



Aberdeen *Group*

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The Changing Dynamics of Retail Promotions

February 2007



Executive Summary

Key Business Value Findings

Promotion optimization is impacting the retail value chain like never before. The retail performance areas where promotions play a crucial role include: topline sales, organic store/channel growth and bottomline profit. So far, the primary departments that interacted with promotions planning, design and execution were merchandising, marketing and finance. However, Best-in-Class retailers are using a new approach to optimizing their promotions strategy by taking the solution deeper into the enterprise and improving the understanding of historical consumer purchase patterns.

Key Highlights from the report:

Aberdeen defines promotions optimization as a technique for determining optimum promotions at the most appropriate price level that help retailers' to increase profit uplift and reduce sales cannibalization.

- Promotion optimization deployments will experience double-digit adoption rate increases, as projected over the next 2 years
- Two-thirds of retailers report that promotion optimization application use and strategy is centralized at the senior management level. Some components of the application are decentralized into different departments for tactical promotion campaign use.
- Promotion optimization application users are using these tools for the purpose of sales analysis (75%) and budget management (60%)
- 75% of Hi-Low and 79% of Discount pricing stores are using promotion optimization solutions for the purposes of sales analysis (multi-selling, up-selling, cross-selling, cannibalization, vendor-brand performance and gross margin)

Implications & Analysis

Improving historical analysis is a key strategy focus of 71% of Best-in-Class and 87% of department stores.

- The single biggest market pressure is the never ending need for retailers to improve product category margin and profit in the face of rising operations costs, including labor.
- Some retail sectors, such as supermarkets and grocery retailers (58%) are bringing in outside consulting help for promotions optimization.

Recommendations for Action

- Select small projects in pilot departments to measure ROI of promotion optimization solutions
- Adopt solutions that provide multiple optimization scenarios and rapid planning & re-forecasting capabilities
- Pursue an aggressive strategy for expansion of cross-enterprise loyalty initiatives that truly differentiates the promotion optimization process

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Chapter One: Issue at Hand

Key Takeaways

- Sales analysis (75%) and budget management (60%) have emerged as the top areas of promotion optimization usage within retail departments that are interacting with the application on a day to day basis.
- Two-thirds of retailers report that promotion optimization application use and strategy is centralized at the senior management level, but decentralized for individual departmental use.
- Margin is the top pressure prompting 83% of General Merchandise & Apparel retailers (GMA) to adopt promotion optimization solutions.

Promotion optimization is impacting the retail value chain like never before. The retail performance areas where promotions play a crucial role include: topline sales, organic store/channel growth and bottomline profit. Traditionally, the departments that primarily interacted with promotions planning, design and execution were merchandising, marketing, and to a lesser extent, finance. However, Best-in-Class retailers are taking a new approach to optimizing their promotions strategy by taking the solution deeper into the enterprise to improve the understanding of historical consumer purchase dynamics. More than two-thirds (71%) of the Best-in-Class are improving historical promotion analysis and the understanding of consumer purchase patterns for better returns on company and vendor funded promotions. Promotion optimization is also gaining traction on an enterprise-wide basis within retail organizations. On an

“Retail operations and Planning are the emerging departments within our organization that are involved in providing direction to promotions optimization. These departments are directly by the business process impact of promotions.”

-A U.S. Based Supermarket Chain

average, more than half of the Best-in-Class retailers surveyed consider promotions optimization planning, forecasting, and output in the form of promotion analytics as the most important priority for multiple departments, including, merchandising, strategic planning, marketing, pricing, inventory management, and store operations.

Aberdeen defines promotions optimization as a technique for determining optimum promotions at the most appropriate price level that help retailers’ increase profit uplift and reduce sales cannibalization. One component of an optimization solution is a simulation model that provides the most confident prediction of the outcome of any promotional discount. This solution uses a scenario/results processor, a

Competitive Framework Key

The Aberdeen Competitive Framework defines enterprises as falling into one of the three following levels of practices and performance:

Best in class (20%) — practices that are the best currently being employed and significantly superior to the industry norm

Industry norm (50%) — practices that represent the average or norm

Laggards (30%) —practices that are significantly behind the average of the industry



demand engine, an activity-based promotions cost engine, and a price optimization engine. The scenario processor helps a retailer in the optimization process by selecting the most optimum prices and promotion quantities using the most appropriate promotion vehicle for the promotion period.

The end result of an optimum promotion is the timeliest delivery of product promotions to customers that improves the margin, merchandise turn, and sales uplift of featured complementary and non-complementary products. Promotion optimization solutions are distinct from traditional promotion management solutions in that perspective optimization solutions offer deeper insight of consumer purchase dynamics and provide greater ability to predict, plan and execute profitable promotions. These solutions utilize complex algorithms that enable predictive modeling, simulation techniques, and historical promotion analysis. The optimization solution enables a retailer to deliver the best promotional mix that maximizes margin and sales by evaluating different promotion scenarios.

Aberdeen's study of 140 retailers' shows that promotions and how they are optimized are shifting deeper into the enterprise. This solution is acquiring a critical role in the value chain collaboration and overall retail optimization. Companies that bring together strategic planning, store operations, inventory management, and pricing groups to create optimized promotions planning are achieving significantly better results. These departments are gaining increased visibility to the promotion strategy and analytics, in addition to playing a key role in ensuring that promotion processes are forecasted, planned and executed the right way.

Case Study: Convenience Store Improves Profit through Promotion Optimization

The Problem: A large convenience store chain was unsure if a 33% or a 50% discount across a range of products would produce higher profit uplift over a 4-week promotional period.

The Strategy: The store chain utilized the predictive promotion simulation model of the promotion optimization application and determined possible scenarios for margin improvement. The decision to test profit uplift by applying two different discounts enabled this store chain to derive the most positive outcome in terms of profitability on two popular product categories.

