ANALYSIS ON THE PRACTICE OF USING COUPONS FROM BOTH BUSINESS AND CONSUMER PERSPECTIVES

By

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A Thesis Submitted to The Honors College
In Partial Fulfillment of the Bachelor’s degree
With Honors in
RETAILING AND CONSUMER SCIENCES
THE UNIVERSITY OF ARIZONA
May 2009

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Abstract

The practice of issuing coupons by manufacturers or retailers as part of a promotion strategy has been in use for about 114 years. The fact that in present times billions of coupons are issued by retailers and manufacturers every year and millions are redeemed by consumers, suggests that there are many advantages associated with the issuance of coupons, not only from the manufacturers and retailers’ perspectives but also from the consumer perspective. This paper gives some background information on the use of couponing in the United States, then goes into an analysis about the advantages and disadvantages of why manufacturers issue consumer-packaged goods coupons, why retailers issue coupons, and why consumers like using coupons, including the advantages and disadvantages of them using coupons. Lastly, this paper looks briefly to the future to see what new advents in the couponing industry will facilitate couponing for all parties involved, namely consumers, manufacturers and retailers.

Introduction

Coupons as defined in *Promotion in the Merchandising Environment* by Kristen K. Swanson and Judith C. Everett “are printed forms or vouchers that entitle the bearer to certain benefits, such as a cash refund or a gift when redeemed” (Swanson and Everett 351). By presenting a coupon for a specific item, a consumer receives a reduction on the price of the merchandise equivalent to the amount stated on the coupon (Dunne and Lusch 391).

The use of coupons is a practice that dates back to approximately 1895. C.W. Post, a businessman who made cereals, decided to give consumers a certificate that when presented for the purchase of his new Grape Nuts cereal would allot them a one-cent price reduction (Bowman
Today Mr. Post's little cereal making business is now the General Foods Corporation, which "coincidentally is one of the nation's largest couponers" (Bowman 2). Many changes have taken place since the issuance of that first coupon, yet issuing coupons continues to be a major part of a manufacturers and retailers promotional/marketing budget. Major manufacturers such as General Foods as mentioned previously and other such as Proctor & Gamble, L'Oreal, Nestle SA, and Unilever continue to issue billions of coupons yearly (Marx Promotion Intelligence). In addition, major retailers such as Target, Walgreen's, Wal-Mart, and major grocery stores issue coupons as well (Marx Promotion Intelligence). A survey in 1993 proved that a greater percentage of the marketing budget for big companies was used on promotion instead of advertising, and more specifically much of the promotional budget was directed towards couponing (statistics from Donnelly Marketing Inc. as cited by Wolfram).

In 1996, manufacturers of consumer packaged goods distributed 268.5 billion coupons, of which 5.3 billion (2%) were redeemed. The average face value for coupons redeemed by consumers in 1996 was 69 cents, so consumers used coupons worth approximately $3.5 billion. (Wolfram)

In 2002, American Manufacturers issued 200 billion dollars worth of coupons to be used by consumers (Dunne and Lusch 391). Most recently, in 2008 manufacturers and retailers issued $334 billion worth of coupons, that is 195.6 billion pages of Free Standing Insert (FCI) coupons to entice consumers to shop packaged goods (Marx Promotion Intelligence).

Evidently billions of coupons are printed every year by manufacturers and retailers the like. The issuance of billions of coupons must come with many advantages
but also with disadvantages both to manufacturers and retailers. In addition, the redemption of coupons also poses advantages and disadvantages to consumers.

This paper will provide an in depth analysis on the practice of using coupons, the advantages and disadvantages, from both businesses (manufacturers and retailers) and consumer perspectives.

Manufacturers and Retailers' Perspectives on Couponing

There are three main categories for the types of coupons that can be issued (Smith and Schultz 61): Those are manufacturer coupon, retailer product coupon and retailer/manufacturer coupon. Each type is used to target specific objectives (Smith and Schultz 61-62). Manufacturer coupons are those created and issued by a manufacturer (Smith and Schultz 61). Retail product coupons are coupons that are “executed, delivered, and redeemed fully by the retailer” and retailer manufacturer coupons are those issued by a specific retailer but the costs are shared with the manufacturer (Smith and Schultz 62).

