



How to Make Direct Mail Premiums Work for You

INTRODUCTION

As direct mail professionals, *we sell benefits not features*, and just like the door-to-door salesperson, we have our “tools” to close the sale:

- Lists
- Offers
- Package FOrmato
- Copy
- Timing

How do premiums fit into this? They are part of the offer and no sales tool, other than list selection, is more important than our offer. So, when we test adding a premium to our package—or test a new premium—we’re using one of the most powerful sales tools at our disposal—*the offer*.

WHEN SHOULD YOU TEST A PREMIUM?

There are only two occasions when you should test premiums. First, test premiums if you’re *not* using them. And second, if you *are* using premiums, test new ones.

Many organizations hate premiums. But most donors and customers love them. And since this is a customer-driven business, I suggest that you add premiums to your test matrix. Think about it. If nothing other than lists affects

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your results as much as offers do, shouldn't you be testing new offers as often as possible? Sure, there are other ways to affect your offer, but premiums aren't to be overlooked.

WHAT IS A PREMIUM?

1. A prize awarded for a particular act
2. Something offered free or at a reduced price as an inducement to buy

Premiums can be address labels, a book, a record or practically any other merchandise. They don't have to have a high monetary value but they *must have perceived value*.

If you can tie a premium to the organization's mission, all the better. For example, the American Diabetes Association could offer a cookbook of low-sugar recipes. An auto club could offer an emergency road kit or tool kit. And an Internet service provider could offer a webcam.

But as desirable as it might seem to tie the premium into the organization's objectives/brand, don't overlook the "greed factor."

Calculators, radios or CD players—even though they have no connection with the organization—may work better than premiums that seem to be natural tie-ins. What's important is whether they increase the profitability of the mailing.

PREMIUMS AND NONPROFITS

My experience is that commercial mailers have fewer hang-ups than do nonprofits about testing premiums. Non-profit fundraising executives often worry about their "image." Yet, image alone cannot support a group's worthy projects. Net dollars pay for research, food and wheelchairs. And premiums are an excellent way to boost an organization's net dollars.

Premiums have worked for national, regional and local non-profits since 1907, when the forerunner of the American Lung Association began using Christmas seals to generate donor support. One organization, DAV, credits its premiums—name stickers—for increasing its annual net income from \$10 million to \$27 million in just five years. Successful organizations have been built on the right premium.

Premiums work so well that most of the letters I write include some type of premium. Why? Because my clients make more money when mailing with a

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premium than mailing without one.

HOW TO CHOOSE YOUR PREMIUM

Premiums don't have to be expensive gifts. Often the best ones are unused merchandise sitting unwanted in a warehouse, or nearly forgotten informational pamphlets begging to be used. As long as you can give the item a perceived value, it can be a valuable tool in increasing your mailings' response.

But will direct mail premiums work for you?

There's no magic answer. You have to test them. Just don't make the mistake of concluding that premiums don't work if your first test doesn't perform as expected. You may have selected the wrong premium or not used it properly in your copy.

Too many people stick a premium offer into their letter's "P.S." and think they have done enough. Wrong. The premium is part of your complete mailing package, not just an element of the letter. You need to work it into the outer envelope, the letter, the response form and, depending upon the premium, maybe a special insert.

MEASURING SUCCESS

Make no mistake about it. Premiums can increase your net dollars! Sure, they make your mailing cost more. But whether you're a nonprofit or a commercial mailer, *you have to **decide whether you're in business to save money or make money.***

Here's a true story. Years ago, I went to a county fair with a friend. As we were walking down the fairway, a "barker" came out and offered us \$1 for 50 cents. Immediately, I accepted the offer. Yet my friend refused. Why? She said, "I don't want to spend the money."

Unfortunately, that's how too many people look at their direct mail. They don't want to spend more money even if it means a larger profit. But keep in mind that premiums are part of our mailing's offer. And other than list selection, nothing will have a greater influence on the success of the mailing than the offer.

If you're satisfied with a .01% or .02% improvement in results, then save the cost of a premium and instead test the color of ink on your envelope or make copy changes on pages 2 and 3 of your letter. But if you want to make major

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improvements to your mailings profitability, test changing your offer by including a premium.

You have at least 3 ways to test a premium. You can test them:

- a) On the front end
- b) On the backend
- c) On a “Fast 50”

FRONT-END PREMIUMS

A “front end” premium is given away in the mailing. For example, a fundraiser might include free name labels in the mailing, or a computer software dealer might include a free CD in the mailing.

Other examples of successful front-end premiums I’ve used include: pamphlets, certificates, membership cards, name stickers, decals, pens, greeting cards, note cards, flower seeds, notepads, key chains, bumper stickers, iron-on patches and membership cards.

