

A Forrester Consulting Thought Leadership Paper Commissioned By WhaleShark Media

The Impact Of Online Coupons And Promotion Codes

Forrester Investigates The Incremental Value That Online Coupon And Deal Sites Deliver To Merchants

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FORRESTER

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Executive Summary

In 2005, 12% of US households used online coupons. By 2011, that number had reached 22%.¹ Online coupons exert more influence on commerce today than ever before, but the key question remains — do online coupons drive new and incremental business to merchants?

In July 2011, WhaleShark Media asked Forrester to analyze the impact that online coupon and deal sites have on the incremental business portfolios of its merchant partners. To create a full picture of the online coupon market and its unique dynamics, Forrester surveyed 504 US-based coupon users and also conducted five in-depth interviews with eCommerce executives from large companies across various industries (clothing and apparel, home and garden, food and entertainment, and travel) who are currently responsible for online couponing. Our line of questioning explored to what extent online coupon and deal sites increased customer conversions, decreased shopping cart abandonment, and increased customer loyalty and company brand reputation. In the end, we found that online coupon and deal sites do indeed drive quantitatively and qualitatively measureable incremental business for merchants.

Key Findings

Forrester's study yielded three key findings:

- **Online coupons and promotion codes drive incremental business.** Online coupons and promotion codes generate new users and increase overall user spending.
- **Online coupons and promotion codes positively influence the purchase cycle.** Online coupons and promotion codes improve conversion rates, reduce shopping cart abandonment, and improve brand loyalty and reputation (as long as promotions stay fresh).
- **Visitors to coupon websites are an especially valuable segment of shoppers.** They spend more money, make more purchases, and respond more favorably to online coupons and promotion codes than the average online shopper.

Key Trends In The Use Of Online Coupons And Promotion Codes

In our in-depth interviews with eCommerce executives who manage online coupons and promotion codes within their organizations, we heard a familiar refrain. Interviewees said online couponing is on the rise and, because it's more measureable and easier to personalize and customize, will continue to outpace the growth of offline couponing.

"We expect to see a continued 'surge' in online couponing." (Marketing Director, home furnishings retailer)

"Online coupons work harder for us (than offline coupons) and offer a better consumer experience." (CRM & Online Marketing Manager, food & beverage retailer)

In addition, the data from our large-scale consumer survey of online coupon users very clearly points out that online coupon and promotion code use, spending, and savings are all increasing:

- **Frequency of use of online coupons and promotion codes is increasing.** Heavy coupon users within the overall U.S. coupon user population, defined here as those who use coupons for 25% or more of their total online purchases, expect their use of online coupons to increase by a full 11 percentage points in the next year (from 55% to 66%). In addition, families (defined here as households with children present in the home) expect their use of online coupons to increase by 17 percentage points in the next year (from 56% to 73%).

Table 1

Frequency Of Coupon Use Is Increasing

	All respondents (Last 12 months)	All respondents (Next 12 months)	% Difference	Respondents with children in household (Last 12 months)	Respondents with children in household (Next 12 months)	% Difference
Use for 25-50% of online purchases	26%	31%	+5%	28%	33%	+5%
Use for 50%+ of online purchases	29%	35%	+6%	28%	40%	+12%
Total	55%	66%	+11%	56%	73%	+17%

Source: A commissioned study conducted by Forrester Consulting on behalf of WhaleShark Media August 2011

- **Spending by those who use online coupons and promotion codes is increasing, especially in the key “families” segment.** While online spending among all US online coupon and promotion code users is expected to increase just 2% in the next year (from \$1,397 to \$1,428), online spending among families that use online coupons and promotion codes is expected to increase in the next year by 11% (from \$1,539 to \$1,712).

