

Retail Promotion Optimization's Future Has Arrived: Now Separate the Pretenders From the Contenders

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AMR Research published a report in 1Q09 that highlighted the issues retailers face in adopting promotion optimization. At that time, providers of promotion optimization generally offered only two or three of our 10 critical requirements for widespread adoption. But today, most providers offer five or more. Until recently, one of the most complex requirements remained elusive: providing item and price recommendations that support a specific goal or strategy.

Full promotion optimization

The traditional approach of item selection used by most retailers limits the advertisement's effectiveness to the items selected by the merchant (the ad, after all, is only as good as the merchant). Full promotion optimization moves beyond running dozens of scenarios (selecting items, applying rules and goals, achieving a recommended price, and comparing scenarios to pick the best result) to a process where optimization understands all related costs, deals, marketing funds, competitive ad activities, performance goals, supply chain constraints, weather intelligence, and demand intelligence, creating recommendations on both items and prices. Full promotion optimization utilizes consumer insights to identify the best items and prices for a given set of known circumstances and understands the full impact of all promoted items in the entire store.

Dacos and **Revionics** lead the industry by being the only providers that offer full promotion optimization. Both companies report retail customers using their full promotion optimization products, and even though it's still early, retailers report significant improvements in the precision of their ad planning capabilities and resulting performance. Key improvement areas include increased customer frequency, increased sales volume, and increased profitability.

Case study: Dacos' software understands

AMR Research recently visited the offices of a leading German hypermarket chain that publishes weekly advertising brochures distributed to its stores across the country. The brochures span up to 40 pages displaying more than 400 items. The Dacos promotion engine selects items from the entire range, not just key items that are listed in the hypermarkets. There are more than 100,000 "active" items.

Some pages of the ad brochure are the same for all hypermarkets, but several pages are intended to promote items that are of special regional relevance. For example, tea is more relevant to the northern regions of Germany. There are also types of beer and sausage (regional products) that aren't listed in all hypermarkets. Furthermore, the buying behavior patterns of the customers also differ regionally regarding their consumption of items listed country-wide.

The Dacos software understands these regional differences and delivers item recommendations that are appropriate for the weekly brochure distribution.

Using the software, the hypermarket chain publishes several different advertising brochures for the sales regions. The software optimizes the mix of promotional items for each zone. Dacos has the capability of doing the same for each individual store.

Promotion planning centered on the consumer

Current promotion planning processes typically focus on the products as well as the cost incentives available and provided by the manufacturers. This process largely places the preferences of the consumer at the end of promotion planning. Retailers will realize impressive improvements by putting the customer at the center of the promotion planning process and answering critical questions: What items and prices will lead to dramatic consumer attraction and retention? What items lead to improved transaction size and profitability? What effect does pantry loading have on purchase decision?

Parting advice

Many retailers realize 60% to 70% of their revenue from promotional activities. Full promotion optimization provides the key enabling technology in the struggle to attract and retain shoppers. Two providers of price optimization have answered AMR Research's call to action, and we expect the 10 capabilities highlighted in our report to represent table stakes for providers offering promotion optimization. We advise clients to conduct a thorough review to separate the pretenders from the contenders.