Price Cuts You Can Do Without

Establishing the loyalty of your customers can be accomplished using many tactics—and I've seen a few very blatant attempts in the past week by way of financial incentives. But it seems not all cash breaks are sure fire ways to keep folks coming back:

Apple recently announced a major reduction in price point on some of its more popular electronic items, including its older model 3G iPhones, to make way for the new model 3GS. Superficially it makes sense, considering people are making do with less. But in reality, the data phone industry is one of the few that is actually booming. In fact, smart phone sales grew 25 percent over the past year, even though regular cell phone sales went down.

This tells us a few things:

- People are really addicted to mobile communication, to the point where we'd give up other perks in order to afford the "extravagance" of being able to work from the airport.
- Apple is reducing its prices for reasons other than a public who can't or won't purchase its products.

This announcement came in the wake of the introduction of the Palm Pre, the most competitive data phone the iPhone has seen yet. Here Apple is preparing for the fact that its customers could be persuaded by other brands based on price point, functionality, or the media blitz of the new and exciting. People are still buying smart phones, but it's up to Apple to make sure it remains competitive, and retains its existing customers.

It's also no coincidence that the big media splash occurred when many of Apple's

original 3G users were about to see the end of their 2-year contracts. Why not give them a new, top-of-the-line model to encourage them to stay with the iPhone? In addition to retaining customers, new, lower priced iPhone 3Gs will likely entice newbies.

My brother is a technology geek and can't, in good conscience, let a new model of iPhone hit the streets without it being in his pocket immediately. For me, the lower cost 3G model is just the incentive I need to trade in my BlackBerry for something a bit less formal. My brother's loyalty to Apple is a given, and it's based on Apple's consistent innovation—and in this case, perhaps, it's timing. My loyalty, however, is pending the success of my new technological venture. If I become an Apple diehard down the road, it will be a direct result of the financial incentives.

But not all incentives toward loyalty are so ingeniously timed. Case in point: I recently returned from a vacation in Hawaii. Because of the latest economic conditions, coupled with an early summer lull, our resort was at an enviable 20 percent capacity (meaning: enviable for us and our beach solitude, but a financial obstacle for the hotel owners). Sitting down to breakfast in the hotel's open air restaurant the first morning, we were informed that the price on our meal had been preemptively reduced by ten dollars. This "special" ran all week, as well as other discounts like the cabana's $5 drink of the day. (Really, you can't get a Pina Colada anywhere for $5, and here we were sipping them on the ocean like it was some type of patio happy hour.)

While I am certainly not complaining about the price breaks, this is an example, in my opinion, of a loyalty incentive gone wrong. Considering I was stranded on an island where the nearest city was 15 miles away, and the next nearest resort was a mile down the road, why was I being courted with price reductions? I had nowhere to go, so would have paid whatever they asked, simply chalking it up to the cost of a vacation at inflated resort costs. If the incentive is to try to get people to come back, I'd be surprised if anyone were to book a vacation to the same place every year based on the hope of cheap drinks, or a few dollars off a fruit buffet. The discounts seemed misplaced and unnecessary, and my credit card bill would have been higher, had they wanted it to be.

So what's the best way to create customer loyalty through incentives, without accidentally just throwing money out the window? Send me your tips—anna.wells@advantagemedia.com [1]—and we'll share them with our readers on www.IMPOmag.com [2].

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