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Plan Pricing Promotions For Survival and Profit

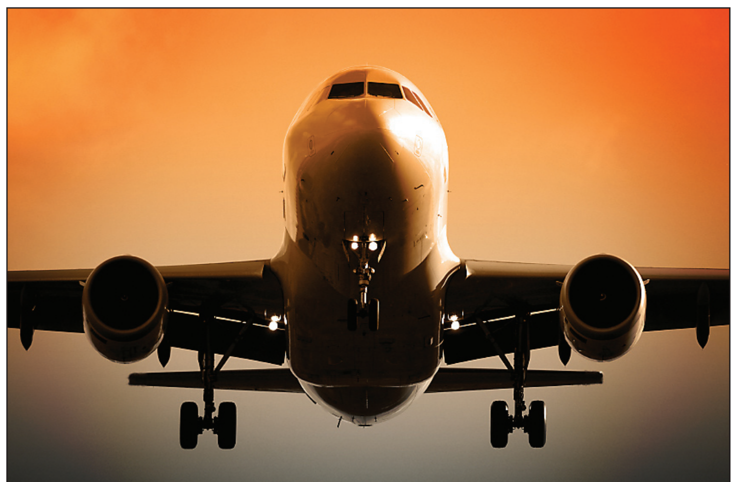
Price promotions can be an effective means of increasing sales if they are well planned and based on solid research. However, companies who fail to do their homework before launching promotions will often do more harm than good. With the 2010 holiday season approaching, companies aspiring for an uptick in sales should plan price promotions carefully to avoid diluting their brands and sparring wastefully with competitors, as the author explains. Navdeep Sodhi is Vice President of Pricing at Ceridian, a past recipient of the Award of Excellence from the Professional Pricing Society, and author of Six Sigma Pricing (FT Press, 2008). He also writes a pricing blog (www.iSixSigmaPricing.com/blog).

In this global recession, retailers and manufacturers are frantically trying to fire up demand with aggressive price promotions. But companies who fail to do adequate due diligence before launching promotions may find themselves pushed to the brink. The liquidation of Circuit City and bankruptcies of several other retailers after a single disappointing holiday season should be reason enough to preempt such outcomes. With the 2010 holiday season approaching, companies aspiring for sustained profitability should plan price promotions carefully to avoid diluting their brands and sparring wastefully with competitors.

Here are the steps which differentiate planning behavior of two real companies, an airline and an industrial manufacturer:

1. Review sales data for peaks and valleys to scope the opportunities: which products, which geography, and how much weakness to fix. Airline company revenue managers routinely review bookings to identify weak routes and days of low demand before deciding on the number of seats to discount instead of dropping all fares for a flight. In contrast, the industrial manufacturer runs quarterly price promotions with most of their product-line. They have trained their customers to wait for lower prices which their major competitor matches or undercuts easily.

2. Project sales volume with and without promotional discounts as well as expected competitive response. Calculate breakeven volume to set goals for incremental sales and minimize dilution through targeted promotions. While this seems like too much homework, the airline has a standardized process involving pricing, marketing, sales, legal and IT requiring final sign-off from a senior marketing executive – all completed within two days. Whereas with the example industrial manufacturer, it takes 2-3 weeks of excruciating conference calls to get a semblance of coordination – mainly to assure senior managers about the enthusiastic engagement of the sale force.



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3. Target specific products and customers with specific start and end dates. This helps avoid the impression of a permanently lowered price. The airline has traditionally used processes to track promotions, to provide advance notification and to train all stakeholders involved in the execution. The industrial manufacturer struggles with ongoing issues due to lack of coordination. Plus, their end customers and distributors simply stock extra product forcing the sales reps to offer lower prices for several extra weeks.

4. Check sales and margin results against the goals. The senior marketing executive at the airline requests post-analysis at the end of each promotion to check incremental sales and effect on yield (price per mile). The managers at the industrial manufacturer simply move to the next fire drill. Not long ago, they ignored data showing that over 50% of "promotional" sales came from existing customers.

The desire to close the year strong is understandable but no company should throw caution to the winds. Any company that acts like our industrial manufacturer should change their approach to price promotions before it is too late.