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SPAR Method Enables Planners To Evaluate Promo Spending

By William H. Bartels, vice president, PAN-EVAL DATA, INC.

One of the most critical problems facing marketers in this decade is effective evaluation of rising trade promotion expenditures.

Over the past several years, there has been a dramatic increase in these expenditures. This increase has been accompanied by a lack of data on the short-term payout of promotional programs.

As a result, a large portion of promo expenditures are being wasted. Many consumer product companies have not developed systems sophisticated enough to tally incremental sales and profits generated by trade promotions.

Why do firms have difficulty evaluating their own programs? Most companies lack clear lines of management responsibility for evaluating trade promos. This is coupled with a lack of professional advancement for promotional analysts.

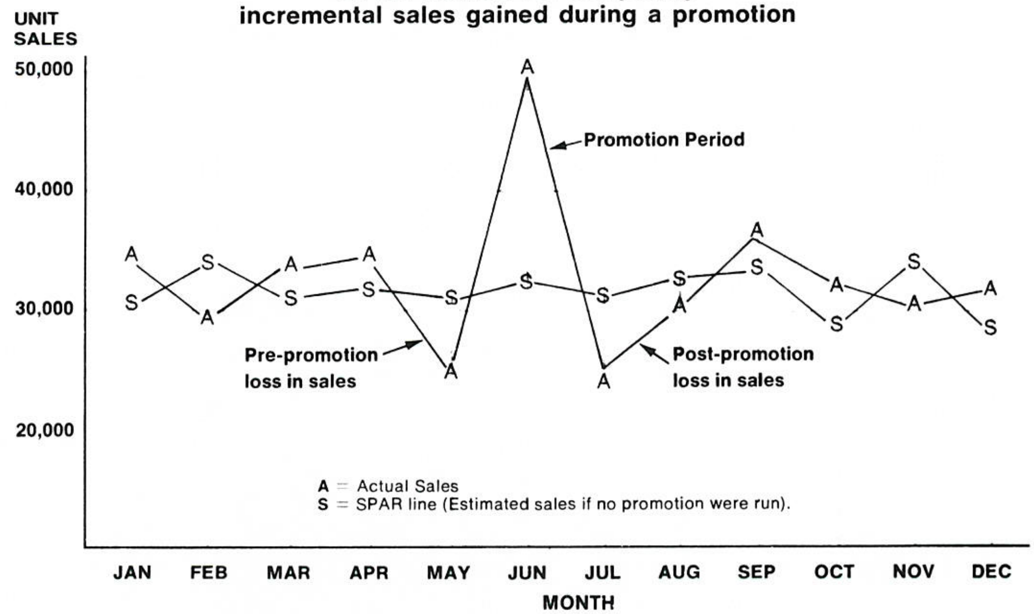
Firms must establish a separate marketing function to serve this critical area. Promotional analysts should be given authority to make recommendations for more effective promotional spending.

A firm's knowledge and history of past trade promos should be accessible. All information should be recorded so it can easily be passed on. Then data collection will not be disrupted by staff changes. The best means of compiling these records is by computer.

Too often, trade promotions are analyzed by "gut feel," if at all. Subjective judgments should be replaced by a record of hard facts. Profit and loss figures for all promotions should be included, along with the record of sales generated by each program.

Promo effectiveness cannot be determined simply by comparing the sales volume achieved in different programs. Short-term promotion profitability can only be measured one way. That's by comparing the amount of product sold during a promotion to "normal" sales expected for that period.

SPAR method for computing incremental sales gained during a promotion



Incremental volume = promo sales gain over normal sales minus pre- and post-promotion sales loss.

Evaluation Brings 4 Boons

A complete promotion evaluation should provide these four benefits:

(1) Locating all promo information in one central source.

(2) Recording profit and loss analyses of all promotions in both summary and detail reports. Planners can look at profitability at the national or regional level. Profitability levels for individual accounts are also monitored.

(3) Developing product standards by which managers can measure all promos.

(4) Providing hard facts on why promos are successful. These facts can be used in planning future programs that will meet specific goals.

The Sales Promotion Analysis and Reporting (SPAR) Approach to evaluating short-term promo profitability has four basic steps:

(1) Estimate what the normal level of sales would have been if no promotion had occurred. We call this estimate the SPAR line (S). (See chart).

(2) Then subtract this estimated normal sales level (S) from the actual sales (A) achieved during the promoted period. This will give the planner his gross incremental volume.

(3) Subtract any drops in sales that occur before or after the promotion. The resulting figure stands for true incremental volume.

(4) Make out profitability reports. Include specific recommendations for more efficient spending in future programs.

The key problem in generating the SPAR line was in developing computer programs that could accommodate many marketing variables. These include: price increases, trade inventory levels, advertising, product modifications, trend and seasonality. Cross-product elasticity and shipment schedules are also factors that must be considered in such a complex system.

Data generated by the SPAR approach will help planners answer these questions:

- Can I achieve the same goals for less money?
- Should I change the discount levels?
- Should this product be promoted more or less often?
- Should I promote brand versus size?
- Should I promote regionally versus nationally?

All firms should carefully chart their promotional futures. The following steps can bring them a competitive edge on promo spending:

- Efficiency in controls must be introduced over spiraling expenditures.
- "Gut feel" must be replaced by hard facts.
- All available data should be collected.
- Evaluation experts should be sought to train company managers.

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About The Author

ELMSFORD, NY—William H. Bartels is vice president of Sales Promotion Analysis and Reporting (SPAR), located here. He has been with PAN-EVAL DATA, SPAR's parent company, since it began in 1967.

Bartels is chiefly responsible for services to current and prospective SPAR clients. He has given numerous talks on promotion evaluation and was most recently a speaker at the Advertising Research Foundation/American Marketing Assn. Conference in Los Angeles. He also spoke at "Marketing '79" in New York City.

SPAR, a syndicated service, claims to be the only one of its kind which effectively evaluates trade promotion expenditures on an ongoing basis. It assists managers in measuring incremental sales and profit for all trade promotions for every brand, size, geographical area, class of trade and account. SPAR has been used to evaluate over 4,500 promotions for numerous packaged goods brands.