More, specifically there are two arenas in which coupons are offered. Coupons are either offered on packaged goods or on a retail/service (Smith and Schultz 62). Consumer packaged goods coupons or CPG coupons are the types of coupons offered by manufactures on their products. CPG coupons are distributed through newspapers, magazines, through email or web pages, magazines or special mail out saving pamphlets. The manufacturer carries the costs for CPG coupons, since it creates and delivers the coupons for one of its branded products. When customers go to redeem CPG coupons at retail locations, retailers redeem the coupons. Manufacturers pay retailers a fee for redeeming each coupon. The exact redemption process for CPG coupons is explained later on in this paper.
Sometimes manufacturers will work with specific retailers and issue coupons for their products just at that specific retail location. In this case, the retailer and manufacturer share the costs for creating, delivering, and redeeming coupons. Retailers also offer coupons on their own private brands. The retailer incurs the costs and redeeming process for this retailer product coupon type.

There exist many benefits to why manufacturers issue coupons. For one, a manufacturer coupon serves as a "controllable promotional tool" that has proven over the years to increase sales for the manufacturer (Smith and Schultz 57).

*The beauty of coupons is that [the manufacturer] control[s] how many sales [it] want[s] to generate by setting the value of the coupon. And [a manufacturer] control[s] the number of coupons [it] distribute[s] and the length of time they will be valid (Smith and Schultz 57).*

Manufacturers set the face value, the amount of the discount for the coupon, as well as the expiration date on the coupon to try to control sales within a time frame. The time a coupon is issued can also encourage off-season or prime-season purchases of products (Smith and Schultz 61).

Manufacturers have many options of what type of coupons they can issue to control sales. Some of the types of coupons are bounce-back coupon- to encourage the repeat purchase of the same product, cross-ruff coupon-offering a discount on a different product or brand all from the same manufacturers product/brand portfolio, and instant coupon- which comes attached to a product to be redeemed at once by the customer (Swanson and Everett 352).
“Coupons are a very popular sales promotional technique for both new and established products” (Swanson and Everett 351). For example, coupons help consumers with high uncertainty avoidance take a risk and possibly purchase a new product because the consumer will feel like the risk is diluted a bit with the saving he or she will gain by using the coupon. A statistic set out by the Coupon Council states that 94% of coupon shoppers say that coupons influence them to try new products (couponmonth.com).

In 2008, manufacturers issued CPG coupons to introduce many new products. TNS Media Intelligence ranked the top 10 categories for which manufacturers issued coupons to introduce new products. The categories were cereal, snacks, beverages, vitamins, household cleaning products, other packaged goods, alcoholic beverages, meat/refrigerated, diet aids, and sauce (Marx Promotion Intelligence).

Coupons encourage consumers to continue purchasing a product (Smith and Schultz 63). If a consumer has already purchased a product and sees a coupon for the same product the coupon will encourage the consumer to repurchase the item (Swanson and Everett 351) because the coupon is a “hard copy” reminder to the consumer (Smith and Schultz 62). Ultimately using coupons leads to consumer brand loyalty (Dunne and Lusch 391). Some of the categories that continued to be the top for which manufacturers continued to issue the majority of coupons for are household cleaning products, pet food and treats, combination/personal, snacks and vitamins, hair care and soap (Marx Promotion Intelligence). In addition, because of the discount they offer, coupons also allow consumers an incentive to trade-up in a specific brand (Smith and Schultz 63).
Many times manufacturers, may want to or may have to increase prices on a packaged good-coupons offer manufacturers a way to off-set the increase in price (Smith and Schultz 63).

Utilizing coupons also allows manufacturers to encourage retailers to give the specific promoted item a better product placement along with signage to accompany the product (Smith and Schultz 63). If a specific product is promoted a retailer will also want to make sure to stock up with sufficient product to meet consumer demand (Smith and Schultz 63).

