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Retail Promotions that Deliver:

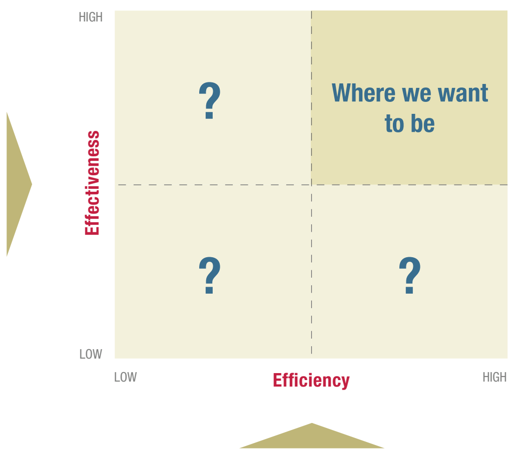
Avoiding the Six Promotion Pitfalls

For many retailers, promotion initiatives, such as flyers, bounce back offers, or loyalty programs, are essential mechanisms for driving sales and building brand awareness. But too often, promotion programs fail to drive the hoped-for lift in sales, and do so in a cost-effective way.

In our experience, opportunities often exist to improve both promotion effectiveness – motivating sales behavior in your customers – and promotion efficiency – the planning and coordination of promotions to minimize cost and rework. But to capitalize on these opportunities, it's important to take a cross functional, end-to-end view of your promotion program to truly see the linkages across the business.

The right promotions for the right segments…

- How well do promotions meet their strategic goals?
- How well do promotions meet the needs of the customer?
- What is the expectation around promotion lift for product and basket?



…done the right way

- Is the promotion process operating as intended in each segment?
- Are there opportunities to make the promotion process faster / more flexible / more dependable / less expensive?
- What is the right governance to sustain better promotions?

Evaluate issues from a top-down & bottom-up approach

Top-down: Are promotions meeting the business' strategic goals and the needs of the customer?

Bottom-up: Are individual promotions performing as expected in both effectiveness and efficiency?

In our experience, opportunities often exist to improve both promotion effectiveness – motivating sales behavior in your customers – and promotion efficiency – the planning and coordination of promotions to minimize cost and rework.

In fact, we've found there are six common pitfalls that frequently derail promotion programs. And, for many companies, addressing these pitfalls through a top-down, systemic approach can lead to a lower cost base and more effective promotion initiatives. In this article, we will discuss a structured approach to evaluate your promotions program and reveal the six pitfalls typically preventing companies from reaching the anticipated program benefits.

EFFECTIVENESS PITFALLS:

Program effectiveness is an evaluation of the success of a promotion program against its stated goals, typically a lift in sales or profitability. To begin, it is important to have a clear understanding of the target segment as well as the mechanism used to promote the desired behavior. A healthy program will have promotion execution explicitly aligned with the promotion strategy, and clear measurement to ensure the effectiveness of each.

Pitfall #1:
Unclear promotion goals and strategy

Overall strategic promotional goals frequently fall into one of two broad categories - to drive incremental profitability or to build the brand. However, incremental revenue is often used as a misguided proxy for incremental profitability. Consider the impact this makes in promotion selection. If success is measured by increased incremental revenue, even low-impact promotions with minimal uplift will be considered successful. But low-impact promotions often cost as much as high-impact initiatives. Armed with the right metrics, retailers should align the organization to target increased incremental profits and avoid falling into the high cost, low impact promotion trap.

Pitfall #2:
Accounting for only partial promotion costs

Promotion planning: Many promotional costs to the business are explicit. Costs such as margin investment or printing costs can be easily tracked and trended over time. But this is just the starting point for many promotion programs. Internal promotion planning and management can be a significant cost that is often ignored. And, if left unattended, these costs tend to grow considerably over time as the number of internal handoffs, rework, and lead times all increase. Many businesses don't have a clear view of the hidden planning costs of their promotion programs and, as a result, allow them to spiral out of control dragging down profitability.

