2017 Marketing Spending Industry Study





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OVERVIEW

CADENT CONSULTING GROUP OVERVIEW

WHO WE ARE

Cadent Consulting Group, established by the founders and senior leadership team from Cannondale Associates and Kantar Retail, is a marketing and sales management consulting firm serving the Consumer Packaged Goods (CPG) and Retail industries. We offer a broad array of information, insights, capabilities and expertise across the manufacturer, retailer and shopper spectrums.

OUR MISSION

Our Mission at Cadent is to help our clients drive growth and profitability while optimizing go-to-market investment and organizational productivity. We aim to translate insights into competitive advantage for our clients.

OUR FOCUS

Growth Accelerators Category Leadership Path to Purchase Industry

Industry Benchmarking Gro



Trade/Marketing Productivity "Value Based" Pricing Customer Segmentation Organization Design & Training

OUR HISTORY IN INDUSTRY RESEARCH

Cadent's Management Team, while at Cannondale Associates, published the first Category Management/Leadership Industry Study in 1994, followed by the Trade Promotion Industry Study in 1995 and the annual PoweRanking[®] Study in 1997. Over twenty years of experience in category management, trade promotion, shopper insights and industry best practices has deepened our knowledge and expertise across the manufacturer, retailer and consumer/ shopper spectrums.

We constantly seek to better understand our client needs at large. Cadent published a study on Marketing Spending in 2014, followed by a study on the Path to Purchase in 2015 and Strategic Pricing in 2016. Given the importance of how and where marketing dollars are spent, and in particular the dynamics and growth of Shopper Marketing and Digital, our 2017 study is focused on Marketing Spending.

CADENT CONSULTING GROUP OVERVIEW

RESEARCH OBJECTIVES/METHODOLOGY

The objective of this Marketing Spending Industry Study is to evaluate marketing spending by type and vehicle, as well as its impact across the three constituents – manufacturers, retailers and shoppers.

WHY MARKETING SPENDING?

Marketing Spending represents nearly \$225 billion in annual expenditures by CPG manufacturers or 19.5% of total sales. How are these spending decisions made? How do they impact sales?



What are the perceptions among manufacturers, retailers and shoppers? How are manufacturers and retailers planning in a world of limited resources and constrained budgets while presented with nearly limitless marketing and sales spending opportunities, especially in Shopper Marketing and Digital? How has the growth of Shopper Marketing and Digital impacted the market since our last Marketing Spending Study in 2014?

We believe the way to win is to focus on the fundamentals while embracing the complexity of change. The specific goals of our research were to:

- Define how much is being spent by marketing type and vehicle.
- Understand the trends and reasons why.
- Assess effectiveness from manufacturer, retailer and shopper perspectives.
- Determine the impact of different expenditure types.

This study, however, is not operating in a vacuum. There are critical macro factors at work that should be considered before implementation of action plans:

- The economy has rebounded, but the future remains uncertain.
- Shoppers are demanding deals and discounts.
- Manufacturers are caught between basic fundamentals and the need for new fundamentals (e.g., personalization/customization via Shopper Marketing and Digital).
- Retailers are defaulting to the tried and true of what has worked in their stores, and requiring customized insights and programs for their shoppers.

STUDY METHODOLOGY

Nearly 600 manufacturer, retailer and shopper participants were surveyed online with customized questionnaires. Select in-depth, one-on-one follow-ups were completed to gain a better understanding of the why behind total marketing spending and its effectiveness. Shopper oriented examples were provided to supplement trade terminology in the shopper research section.

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

BLINDED BY THE LIGHT

What comes to mind? If you're of a certain age it's probably Bruce Springsteen's song made famous by Manfred Mann in the 1970's. If you know the song you may remember it is next to impossible to understand. Well, that's one predicament facing most sales and marketing executives at consumer companies today, when it comes to the ROI on marketing expenditures.