Retailers issue coupons because they are a way to help drive traffic to the retailer locations (Smith and Schultz 62). More and more department stores, are using coupons to attract customers to shop even more so during “high-volume selling season periods” by motivating customers to shop on a particular weekend or at a specific time of the day (Swanson and Everett 351).

Not only do coupons help drive traffic in for retailers, but coupons also help retailers increase the units per transaction for individual consumers or the overall monetary amount per transaction. According to the theory of mental accounting, coupons provide a small windfall that motivate consumers to allocate the savings towards buying items a consumer may not have bought if it were not for the savings brought forth by the coupon (Milkman and Beshears). In other words because coupons allow a small monetary saving a customer may think since I am saving money on this product I have more room to spend on something else, hence the term “mental accounting” (Milkman and Beshears 1). According to a Harvard article on a study on mental accounting and small windfalls in terms of an online grocer retailer, when $10 coupons were issued for the online site consumers tended to buy more than the $10 amount (Milkman and Beshears). Along the same lines, an analysis by Scarborough Research revealed that the national
household average for weekly spending on groceries is $110. In contrast the average weekly grocery bill for “Grocery Coupon Clipping Households” is slightly higher, an average of $114 per week instead of the $110 (Scarborough). The report by Scarborough stated how “Grocery Coupon Clipping Households” are

More likely than the average household to purchase a variety of grocery products
across categories – from pantry staples like coffee and ready-to-eat cereal to
health items such as yogurt and energy/nutrition bars (Scarborough).

Thus, coupons increase the amount people buy for retailers with general formats (bricks-and-mortar stores) and also for non-traditional retailers, like online retailers.

Retailers redeeming manufacturer coupons from consumers can actually pose a threat to retailers. Coupons issued by manufacturers can be redeemed at any store that sells the product; therefore, when consumers use manufacturer coupons “a retailer’s ability to maintain consumer loyalty” is limited (Antil 318). Yet and advantage to retailers for accepting manufacturer coupons is that retailers who redeem manufacturer coupons to consumers gain monetarily. In 2002 manufactures paid $500 million to retailers who redeemed coupons to consumers (Dunne and Lusch 391).

Coupons not only are a promotional tool for both manufacturers and retailers but also a marketing tool that helps build brand awareness to consumers and ultimately possibly brand loyalty (Swanson and Everett 351). Because coupons are distributed through newspaper and magazine inserts, printed directly on newspapers, packages and magazines, consumers are constantly exposed to products creating brand recognition (Swanson and Everett). “People may forget their coupon, but buy the product anyway, because they remember seeing the coupon ad”
(Dunne and Lusch 391). In addition, in most recent time the costs of advertising for example on TV, have gone up substantially; as a result, using promotions instead of advertising is more appealing to manufacturers (Antil 320). And when used together coupons in advertisements seems to strengthen the power of a print ad (Antil 320).

For both retailers and manufacturers coupons allow for targeted distribution (Smith and Schultz 62). The way Swanson and Everett word it is:

*The advantage of coupons is the ability to offer price reductions to those targeted customers who need this incentive to purchase the product. By searching for and using a coupon, consumers self-identify their need for the incentive. Consumers who would purchase the product anyway do not need the incentive and are less likely to use the coupon, and the cost associated with the promotion is not wasted on these consumers”* (Swanson ad Everett 352).

Although couponing for retailers and manufacturers has many advantages there are also many disadvantages. A disadvantage to coupons arises for manufacturers when the objective by the manufacturer is to try to appeal to new customers, yet if current customers are the only one redeeming the coupons the net impact on sales will be insignificant (Levy and Weitz 416). If this occurs there will also be a negative impact on profits since manufacturers must redeem coupons and lose on margin because of discount and also because manufacturers must pay to process coupons (Levy and Weitz 416).

