PROMOTIONS

Why a majority of all promotions is still loss-making and what to do about it.

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 ”

WHY PROMOTIONS FAIL TO GENERATE A PROFIT …
… AND WHAT TO DO ABOUT IT!

The corona crisis has let to a temporary de-escalation of promotions. However, volume on deal in 2021 is back at its previous levels and that is not good news for the bottom line. With the Accuris methodology it has become possible to know *why* certain promotions perform poorly and address the root causes.

A clear revenue management view on promotions gives a new perspective on a decades old challenge to improve financial performance:

- A large part of promotional incremental sales is not productive as it is *offset* by revenue declines elsewhere.
- Systematically measuring cannibalisation, subsidisation, stock piling and other *counter-productive effects* allows to reverse the root causes of promotional losses.

Benchmark figures for the United Kingdom show how widespread the problem is. On the next pages we will first analyse the cause of these losses and then provide solutions to dramatically improve performance.

BENCHMARK

10 — Cannibalisation

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

37 — Subsidisation

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

93 — Downgrading

Percentage of sales on deal not adding net incremental revenues to the category

Source: Accuris UK Benchmark Study, 2019
Averages based on 44 categories, top 6 grocery multiples retailers

WHY PROMOTIONS GENERATE LOSSES …

A majority of all trade promotions generates a loss. This was true ten years ago and it is sadly still true today. Why did the industry achieve so little progress? Let us take a look at the underlying causes.

1

Discounts to shoppers who would have paid full price

Too many promotions are offered "unconditionally".

Whether a shopper is new to your brand or whether she or he has been loyal for many years, anyone is offered a promotional discount. Worse, many promotions are offered without requiring shoppers to make any extra effort in return for receiving a discount. Shoppers buy as planned, the promo does not require them to buy more units, or scale up to a premium version. Such promotions reward shoppers for buying what they actually were planning to buy anyway, but at a lower price than what they were prepared to pay. This leads to huge levels of *subsidisation* and is a recipe for low ROI.

2

One size fits all

Brand and customer marketing may have spent years refining positioning, formulation, range and price setting, tailoring to highly segmented consumer markets. However, when it comes to trade promotions all shoppers are offered the same promotion. On a replenishment trip? Buying on the go? Shopping for dinner? "This half price promo is for you"! Light user or heavy user? "50% off it will be"! When it comes to promotions, very few brands segment promotional offers. Few tailor their offer to distinct shopper segments or shopping occasions.

> “COMPANIES MEASURE PROMOTIONAL UPLIFTS, BUT IGNORE SALES DECLINES ELSEWHERE. THIS LEADS TO WRONG CONCLUSIONS”

3

Uplifts are measured, declines ignored

Pre and post pandemic, most FMCG categories show stable consumption. A sales increase for one product is usually offset by a decrease elsewhere. Companies have generally become very good at registering and analysing promotional uplifts. However they are less skilled at tracking sales declines – whether it is a decline of sales in competing stores, or a decline for alternative brands or packs caused by a promotion. This leads to an overly optimistic evaluation of promotions. With no sales declines considered or heavily underestimated, promotions that are, in reality, loss-making, are considered profitable.

4

Low margin products do not tolerate deep discounts

Profit margins for many products simply do not allow for much discounting. Consider products with base margins in the 10%-20% range. These products can never be promoted with meaningful discounts while generating uplifts high enough to maintain absolute profits. Still, they are sometimes discounted by more than their profit margin, meaning that they generate a loss with every sale. The more they sell, the higher the loss will be.

One can only wonder which products still produce profits with prices slashed by half? It is common sense, but these realities are not always reflected in promotional planning. Too often profit margin is being given away and promotional uplifts, however strong, are unable to offset margin losses on base 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. Source of Business® needs to be measured for every promotion, price and assortment change.

