

REBATES/REFUNDS

*(Also see “Discounts,” Chapter 5,
and “Coupons,” Chapter 3)*

INTRODUCTION: REWARDING THE REAL PURCHASERS

The use of rebates and refunds has soared over the past few years. That huge growth has come, however, not from traditional consumer product marketers, or from retailers, or even from business-to-business promotion managers. Instead, it has come from the automotive field. Automakers have fallen in love with rebates, many of them making offers that amount to thousands of dollars. In fact, the theme today seems to be “Buy a car, get a rebate.”

Why have automakers become so enamored with refunds and rebates? One obvious reason, of course, is that they work. They are inexpensive in terms of actual customer redemption when compared with the big promotional offer that can be developed around them. The second reason automakers like them is that they can be used to help the manufacturer manage his or her product inventory. Made too many four-door, red, 1.5 liter sedans? Offer a rebate and watch them move out. Through the use of refunds and rebates by the market-

ing organization, inventory can be managed and production flow-through improved. So from a marketer's view, refunds and rebates can be key elements in the total promotion arsenal.

The other reason promotion managers like refunds and rebates is that substantial offers can be made with the knowledge that only a limited number of redemptions will likely occur. A seemingly big promotional offer or program can be developed by the promotion manager, knowing that by limiting the offer to specific products or services and setting specific time limits for when the rebate or refund will occur and when the offer can be redeemed, plus the expected slippage that naturally occurs, the amount of promotional funds that will have to be paid out is often quite small. (*Slippage* is the product sale that occurs because the consumer bought the product with the intention of claiming the rebate or refund but never sent it in. See Steve's discussion of this term in this chapter.) The marketer generally has better control over rebates and refunds than over most other types of promotional activities.

With the exception of the auto deals, however, refunds and rebates seem to have declining interest among consumers in many product categories. Experts have suggested that's because they're a delayed form of reward. Customers have to wait until the rebate or refund is processed by the retailer and then by the manufacturer, often a period of several weeks before the consumer gets his or her due. So unlike the instant savings of a coupon or price-off, rebates and refunds don't work that well in generating immediate additional sales. Consumers want instant gratification today, and refunds and rebates really can't provide that.

From a promotion-planning standpoint, the primary reason to consider a rebate or refund is that the customer must make a purchase, often at full retail price, to qualify for the offer. You can't get an auto refund unless you buy a car. So the marketer has the money up front through a purchase before having to provide the refund or rebate. There are big advantages to managing cash flows that way.

Refunds and rebates have other advantages and disadvantages, as Steve discusses in the chapter that follows. For planning purposes, however, remember the types of customer groups we use in planning promotions. For them, refunds and rebates aren't very good at attracting new customers or new users. Even

reducing consumer risk by offering a refund or rebate on all or part of the purchase price doesn't seem to have an impact on large numbers of customers who have not bought before. There are likely other reasons they haven't purchased in the past, and simply offering a refund or rebate often won't overcome those objections.

Refunds and rebates are fairly good at retaining customers. The refund or rebate is a good way to thank customers for past purchases and encourage them to continue buying the brand. You may not build new sales, but you can protect against customer loss.

Refunds and rebates can be used effectively to help grow customer usage of the brand—in other words, customers will often purchase an additional unit or units of the product if a rebate is offered in connection with the purchase of the product or service. Or refunds and rebates can often be used to get present customers to use the product in new or different ways.

And, finally, refunds and rebates are a good way to help a customer migrate through the product portfolio. If the customer is satisfied with the existing product, offering a rebate or refund on the purchase of another product in the line or for an up-sell or cross-sell often works well.

Refunds have come a long way from the days when detergent manufacturers offered a refund or rebate for proof of purchase on a certain number of boxes. And it certainly goes to show that rebates and refunds can be used and can work for most any type of promotional marketer. The secret is knowing how and when to use them. That secret is what follows in this chapter. —Don E. Schultz

OVERVIEW

Refunds fall into the category of discounts, but refunds achieve more specific benefits. In fact, one benefit is that refunds often fail to result in discounts because consumers don't follow through to redeem them. (See "How *Not* to Get Redeemed—Slippage," page 105.)

A refund tear pad on the shelf draws attention, particularly against competitors, and because it's a mail-in offer, the retailer doesn't have to do anything. Refunds also protect vendors from coupon misredemption.

Refunds generally won't generate a trial purchase because they're labor intensive and the reward is delayed. However, they *can* close a sale when someone's considering your product.

Refund or rebate? They're so similar that some say they're identical. Others maintain that a refund is a mail-in offer, whereas a rebate certificate is delivered on the spot. And still others say a rebate is for a higher-ticket item like a car, whereas a refund is for lower-priced items. This section simplifies matters by using only the term *refund*.

COMMON REFUND OBJECTIVES

- To offer a discount that isn't redeemed (See slippage.)
- To give a retailer a "sales closer" that requires no execution by the retailer
- To launch a product (typically pricey, considered-purchase item)
- To sell a "mother ship"—encouraging peripheral purchases (such as game hardware that leads to software sales)
- To liquidate old product to make room for new product, such as current year's car models
- To move slow/overstocked product, such as snow blowers in the spring
- To load product to fill stores and consumer shelves and thus cut demand for subsequent competitor offerings
- To increase purchases/usage by adding more purchase requirements than the customer's average purchase quantity
- To soften the shock of a price increase
- To encourage retail inventory in anticipation of the multiple purchases the refund requires
- To increase product visibility through a tear pad or promotional display
- To advance retail continuity and block out competitors (For example, a major print film company offered retailers one huge refund based on yearlong quotas. That year-end refund may get factored into the retailer's yearlong budget. If the quota is not achieved near year-end, the retailer orders extra product or risks missing forecasts—sorry, small competitors; bye!)

