

Retail Mix Modeling – The integration of Activity Based Costing(ABC) Financial Principles into Marketing Investment Decisions

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Speaker Introduction

- ❑ Eric Togneri has held leadership positions at L'Oreal overseeing top 5 trade customers and led Wyeth Consumer Healthcare's trade marketing department with oversight of the entire trade investment for this organization.
- ❑ He currently is a principal and managing partner for the CMA, the largest trade association for the discipline of category management.
- ❑ CMA currently counts amongst its membership a broad base of category management, sales, trade and brand marketing members spanning a large company base

Retail Mix Modeling – ABC Approach

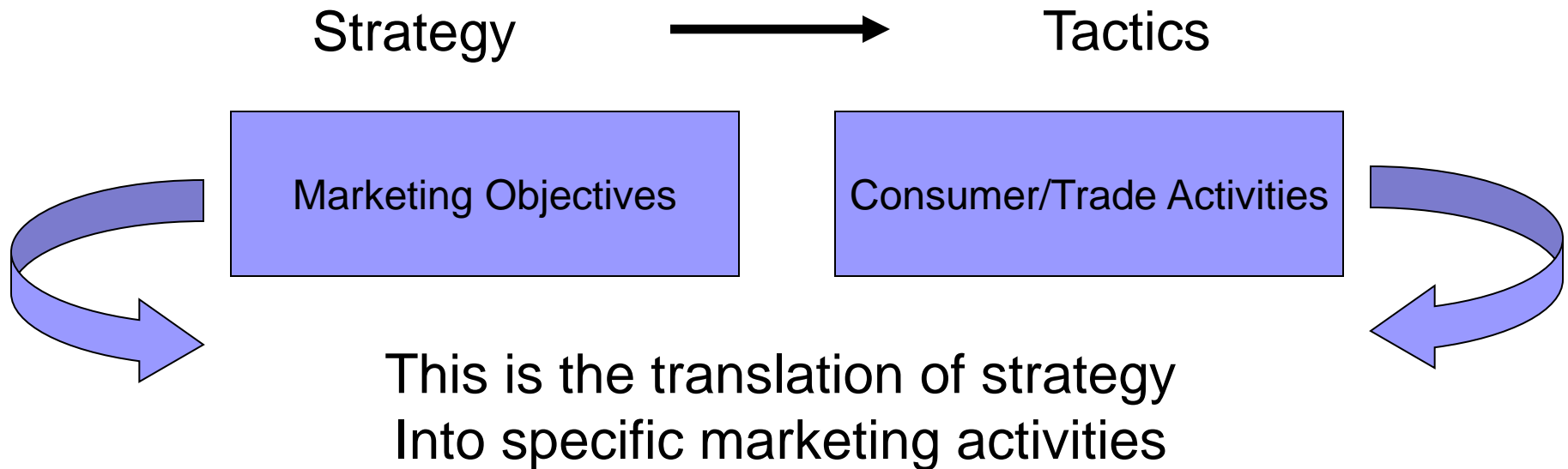
- ❑ Marketing investments involve a bundle of consumer and trade investments
- ❑ Examples include communication activities, merchandising conditions and financial incentives.
- ❑ Understanding each of these activities is critical to determining the contribution of individual elements to the whole.

Retail Mix Modeling – ABC Approach

- ❑ This topic outlines the importance of balancing high level strategic objectives with practical tactics to drive investment decisions
- ❑ Creating a process that sales and marketing professionals can utilize to analyze the efficiency of their tactics in light of the achievement of overall objectives

Retail Mix Modeling 101

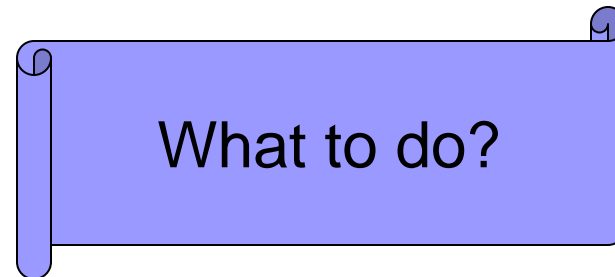
Retail Mix Modeling results in recommendations for allocating spending among various media and promotional events.



This is the translation of strategy
Into specific marketing activities

A typical retail marketing situation...

- ❑ Multiple measurable Consumer and Trade, Channel Objectives
 - Revenues, Profit, Loyalty, Share of Requirements, Market Share, etc.
- ❑ Multiple Marketing Activities that we are able to Execute
 - Television, Radio, Consumer Print, Trade Print, Point of Decision Merchandising



Why is the ABC approach so critical?

- ❑ To identify profit drivers and losers
- ❑ To compare different options
- ❑ To prepare and actualize a business plan
- ❑ To improve strategic decision making
- ❑ To discover opportunities for cost improvement

The steps to historical ABC analysis

- ❑ Identify activities
- ❑ Determine the cost for each activity
- ❑ Determine cost drivers
- ❑ Collect activity data
- ❑ Calculate cost at the activity level
- ❑ Calculate cost at the mix level
- ❑ Model activities mix against marketing objectives

Identify mix of activities for events...

