Show Us The Money:  
Transform the lowly rebate into the up-front cash of a Coupon Bonanza!  
By Melanie K. Goetz

Economists tell us that income is “fungible;” that it is inevitably and quickly consumed, regardless of its source.

But our own experience clearly demonstrates that the way money is labeled, or “framed,” is at the very core of whether we blow our money or tuck it safely away. In other words, our “marginal propensity to consume” isn’t consistent; it depends critically on how we label our income.

Let’s say you have a generous mother-in-law. She sends you $50 exactly two days before your birthday, every year, without fail. She never forgets.

Meanwhile, your deadbeat brother-in-law finally paid back the $50 he borrowed six weeks ago, leaving an untidy hole in your bank account. And there it is, side-by-side on your kitchen counter with the birthday card, which was loyally entrusted to her local post office to arrive on time.

Fifty dollars here. Fifty dollars there. But they’re hardly the same, now are they?

Like most people, your birthday gift is swiftly converted into something fun like two CDs and an iPad app. The $50 debt goes back into checking and gets you back on schedule with the credit card payments.

One makes you $50 wealthier; the other restores the status quo – an obligatory reimbursement.

On another level, consider the difference between the expense check your company bookkeeper disburses every month and that same employer’s Christmas bonus. Payback on a debt versus “found money.” If you don't look at those two checks differently, well, perhaps you are an economist.

Government and quasi-governmental entities go to great lengths to leverage the allure of a “bonus” versus the not-very-sexy reimbursement of monies paid. Tell the truth: Don’t you fancy even a small lotto payout over a rebate disbursement?

Congress and the Executives have grown fond of casting out rebate money in lieu of tax cuts that would have left the money in your pocket in the first place – and with some cause. They’re banking on the likelihood you’ll view the Stimulus payout as “found money” that you, Mr. & Mrs. John Q. Citizen, are likely to quickly spend – hopefully providing a much-needed kick in the pants to a lagging economy. On the one hand, the money is a gift; on the other, doesn’t it feel like your own hard-earned money has been returned?

Prior to the 2008 tax rebates, Congress and President Bush returned a massive $38 billion to taxpayers in $300 and $600 tax rebates. Research by Economists Matthew Shapiro and Joel Slemrod of the University of Michigan reported that only 28 percent of those having received the tax rebates spent any of the money. The rest of the people in the national survey considered the money “returned income.” Nicholas Epley, in his article in the New York Times concluded,
“Politicians are thought to be expert spin doctors, able to choose the right word to fit any occasion, but they do not seem to be paying attention to how to sell the stimulus package so that consumers spend with patriotic abandon.”

So a “bonus,” subjectively, represents a positive change. Meanwhile, you would probably consider a “rebate” nothing more than money that’s owed back to you – a return of lost funds. Bonuses, gift certificates, and lottery winnings – they’re just aching to be spent, right now, as frivolously as you wish. Rebates, refunds, or the dreaded “Account Credit” – they’re fated to languish in the doldrums.

This simple phenomenon of how money is framed explains why rebates are seldom redeemed and bonus checks are almost inevitably spent.

Now, as a thriving local utility, do you issue “rebates” for efficient appliances? Hmmmm. Might it be possible to frame payment of that consumer-bound cash in a way that is more enthusiastically perceived by the recipient? Perhaps instant gratification rather than rebates?

Or might you follow in the footsteps of our very own Federal government’s 2008 tax relief program that was coupled with issuance of “rebate” checks. The goal was to boost consumer spending. But taxpayer’s mental accounting interfered with that logic, and research reveals that most people deposited their “rebate” checks quickly and unenthusiastically into the bank. After all, it was their money coming back, not found money, not manna from heaven.

Harvard behavioral economist Nicholas Epley contends, Congress should have issued the money as “bonus” checks to elicit the results they sought. Epley, along with Dennis Mak and Lorrain Chen Idson, conducted an experiment to prove that properly “framing” such funds can greatly affect the recipient’s collective propensity to spend or save.

Participants in the Harvard study were given a $50 check, ostensibly from a faculty member’s research budget, financed indirectly through tuition dollars. Half received “a rebate check.” The other half got their check as “a bonus.” A week later the “rebate” group had spent less than half of what their “bonus” counterparts spent.

Doesn't the same logic hold true for the utility?

In other words, can’t a rebate be framed more as a bonus or gift? Utilities commonly employ a “rebate” strategy, whether the pursuant reward involves cash or, perhaps, a discount on energy-efficient home appliances. But in the end, the rebate from the utility is a check for $50, and if it helps to frame that $50 as something other than “a manufacturer’s refund on the price of a product” (the product being water, electricity, etc.), Why Not? The only difference is one of wording – a matter of semantics.

As long as the “bonus” check functions like the rebate, requiring the same proof-of-purchase and so forth … Why Not?

