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# Promotion in the Marketing Mix: What Works, Where and Why

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## PICKING THE WINNERS: Increasing Your Return on Investment from Value Added Marketing

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Why do some companies consistently come up with outstanding value added programs while others seem unable? Value added marketing offers enormous opportunity for business improvement. Unfortunately, it has been estimated that two-thirds of every dollar manufacturers spend on trade promotion are wasted<sup>1</sup> and that 84% of all trade promotions are unprofitable<sup>2</sup>. Furthermore, "most promotion budgets are developed on rules of thumb that are not related to the long term profitability of the promotional investment and problems and lost opportunities for profits are more extensive with promotion than with advertising"<sup>3</sup>. Thomas Wilson of McKinsey & Company after studying sales promotion and its cost, remarked

*"It may seem surprising that companies will spend tens of millions of dollars on an activity without knowing its true benefit or cost, but it's true. There is a growing consensus in the industry that something must be done but unfortunately, nobody quite knows what that something is. But, today's management isn't entirely lacking in the tools to overcome these problems. Significant advances in information technology are proving quite powerful in helping manufacturers solve the return on investment riddle."*

The above remarks suggest that those who have studied value added marketing efforts have concluded that judgement and very little science is used in promotion decision-making.

In consulting at Checkmate, numerous studies have been completed for manufacturers evaluating the impact of their efforts. In one study, a series of value added group promotions were evaluated for a major Canadian marketer. The events ran over a three year period in the early spring and fall. In the first program, both volume and spending increased. In the next promotion, although spending was reduced there was a significant increase in volume. When volume was tracked across the entire program however, it was found that gains were significantly down for the remaining four promotions. Business had declined over the promotion period, even though over a million dollars had been spent. In another study, the assignment was to evaluate the results of a specific event because of a difference of opinion between the marketing group and the sales group. The marketing group presented data to management indicating the promotion was unsuccessful. The sales group presented data to management arguing the promotion was extremely successful. Management was obviously confused. Almost half a million dollars had been spent and management was not able to determine the success of the program. Clearly these situations warranted further investigation.

Many value added activities fail to build business. In a study reported by the A.C. Nielsen organization in Europe, it was concluded that 9 out of 10 events (such as bonus packs, on-pack premiums, coupons, etc) failed to build the business by more than 10%. These kinds of results raise serious questions. How do marketers come up with value added programs? Why are so many unsuccessful?

One factor that separates companies that create outstanding value added activities from companies that do not is the selection and management process. Companies with successful promotion programs demand a significant return on their promotion investment. They run more winning value added programs and fewer failures because they know what will work, what is good, what is right, and, alternatively, what is weak and unsuccessful. The result is that most of the ideas work.

The first step to more effective programs is to establish what has worked and what has not worked in the past for each brand, product or service of your own organization. To use a well known saying "those who have not studied the mistakes of history are doomed to repeat them". There are, of course, many reasons why evaluations and analysis are not done, but none are truly valid. Some the more common reasons given as to why evaluations and analysis are not done include; data is not available, the market is too complex, there are too many factors to consider, there is high staff turnover, there are split responsibility (marketing/sales/trade groups), it is not a priority or critical issue, we never find positive results, it is not a career development area.

To aid in the analysis of promotion programs, tools such as single source data analysis, or time series analysis are being used more often by market researcher. These techniques are extremely powerful in analyzing the impact of advertising, promotions or value added marketing activities. Unfortunately, marketing staff seldom have the time or the mandate to accurately test the value of an idea by setting up elaborate test and control balanced situations.

To be effective, promotion programs must have clearly established and measurable goals. To put it simply, *if you can't measure it, you can't manage it*. This applies to any type of value added activity. If you can't measure the goals, you can't manage the process.

Consider the McDonald's toy promotion. When McDonald's ran the value added toy premiums they had a very clear sense of what was required. First, whatever the item was, it had to have a clear and intrinsic value. The 99 cent toy moves, jumps, leaps and captures attention. Second, they knew the importance of that value to a highly specific target audience. They knew that things like playability were incredibly important in toys for 4-10 year olds.

A key to successful promotion programming is to demand performance from your activities. Demand a clear specific goal. The science of evaluation has developed to the point that activities no longer need to be vague guesses, they can be highly predictable, with measurable ROI's. In fact, even the impact of advertising, a long term investment in brand equity, is now being measured in clear and specific terms.

