

Why Invest in an Incentive Program when Times are Tough?

Making an economic downturn work in your favor



Economic gloom...with a dash of hope

There is no getting around the fact that the current economic conditions are creating a challenging environment for business managers. The somewhat surprising truth is that recessions (and recession-like downswings) are not rarities - most large companies are never more than 24 months away from a major slowdown somewhere in their organization. The bright side is that we are simply on the down slope of a natural cycle...it will eventually reverse and there will be light at the end of the tunnel.

In 30+ years as an incentive company, Loyaltyworks has witnessed a number of recessions and downturns. We've helped many clients manage through tough times by creatively leveraging the capabilities of their incentive and loyalty programs. Drawing on that experience, this article highlights the most effective strategies and insights we've acquired on the subject.

In times like these, there's one important fact that often goes overlooked: a recessionary market can present a strong competitive opportunity to companies astute enough to see it – and willing to seize it. This article spells out that opportunity and then outlines a variety of incentive program strategies and tips that we've used to help clients:

- Reduce losses when the market slows
- Recover more quickly when things turn around
- Emerge from a downturn in a stronger competitive position

Everybody's hunkering down...

The economic downswing means that customer demand and purchase levels may be falling for all products in your category – leaving you and your competitors fighting for a slice of an ever-shrinking pie. The natural reaction by most companies is to “hunker down” – focus internally on increased efficiency, closely manage working capital and reduce costs across the board. Budgets for marketing and other customer-facing activities are often the first to go.

...but this can be your competitive opportunity

If your company is reacting to a downturn in this manner, there's a strong chance that your competitors are doing the same and cutting back on marketing activities. But consider the net effect of these decisions: with significantly fewer

marketing messages entering the marketplace, there will be less “noise” and less competition for the attention of customers. Customer mindshare is freed up by this “gap”, leaving the target audience more receptive to your messages, making them more effective. So, instead of cutting back, you can take advantage of a more attentive market by continuing to communicate with customers and prospects as competitors retrench.

Investing in selective, focused marketing efforts at a time when customers are more receptive to your messages can yield significant short and long-term returns. Doing so can cost-effectively prevent current customers from defecting, attract new customers and increase overall share of wallet - all huge wins during a down market. And studies have shown that when the market rebounds, companies that invest in customer communications during the slowdown will likely recover faster than competitors, and with increased market share.

Research Refutes the Conventional Wisdom

While it seems counterintuitive to maintain (or increase) spend on marketing communications and other customer-facing activities during a slow economy, historical evidence has shown the overall return on such an investment to be very strong. Perhaps the most comprehensive study on the subject was conducted by the often cited Profit Impact of Marketing Strategy (PIMS) project. The PIMS study was initiated in the 1960s at General Electric, moved to the Management Science Institute at the Harvard Business School in the early 70s and continues under the administration of the American Strategic Planning Institute (www.pimsonline.com).

One thousand firms in the PIMS database were classified according to whether they had reduced, maintained or increased their marketing spend during a recessionary period. Analysts tracking these companies found that, during the recovery period:

- firms that **cut marketing spend** experienced a small decrease in profit
- firms that **maintained marketing** experienced a small gain, and
- those that **increased marketing** enjoyed a substantial increase in profits.

A similar pattern was evident in terms of market share. Firms that maintained marketing levels gained market share at the expense of those that cut back; firms that increased marketing activities during the downturn made large gains in market share during the recovery. Management guru Ram Charan echoes this thinking in *“Managing Your Business in a Downturn”*, featured in the current issue of Fortune magazine (Feb 2008). Charan sagely advises - *“Sacrificing your future for a slightly more comfortable present is not worth it. If you keep building, you can come back strong.”*

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- Profit Impact of Marketing Strategy (PIMS) project.



While not every company has the economic strength to increase budgets when revenues are flagging (more power to those that do), the learning from the various studies on marketing and recessions is clear:

- **The advantages of maintaining or increasing marketing efforts far outweigh the short-term benefits of reducing your spend.** If you have the resources, a recessionary period can offer a terrific opportunity to lay the groundwork that will lead to major competitive gains during the recovery that follows—gains that could perhaps deal a deathblow to struggling competitors.

- **If necessary, marketing budget cuts must be made with great care.** If circumstances force you to reduce your marketing and communications budgets to remain profitable, do not make cuts across the board—be VERY discriminating about how you allocate your now scarce resources. Cuts that result in diminished market presence or compromise value in the eyes of your customers might exacerbate the losses suffered during the downturn and inflict further damage to results in the following recovery period. Charan agrees with employing thoughtful cost cutting as well, recommending that managers “...just say no to across-the-board cuts. By all means cut costs if it makes sense to do so, but make sure there is purpose in how you do it...the key: If you have to cut costs, don't try to be fair about it.”

Putting these lessons into practice may not be as clear. What follows are Loyaltyworks' top recommendations for bringing the resources of an incentive program to bear as you navigate through the current economic morass.