As long as it is legal and there is no difference to the utility’s total outflow of cash … Why Not?

As long as the Internal Revenue Service (IRS) considers both a “rebate” and levies no additional tax … Why Not?
To the “Why Not?” question, one has only to look deep down into the heart of Texas to discover an excellent answer.

Not afraid of change to attain measureable results for their water efficiency program, San Antonio Water System (SAWS) leveraged the “marginal propensity to consume,” tying it solidly to “how the money is framed.” With a simple tweak in their approach to rebates, SAWS successfully narrowed the disparity between personal gain and the social need for water conservation. Its “Watersaver Landscape Coupon Pilot Program” framed the incentive as a “bonus” by way of a $100 coupon. Here’s how it worked:

To motivate their customers to replace lawns with water-wise plants and mulch, the large utility offered $100 coupons that could be used just like cash for approved plants at seven participating nurseries and garden centers.

Promoted through an e-newsletter, press releases, the SAWS website, and word-of-mouth, the program was officially launched at the annual Festival of Flowers in June 2013. Simultaneously, the nurseries and garden centers launched their own advertising of the programs, using their own advertising budgets.

Customers simply filled out a form affirming they were removing 150-250 square feet of grass and, crucially, mulching and then capping off automatic sprinklers to the specific area. The coupons covered, in some cases, as much as 74% of the cost of the sanctioned plants and mulch.

Credited with bringing the idea home, Vickie Castilleja, Planner with SAWS, worked with the SAWS Conservation Director, Karen Guz, to create two packages of approved water-wise plants – one for the sun and one for partial shade – with prices starting at $130 retail (plus tax). Each package consisted of seven small evergreens, seven spreading perennials and one larger shrub. To provide consumers with maximum flexibility, residents could use all 15 options or as few as three varieties – one from each category. SAWS even offered landscaping plans and provided specific information on the various plant species.

On May 20, 2013, in an interview with the San Antonio Express-News, Guz likened the packages to a “paint-by-numbers” for the garden that enabled anyone to create a beautiful landscape in their own yard.

Actual results of the pilot program won’t really be known for another year, but 1,500 homeowners redeemed 2,000 coupons in only 60 days – a far more enthusiastic response than SAWS conservation efforts had achieved in previous “rebate” programs.

Why did it work so swimmingly? Well, Guz noted that previous rebates were reflected as a credit on monthly water bills rather than as cash. Credits, like rebates, are not very exciting – any connection between water conservation and the rebates perhaps being lost in the mail. By contrast, the coupons offered instant gratification. “Consumers were genuinely excited about the program,” said Guz. And she added, “the program was received so well by our customers, that we are holding another similar program in the fall: “Encore! WaterSaver Coupon Returns.”
SAWS certainly should get a lot of credit for literally tapping into the way humans naturally account for money. The faceless utility essentially became a generous, gift-giving mother-in-law as opposed to a brother-in-law grudgingly repaying a debt.

They also leveraged some very powerful behavioral marketing tools. For example, by limiting the plant selection of hardy and readily available choices, SAWS actually inspired action by minimizing the homeowner’s need to dither over virtually infinite possibilities. As odd as it may seem, studies prove that offering too many choices actually discourages consumers from action.

Also, SAWS smartly marketed the program through a broad and varied network of retailers. It’s basic cross-promotion marketing: the more entities or people who support a program’s education and marketing, the more likely it is to succeed. It’s like McDonald’s including free Disney Studios movie character toys in Happy Meals – both Disney and McDonald’s come up winners. Each essentially tapping into the other’s customer base.

By working with the local nurseries and garden centers, SAWS was able to promote local businesses while motivating consumers to swap out their lawns for more water-efficient plants and mulch. And, by giving the local businesses ownership in the program, SAWS was able to capitalize on privately sourced marketing budgets, education, and the existing relationships between the retailers and their own customers.

Southern Nevada Water Authority (SNWA) is another excellent example of a utility leveraging coupons. Toby Bickmore has worked as a Conservationist for more than 10 years for SNWA, whose customer base of 1.6 million makes it one of the nation’s largest water utilities – one that takes pride in its edgy approach to conservation advertising and rebates.

Bickmore said the utility’s unique Pool Cover program has been particularly successful with more than 3,000 households (annually) purchasing temporary and permanent pool covers with SNWA coupons. When I talked with him, Bickmore affirmed the news I’d expected – that the coupons were great because they engendered greater participation than previous rebate programs.

But it hadn’t even crossed my mind that SNWA prefers coupons because they are actually easier and less expensive to issue and administer than rebates.

But when you think about it, the rationale is simple: A rebate program would have forced SNWA to deal with thousands of individual homeowners (and their Pool Cover choices, queries and complaints). The coupon program pared that down to seven local retailers. Sure there were point-of-purchase displays and marketing options to be dithered with, but the relative simplicity made less hassle as SNWA watched the coupon option successfully unfold.

