

How to Survive and Prosper in Today's Sales Promotional World

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Promotions are both wonderful and terrible. Promotions are wonderful when they:

- Increase revenue and profitability
- Increase store/site traffic
- Help you move overstocked inventory or dated merchandise
- Help you smooth the average to peak ratio

Promotions are terrible when they:

- Create an unmanageable peak or a peak that cannot be profitably handled
- Result in a substantial reduction in business once the promotion is over
- Result in the consumer losing respect for a retailer, i.e. "I paid full price 2 weeks ago and now it is selling at 50% off"
- Commoditize a brand or cheapen its image

How promotions are used has a huge impact on whether they are wonderful or terrible. For 20% of all customers, promotions are required to get them to buy. These "promotional junkies" only make purchases when the discounts are significant. Another 20% of all customers have no interest in promotions, generally paying full price and not willing to bother shopping for sales. For the remaining 60%, their interest in promotions "depends." It depends on the type of product, the time of year, the retailer involved, and more.

For example, two years ago when Ron Johnson was the CEO of JC Penney, he tried to

eliminate all discounts and promotions. Unfortunately for JCP, their customers were discount and promotion junkies and if the product was not offered at a substantial percentage off it would not sell. Once Mr. Johnson left, the discounts and promotions were immediately reinstated. This proves that JC Penney customers demand promotions. To the contrary, T.J. Maxx does not do discounts or promotions because their everyday low prices offer tremendous value on great fashions and brands, so customers do not expect, nor anticipate promotions. Similarly, Tiffany & Company also operates without having promotions. In their view, customers buy from them not based on price, but on the experience and value of the “little blue box.” On the other extreme of T.J. Maxx and Tiffany are retailers that in some ways are actually very similar:

- Everyday low prices: WalMart and Dollar Tree are similar to T.J. Maxx, but Wal Mart is huge on promotions and Dollar Tree is not.
- Experience/value: Macy’s and Best Buy are similar to Tiffany’s, but both are highly promotional.

In addition, we see the level of promotions depends upon the time of year. For example, in the United States:

- Seasonal activity for apparel has four seasons: Spring, Summer, Fall and Winter
- Back to school for youth apparel and school supplies
- Televisions for the Super Bowl, Olympics, and World Cup
- Bedding and bathroom in July
- Outdoor and patio in Spring
- Sporting seasons for golf, camping, hunting, fishing, baseball, football, hockey, etc.
- Flowers and candy for Valentine’s and Mother’s day
- Holidays: Christmas, Easter, Presidents Day, etc.

- Shopping days: Black Friday, Cyber Monday, Green Monday, Thanksgiving, etc.

To date, these types of events have occurred at different times of the year for different countries. For example, in China the big events are:

- Spring Festival/Lunar New Year: which includes the first week of the year, “Golden Week”
- October 1: National Day or sometimes referred to as the “Autumn Golden Week”
- MidAutumn Festival: A celebration of a bountiful harvest, similar to Thanksgiving.
- Singles Day: November 11: A holiday invented by Alibaba and totally promotional

Interestingly, as crossborder trade evolves there is now “Christmas” in China and Singles Day in the United States.

Smart companies are doing both strategic and opportunistic promotions. Strategic promotions are often planned on an annual basis. Opportunistic promotions still need to be planned, but are often done in response to inventory that has not sold, seasonal products, or dated merchandise. Therefore, opportunistic promotions may only have a monthlong planning horizon or even less. For both strategic and opportunistic promotions, supply chains must plan resources to assure available capacity. Factors to be considered include:

- Inbound transportation
- Dock capacity
- Storage space
- Systems flexibility (TMS, YMS, WMS, LMS, etc.)
- Picking capacity and readiness for different order profiles and volumes
- Material handling systems with sufficient flexibility and modularity to handle peaks and surges

- Available, trained work force
- Outbound transportation

Two other factors that are having a significant impact on the planning and execution of promotions are cultural in nature. Consider:

1. Promotional culture: Retailers pursue promotions to attract customers, increase revenue, and hopefully increase profitability. This results in the retailer pushing the wholesaler and manufacturers of the products they are selling for lower prices. Since many wholesalers and manufacturers are operating at high levels of efficiency and effectiveness, it is difficult to allow lower prices without lowering the quality of their products. This desire for lower prices/ lower quality results in a cycle that becomes a race to the bottom, the creation of unhappy customers and the degradation of brands. This cheapercheapercheaper push results in poor quality, poor reliability, unhappy customers, and therefore poor long term viability. Care must be put forth to fight this promotional culture and maintain long term financial viability.
2. Throw Away Culture: Alvin Toffler predicted in his classic book *Future Shock* that we were evolving to a throw away culture. A culture of planned obsolescence, non stop introductions of new product features, and “ice cream dresses.” You say, “What is an ice cream dress?” It is a dress so inexpensive that if you go out for ice cream and you spill on it, you do not think about having the dress cleaned, you just throw it away. You wear it once and then throw it away. Care must be put forth in understanding the implications of the throwaway culture on promotions. In fact, promotions can actually accelerate the pace of the throwaway culture.

So, What Is The Current State of Promotions?

Promotions are very important both from the point of view of doing them well, as well as not doing them poorly. To provide you with the most up to date information on how to prosper (doing promotions well) and survive (not doing promotions poorly) [Tompkins International](#) has done three things:

1. We utilized the Tompkins Supply Chain Consortium to conduct a survey in January of 2015 to understand the industry view of holiday 2014 promotions
2. We researched the subject of promotions from around the world.

3. We studied major retailers, consumer products companies, distributors, and wholesalers.

I think you will find our results very useful in making promotions a tool to increase profitable growth.

Let's begin by giving you some background on the survey that was done by the [Tompkins Supply Chain Consortium](#). The general question we wanted to understand with our research was how holiday 2014 promotions compare to previous years and how they are impacting the supply chain. In the survey, we decided to include retailers, consumer products companies, wholesalers, and distributors. The survey questions focused on:

- Consumer influence on the amount of promotions and discounting being done
- How the 2014 promotional period compares to previous years
- How the depth of discounting compares to previous holiday seasons
- Whether promotions differ by channel
- The timing changes for holiday promotions versus previous years
- Whether promotions were introduced opportunistically based on available inventory
- How margins were affected by promotional activity
- What supply chain areas were most impacted by promotional activity

The figure below shows the percent of respondents from each major industry group. We were somewhat surprised when a larger percent of consumer products companies responded to the survey compared to retailers. To us, this is a sign that consumer products companies are becoming increasingly engaged with customers as retailers.

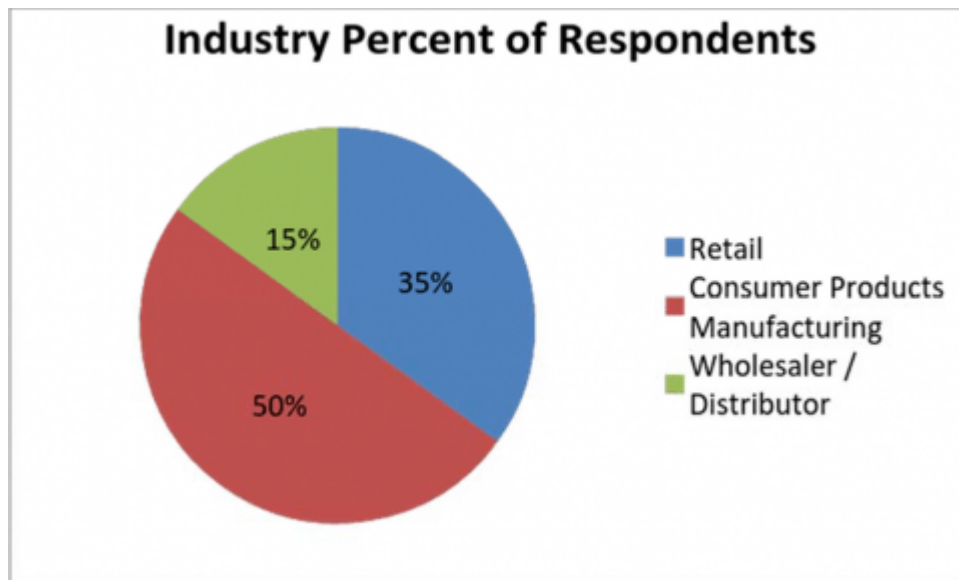


Figure 1. Industry Percent of Respondents

This figure highlights the industry segments for respondents to the survey.

