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DISCOUNT COUPONS: Beyond the Price Discount Effect

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U.S. manufacturers distributed over 298 billion discount coupons in 1993 (Heitsmith 1994). Although down 3.7 percent from 1992, the first decline in the coupon industry's history, it was nearly double the number distributed ten years earlier. On average, less than 2.5 percent of these certificates that offer consumers price discounts were redeemed. Total redemptions declined more than 10 percent, in part because the time period between the distribution of a coupon and the date it expires has been shortened. The average coupon in 1993 had an expiration date of 3.1 months (Whalen 1994). A few manufacturers have reduced their promotional spending and are experimenting with other pricing strategies. Most continue to use discount coupons and believe they can increase sales and boost profits above the levels without coupons.

Coupons can influence purchase patterns in several ways. Larson (1991) argued that most of the gains from coupons can be traced to four effects: a price discount effect (lower costs to redeemers), an advertising effect (more consumer knowledge about the product), a reminding effect (greater consumer awareness through repeated exposure to the clipped coupon), and a utility effect (increased satisfaction from the redemption experience). After discussing whether branded promotional strategies are relevant for agricultural commodities, this paper reviews the evidence for the four coupon effects and suggests ways that marketers could use this framework to improve their coupon performance.

Relevance of Promotional Strategies to Agricultural Commodities

Product managers at packaged-goods producers try to design marketing plans that increase household penetration, purchase rates, and market shares. By using good marketing principles, value is added to their output. A commodity organization selling products such as beef, oranges, or almonds has similar objectives. In fact, beef, oranges, and almonds may be thought of as brands within larger product categories. By employing advertising and promotion, commodity groups may be able to build equity in their brands and expand sales.

Larson (1992) argued that agricultural producers can learn key marketing principles by observing successful packaged-good manufacturers and listed several reasons that more consumer promotions of commodities may be justified. Branded food marketers use a relatively balanced mix of advertising, consumer promotion, and trade promotion. Another reason is that consumer promotions for highly processed foods may distract some consumers away from agricultural commodity substitutes. Coupons can influence

planned purchase and in-store decisions. They can be designed to enhance the impact of advertising campaigns and can be targeted to exploit regional and seasonal opportunities. If consumer promotions can increase sales and improve marketing spending efficiency, they would have significant benefits to agricultural producers. The evidence supporting additional consumer promotions appears to be fairly strong.

Some are concerned that promotions will damage a product's image or that individual events will not generate enough incremental volume to be profitable. Research suggests that images can be enhanced through promotions. Laboratory experiments have found that coupons can help carry over positive brand thoughts and can distract shoppers from negative thoughts (Raju and Hastak 1983), that previous brand experience can eliminate any negative impact from coupons (Ortmeyer and Huber 1991), and that raising face values and simplifying the redemption process can boost repeat purchases of a new product (Chakraborty and Cole 1991). Barbara Kahn, an associate professor at the Wharton School of Business, argued that consumer promotions such as coupons and rebates can actually build brand equity, particularly when products are in the mature stage of their life cycle (Smith 1993). Because most consumers are probably familiar with commodity items (i.e., trial building is not needed), price promotions may be beneficial.

The other concern, that promotional events may not be profitable, is based on the assumption that event impacts can be isolated to particular time periods and can be separated from other components of the marketing plan. Traditional methods for evaluating price promotions focus on the volume "bump" immediately following the event. In many cases, most of the gains from a promotion may not be associated with the "bump." For example, Larson (1993) argues that if coupons allow manufacturers to charge higher list prices and price discriminate, ignoring the profit gains from price discrimination may make some successful events appear unprofitable. Improved techniques that evaluate the profitability of the price-promotion strategy and that consider all the effects from promotions are needed to assess their benefits and costs.