COMMON REFUND OBJECTIVES BY TACTIC AND DELIVERY

(Also see itemized tactics below plus objectives listed above.)

TACTIC	OBJECTIVES (Beyond Purchase, Slippage, and Those Cited Above)
Print delivered	<ul style="list-style-type: none"> • Mass delivery of offer (versus retail tear pad) • Motivate retailer participation as consumers shop for product • Soften effect of price increase • Refund form to become hard copy reminder
Internet delivered	<ul style="list-style-type: none"> • Economical mass delivery of offer (no printing) • Easy communication to all consumers—"Find this offer on our Web site" • Drives traffic to Web site • Softens effect of price increase • Printing refund form creates hard copy reminder • May appeal to select target—Web surfers
Point of sale delivered	<ul style="list-style-type: none"> • Immediate, on-site purchase incentive • Break in-store pricing tie with competitors (relying on slippage) • Draw attention to product • Soften effect of price increase • Encourage retail signage through generous offer, possibly multiple purchases
Product delivered	<ul style="list-style-type: none"> • Break pricing tie with competitors (relying on slippage) • Deliver on-site offer, regardless of retail signage • Avoid product's winding up on store's rebate board • Bounce-back or multiple purchase for required proofs of purchase
Partner delivered (Example: Buy Beer Nuts and receive Stanley Tool refund certificate.)	<ul style="list-style-type: none"> • Delivery partner receives generous consumer offer at no/minimal cost • Refunding partner receives free/inexpensive delivery medium • Partners share each other's consumer base • Access new alternative channels
Receipt delivered	<ul style="list-style-type: none"> • Retail tie-in, including keying program into scanner system • Retailer contribution to total refund value • Bypass problems with tear pads • Greater accountability through scanner database
Multiple purchase requirement	<ul style="list-style-type: none"> • Multiple sales • Increase average customer consumption • Target heavy users/families • Greater retail product placement (push) with follow-through consumer pull • Liquidate overstocks • "Load" consumers <i>before</i> a competitor promotes • Soften effect of price increase • Increase value for greater response

TACTIC	OBJECTIVES (Beyond Purchase, Slippage, and Those Cited Above)
Cross-purchase tie-in—purchase two different products for refund	<ul style="list-style-type: none"> • Economize, offering brand portfolio products together • One-stop shopping sales opportunity (i.e., picnic cooler and soft drinks) • Tap into partner's consumer base, outlets, and exposure • Increase usage occasions • Increase value for greater response
Continuity purchase—manufacturer offers retailer year-end refund; consumer gradually collects proofs to achieve refund	<ul style="list-style-type: none"> • Build long-term purchase behavior • Vest customer in program, combating competitive offers • Retain heavy users • Encourage higher purchase levels—reward for ten purchases if consumer averages eight • Business-to-business—Build higher yearlong sales while avoiding rewards for those who don't achieve quota; pressure at year-end to meet quota
Instant refund (Offered directly by the dealer upon sale transaction of typically higher-ticket items like appliances)	<ul style="list-style-type: none"> • Retailer participation through generous consumer offer at manufacturer's cost • Challenge "me-too" mail-in refunds through immediate value (versus lengthy mail-in procedure) • Sales-closing tool • Encourage trade-up through refund contribution • Apply refund as down payment
Sweepstakes overlay	<ul style="list-style-type: none"> • Add topspin • Add point-of-sale excitement • Encourage product and signage placement by retailer • Encourage redemption—rebate form is entry (negates slippage benefit)
Manufacturer/Retailer tie-in	<ul style="list-style-type: none"> • Turnkey, shipping-free fulfillment • Encourage activity by key retailer chain, while the retailer enjoys an exclusive offer for a popular brand
Retailer's vendor bundle	<ul style="list-style-type: none"> • Retailer offers large total savings figure • Vendor receives a key retailer's involvement, while retailer also enjoys vendor funding • Cross-store shopping, multiple purchases
Collector card	<ul style="list-style-type: none"> • Ongoing consumer visits/purchases while preempting competitors • Build loyalty • Can have a game quality or be combined with a sweepstakes

ITEMIZED TACTICS

36. PRINT DELIVERED

<i>Definition</i>	Refund certificate delivered through print media
<i>Advantages</i>	<ul style="list-style-type: none"> • Assures that consumers receive offer (versus POS delivered) • Allows targeting • Can soften price increase impact • Greater exposure than retail delivery • Doubles as advertising • Certificate is hard copy reminder of product • Opportunity to negotiate with dealer for display, flyer placement, etc. (may identify retailer in ad)
<i>Disadvantages</i>	<ul style="list-style-type: none"> • Greater redemption potential and cost • Less redemption per impression than POS delivered • Media costs • May be less targeted than retail- or product-delivered refund • Reaches more professional refunders • Cash less economical than premiums, tie-in partner offers, and others

37. INTERNET DELIVERED

<i>Definition</i>	Refund certificate delivered through Web site; either print hard copy or apply/redeem online
<i>Advantages</i>	<ul style="list-style-type: none"> • Less costly than print medium • Ensures consumers receive offer (versus POS delivered) • Can soften price increase impact • Can link other Internet programs and advantages—online payment, point programs, download offers, and the like • May deliver greater exposure than retail delivery (if properly advertised) • Alternative to obscure, cluttered retailer's refund board • Drives participants to Web site and additional brand communication • Opportunity to capture more data than print alternative • Printed certificate is hard copy reminder of offer

- Online redemption is easy for consumer and economical and efficient for marketer
- Opportunity to negotiate with dealer for display, flyer placement, etc. (may identify retailer in ad)
- Appeals in particular to Web-savvy targets

