PROMOTIONS

Enhancing Promotional ROI through Distinguishing Positive and Negative Effects.

10 WAYS

TO IMPROVE THE FINANCIAL PERFORMANCE OF PROMOTIONS

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“ MINIMISE NEGATIVE SOURCES
– CANNIBALISATION, SUBSIDISATION, ETC. –
AND MAXIMISE POSITIVE REVENUE
SOURCES LIKE CATEGORY EXPANSION ”

TURNING PROMOTIONS INTO PROFITS: BALANCING POSITIVE AND NEGATIVE IMPACTS

The cost-of-living crisis has prompted a re-evaluation of promotional strategies. Even though deal volume is still high by historic standards, rising cost of goods means that discounting is an even greater challenge to overall profitability.

A revenue management perspective on promotions offers a fresh viewpoint on the long-standing challenge of enhancing promo R.O.I.:
A significant portion of the sales boosts from promotions does not contribute positively, as it is negated by revenue dips in other areas. By systematically assessing factors like cannibalisation, subsidisation, stock piling, and other counterproductive impacts, we can address the core reasons behind promotional inefficiencies.

With the Accuris methodology, it is now feasible to discern why specific promotions underperform and to optimize those positive and negative impacts on a promotion-by-promotion level.

The below benchmark data from Accuris reveals the breadth of this issue. In the subsequent sections, we will delve into the reasons behind these setbacks and then offer strategies to significantly boost performance.

BENCHMARK

12% — Cannibalisation

Percentage of promotional uplift offset by sales declines elsewhere in a supplier's own product portfolio

35% — Subsidisation

Percentage of sales on promotion sold to (loyal) shoppers who would have paid full price

94% — Downgrading

Percentage of sales on promotion not adding incremental revenues to the category

Source: Accuris UK Benchmark Study, 2022
Averages based on 17 categories, top 4 grocery multiples retailers

WHY PROMOTIONS GENERATE LOSSES …

The unfortunate reality is that most trade promotions result in a loss—a trend consistent for the past decade. Why has the industry seen such limited progress? Let's delve into the root causes behind this stagnation.

1

Discounts to shoppers who would have paid full price

Too many promotions are offered “unconditionally”.

Whether a shopper is a newcomer to your brand or a long-time loyalist, they are often presented with the same promotional discount. Alarmingly, many of these promotions are doled out without any requisite effort or commitment from the shopper. There is no incentive for them to purchase more or upgrade to a premium version. In essence, these promotions often reward shoppers for purchasing what they already intended to, but at a discounted rate. This results in significant subsidisation and invariably drives down ROI.

2

One size fits all

While brand and customer marketing might have dedicated years to perfecting positioning, formulation, product range, and pricing for specific consumer segments, the approach to trade promotions often lacks this nuance. Whether a shopper is quickly replenishing, making an on-the-go purchase, or preparing for dinner, they are greeted with the same "half-price promotion!“. Regardless of whether they're a light or heavy user, the call is the same: "Enjoy 50% off!“. Regrettably, when it comes to promotions, there's a glaring lack of segmentation by most brands. Only a minority of brands today cater their promotional offers to distinct shopper profiles or specific shopping trips.

"COMPANIES MEASURE PROMOTIONAL UPLIFTS BUT IGNORE SALES DECLINES ELSEWHERE. THIS LEADS TO WRONG CONCLUSIONS"

3

Uplifts are measured, declines ignored

The majority of FMCG categories in mature markets show low or no volume growth. A spike in sales for one product typically corresponds with a dip elsewhere. While companies excel at recording and evaluating promotional uplifts, they often falter when it comes to monitoring sales declines. These might pertain to drops in sales at rival stores or decreases for alternative formats or sizes – all due to promotions. Such oversights lead to an excessively positive assessment of promotions. By either ignoring or grossly underestimating these sales declines - and related missed profits - promotions that are genuinely unprofitable are mistakenly deemed successful.

