A Forrester Consulting
Thought Leadership Paper
Commissioned By
RetailMeNot

The State Of Digital Coupons

How Digital Coupons Are Adapting To Mobile And Omnichannel



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Executive Summary: Digital Coupons Know No Boundaries

Digital coupons are keeping up with the times and are still very relevant as omnichannel retail becomes the norm. In conducting in-depth surveys with 500 consumers who have used a digital coupon within the past three months, Forrester found that 59% stated that digital coupons and coupons codes are mostly likely to influence their purchase decision compared with other types of digital promotions. In addition, a strong majority of consumers will redeem a digital coupon code within three days of receiving it, and nearly one-third will redeem it immediately. Given these two salient data points, it is clear that retailers need to master the digital coupon process and identify the right partners to ensure they can deliver digital coupons at the right time and place.

In March 2014, RetailMeNot commissioned Forrester Consulting to analyze the impact that online coupon and deal sites have on the incremental business portfolios of its merchant partners. To do this, we conducted a survey of US digital coupon users and in-depth interviews with eCommerce and marketing leaders at four large US retailers and one large US restaurant chain.

This paper is a refresh of the study commissioned in September 2011 entitled "The Impact of Online Coupons And Promotion Codes." The 2011 piece showcased how the online coupon and deal site business model was merchant-friendly and provided proof points to the assertion that a smart couponing strategy leads to profitable sales from the very first coupon. That study yielded three key findings:

- Online coupons and promotion codes drive incremental business.
- Online coupons and promotion codes positively influence the purchase cycle.
- Visitors to coupon websites are an especially valuable segment of shoppers.

For this paper, Forrester will be looking to understand what has changed since 2011 to uncover new trends and understand how people are thinking about digital couponing. This study will provide insight into the omnichannel commerce (omnichannel offers in the offline channel world), as well as insight into how mobile affects in-store traffic and sales.

Customers will come in through any channel and expect seamless service from social connections through to the right inventory at the right place, including one's home. Omnichannel is one unified brand experience no matter how or where a consumer engages with the brand. If brands want the new generation of customers to engage and stay loyal to their brands, then they need to adapt.

With the ability to target and personalize offers, direct marketing makes traditional coupons more relevant. Direct marketers now have more options to reach consumers and drive real-time purchasing decisions as digital coupons, combined with mobile consumer shopping, make it easier for shoppers to get savings at the moment they're deciding what to buy.

KEY FINDINGS

Forrester's study yielded five key findings:

- Mobile coupon use through tablets and smartphones is on the rise. Consumers are using tablets and smartphones to view digital coupons as well as redeem them either online or in-store; however, the desktop and laptop computer are still the primary devices by which consumers view digital coupons and promotions.
- Email maintains the lead. The primary means by which coupons are received continues to be email. However, native apps using location awareness technologies and coupon sites are also on the rise and being put to use by leading-edge retailers.
- Retailers must master the digital to in-store redemption process. There's a real opportunity for retailers to master the digital coupon process. Easy redemption, mobile-formatted coupons, and a balanced marketing plan will drive users to the store and online properties which, in turn, provides opportunities for conversion and increased spend by consumers.
- Digital coupons continue to increase loyalty. Customers continue to believe that coupons do not dilute brand perceptions; in fact, they strengthen loyalty. This perception continues to hold true as much as it did since the last commissioned study by Forrester for RetailMeNot in 2011.
- In-store customer service is key to success. Customers are likely to spend more than anticipated instore when using coupons, so it's critical for retailers to make the redemption process part of the customer-selling model.



Digital Coupons Are Alive And Well

The shift to buying online continues at a rapid pace, and mobile coupon redemption through a variety a devices is influencing this trend. Over a three-month period, 68% of consumers today have made between one and 10 purchases online. Of those who have made one to 10 purchases over the past three months, 86% have used a digital coupon (see Figure 1). Consumers continue to make purchases in the typical areas that one would expect. Restaurants, bath and beauty, and home and garden tend to be the most top-tier categories where consumers have made their purchases online or in-store. Interestingly but not surprisingly, the next group of retailers includes consumer electronics, books, movies, and music, as well as gifts and flowers. These purchases tend to be made more online than in-store.

