

# ROI GENOME REPORT

2018 VOL. 3

**HAVE PROMOTIONS  
LOST THEIR PUNCH?**



ROI GENOME

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# ABOUT THIS REPORT

“ROI Genome: Have Promotions Lost Their Punch?” highlights overarching trends identified in Analytic Partners’ ROI Genome and offers insights for marketers based on those trends. We hope to help marketers get to the heart of the matter of what marketing and advertising efforts drive business results and what factors influence those results.

## HAVE PROMOTIONS LOST THEIR PUNCH?

Each report we will look into different aspects of marketing, advertising and what drives return on investment. In this report we will be looking at how the effectiveness for advertising and promotions have changed over time and how they can work together for improved results.

This report is unbiased and independent. It has not been commissioned or influenced by any group or company. This independence is at the heart of Analytic Partners’ philosophy and approach to any insights we provide to our clients.

The intelligence collected within ROI Genome is based on the work Analytic Partners has provided our clients. We take the confidentiality of our clients very seriously, and while they are some of the biggest companies from around the globe with well-known brands across industries, we do not share our client list.

We hope you will find the insights within this report useful. Please visit us at [www.analyticpartners.com](http://www.analyticpartners.com) to learn more or to contact us with any questions.



ROI GENOME

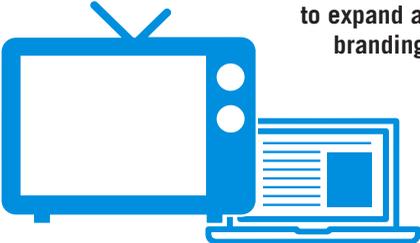
Based on a vast quantity of marketing intelligence across industries and countries, Analytic Partners ROI Genome provides deep insights for our clients. ROI Genome is an evolving endeavor to create marketing wisdom from accumulated numbers and knowledge. By understanding and quantifying how a wide range of factors impact marketing, Analytic Partners provides context and perspective for our clients.

## PROMOTIONS VS ADVERTISING

Promotions to increase sales through immediate incentives for short-term business results are a powerful lever for many brands. But marketers face the fundamental question of: what is the right balance between Advertising and Promotions? While both are critical components of a marketing mix, deciding on the right balance between each is often a subject for debate.

On one hand, advertising is critical to building brand awareness and credibility, communicating benefits, and ultimately influencing consumer decisions, to name a few. However, promotions can also be important drivers of business performance – such as customer acquisition, driving trials and increasing basket size, and in many industries securing distribution and greater retailer support and visibility in-store.

While many companies rely more heavily on one or the other, the reality is both are critical to the mix. Ultimately the right balance will vary by industry and category as well as by brand and product/service.



**Advertising/Media**  
Communication through media to expand awareness, build branding, and ultimately drive sales.



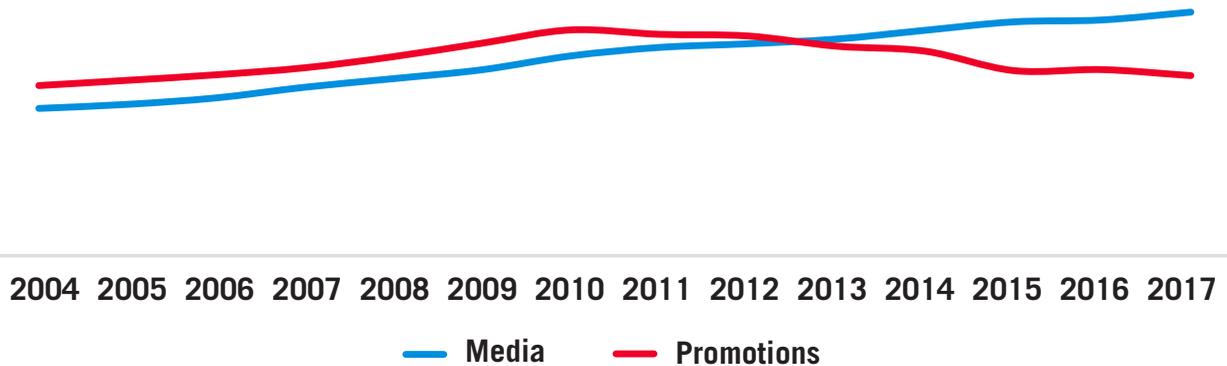
**Promotions**  
Activities designed to offer consumers incentives to motivate short-term conversions such as coupons, bulk-buy discounts, free shipping, rebates samples, etc.

