

COUPONS

*(Also see Chapters 4 and 5:
“Rebates/Refunds” and “Discounts”)*

INTRODUCTION: CONSUMERS LOVE COUPONS

Coupons are one of the mainstays of sales promotion. For the consumer, they're a guaranteed price discount on a product purchase. For the marketer, they're one of the primary, proven ways to sell more stuff.

Coupons are a very broad topic. They can be offered in many types, styles, delivery formats, values, and the like. But the real question is: Do coupons work? Do they build product movement and help sell more stuff?

The answer is a resounding yes. Because they work, more marketers are relying on them to help boost sales with a controllable promotional tool. The beauty of coupons is that you control how many sales you want to generate by setting the value of the coupon. And you control the cost liability because you control the number of coupons you distribute and the length of time they will be valid.

Coupons work because people like to save money. Plus, having a coupon to reduce the cost of a product is a clear way to say to yourself and others that you're managing your resources wisely.

People love coupons, even to the point of going to court to keep them coming to their door. In the middle 1990s, Procter & Gamble (P&G), one of the smartest and most sophisticated marketing organizations in the world (it markets Tide, Cheer, Pampers, Jif, Pringles, and a host of other consumer products), decided coupons were becoming a problem. Based on its studies, coupon redemption rates were declining and there was considerable fraud in their product categories. With coupons, fraud generally means retailers and others were either (1) duplicating the coupons and redeeming them for cash or (2) consumers and others were misredeeming them on other products. Either way, P&G was paying out money for coupon redemption but creating no additional sales.

So P&G announced it was going to test a no-coupon policy in several markets. The plan was to discontinue coupons in those markets and instead apply the value of the coupons to promotional discounts through shelf price reduction or everyday low pricing. Other companies such as Clorox, Colgate-Palmolive, Lever Brothers, and S. C. Johnson joined the movement. Good idea? Not to consumers. Thirty-five thousand of them were so upset they signed a petition complaining about the coupon cancellation. Their widespread complaints led the attorney general in the test market state to sue P&G and the others, along with one of the supermarket chains that backed the test. The consumers won. Procter & Gamble, Lever Brothers, and their cohorts had to reinstate the use of coupons and pay a settlement to the complaining consumers as well. Proof: consumers will go to court for their coupons.

But there is other evidence that consumers love coupons. In some recent studies on what influences consumers to purchase certain products, the top-rated factor was word of mouth, a recommendation by someone who had recently used the product. The second greatest influence was—you guessed it—having a coupon for the product.

What's also important is the impact that coupons have on consumers is measurable. We can directly relate redemptions to the sale of the product. Although that's helpful in measuring how much more stuff was sold, something else helps us better understand the overall impact of coupon usage by consumers.

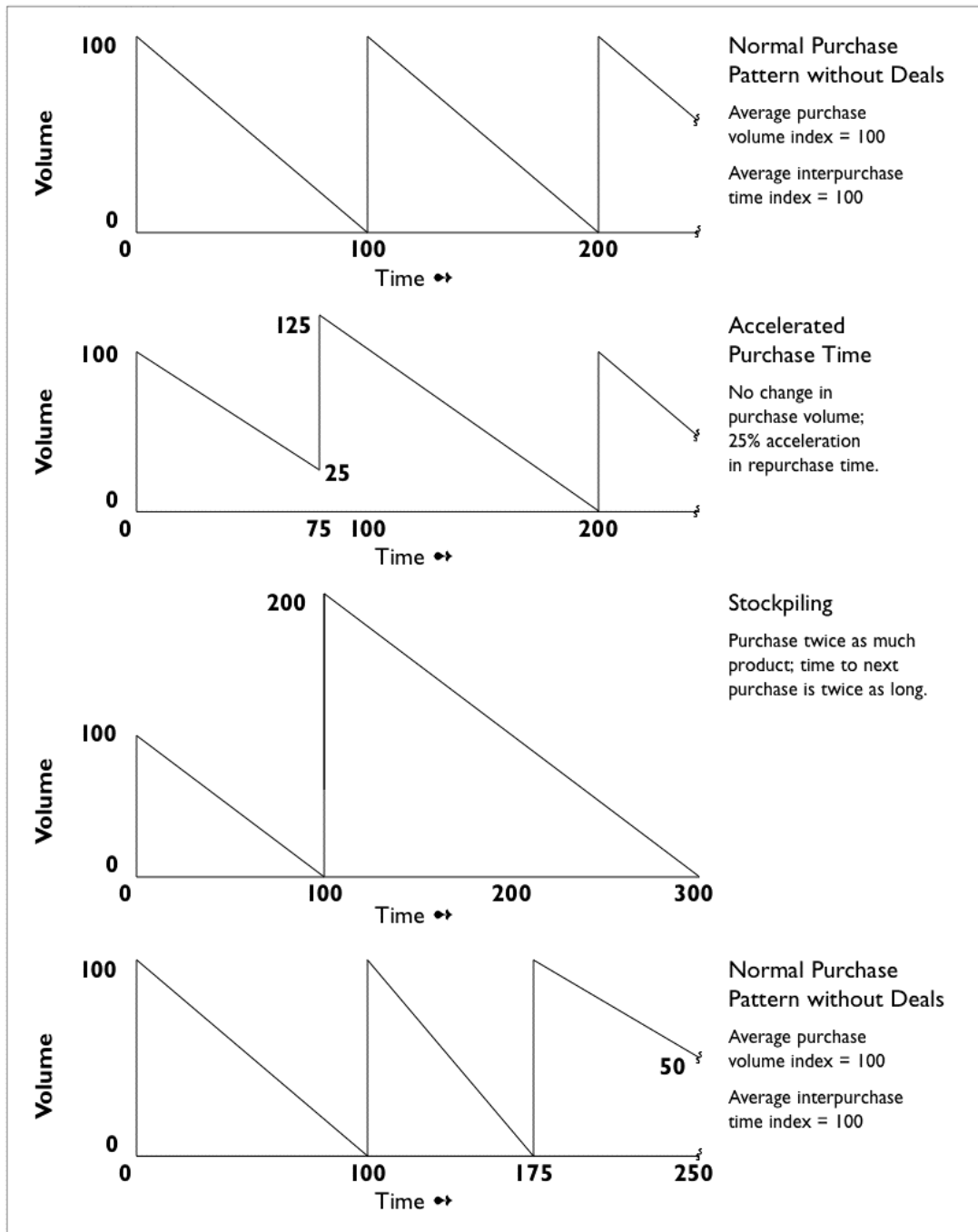
The four charts in Figure 3.1 show consumer purchase patterns. We've indexed typical purchase results from sales promotions. In the top chart, the volume of product purchased by consumers has been indexed at 100. The typical time between product purchases has been indexed at 100 as well. A typical consumer would buy a certain amount of our product at one point, and it would take that consumer a certain amount of time to use it up. Then the consumer would buy another amount of our product—that is, a “purchase interval.” The top chart represents a *typical product purchase pattern* with product volume and product purchase intervals both indexed at 100.