What's really compelling and encouraging for retailers is:

- Coupons continue to rule the world of promotions. An overwhelming 59% of consumers stated that of the different types of promotions a retailer can employ, digital coupons still hold the most sway when it comes to influencing a consumer's purchasing decision (see Figure 2). This continues to reinforce a key finding from Forrester's 2011 Thought Leadership Paper: online coupons and promotion codes positively influence the purchase cycle.
 - "Coupons continue to be vitally important. They are the primary means for how we advertise digitally."
 - Marketing director at a major US restaurant chain
- loyalty. What also continues to be true from 2011 is that 68% of customers strongly believe that digital coupons have a positive impact on a retailer's brand, and 68% of consumers also stated that coupons generate loyalty (see Figure 3). Similarly, a digital coupon increases the potential for conversion when consumers are in the cart and checkout phase of a purchase and plays a key role in combatting shopping cart abandonment. Sixty-three

- percent of consumers surveyed said a promotion or a coupon often closes the deal if they are wavering or undecided on making a purchase.¹
- Mobile coupons can broaden consumers' horizons. In addition to being loyal, customers are also very open to trying a new brand when receiving a coupon on a smartphone. In fact, 47% of those surveyed stated they are open to doing so (see Figure 4).

These points all add up to good news for retailers and continue to reinforce that this marketing tactic can make all the difference when it comes to generating new customers, encouraging existing customers to spend more, and driving customers to a retailer's brick-and-mortar locations.

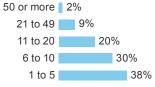
"In tracking coupon use, we see that customers that were making 3-4 purchases per year are now making 6-7."

 Loyalty director at a US department store retailer

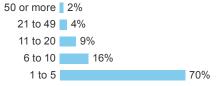
FIGURE 1

Survey Demographics: Online Purchases Versus Digital Coupon Use

"Approximately how many purchases have you made online in the past three months?"



"How many times have you used a digital coupon, offer, or online promotion code (either online or in-store) in the past three months?"



Base: 500 US consumers who used a digital coupon, offer, or online promotion code in the past three months

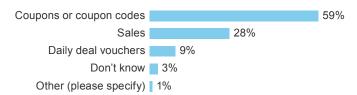
(Percentages may not total 100 due to rounding)

Source: A commissioned study conducted by Forrester Consulting on behalf of RetailMeNot, May 2014



Coupons Are The Most Likely To Influence Consumer Purchase Decisions

"Which of the types of digital (online or mobile) promotions listed below is most likely to influence your purchase decisions?"

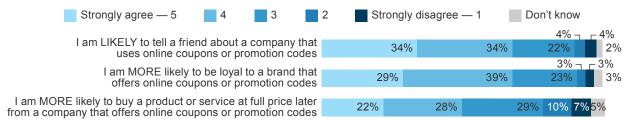


Base: 500 US consumers who used a digital coupon, offer, or online promotion code in the past three months Source: A commissioned study conducted by Forrester Consulting on behalf of RetailMeNot, May 2014

FIGURE 3

Sixty-Eight Percent Of Consumers Believe That Coupons Build Brand Awareness, 68% Also State Coupons Generate Loyalty

"On a scale of 1 to 5, with 5 being 'strongly agree' and 1 being 'strongly disagree,' to what extent do you agree with the following statements?"



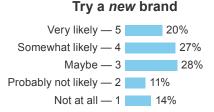
Base: 500 US consumers who used a digital coupon, offer, or online promotion code in the past three months (Percentages may not total 100 due to rounding)

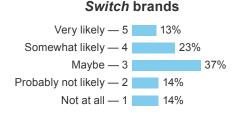
Source: A commissioned study conducted by Forrester Consulting on behalf of RetailMeNot, May 2014



Forty-Seven Percent Of Consumers Likely To Try A New Brand When Receiving A Coupon On Their Smartphone While Shopping In-Store; 36% Likely To Switch Brands

"On a 1 to 5 scale, how likely would you be to do the following if you received a digital coupon, offer, or online promotional code on your smartphone while shopping in a store?"





Base: 500 US consumers who used a digital coupon, offer, or online promotion code in the past three months (Percentages may not total 100 due to rounding)

Source: A commissioned study conducted by Forrester Consulting on behalf of RetailMeNot, May 2014

Everyone Is Looking For A Deal On Their Tablet And Phone

Digital coupons are still primarily delivered the good oldfashioned way through email, and consumers are increasingly using tablets and phones to both find and redeem them. Sixty-five percent of those surveyed for this study stated that they used at least three digital coupons on their tablet, slightly outpacing the use of the desktop computer (see Figure 5).

In addition, the use of native tablet applications is a new trend, whereby 31% of those surveyed are looking for deals using a coupon app they've downloaded from an app store (see Figure 6). Similarly, when it comes to smartphones, one-third of those surveyed are using a coupon application to look for deals and coupons (see Figure 7).

