Reducing In-season Discounting

Cut discounting, but not your volumes

Written by Sandeep Mittal
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Every January and July, pretty much every retailer goes on Sale. The signs go up, the discount seekers flock to the stores, unsold stock is liquidated, and everybody is happy, sort of. The problem is that the cycle can get out of hand. In some markets it isn't two EOSS' anymore... they're on Sale pretty much all year 'round, and that's an unhealthy hole retailers fear they're digging themselves into.

So here's the challenge retail clients have started throwing at us. "Help me reduce in-season discounting". More elaborately put, the need is to use precision marketing methods, loyalty programs, customer data, and pretty much everything we hold dear towards the end goal of discount reduction.

Having done this across clients, here's some quick insights on what we've seen works:

Offer levels: Instead of going all out on the offer, try a simple informative communication or a low offer communication (our preference being towards the no-offer). Yes, response rates are likely to be lower at around 60% of what an offer driven campaign is likely to pull, but the ROI can be comparable. So we're talking 1.8% response instead of 2.5%, but with no discounting - May be well worth a shot!

Bonus points or discounts: If you don't have a loyalty program, know that the reason you should look at one is for the customer data that allows you to do pretty much anything we're talking about here, and the establishment of an incentive mechanism that is very flexible. You could drop discounts and add 5X bonus points top up during a sale – which doesn't reduce discount for your best customers, but eases it up for the occasional shoppers. And it could be beyond bonus points – it could be better redemption thresholds, it could be lowered tier upgrade thresholds, it could be exclusive privileges. A whole host of opportunities to boost sales without discounting.

Redemption drives: Some of the most successful and high response campaigns we've seen have been around Redemption drives. In particular, the ones that use customer data intelligently to drive the redemption. They get great response and lift, and the ticket size value is 4X to 5X the number of points redeemed.

You had 917 Loop™ points in your account on 14th April, 2013.
We've topped that up with 160 points, so you now have 1077 Loop™ points!*

Webbing Belt	Women's Tee	Women's Western Shirt	Women's Curve ID Jeans
Rs. 899	Rs. 899	Rs. 1599	Rs. 2299
REDEEM AND PAY:	REDEEM AND PAY:	REDEEM AND PAY:	REDEEM AND PAY:
Rs. 0	Rs. 0	Rs. 522	Rs. 1222

Long tail campaigns: A series of high-relevance campaigns can be driven using behavioural or membership data. For instance fence sitter campaigns that inform members that they are just one transaction away from a tier upgrade or Milestone campaigns congratulating members on making their Nth transaction or on their Nth membership anniversary are typically moderate response but high lift.

Varying Offer Messaging: Even if you are putting out an offer, it can vary by segment. For instance a retailer identified eight different customer segments such as members who are discount seekers; price insensitive members; and members who have a favourite product. It then sent customised messages to each segment - Some highlighting the discount and others were prompting them to come for the new Merchandise.

Making it work

With a target of reduced discounting, the automatic fallout is that we're finding ourselves a whole new set of metrics that we have to track. These include:
- % of discount led messages
- % of campaigns that are relevance and not offer driven
- Ratio of Discount to Points Redeemed

All in all, it's a good step towards correcting a trend that could have long term complications for retail as a whole, and a good move by retailers to drive volumes without succumbing to the lure of putting out an offer.