

Promotional Forecasting: Reasserting Control Over Retail Promotional Destinies



The current retail environment

is bruising

most notably in apparel, but other segments are feeling battered as well. Demand is down and inventories are backing up, leading retailers to ratchet up their promotional intensity. Even prior to the current business downturn, competitive pressures—driven by an over-stored industry, easier access to competitive pricing and promotional information, coupled with the ascendance of digital as a competitive shopping channel—have driven retailers to increase both the frequency and depth of their promotions.

The combination of promotions engendered by merchandising and the multiple layers of digital and customer-direct offers has muddied the water further. Merchants carefully plan their promotions during the pre-season, purchase inventory to support those events, and work with their marketing counterparts to prepare the appropriate communication vehicles. At the same time, the e-Commerce team, operating on a shorter lead-time, may be reacting to business performance by adding and changing offers on a daily, even hourly basis. On top of this, the customer relationship management (CRM) team develops e-mail offers to drive traffic to the store and the site. The net result of these interacting promotions is that retailers are in danger of losing control of their pricing and their margins, not to mention confusing and frustrating their target consumers.

Unfortunately, many retailers are seeing their financial performance suffer as a result of the competitive promotional melee. One of the reasons for the degradation in the effectiveness of individual promotions and the resulting margins is the lack of ability to predict the outcome of these stacks of promotions.

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It is time for retailers to reassert control over their promotional destiny. In this paper, we will explore the complexities, challenges, and leading practices in planning and executing effective promotions, as well as accurately predicting (and even optimizing) outcomes. We will consider both the art and science of promotional management, along with a strong dose of basic execution and even some advanced predictive capabilities.

Promotions Objectives & Assumptions

To get started, let's outline the fundamental reasons why a retailer promotes their products. These include the following objectives:

Capture Market Share	Encourage Trial	Drive Unit Sales	Boost Brand Image	Liquidate Inventory
Increase the portion of the market controlled by the retailer by luring transactions away from competitors	Entice potential customers to buy with the intent of converting them into repeat customers	Sacrifice margin \$ and / or rate to increase unit sales, with the expectation that customers will buy higher margin items at the same time or in the future	Feature items that best represent the brand, demonstrate relevance of the assortment and / or provide differentiation from competitors	Stimulate demand for items that have excess inventory

Almost all retailers utilize some form of promotions—print advertising, mailers, emails, social media campaigns, and more. In today's ultra-competitive retailing market, the goal of standing out, being noticed, and influencing behavior is indeed a challenge, but also a necessity and an opportunity. There are some assumptions that must hold true for even the most basic promotion to be relevant to the target consumer:

- **The products being promoted must make sense to the consumer.** If this is not true, it likely does not matter what the discount or value proposition is. For example, most male customers really do not care when beauty products and handbags are on sale at the local department store (granted, a man may care indirectly; if it makes his wife happy, this likely contributes to his own well-being).
- **The timing of the promotion must be aligned with the personal needs of the customer.** Depending on the geography, promoting winter coats in December is likely to be more relevant than in June.
- **The offered price of the product must be compelling.** The customer's evaluation of the price impact may be based on knowledge of the competitive

marketplace or on a comparison of prior prices from the same outlet (i.e., “was / now” pricing).

- **Appropriate **inventory** to support the promotion must be available.** Retailers have a tacit (and legal) responsibility to make sure that promoted products are in stock in all SKU variations. If a customer cannot find a promoted item, that customer is only more frustrated than she or he would have been without the promotion.

10 Tenets of Effective Promotions

While seemingly rudimentary to some, many retailers continue to struggle with the basic underpinnings of effective promotion. These include:



Clear Brand Positioning

Marketing and merchandising activities are anchored in a clear overall brand positioning that defines the overall value proposition, distinguishes the company from competitors, appeals to customers' emotions, builds on the brand's heritage, and can be operationalized across all customer touch points.

Industry Challenge: Promotions do not contribute to long-term success due to lack of coordination with a set of competitive differentiators that have been cultivated over time.



Marketing Innovation

Processes for developing promotions and methods of analyzing and measuring promotional effectiveness lead to innovations from event-to-event and year-to-year.

Industry Challenge: Too many retailers suffer from “last-year-itis,” following the same promotional cadence year after year. When promotions grow stale, they struggle to replace them.



Marketing Mix Budgeting

Based on the brand positioning, strategic plan, and the overall budget, the marketing media mix is determined to optimize conventional media, digital vehicles, in-store marketing activities, and direct marketing.

Industry Challenge: Little thought is given to marketing mix, resulting in overinvestment in older vehicles that have lost their broad appeal or do not reach the most desirable customers.



Strategic Planning

Promotional planning begins with an annual or semi-annual strategic planning process in which marketing and merchandising review prior year performance, market trends (including competitive activity), and proposed merchandising programs. This information is then synthesized into a merchandising strategic plan that includes high-level financial targets (including amount of promotion), promotional themes, space allocations (particularly flexible display space), and major merchandising initiatives.

Industry Challenge: Retailers are notorious for not paying sufficient attention to strategy, opting instead to be reactionary. As a result, investments in promotions may not drive to the overall goals of the company.



Promotional Space Brokering

Promotional space is brokered during the strategic planning process, based on high-level financial expectations, strategic objectives, and information on major merchandising initiatives. Flexible display space may include print media, landing page space, share of e-mail communications, catalog page space, etc.

Industry Challenge: As with promotions themselves, promotional resources are frequently allocated based on past history, rather than on a forward-looking perspective.



Calendar Management

The marketing calendar captures all promotional activity, whether web-based, direct-to-consumer or in-store, and provides visibility across the organization. The calendar should be easy to configure, simple to update, link to workflow, and enable alerting capabilities.

