

PREMIUM PROGRAMS

*(See also Chapter 7, “Point of Sale”;
Chapter 9, “Properties and Events”; and
Chapter 12, “Performance Programs”)*

INTRODUCTION: ADDING RELEVANT VALUE TO A PRODUCT OR SERVICE OFFER

Do premiums work?

Of course they do. Just think about how an entire brand, Cracker Jack, was built on the basis of an in-pack premium and how the brand has been maintained for over 100 years based on the brand promise of “Caramel-Coated Popcorn, Peanuts and a Prize” in every package. Or the dozens of cereal brands that have relied on premiums to build sales and profits. Or perhaps the most productive kids’ promotion of all, McDonald’s “Happy Meals,” fun food but for kids the most important ingredient—a small gift or premium to enhance the value.

Premiums do work. But to generate maximum benefit, premiums must be developed and implemented correctly. Simply sticking an inexpensive prize or premium in the pack doesn’t make much sense or provide much ongoing consumer value. And it certainly doesn’t help to build the brand.

For premiums to work, they must be related in some reinforcing way to the key brand value proposition. Washcloths or towels in detergent boxes make lots of sense. Toy cars with breakfast sausage may not.

Premiums, like many other sales promotion tools, are considered short-term motivators to create immediate purchase. But in many cases the premiums live on long after the promotion has occurred and the sale consummated. For example, for years our family has had what was originally a premium, a ceramic A&W Root Beer mug. My mother received it with a purchase of the root beer when she was a girl, and I inherited it from her. I have now passed it along to one of my sons; and he likely will pass it on to one of his children. The mug is going on 75 years old, but it still reminds all of us of A&W and the “real root beer taste” the product provided then and now. So if you think a premium is just a giveaway, think about the A&W root beer mug. And if you doubt that premiums work over time, just check out the 10- to 15-year-old rock concert premium T-shirts you see walking through the mall on Saturday morning.

As more and more products become impulse items (research now shows that up to 70 percent of all consumer purchase decisions made in retail stores are impulse purchases), a premium offer at the shelf can often mean the difference between marketplace success and being an also-ran. And as retail stores move more and more to the “clean store” approach (i.e., few signs or flashing red arrows or cluttered displays), in-pack, on-pack, or banded-premiums become a critical differentiator for the marketer.

Premiums are generally described as short-term, generally low-cost, controllable motivators to purchase. For the consumer, the premium becomes an immediate reward for selecting a particular product from among a host of others. In other words, buy now and get the immediate reward of the premium. If you delay, the desirable premium may be gone.

Here are four key elements in developing any type of successful premium promotion:

- I. Making sure the premium has some relationship to the product or service. For example, for several years, Union 76 gasoline has offered various types of premiums tied to NASCAR with the purchase of its gasoline

(e.g., a pin, a cap, a T-shirt, etc.). Clearly, there is an association between gasoline and auto racing, and the premiums offered by Union 76 have paid off at the pump.

2. Making sure the premium has an acceptable level of quality. A Marlboro jacket that rips at the seams or fades in the sunlight can do more harm than good for the brand. Many premiums become treasured mementos of events or activities or brand usage. Be sure the premium lives up to the reputation of the brand.
3. Picking premiums that have lasting value. A premium that is tied to a “hot” rock group can disintegrate quickly if the group fails to perform or is replaced by another fad. Fad premiums can be risky—what if you were a marketer betting your premium budget on Ben Affleck and Jennifer Lopez’s *Gigli*!? Although fad premiums may sometimes work and marketers can generate huge sales increases if they guess right, a box office failure can leave marketers stuck with more character dolls than can ever be disposed of.
4. If possible, try to develop “interactive” premiums, that is, premiums that involve the customer and require additional or ongoing activity to receive full value. Collecting premium programs, such as the venerable Betty Crocker prize points that allow the consumer to obtain cooking equipment and kitchen products, continually reinforces the marketer’s brand. These types of programs can range from saving points for school playground equipment and classroom computers that appeal to large groups to the more esoteric approaches tied to specific products that provide logoed merchandise and collectibles. The key element: Although the marketer may consider the premium to be a short-term incentive to buy now, the consumer may well consider the premium an emblem or icon of his or her relationship with the brand.