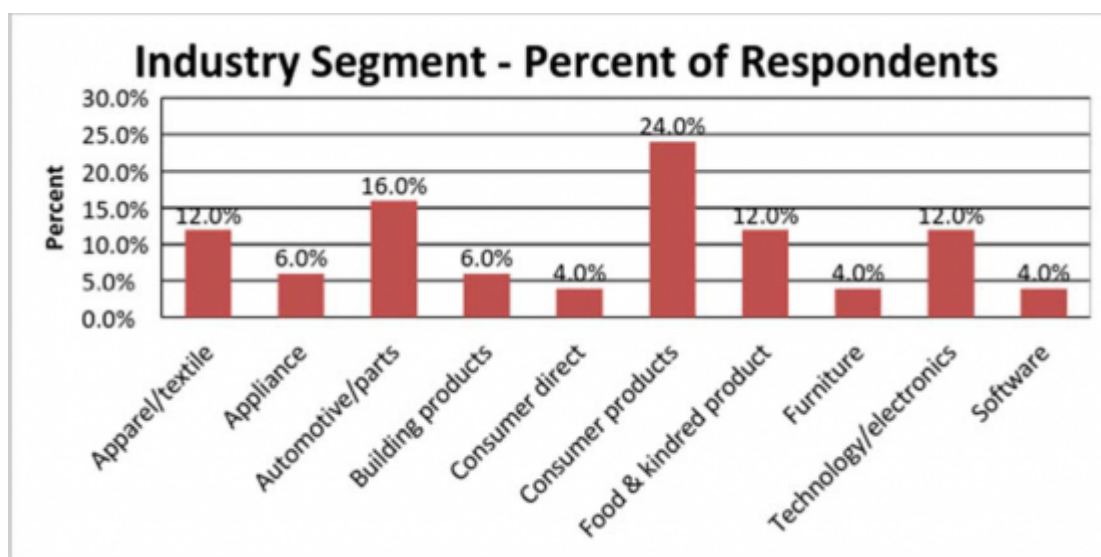


Figure 2. Industry Segment Percentage of Respondents

The industry with the most responding companies was consumer products followed by automotive/parts, apparel, food & beverages, and technology/electronics. Again, we found it interesting that consumer products companies are interested in promotions just like retailers.

The distribution of companies taking the survey by company size follows a fairly common pattern that we have seen on most of our surveys. In this particular case, larger companies are interested in the topic of sales promotions more so than smaller firms.

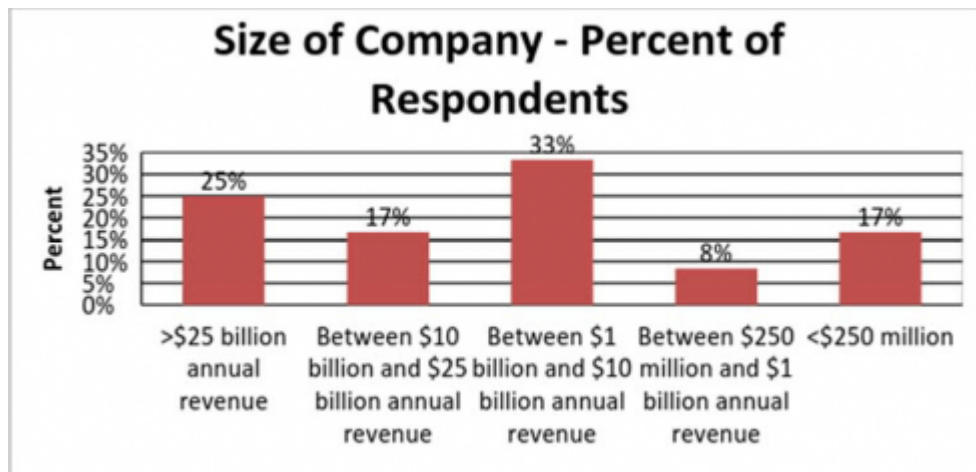


Figure 3. Size of Company Percent of Respondents

The survey also asked respondents whether consumers impacted the culture within the company with respect to doing promotions and discounting product.

