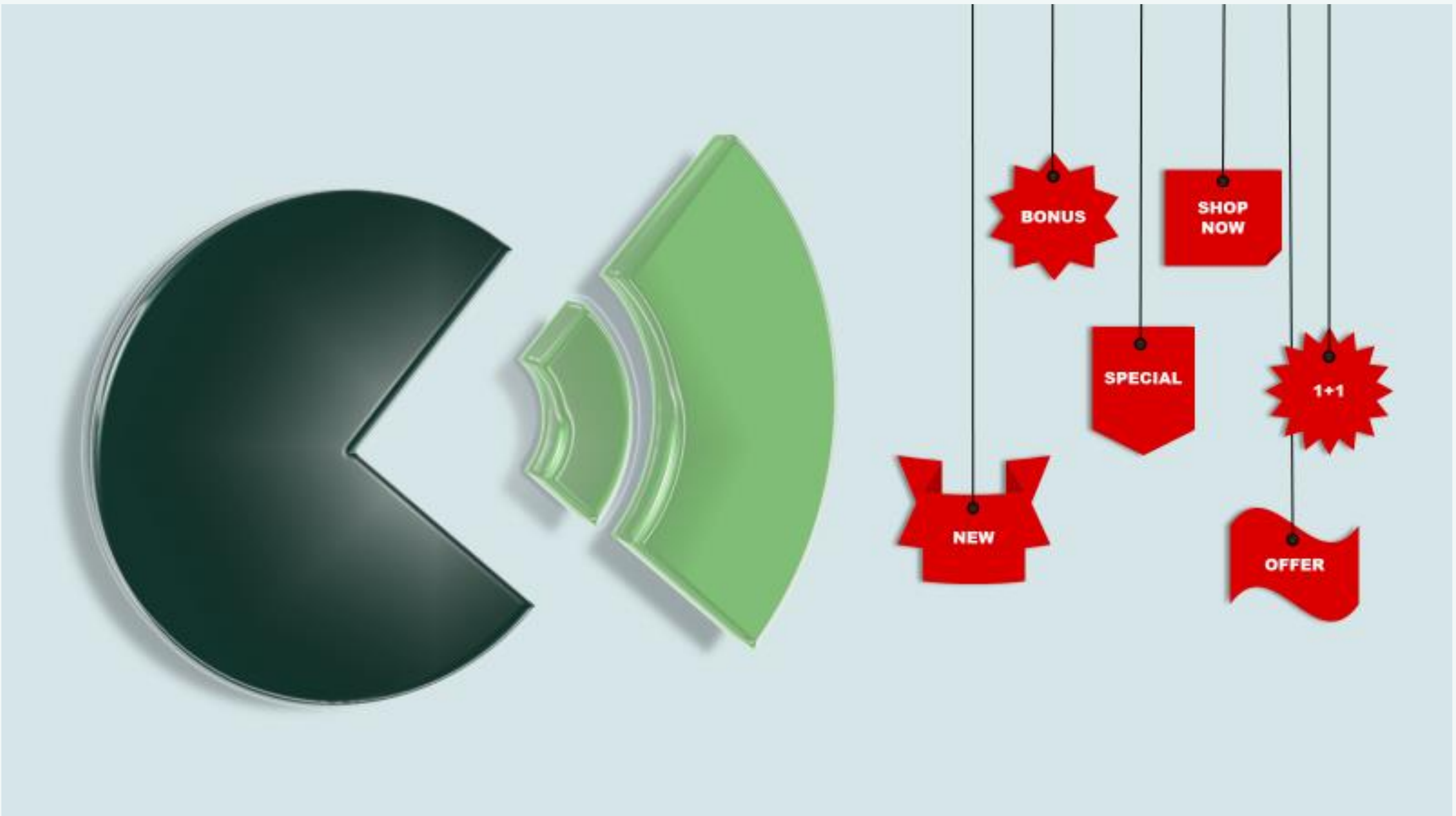

New & improved: time to rethink promotions

Setting the scene

It is time for Retail and Consumer Product companies to rethink and challenge the phenomenon known as promotions. A valuable opportunity lies in re-assessing and transforming the role of promotions and how they are executed to increase the company's added value: better positioned, effective promotions based on both skilful creativity and thorough analyses and intelligence.