In this report, we explore the trends and insights related to this fundamental question of “what is the right mix?” and outline the principles marketers should consider when aligning on the best balance for their business.

## PROMOTIONS EFFICIENCY HAS FALLEN WHILE MEDIA EFFICIENCY HAS INCREASED

When looking at ROI trends over time and across industries and geography, an interesting pattern emerges. For many years promotional activities had, on average, a higher ROI but the data shows that the marketplace is changing, with advertising media becoming more efficient over time as promotion efficiency declines. By 2017, the divide is dramatic, with media being 35% more efficient than promotions, on average.

### Global Efficiency Trends

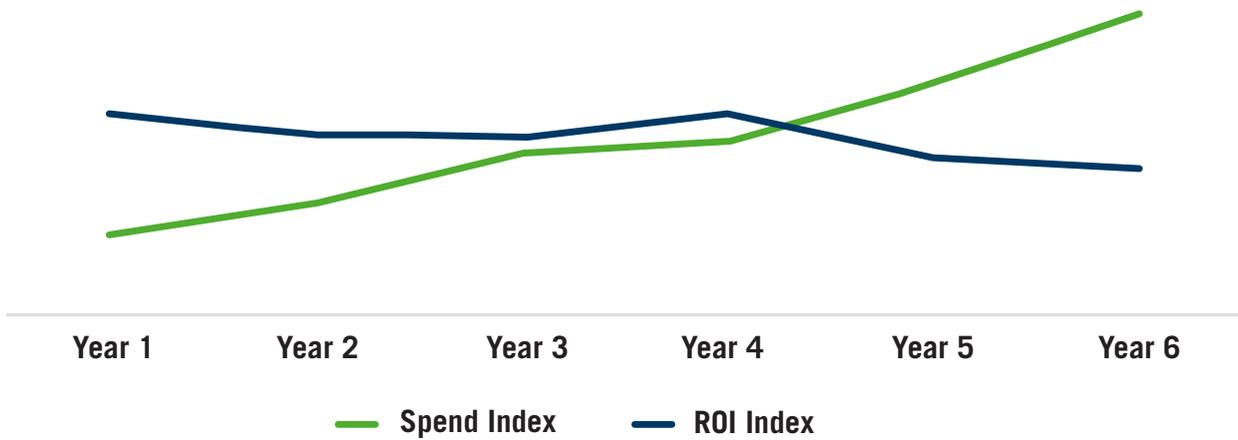


Source: Analytic Partners ROI Genome.

The decline in the promotion ROI over time is particularly surprising, as the rise of improved datasets, technology and advanced analytics should in theory be contributing to ROI improvements, much in the same way we’re seeing advertising ROIs grow due to an increase in media sophistication.

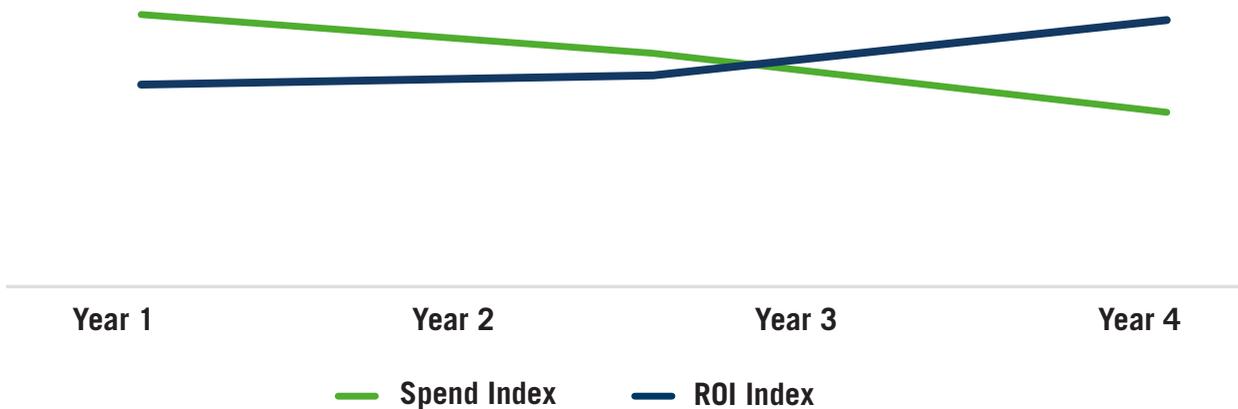
When we look deeper, we see that one driver of this trend may be an over-reliance on promotion leading to an increase in spending on promotions and discounting over time. And as frequency, scale and depth of promotions increases, effectiveness begins to erode. The charts below show examples of the relationship between spend, promotions and ROI.

