

The Path to Data-Driven Promotions

*An Introductory Guide for Retailers Looking to Transform
Their Promotions into a Driver for Growth*

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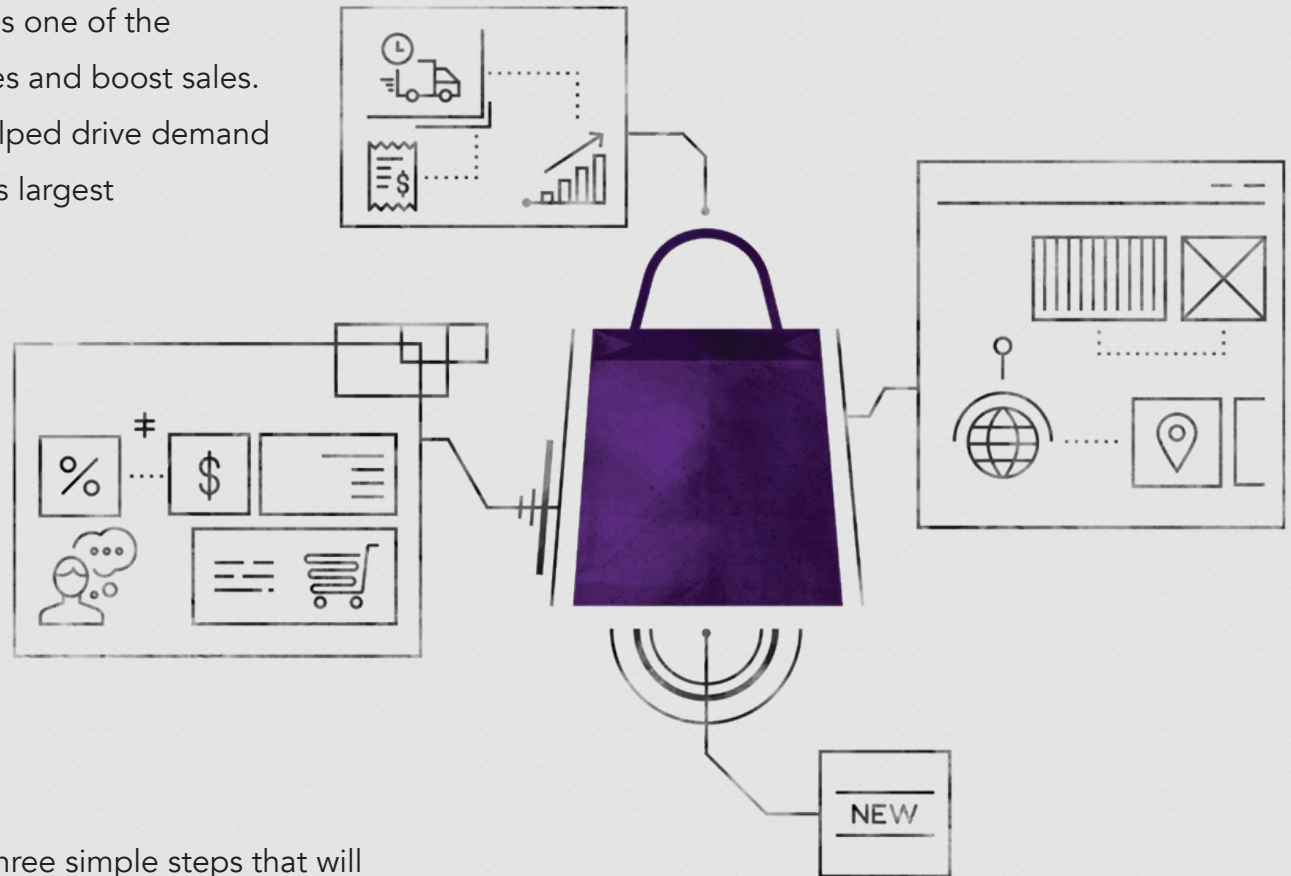
Introduction.

Promotions for the 21st Century.

Retailers have long used price promotions as one of the preferred tactics to lure customers into stores and boost sales. It's a core capability that for decades has helped drive demand in an industry that is currently undergoing its largest transformation in a century.

But despite recent advances in marketing analytics and decision-support tools, a recent RetailMeNot study* shows many retailers agree their promotions are not as strategic as they would like them to be and they tend to run the same or similar promotions year after year.

This ebook—the first in a series—focuses on three simple steps that will get retail marketers on the path to strategic data-driven promotions.



*RetailMeNot Internal Study, Young & Rubicam, Feb 2016

Visualizing the Potential.

The Promise of Data-Driven Promotions.

In today's big data world, marketers are expected to make data-driven decisions. Marketers across all industries are leveraging insights to better understand their customers and, ultimately, deliver a better and more-personalized experience. From email campaigns to digital ads and beyond, organizations are harnessing the power of data to deliver the **right offer** to the **right customer** at the **right time** and on the **right channel**.

that are narrower in scope but well-defined in their targeting – a key element in delivering the right offer to the right customer.