4

Low margin products cannot sustain deep discounts

For many products, the profit margins are so slender that substantial discounting is not feasible. Consider, for instance, products with base margins between 10%-20%. Offering significant discounts on these items, while expecting a sales uplift enough to sustain absolute profits, is unrealistic. Yet, some of these products are discounted beyond their profit margin, leading to a loss on every transaction. The irony is, the more units sold, the greater the accumulated loss.

It raises the question: Which products can truly remain profitable when their prices are cut by half? While this might seem like a straightforward consideration, such realities are often overlooked in promotional planning. All too frequently, opportunity costs are ignored. Profit margins are squandered, and even robust promotional surges fail to overcome the opportunity cost of missing full margin on regular sales.

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How to generate revenue growth?
Optimise your Source of Business®™

Every time you run a promotion, change a price or list/delist a product, sales and revenue is impacted in multiple ways. You may attract new shoppers to the category, lose some, or shoppers may switch to other brands, packs or stores. They may upgrade their spend or downgrade. Accuris uniquely measures and optimises the Source of Business® for every promotion, price and assortment change.

Some activities make shoppers spend more or upgrade to a higher value, others are margin or revenue negative. The Accuris Source of Business® methodology allows revenue optimisation by reducing those activities that rely on negative sources and redeploying budget to activities that mainly generate positive revenue sources.

Each year, Accuris updates the benchmark for promotional performance. By analysing promotions across dozens of categories, and applying the Accuris Source of Business® model, general insights are created on how promotions cause baseline subsidisation, retail switching, category expansion, cannibalisation, competitive steal, and stock piling.

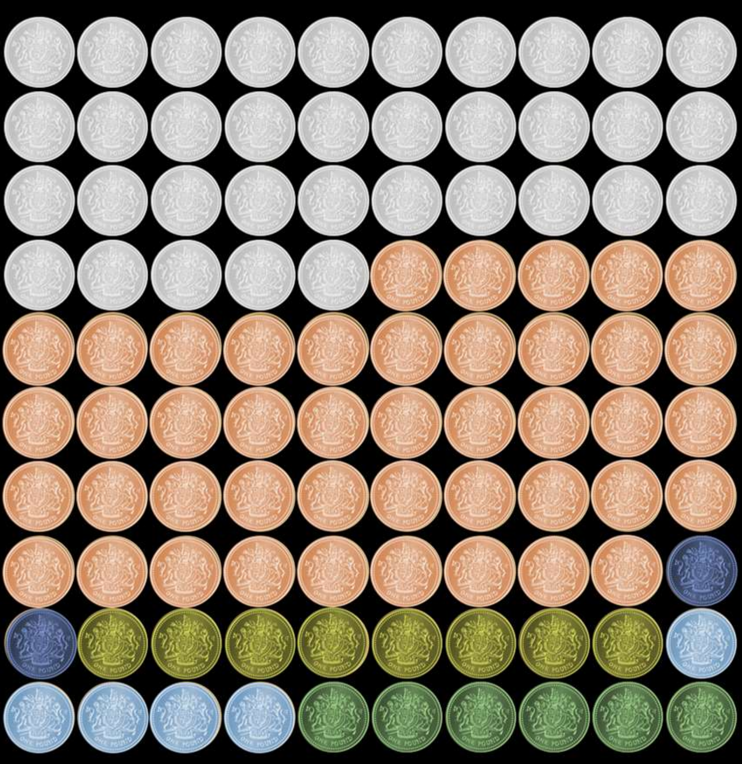
Below are the results for the UK market.

100 pounds sold in **promotion**

35 pounds are **subsidisation**: sales to shoppers who would have bought the product at full price anyway

8 pounds are **cannibalisation** shoppers attracted to this product and not buying another product of the same supplier

2 pounds are **stock piling** shoppers buying more now, but less than normal after the promotion



5 pounds are **retail switching** shoppers buying at this retailer and not buying during their visits at competing retailers

44 pounds are **brand switching** shoppers attracted to this promotion and not buying a competitive brand

6 pounds are **category expansion** shoppers attracted to this promotion and not buying a competitive brand

