

sellforte

# Promotion Effectiveness Guide

2022 edition



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# Why promotion effectiveness is important

On average one in every five dollars globally is spent on promoted goods.

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. 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.



## Promotions as a double-edged sword

When picking products for promotion, you have to think about **why** you're doing this promotion. Discounts, loyalty offers and bulk buy pricing can help you:

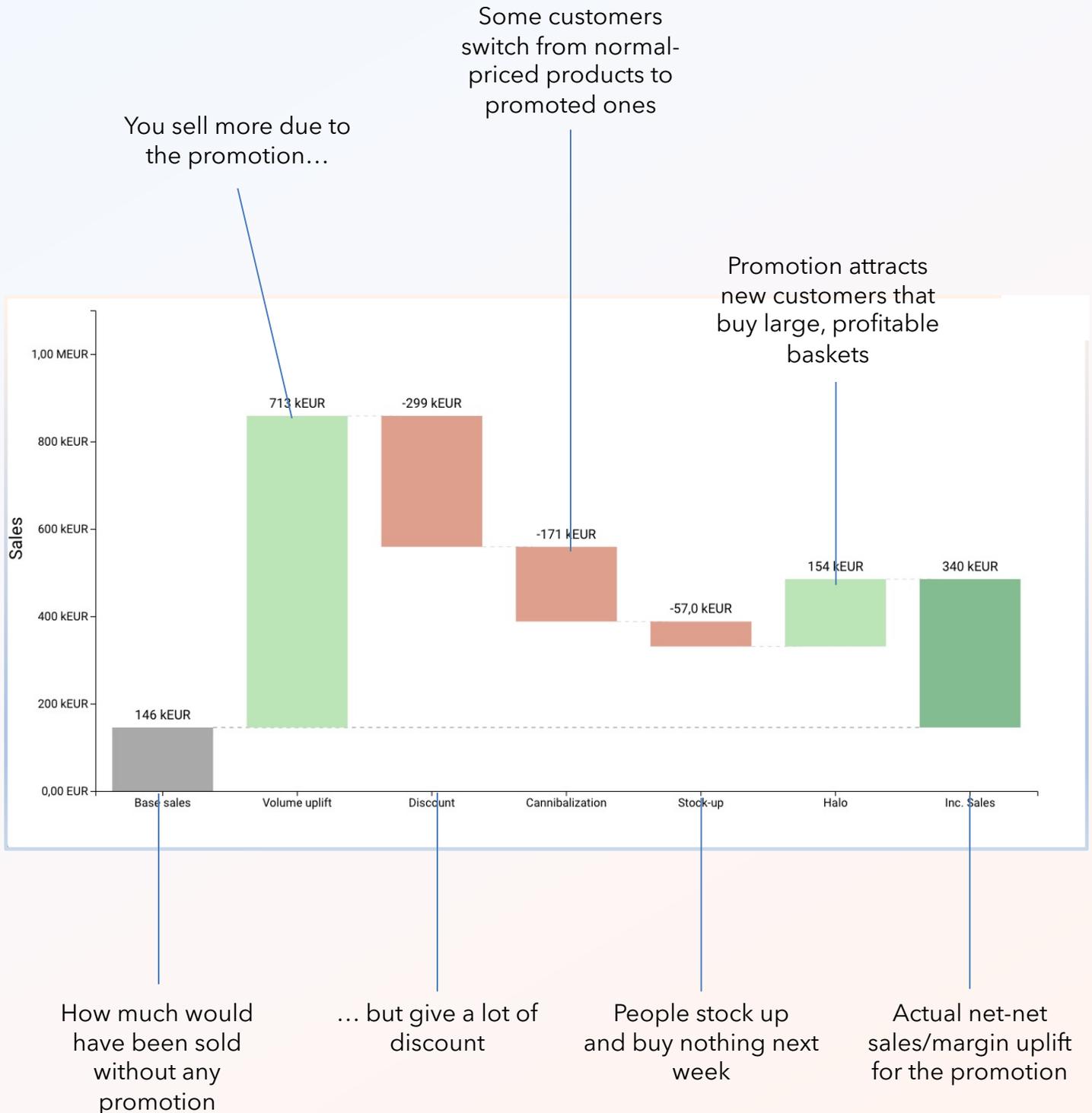
- Decrease stock
- Get new customers to try your product
- Win old customers back
- Push indecisive customers towards your brand

Promotions without careful planning and deliberate strategy can be, however, dangerous. Too frequent or too high price discounts can lead to:

- Reduced effectiveness over time
- Promotion-dependent demand
- Brand equity decrease
- Reduced profitability

The basics of Promotion Effectiveness Analysis aren't that complicated. It all comes down to understanding **how the price promotion affects the sales and margin of the promoted product, products within the same product category, post-campaign sales and up- and cross-selling effects.**

# Drivers behind Promotion Effectiveness



# Data setup

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)

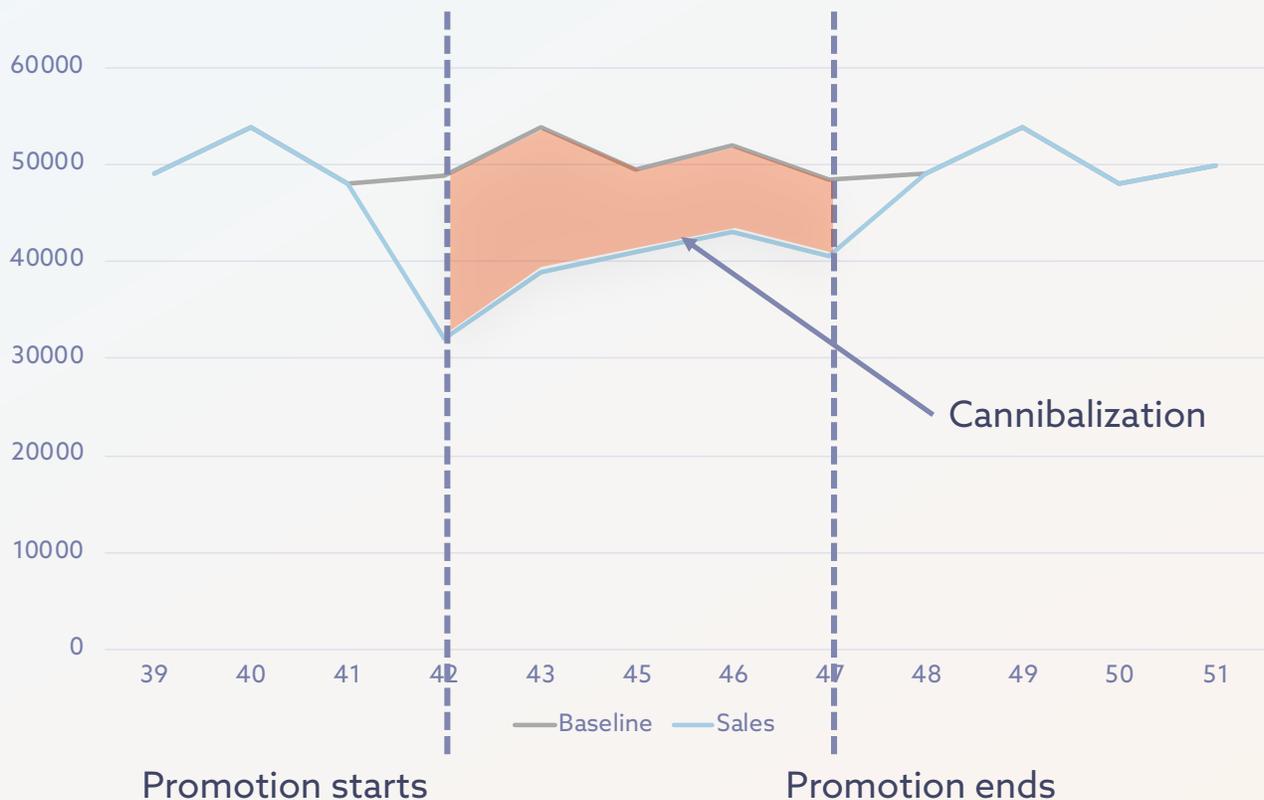
## Step 2: Measure stockup by calculating baseline for the time after the promotion



### 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 4 - 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.

## AI-powered solutions

Promotion Effectiveness Analysis is not difficult per se, but it's extremely laborious. That's why we've developed an AI-powered solution that automates majority of the calculations, providing world-class promotion effectiveness insights with a fraction of the cost of what the same would cost as a consulting project. As a continuously updated service through web-UI that's available 24/7.

Moreover, as we utilise Bayesian Machine Learning in the calculations, the AI learns and improves from analysis to analysis. As a technology partner we want to improve with our clients, and not just provide one-off solutions.

# Try it out yourself today!

- ✓ Get a free demo walkthrough session + 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

