



White Paper

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## **The Validation and Electronic Clearing of Paper Coupons at the POS Solves the Problems of Mis/malredemption and Fraud for the Coupon Industry...**

The inefficiency and fraud related to paper coupons is well documented and persistent. Mis/malredemption and fraud continues to plague the industry and causes serious financial hardship in varying degrees to all the major constituencies in the coupon industry: manufacturers, retailers, media partners and the various support services such as retailer clearinghouses and manufacturers agents.

The Coupon Information Corporation (CIC), the industry watchdog for manufacturers dedicated to fighting coupon fraud, believes the problem is growing not getting smaller.

But what's the solution? This white paper begins to address a way to eliminate misredemption and fraud with paper coupons.

### **Background:**

Today there is limited validation of paper coupons at the POS. It is impossible to accurately quantify the amount financial losses directly attributable to fraud and mis/malredemption, but the CIC has estimated the following and believes it could be even much higher:

- At least \$400 million a year in coupon fraud
- At least \$300 million a year in miss-redemptions

Since many Retailer's do not validate the qualifying purchases and/or coupons that are expired at the POS, these set up the potential for conflict between retailers and manufacturers after the

coupons are processed. It's this kind of malredemption that becomes a major source of disagreement between retailers and manufacturer and one or the other will end up paying for the invalid coupons processed at the POS.

### **So what's the answer?**

Most experts agree, the most logical way to fix the problem is to block the redemption of invalid or counterfeit coupons at the POS, but can a retailer's POS system really do that?

The answer today is no. But it will be yes in the future through a combination of the new GS1 Databar coupon, a compliant GS1 retailer, and a "real time" validation service connected to the POS.

Let's look at the three components necessary to help eliminate fraud and misredemption of paper coupons.

#### **# 1 is the New GS1 DataBar Paper Coupon:**

The new GS1 Databar coupon is coming and is the 1<sup>st</sup> step that will allow manufacturers and retailers to control the misredemption and fraud that has persisted for years. Today most manufacturers present both the "old" UPC-A barcode and the new GS1 Databar on their coupons. After January 2011, manufacturers are planning to only print the new GS1 Databar barcode on coupons eliminating the UPC-A barcode.

The new GS1 barcode can contain information not previously available in UPC-A coupons or present but not validated in the GS1-128 coupon extended barcode:

- Full GS1 Company prefix
- Primary Purchase requirement, and 2<sup>nd</sup> & 3<sup>rd</sup> optional purchase requirements (no longer limited to quantity for a single family code assignment, includes options for price, weight, %, amount of transaction total, etc)
- Manufacture Offer code (MOC)
- Start date
- Expiration date
- Serial Number
- Other (examples are Retailer GLN and do not multiply flag)

Manufacturers will also have the opportunity to create their own coupon master file of all their coupons in circulation. If a manufacturer provides their master coupon file information to the

real time validation service, that information can be entered into a database and checked as each coupon is processed at the POS to insure it's valid. Coupons not itemized in the master coupon file would be rejected at the lane as invalid. This could be an important step for large multi-brand manufactures that are most susceptible to misredemption and fraud.

Manufacturers will also have the ability to add customized validation rules to the database e.g. we have no coupons will a value greater than \$3.00. The validation service database would reject all coupons over that value at the POS.

The CIC has been promulgating a listing of counterfeit coupon in circulation for some time. For the 1<sup>st</sup> time, this information can be reviewed and rejected electronically by the validation service and not through a visual review by the cashier at the checkout.

Of course, the ultimate solution is the serialization of each coupon produced and issued. If each coupon was coded with a unique number, and those numbers were provided to a real time validation service, each coupon could be validated against the serialized database to insure it was a valid coupon. Most in the industry believe that the FSI (Free Standing Insert) media companies will not change their high-speed printing methods to allow for serialization. On the other hand, the print at home coupon providers will have the ability to serialize their coupons. That will be much appreciated by most retailers who are experiencing higher than normal levels of fraud with print at home coupons. (Some retailers have even decided not to accept print at home coupons.)

## **#2 is having the Retailer Become GS1 Databar Compliant:**

Most retailers are upgrading their POS software and in some cases scanner hardware to process the GS1 Databar coupons at the checkout. The POS software upgrades will allow retailers to process, but not validate ALL of the data fields contained in the GS1 Databar coupons at the checkout. In addition, the POS systems by default may not be storing the full GS1 Databar in the transaction logs. By not validating 100% the GS1 Databar coupons at the POS, the retailers will not be able to stop misredemption and fraud. All retailers will need the assistance of a "real time" validation service connected to the POS to eliminate the fraud and misredemption and track the MOC code.

Manufacturers could continue to process the GS1 Databar coupons through the existing paper clearing process, but all the benefits of the new GS1 Databar information will only be available after the processing at the POS and during the paper settlement process. The obvious benefit of POS validation is it will allow the manufacturer, the retailer's cashier and the consumer to be notified at the same time that a coupon is not acceptable.

So how can a paper coupon get validated at the POS?

Let's take a look at the 3<sup>rd</sup> component of the new solution.

### **#3 is Retailers Point of Sale Systems Can Now Be Reliably connected with a "Real Time" Validation AND Clearing Service.**

Retailers for years have been dependent on downloading digital offers in advance to the POS, and that has its limitations and requires continual IT support. That can work for digital (for a while), but the POS is not set up to provide instantaneous validation required to process and validate a paper coupon. Paper coupons validation is different and requires the ability to react in "real time" or milliseconds to insure the validation does not cause any delay at the checkout. That requires a high speed connection between the offsite validation servers and the retailers (HQ) and a messaging protocol that can respond in milliseconds.

Here's how it could work:

- Sales data for every item scanned in the basket is bundled and transmitted via the retailers WAN to the offsite servers.
- When a GS1 paper coupon is scanned a 'Coupon Validation Request' message is sent to the offsite servers before any POS level validation.
- The coupon is validated and an 'approval' message is acknowledged by a beep.
- If a coupon rejection occurs a 'reject reason' message is returned to the cashiers display stating the reason for the rejection.
- All this messaging is completed in milliseconds to insure there is no slowdown at the checkout.
- As an independent 3<sup>rd</sup> party, the validation service is capturing all the available GS1 Databar information including the MOC, which is critical for appropriate billing. All the electronic records will be available for audit by both the retailer and the manufacturer.
- Within moments after the consumer's transaction is over, all paper redemptions that were accepted are transmitted via the retailer's WAN to the offsite servers, confirming their activity. They are then considered "cleared", but not yet "settled", eliminating the need to physically bundle and ship physical paper coupons anywhere.

Implementation of the electronic validation and clearing of paper coupons at the POS is the best way to eliminate fraud and mis/malredemption, but it is not without its implementation challenges. Manufacturers need to move aggressively to implement the GS1 DataBar coupon on or below January 1, 2011, and retailers need to become GS1 compliant as soon as possible.

Retailers also need to educate their customers on their new coupon compliance rules and store managers need to train staff to be patient with consumers who have coupons rejected at the lane.

If both of the major victims of the fraud and mis/malredemption can work together to implement the validation service for processing paper coupons at the POS, the industry can potentially save up to \$1 billion, each and every year, and manufacturers and retailers will see direct improvements to their bottom lines.

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