The second chart shows what happens when a coupon creates consumer *purchase acceleration*. That simply means the consumer, as a result of the coupon, decided to purchase sooner than was normal. There was no change in overall purchase volume, but there was a change in purchase timing, so the consumer purchased outside his or her normal cycle. The coupon was an incentive to purchase earlier than usual. The third chart shows a coupon's impact on consumer *stockpiling*—that is, rather than buying one unit, the consumer might buy two or more units because of the coupon's influence. With coupon savings, consumers were willing to inventory extra product for future use—a short-term sales bump for the brand resulting from the incentive of the coupon. The fourth chart illustrates consumer *consumption increase*. The coupon encouraged the consumer to use the product more rapidly, in different ways, or whatever so the consumer bought more and used it up faster than he or she usually would.

Although this is a simple illustration, it is of great importance to promotion planners. If coupons accelerate product purchase, you sell more product over time, all things being equal. If the coupon increases consumption, you will sell more stuff in a shorter period of time. The problem with consumer stockpiling is that consumers are simply taking advantage of your coupon and not buying any more or any faster. That's bad, although it does prevent the customer from buying from your competitor (why buy more if a consumer has an ample supply). It means you're not selling more stuff—the reason for sales promotion in the first place.

Coupons are great. Consumers love them. And if you know how to use them to sell more stuff, you'll love coupons too. —Don E. Schultz

FIGURE 3.1 *Purchase Patterns*



OVERVIEW

Coupons are discounts, but they achieve more specific benefits and control than does a broad-stroke price cut. They can be “wallet real estate,” on-person reminders, whereas an advertised discount is easily forgotten. Coupons can provide better accounting by limiting the quantities issued and forecasting redemptions. They can zero in on specific targets through print media. They can improve product distribution by tying in the retailer. They can even merge with other promotion tactics—doubling as sweepstakes entries, offering a free sample, encouraging multiple purchases, or making the first payment of an extended “club” offer.

DEFINITION

Coupons are typically certificates entitling the bearer to an immediate discount when presented to the participating business. They differ from refunds in that they are immediate. Refunds are typically redeemed by mail (and as such offer higher discount values as a result of “slippage”).

THREE CATEGORIES

1. *Manufacturer coupon*—executed, delivered, and funded fully by the manufacturer, such as the familiar coupons for soap, cereal, cleaners, and the like. Generally, a manufacturer coupon has a lower value than does the retailer/manufacturer coupon (the third category below).
2. *Retailer product coupon*—executed, delivered, and redeemed fully by the retailer, typically for the retailer’s own product—a food chain’s menu item, a car shop’s lube job, a salon’s hair treatment, and so on. It may also be a storewide discount coupon—“10% off our entire stock” or “any red tag merchandise.” Again, the store product coupon allows control that an in-store discount cannot offer. It reaches people outside the store and limits redemption to one person, not every visitor. Plus, customers without a coupon purchase at full retail.
3. *Retailer/manufacturer coupon*—executed and delivered by a specific retailer; the manufacturer, however, cofunds the coupon, which is typically of a higher value than a manufacturer coupon. The manufacturer

can save clearinghouse costs in addition to negotiating better product stocking, placement, and display, even after the coupon's weeklong life. The product gets featured in the retailer's flyer. And both manufacturer and retailer are assured a better consumer value (and traffic) than that of their competitors' manufacturer's coupons.

TWO ARENAS—PACKAGED GOODS AND RETAILERS

Packaged Goods

Typical objectives:

- “Hard copy” reminder and subsequent product search
- Product purchase
- Purchase cycle—prime season, extend purchase season, increase purchases per period
- Product trial
- Product trade-up
- Multiple purchase
 - High value for multiple purchase
 - “Load” consumer prior to competitor activity
- Motivate retail activity—stocking, display, signage, shelf positioning, etc.
- Offset new price increase
- Target consumer segment through media delivery
- Participation in retail-generated coupon for additional retail stocking, display, and signage
- Controlled cost of discounting

Retail/Service

Typical objectives:

- Traffic
- Hard copy reminder and subsequent visit
- Product/service purchase

- Purchase cycle—prime season, extend purchase season, increase visits per period
- Target consumer segment through media delivery
- Trial
 - Trial visit
 - Trial purchase, such as new menu item or service
 - New service, such as “Half off the first month of service”
- Multiple purchase
 - During prepeak or peak selling season
 - “Load” consumer prior to competitor activity
- Vendor participation and support
- Offset/segue into price increase
- Controlled cost of discounting

COMMON COUPON OBJECTIVES BY TACTIC

(Also, see itemized tactics below.)

TACTIC	OBJECTIVES (Beyond Purchase)
Manufacturer discount	Seek product (hard copy reminder); retail product placement; targeted consumer distribution; trial; continued purchase behavior; off-season or prime-season purchase; multiple purchase; product trade-up; ease price increase repercussions
Manufacturer time-release discount coupon	Continuity/loyalty; extend purchase period; involve numerous products; economical group delivery
Manufacturer instant redeemable (IRC)	Impulse purchase; trial; product placement by retailer; targeted retail distribution; shelf visibility/purchase share
Manufacturer free offer	Sampling/trial (alternative to in-store sampling); product placement by retailer; targeted consumer distribution
In-store sampling manufacturer coupon	Trial/follow-up purchase; in-store location awareness; increased retail distribution; exceptional store participation
Manufacturer account-specific	Increase key retailer distribution/participation; offer high-value traffic/purchase incentive
Retailer discount certificate	Traffic; trial; targeted consumer distribution; controlled discounting

TACTIC	OBJECTIVES
Retailer/service electronic (verbal request triggers discount)	Add topspin to discount; awareness (the words consumers must say); simplicity—no coupon paperwork
Multiple purchase	Multiple sales; target large households/multiple visitors; retail product placement; liquidate overstocks; “load” consumer/retailer; increase value and redemption; targeted consumer distribution
Cross-purchase	Cross-store traffic; multiproduct economies; leverage one-stop shopping opportunity; tap into partner products and consumer base; increase value and redemption; sample and/or move new/slow product via popular product; targeted consumer distribution
Self-destruct	Reach two user profiles (diet-sugar; light-heavy user) without redemption liabilities of both combined; targeted consumer distribution; above manufacturer coupon objectives
Rub-off values	Add topspin, attention, and involvement; overlay a sweepstakes; add product attribute awareness
Sweepstakes entry	Add topspin; increase redemption; retail product placement; trial; targeted consumer distribution
Bounce-back	Repeat visit/purchase; encourage extended retail participation; build consumer routine
Time release	Establish loyal purchase behavior
Do-it-yourself values	Reach diverse user profiles with one ad; add topspin; attention to and involvement
Collector card	Consumer loyalty; increased attention and involvement
Novel format	Add topspin and attention; reinforce product attribute; achieve various objectives via tactic employed (fill shopping bag for discount = multiple purchase; trade-in = timely awareness)

