IBM Commerce

Best practices in promotion planning and execution

Work smarter and improve performance

IBM

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Where are retail promotions headed?

The world of retail promotions is in the midst of a shift away from the era of mass marketing to a customer-focused, targeted approach. Next-generation retailers define customer segments based on needs, behaviors and traits and develop marketing approaches that meet the demands of each segment.

Increasingly, retailers are seeing multiple versions of their promotions, whether from more targeting based on customer segments or geography, or to address a variety of needs from local regulations to price sensitivity. While versioning greatly improves effectiveness, it adds complexity and cost.

At the same time retailers are becoming increasingly cost conscious with respect to promotions and new media channels used to reach customers. Annual print budgets for ads and circulars alone exceed $100 million at many large retailers. Media investment is increasingly drawing close scrutiny from executives who demand better and more measurable returns.

This cost consciousness extends beyond media buys for multichannel retailers that are increasingly seeking ways to consolidate redundant promotion planning and execution resources and control those operating costs across their online and in-store channels.

Retail evolution and the death of "average"

Mass era retail	**Targeted retail**
Mass markets	Segmented markets
Mass media	Targeted media
Prototype store	Clustered stores
Uniform assortments	Cluster-level assortments
Treat all customers the same	Focus on key customer segments
Share of market	Share of wallet
One optimized price	Segment-targeted prices
Uniform promotional offer	Segment-targeted promotional offers

Better tools can help

The pressure to deliver more targeted promotions means retailers find their current planning, production and trafficking methods cannot handle the complexities of a consumer-centric model and the added versions associated with it. Adding headcount is not a practical answer. Working smarter is.

For retailers to do more with less, they need smarter systems, better processes and a framework for consistent execution. With strong analytical science "baked in" to the planning tools, retailers can consider an item's past promotional performance to determine ideal products to promote in an event, see cannibalization or halo effects of a particular product, and define optimized price points based on specific business objectives. Retailers with access to this type of information make better decisions faster—a competitive necessity, now and in the future.

Similarly retailers of short-lifecycle merchandise, such as softlines, can look at past performance of similar styles and items from previous seasons to help define future promotions and optimal price points.

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Impact across retail departments

Managing promotions is a truly cross-functional process, spanning merchandising, marketing, and advertising. While the marketing team sets the strategy and calendar, and the merchandising team is tasked to drive revenue, the advertising team is "where the rubber meets the road."

As with any cross-departmental process, challenges abound.

- Version aversion. When promotions get more customer-centric, an explosion in the number of ad and promotion versions is inevitable, dramatically increasing workload.
- Need for speed. This pressure is compounded by requirements to become more competitive by executing promotions closer to the dates they are delivered to the customer.
- Changing channels. As the number of channels increases, retailers are challenged to deliver consistent and accurate messages that are tailored to each channel.
- Details, details. Retailers must do much more and do it faster. But accuracy cannot be sacrificed—with so many messages flowing out to consumers, there is far less margin for error.

Retailers looking to succeed must meet these challenges by improving their processes and ensuring they are working smarter operationally and in terms of the decisions they make.

