

Designing Effective Sales Promotions

Without Giving Away the Farm

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Introduction

During a weak or strong economy, every small business seeks methods to increase sales. It's an economic fact that level sales mean stagnation; growth is required for long-term success. But how to make growth happen? One of the answers is sales promotions. But how should they be designed? Modern life surrounds you continually with marketing messages. Too often, small businesses promote their product or service just by imitating promotions already witnessed. But because a promotion has been communicated effectively (enough to stick in your memory) doesn't mean that the same promotion would help your business grow.

This tool introduces proven methods for designing effective sales promotions. To be useful, a promotion must not only increase sales in the short and long run, but also increase long-term gross margin, as well. You need to convince prospects to make a buy decision both today and tomorrow. Promotions that do any less fall short of this all-important goal: *They give away the farm.*

How to Use this Tool

This tool is intended to be interactive. Following several of the sections below, you will see blank boxes. Stop reading when you get to each of these places, and jot down your reactions to the ideas and examples. Then use the space to draft how you are going to apply what you are learning. We want *Designing Effective Sales Promotions* to be more than an interesting read—we intend for it to guide you in implementing business-boosting ideas!

If you are using this tool with the assistance of a CEF Business Advisor, you will most likely present your rough-draft plans to him or her, so you two may then brainstorm and finalize your plans.

Components of Effective Sales Promotions—Quick Look

Take a look at the big picture. Here are six components essential to every successful promotion:

1. **Provide an Inducement to Elicit a Buy Decision NOW**
2. **Merchandise the Inducement**
3. **Create a Boundary**
4. **Present a Credible Rationale for the Promotion**
5. **Tap into an Internal Business Need**
6. **Know your Prospects' Objections and Form a Plan to Meet Them**

Ready to get started? Hang on. We first have to make sure you are prepared.

Prerequisites

Sales promotions will never be effective unless you have done your advance homework. Here's what you need to do first:

1. **Unique Selling Proposition** This is the understanding and presentation of what makes your product or service stand out from the competition. If you are not clear about your USP, or if you are not rock-solid in understanding the needs of your target market, then first take advantage of the Unique Selling Proposition Planner in the CEF Tool Kit.

Your Unique Selling Proposition:

2. **Effective Pricing** For pricing to be effective, the charge for each product or service must be based on 1) the variable cost associated with each item, plus 2) the amount of overhead each individual sale must cover to reach a break even point, plus 3) an allowance for profit. If you and your accounting system have not taken into consideration these key numbers, then you need to take advantage of another tool in the CEF Tool Kit, the Pricing Tool. This consists of detailed

instructions and an Excel-based application to help you calculate a recommended price for each of your products or services. (Of course, your competitors' pricing and market conditions will also have to be considered.)

3. **Skill and Discipline to Budget** Many small business owners possess the skills to budget, but lack the discipline. If that's you, then you--and only you--can help yourself. However, if you already have the discipline, but are just looking for the skills needed to prepare your budget, then get started with the 12-Month Cash Projection tool in the CEF Tool Kit. It's based on Excel, and the easy-to-follow instructions will help you get the job done.

Why is a good budget so important to sales promotions? Well, the goal is to increase sales in both the short and long run, and to increase your long-term gross margin. How will you know if you've accomplished your goals without a budgeted baseline (representing the current status quo) against which to compare your future sales results?

4. **Effective Marketing Communications** The most skillfully-designed sales promotion will fall flat without great communications. All too often, traditional marketing channels—like newspapers, yellow pages, television, and radio—just don't work anymore, especially for small businesses. The attention of people's ears and eyeballs is just too fragmented, divided between the old marketing channels and the newer Internet-supported media. Consider that many guerilla marketing methods—perhaps unique only to your particular business—may often work best (like an auto repair shop getting the word out by stuffing ice scrapers, imprinted with a promotional offer, under hundreds of windshield wipers of cars parked in mall parking lots, on snow days). Utilize communications methods that are specific to your business and which target the audience that you need to reach.