Disadvantages

- Greater redemption potential and cost—less slippage
- May not be delivered at actual point of purchase—retailer
- May be “invisible”; unless it’s communicated outside the Web site, both retailer and consumer may be oblivious
- Less immediate and actionable than in-store offer (may give competitor an advantage)
- Quantities may be unlimited, lessening control that limited print distribution offers
- “Professional” refunders and cyberthieves may uncover vulnerabilities (Also see “Print Delivered” above)

38. POINT OF SALE DELIVERED

Definition

Offer delivered at retail through tear pad and possibly signage

Advantages

- Highly targeted at point of purchase
- Higher redemption per exposure than out-of-store redemption
- Retailer participation—can offer discount with virtually no execution or costs
- Tear pad/signage draws attention to product
- Breaks pricing tie with competitors (or offsets higher price) with slippage economies

Disadvantages

- Requires retailer participation to place/allow tear pad
- May require field service to place materials
- May require hardware or in-store media to dispense order forms
- Many retailers don’t allow refunds because of clutter, lowest-price policies, or patron complaints for any mishaps
- Timing issue if refund offered beyond program deadline
- May wind up on remote, cluttered refund board or customer service drawer

- Entire tear pad may be taken by professional refunder
- Cash less economical than premiums, tie-in partner offers, and others

39. PRODUCT DELIVERED

<i>Definition</i>	Refund certificate delivered in or on the product package
<i>Advantages</i>	<ul style="list-style-type: none"> • Distribution control—only purchasers receive certificate • Targeted—only where product is available and in stock • May encourage retailer participation and support • “Burst” on package guarantees POS exposure even without signage • Breaks pricing tie with competitors (or offsets higher price) • Can be an economical delivery of offer (depending on cost of package application) • Avoids professional refunders
<i>Disadvantages</i>	<ul style="list-style-type: none"> • Requires additional packaging operations and coordination • Requires extended deadline because of possibility of extended product shelf life • May cannibalize sales from current unpromoted stock on shelf, further prolonging old shelf life • Limited awareness of offer unless supported with print media and point-of-sale signage • Cash less economical than premiums, tie-in partner offers, and others

40. PARTNER DELIVERED

<i>Definition</i>	<ul style="list-style-type: none"> • Refund certificate delivered and/or redeemed by a partner (Two examples: a mop refund offer delivered on a floor wax package, or a Stanley Tool refund offered on a Beer Nuts package)
<i>Advantages</i>	<ul style="list-style-type: none"> • Allows one partner to offer high-value reward for purchase and other partner to have free distribution of the offer (versus traditional media or POS costs) • Allows refunding partner access to alternative channels and markets—such as a tool refund offered in supermarkets (and homes) through a soft drink carton

- Allows both partners point-of-sale awareness opportunities in each other's distribution channels or cross-store locations
- Allows two partners to target mutual consumer segments—fishing gear refund on blue-collar beer brand versus golf gear refund on imported beer

Disadvantages

- On-pack certificate requires new packaging operations, costs, and timing
- Package's shelf life may be longer than promotional period
- Exposure limited to those who purchase delivery product
- Both partners must share same timing and target market
- Partner offers should not conflict with retailer's offering
- Delivery product's offer appeal limited to those who desire refunding product
- Considerable up-front negotiations subject to management changes, new marketing plans, budget shifts, etc.
- Tie-ins traditionally time consuming and have a lot of "chiefs"

41. RECEIPT DELIVERED

Definition

- Mail-in refund form and proof of purchase are printed with store receipt; often combined with immediate in-store discount

Advantages

- Retail participation, including keying program into scanner system and flyer announcement
- Exclusive offer for retailer
- If retailer contributes immediate in-store discount, consumer receives high value and immediate gratification but still with slippage economies
- Bypasses tear pad issues—placement, depletions, professional refunders, etc.
- Consumer friendly—rebate form also proof of purchase
- Greater accountability—sale tied directly to refund authorization plus immediate scanner tracking

Disadvantages

- Limited to single partner retailer—may alienate others
- Must offer similar value program to other retailers (see Robinson-Patnum Act in the Glossary)

- May redeem higher—fewer slippage economies
- Requires retailer participation, up-front negotiations, and execution

42. MULTIPLE PURCHASE—SAME BRAND OR COMPANY PRODUCT LINE

<i>Definition</i>	<p>Refund requires several same product family purchases, such as cereals, diaper boxes, or tool series; may or may not require purchase of all products—value may increase with number of products purchased</p> <p><i>Business to Business:</i> Flexible vendor-to-dealer (or distributor) reward system—different reward levels for different purchase levels</p>
<i>Advantages</i>	<ul style="list-style-type: none"> • Loads consumers (and business-to-business) so competitor products lose demand • Reaches heavy users • Can increase consumption rate and usage • Low price point product(s) can offer higher value • High price point products offer an exceptional value • Brands (and corporation) can economize on media, POS, and other costs • Retailer can offer high-value multiple purchase offer with minimal execution • Retailer can package vendor refunds for its own program • Partners tap into each other's consumer base • Cumulative value tactic (more products earn more savings)—reaches both low- and high-quantity purchasers • Corporation can showcase product family
<i>Disadvantages</i>	<ul style="list-style-type: none"> • Appeal may be limited to more popular product in family—may dilute that brand • Complex refund form discourages participation and leads to mistakes—same for fulfillment process • Greater fulfillment administration, verification, and costs • Misunderstandings may cause consumer dissatisfaction if refund request denied or returned for corrections • Cash less economical than premiums, tie-in partner offers, and others • Advertising doesn't allow brand building (except for corporate)

