

## **CHAPTER 2 : LITERATURE REVIEW**

### **2.0 Prior Studies and Proposition / Hypotheses**

Prior studies on coupons can be basically categorized into 2 broad streams. While one stream tried to relate the coupon redemption to individual consumer variables/characteristics (Narashimhan, 1984; Bawa & Shoemaker, 1987; Levedahl, 1988; Mittal, 1994); the other stream concentrated on modelling of the coupon characteristics on redemption rates (Henderson, 1985; Shoemaker & Tibrewala, 1985). However, Bawa, Srinivasan and Srivastava (1997) argue that coupon attractiveness need to be taken into account while measuring the coupon proneness of consumers; as both criteria are important in predicting the redemption rates.

One of the most frequent studied consumer characteristics in couponing is demographic variables, which include Gender, Income, Household Size, etc (Hill & Harmon, 2009; Teel, William & Bearden, 1980; Bawa & Shoemaker, 1987). Those studies were sought to correlate the coupon redemption behaviour to demographic variables. There were also studies on couponing which have attempted to segment the consumers based on their response on coupon (response-based); consumers who are more responsive to coupon promotion are classified as Coupon Prone, while less responsive consumers are identified as Non-Coupon-Prone (Bawa & Shoemaker, 1987). Ramasamy and Srinivasan (1998) also used the response-based approach to classify the consumers into 3 segments: Coupon Chasers, Easy Couponers and Picky Couponers. They further examined their differences on psychological attributes, attitudinal attributes, behavioural intentions and other demographic attributes.

For the purpose of this study, some important demographic variables which were regularly used in previous coupon studies will be adopted as one of the basis for segmentation and also seeks to segment the consumers based on their psychological attributes. The reason of using demographic variables as the basis for segmentation in this study is that the results vary across the studies despite demographic variables were the most studied consumers' characteristics in earlier coupon studies. As an example: Household Size is one of the demographic variables which had been heavily studied related to coupon redemption intentions and redemption rates. However, results were inconsistent across the studies. While Cotton and Babb (1978) found a negative relationship between household size and redemption intentions; Teel et al. (1980) and Bawa & Shoemaker (1987) found that redemption intentions positively correlated to household size. As such, one of the objectives of this study is to investigate the correlations between the demographic attributes of consumers in Malaysia and their coupon redemption intentions.

Nevertheless, we cannot deny the role of the consumers' psychological attributes on their coupon redemption and usage as consumers' psychological attributes influence their purchase decision (Rud, 2001). Psychological attributes are of great importance in consumer purchase decision-making (Zhang & Zhang, 2007). This study is set to examine the differences between demographic-based segments and also between psychological-based segments of consumers on their attitudinal characteristics, perception on coupon characteristics and redemption intentions. Consequently, this will determine which segmentation method is more relevant in understanding the consumers' coupon redemption behaviours.

Many previous coupon studies have revealed that there are few significant psychological attributes that are closely related to the consumers' coupon usage behaviours (Lichtenstein, Netemeyer & Burton, 1990; Ramaswamy & Srinivasan, 1998; Martinez & Montaner, 2006). The relevant psychological attributes will be detailed further in the next section.

While consumer characteristics should be taken into account in predicting coupon redemptions intentions, the effect of coupon attractiveness on redemption intentions could not be neglected too (Bawa et al., 1997). Few coupon characteristics have been studied intensively in predicting redemption intentions and redemption rates. Many coupon studies revealed a positive relationship between coupon face value and the redemption intention and redemption rate (Ward & Davis, 1978; Shoemaker & Tibrewala, 1985; Reinstein & Traver, 1982; Bawa et al., 1997). Studies on coupon expiration date had resulted in inconsistent findings across the studies. Bowman (1980) claims that redemption rate of a coupon is at peak right after the coupon issuance and will drop rapidly thereafter while Inman and McAlister (1994) argue that consumers will make effort to redeem a coupon when the expiration date approaches, hence the redemption rate will be at peak when the coupon approaches its expiration. Reibstein and Traver (1982) suggest that coupon delivery vehicle plays an important role in coupon redemption rates. Chakraborty and Cole (1991) also suggest that ease to obtain and redeem a coupon will impact on the coupon usage positively.