Communication Channels Currently Used:

Components of Effective Sales Promotions—Detailed Look

Some people would say that sales promotions are more of an art than a science. But we maintain that the art is really a science that hasn't yet been defined and understood. So let's define and understand! In the next section we'll again present the six components of great sales promotions, but with more detail; then, in the section that follows, we'll provide some real-world examples. We'll also provide worksheet boxes for you to register your responses and draft your next steps.

- 1. Provide an Inducement to Elicit a Buy Decision NOW** A prospect is a party willing and able to buy. Your job is to motivate a buy decision now, to ensure the buy is from your company and not the competition, and to ensure future buys. Here are just a few inducement examples:
 - a. **No charge for delivery or shipping** (A lot of e-commerce companies use this inducement.)
 - b. **Free Ethernet connectors with full cable plant installations** (Obviously this is an example from an IT services company.)
 - c. **Half-off on all fixtures, with whole-house wiring upgrade** (Electrical contractor)
 - d. **Complementary 15-point safety inspection of all installed swimming pool electricals** (Back yard amenities contractor)
 - e. **Complimentary project estimate**
 - f. **% Discount**

Sometimes in this tool we present examples that don't work well, or which don't work well all the time. Regarding example (e) above—most businesses that deliver their service in a project (like a home remodeler) always provide a project estimate free of charge. Therefore, to promote your estimate as free just says “me too.” It not only doesn't provide an inducement; it actually reduces the chance of a sale. So, it's best to just do the estimate for free without making a big deal out of it.

And what about (f)—the % discount (in other words, reduced price)? A price cut is the oldest trick in the book, and—standing alone—the very least effective method of motivating a buy decision now. What's more, if you are not careful, temporarily lowering your price in a promotion can produce two undesirable outcomes:

- a. Signals low value to the market

- b. Creates the perception that the current lowered price is the permanent price.

Be careful—or you'll give away *the farm*!

2. **Merchandise the Inducement** Merchandising means using words and images that cast the promotional message in the best light. You'll get the idea best through these examples:

- For a free inspection, itemize the inspection on the invoice for \$250 and then mark it “No Charge.”
- For free delivery, show the delivery charges on the invoice at full amount; then return the dollars in a refund line.

Do you see the idea? It's a more powerful signal of value to the customer if you highlight an item to be given free, show its original price, then remove the price. Also, notice in these examples that the item being given away is not the product or service itself.

3. **Create a Boundary** When left to their own desires, customers tend to make self-serving assumptions. A boundary is your most important weapon to combat the customer assumption that whatever you're doing to induce sales today will also be available to the customer in the future. Examples:

- October only
- Today only
- Larimer County buyers only
- The first 100 callers
- Students only

Boundaries can be temporal , geographic , quantitative or demographic. Most of all, they have to be honest and consistent. If you say “the first 100 callers,” you had better count the calls and stop at 100. Today's customers can sniff out flim-flam in an instant!

We'll come back to boundaries and inducements, and work with them in greater detail below.

4. **Present a Credible Rationale for the Promotion** Here's the point: People are most encouraged to make buy decisions when they are influenced to consider motivators outside of the buy-sell offer. A

credible reason for your offer gets the buyer's mind off of your business and onto larger issues. Take a look at these rationales intended to motivate; some are believable, and some are not:

- a. Spring Home Cooling Sale—Discounts to get your air conditioner ready for the long summer
- b. October Car Winterization Sale—50% off antifreeze flush and refill
- c. New Neighbor Plant Sale—Bring in this mailer for 15% off all indoor and outdoor plants
- d. End of Year Sale – All inventory must go
- e. Going Out of Business Sale
- f. Because of incredible demand last month, we ran out. So we got on the phone to our supplier, and now our warehouse is overstocked!

