Sales Promotion Analysis

By Robert G. Brown
President, SPAR
Sales Promotion Analysis Reporting

Intelligent promotion of products can increase profits, market share and brand recognition. How do we know what intelligent promotion is and how do we measure results? This article addresses these important questions.

THE key measure that every manufacturer needs to establish a successful long and short range trade promotion program, is the true short term changes caused by the trade promotion in incremental sales, share, profits, and consumption. Conceptually at least, this is quite easy to understand: all a manufacturer needs is an estimate of what sales would have been without a trade promotion (SPARLINE) in the pre, post, and promoted period. This can then be subtracted from actual sales in all three periods, the margin applied, costs subtracted, and net incremental profits generated. The whole exercise becomes difficult for the manufacturer because of the number of promotions being run, and the multitude of real life factors which can affect what would sell in the absence of a deal.

To help put this whole area into perspective, we can review some previously published data. MSI studied bathroom tissues and found one major brand spent 75% of their marketing expenditures on trade deals, 10% on consumer deals, and 15% on advertising. Another study said major soft drink companies spend approximately 15% of their total sales, or $2 billion dollars on trade deals. In a Needham, Harper, Steers study in 1975, 75-80% of the people agreed with the statement: "I try to stick to well-known brands." In 1981, 60% agreed. This supports the belief of an erosion of brand loyalty.

Where Does The Money Go?

In 1974, McKinsey estimated 33% of the money spent on trade deals was passed to the consumer. **Many retailers today make more profit from forward buying than from the rest of their operations.** Estimates on trade deal expenditures vary greatly since no one really knows how much is spent, but all data indicates it is in excess of $10 billion dollars a year. To put it in perspective, expenditures on coupons are closer to a billion dollars. This means companies spend 10 times as much on trade deals as on coupons.

In one recent year, grocery retailers' profit was $3.9 billion. More money is spent on trade promotions than the total profit of the grocery industry. Sloan Management Review, in 1976, said 46% of accepted deals get no merchandising support at all, and 66% of total allowances are not passed through to the consumer. While we are concentrating on trade deals, it's difficult to separate them from consumer activity since often trade deals are tied into consumer activity or supported by coupons and advertising. **What is needed is a determination of which promotions make a profit and which lose money for the manufacturer, the distributor or both.**

Inherent in this is the knowledge that the manufacturer and retailer often have considerably different objectives. For example, the manufacturer wants to steal share from competitors and build a loyal consumer base. The retailer couldn't care less about brand switching and shifting share from one brand to another. He wants to build traffic and increase category sales. And he prefers multi-brand loyalty long term, so he isn't under the control of a specific manufacturer.

Trade Promotion Philosophy

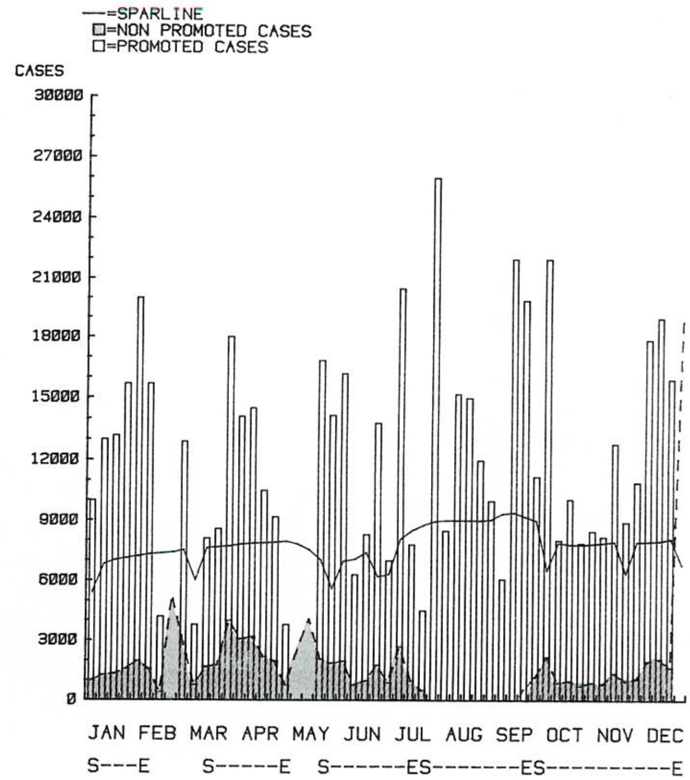
The starting point for any manufacturer is a definition of his trade promotion philosophy. It can be different for different brands, since companies with ten or twenty brands can't have one policy. **Unfortunately, few manufacturers know the purpose of their trade promotions and what they can realistically accomplish.** Are they defensive? Are they offensive? Are they trying to build brand loyalty? Are they eroding brand loyalty? Once the objectives of the Trade Promotion program are determined, the next step is to use promotional results to answer such key questions as, "Do discount levels impact incremental sales, share, profits, or retail support?"

Before looking at the type of data that a manufacturer needs to evaluate trade promotions, we should try to estimate what the return from such a project might be. I can only estimate this based on my experience with manufacturers who have used SPAR. **I find that a manufacturer should expect at least a bottom line payback of 15% of total promotional expenditures,** through reduced expenditures without losses in sales, or a better allocation of monies, which results in increased incremental and total sales, share, and profits without any increase in costs.

If the need is so great, and the proven bottom line impact of evaluating promotions by major corporations is so high, why isn't everyone doing it? One problem is that a typical grocery manufacturer promotes in 40 different areas, for 6 sizes, 3 times per year, for 10 brands, with 2 variations per promotion, and 5 years of data. The manager would need to be able to evaluate and understand 72,000 promotions. If you look at only 7 major accounts in each area, that is almost 500,000 individual promotions: clearly impossible without good computer software.

