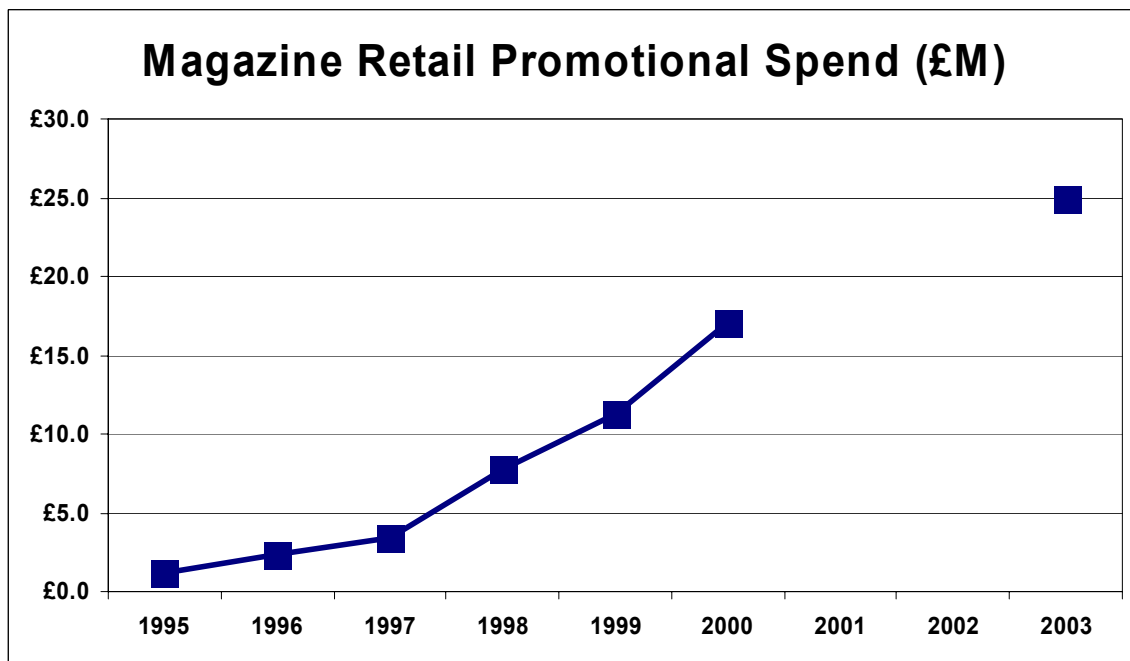


## RETAIL PROMOTIONAL SPEND – Who benefits?

“Retail margin via the back door.” That’s how one leading publisher recently described in-store retail promotions. He was merely expressing a view that is commonly held in the publishing community: that retail schemes show little sales justification, but are merely a cynical attempt by retailers to collect additional revenue from beleaguered publishers who are being held to ransom by the threat of delisting.

The whole area of retail promotions is highly complex and politically charged. Few publishers or distributors will go on public record to state their real views. Some are afraid that they will encourage retailers to be even more aggressive in leaning on publishers to part with promotional funds. Others are concerned about being singled out by retailers for retribution should they be too critical. So in this “hot house” atmosphere what is really happening? That is why PPA wanted to shed a little more light on the whole area and commissioned Wessenden Marketing to interview the major buyers of retail promotional schemes in the key distributors and publishers (“PPA Retail Promotional Spend Study 2004”). The aim was not to assess the actual effectiveness of retail promotional schemes, but to pin down more objectively the key trends and issues behind the spend.

The first question is how much is the industry spending? The answer is £25m in “rate card” spend in 2003 or 1.3% of total industry Retail Sales Value (RSV). A previous PPA review provides the 1995-2000 data in the graph below: a period when retail promotional spend rose sharply, driven by (1) more retailers offering promotions and (2) rampant rate card inflation, which is now currently running at around 10% year on year.



What is clear is that the rate of increase in retail spend has clearly slowed. Why? There is greater publisher scepticism about the effectiveness of these schemes. There has also been a move by some larger publishers to shift promotional money into more

above-the-line, brand-building activity. Specialist publishers, however, still feel locked into retail promotions in order to protect their retail listings. Increasingly, smaller titles regard retail schemes as a simple cost of doing business with retail – a very dangerous view to have.

**What is the profile of this £25m spend?** The source of the data in the table below is magazine distributors which explains why only 5% of their retail spend is directed to the “production of point of sale material” - the majority is paid direct by the publisher. However, there is also a trend to PoS costs being built into the retailers’ rate cards.

Area of Spend	% of Spend
Rate card	85%
PoS Production	5%
Merchandising	5%
Other	5%
<b>TOTAL</b>	<b>100%</b>

“Retail merchandising” activity to support a promotion is small and declining. Distributors seem to have greater confidence in promotional compliance now and costly field forces are simply not in vogue at the moment. “Other” includes voucher redemption costs (growing).

