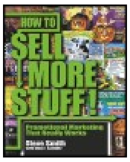


# How to Sell More Stuff!: Promotional Marketing that Really Works

by Steve Smith and Don E. Schultz

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# Chapter 13: Trade Programs

*(Also see "Point of Sale," Chapter 7 (page 181); "Tie-ins" ("Co-op Programs"), Chapter 11 (page 306); and "Performance Programs," Chapter 12 (page 311)*

## INTRODUCTION: WHEELING AND TRADE DEALING

How important is trade promotion in the marketplace success of products and services? It depends on whom you ask.

Ask the retailer and he or she will say that without manufacturers' trade promotion support, sales would fall, as retailers simply couldn't afford to offer the specials, features, short-term promotions, and the like that drive retail sales in almost all categories. There simply isn't enough retailing margin to cover the consumer-expected promotional costs.

Ask the manufacturer and you get a different answer. Manufacturers say that as the marketplace power has shifted to retailers, trade promotion has become more of a legitimized bribe or, worse, some are even calling it extortion. For example, if you as the manufacturer want space in the retail store, you have to pay up in the form of trade deals, promotions, slotting allowances, or the like—in short, "trade promotions" to get retail support. Without trade promotions, your products will languish on the shelf or, even worse, your products may never reach the shelf.

So whether you love trade promotions or hate them, they're a fact of life in today's promotionally driven environment. The challenge is knowing how to make the best of them whether you're a manufacturer or a retailer.

The complicating factor with trade deals is the differing goals of the retailer and the manufacturer. The retailer wants store traffic and doesn't care what brand is sold, only that something is purchased during the consumer visit. Alternatively, the manufacturer doesn't care from whom the consumer buys; the only concern is that his or her brand is purchased.

Thus, the opposing views of the retailer and manufacturer generate ongoing controversy.

Whether developed by the manufacturer or conducted by the retailer, trade deal effects are generally short term. That is, there's commonly no longterm impact or residual brand value for the manufacturer. From the retailer's view, last week's promotion is worth less than yesterday's newspaper. The retailer needs a continuous stream of promotions to keep shoppers coming into the store. Thus, both the manufacturer and the retailer judge the value of a trade promotion on short-term, incremental results.

Clearly, trade deals work. They do generate short-term incremental sales for both manufacturer and retailer. And depending on the deal, the volume, the consumer offer, and the like, a trade deal can be profitable or unprofitable for either party or both. It is the combination of the offer and how it is promoted and merchandised that really determines the value to each.

The big question in trade promotion is which consumer buys what. Do trade promotions generate new sales or simply reward current product users?

Based on some recent marketing-mix analysis in food store studies developed by PDI, an analytical consulting firm, 46 percent of the incremental volume from a trade deal comes from trial by new brand consumers. The other 54 percent comes from repeat purchasers. That compares with 83 percent of incremental volume coming from new purchasers who are influenced by advertising versus only 17 percent coming from repeat purchasers. So trade deals do impact consumers, but they tend to reward present users rather than attract new users. That's important to know when developing a trade promotion program.

Perhaps the most important ingredient in a trade promotion is the support provided by the salesforce in selling the promotion to the retailer. Today, given the commoditized nature of many products, what the salesforce often has to "sell" to the retailers to get their support is the trade deal. That's why it's important that the promotional material supporting the trade promotions is what the salesforce needs, wants, and can use. A promotion planner who develops support materials that never make it out of the trunk of the salesperson's car or never get out of the retailer's backroom has wasted a golden opportunity for increased sales and profits.

We can summarize trade promotion planning with a few potential objectives. Is the trade deal designed to achieve the following three things:

1. Gain new distribution? If so, it will likely be necessary to replace a competitor's product on the shelf—a major change for a retailer. It will require the removal of the competing brand, shelving your brand, make changes in computer

systems for stocking and logistics, and so on. So gaining new distribution by replacing a competitor is a major task and requires an integrated trade program, not just a one-time off-price deal.

