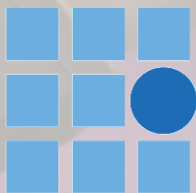


# Reinventing Coupons: Strategies for a Successful Coupon Campaign



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## Reinventing Coupons: Strategies for a Successful Coupon Campaign

Coupons are recognized to be a highly effective sales tool for all businesses. In 2012, marketers distributed around 310 billion valued coupons at \$484 billion. Today coupons affect commerce in much more powerful way than ever before and coupon deals have become a cutting edge promotion tool. Marketers view coupons as an efficient way to influence the smart newer generation of busy consumers. NCH Consumer Survey data shows that in 2012, 79.8% of American consumers used coupons regularly. It is likely that consumers will continue to look out for coupon savings in future.

### Dual Nature of a Coupon Campaign

Issuing coupons can be a win-win situation for both customers and businesses, but a poorly planned coupon promotion may hurt margins. Businesses intending to launch a coupon campaign should understand the dynamics of a coupon and how coupons can affect revenues both in the short-term and in the long-term.

### Coupons are a Great Tool to Attract New Customers

Coupons affect buying patterns of a consumer in a profound way. A well-planned coupon distribution campaign can drive sales higher, increasing ROI. Coupons can acquire new customers and influence existing ones to spend more.

Promotional offers not only allow customers to save money and reduce risk to try new products but also improve brand image. A research by Forrester (Impact of Online Coupons and Promotion Codes, 2011) found that more than 90% of online consumers accept that availability of a coupon closes the deal for them when they are skeptical about the purchase. Ideally, retailers would like to offer coupons only to this coupon-prone segment of the market.

### Revenue Cannibalization is Inherent to Coupon Promotion

A coupon campaign can lower profits because some customers who could buy at regular prices actually do so at promotional prices. The effectiveness of coupon campaign increases when a company limits bargains to passive customers.

Tech-coupons (dropping digital coupons) has also diminished business security against revenue cannibalization that coupon redemption will be limited. Coupon replication and manipulation leading to unbudgeted redemptions poses a threat to the retailers.

To maximize profits and minimize cannibalization, coupon design is critical.

# Unearth the Secrets of Coupon Design





## Coupon Design: The Game Changer

### Clarity on Marketing Goals Leads to Success

Marketers use coupons for variety of purposes. Clarity on marketing goals of a company helps to design a profitable coupon campaign.

- Coupons provide customers with an incentive to try a new product but permanent addition is going to be driven by customer experience, not the discount.
- Coupons can reward existing customers, reactivate old customers and prevent them from shifting to other brands. Up-Sell coupons, Reward coupons and Come-Back coupons are used to generate business from regular customers. These coupons would not be useful if the objective is to look for new customers.
- Cross-sell coupon promotes both addition of new customers and customer retention. But the objective here is to move a certain product or a product combination.

### Know the Customer: Business Cannot Grow Without Them

The objective of a coupon campaign is to moderate hesitation, consumers have before purchasing a new product. Though mostly, hesitation is about price, it can also be about others. If it is about others, a coupon campaign will not produce the desired result.

### Coupon's Life is Not About Living Long; It is About Attracting Customers

After a coupon is dropped, sales vary as time progresses. Coupon sales increase for some time after and then slowly decline over the coupon lifetime. Similarly, for the coupon-indifferent segment, promotional value of coupon decreases as time progresses. After a certain time, it is not reasonable to expect more coupon sales. NCH Marketing Services research shows that for comparable set of brands, expiration periods greater than 12 weeks

have 21.5% more redemptions and 17.4% more new buyers than that of expiration periods less than 12 weeks. This shows that customers prefer longer expiration period. Expiration date of a coupon will vary depending upon the nature of business, advertising, mode of distribution and face value of the coupon and expected redemption rates.

**Tactic:** The time at which additional sales ceases should be the expiration date for maximum redemptions. Validity period should be long enough to create the desired buzz in the market, but it should not be very long since shorter periods create a sense of urgency in the mind of the customer and entices them to purchase the product.

### Optimize Face Value to Attract Target Segment

Face value of a coupon segments pricing based on willingness to pay. The basic idea is to sell the product at customer's valuation as long as business can protect margins. Face value should be set such that the gain to the targeted customer on using the coupon is more than the disutility from the redemption procedure.

## Face Value of a coupon segments pricing based on willingness to pay.

**Tactic:** High face value makes coupon more attractive for the customer. It encourages her to try new products and services. But face value should not be too high as that would lead to decreasing profit. The face value offered should not

compensate the usage cost of customers who could buy at regular price, but the discount must be sufficient to give hesitant prospective customers incentive to use a coupon.

### Choosing Between Multiple Purchase or Single Purchase Coupons

Logic suggests that making people buy more increases ROI. But historical data shows that shifting to single purchase coupon increases redemption by 10-33% (NCH research). This indicates customer's displeasure with multiple-purchase coupons.

**Tactic:** Multiple-purchase offers may lower redemption rates but the proportion of new customers among the redemptions is very high. This is a handy strategy as it limits the redemption rates, adds promotion value and attracts new customers. Multiple-purchase coupons are used to up-sell or cross-sell products.

