PROMOTIONS DO YOU KNOW WHAT YOU DON'T KNOW?

THOUGHTS ON...

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British shoppers buy more groceries on promotion than anywhere else in the world. Over a third of all FMCG spending is for items on offer – rising to 45% in the UK's four largest supermarkets – with the average household spending £1,480 on promotions each year.

Brands and retailers alike know that the right deal can tempt consumers into making a purchase, persuade them to trial new launches and even increase their spend and consumption. Understanding how shoppers behave when faced with a huge choice of products – and how promotions affect their decision making – is essential in formulating winning promotional strategies.

Change is in the air

Supermarket promotions have escalated over the past decade, peaking at just below 40% of sales in the years following the global financial crisis. More recently, the major retailers have been re-thinking their approach in response to pressure from two directions.

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First, the big four have faced criticism from the media, consumer watchdogs and the Competition and Markets Authority over claims that many offers mislead consumers. At the same time, Aldi and Lidl have almost tripled their market share in a decade, with their success attributable in part to business models which eschew promotions in favour of 'everyday low prices' (EDLP).

Against this backdrop, British shoppers spent £1 billion less on promotions in 2016 than they did last year – partly due to a move away from multi-buy promotions by the big four, who have been opting instead for simpler price cuts. In early 2016, Sainsbury's announced it was phasing out multi-buys, with Tesco, Asda and Morrisons also reducing their reliance on such deals.

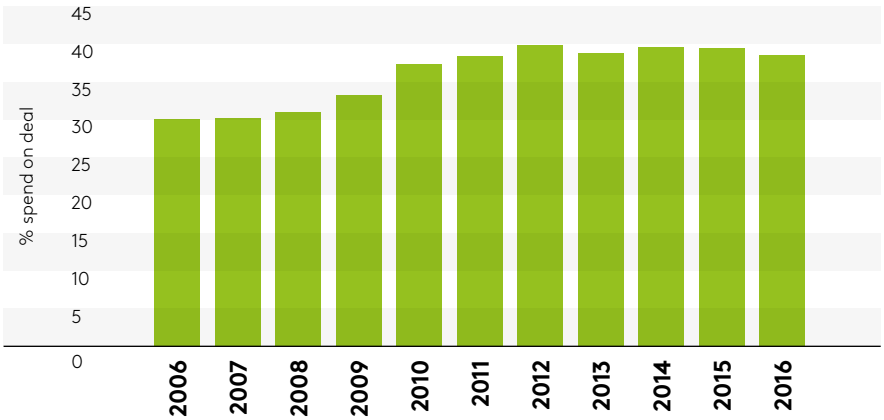
A brave new world

So how do brands and retailers adapt to this changing landscape in a way that is mutually beneficial?

A brand's ultimate aim is to win market share, and promotions have historically played a significant part in either increasing sales for old favourites or helping to get new lines established. But the majority of this growth does not boost the overall category – it just shifts volume and revenue from one brand to another – and when an increase in market share is underpinned primarily by promotions, attempts to de-escalate offers can be difficult.

On average, 58% of sales made once a brand is placed on promotion are a direct result of the offer – 42% would have happened without the promotion. A brand, therefore, has a reasonable amount to gain but also plenty to lose should the scaling back of promotions become an aspiration.

FMCG levels of promotion over 10 years



% source of sales volume in average FMCG promotion

However, the net effect of selling products more cheaply is that only half of all offers actually increase overall category spend. Success for brands and retailers comes when deals manage to encourage additional purchasing at a category level which would not have happened otherwise.

With absolute sales volumes dependent on the level of discount offered and effective merchandising in store, getting these two factors right is critical. If volume growth is not sufficiently significant, the extra units sold do not generate enough revenue to cover the money lost.

However, this does not mean that steep discounting is the answer. Typically discounts of over 40% do not recoup the entire spend lost from the category. In contrast, multi-buy deals like buy one get one free – which are effectively a 50% reduction in price – invariably generate greater incremental growth in category volume than straightforward price cuts.