Without a doubt, retailers can't ignore the momentum of mobile adoption. Forrester predicts that US mobile phone and tablet commerce will top \$114 billion by the end of 2014. While smartphone revenue in 2014 should total \$38 billion, tablets are expected to top that, with a total of \$77 billion.²

As consumers spend more time on their mobile phones and tablet devices, retailers have come to understand the importance of delivering strong mobile phone and tablet commerce experiences. This also presents a very real opportunity for retailers to improve how they deliver digital

coupons. Savvy retailers are also leveraging services and offerings by pure play coupon websites and native applications to increase coupon distribution and exposure.

Social media is not as a strong an influence as search engines, coupon sites, or emails, and over half of consumers are neutral or against receiving coupons via a text message. Retailers we interviewed emphasized that it is important to balance how often they send digital coupons, and also to ask customers to opt into receiving coupons via text messaging.

As consumers use tablets more and more for making online purchases and receiving digital coupons, they are employing a variety of ways to redeem them. Some consumers are actually sending a coupon from their tablet to their smartphone for in-store redemption. Others are activating the coupon on their tablet, and the coupon is then sent to their loyalty card. It is clear that retailers have not quite figured out how to optimize the process for redemption given these workarounds by consumers.

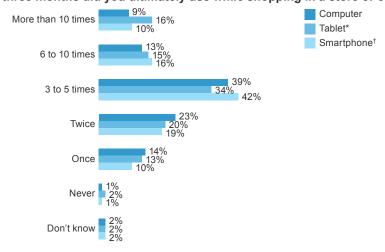
"The desktop computer is still a key source for receiving digital offers. However, we know that mobile is on the rise. As of late, 50% of customers open email on their smartphone device."

 Director, marketing, at a global office supply company



Sixty-Five Percent Of Consumers Use At Least Three Digital Coupons On Their Tablet In Three Months; Tablet And Smartphone Users Tend To Use Slightly More Digital Coupons Than Computer Users

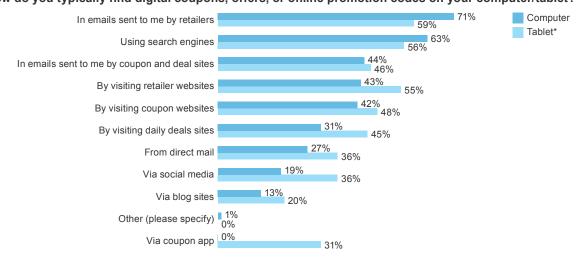
"How many of the digital coupons, offers, or online promotion codes that you found using a computer/ tablet/ smartphone in the past three months did you ultimately use while shopping in a store or online?"



Base: 450 US consumers who used a computer to find a digital coupon, offer, or online promotion code in the past three months *Base: 128 US consumers who used a tablet to find a digital coupon, offer, or online promotion code in the past three months †Base: 177 US consumers who used a smartphone to find a digital coupon, offer, or online promotion code in the past three months Source: A commissioned study conducted by Forrester Consulting on behalf of RetailMeNot, May 2014

FIGURE 6
Consumers Typically Find Digital Coupons In Emails From Both Retailers And Coupons Sites

"How do you typically find digital coupons, offers, or online promotion codes on your computer/tablet?"



Base: 450 US consumers who used a computer to find a digital coupon, offer, or online promotion code in the past three months *Base: 128 US consumers who used a tablet to find a digital coupon, offer, or online promotion code in the past three months Source: A commissioned study conducted by Forrester Consulting on behalf of RetailMeNot, May 2014



FIGURE 7

Consumers Typically Find Digital Coupons On Their Smartphones Through Email, Search; One-Third Use A Coupon Application And/Or Get Emails From A Coupon Company



Base: 177 US consumers who used a smartphone to find a digital coupon, offer, or online promotion code in the past three months Source: A commissioned study conducted by Forrester Consulting on behalf of RetailMeNot, May 2014

Use It Or Lose It; I Better Use My Coupon!

There's a sense of urgency and immediacy when redeeming mobile coupons. In the 2011 study, 78% of respondents agreed that coupons "close the deal" for them when undecided on a purchase.³ The same can be said today. No one likes to lose out on a deal. There's a strong human emotion and motivation to capitalize on an opportunity to save; even more so if a consumer has been wavering on a purchase. Most digital coupons are redeemed within several days, and nearly one-third are redeemed immediately. In terms of devices, 30% of those redeeming a coupon on a tablet do so immediately, and 60% of consumers receiving a coupon via a smartphone redeem it immediately or within several hours (see Figure 8). Receiving a deal or savings via digital coupon can be the tipping point for a consumer to "press buy" online or to walk into a store and make the purchase in real time.