Front-end premiums often generate a higher response rate, but they are more expensive since you’re paying to send the free gift to all recipients—respondents and non-respondents alike. (“*Free Gift*” may be redundant but it’s worth the emphasis.)

It’s also true that front-end premiums can reduce the average order/contribution since some responses will be guilt-motivated.

Front-end premiums may even “lock” you into premium mailings when it comes time to renew these donors/buyers. But because they generate a higher response, front-end premiums are great if you want to build your donor/customer file.

Yet ***the bottom line is still net dollars***. If you’re increasing your net dollars, your added expense, a smaller response rate or the amount of the average order shouldn’t matter. You’re still putting more money into your pocket—or into the organization’s worthy causes.

If you don’t believe that net dollars are the final measurement of a package’s success, the next time you go to the grocery to buy food for your family, try paying the cashier with response rates or an average order. Net dollars—over the life of the donor or customer—rule.

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BACK-END PREMIUMS

With a back-end premium, the recipient must respond to receive the free gift. For example, a magazine publisher might offer a free book to people who respond before a certain date.

Other back-end premiums I've used include coffee mugs, calculators, American flags, calendars, caps, plaques, lapel pins, membership cards, digital cameras and books.

An advantage of back-end premiums is that you're fulfilling the premium only to those people who buy/contribute so your up-front costs are reduced.

Additionally, customers/donors who respond to back-end premiums are often a higher quality of customer/donor with a higher lifetime value.

Potential disadvantages of backend premiums are that they might not generate as many responses as front-end premiums and they require additional fulfillment costs.

FAST 50 PREMIUMS

A Fast 50 limits the premiums to the first 50 people who respond. (You can also have Fast 100s, Fast 75s, etc. There is nothing sacred about 50 but it's what I've used, and it works.)

Fast 50 premiums can be the best deal of all. Because you're limiting your premium to the first 50 people who respond, your costs can be lower than both front-end or back-end premiums. Yet because everyone receiving the mailing is eligible, your copy can have the same excitement as any other premium.

Typically, I see a 25-30% lift when adding a Fast 50 premium. (For one citizen action group, I tested offering free gifts to the first 50 people from each state, but it made little difference in results.)

Remember, with front-end premiums, back-end premiums or Fast 50s, the objective is the same—to produce the highest net income possible for your organization.

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CONCLUSION

When testing premiums, you're changing the package's offer, so the return on investment can be immense. And when used intelligently, there should be no stigma associated with premiums.

What premium should your organization test first? It's still hard to beat address labels or a handheld calculator, but you have to test and see what's best for your group. It's simply a search for balance—perceived value versus cost.

Do you test front- end, back-end or Fast 50 premiums? Ideally, you will test all 3 and see what works best for you. If you can't do that, ask yourself, "What is my objective?" If you're trying to build your file quickly, front-end premiums or Fast 50s may be the way to go. But when you want to increase the size of the average order/contribution, add a back-end premium to your test mix.

But whatever you decide, *do the math first!* It makes no sense to test a premium that's so expensive that you'll need a 500% lift to break even.

Here are a few final points:

- ✓ The prospective donor or buyer isn't required to make a donation just because you enclose a front-end premium. And while the premium may increase the mailing's response rate, the average contribution/order is often lower.
- ✓ A lower average contribution/order isn't reason enough for you to shy away from testing premiums. It simply means that you will need to give extra attention to your efforts to upgrade the donor or resell/cross-sell the buyer.
- ✓ Many first-time buyers/donors acquired by means of a premium offer may require another premium to continue responding. Once you're into the premium business, you may always be in the premium business.
- ✓ But, on the good side, with a premium, you may recruit a donor/customer who would not have responded otherwise. And as long as premium offers are out-netting non-premium offers, you'll still be far ahead.
- ✓ Judge the effectiveness of your mailings by keeping careful records of the costs of your mailings—including any fulfillment costs—and the total dollars received. *Net dollars is the bottom line.*

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- ✓ Don't think that what works for another group will necessarily work for you. Test different premium offers and non-premium offers to see what the most profitable solution is for you.
- ✓ When evaluating your test results and projecting returns for future mailings, you must include the cost of your premium and all fulfillment costs.
- ✓ Do the math *before* you mail. Know how much the premium must increase response in order to breakeven with the control. If it's not a reasonable amount, select another premium.

Finally, remember that your premium is *only one part* of your direct mail package. You must still follow the essential principles of traditional direct mail packages—lists, offers, formats, copy and timing. While a premium can improve your results, it alone won't guarantee success.