- Products must share common seasonality, target market, etc.
- Exceptional negotiation and coordination, including mutual timing
- In manufacturer-to-distributor applications, distributor may “forward buy”—purchase products and then warehouse inventory to avoid full prices later

43. CROSS-PURCHASE/TIE-IN

<i>Definition</i>	Refund requires multiple diverse product purchases, such as bundled computer peripherals, toy family, or diverse business products; may or may not require purchase of all products—value may increase with number of products purchased
<i>Advantages</i>	<ul style="list-style-type: none"> • Compatible company/product partners can pool funds, resources, distribution, etc. • Partners can tap into each other’s consumer base • See advantages in “Multiple Purchase—Same Brand or Company” above.
<i>Disadvantages</i>	<ul style="list-style-type: none"> • Single product may get lost in group promotion • Products must share common distribution, seasonality, target market, etc. • Vulnerable to partner management changes, revised marketing plans, budget shifts, etc. • See disadvantages in “Multiple Purchase—Same Brand or Company Product Line” above

44. CONTINUITY PURCHASE

<i>Definition</i>	Refund value accrued over time and purchases; often practiced in business-to-business and ongoing consumer applications, such as frequent buyer or credit cards (See also “Collector Card” in Chapter 3, “Coupons,” page 74, and Chapter 6, “Continuity,” page 155.)
<i>Advantages</i>	<ul style="list-style-type: none"> • Encourages loyalty • Encourages higher, ongoing purchase levels • Refund can be redeemable only for sponsor products for economies and sustained sales

- Business-to-business encourages retailer to stock and move inventory
- Business-to-business yearlong program encourages reseller to liquidate inventory at year-end (holidays)
- Database profiling improves customer relationship marketing practices

Disadvantages

- Can be expensive, particularly with direct mail and database applications
- Requires exceptional administration
- Vulnerable to discounting and other immediate reward tactics
- Cash less economical than premiums, tie-in partner offers, and others

45. INSTANT REFUND

Definition

Purchaser receives refund check immediately upon purchase, often for higher-ticket items; typically offered directly by the dealer, possibly through a co-op manufacturer program

Advantages

- Instant gratification for greater motivation versus typical mail-in refund delayed reward
- Refund check can be applied immediately to a down payment or trade-up
- Sales closer

Disadvantages

- Discourages slippage (high values redeem high anyway)
- Requires accountable system—cannot simply give salespeople blank checks (Example: Dealer shares refund's financial commitment or is refunded itself upon verification.)
- System must enable salesperson to authorize check
- Dealers/retailers may resist sharing customer, sales, and pricing information (if required by manufacturer)

46. SWEEPSTAKES OVERLAY

Definition

Refund certificate doubles as sweepstakes drawing entry when redeemed

Advantages

- Draws additional attention and excitement
- Theme can reinforce product benefit
- Encourages redemption

- Disadvantages*
- Additional sweepstakes expense and tasks—legal, prizes, administration, etc.
 - Negates slippage benefit
 - May add clutter and confusion to an already sufficient refund offer
 - Timing issues—sweepstakes deadline, product shelf life, refund deadline, etc.
 - “No Purchase Necessary” alternative entry requirement

47. MANUFACTURER/ACCOUNT TIE-IN—RETAIL FULFILLMENT

- Definition* Manufacturer’s refund requires purchase at tie-in retailer, often through a gift certificate/card
- Advantages*
- Retailer participation—display, flyer, stocking, etc.
 - No fulfillment shipping costs
 - Retailer features exclusive offer with minimal execution
 - Manufacturer-assured discount passed on by retailer (*plus* slippage)
 - Retailer gift card option provides turnkey, shipping-free fulfillment, and reward selection, plus economies over cash
 - Manufacturer can increase distribution
 - Can liquidate product
 - See “Point of Sale Delivered” above
- Disadvantages*
- Limited reach—single retailer chain
 - Account may resist sharing customer, sales, and pricing information (if required by manufacturer)
 - Requires custom distribution if refund is delivered on product
 - Requires retailer staff training for consumer questions—participating models, redemption timing, forms, etc.
 - Some consumers may send proofs from competitive retailer
 - Procedures (like audits) necessary to prevent retail misredemption
 - May alienate manufacturer’s other accounts
 - Requires offers for other retailers (see Robinson-Patman Act in the Glossary)
 - See “Point of Sale Delivered” above

48. RETAILER VENDOR COLLECTION

<i>Definition</i>	Different manufacturers' refunds bundled and delivered by one retailer, typically in folder
<i>Advantages</i>	<ul style="list-style-type: none"> • Retailer offers large savings figure funded by manufacturers • Traffic builder • Cross-store shopping • Multiple purchases • Manufacturer receives retailer support—flyer, POS, inventory, etc. See “Manufacturer/Account Tie-in” on page 104.
<i>Disadvantages</i>	<ul style="list-style-type: none"> • Limited reach—single retailer chain • One offer can be lost in clutter • Extensive coordination to orchestrate numerous refunds with different manufacturers • Other retailers may offer the same manufacturer refunds • Refunds and retailer must all share similar timing <p>See “Manufacturer/Account Tie-in” on page 104.</p>

COLLECTOR CARD

See “Coupons,” Chapter 3, page 74.

REFUNDS VERSUS MERCHANDISE INCENTIVES

Cash is the most popular reward *and* one of the most uneconomical. See section on prizes in Chapter 2 (“Sweepstakes and Contests”) and weigh the advantages of offering a cash refund or merchandise.