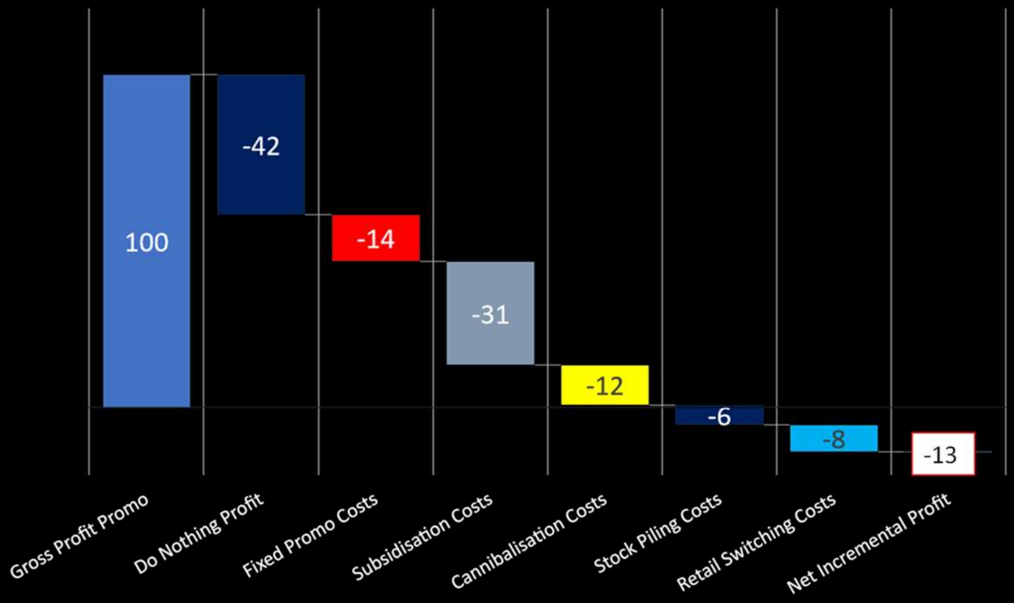
Source: Accuris 2022 benchmark study. Great Britain, all categories, food channel.

Conventional P&L is insufficient for promotion evaluation

Traditional profit and loss (P&L) assessments fall short when evaluating promotions. They tend to group both effective investments—like promotions that spur category growth—and counterproductive ones, such as those causing back-and-forth switching, under a single umbrella. This conventional P&L approach views all promotional sales as revenue boosts, neglecting potential sales dips in other parts of the portfolio. The notion of "baseline sales," which represents regular sales without promotional influence, is often overlooked.

Additionally, a standard P&L overlooks opportunity costs. It does not factor in the costs associated with cannibalisation—the detrimental impact one product's sales can have on another's—or the repercussions of leaving a promotional slot vacant.

Revenue impact of a single promotion



The Accuris Source of Business® methodology analyses each promotion and all of its dynamic effects. Cannibalisation, subsidisation, retail switching, stock piling and other negative effects are measured and associated costs quantified. This comprehensive approach ensures that you receive a genuine representation of a promotion's ROI. Consequently, with Accuris you have the capability to eliminate non-performing campaigns and fine-tune strategies to maximise net revenue growth.

… AND WHAT TO DO ABOUT IT

Companies regularly review loss-making promotions and contemplate reallocating budgets. However, to genuinely enhance the financial success of promotions, it is imperative to delve deeper, understanding not just the evident factors but also the hidden costs that contribute to a promotion's lackluster performance.

5

Measure switching

A promotion's effect extends beyond just the promoted item. Merely measuring the sales surge of the promoted pack captures only a fraction of the overall picture. In fact, a single promotion can significantly disrupt the entire category. Effectively managing this disruption is crucial, as a promotion's repercussions on other parts of your portfolio can come at a hefty price. It is vital to consider the behavioural shifts promotions trigger in shoppers. They might opt for different pack sizes, alternate brands, or even switch stores. The costs linked with these shifts can quickly mount. A comprehensive evaluation of these switching dynamics for each promotional event is essential. This approach not only provides clarity but also offers insights to mitigate adverse effects on ROI.