2. Optimize a product mix? Often, a trade deal is designed to encourage the retailer to stock the full range of sizes, colors, flavors, and so forth of the product line. As above, that will require (1) reducing space from competitors or (2) rearranging the available shelf space for your product line. Either will require aggressive trade dealing.
3. Exploit peak seasonal demand periods? Almost all products and even most services have some sort of seasonal purchasing pattern. Two common reasons for a trade promotion are to enhance normal purchasing patterns or to offset seasonal declines. But these too require thought and consideration.

Of course, there are other reasons to develop a trade deal. Your creative instincts will likely lead you to develop a multitude of others. Steve will spark those ideas in the chapter that follows. —Don E. Schultz

## OVERVIEW

Fifty to 75 percent of a manufacturer's budget may be spent strictly on trade allowances—money to "grease the way" and get the product to market. Smaller brands may allocate 90 percent. Packaged goods brands pay to get in the store, more for shelf space, more for end-aisle, more to get a promotional display, and more for retailer services, including co-op funds. Managers and salespeople get "spiffs" (bonus money for each sale), not to mention dinners and tickets.

## DEFINITION

Trade programs in this book are business-to-business programs that allow manufacturers to secure additional services from the trade and the trade to secure additional funds or marketing support from the manufacturers.

Retail (trade) promotional programs appear throughout this book. However, this chapter on trade deals with business-to-business activities as opposed to consumer programs.

Note that the words *retailers* and *wholesalers* may be used interchangeably in many of these program descriptions. In other words, you may apply retailer principles to wholesalers and vice versa. Also, manufacturers simultaneously motivate their distribution arms and their retail network.

## COMMON TRADE OBJECTIVES BY TACTIC

*(Also See Itemized Tactics Below.)*

| TACTICS | OBJECTIVES (Beyond Purchase) |
|---|---|
| Slotting program | *Manufacturer:*<br>▪ Get new product placed on retailer shelves<br>*Retailer:*<br>▪ Counter risk of new unproved product<br>▪ Make up for lost sales if new product replaces a profitable product<br>▪ Turn shelf space into profitable real estate |
| Allowance program | *Manufacturer:*<br>▪ Secure services from retailer, like signage, in-ads, etc.<br>*Retailer:*<br>▪ Secure marketing funds and services from manufacturer<br>▪ Leverage ongoing marketing practices to secure manufacturer's funding |
| Account-generated program | *Manufacturer:*<br>▪ Secure assured participation in a retailer's program<br>▪ Turnkey execution<br>*Retailer:*<br>▪ Offer an exclusive consumer program funded by vendors |

| | |
|---|---|
| | <ul><li>Continued traffic through ongoing program</li></ul> |
| Account-specific program | *Manufacturer:*<ul><li>Exceptional retailer support and partnership</li></ul>*Retailer:*<ul><li>Receive exclusive program that stands out from competitors</li><li>Awareness and excitement of a vendor's property or sponsorship without licensing fees</li></ul> |
| Comarketing program | Address both the retailer's and manufacturer's respective marketing objectives to maximize the joint capabilities and resources of both; build fruitful relationship |
| Co-op program | *Manufacturer:*<ul><li>Encourage retailer to feature brand in its newspaper advertising, Yellow Page advertising, signage, etc.</li><li>Employee training and performance</li></ul>*Retailer:*<ul><li>Defray cost of marketing practices</li><li>Showcase high-recognition manufacturers</li></ul> |
| Performance incentive program | *Manufacturer:*<ul><li>Motivate retailer and staff to perform and achieve specific tasks and goals</li></ul>*Retailer:*<ul><li>Receive reward for business-building program while increasing sales</li><li>Improve staff performance</li></ul> |

## ITEMIZED TACTICS

### 133. Slotting Program

*Definition* A fee the manufacturer pays the retailer to provide shelf space for a new product entry

*Advantages*

- Secures space for a new product
- Reimburses retailer for potential revenue loss and displacement of original profitable product

*Disadvantages*

- High cost limits small brands from reaching retail
- May replace a profitable product with a new, less profitable product
- New product must generate exceptional sales to cover slotting fee
- Limits new product offerings and consumer choice

### 134. Allowance Program

*Definition* Discounts or funding from manufacturer to trade or wholesaler in return for a service like additional stocking, display space, flyer inclusion, etc.

