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SPAR service evaluates promotion effectiveness, profitability

BY RICHARD J. HANNON
Principal
Hannon Associates
Stamford, Conn.

A COMPUTERIZED SYSTEM called "Sales Promotion Analysis Reporting" (SPAR) is helping many marketing managers make their trade promotions more effective and profitable.

Developed by Pan-Eval Data Inc., Elmsford, N.Y., SPAR is a syndicated service that is customized for each client based on needs and product type. It accurately measures incremental sales and profits for all brands, sizes, areas, and accounts.

In addition, SPAR can provide an ongoing evaluation of promotion effectiveness, answer questions on past promotion performance, and recommend strategy for the future.

Here are the five basic steps in the SPAR model:

1. **Sales of the product in question are recorded over a period of time, usually a year. The data consist of weekly shipments broken down into promotional and nonpromotional sales.**
2. **The normal level of sales, had there not been a promotion, is estimated. This is called the "SPARline."**
3. **Subtract the normal level of sales during the promotion period to arrive at the incremental volume, a key measurement. You want to know how much *more* you sold during the promotion than you would have sold if you had not run the promotion.**
4. **Volume loss in the prepromotion and postpromotion periods is considered. This is when actual sales are below the SPARline. It occurs because prior to the promotion, the trade is not buying merchandise—it is anticipating the promotion. And, after the promotion period is over, the trade is not buying as much because it has built up inventories due to the promotional discount.**
5. **Using the incremental volume, cost of goods, and the costs associated with the promotion, the incremental profit of the promotion is calculated.**

USING THESE DATA, detailed and summary reports of the findings are produced, including graphs to assist in the analysis. Finally, specific recommendations are made to aid management in directing promotion expenditures toward the greatest potential, whether the goal is to increase profits, sales, market share, or counter a new thrust by a competitor.

To gain a competitive edge on promotions, spiraling expenditures must be controlled, "gut feel" must be replaced by hard facts, all valuable promotional data must be collected, and analytical expertise must be obtained.

That last function is being performed by a new profession consisting of a limited, but growing number of pioneers doing in-depth trade promotion research. These people have developed a highly specialized level of expertise in this new area.

They are propelling themselves and their companies into a new era, an era of understanding and creating efficiency and control over promotion expenditures, which account for 58% of all the money spent on advertising and promotion by consumer products companies.

FOR MANY YEARS, however, companies have spent a lot of money analyzing their advertising effectiveness, but very little to analyze their promotional strategies. One reason is that until recently an effective analytical tool wasn't available.

Just what kind of impact can the analysis of promotion have on a company? First, a company can continue to spend the same amount of money on promotion but reap much higher profits, thereby increasing its profit/expense ratio.

Second, by analyzing promotion effectiveness and profitability a company often can reduce its expenditures on promotion, keep or increase its sales volume, and generate additional profit.

For example, using promotional analysis, a company spending $35 million a year on promotions can easily reduce its expenditures by about $5 million and, at the same time, increase profitability.

But analyzing promotions isn't a simple process. Marketing managers must not only decide what questions they want answered, but also identify the critical variables that affect promotions. Some of these are long- and short-term trends, seasonability, prior promotions, price increases, competition, advertising, product modification, early or late shipments, trade inventory levels, cross-product elasticity, back orders, end of year or quarter pushes, and salesperson's bonus plans.

AND THE LIST goes on and on. Each of these variables will cause different responses to promotions. Also, the number of combinations of the interactions of the variables is literally endless.

Another major problem with promotion analysis is the sheer complexity of the data. For example, a company may manufacture 10 brands, each in six sizes or package types. It has three promotions a year and each has two variations. In addition, instead of promoting nationally, this company varies promotions in 40 geographical areas throughout the U.S. Thus, this firm has 72,000 separate promotions that must be analyzed.

Obviously, no company can afford the personnel costs and time needed to perform such an analysis manually. So the next questions become, "Who is going to do it all?" and "How are we going to do it?"

The "who" will have to be a full-time employee devoted to developing, implementing, and using a promotion analysis system. The "how" is SPAR, which produces ongoing reports on sales and profits after each promotion, thus enabling management to more easily measure the effects of trade promotions.

All relevant promotional information is put in one central source, the SPAR data base. This saves incredible amounts of that precious commodity—your decision-making time.

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SPAR
570 Taxter Road
Elmsford, N.Y. 10523
(914) 592-8311