

Coupon craft: How to win clients and influence customers

"Here's your receipt and your coupons." Card-carrying shoppers often get coupons in exchange for their data. But are these offers actually ringing up new sales or increasing customer loyalty?

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Card-carrying shoppers know their buying habits are being tracked. But is this trove of data being put to good use? Are targeted coupons effective tools for retailers or manufacturers?

The answer is yes, but with a caveat: a calculated approach with clear goals is necessary. Based on their [study of a mid-sized European supermarket chain](#), INALDE professor Ignacio Osuna and IESE's **Jorge González** and [Mario Capizzani](#) recommend which type of products should be promoted, and to whom, to maximize effectiveness.

The authors studied the results of 893 targeted checkout-coupon campaigns for consumer packaged goods — from soups to nuts — over two years.

Two types of coupons were issued: "reward coupons" reward current brand buyers with targeted discounts on the same brand, while "cross-category coupons" promote new brands to non-buyers in an effort to entice them to buy something not currently on their shopping lists.

Brand devotees and dilettantes

Retailers stand to gain significantly from differentiating between regular and non-brand buyers in coupon campaigns, the study shows.

Retailers should know that a brand's regular customers are more likely to redeem a coupon

than non-brand buyers. Accordingly, the reward coupons studied only offered a 10 percent discount, while cross-category coupons offered 20 percent off prices. Even with these different incentive levels, brand connoisseurs were five times as likely to redeem their coupons as newbies: the 10-percent-off rewards saw an average redemption rate of 25 percent, while a mere 5 percent went for the 20-percent-off coupons.

However, retailers shouldn't give up on cross-category coupons, as they present the opportunity to ring up new sales where the baseline was, presumably, zero.

Three take-aways

From this study, the authors summarize three practical tips for retailers looking to maximize their coupon strategy:

1. "For cross-category coupons, keep it simple." Focus on categories where there aren't too many product choices to overwhelm shoppers. For instance, if there are just five brands of canned olives, that might be a better place for a promotion than, say, household cleaners, with an aisle of dozens of products to choose from. Promoting categories that are popular and easy to store (non-perishable) is advisable, too.

Another tip is to promote leading brands. Buying something new is perceived as a risk; customers are more likely to go for a novel purchase if the brand is well known.

2. "For reward coupons, frequency is key." Focus on categories that are frequently promoted and frequently purchased — products like milk, with short purchase cycles. Also, it's important to note that customers don't need much of an incentive to redeem reward coupons, compared with cross-category coupons. Small discounts suffice.

3. "For reward coupons, control groups are imperative as coupon usage does not equal incremental sales." If a customer buys their favorite kind of milk with a coupon, does that count as a successful campaign? How can you tell if that purchase would have been made with or without the coupon? Control groups are the answer. First, retailers and manufacturers must identify their metrics of success — incremental sales or customer loyalty, perhaps. When their incentives are different, retailers and manufacturers should be willing to negotiate the coupon terms.

Clearly, regular and rookie brand buyers redeem coupons very differently, and reward coupon usage is not always related to accelerated sales. Thus, the authors urge retailers to keep their goals in mind and select products to promote accordingly.

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