

# Promotion Optimisation

To ensure profitable growth, better margins and loyal customers, companies should move from just managing the promotion spend to effectively optimising it

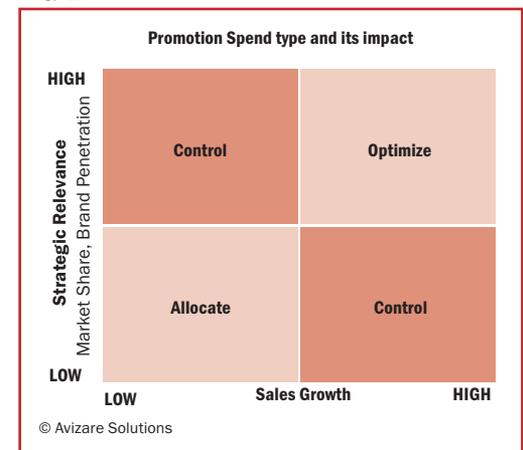
By Harsha Kapoor

It is a tough time for businesses as the current economic situation and the resulting inflation is challenging both brand manufacturers and retailers. While the consumer spend is contracting, fierce competition is adding further pressure on the bottom-line of companies. Companies are looking for all possible measures to attract shoppers, increase sales and improve margins. One of the key measures taken by them is to boost trade promotions and merchandising activities to drive sales growth and build brand equity. Promotion spends are the most important and integral part of sales and marketing of all food and grocery (F&G) retailers and consumer product (CP) companies. On an estimate, they spend 20 percent of the total wholesale price on promotional spend.

A good promotion campaign is important not only from a tactical perspective, but also from a strategic perspective. In addition to driving incremental sales in a particular category and brand building, spend on promotions can also help companies to launch a new product, revitalise a category, get rid of old stock, check competitors move, incentivise retailers loyalty, attract new shoppers and so on. Like the French dairy maker Danone, though it positioned itself as a premium product, yet leveraged heavy price discount and buy-one-get-one-free (BOGOF) offers to create a gradual brand recall in the mind of consumers.

Consumer product companies and their retail partners have multiple options to execute promotional activities and reach shoppers; these range from price promotions, trade discounts, BOGOF, in-store festivals,

FIG 1



display allowance, multi-buy discounts, coupons, free samples, next buy discount, and so on. In the age of the Internet, companies are also aggressively using social media and Facebook to push promotional offers and price discounts. At any given time, they have multiple promotional campaigns running, and are not shy of adopting any new or innovative promotional activity. For example, a cola giant, instead of using BOGOF, took a very offbeat approach; it offered half a kilogram onions free with a two litre cola bottle.

Competitive pressure and aspiration to capture market share is driving a rapid increase in promotional spend; and year after year companies are budgeting more money for promotional activities. However, the concern here is whether the market share and sales is growing at a similar pace (if not higher) than the growth in budget for promotion spends.

Every CP and F&G retailer has its own style and way of executing promotional activities. Broadly, there are three type of companies, based on the different approaches taken by them; either they Allocate, Control, or Optimize the promotion spend. Based on the approach taken by them, the outcome is also different (Fig 1).

Most of the companies 'allocate' a set budget for promotional activities across



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multiple programmes during the year. The allocation is either based on their own past spend data or by bench marking with other players. Rarely do such companies track the performance of individual promotional activities, however, at the corporate or Strategic Business Unit (SBU) level, the aggregate spend is tracked against the budgeted spend and year on year sales. Their promotional programmes not only yield little or negligible impact on sales, they are, at times, not aligned to the strategic objectives of the company. Take the case of a major health and beauty products manufacturer, who used to budget a fixed percentage of sales to predefined promotion activities. Their allocation on promotional activities was higher than that of their near competitors, and their spend pattern was so predictable that the competition had a cakewalk in countering their promotions through better value proposition to consumers. As a result, the company's promotions were not able to achieve lift in sales, nor were they able to improve their brand recall.

The other set of companies that 'control' the promotion spends have metrics defined for promotional activities with a joint accountability of sales and marketing

departments. Some of these companies view spends on promotions as investment and have processes to track their effectiveness. They conduct post promotion analysis to ascertain the impact on incremental sales and share gains. Feedback from these analyses is looped-back to assess and forecast effectiveness of future such programmes.