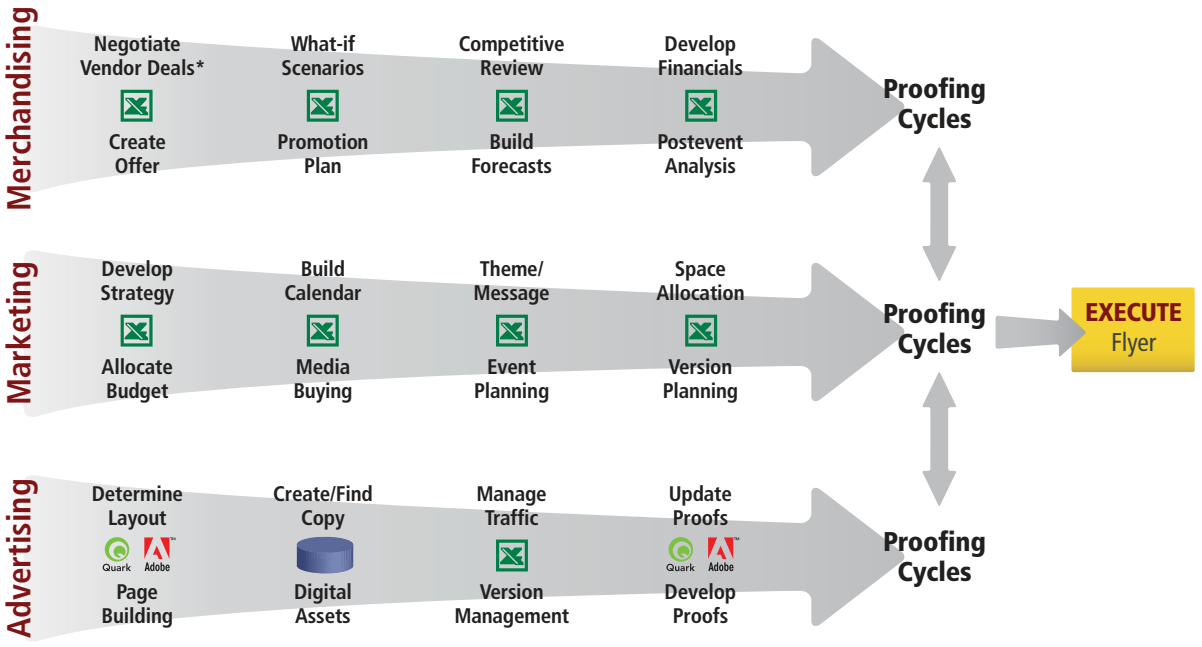
"Retailers looking to succeed must meet these challenges by improving their processes and ensuring they are working smarter."

Typical retail promotion process used today

To better understand these challenges, let's look briefly at the current or "as is" promotion process in place at most retail organizations. For the sake of simplicity, we will focus on the steps taken to execute just one widely used promotional channel—the flyer.

Separate and disconnected processes

Each team—merchandising, marketing, and advertising—is conducting a set of tasks in parallel, each using its own system with little collaboration or automation throughout the process. As a result, cycles are long, labor-intensive and as data is passed between teams, there is plenty of room for error. Let's look at an overview of each team's key tasks.



Marketing Team. Promotions begin with the marketing organization who sets the overall promotional strategy, allocates the budget dollars, manages the marketing calendar and the media buying plan, and defines the themes of specific events. This is followed by a space allocation process that determines the categories or departments featured in the flyer and version planning based on pricing zones, geographic regions, and/or store clusters.

Merchandising Team. At the same time, buyers negotiate deals with vendors (for any branded merchandise) that ultimately become customer-facing promotions. Buyers modify promotional plans based on market dynamics and category or department goals, and new forecasts are run to ensure financial goals are met. Finally, buyers track their performance and apply those insights to subsequent plans.

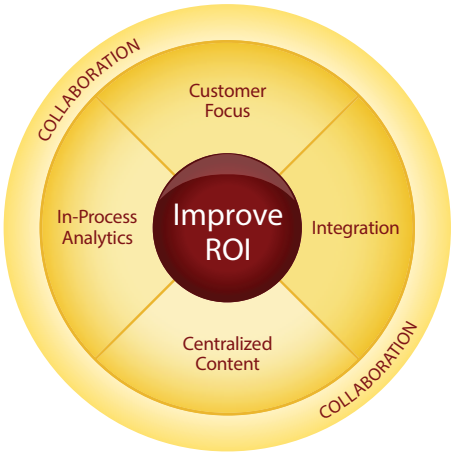
Advertising Team. The advertising team builds out the promotional plan creatively, manages copy creation, and coordinates the digital assets (product images, etc.) that are used to support the items being promoted. Managing versions is one of the most challenging functions—some retailers create anywhere between a dozen and 25 versions of a flyer, with variations in prices, items offered, copy, or imagery.

The final proofing process involves all of these departments and is typically done without automation, resulting in somewhere between three and eight proofing cycles. The large number of changes made throughout this process requires that merchants proof their offer details repeatedly to ensure they are executed correctly. Since advertising is ultimately responsible for execution—packaging the final versions as files and coordinating print production—it is typically playing the role of chief cat-herder during the proofing process.

