INSURED CREATIVITY

SPECIALTY BROKERS

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When Too Much of a Good Thing Hurts You: Redemption Insurance

An Insured Creativity Whitepaper

Executive Summary

Coupons, rebates and promotion incentives (redemption promotions) are popular promotional tools used by marketers to drive sales, consumer loyalty and brand affinity. As popular as they are, they can be risky to a marketer's bottom line.

The challenge with redemption promotions is managing the budget; competitive environments often require aggressive offers and marketers never really know how many people will take advantage of an offer. As a result, marketers can only 'guesstimate' what consumer response will be, set aside budget reserves (if the CFO allows it) and then cross your fingers and hope the program isn't too successful.

The key to running a lucrative redemption promotion is striking that optimal balance between the budget and the value of an incentive that will attract and motivate consumers to make purchases at a desired volume. Fortunately, there is a way for marketers to do just that.

Redemption Insurance is a risk management tool used to control and transfer the financial risk associated with redemption. It helps marketers find the balance between incentive value and profitability. This product is a must-have weapon in any marketer's arsenal against financial risks.

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Risk vs. Reward: The Hoover Story

Ask any promotion expert about redemption promotions, sooner or later they'll get around to the Hoover story. It was a defining moment in promotions history, showing the world the power of a promotional offer and its underlining ability to create substantial financial liability.

In the early 90's, Hoover-U.K. (owned by Maytag) suffered from a backlog of vacuum cleaners and washing machines, plus a £10 million deficit. The company launched a promotion to kick start sales.

The Offer: By spending £100 on any Hoover or Maytag product, consumers got two free return flights from select European cities. While Maytag products were valid, it was always regarded as a vacuum promotion for the way it was advertised and the low cost of entry via a vacuum purchase (the vacuums cost half the price of the airfare.)

The Response: Consumers were quick to buy-up Hoover vacuums and sales exploded. To keep the momentum going, Hoover upped the ante with a follow-up promotion that offered two free return tickets from the U.S.

While the Hoover promotion is down in the history books as one of the worst promotions ever, the moral of the story is simple: Hoover made assumptions that cost them. The price of the vacuum was half the price of the airfare hence consumers were willing to take the required steps to redeem. The promotion was no longer viewed as a "great deal on a vacuum" but rather "I can get a trip for a £100." The greater the value of the offer (perceived and real), chances are the greater redemption will be and the harder it will be to manage the bottom line.

With redemption insurance in place, Hoover would have had their offer assessed before it hit the market (identifying the major issues that caused them so much PR grief) and they wouldn't have assumed so much financial liability that — when combined with the PR and operational effects — brought the entire U.K.-operation down.

The Results

+ Response from the first offer had Hoover's flagship plant exceeding capacity and having to hire more people to fulfill demand.
+ Hoover's travel agents couldn't manage the volume of calls from consumers, many of whom were angry over the delays in redeeming their free airfare vouchers.
+ When consumers didn't get the service they expected from travel agents, they fuelled bad publicity that further stimulated redemption and fulfillment of the offer.
+ A researcher with BBC's Watchdog (a consumer TV program) went undercover with the company processing the applications and was told "that it was deliberate policy to stop people from getting them. The story cost Hoover's board its jobs and the company an estimated £40 million."
+ Small ads in various newspapers were full of unwanted Hoovers.
+ People at Hoover/Maytag lost their jobs.
+ The fallout went on for years, costing an estimated £50 million (US $99 million).
+ Maytag U.K. eventually cut its losses and sold out to Italian appliance firm Candy.

(Excerpts taken from: A Bloody Dust Up, PROMO Magazine, Oct 1, 2005)

Redemption and the Economy: One Down, One Up

Redemption promotions date as far back as 1894 when Asa Candler (the druggist who bought the formula for Coca-Cola for $2,300) gave out handwritten tickets for a free glass of his new fountain drink. 1 Throughout its history, one thing has become certain: a downturn economy is connected with an upswing in redemption.

In 1993, coupon redemption was up 10% compared to two years prior in response to the lagging economy.2 Throughout the 16-year period thereafter, coupon redemption steadily declined -- until just recently.

Coupon redemption in 2008 remained steady with 2007, bucking the 16-year declining redemption trend.3In an unstable economy, consumers are more responsive to cost-saving offers causing redemption to either increase or remain steady.

In similar fashion, retailers and packaged goods marketers will call on value-add promotions as a means to get people into stores and spur sales. From 2006 to 2007, consumer packaged goods marketers issued 6% more coupons (16 billion more.) To make coupons even more attractive, the average value of an offer increased 10 cents, to $1.28, outpacing the price increases of food for the first time.4

While redemption promotions have always remained a household penny-pinching favorite, they tend to take a starring role in mass marketing throughout tougher economic climates.