The method for processing CPG coupons is a very old fashioned and tedious process that can take anywhere from months to even years and can be expensive. Coupons usually are processed at clearing houses. Coupons are issued to consumers- consumers then redeem the
coupon at a retailer, retailers then send off coupons to clearing houses where the coupons are counted one by one by people by quantity but also by the value, then a bill is sent to the manufacturer (Bowman 129). The manufacturer must pay a fee to the Clearinghouse per coupon for counting them. Then a manufacturer must pay a fee to retailers for redeeming them, because retailers took the loss initially by redeeming the coupon for the consumer (Bowman Chapter 7).

The average cost per coupon by a clearinghouse to a manufacturer in the category of groceries can be about 15 cents per coupon (Smith and Schultz 83). A company can figure its coupon redemption costs by using this formula circulation x coupon face value (plus clearinghouse charges) x historical redemption percentage = redemption dollars (Smith and Schultz 83). For example, suppose a cereal company circulates 500,000 coupons with a face value of $0.50. The average costs for processing the coupon at a coupon-clearing house is 15 cents per coupon. As mentioned initially in this paper the average redemption rate for coupons is 2%.

Using the above formula, it can be calculated that the amount of dollars needed for the redemption process by the manufacturer is $6,500 (500,000 x (.50+.15) x .02 = $6,500) (Smith and Schultz 83).

Some larger manufacturers, such as General Foods Corporation and Procter and Gamble, issue massive amounts of coupons yearly; therefore, they handle their own redemption because it may be cheaper to own their own redemption center than to utilize a clearinghouse (Bowman 129). Yet there is still the cost incurred of having to invest and maintain their own redemption centers (Bowman 129).

Lastly, by using coupons manufacturers and retailers can be seen as socially
irresponsible. All businesses have a social responsibility to contribute for the greater good of society (Levy and Weitz 160), for example, in conserving the environment. Especially during present time when there is a great going green movement. More and more consumers are becoming educated and are wanting to make wiser choices to try to conserve the environment for future generations. In 2008 alone 195.6 billion pages of coupons were printed on paper (Marx Promotion Intelligence). “According to the World Resources Institute, more than 80 percent of the Earth’s natural forests already have been destroyed” (National Geographic “Forest Holocaust”). The consequences for deforestation are monumental to the future of planet Earth (National Geographic “Forest Holocaust”). One such danger posed by cutting down trees is the increase in global warming which in itself has alarming consequences (National Geographic “Forest Holocaust”).

Consumer Perspective on Couponing

National statistics reported by Scarborough, showed that 27% of all household in the United States use coupons when going grocery shopping at least once or more times a week. In general 41% of consumers use a coupon if they spot it, and 57% intentionally hunt for coupons (Antil 325). The Coupon council claims that consumers can save an average of 20% off their grocery bill (Couponmonth.com). There are many reasons besides the obvious reason of saving money as to why consumers use coupons.

Couponing empowers the consumer by increasing his or her purchasing power. As pointed out in an article written by Ashworth, Darke and Schaller, “…consumes may be able to purchase a product of higher quality than they could not otherwise afford” (Ashworth et al., 296). In addition, it has been the case that consumers especially use coupons during tough economic
times (Swinder). In past economic recessions when people were surveyed up to 54% reported they began using more coupons for grocery items (Swinder). In recent times due to the recession going on in the United States, the use of couponing has increased (Bassett). Mary Heather Hanley a consumer who recently was laid off shared with Abigail Basset from CNN that because she lost her job she had to find ways to cut down expenses. Hanley stated, “I was able to actively save money and make my life easier by couponing” (Hanley qtd. by Basset).

Using coupons has physiological implications; the usage of them simply make consumers feels good about themselves and their purchase. Consumers become excited when they encounter a bargain, and using coupons gives consumers an opportunity for a bargain more frequently. When consumers encounter a bargain or use a coupon they feel like “smart-shoppers” (Schindler 447).

Although many consumers enjoy the savings from coupons there are many consumers that do not want to deal with the hassle of clipping, storing and searching for coupons at a point of purchase. The fact of the matter is that using coupons is not convenient. One of the findings in a study from the Department of Economics from the University of Nevada to find “the determinants of coupon usage” was that “consumers are more likely to use coupons if they use a shopping list, look at advertisements [and] compare prices…” all which is very time consuming (Cronovitch et al 1640).

