Dance to the music of sales

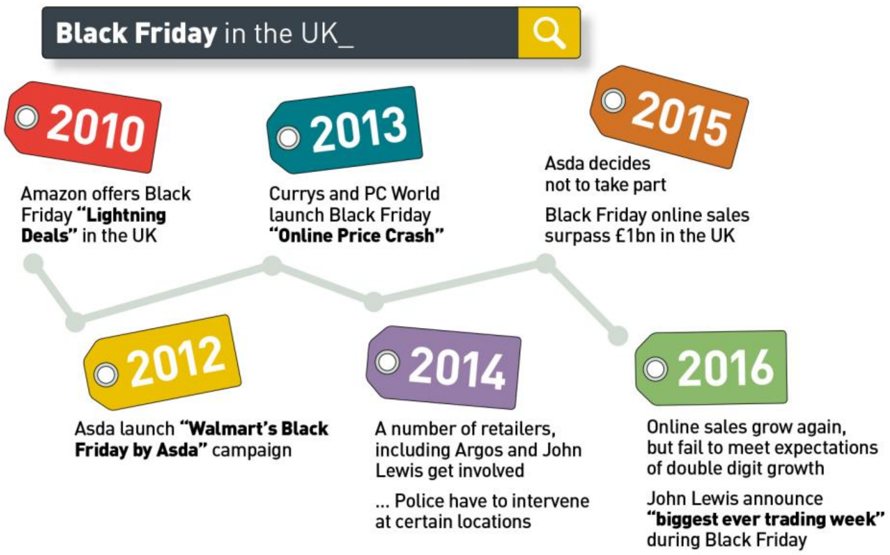
RETAIL STRATEGIES FOR MAKING THE BEST OF BLACK FRIDAY

Barely known this side of the Atlantic a decade ago, Black Friday has shaken up the UK pre-Christmas retail scene, adding a new operational peak and leaving many retailers struggling to keep their pricing, branding and supply chain operations intact. With this customer event now embedded in the calendar, what's the best strategy for different retailers?

Black Friday first appeared on UK shores at the end of the Noughties, with US-owned companies such as Amazon and Asda leading the way. Since then other retailers have piled in, and airlines and mobile operators have had a go too.

With excitement tipping over into a few heavily-reported store riots, and discounting biting deep into any profits associated with extra sales, it has sometimes felt to retailers as if Black Friday was the creation of the sorcerer's apprentice. Something that started as a useful marketing peg, driving valuable incremental sales, began to take on a not-so-profitable life of its own. Black Friday online sales peaked in the UK in 2015 reaching over £1bn and continue to force retailers to think hard about their Black Friday strategies.

Figure 1



Retailer's dilemma

A key question for retailers is whether Black Friday really does increase sales or simply shifts them forward from the pre-Christmas peak; and if the latter, what such a shift does for profitability. This depends partly on whether it increases or disperses strain on the supply chain, and also what it means for pricing. Black Friday is associated in the customer's mind with bargains, while Christmas shopping (particularly by some in the last few hectic days, engaged in what is euphemistically known as "distressed gifting") is less price-sensitive. The gains and losses from the addition of Black Friday to the calendar will clearly differ between retailers, and careful analysis is needed.

The event has created a classic "Prisoner's Dilemma" for retailers. To illustrate this, imagine there were just two of them, trying to decide whether or not to offer a Black Friday sale. They know that:

- If both held their nerve and kept prices constant, they stood the best chance of maintaining both sales and margin. And:
- If they both offered sales, both would lose money by cutting margins on unchanged sales. But:
- If one retailer offered a sale while the other did not, then the first retailer would lose sales and the associated profits to the other.

This interdependency between retailers may explain why retailers continued to offer Black Friday sales, even when analysis after the event showed they had made very little true incremental profit from them. With the music playing, many retailers just felt they needed to keep dancing.

Smart Friday?

But now, more than five years on, retailers have begun to develop a more sophisticated approach. To examine the effects on a selection of businesses, Frontier looked at the timing of web searches for three general merchandise bellwethers in the UK: Amazon, John Lewis and Argos. Web searches give a good sense of the shape of the season, and who is busiest when. We examined the different patterns at three points in the Black Friday story: 2012, 2014 and 2016.

Figure 2 shows the average **daily** frequency of searches during those key periods ***relative** to the average daily frequency of searches in October*. This was early days in the saga. For all three retailers, Black Friday week was busier than October, but in line with the early holiday levels of first two weeks of December. And Black Friday was far below the Christmas week peak for John Lewis and Argos (although Amazon's shape was different – it was seeing its search levels start to fade away by then).

