



## Bulletin

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## Shelf life

### USING PROMOTIONS EFFECTIVELY

*The number (and variety) of promotional offers in the retail world continues to grow. But aligning a promotions programme with overall strategy, and understanding which offers are most effective, is challenging. Frontier's experience with retailers has highlighted some of the ways to make the most of promotions.*

Promotions are the weapon of choice in 21<sup>st</sup> century retail warfare: as common now in banks, pubs and hotels as in any department store, and seen in July as often as January. As pricing and EPOS systems have developed, so the volume of offers and the range of promotional mechanics have grown. But in the fog of war it is not always easy to judge the outcome. Applying a few simple principles can help retailers to cut through the maze of data and sharpen a promotions programme.

The aim of any promotion is to change a customer's behaviour in the retailer's favour, buying more, or more expensive (higher margin) products. So, in designing a programme, it makes sense to start with your overall ambitions for a



product category, and then to define the trading objectives that each promotion is intended to achieve. Done well, this will generate a “portfolio” of promotions that reflects the overall aims, strengths and weaknesses of the category. The balance of the portfolio can then be flexed over time to respond to seasonal demand or competitor activity. The challenge is to target offers specifically at customers whose behaviour can be changed, without leaking too much value to customers whose behaviour can’t – or who have already changed anyway.

A typical portfolio might include promotions that seek to:

- encourage some customers **to trade up** to higher-margin products, e.g., by using price discounts tactically within a range;
- **sell larger baskets** to existing customers, e.g., by offering multibuys or package deals;
- **attract new customers**, e.g., by offering big discounts on attention-grabbing products; and
- **encourage loyalty**, e.g., by offering discount vouchers for the next purchase.

Even before assessing whether promotions are “working”, it pays to go through a review process, assigning promotions to these four basic categories, in order to assess the balance of the portfolio. It is tempting for commercial teams simply to make a few tweaks to the previous year’s promotional programme (well, that worked pretty well, didn’t it?). The risk is that the strategy ossifies, or veers away from the original purpose, which may have slipped out of institutional memory. And similarly, where promotions are funded by suppliers, the overall category objectives may get lost in the crossfire of market share battles between brands. So it is important to check regularly that the mix of promotions still meets the category aims.

## WILL IT WORK?

Some of the best promotions work because they fit well with both customers’ sense of value and the retailers’ objectives. “£10 Dinner for Two” gave Marks & Spencer a new boost in an area where it was traditionally strong. Likewise, the BA Sale put some fun back into flying with this airline, and tackled price perceptions head-on.

The customer insights to spot these opportunities come from a range of sources – specific pieces of research at one end, the nose of your best category buyer at the other. However, basic information on price perceptions and competitor positioning help you to start in the right place, and measures like take-up rates or basket sizes, broken down by customer group, help paint a clearer picture of what’s going on in stores. New opportunities can be identified by applying behavioural insights (and a bit of creativity), but may be unreliable without the discipline of data analysis.

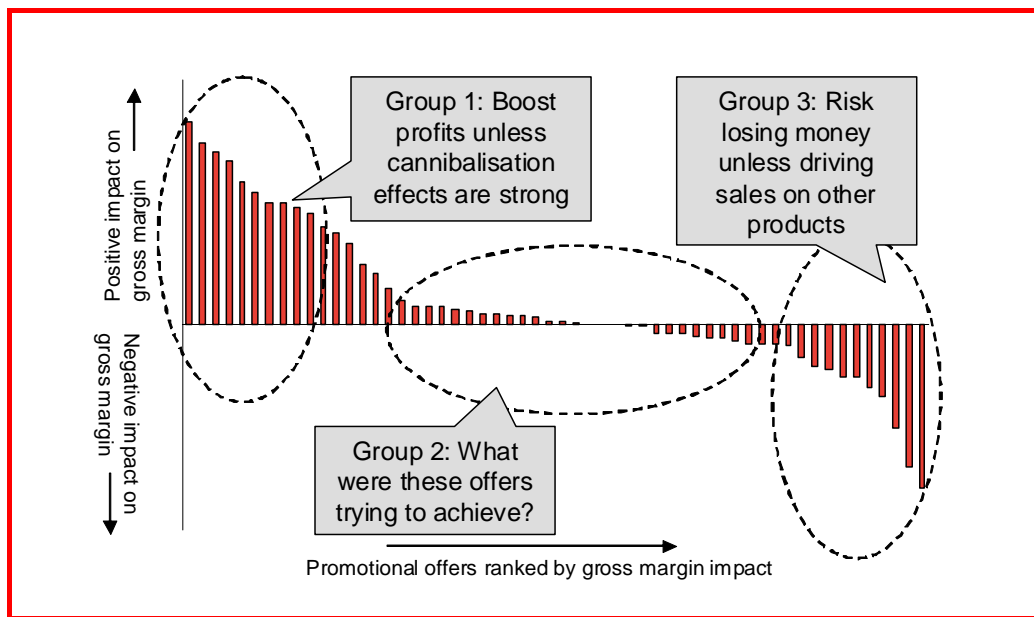
On the next page are some examples of how this approach can help answer key questions about the elements in your promotions portfolio.