Best practices in promotion planning and execution

Today, leading retailers are automating and linking the processes described earlier in a comprehensive system to ensure that they successfully execute a customer-centric strategy across channels, with multiple versions. Such a system incorporates best practices that apply across departments at a retailer, as well as department-specific best practices. Let's begin with the six overarching best practices.

1. **First, focus on the customer**
   Focus less on individual media plans and zero in on the best ways to message to customer groups across media types and channels. Design messages, offers and events to target customers or customer segments. This is versioning, a critical control point for customer centricity and a key revenue driver.
2. **Simplify and shorten the process through integration**
   React to market conditions faster. This is enabled by an infrastructure that eliminates duplicate effort, provides tight integration and supports a coordinated workflow. Price revisions are entered once and then flow to the creative people and directly through to the store without having to rekey or conduct multiple proof cycles.



3. **Improve decision making with better in-process analytics**
   The third best practice is to adopt an infrastructure that supports better decision making with access to analytics directly within the planning tool. For example, while a merchant is planning a promotion, the system can display historical performance details on the item (or similar item) and access an analytics engine that permits comparison of forecasted performance for alternate offer types and pricing.
4. **Centrally manage content**
   Major process improvements depend on managing all the promotional content in one location. This eliminates redundant data entry and provides the foundation necessary to achieve zero-defect production.
5. **Maintain a shared, collaborative environment**
   Maintain a shared environment, with common underlying systems, across the departments responsible for collaborating in the promotional process.
6. **Set ROI goals and measure results**
   Retailers must track their results, and compare them to their goals—for specific items and groupings of merchandise, as well as for events. This tracking allows retailers to improve performance and to more accurately calculate and review the ROI.

Department-specific best practices

In addition to best practices across a retailer, there are best practices for marketing, merchandising and advertising.

Marketing

On the planning side, marketers must begin by setting and communicating marketing strategies and objectives for promotions clearly across the organization. Is there a theme (e.g., “Dollar Days”) or an underlying strategy (e.g., “price image”)? Is a customer segment with particular characteristics being targeted?

Success story—Increase versions 300 percent and maintain regulatory compliance

Challenges

This large specialty retailer was already versioning ads when its executives decided to increase targeting, requiring a 300 percent increase in versions. At the same time, it faced issues with regulatory compliance around rebates, price and disclaimer display in the ads and in the store.

Solution and results

By uniting advertising, marketing and merchandising in a common promotional framework, supported by IBM® solutions, this retailer increased versions and adhered to the new plans. In addition, it was able to improve compliance by configuring the software to automatically follow complex state regulations.

Benefits

- Increased sales, credited by the retailer to the additional ad versions
- Decreased process time due to better collaboration between departments
- Improved compliance and reduced penalties from automatic enforcement of detailed local laws
- Developed better forecasts and tracking from promotional product groupings

Operationally, it is important to centralize marketing content so that it is consistent across customer segments, promotional vehicles, and the general marketplace. Likewise, marketing will want to ensure that versioning is automated so that targeting goals can be achieved with more accurate execution.

Finally, when all is said and done, marketers must ensure they know what they have accomplished. Tie promotion performance not only to an event but understand the performance of specific customer segments. As you increase your sophistication around targeting, you will want to ensure that you understand both.

Marketing best practices

- **Set strategies and objectives**
- **Centralize copy and brand messaging**
- **Automate versioning**
- **Conduct event-specific historical analysis**

Advertising

In advertising, best practices involve centralizing and automating. The advertising team will want to maintain a workflow process to ensure milestones and tasks required for each event are visible and understood across the organization. This becomes increasingly important as new tactics, such as virtual flyers or gadgets, are introduced.

With targeting and an increase in versioning, the sheer number of variations can be staggering and nearly impossible to manage manually or with homegrown tools. Therefore, it is crucial to systematically manage copy and images to support versioning. In retail segments, such as grocery, drug and mass merchandising, where many items are promoted more than once, this type of system will also make it easier to reuse content.

Automatic output of content to multiple production systems—pages, signs, etc.—is another crucial best practice. By using a single system that automatically integrates with the production systems, it is easier to share and reuse content.