*Advantages*

- Retailer receives higher margins or marketing funds in exchange for sales-generating services manufacturer receives
- Increased retailer orders through allowance
- Consumer purchase motivation if retailer discounts product
- Manufacturer gets some return for discount, even if it isn't passed on to consumers
- Allows timely correlation between orders and in-store promotional activities

*Disadvantages*

- Diminishes manufacturer's margin

- Can become a routine cost of doing business
- Retailer may not pass discount on to consumer
- Requires negotiations, paperwork, and follow-through with each chain, plus communication to sales, distribution, and outlets
- Requires administration, including verification of performance requirements
- Manufacturer's objectives may compromise retailer's marketing

## 135. Account-Generated Program

*Definition*

Program the retailer creates and invites vendors to participate in; ranges from frequent buyer card to cause marketing to sponsorships, etc.

*Advantages*

- Retailer efficiently pools vendor funding into one focused program
- Reduces brand promotion clutter
- Cumulative offers provide greater traffic motivation than single vendor offer
- Vendor partners encourage cross-store shopping
- Ongoing program can build loyalty
- Multiple vendors broaden appeal—can leverage one another's market
- Vendors may tie in with a retail sponsorship or cause otherwise outside their reach
- Turnkey program for vendors through retailer's signage, flyer support, advertising, etc.
- May give small-size vendors a competitive edge
- Vendors assured the program will be executed by all the account's units

*Disadvantages*

- Retailer-driven program may not address vendor's marketing needs
- Dilutes manufacturer's branding in glut of products and parity execution
- Vendors may forgo their objectives and programs
- Vendor may lose the marketing competition to competitors exercising their own programs
- May be less cost-efficient than a national vendor program

## Account-Specific Program

See "Point of Sale" programs, Chapter 7, page 190.

## Comarketing Program

See "Tie-ins," Chapter 11, page 293.

## Co-op Program

See "Tie-ins," Chapter 11, page 295.

## 136. Performance Incentive Program

(Also see Chapter 7 "Point of Sale," page 181, and Chapter 12, "Performance Programs," page 311)

*Definition*

Program targeted to trade (or to/through distributors) by manufacturer to encourage displays, signage, price features, stocking, etc.; may include display-building contest, display number drawing, rewards for orders, sales incentive, etc.

*Advantages*

- Manufacturer can specify sales objectives and reward/spend accordingly
- Motivates strategic performance

- Can reach the most result-driving target, like the store manager or staff versus the corporate director
- Particularly effective in franchise-controlled versus corporate-controlled chains
- Provides salespeople with a "quality appointment"
- Opportunity for a coordinated program for sales, distribution, trade, and consumer

*Disadvantages*

- Many corporations do not allow vendor performance programs
- Manufacturer's objectives may not support retailer's marketing needs
- Complex programs must encompass and coordinate several levels
- Budgeting and payout may be difficult to project and evaluate
- Considerable, ongoing communication requirements
- Expense and logistics of tracking performance, processing, database, administration, verification, and reward fulfillment
- Requires system to avoid abuse and misredemption and refute contested decisions

## SPENDING MORE MONEY OR SPENDING MORE WISELY

At first blush, a manufacturer may get the idea that retailers (especially the grocery, drug, and mass merchandising categories) constantly have their hands out asking for more money for this, more money for that, from slotting fees to flyer advertising demands to conversion costs to display allowance funding (see the Glossary). It may seem that retailers make more money buying products than selling them, and there may be some truth to that. On the other hand, many of these fees have legitimate claims. Why should a retailer replace a known seller with a manufacturer's new product entry? The slotting fee is its insurance policy. A retailer's end-aisle space is valuable real estate that every brand covets—why not rent it to the highest bidder?