Exhibit I

SPAR WEEKLY GRAPH



Test Promotions, Not Databases and Formats

It is here that manufacturers find themselves getting sidetracked, and never improving their bottom line profit. There is a tendency for the technicians in a company to draw the conclusion that the logical first step is the building of a database. This is reinforced by the computer-oriented suppliers of the latest software that "every company must have". But while databases can be very valuable, and fill many key needs within a manufacturer, they do not usually result in direct bottom line profit or what a manufacturer needs to evaluate promotions. The key measure is incremental sales and profits from each promotion, for each brand, for each size, in each geographical area, and for all key accounts within that geographical area. A manufacturer should never forget that his objective is to increase his bottom line profit by 15% of the promotional expenditures, not to put more data on line in an easily accessible format. In other words, before deciding on an approach to improve your promotional program, don't let the means (methods of manipulating data) become the objectives, which should be direct and measurable increased profit.

Exhibit I below shows the sales for a typically heavily promoted product in one geographical area. The key measure is the believability of the SPARLINE (what would be sold without promotions). **By focusing in on a database as a first step, most companies divert their best resources into converting their current data into an easier to read format, but put off focusing on the more difficult, but critical issue for actionability and bottom line payback...what would be sold without promotions.**

Information Needed for Control

The major manufacturers who are successfully controlling their promotional programs today are generating the following types of information by area, brand, size and key account over a number of years:

1. The annual volume split into base consumer demand, or the brand loyal component of sales (i.e., annualized SPARLINE), and the incremental sales from promotions.
2. The actual percentage discount and the percent increase in sales that are generated for each promotion.
3. The annual promotion costs and incremental profits due to the promotional program.
4. A rolling average of actual sales and the base consumer business (SPARLINE). This gives the manufacturer a feel for how his base business (or consumer-related demand) is moving in relation to his total business.
5. The annual percentage of product sold on deal.
6. The number of weeks on deal each year.
7. The total profit from the brand broken down to base business and incremental volume from promotions.
8. A comparison between the historical SPARLINE estimates and actual sales.
9. For each deal over a number of years:
   a. total volume during each deal
   b. promoted cases
   c. incremental volume
   d. incremental cost
   e. incremental profit

f. percent discount
g. the length of the deal
h. the number of weeks of trade forward buying

Other types of data used by these manufacturers by promotion are: total sales, the percent increase due to deals, the SPARLINE, trade forward buying as a percent of sales, incremental units, incremental profits, and incremental weeks of profit. Obviously, a manufacturer can use this data to generate a number of actionable recommendations.

Retailers Becoming More Powerful

One of the reasons manufacturers so desperately have to understand the incremental impact of their promotions is because of a shift in power from the manufacturer to the retailer. Today the retailer has a lot more clout than he did fifteen years ago and we're moving closer to the foreign style of business where the retailer often has more dominance than the manufacturer. Since many manufacturers now know what they are getting incrementally from promotions in sales and profits, the future focus will be on a better way to execute promotions. In many cases this is already the focus, since the good manufacturers know the incremental results of their promotions.

This information is more critical for the manufacturer today because of the shift in the balance of power where many accounts today buy turn volume on deal, and forward buy on deal. This doesn't impact total annual volume, and can actually reduce annual margins due to higher manufacturing and distribution costs. It can also lead to higher shelf prices between deals. There are many distributors who buy 90% of a brand on deal, but only give significant support to the brand at retail once a year, or sometimes not at all.

As far as being able to determine if this information can significantly impact the bottom line, that is a decision that each individual manager has to make. I believe that the incremental sales, profits, and share generated by a trade promotion program is the key measurement, since it is the key obtainable objective that not only should be set, but which can be measured. While some would disagree, I believe they are in the minority. But, there are major manufacturers who believe that the key measurements of trade promotions are not incremental volume and profit, but other measures such as retail ads, deal rate versus competition, or total sales and share. I believe these measures should be used to explain why some promotions make money, and some lose money. Just using these types of measures can result in the measurement becoming the objective.

In the historical battle between the manufacturers and the retail trade, I believe that the retail trade is going to continue to gain power as long as:

1. Brand management is primarily concerned with short term objectives, and basically ignores the long term impact of their policies.
2. Top management ignores the long term problem, and doesn't demand action oriented approaches to solving trade promotion problems.
3. Manufacturers run trade promotions for ill defined, unattainable and unmeasured objectives.
4. Brand loyalty declines.
5. The addiction of major brands to hot deals is not cured.

The Long View

In the long run I believe the top brands (and by these I mean number 1 & 2 brands in a category) can start to regain some of the power. This is because the leading consumer goods manufacturers are starting to become very much attuned to long range thinking. They are learning a lesson from the steel and automotive industries; they have seen what happens when you only think about next quarter. **The top management of many of these companies has started to ask the unthinkable: Does a temporary share increase generated by trade deals, which doesn't increase profits or long term permanent share, serve their long term strategy?**

These companies have the number 1 or 2 brands in a category because they haven't forgotten the basic lesson. Over the long run, the manufacturer who delivers the best value to the consumer will continue to win. **Those manufacturers who waste money and manpower by not setting sound attainable objectives for their promotions, which they measure against, will continue to lose ground to their better run competitors.** Those manufacturers who lose millions of dollars on trade promotions that could be more effectively spent to deliver a better program and at least a better perceived consumer value, will ultimately suffer in the market place.

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