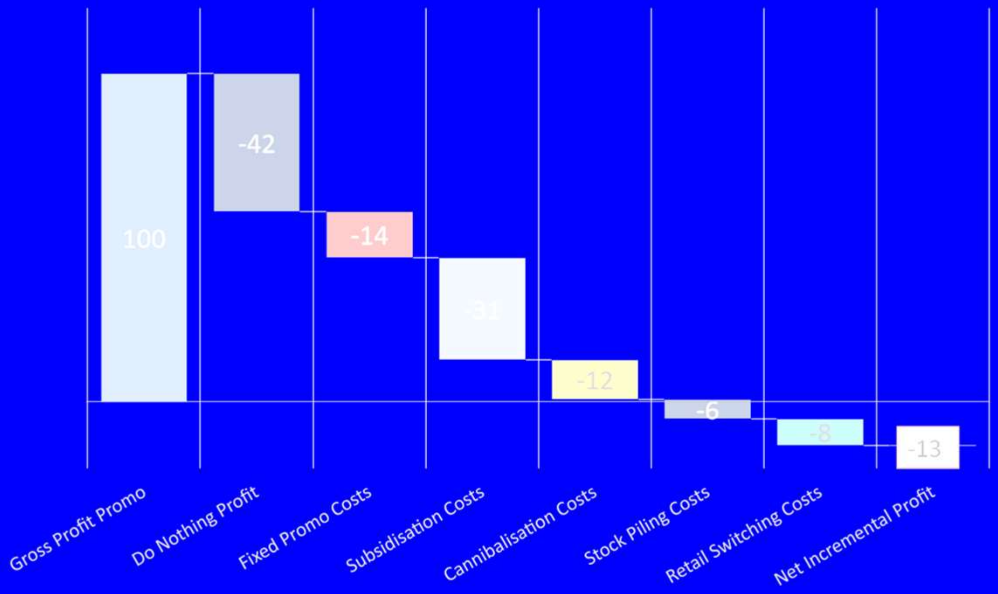
Stock piling	3%	- changed **time**	revenues from shoppers buying more now, less later
Retail switching	6%	- changed **store**	revenues from shoppers normally buying this product normally in a different store
Category expansion	1%	- new to the **category**	revenues from shoppers who did not buy at all in the category in the last X months
Segment switching	8%	- changed **segment**	buy normally in an adjacent segment, same store
Competitive brand switching	16%	- changed **brand**	buy normally another brand, same segment, same store
Cannibalisation	12%	- changed **pack**	buy normally different pack, same brand, same category, same segment, same store
Subsidisation	14%	- **subsidised base**	revenues from loyal shoppers buying same pack, same store, but on promotion (discounted price)
Neutral base	40%	- **loyal base**	no change in behaviour: revenue from shoppers buying this pack, from this brand, same category, same segment, same store

Note: figures are for illustrative purposes

Accuris measures in detail the *source of revenue*, whether gained or lost, for each activity. 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.

Why conventional P&L is insufficient
Conventional profit and loss analysis is not adequate for evaluating promotions. It typically lumps productive investments (e.g. promotions generating category growth) and counter-productive investments (e.g. promotions just causing back-and-forth switching) into one bucket. A traditional P&L considers all sales of a promotion as revenue gains and does not account for possible sales declines elsewhere in the portfolio. Even worse, the concept of "baseline sales" is completely absent.
Furthermore, conventional P&L does not consider opportunity costs such as the cost of cannibalisation or the cost of not filling a promotional slot.

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 gives you an accurate reporting of the real R.O.I. of a promotion and the ability to cut unproductive campaigns and optimise for net revenue growth.

… AND WHAT TO DO ABOUT IT

Companies routinely identify loss-making promotions and consider redeployment of related budgets. A deeper understanding of *why* a promotion is loss making, while taking into account hidden costs, is required to achieve a sustained improvement of the financial performance of promotions.

5

Measure switching

The impact of a promotion is not limited to the promoted pack. Measuring how much more the promoted pack sells is only half the story. Any promotion creates a lot of distortion elsewhere in the category. Managing this distortion is essential as the impact of a promotion on other parts of your portfolio can be expensive. It is critical to measure how a promotion makes shoppers change their behaviour. Shoppers may switch pack sizes, brands or even stores. The associated costs can be substantial. Only by systematically measuring switching for each promo event can a company understand and eventually minimise the negative impact on R.O.I.

