

Beyond Redemption: 2G Digital Shopper Marketing

Reviewing the history of digital innovation reveals a pattern.

- The first graphical video game was OXO, which faithfully simulated tic-tac-toe.
- The first CGI animal animation was a realistic white owl in the movie *Labyrinth*.
- The first digital publications were Internet facsimiles of the *New York Times* and similar periodicals.
- The first digital cell phones mimicked landlines.

All of these stayed close to the originals.

But in each case, something special happened after that. Programmers mastered the nuances of the digital format, and improved upon the corresponding physical originals. They conjured up what could only exist in the digital world.

In video games, we now have Kinect, where the player is the controller. In CGI, we have the Na'vi, sapient humanoids as real as anything else on film. In publishing, we have made-for-iPad properties like *Project* and *The Daily*. In wireless, iPhone users have downloaded 10 billion apps.

The pattern is this: the first generation of digital re-creates, the second generation creates. This is also what is happening to digital shopper marketing today.

The 1G phase seeks to gain mass adoption as quickly as possible. After all, a lot is invested in the leap from the analog physical world. The move to a digital device is disruptive enough for users, so the 1G world delivers something that is familiar to them.

Over time, a group of innovative players, almost always acting independently, zeros in on the limitations of these 1G imitations. They usher in the 2G phase. In digital shopper marketing, we are beginning to see the second generation emerge (*see figure 1*).

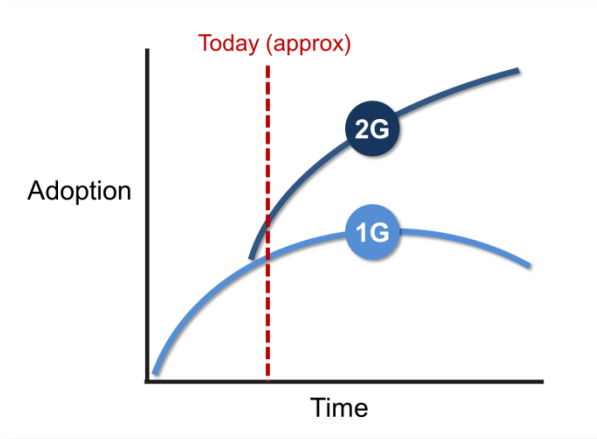


figure 1

What is 1G digital shopper marketing?

There are many forms of digital shopper marketing. E-circulars, digital coupons and social media are of particular interest due to their high adoption by consumers.

The use of e-circulars, sometimes called digital circulars, began with web pages that simply presented the full-color, fold-out weekly ads inserted in newspapers or sent via mail. As this first generation has evolved, highly tactile experiences such as virtual page-flipping have been introduced. Helpful features such as filtering by category have also been added.

Digital coupons, meanwhile, began with graphic tiles on web pages that mimicked the appearance of coupon books or FSIs. Users digitally “clip” these coupons with their computer mice and print them out to be toted to the store. These can also be sorted by category.

Social media started with friending brands as if they were individuals. This simulated several real world activities. Expressing affiliation with brands online is the latter day bumper sticker or T-shirt. Sharing this affiliation with your friends is like broadcasting a word-of-mouth recommendation. And joining groups with shared affinity is a rapid-fire way of opting into a mailing list or attending a show or convention.

The 1G world of e-circulars, digital coupons and social media is a great improvement over their physical origins. But the 2G world provides more significant enhancements. Retailers and manufacturers gain new targeted and dynamic marketing options, while shoppers gain access to more relevant and simplified offer choices (*see figure 2*).

Starting from the perspective of marketers — both retailers and manufacturers —let’s evaluate what 1G and 2G offerings bring to the marketplace by way of targeting and dynamic campaigns. Then, we’ll look through the lens of shoppers to see how they benefit from the relevance and simplification of the second generation.

What does 2G digital shopper marketing provide to marketers?

1G digital circulars do several things well to get people into the store and buying more. They:

Characteristics of 2G digital shopper marketing		
For...	2G is...	Through...
marketers	* targeted * dynamic	* right offers to the right behaviors * auto-adjusting of campaigns
shoppers	* relevant * simple	* helpful product/service suggestions * realizing value in fewer steps

figure 2

- Feature weekly or seasonally promoted products.
- Promote launched or relaunched items.
- Localize product presentations based on store traits
- Accentuate departments to which more traffic is desired.
- Organize content to facilitate pre-trip searches and list making

But 2G e-circulars provide personalized communications that are targeted and provide four additional outcomes:

- Expand purchases of popular products.
- Cross-sell complementary products.
- Re-activate lapsed product buyers.
- Align with individuals' purchase cycles.