How do you determine where to invest your finite marketing dollars most productively? Traditional, proven vehicles like Advertising and Trade Promotion are still alive and well and working – yet newer, exciting approaches such as Shopper Marketing and Digital are demanding our attention. We cannot simply continue to do the same thing over and over again or, alternatively, be totally distracted by the latest and greatest bright, shiny, new objects. Digital is certainly one, and the glow is not off of Shopper Marketing either. Yet, we can't overreact to newer, less proven vehicles, or we will risk being "Blinded by the Light."

Overall marketing spending has remained relatively static at roughly 20% of sales for the past 10 years, however the options of how and where to spend these dollars have expanded and changed. The challenge is to find the right balance between the bright, shiny new objects and the traditional vehicles, while achieving optimal ROI. The intent of this survey is to:

- 1. Help you evaluate where you stand today.
- 2. Determine where you want to be in the future.
- 3. Develop a path to help you get there.



EXECUTIVE SUMMARY

MARKETING SPENDING OVERALL

While the overall Marketing Spend has not changed, when we look at the shifts that have occurred in mix from 2012 to 2017 – just 5 years – it's shocking. Traditional vehicles such as Trade Promotion, Advertising, and Consumer Promotion have all fallen – with Advertising taking the greatest hit, now representing about half of what it did in 2012. Not surprisingly, levers such as Digital and Shopper Marketing are growing by leaps and bounds. Shopper Marketing has more than *doubled* its share of spending and Digital has almost *tripled* in size over the past 5 years. A somewhat startling statistic, in 2012, spending on Digital was less than one-third the spending on Traditional Advertising; however, in 2016 – just four short years later – Digital overtook Advertising!



So overall spending is flat, mix has shifted and continues to shift dramatically, but have we experienced improved impact? In a word – No! Despite the doubling and tripling of spending in Shopper Marketing and Digital, neither the retailer nor the shopper are feeling the impact. *In fact, Digital received the lowest effectiveness rating by retailers as well as the lowest awareness and impact scores by shoppers.* With the way of the world continuing to shift more and more to the virtual, what does this mean in terms of what, where, and when we spend Marketing dollars? And the important missing "W" is why? Why are we spending on each of the various vehicles and what is the impact that we desire? At the end of the day, it's all about driving the sale – but there are several different types of sales: Are we looking for trial? Repeat? Longer-term loyalty? Compliance to a regimen? Plus, there are several steps to achieving the ultimate sale. Are we seeking to build awareness? Drive engagement? Enhance imagery? Provide education? Determining and evaluating the Marketing Spend is a broad and complex world, and while there is some black and white...there's an awful lot of gray!

EXECUTIVE SUMMARY

MARKETING SPENDING BY TYPE

Trade Promotion: Whether it's everyday or promoted, Trade Promotion spending continues to be dominated by price. Temporary Price Reductions and Ongoing Price Management comprise approximately 50% of the Trade Promotion spend. Retailer effectiveness ratings are strong, although less so in 2016 versus 2014 (-4 points to 88%). Shopper awareness is solid at 46%, with 39% stating that it influenced their purchase decision. While Trade Promotion is a foundational element of the Marketing Mix, we need to remain wary of being too price/promotion focused.

Advertising: Traditional Advertising, once a core component of any Marketing Mix, continues to trend downward. Representing \$1 in every \$4 spent as recently as 2012, Traditional Advertising is down to only 15.5% of spending in 2016, and is expected to continue to fall. While only 15% of shoppers say Traditional Advertising is effective, retailers are expressing a resurgence in Traditional Advertising effectiveness with 65% believing it to be effective, +27 points versus 2014. Tried and true, Traditional Advertising remains a crucial component of the mix – particularly to balance against the price focus of Trade Promotion. With technology advances and changing media behaviors in recent years, it has become more challenging for Advertising to break through and effectively reach, and importantly impact, consumers.

