

# PROMOTION TACTICS: ADDING FOCUS, ADDING VALUE



**ECR** *Europe*  
Efficient Consumer Response

PRICEWATERHOUSECOOPERS 

# Promotion Tactics: Adding Focus, Adding Value

# Acknowledgements

PricewaterhouseCoopers and the European ECR Executive Board would like to thank each of the companies that participated in the ECR Europe Promotion Tactics Pilots.

We would like to thank:

Alcampo	Spain
Boots The Chemists	United Kingdom
Elida Fabergé	Spain
ICA	Sweden
Kimberly-Clark	United Kingdom
SCA Hygiene Products	Sweden
Smiths Food Group	The Netherlands
TSN/Schuitema	The Netherlands



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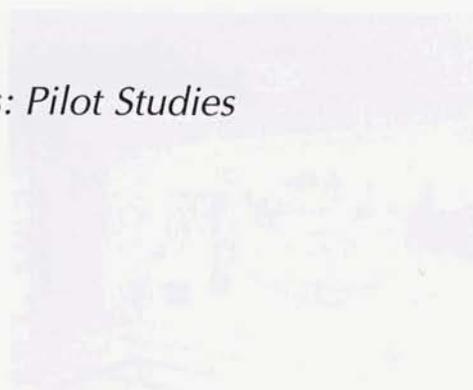
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# ECR Europe Foreword

*Over the last few years, ECR has predominantly focused on enhancing efficiency by reducing costs across the value chain. The attention of leading manufacturers and retailers is increasingly shifting towards the customer. This means that they are improving the effectiveness of their customer-oriented actions by truly creating value for customers. Although controlling costs will continue to remain very important, clearly the best way to stand out is by creating offers that customers really value.*

Promotions in one form or another, play an important part in the retail marketing mix. However, the Demand Side Steering Committee of ECR Europe are conscious that both retailers and manufacturers are increasingly questioning the whole issue of promotions. They are often perceived as being difficult to plan, expensive to execute and complicated to evaluate both for the retailer and the manufacturer.

For this reason trading partners are beginning to ask themselves why they do them (**objectives**), whether they are appropriate (**tactics**), and what they achieve (**evaluation**).



The Demand Side Steering Committee of ECR Europe asked PricewaterhouseCoopers to facilitate this project, which was to demonstrate how retailers and manufacturers can work together to develop more effective promotions.

First of all, PricewaterhouseCoopers undertook a European industry survey to ascertain the current situation with regard to promotions. Findings from this survey are included in this report. A comparison of the findings of the survey with the current information from the ECR Europe Scorecard database, clearly confirmed the importance of promotions and the relevance of this report.

Subsequently, PricewaterhouseCoopers was asked to facilitate a number of pilot projects to test some of the major issues that relate to promotions.

**The issues tackled by the pilot projects were:**

- (a) how to choose between single-buy offers and multi-buy offers?
- (b) how can loyalty card data be used to increase the effectiveness of promotions?
- (c) how to strike the right balance between price-off and the method of communicating and merchandising the promotion?
- (d) how to target promotions more effectively?

Four pilot projects were conducted, each in a different country, with a leading retailer and manufacturer. A process developed by PricewaterhouseCoopers, was used. Details of the process, together with the very encouraging results of the pilots are included in this report.

**We urge you to read it!**

**Demand Side Steering Committee**

Jean-Jacques Jarrosson	- Groupe Danone
Enrico Toja	- Johnson & Johnson
Franco Suardi	- Kraft Jacobs Suchard
Luc Demeulenaere	- Procter & Gamble
Robert Fregolle	- Procter & Gamble
Alfonso Merry del Val	- Centros Comerciales Continente
Pieter van Loon	- Albert Heijn
Harry Buijniks	- Albert Heijn
Ulf Kalmbach	- Rewe Zentral
Graham Booth	- Tesco
Jacques Leroux	- CIES

# Executive Summary

*Despite significant criticism, promotions remain an important commercial tool for both manufacturers and retailers. On average, 40 to 50% of the turnover of retailers and manufacturers is achieved by using some form of promotion.*

Within ECR, Optimising Promotions is an important improvement concept.

**Optimising Promotions focuses on two aspects of promotions:**

- (a) efficiency, which predominantly has to do with the implementation process;
- (b) effectiveness, which focuses on setting objectives and defining the right Promotion Tactics to meet them.

By Promotion Tactics we mean the combination of factors that are used when defining, organising and planning the promotion campaign.

**These include:**

- (a) the consumers/shoppers we target to stimulate certain behaviour;
- (b) the promotion incentive we give to reward that behaviour;
- (c) the way we communicate the promotion to the target audience;
- (d) the way we present or merchandise the promotion;
- (e) the timing of the incentive and the frequency with which we offer it.

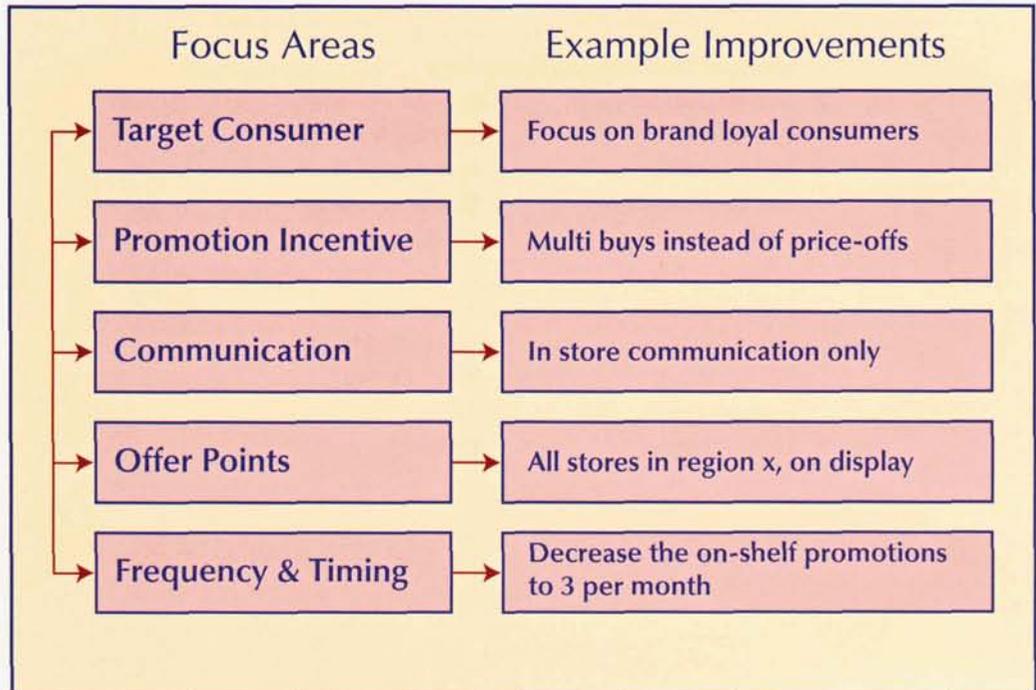


Figure 1: Focus Areas and Example Improvements

This report focuses on the way manufacturers and retailers can devise better Promotion Tactics to improve the effectiveness of their promotions. They can do so by adopting the approach developed by PricewaterhouseCoopers.

## Promotion Tactics pilots

On behalf of ECR Europe, PricewaterhouseCoopers has applied their approach in four pilots.

### The following companies participated in these pilots:

- (a) TSN/Schuitema (C1000 format) and Smiths Food Group in The Netherlands;
- (b) Boots The Chemists (Boots) and Kimberly-Clark in the United Kingdom;
- (c) ICA and SCA Hygiene Products in Sweden;
- (d) Alcampo and Elida Fabergé in Spain.

### The approach adopted by the pilots consists of the following eight steps:

- (a) Define and Agree Baseline;
- (b) Assess Promotion Events;
- (c) Assess Consumer and Shopper Segmentation;
- (d) Research Consumer and Shopper Behaviour;
- (e) Define Appropriate Promotion Tactics;
- (f) Conduct Tests of Selected Promotion Tactics;
- (g) Agree Promotion Strategies and Plans;
- (h) Implement Agreed Promotion Plans.

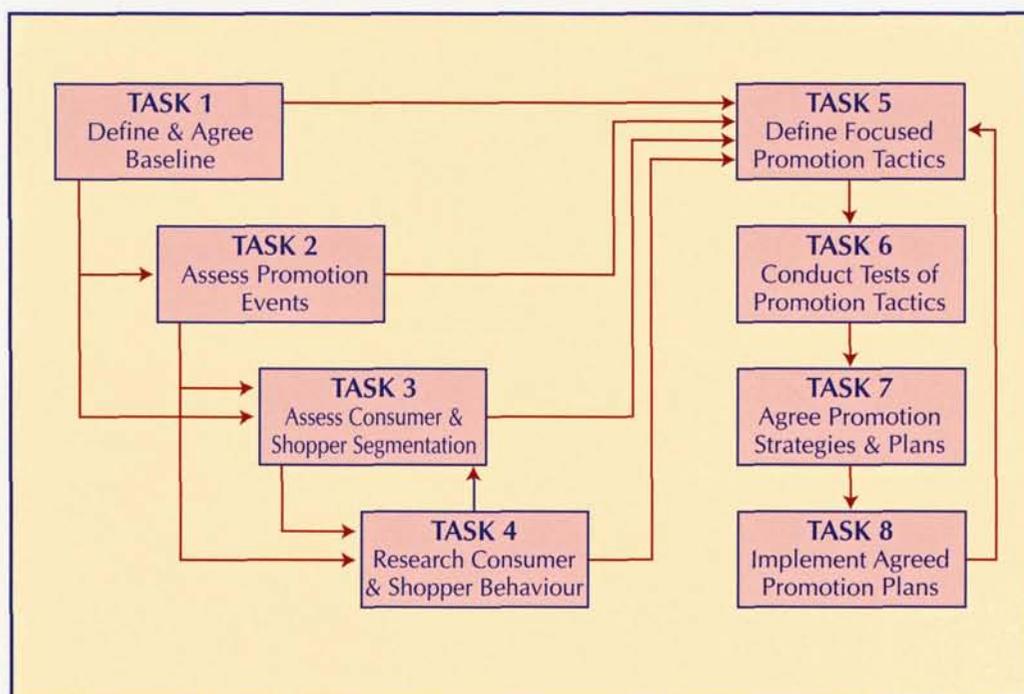


Figure 2: Promotion Tactics: PricewaterhouseCoopers recommended approach

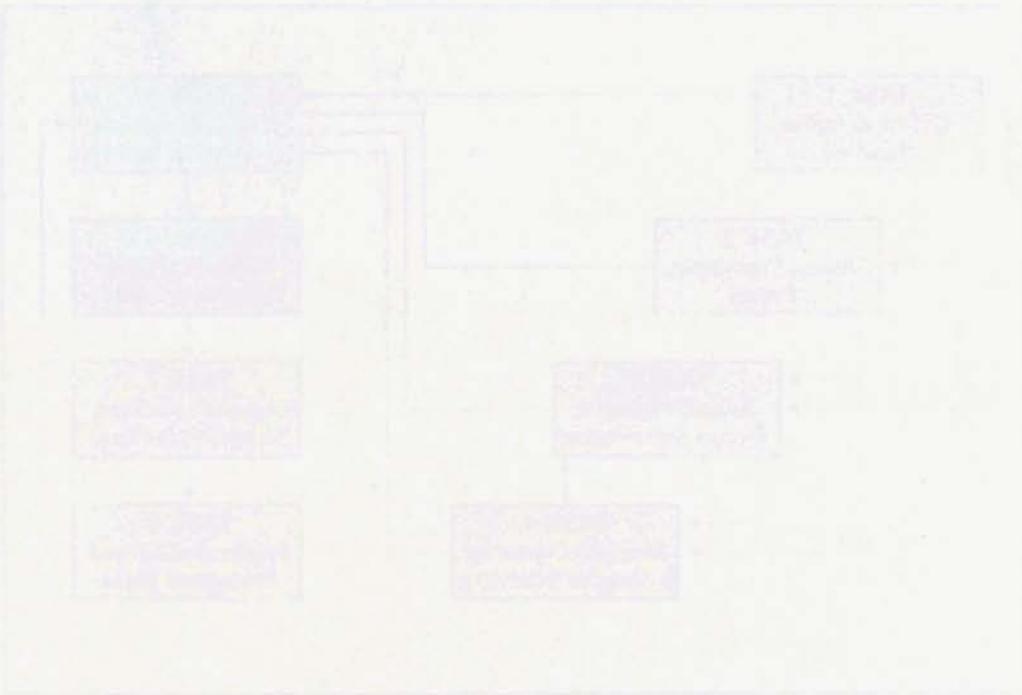
## Highlights

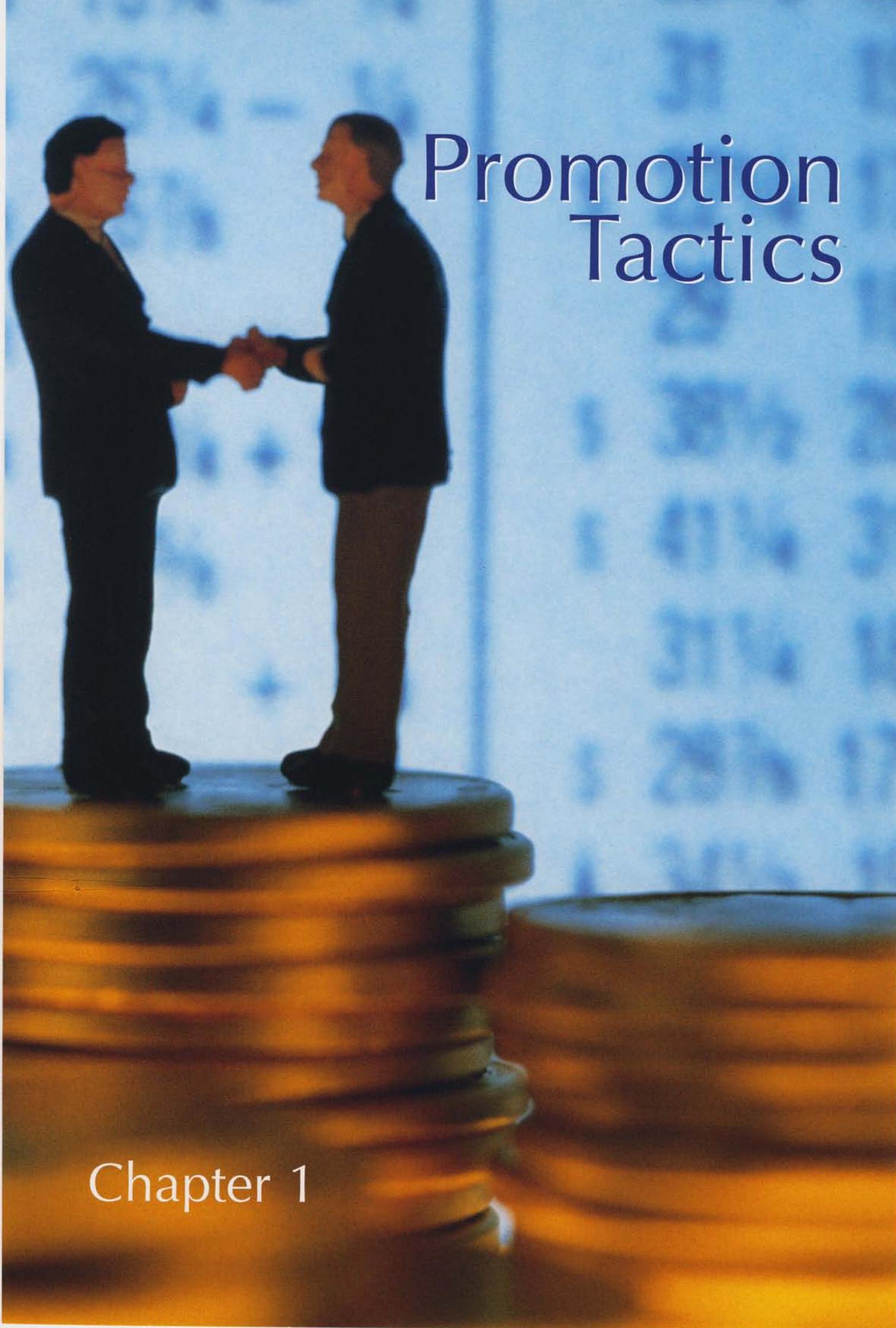
In The Netherlands, Smiths Food Group and C1000 have applied the PricewaterhouseCoopers approach to identify which Promotion Tactics are most successful when the objective is to maximise category sales: single buy or multi-buy. From the options tested, two of them gave significantly better results.

In the UK, Boots and Kimberly-Clark tested how data generated by the Boots loyalty card could be used to develop promotion tactics. The objective of this test was to increase both the loyalty to the Brand (Huggies) and the category. The results were very encouraging, with a clear correlation between the level of incentive offered and the degree of loyalty.

In Sweden, ICA and SCA Hygiene Products undertook a detailed analysis of the impact of promotions on category sales. With the majority of promotions, any positive impact was countered by the high degree of cannibalisation. Further analysis enabled ICA and SCA Hygiene Products to identify which SKU's, if promoted, would generate additional sales. They have also gained a better understanding of the levels of discounts necessary to provide a positive result and the impact of different forms of communication and merchandising.

In Spain, Alcampo and Elida Fabergé have identified specific target groups for promotions. Together, they have drawn up a promotion programme reflecting the characteristics of these individual target groups.



The image features two men in dark suits shaking hands. They are standing on a tall stack of gold coins. The background is a blurred blue grid pattern. The title 'Promotion Tactics' is written in a blue serif font in the upper right. 'Chapter 1' is written in a white serif font in the lower left.

# Promotion Tactics

Chapter 1

# Promotion Tactics

Both retailers and manufacturers are increasingly questioning the whole issue of promotions. Promotions are often said to be difficult to plan, expensive to execute and complicated to evaluate. ECR Europe has asked PricewaterhouseCoopers to facilitate a project aimed at helping trading partners to better understand which Promotion Tactics to select in order to achieve better results from their promotions.

'Optimising Promotions' is one of the four improvement concepts of the Demand Side of ECR. This concept enables trading partners to focus on efficiency: the way they plan, implement and evaluate promotions. For instance, agreeing better ways of working will help trading partners to manage their promotions more efficiently.

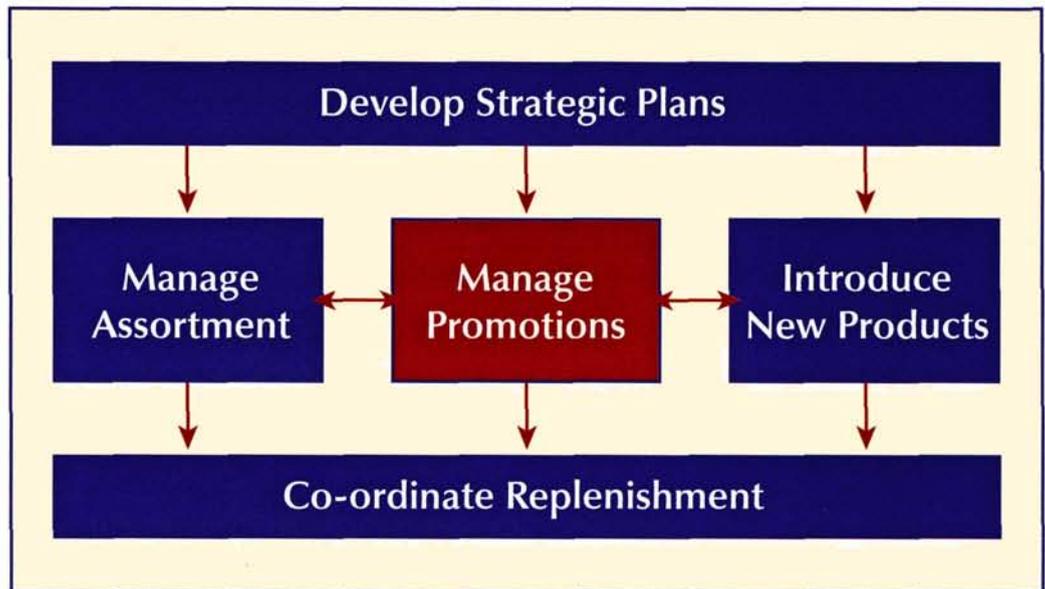


Figure 3: ECR Demand Side Primary Functions

The second element of the ECR improvement concept of Optimising Promotions concerns the effectiveness of promotions: setting promotion objectives and choosing the appropriate tactics to meet them.

**This report will focus on the issue of promotion effectiveness.**

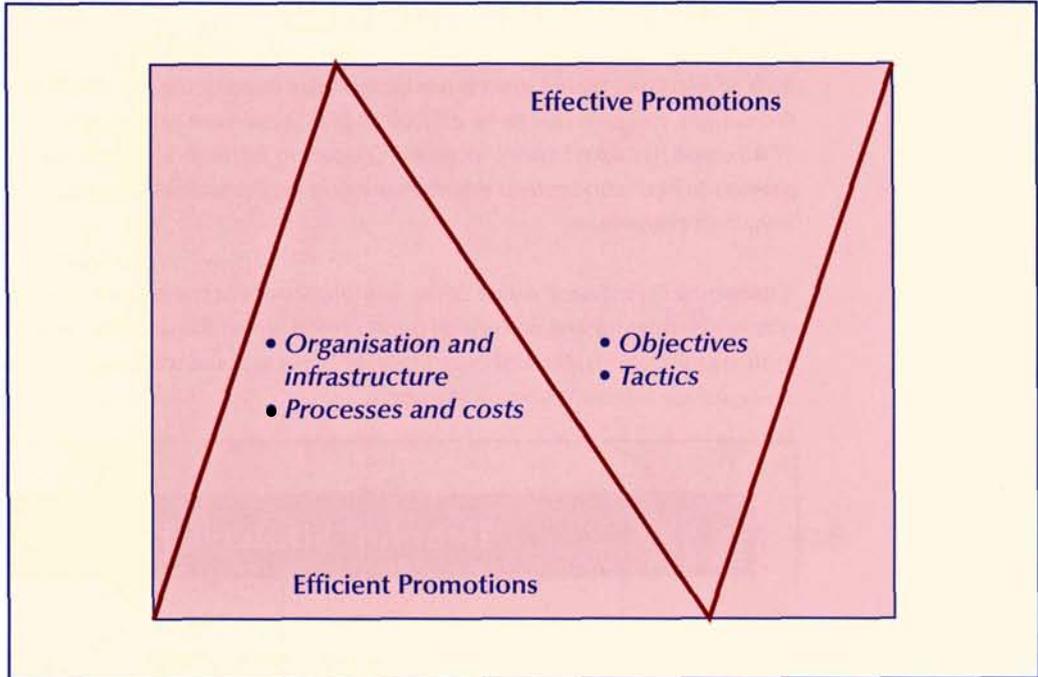


Figure 4: Promotion Efficiency and Effectiveness

## Scope of this report

The issue of promotions has attracted much attention recently. The effectiveness of promotions has often been criticised. For manufacturers, too many promotions, often instead of consumer advertising, could harm the equity of the brand. For retailers, too many promotions might increase the shopper's price awareness and make them less loyal to the store.