Promotion is one of the famous Ps out of the Marketing Mix of Philip Kotler (next to Product, Price and Place/channels). It was originally all about how the proposition was communicated (or advertised) to the customer, with the intent to create awareness, inform, spark desire and/or persuade to a purchase. Which media, which story.

When we are talking about promotions in the context of this article, we mean:

time-constrained outings including special offerings around specific product(groups) or services, or the brand in general – with the purpose of favourably influencing the positioning perceived by the customer.

Better positioning would then translate into e.g. more footfall, increased share of wallet, more loyalty, more recommendations, and a better bottom line.

If you take this quite broad definition, you can see that lots of things then can be considered part of promotions – and can be effective – from temporary price reductions only advertised on the shelve, to using special displays and flyers, to televised commercials, product placement in movies or on "influencer channels" or even sponsoring sports events or supporting charities. In most retail organizations nowadays, however, when we look at the regular promotion process and outings these are almost synonymous with setting and shouting about a special price in a leaflet or through assigning an endcap in store.

Consumerism has led to a race to offer everything everywhere at any time. Stimulating consumer spend to drive a mirage of traditional economic growth. In a time where consumer trust and loyalty is low and many markets are quite saturated, prices seem to have become the way to seduce customer to buy yours instead of that of the competitors.

Race to the bottom

With this spotlight on price comes a focus on cost for the retailer: hard figures. It is important (but far from commonplace) to quantitatively assess true promotional costs: this goes beyond the direct effect on the margin by a price reduction (both on the sales and buying side) or assessing the marketing materials spend. The additional work and space for supply chain and store operations to effectuate the promotions and dealing with different volumes are often overlooked or taken as a blanket figure – not differentiated beforehand and hardly ever taken as a lesson-learned.

The focus on tangible direct costs is also diminishing "vague" creative topics. The creative aspect is something that management shies away from in general as it is (falsely) deemed less manageable ("more of an art than a science"). It is no surprise that most Promotion Management tooling therefore also focuses on determining optimal promotional prices and quantities and the messaging itself is hardly ever core to these solutions.

The race to the bottom is, of course, finite. Current social, economic and other market trends and movements should serve as an additional sign that shifts from "**price**" to "**value**" and from "**more**" to "**less but better**" may lead to more long-term success. Growth may need to be redefined towards development on other KPIs instead of just quantities and euros/dollars/....

As mentioned, before it is worth reassessing the meaning of promotion management in general, or in your organisation in particular. Improving promotions requires organisations to get better at understanding what matters in successful promotions, running a tighter ship and adhering to strong and professional processes and practices. Of course, it is a challenge to make changes, and we see many organizations struggling with that in our daily practice.

Taking these experiences, in the next section of this document we have outlined the common use of the processes involved in promotions (management). To this we have added outlooks or sidesteps to broaden the perspective – those and our outlook and conclusion in section 3 is meant to challenge current thinking. In our experience, the world only gets better by doing that.

Please use this document to inspire yourself and your practices, we welcome any feedback and additions!

Promotion Process Model

The process model depicts the processes and process groups that are involved in the development, execution, management and evaluation of promotions. We've put the process in a (chrono)logical order – end-to-end, although we realise that there are iterations jumps back and forth between the processes in practice.

On the highest level the promotions end-to-end process runs from target setting through planning, management and execution of the promotions through to evaluation and settlement. This is of course enabled by setup and monitoring processes, but these will not be addressed in detail in this article.