Table 2
Spending By Online Coupon And Promotion Codes Users Is Increasing

	All respondents (Last 12 months)	All respondents (Next 12 months)	% Difference	Respondents with children in household (Last 12 months)	Respondents with children in household (Next 12 months)	% Difference
Spend mean	\$1397	\$1428	+2%	\$1539	\$1712	+11%
Save mean	\$192	\$245	+27%	\$214	\$263	+23%
Save/spend	14%	17%		14%	15%	

Source: A commissioned study conducted by Forrester Consulting on behalf of WhaleShark Media August 2011

Table 3
Savings By Online Coupon And Promotion Codes Users Is Increasing

	All respondents (Last 12 months)	All respondents (Next 12 months)	% Difference	Respondents under 32 years of age (Last 12 months)	Respondents under 32 years of age (Next 12 months)	% Difference
Spend mean	\$1397	\$1428	+2%	\$1205	\$1208	0%
Save mean	\$192	\$245	+27%	\$195	\$252	+29%
Save/spend	14%	17%		16%	21%	

Source: A commissioned study conducted by Forrester Consulting on behalf of WhaleShark Media August 2011

- **Savings associated with online coupons and promotion codes is increasing.** The overall US online coupon and promotion code user population expects to increase how much they save in the next year by using online coupons

and promotion codes a full 27% (from \$192 to \$245), even though they only anticipate increasing their total online spending by 2%. Similarly, families that use online coupons and promotion codes anticipate increasing how much they save in the next year by using online coupon and promotion codes by 23% (from \$214 to \$263), even though they only expect to increase their online spending by 11%. But perhaps the most telling spend versus save comparison manifests itself among respondents under the age of 32 who anticipate increasing how much they save in the next year by using online coupons and promotion codes by 29% (from \$195 to \$252), even though they do not expect to increase their spending at all.

All three segments anticipate spending either the same or just slightly more online in the next 12 months, but expect to save a whopping 20% to 30% more. In short, all three segments expect online coupons and promotion codes to produce substantially more savings for them on a marginal basis next year than online coupons and promotion codes did last year.

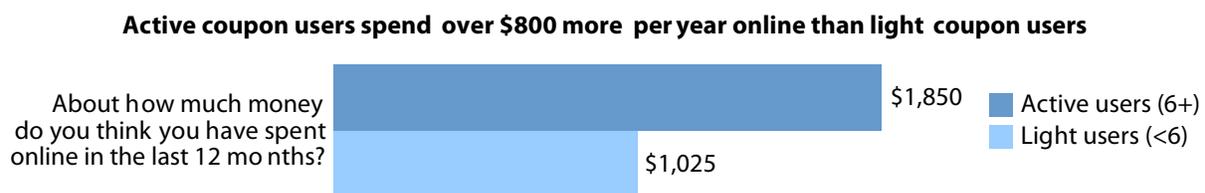
Online Coupons And Promotion Codes Drive Incremental Spending

To isolate for the incremental effect of online coupon and promotion code use on spending, Forrester analyzed the behavior of “active” coupon users. To qualify as “active” users, these individuals must have redeemed online coupons more than the average reported in the survey of six times in the past 12 months. Our analysis was based on the premise that if active coupon users were to spend less online than average users or light users, that would indicate that using more coupons fails to induce new and incremental spending.

But in the case of those who redeemed more than six coupons in the past 12 months, their average reported online spending was in excess of \$800 more per year than light users (\$1,850 versus \$1,025), and more than \$450 more than the mean spend of all US coupon users (\$1,397). In addition, those who said they “increased” their coupon use in the past 12 months spent more on average (\$1,523) than those who indicated that their use of coupons “stayed the same” in the past 12 months (\$1,340).

Figure 3

Active Coupon Users Spent More Online

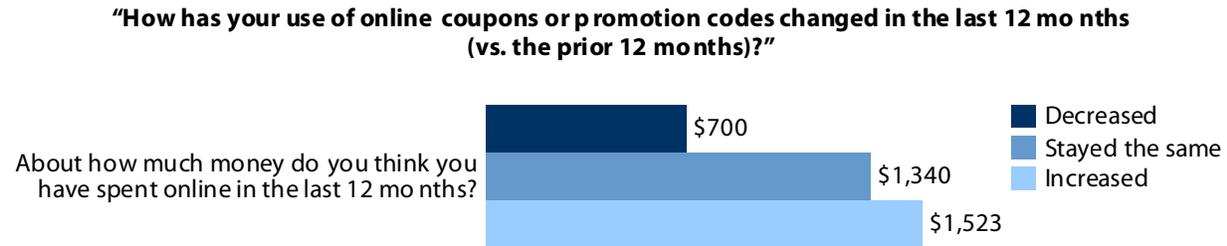


Base: 504 online coupon users

Source: A commissioned study conducted by Forrester Consulting on behalf of WhaleShark Media August 2011