The Result: Promotion optimization application used the consumer purchase dynamics related to the two product categories. When the retailer applied the two promotional scenarios to the actual 4-week promotion test, the profit uplift from the fully funded 50% promotion price reduction was 114%, whereas uplift from the 33% promotional price reduction was 129%. When the retailer compared the prediction by the promotion optimization application and the actual promotion test results, it was found that profit uplift on both promotions had similar uplifts in profit. It was also found that the profit outcome was much higher for the 33% promotional price reduction. Thus, this retailer demonstrated that promotion optimization solution reduces the uncertainty by providing a near accurate prediction of the outcome of the promotional discounts.

According to the survey results, the move toward enterprise-wide visibility is being controlled and monitored extensively by C-level executives (**two-thirds of retailers have said that promotion optimization application use and strategy is being centralized at the senior management level. The application components like analytics, calendar and some planning aspects are decentralized into the different departments for tactical use**).

It is noteworthy that promotions optimization deployments are projected to experience double-digit adoption rate increases over the next 2 years. The highest adoption is expected within strategic planning. This department within retail is expected to take charge of decision making and control of promotions optimization within the organization as it is best positioned to provide a forward-looking framework for the topline revenue and bottomline profit strategies of the CFO. Specifically, the retail chain CFO and his or her team are playing one of the most important roles in providing organizational direction relative to promotion optimization through the strategic planning department. Sales analysis (75%) and budget management (60%) have emerged as the top areas of promotion optimization usage within the retail departments who are interacting with this application on a day to day basis.

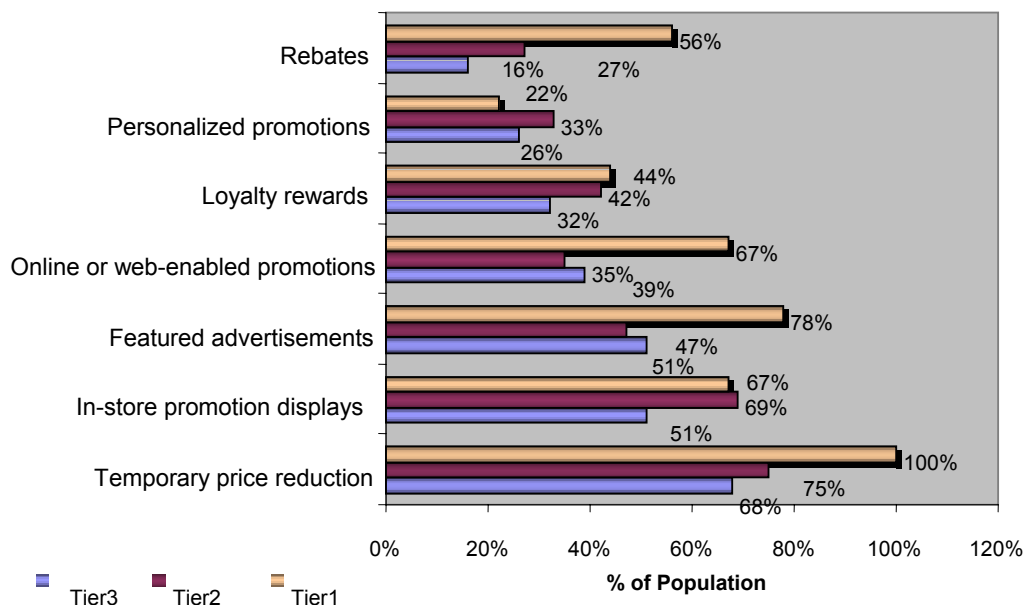
The Preferred Promotions Choices of the Retail Enterprise

The June 2005 Aberdeen Benchmark retail report, [The Empowered Point of Service: The Customer Reclaims Her Kingdom](#), indicated that while some retailers continue pounding the drumbeat of endless promotional sales events and low prices, consumer demand for improved promotions along with those low prices pounds even louder. In building an optimization strategy that provides the best prices, offers, and service to customers, promotion optimization application provides the retailer access to different optimization scenarios and promotion tools. According to the data, while promotions expenditure remains dependent on the scale of the enterprise (see Figure 1), organizations of all sizes are infusing promotion dollars into different promotion buckets. The top two promotion tools or vehicles being utilized by retailers includes:

- Temporary price reductions-72% of respondents
- In-store promotion displays (shelf talkers, aisle displays, banners, kiosks and bulletin boards)- 60% of respondents



Figure 1: Scale of Enterprise Dictating Promotion Choices



Source: Aberdeen Group, February 2007

Large retailers, also known as tier 1 retailers (over \$ 1 billion in revenues), are leading the mid-size or tier 2 (between \$50 million and \$ 1 billion in revenues), and small retail enterprises or tier 3 (under \$ 50 million in revenues), when it comes to their participation in all five major promotion categories of promotions: temporary price reductions, in-store promotion displays, featured advertisements, rebates and loyalty initiatives.

