Easy redemption is paramount in couponing.** Seventy-three percent of survey respondents strongly agree that it is essential for coupons/loyalty programs to be "easy to redeem." So while we see that coupons drive acquisition and loyalty overall, frictionless coupon experiences are non-negotiable. Brands must keep this in mind as they test new coupon offerings and determine the right media mix for coupon and loyalty programs.
- › **Paper coupons are still widely used over digital coupons.** Half or more of all respondents have used various types of paper coupons in the past three months, such as FSI, direct mail, and on-package. Meanwhile, 37% or less have used digital coupons. However, Millennials and parents with kids under 18 living at home are embracing digital options at a higher rate (see Figure 2). These segments are swapping FSI clippings for digital coupons loaded to their smartphones.

FIGURE 1
Coupons Drive Retention And Acquisition Behaviors

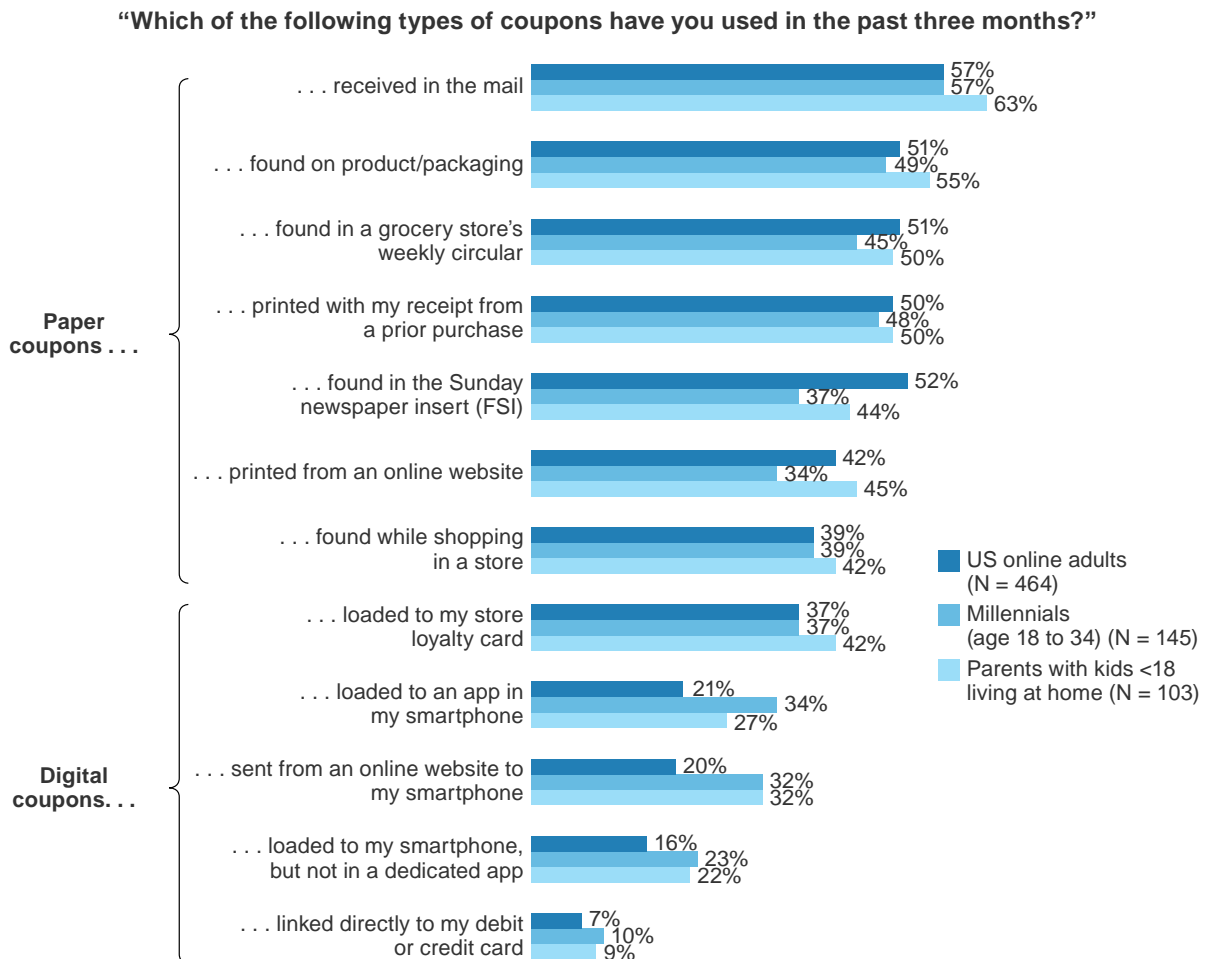


Base: 516 US online adults

Source: A commissioned study conducted by Forrester Consulting on behalf of Linkable Networks, March 2015

