

Retailers: Making Promotions Pay Their Way

If a sound retail marketing strategy ensures that customers develop strong long-term loyalty to a retailer, then promotional campaigns are like a series of short-term skirmishes for customers. However, strategically sound promotions do more than just create awareness and achieve short-term sales lift. If done properly, they can be a powerful source of direct and sustained earnings improvement and build loyalty with customers. While promotions can also be used to do things like liquidate inventory, this article focuses on using promotions offensively rather than defensively.

There are two critical elements to a successful promotional campaign. The first is that it has a strategic focus. All components of the campaign should be calibrated against a clear strategic intent. The second is that it is anchored in, and built around, the most effective “platform” (i.e., the right categories, brands, products).

Having the Right Strategic Focus

Retailers use promotions for many different purposes: to drive store traffic, launch new lines, reposition existing products, re-engage lapsed customers or attract new ones, etc. While a well-designed promotional campaign can deliver any of these benefits, it’s just about impossible to achieve them all simultaneously. For example, a promotion that best drives basket value is not necessarily the right campaign to build footfall traffic.

We believe the best promotional campaigns use “right-to-left thinking” – namely, starting with a specific goal for the campaign and working backward to design all the elements to make sure everything is aligned.

Rather than try to accomplish everything with their promotions, best-practice retailers establish clear operating priorities. In fact, one of our clients improved the effectiveness of its marketing calendar by “rationing” promotions each month and requiring category managers to “bid” on

slots. Since the client’s key criterion was alignment with its strategic priorities and key performance goals, category managers were required to understand and demonstrate how well their promotions would help achieve the company’s strategy. Campaigns with the highest gross profit dollars alone didn’t necessarily take precedence. Rather, priority was given to those that would most clearly support the strategy.

Figure 1 illustrates how campaign objectives may require different program designs based on a clear understanding of the strategic focus and desired results.

Choosing the Right “Platform” for the Campaign

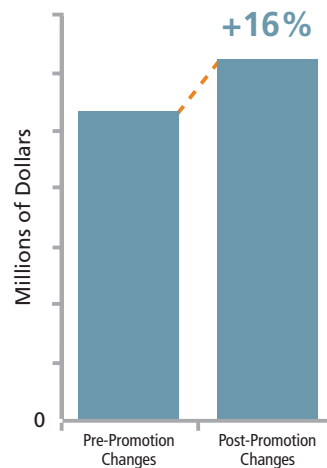
Designing an effective promotional campaign requires making the right decisions across a number of dimensions (e.g., item, offer, timing, communication), all of which have to work successfully in concert. Nonetheless, the most critical decision is choosing what exactly to promote. Getting this “platform” correct – be it a product category, brand, or simply a specific SKU – is critical given that it is the centerpiece of the campaign.

Figure 1
How Key Objectives Dictate Program Designs

| Strategic | Campaign | Funding | Non-Store Advertising | Store Advertising | Key Measures |
|--|---|--|--|--|---|
| <ul style="list-style-type: none"> • Create new reason for customers to visit stores | <ul style="list-style-type: none"> • Launch new product | <ul style="list-style-type: none"> • Supplier rebate (volume) • Promotional collateral delivered direct at store | <ul style="list-style-type: none"> • Supplier collateral only • Supplier TV and radio slots • E-mail campaign | <ul style="list-style-type: none"> • Shelf talkers • Staff badges • Supplier check-out counter promotional collateral | <ul style="list-style-type: none"> • Volume sales during promotion • Halo effect of post-promotion volume |
| <ul style="list-style-type: none"> • Reaffirm best-value offer; reduce switching risk | <ul style="list-style-type: none"> • Offer the best price on product | <ul style="list-style-type: none"> • Internal funding | <ul style="list-style-type: none"> • Newspaper insert/direct mail • E-mail campaign | <ul style="list-style-type: none"> • Front door only | <ul style="list-style-type: none"> • Same-week product volume |
| <ul style="list-style-type: none"> • Build basket value from existing footfall | <ul style="list-style-type: none"> • Two items for the price of one | <ul style="list-style-type: none"> • Supplier rebate for first 100,000 "free" units | <ul style="list-style-type: none"> • None | <ul style="list-style-type: none"> • Window stickers • Shelf talkers • Checkout staff prompt customers | <ul style="list-style-type: none"> • Average basket value of sales that include target products |

