the
WINNOWER

SOCIAL SCIENCES

It's not gambling if you never lose

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DATE RECEIVED:
May 30, 2016

DOI:
10.15200/winn.146460.06194

ARCHIVED:
May 30, 2016

CITATION:
Laura Hershey, It's not gambling if you never lose, *The Winnower* 3:e146460.06194 , 2016 , DOI: 10.15200/winn.146460.06194

When the business objective is entice retailers to pre-order a winter product despite promises of a warm winter, how do you overcome their reluctance due to risks associated with uncertain sales? As a result of climate change, this challenge is an increasingly common one, as retailers face going into seasons fearing "unseasonal weather", whether that may be an unusually dry spring, cool summer, warm autumn, or any other weather condition or event considered adverse, unexpected, or unfavourable.

For the French sales team of Bridgestone, the reluctance of retailers to pre-order winter tyres in the July to September sales period because of the risk of Western Europe having a green winter this past year was causing just such a challenge. Retailers were understandably reluctant to stock up on a product that was for a weather condition that might not transpire, instead preferring to wait to order in the event of snow, which would result in Bridgestone losing sales and being vulnerable to logistical bottlenecks in case of sudden demand.

In what would eventually prove to be an award-winning strategy, the Bridgestone team decided to offer retailers an offer they couldn't refuse, whatever the weather. In the event of there being a green winter, Bridgestone promised to compensate retailers for missing margins on missing sales, on one simple condition: retailers needed to pre-order a set larger percentage of volume from them than they had the previous year.

As for what constituted a “green winter” and how much they should be compensated, Bridgestone promised that if the average temperature for the winter sales period was a certain amount higher than a defined historical regional temperature, they would be compensated for a percentage of pre-order volumes, up to a limit on total pre-order sales. This risk coverage was back by a reinsurance treaty written by Meteo Protect based on the same temperature hedging principal.

Did it work? The programme did more than pay for itself in good publicity to be sure. Of the number of retailers who enrolled in this programme, Bridgestone not only increased pre-orders, but brought in new customers despite a depressed market and adverse weather conditions for sales. In this way, Bridgestone secured its desired sales of winter tyres in a competitive sales market, increased customer loyalty, and gained new customers. Moreover, it reduced its logistical complexity, including held inventory and last minute shipments.

Even more incredibly, a promotion that was betting on the effects of climate change negatively affecting its business had a positive environmental effect. Thanks to retailers maintaining or even increasing their pre-order sales volumes and reducing their last minute and staggered small shipping orders, Bridgestone reduced its CO2 levels.

In all, it was a win-win promotion for the distributor, retailers, customers and the environment.

But Bridgestone was not alone this past winter in betting on bad weather. Jardiland, a European leader in animal and gardening products also recently turned heads by betting on 2015’s mild winter.

Jardiland decided that if the trends were all pointing to a mild winter for Western Europe as a result of climate change and El Niño trends working together, they weren’t going to take this news lying down. A lack of white fluffy stuff would undoubtedly put a hamper on the Christmas spirit, leading customers to put off buying their Christmas tree and seasonal decorations.

With a reinsurance treaty provided by Meteo Protect, Jardiland put on a promotion giving their customers a gratifying push: a promise that if they bought their Christmas tree from Jardiland by 22nd December, and it didn’t snow on Christmas day in Paris, the tree would be completely reimbursed.

The promotion was a marketing and sales success, drawing in new customers, and increasing sales by upselling those customers who had come for the tree but left with the decorations and other products they would have otherwise bought elsewhere (or not bothered to buy at all).

Indeed, weather-related sales promotions as a creative marketing tool for product promotions are a burgeoning market solution, as businesses look to take advantage of advances in weather data technology, weather sensitivity modelling, and new index weather hedging tools. At the same time, they are increasingly necessary, as the effects of climate change lead to climate variability across the globe.

Weather promotions can be tied to any weather condition or seasonal event, enticing customers with promotions to buy seasonal products they may otherwise be reticent to consider (such as booking a ski holiday for fears of lack of snow) or to purchase from that retailer in a competitive market (such as visiting a specific jeweller in the weeks leading up to Valentine’s Day).

Today, shrewd business leaders are considering the effects of the weather on their businesses and, rather than blaming the weather, are betting on it. They’ve known what savvy risk managers and traders have been saying for some time: it’s not gambling if you never lose.