Leveraging Your Incentive Program in a Down Market

Managers currently using customer-facing incentive or loyalty programs may already be seeing new potential for maximizing results during a business slowdown (and subsequent recovery) – and we'll elaborate on how to tap into that potential in the following sections. For those of you not currently employing customer or partner incentives, consider the following recommendations as examples of the versatility an incentive or loyalty program can lend to managing your business.

Your incentive program should be one of the most visible connections that you have with your customers and a powerful marketing tool. In fact, for many of our clients it is their tool of choice for driving sales and building customer relationships. That said, the customer communication and marketing capabilities that are characteristic of your program can be applied in a wide range of recession-fighting strategies.

Balance is the key

To survive and thrive in this environment you'll need to maintain a delicate balance between efforts to improve efficiency in your business and investments in enhancing customer value. With that in mind we offer the following tips on using your incentive program to:

- 1) Get Leaner
- 2) Do More with Less and
- 3) Nurture Customer Relationships

1. Get leaner...but not at the sacrifice of customer value

In the face of falling revenues, most companies will realistically have to make the cutbacks and changes needed to keep the business profitable. But, as we've discussed, be wary of categorical reductions in marketing and customer

communications since these are some of your best tools to mitigate the negative impact of a downturn. We recommend that you consider the following as you weigh the options for cutting back and getting “leaner and meaner”:

- **Avoid moves that will erode your customer value proposition.**

Just like you, your customers are paying closer attention to their spending and are hyper-sensitive to the value that they feel they are getting from their vendors. If they sense that you are cutting back on the value you deliver to them they will begin to seriously consider alternatives. Maintaining good value is vital and moves that diminish value in the eyes of your customers must be avoided. Examples include reductions in product quality or quantity, increased pricing, scaling back of customer service/support or eliminating/reducing any existing buying incentives.

Avoid the urge to reduce the award structure of your incentive program. Instead, fight to maintain the value of your customer incentives and the revenues that they are driving. Reducing the value of the incentive program to customers in a slowing market can worsen revenue loss and raise doubts in the minds of customers at a time when they are evaluating their purchases very closely.

Even if left unchanged, a program with award rules directly related to customer purchases will decline as purchase levels slow in the market. Thus, the unaltered program will naturally experience its own reduction in cost. And, in line with the discussion on marketing communications, in a market where competitors are decreasing their purchase incentives you may win additional share of wallet and new customers by maintaining the value proposition of your program offers to customers and prospects.

- **Encourage cost saving ideas and behaviors**

As we’ve mentioned, when revenues are under pressure from an economic downturn, cost reduction throughout the organization is at a premium. Consider investing in inexpensive employee training and the addition of a reward and recognition program that includes an emphasis on cost-saving behaviors and activities. Both can cost effectively motivate employees to improve service quality and proactively reduce expenditures. They can also reduce costly staff turnover during times of low morale.

2. Keep talking to your customers and prospects...but do more with less

Rethink your marketing strategy and reevaluate how you will allocate your downsized marketing budget for the most impact. One tool that should be near the top of your list is your incentive program. It offers you a number of cost-effective marketing levers that can move sales in a positive direction, including customer/market research, customer communications, loyalty/relationship building, product sales promotion, product education and training, and more.

Here are some ways your incentive program can help you squeeze more impact out of your overall marketing and communications efforts.

- **Take a closer look at your market and hone your value proposition to a more precise fit.** Your incentive program provides you with a convenient tool for conducting research – you have a ready-made audience of interested customers to participate and an inviting way to compensate them for their time and effort. The economic downturn is also impacting your customers and, like you, they are adjusting their priorities. Survey your partners and customers to learn

more about what is truly important to them. Then use this insight to refine your value proposition and better align it with the needs of the marketplace.

• **Target the “right” customers with the “right” tactics and messages for maximum effectiveness.** The data-centric nature of point-based incentive programs lend themselves to customer analysis and segmentation. The resulting customer insight can help you tailor your offers and messages in ways that make your scant marketing resources work more efficiency. For example, identify the customers most at risk for defection or those with the greatest potential for growth — and then target them with communications and offers that are relevant to them to produce stronger results. Your communications efforts will simultaneously be reduced in scale (and cost), and will produce a greater return on spend. In short – research, refine and target

• **Use program-based communication to “boost your mileage”.**

Reinforce your value proposition to customers and partners in regular communications. Make “what’s in it for them” - crystal clear – explain exactly how you are making it easier and more cost effective for them to do business.

Leverage the communication tools and high participant attention levels found in your incentive program to get the most out of these efforts. Your program provides the equivalent of a marketing gold mine - immediate access to an audience that has given you permission to communicate with them and is clearly receptive to your message. Because of this, program-based communications simply do a better job of getting your message to your customers than other channels.

In many of the incentive programs supported by Loyaltyworks, participants are awarded points for specific activities and behaviors. These participants also receive program-related communications throughout the year from a variety of sources – examples include monthly statements in the mail that show their point balances and new awards, updates on new reward selections found on the program Web site, personalized emails relaying new point earning opportunities, and more. Participant attitudes about earning points and redeeming them for rewards are positive, so customers are generally enthusiastic about reading communications related to their program. To get maximum attention from this audience, try integrating other key company communications alongside those normally associated with the program.