6

Measure all types of switching

Shopper switching occurs between packs, brands, segments, stores and categories. And there is also time shifting. All of this switching needs to be measured, by event, and managed for improvement. Certain mechanics lead to more negative switching, while others generate consumption growth. Measure switching, identify promotions generating positive switching and cut those that lead to shoppers spending less in the category.

7

Not all switching is bad

Category leaders use the switching power of promotions to encourage shoppers to move to higher-value products. Even with a promotional discount, some brands sell at a higher profit or cash amount per kg or L than competing products. In-depth analysis of detailed switching data – as tracked by Accuris – allows to reduce the cost of switching and reveal opportunities for shopper upgrading.

8

Choose offers that reward upgrading

Efficient promotions are those that generate positive switching - and not necessarily those with the highest uplift. This means that a (net) revenue increasing strategy should focus on mechanics and packs that encourage shoppers to spending more in the category than they would have otherwise. Reward shoppers with a promotion in return for making a bigger spending effort. Multibuy offers and ladder promotions do exactly that. 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

It is tempting from a short term, volume perspective to put your main pack(s) on promotion. However, this tends to mainly reward loyal shoppers, may not be the best choice for recruiting new shoppers and is the quickest way to erode profits! Choose secondary packs; products that lower the barrier for new shoppers to buy your brand, or packs that lead to higher spend or higher 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.

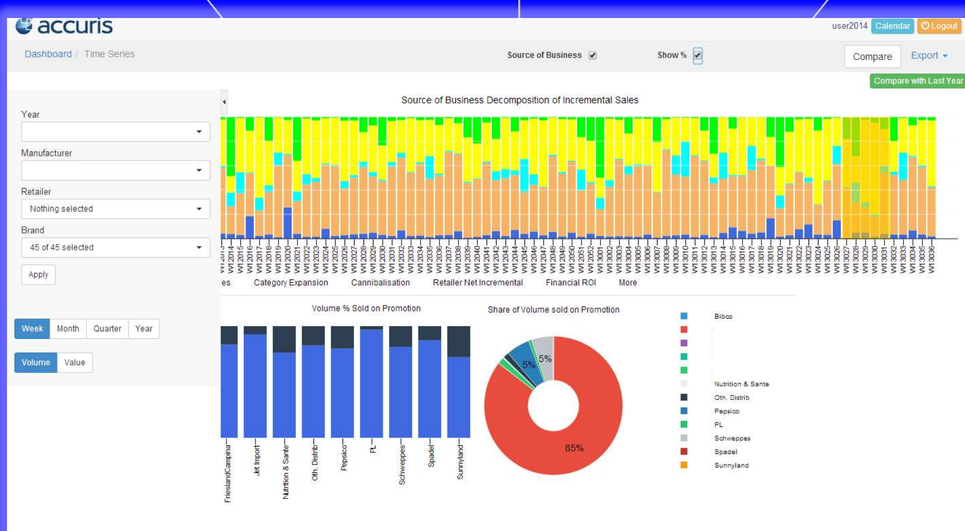
OPTIMISE REVENUE SOURCES FOR EACH PROMOTION

In the early 2000s Accuris worked with Coca-Cola and other industry leaders to develop a unique methodology to revenue analysis. It is called "Source of Business®" and is used to analyse revenue sources of marketing and sales events – such as promotions. Revenue sources can be positive (i.e. category growth) or negative (i.e. cannibalisation). This approach has been systematised and is used today by multinational leaders and national champions alike to optimise their (net) revenue.

Which promotions cause **cannibalisation?**

Which mechanics cause **switching between stores?**

Which promotions generate **category growth**?



How much do you spend on promotions?
Do you over- or under-spend at certain customers? How important are opportunity costs?

How profitable are promotions?
Analyse profitability by promotion, by mechanic, by brand and by customer. Measure and track costs and profits.

Accuris provides analytics for promotions, pricing and revenue management, all in one convenient application.

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

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