What does this mean for retailers? The underlying fact, given the rapid redemption rate, is that coupons often have an expiration date so consumers have a strong incentive to use it. However, there's also an opportunity for retailers to couple expiration with location.

Consumers increasingly reach for their mobile phones and expect to quickly get information or services in their moment of need. Forrester calls this shift in expectations the "mobile mind shift" and these moments "mobile moments." Delivering effectively in these mobile moments means businesses must leverage context to anticipate motivations of their customers.⁴

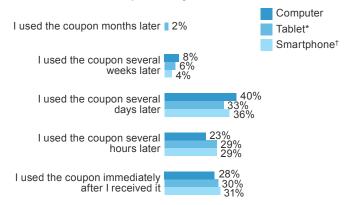
"Over half of our offers are being opened on a smartphone, and it's shifting more and more to mobile."

Loyalty director at a US department store retailer



Survey Demographics: Online Purchases Versus Digital Coupon Use

"Thinking of the last digital coupon, offer, or online promotion code you found using your computer/ tablet, how long after you first received the coupon did you use it?"



Base: 450 US consumers who used a computer to find a digital coupon, offer, or online promotion code in the past three months

*Base: 128 US consumers who used a tablet to find a digital coupon, offer, or online promotion code in the past three months

[†]Base: 177 US consumers who used a smartphone to find a digital coupon, offer, or online promotion code in the past three months

Source: A commissioned study conducted by Forrester Consulting on behalf of RetailMeNot, May 2014

Young shoppers are embracing the mobile mind shift more than any demographic. Sixty percent of consumers under 35 ultimately redeemed a coupon on their phone. This points to a new emerging future of shopping, with mobile at the center of the experience.

Location can help retailers deliver relevant services and information to meet consumer needs on the go. The immediate desire to use a digital coupon, combined with mobile technologies, provides an opportunity for retailers to maximize a customer's location.

Consumers are, in fact, open to this type of digital coupon tactic. A majority of the respondents to this survey stated they would likely respond positively to receiving a digital coupon while shopping in a store.

"If you want to maximize mobile, you've got to be more aggressive. Consumers are in the moment, so you've got to give them an offer they will respond to in that moment."

 Senior manager at a leading US home and garden retailer

The In-Store Experience And Digital Coupons Need To Work In Harmony

Consumers expect to be able to find the same promotions, sales, and deals in the store and on the store's website. They also expect to find the same pricing for products in the store that they've seen online. Just over one-third of US online adults expect to have access to available inventory online or via a mobile device, but this expectation is growing fast: 32% year over year. Yet, consumers still love going to the store. In fact, 47% surveyed said so (see Figure 9). Combine these two data points with the fact that consumers love receiving digital coupons, and it's clear that the in-store experience needs to work seamlessly with digital coupons. With regards to the in-store use of digital coupons, we found:

> Consumers expect to use digital coupons in stores.

Fifty percent of consumers are more likely to visit a store if they receive a digital coupon. It is becoming table stakes for retailers to master the in-store redemption process not only from a technology perspective but also in terms of the customer selling model. It's one thing to receive a digital coupon; however, the challenge for retailers is to make the redemption seamless and easy at the point of sale. Our interview with one retailer highlighted the importance of training for store associates in the redemption process and the need for associates to be made aware that digital coupons are being sent to customers. Smartphone usage further reinforces this. Of those who prefer to receive digital coupons on their phone, more than 50% redeemed the coupon in-store.

If consumers are reacting very quickly when they receive a digital coupon, they then expect the retailer to also fulfill the purchase, realize their savings, and then send them on their way. Of those surveyed, 85% relied on the store associate to either scan their coupon or help them redeem it (see Figure 10).



"Store redemption used to be painful, but we revamped the entire process. Customers can now use paper or mobile coupons."

Director, marketing, at a global office supply company

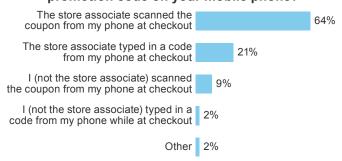
"Our customer base is coupon-savvy and very comfortable using and redeeming coupons across all channels."