Premiums work. But they work best if they are planned and implemented so they accomplish the strategic goals of the brand and the organization, not just offer some type of prize or gimmick that has short-term appeal. Steve provides more details on premiums in the following chapter. —Don E. Schultz

OVERVIEW

This chapter overlaps with other chapters because premiums are the promotional rewards other tactics offer. A premium program can be a continuity program, a sales incentive program, a display program, or other type of program. Premiums are also a discipline unto themselves, as you'll see in this chapter.

DEFINITION

Premium is promotion-speak for merchandise—T-shirts, licensed character items, footballs, glassware, pens, keychains, and the like. The differentiating factor: premiums are used motivationally as rewards for purchases or achieving goals. *Merchandise* is sold by marketers directly for profit. Still, both words may be used interchangeably. (See “Three Merchandise Types” below.)

COMMON PREMIUM OBJECTIVES BY TACTIC

(Also see itemized tactics below.)

| TACTIC | OBJECTIVES (Beyond Imprint Brand Registration) |
|----------------------|---|
| On-pack/In-pack | Motivate purchase; deliver product sample; ensure prominent shelf position/visibility |
| Premium pack | Motivate purchase through reusable package; better shelf position/visibility; create new, higher price SKU (stock-keeping unit) |
| Near-pack | Motivate purchase; display presence (bin and sign) |
| Self-liquidator | Motivate single, multiple, or continuity purchase; slippage to defray premium cost; in-store signage (loader) |
| Loaders | Display and prominence |
| Collect and get | Short-term continuity; multiple purchase; traffic and repeat traffic |
| Loyalty | Long-term, ongoing purchases/traffic; long-term program efficiencies |
| Free with commitment | Encourage sustained purchase commitment; future full markup purchases; lock out competitor |
| Collectibles | Short- and long-term continuity; stand out through exclusivity; reinforce brand |

| TACTIC | OBJECTIVES (Beyond Imprint Brand Registration) |
|-----------------------------|---|
| Licensed properties | Generate excitement; leverage property's advertising, publicity, awareness, and image; purchase motivation; exclusivity; offer retailers popular property with no fee |
| Exclusive offers | Build brand image and equity; higher perceived value than other premium offers |
| Catalog (print or Internet) | Accommodate all tastes; increase participation through performance levels; motivate goal setting; prolong incentive program; turnkey redemption process |
| Tie-in | Economize on premiums; leverage partner equity, image, and reach; leverage partner's distribution; utilize partner's fulfillment capability (redeem at Acme Stores); tap into partner's franchise (and traffic) |
| Sales incentives | Motivate staff and salesforce; prep staff for promotion; achieve incremental sales goal; economize over cash; provide a permanent reminder of achievement and sponsor's appreciation |

TACTICS ITEMIZED

105. ON-PACK/IN-PACK

| | |
|----------------------|---|
| <i>Definition</i> | Premium is inserted in, or attached to, package, like cereal in-box toys or snifter attached to brandy |
| <i>Advantages</i> | <ul style="list-style-type: none"> • Instant gratification purchase incentive • Adds value without discounting perception • Can reinforce product attribute • Increases visibility • Breaks tie with adjacent product • Can encourage trial • Can promote new usage • Can economize through partner product |
| <i>Disadvantages</i> | <ul style="list-style-type: none"> • Operational and cost issues—packaging, shipping, manufacturing delays, distribution, etc. • Timing issues; may cannibalize same unpromoted product on shelf • May require USDA- and FDA-approved inks plus secure wrap • Odors may seep into product • Premium may compete with retailer's inventory • New packaging may require alternative shelf space and plan-o-gram |

106. PREMIUM PACK

| | |
|----------------------|--|
| <i>Definition</i> | Product packaging doubles as a premium—tin, tote, decanter; offered as a free or value-priced premium |
| <i>Advantages</i> | <ul style="list-style-type: none"> • May economize, combining packaging and premium costs • Instant gratification purchase incentive • May not require alternate shelf space (like On-pack may) (see “On-Pack/In-Pack” above) |
| <i>Disadvantages</i> | <ul style="list-style-type: none"> • Premium must fit product dimensions • May not accommodate different package sizes (see “On-Pack/In-Pack” above) |

NEAR-PACK

See “Point of Sale,” Chapter 7, page 188.