ITEMIZED TACTICS

18. MANUFACTURER DISCOUNT COUPON

<i>Definition</i>	Certificate exchanged for discount on specified product Manufacturer funds distribution and redemption (retailer typically paid for handling)
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<i>Advantages</i>	<ul style="list-style-type: none"> • Motivates purchase • Can encourage trade-up • Combats competitive pressures—temporary lower price versus permanent new pricing structure • Actionable offer energizes print advertisement • Hard copy reminder • Media selection targets consumer • Budgeting guidelines through previous learning • Improves retailer stocking and placement—greases sales system • Eases response to price increase
<i>Disadvantages</i>	<ul style="list-style-type: none"> • Discount and costs to person who might otherwise pay full price • Some retail categories don't honor coupons • Ancillary costs—media, retailer handling, redemption house • May influence consumer to wait for coupon • Limited profile—coupon clippers • Redemption projections are educated guesses—open liability • Subject to discounting competition • Significant lead time • Potential retailer misredemption • Consumers often misredeem for wrong product size, past deadline, etc.

19. MANUFACTURER INSTANT REDEEMABLE COUPON (IRC)

<i>Definition</i>	Manufacturer coupon (above) but delivered on-pack for instant redemption at checkout
<i>Advantages</i>	<ul style="list-style-type: none"> • Motivates immediate, impulse purchase • Reaches consumer at the most crucial moment—point of sale (two-thirds of grocery purchases are impulse) • Breaks ties with adjacent competitors • Higher redemption rate than media-delivered coupons • Avoids consumer misredemption (mistakes) • Draws additional product attention • No print medium costs (and waste of nontargets) • Possible slippage economies

- Encourages improved stocking and placement
- Improved forecasting—maximum liability a fixed quantity

Disadvantages

- Chains not honoring coupons may refuse product
- May require suffix code system to control distribution
- Lacks mass reach and advertising benefits of print media
- Discount and costs to person who might otherwise pay full price
- Higher redemption rate and costs
- Expense, lead time, and operational concerns applying coupon to package
- May lose slippage economies from well-meaning cashiers volunteering redemption
- May be misredeemed by dishonest retailers
- Ancillary costs—retailer handling, redemption house, etc.

20. MANUFACTURER FREE OFFER

Definition Same as manufacturer discount coupon except that product offered free

Advantages

- Sampling/trial
- Avoids live product sampling costs
- Mass, yet targeted audience through print media
- “Free” generates response
- Manufacturer coupon advantages cited above

Disadvantages

- Expensive, typically requiring full retail price reimbursement (see explanation below)
- High redemptions/costs
- Redemption projections are educated guesses—open liability
- Potential retail mistakes (cashier may have to fill in retail price blank and acknowledge coupon’s maximum allowable limit)
- Other manufacturer coupon disadvantages cited above

21. IN-STORE SAMPLING MANUFACTURER COUPON

Definition Manufacturer discount (above) but delivered in-store by contracted staff and often with product sampling

<i>Advantages</i>	<ul style="list-style-type: none"> • Reaches consumers at crucial point of sale • In-store sampling/demo plus coupon encourages follow-up purchase • Exceptional in-store awareness that can include other information media • Provides possible budgeting guidelines through previous history • Encourages improved retailer stocking, placement, and participation • Breaks ties with competitors • High redemption rate • Reaches beyond traditional FSI (freestanding insert) clip-and-redeem couponer • No print medium costs (and inevitable waste of nontarget readers)
<i>Disadvantages</i>	<ul style="list-style-type: none"> • Expensive—contracting in-store staff, supplies, signage, training, etc. • High redemption costs • Retailer may want full retail price reimbursement • Requires retailer permission, participation, scheduling, space, etc. • Limited in scope compared with media-delivered coupon and higher cost per store • Redemption projections are educated guesses—open liability • Requires significant lead time, presell, and coordination • Potential for misredemption, particularly by some retailers with access to coupons

22. MANUFACTURER ACCOUNT-SPECIFIC COUPON

<i>Definition</i>	Manufacturer discount (above) but may be redeemed only at specified retailer chain
<i>Advantages</i>	<ul style="list-style-type: none"> • Tie with key retailer chain improves distribution and placement • Partners may share redemption costs • Greater accountability through single-retailer participation—custom ground rules • Other manufacturer coupon advantages cited above
<i>Disadvantages</i>	<ul style="list-style-type: none"> • May alienate other retailers • Requires equal account-specific offers (see Robinson-Patman in glossary)

- Less efficient media costs than national coupon drop
- Media costs wasted on those who shop other retailers
- Other manufacturer coupon disadvantages cited above

23. BUY ONE-GET ONE COUPON (BOGO)

<i>Definition</i>	Manufacturer or retailer coupon offers second product free (or discounted) with purchase of first
<i>Advantages</i>	<ul style="list-style-type: none"> • High value for greater redemption • Simple for consumers and retailers • May encourage group purchase (buy three-get one) • Can increase usage/familiarity • Free product may be high consumer value but low marketer cost (a restaurant fountain drink costs only pennies) • Other advantages cited above
<i>Disadvantages</i>	<ul style="list-style-type: none"> • Generous offer lowers margin • Lost sale for retailer • Lost “next purchase” for manufacturer • Vendor may pay retailer full markup reimbursement (see description below) • Misredemptions incur greater costs • Other manufacturer coupon disadvantages cited above

24. RETAILER PRODUCT DISCOUNT COUPON

<i>Definition</i>	<p>Certificate exchanged at the issuing retailer for an offer (discount, free-with-purchase, etc.)</p> <p>Distribution, redemption, and logistics funded by retailer unless vendor ties in</p>
<i>Advantages</i>	<ul style="list-style-type: none"> • Builds traffic • Motivates purchase • Stimulates trial of retailer location and/or specified item (menu item, new service, etc.)