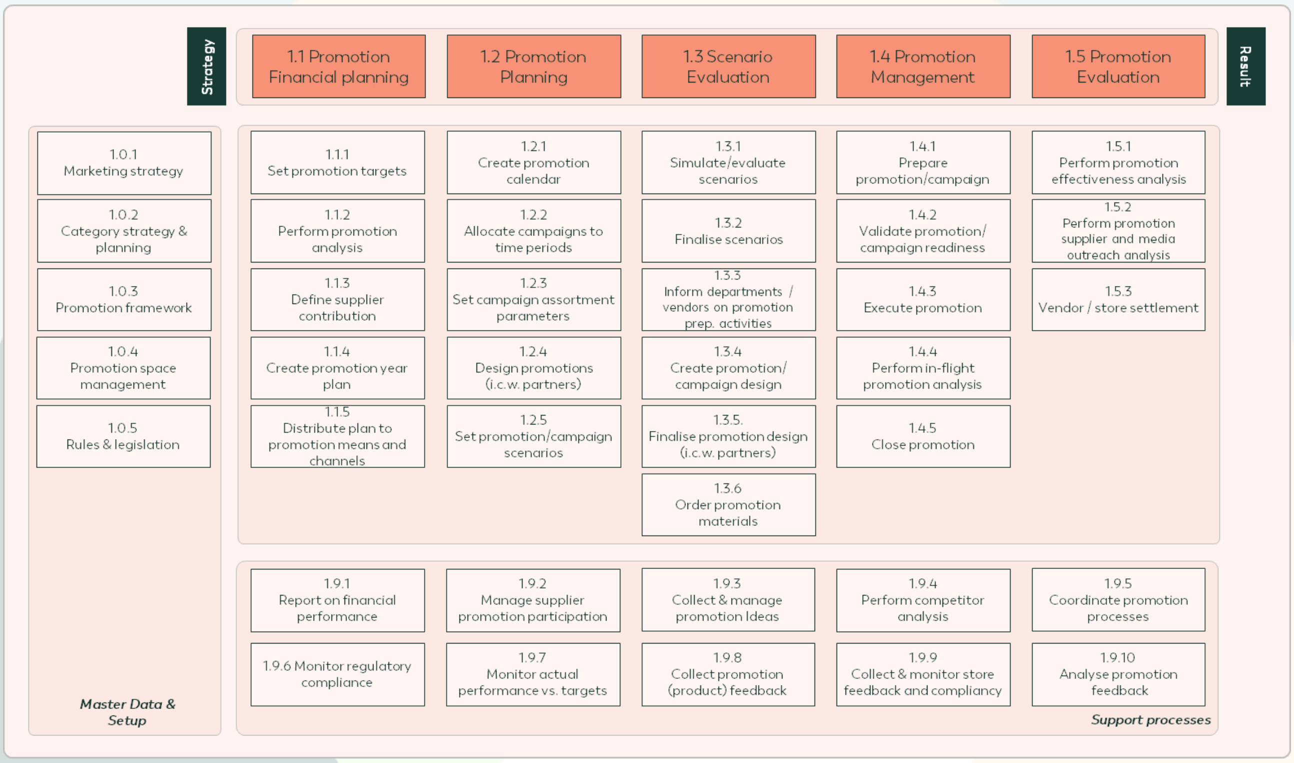

Figure 1 Promotion Process Model - end-to-end

We'll break down each of the main process groups below:

1.1 Promotion financial planning

The processes under promotion financial planning are aimed at establishing and formalising clear targets and corresponding budgets and timelines for promotional activities. Additionally, these are aligned and agreed with different internal and external stakeholders and allocated to categories, locations/channels. Within this first set of processes, we deal with the longer-term perspective, aligned to the company's overall strategic cycle and budgeting processes.

The focus is on determining the financial and non-financial targets that the promotions need to enable – targets and KPIs can be set for promotions themselves, but they need to contribute to the bigger picture of the organisation and its stakeholders. Generally, the timeframe here is a season or a year.

