

What Really Drives Coupon Redemption

An Industry White Paper by Inmar VSI Promotion Consulting

September, 2009



Copyright © August 2009 Inmar

All rights reserved.

No part of this publication may be reproduced in any form without written permission from Inmar. Inquiries regarding permission for use of the material contained in this book should be addressed to:

Inmar
2650 Pilgrim Court
Winston-Salem, NC 27106
336-631-2660

Disclaimer: These documents do not constitute legal advice. Inmar advises all reviewers to seek advice from legal counsel based on specific business needs.

You've probably asked: "What kind of redemption should I expect for this coupon?" While it's a really good question, it hardly has a quick and easy answer. In fact, this kind of question usually leads to even more questions before any answers emerge.

That was the reason for a recent Inmar VSI Promotion Consulting study into the relevant factors contributing to coupon redemption. After examining the context and results of over 3,750 offers distributed over a 6-year period, the research found 12 factors with varying levels of influence.

The bad news is that, as you might expect, the original question – "What kind of redemption should I expect?" – was often answered with a question or even a series of questions. The good news is that the Inmar VSI team through its research offers guidance on what your answers to those questions actually mean for coupon redemption.

In this paper, the first of a series on the factors affecting coupon redemption, we provide an overview of each of the factors and provide guidance for evaluating these factors for your coupon programs.

A Word about Methodology

The study examined over 3,750 individual coupon offers distributed from 2002 – 2007. These offers represented a wide range of product categories, including: refrigerated, frozen dry grocery, dairy and health. All offers were distributed via free-standing inserts (FSIs).

With limited visibility to the overall effectiveness of a promotion, Inmar VSI used two metrics to evaluate the relative success of a coupon: CPUM (the cost per unit moved where "cost" includes distribution, face value, redemption and handling) and redemption rate (coupon redeemed divided by coupons distributed).

The Points of Impact

The research conducted by Inmar VSI pinpointed 12 specific factors that influence the redemption of a coupon. They are:

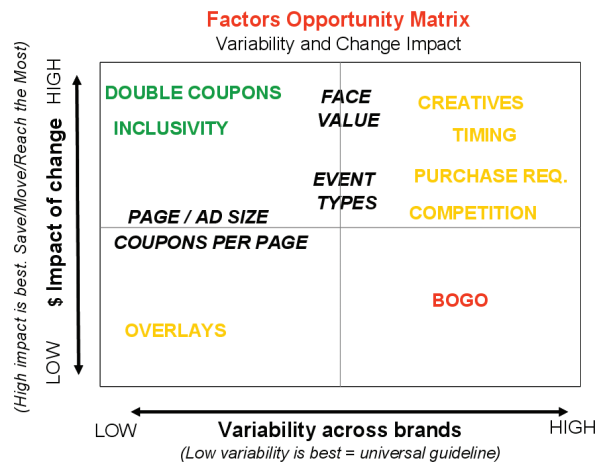
1. **Face Value.** Conventional wisdom would indicate bigger values are better. That may be true, to a point, but values over a dollar don't seem to offer proportionally bigger redemption. Also, depending on the brand's coupon value elasticity, lower values may still pack an adequate punch for much less cost.
2. **BOGOs.** While a buy-one-get-one (BOGO) offer may be more valuable, consumers may or may not do the math to realize how good of a deal they're actually getting. Also, these kinds of promotions are usually more expensive than "cents off" promotions, driving up the cost per unit moved.

3. **Double Coupons.** Over 60% of available FSI circulation hits a market with at least one major retailer who “doubles” coupons. Understanding and leveraging doubling policies and actual practices can impact promotional success.
4. **Coupons per Page.** Putting a single coupon on a page keeps the consumer focused on a single brand or product and distributes the promotion at an overall lower cost. Conversely, multiple coupons on a page may divide attention, but can be much more efficient, delivering a lower cost per unit moved (CPUM).
5. **Purchase Requirement.** The number of purchases required for a consumer to use the coupon will weigh in on the result. But how much this characteristic will weigh in depends on the brand and the consumer’s buying patterns and objectives.
6. **Event Types.** Solo brand events perform differently than grouped events (e.g. corporate events, tie-ins and Masterbrand events) that include multiple brands or product lines. The differences are attributable to cost allocation (spreading costs across brands and product lines), higher potential for creative clutter and brand power (leveraging a powerful brand across a wider range of brands or products.)
7. **Page Size.** Demanding different amounts of attention, larger or smaller ad pages will influence consumer response. The half page versus full page choice offers a sharp contrast between an efficient tactic (lowest cost per unit) and a high-volume tactic (highest number of coupon redemptions).
8. **Overlays.** The presence of other promotions such as contests or recipes may have an impact on redemption. The length and continuity (a one-time offer versus the annual recurring event) of the overlay campaign may make a difference as well.
9. **Competition.** Do you preempt the competition or not? Depending on brand strength, pre-emption can make a big difference in the result of the promotion.
10. **Creative.** Some elements, such as a cluttered ad or a confusing offer, will guarantee poor response. Others, such as relevant testimonials or simple usage ideas, may improve the likelihood of success.
11. **Inclusivity.** Whether the coupon is good on the brands’ entire product line or a specific subset of the product line could make the difference in consumer response. Likewise, complicated offers that require the purchase of several different products will perform very differently from a simple “cents-off-of-one” promotion.
12. **Timing.** Heavily influenced by a brand’s seasonality, the time of year in which the coupon is dropped could make the difference in an efficient and effective promotion.

Not All Factors Are Equal

Of course, this is hardly a comprehensive list of factors that impact redemption. Everything from the state of the economy to the weather can play a role. This list is, specifically, a list of the factors over which you have some measure of control.

However, even these controllable factors are not equal. This opportunity matrix plots each factor in quadrants based on a rating of potential sales and savings impact and a measure of the variability of factors across brands. High impact indicates a high savings potential coupled with strong sales increase potential – with potential for savings and sales decreasing as you move toward the low impact rating. Low variability indicates that brands behave in a similar way for the factor regardless of the market situation or brand strength. High variability means a brand’s behavior on a given factor is much less predictable.



In other words, working with factors in the High Impact + Low Variability quadrant (upper left) may offer the most opportunity for a more predictable success.

Of course, the key is that brands do behave very differently. There are some rules of thumb, but it is important to review, evaluate and understand your brand’s history and market environment when trying to apply these learnings.

That’s exactly where Inmar VSI Promotion Consulting can help. Inmar VSI’s promotional assessment service integrates all of the various data points including coupon history, brand/category development, double coupon policies, retail penetration, coupon-prone markets, pricing, demographics and much more. The result is true coupon optimization and answers to your tough questions about how your promotional program will perform.

Contact Inmar VSI Promotion Consulting at (336) 631-2660 or info@vsitargeting.com for more information.

Parts 2-4 of this series will offer an in-depth examination of these factors.