



Price AND Promotion WARS:

HOW TO AVOID A
RACE TO THE



BOTTOM


PRICE AND PROMOTION WARS: HOW TO AVOID A RACE TO THE BOTTOM

In the world of pricing and promotions, the five most dreaded words are “a race to the bottom.” That’s a contest where the only thing worse than winning is coming in second.

It’s true that price wars and their companion, overly generous promotions, can definitely eat into (or even destroy) retailers’ profit margins. Just over half (**52%**) of consumers receive weekly or monthly promotions for items they would have **happily paid full price for**, according to a [Forrester Research](#) study conducted in May 2017 and updated in April 2018.

It’s also true that getting the price right — for each customer, at each touch point and at the optimal time of the day, week or selling season — can seem like an insurmountable obstacle. But as complex and daunting as the challenges are, most retailers have access to both the **data** and the **tools** to make smart pricing and promotion decisions. But what they too often lack are the actions required to make the data and solutions work effectively. They need to:

- **Sharpen demand forecasts**, particularly for seasonal products, and monitor actual demand to make adjustments, minimize markdowns and improve future forecasts;
- **Use dynamic pricing and AI to speed up decision-making**: Most retailers can’t compete with Amazon’s ability to change prices hundreds of times a day, but they can use algorithms that take into account competitors’ prices, calendar events and weather to react more quickly;
- **Use AI, machine learning and behavioral analysis to improve promotions’ structure and timing**: Retailers that can determine the highest likelihood point when a shopper will want a particular product, and present them with that item, will have to rely less on discounts and promotions to achieve conversion; and
- **Combine product recommendations and promotions to build basket sizes and enhance customer loyalty**: Retailers need to take a macro focus that goes beyond optimizing profitability on a single purchase. If the consumer is preparing a meal, building an outfit or doing a home improvement project, retailers can use pricing and promotions both to increase market basket size and enhance customer satisfaction.

A background image showing a hand holding a white shopping bag. Several red "SALE" tags are attached to the bag, some with large white dollar signs. The image is slightly blurred, focusing on the text overlay.

"Most retailers wait too long to take their first markdown, and more often than not that first markdown is completely ineffective."

- ADHEER BAHULKAR, A.T. KEARNEY


SHARPEN DEMAND FORECASTS WITH A FOCUS ON FACT-BASED DECISION-MAKING

Many retailers still rely on outdated strategies and 'gut instinct' when making pricing decisions. This is particularly apparent with markdown cadences on seasonal items, which often are picked up from previous years without examining changes that have occurred in consumer behavior and in the products themselves.

"Most retailers wait too long to take their first markdown, and more often than not that first markdown is completely ineffective," said Adheer Bahulkar, Partner and Specialties Retail Lead at [A.T. Kearney](#). "I understand the passion the merchant may have for the product, but not using fact-based decisions and pricing discipline is a common pitfall."

Simply using the data they have in-house to support smarter pricing, promotion and merchandising decisions is another smart first step for retailers. "Pricing and promotion planning is really about understanding the actual demand for items," said Bahulkar in an interview with *Retail TouchPoints*. When forecasting demand, for example, retailers need accurate data to balance the potential for lost sales if they **underestimate** demand, compared to the cost of markdowns if they **overestimate** demand.

"Clearing inventory is often what can trigger the 'race to the bottom,'" Bahulkar continued. "Everyone now accepts that brands have unwittingly trained the consumer to wait for sales or promotions, and that happened because brands ended up buying way too much inventory compared to actual demand. Once you find yourself in that situation, you have no choice" but to discount items, sometimes drastically.

The background of the top section is a blurred image of a store aisle. A large, red, three-dimensional sign with the text "-50%" is prominently displayed in the foreground, slightly to the right.

As many as **53%** of shoppers will wait as long as it takes for an item they want to drop to a price they are willing to pay.

- FORRESTER RESEARCH

As many as **53%** of shoppers will wait as long as it takes for an item they want to drop to a price they are willing to pay, according to the [Forrester Research survey](#), which queried 1,250 consumers in five countries.

