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Measuring trade promotions

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ASSESSING THE REAL VALUE OF TRADE PROMOTIONS

Manufacturers are beginning to use more scientific methods of tracking where their money goes

By NEIL SHOEBRIDGE

Australian grocery and liquor manufacturers and marketers spent an estimated $1 billion on "trade" promotions with the retail trade in 1985. One of the most important but perhaps least understood components of product marketing, trade promotions involve the money manufacturers spend with retailers for display space in stores, co-operative advertising, special positions on store shelves, letterbox advertising and in-store demonstrations. Without such promotions, a manufacturer would have a hard time making its brand stand out among the many other products in grocery and liquor outlets.

Yet according to many manufacturers, between 20 and 30 per cent of the $1 billion spent last year was wasted, with more than $200 million going into retailers' pockets without producing any increased sales for the manufacturers. However, retailers should not be blamed for this waste — the fault lies squarely with manufacturers who hand over the money and fail to measure the effectiveness of their promotions.

Trade promotions, which first appeared in the early 70s, have grown to the point where between 5 and 15 per cent of a manufacturer's total annual marketing budget is allocated to such promotions. The amount a manufacturer spends with the trade varies according to how successful its products are: the bigger the sales of a particular product, the less its manufacturer needs to spend on trade promotions.

Concentration of the Australian retail trade over the past decade has pushed up the cost of trade promotions. Mergers such as Woolworths-Safeway and the spread of retail wholesaling groups such as Davids Holdings has created retail groups with enormous power, not only in terms of their share of retail sales but also in the control they can exercise over manufacturers.

In the grocery market, seven groups (Coles Myer, Woolworths, Franklins, Davids, QIW, Foodland Associated and Independent Grocers Cooperative) control 90 per cent of all sales. The situation is similar in the liquor retail trade, with strong groups such as Liquorland and Consolidated Liquor.

According to John Clark, marketing services manager at Lever & Kitchen, as the retail trade has become more concentrated, the cost of trade promotions has risen. Michael Wiltshire, sales director at S. C. Johnson, estimates that over the past year, trade promotion costs have jumped between 6.5 per cent and 38.5 per cent, depending on the nature of the promotion and the number of stores involved. He claims the average cost is increasing "considerably faster" than inflation and slightly above the rise in main media advertising rates.

Wiltshire maintains that the rising cost of promoting in retail outlets has forced manufacturers to track more closely the success of such expenditure. "Companies can no longer afford to take a rule-of-thumb approach to such promotions. They have to be more formal, more organised, and look at it more strategically. They need to establish precisely what they want to achieve and how much they can afford to spend," he says.

Until recently, the complexity of the task has deterred many manufacturers from tracking trade promotions. A typical manufacturer operating in six states may conduct trade promotions three times a year for three different sizes of 10 brands. If the manufacturer is dealing with four retail chains in each state, then it will have more than 2000 different promotions to evaluate each year — an administrative nightmare.

According to Carey Cox, managing director of trade promotions consu' y IDS Spar, this complexity asso...ed with trade promotions has led many manufacturers to avoid tracking them, resulting in millions of dollars being wasted each year.

Cox says: "Manufacturers regard

PHOTO: GREG BARTLEY

Carey Cox: "More than 20 per cent of the funds spent with the trade achieve nothing" trade promotions as an inescapable cost of doing business. For some companies, they represent their second largest cost after labor, and many of the large Australian grocery and liquor manufacturers are spending $10 million to 15 million a year on them.

"The conventional wisdom is that trade funds must be producing additional or incremental sales, but the fact is more than 20 per cent of the funds spent with the trade achieve nothing, simply because the expenditure isn't tracked and the results evaluated."

Two years ago, IDS Spar (which is jointly owned by Cox, a former sales and marketing manager with Nicholas Kiwi, and US company Spar Inc) launched a US-developed computer system called Sparline which measures the effectiveness of trade promotions. By constructing a "road map" of a manufacturer's sales and promotional activities, Sparline identifies when promotions occur and whether or not they produce additional sales. The system can then design strategies to help a company spend its trade funds more wisely.

IDS Spar charges manufacturers [illegible]000 to review one product nationally across all retail chains. Cox claims this is not expensive, considering that one promotion in one supermarket chain can cost up to $30,000 a year. In the US, Sparline's clients include Kraft, Procter & Gamble and the Hershey Food Corporation. Although Cox will not name his Australian clients, he claims they cover such product categories as paper products, margarine, chilled groceries, frozen food, breakfast cereal and health and beauty products.

Some manufacturers have set up their own computerised systems to track and evaluate trade promotions. S. C. Johnson has had a system since 1983 that gives results on a weekly, monthly and yearly basis. Michael Wiltshire says that before the system was introduced, tracking trade promotions was a "laborious and complicated task... Now we can measure the effectiveness of each promotion and if it becomes uneconomical, we can look at alternatives".

Lever & Kitchen has spent the past four years improving its promotions analysis. John Clark says: "A lot of our promotions aren't designed to be cost-e[illegible]tive in the short term, but to build [illegible]d awareness long term. Knowing why you are promoting, and putting a proper system in place to measure the effectiveness of promotions is vital, and that's where many manufacturers are still weak," he says. ■