

GENERATING INCREMENTAL GROWTH THROUGH PROMOTIONS

NOVEMBER 2018



-15%

GLOBAL
ANALYSIS

UNDERSTANDING
INCREMENTALITY

OPTIMISING
FOR GROWTH

KANTAR WORLDPANEL

CONTENTS

- 03** Understanding short-term uplifts to achieve success
- 04** Painting the promotional landscape
- 06** Channel comparison
- 07** Category comparison
- 08** Analysing promotional spikes
- 09** Maximising incrementality
- 10** Optimising by country and category
- 12** The local picture
- 14** Conclusion
- 15** About us

UNDERSTANDING SHORT-TERM UPLIFTS TO ACHIEVE SUCCESS

The ultimate aim for any brand is to grow, and promotions play a significant part in achieving this goal. Whether it's by increasing sales for old favourites, or helping establish brand new product lines, promotions are crucial for retailers and manufacturers alike.

It's not just anecdotal, but something borne out in hard facts. Across the six markets analysed for this study (Brazil, China Mainland, France, Mexico, Spain and the UK), we found that more than one dollar in every five spent on FMCG was through promotions. In the UK, this rises to a third of total FMCG spend.

However, while promotions may help grow brands to attract new shoppers – as well as encourage their return – there is no long-term impact on penetration.

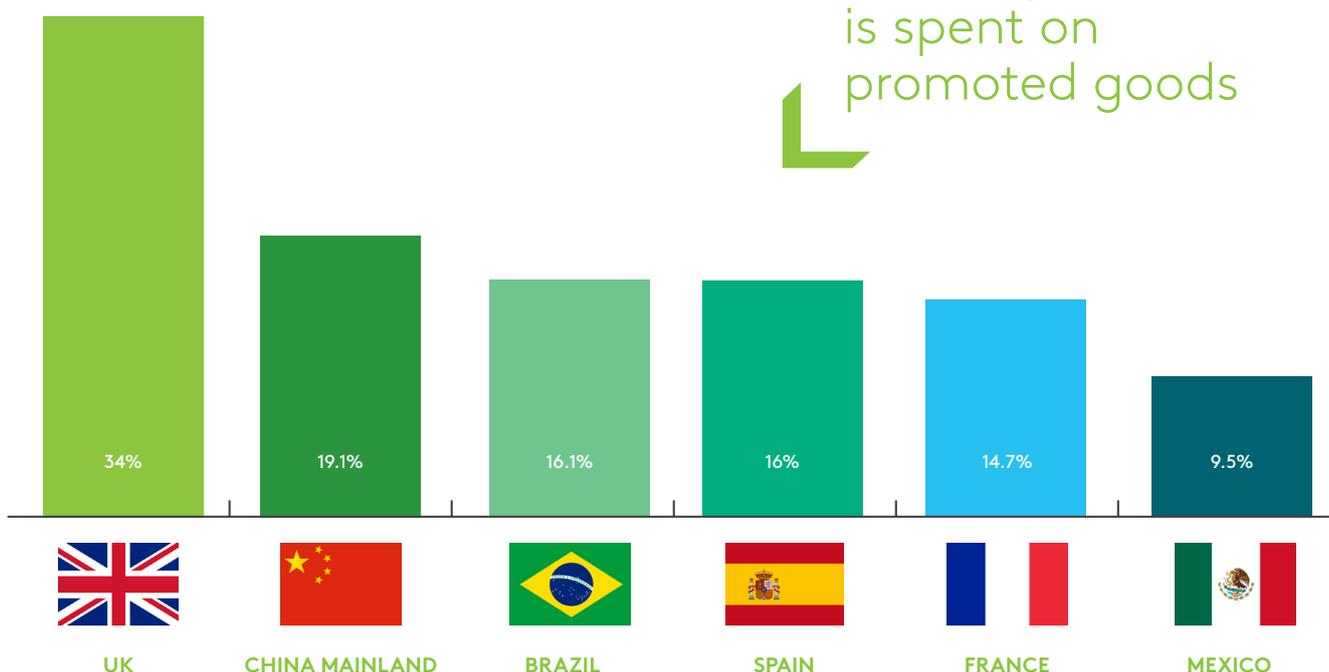
Success comes from thoughtful consideration of where a promotion most appropriately fits within the entire marketing mix.

Through our panels, we can see the level of promotions in each of our studied markets, as well as the uplift these promotions have provided.

Success, whether for brand or retailer, can only come when promotions manage to encourage additional purchasing at a category level that would not otherwise have happened. We call this "incremental growth"—it's the most effective measure by which to analyse promotion performance.

At Kantar Worldpanel, we not only measure the level of promotion by market, by sector and by category—we also know the full picture of how a promotion has helped both the brand and the retailer gain incremental volume.

% promoted value for total FMCG
 Source: Kantar Worldpanel (52 w/e June 2018)



PAINTING THE PROMOTIONAL LANDSCAPE

Growth has become more difficult for FMCG brands and retail—making ‘zero’ the watchword for the FMCG industry.