While companies are able to achieve a particular objective, they fail to harness collective power of these promotional activities to achieve multiple objectives. For example, a specialty food products manufacturer was aggressively using display allowance and price discounts to promote its products in new categories. While the promotions were successful in terms of generating incremental sales in new product categories, sales from existing categories were stagnating, and its market share was declining in major territories. Their promotion campaigns were executed as standalone and discrete projects rather than being an integral part of their strategy. On deep investigation it was realised that they failed to acknowledge the move of competition. Moreover, price discounts was pulling the consumer's future purchase forward and they were just hoarding the

products. While the company was able to achieve incremental sales target in the short term, they failed to achieve growth in market share in the long term.

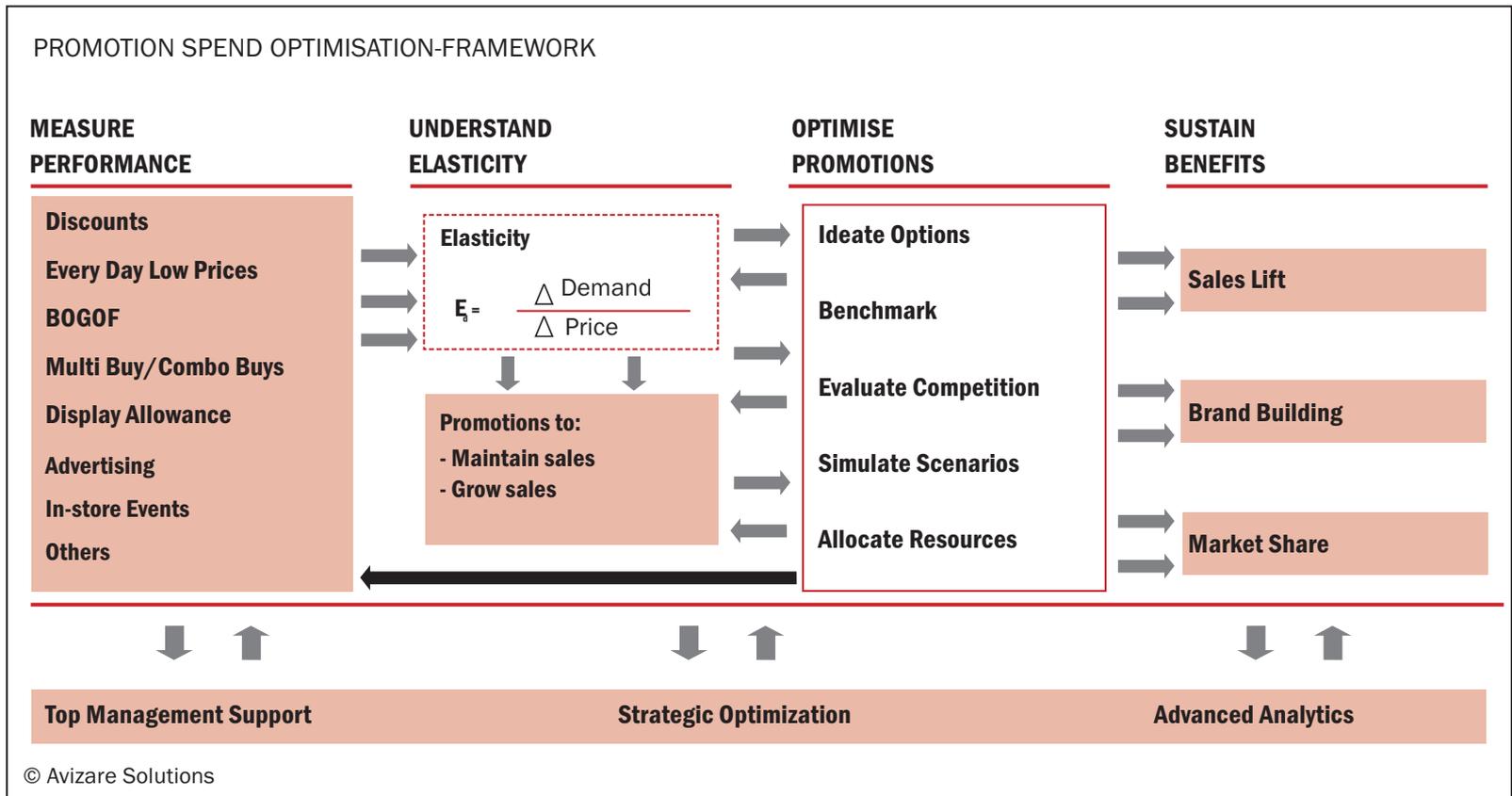
Very few companies, consistently and regularly 'optimize' their promotion programmes to get the best out of them. For them, any promotional activity is an integral part of their strategy and is seamlessly integrated with the rest of the business functions. Such companies harness the power of multiple data sources and advanced analytical techniques to effectively manage promotion programmes across categories and territories. They would evaluate all possible and choose the best, and would establish a rigorous process to prioritise and implement promotional activities. This structured and insightful approach gives them tremendous edge over their competition and helps them gain market share considerably.