In choosing the right platform, the retailer must concentrate on how to influence consumer purchase behavior in a profitable way. This requires a thorough understanding of the role that an item or items play in your store: What does the item mean to your customers? How do the promoted items relate to other products in the eyes of your customers? How do sales of this item or these items differ by the type of store or retail environment? If you start with a detailed understanding of the platform and what it means to your customer and your store, then it's much easier to coordinate the other elements of your promotions campaign effectively.

Actual Gross Profit \$ Uplift Over Full Cost (Pre- and Post-Promotions Changes)



L.E.K. completed a diagnostic review of promotions at a leading convenience store chain and made recommendations on how to get more value from the campaign calendar. A year later our follow-up review identified a 16% improvement in promotional gross profit, largely achieved by eliminating weak campaigns and applying tighter forecasting and campaign selection disciplines.

Once you've clearly defined the strategic goals of the promotion, it's important to ask yourself the following questions to help in selecting the right platform:

- **How does the item relate to the category?** Some items can grow a category during a promotion. Others will cannibalize sales from other items in that category. When a dominant power brand goes on promotion, its appeal can be so strong that it consumes sales of other products. Unless properly planned, the promotion can actually shrink the value of sales in the overall category. Sometimes an offer on a strong number-two brand can grow the category, and if suppliers are prepared to offer retailers promotional support, then these can be very profitable campaigns for the store.

To ensure success, take a close look at your sales history and estimate the potential macro effect on your overall sales and margins, both within the category, and throughout the store. It doesn't mean you shouldn't promote a power brand, but it may mean you should seek more supplier support in terms of rebates, margin, or advertising support contribution.

- **What does this promotional item say about our store?** Promotional campaigns are designed to get a customer's attention, so it's critical that the item and the offer are consistent with the store's value proposition. One of our clients was an upscale grocery store that was struggling to maintain sales momentum after a successful store opening campaign. We exam-

ined their promotional strategy and found that after a couple of weak sales periods the marketing team had panicked. To bring people back to the store, they emphasized killer discounts on everyday grocery staples. Of course, the store now looked like every other supermarket, and customers forgot the uniqueness of the core offer: a seductive range of high-quality foods.

A new promotion strategy was developed to remind the customer about freshness, quality, and choice. Local newspaper inserts advertised Saturday morning cheese tastings; in-store posters told about the origin of the pasta products; and suppliers contributed "sample packs" that were handed out to induce trial of a rock salt condiment. One newspaper advertisement simply showed a lusciously photographed tray of freshly picked strawberries and the store address. The items chosen were selected to rekindle what was distinctive about the store.

The lesson here is that promotions should reinforce the marketing strategy, not confuse it. Choose items as ambassadors of your value proposition – whether it's unbeatable prices on popular brands or an item that is unique to your store.

- **What kind of store does this item best serve?** The same product can work differently in a different store format or location. Take soft drinks for example. It may make sense to promote a supersize offering in a suburban setting where customers are likely to be driving to the store, but in

