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Electronics & Digital: Better Tech, Better Value

Cool gadgets continue to reign as top incentives.

By William Keenan

The four-letter word for what's hot in the electronics and digital merchandise category should come as no surprise to anyone. "Anything that has 'i-P-o-d' on it is a good seller," says Mark Kramer of Maritz Rewards Inc. "iPod is the number one redeemer in just about every program, and it doesn't matter how expensive it is. You wouldn't believe how many \$400 iPod videos we sold over Christmas."

And it's not just the devices themselves that are flying off the shelves. Everyone is trying to grab a spot in the limelight. In fact, at the most recent Consumer Electronics Show (CES), "Just about every booth that you walked into had something to do with being iPod-compatible," Kramer says. "Accessories, speaker sets, stereos, TVs, telephones, car stereos – everything. Here's a port, just stick your iPod into it."

Mike Horn, director of merchandising for Hinda Incentives agrees. "Everybody wants iPods and Nanos in their programs," he says.

Of course, iPods are not the only great gift in this arena: the electronics and digital category as a whole is very strong, and "electronics, especially digital electronics, is really driving a lot of interest in the incentive business," says Horn. "Prices have begun to adjust in a lot of the product categories, which makes many electronic products much more reachable for program participants. You don't need a zillion points to redeem something any longer, and people are very excited about the new technology."

The iPod may be leading the field, but there are many other product categories that are also doing well. Flat-panel and high-definition TVs, a wide range of digital cameras, satellite radio, digital recording products, wireless laptops and PDAs, gaming devices like X-box and Playstation – all of these are creating excitement with new products, new technology and more attractive pricing.

"The demand for the newest, latest and greatest will always drive the trends in our industry," says Ally Krichman, senior director of fulfillment for Rymax Marketing Services Inc. "Consumers are definitely influenced by manufacturers' advertising and appealing to our need to have the latest high-tech toys. In addition, we are constantly on the go and multi-tasking, so our gadgets must do the same. This, in part, is what I believe drives the trend in portable media to audio and video files."

Kara Sibilia, Rymax's senior director of marketing, seconds that sentiment. "As our lifestyles become busier, we need ... items in the electronics and digital category to keep

up with us,” she says. “Time is a luxury, and the device that helps us to save the most time is the one we are most interested in.”

Saro Hartounian of Harco Industries agrees that “connectivity in conjunction with individualized lifestyle solutions – involving entertainment, visual imaging, education, and personal training – aimed at improving the quality of an individual’s personal time is the trend now and as we go into the future.”

Brand Impact

When it comes to incentives, however, it’s not just what it is, but who made it, that generates impact. “Brand names are important and will always be important in the motivation industry,” says Krichman of Rymax. “It’s an industry where perception is everything, and it’s important to provide quality and superior brands as rewards.” Brand advertising is also a factor, adds Rymax’s Sibilia: “When a manufacturer releases a new product, there is mass marketing and advertising prior to its release to create demand. It’s beneficial to use products like this in programs, because of the mass visibility and appeal.”

In the electronics and digital category, Apple and Sony are the leaders, followed by names like Panasonic, Samsung, Hitachi, Pioneer, JVC and Toshiba. All of these carry an impact, but a strong brand name isn’t the only consideration. “Obviously, the best brands drive the interest, and we want to align ourselves with the most recognizable brands – those that have built solid reputations,” says Horn, “but we also look within those product lines for the best values for our clients. So we’re looking at new products and adding stuff to our portfolio every month.”

Everybody Likes Electronics

Demographics has some impact on product selection, but less than one might think. “Consumer electronics has always been the unisex category,” says Kramer. “Man, woman, child, or beast – they all want to listen to things or to watch things.” Hinda, Maritz, and Harco all report that it’s their top-redeeming merchandise category. And Saro Hartounian of Harco says that 55 percent of all redemptions in his company’s programs are made by women. So a catalog that’s heavy on electronics and digital isn’t leaving women out.

There are some products that men select more than women – large-screen TVs and geographical positioning systems (GPSs), for instance. And among digital cameras, men might gravitate more to the SLR type and women to the more compact and stylish point-and-shoot products. But in general, “the gap has closed,” says Horn, “and the female consumer in this business is a growing power.”

