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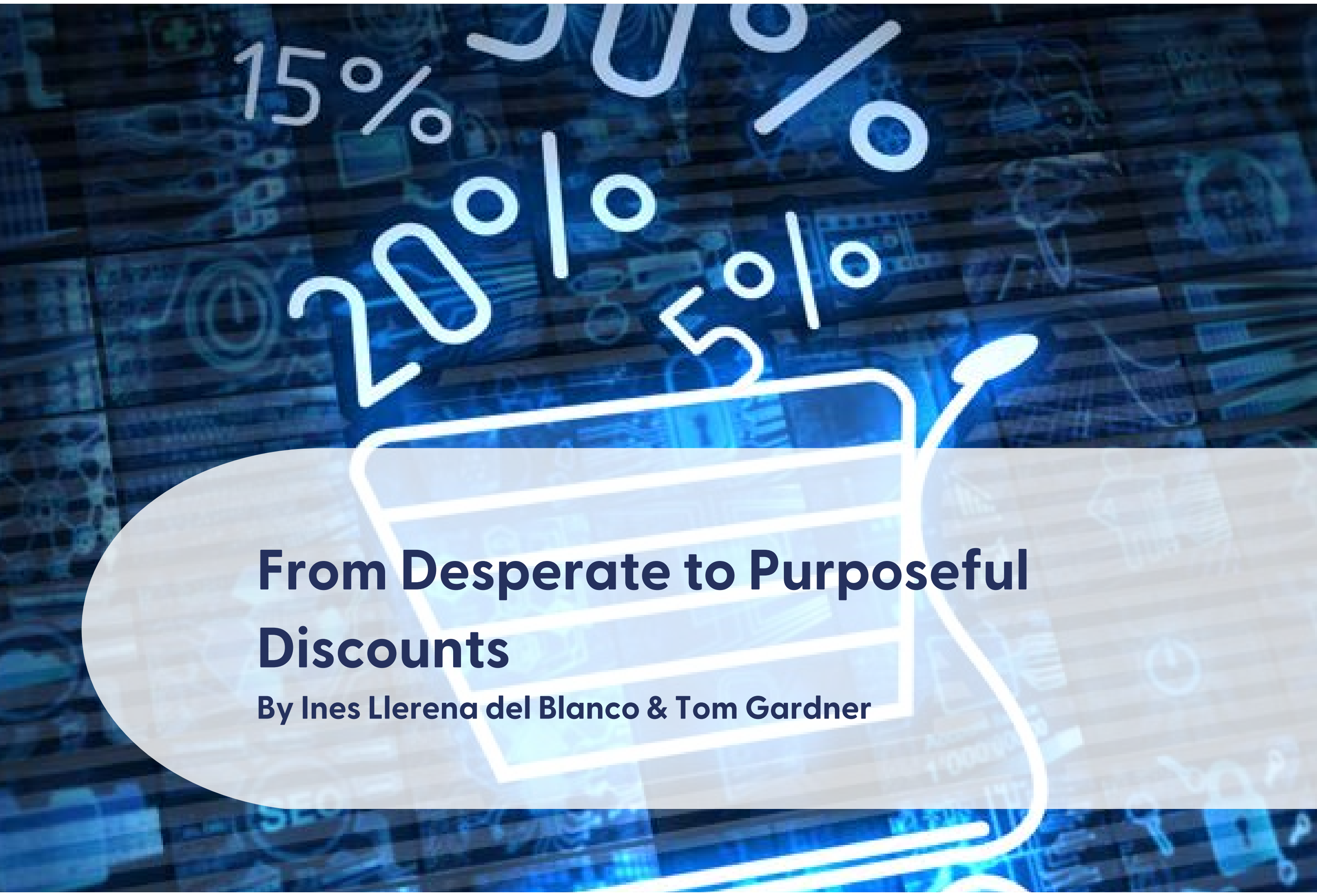

From Desperate to Purposeful Discounts

By Ines Llerena del Blanco & Tom Gardner

If designed smartly, targeted effectively and timed correctly, business-to-consumer (B2C) promotions can raise brand awareness, boost sales volumes and strengthen customer loyalty. But reactive, excessive or poorly targeted offers reduce profitability and cheapen your brand. And once you're in a vicious circle of perpetual discounts, it's very difficult to break out of it. So what differentiates a good discount strategy from a bad one?