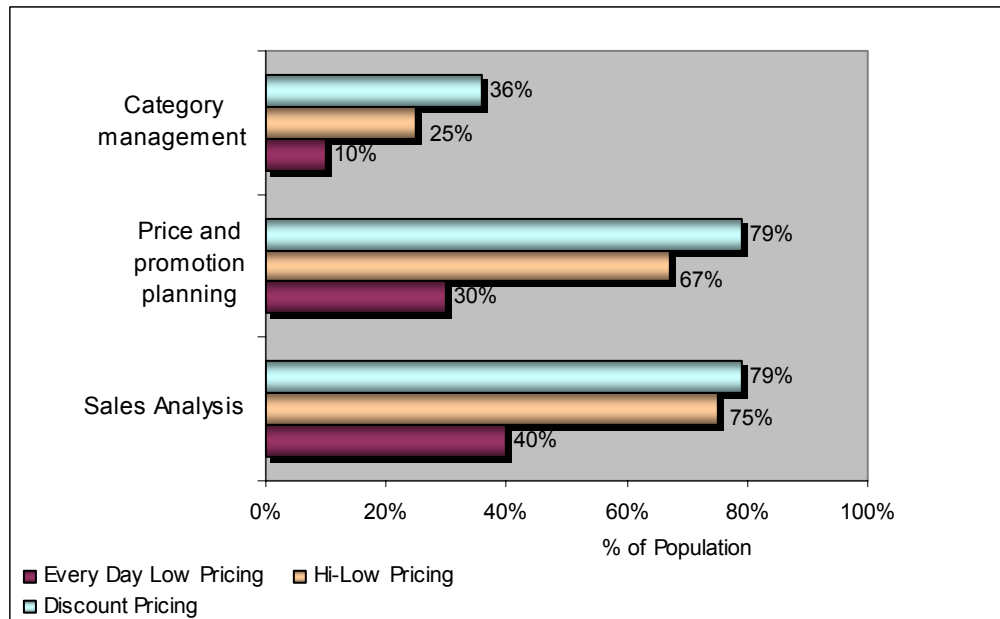
Traditional promotional vehicles with the addition of online promotions dominate the bulk of retail promotional expenditure, irrespective of the scale and volume of the enterprise. General Merchandise & Apparel (GMA) enterprises are executing temporary price reductions (73%), online promotions (53%) and featured advertisements (47%). Supermarket and Grocery retailers are focusing on temporary price reductions (79%), featured advertisements (54%) and in-store displays (67%). Department stores show their affinity towards temporary price reductions (80%), in-store displays (73%) and featured advertisements (53%).

Impact of Price Formats on Promotion Optimization Usage

The data shows that promotion strategies and pricing models work hand-in-hand with the other customer-facing touch-points. Collectively, they can aid in creating a consistent merchandising assortment that may help drive topline, loyalty and gross margin metrics.

The major pricing models followed in the retail industry are: High-Low Pricing, Every Day Low Prices (EDLP) and the Discount retail concept. Aberdeen research results (Figure 2) show that while 75% of hi-low and 79% of discount pricing stores are using the analytics from promotion optimization solutions for deeper sales analysis (multi-selling, up-selling, cross-selling, cannibalization, vendor& own-brand performance, and gross margin), only 40% of EDLP stores are using promotion optimization reporting tools for the purposes of sales analysis.

Figure 2: Use of Promotion Optimization within Different Pricing Formats



Source: Aberdeen Group, February 2007

Retail Pressures

PACE Key — For more detailed description see Appendix A

Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows:

Pressures — external forces that impact an organization’s market position, competitiveness, or business operations

Actions — the strategic approaches that an organization takes in response to industry pressures

Capabilities — the business process competencies required to execute corporate strategy

Enablers — the key functionality of technology solutions required to support the organization’s enabling business practices

The single biggest market pressure is the never ending need for retailers to improve product category margin and profit (Figure 3) in the face of rising costs of operations including labor. Companies believe that there is a direct correlation between the active use of promotion optimization and increased margin in key branded and own-brand product categories. Margin pressure is most highly reported by:

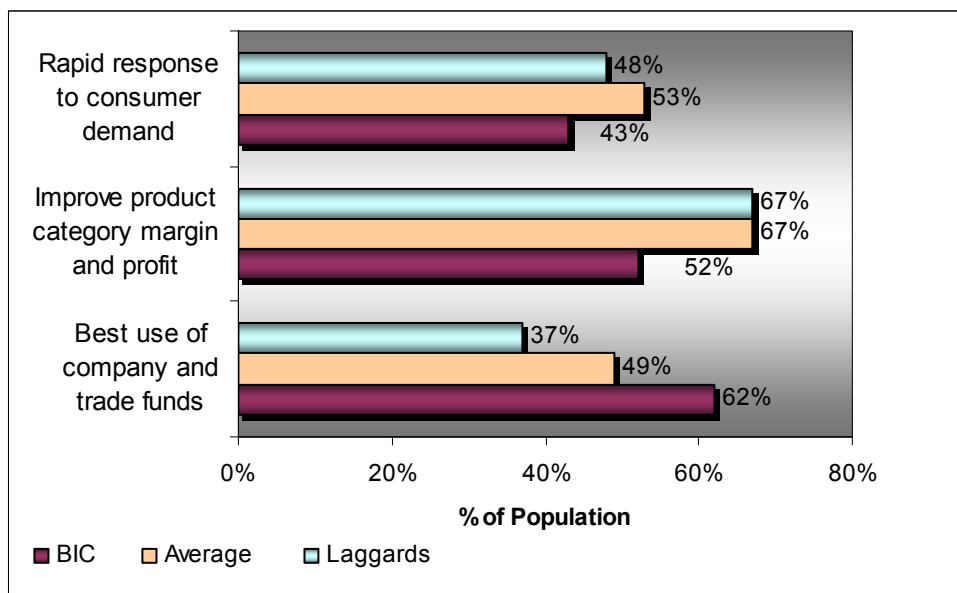
- General Merchandise and Apparel (83%);
- Warehouse stores (85%);
- Supermarket/Grocery (63%) and;
- Department stores (58%)

The other critical market pressure driving companies to look at the strategic bottomline

value of promotion optimization is the best use of company and trade funds. Amongst the surveyed categories, 62% of Best-in-Class companies felt that effective promotional funds management was a key reason for adopting or continuing improvements in the calendar view and promotion costs engine of the optimization solution.



