



[ARE TRADE PROMOTIONS LOSING THEIR BITE?]

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ARE TRADE PROMOTIONS LOSING THEIR BITE?

Executive Summary

- > The reach and frequency of trade promotions in GB is higher than ever.
- > Shoppers are changing their habits as they come to rely more on trade promotions.
- > Recent raw material cost increases in some categories and additional fuel / transport costs have masked the diluting effect of trade promotions on topline value sales.
- > Categories where raw material costs have not risen substantially have experienced deflation in many cases.
- > Base sales are declining as trade promotions are used more often and shoppers are therefore encouraged to be more promiscuous, eroding real brand loyalty.
- > Some categories now have more than 70% of annual volume sales going through on trade promotion.
- > There has been a 20% increase in the proportion of FMCG sales bought on trade promotion in the last 4 years.
- > As they become more widespread, each trade promotion works a little less well than it used to but still costs the same, so efficiency is reduced and profits are lower.

ACTION - Run trade promotions less often and with less deep discounts, making each one work harder to increase efficiency.

Trade promotions are becoming more and more popular but their impact could be dwindling...

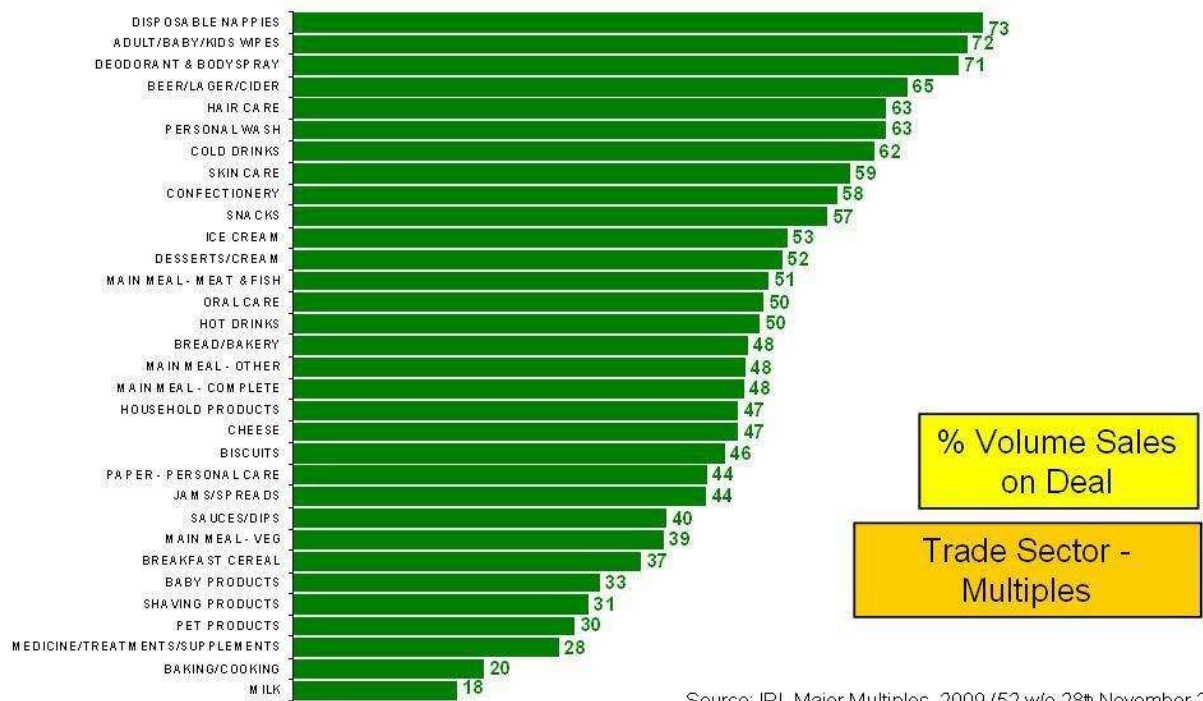
Data source : IRI Infoscan, 2005 – 2009, GB Multiples trade sector, 265 packaged FMCG categories.

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This 5 year study of trade promotion impact has looked at information across 265 FMCG categories in Great Britain, where the annual level of trade promotion happens to be the highest recorded in Europe. The theory is that as shoppers / consumers are bombarded by the ever increasing frequency of trade promotions, they begin to change their purchasing habits accordingly to get the best deals. And whilst trade promotions are an

extremely effective way of focusing attention onto individual brands and products, as well as adding a level of in-store 'theatre' and shopper attraction to the retail environment, they do have a downside from a category perspective. As more of our shopping is bought on promotion, so topline value sales are diluted. To avoid deflation occurring the elements of the mix that encourage trading up, such as NPD (which is generally premium), need to work harder.