FIGURE 2

Paper Is Still Widely Used Over Digital Coupons, But Millennials And Parents Are Embracing Digital



Base: 464 US online adults who have used coupons at least once in the past three months

Source: A commissioned study conducted by Forrester Consulting on behalf of Linkable Networks, March 2015

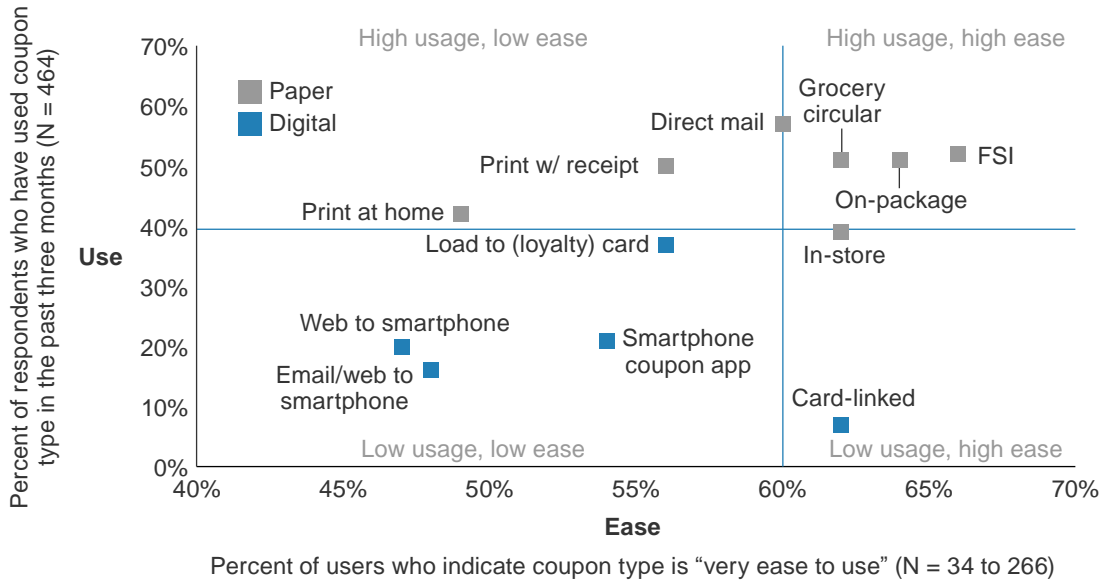
› **While card-linked coupons are not widely used, they are considered easier than other digital coupons.** We mapped overall coupon usage (the percentage of respondents who had used a particular coupon type in the past three months) versus ease of use (the percentage of users who rated the coupon type “very easy to use”). Overall, consumers did not indicate that any coupons were particularly difficult to use, but printed and digital options have room for improvement. Despite the need to find, clip, and bring FSI coupons to the store, 66% of users rated them as very easy to use. Meanwhile, only 49% and 47% rated print-at-home and web-to-smartphone coupons as very easy to use, respectively. These methods were originally meant to replace FSIs with

a better customer experience, but they are not yet delivering it. However, though only 7% of all respondents reported using card-linked coupons in the past three months, 62% of card-linked coupon users rated them as very easy (see Figure 3).

There is a strong need to improve digital coupon experiences, making them seamless and intuitive for consumers. Future generations will increasingly abandon traditional paper coupons in favor of digital methods, but if brands want to seize the opportunity to acquire and retain customers today, they need to select the digital options that deliver the best user experiences.

FIGURE 3

Card-Linked Coupons Are Not Widely Used, But They Are Considered Easier Than Other Digital Coupons



Base: 34 to 464 US online adults who have used coupons at least once in the past three months

Source: A commissioned study conducted by Forrester Consulting on behalf of Linkable Networks, March 2015

Inconvenient Paper Coupon Experiences Mean Lost Business For Brands

Although as we observed, the majority of consumers consider most paper coupons very easy to use, our research also uncovered pain points of paper couponing. When these pain points move from minor nuisances to significant sales barriers, brands need to take action.