Common Redemption Promotions

Instant Win	A specified number of “you win” game pieces or plays are distributed and consumers are instantly notified if they won a prize.
Coupons	An in-store redeemable offer worth a stated value that a consumer presents to a retailer at time of purchase for savings.
Rebates	An incentive to purchase in the form of a discount mailed to consumers after their purchase.
Collect-and-Win	Consumers collect game pieces or plays to complete a set, which can be a word, phrase or image.
Try-Me-Free	Consumers purchase a product and then submit proof of purchase and/or other requirements for a full refund on the purchase price. Try-me-free may also take the form of an in-store redeemable coupon offer.
Satisfaction Guarantee	A purchaser submits proof of purchase and/or other requirements for a full refund on the purchase price where a product or service does not deliver satisfactorily against the purchaser’s expectations.
Premium Offers	Merchandise is offered to consumers either free or at reduced prices, to generate sales of a product (i.e. free gift with purchase).
Loyalty Programs	A promotional program designed to enable a marketer to identify, cultivate and retain its base of current customers. Common loyalty programs include points programs or cards that award a free product after a given number of purchases are made.

The Guessing Game: Risky Business

Redemption promotions are unlike sweepstakes (one participant is drawn to win a prize) or chance games (winning is based on odds) in that all participants are instantly qualified to claim a prize, a free product, a discount, free points, etc.

The cost of running a redemption promotion is dependent on how many people redeem, the promoter's actual cost of the offer, and the costs associated with fulfilling the offer. Redemption is a variable factor -- marketers can only guesstimate what they believe redemption will be and manage their budgets accordingly. If the program is too successful and redemption comes in above the expected level, it can literally break the budget.

Used commonly for mass marketing, the potential liability can be substantial. For example:

Sample Offer	Number Distributed	Value	Potential Liability	Expected Redemption	Marketing Budget	Liability Above Budget
$1.00 coupon off $10 of Beef	3,000,000	$1.00	$3,000,000	2%	$60,000	$2,940,000
$10 rebate on a $300 stereo	500,000	$10.00	$500,000	5%	$250,000	$4,750,000
$5.00 of music downloads in cereal boxes	600,000	$5.00	$3,000,000	8%	$240,000	$2,760,000

Redemption Insurance: Cap Liability

What It Is

Purchasing redemption insurance is not that much different than buying house or car insurance: an insurance premium is paid to an insurer who assumes all liability should redemption exceed a pre-determined level. This allows a client to execute a promotion without risk and with the assurance their overall liability is fixed should actual consumer redemption exceed forecasts.

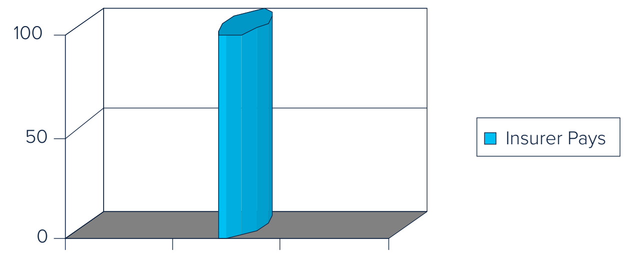
Getting Coverage

Marketing risks typically fall outside more easily recognized insurance policies (yet they impact the balance sheet like any other business risk.) To get coverage, a marketer and/or their CFO need to either source a company specialized in redemption insurance directly, or speak to an insurance broker who can access carriers specialized in this class of insurance. When assessing an insurance carrier one wants to ensure the balance sheet of the carrier(s) is strong.

Coverage Types

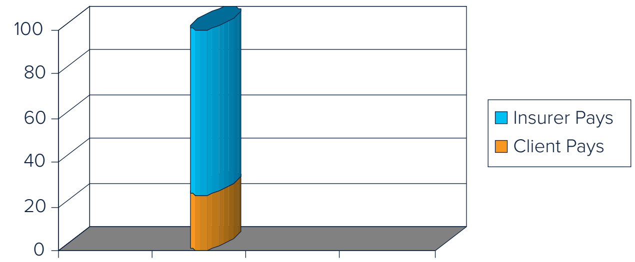
Choosing the right type of redemption policy depends on a number of factors: the program, the level of liability involved, the budget, and so forth. Typically one of two policy types will be used:

a) Ground-Up Coverage: Insurance covers from $0 up to the maximum insured amount.