Commonly, last year's plan and its outcomes are at the basis of this process. What did we intend to achieve, what worked and - importantly - what didn't. Thorough analysis and good analytics are crucial in supporting the business to determine targets. . However, rehashing last year's playbook and outcomes + x % for this year does not do the trick. What is different for this year, in our positioning, ambitions and capabilities and what has happened to/in the world around us? And boy, a lot is happening in today's world!

Beyond financials

The process group is called "financial" planning, and in current practices the KPIs are mostly financial in nature (sales, margin, spend). There is, however, certainly room and growing appetite for including more and different (leading) indicators that the company may improve through promotions: net promotor score (NPS) is an obvious one for most marketeers. Others may be more in line with societal trends such as positioning around health or sustainability – from increasing the (share of) wallet on healthy foods to more energy efficient or regenerative or recyclable products – or repairs (circular) instead of replacements.

The division of the targets (and budgets!) over different categories, themes, marketing vehicles and channels needs to be in line with the company's positioning objectives. This is tightly linked to assortment and channel planning as promotions are just one part of the mix. The complexity of aligning plans bottom-up, top down and consistently across multiple dimensions of the organisation/proposition is laborious and complex. This is where technological solutions may be put to good use: based on analytics, applying rules for distribution, detailed breakdowns and apportionments.

Overall agreements or contracts with external parties are also initiated here. For product suppliers e.g. to ensure harmonised efforts on messaging, any financial agreements and commit product availability to meet the promise to the consumer. But think about reserving airtime and advertising space well ahead of time: buying this "in bulk" opportunistically to be used over a longer period may be more economical.

Specifically on media: social media are often considered relatively simple, cheap yet far reaching way to get a message "out there". Social media response is however volatile and most importantly easily spinning out of your control. Ensuring a consistent and positive voice on these channels is therefore not something "just for promotions" taking promotions in the narrow sense of the word – not Kotler's). Social media is an extension as well as an influence on the customer's perception of the retailer.

Currently, most targets in promotion management are aimed at achieving a certain boost in turnover (of a product group - short term) to gain market share or share of wallet while retaining a set margin. Increasingly rules and regulations (e.g. around dumping[1], or advertising aimed at children) or strategic repositioning bring in additional targets that are less straightforwardly financial – but should of course contribute to overall (and long term) value creation. If indeed promotions are about communication, for most retailers the story these days has a lot of room for improvement to be about more than price and quantity to maintain (or increase) relevancy and loyalty.

At the end of 1.1. we have the high level framework and ruleset for the promotional setup in the later processes

1.2 Promotion planning

Now that the targets and objectives are clear and aligned with all stakeholders on the overall level, next is the way to fill these in through a detailed plan(ning).

A promotional calendar is set as a first step. Generally, themes are set for specific times in the year (linked to e.g. holidays or special events) for which campaigns can be organised. Campaigns are an aligned set of outings and offerings, over one or multiple channels and locations – getting a consistent message across to achieve clear objectives. Campaigns may have different lengths in time, e.g. a "spring" campaign may coincide with an "Easter" campaign. They may even involve some of the same product groups. Consistency in the messaging around the overall proposition is therefore key.

Putting the campaigns and promotions together means allocating the products (groups) to these. This includes the association of the pages and page positions in a flyer/leaflet, on billboards or newspapers and magazines in the traditional printed media, but also on socials or "Google" (et al.) campaigns and the banners on your own website, app or newsletter. Marketing and

[1] Dumping is the practice of selling goods below their cost price – previously often used as a means to draw in customers and generate cross-sell on other profitable products. It is illegal in countries such as Belgium. In this and other countries, price reductions outside specific "sale" periods are also prohibited on certain product groups.

promotions have become a field lab for human psychology and behavioural science.