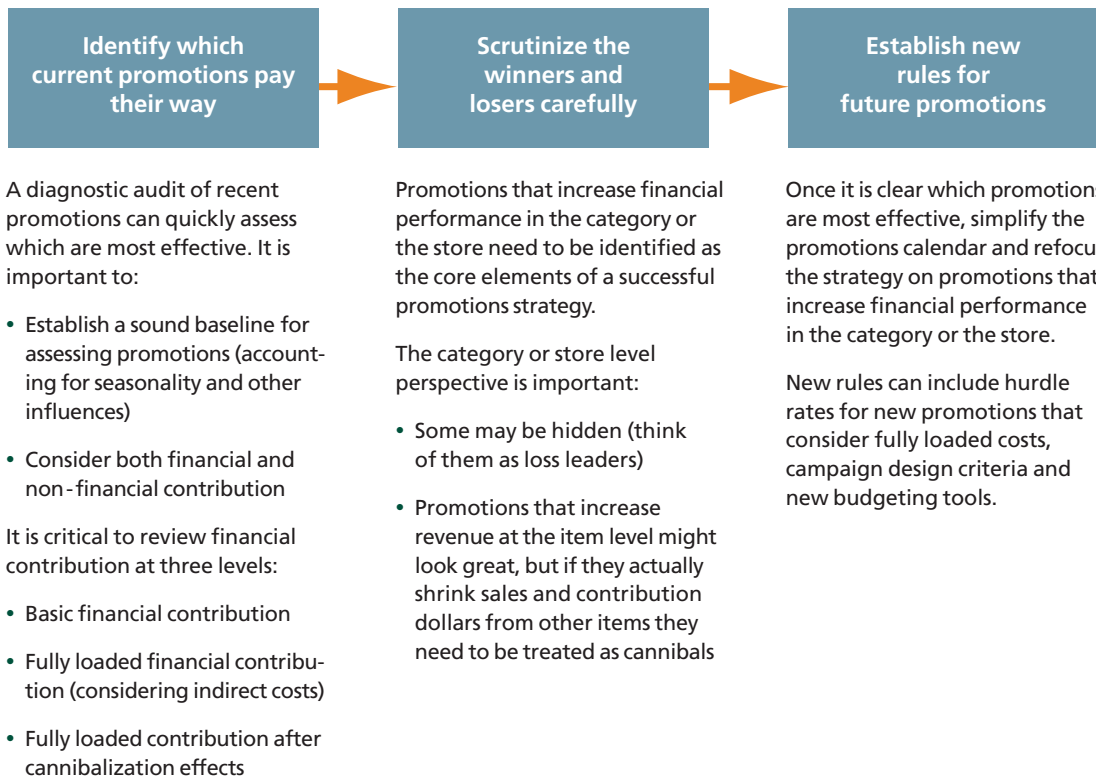
Eight Key Areas to Consider in Designing Your Promotional Campaign

1. What is the overall strategy the promotion must support, and what specific goals do we want to achieve?
2. What is the best platform for the promotion – which categories, brands, and products?
3. What is the best offer (e.g., price discount, "two for one") for the promotion?
4. Where should we run the promotion – in all stores, in some stores, in some departments in some stores?
5. When, and how often, should we promote?
6. What is the best way to communicate the promotion? What is the right combination of media, shelf location, external signage, in-store displays, etc.?
7. How can we ensure that the promotion generates a return? Is the minimum expected lift in sales realistic? Do we need vendor support? Are there longer-term benefits that outweigh shorter-term metrics, and if so, what are they?
8. How will we monitor performance so that we can refine and improve future promotions?

an inner-urban store the promotion could fail because customers don't want to carry bulky items.

You need to ask yourself how an item performs within the environment of different stores and to be prepared to segment and run promotions tailored to different formats and locations.

How to Evaluate Your Promotional Campaigns for Success



- **Product or price?** It's important to recognize that, for some circumstances, promoting – but not discounting – an item in the right environment can create full-priced incremental sales. For example, in the midst of a store-wide promotion, a retailer can dedicate an end-cap display to a well-known brand at no discount and create additional sales at full margin. In other words, it is important to remember not to overpromote – even in other categories – when you have already created a reason to buy. Price can have little correlation to increased volume during a promotion if the right brand/product promotion is in place.

- **Can promoting one item help sell other, higher-margin items?** Sometimes it's about price, but it is worth remembering that a great price on a desirable item can be both a strong driver of traffic and seller of other items in the merchandise mix. For example, if you surround a discounted iPod with a full range of complementary items such as headphones, portable speakers, and chargers, you may also increase sales of a variety of full-priced items. The point is to not forget that co-buys or related purchases are important opportunities to get substantial value from your promotional campaigns.

Conclusion

Promotions can play a critical role in achieving the objectives of a retailer's marketing strategy. However, their ability to do this effectively and profitably requires that their design be strategically sound. This includes having the right strategic focus around which all elements of the campaign are aligned. It is also important to select the proper platform on which to build the campaign. Doing this properly is not trivial and requires a firm understanding of the relationships between the items in your store and how they influence customer behavior.

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