Younger consumers will always be more interested in the latest technology than older ones, and this applies to merchandise catalog redemptions, as well. The 40 or 50 plus redeemer isn’t going to be as taken by the iPod as some younger program participants, but they might be interested in it for their children.

In the digital camera arena, older program participants might be less likely to go for the smallest, thinnest models. “Older people tend to look for something that’s really simple,

they don't want all the gadgets, and men in particular don't like all those tiny buttons," says Heather Chevreau of Fuji Photo Film USA.

There are a number of older technologies and products that are falling out of favor as well. "Analog technology is dropping out," says Hartounian. "VCR has dropped out. Single play DVD players are not redeeming at all. The home theater-in-a-box category has weakened. PalmPilots and other inexpensive data organizers are dropping. CRT televisions in the 13, 19, 20, and 27-inch sizes have fallen off. And CD players have dropped in redemptions."

Availability and Price Points

Availability is one of the few issues that may be darkening the scene for the electronics and digital category. During the holiday season, in particular, some of the most popular products and brands – including Apple's iPod and plasma and wide-screen TVs -- suffered from tight availability. In fact, availability problems hampered the redemption of plasma and wide-screen TVs through this year's Super Bowl.

Because of the short life cycle of many electronics products, incentive companies must also be ready to deal with products that are discontinued. In addition, says Horn, "There's been a lot of consolidation in the industry, and certain brands have decided to exit certain distribution channels and leave some people hanging. That means you may have to change brands or work with a distributor and change your cost structure."

Oil Prices Affect Delivery Costs

A factor that might affect prices across all merchandise categories is the cost of delivery, which has recently increased dramatically.

"With the increase in oil prices that have raised delivery prices in the incentive business, as much as 50 percent of the value of some products has to be surcharged and built in as points for the delivered item," Hartounian says. "We have one Sony 27-inch flat-screen TV unit that sells for \$285 and we have to spend \$130 to deliver it. That will leave some award winners with sticker shock when they realize that they have spent \$400 or \$500 worth of points on that 27-inch TV."

In general though, technological innovation is working in favor of the incentive program participant. Many electronic and digital products have come down considerably in price, and where manufacturers are looking to maintain prices, they are adding features and functionality to their lower-end products, where the largest proportion of redemptions take place. Kramer of Maritz, for instance, says the most popular redemption point is probably in the \$50 to \$150 range. Krichman of Rymax puts it in the \$200 to \$300 range, but adds that the next most popular redemption range is \$999 to \$1,299 – right up there where some of the smaller LCD flat-panel and plasma TVs reside.

What's Hot Right Now

Here's a rundown of some of the most popular products and trends in the electronics and digital category:

Portable media players. While Apple's iPod leads the way among portable music and portable media devices, a variety of MP3 devices and digital media players are very popular. The newest versions not only store and play music, but also hold photos and play videos. Some forthcoming versions, expected later this year, will come with a flash drive input, so you can download content from Tivo or other recording devices.

Some of Apple's competitors – Creative Labs, for instance – offer digital media players in a variety of fashion colors. Other manufacturers are bundling their media players with music. "One of the manufacturers we work with is offering a free 100 songs from a certain website for every media player we deliver," says Kramer of Maritz.

As a measure of the impact and success of the iPod, in particular, Hartounian points to the fact that Apple sold its one millionth song via iTunes download in January – and an hour after this milestone, it had sold 100,000 more.

Digital cameras. Today's digital cameras are smaller, thinner, lighter and offer more memory and more pixels. "Most people won't be able to tell what's four megapixels and what's 10 megapixels in a four-by-six photo of their kids," says Kramer, "but they will if they blow the photo up. The more megapixels, the bigger you can make the picture without losing any of the resonance or the color or the sharpness." In fact, four to six megapixels is becoming the standard.

Because of this, Heather Chevreau of Fuji Photo Film USA notes that there's room both for first time users and for those interested in upgrading, as advancing technology and declining prices drive demand. Fuji's lower-end \$150 digital point-and-shoot camera is probably its most popular choice for incentive and promotional programs, says Chevreau, but it also has higher-end cameras in the \$300 to \$600 range that have a single-lens reflex (SLR) look and quality to them.

