
Rethinking Direct Mail Premiums

By Hugh Chewning

I'm a strong proponent of testing direct mail premiums. Why? Because they typically increase the mailing's response rate and its net profit!

Take, for instance, those personalized address labels you receive in mailings. Practically all of us have a use for them. And as soon as we run out, we go looking for more.

Yes, they add to the mailing's cost. But typically, they also spike the number of people responding, raise the average gift and increase the mailing's net income.

Premiums work because of what Robert Cialdini, an emeritus psychologist at Arizona State University, calls the "rule of reciprocation."



**Thumbs up or down on
direct mail premiums?**

According to Cialdini, this is drilled into us as children. He says, "We are obligated to give back to others, the form of behavior that they have first given to us ... Essentially thou shall not take without giving in return."

In a restaurant, we tip the server based on the level of service provided. "But if there's a mint on the tray," says Cialdini, "tips go up 3.3 percent." And those coffee mugs, backpacks and calculators promised to direct mail respondents – for both nonprofit and for-profit offers – all work to increase response.

When someone gives you something, or sends you something, you feel obligated to respond. It's the rule of reciprocation at work.

Yet while premiums can increase the mailing's net income, new studies

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indicate that they may harm the customer's/donor's long-term value.

Kevin Schulman of DonorVoice argues this point in a recent post titled "Non Profit Premiums Are Literally Crack Cocaine – the Why and How of Stopping the 'Drug Trade.'"

Linking direct mail premiums to cocaine certainly grabs your attention. (You can find Kevin's complete post [here](#).)

Kevin's point is that premiums, like cocaine, are addictive. His data indicate that "giving people premiums not only fails to deliver the long-term performance we require (long-term value) but, even more insidious, destroys the donor's innate, natural motivation or incentive to donate."

To support his findings, Kevin reports that in controlled experiments, scientists using magnetic resonance imaging (MRI) found that premium offerings activate the same part of the brain and the same chemicals (dopamine) as does crack cocaine.

You could argue that activating this chemical reward *is reason* to use premiums. But two behavioral scientists at Yale University support Kevin's argument by describing a series of experiments that show that in most circumstances, rewarding contributors with a premium cuts donations.

The Agitator, an online newsletter for nonprofit fundraising and marketing strategies, reported that the two Yale researchers, George Newman and Jeremy Shen, found "the counterintuitive effects of thank-you gifts on charitable giving."

The Yale researchers discovered that the most likely reason for the negative effect on contributions was "crowding out." In effect, the prospect of receiving a gift activated a feeling of selfishness, which, in turn, reduced altruism and consequently cut the average donation.

Kevin's report and the findings of the two Yale researchers came to the same conclusion – offering a premium in return for a contribution can reduce a nonprofit's income.

However, the Yale researchers did suggest several ways premiums can produce positive results. For example:

- Reframe the context. Describe the gifts as a means of furthering the organization's goals. A tote bag with the organization's logo, for example, could be offered as a way to spread the group's message. (This

approach ended the negative effect on long-term value, but it did not add to long-term value.)

- Use a gift that sends a social message. As an example, an invitation to an exclusive group.
- Surprise the donor. Separate the donation and the gift by sending the premium after the donation as a surprise “thank you.” This could leave a positive impression without crowding out the next appeal.

You can find *The Agitator's* complete report [here](#). But, as the article summarizes, its editors do not mean to suggest that premiums are all bad. They do suggest that we need to give more thought to their use.

This I agree with. In 30+ years, I've seldom seen a premium test that hurt the mailing's net profit. But for me, the point of Kevin's article and *The Agitator's* post is that we need to start thinking more about long-term value.

Long-term value escapes the focus of too many organizations. As a society, we think short term and focus on the quarterly, or at best, annual returns. And it's tough to criticize this thinking when annual return is how our salaries, commissions and royalties are decided.

You can also argue that for many organizations – especially those groups promoting an issue – cash flow is as important as long-term value. After all, you want to deliver your message to as many people as possible, and that takes cash.

Or if you're trying to grow an organization quickly, cash flow will again take priority – at least temporarily – over long-term value.

And however good the science or behavioral studies, they can't overrule the findings of a direct mail test.

But at a minimum, any organization that hopes to survive in the long term needs to evaluate the value of its donors acquired with a premium compared to those who came on board without a premium offer. I suspect the findings of each organization will be unique, but the effects of premiums on long-term value is a question each organization must answer.

Your comments?

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