HOW NOT TO GET REDEEMED—SLIPPAGE

Slippage refers to a purchase made with the intent to redeem the product's refund but the consumer then fails to complete the paperwork and postage. Thanks to slippage, marketers can have higher refund discounts, knowing

that a certain percentage of the refunds will not be redeemed. For example, a \$5 refund for any video purchase sounds expensive, yet actual redemption numbers have come in at 1 percent. So for every 100 purchases with a \$5 video offer, the brand redeems only \$5. One major studio won't accept partners offering \$5 refunds because the redemption is too small—the studio wants redemption (sales) but the partner wants slippage (no sales).

Some tips on avoiding redemption:

- Make the offer \$5 or less toward higher-priced items.
- Make the refund for lower-priced products prohibitive with postage factored in. (Free candy bar!)
- Ask for a lot of information on the form, including personal data.
- Make the proof of purchase cumbersome, such as a bottle cap (difficult to mail) or a UPC that needs to be scissor-cut from a cardboard box.
- Use a larger package size that takes longer to use up before cutting out the purchase proof.
- Require multiple purchases (and proofs).
- Add a significant shipping and handling charge (for merchandise redemption). Shipping isn't typically marked up, but warehousing and handling are.

Careful! Don't upset customers and open the doors to competitors. Also, customers may learn to avoid future offers. Seek a balance of a good value and requirements that appear easy enough but in the end are simply a hassle.

Gambling on Slippage

If everyone redeemed the \$5 video refund on a cereal box, the brand manager would be fired and the promotion would go bankrupt. A slippage-based offer is a gamble based on past performance. Some marketers hedge their bets with a higher product price that they then lower with the refund. If generic windshield washer fluid retails at \$1, a premium brand can offer a two-pack box for \$3 with a \$1 refund, so it's "priced" the same as the generic. Yet the slippage keeps the margin high—but *only if* redemptions are low.

You can exercise some controls, such as the following:

- Curtail the number of rebate certificates you distribute. Determine your worst-case scenario, making it a percentage of total product in the uni-

verse. If a million packages are in the system and you distribute a quarter of a million certificates, the worst case is that 25 percent of your sales incur refund costs (*if* 100 percent of the certificates are redeemed).

- Distribute refund certificates to each retailer in proportion to the number of products ordered or inventoried. (If a retailer orders 100 packages per store, distribute one 25-sheet tear pad of refund certificates.)
- Deliver your offer to one retailer, one region, or one media vehicle at a time.
- Limit the period for which the offer is good.
- Require multiple purchases. (However, you may reduce redemptions by first-time or light users at the same time you discount loyal, heavy users.)
- Limit the offer to one refund per household. (Most fulfillment houses don't track this information unless you pay more, but by simply posting it, you discourage multiple redeemers.)

Rebate Shell Games—Traffic Offers versus In-Store Nonoffers

Refunds can be shuffled like peas in a shell game by a manufacturer and retailer. The two might join forces to deliver two different offers simultaneously, which in tandem achieve each party's differing objectives. For example, some retailers advertise a great refund value on an item, but they only communicate the offer in their flyer, which will boost traffic. At the store, however, there's no mention of the offer, but a display showcases the same discount on the same brand's smaller size—the old bait and switch principle, but it's legal because you can ask for the offer and receive it. Here's the breakdown:

Anatomy of a Refund Shell Game

Two Simultaneous Refund Offers	Medium	Retailer Benefit	Manufacturer Benefit
1. 100-pack blank CDs at \$24.99—a mail-in refund combined with an additional discount at register	Retailer's flyer only; <i>no</i> in-store signage	<ul style="list-style-type: none"> • Advertised traffic generator • Minimal in-store awareness and redemption • In-store shoppers diverted to more lucrative 50-pack offer via signage 	<ul style="list-style-type: none"> • Offer not communicated in store; only those actively following up flyer ad redeem; minimal redemption • Retailer may have contributed to cash register discount portion

Two Simultaneous Refund Offers

2. 50-pack blank CDs for \$24.99—refund form printed automatically on receipt; no in-store discount

Medium

Prominent in-store signage; *no* mention in flyer that featured the same-price 100-pack offer

Retailer Benefit

- Profitable, highly visible offer
- Discount fully funded and redeemed by manufacturer

Manufacturer Benefit

- Product featured in store signage
- Profitable sale of 50-pack CDs versus same-cost 100-pack flyer offer (Net: Gave away fewer free disks)
- Refund offer communicated near product—not on Rebate Center rack
- Slippage on mail-in offer

SHIPPING AND HANDLING AND MUCH MORE

Factor in all or some of the following costs, which may or may not be allocated to the shipping and handling budget:

- Banking costs to set up the account, write checks, and so on
- The process to receive requests, verify refund requirements, and authorize the refund
- Form letters: “You neglected to include postage and handling”; “You sent the wrong retail receipt”; “You didn’t include enough proofs of purchase”
- Reconciliation process for those who didn’t qualify for the offer
- Training and instruction sheets for order processors
- Handling, which includes receiving the authorization to fulfill, address label generation, check “payable to” identification, check insertion (plus any literature), recording the fulfillment, applying postage, and delivering completed envelopes to the post office
- Postage

- 800 number/Web site and training and instruction sheet for questions and complaints
- Additional literature insertion—cover letter, coupon, flyer, and so on
- Data entry, storage, manipulation, and evaluation, ranging from a customer mailing list to complex customer profiling
- The refund!

Ways to handle shipping and handling costs:

- Charge for them in full as “Shipping and handling” on the order form.
- Charge a portion to offset certain program costs and at the same time easing consumer costs. (Some items, like database building, may fall into another budget.)
- Fold them into the total asking price. The order form is simpler, the offer is clean, and the consumer isn’t upset by seeing additional charges.
- Mark up all the services to generate profits while you encourage slippage.

