

Promoting with Cents-Off Coupons in the Early 1980s

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Abstract

The number of coupons almost doubled between 1976 and 1980 amounting to some 90.6 billion coupons issued in the latter year. The purpose of this study was to review the State of the Arts for coupon promotions and then to identify relevant promotion recommendations for the future.

Situation

Trying to cope with rampant inflation, money-tight consumers welcome opportunities to stretch their dollar through coupons offered by sales-strapped vendors. Since coupons meet the needs of buyers along with the needs of sellers, marketers are expected to continue to use them, albeit more selectively.

In the United States, according to the A.C. Nielsen Company, the number of coupons almost doubled between 1976 and 1980. In the latter year some 90.6 billion coupons were distributed. Their assessment is that newspaper, magazine, and direct mail coupons are helpful in encouraging trial purchases; whereas on-pack or in-pack coupons encourage repeat buying, and cross or co-op coupons are used primarily to encourage purchases of a different product.¹

More Selective Use Warranted

As media costs go up, postage rates escalate, and coupon face values and handling costs increase, more emphasis must be placed on strategic cost efficiency. Consider the following coupon promotion by General Electric:

A package of four soft-white GE bulbs was purchased for \$1.74 (marked down from a regular price of \$2.97). An on-package coupon was good for \$1.00 resulting in a reduction of 75% on an item that usually sells at list.

Can the proceeds of this promotion be cost effective for the manufacturer.

Experimental research of the A.C. Nielsen Company tested whether increasing the face amount of coupons from 21.6 cents (average) to 23.5 cents will raise the redemption rate. Counter to expectations, the redemption rate slightly declined. Next they tested the importance of a small decrease in face value, and more stress was given to the advertising ideas and messages. The approach was to develop couponing as a communication device linking consumer and product. This time there was an increase in redemption rates. Higher face values can increase costs of couponing but by itself the cost efficiency is open to question.² Confirmation

of these assumptions seemed evident from a study reported in *MARKETING NEWS* by Gerald Eskin, Chairman of Information Resources, Inc. Further tests seem to imply that high-value coupons work best when coupled with high advertising. There obviously are other possible sales determinants besides coupon value and advertising.

Strategic Reason for Using Coupons

Despite communication clutter manufacturers and retailers find strategic value in coupons. Mal Sims, head of trade relations for Procter and Gamble, outlined in a speech some reasons for using coupons;

1. Couponing is the second most effective way of introducing a new or improved product. Sampling is first.
2. Couponing is an excellent device for rewarding present users, winning back former users, and encouraging larger quantity purchases.
3. Procter and Gamble found that coupons are seven times more effective in getting new users than price packs. Also two out of three coupons redeemed on their brands were not redeemed by regular users.
4. Coupons reach almost any group of target customers, geographically as well as by other demographic characteristics such as type of dwelling and large family households.
5. Couponed products that retailers display or feature can make sales gains six times higher than stores that do not tie in with redemption levels.³

Future Implications

Some manufacturers use coupons to force distribution, say critics, pressuring retailers into stocking for which regular demand from consumers is low. If a manufacturer completes a mass mailing of coupons and then informs the retailer that all of those faithful coupon clippers will be in to redeem those coupons, what is the retailer likely to do, especially if the coupons have an expiration date several months hence?

Modern technology offers many retailers a new source of information. The Universal Product Code checkout technology arms the retailer with the capability of measuring retail sales, stock turn, and margins. This device lets retail management look beyond the coupons and screen out the slow moving less profitable items.

Waste, fraud, and cost considerations might well be other factors contributing to cut-backs in the wide use of coupons in the future. If one assumes that only 5 percent (average) of all coupons are redeemed. Profit minded marketing executives of the future are expected to use coupons more selectively.

¹David J. Rachman, *Marketing Strategy & Structure*, Prentice-Hall, Inc., 1974, pp. 296-297.

²All statistics in this paragraph from Richard H. Aycregg, "Coupon Distribution & Redemption Patterns," *NCH Reporter*, A.C. Nielsen Co., #1, 1971, p. 3.

³Louis J. Haugh, "Will High Cost of Couponing Force More Product Samples," *Advertising Age*, March 6, 1978, pp. 56-57.