

LEVERAGING COUPONS AND INCENTIVES IN A RECESSION

A Conversation with
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Chief Marketing Officer
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Meaghan Schaefer joined edō Interactive in July 2008 as the company's Chief Marketing Officer. She is responsible for introducing edō's revolutionary marketing platform to innovative brands and building edō's distribution channels. Meaghan brings more than 15 years of strategic management and marketing experience to edō with specific expertise in Financial Services and IT. Prior to edō she spent 10 years at the Corporate Executive Board leading client acquisition and opened the firm's San Francisco office. Meaghan has an M.B.A from Harvard Business School and a B.A. from Stanford University.



As marketers, we obviously have a host of channels that are available to deliver our message to consumers to drive sales. Are coupons still a relevant medium to accomplish this?

Coupons provide an immediate and tangible incentive for consumers to shop. Coupons are particularly relevant and effective in today's environment.

First, we cannot go a single day without being reminded that we are in a severe recession. It is a time when consumers are more cost conscious and frugal in their spending habits. Unlike television, newspapers, or print ads, consumers think of coupons as free money, and coupons are therefore more likely to motivate purchasing behavior when money is tight.

Second, we've seen a dramatic advancement in technology, especially as it relates to coupon delivery. This means coupons can be issued and redeemed electronically without the need for a lot of the complex processes that have existed in the past. The available technology makes it easier for marketers to target specific consumer profiles and better understand consumer spending habits.

It allows for a more personalized issuance and analysis of coupon spend data (Figure 1).

Particularly in this economy, we are getting a lot of questions about how to get the most out of promotion tactics. Can you expand on that?

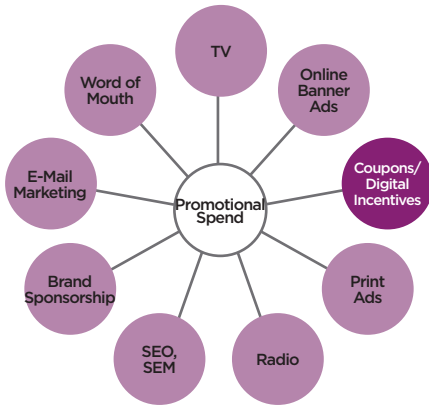
It is actually a pretty simple equation: When the economy is down, coupon use goes up. Coupons are used quite often during a recession. Only 25% of the adult population reports that they never use coupons, and almost 50% of the adults surveyed said that coupons influence them to shop more than any other form of advertising.

In the fourth quarter of 2008, coupon usage Web sites became immensely popular. These sites allow consumers to select and print coupons for redemption online or in the store. Coupon sites were ranked as the Web site category with the highest growth in usage, reaching 35.6 million visitors in November 2008. That is higher than all other forms of retail, including jewelry, department stores, home furnishings, and online gambling.

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Figure 1.

Coupons as a Part of the Promotional Mix in Today's Economic and Technological Environment *Coupons Should Be Elevated Alongside Other Types of Media*



During a recession, 54% of adults reduce discretionary spending, and 63% do not make a purchase if a deal is not available. In 2008, 44% of adults said coupons influenced their decisions to go to a retail location, which was more than any other form of advertising. If we take all forms of advertising together and ask the question, “What influences you in your decision to go and shop in a store?” consumers will tell us that it is coupons. The questions to ask ourselves then become, “Are we taking advantage of this opportunity? Are we as marketers really making the most of it?”

It seems from your data that coupons are extremely effective. Yet many marketers shy away from using them. Why do you think that is?

The best explanation that we’ve obtained from our research and interviews as to why marketers have de-emphasized coupons as part of their promotional mix is that they’re complicated, costly, and can be particularly inefficient in terms of their traditional distribution and redemption methods. Coupons usually require a complex

Key Coupon Drivers

1. **Poor Economic Environment**
 - Consumers turn toward economizing behaviors during a recession.
 - Coupons/digital incentives are an optimal promotional tactic under these conditions.
2. **Technological Advances**
 - Coupons can now be issued and redeemed digitally without the need for complex processes.
 - Consumer behavior can be better targeted, tracked, and analyzed.

interchange of money, data, and the actual coupons themselves between the manufacturer, the retailer, and the consumer.