Leveraging Your Incentive Program in a Down Market:

- ✓ Get leaner...but not at the sacrifice of customer value
- ✓ Keep talking to your customers and prospects...but do more with less
- ✓ Nurture and leverage customer relationships

3. Nurture and leverage your customer relationships

A fundamental purpose of customer loyalty programs is to build and maintain strong relationships with high-value customers. This objective could not be more crucial than during a slowdown in business. Customer loss is a double-whammy during a downturn: you are losing established revenue at a time when you aren’t comfortable allocating marketing resources to help acquire new customers.

Your efforts to improve retention should include ramping up relationship-focused communications, initiatives to strengthen customer loyalty and cost-effective ways to increase the value you offer to customers. You’ll find that the cost of doing so is far less than what you’ll spend replacing lost business. Here are some suggestions for aligning

your incentive program with overall efforts to boost customer value:

- **Maintain current program incentive value.** As indicated previously, when making budget cuts, fight to keep the level of incentive awards being offered to your customers and partners intact. Generally, program award costs (those incentives associated with purchases) will fall during a slowdown without having to reduce the value of the program to customers - and reducing purchase incentives will simply compound the loss of sales.

- **Offer product training or other classes.** We advocate this tactic no matter the economic condition. We've watched time and again as clients rack up significant returns on the energy and resources invested in developing training programs that increase the product knowledge of their customers and partners. One client, a manufacturer using an incentive program to motivate dealer sales reps to sell its products, found that sales reps who participated in product knowledge and demonstration training increased their qualified sales by as much as 75%.

The explanation behind such strong results is simple – the old business adage that “salespeople sell what they know” comes to mind. And honestly, everyone appreciates being supported in ways that help them perform better, especially when facing challenges. The customer loyalty born of goodwill efforts like these can most certainly influence purchase and selling decisions.

While it takes time and resources to create educational content, training can be delivered to customers in cost effective and compelling ways. To minimize administration for the manufacturing client noted above, we've created a set of self-help tools that customers can access via the incentive program Web site – they include online product study guides, formats for effective product demonstrations, and quizzes testing product knowledge. To stimulate uptake of the training, dealer sales reps earn points for successfully completing quizzes and conducting demos using best practices. Program communications promote the new “point earning” opportunities to maximize awareness of the training.

- **Add a referral element to your reward structure.** Referrals from satisfied customers are the most valuable source of new business opportunities, bar none. If your customer base is not composed of direct competitors, add a “customer appreciation” component to your incentive program that awards your customers for providing you with referrals that lead to new customers and clients.

- **Enhance customer services.** Several of our clients are faced with the challenge of manufacturing and distributing products that have largely become commodities in their respective industries. Other than price, how do they succeed at differentiating themselves from competitors that are offering essentially the same products? With exceptional customer service and strong customer relationships.

Adding services that competitors lack or improving the quality of the services you already offer might allow you to stand apart and offer more value to your customers. You may also have a set of “hidden” services that you've under-promoted and need to be communicated to your customers. The key concept here is that the services you add or enhance must have value to your customer to have any impact (note the section on customer research above).

Keep in mind that every service you provide ultimately depends on the knowledge, skills and attitudes of the employees working directly with your customers. So, investing in your people may be the most direct path to elevating service

quality. Employee training is a great place to get things started. Utilizing employee recognition and rewards is an effective way to sustain an ongoing emphasis on customer service excellence; actively recognizing and rewarding examples of great service from your staff will continuously reinforce the mantra of providing value to your customers and its importance to your business. Getting employee buy in could be the catalyst that elevates your services to a level that customers will notice and value above your competition.

Summary – how to leverage your incentive program

1. Get leaner (but protect customer value)

- Avoid cuts that erode customer value
- Encourage cost saving ideas and behaviors

2. Keep marketing (but do more with less)

- Research your market and refine your value proposition
- Target customers with the “right” tactics and messages
- Leverage your program communications

3. Nurture and leverage customer relationships

- Maintain current incentive value
- Offer product training / classes
- Add a referral incentive
- Enhance customer services

Conclusion

The current business environment is certainly challenging, but for many businesses an economic downturn poses a significant opportunity to strengthen competitive position. With some thoughtful and creative tweaking, a customer incentive program can prove a versatile tool for seizing the opportunity to improve your business, reduce your losses in the short term, and emerge stronger when the market turns around. At the very least, your incentive program can help smooth out some of the bumps you’ll encounter as you roll through this slowdown.

About Loyaltyworks

Loyaltyworks designs, develops and manages full-service incentive and loyalty programs that produce measurable business results. For 30 years, we have helped companies drive revenue and profit by building employee and customer loyalty and encouraging desired behaviors with rewards. We offer our clients flexible incentive solutions for channel sales promotion, sales force motivation, employee reward & recognition and more. Our flexible, points-based incentive programs are fully supported with an end-to-end array of services and include program design, our online WebRewards™ technology platform, participant communications, program management, reward fulfillment and performance measurement. We have particular expertise with programs driving sales for companies engaged in channel and multi-step distribution.