The good news for retailers is that it's likely they already have the data they need in-house. "Brands don't need to wait for all the right data to make significant advances in this area," said Bahulkar. "Usually half the opportunity can be captured with existing data, even as rudimentary as it might be. With those benefits, the retailer can create funding for future investments in price optimization."

In fact, the biggest pricing and promotion challenges come not from a lack of data, but from an inability to use that data effectively. "I believe retailers have the data they need, sometimes more than they can fathom," said Djamel Toubirnet, Senior Product Marketing Manager for Retail, Americas at [Cegid](#) in an interview with *Retail TouchPoints*. "The challenge is that not all the information they require (customer information, inventory, sales) is in one single place, which makes it difficult to connect the dots and spot opportunities. That's what hinders possibilities and growth."

Experts believe retailers need to move toward a **single system of record** that provides a complete picture of both **existing and new target customers**, and then use strategies to tap into that data to determine **which types of promotions work best**.

A hand is shown pointing at a tablet screen. The screen displays a retail website interface with various product categories and promotional banners. The categories listed include: SOCKETS, BOTTOMS, SWIM & BEACHWEAR, SPORTSWEAR, LINGERIE & NIGHTWEAR, SHOES, FLATS, HEELS, SANDALS, BOOTS, SPORTS, ACCESSORIES, SALE, UP TO 50% OFF, ACCESSORIES & JEWELLERY, THE SHOE OBSESSION, BRANDS, NEW YORK, LOS ANGELES, MIAMI, HOUSTON, RIO DE JANEIRO, MOSCOW, TOKYO, SHANGHAI, MUMBAI, MELBOURNE, and PREMIUM ESSENTIALS. Each category has a corresponding "SHOP NOW" button.

"Digital-first retailers such as Amazon are able to rapidly change the price of millions of products in response to consumer demand or competitor pricing."

- DEBORAH WEINSWIG, CORESIGHT RESEARCH

USE TECHNOLOGY TO SPEED UP PRICING AND PROMOTION DECISIONS

In addition to updating their markdown cadences and centralizing data, retailers must be willing to frequently adjust their pricing and promotion models. Given the rapid changes taking place in consumer behavior and products themselves, these models can become outdated very quickly.

"Speed is an important dimension of an effective pricing strategy," said Mike Kim, a Director at [AArete](#) and head of its Center of Data Excellence in an interview with *Retail TouchPoints*. "The question is always, how do we continuously and dynamically test out hypotheses that are mapped to a business problem, refresh our models and pricing strategies, and see what works? Yesterday's pricing strategy is not going to work tomorrow, so **you have to constantly reinvent yourself.**"

Amazon has become the master of rapid price changes, but other retailers can use solutions powered by artificial intelligence (AI) to speed up and sharpen their processes. "Digital-first retailers such as Amazon are able to rapidly change the price of millions of products in response to consumer demand or competitor pricing," said Deborah Weinswig, Founder and CEO of [Coresight Research](#) in an interview with *Retail TouchPoints*. "AI services from third-party vendors can help traditional retailers even the playing field, automatically adjusting prices based on market conditions and other data such as weather conditions, calendar events, and competitors' sales and promotions."

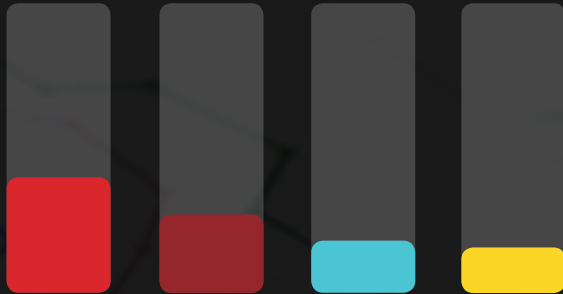
Some retailers are taking a page from Amazon to improve sales opportunities. "Third-party retailers selling on Amazon Marketplace compete in order to appear on the 'buy box' for a product," said Weinswig. "While a vendor's position on this buy box is determined by factors such as sales volume and reviews, price is also a key determinant, and the most sophisticated vendors use their own dynamic pricing algorithms in order to make sure they always stand out from their rivals.