Figure 3: Pressures Compelling Companies to Adopt Promotion Optimization



Source: Aberdeen Group, February 2007

Chapter Two: Key Business Value Findings

Key Takeaways

- 71% of the Best-in-Class believe that historical promotion analysis is a key strategy for their promotion optimization process.
- Best-in-Class companies that use promotions optimization applications are **five times** more likely to record improved average transaction value when compared with the Laggard enterprises in retail.
- Best-in-Class enterprises are **3.2 times** more likely to have recorded higher margin for featured and complementary products in the last two years, when compared with the Average enterprises.

Historical promotion analysis is the most significant strategic action area for retail companies in their quest to adopt or improve their existing optimization goals for promotions (Figure 4). Firms displaying Best-in-Class practices consider improving their abilities for historical promotion analysis as a key step in improving future promotion accuracy and profitability.

Our standard for measuring Best-in-Class performance reflects the demands of shareholders and consumers alike; we combined year-over-year comparable sales (stores and all other channels), margin for featured and complementary products (in the past 2 years), customer retention (in the past 3 years) and market basket size (in the past 3 years) as a percentage improvement of sales. Best-in-Class retailers manage to accomplish top tier performance in all of the above metrics.

Best-in-Class retail enterprises that have currently adopted promotion optimization applications take into account the successful and failed promotion data from the past for an accurate processing of a promotion mix. Best-in-Class (71%) believe that historical promotion analysis is a key strategy for their promotion optimization process. More than half of the Average (59%) and close to half (45%) of Laggard companies consider this strategy as important for optimization.

A key component of any historical promotion analysis is dependent on effectively measuring the adoption of new branded or own-brand merchandise. Tracking new product adoption enables enterprises to predict profit uplift for a category and capture the best promotion mix for a particular promotion period. Best-in-Class companies outnumber the Average and Laggard when it comes to tracking new product adoption for measuring promotion effectiveness. While 86% of the Best-in-Class track new product adoption, only 42% of the Average and 33% of Laggards are measuring this critical metric. Thus, the Average and Laggard are building a major barrier in their ability to plan effective promotions and bottomline profit.

“Attractive pricing, geographical (regional)-orientation and accurate reporting are the three critical components of an effective promotions strategy”.

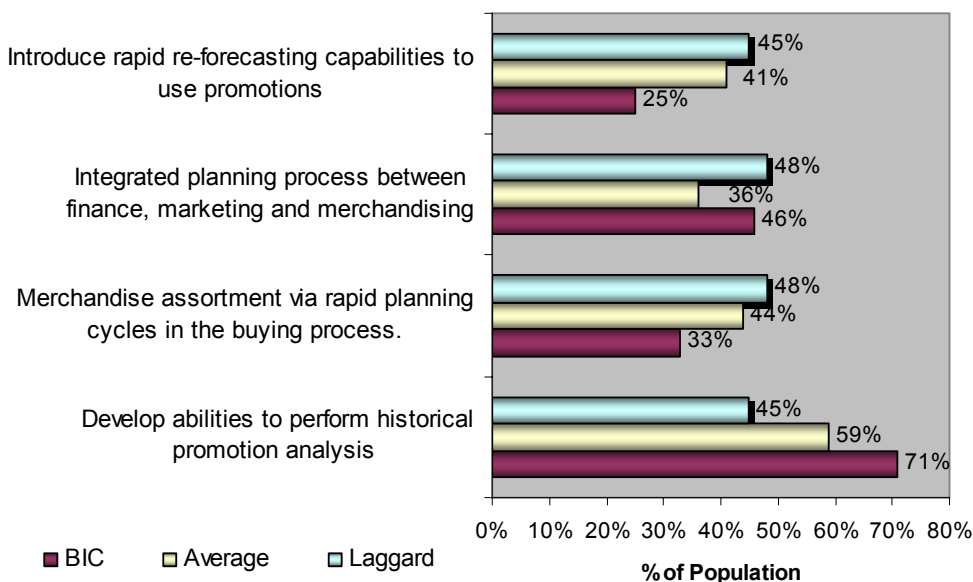
Addition Elle, Canadian Apparel Retailer



Aberdeen research has found that companies with better promotion optimization strategies are performing better and are gaining market advantages. Performance benefits include:

- **Gross Margin for Featured and Complementary Products:** Best-in-Class companies that are using a promotions optimization solution are **3.2 times more likely** to have recorded better than average performance in margin for featured and complementary products during any given promotion period in the last two years.
- **Customer Retention:** Best-in-Class that use a promotions optimization solution are **three times** more likely to perform better than industry average on customer retention.
- **Average Transaction Value:** Best-in-Class companies that use promotions optimization applications are **five times** more likely to record improved average transaction value when compared with the Laggard enterprises in retail.

Figure 4: Retailers' Have Different Priorities for Optimizing Promotions



Source: Aberdeen Group, February 2007

Challenges and Responses

Standing in the way of optimized promotions are challenges related to promotion data aggregation and validation. Half of the retailers’ feel that their teams are constrained by their quality and quantity of reporting (Table 1). All too often, retailers face hurdles in aggregating large amounts of data and producing timely reporting.

Spreadsheet based non-automated promotion reporting systems, which are used by more than half the retailers’ (57%) use insufficient metrics to gauge and improve optimization performance. Organizations are dealing with lack of clean data, lack of adequate customer information and scattered data across the enterprise. Nearly half (47%) of the GMA retailers’ face an uphill task as they either do not have clean data or they lack specific customer data for generating valid results.

“The biggest challenge for us is to allocate the correct quantities and measures the allocation accuracy after promotions”

-A South America-based specialty retailer

Companies are responding to the challenge of data aggregation by bringing in outside consultants to help with data cleansing projects and align incentives to the promotion process results. As far as finding the balance between data aggregation and strategizing/optimizing, an increasing number of retailers are selecting smaller cross-functional teams and projects to test promotion results.