- What prevents customers from **trading up**? If it's simply price, large discounts might temporarily boost sales but see customers switching straight back down at the end of the promotion. But if customers just aren't used to shopping for the up-market product, then a round price point, a large label and a prominent position might deliver as big a sales boost for a smaller margin sacrifice. *Action point: try to identify, in advance, which products could support a lasting change in shopping habits.*
- What makes customers **buy more items**? Bundling combinations of goods that naturally go together (flights and accommodation, hi-fis and cables) is an obvious way of increasing the size of the "basket". So, too, are multi-buy offers, which from the retailer's point of view have the advantage of sacrificing margin only on part of the "bundle". Tapping into different elements of customer psychology ("treat yourself", "eat healthy" or "stock up now") can help increase the power of these types of promotional offer. *Action point: analyse the data to identify groups of people who do and don't respond to such offers, and try to understand why.*
- How can we attract **new customers**? Offering a dramatic discount on a star product to get a new customer into store is expensive, since existing customers are likely to buy it too. Are there methods (in-store positioning, front-of-house displays, category advertising in specific media) that might do the job for less? *Action point: review all possible ways of targeting an offer at new customers without cutting prices to everyone.*
- Do promotions earn **loyalty**? Sometimes the feeling of getting a good deal will encourage a customer to return. At other times, they may just "shop around" for the next set of offers without more tangible incentives – such as a voucher on a till receipt. The task is to work out what would most influence a customer's next purchase decision, and devise a way of targeting the customers who are most likely to respond. *Action point: analyse customer and competitor data to ascertain where else customers shop, and why.*

### DID IT WORK?

If the aims of each type of promotion are stated up-front, and key performance indicators (KPIs) put in place, there is less risk of ex-post justification of promotions that didn't work. KPIs also encourage rapid adjustments to failing strategies. Measuring promotion performance isn't easy, of course; but just asking yourself the right questions and putting down your best view as to the answers can be very powerful. This discipline will also highlight information gaps and help you to improve performance measurement next time.

The ultimate KPI should be measured at the bottom line: the change in profit associated with each promotion. That's always hard to identify. Even sales figures may be misleading: a promotion on Dulux emulsion in week one may boost sales, but by the end of week two you might find it had simply brought purchases forward. Meanwhile, what was it doing to your sales of Crown? Add to these challenges the complexities of matching up the relevant cost price figures



*Promotions can be grouped according to their impact on gross margin*

for the stock sold, factoring in any supplier contributions, and you can see how profit-based KPIs can quickly become a headache.

But tracking the change in gross margin for an individual product during a promotion is a good start. The chart shows how this data can be used. These numbers provide a base line for “what if?” questions about cannibalisation, sales time-shifts, and footfall effects; and can help keep focus on the category as a whole, not just on what suppliers want to fund. Unless the third group of promotions shown here have clear wider benefits, they should plainly be turned off. And while the second group may not be costly in margin terms, their objectives need to be clearly defined. Group 1 promotions look like winners. So can more be learned from the mechanics of the offers, and the products they are applied to?

## CONCLUSION

Getting the most from promotions means continually questioning the promotional “portfolio”; being clear about what behaviours you want to change and which customers you are targeting. The right tools can help you to assess which promotions are working, and encourage innovative thinking. New ideas can be put to work quickly, evaluated and extended or switched off. This helps promotions to do their job: catching customers’ eyes and getting them to do something different. These mechanics won’t work everywhere, but asking the questions in this bulletin can help shape a better portfolio.

<b>CONTACT</b>	<b>Richard Bradley</b> richard.bradley@frontier-economics.com
	<b>Phil Maggs</b> phil.maggs@frontier-economics.com
	Frontier Economics Ltd
	<b>FRONTIER ECONOMICS EUROPE</b> BRUSSELS   COLOGNE   LONDON   MADRID
	<a href="http://www.frontier-economics.com">www.frontier-economics.com</a>