

sellforte

Promotion Effectiveness

2020 edition

Get answers to:

WHAT IS IT?
HOW TO DO IT?
WHY INVEST IN IT?



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Not all promotions are created equal

Promotions can be a superb way to boost your sales numbers.

More often than you'd like to think, however, promotions are not generating enough sales/margin to compensate their indirect business impacts.

A study carried out by Boston Consulting Group points out that 20 to 50 percent of B2C promotions are doing – well – nothing really. They're those deals in store that make you wonder whether there's truly any discount in the price, or if the manager has just printed out the price on a yellow background.

That's 20% to up to half of the promotions being a literal waste of space in your ads.

This guide has been made to help companies to **avoid running ineffective & expensive promotions.**

Moreover, we want the help managers to **understand what makes a promotion a success.**



Why Promotion Effectiveness is often neglected?

To put it shortly, it's extremely complicated, difficult and laborious. We're not only analyzing which promotions are performing well, but also why they're performing well. And the analysis doesn't cover only the promoted product's sales & margin, but also the sales and margin of the products that are affected by the promotion.

Factors of Promotion Effectiveness that are **easy** to measure:

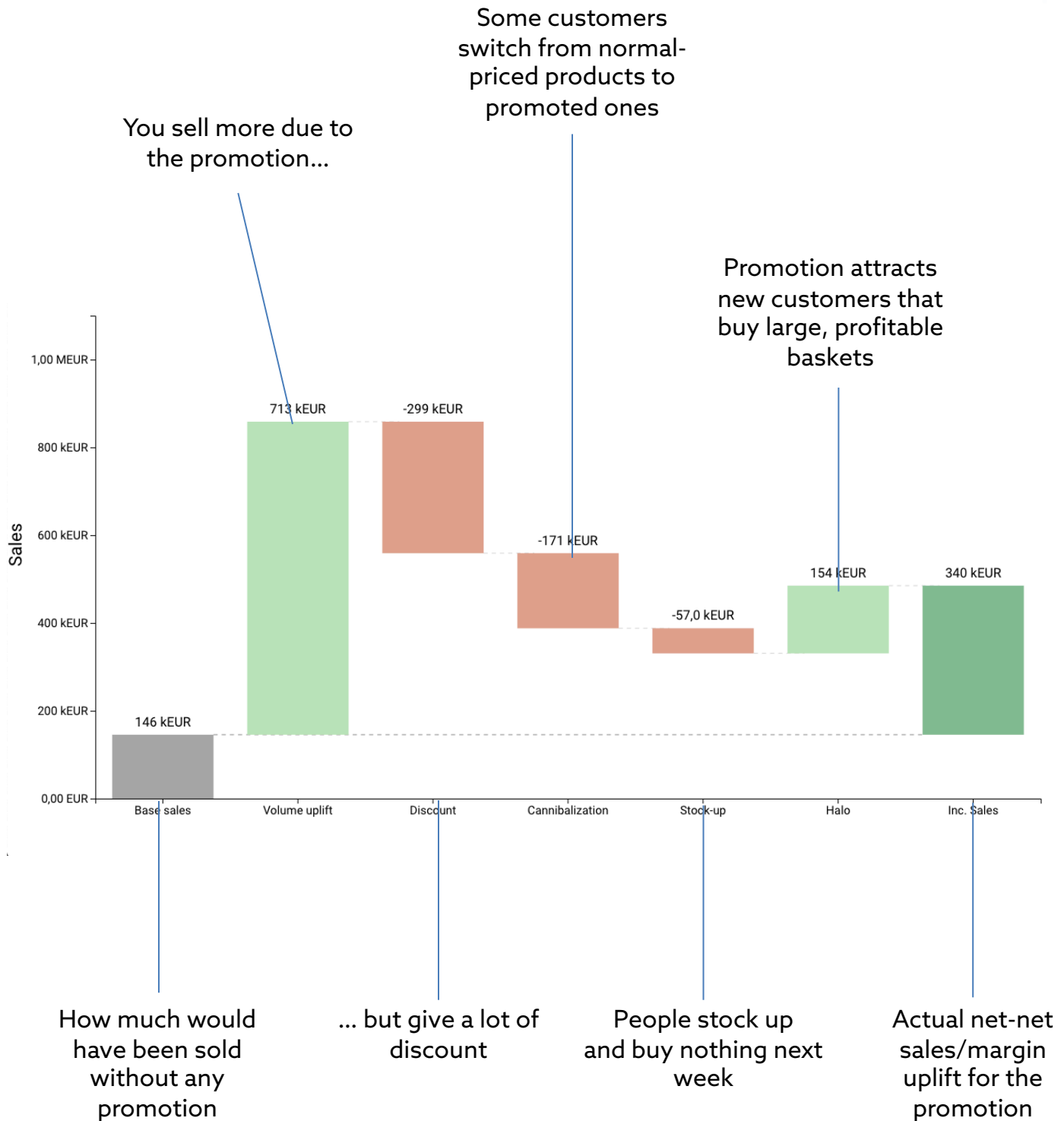
- Base Sales (with linear interpolation)
- Volume Uplift
- Discount