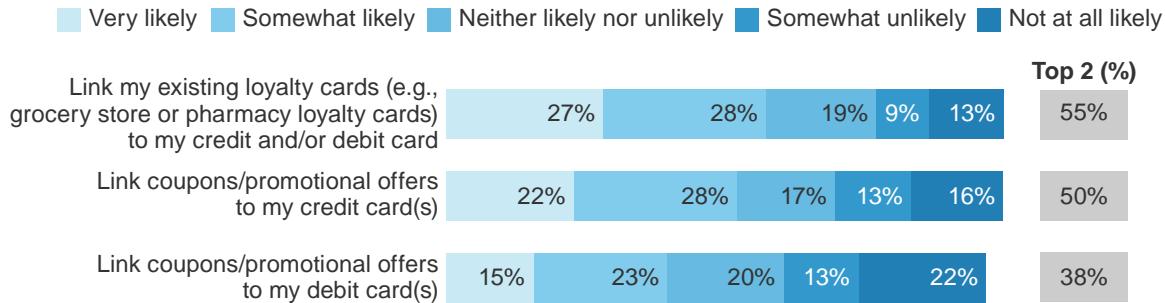
We found that forgetting paper coupons is a major barrier not only to active coupon usage, but to sales overall. Though our research indicates that coupon usage strengthens customer relationships, most brands would happily take a full-priced sale over a discounted sale if given the option. However, not surprisingly, consumers are less likely to buy if they forget a coupon they intended to use at the point of purchase. What is surprising is how often this happens. Specifically, our study found that:

- › **Couponing has many pain points, particularly related to paper options.** When asked to name the worst thing about using coupons, respondents overwhelmingly mentioned expiration dates, remembering, clipping/cutting, and time. While digital options do expire and also require searching, the other pain points are exclusive to paper coupons. Some consumers enjoy all aspects of couponing, stating “nothing” is the worst thing, but they are far outweighed by those hungry for a frictionless couponing experience (see Figure 4).
- › **Forgetting is a major barrier to active coupon usage.** Fifty-eight percent of “passive” coupon users (those who have used five or fewer coupons in the past three months) agree that they regularly forget to use coupons and/or redeem offers that they intended to use. Meanwhile, only 39% of “active” coupon users (those who have used six or more coupons in the past three months) agree with the same statement. If forgetting were not an issue, coupon usage — and in turn, loyalty — would be even stronger than it is today. In other words, brands should prioritize automatic redemption capabilities if they want to effectively acquire, engage, and retain customers.

FIGURE 6

Half Or More Of Consumers Would Likely Link Loyalty Cards And Coupons To Their Credit Cards

“Based on your understanding of card-linked offers, how likely would you be to do the following?”



Base: 516 US online adults

(“don’t know” and “N/A” responses not included)

Source: A commissioned study conducted by Forrester Consulting on behalf of Linkable Networks, March 2015

› **Consumers like that they can avoid paper, redeem automatically, and save more with card-linked offers.**

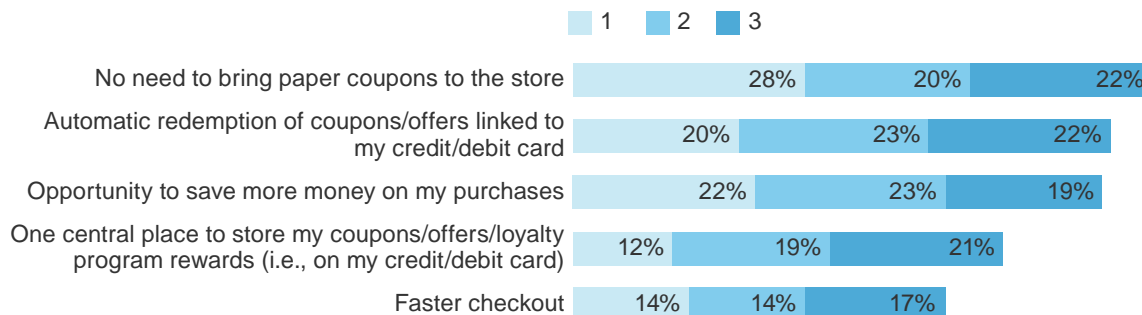
It should be no surprise that the most appealing aspect about card-linked offers is not needing to bring paper coupons to the store. This is followed closely by a hallmark of card-linked offers: automatic redemption (see Figure 7).

Card-linked offers are primed to have a major impact on the market. But embracing digital transformation is easier for some than for others, and targeting savvy audiences that are eager to harness a frictionless customer loyalty program is a key step for brands.