How does such 2G targeting work? Often called "personalization," it typically follows one of three approaches: letting shoppers opt in to the kinds of offers they wish to receive, using collaborative filtering or similar techniques to make recommendations (based on what like-minded shoppers have chosen), or using a shopper's purchase history to deliver the most relevant offers.

Our bias is for the last approach, because we believe it has the best track record for driving incremental sales and customer satisfaction. But targeting based on purchase history is prone to excess, so the best approaches intervene to tune out potential annoyances. This includes "share of requirements" filters that would kill Pepsi offers to Coca-Cola enthusiasts and recurrence filters that cut repetitive offers.

Of course, none of this targeting would make any difference if marketers didn't derive results from their efforts. But they do. For one "top five" grocery retailer, DS-IQ delivers targeted emails to an opt-in list of more than one million shoppers, featuring the most pertinent items based on purchase history in a simple, concise format. Participating manufacturers benefit because shoppers receiving these emails are twice as likely to buy the targeted items. Retailers succeed as well: Not only do item sales increase, but shoppers also have 10% larger baskets overall.

Next, let's consider 2G digital coupons. 1G digital coupons help turn a mass medium such as FSIs from push to pull, as shoppers log in or opt in for offers. However, 1G solutions don't distinguish between new and current buyers, or target specific actions such as multi-unit purchases or more frequent purchases. They provide modest marketing gains as they move from mass carried to mass clicked. But they can do better.

And they already do. As with digital circulars, 2G digital coupons also employ targeting to serve the right offers to the right consumers based on shopper behavior. Three proven methods include:

- Attracting new buyers by selecting and targeting the shoppers most likely to try.
- Expanding consumption among current buyers by increasing purchase frequency and units.
- Re-activating lapsed buyers by bringing

- back those who switched brands or defected from the category.

These methods can deliver positive outcomes. A campaign that DS-IQ conducted for a multi-category food brand and one of its major retailers targeted shoppers who bought its soups and pizza but not its frozen dinners. The brand's past buyers saw offers for the latter category when they visited either a personalized web page or an in-store kiosk. The response rate was 51% as the offers drove tens of thousands of purchases that not only were new to the product, but also were new to the category.

A retailer website-based campaign for a different product aimed to increase units per basket among loyal buyers and purchase frequency among light buyers. The results were an increase from 2 to 4 units for loyal buyers and a rise in purchase frequency from every 6 months to every 2 months for light buyers.

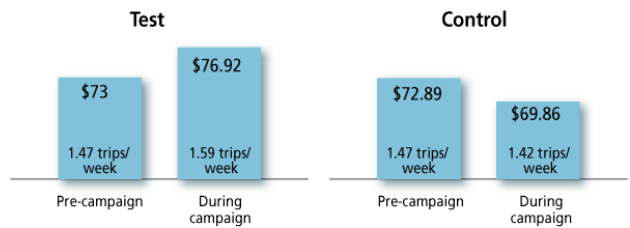
Retailers reap rewards through digital coupons as well. In a combined email and mobile delivery program powered by Catalina Marketing for a major grocer (see *figure 3*), trips per week were a full 12% higher (1.42 to 1.59) and basket size was 10% larger (\$69.86 to \$76.92) among recipients than they were within the control group. (At the item level, lift ranged from 9% to 107%.)

Finally, let's look at 2G social media. Such programs do a better job getting shoppers to invest time and effort in not only affiliating with the brand, but actually promoting it. 2G social media do three things particularly effectively:

- Reach emotional loyalists.

Email and Mobile Coupon Program for Major Grocer

+10% spend per week +12% trips per week



Source: Catalina Marketing

figure 3

- Engage them not just in clicking, but shopping
- Offer them insider status

The previous examples described behavioral loyalty. But 2G social media elicit attitudinal loyalty. The emotion of uploading video to YouTube produces passion, especially when it comes to saving money and looking smart.

2G social media get shoppers into the store buying. A great example is Kroger's recent Cart-buster event featured on Facebook and YouTube. This gave all shoppers the ability to save storewide.

But Kroger and YOU Technology, their marketing vendor, took things a step further by offering perks to Facebook visitors. A special insiders-only overlay called Deal of the Day was added to Cart-buster. Deals on products such as Coffee-Mate, Chex Mix and Pepsi max were presented to the first 1000 shoppers on the Facebook page each day at 3 pm.