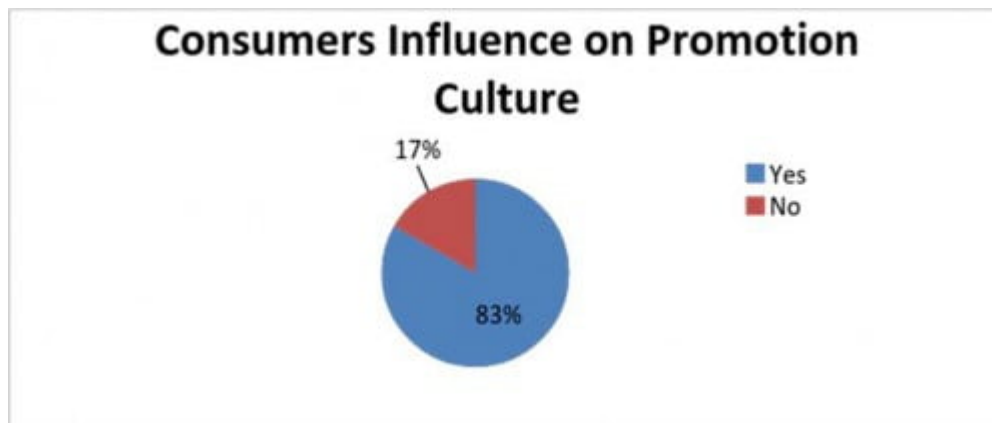


Figure 4. Consumers Influence on Promotion Culture

The data is clear: companies believe that consumers do influence them to sell in a promotion environment based on what other companies are doing and the expectations for a deal. Some companies are very much entrenched in the need for promotions to drive volumes. In a later question we ask about the impact promotions have on margin. This is the other side of the promotions and discounting coin.

We wanted to get a feel for the length of time that sales promotions were used this holiday season versus in the past.

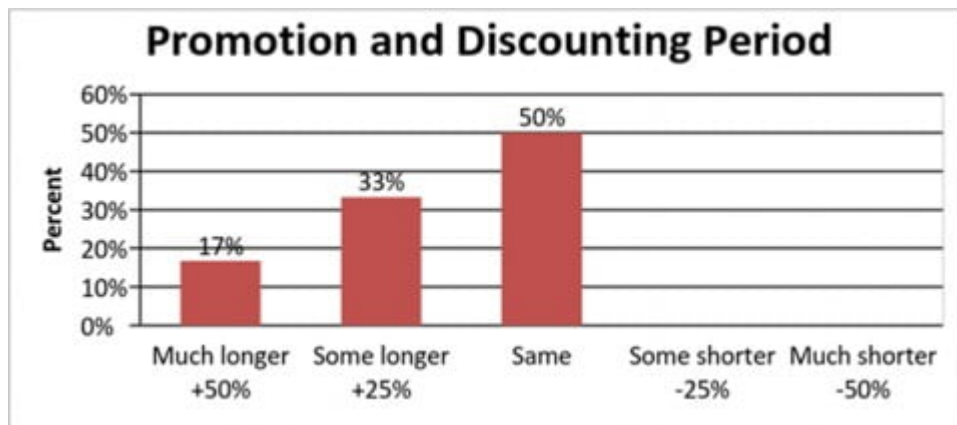


Figure 5. Promotions and Discounting Period

The data indicated that promotions and discounting ran longer this year than in previous years. Companies were looking for their promotions to provide a boost to revenue and extended the promotion periods longer. Our observations aligned with this finding as companies made the most of promotions and discounts around the major events of the holiday season like Black Friday and Cyber Monday. Interestingly, we see some shifts in the sales volumes reported for Thanksgiving, Black Friday, and Cyber Monday. The reason for this is many retailers altered their definitions of what is meant by Thanksgiving, Black

Friday, and Cyber Monday. In the old days (2012) Thanksgiving, Black Friday, and Cyber Monday were one day of shopping. That one day of shopping used to be 8 hours long. Now, the actual Thanksgiving Day is more like 1624 hours long. In addition, the reality of the Thanksgiving promotion is that it often begins on November 1 and lasts until Black Friday. Similarly, Black Friday goes from the Monday before Thanksgiving to Thanksgiving Day and Cyber Monday actually begins on the Saturday before Cyber Monday and lasts a week. Because of these promotional schedule shifts, the sales for Thanksgiving were down 510% when compared to 2013. However, in reality the sales were there, they were just spread out over November. The same with the statistics for Black Friday and Cyber Monday.