Creating a story

In this process, setting the right pricing, is just one of the elements the promotions are built on. It's a given that the pricing needs to correspond to the value the products/services represent to the consumer; which makes good promotions focus more on highlighting the products features, use and value in a good story than its price. Even temporarily highlighting specific products (at their normal price) in creative and appealing ways (both in store and in advertising), has proven to be an effective strategy to drive footfall, sales and general brand perception. It may also help in telling broader stories around the product (or the company) that drive more emotional connection and with that: loyalty.

Lowering the price of or forming other kinds of special offers around products always has more effects than just related to that product's price elasticity – and retailers need to be at least aware of these to make conscious choices that do not just erode their margins. You want to avoid customers just doing cherry picking - only loading up their baskets with promoted products. In addition, there are the halo and cannibalisation effects to consider – the items that either ride along on the additional sales of the promotional item or are sold less as they are a substitute for the item that is promoted.

Going beyond

Thorough understanding of sales patterns is key here – we've seen cases where items are given a price reduction more often than the average usage period of the product in any household. It might then as well never be put up for its full price – avoiding the hassle (and costs) of changing the price-tags and placement. Retailers should be aware of the consequences of setting a price, especially in combination with the presented story. Knowledge may be gathered through years of tenure, though with the last decade's developments of data science, analytics could be another driving force of price determination – in both cases: results from the past are never a guarantee for the future.

Based on all input gathered (from a variety of stakeholders) different combinations of promotions and campaigns are put to scenarios. These will later be evaluated and analysed on feasibility and effectiveness to reach the set targets. Context elements may be part of the scenarios: depending on an external event, scenario A or B will be chosen, but both runbooks are prepared. Typical situations here could be how well the national team performs in the upcoming championship, or, less creative: what if our competitor does xyz.

1.3 Scenario evaluation

Scenarios are scrutinised as the next step in the process. Feasibility, likelihood, costs, value delivered, and impacts are simulated and validated. Of course, the promotions need to adhere to the framework and rulesets set by the organisation to ensure brand consistency. This means respecting category roles (and their associated positioning and messaging) and pricing strategies. It also requires understanding halo and cannibalisation effects, space and logistical impacts of promotions. Please note that 1.2 and 1.3 may be part of a few iterations – scenarios will be adjusted and checked again depending on the outcomes or changing market circumstances.

Doing the numbers

Understanding the impact and effects of the types of promotions[2] in a campaign is a complex matter. So much is going on at any given time (your activities, but also those of your competitors or just the world in general) that the baseline is hard to establish. Without a baseline, how do you assess whether your promotional activities actually delivered that boost? Gathering and priming lots of data and using sophisticated algorithms to get to those insights is becoming more attainable for most retailers. Data crunching platforms have become cheaper and easier to come by, but more importantly – since most retailers do not have a squad of data scientists – ready-made solutions that have this ability are also becoming more commonplace. Here, the retailer still should have solid capabilities around the comprehension of and clear guidance on the KPIs you want these

[2] E.g. special offers, price reductions, outings in media, collaborations or associations with other stakeholders.

systems to evaluate and optimise for in the scenarios – and, of course, have sufficient and correct data.

Once evaluated it is time to finalise the scenarios and start preparing for the execution by designing the promotions in more detail. This includes the design of promotional materials, from print to other media. Again, 2 or more versions for the same period may be detailed out, to account for that win or loss of the championship or other external event or trigger.

All aboard
As part of this planning process franchisees (or other outlets) may need to be involved. Depending on the retailer's operating model and franchise arrangements, stores may "sign/opt in" on promotions. Deciding whether they want to take part and/or which quantities they commit to. This influences the overall quantities, but also the spread of the communication of the campaign.

At the end of this stage, a sign off on the finalised design takes place. With that, all (internal) stakeholders understand and commit to their role and actions to make the campaign run according to plan and promotion materials and services can be ordered. This therefore also includes the final contractual agreements with suppliers.