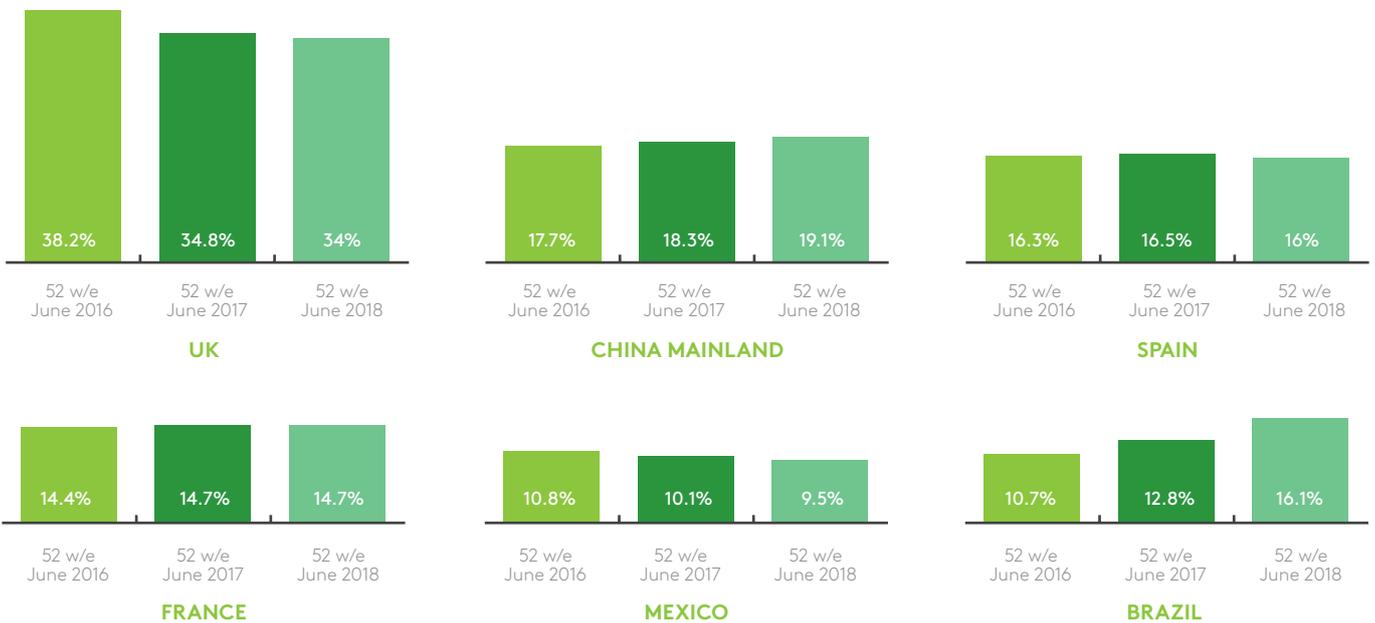
With 25% of FMCG value generated by promotions in hyper- and supermarkets, how can brands and retailers optimise their strategies to deliver new growth opportunities? And, in an increasingly fragmented and multi-channel world, are promotions still a viable strategy?

There are nuances in individual markets that it’s vital manufacturers and retailers understand.



% promoted value for total FMCG

Source: Kantar Worldpanel (2016 - 2018)





EUROPE

Promotion value growth is flat in Europe, at +1% in the UK, +1% in France and 0% in Spain. The UK remains the most important country for promotions globally, representing more than a third (34%) of total FMCG spend.

The UK's share, however, is noticeably declining. An increase in discounters that focus heavily on private label brands rather than activating promotions, and the 'big four' supermarkets (Tesco, Sainsbury's, ASDA and Morrisons) opting for 'everyday low price' strategies, means promoted value share in the UK has fallen from 38.2% to 34% since 2016.



ASIA

E-commerce is growing fast in Asian countries, driven mostly by improving internet connectivity, which is now more easily available and at a lower cost. E-commerce today represents a 19.9% share of FMCG value share in South Korea, 9.5% in China Mainland, 7.6% in Japan, 7.2% in Taiwan, 1.5% in Malaysia, and 1.2% in Vietnam and Thailand.

This shift towards e-commerce is encouraging shoppers to spend more on promotions in the region. As an example, China Mainland was the second-fastest-growing market for promotions in our study (+9%), due to the success of promotional events like the 11.11 Global Shopping Festival across Alibaba platforms.



LATIN AMERICA

Once a channel purely for trade customers, Cash & Carry (C&C) stores are enticing shoppers with treasure troves of promotional offers, now selling directly to 46 million households across Latin America—or 44% of the population.

C&C value sales grew 20% in 2017, driven mainly by the economic downturn in Brazil and Argentina—with these countries representing 80% of total C&C spend in Latin America. In these stores, many promotions involve larger pack sizes. As a result, Brazil was the fastest-growing country for promotion value in our study, increasing its promoted value share from 10.7% to 19.1% in the past three years.

CHANNEL COMPARISON

E-COMMERCE IS GROWING FAST

The 2018 edition of Kantar Worldpanel's *Winning Omnichannel* publication revealed the significant changes taking place in the global retail landscape. It pointed towards a rapidly evolving landscape, with e-commerce (+15%), discounters (+5.2%) and C&C (+4.4%) topping the list as the fastest-growing channels globally.