The Price Discount Effect from Coupons

The first of the four main coupon effects is directly linked to the coupon's face value. Because they offer buyers price discounts, demand theory suggests discount coupons should increase volume. Many studies (e.g., Irons, Little, and Klein 1983; Bawa and Shoemaker 1987; Neslin 1990) found significant volume "bumps" associated with coupon events. Other research found that the coupon face values were positively related to redemption intentions by shoppers who were not regular brand buyers (Shoemaker and Tibrewala 1985), to redemption rates, and to the incremental volume generated by the promotion (Bawa and Shoemaker 1989). Coupons may also encourage consumers to buy extra products (i.e., build inventories) or buy earlier than normal (Neslin, Henderson, and Quelch 1985).

The price discount effect does not account for all the volume gains from price promotions. In laboratory experiments, coupons appeared to boost sales more than equivalent price discounts (Schindler and Rothaus 1985; Schindler 1992). Lee and Brown (1985) found that orange juice coupons generated more sales than an equivalent price reduction and suggested that the difference could be credited to the informational value of the event. Consumers also prefer some promotion types over others. Diamond (1992b) compared the valuation of price promotions with the equivalent value in free product

(i.e., larger containers) and concluded that consumer preferences between the two promotion types may vary by the size of the offer. Gould (1988) found that instant cash rewards were preferred over rebates and that promotional premiums were often valued for much more than their intrinsic value. In a telephone survey, five-sixths of the respondents chose a \$1.00 coupon over a \$2.00 rebate (Lazarus 1993). These findings suggest that other effects may play important roles in determining the gains from a promotion.

The Advertising Effect from Coupons

When Sunday newspaper free-standing inserts (FSIs) are distributed, both future redeemers and non-redeemers are exposed to the images and information surrounding the coupons. Several Starch and Gallup-Robinson studies found ads with coupons had greater recall and copy readership than matched ads without coupons (Bowman 1980). Leclerc and Little (1994) tested coupons in the laboratory and found that pictures enhanced brand attitudes and increased the propensity to clip the coupon. Information in the FSI ad improved brand attitudes and increased the propensity to clip by non-product users. They also examined the characteristics of 200 FSI coupons and their effects in the market. Emphasizing "New" (if a new or improved product) and employing emotional benefit appeals appeared to increase the likelihood that redemptions were for incremental purchases, while emphasizing "SAVE" reduced an FSI event's performance. One explanation is that particular consumer segments may make most of the incremental purchases from coupons. Ad characteristics may influence the mix of people that responded to an event and affect the efficiency of the promotion.

Besides influencing redeemer product choices, coupons can change the purchase patterns of non-redeemers. Bawa and Shoemaker (1989) found that non-redeeming households who received a direct mail coupon bought more of the brand than the matched control group. Srinivasan, Leone, and Mulhern (1994) reported that, in several categories, non-redeemers of an FSI coupon purchased more of the couponed brand and less of competing brands than was predicted. The advertising effect they observed appeared to decay quite rapidly after the coupon was distributed.

Because FSIs have wide readership, their potential advertising value can be significant. One survey reported that 46% of Sunday newspaper readers regularly read FSIs and another 26% read them now and then (Cavacos 1990). Because a national FSI coupon ad could be seen by at least 23 million households in a single week (46 percent of the 50 million circulation), the advertising effect could have important sales impacts, increasing copy readership, enhancing perceived brand value, reinforcing the media advertising message, and expanding the advertising reach to previously unexposed viewers.

If FSIs have a print ad component, positive interactions with TV advertising may boost the productivity of both marketing tools. Several studies have found synergies between print and television ads (e.g., Speetzen 1990; Confer and McGlathery 1990; Smith 1991). New product marketers usually coordinate advertising and couponing to exploit any complementary impacts (Bruvold, Macklin, and Greenbaum 1988). Coupon events with strong print ads may boost sales through their own advertising effects and may increase the volume gains from TV advertising.