6

Measure all types of switching

Shopper switching occurs between packs, brands, segments, stores and categories. And there is also time shifting and loyal shoppers switching to buying on promo. All of this switching needs to be measured, by event, and managed for improvement. Some promotional mechanisms may induce unfavorable switching patterns, while others can foster genuine consumption growth. Multibuys generally lead to greater category expansion and proportionally less brand switching. Soft discounts may often trigger high levels of cannibalization.
By rigorously tracking switching behaviour, companies can identify promotions that drive beneficial switching and eliminate those that reduce category spending.

7

Not all switching is bad

Category leaders use the potential of promotions to guide shoppers towards products of greater value. Despite the discounts, certain brands still achieve superior profit margins or revenue per kilogram or liter compared to their competitors. Comprehensive analysis of the switching data, as provided by Accuris, assists in minimizing switching costs and unveils ways to elevate shopper preferences.

8

Reward upgrading

Efficient promotions are those that generate positive switching or category growth – which are not necessarily those with the highest uplift. A strategy aimed at growing net revenue should concentrate on promotional methods and product bundles that encourage consumers to increase their category consumption. Offer promotions that incentivize higher spending. "Buy two, get one free" or “ladder” promotions (increased discount for increased units bought) achieve this goal. Single unit promotions, however, lead to shoppers spending less and cause maximum subsidisation costs. A consistent choice to promote premium packs will also increase return on promo investment. Premium brands and packs have a better chance at enhancing shoppers’ spend per unit than mainstream or “value” packs.

9

De-escalate your main pack

From a short-term sales viewpoint, promoting your biggest sellers seems appealing. However, this approach often rewards existing customers and may not effectively attract new ones, while reducing profits. Instead, prioritize alternative options; entry packs that make it easier for potential customers to try your brand, or those that result in increased spending or a higher profit margin per unit.

10

Avoid predictability

Fight promo fatigue by making it less predictable for loyal shoppers to wait for the next promotion. Too often, identical promotions are repeated every few weeks and shoppers simply are trained to wait for the next promotion and avoid buying at full price. Alternate timing, packs and mechanics in order to attract various shopper types and keep your brand and category interesting. Ideally, offer promotions for specific shopping occasions. The corona crisis has taught that consumption habits evolve. Promotional offers should be tailored to new shopper needs.

REDUCE YOUR WORKLOAD, INCREASE CAPABILITIES WITH ACCURIS

Accuris offers a comprehensive array of services and solutions that empower marketing, sales, and revenue management. Our offerings span from data integration, modeling, and software solutions to consulting services and monthly performance tracking.

DATA INTEGRATION

All your marketing, sales and financial data, easy accessible in one place.

- Save time making datasets compatible
- Avoid inefficiency of working with data sources that do not match
- Focus on interpretation, not integration of your data
- Nielsen, IRI, Kantar, BrandView, DunnHumby, SAP ERP and many other sources

MODELLING

Evaluate the effectiveness of your strategy: pricing, promotions, assortment

- Price and promo elasticity
- Source of Business® for all your campaigns: where do you get your revenue from? Cannibalisation, competitive switching, retail switching, stock piling, category expansion
- Impact on category, customer, brand and product

REPORTING

Easy to use, yet powerful data visualisation

- Fast access to all your marketing, sales and financial data
- Flexible dashboards and reports
- Easy as Excel
- Built in Microsoft Power Bi

CONSULTING

Learn from benchmarking and industry best practices

- Definition of Must Win Battle, Big Bet and Turf Defending strategies
- Workshops with customer and category teams
- Benchmarking database with in-depth results of over 40 categories

MONTHLY TRACKING

Monthly performance tracking and continuous improvement

- Monthly effectiveness report on all your campaigns
- Retail customer performance tracking
- Monitor competition and learn what works for them
- Recurring evaluation and optimisation
- What-if scenario building and results tracking

Accuris – Analytics for Revenue Management

Accuris provides consulting, services and tools to help suppliers and retailers track and optimize the effectiveness of their marketing and commercial plans and strategies.
Clients are consumer goods companies across Great Britain and Europe, including many local champions and two thirds of the top 10 FMCG multinationals.

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