Despite this concern, promotions remain a frequently applied and important commercial tool for both manufacturers and retailers. This report acknowledges that there are commercially sound reasons for promotions. As a result, the purpose of this report is not to answer the question of whether or not manufacturers and retailers should promote their products, but how to increase the effectiveness of their promotions.

Therefore this report concentrates on the issue of how manufacturers and retailers together can improve the effectiveness of their promotions, by better understanding the purpose of promotions, defining their objectives and selecting the appropriate Promotion Tactics.

## ECR Europe Promotion Tactics project

PricewaterhouseCoopers has facilitated the Promotion Tactics project for ECR Europe to demonstrate how retailers and manufacturers can develop more effective promotions.

To begin with, PricewaterhouseCoopers undertook an Industry Survey to assess current promotion practices of European manufacturers and retailers. In this survey 190 European manufacturers and 38 retailers participated, covering 2152 European promotion events

Subsequently, PricewaterhouseCoopers facilitated four pilot projects, each involving a retailer and a manufacturer, to test the PricewaterhouseCoopers approach to improving the effectiveness of promotions.

### The participating pilot companies were:

- (a) TSN/Schuitema (C1000 format) and Smiths Food Group in The Netherlands;
- (b) Boots The Chemists (Boots) and Kimberly-Clark in the United Kingdom.
- (c) ICA and SCA Hygiene Products in Sweden;
- (d) Alcampo and Elida Fabergé in Spain.



Figure 5: Participating Companies

## Promotion Tactics

PricewaterhouseCoopers has developed a process that manufacturers and retailers can use together to improve the effectiveness of their promotions by applying better Promotion Tactics. The objective was to create a process that is both time efficient and delivers positive results.

**In improving effectiveness there are three critical issues:**

- (a) to determine the promotion objectives;
- (b) to select the appropriate Promotion Tactics;
- (c) to measure the results against the objectives and incorporate the findings into new Promotion Tactics.

By Promotion Tactics we mean the combination of factors that are used when defining, organising and planning the promotion campaign.

**These choices include:**

- (a) the consumers/shoppers we target to stimulate certain behaviour;
- (b) the promotion incentive we give to reward that behaviour;
- (c) the way we communicate the promotion to the target audience;
- (d) the way we present or merchandise the promotion;
- (e) the timing and frequency with which we offer the incentive.

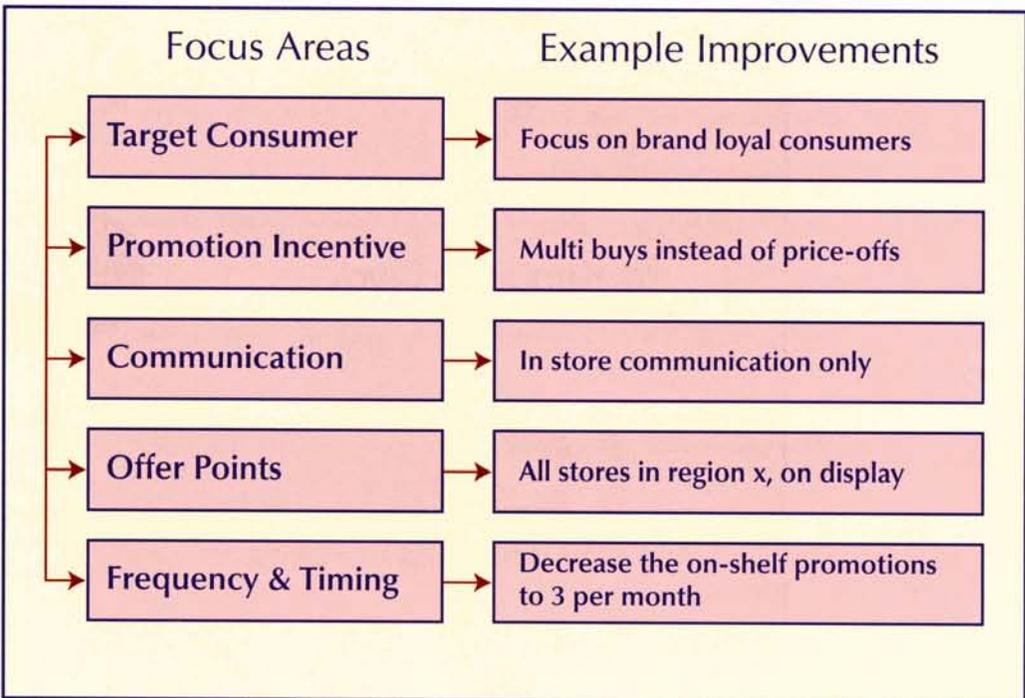


Figure 6: Focus Areas and Example Improvements

### Target consumers/shoppers

First, we have to identify whose behaviour we have to influence and how, in order to accomplish the desired promotion objective. If the objective is to increase loyalty for the brand, we have to make a number of choices. For instance, we must decide whose loyalty we want to encourage; that of regular buyers, occasional buyers or both.

**Promotion incentive**

Once we have defined the target group for the promotion and set the objective, we have to determine which promotion incentive will stimulate the desired behaviour most. Should it be a price-off, and, if so, how much? Or should it be a different incentive such as a multi-buy, a premium, loyalty card points or something else altogether?

**Communication**

Having determined the appropriate incentive, we have to determine what type/method of communication is most relevant to maximise awareness and desire for the promotion. Should it be external (TV, Press, Direct Mail), internal (leaflets etc.) or a combination.

**Presentation & Merchandising**

In store, the issue of presentation and merchandising should be addressed to best meet the objectives of the promotion. For instance, what is the best way to display the promotion? On shelf only, off-shelf display, gondola end, etc.

**Frequency and timing**

The final issues to consider, given the number of promotions currently undertaken, are those of timing and frequency.

## The report

The first section of this report assesses the conclusions of the industry survey and gives the reader a better understanding of current European practices with regard to promotions.

The findings of the survey, in combination with the reported current promotion management capabilities (source: European ECR Scorecard Database) reinforce the need for a systematic approach to selecting the most effective Promotion Tactics.

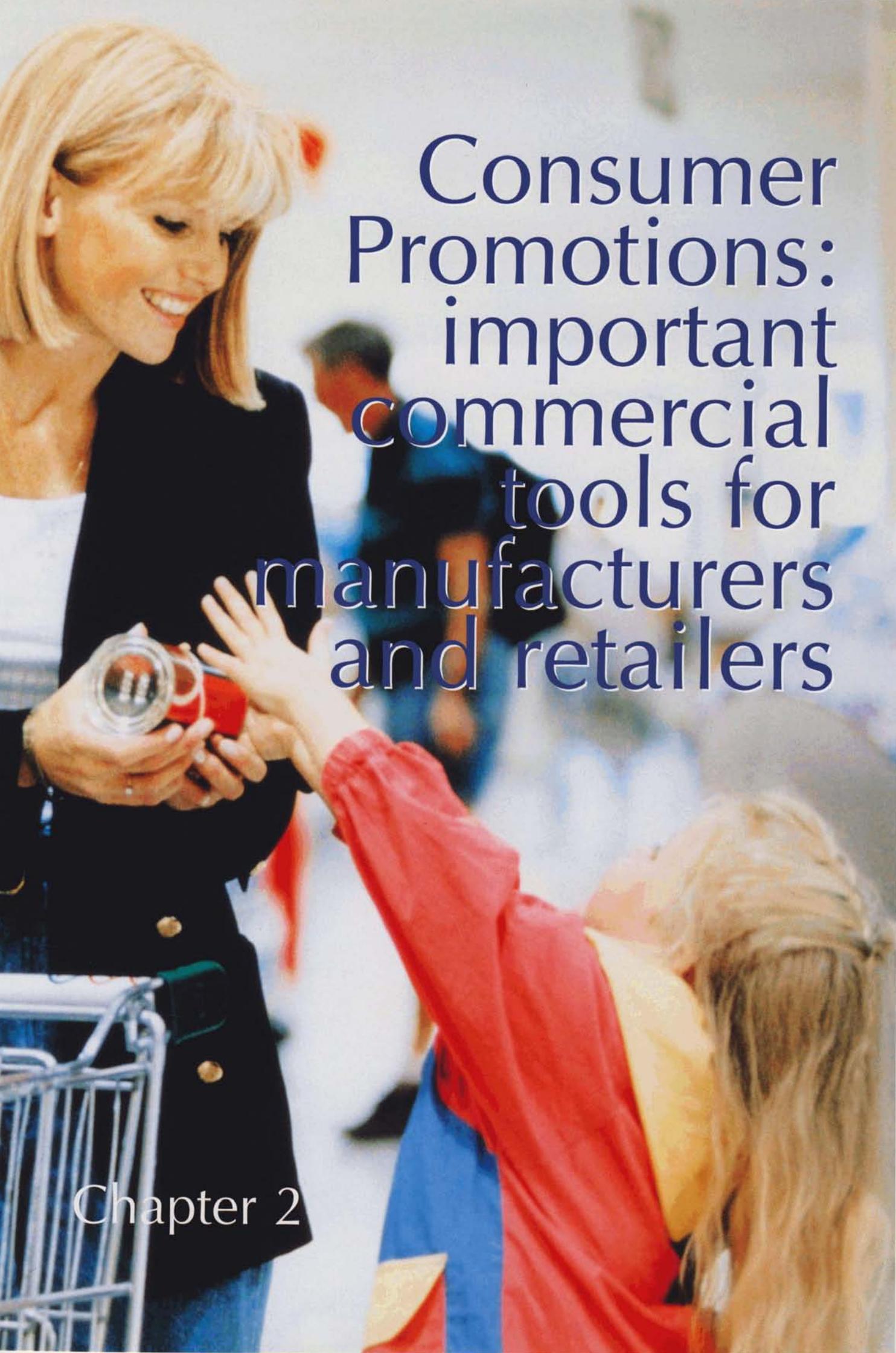
The second section will outline the generic process applied by the individual pilots to successfully improve the effectiveness of their promotions. The key findings of using this approach in the pilots will be highlighted.

The third section of this report will demonstrate how the pilots addressed particular issues within the overall Promotion Tactics process.

Each of the four pilots concentrated on different promotion issues that challenged them.

**These issues were:**

- (a) single buy versus multi-buy;
- (b) how can loyalty card data be used to increase the effectiveness of promotions;
- (c) how to achieve the right balance between price-off and the method of communicating and merchandising the promotion;
- (d) how to better target promotions.

A photograph of a woman with blonde hair, wearing a black blazer over a white top, smiling and holding a red mug. She is interacting with a young child in a red shirt who is reaching out towards the mug. The background is a blurred indoor setting, possibly a store or a public event. The text 'Consumer Promotions: important commercial tools for manufacturers and retailers' is overlaid on the right side of the image in a dark blue, serif font.

# Consumer Promotions: important commercial tools for manufacturers and retailers

Chapter 2

# Consumer Promotions: important commercial tools for manufacturers and retailers

In the European Fast Moving Consumer Goods sector, promotions are applied extensively. A **European Promotion Effectiveness Survey (1998)** by PricewaterhouseCoopers shows that on average 38% of the turnover of manufacturers and 52% of that of retailers involves some form of promotion incentive. (These figures represent the numerical average of the responses of participating companies and have not been weighted for the relative size of categories.)

It is interesting to note that although there is a broad range in the percentage of sales with a promotion incentive, there is no clear pattern with regard to the type of category or the country.

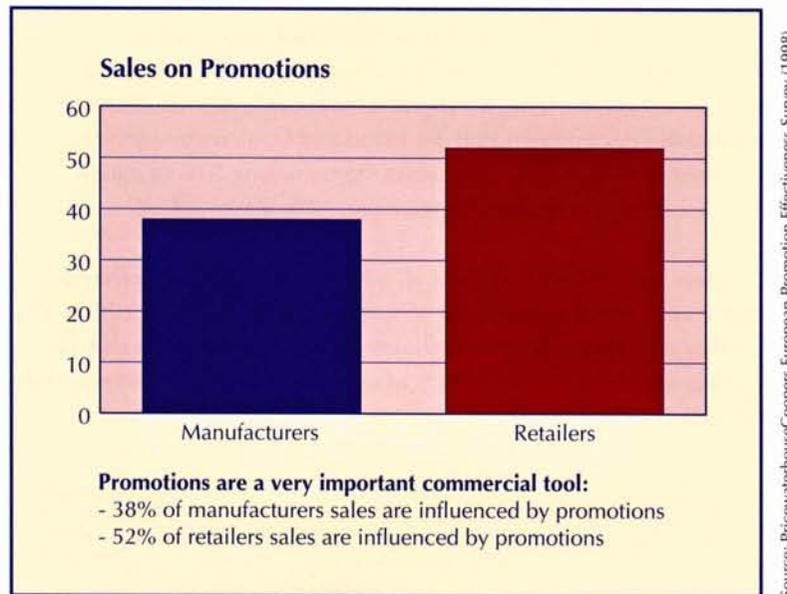


Figure 7: The Importance of Promotions (1)

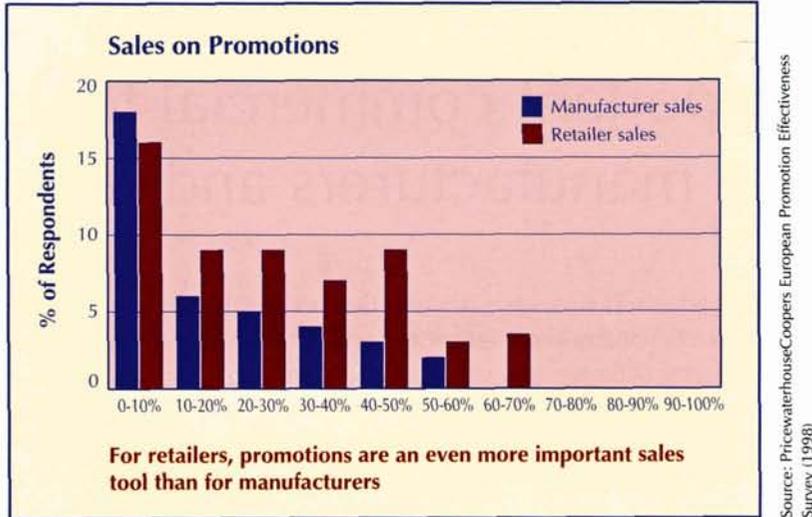


Figure 8: The Importance of Promotions (2)

**Sales on Promotions**

As shown, promotions highly influence sales. With regard to promotions, price incentives are the most important element. About 60% of all sales on promotion by manufacturers consist of some form of price incentive only, which accounts for 24% of total sales. A further 20% of all manufacturer sales on promotion are influenced by a combination of a price incentive and a non-price incentive (7% of total sales) whilst the remaining 20% of manufacturer sales on promotion are influenced by a non-price incentive only (7% of total sales).

For retailers, approximately 65% of all sales on promotion are influenced by some form of price incentive only, which accounts for 35% of total sales. A further 20% of all retailer sales on promotion are influenced by a combination of a price incentive and a non-price incentive (11% of total sales) whilst the remaining 15% of retailer sales on promotion are influenced by a non-price incentive only (8% of total sales).



Figure 9: The Importance of Promotions (3)

**Types of Promotion**

The price incentive most often applied (in numbers) by both manufacturers and retailers is the simple price-off, followed by value packs and multi-packs. The non-price promotions most frequently applied by manufacturers are special events, contests and premiums. The most popular non-price promotions with retailers, are loyalty rewards and special events.

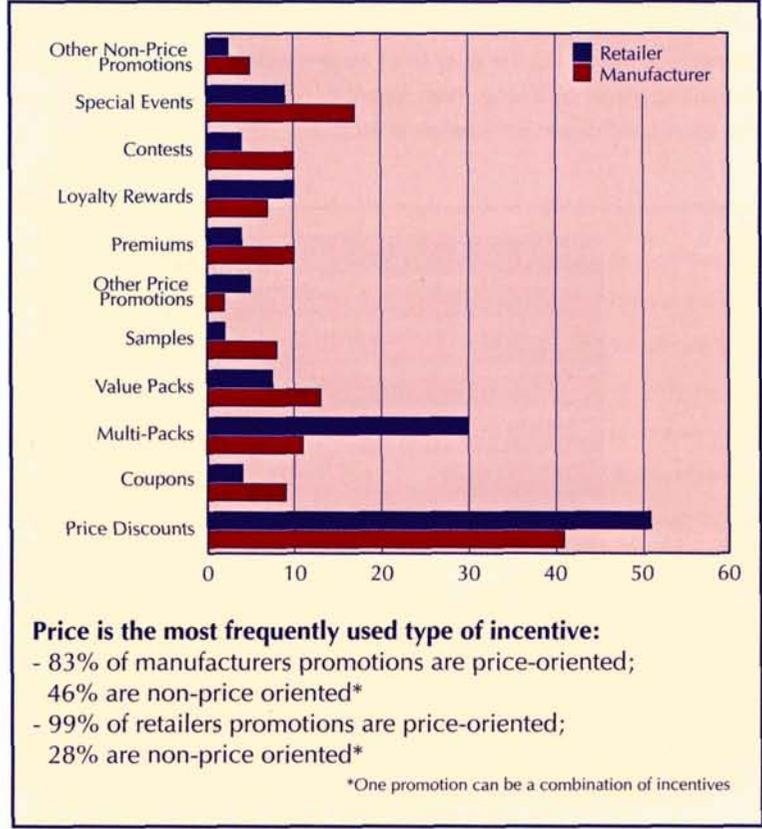


Figure 10: Types of Consumer Promotions

Interesting to note is that in 75% of promotions only one single type of incentive is used. In 20% of the cases (number of promotions) two types of incentives are used. In the remaining 5%, more than two types of incentives are used.

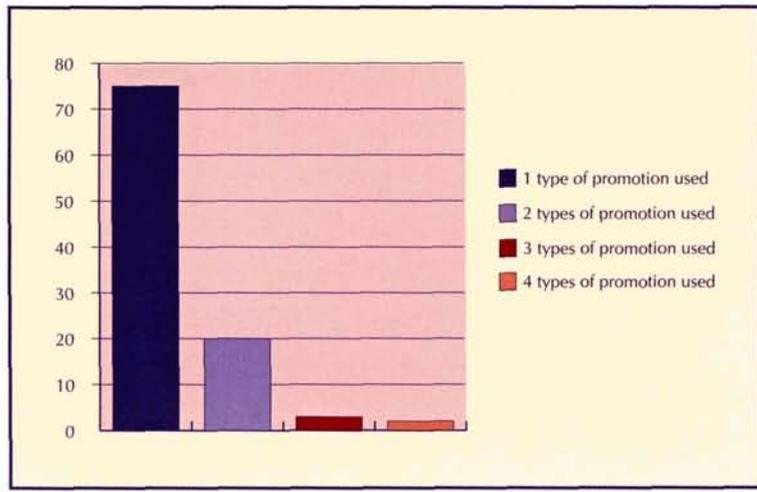


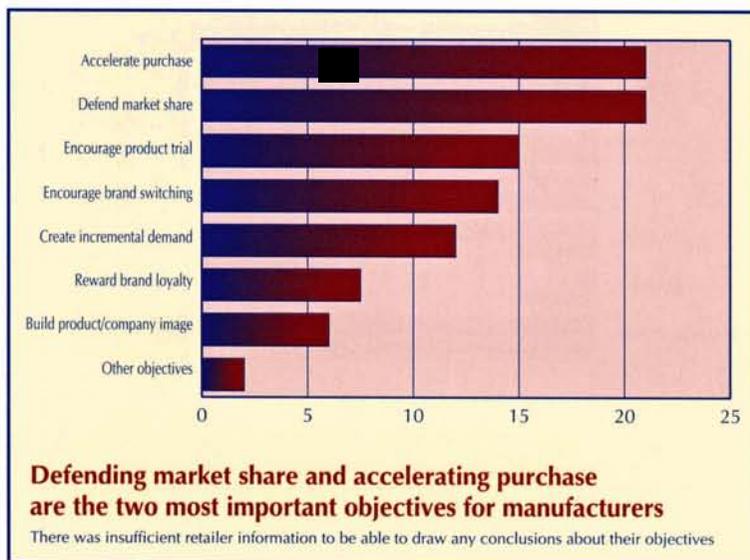
Figure 11: Number of Promotions Used

When looking at combinations of incentives, non-price incentives are very often combined with price discounts. Price incentives however are rarely combined with another type of incentive.

### Promotion Objectives

Promotions are commercial tools that are used for both offensive and defensive purposes.

Typically, manufacturer promotion incentives are aimed either at defending current market share or alternatively at increasing the sales level by generating incremental demand, accelerating purchase or stimulating brand switching. With regard to retailers, there was insufficient information to be able to draw conclusions on retailers objectives.



Source: PricewaterhouseCoopers European Promotion Effectiveness Survey (1998)

Figure 12: Manufacturer Promotion Objectives

Although manufacturers as well as retailers set a wide variety of promotional objectives, to meet most, a simple price discount is the most frequently applied incentive. More manufacturers and retailers should be asking themselves whether there are other tactics that are more suitable for achieving specific objectives.



# Consumer Promotions: room for substantial improvement

Chapter 3

# Consumer Promotions: room for substantial improvement

Both manufacturers and retailers can significantly improve their capabilities regarding promotions. The scores from the ECR Europe Scorecard database that relate to "Optimising Promotions" can best illustrate this.