Consumer Promotion: Consumer Promotion has experienced a slight turnaround. Having gone through cuts and reallocation to newer media such as Shopper Marketing and Digital, Consumer Promotion grew to 9.2% of the mix in 2016 (up from 7.9% in 2014) and is projected to grow another 1.3 points to 10.5% in 2017. Consumer Promotion remains effective in the eyes of 68% of retailers, with 39% of shoppers claiming awareness and 30% saying it affected their purchase decision.

Shopper Marketing: Shopper Marketing, which had recently been growing, appears to have plateaued. Having more than doubled between 2012 and 2014 (6.0% up to 13.5%), Shopper and/ or Account Specific Marketing is resting at about 13% of total spending. Importantly, effectiveness ratings among retailers have fallen sharply, -27 points in 2016 to 65%. Shopper awareness is 39%, with 31% of shoppers saying that it affected their purchase. As Shopper Marketing has now been around for many years, *it's critical to establish the right metrics to measure effectiveness on the business,* as well as understand how to drive impact among both retailers and shoppers.

Digital: Digital continues to be the "new darling" in the Marketing Mix. Representing only 7.1% of spending in 2012, Digital has grown to be the second largest piece of the pie, reported at 15.9% in 2016 and projected to grow to 19.9% in 2017. In its newness, Digital has strong appeal among many Sales and Marketing professionals. It has grown, but only slightly, in effectiveness among retailers, +6 points to 60% in 2016, yet is the lowest scoring of all vehicles. *Awareness and impact among shoppers is disappointingly low – also the lowest among all Marketing Mix components; only 14% of shoppers express awareness, with only 10% believing that it was effective. Spending on Digital needs to be objective-driven and measurable.*

We hope you are "revved up like a deuce" after reviewing this survey. There's a lot of money being redirected and you should know if your spending is productive (ROI) and addresses your marketing objectives. Don't be "Blinded by the Light" of what is new and flashy without understanding if you've gotten traction with shoppers or are simply being drawn to the light.

KEY FINDINGS

MARKETING SPENDING: OVERALL BY TYPE

While overall Marketing Spending has not changed as a percent of Sales in almost a decade, the mix within that spend is absolutely not static. As the rate of change in business is increasing at an exponential level, so too is the way that dollars are being spent within the overall Marketing Mix. We've seen Traditional Advertising reduced by almost half, whereas newer levers like Shopper Marketing and Digital have doubled and almost tripled as a share of total spending.

- Digital cannot go unnoticed. Not only has it tripled its share, but it is the only component that has continued to grow without faltering.
- Digital is now the second largest spending component, larger than Traditional Advertising, and is expected to continue to grow in the future.
- While Trade Promotion appears to have dipped slightly, we expect the year end numbers for 2017 to increase as volume "pushes" are a reality of the business.
- Spending on Traditional Advertising continues to decline with DVR usage, the growth of "binge watching", and alternative media.

Manufacturer – Marketing Spending by Type

• Shopper Marketing may have peaked, but still represents 13% of marketing spending.



Growth in Digital continues unabated – triple vs. 2012; Shopper Marketing doubles but plateaus.

MARKETING SPENDING: OVERALL BY TYPE

Retailer – How Effective is Manufacturer Marketing Spending by Type in Generating Sales? (% Effective/Very Effective)



Digital is rated lowest in effectiveness by retailers.

RETAILER PERSPECTIVE:

- Trade Promotion spending continues to receive the strongest effectiveness scores from retailers, with only slight fall off from 2014 to 2016.
- Retailer perception of Shopper Marketing effectiveness fell precipitously, -27 points while Consumer Promotion remained stable.
- Interestingly, retailers expressed renewed confidence in Traditional Advertising with a 27 point increase in perceived effectiveness.
- While Digital saw a slight increase in its effectiveness score of +6 points, it is rated the lowest in effectiveness among the Marketing Spend components.
- It needs to be a win-win-win for all parties – manufacturer, store and consumer.
- TV, print and targeted marketing are good for educating consumers and driving awareness.
- Targeted promotions are more effective. Shoppers are bombarded with zillions of messages daily. Those that impact are rare.