Objectively and quantitatively assessing and evaluating the scenarios involves a lot of number crunching. The adoption of sophisticated tooling for promotion (and price) optimisation and management that supports the handling of all of this is not always smooth. These analytics based solutions may come up with suggestions that feel counterintuitive. That causes reluctance to "trust the system" for those that either see putting together promotions as an art, or who simply do not have the vast computational capacity to take all factors into account.

1.4 Promotion (execution) management

This set of processes deals with the operations of running the promotion. Ensuring that all is ready to run the campaign smoothly (and dealing with eventualities if it isn't), and while it is in-flight, analysing its performance, taking corrective measures to achieve targets if anything is amiss. It requires a high level of coordination of different departments to maximise the impact of the promotions on customers, branding and performance of the organisation.

On top of
Much of the preparation and execution is interwoven with the regular primary retail processes. E.g. for supply chain and logistics: ensuring stock is part of replenishment and allocations – where the promotional quantities are "on top of". Of course, these need to be accommodated for in the supply chain. Pulling forward promotional quantities (initial load) for distribution in preparation of the planned promotional period is a common practice to balance the load and capacity demands in the supply chain. Levelling out/optimising stock (and the room this requires at the DC and stores), truck space and the person hours it takes to process this in stores and at the DC. These operational costs ideally should be part of the equation (and monitoring) to make a fair assessment on promotions' financial performance.

When it comes to store operations (physical and online) getting the promotional banners, signing, correct price tags, and shelf labels part of the preparatory work, too. Digital signage (including electronic shelf labels) can help in reducing the person hours spent on making these changes. This does require the retailer to have a good inventory of the store space and fixtures. When in place, it allows for more frequent updates without too much personnel costs, thus also tuning and tweaking (or stopping) messaging in flight. With this type of set up, this even allows for AB testing of promotional messaging in store (as is common online) and changing it based on results.

On the monitor
When promotions are running it is important to monitor their performance. POS data are a clear source of factual information. It is still the case that many retailers only have a daily POS update to their central systems, thus always running a day behind to see what is happening in stores.

Being able to make changes to promotions in flight does require flexibility and responsiveness in an organisation. And timely and clear insights to know what to act upon and which priorities to shift. When promotions are performing above expectations in terms of quantity uplift and products run out in stores, empty shelves can be a big dissatisfier to customers. Swift action to replenish these stocks requires this nimbleness in the retailer's supply chain and in some cases even the vendor's.

Remains of the day

When sales are sluggish, it needs to be determined whether the offer needs to be adjusted or extended, and/or what to do with remaining stock. In some cases agreements are in place with vendors to return these excesses. In other cases retailers actually (aim to) stockpile on the goods that they have agreed to buy at a promotional price from their vendors, compensating the stock holding costs with the additional margin when selling again at full price. Understanding these (un)intended effects is important to optimize promotions in operations.

At the end of the planned promotional period it needs to closed (if not extended). Removing all outings, access stock, and readjusting product pricing and positioning where applicable. It is important to retain the promotional period information, also when it comes to returns.

1.5. Promotion Evaluation

These processes can be seen as the last stage of a campaign or promotions, but they're actually the end and start in one. While the processes of '1.4 promotion management' end with store operations and supply chain, removing the promotion material and incorporating the left-over stock into the regular stock, the commercial department is analysing the effectiveness of the promotion. In 1.5 we investigate whether the goals have been reached and whether the overall impact (of each and all of the means) was as expected.

Evaluating the promotions and campaigns happens in different ways; firstly, by looking at the financial figures and determining if they have resulted in the direct targeted financial outcomes. Next to that, the general effect on customer sentiment on the promotion and towards the brand. This typically includes looking at the responses on social media. There the variation of comments is often very high; ranging from comments on the way the promotions are designed creatively to responses to the price-setting or even to the way specific stores or other outlets have put the promotions up in their environment.