More than 70% of volume for Disposable Nappies, Wipes and Deodorant is coming from stores with Trade Promotion



Source: IRI, Major Multiples, 2009 (52 w/e 28th November 2009)

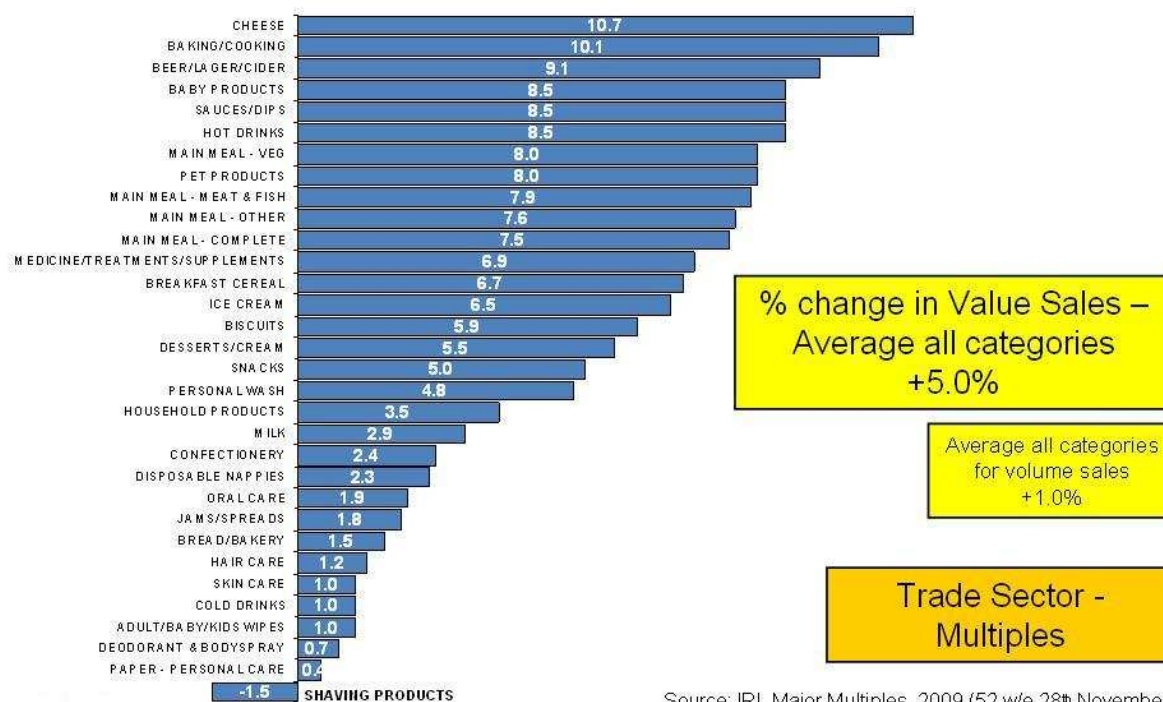


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A year ago, 2008, one in five FMCG categories had more than 50% of annual sales volume bought on trade promotion. In the latest year, 2009, this number has increased to almost one in three. These most highly trade promoted categories accounted for one third of all FMCG values sales a year ago but almost half of all value sales in the latest year.

value sales, on average by -1.6% of category turnover. But even though the increasing level of trade promotions is diluting prices, cost increases are getting through and most categories have seen value growth, whilst on average 2009 volume sales growth is only +1.0% year-on-year.

Most categories are seeing value sales increasing



Source: IRI, Major Multiples, 2009 (52 w/e 28th November 2009)

Against an average annual value sales trend of +5.0% vs. previous year; in categories where the % of volume bought on trade promotion increased vs. previous year (some 80% of all categories), value sales were up by 4.7%. In the other 20% of categories where the % of volume bought on trade promotion was down vs. previous year, value sales were up by +6.3%. This could indicate the extent to which the increased level of trade promotion has diluted the pricing levels and therefore