Once you have learned from history, you need to develop value added programs that will address consumer needs in a meaningful way. Companies that run successful value added programs aggressively seek powerful ideas. They often screen hundreds of

potential ideas in order to come up with a handful that are highly effective against their specific goals. Companies that are not prepared to invest significant resources stand virtually no chance of developing a new, fresh and powerful idea that will motivate their consumer group. The May-June 1990 Harvard Business Review came to this conclusion on the subject of value added marketing

*"As in advertising, there is a premium on ingenuity and creativity. An effective idea can be three to four times as efficient as the typical prior program. A company should spend significant resources to develop creative, hard-to-imitate events."*

The problem with many potentially exciting value added promotions ideas is poor selection. Proper selection means matching the most appropriate promotion idea to a target market. In most situations, companies ask junior managers to make this selection without the benefits of thorough research. The result is less than optimal programs. The best means of selecting appropriate value added promotions is through research. Although very few promotion companies use research, those that do achieve a major competitive advantage over their competitors.

Unfortunately, too few research organizations in Canada sufficiently understand consumer behaviour to be able to effectively evaluate alternative promotion programs. Like research on advertising, this type of research is difficult and those doing the research must be skilled in questionnaire design and analysis of responses. Nevertheless, it is important to invest in this type of research. Test your ideas against target groups of sufficient size to obtain meaningful results.

If your promotion budget is not of sufficient size to warrant research (i.e. less than \$100m), there are three factors to keep in mind when evaluating alternative value added programs. They are substance, emotional appeal and awareness.

Substance is the basic essence, core, quality, or significance of a promotional program. While difficult to pin down, successful programs have more substance than unsuccessful ones. Adding substance increases the appeal and success of ideas. McDonald's, as noted earlier, has learned that substance in children's toys comes from playability at a low price. In other words, a toy must, for a 99 price, have a high degree of playability or substance. A sweepstakes trip to the Caribbean has limited substance, but this could be increased by adding a known airline and a specific hotel location. Why? Because it adds value in the consumer's mind. Adding a cash option or more trips to reduce the odds, again adds substance to a program. For some target groups, substance is the single most critical value to the appeal of a promotion and promotions that have more substance than their competitors will attract the attention of this group of consumers.

While promotions need substance, logical and rational appeal, promotions also need elements that create emotion and excitement. This is the "wow" appeal. It, too, is critical for success. Good ideas excite people, they move them, they create an emotional response. This can be achieved through a number of ways, principally through communication vehicles such as graphics, themes, creativity. Winning a cash prize, for example, may have a strong rational appeal but a promise of \$50,000 a year for life is far more exciting. Words trigger these emotional stimuli. Words like "free", "guaranteed winner", together with highly visual prizes are all part of the emotional or "wow" appeal.

Finally, a promotion's success is governed by awareness. Consumers that do not hear about the promotion or can not understand the promotion, will not respond to the promotion. Complexity in the communication hinders awareness and simply reduces the effectiveness of the program. When evaluating alternative promotional programs keep in mind that each of these factors must be evaluated in terms of the promotion's impact on the specific target audience identified for the promotion. Furthermore, keep in mind the external competition that the event will face if selected. If the event is not unique, the event will be competing against similar promotional programs.

Petro Canada's torch run was perhaps the most successful promotional event in Canadian history. Awareness was at record levels. Awareness was generated through Petro Canada advertising and through the spill over of nightly television and press reports. *Emotional appeal* was also at record levels, generated through the concept of Olympic excellence. The exciting visuals of and symbolism associated with a torch and highly visual runners as they moved across Canada contributed to the "wow" appeal. Petro-Canada's advertising agency brilliantly tapped into this emotional appeal in their creative, as folks watching the runners got tears in their eyes. Finally, in order to create the necessary *substance* to turn an aware, emotional idea into a practical consumer promotion that added sales and market share, a series of high quality glasses carrying torch symbolism was offered to consumers. The series of glasses maintained continuity of purchase and gave each consumer a real and meaningful reward for their participation in the program. Take away any one of these elements (awareness, emotional appeal or substance) and the event's impact would have been critically weakened.

In summary, while most marketers are not rocket scientists, and while most programs do not have the impact of atomic bombs, a parallel can be drawn from Einstein's equation  $E=MC^2$ . "E" the effectiveness of a value added activity is equal to "M" the motivational power or the emotional appeal of the specific program, times "C<sup>2</sup>". The first "C" stands for the concept, substance and inherent consumer value. The second "C" stands for communication. Increase any one of these elements (motivational value, the substance of the concept or the awareness generated by the communication plan) and you will increase the effectiveness of your program by 10-20%.

#### FOOTNOTES

<sup>1</sup>Robert Brown, President of Spar, a major sales promotion analysis service in the United States

<sup>2</sup>Advertising Research Foundation

<sup>3</sup>Leonard Lodish in The Advertising and Promotion Challenge