The ECR Europe Scorecard database currently contains over 700 scores from 240 manufacturers, 12 wholesalers and 29 retailers from 18 European countries. The "Optimising Promotions" improvement concept consists of three scores which deal with management capabilities concerning the planning, implementation and evaluation of promotions. The scores below show that on average, with all three criteria, there is clearly room for further development in both the efficiency and effectiveness of promotions.

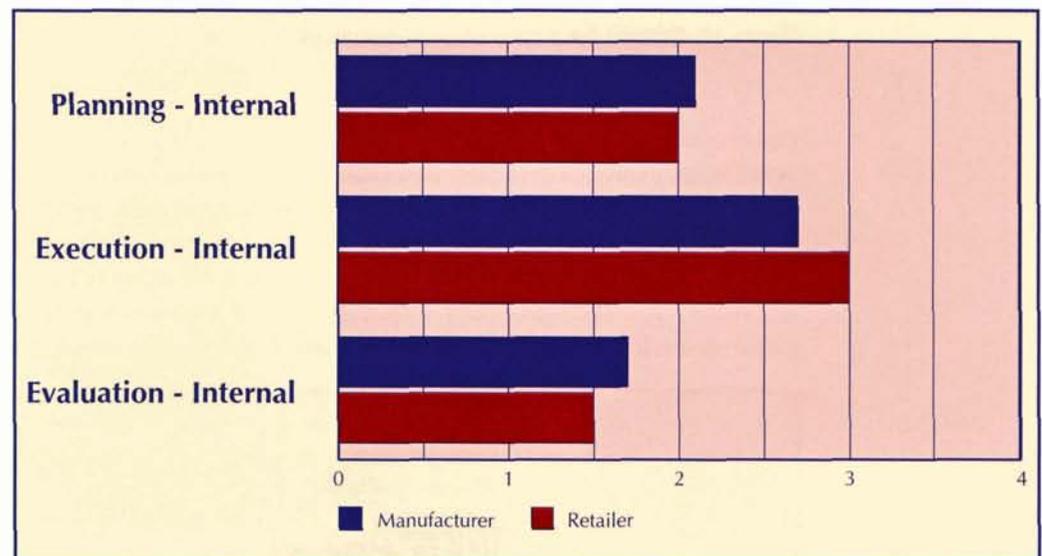
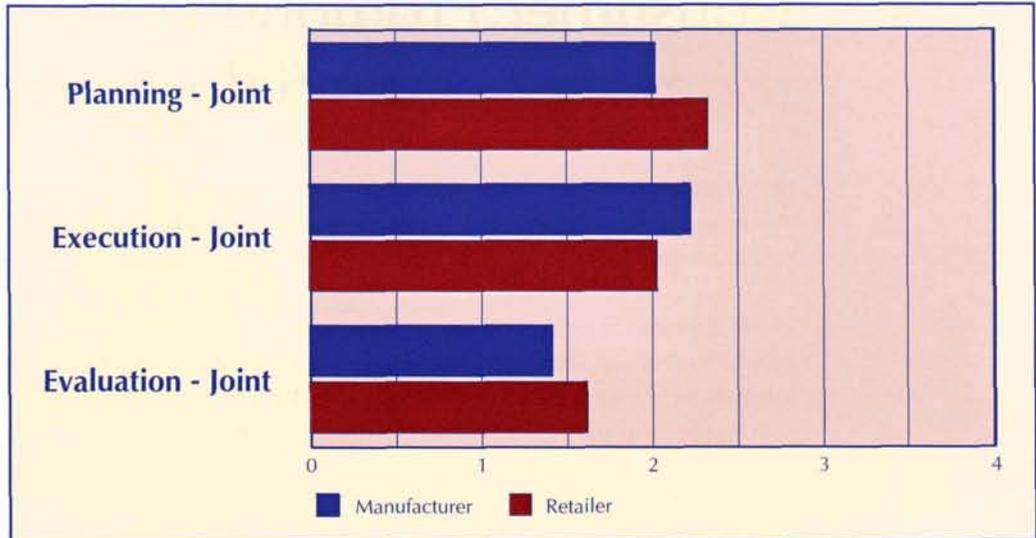


Figure 13: Current Internal Promotion Capabilities

The planning of promotions deals with the extent to which promotions are understood and planned to contribute to commercial objectives. The evaluation capabilities deal with the extent to which promotions are evaluated and the findings incorporated into the planning of future promotions.

Relatively, most progress has been made on the execution of promotions, i.e. on their efficiency. In contrast, the capabilities that influence the effectiveness of promotions, the subject of this report, such as planning and evaluation, are lagging behind.

The following table illustrates that the joint management capabilities (manufacturers and retailers working together) are even less developed than individual capabilities. By improving the joint promotion management processes, manufacturers and retailers, both individually and together, can significantly increase the efficiency and effectiveness of their promotions.

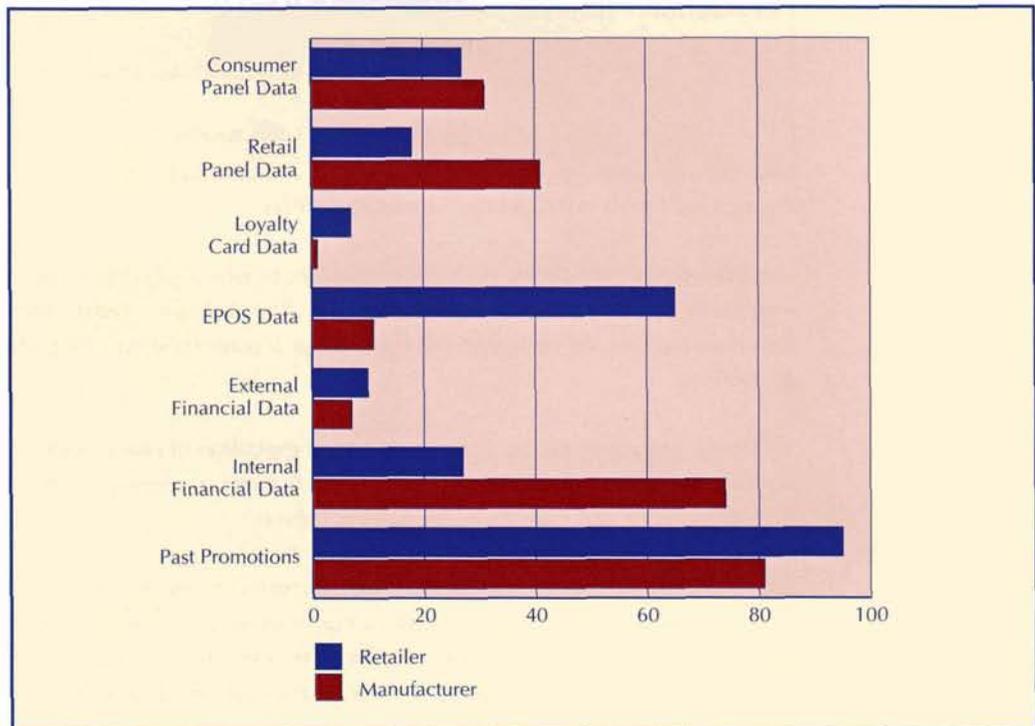


Source: ECR Europe Scorecard Database (January 1999)

Figure 14: Current Joint Promotion Capabilities

**Planning of promotions**

In the industry survey, companies were asked to indicate what type of information they would normally use when planning their promotions. Manufacturers predominantly mentioned experience with past promotions and internal financial data as the information most frequently used. For retailers also, experience gained from past promotions is the source of information most often used. In addition, EPOS (Electronic Point of Sale) data is used. Data which gives greater insight into the consumer (eg. loyalty card data) is still rarely used when planning promotions.

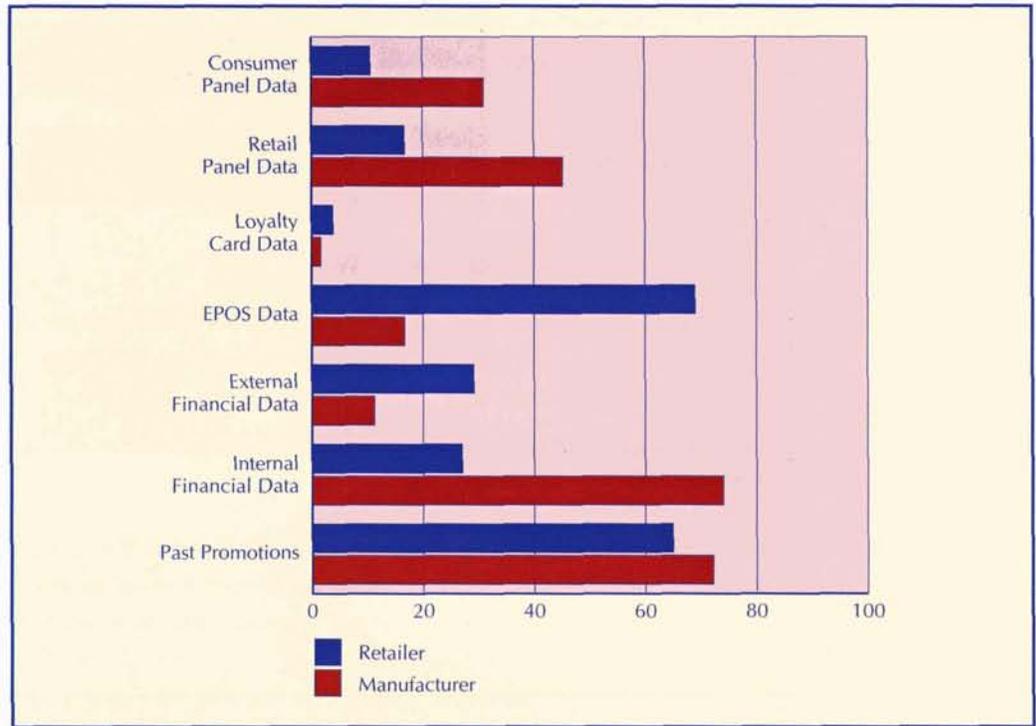


Source: PricewaterhouseCoopers European Promotion Effectiveness Survey (1998)

Figure 15: Information Used for Planning Promotions

**Evaluation of promotions**

With regard to evaluation, manufacturers generally use internal financial data to compare current promotion results with previous results. Retailers generally use EPOS data for comparison.

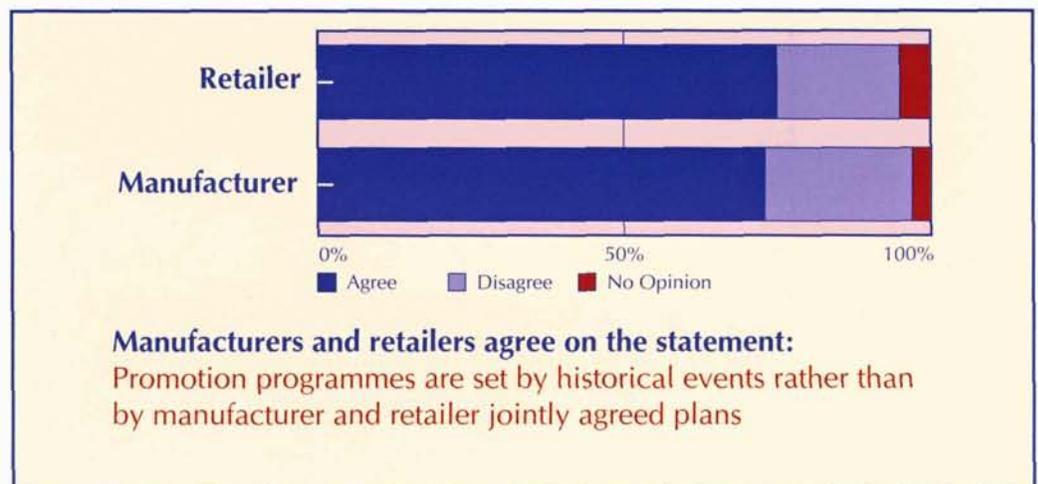


Source: PricewaterhouseCoopers European Promotion Effectiveness Survey (1998)

Figure 16: Information Used for Evaluating Promotions

**Barriers to promotion effectiveness**

Clearly, a lot can be changed to increase the effectiveness of promotions. Manufacturers and retailers agree that current promotion programmes are driven by historical events rather than by joint plans.



Source: PricewaterhouseCoopers European Promotion Effectiveness Survey (1998)

Figure 17: Barriers to Promotion Effectiveness (1)

In order to improve the planning of promotions, most retailers and manufacturers agree that they need more knowledge of the consumer/shopper response to different types of promotions.



Source: PricewaterhouseCoopers European Promotion Effectiveness Survey (1998)

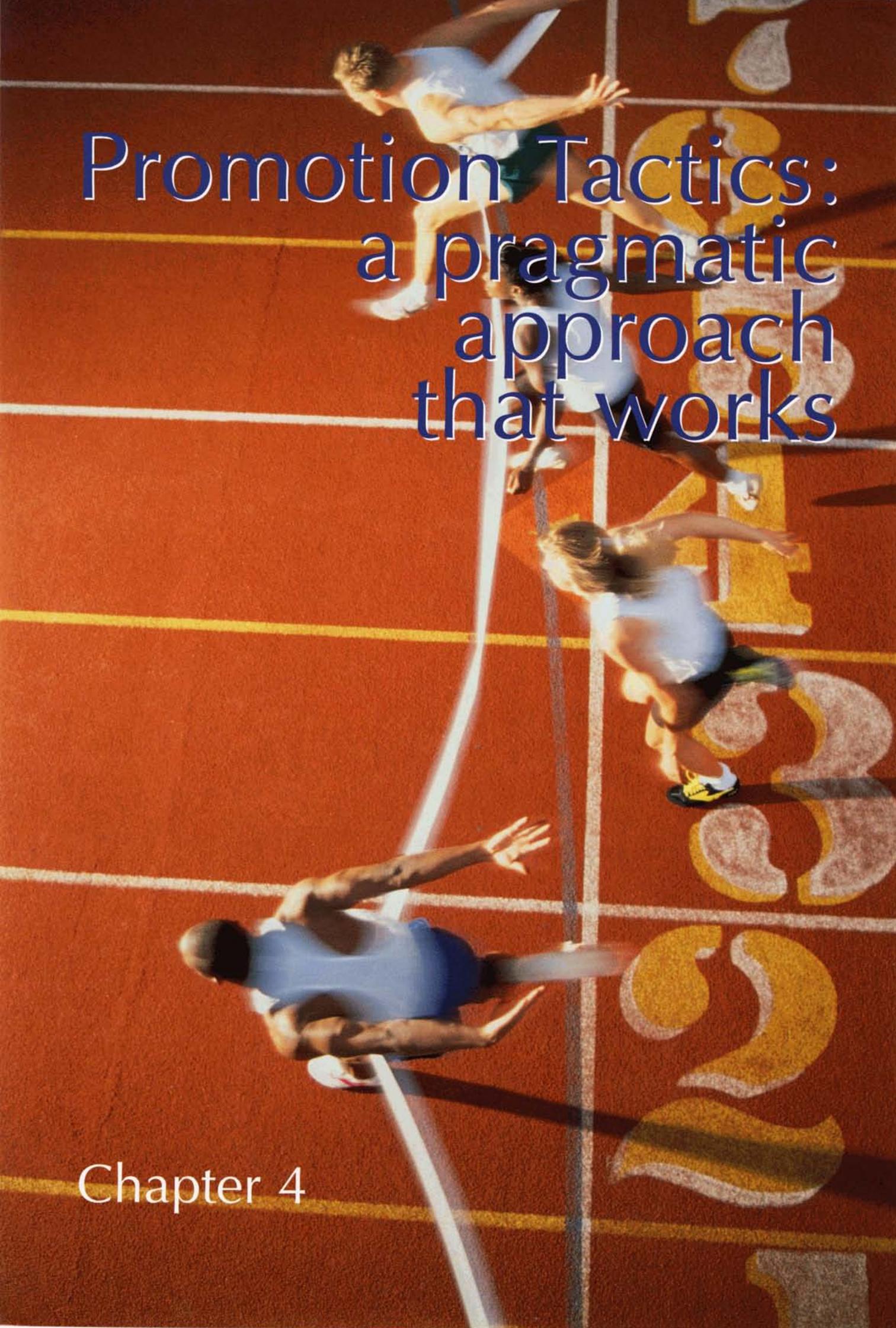
Figure 18: Barriers to Promotion Effectiveness (2)

For the purpose of evaluating promotion, manufacturers and retailers state that there is currently inadequate information to measure consumer/shopper response to specific tactics.



Source: PricewaterhouseCoopers European Promotion Effectiveness Survey (1998)

Figure 19: Barriers to Promotion Effectiveness (3)



# Promotion Tactics: a pragmatic approach that works

Chapter 4

# Promotion Tactics: a pragmatic approach that works

This section of the report describes the PricewaterhouseCoopers approach taken by the pilot companies in developing tactics for more effective promotions. Each of the four pilots followed an integrated set of 8 tasks, 6 of which reviewed the effectiveness of current promotions and the definition of new Promotion Tactics. This definition phase was followed by two tasks that focused on the continuous evaluation and improvement of the applied tactics.

## Promotion Tactics Process

- 1) Define and Agree Baseline;
- 2) Assess Promotion Events;
- 3) Assess Consumer and Shopper Segmentation;
- 4) Research Consumer and Shopper Behaviour;
- 5) Define Appropriate Promotion Tactics;
- 6) Conduct Tests of Selected Promotion Tactics;
- 7) Agree Promotion Strategies and Plans;
- 8) Implement Agreed Promotion Plans.

Each of these tasks is explained below and is illustrated with key findings from the participating pilots.

## Task 1: Define and Agree Baseline

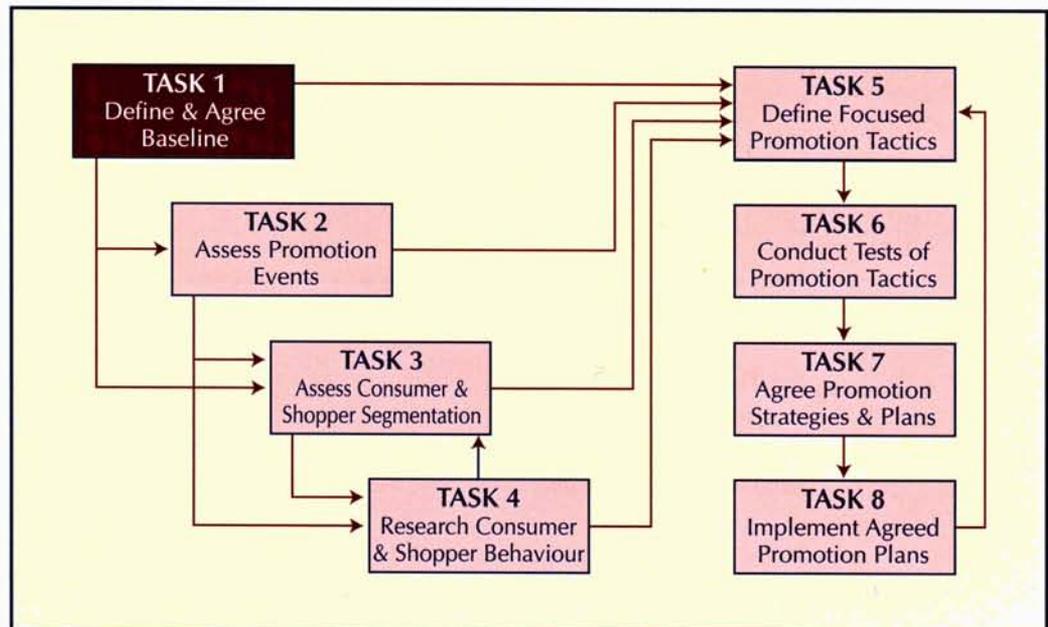


Figure 20: Promotion Tactics: PricewaterhouseCoopers recommended approach

The objective of the first task is to give both trading partners a shared understanding of the current performance of the category, the category as well as brand objectives and an initial view on the role of promotions.



**(b) Complete Item Master Record**

The purpose of this second step is to have a clear understanding of which products are included within the category and to which subcategories/segments these individual products belong.

**If the Item Master Record is filled in properly, it gives an insight into:**

- (a) number of SKU's and the turnover within each subcategory/segment;
- (b) number of promotion events within each subcategory/segment;
- (c) percentage of sales on promotion within each subcategory/segment;
- (d) gross profit (indicator) within each subcategory/segment.

**Recommended approach**

**Ideally, the Item Master Record includes the following information (per SKU):**

- (a) item description;
- (b) in which subcategory;
- (c) in which segment;
- (d) annual sales (volume);
- (e) number of promotion events;
- (f) percentage of sales on promotion;
- (g) distribution percentage;
- (h) gross margin percentage or indicator.

Although the Item Master Record may be difficult to assemble, it is crucial that the trading partners find a way to make it as complete as possible, since it will become the basis for many decisions throughout the joint effort.

**Key Findings**

It was difficult to complete the Item Master record and the gross margin and distribution (indicator) was not discussed. Despite not always fully completed, it was a valuable exercise since it gave an insight into sales per segment. It also became clear that the percentage of promotions at brand level did not correspond to the percentage of turnover of some brands, as shown below.