Our commentary:

a) The season is turning warmer, and air conditioners sometimes fail when first put under load. This is a most credible rationale. The new season rationale may sound trite, because you hear so many versions of it. But it works, because it plays into the prospect's genuine fears and needs.

b) Looking at the car winterization promotion tells us that the seasons—again—can be a great reason to make the buy decision. And this one really works, because the explanation resonates with what the prospect already fears about cars breaking down in the winter.

c) The new neighbor mailer only goes out to families who have recently moved. This rationale—to do a favor for someone having just gone through the rigors of moving—works in the prospect's mind. Anyway, people tend to kill their old plants when they move them!

d) The *end-of-the-fiscal-year-it's-time-to-take-inventory-everything-must-go* idea is less credible. It may be a fact that businesses don't want to carry inventory from one year to the next, but the rationale focuses on the needs of the seller and not the needs of the buyer.

e) Most going out of business sales are for businesses not really going out of business. Don't use this one unless it's true!

f) This last drawn-out explanation, even when based on absolute fact, may backfire. If your target market is sophisticated and well educated, they may hear this kind of language and assume your business is unsophisticated and stupid. Watch out for these *we-made-a-big-mistake-and-now-you-can-win* promotions!

In a subsequent section, we will show you an amazing way to elevate this entire idea of providing rationales, and how to transform a rationale into something else entirely, by *placing your emphasis on a social cause*.

5. **Tap into an Internal Business Need** The greatest need, weighing most heavily on every small business owner's mind, should be to increase sales. But that's not what we're talking about here. The goal is to plan a sales promotion to increase sales, while at the same time fulfilling adjacent business needs. Take a look at these examples and you'll see what we mean:

- **Bundle old inventory with new, in order to get rid of the older merchandise.** This is what's going on when you see a promotion to buy product A, bundled with product B, at half price. You can pretty much count on product B being old inventory.
- **Select products or services for promotion having inherently high gross profit %.** Even after a promotional discount, for example, you have still earned some gross margin per unit sold. With increased sales, due to the promotion, your total gross profit dollars may not be too far afield from a regular sales month, thanks to the increased sales volume from the promotion. Now you have successfully grown your customer base, with sacrificing only a minimal amount of total gross profit dollars.
- **Pair a discount with payment terms more favorable to you than your norm.** For example, if you ordinarily provide credit terms, the discount offer might require "net due upon receipt." (We don't think most small businesses have to extend long payment terms, but when competitive forces compel you to do so, you can still require cash on the barrel head in return for discounting.)

6. **Know your Prospects' Objections and Devise a Plan to Overcome Them** A NO decision is easy to perceive, but hard to truly understand. Asking small business owners to talk about their prospects' objections always elicits a lively response. You are all too aware of the pain that comes with a NO. But you must dig below the surface of each

rejection to understand the deeper reasons. That way you can design promotions to address objections *before* they are spoken.

The above was your introduction to the six steps to creating great sales promotions. Now we will involve you in detailed, real-world examples. As we proceed, you will have an opportunity to plan your own promotions.

A Closer Look at Inducements and Boundaries... Do They Really Work?

The simple answer is that some do and some don't. Let's look at a mixture of good promotional ideas and bad ones. Keep in mind that what might be a great idea for one type of business may not work for you.

	Type of Business	Inducement	Boundary
1	Airport book store	Free Book	Buy two books, get the third free
2	Home disaster remediation service	10% Discount	On cleanup jobs \$1,000 or more
3	Therapeutic massage service	1 hour massage at ½ hour price	2-4 PM, M-Th. June only.
4	Popular national clothier	Free Men's Suit	Buy one suit, get the second one free
5	New frozen yogurt bar adjacent to large university	Free Frozen Yogurt	-3 Oz. -April only
6	Business coaching service	Free Consulting	Diagnosis phase only
7	Global retailer	Everyday Low Price	(None whatsoever)
8	Women's clothes sold over Internet	Free Shipping	(Almost none whatsoever)

Our Commentary:

1. *Buy-Some-Number-and-Get- One- Free* is a typical promotional offer. In this case, there was no other boundary than to buy two books. That's probably ok, because few people would walk past this book store day after day and abuse the offer. But wait! How many people in airports want to add three books to the load they're already lugging onto the plane? This kind of promotion might work better at a non-airport location.
2. This is a typical boundary: Offer a discount only on the really big sales. But, when people have a home disaster and need cleanup, do they have time to shop around for a discount? Do they really want a discount, since insurance is going to pay everything after the deductible? Hmm.
3. Therapeutic massage at a discounted price is a good way to get new patients to try the service. Notice the wisdom of the boundary: It's intended to fill open slots in the masseuse's schedule; after the limited time of the offer, the schedule is expected to be filled by patrons now paying full price. Pretty clever!
4. This is another *Buy-Some-Number-Get-One-Free* type of offer. It brings the customer into the store. The customer may notice that the individual suit price is more than what would be paid in other stores, with similar quality. However, the final price for two suits is still perceived as a good buy, since it is less than the cost of two suits elsewhere. Then the customer finds, not surprisingly, that there is a fee for alterations. Now the store is able to enjoy the profit from two alterations, not one. Looking around the store, the customer thinks, "How about a new shirt and tie to go with the new suits, since I've already saved money?" This is a pretty successful offer, because all parties win.
5. Three ounces of frozen yogurt is enough to tantalize the tongue, but not fill the stomach. People feel they'd experienced a legitimate giveaway, plus now they are ready to buy more. Plus, April is a good month to get students hooked on a chilly treat. The particular store making this offer opened in April and showed a profit in May! Again, all parties won.
6. This promotion assumes that the free service will lead to more paid services. On the surface, this one sounds like the free frozen yogurt example. How is it different? Did this promotion work? Did it address

the target market's objection to getting started with business coaching? You decide.

7. If prices are promoted as being low every day, then there is no boundary to this offer. This retailer is always constrained to deliver on the promise, and the only way to deliver the lowest prices and still make a profit is to have the lowest cost, consistently. Can you guess who the retailer is? It has been immensely successful with its boundaryless promotional strategy. But most small businesses should never try this strategy. It would *give away the farm*.
8. The global retailer in number 7 began its boundaryless promotional strategy deliberately. But what about businesses that do their best to impose boundaries, but end up having to remove them for competitive reasons. That's what's happening to many women's retailers on the Internet. One site began matching the others' free shipping offer. Pretty soon, everyone was offering the same thing. Now most women's e-commerce sites are giving away a piece of the farm just to keep their plows in the field!

Inducements...Some Final Thoughts

Do you feel you are learning something about promotions and boundaries? At this point, we want you to understand some general rules about the most common, but also the most dangerous form of inducements: *free or discounted items*:

1. Free or discounted items work **best** with:
Products & Services with Perpetual Demand
Examples: Food, clothing, health maintenance, automobile maintenance, cleaning, entertainment
2. Free or discounted items work **worst** with:
Products & Services with Infrequent Demand
Examples: Repair services, business consulting, health care

If your free or discounted item today is not likely to bring a customer back tomorrow at full price, then seek some other inducement. Remember that the goal is both to build sales volume now and in the future, and to build long-term gross profits!

Now It's Your Turn

Before you go any further, take a few moments to react to the examples above and to other examples you have witnessed in your own experience. Then jot down some ideas to implement in your own business.

Inducements I Like

Boundaries I Like

Inducements & Boundaries I Plan to Use

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A Closer Look at Credible Rationales

You've already followed the discussion on credible rationales for promotions, and you learned that a rationale is most believable when it taps into the prospect's fundamental needs and awarenesses. Now let's look at some more examples. This time we will pair rationales with boundaries, to give you a better idea about how they typically appear in the market:

	Type of Business	Inducement & Rationale	Boundary
1	A national home cleaning service	Spring Cleaning 20% Off	Through May 31
2	Various auto repair companies	Summer driving season special: ½ Price Oil Change, Free 21 Point Inspection	Through May 31
3	Outbuilding company	Free Delivery for Our Good Neighbors	County residents only
4	Independent hairdresser	Big Discounts on Back to School Hair Color	Students only
5	Independent painting service	Deck the Halls Interior Painting Special	November and December only

