

Smart promotion strategies will grow sales and profits

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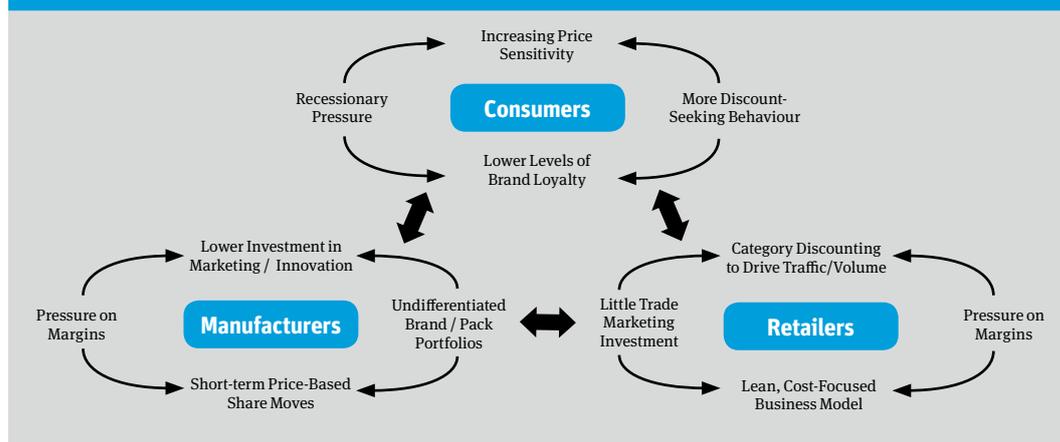
Many fmcg manufacturers are stuck between rising input costs and pressure from retailers for discount pricing. There is a real danger of a “race to the bottom”, characterised by spiralling discounts, reductions in brand and product investment, product commoditisation and reduced consumer choice (see image).

However, there is evidence that consumer buying behavior may be migrating away from the indiscriminate search for the next deal. More efficient promotional strategies can deliver improved economics for manufacturers and retailers, while allowing them to rebuild value into categories and re-engage consumers with stronger brands and better products.

This reality was borne out by the recent experience of a UK condiments manufacturer, which, advised by Marakon, took steps to “re-base” its promotional strategy in partnership with its retail partners.

Consumer analytics demonstrated the company’s brand

The race to the bottom...



...and its impact

- Continuing cycles of deep discounting and price matching
- Pressure on manufacturer and retailer margins
- Less investment in brand, product, trade marketing
- More product commoditisation
- Less consumer choice

Source: Marakon

remained ahead in equity terms from both its closest branded competitor and own-label competition. A consumer conjoint study showed that while headline price sensitivity was still relatively high, especially over “threshold prices” like £2, consumers didn’t ascribe higher utility to deeper promotional mechanics, such as £1 deals.

These findings allowed the manufacturer to propose a promotion optimisation strategy, which led to a material

reduction in volume sold on deal but resulted in a gross margin improvement of 7.5% – together with improved economics for retailers. The re-basing also set the stage for product and packaging improvements in subsequent years.

While some investment was needed, the returns made it more than worthwhile.

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wholesale prices: milk powder prices down 25% on a year ago

The global dairy commodities markets have taken a pounding of late (see Second Analysis p14). EU whole milk powder and SMP prices have continued to fall over the past month, and are now nearly 25% lower than a year ago. Weaker demand – including reduced export demand – has seen prices fall as buyers have withdrawn. Prices have also plummeted in the US and Oceania.

Butter prices in the UK are down nearly 20% year on year as a result of higher milk

volumes this year, as well as reduced international demand.

In the egg markets, egg yolk powder is down 16.2% year on year – increased demand for egg whites has led to more eggs being processed and, therefore, more yolk powder being made; however, demand for these is not as great as for whites.

Conversely, liquid egg white prices continue to soar thanks to strong demand for white as a healthy ingredient; a reduction in flock size in Europe has also led to tighter supplies.

PRICES dairy and eggs	PRICE	CHANGE	CHANGE
	£/tonne	m-o-m %	y-o-y %
 Egg white liquid (EU)	833.2	3.4	20.9
Shell eggs (UK)	1,574.7	4.4	9.6
Milk (UK)	307.2	0.0	5.1
Shell eggs processing (EU)	625.9	-9.8	-3.8
Cheddar (UK)	3,150.0	0.0	-10.4
Whey powder (EU)	775.5	-1.2	-14.7
Egg yolk powder (EU)	3,179.0	-0.7	-16.2
Butter (UK)	2,900.0	0.7	-19.1
SMP (EU)	2,117.0	-5.1	-23.4
WMP (EU)	2,397.0	-4.1	-24.6

Source: Mintec.

Info: All prices are indicative only and are representative within the country quoted