107. SELF-LIQUIDATOR

| | |
|-------------------|--|
| <i>Definition</i> | Premium is sold at “value price,” typically through a mail-in offer with proof(s) of purchase; ideally, offer pays for itself |
| <i>Advantages</i> | <ul style="list-style-type: none"> • Motivates display placement (see “Loader” in Chapter 7, page 187) • Premium purchase requirement offsets cost • Allows higher-value premium • Economies—premium’s value perception can be greater than cash alternative • Can require single or multiple product purchases • “Clean”—communicated with a simple tear pad or print/Internet media • Premium can be dramatic display element • Premium can reinforce product attribute <p>(Note: Self-liquidator results are often measured in display placement, not premium sales.)</p> |

- Disadvantages*
- Paperwork and mailing delays lower response versus instant gratification tactics
 - Costly and involved display if premium is mounted
 - Premiums purchased up front and warehoused accrue costs and risk losses if response is low
 - Fulfillment, processing, and tracking expenses
 - May compete with retailer's inventory
 - Single premium limits scope of market

LOADERS

See "Loader" in "Point of Sale," Chapter 7, page 187.

COLLECT AND GET

See "Collect and Get—Merchandise/Service" in Chapter 6, "Continuity," page 156.

LOYALTY

See different loyalty descriptions in "Continuity," Chapter 6, pages 158, 159, and 160.

FREE WITH CONTRACT/COMMITMENT/ACCOUNT

See "Club/Contract" in Chapter 6, "Continuity," page 162.

108. COLLECTIBLES

Definition Free or value-priced series of premiums offered with ongoing visits/purchases—fast-food cartoon toy characters, in-pack baseball cards, holiday ornaments, etc.

- Advantages*
- Immediate plus ongoing reward builds sustained visits/sales
 - May defeat competitor's better higher value; consumer may not even shop competitors

- Popular property builds excitement and awareness
- Can target specific profile
- Premiums may cost less than perceived value

Disadvantages

- Collectible appeal may rely on licensed property, which requires expensive royalties (and higher price)
- Custom-made premiums require expensive designs, molds, production, etc.
- No guarantee of collectible's popularity
- Target limited to collectible's target
- Occasional users less motivated—cannot collect all
- May be vulnerable to competitive price promotions
- Retail-delivered premiums consume valuable space and may require additional staff tasks

109. LICENSED PROPERTIES

(Also see “Licensed Premium Offer” and “Licensed Product Value” in Chapter 9, “Properties and Events,” page 244.)

Definition

Premium incorporates a licensed property, like action hero cup, NFL team lapel pin, cartoon character toy, etc.

Advantages

- Property lends appeal and attention to product and promotional media
- Implied endorsement and quality
- Property may lend itself to numerous promotional vehicles—posters, toys, prizes, stickers, etc.
- Premium may become valued collectible
- Can reinforce product attribute
- Breaks clutter, stands out from competition
- Encourages retail participation through popular property without fees to retailer (manufacturer absorbs fees)

Disadvantages

- No guarantee a new property release will succeed
- Royalty fees increase price—less competitive
- Property may change release dates
- Property often requires long lead time

- Licensors strictly limit creative usage
- Possible clutter of other same property tie-ins
- Custom items require exceptional commitment, timing, and liabilities
- Risk that movie release becomes controversial or offensive
- Properties may have restrictive policies

CATALOG

See “Loyalty—Premium Catalog Program” in Chapter 6, “Continuity,” page 160.