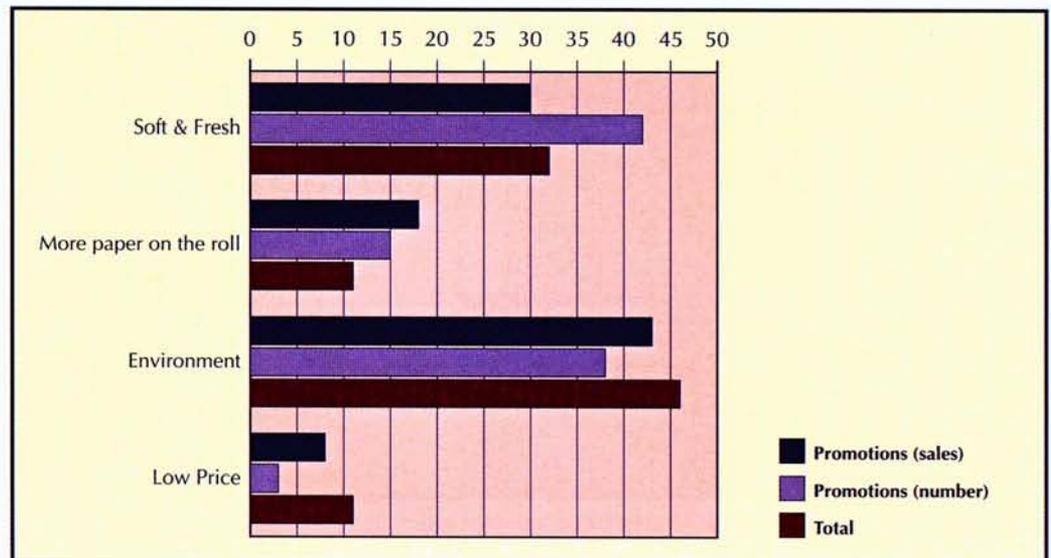


Figure 22: Promotion Analysis SCA Hygiene Product / ICA

In Sweden, a comparison was made at segment level of the number of promotions over the previous year versus the sales on promotion.

**(c) Agree Strategic Positioning**

The purpose of this third step is to ensure that the manufacturer has a clear understanding of the retailers' view of the category and category management policies, especially with regard to promotions.

**Recommended approach**

To define the Strategic Positioning of the category, the pilots considered two dimensions: the Category Role and Shopper Involvement.

The first dimension, the Category Role, describes the retailer's strategic views of the category. For the pilots, the definitions listed below were used to define the role of the subcategory or segment they were focusing upon.

Category Role Definitions - Retailers		
Destination		Primary shopper's automatic choice for the category
Main stream	Traffic Builder	To provide regular positive incentives for secondary and (in some cases) other shoppers to visit stores
	Transaction Builder	To maximise basic and discretionary spending by primary and secondary shoppers for their daily/weekly needs.
	Routine	To ensure the category adequately fulfills the daily/weekly needs of primary and secondary shoppers
Convenience		To ensure the category fulfills the occasional needs of primary shoppers

Figure 23: Category Role Definitions-Retailer

The second dimension is Shopper Involvement. The involvement of shoppers is driven by the degree of perceived difference, intrinsic and emotional, between different products and therefore they can be influenced during a shopping visit, for instance with promotions.

Role		Shopper Involvement		
		High	Medium	Low
Destination				
Main stream	Traffic Builder	Nappies		
	Transaction Builder		Salty Snacks	
	Routine			Tissues
Convenience				

Figure 24: Strategic Positioning Grid

Having agreed the category position on the strategic positioning grid, retailers should clarify their management policies on promotions. These will vary depending upon the category and position on the grid.

**Key findings**

Although the retailers had generally defined the strategic role of the category or the subcategory, few had specific promotion management policies for different positions on the strategic positioning grid. In many instances, the promotion events were more or less evenly spread over brands and products. As a result, the testing of specific tactics in these pilots, often determined by the strategic positioning of the category, gave a valuable insight into the whole issue of promotion policy.

There is a continual need for more knowledge regarding which brands and SKU's contribute best to the category objectives, when on promotion.

**(d) Assess Current Category Market Performance****The purpose of this final step is:**

- (a) to measure and assess the competitive position of a retailer in a given category against their total business;
- (b) to assess the comparative strength of the relationship between a manufacturer and a retailer in a given category.

This joint analysis may help to identify how the manufacturer can work with the retailer to improve their market share, with benefits for both.

**Recommended approach**

A **Fair Share Analysis** is the best method of achieving this. Retailer's fair share is calculated by comparing the market share of the retailer in the category concerned to the share of the retailer in the total business (just food, if there are other significant categories).

The example below is from the Swedish Pilot

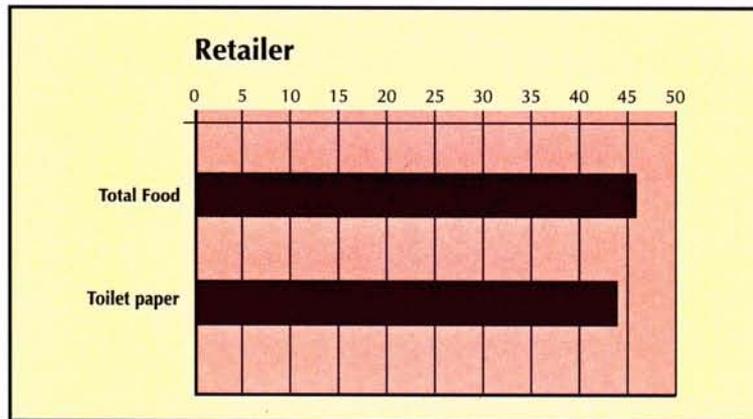


Figure 25: Retailer Fair Share Analysis

Manufacturer's fair share is calculated by comparing the share of the manufacturer with the retailer to the share of the manufacturer in the total market.

The example below is from the Swedish pilot.

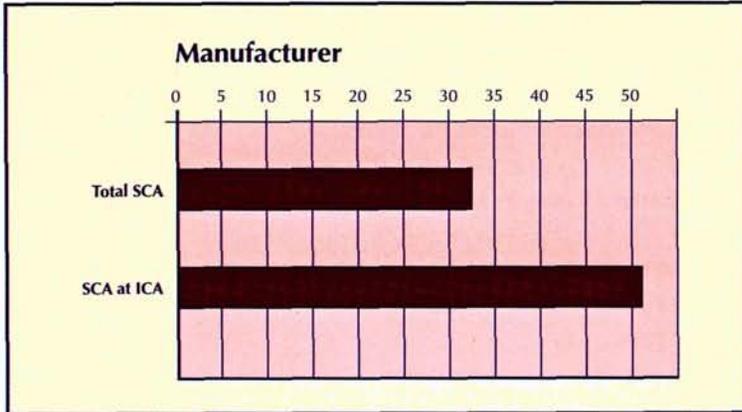


Figure 26: Manufacturer Fair Share Analysis

**Key findings**

The market share of toilet paper at ICA is slightly under fair share, whereas SCA Hygiene Products has a very positive fair share at ICA. The examples above from the Swedish pilot enabled the trading partners to make a category assessment and identify priorities.

The Dutch pilot already had a fair share analysis from their previous category management project, which had already been used to identify opportunities.

## Task 2: Assess Promotion Events

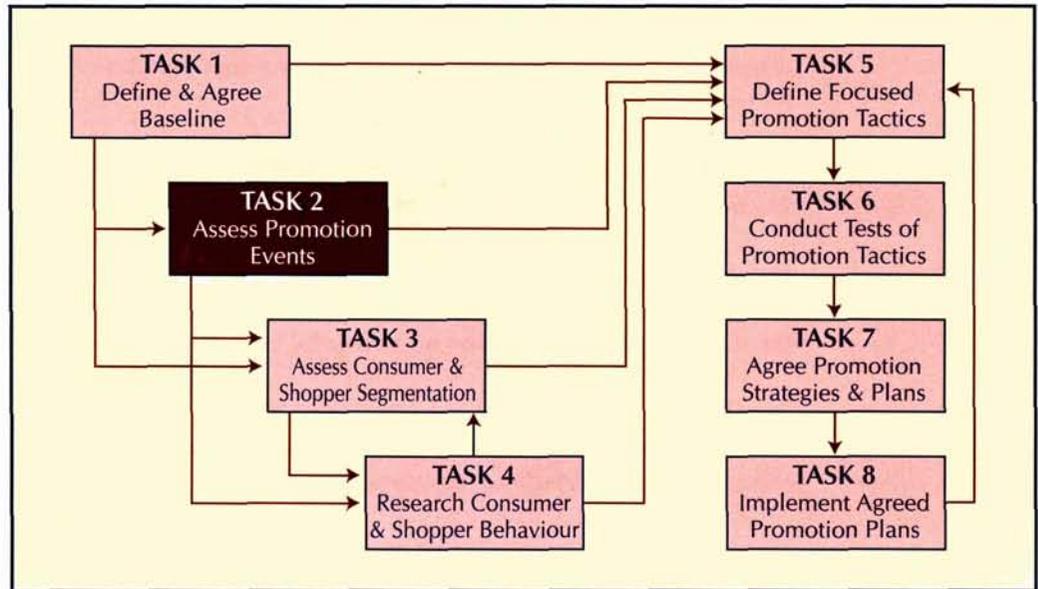


Figure 27: Promotion Tactics: PricewaterhouseCoopers recommended approach

The objective of this task is to consolidate information required to assess the performance of current promotions and identify areas for improvement.

### Task 2 consists of the following activities:

- (a) Create Promotion Master Record;
- (b) Review Promotion Objectives;
- (c) Review Promotion Results.

#### (a) Create Promotion Master Record

The Promotion Master record provides the trading partners with a clear overview of all promotion events in the category, over an agreed period of time. It gives a detailed insight into issues such as the number of promotions, the types of promotion, which SKU's, etc.

#### Recommended Approach

First, the retailer and manufacturer should agree the time frame for preparing a Promotion Master Record. This will depend on the number of promotions in the category, the seasonality of the category, major events, etc.

Then the retailer should prepare a Promotion Master Record of all the promotion events that took place over the agreed period of time.

#### Key Findings

Retailers could only pull data from their systems for promotions that were agreed centrally by the retailer. Where promotions were negotiated at local level, they were difficult, if not impossible, to track by the retailer.

As a result, for groups of independent retailers, it proved to be much harder to obtain the information. In addition, there was a considerable amount of locally agreed promotional activity, further adding to the difficulty of obtaining information.

Category and Subcategory promotion pressure was high. In some of the pilots, there was a promotion event every other week.

It appears promotions are often more or less evenly spread over different manufacturers and brands. This indicates that actual promotion programmes do not necessarily reflect the objectives the retailer has set.

#### **(b) Review Promotion Objectives**

The purpose of this activity is to review the objectives of past promotions.

#### **Recommended Approach**

The trading partners should review objectives of past promotions. If objectives were not originally stated, then a minimum objective of incremental sales should be used.

#### **Key Findings**

It was apparent that specific Promotion Objectives were rarely set. Without clear objectives it was difficult to effectively evaluate past promotions.

There was a varying degree of readily available information from the pilots. All agreed that for this project it was appropriate to define incremental sales for the category and/or brand as the objective for previous promotions, to aid assessment. During the course of the project, more specific promotion objectives were defined for the tactics to be tested.

#### **(c) Review Promotion Results**

The purpose of this activity is to understand the impact of different types of promotions. For instance, how do promotions affect the category, the brand and the behaviour of the consumer or shopper?

#### **Recommended Approach**

Trading partners should use a straightforward method of analysing and evaluating promotions. Many trading partners used an up-lift analysis. This analysis gives a first insight into the effect of the promotion at (sub)category, brand and SKU levels.

For an up-lift analysis, the turnover at (sub)category, brand and SKU levels is compared to the turnover before and after the event. Typically, up-lift analyses are produced using Electronic Point of Sale (EPOS) data from the retailer. If such information is not available, then data from consumer or retail panel organisations can be used.

#### **Key Findings**

Up-lift analyses should be interpreted with great care.

#### **The context in which the promotions were executed should be clear:**

- (a) the (weighted) distribution of stores participating in the promotion;
- (b) how consistently was the promotion executed across stores;
- (c) how was the promotion communicated;
- (d) how was the promotion merchandised;
- (e) seasonality or weather effects.

In many pilots the up-lift analyses produced hypotheses relating to the effectiveness of past promotions. Subsequently these hypotheses were validated by additional market research.

In the Swedish pilot, the trading partners decided to develop a scorecard for incremental sales, at category and brand level, with a dual purpose:

- (a) firstly, to increase their understanding of the effectiveness of these past promotions;
- (b) subsequently, to maintain the scorecard and use it as a benchmark for future promotions.

PROMOTION SCORECARD								
Price-off Type of promotion	0 - 5%	5 - 10%	10 - 15%	15 - 20%	20 - 25%	25 - 30%	30 - 35%	> 35%
Unsupported price-off		130	144	125	108	191		134
Price-off + minor support				102		73	290	214
Price-off + media		129	132				149	
Price-off + display						353		
Price-off + coupon				287				
Buy two for X						421		

Figure 28: Promotion Scorecard - Example Only

### Task 3: Assess Consumer & Shopper Segmentation

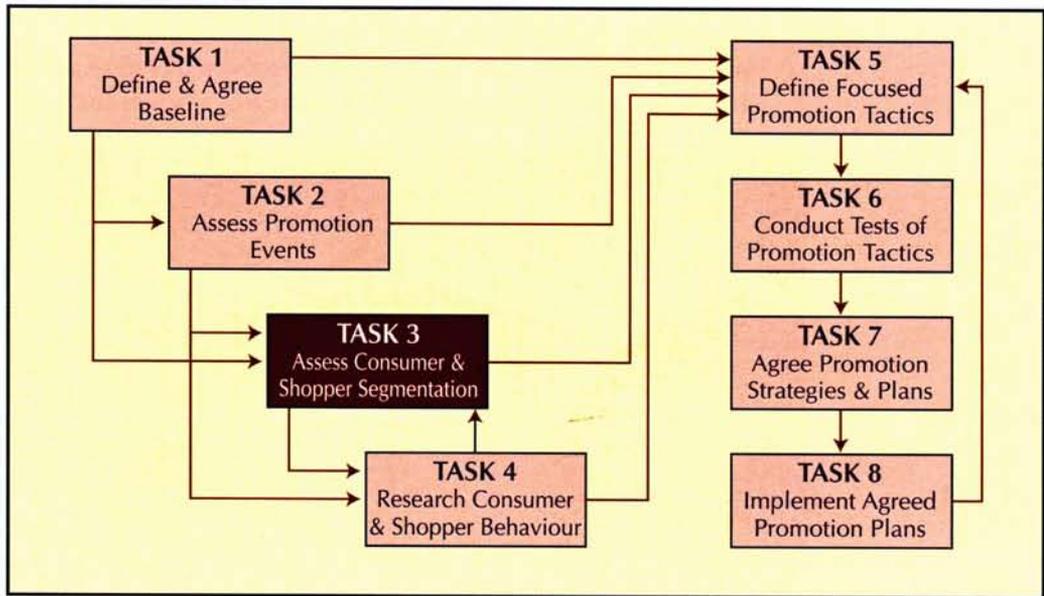


Figure 29: Promotion Tactics: PricewaterhouseCoopers recommended approach

The purpose of this task is to help understand the retailer’s shopper base and the manufacturer’s consumer base. This common understanding will help both manufacturers and retailers to define clearer objectives for their promotions and therefore devise appropriate tactics.

Task 3 consists of the following three activities:

- (a) Evaluate Consumer Segmentation;
- (b) Evaluate Shopper Segmentation;
- (c) Integrating Consumer and Shopper Data and Identifying Important Consumer and Shopper Segments.

**(a) Consumer Segmentation**

The purpose of this task is to gain a clearer understanding of who are the most significant consumers in the category and what is the degree of loyalty to the brand within the category/segments.

**Recommended Approach**

Consumer panel data is often a good source of information for this segmentation. The first step is to segment the consumer base into heavy, medium, light and non-users of the category. The actual definitions for heavy, medium and light users should be carefully chosen and agreed, but often depend upon the category chosen. Depending upon the category, the segmentation could be either for users or buyers. This should be agreed by the trading partners.

Purchase frequency / volume	As % of households	As % of total market	As % of category / segment sales	Profile
Heavy Users	19%	27%	61%	
Medium Users	25%	27%	29%	
Light Users	25%	19%	10%	
Non Users	31%	27%	0%	
	100%	100%	100%	

Figure 30: Consumer Segmentation- Example only (level 1)

The second step is to determine the degree of loyalty to the manufacturer’s brand. Again, the consumers can be divided into four segments:

- (a) Loyals: consumers who always or almost always buy the manufacturer’s brand;
- (b) Influenced: consumers who frequently buy the manufacturer’s brand but also purchase competitor’s brands;
- (c) Switchers: consumers who are not loyal to any brand;
- (d) Competitors: consumers who never buy the manufacturer’s brand.

The definitions of Loyals, Influenced and Switchers should also be carefully chosen and agreed. They often depend on the category chosen

Purchase frequency / volume	Brand Loyalty	As % of households	As % of total market	As % of category / segment sales	Profile			
Heavy Users	Loyals	4%	19%	6%	27%	15%	61%	
	Influenced	3%		5%		11%		
	Switchers	4%		6%		15%		
	Competitors	7%		10%		20%		
Medium Users	Loyals	5%	25%	5%	27%	5%	29%	
	Influenced	4%		4%		5%		
	Switchers	2%		3%		3%		
	Competitors	14%		15%		16%		
Light Users	Loyals	5%	25%	4%	19%	2%	10%	
	Influenced	2%		1%		1%		
	Switchers	0%		0%		0%		
	Competitors	18%		14%		7%		
Non Users		31%	31%	27%	27%		0%	
		100%	100%	100%	100%	100%	100%	

Figure 31: Consumer Segmentation- Example only (level 2)

The third step is to determine the size of the segments in terms of the percentage of households, the percentage of category sales and the percentage of brand sales.

Finally, in the fourth step the socio-demographic profiles of the segments should be defined.

**(b) Shopper Segmentation**

The purpose of this task is to gain a clearer understanding of who are the most important shoppers for the retailer, and within the relevant category/segments, what is the degree of loyalty to the retailer, concerning their category spending.

**Recommended Approach**

The first step is to divide the retailer’s shopper base into primary, secondary, other and non-shoppers. The definitions for primary, secondary and other shoppers should be carefully chosen and may vary per category.

Purchase frequency / volume	As % of households	As % of total market	As % of category / segment sales	Profile
Primary Shoppers	38%	48%	51%	
Secondary Shoppers	38%	33%	29%	
Other Shoppers	19%	16%	17%	
Non Shoppers	5%	3%	3%	
	100%	100%	100%	

Figure 32: Shopper Segmentation- Example only (level 1)

The second step is to determine, for each segment, the degree of category loyalty. Shoppers can be divided into four segments:

- (a) Loyals: shoppers who buy or almost always buy the category at the retailer;
- (b) Switchers: shoppers who frequently buy the category at the retailer, but who also use competitor’s stores;
- (c) Disloyals: shoppers who show little or no category loyalty to any store;
- (d) Competitors: shoppers who never buy the category at the retailer.

As we said before, the definitions for Loyals, Switchers and Disloyals should be carefully chosen.

Store Loyalty	Category Loyalty	As % of households	As % of total market	As % of category / segment sales	Profile			
Primary Shoppers	Loyals	18%	38%	21%	48%	32%	51%	
	Switchers	5%		8%		11%		
	Disloyals	5%		7%		8%		
	Competitors	10%		11%		0%		
Secondary Shoppers	Loyals	6%	38%	4%	33%	4%	29%	
	Switchers	4%		4%		5%		
	Disloyals	15%		16%		20%		
	Competitors	13%		10%		0%		
Others Shoppers	Loyals	0%	19%	0%	16%	0%	17%	
	Switchers	1%		1%		1%		
	Disloyals	12%		11%		16%		
	Competitors	6%		5%		0%		
Non Shoppers	Loyals	0%	5%	0%	3%	0%	3%	
	Switchers	0%		0%		0%		
	Disloyals	3%		2%		3%		
	Competitors	2%		1%		0%		
		100%	100%	100%	100%	100%	100%	

Figure 33: Shopper Segmentation - Example only (level 2)

The third step is to determine the size of the segments in terms of the percentage of households, the percentage of total spend and the percentage of category spend.

Finally, in the fourth step, the socio-demographic profiles of the relevant segments should be defined.

**(c) Integration of Consumer and Shopper Data and Identification of Important Consumer and Shopper Segments**

The purpose is to determine the Promotion Objectives and identify which target groups to concentrate on for promotions, once the retailer and manufacturer have a thorough understanding of their shopper and consumer base.

**Recommended Approach**

First of all, the shopper and consumer data should be integrated. Subsequently the most relevant segments should be identified. In general, we recommend that opportunities for leveraging loyalty to the manufacturer’s brand to increase the loyalty to the retailer’s category and/or the other way around should be identified.

To achieve this; the next step is to integrate the four user groups as formed in task 3a (Consumer Segmentation) with the four shopper groups as formed in task 3b (Shopper Segmentation).

	Heavy Users	Medium Users	Light Users	Non Users	Total Shoppers
Primary Shoppers	7,4%	9,7%	9,4%	11,9%	38,4%
Secondary Shoppers	7,4%	9,7%	9,5%	11,9%	38,4%
Other Shoppers	3,7%	4,9%	4,7%	6,0%	19,3%
Non Shoppers	0,7%	0,9%	1,0%	1,2%	3,9%
Total Users	19,2%	25,2%	24,6%	31%	100%

Figure 34: Integrating Consumer and Shopper Data - Example only (level 1)

Then go down, if necessary, to a second level in order to help define more appropriate tactics.

	Heavy	Medium	Light	Non
Primary	7,4	9,7	9,4	11,9
Secondary	7,4	9,7	9,5	11,9
Other			4,7	6,0
Non				

	Loyals	Influenced	Switchers	Competitors
Loyals	0,3	0,2	0,2	0,4
Switchers	0,2	0,1	0,2	0,3
Disloyals	0,7	0,5	0,6	1,1
Competitors	0,6	0,5	0,5	1,0

Figure 35: task 3c- Integrating Consumer and Shopper Data - Example only (level 2)

**Key findings**

For each of the four pilots, the consumer/shopper segmentation was a challenging but rewarding task. The nature of the actual pilot and availability of relevant research determined the level of detail used.

For instance, in The Netherlands, C1000 and Smiths Food Group discovered that a very small proportion, 6% of C1000 shoppers, generated approximately 50% of the subcategory sales. The primary C1000 shoppers account for 70% of the category sales. This information, in relation to the Promotion Objectives, gave a clear indication of the most suitable target groups for promotions at C1000.

In Sweden, due to the limited sample size of the consumer panel, the trading partners decided to let the consumer segmentation take place at segment level rather than at brand level.

**Some of the results were:**

- (a) Loyals buy a lower share on promotion;
- (b) Loyals have a higher annual frequency of purchase (loyals have a lower average volume per purchase occasion);
- (c) Loyals in Soft & Fresh spend a higher amount on toilet paper than switchers;
- (d) Switchers in Environment spend a higher amount on toilet paper than loyals.