When faced with stagnated sales, a packaged food manufacturer used advanced econometric and statistical techniques to identify that in nearly half of their territories 60 percent of the sales were inelastic to their BOGOF offers and other price discounts. They later micro segmented the entire analysis and prepared a map depicting impact and ranking of promotional activities on sales across categories and territories. The company then brainstormed to generate multiple promotion initiatives and simulated each combination of initiative to fully understand their impact on sales and resource requirements. At the same time, it also evaluated competitive dynamics and possible action by competition in response to their promotion initiatives. The ideas were then prioritised and a promotion schedule was developed to be implemented over a period of time. As a result of this exercise, the company was able to identify savings potential of 8 percent in their promotion spend, and sales growth potential of 4 percent in relatively mature territories.

It is important to note that promotion spend optimisation is not about cutting the cost; it is about more value for the money and effort spent on promotions. For a successful promotion spend optimisation, it is imperative that there is top management support and a structured



FIG 2



approach is followed across the company. The approach includes the following steps: Measure Performance, Understand Elasticity, Optimize Promotions and Sustain Growth (Fig 2)

**Measure performance**

The first step is to collect data and measure each and every aspect of promotion spends and sales. This should include all data and information that directly or indirectly impact sales, like sales, promotion spends, advertising, supply chain, merchandising finance, competitor’s promotions and sales, and so on. The metrics have to be simple, yet it should capture all drivers that could possibly impact sales.

**Understand elasticity**

Core to entire optimisation activity is to understand how elastic sales are to the

promotion activities undertaken by the company. Companies should also investigate the cross elasticity of promotion activities on a particular category and its contiguous category. This would provide insights into purchase decisions of consumer, and whether the sales during a period were due to intrinsic demand or due to promotional activities. This, in turn, will help in identifying promotions required to maintain sales level and drive growth in sales.

This step is cumbersome and the traditional method of worksheet analysis might not yield sufficient and desired results. Techniques of data mining combined with advanced analytics can help dissect the POS and promotions data to reveal trends and relationship patterns.

**Optimise promotions**

Using “what-if” simulations, a cross functional team of sales, marketing, finance, operations and R&D should discuss and evaluate each possible scenario of promotional activities. During the discussion, team should also ideate on new promotional initiatives, competitors move and exigency plans for mid-course correction. Thereafter, promotional activities are prioritised and resources are allocated for the same based on company’s risk appetite, resource constraints, and growth objective.

**Sustain growth**

The optimisation programme should be implemented in a structured way and proper metrics should be defined to capture its success. Review mechanism should be set up to track the progress and fine tune the optimisation approach. To sustain the benefits of promotion optimisation programme, it is important that they have complete support and participation from the top management. This will ensure that there are no bottlenecks between divisions and that resources are allocated appropriately to various promotion initiatives.