"Amazon uses this price battle to price similar products, ensuring that Amazon.com always offers the best price," Weinswig added.

PRICE AND PROMOTION OPTIMIZATION BY THE NUMBERS

CONSUMERS WANT TIMELY, SPECIFIC PROMOTIONS

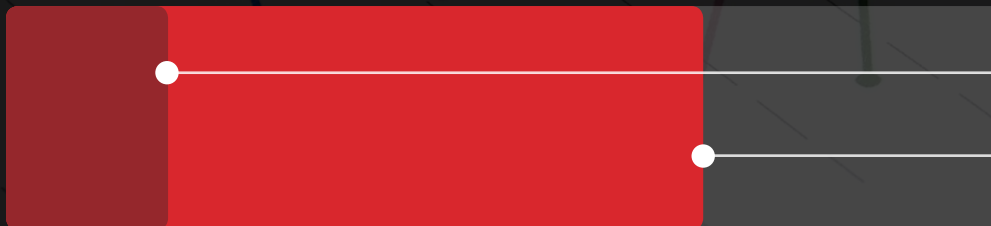
Which statements best align with your feelings about promotions/offers?



- **40%** I don't mind receiving promotions on my phone, social media, email or in-stores; I pick and choose what promotions to consider on my purchasing journey
- **26%** Promotions that are timely and specific to my shopping needs will push me to make a purchase
- **17%** I never want to receive promotions on my phone, social media, email, or in stores; I will seek deals on products when I'm ready to make a purchase
- **15%** I would prefer to see fewer promotions overall, and I'd like those promotions to be relevant to me.

Source: [Forrester Consulting](#), "Indiscriminate Promotions Cost Retailers," May 2018

INTERNAL CUSTOMER DATA IS SILOED



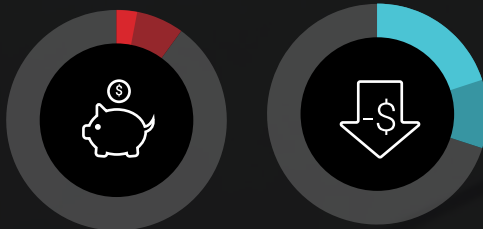
16% of marketers have customer or visitor data stored in 3 or more systems

69% store data across 6 or more systems

Source: [Researchscape International](#), 2018

PROMOTIONS CAN ERODE PROFITABILITY

Retailers spend **3% to 10%** of their revenue on promotions,



but **20% to 30%** of promotions are unprofitable, i.e. they don't generate a sufficient sales lift to offset the promotion's cost, despite supplier funding.

Source: [Formulate](#), Dec. 2017

"It's better to incentivize with gift cards and promotions versus having one customer pay \$50 for an item and another paying \$75 for the same item."

- NATHAN BECKSTROM, BRP CONSULTING


USE PERSONALIZATION TECHNIQUES TO OPTIMIZE PRICING AND PROMOTION

The big data revolution and the advances being made with artificial intelligence (AI) and machine learning have important personalization applications in the pricing and promotions arena. "Retailers like [The North Face](#) ask customers question on their web site, and then are able to connect the right products with their best customers at the best times," said Nathan Beckstrom, Senior Consultant at [BRP Consulting](#). "So, at the exact time a high-value customer is looking for a waterproof parka, it's in front of their faces. Another customer that doesn't spend at that same dollar amount would see something else, like an accessory. While it would take an individual an inordinate amount of time to figure that out, machine learning can go in, make generally good decisions to put that in front of the customer and be successful."

There are dangers with using machine learning to maximize profitability and personalization via pricing, however. "When your goal is to make sure you're dynamically pricing and doing it at speed, machine learning is very effective," said AArete's Kim. "The question is, **does the customer accept it?** If he sees an item at one price one day, and then because of machine learning the price goes up because the customer's propensity to buy is stronger, **I could see it really turning someone off.**

"However, if machine learning is being used with consumer sentiment, feelings and behavioral economics, there's a ton of potential from a marketing perspective," Kim added. "I see that being a key differentiator when it's tied to a hypothesis or a business problem that a retailer is trying to solve."

