Cents-off coupons: consumer time and price elasticity of demand

In 2010, US manufacturers of consumer packaged goods distributed 332 billion coupons, with a face value of over $485 billion. Of these, two-thirds and one-third were distributed by grocery and health and beauty care product manufacturers, respectively.

However, the number of coupons redeemed was a mere 3.3 billion, yielding a redemption rate of just 1%. Considering the low redemption rate, why don't manufacturers just directly cut prices? Direct price cuts would seem to be a more cost-effective way of promoting sales.

For consumers, a major difference between direct price cuts and coupons is the time and effort needed to redeem a coupon. The more valuable a consumer's time, the higher the cost of redeeming a coupon will be.

Consumers differ in their price elasticity of demand. Manufacturers would like to discriminate among consumers by their price elasticity. To the extent that consumers whose time is more valuable are also those whose demand is less elastic, coupons can implement indirect segment discrimination. Buyers whose time is more valuable will tend not to redeem coupons, and those whose time is relatively cheap will use coupons.

Hence, coupons target the price discount at price-sensitive consumers. By contrast, a direct price cut benefits all buyers, regardless of their price elasticity.

Source: "Consumer packaged goods manufacturers offered $485 billion in coupon savings in 2010," PRNewswire, March 31, 2011.