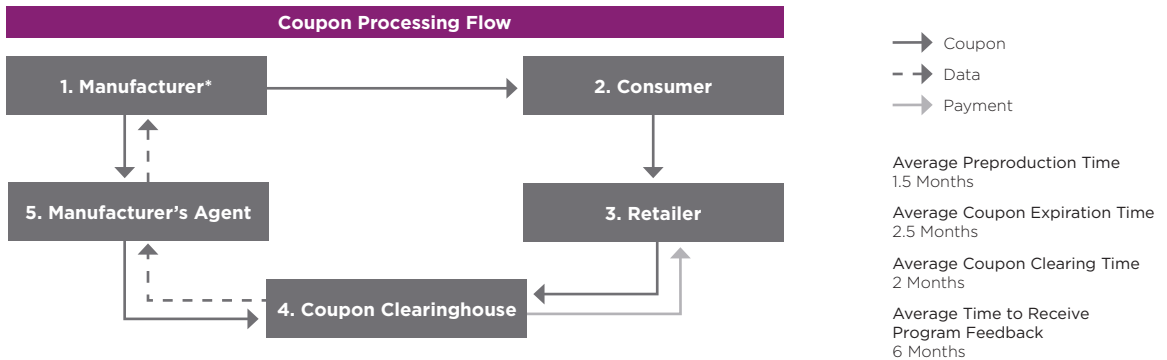
The good news is that we’re seeing a change in trends and in the evolution of couponing. There’s been a lot of innovation on the horizon. When we have the technology that exists and overlay it with the economic climate, the ability to overcome many of these pain points is far less difficult (Figure 2).

How has technology changed the game in terms of learning purchasing behavior?

Technology makes it possible for U.S. marketers to micro-target their consumer base and to monitor their purchasing behavior very precisely. It allows us to target, issue, track, and analyze coupon delivery across various demographics including age, gender, and income (Figure 3).

In the **First Generation**, we saw coupons evolve and revolutionize. They began as paper—manually processed incentives. These obviously had many

Figure 2.
How Coupons Work



* The manufacturer may also be the retailer, in which case the retailer assumes the manufacturer's pain points as well.
Source: <http://www.santella.com> (March 2009); <http://www.howstuffworks.com/> (March 2009); edo Interactive Analysis.

limitations, as delivery and processing are both costly and time consuming.

In the **second generation**, we began to see the digitalization of coupons. Manufacturers and retailers could avoid the cost and distribution time, and the digital coupons were much easier for consumers to use. Yet consumers still needed to proactively search for and download the coupons, and retailers had trouble targeting their consumers, which made them less effective.

The **third generation** brought to light the use of aggregator sites (manually customized or printed coupons and mobile phone coupons accessed and processed via cell phone), and closed-loop loyalty cards (coupons sent directly to a user's card so that no effort is required). The benefits are clear. Consumers are able receive coupons from thousands of retailers and can customize and target which coupons they're receiving. They can select a particular set of retailers or store categories about which they want to be notified at

any time those kinds of offers come up. So it really brings to the marketplace both a push and a pull that hasn't existed before.

The flip side is that the redemption of these kinds of coupons is still a little bit challenging. Retail and store clerks need training and software needs installing. Then there is text messaging and being able to successfully narrow the message to what consumers want to receive. These coupons are primarily limited to grocery currently, but we are seeing an uptake in the number of mobile coupon sites that are available.

The **fourth generation** is still emerging. The goal of the fourth generation is to offer the potential benefits of the third: ease of use, analytic capabilities, and the redemption tracking mechanism, but do it in a single swipe. The limitation is just that there's a lack of availability of this kind of card and technology, but it is certainly where we think the market is headed.

Figure 3.

Revolutionizing the Coupon Game

First Generation	Paper Coupons: Manually clipped, manually processed
Second Generation	Coupons with Barcodes: Manually clipped, digitally processed Online Printable Coupons: Manually printed, digitally processed Promotional Codes: Manually input, digitally processed
Third Generation	Aggregator Sites: Manually customized/printed/input, digitally processed Mobile Phone Coupons: Digitally accessed and processed Closed-Loop Loyalty Cards: Digitally accessed and processed
Fourth Generation	Open-Loop Incentive Card: Universally accepted, incentive and payment method combined, digitally customized, automatically redeemed

Would you say that certain coupon generations are more compatible with different age groups?

Coupon cutting is not just for the elderly anymore. Our data shows that coupon usage is widespread across all age groups and across both genders. Two-thirds of adults say they're more likely to use coupons in a recession. Interestingly, coupon usage is fairly income agnostic during a recession. We found that about 68% of those that earn less than \$50,000 said they are more likely to use coupons in a recession and 67% of those earning more than \$50,000. This means that U.S. marketers have an enormous opportunity to take advantage of high receptivity to coupons across a wide range of ages and income levels.

What is surprising to many people when they see this data is that it's actually that youngest age group, 18–34, that has the highest percentage increase in coupon use during a down economy.