- Preempts competitor offers posted only at retail
- Controlled discount—targeted media versus everyone in store; single versus unlimited purchase
- Accountable—limited to store system
- No handling fees, clearinghouse costs, etc.
- Other coupon advantages cited above

Disadvantages

- Requires staff training
- Media expenses
- May alienate in-store shoppers without coupon
- Open to copying—competitor may offer equal/greater coupon value in same peak period
- Other manufacturer coupon disadvantages cited above

25. RETAILER/SERVICE ELECTRONIC COUPON (VERBAL REQUEST)

Definition

Discount generated through verbal request—typically a catchphrase—with no exchange of certificate (*electronic* refers to cash register key-punch system)

Advantages

- Adds topspin to traditional discount
- Builds awareness of product attribute (through required phrase)
- Builds in-store awareness as other patrons hear catchphrase
- Simplicity
- No coupon paperwork

Disadvantages

- Open-ended—no limit unlike paper coupon
- Requires consumers to remember advertising unlike paper coupon
- Consumers may feel uncomfortable publicly reciting catchphrase
- Typically requires broadcast medium expense
- Requires staff training
- Simple discount may achieve greater sales

26. MULTIPLE PURCHASE COUPON (OR CROSS-PURCHASE)

Definition

Coupon offers significant value on purchase of multiple items such as a combo meal; coffee, cream, and sugar brands, etc.

- Advantages*
- Greater value through combined purchase
 - Encourages additional purchases
 - By “loading” consumer (and retailer), it offsets upcoming competitor promotion
 - Can cross-sell or get trial of related products
 - Can tap into each product’s consumer base
 - May share cost, execution, and consumer base partner
 - Vendor opportunity for retail display—multiple sales and cross-store shopping for retailer
 - Leverage usage occasion (picnic theme, family health theme, etc.)
 - Tie-in economies and efficiencies
 - Other manufacturer coupon advantages cited above
- Disadvantages*
- Products must share common timing, target, usage, etc.
 - Products must have same distribution
 - Multiple purchase requirement may discourage redemption
 - Undesirable cross-product may discourage redemption
 - Extensive prenegotiation and logistics
 - Advertising subject to too many approvals
 - Subject to cashier and consumer mistakes and misredemption
 - Redemption projections difficult with diverse variables
 - Other manufacturer coupon disadvantages cited above

27. CROSS-RUFF COUPON

- Definition* Coupon delivered on one product package that’s good for another product and possibly vice versa
- Advantages*
- Can offer greater value through combined purchase
 - Encourages additional purchase
 - Can tap into each product’s consumer base
 - Implied second-party endorsement
 - Can leverage usage occasions, such as chips and dips during Super Bowl
 - Increased in-store presence, including alternate locations
 - Tie-in economies and efficiencies
 - Other manufacturer coupon advantages cited above

- Disadvantages*
- Dual purchase requirement may discourage redemption, especially with undesirable partner
 - Requires prenegotiation and logistics with all parties
 - Relies on exceptional scrutiny by retailer cashier plus consumer mistakes and misredemption
 - More difficult redemption projections
 - Other manufacturer coupon disadvantages cited above

28. SELF-DESTRUCT

Definition Two coupons overlap so that clipping one destroys the other, limiting consumer to an either/or choice

- Advantages*
- Reaches two user profiles (diet-sugar; light-heavy user) without redemption liabilities of both combined
 - Shared media costs
 - Other manufacturer coupon advantages cited above

- Disadvantages*
- Additional clipping (and possible confusion) may discourage participation
 - Requires how-to clip instructions
 - Requires additional graphic space and awkward positioning
 - Other manufacturer coupon disadvantages cited above

29. RUB-OFF VALUE COUPON

Definition Coupon value concealed by a rub-off spot (or other technique) that may reveal a prize

- Advantages*
- Adds topspin and interest to coupon—breaks clutter
 - Can overlay a sweepstakes with everyone getting a discount
 - Rub-off may also reveal product attribute
 - Other manufacturer coupon advantages cited above

- Disadvantages*
- Expensive printing and insert distribution
 - Additional consumer instructions and effort may discourage participation

- Sweepstakes overlay requires considerable cost and details
- Other manufacturer coupon disadvantages cited above

30. SWEEPSTAKES ENTRY (Also see Chapter 2)

<i>Definition</i>	Coupon doubles as sweepstakes entry, such as drawing entry or match and win tactic
<i>Advantages</i>	<ul style="list-style-type: none"> • Breaks through clutter • May increase redemption • Can reinforce brand through sweepstakes theming • May encourage retail visit (like match and win tactic) • Sweepstakes tactic advantages • Can “break tie” with competitive coupon—possibly even with lower value • Other manufacturer and retailer coupon advantages cited above
<i>Disadvantages</i>	<ul style="list-style-type: none"> • Manufacturer coupon may require months to clear grocer and clearinghouse process • Match and win tactic requires display placement and executional details, tasks, and costs • Additional consumer tasks (and confusion) may discourage redemption • Sweepstakes tactic disadvantages • Consumer may resist entering personal information • Other coupon disadvantages cited above

31. BOUNCE-BACK

<i>Definition</i>	Coupon distribution requires repeat visit/purchase to redeem (in-pack, bag stuffer, receipt-delivered)
<i>Advantages</i>	<ul style="list-style-type: none"> • Promotes repeat visit and additional purchases • Helps establish repeat behavior • Vendor can encourage retailer participation • May extend promotional period • Other manufacturer coupon advantages cited above

- Disadvantages*
- Limited distribution alternatives
 - Requires such additional operations as in-packing machinery or bag stuffing
 - Other manufacturer and retailer coupon disadvantages cited above

32. TIME-RELEASE COUPONS

Definition Coupons that must be redeemed at specified periods (often sequential such as 12 coupons, 1 per month)

- Advantages*
- Encourages continuity visit, purchase, usage, and loyalty
 - May extend usage occasions, purchase frequency, and purchase season
 - May include several different products
 - Economical delivery—multiple coupons at once
 - Long life may preempt competitive activities
 - High-value claim for total values
 - Can provide ongoing exposure and awareness, particularly with calendar, booklet, or other retained vehicle
 - Other coupon advantages above

- Disadvantages*
- Many consumers won't retain or remember coupons over extended period
 - Group coupons may suffer less redemption than more immediate solo coupons
 - May establish coupon-reliant purchase behavior
 - Other coupon disadvantages above

33. DO-IT-YOURSELF (DIY) COUPON

Definition Coupon that consumer customizes via stickers, check box, or other by choosing from value levels, products selection, etc.