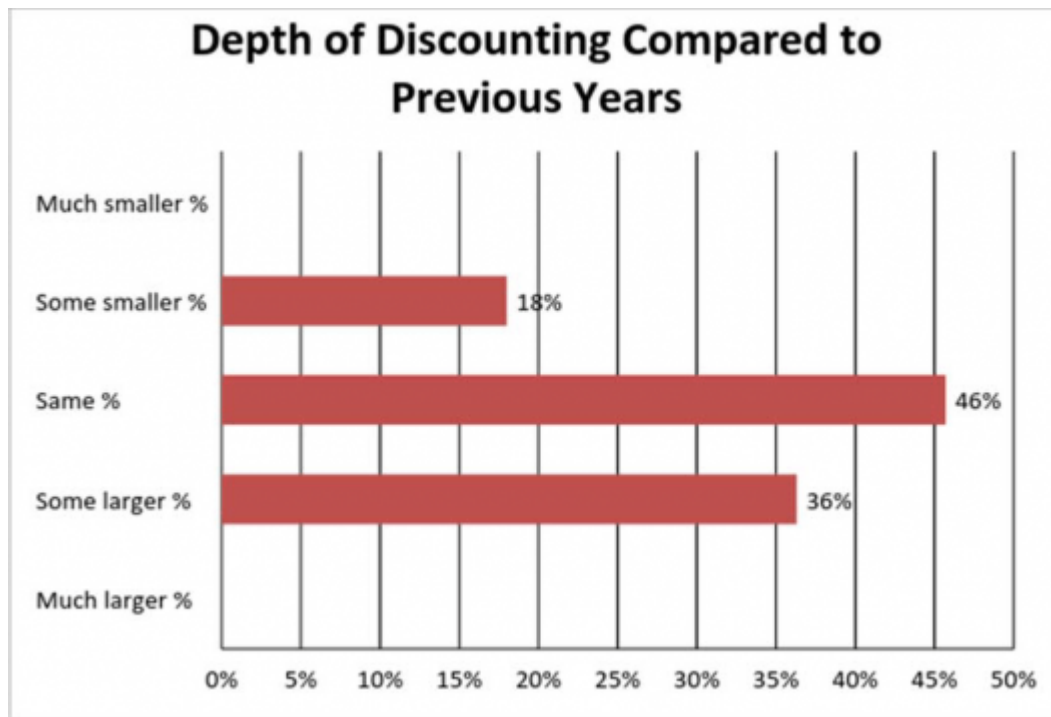


Figure 6. Depth of Discounting Compared to Previous Years

Once again we were trying to understand how companies used discounts to drive traffic, this year. The data gives a slight bias to more depth in discounting but not by very much. The majority of companies felt their discounting was the same as previous years while 36% said some larger discounts were given. We believe that the reason for this survey result is because we have such a diverse group of industries represented in the survey.

Our industry research tells us that:

- Promotions for Holiday 2014 were deeper than in the past in many sectors
- Department stores and big box retailers were more promotional in 2014 than in prior years. Some offering discounts as high as 80%.
- Promotions of televisions, small appliances, holiday ornaments, and bedding were plentiful, but not as deep as 2013.
- Shoe promotions were very deep, with some over 70%
- Apparel promotions were both broad and deep often covering the whole store and in the 30-50% range. Millennial women have shifted their spending for Holiday 2014 to items like smart phones, televisions, and home goods at the expense of apparel.

One of our main goals was to figure out if promotions and discounting were more prevalent in different sales channels.

