

FRAUD

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Trouble Brewing for Digital Coupons

As distribution grows, so does fraud.

By John Karolefski

Digital coupons are a small part of overall coupon distribution and redemption, which is dominated by free-standing inserts (FSIs). Digital is increasing its share, however. Unfortunately, digital fraud is growing at the same time, and that presents a new challenge for grocers.

How much of a problem is digital coupon fraud?

That depends on which type of “digital” coupon: internet print-at-home (PAH) coupons or download-to-card/phone incentives. Most experts say the former is a major problem,

while the latter is an emerging one, but opinions vary.

“Part of the issue with digital coupons is that everyone has a different definition,” says Cheryl Black, CEO of You Technology, a Brisbane, Calif.-based digital coupon network provider that Kroger acquired in 2014. “But if you include coupons printed from the internet, which is really just another form of paper, or coupons delivered one at a time via a bar code scanned from a phone, then fraud is rampant,” adds Black, whose company has ongoing partnerships with grocers such as ShopRite, Big Y, Raley’s and Shop ‘n Save.

Andrew Coleman, president of Winston-Salem, N.C.-based marketing consultancy Rogue Two, contends that true paperless digital coupon fraud is difficult to measure, due to the “closed-network” nature of most digital platforms. “Vendors may report clips and redemptions, but standard campaign reporting still has a ‘take our word for it’ feel,” notes Coleman. “At least paper coupons can be counted and cross-counted. Digital vendors send each other redemption files, but what is the audit procedure without a paper marker left behind by the customer to prove the valid redemption to ensure the files are accurate?”



Facing the Challenges

“The challenges and the financial impact of fraud associated with PAH coupons are increasing,” affirms Bud Miller, executive director of the Coupon Information Center (CIC), pointing out three general categories of fraudulent activities associated with PAH coupons:

Creative Counterfeiting: The quality of counterfeit coupons imitating PAH coupons ranges from poor-quality, amateurish cut-and-paste examples to very high-quality counterfeits that attempt to mimic the security features of legitimate PAH coupons. There are a number of commonly available templates and other means to create such counterfeits, which are made and distributed by technically skilled hackers. Such counterfeits have cost industry participants many millions of dollars. Federal investigations, which have been assisted by CIC and other industry participants, have led to a number of convictions, the most recent of which resulted in a 41-month prison sentence and other penalties.

Basic Counterfeiting: This form of counterfeiting can include simple photocopying, screen captures and variations. While less sophisticated than hackers’ efforts, these activities can be costly if proper security procedures aren’t followed.

Evading Print Limits: There has been a recent increase in the number of individuals selling multiple sets of PAH coupons on social media. CIC is working closely with industry participants to identify and terminate such activities.

Miller gives the example of an image obtained from a social media channel. “The author is apparently offering to sell PAH coupons in .pdf format with a 24- to 48-hour turnaround time,” he explains. “The person includes an invalid disclaimer stating that the purchaser is paying for ‘my time and service, not’ the coupons. This person posted numerous examples of such coupons for sale. CIC contacted the appropriate industry participants on this matter. In turn, the PAH coupon vendor issued a take-down notice to the social media channel and the coupon seller.”

Rogue Two’s Coleman notes that internet printable coupons face all of the dangers that other paper coupons face, such as bar code adulteration, misredemption and malredemption, but with additional discovery perils like ease of sharing — whether a .pdf, instructions or simply word-of-mouth activity on coupon blogs — that can alert other shoppers to CPG coupon mistakes they can exploit.

Truly Digital Fraud

Meanwhile, fraud involving digital, paperless (load-to-card) coupons is virtually nonexistent, according

to John Ross, president of Winston-Salem-based Inmar Promotion Network.

“The fact that these coupons never manifest as paper, along with the requirement that shoppers acquire these coupons by attaching them to registered, uniquely identified accounts, eliminates the possibility of physical duplication and/or sharing of these types of offers,” he says. “In addition, systematic clip limits help prevent unintended multiple redemptions by a single individual while guarding against general over-redemption.”

Black, of You Technology, agrees that fraud is virtually nonexistent for true direct-to-unique-ID coupons that don’t involve any paper or bar code on a phone except as an identifier of the person. “Those coupons are secured and processed within the retailer systems and point of sale,” she notes.

Black goes on to temper her comments slightly, however, by noting that the only types of fraud that can exist for truly digital coupons are:

Hacking: In rare cases, hackers can intercept messages between the browser and the back-end system and clip coupons targeted to someone else to their own card. This can only occur if the messages aren’t secured or encrypted, or if security is breached. Even if there’s no security, this is still difficult to do because the hacker needs to know that the targeted coupon exists and also needs to know the unique ID of the coupon. The net result of this type of hack is that the hacker can purchase a product and get a discount intended for someone else.

