

A young woman with dark braided hair is smiling and looking down at her smartphone. She is in a grocery store aisle, with shelves of products visible in the background. The lighting is warm and focused on her. A blue diagonal banner is overlaid on the left side of the image, containing the main text.

New strategies for
promotions management
in **grocery** and
convenience retail

XCCommerce™

Introduction

The processes and systems grocers use to win and retain customer loyalty are not working effectively and may be damaging the brand image.

While grocery and convenience retailers can take comfort from the fact that loyal customers spend more, spend more often and cost less to sell to than new customers, what is now becoming clear, particularly post-pandemic, is that they expect more in return.

- **They expect a higher quality offer which is not always about lower prices, but could be about free delivery, membership of a cooking or diet club, donations to charity, faster service, as opposed to simply traditional discount only promotions which are a race to the bottom in profit terms.**
- **They expect promotions to change regularly, to be meaningful for the, to add value to their lifestyle and to be available on whatever channel they shop on, on a consistent basis.**
- **They expect communications and promotions to be personalised.**

This all adds up to management complexity that is way beyond the capabilities of current processes and systems.



This matters now more than ever because the way promotions are currently managed is affecting return on investment, adding cost to their design and build, inhibiting the creation of promotions for new and emerging channels, and even damaging retailers' competitiveness as they fight to win back customers and boost average spend post pandemic.

In grocery particularly, these problems are all exacerbated because retailers are working with suppliers on trade promotions, and this adds not only a level of complexity but also layers of outmoded processes and incompatible systems.

The knock-on effect of promotions management designed for another age is significant both in terms of execution because processing of vouchers and coupons in store is difficult and time-intensive for staff, and customer experience because they are not receiving a good service across the whole process or consistent service from channel to channel.

And yet, the demand is there. Our own research among consumers shows :

- **72%** want more promotions
- **69%** make that the reason they bought from a retailer
- **77%** want coupons, vouchers etc
- **62%** are loyal to retailers who offer promotions
- **62%** want targeted promotions



Turnover up, profits down

Supermarkets and convenience chains did well during 2020 as their financial results show. Reporting in mid April 2021, the UK's largest grocery chain announced revenue up by 7% to £53.4bn.

However, pre-tax profits dropped by nearly **20%** due to costs relating to Covid which included full pay for off work staff that were ill or shielding. It also incurred much higher than usual recruitment costs as it took on both full and part-time staff and scrambled to cope with a huge rise in demand for click and collect and home delivery, processes that were not profitable even before the pandemic.

As a result, its full year pre-tax profit fell from **£1bn to £825m**. This is likely to put pressure on margins for some time to come, particularly as most of the grocers are redoubling their efforts to build market share by lowering prices. Kantar shows that grocery prices have been falling in 2021 by **0.3%**, the first time since late 2016, as retailers added ever more complex and creative promotions.

Margins are also under attack from the growing presence of new entrants, including Amazon which owns Wholefoods but also sells a growing range of groceries online, the continued rise of independent food companies that deliver door to door, and wholesale food companies that shifted from selling to schools and businesses that were closed in 2020, to selling direct to consumer.

This was typical across the sector although Kantar showed recently that online supermarket sales growth had slowed by over a half since the peak of the pandemic, as shoppers cut their online spend and returned to stores.

However, at the same time, there is some evidence, largely anecdotal at this stage, that the determination by many grocers to more narrowly personalise their promotions back in 2015, notably Waitrose and Morrison, is now become a reality, enabling them to target price drops, or discount only for those customers who find the offer meaningful.