In the UK, the trading partners, after having first reviewed consumer panel data, added data from the Boots Advantage Card database as a further level of detail. This produced an in depth understanding of the consumer/shopper segments. On the basis of this information, they defined very precisely the target groups for the promotion.

In Spain, the relative strengths of the consumer base of different brands were investigated to determine whether these could be leveraged to increase the category loyalty of the retailer.

## Task 4: Research Consumer & Shopper Behaviour

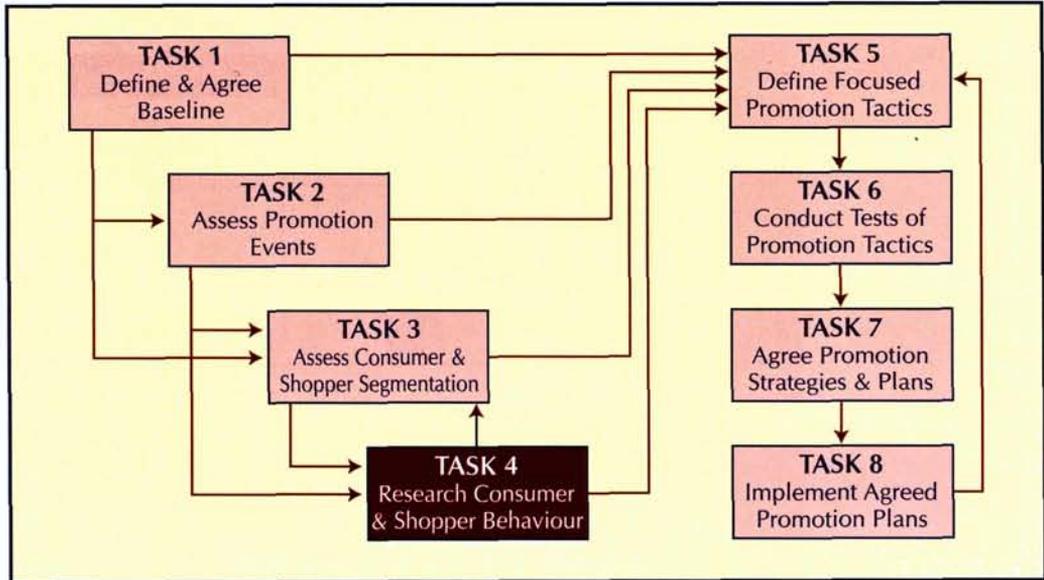


Figure 36: Promotion Tactics: PricewaterhouseCoopers recommended approach

The purpose is to gain better insight into how these consumers/shoppers respond to certain promotional stimuli, now that the target groups for promotions have been identified.

### Recommended Approach

In order to gain better insight into the attitude of consumers/shoppers towards promotions, we recommend a number of qualitative focus group discussions with representatives from the target group. For the pilots, McCann-Erickson and GfK conducted focus group discussions using the Pulse approach of McCann-Erickson.

### Key Findings

Generally, it was found that there was insufficient information regarding this. The pilots in both the UK and The Netherlands decided that this was an issue they wished to address. The four pilots decided to conduct further research in this area.

This task proved very useful for gaining insight into the most appropriate promotion incentive to offer the target audience. Traditionally, promotion incentives are related to the category or brand or to the consumer of the category. Considering the primary purpose of a promotion is to persuade the shopper to act, should the incentive not be targeted at the shopper? In the Pulse sessions in Sweden, some of the shoppers complained that there was rarely a promotion incentive aimed at their wishes and needs.

In Sweden, consumers found it difficult to compare the benefits of one promotion to another. Clearly, price was not the only aspect compared and assessed by consumers but number of rolls (volume of product) as well. And if a price promotion was used, it seemed that consumers evaluated an absolute discount better than a relative price reduction. The up-lift analysis shows that couponing generates good results, however shopper research indicates that, in general, shoppers still do not like coupons.

Further, the Pulse Session in Sweden gave a good insight into the different life phases of consumers and their preferred communication in connection with the ICA store formats.

	Career builder	Family builder	New life builder
Hypermarkets			
Supermarkets			
Neighbourhood - big stores - small stores			
Low Prices			
Kind of communication they like most	Tastings Shelf ads Displays Flyers Checkout staff	Shelf ads Tastings	Tastings Flyers

Figure 37: Results of Pulse Session in Swedish Pilot

In Spain, Alcampo and Elida Fabergé decided that more research was needed to get a better understanding of the various responses to different variants of a particular promotion incentive. Through qualitative consumer research, they pre-selected a number of incentives to be tested.

## Task 5: Define Focused Promotion Tactics

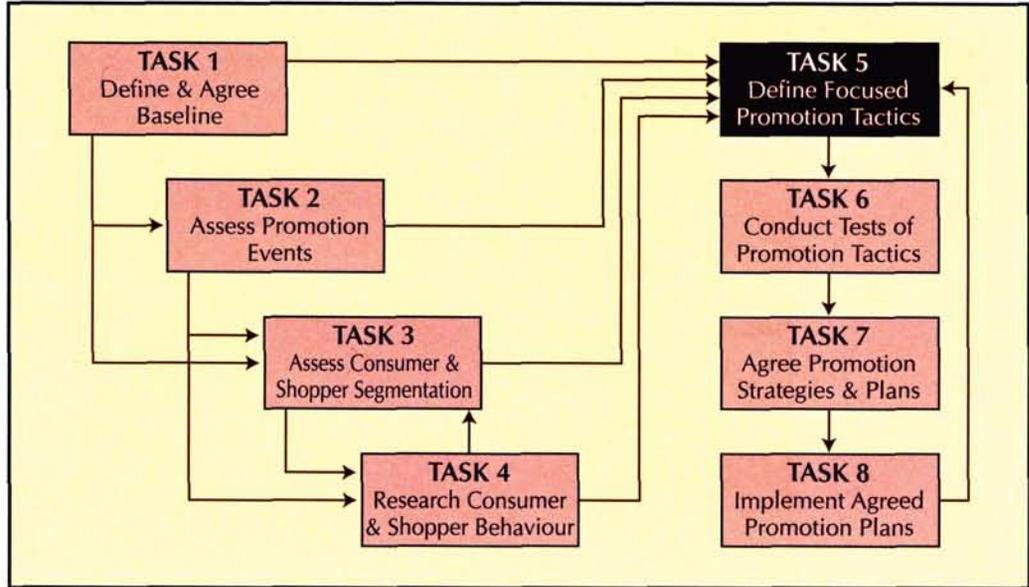


Figure 38: Promotion Tactics: PricewaterhouseCoopers recommended approach

The purpose is to agree the objectives to be set for the promotion as well as the most appropriate Promotion Tactics in order to achieve them, in terms of:

- (a) Type of Promotion;
- (b) Communication;
- (c) Merchandising;
- (d) Timing and Frequency.

### Recommended Approach

For this task, all findings from the previous four tasks should be brought together. In addition, in the four previous tasks a number of hypotheses about what works or does not work have already been identified. These findings and hypotheses should now be combined and evaluated. This will produce a prioritised set of Promotion Tactics that the trading partners can test in the next task.

### Key Findings

Pilots used different methods to arrive at focused Promotion Tactics depending upon their specific needs.

### Examples of the methods used are:

- (a) Boots and Kimberly-Clark in the UK conducted a creative workshop revolving around the Boots Advantage Card to identify appropriate tactics;
- (b) in The Netherlands, the trading partners reviewed 10 hypotheses made during the first four tasks. By validating or rejecting these hypotheses, they arrived at three promotions, which they decided to test. For this process, extensive additional use of consumer panel analysis was made.
- (c) in the Swedish pilot the trading partners decided that, given the large number of price promotions, they would focus on the interaction between the price-off, the type of communication and the method of merchandising.

## Task 6: Conduct Tests of Selected Promotion Tactics

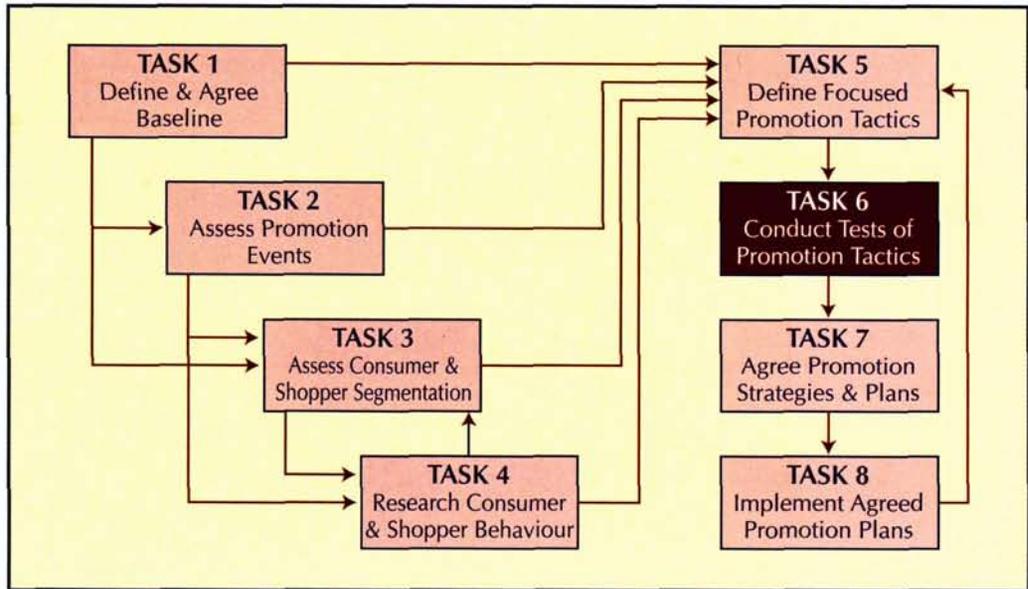


Figure 39: Promotion Tactics: PricewaterhouseCoopers recommended approach

The purpose of task 6 is to conduct tests of the chosen promotion tactics, measure and evaluate the results against specific objectives set.

### Recommended Approach

For this task, we recommend that a limited number of different tactics (three to four), as defined during the previous task, should be conducted in test stores. Both the test stores and control stores should be carefully selected so that a realistic evaluation can be made.

### Key Findings

Because of a congested promotion programme and the forward planning that is required, it often proved difficult for the pilots to find suitable promotion slots. When undertaking a similar exercise, trading partners should plan the promotion timetable as early as possible in the process to avoid unnecessary delays.

If appropriate, we strongly recommend that a market research agency, such as a retail or consumer panel agency, process the data from the test stores. During the pilots trading partners decided to make the analysis themselves, which proved to be very time-consuming.

Most of the participants in the pilots regarded the tests they have undertaken so far as a first step towards developing and optimising their Promotion Tactics. Most have now selected a small number of promotions that will be repeated on a national scale.

The use of the Advantage Card database by Boots and Kimberly-Clark has provided a number of benefits. Both companies were able to target their promotions accurately and measure the response precisely, including a detailed post-promotion analysis, all using the database.

If the retailer is not centrally controlled, these tests are difficult to organise, control and evaluate. For any promotion, the issue of in-store discipline is vital, with regard to availability, pricing, display, etc. This is even more significant for independent retailers. The availability of suitable data for evaluation is a key factor in efficient and accurate assessment.

## Task 7: Agree Promotion Strategies & Plans

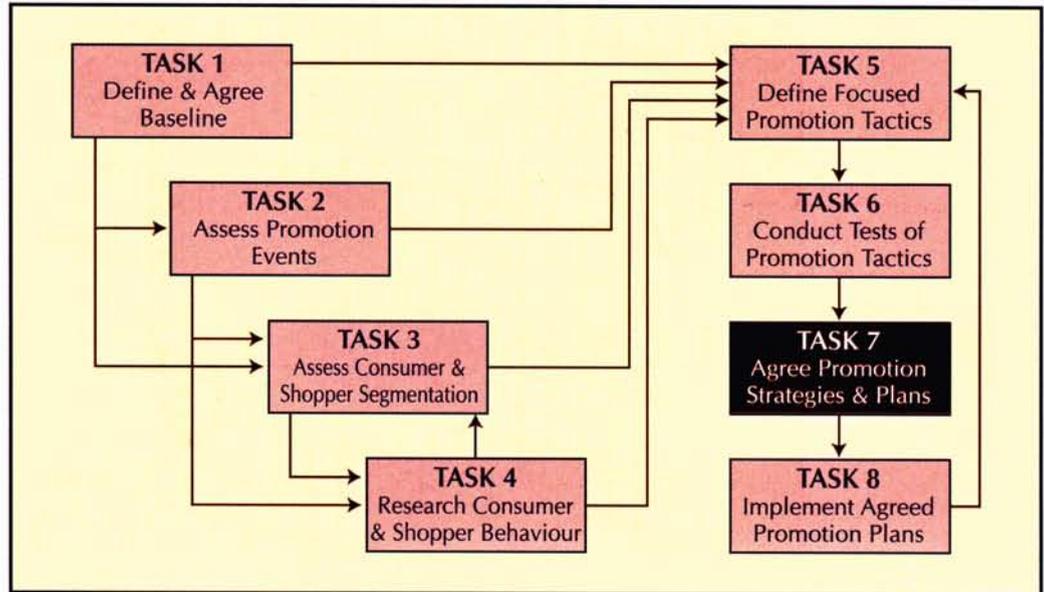


Figure 40: Promotion Tactics: PricewaterhouseCoopers recommended approach

The purpose of this task is to evaluate and agree the findings from the previous six steps and examine how these can be developed into an effective promotion strategy for the category and devise an operational promotion plan for the next three to six months.

### Recommended Approach

By this time, the retailer and manufacturer should have a clearer understanding of how they can develop a more effective promotion programme. However, despite the tests undertaken and their subsequent analysis, the picture is not yet complete. We recommend that continuous fine-tuning of promotion tactics should be undertaken.

We therefore recommend that the promotion programme is designed in such a way that it not only reflects the findings of previous tests but also considers category objectives and any promotion issues which require further refinement. This further/continuous refinement should be tested on a local or regional basis.

### Key Findings

In The Netherlands, C1000 and Smiths Food Group decided that the two promotions that scored best in the test stores, will be repeated on a national scale in order to be able to clearly identify the most successful ones.

In Sweden, following the test, ICA and SCA Hygiene Products have agreed to continue working together in order to enhance their joint understanding of promotions and their impact.

In the UK, given the success of the pilot, Boots will be using this tactic on a larger scale in future. In addition, given the substantial number of different promotions undertaken within the category during a year, a pragmatic method of defining and implementing tactics with quick and effective evaluation would benefit both trading partners. With this in mind, priority should be given to the development of a range of tactics and corresponding efficient evaluation techniques that would give category managers a powerful tool with which to manage their category.

## Task 8: Implement Agreed Promotion Plans

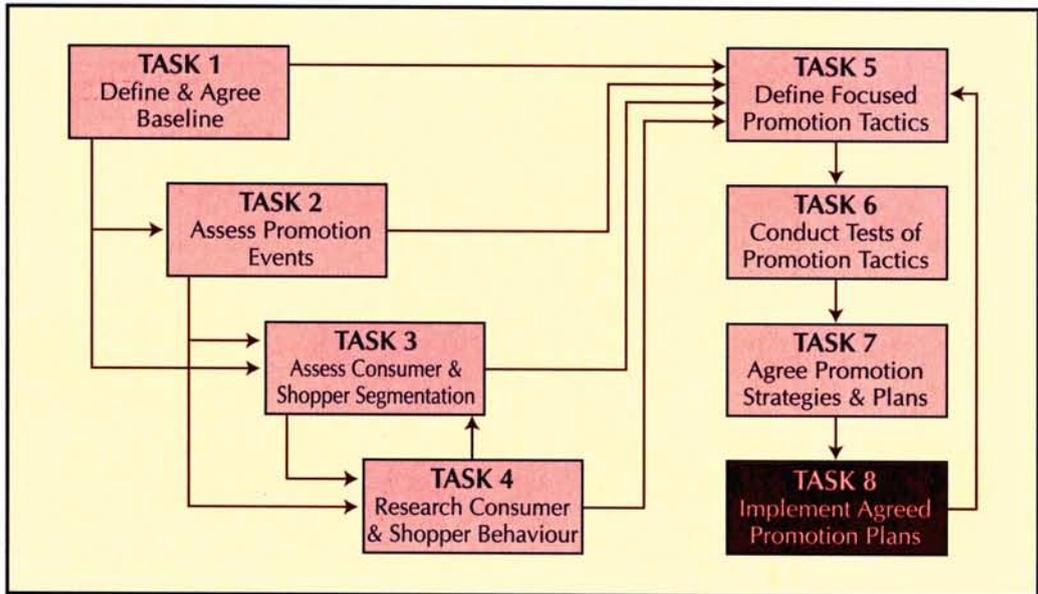


Figure 41: Promotion Tactics: PricewaterhouseCoopers recommended approach

The purpose of this final step is to systematically and accurately execute the promotion programme agreed and measure and evaluate the promotion results.

### Recommended Approach

The retailer and manufacturer should agree management processes which guarantee an accurate and timely implementation of the promotion programme together with methods for the proper evaluation of the results. Findings from the evaluation should be incorporated into the planning phase of the promotion strategy and plan.

It has already been stated that promotions are an important commercial tool. However, it has also become clear that they are sometimes overused, unfocused and often without clear objectives. The PricewaterhouseCoopers eight-step process outlined in this section has been successfully adopted by the four pilot projects and these are described in more detail in the next section.

### Key findings

The pilot projects were undertaken in order to test and evaluate the process and concentrated on tasks 1 - 6. For all 4 pilots, it was agreed that further work should be undertaken in order to be able to successfully implement agreed promotion plans.

These projects, which are summarised in the following chapter, involved a great deal of work from each of the Trading Partners. They provide further evidence that Working Together, in an effective manner, does produce mutually beneficial results, these projects also served to illustrate how much more there is still to learn and gain from Promotion Tactics.

It is important to remind the reader, that what were once pilot projects, should now become part of the Category Management Process. If not, there is danger that Promotion Tactics will be sidelined by the pressure of daily business, and that their commercial benefits will be lost.

A photograph of two men in business suits shaking hands in front of a modern glass building. The man on the left is older with grey hair, wearing a grey suit. The man on the right is younger, wearing a dark suit and glasses, smiling. They are standing on a balcony or walkway with two large black suitcases in the foreground. The background is a large glass facade of a building, reflecting the sky. The overall tone is professional and positive.

# Promotion Tactics: Pilot Studies

Chapter 5

# Promotion Tactics: Pilot Studies

This section of the report will highlight how the PricewaterhouseCoopers approach, as already outlined, was used to investigate a range of promotion issues.

## Issues addressed

### Single buy versus Multi-buy

The companies participating in the pilot in The Netherlands were TSN Schuitema (C1000 format) and Smiths Food Group. The aim of this pilot was to identify whether multi-buy offers are more effective than single buys and whether the offer should consist of two or three packs.

### Using the Loyalty Card database to define promotion tactics

The companies participating in the pilot in the UK were Boots The Chemists (Boots) and Kimberly-Clark. The objective of this pilot was to ascertain how loyalty card data could be used to increase the effectiveness of their promotions.

### Price-off promotions, communication and merchandising

With ICA and SCA Hygiene Products in Sweden, the objective was to determine what level of price-off in combination with what form of communication and merchandising was most effective.

### Targeting the right consumers/shoppers

In Spain, the participating companies Alcampo and Elida Fabergé aimed at investigating how to target their promotions more effectively.

## Pilot Study 1: Single Buy versus Multi-Buy



Country: The Netherlands



### The Retailer

TSN/Schuitema

Trade Service Netherlands (TSN) purchases centrally for the 900 retailers who are members of Schuitema and other third-party organisations.

Schuitema, founded in 1888 by Jacob Fokke Schuitema, operates successfully in the Dutch market with four formats. Their flagship is the C1000 format, the subject of this case study. Since the first C1000 opened in 1981, this format, with 360 stores (1998) can be regarded as the fastest growing chain in The Netherlands. C1000 is the largest format for independent supermarket retailers and the second largest chain in the Dutch market. The third generation of C1000 supermarkets was launched in 1997. The original successful concept has basically remained unchanged and is expressed in their slogan "high quality at low prices"



### The Manufacturer

Smiths Food Group

Smiths Food Group originated in The Netherlands and Belgium. In 1958, a group of farmers started making their own added-value snack products from potatoes. The business was very successful and has grown significantly. It currently has a market share of over 65% of the cocktail snacks market.

In the chips segment, Smiths Chips is the market leader with a share in excess of 60%. The introduction of SuperChips, an extra crunchy ridged chip, was highly successful and is now the second largest brand in the Dutch market. The current introduction of Smiths Lites is expected to further enhance the brand.

Since 1992, Smiths Food Group has been part of Snacks Ventures Europe, a joint venture with PepsiCo and General Mills Inc. PepsiCo has the majority share.