But, what if both retailer and manufacturer look at it from another perspective—good business? I once worked with a salesperson who sold major program concepts to savvy Frito-Lay brand managers with just one tool—a calculator. He simply demonstrated the increased profits his program would generate at the bottom line. Retailers and manufacturers alike should consider the same approach with trade programs. Both have something to offer the other beyond blatant buying and selling of store space and flyer ad insertions. When you design and negotiate trade programs, consider some of the following business-building assets, capabilities, and strategies you mutually may bring to the table:

- Store traffic
- Display traffic
- Cross-store shopping
- Access to alternative communication media—infomercials, bus stop signage, packaging, event programs, mall advertising, and so on
- Multiple product sales
- Niche markets you both need
- Licensed property affiliations
- Sponsorships
- Signage expertise (which soft drink companies often apply to fast-food customers)
- National caliber creative resources
- Concepts to combat each partner's competitor activities
- Research tie-ins, testing various programs together
- Research studies on shoppers, shopping behavior, products, complementary product usage, trends, etc.
- Other marketing partner affiliations you can bring to the program

- Training programs
- Coadvertising opportunities, especially local media
- Targeted direct mail
- Community events—fairs, leagues, school programs, and the like
- Causes
- PR
- See Chapter 11, "Tie-ins," page 283

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**Insight**

Who's your customer? The corporate purchasing agent may buy the office supplies or data storage, but the office administrators or information techs may issue the request form. Consider niche trade magazines to advise end users of your offer.

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## SAMPLE TRADE PROMOTION BUDGETS

*PROMO*'s Promotion Trends Report 2003 reports the following marketing fund allocations:

**Spending per Discipline**

| | |
|---|---|
| Consumer promotion | 30.6% |
| Trade promotion | 26.6% |
| Media advertising | 37.6% |
| Other | 5.2% |
| Total Marketing Budget | 100.1% |

Source: *PROMO* magazine (http://www.promomagazine.com, a Primedia publication)

Other studies have shown trade spending representing 40 to 60 percent, consumer promotion 20 to 25 percent, and advertising 20 to 35 percent. A small but national candy company spends 90 percent against the trade.

## ALLOWANCES AND OTHER FUNDS

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**Insight**

> "We used to hit up the Coca-Cola guy for two years' allowance money, then spend it all at once."
>
> —Anonymous restaurant chain director

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Slotting allowances. Slotting is money paid to retailers (grocers) to get a new product on the shelf. Because most new products fail, grocers won't pay the penalty for their vendor's miscalculations. What's more, a new shelf slot replaces an existing product, and slotting fees can be staggering. In New York it can cost over $100,000 to introduce an SKU into supermarkets and wholesalers covering 73 percent of the metro ACV (see the Glossary). Many brands forgo introducing their otherwise successful lines in major metro markets like Chicago and New York.

**Turn/Profit Calculations for Displays**

**Turn/profit Ratio Example**

| Product | Turns per period (month, 3 months, year, etc.) | Profit per unit sold | Turn/Profit ratio | Square feet to display | Turn/profit per time period |
|---|---|---|---|---|---|
| A | 14 | × $6 | = 84 | ÷ __________ | = __________ |

| | | | | | |
|---|---|---|---|---|---|
| B 40 | 40 | × $3 | = 120 | ÷ ________ | = ________ |

Even though Item A offers a higher profit per sale, item B has a higher turn/profit ratio—more total profit per time period. The next example factors in square footage.

| Turn/Profit Ratio per Square Foot Example | | | | | |
|---|---|---|---|---|---|
| **Product** | **Turns per period (month, 3 months, year, etc.)** | **Profit per unit sold** | **Turn/profit ratio** | **Square feet to display** | **Turn/profit per time period** |
| C | 75 | × $ 10 | = 750 | ÷ 25 | = 30 |
| D | 30 | × $ 5 | = 150 | ÷ 3 | = 50 |

The calculation above determines each item's profitability in terms of space. C has more turns, more profit per sale, and a higher turn/profit ratio. However, D delivers the greater turn/profit ratio per square foot.

**Figure 13.1:** A Square Foothold on Profits

(Also see page 144.)

MDFs, BDFs, street money. Marketing Development Funds (MDFs) and Business Development Funds (BDFs) are funds allocated to a sales organization to spend toward each unique business environment. Some fund sales incentive programs, others retailer flyer ads, and still others coproducing storefront signage. "Street money" is spent at the individual salesperson's own discretion and may go toward floor sales spiffs, to retail managers for "favors," for event outings, and so on. A beer salesman purchases $2,000 worth of Best Buy gift certificates to pass out among bar owners, managers, and wait staff at his discretion. One study reported that 35 percent of these funds "get lost."