- Advantages*
- Reaches diverse targets—single/heavy users, those with different brand preferences, etc.—in single ad
 - High-value claim for total values
 - Adds topspin to traditional coupon, breaking through coupon clutter

- Can showcase multiple products
- Tie-in economies and efficiencies

Disadvantages

- More effective for some businesses than for others. Fast-food system can be trained to redeem while packaged or durable goods cannot train independent outlets
- Exceptional effort (or confusion) discourages consumer, particularly for lower-value offer
- Difficult to conform to manufacturer coupon requirements
- Consumer/cashier confusion and misredemption
- Cumbersome format requires additional ad space and instructions
- May require specialty printing
- Other coupon disadvantages cited above

34. COLLECTOR CARD

Definition

Combination coupon and refund

Example: Collect stickers in each pack and adhere to card that becomes a coupon when complete

Advantages

- Offers immediate reward of a coupon through the multiple purchase of a refund
- Promotes repeat visit/purchase
- Helps establish repeat behavior (without building expectation for coupons)
- Vests consumer as value builds
- Longer-term and higher ultimate value may preempt competitive activities
- Collector vehicle is ongoing reminder of promotion

Disadvantages

- Requires expense of collector cards, pieces, and distribution
- Difficult to conform to manufacturer coupon requirements
- Extended commitment and tasks discourage participation
- May discount to heavy user, otherwise purchasing at full price
- Large, awkward format requires additional space and instructions and also limited by traditional coupon requirements
- Possible cashier confusion

- Requires policy for redeemers who faithfully purchase but miss deadline

35. NOVEL FORMAT

<i>Definition</i>	Discount offered in unique format, such as trade-in, canned food donation = discount, or “Save 00% on everything you fit into this bag”
<i>Advantages</i>	<ul style="list-style-type: none"> • Adds topspin to traditional discount • Can reinforce product attribute • Achieves various objectives according to tactic employed (shopping bag full of discounts = multiple purchase; trade-in = timely awareness; canned food donation = goodwill)
<i>Disadvantages</i>	<ul style="list-style-type: none"> • Exceptional task requirement limits participation • Requires additional executional considerations • May accomplish the same goals as traditional coupon

COMMON COUPON COPY REQUIREMENTS

You may not need all of the following items depending on the nature of your business and offer. Where a manufacturer coupon may need a handling fee and processing information, a retailer-generated coupon can be much simpler. A retailer may want to limit the coupon to one family per one visit per day, whereas a manufacturer coupon doesn't have such restrictions. Review all the items to make sure your bases are covered.

Face value. Make the discount value of the coupon—“Save 00¢”—prominent. Assign a value in the Uniform Product Code (UPC). When the coupon is scanned, the bar code value should match the face value.

Universal Product Code. UPC bar coding allows electronic scanning. When used on manufacturer coupons, the UPC identifies the product, and a second bar code specifies the value of the coupon. Follow the Uniform Code Council's specifications, such as black ink on a white background.

Offer code. Encode the coupon with a numeric offer code—the coupon's value—along with the UPC. Follow Universal Code Council (UCC) specifications.

Consumer code. Code the coupon for consumer tracking and/or geographic market analysis. Follow Council specifications.

Redemption mailing instructions. Include directions for where to send the coupon and other retailer instructions.

Coupon processing source. Prominently identify if the coupon is a manufacturer coupon, store coupon, or other, so it's quickly identified and handled properly. A grocer's coupon will be routed to an internal system, whereas the manufacturer coupon will be routed to a clearinghouse. Coupons in a retailer's advertisement should be identified as, for example, "In-Ad Coupon" or "Acme Retailer Coupon."

Expiration date. A manufacturer coupon averages from two to four months from publication date to expiration. Short expirations should be highlighted "Hurry!"

Retailer handling fees. Manufacturer coupons should specify the fee that retailers receive for processing the coupon, such as 8¢ per coupon.

Retailer reimbursement and handling fees for free product coupons. Manufacturer coupons for free products should instruct retailers how to be reimbursed. Include a space for the retailer to fill in the *shelf price* and specify a limit.

Estimated cash value of the coupon. Reveal the coupon's estimated cash value, such as 1/20 cent or 1/100 cent. (See "Why that 1/20 of one cent copy?" on page 77.)

Consumer sales tax note. Show if consumer has to pay a sales tax, although a tax is generally not required.

Geographic restrictions. Reveal such limitations as coupons redeemable only in the United States or the Dallas metroplex area.

Insight

Coupon Conspirators: In 2004 it came to light that people with ties to terrorism had been redeeming coupons illegally for years—to the tune of \$100 million to \$125 million annually—without actually purchasing any products. They crumpled the coupons to look used and funneled them through a nationwide network of grocery stores that turned in the coupons to the manufacturers.

Fraud and policy notices. Include on each coupon a notation such as “Invoices showing purchases of sufficient stock to cover all coupons must be shown upon request” or “Submit in compliance with [company name] coupon redemption policy.”

Offer restrictions. Include such limits on the offer as “Void if copied, transferred, prohibited, taxed, or restricted” or “Limit one coupon per person per visit/product/family.”

Special considerations. Unique coupons may require unique instructions, such as alcoholic beverage restrictions, age restrictions, and the like.

Coupon Considerations

Show your product—shout the offer. Help shoppers identify your package with a photo on the coupon. Limit the photos to three at most, preferably one “hero” package that represents all. Make your offer message short, direct, and bold.

Why that 1/20 of one cent copy? In defining trading stamps, some states don’t include the provision that excludes “any redeemable device used by the manufacturer or packer of an article in advertising or selling it.” In those states, a coupon can be redeemed for its cash value, and, as a result, a low cash value (1/20 of one cent) is assigned to the coupon. That’s also why the coupon’s redemption value is referred to as “face value,” not cash value.

Flexible versus guaranteed-position coupons. Sunday newspaper coupon inserts (freestanding inserts—FSIs) have to assure that clipping the coupon on one side doesn’t destroy the other side’s coupon. A flexible ad allows the ad/coupon to appear on either the top or the bottom, whichever is necessary to accommodate the opposite side’s coupon. A guaranteed coupon position guarantees your choice of top or bottom but costs more.

Double couponing—the 55 cent factor. Some supermarkets (usually according to region) feature so-called double coupon offers that double a

coupon's discount. The grocer picks up the additional costs, but the grocer typically limits the coupon value to 55 cents. If you want these grocers to double your coupon, limit the value to 55 cents.

Web site coupons. Consumers can visit Web sites and print their own coupons. Without special measures, this can be an open liability, allowing unlimited redemptions. If an open number of redemptions is good business (such as 10 percent off), the Internet's viral marketing capability is an excellent way for friends to give friends your coupons. However, Internet coupons are also open to counterfeiting, and many retailers refuse Web-generated coupons.

