

RENTON'S BUSINESS TIPS



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THE OFFER

The offer is an incentive which encourages someone to perform a particular task. The key word is incentive. The normal quality, price and service relating to the relevant good or service do not form part of the offer. It is the additional reason for performing a particular task, usually buying a good or service, but it can also relate to other things. It is not a punishment. "Pay this account in seven days or legal action will be taken" is not an offer since there is no positive incentive.

What is the purpose of the offer?

When selling your products or services, the offer has one purpose only - to increase your profits. However, the profits may not increase until the long term since sometimes the offer is so generous that the seller may actually make a loss. This is perfectly acceptable since sometimes all the seller wants to do is to add more customers to its database. See the section on outrageous offers at the end of this article.

Usually, the purpose of the offer is to increase sales in the short term. The offer becomes more authentic if you are honest with your customers and say why you are making such a special offer. We are all bombarded by different types of offers during the course of a day. This can include offers made on the internet, magazines, newspapers, television, radio, email, SMS and direct mail. You need to make your offer stand out. Obviously, the best way to do this is to have a previous relationship with your customer or to target your offer to a receptive audience. The second option is to make an outrageous offer which will be surely noticed. Below are some ways you can build trust with your customers by explaining why the offer is being made.

- Closing Down Sale.
- Opening Sale.
- End of Financial Year Sale.
- End of Year Sale.
- Post Christmas Sale
- Order early and receive these incentives.

The last reason is effective since it creates a sense of urgency. I have never been inclined to go to large retail outlets in late December but judging by the mayhem shown on our television screens, these retail outlets are very successful in creating a sense of urgency. Just imagine how good it would feel if your customers were literally falling over each other to order your products. The ordering early incentive can be very powerful. You may have received incentives to order your Christmas cards early with these business tips. The early bird offer has two purposes. Firstly, it brings forward sales. Secondly, it generates sales that otherwise may not have been made. Often, a postponed decision to buy is the same as a decision not to buy.

What form do the incentives take?

- discounts
- premiums
- entry into competitions

Have you ever received direct mail from seminar presenters or sellers of information products? Even if you don't purchase their products, I urge you to study their marketing. Occasionally, I have seen all three incentives offered at the same time. Always include a value to your bonuses. The value given is the estimated value to your customer. This is often considerably more than your cost of providing this bonus. This is certainly ethical since it is understood that you have a margin on not only your product but also your free bonuses. I have seen some offers where the value of the free bonuses actually exceeds the price of the product you are selling. This is certainly possible and can add to the power of your offer provided your estimated values are reasonable.



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Australian Credit Stationers

Discounts are quite straightforward but your response rate can alter according to how you word the discount. Which do you prefer?

- Half Price
- 50% off
- Buy one, get one free

Your answer is probably they are all the same. Well, they are not. Studies have shown that Buy one, get one free is more successful than the other two incentives even though they are basically the same thing. Certainly, you should test this before changing your offer. The use of the word "FREE" should be used as often as you can in your offer. Buy this and get this for **FREE** and get this for **FREE** and get this for **FREE**. This is very powerful.

Do you remember the Demtel ads on television many years ago? If you can, then it is because they were on so often. And the reason they were on so often is that they were successful. Basically, the item being advertised, as I remember it, was a set of steak knives. However, the steak knives were soon forgotten as bonus after bonus was added. The presenter's favourite phrase, was "But wait, there's more." This is what you should be doing. Not everyone is going to want to purchase your product but sometimes the added bonuses can be so appealing that the customer decides to buy anyway. The bonuses called premiums often persuade your customers to buy when they are indifferent or undecided. It is a risk to assume they will purchase just because they have purchased from you before. You should make offers to your regular customers as well as to your prospects.

The late night infomercials are the modern day success story of added bonuses. One product sold is exercise equipment. By the time the added bonuses are included, the exercise equipment seems to be great value. Often, it is the offer which does the selling. It is one powerful way of differentiating your product from your competitors' products. Premiums include free information on video, DVD, tape or as a booklet. Often, a related product of less

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value is also added for free.