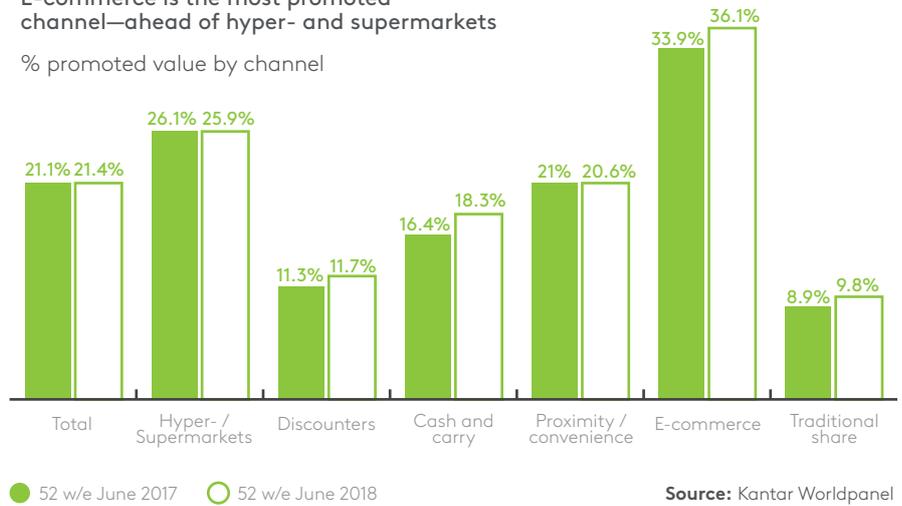
It's clear that e-commerce – the fastest-growing retail channel – is also the most prolific for shopper promotions—with promoted value increasing by 25%. Its swift emergence has created a highly competitive marketplace, where introductory offers and heavily promoted products are commonplace. Promotions now represent more than a third (36.1%) of all e-commerce spend globally.

ONLINE VALUE OUTSTRIPS OFFLINE

In nearly every country analysed in our study, the value of promotions across channels was higher online than offline—by 50%, on average. This demonstrates the opportunity for brands and retailers to optimise promotions mechanics online to drive growth.

E-commerce is the most promoted channel—ahead of hyper- and supermarkets

% promoted value by channel



Source: Kantar Worldpanel

The exception to this trend is Spain, where leading supermarket chain Mercadona believes in employing an aggressive 'everyday low price' strategy rather than promotions.

As previously discussed, the second-fastest-growing channel for promotions was C&C (+21%). At the other end of the scale, convenience stores (+0.7%) and hyper- and supermarkets (+1.7%) only achieved modest growth. Again, this alludes to the rise of discounters and adoption of 'everyday low price' strategies.

PROMOTIONS DRIVE FOOTFALL

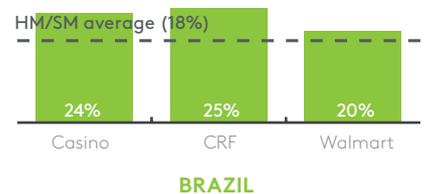
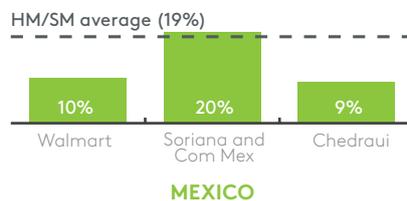
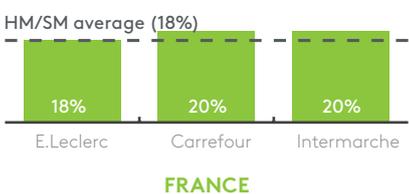
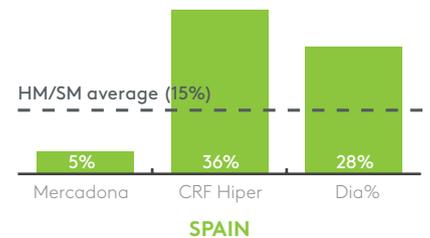
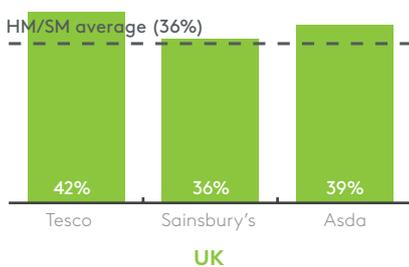
As the below graphic shows, the biggest retailers tend to invest more in promotions than the average hyper- or supermarket.

For example, in the UK, the 'big four' supermarkets all invest similarly in promotions—with Tesco leading the charge with 42% of its value generated with promotions, above the average 36% average for hyper- and supermarkets.

Across markets it is clear that – apart from for discounters, and Walmart in Mexico – promotions are still a major tactic for increasing in-store footfall.