REFUND FULFILLMENT

Example of FSI Fulfillment Costs

Following is an example of how the cost *might* break down in an offer in which (1) your company receives two receipts and a refund certificate and (2) you send a \$5 refund. (This is strictly an example, and costs will vary by the supplier and the job specifics.)

Item	1,000	5,000	10,000
Servicing the account	\$200/month minimum	\$200/month minimum	\$200/month minimum
Order processing	46.50	232.50	465.00
Data entry	52.24	261.20	522.40
Capture store name (optional)	9.75	48.75	97.50
Store table creation (optional)	100.00 (one time)	100.00 (one time)	100.00 (one time)

Item	1,000	5,000	10,000
Verify one UPC five-digit code (brand) (optional)	7.95	39.75	79.50
Duplicate elimination (optional)	12.00	60.00	120.00
Computer process	27.00	135.00	270.00
FSI standard banking	25.00	125.00	250.00
Print postcard check	27.75	138.75	277.50
First class	200	1000	2000
PO Box	305	305	305
Logo digitization	200	200	200
	(one time)	(one time)	(one time)
Activity report—three months	40/month \$120	40/month \$120	40/month \$120
Setup fee	450 (one time)	450 (one time)	450 (one time)
Total w/ postage	1599.19	3295.95	6416.90
Total w/o postage	1399.99	2295.95	4416.90
Per piece w/ postage	1.60	0.66	0.64
Per piece w/o postage	1.40	0.46	0.44

THOSE WHO FAILED TO MEET REFUND REQUIREMENTS

Problems. Where there's a form, there are mistakes. Then there are professional refunders trying to beat your system. Common problems with refunds include these:

- Illegible writing
- No address
- Expiration date exceeded
- Insufficient proofs of purchase
- The wrong product proofs
- The wrong retail receipt
- The same household requesting a second refund
- Postage and handling not included

Solutions:

- Hold the request and ask the consumer to complete the requirements.
- Have a grace period beyond the expiration date. It does four things:
 1. Allows for late redeemers
 2. Provides a longer-than-published expiration period so your rejection says the applicant was 30 days late rather than 1 day
 3. Simplifies the process for people who miss the deadline by just a few days—no correspondence necessary
 4. Allows more participation
- Provide a reward for actual purchasers who didn't include enough proofs—a partial refund, a generous coupon, or a free product coupon.
- Give all rejected submissions a coupon.

Sample letter. This suggestion is a “one letter fits all.” Consider a few alternative response letters for different situations.

(Date)

Dear _____:

Thank you for your interest in Acme Widgets. We would like to fulfill your refund request; however, it did not meet the following requirement(s).

- _____ Expiration date (date) was exceeded.
- _____ Requires ___ more proof(s) of purchase.
- _____ The wrong retail receipt was included.
- _____ The wrong product proofs were included.
- _____ This offer is only good for one household per offer, and our records show this is an additional request.
- _____ Postage and handling were not included.
- _____ We will complete your refund upon receipt of the following by (date):
(Processor fills out requirement on this line, or checks the next box.)
- _____ We are sorry we cannot give you the refund at this time, but we've included an Acme coupon in appreciation of your interest in Acme Widgets.

Sincerely,

John Smith
Customer Service Representative

REFUND REDEMPTION EXAMPLE

A national retailer would honor a \$3 to \$5 coupon toward a video purchase at its stores. Coupon would be a mail-back offer by a packaged food brand. (“Buy this product, send proof, and receive an instantly redeemable coupon in the mail.”) Following are two redemption scenarios:

Redemption: 2% to 5% on \$3 value for instant coupon
 $135,000 \text{ packages} \times 5\% \times \$3 = \$20,250 \text{ redemption cost}^*$

Redemption: 20% to 25% on \$5 value for instant coupon
 $135,000 \text{ packages} \times 25\% \times \$5 = \$168,750 \text{ redemption cost}^*$

*Excludes certificate printing, fulfillment, etc.
 Some videos redeem only at 1 percent for a \$5 mail-back refund.

WHY SOME RETAILERS DON'T LIKE REFUNDS

Many retailers feature refund values in their flyers, noting in smaller type “With manufacturer’s refund.” Yet some retailers resist refunds for any of the following reasons:

- For many, a \$5 refund redeems too low unless the partner represents tremendous volume, such as a major breakfast cereal. Even though it doesn’t pay the \$5, the retailer has to train its system about the promotion.
- Refunds conflict with “everyday low price” positioning. Wal-Mart might demand the discount be applied to its pricing (which undermines the refund’s higher value through slippage).
- Refund tear pads and signage detract from the store décor and encourage litter.
- Refunds may represent parity with other retailers. “Why should I offer your refund when the same tear pad is at my competitor’s? Give me something they don’t have, or I’ll take your competitor’s offer.”
- Consumers may think the retailer is accountable for any rebate problems, so the retailer catches the consumer’s wrath.

- Many retailers feel it cheapens their image. Some retailers (and their shoppers) value their high-price policies.
- Independent, entrepreneurial contractors and durable goods stores resent manufacturers meddling in their business with refund form questionnaires asking selling price, retailer name, customer name, service questions, and more. These independents often provide their own rebates at their own expense to counter the manufacturer's interference.

Retailers: Make the Most of Vendor Refunds and Take Some Credit

By pooling all the vendor refunds into one flyer, a retailer can boast hundreds of dollars in savings throughout the store and avoid all that tear pad clutter. And even though the retailer doesn't fund the redemption, it can take credit for offering such huge savings to its customers.

Another way to trumpet savings is to showcase the price after rebate in large type and then specify "After manufacturer's rebate" in small type. If you add an in-store discount, show the math—actual price minus discount, minus rebate, and a bottom-line "only" price plus the total savings in bold.