Right Time, Right Channel.

Another advantage is knowing when—the right time—and where—the right channel—to run an offer. With data, organizations can conduct predictive modeling--the use of statistical analysis of past events to predict possible future

allows marketers to test and experiment new strategies in-house and avert unwanted outcomes.

But data-driven promotions aren't just about creating a better experience for the customer; they're also about minimizing the risks of underpricing and over-discounting. In other words, not just delivering the right things but whether a promotion should be run at all. By leveraging the right data, marketers can accurately predict whether an offer will maximize business results which drive value perception and increase customer engagement and loyalty. The resulting analysis can help them predict the extent to which it makes promotional sense to run a certain offer given their financial goals, consumer demand and competitive landscape.

Retailers everywhere are harnessing the power of data to deliver the right offer to the right customer at the right time and on the right channel.

Right Offer, Right Customer.

There are several benefits to running data-driven promotions. Among the most immediate is the ability to move from broad customer segmentation to behavioral targeting. This gives retailers the ability to analyze cohorts of consumers in real-time and create promotions

outcomes--and anticipate the best time and vehicle to run a promotion based on demand, time of the year, competitive activity, and other variables that might affect performance. Over time, an optimized approach to predictive modeling can also help retailers determine the quality of a promotion before it goes live. This

Understanding the Challenges.

Why Promotions Are Slow to Evolve.

Before we can find the path forward, we need to understand why promotions have not changed much over the years.

Comps are King.

Perhaps the most important reason for this is the evolution of the industry itself; the rise of the digital era, the ultra-connected consumer and the shift to an omnichannel reality has put an extraordinary amount of pressure on retailers to perform in a changing landscape. The expectations to meet their comparable store sales (or comps) explains why most marketers would opt to run the same promotions year after year without a detailed examination of the rationale and performance behind them. The risk of missing their comp targets is good enough reason to stay the course.

Mutually Assured Destruction.

Another reason is the reactive factor; that is, the action taken by retailers in response to their

competitors' promotional activity. Behind this theory is the belief that if a competitor is running one or multiple offers, then customers will shop with them instead. While this approach of reacting to a competitor's activities can play well with consumers in the short run, it can quickly turn into an unprofitable "race to the bottom" as each side notches down its price to stay below the competition.

If it Ain't Broke.

We could also make the argument that promotions haven't evolved because they actually deliver results – there's no doubt that customers love a good sale or some other purchase incentive. As the pressure to transform while achieving results has mounted, marketers turned their eyes to more demanding challenges and leaned on the classical, rule-driven promotional approach that they have always relied on.



It's time to change the game.

Elevating the approach to promotions could prove to be a game-changer for retailers. By transitioning to a data-driven model, marketers can use offer algorithms that identify the perfect balance between promotion and opportunity at any given moment.



The Path Forward

As is the case with most transitions, the change to data driven promotions won't happen overnight. But with these three steps, retailers can begin the path to modernizing their approach to promotions and reaping the rewards.

Step 1.

Think of Promotions as a Portfolio.

When it comes to promotions, the devil is in the details. Small adjustments in the components of an offer can have a large effect on the outcome and performance of a promotion. For retailers, the challenge lies in finding the right promotional mix for each campaign goal – one that maximizes value perception and business results while increasing customer engagement and loyalty.

Small Changes. Big Results.

The first step involves changing values of an offer and evaluating the results after each run. By matching the metrics currently used to measure performance with different offer variables, marketers can run alternative promotions and track the effectiveness of each variable against a diverse set of metrics. This process yields insights that retailers can use to identify elements of promotional sensitivity – ultimately improving the planning and performance of their campaigns.

Welcome to the Matrix.

One way to think of it is as a matrix with offer variables (i.e. Codes, Deals, Evergreen, Percent Off, Dollar Off, etc.) on one side and performance metrics (AOV, ATV, CTR, Basket Size, Bounce Rates, etc.) on the other. In this scenario, marketers fine-tune promotional levers (i.e. offer variables) and run different promotions for a single item. Once the promotion is over, results across matrices are compared, any anomalies or surprises are evaluated, and learnings are used to optimize future plans.

Example of a Promotional Matrix

	AOV	ATV	CTR	Basket Size	Margin	Bounce Rates
Codes						
Deals						
Evergreen						
Percent Off						
Dollar Off						
BOGO						

Step 2.

