

Factors Influencing the Intention to Redeem Coffee Shop Coupons in Korea

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Abstract

The three primary objective of this study are to 1) provide an overview of the Korean coffee shop market and apply previous coupon models to the redemption behavior of coffee shop patrons; 2) verify the hypothesized causal relationships among the expiration date, coupon value, brand loyalty, and the intention to redeem coupons; and 3) examine the effect of the expiration date on the consumer's coupon redemption intention and review the implications for practitioners.

Keywords: Coupon, Expiration date, Coupon redemption, Coupon value, Brand loyalty

1. Introduction

Coupons have been around for over 100 years in developed nations; some are even considered a third form of currency. In the U.S., the coupon market is valued at approximately 9 trillion won, and coupon use is widespread, with over 2.58 billion coupons issued in 2004 alone (World Daily, 2006). Prior coupon research has indicated that coupons are effective in increasing short-term revenues across a wide range of countries. Coupons were first introduced in Korea the late 1990s, and despite their relatively short history, businesses have wholeheartedly embraced them both as a marketing strategy to gain competitive advantage and as a means to overcome a sluggish market (World Daily, 2006).

Amid the tremendous popularity of takeout coffee shops among young Korean, foreign coffee franchised and domestic coffee firms are rushing to increase the number of branches nationwide (Hong, 2001). By way of example, Starbucks opened its first Korean branch shop in front of Ewha Womans University in 1999, and its sales have increased dramatically from 8.6 billion won in 1999 to 171 billion won in 2008. New coffee shops have been opening at a steady pace across the country, regarding consistent double-digit growth (Dong-A Ilbo, 2009).

Until the mid-2000s, foreign brands had dominated the market. However, taking advantage of the long-term economic recession, local brands have been rapidly expanding their market share by luring customers with lower prices (Korea Economic Daily, 2009). Thus, although Korea's coffee shop market is expected to maintain its rapid pace of growth, the market is also expected to become increasingly competitive.

In this environment, coffee shops have resorted to coupon marketing strategies to lure repeat customers. Many shops have been issuing stamp coupons with which customers can get a free drink when they collect 10 stamps (Seoul Economy, 2009).

Much research has focused on use in non-coffee shop sectors, particularly in family restaurants. Thus, given the heavy use of coupons in Korean coffee shops, the present research examines the redemption intention with respect to coffee shop coupons.

The purpose of this study is to investigate the factors that influence consumer's intention to redeem coffee shop coupons. We first provide a brief review of prior coupon research to ascertain the preceding factors in coupon redemption. We then present the result of the empirical analysis of data collected from consumers visiting coffee

shops, including path analysis exploring the causality among the antecedent factors influencing the consumer's coupon redemption intention. The findings have practical implications for the revisit and repurchase intention of consumers.

2. Overview of the Korean Coffee Shop Market

Korea appears to becoming overcrowded with coffee shops, with the 11 biggest chains running 1,392 branches across the country. Korea's coffee shop market has grown fivefold from 266 billion won in 1999 to 1.22 trillion won in 2008 (Dong-A Ilbo, 2009). The local market for coffee retailers, in particular, was valued at 1.9 trillion won in 2008, and sales from the 11 major brands accounted for about 29 percent, or 550 billion won.

Starbucks Korea, the local unit of the Seattle-based coffee giant, tops the list with 310 outlets, followed by Hollys with 213 shops and Angel-In-Us with 211. Coffee Bean has 185 outlets, good for fourth place, followed by Tom N Toms, which operates 149 cafes, and Davinci Coffee with 105. The faster riser in the coffee chain hierarchy has been Caffe Bene, a local brand that opened 100 shops after its launch in April 2009. Local brand Twosome Place is operating 51 outlets, while Pascucci has 43 shops and Café Daily has 18 shops (Kim, 2009).

Starbucks posted sales of 171 billion won in 2008, while Coffee Bean followed with 95 billion won, a 30 percent increase from its 2007 revenue. Angel-In-Us had 65 billion won in sales in 2008, nearly double the numbers of the previous year, while Hollys's 67.1 billion won revenue represented a 50 percent annual increase (Kim, 2009).

3. Theoretical Background and Hypothesis

Stanley (1982) defined a coupon as "a certificate that, when presented for redemption at a retail store, entitles the bearer to a specified saving on the purchase of a particular product or brand."

