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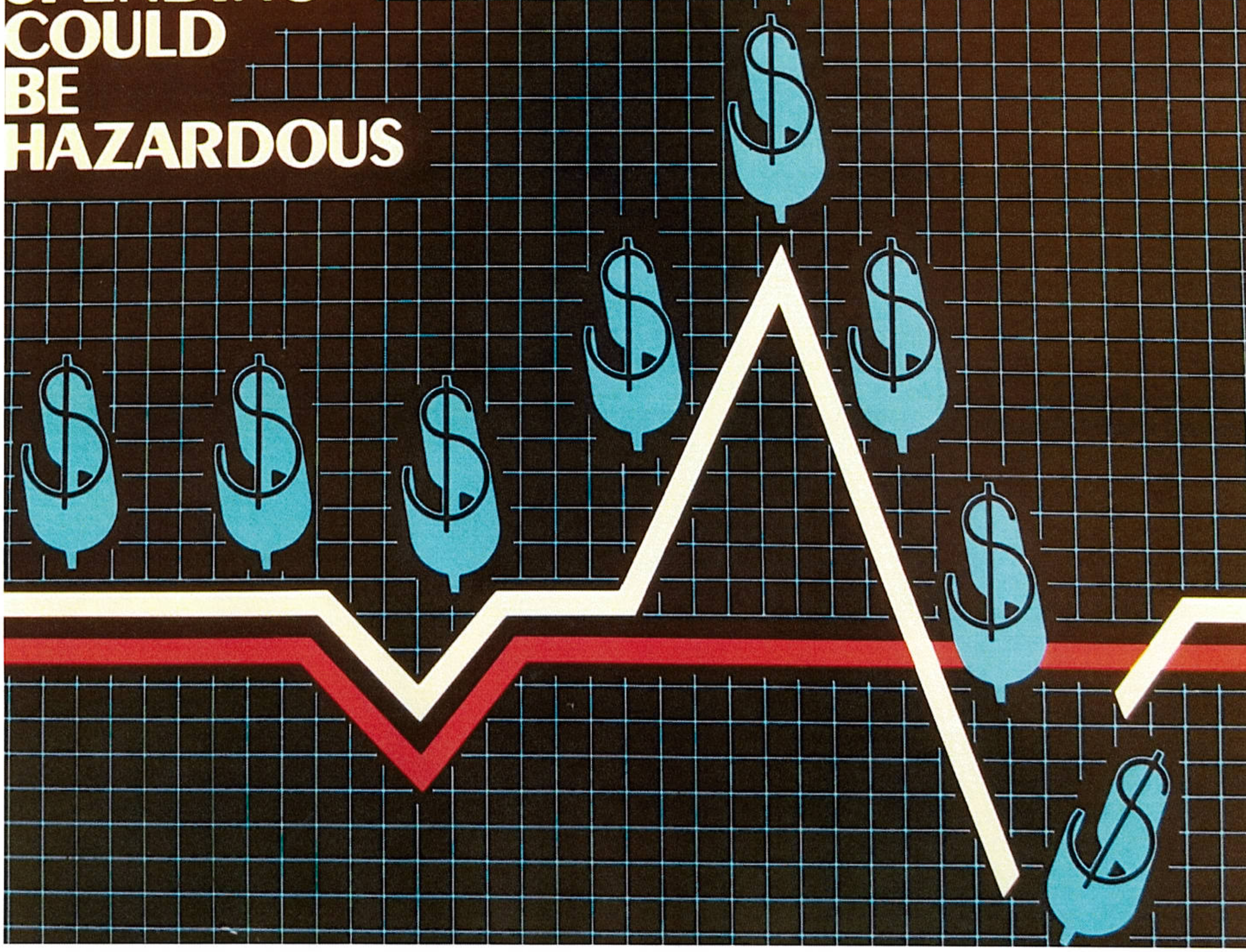
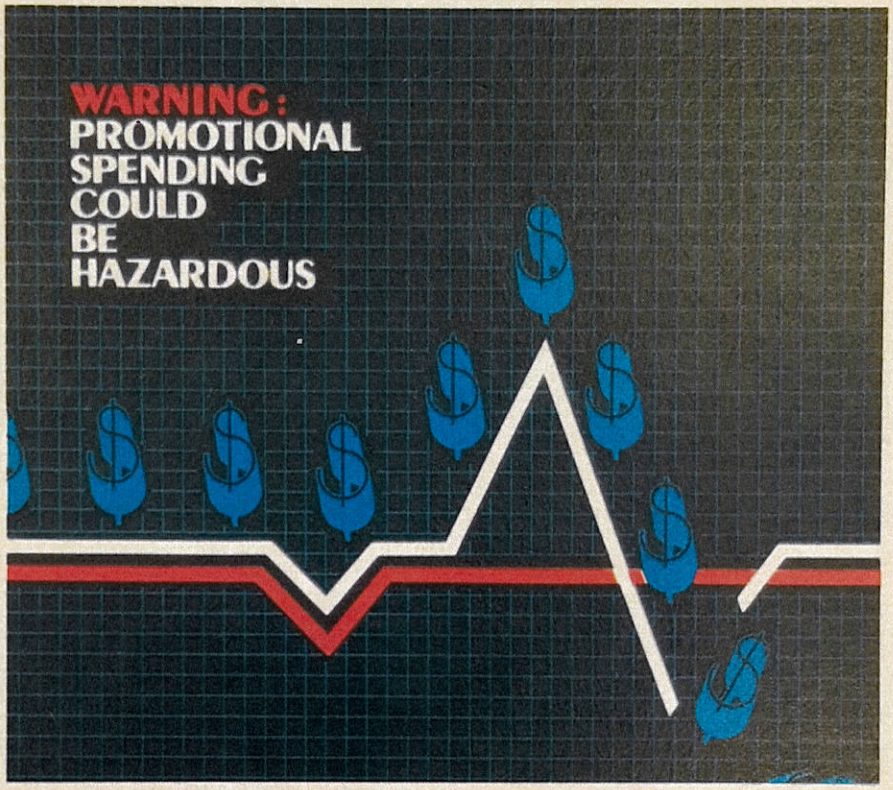
WARNING: PROMOTIONAL SPENDING COULD BE HAZARDOUS