The 18 to 34-year-olds are changing their coupon usage because of the availability of those digital incentives. Think about the opportunity to find a good deal; think about the technological savvy that these consumers hold, and maybe it's not so surprising that it is the 18 to 34-year-old group that shows the greatest increase in coupon usage during a recession. There is absolutely no doubt that it's the younger generation that's fueling the current coupon boom.

“The 18 to 34-year-olds are changing their coupon usage because of the availability of those digital incentives.”

Can you discuss targeting the Millennials?

We define Millennials as the optimal demographic for coupons and digital incentives. This is a group that's using multiple technologies concurrently and in all aspects of their daily lives, technologies such as cell phones, digital cameras, e-mail, text messaging, instant messaging, PDAs, MP3s, video games, blogs, and Internet. This is a group of people who watch TV on their computer and read e-mails on their cell phones (Figure 4).

One thing we know from research on Millennials is that they're open to trying new things, and coupons are especially effective in encouraging this trait. Our research shows that 77% of Millennials are more likely to use coupons if they're paperless, digital incentives.

We also know that if Millennials like something, that message travels fast through their social network. Their friends know immediately when they're trying something new and if they like it. It's important to remember that if there is a group that is or should be the target for digital incentive offers, this is it.

We like to think of the parents of Millennials as an added bonus. Half of Millennials see their

parents every day; 45% of them talk with their parents daily, and almost all of them do so weekly. This demonstrates a strong tendency to share opinions. Parents of Millennials have adopted technology faster than any other group that we've seen of that age. The influence on spending that Millennials have—not just of their own but of their parents—is \$600 billion to more than a trillion dollars a year.

College-age kids of today are more connected and in touch with their parents than any other group in history, and by virtue of the fact that Millennials are so closely connected with their parents, it now makes Millennial parents an additional optimal target for digital incentives.

By targeting Millennials, we absolutely have the unexpected or maybe unintended benefit of also being able to reach their parents. This opens up a potential spending market that's three, four, or even five times the discretionary spending than Millennials alone.

With today's data, advancements in technology, and economic climate, along with the fact that Millennials have spending power unseen heretofore by this age group, the Millennial market couldn't be anything other than the optimal demographic for digital incentives.

Figure 4. Understanding Millennials and Why They are a Receptive Target

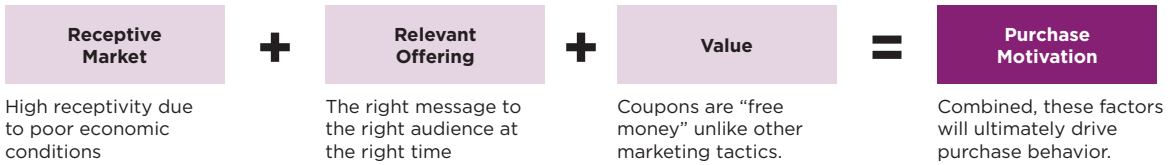
Millennial Fast Facts

- 18–24 years old
- Empowered, connected, tech-savvy
- 97% own a computer.
- 94% own a cell phone.
- 76% use instant messaging.
- 28% author a blog; 44% read blogs.
- 75% of college students are on Facebook.
- Take 2.5 trips to mall/month
- Visit 200 stores/year
- Spend \$20 billion of their own money and influence spending of \$600 billion per year

This demographic is surrounded by instant gratification technology and digital media. They have many small items to buy online (e.g., iTunes songs, Facebook gifts) and need a safe, age-appropriate and “plastic” payment mechanism.

77% of millennials said they are much more likely or somewhat more likely to use coupons if they are paperless.

Figure 5.
Summary of the Opportunity



We can summarize the opportunity with this simple formula: **receptive market + relevant offering + value = purchase motivation** (Figure 5). This formula is going to be true for any form of marketing or promotion, but if we think about it specifically for the coupon, it is particularly poignant.

Being able to segment our market, provide the right and targeted message to the right audience at the right time, and provide consumers with something that is free money means we’ve got a marketing vehicle that is as good or better than any other in our arsenal.

Ultimately, the key to all of this is our ability to segment the data for our products and brands. The importance of knowing who is using the coupons, and when they’re using them, is key. That is how we are going to craft the better offer to motivate the kinds of behavior for which we’re looking, and that is really a win for everyone (Figure 6). ■

Figure 6.
Key Questions to Consider When Choosing a Coupon Delivery Method
Marketers Should be Able to Answer “Yes” to Most of the Following Questions

	YES/NO
1. Is the program extremely easy for consumers to use?	✓
2. Is the program extremely easy and low cost for manufacturers and retailers to use?	✓
3. Is the program all-digital and “green,” thus avoiding printing materials and costs?	✓
4. Does the program have a mobile component to leverage the ubiquity of cell phones?	✓
5. Does the program allow for complete control so that fraud and viral spreads are not possible?	✓



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