

PPA Retail Promotional Spend Study 2004



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Background

The PPA Newstrade Committee commissioned Wessenden Marketing to produce a short report on publishers' promotional spend with the retail multiples. The aim of the report is to summarise current retail trends in terms of how and where promotional budgets are allocated.

An earlier PPA study ("The Impact of Retail Promotions": August 2000) looked at the actual effectiveness of a range of retail promotions based on detailed data collected from distributors. The aim of this current study is different and is to track the broad trends in retail promotional practice with some conclusions as to where these are leading.

It was agreed that the source of the data would be interviews with Marketforce, Frontline, COMAG, Seymour, MMC, Odyssey and Bauer. This was supplemented by data from external sources to provide a non-newstrade perspective (e.g. retailer interviews, IGD, POPAI, trade press, etc.)

The report covers:

1. MANAGEMENT SUMMARY.
2. NON-NEWSTRADE PROMOTIONAL TRENDS. A brief overview of what is happening in other FMCG industries.
3. MAGAZINE INDUSTRY OVERVIEW. A summary of the trends and current practice in magazine retail promotional spend.
4. RATE CARD ANALYSIS. A comparison between key retailers as to how and what they charge.
5. RETURN ON INVESTMENT. How publishers assess what they are actually getting back for their promotional spend.
6. COMPLIANCE. Views as to which retail multiples are meeting satisfactory compliance requirements.
7. ISSUES & TRENDS. What are the key issues and trends that lie behind promotional spend?

1. Management Summary

While there is still great concern over the increasing sums of money which are going into retail promotional schemes, it is clear that the rate of growth has slowed down over the last two years as publishers become more cynical about their true effectiveness and more rigorous in their monitoring of Return on Investment.

Yet what is also clear is that there is a big divide opening up between small and large publishers. Increasingly, retail promotions are seen by smaller publishers as a cost of doing business with retail multiples and of maintaining tier listings and on-shelf visibility. For specialist publishers with limited promotional funds, trade investment is an economic and measurable activity, but one that is increasing steadily and inexorably. By contrast, larger publishers have more ability to move money between above-the-line and below-the-line spend from year to year and to flex their promotional model.

Some key facts about magazine retail promotions:

- Industry ratecard spend on retail promotions in 2003 was in the region of £25m.
- This spend continues to grow, but the rate of growth has slowed.
- Spend is shifting from traditional issue-specific promotions into annual agreements.
- Spend is shifting from on-shelf mechanics into off-shelf displays and added-value promotions.
- Spend is following retailer market shares and is broadly shifting out of the High Street and into the supermarkets.
- Ratecard inflation ran in the region of 10% comparing 2003 with 2002, well ahead of Retail Price Inflation and magazine cover price increases.
- Compliance levels have been rising, but are still too variable from retail group to retail group and are still a general cause for concern.

- Concern about compliance on PoS placement has now shifted more into concern about adequate on-shelf copy availability during promotions.

There are many other issues lurking behind retail promotions which emerged during interview, such as the role of “category captains”, who should advise retailers on range, the issue of early returns, “hard ranging”, etc.

There were also 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. There is the more assertive application of retail disciplines (hard-ranging, one-in/one-out, penalty rate cards, etc) which will have some, though as yet unclear, impacts on publisher finances.

The clear message from the marketplace is one of great caution:

- Monitor promotional effectiveness more rigorously.
- Deal with retailers more strategically rather than on an issue by issue basis.
- Do not accept retail promotional spend as a cost of doing business.
- Become more creative in the operation of the actual promotional mechanics.

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- Assess publisher copy investment as much as retailer ratecard spend.
- Beware of undermining long-term brand values in the pursuit of short-term sales increases.
- Try to understand more clearly where the sales uplifts are coming from. Are they just cannibalisation?
- Watch out for other ways that retailers might try to enhance margins in the future which might include charges for shelf replenishment.

Yet the relationship with retailers need not be completely adversarial. There is a real opportunity for publishers and retailers to work together to develop the whole category in a joint and strategic approach. Yet publishers must also recognise that retailers view the whole issue from a different perspective. To quote a recent editorial in *The Grocer*:

“Retailers are not concerned with individual brands, but about availability and promotional issues in general. If manufacturers want to grow their brands, they will have to stop whingeing and start taking a more strategic approach at store level.”

About Wessenden Marketing

Wessenden Marketing is a broad based marketing consultancy with a range of clients across the media, distribution, retailing, direct marketing, finance and business service sectors.

Wessenden's services cover four key areas:

- **Consultancy.** Health checks, market mapping & consultancy and project management.
- **Publishing.** Newsletters and reports analysing trends in the media business. "Circulation Briefing" is the key newsletter published 10 times per year.
- **Research.** From desk research through reader questionnaires on to in-store shopper surveys.
- **Training.** Public seminars and in-house workshops on a range of marketing and circulation related topics.

For more information, please contact Jim Bilton at:



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