Promotional Sales Spending: Redirecting the Efforts



Incremental sales studies are being utilized by such industry giants as Coke and Pepsi. Now other manufacturers—and retailers—throughout the world are looking to accrue greater profit from their own promotional efforts by availing themselves of similar strategies.

By Karen Weisberg, Editor

In the US, major soft drink companies spend approximately 15% of their total sales, or between US$2-3 billion annually, on trade expenditures or promotions. Yet independent consulting companies such as Booz, Allen & Hamilton Inc. as well as McKinsey, both of New York, have shown that between one third and two thirds of "below the line" or promotional money is wasted. Even companies which perceive brand loyalty being eroded from their own products by the proliferation of coupons and other special offers, continue the practice themselves.

But Coca-Cola and PepsiCo—who reportedly spend approximately US$1 billion each on promotions annually—seem to have found a better way, a way to maximize their return and see increased sales long-term rather than just short-term. Other American beverage companies including Del Monte and 7UP, as well as manufacturers in England, Australia and Canada have also come to value the sales promotion analysis reporting of a rather unique organization called SPAR. In the UK the SPAR franchise is called AGB/PROTRAC, an affiliatation with Audits of Great Britain, the second largest marketing research firm in the world; while in Australia the company is known as I.D.S. SPAR and is affiliated with the Morgan-Gallup Group, Melbourne.

Although marketing research firms abound, Robert G. Brown, president and founder of the 20-year-old Tarrytown, NY-based SPAR, appears to have cornered the market on incremental sales studies and has been applying his techniques to the benefit of US beverage franchise operations since 1979 and internationally since 1982.

Having developed highly specialized computer programs for the purpose, SPAR measures incremental sales and profits from every sales promotion run by the client and can also deliver the capability for each franchisee to conduct a study. Explains Brown: "Once you know the incremental sales you can figure out what type of promotions led to those sales and profits. You can figure out how much each type of promotion is worth, be they end-aisle displays (gondolas), shelf-displays, coupons, etc. Is the client better off going in for a higher or lower everyday price? From this information we can extrapolate the SPARLINE."

Pre-Promotion Picture

The SPARLINE is a baseline indicating the amount of product that would have been sold without special promotion. Once that is identified, SPAR sets out to plan the "best" promotion strategy, e.g. displays, special pricing, etc., for the individual client. It's Brown's belief that a return from any sales promotion should be at least 15% of the total promotional cost.

Friction Between Manufacturer and Retailer

Co-op payments—i.e., standard discounts the manufacturer puts into a fund for the retailer to use to advertise the product via coupons, flyers, and ads—often goes un-spent and the manufacturer has little recourse. Comments Brown: "Today the retailer has a lot more clout than he did 15 years ago and we in the US are moving closer to the foreign style of business where in Europe, Australia, Canada and elsewhere, the retailer often has more dominance than the manufacturer."