## **2.1 Segmentation of Consumers by Psychological Attributes**

Earlier couponing studies have highlighted that consumers' psychological attributes play an important role in consumers' coupon usage and redemption (Montgomery, 1971; Lichtenstein et al., 1990; Ramaswamy & Srinivasan, 1998; Martinez & Montaner, 2006). Several attributes that have great importance on consumers' purchase motivation and purchase decision-making have been identified. Four distinctively different psychological attributes which had been heavily investigated in previous coupon studies will be used as the basis for this study. They are: Coupon Proneness, Value Consciousness, Price Consciousness and Brand Involvement (Lichtenstein et al., 1990; Wells & Tigert, 1971; Laurent & Kapferer, 1985). The significance of each psychological attributes mentioned above in coupon studies will be discussed in the following section.

### **2.1.1 Coupon Proneness**

Individuals who respond to deal offers have been referred to as 'deal prone', and in the case of coupon offers, they are referred to 'coupon prone' consumers. Thaler (1983) suggests that deal prone consumers are those who make their purchase decision primarily because it is a deal available to them, and not due to their need of the particular products or services. Hackleman and Duker (1980) also argue that a deal prone consumer is one who finds it very difficult to decline a deal. Additional to that, Zeithaml (1988) also found that many of the deal prone consumers use coupon as an extrinsic signal of good deals and rely on it solely without further evaluate the price to other brands. There are also claims that the reason of coupon prone consumers take up a coupon not because of the economic benefits they received, but the emotional involvement and sense of achievement they enjoyed through the act of redeeming coupons (Schindler, 1998; Garretson & Burton, 2003). All

these findings suggest that, coupon prone consumers will have high redemption intentions toward coupon offers.

### **2.1.2 Value Consciousness**

Value consciousness has been characterized by Zeithaml (1988, pg.14) as “*the consumer’s overall assessment of the utility of a product based on what is received and what is given*”.

It is also been defined as consumers’ concern for the price they paid and the quality they received (Lichtenstein, Ridgway & Netemeyer, 1993). Both the definitions are consistent with the conceptualization by Monroe and Petroshius (1981) where value is illustrated as the ratio of quality to price. A value conscious consumer is more likely to redeem the coupon due to increase in value because of the lesser cost they need to pay due to the coupon offers; contrary to the coupon prone consumer who enjoyed the coupon offers regardless the value offered.

### **2.1.3 Price Consciousness**

Price consciousness refers to the consumers who are always on a look out for the best lowest price. Lichtenstein et al. (1993) suggest that price consciousness can be explained narrowly as the degree to which the consumer focuses absolutely on paying low prices. They are more likely to purchase a product or brand just because of the lowest price is offered among the product categories without considering other factors, such as quality and feature. They are highly sensitive to the price-oriented promotion which could offer them the best lowest price. As coupon is also a type of price-oriented promotional tool, the chances of the price conscious consumers to redeem the coupon are expected to be high too if the coupon offered is perceived to be able to provide them the best lowest price.

#### **2.1.4 Brand Involvement**

Individual consumers may vary greatly in the extensiveness of their purchase decision-making process and their search for information based on their level of brand involvement (Laurent & Kapferer, 1985). Brand loyalty as defined by Lin, Wu and Wang (2000), refers to the consumer's behaviour of repetitively purchasing a particular brand over a period of time. Highly brand loyal consumers are likely to be less sensitive to the promotional activities of other brands (Neslin & Shoemaker, 1993). Previous studies on coupon also revealed that brand loyalty had proven to be negatively correlated to coupon redemption intentions (Teel et al., 1980; Bawa & Shoemaker, 1987). As the sensitivity of highly brand involved consumers to coupon promotions are expected to be low; hence it can be assumed that they will have low redemption intentions too.

#### **2.2 Segmentation of Consumers by Demographic Attributes**

Demographic variables are the most frequently used segmentation bases for couponing studies. Few important demographic variables which have been heavily investigated in coupon studies included Gender, Income, Household Size, Ethnic, etc (Hill & Harmon, 2009; Teel et al, 1980; Bawa & Shoemaker, 1987; Green, 1996). However, the correlations of coupon redemption behaviour to demographic variables were inconsistent across studies. For example, for Income, some studies found it is positively correlated to coupon usage (Teel et al., 1980; Bawa & Shoemaker, 1987), while others found the results are varied, where the coupon usage is high for one income group, then low in the next group, and high again in the subsequent group (Nielsen, 1985; Narasimhan, 1984). In a separate A.C Nielsen survey conducted in 1980, revealed that coupon usage is positively correlated with

income and household size. Five demographic variables were determined from previous studies and will be used as the basis of the demographic-based segmentation. They are: Gender, Household Income, Ethnic, Job Group and Household Size. Each of the demographic variables will be discussed as below.