There can also be negative social consequences associated with redeeming coupons (Ashworth et al. 205). Historically, there is a stigma associated with couponing (Basset). A recent poll reported that one consumer out of every five is “uncomfortable using coupons at the checkout” (Basset). Today it has become important for consumers to display their social class
and wealth by their purchasing behaviors (Argo and Main). The success of Starbucks in today’s society goes to prove that consumers do not mind spending a large amount on coffee just to have the association with being able to afford Starbucks (Argo and Main). In consequence, when a person is seen using a coupon other non-coupon users see that person as either cheap, a penny pincher or financially poor (Argo and Main). The article, “No one wants to look cheap” reports findings that consumers are worried about the negative implications associated with coupons and do not want to give off an impression of being cheap (Ashworth et al., 295). According to impression-management theory, people act certain ways to try to control what positive impressions they give off to others and try not to give off negative impressions (Ashworth et al. 295). In this case, in order to avoid this stigma many consumers opt to not redeem coupons; that may be why redemption rates for coupons are at about 2% (Argo and Main).

Future of Coupon Usage

Coupons continue to be issued by the billions every year; thus, this is evidence enough that besides the negative advantages associated by coupon distribution and usage consumers and manufacturers are still very much interested in couponing (Antil 325).

Coupons are widely distributed on the web now. Which is an advantage to both retailers and manufacturers allowing them to save money on both execution and delivery of coupons (Reyes). It also becomes easier to simply email coupons to specific targeted consumers and to keep large databases of consumers. Consumers also benefit from the advent of using online coupons; they do not have to spend time searching and clipping for coupons if they are sent directly to their Inbox. Although online couponing brings forth some advantages, only a small
proportion of consumers are taking advantage of online coupons (Reyes). The majority of consumers 88% to be exact, still obtain coupons from clipping out of the newspaper (Reyes).

In addition, to coupons going on the web coupons are going mobile. New technology is being implemented to send coupons to consumer’s cell phones (Reyes). Another promising technology for couponing is Near Field Communication Technology, which is “a new wireless communication technology integrated in new credit cards, USB key chains, mobile phones, point-of-sale terminals and other devices” which allows consumers to have a mobile wallet (mobifetch.com).

As means to try to positively enhance and facilitate the use of coupons for manufacturers, retailers and consumers, Contactless Data Inc. has taken advantage of this technology to build a digital promotions platform for manufacturers where they can distribute their coupons digitally and be connected to consumers directly at point of purchase (Mobifetch). This new technology is called Mobifetch. Mobifetch is a digital wallet that holds consumers credit card information as well as allows consumers to download coupons into a flash drive or some sort of portable device possibly be a chip on a card or on a cell phone.

This new technology proposes many advantages to manufacturers and retailers. Manufacturers and retailers can save money on creation and distribution of couponing and also cut out the whole long tedious redemption process when customers at local retailers redeem manufacturer coupons. With this new technology manufacturers or retailers could just with a click send coupons to millions of consumers. Also, the costs to clearing houses for processing coupons that manufacturers have to pay would be eliminated from the equation because since the technology is all digital when manufacturer coupons are redeemed at a retailers register
information will be sent directly to manufacturers on exactly what coupon was redeemed and will keep track of how much it has to pay to the retailer. (Mobifetch)

By using this new technology the consumer benefits as well. This technology is easy to use. Coupons are sent to consumers and all stored in the mobile device. At point of purchase the consumer simply swipes his or her devise and all discounts that apply to their purchase are redeemed. As a result, consumers neither have to deal with the hassle of clipping storing and remembering to use coupons, but also they do not have to deal with the stigma associated with holding up a line at a grocery store while redeeming coupons. The technology is fast convenient and private. (Mobifetch)

Thus with such technologies emerging the future of couponing looks very promising. Consumers, manufacturers and retailers will be able to benefit from all the advantages of couponing while eliminating the negative disadvantages.
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