

The Coupon Comeback

April 13, 2010

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SUMMARY: Once on their way to extinction, coupons made a strong resurgence in 2009. While they offer consumers a chance to stretch their dollars further, they also offer real growth opportunities for retailers and manufacturers—if they know exactly who to target and how to leverage established and emerging coupon delivery vehicles.

Back to the Future

People of a certain age may nostalgically recall the sight of mom flipping through the Sunday newspaper to clip coupons from the numerous inserts stuffed in the paper. She may have even had a little envelope or “coupon caddy” organized by product category. This kind of memory tends to be among those of us who are baby boomers or Gen Xers—a quaint recollection from the previous century. Indeed, coupon redemption hit a peak in 1999: 4.6 billion, as reported by Inmar.

Since then, it’s been downhill for the humble coupon. During the three-year period ending 2008, annual manufacturer coupon redemptions leveled off at just 2.6 billion per year.

The “Great Recession” of 2009 changed all of that and marked a sort of renaissance for the coupon. Inmar reports that coupon redemptions grew by 27% as Americans searched for ways to cut household costs and get more for their money. NCH Marketing Services claimed 2009 coupon redemption levels “achieved the second highest year-over-year growth ever recorded.”

Paperless Progress

While newspaper inserts are still the primary method of coupon distribution (89%) and redemption (53%), Internet redemption growth has skyrocketed, rising 263% in 2009.

And while clipping continues to be a primary means of distribution, manufacturers and retailers launched new ways to get coupons into consumers’ hands such as printable coupons on the Internet, in-store kiosks and discounts linked to frequent shopper cards via smartphones and computers, negating the need for a paper coupon at all. In short, it is easier than ever to distribute and use coupons, and this convenience is also a key driver of redemption growth.

Top Redemption Growth Methodstop 10 with significant redemption	
Method	Redemption Growth
Internet	263%
Direct Mail	69%
Magazine Pop-up	51%
Instant Redeemable	48%
Direct Mail Co-op	45%
Electronic Checkout	39%
Free-standing Insert	36%
Digital Promotions	31%
Shelf Pad	30%
In-ad	27%

Source: Inmar - 2009

Inmar reports that the majority of coupons were redeemed at conventional grocery stores (65%), but all classes of trade—dollar stores, mass merchandisers, convenience stores, military commissaries and drug stores—posted double-digit redemption growth:

Category	Redemption Growth	Share of Redemption
Dollar/Discount/Variety	71%	1%
Mass Merchandiser	26%	20%
Conventional Supermarket	20%	65%
Pharmacy	16%	6%
convenience	12%	4%
Military Commissary	12%	4%

Source: Inmar

Redemption growth outside of traditional food channels is a reflection of a coupon movement that started with food, but quickly turned to non-food in the second half of 2009. Non-food coupon redemption growth escalated from a rate of 9% in the first quarter to 46% in second quarter and continued growing throughout the year—rising 45% in third quarter and 37% in fourth quarter. A total of 1.2 billion non-food coupons were redeemed in 2009, representing one-third all coupons.

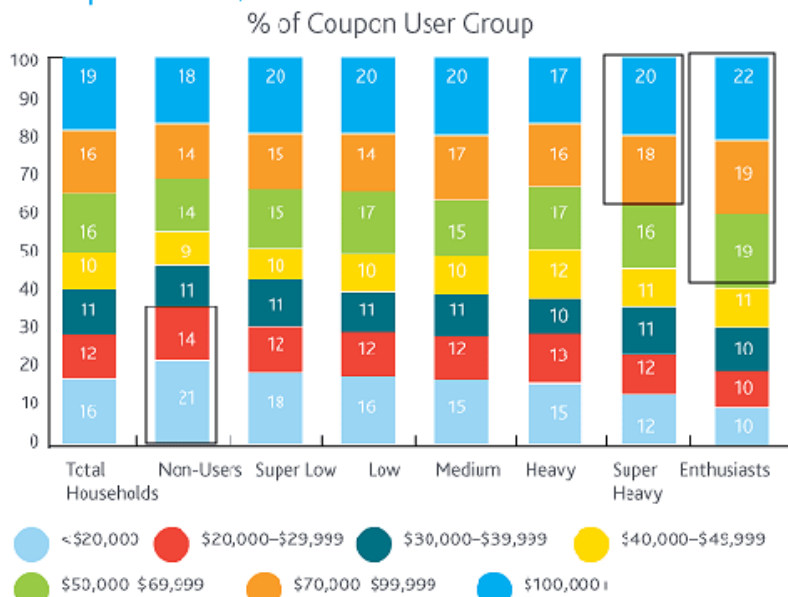
80/20 Rule in Play

While the recession drove heavier coupon usage across low to heavy coupon users from 2008 into 2009, all but the heaviest coupon user group experienced negative total unit growth (with and without a coupon). All told, 83% of units purchased with manufacturer coupons in 2009 were done so by just 22% of households. Coupon enthusiasts—the heaviest users—accounted for 65% of manufacturer coupon unit purchases and 18% of *all* unit purchases in 2009. They drove a disproportionate amount of sales and sales growth—shopping more frequently, making 1.7 more trips than non-users and buying more (a rate 1.8 times greater annually). While some might think that “crazed coupon clippers” are only interested in a good deal, these findings suggests real benefits to manufacturers and retailers deploying coupons in their marketing mix.