### **2.2.1 Gender**

Males have traditionally considered shopping as an activity driven by need to buy, while females have viewed it as more intrinsically satisfying activity (Campbell, 1997). In a recent study by Hill and Harmon (2009), they found females are more inclined to bargain shopping and have more positive attitudes toward coupon usage. They also found that male respondents are more concerned about time and image implication of coupon use. In view of such differences, one could expect that there would be likely differences between female and male consumers on their coupon redemption intentions.

### **2.2.2 Household Income**

A few earlier coupon studies related to household income have revealed that, contrary to the expectations of lower household income group who would be more coupon prone, the higher household income group has a positive relationship with coupon usage (Blattberg, Buesing, Peacock & Sen, 1978; Teel et al., 1980; Bawa & Shoemaker, 1984). Nevertheless, some studies found the results were varies across household income groups, while one group has high coupon redemption, the next group has low redemption, and the subsequent group has high redemption again (Cotton & Babb, 1978; Nielsen, 1985; Narasimhan, 1984).

### **2.2.3 Ethnic**

Many coupon studies among ethnics in US found that coupon redemption activity is largely influenced by culture (Donthu & Cherian, 1992; Hernandez & Kaufman, 1989; Tat & Bejou, 1994). In Malaysian context, Lai, Chong, Sia and Ooi (2010) found that Malay and Chinese, the two major races in Malaysia, who are very different in their religions and cultures, also demonstrate dissimilarities on their purchase decision making, choice of product and responses toward advertisements. As such, one could expect there may be differences between ethnics in Malaysia on their coupon redemption intentions.

### **2.2.4 Job Group**

The major cost of coupon usage is likely to be the effort and time to obtain and redeem it. Strang (1981) suggest that there is a slightly higher tendency for non-working consumers to utilize coupons. As different job groups may have different work commitment which facilitate or hinder them from using coupons, there may be differences between job groups on their coupon redemption intentions.

### **2.2.5 Household Size**

Although many expected household size to be positively correlated to coupon usage, Cotton and Babb (1978) found that household size is negatively correlated to the deal promotions in their study on diary product promotion. However, many subsequent coupon studies revealed that the bigger the household size, the higher the coupon usage (Teel et al., 1980; Nielsen, 1985; Bawa & Showmaker; 1987). In summary, results from previous studies found that there is a correlation between household size and coupon redemption intentions, be it positive or negative.



### **2.3 Attitude and Subjective Norms toward the Act of Redeeming Coupon and Redemption Intentions**

According to the Theory of Reasoned Action proposed by Fishbien and Ajzen (1975, 1980), a person's behavioural intention is a function of both the person's attitude and subjective norms toward that behaviour.

$$\text{Behavioural intention} = \text{Attitude} + \text{Subjective Norms}$$

Fishbien and Ajzen suggest that, generally people believe in consequences and form certain attitude towards a particular behaviour after evaluating the consequences of performing that behaviour.

On the other hand, subjective norms refer to how an individual perceived what other people would think about them if they perform a particular behaviour. Although both attitude and subjective norms are important in predicting behavioural intention, however, they do not carry the same weight in predicting behavioural intention. Their importance or weights are highly dependent on the individual and situation. In cases where individuals do not care about how others think of them, likely subjective norms will carry little weight in predicting their actual behaviour; vice versa, for those individuals who place high emphasis on how others think of them, subjective norms would carry a heavier weight in predicting their behaviour. Bagozzi, Baumgartner and Yi (1991) also found that behavioural intentions of state-orientated people is a function of subjective norms but not attitudes; and as for action-orientated people, it would be a function of attitudes but not affected by subjective norms. Mittal (1994) also concluded that the degree of coupon usage by a consumer is basically determined by the consumer attitudes toward coupons. In a separate study, Huff and Alden (1999) found that, as a collectivist society, social factors strongly influence consumers' attitudes toward coupon usage in Malaysia.