Figure 4

Those Who Have Increased Coupon Use In The Past 12 Months Spent More Online



Base: 504 online coupon users

Source: A commissioned study conducted by Forrester Consulting on behalf of WhaleShark Media August 2011

The data also shows that those who are likely to use more online coupons in the next 12 months will spend nearly three times as much online as those who are not likely to use more online coupons in the next 12 months (\$1,635 versus \$613). Similarly, those likely to use more coupons in the next 12 months expect to spend \$200 more than the average US online coupon user expects to spend in the next 12 months (\$1,428).

Figure 5

Those Who Expect To Use MORE Coupons In The Next 12 Months Will Spend More Online



Base: 504 online coupon users

Source: A commissioned study conducted by Forrester Consulting on behalf of WhaleShark Media August 2011

Online Coupon And Promotion Code Channel Generates Incremental Users

In our in-depth interviews with eCommerce executives currently responsible for online couponing, a strong consensus formed around the claim that online coupon and deal sites drive significant numbers of incremental users to their websites:

“50% of our affiliate coupon site traffic is new and incremental business. More of our new customers are coming from affiliate than anywhere else. It’s a great source of incremental customers for us.” (Manager of Affiliate Programs & SEO, travel industry)

“We know customers are loyal to [coupon aggregator] sites. We also know it drives a large number of new customers, ranging from 18%-25% of our net new customers.” (Sr. Online Manager, large apparel and home furnishing retailer)

One interviewee made the further point that affiliate channel-acquired online coupon and promotion code customers were among his most profitable:

“A coupon customer acquired through an affiliate is much more profitable than someone acquired through a price comparison site. Our affiliate channel has produced lots of [sales] success so far.” (Marketing Director, home furnishings retailer)

Online Coupons Positively Influence The Purchase Cycle, With One Caveat

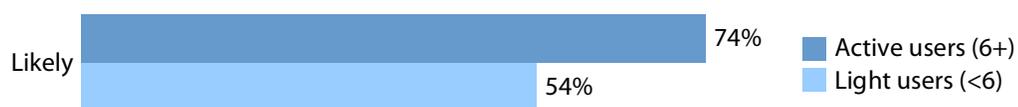
Overall, we found that online coupons and promotion codes had a clear and positive influence on the qualitative side of the purchase cycle. Specifically, the data demonstrates that online coupons and promotion codes do the following:

- **Improve conversion rates.** Active coupon users are more likely than light coupon users to try a new brand and/or switch brands — 74% to 54% and 61% to 43% respectively. This implies that the more shoppers use coupons the more open they are to trial.

Figure 6

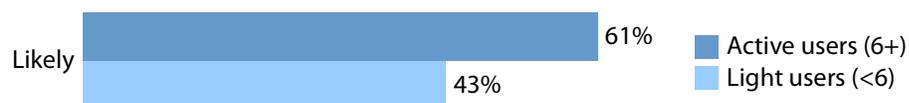
Active Coupon Users Are More Likely To Try A New Brand And More Likely To Switch Brands

“How likely would you be to try a NEW brand if you received an online coupon or promotion code?”
(Top 2 on a 5 point scale where 5=“very likely”)



Base: 504 online coupon users

“How likely would you be to SWITCH brands if you received an online coupon or promotion code?”
(Top 2 on a 5 point scale where 5=“very likely”)



Base: 504 online coupon users

Source: A commissioned study conducted by Forrester Consulting on behalf of WhaleShark Media August 2011

- Reduce shopping cart abandonment.** Among the total US online population, shopping cart abandonment is likely to decrease when users are offered coupons. This is of particular importance to merchants who do not offer discounted shipping, for example, and see relatively high bounce rates at the end of the shopping process. These merchants could use online coupons and promotion codes to recapture a likely lost sale.