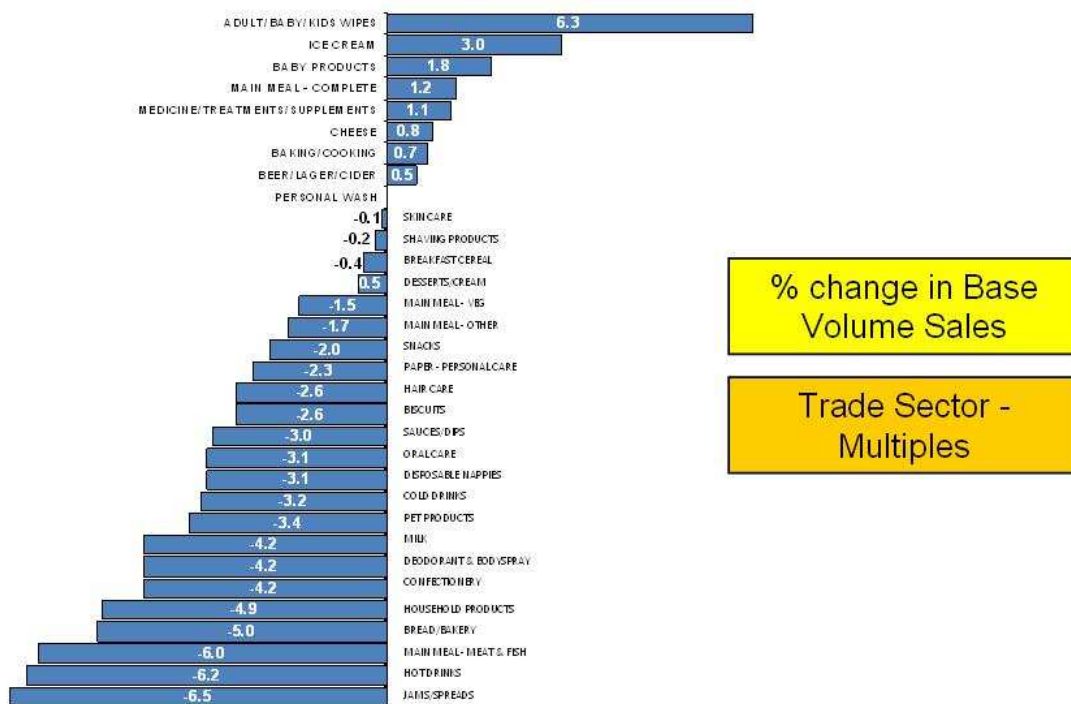


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However, whilst the growth in volume sales is welcome and a healthy sign in an otherwise fairly depleted economic outlook, we have seen this come at a price as base sales have been reduced by shoppers squeezing more of their purchasing into trade promoted periods.

	% change 2009 vs. 2008	
	Volume Sales	Base Volume
Food & Drink	1.0	-2.2
Confectionery & Snacks	-2.8	-3.2
Household	3.0	-4.9
Personal Care	2.4	-1.4
Medicine/Treatments/Supplements	4.0	1.1
Other	1.2	-2.2

But most categories are seeing volume sales declining



Source: IRI, Major Multiples, 2009 (52 w/e 28th November 2009)

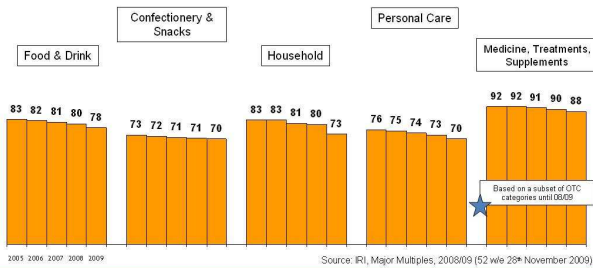


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Only Medicine / Treatments / Supplements is showing growth of base volume sales and this is where total volume sales are the most buoyant and trade promotion levels are the lowest. The reduction in base volume sales has meant that whereas it was common to see the share that base volume accounted for of total volume sales close to 80%, 4 years on we see that level is much closer to 70% in many cases.

GB / Major Multiples Base Volume share

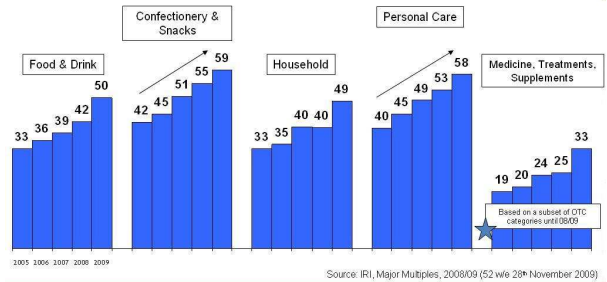
Base Volume share shows the proportion of volume that is 'everyday' sales. As categories rely more heavily on promotions, everyday sales are falling.



Every time that a trade promotion takes place, IRI calculate the sales uplift that is generated as a result. This is represented as the % increase seen in volume sales over and above baseline sales in store, promotion response. A sign of trade promotions losing their impact would be if this measure were to show reducing levels of response over time. In general, however, this has not been seen but we must remember that with base sales falling, response would need to be increasing over time for trade promotions to be maintaining their effectiveness in absolute terms. We have seen some increase in promotion response for certain categories but in the sectors where the most volume is trade promoted, Confectionery / Snacks and Personal Care we have seen the response levels stabilising, indicating a loss in trade promotion impact.

