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Small Firms Resort to Freebies and Special Deals

While the Strategy Can Help Lure Hesitant Customers, High Costs Run the Risk of Leaving Some Companies Worse Off

By [SIMONA COVEL](#)

Faced with a deepening recession and evaporating sales, an increasing number of small businesses are resorting to a high-risk strategy: costly giveaways and promotions to lure the reluctant consumer.

If the strategies work, these companies could have a powerful weapon in their struggle to weather the economic storm. But if they don't work, the more vulnerable businesses could find themselves in a bigger financial hole.

"Offering things for free is a very dangerous area to get into" for little-known small companies, because it threatens to establish the brand's reputation as cheap, says Barbara Apple Sullivan, managing partner at New York communications strategy firm Sullivan & Co. "Clients or prospects [may see] the product as worth what they're paying" during a promotion, she says.

But, she adds, the promotions can give the companies a shot of finding new customers -- something in short supply right now. And it could lead to even greater long-term success if these customers are willing to pay full price for the products or services in the future.

Clearly, small businesses are in a sales bind. A record 46% of companies reported lower sales in the three months ended in December, according to a monthly survey of more than 800 small firms conducted by the National Federation of Independent Business, a Washington, D.C., trade group.

Over the past few months, the pace of calls from potential customers slowed at Vaillant Solar Systems Inc., a San Diego-based provider of solar hot-water heating systems for area residences. "People don't want to spend thousands on something they don't really need right now," says Burkhard von Spreckelsen, the firm's chief executive officer.

Vaillant executives thought about reducing prices but didn't want to set a precedent or cheapen the company's image. So the company, a subsidiary of German solar-energy provider Vaillant Group, launched a program where it installs the system, which can cost as much as \$7,000, for no upfront cost.

Homeowners pay for part of the installation through tax credits; the company says homeowners can have Vaillant cover that cost initially and reimburse the firm at tax time, or they can wrap the amount of the credits into monthly payments. Then, the remaining balance is paid back from the savings customers realize on their energy bills. Households that currently use propane or natural gas to heat water might save as much as \$500 a year on an energy bill with the Vaillant system, Mr.

Spreckelsen says. The amount of the payments varies depending on a customer's energy usage. He expects most repayments to take about seven years.

"It's like a car loan with 0% interest," he says.

The program began Feb. 1 and is limited to 20 customers, partially because of its expense. Fluctuating energy costs also are a risk, since homeowners are expected to pay Vaillant back through their savings. The firm runs a credit check on and requires proof of income from anyone applying for the program. One customer has signed on so far, and about a half-dozen applications are pending.

While Vaillant will miss out on the upfront revenue, Mr. Spreckelsen believes that in the current economic environment the incentive is crucial to bring customers to a nonessential service like solar energy. And he believes it won't cheapen Vaillant's image like discounting might.

In December, Infusionsoft, a Gilbert, Ariz., maker of sales software for very small businesses, sent its sales force out with a new promotional message for its struggling market: a "double your sales guarantee."

Customers can request a refund for upfront costs -- which run about \$4,000 -- if Infusionsoft's software doesn't help them double sales in a one-year period. Additional monthly fees, which vary depending on the number of users, aren't refundable. Customers must agree to use the software to its full capacity, inputting customer data and setting up tools designed to capture sales leads.

The promotion was an idea executives had been toying with for a while, and with the recession making potential customers more reluctant to spend money, the timing seemed right.

Nearly all of Infusionsoft's customers have fewer than 10 employees, and CEO Clate Mask says "it's easier to double your sales if you're small," even in this market, partially because the company tries to target growing businesses. He says the company has seen some customers double sales recently. And even if customers don't truly double sales, Mr. Mask adds, he hopes they'll see a marked improvement and keep the software anyway. In the promotion's first month, Infusionsoft signed up 223 new customers.

For Zazu, an Ashburn, Va., specialty gift store, the economy is also demanding that it think creatively about promotions. In the second half of 2008, the store's owners noticed that regular customers were buying less each time they came in. Steven Haddad, who runs the store with his wife, Caroline, says they had been allocating 2% of sales to advertising over the past few years -- including ads in national women's magazines and high-end regional magazines. But they never scrutinized the ads' effectiveness since sales overall were going well.

With sales faltering last fall, however, the Haddads decided they needed an approach that was more targeted and cost-effective since most of the store's customers were local to the northern Virginia area.

"We could not afford to advertise to the masses," Mr. Haddad says. Sales fell 26% last year from 2007, with most of the decline in the second half.

They dropped the ads and, as part of a new promotional effort, launched a blog. Periodically, Zazu posts a giveaway on the blog -- say, jewelry, scented candles or a stationery item. Anyone who leaves a comment on the blog is entered in the contest.

Each giveaway costs the company between \$10 and \$30. But shoppers are drawn to the featured item of the week and the buzz generates more sales, Mr. Haddad says. The blog and the promotions have boosted online sales, he adds, emphasizing that nonwinners are buying the giveaway item as well as other things.

Mr. Haddad does worry about creating a pattern where customers expect freebies and heavy discounts, but he says in an environment where competitors are closing their doors, he feels he has no choice. "I think right now people are expecting something for nothing," he says.

Meantime, one fledgling business saw no choice but to offer a big promotion almost from the onset. During the holiday shopping season, Ficion Audio, a four-month-old high-end audio store in Redmond, Wash., sold mostly small items but few big-ticket speakers, which run from \$3,400 to \$15,000 a pair. Owner Peter Jiang says he heard consumers mention their fears about the area job market.

So in early January, he started a promotion where customers can return their speakers for 90% of the sales price if they lose their jobs within one year. If the job loss is between the one-year and two-year mark, he'll refund 75% of the price.

"If [the job market] is the problem," Mr. Jiang says, "I think we can attack it head on."

Since hanging a sign outside his storefront promoting the policy, Mr. Jiang has seen an increase in people coming in and asking about the products. He hasn't sold anything based on the promotion, so far. But he says high-end speaker purchases require research and forethought, for weeks or even months.

With local employer Microsoft Corp. laying people off and the restaurants next door to his store empty, Mr. Jiang says he had no choice but to make the dramatic offer. "It's sort of desperate, I have to say."

Write to Simona Covel at simona.covel@wsj.com

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