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Research Note

Which Categories and Brands to Promote with Targeted Coupons to Reward and to Develop Customers in Supermarkets

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Abstract

This study explores the role of category and brand characteristics in the effectiveness of two types of targeted coupons aimed at achieving a retailer's specific goals. In one case, the retailer issues the coupon to reward customers offering discounts in brands they already buy. In the other case, the retailer seeks to develop customers by issuing coupons in categories where they do not buy branded alternatives at the retail chain.

A multi-brand and multi-category quasi-experiment consisting of 893 targeted checkout coupons of consumer packaged goods (CPG) issued at a supermarket chain reveals that (1) the brands and categories with higher redemption rates vary depending on the retailer goal and (2) for reward coupons extended to current brand buyers, some of the brand and category characteristics driving higher redemption rates are not the same as those driving incremental sales. To explain these results, we propose that customers evaluate costs and benefits when redeeming a brand's coupon in a different way depending on whether they are current buyers of the brand. Additionally, we identify that some brands with higher redemption rates are not necessarily the same ones that lead to purchase acceleration and therefore drive incremental sales.

These analyses are of significant managerial relevance because they enable us to map the categories and brands that a retailer should promote depending on whether the objective is to increase customer loyalty rewarding clients for buying brands that they are already purchasing or entice them to buy in categories that they are not yet purchasing at the store.

Keywords: Targeted coupons; Promotional response; Segmentation

Introduction

Consumer promotions are widely used as a marketing tool to increase sales and thus help managers quickly achieve short-term goals (Neslin 2002). Coupons are the second-most-used form of consumer promotions in supermarkets; the most common of these coupons are free-standing inserts and in-store coupons (checkout and instant redemption) (Nielsen 2011). The number of coupons issued increased from 287 billion in 2008 to 329 billion in 2013 (Inmar Inc. 2012). Moreover, the vast amount of customer data available today enables retailers to provide customized coupons, either at the checkout or through personalized email or mail campaigns. This approach has been used by supermarkets, such as Tesco in the United Kingdom, to leverage loyalty program data by increasing the value of targeted discounts (Kumar and Reinartz 2006; Rowley 2005).

Thus, the planning and execution of targeted promotions is becoming increasingly important to supermarkets. These retailers need to choose which merchandise to promote among different segments of target customers. To do so, they have to consider two aspects. First, retail chains that manage thousands of stock keeping units (SKUs) need to choose among a variety of targeted offers to generate higher promotional responses. Using direct promotions too frequently or without an endorsement of appropriate merchandise translates into a lower impact and economic return for these initiatives (Venkatesan and Farris 2012). Whether it is more profitable to promote a more expensive (or cheaper) brand in a category or whether it is preferable to temporarily reduce the price of products with short versus long purchase cycles are the types of decisions that store managers frequently must make. Previous research has reported and explained the characteristics of brands and categories with higher promotional responses in the context of store promotions

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(Ailawadi et al. 2006; Fader and Lodish 1990). Therefore, we should expect that the response rates and sales impact of targeted coupons also depend on the promoted brands' characteristics.

Second, because it is common for customers to shop regularly at different retail chains (Mägi 2003), supermarkets must not only protect the sales of brands that customers already buy but also entice customers to buy merchandise that is not currently being purchased at the retailer. Zhang and Wedel (2009) found in their empirical analysis that "most of the benefits of customization can be achieved differentiating promotions according to whether a consumer bought the target brand on the previous occasion rather than fine-tuning the discounts for specific segments." These findings suggest that retailers should consider what is their intended goal and, thus, customers' previous brand choice, as one of the most critical segmentation basis.