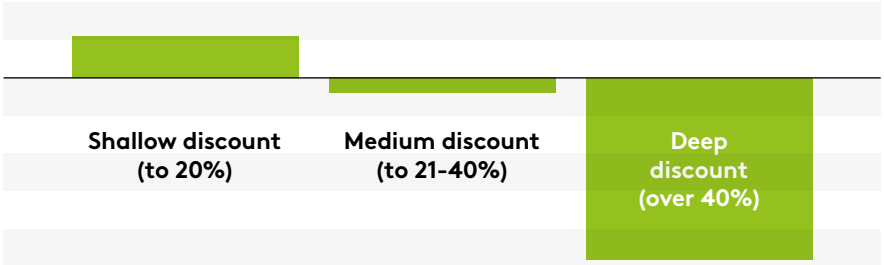
Expandable spending

The concept of 'expandability' partly helps to explain how promotions can create incremental sales. Household purchasing patterns consistently show that uplifts generated through deals result in consumers buying more and using more than they otherwise would have. All categories are expandable in this way, though some more so than others.

While it may seem obvious that an offer on chocolate could persuade shoppers to consume more than they intended, the 'buy more – use more' phenomenon extends further. Cleaning products are a surprising example of a category where consumers may not feel they are swayed by offers, but they often are.

Brands need to understand their position on the expandability spectrum because as retailers move away from volume-driving deals and promotions in general, highly expandable markets have more to lose.

Deep discounts are often harmful to the wider category
The average FMCG promotion



◆ Incremental category value at varying deal depths

Everyday low pricing

EDLP has been successful in sending a strong message on value for Aldi, Lidl and the fixed-price discounters, bringing with it the temptation for other retailers to follow suit. However, it's worth bearing in mind that the volumes generated through high-low promotions – where a large reduction is made for a short period of time – are rarely replicated through permanently shifting to a slightly lower price. Such typical base price cuts do not generate enough uplift in volume sales to compensate for the lower price.

An EDLP strategy can certainly increase footfall, boosted by an improved price perception of the store, but expecting category sales to hold up after removing promotions is overly optimistic.

Discounter dominance

The discounters arguably own EDLP in consumers' minds; their more limited ranges dominated by own label have always meant lower price points. However, the evidence that shoppers are looking for EDLP at non-discounters is limited.

While a Tesco shopper visiting Aldi will quickly adapt to the unfamiliar pricing and behave in a way indistinguishable from any other Aldi shopper, the reverse is also true. On returning to Tesco the shopper does not seek out EDLP, instead responding to promotions as usual.

Mainstream retailers have so far only dabbled with EDLP, suggesting they are unsure of its wisdom or are unwilling to fully commit. In many cases new strategies focusing on store environment, ranging or own label quality may be more helpful in developing each grocer's USP.

Promotions and the promiscuous shopper

Every brand strives for loyalty, usually defined as how much of a buyer's spending it captures. Loyalty is often cited as a reason for running promotions, in the hope they will persuade consumers to stay with the brand longer term.

However, evidence suggests that shoppers show no heightened levels of commitment having bought a brand's products on promotion, typically reverting to whichever rival is on promotion the next time they shop.

Promotions may help grow brands by attracting new shoppers and encouraging the return of more promiscuous buyers, but they are no shortcut to driving long-term penetration. Deals must be on the right products and sit appropriately within the marketing mix for long-term gains. In health drinks, for example, eight packs drive significantly higher incremental sales than smaller packs.

While promotional strategy in itself has no direct impact on loyalty to individual retailers, price perception does – any promotions therefore need to shout about value.

Over
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still buying items on deal

As for results, those retailers winning market share in recent years have used either EDLP or high-low pricing, so it remains unclear whether one strategy trumps the other.

Promotional activity has certainly decreased in recent years, but with over 99% of the population still buying items on deal, a coherent and appealing set of promotional offers remains as important as ever. Before establishing a strategy, brands must ask themselves:

- How expandable is my category?
- Do I have any evidence that EDLP would work?
- Can I predict the market share impact of cutting my promotional participation?
- Would higher levels of discounting drive more incremental sales?

Navigating fewer multi-buys, a move away from high-low, and the temptation to follow the discounters down the EDLP route requires an understanding of the answers to these questions. Without it, brands and retailers both risk falling behind.

METHODOLOGY

All the primary data used in this report comes from our grocery shopper panel, on which we continually measure the purchasing behaviour of 30,000 demographically representative households in Great Britain [England, Scotland and Wales].

We collect SKU-level information on what they are buying, where they have bought it and the price they paid.

Additionally, we capture if a product was bought on promotion and the promotional mechanic offered by the deal. This allows us to develop a detailed picture of the British retail market and shopper behaviour within it.

The potential level of detail available from the panel goes well beyond that used in this report to help manufacturers and retailers really understand their performance at a granular shopper level.

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