Supermarket and grocery companies attest that they are bringing in outside help (58%) and one-third (33%) are selecting smaller cross-functional teams for implementing the promotional processes including analytics in an effective manner.

Table 1: Promotions Optimization Challenges and Responses

Challenges	% Selected	Responses to Challenges	% Selected
1. Spend more time aggregating and validating promotion data rather than strategizing/optimizing	50%	1. Select small cross-functional team to help implement promotion processes	50%
2. Promotion data is not clean enough for analysis	46%	2. Small projects in pilot departments to measure ROI	44%
3. Lack of adequate customer specific information to generate valid results	42%	3. Bring in outside help to change business processes	41%
4. Not enough time to make use of any more information	28%	4. Executive mandates for change within departments	38%
5. Promotion data is scattered throughout the organization; not centralized	26%	5. Data cleansing projects to improve data quality	34%
6. The integration and complexity of algorithms in these promotion solution engines is daunting	25%	6. Align compensation incentives to promotion system results	21%

Source: Aberdeen Group, February 2007



Chapter Three: Implications & Analysis

Key Takeaways

- 85% of Best-in-Class are using a combination of dashboards, portals and downloads to store systems/intranet for improving promotion reporting and decision making for best service levels.
- Close to 80% of Best-in-Class companies conduct sales analysis from cross-enterprise promotions data for enhanced financial performance and planning within store operations.
- 71% of Best-in-Class companies are consider advanced historical promotion analysis as a proactive approach towards maintaining high levels of promotion process optimization.

As shown in Table 2, survey respondents fell into one of three categories – Laggard, Industry Average, or Best-in-Class — based on their characteristics in four key categories: (1) process (ability to address exceptions, responsiveness to customer needs, effectiveness metrics in place); (2) organization (collaborative strategy, design expertise, and level of collaboration among stakeholders); (3) knowledge (enterprise data management strategies, visibility and near-real time process management); and (4) technology (infrastructure excellence, analytics and performance improvement).

In each of these categories, survey results show that the firms exhibiting Best-in-Class promotions optimization technology usage characteristics also enjoy Best-in-Class customer and financial performance (Table 2).

Table 2: Promotions Competitive Framework

	Laggards	Industry Average	Best in Class
Process	<ul style="list-style-type: none"> • Promotion, customer and product data is scattered throughout the organization. • Below average programs for improving planning and designing of promotions. 	<ul style="list-style-type: none"> • Promotion, customer and product data entered into one channel system of record. This data is electronically moved into other channels. • At par, partially consistent levels of improved promotion planning and designing. 	<ul style="list-style-type: none"> • One master process gets promotion, product and customer information into channel system of records within the chain. • Consistent levels of improved promotion planning, designing and execution.

	Laggards	Industry Average	Best in Class
Process	<ul style="list-style-type: none"> Promotion, customer and product data is scattered throughout the organization. Below average programs for improving planning and designing of promotions. 	<ul style="list-style-type: none"> Promotion, customer and product data entered into one channel system of record. This data is electronically moved into other channels. At par, partially consistent levels of improved promotion planning and designing. 	<ul style="list-style-type: none"> One master process gets promotion, product and customer information into channel system of records within the chain. Consistent levels of improved promotion planning, designing and execution.
Knowledge	<ul style="list-style-type: none"> Promotion applications not viewed or analyzed by all key departments. Lack of real-time view of cross-channel or department/channel promotion performance. Sales lifting still the preferred metric. Lack of adequate monitoring of company and trade funds. 	<ul style="list-style-type: none"> Some consistency in terms of applications view and analysis by all major departments. Near real-time view of cross-channel promotion data or department/channel performance. Merchandise turn, cannibalization and vendor performance as top promotion metrics. 	<ul style="list-style-type: none"> Consistent usage of applications and analysis led by strategic planning into other key departments. Real-time view of cross-channel or department/channel promotions performance. Stringent monitoring of company & trade promotion funds, merchandise turn, cannibalization.
Technology	<ul style="list-style-type: none"> Heavy use of delayed spreadsheets. Lack of focus on key promotion features like rapid re-forecasting for planning cycles, advanced promotion analytics and automated cross-channel loyalty initiatives. 	<ul style="list-style-type: none"> Use of dashboards and portals. Somewhat consistent use rapid re-forecasting capabilities to use promotions. Consistent use of rapid planning cycles for buying and historical promotion analysis. 	<ul style="list-style-type: none"> Consistent use of dashboards, portals and download to store systems/intranet. Stringent use of rapid planning cycles for buying, rapid re-forecasting advanced analytics and a faster consolidation process that reduces planning cycles.

Source: Aberdeen Group, February 2007



Process and Organization

- Firms that proactively approach one master process for centralized customer, product, and promotion information attain the best customer and sales results in planning, designing and executing promotions.
- Two-thirds of retailers report that promotion optimization application use and strategy are centralized at the senior management level.
- In terms of the promotions technology usage, as seen in Table 2, the Best-in-Class respondents are most inclined to use rapid planning cycles for the merchandise buying process. These firms utilize rapid re-forecasting and advanced promotion analytics like cannibalization for effective planning of promotions and measuring its effect on topline sales of featured, complimentary and non-complimentary products. These steps contribute to a more effective field execution, and enable the ability to measure the impact of the solution integration on the other value chain processes.
- In the knowledge category, more than half of the Best-in-Class companies use gross margin, merchandise turn, trade promotion performance, cannibalization, and vendor performance as the top five Key Performance Indicators (KPIs) for measuring promotion effectiveness. These firms experience common fruits of the measuring process and customer service metrics tied to the ROI of promotions optimization on a more consistent basis (See Figure 5).