The objective of this study is to shed light on these issues through the empirical analysis of a retailer couponing program. More specifically, we aim to answer the following three questions: (1) What are the brand and category characteristics that achieve higher coupon redemption rates when the retailer's objective is to reward customers offering discounts on brands they are already buying? (2) How should those characteristics change if the retailer's goal is to develop customers by enhancing coupon redemption among clients that are not buying the promoted category at the store? Finally, (3) for reward coupons, are the brands and categories with higher coupon redemption rates the same ones that are driving incremental sales? Answers to the above questions will help retailers develop more efficiently targeted coupon programs and enable them to allocate more resources to brands that can drive higher incremental sales from customers receiving these distinct type of promotions.

In this study, we analyze the results of 893 targeted checkout-coupon campaigns at a mid-size European supermarket retail chain. Notably, the retailer issued coupons of two different types: the first type promoted brands for current brand buyers to reward them; the second one promoted brands to non-buyers of branded alternatives of a category with the goal of activating their spending in that given category. The eligibility to receive these coupons depended on each household's recent purchase history at the store chain. Another key element of the program was that the retailer used control groups to track the purchases of customers who were similar to those receiving the promotion and would not receive the coupon. This setup constitutes a quasi-experimental setting that is rarely replicated in a retail supermarket environment.

Research Contribution

Recent marketing literature has explored some aspects related to the management of targeted coupons such as discount size, the temporal timing of discounts (Johnson, Tellis, and Ip 2013), the measurement of returns from customized coupon campaigns for ticket sales (Sahni, Zou, and Chintagunta 2014) and supermarket purchases (Venkatesan and Farris 2012) in online and offline stores (Zhang and Wedel 2009). However, it remains largely unknown which categories and brands a retailer should promote via targeted coupons when the purpose of the supermarket is to encourage customers to buy brands in categories that they do not currently buy at the store versus rewarding clients with coupons for brands that they already purchase.

Following the cost-benefit framework proposed by Mace and Neslin (2004), we hypothesize why the relationship between some of the category and brand characteristics of the offer and promotional response depends on the type of the targeted buyer and, for brand buyers, it also depends on whether the goal is to achieve a higher level of redemption or to drive incremental sales. Our multi-brand, multi-category, cross-sectional study on the short-term promotional response to targeted coupons shows the existence of those differences. From these findings, we develop specific recommendations for retailers to help them improve the management of targeted coupons that adds on to previous research in this area.

The remainder of this paper is organized as follows. In the next section, we present the conceptual and theoretical background for our analysis. Then, we describe the data and the research design and report the results of our empirical study. We conclude with a discussion of the significance of our work, details on the managerial implications of our findings, and avenues for future work.

Conceptual and Theoretical Background

Reward and Cross-Category Coupons

Retailers use the customer information available through loyalty cards to reward clients providing discounts for products that the customer already purchase such as the "loyalty coupons" of the Catalina Marketing's Checkout Coupons service (Zhang and Wedel 2009) or the reward campaigns of Venkatesan and Farris (2012).[2] As shown by these previous studies, these coupons have a higher chance of providing customers an income effect, generate a halo effect to buy non-promoted categories and increase customer satisfaction to avoid store switching. We will refer in this study to this type of promotion as *reward coupons*.

Sometimes retailers issue targeted coupons on merchandise that customers have not purchased recently. There can be several reasons for this. Sometimes, manufacturers pay for targeted coupons aiming for customer brand switching. The retailer benefits from these investments and offers discounts that some of its customers will consider as valuable. However, if the retailer's goal is to increase category expenditure and the supermarket is paying for the coupons itself, it will be of little interest to invest in targeting customers that are already buying another brand in the category at full price. Moreover, when the retailer is managing the delivery of the coupons and wants to enroll manufacturers to fund them, offering the possibility of targeting brand switchers can be problematic: It is not advantageous for manufacturers to attract customers from competitors with coupons when these

[2] *Loyalty coupons* were issued to "consumers who purchased the target brand on the previous purchase occasion" (Zhang and Wedel 2009) while *reward campaigns* were issued to "customers that purchase the promoted brand often" (Venkatesan and Farris 2012).