The Reminding Effect from Coupons

Supermarkets carry thousands of items and hundreds of product categories. Consumers cannot keep all purchase options top-of-mind during each shopping trip. Many categories are not considered for purchase in a typical shopping trip. One study found that consumers typically traveled through only 41 percent of a supermarket (*Supermarket Business* 1991). Eye movement tests suggest that about one-third of the packages on the shelf are completely ignored by shoppers (Young 1987). Repeated exposure to the illustrations on a coupon may help consumers search for and recognize the package. A survey of coupon users found that 62 percent organized their coupons, often sorting and filing them by category, brand, or expiration date (Manufacturers Coupon Control Center 1989). Pokrywcznski (1993) found that collecting, filing, and sorting a brand's coupons may also increase the top-of-mind awareness of the brand. This suggests that the reminding effect from coupons could affect a consumer's familiarity with a product.

Coupons may impact the purchase planning process. One way is by influencing what is written on shopping lists. A survey found that 46 percent of coupon users always prepared shopping lists, that 18 percent usually prepared them, that 36 percent always referred to coupons when preparing lists, and that 21 percent usually did (Manufacturers Coupon Control Center 1989). Even consumers that do not use lists may refer to coupons to remind them about intended purchases. This portion of the reminding effect may be stronger among older consumers. A recent survey found that older consumers were more likely to plan purchases and coupon use at home (*Marketing News* 1992). The ability of coupons to remind consumers to plan particular purchases should not be overlooked.

Coupons may also affect in-store choices, serving as mobile point-of-purchase cues. Many shoppers carry their coupon files with them and refer to their files while in stores. Because about two-thirds of consumer purchase decisions are reportedly made in the store (Petersen 1987), the value of these reminders could be significant. Coupons may work with other in-store factors to influence choices, further enhancing their sales impact. For example, when shoppers note a store display, having a coupon filed for the same product may move them over the purchase threshold when neither the display nor the coupon could do it alone. The interaction between the two, higher store visibility and consumer recall of an available coupon, could generate extra sales.

The Utility Effect from Coupons

The price discount effect assumes that redeemers respond to face values in the same way they respond to list price changes. Some households may react differently to coupons due to redemption habits or to non-monetary benefits that coupon transactions provide. A review of models that explain why consumers redeem coupons illustrates these other motivations.

In their text, Blattberg and Neslin (1990) classify coupon redemption models into six theories. The first three consider the utilitarian tradeoffs that consumers may make when redeeming coupons: the time cost to redeem coupons, the tradeoffs associated with the purchase, and the separate decisions to collect, to file, to plan to use, and to actually redeem coupons.

The other three models involve the utility effect. Scripts, simplified rules for routinized (over-learned) behavior, may help explain some redemptions. For example, some shoppers may develop a script saying "Coupons over 50-cents make a brand the best value in a category" and may not compare competitor prices when they redeem high-value coupons. The second model includes the internal reward to redeemers of being smart shoppers and feeling thrifty. This sense of pride in having "won" something could lead consumers to buy items with coupons they would not have purchased if the price was reduced the same amount. The final theory considers shopper and peer beliefs about using coupons. If others approve of coupons and support the user instead of sharing negative opinions, the redemption decision could be affected. These three models suggest that coupon users may have other goals beyond saving money.

Some research has explored the motives behind coupon use. Babakus, Tat, and Cunningham (1988) examined how price consciousness, time value, and satisfaction from saving money were related to coupon behavior and found that the pride and satisfaction of obtaining savings was the most important motivation. Because about \$100 worth of coupons can be clipped and sorted per hour, the time cost of couponing may not be a major concern to consumers (Larson 1985). Focus groups to understand coupon usage by Clayton/Curtis/Cottrell (1987) found that coupons may build social relations because they can be a conversation topic. Heavy users belonged to coupon clubs to swap coupons and stories about their savings. A few consumers said they redeemed coupons for revenge, to get back at manufacturers. These analyses confirm that many goals are involved in coupon use.

Managerial Implications and Recommendations

Because the price discount from coupons is not the only way they can increase sales, firms could lower coupon face values (and increase spending efficiency) if they could increase the volume gains from the other effects. This section proposes some opportunities for increasing the advertising, remind, and utility effects from coupons.