In Korea, coupons have been used as a means to increase purchase incentives through price discounts or complimentary products (Kim, 1997). Lee and Kim (2008) pointed out that coupons contain a set of provisions that retailers are bound to execute when consumers purchase the stipulated products or brands. In addition, they insisted that coupons should be understood as a way to stimulate sales by increasing purchase incentives. Thus, coupons serve as a stimulus for sales by offering discounted prices and additional or free benefits; they also increase consumer purchase motivation within a short period of time (Kwak and Kim, 2006; Lee and Kim, 2008).

The coupon expiration date is the time until which coupons are valid and consumers can enjoy the promised benefits (Kim et al., 2006). Inman and McAlister (1994) defined the role of the coupon expiration date as "couponers to limit their financial liability temporally."

The effect of the coupon expiration date on coupon redemption was discussed in Bowman (1980); he stated that the highest redemption rates of coupons are in the early stages of their issuance and that afterward, there is a rapid drop in redemption rate. In contrast to Bowman, Inman and McAlister (1994) claimed that consumers make efforts to remember the expiration date of coupons and that as the expiration date approaches, consumers attempt to redeem coupons to avoid economic loss. In this regard, Hypothesis 1 is proposed as follows:

H1: The coupon expiration date has a positive effect on coupon redemption intention.

Although there have been a number of studies of whether the coupon expiration date influences coupon redemption intention, few studies have examined the relationship between the expiration date and coupon value. Ye et al. (1999) investigated the influence of the expiration date on perceived value of coupons; however, they failed to verify a significant relationship. Hence, the present study tests hypothesis 2 as follows:

H2: The coupon expiration date has a positive effect on coupon value.

The perceived value of a coupon is the value assigned to the coupon by the consumer who plans to make a purchase with the coupon (Ye et al., 1999). Prior research on this topic has focused on the economic benefits perceived by consumers (Dodson et al., 1978; Winer, 1986; Bawa and Shoemaker, 1987). Raghubir (1998) claimed that a coupon's value is a signal for price. Others have argued that coupons should be understood as an economic benefit that the consumer recognizes (Kim and Kwon, 2005; Park and Kim, 2009). Much research has observed the psychological aspects of consumer coupon use, including enjoyment and pride. Mittal (1994) and Schindler (1989) noted that the feeling of competence and intelligence that accompanies coupon use contributes to consumers' belief of themselves as smart shoppers, which in turn plays an important role in their coupon use.

With respect to the coupon value in coupon redemption, a positive relationship exists between coupon use and monetary value (Ward and Davis, 1978). When consumers recognize the benefits of coupons, they have a strong intention to redeem the coupons, and as such, there is a positive relation between coupon value and coupon

redemption intention (Mittal, 1994). Therefore, Hypothesis 3 is proposed as follows:

H3: Coupon value has a positive effect on coupon redemption intention.

Brand loyalty refers to the consumer attitude consistently favoring a specific brand and the tendency to make repeat purchases of the same brand even when alternatives are available (Jacoby and Kyner, 1973; Jacoby and Chestnut, 1978; Park, 2006; Kim and Park, 2007; Park and Kim, 2009). According to Oliver (1999), brand loyalty is “a deeply held commitment to rebuy or repatronize a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing.”

Lin et al. (2000) defined that brand loyalty refers to the consumer’s behavior of repeatedly purchasing a specific brand over a certain period of time. Thus, loyal consumers of a specific brand make use of promotional opportunities, and are less sensitive to promotional activities of other brands (Neslin and Shoemaker, 1993; Raghbir, 1998). Thus, Hypothesis 4 is proposed as follows:

H4: Brand loyalty has a positive effect on coupon redemption intention.

In addition, regular consumers who make frequent purchases or those who are familiar with the product make use of coupons even if their face value is relatively low (Nielsen, 1980). Thus, Hypothesis 5 is proposed as follows:

H5: Brand loyalty has a positive effect on coupon value.

4. Empirical Analysis

4.1 Measures

The items used to measure the factors to confirm content validity were adapted from previous studies. The expiration date is measured as the customer’s evaluation of the real period or date. Three items were used to measure the expiration date: “Evaluation of the expiration date of a coupon.” These items measured the perceived evaluation of the coupon expiration date based on a series of adjectives. The first item was anchored by “short” and “long.” The second item was anchored by “dissatisfied” and “satisfied,” and the third item, “unsuitable” and “suitable.” These items were developed for this research and assessed by using a seven-point scale.