“Three Essentials for an Effective Promotions Optimization Process: Promotional Calendar, Collaborative planning with suppliers and Effective supply chain.”

- U.S. based GMA retailer

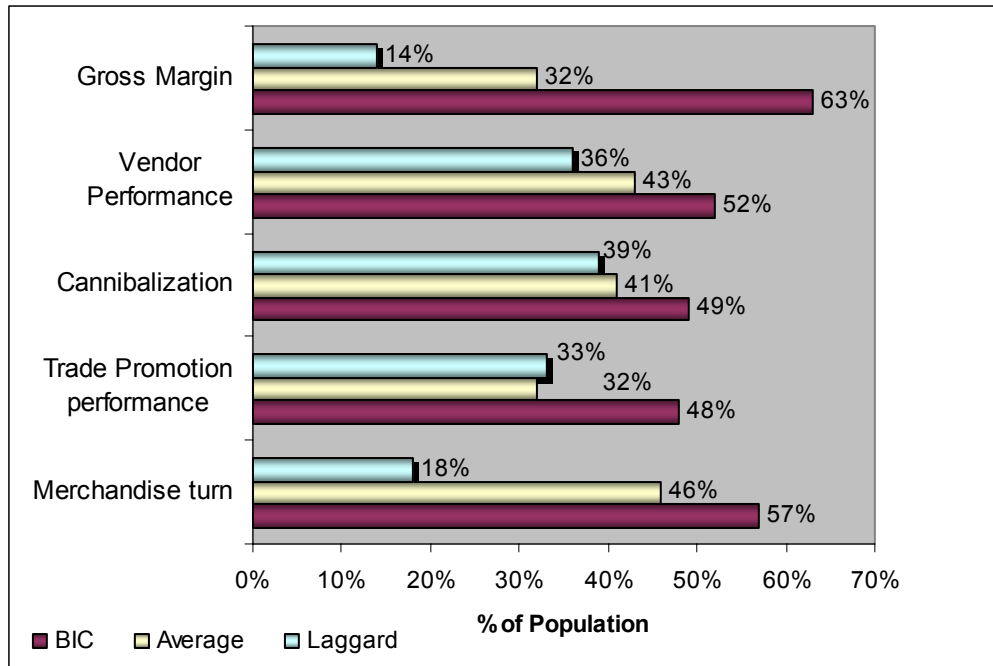
Case Study: Category Cannibalization Impacts Apparel Retailer

The Problem: An apparel retailer wished to understand the differential effect of a 5% cut in price of 9 competing brands within each individual product category and the overall entire category of products.

The Strategy: The promotion optimization application enabled this evaluation to be undertaken by providing information on the individual product performance and the impact on the total category in terms of sales volume and value. This application determined the complete picture for the retailer, and made the calculation of overall cannibalization and profit as a result of the promotional activity possible.

The Result: The degree of cannibalization varied from 15% to 65% at a category level, while the variation in individual product's gain and losses was much greater. The promotion optimization application provided the retailer with the ability to clearly see that certain products were much more efficient in generating incremental sales and profit than others. This application took into account the impact of the 5% price cut on the product and category, thereby taking into account sales cannibalization.

Figure 5: Metrics Tied to Achieving ROI



Source: Aberdeen Group, February 2007

The success of promotion optimization solution can be measured in terms of percent improvement in each of the above areas (Figure 5).

Technology Usage

Across all surveyed retail industry categories, promotion optimization adoption was found to be increasing. Respondents were asked for their likely investment in specific value-chain areas within their retail organization, as promotions have a cross-value-chain impact. These results are listed in table 3. According to our findings, respondents indicated that implementation or access to features of promotion optimization solutions, such as analytics or promotion calendars, would be provided in departments such as strategic planning, marketing, inventory management, pricing and store operations.

It is noteworthy that all deployments are projected to experience a double-digit adoption rate increase over the next 2 years. The highest adoption is expected within strategic planning. This department within retail is expected to place more of the decision making and control for promotion optimization within the organization, as it is best positioned to provide a forward-looking framework for the topline revenue and bottomline profit strategies of the CFO.



Table 3: Promotion Optimization Investments in Next 12-24 Months

Value-Chain Area Deployment	% Selected
Strategic Planning	20%
Marketing	17%
Inventory Management	15%
Enterprise-Wide	14%
Store Operations	13%
Pricing	10%

Source: Aberdeen Group, February 2007

Pressures, Actions, Capabilities, Enablers (PACE)

We have shown that there is a clear relationship between the pressures companies identify and the actions they take, and their subsequent competitive performance. All participants should examine their prioritized PACE selections and determine whether there are valuable perspectives to be gleaned by comparison with the PACE priorities of Best-in-Class companies.

What is behind this increased focus and priority towards introducing or expanding promotion optimization? The answer lies in the retailers' objective of to streamline all types of promotions, rebates and discounts to grow volume and drive a profitable business. A hyper-competitive retail environment requires building customer and brand loyalty through improved allocation of trade-funds. The chief objective for enterprises in the short and long-term is to develop the persistent ability to determine best mix of products to better service their customers.

Enterprises ranked the increased need to improve product category margin and profit as the strongest pressure driving their decision to adopt and expand a promotion optimization initiative. In the context of Aberdeen's PACE (pressures, actions, capabilities, enablers) analytical framework (Table 4), 63% of firms classified this pressure as a top priority.

In response to these business pressures, companies are setting strategies and taking actions primarily around understanding the implications of creating abilities that enable historical promotion analysis. The reason, a historical analysis helps assess successful and the failed promotion trends. The early response to market conditions holds the key to the success of a promotion strategy that depends on historical promotion analysis. When combined with the rapid planning cycles within the merchandising buying process and re-forecasting capabilities to use the apt promotion cycle, historical promotion analysis can provide a winning strategy. Therefore, it is not surprising that 57% of firms cited the need for historical promotion analysis as a key strategic action for optimizing promotions.