### Distribute Just the Right Number of Coupons

**Tactic:** Decide number of coupons after looking at expected redemption rates for a particular face value and expiration period combination. Be sure to set the minimum number of sales high enough to reach the break-even, but limit the maximum sales to prevent revenue cannibalization.

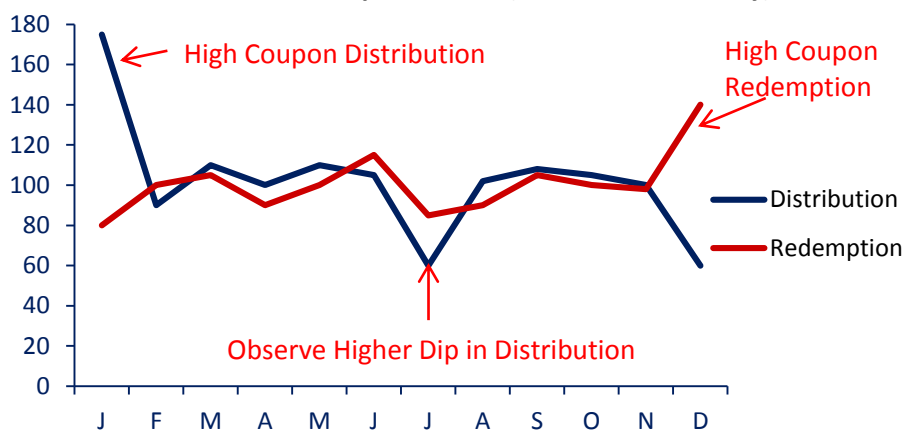
### Timing Matters: Important Ingredient of a Coupon Campaign

**Trend:** Usually coupons are released in a repetitive cycle, with distribution being concentrated in January, early spring and early fall. These are New Year, Easter and Back-to-School time respectively. Redemption is also cyclical but a little flatter when compared to distribution. As expected redemption curve lags behind that of distribution. Changes to distribution pattern will have little effect on redemption.



The use of digital coupons will continue to rise as the adoption of mobile web technology increases.

**Cyclical Nature of Distribution and Redemption Index (2008-2012, Monthly)**



Source: Inmar Report on Coupon Trends, 2012

**Tactic:** It is a good idea to distribute coupons as month ends because there is more money flow at the start of the month; this helps marketers to achieve their monthly targets. Companies can save advertisement costs by timing coupon release in periods of no advertisement. This strategy can provide desired promotion in an economical way.

**Effective Distribution can Multiply the Success of a Coupon Campaign**

Effective distribution makes sure that coupon reaches potential customers. There are several ways to distribute coupons: Free Standing Insert (FSI), Handout, On-Pack, In-pack, Newspaper, Magazine, and Online. More than 90% of the distributed coupons are Free Standing Insert. We suggest following method of distribution for respective marketing objectively.

Online distribution of coupons is on the rise. In future, more coupons will be distributed through technology platforms. These platforms have many advantages like low overhead cost, wide exposure, customer friendly and higher profit potential. But online coupons may generate only transactional customers.

### Suggested Method of Distribution for Different Purposes

Objective	Method of Distribution
New Product Trail <i>Need to reach out to new customers widely</i>	Newspaper, On-Shelf, Handout, Internet, FSI, In-ad, and Social Media
Future Purchase <i>To entice customers to come back</i>	In-Pack, On-Pack, Bounce back, Direct Mail, and Check-Out
Brand Switching <i>Making offers as noticeable without disturbing customers</i>	On-Shelf, Handout, Newspaper, Internet, FSI, In-ad, and Social Media
Target Specific <i>Increase sales by targeting most probable segment</i>	Direct Mail, Magazine, Handout, e-coupon, and Military
Advertisement <i>Driver: Only promotional intent</i>	In-Stream Video, Newspaper, and Social Media
Clearance <i>Reaching out to maximum customers with minimum costs</i>	On-Shelf, FSI, Internet, and Social Media

### Conclusion

Coupons present an exciting new opportunity to target customers with highly customized offers. Customer usage determines the quality of a coupon campaign and coupons that do not turn into sales are worthless.

Coupons provide a better control over customers and profit making opportunities for business. But, if the managers are not careful with the design and timing of the coupon campaign, coupons can have negative impact on business performance. Perceptive Analytics identifies face value, expiration date, purchase requirement, timing and distribution of coupon as the most critical factors in optimizing a coupon campaign.

## Perceptive Analytics

Perceptive Analytics is a Data Analytics company, offering specialized services in Marketing Analytics, Web Marketing Analytics, Financial Modeling and Spreadsheet solutions. We serve medium to large sized companies in USA, India, Australia, Europe and Middle East.

We provide analytics solutions for optimizing marketing decisions. We offer solutions such as demand forecasting, promotion modeling, mark-down optimization, customer segmentation, and competition analysis. We adopt the right strategy and create marketing edge so you can create winning products, enhance sales and convert traffic into customers.

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