Leading retailers invest above average

% promoted value share for top three retailers in each country



Source: Kantar Worldpanel (52 w/e June 2018)



CATEGORY COMPARISON

HOME CARE AND HEALTH & BEAUTY ARE THE MOST PROMOTED SECTORS

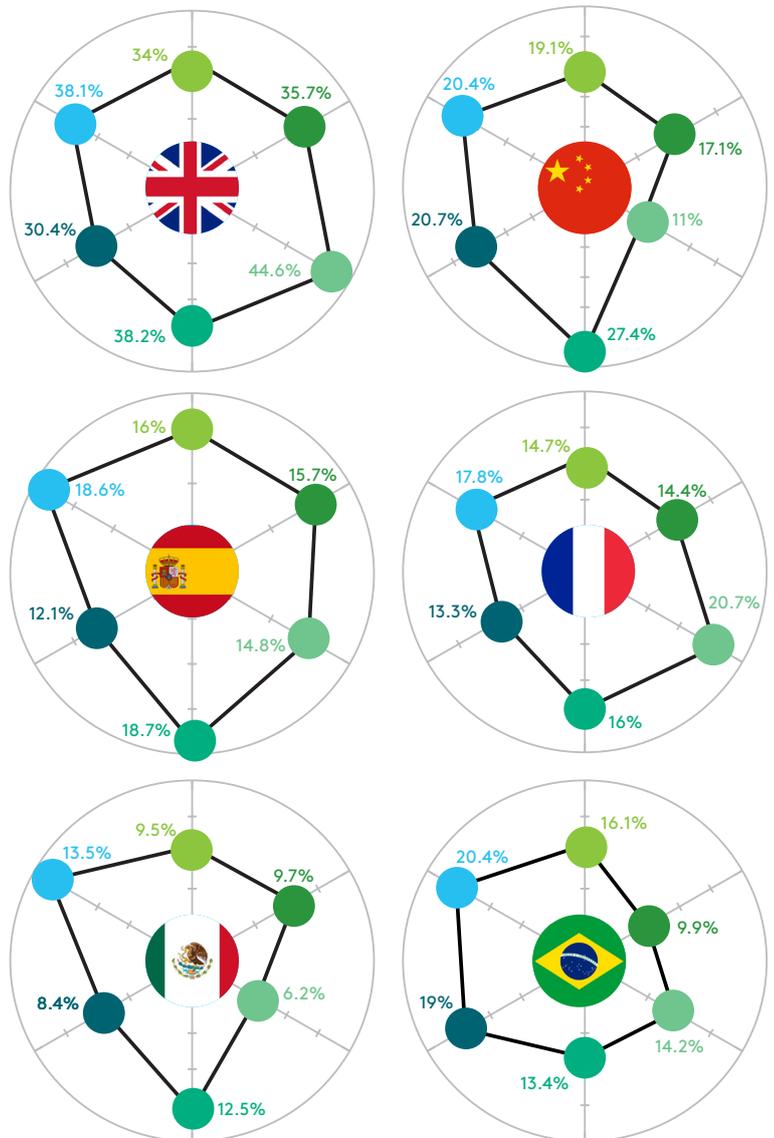
At a global level, our analysis suggests that the most important sectors for optimising spend on promotions are health and beauty products and home care. Essential, bulk-buy products will always shift more volume under promotion.

There are some interesting differences between the most attractive sectors for promotions at a local level. While health and beauty and home care are the most prominent sectors in China Mainland, Spain and Mexico, beverages is the most important sector to optimise in the UK and France. In Brazil, the dairy sector is almost equally important as health and beauty.



% promoted value share by sector

Source: Kantar Worldpanel (52 w/e June 2018)



- Total FMCG
- Food
- Beverages
- Home Care
- Dairy
- Health & Beauty

SHOPPER PROFILES

Promotions will have impact with all shopper profiles, but some targets are more receptive than others. Surprisingly, we see the highest engagement from young families with higher incomes—which can be explained by the fact promotions focus on branded goods popular with higher income shoppers, rather than private label.

Promotions resonate with higher-income families



Source: Kantar Worldpanel (52 w/e June 2018)



ANALYSING PROMOTIONAL SPIKES

While we've seen that promotions drive sales across all channels and categories, it's not a simple recipe for successful growth. In fact, promotions do not support long-term growth at all.

With every promotion, manufacturers and retailers are likely to see a significant spike in sales. But, once the promotion has ended, things go back to normal—reaching the same level as before

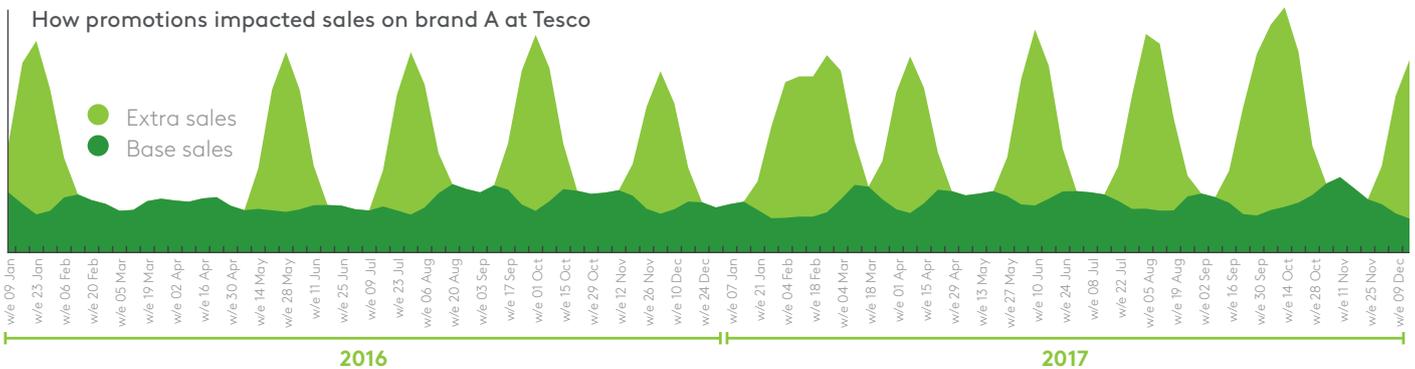
for both penetration and volume per buyer.