Additionally, individualized or region-based pricing can backfire for retailers. "**Sears and Kmart** ended up paying millions in fines when they did this some years ago," said Beckstrom in an interview with *Retail TouchPoints*. Even if the actions are legal, a lack of pricing consistency can hurt a brand's image: "Customers typically want retailers to be consistent across the board," he added. "It's better to incentivize with gift cards and promotions versus having one customer pay \$50 for an item and another paying \$75 for the same item."

A background image showing a black Amazon Echo smart speaker on a white kitchen counter. In the background, there is a sink, a blue cloth, and some food items like blueberries in a bowl and a container.

“For repeat or impulse purchases, a shopper may order the item without considering the price, and the virtual assistant would process the order at the price formulated by the dynamic pricing algorithm.”

- DEBORAH WEINSWIG, CORESIGHT RESEARCH

Combining dynamic pricing with **voice commerce** could be a way around these issues. “AI-powered virtual assistant devices that customers have at home — such as Amazon Echo or Google Home — are an additional and significant source of information on users’ behaviors and preferences,” said Coresight Research’s Weinswig. “Looking ahead, dynamic pricing algorithms could use this information to formulate optimal prices for items users order online through their virtual assistant.”

In practice, these consumers would be delegating “the negotiation of the price to the device,” Weinswig added. “For repeat or impulse purchases, a shopper may order the item without considering the price, and the virtual assistant would process the order at the price formulated by the dynamic pricing algorithm. This removes the risk for the retailer that the shopper might be deterred from purchasing, knowing that the price has changed.”

Innovative retailers already are looking to strengthen their price and promotion optimization initiatives with behavioral science applications. A.T. Kearney’s Bahulkar provided the example of [Epic Games](#), maker of online games like Zynga and Candy Crush. “They’re hiring behavioral scientists and using data that’s tracking each consumer’s behavior,” said Bahulkar. “They are looking at the day of the week, the time of day and the stage of the game the player is at to see how desperate they are to finish that game. This allows them to do ‘**emotional pricing**,’ and they have made tremendous advances in core pricing and promotions, determining what do I sell, when do I sell it, and **what do I put in the market basket to maximize it.**”

USE PRICING AND PROMOTION TO BUILD CUSTOMER LOYALTY

Q&A WITH DJAMEL TOUBRINET, SENIOR PRODUCT MARKETING MANAGER, RETAIL, AMERICA, CEGID



Retail TouchPoints (RTP): *What are the biggest challenges retailers face in crafting an effective pricing and promotions strategy?*

Djamel ToubINET: According to a recent NRF study, 84% of shoppers say promotions are an important part of their buying decision. Despite their popularity, retailers often struggle to configure, execute and measure them in an omnichannel retail environment, and a whopping 70% don't even break even! There's nothing more frustrating than inconsistencies in price and offers between channels. If you make an online-only promotion, for example, and your customer decides to exchange the item in-store, she will certainly be disappointed to find out the same item is pricier there, and may lose confidence in your brand. To make it up to her, your store manager may have to manually discount the item, seriously eroding your margin in the process.

RTP: *What roles can price and promotion play in creating personalized offers designed to build customer loyalty and increase basket sizes?*

ToubINET: Who doesn't want their promotions to be more relevant? Unfortunately, one-to-many promotions are still the norm. That's particularly intriguing knowing there are promotions that go to customers who would have happily paid full price. That said, the role of pricing and promotions isn't just about getting money, it's about loyalty. On average, a loyal customer is worth up to **10X** the dollar amount of their first purchase. So, using pricing and promotion to create proximity with customers allows you to deliver offers that truly resonate with them. In return, they engage more, come back more frequently and spend more with you than your competition.

RTP: *Overall, what are the key best practices in these areas? What are some common pitfalls that retailers should avoid?*

ToubINET: When it comes to price and promotion strategies, it's a difficult terrain to navigate. When used properly, promotions decrease the likelihood of missing a sale, but if you rely on promotions too much and you're promoting everything to everyone, you get to a point where shoppers don't trust your prices. That's when you risk undermining trust in your value proposition. This is where centralizing customer data, understanding buying behaviors, adopting a coherent omnichannel strategy, taking advantage of cloud-based price and promotion tools, and measuring pricing and promotion strategies can help (tall order, isn't it?). As for pitfalls, I'd say stop relying on spreadsheets and gut feelings. The multiplication of touch points and the proliferation of data call for more sophisticated tools to build, manage, and execute pricing and promotions across channels. After all, strategy without execution is useless.