Factors of Promotion Effectiveness that are **difficult** to measure:

- Base Sales (with Bayesian Inference)
- Cannibalization
- Stock-up
- Halo
- Incremental Sales and Margin

But as you're here, you're not afraid of rolling your sleeves and getting to work! In the following pages we'll go through the different factors behind Promotion Effectiveness, and how you can start measuring it yourself.

Drivers behind Promotion Effectiveness



Data requirements

Before we get into the analysis, we need to make sure we have required data.

Promotion Effectiveness doesn't require as much data from as many data points as e.g. Marketing Effectiveness analysis, but there's a couple data sources you need:

Step 1: Sales Data

	Minimum	Decent	Superior
Time Frequency	Weekly	Daily	Minute
Location	Total	Store chain or city	Store
Product	Category-Brand	SKU	SKU
Time Range	2 years	> 2 years	> 3 years

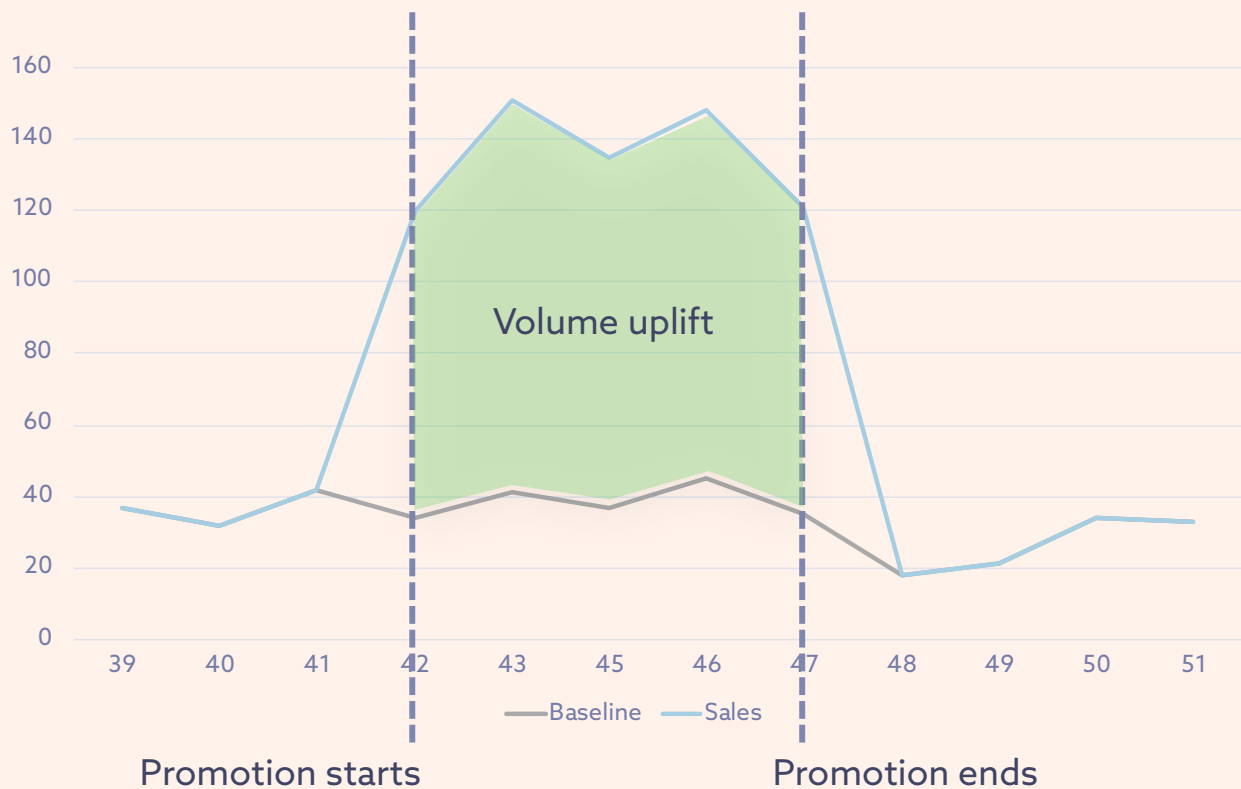
Where do you get this data: Obtainable from your company's ERP, Data warehouse or CRM.