At brand level, deals drive a purely short-term uplift in volume. Price cuts bring in more shoppers, and volume deals drive weight of purchase, but sales always return to a consistent baseline.

Take the example of Tesco, the British supermarket chain, as shown in the chart below. Regardless of

the type of promotion or the timing, volume will immediately decrease afterwards.

Tesco's promotions pattern is confirmation that this doesn't help to build your brand in the long term. It's important from a tactical standpoint, and helps win share this year versus last, but it's a short-term gain. This pattern rings true for many brands across the six countries we studied.



If that's the case, how can retailers and manufacturers achieve growth alongside promotional activity? This approach relies on three core considerations:

1. The size of the spike

The volume sold by the deal. Theoretically, the more shipped by manufacturers, the more both they and the retailer stand to gain.

2. The number of promotional events

A higher frequency of promotions during the year will drive more volume.

3. The quality of the spike

Most importantly, we need to know where promoted volume "comes from", and its incrementality. A smaller volume spike may offer higher value gains, if more of that volume is incremental.

This is the most straightforward approach to activate, as it does not require negotiation between retailers and manufacturers.

Maximising incrementality for manufacturers

% source of volume
Source: Kantar Worldpanel

Incremental: extra volume due to shoppers consuming volume faster

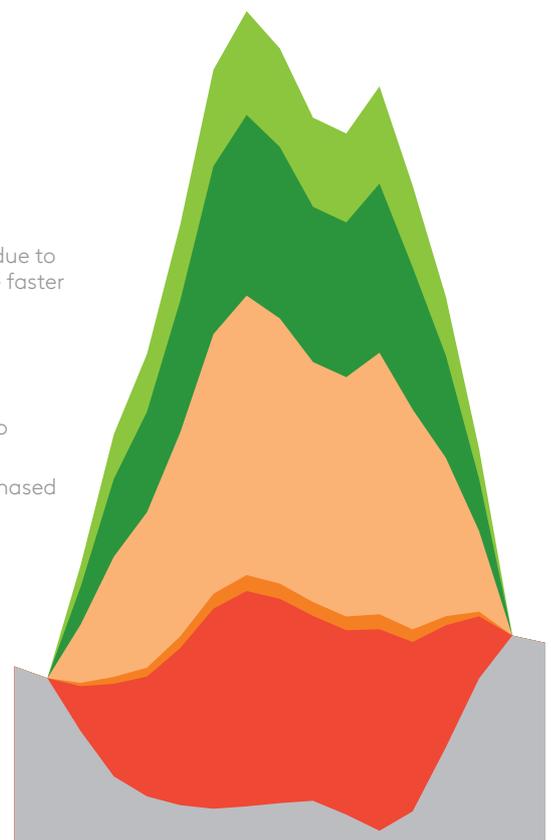
Stolen from a competitor

Cannibalised from manufacturer's own portfolio

Displaced: would have purchased anyway, but at a later date

Subsidised: would have purchased regardless

Not promoted



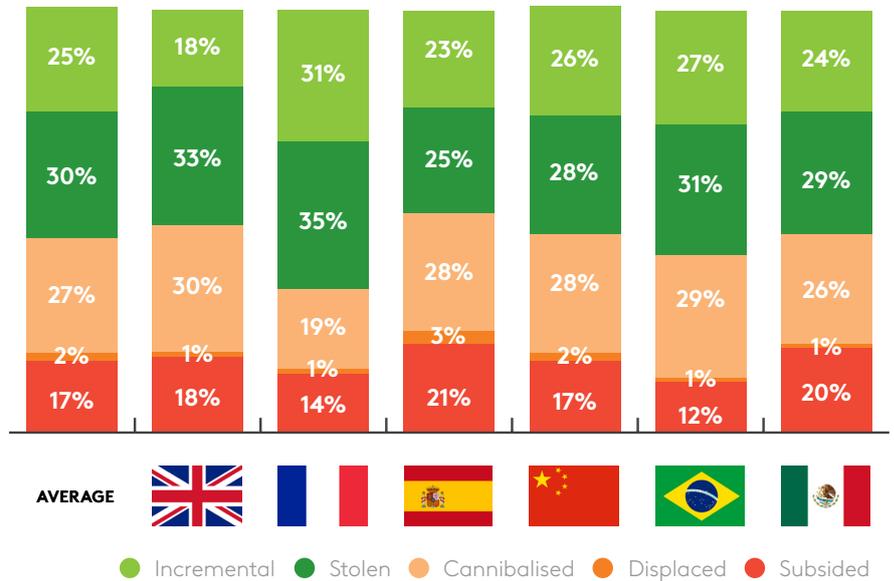
MAXIMISING INCREMENTALITY

For both manufacturers and retailers, the most important considerations are whether the promotion was incremental to the category – meaning it brought in shoppers consuming more volume, more quickly than before – and how much of that volume was stolen from competitors. It’s important to avoid cannibalisation of a brand’s existing portfolio.