Many accounts (retailers) today "forward buy" on promotion. It has been estimated that many distributors buy 90% of a brand on promotion, but only rarely give significant support to the brand at retail by spending the co-op payments, or by doing so judiciously. Brown recalls one instance where 47% of the total annual volume for a soft drink was generated during the one week of correct promotional support. The manufacturer must recognize that the best way to use promotional money is to go after *good* retail support. He further contends that most manufacturers have been unable to even determine if they are getting their in-store displays—one of the most effective of all promotional tools: "Displays are very, very important, as every single unit on display will be sold. Retailers do not take down displays," emphasizes Brown.

Where the Retailer Has More Dominance

In an interview with Carey Cox, managing director of I.D.S. SPAR, Australia, the power of the retailer in determining the direction of promotional spending became evident. Said Cox: "The important difference between US beverage promotion and that in Australia is that well in excess of 50% of our grocery business is controlled by only two chains—Coles, which is 20% owned by K Mart Corp. in the US, and Woolworths, which is 20% owned by Safeway of California. In practice, the retailer offers the manufacturer the promotion, although of course the manufacturer is not precluded from making an offer of his own." For example, Coles may go to Coke and say, "For $50,000 we'll give you a display..." Cox underscored the fact that in Australia soft drinks are a huge warehousing item, which also must be taken into consideration. The product goes through traditional warehousing channels, therefore retailers have a great deal of leverage. He continued, "The retailer can make deals entailing very heavy co-op expenditures, not only in newspapers, but also on T.V. Also, in Australia, promotions are effected heavily through mailbox drop. We have tons of 'junk mail', even though it doesn't really go through the mail. It's said that Safeway is planning to take the names of their check-cashing customers and mail directly to them."

To determine the profitability of individual promotions, I.D.S. SPAR utilizes market data from the Sales Area Marketing Index, or SAMI—this based on syndicated warehouse withdrawal data. In Australia SAMI is owned by Morgan-Gallup and is not in any way connected with SAMI in the US, owned by Time Life. According to Cox, "In the US, data can only be provided by geographic areas, but in Australia you can buy specific data which identifies sales by nominated account rather than merely by anonymous geographic areas only." Adding with a laugh, "Once the confidentiality paranoia is done away with, it's useful from the retailer and manufacturer point of view.

"Using SAMI, ex-factory sales data, or shipment data, is looked at. We also take into account such factors as seasonality, competitive activity, price movements, advertising, industrial disputes, etc. Unfortunately Australia is too prone to industrial disputes. There are sporadic outbreaks among retailers which can result in out-of-stocks. If a chain runs out of product, this would have to be taken into account."

"Most successful promotions are also successful for the retailer. We're working with a 'Win-Win' situation."

Now that the manufacturer can know how successful the promotional activity has been—in terms of market movement and what products were sold, they can choose to share this information with the retailer. But where is all this leading? As Cox sees it, regularization of the price structure will occur: "That's because in the past the tendency in price and deals has been somewhat ad hoc—or hold your finger in the air to see which way the wind is blowing. Now everything is quantified so it can be seen if a promotion was profitable or not. Most successful promotions are also successful for the retailer. We're working with a 'Win-Win' situation. Before, the situation was very adversarial with the objective being, 'How much co-op can be extracted from the manufacturer?' Now it can be seen that promotional funds can be expended constructively to benefit both parties."