FREE PRODUCT COUPONS

Two Ways to Execute Free Product Coupons

Single free product offering. A manufacturer's free grocery product coupon should let retailers make their markup. And because such a coupon also incurs media and processing costs, it actually costs more than does the product's shelf price. The coupon should have a blank box labeled "Retailer: Fill in shelf price here. Price not to exceed \$0.00." That way, the manufacturer gets the product sampled, and the retailer get its markup.

Buy one—get one free. If you're offering a free product with the purchase of a second product (or third, etc.), the grocer's scanner already registers the shelf price on the first purchase. It electronically credits the shelf price of the free product—clean, automatic, and turnkey.

Consult your couponing service for advice on which is best for your situation.

Insight

Face Value: \$800,000! In 2003 a New Jersey resident was charged in a coupon fraud scheme that netted \$800,000 from manufacturer coupons. Dozens of retailers participated, receiving cash payments for misredeeming manufacturer coupons. Hire a reputable clearinghouse to monitor warning signs of fraud.

BAR CODES

The UPC (Universal Product Code) is an enabler for inventory management systems, not to mention speeding up the cashier line. A retailer's scanner reads the information in the bar code and transmits it to the store computer, which replies with the price, date, dis-

count, or other information that is programmed in the store system. The UPC should be unique for each package configuration and/or shipping container.

The Universal Product Code is a 12-digit number coded in bar form. The 12 digits translate to the following:

- A company prefix that is assigned and managed by the Uniform Code Council and is unique to the company to which it is assigned.
- An item reference that is assigned and managed by the company.
- Specific lead-digit system numbers that are reserved by the Uniform Code Council for some industry-specific business applications. Lead-digit system characters 0, 1, 6, 7, 8, 9 are used in company prefixes for all products except the following:
 - 2—Assigned to random-weight products such as meat and produce
 - 3—Assigned for use with FDA-controlled products in the health care industry
 - 4—Assigned for use within a retailer's own company
 - 5—Assigned for coupons
- A check digit enables the scanner system to immediately verify the accurate data translation of the Universal Product Code.

Coupon bar code tips:

- Keep each coupon version in a separate file.
- Identify the publication and date in your file name. Keep the same name for each project file—just add a suffix letter(s) and/or number(s) to update them.
- Use black against a white background so scanners clearly read the code.
- Test the bar code with a scanner.
- If you're running different coupon values in different markets:
 - Track and monitor each version for each market. Have a system in place with your publication plus your graphics resource.
 - Colored coupon copy may require an expensive plate for each press change. The same applies to changing package graphics on your coupon.
- Use "For position only": Creative is presented in low resolution to save time and file size. Printers work with high resolution for quality images. Maintain two separate filing systems for each.

Insight

Studies indicate that the average FSI (Sunday newspaper insert) reader spends 3.2 seconds reviewing each FSI ad. Many of those “deal” shoppers look at the coupon first, the ad second.

- Often, you cannot use an image from one project in another project. Confirm that the original file specifications are appropriate for the new project.
- Follow all Uniform Code Council guidelines. (Courtesy of Uniform Code Council, Inc.)

Note: As of this writing, a new system is being explored by some retailers to replace the bar code—RFID chips (Radio Frequency Identification). RFID tags contain an antenna that broadcasts a signal and allows constant tracking of the product throughout the entire distribution process. It carries some controversy over privacy issues.

COUPON SIZES

Manufacturer coupons must adhere to processing specifications. The most popular coupon medium is the freestanding insert. The ideal coupon size is the size of a dollar bill for easy identification and handling—2½ × 6 inches. A coupon can be as small as 2⅛ × 3 inches. Coupons that are hard to handle may cause confusion and mistakes along the line of people who process the coupon.

PROJECTING REDEMPTIONS AND BUDGETING

Is Less Redemption More Effective or Vice Versa?

The objective of a coupon drop is not necessarily to achieve the greatest redemption numbers. Each redemption is an increased cost of sale, and it cuts into your overall marketing budget. If a high-value coupon achieves higher-than-expected redemption, you may be over budget—you manufactured 100 widgets, budgeted \$1 to sell 10 of them, and spent \$2 to sell 10 more, which you had planned to sell at full markup.

Factors. Even major marketers with a tremendous couponing history and database still consider projections an iffy art and science. There are sim-

ply too many factors. Protect your budget by allowing for a margin of error. Redemption factors include the following:

- *Method of distribution*: FSI, magazine, direct mail, in-store, grocery ad, on-pack, and so on. (For example, direct mail can double redemption over an FSI, whereas solo direct can double bundled direct offers.)
- *Target* (An ironic rule of thumb is that lower-income people redeem coupons less often than do higher-income people.)
- *Value of the offer* and how it compares with the regular cost
- *Length* of the coupon offer
- *Additional promotion support* (Broadcast advertising mentioning coupon, point of sale, etc.)
- *Type of coupon* (Sweepstakes entry, bounce-back, self-destruct, etc.)
- *Region*
- *Timing*
 - Demand during coupon drop
 - Weather
 - Season
 - Economic situation
 - Events and sudden trends, which can be triggered by one movie release
- *Competitive activity and counteroffers*
- *Creative execution* (Did you save money on photography at the expense of mouthwatering appeal? Was the creative director more interested in an award than in a sales message?)
- *The product itself* (Some products are more coupon responsive than are others, and some can offer larger values than can others.)

A few sample redemption figures. Again, there are no redemption guidelines that apply to all products. Use the following with caution.

Somewhere between 1 and 3 percent redemption:

Grocery packaged goods marketers typically report 1 to 3 percent coupon redemptions. Careful! Some inflate redemptions in the trade press to promote themselves or their agency's services. Research has indicated average redemption by media as follows:

- Solo direct mail—5.7 percent redemption
- Co-op direct mail—2.2 percent

- Instant redeemable (IRC)—29.4 percent
- Handouts—3.5 percent
- Consumer relations—33 percent (a coupon that is sent to a consumer in response to a written or phoned request)
- Electronic checkout—8.8 percent (coupons issued at checkout triggered by specific purchases)
- Electronic shelf—11.5 percent
- FSI—1.9 percent

Somewhere between 30 and 70 percent redemption:

One print film company made and marketed private label film for several different retailers. The film and offer were the same, though the name of the film brand varied by retailer. The norm was 30 percent redemption for an instant redeemable, on-pack coupon. However, one mass merchandiser typically redeemed at 70 percent. Lesson: Track each retailer's individual history.

Build a coupon history and test as much as you can. History repeats itself, and the best way to project redemption is to build a history. Take into account all of the above factors, possibly with a spreadsheet for each coupon drop. Supplement your historic figures with as much ongoing testing as possible.

