

## Promotion Excellence

A step-by step process to develop  
effective promotions

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### A step-by step process to develop effective promotions

In today's competitive retail environment, promotions play a pivotal role in achieving the desired objectives for brands and categories for both manufacturers as retailers.

Promotions can represent 50% to 80% of a category's sales volume. This leads to educated and 'addicted' consumers. They know exactly what and when to buy in promotion, Although promotions can result in increased sales volumes, excessive promotions have been proven to hurt manufacturers' and retailers' bottom lines. Our experience shows that additional sales often do not compensate for all the promotional costs that come with it. So, instead of increasing the frequency and depth of promotions, manufacturers and retailers should go back to healthy levels of promotional pressure by developing a clear long-term promotion strategy. A clear promotion strategy will lead to higher promotion effectiveness and minimalizing unprofitable promotions, increasing bottom-line profits. However, such a strategy requires a careful implementation to minimize short term loss.

Promotions concern both manufacturers and retailers. Manufacturers that leave promotions completely up to their resellers are risking their long-term brand image. Although retailers have pricing freedom, manufacturers can advice and incentivize on promotions of their brands. Typically, manufacturers that have a clear promotion strategy and in-depth insights into promotional effects are more likely to be followed by retailers.

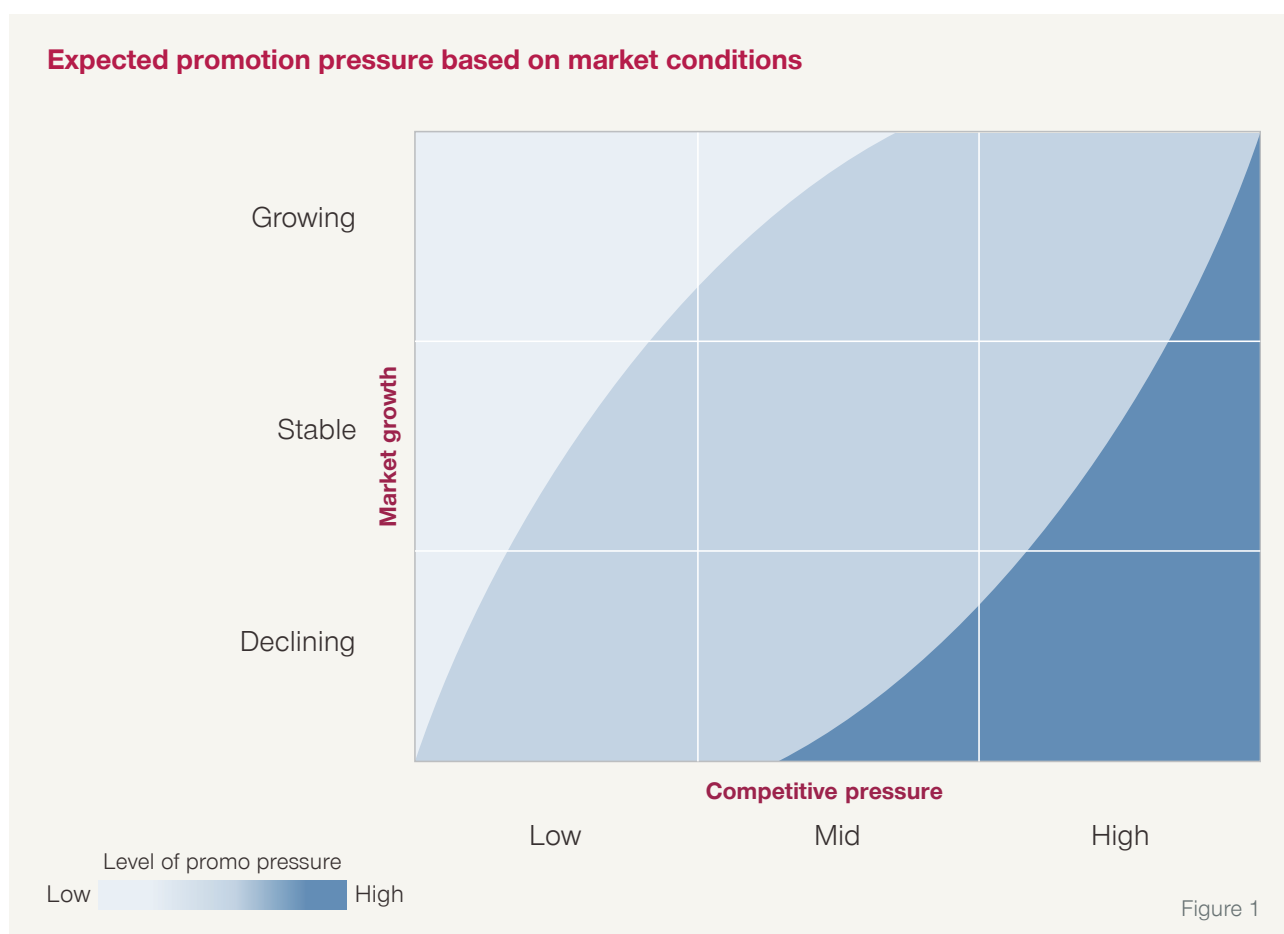
We distinguish 4 steps to develop effective promotions:

1. Define your promotion objectives
2. Determine the right promotion design
3. Successfully execute and track promotion data
4. Evaluate and optimize your promotion strategy

#### 1. Define your promotion objectives

Setting up a promotion strategy is not easy and is dependent on both internal decisions as external influences. Internal decisions include the corporate-, category- and brand strategy. To give an example; the brand strategy of a price fighter implies low promotion pressure since the pricing strategy is focused on everyday low prices (EDLP). It also works the other way around; for a premium or luxury brand, too frequent and/or too deep promotions will hurt your price-value image. Therefore, the starting point for defining promotion objectives is aligning your overall strategy with your promotion strategy.

However, there are external factors such as market conditions that influence your promotion landscape and therefore your promotion strategy. For example, if you are in a growing market with low competitive pressure, promotions are not necessary to drive volumes and profits. On the other hand, in mature markets where competition is high, frequent and deep promotions are often crucial to gain or defend market share. The relation between these external factors and promotion pressure is illustrated in figure 1.



To develop effective promotions, manufacturers and retailers should clearly define what they want to achieve with their promotions. These objectives can differ by category, brand, product or even by promotion and can be either tactical or strategic. Tactical objectives are often short term oriented such as gaining market share, introducing a new product or decreasing stock. Additionally, these tactical objectives are aimed at achieving a brand switch (manufacturer's interest) or a retailer switch (retailer's interest). In contrast, strategic objectives are aimed at long term growth of the category as a whole, which is in the joint interest of both manufacturers as retailers. Figure 2 represents an overview of tactical and strategic objective examples.

## Examples of tactical and strategic promotion objectives

Tactical objectives	Strategic objectives
Gain market share	Improve price image
Defend market share	Increase buying frequency
Penetration	Increase value spent
Increase short term volume	Increase cross-sell
Introduce new product	Increase profits
Reduce stock	
Optimize capacity usage	

Figure 2

## 2. Determine the right promotion design

In achieving promotional objectives, determining the most optimal promotion design is essential. Designing promotions concerns choosing the right promotion characteristics and supporting elements (see figure 3).

## Promotion design elements

Promotion characteristics	Supporting elements
Products/ranges	Season/weather/holidays *
Depth (discount %)	Competitor promotions *
Duration	Above-the-line marketing (e.g. tv, radio)
Frequency	Folder/web placement
Mechanism (e.g. 2+1)	In-store activation (e.g. gondola)

\* Elements that can support promotions, but can't be influenced

Figure 3

Promotion characteristics should be driven by the purpose of the promotion. Experience shows that certain promotion mechanisms are especially effective to drive penetration, such as single buy discounts with 50% off, whereas other promotion mechanisms are mainly to drive volumes, like 2+1 or second half price. Supporting elements are factors that can influence the success of a promotion, however are not always possible to influence yourself. For example, promotions of garden furniture will generate higher volumes in summer than in winter, and could be even higher if these promotions are also accompanied by a radio spot.

Defining the right objectives for your promotions in certain segments and brands in combination with the right promotion design is a big challenge for manufacturers and retailers in the consumer industry. Therefore, designing the right elements of a promotion strategy should always be supported by analytics. Analytics give for example insight in which mechanisms work best for which products, if above the line communication is worth the investment and which depth is optimal. The analytics needed are based on historical data analyses, field research, market research and in-store tests.

### **3. Successfully execute and track promotion data**

A good promotion is just as good as its execution. Manufacturers and retailers can maximize in-store activation mainly by ensuring second placement for promotion products and drawing consumers' attention with the right point of sales materials.

Systematic tracking of the in-store execution and design of promotions is essential in being able to derive conclusions about the effectiveness of the promotion. For example, if the mechanism of a promotion is not tracked, it is impossible to see which mechanism works best to achieve a certain objective.

In general, there are three types of historical promotional data that should be gathered:

- I All characteristics of the promotion to gain insights in the effectiveness of individual design elements.
- II Sell in and/or sell out data to determine incremental sales volume.
- III Promotional costs to determine the return on investment.