Or,

b) Excess Coverage: Insurance covers redemption that is in excess of a client's expected level of redemption (self-retained amount).



Assessing the Risk

With great amounts of potential liability, an insurer will typically request very detailed information before entering into a policy agreement. Assessment of a risk is based on a number of factors such as: historical performances; the cost ratio between the offer value and product; how the offer is distributed and advertised; the conditions to be met before consumers can claim the offer such as time limits, proof of purchase or claim forms, etc.

The Benefits: Bottom Line Protection

With potential liability often running at millions of dollars-plus, it's a wonder why any marketer would launch a redemption promotion without some kind of financial plan in place. As a risk management tool, redemption insurance drives overall marketing and business objectives.

Risk Management	Insurance is the most secure financial risk-transfer tool available, guaranteed to protect assets and balance sheets.
Fixed Budget	Regardless of how many consumers redeem, insurance covers the cost – no surprises to the budget.
Financial Management	By transferring the risk to an insurer, the need to set aside budget reserves for unexpected costs is eliminated.
Prevent Promotion Nightmares	Getting a review of your offer by an experienced, outside resource will help to identifying issues before a promotion hits the market.
Flexibility & Creativity	With a solid financial plan in place, marketers can afford get creative with their promotions, going market with a high-impact promotion that consumers will love and competitors will envy.

Case Studies: Thousands, Millions Saved

Try-Me-Free

Eye Care Product Manufacturer Saves $250,000!

When a leading eye care product manufacturer needed to increase trial of a new product, they launched a try-me-free offer. Consumers who purchased the product were eligible to get the purchase price back in full if they mailed in their receipt and claim certificate.

The program was a success, bar none. The promotion generated a 25% increase in product sales. Redemption came in 68.75% higher than what the client anticipated.

Insurance coverage resulted in an over **$250,000 savings to the bottom line.**

Movie Coupon

CPG Company Saves $500,000!

In an effort to drive up sales, a major consumer packaged goods manufacturer distributed over 4.2 million movie cash coupons inside a variety of specially marked products. Consumers who purchased a product instantly received the offer valued at approximately $10.

The offer was a hit among consumers. Redemption exceeded the manufacturers expected amount by more than 675,000 consumers.

The insurance coverage resulted in an **over $500,000 savings to the bottom line.**

Free NFL Tee's:

Beverage Giant Saves More Than $1.8 Million!

A tie-in with the NFL had this major soft drink maker offering NFL team t-shirt prizes to anyone who successfully collected and matched three bottle caps containing the same NFL team name.

The promotion garnered an astounding number of responses, causing the beverage giant to put in a claim for the full insurance coverage amount.

The insurance coverage resulted in an over **$1.8 Million saving to the bottom line.**

Conclusion: Smart Marketing

When one thinks of marketing programs, risk and insurance likely aren't the first things that come to mind. Yet marketing initiatives impact the bottom line just like any other business risk.

Putting insurance in place is, quite simply, a smarter way to manage mass marketing promotions. It's a risk management practice that not only keeps the budget fixed, but gives marketers more flexibility when planning promotions.

Redemption promotions are quintessential to staying competitive and delivering added value to consumers while driving sales and brand objectives. By transferring risk and keeping budgets fixed with insurance, mass marketers can achieve a more positive ROI.

+ Risk transfer to an insurer is guaranteed to protect assets and balance sheets
+ Marketing budgets stay fixed
+ The redemption guesswork is eliminated
+ Reliance on budget reserves is alleviated
+ Success is never impeded by costly over-redemption

Resources

[1] All about Coupons, PMA Coupon Council, http://www.couponmonth.com/pages/allabout.htm

[2] Coupon Clippers – Rebate Coupons, www.bnet.com, February, 1993.

[3] Consumer Coupon Redemption Holding Steady: Research, Progressive Grocer.com, Sept 8, 2008

[4] Dishing out Discounts, PROMO Magazine Industry Trends Report 2008, www.promomagazine.com

About IC Creativity Specialty Brokers

Insured Creativity has over 25 years of experience providing insurance coverage for marketing promotions including games, contests, sweepstakes, rebate and coupons, and athlete contractual bonus. Working with the world's leading consumer brands and agencies, IC Specialty Brokers ensures corporate assets are protected with the highest levels of security.

In tandem with interactive promotions company IC Group (a sister company to Insured Creativity), we provide innovative solutions to marketing needs through every aspect of online or offline promotions as well as insurance and risk management services to help mitigate risk to clients. This has allowed us to carve a unique and ever-growing niche in the promotions marketplace as a supplier that can create the big impact with all the security a client needs.

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