Step 2: Promotion Data

Product Code	Start Date	End Date	Campaign Name	Offer Type	Discount %	Store Placement
SKU841d	26.10.2020	1.11.2020	Crazy savings	Multibuy	20%	Endcap
SKU2083	26.10.2020	29.11.2020	Monthly savings	Freebie	0%	Mass/Pallet
SKU23123b	30.10.2020	1.11.2020	Weekend deals	Discount	34%	Checkout

Where do you get this data: ERP, Data Warehouse or in some (poor) cases, Excel.

Step 1 – Calculating the baseline sales

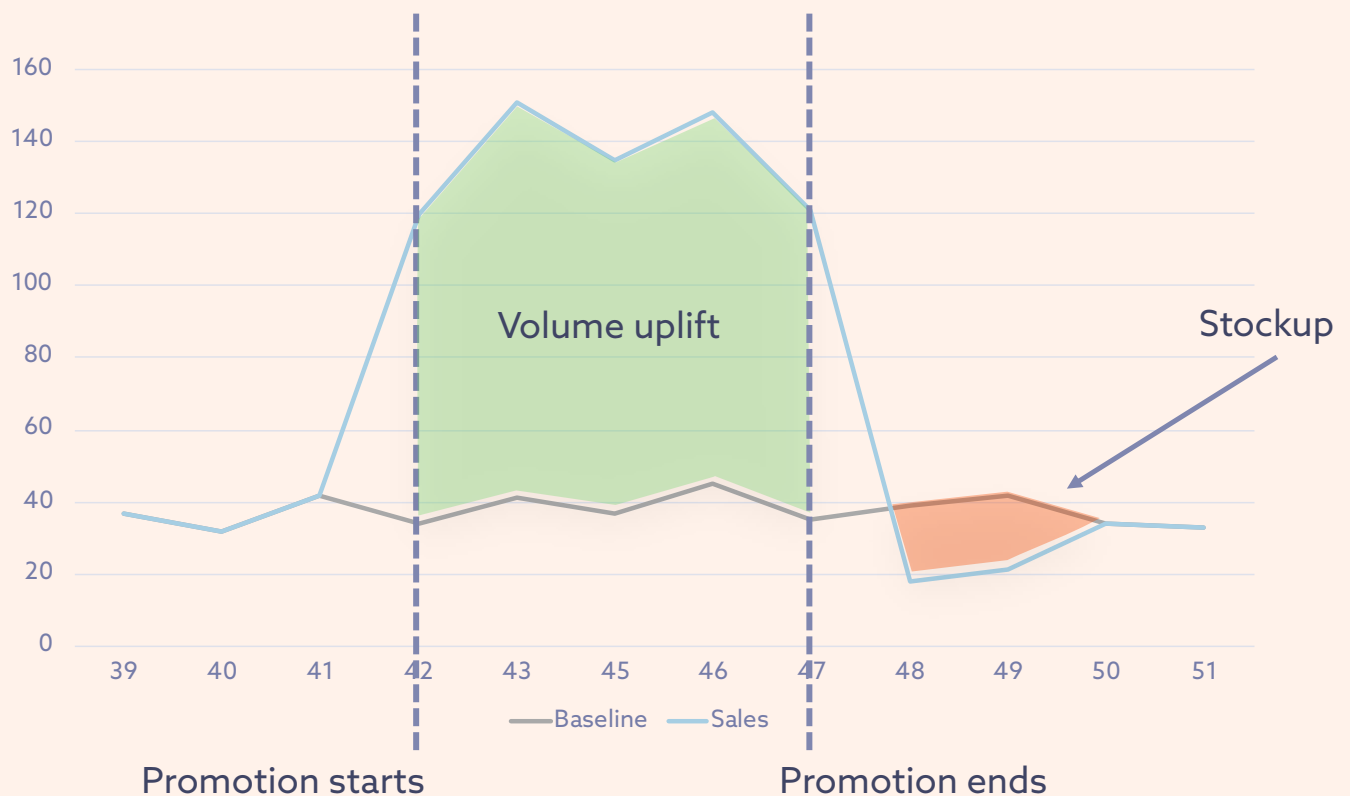


How to calculate the baseline sales for each promotion?