However, tracking promotions in a comprehensive way seems to be a big challenge for most manufacturers and retailers. Different kinds of information are needed, which are often scattered around the organization and owned by different people. In addition, data quality is often poor with for example external transaction data that is not complete, or accumulated promotional costs that cannot be allocated to specific promotions. Organizations therefore should have a system or tool in place that brings all this together in order to be able to evaluate individual promotions, preferably owned by a promotion manager that can monitor the process.

### **4. Evaluate and optimize your promotion strategy**

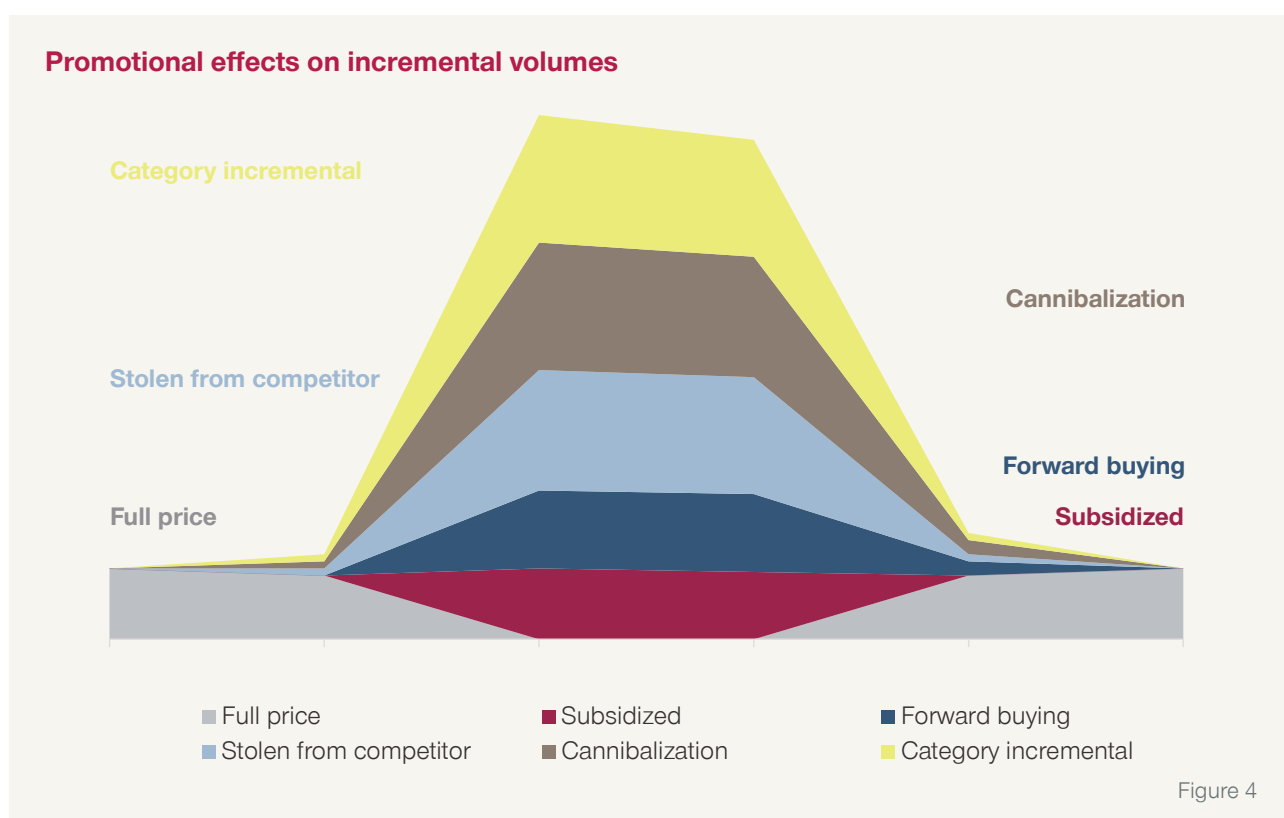
In order to optimize the promotion strategy, promotions should continuously be evaluated on their effectiveness. Whether or not a promotion has been effective depends on the predefined objective. If the objective of promotions on a specific brand was to gain market share, the promotion could be

effective if twice as much products were sold as normally. However, if the objective was to grow a brand in terms of profits, the promotion has only been effective if the incremental margin of these extra volumes outweighs all the invested promotion costs.

A best-in-class promotion evaluation will always consider promotional effects and measure on incremental volumes or margins.