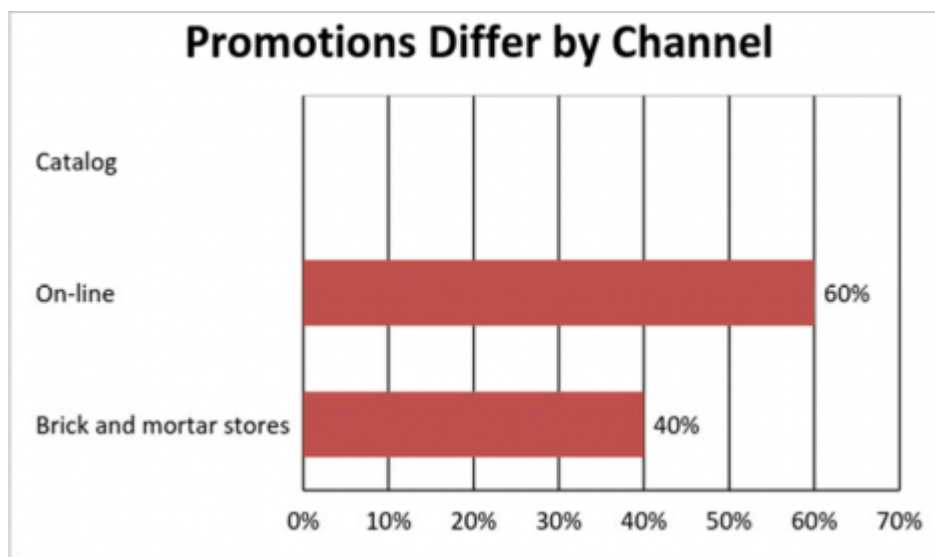


Figure 7. Promotions Differ by Channel

This data tells us that companies engaged more in promotions and discounting through their online channel than through brick & mortar shops, but stores also did a fair amount of promotional activity. This data was clearly skewed by:

- The large number of consumer products companies that answered the survey
- The increased utilization of opportunistic promotions for Holiday 2014 (See Figure 8)
- The increased use of email marketing which is more active with online customers and this reflects a higher level of promotions

Another important question in this survey is whether promotions were planned or if they were introduced opportunistically based on inventory.

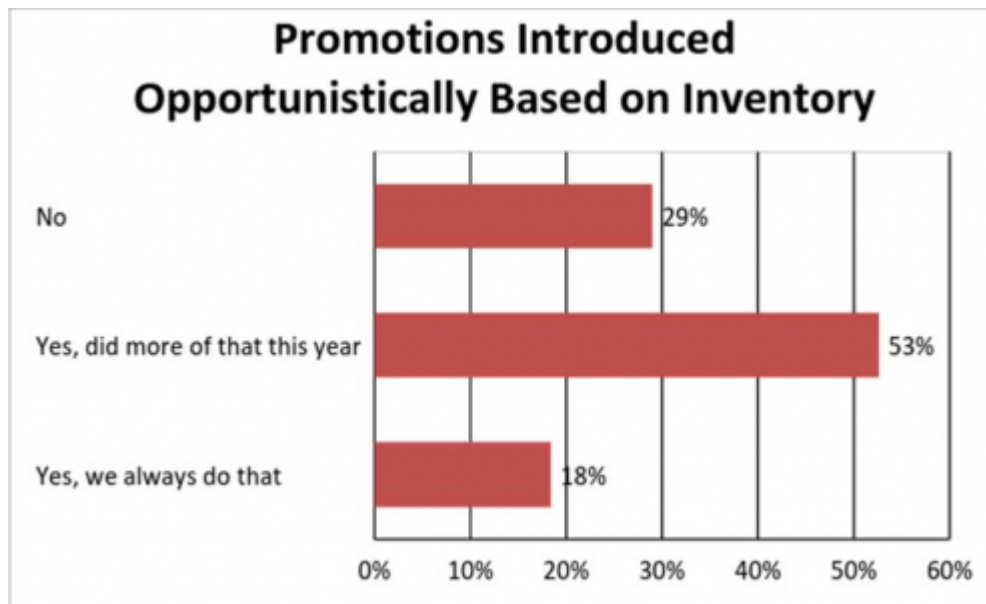


Figure 8. Promotions Introduced Opportunistically Based on Inventory

Respondents indicated by a wide margin that they did do promotions opportunistically based on inventory. 53% even did more of that this year than in the past. We consider this a sound practice to reduce inventory and generate demand for products. The most progressive companies are really using this process to their advantage.

The next survey question asked respondents about the impact of promotions on margins. A better question would have asked about the extent of change to margins because of promotions. We considered adding this question, but felt that many companies would not know the degree to which promotions affected margins.