Next time ...

All this quantified and qualified information increases the opportunity to improve future promotions and campaigns. Complexity lies in the possibility to process all of this data and being able to determine what information is valuable for a specific promotion or campaign and is not just general feedback.

When running variations on promotions over time this builds up the data to a model and predict effects of the different means. This helps shape the framework and the ruleset around promotions even further. Comparing a '3 for 2' and a 25% discount, a front page in the flyer to the back page, an Instagram influencer endorsing your offer and a tv-commercial. You need to have done a variation of them to get better at assessing their impact. Then again, there always needs to be room for new things – as any model is just a best guess based on the input. And when the sun comes out, ice cream sells whether on promotion or not.

No money left on the table

As part of/based on the evaluation the final settlement with vendors on the one hand and (franchisee) stores on the other also takes place. There may be specific (rebate) agreements or defined contributions based on e.g. quantities sold, or exposure generated. Penalties on these may also exist around product availability and late delivery or other performance metrics. This is not only a financial story, as the evaluation may also lead to improvements in joint operations in e.g. supply chain planning and execution around promotions in particular or in general.

Outlook and imperative: new and improved – with a changed definition of better

Now that we've gone through the common processes individually and how they can be uplifted, it's time to look ahead and take the broader perspective. Given the changes in society and thus the field that retailers and consumer products companies operate in, most of these organisations will be forced to make adaptations. Or, preferable, from the standpoint "create the future if you can't predict it" - force change in their markets to be ahead of regulatory or societal pressure or supply chain disruptions due to geo-political or extreme weather events: preventing or dealing with the effects of climate change.

Perception to be altered

In all of those movements, how can promotions be leveraged or how should their role be altered to ensure the company's relevance in the eye of the customer going forward? As part of the marketing mix, promotions are a mean to alter or reestablish the positioning and perception of the company and its offerings to its customers. They have been used by consumer products and retail companies over the last decades of growth and consumption to shape and make markets and appetite for these. They've gotten consumers to get excited by "new and improved", adding arrays of choice (and choice fatigue), convenience (and losing skills) and instant gratification (and dopamine addiction).

Why not rethink the use of the promotion toolkit, all the things that companies have learned on what triggers behaviour and trying out new things, reeling customers in and persuading them to try something new or improved. How could retailers do this once again, on things that should matter to the longevity of their business their customers, society as whole and planet? It seems a bit easy now for these same market shaping companies to claim that they are not making the first move on changing customer and consumer behaviour "as they are only fulfilling customer demand".

Performance redefined

What metrics would an organisation and its promotion tooling need to support these alternate goals? Can you already measure success driving customer choices for less-sugary products, or fresh items that are local in season? What would need to be part of a campaign to make consumer behaviour sway that way? What about selling less shirts, but with a story on quality or origin that makes your customers be the advocate for them and come back again next season? How can or do you measure this long-term effect of all elements of your marketing mix?

How do you determine not to run a promotion because the costs further up the supply chain, or for the next month in lost sales are too high? What effect do your extended responsibilities as part of the European Union's CRSD[3] have on the lens through which you look at promotions?

A new game

Promotions are now often part of a business setting that is seen as a net zero sum game: you gain consumers, sales, margin at the expense of your competition. The pie (or wallet) is a certain size. Promotions (as the communication vehicle they can be) may actually be the ultimate part of the marketing mix to change the game altogether and create more win-win games and blue oceans when we rethink what matters.

We are always interested in hearing your perspective, about your practices, your ambitions and struggles.

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[3] CRSD – Corporate Sustainability Reporting Directive – European Union Directive requiring all large companies and all listed companies (except listed micro-enterprises) to disclose information on what they see as the risks and opportunities arising from social and environmental issues, and on the impact of their activities on people and the environment. It is intended to help investors, civil society organisations, consumers and other stakeholders to evaluate the sustainability performance of companies.