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Trade wars threaten future peace of marketers

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Leading brands are the most insulated from consumer brand switching because they build a loyal franchise through advertising, which provides the marketer with leverage on the size and scope of the promotion, Mr. Quelch says. "Hunt's and Heinz catsup will always be on the shelf, but a Del Monte might have to buy space with trade allowances," he says.

Another factor is that the growth rate of retail shelf space has slowed in recent years. As a result, marketers are trapped in what Mr. Quelch calls a "prisoner's dilemma," meaning they realize that excessive promotions are destructive, but they can't cut back for fear of losing market share.

The interplay of these factors is skewing marketing budgets in favor of trade promotions, consultants say. "Many of our clients have been diverting their marketing dollars to short-term trade promotion strategies and away from advertising," says Mr. Schmitz of Majers Co.

"It's a terrifying thing," he says. "Manufacturers used to be able to dictate the terms of sales. Now, many retailers have unbelievable influence."

Further complicating matters is a difference in perception as to the seriousness of the situation. Manufacturers and distributors surveyed in 1980 by *Progressive Grocer* were asked to rank in order of importance a list of 49 business issues. First on the manufacturers' list was "deals vs. performance rendered." The same issue ranked No. 35—near the bottom—of critical concerns for distributors.

Perhaps this explains why so many leading manufacturers are the ones taking action to modify their trade promotion activity before the problem gets out of control. Consultants say the effort is none to soon.

"We estimate that a third to two-thirds of the dollars that manufacturers now spend on trade promotion is just wasted," says Robert Brown, president of SPAR Inc. (Sales Promotion Analysis Reporting) in Tarrytown, N.Y. The company's clients include Procter & Gamble, PepsiCo, Coca-Cola Bottling Co. of New York and Kraft.

By and large, the SPAR clients contacted by ADVERTISING AGE say they focus on gaining incremental profits from increased sales and consumption of their products.

"We don't offer promotional dollars just to stock warehouses," says John Howell, national sales manager at Miles Laboratories, Elkhart, Ind., a client of SPAR, which has evaluated more than a million promotions in its 20 years in business. "An overstocked trade just doesn't make good business sense. The old catch phrase, 'loaded is loyal' has gone the way of Willy Lohman."

When Miles Labs increased media and trade promotional spending last year, it also increased its expectations, Mr. Howell says.

The company changed its promotional strategy from one offering across-the-board discounts to one that offered allowances based on several levels of performance. Called tiered promotions, the new strategy offers a base discount and additional allowances as incentives for buying various displays or buying cooperative advertising. Retailers are divided into "regular" and "special" performers, he says.

But convincing retailers and wholesalers to sell more by using the full power of promotions is a tough battle. "It's really an education to get the retailer to think in terms of making money on selling [a product] rather than making money by buying it," says Paul C. Gorman, sales promotion manager at R.T. French Co., Rochester, N.Y. "The name of the game is incremental business, and it requires a teamwork approach."

Mr. Gorman's company uses SPAR data to show how French's products are selling in relation to close competitors.

"When you can show a customer that his competition is generating more [incremental volume and profits] from your promotions, you then have a more receptive audience to recommend improved promotion

performance," Mr. Gorman says.

French also uses the data to fine-tune its marketing program according to geographic areas and other marketing factors. In one instance, the company was able to trim 15% to 20% on promotions for its Sauce & Gravy brand while maintaining the same level of sales.

Perhaps nowhere does the competition focus more strongly on trade promotions than in the soft drink industry. And for this reason, both PepsiCo and Coca-Cola rely heavily on research to track each other's moves and determine the effects of promotion on volume and profits.

Pepsi-Cola uses SPAR data to track off-shelf display execution, says G. Michael Calvert, director-sales communications for Pepsi-Cola Bottling Group, Purchase, N.Y. SPAR's Thursday night survey keeps tabs on display size, price markings and p.o.p. locations, reporting by Friday morning in time for corrective action to maximize weekend retail sales.

Assuming Pepsi-Cola could effect a 10% improvement in display execution, Mr. Calvert says, the result could be a tremendous increase in volume sales. Just how much better is shown in two Point-of-Purchase Advertising Institute-Du Pont studies of the drugstore and grocery trades, which found that advertising combined with in-store displays improved sales between 500% and 750%.

Pepsi-Cola is concentrating on displays in an attempt to reduce its reliance on promotions in building sales volume. "Ultimately, you don't get the pull through from the consumer if your product is on promotion all the time," Mr. Calvert says.

Even his competitors agree. The danger in discounting, says Bruce Mommsen, senior vp of Coca-Cola Bottling Co. of New York, Greenwich, Conn., is that it promotes consumer brand-switching, eats into profits and intensifies competition.

On the plus side, trade promotions do encourage increased consumption, but at what cost? Mr. Mommsen says. Given the price range for a 2-liter bottle of Coke from 99 cents to $1.59, "that's a hell of a spread," he says.

As a result of SPAR's consulting services, Mr. Mommsen discovered that nearly 100% of sales volume on the 2-liter size was sold with some form of promotion, with very little incremental volume. Presumably the same was true for leading competitors in the New York area.

"What has happened is that we get our week, and they get theirs," Mr. Mommsen says. As a result, brand loyalty has declined steadily from a high of 60% many years ago to about 20% today, he says.

But Mr. Mommsen's company, the second-largest Coke bottler behind Coca-Cola U.S.A., is making promotional changes. It eliminated certain off-week deals and reduced the frequency of discounts.

The changes might not seem like much, but even slight alterations in the discount formula could result in huge changes on the bottom line, Mr. Mommsen says. With sales of 80 million cases a year, if Coca-Cola New York can shave a penny off promotions on a package selling for $1.25, it could net almost $1 million. The profits then could go to stockholders or into more sensible promotions and ads.

"What we're attempting to do is spend a little bit smarter," Mr. Mommsen says, with the eventual goal of narrowing the spread between regular wholesale and discount pricing. "We'd like to see Coke at a price level that's attractive to the consumer everyday."

"Everyday low pricing" has become a buzzword in the grocery industry, a fact partially due to excessive trade promotions. But what if every marketer suddenly decided to stop?

"If tomorrow they stopped dealing products," Lucky Stores' Mr. Fredericksen says, "the retailers would have to do more volume or raise prices." ΛΛ