WHITE PAPER

The REALtail truth about promotions

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September 2016

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Over the last year, there has been a big change in the promotional landscape in the UK.

Due to the continuing rise of the discounters and pressure on food wastage, the traditional UK major retailers are moving away from deep discount multibuys to clearer price cuts and 'Round Pound' deals.

The frequency of multibuys has reduced by 40% compared to last year. Retailers hope to give a clear and easy to understand deal structure for the shoppers. But do promotions really help retailers?

IRI has conducted a study looking at over 85k individual promotions to answer this question. A look at statistical modelling shows us the results are very surprising.

On average, a category will only grow by 0.13% (in revenue) as a result of an average promotion. This is far lower than would be expected across the industry. The multibuys that are being removed have historically had little or no impact on sales at a category level (0.02%), compared to price cuts which show some benefit to the retailers (0.20%).

Historically the impact of forward buy is not included in calculations to measure promotional success/failure.

Traditional research methods also fail to take account of the full category effect, allowing for under estimation of product switching and over estimation of category growth.

As with all things, there are bright spots. Tissues, cheese, meal kits and frozen food (1% category growth) promotions have a stronger positive growth in revenue for their respective categories in grocery retailers. However, this is still low compared to industry expectations.

In Health and Beauty retailers there are positive signs with facial wipes and soaps driving good category growth when promoted. Nappies also have a positive category value impact when promoted; much of this has been as a result of store switching. Along with alcohol and infant formula, nappies are a category that can drive shoppers to switch their shopping location to get a better deal.

The biggest winners are the convenience stores, seeing a growth of 2.85% in category turnover when promotions are executed.

Even across retailers within grocery, there are large differences in promotional performance. Multibuys can have a +/- 0.3% category impact in different chains. Price cuts are more successful in mass market retailers whereas multibuys are more successful in more premium chains.

We know that promotions play a wider role in terms of driving footfall and increased basket size. There are also sizeable listing fees paid by manufacturers for promotions, display space and preferential listings which help to fill the retailer's pockets. This always needs to be taken into account when looking at how the promotions help retailers grow.

Private label promotions perform significantly worse than their branded equivalents with private label promotions driving down the overall category sales value by -0.35%. With a lack of manufacturer funding, these promotions are draining category value at an alarming rate.

So who does win in store? The manufacturers!

On average, a manufacturer will grow their sales by around 10% as a result of a promotion, due the steal from their competitors.

Of the 85k promotions analysed, over half had a negative category revenue impact. But there are highlights - many promotions and categories have a positive impact on revenue when promotions are executed, growing both retailer and manufacturer business. The key is to find the promotions that drive a win-win situation for all parties involved.

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