FIGURE 7

Consumers Like That Card-Linked Offers Let Them Avoid Paper, Are Automatic, And Help Them Save Money

“What is most appealing to you about linking coupons and/or loyalty cards to your credit or debit card?”
Please rank your top three, with 1 being the most appealing.



Base: 516 US online adults

Source: A commissioned study conducted by Forrester Consulting on behalf of Linkable Networks, March 2015

Millennials And Parents Are Ready To Embrace Card-Linked Offers

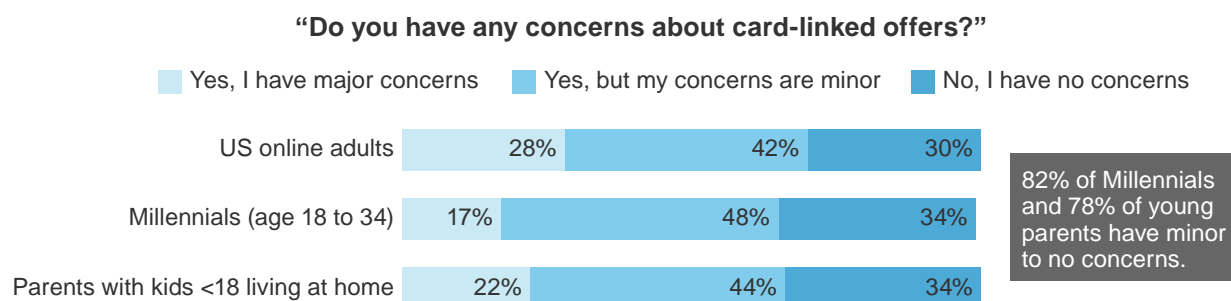
As with the introduction of any new technology or process, attitudes and behaviors vary considerably across audiences. For card-linked offers, younger generations and digitally savvy parents are ideal market targets for card-linked offers; likewise, a seamless automatic redemption program is perfect for these consumer groups. Our study found the following differences between Millennials and young parents and their counterparts:

› **Credit/debit card security is a concern, but less so for Millennials and young parents.** When it comes to concerns about using card-linked offers, 28% of all respondents reported having major concerns, and 42% reported having minor concerns. These respondents listed security as their top concern (89%), followed by privacy (57%). This is consistent with general consumer sentiment about the security of their identities. A recent Forrester Technographics[®] 360 report indicated that 59% of consumers are concerned with identity theft when doing certain things online.¹ This unease is a reality that all digital businesses must address. However, according to our study, 82% of Millennials reported having minor to no concerns about card-linked offers, and 78% of parents reported the same (see Figure 8). These groups are far more comfortable sharing their credit/debit card information in secure digital channels.

› **Millennials and young parents are more interested in card-linked offers than their counterparts.** Nearly two-thirds of each group would likely link loyalty cards to credit/debit cards (65% of parents with kids under 18 living at home and 64% of Millennials), and more than half would link coupons and promotional offers to their credit cards (58% of parents with kids under 18 living at home and 55% of Millennials). These digitally savvy segments are attracted to card-linked offers as a way to save that conveniently fits into their mobile lives.

› **Card-linked offers influence acquisition and loyalty behaviors, particularly among Millennials and young parents.** Some of the biggest benefits for brands when it comes to card-linked programs include better customer acquisition and retention. When we look at respondents overall, we find there is less enthusiasm for the different ways in which card-linked offers can be used than when we look specifically at Millennials and parents. Both groups reported that they would be far more likely to use coupons or promotional offers in general, but what is particularly interesting is that 63% of Millennials and 64% of young parents would be more likely to *try a new brand* for which they received a card-linked offer. And the customer acquisition possibilities don't stop there — 48% of Millennials and 61% of parents would actually be willing to switch to a different retailer if the retailer accepted card-linked offers. When you also consider the 49% of Millennials and 53% of young parents who would be more likely to make an unplanned purchase using card-linked offers, the opportunity for brands becomes abundantly clear (see Figure 9).