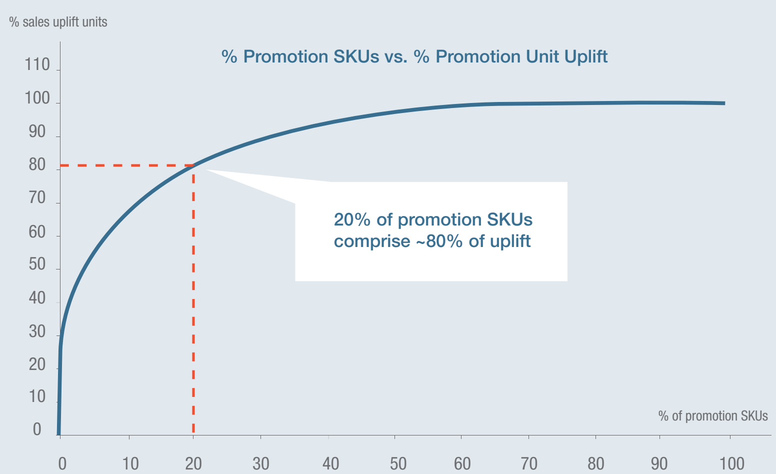
Store labor: Store labor costs are a concern for most retailers. As one of the biggest cost levers, store labor efficiency can be a key to managing overall costs. But oftentimes promotional labor is lumped together with normal work requirements. This prevents visibility into the true efficiency of promotional store labor. Stocking and re-stocking shelves, assembling point of sale material, and tracking stock levels can increase labor hours quickly. In-store promotion execution has a direct impact on sales, brand, and the customer experience, but must be balanced against store labor costs. Having a principle based guide to store labor can help prioritize key activities and manage the cost of execution.

Pitfall #3:
Running too many promotions

With so many promotional channels available to retailers today, it is easy to find categories chasing 'scraps of revenue' - small slivers of opportunity. But the reality is that having too many promotions can lead to cannibalization, drive up hidden complexity costs, and lead to customer confusion. And, in our experience, only a small portion of promotions (~30%) actually drive the majority of promotion sales (~70%). While a high level of promotional activity may be essential brand building for certain segments (e.g., discount price perception), in general, promotions are most effective when

Case Study 1:

A leading US grocery chain was focused on sales growth. Each category regularly came up with new promotions to drive sales. But promotion goals were not clearly defined across the organization. As a result, there was no clear picture on the success of each promotion, and low-impact promotions endured. The overall number of deals in each category steadily rose, as did the planning and execution costs. In the end, a limited number of promotions drove the vast majority of promotion uplift, while the rest added complexity and cost to the program.



customers can clearly see the value proposition. Setting a clear promotional strategy and avoiding the temptation to do too much can help craft a more coherent message to the market.

EFFICIENCY PITFALLS:

Once the program is set up to effectively deliver against the promotion goals, you are able to assess critical performance indicators like lead time, flexibility, dependability, quality, and process adherence. In these areas you will find opportunities to reduce rework, non-value-added time, and excess handoffs across the entire process, from corporate planning functions all the way to in-store execution. Attention should be paid to the interfaces between functional groups - the relationships between Commercial, Space Planning, Brand Management, Supply Chain and Stores - as this is where complexity often hides.

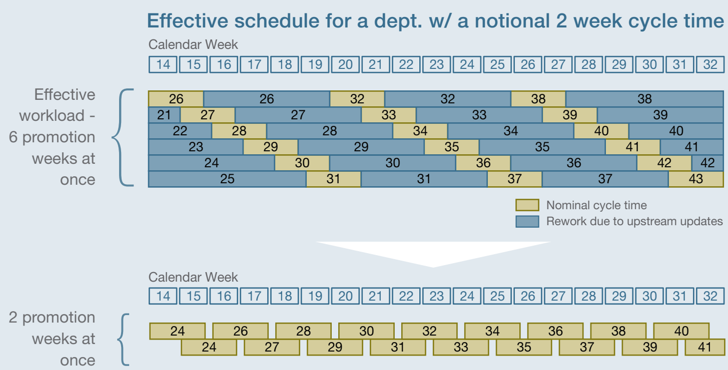
Case Study 2:

A regional, health focused, retailer had grown organically over the years - and so too had the promotion process. What started as a simple program had grown with new contributors, increased handoffs, and unnecessary steps. Weeks were added into the planning lead time as departments came to expect inter-department information transfer to be incomplete or incorrect. Additional weeks were built in to account for process deviations, which became the norm rather than the exception. A lack of process controls allowed a straight forward process to double in time and non-value-added work, losing all efficiency.