- Senior manager at a leading US home and garden retailer

FIGURE 10

Digital Coupons Found On Smartphones Are Most Often Redeemed In-Store By The Store Associate Scanning The Coupon Off The Phone

"Which of the following best describes how you found your digital coupon, offer, or online promotion code on your mobile phone?"



Base: 47 US consumers who used a smartphone to find a digital coupon, offer, or online promotion code in the past three months

(Percentages may not total 100 due to rounding)

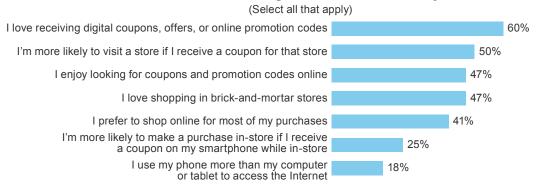
Source: A commissioned study conducted by Forrester Consulting on behalf of RetailMeNot, May 2014

FIGURE 9

>

Sixty Percent Of Consumers Love To Receive Digital Coupons; 50% Are More Likely To Visit A Store If They Have Received One

"Which of the following statements describes you?"



Base: 500 US consumers who used a digital coupon, offer, or online promotion code in the past three months Source: A commissioned study conducted by Forrester Consulting on behalf of RetailMeNot, May 2014



redeeming digital coupons from smartphones. There's a tremendous opportunity for upsell or cross-sell given that customers are more likely to redeem a coupon found on their smartphones very quickly upon receipt and are also more than likely to take the digital coupon and redeem it in the store than on their phone (see Figure 11). In fact, we found that 55% of smartphone coupon users will spend more money during their online or in-store visit—the majority at least \$25 more (see Figure 12). What's more is that 77% of customers will spend between \$10 and \$50 more than anticipated, and 17% will spend an additional \$50 or more. Needless to say, once a customer

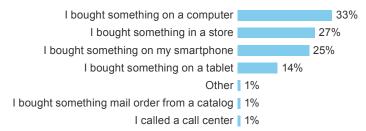
is physically in a retailer's store with a digital coupon in possession, the potential for conversion, cross-sell, and upsell is incredibly strong. This supports a finding from 2011 and presents a continuing and tangible bottom-line opportunity for retailers to maximize the upsell process. Consumers are also more likely to later buy full-price items from a retailer if the retailer offers online promotions and coupons. Fifty percent of those surveyed said they are more likely to do so.⁸

Retailers therefore need to ensure that the customer selling model includes training associates on redeeming digital coupons and looking for opportunities to increase the sale.

FIGURE 11

Digital Coupons Found On Smartphones Are More Likely To Be Redeemed In-Store (27%) Than On The Phone (25%). Computer Is No. 1 At 33%

"Thinking of the last digital coupon, offer, or online promotion code you found using your smartphone, where did you ultimately use that coupon or promotional code?"



Base: 177 US consumers who used a smartphone to find a digital coupon, offer, or online promotion code in the past three months (Percentages may not total 100 due to rounding)

Source: A commissioned study conducted by Forrester Consulting on behalf of RetailMeNot, May 2014



More Than Half Of Smartphone Coupon Users Will Spend More Money During Their Visit, Generally At Least \$25 More Than Planned

"Thinking about the last time you used a digital coupon, offer, or online promotion code you found using a smartphone, did you spend more money in total during that visit (either online or in-store) than you had originally anticipated?"



Base: 177 US consumers who used a smartphone to find a digital coupon, offer, or online promotion code in the past three months *Base: 98 US consumers who used a smartphone to find a digital coupon, offer, or online promotion code in the past three months Source: A commissioned study conducted by Forrester Consulting on behalf of RetailMeNot, May 2014



Key Recommendations

Stores looking to maximize digital coupons and their omnichannel strategy should consider implementing and/or optimizing:

- Inventory availability. Providing the customers visibility if an item is in stock, either online or in-store, married with a digital coupon, provides a seamless, transparent, and exciting customer experience. It enables customers to know that they can actually buy the product online or in person, redeem a deal, and anticipate actually receiving it or using it. Trying to redeem a coupon and realizing that the product is not in stock is a frustrating experience.
- Pickup in-store. This omnichannel feature is quickly becoming table stakes for retailers, so ensuring that this eCommerce use case is tightly coupled with the online or in-store digital coupon redemption process is key. As one Digital marketing manager at a department store put it: "customers expect these omnichannel options to be available now, so you've got to figure it out."
- **Existing services such as coupon apps.** Retailers don't have to go about this all by themselves. In fact, savvy retailers are leveraging pure play coupon partners as an additional marketing channel to spread the word and help them promote coupons through their online presence or their native apps. They've been there and done it, so retailers should leverage their expertise.
- Rapid redemption, which makes it easy to apply a discount at the cash wrap. A seamless and straightforward redemption process at the cash wrap is a critical success criterion for digital coupons. If technology is not in place and the sales associate does not know how to redeem digital coupons, then the opportunity for savings, loyalty, and upsell will quickly turn to a loss of a sale and frustration.
- **)** Use of emerging technologies to make users aware of deals around them. When customers receive a digital coupon, they are very likely to redeem it very quickly. So, retailers should build mobile applications or work with coupon partners to employ location-aware technologies, such as geofencing or beacons, to surface relevant digital coupons when customers are in the right place at the right time close to the retailer's store.
- Use of in-store bar codes coupled with native apps to provide product information. At times, retailers might not have all of their merchandise in a store. The opportunity to surface additional items through mobile technologies, such as scanning a product SKU through a native application, can educate customers about additional products and encourage upsell and cross-sell when in a brick-and-mortar store.
 - Omnichannel is here, and it's very apparent that customers love digital coupons, embrace the brands they know, and are also willing to try new retailers. Given this prime opportunity, retailers need to master and maximize digital coupons both with pure play coupon partners and their existing digital technologies.



Appendix A: Methodology

In this study, Forrester conducted an online survey of 500 US consumers who use digital coupons found on computers, tablets, and smartphones to evaluate digital coupon behaviors and attitudes on various devices. Survey participants had all used at least one digital coupon, offer, or online promotion code within the past three months. To gain additional insight, we interviewed four leading US retailers (two department stores, one global office supply company, and one home and garden supplier) and one restaurant chain as part of the study. Interview participants were decision-makers for their organization's digital commerce initiatives and responsible for their organization's paid promotional strategies. The study began in May 2014 and was completed in June 2014.

Appendix B: Supplemental Material

RELATED FORRESTER RESEARCH

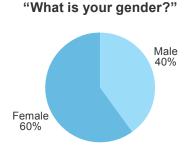
"The State Of The Digital Store," Forrester Research, Inc., June 10, 2014

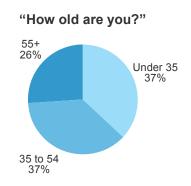
"US Mobile Phone And Tablet Commerce Forecast, 2013 To 2018," Forrester Research, Inc., May 12, 2014



Appendix C: Demographics/Data

FIGURE 13 **Consumer Survey Demographics**





"Through what devices did you make your online

purchases in the past three months?"

"Have you purchased a product or service in-store or online in the following categories in the past three months?"

(Select all that apply)

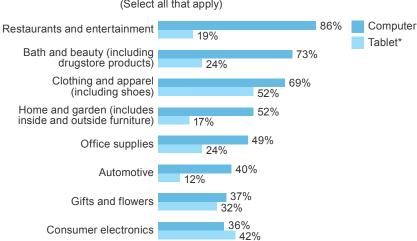
Books, movies, and music

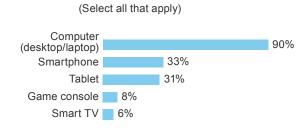
Health and fitness

Other (please specify) 1%

Accessories (including

jewelry and watches)





Base: 500 US consumers who used a digital coupon, offer, or online promotion code in the past three months Source: A commissioned study conducted by Forrester Consulting on behalf of RetailMeNot, May 2014

36%

34%

32% 22%

22%



Appendix D: Endnotes

- ¹ Source: A commissioned study conducted by Forrester Consulting on behalf of RetailMeNot, May 2014.
- ² Source: "US Mobile Phone And Tablet Commerce Forecast, 2013 To 2018," Forrester Research, Inc., May 12, 2014.
- ³ Source: "The Impact Of Online Coupons And Promotion Codes," a commissioned study conducted by Forrester Consulting on behalf of WhaleShark Media (now RetailMeNot), August 2011.
- ⁴ Source: "Building Mobile Services? Location Matters," Forrester Research, Inc., June 23, 2014.
- ⁵ Source: A commissioned study conducted by Forrester Consulting on behalf of RetailMeNot, May 2014.
- ⁶ Source: "US Mobile Phone And Tablet Commerce Forecast, 2013 To 2018," Forrester Research, Inc., May 12, 2014.
- ⁷ Source: A commissioned study conducted by Forrester Consulting on behalf of RetailMeNot, May 2014.
- ⁸ Source: A commissioned study conducted by Forrester Consulting on behalf of RetailMeNot, May 2014.

