Customized Promotions in the Digital Age

Jie Zhang
University of Maryland

WKUMPEM Forum Retail Conference
Koç University

May 15, 2014
Which of the following best describes you?
CUSTOMIZED PROMOTIONS

- The landscape of marketing has shifted

  Mass marketing → Customization (customer-centric marketing)

- Advancements in digital technologies have created unprecedented opportunities for customized promotions.
  - Delivery methods/platforms
  - Information technology + Data warehouse + Marketing analytics → better targeting strategies
CUSTOMIZED PROMOTIONS

The big question is:

How to do it right?
THE WORST EXAMPLE:

Notice of Free Cremation Offer

National Cremation Society
43249 Woodward Ave
Bloomfield Hills, MI 48302

Free PREPAID CREMATION (details inside)

Ann Arbor, MI 48104-4722
Successful promotion customizations depend on:

**Delivery method/platform**
- Many innovations & leap-and-bound progresses!

**Content: when to offer what to whom?**
- Good progress, much more needs to be done
Delivery method/platform

- Traditional mass-distribution approach is highly inefficient and ineffective
- Many retailers and manufacturers have looked for better alternatives.
- Fundamental problem: lack of targeting
How to improve relevance remains a big challenge
IN-STORE COUPON DISTRIBUTIONS

- A popular approach in the US: Check-out Coupons (by Catalina Marketing Corporation)
Is it worthwhile to personalize price discounts?
- Not in the grocery retailing domain with firm-initiated distributions!
- The incremental payoff of personalized over segment- and mass market-level customized promotions is small, esp. in offline stores.

What is the biggest impediment to the success of customized promotions for offline retailers?
- Low coupon redemption rates! (even if they were 15%)
  (source: Zhang and Wedel 2009)

Can retailers do better?
A new approach to delivering customized promotions which enhances relevance and redemption rates.
Safeway: Just for U
Safeway: Just for U
Online coupons

- Sounded like a perfect solution: perfect targeting and zero marginal distribution cost
ONLINE COUPONS

The problem?

Recent development: enhance security features
  - e.g., adding personal ID information, disallowing network printers, improved encoding technique
Mobile platforms

- Many retailers and manufacturers are embracing the mobile technology.
MOBILE PLATFORMS

Mobile coupons are also becoming increasingly popular among consumers.
What is unique about mobile platforms?

- The Internet has taken away the boundaries set by store locations. The mobile technology is bringing back the relevance of location, but in a much more sophisticated way.
- **Location-based targeting** via mobile technology and platforms is the next big thing!
  
  - Example: Groupon Now!  
  [http://www.youtube.com/watch?v=6TpGn47rqBU](http://www.youtube.com/watch?v=6TpGn47rqBU)
Other recent developments

- Customized promotions based on web browsing behavior (e.g., retargeting ads)
- Customized promotions in social network forums
- Promotions in a multi-media and multi-channel world ……
Remaining Challenges: When to offer what to whom?

- Without enhancing relevance and customer value, high-tech promotions are just digital junk mail!
- Marketing analytics will play a crucial role.
  - Companies with the IT infrastructure and analytical talents will have a huge competitive advantage
- Statistical models and optimization techniques can be very helpful tools.
  - Example 1: Deriving optimal price discounts tailored to each individual and updated in real time (Zhang and Krishnamurthi 2004)
  - Example 2: Designing customized promotions based on consumers’ usage patterns of interactive decision aids (Shi and Zhang 2014)
- Respect and protect consumer privacy!
CONCLUDING REMARK

- It is the most exciting time to study customization!
- Great opportunities for retail practitioners and marketing academics to join hands, to learn from each other, and to help each other!
Teşekkür ederim!