Finally, the explosion in the number of versions that results from a targeted, customer-centric strategy makes an online proofing system critical. Proofing electronically reduces the number of proof cycles required and gives users more flexibility in proofing their content.

Advertising best practices

- **Centralize calendar and workflow**
- **Track price, product, copy and image items**
- **Reuse content**
- **Automate production of pages, signage, mailers, etc.**
- **Proof online**

Merchandising

Best practices for the merchandising team begin with the use of analytics to support decision making. An embedded analytics engine will provide the merchant with the ability to make better decisions, such as deciding which items should be promoted during a specific event.

Merchants will also want to ensure that they reuse promotions—either simultaneously in different channels, for instance, on the flyer and the Web site—or based on that particular item's promotion cadence. And, since assortment can change within promotional groups—flavors are added or deleted from a food brand, or styles or colors appear and disappear for apparel merchandise—merchants will want to use dynamic groupings so that the system automatically recognizes valid items in the group at the time of a promotion.

Finally, merchants will want to use scorecards to track key metrics of a promotion in process and as a checkpoint during planning. For example, merchants planning space on a page should be able to see a real-time update of the forecast for that page—or the entire promotion.

Merchandising best practices

- Embed analytics at the point of decision
- Create reusable offers
- Use dynamic groupings
- Automate versioning
- Embed scorecards

Success Story—Mass merchandiser improves competitiveness

Challenges

This mass merchandiser faced damaging competition and was looking to increase competitiveness with a promotion management system that would reduce its lengthy ad production cycle and improve decision making with better data.

Solution and results

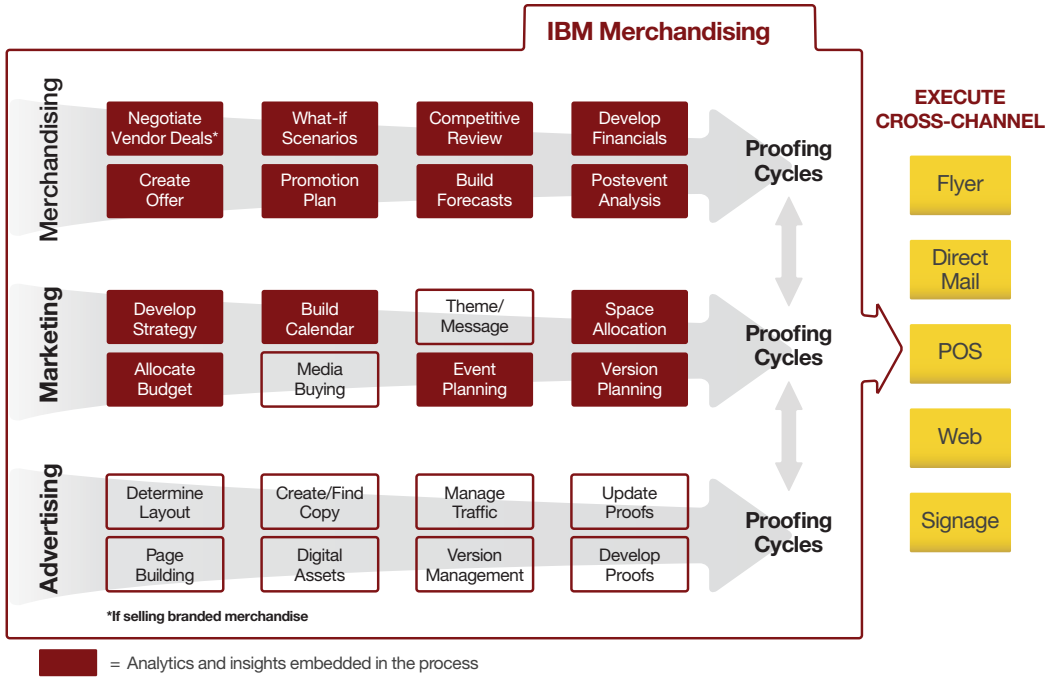
This retailer improved its promotional process, supported by IBM solutions, and was able to:

- Version promotions based on product and price to better compete with localized, relevant offers.
- Reduce ad production cycles by 40 percent with a new workflow that automated manual tasks.
- Track historical promotion information more easily to see where and how an item had been promoted.