Figure 7

Targeted Online Coupons And Promotion Codes Reduce Shopping Cart Abandonment

“How likely would you be to reconsider purchasing a product you put in your shipping cart, but did not buy, if you received an online coupon or promotion code (e.g. by pop-up window, email, etc.)?”



Base: 504 online coupon users

Source: A commissioned study conducted by Forrester Consulting on behalf of WhaleShark Media August 2011

- Improve brand loyalty and reputation.** Within the total U.S. online population, 80% of respondents indicated that a company that offers online coupons “improves” that company’s brand image. In addition, 88% of all respondents said that they had “positive feelings” towards a brand that offers coupons. This research bolsters the argument that online coupons and promotion codes in general help, rather than hurt, a company’s brand image.

Figure 8

Offering Online Coupons Reinforces A Company’s Brand Image

Offering online coupons or promotion codes IMPROVES a company’s brand image



Base: 504 online coupon users

Source: A commissioned study conducted by Forrester Consulting on behalf of WhaleShark Media August 2011

I have a POSITIVE feeling toward a company that offers online coupons or promotion codes



Base: 504 online coupon users

Source: A commissioned study conducted by Forrester Consulting on behalf of WhaleShark Media August 2011

However, the research also shows that over-couponsing and/or stale promotions can have the effect of tarnishing a company's brand image. As many interviewees indicated in our discussions, products and services that are perceived to be "on sale" perpetually risk becoming commoditized and devalued in the marketplace.

"We won't do coupons 365 days of the year; that's when you see your brand image diminish." (CRM & Online Marketing Manager, food & beverage retailer)

"If you don't offer a coupon right now, then you don't get the customer. Right now it's accepted [positive impact on brand], but maybe not later." (Sr. Online Manager, large apparel and home furnishing retailer)

"Couponsing on commodity items is essential to keeping your market share. But where your brand is strong, coupons just diminish your reputation." (Online Marketing Manager, food & beverage industry)

Merchants need to find that proper balance between couponsing enough versus couponsing too much. Also, very importantly, the promotions must stay fresh. The appropriate quantity and quality of couponsing is specific to industry verticals, product lines, and brand personalities.

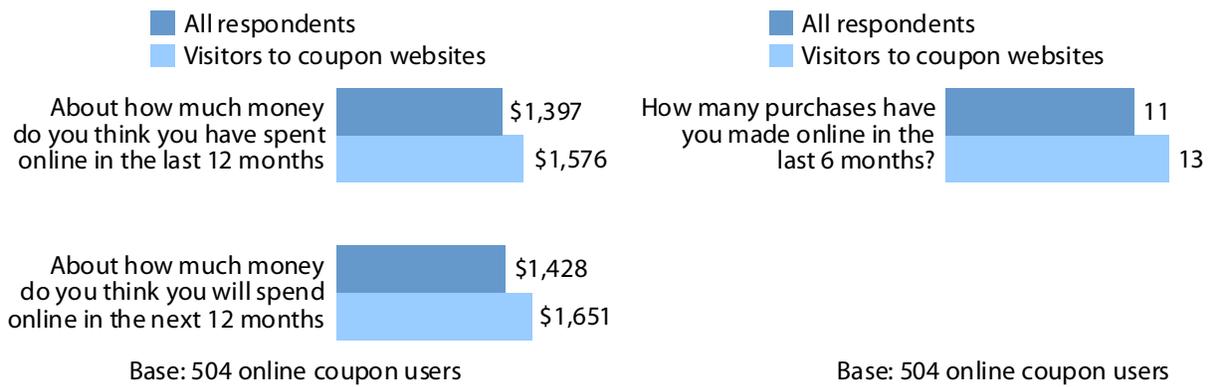
Visitors To Coupon Websites Are Especially Valuable Shoppers

When we compared the behavior of respondents in the survey who identified themselves as those who "visit coupon websites" with the behavior of the mean online shopper, we saw some clear and compelling contrasts. Specifically, we observed the following about this unique shopping segment relative to average online shoppers:

- **They spend appreciably more money online.** We found that visitors to coupon websites spent 13% more and expect to spend 16% more, on average, than the typical online shopper. Specifically, visitors to coupon websites indicated spending \$1,576 online in the past 12 months versus an average of \$1,397 for all online shoppers. In addition, visitors to coupon websites expect to spend an average of \$1,651 online in the next 12 months vs. \$1,428 for the typical online shopper.
- **They make more purchases online.** Visitors to coupon websites make 18% more online purchases than the average online shopper. On average, typical shoppers indicated making 11 online purchases in the past six months versus visitors to coupon websites who indicated making 13 online purchases in the past six months.

Figure 9

Visitors To Coupon Websites Spend More Online And Make More Online Purchases



Source: A commissioned study conducted by Forrester Consulting on behalf of WhaleShark Media August 2011

- **They are more likely to be influenced by coupons when undecided about a purchase.** Visitors to coupon websites are more likely than the average online shopper to be influenced by an online coupon or promotion code. In fact, 88% of visitors to coupon websites versus 78% of all respondents agreed with the statement that coupons “close the deal” for them when they are undecided on a purchase.

Figure 10

Visitors To Coupon Websites Are More Likely To Be Influenced By Online Coupons When Undecided

Online coupons or promotion codes OFTEN close the deal for me if I'm undecided on a purchase



Source: A commissioned study conducted by Forrester Consulting on behalf of WhaleShark Media August 2011

KEY TAKEAWAYS

Forrester's data shows that the more online coupons and promotion codes consumers use, the more money they spend online. In addition, the more active coupon users are, the more likely they are to try new brands and to switch brands. Also, as a segment, visitors to coupon websites clearly spend more online and make more purchases online than the average online shopper. They are also more likely to be influenced by a coupon when they are undecided about a purchase:

- **Online coupons and promotion codes drive incremental business.** Evidence shows that online coupons and promotion codes produce incremental spending and generate new users. As measurement capabilities mature, online merchants will use customer lifetime value modeling to further hone their acquisition ROI analysis.
- **Online coupon and promotion code trends are positive.** Online coupon usage, spending, and savings are all increasing — both overall and within key segments such as households where children are present and among shoppers who are under 32 years of age.
- **Online coupons and promotion codes positively influence the purchase cycle.** The research shows that coupon use increases conversions, reduces shopping cart abandonment, and improves brand loyalty. However, merchants do need to be careful not to coupon constantly and thereby diminish the value of their product/service/brand — especially if their offers become predictable and prosaic.
- **Affiliate coupon channel is uniquely positioned.** eCommerce executives we interviewed told us that the affiliate channel's arms-length third-party status enabled them to "market the brand in a way you can't on your own" in terms of running long-term discounts and experimenting with new online coupon and promotion code incentives. In addition, they indicated that the affiliate coupon channel offers unique and attractive reach and frequency.
- **Coupon websites attract valuable users.** Visitors to coupon websites spend more money online, make more purchases online, and respond more favorably to online coupon and promotion code incentives than the average online shopper. They are substantially more likely than the average online shopper to try new brands, switch brands, increase basket size, and have positive feelings toward companies that offer coupons and promotion codes.

Appendix A: Methodology

In this study, Forrester surveyed 504 US-based coupon users and interviewed five eCommerce executives from large companies across various industries (clothing and apparel, home and garden, food and entertainment, and travel) who are currently responsible for online couponing to evaluate their perceptions and understanding of the online coupon market. Questions provided to the survey participants asked about coupon use, attitudes, and decision-making. Questions in the executive interviews focused on the current and future state of online couponing and promotion code usage, how and whether online coupons and promotion codes drive incremental value, and what impact online couponing and promotion code usage has on a company's brand reputation. The study began in July 2011 and was completed in August 2011.

