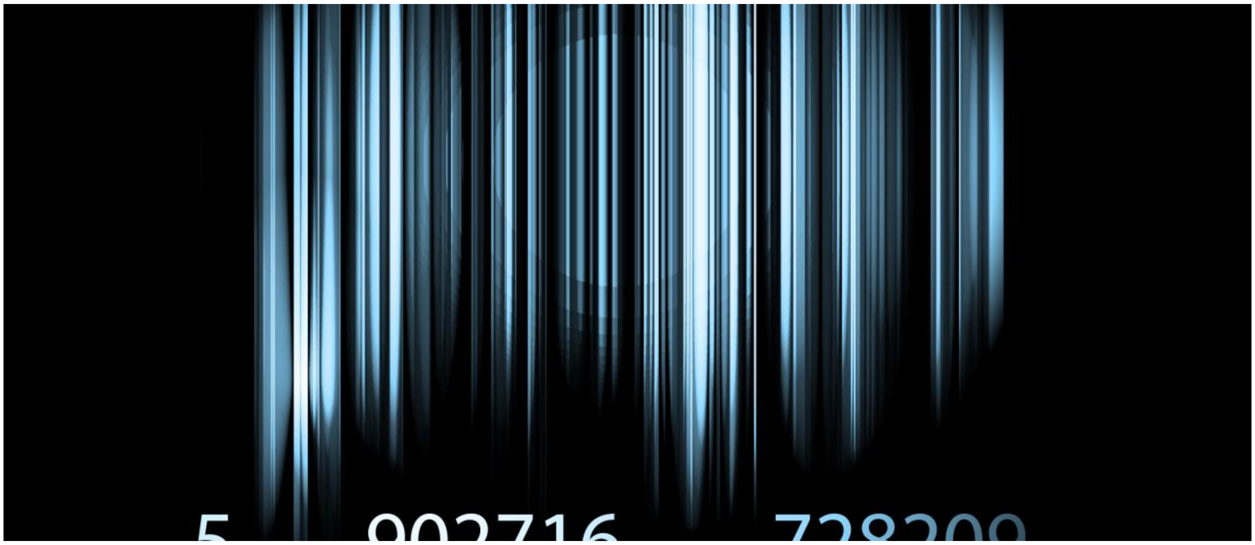
Retailers: Who Needs Black Friday When You Have Big Data?



By Joerg Niessing , INSEAD Affiliate Professor of Marketing, and James Walker , Partner Demand Analytics, Strategy&

Arbitrarily slashed prices don’t necessarily win greater wallet share. Retailers need to bring ecosystem thinking to the store shelf.

Black Friday has burst its banks. Once confined to the Friday following Thanksgiving, the unofficial start of the holiday shopping season in the U.S., it now vies for attention with Turkey Day itself as retailers push their “doorbuster” sales earlier and earlier on the Thursday evening before. Dubbed “Black Friday creep” by the U.S. media, this phenomenon is the result of increasingly intense competition among retailers to capture consumer spend, not an easy task given a less-than-ideal economy. And with Amazon open for business 24/7, physical retailers are under extreme pressure to incentivise in-store shopping.

There could be a better way for retailers to improve their margins than competitive price-slashing. Specifically, we would encourage product makers and retailers alike to view pricing strategy as inextricably linked to optimisation of the product mix. Our research has consistently revealed that companies are leaving money on the table by not leveraging their assortment of sales items (or stock keeping units in marketing speak) to drive consumer behaviour. Instead, they have come to rely on drastic end-of-year discounts that whip up **Black Friday hysteria** to clear stock – but that well may be running dry, as the desperation of “Black Friday creep” seems to suggest. If so, many companies may be forced to do some long-overdue rethinking of their entire approach to pricing.

Curate Your Shelf Space

When it comes to the product mix, bigger is decidedly not always better. There are two important factors at play here: *cannibalisation* and *costs*. When items are imprudently added to the product mix, these factors bite profits at both ends of the sales process. The high costs of introducing a new item, and of devoting shelf space to it, compound the losses produced by a needlessly cluttered assortment. Simply by weeding out the worst-performing 20-30 percent of items, companies can greatly increase cash margin. Additionally, in our work with a major food and beverage company we discovered that 80 percent of the company’s revenue derived from 20 percent of its items on sale.

The objective should be not simply to junk products willy-nilly but to analyse how removing certain units may influence consumer behaviour. Cannibalisation often occurs when, for example, the same beverage is sold in several different bottle sizes, with modest price differences between them. Often, dumping the larger units gives companies freedom to experiment with the pricing of smaller, cheaper-to-produce ones. A cramped shelf, however, offers little room for companies to manoeuver.

Mine the Data

There needs to be a significant and holistic analytical component to this sort of price/product optimisation; otherwise, there is always the danger that removing items will frustrate consumers and end up benefiting competitors. Fortunately, new and unique analytical models grounded in retail experience and consumer research are helping companies sort through the muddle.

Working through the data can shed light on obscure sources of revenue, but only if companies don’t allow bias to contaminate the process. Particularly, grouping stock keeping units into “high-value” and “low-value” classes should be avoided, as within these classes there will be exceptions that shouldn’t go ignored. Analysing items should take place at the lowest possible level of disaggregation.

Rather than arbitrary aggregation, companies should perform basket analysis, i.e. looking at items that are commonly purchased together. For example, a low-margin product may be driving high-volume traffic in the store, or purchased along with several other products it may be a key component in high-value baskets. Removing such a product may alienate buyers from the store; hence, it should be kept even though pricing and analysis may suggest otherwise.

Research shows that our suggestions are as relevant on Cyber Monday as they are on Black Friday. In the digital realm, limited shelf space still very much exists as a concept, though not as a physical reality. We see evidence that optimising the product mix can drive purchasing toward higher-margin items. Basket association can also help e-commerce marketers optimise how products are digitally cross-promoted.

An End to Black Friday?

Black Friday as we have come to know it may creep itself out of existence in the near future. And for most retailers, this would be a good thing: There has never been enough awareness of the need to engage customers as early as possible. If your holiday promotions start in November, you’ve arguably waited too long. The cannibalization effect has already taken hold as almost all retailers jostle to grab for the same finite pot of cash. Just as most store shelves could benefit from more careful curation, companies could profit by spacing out their sales strategies, rather than counting on the final two months of the year to compensate for poor planning in the first ten.

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