Ripe

Welcome to enrich, Ripe Strategic's newsletter

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Promotions can be a great way of stealing market share or persuading people to trial your product or service. But when poorly handled they can have a long-term detrimental impact on your bottom line. In this issue we show you how to use them to achieve your objectives and avoid the dangers. We also look at how retailers did things differently this year to improve their Christmas sales.

Christmas cheers or Christmas tears?

If you fought your way through the crowds on London's Oxford Street the week before Christmas you could be forgiven for thinking that every store was making a killing. With the Christmas wrapping paper long discarded and the results in, it's now clear that there were winners and losers in the battle for Christmas sales. What can retailers learn from 2011 to make sure they are among this year's winners?

The winners in the UK - organisations like Selfridges and John Lewis - have four things in common: a wide range of products, high end to value offerings, interesting stores and strong service credentials. Selfridges offers luxury brands such as Prada and Dior alongside value brands like H&M and Cheap Monday, in the Manchester store they even have Primark. Having a broad offering creates more news opportunities, which generates more interest in the Selfridges brand. More customers are attracted by the convenience of doing all their shopping under one roof and they can also benefit from shopping for products in the Selfridges environment, with a Selfridges standard of service. Selfridges has seen a 19% increase in profits in the last year.

The winners have increased their lead over competitors by clever tactical use of promotions, driving even more value in the minds of shoppers, and giving headaches to retailers with no new formats or exciting new range additions.

M&S and Next both suffered disappointing sales compared to others on the high street. Analysts claim Next saw like-for-like sales in its stores fall by 7%. The group was saved by a strong performance online, indicating that they can compete with their range but not, as one analyst put it, with their "slightly shabby stores".

The losers are struggling because they focus on winning in distinct product sectors or because they don't have a brand identity that communicates the value they offer. Some have compounded this loss by trying to win share through discounting - but their volume uplifts haven't been strong enough to compensate for the margin loss.

We predict that the retailers offering a clear and compelling **value proposition** will be the winners during Christmas 2012. That means new and varied ranges, great store formats and good service. Offering well-managed tactical discounts will also benefit them. The best plan for those who are struggling is to identify what clear differentiation they can offer shoppers that adds benefits, whether that is in their retail environment, range or service levels.

The golden rules of pricing promotions

A price promotion is "a temporary or tactical reduction in price relative to the competitive market place and standard price positioning". It temporarily alters the brand value equation, enabling shoppers to see value in a product or service they may not have considered at full price.

Promotions are a fantastic mechanic for driving penetration or weight of purchase, because they allow shoppers to re-evaluate a product or service. They have many functions - trial, brand adoption, brand loyalty, trading volume, maintaining or improving retailer relationships or answering customer expectation (for example, if a brand traditionally has a Christmas promotion). But they need to be handled with extreme care as they can result in serious issues for brands. In the short term they can fail to achieve a sufficient uplift to cover margin. In the long term, customers can start to perceive the **lower price** as permanent resulting in a detrimental impact on bottom line.

The first rule is to make sure the promotion can achieve what you want it to achieve (e.g. increase penetration, weight of spend or frequency of purchase).
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The second is to make sure that it is the most efficient way of reaching your objectives.

When considering a promotion, start by establishing its potential return on investment (ROI). Look at the effect of previous promotions on volume. Say you currently sell 100 units at $10. Manufacturing, logistics, sales and marketing costs account for $5. That gives you a profit of $500. Assuming all costs are variable, if you drop the price from $10 to $9 and costs remain constant, the volume needs to increase more than the 10% reduction in price. In real terms you need a 25% volume uplift to achieve the same profit.

Businesses need to create clearly defined guidelines on the depth and frequency of price promotions. Using promotions too frequently or purely as a driver of short-term volume can be damaging. Used over a long period of time and without a high degree of marketing support to grow brand equity, shoppers start to view the promotional price as the full price. If your brand is already suffering from value deflation, focus on re-establishing the brand value equation, by adding more value into the differentiation of your brand.

The rise of internet discount vouchers

One form of promotion that has seen a meteoric rise is the internet discount vouchers offered via Groupon, Living Social and the like. Some brands manage their schemes to great advantage but others are less successful. One of the Ripe Strategic team has been doing a bit of voucher shopping recently and came across two examples that illustrate perfectly some of the dangers of an ill-managed scheme.

The offer spotted was £15 for a £75 photo book, which seemed like too good a deal to pass up. The probable intention was to encourage trial and adoption, and take market share from Apple. Several frustrating evenings later and some time moaning in the office, they finally created their photo book. Next time, it's back to the "create with a click" Apple product at almost five times the price. And they won't be alone. My guess is that the voucher cost is nowhere near being covered by increased market share.

For keen movie-goers, Cineworld's 2 for 1 vouchers is a no-brainer. It is likely that Cineworld's objective was to attract new customers and increase frequency of visits of people. Unlike the photo book, the benefits were excellent: a great range of films, plenty of food and drink options, comfortable modern seating and proximity to home. The issue is that a large proportion of the audience will now hold vouchers and Cineworld needs to have attracted enough extra custom to offset the voucher face cost. A rough calculation based on Cineworld's 2010 annual report suggests that footfall needs to increase by 121% to achieve that (and that's without the fee they paid to the voucher issuer!). The other danger for Cineworld is that people may no longer see it as necessary to pay the full price. They may however be happy with the outcome, depending on what their objectives were, it will be interesting to see the long term impact. With some voucher schemes offering thousands of discounts on a daily basis, this can have a potentially disastrous impact on the bottom line.

The growth in internet vouchers indicates that we (as consumers, brand owners and retailers) are increasingly becoming voucher junkies and often consumers have no loyalty to the brands. The danger of brand owners and retailers offering prolonged discounts is that the price becomes re-established in consumers' minds at a lower level. When the brand owner or retailer reduces the vouchers they may struggle to maintain their overall margins. One way to kick the voucher habit is to invest in marketing that clearly communicates the differentiated brand benefits.

That's not to say that voucher schemes don't have their place. For a promotion to be effective over the long term, it needs to be tactically employed in short bursts or accompanied with marketing that builds the brand.

Wise Words

Always review your pricing history, comparative positioning, price moves impact and promotions. This is a key component in taking future pricing decisions.

When you price promote products on a regular basis, the majority of sales take place at the lower price point, so in reality the promoted price is your real price.

We have moved! Ripe Strategic is now based at: 37 Mortlake Road, Kew Gardens, Richmond, Surrey TW9 3JQ.
Direct line: +44(0) 20 8948 8770. Other contact details remain the same. Email: info@ripestrategic.com

Want to discuss your pricing issue with an expert?
We'd be delighted to hear from you. Our contact details are below.

Kaye Coleman

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