Want To Drive Profits? Look At Your Promotions

What to do if you have to hit your targets and want to drive profits?

Mike Anthony

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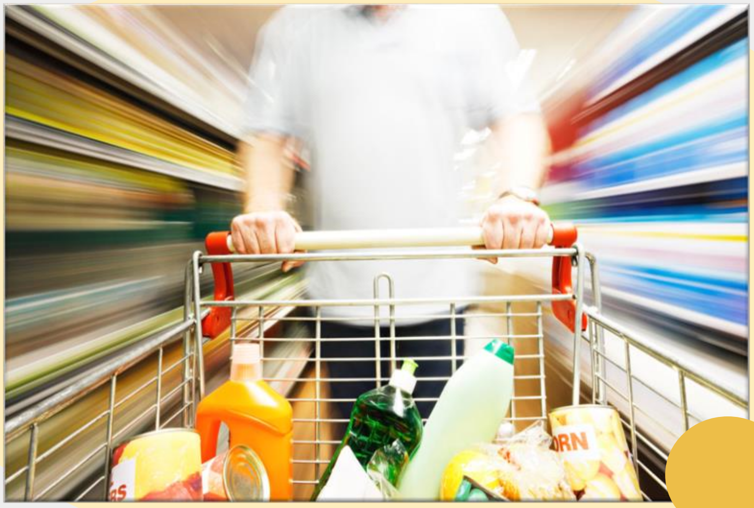
Across the world the economy is tough; shoppers are being choosier, and willing to sniff out a bargain – yet both manufacturers and retailers have sales targets to hit. **What to do if you have to hit your targets and want to drive profits?**



It appears that the in the vast majority of cases the answer is to increase the number of promotions.

This responds to the deal-hungry shopper, but what does it do to the shoppers who are not deal-obsessed, and what does it do to profits?

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Profit slipping away

Analysis we've conducted at engage suggests that **70**% **of promotions lose money for manufacturers.**

Worse, one in ten promotions lost money for both the retailer and the supplier!

Destroying value from loyal shoppers

Most promotional evaluations only actually look at what is sold and are merely a calculation as to whether there was enough additional sales value to cover the cost of the discount. **But it doesn't really account for who actually buys, and what they do with the product after they buy it.**

In every category some promoted goods will be bought by someone who would have bought the brand anyway; or who brings forward a future sale because of the deal. Unless they consume more as a result of buying more, then this is just lost money.

In categories with inelastic consumption, this is often the case. In some categories we've seen "loyal shoppers" buy five months' supply in one go as it's on a deal – but as they don't use any more, then they end up not buying again for five months!

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Brand value eroding

Over time shoppers who believed the brand was worth one price, now start believing it is worth another price. They wait for promotions, as they now have recalibrated the value of the brand. **Brands are simultaneously spending millions to build brand equity with consumers, when at the same time spending money to lose brand equity with shoppers.**

There are plenty of other negative factors relating to promotions (e.g. out of stock); but even these are enough to suggest that the estimates of the negative value of promotions are fair, or even generous – the true cost of promotions may well be significantly higher.

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Promotions may be seen as a necessary evil. How then to address the problem, without losing all of those sales uplifts that are deemed as essential to the brand’s success?

How to get out of the promotion’s money pit

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Measure

Not all promotions are bad, and some are worse than others. Begin evaluating promotions, and work out which ones are good for business, which are ok, which are not ok, and which are really poison. Stop taking the poison and replace with more of the good stuff.

Don’t go cold turkey

Stopping is a bad idea. Your customers won’t like it, and your shoppers will get confused, and that might cause problems.

Start gently, by reducing the intensity, reducing the depth of deals or the duration of the deals. Identify the worst offending promotions and stop those.

If 70% of promotions lose money we don’t have to move to zero overnight, but if we were to nudge towards 60% that might make a huge difference.

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Build an alternative strategy

Just cutting promotions isn't the answer: the volume hit will be massively painful.

What is required is an alternative approach that delivers growth for your brand with a lower level of dependency on promotions

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Take alternatives to retailers

Retailers are suspicious folks and when a supplier wants to stop something, they get worried about their profits, and the funding (end caps, mailers) that is associated with the activity.

Go to retailers with alternatives that maintain investment levels in the first instance. Once we prove our activity works, these things can be re-negotiated later.

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Whatever you do, do something

The pressure isn't going to stop soon, and more promotions, at some point, just won't work anymore. There is only so much stuff that people can buy.
There is only so long that prices can be cut deeper. Something will one day give.
Wouldn't it be good to be half-way out of the hole when it begins to cave in?

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THANKS!

Mike Anthony

Want help escaping promotion addiction? Get in touch now

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