Continuity Discounts

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Key takeaways

- Continuity discounts = give product/service time free (or discounted) in exchange for a longer customer commitment.
- Common across industries (internet, pool cleaning, gyms, landscaping, storage, leases, phones, cars, etc.).
- Two critical planning elements: how to apply the discount (four main approaches) and the cancellation/enforcement policy.
- Four main application approaches: apply discount upfront and push out term; apply discount at the end after payments; spread the discount across the term; give time at a discount instead of totally free.
- Upfront/free-first model can gain market share quickly but delays cash and can be unprofitable initially; works best where enforcement/collateral exists (storage, phones, cars, leases).
- If you have high churn or weak enforcement, avoid upfront free-time models.
- End-applied discounts (free time given after full, on-time payments) encourage on-time payment behavior and still allow advertising "free months."
- Spreading the discount over the term turns the free time into a reduced monthly price, helps monetize acquisition earlier, and is a middle-ground approach.
- Always structure the contract so free time is added onto the full paid term (e.g., 3 months free + 12 paid = 15 months), don't shrink the paid term.
- Use collection tactics (first/last month, onboarding/setup fee) to get some cash up front to cover acquisition and ensure payment methods work.
- You can advertise the total credit value (e.g., $600 or "3 months free") even if you liquidate it over the term.

Checklist

1. Define the discount application method
    - Choose one of the four approaches: upfront (free time then paid term), end-applied (free time after on-time payments), spread across term (discounted monthly), or discounted time instead of free.
    - Why: each method affects cash flow, enforcement needs, customer behavior, and profitability; selecting the right one aligns the offer with your business' churn/enforcement profile.
2. If choosing upfront free-time, structure the contract to push out the term
    - Add the free period on top of the full paid commitment (e.g., 3 months free + 12 months paid = 15 months total).

- Why: ensures you capture the full intended contract value rather than shortening the paid term (avoid the common mistake of 3 months free + 9 paid).

3. Evaluate enforcement/collateral capability
   - Confirm whether you can enforce commitments (repossession, service cutoff, hold property, etc.) and whether your industry historically enforces contracts.
   - Why: upfront free models require enforcement to prevent nonpayment/early churn; without enforcement, the strategy can fail or be unprofitable.
4. If you have high churn, avoid upfront free-time offers
   - Skip the upfront model and use end-applied or spread approaches instead.
   - Why: high churn means weak enforcement and delayed cash will lead to losses; other methods encourage better payment behavior.
5. Consider end-applied free time to encourage on-time payments
   - Offer free time only after the customer makes all payments on time for the contracted period.
   - Why: rewards reliability, improves payment adherence, and still gives you a strong marketing claim (“3 months free”).
6. Use the spread-over-term option to protect cash flow
   - Convert the total free value into a monthly discount across the contract (e.g., $600 credit spread over 12 months reduces monthly payments).
   - Why: monetizes acquisition earlier, reduces upfront cash drain, and retains the advertised credit as an incentive.
7. Advertise the credit or free-time value clearly while choosing liquidation method
   - Promote the headline (e.g., “3 months free” or “$600 credit”), even if the credit is spread over time or paid after commitments.
   - Why: marketing impact draws customers while the liquidation method preserves cash flow and profitability.
8. Collect upfront cash to offset acquisition costs
   - Require first and/or last month, an onboarding/setup fee, or a one-time fee prior to delivering free time.
   - Why: provides immediate cash to cover CAC, commissions, and initial delivery costs; ensures payment method validity and some skin in the game.
9. Design cancellation and refund policies explicitly
   - State what happens if customers cancel early, miss payments, or try to game the free-time offer.
   - Why: prevents abuse, protects lifetime value, and clarifies enforcement steps; critical where free-time is given up front.
10. Model cash flow and profitability for the chosen structure

- Forecast CAC, months-to-recover, churn, and worst-case scenarios (e.g., customers using free time then canceling).

- Why: upfront or end-applied structures have different cash timing and risk profiles — modeling prevents surprise losses.

11. Use variations (partial discount instead of full free time)

- Offer the time at a discount or spread the discount (e.g., give time at a reduced rate rather than zero).
- Why: preserves more cash up front while still providing a strong incentive; reduces initial negative cash flow.

12. Ensure payment collection works before granting free time

- Verify payment method validity and optionally collect an initial payment or deposit.
- Why: prevents customers from receiving free service without a valid way to pay when the paid term begins.

13. Choose the mixed approach when appropriate (best-of-both-worlds)

- Combine small up-front payments (first/last or setup fee) with immediate free time, or give one/two payments up front then free period.
- Why: balances acquisition incentives with immediate cash to offset costs and ensures some customer commitment before providing free service.

14. Position the offer clearly to customers

- Explain when free time is delivered (upfront, after payments, or spread) and any required payments/fees.
- Why: avoids confusion, reduces cancellations/complaints, and sets expectations for behavior that preserves lifetime value.

Examples:

- Apartment trash service: one year free if you sign a five-year agreement (six years total).
- Storage units, cell phone carriers, leases, car leases: give first months free with enforcement via repossession/service cutoff.
- Local services (pool cleaning, landscaping, gym memberships): advertise “get your first two months free if you sign a year.”
- Spread example: $200/month service with three months free = $600 credit; spread $600 across 12 months to reduce monthly payment.
- End-applied example: pay all 12 months on time, then receive three months free as a reward.

Notes:

- Upfront free-time can win market share but delays cash and may be unprofitable initially; pick the application method based on enforcement ability and churn level.