MARKETING SPENDING: OVERALL BY TYPE

SHOPPER PERSPECTIVE:

- Similar to retailer ratings, Trade Promotion is the most effective among shoppers achieving both the strongest awareness score as well as the strongest influence score.
- Shopper Marketing and Consumer Promotion have a similar impact on consumers, both achieving a score of 39% for awareness.
- Scores for Digital are disappointingly low; not only is it not impacting purchase decisions (10%), but very few are even expressing awareness of Digital presence (14%).
- Traditional Advertising scores are somewhat weak for both awareness (25%) and influencing purchase decisions (15%).



- I think it is important to grab a customer's attention and make them want the product.
- The key to a successful advertising offer is to get someone to stop and actually consider the offer you are making. If it is not visually appealing, or does not offer a substantial reward for trying a new product, most people will disregard the offer.



Shopper – How Effective is Overall Spending in Impacting Shopper



Digital is the lowest in awareness/influence as rated by shoppers.

TRADE PROMOTION: ALL ABOUT PRICE – EVERYDAY & PROMOTED





Ongoing price management and TPR still represent nearly half of all spending. Feature & Display has declined.

A DEEPER DIVE

With the objective of Trade Promotion typically about driving immediate volume (less so about awareness or education, for example), it's not surprising that pricing continues to comprise about half of all Trade Promotion spending. High quality promotion, Feature & Display, while declining slightly, is still greater than one-quarter of all trade spending.

- The single largest component of Trade Promotion, Temporary Price Reductions (TPRs), has grown to 30.7% in 2016, and the other price related element, Ongoing Price Management, is down slightly – however, pricing remains the primary driver in Trade Promotion spending.
- Feature Only and Display Only have both declined with each representing about 10% of total Trade spending.

TRADE PROMOTION: ALL ABOUT PRICE – EVERYDAY & PROMOTED

RETAILER PERSPECTIVE:

- Feature & Display events are most effective, according to 91% of retailers.
- 80%+ find price related elements

 TPRs and Ongoing Price
 Management to be effective.
- Feature & Display increases the impact on the consumer creating a strong invitation to buy.
- When all is said and done for many shoppers it's about the money. They still want to save money. TPR as well as Display are big.
- Consumers shop in the moment.

Retailer – How Effective is Manufacturer Trade Promotion by Vehicle in Generating Sales? (% Effective/Very Effective)



Feature & Display support drove retailer effectiveness in 2016, surpassing price management which was seen as most effective in 2014.

TRADE PROMOTION: ALL ABOUT PRICE – EVERYDAY & PROMOTED

Shopper – How Effective is Trade Promotion in Impacting Shopper Awareness/Purchase Decisions? (% Effective/Very Effective)



All Trade Promotion tactics have relatively equal awareness, but Price Reduction has the greatest influence. If Promotion is not integrating Price Reduction it will be sub-optimal.

SHOPPER PERSPECTIVE:

- While awareness of all Trade Promotion vehicles is roughly the same among shoppers (ranging from 45% to 52%), the degree to which they influence purchase varies.
 - Conversion from awareness to influencing purchase is strongest for Price Reductions with 52% aware and 48% being influenced (92% conversion).
 - According to shoppers, while there is strong awareness of Displays (51%), only 28% are influenced to purchase based on the Display.



- I always check the store flyers for specials, even if I do not need the item right away. Also a product display may catch your eye and cause you to make an unexpected purchase.
- I like seeing a picture promoting the sale of a product in the ad. A 'Buy one/get one free' ad always catches my attention.
- If I don't see it online, if it's not available to me on my smart phone, it doesn't exist. I have no use for hard copies.