There are two main methods for this:

1. [Bayesian inference](#) (computationally more demanding, but provides far more accurate & reliable results)
2. [Linear interpolation](#) for each week-day with seasonal corrections (fast)

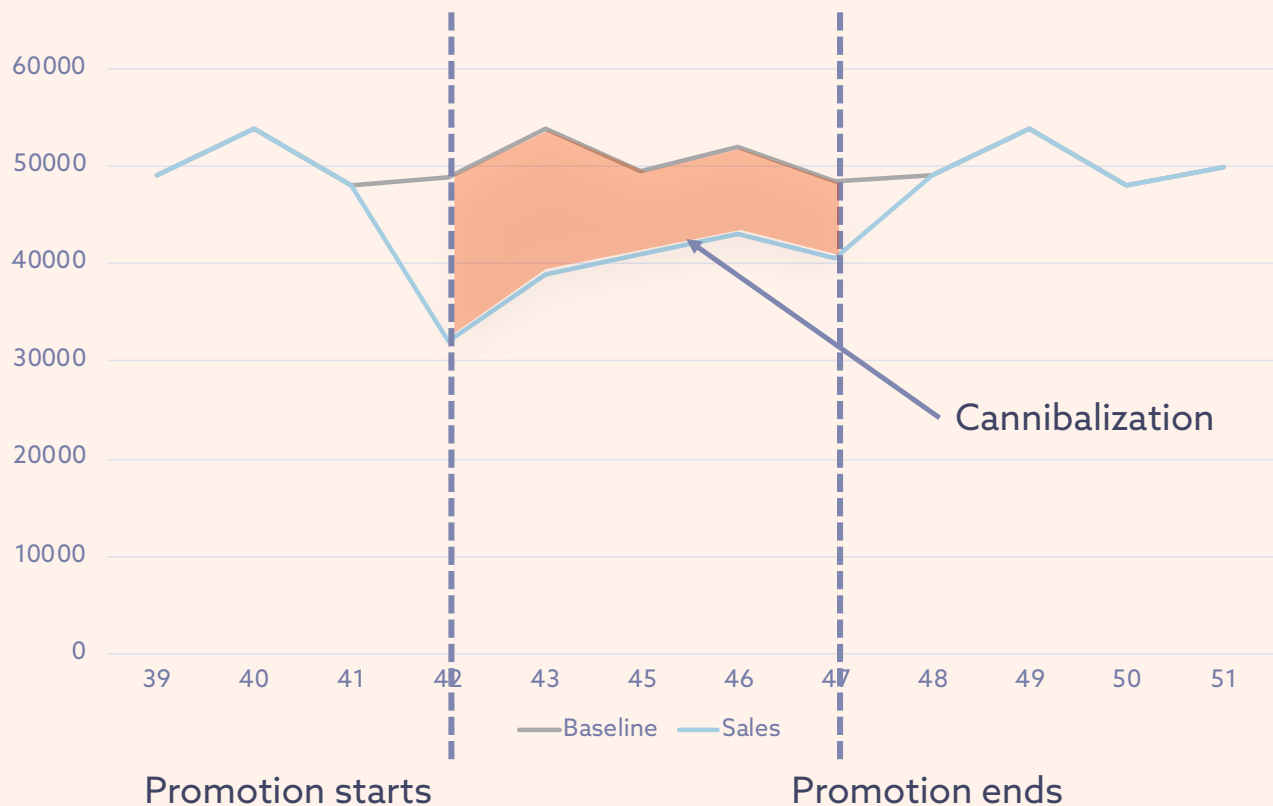
Step 2: Measure stockup by calculating baseline for the time after the promotion



How to calculate the stockup?

Similarly to previous step, we can calculate to baseline sales for the time period *after* the promotion, which is usually higher than the realised sales due to the stockup effect – people buy large quantities at the discounted price, and won't buy these items (at normal price) during the following weeks, or even months!