Frameworks for Event Planning

At any given time, buyers consist of various household types, each responding to different product and promotion attributes and following different strategies. A household's coupon use appears to be fairly consistent. Bawa and Shoemaker (1986) reported that household use of coupons in one category was correlated with their use in other categories and Bagozzi, Baumgartner, and Yi (1992) found that a shopper's coupon usage in the recent past was a good predictor of future redemption patterns. Therefore, consumer segments based on redemption behavior may remain stable over time and may help marketers plan more effective coupon events.

One approach to analyze coupon redemption patterns is to segment users by whether the households maintained coupon files. Neslin (1990) compared the incremental volume per redemption during the first two weeks after a coupon event and found the first week had significantly more sales gains per redemption than the second. Because many less-organized redeemers may respond in the first week their influence on the total could be significant. If this non-filing group had an above average probability of making incremental purchases, the incremental gains per redemption by coupon filers could be

stable over time. Moody (1989) found that the probability that later redemptions generated incremental purchases remained relatively constant versus the time since the coupon event. Changes in the mix of redeemers could explain this pattern, because once a coupon is clipped and filed, the date it was distributed probably should have little influence on the redemption decision. This suggests that increasing redemptions by less-organized users may boost incremental volume from an event.

Another useful grouping may be the level of coupon use. Heavy users may clip and file many coupons and redeem the ones that give them the lowest net price per unit. Diamond (1992a) found that heavy coupon users employed different rules to decide whether to reject or clip coupons than light coupon users. Less-active users may redeem coupons from ads that appeal to them and may not be swayed by later, high-value coupon offers by competitors if they like the product. In addition, light users appear less likely to check competing product prices when redeeming coupons (Conover 1989). Therefore, light users may generate more incremental sales per redemption than heavy coupon users. Coupon distributors may wish to design events that appeal to light coupon users or explicitly target this segment.

Enhancing the Advertising Effect from Coupons

Because coupons appear to have an advertising component, print ad design principles may help marketers improve FSI execution content and layout. One company suggests that an FSI should be an ad first, then a discount offer (The PreTesting Company). Framing the consumption experience, telling buyers what to expect and what to remember from consumption, also may be used in ads to influence brand attitude formation (Homer and Yoon 1992) and to boost buyer loyalty (Deighton, Henderson, and Neslin 1989). Research by Campbell Soup suggests that "news" headlines that include brand names are most effective (Liesse 1990). Other magazine studies found that ad clutter may lower recall scores (Pike 1990).

Shopping behavior can be influenced by color. In simulated retail environments, the colors of the surroundings appeared to affect some perceptions of the merchandise (Crowley 1993), purchase quantities, and shopping strategies (Bellizzi and Hite 1992). Including color in the ad can increase its advertising impact (Schindler 1986) and boost the awareness of people not in the market for an item (Kerwin 1993). One test found that adding color to newspapers influenced eye movement of readers (Bohle and Garcia 1986) and another found that adding one color to black and white newspaper ads increased sales a median of 41% (Sparkman and Austin 1980). Particular background colors (e.g., red) and brightness levels (e.g., bright yellow) may contribute to higher ad recall (Donath 1984). Preferences for the colors in an ad may vary by target group (Liebman 1989), implying that pretesting may be needed to help fine-tune the appeal of an ad to the target audience.

Several principles for print ad layouts may help improve coupon ads. Experts often recommend including people and action and having dominant focal centers in ads. Ad component tests by Janiszewski (1990) suggest that moving text to the right or the photo to the left of the brand name could boost viewer impressions of the product and the ad. Unnava and Burnkrant (1991) found that the recall of ads with low imagery in the text can be enhanced by adding pictures. Gardner and Houston (1986) reported that pictures were associated with higher delayed recall scores, suggesting that the advertising

message may be retained longer.

Research findings for other media may also help marketers design more effective events. If an FSI is comparable to a catalog (i.e., a catalog of available discounts), eye movement principles for catalogs may apply (Hill 1989; Schmid 1990). Catalog readers often start at the upper right-hand corner, move across the top to the left-hand page, read down that page, and move back to the lower right-hand page. Many principles are used to guide what readers see in a catalog. For example, readers can be encouraged to view an entire page by adding visual weight (e.g., contrast, silhouetting, colors, boxes, etc.) in the upper left- and right-hand corners to start them along their normal reading pattern. Eye-movement studies of FSI readers found that the coupon certificate was overlooked nearly 50 percent of the time and that the brand name was not noted about 40 percent of the time (*Promo* 1989a, 1989b). The results from the catalog research suggest that positioning coupons in the upper corners of full-page FSI ads may increase the probability they will be seen and redeemed.