### Brand A - Indexed Promotional Spend vs. ROI



Source: Analytic Partners ROI Genome

### Brand B - Indexed Promotional Spend vs. ROI



Source: Analytic Partners ROI Genome

The reasons for this dynamic are varied, but largely rest on two key themes:

▶ **Consumers are becoming oversaturated with deals.**

We see this in terms of both breadth but also depth of discounts, and across promotional vehicles. Whether it be couponing, email offers or offers at shelf, the same trend holds true: As consumers are inundated with more and deeper deals, each one becomes less compelling. In the example to the right, as promotion frequency increases, effectiveness decreases – with a 36% drop in effectiveness with promotions happening every other week.

### Promotion Effectiveness Decreases with Frequency



▶ **The rise of technology and smart phones has enabled more transparent pricing.** A more sophisticated consumer is able to compare prices and understand actual value of promotions, ultimately reducing any scarcity effect and perceived value of a deal.

The good news is that brands that invest heavily in advertising and brand-building efforts can counteract this downward efficiency trend for promotional activities. Insights from the ROI Genome show that advertising can actually bolster promotional effectiveness. In the example below, a brand that significantly increased advertising budgets saw a simultaneous increase in promotion efficiency in the same year despite no material change to their promotional strategy.

### Promotion ROI Increases with Media Spend



This synergy shows how the brand-building benefits of media can outweigh the struggles caused by the tough promotional marketplace. Consumers are more likely to purchase a product if they have affinity for a brand, which develops when brands are advertised. We have found that the positive impacts of advertising have synergistic effects in that they not only benefit their own tactic's performance, but also promotional performance.

**Companies who increased their Media Spend from 2015 to 2017, the Promotional ROI increased an average of +12%**

## ADVERTISING VS PROMOTIONS - 4 PRINCIPLES TO CONSIDER

It is important to note that the trends showing promotions decreasing in effectiveness and media increasing are an overall average and your brand's results may be different. However, for any brands that have the ability to offer promotions, it is clear that there are roles for both advertising and promotions in the mix. That said, the most efficient balance will depend on a variety of conditions. Below are 4 key principles marketers and business leaders should consider:

### 1. DON'T IGNORE TOMORROW FOR TODAY'S GAIN

**Balance both short-term and long-term impacts when allocating budgets.**

- ▶ Marketers should have measurement practices in place to be able to evaluate both short-term and long-term effects and should balance budgets with both time horizons in mind. It may be that promotions are highly efficient from a short-term perspective, but their importance could change when looking at a longer-term view.
- ▶ For media, we typically see long-term impacts well over 2x that of the short-term effects, with the magnitude of these longer-term effects varying depending on tactic, messaging, consumer target, execution, etc.
- ▶ Promotions may or may not deliver longer-term benefits beyond their short-term impacts. For some brands, heavy reliance on promotions can actually have negative impacts in the long-term due to devaluing of brand perception. Furthermore, immediate lifts in business performance driven by promotions may simply be shifting sales forward rather than driving incremental impact.
- ▶ The chart below shows the expected long-term impact of media vs. promotions.

### Long-Term Effects of Tactics

**2-3x Effect vs. Short-Term**



**Advertising/Media**

**1-1.2x Effect vs. Short-Term**



**Promotions**

*Source: Analytic Partners ROI Genome*

## 2. OPTIMIZE BUDGETS AND FREQUENCY FOR ROI

### Monitor spend levels to avoid diminished returns

- ▶ Businesses should ensure they have robust measurement practices in place to determine optimal investment levels within each advertising and promotional vehicle and understand the point at which diminishing returns may occur.
- ▶ Brands with significant budgets or narrow targets may need to consider the role of diminishing returns in determining optimal spend levels. In this case, it may be beneficial to balance investment across other vehicles to broaden reach, reduce frequency and benefit from synergies across touchpoints. In other cases, it may mean reducing advertising budgets in favor of promotional tactics.
- ▶ Marketers should also consider the role of diminishing returns when evaluating their promotional budgets and strategy – both in terms of frequency and depth. Rely on promotions too frequently and you'll train consumer to buy on promotions, thus leading to less effective promotions over time. Discount too deep and you'll be subsidizing consumption that could have occurred at lower discount depth, effectively eroding margins and leaving money on the table.