**How is this money being spent?** Five years ago, virtually all retail spend was driven from the bottom up through issue-specific promotions. This is changing rapidly into more strategic and longer-term agreements, though these are still heavily biased to the bigger titles and the major publishers.

Type of Spend	% of Spend	Trend
Strategic / Annual	30%	Rising
Tactical / Issue by Issue	70%	Falling
<b>TOTAL</b>	<b>100%</b>	

**What are the key promotional mechanics?** “On-shelf” mechanics (traditional shelf-talkers, gondola-ends, etc in the normal magazine runs) are still the staple for specialist magazines. However, “off-shelf” mechanics (till sites, window displays) are growing for larger titles, as are “added value” promotions (2 for 1s, linksaves, etc.). Again, there is a real difference in approach between large and small titles: a recurring theme of the whole report.

Promotional Mechanic	% of Spend	Trend
On-shelf	40%	Falling
Off-shelf	40%	Rising
Added Value	20%	Rising
<b>TOTAL</b>	<b>100%</b>	

**Where is the money being spent?** This data is based on a representative sample of monthly magazines.

Retail Channel	% of Spend	YoY % Change in Share
High Street	27.9%	-16%
Travel	25.0%	-5%
Convenience	22.7%	-17%
Supermarket	16.5%	+81%
Independents	6.5%	+173%
Other Total	1.3%	6%
<b>TOTAL</b>	<b>100%</b>	

Behind the figures lies the massive presence of WHSmith Retail, dominating both “High St” and “Travel”. Spend is generally following where magazine sales are going: out of the High St and into supermarkets. Yet there are two key exceptions. Firstly, concerns about compliance and return on investment are holding back spend in the convenience store sector. Secondly, more money is going into the independent sector, but from a small base, as the available “indie clubs” become better organised.

**And what about compliance?** Compliance is still an issue, but less of an issue than even a couple of years ago, as the major retail multiples are seen to be getting their act together. There are some distinct dimensions to “compliance”. Compliance to the basic listings and display guides is felt to be high at 90% or more. Compliance to the placement of point of sale material during a promotion is much more variable, but is reckoned to be improving and to average in the 70-80% range. Compliance to having enough copy on-shelf during a promotion is very difficult to assess, but is felt to be the next big compliance issue that needs to be addressed more methodically.

**So what does this all mean? What are the key messages that distributors are giving the publishing industry?**

**DEAL MORE STRATEGICALLY WITH RETAILERS.** The industry is in the process of moving from talking about title-specific and issue-specific promotions into a broader trading relationship where a publisher’s portfolio is looked at in its totality and discussions take place as to where it fits into the magazine category as a whole. This is because retailers do not think about brands; they think about the size and shape of the consumer’s total shopping basket.

**MONITOR PROMOTIONAL RETURN ON INVESTMENT MORE RIGOROUSLY.** Does it really pay back? If not, why do it? Do not think of promotional spend as a cost of doing business with retail.

**WATCH OUT FOR OTHER RETAIL MARGIN ENHANCEMENTS.** In-store promotional spend is one established revenue stream for retailers. The polybagging of newspaper supplements, the removal of retail shrink via Pay-on-Scan, help with shelf replenishment: these are all added services to retailers that cost the supply chain money.

REMEMBER THE COPY INVESTMENT. Something that retailers often forget is the publisher investment in printing extra copy to support promotions.

BECOME MORE CREATIVE. Research consistently shows that most consumers do not notice in-store magazine promotions and when they do, they are not desperately impressed. There must be life beyond the simple shelf-talker!

DO NOT UNDERMINE THE BRAND VALUES. In the pursuit of a sales uplift, always be true to the magazine and the values that it represents.

ASSESS WHERE THE SALES ARE COMING FROM. There is a growing fear that much retail promotional activity is simply shifting sales around the retail estate rather than stimulating increased consumer activity in total.

There are some important warnings from other FMCG industries where trade investment is spiralling rapidly upwards as the major retail groups fight more intensely between themselves, squeezing supply chain economies and looking for new revenue streams and increased margins in ever more creative ways.

So while the current trend in magazine retail promotions is not as alarming as in the late 1990s, when there was a major threshold leap in retail expenditure, there are still pressures building which should cause some concern. The whole financial model of modern retailing is geared to constant margin enhancement; magazines have clearly been targeted as a category where margins must improve either through improved terms, reduced costs or additional revenue streams. The clear message from the marketplace is one of great caution. Just watch out!

***Jim Bilton***  
***Managing Partner***  
***Wessenden Marketing***