FIGURE 8
Security Tops Consumer Concerns About Card-Linked Offers, But Millennials And Parents Are Less Fazed



Base: 516 US online adults

(percentages may not total 100 because of rounding)

Source: A commissioned study conducted by Forrester Consulting on behalf of Linkable Networks, March 2015

FIGURE 9
Card-Linked Offers Incentivize Consumers To Use More Coupons And Try New Brands

“If card-linked offers were available to you, how likely would you be to do the following?” (% somewhat or very likely)	US online adults (N = 516)	Millennials (age 18 to 34) (N = 150)	Parents with kids <18 living at home (N = 108)
Use more coupons/promotional offers in general	61%	70%	74%
Use card-linked offers instead of printing coupons from websites	56%	65%	62%
Use card-linked offers instead of clipping paper coupons from newspapers and/or weekly circulars	56%	58%	62%
Try a new brand for which you received a card-linked offer	53%	63%	64%
Use card-linked offers instead of loading digital coupons to loyalty cards	48%	49%	53%
Make an unplanned purchase	42%	49%	58%
Switch to a retailer that accepts card-linked offers	40%	48%	61%

Base: 516 online adults

(heat map shown by row to compare three groups: US online adults, Millennials, and young parents)

Source: A commissioned study conducted by Forrester Consulting on behalf of Linkable Networks, March 2015

Key Recommendations

Retail businesses looking to stay relevant must prioritize maximizing customer value in loyalty programs by aligning program offerings with today's consumer shopping preferences. But those preferences are evolving quickly. Indeed, the challenges with paper coupons have long been a pain point in the shopping experience. This is now driving today's digitally savvy consumers to demand new solutions from brands they engage with on a regular basis. To transform your legacy loyalty program into one that is customer-centric and optimized for delivering value:

- › **Evaluate solutions for pain points in your customer loyalty program.** Businesses today understand that it is an imperative to deliver great customer experiences at every point in the purchase journey. Those organizations looking to stay top of mind with their customers must be willing to take a hard look at how loyalty programs are failing to achieve this goal. Even when challenges are created by the customer's own behavior, such as forgetting to use coupons for purchases, the organization still must consider it a problem that the business leaders are responsible for eliminating. A willingness to expose shortcomings, identify solutions, and implement changes is a difficult — but critical — first step for transforming a loyalty program in the right direction.
- › **Minimize risk by investing correctly in the program.** Loyalty programs are often oversubscribed to by an organization's very best customers, and those customers expect full access to loyalty programs across every screen and in every channel. Therefore, business leaders in charge of making changes to programs must appreciate both the risks and challenges of launching loyalty programs that promise benefits or capabilities but fail to deliver. For this reason, putting the necessary amount of time, effort, and financial investment into building new offerings like card-linked offers is a requirement. Organizations must accept that adding new offerings is not a project that can be done overnight; it must be properly planned and executed by multiple stakeholders across the organization to get it done right.
- › **Assess how card-linked offers can help create better customer experiences.** Loyalty card programs that rely on legacy ways of engaging consumers fail to address the frustrations consumers face with paper coupon systems. Card-linked offers provide customers with new solutions for saving money and engaging with brands. Indeed, card-linked offers make them prime candidates for implementing as a balanced benefit to both retailers and consumers alike as loyalty programs continue to evolve; they provide efficiency value to a specific segment of the market and allow organizations to offer a marketable service that differentiates them from competitors. Organizations must address today's market, not yesterday's way of doing business, and begin to offer services that allow digitally savvy consumers to engage in ways that more closely align with these consumers' particular preferences for shopping and brand engagement.
- › **Give customers the option to select coupon redemptions that work for them.** Just as paper coupons are not a solution that works for every customer, there is no "one size fits all" for delivering value for loyalty program participants. Add new, modern services to loyalty programs, such as card-linked offers and digital coupons, to accomplish the goal of giving customers options to choose from that work for them, but also retain legacy ways of engaging customers. The addition of card-linked and digital coupons should not be seen as a complete replacement for loyalty programs, but rather as additional options that enhance and maximize a loyalty program's delivered value for the greatest number of customers.
- › **Promote the value that card-linked offers provide to your customers.** As our study indicates, there is still a need for more awareness when it comes to card-linked offers and the benefits they provide. However, consumers who have used card-linked offers rate them as very easy to use. Since card-linked offers and digital coupons have operational business benefits and cost savings for the organization as well, business leaders should prioritize moving customers to card-linked offers. This can be done by educating the customer on the benefits of card-linked offers, or even incentivizing customers to use card-linked offers, knowing that the majority will have an improved loyalty program experience because of them.

Appendix A: Methodology

In this study, Forrester conducted an online survey of 516 US consumers to evaluate preferences and pain points regarding in-store CPG couponing and identify target segments for card-linked offers. Questions provided to the participants asked about different types of coupons, promotional offers, and loyalty programs and the challenges and benefits of using them. The study was completed in March 2015.

Appendix B: Endnotes

¹ Source: “Evolving Consumer Attitudes On Privacy,” Forrester Research, Inc., July 28, 2014.