The Net Brand Effect

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al-Mart is refreshing its store brands, adding to the already mounting price pressures on national brands, according to the *Wall Street Journal*. Kroger's chairman is promising to use store brands to force national brands to lower their prices. He suggests it's okay with him if they don't, because it will simply mean more market share for the Kroger brands.

Delhaize, the Brussels-based retail chain, has already made good on a similar promise, removing some 300 Unilever brands from its Belgian stores because they were "priced too high."

A portfolio approach to pricing is critical to brand growth at retail.

As if there were any doubt before these events, it is clear we are now in an economic environment where price and promotions are playing a decisive role in the success of national brands at retail.

At the same time, consumer packaged-goods manufacturers are not getting the same bang for their buck from trade promotion spending, and there are many reasons why. Merchandising activity is up, but overall promotional effectiveness is down. In fact, overall merchandising is increasing while display activity is decreasing, according to IRI, which means the change in activity was focused against pricerelated events.

Retailers, meanwhile, are having more money thrown at them for promotional support than they have vehicles and display space to execute. They know that "power brands" will drive traffic and consumer take-away, but they don't want to turn away dollars for less powerful brands.

As a result, retailers create secondary and tertiary events and tactics like Temporary Price Reductions (TPRs) to satisfy manufacturers who want some type of performance event—not to mention the retailers' desire to improve margins. In such an environment of declining merchandising effectiveness and reduced display activity, how can manufacturers succeed at retail?

UNDERSTANDING SHOPPER BEHAVIOR

Success at retail first requires a clear understanding of what causes shoppers to switch brands and the importance of trade deals and price relative to those switching decisions.

Understanding the strength of shopper loyalty focuses the outcome toward achieving the right competitive price points and creates promotional bundling strategies to improve the return per trade dollar spent. This means that brand equity can be supported because advertising dollars do not have to be reallocated to unnecessary trade spending.

First, it is important to understand the key drivers of demand for the brand. For example, for a brand in a need-driven OTC category, we have learned that having the right mix of products and full distribution of core SKUs at retail impacted the brand's business the most; promotional impact ran a distant second in driving volume.

We were able to demonstrate that the mix of the brand's products could be optimized, and that some of their new products were not as effective at driving

profitable sales volume as were some of their existing brands. In this case, promotion depth of discount just did not play a significant role.

Second, manufacturers need to understand which tactics—and at what frequency and discount level—optimizes the volume lift of the brand. Most manufacturers tend to go astray on spending effectiveness if they can't get the optimal event. They settle for less effective events, either to satisfy their management or to make sure they spend the money they have available.

That does not seem logical, but that is what often happens. In some cases, manufacturers truly expect to get a quality event, but have no control once they commit the dollars to the retailer. This is not necessarily a function of a retailer's deception. It's more about having too many products and not enough available merchandising events and display.

Many manufacturers are pursuing alternative forms of in-store marketing that can yield equal or better returns than temporary price reduction. Some retailers are creating unique forms of advertising that can impact shoppers at the point-of-purchase and provide much needed awareness that may be more impactful than a sea of yellow TPR tags on the shelf.

One example would be Wal-Mart TV, which might be a great vehicle for products that are driven by awareness and not depth-of-discount, and will get a good lift by creating an in-store reminder. Some retailers are driving consumers to a kiosk for convenient meal solutions and associated discount offers.

Others are trying targeted sampling events, like the Costco "road show" to showcase new items. For brands driven by seasonal availability, the seasonal display rack may be the most critical demand driver and the only thing worth paying for, while any other spending only drives inefficiency.

In difficult times, it is more important than ever to focus on consumer understanding and shopping behavior to maximize pricing and promotional decisions for volume and profit growth. However, it is equally important to develop that understanding across the total product portfolio.

A PORTFOLIO APPROACH

In a world where many manufacturers are managing a portfolio of brands across a category based on historically promoted price points and product groupings, more information is needed to make insightful promotional decisions. In many cases, the



Source: Henry Rak Consulting Partners

manufacturers feel they have a good handle on the promotional lifts generated when that product group is promoted, which usually gives them a warm feeling about return-on-investment per trade dollar expended.

What they don't usually have is insight into the impact group promotions have on the rest of their portfolio. In effect, they do not know the impact of the promotion, net of cannibalization to the rest of their portfolio.

To understand this *net brand effect*, the manufacturer needs to understand the shopper switching-behavior that takes place when a particular promoted group is merchandised. An example of this would be if chicken noodle soup in a can is promoted at 2/\$3. How much of the promoted volume is sourced from the manufacturer's own microwaveable soup business and other varieties in the total portfolio? What is the *net brand effect* of running this promotion?

Once manufacturers start to drill down into those questions, they can then begin to explore the return-on-investment of different bundles of promoted products. This enables them to determine which groups collectively provide the highest amount of retained incremental volume or best R.O.I. when promoting.

To be able to conduct a *net brand effect* analysis across the portfolio, a couple key pieces of information are required:

- A detailed market structure that defines the key consumer segments and deciphers the shopper switching that occurs at each distinct level of the structure.
- Modeled promotional response data to understand the impact of promotional and base price changes.

We have usually uncovered eye-opening insights from a *net brand effect* analysis. For instance, we have found the product size that delivers the greatest promotional lift may in fact be highly cannibalistic of a more profitable promoted group within the portfolio. The net effect of that promotion could be significantly diminished when combined with the impact on the more profitable group.

The other key learning is that by bundling products in promotions that touch different consumer segments of the market structure, the promotions tend to be more highly incremental than stand-alone promotions. For example, promoting a microwaveable soup and can soup in the same ad might appeal to

a broader set of consumer needs and create higher promotional incrementality.

We have used this approach across many OTC drug and food categories and have found many areas where promotional synergies can be achieved by better, more efficient product bundling at more moderate price points. We have been able to find ways to reduce overall trade spending while retaining the necessary incremental volume to maintain or grow share of market.

The same *net brand effect* analysis can be applied by the retailer to understand the category impact of new promoted bundles. The retailer can evaluate the total category impact of promoting can soup and microwaveable soup together versus by themselves. The optimal result for this type of ad feature is to raise not just those promoted brands but the whole category's volume, so it provides greater category incrementality for the retailer. This approach also leverages the same consumer switching behavior analysis to aggregate individual promoted events to determine total category impact.

Manufacturers with strong brands and dominant market share will continue to gravitate toward payfor-performance merchandising activity where they will only pay for what they know will best drive their brands. Brands with less equity will continue to thrive on deeper discounts and sub-optimal performance events until more consumer-centric vehicles are created.

If the brand has the equity and share strength, manufacturers should target the key demand drivers and not settle for less. If the brand is a good number-three or number-four brand, manufacturers should work with the retailer to develop more consumer-relevant merchandising events to increase business.

The bottom line is that the business can achieve three key objectives simultaneously—*growing profits* while *supporting brand equity* and *establishing a competitive price* position.



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