Here's how it worked:

The SNWA contacted key players in the local Pool Cover community and asked them to honor SNWA coupons driving business right to the retailers’ doorsteps. The coupons covered up to 50% of the cost of a temporary Pool Cover, with a $50 maximum. For the more expensive permanent Pool Cover, SNWA offered up to $200 (admittedly a somewhat more difficult sale, since permanent covers often carry a price tag of several thousand dollars.)

Still, for a pool owner in the market, 200 bucks is 200 bucks!
Other selling points: The SNWA.com website was linked in with county databases across Southern Nevada. Potential customers needed only to input their name and address to receive a personalized coupon. Bickmore said retailers delighted in bypassing expensive prospect data mining when qualified buyers arrived virtually unsolicited. (It’s important to note that all participating retailers had to be local, and no coupons were honored online.)

Coupons carried a cash-flow friendly 30-day expiration date. And while the program’s budget necessitated a limitation on coupons to one per household every three years, the up-front purchase undoubtedly generated substantial repeat business entirely independent of the coupon program. Bingo! SNWA customers get instant satisfaction with the utility’s brand splashed all over it with surprisingly little effort, paperwork or cost. And, SNWA is heroic in the eyes of a business community that might lend a more willing ear to its next prickly lobbying challenge. All the retailers needed to do was pocket their sales revenues, and submit the collected coupons once-a-month to SNWA for reimbursement.

And don’t forget the bottom line for everyone: Hundreds and hundreds of eco-friendly Pool Covers dotting the desert countryside.

One minor, unanticipated hurdle: Police officers and a variety of elected and public officials were not initially in the multi-county database due to security reasons. But Bickmore said that turned out to be a relatively easy fix. Smart tip, though: If you’re setting up a coupon program, it’s best to think ahead, and try to anticipate those nattering little details that can grow from a mustard seed into a full-fledged public-relations nightmare.

Bickmore said the coupon program actually arose out of a much smaller co-op with local carwashes – offering website promotion for carwash discounts. That program still flourishes today.

The success of the 2005 Pool Cover program, though, really got things moving and today the SNWA has expanded the concept to cover other conservation-savvy items such as Smart Controllers and Rain Sensors.

Now, SAWS and SNWA represent comparatively deep pockets from which budgets to create, advertise and market their coupon programs arise. But even with print, broadcast and billboard resources in hand, Bickmore and Guz agree that the biggest “bang-per-buck” came out of simple, dirt-cheap avenues most utilities have: newsletters, websites, and the all-important word-of-mouth. The skill and willingness of the communicator, they stress, far outweighs the importance of budget. After all, it makes sense that a utility with hundreds of thousands of customers would have marketing budgets of proportionate size; but smaller markets likely are able to leverage more visibility, per capita, outside the mass-media markets.

In short, it’s virtually one-to-one marketing any way you cut the market.

Innovative organizations like SAWS and SNWA have broken the mold – stepping outside traditional constraints of public-sector thinking. They’ve gone beyond staid “rebate” programs and created a template that will work for even the smallest of utilities. With smaller staffs (or even outsourced management and execution), coupons are just easier. Once you’ve contacted retailers to join in the program initially, it’s easy to renew the conversation and re-cement it as
each year passes. You’ll find some retailers will inevitably drift away, but that only leaves room for new businesses (or those who were left out of the original program for whatever reason).

And take note, too, that smaller-market utilities needn’t be discouraged if they lack a pool of large corporate entities as coupon-partner prospects: SAWS and SNWA talked with the big box companies (Lowes and Home Depot, for example) and discovered surprisingly little enthusiasm. Even in the largest of markets, the small and mid-sized “local” businesses have proven to be the heart of the couponing bonanza.

But be your program big or small, be it flashy or meekly understated, it’s important to keep the core propositions in mind:

- Coupons offer immediate discounts to customers – not some promise of a rebate check or credit. Every 6-year-old kid wants his ice-cream cone now. We big kids are no different.
- Make it win-win. Even if you, as a utility, don’t rake in a huge cash flow, the reward of goodwill in the residential network and the business community is priceless.
- Finally, Keep It Simple! Chances are good that a program that proves paperwork-heavy on your end, will be a burden on customers and coupon partners as well. All anybody wants is a little cash in our birthday card from mother-in-law … and to forget all about our deadbeat brother-in-law.

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RESOURCES:


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Silk, Tim and Janiszewski, Chris (2008), a working paper, Managing Mail-in Rebate Promotions.


Interview Toby Bickmore, Conservation Services Administrator for the Resource Section, Southern Nevada Water Authority (SNWA) Pool Cover Coupon Programs, October 2013.