Step 3 – Cannibalization: Calculate baselines for other non-promotional items within the same category



How to calculate cannibalization?

Likewise with the promoted item, we calculate the baselines for other non-promotional items within the same product category.

Again, the baseline sales tend to be higher than actual sales, this time due to the cannibalization effect – customers purchase discounted products instead of their normal selection.

Step 3 – Halo: Which non-promo items did the customers pick up in the same baskets with the promo items

Receipt data

Item name	Volume	Turnover
Straw hat	1	25
Scarf	1	15
Socks	1	5

Promotion data

Item name	Start date	End date
Straw hat	2020-08-25	2020-08-30
Leather jacket	2020-08-25	2020-08-30
Brown belt	2020-08-25	2020-08-30

Attribute non-promo sales to promo items

Item name	Volume	Turnover	Promo flag
Straw hat	1	25	1
Scarf	1	15	0
Socks	1	5	0

How to calculate halo?

Halo effect can be divided into two parts, complimentary & media halo.

The first attributes part of the normal-priced products' (found in the same basket) sales to promo item with the assumption those items were purchased partly due to the promotion (e.g. maple syrup & pancake ingredients).

The latter evaluates how many customers came to store thanks to the promotion in external media, and how much normal-priced products these customers bought.

The hard part – and the fruits of labor

As mentioned in the beginning, the biggest reason for measuring promotion effectiveness all wrong (or neglecting it entirely) is the complexity of the calculations. **All the above steps need to be applied for each promotion, in addition to which the cannibalization is calculated for each SKU (Stock Keep Unit).**

This means massive amounts of receipts data and various promotions and baselines need to be calculated on daily level. For companies with numerous products and/or services in their assortment, this is only possible with parallel computations in cloud-based platforms, such as [Amazon Web Services](#).

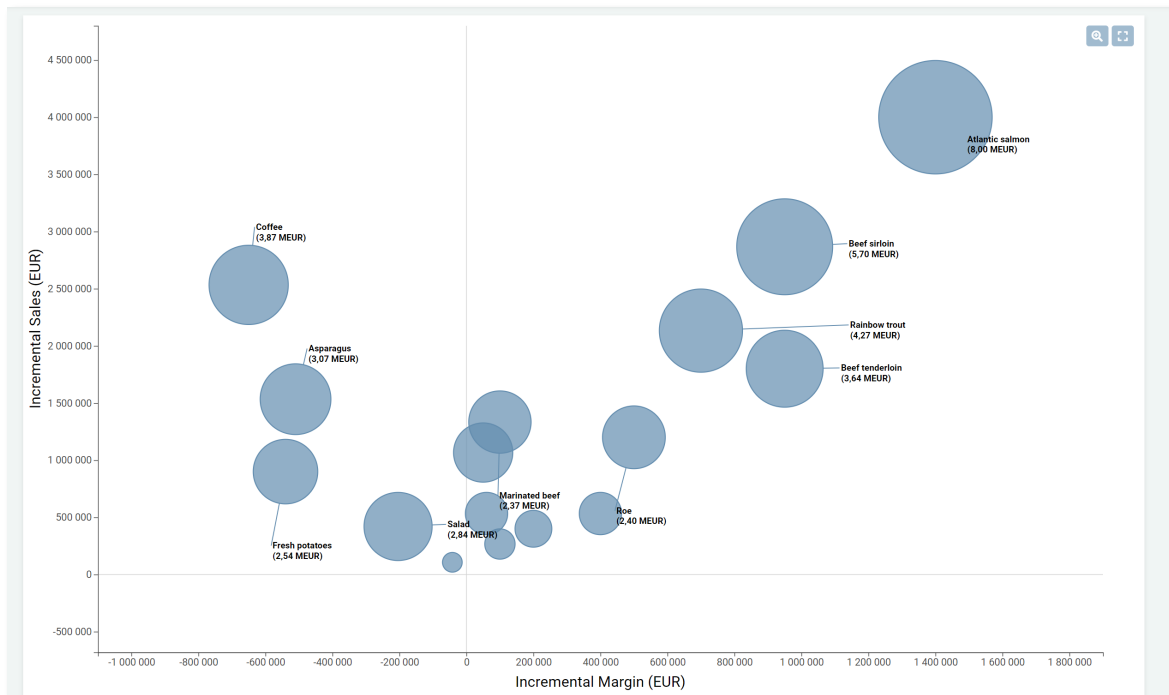
Whether you're taking on this challenge in-house or getting a headstart with [Sellforte's Continuous Promotion Effectiveness](#), as the end result you should have pretty solid understanding of what makes a promotion a success:

See why specific promotion performs/don't perform so well

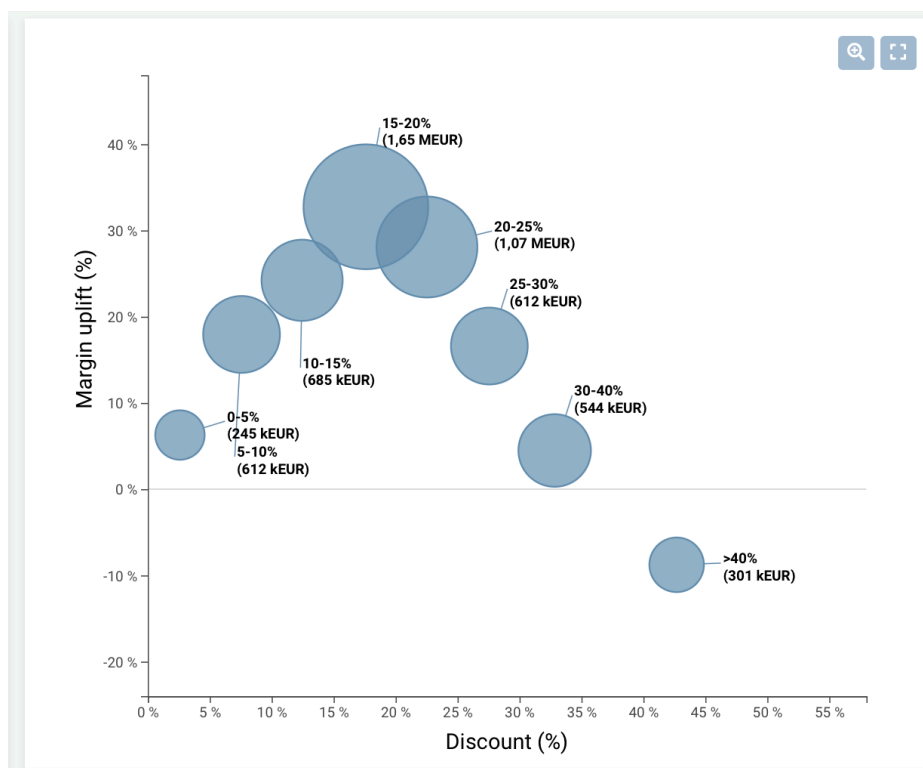


The hard part – and the fruits of labor

Analyze how different product categories perform in promotions



See how discount depth affects the profitability



Is this really worth it?

On average, Sellforte has helped its customers to reach a profit uplift of 0,6% of the yearly turnover, already during the first year of collaboration.

In relation to total number of clients, **Sellforte has the most customer case studies with concrete business impact and client testimonial in them**, which sends a strong message about the value of accurate, actionable & affordable Promotion Effectiveness analytics solution.

Here's how the customers describe the benefits of Sellforte Promotion Effectiveness solution:

"We piloted the results based on Sellforte's analysis. The result was best ever sales month, driven by successful Haukutut Hinnat campaign and media. I'm very excited about this!"

Juhana Lamberg, Country Manager at Musti Group

"We have changed which kind of products we are using [in each media], which kind of price points we are using, and what kind of campaigns we have in store."

Susanna Ottila, Director at Stockmann Delicatessen

Companies that are utilizing Sellforte's commercial optimization platform



Getting a headstart

Sellforte AI-powered commercial optimization software shows precisely how marketing campaigns and promotions are performing, providing the accurate, continuous updated insights needed to adjust, improve and forecast market strategy in near real-time.

Analyzing tens of millions of rows of receipt and media spend data, the algorithms quantify online and offline sales and margin outcomes. Results are exceptionally granular and readily accessible through a unique interactive web-UI.

Try it out yourself today!

- ✓ Get a free 30 day trial version with simulated data to test the solution yourself
- ✓ Gain access to Sellforte Learning Hub to discover more ways to use the software on strategic & tactical levels
- ✓ Ask more about the customization possibilities from Sellforte's team

Request a demo

