



## Benefit-Based Promotions: How To Capture Real Value Without Giving Away The Store

For many retailers, the past few years have been brutal. Consumer spending has been pinched by stagnant wages, deleveraging of household debt and a slow economic recovery. Retailers have responded with a heavy dose of aggressive promotions, but this has trained consumers to expect great deals every time they shop. Meanwhile, the continued shift to online shopping has given consumers a constant reference point on value and conditioned them to routinely consider a much broader set of options. The result: Many retailers have become addicted to a perpetual cycle of decreasingly effective promotions that are putting a heavy drag on margins. For example, when we examined holiday promotions in recent years, we often saw retail chains cut prices by 30-50% or more. These deep discounts boosted retail sales for some, but the impact on operating profit was frequently disastrous.

In our experience, three common shortcomings befall retailers' promotions:

- **Annualizing.** Responding to the challenge of an anniversary promotion by replicating last year's discounts as a default baseline—and then often cutting further.
- **Conditioning.** Running promotions so broadly and frequently that consumers believe the ticket price isn't real and buy only when there's a sale.

- **Scatter-shotting.** Absent strong internal capability to analyze what is working and what is not, many retailers punt on promotional effectiveness and go both broad and deep to drive traffic.

How can retailers avoid these traps and the inevitable "race to the bottom" that accompanies them?

Clearly you can't stop promoting; after all, if you cut out deals, and your competitors continue to offer them, your customers will simply go elsewhere. Nor can you afford to wait for the promise of a fully optimized 1-to-1 promotion engine; there is simply far too much at stake in the short term.

That's where a benefit-based promotional strategy comes in. With benefit-based promotions, retailers figure out which promotions actually pay off with certain customer clusters and situations, generating truly incremental sales and profitability. Such a strategy requires an understanding of the retail category, consumer shopping habits in that category, and the competitive landscape. The strategy must be based on the simple fact that different consumers will react to different promotions on different products at different times in different ways.

Rather than blindly offering deals, retailers need to consider how customers behave when they shop, and identify the promotions that will achieve the desired response. Figure 1,

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**Figure 1**  
Benefit-based promotional strategy: What drives consumer response

KEY DIMENSION	PROMOTIONAL STRATEGY
Time of year	<p><b>Fish when the fish are biting.</b></p> <ul style="list-style-type: none"> <li>Vary offers by season to drive market share in months in which consumers have “high receptivity” and reduce promotional expenses in “low receptivity” months.</li> <li>Also focus new customer activities within these high receptivity months to maximize return on investment (ROI) and increase revenues.</li> </ul>
Market strength	<p><b>Use discounts to offset competitive weakness.</b></p> <ul style="list-style-type: none"> <li>Maximize ROI of promotions by tiering markets based on strength.</li> <li>If positioning vis-à-vis competitors is weak, consider relatively higher promotional activity as deals may spur consumers to drive further or make compromises.</li> <li>If positioning is strong, be relatively judicious with discounts so as not to waste promotional dollars.</li> </ul>
Product category incrementality	<p><b>Don't give away the store, promote selection of your core.</b></p> <ul style="list-style-type: none"> <li>Favor category-specific promotions to maximize incremental sales, rather than offering across-the-board deals.</li> <li>Analyze category elasticity and trip drivers to identify where promotional dollars have been wasted across departments.</li> </ul>
Vary by objective	<p><b>Define what you are trying to do first, then promote to achieve that goal.</b></p> <ul style="list-style-type: none"> <li>Define clear rules around when to use certain promotions to drive specific results.</li> <li>Use deeper promotion to acquire new customers or reactivate existing ones; stick with narrower and less severe discounts elsewhere.</li> <li>Vary the channel and breadth of promotion depending on the objective.</li> </ul>

based on L.E.K.'s experience, highlights four key promotional dimensions common to many retailers and brands.

### The Benefit-Based Promotional Strategy

With a benefit-based promotional strategy, the goal is not just higher same-store sales, but more profitable and truly incremental sales. As the table above articulates, considering the key elements that drive consumer response is crucial. At certain times of the year, for example, consumers are more likely to shop (i.e., they're “in the market” to buy), so discounts during those periods are more likely to spur incremental sales. Retailers also may be able to use targeted promotions to shore up geographic areas where they are weaker than the competition. A compelling offer, for example,

may prod shoppers to drive a little farther to their store, or to overcome some loyalty to a competitor.