## 3. WAR GAME VS COMPETITION

### Consider competitive pressure and dynamics when building advertising and promotional plans.

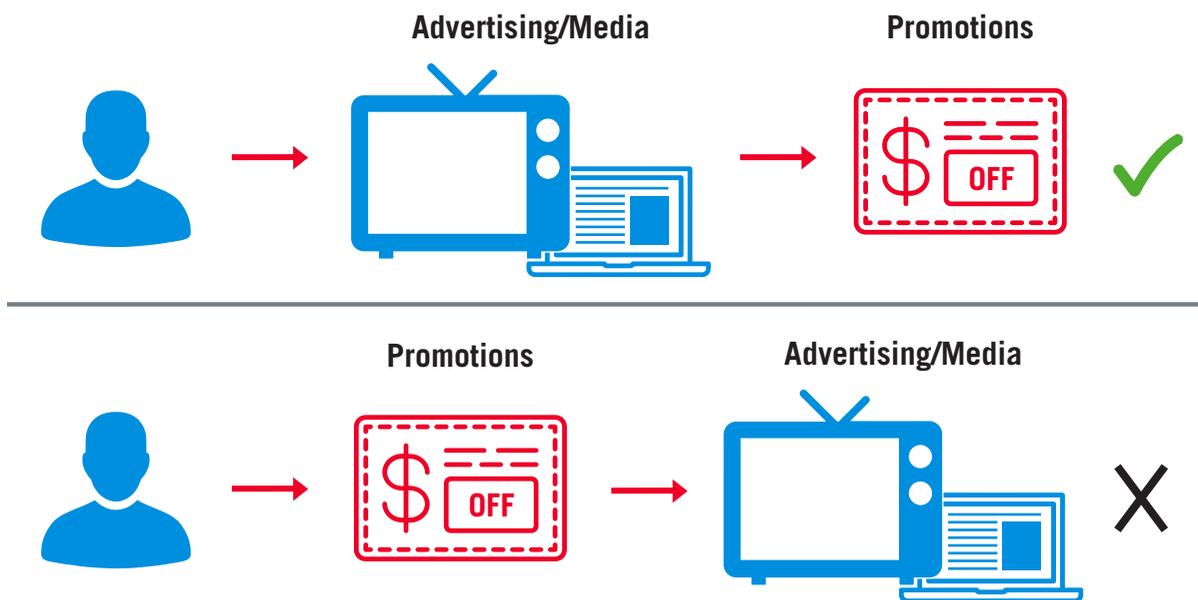
- ▶ While marketers should not let competitive actions dictate their strategy, they should consider competitive pressure and dynamics when building marketing plans.
- ▶ For example, substantial competitive ad budgets will require a greater share of advertising support to break-through; the launch of new products or line extensions may warrant increased promotional support to defend.
- ▶ Brands with a heavy focus on competitive effects should ensure they have a measurement practice in place to understand the true impacts; often the reality of the competitive effects are less drastic than the perceived threat.

#### 4. TIME FOR IMPACT

Ensure promotions follow strong branding communication.

- ▶ Marketers should ensure both advertising and promotions are executed optimally in terms of sequencing. Specifically, leading with advertising to build awareness prior to discounting (rather than the reverse).
- ▶ Promotional budgets may be too high if promotions are happening prior to or at the expense of advertising.

### Leading With Advertising Optimizes Promotions



Source: Analytic Partners ROI Genome

Ultimately marketers should aim to establish measurement and optimization across both advertising and promotions using a holistic approach rather than examining each in a silo. A test and learn approach is also key to understanding what works and to keep your finger on the pulse.

## Summary

As they say, “The only constant is change.” What worked yesterday won’t necessarily work the same tomorrow. The marketplace and consumer dynamics are constantly evolving which makes sophisticated measurement and forecasting more important now than ever.

Measurement is a discipline that is ongoing, where everyday we look at what worked, understand why it worked and forecast what will work tomorrow. That is how together we can turn data into expertise.

## ABOUT ANALYTIC PARTNERS

Analytic Partners is a global analytics company that leverages adaptive modeling techniques and tools to help companies generate better marketing ROI, drive growth and, ultimately, grow closer to their customers. We work with marketers to build deep knowledge about brands, customers and competitors that is converted into sound strategies aimed at improving business performance.

Analytic Partners’ ROI Genome is an industry leading ‘beyond benchmarking’ database of key performance metrics and insights across 45+ markets and a wide range of B2C and B2B industries. With hundreds of billions in marketing spend measured, Analytic Partners can explain the “why” behind results and provide unique perspective beyond client-specific learnings.

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