For manufacturers shipping to the countries covered here, 25% of promoted value is incremental to the category. When combined with sales stolen from competitors, 55% of everything shipped by a manufacturer during a promotion is incremental to the brand.

For retailers, only 18% is stolen from competitors—66% can be attributed to cannibalisation within the store. That represents a significant opportunity to maximise incremental sales.

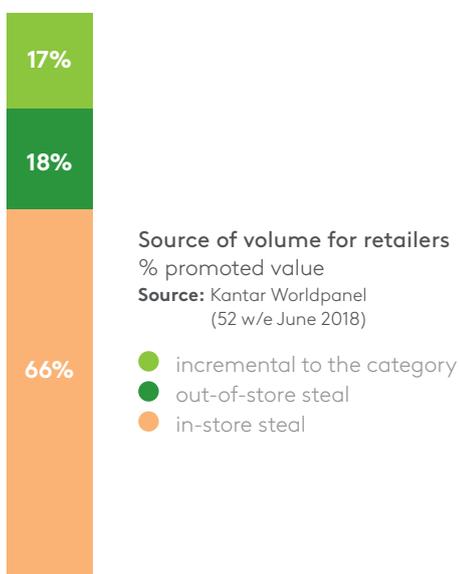
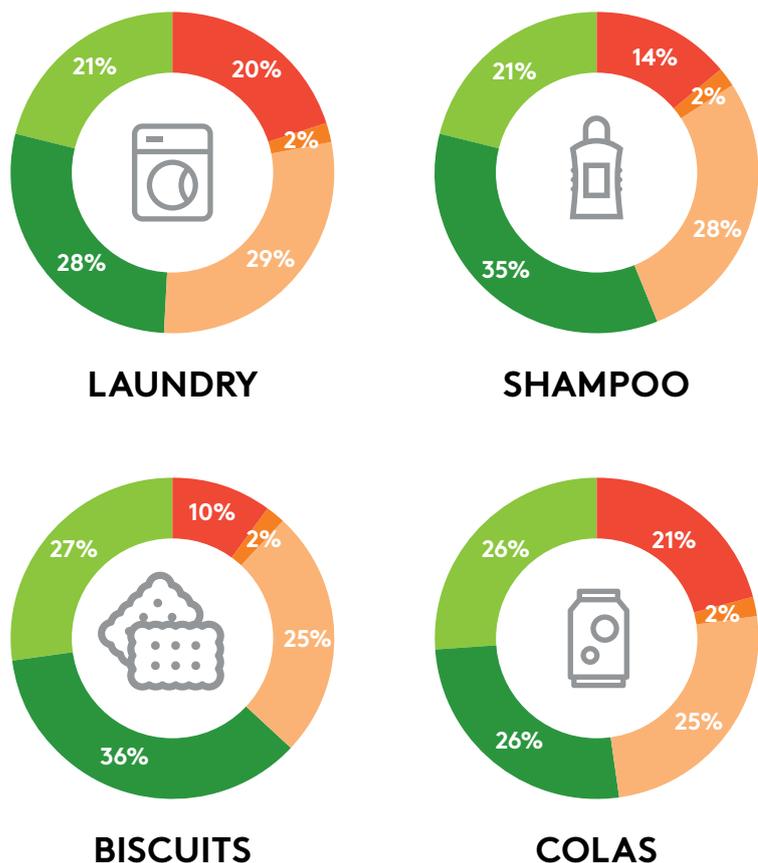
Source of volume (average across laundry, colas, biscuits and shampoo)
% promoted value
Source: Kantar Worldpanel



Expandable categories boost incrementality
Source: Kantar Worldpanel

EXPANDABLE CATEGORIES HOLD THE MOST POTENTIAL

More expandable categories such as colas or biscuits – where the more somebody buys, the more they can consume – display higher levels of incrementality. Understanding the potential for expansion is the best way to achieve growth.



OPTIMISING BY COUNTRY AND CATEGORY

To improve incrementality, we need to understand the most effective promotional mechanic within a country or category.

In the markets we've analysed, we've calculated promoted volume and incremental volume—if a specific mechanic or type of promotion shows a higher percentage for the latter, that suggests it is a more efficient approach.

The conclusion is that there is no universal rule; no common pattern shared across all countries and categories.