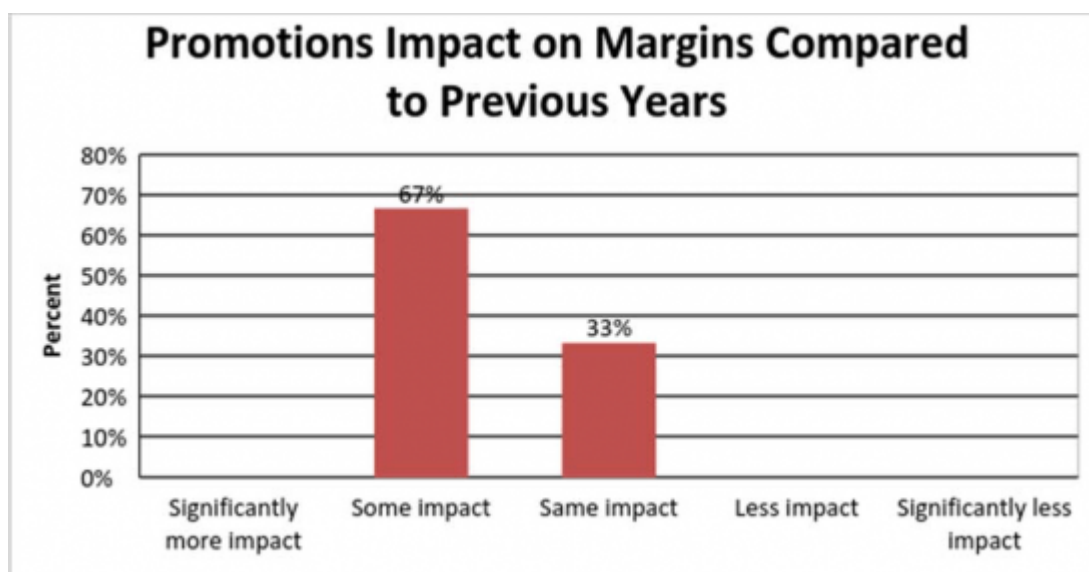


Figure 9. Promotions Impact on Margins Compared to Previous Years

67% of survey participants believe that margins are somewhat impacted by promotions. These companies see erosion in margins because of promotions.

The next question on the survey asked about how well prepared a company's supply chain was for promotional activity.



Figure 10. How Well Prepared For Promotions Was Their Supply Chain

As expected, most companies have been through the cycle of promotions, discounting, and reacting with the supply chain. The data indicates that over half of the companies surveyed had a supply chain that was ready for the rigors of change brought about by promotions.

43% were fairly well prepared for promotions and no one was worse off than that. Company supply chains have gotten pretty good at reacting to the needs of the company.

The last question focused on areas of the supply chain that were most impacted by promotional activity.