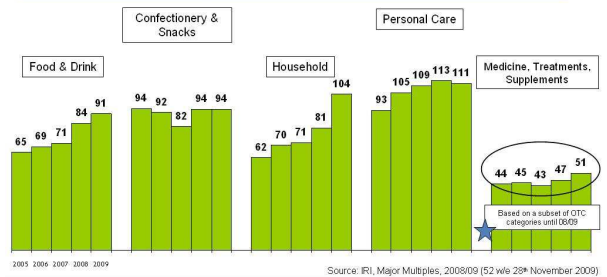
GB / Major Multiples % Volume sold on deal

% Volume sold on deal shows the proportion of all we buy that is bought on promotion. This has increased also the most on Personal Care and Confectionery & Snacks



GB / Major Multiples Promotion Response - % Volume Uplift on deal

% Volume Uplift on deal shows the responsiveness of promotions. This has increased on most except Personal Care and Confectionery & Snacks



A further measure of trade promotion impact is the relationship between the amount of trade promoting taking place and the amount of trade promoted volume that it generates. The amount of trade promoting taking place is shown by the IRI measure of Promotion Reach* and when compared against the % of volume sales bought on trade promotion, the resulting index over time indicates whether trade promotions are becoming more or less efficient are creating a sales uplift.



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Overall, this index is gradually falling over time but this can be equated with a drop in Personal Care, Medicine / Treatments / Supplements and to some extent Confectionery / Snacks.

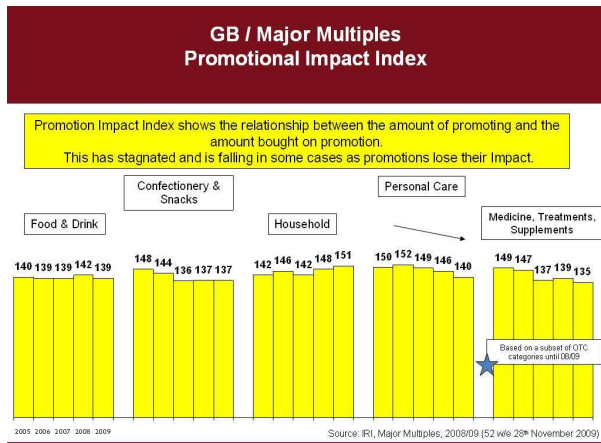
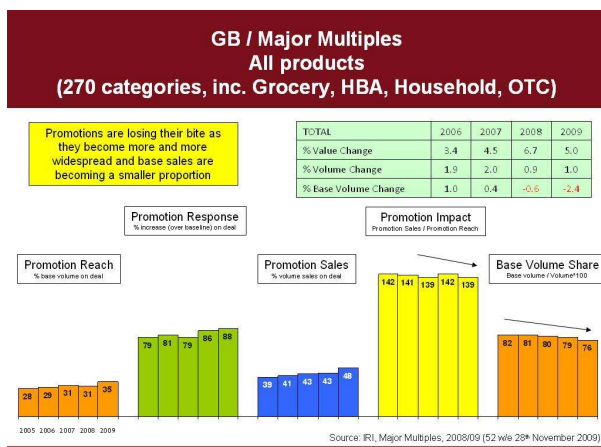
* 'Promotion Reach' is the proportion of everyday sales volume that is sold by trade promoting stores in weeks when trade promotions are occurring.

Individual category sectors where we have seen this phenomenon most evidently are:

- > Bread / Bakery
- > Cold Drinks (ex. Alcohol)
- > Confectionery
- > Baby Products
- > Deodorant & Bodyspray
- > Hair products
- > Oral Care
- > Shaving products
- > Adult / Kids / Baby Wipes

So it appears to be clear that increased levels of trade promotion dilute pricing, reduce base sales, encourage shoppers to concentrate their spend into promoting weeks and to reduce overall promotion impact. All of these have been gradual but, all too often, continuous trends in Great Britain over the last 5-10 years and since we are not expecting that trade promotions will become any less expensive to run, they need to at least maintain their efficiency to be cost-effective in the long run.

At current levels, there are enough trade promotions occurring in most categories today for shoppers to never have to pay the full price for anything. This is a dangerous situation that the industry needs to guard against by running fewer trade promotions, with less deep discounts, so that the balance between ON & OFF promotion is maintained or even reduced, so that trade promotions are once again seen by shoppers as a 'welcome bonus', not 'business as usual'.



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