110. TIE-IN

See “Tie-ins,” Chapter 11, page 283.

| | |
|----------------------|--|
| <i>Definition</i> | Premium is provided by partner, usually in exchange for sponsor’s complimentary assets or benefits—sampling distribution, display placement, consumer target, etc. |
| <i>Advantages</i> | <ul style="list-style-type: none"> • Partners benefit from each other’s assets • Lowered (or no) premium costs • Motivates purchase • Share partner’s respective consumer base • Implied partner endorsement • Can leverage mutual usage occasions, like picnic holidays, Easter, back to school, Super Bowl, etc. • Economies and efficiencies, pooling costs and resources • New product category can introduce itself with promotion—like free electronic games with purchase of newly launched game hardware |
| <i>Disadvantages</i> | <ul style="list-style-type: none"> • Reliant on partner’s respective objectives, timing, ability to execute, target, regionality, distribution, etc. • Extensive up-front groundwork, negotiation, meetings, and paperwork • Extensive logistics from sell-in to distribution • Joint advertising creative approvals may be difficult • May require significant lead time and presell to retailers • Plans and work may be rejected by new management |

III. SALES INCENTIVE

(Also see “Performance Programs,” Chapter 12, page 311.)

Definition Premium(s) used as motivational reward for sales and performance

Advantages

- Premiums offer greater perceived value per dollar than does cash
- Premiums are remembered and ultimately valued more than cash
- Premiums can be imprinted
- Range of premium values can motivate greater performance for greater rewards and allow all participants to achieve reward
- “Breakage” through unused “points”—200 earned for 185-point premium
- Can target prospect—sportsman, fashion, music, etc.

(see Chapter 12, page 311)

Disadvantages

- Limited selection has limited appeal
- Cash is most requested reward
- If reward seems unattainable or too difficult by some participants, program suffers
- Warehousing, order forms, processing, ordering instructions, etc. compared with straightforward cash reward

(see Chapter 12, page 311)

Insight

Practical or aspirational? The customer may already own a flashlight or cooler. But he or she may consider Godiva Chocolates or a personalized wallet more motivational—a luxury a customer may not buy but would love to indulge in.

PREMIUMS OR CASH?

Cash is the most popular reward. But it’s also the most uneconomical and least memorable. (See “Prizes” in “Sweepstakes and Contests,” Chapter 2, page 34.)

SHHH! DON’T SAY LOADER WITH LIQUOR

Loaders are not allowed in the distilled spirits business. However, you can use the words *display enhance*

ment to mean virtually the same thing. Your display enhancement must be a part of the display theme—a football for a Super Bowl theme, a punch bowl for a party theme. It cannot appear to simply be a gift for the liquor store manager.

THREE MERCHANDISE TYPES: PREMIUMS, AD SPECIALTIES, AND LICENSED MERCHANDISE

1. **Premiums.** Name brand manufacturers often have independent offerings specifically for premium programs. Sometimes, their color, feature, or style variations are exclusive to the premium community. These premiums are available to businesses through a separate division that may also offer a turnkey catalog program handling processing and redemption. Typically, the discount is only 10 percent, so it's possible to find the product for less at retail. Many premium divisions allow imprints; some, however, like designer apparel, do not.
2. **Ad specialties (versus premiums).** Some refer to ad specialties as *novelties* or *trinkets and trash*, but they overlap with premiums. Some distinguish a premium as a brand-name product, while an ad specialty brand is recognized only by your imprint. There are imprinted T-shirts. And there are Fruit of the Loom T-shirts. Regardless, ad specialty merchandise is set up specifically for promotional programs with professionals and systems that accommodate your needs.

ASI—Advertising Specialties Institute is an organization of manufacturers, vendors, and importers who offer imprintable products to businesses, *not* the general public. Each ASI provider has its own catalog with an assigned ASI number, offering anything from buttons to umbrellas to business portfolios to truly original and novel creations. The trinkets and trash label sometimes fits, but ASI also offers high-quality and highly unique items. Only licensed companies can sell ASI merchandise and their customers are businesses. The system's computerized search capability can source items by keyword, color, price, quantity, even theme word, plus combinations—from tens of thousands of items.

