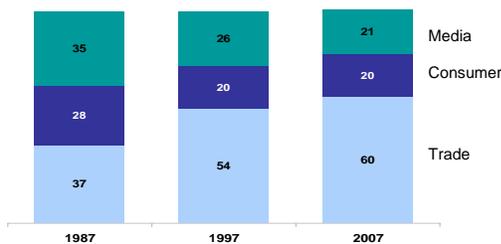


Efficient Promotion: How Can We Tell?

By William Dusek

Over the course of the last 20 years, the dollars spent on Trade Promotion has gone from being 37% of the Marketing Mix to 60%. (See Figure 1) A recent study estimates that trade promotion spending is currently at \$70 billion, and it is also estimated that for the manufacturer trade promotion spending now accounts for 16% of sales. Trade promotion spending has continued to increase over the last 20 years, and yet consumer sales have been relatively flat. Because of the significant amount of money being spent, manufacturers continue to try to understand the effectiveness of trade promotions, as well as their overall efficiency.

Figure 1
Trade Promotion Expenses
Logistics Process Overview



SOURCE: Nielsen Survey of Trade Promotion Practices and Donnelley Marketing 14th Annual Survey of Promotional Practices

Trade promotion efficiency is the most important issue facing manufacturers as identified by a recent Nielsen survey of trade promotion practices. (See Figure 2) Yet few manufacturers have evaluation methods or tools that they are satisfied with. Promotion evaluation tools go from the very simple to the very complex. The simple tools available are incomplete at best in the analysis of which promotional vehicle should be used and at what retail price. The more complex tools require multiple steps in the analysis process, and take a lot of time to complete. The output of most of these tools is difficult to understand and not user-friendly. Because of the lack of satisfaction with evaluation methods and the tools, and quite frankly because of the lack of time for analysis, few companies fully participate in post-promotion analysis.

Because of this, many promotions are repeated from year to year regardless of the payout to the manufacturer. If the retailer was pleased with the promotion, so was the key account sales associate, regardless of whether or not the promotion drove incremental sales.

Figure 2
Trade Promotion Efficiency
is an important issue to Manufacturers

Recognized as an Important Issue:

Trade Promotion Efficiency	84%
Category Management	68%
New Products Introduction	82%
Variety & Assortment	71%
Understanding the Consumer	82%
Retail Relationships	66%

SOURCE: Nielsen Survey of Trade Promotion Practices 16th Annual Survey of Promotional Practices

As an example, for a number of years running, a manufacturer ran a promotion with a retailer where a car was given away to a customer of the retailer. The retailer was very pleased with the overall traffic that was generated within their stores as a result of the giveaway. The manufacturer had never analyzed the results, and this promotion was repeated year after year. When this promotion was finally analyzed, it was found that the manufacturer's incremental sales came nowhere near covering the costs of this promotion.

The unfortunate fact is that had this manufacturer evaluated this promotion after the first year, it would not have been repeated again and the manufacturer could have saved significant promotion dollars. Or just as important, the manufacturer could have changed the promotion to maintain retailer satisfaction, and keep costs more in line with the increased sales opportunity.

A number of manufacturers have approached this problem by providing their sales organization a "Merchandising Effectiveness Analysis." This analysis

provides information by account on the type of vehicle used, the amount of the All Commodity Volume (ACV) support, the frequency of the support, the various price points, and how successful each vehicle/price point was in generating incremental volume. More importantly, the analysis also includes the merchandising funds that were spent on each promotion so that profitability can be determined. All this information is then summarized in easy to read charts for each key account. The charts define what promotion vehicle should be used and at what price point, so that profitable case sales are achieved.

A number of manufacturers are providing their sales organization with an "Account-level Merchandising Effectiveness Analysis".

Determine the Reason

This does not suggest that each and every promotion must pay out, but certainly some need to. The first step in promotion analysis is to determine the reason for the promotion. Manufacturers have many reasons for their promotions. In a survey of trade promotion practices done by A.C. Nielsen in 2007, the following were some of the reasons why companies spent on trade promotion:

Increase Sales	82%
Increase Market Share	63%
Improve Competitive Position with Key Account	42%
Maintain Current Volume/Share	34%
Build Brand Loyalty/Consumer Franchise	29%
Increase Profits	24%

Note that none of the manufacturers identified "to lose money" as one of their objectives. Some other objectives may include gaining new or expanding distribution, building or reducing inventories, increasing space, countering competitive activity, or gaining off-shelf displays. These are all very good reasons to spend trade promotion funds. But understanding what you want to accomplish can identify what tolerances you will have with the money spent.