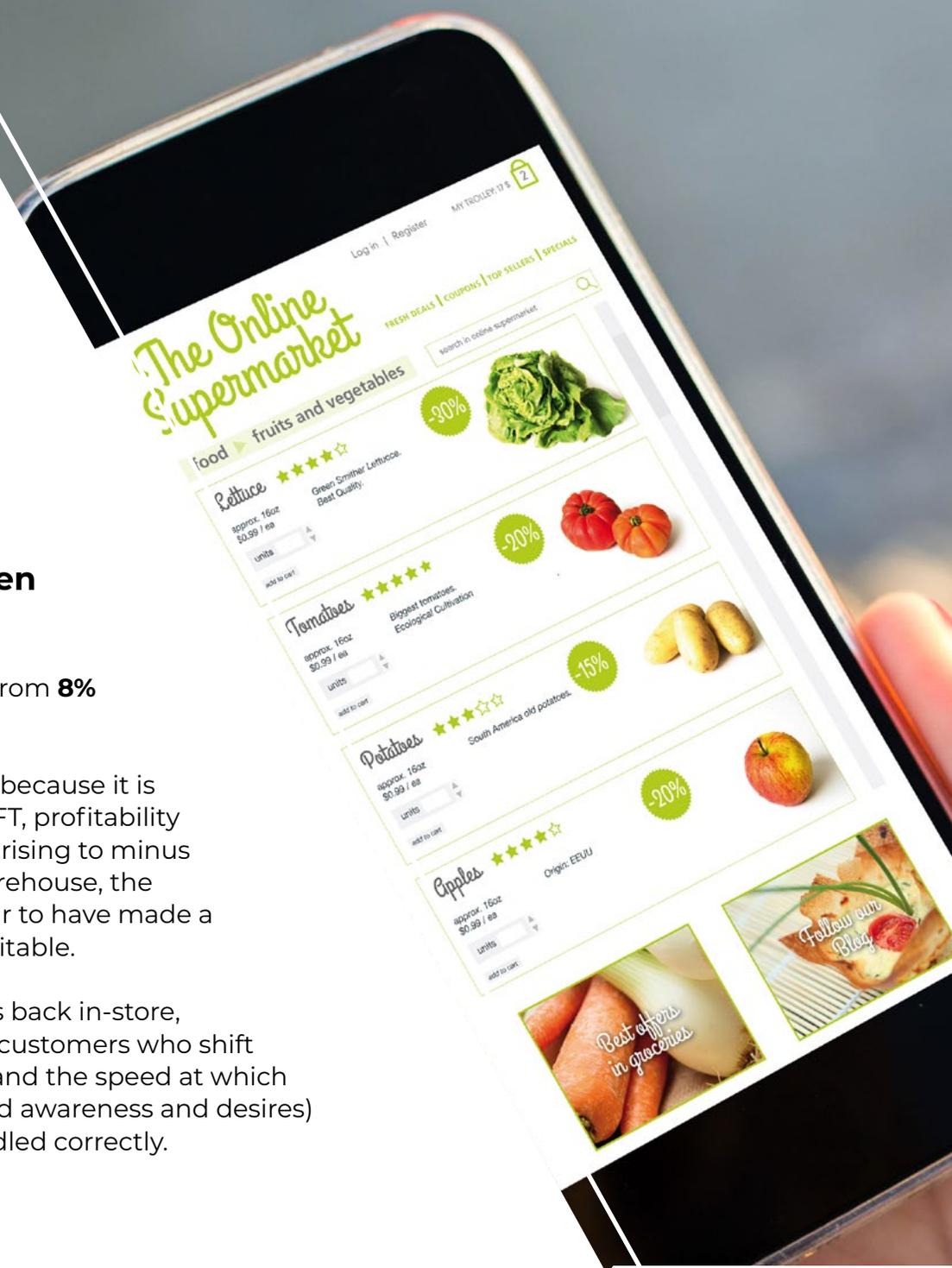
No going back on on line grocery

Despite this, the huge shift to online grocery during 2020 is not predicted to ever return to pre-pandemic levels, particularly as new cohorts of customers that had never shopped for food online, are now finding it preferable, even where mixed with store visits.

According to Kantar, the share of online grocery retail has risen from **8%** to **15%**, as high as **20%** for some of the larger chains.

However, grocers can take little comfort from this shift to online because it is simply not profitable for them. According to Bain writing in the FT, profitability from delivering an online order to a home address is minus **15%**, rising to minus **5%** for click and collect. Even where orders are picked from a warehouse, the profitability today is minus **7%**. Only third party specialists appear to have made a success of this, but their pick from store model is still barely profitable.

This may see grocers introduce incentives to get their customers back in-store, with store-only promotions, or special rewards to multi-channel customers who shift more to the store. However, design, build, promotion, targeting and the speed at which promotions need to be refreshed (reflecting customers increased awareness and desires) will bring new challenges, not least the risk of failure unless handled correctly.



New channels make communications a challenge

Grocers face other challenges to profitability because the direct access to their customers to communicate promotions and offers is under threat.

This has come about because of the continued growth of self-scanning, self-checkout, staffless stores and shopping apps. Access is further degraded by the need for some grocers to use third party channels to reach customers that they do not 'own'.

Partnerships between Amazon and Morrison, and Marks & Spencer and Ocado are examples of commercial partnerships that are certain to involve compromises over access to the customer and customer data.

The danger here is that the loyalty component is missing, and the promotion is just about the deal, which suggests that partnerships are a desperate attempt to drive short-term sales rather than long-term loyalty.



Costs keep rising

Lastly, grocers continue to face higher costs due to regulation, wages, workplace compliance, having to demonstrate food safety through new product labeling, demands from customers for better service, all while conforming to industry standards on data privacy.



What this all adds up to is continued pressure on margins in an already low margin business.

This requires promotions to deliver higher returns through more efficient management, higher volume sales, as well as reducing the depth of the discount by targeting better.

