



# a quick outline of the Promotional Planning framework

For some time those seeking to measure promotions have talked about efficiency and effectiveness. However I have never seen a universally accepted definition of these terms, and in my book I set out a number of ways of measuring each. It seems logical to me to use the term efficiency to relate to the overall promotional program – a period of time that is reasonably long, and the inclusion of all promotional costs for a number of promotions compared to the total sales over that period. On this basis, efficiency is a measure of the average cost of trade spend. To relate this to a single promotion, the promotional costs would be expressed as a percentage of the sales on that promotion. Individual promotional efficiencies would be related to the overall promotional program efficiency in terms of the frequency with which that promotion is repeated. To use an example, if a single promotion has an efficiency cost of 20% to sales, and the frequency is such that 30% of the total sales in a period are on a promotion, then the overall efficiency will be 6% of sales.

Effectiveness on the other hand would seem to relate to any gain in sales achieved by the promotion, and be measured in terms of the costs to achieve that gain. A simple theoretical model using real world price/volume relationships indicates that efficiency and effectiveness can have a minimum point - that there are optimum price points. It also indicates that both measures reach a minimum at about the same price point. This suggests that if you optimise effectiveness you will optimise efficiency at the same time. However my own experience indicates that this is not the case, and indeed I have now developed a promotional evaluation system which proves this to be the case. If effectiveness and efficiency are independent, there are four possible states for a product on a promotion. This is shown below in the BEST model:

<b>Ballistic</b> <b>HI Effect/Low Effic</b>	<b>Superb</b> <b>HI Effect/HI Effic</b>
<b>Terrible</b> <b>Low Effect/Low Effic</b>	<b>Economical</b> <b>Low Effect/HI Effic</b>

- B Ballistic** Effective but not efficient
- E Economical** Efficient but not effective
- S Superb** Effective and efficient
- T Terrible** Neither effective nor efficient

There are a number of implications in this BEST model. A promotion that is low in efficiency can be run, but obviously with less frequency than another promotion that has a higher efficiency. It is also possible for an individual retailer to charge far more than their stores are able to deliver, thus causing all their promotions to be lower in efficiency and lower



in effectiveness than for other retailers. One can also identify products which are Terrible, irrespective of where they are run, or what promotional vehicles or price points are used. Economical are products which carry trade spend costs easily – often being high volume lines, but which do not respond significantly to price promotions. They can be combined with a few Ballistic. These are products which are expensive to promote generally, as they are low volume lines, but which show significant increases in sales. Superb are often all too few - particularly as retailers drive up trade spend costs. The only challenge to Superb is to ensure any trade promotions in this area do not destroy the brand. In our trade dominated promotional environment, account managers need to be carefully directed, as their primary goal is to drive volume and control trade spend. If marketing do not set strict guide lines, who can blame them for over-promoting products that perform?

Here is a typical mix of promotions, showing quite clearly that effectiveness and efficiency are independent, and that if you can raise effectiveness (i.e. get more incremental contribution), without lowering efficiency (i.e. spending more), you will put a lot of money on the bottom line!

Some of the research which played a big part in the evolution of this model is described in another paper on this site.

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