

Promotional Pricing

A Structured Approach

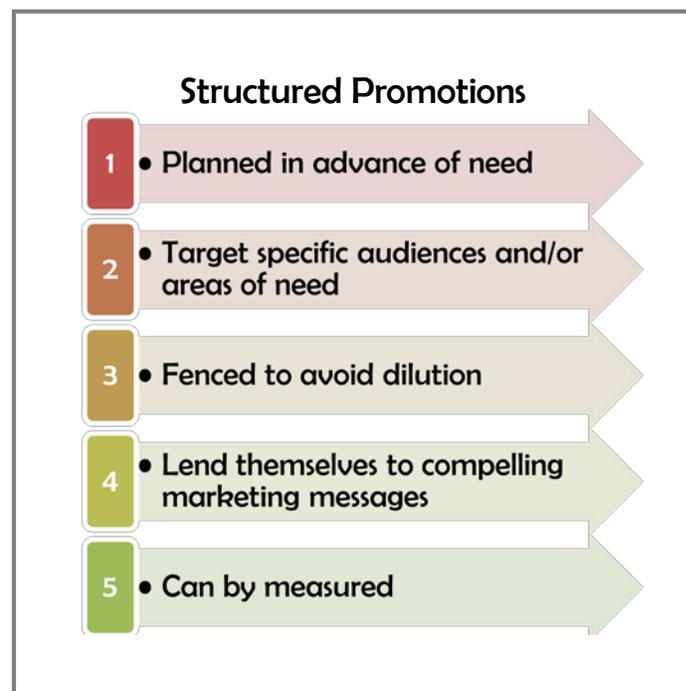


Promotional Pricing

Discounts and promotions, if executed well, are an effective way to help boost revenue. While you want to steer clear of making the “sales” price your everyday offer, discounts needn’t be feared either. It is all about the design, execution, and post period measurement.

Effective promotions typically deliver on the following:

- ✓ Are planned in advance of need to ensure holistic alignment;
- ✓ Target specific audiences and/or areas of need;
- ✓ Are “fenced” to avoid dilution;
- ✓ Lend themselves to compelling marketing messages; and
- ✓ Can be measured.



Advance Planning

One of the common pitfalls in implementing promotional offers is waiting too long to act. Once you “see” the need in the current numbers, you are already behind the eight ball. And when rushed, many factors are at risk. There may not be time to evaluate what is the “right” offer to hit the sweet spot and drive enough, but not too much demand. Marketing may not have sufficient time to develop the best creative execution to help support the offer and distribution channels may not be able to respond quick enough. Your customers may also be put in a pinch, with the timeframe to respond suboptimal.

Doing the heavy lifting on promotional planning well in advance – as part of the annual budget process – is highly recommended. If there is a good chance you will run any promotions at all during the coming year, it is worth your time to plan ahead. Develop several potential offers and determine how much demand is needed to make the discount profitable. Actually pull together a high-level pro forma of what you have to believe. Also select specific audiences that may be good targets for specific products or specific times of the year for each offer. You can also determine the creative execution for marketing the promotion and identify the lead time necessary for development. Likewise, requirements and lead time needed for third party distributors can be determined. Savvy businesses also prepare by identifying the financial resources required and developing contingency funds accordingly. Finally, you have time to develop a measurement plan that will lead to a robust understanding of the offer’s performance.

Once it is determined a discount or promotion is needed, refer to the promotional plan and select what might be the best solution for the current business need. Often times, it is just a matter of determining the final discount price and executing the creative.

Target specific audiences or areas of need

Targeted offers should be the norm, not the exception. With a good forecast and advanced planning, most businesses can use strategically placed, targeted offers throughout the year to stimulate just enough demand. Targeting offers to specific audiences has a few advantages. It allows the offer to be customized to that particular audience's interest or need and can potentially reward your most valued customers. It also provides a natural "fence" for the offer (see Fencing below), allowing the business to solve for enough, but not too much demand at the discounted price.

Fenced to avoid dilution

Fences make good neighbors. They make for good offers too. "Fencing" applies to rules and procedures that keep the offer valid only for the intended audience. Unless you purposefully make your offer "broad" or available to anyone, determine how the offer will be fenced in advance.

Fences can be "hard" fences, whereby the consumer needs to prove they are eligible, or "soft", where the offer is made available in such a way that the most likely consumer to respond is the one you intended. For example, a hard fence might be an offer targeting only those students who attend a certain college or number of colleges in an area. By showing their student ID, they are eligible for the offer. A soft fence might be an offer sent to select homes via direct mail with a code that can be used once, and which is expired after calling, going online, or entering the store to make a purchase. Granted the code can be given to someone else, but it can only be used once.

Compelling marketing messages

Promotional offers should be designed by a multi-disciplinary team, with the consumer mindset front and center. The offer needs to resonate with consumers to be effective, not just deliver on the required return on investment. Savings or value messages need to be strong and consumers shouldn't have to do the math. "Save 5%" is seldom motivating even if that is all you need to do. "Save 30%" is more compelling than "Save 29%". "\$10 off" is meaningless unless the consumer knows the original price of an item. "Buy two of X and get Y free" only works if X and Y are complementary products, not extra inventory that needs to be dumped. If something is the "best deal", tell consumers why. How much is being saved?

Measurement

Consumer behavior relative to discounts and promotions can be categorized in one of two ways:

- ✓ The consumer sees the offer, and makes a purchase they otherwise would not have made.
- ✓ The consumer was already planning to purchase the product at the higher price, but now enjoys the discount benefit.

In the former situation, the consumer represents new demand and the purchase is *incremental* revenue to you. This is what you are hoping to achieve when offering a discount. The later scenario creates what is known as *dilution*. You gave up potential revenue to someone willing to pay full price. There are also variations of dilution. For example, a consumer may accelerate a purchase – purchase sooner than expected – then continue relative to their normal cadence. This may not be as dilutive as a *one-time* purchase that is moved up.

Dilution will be present in almost any offer executed, but is acceptable so long as the incremental revenue not only offsets the dilution, but other expenses (marketing, distribution, etc.) associated with execution. That's where a good measurement plan comes into play. Seldom can examination of trend data give you the answer as many factors impact revenue trends, not just the offer. By designing promotions with measurement in mind, you'll be able to collect the data required for analysis. Some useful methods of tracking include customer specific codes to use the offer, special toll free numbers for calling in a purchase, identification of where the consumer is coming from (IP address, zip code), etc. Also consider primary market research structured to ask the customer about their purchase behavior before and after seeing the offer. This insight, coupled with transactional data and tracking of expenses will help determine if the offer was profitable. Ultimately, you want to execute more of what works well, and be certain not to repeat those that fall short.

Who we are: Integrated Insight, Inc. is an Orlando, FL based analytics consulting firm, helping organizations out-behave the competition. The company was founded by two former Disney executives with a passion for helping organizations and the people in them reach their full potential. The company specializes in the use of data-driven insights and robust analytics to pinpoint untapped opportunities and ensure long-term, sustainable growth in three primary capacities: New Business Strategy, Business Optimization, and Research and Consumer Insights.

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