Generic, cross-the-board promotions are not currently performing. Poor targeting, slow speed of response, the high cost of implementation and a lack of focus on customer needs are forcing them to lose relevance to the market as it is today.

The old world has left numerous opportunities for improvement.

- **Return on investment** is not high enough to make up for the margin erosion from current market forces
- **Promotions are still built channel by channel**, with limited cross channel management capability
- **Retailers lack access to the data** needed to target promotions more effectively and progressively personalise. Lack of data also means retailers cannot see that what is best for the customer in one channel may not work across all channels
- **Consumer resistance** is growing to some traditional promotion types eg. 'unethical' promotions such as BOGOF
- **Problems with trust** in the aisles as consumers view what appear to be price and value inconsistencies based on pack sizes
- **Price and promotion aware customers**, helped by complete transparency online, expect a deal as a baseline, making it harder to support full price on some items, exacerbated by the fact that some categories appear to be permanently on promotion
- **Speed to market affected by promotions** complexity and channel numbers, which prevents retailers from taking full advantage of opportunities
- **Throughput compromised by excessive manual intervention** during build and error management
- **Adoption of new channels**, consumer apps being an example, indeed by customer's expectations that promotions simply won't be available uniformly

A hand is shown holding a smartphone. The phone screen displays a promotional offer with the text 'UP TO 80% OFF' in large, bold, white letters on a dark blue background. Above this text, the words 'PROMOTION' and 'COUNT' are partially visible. The background of the phone screen shows a blurred image of grocery items with red 'Sale' tags.

PROMOTION
COUNT
UP TO
80% OFF

Solution

metro

**food
Basics**

**SHOPPERS
DRUG MART**

La Senza

ANN TAYLOR

LANE BRYANT

TB TAILORED BRANDS

L.L.Bean

The new world of promotion management is integrated, automated and rules based, underpinned by data sourced from currently disconnected repositories. In this way, all multi-channel promotions can be supported from a single system, whilst giving data insight to both user and beneficiary stakeholders.

All channels can be supported, which is becoming a baseline as retailers need to reach connected consumers through new and emerging media. At the same time, a single system can spot and resolve any overlaps as well as ensure consistency of message, item description, promotional offer, prices and so on.

Throughput is fast and errors eliminated, which reduces the need for manual intervention and prevents the buildup of queues at the point of sale because coupons and vouchers are automatically triggered.

The benefits of speed also come to marketing teams who can now respond more quickly to emerging market conditions and the behaviours of savvy consumers, enabling them to be more creative and responsive. New promotions and offers can be added without incremental cost or risk.



Solution highlights

- **Single management and execution** for promotions across all channels, countries and currencies, supporting retailers with stories in 47 countries, 40 currencies and local languages
- **Rules based promotions**, including those driven by brands, channels, locations, customers/segments, vendors, products, bundles and coupons, driving turnover and margin, by reducing overall discount on an ongoing basis
- **Targeting offers** towards specific customer groups, segments or on an individual basis, ensuring that they are both timely and relevant, and therefore drive revenue and repeat visits
- **Analysis of potential overlaps**, at creation time, recognising conflicting promotions that may reduce margin, enabling business staff to manage their own promotions, understand and approve overlaps, in the knowledge that they will be automatically and efficiently processed at execution time
- **Advanced stacking and conflict resolution algorithms** automatically driving the Best Deal for customers, without need for any manual intervention
- **Service supported on existing hardware and systems**, preserving investment made, whilst being capable of being up and running in a matter of weeks



CASE STUDY

Metro

Metro with nearly 1000 stores in Canada is using XCommerce's promotion and coupon solution to support its current requirements, whilst future proofing them, as new offers are needed, emerging sales channels added, and trading systems replaced.

The Promotion Engine provides Metro with an automated solution for applying promotions and resolving overlaps, eliminating the need for cashier manual intervention, thereby reducing labour costs and margin loss.

Metro has also been able to address its specific loyalty and targeted promotional requirements, including loyalty point reward offers and single use coupons, targeted to individual customers and/or households. The XC solution seamlessly operates with its CRM system, which analyses loyalty member purchases and selects relevant coupon offers for each member.

Metro can use points based and/or targeted coupon offers to draw customer focus to desired items, such as overstocked products, high margin items, seasonal items and so on. The automated execution of promotions ensures fast throughput at checkout and elimination of calculation errors, with no additional load or stress on cashiers.

"In a very dynamic food market, the Promotion software gives us a much needed competitive edge to retain and improve market share."

Lyne Noël, Retail Information Systems, Metro Inc.



Integration is a relatively simple and proven step, you can be up and running in a matter of weeks. XCommerce is committed to helping you achieve your business goals.

If you would like more information regarding our company or our products, please email Robin Coles @ robin.coles@xcommerce.com / +44 7413 664458

www.xcommerce.com

XCommerce[™]