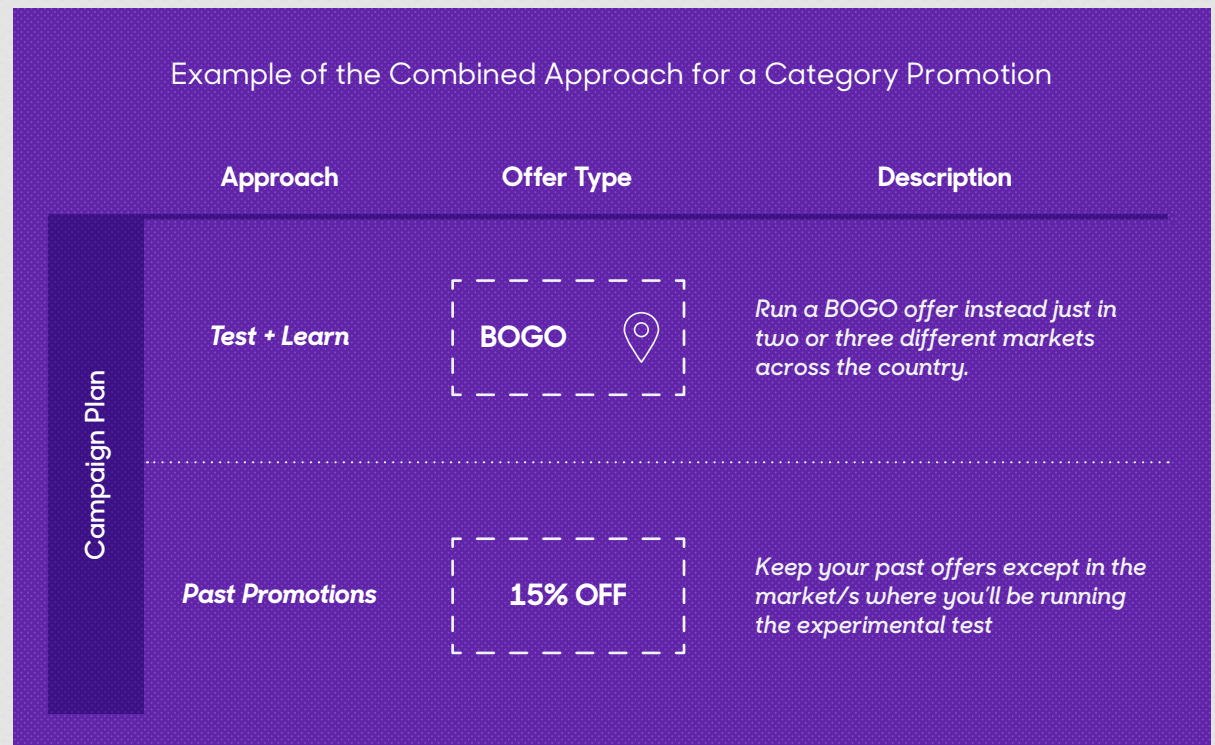
Plan for a Smooth Transition.

As mentioned earlier, transitioning to a data-driven approach isn't something that can be done with the flip of a switch. Rather, a balanced approach that combines traditional promotional plans with a set of smaller experimental tests can provide a smooth and organized transition.

Easy Does It.

With this approach, retailers can maintain many of their promotional campaigns that have performed well historically while adopting a rapid-test-and-learn method to implement faster, lower-risk promotional tests. By keeping the traditional plans in place, marketers can mitigate the risk of an experimental campaign and progressively introduce improvements that will help build consensus across disciplines and departments.

Over time, the result of this approach will be a collection of insights that marketers can use to cross-reference elements of multiple diverse promotions and campaigns.



Step 3.

Use Learning to Optimize Future Plans.

The most challenging stage of any transition is getting started. Understanding how current plans are performing, looking at promotions from a portfolio perspective, establishing baselines, and adopting the rapid-test-and-learn approach are solid first steps but full adoption can take time. However, there are ways to accelerate change and more quickly realize the results of a more data driven approach to promotions.

Reach Across the Aisle.

Marketing leaders should partner with peers across business functions. Other cross-functional units such as product, operations and finance have long used analytics in their decision-making process, and likely harbor valuable data that can be used in developing a predictive modeling framework.

Embrace Partners Data.

Additionally, retail marketers should explore opportunities with external parties that can provide an outside-in perspective on the promotional landscape. Taking advantage of data from one or more third party vendors is a quick way to gain contextually relevant consumer and competitive insights.

Learn From the Best.

Organizations should also leverage best practices, both internal and external. For example, our internal data suggests that Monday mornings around 11am EST is a key engagement period to reach users on desktops. Likewise, early afternoons on Saturday are key time frames to reach a mWeb audience (1pm ET) as well as apps (12pm ET). These kinds of insights could prove to be invaluable as marketers incorporate it into the planning process.

Conclusion.

Data-driven promotions are all about delivering the right offer to the right customer at the right time and through the right channel. It's a win for customers: they get the information and offers they want and, throughout the buying journey, the kind of personalization the new omnichannel reality demands. And it's even a bigger win for retailers: not only can they adapt promotions to better serve customers, with tools like predictive modeling they can now know the right time to run a promotion – and predict how well it will perform before it even goes live.

While this transition won't happen overnight, by planning for a smooth transition, retail marketers can collect the right data that will, over time, redefine their promotional strategies and deliver on the promise of data driven promotions.



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