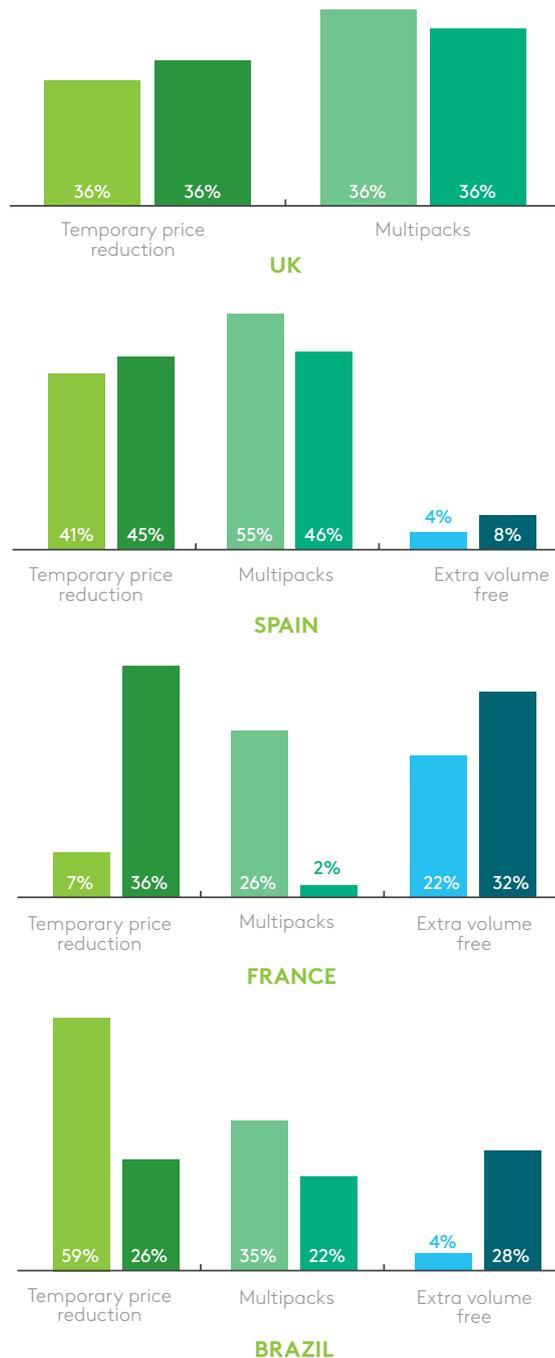
Looking at how promotions perform in the cola category, for example, we can see significant differences in different markets.

In the UK, a temporary price reduction (TPR) performs more effectively than a multipack offer, suggesting brands should focus on the former over the latter. There are starker differences in other countries, for example Brazil—where TPR clearly does not work. Conversely, offering extra volume free has a strong positive impact.

In France, TPR is underutilised within colas, while multipack offers appear to be overused and inefficient.

This detail is invaluable for informing manufacturers and retailers' promotional strategies, identifying how to avoid cannibalisation and drive more incremental spend.

There's no universal rule for promotion mechanics
% promoted volume versus % incremental sales



Source: Kantar Worldpanel



Optimisation depends on category and country nuances
 Based on which mechanics perform best, according to our model

Source: Kantar Worldpanel

	LAUNDRY	COLA	SHAMPOO	BISCUITS
UK				
SPAIN				
FRANCE				
BRAZIL				
MEXICO				

MULTIPACK
 PRICE CUT
 EXTRA FREE

THE LOCAL PICTURE

We spoke to our local experts about the promotional landscape in each market.



Russell Hill
Solutions Director

How has the promotional landscape changed in the past 10 years?

Supermarkets, led by Sainsbury's, have reacted to the rise of Aldi and Lidl by reducing the number of multi-buys in favour of simple price cuts—also nodding to consumer concerns around food waste. Retailers are now looking to compete with discounters by providing cheaper prices through their own ranges.

Which promotions work best?

The market may be dominated by price cuts, but our research shows that multi-buys are better for both retailer and category—they encourage less steal between brands and more incremental purchasing. Meat, Fish and Poultry is an area where retailers can win with shoppers, as the rest of the plate is often sourced from the same store.

How do you see the promotional landscape changing in the next few years?

The 'less is more' mentality, driven largely by the success of the discounter model, will become more commonplace. But there will also be more cross-category—possibly even cross-industry—tie-ups to help lock in shopper loyalty. We've seen this with the John Lewis Partnership looking to merge loyalty schemes across the John Lewis & Partners and Waitrose & Partners brands.



Aude Boscher
Shopper Director

How important are promotions?

Promotions are a key element of differentiation for retailers attempting to compete with Mercadona—which has high levels of loyalty and household reach despite not using promotions or a loyalty programme. Consum is one example, with its efficient promotional model well received by the Spanish public.

Who is promoting well?

Lidl's promotional model is performing well. It focuses on direct discounting, differentiating it from the multi-buy strategies of more established hypermarkets—and has successfully attracted new buyers in-store. On average, one in three promotional buyers entering a category will have done so in Lidl.

Pizzas, coffee and olive oil are the three most efficient categories. The discounter's country-themed weeks are supported by media campaigns, doubling penetration during the promotional period in categories such as pasta.

How do you see the promotional landscape changing in the next few years?

More FMCG players are questioning the efficiency of mass promotions, which has devalued some categories. Moreover, with the digitalisation of the market, speed and personalisation are fundamental. We expect personalised offers through mobile apps to become a key driver.



Stéphanie Papin
Business Unit and Analyst Director

How important are promotions?

Promotions are a hot topic due to the États Généraux de l'Alimentation (EGA)—a new law encouraging sustainability in the food and agricultural sectors. Many anticipate BOGOF to be affected, with some expecting it to disappear completely. To mitigate this, retailers such as Leclerc have begun exploring different mechanisms—predominantly loyalty cards.

How has the promotional landscape changed in the past 10 years?

French retail has gone through a sustained price war, with promotions increasingly used as a differentiator. However, since 2017, households have become less interested in promotions—in beauty, for example, promotions no longer compensate for category decrease.

How do you see the promotional landscape changing in the next few years?