Companies must know where they are spending their money and what are the returns being generated by their promotional activities. Equipped with the knowledge and deep understanding of the promotion process, they can identify and prioritise the promotion programmes to achieve the desired outcome. Proactive collaboration between manufacturers and retailers, smart use of advanced analytical techniques, agility in implementing options and top management support are essential for players to effectively

outsmart competition and gain a substantial market share. ■

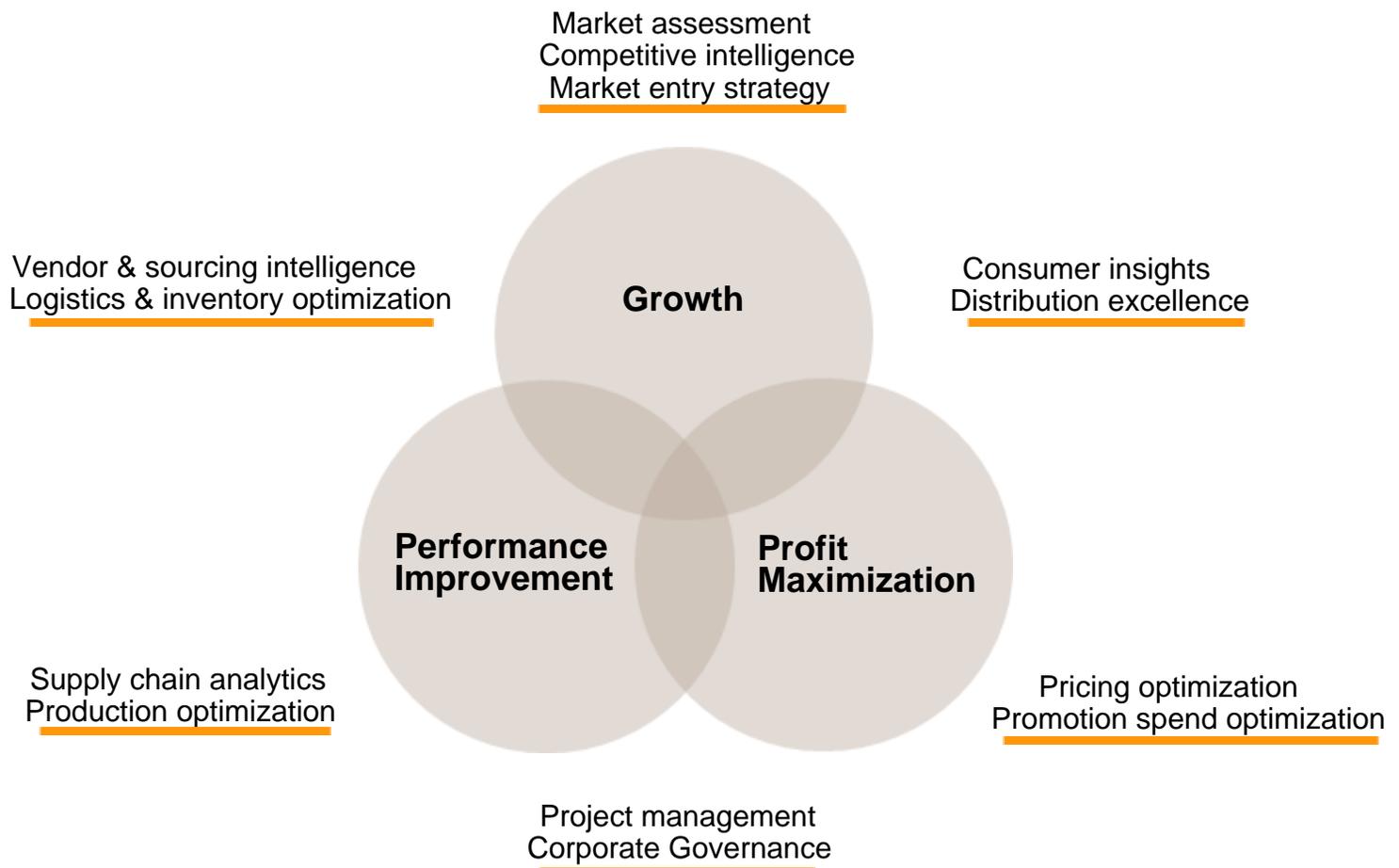


*Harsha Kapoor is Managing Partner, Avizare Solutions*

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Third Floor, Block B, Vatika Atrium,  
Sector 53, Golf Course Road,  
Gurgaon – 122002  
India

Tel : +91 124 4311222  
Email: [contact@avizare.com](mailto:contact@avizare.com)

[www.avizare.com](http://www.avizare.com)