I n s i g h t

Good buy! Good-bye! You may get an excellent price overseas, but be sensitive to “Made in America” sentiments, especially if you have a patriotic theme.

ASI discount codes—An ASI salesperson might boast, “I sold 3,500 on a C and, if they reorder, on an A.” That’s ASI-speak for margins—how much the salesperson marked up the original cost of the product. There are two parallel codes—“A” through “H” and “P” through “W.” They work identically, according to the following chart.

| Industry Code | Margin | Seller’s Net Cost |
|---------------|--------|-------------------|
| A or P | 50% | 50% |
| B or Q | 45% | 55% |
| C or R | 40% | 60% |
| D or S | 35% | 65% |
| E or T | 30% | 70% |
| F or U | 25% | 75% |
| G or V | 20% | 80% |
| H or W | 15% | 85% |

3. **Licensed merchandise.** Licensed merchandise programs add value to premiums through pop culture tie-ins. They’re particularly effective for parity competitors, adding a dramatic point of difference. (See “What’s in It for Licensors?” in Chapter 9, “Properties and Events,” page 256.)

BREAKAGE AND SLIPPAGE

Breakage and slippage are two ways that premium programs add economies through *nonredemption*. (Incentive programs also enjoy breakage.)

Breakage refers to leftover, unspent points, like change after a purchase. Say you earned 10,300 points, but all the rewards are in 500-point increments. You can only get the 10,000-point reward, so 300 points fall through the cracks. And if you prefer the 9,500-point item, 500 more go unredeemed.

Slippage refers to the fact that most people never get around to the required paperwork to redeem their reward. (See Chapter 4, page 105.)

PERCEIVED VERSUS ACTUAL VALUE

Premiums deliver more bang for the buck. See this topic under “Prizes” in Chapter 2, “Sweepstakes and Contests,” page 34.

Insight

Baseball cards originated in the 1800s with cigarette companies, and these premiums became collectibles. The most valuable baseball card, Honus Wagner, may have become so because Wagner took a walk out of concern he was encouraging kids to use tobacco. Enter Joe Camel, with the legendary hidden forbidden package art and its own sought-after collectible premiums. Then Joe came under pressure for appealing to kids.

POINTS VERSUS MONEY

Premium programs often deal in points instead of cash. Points obscure the reward's cost and how much is required to achieve the reward. They also allow flexibility for bonus point incentives for busy or slow periods, even for slow-moving premiums. You can also mix things up, assigning different point values for different premium rewards and achievement levels; and the accounting is simple. As described above, points enjoy the economies of breakage. (See "Points Pay for Programs" in Chapter 12, "Performance Programs," page 331.)

ORDER FORMS

Here's an order form checklist. You may not need it all, but at least consider each item.

- ___ Prominent proof-of-purchase requirements—cash register tape required, price circled, dated between ___ and ___, store name, etc.
- ___ Original UPC code (if appropriate)
- ___ Prominent expiration date and/or when P.O. box closes
- ___ Quantity limitations (one per name/address and so on)
- ___ Whether official order form copies are OK
- ___ If requests for order forms will be fulfilled, returned, or ignored
- ___ Exclusionary copy—"Void where prohibited," "Open to entrants 21 or older," and so on
- ___ Length of time for processing and delivery
- ___ Payment options (check or money order only, no cash, etc.); credit card payments should specify type, card number, and expiration date
- ___ Allow time for checks to clear the bank before filling orders
- ___ "Available while supplies last" or "Offer may be withdrawn without prior notice"
- ___ Premium may be replaced by a similar product of equal value
- ___ Geographical limitations—for example, good only in 48 contiguous states, APO/FPO addresses OK, etc.
- ___ "Offer may not be assigned or transferred" disclaimer

- Establish a cash value for the certificate/order form (see “Coupons,” Chapter 3, page 77)
- Stipulate no orders will be sent to a P.O. box or that the item is being delivered by another service (that cannot access P.O. boxes)
- Whether group orders will be honored or disallowed
- “Not responsible for lost, delayed, or misdirected mail”
- Allow enough space on the form to print information; too little space means more time and work for fulfillment company
- Have a qualified attorney review your form

Reply Copy Example—Version One This guideline suggests how you may want to structure your order form. In this case, the premium is being sold, such as a self-liquidator offer.