Even top of the line SLRs are looking better these days price-wise. "Digital single-lens reflex cameras were once \$1,500, and now you can get them for \$500 or \$600," says Irv Weiler, national account executive for Olympus Imaging America Inc.

But the real story with digital cameras right now is the more sophisticated technology that's moving to the lower end of the price range and coming in a smaller and trimmer package. "Digital cameras nowadays are becoming more compact and more full-featured," says Weiler. "And as they become more full-featured they are heading in the same direction that 35 mm cameras were heading – toward the SLR realm, and that's the most full-featured category that there is."

The only potential problem that Weiler can see is that incentive companies often don't do digital cameras justice in their catalogs, perhaps emphasizing the sophistication of the technology rather than ease of use. "The digital camera is very user-friendly and non-threatening to the user. Stress the functionality, the attractiveness, and the simplicity and ease-of-operation," he says. "That's what makes it a great award item, a great incentive item."

Flat-screen and high-definition TVs. "We're getting a lot of interest in plasma and flat-panel LCD televisions, where prices have come down significantly to the advantage of many program participants," says Horn.

High-definition TVs are also a hot item, a trend that's driven in both by the fact that the image is clearer and sharper and the fact that the FCC is requiring that, in 2009, all analog TV broadcasting will be shut down and replaced by high-definition digital broadcast signals. That means that by 2009, all TVs will have to be equipped to receive HD digital, or get no picture at all. "The Consumer Electronics Association and manufacturers could be doing a better job of explaining this to consumers right now," says Kramer, "but they've said they're going to advertise this change a lot better in 2006 and 2007."

Connectivity is coming to TVs as well. Microsoft announced at CES that its new operating system would include two new technologies – MediaConnect and Play-for-Sure – that will allow wireless streaming of content from your PC to TVs that are equipped with the same software. Hartounian expects to see VCR and plasma TVs offering the MediaConnect and Play-for-Sure by the end of the year.

Digital recording devices. Hand in hand with the growth in HDTV is DVD and high-definition DVD recording. "But there are two camps, kind of like the old Beta and VHS," says Horn. "There's HD DVD and there's Blu-ray DVD, and there's going to be quite a battle between the two formats. They do basically the same thing, but they're not compatible." Both HD DVD and Blu-ray are introducing some new items this spring, he says, and most incentive companies will wait to see which manufacturers align with which camp before deciding which to include in their catalogs.

Recording devices such as camcorders are also moving more toward digital, mini-digital or DVD, and away from the old, large camcorders.

Satellite radio. Satellite radio offerings from Sirius and XM Radio are also making their way into incentive catalogs. In addition to the hardware, some incentive companies are also offering activation and service along with it. At Maritz, for example, "we have the capability to bundle the radio with Sirius or XM activation and service for three months, six months, a year – whatever the client wants," Kramer says. "We have been very successful with that." Horn reports that technology is moving so fast that soon satellite radio listeners will be able to buy and download songs that they hear and like onto their iPods or MP3 players.

Cell phones. Multi-function or hybrid phones – those that offer cell phone, MP3 player, digital camera and data organizer – wrapped into a single hand-held package are exploding in popularity. The problem for incentive companies has always been that the telecommunications companies subsidize and deeply discount the cost of the hardware to consumers, making up the difference in service costs. But a number of incentive houses expect to offer cell-phones bundled with prepaid service plans, and expect these to be a big item in their catalogs by the end of the year.

GPS systems. Hand-held geographic positioning systems that offer data services like driving directions, security, weather or satellite radio downloads, are also becoming popular, Hartounian says. Harco, for instance, offers a Magellan brand with very strong redemptions at the \$250 MSRP price point.

Gaming equipment. Microsoft's X-Box and Sony's Playstation are the two big players in this category. They remain popular and are likely to create a boost in interest with new product offerings. The X-Box 360 is already available, though slow in finding its way to

the premium distribution channel. Playstation 3 is promised for sometime this summer. Both are items that incentive companies will want in their catalogs, Horn says.