Marketing Event A – Brand X

- ❑ Objective: To drive brand revenue and ROI

- ❑ Marketing Activities:
 - 4 week primetime network television
 - 20 city billboard campaign
 - 20% retail price drop for 1 week
 - 50,000 free standing displays

Marketing Event B – Brand X

- ❑ Objective: To drive brand revenue and ROI

- ❑ Marketing Activities:
 - 4 week targeted cable television
 - 4 week AM radio
 - 4 week 10% price reduction
 - 20% retail price drop
 - 50,000 tethered displays

Determining cost and drivers...

	Event A	Event B
	Total Event	Total Event
Incremental Revenues	\$ 1,050,000	\$ 750,000
COGS	\$ 525,000	\$ 375,000
Gross Margin	\$ 525,000	\$ 375,000
Television		
4 Week Primetime	\$ 225,000	\$ -
4 Week Cable	\$ -	\$ 75,000
Radio		
4 Week Radio	\$ -	\$ 80,000
Billboard		
20 City	\$ 30,000	\$ -
Price Reduction		
1 Week 20%	\$ 45,000	\$ -
4 Week 10%	\$ -	\$ 40,000
Displays		
50,000 Freestanding	\$ 80,000	\$ -
50,000 Tethered	\$ -	\$ 50,000
Total Marketing Expense	\$ 380,000	\$ 245,000
Gross Profit	\$ 145,000	\$ 130,000
ROI	14%	17%

Event A Drives Higher Topline

But is there more to learn?

Event B Drives Higher ROI

Taking a deeper dive into activity analysis...

	Marketing Event A						Marketing Event B				
	Total Event	4 Week PrimetimeTele vision	Billboard	1 Week 20% Price Drop	50,000 F/S Displays		Total Event	4 Week Targeted Television	4 Week AM Radio	4 Week 10% Price Drop	50,000 Tethered Displays
Incremental Revenues	\$ 1,050,000	\$ 400,000	\$ 50,000	\$ 250,000	\$ 350,000	Incremental Revenues	\$ 750,000	\$ 300,000	\$ 100,000	\$ 50,000	\$ 300,000
COGS	\$ 525,000	\$ 200,000	\$ 25,000	\$ 125,000	\$ 175,000	COGS	\$ 375,000	\$ 150,000	\$ 50,000	\$ 25,000	\$ 150,000
Gross Margin	\$ 525,000	\$ 200,000	\$ 25,000	\$ 125,000	\$ 175,000	Gross Margin	\$ 375,000	\$ 150,000	\$ 50,000	\$ 25,000	\$ 150,000
Television						Television					
4 Week Primetime	\$ 225,000	\$ 225,000				4 Week Primetime	\$ -				
4 Week Cable	\$ -					4 Week Cable	\$ 75,000	\$ 75,000			
Radio						Radio					
4 Week Radio	\$ -					4 Week Radio	\$ 80,000	\$ 80,000			
Billboard						Billboard					
20 City	\$ 30,000		\$ 30,000			20 City	\$ -				
Price Reduction						Price Reduction					
1 Week 20%	\$ 45,000			\$ 45,000		1 Week 20%	\$ -				
4 Week 10%	\$ -					4 Week 10%	\$ 40,000		\$ 40,000		
Displays						Displays					
50,000 Freestanding	\$ 80,000				\$ 80,000	50,000 Freestanding	\$ -				
50,000 Tethered	\$ -					50,000 Tethered	\$ 50,000				\$ 50,000
Total Marketing Expense	\$ 380,000	\$ 225,000	\$ 30,000	\$ 45,000	\$ 80,000	Total Marketing Expense	\$ 245,000	\$ 75,000	\$ 80,000	\$ 40,000	\$ 50,000
Gross Profit	\$ 145,000	\$ (25,000)	\$ (5,000)	\$ 80,000	\$ 95,000	Gross Profit	\$ 130,000	\$ 75,000	\$ (30,000)	\$ (15,000)	\$ 100,000
ROI	14%	-6%	-10%	32%	27%	ROI	17%	25%	-30%	-30%	33%

Modeling to higher levels of efficiency...

	Marketing Event Modeled for ROI Efficiency			
	Total Event	4 Week Targeted Television	1 Week 20% Price Drop	50,000 Tethered Displays
Incremental Revenues	\$ 850,000	\$ 300,000	\$ 250,000	\$ 300,000
COGS	\$ 425,000	\$ 150,000	\$ 125,000	\$ 150,000
Gross Margin	\$ 425,000	\$ 150,000	\$ 125,000	\$ 150,000
Television				
4 Week Primetime	\$ -			
4 Week Cable	\$ 75,000	\$ 75,000		
Radio				
4 Week Radio	\$ -			
Billboard				
20 City	\$ -			
Price Reduction				
1 Week 20%	\$ 45,000		\$ 45,000	
4 Week 10%	\$ -			
Displays				
50,000 Freestanding	\$ -			
50,000 Tethered	\$ 50,000			\$ 50,000
Total Marketing Expense	\$ 170,000	\$ 75,000	\$ 45,000	\$ 50,000
Gross Profit	\$ 255,000	\$ 75,000	\$ 80,000	\$ 100,000
ROI	30%	25%	32%	33%

Focus on higher ROI Activities

...a simplified example but the principles remain constant.

Doubling the efficiency at delivering profit objectives

There are strong resources to assist you...

Trade
Associations

Optimization
Specialists



Syndicates



Q & A

How can the integration of ABC financial principles improve your organization's approach to evaluating opportunities and arriving at a complement of activities to improve efficiencies?