Table 4: PACE (Pressures, Actions, Capabilities, Enablers)

Priorities	Prioritized Pressures	Prioritized Actions	Prioritized Capabilities	Prioritized Enablers
1	Need to Improve product category margin and profit.	Develop abilities to perform historical promotion analysis.	Optimized programs related to planning, designing and execution of personalized promotions.	Use solutions that provide 'what if ' promotional forecast and optimization scenarios for store-level/channel SKU clustering with the most effective pricing and promotional offer.
2	Need for more rapid response to consumer demand.	Improve merchandise assortments by ensuring rapid planning cycles in the buying process.	Synchronized demand, industry buying trends and competitive trends.	Centralized process to help select categories and items to promote with a built-in channel-wide promotion calendar view. Adopt promotion solutions that utilize OLAP-based warehousing, reporting and promotional BI delivery.
3	Require better monitoring of promotion effectiveness to ensure best use of company and trade funds.	Adopt an integrated planning process between key departments including finance, strategic planning, store operations, pricing, marketing and merchandising.	Consistent product promotion, customer, loyalty, merchandising and inventory information for enterprise-wide visibility.	Induct real-time ROI metric tools like cannibalization, sales uplift and merchandise turn for every promotion. Integrated planning, forecasting and promotional intelligence to drive higher ROI on advertising and inventory investments.
4	Need to manage demand across multiple channels.	Introduce rapid re-forecasting capabilities to use promotions and enterprise-wide loyalty initiatives.	Ensure product information and pricing is up to date and consistent across channels and unified performance metrics are applied.	Adopt solutions that have a feature that allows real-time fast consolidation process that reduces planning cycles.



The Changing Dynamics of Retail Promotions

Priorities	Prioritized Pressures	Prioritized Actions	Prioritized Capabilities	Prioritized Enablers
5	Improve cross-enterprise visibility into planned promotion activity.	Adopt built-in calendars that provides organization-wide promotion visibility.	Enable real time views of cross-channel promotions, customer, inventory and merchandising data.	Opt for solutions that provide customized metric and rapid planning tools for cross-enterprise usage (departments and channels). Look for a calendaring tool that has advanced graphic-user interface for types of promotions, plan to goal and funds allocation and vendor compliance features.

Source: [Aberdeen Group](#), February 2007

Chapter Four

Recommendations for Action

Key Takeaways

- The average firms should adopt automated promotion delivery means like dashboards, portals and intranet systems for near real-time reporting that aids faster response to market demand.
- The Best-in-Class must strive for quick (6-8 months) improvements to existing solutions for creating a strong cross-channel demand chain that optimizes both promotion and price loyalty in the multi-channel environment. This will create a unified view of promotion offers for new and old customers, and drive consistency profit uplift.

Topline sales, bottomline profit, brand, and customer loyalty benefits await all firms that are committed to optimizing their use of promotions. The level of aggressive action recommended to improve activities is dependent on the retail segment an enterprise competes. These recommendations should serve as a guide to all enterprises, regardless of the size or scale.

In the consumer-facing retail industry where fragmentation and lack of competitive differentiation is common, improvements to response time and advanced planning towards consumer shopping experience is critical to incremental growth and increasing year-over-year comp sales. Customers can and will be won or lost based on competitive, best priced, and trendy product/service offerings derived from promotion innovation and market demand. Thus, firms in this industry should constantly strive to improve the optimization engine and process for improved consumer offerings in their field outlets or stores as well as other channels.

Whether a company is trying to gradually move its field service organization from “Laggard” to “Industry Average,” or “Industry Average” to “Best-in-Class,” the following actions will help spur the necessary performance improvements:

Laggard Steps to Success

1. *Select small projects in pilot departments to measure ROI*

Industry laggards can take the first steps toward implementing a best of breed promotion optimization solution by selecting an application that has an optimization engine for a small group of stores, or store/channel for measuring the impact of multiple optimization scenarios; potential promotions, and mini-market demand. Measure results and promotion effectiveness for 6-months, as the optimization engine must demonstrate checks and balances for two selling seasons.



2. *Start measuring gross margin impact and sales uplift*

Select a cross functional team that works under the supervision of the IT head and a business process manager. Start key performance measurements of promotions by key demographics, day, and periods. For the first year, measure performance targeting 15% increase in gross margin impact and 25% increase in sales uplift per product category, brand, and department that is selected for the promotion mix. Build a central data repository with data farms for category-specific data.

Industry Norm Steps to Success

1. *Adopt solutions that provide multiple optimization scenarios and rapid planning & re-forecasting capabilities*

For the industry average, a step toward Best-in-Class status depends on adopting a solution that allows projecting the bottomline impact of multiple optimization scenarios. These scenarios include varied promotion types, historical pricing and promotion analysis, market demand suggestions, cross promotions sets, and appropriate promotion vehicles. These solutions must provide insight into the net impact of a promotion on merchandising performance per promotion scenario in every period of measurement.

2. *Migrate from traditional promotion metrics to advanced analytics.*

A powerful Best-in-Class attribute is the ability to look beyond traditional metrics and look at measurement tactics that are automated and based on minimizing promotion mis-cues. The average firms should adopt automated promotion delivery means like dashboards, portals, and intranet systems for near real-time reporting that aids faster response to market demand. Measuring merchandise turn, cross promotion cannibalization, vendor, and trade promotion performance would save the retailer trade, markdown, and vendor-funded dollars.