With the preceding studies mentioned above, the author would like to suggest that coupon redemption intentions could be predicted by the attitude of an individual towards the act of redeeming coupons and also the subjective norms faced by the individual.

Proposition 1 : There are differences between psychological-based segments on their attitude and subjective norms toward act of redeeming coupon

Proposition 2 : There are differences between demographic-based segments on their attitude and subjective norms toward act of redeeming coupon

## **2.4 Coupon Characteristics and Redemption Intentions**

Many preceding research had focused on the coupon redemption and utilization from two standpoints: One concentrated on the antecedents that prompt the consumer to use coupon and suggested the characteristics of consumers who are “coupon prone” by isolating the coupon characteristics (Narashimhan, 1984; Bawa & Shoemaker, 1987; Levedahl, 1988). The other focused on modelling coupon usage rate based on the coupon characteristics, such as to investigate the effect of coupon characteristics on both redemption intentions (Shoemaker & Tibrewala, 1985) and redemption behaviour (Reibstein & Traver, 1982). Bawa, Srinivasan and Srivastava (1997) suggest that coupon characteristics attractiveness need to be taken into account while measuring the coupon proneness of consumers; as both criteria are important in predicting the redemption rates. Also, according to Ramaswamy & Srinivasan (1998), it is convincing to model the effect of coupon characteristics on redemption intentions as consumers need not to redeem the coupon immediately upon receiving them. The intention to redeem will be formed first before the actual behaviour of redeeming take place in a later time.

Three key coupon characteristics which are perceived as important and associated with the coupon attractiveness from previous studies set to be tested in this study. They refer to Coupon Value, Coupon Expiration Date and Coupon Type/Coupon Distribution Vehicle (Ward & Davis, 1978; Shoemaker & Tibrewala, 1985; Bowman, 1980; Inman & McAlister, 1994; Reibstein & Traver, 1982).

#### **2.4.1 Coupon Value (Perceived Economic Benefits)**

Bawa and Shoemaker (1987) suggest that there are four components in the net benefits of using coupon; as illustrated below:

Net benefits of using coupons = economic benefits + psychic benefits – (substitution costs + effort costs)

The perceived weight for each of the components by consumers will directly impact their intentions to redeem a coupon. For example, if a consumer has a higher perceived economic benefits and psychic benefits of using a coupon relative to his/her perceived substitution costs and effort costs of using the coupon, then his/her redemption intention will be higher compared to those who are not. Many previous studies on coupon also revealed that there is a positive relationship between the coupon face value and the redemption intention / rate (Ward & Davis, 1978; Shoemaker & Tibrewala, 1985). As such, one can anticipate that the higher the coupon face value, the higher the redemption rate will be for a particular couponing campaign (Reibstein & Traver, 1982; Bawa et al., 1997). However, the perceived value of a coupon might vary across different segments of consumers although it presented the same face value; as it offers different perceived economic benefits to each of the segments of consumers. In summary, one can suggest that the perceived coupon value is comparable to the perceived economic benefits that a coupon

will bring to the consumer if it is redeemed; the higher the perceived coupon value, the higher the redemption intention.

#### **2.4.2 Coupon Expiration Date**

Coupon expiration date refers to the validity period of the coupon whereby the consumers can utilize the promised benefits (Kim, Nam & Jang, 2006). A number of studies have been conducted to investigate the relationship between the coupon expiration date and redemption intentions. However, the results are varied. According to Bowman (1980), redemption rate is at its peak right after coupon issuance and drop rapidly afterwards. However, Inman and McAlister (1994) suggest that consumers will make the effort to remember the coupon expiration date as the expiration date approaches and attempt to redeem it to avoid economic loss. Lee & Yeu (2010) also found that coupon expiration date positively correlated to coffee shop coupon redemption intentions in Korea.

