

## Making customer incentives work

Getting and keeping customers has never been tougher. In a recession people count every penny. But recessions have been known before and we can learn from previous recessions and success stories what works.

As direct marketers have known for years incentives are one great way to acquire customers and build loyalty.

They can be used in a variety of ways for consumers and businesses (though what works for each obviously differs) and to increase ROI for response, conversion, cross sales, recommend a friend, reactivation and loyalty / retention or all of them.



But in any incentive programme it's not just a question of giving money away – you have to find out what works for your customers (not what they say they'll do but what they actually do) and that means going back, as in all marketing, to psychology.

- What's in it for me?
- Everyone wants something for nothing.
- There's no such thing as a free lunch.

We've all seen or heard these phrases time and again and there's a kernel of truth in them all.

Incentives appeal to the first two in peoples' brains but trigger the third too, so you have to make sure that incentives fit with prospects' and customers' motivations

for buying your product and brand but also act as a call to action and help to overcome any psychological resistance to the sale.

Incentives also need to have a high perceived value that is complementary to the primary product or service. In using an incentive to convince the prospect to buy, the incentive needs to become part of the call to action. Think of it like the "but wait ..." phrase in a television commercial where the incentive comes just as you tell the prospect how to order: "But wait, if you order now, we'll send you this ... absolutely free!"

Please note that incentives can only help! If your product / service / brand does not fulfil potential customers needs and motivations or if they don't like them just adding an incentive won't help. Likewise, if your marketing and sales process is lousy and asks a potential customer to make a purchase decision without first providing sufficient information or has forms or processes that require more time or information than necessary or has too many options or you don't overcome prospects' anxiety with trust, then adding an incentive will not overcome these issues – as always you must get the basics right first.

But what about "There's no such thing as a free lunch", how does that work? Surely if I give something away that just increases my costs? Well of course that's true if you don't get any uplift in whatever it is you are trying to improve such as number of responders or

conversion from lead to sale or increase in retention but that's exactly what the incentive is there to achieve.

And, it's surprising how small an increase is required in many cases. Most people think that "if I have to give something worth (say) £5 to everyone who replies I need a shed-load more". Well that can be true and it all depends on the details of your business, but just look at this simple example.

### Figure 1

Figure 1 shows that, if you get no increase you get a worse result!

	Non incentivised	Response incentive	Conversion incentive	Both
Audience	10,000	10,000	10,000	10,000
Distribution unit cost	1.00	1.00	1.00	1.00
Response incentive unit cost	0.00	5.00	0.00	5.00
Conversion incentive unit cost	0.00	0.00	10.00	10.00
Response rate	1.00%	1.00%	1.00%	1.00%
Conversion rate	50.00%	50.00%	50.00%	50.00%
Average order value	100.00	100.00	100.00	100.00
Total distribution cost	10,000.00	10,000.00	10,000.00	10,000.00
Total response incentive cost	0.00	500.00	0.00	500.00
Total costs with response incentive	10,000.00	10,500.00	10,000.00	10,500.00
Total conversion incentive cost	0.00	0.00	500.00	500.00
Total costs with conversion incentive	10,000.00	10,500.00	10,500.00	11,000.00
Responses	100	100	100	100
Cost per response	100.00	105.00	100.00	105.00
Sales	50	50	50	50
Cost per sale	200.00	210.00	210.00	220.00
Total revenue	5,000.00	5,000.00	5,000.00	5,000.00

### Figure 2

Figure 2 shows how small the gains have to be (in this example) to give you breakeven and from there everything else is 'bunce'.

	Non incentivised	Response incentive	Conversion incentive	Both
Audience	10,000	10,000	10,000	10,000
Distribution unit cost	1.00	1.00	1.00	1.00
Response incentive unit cost	0.00	5.00	0.00	5.00
Conversion incentive unit cost	0.00	0.00	10.00	10.00
Response rate	1.00%	1.06%	1.00%	1.06%
Conversion rate	50.00%	50.00%	52.50%	52.50%
Average order value	100.00	100.00	100.00	100.00
Total distribution cost	10,000.00	10,000.00	10,000.00	10,000.00
Total response incentive cost	0.00	530.00	0.00	530.00
Total costs with response incentive	10,000.00	10,530.00	10,000.00	10,530.00
Total conversion incentive cost	0.00	0.00	525.00	566.50
Total costs with conversion incentive	10,000.00	10,530.00	10,525.00	11,086.50
Responses	100	106	100	106
Cost per response	100.00	99.34	100.00	99.34
Sales	50	53	53	56
Cost per sale	200.00	198.68	200.48	199.22
Total revenue	5,000.00	5,300.00	5,250.00	5,566.00

[If you want a copy of the Excel spreadsheet you can get one here](#) and play about with your own numbers or ideas.

That's the trick. If you get the right incentive(s) they actually decrease your costs and improve your ROI. We know of cases where incentives have increased response or conversion rates over 5 times. Retailers offering immediate benefits can often gain the most as customers often make higher value purchases too.

But it's really all about leverage. When you have spent the £10,000 (add as many 0s as you like) on the marketing distribution costs for a campaign then it makes sense to leverage every penny and paying a small percentage extra to get more responses and conversions and higher ticket values makes a lot of sense before you write a cheque for another campaign.

But, as we have said several times it's about the right incentives and that means either:

- Creating an emotional bond - charities, universities and similar organizations can do this most easily, but many organizations now leverage 'cause marketing' by offering affiliate credit cards or 'a donation to your favourite charity if.....'
- Working on the 'hook and barb' principle by getting people involved in loyalty programmes such as airlines' frequent flyer programmes, retail loyalty point schemes and credit card rewards. Once you are hooked on collecting them points it's really quite psychologically difficult to give up the reward that you want so..... But the key is on getting and keeping customers tied in by not making rewards too difficult to gain. Some organizations have even found that charging a (relatively) small joining fee for loyalty schemes actually improves results as joiners are more committed, spend more and redeem more.
- Plain old 'bribery'. Why wouldn't I want a £X voucher or a free memory stick for responding? Why wouldn't I want a £Y discount for buying? Why wouldn't I want to enter a free prize draw or competition (perhaps even run over several campaigns) for a new car or kitchen or holiday as well as those other incentives?



There's only one way to find out if it will work for you - test, test, test. It may be that your customers really don't want any incentive but don't count on it.