**The Category**

TSN/Schuitema and Smiths Food Group defined the category Salty Snacks as follows:

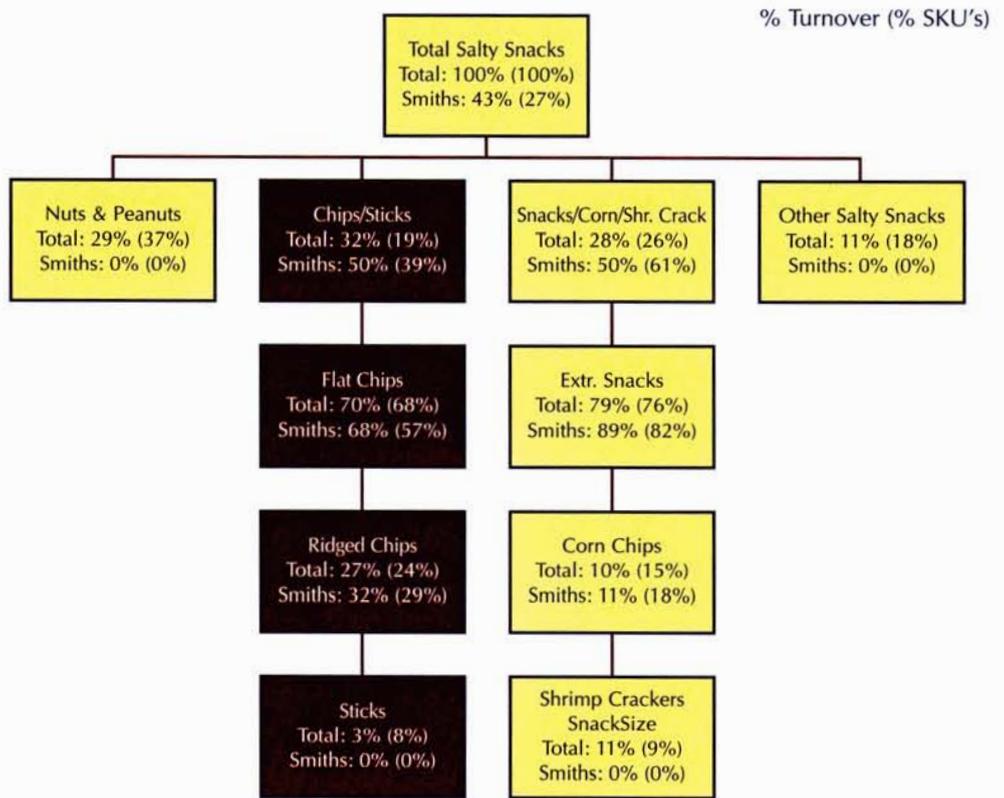


Figure 42: Category Structure - Salty Snacks at C1000



C1000 has selected this category as one of their six 'strategic categories' and the role of the category has been defined as 'transaction builder' and in some exceptional cases as 'traffic builder'.

C1000 and Smiths have jointly agreed that maximisation of turnover is their most important objective for the category.

Since Smiths is only active in two of the four subcategories, the initial focus was on these same two subcategories. After an initial assessment of all promotions over the last two years in these subcategories, the conclusion was that given the promotion frequency in both subcategories, there was simply too much information to carry out an in-depth analysis for the whole category. As a result, it was decided to focus initially on just one of the subcategories (Chips/Sticks) in order to obtain more in-depth knowledge about the effectiveness of promotions.

The turnover of the subcategory Chips/Sticks represents 32% of the total category turnover. Flat Chips is the biggest segment (70%) within this subcategory.

After the successful completion of a Category Management project in 1996, the performance of the Chips/Sticks subcategory is above fair share. Another explanation for the good performance of the subcategory is the fact that households with children are relatively over-represented at C1000.

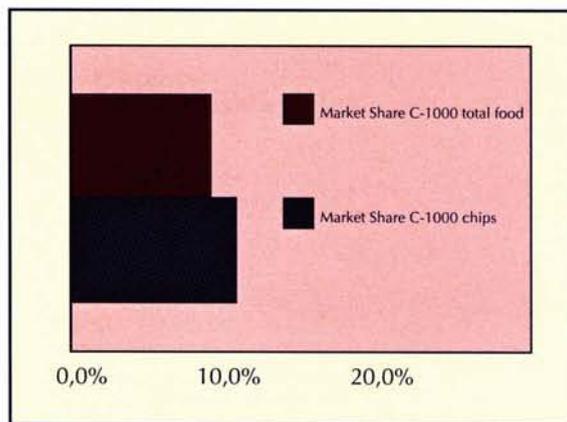


Figure 43: Fair Share Index Chips C-1000

Besides Smiths, there is another supplier in this subcategory. Recently, C1000 has also successfully introduced a private label. On a national level, Smiths has a market share of approximately 60% within the Chips/Sticks subcategory and at Flat Chips segment level, it is up to 70%.

#### The promotion issue

The role of the subcategory has been defined as a 'transaction builder' and therefore maximisation of turnover was the main objective.

The promotion frequency in the subcategory Chips/Sticks is very high: a promotion for one of the two brands every two weeks.

#### The most frequently applied types of promotions are:

- |                              |       |
|------------------------------|-------|
| (a) price-off                | (54%) |
| (b) price-off and value pack | (25%) |
| (c) price-off and multi-buy  | (21%) |

After a thorough analysis of the promotion master record, it seemed that the price-off and multi-buy promotion showed the best results. However, since circumstances were often different during the promotions, thereby affecting results, it was not possible to come up with a definitive conclusion. This was also one of the reasons for selecting this type of promotion for further testing.

The hypothesis was that a two- or even three-bag promotion would give a better result (higher turnover) because of the higher transaction value involved. The assumption was that forward buying by consumers would not be an issue, since the availability of the product at home would automatically lead to higher consumption of Chips/Sticks.

However, impulse purchasing, often for immediate consumption, was another big issue in this category and it was therefore questionable whether a multi-buy promotion would generate a better result than a simple price-off promotion

The multi-buy was the second most applied type of promotion, after the standard price-off. This, combined with the fact that it was still not clear if this type of promotion was more or less effective than a simple price-off, determined that the test would assess price-offs in relation to multi-buys. To investigate this, the following tactics were used:

The promotion was not communicated externally via leaflets, media, etc. Instead, only in-store communication was used, since the objective was to make primary shoppers buy more Chips/Sticks. The percentage of price discount per bag was the same for all promotions.

The promoted product was Crispy Chips 200 grams because this is the best selling product in the subcategory.



### The Test

Both trading partners decided to do the following test in a limited number of stores. For each of the promotion alternatives, a reference group of ten comparable stores was selected.

### Test definition

Article	: Crispy Chips 200 grams bag
Week	: 44/1998
Offer points	: on shelf and on display
Communication	: on shelf and on topcard display

### Price offer

Promotion 1	: 1 bag for DFL X
Promotion 2	: 2 bags for DFL 2X
Promotion 3	: 3 bags for DFL 3X
Reference group	: 1 bag for normal price

## Promotion results

### Results for the subcategory

At subcategory level, two of the three test promotions showed identical incremental sales increases of 18%. This up-lift in sales was comparable to the average up-lift for previous promotions. One test produced lower incremental sales.

Post-promotion analysis was not made because of a national promotion for Crispy immediately after the conclusion of this test.

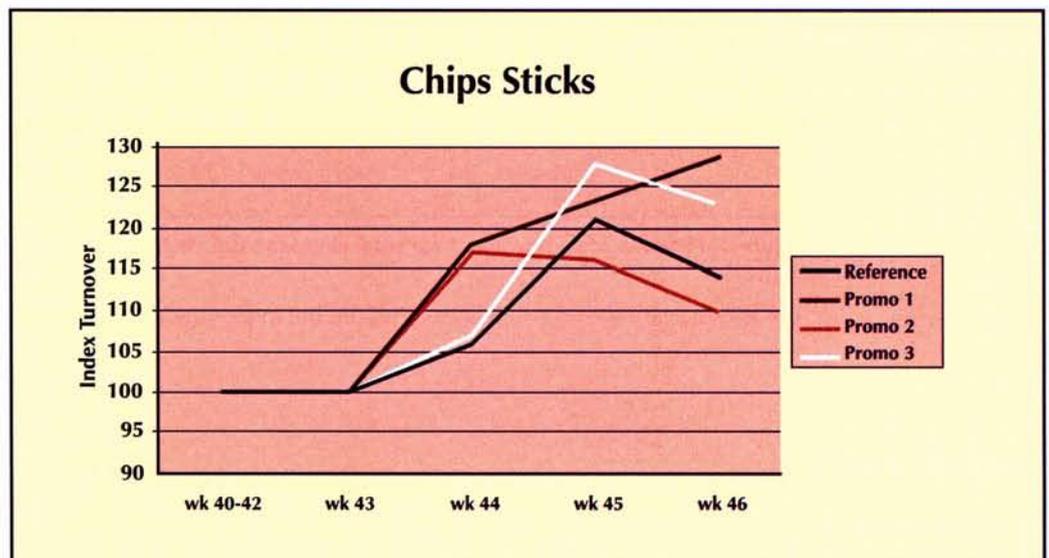


Figure 44: Results of Test Promotions at Subcategory Level

### Results for the brand

For Crispy, one of the two promotions with the highest impact on subcategory sales showed a much higher up-lift for Crispy 200 grams than the other. This up-lift was mainly due to the fact that this promotion was more successful in taking share from the other brands.

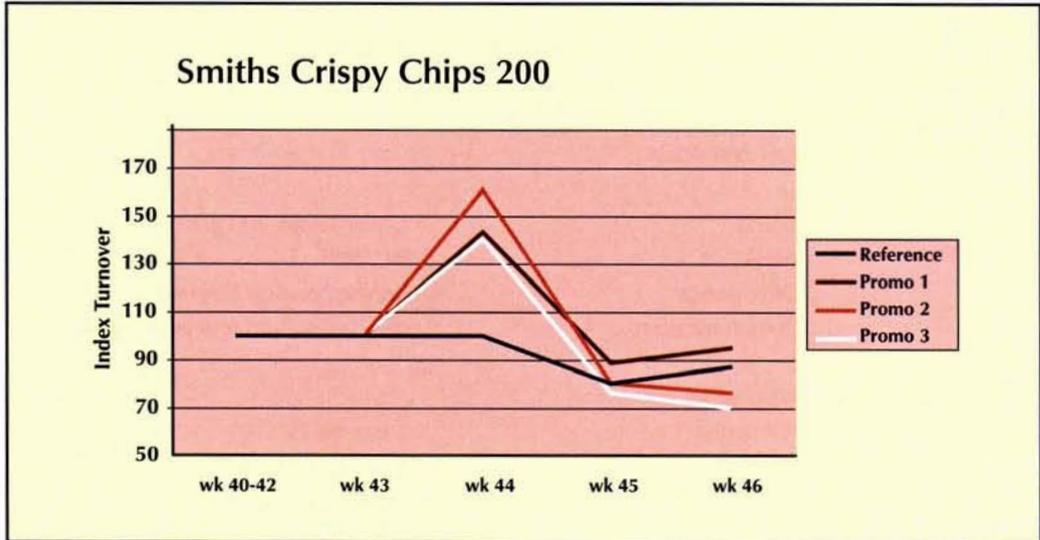


Figure 45: Results of test promotion for promoted items

The above figure is a comparison of the three test promotions at brand level.

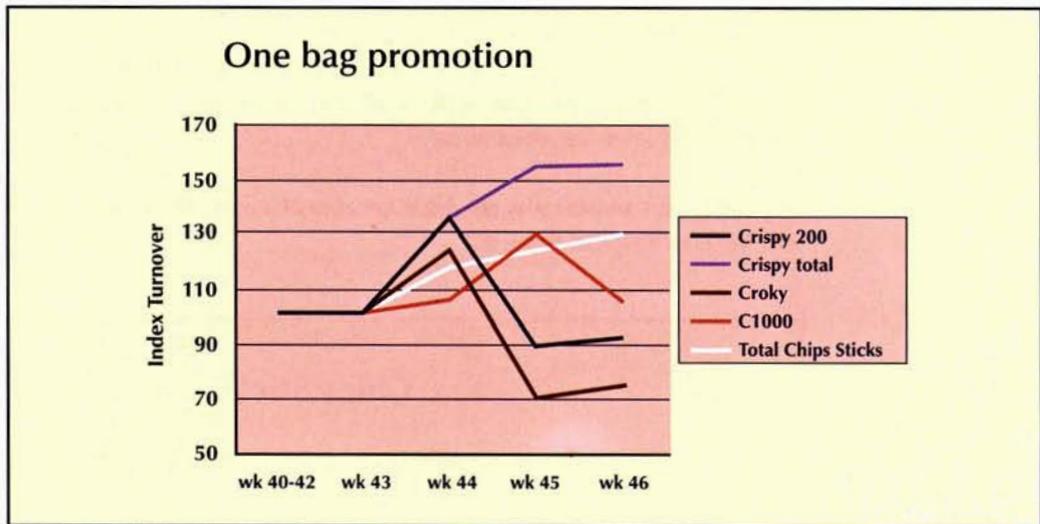


Figure 46: Results of promotion 1 for total segment 'flat chips'

The above figure shows a similar sales up-lift, but interestingly lower levels of cannibalisation than promotion two.

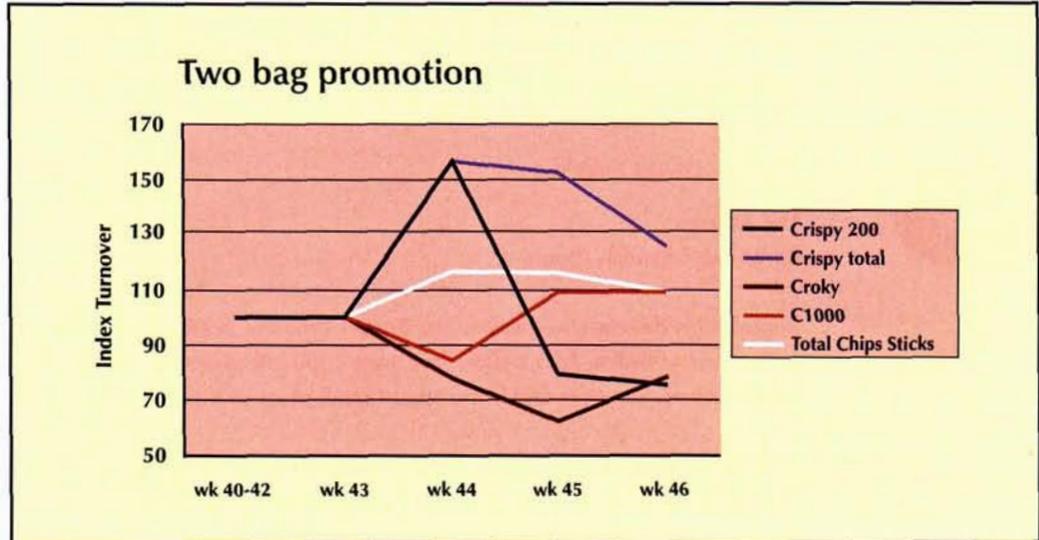


Figure 47: Results of promotion 2 for total segment 'flat chips'

The above figure shows the impact of promotion two on competitor brands, however at subcategory level there is an overall sales increase.

#### Next Steps

Based on the findings of these tests, TSN/Schuitema and Smiths Food Group are planning to test the two best performing promotions on a national scale. The best performing promotion will be used as a benchmark for other types of promotions on a national level.

## Pilot Study 2: Using the Loyalty Card Database to define Promotion Tactics



Country: United Kingdom



### The Retailer

Boots The Chemists (Boots)

Regarded as the core business of The Boots Company, Boots The Chemists is the largest subsidiary with sales exceeding £3.5 billion from over 1300 UK stores in 1997. Boots represents 70% of the total company turnover and is the largest retail pharmacy chain in the UK and Ireland.

Although small store expansion is continuing, with 32 more stores opening in 1997/98, the growth is increasingly coming through edge of town stores: 13 town stores opened during the same period. In addition, new format stores are now located at motorway service stations, airports and hospitals. Store sizes range from 16 square metres to over 3900 square metres.

Boots has the largest EPOS network in Europe with over 13,000 tills. Over 1,000 stores are linked via an electronic business communication network.

Boots is the UK market leader in baby food, toiletries and nappies. Dedicated mother and baby rooms are provided in many stores. In addition, expert advice is available from baby consultants with professionally trained baby advisors in selected stores.

Other initiatives include an initial range of nine health and travel insurance products that can be purchased in 250 of its largest stores and trials of doctor surgeries being located in selected high street stores.

With 14.5 million shopper visits per week and 27 million per month (two-thirds being women), Boots is one of the best known and respected brand names in the UK. This fact is confirmed by a recent Mori poll, which found that the public views Boots as the UK's top company for 'its responsible approach to society and the community'. This trust is particularly relevant to the 'Baby Business' which is the focus of this project.



### The Manufacturer

Kimberly-Clark

Since 1872, Kimberly-Clark has evolved from a regional paper manufacturer into a global consumer products company. They are best known for their consumer tissue and personal care products.

Huggies disposable nappies is one product in the personal care market. Launched in 1978, they are now the brand leader in the US with over 30% share of a £3.2 billion market. In addition the brand is sold in a number of other countries including Australia, Belgium, Canada, France, New Zealand, The Netherlands and the United Kingdom. In the UK, it is the number 2 brand.

The UK market for disposable nappies is currently worth in excess of £460 million, with over 8 million nappies sold daily. With over 700,000 new babies every year, using on average 4 to 5 nappies per day over a 2.5 year period, with high brand loyalty, early trial is vital to the brand. This is even more significant in this market, which is relatively static.

Mothers are looking for a combination of, in order of priority:

- (a) absorbency;
- (b) fit;
- (c) dryness;
- (d) skin health.

With a market dominated by two brands and a growing own label presence (including Boots) product innovation is a key driver in this market. However, product innovation is only believed to offer a short-term competitive advantage.

### The Category

The Baby Business Unit of Boots is responsible for this category with an annual turnover in excess of £150 million. It is strategically significant and is regarded as a destination category within the business, particularly amongst expectant mothers and mothers with young children.

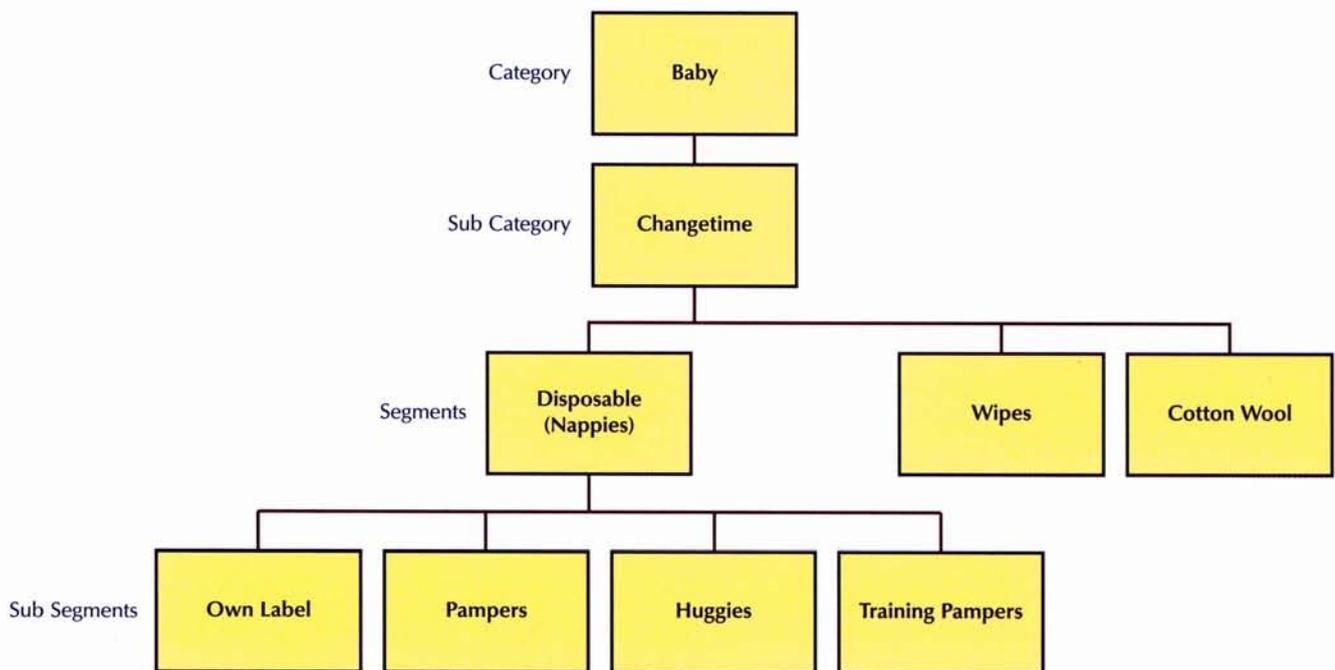


Figure 48: Category Structure - Boots Baby Business

The 'Changetime Subcategory', of which nappies represent approximately 70% of category turnover is populated by three brands:

- (a) Huggies;
- (b) Pampers;
- (c) Boots Economy;
- (d) Boots High Performance.

Given Boots target market and database, this subcategory is seen as an important traffic builder. A substantial number of key purchasing decisions are made by mothers in Boots stores because of the image of the store and the provision of such in-store services as Baby advisers etc.

Given their substantial customer base and the level of trust developed with their customers, Boots is strategically significant in terms of customer trial and loyalty to producers of nappies and other related products. Given the nature of a high proportion of change-time products, with substantial

repeat purchase over a 2.5 year period, early trial via a Boots store takes on added significance, to both Boots and the manufacturer.

#### **The promotion Issue for the Manufacturer**

The importance of brand loyalty is vital to nappy manufacturers and, as such, early trial and acceptance are critical. Given the image of Boots within the UK market and the trust placed in them by mothers with children, the role of Boots in encouraging early trial should not be underestimated and should be encouraged

#### **The promotion Issue for the Retailer**

Despite a high proportion of early product trial and customer acceptance, category loyalty for the nappy segment remains an issue. The brand decision is often made prior to birth or early in a child's life at a Boots store. However sales are lost to supermarkets after the first six months, when the nappies are purchased with the regular weekly groceries. As such, Boots are losing market share in this subcategory to the supermarkets.

With regard to promotions, because of the high brand loyalty involved, substantial price cuts are necessary to encourage switching. This is illustrated by the fact that multi-buys and 'three for two' offers together represent over 70% of current promotions. The high number of promotions encourages short-term cannibalisation of brands, does not create category loyalty and reduces category margin.

This deep cut cycle has become the norm within the category and once in this spiral it is difficult to escape. Boots is therefore wondering whether a more subtle, tactical approach might produce better results.

Further promotional evaluation confirmed not only the high proportion of nappies sold on promotion, three X multiplier, but also confirmed the impact on category profitability.

With regard to communication, the greatest up-lift was achieved via gondola end displays with shelf talker support.

#### **Boots Advantage Card**

Launched nationally in 1997, after an extensive trial period, one in three transactions are now linked to the Advantage Card. These are recorded by its smart card technology, the first loyalty card to incorporate this technology in the UK. Currently, there are over ten million cards in use. Sales linked to the card currently represent 40% of total counter sales and represent over 250 million transactions.