Appendix B: Demographics/Data

Figure B1

Online Coupon Users: Age Of All Respondents And Those With Children In Household

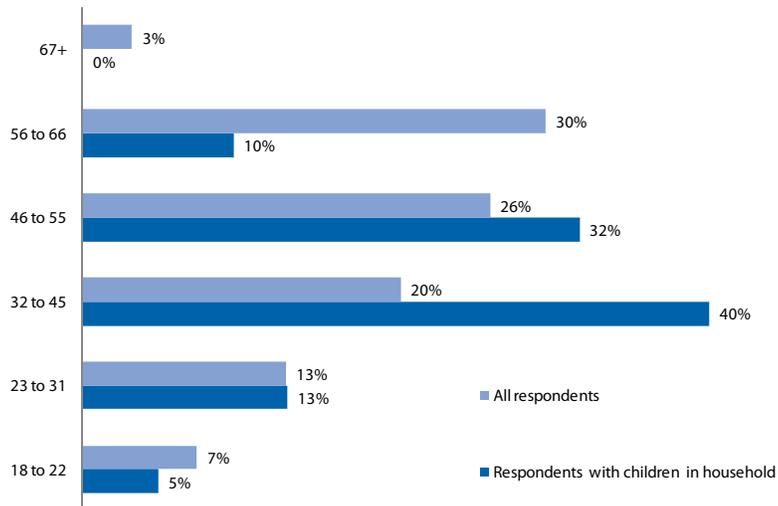


Figure B2

Online Coupon Users: Gender

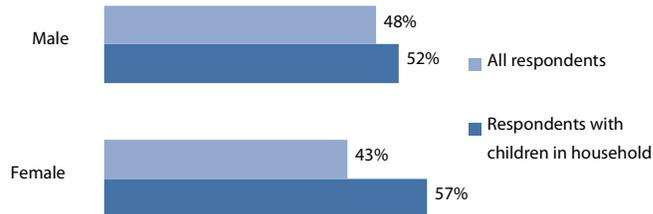
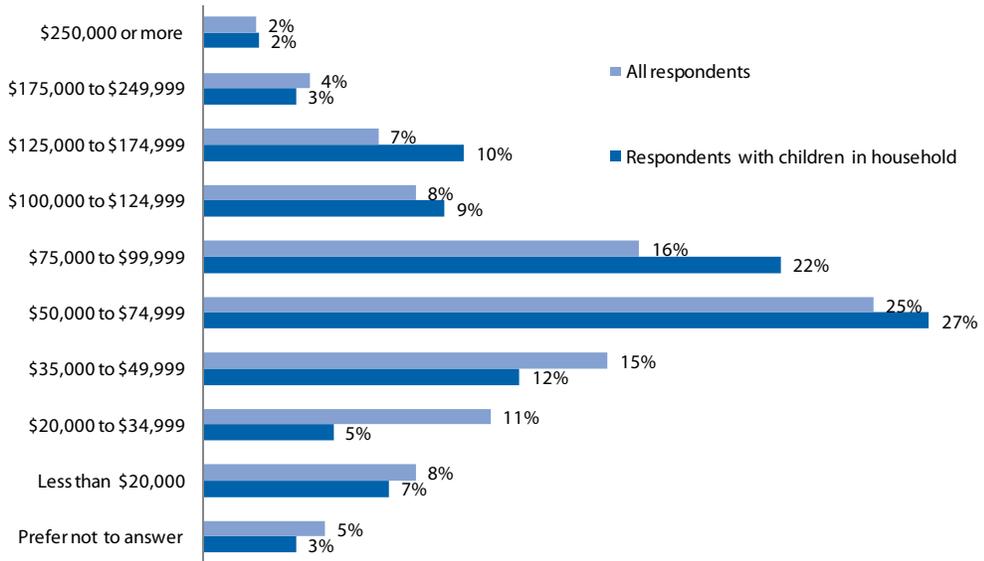


Figure B3

Online Coupon Users: Income level



Endnotes

¹Source: John Fetto, "Print Coupon Use Strong Despite Increase In Digital Coupons," *Experian Marketing Services Blog*, March 31, 2011 (<http://www.experian.com/blogs/marketing-forward/2011/03/31/print-coupon-use-strong-despite-increase-in-digital-coupons/>).