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***Insight***

Adolphus Busch helped pioneer trade premiums, or "chotskies." His "calling card" was a gold-plated pocket knife with a corkscrew (when beer bottles were corked). It also featured a peephole that revealed Adolphus himself.

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Display charges. Many retailers charge for display space *if* they even grant it to you. Charges vary, especially if you're bartering co-op advertising or other support. In the grocery store category, expect to pay in the hundreds, depending on where the sign appears. You may pay less for a small shelf sign. In fact, you may have to purchase that space from an in-store media company. Think of it as a large flea market, and you're trying to get the best table spot available—it won't be free. You rent your space. Even universities receive cash for vending machine placement. You can get creative: The $400 merchandiser fee might be handled as a $200 donation to the store's cause (for some PR value) and a case allowance makes up for the other $200. Still, you may not even qualify for the space as so many compete for it.

Conversion costs. Grocers often charge significant fees when a manufacturer makes a packaging change. They incur costs reprogramming and moving a package through the system. In 1997 the total conversion costs in the densely populated New York metro market for one SKU totaled $36,000.

Co-op funds. See extensive description in "Tie-ins," Chapter 11, page 306.

Profit calculator. See "Selling in a Discount to the Retailer" in Chapter 5, "Discounts," page 144.

## RETAILER DISPLAY PACKAGES

Before it displays your product, a major mass merchandiser might charge $75,000 for your product to appear in the Sunday flyer, then request a 20 percent discount. But the flyer may cost less than a periodical, and it reaches shoppers. And 70 percent of shoppers use a shopping list.

## TRICKS OF THE TRADE

- **Trap captive audiences:** Escalators, elevators, lanes, even bathrooms give people time to ponder signs. Promote popular but pricey items— perfumes, jewelry, imported spirits.
- **Wandering wallets:** Place popular, profitable products like cosmetics or digital cameras near the ground-floor

entrance; other high-impulse items are usually nearby. "Destination" departments, like furniture or appliances, are better on higher floors or further walls. Grocers often lead with the produce department, which shoppers feel is the section that most differentiates grocers. And you won't stop shopping after getting your greens.

- **Glass says class by a wide margin:** Display luxury items under glass with comfortable spacing. For expensive items, turn the price tag over so a salesperson has to "reveal the true value."
- **Implied bargains:** Simply posting a large price gives shoppers the impression it's a sale price, even at full markup. Some pricey, prestigious retailers use "dump bins" to suggest a deal.
- **"New" sells:** Because many new items can sell at full price and enjoy advertising support, showcase them.
- **Accessorize sales:** Place batteries by flashlights, dip by chips, earmuffs by caps.
- **Loss leaders:** If you break even on a popular item and it results in traffic, you come out ahead.
- **Impulsive behavior:** Place high-turn, high-margin, impulse items by the cashier. Small is good—stock more—candy bars, magazines, breath mints, digestives.
- **Stoppers or shoppers:** Price-focused retailers may lead with bargains to stop consumers as they enter. Pricey retailers may lead with pricey products.

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***Insight***

Performance and consumer marketers think differently. An ad specialty firm eyeing huge sales to a sporting goods brand was dismayed to learn the consumer marketer wanted slippage—minimal premiums. After all, in performance programs premium orders represent strong sales performance.

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## CATEGORY MANAGEMENT

Category management is a fact-based, diagnostic approach for manufacturers and retailers to get more unit sales based on historic movement per item, per shelf position, per store location, and more. The idea is to give fast movers more prominence while placing each in the best store location given its particular shopping occasion—breakfast, after school, baking, and so on.

Opinions differ, and many variables are at work. Should high-priced, high-margin, slower-turn Equal sugar substitute be placed with other sugars, though it's rarely used for baking? Should it be near tea, coffee, and cereal? Diabetic supplies? Fitness products? If it's low turn, it shouldn't be prominent. If it's high margin, it should be visible. If it isn't seen, it can't mature. Category management attempts to address these overlapping categories and subcategories statistically, but the right answer may be a moving target. As Mark Twain observed, "There are three kinds of lies: lies, damned lies, and statistics."