Using information from the Advantage Card database, Boots launched 'Boots Mother and Baby at Home', a home shopping catalogue. The first 500,000 catalogues, mailed in March 1998, contain over 1,500 products ranging from baby food to nursery wear. In addition, the catalogue enables Boots to extend its range to items such as maternity wear and baby equipment.

With increasing in-house skills for analysing the data, the Advantage Card is seen as a source of

information and knowledge to suppliers, regarding their products and markets and as a source of competitive advantage to Boots.

The in-house team is already adept at analysing new product information, by using a range of analytical tools to assess the pre-launch baseline, launch results and post-launch impact. This promotion pilot was an ideal opportunity to further develop in-house capabilities regarding the use of the database and to develop and undertake more effective promotions.

By taking EPOS data and adding both the customer dimension and time dimension provided by the Advantage Card, a substantial range of information is now available (see below). Considering the more than 10 million cards in circulation and more than 250 million transactions recorded, the potential for fact-based decision making becomes enormous.

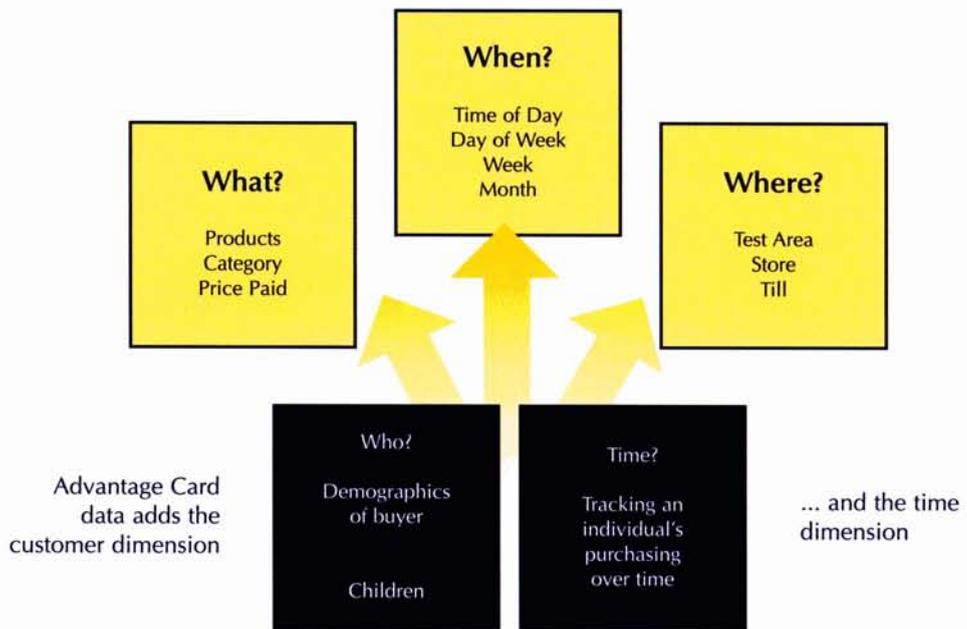


Figure 49: The Advantage Card Database

The Promotion Objectives are to use the Advantage Card database to identify and target specific Boots customers with a direct mail incentive. In order to compare and contrast, specific cells would be mailed. A response rate objective of 10% for each cell was set.

**Other objectives were:**

- (a) to test differing values of Advantage Card points as an incentive to purchase;
- (b) to test the significance of reminder mailing.

**Boots**

The objective was to build and reward category/store loyalty, irrespective of brand.

**Kimberly-Clark**

The objective was to increase and reward Huggies loyalty within Boots.



**The Test**

A mail shot was devised to target different customers depending on their brand/category loyalty as determined by Advantage Card data. A 'loyalty grid' was constructed, that determined discrete rules for segmenting consumers/shoppers. This grid was used together with various offers, to test the concept of 'smart mailings', i.e. bringing the reward, point of communication and decision to purchase to the shopper's/consumer's home and away from the store.

		Loyalty to brand			
		Always More than 89%	Mainly 50 - 89% of spend	Sometimes 10 - 49% of spend	Rarely Less than 10%
Loyalty to Category	Loyals More than 50%	The rows represent customers loyalty to store by looking at their total spend on nappies in a 12 week period. The columns look at brand loyalty by dividing customers based upon what percentage of their total nappy spend was on the brand			
	Switchers 25 - 49%				
	Disloyals Less than 25%				

Figure 50: Loyalty Grid

This grid looks at customer loyalty in terms of spend over a three month period. Using Advantage Card data, the shoppers were divided by Category Loyalty into segments:

- (a) **Loyal:** More than 50% of estimated spend on nappies in 3 months (i.e. spend on nappies within Boots greater than £37.50 over a 3-month period);
- (b) **Switchers:** 25-49 % of spend;
- (c) **Disloyal:** Less than 25% of spend.

These three segments were then split up into a further four segments looking at their brand loyalty:

- (a) **Always:** More than 89% of their total spend on the brand;
- (b) **Mainly:** Between 50 and 89% of their total spend on the brand;
- (c) **Sometimes:** Between 10 and 49% of their total spend on the brand;
- (d) **Rarely:** Less than 10% of their total spend on the brand.

**Mechanics**

67,000 Advantage Cardholders were mailed as in the 6 cells of the grid below:

		Loyalty to brand			
		Always	Mainly	Sometimes	Rarely
Loyalty to Category	Loyals		Cells 1 and 2		
	Switchers		Cells 3 and 4		
	Disloyals				

**Figure 51: Huggies Mailer**

**Huggies Mailer**

Cell 1 – Female, Boots loyals, Huggies mainly with 500 point incentive.

Female, Boots loyals, Huggies sometimes with 500 point incentive.

Cell 2 – Female, Boots loyals, Huggies mainly with a 1000 point incentive.

Female, Boots loyals, Huggies sometimes with a 1000 point incentive.

Cell 3a – Female, Boots Switchers, Huggies mainly with a 500 point incentive.

Female, Boots Switchers, Huggies sometimes with a 500 point incentive.

Cell 3b – Cell 3a plus reminder mailing

Cell 4a – Female, Boots Switchers, Huggies mainly with a 1000 point incentive.

Female, Boots Switchers, Huggies sometimes with a 1000 point incentive.

Cell 4b – Cell 4a plus reminder mailing

		Loyalty to brand			
		Always	Mainly	Sometimes	Rarely
Loyalty to Category	Loyals				
	Switchers	Cells 5 and 6			
	Disloyals				

**Figure 52: Boots Mailer**

**Boots Mailer**

Cell 5 – Female, Boots Switchers with a 1000 point incentive.

Cell 6 – Female, Boots Switchers with a 500 point incentive.

Rewards to be achieved with a purchase of £50 of Huggies, cells 1-4, and £50 of nappies, irrespective of brand, cells 5&6, within a 12-week period.

The control groups were established using similar clusters in each cell to enable direct comparison and evaluation.

**Timing**

The mailing was sent out in mid-August 1998, with the offer period running between 29/08/98 and 21/11/98.

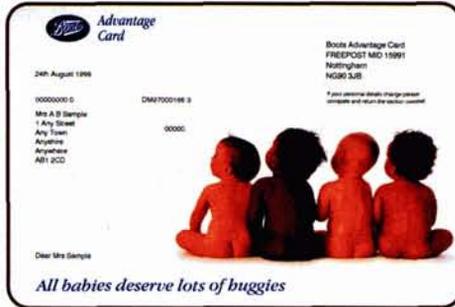


Figure 53: Huggies Mailer

**The Results**

A comprehensive internal report was produced by Boots, using their Advantage Card database. Some of the findings are shown below:

Overall 10.6% of mailed customers qualified for the Huggies driven incentive, whilst 14.6% of customers qualified for the Boots (generic) driven incentive.

In the control cells, only 3.2% of customers would have qualified for the Huggies driven incentive and only 6.7% for the Boots (generic) driven incentive.

In cells 1 and 2, the greater the brand loyalty, the higher the response rates. The level of incentive points had little apparent influence on response rates, but the lower the loyalty to the brand, the greater the impact of the level of incentive points.

In cells 3 and 4, the results showed similar trends but overall were substantially lower. Postcard reminders appeared to have relatively little impact.

Loyalty to Category	Loyalty to brand			
	Mainly	Sometimes	Cells 1 and 2	Cells 3 and 4
Switchers				
Non Postcard				
Postcard				

Loyalty to Category	Offer/ mailing type	Loyalty to brand			
		Mainly		Sometimes	
		500	1000	500	1000
Loyals		20,4%	19,7%	8,0%	10,4%
Switchers	Non Postcard	5,3%	7,4%	3,9%	4,7%
	Postcard	7,2%	8,1%	5,3%	5,1%

Figure 54: Huggies Mailer Response Rates

In Cells 5 and 6, response rates were higher than the objective set (10%). Category switchers appear to be driven by the level of incentive offered, with the 1000 point incentive attracting a 16% response rate.

		Points offer	
		500	1000
Loyalty to Category	Switchers	10,6%	16,0%

		Points offer			
		None	Mainly	Sometimes	Always
Loyalty to Category	Loyals				
	Switchers				
	Postcard				

Figure 55: Boots Mailer Response Rates

**Up-lift analysis**

The up-lift analysis shows how much more likely mailed customers were to spend the qualifying amount than the non-mailed control group. With regard to the Huggies mailer, although the more loyal segments had the better response rates, the mailing had the greatest up-lifts in the less loyal segments.

Loyalty to Category		Offer/mailing type	Loyalty to brand			
			Mainly		Sometimes	
			500	1000	500	1000
	Loyals	114%	107%	242%	345%	
	Switchers	164%	255%	285%	350%	
	Postcard	242%	285%	415%	398%	

		Points offer			
		None	Mainly	Sometimes	Always
Loyalty to Category	Loyals				
	Switchers				
	Postcard				

Figure 56: Huggies Mailer % Sales Up-lift

The Boots mailer also had good up-lifts compared to control, with the 1000 point incentive having over twice the up-lift of the 500 point offer.

		Loyalty to brand	
		500	1000
Loyalty to Category	Switchers	58%	139%

		Points offer			
		None	Mainly	Sometimes	Always
Loyalty to Category	Loyals				
	Switchers				
	Postcard				

Figure 57: Boots Mailer % Sales Up-lift

**Migration Analysis**

This Assesses the overall effect on customers who received the mailing compared to the control groups in terms of brand and category loyalty.

The results show that with all cells, whether qualifying for the incentive or not, there was an increase in loyalty for both brand and category. The least loyal segments had the biggest shifts, with the brand offer having a greater effect on brand than category loyalty.

**Post-Promotion Analysis**

The Post-Promotion Analysis measures the effect the mailing had on customer spend on the promoted products after the mailing. An 8-week period after the promotion had finished was used.

Overall the mailing caused customer spending on nappies to be increased by 3.5% after the mailing, compared to control.

With the Huggies mailer, post-promotion spend levels varied, with broad trends indicating that the most loyal segments and the postcard reminder will increase future spending on Huggies the most.

Loyalty to Category		Loyalty to brand				
		Offer/ mailing type	Mainly		Sometimes	
			500	1000	500	1000
Loyals		21,0%	15,5%	9,2%	11,8%	
	Non Postcard	6,9%	10,5%	12,6%	20,0%	
Switchers	Postcard	17,5%	16,6%	20,1%	13,9%	

Figure 58: Huggies Mailer Post Promotion Analysis

With regard to the Boots mailing, both cells had increased spend levels on nappies after the promotion, with the 1000 point cell having the greater effect on post-promotion loyalty.

Loyalty to Category		Loyalty to brand	
		500	1000
Switchers		1,5%	12,2%
	Postcard		

Figure 59: Boots Mailer Post Promotion Analysis

**Conclusions**

Although the Advantage Card database is used to support promotions, this was the first time it had been used to target and evaluate a time-based category loyalty promotion.

**There are a number of preliminary conclusions:**

- (a) the more loyal to category and brand, the less difference the offer appears to make;
- (b) for the Boots mailer to Boots Switchers, the offer was a definite driver;
- (c) postcard reminder mailing was less successful in driving responses than points;
- (d) the most loyal segments spent the most when qualifying. The less loyal segments had the biggest up-lifts compared to control;
- (e) the Huggies mailer caused customers to spend more on nappies overall than the Boots mailer;
- (f) the mailing caused groups to maintain increased levels of spend after the promotion period.

### **Next Steps**

Further pilot projects to assess the correlation between the loyalty grid and promotional response rates.

Further pilot projects to assess the correlation between response rates and incentives.

Further pilot projects to assess the impact of direct mail promotions on category margins.

Further pilot projects to compare and contrast findings in other categories.

A full-scale promotion to assess the overall impact on the brand and category and evaluate it against the economies of scale to be achieved from a larger mail shot.

Clearly, given the substantial number of different promotions undertaken within the category during a year, a pragmatic method of defining and implementing tactics with quick and effective evaluation would benefit both trading partners. With this in mind, priority should be given to the development of a range of tactics and corresponding efficient evaluation techniques that would give category managers a powerful tool with which to manage their category.

A process for communicating the results internally to ensure that the database is taken full advantage of.

Given the success of this project, Boots will be using this tactic on a larger scale in the future.

## Pilot Study 3: Price-off Promotions, communication and merchandising

Country: Sweden



### The Retailer

The ICA concept is about independent retailers working together and owning their own integrated food distribution company – ICA Handlarnas AB. In addition to sourcing and distribution, they provide the retailers with support services such as marketing, IT/logistics, financing, auditing and personnel services.

ICA has been Sweden’s leading food retailer for a number of years. In 1997, their share of retail food sales was 34.7% with total sales of 50 billion SEK. In total, 2,000 ICA retailers run 2,200 stores with formats ranging from hypermarkets to convenience stores. As a result turnover per store varies from a few million SEK to 475 million SEK. Together they employ 34,700 people in Sweden. As independent retailers, they can and, to a great extent do, decide how to run their businesses themselves.

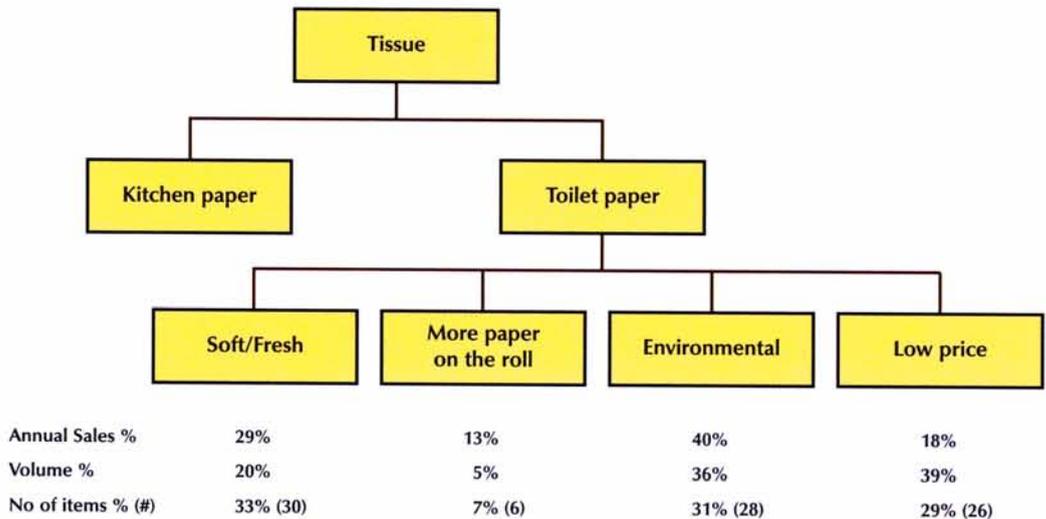


### The Manufacturer

SCA Hygiene Products are the largest European-based manufacturer of fluff and tissue products and provide both branded and private label products. SCA Hygiene Products’ fluff operations serve the markets for incontinence, baby and feminine care products. Tissue operations manufacture products for the Consumer and Away From Home markets (hotels/restaurants/health care institutions etc). Net sales in Sweden are SEK 5.6 billion (SEK 60 billion for the group) and they employ 7,500 people in Sweden (33,400 for the group).

### The Category

ICA and SCA Hygiene Products are currently working together in a Category Management process with the tissue category. As a result, this category was chosen for the Promotion Tactics project. Specifically, this project focuses on the subcategory toilet paper.



\* Sales from GfK, market coverage approx. 85%

Figure 60: Category Structure – Tissues

SCA Hygiene Products brand is Edet, an umbrella brand that is represented in three out of four segments:

- (a) environmental, whose products are developed and produced with respect for the environment, e.g. by making use of sustainable resources;
- (b) Soft & Fresh, a premium segment with thicker and softer paper;
- (c) 'more paper on the roll', the segment with rolls that have up to twice the amount per roll as a standard roll;
- (d) low price (i.e. B brands, private label or many small rolls per consumer pack).

SCA Hygiene Products currently has 33% of the Swedish toilet paper market and 51% of sales at ICA. ICA's market share in toilet paper is 44%. (Source: GfK measured channel share)

The role of the category has been defined as routine: to be the preferred category provider and help develop the retailer as the store of choice by delivering consistent, competitive target customer value. The category is very promotion intense. All promotions are primarily price-off. The amount of discount ranges from 5-40% with half of the promotions between 20-30%.



#### The Promotion Issue

This pilot focuses on the relationship between pricing, communication and merchandising.

During this project, a number of issues had to be taken into account:

- (a) it is primarily a high volume, low margin category;
- (b) there are promotions almost every week, which impact upon each other, making effective evaluation difficult;
- (c) with independent retailers, in-store discipline is difficult. This is reflected in the relatively low distribution levels reached during promotions;
- (d) the independence of the retailers often makes it difficult to obtain the necessary information for effective evaluation.

An analysis of 32 previous promotions produced a substantial difference in results:

- (a) product/SKU level: 5% of the promotions have a negative result;
- (b) brand level: 25% of the promotions have a negative result;
- (c) category level: 50% of the promotions have a negative result.

In other words, if 95% of all promotions had positive up-lifts at product level, only 50% of them benefited the category as a whole.

Further analysis revealed that the amount of the price-reduction does not always correlate with the sales up-lift. As a result, a greater price reduction does not always lead to an up-lift. Clearly other variables must influence the results.

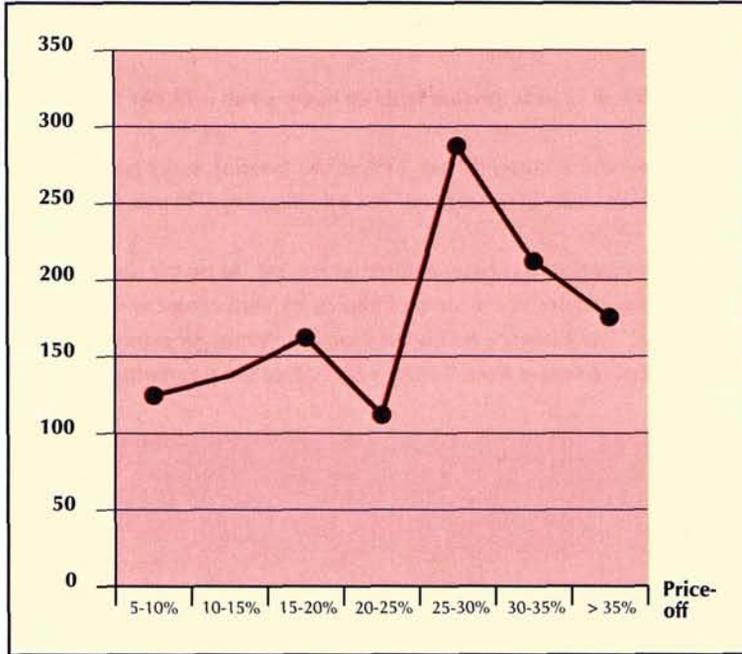


Figure 61: Promotion Score vs Price-off

Comparing one promotion with another showed that the effectiveness of promotions was determined more by the combination of the type of promotion, communication and merchandising than by the chosen brand. The up-lifts were greater when leaflets, displays or coupons were used in combination with a price-off.

Although the up-lift analysis shows that couponing generates good results, shopper research indicates that shoppers generally still do not like coupons.

Considering the above, ICA and SCA Hygiene Products decided that the pilot should concentrate on gaining a deeper understanding of how different combinations of price-offs, communication and merchandising tactics affect the results of a promotion.

**The Test**

The objective of the tests was to evaluate the effect of:

- (a) the same price reduction with different types of communication and merchandising;
- (a) the same type of communication and merchandising with different levels of price reduction .

The Results

Promotion 1

Promoted Product		Product Promotion Score	Price-off %	Communication
Soft white toa 6p	45	206%	0%	Display + Flyer
Soft white toa 6p	45	100%	10%	Shelf + Flyer

Figure 62: Promotion 1

The results from promotion 1 indicate that, at SKU level, placing the product on display (off shelf) produces good results.