**ACME COOKWARE
LIMITED EDITION HOLIDAY DOVES FIGURINE OFFER**

Treasure it for \$25

A \$50 value!

It's easy to receive your collectible figurine.

1. Fill out the information on this form.
2. Cut out and include the UPC codes from *any two* Acme Cookware boxes.
3. Indicate how many figurines you want and the price.
4. Choose one easy form of payment.
5. Mail your UPC codes, payment, and this form to:

Acme Cookware Holiday Figurine Offer

111 White Velvet Way

Brainerd, MN 00000

Enclosed is this amount:

Please send me ___ figurine(s) at \$25.00 each plus \$4.50 shipping and handling for each figurine. (Minnesota residents add 6.5% sales tax.) My total payment is \$_____.

Choose one of these two easy payment methods:**Mail a check or money order:** Payable to Acme Cookware Holiday Figurine

OR

Charge by mail: Please charge my ___ VISA ___ MasterCard

Card Number _____ Exp. Date _____

Please send my figurine(s) to:

Please print legibly:

Ms./Mrs./Mr. _____

Address: _____

City/State/Zip: _____

Telephone: (_____) _____

e-mail: _____

Signature: _____

Offer valid in the United States. Illegible forms or addresses without zip codes cannot be honored. Offer void where prohibited, licensed, taxed, or restricted by law. Allow 4 to 6 weeks for delivery after receipt of funds. Offer good while supplies last.

Orders must be received by 00/00/00.

Would you like us to send you regular updates about other exciting offers?

 Yes—To my mailing address Yes—To my e-mail address No thank you**ACHF-500**

Order Form Copy Example—Version Two This example folds shipping and handling into the price and alerts buyers they're covered. It also offers multiple premiums and does not allow credit card purchases.

Mail-in Certificate
Offer Expires 00/00/00

**ACME COOKWARE
LIMITED EDITION HOLIDAY DOVES FIGURINE OFFER
Here's how to order!**

I wish to order the following:

Prices include shipping and handling

| ITEM | QUANTITY | TOTAL \$ |
|---|----------|----------|
| Calendar(s) @ \$1.95 each | | |
| Ornament(s) @ \$3.95 each | | |
| Collector Figurine(s) @ \$29.50 each | | |
| SAVE \$1.00—Buy the Calendar and Ornament for \$4.90 per pair | | |
| Minnesota residents add 6.5% sales tax | | |
| TOTAL (+ 2 Acme White Velvet UPC Codes.) | | |

NOTE: Calendar, Ornaments, and Figurines are shipped separately and will arrive at different times. OFFER EXPIRES 00/00/00 or while supplies last. Offer good only in United States. Illegible forms or addresses without zip codes cannot be honored. Offer void where prohibited, licensed, taxed, or restricted by law. Please allow 4 to 6 weeks for delivery.

Please make check payable to: Acme Cookware Holiday Figurine Offer.
(Only offers postmarked by November 1 can be delivered in time for Christmas.)

I have enclosed **2 labels** with a check or money order for \$_____.

Please send your order to: Acme Cookware Figurine Offer
111 White Velvet Way
Brainerd, MN 00000

Ms./Mrs./Mr. _____

Address: _____

City/State/Zip: _____

Telephone: (_____) _____

Insight

Estée Lauder was a pioneer in premium programs with her “gift with purchase” tactic. She initiated it because she couldn’t afford an advertising agency or media. Instead, she applied her budget to the gifts.

BUDGETING**What Should a Profit Margin Be?**

In the advertising specialty business (and in many retail businesses) a 40 percent margin is the goal for a premium sale; 35 percent is good; 30 percent is getting borderline; and 25 percent better be high volume and a simple, inexpensive execution (like a bulk shipment). Shipping is extra.