Proposition 3 : There are differences between psychological-based segments on their perception on coupon value and coupon expiration date

Proposition 4 : There are differences between demographic-based segments on their perception on coupon value and coupon expiration date

#### **2.4.3 Type of Coupon/ Coupon Distribution Vehicle (Perceived ease to obtain & redeem)**

Chakraborty and Cole (1991) suggest that the ease of obtaining and redeeming a coupon will influence the consumers' usage of the coupon. Coupon distribution vehicle plays an important role in perceived ease to obtain and redeem a certain coupon (Reibstein & Traver, 1982). According to the Annual Topline U.S CPG Coupon Facts Report for Year-End 2010 released by NCH Marketing Services, Inc. (Valasiss, 2011), Free Standing Insert was the most popular coupon type (distribution vehicle) which accounted for 87.7% of all coupons

distributed in US for the year 2010; while the number of digital coupon offers also reported a 37% increase in year 2010 compared to a year before. After reviewing of the report released by NCH Marketing Services, Inc. and earlier coupon studies (Bawa et al., 1997; Reinstein & Traver, 1982), as well as taking into consideration of the Malaysian context, five types of the most popular coupon distribution vehicles were identified and will be investigated on their popularity among consumers. As per literature reviewed, the popularity or uptake of a coupon is highly influence by the perceived ease to obtain and redeem by the consumers. As such, a positive correlation between a coupon type uptake and consumer perceived ease to obtain and redeem of that particular coupon type can be assumed.

Below is a brief description of each coupon types (distribution vehicles) which will be examined their uptake rate by consumers:

**a) Free Standing Insert**

Free Standing Insert is the pre-printed sheets that contain multiple coupons and are normally inserted in newspapers or distributed to households by hand via placement into their mailboxes. This is the traditional coupon distribution vehicle and up to today, is still the most popular one. Free Standing Insert accounted for 87.7% of all coupons distributed in US for the year 2010 (Valassis, 2011). Free Standing Insert was always assumed to be the easiest to obtain and redeem as found in earlier coupon studies.

**b) Newspapers & Magazine cut out / rip-off page**

Manufacturers' or vendors' coupon included in their rip-off-page newspaper or magazine as part of the advertisement. Consumers can cut out the coupon and redeem at the participating stores in the couponing campaign. The effort required to obtain newspapers

and magazine cut out / rip-off page is seem to be higher as compared to Free Standing Insert as the consumers need to subscribe or to buy the newspapers or magazine in order to obtain the coupon offered.

**c) Hypermarket / Supermarket Loyalty Programme**

Hypermarket / Supermarket do offer coupons to individual consumer in a cooperative programme. Normally, the consumers being offered the coupons must be regular customers and subscribe to the cooperative program offered by the respective Hypermarket / Supermarket.

Usually, a special envelope containing coupons will be sent via mail to the respective consumers in the loyalty programme from time to time. The initial effort to join a loyalty programme might be high compared to Free Standing Insert and Newspapers & Magazine cut out / rip-off page, but subsequently the effort to obtain and redeem the coupon would be relatively easy as the coupon would be delivered to the doorsteps of the loyalty programme subscribers.

**d) E-coupon**

Electronic Coupon is refers to the coupon delivered by means of the internet. As Malaysia become more advance in Information and Communication Technology (ICT), the increase in online activities has encouraged more vendors to have part of their marketing promotional programme through this means. E-coupons are usually published on the vendors' or their promotional agents' web pages, interested consumers can download and print the coupons for the redemption purposes at a physical store (Blundo, Cimato & DeBonis, 2005). Some of the vendors and their promotional agents also deliver E-coupons directly to individual consumers through their personal emails; interested consumers can

subscribe to certain websites which provide E-coupon for various product categories. According to a report released by Inmar, Inc. (2010), there was a drastic increase of 360% in E-coupon redemption by consumers in US from year 2008 to 2009. The effort required to obtain and redeem E-coupon deemed to be relatively high as compared to the three types of pre-printed coupons mentioned earlier. The interested consumers must be able to search the relevant coupon offers from the internet, download and print it out for redemption purposes.

**e) M-Coupon**

Mobile coupon (M-Coupon) as per definition by Mobile Marketing Association (2007), is an electronic tickets solicited or/and delivered via mobile phone, which can be exchanged for a financial discount or rebate when purchasing a product or service. Mobile coupons offer an appealing new opening to target consumers with highly customized offers and often distributed by several mobile means, such as Short Message Service (SMS), Multimedia Messaging Service (MMS) and Bluetooth (Jayasingh & Eze, 2009). Jupiter Research (2008) also predicted that there would be approximately 200 million mobile subscribers will use mobile coupons worldwide by 2013. M-coupon is a relatively new coupon type in Malaysia as compared to the four types of coupons mentioned above. As such, the exposure of Malaysian consumers to this type of coupon might be still limited.