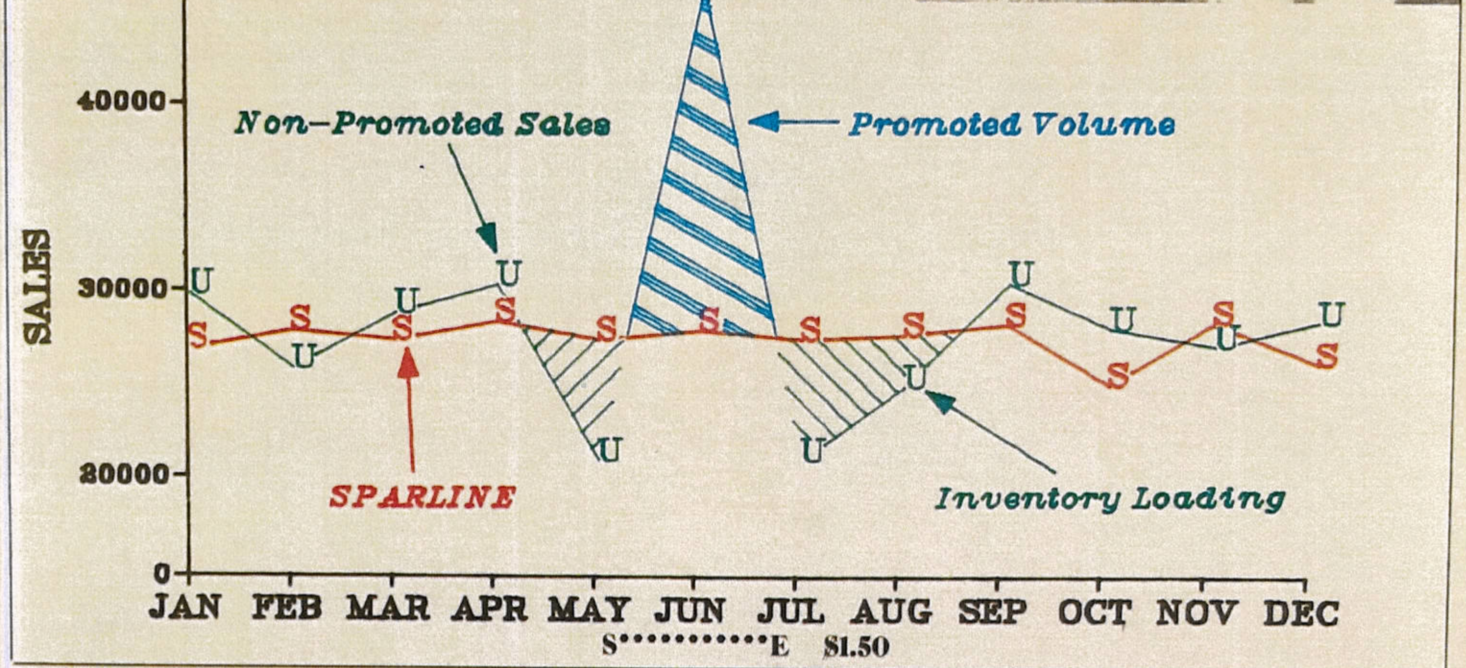
England's Promotional Pounds

At Audits of Great Britain, London, the SPAR franchise known as AGB/PROTRAC (not called SPAR to avoid confusion with a British food chain of the same name) is off and running. Project director John Sharman detailed the studies underway in the beverage marketplace. "We measure beverage markets in general by recording what consumers buy. We are now affiliating with SPAR to extend us into the promotional end. The situation is very different than in the US between manufacturer and retailer, but has some sililarity to Australia.

"Sainsbury, Tesco and Asda are the three leading grocery chains, although there are a large number of other chains. Each operates a range of supermarket outlets. Because we do not have any legislation similar to Robinson-Patman (i.e., in the US the manufactuerer can't have an exclusive promotion in a defined area which results in restraint of trade or competition),so there is no control on deals. Therefore each manufacturer sets their own arrangement with the retailer."

What does the manufacturer expect? Replies Sharman, "The manufacturer is looking to increase his share at the expense of other manufacturers. He may offer short-term discounts, i.e. money offered to the trade for display, price cuts, increased discounts or promotions (e.g. link the sale of the product to benefit charities, win a trip to the Bahamas, extra free, two for the price of one, etc.). Because we have no Robinson-Patman you can make theme promotions or 'Tailor Made' promotions for a specific retailer. During the 1984 Olympics many British manufacturers helped fund British teams and ran promotions such as 'For every label you send back to us, a penny will go out.' Then there's the self-liquidator—the consumer buys three of your product, sends in three labels plus money and gets a tea towel. She's really paying for the towel, it costs the manufacturer nothing."

On the retail side the focus is different. Details Sharman: "How to increase the retailer's share is obviously the concern.




L to r. SPAR officials Bill Bartels, John Sharman, Carey Cox, Bob Brown.

One is much more talking about the tactical mix...which brands to put on display. Of course, manufacturers have national account managers who work with the retailers. There's a genuine desire for an amicable relationship between manufacturer and retailer...widen that to include the marketing department. However they don't always achieve it. The retailer wants to buy more cheaply than the manufacturer wants to sell. He's a bit paranoid and wants to know, "Has another retailer gotten a better deal?' And there's always a very strong focus on the in-store price."

Sharman notes that much of the below the line promotion spending has in the past been "very ineffectually monitored, often ill-judged." In the past a "Diary Panel" (people selected as "average consumers") has been used. They record all their own purchases from supermarkets per week or per month. Now Audits of Great Britain is going one step further by running a "dustbin audit". Every two weeks an auditor goes into selected houses and checks the cupboard and dustbin (refuse receptacle) to see what consumer purchases are. PROTRAC uses this data from AGB to determine what periods of time created incremental volume, and a SPARLINE is drawn from that—for brands and for the entire chain.