But if a 5¢ premium ships to only one factory destination, filling a few million cereal boxes you may sell at an even lower margin, which includes prototyping, molds, tools, dies, and overseas manufacturing and shipping. You’re functioning as an importer with little overhead for your margin to cover.

If the premium is a promotional vehicle to generate product sales, you may even offer it at cost. Be sure to factor in warehousing, fulfillment, cartons, and other costs, including a 5 to 10 percent contingency for unforeseen glitches.

You Get What You Pay For

A vendor’s higher price may reflect higher safeguards, like inventory reserves, backup programs, inevitable last-minute requests, return policies, and more. Cutting the vendor’s margins may cut your own program safeguards.

Shipping and Handling

Shipping and handling make up a gray area. Should you bill it additionally so your price is low, or fold it into the price so the price is high? Should you mark up shipping, handling, or both? Warehouses are profit centers with major overhead. Shipping is typically billed at cost, whereas handling is marked up. Here is some suggested copy once you’ve made your decision:

- Please add \$0 shipping and handling.
- Value price includes shipping and handling.
- Order more and save on shipping and handling.

- Free shipping and handling if . . . (you order now, order this many, allow six weeks, join our club, refer a friend, etc.).
- Free bonus gift to cover your shipping and handling costs.
- Free shipping and handling [covered in your full markup].

(Also see “Refund Fulfillment,” page 109, and “Shipping and Handling and Much More,” page 108, in Chapter 4.)

Spoilage

Count on a percentage of your order being lost, damaged, or defective; and factor that percentage into your quantity. Some ad specialty and premium specialists factor in 0.5 percent spoilage for wearable goods and 1 to 2 percent for electronic goods. Printers often have a standard 10 percent overrun backup in their estimate. Generally, lower-priced promotional goods made overseas have higher spoilage rates. Get your supplier’s spoilage rate and policy.

Overseas versus Domestic Manufacturing

You’ll save considerably and still offer quality by manufacturing your premium overseas. Plan a year ahead, however, to gear up the manufacturing and allow significant “on the water” shipping time plus customs. Air freight saves time but is expensive. Hire a professional bilingual representative in the manufacturing country to monitor progress and quality. For manufacturing and quality control plus reduced shipping costs, use a domestic company.

Made in America: Pat Buchanan rolled into Motor City (Detroit) in a Mercedes. Not good! And imagine the street talk when Merrill-Lynch boasted “Bullish on America” with ads made in Mexico. Many companies demand promotional products be made in the United States. And if you’re a proud U.S.

Olympics sponsor, you may eat crow if the tag says the product was made overseas.

Insight

Your toy car may pass the choke test. But what if the child removes the wheels? Get expert advice.

Employee Pilferage

(See “Guidelines and Cautions” and “Near-Packs,” below.)

GUIDELINES AND CAUTIONS

In-packs/on-packs. This may sound like a free delivery vehicle, but it can be very expensive, possibly requiring new packaging and equipment. Also, game pieces on food products must be overwrapped, boosting production costs. (However, most specialty printing companies offer FDA-/USDA-approved inks.)

Some retailers discourage on-pack promotions because of pilferage. Other retailers welcome it, so you may incur the cost of warehousing separate inventories. If the new package is bigger, consider changes in shelf placement. If the retailer complains of less profit per square inch, show increased volume and profit projections. Also, consider a self-shipper display.

Near-packs. Near-packs can be difficult as retailers resist the additional space requirement, especially for a free, nonprofit item. In your sell-in materials, show increased volume and profit projections, especially with multiple purchase requirements. Consider assigning a price and SKU for the near-pack item so the retailer can sell it at a 100 percent margin while you offer it free with purchase. It also deters employee theft as a profitable SKU.

Kid safe. The most common concern is choking, but a choke test device is simple and inexpensive. If the toy has parts, they can be broken off and pose a danger. Toys need kid-safe paints, nontoxic materials, no sharp corners or extrusions, no removable parts, and more. Rely on an independent testing laboratory. There are also environmental concerns about toys with built-in batteries that kids play with then throw away.