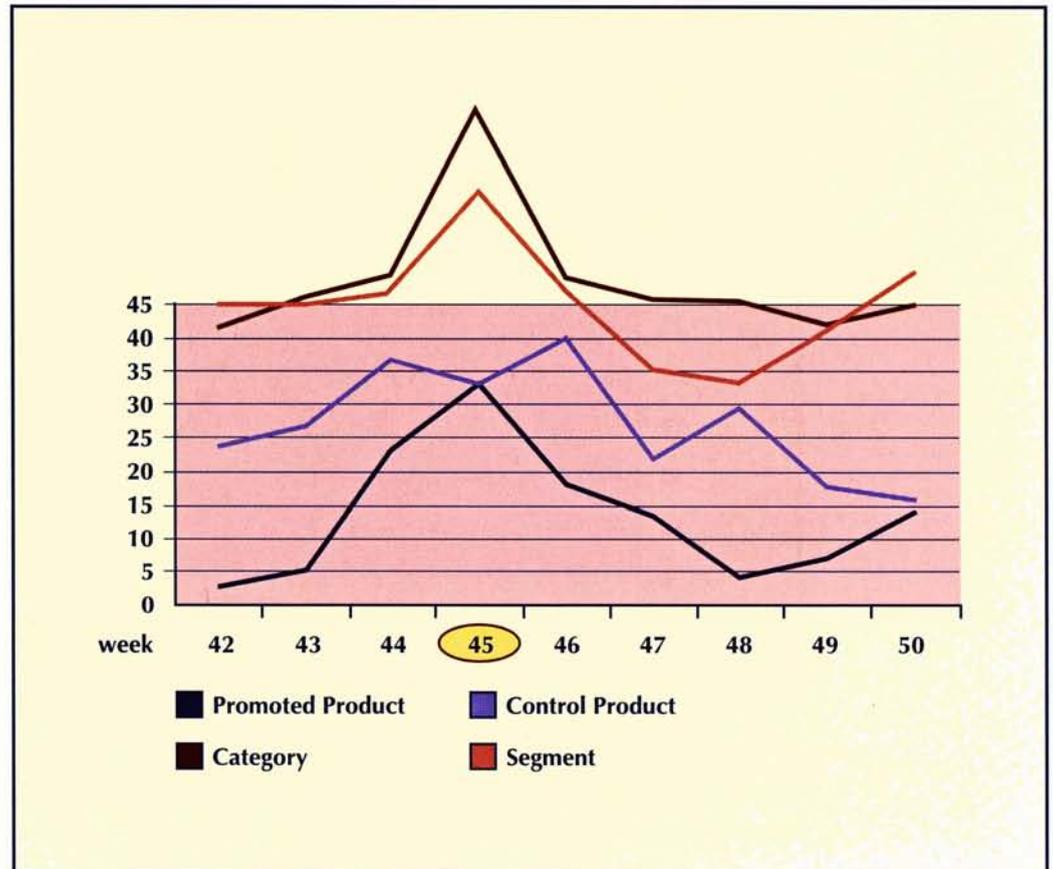


Figure 63: Promotion up-lift - Promotion 1

Promotion 2

Promoted Product		Product Promotion Score	Price-off %	Communication
Maxi toa 4p	46	262%	25%	Buy two for X SEK + Display
Maxi toa 4p	46	229%	25%	Display

Figure 64: Promotion 2

The results from promotion 2 indicate that 'Buy two for X SEK', corresponding with a price reduction of 25%, was more successful than 'Buy one with a 25% price cut'.

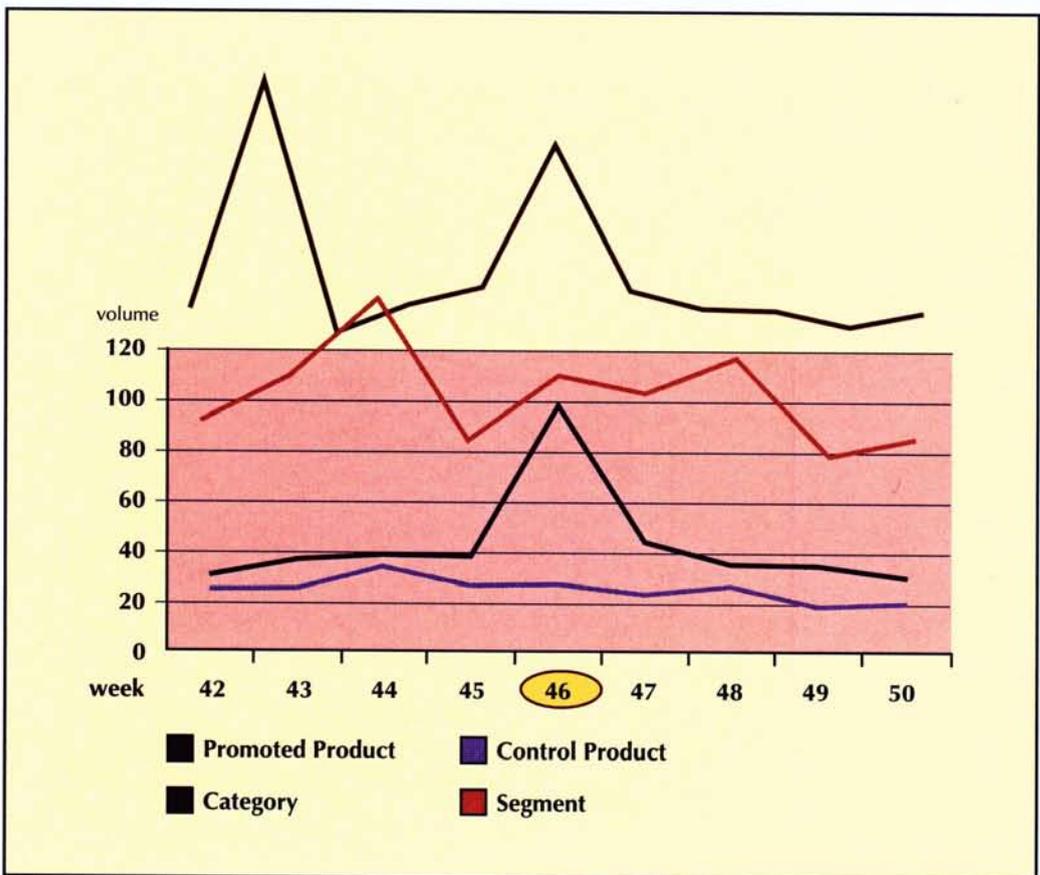


Figure 65: Promotion up-lift - Promotion 2

This result is in line with the Pulse Session study in which we concluded that the perception of consumers was based more on the absolute price discount than the relative discount.

It appears that an additional price-off and inclusion in the supporting leaflet does not add significantly to the result.

Promotion 3

Promoted Product	Product Promotion Score	Price-off %	Communication
Natur toa 8p	47	141%	Shelf + Flyer
Natur toa 6p	47	206%	Display + Flyer

Figure 66: Promotion 3

The results from promotion 3 indicate that on-shelf promotions produce relatively poor results

At category level there was no apparent positive impact on sales.

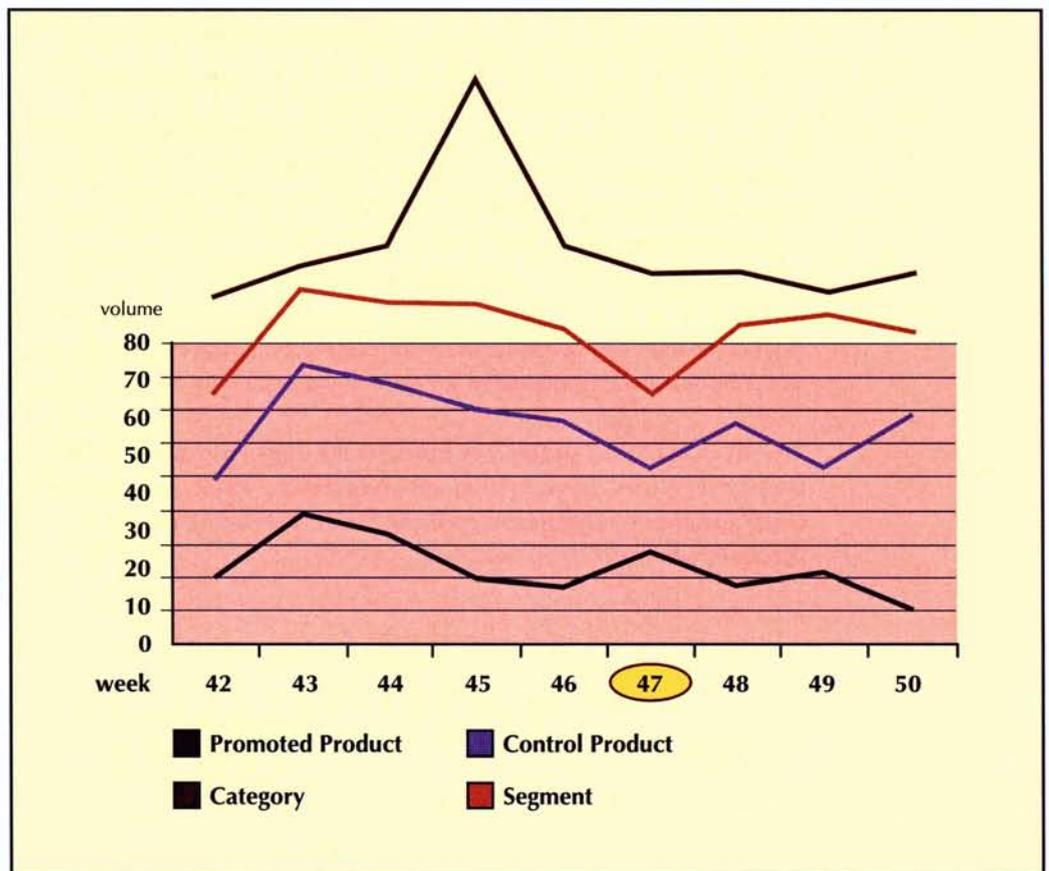


Figure 67: Promotion up-lift - Promotion 3

Next Steps

After drawing the conclusion that at category level, the impact of promotions is limited, ICA and SCA Hygiene Products are reviewing their future promotion strategy. In future, ICA will focus more on Promotion Tactics that did produce good category up-lifts or alternatively, use the promotion slots for categories that respond better to promotions.

Based on the conclusions drawn from this pilot, further tests will be undertaken in order to gain more insight into which brands to promote and how to promote them.

Both ICA and SCA Hygiene Products will continue to refine the promotion strategy to achieve more effective promotions for this category.

## Pilot Study 4: Targeting the right consumers/shoppers

Country: Spain



### The retailer

Alcampo is a subsidiary of the French Auchan Group, which has a strong retail presence both in Europe and globally. In Spain, the group has traded since 1985 using hypermarket and supermarket formats, under the brand names of Alcampo and Sabeco.

The group currently has 34 hypermarkets and 10 supermarkets and are planning two additional stores in 1999. The company has a market share of 4.1% and is Spain's number three retailer in the hypermarket format.

### The Manufacturer

Elida Fabergé is part of the Home & Personal Care business group of Unilever and is responsible for the personal care side of the group. Their products are to be found in many categories, such as deodorants, body care, oral care, hair care, skin care and perfume.

Elida Fabergé is market leader or a major player in each of the categories in which it is present. Amongst the Elida brands are Axe, Rexona, Impulse and Dove in deodorants, Vasenol in body care, Signal in oral care, Organics in hair care, Ponds in skin care and several brands in perfume like Spirit or Cerruti, among others.

### The Category

Both companies decided to focus on the Deodorant Category. This category is relatively straightforward and its definition is commonly accepted by the various players within the market.

The structure of the category was based on the shopper research. At sub-category level the type of application is used (aerosol, stick, roll-on or cream), whilst at segment level the gender of the target audience is used: female, male or unisex. Below this, perfumed or neutral deodorants were distinguished.

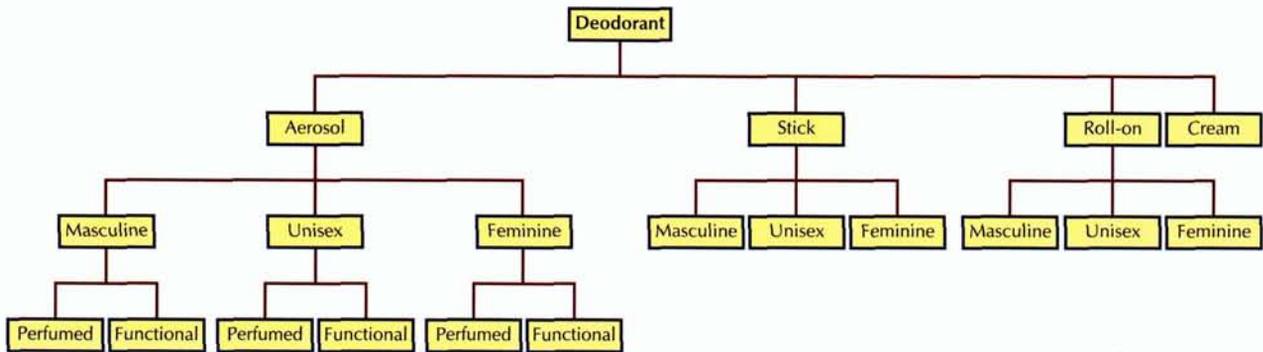


Figure 68: Category Structure - Deodorants

As in most personal care categories the shoppers are predominantly women, even with deodorants for men. The level of complexity of the category is high with approximately 200 SKUs and 50 brands represented.

For the category as a whole, including all segments, the defined role depends upon the time of year, due to the strong seasonality of the product. For instance, it was defined as a transaction builder with high shopper involvement in the summer and as a routine category with a medium involvement in the winter.

Role		Shopper Involvement		
		High	Medium	Low
Destination				
Main Stream	Traffic Builder			
	Transaction Builder		In Season	
	Routine			Out of Season
Convenience				

Figure 69: Deodorant Category - Strategic Positioning

The Deodorants Category, as with most personal care categories, has a very high level of promotion activity throughout the year. Promotion sales represent 30% of total sales.

With few exceptions, Promotion Tactics are very similar from brand to brand. Most are simple price discounts, at a predicted and constant pace. All this probably achieves is an adjustment of the timing of the buying decision of the shopper who is loyal to a certain brand. Other frequently used tactics are twin packs, added gifts or extra fill packs. In addition, all promoted items have a significantly discounted price. Most of the promotions are at national level but, with a number of regional and decentralised retail operations, there are a significant number of regional promotions.

For this test, the trading partners decided to concentrate upon the aerosol segment, which is the most important segment for both companies.

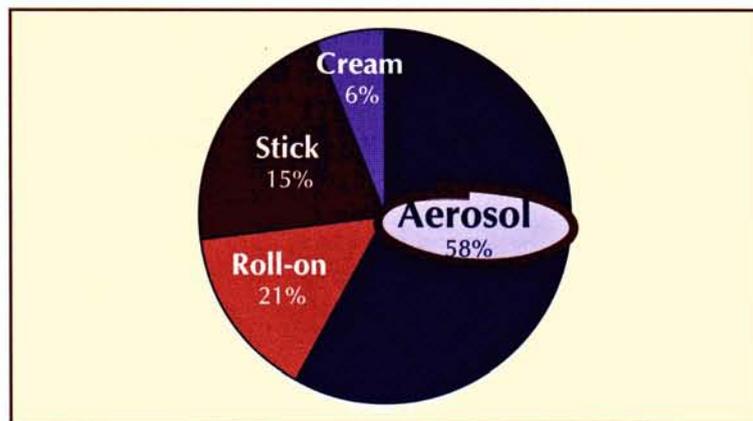


Figure 70: Deodorant Category - Spanish Market Structure

**The Promotion Issue**

Alcampo and Elida Fabergé decided to:

- (a) identify opportunities to leverage the consumer base of Elida Fabergé to increase the the category loyalty in Alcampo;
- (b) identify opportunities to leverage the shopper base of Alcampo to increase loyalty to Elida Fabergé brands.

To facilitate this, two levels of segmentation were defined for both consumers and shoppers. The base data was provided by Dympanel (a market research company). Both shoppers and consumers were segmented from the same database of 8,000 consumers. The number of consumers that purchased personal care products at Alcampo during the period of analysis (total year of 1997) was 757.

### **Shopper segmentation**

For shoppers, the first level was defined by percentage of total spending on groceries spent at Alcampo.

#### **Three segments were identified:**

- |                       |           |
|-----------------------|-----------|
| (a) Primary clients   | > 50%     |
| (b) Secondary clients | 10 to 50% |
| (c) Other clients     | < 10%     |

The shoppers were further segmented by the degree of loyalty towards the category in Alcampo.

#### **Four levels were defined, using the percentage of purchases of the category at Alcampo:**

- |                               |              |
|-------------------------------|--------------|
| (a) Loyal                     | – 80 to 100% |
| (b) Switchers                 | – 20 to 80 % |
| (c) Disloyal                  | < 20%        |
| (d) Non buyers (at any store) |              |

### **Consumer Segmentation**

For consumers, the first level was defined by intensity of purchase or use of the product.

#### **Three segments were identified:**

- |                  |                               |
|------------------|-------------------------------|
| (a) Heavy users  | > 7 deodorants per year;      |
| (b) Medium users | - 3 to 6 deodorants per year; |
| (c) Light users  | < 3 deodorants per year.      |

The second level of segmentation was defined by the degree of loyalty to each of the brands in the analysis.

#### **Four segments were defined by the percentage of purchases of the Elida Fabergé brands, Axe and Rexona:**

- |                |              |
|----------------|--------------|
| (a) Loyals     | – 100%;      |
| (b) Influenced | – 70 to 100% |
| (c) Switchers  | – 0 to 70 %  |
| (d) Disloyals  | – 0%         |

**Cross Segmentation.**

The diagram below shows the numbers in each cell of the panel (by percentage)

Shoppers	Consumers			% of Panel
	Heavy	Medium	Light	
Primary	3,2%	5,4%	7,5%	16,1%
Secondary	6,1%	18,3%	18,5%	42,9%
Other	9,9%	15,3%	15,8%	41,0%
<b>% of Panel</b>	<b>19,2%</b>	<b>39,0%</b>	<b>41,8%</b>	<b>100%</b>

Figure 71: Market Assessment - Panel Population

Below is the distribution of sales by cell.

Shoppers	Consumers			% of Panel
	Heavy	Medium	Light	
Primary	5,9%	4,2%	2,4%	12,5%
Secondary	17,6%	20,2%	5,8%	43,6%
Other	24,5%	14,2%	5,2%	43,9%
<b>% of Sales</b>	<b>48,0%</b>	<b>38,6%</b>	<b>13,4%</b>	<b>100%</b>
<b>% of Panel</b>	<b>19,2%</b>	<b>39,0%</b>	<b>41,8%</b>	

Figure 72: Market Assessment - Distribution of Sales

**Selected Segments**

Based on the above results, the target segments selected were Segment 1 (Medium Users / Secondary Shoppers: 20,2%) and Segment 2 (Heavy Users / Secondary Shoppers: 17,6%).

The first segment was selected for the brand Axe and the second for the brand Rexona.



**Consumer/Shopper profiles**

Looking for common characteristics between the individuals in each of these segments, a socio-demographic analysis was done comparing each segment with the 575 individuals of the sample to all consumers of deodorants and with the total population of the consumer panel.

In Segment one, the predominance of men under 25 and over 65 proved interesting.

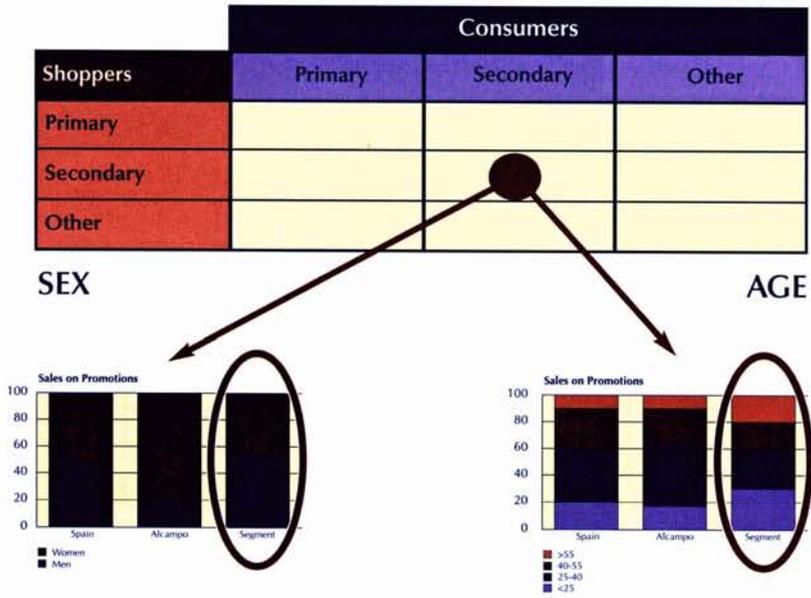


Figure 73: Marketing Assessment - Setting Priorities

In Segment two, the high percentage of women was an interesting factor.

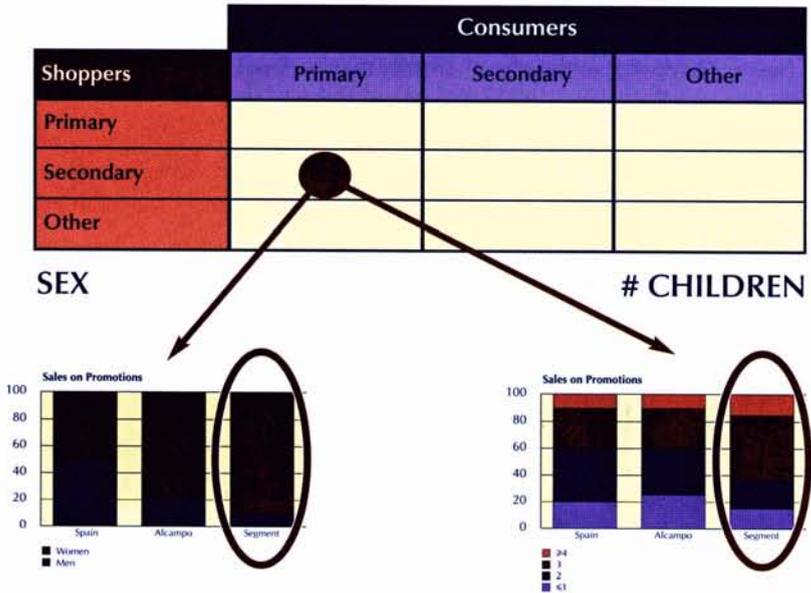


Figure 74: Marketing Assessment - Setting Priorities

## Promotion Objectives and Results

**Alcampo and Elida Fabergé defined the following objectives for the test:**

- (a) Leverage the store loyalty to launch a new Rexona product;
- (b) Leverage the loyalty to the brand Axe to increase the category loyalty at Alcampo.

Because of an already congested promotion plan, the test was limited to three stores, which rendered an analysis using consumer panels inappropriate.

To obtain an initial impression of the effectiveness of the Axe promotion it was decided to do an in-store shopper survey during the promotion to ascertain whether the promotion was attractive to the target group. This survey confirmed a good match between the shoppers buying the promotion and those targeted.

### Next steps

Both Alcampo and Elida agree that the work done should be continued both internally and together.

### First of all:

- (a) a simple, but relevant set of KPIs should be defined and developed as part of the joint promotion process, from negotiation to execution. This should include qualitative elements like segments shifts and quantitative elements like the up-lift analysis for the promoted items, control items and the total category;
- (b) test promotions, where appropriate, should be followed by a larger or national promotion to be able to measure the results quantitatively.