We're waiting to feel the full impact of the EGA, which we may not experience until 2020. In unaffected categories, such as health and beauty and home care, we're likely to see a dramatic increase in promotions.

Regardless, the desensitisation of consumers will continue, as they instead seek out organic foods and healthy recipes.



Flavia Amado
Shopper Director, Latin America

How has the promotional landscape changed in the past 10 years?

The past decade has seen promotions make increasing use of technology, with loyalty cards becoming especially important thanks to personalisation. What hasn't changed is that main actions are still price-driven and run for short periods. Too often, promotions are unfortunately used as an indiscriminate solution for struggling products.

What impact is this having on purchase behaviour?

Brazilian shoppers tend to seek out discounts, but multibuys are receiving more attention. When consumers find a good promotion, they tend to spend more at the retailer and become more loyal, increasing spending index.

How do you see the landscape changing in the next few years?

E-commerce has had real difficulties in growth in Brazil, due to logistical barriers and cultural resistance, but there is real opportunity through promotions. We could see channels using promotions in conjunction with apps, social media and geolocation to achieve cut-through.



Lilia Valdes
Shopper and Retail Manager

Which promotions work best?

Promotions in Mexico work on a seasonal basis. Soriana operates "Julio Regalado" in July, while "Temporada Naranja" is run by La Comer around the same time. The success of these seasons has led other retailers to launch similarly intensive activity to compete—Chedraui now runs "Festival de la Belleza", during which it uses 3-for-2 promotions in the beauty category.

Who is promoting well?

Regional retailers, such as Calimax and Casa Ley, have effective high-low strategies—30% of sales at these two retailers are through promotions. Interestingly, convenience stores have a higher share of promotions than self-service stores; promotions in convenience have grown in the last year, while self-service stores have lost share.

How do you see the landscape changing in the next few years?

With consumers in Mexico using more channels to shop, promotions will become increasingly relevant. Online channels can offer more promotions than ever before, giving shoppers the power to make intelligent purchasing decisions. However, with "promotional seasons" being executed by retailers more frequently and for longer periods of time, manufacturers may struggle to keep prices as low for as long.



Heather Li
Senior Analytics Manager

How has the promotional landscape changed in the past 10 years?

The rapid move to e-commerce and digitalisation has led to a wider variety of promotions. Even in bricks-and-mortar stores, digital coupons and QR codes are becoming more common than analogue mechanisms.

What impact is this having on purchase behaviour?

Shoppers are becoming more promotion-driven because of the attraction of achieving value for money on premium products. Digital platforms allow promotions to be more targeted, so shopper experience has improved.

How do you see the promotional landscape changing in the next few years?

Promotion will become more creative, and full-chain promotion will become more common. For instance, shoppers could see a promotion on Weibo, and click for a coupon to buy on Taobao. Then, after a few weeks, the shopper could receive another coupon for the same product on the Walmart virtual store, reminding them to buy again.

FIVE PRINCIPLES TO GROW THROUGH PROMOTIONS

Over the course of this study we've seen how promotions can have significant impact for manufacturers and retailers, across categories and throughout the world.

We've identified five principles to consider as you look to use promotions to achieve incremental growth:



#1: PROMOTIONS ARE GOOD FOR BRAND AND CATEGORY VOLUME

55% of promoted volume is incremental to the brand. 25% is incremental to the entire category.



#2: REDUCING THE FREQUENCY OF PROMOTIONS DURING THE YEAR...

...will lead to brand and category decline.



#3: UPLIFT ONLY OCCURS IN THE SHORT TERM

Promotions do not have a long-term effect.



#4: GROWING THROUGH PROMOTION IS POSSIBLE BY...

- Negotiating more volume with retailers
- Having more promotional events to drive more penetration
- Optimising the level of incrementality. The more expandable the category, the more incremental the promotions.



#5: WHEN IT COMES TO THE OPTIMISATION OF MECHANICS...

...there are no rules. It depends entirely on country and category nuances.

At Kantar Worldpanel, we help our clients develop shopper-centric promotional plans that deliver incremental growth for brands and retailers alike.



ABOUT US

For more information, please contact

Stéphane Roger,
Global Shopper and Retail Director
stephane.roger@kantardworldpanel.com
+34 93 581 96 62

Or to find a local contact please see
www.kantardworldpanel.com

About Kantar Worldpanel:

Kantar Worldpanel is the global expert in shoppers' behaviour. Through continuous monitoring, advanced analytics and tailored solutions, Kantar Worldpanel inspires successful decisions by brand owners, retailers, market analysts and government organisations globally.

With over 60 years' experience, a team of 3,500, and services covering 60 countries directly or through partners, Kantar Worldpanel turns purchase behaviour into competitive advantage in markets as diverse as FMCG, impulse products, fashion, baby, telecommunications and entertainment, among many others.

Contributors:

Benjamin Cawthray
Global Thought
Leadership Director

Flavia Amado
Shopper Director,
Latin America

Stéphanie Papin
Business Unit and
Analyst Director, France

Russell Hill
Solutions Director,
United Kingdom

Aude Boscher
Shopper Director,
Spain

Lilia Valdes
Shopper and Retail
Manager, Mexico

Heather Li
Senior Analytics
Manager, China

Barbara Barbosa
Shopper Manager,
Brazil

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