



Destructive Advertising:

by Jay Goltz

Advertising decisions are difficult. Unlike choices in management and finance, there is a lot of guessing involved. In my mind, there is good management and there is bad management. There are good financial controls and analysis, and there are poor ones. Advertising, on the other hand, is much more nebulous—you never know whether your advertising is working as well as it should or whether there is a better option.

Certain advertising methods are more complicated than others because they have other effects on your business. I don't profess to be an advertising expert, but I'm going to relate my personal experience and that of other people I've talked to in the picture framing industry. You might disagree with my conclusion, but at the very least you should plug your own numbers into this analysis before you judge me.

Let's examine something that many people find near and dear—discount coupons. It seems to be a popular advertising method for frame shops. It's also popular for water heaters, carpet cleaners, and fast food restaurants. In one coupon envelope I recently received, I found ads for no less than four carpet cleaners. In my mind, I question the company selling the advertising.

You've probably heard this before, but let me remind you that people selling you advertising space are salespeople, not advertising consultants. Often they do not have the background or experience to help you with your business. Their job is to sell you the coupon mailings; that's how they make

their living. And there's nothing wrong with that.

There is something wrong, however, if you, the buyer, do not bother to analyze whether this is the best form of advertising for your business.

Let's look at a numerical analysis of the results of coupon mailings, not just from my own experience, but from the experience of others. Let's assume that you buy a territory or two of these coupon mailings. You spend \$1,500. Several people I've talked to have agreed that they would expect about 45 people to come in. On its face value, that would

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appear to be a success, but let's take a closer look. Let's say the coupon you included was for a \$20 discount. (You could have made the coupon for \$10, but that would probably reduce the amount of people who came in.) The total cost of that promotion would then be \$2,400 (\$1,500 plus the \$20 discount times 45). This leads to the question, "How much did it cost you to get one new customer?"

The important word here is "new." General consensus is that two-thirds of these coupons are redeemed by people who are already customers. This means you've only generated 15 new customers. Therefore the cost of generating a new customer is \$2,400 divided by 15, which is \$160. From my experience, that's probably average even though it sounds like a lot of money. As

Why Coupon Discounting Makes You Pay

most of us have figured out, you don't make any money the first time a new customer comes in, but you hope to make money on second visits and possible referrals. Hey, if business was as easy as spending money on an ad and making enough from immediate sales to pay for it, we'd all be rich.

You need to make sure that the customer comes back, hopefully with a friend. While \$160 is probably similar to the cost of buying customers by other means, such as newspaper ads or radio ads, there is an added side effect.

Before I get to that side effect, let's talk about the peculiarities of our business. 1.) We do not sell seasonal merchandise or merchandise we need to unload. Winter coats need to be sold before the end of winter. The new hot clothing styles need to be sold before they're not so hot. And buying mistakes need to be turned. If stores didn't run sales, they'd have a tremendous problem with unsold merchandise. Getting rid of merchandise is one of their major responsibilities and it can make or break a store. In the frame business, most people don't even order inventory until it's sold.

2.) Some businesses, such as restaurants, know that their typical customer probably frequents 20 of their competitors. Some of them feel the need to woo people to their establishment, which will result in incremental sales. Again, frame shops are very different. Most people have very few pictures to frame, and most people go to only one or two shops. It is difficult to generate incremental sales from existing customers, because if they have only one picture to frame, that's it, the end. For restaurants, eating out is a 300 times-a-year sales opportunity.

3.) Price integrity. I don't know about you, but I find that people regularly complain about how expensive framing is. We have to go through a lot of trouble to explain that we are in a custom business that requires skill and time and that many of the mouldings are finished by hand by skilled artisans. People have become accustomed to buying everything from clothes to furniture to window treatments "off the shelf." Many of these

goods are manufactured overseas, where workers are paid 20¢ an hour for labor. As a result, consumers can now buy things that are remarkably inexpensive.

Have you ever noticed that an 8" x 10" teak, rounded corner photo frame with glass and an easel backing could cost as little as \$3? That's a fraction of what it would cost if it was made in the United States.

The objective is to make people feel that whatever they just spent is a reasonable amount. At the very least, even if they don't think it's reasonable, they shouldn't feel that they're being overcharged, and they need to know that the price they paid will be the price today, tomorrow and the next day. The last thing we should do, after we go through our eloquent explanation, is have a sale or send the customer a coupon that she wished she had when she framed her picture.

Which leads me into the "side effect" of coupon mailings—the thing that makes them so complicated. You will condition customers to wait until they have a coupon to come in. And that's just the first problem. The second problem is that some new customers will wait for the next guy to send out his coupon. This is not the ideal customer. The ideal advertising-generated customer is one that saw or heard your ad, liked your message, came in for framing, and was happy with the results.

The final and worst problem is that you will either end up with squeezed profit margins, resulting in a busy shop that doesn't make any money, or you will have to artificially raise your prices to compensate for all the discounting.

The big winner in all of this is—guess who? Is it the customer that has to worry about having a coupon before going into your store or else feel like they were cheated? No. Is it the customer that doesn't have a coupon but hears that the customer next to them does? (I'm sure that goes over big.) Is it the store owner who has to explain why sometimes there are coupons and sometimes there are not, and why some people get coupons and others don't? (Do you tell them they live in the wrong zip code?) Is it your staff that has to go through the awkward

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moment of telling the customer the price, wondering whether or not the customer has a coupon, then feeling guilty if they don't because your staff knows the prices are too high? No. Is it your competitors? No, they have the same problem you have. The only winner in this is the coupon salesperson! Good for them.

I'm sure some of you think I'm wrong. Maybe some of you have used this kind of promotion to start your business. Maybe that makes sense because at that point you don't have existing customers to worry about. Maybe you're getting a better response. Maybe your existing customers don't look for the coupons because they don't like saving money.

Advertising is not an exact science. If this method is working for you, more power to you. All I know is that I've done it, and I've talked to other people who have done it, and when we sit down to talk about the end result, we agree that it just isn't worth it. The reason we all do it is because we worry, "If the other guy is doing it, shouldn't I?" Remember what your mother told you about jumping off the bridge?

I firmly believe the secret to building your business is being honest with your customers, treating them fairly, and doing good work. It's about running your business and not worrying as much what everyone else is doing. The only fair price is the one that is charged to everybody. Maybe some customers get a discount because they frame a lot of pictures, but those discounts are justifiable and defensible.

I am not in the position to know or care whether or not the coupons work for the plumber, the siding guy, or the carpet cleaner. We custom framers are in a very different business. Price integrity and credibility is something we all should worry about, especially since the general perception is that custom picture framing is expensive. This is not a price-driven business. It's a quality, service, design-driven business—and that you can take to the bank! ■

Jay Goltz is the author of [The Street-Smart Entrepreneur: 133 Tough Lessons I Learned the Hard Way](#).