Proposition 5 : There are differences in the uptake rate of coupon based on the coupon types (distribution vehicles)

## 2.5 Role of Redemption Intentions

Behavioural intention has been found to predict actual behaviour (Fishbien & Ajzen, 1975).

*“Intentions are indications of how much effort a person will put into performing certain behaviour; the stronger the intention to engage in a certain behaviour, the more likely that performance”* (Ajzen, 1991, pg.181). In simple words, the intensity of the intention is positively correlated to the actual behaviour performed and intention to act as the strongest predictor of the actual behaviour. Ramaswamy & Srinivasan (1998) suggest that the intention to redeem a coupon will be formed first before the actual behaviour of redeeming which will take place in a later time as the redemption of coupon need not be done immediately right after a consumer encounter the coupon offer.

As such, it is rational to operate coupon redemption intention as a proxy to predict the actual redemption rate.

Proposition 6 : There are differences between psychological-based segments on their coupon redemption intentions

Proposition 7 : There are differences between demographic-based segments on their coupon redemption intentions

In summary, it is promising to model coupon redemption intentions to both consumers' attitudes and subjective norms towards the act of redeeming coupon; perceived coupon value and coupon expiration date in order to predict the actual coupon redemption rates.



For this study, a model for coupon redemption intentions has been proposed as follows:

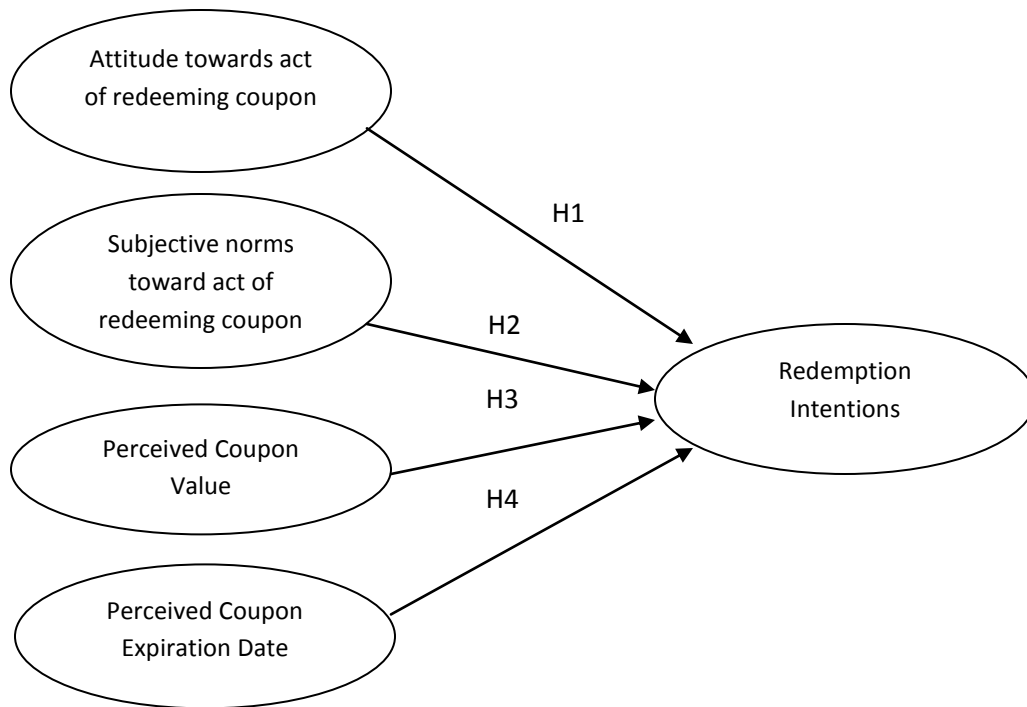


Figure 2.1 : A Model Proposed for Coupon Redemption Intentions

H1 : There is a positive relationship between Attitude towards the act of redeeming Coupon and Redemption Intentions

H2 : There is a positive relationship between Subjective Norms toward the act of redeeming coupon and Redemption Intentions

H3 : There is a positive relationship between Perceived Coupon Value and Redemption Intentions

H4 : There is a positive relationship between Perceived Coupon Expiration Date and Redemption Intentions

All the propositions (P1-P7) and hypotheses developed (H1-H4) to be tested in this study.