Best-in-Class Next Steps

1. *Pursue an aggressive strategy for expansion of cross-enterprise loyalty initiatives that truly differentiates the promotion optimization process.*

The Best-in-Class who have successes in executing promotion optimization must aggressively pursue the differentiation process by adopting promotion optimization solution improvements. These enterprises must strive for short-term (6-8 months) promotion solution improvements that provide better loyalty-related optimization scenarios for high-margin brands including own-brand categories. In this case, Best-in-Class must build a strong cross-channel demand chain that optimizes both promotion and price loyalty in the multi-channel environment. This will create a unified view of promotion offers for new and old customers, and drive consistency profit uplift.

- 2. Remove all obstacles that mitigate the flow of data within the organization. Make data capturing and measurement real-time. Increase involvement with vendor and other retailers to develop new and more precise metrics.*

Data empowers customer focus. The merchandising data capture and analysis of Best-in-Class enterprises must move towards 100% real-time basis for reduced errors in decision making. Aberdeen research shows that more than half of the top tier retailers are still not doing enough to ensure real-time data capturing and reporting. The most proactive customer-oriented process has to possess the highest standards of construing and interpreting data for strategic direction. The Best-in-Class must also invest in developing dynamic promotion scenarios and new promotion cost-cutting metrics as key optimization and forecasting decisions are being removed from the strategic planning departments within retail.

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Appendix A: Research Methodology

During December, 2006 and February, 2007, Aberdeen Group examined the procedures, experiences, and intentions hundreds of enterprises in retail regarding promotion optimization solutions.

Responding business line managers, IT executives, and corporate application developers completed an online survey that included questions designed to determine the following:

- Current and planned use of promotion optimization solutions;
- Challenges in achieving ROI;
- The importance and methods for measuring optimization;
- Roadblocks to successful implementation;
- Tools and techniques that enhance the value of promotion optimization;
- The degree to which optimization impacts retailers' technology decisions.

Aberdeen supplemented this online survey effort with telephone interviews with select survey respondents, gathering additional information on promotions strategies, experiences, and results. Our intention was to determine whether each of the above created competitive advantage or retailers that use them. From there, we aimed to identify emerging best practices and provide a framework by which readers could assess their capabilities and ways to improve their effectiveness.

Responding enterprises included the following:

- **Job title/function:** The research sample included respondents with the following job titles: line of business managers (11%); C-level officer (53%); director (8%); development staff and consultants (28%).
- **Industry:** The research sample included respondents predominantly from retail; some hospitality and transit respondents have also been included. The break-up of respondent segments is as follows: Specialty retail 10%, Supermarket & Grocery Chains 20%, Mass Merchants and other retailers 20%, Warehouse Stores 20% and Hospitality and quick-serve restaurants 5% of the survey pool. Department stores and Chain Drug/Convenience stores accounted for 14% and 10% of the respondents, respectively.
- **Geography:** 84% of the study's respondents were from the Americas, 11% were from EMEA, and 5% from Asia/Pacific.
- **Company size:** About 10% of respondents were from large enterprises (annual revenues above US\$1 billion); 46% were from midsize enterprises (annual revenues between \$50 million and \$1 billion); and 44% of respondents were from small businesses (annual revenues of \$50 million or less).

Solution providers recognized as sponsors of this report were solicited after the fact and had no substantive influence on the direction of this report. Their sponsorship has made it possible for Aberdeen Group to make these findings available to readers at no charge.

Table 5: PACE Framework

PACE Key
<p>Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows:</p> <p><i>Pressures</i> — external forces that impact an organization's market position, competitiveness, or business operations (e.g., economic, political and regulatory, technology, changing customer preferences, competitive)</p> <p><i>Actions</i> — the strategic approaches that an organization takes in response to industry pressures (e.g., align the corporate business model to leverage industry opportunities, such as product/service strategy, target markets, financial strategy, go-to-market, and sales strategy)</p> <p><i>Capabilities</i> — the business process competencies required to execute corporate strategy (e.g., skilled people, brand, market positioning, viable products/services, ecosystem partners, financing)</p> <p><i>Enablers</i> — the key functionality of technology solutions required to support the organization's enabling business practices (e.g., development platform, applications, network connectivity, user interface, training and support, partner interfaces, data cleansing, and management)</p>

Source: Aberdeen Group, January 2007



Table 6: Relationship between PACE and Competitive Framework

PACE and Competitive Framework How They Interact

Aberdeen research indicates that companies that identify the most impactful pressures and take the most transformational and effective actions are most likely to achieve superior performance. The level of competitive performance that a company achieves is strongly determined by the PACE choices that they make and how well they execute.

Source: Aberdeen Group, January 2007

Table 7: Competitive Framework

Competitive Framework Key

The Aberdeen Competitive Framework defines enterprises as falling into one of the three following levels of FIELD SERVICES practices and performance:

Laggards (30%) — FIELD SERVICES practices that are significantly behind the average of the industry, and result in below average performance

Industry norm (50%) — FIELD SERVICES practices that represent the average or norm, and result in average industry performance.

Best-in-Class (20%) — FIELD SERVICES practices that are the best currently being employed and significantly superior to the industry norm, and result in the top industry performance.

Source: Aberdeen Group, January 2007

Appendix B: **Related Aberdeen Research & Tools**

Related Aberdeen research that forms a companion or reference to this report includes:

- [The New Retail Differentiator: Making Extended Points of Service a Reality](#) (2006)
- [Finding the Technology's Tipping Point](#) (2005)
- [The Empowered Point of Service: The Customer Reclaims Her Kingdom](#) (2005)

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*Aberdeen Group, Inc.
260 Franklin Street
Boston, Massachusetts
02110-3112
USA*

*Telephone: 617 723 7890
Fax: 617 723 7897
www.aberdeen.com*

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