Industry Challenge: Most retailers rely on Microsoft Office or similar generalized calendaring applications to create and manage promotional calendars. This reflects a gap in functionality for most retail software providers.



Event / Offer Management

Merchandising, e-Commerce, CRM, and marketing teams can easily plan, manage, and report on all promotional offers across all channels by:

- Establishing a single repository of all information about offers and events, including: item details, valid dates, participating locations, vendor funding allowances, and specific promotional elements for each event
- Simplifying the creation of multiple versions of ad offerings

Industry Challenge: Another gap in retail software offerings, promotions management applications fall short of delivering necessary functionality. Again, most retailers resort to Microsoft Office or comparable tools to track and report on promotions.



Analysis & Reporting

The company has the ability to measure and report on the impact of promotions on sales, margins, and inventory to evaluate their effectiveness. Ideally, more complex metrics are available that capture:

- Cannibalization and affinity effects
- Return on resources expended such as production costs, display or space in printed materials
- Impacts on traffic and conversion
- Market basket relationships

Industry Challenge: While most retailers have some mechanism for reporting on promotional effectiveness, these typically require a great deal of human intervention to pull numbers from disparate systems and manually create reports. Very few can take

advantage of the kinds of advanced statistical analysis that can produce the more complex and meaningful metrics.

Merchandise Planning of Promotions

Merchandise plans incorporate marketing strategy and promotional space allocations and accurately reflect promotional activity.

Industry Challenge: Promotional plans are frequently created on a shorter timeframe than merchandise plans. This means that merchandise plans are complete (and orders placed) prior to promotions being finalized.

Event Forecasting

Past performance of promoted products (or model-after items for new products) is used to predict the lift on new promotions and the impact on the overall category. Forecasting models take into account sales history as well as causal factors such as pricing differences, channel differences, duration changes, etc. The forecast is used to plan promotional volume and allocate / replenish inventory.

Industry Challenge: Very few retailers are adept at accounting for promotions in their inventory management activities. This weakness traces back to the inability to predict the demand impact of promotions or missing skillsets required to manage the forecasting model / solution.

Most retailers have solid business processes and system solutions for some of these capabilities, but virtually none can boast of being strong in all of them. Nevertheless, in today's promotional environment this list does not represent advanced functionality—these are simply table stakes. If a retailer struggles with any of these elements, then corrective investment is warranted.

Promotion Optimization Solutions

Looking beyond this foundation, there are exciting developments on the horizon that will allow retailers not just to predict the results of promotions, but to model and optimize promotions in order to attain desired outcomes. This advanced functionality is in its infancy, and while at this point few software providers can demonstrate currently available offerings, the handful that do exist are extremely promising. These applications combine data from multiple sources, including marketing, CRM, e-Commerce, merchandising, planning, and finance.

Inputs might include any combination of the following data sources:



Collecting this data and making it available for optimization is no doubt a significant effort, but the resulting performance improvements can be astounding. Consider the amount of time and effort retailers put into planning, managing, executing, and measuring promotions. Add to that the amount of margin wrapped up in promotional markdowns, and ultimately, even slight improvements in the effectiveness of promotions can drive substantial business results.

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Consumers in today's retail market have high expectations of their brands and shopping channels. Beyond quality product, enticing assortments and engaging shopping experiences, when considering pricing and promotions, these expectations include clarity of messaging, competitive pricing, product

feature information and available inventory (including specific locations). These are not unreasonable expectations—fail to deliver against them is to court disaster with your

assortment's performance objectives as well as your consumer's brand loyalty. Moreover, when executed successfully, customers will reward a retailer's efforts with quantifiable results, including improved margins, increased traffic and trial, higher sales, and strengthened market share.

Promotional Call to Action

What can retailers do to confront these challenges and effectively manage promotions and related demand signals? We offer the following recommendations:

Maintain the art. While there are sophisticated tools to assist retailers today, nothing can replace the eye and heart of a strong merchant. Fundamentally, retailing is still all about the product, and leading processes and policies should be driven by the initial brand strategy and reflect the marketing strategy. The process cannot be turned on “auto-pilot” without the guiding influence and oversight of accountable merchant leadership.

Consider the science. This is where retail leaders are truly starting to differentiate themselves. Leverage the best available market data, along with historical performance, aligned with the master sales and event calendar, to generate a predicted sales demand, as well as options and scenarios for promotions and promotional impact. Managing the science can be an art itself, a tricky orchestration of configuration, input gathering, data preparation, analysis, and interpretation—supported by advanced analytical solutions and appropriate skillsets.

Solidify basic blocking and tackling. This balances the art and the science with execution. Retailers must deeply consider and design key execution tactics to successfully determine, communicate, deploy, and process promotional transactions. Included here are back-office merchandising management and marketing, as well as in-store execution. These, coupled with channel convergence collectively address highly varied consumer shopping behaviors. Essentially, retailers must identify and communicate the right promotional messages to the best target consumers—at the appropriate time and in channels that will resonate—and then complete the circle with efficient transactional execution and informed, consistent customer-facing touchpoints.

Final Word

Today's retail promotions management complexity is not for those who yearn for simplicity and ease. It is not for the faint of heart, nor is it a strategy to be taken lightly. However, when done well, with the appropriate balance of process, solution, and merchant intuition, promotions management will provide competitive differentiation and financial rewards for retailers willing to take it to the next level.

The Parker Avery Group

The Parker Avery Group is a boutique strategy and management consulting firm that is a trusted advisor to leading retail brands. We combine practical industry experience with proven consulting methodology to deliver measurable results. We specialize in merchandising, supply chain and the omnichannel business model, integrating customer insights and the digital retail experience with strategy and operational improvements. Parker Avery helps clients develop enhanced business strategies, design improved processes and execute global business models.

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