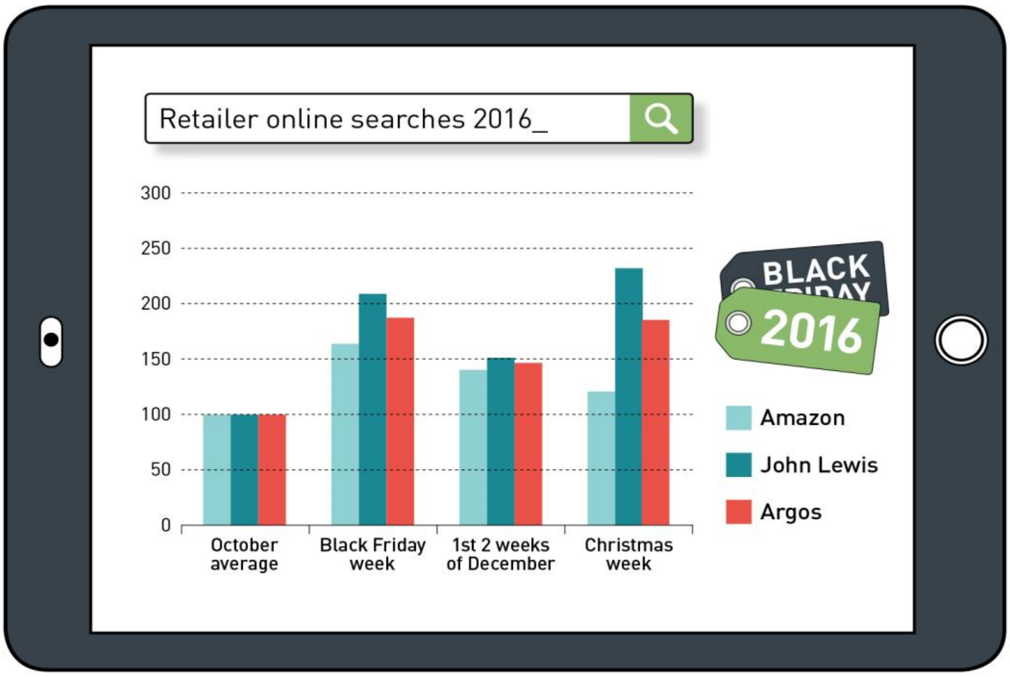
Figure 2

Just two years later, in 2014, Black Friday has really changed the game. All three websites attracted twice as many searches per day in Black Friday week as on a "normal" October day, and this became the biggest peak in the season, overtaking Christmas week.

Figure 3

But by 2016 things had quietened down a bit online - as indeed they had in store, after the bad publicity of previous years. Black Friday was still Amazon's biggest week, but for all three websites the jump from October was less marked, and for the John Lewis website there were more searches in Christmas week. Argos too saw the pattern smooth out a little.

Figure 4



That Friday feeling

So what can retailers learn from this?

- First, that although Black Friday may have subsided a bit, it isn't just going to fade away. Every retailer needs a strategy, whether it decides to dance or sit it out.
- Second, that different strategies are going to suit different retailers, depending - for example - whether or not they tend to perform strongly at Christmas. Are they at risk of cannibalising their own sales at lower margins? How should they select their Black Friday bargains to avoid that? Or, for online retailers like Amazon, does Black Friday offer an opportunity to pull forward activity from Christmas week when – perhaps due to the difficulty of guaranteeing home delivery during the festive rush – their sales are relatively weak?
- Third, that they should think separately about online and in store strategies. It's easier to target incremental sales and manage the stock and supply chain impact when you have rolling and time-limited promotions across multiple products - and that is a lot easier to achieve online than in store.
- And fourth, that they should target the bargains on those customers they most want to win. It's not that hard to win incremental sales with discounting - but unless those customers stick around and buy something else it may not be profitable either.

Leaving the floor

And what about those retailers who want to leave the dance floor altogether? Economic theory offers some useful tips on how to escape a Prisoner's Dilemma. The key is to send a market signal that is clear and credible - that is to say, it must be easy for others to confirm you have done what you said, and hard for you to renege on it. If a retailer can convince competitors that it is committed to a particular strategy, it is more likely they will follow suit.

Some retailers have tried this route already. Aldi ran a mischievous advertising campaign in 2014 suggesting its everyday low prices meant it did not need to offer heavy discounts. Hard to back away from that one. However, sales have never featured strongly in the business models of discount brands, so perhaps Aldi didn't have much to lose by taking a stand.

The Asda story is rather different. It was one of the pioneers of Black Friday in the UK, but in 2015 changed tack. It too has since made a public virtue of not participating. Last year's "Mannequin Challenge" - a viral video craze featuring people imitating mannequins and freezing for the camera - played on the chaotic scenes that had broken out in its own stores. Asda has since been joined by other well-known names on the side-lines, including Ikea and Next.

Facing the music

Black Friday 2017 therefore looks like being much less of a panic attack and more the play-out of a number of much more diversified strategies. The winners will be those who prove they have truly understood how to use the event to strengthen their own customer strategies; the losers those who resort to indiscriminate discounting to keep themselves on the dance floor. Let the music play…

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