LEVERAGE PROMOTIONS, MULTI-CHANNEL ENGAGEMENT TO BUILD CUSTOMER LOYALTY

Omnichannel retailers have a bigger challenge — not simply completing a sale, but encouraging the transaction in the channel that will yield the highest profit margin. “It’s about figuring out the nuances among online, mobile and stores and making them all work together, and then driving customers back into those other channels and re-engaging them,” said Beckstrom. “One way to do that is to focus on what the customer is looking for next. I started at **Home Depot**, and we were always about ‘What’s next to finish the project? If a customer is buying a hammer and nails, what do they need next — wood? Sheet rock?’ It’s about a larger macro approach, versus a micro approach for a single channel.”

Combining product recommendations with pricing solutions in this way is “the big unlock, the holy grail, particularly for multi-channel retailers,” said Bahulkar.

Savvy retailers also use promotions to strengthen customer loyalty. “The role of pricing and promotions isn’t just about getting money, it’s about loyalty,” said Cegid’s Toubrinet. “On average, a loyal customer is worth up to **10X the dollar amount** of their first purchase.”

Toubrinet provided the example of **Lolë**, a Montreal-based yoga and activewear brand with 50 stores in North America and Europe. In addition to traditional promotions to customers and prospects, the retailer runs an “Ambassador” program that rewards instructors, personal trainers and wellness professionals with a Lolë clothing allowance and other benefits. The program entices these consumers to better represent the brand in their communities, helping Lolë build a large yoga community, and customer base, around the world.

Retailers also can use promotional techniques to encourage consumers to shop in multiple channels. “When you get a customer to engage on multiple channels, they become **2.5X more valuable** than other customers,” said Beckstrom. For example, “if you have an in-store customer, encourage them to make an online purchase with an offer of free and/or expedited shipping.”

Retailers should explore creative ways to keep shoppers within their ecosystem. Beckstrom used the example of **Kohl’s**: “They offer Kohl’s Cash when you make a purchase that is only good between certain dates. Another option is offering gift cards. When customers only return **40% to 50%** of the time, if you’re giving away a \$10 or \$15 gift card, that doesn’t represent as big a markdown, so the retailer is still making money. We’re seeing smaller retailers doing this type of thing, which allows them to be competitive in the marketplace without having to mark individual items down.”

A background image showing two women in a retail or office environment. One woman is standing and holding a tablet, while the other is seated at a desk with a laptop and a payment terminal, smiling. The image is dimmed to allow text to be read over it.

"If I can't write a pricing and promotions flow chart on a white board that lays out how it works for my company, no system will be able to help me. The missing piece is the capability and courage to take the first step forward."

- ADHEER BAHULKAR, A.T. KEARNEY

CONCLUSION

All these price and promotion optimization best practices — **understanding true demand; centralizing data from multiple channels; leveraging AI, machine learning and voice commerce to sharpen pricing and promotions; and taking a macro, market-basket approach** — share a common basic requirement. To be effective, retailers need to establish a clear pricing/promotion strategy that aligns with their business model, then be willing to test various hypotheses and adjust based on ongoing results.

"In some ways there's an overreliance on tools and systems," said A.T. Kearney's Bahulkar. "If I can't write a pricing and promotions flow chart on a white board that lays out how it works for my company, no system will be able to help me. The missing piece is the capability and courage to take the first step forward."

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Our mission is to enable retailers to capture new growth opportunities and never miss a sale by delivering a unified, personalized shopping experience across all channels - instore, online, anytime, everywhere. Our cloud-based unified commerce platform includes features such as order management, merchandising and inventory management, digital POS & Mobile POS, Clienteling, CRM and retail analytics and is available in SaaS or on-premise.

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