More Money = More Coupons

With the value offered by coupons, one might think that the lowest income households would be among the heaviest users. In fact, more affluent households dominate coupon usage: 38% of “super heavy” users and 41% of “enthusiasts” come from households with incomes greater than \$70,000. Households with income of \$100,000 and up were the primary drivers of coupon growth in 2009. The enthusiast category also attracts a disproportionate number of households with incomes between \$50,000 and \$69,900.

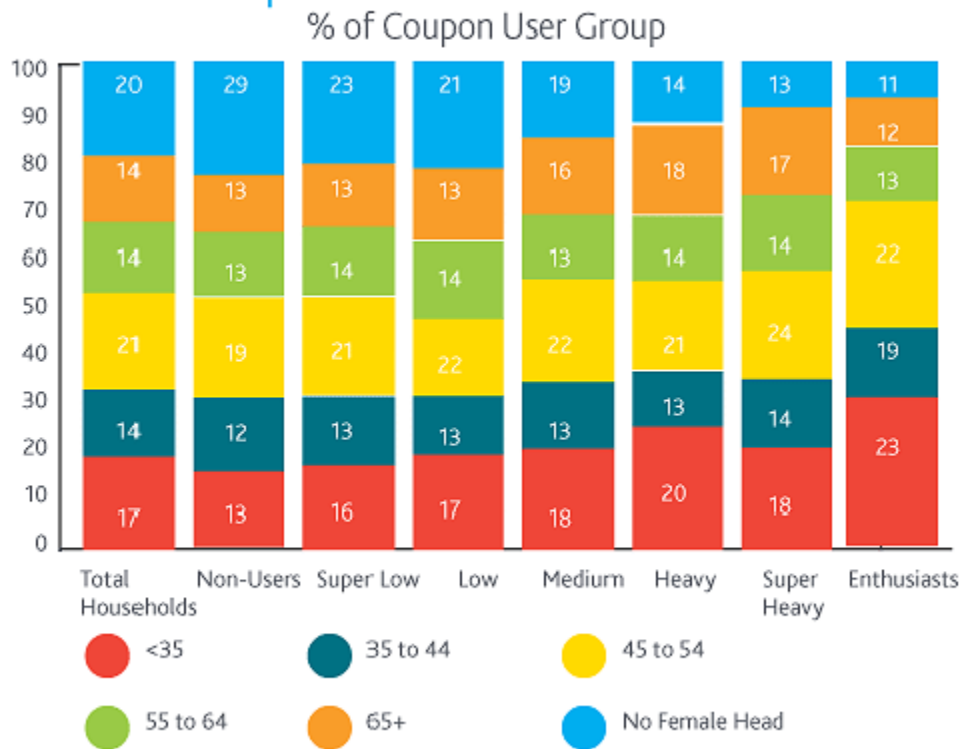
Affluent Households More Apt to be Heavier Coupon Users, Non-Users Lower Income



Trends relating to newspaper readership provide some explanation for this imbalance. According to Scarborough Research, better educated and higher income households buy and read the newspaper more than others and newspapers remain a key vehicle for delivering coupons. Additionally, promotions are generally targeted in areas with more affluent consumers. In essence, the better educated and more affluent consumers are much better at looking for deals as they recognize the value of money.

Beyond income levels, more than half (51%) of larger households (3+ members) are “enthusiasts”, while roughly one-third of non- and lighter coupon users are single person households. Younger female households use coupons more, while male-only households use them less. Older users (65+) are also important “heavier” and “super” coupon users.

Younger & Older Female Household Heads Heavier Coupon Users



Source: The Nielsen Company, Homescan, upc-coded purchases; 52 weeks ending 12/26//09; all outlets

All ethnic groups use coupons, but three-fourths of the average coupon “clipper” is white. Households residing in comfortable country and affluent suburban spreads are more likely to be heavier coupon users, while non-users are more apt to be those households living in rural areas and struggling urban core areas.

Manufacturers and retailers have real opportunities to reach different groups with coupons and promotions, particularly African-American and Hispanic households. While this may require adjustments to existing tactics, the potential pay-off—in terms of volume growth and winning new customer loyalty—can be significant.

Future Look

As the economy improves, will consumers continue to use coupons? With the economic recovery taking hold slowly and without significant employment growth, expect coupon use to continue. As long as Americans feel unsure about their personal finances or confident about their jobs, they are going to continue to look at ways to save and get the most for their money. In addition to expanding the appeal of coupons in general, manufacturers and retailers would do well to target enthusiasts: their shopping behaviors and demographics make them extremely appealing. With advancements in coupon delivery vehicles that enable both better targeted coupon distribution and redemption, manufacturers and retailers will continue to have real opportunities to use coupons to drive sales for the next few years and beyond.