Order extra? See “Spoilage” above. Also, count on several premiums being pulled for photographs, internal meetings, field sales presentations, and so on. Some marketers prefer running out of premiums versus overstocks. In this case, consider a system for reimbursement or reorders (with “Due to popular demand . . .” notifications). Always say “While supplies last.”

Out-of-stock policy. Don’t assume vendors will have sufficient quantities, even if they promise they will. Find out how long before reorders are available. Often vendors will substitute a similar product valued at the same price. State clearly to your customers: “If quantities run out, a similar product of the same quality and value may be substituted.”

Cartons and pick-and-pack cost! Stock cartons cost, and you'll probably need some customization, especially for the inner packing. Your premium may be accompanied by a cover letter, catalog, imprinted novelty (like a refrigerator magnet), new product sample, bonus surprise gift, newsletter, or others. Pick-and-pack people have to read the packing and labeling instructions; retrieve each item from storage; assemble the packing materials; insert each premium, cover letter, catalog, and so on; pack the carton with the proper partitioning; seal it; label it; log it; and place it in the master shipping carton. Whew!

Mailing without an order. It is illegal to mail merchandise to consumers that they haven't ordered and then bill them for it. Federal regulations state that any unordered merchandise may be treated as a gift by the recipient, who has the right to retain, use, discard, or dispose of the merchandise in any manner in which he or she sees fit.

Disclosure of country of origin. You must reveal on the premium itself where the premium was manufactured—the familiar "Made in Somewhereia."

CHECKLIST FOR PURCHASING PREMIUMS

- ___ Return policy on damaged goods
- ___ Return policy on unused goods
- ___ Spoilage rate
- ___ Reorders
 - ___ How quickly and reliably
 - ___ How many can be reordered
 - ___ How long those quantities are good for—and what guarantees that they be sufficiently stocked
- ___ Out-of-stock policy—how long to restock or what will be substituted
- ___ Length of current pricing policy
- ___ Discounts for quantity orders
- ___ Shipping and delivery time details

CHECKLIST FOR SOURCING WAREHOUSES

- What types of programs and merchandise they specialize in—quantities, package sizes, volume per day, duration of program, etc.
- Who their customers are, particularly any with needs similar to yours
- What their capabilities and facilities are—data entry, computer tracking, report generation, labeling, pick and pack (above), carton design, and fabrication
- Lead times, from premium receipt to carton fabrication to pick and pack to shipment
- Quality control (Usually one of a set number will be randomly inspected and they may also weigh a control carton, then see that all other incoming/outgoing cartons are consistent.)
- Internal procedures and reports for receiving, warehousing, order processing, packing, and shipping
- Determine what reports you'll need and ask if they can deliver them (They'll say yes, so ask for samples.)
- Who will be responsible for your project and their background
- Pilferage prevention
- Insurance coverage
- Security provisions for winning sweepstakes cards, sensitive mailings, etc.
- Affiliations and organizations
- References

CHECKLIST FOR FULFILLMENT OF PREMIUMS

- How shipments are logged, tracked, and verified
- What your order form should say, such as "Please allow 4 to 6 weeks for delivery"
- Mailing list management and security processes
- Presorting (for economies), drop shipping, UPS, or other shipping processes they will use, and how they will impact cost and timing
- Backup systems for unforeseen labor needs, computer breakdowns, loss of power, rush jobs, depleted inventory, etc.

- Lead times or schedule; how long it will take to ship your program from order receipt to loading dock
- How long quoted prices are good for
- Any anticipated rate increases from the vendor and services like UPS

FINALLY, A WORD ON BEHALF OF YOUR VENDOR

If one vendor answers your questions quickly and another keeps asking more questions, the latter may be the better. Eager or inexperienced salespeople may not know the right questions to ask and will make false assumptions. Good vendors ask questions. It may seem suspect if you ask “How much?” and the reply is “How much is your budget?” But try answering a straightforward question yourself: “How much is a car?”