Competitions are a great incentive because they enable you to offer a high ticket item as an incentive. In the past, we have offered free holidays to New Zealand and USA as an incentive to buy our Christmas cards. Two of our customers have enjoyed these holidays. You may ask, why we don't do this anymore. Well, there is a simple reason and I believe it is an important one. There can only be one winner. I think a smaller incentive that all of your customers can enjoy is preferable. If you order a certain quantity by a certain date, you will receive these bonuses. I believe this is the most powerful offer you can make. However, competitions certainly have their place but they should be included with other bonuses since they are not certain of happening. However, the bigger the prize, the more appealing the competition. If you do have a competition, then there are certain rules you must follow. These depend on the value of your prize. You need to contact your local state lottery office to understand the conditions and get an approval number. In NSW, you will receive a TPL number. This adds credibility to your competition. In fact, it makes it legal. This is to protect your customers. It would be dishonest to have a competition and then not award the prize.

What are the features of an offer?

When selling a product or service, the most compelling offers will include the following:

- product or service
- price
- special deal or incentive
- time limit or quantity limit or stock limit
- minimums or maximums

Discounts v Premiums

Discounts are a great way to reduce old stock. It is something that we use successfully. Our range of 50% off stickers enables us to sell stickers that otherwise would not be sold. Also, our range of 33% off Christmas cards helps us to reduce stock of some of our overstocked Christmas cards. Explain to your customers why you are offering a discount.

The other discount which is successful is the early bird discount. In fact, the discounted price really becomes the normal price. Seminar presenters successfully use this tactic.

However, if discounts are used purely to boost sales, then this is a big risk. The danger is that sales will increase and profits will decline. In fact, to maintain the original profit without discounting, the percentage increase in sales is actually much larger than the percentage discount. See the example below.

Selling price = \$100. Units sold in a normal month = 300.

Gross Profit per item = \$50.

Expected Monthly profit = \$50 * 300 = \$15,000

Consider the effect of a 25% discount.

Case 1: No increase in sales volume.

Monthly Profit = (75-50) * 300 = \$7,500

Case 2: 25% increase in sales volume

Monthly profit = (75-50) * 300 * 1.25 = \$9,375

Case 3: 100% increase in sales volume

Monthly profit = (75-50) * 300 * 2 = \$15,000

In this example, sales volume would need to double to make the same profit on a 25% monthly discount. This is possible but it is a dangerous offer. Also, repeat business may suffer since your regular customers may have ordered more than usual to take advantage of the discount. Discounts are generally the least successful offer. Consider the following example with a \$25 premium to the customer. Assume the cost to you is \$12.50.

Case 1: No increase in sales volume:

Monthly profit = (50-12.50) * 300 = \$11,250

Case 2: 25% increase in sales volume:

Monthly profit = (50-12.50) * 300 * 1.25 = \$14,062.50

Case 3: 100% increase in sales volume:

Monthly profit = (50-12.50) * 300 * 2 = \$22,500

Test and Measure

The above example does not prove that premiums are better than discounts. It only shows that discounts are risky. You need to continually try different offers to see which works best for you. And take a moment to read or study the advertising you see, particularly by direct mail. You will receive some good ideas even if you do not wish to purchase the products or services offered. Of course, the most important part of marketing is measurement. It is difficult to improve your marketing if you do not know the results of your current marketing.

Credit Management and Offers

Over ten years ago, a common offer to debtors was a 2.5% discount for early payment. Some businesses still use this offer but it is used far less today. And that is a good thing. You see, the customer has already bought from you so you should be paid. You should not need to make a special offer to collect your money early. Also, the cost of the 2.5% discount is substantial. It is unlikely that such a tactic will reduce your bad debts since it is only your good customers who are likely to take advantage of this offer.

The trend in credit management now is the use of penalties rather than offers. A percentage surcharge is sometimes added to the bill for credit card payments. This is not a tactic we employ but is quite legitimate since the credit card payment can have the same adverse effect on a business as the early payment discount.

Outrageous Offers

Have you ever seen a list of offers that look so good you wonder how can the supplier afford these? Generally, there are two answers to this. Firstly, the cost to the supplier of the benefits is usually much less than the stated value. Secondly, the supplier is often prepared to make a loss to get a new customer. This is really the secret to making good offers. How much can you afford to spend? When you evaluate the lifetime value of your customer by simply multiplying the annual profit of a customer by the average lifetime of that customer, you will see how valuable new customers can be. It is often worth making a loss to acquire new customers. Grasping this principle and studying what others do will enable you to come up with some outrageous offers of your own.

QUOTES TO PONDER

"Words are, of course, the most powerful drug used by mankind."

- Rudyard Kipling

"We are not permitted to choose the frame of our destiny. But what we put into it is ours."

- Dag Hammarskjöld

FOR MORE INFORMATION



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