Determine What You Want to Measure

Determine what you want to measure as a result of the promotion. If the goal was to expand distribution, then tracking distribution levels is all that is needed. What happened to sales is of secondary importance, at least for the moment. But most promotions have as their goal profitable incremental sales. If this is the case, the analysis must then be incremental sales gained minus the total costs of the promotion.

Manufacturers are starting to question the amount of money spent on trade promotion. It is imperative that manufacturers' sales associates, and/or their brokers, be more effective and more efficient with the trade funds. The "Effectiveness" of a promotion is how well this promotion responded in driving additional sales. The "Efficiency" refers to how well this promotion performed in bringing in additional sales based on the amount of money spent.

Post Promotion Analysis can be time consuming and tedious, but it provides insight to the successful management of trade funds for the future.

Based on the desire to more effectively manage trade funds available, some basic decisions need to be made. As a sales associate, I can spend more money, with the expectation that I will get a significant increase in sales. I can also spend the same amount of money, and try to get an increase in sales through better/wiser promotional practices. And finally, I can spend less, and keep the sales level constant thus being more profitable. To accomplish this, I will need to understand the effectiveness and the efficiency of the various merchandising vehicles available to me and the success of various price points within these vehicles. Once again the Merchandising Effectiveness Analysis mentioned above can provide the information to make such business decisions. And the only work that the sales associate has to do is decide how to present the information to the retailer.

The important thing is that none of this will happen if management doesn't take action in providing the types of analysis sales people can use. Yes, analyzing these promotions can be very time consuming, and tedious, but they will provide insight

to help in the successful management of trade funds in the future. But one should not stop at just these action steps.

Technology Provides for a Micro-Marketing Approach

A number of leading-edge manufacturers are taking promotion analysis down to the store cluster and even the store level. The technology, and more importantly the information, are now available for such analysis. Not that each and every promotion must be evaluated for its profitability at a store level, but store level data will certainly allow for a more targeted approach of the merchandising activities. As an example, a Brie Cheese manufacturer wants to run a promotion around the Christmas holiday. Brie Cheese is an upscale product category. Sending the same number of cases to each and every store in a chain might not make sense. In some stores out-of-stocks would occur rather rapidly, and in others product would spoil before it could be sold. Targeting stores for promotional activity, especially displays, based on the demographic profile of the stores' customers, can have a significant impact on the success of any promotion.

As mentioned, the information to do such analysis is already available. Companies like Efficient Marketing Services (EMS), have store level data available in a number of chains for just such analysis. Spectra/Market Metrics also can identify store targets matched by demographics. Many retailers use their "Frequent Shopper" panels to help in the targeting of high potential stores. This analysis could prove especially successful if merchandising costs can be controlled because of the targeted approach to the promotion. Analysis of this nature should also go a long way in expanding the manufacturer/retailer relationship based on the value-added nature of the analysis.

Case sales at any cost is not a good long-term strategy. The amount of money available for trade promotion will in all likelihood continue to decline. With that in mind, success will be determined by those who can make the best business decisions regarding trade promotion funds. Ultimately, sales associates will have most if not all of their compensation based on profits, not just on the number of cases sold. That compensation trend has

already started. Making good business decisions requires being well informed. Analyzing the success of promotional practices is a key to being well informed.

If you are not analyzing your promotions for effectiveness and efficiency - START NOW. If you are a sales manager, you must ask yourself whether or not you feel that your sales associates understand how to do promotional analysis, and ultimately how well you feel they are actually doing it. If your answers are "not very well" and "not enough," then you need to take some actions, because your success is ultimately based on their success.

If on the other hand, you have been analyzing promotions, move on to the next level which is store cluster or store level analysis. There are significant rewards there and many of your competitors may already be doing this.