Commentary:

1. Does the rationale, implicit in the spring cleaning promotion, address the prospect's fundamental needs and awarenesses? For most of us (certain teenagers excluded) cleaning our homes is a natural inclination when the days become longer and we start opening up our windows to the pleasant fresh air. You see promotions like this one all the time...because they really work. And they work best for products and services with perpetual demand, so the buyer comes back after the boundary time has expired.
2. Let's test this one for effectiveness: Is it real, in the prospect's mind, that heavier summer driving could cause a car part, that's about to fail, to go ahead and fail? Yes, that's a real possibility. This reasonable motivation, like the one above, works so well that we see it all the time, and consumers frequently take advantage of it.

3. The free delivery offer has strong appeal to county residents. The prospect sees it as credible, thinking, "I live in the same county as the store. That's why there's no charge to deliver to me." Fine, from the consumer's point of view. But how about the business? How will the boundary conflict with geographic growth? This business would have to start a separate store in every county in which they intend to compete! So, this offer won't work in the long run.
4. Back to school is a tried and true rationale that resonates with most people, especially the female demographic. Hair color fades and grows off, bringing these customers back to pay full price later.
5. The myriad of rationales (even excuses!) to spend money associated with the Christmas holiday drives a major part of the North American economy. You bet this one works!

Transforming the Credible Rationale, Using "Causes"

Markets are continually becoming more sophisticated. Yesterday's motivations and boundaries oftentimes don't work today. But more than ever, buyers love supporting social causes. A cause can become the best possible reason for a promotion, because most causes are so poignantly real to people.

In fact the rationale associated with causes is so real that the inducement it embodies is rarely spoken. It is as if saying the inducement aloud would remove some of its power.

Here's a brief look at some examples; you'll be able to think of more on your own:

	Business Example	Inducement & Rationale	Cause
1	Local budding musician staged a concert giving a portion of the admission price to the charity	Feed the Hungry	County Food Bank
2	Local chiropractic service contributed 100% of initial visit fees to the charity	Save abused teenagers	Local counseling and housing service for homeless teenagers
3	National retailer created an entire brand, a portion of whose profits support charity	Eliminate AIDS In Africa	(product) RED

Great cause-based promotions use boundaries in effective ways like you've already learned. But in the examples above, we didn't present boundaries, in order to get the other points across.

A sober word of caution regarding a cause: You had better truly believe in your chosen cause. You must be passionate about it. Because if you aren't, your employees and prospects will see right through you—and they'll become disgusted with you and your superficial offer.

It's Your Turn Again

It's time to capture your thoughts from the previous section:

**Inducements and Credible
Rationales I Like**

Causes I Like

Cause-Based Promotions I'm Planning

A Closer Look at Tapping into an Internal Business Need

You may be able to meet some of your company's internal needs by means of well designed sales promotions. This isn't about being selfish. It's about being smart. With some finesse and understanding of your market, your promotions should benefit both your company's inner workings and the customer. The best way to grasp this concept is to look at some examples:

	Inducement	Boundary	Internal Need
1	Free Electric Hand Towel Dispensers	With each commercial strip and wax job of 2,000 sq. ft. or more. No limit to number of bathrooms fitted with dispensers so long as in shared premises.	Janitorial supply company has excess inventory of hand towel dispensers. There is good margin in hand towel refills. Company seeks to expand its commercial floor waxing division.
2	Free iPad	With 1-Year Software License	Software company provides apartment leasing application customized for the iPad. This offer is like giving away razors to sell blades. It works!
3	Half-Price Motorcycle Accessories	Selected Inventory. June Only. Web Purchases Only.	½ of retail price happens to be the average cost of high-end inventory items that haven't sold for 9 months. This inventory wasn't a good match for a lower-middle class market with the desire, but not the cash. However, half-price is enough to induce sales and restore the cash that was spent to purchase the inventory. Freed cash can now be put into buying inventory better suited for the market.
4	Half Off Garden Paving Stones	Garden Center Customer Pickup Only	Owner of home landscaping business also owns a residential concrete company focusing on outdoor amenities like patios and swimming pools. Leftover redi-mix, which otherwise would be wasted, is poured into paving stone forms. Garden center provides retail items for patio and garden use. Customers picking up paving stones will always find something else to buy.