While in Canada and elsewhere...

SPAR's vice president and analyst for international affairs, Hank Fuld, sees concern for redirecting promotional efforts growing in other areas of the world. Canada, particularly, is an area where many changes are occurring in the beverage sector. Says Fuld: "The manufacturers we're working with in Canada are 'enlightened', wishing to benefit both themselves and the retailer. A&P recently purchased Dominion (chain) in Ontario, thus concentrating power even more. Overwaitea is growing by leaps and bounds and challenging the leadership of Safeway, especially in British Columbia. In the Maritimes (Provinces), in the east, it's a price driven market. There's a reasonably strong concentration of power by trade in each province, so manufacturers are thirsting for information of chains which possess all this power."

Looking to the rest of the world, Fuld sees activity in the near future from wineries in Australia, as the wine cask is strongly promoted there. Germany and France may well be looking to improve their promotional spending patterns as well, as the relationship between manufacturer and retailer is similar to that found in the UK. As for the Latin American marketplace, manufacturers in Brazil are presently seeking promotional spending expertise.

The Couponing Colossus

The US has attained the dubious honor of being the coupon capital of the world. For better or for worse, the phenomenon is spreading throughout the world. As mentioned earlier, coupons can be viewed as a counter-productive promotion as it lures the consumer to shop specials and forgo brand allegiance. From England, John Sharman details the coupon climate: "Retailers here really don't like coupons, there's too much handling inconvenience. If I have a coupon to buy a bottle of Coke and I go into Tesco they will give me two pence even if I haven't bought the Coca-Cola. This disuades the manufacturer from providing coupons. Coupons are still used of course, and generally the housewife is honest and uses the coupon against the nominated product. A well operated coupon plan will boost the manufacturer's product at trial, but it seems unlikely to me that coupons will proliferate."

International Couponing: A Coke Persepective

BWI caught Coca-Cola's manager of international sales promotion and packaging services, Burke McKinney, in the midst of working on a couponing project. This is proving to be a challenge, as he was quick to note, "The international market is so dramatically varied. It ranges from the economically advanced to developing countries. It's so very difficult to develop programs to cover all needs. Of the 155 countries we do business in, couponing is legal in approximately 35. What do we expect from couponing in the future in those markets? That's the question and therefore we try to get on top of that and find out

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how to go about that. Even in those countries where couponing is legal, there are often restrictions. In Japan, for instance, the value of the coupon is restricted based upon the price of the product. In Mexico, where couponing is in effect legal, it is illegal for a soft drink company (especially a multi-national one), as you cannot cause the consumer to be 'incentivized' (McKinney's term) to use it."

Promotions Vary By Geography

"Promotions vary by geography," continues McKinney. "In Europe there is a higher tendency for the promo to be sweepstakes and premiums. In Latin America, more premiums are used, either free with multiple purchases or as self-liquidators. While in Asia and other developing areas, sweepstakes and premiums are used. It all depends upon the stage of development. Couponing is more popular in developed countries. In developing countries coupons are not widely used as you can't distribute them by viable methods. Take Mexico, for instance, with 400 newspapers. Which newspapers do you choose to run coupons in?"

Although Coca-Cola utilizes the services of SPAR to deal with US promotion studies, it has not as yet expanded its involvement to the international scene. Opines McKinney: "We are considering using SPAR in our international marketing,

COUPONING IS LEGAL....

PACIFIC
Australia
Hong Kong
Indonesia
Malaysia
New Zealand
Philippines
Singapore
Thailand

EUROPE/AFRICA
Belgium
Cyprus
Denmark
Egypt
Finland
France
Germany
Holland
Ireland
Israel
Italy
Kenya
Nigeria
Pakistan
South Africa
Spain
Switzerland
U.K.

AMERICAS
Argentina
Brazil
Chile
Colombia
Costa Rica
Ecuador
Paraguay
Mexico

CANADA

but the services it provides are probably too advanced for many overseas markets at this time, as those markets are not cluttered with sales promotions. Although there are organizations throughout the world which are in a position to provide somewhat similar services using information obtained from scanning (in Belgium, EAN/European Article Number; in Japan, JAN/Japanese Article Number; in Australia, APN/Australian Product Number; in the US, UPC/Universal Product Code, etc.) none of SPAR's competition is as sophisticated. There will probably be an increasing need for the type of work SPAR does, as the need develops and is identified. The SPARs of the world will come into their own."

While SPAR's founder concludes: "Those brands that waste millions 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 marketplace." **BWI**