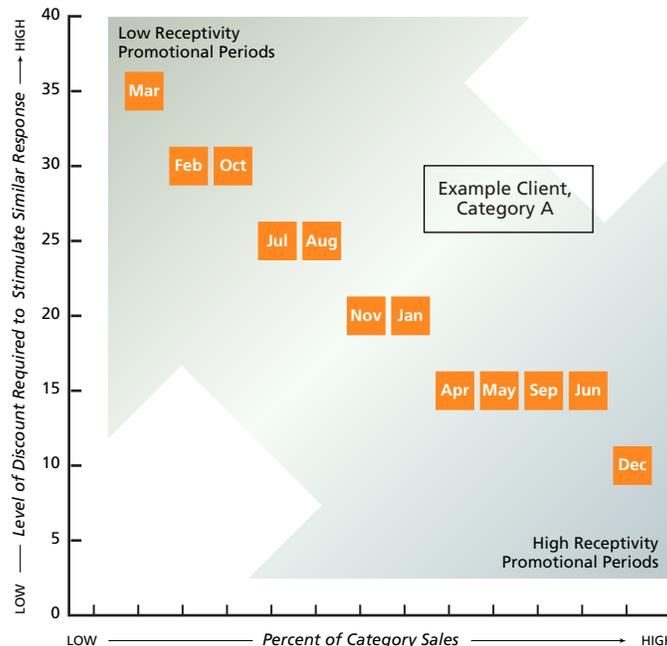
Playing the odds means that retailers also need to figure out when promotions aren't working, and stop throwing away money by discounting products that consumers likely would have bought at full price. We have seen this be a significant

source of spend recapture for clients across many consumer-facing sectors. This requires a new mindset for many retailers that have historically passed out promotions based on fear.

Figure 2 demonstrates how a seasonally-driven retailer would use historical data analytics to drive its promotional strategy, increasing ROI by being in tune with consumer shopping behaviors.

How successful can such a benefit-based promotional strategy be in the real world? Consider how one

**Figure 2**  
Don't fight the calendar

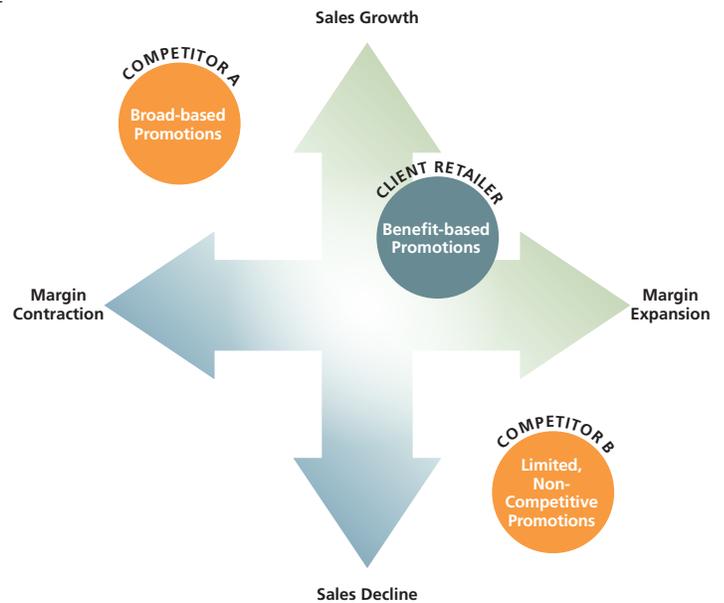


Source: L.E.K. analysis

specialty retailer increased comparable stores sales by more than 5%, while also improving gross margins, during the recent holiday season. Essentially, the retailer focused its promotional activity and eliminated discounting that didn't drive incremental sales and profit. Figure 3 shows the high-level results that L.E.K.'s client achieved versus the direct competition.

While the use of new analytics to drive true personalization and targeted promotions remains the holy grail for retailers to optimize promotional dollars, it requires a substantial investment in technology and people. In the meantime, retailers can't just sit back and hope for the best. A benefit-based promotional strategy is a smart way to make significant progress in the interim. Savvy promotions based on the key triggers of consumer response can bring in new customers and get existing ones to buy more without hurting the business's profitability or the brand's identity.

**Figure 3**  
The payoff of a benefit-based promotional strategy



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