Now do you see how tapping into internal needs is not selfish but smart? Business owners who understand their markets, and have the ability to think laterally, can find ways of giving bargains to their customers while at the same time transforming what otherwise might be considered an internal problem.

Now take a minute to capture your thoughts and do some planning:

My company's internal needs which could be met through promotions:

A Closer Look at Meeting Prospect Objections

In this final section, we return to the factor that often prevents the prospect from making a buy decision now: Objections. You can design the best inducements, merchandise those inducements, create the best boundaries and satisfy needs internal to your company. But if you do not meet and overcome your prospect's objections, there will be no sale!

Take a look below. You'll see typical objections and common methods of meeting and overcoming these objections. Evaluate how successful you think each method is:

	Objection	Method of Meeting and Overcoming Objection
1	It costs too much	Discount
2	I don't have time	Provide service by accommodating the customer's time constraints

3	I'm afraid	-Discount to a friend, who is already a customer, who brings the prospect to you -Free samples -Literature distributed in non-threatening setting
4	I don't understand	-Free Samples -Literature -Demonstrations -Trial period
5	I might not like it	Free returns with free shipping

Our Commentary

Objection #1 is probably at the top of everybody's list! Addressing it head-on, with a discount, is probably the first thing that comes to mind, **but it is probably the last thing you should do!** Here are the reasons:

- a. "It costs too much" is spoken, but those words mask one or more unspoken, deeper objections. To address the surface objection, with a lower price, doesn't address the real objection.
- b. Lowering your price may lower your prospect's perception of value, reducing the chance they do business with you.

Objection #2 Some small businesses use custom tailored solutions to meet and overcome this one:

- Car window replacement companies typically come to your car and work on it while you are at work or at home.
- Auto repair companies, that must repair the car in their shop, may give you a loaner car, so you can spend at least some of your time productively.
- Wedding consultants are great examples of services that come to your office or your home, in order to remove the objections of inconvenience and loss of time.

Objection #3, 4, and 5—rarely spoken—are often the real objections when people are saying, "It costs too much."

When small business owners deeply consider the objections they hear, and when they also probe to find those hidden, unspoken objections, they are then able to more effectively address the remaining key stumbling blocks to a sale in their sales promotions.

One more time, now, it's going to be your turn. Take a moment to fill in the following table, listing the typical objections you face (I'm sure all too often). For many small business leaders, this first column is the easy part. Then after listing the objections, reflect on what you've learned above, and formulate ideas about how to successfully meet and overcome each objection in the future. Remember, great sales promotions anticipate the prospect's objections and present methods to overcome them.

	Objections I Hear <i>The easy part</i>	How to Meet and Overcome <i>The hard part, but you can do it!</i>
1		
2		
3		
4		

Conclusion

Great sales promotions are those that *don't give away the farm*. They use the six essential components explored in this tool. By following the advice in this tool, you will become more successful with:

- ✓ Increasing short term sales
- ✓ Increasing long-term sales
- ✓ Increase long-term gross profits
- ✓ Introducing new customers to your products and services
- ✓ Converting first-time customers to repeat customers

Just copying promotions you run into—without planning them strategically as this tool shows you—may increase your sales short term. But there will be the danger of depressed profits and lost sales in the long term.

And don't forget to first accomplish all of the pre-requisites shown earlier in this tool. Fill out all the work boxes above thoughtfully. Finally, don't just try one promotional idea. Replace any idea yielding less than hoped-for results with a different approach, until you find the formula that works best for you and your market.