Model promotion process

Let's look again at the promotion planning and execution process and the technology that reflects the best practices above. Key characteristics of the process and technology include integration, collaboration, automation and embedded analytics.

It is crucial to put a technology and business process workflow "wrapper" around promotion-related processes, across departments. This gives all parties involved access to the information required to do their jobs better, faster and with the ability to handle the version requirements of customer-centric retailing.



It is also critical to leverage customer demand science—based on advanced science applied to POS or transaction log data—at multiple decision points within the process. For marketers, this science supports strategy setting, provides insights into ad space allocation, tracks which items perform better on different pages or in different channels and helps in determining the number of unique versions required. For merchants, advanced science is used to optimize price points, to predict customer response at those price points and to promote the right products to meet business objectives.

This model process yields significant benefits:

- Across departments, the proofing process is now managed online, reducing the time required to proof, automating the process with the underlying workflow system.
- In this proven model, omni-channel promotion planning and execution are managed in one place, with improved decision making and greater accuracy.
- With a promotion planning and execution solution in place, users can make better decisions faster due to analytics integrated within the business process.
- The entire process is automated to help eliminate redundant data entry and streamline the process, enabling merchants, marketers and ad managers get more done faster and with fewer errors.
- Centralization delivers a consistent message platform capable of managing information across retail channels.

Proven solutions

This model is ideal for today's customer-centric targeted marketing programs, at virtually any level of granularity required to support business objectives.

Consumer demand science helps answer questions such as:

- Which items are most sensitive to placement in an ad?
- How should I allocate space across departments and classes?
- Which categories or classes of merchandise do best in a specific type of ad event?
- How many pages should an ad have?
- How much should I charge for this item or style in this promotion?
- How productive are the different parts of each page?
- How productive are individual pages in my ads?
- Which categories are best for driving volume?
- How should I vary category or department space allocations across ad zones?
- What other items do my advertised items pull through with them?

Whether selling grocery, softlines or hardlines merchandise, promotions are an integral part of retail. Retailers need to manage these activities efficiently and effectively to address increasing competition and complexity.

With the success and continued expansion of customer-centric marketing strategies, managing complexity has become nearly impossible with legacy systems. Most retailers can handle manual processes up to a point – but the pressure to do more, more rapidly, causes these older systems to falter. It has become critical to establish a common framework to underpin the comprehensive promotion collaboration process.

The good news is that proven solutions exist and retailers are leveraging them today to compete more effectively – to manage intricate ad and promotion versions, to make faster, better decisions and to respond more rapidly to competitive initiatives.

Fifteen years of experience demonstrates these tools work

The IBM™ Promotion Management solution incorporates science, analytics and superior data into the decision-making process. This solution delivers timely and valuable information to users at the point in time when they need to make better, faster decisions. It is integrated, automated and consistent.

"Proven solutions exist and retailers are leveraging them today to compete more effectively."

Success story-Hardware co-op goes local

Challenges

This large hardware co-op with thousands of independently owned stores was challenged to manage national promotions and thousands of localized versions simultaneously.

Its challenge was compounded because half of ad production was done in-house and half was outsourced, with no integration between the various groups.

Solution and results

By improving its promotional process, with the help of IBM solutions, this retailer was able to manage its national promotions while allowing independent store owners to customize the promotions for their local market or store.

The end result was a system that linked outsourced production to in-house systems and enabled the production of localized ad versions that met the needs of member store owners. Moreover, the new system reduced errors and increased interdepartmental collaboration.

About IBM Commerce

IBM Commerce enables clients to uncover and realize new, sometimes hidden, growth and efficiency opportunities by infusing intelligence and context into key processes across the commerce cycle. Our market leading products and services help organizations orient their entire business around the customer from procurement to supply management, to marketing, merchandising, eCommerce, payments and customer analytics. Differentiated by deep industry expertise and service capabilities, we help our clients create value as they engage with their customers, partners and suppliers. This is the power of IBM Commerce.

For more information

To learn more about IBM's Omni-Channel Merchandising solutions, please contact your IBM representative or IBM Business Partner, or visit the following website: **ibm.com**/merchandising.

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Somers, NY 10589

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