We have seen that often only 20 - 50% of the total promotional volume is truly incremental, meaning that the retailer would not have sold those units had they not ran the promotion. For that reason, it is very important to understand the promotional effects (see figure 4) and how to include them in the promotion evaluation.

Positive effects on incremental volumes include: 1) new buyers that otherwise would not have bought the product or consumers that buy more products than they otherwise would have (category incremental) and 2) 'switchers' who otherwise would have bought a competitor's product. Negative effects on incremental volumes are: 1) consumers that would have bought the product anyway (subsidized base), 2) consumers who anticipate on the promotion and wait until the discount period or that stock discounted products which they otherwise would have bought for full price (forward buying), and 3) consumer that buy the promoted product instead of the same product at another retailer or another of your products at full price (cannibalization).



When evaluating promotions on their profitability, the profit that is gained by the incremental sales should be held against all the direct and indirect costs that were spend on the promotion (see figure 5 for examples of promotion costs an overview). Companies should always consider if the promotion was more effective than a “do nothing scenario”.

### Examples of promotion costs

Promotion discount	Explanation
Advertisement costs	Discount loss for all units sold in the promotion
Consumer costs	Costs of all promotion advertisement such as folders, radio, TV, banners etc.
Point-of-sales costs	Costs that are directly transferred to consumers, such as vouchers and free give-away products
	Costs for in-store materials such as displays, second placement etc.

Figure 5

Once insights on the effectiveness of promotions are obtained, they can feed a fact-based promotion strategy. Best-practices should directly be translated into actions whereas promotions that don't contribute to the company, brand or promotion goals need to be excluded. Therefore, promotions need to be evaluated on predefined objectives, for which measurement can be done in different ways. Nevertheless, while deriving insights based on analytics, it is always important to isolate promotions from external and non-influencable factors (e.g. execution issues by retailers, bad weather for seasonal products, etc.) to avoid wrong conclusions.



## 5. Conclusions and Outlook

In today's fast-paced and dynamic consumer goods industry, promotions can play a pivotal role for both manufacturers as retailers in achieving the desired objectives for brands and categories. However, due to its complexity, organizations often still lack a sophisticated promotion strategy that is fed by fact-based analytics. We suggest manufacturers and retailers to develop an effective promotion strategy by defining their objectives, determining the right promotion design, successfully executing, systematically track promotion details and continuously analyze the effectiveness of promotions in order to optimize the strategy. In this way, a strong promotion strategy will improve bottom-line profits in the long-term.

## Authors



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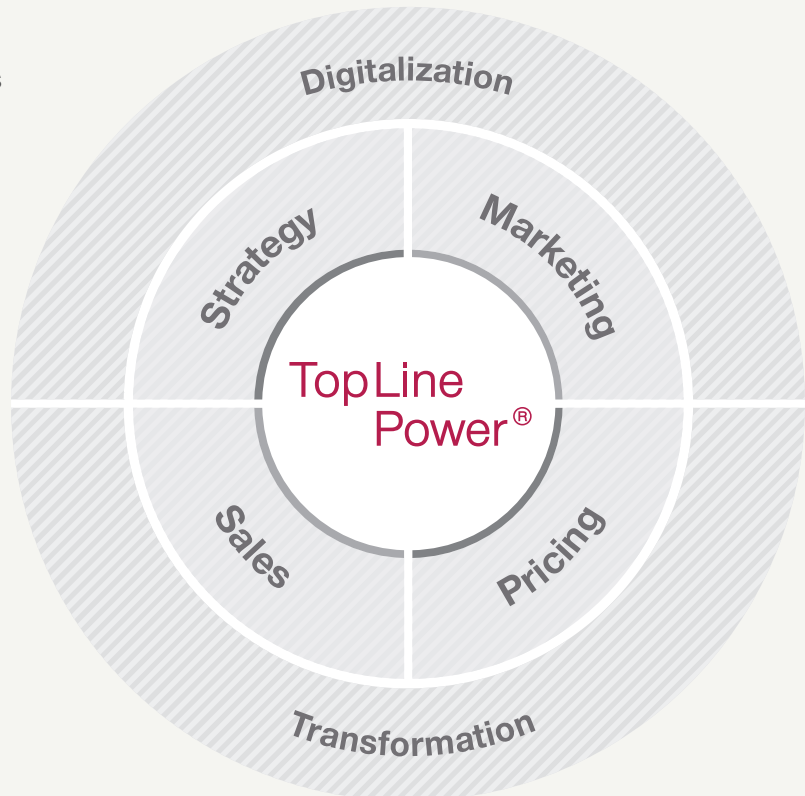
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