Long cycle time and numerous reviews reinforce long duration & poor process efficiency

Due to long process cycle time, groups must ***manage multiple promotion weeks at once***. Long cycle time creates more opportunity for changes. Ripple effect & resource demand ***causes additional changes & rework***

'Just in time' deadlines and increased clarity of roles reduce the NVA work and allow for more focus and shorter lead times



Breaking the negative reinforcing cycle requires:

- 'Just in time' process design
- Clear accountabilities, controls
- Accurate information at the right time
- Adherence to plan – infrequent changes after sign-off

Pitfall #4:
Lack of process ownership

Successful promotion processes require seamless inputs from multiple points in the organization (e.g. Commercial, Space & Display Planning, Supply Chain, Brand). Executed poorly, multiple touch points often result in unnecessary handoffs, excessive rework loops, and a general lack of effective communication. Without the proper process governance in place, contributors tend to "negotiate" the process rather than optimize for the overall good of the business. In our experience, establishing clear end-to-end promotion process ownership will ensure accountability for a higher level of performance and adherence to the promotion critical path across an organization.

Pitfall #5:
Not measuring results (feedback loop)

It's nearly impossible to predict how a promotion will perform without understanding how similar promotions have performed in the past. Yet, a major pitfall we often see is the failure to accurately measure promotion effectiveness. Without a defined measurement and feedback process, retailers cannot learn from the past and there is no consequence or accountability for planning ineffective promotions. While the goal is not to discourage creativity, certain processes must be in place to measure promotion success and drive continued improvement overall.

Sample effectiveness metrics:

- Incremental profit for each promotion (incremental revenue - incremental cost)
- Total # of promotions, per level of impact (i.e., high, medium, low impact)
- Program ROI

Sample efficiency metrics:

- Process cycle efficiency (value add time / total lead time)
- Percentage of process deviations (i.e., late or last minute changes)

Pitfall #6:
Challenges with promotion forecasting

One of the most challenging tasks in retail is the production of consistently accurate demand forecasts for promotional items. This becomes exponentially harder when you have a high number of SKUs, many of which are potentially considered substitutes for one another. Without the proper tools or approach, forecasts can be subject to high levels of variation causing inconsistent stock levels. Category, Space Planning and Supply Chain leaders must be in sync to avoid overstocks (waste, inventory & holding costs), out-of-stocks (lost sales and brand erosion), and high transportation costs (inventory management across stores, rush deliveries).

Conclusion:

We've discussed several of the common pitfalls we find in promotion programs, but this is just a sample of issues that could exist. What's most important is the approach used to evaluate your program. Starting with a cross-functional, top-down view to identify opportunity areas will help identify both effectiveness and efficiency opportunities. Evaluating from both perspectives promotes a holistic diagnosis of the overall health of your program. Once issues are identified from an organizational standpoint, and opportunities are quantified, a targeted bottom-up approach within the high priority areas will yield the biggest lift. Done correctly, addressing high value areas can lead to quick win opportunities and result in more effective and efficient overall promotion programs.

Indications of promotion *effectiveness* issues:

- Majority of promotion revenue (>70%) comes from very few (< 30%) promotion SKUs
- Overall number of promotions per week has steadily grown over the years, as has the investment
- Number of promotion types has increased over time
- Business leaders have different perspectives on which promotions are successful

Indications of promotion *efficiency* issues:

- The number of people involved has increased over time, without a change in scope
- Lead time has grown to accommodate late changes or incomplete information
- Promotion changes essentially lead to rework
- Inventory levels have increased as turns have decreased over time

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About Wilson Perumal & Company:

Wilson Perumal & Company is a premier management consulting firm and the leading advisor on how to manage and capitalize upon the complexity of today's world. To learn more, visit www.wilsonperumal.com.

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