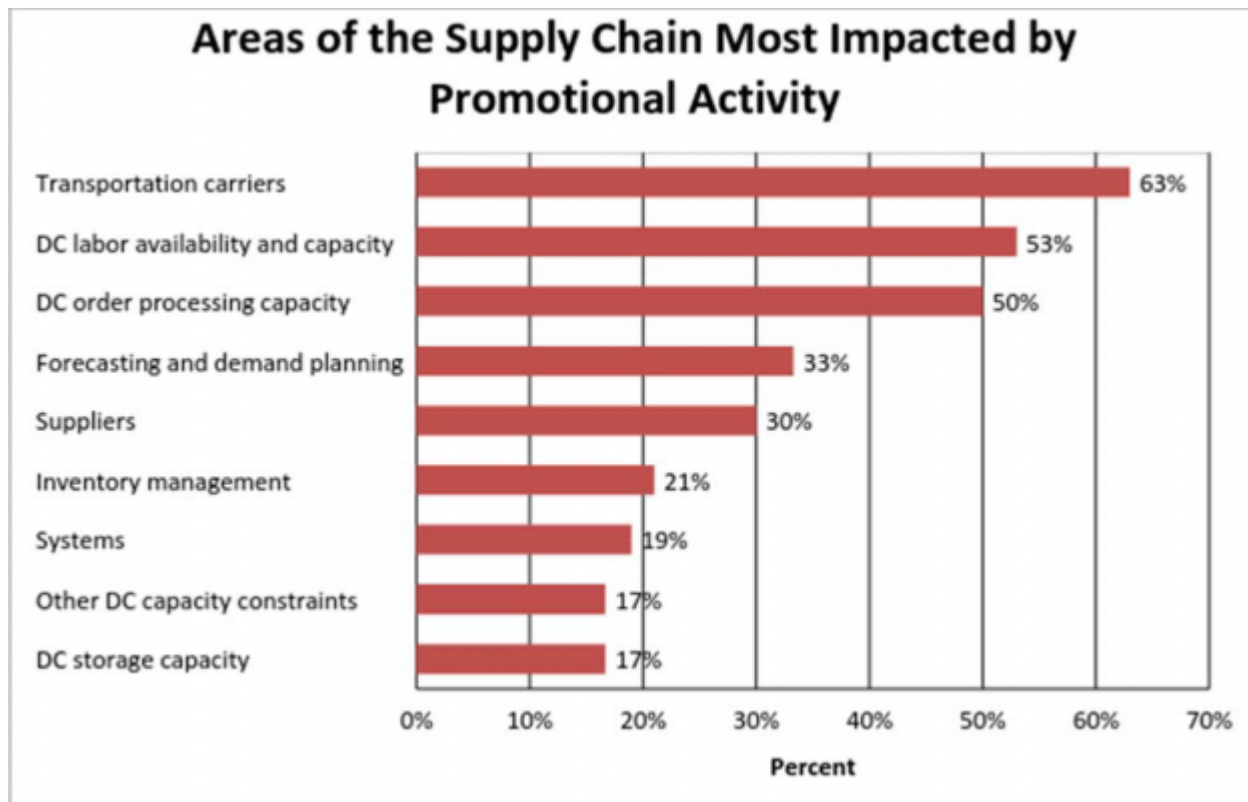


Figure 11. Areas of the Supply Chain Impacted by Promotional Activity

The top response to the supply chain impact question was transportation carriers. With all the capacity and driver shortage issues in the area of transportation, it is not too surprising that transportation carriers topped the list with 63% of respondents. The next two highest areas of supply chains were related to DCs – with labor availability, capacity, and order processing capacity. DCs are often a capacity constraint when volume and mix shifts occur and promotions can have that impact on facilities. The next two areas of the supply chain impacted by promotions are forecasting and demand planning along with suppliers. These also seem to be natural areas of difficulty when short term promotions change plans.

Not as a result of our survey, but because of our industry research and study of major retailers we discovered an additional interesting development with respect to promotions. The best retailers, consumer products companies, distributors, and wholesalers are not being pulled into the downward spiral of cheapercheapercheaper promotions, but are in hot pursuit of the right price, instead of the lowest price. Amazon's new "Make An Offer" pricing is a move in this direction, as are firms doing more work on price elasticity and trying to understand the right balance between price, selection, convenience, and experience. This intelligent promotions process is the foundation behind the new Jet.com marketplace where the customer is able to define the price they will be charged, based on the services offered and quantity bought.

Conclusion

Promotions are a big deal. They impact top line, bottom line, brand, customer satisfaction, and supply chain of every company. Retailers, consumer products companies, wholesalers, and distributors are very interested in refining their approach to strategic and opportunistic promotions. Holiday 2014 was a very promotional year and Holiday 2015 will be even more so. In addition, crossborder trade will increase going forward and this will make global promotions an important component of an organization's promotional pursuits. Companies have designed their supply chains to meet their promotional appetite. Now, they must enhance their promotional strategy and ensure their supply chains have the ability to support this strategy. We can assure you, your competition is already doing this.

About Tompkins International

Tompkins International is a supply chain consulting and implementation firm that maximizes supply chain performance and value creation. We enable clients to be more profitable and valuable, while also becoming more agile, flexible, and adaptive to the marketplace. Tompkins collaborates with client teams to develop improved operations strategies, supply chain planning, and execution across all the Mega Processes of supply chains (PLANBUYMAKEMOVEDISTRIBUTESSELL). Tompkins is headquartered in Raleigh, NC and has offices throughout North America and in Europe and Asia.

Tompkins International has worked in more than 30 countries on six continents. We have offices in North America, Asia and Europe, with global headquarters in Raleigh, NC.

About Tompkins Supply Chain Consortium

Tompkins Supply Chain Consortium is the premier source for supply chain benchmarking and best practices knowledge. With more than 350 participating retail, manufacturing and wholesale/distribution companies, the Consortium sponsors a comprehensive repository of over 10,000 data points complemented by search capabilities, online analysis tools, topic forums and peer networking for supply chain executives and practitioners. The Consortium is led by the needs of its membership and an Advisory Board that includes executives from Domino's Pizza, GlaxoSmithKline, Hallmark, Ingram Micro, Kane is Able, MillerCoors, The Coca-Cola Company, Target and University of Wisconsin. To learn more about how your company can become a member of the Supply Chain Consortium, contact Patty Trocchio at ptrocchio@tompkinsinc.com or visit www.supplychainconsortium.com.

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Meet the expert! Learn more about this topic and meet the report author Bruce Tompkins at the Tompkins Supply Chain Leadership Forum in San Antonio, Texas from August 31-September 2, 2015.

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