

## US consumers and coupons: A story of redemption



American consumers have been using coupons with new enthusiasm. But is this a good thing for companies?

By Dianne Esber and Travis Walter

Saddled by debt and haunted by uncertainty, many US consumers have been bargain hunting with new determination. The number of coupons redeemed rose 25% between 2008 and 2009. And while the recession has officially ended, the atmosphere of austerity and uncertainty has lingered, and thus, the popularity of coupons has continued to grow. In fact, coupons threaten to become fashionable – witness the fuss over Groupon’s IPO and the email inboxes stuffed with online coupons.

In 2010, American consumers and businesses used coupons to make \$9.3 billion in purchases, compared to \$7.2 billion in 2007. By 2014, that figure could rise to \$11 billion. With US consumers in a frugal mood, couponing is not going to go away. For businesses, though, coupons have significant economic consequences—and they need to be handled with care.

Far from being a habit of lower-income individuals, it is wealthier consumers who clip, save and spend the most with coupons. Among “coupon enthusiasts” for example—households that used

more than 100 coupons over a six-month period—41% earned more than \$70,000 per year. According to one online poll, coupon-friendly households with six-figure incomes were twice as likely to use coupons as those making less than \$20,000.

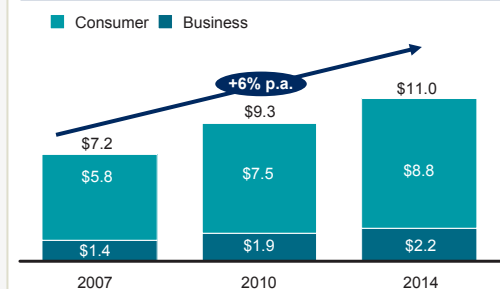
Methods for finding these coupons are changing. While free-standing inserts in the Sunday newspapers, in-store clipping

and mailed coupon packs are still the most common ways consumers pick up coupons, email and the Internet are rising fast (36% growth per year since 2005). Easy to develop and quick to deploy, the appeal of online coupons is easy to appreciate. Moreover, redemption rates are much higher—up to 15% compared to 1% for traditional outlets—and digital coupons are much more likely to go viral. Whole Foods,

Exhibit 1:  
Clip, clip

Size & Growth: Coupon usage, particularly given the recession, has been and will continue to grow

Total coupon spend<sup>1</sup>, US  
\$, Billions



% spend by vertical  
percent, 2010

|                  |     |
|------------------|-----|
| Household        | 10% |
| Automotive       | 9%  |
| Retail           | 7%  |
| Food/ restaurant | 6%  |
| Beauty/fitness   | 5%  |
| Other            | 63% |

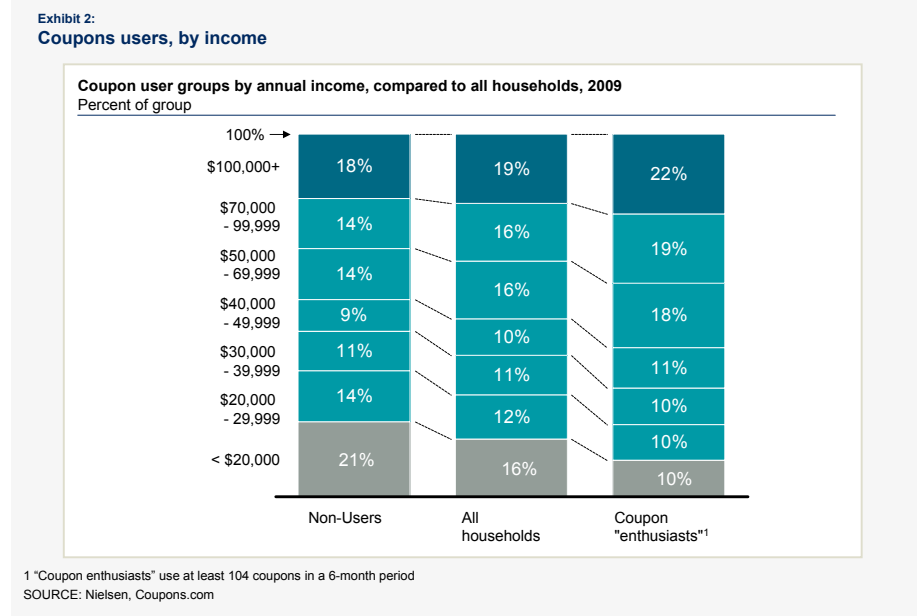
<sup>1</sup> Does not include group buying coupon programs  
SOURCE: McKinsey; Intermedia Dimensions; VSS; BEA

for example, sold 1 million coupons (\$10 for \$20 in purchases) on Living Social in less than a day. Online coupons also allow advertisers to make their pitch much more precisely than those delivered through the Sunday paper, where the only possible targeting is by zip code.

The kinds of new, innovative forms of couponing are also growing. By early 2011, there were 325 group-buying websites (e.g., Groupon) operating in the US—a stunning fivefold increase over the previous year. Another sector to watch is mobile couponing. While mobile couponing accounted for only \$62 million in redemptions in 2010, this is another fast area of growth. Initially limited by technical problems, such as difficulty scanning bar codes from handsets, these glitches are being resolved, opening another promising avenue to reach a new generation of coupon clippers.

The big question is not whether couponing will continue to grow—it will—but whether this will be a good thing for marketers and retailers.

For one thing, having additional distribution channels does not change the fundamental conundrum of discounting—namely, that McKinsey analysis shows that half of coupons are redeemed by existing customers who likely would have bought the item anyway. In many cases, coupons simply cut into profit margins. Another large chunk of redeemed coupons goes to consumers who are lured only by



price and do not become loyal customers. The result is that for businesses, the return on investment on coupons can be low and sometimes negative.

The risk is that as more consumers begin to clip (or download) coupons, they will expect big discounts routinely and delay purchases until they get one. Today, the face-value discount makes up more than half the total cost of a coupon campaign, and that fraction is rising as discounts get deeper in order to keep consumers clipping. Retailers, too, have not solved the coupon paradox—that coupons frequently shift consumers between brands, rather than boosting incremental sales.

For consumers, then, coupons are an unalloyed good thing—and the easier they are to access, the better. For companies, though, managing coupons—whether paper, digital or mobile—is going to be another challenge in the hunt for profit.

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