The No-Win Refund Board

Unfortunately for all parties, too many retailers make the refund an afterthought, sticking all the tear pads on an obscure refund board. The retailer misses the opportunity to feature savings. The brand loses the sales-closer objective. The consumers typically miss the offer. Vendors should prenegotiate with refund board retailers by, for example, advertising in their flyers in exchange for promoting the refund next to the product.

Insight

It may sound like a great idea to make the refund form double as a sweepstakes entry. But do you really want to encourage redemption once the product has been purchased?

DETECTING REFUND FRAUD

Unfortunately, the high-dollar values of refunds encourage professional fraud. A "reject card" explains why a submission cannot be honored; typically, there is no resistance from fraudulent redeemers who don't want further attention.

Following are seven red flags that were culled by Marc Shafer of Accrada, Farmington, Connecticut, for *PROMO* magazine. The importance of each needs to be weighed against the potential difficulties it might cause.

1. Same-size envelopes, indicating supplies were bought in bulk
2. Same stamps—again showing bulk purchase
3. Postmark differs from return address
“Deduping programs” may be thwarted by different addresses on the refund order forms. Refund forms should state that checks will only be sent to the return address listed on the envelope, which the deduping program can monitor.
4. Receipts without store names
Professionals use their own cash registers or software to generate receipts. Look for bogus store names or misspellings of legitimate names.
5. Requests that go to PO boxes
Specify you won’t send checks to PO boxes.
6. Similar identification patterns
Look for similar handwriting on multiple submissions. Good fulfillment house personnel recognize groups of misredeemers by their repetitive modus operandi. Some even nickname groups—for example, The Gold Staple Bandits (who use gold-colored staples) and The Hallmarks (who use colored Hallmark card envelopes).
7. Computer-generated labels
Few people use preprinted mailing labels in the “To” address, so stipulate they’re prohibited.

Source: *PROMO* magazine (<http://www.promomagazine.com>), a Primedia publication.

COMMON REFUND COPY REQUIREMENTS

The following 13 suggestions come from Mel Poretz, publisher of *The Fulfillment Factory*, in an article for *PROMO* magazine.

1. State that you will reject any proofs that are not genuine.
2. Clearly reprint the mail fraud statutes so misredeemers cannot claim ignorance.
3. State refund checks will be mailed within the state the request came from to discourage cross-country accomplices.

4. Require register tapes to be dated and have a store name to discourage defrauders with their own cash registers.
5. State that order forms and envelopes must be handwritten.
6. Specify checks will be made out only to the same name as the requester to deter groups.
7. Print order forms in at least two colors with screens, tints, and other techniques that deter counterfeiting.
8. Keep expiration dates short (three months) to close the window of opportunity and networking by defrauders. You can extend the promotion later or create a second wave.
9. Stipulate prominently that proofs of purchase must be obtained by purchase of the sponsoring product. Use words like *Buy* or *Purchase* to establish violations criteria.

Source: *PROMO* magazine (<http://www.promomagazine.com>), a Primedia publication.

And a few extras . . .

10. State that checks will be sent only to the return address listed on the envelope, which the deduping program can monitor.
11. State that you won't send checks to PO boxes.
12. State: "This certificate has no cash value."
13. For higher-priced items, insist on the carton's UPC code, which defaces the box and discourages returned product. Try to partner with retailers to counter defaced returned packages.

Again, to avoid overly long copy on a small certificate, weigh the value of each stipulation in terms of the consequences to your offer. For example, are you simply trying to discourage misredeemers or setting legal precedent to prosecute?

I n s i g h t

Expect complaints in a massive national program. Of course, the number of complaints is directly proportional to any confusing elements or other problems. Have focus groups review the program communication. Prepare a complaint line with trained reps. Show customers how to contact you. And don't let a minor percent of complainers jeopardize the vast majority of satisfied customers and a successful program.

Refund Certificate Copy Examples

EXAMPLE: SINGLE PURCHASE OFFER (Tear Pad with Account-Specific Overlay)

AJAX WIDGET MAIL-IN REBATE

From Acme Stores

1. BUY a ____ size Ajax Widget from Acme Stores
2. ENCLOSE in an envelope:
 - A. The UPC bar code, and
 - B. The original or a copy of the Acme Stores receipt from your Ajax Widget purchase—circle the store name, date, and price.
3. FILL OUT this certificate completely and MAIL with items A and B from above in a hand-addressed envelope, to:

(Address)

This certificate has no cash value. This offer is good in the United States, except where prohibited, taxed, or restricted by law. Offer is good on purchase made between _____ and _____. Offer must be redeemed by _____. Offer limited to one per person per mailing address. Post office box requests will not be honored. Offer restricted to purchase of Ajax Widget from Acme Stores only. Not valid with any other offer on Ajax Widgets. Allow six to eight weeks for delivery. Neither this certificate, cash register receipt(s), or the UPC bar code symbols may be mechanically reproduced. Not responsible for lost, late, illegible, damaged, misdirected, or postage-due mail.

Offer expires _____

(Refund identification numbers)

Please print clearly

Name

Address

City, State, Zip

Daytime telephone

EXAMPLE: SINGLE PURCHASE OFFER (Tear Pad without Account-Specific Overlay—Available in any Authorized U.S. Store)

AJAX WIDGET MAIL-IN REBATE

1. BUY a __ size Ajax Widget from any authorized retailer in the United States.
2. ENCLOSE in an envelope:
 - A. The UPC bar code, and
 - B. The original or a copy of the store receipt from your Ajax Widget purchase—circle the store name, date, and price.
3. FILL OUT this certificate completely and MAIL with items A and B from above in a hand-addressed envelope, to:

(Address)

This certificate has no cash value. This offer is good in the United States, except where prohibited, taxed, or restricted by law. Offer is good on purchase made between _____ and _____. Offer must be redeemed by _____. Offer limited to one per person per mailing address. Post office box requests will not be honored. Offer restricted to purchase of Ajax Widget. Not valid with any other offer on Ajax Widgets. Allow six to eight weeks for delivery. Neither this certificate, nor cash register receipt(s), nor the UPC bar code symbols may be mechanically reproduced. Not responsible for lost, late, illegible, damaged, misdirected, or postage-due mail.