Code coupons: Track by locations, targets, timing, and more. Have separate press runs with different coupon codes. (Simple black plate changes limit reprinting cost.) Here's a code example to isolate three factors for three different media inserts:

MN-D-TH	Minnesota—D Counties (rural)—Thursday delivery
WI-A-SU	Wisconsin—A Counties (urban)—Sunday delivery
IO-UI-F	Iowa—upper-income neighborhoods—Friday delivery

Do as much test tracking as possible before a national launch.

Redemption Process and Cost

Manufacturer coupons redeemed at grocery stores have a months-long journey. First, the consumer may take a month. The grocer gathers coupons over time, processes them for reimbursement, and finally sends them out.

Then there may be two clearinghouses. The retailer clearinghouse verifies the retailer's invoice and pays the retailer the face value and handling fees. Then the manufacturer's clearinghouse cross-references the coupon against a pre-verified master file of bona fide retailers. Each shipment is sorted by the promotion code, counted, and approved for payment. Once fully recorded, all coupons are destroyed, and payment is finally submitted. This is particularly important if your coupon is doubling as a sweepstakes drawing entry or you plan to track it closely.

Coupon redemption cost formula. Grocery packaged goods companies use the following formula to calculate coupon redemption costs:

Circulation × Coupon face value (plus clearinghouse charges, which may average 15¢ in this category) × Historical redemption percentage = Redemption dollars.

(Note: This doesn't include media costs to deliver the coupon.)

If: Circulation is 250,000
 Coupon value is 50¢
 Clearinghouse charges total 15¢/coupon
 Historical redemption is 2 percent

Then: $250,000 \times (.50 + .15) \times .02 = \$3,250$ Redemption costs

Coupon redemption budgeting and cost-per-sale scenario. The following process and average rates come from number crunchers at two different major packaged foods corporations.

Distribution costs:

10,000,000 coupons distributed at \$5 per thousand:
 $10,000,000 \div 1,000 \times \$5 =$ \$50,000
 Redemption rate = 2.5%; $10,000,000 \times .025 =$
 250,000 redeemed coupons

Redemption cost:

250,000 redemptions at 50¢ face value \$125,000
 Clearinghouse #1 to pay retailer for coupon handling costs.
 8¢ per coupon. $.08 \times 250,000$ redemptions = \$20,000

Clearinghouse #2. Manufacturer's clearinghouse for record-keeping, payments, fraud control, etc.

3¢ per coupon. $.03 \times 250,000$ redemptions =	\$7,500
Total program cost: 1 + 3 + 4 + 5	\$202,500
Cost per redeemed coupon: $\$202,500 \div 250,000 =$	\$0.81

Actual product sold on redemption:

With 10% misredemption, 250,000 coupons \times 90% valid redemptions = 225,000

Actual cost per redeemed coupon:

$\$202,500$ total program cost \div 225,000 valid redemptions = \$0.90

Net-Net: A \$0.50 consumer discount may actually cost the manufacturer \$0.90.

A 1 percent ain't hay. A 1 percent redemption in an average metro market of 3 million people translates to 300,000 sales in that market alone. A packaged foods marketer may consider 2.5 to 3.0 percent a healthy redemption level.

The 80/20 rule. The vast majority of coupons reach a small group of frequent couponers *and* quite possibly switchers—Coke one week, Pepsi the next. Is this bad news? It could be the price you pay to stay in the game. Often, these couponers are heavy users—the 20 percent who may represent 80 percent of your sales. A coupon for one purchase could generate several. Do focus group research to learn more.

Stop crunching numbers! One reason to coupon has nothing to do with redemption. Regardless of the numbers, there is a strong perception among the trade and the salespeople that coupons generate traffic, especially cross-store traffic—shopping! So regardless of all the number crunching, when you drop a coupon, salespeople sell, retailers respond, products get stocked, signs go up, and products get sold with or without coupon redemption.

ONLINE COUPONS

Internet use of coupons is a growing field. Some coupons are delivered and redeemed strictly online. This section deals only with coupons delivered online and redeemed at retail. There are good points and not-so-good points in this practice.

I n s i g h t

Many retailers are refusing Internet-generated coupons because of fraud concerns.

The good news:

- The cost is extremely low compared with print.
- You can distribute in a single day.
- You can target coupon announcements with precision.
- “Viral” marketing can spread your coupon delivery like a chain letter.

The bad news:

- Liability can be a problem, as the quantity of coupons may be boundless.
- To avoid liability, the coupon may have to be a flat percentage discount, reducing its face value and possibly the ability to single out products.
- What little redemption history there is may be quickly outdated in this dynamic medium.
- Because the medium is susceptible to fraud, there is less retail acceptance.
- Internet coupons may require retail staff training and timing.

Unless you have redemption control measures, you can limit your liability by offering a flat percentage discount. Qualifiers can increase your effectiveness. For example, offer 10 percent off any Acme Sweater from the day after Thanksgiving until the following Sunday while supplies last. But offer a 50 percent value to anyone who purchases before 10 AM Thanksgiving Friday. That draws the early-bird-shopper traffic on the best shopping day of the year, when wallets are at their fullest.

PRESELL YOUR COUPON DROP

Depending on the trade, inform the salesforce months before the coupon drop so they can begin the sales process and the retailer can schedule for the promotion. Provide sell-in materials that might include the following:

- Publication(s) where the coupon will appear
- Page size
- Circulation

- Target market and demographics as it relates to retailer
- Impressive redemption history
- Impressive product information (share, sales, turn, desirable target market, if sale encourages other purchases (e.g., chips plus dips), favorable trends, etc.)
- Total dollar support figure (ad media, point of sale, packaging, outdoor, etc.)
- Support materials the retailer should use (signage, ad slicks, folders, etc.)
- Areas you might support retailer with (radio tags, shopping cart signs, shelf media, in-store radio, etc.)
- Plan-o-gram with the ideal product stocking quantities and placement
- “Profit calculator” to show how much the retailer can profit (See Chapter 5, “Discounts,” page 144.)

GUIDELINES AND CAUTIONS

Tips:

- Make the face value (Save 00¢) prominent.
- Make the expiration date prominent.
- Allow a grace period beyond your expiration date as a goodwill gesture for late redeemers.
- Place the product on the coupon so it's easy to identify. Avoid showing more than two products.
- Focus on quick, clear advertising communication. Don't be so clever that the offer's obscured.
- Be bold and striking, but visually simple.
- Make the coupon a contrasting color with the ad to “pop.” (Careful—UPC codes should be black on white so the scanner can read them.)
- Don't scream “Savings!” in the ad—the coupon does that. Create demand, and let the coupon close the sale.
- Some studies advise using people in the ad, but in the case of food, appetite appeal rules. (Don't sacrifice appetite appeal by showing the entire plate or table—a luscious close-up portion is better.)
- Use a full page if you can.
- Use a campaign approach if you run more than one FSI per year. Build familiarity and recognition.