Coupon value was measured by four items: “Coupon usage saves money,” “Coupon usage helps the household budget,” “Coupon usage is a rational consumption behavior,” and “Coupon usage is worth the effort.” These items were adapted from Mittal (1994) and measured on a seven-point scale ranging from “strongly disagree” to “strongly agree.”

Brand loyalty was measured by four items: “I will buy a coffee/beverage at the same brand coffee shop again,” “I plan to continue my purchase at the same brand coffee shop continuously,” “I plan to revisit the same brand coffee shop,” and “I am willing to pay a higher price for this brand of coffee than another brand.” These items were developed on the basis of Chaudhuri and Holbrook (2001) and measured on a seven-point scale ranging from “strongly disagree” to “strongly agree.”

Redemption intention was measured by two items: “I will use the coupon when I visit at the same brand coffee shop again” and “I will use the coupon when I repurchase at the same brand coffee shop.” These items were adapted from Bawa et al. (1997) and measured on a seven-point scale ranging from “strongly disagree” to “strongly agree.” Thus, all the measures employed in the present study have been widely used in prior service marketing research or developed specially for this study.

4.2 Data collection

The data were collected by trained interviewers in September 2009. A questionnaire survey was administered to coffee shop in Seoul. We selected a few of popular coffee shops to efficiently obtain the survey data. A total of 204 usable responses were collected out of the 210 distributed. This study employed structural equation modeling to test the hypothesized relationships and used LISREL 8.30 software. In addition, SPSS 12.0 software was used for the frequency analysis and the reliability test.

Table 1 presents the descriptive statistics of the respondents’ demographic characteristics. Of the 204 respondents, 50.0% were male, and 50.0% were female; 18.6% were between the ages of 10 and 19, 71.1% were between the ages of 20 and 29, 8.8% were between the ages of 30 and 39, and 1.5% were 40 and over. The monthly income of a majority of respondents (89.7%) was under 2.5 million won. Approximately 82.9% had an associate’s or bachelor’s degree.

< Insert Table 1 Here>

4.3 Reliability and validity assessment

To assess the reliability and validity of the measures of each construct, this study employed internal consistency and confirmatory factor analysis. Cronbach's alpha coefficients ranged from 0.863 to 0.962, which were greater than the acceptable level of 0.7 for all of the items (Nunnally, 1978). The alpha coefficients of the measurement items for each construct are presented in Table 2.

The goodness of fit of the measurement model was evaluated by using a variety of indices. The results of the confirmatory factor analysis are presented in Table 2. The chi-square test was used to assess the overall goodness of fit. The chi-square test assessed the adequacy of the hypothesized model in terms of its ability to reflect the variance and covariance of the data. Because of its tendency to be sensitive to the sample size, other fit indices (e.g., GFI, NFI, and CFI) were considered in conjunction with the chi-square test. For the statistical significance of the parameter estimates, t-values were used. The results of the confirmatory factor analysis indicated that the chi-square was 79.35($p<0.05$), the goodness-of-fit index (GFI) was 0.94, the normed fit index (NFI) was 0.96, the comparative fit index (CFI) was 0.97, and the root mean square error of approximation (RMSEA) was 0.041. Generally, fit statistics greater than or equal to 0.90 for the GFI, the NFI, and the CFI indicate a good model fit (Bagozzi and Yi, 1988; Mulaik et al., 1989). The RMSEA was lower than 0.1 as recommended by Steiger and Lind (1980). Thus, the measurement model provided a good fit to the observed data.

< Insert Table 2 Here >

< Insert Table 3 Here >

We also conducted a test of convergent and discriminant validity. To assess the validity, this study used the fit of model, the statistical significance of each standardized path coefficient, construct reliability (CR), and average variance extracted (AVE). All the standardized path coefficients for the items were significant ($t>1.96$). As shown in Tables 2 and 3, the CR values were higher than 0.7, and the AVE values were higher than 0.50, suggesting that the convergent validity of the scale was satisfied (Anderson and Gerbing, 1988; Fornell and Larcker, 1981).

According to Fornell and Larcker (1981), AVE should be greater than the square of the correlations between constructs. As shown in Table 3, the square of the correlations between the construct and any other construct in the model were all smaller than the AVE values, indicating that the discriminant validity was satisfied. The results, therefore, confirmed that the instrument had satisfactory construct validity.