Offer expires _____

(Refund identification numbers)

Please print clearly

Name

Address

City, State, Zip

Daytime telephone

EXAMPLE: MULTIPLE PURCHASE OFFER (Manufacturer's Goods Bought at Any Retail Location)

AJAX PRODUCT LINE MAIL-IN REFUND CERTIFICATE

Save up to \$00**Here's How:**

1. *Bring* our refund shopping list to the store.
2. *Buy* products on the list. The more you buy, the bigger the refund.
3. *Save* the UPC symbols from the products.
4. *Circle* the item prices, store name, and date on your receipt(s).
5. *Check off* the products you bought and how many on the Refund Tally Section.
6. *Add up* the quantities and the refund you've earned, and fill in the amount on the Refund Tally Section.
7. *Fill out* the information on the Refund Tally Section—print clearly.
8. *Mail* the completed Refund Tally Section, the receipt(s), and all your UPC symbols in a hand-addressed envelope to:

(Address)

Must be postmarked no later than _____.

RULES:

- This certificate must accompany your request. Photocopies or other mechanical copies will not be accepted.
- Limit one refund per household or address.
- Post office box requests will not be honored.
- Allow six to eight weeks for delivery.
- Offer requests must be postmarked by _____.
- Limit one refund per household address. No group's or organization's request will be honored.
- Duplicate submissions will be rejected and proofs of purchase will not be returned.
- Your offer rights may not be assigned or transferred.
- Not responsible for lost, late, illegible, damaged, misdirected, or postage-due mail.
- Offer good only in the United States.
- Offer void where prohibited by law.

REFUND TALLY SECTION

Please indicate the products purchased and your refund:

Product	Quantity	Price	Subtotal
Abc	_____	× \$0.00 =	\$ _____
Def	_____	× \$0.00 =	\$ _____
Ghi	_____	× \$0.00 =	\$ _____
Jkl	_____	× \$0.00 =	\$ _____
Mno	_____	× \$0.00 =	\$ _____
TOTAL:	_____	× \$0.00 =	\$ _____
YOUR TOTAL REFUND			\$ _____

Please print clearly

Name

Address

City, State, Zip

Daytime telephone

Insight

Every year air conditioner companies employ the same tactic: refunds. It's a tie game. Trane broke the tie with an Instant Refund to use as a down payment or trade-up or to take to the bank right now—no six- to eight-week wait. But careful! How do you issue checks to dealers? How do you handle returns? The program was limited to qualified dealers and markets.

PLANNING CHECKLIST

- **What's your strategy:** slippage? redemption? multiple purchase? account-specific participation? How will you encourage your strategy?
- **What are your projections, and on what are they based?** Are there any questionable assumptions that necessitate backup projections for potential problems?
- **Have you figured the total cost?** See "Shipping and Handling and Much More" above.
- **What's your worst-case scenario?** See "Gambling on Slippage" above.
- **Do your retailers allow refunds?** Do they use a cluttered, obscure refund board? If so, how will you notify shoppers about your refund: advertising? the store flyer?
- **What are your communication options?**
- **Who puts up signage?** Don't count on the retailer. How will those who put it up know what to do? When will they know? How do they verify?
- **What are your offer dates?** Is there a grace period?
- **Will your rebate forms be out of circulation when the offer expires?**
- **Have you verified you can ship refunds in the time specified** on your order form? What if there's a delay?
- **Did you make the instructions simple?** For example:
Number each step: 1. Do this. 2. Do this. 3. Do this. And so on.
Or: Buy this. Save this. Send here. Receive this.
- **What kind of data should you capture?** Can you actually use the data you collect?
- **How can consumers contact you with questions?**
- **Are customer service people trained to handle inquiries,** unqualified refund requests, and so on? Are they coordinated with the warehouse so orders can be placed on hold or shipped? Does everyone have brief "What if and how to" sheets?
- **Have you created all the forms,** from thank-you notes to "Sorry" letters for nonqualifiers?
- **How will the fulfillment resource verify orders and payments,** and what are its internal safeguards?
- **Should any literature or offers go along** with your fulfillment? You're already paying for a mailing.
- **Is your offer susceptible to professional refunders?** See "Detecting Refund Fraud."

- **How will you communicate the program** to sales, distributors, and retail?
- **Is the timing sufficient for selling in**, orders, shipping, stocking, and so on?
- **Should there be an incentive program** for sales and retail?
- **What's the backup plan** if something in the chain goes wrong? What's the substitute program? How is damage control covered?
- **Do refund checks have an issue date** and a prominent "Void 60 days after issue date" announcement to aid final reconciliation?
- **Do you want a refund check tracking number** matched to the recipient's name?
- **Is your refund check protected with antiduplication printing** *and* instructions to the bank cashing the check, such as:
"This document contains protection against alterations. Absence of these features indicates a copy." (Specify the measures.)
- **Have you done a dry run** of the entire process, from request receipt through mailing, documenting, and recording fulfillment? Did you include some test submissions that don't qualify for the refund?
- **Have you documented all your work, made profit projections, and written a summary of your hard work and successes to present to management for a raise?**