

## Driving Your Top Line ... Price vs. Incentives

Recently I had a client ask whether price or an incentive program has a greater ability to drive performance in the current marketplace environment.

While there is no "right" or "wrong" answer there are a number of reasons why a proactive, aggressive, performance-oriented marketing strategy can help a company survive, and thrive, during challenging economic conditions. They include:

- **Distribution is a market share game.** While the pie may not be growing, and could be contracting, your objective is to gain a greater share of that pie. To accomplish this it is important to provide customers with another reason to do business with you.
- For independent distributors, an incentive program can provide a point of differentiation versus the national chains, helping you take share from them at existing customers, by penetrating accounts that are small to mid-sized for you but potentially larger for someone else, and by targeting new accounts.
- The contractor mentality is "**WIIFM**" (what is in it for me). An incentive program speaks directly to this issue. It enables them to take a trip, or earn merchandise rewards, for free. Price concessions inevitably are passed on to their customer. In today's economic environment, with consumers cutting back on discretionary expenditures, "free rewards" can go a long ways. Consider the power of ... a free LCD tv, a free computer, free gas, etc. The kinds of rewards that customers would rather keep for themselves than pass on to their customers.
- Ideally a program is structured to be **self-liquidating**, hence incremental gross margin generated from a customer's growth pays for the cost of the program,

and with manufacturer funding to off-set fixed program costs, even more of the incremental gross margin can go to the bottom line. Conversely, if you use that same investment to lower your prices, price deterioration continues to erode gross, and net, profit margins, and eventually contributes to lower market pricing (with limited ability to eventually grow your margin).

- Contractors earn business based upon their relationship with customer, the ability to handle the project their, their credibility and, to a lesser degree, price. While they do need to be price competitive, labor is the primary driver of a contractor's pricing, not materials.
- Any strategy you consider needs to be price competitive, but incentives enable you to be competitive without having the lowest price in the market. In fact, during the last three months of a program, it's sometimes possible to slightly increase margins for customers who are striving to earn the reward.
- **Price is the easiest marketing tool for your competition to compete against.** They simply have to lower their prices to meet, or beat, you. Unfortunately, many distributor salespeople already use price as their preferred sales tool.
- Fair pricing and good service are prerequisites to earning business from a contractor. A "cherry on the cheesecake" helps capture the business. Incentives such as travel can also be a powerful way to solidify relationships. Practically all distributors who have conducted travel programs rave about the opportunity to thank customers for their business and to strengthen relationships with customers and their spouses.

One caveat about incentive programs is that, to a significant percentage, their success depends upon the support of your sales organization to register customers and use the program as a tool to capture business. An aggressive, consistent marketing communications campaign can help

position the company with customers, reinforce value you add, highlight key manufacturers and solicit business by keeping the program "front of mind". Sales helps "ask for the business". Consider using monthly analysis reports to help guide your sales organization.

### **Incentive Programs Work**

According to a 2005 multi-industry contractor survey conducted by Channel Marketing Group:

- 69.5% of contractors responded that incentive programs change / sometimes change their purchase behavior
- 57.1% of respondents stated that incentive programs can differentiate one distributor from another
- Desired rewards were merchandise award catalogs (40%), individual travel (17%), group travel (14%), select merchandise (11%) and gift cards (8%)

### **Incentives Add Drive To Your Top Line**

From the perspective of a "down" year, there are essentially three strategies companies can take. They are:

- Reduce operational costs commensurate with sales declines in an attempt to retain profitability.
- Make minor changes and "hope" to survive
- View downturns as a growth opportunity and "sell" their way out of a slump. These companies have a vision of where they want to take their business and the resources to invest and take advantage of opportunities can grow in many ways. They may open locations, make acquisitions, hire quality people, invest in marketing, etc. Research has shown that companies that invest in sales and marketing typically grow during a downturn and experience accelerated growth when the economy rebounds.

Given this, investing in incentives represents an opportunity.

**David Gordon** is a principal of **Channel Marketing Group, Inc.** Channel Marketing Group develops growth strategies for manufacturers and distributors. He can be reached via email at [dgordon@channelmkt.com](mailto:dgordon@channelmkt.com).

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