4.4 Hypothesis tests

The path model was assessed to test the hypotheses. The path estimates indicated that the coupon expiration date was a significant predictor of redemption intention ($H1; \gamma=0.13, p<0.1$) and coupon value ($H2; \gamma=0.21, p<0.01$). Coupon value significantly influenced redemption intention ($H3; \beta=0.43, p<0.01$). Brand loyalty had a significant positive effect on coupon value ($H5; \gamma=0.16, p<0.05$) and indirectly influenced redemption intention via coupon value ($0.07, p<0.05$). Therefore, all the hypothesized relationships, except for $H4$, were supported at each level of significance.

5. Discussion and Conclusion

In recent years, coffee has shed its status as an item of personal preference and has instead become an essential part of the Korean palate. According to Starbucks' September 2008 data, the average age of Korea's coffee consumers was 32, which indicates that the popularity of coffee is no longer confined to the younger generation and that it is making strides toward mainstream consumption.

The results of this study suggest that Korean consumers exhibit strong intentions to redeem coupons when the expiration date is near. This expiration date affected coupon value, which in turn influenced the consumer's intention to redeem the coupon. Although brand loyalty did not have a direct and significant effect on redemption intention, it indirectly influenced redemption intention via coupon value. Therefore, providing coupons with shorter expiration period may increase the coupon redemption rate and encourage consumers to revisit. The findings can provide practical implications to improve the consumer's revisit rate for managers or practitioners. If coffee shops offer coupons with shorter expiration period for consumers, they recognize the benefits of coupons more valuable than before. Accordingly, consumers will use coupons when they visit at the same brand coffee shop and will frequently revisit the same brand coffee shop.

It should be noted as a limitation of this study that the respondents were residents of Seoul. Therefore, any generalization of the study findings to groups outside the sample profile should be implemented with caution. Despite this limitation, however, it is likely that the views of the respondents closely reflect those of consumers

across Korea. In this regard, future research using data representing a wider range of cities is warranted to verify the result of this study.

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Table 1. Demographics of respondents

Variable	Item	Frequency	Percentage (%)
Gender	Male	102	50.0
	Female	102	50.0
Age	<19	38	18.6
	20-29	145	71.1
	30-39	18	8.8
	>40	3	1.5
Education level	High school	4	2.0
	Associate's or Bachelor's degree	169	82.9
	Master's degree or above	31	15.2
Monthly income	<1.5 million won	156	76.5
	1.5-2.5 million won	27	13.2
	2.5-3.5 million won	16	7.8
	>3.5 million won	3	1.5

Table 2. Measurement model assessment

Construct	Item	Path coefficient	t-value	Fit indices	Cronbach's alpha
Expiration date	ED1	0.91	16.83	$\chi^2=79.35$ (p-value=0.0389) df=59 GFI=0.94 NFI=0.96 CFI=0.97 RMSEA=0.041	0.962
	ED2	0.98	19.03		
	ED3	0.95	18.29		
Value	V1	0.74	12.02	$\chi^2=79.35$ (p-value=0.0389) df=59 GFI=0.94 NFI=0.96 CFI=0.97 RMSEA=0.041	0.886
	V2	0.71	11.36		
	V3	0.91	16.27		
	V4	0.90	16.08		
Brand loyalty	BL1	0.88	15.50	$\chi^2=79.35$ (p-value=0.0389) df=59 GFI=0.94 NFI=0.96 CFI=0.97 RMSEA=0.041	0.863
	BL2	0.95	17.24		
	BL3	0.73	11.74		
	BL4	0.55	8.25		
Redemption intention	RI1	0.93	15.72	$\chi^2=79.35$ (p-value=0.0389) df=59 GFI=0.94 NFI=0.96 CFI=0.97 RMSEA=0.041	0.938
	RI2	0.95	16.11		

Note: All t values are significant at the 0.01 level.

Table 3. Construct validity

Construct	Mean	Standard deviation	Correlation between constructs			
			Expiration date	Value	Brand loyalty	Redemption intention
Expiration date	3.882	1.288	1.000			
Value	5.071	1.186	0.285	1.000		
Brand loyalty	3.601	1.419	0.305	0.222	1.000	
Redemption intention	5.569	1.246	0.266	0.484	0.227	1.000
Construct reliability (CR)			0.963	0.890	0.867	0.938
Average variance extracted (AVE)			0.897	0.673	0.628	0.884

Note: All correlations are significant at the 0.01 level.