SHOPPER MARKETING: CONVERT SHOPPERS INTO BUYERS



Retail Specific Coupon Offers and In-Store Advertising are on the rise. Merchandising/Fixtures declining.

A MORE BALANCED SPENDING APPROACH

In the earlier years of Shopper Marketing, a large percentage of spending was on Merchandising and Fixtures – 35.5% in 2014. The spending mix has shifted significantly. Today, Retailer-Specific Coupons/Offers and In-Store Advertising play a greater role at 26.7% (+8.1 points vs 2014) and 23.9% (+8.0 points) respectively, while Merchandising and Fixtures declined to 16.3% of Shopper Marketing expenditures.

- In-Store Events played a larger role in 2014 at 16.2%, while in 2016 they comprised about half that amount at 8.3%.
- Conversely, Product Sampling/Demonstrations have grown from 9.0% of Shopper Marketing spending in 2014, up to 15.2% in 2016.

SHOPPER MARKETING: CONVERT SHOPPERS INTO BUYERS

RETAILER PERSPECTIVE:

Overall, retailers are expressing a decline in effectiveness across all Shopper Marketing elements, with the exception of Product Sampling/Demonstrations. In 2016, 76% of retailers found Sampling/Demonstrations to be effective (growth of +9 points vs. 2014) now seen as the second-most effective vehicle.

- Retailers believe In-Store Events are most effective, with 82% of retailers claiming effectiveness however, events have declined in effectiveness by 7 points versus 2014.
- Surprisingly, Retailer-Specific Coupons/Offers experienced the largest decline in effectiveness, losing 18 points, down to 71%.
- Merchandising/Fixtures also dropped significantly, down 16 points to 71%.
- In-Store Advertising lost some vigor, dropping from 78% in 2014 to 67% of retailers in 2016 believing it to be effective in generating sales, falling to the least effective according to retailers.

2014



Retailer – How Effective is Manufacturer Shopper Marketing by Vehicle in Generating Sales? (% Effective/Very Effective)

2016



- **EY FINDINGS**
- Effectiveness is heavily influenced by the in-store execution. When we are part of the process, from development forward, we are more vested in the vehicle which helps drive execution/results.
- In-Store Advertising must excite the customer to buy. In-Store Events must drive traffic within the store. When vehicles reach customers where they are, those programs are more effective.
 - For Merchandising/Fixtures, a really great piece will make a big difference.

SHOPPER MARKETING: CONVERT SHOPPERS INTO BUYERS

SHOPPER PERSPECTIVE:

- Retailer customization is a "must do" when it comes to Shopper Marketing with both Retailer Specific Merchandising/Fixtures and Retailer Specific Coupons/Offers attaining the greatest awareness among shoppers.
 - Not surprisingly, Coupons/Offers achieve the strongest influence scores among all Shopper Marketing elements.
- Other types of Shopper Marketing examined, including In-store Advertising, Events, and Sampling/Demos have both lower awareness and lower impact.

Shopper – How Effective is Shopper Marketing in Impacting Shopper Awareness/Purchase Decisions? (% Effective/Very Effective)



Retailer specific customization is essential for success in Shopper Marketing.



- Other than Coupons/Offers, I don't usually engage with in-store programs. I just want to get in and out of the store.
- I think that product sampling has the best potential to get customers.
- I believe that shoppers make larger purchases when the retailer offers a store coupon in addition to discounts on products.

DIGITAL: THE NEW FRONTIER

Digital communication is undergoing radical and constant change, and thus spending is spread across many components. Social Media has grown to be the largest component of the Digital spend, and newer elements like Video and Sponsored Content are taking hold. Search Engine Optimization and Sponsored Search declined in spending; similarly, Website/Content Development has declined.

- Social Media is expected to continue to grow into 2017, representing \$1 in every \$4 spent in Digital, but is considered less influential by shoppers than its share of budget.
- Digital/Banner and Online Coupons will be the second largest components at approximately 16.5% each. Online Coupons carry disproportionate weight with shoppers.



