

HOW EFFECTIVE ARE PROMOTIONS FOR DIRECT SELLING ORGANIZATIONS?



DIRECTECH LABS

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DirecTech Lab's Scott Bell discusses promotions in the direct selling industry—his conclusions may surprise you.

We've all been there: sales are lagging and you need to bring in some fast revenue. So what do you do?

You run a promotion. You announce that your most popular product line is available for 40% off during May. Sales start to pick up, and you look like a hero. I spent 23 years in the industry designing and running bonus programs, promotions and comp plan tweaks.

But then May ends. Sales go down in June—probably because people stocked up on their favorite products and won't need any more for a while. When sales remain sluggish in July, you do the only thing you can think of: run another promotion.

Your second promotion drives another big spike in sales—but it also results in a slow August. Meanwhile, inventory levels for your less-popular products climb to unprecedented levels and you need to clean house. So you run yet another promotion—this one even more deeply discounted—to move some stock.

The revenue come in. But you're beginning to feel like feast-or-famine is the new way of life for your business.

So many direct sales firms end up this way. It's understandable: when you're under the gun to pull in revenue or move product (or both), discounts are a reliable way to do so. (Who doesn't love a sale?) But in the long run, discounts will hurt your business more than they help. That's why we at DirecTech Labs have been developing a new way of driving revenue.

HOW DISCOUNT PROMOTIONS HURT YOU IN THE LONG RUN

In all my years in the direct selling business, I've never seen a single discount promotion that increased long-term demand for a product. Discounts are a short-term fix for an ongoing challenge.

— SCOTT BELL, VP, PRODUCT
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One of the worst side effects of discounts is that they cannibalize sales from the months in which you're not running promos. Faithful customers who buy your consumable products month in and month out are probably already happy with the quality they're getting for the price. Offer them the same quality at, say, two-thirds the price, and they'll be even happier. In fact, they'll probably stock up this month so that they won't have to buy any product next month.

What about the customers who have never bought the product you're discounting? If it's price that has been holding them back, then yes, a discount could prompt them to try the product for the first time. But once you get in the habit of running discounts throughout the year, you're just training these casual customers to wait for the next sale. You're devaluing your products, hurting your margins, and ultimately damaging your brand.

There's another problem with discount promotions: they're resource-intensive. To pull off a sale successfully, you need to coordinate efforts across your sales, marketing, analytics, supply chain, and finance teams. Every hour these team members must spend nailing down the details of a promotion is an hour they're not spending building your business.

There's now a better way forward.

WHAT TO DO INSTEAD OF RUNNING ANOTHER BUY ONE GET ONE FREE

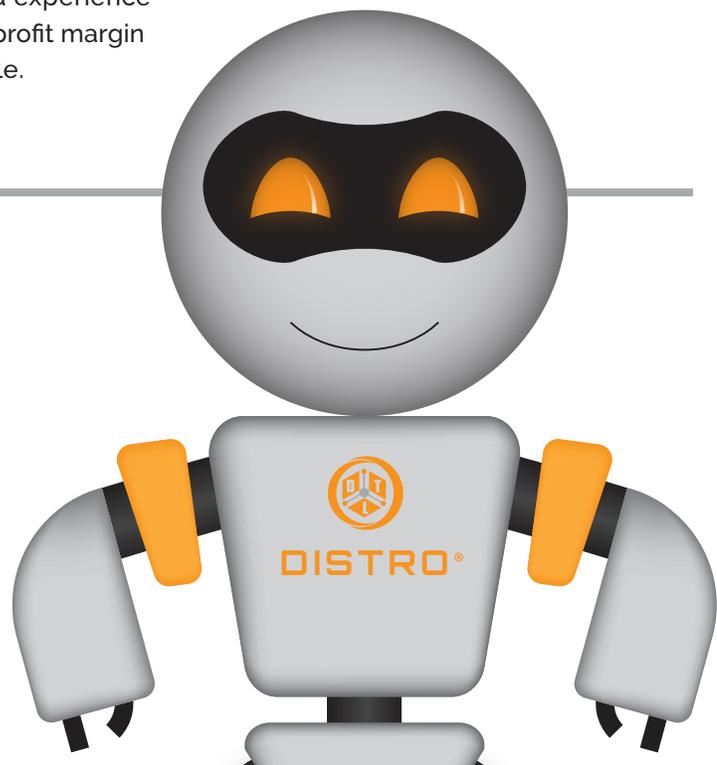
Direct selling companies that want to increase revenues in a sustainable way while avoiding the vicious cycle of discount promotions should return to the roots of good marketing. What's a major purpose of a marketing staff? To convince people that the products are more valuable than what they cost.

You won't get there by cutting prices, because this just sends the message that your prices have been inflated all along. Focus instead on encouraging the right behavior from your distributors, who, after all, are your marketing experts.

Your products are high quality. Your distributors know this, and they'll tell this story with passion if you give them the motivation to do so. But if you fail to give them a reason to care, they'll gradually lose their zeal and perhaps even quit.

This is where DISTRO®, the intelligent retention engine comes in. DISTRO identifies customers and distributors who are about to quit your organization and suggests retention approaches that don't involve discounts. That way, you'll extend the lifespan and lifetime value of your people, provide them with a more personalized experience and do it all while maintaining a higher profit margin than if you had simply announced a sale.

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RETENTION ENGINE



How might this approach look in action? Based on DISTRO's warnings about at-risk distributors, you might run a promotion in which you challenge your talented but disenchanted distributors to get more of their current customers to reorder a particular product within the next month. You could offer a prize—such as an iPad—to the distributor with the most sales. In doing so, you'd be killing two birds with one stone: you'd give distributors a reason to stay on board, and you'd drive more sales from current customers rather than constantly chasing after new ones.

Now, will this approach cause an immediate surge in revenue? Maybe. But if you run enough of these smart retention promotions and have the analytics to back them up over the course of many months, we think you'll find that you no longer need to resort to discounts to spur sales. Your distributors will be motivated, your customers will buy more of the products they already love, and your bottom line will slowly but steadily improve.

Sounds better than feast-or-famine, doesn't it? To learn more about how DISTRO can help you avoid the need to discount your products, [Drop us a line](#).



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