- Reinforce the offer with broadcast advertising if possible, and offer dealer tags.
- Place the coupon in the corner, where it's easier to clip and receives higher redemption levels.
- Show dashes for clipping.
- Use a dollar bill-size coupon if possible. Smaller coupons are more difficult to handle and are easily lost.
- Avoid placing more than one coupon on one page if possible—too many on one page often reduces redemption.
- Test different coupon values to gain insights.
- Presell—and establish a timetable; retailers need sufficient notice.
- With food products, in-pack coupons require USDA- and FDA-approved inks plus special wrapping. Be sure odors can't seep into the product.
- Confirm that the trade channel you're targeting accepts coupons.
- Clearly indicate VOID on any coupon reprint, such as samples sent to the salesforce.
- Remember that coupons delivered in-store may be misredeemed by the retailer. Specify the potential for audits. You may also limit the coupon quantity per store according to the product inventory per store. You may even negotiate an off-invoice discount, leaving the coupon redemption to the retailer—a dealer discount that becomes a dealer coupon.
- Make sure publishers/distributors recover and destroy unsold issues. Prohibit overruns and bulk deliveries of coupon-day issues.
- Consider inserting your coupon only in home-delivered copies for magazines.
- Make sure the newspaper doesn't back up the coupon against another coupon. If it does, demand a refund or rerun.
- Make sure you have sufficient retail distribution in couponing markets. A rule of thumb is to have 55 to 60 percent ACV (see the Glossary) distribution in the market.
- Remember that in-pack coupons require disclosures. Either they should have no expiration date or you should allow at least six months for expiration so all inventory containing coupons is depleted before the redemption deadline. If the label or package announces that a coupon is enclosed, the label should also disclose the coupon's conditions, such as the expiration date and limitations.

See mix and match under the section "Shell Games and Funny Money" in Chapter 5 on page 141.

CONTROLLING COUPON FRAUD

Some fraudulent redeemers print their own coupons. Others “legitimately” organize clubs to collect, trade, and sell coupons, which violates a nontransferable requirement. The following guidelines are suggested by CMIS, Inc., in Winston-Salem, North Carolina, for *PROMO* magazine. Watch out for the following:

- Coupons cut uniformly in bulk on a machine rather than those cut by hand
- Sequentially numbered coupons rather than those randomly numbered
- Coupons in mint condition that appear uncirculated
- Wrinkled coupons that have matching patterns
- “Washed” coupons with a rough, bleached appearance
- Coupons with a different feel or print quality than the real thing
- Coupons outside the distribution area specified on the coupon
- Coupons redeemed for a product the submitting store doesn’t carry
- Coupons redeemed after their expiration date

Source: *PROMO* magazine (<http://www.promomagazine.com>), a Primedia publication.

NCH Marketing Services, Inc., a retailer clearinghouse and manufacturer’s redemption agent headquartered in Deerfield, Illinois, suggests the following 12 proactive steps you can take to minimize exposure to coupon fraud:

1. Establish a written, fair, and reasonable coupon redemption policy that is communicated to all your trading partners.
2. Follow industry association, legal, and agent recommendations for coupon design and efficient processing.
3. Make the coupon’s intended purchase clear. State that consumers must purchase the coupon’s listed item, and retailers must sell the items for the coupon to be valid. Include the redemption address and cash value of the coupon, and state that it is nontransferable. Refer to your company’s available coupon redemption policy in the coupon’s legal copy.
4. Alert retailers of coupon plans and anticipated response rates. Sufficient merchandise in-stock ensures a successful coupon event for the promoted product.

5. Keep purchase requirements simple. The more complex the offer, the more confusion and potential for mistakes or mishandling.
6. Audit the process. Audit coupon printers and distributors to ensure the film, plates, and coupons are secure at each step. Audit your outsourced redemption agent's controls, including its controls around any subcontracted processing.
7. Use free-product coupons with caution. These and no-purchase-required coupons mandate that the retailer write in their retail price. Print a maximum-value-allowed notice next to the write-in box, typically the item's recommended retail price. These coupons should not be distributed via the mass media or the Internet.
8. Establish a zero-tolerance policy for suspected fraudulent submissions. Your payment policies should not allow payment for suspicious or fraudulent submissions merely because they fall below a certain dollar amount.
9. Monitor redemption volume and submitters closely. Watch redemptions especially during the first few weeks—when they are the heaviest—and watch first-time submitters of coupons to your company. Compare the activity with historical patterns and your forecasts.
10. Use copy-proof paper stock or other deterrent methods when printing free-product or high-value coupons.
11. Discourage buying, selling, and trading coupons. Advise consumers and retailers of your nontransferable policy, and use all legal means to protect the rights of your property.
12. Support and fully utilize the fraud control services offered by your redemption agent, industry organizations such as the Coupon Information Center (CIC), and any third parties that have been hired to supplement internal expertise.

SIMPLIFIED CHECKLIST

Be sure to refer to the above cautions along with the following list:

- Salesforce is informed of coupon drop with sell-in materials in time to inform retailers (see sell-in suggestions above)
- Grocers/retailers informed of coupon drop in time for increased order and shipment

- Retailers are advised of your redemption projections so they know you're monitoring
- Coupon ad reprints are in sufficient quantity for salesforce presentations
- Sell-in materials with the coupon are marked VOID
- The publisher has destroyed coupon overruns, and any bulk deliveries are accounted for
- Universal product code matches product
- Bar code value matches face value
- Coupon size meets industry specifications
- Grocers/retailers copy, including handling fee and mailing instructions
- A consumer code to track redemption if you want it
- "Manufacturer Coupon" identification, if appropriate; retailer identification, if appropriate
- Prominent expiration date
- Manufacturer's free-product offer has space and instructions for retailers to specify retail price, and maximum allowable price clearly indicated
- Cash value of coupon, such as 1/20 cent or 1/100 cent
- Specific product and size clearly indicated
- Consumer sales tax note, if appropriate
- Geographic restrictions, such as United States or single state
- Restrictions, such as "Not to be reproduced" or "One coupon per person per visit" or "Nontransferable"
- Special considerations, such as:
 - Invoices showing purchases of sufficient stock to cover all coupons must be shown upon request
 - Submit in compliance with [company name] coupon redemption policy
 - Void where prohibited, taxed, or restricted

Coupon redemption requires experience, so lean on your vendors for help. Use this book as a guideline for your discussions with the coupon publisher, the clearinghouse, your agency, and others. They may or may not share redemption data with you, but ask. There are so many variables that you want input from the people who've seen every manner of coupon. Then start your own file and build your own expertise.