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From buy-one-get-one-free to money off if you spend over a certain amount, promotions are coming thick and fast.

Promotions work best when customers feel that this is a genuinely special offer or saving – an incentive to try something new or thank you for being loyal. But to us as experienced promotions professionals, the sheer number of current offers raises alarm bells. When you have too much of a good thing or the promotion is directed at the wrong customer at the wrong time, it's no longer special. It may even do more harm than good.

The Bad: Race to the Bottom

What makes a promotion 'bad'? The big danger is a panicked reaction to a drop in sales. In the current market, there may also be a temptation to use offers to placate customers who are concerned about recent price rises. But this kind of reactive promotion can run counter to business and financial objectives.

Without clear insights into why volumes have fallen, whether the price is the main reason and whether it's a temporary or long-term trend, the promotion won't tackle the problem. Worse still, it can set off a price war with competitors. Soon enough, savvy customers sense the desperation and won't buy unless there is a discount. Ultimately, your hard-won market position and reputation for offering value for money could be irreparably damaged.

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The Good: Hitting the Target

What then marks out a good promotion and discount strategy and how can you bring it to market in the most effective way? Drawing on our experience of working with a range of customers across different B2C sectors, five priorities stand out:

1. Be strategic rather than reactive.

Define your strategy for promotions and make sure this is aligned with your broader business goals. Who is the offer aimed at and how will it help to deliver key objectives, such as increased awareness, loyalty or profitability, without devaluing the brand?

An important strategic marker is setting a list price and clear policies around its management. Any direct or indirect deviation from the list price should be justified strategically and the risk of undermining the pricing policy assessed and addressed.

Governance is key. Who designs and signs off any deals? Are they at the right level of decision making to understand the strategic drivers and implications? Is the data they're using to make these decisions sufficiently timely, reliable and checked against outcomes?

2. Develop a clear understanding of customer motivations.

Analyse the expectations and motivations of your customers. Gauge what they value in your product and why they choose it over another.

Tailoring is critical. Different segments have different values and will respond to promotions in different ways. Even within segments, customer motivations and expectations are likely to vary according to when they are buying (e.g. peak or non-peak time), why (e.g. a gift) and where (e.g. level of nearby competition).

3. Define and drive the outcomes.

Be clear about what perception and/or behaviour you want to drive. You can then design the promotion around this. Do you want to win new business or shore up your existing customer base, for example? Is your primary goal boosting volume or profitability during a peak period?

Having defined the objectives, you can judge what kind of promotion would be most compelling. Key considerations include timing, frequency, location, channel and mechanism. You can also look at how to tap into habits, biases, principles and thought processes in an acceptable way.

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4. Strike a balance between brand perception, volume and return

A key part of effective promotional strategy is knowing when to turn on the tap and when to turn it off. An offer that depletes margins but drives volumes may be fine in quieter times. But this kind of promotion can't be used indiscriminately. It risks cannibalising margins at busier times and devaluing the brand over the longer term.

Customer analysis and data-driven insights are important to understand the push and pull of different promotions and knowing what works best where and when.

5. Monitor, test and learn

It's important to establish central oversight over what promotions are being run where and when. This is so that you can judge whether the product or service is being over-promoted, or promoted in counterproductive ways.

After you've run the promotion, carry out a rigorous review looking at the impact on sales, returns and customer perceptions. The results can help to hone strategy and tactics. If systems are robust enough, you can use them to carry out ongoing promotion tests - and deliver the ultimate aim of a precise and actionable basis for promotional data and management.

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Handle with care

At their best, promotions can boost volumes, returns and perceptions. At their worst, they can become a fix that provides ever diminishing returns and causes lasting damage to the brand. So it's important to be clear about what different customers value, what motivates their behaviour and what role promotions can play in influencing this. It's also important to balance short-term volumes with the long-term health and viability of the brand.

If you'd like to know more about how to get the most out of promotions, please get in touch.

Get In Touch

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