Guess how long it took to sell out 1000 offers for Coffee-Mate. A half a day perhaps? A half an hour? How about less than half a minute.

What good is a program that ends in 30

seconds? Quite good, when you draw fans to your Facebook page to hang out with you and browse your feed while they wait for the appointed time. 2G social media turn followers into micro-marketers who share their stories with others who can become Kroger's better customers.

Going beyond targeting magnifies the impact of 2G digital for marketers. The capacity for dynamic campaigns, or events that enable optimization while campaigns are still running, creates meaningful ROI improvements. This can be achieved both by shifting dollars between targeted segments and testing and optimizing offer values.

With regard to shifts between segments, a DS-IQ campaign for a sandwich bag brand yielded closure rates that were two-times higher among lapsed buyers (27%) than they were for loyal buyers (13%) or buyers of competitive brands (14%). Shifting to the higher-performing segments reduced campaign activation (a.k.a. insertion) costs by one-half.

Dynamic adjustments are most powerful when they affect live campaigns. A recent program with ConAgra Foods executed by DS-IQ provides an example. Digital coupons presented in a web page were tested with \$1.75 and \$2 offers for the same consumer segments. The results showed comparable redemption rates for both values, enabling a 12% improvement in cost per unit moved

after choosing the lower value (see figure 4)

What does 2G digital shopper marketing provide to shoppers?

When marketers get targeting right, shoppers experience it as relevant. With 2G digital circulars, personalization allows shoppers to quickly see the items they most prefer. A shopper survey by Catalina showed that consumers participating in one of its 2G coupon programs were inspired to act on the relevant mobile offers they received. Specifically:

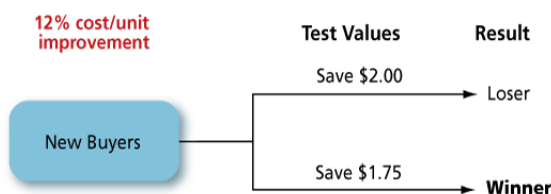
- 42% of shoppers were driven to stock up.
- 36% were driven to purchase more of a specific product.
- 30% were driven to try something new.
- 10% were driven to switch brands.

Relevance is about more than mining purchase history and suggesting a product. Picture a loyal user of Gillette Mach 3. He won't respond to a Schick offer. And he won't respond after just buying a five-pack of Mach 3 blades. But when that fifth blade dulls, he may respond to a new Gillette Fusion ProGlide upsell offer. Give him a digital offer for a new product from his brand when he's ready: that is relevance.

Along with relevance, pre-trip planning is made more simple with 2G. No longer do shoppers have to sift through 100 images or search by category within 1G e-circulars. Their offers are pre-selected for them.

The story gets better with digital coupons. With DS-IQ's patented load-to-card and load-to-account technologies, Shoppers no longer need to print coupons to use them, and no longer need to remember to tote them to the store. Furthermore, shoppers can opt in to mobile messages that remind them when loaded coupons are about to expire.

Web coupon program for ConAgra and national retailer



Source: DS-IQ

figure 4

What are our guiding principles for 2G?

What can we learn from the preceding examples? Here are a few guidelines for transitioning to the 2G world:

Principle 1: Go beyond redemption.

- Evaluate not just response quantity, but response quality. With digital coupons, look for programs that report responses by key customer segment. How did you do with loyal buyers? What about new buyers?
- Know where your ROI leverage is. Did you drive incremental purchases from loyal buyers? Good. But what behavior did you change? Did you get them to buy more frequently? More units?

Principle 2: Don't jail shoppers in static segments or zones.

- You already know that you shouldn't simply cluster shoppers by age, family size or other demographic element. In a similar vein, don't stop with generalized definitions of consumption like "healthy eaters" or "indulgent buyers."
- Instead, look to create a fluid approach to segmentation in which classifications change based on the product campaign or the question asked. In other words, create unique segments based on brand objectives and shopping behavior for every campaign.

Principle 3: Look for ways to bet after the race has started.

- Some buys need to be placed at the beginning of campaigns. That's OK, but just don't make those are all your bets.
- Plan campaigns with identified tests in place so that one campaign informs the next, and so on.
- Test different values, single versus multiple units, pairings of complementary items, and other ways to vary the incentives.

For more information:

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