Return Fraud: A shopper can use a coupon to purchase a product and then return that product. If the receipt isn’t required, or if the system doesn’t track the transaction ID and back out the coupon, the shopper may get the full price of the product returned, instead of the discounted price.

CIC’s Miller lists two other possibilities ripe for digital coupon fraud:

Shopper Cards: Potential challenges can include multiple cards held by an individual, identification verification, multiple addresses, burner phones and simply false information.

Mobile Receipt Marketing: Potential challenges can include counterfeit receipts, submitting claims for products other than those intended by the incentive, obtaining the incentive funds and then returning the product, receipt reuse/sharing, and stacking.

“Stacking is when the consumer uses various manufacturer and retailer coupons from different vehicles to purchase a product for far less than what

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—Cheryl Black, You Technology

the manufacturer intended,” explains Andy Rumpelt, president of Albany, N.Y.-based Price-Trak National Promotion Reports. “Imagine putting out an FSI and having retailers also offer a digital load-to-card incentive. Say the in-store price is already discounted with a feature, and most of the consumers would buy the product anyway. A percentage are using all the incentives to get the product for pennies on the dollar. That costs the brand significant profitable revenue, but it is happening far more than you may think.”

Taking Action

What can grocery retailers do to combat the growing problem of digital coupon fraud?

The simple course of action, advises Rumpelt, is to educate cashiers and continue to implement programs that kick out expired coupons at checkout.

“Grocers might consider adopting a universal framework for digital coupon redemptions that would allow universal standards and ubiquitous redemption across banners,” suggests Coleman, of Rogue Two. “Currently, retailers are reluctant or unwilling to share or cooperate on digital data, which is understandable, given the competitive landscape, but it results in a fractured cottage industry where vendors are in control and use retailers against one another. Again, all very understandable, but it limits the growth potential overall.”

Black, of You Technology, says the best thing grocers can do is to shift budget and technology to implement truly end-to-end digital coupons that “offer no chance of replication or unintended distribution. These systems should secure messages between the browser and the back-end system, and should use transaction IDs from the receipt for processing returns.”

CIC has a number of programs in place to assist grocery retailers in addressing counterfeit coupons. Miller urges retailers to visit CouponInformationCenter.com and to attend the center’s annual CIC Industry Leadership Summit (retailers can send a representative to the event free of charge).

He further urges grocers to take the following specific actions:

- Program coupon management levels in the POS system to alert customer service managers to potential fraudulent activities.
- Exercise extreme caution when a consumer attempts to use any free product or numerous high-value PAH coupons.
- Employ the full benefits of the GS-1 Databar, and be sure to read all fields and validate the products purchased to the coupon language. CPGs have added exclusionary copy to offers (sizes, sub-brands, etc.) and updated family codes for their products to make the scanner do the approving, versus the cashier.

- Review and implement voluntary best practices. For example, there are few, if any, free product coupons distributed via PAH coupons.

“One approach to address retailer compatibility issues is to create digital coupon programs aligned with individual retailers rather than being distributed through a dedicated coupon website and their network of affiliated websites,” says Dan Kitrell, VP, accounts solutions at London-based Kantar Media. “A digital coupon distributed on a retailer website may be designed to align with that specific retailer’s POS technology and coupon-processing systems. Additionally, improved coupon-handling practices and increased awareness of valid coupons distributed each week on the retailer’s own website may reduce issues related to improper redemption and the potential for other forms of fraud.” **PG**

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Coupon Collaboration

Grocers and manufacturers can jointly take a number of steps to combat coupon fraud. For example, trading partners can collaborate under the guidance of the Coupon Information Center (CIC) to identify best practices for mitigating fraud.

CIC urges manufacturers to work with coupon processors to review any coupons that don’t match the database artwork file. Also, review monthly redemptions of all coupons, with a focus on redemptions versus number circulated, not printed.

CIC President Bud Miller urges companies to “monitor social media coupon blogs for anything out of the ordinary. If couponers start talking about a ‘moneymaker’ or a ‘glitch,’ make sure that the coupons in question are legitimate.”

There are measures that manufacturers can take specific to PAH coupons to help reduce the use of fraudulent coupons at checkout. By following some basic guidelines and adhering to industry standards for good coupon design, manufacturers can make counterfeiting coupons more difficult while making them easier to detect, says John Ross, president of Winston-Salem, N.C.-based Inmar Promotion Network.

Inmar recommends that manufacturers do the following:

Control viewing and limit access for online coupons.

Coupons shouldn’t be displayed online in a format that provides uncontrolled access or capture. Coupons should never be distributed online as .pdfs or Word documents.

Manage promotion values. High-value offers and coupons for free products are popular targets for counterfeiters. If these kinds of promotions are to be distributed, consider issuing a load-to-card coupon as an alternative.

Use consistent coupon design standards. Consistent branding and use of industry-standard design — including use of legal copy — requires those individuals wanting to counterfeit coupons to work harder to produce coupons that appear to be compliant.

—John Karolefski