Manufacturer – Digital Spending by Vehicle

EY FINDINGS

DIGITAL: THE NEW FRONTIER

Retailer – How Effective is Manufacturer Digital Spending by Vehicle in Generating Sales? (% Effective/Very Effective)



Most digital media are declining in effectiveness according to retailers.

RETAILER PERSPECTIVE:

- While Digital spending continues to grow, retailers appear to be less "wowed" by most types of Digital. Online Coupons and Social Media remain the most effective in the eyes of the retailer, however both have declined in effectiveness versus two years ago. Online Coupons are seen as most effective, but have fallen to 75% in 2016, down from 83% in 2014. Social Media has fallen 10 points in 2016 versus 2014, to 71% of retailers seeing it as effective.
- A critical component of Digital, regardless of the specific type/vehicle, is customization/ targeting. 90% of all retailers rate it as extremely/very important, with 10% remaining neutral.



- Effective use of Digital requires the right trigger with the consumer to grab their attention and deliver the desired message. This requires an almost instant connection with the customer.
- As Digital has evolved and is maturing we are getting more accustomed to some of the basic types. Banners are now just annoying.
- Unless the Digital effort hits the right person, with a major need, at the right time, folks will just try to get through the day without missing major tasks, and avoiding major obstacles.

* Not rated

EY FINDINGS

DIGITAL: THE NEW FRONTIER

Shopper – How Effective is Digital in Impacting Shopper Awareness/Purchase Decisions? (% Effective/Very Effective)



Digital overall is low in awareness and influence with shoppers. Online coupons (manufacturer or retailer) are the most powerful in influencing shopper purchase.

SHOPPER PERSPECTIVE:

- Whether distributed through the retailer or the manufacturer, Digital Coupons are the most influential Digital tactic according to shoppers.
- Brand and Retailer Websites each have the second highest awareness and influence among shoppers, with Banner Ads currently holding third place.
 - I believe these promotions are glanced at quickly or simply ignored.
 - To me, it depends on when and where they appear, and what I am looking for at the time. I hate pop-up ads that cover what I am looking for. I make it a point to NOT buy those products.
 - Less effective when they come up while I am trying to access something else. Then it's just irritating.
 - Big fan of digital coupons instead of clipping paper ones.

Content Retailer Awareness Shoppers Coupons Sponsored Search Brand

ACTION PLAN

ACTION PLAN

So, now what? Nobody wants to be "Blinded by the Light" of bright, shiny objects, yet you can't afford to sit back and be passed by as the marketplace dynamics shift and the ways we communicate with and influence the purchase behaviors of our shoppers change.

The growth in both Shopper Marketing and Digital is indisputable. The growth has been sourced from traditional vehicles including Advertising, Trade Promotion and Consumer Promotion, while the total budget has remained static.

This growth has been fueled by massive industry trends like technology and a stronger shopper orientation. We encourage you to challenge your status quo with these questions:



Identify: How has your marketing budget changed and shifted over the past three years, and where do you want it to be in the next three years?

- Total expenditures.
- Expenditures by type.
- Specific focus on Shopper Marketing and Digital.



Objectives: Have your objectives changed or have you simply shifted your spending due to a focus on potentially more efficient and effective options including Shopper Marketing and Digital?

- Determine your consumer/shopper objectives before allocating your spending.
- Have you achieved your consumer/shopper objectives (e.g., awareness, trial, repeat)?
- How have your media metrics performed?



Productivity: What is your marketing ROI by vehicle and how has it changed over the last three years? Are you spending more for less or spending less and driving more?

• The most elusive areas are: Shopper Marketing ROI and Digital ROI.

In summary, we understand these are difficult questions and the measures are both short term and long term. The more you can get "revved up" and not be "Blinded by the Light" in understanding your return on marketing investment (ROI), the better you will be at gaining traction with both shoppers and retailers and growing sales and profitability.