One difference between FSIs and other print media such as magazines and catalogs is that FSI readers probably turn the pages faster. Therefore, the message must be shorter and simpler than in a typical print ad. Research on billboards may suggest some useful principles. For example, Donthu, Cherian, and Bhargava (1993) studied outdoor advertising and found that using few words and color boosted billboard recall, confirming the benefits of brevity and color.

The impact of improving the layout of coupon ads can be dramatic. Case studies by NCH Promotional Services show that changing the ad content can affect the redemption rate by 60 percent or more. In a test of an FSI for a shampoo, one version showed the face of the model and the other showed the back of her head. The facial view had 46 percent more redemptions (Mouland 1992). By using ad principles and pretesting executions to avoid unforeseen problems, marketers should be able to increase the advertising value of their coupon events.

Increasing the Reminding Effect from Coupons

The reminding effect occurs after the coupons are clipped. The probability of seeing a filed coupon could be boosted by expanding the certificate dimensions to dollar bill size. Including a large package illustration on the coupon and noting where the product is shelved in stores (e.g., in the dairy section) could also help shoppers remember and find the item.

As the number of coupons filed for a product increases, the marginal gains from the reminding effect probably decline. Marketers may want to manage consumer coupon inventories by varying event timing, expiration dates, and vehicles to maintain a strong reminding effect from each event. If their goal is to have at least one coupon in most user files, distributing multiple coupons in FSIs or package (e.g., in- or on-pak) coupons could help maintain brand presence.

The potential positive interaction between store promotions and coupons suggests that scheduling the displays and other merchandising after coupon drops could boost the sales impact. Other options such as supplying pre-printed shopping lists, mentioning recent FSIs in retailer flyers and on shelf tags, or using TV and radio ads to announce coupons before they drop and to suggest shoppers redeem them after an event may be

cost-effective methods to reinforce the reminding effect. By jogging consumers' memories about a product's existence, especially in categories with below-average purchase frequency, and by interacting with other promotions, coupons can stimulate additional planned and impulse purchases.

Amplifying the Utility Effect from Coupons

If some users redeem coupons out of habit, it may be possible to lower face values without changing their purchase behavior. One key would be making coupons prominent in the executions. They should be standardized rectangular certificates, should be positioned on the ad border, and should contrast with the background colors of the ad. Dashes along the certificate edges tend to increase coupon awareness (Blair 1987) and perforations make it easier to "clip" on impulse. Repeating ad characteristics that are often used in coupon events could also help trigger coupon usage.

Because many redeemers have other motivations besides the savings from a coupon, appealing to these goals could increase the response rate. Mentioning the widespread use of coupons and the thriftiness of redeemers may generate more incremental volume per redemption for an event. Some marketers have associated their coupon events with popular charities. One manufacturer offered to make charitable donations for every redemption in the first month after an event to encourage rapid redemption. With this effect, as with the advertising effect, the content and message from the material surrounding the coupon could influence the proportion of the redemptions by different household groups and could contribute to the sales and profit gains from the promotion.

Conclusion

Improving the productivity of their marketing spending is a common goal for producers. This paper analyzed how various factors can influence coupon event productivity. Coupons appear to have price discount, advertising, reminding, and utility effects. If coupons are more efficient than other promotional tools currently employed by the agricultural commodity organizations, using more discount coupons may both increase sales and boost producer profits. Many of the ideas presented in this paper can be tested by companies and organizations to learn how to adjust these factors to enhance coupon promotion performance. By increasing the advertising, reminding, and utility effects from coupon events, marketers can improve the efficiency of their coupon promotion spending and can boost their profits.

ENDNOTES

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