



5 questions to help reduce the true cost of promotions

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A quick quiz before we get to the questions, you need to be asking yourself about promotions.

Which activity takes up the most time for marketing, trade marketing and sales teams?



Managing promotions
(a bonus point for anyone who said "sitting in pointless meetings")

70% of what type of activity loses money for manufacturers?



Promotions...
.... again!



✓ We, as marketers, shopper marketers and sales teams spend most of our time doing activities which simply don't make money!

Worse still, many companies don't even evaluate all of their promotional activities, despite their suspicions that they probably aren't delivering any meaningful return.

Promotions have to be done – they are a “necessary evil” in many ways. Pressure to hit sales targets, pressure from retailers for support – there are lots of reasons which keep us promoting.

And great promotions can add value. A “winning promotion” creates new consumption habits which fuel long term growth, as well as delivering financial returns to retailer and manufacturer.

But how many promotions actually fall into that category?



*Many promotions lose money based on
the simplest ROI calculation.*

*Many more lose money when the total
costs are included.*



*Here's a few of **the hidden costs of promotion**, that are not always included in promotion evaluations*



The hidden costs of promotion

The cost of time

From surveys of our clients, [engage](#) estimates that up to 60% of a trade marketing team's time; 50% of a Key Account Managers time; 15% of a brand managers time (plus the time of their bosses)

The opportunity cost

What could those people have been doing to add value if they weren't managing promotions?

Higher Inventory

Somewhere in the chain there is much more product – and that reduces returns for someone.

Production costs

Don't forget the cost of overtime to manage the build-up of stocks necessary for promotions, or the downtime on the factory floor after the promotion!

These costs may be one-off, or they may increase the average cost of production in such a way as to inflate next year's prime cost.

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The hidden costs of promotion

Logistics

Extra trucks and storage for the manufacturer and the retailer.

Disappointed Shoppers

Promotions risk out-of-stocks. They are the biggest frustration for shoppers, and the best way to encourage them to try your competitor.

How many loyal shoppers who would have paid full price for the product aren't able to because someone else has bought five packs on a deal? And we pay for the privilege!

Loading shoppers

If shoppers buy more on deal, unless they consume more too, then the pantry is loaded, and they won't buy for a period of time afterwards.

Training Shoppers

Shoppers get used to discounts, and expect them.

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Going cold turkey on promotions might be just a little too painful and some promotions are high value...

*So considering the **following 5 questions** before diving into promotion*

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Does the promotion change shopping behaviour in a way that will encourage or drive additional consumption? If yes, then at least we aren't losing



Does it encourage long-term changes in consumption? If yes, then this activity may have some real strategic value?



Is there a clear understanding of the total costs of the promotion? If not, we may be deluding ourselves about the financial returns being made.



Is there a clear understanding of return on investment for the manufacturer?



Is there a clear understanding of the return on investment for the retailer?

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So if you are short of time, wish you were able to do higher-value tasks, or are concerned about the amount of time or expense that is being wasted on promotions, just think through this list of questions and aim to do a little less of the worst type of promotions.

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